

Bank of the Philippine Islands

Type of Engagement: Annual Review

Date: March 10, 2022

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Introduction

In 2019 and 2020, Bank of the Philippine Islands (“BPI”, the “Bank”, and the “Issuer”) issued two green bonds and one social bond aimed at financing and/or refinancing existing and/or future projects that are expected to deliver positive environmental and social outcomes and advance the Bank’s sustainability mission. In 2022, BPI engaged Sustainalytics to review the projects funded through the two 2019 green bond issuances and 2020 social bond issuance and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Bank of the Philippine Islands Sustainable Funding Framework.¹

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with proceeds from the 2020 sustainability based on whether the projects financed:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Bank of the Philippine Islands Sustainable Funding Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Bank of the Philippine Islands Sustainable Funding Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
Renewable Energy	<ul style="list-style-type: none"> • Energy Production - Solar Energy, Wind Energy, Geothermal Energy (direct emissions < 100gCO₂/kWh), and Run-of-river Hydro Energy projects (without pondage) • Transmission, Distribution and Smart Grid Projects - investments in the building, operation and maintenance of electric power distribution, transmission networks and smart metering systems, that contribute to: (i) connecting renewable energy production units to the general network and (ii) improving networks in terms of demand-size management and energy efficiency 	<ul style="list-style-type: none"> • Greenhouse Gas (GHG) emissions reduced/avoided (tCO₂e)
Energy Efficiency	Energy Efficient Buildings - Refurbishments or renovation of properties in order to improve energy efficiency (at least 15% improvement or to IFC EDGE standard)	<ul style="list-style-type: none"> • Annual energy savings (kWh/MWh/GWh) • Reduction in energy demand (%)
Sustainable Water and	<ul style="list-style-type: none"> • Wastewater Treatment – production and treatment of water 	<ul style="list-style-type: none"> • Annual water savings (l/m³) • Annual volume of wastewater treated or avoided (l/m³)

¹ Bank of Philippines Island, “BPI Sustainable Funding Framework” at: <https://www.bpi.com.ph/sustainability/sustainable-funding-framework>

Wastewater Management	<ul style="list-style-type: none"> • Integrated Water Management – water efficiency systems • Sustainable Urban Drainage Systems – mains rehabilitation, leakage prevention 	
Pollution Prevention & Control	<ul style="list-style-type: none"> • Pollution Prevention & Control – waste management and recycling projects 	<ul style="list-style-type: none"> • Number of tons processed in the facility (Metric ton) • Energy saving attributable to the investment (kWh/MWh/GWh) • Estimated reduction in CO₂e emissions (tCO₂e equivalents)
Green Buildings	<ul style="list-style-type: none"> • Financing or refinancing of development, acquisition, renovation or otherwise completed residential, public and commercial properties that have or will receive (i) a design stage certification, (ii) a post-construction certification and/or (iii) an in-use certification in any of the following building certification schemes at the defined threshold level or better: Environmental building certification or assessment: <ol style="list-style-type: none"> a) LEED “Gold” b) EDGE Certified or EDGE Compliant Buildings as determined by a third party c) Other national equivalent such as BERDE 	<ul style="list-style-type: none"> • Annual energy avoided, compared to national building requirements (kWh/MWh) • Level of certification or compliance achieved by the Green Building • Annual GHG emissions reduced/avoided (tCO₂e reduced)
MSME Lending	<ul style="list-style-type: none"> • Loans that the BPI Group has made to entities doing business as Micro, Small, or Medium Enterprises that meet qualifications as set by government entities such as the Bangko Sentral ng Pilipinas² or the Securities and Exchange Commission.³ • MSMEs disadvantaged by disasters triggered by natural hazards such as, but not limited to, COVID-19, with significant consequences on the people, public health, infrastructure, assets, or the economy. 	<ul style="list-style-type: none"> • Number of loans to MSMEs • Total amount of loans made to MSMEs

² The Central Bank of the Philippines defines Small and Medium Enterprises as business activity or enterprise with total assets having value under the following categories: Micro (less than Php 1,500,001), Small (Php 1,500,001-Php 15,000,000), Medium (Php 15,000,001-Php 60,000,000).

