Maybank

THE SINGLE LARGEST PALM OIL FINANCIER
# Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>1. Palm oil company financing</td>
<td>3</td>
</tr>
<tr>
<td>Financing of palm oil companies</td>
<td>3</td>
</tr>
<tr>
<td>Policy assessment analysis</td>
<td>5</td>
</tr>
<tr>
<td>2. Maybank Group</td>
<td>7</td>
</tr>
<tr>
<td>Profile</td>
<td>7</td>
</tr>
<tr>
<td>Financiers of Maybank</td>
<td>7</td>
</tr>
<tr>
<td>Financing of palm oil companies</td>
<td>11</td>
</tr>
<tr>
<td>Policy analysis</td>
<td>12</td>
</tr>
<tr>
<td>3. Environmental, Social and Governance Impacts</td>
<td>14</td>
</tr>
<tr>
<td>Sime Darby</td>
<td>16</td>
</tr>
<tr>
<td>Felda</td>
<td>17</td>
</tr>
<tr>
<td>Batu Kawan Group</td>
<td>19</td>
</tr>
<tr>
<td>Genting Group</td>
<td>20</td>
</tr>
<tr>
<td>Triputra</td>
<td>21</td>
</tr>
<tr>
<td>Salim Group</td>
<td>22</td>
</tr>
<tr>
<td>4. Conclusions</td>
<td>24</td>
</tr>
<tr>
<td>References</td>
<td>25</td>
</tr>
</tbody>
</table>
Maybank is the world’s single largest financier of the palm oil sector – it provided 11% of all loans and underwriting to selected palm oil companies in the period 2010-2016 – but it has no publicly available risk policy for financing the sector. The bank has financial relationships with a large number of controversial palm oil companies that are involved in environmental, social and governance issues. These issues leave Maybank exposed to significant financial and reputational risk.

Maybank’s top 5 palm oil clients active in Indonesia are all involved in conflicts related to deforestation of HCV and HCS areas, the development of peat areas, large fires in their concessions, conflicts with local communities over landgrabbing, lack of Free, Prior and Informed consent, and bad labour conditions, including forced (child) labor.

The development of oil palms has already destroyed millions of hectares in Indonesia. This has caused a large loss of biodiversity and many local communities have lost their customary land to the large plantation companies. Many plantations are established on peat grounds, which are drained for this purpose but then become highly inflammable, contributing to many fires and haze related health issues.

EXECUTIVE SUMMARY

Table 1.
Top 10 loan & underwriting services providers to selected palm oil companies (2010-2016, US$ mln)

Several financiers have already adopted ESG policies to prevent them from engaging with controversial clients. However, this report has found that these financiers, some of whom are Ordinary Members of the RSPO and/or PRI signatories seem to have found a way to keep profiting from the controversial palm oil companies, by financing Maybank, instead of financing those companies directly. This is not in accordance with the spirit of their commitments, and leaves them exposed reputational risk.

To avoid further risks, Maybank should urgently develop a strong ESG policy and refrain from financing clients that do not comply with the minimum standards for such a policy.

Maybank’s financiers should support Maybank in the development of such a policy. Maybank should commit to a time-bound plan to do so. If Maybank fails to implement an adequate policy within the stated timeframe, its financiers should break ties with the bank.

Methodology

This study researched the financing of 85 of the largest palm oil companies with operations in Southeast Asia. Financial databases Thomson EIKON, Bloomberg IJGlobal, TradeFinanceAnalytics, company register filings, as well as publicly available company reports, were used to identify corporate loans, credit and underwriting facilities provided to the selected companies in the period 2010-2016. Investments in bonds and shares of the selected companies were identified through Thomson EIKON and Bloomberg at the most recently available filing date in May 2017. This data provides a deal-level dataset of specific relationships between selected companies and any linked financial institution.

Companies with business activities outside of the forest-risk sector had recorded amounts reduced to more accurately present the proportion of financing that can be reasonably attributed to the forest-risk sector operations of the selected company. Where available financial information did not specify the purpose of investment or receiving division within the parent company group, reduction factors were individually calculated by comparing a company’s forest-risk sector activities relative to its parent group total activities.

For detailed information on the methodology used see Forests & Finance website.¹
1. Palm Oil Company Financing

Financing of palm oil companies

In the period 2010–2016, financial institutions provided US$ 36 billion in loans and underwriting services to 85 of the largest palm oil companies with operations in South East Asia (see Forests & Finance website for details). As Figure 1 shows, financial institutions from Southeast Asia provided more than half of all financing to palm oil companies. These were followed by financial institutions from Europe and East Asia (China, Japan and South Korea). Malaysian banks provided US$ 11.4 billion in loans and underwriting services to the selected palm oil companies. This is equal to approximately 32% of all financing to the selected companies, and 56% of all the financing provided by financial institutions headquartered in Southeast Asia. Financial institutions from Malaysia are therefore the largest financiers of palm oil companies. These companies are primarily active in Indonesia and Malaysia.

Figure 1. Loans & underwriting to selected palm oil companies per investor region (2010–2016)

Maybank is the single largest provider of financing to the palm oil sector, as can be seen in Figure 3. In the period 2010-2016, Maybank provided approximately US$ 3.9 billion in loans and underwriting services to palm oil companies. This is equal to around 11% of all financing provided to the selected palm oil companies. RHB Banking and CIMB Group who provided US$ 2.9 billion each in financing to the selected palm oil companies, follow Maybank. In 2016, Maybank alone provided approximately 60% of all financing to the palm oil sector.

Maybank - The single largest palm oil financiers
Policy assessment analysis

The commercial banks identified in this study were evaluated to determine the strength of any publicly-available policies relevant to tropical forest-sector investment decision-making, and subsequently scored against a range of criteria incorporating environmental, social and governance standards. Each of the major banks was allocated a score on the scope of its policies and its environmental and social standards. See Forests & Finance website for a description of the policy assessment methodology. See Forests & Finance website for a description of the policy assessment methodology.

Financial institutions scored best with regard to the Scope of their commitments and worst on Environmental Standards. Overall, the average scores per category were very low. None of the categories scored above 30%, with environmental standards scoring below 15%. Figure 4 shows the average scores of the publicly available policies of the assessed financiers, per assessment category.

There were significant differences between the policy assessments of financial institutions headquartered in different countries. Figure 5 illustrates these differences. In general, financial institutions from Europe had better scoring on their policy assessments than Asian financial institutions.

Malaysian financial institutions scored zero. None of the assessed financial institutions had any relevant publicly available Environmental, Social and Governance (ESG) risk mitigation policies specific to the palm oil sector. This is particularly concerning as Malaysia has been identified as the largest financier of the palm oil sector.

Figure 4. Average policy scores per assessment category

In general, when comparing the levels of financing to the palm oil sector with the palm oil policy assessments, a very worrying pattern can be seen (see Figure 6). The higher the level of financing provided to the selected palm oil companies, the lower the average policy assessment scores. Whether there is a causal relationship may warrant further investigation. However, the fact that the largest financiers of palm oil do not have any policies mitigating the ESG risks of financing the palm oil sector is clear.

