



# **HONG LEONG BANK BUSINESS & CORPORATE BANKING (BCB) ENVIRONMENTAL, SOCIAL & GOVERNANCE POLICY**

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# BCB ESG Policy

## HLBB's Approach to ESG

Environmental, social and governance (ESG) considerations have become a focal point for businesses in Malaysia and around the world, and we at HLBB have a fiduciary duty as a financial institution to address these issues by embedding ESG standards in our business operations, specifically in the credit assessment and approval process for our corporate, commercial and SME clients.

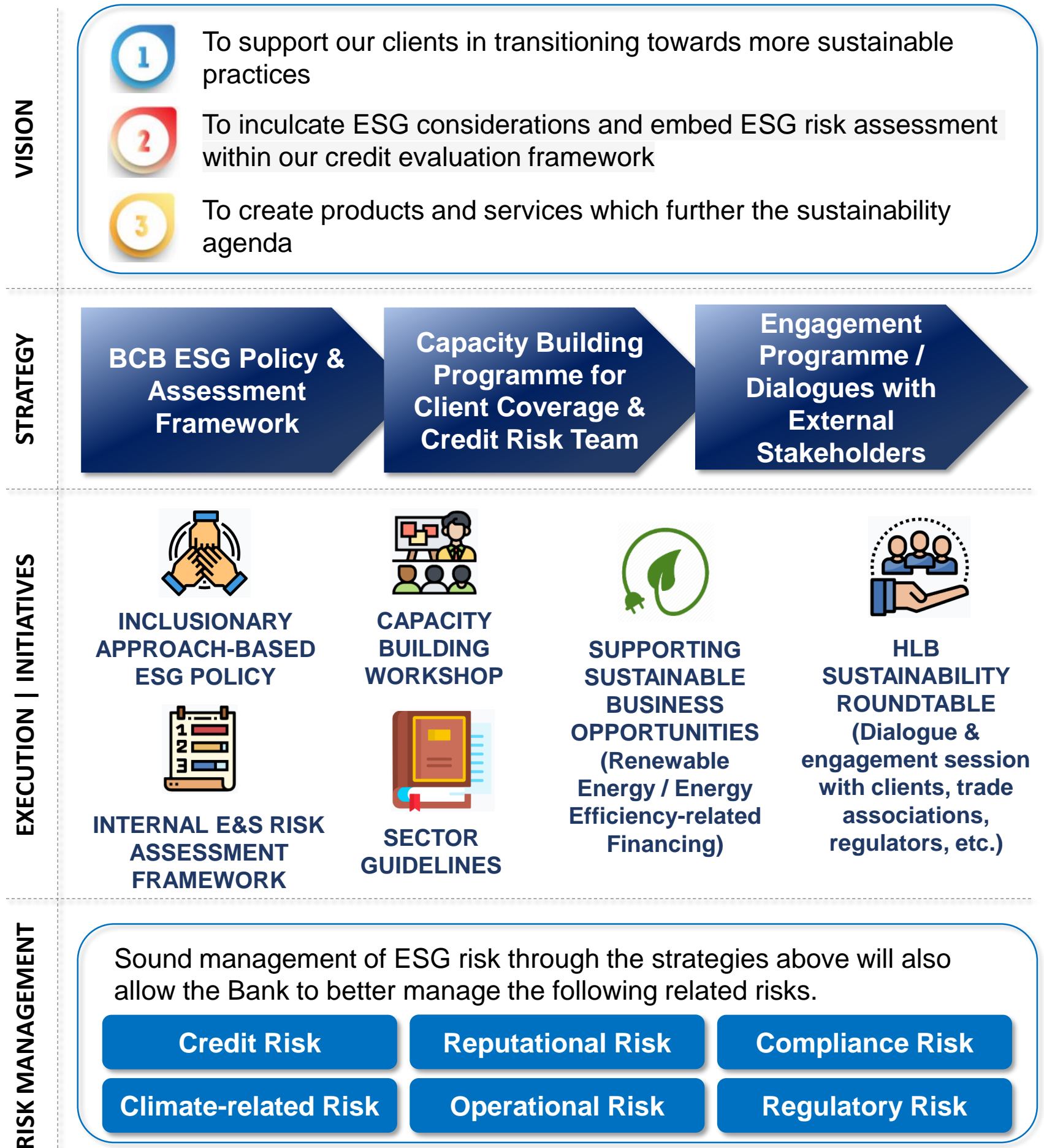
Assessing and managing ESG risks is a key business priority and an important component of our broader risk management framework. Our Business & Corporate Banking (BCB) ESG Policy and Assessment Framework has been developed to align with the Bank's Sustainability Theme: Socially Responsible Business.



