Sustainable Financing Framework for Agricultural Bank of China Limited, Singapore Branch

August 2019
1. About ABC and ABC Singapore Branch

As one of the major integrated financial service providers in China, Agricultural Bank of China Limited (thereafter ABC or the Bank) provides a diverse portfolio of corporate and retail banking products and services for a broad range of customers, and conducts treasury operations and asset management. At the end of 2018, ABC had total assets of RMB 22,609,471 million, and achieved a net profit of RMB 202,631 million. The Bank had a total of 23,381 domestic branch outlets, 13 overseas branches, and 4 overseas representative offices at the end of 2018.

With over 20 years of presence in the local banking industry in Singapore, excellent customer services, prudent business approach and experienced professionals, ABC Singapore Branch has become one of the well-known commercial banks in Singapore and has upgraded its offshore banking licence to wholesale banking licence in 2012. Singapore Branch provides a wide range of financial services to its customers in the south-east Asia region and facilitated strong bilateral economic and trade relations between China and the region.

ABC concentrates its pursuit to increase the impact of its services on the real economy and our society. ABC also proactively supports major strategic initiatives nationally and internationally and green finance is an emerging strategic focus. As at the end of 2018, the balance of loans in green credit business of the Bank surpassed RMB1 trillion for the first time, with its growth rate higher than that of corporate loans during the same period.

2. Overview of the Sustainable Financing Framework

The Sustainable Financing Framework has been developed for ABC Singapore Branch as the guiding document to enter into any financing instruments such as loans, public bonds and private placements, or other debt to finance or refinance new or existing eligible green, social or sustainable projects/clients/assets with strict adherence to:

- The Green Loan Principles 2018 (GLP 2018), Loan Market Association (LMA) and Asia Pacific Loan Market Association (APLMA)
- The Green Bond Principles 2018 (GBP 2018), International Capital Market Association (ICMA)
- The Social Bond Principles 2018 (SBP 2018), International Capital Market Association (ICMA)
- The Sustainability Bond Guidelines 2018 (SBG 2018), International Capital Market Association (ICMA)
- ASEAN Green Bond Standards (revised 2018)
- ASEAN Social Bond Standards (2018)
- ASEAN Sustainability Bond Standards (2018)

Each of the sustainable financing instruments will follow the four core components of the above Principles, Guidelines and Standards:

- Use of Proceeds
- Project Evaluation and Selection
- Management of Proceeds
- Reporting
Additionally, independent external review will be conducted by a third party to opine conformity to the above mentioned Principles, Guidelines and Standards.

3. Use of Proceeds

As such, the net proceeds of each ABC Singapore Branch’s sustainable financing instrument will be used to finance or refinance in whole or in part, new or existing eligible projects or assets that contribute to clear sustainability impacts as outlined in Table 1.1 and Table 1.2 below.

Within the framework, sustainable financing includes:

- **Green Loans or Bonds** – for which capital raised are exclusively allocated to Green Eligible Categories as outlined in Table 1.1;
- **Social Loans or Bonds** – for which capital raised are exclusively allocated to Social Eligible Categories as outlined in Table 1.1; and
- **Sustainability Loans or Bonds** – whereby the funds raised are allocated to a combination of Green and Social Eligible Categories as outlined in Table 1.1 and 1.2.

Where a client derives 90% or more of revenues from activities in Eligible Categories (i.e essentially pure play companies) it will be considered as eligible for financing under the ABC Singapore Branch Sustainable Financing Framework. In these instances, the Use of Proceeds can be used by the branch’s clients for general purposes, so long as this financing does not fund expansion into activities falling outside the Eligible Categories. For the avoidance of doubt, general corporate purpose loans are excluded unless it is by pure play companies.

As lending to the agricultural sector tends to be at corporate level rather than project financing, ABC Singapore Branch will only apportion the amount of funding to the category “environmentally sustainable management of living natural resources and land use” according to the eligibility criteria specified in the Framework in Table 1.1 through direct engagement with its clients and/or public disclosure.

