



## Sustainable Finance Risk Identification Procedure [102-11, F52, F59] [FN-CB-410a.2, FN-CB-550a.2.]

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*BCA has a policy to minimize lending risks, not only for the economic aspect, but also for the environment, social and governance aspects, including the risk of climate change that over time could have a significant impact on lives.*

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To enable us to address sustainability risks, BCA conducts routine stress tests to ensure there is an understanding in the Company of the business dynamics, including the dynamics caused by the COVID-19 pandemic. Sustainable financial risk management has become a part of corporate risk management that must be evaluated every year. The President Director and the Director of Planning & Finance actively supervise the implementation of the RAKB, where every three months the RAKB performances are delivered in the Analyst Meetings. The ESG-oriented credit management is carried out by the Corporate Banking, Transaction & Finance Group, Commercial & SME Business Division, Credit Risk Analysis Group, under the supervision of the Director of Corporate Banking, Director of Commercial Banking & SME and Director of Credit & Legal.

BCA has identified that the Sustainable Finance risk lies in the provision of credit with ESG insight. We have adjusted the credit terms for businesses that have a high ESG risk. ESG risk identification is carried out at the time of reviewing the credit proposal. All policies and procedures related to the social environment and governance have been regularly reviewed by BCA management as needed, the previous review was conducted in 2019. These results will affect the risk rating of the debtor and determine the credit decisions. Periodically, the Risk Management Unit monitors the loan portfolio, including ensuring that the portfolio is properly diversified according to the Bank's risk appetite. During 2020, monitoring was carried out monthly, and the results were submitted to the Risk Director and the Director for each business unit (Corporate, SME and Commercial, and Consumer).

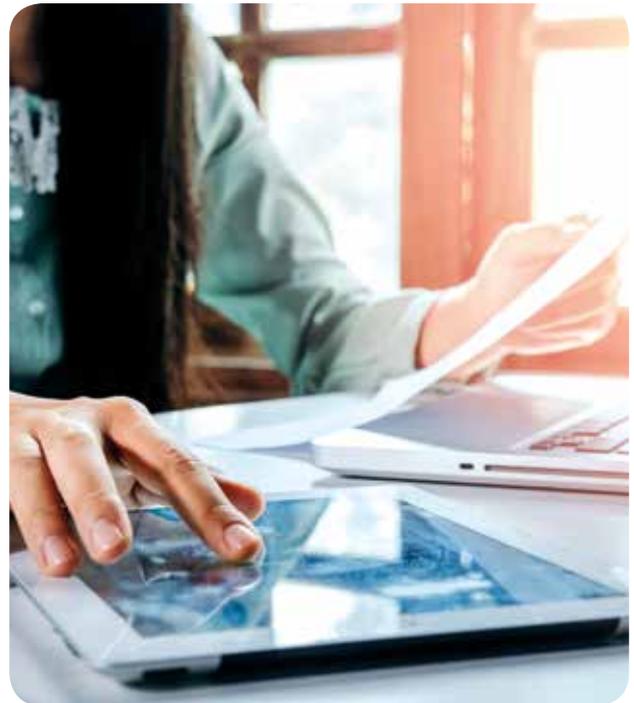
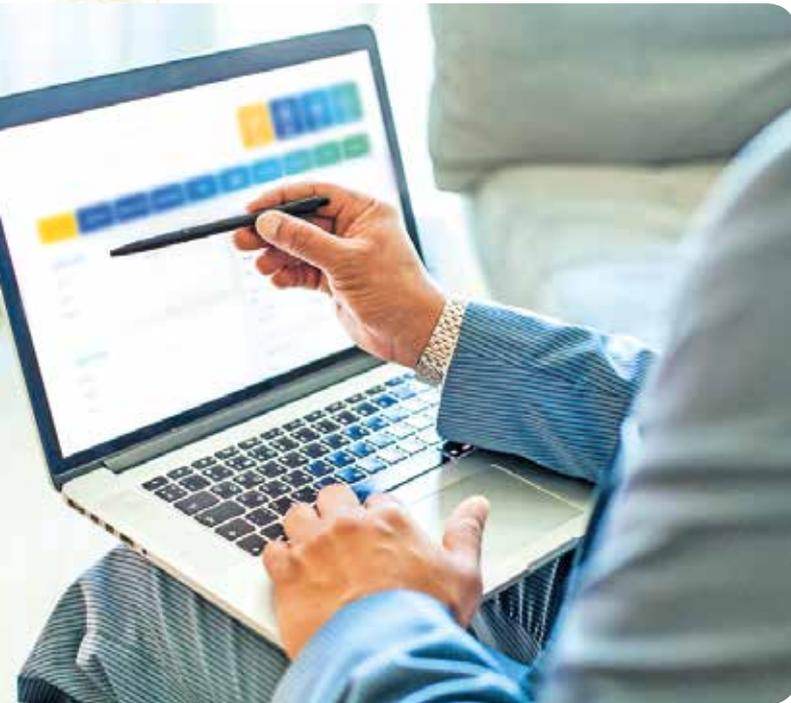
For debtors who have complied with the basic credit requirements, but have not met the ESG aspects, BCA agreed on an action plan with the Debtor based on a certain deadline to improve its performance in accordance with the conditions of each debtor.

