SUSTAINABLE BANKING ASSESSMENT 2024

WWF-SINGAPORE

ACKNOWLEDGEMENTS

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WWF-Singapore would like to thank the following people for their assistance:

Anya Garg, Pina Saphira, Akshat Garg, Adam Ng, Amie Ocampo, Ed Tongson, Indah Olivia, Josephine Del Rosario, Koong Hui Yein, Mutai Hashimoto, Rizkiasari Yudawinata, Siti Kholifatul Rizkiah, Matteo Marinelli, Aaron Vermeulen, Kamal Seth, Philip Erik Kitcher, Vivek Kumar

This report is part of the Asia Sustainable Finance Initiative (ASFI)

This report is funded by Die Internationale Klimaschutzinitiative (IKI) and the Gordon and Betty Moore Foundation. This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, and Consumer Protection supports this initiative on the basis of a decision adopted by the German Bundestag.

Production and design: Raphael Albinati
Published in December 2024 by WWF-Singapore – World Wide Fund for Nature (Singapore) Limited

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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.

CONTENTS

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EXECUTIVE SUMMARY

Since the inception of the Sustainable Banking Assessment (SUSBA) tool in 2017, the project has aimed to push banks forward in their sustainability journey.

Over the past 8 assessments, we have seen remarkable growth and improvement in banks across the Association of Southeast Asian Nations (ASEAN) region integrating ESG considerations into their long-term business strategies, developing policies and risk management frameworks to assess the impact of their financial transactions, and disclosing their progress through yearly public disclosure reports at a portfolio level. The next frontier of sustainable banking will be channelling financial flows.

Scaling up climate finance, to bridge the $2 trillion financing gap in Asia will require banks to tackle certain key challenges[1]. The low-carbon transition faces challenges from unclear transition finance definitions, fragmented corporate disclosures, and limited SME access to affordable financing. Addressing these issues requires standardised transition frameworks, more regulatory push for mandatory disclosures, and tailored financing solutions for SMEs and high-impact sectors. The report showcases how these challenges can be tackled and highlights examples of banks making progress.

On nature financing, Target 19 of the Global Biodiversity Framework (GBF) calls for at least $900 billion annually to address the biodiversity financing gap[2]. Furthermore, when compared to the larger picture, nature-negative finance flows in sectors such as fossil fuels, agriculture and construction are estimated to be $7 trillion per year[3]. To scale up nature finance, banks face certain key challenges. Prioritising risks such as deforestation and biodiversity loss requires localised data and tailored strategies, which many banks have yet to adopt. Furthermore, the small-scale and diverse scope of these projects makes them difficult to standardise and scale, emphasising the need for innovative mechanisms like green bonds and risk-sharing arrangements. The report highlights how banks have begun to make progress in tackling some of these challenges, and showcases financing mechanisms to scale up nature-positive investments.

As regulations and requirements of mandatory disclosures strengthen, banks have been encouraged to improve, and Asia has made some significant progress in the last few years. As the demand for climate finance continues to grow, Asian banks are stepping up their efforts, and now have an opportunity to lead their clients through the complexities of sustainable transition, drawing insights from European counterparts, which are advancing in client guidance. However, even as new regulations and guidelines have come, it is an evolving field. Policymakers and banks alike in the last few years have been working on overcoming hurdles in defining transition categories, navigating regulatory environments, and accurately measuring impact to make the path forward complex. This also means finding a balance between being too prescriptive and being too broad. In the nature financing space, European banks are pioneering innovative financial products through the combined implementation of the Taskforce on Nature-related Financial Disclosures (TNFD) and nature financing efforts, underscoring the potential for these initiatives to evolve hand in hand.

Looking back at the SUSBA journey, the progress made by banks can be analysed through the SUSBA Maturity Model, which splits over four phases. In Phase 1, banks acknowledge the importance of sustainability and incorporate these issues into their strategies. In Phase 2, banks begin to implement their strategies across the organisation which is a rigorous process for banks that involves developing detailed policies and processes. In Phase 3, banks work on developing and monitoring client E&S action plans, escalation mechanisms for complex cases and the analysis of high-risk sector exposure to climate-related physical and transition risks. Finally, in Phase 4, banks disclose their net-zero commitments, set science-based targets and develop scenario analysis capabilities to shift their portfolios to a sustainable future.

Through this lens, some key highlights from the SUSBA Maturity Model are-

ACKNOWLEDGING RISKS: 7 out of 8 Asian Countries (except for Vietnam) now score well(over 75%) in acknowledging the importance of Environmental and Social (E&S) issues

IMPLEMENTING POLICIES: 24 (52%) banks scored over 75% in 2024, compared with just 3 of 44 in 2019 in terms of having clear sustainability policies in place

INCREASING IMPACT: Bank performance on areas such as setting E&S action plans & escalation mechanisms improved to 48% in 2024, compared to an average score of 13% in 2019

ACHIEVING SUSTAINABLE FUTURE: The average score for indicators such as setting net zero commitments & science-based targets was only 3% in 2019, improving to 37% in 2024

Asian banks can leverage their climate finance experience and the region's rapidly evolving regulatory landscape to address these challenges and close critical financing gaps. While nature finance still faces obstacles—particularly in impact measurement, nascent regulations, and product structuring complexities—Asian banks have the foundation to scale nature-finance products effectively and expanding carbon markets as well as pushing the financing green and greening the finance agenda. Ensuring that nature-related financing incorporates social benefits for communities will be crucial in making financing more inclusive and impactful. By combining their climate finance journey with a renewed focus on nature financing, Asian banks can play a pivotal role in sustainable finance in the region.

1 https://www.adb.org/sites/default/files/publication/1008086/asia-pacific-climate-report-2024.pdf

2 https://www.reuters.com/business/sustainable-business/how-business-helped-drive-historic-agreement-nature-cop15-2022-12-21/

3 https://www.unep.org/news-and-stories/press-release/global-annual-finance-flows-7-trillion-fueling-climate-biodiversity

OVERVIEW

In this eighth 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 focussing 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, United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Responsible Banking (PRB), Task Force on Climate-related Financial Disclosures (TCFD) recommendations, Task Force on Nature-related Financial Disclosures (TNFD) 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. 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.

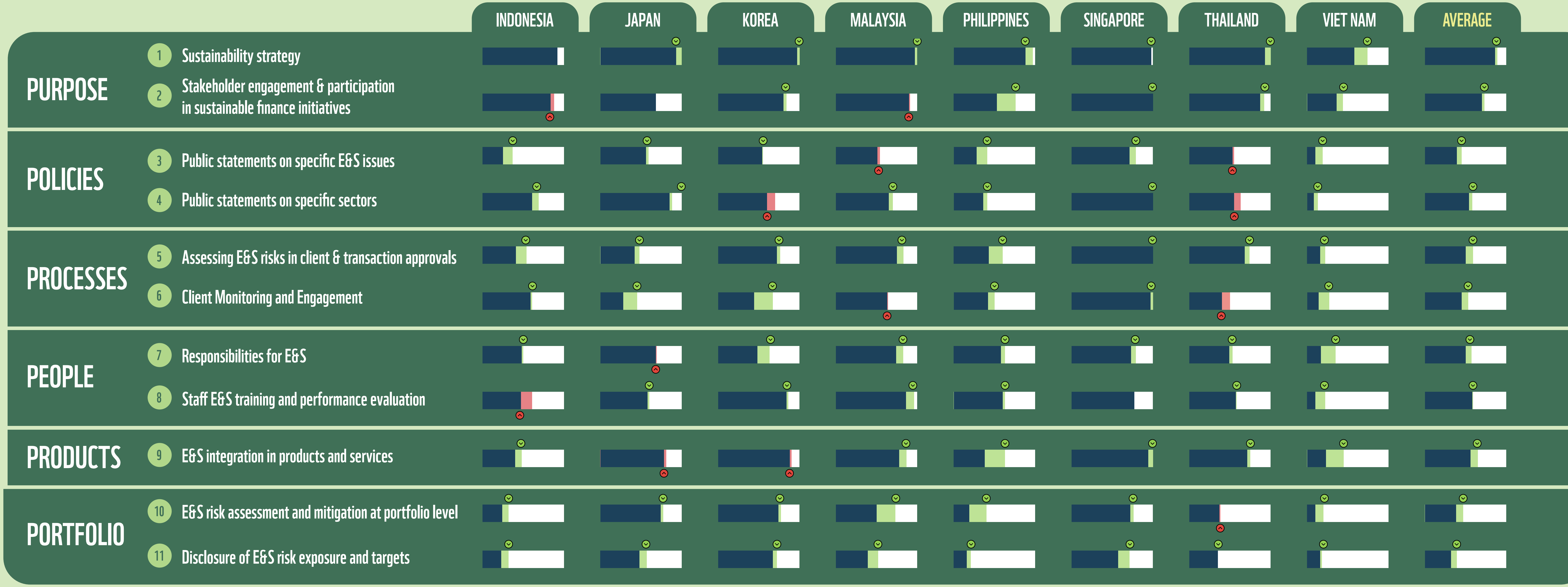


Table 1: Summary Results table for 6 ASEAN countries across 6Ps of Sustainability

THE REPORT

THE NEED FOR MORE FINANCING

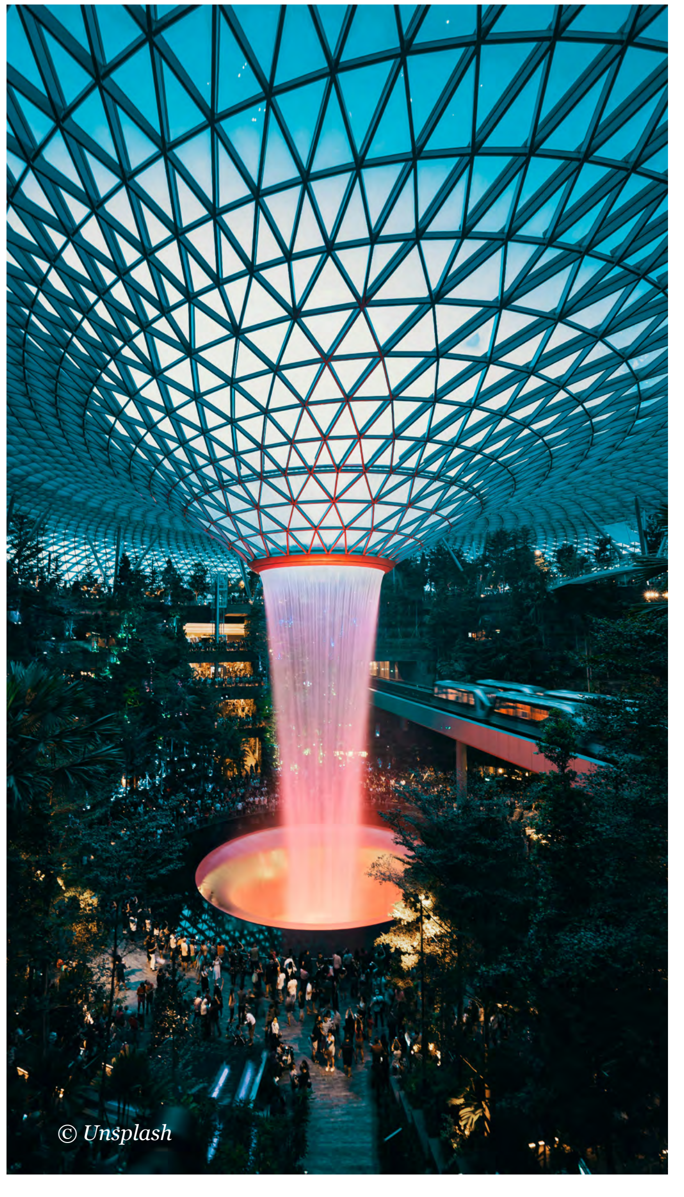
Over the last decade, as the ecosystem has moved forward, the foundation of publicly disclosed ESG strategies has been put in place. The next frontier of sustainable banking will be in the implementation of policies and channelling financial flows. This also means increased flows towards financially sustainable, impact-oriented projects. With the rise of concepts of blended finance, and Bankable Nature Solutions, the banks now have a clear role in achieving the goals of the Paris Agreement and a net-zero future. Banks have a crucial role to play by creating financial products that can help their clients in this transition.

PART 1 - CLIMATE FINANCE

What is the financing gap today?

At COP 29 (November 2024) bridging the climate finance gap still remains a critical challenge. This is particularly important in developing countries and LDCs. McKinsey's global estimate indicates that around **$9.2 trillion in annual investment** is needed to meet global climate goals, but ASEAN countries, similar to other emerging markets, are not receiving sufficient funding to address their unique climate challenges.[4] This brings the ever-increasing need for more private financing from financial institutions in the region towards these goals.

The ASEAN region especially, faces significant climate-related risks like rising sea levels, extreme weather events, and loss of biodiversity. For ASEAN specifically, the annual investment requirement is significant due to the region's reliance on carbon-intensive industries like coal, oil, and gas, alongside its vulnerability to climate impacts. According to the Asian Development Bank (ADB), the region needs **$2 trillion** in climate financing by 2030, focusing on the energy transition, infrastructure development, and resilience projects. Current investment levels are considerably lower, leaving a substantial financing gap.[5]



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4 https://www.mckinsey.com/capabilities/sustainability/our-insights/sustainability-blog/cop28-climate-finance
5 https://www.adb.org/sites/default/files/publication/1008086/asia-pacific-climate-report-2024.pdf

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CLIMATE FINANCING IN ASIA

Over the past 8 years, Asian banks have made significant progress in increasing their climate offerings, but still, a lot of work is to be done. The current level of climate financing in Asia, approximately $240 billion annually, is largely directed towards renewable energy projects like solar, wind, and hydropower. These investments are critical to supporting the region's energy transition, as Asia seeks to reduce its heavy reliance on fossil fuels. However, this figure falls far short of the $2 trillion per year required by 2030 to meet climate mitigation and adaptation goals in the region. The focus on renewable energy is driven by the decreasing costs of solar and wind technologies, which are now more competitive than traditional fossil fuel sources in many parts of Asia.[6]

As seen from the SUSBA's sub-indicators that assess banks' financial products catered towards E&S impact, banks across the region have increased their green financing, providing loans and bonds specifically tied to renewable energy and infrastructure projects that align with the region's decarbonization goals. This is evident from the growth seen in SUSBA indicators which assess whether banks offer specific E&S focused products (sub-indicator 1.5.1.2), where scores average 87% in 2024, as opposed to 50% in 2019. They have also adopted internationally recognised best practices on climate financing, such as publishing Green Bond Frameworks, aligned with Green Bond principles.