### Table 1.1 Green Eligible Categories

<table>
<thead>
<tr>
<th>Green Categories (GLP and GBP)</th>
<th>Sustainable Development Goals</th>
<th>Eligibility Criteria and Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable Energy</td>
<td><img src="image" alt="Renewable Energy" /></td>
<td>▪ Production and transmission of renewable energy including wind power, solar photovoltaic power, solar thermal utilisation, hydropower below 25MW, biomass energy (below 100g CO2/kWh and excluding feedstock competing with food production), renewable energy promotion projects and other renewable energy utilization (the utilisation of geothermal energy (below 100g CO2/kWh), ocean energy, air source heat energy and other renewable energy sources)</td>
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<tr>
<td>Energy Efficiency</td>
<td>Infrastructure construction related to renewable energy, such as land development, construction of transmission networks and base station</td>
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<tr>
<td>Pollution prevention and control</td>
<td>The development and implementation of products or technology that reduces or recovers energy by at least 20% of underlying assets, technology, products or systems including LED lights, improved chillers, improved lighting technology, and reduced power usage in manufacturing operations, smart grids</td>
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<tr>
<td>Environmentally sustainable management of living natural resources and land use</td>
<td>Integrated municipal and commercial waste collection, recycling and diversion programs excluding landfill and exclude incineration without energy recovery</td>
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<tr>
<td></td>
<td>Liquid and hazardous waste treatment, recycling and reuse such as:</td>
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<tr>
<td></td>
<td>- E-waste recycling projects</td>
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<tr>
<td></td>
<td>- Sewage sludge treatment</td>
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<td></td>
<td>- Industrial hazardous waste treatment</td>
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<td></td>
<td>- Medical waste treatment</td>
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<tr>
<td></td>
<td>- Soil remediation</td>
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<td></td>
<td>- Waste liquid recovery</td>
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<tr>
<td></td>
<td>Waste-to-energy projects below 100g CO2/kWh with air emission abatement technology</td>
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<tr>
<td></td>
<td>Environmentally sustainable agriculture including:</td>
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<tr>
<td></td>
<td>- On RSPO certified palm oil production with no expansion to new land:</td>
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<tr>
<td></td>
<td>- R&amp;D into yield intensification as a strategy for no deforestation, replanting of higher yielding material, conservation &amp; restoration efforts;</td>
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<td></td>
<td>- Development of wildlife corridors;</td>
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<tr>
<td></td>
<td>- CAPEX investments on mills with traceable and certified palm oil to reduce emissions and discharge</td>
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<tr>
<td></td>
<td>- Other agricultural activities under Rainforest Alliance or equivalent certification for crops;</td>
<td></td>
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<tr>
<td></td>
<td>- Agricultural practices and systems to improve traceability in supply chain such as direct (&quot;close to farmer&quot;) sourcing to further combat deforestation and land abuse such as by using credible monitoring groups like Control Union Certification, installation of IT and real time monitoring systems that manage fire and haze, large scale supply chain audits, smallholder</td>
<td></td>
</tr>
</tbody>
</table>
certification and capacity building with smallholders at plantation level
- Environmentally sustainable animal husbandry certifying to local or regional organic labels;
- Climate smart farm inputs such as biological crop protection or drip-irrigation;
- Environmentally sustainable fishery with certification to MSC, ASC or equivalent labels and aquaculture with ASC or equivalent certification;
- Environmentally-sustainable forestry with certification to FSC, PEFC or equivalent, including afforestation or reforestation, and preservation or restoration of natural landscapes
- Additional social considerations such as labour rights, working conditions, well-beings and community development will apply to the agricultural sector

Clean transportation

- Development and manufacture of electric, hybrid, public, rail, non-motorised and multi-modal transportation; Low carbon non-electric vehicles below 75g CO2/km/passenger
- Development of related infrastructure such as charging stations, both private and public

Green Buildings

- Development of new green buildings or refurbished buildings that have or will receive regional, national or international certifications including:
  - Singapore Green Mark (Gold or above)
  - US Leadership in Energy and Environmental Design (LEED) (at least Gold Certification)
  - China Green Building Evaluation Standard (Two-star or above)
  - Hong Kong BEAM Plus (Gold or above)
  - Other comparable green building certifications

