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

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1. Introduction

1.1 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. Our business scope also includes investment banking, fund management, financial leasing and life insurance. At the end of 2020, ABC had total assets of RMB 27,205,047 million, and achieved a net profit of RMB 216,400 million. The Bank had a total of 22,938 domestic branch outlets, 13 overseas branches, and three overseas representative offices at the end of 2020.

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 2020, the balance of loans in green credit business of the Bank was RMB 1.51 trillion, with its growth rate higher than that of corporate loans during the same period.

With over 20 years of presence in the local banking industry in Singapore, excellent customer services, prudent business approach and experienced professionals, Agricultural Bank of China Limited, Singapore Branch (thereafter 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. ABC 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.

1.2 Our Green and Sustainable Finance Commitment

ABC collaborated with International Finance Corporation (IFC) to develop and implement innovative program to build an extensive and innovating green financial products and portfolios. The Bank is committed to spur its ESG efforts, establish and develop a holistic and robust green finance system. As a member of United Nation Environment Programme Finance Initiative (UNEP FI), ABC complies and implements our commitment with “The Principles for Responsible Banking”, a sustainable banking framework that govern the banks’ green business areas, strategic development, sustainable direction and deal with challenges of climate change in adherence with UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement. ABC is one of the supporting organizations of Task Force on Climate-related Financial Disclosures (TCFD), demonstrating our efforts to improve the quality of environmental and climate-related information disclosure based on the regulatory requirements and recommendations of the TCFD disclosure framework.

ABC Singapore Branch is committed to increase support for green and sustainable finance. We strive for a long-term commitment to sustainable finance, practiced and embedded green, environmental, social and governance (ESG) financial strategy through integrating the concept and requirement of sustainable development into our process of operation, management and business strategy. ABC Singapore Branch adhered to regulatory requirements and we have internally established "Green and Sustainable Development Action Plan (2021-2023)" as part of our commitment to sustainable finance. We have implemented environmental and social risk management into the decision-making process on sustainable finance and investment, to build a sustainable future and foster low-carbon development of the economy.

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 following principles and standards:

- The Green Loan Principles 2021 (GLP 2021), Loan Market Association (LMA) and Asia Pacific Loan Market Association (APLMA)
- The Social Loan Principles 2021 (SLP 2021), Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA)
- The Green Bond Principles 2021 (GBP 2021), International Capital Market Association (ICMA)
- The Social Bond Principles 2021 (SBP 2021), International Capital Market Association (ICMA)
- The Sustainability Bond Guidelines 2021 (SBG 2021), International Capital Market Association (ICMA)
- ASEAN Green Bond Standards (revised 2018)
- ASEAN Social Bond Standards (2018)
- ASEAN Sustainability Bond Standards (2018)
- China's National Development and Reform Commission's 2019 "Green Industry Guidance Catalogue" 《绿色产业指导目录》
- The People's Bank of China's 2019 "Special Statistical System for Green Loans" 《绿色贷款专项统计制度》
- The China Banking Regulatory Commission (CBRC)'s 2020 "Green Financing Statistics System"《绿色融资统计制度》
- The People's Bank of China's 2021 "Catalogue of Green Bond Supported Projects" 《绿色债券支持项目目录》
- "EU-CN Common Ground Taxonomy"《可持续金融共同分类目录报告——减缓气候变化》

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

Independent external review will be conducted by a third party to opine conformity to the above mentioned Principles, Guidelines and Standards. Additionally, issuance of Green Bonds/Green

Loans/Green Financing instruments by ABC SG under this Framework can further be certified by the Climate Bonds Initiative ("CBI") in accordance with the Climate Bonds Standard ("CBS").

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;
- **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; and
- **Other Green Financial Instruments** – whereby proceeds are used for sustainable development projects and initiatives, allocated to combination of Green and Social Eligible Categories in Table 1.1 and 1.2.

3.1 Eligible Assets

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. ABC Singapore Branch's look-back period for own operating expenditures would be 36 months for which the use of proceeds would meet the eligibility green criteria.

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.

