Second-Party Opinion
RCBC Sustainable Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the RCBC Sustainable Finance Framework is credible and impactful, and aligns with the Social Bond Principles, Green Bond Principles, Sustainability Bond Guidelines, Green Loan Principles, ASEAN Social Bond Standards, ASEAN Green Bond Standard and ASEAN Sustainability Bond Standards 2018. This assessment is based on the following:

USE OF PROCEEDS The seven green and five social eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Green Loan Principles and ASEAN Sustainability Bond Standards 2018. Sustainalytics considers that the eligible green and social projects and lending activities as defined in the Framework will contribute to the decreasing environmental footprint of the Philippines, advancing employment generation, and improving access to essential services of vulnerable groups in Philippines. Sustainalytics considers that the eligible projects will advance the UN Sustainable Development Goals (SDGs), specifically SDG 3, 4, 6, 7, 8, 9, 10, 11, 12 and 15.

PROJECT EVALUATION / SELECTION RCBC set up a two-step project evaluation and selection process in which business units undergo an initial project selection process based on RCBC’s Social and Environmental Management System Policy. An internal committee with cross departmental representation from Credit Risk, Business and Sustainability teams then conducts the final validation of Eligible Green Projects based on the eligibility criteria. This process is in line with market practices.

MANAGEMENT OF PROCEEDS The net use of proceeds will be managed by its Balance Sheet Management Team and Enterprise Risk Division on a portfolio basis. Pending full allocation, the unallocated proceeds will be invested in cash and/or short-term liquid instruments according to the RCBC’s liquidity management policies. This process is in line with market practices.

REPORTING RCBC intends to provide an annual allocation report covering data on the amount or percentage of allocation to the eligible portfolio of assets, examples of financed projects (subject to confidentiality considerations) and the balance of unallocated proceeds. In addition, RCBC intends to provide, where feasible, an impact report covering data on relevant impact metrics. Sustainalytics considers that the scope and level of detail of RCBC reporting commitments are aligned with market practice.

Alignment with the ASEAN Sustainability Bond Standards

The ASEAN Sustainability Bond Standards provide guidance to issuers and communicate more specifically what an issuer should do to issue a credible sustainable bond within Southeast Asia. Sustainalytics is of the opinion that the green and social categories under the RCBC Sustainable Bond Framework align with the ASEAN Sustainability Bond Standards.
Introduction

Rizal Commercial Banking Corporation (‘RCBC' or ‘the company') provides a wide range of financial products, both locally and internationally. The company operates through Retail, Corporate, Treasury and others. RCBC was founded in 1960 and is based in Makati City, the Philippines.

RCBC developed the Rizal Commercial Banking Corporation Sustainable Finance Framework (the “Framework”) under which it intends to issue green bonds, social bonds and green loans and use the proceeds to finance and or refinance, in whole or in part, existing and future projects that provide environmental and social impacts such as reducing environmental footprint, advancing employment generation and improving the access of essential services for vulnerable groups, particularly healthcare and affordable housing, while supporting RCBC’s strategy and vision. The Framework defines Green and Social Eligible Categories in the following areas:

Green Eligible Categories
1. Renewable Energy
2. Green Buildings
3. Clean Transportation
4. Energy Efficiency
5. Pollution Prevention and Control
6. Sustainable Water Management
7. Environmentally Sustainable Management of Living Natural Resources and Land Use

Social Eligible Categories
1. Affordable Basic Infrastructure
2. Access to Essential Services
3. Employment Generation
4. Affordable Housing
5. Socioeconomic Advancement and Empowerments

RCBC engaged Sustainalytics to review the RCBC Sustainable Finance Framework dated April 2019 and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG), the Green Loan Principles 2018 (GLP) and ASEAN Sustainability Bond Standards 2018 (ASBS). This Framework has been published in a separate document.

As part of this engagement, Sustainalytics exchanged information with various members of RCBC's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of RCBC's sustainability bond. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the RCBC Sustainable Framework and should be read in conjunction with that Framework.

