Sustainable Banking Guidelines

Responsible Lending

by

The Thai Bankers’ Association

13 August 2019

Preface:

1. The guidelines are developed on a multi-stakeholder basis, in collaboration with the members of the Thai Bankers' Association (TBA) with inputs from science-based organizations, including World Wide Fund for Nature (WWF).

2. The guidelines are living documents which may be updated regularly so that they remain relevant. Other guideline(s) and additional documents may also be produced when necessary.

Objective:

3. The guidelines define the minimum expectations on responsible lending practices for all banks based in Thailand. The members of TBA may adopt higher standards[1], frameworks or practices that are in line with their sustainability strategies.

4. This document serves as a guidance for banks to establish a responsible lending strategy to manage their environmental and social (E&S) impacts and risks. The strategy includes, but not limited to, developing robust lending policies that incorporate Environmental, Social and Governance (ESG) criteria, and establishing effective internal controls along with transparent disclosures[2]. Banks are encouraged to use their best efforts to implement the guidelines.

5. The guidelines are part of TBA's sustainable banking initiative which will include guidelines and recommendations for banks to achieve sustainability outcomes.

Background:

6. The Thai government acknowledges the country's vulnerability to climate change and the urgent need to transition to a more sustainable economy. It has committed to the Paris Agreement as set out in the Nationally Determined Contribution (NDC), and to delivering the Sustainable Development Goals (SDGs). The Bank of Thailand (BOT) has recognised the role of the financial sector in driving Thailand's sustainable growth and has set to promote sustainable banking in the Thai financial sector as outlined in the medium-term direction in its three-year strategic plan (2017-2019).

7. As financial intermediaries, banks are key to achieving the transition to a low-carbon economy by financing the sustainable energy, infrastructure, transportation and food systems. They can incentivise clients to mitigate negative and increase positive impacts to the environment and society by linking the cost of and access to capital to sustainability performance.

8. Accordingly, banks need to manage E&S impacts and risks associated with their lending activities, and build portfolios that are resilient to climate-related and other ESG risks to remain competitive and relevant in a low-carbon future, as well as prevent financial instability.

Scope:

9. The guidelines apply to lending and will cover the indirect footprint of a bank, meaning the activities that banks finance.

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[1] *Refer to appendix*

[2] *The guidelines promote robust disclosure which allows banks to meet best practice frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD), Global Reporting Initiative (GRI), Sustainability Accounting Standard Board (SASB), and national standards and recommendations including the Stock Exchange of Thailand (SET) Guidelines for Sustainability Reporting in full form and essence.*

10. The scope of responsible lending covers material Environmental, Social and Governance (ESG) issues[3], for example:

- Environmental
  Greenhouse gas (GHG) emissions and climate change, deforestation and biodiversity loss, water stewardship, air/soil pollution and contamination, impact on ocean health, hazardous material and waste management;
- Social
  Human rights, labour rights, occupational health and safety, community relations and community rights, excessive household debt, stakeholder engagement;
- Governance
  Corporate ethics and integrity, business conduct, anti-corruption[4], risk management, monitoring, reporting and transparency.

11. Banks can be exposed to highly sensitive sectors and issues and should take those into consideration when developing responsible lending policies and processes. Banks should also rely on data-driven evidence to assess materiality, as well as to support E&S due diligence and decision-making processes.

Responsible Lending Guidelines:

12. Given the prevailing concerns around climate change, accelerating environmental degradation, and excessive household debt in Thailand, banks should critically examine whether their strategy incorporate aspects that contribute to the national or global agenda.

13. The following guidelines identify foundational elements for implementing responsible lending practices in Thailand. Banks are expected to assess and manage ESG risks arising from their lending activities to identify material E&S impacts, and should strive to develop a robust responsible lending strategy by adopting the **four elements** as presented below.

14. Further, banks are expected to ensure that their strategy evolves and reflects the increasingly demanding ESG expectations of both shareholders and other stakeholders.

