

Bank of the Philippine Islands

Type of Engagement: Annual Review

Date: March 09, 2023

Engagement Team:

Mahesh Krishnamoorthy, mahesh.krishnamoorthy@morningstar.com

Vijay Wilfred, vijay.wilfred@morningstar.com

Sumaiya Waheed, sumaiya.waheed@morningstar.com

Introduction

In 2019 and 2020, the Bank of the Philippine Islands (“BPI”, the “Bank” or the “Issuer”) issued two green bonds and one social bond aimed at financing or refinancing existing or future projects that are expected to deliver positive environmental and social outcomes and advance the Bank’s sustainability agenda. In 2023, BPI engaged Sustainalytics to review the projects funded through the sole outstanding ASEAN Green Bond (USD 300 million) 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.^{1,2}

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded with the proceeds from the ASEAN Green Bond in 2022 based on whether the projects and programmes 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 category outlined in the Bank of the Philippine Islands Sustainable Funding Framework.

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 <100 gCO₂/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: <ol style="list-style-type: none"> 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"> • GHG emissions reduced or avoided (in tCO₂e)
Energy Efficiency	<ul style="list-style-type: none"> • 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 (in kWh, MWh or GWh) • Percentage 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 (in l/m³)

¹ Bank of the Philippine Islands, “Bank of the Philippine Islands Sustainable Funding Framework”, (2020), at:

<https://www.bpi.com.ph/assets/aboutbpi/sustainablefundingframework/bpisustainabilityfundingframework.pdf>

² The two other bonds issued under the Bank of the Philippine Islands Sustainable Funding Framework – the CHF 100 million (USD 113 million) green bond that matured in September 2021 and the PHP 21.5 billion (USD 418.6 million) social bond that matured in May 2022 – are not being considered under the purview of this report.

Wastewater Management	<ul style="list-style-type: none"> • Integrated water management: water-efficiency systems • Sustainable urban drainage systems: mains rehabilitation, leakage prevention 	<ul style="list-style-type: none"> • Annual volume of wastewater treated or avoided (in l/m³)
Pollution Prevention and Control	<ul style="list-style-type: none"> • Pollution prevention and control: waste management and recycling projects 	<ul style="list-style-type: none"> • Number of tonnes processed in the facility • Energy savings attributable to the investment (in kWh, MWh or GWh) • Estimated reduction in CO₂e emissions (in tCO₂e)
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 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: <ul style="list-style-type: none"> ○ LEED Gold ○ EDGE Certified or EDGE Compliant Buildings standard as determined by a third party ○ Other national equivalent, such as BERDE 	<ul style="list-style-type: none"> • Annual energy avoided, compared to national building requirements (in kWh or MWh) • Level of certification or compliance achieved by the green building • Annual GHG emissions reduced or avoided (in tCO₂e)
MSME Lending	<ul style="list-style-type: none"> • Loans that BPI 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 Pilipinas³ or the Securities and Exchange Commission Philippines.⁴ • MSMEs disadvantaged by disasters triggered by natural hazards – including 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

³ The Central Bank of the Philippines defines small and medium enterprises as a business activity or enterprise with total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have a value falling under the following categories: i) micro – not more than PHP 3 million; ii) small – PHP more than PHP 3 million to PHP 15 million; iii) medium – more than PHP 15 million to PHP 100 million

Bangko Sentral ng Pilipinas, "332 Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises", (2014), at: <https://morib.bsp.gov.ph/332-mandatory-allocation-of-credit-resources-to-micro-small-and-medium-enterprises/>

⁴ The Securities and Exchange Commission Philippines defines MSMEs as: i) micro – total assets and liabilities below PHP 3 million; ii) small – total assets of PHP 3 million to 100 million, or total liabilities of PHP 3 million to PHP 100 million; and iii) medium – total assets of PHP 100 million to PHP 350 million, or total liabilities of PHP 100 million to PHP 250 million.

