

# **Task Force on Climate-Related Financial Disclosures (TCFD) Report**

**Bank Mandiri Hong Kong Branch (BMHK)**

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## Part 1 Introduction

The increase in climate related risk awareness and the importance of sustainable economic growth have encouraged the formulation of several global initiatives including the Sustainable Development Goals (SDGs) and the Paris Agreement. SDGs are the international guidance formed by United Nations in 2015 to address poverty, inequality, and climate change. The Paris Agreement is an agreement that coordinated by United Nations regarding the mitigation of greenhouse gas emissions (holding the increasing in the global average temperature to well below 2°C above pre-industrial levels).

Climate related risk is increasingly recognized as a source of financial risks for financial institution. Change in market perception and shift in preference of the public towards more environmental-friendly products and services, the financial, reputational and strategic risk implications are becoming increasingly prominent. In response to such situation, started on late 2022, Bank Mandiri Hong Kong has established a written framework about climate risk management.

Prepared by BMHK, this report is aligned to the recommendations of the TCFD. Under the direction of Bank Mandiri's Head Office ("BMHO"), we present disclosures on the impacts of climate change across BMHK.

This report covers the four areas of the TCFD, describing how BMHK assesses climate-related risks and opportunities and embeds climate considerations into its governance, strategy, and risk management. In general, BMHK as part of Authorised Institutions in Hong Kong recognise our important role in supporting the transition to an environmentally sustainable economy.

Hong Kong, 31 May 2023

Best Regards,

**General Manager – Bank Mandiri Hong Kong Branch (BMHK)**

A blue ink handwritten signature, appearing to read "Venda Yuniarti", with a large loop at the start.

**Venda Yuniarti**

**Part 2**  
**Summary of TCFD Recommendation and Our Implementation (Bank Mandiri)**

TCFD Recommendation	Our Implementation
<p><b>Governance</b>                      Describe the board’s oversights of climate–related risks and opportunities</p>	<ol style="list-style-type: none"> <li>1. Becoming part of the “First Movers on Indonesia Sustainable Banking” in 2015 to encourage Indonesian banks to incorporate climate issues to business and operations.</li> <li>2. Involving active engagement of Commissioners and Directors in the preparation of the Sustainable Finance Plan aligned with Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 since 2018, monitoring and evaluating initiatives to address stakeholder concerns in order to ensure that ESG implementation is on target.</li> </ol>
<p>Describe management’s role in assessing and managing climate related risks and opportunities</p>	<ol style="list-style-type: none"> <li>3. Becoming part of the ESG Task Force National in 2021 in formulating sustainability and climate policies to supporting the Government of Indonesia as the G20 Presidency.</li> <li>4. Establishing ESG Unit as a control tower for ESG implementation in Mandiri Group with function of managing ESG issues, including climate risk mitigation.</li> <li>5. Developing a research centre and conduct national and regional events to support climate initiatives by 2022-2025.</li> </ol>
<p><b>Strategy</b>                      Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</p>	<ol style="list-style-type: none"> <li>1. Establishing a vision statement, commitment, framework, roadmap, and targets for climate risk mitigation on business and operation.</li> <li>2. Embedding ESG aspects into internal policies which cover Industry Acceptance Criteria (IAC) in 7 sectors (Palm Oil &amp; CPO, Construction, Energy &amp; water, FMCG, metal mining, coal, and water transportation services) including alignment with Indonesia Green Taxonomy.</li> </ol>
<p>Describe the impact of climate risks and opportunities on the organisation’s businesses strategy and planning</p>	<ol style="list-style-type: none"> <li>3. Educating prospective debtors and customers on climate risk mitigation through various workshops and counselling and developing human resource capability to conduct sectoral assessments with experts in their fields.</li> <li>4. Encouraging the increase of green portfolios, such as eco-friendly transportation, solar energy, and sustainable palm oil.</li> <li>5. Encouraging the issuance of climate-friendly related financial products and services, both in assets and liabilities, such as sustainability linked loans, sustainability bonds, ESG Repo, and ESG-based investment products for retail customers.</li> </ol>
<p>Describe the resilience of the organisation’s strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	<ol style="list-style-type: none"> <li>6. Achieving carbon neutral by 2030 on operational through carbon tracking initiatives, green working culture, carbon insetting by mangrove planting and other trees.</li> <li>7. Addressing climate change on operational activities by promoting the use of digital platforms for wholesale and retail customers and encouraging the use of eco-</li> </ol>