**Figure 5. Average policy scores per financial institution country of origin**

![Figure 5](image_url)


**Figure 6. Average policy scores and loans & underwriting to selected palm oil companies per financial institution country of origin (2010-2016, US$ mln, %)**

![Figure 6](image_url)

2. Maybank Group

2.1. Profile

Maybank is the single largest financier of the palm oil sector and therefore it has the potential to drive sectoral change.

Malayan Banking Berhad is the holding company of Maybank Group. Maybank is engaged in commercial banking and related financial services. These activities include: consumer and corporate banking; Islamic banking; asset management; investment banking; insurance and takaful. The group has branches in Malaysia, Singapore, Indonesia and other international financial centres, such as London, New York, and Hong Kong. Maybank has 363 branches in Malaysia, 22 in Singapore, and 430 in Indonesia.

The chief executive officer and group president of Malayan Banking is Datuk Abdul Farid Alias. According to Maybank’s website, it the CEO’s responsibility to “Oversee and ensure a good balance between driving operational excellence and strong governance to deliver sustainable long-term value for shareholders, customers, employees and all other stakeholders”. This implies that Maybank’s strong governance is focused on creating sustainable profit, and not sustainable development for society as a whole or for the environment.

In 2016, Maybank had total assets of US$ 164 billion and it generated profits of US$ 1.6 billion. 69% of Maybank’s revenues in 2016 were generated in Malaysia, 12% in Singapore, and 11% in Indonesia. Maybank’s operations in Indonesia saw their highest net profit ever in 2016, with a 71% year-on-year increase.

2.2. Financiers of Maybank

Through the provision of loans, bond and share issuance underwriting services, as well as investments in bonds and shares, financial institutions enable Maybank to provide credit to the palm oil sector. Moreover, the savings and deposits of Maybank account holders can equally be used to finance the palm oil sector. Figure 7 illustrates how Maybank’s assets – including its loans to the palm oil sector – are financed. It shows that 71% of its total liabilities is composed of deposit and investment accounts. Closer analysis shows that 42% of deposits at Maybank are from individual consumers, 46% from enterprises, followed by 5% from government and 6% from other sources. These deposits can be used as loans to finance the palm oil sector.

Loans, bonds and other capital securities form 8% of Maybank’s total liabilities and equity. Shareholders’ equity constitutes 9% of total liabilities and equity. Permodalan Nasional Berhad (PNB) holds approximately 47% of Maybank’s shares, and therefore approximately 4% of its total liabilities and equity.

PNB, the investment vehicle of Yayasan Pelaburan Bumiputra (YBP - Bumiputra Investment Foundation), is Maybank’s largest shareholder and its stake in Maybank is valued at just under US$ 10 billion. This corresponds to about 25% of PNB’s total shareholding portfolio. PNB is also invested in other Malaysian banks (31% of its portfolio) and it invests 22% of its shareholdings portfolio in Malaysian companies engaged in palm oil, like IOI Group, UIM Plantations, Kuala Lumpur Kepong (KLK) and FELDA.

Figure 7. Breakdown of Maybank’s liabilities and equity (2016)


---

Maybank - The single largest palm oil financiers
Three of the top five creditors of Maybank are members of the Roundtable on Sustainable Palm Oil (RSPO) (HSBC (1st), UBS (2nd), Standard Chartered (4th)) (see Table 2). These three RSPO ordinary member financial institutions accounted for approximately 38% of all loans and underwriting services to Maybank in the period 2010-2016.

In fact, seven of the identified creditors are RSPO members. In addition to those noted above, they include: BNP Paribas (8th), ANZ (10th), Commerzbank (24th) and Citigroup (32nd). These seven RSPO member financial institutions provided approximately 45% of all identified loans and underwriting services to Maybank between 2010 and 2016, at value of US$ 5 billion.

RSPO ordinary members have an obligation to promote sustainable palm oil. They should, therefore, also promote sustainable palm oil among the financial institutions they provide credit to and invest in.

**Table 2. Loans & underwriting services to Malayan Banking (US$ mln, 2010–2016)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Country</th>
<th>Loans</th>
<th>Underwriting</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HSBC #</td>
<td>United Kingdom</td>
<td>516</td>
<td>2,064</td>
<td>2,580</td>
</tr>
<tr>
<td>2</td>
<td>UBS #</td>
<td>Switzerland</td>
<td>1,048</td>
<td>1,048</td>
<td>2,096</td>
</tr>
<tr>
<td>3</td>
<td>Barclays</td>
<td>United Kingdom</td>
<td>827</td>
<td>827</td>
<td>1,654</td>
</tr>
<tr>
<td>4</td>
<td>Standard Chartered #</td>
<td>United Kingdom</td>
<td>262</td>
<td>559</td>
<td>821</td>
</tr>
<tr>
<td>5</td>
<td>DBS</td>
<td>Singapore</td>
<td>457</td>
<td>457</td>
<td>914</td>
</tr>
<tr>
<td>6</td>
<td>Crédit Agricole</td>
<td>France</td>
<td>418</td>
<td>418</td>
<td>836</td>
</tr>
<tr>
<td>7</td>
<td>Oversea-Chinese Banking Corporation</td>
<td>Singapore</td>
<td>163</td>
<td>163</td>
<td>326</td>
</tr>
<tr>
<td>8</td>
<td>BNP Paribas #</td>
<td>France</td>
<td>295</td>
<td>295</td>
<td>590</td>
</tr>
<tr>
<td>9</td>
<td>Nomura</td>
<td>Japan</td>
<td>335</td>
<td>335</td>
<td>670</td>
</tr>
<tr>
<td>10</td>
<td>ANZ #</td>
<td>Australia</td>
<td>316</td>
<td>316</td>
<td>632</td>
</tr>
<tr>
<td>11</td>
<td>China Development Financial Holding</td>
<td>Taiwan</td>
<td>294</td>
<td>294</td>
<td>588</td>
</tr>
<tr>
<td>12</td>
<td>Mizuho Financial</td>
<td>Japan</td>
<td>72</td>
<td>72</td>
<td>144</td>
</tr>
<tr>
<td>13</td>
<td>Indo Premier Securities</td>
<td>Indonesia</td>
<td>255</td>
<td>255</td>
<td>510</td>
</tr>
<tr>
<td>14</td>
<td>JPMorgan Chase</td>
<td>United States</td>
<td>214</td>
<td>214</td>
<td>428</td>
</tr>
<tr>
<td>15</td>
<td>Bank of China</td>
<td>China</td>
<td>200</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>16</td>
<td>Industrial and Commercial Bank of China</td>
<td>China</td>
<td>200</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>17</td>
<td>Bank of Communications</td>
<td>China</td>
<td>200</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>18</td>
<td>Bahana Group</td>
<td>Indonesia</td>
<td>194</td>
<td>194</td>
<td>388</td>
</tr>
<tr>
<td>19</td>
<td>Bank Mandiri</td>
<td>Indonesia</td>
<td>167</td>
<td>167</td>
<td>334</td>
</tr>
<tr>
<td>20</td>
<td>Deutsche Bank</td>
<td>Germany</td>
<td>497</td>
<td>497</td>
<td>994</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
<td>1,697</td>
<td>497</td>
<td>2,194</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>3,849</strong></td>
<td><strong>8,006</strong></td>
<td><strong>11,855</strong></td>
</tr>
</tbody>
</table>


# RSPO member bank
Several UN PRI signatories among Maybank’s investors

Nine of the top 20 shareholders of Maybank are UN PRI signatories (Table 3). In addition, among Maybank’s top 20 bondholders there are 13 signatories to the UN PRI and 3 RSPO members (BNP Paribas, UBS, and Credit Suisse) (Table 4).

