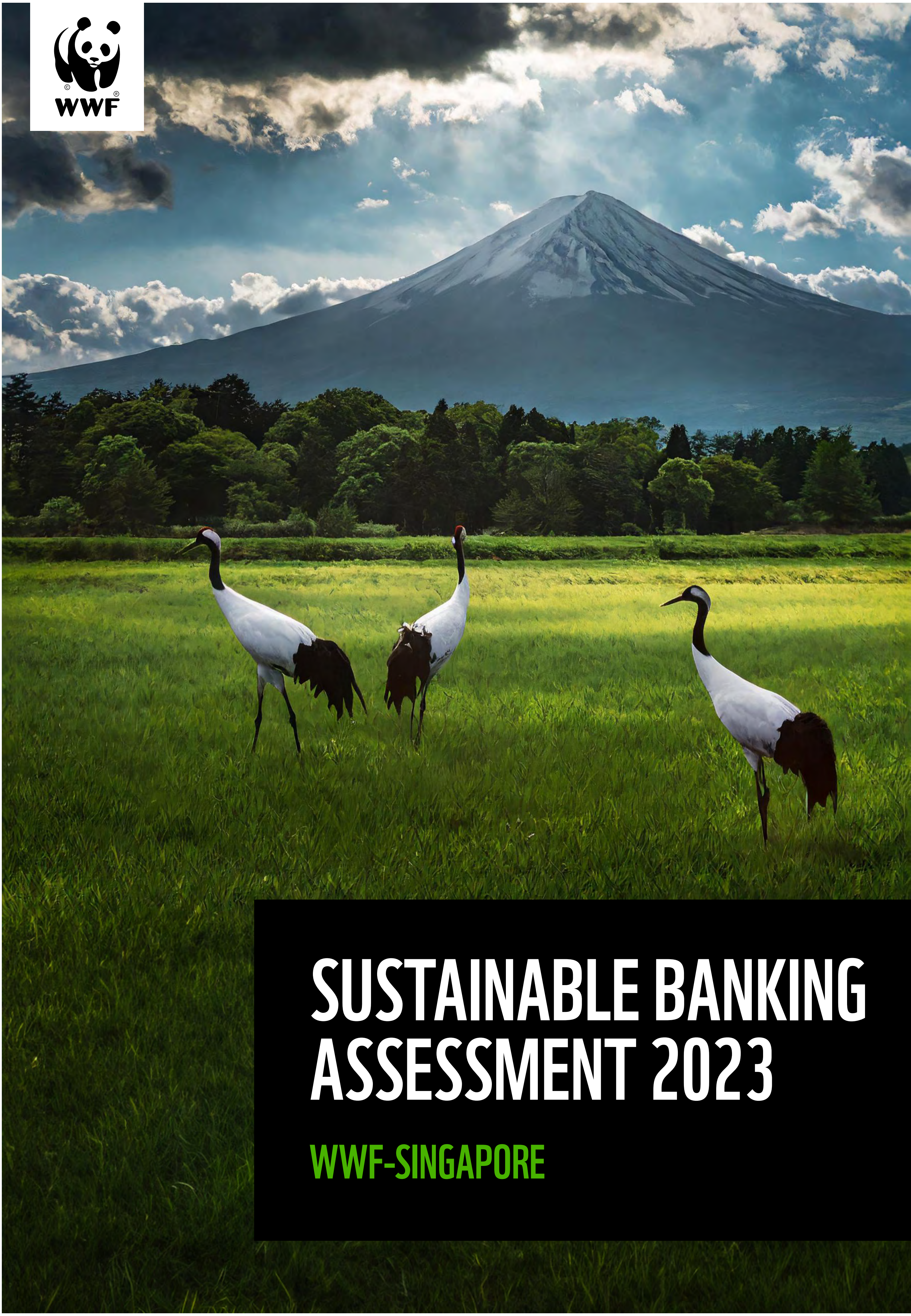

SUSTAINABLE BANKING ASSESSMENT 2023

WWF-SINGAPORE

ACKNOWLEDGEMENTS

Authors: Prashanth Warrier, Akshat Garg

Contributors: Ashish Sharma, Michelle Chee Hui Yap, Lauren Lynch

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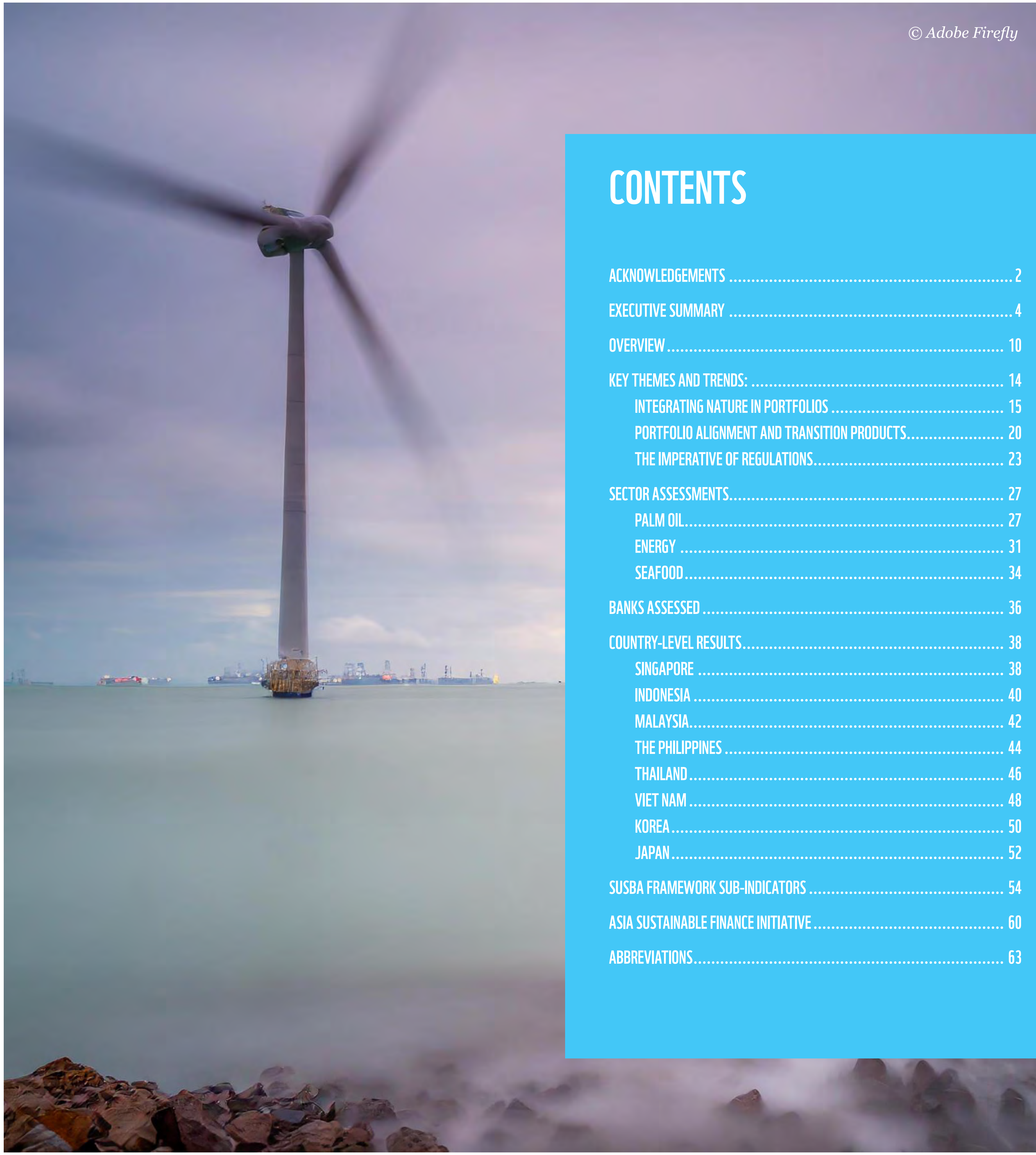
ABOUT WWF-SINGAPORE

World Wide Fund for Nature (WWF) is one of the world's largest and most respected independent conservation organisations. WWF's mission is to stop the degradation of the earth's natural environment and to build a future in which humans live in harmony with nature. As one of WWF's international hubs, WWF-Singapore supports a global network spanning over 100 countries.

WWF-Singapore works closely with local stakeholders towards a greener and more sustainable Singapore and the region around us. We work to address key conservation areas, such as climate change, sustainable finance, deforestation, illegal wildlife trade, marine conservation, and sustainable production and consumption, through collaboration, education, and outreach efforts involving the community, businesses, and governments. For more information, please visit wwf.sg.



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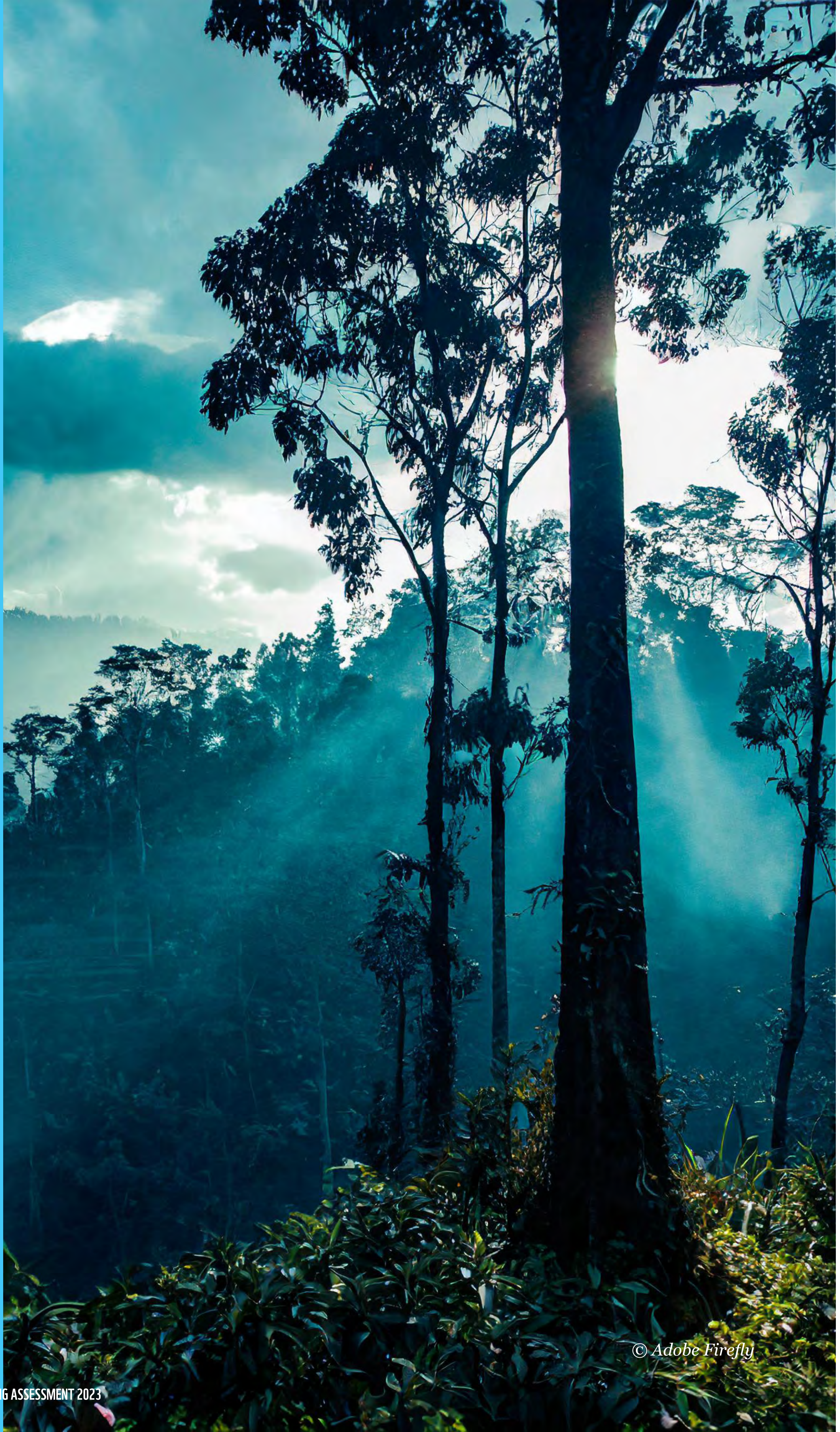


EXECUTIVE SUMMARY

The net zero journey reached a critical juncture with the first global stocktake—a midpoint between the Paris Agreement and the 2030 goal. This moment of reflection assessed both the strides and obstacles encountered since 2015. The year 2023 stood out as an important year for the development of regulations and frameworks. This included a focus on transition and nature at COP 28, the launch of the Global Biodiversity Framework (GBF) Fund , and the publication of the Taskforce on Nature-related Financial Disclosures (TNFD)'s recommendations on assessing and managing nature-related risks. Nevertheless, despite the progress in integrating sustainability into the financial sector, there is a need for accelerated action to address environmental challenges. Sustainable Banking Assessment (SUSBA) 2023 aligns with these developments, with its current assessment covering 49 banks across 8 countries. The key takeaways from the 2023 assessments are as follows:

Overall scores for SUSBA have increased by 5.6% since the 2022 assessment results, with the most notable progress of 8.2% observed in the 'People' pillar.

However, growth has been uneven across the 6Ps framework—with Policies and Portfolio pillar scores showing only a marginal growth of 2.6% and 2%, respectively. Countries that were early adopters, such as Singapore and Malaysia, continue to lead, with mature banks in each country maintaining their leadership positions. Consequently, the gap between leading and lagging banks has expanded to 31.2%.

Notably, The Philippines showed the largest YoY improvement (43% overall). One of the factors that may have contributed to the improvement was the Central Bank (Bangko Sentral ng Pilipinas) circular on Sustainable Finance Framework disclosure in 2021. This correlation underscores the critical role that fit-for-purpose regulations can play in ecosystem-level improvement.

Three key trends emerged from this landscape, which SUSBA 2023 explores further: the focus on nature, the need for transition products, and the imperative of regulations. The report will also provide some deeper sector-specific commentary on the energy, palm oil, and seafood sectors.

INTEGRATING NATURE IN PORTFOLIOS

With the GBF and TNFD gaining momentum, financial institutions are starting to focus on nature-positive activities.[1,2] Nature positive is defined as “halting and reversing of biodiversity loss by 2030 from a 2020 baseline, through measurable gains in the health, abundance, diversity, and resilience of species, ecosystems, and natural processes”.

Currently, 83% of the assessed banks acknowledge the societal and economic risks associated with environmental degradation. However, the actions on the same are still in the nascent stage. Water[3] and land resources, reaching their tipping points[4], necessitates reframing nature-positive financial systems as investments rather than costs. Currently, only 13% of the assessed banks have targets to reduce negative E&S impacts or increase positive impacts associated with their business activities beyond direct impacts from their own operations.

This paradigm shift represents both risks and opportunities, urging a re-evaluation of how nature is integrated within financial frameworks. It also underscores the need to learn from past mistakes in climate finance, advocating for quicker recognition and implementation of nature-related financial assessments and policies. The agreement on TNFD within just two years since its inception in July 2021 and the early interest demonstrated by the financial sector in nature mark a positive start to this long and time-sensitive journey. In ASEAN, currently, none of the assessed banks have set quantifiable metrics for measuring nature-related risks. With the relevance of nature-related risks to Asia, the region has the opportunity to be an early mover and leader in nature-positive finance practices.

