

ENVIRONMENTAL RISK DISCLOSURE

Environmental risk arises from the potential adverse impact of changes in the environment on economic activity and human well-being. As a responsible lender in the Singapore financial space, we believe that finance and investment have a key role to play in managing climate change and protecting the environment, especially in financing the transition. As a sign of our commitment to the people, the country, and the environment, and to effectively manage environmental risk within our portfolio, we have implemented an Environmental Risk Management Policy. This policy addresses both risks and opportunities across multiple sectors, enabling us to manage our business on a sustainable basis. Through this policy, we aim to:

1. Enhance the bank's resilience to environmental risk and strengthen its role in supporting the transition to an environmentally sustainable economy.
2. Foster green finance wherever possible for the sustainable growth of the economy.

Our policy is continuously evolving in accordance with regulatory guidelines and changes in the environment.

It is our duty to provide transparent and comprehensive information regarding our Environmental Risk portfolio and management through public disclosure. According to Environmental Risk Management (EnRM) guidelines issued by the MAS, this disclosure should align with internationally recognized reporting frameworks, such as the recommendations by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

GOVERNANCE

BOIS (Bank of India Singapore) maintains effective governance, a sound understanding, and oversight for environmental risks and opportunities throughout the bank, including at the Board and Senior Management levels. We recognize the need to manage both risks and opportunities across multiple sectors to ensure sustainable business practices and capture market opportunities.



At the group level, the Board holds ultimate accountability for the long-term health and resilience of the bank. Therefore, similar to established financial and non-financial risks, the Board's understanding and oversight of the bank's approach to managing environmental risks are crucial for effective governance. The Board at the Bank of India's Head Office is responsible for approving the Branch's environmental risk management framework and policies. Additionally, the Board supports senior management by reviewing the Bank's strategy and corporate plan, taking into consideration the environmental risk profile. This includes redirecting funds towards sustainable businesses and reducing or avoiding investments in environmentally harmful areas.

At Singapore Branch, senior management assumes ultimate responsibility for strong governance regarding environmental risk resilience and the overall health of the bank. This may involve considering trends such as transitioning to a lower carbon economy or establishing qualitative and quantitative risk thresholds for environmentally sensitive industries or customers with limited adaptive capacities. Senior management's responsibilities include regularly assessing and updating environmental policies, obtaining progress updates from internal teams on portfolios, timely reporting material environmental risk issues to key committees, and ensuring robust internal processes for informing stakeholders about environment-related matters. They are also responsible for allocating resources to enhance the expertise of top management and employees in managing environmental risks.

To promote a sustainable culture and integrate environmental risk management into the bank's processes and goals, we have established an Environmental Risk Management (EnRM) committee at the Branch. This committee sets the tone, encourages open discussions, and recommends policies, practices, and disclosures aligned with the bank's EnRM strategy. The committee periodically analyzes our portfolio, with a specific focus on environmental and climatic risks. Material climate-related exposures are reported to senior management and the EnRM committee on a regular basis to monitor progress, align with the bank's risk appetite and business strategies, and support decision-making regarding environmental risk management.



STRATEGY

The branch's major asset portfolio consists of loans, money market placements, and investments. The lending activity primarily involves syndication loans and trade finance, with corporate borrowers as our main customers. Environmental risk is manifested in our lending activity majorly medium and term syndicated loans, as these lending to carbon-intensive sectors will adversely affect environment. Adverse climate conditions can also affect the financial health of the bank.

In trade finance transactions, which are short-term in nature and often don't involve direct dealings with customers, we do not conduct comprehensive environmental risk assessments. However, the branch monitors the situation and conducts risk assessments as necessary when there are changes in internal or external circumstances.

Regarding the investment portfolio, it mostly includes government securities. We have not observed any decline in valuation or increased volatility in these investments due to climatic factors.

As per our corporate plan, BOIS aims for year-on-year business growth. This may involve participating in more syndication loans across different sectors and geographies, including those with higher transition risk and assets in countries with greater physical risk. However, before entering into such financing, proper checks and balances will be in place to mitigate environmental risk. Meanwhile, we also recognize opportunities for financing through products and services that promote sustainability, such as sustainability-linked loans, financing for energy-efficient technologies, financing for suppliers committed to high environmental standards, and investments in green bonds. By supporting these initiatives, the bank can contribute to reducing greenhouse gas emissions and promoting sustainable energy practices.

To identify and manage environmental risks and opportunities and enhance the bank's resilience to such risks, we have formulated an Environmental Risk Management (EnRM) Policy. This policy is continuously being enhanced to effectively manage the risk and opportunities specific to the branch. Transparent disclosure of our exposure to climate-related risks and the steps taken to mitigate them will help build trust with regulators and customers.



Our environmental risk disclosure will be subject to continuous improvement in line with industry best practices.

Capacity building through training for staff members and senior management is emphasized in our EnRM Policy. Senior management and other officials of the branch will continue to participate in online/offline workshops, events, seminars conducted by audit firms and other professional agencies. By fostering a culture of sustainability within the organization, BOIS can inspire employees to incorporate sustainable practices into their work and daily lives.