All debtors must provide information in accordance with their performance. At least once a year, at the same time as credit extension and/or credit facility review, the Credit Team will supervise the performance.

BCA also implements an escalation scheme involving the Credit Committee, which functions to provide decisions or recommendations on credit submitted by large debtors, specific industries, and if there is a special request from the Board of Directors. The Credit Committee is directly responsible to the Board of Directors for its performance. In addition, BCA also conducts audits with a minimum frequency of once every three years covering the suitability of the application of environmental and social policies in the credit extension process.



● Sustainable financing for Ginger Emprit farmers.



### Credit Approval Process Mechanism

#### Marketing

- The Bank only provides loans to individuals and companies that have a healthy business, trustworthy governance, and have the ability to pay off their loans.
- Specify one KKUB in the sustainable financing classification.

#### Credit Analyst

- Assesses the business prospects of (potential) debtors, including potential business growth, market conditions, quality of management and workforce, Environmental Impact Analysis (AMDAL) documents, and Assessment of Company Performance Rating in Environmental Management (PROPER)
- Specify one KKUB in the sustainable financing classification.

#### Compliance Unit

- The Compliance Unit is responsible for reviewing compliance with regulations, including loan restructuring, and loan extensions/changes.

#### Decision Maker

- The decision maker from the business development side and the decision maker from the credit risk analysis side jointly have the main responsibility for making credit decisions.

#### Branches/Credit Unit

- Monitors and follows up credit transactions based on the PROPER assessment. If the PROPER assessment results still do not meet the requirements, it is necessary to have a follow-up plan agreed upon by BCA and the debtor as well as monitoring the results within a certain period of time.

#### Supervision

- Monitors and detects any potential non-performing loans early and takes immediate action to avoid losses. Supervision is carried out by the Internal Audit Division and the Risk Management Unit (SKMR).



**Environmental, Social and Governance (ESG) Risk Management Policies Implementation [102-11, FS1, FS2, FS3]**



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Representatives of APG Investment Management Investors

“BCA’s management quality and performance across cycle have led to APG’s long term investment in and engagement with the bank. We strongly support BCA’s effort to improve its ESG disclosure and encourage management to prudently integrate ESG in its business. We would like BCA to demonstrate responsible leadership in the banking industry in a part of the world that is home to technologically inclined young demographics and also some of the world’s most sensitive biomes”

BCA applies ESG risk management using a precautionary approach that is in line with the Sustainable Finance implementation. In 2020 BCA has reviewed the ESG policies and procedures that have been implemented. In addition, BCA has also implemented seven new policies related to Sustainable Finance and COVID-19. Policies related to Sustainable Finance are reviewed periodically or as needed.

In general, the entire process of providing BCA loans is carried out in accordance with the General Loan Requirements Manual. However, specifically for managing loans with ESG risk, BCA has implemented policy No. 169/SK/DIR/2020 dated October 23, 2020 concerning non-financing to prospective debtors who have businesses with risks pertaining to:

- Illegal logging activities, production and trade in timber or other forestry products from forests that are not sustainably managed.
- Activities that involve all forms of forced labor or exploitation of children under the age or violations of human rights (such as: prostitution, people trafficking, smuggling).
- Production, trade, shipment and import of weapons outside an official business entity/institution that has received special permission/special legality from the Government.
- Production, trafficking of narcotics, psychotropic substances and addictive substances outside an official business entity/institution that has received special permission/special legality from the Government.

