Climate-related Disclosures 2023

DBS Hong Kong

Contents

Introduction

About this disclosure

This disclosure is prepared in accordance with the following guidelines and recommendations:

- Supervisory Policy Manual GS-1 on Climate Risk Management by the Hong Kong Monetary Authority (issued December 2021)
- The Task Force on Climate-related Financial Disclosures ("TCFD") recommendations by the Financial Stability Board (October 2021)

The information contained in this disclosure reflects the position for DBS Hong Kong as at 31 December 2023, unless otherwise stated. This disclosure is to be read in conjunction with Sustainability Report 2023[1] published by DBS Group Holdings Ltd ("DBS Group").

[1] *Please refer to the "Governance of sustainability" and "Responsible Financing" in the DBS Group Sustainability Report 2023.*

CEO Message

I am delighted to present DBS Hong Kong's second climate-related disclosures, showcasing our unwavering commitment to sustainable and responsible practices. As a leading bank in Asia and in Hong Kong, we recognise the profound impact of climate change on both our business and the broader community.

Through these disclosures, we aim to provide transparency into how DBS is effectively managing climate risks and integrating sustainability into our strategies and operations. By aligning with the rigorous standards set forth by the Task Force on Climate-Related Financial Disclosures (TCFD), we ensure that DBS possesses the necessary capabilities to navigate climate-related risks and capitalise on emerging opportunities.

As a purpose-driven organisation, DBS remains steadfast in our commitment to transparency, accountability, and the pursuit of a more sustainable future. I am proud of the Bank's continuous dedication to strengthening our sustainability journey by diligently disclosing our efforts and measuring the impacts these efforts make.

Thank you for your support as we continue to drive positive changes and contribute to a greener and brighter future.

Sebastian Paredes
CEO of DBS Bank (Hong Kong) Limited & Head of DBS North Asia

Governance

Board and Board Committees

The DBS Group Board[2] has overall responsibility for the formulation of DBS' sustainability strategy. The DBS Group Board provides oversight on DBS' sustainability agenda and directs its efforts in managing material environmental, social and governance ("ESG") factors, guided by the objective to create long-term value by managing our business in a balanced and responsible way.
In 2022, the DBS Group Board established Board Sustainability Committee to provide greater governance and oversight on sustainability agenda, including net zero commitment, which is a strategic priority for DBS Group.

The Board of Directors (the "Board") of DBS Bank (Hong Kong) Limited has overall responsibility for sustainability and integrates ESG matters in the formulation of strategy. The Board provides oversight on sustainability agenda and directs its efforts in managing material ESG matters, and is guided by the objective to create long-term value by managing our business in a balanced and responsible way.

The Board has delegated the Board Risk Management Committee ("BRMC") to oversee overall climate risk management, development and implementation of climate risk strategies, including setting risk appetite, overseeing the establishment of risk management policies and key processes for managing climate risk. The BRMC also supports the Board and senior management in setting the tone from the top to embed climate-related considerations into the business activities and decision-making process.

During 2023, updates on climate-related developments and risk management approaches were featured on the Board and BRMC' agendas, including ESG risk monitoring metrics, continuous adoption of the DBS Group's decarbonisation targets as reference points for local progress monitoring, and stress testing.

[2] *Read more on sustainability governance structure of DBS Group in the DBS Group Sustainability Report 2023.*

Management

The Hong Kong Sustainability Council ("HKSC"), in consultation with DBS Hong Kong CEO and with the support of the Group Sustainability Council (GSC), sets the strategic direction of location-wide sustainability matters across DBS Hong Kong. The HKSC is chaired by Head of Hong Kong Strategic Marketing & Communications ("GSMC"), comprising of representatives from key business and support units. The HKSC meets quarterly, and as and when required.