The signatories of the UN-supported Principles of Responsible Investment (PRI) have committed to being active owners and incorporate ESG issues into their ownership policies and practices. They can therefore be called upon to engage with Maybank and demand that the financial institution implements adequate ESG risk mitigation frameworks, particularly with regard to palm oil of which it is the single largest financier.

Table 3. Top 20 shareholders of Malayan Banking (2017 July, most recent filing date)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Country</th>
<th>% outstanding</th>
<th>Value (US$ mln)</th>
<th>Filing date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Permodalan Nasional Berhad (PNB)</td>
<td>Malaysia</td>
<td>46.86</td>
<td>9,574</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>2</td>
<td>Employees Provident Fund</td>
<td>Malaysia</td>
<td>12.00</td>
<td>2,839</td>
<td>23/06/2017</td>
</tr>
<tr>
<td>3</td>
<td>KWAP Retirement Fund</td>
<td>Malaysia</td>
<td>3.53</td>
<td>723</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>4</td>
<td>Lembaga Kemajuan Tanah Persekutuan (FELDA)</td>
<td>Malaysia</td>
<td>1.35</td>
<td>276</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>5</td>
<td>BlackRock*</td>
<td>United States</td>
<td>1.02</td>
<td>234</td>
<td>31/05/2017</td>
</tr>
<tr>
<td>6</td>
<td>Oversea-Chinese Banking Corporation</td>
<td>Singapore</td>
<td>0.91</td>
<td>187</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>7</td>
<td>Vanguard*</td>
<td>United States</td>
<td>0.83</td>
<td>169</td>
<td>31/05/2017</td>
</tr>
<tr>
<td>8</td>
<td>Khazanah Nasional Berhad</td>
<td>Malaysia</td>
<td>0.73</td>
<td>151</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>9</td>
<td>Prudential (UK)*</td>
<td>United Kingdom</td>
<td>0.80</td>
<td>164</td>
<td>28/02/2017</td>
</tr>
<tr>
<td>10</td>
<td>GIC</td>
<td>Singapore</td>
<td>0.51</td>
<td>104</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>11</td>
<td>AIA Group</td>
<td>China</td>
<td>0.51</td>
<td>104</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>12</td>
<td>Lembaga Tabung Angkatan Tentera</td>
<td>Malaysia</td>
<td>0.42</td>
<td>86</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>13</td>
<td>Public Mutual</td>
<td>Malaysia</td>
<td>0.40</td>
<td>83</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>14</td>
<td>Dimensional Fund Advisors*</td>
<td>United States</td>
<td>0.29</td>
<td>62</td>
<td>30/04/2017</td>
</tr>
<tr>
<td>15</td>
<td>Legal &amp; General*</td>
<td>United Kingdom</td>
<td>0.28</td>
<td>60</td>
<td>30/04/2017</td>
</tr>
<tr>
<td>16</td>
<td>Norwegian Government Pension Fund Global – Global*</td>
<td>Norway</td>
<td>0.29</td>
<td>55</td>
<td>31/12/2016</td>
</tr>
<tr>
<td>17</td>
<td>JPMorgan Chase*</td>
<td>United States</td>
<td>0.23</td>
<td>55</td>
<td>31/05/2017</td>
</tr>
<tr>
<td>18</td>
<td>Saudi Arabian Monetary Agency</td>
<td>Saudi Arabia</td>
<td>0.24</td>
<td>49</td>
<td>10/02/2017</td>
</tr>
<tr>
<td>19</td>
<td>Aviva*</td>
<td>United Kingdom</td>
<td>0.19</td>
<td>45</td>
<td>31/05/2017</td>
</tr>
<tr>
<td>20</td>
<td>Orix Corporation*</td>
<td>Japan</td>
<td>0.18</td>
<td>37</td>
<td>31/03/2017</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
<td>28.42</td>
<td>631</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>74.42</td>
<td>15,687</td>
<td></td>
</tr>
</tbody>
</table>


* UN PRI signatory.
The top four shareholders of Maybank are all Malaysian government-linked investors, including PNB. Investors from the United States, Singapore and United Kingdom also feature among the top 10 investors in Maybank.

**Table 4. Maybank top 20 bondholders (2017 July most recent filing date)**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Investor</th>
<th>Country</th>
<th>Value (US$ mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>American Family</td>
<td>United States</td>
<td>86</td>
</tr>
<tr>
<td>2</td>
<td>BNP Paribas* #</td>
<td>France</td>
<td>34</td>
</tr>
<tr>
<td>3</td>
<td>Prudential (UK)*</td>
<td>United Kingdom</td>
<td>29</td>
</tr>
<tr>
<td>4</td>
<td>JPMorgan Chase*</td>
<td>United States</td>
<td>21</td>
</tr>
<tr>
<td>5</td>
<td>Bank of China</td>
<td>China</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>UBS* #</td>
<td>Switzerland</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>Manulife Financial*</td>
<td>Canada</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Aberdeen Asset Management*</td>
<td>United Kingdom</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>Sumitomo Mitsui Trust*</td>
<td>Japan</td>
<td>6</td>
</tr>
<tr>
<td>10</td>
<td>Temasek</td>
<td>Singapore</td>
<td>6</td>
</tr>
<tr>
<td>11</td>
<td>Schroders*</td>
<td>United Kingdom</td>
<td>5</td>
</tr>
<tr>
<td>12</td>
<td>Bank of East Asia</td>
<td>China</td>
<td>5</td>
</tr>
<tr>
<td>13</td>
<td>Credit Suisse*</td>
<td>Switzerland</td>
<td>5</td>
</tr>
<tr>
<td>14</td>
<td>American International Group (AIG)*</td>
<td>United States</td>
<td>5</td>
</tr>
<tr>
<td>15</td>
<td>Doubleline Capital</td>
<td>United States</td>
<td>5</td>
</tr>
<tr>
<td>16</td>
<td>NN Group*</td>
<td>Netherlands</td>
<td>4</td>
</tr>
<tr>
<td>17</td>
<td>Pacific Century Group</td>
<td>China</td>
<td>3</td>
</tr>
<tr>
<td>18</td>
<td>Liberty Mutual Insurance</td>
<td>United States</td>
<td>3</td>
</tr>
<tr>
<td>19</td>
<td>Nomura*</td>
<td>Japan</td>
<td>3</td>
</tr>
<tr>
<td>20</td>
<td>Stone Harbor Investment Partners*</td>
<td>United States</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>277</strong></td>
</tr>
</tbody>
</table>

2.3. Financing of palm oil companies

In the period 2010 to 2016, Maybank provided approximately US$ 3.9 billion in loans and underwriting services to palm oil companies, equal to around 11% of all financing provided to the selected palm oil companies. In fact, in the year 2016 alone, Maybank provided 60% of all loans and underwriting services to the selected palm oil companies. Despite some fluctuations, this represents an upward trend in Maybank’s annual loans and underwriting services (Figure 8). Maybank’s three largest clients, in terms of value of loans and underwriting services, are the Albukhary Group, Sime Darby and Felda Group (Figure 9).