HLBB is using an inclusionary approach that will focus on supporting and nurturing the sustainability progress of our clients. We believe that a win-win outcome can be achieved by collaborating with and encouraging clients from our identified high environmental & social (E&S) risk sectors to strive towards a low-carbon economy and more sustainable business practices.

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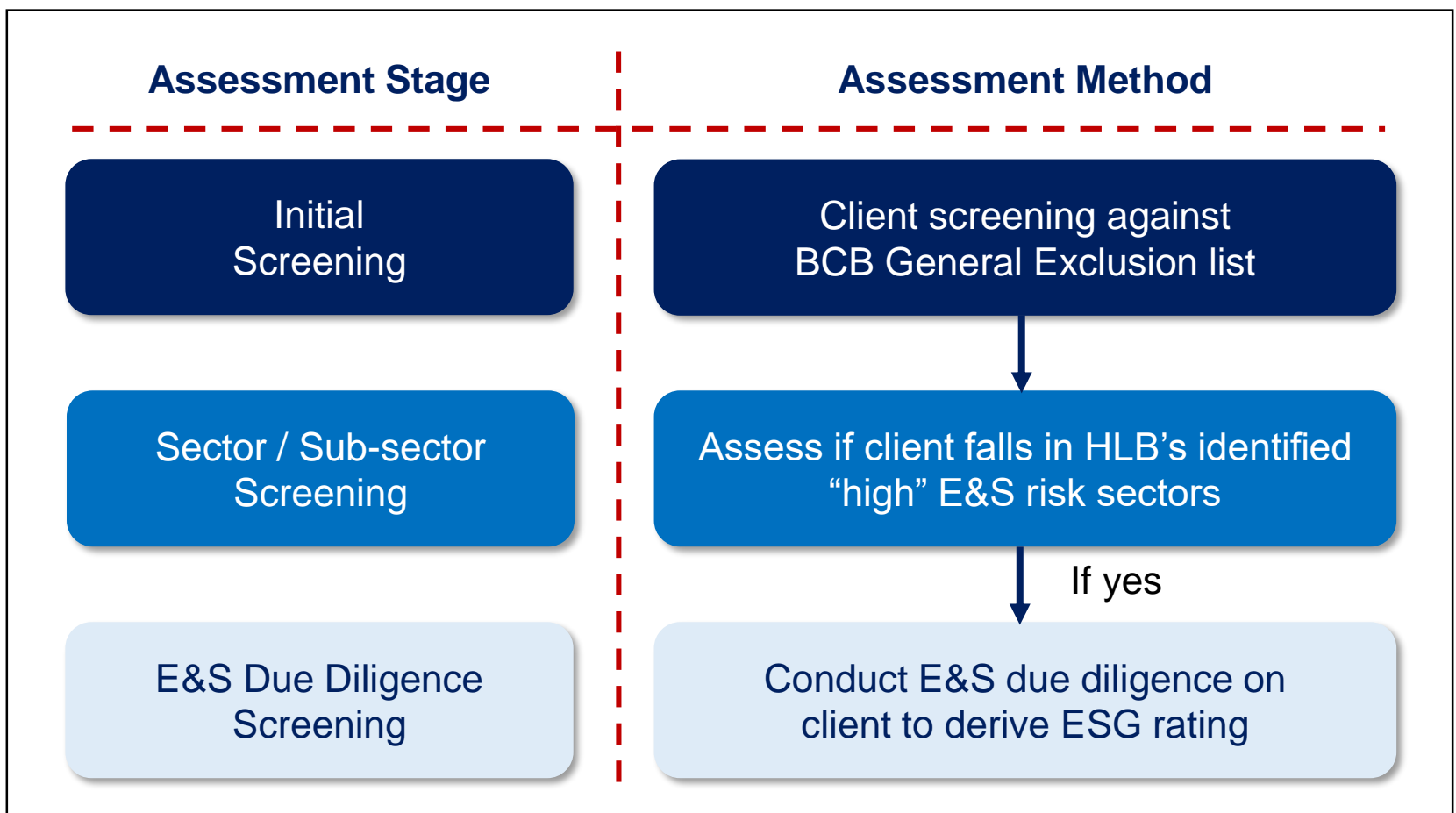
# BCB ESG Policy

## BCB ESG Policy & Assessment Framework

In developing our BCB ESG policy and assessment framework within our credit approval process, we have made reference to international and national frameworks / standards such as the United Nations Sustainable Development Goals (SDGs) framework, Value-based Intermediation Financing and Investment Impact Assessment<sup>1</sup> (VBIAF) Framework, International Finance Corporation (IFC) Performance Standards, and Bank Negara Malaysia's (BNM) Climate Change and Principle-based Taxonomy Discussion Paper<sup>2</sup>.