The Hong Kong Climate Steering Committee, co-chaired by the Senior Risk Executive of Hong Kong ("SRE"), Head of Hong Kong Institutional Banking Group ("IBG"), Head of Hong Kong GSMC and Group Chief Sustainability Officer ("CSO"), was established in March 2022 to strengthen the climate risk management of DBS Hong Kong on location level. Under the guidance of the Hong Kong Climate Steering Committee, a dedicated working team has also been formed and consists of members from IBG, Risk Management, Legal, Compliance & Secretariat, Finance and the Group CSO team. The Hong Kong Climate Steering Committee meets monthly, and as and when required. Progress of the climate risk management is regularly updated to Hong Kong Risk Executive Committee and/ or BRMC.

Embedding sustainability into performance management and remuneration

In line with DBS Group, we use a balanced scorecard approach to measure how successful we are in serving our key stakeholders and executing our long-term strategy. Sustainability and climate-related targets are incorporated into the scorecard and cascaded across the relevant units' scorecards, which are used to evaluate performance.

Strategy

We contribute and align with DBS Group's climate strategy and work together across all locations to achieve the DBS Group's net zero commitment.

DBS Group's climate strategy

As a signatory to the Net Zero Banking Alliance (NZBA), DBS Group has established interim 2030 targets and net zero 2050 targets, and committed to monitoring and reporting the progress annually.

Our ambition

To achieve a net zero future while recognising our social responsibility to foster a just and inclusive transition

Our priorities

- **Our lending and financing**
  - **Business opportunity**
    - Providing ***advisory and financial solutions*** to support our clients in their decarbonisation and transition plans
    - Forging new ***partnerships*** to provide supply chain and related financing
  - **Risk management**
    - Integrating ***climate considerations*** into our risk management processes to ensure the short, medium and long-term resilience of our business
- **Our operations**
  - Managing our ***operational emissions***

Our enablers

- Developing **analytical** tools and improving climate **data analytics**
- Engaging with **industries and policymakers**
- Ensuring robust **governance** processes
- Reskilling and empowering our **people**

Read more about DBS Group's climate strategy in the "Responsible financing" chapter of the DBS Group Sustainability Report 2023.

Managing our operational emissions

Hong Kong aligns with DBS Group's strategy in managing carbon, energy, water and waste footprint, guided by the four-lever approach:

- Lever 1: Reduce consumption of resources
- Lever 2: Generate renewable energy[3]
- Lever 3: Purchase green products and energy[4]
- Lever 4: Purchase Renewable Energy Certificates (RECs) and carbon offsets

[3] *There is currently no renewable energy generated by DBS Hong Kong.*
[4] *Currently not available in Hong Kong.*

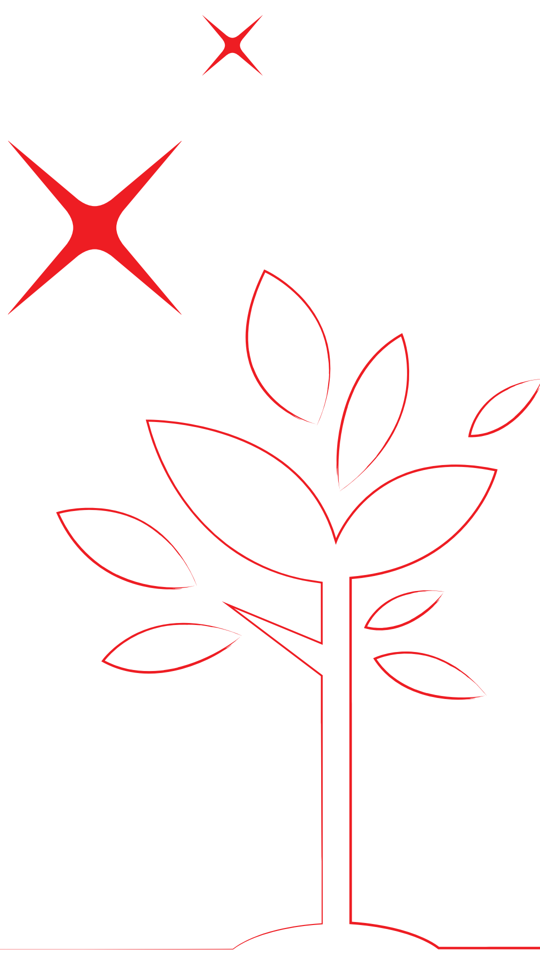
Risk Management

Climate change continues to be an important systemic risk that has an impact across various key risk types, such as credit, reputation, market, liquidity, operational, and compliance. Building our climate and ESG risk management capabilities and integrating climate risk considerations into our overall enterprise risk management processes continues to be a top priority.