Figure 8.
Maybank annual loans & underwriting services to selected palm oil companies (2010-2016, US$ mln)


Figure 9.
Maybank’s top 20 palm oil clients (loans and underwriting, 2010-2016)

Table 5 ranks the identified links between Maybank and selected palm oil companies. It further shows that three of the larger companies attracted significant underwriting services, while Albukhary – particularly its palm oil subsidiary Tradewinds – attracted the highest value of loans.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
<th>Loans</th>
<th>Underwriting</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Albukhary Group</td>
<td>689</td>
<td>689</td>
<td>689</td>
</tr>
<tr>
<td>2</td>
<td>Sime Darby</td>
<td>86</td>
<td>494</td>
<td>580</td>
</tr>
<tr>
<td>3</td>
<td>Felda Group</td>
<td></td>
<td>513</td>
<td>513</td>
</tr>
<tr>
<td>4</td>
<td>Batu Kawan Group</td>
<td></td>
<td>384</td>
<td>384</td>
</tr>
<tr>
<td>5</td>
<td>Genting Group</td>
<td>127</td>
<td>79</td>
<td>205</td>
</tr>
<tr>
<td>6</td>
<td>Triputra Group</td>
<td>192</td>
<td>192</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Harita Group</td>
<td></td>
<td>172</td>
<td>172</td>
</tr>
<tr>
<td>8</td>
<td>Johor Group</td>
<td></td>
<td>160</td>
<td>160</td>
</tr>
<tr>
<td>9</td>
<td>Samling Group</td>
<td>56</td>
<td>101</td>
<td>157</td>
</tr>
<tr>
<td>10</td>
<td>Sungai Budi Group</td>
<td>155</td>
<td></td>
<td>155</td>
</tr>
<tr>
<td>11</td>
<td>TDM</td>
<td>115</td>
<td></td>
<td>115</td>
</tr>
<tr>
<td>12</td>
<td>Salim Group</td>
<td>18</td>
<td>91</td>
<td>109</td>
</tr>
<tr>
<td>13</td>
<td>Boustead Group</td>
<td>21</td>
<td>73</td>
<td>94</td>
</tr>
<tr>
<td>14</td>
<td>Sinar Mas Group</td>
<td>89</td>
<td></td>
<td>89</td>
</tr>
<tr>
<td>15</td>
<td>TSH Resources</td>
<td>36</td>
<td>48</td>
<td>84</td>
</tr>
<tr>
<td>16</td>
<td>Surya Dumai Group</td>
<td></td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>17</td>
<td>IJM Group</td>
<td>38</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>18</td>
<td>Wilmar Group</td>
<td>29</td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>19</td>
<td>Kwantas Group</td>
<td>24</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>20</td>
<td>Tanah Makmur Group</td>
<td>19</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>21</td>
<td>Ta Ann Holdings</td>
<td>11</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td>22</td>
<td>Tiga Pilar Sejahtera Group</td>
<td>6</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>23</td>
<td>Noble Group</td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>24</td>
<td>Olam International</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,667</td>
<td>2,219</td>
<td>3,886</td>
</tr>
</tbody>
</table>


2.4. Policy Analysis

Malaysian financial institutions score very poorly in the assessment of their publicly available ESG risk mitigation policies. In fact, Malaysian financial institutions all scored 0 points in the policy assessment done by Forests and Finance. A recent study by WWF similarly found that Malaysian financial institutions had hardly integrated ESG issues into their policies, if at all. This is concerning given the high value of financing provided by Malaysian financial institutions to companies active in high risk sectors (such as palm oil) and high-risk countries.

Since Maybank does not have any publicly available ESG risk mitigation policies, an analysis was made of the ESG policies and reporting of Maybank’s palm oil clients. This was done in order to establish whether Maybank then only provided financing to ‘best in the class’ palm oil companies on the basis of the ESG performance of these companies. One tool at the disposal of financial institutions to determine if the palm oil companies they finance are ‘best in the class’ in terms of mitigating and addressing the ESG issues associated with the sector was developed by the Zoological Society of London (ZSL). The tool developed by ZSL is known as the Sustainable Palm Oil Transparency Toolkit (SPOTT). SPOTT assessments score 50 of the largest palm oil producers and traders on the public availability of corporate information relating to ESG issues against a set of indicators.
This research focused on the SPOTT assessment categories that align with the financial institution policy assessments (see Forests & Finance website for details). The overall scores that SPOTT has given to each company, which are based on a total set of 125 questions, have also been included. Table 6 shows the SPOTT assessment scores of the Maybank’s palm oil clients, listed by value of the financial relationships. Many of the assessed companies score well below 75% for the majority of the assessment categories. It is therefore evident from Table 6 that Maybank has provided loans and underwriting services to many companies with poor palm oil risk mitigation frameworks and that the bank does not seem to have been selective in choosing to finance only the ‘best in the class’.

This implies that Maybank’s major clients could be implicated in deforestation, development on peat, land grabs and use of fire. Beyond the severe social and environmental implications of such issues, Maybank also runs a significant financial risk. All of these ESG issues can translate into financial risks as companies may be fined, obligated to pay for restoration, and productivity may be affected. Loss of revenues and increased financial burdens potentially affect the ability of a company to meet its financial obligations. Therefore, Maybank is exposed to significant financial risk through its portfolio of palm oil clients that lack adequate risk mitigation frameworks.

### Table 6. SPOTT assessments scores selected categories

<table>
<thead>
<tr>
<th>Group*</th>
<th>Environmental issues</th>
<th>Social issues</th>
<th>Governance issues</th>
<th>Overall score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deforestation and biodiversity</td>
<td>Peat, fire and GHG emissions</td>
<td>Community, labor and rights</td>
<td>Certification standards and governance grievances</td>
</tr>
<tr>
<td>Albukhary Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Sime Darby Plantation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Felda Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Batu Kawan Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Genting Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Triputra Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Harita Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Johor Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Samling Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Sungai Budi Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>TDM</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Salim Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Boustead Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Sinar Mas Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>TSH Resources</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Surya Dumai Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>IJM Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Wilmar Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Kwantas Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Tanah Makmur Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Ta Ann Holdings</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Tiga Pilar Sejahtera Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Noble Group</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Olam International</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Total</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* Note: Assessments are for palm oil relevant subsidiaries. Where more than on subsidiary is engaged in palm oil and is assessed in SPOTT (e.g. Sime Darby Plantation and New Britain Palm Oil), the average scores for the companies were used.


* Note that the colour coding of this table differs from that used by SPOTT.
The production of palm oil through large scale monoculture plantations, as is the practice of Maybank’s major clients, inevitably has social and environmental impacts.

The acquisition of large areas of land by the palm oil companies is often done without the Free, Prior and Informed Consent (FPIC) of local communities, causing landgrabbing conflicts. But even when communities do agree, such deals impact them as they lose land from which they could source food, water and materials, impacting their way of life, their culture and traditions.