BOIS will continue to follow instructions from regulators and adopt industry best practices, aligning them with the risk profile of the branch.

RISK MANAGEMENT

Climate change is resulting in shifts in weather conditions and their frequency, which can have adverse effects on the value of assets held by the bank's customers. This, in turn, can impair supply chains, affecting customer operations, profitability, and potentially their viability. The transition to a low-carbon economy and government actions to facilitate such changes can have a substantial financial impact on these customers. Risks such as water risk and conventional energy risk can increase operating costs for companies dependent on these resources. These factors can increase credit risk for banks, as customers' ability to repay their debt obligations is reduced and collaterals held by banks may be impaired. To manage these risks associated with climate change and meet regulatory expectations, the branch has formulated a Board-approved Environmental Risk Management (EnRM) Policy.

The business units constitute the first line of defence and are responsible for identifying, assessing, and controlling environmental risks within the business. They have robust controls in place to detect environmental risk activities and allocate sufficient resources to perform these functions effectively. Frontline staff have been adequately trained on their obligations and provided with instructions and guidance to ensure compliance with prevailing regulations and notices.

The risk management unit/function, as the core of the second line of defence, is responsible for ongoing monitoring of the bank's fulfilment of environmental risk duties. This includes assessing environmental risks associated with various geographies the bank operates in and



industries prone to environmental risks. The department conducts enhanced due diligence for high-risk cases, independently reviews the financing, certification requirements, and recommends approval by the EnRM Committee. They also recommend financing conditions/covenants to mitigate environmental risks. The risk management department conducts portfolio analysis of environmental risk, presenting it to senior management on a quarterly basis to inform credit flow decisions to such industries/sectors.

The bank's internal audit function, as the third line of defence, plays a crucial role in independently evaluating the environmental risk management framework and controls. They report their findings to the bank's audit committee or a similar oversight body. This evaluation is achieved through periodic assessments of the effectiveness of the bank's compliance with prevailing environmental risk policies, procedures, and controls.

To ensure adherence to applicable rules and regulations, Bank of India, Singapore has a dedicated Compliance Department independent of operational functions. The compliance department monitors adherence to rules and regulations framed and disseminated by regulators under environmental risk management.

In terms of lending activity, the bank primarily engages in syndication loans and trade finance. Environmental risk is predominantly manifested in these lending activities, as lending to carbon-intensive sectors can have a negative impact on the climate. Adverse climate situations can also negatively affect the financial health of the bank. Currently, the branch assesses environmental risk at the individual account level during on boarding and annual reviews. This assessment considers factors such as loan duration/maturity, industry, and Environmental Risk Questionnaire (ERQ) score. Based on this assessment, accounts are categorized as low risk, medium risk, or high risk. Presently, we do not have exposure on High Risk accounts and while Exposure to medium-risk accounts contributes 12.26% of the total credit portfolio, with a residual period within three years. Sectors with higher environmental risk, as identified in the EnRM policy, account for only 5.60% of the total credit portfolio. Reports on these exposures are presented to the EnRM committee on a quarterly basis. Environmental risk is integrated into the credit rating of borrowers by assigning weightage to their risk classification.

Increasing frequency and severity of weather events can also impact the operations of financial institutions and introduce operational risks, including business continuity events.



Supply disruptions and third-party operational risks may arise due to climate events, such as outages at third-party cloud/data centre providers or sourcing supplies from entities with poor Greenhouse Gas (GHG) disclosure or strategy. Shifts in weather conditions can also impact the bank's infrastructure, systems, processes, and staff, creating operational risks at all levels. Reputational risks may arise from transactions with customers engaged in environmentally damaging business activities. Operational risk events related to environmental issues are discussed in the monthly Operational Risk Management committee (CORM) meetings. The branch has a Business Continuity Management (BCM) policy as an overarching framework to minimize the impact of operational disruptions. Environmental effects can be gauged through market sentiments, physical events, etc. The branch also has a dedicated Asset Liability Committee (ALCO) overseeing liquidity and market risks.

METRICS AND TARGETS

BOIS (Bank of India Singapore) has identified sectors with higher environmental risks and included them in the exclusion list (prohibited transactions) in our EnRM Policy. We assess the environmental risk at the individual account level during on boarding and annual reviews. Projects with potentially significant adverse environmental impacts are classified as High Risk. We have also categorized some sectors as high environmental risk for close monitoring. The EnRM committee at the branch monitors the exposure to environmentally high-risk sectors and high-risk accounts. BOIS has set exposure limits on individual accounts and groups in our Credit Policy, restricting the exposure to a particular account to within 15% of the total Credit Portfolio and to group accounts to 25%. We have also set industry-wise exposure caps in our Credit Policy, limiting the exposure to a particular sector to within 25% of the total Credit Portfolio.

Moving forward, we will endeavour to formulate sector-wise policies for environmentally high-risk sectors. We will also enhance our EnRM policy by setting exposure caps on environmental sensitive sectors. The branch will set exposure caps on individual sectors with high environmental risks and overall exposure caps on these sectors in relation to the total credit portfolio. The branch EnRM committee will monitor the compliance with these exposure caps on a quarterly basis.