Ensuring robust risk management processes

Strengthening second line role for ESG

At the start of 2023, DBS Group established a **new ESG Credit Risk team** under Risk Management Group along with a new management position – Group Head of ESG Credit Risk – to provide leadership and expertise to further build our Climate and ESG risk management capabilities. This new team presents an additional layer of review, covering all locations as illustrated in our enhanced ESG risk assessment process, where they act as the second line after our sustainability and business teams.



Enhancing ESG risk assessment

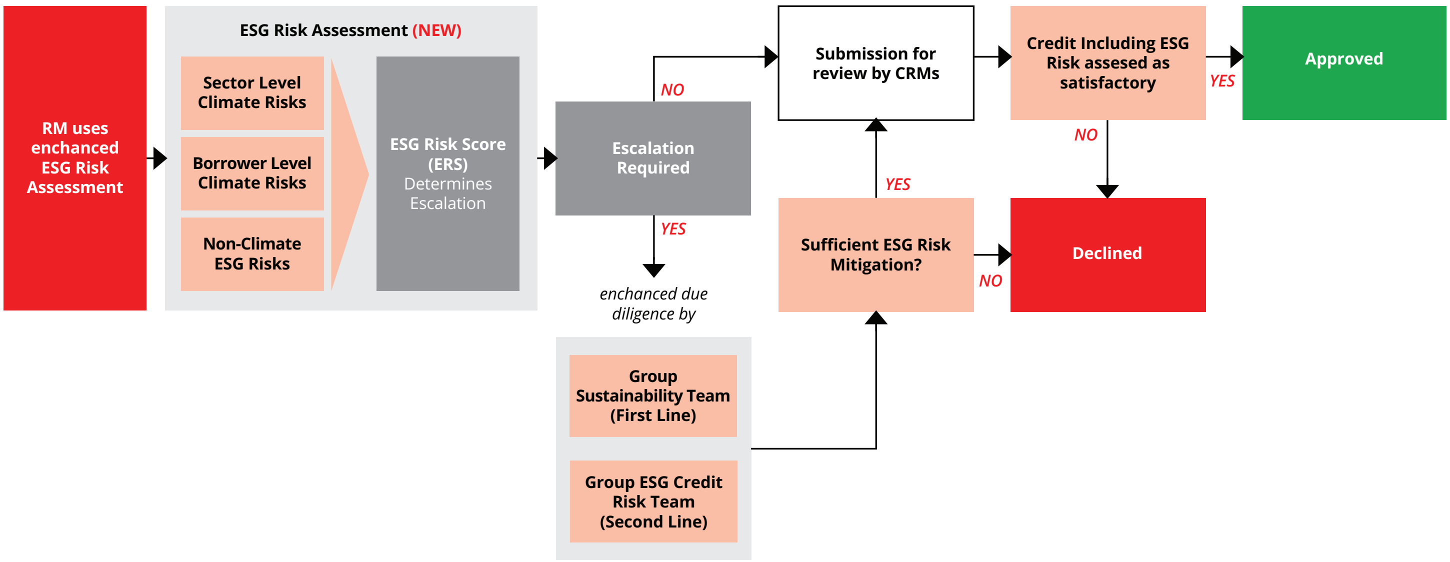
ESG due diligence remains an integral part of our lending and capital market approval process. It entails assessing and monitoring our customers in reference to Our Approach to Responsible Financing, our sector policies and corresponding sector guides, as well as evaluating their ESG risk profiles when taking lending and investment decisions. It also allows us to engage customers on environmental and social topics while promoting responsible financing through agreed mitigating measures.