**Table 1.2 Social Eligible Categories**

<table>
<thead>
<tr>
<th>Social Categories (SBP)</th>
<th>Sustainable Development Goals</th>
<th>Eligibility Criteria and Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Essential Services</td>
<td>▪ Mass public transportation including railway, subway and buses with emission threshold set at 75g CO2/km/passenger without electrification</td>
<td></td>
</tr>
</tbody>
</table>
| Affordable housing | Development of social housing according to local government definition  
|-------------------|------------------------------------------------------------------|
|                   | Purchase of social housing                                       
| **Target populations:** | General public and underserved communities                        |

| Employment generation including through SME financing/microfinance | Provision of any suitable financial instruments and supporting services for small and medium-sized enterprises in underdeveloped areas defined as OECD DACH low income countries, regions in the bottom quarter of GDP compared to average GDP of the country  
|------------------------------------------------------------------|------------------------------------------------------------------|
|                                                                  | Provision of any affordable microcredits with favourable rates and repayment terms to help low income groups  
| **Target population:** | SME is defined according to IFC International Finance Corporation (IFC): the end-client should meet two of three criteria to be eligible: 1) the number of employees < 300; 2) turnover USD 100,000 – USD 15,000,000; 3) total assets USD 100,000 – USD 15,000,000. In addition, the bank will not finance any SME in the Exclusion Categories below. |

Microfinance through partnership with intermediaries aims to reach low-income groups as those living on less than U$3.20 per day reflects poverty lines in lower-middle-income countries, while U$5.50 a day reflects standards in upper-middle-income countries according to World Bank²

Exclusion Categories

In any case, eligible assets/projects exclude the type of projects listed in the IFC Exclusion List (2007)³, as well as the following industry categories:

- Clean coal and any other fossil fuel related assets
- Nuclear energy and nuclear related assets
- Hydropower projects with capacity over 25MW
- Luxury sectors such as precious metals, precious artworks & antiques, golf course services and hospitality groups
- Agricultural or afforestation operations located on land designated as primary forest, rich biodiversity, high conservation value areas, or legally preserved areas;
- Untraceable and non-RSPO certified palm oil

4. Project Evaluation and Selection

ABC Singapore Branch has appointed the Credit Committee to be the Sustainable Financing Working Group (“SFWG”), which is comprised of key departments (or teams) as follows:

- Senior Management represented by four deputy general managers
- Credit Risk
- Front Office Department
- Back Office Department

The SFWG is chaired by Deputy General Manager (Risk Management)

The SFWG’s role will be to:

- Review, select and validate the pool of Eligible Sustainable Assets, based on the Framework;
- Validate annual reporting;
- Monitoring the on-going evolution related to the Sustainable Capital Markets in terms of disclosure/reporting in order to be in-line with market best practices; and

³ The IFC exclusion list mainly includes projects for production or trade in any products or activity deemed illegal, production or trade in weapons and munitions, alcoholic beverages (excluding beer and wine), tobacco, radioactive materials and unbonded asbestos fibers, gambling, casinos and equivalent enterprises, drift net fishing in the marine environment using nets in excess of 2.5km in length, etc. In addition, FIs must exclude production or activities involving harmful or exploitative forms of forced labor/harmful child labor, commercial logging operations for use in primary tropical moist forest and production or trade in wood or other forestry products other than from sustainably managed forests. To find out the full list: http://www.ifc.org/exclusionlist
- Review the Sustainable Financing Framework to reflect any changes with regards to the bank and the branch’s sustainability strategies and initiatives

5. **Management of Proceeds**

Net proceeds will be deposited in the general account of ABC Singapore Branch and it will establish a register, recording each specific asset allocated as Use of Proceeds in the appropriate internal system. ABC Singapore Branch will use its best efforts to substitute any Sustainable Assets that are no longer eligible, as soon as practical once an appropriate substitution option is identified. ABC Singapore Branch will aim to deploy full allocation of net proceeds to eligible categories within 12 months from drawdown or issuance.

If any unallocated proceeds, ABC Singapore Branch may invest in cash and/or cash equivalents according to local liquidity management guidelines but with strict exclusion to sectors or activities identified in the IFC Exclusion List.

6. **Reporting**

ABC Singapore Branch will report on the allocation of net proceeds from each of the sustainable finance instruments as well as output and impact metrics on an annual basis until the proceeds have been fully allocated. Such report will be published as a standalone Sustainable Financing Report or as a part of ABC Singapore Branch’s annual report.