In order to establish a plantation, the company will clear the acquired land of any vegetation, causing biodiversity loss and contributing to climate change, as the carbon stored in the vegetation mostly ends up in the atmosphere. These Greenhouse Gas (GHG) emissions are aggravated when plantations are established on peat grounds. As peat grounds are too swampy to establish an oil palm plantation, they are drained by the company. When the drying peat decomposes, the carbon stored in it is released to the atmosphere. The dry peat also burns very easily, which is why many fire hotspots occur in oil palm plantations. These fires cause environmental destruction, GHG emission and the haze they produce has severe health impacts. Indonesia is one of the world’s largest producers of GHG and most of these emissions are from forest destruction and degradation.

Additionally, the drying of the peat areas impacts the water table beyond the plantation, affecting the availability of water for communities and nearby ecosystems. This may make the production of certain crops, like rice, unviable for nearby communities. Having lost access to land and water, community members are often only left with the option to work for the palm oil company. This can be done by either working directly for the company, or by producing oil palm fruits as smallholders, which are then sold to the company. In either situation, serious labour exploitation, including child and slave labour, is common in the sector as companies prioritize cost reduction to increase profits and workers lack access to justice.

These social and environmental impacts are aggravated when there is a lack of good governance and companies engage in illegal activities, bribery, corruption and financial crimes, in their pursuit of profit maximization.
In the following sections the environmental, social and governance impact of six of Maybank’s largest palm oil clients are described. These groups have activities in both Indonesia and Malaysia:

- Sime Darby
- Felda
- Batu Kawan Group
- Genting Group
- Triputra
- Salim Group

It should be emphasized that the known ESG issues of Maybank’s palm oil clients are not limited to these six companies. For example, Maybank is a major financier of Bumitama Agri, which was the subject of three complaints to the Roundtable on Sustainable Palm Oil regarding operations of its subsidiaries in Indonesia in 2013 alone. The complaints variously allege clearing of High Conservation Value (HCV) areas and violation of Indonesian laws regarding plantations in national parks, coastal reserves and riparian land. As recently as 2017, Bumitama Agri was found to have violated peat regulations and its permits were subjected to review due to forest and peat land fires that occurred in its concessions in 2015.

Similarly, Maybank is an important financier of the Samling Group, which has been implicated in numerous environmental and governance issues. The Norwegian Government Pension Fund–Global excluded Samling and its daughter companies from its portfolio as the group and its subsidiaries were considered to be involved in grossly unethical activities by the Norwegian Council on Ethics. Other Maybank palm oil clients from which the Norwegian Government Pension Fund–Global has divested due to poor corporate practices (including environmental, social and governance issues) include: Albukhary Group subsidiary Tradewinds Plantation, IJM Group subsidiary IJM Plantations, Batu Kawan Group subsidiary Kuala Lumpur Kepong, Genting, Ta Ann, TSH Resources, Wilmar, Sinar Mas subsidiary Golden Agri Resources, Boustead Group, and Surya Dumai Group subsidiary First Resources.

Even some of Maybank’s larger and more well-known palm oil clients, such as Wilmar, are implicated in ESG issues. In 2016 Wilmar has been linked to deforestation in its supply chain, as well as human rights abuses, including forced labour, child labour, gender discrimination and exploitative and dangerous working conditions.
3.1. SIME DARBY

Sime Darby is a Malaysian conglomerate. It is the largest listed plantation company in the world with a land bank of nearly one million hectares, with plantations in Indonesia, Malaysia, Liberia, Papua New Guinea and the Solomon Islands. Sime Darby has been a member of the RSPO since 7 September 2004 and is one of the largest producers of RSPO certified palm oil.25 Sime Darby is Maybank’s second largest client. It should be noted that PNB, which holds almost 50% of the Maybank shares, also holds approximately 50% of Sime Darby’s shares.26

Sime Darby has failed to solve a long standing landgrabbing conflict in Kalimantan, for which a complaint has been lodged at the RSPO 5 years ago.

Environmental impacts

In August 2017, the Indonesian Ministry of the Environment and Forestry suspended all operations of the Sime Darby subsidiary PT ISLM. It was found to be carrying out illegal forest clearance outside of its rubber plantation concession operating in Belitung Island off the coast of Sumatra.27

Social impacts

In Kalimantan, Sime Darby’s subsidiary PT Mitral Austral Sejahtera (PT MAS) has grabbed over 1400 hectares of land from the indigenous communities of Kerunang and Entapang. The community had initially agreed to lease their land for a 25 year period to Sime Darby, expecting the land to be returned to them by 2022. However, without consulting or even informing the community, the company obtained a HGU (Right to Cultivate) over the area. This means that the land is now officially leased by the government to the company and that after the lease period, the land will return to the government, instead of the community. This effectively constitutes a case of community land grabbing.28

In South Kalimantan, the most recent RSPO audit report of Sime Darby’s subsidiary PT. Swadaya Andika found several non-compliance issues in 2016 relating, among others, to the lack of land use titles and the lack of agreement with local communities over the conservation of HCV areas, as they overlap with community land.29

In South Sumatra, Sime Darby’s subsidiary PT. Guthrie Peconina Indonesia has been involved in land conflicts with local communities since 1998. According to a RSPO audit report from 2016, the company is operating illegally on more than 3,000 ha.30

In Sulawesi, an audit report from 2016 of Sime Darby’s subsidiary PT. Tamaco Graha Krida also found that this company has planted oil palm beyond the limits of its HGU. Furthermore, it also sources from almost 2,920 hectares of smallholder areas for which it does not have an environmental impact assessment. Apart from that, several non-conformance issues were found regarding the lack of control over pesticide and fertilizer use, and the lack of protection of worker’s health.31

In Liberia, Sime Darby faced strong protests from local communities over customary land rights and lack of consultation shortly after starting development of its oil palm plantation in 2011.32 In reaction, the company announced publicly that no more developments would take place where communities had not given explicit consent. The company acknowledged in 2017 that it will not fully develop its 220,000 hectare concession area in Liberia.33

Governance impacts

A complaint against Sime Darby over landgrabbing in Kalimantan has been lodged at the RSPO in 2012. This case remains unsolved as Sime Darby has failed to enter into a meaningful conflict resolution process with the community.34

Instead of solving the conflict, Sime Darby has announced that it plans to sell the PT MAS unit. The communities of Sanggau have formally requested the RSPO to issue an injunction, prohibiting Sime Darby from selling its subsidiary before solving the problem, on the risk of losing its RSPO certificate.35

Sime Darby is also planning to divest its plantations division and to list it on the stock exchange by the end of 2017.36 The IPO was initially planned for early 2017. At the time there was protest from the communities of Sanggau and from CSOs against the divestment from the plantations division, without solving the land conflict in Kalimantan and elsewhere.37
3.2. FELDA

FELDA, the Federal Land Development Authority, was founded in 1956 by Malaysia’s second Prime Minister, to develop land for the landless, with the final aim of granting them leasehold titles. More than 850 thousand hectares of tropical rainforest were cleared for the settlement of the rural poor into newly developed areas, planting primarily oil palm plantations.³⁸

FELDA subsidiary, Felda Global Ventures (FGV) is the world’s largest producer of crude palm oil and the second largest Malaysian palm oil refiner.³⁹ The company has a landbank of 440,622 hectares in Malaysia and Indonesia.⁴⁰

FGV has been linked to forced labour, deforestation and peatland development through its plantations operations and business relationships in Indonesia and Malaysia.⁴¹