This includes a three-stage ESG assessment framework that encompasses:

- 1) screening our clients against the BCB General Exclusion list;
- 2) sector/sub-sector screening based on our internal E&S Risk Assessment Framework; and
- 3) client-level E&S due diligence for clients in the identified "high" E&S risk sectors/sub-sectors.



1. Value-based Intermediation Financing and Investment Impact Assessment Framework, Bank Negara Malaysia, Guidance Document, 1 November 2019.
2. Bank Negara Malaysia, Climate Change and Principle-based Taxonomy, Discussion Paper, 27 December 2019.

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# BCB ESG Policy

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## BCB General Exclusion List

One of the core principles of the BCB ESG Policy is that we will not knowingly engage in financing activities that are illegal, ethically unacceptable, or have an adverse impact on the environment. As such, this is the General Exclusion<sup>3</sup> list that will be applied to all our corporate, commercial and SME clients.

1. Involvement in money laundering, crime, terrorism or illegal activities (e.g. illegal waste management, illegal deforestation etc.).
2. Involvement in pornography or prostitution.
3. Production or trade in military weapons or firearms.
4. Involvement in forced labour, exploitation of children and human trafficking.
5. Activities resulting in significant conversion or degradation of any high biodiversity value areas<sup>4</sup>.
6. Operations which use fire for land clearance or preparation of land<sup>5</sup>.
7. Fishing activities using drift nets or explosives.
8. Financing of any greenfield coal-fired power plants<sup>6</sup> beginning 1<sup>st</sup> July, 2021 and financing of all coal-fired power plants effective 1<sup>st</sup> July, 2026.

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3. Hong Leong Islamic Bank (HLISB) will also adhere to the exclusions in the Shariah Compliance Policy as per the current practices.  
4. Areas designated by law or relevant competent authority to serve the purpose of nature protection, unless the business activity is carried out in compliance with the National and / or State Biodiversity Legislation.  
5. Use of fire for land clearance or preparation of land shall be avoided except in specific situations, such as obtaining the necessary authority approvals.  
6. This includes purchasing bonds to finance any green field coal-fired power plants.

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# BCB ESG Policy

## BCB E&S Risk Assessment Framework

We have developed an internal E&S Risk Assessment Framework which assesses 12 key environmental, social and governance criteria in determining the risk category for each economic sector and its related business activities that are present in the Malaysian economy. These sectors are then risk-rated as either “high”, “medium”, or “low” risk.

From the aforementioned exercise, we have identified eight (8) economic sectors that are deemed to be rated as having “high” E&S risk. Borrowing clients from these eight sectors will be required to undergo E&S due diligence during the credit evaluation or annual credit review process to assess their ability or plans to mitigate the relevant E&S risk(s). We will assist and support clients with a “high” risk-rating to gradually transition to a “medium” or “low” risk-rating.

### ESG considerations to derive industry E&S risk level

ESG Considerations		Alignment with international & national best practices
Air pollutants & GHG emissions	Human rights & labour working conditions	<ul style="list-style-type: none"> <li>• United Nations Sustainable Development Goals (SDGs) framework</li> <li>• Value-based Intermediation Financing and Investment Impact Assessment<sup>7</sup> (VBIAF) Framework</li> <li>• Bank Negara Malaysia’s (BNM) Climate Change and Principle-based Taxonomy Discussion Paper<sup>8</sup></li> <li>• Malaysian Sustainable Palm Oil Standard</li> <li>• International Finance Corporation (IFC) Performance Standards</li> </ul>
Waste & effluents management	Indigenous people, local communities & cultural heritage	
Biodiversity degradation	Land acquisition & involuntary resettlement	
Water / energy use efficiency		

7. Value-based Intermediation Financing and Investment Impact Assessment Framework, Bank Negara Malaysia, Guidance Document, 1 November 2019.

8. Bank Negara Malaysia, Climate Change and Principle-based Taxonomy, Discussion Paper, 27 December 2019.

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# BCB ESG Policy

## On-going Monitoring & Reporting



### MONITORING

Monitoring our clients' ESG standards involve several steps. This includes reviewing clients' ESG practices during credit annual reviews, and a follow-up of clients' mitigation and action plans, for those with a "high" risk-rating.



### REPORTING

Through our monitoring, this enables BCB to provide a quarterly and annual reporting, including:

- i) quarterly reporting to Bank Negara Malaysia (BNM) on Climate Change related considerations in assessing our borrowers; and
- ii) annual sustainability reporting on our progress with the implementation of our ESG policy, and in shifting our clients towards more sustainable business practices.

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