The next step is for banks to guide clients who are in high-emitting sectors, and assist them in their transition towards a low-carbon future. This will have to be done through advisory services, supporting them through transition finance frameworks, and assessing the quality of their transition plans through science-based disclosure progress.

The journey of transition finance comes with its own set of challenges, as various parts of the ecosystem need to come together.

6 https://www.iea.org/reports/renewables-2023/executive-summary

AREA 1: LACK OF STANDARDISED TRANSITION FRAMEWORK FOR FINANCING HIGH EMITTING SECTORS

The Glasgow Financial Alliance for Net Zero (GFANZ) has introduced an expansive definition of transition finance as "investment, financing, insurance, and related products and services that are necessary to support an orderly, real-economy transition to net zero." However, many frameworks define transition finance as finance that can enable the decarbonization of high-emitting entities and/or hard-to-abate sectors. Unfortunately, there is still no clear definition of what counts as transition finance – as a recent analysis by RMI counted 17 transition finance frameworks with varying definitions of transition finance[7]. Some unclear areas include a) What counts as transition finance, including sector and borrower requirements for having 1.5 degree aligned plans b) Whether the proceeds need to be ring-fenced for decarbonisation or can be general purpose in nature c) How to incorporate the regional context into borrower requirements and d) How to avoid carbon lock-in d) Incorporating guardrails to ensure a just transition.

The lack of common definitions has led to lower financing for transition finance with banks shying away from labelling transition financing to high emitting sectors as green to avoid greenwashing allegations. Harmonisation of transition finance frameworks will enable financial institutions to provide lower-cost funds to facilitate the transition for high-emitting sectors with the transparency and disclosures needed to ensure that the funds are having the impact needed to achieve stated decarbonisation goals.

EXAMPLES OF BANKS MAKING PROGRESS:

Barclays has published its own transition finance framework. This framework aims to guide clients in high-emitting sectors like energy and heavy industries in their decarbonization journey.

The Framework sets clear guidelines for supporting emissions reductions in sectors like cement, steel, and chemicals. Barclays' framework aligns with international standards and taxonomies, ensuring transparency and credibility in its transition finance activities. It incorporates principles from initiatives such as the Net-Zero Banking Alliance (NZBA) and the Equator Principles, which provide guidelines on managing environmental and social risks. Barclays also collaborates with the Partnership for Carbon Accounting Financials (PCAF) to ensure that its financing aligns with global best practices for reducing carbon emissions and accounting for environmental impacts[8]

7 Defining Transition Finance: Exploring Its Purpose, Scope, and Credibility - RMI
8 https://home.barclays/sustainability/addressing-climate-change/financing-the-transition/

AREA 2: LACK OF MANDATORY DISCLOSURES TO HELP FINANCIAL INSTITUTIONS ASSESS CLIENT TRANSITION PLANS

Disclosure requirements are important for creating transparency and enabling key information from real economy corporations to be evaluated by financial institutions for transition finance planning. In ASEAN, despite the high ambition of the ASEAN Taxonomy, there is a risk that the regulatory framework may not require mandatory disclosure of information which is relevant to support transition finance activities. Different national jurisdictions also have different regulatory frameworks on the disclosure of information, which results in fragmented and unharmonized information for FIs operating across ASEAN countries.

On the positive side, the use of the International Sustainability Standards Board's (ISSB) Standards IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures is common in ASEAN Member States. IFRS S2 contains several provisions which are relevant to transition planning although it does not require mandatory disclosure of a transition plan.

EXAMPLES OF BANKS MAKING PROGRESS:

OCBC Bank's Sustainability-linked loan issued to City Development Limited (CDL) is an example of how clients with climate disclosures & net-zero commitments can be supported by banks through climate financing. The **OCBC 1.5°C** loan reflects global efforts to align financing solutions with science-based pathways, in line with the **Paris Agreement's** goal of limiting global warming to 1.5°C above pre-industrial levels. CDL, who secured a £200 million loan from OCBC through this program, has committed to the Science Based Targets initiative (SBTi) to ensure its emissions reduction strategies meet international standards. CDL's decarbonisation targets include reducing Scope 1 and 2 Greenhouse gas (GHG) emissions by 63% (per square metre leased area) and Scope 3 emissions by 41% (per square metre gross floor area) by 2030.

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AREA 3: LOW ACCESS TO FINANCE, PARTICULARLY FOR SMES INVOLVED IN INDUSTRIAL SUPPLY CHAINS

The industry's net-zero transition requires a comprehensive approach that considers the entire value chain, from raw materials and energy sourcing to the products' use and end-of-life management. About 70% of international trade today involves global value chains. This is different from the power sector, where much of clean technology investments are taking place. In addition to the challenges associated with measuring GHG emissions effectively across the value chain and coordinating with different stakeholders across different jurisdictions, access to financing for decarbonisation initiatives is a particular challenge, particularly for SMEs in industrial value chains.

THE MAIN ISSUES WITH SME FINANCING ARE:

A SME creditworthiness is lower than large corporations, leading to low availability and high pricing of loans, in part because margins are lower for SME suppliers compared to the buyers

B loan tenor offered by banks is typically too short to fund renewable energy projects as banks do not want to make longer duration loans,

C SMEs typically do not have additional collateral to pledge for funding capex related to decarbonisation

D the supply chain companies are often in developing countries where the cost of capital is significantly higher than in developed countries[9]

While several solutions exist to address these issues, including using buyer guarantees, buyer incentives, supply chain financing, government guarantees, and longer-term loans from DFIs, these programs need to be scaled to improve impact. Currently, financial institutions focus on larger ticket-size projects for green financing. Scaling solutions for SMEs will require the development of standardised green products and processes tailored to help SMEs decarbonise.

EXAMPLE OF BANKS MAKING PROGRESS:

In August 2024, Krungsri Bank in Thailand (part of MUFG group) announced their Krungri SME Transition loan[10], which offers long-term credit lines of up to 10 years, with a special fixed interest rate of 3.5% for the first two years, covering up to 100% of the project value. This loan is tailored for SMEs to finance projects that transition to clean energy by reducing fossil fuel consumption, and by implementing waste treatment and disposal initiatives. The bank says the product is designed for **SME entrepreneurs in manufacturing, trading, and service sectors** who seek to improve or invest in their operations for environmental sustainability. Krungsri Bank targets to deploy 4500 million Thai baht ($135M USD) as Sustainable Finance to SMEs in 2024.

9 https://www.transformersfoundation.org/2024-financing-decarbonisation
10 https://www.krungsri.com/en/newsandactivities/krungsri-banking-news/krungsri-sme-transition-loan-special-interest

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PART 2 - NATURE FINANCE

Since the Global Biodiversity Framework (GBF) launched in 2023, banks are beginning to acknowledge and assess the material risks associated with nature and biodiversity loss. This is evidenced by the SUSBA 2024 results, where banks scored above 60% on acknowledgement of nature-related risks. With a clear focus on sustainable finance, the GBF also sets specific targets for integrating financial resources into biodiversity conservation.

What is the financing gap?

With a clear focus on sustainable finance, the GBF also sets specific targets for integrating financial resources into biodiversity conservation. The framework promotes sustainable finance as a key driver to achieve biodiversity goals by 2030, with Target 19 of the framework **aiming to mobilise finances towards** biodiversity efforts.

As of 2024, the current level of financing for nature is estimated at around $154 billion annually[11], with public sources contributing approximately $131 billion and private investments adding $23 billion. However, this is far below the target outlined in Target 19 of the GBF, which calls for at least $900 billion annually to address the biodiversity financing gap.[12] [13] Furthermore, when compared to the larger picture, nature-negative finance flows in sectors such as fossil fuels, agriculture and construction are estimated to be $7 trillion per year.[14] Hence, a combination of systemic work to measure and reduce this nature-negative financing, along with mechanisms to unlock private finance through nature-finance solutions, will be the key to meeting global nature and biodiversity goals.

NATURE FINANCING IN ASIA

As of 2024, the TNFD has been supported by over 41 banks in Asia.[15] Comparing this with the 171 banks in Asia that support TCFD, it is clear that banks are still in the early stages of assessing nature-related risks and creating financial products.[16]

While nature-based solutions (NbS) offer significant potential for addressing biodiversity loss and climate risks, investments remain limited, with current financing for nature in the region far below the levels required. Supported by forward-looking regulations such as the EU Regulation on Deforestation-free Products (EUDR), banks in Europe have begun to develop both policies and products that tackle key nature-related risks, such as deforestation, water scarcity/ pollution, biodiversity loss and endangered species extinction.

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While the spectrum of tackling nature-related risks can be broad and daunting, it also offers an equally wide range of solutions for financial institutions to create and support financing mechanisms that tackle these risks. Highlighted below are some of the key challenges that banks will need to tackle in scaling up their nature finance:

11 https://www.unepfi.org/nature/nature/nature-based-solutions/#:~:text=According%20to%20UNEP's%20State%20of,a%20year%20required%20by%202025.
12 https://www.paulsoninstitute.org/conservation/financing-nature-report/
13 https://www.unep.org/news-and-stories/speech/time-unlock-financing-biodiversity-protection-now
14 https://www.unep.org/resources/state-finance-nature-2023#:~:text=Close%20to%20%247%20trillion%20is,Gross%20Domestic%20Product%20(GDP).
15 https://tnfd.global/engage/tnfd-community/?_sft_sector=fn-2&_sfm_institution-type=FI
16 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/progress-climate-related-disclosures-2024.pdf

AREA 1: FINANCIAL INSTITUTIONS NEED TO DETERMINE WHICH NATURE-RELATED IMPACTS THEY WILL PRIORITISE

Nature-related risks include several issues such as deforestation, pollution, biodiversity loss, water scarcity, and marine-related risks. The impact for nature-positive initiatives also tends to be location-specific, unlike climate-positive initiatives which focus solely on the reduction of carbon emissions. With the recent adoption of TNFD, several financial institutions are beginning to understand their nature-related risks and articulate where they would like to make a positive impact. This involves getting location-specific data on their assets to understand their nature footprint and combining it with a top-down strategy on which nature-related issues to prioritise. Given the launch of the TNFD several years after the TCFD and the added complexity of measuring and addressing nature-related risks, most financial institutions have yet to articulate which nature-related issues they plan to prioritise financing for. Banks can begin by targeting specific nature risks they want to address and create products around those areas. Encouraging progress is seen in the example of Blue bond issuances, as seen in the example below.

EXIM BANK'S BLUE BOND

- Key aspects: Thematic financial product - Blue Economy, fully subscribed, sold at 2.5x issue amount, AAA rated.
- In July 2024, EXIM Thailand issued an offering of a Blue Bond, with Bank of Ayudhya Public Company Limited (BAY) and Government Savings Bank (GSB) as lead underwriters at EXIM.17
- As the first THB Blue Bond ever issued by a Thai financial institution, this Blue Bond carries a 3-year tenor, issue size of 3,000 million baht (~ USD 90 million) and a fixed coupon rate of 2.78% per annum under the sustainable finance framework worked out by the ADB as the Advisor, certified by DNV (Thailand) Co., Ltd. which is a world-leading standard certification organisation, and with credit ratings assigned by Fitch Ratings at AAA.
- The funds raised aim to be used for promoting and supporting business sectors and entrepreneurs with marine and coastal environmental concerns taken into account, such as hotel and marine tourism, fishing including marine aquaculture, waste management and treatment, marine waste recycling, merchant marine, etc.

17 https://shorturl.at/ONSeu

AREA 2: LACK OF NATURE POSITIVE FINANCIAL PRODUCTS

Most financial institutions assessed in SUSBA currently offer financial products that support the mitigation of E&S issues. However, these products are currently focused on financing climate-related projects, mostly for renewable energy. Taxonomies for supporting nature-positive initiatives are still being developed. As seen in the climate journey, regulators will play a crucial role in scaling up banks' speed of disclosures and mobilisation of capital for impact. As seen in WWF's Sustainable Financial Regulation and Central Bank Activities (SUSREG) 2024 report,[18] there is work to be done, as 31 out of 50 jurisdictions assessed show less than 50% alignment with SUSREG's environmental criteria. Moreover, 7 out of the top 10 biodiversity hotspot nations lag in their banking supervision on nature.

As regulations strengthen, it will enable accelerated measurement of nature-related KPIs and subsequent disclosures required by banks. Currently, very few Asian banks assessed currently offer specific products to mitigate nature-related risks.

BBVA's SLLs WITH WATER-RELATED KPIs

An encouraging example here is the Sustainability-Linked Loan (SLL) issued by BBVA bank.[19] In 2022, BBVA launched two SLLs: a €2.5 billion revolving credit facility for Iberdrola and a €50 million term loan for Iren. These loans are tied to water-related KPIs, including water withdrawal, consumption, and leakage. The loans support UN SDG 6 (Clean Water and Sanitation) alongside other goals like SDG 13 (Climate Action) and SDG 14 (Life Below Water).

Companies benefit through lower interest margins when they achieve the set KPIs, offering financial incentives for sustainable water management practices. Iberdrola measures water withdrawal and reports on CDP Water Scores and Iren evaluates water withdrawal and leakage ratios. These metrics are audited annually and reported in the companies' sustainability reports, ensuring transparency and accountability.