3.2 Eligible Categories

Table 1.1 Green Eligible Categories

Green Categories (GLP and GBP)	**Sustainable Development Goals**	**Eligibility Criteria and Examples**
Renewable Energy		▪ Production, transmission and distribution of renewable energy including: ○ Wind power ○ Solar power: Solar photovoltaic power, concentrated solar power (CSP) facilities, solar thermal utilisation ○ Hydropower<25 MV[1], or >25MV where either life-cycle carbon intensity is below 100 gCO_2e/kWh or power density is greater than $5W/m^2$ ○ Biomass energy from waste feedstocks (below 100 gCO_2/kWh, forestry and agriculture residues, palm kernels - RSPO certified; biofuels from non-waste feedstocks[2] ○ Geothermal energy (below 100 g CO_2/kWh) ○ Ocean energy ○ Electric air source heat energy ○ Green hydrogen ▪ Infrastructure construction, development or manufacture equipment related to renewable energy technologies, such as wind turbines, solar panels and battery storage ▪ Construction, distribution (to reduce the curtailment of renewable energy into grid) or expansion of transmission networks and base station ○ Connect renewables to power grid ○ Supporting/integrating at least 90% renewable energy; otherwise percentage of eligible finance will be based on the percentage of project that transmits renewable energy ▪ Purchase of renewable energy certificates (RECs): Long-term bundled RECs; not for resale

[1] For all new hydropower project, an environmental and social impact assessment would be carried out by credible body and there should be no significant controversy issues identified.

[2] Limited to International Sustainability & Carbon Certification (ISCC) certified feedstock: Production of biofuel feedstock does not take place on land with high biodiversity; Land with a high amount of carbon has not been converted for biofuel feedstock production; Projects will undergo a Food Security Impact Assessment (FSIA) to demonstrate no competition with food/feed; other certification schemes that are evaluated to be equivalent and adhered to the market standards.

Energy Efficiency	7 RENEWABLE ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES	▪ Development, manufacture and implementation of products or technologies that reduce energy use or recover energy related to products, technologies, systems or assets including: LED lights, improved chillers, improved lighting/electricity technologies, water solutions, cooling solutions, farming solutions and reduced or stored power or energy usage in manufacturing operations, smart grids technologies
Pollution prevention and control	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 15 LIFE ON LAND	▪ Integrated municipal and commercial waste collection, recycling and diversion programs excluding landfill and exclude incineration without energy recovery ▪ Liquid and hazardous waste treatment, recycling and reuse such as: o E-waste recycling projects o Sewage sludge treatment o Soil remediation o Waste liquid recovery ▪ Waste-to-energy projects below 100 gCO_2/kWh with air emission abatement technology o Municipal and Industrial solid waste ▪ Facilities, systems and equipment for preventing and reduction of air pollution and mitigation of greenhouse gas emissions o Carbon sequestration: Natural-based Carbon capture storage (CCS)/ Utilization of the captured CO_2 (CCU) including afforestation, reforestation, habitat restoration, conservation of coastal and marine habitats; Biochar addition
Environmentally sustainable management of living natural resources and land use	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 15 LIFE ON LAND	▪ Environmentally sustainable agricultural activities, practices, processes in terms of innovations and technologies including: o Agricultural products compliant with UTZ Certification, Rainforest Alliance's Sustainable Agriculture Certification Scheme, China Organic Product Certification, ISCC (for bio-based feedstock), USDA organic, Forest Stewardship Council (FSC), Global G.A.P. o Improvement on traceability and distribution capabilities that increase the sustainability of supply chain and agriculture solutions on certified crops, farms or forests: equipment, systems or technologies (e.g. monitor deforestation, system management of fire and haze, etc.) o Promotion and implementation of conservation and sustainable agriculture techniques and

		practices to improve productivity and energy efficiency (e.g. Climate-smart agriculture (CSA) Irrigation such as biological crop protection, drip-irrigation or storage; organic/natural fertilisers) ▪ Environmentally-sustainable forestry with certification to FSC, Sustainable Forestry Initiative (SFI), the Programme for the Endorsement of Forest Certification (PEFC), American Tree Farm System, China Forest Certification Scheme or equivalent standards, including: ○ Afforestation or reforestation, and preservation or restoration of natural landscapes ○ Urban greening projects development and restoration ▪ Environmentally sustainable fishery with certification to MSC, ASC or equivalent labels and aquaculture with ASC, Best Aquaculture Practices (BAP), Global G.A.P. or equivalent certifications ▪ Pasture-based livestock management – agroforestry[3] (soil management and reduction on GHG emission)
Clean transportation		▪ Development, manufacture and acquisition of electric, hybrid, public, rail, non-motorised and multi-modal transportation; ○ Zero tailpipe emission vehicles (e.g. electric, fuel cell and hydrogen vehicles) ○ Low carbon non-electric vehicles below 75 gCO_2/km/passenger ○ Buses[4] and Trucks with zero direct emissions (<1 gCO2/km or 1 gCO_2/kWh) ▪ Replacement or retrofit of transportation vehicles (e.g. train, buses, rail fleet, etc) with technologies or features involving reducing emissions such as car sharing schemes (zero tailpipe emission vehicles) and road charging systems; Repower of transportation vehicles (e.g. Conversion to fully electric/hydrogen powered) ▪ Development of related infrastructure such as batteries or electric charging stations, hydrogen fuelling facilities, both private and public