	friendly operational assets (EV, solar panel, recycle osmosis, Overall Thermal Transfer Value (OTTV) façade).
<p><b>Risk Management</b></p> <p>Describe the organisation's processes for identifying and assessing climate-related risks</p>	
<p>Describe the organisation's processes for managing climate-related risks</p>	
<p>Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management</p>	<ol style="list-style-type: none"> <li>1. Strengthening risk management in green project financing.</li> <li>2. Monitoring climate issues at least quarterly through the Risk Monitoring Committee (RMC) with the involvement of Board of Commissioners, as well as through Board of Directors Meeting, Risk Management and Credit Policy Committee (RMPC), ESG Forum involving the Board of Directors.</li> <li>3. Incorporating procedures related to climate and environmental financing activities and maintaining consistent and regular review.</li> </ol>
<p><b>Metrics and Targets</b></p> <p>Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process</p>	
<p>Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets</p>	
<p>Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks</p>	<ol style="list-style-type: none"> <li>1. Implementing GHG emission calculation on operational activities and reporting annual disclosure on sustainability report.</li> <li>2. Setting goals and designing a system for GHG emission calculation of financing of over Rp10 billion, to be implemented by 2024.</li> <li>3. Implementing green buildings using solar panels in four primary buildings (Plaza Mandiri, Sentra Mandiri, Menara Mandiri, and Wisma Mandiri).</li> <li>4. Increasing sustainable financing share to 25% by 2023.</li> </ol>

### Part 3

## Summary of TCFD Recommendation and the Implementation in Bank Mandiri Hong Kong Branch (BMHK)

TCFD Recommendation	Our Implementation
<p><b>Governance</b></p>	
<p>Describe the board’s oversights of climate–related risks and opportunities</p>	<p>The Board in BMHO oversight the climate –related risks trough Risk Monitoring Committee and Risk Management Credit Policy Committee.</p>
<p>Describe management’s role in assessing and managing climate related risks and opportunities</p>	<p>Head of Risk Management responsible for managing implementation of climate risk management in BMHK</p>
<p><b>Strategy</b></p>	
<p>Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term</p>	<p>Our company have three main pillars to achieve the ESG commitment: sustainable banking, Sustainable operation and, Sustainable beyond banking.</p>
<p>Describe the impact of climate risks and opportunities on the organisation’s businesses strategy and planning</p>	<p>Our company’s commitment to sustainability is reflected in their vision to become "Indonesia's Sustainability Champion for a Better Future," with three main milestones: leading Indonesia's transition to a low-carbon economy, achieving net-zero emissions (NZE) in operations by 2030, and catalyzing social impact to achieve the SDGs.</p>
<p>Describe the resilience of the organisation’s strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario</p>	
<p><b>Risk Management</b></p>	
<p>Describe the organisation’s processes for identifying and assessing climate-related risks</p>	<p>We have process in place to identify and to assess priority and emerging climate related risk.</p>
<p>Describe the organisation’s processes for managing climate-related risks</p>	<p>We consistently updating our internal policies to promote the sustainability profile of our customers and business sectors.</p>
<p>Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management</p>	<p>We have climate risk management framework that integrated the process for identifying, assessing and managing climate-related risks.</p>
<p><b>Metrics and Targets</b></p>	
<p>Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process</p>	<p>We set metric and target related to climate – related issues are as follows:</p>
<p>Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets</p>	<p>a. Engage in a green deal by 2022 (short-term milestone) which done by participating in international syndicated green loan in 2022.</p>
<p>Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks</p>	<p>b. Sustainable portfolio amounts to about 5% of total assets in 2030 (medium/long-term milestone).</p>

## Part 4 Governance

### BMHO’s Organization for ESG Implementation

The implementation of Climate Risk Management involves all departments in BMHK and led by the General Manager. In additions, BMHO’s unit who supervise overseas branch also assists BMHK in managing and aligning the climate risk management implementation by coordinating with the other BMHO’s related units such as unit that responsible to coordinate, conduct & monitor ESG implementation and units that responsible for constructing Bank Mandiri Sustainable Finance Action Plan (BMRI SFAP).