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18 https://www.wwf.sg/wp-content/uploads/2024/10/WWF_SUSREG-2024_Full-Report.pdf
19 https://www.unepfi.org/wordpress/wp-content/uploads/2023/10/PRB-Nature-Target-Setting-Guidance-Supplement-on-Case-Studies.pdf

AREA 3: NATURE-RELATED PROJECTS ARE NOT TYPICALLY STRUCTURED AS PROFIT-MAKING AND OFTEN HAVE LIMITED REVENUE STREAMS, WHICH LIMITS FUNDING ON COMMERCIAL TERMS

Nature-related projects have historically been funded through a combination of government and philanthropic funding. As a result, the benefits from these projects are typically accrued to society at large, as opposed to direct revenue streams that are needed to pay back any capital raised on commercial terms. In addition, nature projects are often structured as multi-stakeholder collaborative efforts without a profit-making entity that has the financial balance sheet to take on commercial debt. Lastly, many nature-based projects need philanthropic capital for a feasibility study to establish the bankability of the project. The above issues make it hard for commercial entities such as banks to lend to nature-related projects. Several solutions are being worked on to address these issues, such as the use of carbon and biodiversity credits to improve the revenue streams of projects as well as the use of blended capital from MBDs to combine philanthropic capital with loans made on commercial terms to fund projects.

WORLD BANK'S AMAZON REFORESTATION BOND

As nature financing from commercial banks slowly picks up momentum, MDBs like the World Bank are leading the way to mobilise capital. In August 2024, the World Bank issued a **$225 million Amazon Reforestation-Linked Outcome Bond**, the largest of its kind, to support reforestation projects in Brazil's Amazon rainforest[20]. Approximately $36 million from the bond will fund Mombak's reforestation efforts, which involve planting native tree species to enhance biodiversity and support local communities. The bond has a tenor of nine years, maturing on July 31, 2033.

The World Bank's Amazon Reforestation-Linked Outcome Bond offers investors a guaranteed fixed annual return of approximately 1.74%. Additionally, investors can earn a variable return linked to the generation and monetization of Carbon Removal Units (CRUs) from reforestation projects in Brazil's Amazon rainforest. If the projects perform as expected, the total annualised yield for investors can reach up to 4.36%[21].made on commercial terms to fund projects.

20 https://www.worldbank.org/en/news/press-release/2024/08/13/investors-support-amazon-reforestation-through-record-breaking-usd-225-million-world-bank-outcome-bond
21 https://www.reuters.com/sustainability/sustainable-finance-reporting/world-bank-prices-225-million-bond-linked-amazon-reforestation-2024-08-13/?utm_source=chatgpt.com

AREA 4: NATURE-RELATED PROJECTS TEND TO VARY IN SCOPE AND SMALLER SCALE IN CAPITAL REQUIRED, WHICH MAKES IT HARD FOR FINANCIAL INSTITUTIONS TO SCALE NATURE-RELATED INVESTMENTS

Nature-related projects tend to be varied in nature as they all address different issues in different landscapes and jurisdictions. This requires a tailored approach to fund each project. However, many nature-related projects tend to be small in nature, requiring less than USD 10M in capital. This poses an issue for financial institutions that are unable to provide customised offerings at a small ticket size. As a result, there is more capital willing to fund fewer large projects with a long tail of smaller projects facing a shortage of funding.

WWF's Banking on Nature Positive Report[22] highlights how commercial banks can provide leverage at scale taking advantage of blending and risk-sharing arrangements offered by development banks. This can help banks expand revenue streams from nature projects and also enable scale-up in capital.

THE REPORT HIGHLIGHTS SEVERAL FINANCING MECHANISMS SUCH AS:

- **Green and Thematic Bonds/Loans:** These instruments are highlighted as effective tools for directing capital towards biodiversity and nature-related objectives.
- **Sustainability-Linked Instruments:** The report emphasises the importance of incorporating nature-specific key performance indicators (KPIs) into sustainability-linked bonds or loans to incentivize borrowers to achieve biodiversity goals.
- **Impact Investment Funds:** The creation of funds dedicated to investments yielding measurable environmental benefits, such as ecosystem restoration or biodiversity conservation, is discussed as a strategy to mobilise private capital for nature-positive outcomes.
- **Debt-for-Nature Swaps:** The report explores mechanisms like biodiversity credits and debt-for-nature swaps as innovative approaches to finance conservation efforts and protect critical ecosystems.
- **Blended Finance and Guarantees:** The use of blended finance, combining public and private funds, and guarantees to de-risk investments in nature-related projects is presented as a means to attract more private sector participation.

22 https://wwfint.awsassets.panda.org/downloads/wwf-banking-on-nature-positive---october-2024.pdf

SUSBA LOOK BACK: 5 YEAR PROGRESS CHART

Over the past years, banks in Asia have made significant progress in incorporating sustainability-related issues into their financing decisions. This progress can be analysed over four phases that first begins with acknowledging the importance of sustainability followed by increased levels of sophistication in target setting, policies, and processes as banks work towards achieving a sustainable future. The 78 SUSBA sub-indicators can be categorised into these four typical phases to assess the progress and next steps for banks in each phase.[23] The Asian banks are also benchmarked against three international banks (BNP Paribas, Standard Chartered, and ING Group) that are more advanced in their sustainability practices.

PHASE 1. ACKNOWLEDGE (15 INDICATORS):

In the beginning, banks acknowledge the importance of sustainability and incorporate these issues into their strategies. The United Nations Sustainable Development Goals (SDGs) are often referenced, although the initial focus tends to be on climate change and basic human rights. By issuing a strategy statement, senior management typically takes responsibility for developing and implementing their ESG strategy.

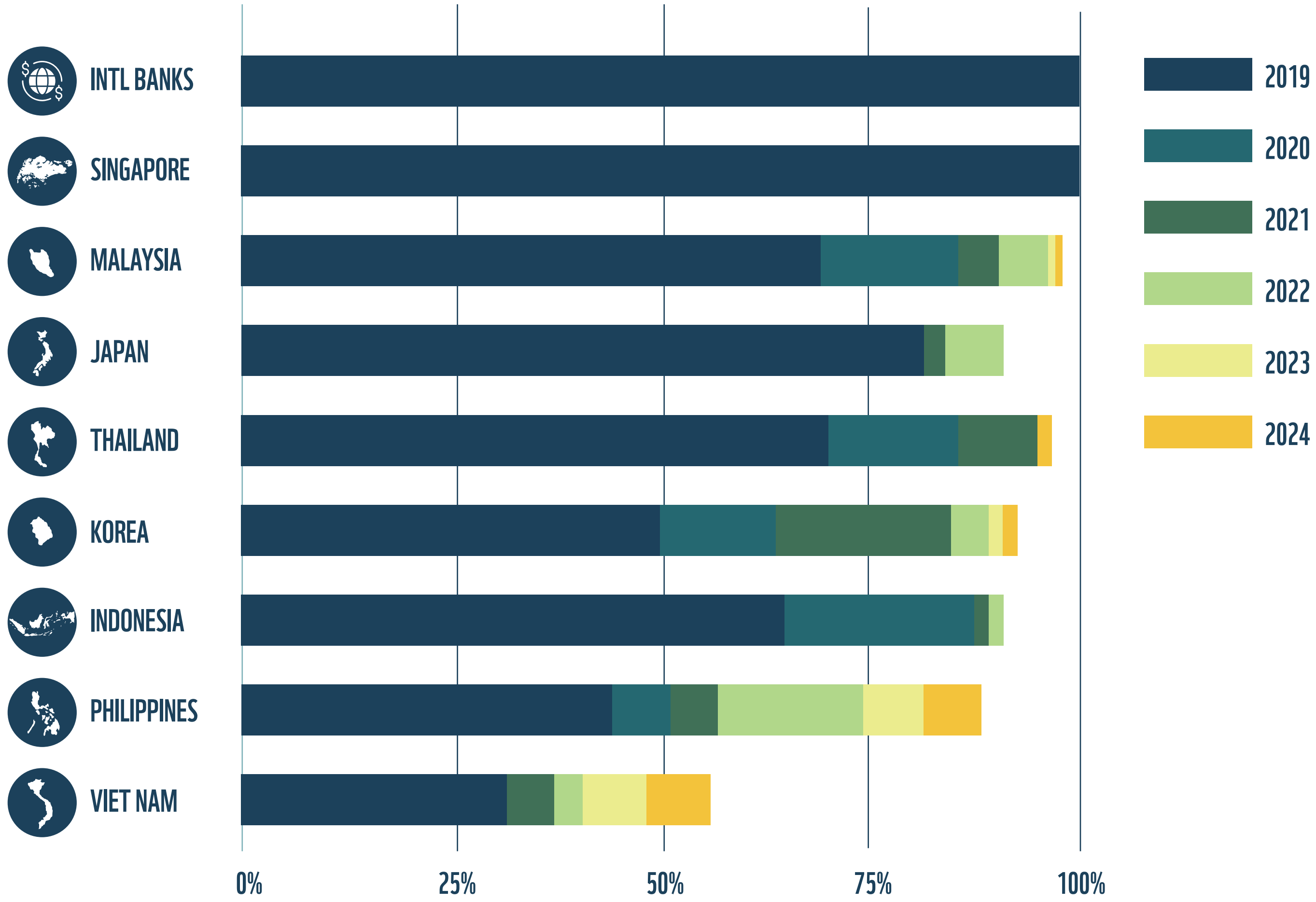

Figure 1: Bank progress in acknowledging sustainability from 2019-2024

23 Please see SUSBA Bank Phase Analysis section for SUSBA sub-indicator mapping to each phase

In 2019 only the international and Singapore-based banks had fully acknowledged the importance of E&S issues and integrated them into their respective bank strategies (Figure 1). However, rapid progress was made by Malaysia, Thailand, Korea and Indonesia-based banks in 2020 and 2021 followed by Philippines-based banks in 2022. Banks in all Asian countries except for Vietnam now score highly in acknowledging the importance of E&S issues.

The indicators showing the most progress since 2019 in this phase include integrating E&S issues into the bank's strategy; making senior management responsible for implementing ESG strategy; engagement with civil society, NGOs, and regulators on E&S issues; and disclosures on stakeholder engagement and bank teams responsible for E&S policies.

PHASE 2. IMPLEMENT (27 INDICATORS):

After acknowledging the importance of sustainability and incorporating it into their strategies, banks would begin to implement their strategies across the organisation. This is a rigorous process for banks that involves developing detailed policies and processes. In addition, implementation requires dedicated ESG-focused teams as well as training for all staff on E&S policies and processes. Policies in this stage typically focus on exclusions such as prohibiting financing for coal-fired power plants or projects linked to deforestation. To increase positive impact, banks also launch sustainability-linked products during this phase. Lastly, there is a wider acknowledgement of nature-related sustainability issues in addition to climate change issues.

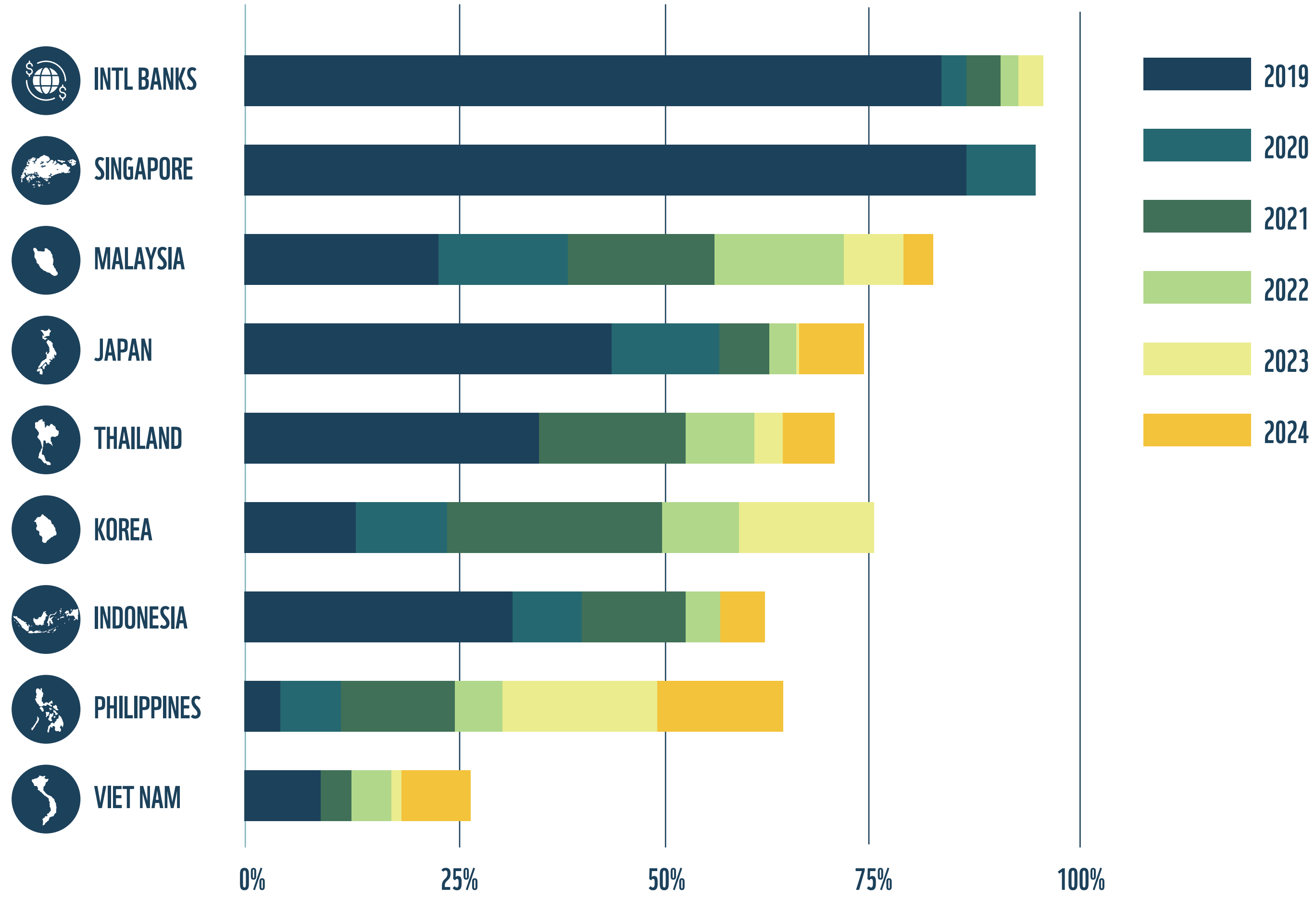

Figure 2: Bank progress in implement phase from 2019-2024

Except for banks in Singapore, most banks in Asia had not begun their journey to implement E&S policies and processes in 2019 with scores for most banks in the region well below 50% (Figure 2). By 2024, banks in all countries except Vietnam were above the 50% mark, with most of the improvement coming between 2020 to 2022. Banks in Malaysia and Korea improved their scores to above 75% for indicators in the implementation phase. Moreover, in the remaining Asian markets, several banks also scored above 75% in this phase - of the 46 banks assessed across Asia, 24 (52%) banks scored over 75% in 2024, compared with just 3 of 44 in 2019. As a result, banks in Asia have caught up considerably with international banks in acknowledging the importance of E&S issues, incorporating these issues into their respective strategies, and implementing E&S related policies and processes.

