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# **Bank of the Philippine Islands Sustainable Funding Framework**

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# Bank of the Philippine Islands (“BPI”) Sustainable Funding Framework



## Introduction

- BPI recognizes the importance of creating value not only for our businesses, but also for our stakeholders, the environment, and the communities in which we operate. We strive to have sustainability at the core of our corporate strategies, ultimately balancing our growth aspirations with our environmental and social responsibility.
- BPI promotes investments in businesses, industries, and projects that contribute to the UN Sustainable Development Goals (“SDGs”). BPI is a member of the UN Global Compact Network Philippines and is committed to furthering the UN SDGs.



- BPI has developed a Sustainable Funding Framework (“Framework”) under which we intend to issue Green, Social, and/or Sustainability Bonds and/or Loans to fund selected projects<sup>(1)(2)</sup>. The Framework fulfils the requirements of the International Capital Markets Association (ICMA) Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, the Loan Markets Association (LMA) Green Loan Principles 2023 and Social Loan Principles 2023, as well as the ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018. It comprises the following four components pursuant to the Principles and Standards.

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

(1) Projects in this case also mean loans to business enterprises in the case of MSME lending

(2) Loan instruments are typically single-tranche long-term loans and not revolving credit facilities. In cases of multi-tranche facilities, only the tranches with defined green use of proceeds will be labelled as green.

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## Use of Proceeds

- BPI's Framework is guided by the Ayala Group's strategic focus on Sustainability
- BPI's Sustainability Agenda<sup>1</sup> is in accordance with provisions of the Philippine Central Bank or Banko Sentral ng Pilipinas (BSP) on the Sustainable Finance Framework (BSP Circular No. 1085) and the Environmental and Social Risk Management Framework (BSP Circular No. 1128)
- Net proceeds for BPI's Green, Social, and Sustainability Bonds/Loans will be allocated to Eligible Projects in various categories that meaningfully contribute to one or a combination of below SDGs that BPI is focused on:

SDGs targeted  
under BPI's  
Sustainable  
Funding  
Framework



## Eligible Project Categories

- An amount equal to the aggregate net proceeds from the issuance of every BPI Green, Social, and Sustainability Bond/Loan will be used to finance or refinance, in whole or in part, projects under any of the Eligible Project Categories below. Projects financed or refinanced may be at BPI or at any of the BPI Group entities. With respect to refinancing, only financing originally made within two and a half years of the issue date of each relevant Green, Social, or Sustainability Bond/Loan will qualify

### Eligible Green Project Categories

Renewable  
Energy

- Energy Production - Solar Energy, Wind Energy, Geothermal Energy (direct emissions < 100gCO<sub>2</sub>/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, including but not limited to: connecting renewable energy production units to the general network

**1****Use of Proceeds (Continued)****Energy  
Efficiency**

- Energy Efficient Buildings - Refurbishments or renovation of properties in order to improve energy efficiency (at least 15% improvement), including but not limited to: (i) lighting, (ii) Heating, Ventilation, and Airconditioning Systems (HVAC), (iii) High Efficiency Motors (HEMS),
- Transmission, Distribution and Smart Grid Projects - investments in the building, operation and maintenance of electric power distribution, transmission networks and smart metering systems, including but are not limited to: (i) improving networks in terms of demand-size management and energy efficiency, (ii) communications and sensor technologies, such as Wide Area Monitoring System (WAMS) components and measurement equipment, (iii) advanced/smart meters, (iv) monitoring and control automation devices and (v) big data and/or computing platforms

**Sustainable  
Water &  
Wastewater  
Management**

- Wastewater Treatment – production and treatment of water, including but not limited to investments in design, development, and implementation of new or upgraded wastewater collection and treatment systems
- Integrated Water Management – water efficiency systems, including but not limited to investments in research, design, development, and implementation of efficient and clean water supply systems, efficient water distribution technologies and management practices, and investments projects that manage, protect, and restore the health of aquifer
- Sustainable Urban Drainage Systems – mains rehabilitation, leakage prevention, including but not limited to development, construction, acquisition, upgrading, and maintenance of sewer network

**Pollution  
Prevention &  
Control**

- Pollution Prevention & Control – waste management and recycling projects, including but not limited to projects related to waste collection, projects pertaining to sorting and processing of waste, and projects on solid waste management systems and infrastructure, including rehabilitation projects to improve containment

## Green Buildings

- 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:

- a) LEED “Gold”, or higher
- b) EDGE Certified Buildings, or higher as determined by a third party
- c) Other national equivalent such as BERDE (4 stars or higher)

- Exclusion Rule: The net proceeds of any BPI Green, Social, and Sustainability Bond and/or Loan shall not be used towards financing and/or refinancing fossil fuel related assets and activities.