PORTFOLIO ALIGNMENT AND TRANSITION PRODUCTS

Whilst banks increasingly try to manage the intricacies of nature, climate, and biodiversity-related risks and opportunities, the report shows a rather slow progress in portfolio alignment. This is mirrored in the limited growth of sustainable products. The key financial requirement is at the transition level. For instance, a Mckinsey report[5] estimates that production costs (in brown sectors like steel and cement sectors) may surge by 30% and 45%, respectively, with potential offsets from innovation. In the power sector, electricity costs are expected to rise by 25% by 2040 from 2020 before potentially decreasing[6]. These costs of transition would invariably impact the finance sector. Banks currently struggle to fund this transition as the regulatory guidelines are still developing. Addressing this challenge has the potential to unlock new capital for sustainability and conservation efforts, enabling banks to identify opportunities aligning with banking regulations and providing market-adjusted returns. The global focus on blended finance is one example that can improve portfolio alignment with long-term targets. Thus, to amplify impact financing, banks, and regulators must dive deeper into creating robust impact assessment frameworks, clear definitions, and better client engagement.

1 https://wwf.panda.org/wwf_news/?9615416/nature-positive-initiative-launch

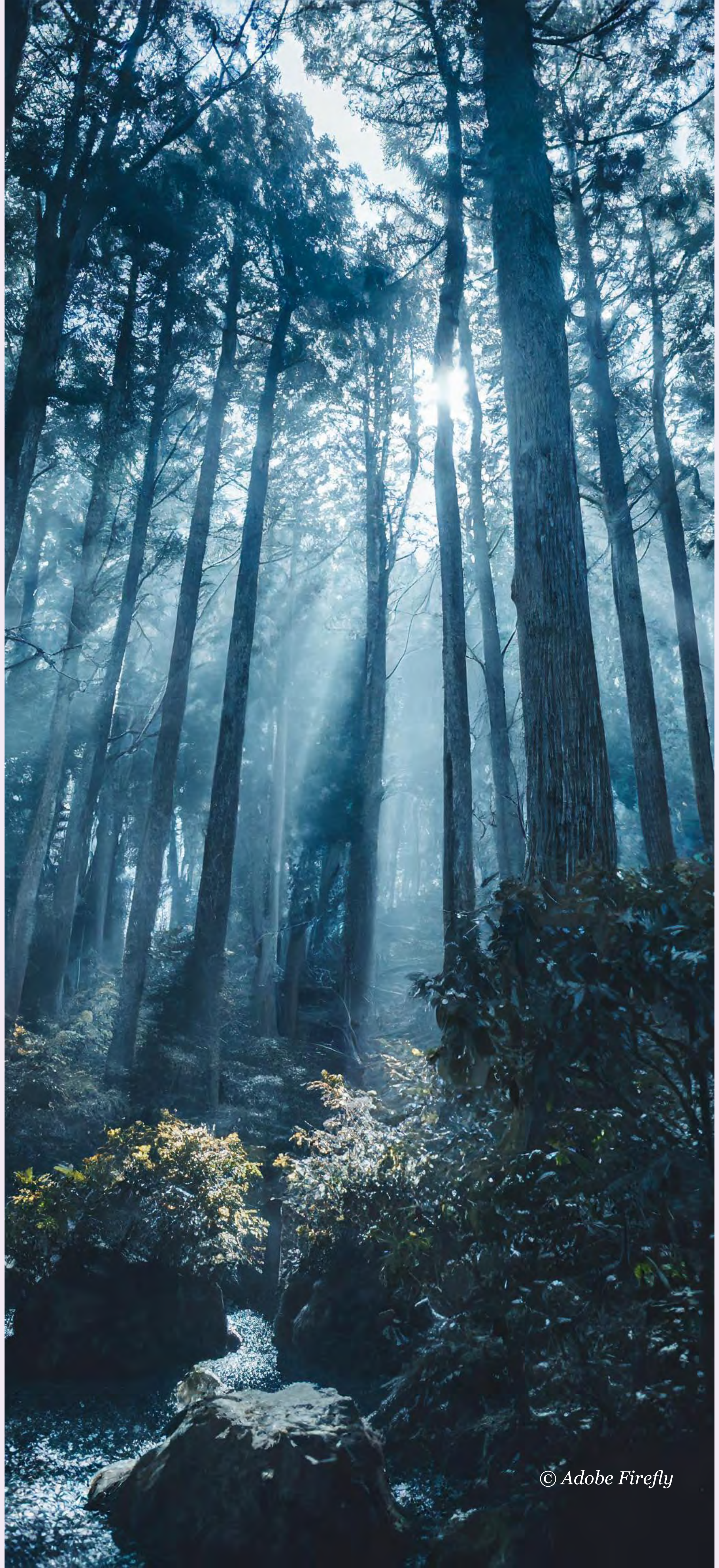
2 https://www.iucn.org/our-work/biodiversity/nature-positive

3 https://blogs.worldbank.org/water/tipping-point-water

4 https://www.reuters.com/sustainability/cop/world-brink-environmental-tipping-points-un-says-2023-10-25/

5 https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring

6 Energy cost is a complex topic. It is important to note that renewable energy costs are decreasing and regional variations will be substantial.



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THE IMPERATIVE OF REGULATION

Regulation has emerged as a contentious issue within the sustainable banking agenda, sparking debates on whether the transition should be mandated or voluntary. SUSBA assessments show that fit-for-purpose regulations have not only accelerated the sustainability ecosystem but have also cultivated a market for sustainable products. Furthermore, there seems to be a path dependency, where early adopters of sustainability maintain a lead, benefitting from more adjustment time, leading to lower costs in the long term[7]. With most of the region’s regulators now implementing sustainability policies, aligning with a science-based approach to sustainability is not a matter of if but when. As with climate, we anticipate a similar journey with Nature and Biodiversity, where proactive regulatory actions, particularly in critical biodiversity hotspots in Asia, can effectively manage transition costs and provide the financial sector the necessary time to align with environmental goals. Central banks and financial supervisors across the world are taking initial steps to address biodiversity loss, according to the SUSREG 2023 assessment. This includes assessing nature-related financial risks and developing guidance on how to manage them. They are also beginning to integrate climate and environmental considerations into monetary policies, although these efforts are still in their early stages.

7 https://www.bdo.com/insights/advisory/the-sustainability-edge-business-benefits-of-embracing-esg

SECTOR-SPECIFIC INSIGHTS

PALM OIL

Deforestation, notably in the palm oil sector, is an important concern within land-based environmental issues. Particularly in leading ASEAN economies, the financial sector prioritises intervention in the palm oil sector due to its significant influence on financial portfolios. Palm oil illustrates the confluence of regulatory backing, sustainability considerations, and economic activities. Major ASEAN economies such as Indonesia and Malaysia stand out as prominent palm oil producers, benefitting from regulatory support that ensures strong no-deforestation commitments and necessary certifications for clients in the sector. In Malaysia, no deforestation, no peat, no exploitation (NDPE) commitments now cover the majority of the palm oil sector. Progress is also evident in our palm oil assessments, with 13 banks having now implemented requirements for clients to commit to NDPE in their own operations, up from 10 in 2022. Certifications, such as the Roundtable on Sustainable Palm Oil (RSPO) Certification, the Malaysian Sustainable Palm Oil (MSPO) Certification, and the Indonesian Sustainable Palm Oil (ISPO) Certification ensure responsible and sustainable production of palm oil. A similar positive trend is observed among assessed banks on certification requirements, with 16 banks now implementing client requirements to be RSPO certified in their own operations, up from 9 in 2022.

However, most banks with net-zero commitments initially focus on decarbonisation plans for carbon-intensive sectors, where they have the largest exposures, often excluding agriculture or palm oil. Banks must place a harder requirement on their clients to require all palm oil growers, processors, and traders to commit to NDPE and develop time-bound plans for RSPO certification. They must develop decarbonisation targets for their palm oil portfolios and disclose progress including decarbonisation footprint, client certification commitments, and supply chain traceability.

ENERGY

At COP 28, 200 parties agreed to take action to transition away from fossil fuels in a just, orderly, and equitable manner. In Asia, financial institutions are making progress towards reducing fossil fuel emissions in their portfolios - 62% of the assessed banks have committed to implementing TCFD standards in 2023, marking an 11 percentage point increase YoY. Moreover, 33% of the banks have set explicit targets for reducing fossil fuel exposure, a significant rise from 21% last year.

Bank progress on transitioning away from fossil fuels is more mixed. A majority of the assessed banks have implemented restrictions on financing new coal-fired power plants (57% of banks in 2023 vs 50% in 2022). However, less than 10% of the assessed banks have implemented financing restrictions for greenfield oil and gas exploration and development. Also, while more banks are committing to reduce portfolio emissions, only a few banks require their clients to disclose emissions or set emission reduction targets.

The stocktake at COP28 also calls on Parties to triple renewable energy capacity and double energy efficiency improvements by 2030. Positively, most of the assessed banks (76%) provide products that support sustainability improvements in the energy sector. However, the report highlights a gap, with only 28% of banks providing energy efficiency and/or energy access solutions through lending programmes for small and medium enterprises (SMEs). Given the importance of SMEs in developing countries, and the need to provide smaller ticket loans for decarbonisation actions like energy efficiency and rooftop solar, it is imperative for banks to innovate and create low-risk financial instruments, ensuring support for smaller clients in their emission reduction efforts.

SEAFOOD

Seafood is one of the most essential food commodities in the world. It is one of the most highly traded commodities globally, supports millions of livelihoods, and is the primary source of animal protein for billions. Yet the industry faces growing pressures due to declining ocean health, pollution and disease outbreak, and human and labour rights violations. 2023 saw record-breaking marine heatwaves alongside increased attention from the media and legal scholars on the challenges the industry faces as a result of climate change and nature loss. At the same time, 2023 was also a year of progress. After almost two decades of global effort, the groundbreaking UN High Seas Treaty was passed[8], a critical step towards conserving ocean biodiversity.

The results of this year's seafood sector analysis show that many banks are taking action to manage E&S risks related to nature and biodiversity loss in the seafood sector. More progress, however, is needed to ensure that banks' policies sufficiently prevent and/or manage their exposure to these risks.

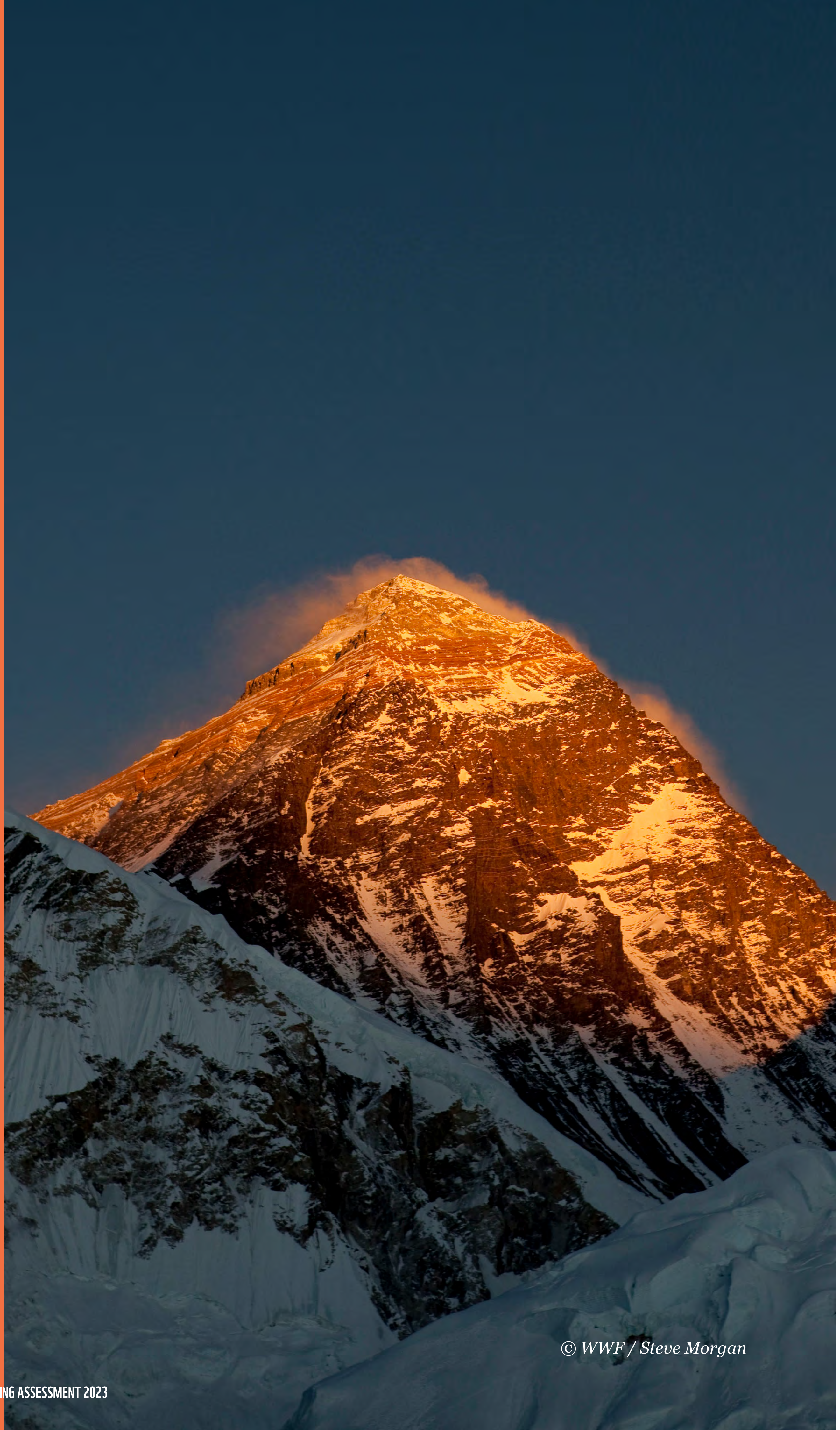
A UNIFIED VISION FOR SUSTAINABLE BANKING

Prioritising nature and transition finance are crucial for shaping banks that are not just future-ready but actively engaged in the global push for environmental stewardship and sustainable development. Financial institutions must adopt a 'whole of planet' approach rather than look at climate, nature and biodiversity in silos. As planetary boundaries[9][10] are tested, the banking sector has to accelerate and scale its efforts to align with the Paris commitment.

8 https://oceans-and-fisheries.ec.europa.eu/news/win-ocean-high-seas-treaty-signed-united-nations-2023-09-20_en

9 The planetary boundaries concept presents a set of nine planetary boundaries within which humanity can continue to develop and thrive for generations to come. Crossing boundaries increases the risk of generating large-scale abrupt or irreversible environmental changes.

10 https://www.stockholmresilience.org/research/planetary-boundaries.html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OVERVIEW

In this seventh assessment, the Sustainable Banking Assessment (SUSBA) evaluates the Environmental and Social (E&S) integration performance of 39 ASEAN banks and 10 major Japanese and Korean banks. The selection criteria for banks include market share within home markets, international footprint within Asia, and disclosures of sustainability-linked indicators.