In addition to average scores improving, the minimum scores also improved for banks in most markets. Figures 3&4 illustrate the average improvements made in implementation-related scores from 2019 to 2024 compared with improvements made by the lowest-scoring bank in 2019. Most markets raised the minimum bar for implementing E&S related policies and procedures in line with overall improvement for all banks, except for banks in Vietnam and the Philippines. The minimum bar for banks in Singapore, Malaysia and Korea improved to above 50% in 2024 with Japan and Thailand above 50%. In Indonesia, the Philippines, and Vietnam, the minimum score for banks continues to be below 40% levels. However, with the implementation of E&S-related regulations in Indonesia and the Philippines, the gap is expected to narrow going forward.

MINIMUM IMPLEMENTATION SCORES

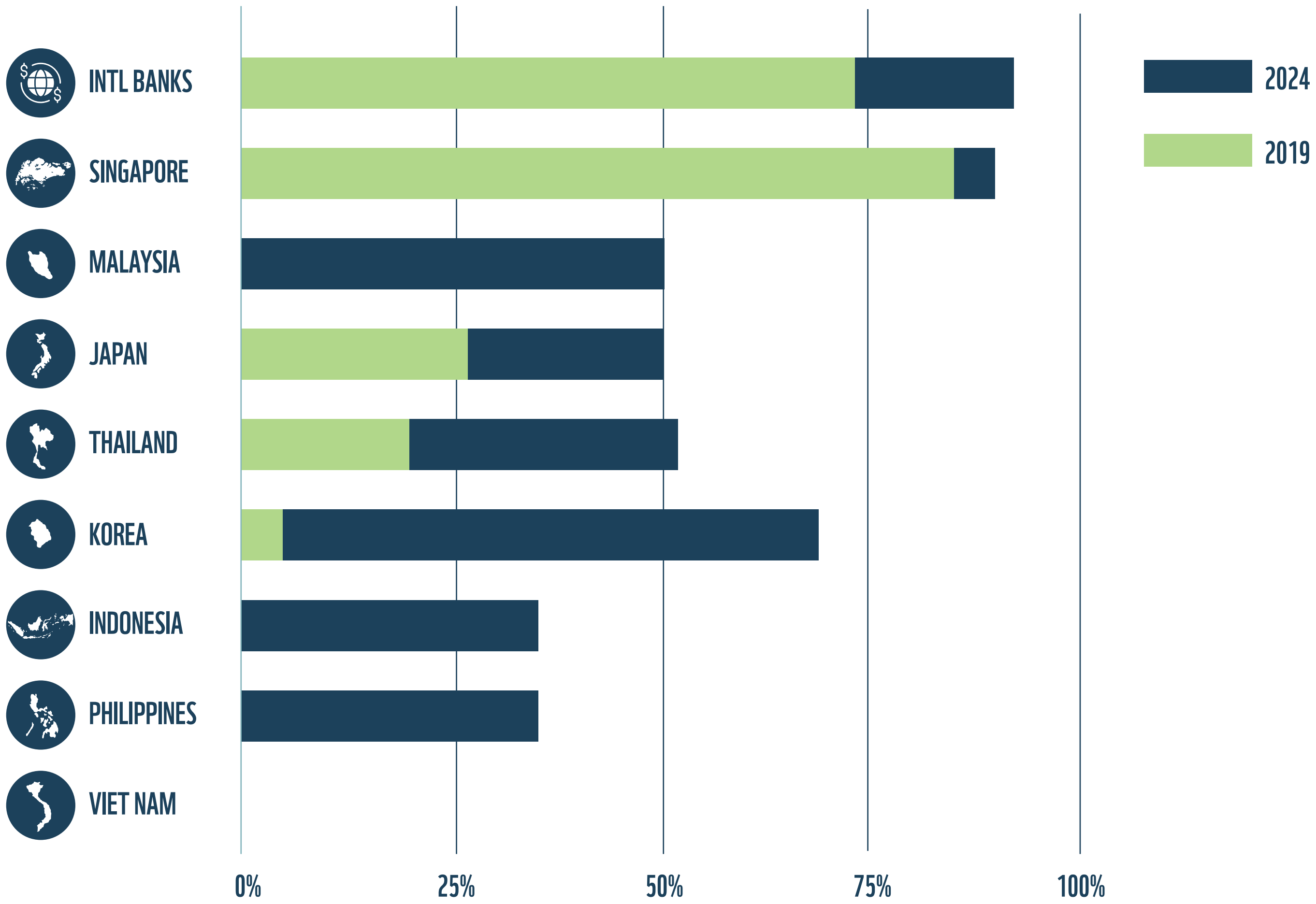

Figure 3: Progress made during the implementation phase: lowest 2019 score vs 2024

AVERAGE IMPLEMENTATION SCORES

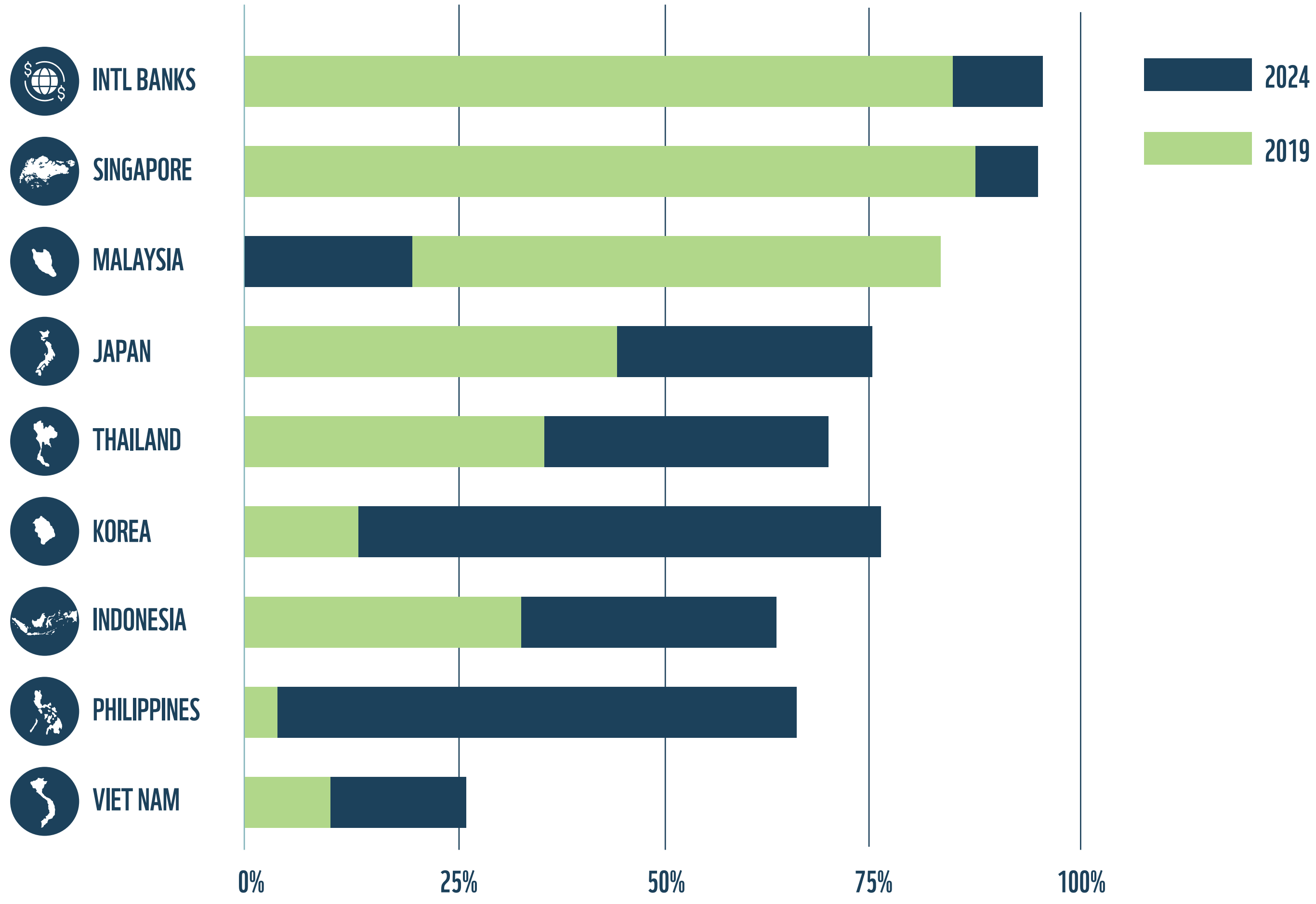

Figure 4: Progress made during the implementation phase: 2019 country average vs 2024

AREAS OF IMPROVEMENT:

The indicators showing the most improvement in the first two years from 2019 to 2021 include a) Developing exclusionary principles covering activities the bank will not support, including prohibiting financing for new coal-fired power plants b) Participating in commitment-based initiatives such as PRB or Roundtable on Sustainable Palm Oil (RSPO) c) Including minimum client E&S requirements into relevant sector policies d) Factoring client E&S assessments into client acceptance decisions and e) Having a dedicated team to implement E&S policies. Improvements in the subsequent three years were primarily related to incorporating E&S policies into bank processes including periodic review of client E&S profiles and periodic review of bank E&S procedures.

Although most banks have made significant progress in implementing E&S policies and processes, key gaps remain in this area.

KEY GAPS

Areas scoring less than 50% include a) Recognition of water-related risks as well as risks to the marine environment b) Making E&S policies applicable not just to lending but to all financial products, including capital markets and advisory and c) Ensuring that minimum client E&S standards in sector policies are based on internationally recognized standards. Lastly, while 60% of banks now exclude financing for coal-fired power plants, this is not enough given the importance of phasing out coal to achieve the objectives of the Paris Agreement.

PHASE 3. INCREASE IMPACT (23 INDICATORS):

After implementing sustainability-related policies and processes, banks started working closely with clients to improve E&S impact. This includes developing and monitoring client E&S action plans, escalation mechanisms for complex cases and the inclusion of E&S-related clauses in loan documents. At a portfolio level, banks analyse high-risk sector exposure to climate-related physical and transition risks. Bank policies are often broadened to require clients to address nature-related issues such as deforestation and water stewardship. Policies are also strengthened to require clients to follow international best practices as opposed to just locally applicable laws. Banks work with clients to increase positive E&S impact through client outreach activities and allocate specific pools of capital to support positive impact. This phase is challenging as banks must balance incorporating international best practices on sustainability issues with local regulations, competition, and growth dynamics.

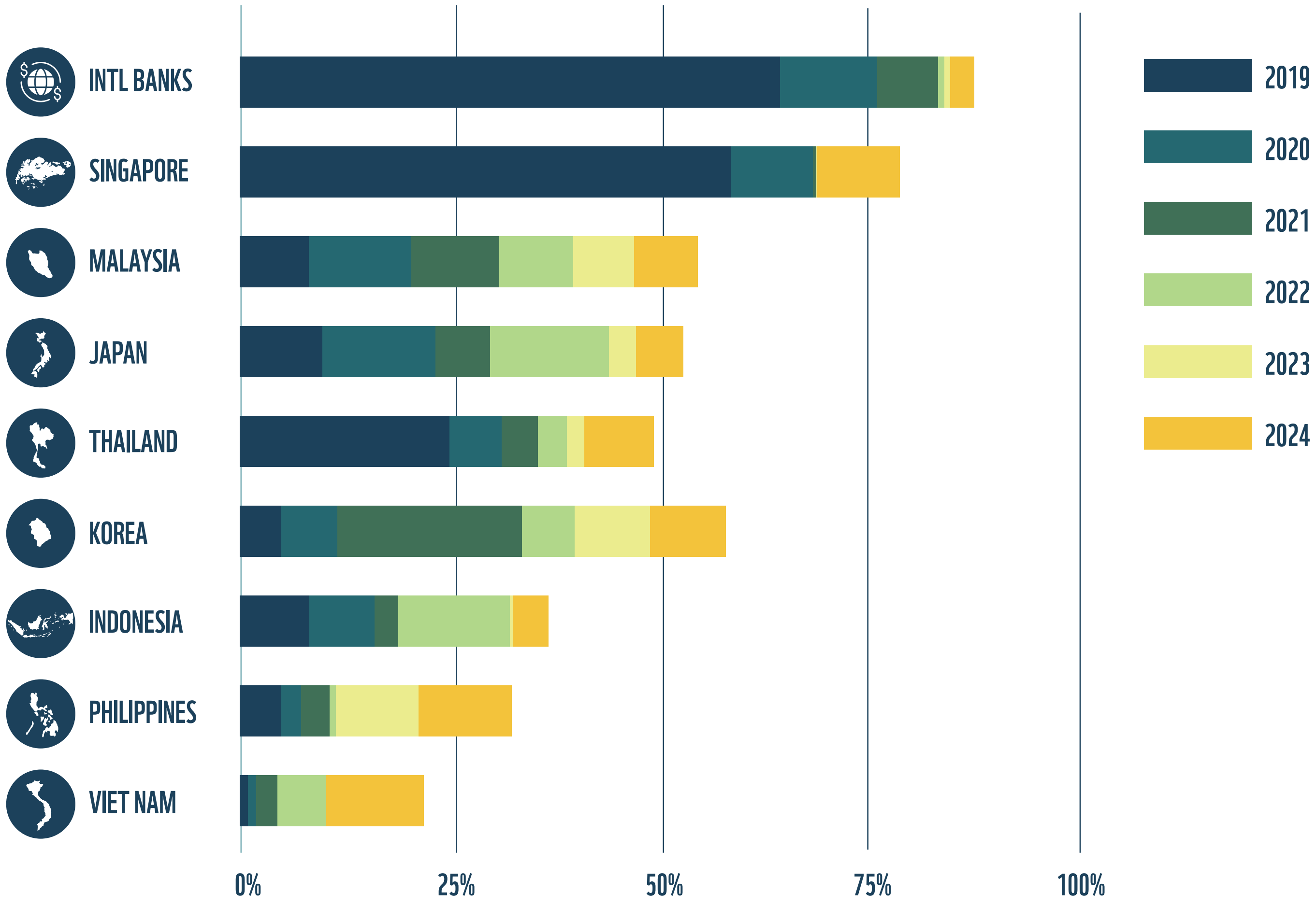

Figure 5: Bank progress in increasing impact from 2019-2024

Except for the three Singapore-based banks and KBank in Thailand, all banks in the region scored below 50% in the indicators related to increasing impact in 2019 (Figure 5). Over the subsequent years, banks in the region made considerable progress with 23 out of 46 banks assessed in 2024 scoring above 50%. Average bank performance in Asia improved from 13% in 2019 to 48% in 2024. Banks in Malaysia, Japan and Korea saw the maximum improvement, partly aided by improved E&S-related regulations raising the bar for banks.