**Allocation Reporting**

- The list of Eligible Sustainable Assets (re)financed by category;
- The aggregated amount of allocation of the net proceeds to the Eligible Sustainable Assets
- The proportion of net proceeds used for financing versus refinancing; and,
- The balance of any unallocated proceeds invested in cash and/or cash equivalents.

**Impact Reporting**

ABC Singapore may report on relevant sustainability output and impact metrics, where feasible, for each of the sustainable finance instruments. Below are examples of indicators:

**Table 2: Indicative Impact Reporting Criteria**

<table>
<thead>
<tr>
<th>Green Categories</th>
<th>Indicative Impact Reporting Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable Energy</td>
<td>▪ Kilowatt-hours (kWh) of power generated from renewable energy by type</td>
</tr>
<tr>
<td></td>
<td>▪ Tonnes of greenhouse gas (GHG) avoided</td>
</tr>
<tr>
<td></td>
<td>▪ Tonnes of air pollutants reduced</td>
</tr>
<tr>
<td></td>
<td>▪ Number of people provided access to clean and affordable energy</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>▪ Energy savings in kWh</td>
</tr>
<tr>
<td></td>
<td>▪ Tonnes of GHG avoided</td>
</tr>
</tbody>
</table>
| Pollution prevention and control | • Annual absolute (gross) amount of waste that is separated and/or collected, and treated (including composted) or disposed of (in tonnes p.a. and in % of total waste)  
• Waste that is prevented, minimised, reused or recycled in tonnes p.a.  
• Annual energy generation from non-recyclable waste in energy/emission-efficient waste to energy facilities in kWh  
• Energy recovered from waste (minus any support fuel) in kWh of net energy generated p.a.  
• Tonnes of GHG avoided from waste management |
| Environmentally sustainable management of living natural resources and land use | • Number of people and/or enterprises (e.g. farmers and/or farms) benefitting from measures to improve traceability, drip irrigation, prevent floods and droughts  
• Area covered by sustainable agricultural land management practices and crop yields in tonnes per hectare  
• Cubic metre (m³) of water used and/or saved per hectare of land |
| Clean transportation | • Passenger-kilometres (i.e. the transport of one passenger over one kilometre) and/or passengers; or tonne-kilometres (i.e. the transport of one tonne over one kilometre) and/or tonnes  
• Tonnes of GHG avoided  
• Tonnes of air pollutants reduced |
| Green Buildings | • Portfolio of building assets by type and green building certification level  
• Energy performance of kWh/ m² of Gross Building Area annually  
• Energy use reduction/avoidance  
• Tonnes of GHG avoided |
<p>| Social Categories | |</p>
<table>
<thead>
<tr>
<th>Number of education facilities for inclusive and effective learning environments</th>
<th>Number of people and students receiving education services and life learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable housing</td>
<td>Number of total affordable public housing financed</td>
</tr>
<tr>
<td></td>
<td>Number of loans provided for people to enrol into affordable housing schemes</td>
</tr>
<tr>
<td>Employment generation including through SME financing/microfinance</td>
<td>Number of people/enterprises benefiting from SME financing and total of SME financing provided</td>
</tr>
<tr>
<td></td>
<td>Number of low income group benefiting from microfinance and total of microfinance provided</td>
</tr>
</tbody>
</table>

7. **External Review**

ABC Singapore Branch has obtained a second party opinion from Sustainalytics to confirm the alignment of its Sustainable Finance Framework with LMA Green Loan Principles, ICMA Green/Social Bond Principles and Sustainability Bond Guidelines, and ASEAN Green/Social/Sustainability Bond Standards.

Sustainalytics’ second party opinion will be published on the branch’s website, found through [http://www.sg.abchina.com/en/default.htm](http://www.sg.abchina.com/en/default.htm)

For each of the Sustainable Finance instrument launched or issued under the ABC Sustainable Finance Framework, ABC Singapore Branch will engage an appropriate independent provider to review the report on an annual basis, and evaluate its conformity with its Framework and the Guidelines/Principles/Standards captioned in Part 2. Public disclosure will be made available through ABC Singapore Branch’s website [http://www.sg.abchina.com/en/default.htm](http://www.sg.abchina.com/en/default.htm).