## Eligible Social Project Categories

### MSME Lending

- 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 Pilipinas (“BSP”) or the Securities and Exchange Commission (“SEC”) Philippines.
- MSMEs disadvantaged by disasters triggered by natural hazards and pandemics such as, but not limited to, COVID-19, with significant consequences on the people, public health, infrastructure, assets, or the economy.

- Exclusion Rule: The net proceeds of any BPI Social and Sustainability Bond and/or Loan shall not be used towards financing and/or refinancing activities related to alcohol, gambling, tobacco, and weaponry.

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## 2 Process for Project Evaluation and Selection

### Green Projects

- **Pre Qualification:** BPI’s Sustainable Development Finance Team (“SDF”) is responsible for identifying, evaluating and nominating potential Eligible Green Projects for inclusion in the Green Finance Portfolio to be financed. As part of the process, BPI works with technical consultants to review and evaluate the project details and ensure that the project meets the eligibility requirements under the Sustainable Funding Framework
- **Inclusion in the Green Finance Portfolio:** SDF Head validates and signs off on the list of Eligible Green Projects to be included in the Green Finance Portfolio
- BPI ensures that all loans included for allocation under the Green Finance Portfolio comply with national, local, and environmental laws, as applicable, at the time of issuance

### Social Projects<sup>1</sup>

- **Pre Qualification:** BPI’s Business Banking Marketing, Systems Planning & Product Integration (“SPPI”), Products, and Campaigns Head is responsible for identifying, evaluating and nominating potential Eligible Social Projects for inclusion in the Social Finance Portfolio to be financed.
- **Inclusion in the Social Finance Portfolio:** Business Banking Segment Head or the Business Banking Marketing, SPPI, Products, and Campaigns Head validates and signs off on the list of Eligible Social Projects to be included in the Social Finance Portfolio
- BPI ensures that all loans included for allocation under the Social Finance Portfolio comply with national, local, and environmental laws, as applicable, at the time of issuance

### Environmental and Social Risk Assessment

All projects must have passed criteria and requirements related to the Bank’s General Policy and Governing Principles on Responsible Lending<sup>3</sup> (including but not limited to the Environmental Risk Assessment).

As part of the Bank’s General Policy and Governing Principles on Responsible Lending, all loan proposals and credit accommodations undergo comprehensive credit evaluation to ensure that risks are well understood, adequately addressed, or mitigated, including those arising from potential issues or violations on environmental and social laws and regulations, namely: environmental pollution, loss of biodiversity, hazard to human health, safety and security concerns, involuntary resettlement, and harm to indigenous communities and cultural heritage.

Material E&S issues that emerge during E&S assessments require that we perform necessary actions and risk mitigations, which may include securing additional credit enhancements such as insurance or collateral top-ups, enhancing due diligence including business or financial justifications subject to the required approvals by the Bank’s credit authorities, and/or submitting supplemental documentation in accordance with BPI’s policies and regulatory guidelines.

(1) May be corporations in the case of MSME lending

(2) The Sustainable Funding Committee is made up of (A) Chairperson of the Committee – Head of Corporate Strategy, Investor Relations, and Sustainability (B) Vice Chairperson of the Committee for Green Projects – Head of Corporate and Commercial Credit Group (C) Vice Chairperson of the Committee for Social Projects – Head of Business Banking (D) Regular Members: Head of Liability Management Department, Global Markets Segment; SDF Head; Head of Corporate Banking; Head of Business Banking Marketing, SPPI, Products, and Campaigns Head; Head of Environmental and Social Risk Management (E) Secretary of the Committee – Officer of the BPI Sustainability Office designated by the Chairperson (F) Resource Persons – includes SDF Technical Consultants (G) Authority to Change the Membership Committee – President

(3) Responsible Lending Policy: <https://www.bpi.com.ph/about-bpi/sustainability/responsible-and-sustainable-lending-policy>

- BPI’s Sustainable Funding Committee will track, monitor and manage the proceeds
- An amount equal to the net proceeds will be allocated to finance and/or refinance designated Eligible Green / Social Projects, as relevant, across the BPI Group including its subsidiaries, selected in accordance with the Eligibility Criteria, using the evaluation and selection process mentioned above
- Payment of principal and interest on the Green, Social, and Sustainability Bonds/Loans will be made from BPI’s general funds and will not be directly linked to the performance of any one specific Eligible Green / Social Project

## Tracking of Proceeds

- We will monitor the allocation of an amount equal to the proceeds via internal information systems. A register will be created to facilitate the monitoring and reporting of the issued Bonds and the deployment of an amount equal to the net proceeds
- The register will include, among others:
  - i. Green, Social, and Sustainability Bond/Loan details: including ISIN, issue date, maturity date, principal amount and coupon;
  - ii. Eligible Green/Social Project list;
  - iii. Eligible Green/Social Project Categories;
  - iv. The regions in which the projects are located, as applicable;
  - v. The amount of net proceeds allocated to the projects;
  - vi. The date of allocation and foreign exchange rates;
  - vii. Environmental certification of the project (if applicable)