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AREAS OF IMPROVEMENT

Since 2019 the main areas of improvement include a) Requiring clients to commit to respecting human rights in line with the UN Guiding Principles on Business and Human Rights b) Monitoring client compliance with agreed E&S action plans c) Implementing periodic audits to assess the banks' implementation of E&S policies and procedures d) Incorporating sustainability criteria into senior management appraisals e) Allocating pools of capital to support positive E&S impact f) Publishing frameworks for sustainable finance products and conducting client outreach to raise awareness on good E&S practices and g) Assessing portfolio exposure to climate related physical and transition risk.

KEY GAPS

However, several key gaps still need to be addressed. Marine and water-related risks are still not incorporated into client requirements. Only 9% of banks require clients in high-risk sectors or geographies to perform water risk assessments and only 5% of banks require clients in the marine-related sector to obtain relevant certifications (e.g. Marine Stewardship Council, Aquaculture Stewardship Council). In addition, disclosure levels on sensitive sectors remain very low both in terms of portfolio composition as well as number of clients achieving relevant certification.

PHASE 4. ACHIEVE SUSTAINABLE FUTURE (13 INDICATORS):

Increasing impact is not enough to ensure that the climate and nature-related commitments needed are met to achieve a sustainable future. Meeting these commitments will require banks to implement a credible plan for sustainability based on forward-looking scenarios. This starts with making net-zero commitments and developing interim targets to achieve these commitments. Thereafter, banks need to set science-based targets and develop scenario analysis capabilities to shift their portfolios. Disclosures around financed emissions, nature & biodiversity impacts, metrics, and targets need to improve, in line with the TCFD and TNFD, to demonstrate progress made by institutions. As bank leaders need to make informed decisions on sustainability issues based on increasingly complex forward-looking scenarios, their skills and incentives need to be aligned to include sustainability-linked criteria.

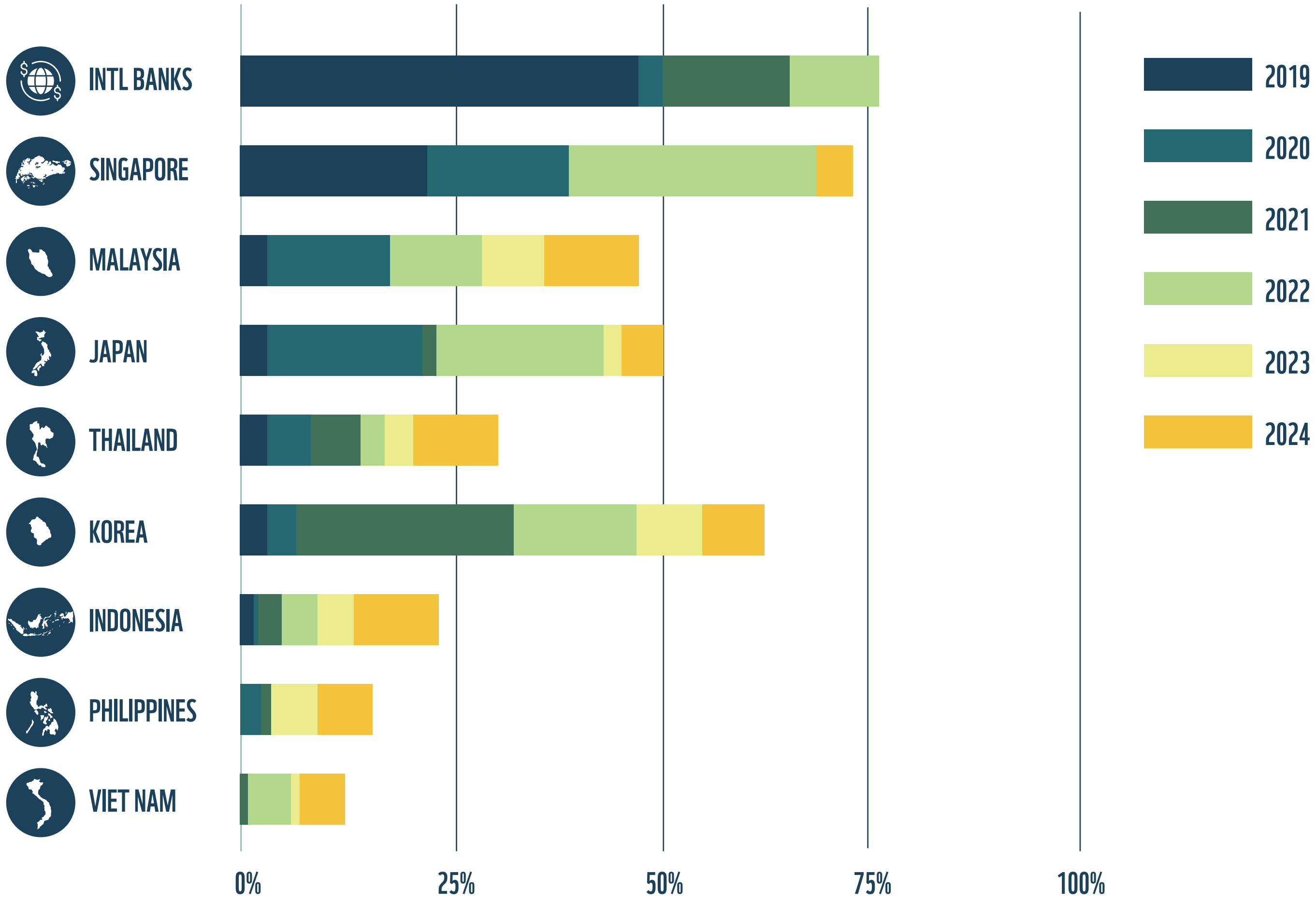

Figure 6: Bank progress in achieving sustainable future 2019-2024

The average bank score for indicators related to achieving a sustainable future was only 3% in 2019, improving to 37% in 2024 (Figure 6). While absolute scores for most banks are still relatively low, there has been considerable progress by banks over the past few years, particularly by banks based in Singapore, Malaysia, Japan and Korea.

AREAS OF IMPROVEMENT

In 2020, banks made the most progress in a) Identifying clients in E&S-sensitive sectors to support them in improving E&S impacts and b) Setting targets to improve E&S impacts. 2021 saw further improvements in helping clients in E&S sensitive sectors as well as improvements in: a) Net-zero commitments and setting science-based targets to align their portfolios with the Paris Agreement and b) Disclosures on portfolio GHG emissions and clients in sensitive sectors. 2022 to 2024 saw further improvements in net zero commitments and portfolio disclosures, often aided by banks adopting TCFD reporting standards. By 2024 58% of banks assessed had made commitments to achieve net-zero emissions in their portfolios by 2050, up from zero in 2019. Several banks have also published sector-based decarbonisation plans with interim 2030 targets.

KEY GAPS

Given the low absolute scores for this phase, considerable gaps still exist for all banks related to a) Requiring clients to develop climate-related mitigation plans and align their activities with the Paris Agreement and b) Improving disclosures further to provide transparency of progress towards bank decarbonisation commitments and c) Improving governance of E&S commitments by integrating E&S criteria into board selection, remuneration and audit processes. In addition, banks have yet to incorporate nature-related risks and opportunities into their policies.

With the recognition of biodiversity risks growing, key initiatives and frameworks for reporting on biodiversity are also being developed to support this area of work, including a revamped Global Reporting Initiative (GRI) Biodiversity Standard and the development of the TNFD framework. However, only 43% of banks assessed periodically review portfolio exposure to E&S risks other than climate change (e.g. deforestation, water scarcity). In addition, only 6 of the assessed banks have adopted TNFD standards with most of the current commitments coming from the corporate sector[24]. Going forward, banks need to assess nature-related risks of their portfolios and develop policies and processes to manage nature-related risks, including working with clients in sensitive sectors to improve their nature-related impacts.

24 TNFD Adopters – TNFD

IMPORTANCE OF NET-ZERO COMMITMENTS

Committing to net-zero GHG emissions for their financed portfolios is an important step for banks making progress in improving client impact and achieving a sustainable future. This commitment, typically made at a board level, leads to banks developing science-based targets, sector-based decarbonisation plans, and portfolio scenario analysis capabilities. Capabilities developed for implementing NZRO plans apply to the upcoming nature-based policies and commitments as well.

While it is hard to determine whether making NZRO commitment leads to improvement in the advanced stages of a bank's sustainability journey or vice versa, there is a clear correlation between assessed scores in phases 3&4 (Increasing client impact and Achieving a sustainable Future) for banks that have made net zero commitments vs those that have not. Figures 7&8 compare the progress in phases 3&4 for banks that have committed to net-zero financed emissions by 2050, banks with partial commitments to net-zero either through committing to a date later than 2050 or not disclosing interim targets, and banks without net-zero commitments. In 2019, banks with NZRO commitments had marginally higher scores than those without NZRO commitments and improved considerably faster over the subsequent years to increase that gap. Moreover, by 2024 banks with NZRO commitment had closed the gap considerably with the 3 benchmark international banks, particularly for the last phase. It is clear that banks that have not yet committed to net-zero financed emissions need to urgently do so to raise the bar for all banks in the region and achieve the goals of the Paris Agreement.

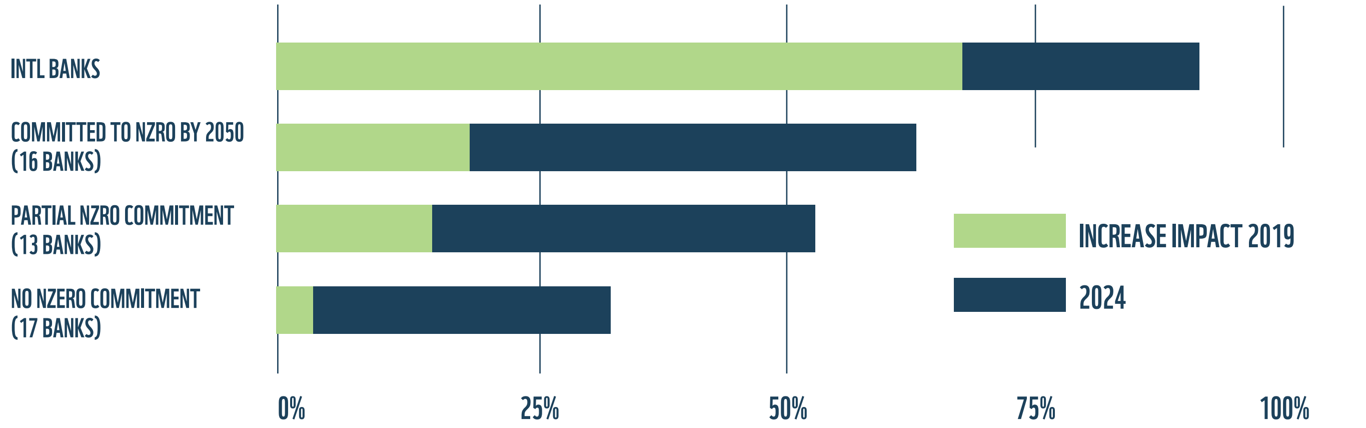

Figure 7: Progress in increasing impact for banks that have made NZRO commitments by 2050, partial NZRO commitments (defined as either not having interim targets and/or NZRO by a date later than 2050), and no NZRO commitments

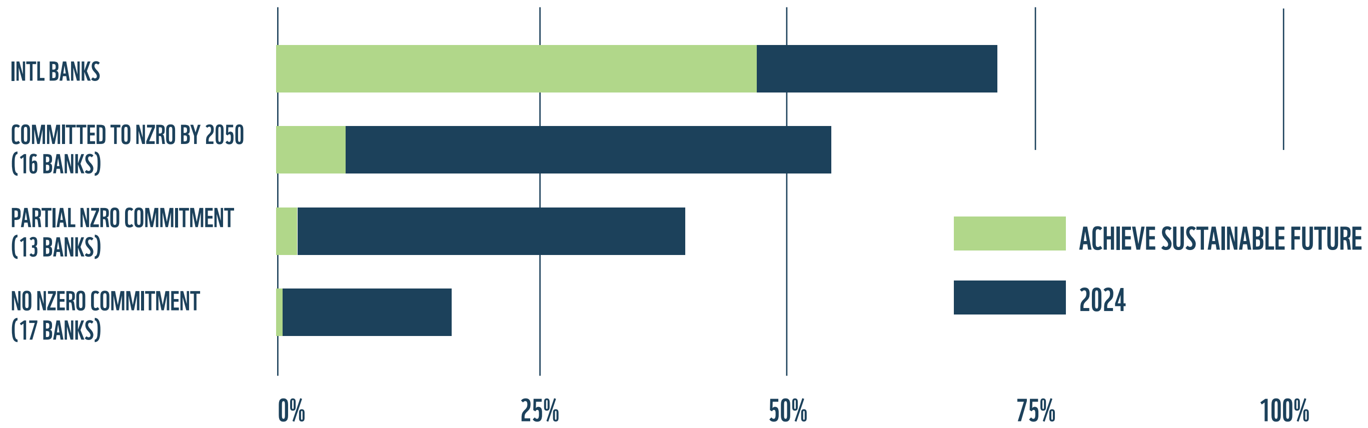

Figure 8: Progress in achieving a sustainable future for banks that have made NZRO commitments by 2050, partial NZRO commitments (defined as either not having interim targets and/or NZRO by a date later than 2050), and no NZRO commitments

CONCLUSION

Since the launch of the Sustainable Banking Assessment (SUSBA) in 2017, Asian banks have made notable strides in embedding Environmental, Social, and Governance (ESG) principles within their operations. Banks across the region are now actively recognizing key environmental and social risks, incorporating them into comprehensive risk management frameworks, and establishing dedicated teams to address ESG-specific issues.