### Environmental impacts

FGV’s subsidiaries, PT Citra Niaga Perkasa (PT CNP) and PT Temila Agro Abadi (PT TAA), cleared 680 hectares of HCV peatlands between 2014 and 2015.⁴² Since FGV introduced its new sustainability policy in August 2016, PT TAA cleared another 864 hectares of mostly forested peatland.⁴³

FGV’s joint venture refinery in Batam, PT Synergy Oil Nusantara (PT SON), purchases palm oil from Duta Palma Nusantara,⁴⁴ whose RSPO membership was terminated in 2013 for deforestation and peatland development.⁴⁵ It also purchases from Austindo Nusantara Jaya (ANJT), which is linked to deforestation of HCS forests in Papua.⁴⁶

The FELDA Group has acquired a 37% stake in Rajawali Group’s controversial PT Eagle High Plantations (BWPT).⁴⁷ Rajawali Group’s operations are reportedly linked to extensive forest and peatland destruction, illegal burning, use of child labour and the use of force against workers.⁴⁸ BWPT does not have a public NDPE and has not secured RSPO certification for any of its operations.⁴⁹ BWPT is linked to the clearing of 7,000 hectares of rainforest between 2010 and 2014 and more than 6,000 hectares of secondary forest in Papua.⁵⁰

### Social impacts

Between 2010 and 2012, the government of Malaysia stripped the settlers’ cooperative KPF from control over FELDA, undermining the hope of the underemployed second and third generation settlers to obtain their own piece of land.⁵¹


In response to the WSJ article, the RSPO commissioned Accreditation Services International (ASI) to conduct a compliance audit of FGV oil palm plantations. ASI found several International Labour Organization (ILO) indicators for forced labour on FGV plantations including: minimum wages not being paid; workers not understanding their terms of employment; workers’ contracts being written in a language they did not understand; smallholders reporting “constant debt”; and passports and identity documents being retained by the company.⁵³

A second labour audit, commissioned by FGV and carried out by Wild Asia in January 2016, revealed continued risks of forced labour, including workers paying high fees for their jobs, being told false promises by labour recruiters, earning insufficient wages to repay debts and having their passports retained. Workers also reported being afraid to report grievances, being paid below minimum wage and not understanding wage slips, and not being made aware of their right of Freedom of Association. Squalid living conditions were also observed by the auditor.⁵⁴

In May 2016, FGV withdrew its RSPO certificates from 58 complexes throughout Malaysia, citing social criteria as the management’s top concern.⁵⁵ To date, FGV’s response has been insufficient to address ongoing risks of modern day slavery in its operations.⁵⁶
FELDA was idealised to distribute land to the poor and for a long time the company was also controlled by the settlers cooperative, which held 51% of the shares. But between 2010 and 2012, the Malaysian government performed a power move that stripped the settlers of their power and effectively brought 355,864 hectares of plantation land under the direct control of the government-held FGVH. This transaction was strongly criticized by civil society organizations for involving illegal actions and for undermining the hope of many landless workers to obtain their own piece of land. Moreover, at least 22% of FGV’s total landbank is contested land.

Malaysian government-related entities own 75% of FGV’s shares, exposing other institutional investors with less than 1% in shares to significant minority shareholder risk. 44% of FGV’s total capital (equity and liabilities) are financed by related parties, which increases the risks of conflicts of interest.

FELDA’s weak financial performance between 2004 and 2009 was compensated by a large loan from Malaysian state-owned pension fund Employees Provident Fund (EPF). In 2011, a minister claimed that RM 2 billion (€ 503 million) from this loan was spent on replanting, a huge investment which is unlikely to have occurred.

The BWPT deal poses a high risk to FGV’s customers - many of whom have committed to NDPE policies, such as Wilmar and Golden Agri-Resources – and consequently to FGV’s investors. FGV associate’s NDPE policy is weak in terms of its content, and thus ineffective in cleaning up the company’s supply chains, from deforestation and peat destruction in particular.
3.3. BATU KAWAN GROUP

Batu Kawan Berhad is an investment holding company with subsidiaries, among others, in the plantations sector. These include Kuala Lumpur Kepong (KLK) and PT Satu Sembilan Delapan. KLK is 47% owned by Batu Kawan Group. It has a landbank of around 270,000 hectares, spread over Malaysia, Indonesia and Liberia. Apart from oil palms, it also has rubber plantations in South East Asia.

KLK has been involved in land rights violations related to indigenous people, tropical deforestation, and forced (child) labour.

Environmental impacts

KLK and its joint venture company with Astra Agro Lestari (AAL), continued to buy from ANJT, a company that has cleared large areas of High Carbon Stock (HCS) forests in Papua, even after it announced an update in its sustainability policy in September 2015.

KLK has a 5,992 hectares lease State (Lot 5), in Papua, with HCV and HCS forests. Although it has stated it will not develop the concession for oil palm, local communities still fear it might use it to extract timber.

Social impacts

In December 2012, KLK acquired a company that claimed three leases in the Collingwood Bay region, in Papua New Guinea, with in total more than 40,000 hectares. However, the land is home to nine Indigenous tribes with customary land rights over the area and who strongly opposed KLK’s plans. They filed a complaint at the RSPO and sued KLK in the National Court of Papua New Guinea. In May 2014, KLK lost its two largest leases through the court case.

In order to develop the remaining lease, State Lot 5 with around 5,650 hectares, KLK would have to cross customary lands and destroy HCV areas, for which it would have to obtain the community’s Free, Prior and Informed Consent.

Governance impacts

In 2015, Chain Reaction Research raised concerns that KLK may be implicated in unethical business practices in Papua New Guinea. KLK was at the time seeking to become an equity partner in the East Sepik’s Special Agricultural Economic Zone, after Wilmar had stepped away from the deal. The PNG Minister for Trade, Commerce and Industry facilitating the deal was also closely involved in the company that acted as the sales intermediary. Initially he was the sole shareholder of that company. Reports stated that he later sold his shares, though he remained listed as the director.

Also in 2015, KLK undertook an internal and external labour assessment of its operations in East Kalimantan, but it did not publish the full audit report nor did it publish a plan for bringing its global operations into compliance with fundamental labour rights as outlined by the ILO.
3.4. GENTING GROUP

Genting Group is a Malaysian conglomerate. Its subsidiary Genting Plantations has a landbank of 227,000 hectares spread over Malaysia and Indonesia. In 2014, Genting was temporarily suspended from the RSPO for violating a series of Principles and Criteria. It has been involved in the clearance of HCS and HCV and conflicts with local communities. The Norwegian Government Pension Fund - Global has excluded the company from its investment portfolio.

Environmental impacts

In 2013, a complaint was filed at the RSPO against a subsidiary of Genting, Tanjung Bahagia Sdn Bhd, over multiple violations of the RSPO’s Principles and Criteria, including failing to address pollution and conservation of HCV areas.

In 2014, research found that Genting Plantations’ subsidiary PT CSC was clearing HCV and HCS areas in its concession in Ketapang district, in West Kalimantan. In response, Wilmar, one of Genting’s major clients, met with Genting. Following the meeting Genting committed to halt any HCV or HCS clearing. Nevertheless, Greenomics found new evidence of HCV and HCS clearance in 2015.