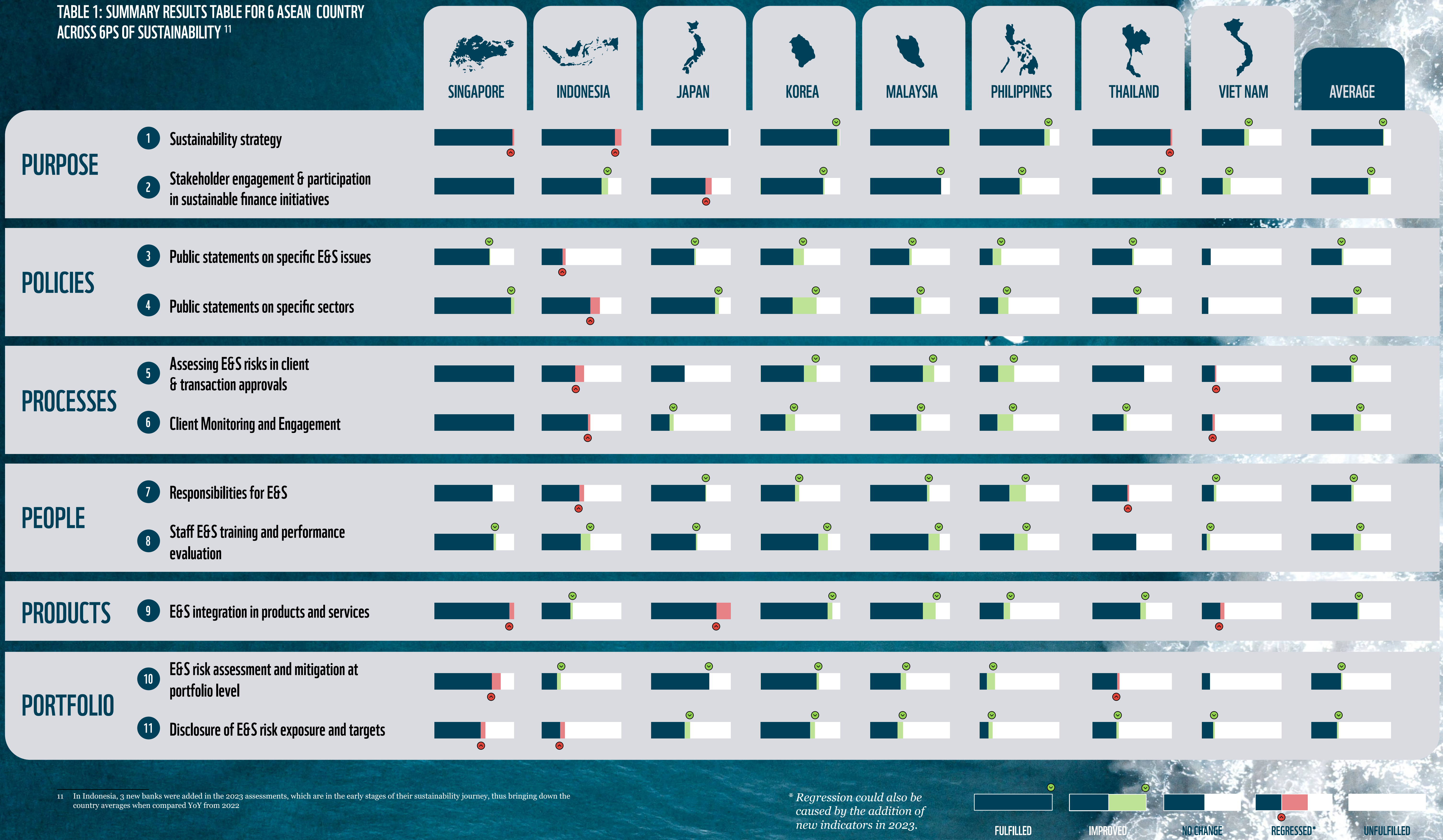
WWF-Singapore developed the SUSBA framework as a decision-useful assessment tool focusing on E&S issues most relevant to the Asian region. Aligned with existing international frameworks, standards, and initiatives, including Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, UNEP-FI Principles for Responsible Banking (PRB), Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and Sustainability Accounting Standards Board (SASB). The SUSBA assessments can be used by shareholders, potential investors, regulators, and civil society representatives to track banks' progress and performance on Environmental, Social, and Governance (ESG) integration by analysing the evolution of results year-on-year (YoY). In addition, some banks have also used SUSBA to enhance their ESG strategy, roadmap, and action plans.

The assessment framework comprises six pillars and 11 indicators that signify what WWF-Singapore considers to be robust ESG integration. The assessment is performed against 78 sub-indicators, with "yes/partial/no" answers, with 2 new sub-indicators added this year on policies regarding free, prior and informed consent (FPIC) requirements and solutions for small and medium enterprises (SMEs). The assessment takes into account only publicly available English-language disclosures in the form of reports from the 2023 fiscal year, including annual reports, sustainability reports, and information posted on corporate websites such as company policies, statements, and press releases.

SUSBA is part of WWF-Singapore's Asia Sustainable Finance Initiative (ASFI), a multi-stakeholder alliance established to bring together global industry, academic, and science-based resources to support financial institutions in the region in implementing ESG best practices. For more information on ASFI and how it can support banks in the region, see Asia Sustainable Finance Initiative in the latter sections of this report.

SUMMARY RESULTS:
INDICATOR AVERAGE IN 2023 AND CHANGE VS. 2022

TABLE 1: SUMMARY RESULTS TABLE FOR 6 ASEAN COUNTRY ACROSS 6PS OF SUSTAINABILITY [11]



11 In Indonesia, 3 new banks were added in the 2023 assessments, which are in the early stages of their sustainability journey, thus bringing down the country averages when compared YoY from 2022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KEY THEMES AND TRENDS

INTEGRATING NATURE IN PORTFOLIOS

A growing consensus acknowledges the integration of nature into financial assessments as vital, highlighting the urgency to pivot towards a nature-positive financial system. This shift entails:

- Expanding the scope of sustainability beyond climate to include nature and biodiversity
- Rethinking nature as an investment rather than a cost.

This essentially calls for a re-evaluation of nature's valuation within financial systems. The publication of the Taskforce on Nature-related Financial Disclosures (TNFD)'s recommendations within two years of its inception in July 2021, alongside the financial sector's early engagement with nature-related issues, starts a promising commencement of this journey.

For the SUSBA 2023 assessment, a bank's commitment to nature is evaluated through two lenses:

- Recognition of E&S risks: The extent to which a bank acknowledges environmental and social (E&S) risks;
- Implementation of mitigation measures: Concrete steps taken by the bank to mitigate identified risks.

A bank that recognises the economic and societal perils related to environmental degradation, biodiversity loss, deforestation, marine environment impacts, and water risks showcases the foundational awareness necessary for sustainable operations. This recognition helps align financial services with global sustainability goals and protects natural ecosystems vital for human and planetary health.

83% OF THE ASSESSED BANKS ACKNOWLEDGE THE SOCIETAL AND ECONOMIC RISKS ASSOCIATED WITH ENVIRONMENTAL DEGRADATION, AS WELL AS BIODIVERSITY LOSS AND/OR DEFORESTATION RISKS.

On the implementation side, a bank's commitment is demonstrated through specific requirements for clients in high-risk sectors, such as adopting "no deforestation" and "no conversion" commitments, supporting marine sustainability standards, protecting key biodiversity areas, committing to water stewardship, reviewing portfolio exposure to E&S risks, and setting targets to reduce negative impacts. These actions indicate a bank's proactive approach to minimising its environmental footprint and encouraging sustainable practices across its client base, which is essential for fostering a more sustainable and resilient economy.

ONLY 13% OF THE ASSESSED BANKS HAVE SET TARGETS TO REDUCE NEGATIVE E&S IMPACTS OR INCREASE POSITIVE IMPACTS ASSOCIATED WITH THEIR BUSINESS ACTIVITIES BEYOND DIRECT IMPACTS FROM THEIR OWN OPERATIONS AND DISCLOSE THE PROGRESS OF ACHIEVING THESE TARGETS.

DEFORESTATION

Deforestation and land conversion pose significant environmental and financial risks for banks by contributing to biodiversity loss and climate change, potentially jeopardising the stability of investments in sectors reliant on natural resources. SUSBA follows the Accountability Framework Initiative (AFI)[12] to evaluate deforestation. AFI provides global definitions to prevent deforestation and conversion in supply chains. It defines deforestation as the loss of natural forests from land use changes, plantations, or degradation, and conversion involves altering a natural ecosystem's use or its ecological makeup. In this regard, the assessed banks perform as follows:

1. NO DEFORESTATION COMMITMENTS:

Banks differ significantly in their requirements for clients in sectors highly exposed to deforestation and ecosystem conversion (e.g. soft commodities, infrastructure, extractives industry), as per the high conservation value or high carbon stock approaches. While 46% recognise the risks, only 24% fully meet the criteria and score 1. The remaining 22% partially meet the criteria.

2. "NO CONVERSION" COMMITMENTS

Only 7% of banks fully comply (score of 1) with "no conversion" commitments in both their own operations and supply chains, based on the principles of the Accountability Framework Initiative. Meanwhile, 11% partially comply and the rest (82%) show no compliance.

WATER

Water-related risks, stemming from issues like flooding, drought, or pollution, pose threats to the financial sector, affecting both specific entities and entire industries. Research indicates that about USD 78 trillion, representing 57% of global GDP, is located in flood-prone areas, highlighting widespread exposure to water-related risks[13]. In Asia, the risks are more severe: Research indicates that over a billion people in Asia could be without water by 2050[14]. A 2020 CDP survey[15] revealed that water issues caused losses of USD 16.7 billion for over 2,900 companies, with potential future impacts estimated at USD 336.3 billion. However, corporate disclosure of water risks remains limited, with just over half of the 5,500 companies approached by CDP providing the requested data. These risks are often overlooked in current financial risk assessments despite their significance.

12 https://accountability-framework.org/issues/deforestation-and-conversion/
13 https://www.oecd.org/water/Background-paper-RT-on-Financing-Water-and-Climate-Action-Session-3.pdf
14 https://www.cnbc.com/2016/03/30/high-risk-of-severe-water-stresses-in-asia-by-2050-study.html
15 https://www.cdp.net/en/research/global-reports/global-water-report-2020

The understanding of water-related risks seems to be further behind deforestation risks with 41% of assessed banks scoring zero on recognition of water risks, with only 4% meeting the implementation criteria.

	Score		
Indicator	***1***	***0.5***	***0***
Does the bank require clients in sectors highly exposed to deforestation to adopt "no deforestation" commitments in accordance with the High Conservation Value or High Carbon Stock approaches?	24%	22%	54%
Does the bank require clients in sectors highly exposed to conversion of natural ecosystems to adopt "no conversion" commitments in accordance with the principles of the Accountability Framework Initiative?	7%	11%	82%

TABLE 2: BANK SCORE ON RECOGNITION AND MANAGEMENT OF DEFORESTATION RISKS

	Score		
Indicator	***1***	***0.5***	***0***
Does the bank recognise water risks (flooding, scarcity, and pollution) as risks in its clients' activities?	30%	30%	41%
Does the bank require clients in high-risk sectors and geographies to perform water risk assessments and commit to water stewardship?	4%	19%	78%

TABLE 3: BANK SCORE ON RECOGNITION AND MANAGEMENT OF WATER RISKS

MARINE

Marine ecosystems face several threats. These include overfishing and pollution from sources such as ocean dumping and land runoff, which pose significant risks to marine ecosystems by degrading habitats and threatening marine life. The adverse effects include toxic exposure, loss of biodiversity, and food chain disruption, impacting both marine species and human health. SUSBA looks at recognition and action towards management and reduction of marine risks and alignment with standards such as the Aquaculture Stewardship Council, Marine Stewardship Council, and Standard for Sustainable and Resilient Infrastructure.

	Score		
Indicator	***1***	***0.5***	***0***
Does the bank recognise negative impacts on the marine environment as risks in client's activities?	30%	20%	50%
Does the bank require clients in marine-related industries to obtain certification from or otherwise support relevant multi stakeholder sustainability standards (e.g. ASC, MSC, SuRe) to ensure the sustainable use of oceans, seas and marine resources?	6%	7%	87%

TABLE 4: BANK SCORE ON RECOGNITION AND MANAGEMENT OF MARINE RISKS

THE URGENCY OF MOVING ON NATURE-RELATED RISKS

The concept of double-materiality is especially relevant for nature-related risks. Nature-related risks may have a tipping point tendency, potentially leading to irreversible environmental damage resulting in micro and macro instability. Banks not only contribute to environmental risks ('inside out' effect) but also face financial instability due to environmental degradation ('outside in' effect), making accounting for nature issues crucial, even as risk measurement tools continue to evolve.

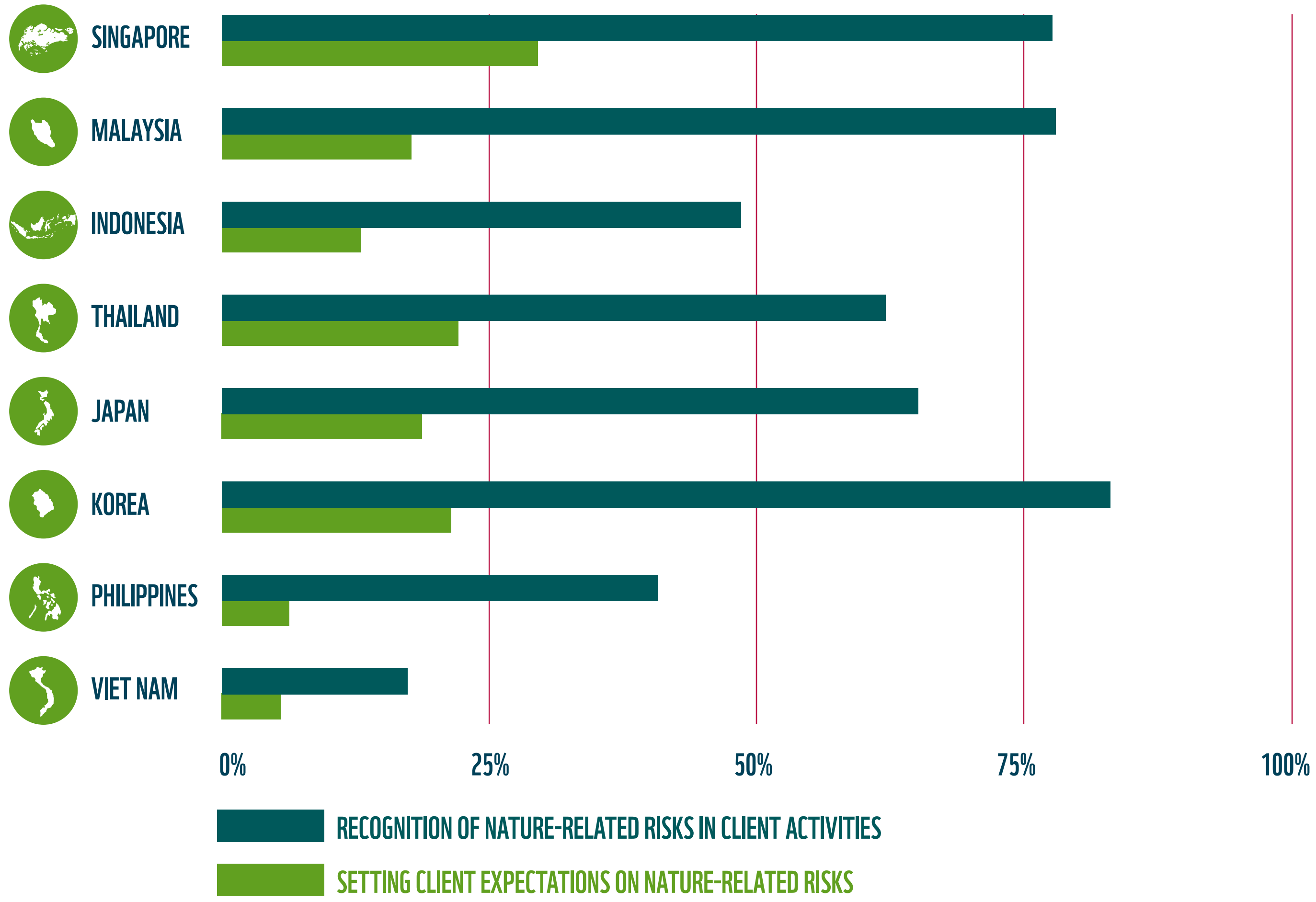

FIGURE A: COUNTRY LEVEL DATA ON NATURE RISKS: RECOGNITION AND INTEGRATION

SUSBA findings show that while the assessed Asian banks have generally recognised nature-related risks, the sector is still in the early stages of implementing measures for nature-related risks. This commitment-action gap as observed previously with climate change emphasises the urgency of translating commitments into swift, tangible nature-related actions.