However, the next phase of sustainable growth requires a shift towards setting measurable targets for climate and nature impacts, along with enhancing transparency through portfolio-level disclosures. Aligning these disclosures with frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) will be essential for fostering accountability and clarity.

In terms of financing, Asian banks have a vital role in bridging the funding gap needed to meet climate and nature goals. They are poised to develop and scale financial products that emphasise positive impact, which will support a robust transition to sustainable finance across Asia, driving impactful progress toward regional and global sustainability targets.

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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

- Mizuho Bank (Mizuho)
- Mitsubishi UFJ Financial Group Bank (MUFG)
- Resona Bank (Resona)
- Sumitomo Mitsui Banking Corporation (SMBC)
- Sumitomo Mitsui Trust Bank (SMTB)

KOREA

- Hana Bank (Hana)
- KB Kookmin Bank (KB)
- Industrial Bank of Korea (IBK)
- Shinhan Bank (Shinhan)
- Woori Bank (Woori)

INDONESIA

- Bank Central Asia Tbk (BCA)
- Bank Mandiri (Persero) Tbk (Mandiri)
- Bank Muamalat Indonesia Tbk (Muamalat)
- Bank Negara Indonesia Tbk (BNI)
- Bank Panin Tbk (Panin)
- Bank Pembangunan Daerah Jawa Banten Tbk (Bank BJB)
- Bank Permata Tbk (Permata)
- Bank Rakyat Indonesia Tbk (BRI)
- Bank Syariah Indonesia (BSI)
- Bank Danamon Indonesia (BDI)
- Bank BTPN Tbk (BTPN)

MALAYSIA

- AMMB Holdings Berhad (Ambank)
- Bank Islam Malaysia Berhad (BI)
- RHB Bank Berhad (RHB)
- CIMB Group Holdings Berhad (CIMB)
- Hong Leong Bank Berhad (Hong Leong)
- Malayan Banking Berhad (Maybank)
- Public Bank Berhad (Public Bank)

PHILIPPINES

- BDO Unibank, Inc (BDO)
- Bank of the Philippine Islands (BPI)
- China Banking Corporation (CBC)
- Metropolitan Bank & Trust Company (Metrobank)
- Philippine National Bank (PNB)
- Rizal Commercial Banking Corporation (RCBC)
- Security Bank Corporation (SBC)

SINGAPORE

- DBS Group Holdings Limited (DBS)
- Oversea-Chinese Banking Corporation Limited (OCBC)
- United Overseas Bank Limited (UOB)

THAILAND

- Bangkok Bank (BBL)
- Bank of Ayudhya (Krungsri)
- Kasikorn Bank (KBank)
- Krung Thai Bank (KTB)
- Siam Commercial Bank (SCB)
- TMBThanachart Bank (TTB)

VIET NAM

- Bank for Investment and Development of Viet Nam (BIDV)
- Joint Stock Commercial Bank for Foreign Trade of Viet Nam (VCB)
- Viet Nam Joint Stock Commercial Bank for Industry and Trade (VietinBank)
- Viet Nam Export-Import Commercial Joint Stock Bank (Eximbank)
- Viet Nam Prosperity Bank (VPBank)

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SINGAPORE

Indicator average in 2024 and change vs. 2023

PURPOSE
1. Sustainability strategy
2. Stakeholder engagement & participation in sustainable finance initiatives

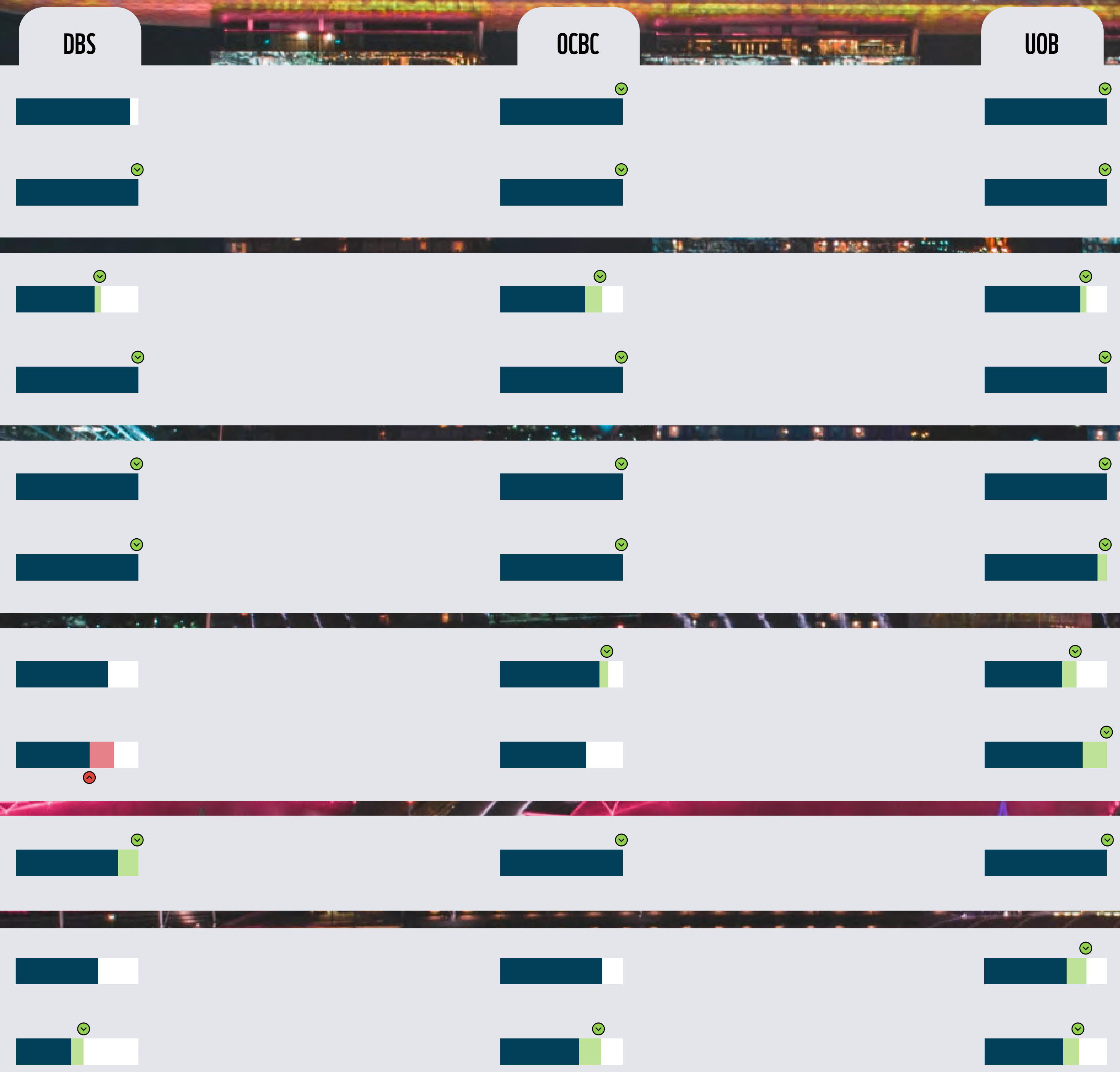
POLICIES
3. Public statements on specific E&S issues
4. Public statements on specific sectors

PROCESSES
5. Assessing E&S risks in client & transaction approvals
6. Client Monitoring and Engagement

PEOPLE
7. Responsibilities for E&S
8. Staff E&S training and performance evaluation

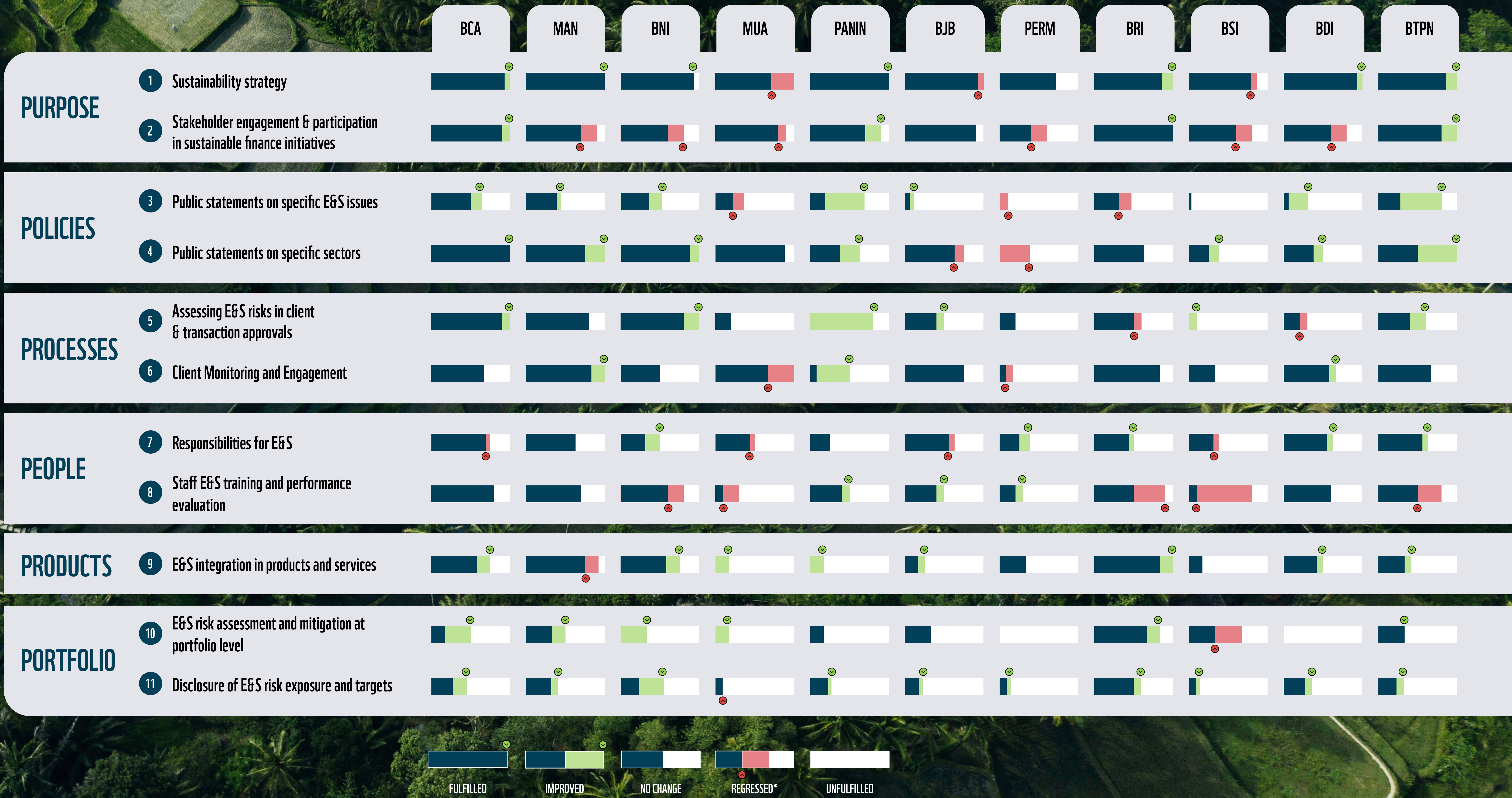
PRODUCTS
9. E&S integration in products and services

PORTFOLIO
10. E&S risk assessment and mitigation at portfolio level
11. Disclosure of E&S risk exposure and targets



INDONESIA

Indicator average in 2024 and change vs. 2023



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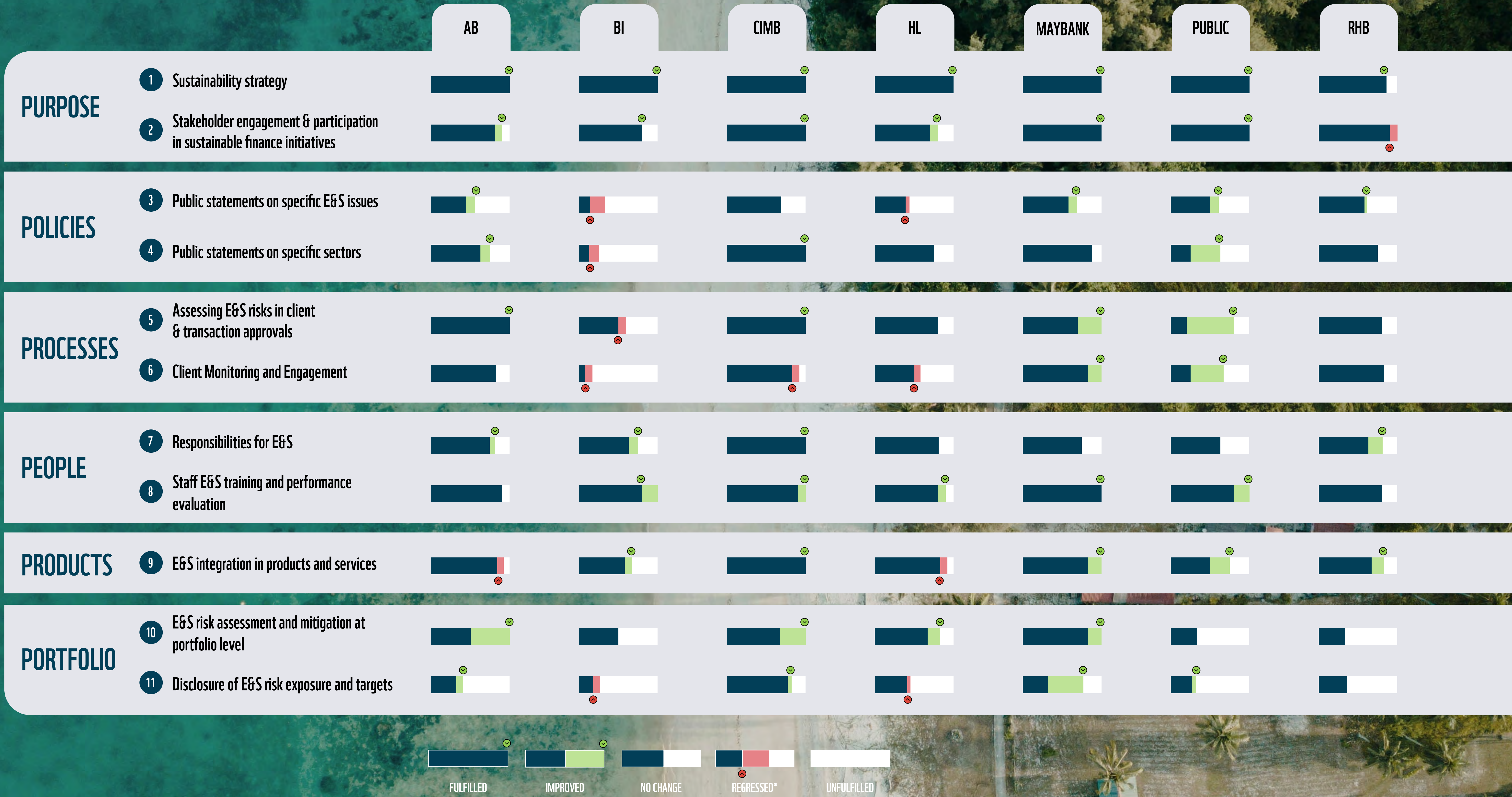
MALAYSIA