In April 2017, a court in Central Kalimantan ordered the government of the Indonesian province to review the permits of Genting’s oil palm concessions, as the company was associated with massive forest and peat land fires in 2015.

Social impacts

The 2013 RSPO complaint against Tanjung Bahagia Sdn Bhd over multiple violations of the RSPO’s Principles and Criteria stated that the company failed to address the community’s concerns on land acquisition, that there was a lack of open and transparent communication and consultation, and a lack of a dispute resolution mechanism to resolve the issues at hand. The communities also went to court in Sabah regarding these issues and eventually won their case in 2016.

Governance impacts

In 2013, a second complaint was filed at the RSPO against Genting Plantations. It questioned the company’s expansion with 22,000 hectares of new plantations without appropriate notification to the RSPO, and the fact that Genting only planned to start implementing the RSPO certification process for its plantations and mills 10 years after joining the RSPO.

On 15 April 2014, the RSPO Board of Governors took the unusual step of suspending Genting’s membership of the RSPO. The suspension was lifted after Genting took some necessary steps and submitted a time-bound plan according to which its core plantations would be fully certified by 2019. However, in its 2016 Annual Progress report to the RSPO, Genting showed very little progress, reporting only 17,102 hectares of certified area, which was actually less than it had reported the previous year.

After the reports of deforestation at its PT CSC concession in Kalimantan, Genting expressed its commitment to not develop HCS areas. Complying with this commitment would mean it would not be able to develop its PT PSM concession, which was located in HCV and HCS forest in West Kalimantan. However, instead of protecting the area, it sold the concession to PT Suryaborneo Mandiri (SBM), which was clearing the area in September 2017.

In 2015, the Norwegian Government Pension Fund - Global excluded Genting from the investment universe of the GPFG, based on an assessment of the risk of severe environmental damage caused by the company.
3.5. TRIPUTRA

Triputra is an Indonesian agribusiness, mining, trading and services group. Its palm oil production activities are carried out under its privately owned Indonesian subsidiary Triputra Agro Persada. This company has a land bank of approximately 300,000 hectares, mainly located in Kalimantan. Around 164,000 hectares were planted with oil palm in 2015.1

Triputra is a highly opaque company. Although it is a RSPO member, its progress is notoriously substandard and the company systematically underreports the size of its concessions. It is involved in several cases of destruction of HCV areas, in several land grabs and in conflicts with communities for not implementing FPIC based smallholder (plasma) schemes.

### Environmental impacts

Between 2006 and 2014, Triputra’s subsidiaries were responsible for 37,300 hectares of deforestation in Indonesia.80 Triputra also developed at least 16,300 hectares of peatlands in the same period.81

In September 2013, field research by Environmental Investigation Agency found that Triputra’s subsidiary PT Trieka Agro Nusantada had destroyed HCV areas in Kalimantan.82

More than 28,000 hectares of Triputra’s landbank overlaps with Orangutan habitat, most of which has already been developed. In 2014, an orangutan mother and baby were rescued from inside one of Triputra’s plantations.83

### Social impacts

In 2015, Chain Reaction Research reported that subsidiary PT GBSM was involved in seven different land disputes and that communities had won a dispute over 614 hectares with the subsidiary PT Mega Ika Khansa.84

The report also found several conflicts involving subsidiaries of Triputra’s subsidiary PT Union Sampoerna Triputra Persada:

- PT HKK2 was involved in a land dispute with the village of Batu Sedau, in Ketapang district. It started in 2007, when PT HKK2 claimed 1,200 hectares of customary land. The community of Batu Sedau was also protesting against the company because it had not implemented any smallholder plantations, as is required by law.
- PT SMG got into a conflict with local communities when in 2012 it started to extract wood from 4,892 hectares of community forest, without any form of consultation. The local villages of Ajang and Laman Baru also protested over the lack of implementation of plasma plantations.
- PT SLM was involved in land disputes with 8 villages since 2004.85

### Governance impacts

Triputra subsidiary PT Salonok Ladang Mas attempted to build a mill close to Lake Sembuluh in 2010 without an environmental impact assessment. Another subsidiary was in violation of planting regulations stipulating that trees could not be removed at specific distances from lakes and swamps and their tributaries. Moreover, Triputra subsidiaries were scored among the lowest for their environmental management in an Indonesian government assessment of plantations in East Kalimantan.86

Triputra has made poor progress towards RSPO certification. It consistently underreports the amount of plantations it controls (in 2016 it reported 29,576 hectares to the RSPO, while in its 2012 Annual Report it claimed a landbank of 299,549 hectares)87 and it does not comply with RSPO’s New Planting Procedure (NPP) which requires growers to report new developments.88 Triputra expanded more than 50,000 hectares between 2010 and 2014 without reporting this to the RSPO.89

Triputra has not published an annual sustainability report since 2012 and provides very little transparency about its sustainability policy.90 There is very little information available about the company’s view or actions regarding HCV and HCS assessments and protection.
The Salim Group is one of Indonesia’s biggest corporations. It is controlled by Anthoni Salim. One of its main subsidiaries is Indofood Agri Resources, which is a vertically integrated palm oil agribusiness company registered in Singapore. In 2015, Indofood’s revenue was approximately USD 5 billion. Neither Indofood nor its palm oil division Indofood Agri Resources have adequate policies and practices in place for responsible palm oil production and sourcing. Indofood has been linked to a range of serious environmental and social problems including the exploitative use of child labour.

Environmental impacts

Between 2012 and 2014, 1000 hectares of primary tropical rainforest was cleared in East Kalimantan’s Metau forest, a critical habitat for endangered birds and other wildlife. Four oil palm concessions covering 135,680 hectares in densely forested West Papua were acquired by offshore companies whose Directors are connected to the Salim Group. Operations in this culturally and ecologically sensitive region would violate the sustainability standards committed to by Indofood/IndoAgri. Salim Group is also linked to peatland clearance in West Kalimantan by companies in which the Group has controlling stakes, and the destruction of HCV forest and orangutan habitat by subsidiary PT Gunta Samba Jaya in East Kalimantan. 5,900 hectares of carbon-rich peatland is confirmed to have burned in two Indofood concessions in 2015, corresponding to an estimated 8 million tons of CO₂ emissions.

PT Gunta Samba, a subsidiary of the Gunta Samba Group (controlled by Anthoni Salim), cleared thousands of hectares of orangutan habitat in East Kutai district in East Kalimantan between 2012–2015. Another subsidiary, PT Aneka Reksa International (ARI), may have secured a timber utilization permit (IPK) for a concession covering 13,000 hectares in West Kutai district in East Kalimantan in late 2016, which would risk further forest clearance in the region.

In February 2013, a complaint was submitted to the RSPO against PTSalim Ivomas Pratama Tbk (a subsidiary of Indofood Agri Resources Ltd), about the clearing of HCV areas, including orangutan habitats.

Social impacts

Evidence of systemic violation of 20 Indonesian labour laws, including use of child labour, hazardous working conditions and payment below minimum wage, was independently documented on two oil palm plantations of its subsidiary, Indofood Agri Resources Ltd (IndoAgri), in North Sumatra. IndoAgri’s subsidiary Lonsum was involved in at least six recorded land conflicts with local communities between 2013 and 2015. Many of the conflicts, covering hundreds of hectares, have been ongoing for many years and there is no public information indicating Lonsum is making any serious efforts to resolve them.