In order to monitor the implementation of Environmental, Social and Governance (“ESG”) within Bank Mandiri, the ESG reporting shall be conducted periodically to:

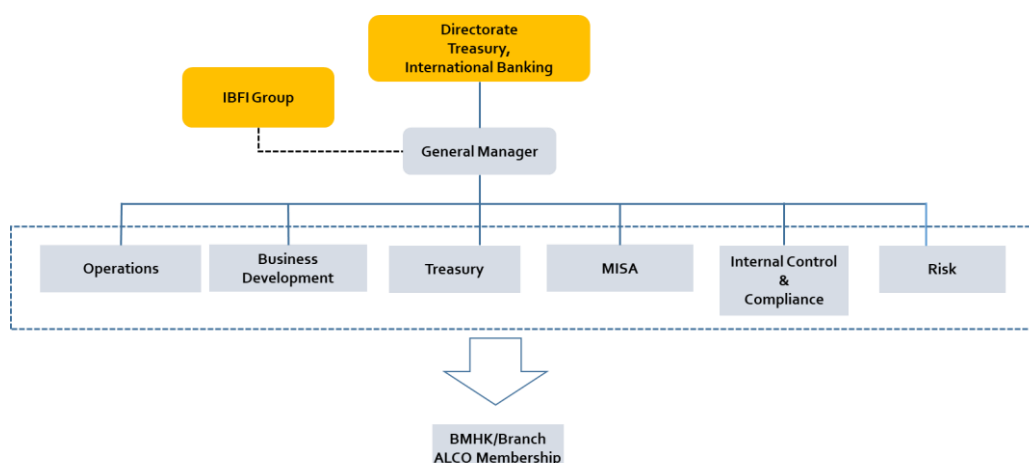
- a. Risk Monitoring Committee (“RMC”) which consist of Board of Directors (“BOD”) and Board of Commissioners (“BOC”).
- b. Risk Management & Credit Policy Committee (“RMPC”) which consist of Board of Directors (“BOD”).

Bank Mandiri has established a dedicated ESG function unit called the ESG Group in which this group is responsible for overseeing the daily operations of integrating and implementing sustainable finance in the control tower. This includes managing the ESG framework, ensuring alignment of Mandiri's policies with ESG issues and climate change, managing a sustainable portfolio, developing a green operational strategy, and communicating ESG performance to both internal and external stakeholders.

### BMHK’s Organization for Climate Risk Management

The implementation of Climate Risk Management in BMHK is led and approved by General Manager, while the goals and strategies are proposed and supervised through the Branch’s Asset and Liability Committee (“ALCO”).

BMHK established the ALCO, which consists of all departments and is led by the General Manager. BMHK’s ALCO consists of all managers with voting rights except ICC Manager. They will have extensive coordination to determine the goals, targets and strategies as well as the monitoring process in relation to BMHK’s climate risk management with one of the main purposes is to support Bank Mandiri becoming a sustainable Bank. BMHK’s ALCO organization structure is as follows:



The Head of Risk Management is assigned as the coordinator for BMHK’s implementation of Climate Risk Management.

## Part 5 Strategy

BMHK, as part of BMHO's overseas branches is consolidated to BMHO. Thus, certain processes are centralised at BMHO which such processes remain in-line with the local circumstances. Moreover, BMHO's ESG framework includes commitments, timelines and milestones, main initiatives, and enablers.

### Bank Mandiri Head Office ("BMHO")

#### a. Commitment on Environmental, Social and Governance (ESG)

Bank Mandiri is making strides towards achieving carbon neutrality by focusing on strengthening ecosystems and implementing green taxonomy practices. During this period, the Board of Directors and Board of Commissioners have established a Sustainability Framework, Commitment, Strategy, Initiative, and Roadmap with a specific emphasis on climate change and the Sustainable Development Goals (SDGs). Bank Mandiri's commitment to sustainability is reflected in their vision to become "Indonesia's Sustainability Champion for a Better Future," with three main milestones: leading Indonesia's transition to a low-carbon economy, achieving net-zero emissions (NZE) in operations by 2030, and catalyzing social impact to achieve the SDGs.

