

CASE STUDY:

DBS

EOS communicated to DBS investor concerns about sustainable palm oil production and pressed for an improved palm oil financing policy for existing borrowers. We were pleased to see DBS improved its palm oil financing policy for all customers, requiring a “No Deforestation, no Peat, no Exploitation” commitment, or principles and criteria of the RSPO for all its existing and new borrowers.

Background and company overview

DBS Group Holdings Ltd. is a Singaporean financial services group which provides a full range of services in consumer, SME and corporate banking in key Asian markets. As Singapore’s largest bank, the bank is well positioned to demonstrate leadership in sustainable finance. EOS at Federated Hermes’ engagement with DBS dates back to 2011 on executive pay. Since 2019, EOS has engaged with DBS on palm oil financing.

Our engagement

EOS began engaging with DBS on palm oil financing in January 2019. In a call with the chief sustainability officer and an investor relations representative, we discussed the company’s business strategy and positioning in sustainable financing. Shortly afterwards, we spoke with the head of fixed income in greater China and an executive director of the institutional banking group and shared our perspective on the company’s ESG performance and discussed material topics for the bank, including the latest Roundtable on Sustainable Palm Oil (“RSPO”) standard with updated principles and criteria.¹ The latest standard asks for more explicit requirements relating to no deforestation, no peat and no exploitation (“NDPE”).

¹ RSPO Certification | RSPO - Roundtable on Sustainable Palm Oil

Sustainable Development Goals:



Engagement objective:



Environmental:

Forestry and Land Use – Palm oil financing

EOS engagement timeline

2019

- EOS began engagement with DBS on palm oil financing

2020

- We continued to press DBS to improve its palm oil financing policy for its existing customers

2021

- DBS updated its palm oil financing policy for all customers, requiring NDPE commitment or RSPO certification for all its existing and new borrowers

The latest Roundtable on Sustainable Palm Oil standard asks for more explicit requirements relating to no deforestation, no peat and no exploitation (“NDPE”).



In March 2021, we were pleased to learn that DBS raised its ESG standards for the palm oil sector along with mining & metals and power sectors.

In a subsequent call with the head of sustainability reporting in March 2019, we urged the bank to demonstrate that its palm oil lending criteria are updated to meet the latest RSPO standard for all borrowers, and that it closely monitors the implementation of the standard by the borrowers. The bank acknowledged its awareness of the latest RSPO standard and confirmed its new borrowers were asked to demonstrate alignment with NDPE or equivalent. The bank sought to support companies that undertake good ESG practices, including complying with existing national and international certification standards. At a meeting with the head of sustainability reporting in Singapore in August 2019, we again pressed for improved financing policy for all borrowers, including existing customers. We also commended the bank's work in internal capacity building over the last few years, including training senior employees on understanding the differences between palm oil certification standards and providing ESG training to relationship managers and employees in strategy and risk management since 2017.

In 2020, through two calls and email correspondences, we continued to ask for improved requirements for the bank's existing customers given the requirements of the ISPO and MSPO standards are considered less stringent than the RSPO standard. As of February 2020, the bank's palm oil lending policy had not changed but the head of sustainability confirmed it was committed to working with existing customers who refinance their existing loans on achieving RSPO certification. At our call with the chief sustainability officer and the chief learning officer in September 2020, we again urged the bank to ask existing borrowers to obtain an RSPO certification, which helps ensure

the compliance of NDPE through its auditing process. Upon request by the chief sustainability officer, we provided feedback on the bank's sustainability report and reiterated our expectation on responsible palm oil financing in October 2020.

Changes at the company

In March 2021, we were pleased to learn that DBS raised its ESG standards for the palm oil sector along with mining & metals and power sectors. The bank raised the mandatory requirements and restrictions that apply to all its lending relationships in the updated Palm Oil Sector Guide, requiring all customers to demonstrate alignment with NDPE. The bank encourages customers to apply NDPE policy throughout the supply chain. Besides NDPE commitments, the bank also accepts RSPO certification as demonstration of good industry practices. Customers are requested to achieve full RSPO certification via time-bound action plan that is communicated to DBS.


The bank will continue to monitor the sector closely and ensure its policies reflect changes in societal expectations and new standards in the sector.

The bank also pledges not to knowingly finance companies that are involved in conversion of high conservation value ("HCV") and high carbon stock ("HCS") forests, planting on peat, or planting without securing both the legal right and community support to use all the land involved. This can be achieved through a free, prior, informed, consent ("FPIC") process. The bank has adopted a zero-tolerance approach to burning. The bank also requires traders who trade primarily in fresh fruit bunches, crude palm oil and palm kernel oil to work towards becoming RSPO members. Traders are encouraged to develop a process to ensure traceability of the palm oil they trade, which could be achieved through supplier selection based on environmental and social criteria. The bank will continue to monitor the sector closely and ensure its policies reflect changes in societal expectations and new standards in the sector.

In our latest engagement call with representatives from sustainability reporting and responsible finance in November 2021, we confirmed the bank conducts an annual review of its customers to track progress on meeting the bank's palm oil financing policy and engages with customers on the issue.

Next steps

We will monitor DBS' progress in implementing the sustainable palm oil policy for all its lending relationships and clear communication of its progress.

 This case study has been fact-checked by DBS to ensure a fair representation of EOS work carried out and changes made at the company.



Hanah Chang
Engagement
EOS



Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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