



Bank of the Philippine Islands Sustainable Funding Framework

May 2020

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”). Our largest shareholder, Ayala Corporation, is a founding member of the UN Global Compact Network Philippines. BPI, together with the Ayala Group, is committed to furthering the SDGs
- At BPI, we have chosen to focus on 12 SDGs where we believe BPI can have a substantial and lasting impact across the markets we operate in



- 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⁽¹⁾. The Framework fulfils the requirements of the Green and Social Bond Principles, administered by the ICMA, and is aligned with the ASEAN Green, Social, and Sustainability Bond Standards. It comprises the following four components pursuant to the aforementioned Principles and Standards.

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

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1

Use of Proceeds

- BPI’s Framework is guided by the Ayala Group’s strategic focus on Sustainability
- 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 With respect to refinancing, only financing originally made within two and a half years of the issue date of each relevant Green, Social, or Sustainability Bond/Loan will qualify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 < 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

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)

Sustainable Water & Wastewater Management

- Wastewater Treatment – production and treatment of water
- Integrated Water Management – water efficiency systems
- Sustainable Urban Drainage Systems – mains rehabilitation, leakage prevention

1**Use of Proceeds (Continued)****Pollution
Prevention &
Control**

- Pollution Prevention & Control – waste management and recycling projects

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”
- b) EDGE Certified or EDGE Compliant Buildings as determined by a third party
- c) Other national equivalent such as BERDE

- 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 of 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 or the Securities and Exchange Commission.
- 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.

- Exclusion Rule: The net proceeds of any BPI Social and Sustainability Bond and/or Loan shall not be used towards financing and/or refinancing of 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 Projects¹

- **Pre Qualification:** BPI’s Business Banking Strategy and Portfolio Analytics Group 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 Strategy and Portfolio 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

Sustainable Funding Committee

- **The Sustainable Funding Committee⁽²⁾:** On semi-annual basis, the SFC convenes to validate and approve historical enrolments or move for disenrollment / replacement of paid off or disqualified loans. SFC will likewise review the monitoring and reporting of issued Green, Social, and Sustainability Bonds/Loans and the deployment of net proceeds to reimbursed Eligible Green and Social Projects, until all proceeds are accounted for

(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 and Investor Relations (B) Vice Chairperson of the Committee for Green Projects – Head of Corporate Credit Products 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 Strategy and Portfolio Analytics; Head of Risk Models Validation and Cross Border 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

- 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, selected in accordance with the Eligibility Criteria, and 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 or used to repay existing borrowings under general credit facilities of the BPI Group
- These funds will be managed according to BPI’s internal liquidity management policies and may be transferred to other entities within the BPI Group

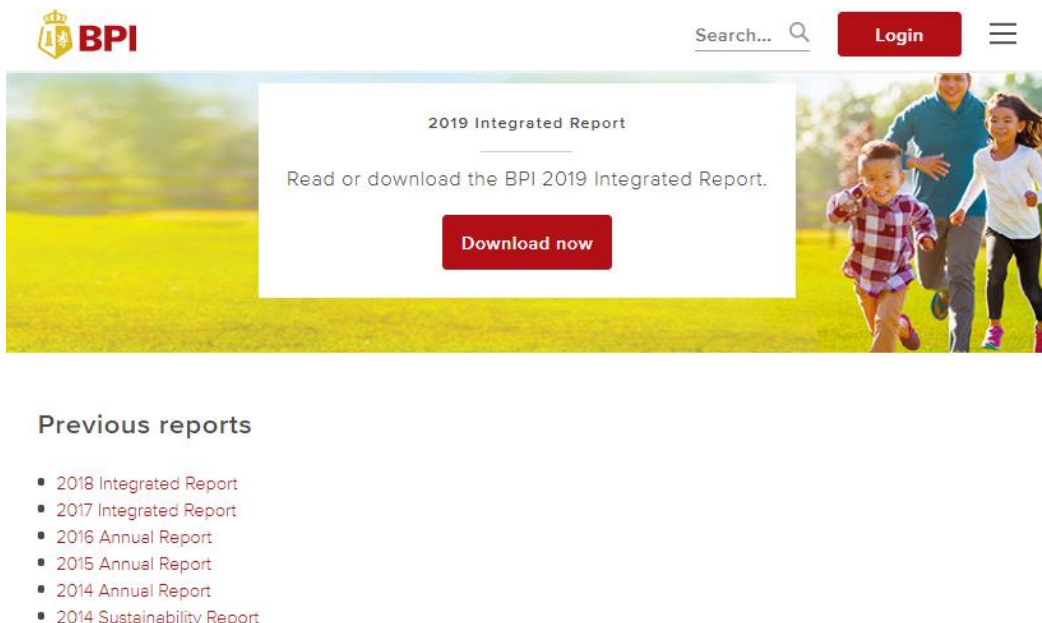
Substitution of Assets

- 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



The screenshot shows the BPI website's 2019 Integrated Report page. At the top left is the BPI logo. To the right is a search bar and a red 'Login' button. The main content area features a large image of a family running in a field. Overlaid on this image is a white box with the text '2019 Integrated Report' and 'Read or download the BPI 2019 Integrated Report.' Below this text is a red 'Download now' button. At the bottom left, under the heading 'Previous reports', there is a list of links to various reports: 2018 Integrated Report, 2017 Integrated Report, 2016 Annual Report, 2015 Annual Report, 2014 Annual Report, and 2014 Sustainability Report.

BPI’s Sustainability Reports can be found in the following link:
<https://www.bpiexpressonline.com>

4 Reporting

B Impact Reporting

Where relevant and possible, BPI will also report 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"> Greenhouse Gas (GHG) emissions reduced/avoided (tCO₂e)
Energy Efficiency	<ul style="list-style-type: none"> Annual energy savings (kWh/MWh/GWh) Reduction in energy demand (%)
Green Buildings	<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)
Pollution Prevention and Control	<p>Waste Management</p> <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)
Sustainable Water Management	<p>Water & Wastewater Management</p> <ul style="list-style-type: none"> Annual water savings (l/m³) Annual volume of wastewater treated or avoided (l/m³)
MSME Lending	<p>Lending to MSMEs</p> <ul style="list-style-type: none"> Number of loans to MSMEs Total amount of loans made to MSMEs