#### b. Sustainable Finance Roadmap

In Phase II of Sustainable Finance Action Plan Roadmap (2020-2027), Bank Mandiri is moving towards carbon neutrality through strengthening ecosystems and green taxonomy. In this period the Board of Directors with the Board of Commissioners have set the direction of Sustainability (Framework, Commitment, Strategy, Initiative, Roadmap) related to climate change and the achievement of Sustainable Development Goals (SDGs). The strengthening of this commitment can be seen from the Sustainability Vision to become "Indonesia's Sustainability Champion for Better Future" to achieve 3 (three) milestone: Lead Indonesia's Transition to Low Carbon Economy targets, NZE on Operational by 2030, and Catalyzing Social Impact to achieve SDGs. This commitment also strengthened by establishing an ESG Unit as a control tower for ESG implementation at Bank Mandiri and all subsidiary companies with direct supervision by Vice of CEO Mandiri Group.

#### c. ESG Implementation Pillars

Sustainable finance within Bank Mandiri is implemented through three pillars with highlight initiative to 2027:

##### 1) Sustainable Banking

- i. Implementation of environmental, social and governance (ESG) policies in priority sectors (CPO, energy, construction, FMGC, metal mining) through capability building and gradual development of sectoral policies.
- ii. Developments of sustainable products (sustainable bond, sustainable linked loan, retail credits for solar panel, and others).

##### 2) Sustainable Operation

- i. Implementation of eco-friendly banking operations through green offices (energy and water efficiency), digital transformation, and green working culture.
- ii. Improving the resilience of bank operations, particularly related to data security.
- iii. Promoting human rights policy explicitly covers non-discriminatory practices and gender equality in the office.



- iv. Creating the future through Carbon Tracking inline with regulator (Indonesia Central Bank and related Ministry) roadmap and Carbon In-setting through Natural Based Solutions, namely Tree Planting.
- 3) Sustainability Beyond Banking
    - i. Upscale the economy of unserved communities by integrating the CSR program and the Financial Inclusion program. The CSR program focused on entrepreneurship training for migrant workers, Young Entrepreneurs, SMEs in Rumah BUMN, and farmer on Rice Milling Unit. Meanwhile, the Financial Inclusion program focused on government's priority sectors (agriculture and fisheries), and developing Mandiri Agents, or branchless banking agents.
    - ii. Become a Leading Sustainability and SDGs Research.

Bank Mandiri has also established policies that are aligned with sustainability principles in the environmental and social aspects, such as:

- Credit policies that prohibit financing for projects that endanger the environment.
- Credit Procedure Standard that requires prospective debtors to comply with environmental regulations such as AMDAL, PROPER, and implement OHS (Occupational Health and Safety).
- For palm oil and CPO sectors, Bank Mandiri ensures that customers have an ISPO certificate or proof of ISPO registration. In addition, Bank Mandiri do not allowed to provide financing for for business activities that are prohibited under our exclusion list, including the implementation of NDPE (No Deforestation, No Peat and No Exploitation).
- Avoid granting credit to speculative projects, gambling businesses, pornography, contrary to moral norms, narcotics and other sectors prohibited by other laws and regulations.

### Bank Mandiri Hong Kong Branch (“BMHK”)

BMHK, as authorized institutions that operating in Hong Kong required by local regulator to develop a framework that aims to harmonize the environmental, social and governance (ESG) aspects of each bank's business activities and operations. Thus, BMHK have established the first edition of “*Climate Risk Management Framework – Bank Mandiri Hong Kong Branch*” at 30 November 2022 which further updated to 31 March 2023 edition.

## Part 6

### Risk Management & Stress Testing

#### Risk Management

In general, the implementation of Three Lines of Defense Principle in BMHK is following the implementation in BMHO. BMHO considers a robust process for identifying, assessing, and monitoring climate-related risks and the same practice is cascaded down to all its international branch offices. This practice includes establishing the Three Lines of Defense model, detailing respective roles and responsibilities of each line of defense in relation to the management of environmental risks listed below. In line with the usual risk governance arrangement, the responsibilities of managing climate-related risks should be allocated among three lines of defense:

#### 1. Business Unit

The first line of defense refers to the business unit which investigates the compliance of the borrowers' profile in accordance with BMHK's environmental requirement.

#### 2. Risk Management

The second line of defense refers to the risk management function which validates the information provided by the business units on the borrowers' environmental profile, ongoing risk monitoring and reviewing of relevant policies and procedures.

#### 3. Internal Audit

The third line of defense refers to the internal audit function which ensures the risk control is carried out effectively.