The TNFD framework offers a structured method for banks to assess these nature-related risks through its LEAP (Locate, Evaluate, Assess, Prepare) process. Learning from the climate context, early integration of sustainability metrics brings substantial benefits at both national and institutional levels. Banks that have been early in addressing climate change have gained and continue to maintain a competitive edge, benefiting from reduced costs of implementation and greater access to capital tied to sustainability.[16] Among TNFD's 320 early adopters, 33% of these are financial institutions, and 25% belong to the world's Global Systemically Important Banks, marking a significant step in the right direction.

The Kunming-Montreal Global Biodiversity Framework, especially Target 15, serves as a strong incentive for banks to account for nature-related risks in an expedited timeline[17]. Banks that begin to integrate these practices ahead of regulatory mandates can develop a deeper, more practical understanding and build internal capabilities in anticipation.

16 https://www.bdo.com/insights/advisory/the-sustainability-edge-business-benefits-of-embracing-esg&sa=D&source=docs&ust=1709709852890795&usg=AOvVaw38MX6_uphoYxjxrzJgZpnx

17 https://www.unepfi.org/wordpress/wp-content/uploads/2023/01/21-Banking-on-nature.pdf

PORTFOLIO ALIGNMENT AND TRANSITION PRODUCTS

Portfolio alignment involves assessing the net-zero transition progress of individual counterparties within a financial portfolio to collectively determine whether they align with Paris Agreement[18]. Broadly speaking, portfolio alignment is approached through three considerations[19]:

1. Implementing exclusions for unsustainable E&S practices,
2. Transitioning the portfolio by helping high-risk clients to improve E&S performance and
3. Increasing 'green' products to incentivize sustainable practices.

The banking sector's pivot towards sustainable finance, especially in Asia, marks a significant move towards environmental and social responsibility. SUSBA looks at E&S risk assessment and mitigation at the portfolio level as well as disclosure of the same.

SUB-INDICATORS	SG	MY	TH	IN	PH	VN	AVG
ESG RISK ASSESSMENT AND MITIGATION AT PORTFOLIO LEVEL	72%	45%	31%	24%	19%	10%	30%
DISCLOSURE OF E&S RISK EXPOSURE AND TARGETS	58%	41%	33%	23%	16%	16%	28%

TABLE 5: COUNTRY-LEVEL SCORE ON RECOGNITION AND MANAGEMENT OF PORTFOLIO-LEVEL RISKS

On aspects of "Excluding unsustainable practices", and "Increasing 'green' products", banks have improved over the years. The market for green products has especially expanded, with 86% of the assessed banks offering some specific financial products and services (such as green bonds, sustainability-linked loans, and impact financing) that support the mitigation of E&S issues. Additionally, 68% have introduced frameworks for their sustainable financial products & services, such as green bond frameworks, aligning them with credible international standards. We also see that 77% of the assessed banks have clear exclusion policies on financing clients based on E&S issues; this number is up from a score of 51% in 2020.

18 https://www.tcfdhub.org/wp-content/uploads/2021/10/PAT_Measuring_Portfolio_Alignment_Technical_Considerations.pdf

19 This echoes the GFANZ 4 key net-zero financing strategies: (1) Climate solutions (2) Aligned (3) Aligning and (4) Managed phaseout

TABLE 6: BREAKDOWN OF ASPECTS OF PRODUCT LEVEL PARAMETERS ASSESSED FOR ASIAN BANKS

PRODUCTS PILLAR[20]	% OF ASIAN BANKS		
	YES	PARTIAL	NO
IDENTIFYING CLIENTS	39%	16%	45%
OFFERING PRODUCTS	82%	6%	12%
ALLOCATING SPECIFIC CAPITAL	67%	10%	22%
ALIGNINING PRODUCTS WITH FRAMEWORKS	51%	14%	35%

Thus the overall maturity of available green products has seen significant improvement over the last five years. Across the Product pillar, the average score has risen to 53%, a substantial increase from 17% in 2017.

Navigating the transition to sustainable banking poses considerable challenges yet unveils substantial opportunities. Only 53% of the assessed banks have committed to net-zero targets by 2050, highlighting a pressing need for more aggressive action towards sustainability. The European Central Bank's January 2024 revelation that 90% of European banks have portfolios misaligned with climate goals further underscores the urgency for managing the larger portfolio alignment.[20]

Transition finance is considered a potential avenue towards achieving net zero, with nearly three-quarters of banks in an OECD survey[21] viewing it as a pathway to net zero. However, transition finance currently faces several challenges, including a lack of clear definitions, insufficient demonstration projects, limited incentives, and added reputation risks. Despite these challenges, mechanisms like blended finance are identified as a critical tool for mobilising capital towards sustainable investments, with initiatives like Singapore's Financing Asia's Transition Partnership (Fast-P) leading the charge.

WITH 78% OF THE ASSESSED BANKS ALLOCATING SPECIFIC CAPITAL POOLS FOR ACTIVITIES WITH POSITIVE ENVIRONMENTAL AND SOCIAL IMPACTS, THERE IS AN OVERALL STRATEGIC COMMITMENT AMONG BANKS TO OVERCOME BARRIERS TO SUSTAINABILITY.

20 For detailed information on the indicators, please reference to sub-indicators listed in page 58 of the report

21 2. What is transition finance? | OECD Guidance on Transition Finance : Ensuring Credibility of Corporate Climate Transition Plans | OECD iLibrary (oecd-ilibrary.org)

THE OVERALL MATURITY OF AVAILABLE GREEN PRODUCTS HAS SEEN SIGNIFICANT IMPROVEMENT OVER THE LAST FIVE YEARS. ACROSS THE PRODUCT PILLAR, THE AVERAGE SCORE HAS RISEN TO 53%, A SUBSTANTIAL INCREASE FROM 17% IN 2017.

Managing the development of funds involves work on transition planning guidelines in Singapore, the Transition Planning Taskforce in the UK, EU CSDR transition plan requirements, as well as use cases for transition products in the ASEAN taxonomy. These efforts provide clearer product categorisation and guidelines for transition finance. The GFANZ (1) Climate solutions (2) Aligned (3) Aligning and (4) Managed phaseout net zero financing framework has further helped banks to understand the needs of green and transition products independently.

The drive towards sustainability is not just a regulatory or financial challenge but a comprehensive shift towards inclusive growth and innovation.

SUSBA this year added an indicator to benchmark the activities in the SME space. Small and Medium Enterprises (SMEs) in the ASEAN region contribute significantly to both emissions and employment.

EMISSIONS

SMEs in Southeast Asia account for a minimum of 29.7 million tonnes of CO2 emissions annually[22].

EMPLOYMENT

SMEs are the backbone of the ASEAN economy, making up 85% of employment in the region[23].

FINANCE

SMEs form 25.7% (2021) of total bank lending portfolio[24]

Currently, only 53% of banks have committed to supporting SMEs and retail clients in transitioning to sustainable practices.

22 https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2021-169-calculating-the-carbon-footprint-and-minimum-greenhouse-gas-production-of-smes-in-southeast-asia-by-michael-t-schaper-and-ryan-wong-yee-yang/

23 https://asean.org/our-communities/economic-community/resilient-and-inclusive-asean/development-of-micro-small-and-medium-enterprises-in-asean-msme/

24 https://www.theasianbanker.com/updates-and-articles/bank-lending-to-small-businesses-in-asia-pacific-grew-154-in-2021

THE IMPERATIVE OF REGULATIONS

The evolving regulatory landscape in Asia signifies a growing understanding of sustainability principles among regulators. This progress is pivotal for banks across the region, enabling them to adopt and refine sustainability practices more effectively. As regulations evolve, not only has their numbers increased but their sophistication has also risen, opening up new markets for sustainable finance products. The Paris Agreement has been a global catalyst for climate action, setting ambitious goals for countries worldwide. In Asia, the post-2015 period marked a significant uptick in regulatory efforts to address E&S issues, spurred by this international accord.

Post-2015, the timeline above shows an escalating momentum towards integrating climate-related risks between 2015 and 2020, followed by a more recent focus on addressing nature and biodiversity-related risks in the past two years.

2015

- **Paris Agreement Signed**

2017

- **Adoption of the Sustainable Development Goals (SDGs)**

2018/19

- **Launch of the Principles for Responsible Banking (PRB)**
- **Introduction of the Task Force on Climate-related Financial Disclosures (TCFD)**

2020

- **Establishment of the Network for Greening the Financial System (NGFS)**
- **Introduction of the EU Taxonomy, leading the way in sustainable finance classification**
- **Announcement of the Green Loan Principles (GLP)**
- **Asian Development Bank (ADB) introduces a $1 billion catalytic fund**
- **The Philippines' Bangko Sentral ng Pilipinas (BSP) introduces the Sustainable Finance Framework (SusFin Framework)**
- **Singapore's Monetary Authority of Singapore (MAS) issues Environmental Risk Management (ERM) guidelines**
- **Japan (JP), South Korea (KR), and Viet Nam (VN) commit to 2050 net-zero carbon alignment**

2021

- **Increased adoption of TCFD recommendations**
- **Introduction of the ASEAN Sustainable Finance Taxonomy**
- **Establishment of Malaysia's Joint Committee on Climate Change (JC3)**

2022

- **The 15th Conference of the Parties (COP 15) to the Convention on Biological Diversity introduces the Global Biodiversity Framework (GBF) and sets the "30 by 30" goal for protected areas**
- **Increased focus on nature and biodiversity conservation effort**

2023

- **TTNFD recommendations in September 2023**
- **COP 28 in December - first global stocktake on climate, with a historic consensus on phase out of fossil fuels and importance of transition finance**

FIGURE B: TIMELINE OF REGULATORY DEVELOPMENTS SINCE 2015

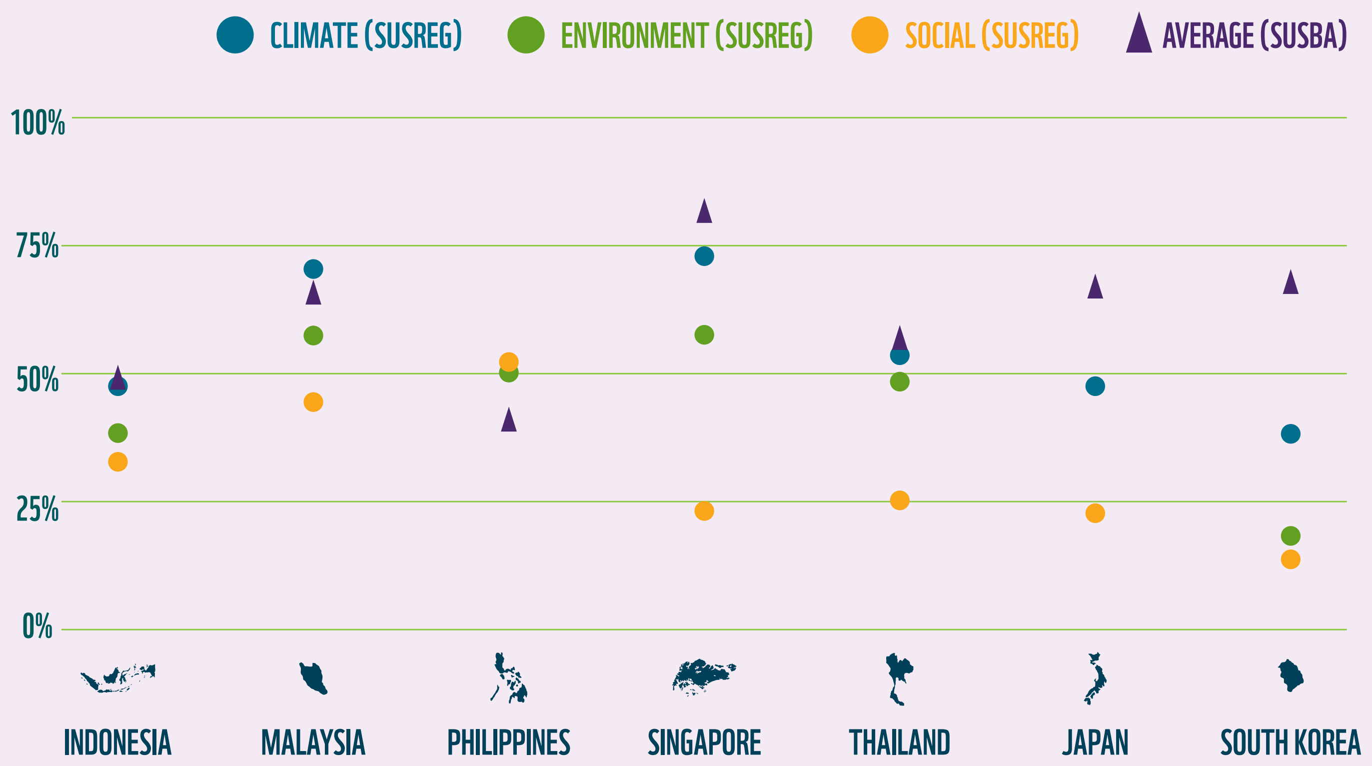

FIGURE C: AVERAGE SUSBA SCORES COMPARED TO THE REGION'S REGULATIONS ANALYSED VIA SUSREG ON THE THEMES OF CLIMATE, ENVIRONMENT AND SOCIAL

The chart above compares the regulatory performance of the 6 ASEAN countries using the SUSREG tool, which is classified into Climate, Environment and Social indicators, along with SUSBA scores of the assessed banks in each country. The analysis suggests that:

1. Generally, regulators are more advanced on climate, while they are lagging behind on broader environmental and social themes.
2. There is a significant variation among the six countries, especially in environmental regulations.

The graph below shows an overview of banks' performance on E&S assessments along with the regulatory assessment of their respective countries.