In July 2023, we strengthened our ESG risk assessment for our borrowing customers through the introduction of an enhanced ESG Risk Questionnaire ("ERQ"). The ERQ facilitates our data collection for customers' climate risk disclosures, and is used as a customer engagement tool to understand customers' transition plans, and explore financing and facilitation opportunities to support their transition to lower carbon businesses.

Responses obtained from the ERQ are combined with sector-level inputs from our climate stress testing exercise to provide an assessment of sector-level climate risk, individual borrower-level climate risk and other non-climate related ESG risks. These factors are aggregated to provide an **overall ESG risk score** for our customer. Factors that contribute to higher ESG risk scores may include significant climate risks (physical or transition), inadequate ESG governance processes, such as the lack of human rights and modern slavery policies, among others.

As depicted in Figure 1, our enhanced ESG risk assessment and customer-specific ESG risk scores are embedded within our credit approval process. Where necessary, higher ESG risk scores are escalated for enhanced due diligence and additional support from the Group IBG Sustainability team (first line) and Group ESG Credit Risk team (second line) may be required. Once these teams have established that sufficient ESG risk mitigation is available, the credit application progresses along the credit approval chain. However, in scenarios where the identified ESG concerns are not sufficiently mitigated, or may present material credit and/ or reputational risks to DBS, the credit application will be declined. Where warranted, this could lead to a further reassessment of the overall customer relationship.

Figure 1: An illustration of the process flow of our enhanced ESG risk assessments within our credit approval process



In line with DBS Group's internal control framework, our first line business teams and risk functions have clearly defined roles and responsibilities in the new ESG risk assessment process. Our Relationship Managers ("RMs") continue to act as the first line by conducting an ESG risk assessment on the customer, supported by the Group Sustainability team which reviews escalated transactions and recommends ESG-related terms and conditions to mitigate such risks where necessary. As part of the second line, the Group ESG Credit Risk team further reviews customers with higher ESG risk scores before transactions are submitted to and assessed by our Credit Risk Managers ("CRMs"). Internal Audit serves as the third line of control through periodic audit reviews on the effectiveness of ESG risk management.

Reviewing our financing policies and standards

We adopt the DBS Group's financing policies and standards that govern our efforts and approach to responsible financing.

To ensure ESG governance and processes are both robust and fit-for-purpose, DBS Group regularly review financing policies and update relevant standards and policy documents. Our Group Responsible Financing Standard and Group Core Credit Risk Policy are updated to ensure alignment between our climate strategy and our approaches to responsible financing and credit risk management. Sector Guides, which provide a more structured approach to assess ESG risks as part of our overall financing decisions, are also updated for our priority sectors, taking into consideration mandatory requirements and emerging best practices.

Stress testing and climate scenario analysis

We recognise the importance of climate scenario analysis as a vital tool to assess climate-related risks and opportunities, as well as elucidate the potential implications of climate change for our strategy and business model over the short, medium and long-term. DBS Hong Kong is actively participating in the Climate Risk Stress Testing exercise initiated by the Hong Kong Monetary Authority (HKMA) in 2023, which covered the assessment on both transition risk and physical risk.

Our approach to climate scenario analysis[5] includes:

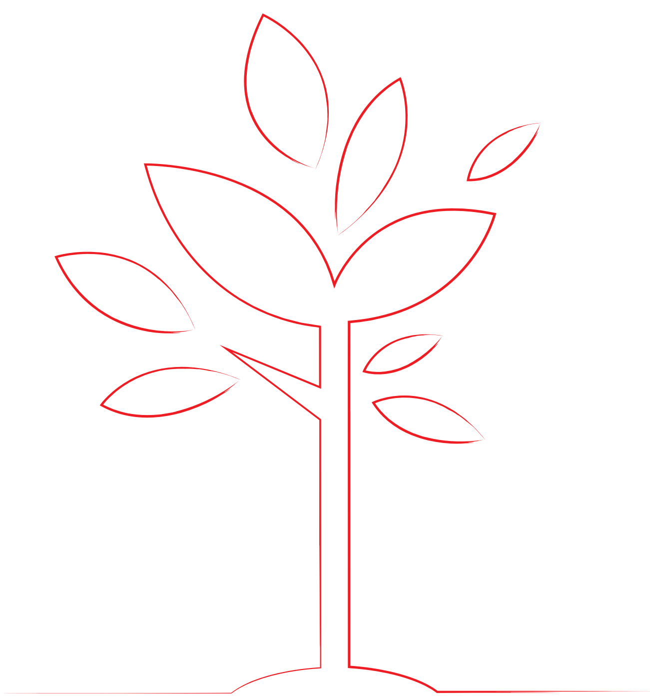
Transition risk analysis is conducted using a suite of Climate Scenario Analysis (CSA) models. The CSA translates the effects of policy and regulation changes, technology development and changes in consumer preferences, as defined by a set of standard climate scenarios, into impact to key financial drivers identified for each sector. In 2023, at DBS Group level, we further refined our models to include the latest Network for Greening the Financial System (NGFS) scenarios. The transition risk scenario analyses for our nine priority sectors include Power, Oil & Gas, Automotive, Aviation, Shipping, Real Estate, Steel, Chemicals, as well as Food & Agribusiness.

Physical risks analysis is conducted through forward-looking models that assess the physical effects of climate change on our clients' assets and operations over the short, medium and long-term, based on scenarios from the Intergovernmental Panel on Climate Change (IPCC) Shared Socioeconomic Pathways (SSPs). In our analysis, we consider:

- **Acute risks** resulting from increased severity of extreme weather events such as cyclones, droughts and floods.
- **Chronic risks** resulting from longer-term shifts in precipitation and temperature, increased variability in weather patterns, or rise in sea levels.

In 2023, at DBS Group level, we enhanced geo-location data coverage for our portfolio and expanded our climate physical risk assessment to cover more hazards (e.g., tropical cyclones, flooding, among others).

[5] *Read more about the methodologies to climate scenario analysis modelling in the DBS Group Sustainability Report 2023.*



Upskilling and empowering our people

Managing climate risks require continual upskilling and reskilling, especially for our frontline RMs and second line CRMs.

Since 2018, DBS Group has rolled out **mandatory Responsible Financing e-Learning training** to all RMs and CRMs to ensure alignment with our ESG policies and standards. Newly hired RMs and CRMs are assigned this training during onboarding, while a refresher training is assigned to existing colleagues every two years. A series of green and sustainable trade financing trainings were held for RMs to learn how to identify relevant opportunities and provide advisory and financial solutions to better support our customers.

DBS Group also developed an inaugural **Climate-Activation Training** that was progressively rolled out in the first half of 2023 for RMs and CRMs to empower them with the necessary climate-related knowledge to meaningfully engage customers in their decarbonisation and transition journeys.

In the latter half of 2023, DBS Group designed **industry-specific "clinic sessions"** to ensure our colleagues are able to apply the knowledge from the climate activation training effectively. These sessions serve as a platform for our colleagues to delve deeper into climate-related concerns specific to their industry, utilise live cases for practical learning and explore effective approaches to engage customers.

DBS Sustainability Learning Campus has also been launched in 2023 to expand sustainability learning opportunities for employees at all levels. These opportunities provide them with a solid understanding of our purpose-driven vision for sustainability, fundamental sustainability concepts and the role everyone can play in our sustainability efforts.

Metrics And Targets

Financed emissions for our priority sectors

As a signatory to the Net Zero Banking Alliance (NZBA), DBS Group is committed to monitoring and reporting the progress against DBS Group's sectoral targets annually.

In September 2022, DBS Group established two sets of targets[6]. The first set consists of seven Scope 3 financed emissions reduction targets, while the second set is made up of two data coverage targets. Collectively, DBS Group's commitment covers a total of nine priority sectors (Power, Oil & Gas, Automotive, Aviation, Shipping, Steel, Real Estate, Food & Agribusiness and Chemicals). Altogether, these nine priority sectors are recognised as some of the most carbon-intensive sectors in the real economy and collectively account for a majority of global greenhouse gas ("GHG") emissions.