Securities and Exchange Commission Philippines, "Adoption of Philippine Financial Reporting Standards for Small Entities", (2018), at: <https://www.sec.gov.ph/wp-content/uploads/2019/11/2018MCno05.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 use of proceeds from BPI's ASEAN Green Bond. 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 Islands Sustainable Funding Framework.

Sustainalytics has relied on the information and the facts presented by BPI. 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,⁵ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through the proceeds of BPI's ASEAN Green Bond, do not comply 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 ASEAN Green Bond were fully allocated as of 31 December 2022.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects financed by the ASEAN Green Bond in 2019 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 ASEAN Green Bond in 2019 to determine if impact 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 2.	All projects reviewed reported on at least one KPI per use of proceeds criteria.	None

⁵ Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including a description of the projects, the estimated and realized costs of projects and project impacts, 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: Allocation Report

Table 1: Net Allocation (USD million) as of 31 December 2022

ISIN CODE	Bond Issuance Amount (USD million)	Issue Date	Maturity Date	Net Allocation in Renewable Energy Projects (USD million)	Net Allocation in Green Building Projects (USD million)	Net Bond Proceeds Allocation (USD million)
XS2050923825	300	10 September 2019	10 September 2024	313.77	75.08	388.86 ⁶

⁶ BPI has confirmed to Sustainalytics that the additional USD 88.86 million worth of green projects have been financed via other funding sources and that these projects serve as a back-up in case of any loan prepayments or amortizations.

Appendix 2: Reported Impact

In September 2019, BPI issued ASEAN green bond of USD 300 million, whose proceeds were allocated to three renewable energy projects and four green building projects.⁷

Sustainalytics notes that the total value of the eligible green projects portfolio exceeds the net proceeds financed through BPI's ASEAN Green Bond (USD 300 million) under consideration of this report. The tables below demonstrate the allocation and impact overview of BPI's portfolio of eligible green projects.⁸

Table 1: Reported Impact for Eligible Renewable Energy Projects

Project No.	Project Location	Renewable Energy Project	Net Proceeds Allocation (USD million)	Projected GHG Emission Reduction (in tCO ₂ /year)
1	Indonesia	Geothermal ⁹	274.69	3,254,196
2	Luzon, Philippines	Wind	34.78	97,326
3	Luzon, Philippines	Solar	4.30	5,197
Total			313.77	3,356,719

Table 2: Reported Impact for Eligible Green Building Projects

Project No.	Project Location	Building Certification	Net Proceeds Allocation (USD million)	Projected GHG Emission Reduction (in tCO ₂ /year from energy)	Projected GHG Emission Reduction (in tCO ₂ from materials)	Electricity Savings (in MWh/year)
4	Visayas, Philippines	EDGE Compliant	22.72	411	2,574	854
5	Luzon, Philippines	EDGE Compliant	11.75	546	1,569	923
6	Mindanao, Philippines	EDGE Compliant	14.45	678	1,856	1,410
7	NCR, Philippines	EDGE Compliant	26.17	632	3,606	1,067
Total			75.08	2,267	9,605	4,254

⁷ In September 2019, BPI issued two green bonds of USD 300 million and CHF 100 million (USD 113 million) and a social bond of PHP 21.5 billion (USD 418.6 million) in August 2020. Out of the two green bonds issued in 2019, one of the bond issuances of CHF 100 million (USD 113 million) matured in September 2021. The social bond (the COVID Action Response Bond, or the "CARE Bond") with an issuance of PHP 21.5 billion (USD 418.6 million) matured in May 2022. The impact reporting under the purview of this report is for the sole outstanding ASEAN green bond of USD 300 million.

⁸ Exchange rate as of 31 December 2022: PHP 55.755 (USD 1)

⁹ BPI has confirmed to Sustainalytics that the direct emissions from the geothermal project are found to be less than 100 gCO₂/kWh

Disclaimer

Copyright ©2023 Sustainalytics. All rights reserved.

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

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.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2021, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the fourth consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2021 for the third consecutive year. For more information, visit www.sustainalytics.com.