## Use of Unallocated Proceeds

- Pending any allocation or reallocation, an amount equal to the net proceeds from the notes may be invested in cash or cash equivalents for no more than 36 months and will not be invested in carbon-intensive assets.
- These funds will be managed according to BPI’s internal liquidity management policies and may be transferred to other entities within the BPI Group

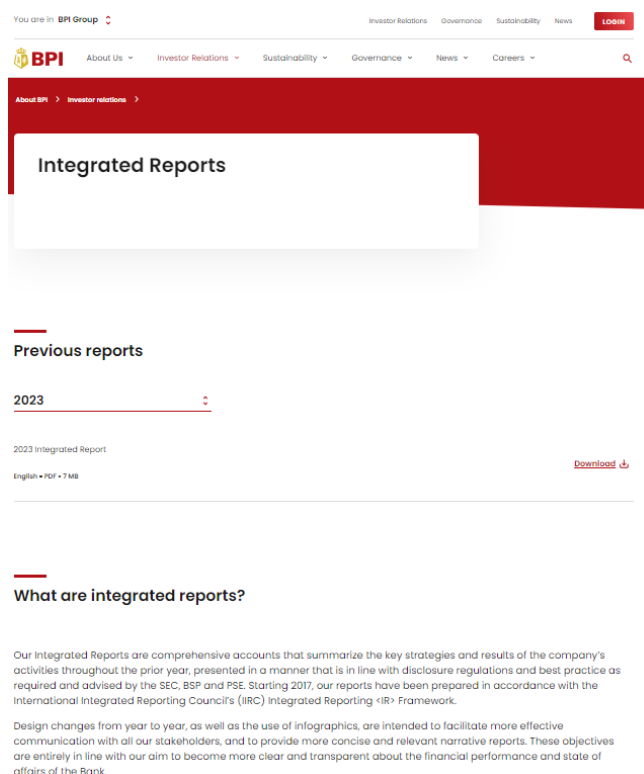
## Substitution of Assets

- We will allocate an amount equal to the net proceeds to projects that comply with the Eligibility Criteria as soon as reasonably practicable, reallocating to replacement projects in the event that a previously allocated project is sold, paid in full, or no longer eligible

## A Allocation Reporting

At least annually, until an amount equal to the net proceeds has been allocated, and thereafter, in the event of material changes, BPI will provide information on the allocation of an amount equal to the net proceeds of the notes on its website and/or in BPI's Annual Integrated Report. The information will contain at least the following details:

- i. A list of approved Eligible Green/Social Projects, including amounts allocated (or aggregated in the case of MSME Lending); and
  - ii. Remaining balance of unallocated proceeds
- Where possible, BPI will also provide additional information, case studies or examples of select projects, subject to considerations such as competition and confidentiality agreements
  - The annual reporting will be reviewed and approved by the Sustainable Funding Committee and BPI's senior management
  - For each Green, Social, and Sustainability Bond/Loan issuance, BPI intends to engage an external auditor to provide independent verification on our reporting and management of proceeds in accordance with this Framework



BPI's Sustainability Reports can be found in the following link:  
<https://www.bpi.com.ph/about-bpi/investor-relations/integrated-reports>



## 4 Reporting

### B Impact Reporting

Where relevant and possible, BPI will also report annually on selected impact metrics (per project or in aggregate for all projects financed by the Proceeds)

Eligibility Criteria	Example Impact Metric
Renewable Energy	<ul style="list-style-type: none"> <li>Greenhouse Gas (GHG) emissions reduced/avoided (tCO<sub>2</sub>e)</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>Annual energy savings (kWh/MWh/GWh)</li> <li>Reduction in energy demand (%)</li> </ul>
Green Buildings	<ul style="list-style-type: none"> <li>Annual energy avoided, compared to national building requirements (kWh/MWh)</li> <li>Certification received and level of certification achieved by the Green Building</li> <li>Annual GHG emissions reduced/ avoided (tCO<sub>2</sub>e reduced)</li> </ul>
Pollution Prevention and Control	<p>Waste Management</p> <ul style="list-style-type: none"> <li>Number of tons processed in the facility (Metric ton)</li> <li>Energy saving attributable to the investment (kWh/MWh/GWh)</li> <li>Estimated reduction in CO<sub>2</sub>e emissions (tCO<sub>2</sub>e equivalents)</li> </ul>
Sustainable Water Management	<p>Water &amp; Wastewater Management</p> <ul style="list-style-type: none"> <li>Annual water savings (l/m<sup>3</sup>)</li> <li>Annual volume of wastewater treated or avoided (l/m<sup>3</sup>)</li> </ul>
MSME Lending	<p>Lending to MSMEs</p> <ul style="list-style-type: none"> <li>Number of loans to MSMEs</li> <li>Total amount of loans made to MSMEs</li> </ul>