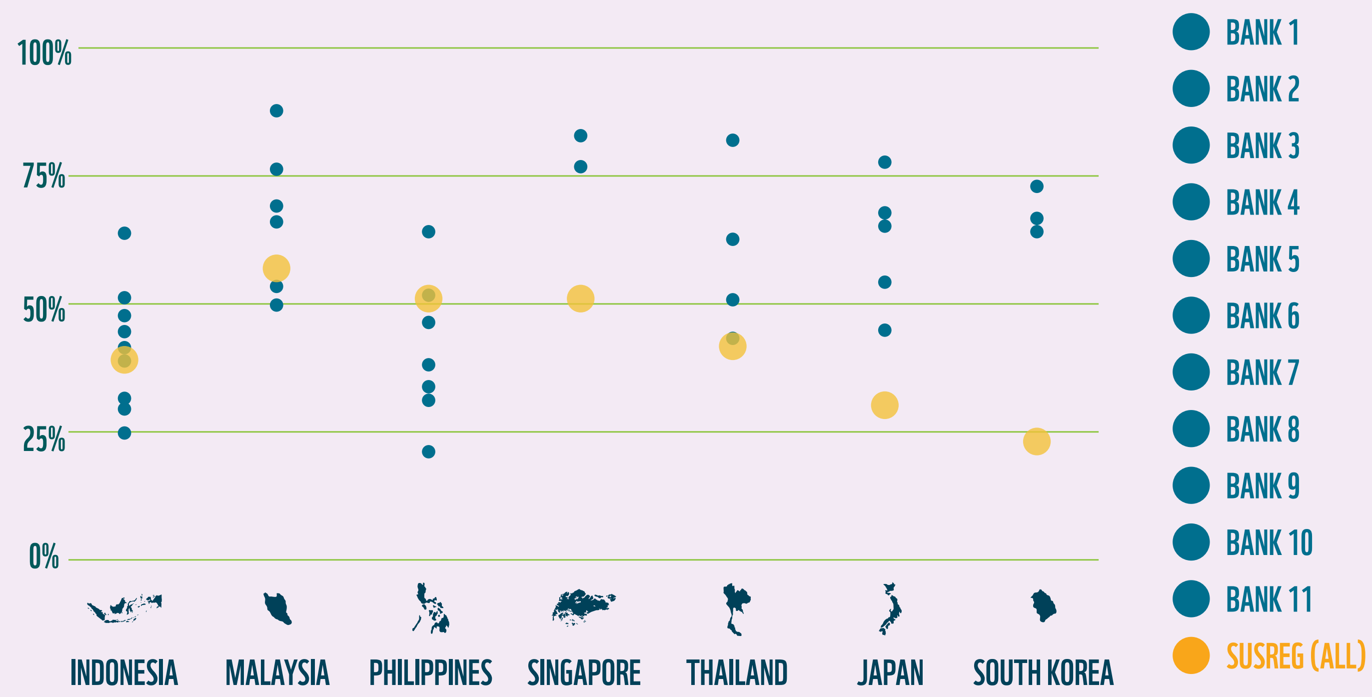

FIGURE D: ASIAN BANKS' SUSBA SCORES COMPARED TO THE REGION'S REGULATIONS ANALYSED VIA SUSREG

The analysis of SUSBA and SUSREG scores suggests two cohorts in terms of banks' progress on their E&S practices:

For the first cohort, the progress is largely driven by market pressures rather than regulatory mandates. This is because the average SUSBA scores continue to outperform the regulatory maturity as assessed by SUSREG. Furthermore, proactive banks (in terms of incorporating E&S policies) emerged as market leaders in this aspect, particularly in Singapore, Malaysia, Thailand, Japan, and Korea. This trend reflects the regulatory approach that largely emphasises risk management, helps set baseline compliance requirements and helps the laggards improve their sustainability practices.

The second cohort includes banks in Indonesia and the Philippines, where the regulators are raising the standard for banks' E&S policy requirements. For example, the Philippines Central Bank's (BSP) Sustainable Finance Framework, which came into force in April 2020. This prompted the banks in the Philippines to overhaul their E&S frameworks, leading to detailed disclosures in their FY 2022-23 sustainability disclosures. According to the SUSREG 2023 annual report, the BSP has reported that 95% of the 489 banks have already submitted their transition plans and/or Sustainable Finance Framework. Consequently, this year, we see a 43% increase in average SUSBA scores for the banks in the Philippines. Even in Japan and Korea, where leading banks proactively implemented E&S policies, the adoption of TCFD by regulators has helped raise the bar for all banks in the country. 8 out of 10 assessed banks in these 2 countries now score >65%, thereby significantly closing the gap on leading vs lagging banks.

Comparison between both cohorts, also indicates that while regulations help to ensure that no one is left behind, banks should not wait for regulations to implement robust policies and products geared toward positive E&S impact.

ASIA HAS THE POTENTIAL TO LEAD EFFORTS FOR NATURE CONSERVATION

The ASEAN region, home to numerous critical biodiversity hotspots, faces unique environmental challenges and opportunities. It is imperative for assessments to go beyond identifying potential risks and leveraging targeted financing to make a positive impact. This approach should be embraced by both the private sector and supported by development banks and public funds.

Financial Institutions (FIs) can adopt a comprehensive approach to assessing their environmental and social (E&S) impact, addressing both climate change and biodiversity loss to prevent further depletion of our natural resources. The increasing regulatory focus on climate risks underscores the need to extend similar scrutiny to biodiversity, utilising tools such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the Global Biodiversity Framework (GBF), and harmonising them with existing climate initiatives like TCFD. Banks are essential partners to achieve the 23 objectives that support the goals outlined in the GBF[25]. Further, Target 19 advocates for a significant boost in both public and private financial investments, aiming for a minimum increase of USD 200 billion per year to bridge the funding shortfall associated with nature conservation and restoration.

OUT OF THE 8 EUROPEAN BANKS ASSESSED, 50% OF THEM HAVE DISCLOSED QUANTIFIABLE METRICS ON NATURE RISKS, HOWEVER, NONE OF THEM HAVE SET SCIENCE-BASED TARGETS ON NATURE	NO ASEAN BANK HAS YET TO SET QUANTIFIABLE METRICS FOR MEASURING NATURE-RELATED RISKS (INDICATOR 1.6.1.1)	NO ASEAN BANK HAS BEGUN TO WORK ON SCIENCE-BASED TARGETS FOR NATURE RISKS WITH THE SBTN CORPORATE GUIDANCE (INDICATOR 1.6.2.7)

TABLE 7: CURRENT MATURITY OF ASSESSED BANKS ON NATURE TARGETS AND METRICS

Being early adopters of nature-positive banking not only positions institutions to develop innovative products, but also keeps them ahead of the regulatory curve. The movement on this has already begun. For instance, in September 2023, the Network for Greening the Financial Systems (NGFS) published its conceptual framework for assessing nature-related risks.[26] Additionally, in December 2023 the NGFS also published recommendations on nature-related scenarios, which guide central banks and financial supervisors to understand and address the impact of nature loss on economies and financial systems.[27]

Looking at TNFD adoption in countries like Singapore, Japan and Korea, a few banks (such as UOB in Singapore, IBK in Korea, MUFG, Mizuho, and SMBC in Japan) have begun to adopt the framework's disclosures to analyse their portfolio-level activities. Other Asian banks in the region must begin integrating these essential environmental considerations into their operational strategies without waiting for regulations to be implemented. As financial markets begin to factor nature-related risks into their portfolios, Asia has the opportunity to lead the way as the global frontrunner in recognising and channelling financial flows towards Nature and Biodiversity and protecting the rich and diverse ecosystems that it is home to.

25 This is because banks have substantial financing activities in emerging markets, and have the ability to steer financial resources towards activities that benefit nature https://www.unepfi.org/wordpress/wp-content/uploads/2023/11/PRB-Nature-Target-Setting-Guidance_Executive-Summary_2023.pdf

26 https://www.ngfs.net/sites/default/files/medias/documents/ngfs_conceptual-framework-on-nature-related-risks.pdf

27 https://www.ngfs.net/sites/default/files/medias/documents/ngfs_nature_scenarios_recommendations.pdf

SECTOR ASSESSMENTS

PALM OIL

Deforestation is one of the key drivers of ecosystem loss in Asia, with agricultural commodities, mining, infrastructure and urbanisation contributing most to this issue. Palm oil is the world's most-produced vegetable oil, accounting for approximately 40% of global vegetable oil production[28]. Additionally, Malaysia and Indonesia produce 84% of the world's palm oil[29]. Clearing land for palm oil is a specific challenge for Southeast Asia as global demand for palm oil increases. Reducing deforestation requires regulators, corporations, and financial institutions to implement policies to assess material deforestation risks and safeguard ecosystems.

IMPACT OF GROWING NDPE COMMITMENTS

Recent government policies in Malaysia and Indonesia have had a positive impact on the reduction of deforestation. A recent study by Forest Watch showed a reduction in deforestation from 2015-17 to 2020-22 of 64% for Indonesia and 57% for Malaysia[30]. Government policies and corrective actions have contributed to this reduction. In Indonesia, increased fire prevention and monitoring efforts, termination of granting new licences on primary forest and peatland, as well as better law enforcement have led to fewer fires and less primary forest loss. In Malaysia, no deforestation, no peat, no exploitation (NDPE) commitments now cover the majority of the palm oil sector. The government of Malaysia mandated Malaysia Sustainable Palm Oil (MSPO) certification starting in 2020. Positive government action has continued in more recent years, with a plantation area cap established in 2019 through 2023, and new forestry laws enacted in 2022 to stiffen penalties for illegal logging.

28 Palm Oil - Our World in Data

29 Palm Oil - Our World in Data

30 Tropical Primary Forest Loss Worsened in 2022 | GFW Blog (globalforestwatch.org)

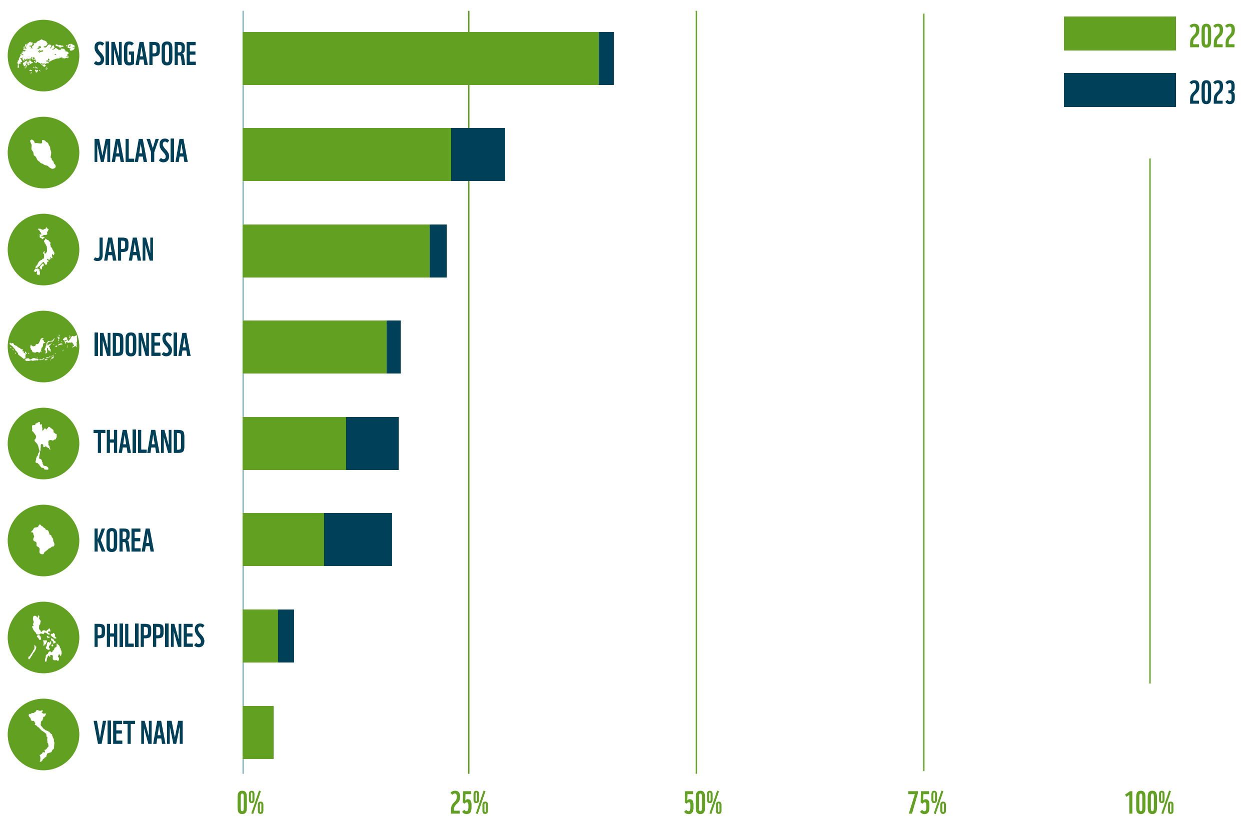

FIGURE E: BANK PROGRESS ON 38 PALM OIL SUB-INDICATORS BY COUNTRY, COMPLIANCE WITH INDICATORS 2022-23

For financial institutions, an analysis of 46 banks[31] in ASEAN, Japan, and Korea in 2022 showed limited progress in implementing palm oil policies. While a few banks in Malaysia, Thailand and Korea improved their scores by implementing palm oil policies, which is reflected in the country averages (Figure E), the majority of the assessed banks did not show significant improvement in their palm oil policies.

NEED FOR SUPPLY CHAIN TRACEABILITY

Analysing the performance across SUSBA palm oil indicators shows that the main challenge for banks continues to be in the insufficient coverage of palm oil policies across the entire palm oil value chain (Figure F). With regulations for deforestation-free commodities in the EU expected to go into effect by the end of 2024, financial institutions must ensure that their client supply chains are deforestation and conversion-free. On a positive note, 13 banks have now implemented requirements for clients to commit to NDPE in their own operations, up from 10 in 2022. Similarly, 16 clients have implemented client requirements to be RSPO certified in their own operations, up from 9 in 2022. Separately, the 2023 Palm Oil Buyers scorecard published by WWF's Global Palm Oil team also showed corporate improvements in traceability, with 30% of corporates increasing adoption of traceability measures vs 20% in 2021- a critical datapoint for substantiating zero-deforestation commitments. Corporates are investing in traceability to ensure compliance with evolving regulatory frameworks like the EUDR and to avoid legal risks. With a commitment to combating deforestation and conversion-free supply chains rising from 86% to 91%, there remains a substantial journey ahead to attain full sustainability and regulatory compliance[32]. Addressing forest loss attributed to forest-risk commodities, such as oil palm, requires a heightened level of coordination and alignment among all stakeholders.