[3] Financing of such project would only be limited to smallholders' farmers. In China, smallholder farmers are defined as those with lesser than 5 hectares of land. Meat production would not the main purpose for agroforestry.

[4] Other public buses with/without BRT systems that meet direct emissions threshold (WLTP) of <50 gCO2e/p-km (based on regional passenger load, or global passenger load ~15.46 for 2020)

		▪ Development, manufacture and acquisition of green shipbuilding (fully electric ferries and small ships, renewable/bio-fuel)
Green Buildings	11 SUSTAINABLE CITIES AND COMMUNITIES	▪ Development and construction of new and existing green buildings that have or will receive regional, national or international certifications including: o Singapore Green Mark (Gold or above) o US Leadership in Energy and Environmental Design (LEED) (at least Gold Certification) o China Green Building Evaluation Standard (Two-star or above) o Hong Kong BEAM Plus (Gold or above) o EDGE (Certified) o Building Research Establishment Environmental Assessment Method (BREEAM) (Excellent or above) o Green Star (Five Stars or higher) ▪ Development and refurbishment of green buildings that resulted in achieving one of the eligible certifications above or buildings that achieve at least 20% improvement in energy use and/or carbon emission as compared to before
Climate Change Adaptation	15 LIFE ON LAND	▪ Activities that increase resilience of eco-systems, like biodiversity protection and restoration, conservation of terrestrial and marine habitats activities such as land remediation, natural ecosystem land, machinery and equipment to manage eligible ecosystems, technologies system ▪ Infrastructure such as flood defences like surge barriers, pumping stations, levees, gates and early warning systems for storms, droughts, floods or damn failure
Sustainable water and waste management	6 CLEAN WATER AND SANITATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	▪ Infrastructure construction, development or upgrades relating to improvement of water efficiency and quality: o Water collection, treatment, recycling, smart technologies (smart networks monitoring process, water saving technologies etc) o Related infrastructures including: Water pipes and collection or storage facilities to store water or rainwater for recycling, and wastewater treatment plant facilities

Table 1.2 Social Eligible Categories

Social Categories (SBP)	Sustainable Development Goals	Eligibility Criteria and Examples
Access to Essential Services		▪ Development of roads, railways and other transportation systems in areas that lack connectivity, or in areas lacking infrastructure in under developed regions and low-income OECD DAC[5] countries ▪ Investment, development and operation of public/not for profit organisations, healthcare centres and services to safe and affordable essential medicines and vaccines for all ▪ Investment, development and operation of public education infrastructure such as schools and training centres <u>Target populations</u>: general public, the underserved, marginalised groups and/or people living below the national poverty line
Affordable housing		▪ Development of social housing according to local government definition ▪ Purchase of social housing <u>Target populations</u>: Low-income individuals 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[6] 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 ▪ Online poverty alleviation promotions: Loans to smallholder farmers encouraging them to leverage on technology network connectivity – selling agricultural products on internet/web market <u>Target population</u>:

[5] https://www.oecd.org/dac/stats/documentupload/DAC_List_ODA_Recipients2014to2017_flows_En.pdf

[6] Excluding small and medium-sized enterprises involved in negative-impact activities, such as mining, electricity production from fossil fuels, or gas production and supply.