In 2016, a RSPO complaint was filed against IndoAgri subsidiary Lonsum, over allegations of palm oil labour exploitation, with risk of suspension. The credibility of its RSPO certification is uncertain following RSPO suspension of its certifier SAI Global for poor auditing procedures.

In North Sulawesi, subsidiary PT MS Malisya Sejahtera has grabbed community land, destroyed livelihoods and houses of the local community and tried to criminalise several members, although without success.
Governance impacts

36% of palm oil processed in IndoAgri’s refineries is derived from undisclosed sources. Moreover, IndoAgri – like some other palm oil companies mentioned in this report – is not transparent about its supply chain.\textsuperscript{112}

42% of Indofood’s plantation landbank is classified as contested as a result of social and environmental conflicts and nondisclosure of concession maps for 29% of its total landbank, presenting a significant down-side risk to IndoAgri, Indofood Sukses Makmur, and First Pacific’s equity prices.\textsuperscript{113}

Commitment to address ESG risks is weak, as demonstrated by IndoAgri’s recently updated Palm Oil Policy. Key weaknesses include its limited scope, failure to implement the HCS Approach to end deforestation, failure to adopt the Free and Fair Labour Principles, lack of a credible grievance mechanism aligned with UN Guiding Principles on Business and Human Rights, and continued lack of transparency for basic information and concession maps for many of its plantation holdings. It also lacks credible independent policy verification mechanisms across the company.\textsuperscript{114}

Key institutional investors have divested over forest-risk issues, including: The Norwegian Government Pension Fund - Global (from First Pacific and Indofood Agri Resources); and Dimensional Fund Advisors (from Indofood Agri Resources by its sustainability fund).\textsuperscript{114,5}
Maybank is the single largest financier of palm oil in Indonesia and Malaysia and as such it carries a strong responsibility for the social and environmental impacts caused by its clients.

The examples mentioned in this report show that Maybank has several problematic clients. Some of the issues may have been resolved, however, the problem remains that Maybank is financing companies with these known issues in the first place.

Figure 10. Maybank’s top palm oil clients (loans & underwriting, 2010-2016)

Some of Maybank’s largest clients are involved in deforestation, illegal development on peatlands, fires in their concessions, lack of FPIC and poor labour conditions, including forced and child labour. These issues expose Maybank to significant financial and reputational risks through its clients. The resulting financially material supply chain risks have an impact on the companies’ financial performance:

- **Operational risk**
  Loss of productivity, work stoppages, property damage, increased staff costs to deal with conflicts, etc.

- **Regulatory risk**
  Inability to adapt to changes in and/or breach of regulations related to GHG emissions, forests, peat, labor, land tenure and governance, etc.

- **Reputational risk**
  Damage to brand value and loss of social license to operate due to NGO campaigns or media exposés.

- **Legal risk**
  Litigation for failure to manage ESG risks, resulting in retraction of operating permits, fines, compensation costs, or confiscation of land, etc.

- **Market risk**
  Cancelled contracts or decrease in consumer demand from failure to meet buyer standards (i.e. No Peat, no Deforestation and no Exploitation (NPDE)).

These risk categories translate into the following risks for Maybank:

<table>
<thead>
<tr>
<th>Financial risk</th>
<th>Reputational risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Nonperforming loans / increased default risk</td>
<td>• Damage to brand value due to NGO campaigns or media exposés</td>
</tr>
<tr>
<td>• Loss of revenue</td>
<td>• Breach of ESG commitments, such as Maybank’s 20/20 Sustainability Plan</td>
</tr>
<tr>
<td></td>
<td>• Loss of credibility as a responsible bank</td>
</tr>
</tbody>
</table>

Maybank’s current policies and due diligence procedures are not sufficient to protect the bank from engaging with such controversial clients. This leaves the bank exposed to both significant reputational as well as financial risk.

The prevalence of ESG issues in the palm oil sector, the number of controversial companies Maybank is linked to, and the financial risks Maybank is exposed to through these relationships should all be incentives for Maybank to be more selective when providing financing to the palm oil sector.

To avoid escalation of these risks, Maybank should:

- engage with controversial clients and seek to solve the conflicts together with them, based on time-bound plans;
- develop an adequate ESG risk mitigation policy which should include at least the minimum standards listed below;
- refuse to finance or refinance clients that do not comply with the minimum policy standards listed in this report (see box: Minimum standards for a ESG policy for the palm oil sector)

An adequate ESG risk mitigation framework designed specifically for the palm oil sector will be conducive to mitigating related risks, and driving improvements in the standards and requirements of both palm oil companies and other regional financial institutions.
Maybank’s financiers (see Figure 11) also carry a strong responsibility. Several of them are RSPO members, PRI signatories, and several have relatively strong ESG policies. While they are mostly no longer directly engaged themselves with controversial palm oil companies, these financiers have found a way to continue financing and profiting from controversial palm oil by financing Maybank.

Financiers of Maybank also carry responsibility for the conflicts caused by Maybank’s clients. They should therefore live by the spirit of their own commitments and:

- adapt their policies to make clear that they also cover indirect investments in the palm oil sector, through other financiers;
- engage with Maybank and demand that it develops a strong ESG policy, according to a timebound plan
- stop all financing of Maybank if the bank fails to make any progress.
## Minimum standards for a ESG policy for the palm oil sector

### Scope of Commitments

1. Maybank should sign the main international covenants relevant to forestry and land issues; provided;
2. Maybank should have a publicly available forestry sector specific safeguard policy;
3. Maybank’s policy should be applied to all forms of investments and financial services provided;
4. The policy should be applied to all clients within the same group of companies;
5. The policy shall require all clients’ operations to undergo regular independent assessment in relation to legality, social and environmental issues;

### Environmental Standards

6. The policy shall prohibit the degradation or conversion of natural forests;
7. The policy shall prohibit operations in primary forest;
8. The policy shall prohibit operations in High Conservation Value (HCV) and/or High Carbon Stock (HCS) forests;
9. The policy shall prohibit operations in protected areas;
10. The policy shall require proof of legality in operations and sourcing;

### Social Standards

11. The policy shall require the bank to perform a check of land tenure legality;
12. The policy shall require proof of the Free, Prior and Informed Consent (FPIC) of indigenous and local communities, where applicable;
13. The policy shall prohibit the company to use forced labour and child labour;
14. The policy shall require the company to provide health & safety protections for the community and workers;
15. The policy shall require the client to have a grievance mechanism available for communities affected by the client’s operations.
References


92. Environmental Investigation Agency (2013), Banking on Extinction: Oil Palm, Orangutans and the Certified Failure of HSBC’s Forest Policy, online: https://eia-international.org/wp-content/uploads/EIA-Banking-


111. TuK Indonesia (2017), Unedited field report.


Disclaimer

Profundo and TuK observe the greatest possible care in using information and drafting publications but cannot guarantee that this report is complete and assumes no responsibility for errors in the sources used. The report is provided for informational purposes and is not to be read as providing endorsements, representations or warranties of any kind whatsoever. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. Profundo and TuK will not accept any liability for damage arising from the use of this publication.
Maybank
THE SINGLE LARGEST PALM OIL FINANCIER