31 49 banks were analysed in 2023, and 3 banks added in 2023 were excluded for year-on-year comparisons
32 WWF Palm Oil Buyers Scorecard

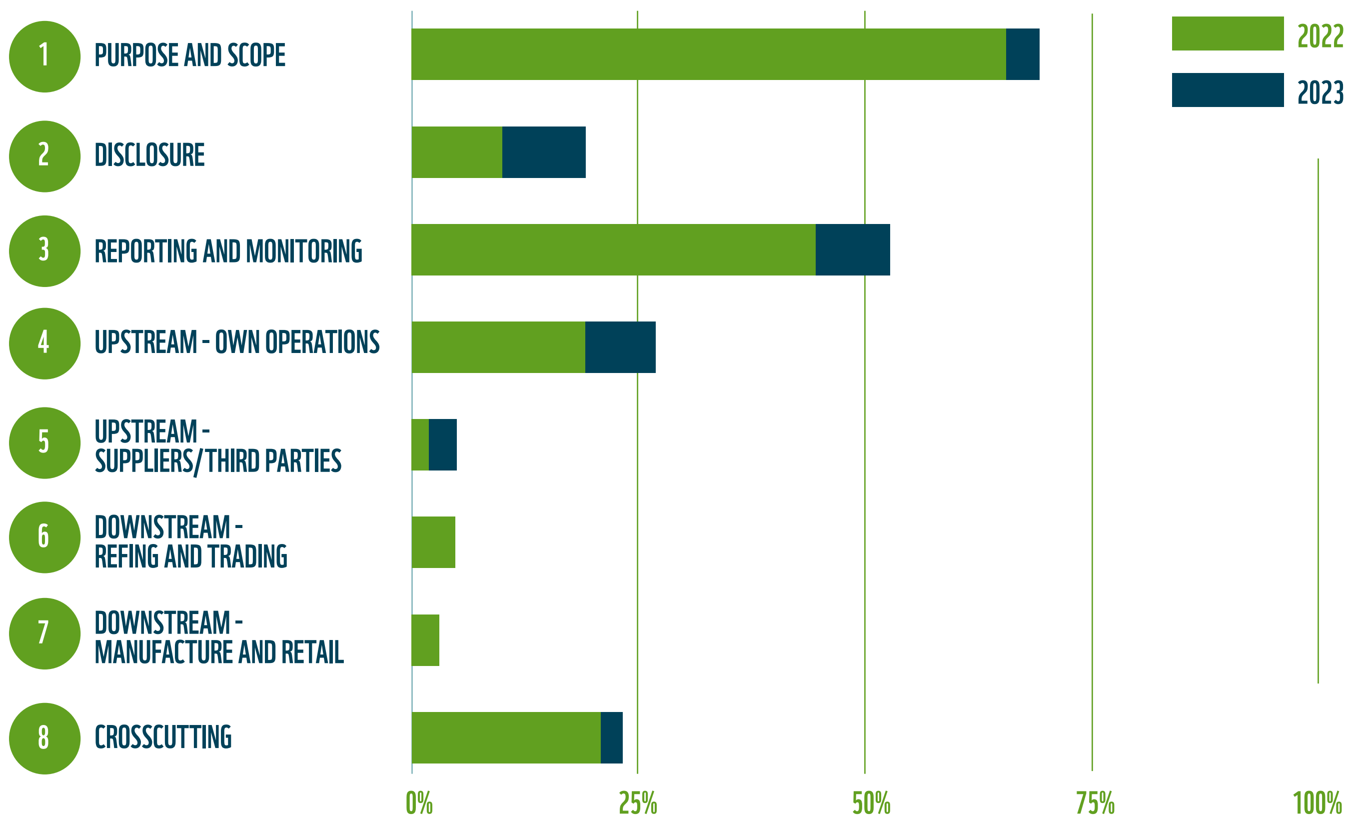

FIGURE F:BANK PROGRESS ACROSS EIGHT PALM OIL INDICATORS IN 2022-23 (ASEAN, KOREA, AND JAPAN, EXCLUDING BANKS IN THE PHILIPPINES AND VIET NAM)

CREATING SECTOR-SPECIFIC DECARBONISATION PLANS

In addition to implementing exclusionary policies to reduce the negative E&S impacts of palm oil, banks also need to implement plans to decarbonise their palm oil portfolios. While most banks with net-zero commitments initially focus on decarbonisation plans for carbon-intensive sectors, where they have the largest exposures, often excluding agriculture or palm oil. During crude palm oil production, palm oil mill effluent (POME) is generated, contributing to climate change due to the release of methane. We would encourage banks, particularly those with significant palm oil portfolios, to develop decarbonisation targets for palm oil. This will ensure that as palm oil production continues to grow to meet demand, the industry is incentivised to become more efficient by deploying tools such as regenerative agriculture and investing in circular solutions to reduce emissions. Examples of regenerative practices include reliance on organic fertiliser and renewable energy to reduce production costs, the establishment of wildlife corridors to reduce crop losses and lower climate vulnerability attributable to healthy soils.[33]

33 wwf_-concept-note-for-regenerative-palm-oil-framework.pdf (panda.org)

Some banks, such as CIMB in Malaysia, have published palm oil portfolio targets for the first time in 2023[34], which serves as a positive example. In addition to publishing a roadmap for decarbonising the palm oil portfolio, CIMB also provides green products tailored to the palm oil sector in order to help clients become more sustainable. Examples of financing support include circular economy applications such as biogas capture plants for reducing methane emissions related to palm oil mill effluent (POME), financing for yield improvement initiatives that reduce emissions, and financing for sustainable palm oil certification. Support is also provided for upstream smallholder upskilling and engagement for sustainable practices. Lastly, the palm oil emissions scope includes scope 3 emissions of integrated clients from external sourcing of fresh fruit bunches, which encourages supply chain traceability. We would encourage banks with significant palm oil portfolios to articulate similar decarbonisation targets for their portfolio including:

1. **Requiring palm oil growers, processors and traders to commit to NDPE and develop time-bound plans for RSPO certification.**

2. **Developing decarbonisation targets for their palm oil portfolios and providing green financial products that encourage clients to improve E&S impacts associated with palm oil across their supply chain.**

3. **Disclosing progress of the palm oil portfolio including decarbonisation footprint, client certification commitments and supply chain traceability.**

34 cimb-net-zero-whitepaper-20231123.pdf

ENERGY

At COP28, which concluded in December 2023, nearly 200 parties reached a decision on the world's first 'global stocktake' to ratchet up climate action before the end of the decade[35]. The stocktake recognises scientific evidence indicating a necessity to reduce global greenhouse gas emissions by 43% by 2030, compared to 2019 levels, to limit global warming to 1.5°C. It also acknowledges that parties are off-track to meet their Paris Agreement goals. The stocktake calls on Parties to take action toward achieving a tripling of renewable energy capacity and doubling energy efficiency improvements by 2030. The list also includes accelerating efforts towards the phase-down of unabated coal power, phasing out inefficient fossil fuel subsidies, and other measures that drive the transition away from fossil fuels in energy systems in a just, orderly, and equitable manner.

PHASING OUT FOSSIL FUEL FINANCING

In Asia, financial institutions are making progress towards reducing fossil fuel emissions in their portfolios, although there is still significant ground to cover, as shown by the low scores across our energy section assessment for 2023 (Figure G). The adoption of TCFD by several banks in Asia has led to an improvement in disclosures and the establishment of emission reduction targets in 2023. Of the 46 banks assessed in 2022[36], 62% have committed to implementing TCFD standards in 2023, marking an 11 percentage point increase YoY. This commitment now includes all banks in Singapore, Japan and Korea. As a result, there has been an improvement in greenhouse gas (GHG) disclosures, with 35% of banks disclosing emissions from high-emitting sector portfolios, up from 23% last year. Additionally, 33% of banks have articulated specific targets to reduce fossil fuel exposure, showing an increase from 21% the previous year.

OF THE 46 BANKS ASSESSED IN 2022, 62% HAVE COMMITTED TO IMPLEMENTING TCFD STANDARDS IN 2023, MARKING AN 11 PERCENTAGE POINT INCREASE YOY.

35 COP28 Agreement Signals "Beginning of the End" of the Fossil Fuel Era | UNFCCC

36 An additional 3 banks were analysed in 2023 which are excluded in the year-on-year comparisons

INDICATORS	SG	KR	JP	TH	MY	PH	ID	VN	AVG
1) SECTOR APPROACH (9 SUB-INDICATORS)	70%	61%	53%	50%	52%	27%	19%	22%	40%
2) DISCLOSURE (6 SUB-INDICATORS)	50%	50%	60%	26%	33%	23%	8%	7%	28%
3) MONITORING (2 SUB-INDICATORS)	100%	40%	20%	29%	75%	36%	64%	0%	46%
4) COAL EXTRACTION AND REFINING (4 SUB-INDICATORS)	54%	33%	25%	35%	20%	0%	5%	10%	18%
5) COAL POWER GENERATION (3 SUB-INDICATORS)	56%	50%	47%	42%	36%	36%	9%	20%	33%
6) OIL AND GAS (2 SUB-INDICATORS)	8%	15%	10%	29%	4%	4%	0%	0%	8%
7) RENEWABLES (3 SUB-INDICATORS)	33%	33%	20%	11%	12%	0%	3%	0%	11%
8) UNCONVENTIONAL FOSSIL FUELS (3 SUB-INDICATORS)	17%	10%	10%	36%	7%	0%	0%	0%	9%
9) CROSSCUTTING (8 SUB-INDICATORS)	21%	9%	19%	9%	9%	2%	5%	11%	9%
TOTAL (40 SUB-INDICATORS)	46%	36%	35%	30%	29%	14%	11%	11%	23%

FIGURE 6: BANK SCORES ACROSS 8 INDICATORS AND 40 SUB-INDICATORS BY COUNTRY

Progress on implementing exclusions for the expansion of fossil fuels has shown mixed results. A majority of banks have implemented restrictions on financing new coal-fired power plants (with 57% in 2023 vs 50% in 2022). However, the number of banks implementing restrictions for coal mining projects has relatively remained unchanged, with only a third of banks imposing restrictions on new coal mining projects. Banks can play an important role in repurposing closed mines for potential clean energy projects on solar, wind, green hydrogen, especially in areas with potential and access to existing transmission infrastructure[37]. On upstream oil and gas exploration, less than 10% of the assessed banks have implemented financing restrictions for greenfield oil and gas exploration and development. Lastly, while an increasing number of banks have made commitments to reduce portfolio emissions, only a few banks require their clients to disclose emissions or set emission reduction targets. To effectively achieve decarbonisation targets, it is crucial for bank clients, particularly in carbon-intensive sectors, to set science-based targets to reduce emissions.

37 https://www.indiawaterportal.org/articles/empowering-msmes-india-navigating-mine-repurposing-climate-resilience?language_content_entity=en

SCALING FINANCING FOR RENEWABLE ENERGY

Most of the assessed banks provide products that support sustainability improvements in the energy sector (with 76% in 2023 vs 70% in 2022). Given the importance of scaling renewable energy to meet the Paris Agreement goals, WWF-Singapore added four new indicators in 2023 to assess whether banks adequately addressed E&S risks associated with renewable energy expansion. While a majority of the assessed banks have green products for the deployment of solar and wind energy, only 20% of banks have a comprehensive renewable energy policy outlining which technologies they will support along with required E&S safeguards. Moreover, while 76% of banks provide support for sustainability improvements in the energy sector, only 28% provide energy efficiency and/or energy access solutions through lending programmes for small and medium enterprises (SMEs). Given the importance of SMEs in developing countries, and the need to provide smaller ticket loans for decarbonisation actions like energy efficiency and rooftop solar, it is imperative that banks design innovative and low-risk financial instruments to provide support for smaller clients to reduce emissions. We would recommend that banks provide energy transition support across all client segments and develop a renewable energy policy that includes mitigation of nature-related risks, provisions for a just transition as well as sustainable sourcing of materials.

SUPPORTING COAL TRANSITION PLANS IN ASIA

With coal-fired power plants accounting for half of the emissions in Asia and the relatively young fleet age of these plants, early retirement of coal assets is an important lever for achieving decarbonisation targets for the region[38]. While 2023 saw an increased focus on early retirement of coal assets in Asia through the Asian Development Bank's Energy Transition Mechanism and the Just Energy Transition Partnerships (JETPs) in Indonesia and Viet Nam, there was relatively low progress on the ground partly due to the need for blending in concessionary capital. Only four banks in our assessment have committed to support these initiatives. On a positive note, there was increased regulatory focus on coal transition last year. In March 2023, the ASEAN taxonomy board (ATB) released the second version of its sustainable taxonomy that is intended to be interoperable with national taxonomies[39]. It includes an assessment framework to phase out coal including technical screening criteria and categorisation of activities into three tiers based on how quickly coal-fired plants are planned for retirement. Recently, the Monetary Authority of Singapore and McKinsey & Company published a report proposing transition credits for early retirement of coal assets[40]. Several banks in the region including DBS, OCBC, Mizuho, MUFG and SMBC have joined the transition credits coalition to develop solutions for transition credits to be utilised as a credible financing instrument[41].

38 Transition credits (mas.gov.sg)
39 AT V2 Main Rpt Draft_08Jun23_1700BKK (asean.org)
40 accelerating-the-early-retirement-of-coalfired-power-plants-through-carbon-credits--sep-2023.pdf (mas.gov.sg)
41 Transition credits (mas.gov.sg)

SEAFOOD

The summer of 2023 saw record-breaking temperatures in our oceans, with many areas more than 3*C (5.4*F) warmer than usual.[42] Such marine heatwaves[43] are pushing nature beyond its limits, threatening marine wildlife, fisheries productivity and the livelihoods of millions of people.[44] In tandem with these growing physical risks, increasing evidence of legal risks related to biodiversity loss[45], and reputational risks posed by brand and consumer exposure to illegal, unregulated and unreported (IUU) fishing[46] collectively demonstrate the particularly challenging business environment within which seafood companies are operating today.

In 2022, seafood was included in the SUSBA sector analysis for the first time. Recognising its growing importance as a key source of protein, paired with the escalating ESG challenges, the seafood sector emerges as a focal point of both potential financial risks and opportunities. This is particularly crucial for companies and financiers in Asia, a major global hub for seafood production and consumption.

The results of the 2023 assessment show that an increasing number of banks are taking action to manage E&S risks related to nature and biodiversity loss in the seafood sector. Of the 40 assessed banks this year,[47] nine banks (23%) demonstrated improvements against last year's baseline. However, more progress is needed to ensure that banks' policies sufficiently prevent and/or manage their exposure to these risks, particularly as they relate to the seafood sector.

SEAFOOD SECTOR POLICY IMPROVEMENTS AND BLUE PRODUCT ISSUANCE DRIVEN LARGELY BY ASIAN BANKS

Of the nine banks demonstrating improvements against last year's baseline, four banks improved their scores by <5%, mostly within "bank commitments" indicators, while the other five banks made stronger progress (5-10%) on more advanced indicators with regards to client expectations.

Momentum on blue products appears to be growing, with 11 of the assessed banks (28%) disclosing that marine conservation and sustainable blue economy (including sustainable seafood production) are explicitly included within their sustainable finance eligibility frameworks, and/or that they have developed such products for the seafood sector specifically in 2023. This represents an increase in the number of banks issuing blue-labelled products, up from seven banks (17%) in 2022.

A notable trend is that almost all of the assessed banks that made YoY improvements (8 out of 9) and the majority disclosing blue product issuances in 2023, were Asian banks.

Taking a closer look at banks' performance within each section of the assessment framework highlights that the most pressing issues for banks continue to be centred on:

1
Formalising policies and commitments for climate and nature-related risks in the seafood sector.

2
Providing transparency by disclosing sector-specific policies and environmental impact metrics.

3
Ensuring client expectations align with sustainability best practices, especially for downstream clients.

The next few years will be critical to accelerating the transition to a sustainable ocean economy if we are to meet the 2030 target for Goal 14 (life below water) of the Sustainable Development Goal (SDGs). As global momentum to address climate and nature-related risks continues to grow, and more countries commit to protecting marine resources, banks must ensure that they are effectively managing their own exposure to seafood-related E&S risks. Simultaneously, banks should proactively seek opportunities to invest in nature-positive solutions.