15. **1) Leadership and responsible lending commitment**
Strong leadership by senior management sends a powerful signal to internal and external stakeholders on banks' commitments to responsible lending. "Tone from the top" ensures that banks' strategy is aligned with the responsible lending guidelines and will be effectively implemented throughout the organization.

16. i. Banks are to establish board of directors, CEO and senior management's commitment to implement the responsible lending strategy.

17. ii. Banks are to define their responsible lending strategy and communicate it to internal and external stakeholders.

18. **2) Stakeholder engagement**
Undertaking effective engagement with relevant stakeholders shows that banks value them as important contributors to the business operations and recognize the necessity to safeguard stakeholders' interests.

19. Banks are to engage with important stakeholders beyond regulators, shareholders, and clients to determine material ESG risks and to assess potential impacts associated with banks' lending activities. Banks should consider concerns of and connect with parties who may be directly and indirectly affected by activities that banks finance in cases where negative impacts are demonstrably material and significant.

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[3] SASB Materiality Map®, https://materiality.sasb.org/
[4] Referencing the guidelines issued by Thailand's Private Sector: Collective Action against Corruption (CAC)

20. **3) <u>Internal implementation mechanisms</u>**
Establishing effective responsible lending policies and processes with supporting governance structure is crucial in managing and assessing ESG risks on both client and transaction level. Periodic reviews and updates of policies and processes ensure effective implementation. The identification and management of ESG risks, such as climate-related risks, at the portfolio level allow banks to build long-term resilience and unlock growth prospects. Having trained teams with clear roles and responsibilities enables these policies and processes to be implemented effectively.

a. Policies and processes

21. i. Banks are to establish internal policies and processes to address key ESG risks in their lending activities. These policies and processes should extend beyond legal compliance to reflect good environmental and social standards and frameworks.

22. ii. Banks are to determine how ESG risks arising from their lending activities materialize as financial risks and how these risks are factored into policies and processes.

23. iii. Banks are to engage with clients to proactively support them in reducing negative impacts and improving their sustainability performance.

24. iv. Banks are to identify and seek to manage their lending portfolio exposure to ESG risks.

b. Defining responsibilities and building capacity

25. i. Banks are to dedicate resources and specify clear roles and responsibilities to support the implementation of the responsible lending strategy.

26. ii. Banks are to have senior management responsible for the implementation of the responsible lending strategy.

27. iii. Banks are to build capacity for both senior management and staff on ESG and sustainability matters.

28. **4) <u>Transparency</u>**
Banks should be transparent and disclose how they implement the responsible lending practices in reports or websites in a timely and reliable manner. This allows banks to communicate their sustainability-related commitments effectively to external stakeholders and be accountable for their actions.

29. i. Banks are to publish board of director or CEO’s commitment to implement the provisions of the responsible lending guidelines.

30. ii. Banks are to publish relevant statements, policies and processes in their annual/sustainability reports or websites.

31. iii. Banks are to publish their progress on implementing the guidelines by disclosing information on the measures taken or the impacts achieved.

Appendix:

Frameworks/Standards/ Guidelines	Reference
Sustainable Development Goals (SDGs)	https://sustainabledevelopment.un.org/content/documents/2125 2030%20Agenda%20for%20Sustainable%20Development%20 web.pdf
The Paris Agreement	https://unfccc.int/sites/default/files/english_paris_agreement.pdf
Thailand's Nationally Determined Contribution (NDC)	https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/ Thailand%20First/Thailand_INDC.pdf
Task Force for Climate-related Disclosure (TCFD)	https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf
Science Based Targets initiative (SBT)	https://sciencebasedtargets.org/
The Principles for Responsible Banking (PRB)	http://www.unepfi.org/wordpress/wp-content/uploads/2018/12/PRB-consultation-brochure.pdf
Anti-Corruption Organization of Thailand	http://www.anticorruption.in.th/2016/en/ourpartners1.php
Collective Action against Corruption (CAC)	http://www.thai-cac.com/who-we-are/about-cac/ http://www.thai-cac.com/wp-content/uploads/2019/02/CAC-Principles-Feb-2019-approved.pdf