Indicator average in 2024 and change vs. 2023



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PHILIPPINES

Indicator average in 2024 and change vs. 2023

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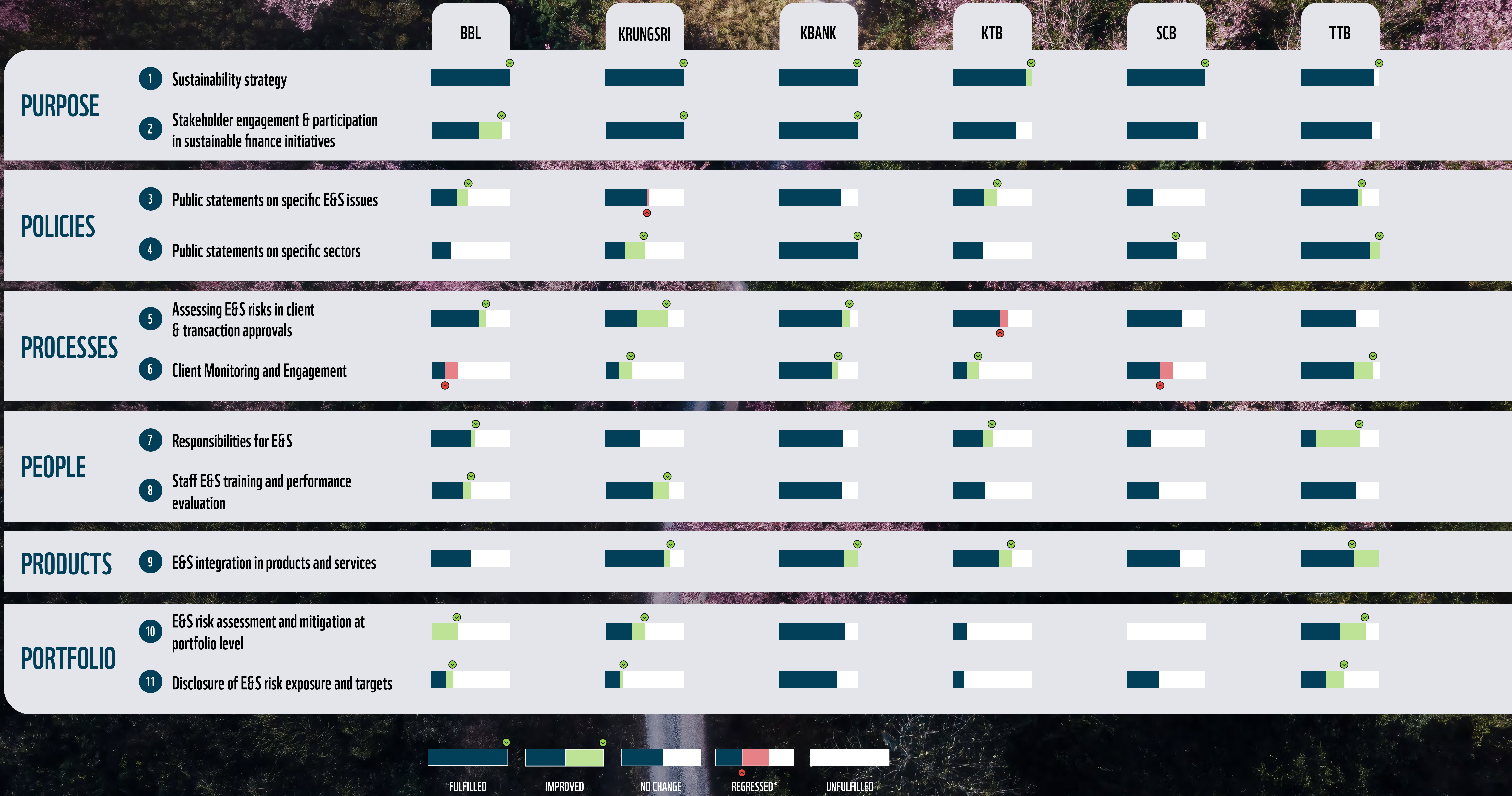
THAILAND

Indicator average in 2024 and change vs. 2023



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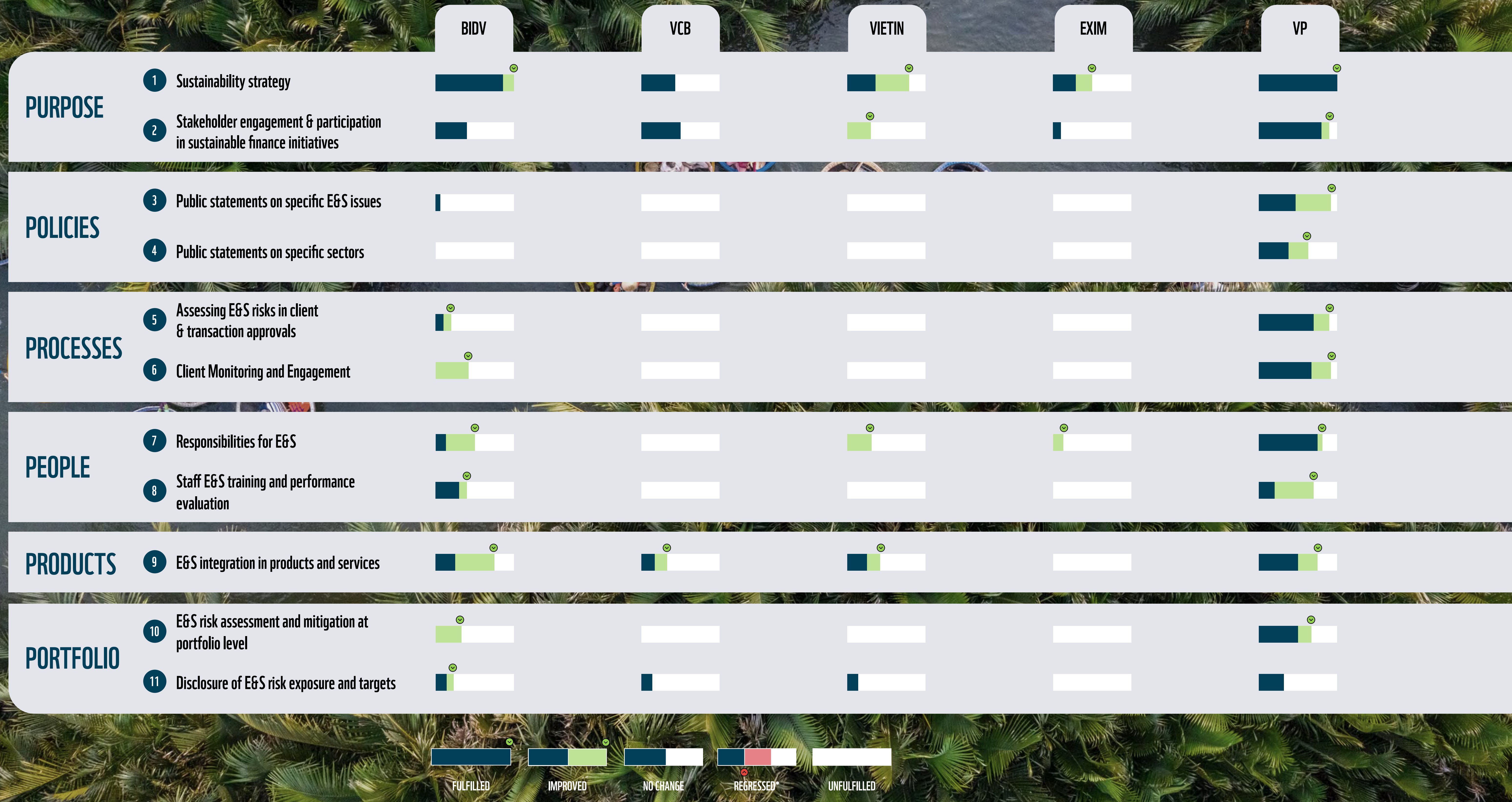
VIET NAM

Indicator average in 2024 and change vs. 2023



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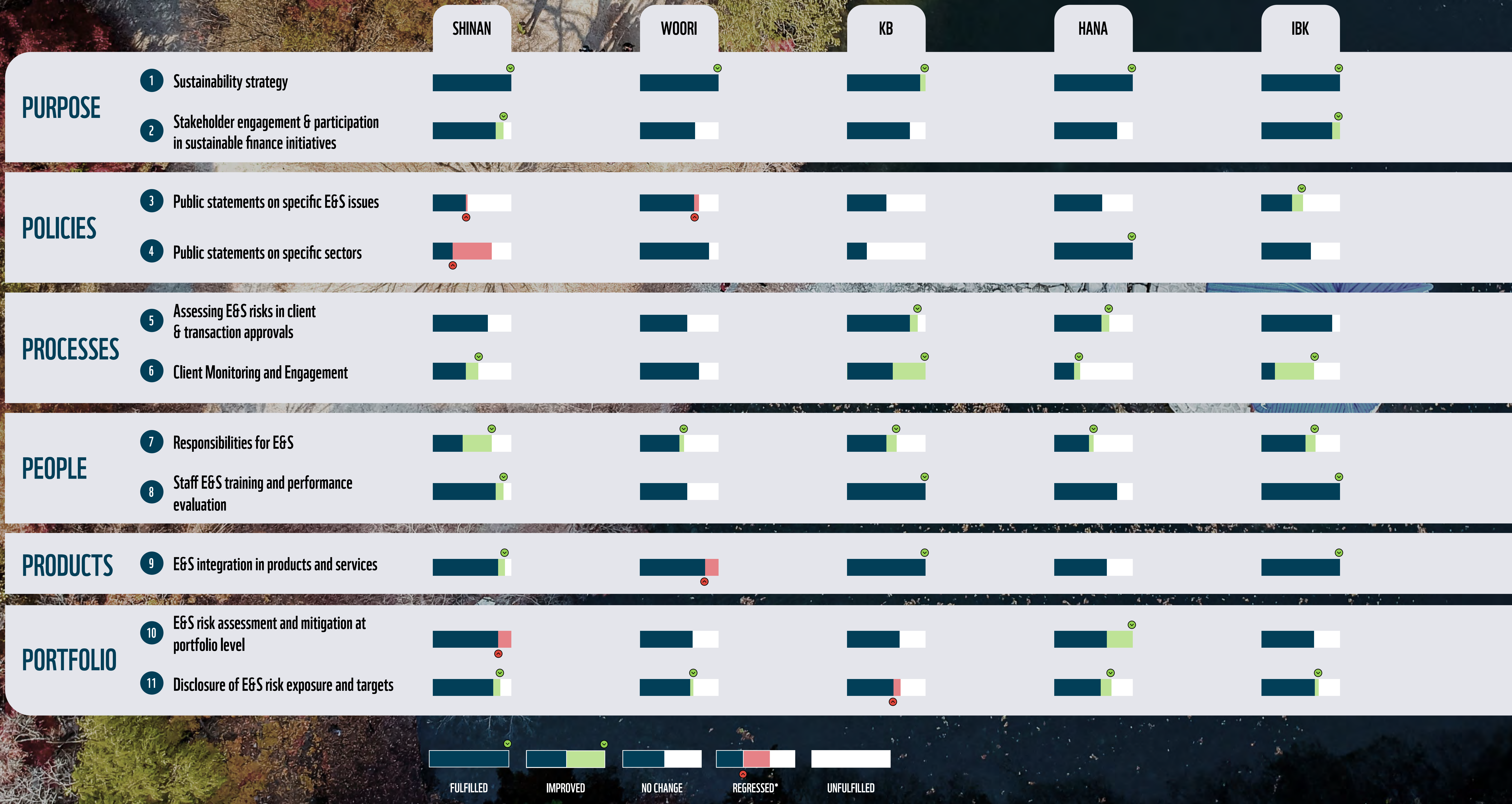
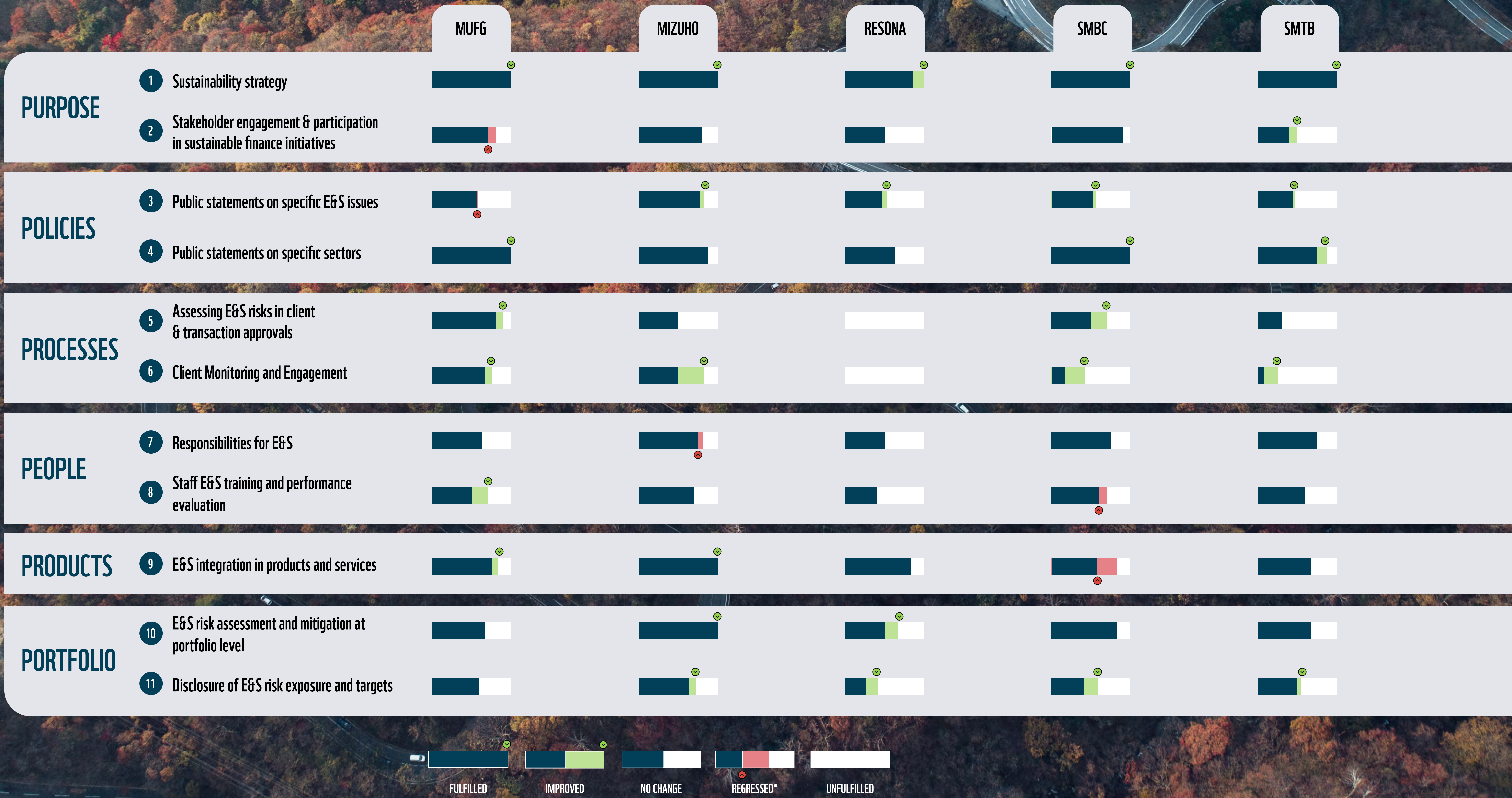
KOREA