Banks can take several actions to mitigate risks in the sector and promote nature-positive opportunities. First, they should develop sector policies that align client expectations with best practices from the UNEP FI Sustainable Blue Economy Finance Initiative. In this year's standalone seafood sector report - Above Board: 2023 Assessment of Banks' Seafood Sector Policies - we highlight a range of specific, real-world examples from current best-in-class bank policies. Regularly assessing their seafood client portfolios for potential exposure to environmental and social risks is crucial, and active engagement with clients will be key to support improvements in the sector. Banks should encourage clients to adopt the TNFD guidance and recommendations, including conducting LEAP assessments and using sector metrics for aquaculture and fisheries once they are finalised in 2024.

Simultaneously, banks should proactively seek opportunities to invest in nature-positive solutions. Leveraging existing green finance frameworks such as the global practitioner's guide for bonds to finance the sustainable blue economy can aid in developing targeted "blue" financial products that support the transition towards more sustainable seafood.

The next few years will be critical to accelerating the transition to a sustainable ocean economy if we are to meet the 2030 target for Goal 14 (life below water) of the Sustainable Development Goal (SDGs). As global momentum to address climate and nature-related risks continues to grow, and more countries commit to protecting marine resources, banks must ensure that they are effectively managing their own exposure to seafood-related E&S risks.


© Adobe Firefly

42 Scientists at NASA attributed this to the joint impacts of long-term global warming, and the seasonal El Nino effect. https://earthobservatory.nasa.gov/images/151743/the-ocean-has-a-fever

43 Marine heatwaves are periods of persistent anomalously warm ocean temperatures, which can have significant impacts on marine life as well as coastal communities and economies. https://psl.noaa.gov/marine-heatwaves/

44 https://wwf.panda.org/wwf_news/?9433966/Ocean-heat-waves-threaten-marine-wildlife-fisheries-and-livelihoods-of-millions-of-people

45 https://www.clientearth.org/latest/documents/legal-risks-related-to-biodiversity-loss-in-the-seafood-and-agriculture-sectors/

46 https://news.sky.com/story/seafood-produced-using-forced-uyghur-labour-in-china-could-be-on-sale-in-british-supermarkets-12998656

47 The 2023 seafood assessment included 40 banks identified as leading lenders to key seafood companies across production, midstream and downstream. While there was some overlap with the 49 banks included in the full 2023 SUSBA assessment, about half of the banks assessed on seafood were non-SUSBA banks. The full list of banks whose seafood policies were assessed can be found in the latter sections of this report. Details on the methodology for selecting this group of banks can be found in our standalone report: https://www.wwf.sg/susba/reports/

BANKS ASSESSED

In this seventh assessment, SUSBA covers the E&S integration performance of 39 ASEAN banks and 10 major Japanese and Korean banks.

JAPAN	KOREA	INDONESIA	MALAYSIA	PHILIPPINES	SINGAPORE	THAILAND	VIET NAM
Mizuho Bank (Mizuho)	Hana Bank (Hana)	Bank Central Asia Tbk (BCA)	AMMB Holdings Berhad (Ambank)	BDO Unibank, Inc (BDO)	DBS Group Holdings Limited (DBS)	Bangkok Bank (BBL)	Bank for Investment and Development of Viet Nam (BIDV)
Mitsubishi UFJ Financial Group Bank (MUFG)	KB Kookmin Bank (KB)	Bank Mandiri (Persero) Tbk (Mandiri)	Bank Islam Malaysia Berhad (BI)	Bank of the Philippine Islands (BPI)	Oversea-Chinese Banking Corporation Limited (OCBC)	Bank of Ayudhya (Krungsri)	Joint Stock Commercial Bank for Foreign Trade of Viet Nam (VCB)
Resona Bank (Resona)	Industrial Bank of Korea (IBK)	Bank Muamalat Indonesia Tbk (Muamalat)	RHB Bank Berhad (RHB)	China Banking Corporation (CBC)	United Overseas Bank Limited (UOB)	Kasikorn Bank (KBank)	Viet Nam Joint Stock Commercial Bank for Industry and Trade (VietinBank)
Sumitomo Mitsui Banking Corporation (SMBC)	Shinhan Bank (Shinhan)	Bank Negara Indonesia Tbk (BNI)	CIMB Group Holdings Berhad (CIMB)	Metropolitan Bank & Trust Company (Metrobank)		Krung Thai Bank (KTB)	Viet Nam Export-Import Commercial Joint Stock Bank (Eximbank)
Sumitomo Mitsui Trust Bank (SMTB)	Woori Bank (Woori)	Bank Panin Tbk (Panin)	Hong Leong Bank Berhad (Hong Leong)	Philippine National Bank (PNB)		Siam Commercial Bank (SCB)	Viet Nam Prosperity Bank (VPBank)
		Bank Pembangunan Daerah Jawa Banten Tbk (Bank BJB)	Malayan Banking Berhad (Maybank)	Rizal Commercial Banking Corporation (RCBC)		TMBThanachart Bank (TTB)	
		Bank Permata Tbk (Permata)	Public Bank Berhad (Public Bank)	Security Bank Corporation (SBC)			
		Bank Rakyat Indonesia Tbk (BRI)					
		Bank Syariah Indonesia (BSI)					
		Bank Danamon Indonesia (BDI)					
		Bank BTPN Tbk (BTPN)					

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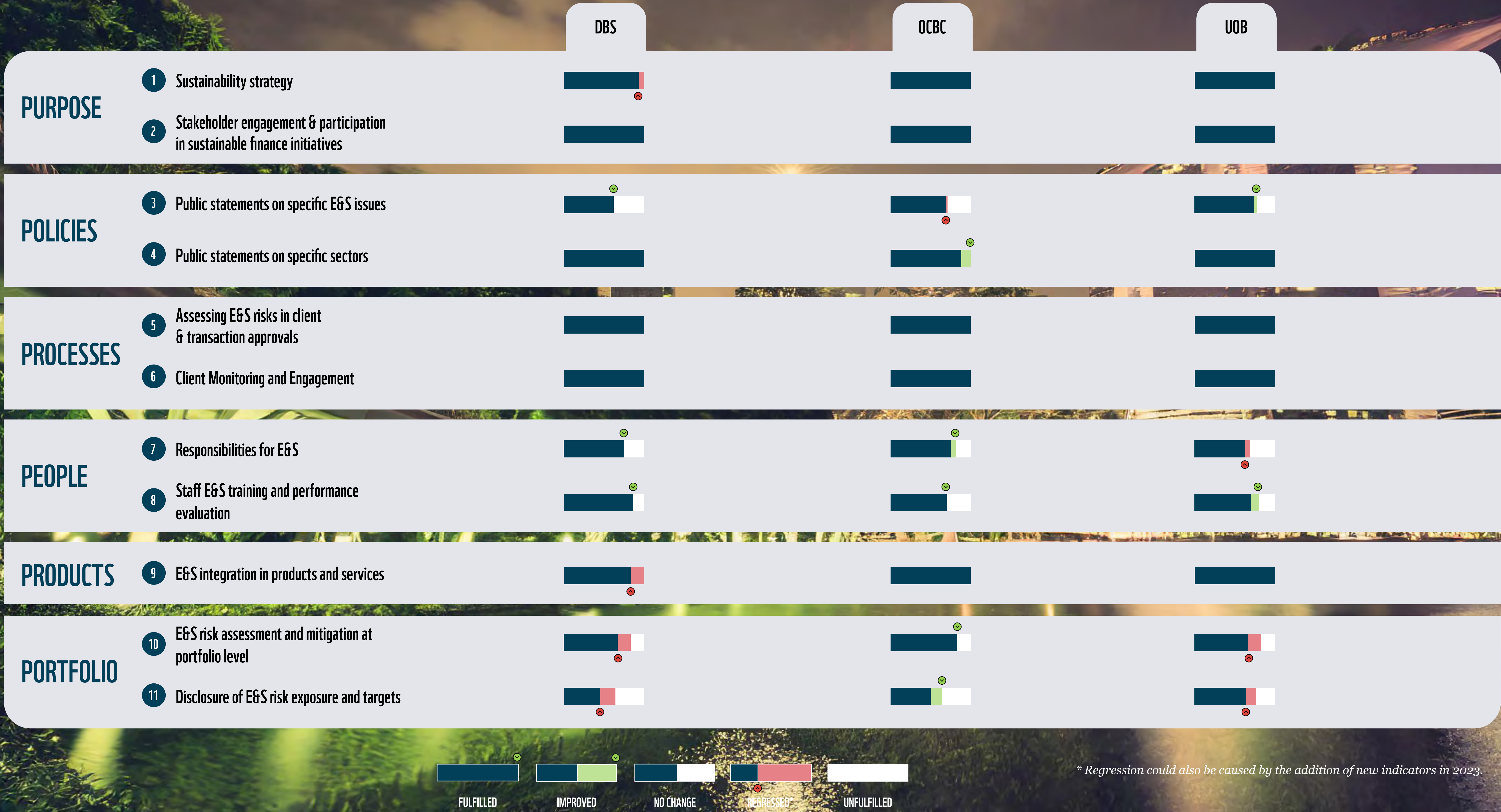
SINGAPORE

Indicator average in 2023 and change vs. 2022



** Regression could also be caused by the addition of new indicators in 2023.*

INDONESIA

Indicator average in 2023 and change vs. 2022

* Regression could also be caused by the addition of new indicators in 2023.

MALAYSIA

Indicator average in 2023 and change vs. 2022

Regression could also be caused by the addition of new indicators in 2023.

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PHILIPPINES

Indicator average in 2023 and change vs. 2022

* Regression could also be caused by the addition of new indicators in 2023.

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THAILAND

Indicator average in 2023 and change vs. 2022

* Regression could also be caused by the addition of new indicators in 2023.

VIET NAM

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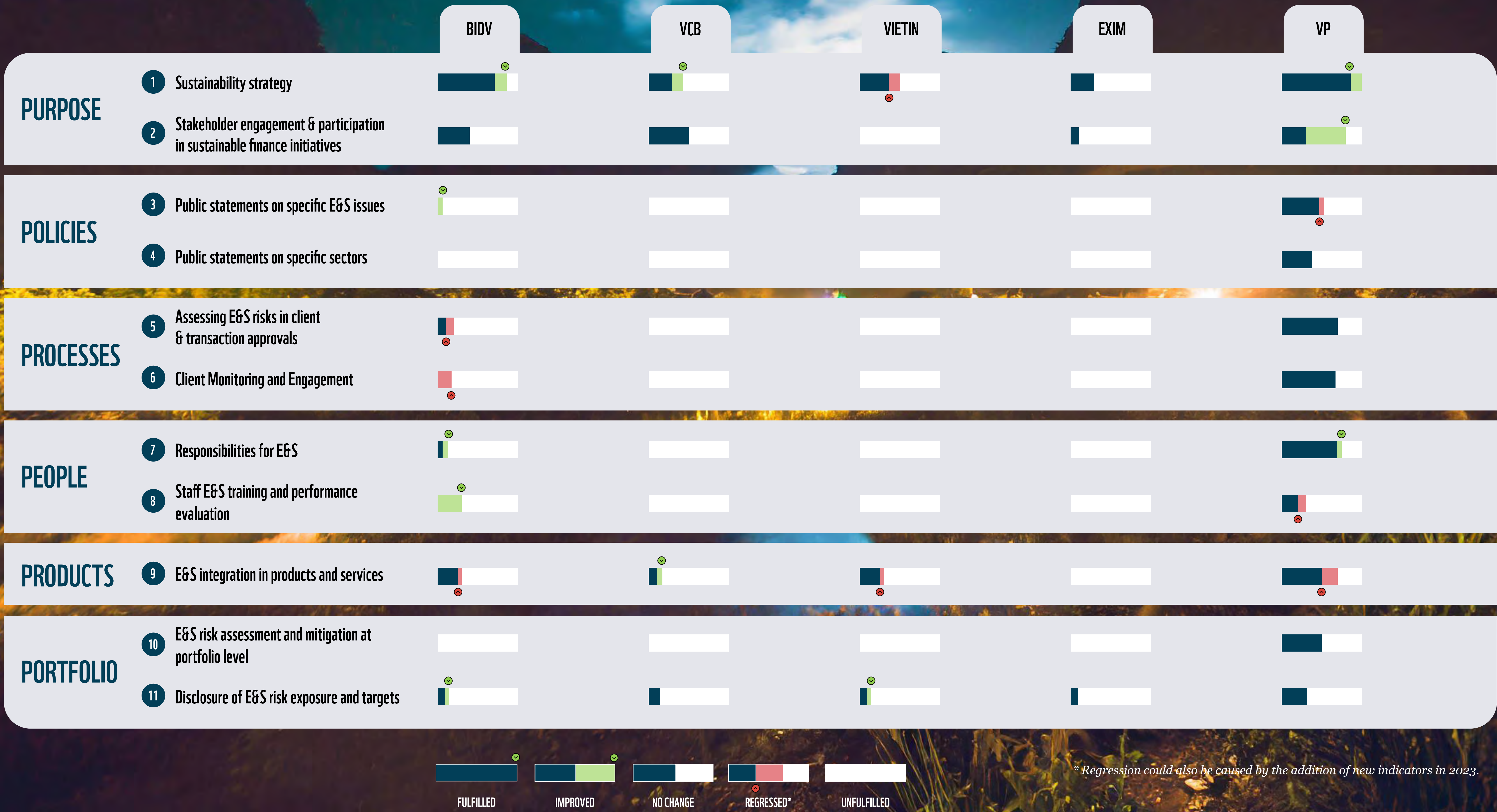
Indicator average in 2023 and change vs. 2022



* Regression could also be caused by the addition of new indicators in 2023.

KOREA

Indicator average in 2023 and change vs. 2022

* Regression could also be caused by the addition of new indicators in 2023.