DBS Hong Kong continuously adopts DBS Group's decarbonisation targets as reference points for monitoring local progress on an annual basis.

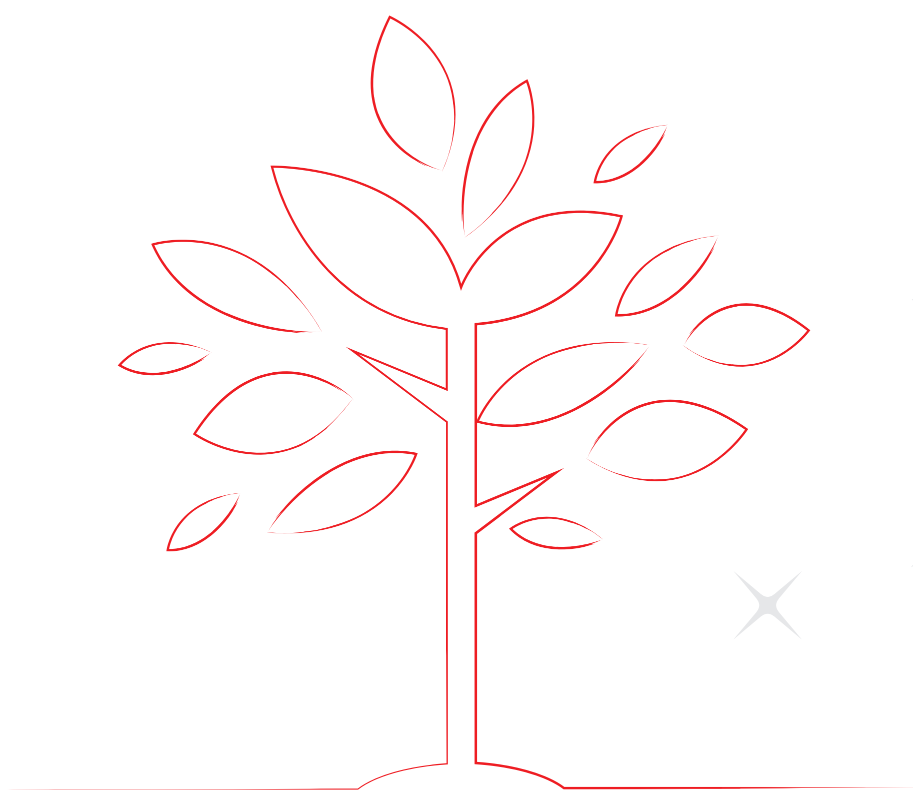
[6] *Read more about the net zero portfolio alignment in the DBS Group Sustainability Report 2023.*

Energy and carbon footprint in our operations

Besides financed emissions, we also monitor and manage our environmental footprint in our operations. The table below accounts for such information for Hong Kong, while group-level information can be found within the DBS Group Sustainability Report 2023.

	2023
Energy	
Total energy consumption (MWh)	10,041
Purchased Renewable Energy Certificates (MWh)	10,100
Carbon [1]	
Total carbon emissions (tCO_2e) = [a + b + c]	2,299
a) Scope 1 (tCO_2e)	22
b) Scope 2 (tCO_2e) [2]	0
c) Operational Scope 3 (tCO_2e) [3]	2,277
Purchased carbon offsets (tCO_2e) [4]	2,299
Total carbon equivalent net of carbon offsets purchased (tCO_2e) = [a + b + c – Purchased carbon offsets]	0

Notes:
[1] Follows the requirements of GHG Protocol Corporate Standard and GHG Corporate Value Chain Standard and uses operational control to consolidate GHG emissions.
[2] We report Scope 2 emissions based on the approach outlined in the DBS Group Sustainability Report. The Scope 2 emissions were offset from purchased Renewable Energy Certificates (RECs).
[3] Scope 3 emissions include energy used in outsourced data centres, carbon equivalent from waste disposal, business flights and ground transport.
[4] Purchased carbon offsets mitigate all residual emissions in our operations after our energy reduction initiatives. This is done as per DBS Group's Carbon Offset Guide.



Live more, Bank less