In addition, BMHK should build capability to measure climate-related risks using various methodologies & tools, and also to regularly assess vulnerability under different plausible climate scenarios having adverse impacts on them. BMHK has identified potential climate-related risks divided into two major categories, including:

#### 1. Physical risks

Physical risks are risks associated with the impact of changes in weather and climate. Physical risks may have financial implications for the bank, such as damage to bank assets. Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns.

##### a. Acute

Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as hurricanes, wildfires, and floods. Extreme weather events significantly influence BMHK's financial performance and resilience through their impacts on BMHK's borrowers and disruption that may affect BMHK's operational resilience.

##### b. Chronic

Chronic physical risks refer to longer-term shifts in climate patterns such as sea level rise or chronic heat waves. These risks may become more apparent in the longer term. Impacts may include disruptions to borrower physical assets, bank physical assets, physical working conditions and lower employee productivity and quality of health.

#### 2. Transition Risks

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Transition risks may pose varying levels of financial and reputational risk to organizations.

##### a. Policy and Legal

The risk associated with and financial impact of policy changes depends on the nature and timing of the policy change. Furthermore, an inability to comply with increasingly stringent environmental regulations will increase the risk of receiving litigation claims or monetary sanctions.

- b. **Market**  
A shift in supply and demand for goods and services could influence particular commodity products and prices. This event could affect the borrower repayment capacity of loans to BMHK.
- c. **Technology**  
Technological improvements and innovations that support the transition to a lower-carbon, energy efficient economic system can significantly impact on organizations. For example, the development and use of emerging technologies such as renewable energy and energy efficiency will affect the competitiveness of certain organizations, their production and distribution costs, and ultimately the demand for their products and services from end users. Technology risk may impact BMHK Clients who cannot keep up with the shifting technological landscape.
- d. **Reputation**  
Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organization's contribution to a lower-carbon economy. Continued financing of industries with poor sustainability reputations and ratings may weaken BMHK's reputation.

### **Risk Identification and Assessment**

BMHO has processes in place to identify and to assess priority and emerging risks. BMHO has consistently implemented credit financing policies to promote sustainable financial practices and demonstrates its commitment to responsible and ethical business practices, regulated by the bank's internal regulations, and applied to all international branch offices including BMHK. In addition, BMHK has Credit & Investment Standard Procedure that governs branch's credit and investment activities.

### **Stress Testing**

Stress scenarios and stress testing in the context of climate risk management ensure that the branch's financial position is resilient enough to the condition brought by climate change. Despite of BMHK capacity with less complex profile, BMHK shall conduct stress scenarios and stress testing of BMHK's climate risk periodically. Global Warming and its related turmoils represent risk factors that could affect the bank activities. Given that tools and metrics for environmental risk analysis are still in the nascent stages of development, BMHK will take a progressive approach.

## Part 7 Metrics & Targets

In addition to BMHO's SAFP that also applies to BMHK, and also referring to BMHK's Climate Risk Management Framework 2023, BMHK set metric and target related to climate – related issues are as follows:

- c. Engage in a green deal by 2022 (short-term milestone).
- d. Sustainable portfolio amounts to about 5% of total assets in 2030 (medium/long-term milestone).

Below is the achievement in accordance with the determined above metrics and targets.

- a. The target was successfully done by participating in international syndicated green loan in 2022.
- b. The sustainable portfolio was recorded at 2.27% on Dec 2022 which significantly increased from 0% on Dec 2021.

The above metrics and targets would be reviewed & updated accordingly from time to time. BMHK recognises that the impact of climate change due to rising global temperatures below 2<sup>0</sup>C could affect future sustainability. Therefore, BMHK is exploring further opportunities to develop and implement financial and investment programmes to support climate action.

## Part 8 Disclosure & Looking Forward

### Disclosure

BMHK acknowledges that the methodologies for assessing, monitoring, and reporting environmental risk factors beyond climate change are still in nascent stages of development. On the other hand, we expect the bank's risk management approaches to mature as tools and international frameworks evolve.

### Looking Forward

BMHK also recognised that measurement methodologies and standards are expected to evolve and may change reporting processes, resulting in the reassessment of some processes and policies year-on-year. We are committed to building up the bank's capabilities in a gradual manner, starting with identifying relevant yet plausible metrics and exploring further opportunities to develop and implement financial and investment programmes to support climate action.