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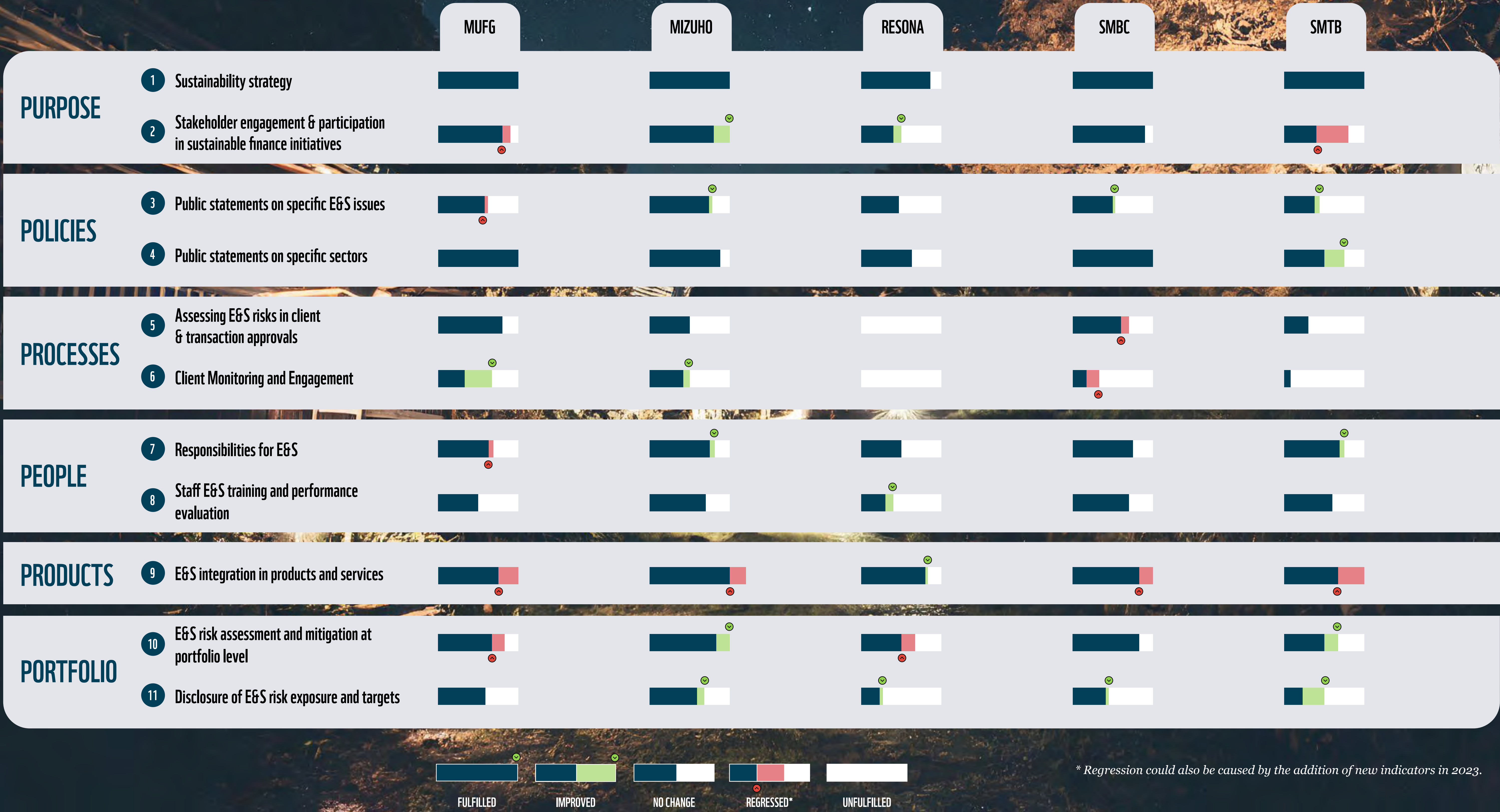
JAPAN

Indicator average in 2023 and change vs. 2022



* Regression could also be caused by the addition of new indicators in 2023.

SUSBA FRAMEWORK SUB-INDICATORS

PURPOSE

SUSTAINABILITY STRATEGY

1.1.1.1	Is there a clear reference to sustainability in the bank's strategy and long-term vision?
1.1.1.2	Does the bank clearly recognise that its E&S footprint includes the indirect effects arising from its business activities (e.g. financing, underwriting, advising) and portfolio?
1.1.1.3	Does the leadership statement make reference to the integration of E&S factors in the bank's business strategy?
1.1.1.4	Is there a clear reference to sustainable development goals (SDGs) in the bank's strategy or vision?
1.1.1.5	Does the bank explicitly acknowledge the societal and economic risks associated with climate change?
1.1.1.6	Does the bank explicitly acknowledge the societal and economic risks associated with environmental degradation?
1.1.1.7	Has the bank identified responsible financing/lending and/or other key E&S issues as material?

STAKEHOLDER ENGAGEMENT AND PARTICIPATION IN SUSTAINABLE FINANCE INITIATIVES

1.1.2.1	Does the bank disclose the types of stakeholders it engages with on E&S issues?
1.1.2.2	Does the bank engage with civil society and/or non-governmental organisations to understand the E&S impacts of its business activities?
1.1.2.3	Does the bank disclose the frequency and mode of communication with stakeholders engaged on E&S issues?
1.1.2.4	Does the bank engage with regulators and policy makers on E&S integration and/or sustainable finance topics?
1.1.2.5	Does the bank participate in relevant commitment-based sustainable finance initiatives such as RSPO, PRB, EP, SBTi, or SBEFP?

POLICIES

PUBLIC STATEMENTS ON SPECIFIC E&S ISSUES

1.2.1.1	Does the bank have exclusionary principles covering activities the bank will not support, taking into account E&S considerations?
1.2.1.2	Does the bank require clients highly exposed to climate-related risks to develop a mitigation plan and ultimately align their activities to the objectives of the Paris Agreement?
1.2.1.3	Does the bank prohibit the financing of new coal-fired power plant projects?
1.2.1.4	Does the bank acknowledge nature-related financial risks such as biodiversity loss and/or deforestation risks in its clients' activities?
1.2.1.5	Does the bank require clients in sectors highly exposed to deforestation (e.g. soft commodities, infrastructure, extractives industry) to adopt "no deforestation" commitments in both their own operations and supply chains, in accordance with the High Conservation Value or High Carbon Stock approaches?
1.2.1.6	Does the bank require clients in sectors highly exposed to conversion of natural ecosystems (e.g. soft commodities, infrastructure, extractives industry) to adopt "no conversion" commitments in both their own operations and supply chains, in accordance with the principles of the Accountability Framework Initiative?
1.2.1.7	Does the bank recognise negative impacts on the marine environment as risks in client's activities?
1.2.1.8	Does the bank require clients in marine-related industries to obtain certification from or otherwise support relevant multi stakeholder sustainability standards (e.g. ASC, MSC, SuRe) to ensure the sustainable use of oceans, seas and marine resources?
1.2.1.9	Does the bank have a commitment not to provide financial products and services to projects or companies located in, or having negative impacts on, key biodiversity and protected areas, including UNESCO World Heritage Sites, IUCN Category I-IV Protected Areas and Wetlands of International Importance designated under the Ramsar Convention on Wetlands?
1.2.1.10	Does the bank recognise water risks (flooding, scarcity, and pollution) as risks in its clients' activities?
1.2.1.11	Does the bank require clients in high-risk sectors and geographies to perform water risk assessments and commit to water stewardship?
1.2.1.12	Does the bank recognise human rights risks, including those related to local communities, in its clients' activities?
1.2.1.13	Does the bank require clients to commit to respecting human rights, in line with the UN Guiding Principles on Business and Human Rights?
1.2.1.14	Does the bank recognise labour rights violations as a risk across all sectors?
1.2.1.15	Does the bank require clients to adhere to international labour standards equivalent to the ILO Fundamental Conventions?
1.2.1.16	Does the bank have policies and procedures in place in order to seek to identify exposure to illicit activity involving wildlife and environmental crimes?
1.2.1.17	Are the bank's E&S requirements applicable to financial products and services beyond lending (i.e. capital markets, advisory)?
1.2.1.18	Does the bank require clients to obtain FPIC from communities affected by their projects and have a grievance mechanism to address any concerns?

PUBLIC STATEMENTS ON SPECIFIC SECTORS

1.2.2.1	Does the bank have sector policies for environmentally or socially sensitive industries, e.g. agri commodities, energy, oil & gas, mining, seafood, infrastructure?
1.2.2.2	Does the bank disclose its policies for environmentally or socially sensitive sectors?
1.2.2.3	Do the bank's sector-specific E&S policies include minimum requirements or recommendations based on internationally recognised standards for best E&S practices (e.g. IFC Performance Standards, RSPO, FSC, etc.)?
1.2.2.4	Does the bank periodically review its E&S policies or stated that the last date of review was within the past 2 years?

PROCESSES

ASSESSING E&S RISKS IN CLIENT & TRANSACTION APPROVALS

1.3.1.1	Does the bank use standardised frameworks for E&S due diligence (e.g. tools, checklists, questionnaires, external data providers) when reviewing clients or transactions subject to its policies?
1.3.1.2	Does the bank assess its clients' capacity, commitment, and track record as part of its E&S due diligence process?
1.3.1.3	As part of the approval process does the bank classify its clients and transactions based on E&S risk assessment?
1.3.1.4	Is there an escalation mechanism for more complex or controversial cases?
1.3.1.5	Do the E&S risk assessment outcomes influence transaction and client acceptance decisions?

CLIENT MONITORING AND ENGAGEMENT

1.3.2.1	Does the bank seek the inclusion of clauses (e.g. covenants, representations & warranties) related to E&S issues in the loan documentation for bilateral and syndicated credit facilities?
1.3.2.2	Does the bank require clients that are not fully compliant with its E&S policies to develop and implement time-bound action plans?
1.3.2.3	Does the bank monitor its clients' compliance with the agreed E&S action plans?
1.3.2.4	Does the bank perform periodic review or state how frequent it reviews its clients' profiles on E&S?
1.3.2.5	Does the bank disclose the process to address non-compliance of existing clients with the bank's policies or with pre-agreed E&S action plans?
1.3.2.6	Does the bank periodically review its internal E&S procedures or stated that the last date of review was within the past 2 years?

PEOPLE

RESPONSIBILITIES FOR E&S

1.4.1.1	Is senior management responsible for the implementation of the bank's ESG strategy?
1.4.1.2	Do senior management's responsibilities include management of climate change risks and opportunities relevant to the bank's activities?
1.4.1.3	Does the bank describe the roles and responsibilities of the various departments, committees or teams involved in developing and implementing its E&S policies?
1.4.1.4	Has the bank put in place an internal control system with three lines of defence to manage E&S issues?
1.4.1.5	Do the terms of reference of the Nominating committee include sustainability-related criteria for the appointment of new Board members?
1.4.1.6	Do the terms of reference of the Remuneration committee include sustainability-related criteria for the assessment of performance and remuneration levels for senior management?
1.4.1.7	Do the terms of reference of the Audit committee require sustainability-related matters to be included in internal control and audit processes?
1.4.1.8	Does the bank implement periodic audits to assess implementation of E&S policies and procedures?

STAFF E&S TRAINING AND PERFORMANCE EVALUATION

1.4.2.1	Does the bank have a dedicated ESG team to implement E&S policies and procedures?
1.4.2.2	Does the bank train its staff on E&S policies and implementation processes?
1.4.2.3	Does the bank provide specific training for its senior management, covering sustainability issues?
1.4.2.4	Are sustainability-related criteria part of the staff appraisal process and/or integrated into their KPIs?
1.4.2.5	Are sustainability-related criteria part of the senior management appraisal process and/or integrated into their KPIs?

PRODUCTS

E&S INTEGRATION IN PRODUCTS AND SERVICES

1.5.1.1	Does the bank proactively identify clients in environmentally or socially sensitive sectors to support them in reducing negative or enhancing positive impacts?
1.5.1.2	Does the bank offer specific financial products and services (e.g. green bonds, sustainability-linked loans, impact financing) that support the mitigation of E&S issues, e.g. climate change, water scarcity and pollution, deforestation?
1.5.1.3	Has the bank allocated specific pools of capital or increased the share of its financing that supports activities with a positive E&S impact?
1.5.1.4	Does the bank hold client outreach activities to raise awareness and share on good E&S practices (e.g. through workshops, seminars)?
1.5.1.5	Has the bank published frameworks for its sustainable financial products & services, e.g. a green bond framework, which are aligned with credible international standards?
1.5.1.6	Does the bank provide solutions and capacity building programs for SMEs to help transition to more sustainable practices including retail clients?

PORTFOLIO

E&S RISK ASSESSMENT AND MITIGATION AT PORTFOLIO LEVEL

1.6.1.1	Does the bank periodically review its portfolio exposure to nature-related risks (e.g. deforestation, water scarcity)?
1.6.1.2	Does the bank periodically review its portfolio exposure to climate-related physical and/or transition risks, using scenario analysis, and disclose the results and methodology used?
1.6.1.3	Does the bank have a strategy to manage and mitigate climate-related risks across its portfolio?

DISCLOSURE OF E&S RISK EXPOSURE AND TARGETS

1.6.2.1	Does the bank disclose its credit exposure by industry sector?
1.6.2.2	Does the bank disclose its fossil fuel portfolio at a level of transparency that aids stakeholders' understanding of the GHG impact of the portfolio and steps being taken to reduce emissions (Examples include details of FF assets held by technology type, current levels of annual capex financed, extent of fossil fuel physical assets held)
1.6.2.3	Does the bank disclose the GHG emissions or carbon intensity of the main carbon-intensive sectors in its portfolio (eg. agriculture, mining & metals, energy, etc.)?
1.6.2.4	Does the bank disclose statistics on the implementation of its E&S policies (e.g. number of transactions assessed, escalated, approved, declined, approved with conditions)?
1.6.2.5	Does the bank disclose the percentage of its soft commodities clients that have time-bound plans to achieve full certification of their operations against credible, multi-stakeholder sustainability standards?
1.6.2.6	Does the bank disclose the percentage of clients or total credit exposure covered by its E&S policies on sensitive sectors?
1.6.2.7	Does the bank have science-based targets in place to reduce nature-related negative impacts or increase positive impacts associated with its business activities, beyond direct impacts from its own operations, and disclose progress of achieving these targets?
1.6.2.8	Has the bank set science-based targets to align its portfolio with the objectives of the Paris Agreement, and disclosed progress of achieving these targets?
1.6.2.9	Has the bank committed to achieve net-zero greenhouse gas emissions in its lending portfolio by 2050, with defined interim milestones, and disclosed progress of achieving these targets?
1.6.2.10	Does the bank conduct external assurance of its ESG-related disclosures?
1.6.2.11	Does the bank disclose the positive and negative impacts associated with its business activities, beyond direct impacts from its own operations?

ASIA SUSTAINABLE FINANCE INITIATIVE

The Asia Sustainable Finance Initiative (ASFI) was established to bring together global industry, academic, and science-based resources to support financial institutions in the region in understanding and incorporating material ESG risks and opportunities into financial decision making.

ASFI works across six focus areas, including standards, research and tools, engagement, green financial solutions, regulations and guidelines and capacity building. Some of the key ASFI initiatives include the benchmarking tools RESPOND, SUSBA, and SUSREG, as well as ASFI Academy, which focuses on capacity building in the region.

ASFI Academy is a suite of e-learning courses developed by WWF-Singapore and the ASFI Knowledge Partners, designed to upskill financial professionals with the knowledge and skills required to support sustainable financial decision making. The current curriculum includes introductory level courses on sustainable banking and investments, as well as more in-depth sector-specific courses covering key issues in sustainable finance in the Agriculture, Forestry and Fisheries, Infrastructure, and Energy sectors. New for 2023 were courses focussing on climate-related and nature-related risks for financial institutions. Translated courses are also available to allow increased penetration to our target markets in the region. For more information visit www.asfi.asia/asfi-academy or email us at academy@asfi.asia.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ABBREVIATIONS

ADB	Asian Development Bank
ASC	Aquaculture Stewardship Council
ASEAN	Association of Southeast Asian Nations
CDP	Carbon Disclosure Project
E&S	Environmental and Social
ESG	Environmental, Social and Governance
ETM	Energy Transition Mechanism
FPIC	Free, Prior and Informed Consent
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
GRI	Global Reporting Initiative
IUU	Illegal, Unreported, and Unregulated (Fishing)
MSC	Marine Stewardship Council
NGFS	Network for Greening the Financial System
NZBA	Net-zero Banking Alliance
NDPE	No Deforestation, No Peat, and No Exploitation
PRB	Principles for Responsible Banking
RSPO	Roundtable on Sustainable Palm Oil
SASB	Sustainability Accounting Standards Board
SBE FI	Sustainable Blue Economy Finance Initiative
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SUSBA	Sustainable Banking Assessment
SUSREG	Sustainable Financial Regulation and Central Bank Activities
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Task Force on Nature-related Financial Disclosures
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
VBIAF	Value-based Intermediation Financing and Investment Impact Framework

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354 Tanglin Road #02-11, Tanglin Block Tanglin International Centre Singapore 247672
Tel. +65 6730 8100

For contact details and further information, please visit our international website at https://www.wwf.sg/