³ The Securities and Exchange Commission defines Small-sized entities as: Small-sized entities: total assets of between PHP 3 million to and 100 million, or total liabilities between PHP 3 million to PHP 100 million, and Medium-sized entities as: total assets of more than PHP 100 million to PHP 350 million, or total liabilities of more than PHP 100 million to PHP 250 million. More details available at: https://www.sec.gov.ph/wp-content/uploads/2020/01/2018_PressReleases_SECSimplifiesFinancialReportingforSmallCompanies.pdf

Issuing Entity's Responsibility

BPI is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of BPI's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from BPI employees and review of documentation to confirm the conformance with the Bank of the Philippine Island Sustainable Funding Framework.

Sustainalytics has relied on the information and the facts presented by BPI with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by BPI.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,⁴ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of BPI's Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Bank of the Philippine Islands Sustainable Funding Framework. BPI has disclosed to Sustainalytics that the proceeds of the green bonds and social bond were fully allocated as of 31st December 2021.

Detailed Findings

Table 3: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects financed by the green and social bonds in 2019 and 2020 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Bank of the Philippine Island Sustainable Funding Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects financed by the green and social bonds in 2019 and 2020 to determine if impact of projects was reported in line with the KPIs outlined in the Bank of the Philippine Island Sustainable Funding Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

⁴ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix

Appendix 1: Impact Reporting by Eligibility Criteria

In September 2019, BPI issued two green bonds of USD 300 mn and CHF 100 mn (USD 113mn) whose proceeds were allocated to three renewable energy projects and four green building projects.⁵ Out of the two green bonds issued in 2019, one of the bond issuances of CHF100 mn (USD 113 mn) matured in September 2021. In August 2020, the Bank issued one social bond (the COVID Action Response Bond; CARE Bond) totaled PHP 21.5 bn (USD 418.6 mn)⁶ as a direct response to the COVID-19 pandemic in the Philippines. Sustainalytics notes that the total value of eligible green and social projects' portfolio exceeds the net proceeds financed by green and social bonds, and below tables demonstrate the allocation and impact overview of BPI's whole portfolio of eligible green and social projects.

Table 1: Impact Reporting for Eligible Renewable Energy Project

Sl.No of the projects	Country	Net Bond Proceeds Allocation (USD) in mn	Projected GHG Emission Reduction in tCO ₂ /year
1	Indonesia	298.125	3,254,196
2	Luzon	41.031	97,326
3	Luzon	5.49	5,197
Total		344.646	3,356,719

Table 2: Impact Reporting for Eligible Green Building Projects

Sl.No of the projects	Country	Net Bond Proceeds Allocation (USD) in mn	Projected GHG Emission Reduction in tCO ₂ /year from energy	Projected GHG Emission Reduction in tCO ₂ from materials	Electricity Savings in MWh/year	Building Certification
1	Visayas	30.065	411	2,574	854	EDGE Compliant
2	Luzon	12.843	546	1,569	923	EDGE Compliant
3	Mindanao	17.429	678	1,856	1,410	EDGE Compliant
4	NCR	25.294	632	3,606	1,067	EDGE Compliant
Total		85.631	2,267	9,605	4,254	

⁵ The Bank has an additional USD 135.29 mn back-up portfolio apart from the earmarked green projects as of December 31, 2021.

⁶ Exchange rate as of February 28, 2022: USD 1 = PHP 51.36 (Source: Reuters).

Table 3: Impact Reporting of the Eligible MSME Lending ⁷

Category	Amount in PHP in billions	%	Number of accounts	%	Number of Customers	%
Micro Enterprise	4.18	12.6%	3,240	27.8%	2,577	51.1%
Small Enterprise	7.48	22.6%	3,341	28.6%	1,699	33.7%
Medium Enterprise	21.39	64.7%	5,094	43.6%	769	15.2%
Total	33.04	100%	11,675	100%	5,045	100%

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

⁷ Total earmarked and back-up portfolio amounting to PHP 33.04 billion for the social bond issuance.

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