		▪ 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; SME is also defined according to China regulations/standards, which depends on type of industries and sectors in China[7] ▪ Smallholder farmers is defined as farmers that have lesser than 5 hectares of land ▪ 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 Bank[8]

3.3 Exclusion Categories

In any case, eligible assets/projects exclude the type of projects listed in the IFC Exclusion List (2007)[9], as well as the following industry categories:

- Fossil fuel power generation
- Nuclear energy and nuclear related assets
- 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
- Child Labour
- Forced Labour

[7] China Classification Standards for SMEs

[8] https://www.worldbank.org/en/news/press-release/2018/10/17/nearly-half-the-world-lives-on-less-than-550-a-day

[9] 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

4. Project Evaluation and Selection

ABC Singapore Branch has appointed the Credit Committee, a deliberative body of credit business under the Branch senior management, to be the Sustainable Financing Working Group (“SFWG”). The SFWG comprised of a diverse group of members which include all deputy general managers, department head from risk management department, department heads from front office and back office departments and expert member.

The SFWG is chaired by Deputy General Manager (in charge of Risk Management Department).

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
- Review the Sustainable Financing Framework to reflect any changes with regards to the bank and the branch’s sustainability strategies and initiatives

According to ABCSG’s credit management policy, sustainable considerations are incorporated into the whole credit application, evaluation, approval and post-lending process. All existing and potential customers shall be categorized into three types, namely high impact, medium impact and low impact, based on their business activities and an analysis on the environmental and social impact is required for every credit application and evaluation process. Customers in the high impact and medium impact categories are subject to enhanced due diligence, following the ABC’s sector-specific guidelines.

The front office departments screen and select potential Eligible Sustainable Assets. The SFWG reviews, selects and validates the Eligible Sustainable Assets, based on this Framework and considering the environmental and social financing impacts. The Eligible assets will be added to a register.

The SFWG approves the allocation of Eligible Sustainable Assets earmarked to each Sustainable financing raised by ABCSG based on this framework and monitors the composition of the register on a regular basis.

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 may allocate the proceeds to eligible projects across various domestic and overseas markets within the ABC’s group. 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 24 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.

6.1 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.

6.2 Impact Reporting

ABC Singapore may report on relevant sustainability output and impact metrics[10], where feasible, for each of the sustainable finance instruments. Below are examples of indicators:

Table 2: Indicative Impact Reporting Criteria

Green Categories	Indicative Impact Reporting Criteria
Renewable Energy	▪ Kilowatt-hours (kWh) of power generated from renewable energy by type ▪ Tonnes of greenhouse gas (GHG) avoided/reduced ▪ Tonnes of air pollutants reduced ▪ Number of people provided access to clean and affordable energy
Energy Efficiency	▪ Energy savings in kWh ▪ Tonnes of GHG avoided and reduced
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.

[10] Handbook – Harmonised Framework for Impact Reporting June 2021

	▪ 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 (m^3) 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/ m^2 of Gross Building Area annually ▪ Energy use reduction/avoidance ▪ Tonnes of GHG avoided
Climate Change Adaptation	▪ Biodiversity conservation; increase of protected area in (km^2) ▪ Number and type of adaptation and resilience measures installed ▪ Reduced/avoided water loss (in reservoirs/natural habitats, etc (m^3)) ▪ Additional water availability and/or increased water catchment in m^3/year
Sustainable water and waste management	▪ Amount of water reduced, reused or purified per year (m^3) ▪ Amount of water pollutants reduced ▪ Wastewater treated per year (m^3)
Social Categories	
Access to Essential Services	▪ Number of people reached with improved health care ▪ Number of education facilities for inclusive and effective learning environments ▪ Number of people and students receiving education services and life learning
Affordable housing	▪ Number of total affordable public housing financed ▪ Number of loans provided for people to enrol into affordable housing schemes
Employment generation including through SME financing/microfinance	▪ Number of people/enterprises benefiting from SME financing and total of SME financing provided

	▪ Number of low-income groups benefiting from microfinance and total of microfinance provided ▪ Amount of loans to SMEs and smallholder farmers

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 and China Chengxin Green Finance to confirm the alignment with PBOC Catalogue of Green Bond Supported Projects, Green Industry Guidance Catalogue, Green loan, CBRC Green Financing and EU-CN Common Ground Taxonomy for our Sustainable Financing Framework.

Both Sustainalytics and China Chengxin Green Finance' second-party opinion will be published on the branch's website 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 may 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. Public disclosure will be made available through ABC Singapore Branch's website http://www.sg.abchina.com/en/default.htm.