- Activities that have a negative impact on UNESCO World Heritage Sites or national and/or international protected areas.
- Activities that violate the rights of local communities, such as activities that take over land ownership from the customary communities/indigenous people without the consent of the communities/residents.
- Trade activities in wildlife or wildlife products (such as ivory, horns, shark fins).

Relevant general policies with ESG risk management implemented with refers to various regulations, including Guidelines Implementation of ESG Integration for Banks issued by OJK in 2015; BCA’s Basic Bank Credit Policy (KDPB); Law No. 32 of 2009 on Environmental Protection and Management; as well as Law No. 13 of 2003 on Labor, which is in line with the basic principles of the International Labor Organization (ILO).

To ensure that the financing we provide supports ESG, BCA researches debtor information as to whether there are any warnings/violations/problems related to ESG. BCA periodically updates its debtor data regarding ESG compliance. Identification is also carried out based on certain standards for the MSME sector debtors, for example empowering women or financing in outermost, frontier, disadvantaged (3T) areas.

“ BCA has established an ESG risk management policy with an exclusionary principle, which covers:

- Requirements for debtors/prospective debtors to fulfill environmental regulations in accordance with the type and scale of the business activity's impact, which includes environmental permits accompanied by environmental impact analysis (AMDAL) documents, environmental management efforts/environmental monitoring efforts (UKL/UPL).
- Results of the environmental management performance assessment (PROPER) issued by the Ministry of Environment. If the PROPER assessment results do not meet environmental requirements, then BCA will request more information on the debtor's follow-up. Currently, BCA demands a minimum requirement of PROPER Blue for each debtor as a sign of compliance with all environmental regulations.
- Climate change risk, one of which is through risk management and three lines of defenses carried out by internal control.
- For debtors with significant risks to climate change, forest destruction and biodiversity, BCA will request a risk mitigation plan be periodically submitted as an improvement report.

### Climate Change Risk Identification

In 2020, BCA started to raise awareness among the risk management teams on the impact of climate change. BCA has conducted a preliminary assessment of the climate physical risks and the result shows that climate physical risks are related to the agriculture, construction, and infrastructure sectors.

BCA has identified eight (8) economic sectors related to climate physical risks namely (1) Agriculture, hunting, and forestry (2) Fishery (3) Manufacturing (4) Electricity, gas, and water (5) Construction (6) Wholesale and retail trading, (7) Transportation, warehousing, and communications and (8) Real estate, rental and business services. Some of the possible climate risks identified in these sectors include harvest failure, delay or inability of operations, damaged infrastructure, and delayed projects, which pose risks on the ability of debtors to repay the loan to BCA. Debtor profiles associated with climate change risk include the corporate, commercial enterprises, and public sectors. The risk mitigation carried out by BCA for business sectors at risk of climate change is by implementing an ESG risk management policy, which is an exclusionary principle.

BCA understands that all parts of the country need to support reducing any risk from climate change. Therefore, to support the Government's call to move towards a low-carbon economy, BCA has begun to map transition risks due to climate change. In addition, BCA also supports Indonesia's ratification of the Paris Agreement, and its pledge to reduce GHG emissions by 29% by 2030.

## Sustainable Finance Achievements, Opportunities and Challenges

Since applying the sustainable finance concept, BCA's achievements, opportunities and challenges have included. BCA's Sustainable Finance achievements and support:

- Participating in the establishment of the Indonesian Sustainable Finance Initiative (IKBI);
- Being ranked second in the private banks with the largest KUR funding category in 2020;
- Receiving appreciation at the 2020 Environmental, Social & Governance Award (ESG) organized by Investor Magazine;
- BCA received an award from ACGS for governance as an Asset Class Company 2020;
- A+ rating for public company with Best Sustainability Report 2019 from Foundation For International Human Rights Reporting Standards (FIHRRST).