Indicator average in 2024 and change vs. 2023



JAPAN

Indicator average in 2024 and change vs. 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?

SUSBA BANK PHASE ANALYSIS

Methodology: To get a sense of where banks are along their sustainability journeys, we categorized the SUSBA sub-indicators into four typical phases that banks go through. We also benchmarked the Asian banks against 3 international banks (ING Group, Standard Chartered Bank and BNP Paribas) that are relatively more advanced in their sustainability practices to set an external reference. The data was analyzed from 2019 to 2024 all banks to reflect the times from when the analysis was stated. 39 ASEAN banks and 10 banks in Japan and Korea were included in the analysis.

MAPPING OF PHASES TO SUSBA SUB-INDICATORS

Stage	**1. Acknowledgement (15 Indicators)**
Pillars	Indicators
1. Purpose - Sustainability strategy, Engagement	Reference to sustainability & SDGs in vision and integration into strategy (1.1.1.4, 1.1.1.3, 1.1.1.2)
	Recognition that E&S footprint includes indirect effects (1.1.1.2)
	Identify responsible financing and other E&S issues as material (1.1.1.7)
	Regular engagement with stakeholders on E&S issues (1.1.2.1, 1.1.2.3)
	Engagement with civil societies, NGOs, regulators on E&S issues (1.1.2.2, 1.1.2.4)
	Acknowledge risks associated with climate change (1.1.1.5)
2. Policies - Public statements on E&S issues and sectors	Recognize human rights risks in clients' activities (1.2.1.12)
	Recognize labor rights violations as a risk across all sectors (1.2.1.14)
4. People - Responsibilities for E&S, training, performance evaluation	Senior management responsible for the implementation of ESG strategy (1.4.1.1)
	Describe responsibilities of the various teams involved in E&S policies (1.4.1.3)
6. Portfolio - E&S risk assessment, mitigation	Disclose credit exposure by industry sector (1.6.2.1)

Stage	**2. Implement (27 Indicators)**
Pillars	Indicators
1. Purpose - Sustainability strategy, Engagement	Acknowledge risks associated with environmental degradation (1.1.1.6)
	Participate in relevant commitment-based sustainable finance initiatives (1.1.2.5)
2. Policies - Public statements on E&S issues and sectors	Exclusionary principles covering activities the bank will not support (1.2.1.1)
	Prohibit the financing of new coal-fired power plant projects (1.2.1.3)
	Acknowledge biodiversity loss, deforestation risks in its clients' activities (1.2.1.4)
	Recognize negative impacts on the marine environment as risks (1.2.1.7)
	Exclude services to companies having negative impacts on biodiversity (1.2.1.9)
	Recognize water risks as risks in its clients' activities (1.2.1.10)
	Apply E&S requirements to all financial products and services (1.2.1.16, 1.2.1.17)
	Develop & disclose policies for environmentally or socially sensitive sectors (1.2.2.1, 1.2.2.2)
	Include minimum requirements based on internationally recognized standards in bank's sector-specific E&S policies (1.2.2.3)
	Periodically review E&S policies (1.2.2.4)
3. Processes - Assessing E&S risks, client monitoring	Use standardized frameworks for client E&S due diligence (1.3.1.1)
	Use E&S risk assessment in client/transaction acceptance decisions (1.3.1.5)
	Classify clients based on E&S risk, periodically review clients & policies (1.3.1.3, 1.3.2.4, 1.3.2.6)
	Assess clients' capacity, commitment, and track record as part of its E&S due diligence process (1.3.1.2)
4. People - Responsibilities for E&S, training, performance evaluation	Staff dedicated ESG team to implement E&S policies and procedures (1.4.2.1)
	Senior management's responsibilities include management of climate change (1.4.1.2)
	Implement control system with three lines of defence to manage E&S issues (1.4.1.4)
	Train its staff on E&S policies and implementation processes (1.4.2.2)
	Provide training for senior management covering sustainability issues (1.4.2.3)
5. Products - E&S integration in products and services	Offer specific financial services that support the mitigation of E&S issues (1.5.1.2)
6. Portfolio - E&S risk assessment, mitigation	Develop strategy to manage and mitigate climate-related risks (1.6.1.3)

Stage	3. Increase impact (23 Indicators)
Pillars	Indicators
2. Policies - Public statements on E&S issues and sectors	Require clients highly exposed to deforestation to adopt “no deforestation” commitments (1.2.1.5) Require clients in sectors highly exposed to conversion of natural ecosystems to adopt “no conversion” commitments. (1.2.1.6) Require high-risk clients to perform water risk assessments and commit to water stewardship (1.2.1.11) Require clients to commit to respecting human rights & adhere to international labor standards (1.2.1.13, 1.2.1.15) Require clients highly exposed to conversion of natural ecosystems to adopt “no conversion” commitments (1.2.1.6) Require clients in marine-related industries to obtain certification from relevant sustainability standards (1.2.1.8) Require clients to obtain FPIC from communities affected by their projects (1.2.1.18)
3. Processes - Assessing E&S risks, client monitoring	Implement escalation mechanism for complex or controversial cases (1.3.1.4) Include clauses related to E&S issues in the loan documentation (1.3.2.1) Require clients not fully compliant with E&S policies to implement action plans (1.3.2.2) Monitor clients’ compliance with the agreed E&S action plans (1.3.2.3) Disclose process to address non-compliance of clients with E&S policies (1.3.2.5)
4. People - Responsibilities for E&S, training, performance evaluation	Implement audits to assess implementation of E&S policies and procedures (1.4.1.8) Include sustainability-related criteria as part of the staff appraisal process (1.4.2.4) Include sustainability-related criteria in senior management appraisal process (1.4.2.5)
5. Products - E&S integration in products and services	Allocate pools of capital to support activities with positive E&S impact (1.5.1.3) Hold client outreach activities to raise awareness on good E&S practices (1.5.1.4) Publish sustainable product and service frameworks aligned with international standards (1.5.1.5) Provide solutions and capacity building programs for SMEs to help transition to more sustainable practices (1.5.1.6)
6. Portfolio - E&S risk assessment, mitigation	Review exposure to climate-related physical & transition risks using scenario analysis (1.6.1.2) Disclose composition of its lending portfolios for power generation and upstream energy (1.6.2.2) Disclose the percentage of its soft commodities clients that have time-bound plans to achieve full certification of their operations (1.6.2.5) Conduct external assurance of its ESG-related disclosures (1.6.2.10)

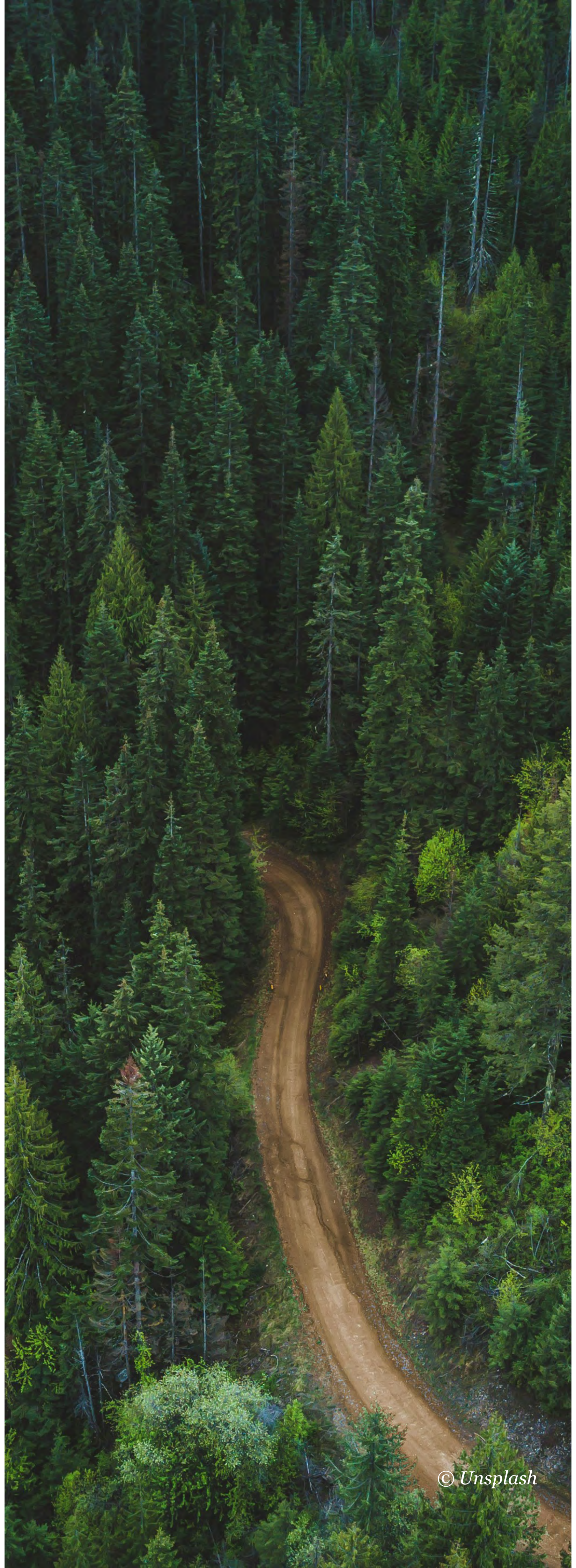
Stage	4. Achieve Sustainable Future (13 Indicators)
Pillars	Indicators
2. Policies - Public statements on E&S issues and sectors	Require clients highly exposed to climate related risk to develop mitigation plan and align activities to the objectives of the Paris Agreement (1.2.1.2)
4. People - Responsibilities for E&S, training, performance evaluation	Include Sustainability-related criteria for the appointment of new Board members (1.4.1.5) Include Sustainability-related criteria for the remuneration levels for senior management (1.4.1.6) Require sustainability-related matters to be included in internal audit processes (1.4.1.7)
5. Products - E&S integration in products and services	Proactively identify clients in sensitive sectors to support them in reducing negative or enhancing positive impacts (1.5.1.1)
6. Portfolio - E&S risk assessment, mitigation	Periodically review portfolio exposure to E&S risks (1.6.1.1) Disclose GHG emissions/Carbon intensity of the main carbon-intensive sectors in portfolio (1.6.2.3) Disclose statistics on the implementation of its E&S policies (1.6.2.4) Disclose credit exposure covered by its E&S policies on sensitive sectors (1.6.2.6) Targets in place to reduce negative E&S impacts or increase positive impacts associated with business activities, disclose progress of achieving these targets (1.6.2.7) Set science-based targets to align with the objectives of the Paris Agreement (1.6.2.8) Disclose the positive and negative impacts associated with its business activities (1.6.2.11) *Committed to achieve net-zero greenhouse gas emissions in lending portfolio by 2050 (1.6.2.9)

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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23. Please see SUSBA Bank Phase Analysis section for SUSBA sub-indicator mapping to each phase
24. TNFD Adopters – TNFD

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
GBF	Global Biodiversity Framework
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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