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1 The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/
3 ASEAN Sustainability Bond Standards 2018 administered by the ASEAN Capital Markets Forum http://www.theacmf.org/ACMF/upload/SUSTAINABILITYBONDACMF.pdf
4 Alignment with the Sustainability Bond Guidelines and the ASEAN Sustainability Bond Standards also implies alignment with the Green Bond Principles, Social Bond Principles, ASEAN Green Bond Standards and ASEAN Social Bond Standards.
5 RCBC Sustainable Finance Framework available at: https://www.rcbc.com/About/InvestorRelations
Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the RCBC Sustainable Finance Framework

Sustainalytics is of the opinion that the RCBC’s Sustainable Finance Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 (GBP), Social Bond Principles 2018 (SBP), Green Loan Principles 2018 (GLP), Sustainability Bond Guidelines 2018 (SBG), and the ASEAN Sustainability Bond Standards 2018 (ASBS). Sustainalytics highlights the following elements of RCBC’s Sustainability Bond Framework:

- **Use of Proceeds:**
  - RCBC does not include a look-back period for refinancing but has committed to report on the amount of existing and new financing in its annual report.
  - RCBC uses credible third-party standards for some of its eligible categories, such as LEED (Gold and above), BERDE Green Building Rating System (4-star and above) for green buildings; Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) for forest management; and Marine Stewardship Council (MSC) and Aquaculture Stewardship Council (ASC) for sustainable fisheries (see Appendix 1 for additional details).
  - RCBC established exclusionary criteria for its use of proceeds categories, including fossil fuel power generation, and biomass energy that competes with food production or that is not certified to recognized third-party sustainability certification schemes.
  - RCBC intends to use part of the proceeds for loans to manufacturers of generic pharmaceuticals and drugstores. Given the importance of generics in the Philippines to lower out-of-pocket expenses, Sustainalytics considers the criteria to be impactful but encourages RCBC to incorporate due diligence on product quality and safety standards of generic manufacturers into its evaluation process. RCBC also intends to finance traders and distributors of medical products. RCBC clarified that financing will be limited to those traders and distributers exclusively providing medical products, including generics.
  - RCBC has defined target populations under the following UoP categories (also see Section 3):

- Financing small, medium and micro enterprises as defined by the Philippines Central Bank’s Manual of Regulation for Banks.
- Sustainalytics considers the Philippines to be an economically disadvantaged country and thus considers the criterion to be sufficiently targeted.
- Financing, development and purchasing of economic housing and socialized housing as defined by the Housing and Land Use Regulatory Board (HLURB) of Philippines.
- Loans to cooperatives that are formed by economic housing cooperatives.

- RCBC intends to use part of the proceeds for project-based lending and part for general purpose loans for SMEs, rural Banks and pure-play companies, defining pure-plays as businesses that derive 80% of revenues from eligible categories. Sustainalytics notes that the GBP, SBP, SBG, GLP and ASBS favor project-based lending, and that there is in general less transparency associated with reporting on non-project-based financing. Where proceeds are used for general purpose loans, Sustainalytics recommends that RCBC track and disclose the portion of bond proceeds allocated to general-purpose loans and to provide detailed impact reporting.
- RCBC intends to finance public and private education institutions. While Sustainalytics recognizes the general importance of education, as well as the role that private education institutions play in the provision of access to education in the Philippines, the inclusion of private education facilities, without any limitations, in the framework may allow the financing of education facilities that are considered out of reach for low income groups despite governmental study subsidies (see Section 3 for more information).

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5 BSP Circular No. 147 Series of 1997 defines Small and Medium Enterprises as business activity or enterprise with total assets having value under the following categories: Micro (less than Php1,500,001), Small (Php1,500,001–Php15,000,000), Medium (Php15,000,001–Php60,000,000).
- RCBC’s framework does not include a threshold for GHG emissions for biomass or geothermal projects. The carbon intensity of biomass electricity generation ranges from about 65 to 350gCO₂/kWh6 and, while approximately two-thirds of geothermal projects globally have a carbon intensity of below 100gCO₂/kWh (regarded by Sustainalytics as a best practice threshold), some geothermal facilities are considerably higher, ranging up to 1,300gCO₂/kWh.9,10 RCBC has indicated that the emissions of two plants financed have emissions below 180gCO₂/kWh. Given the geological characteristics of the Philippines,11 Sustainalytics encourages RCBC to favour projects with lower carbon intensity and to report where possible on the intensity of projects financed.

- RCBC’s green building criterion includes the top 15% most efficient buildings in the country, which is aligned with current market practices as well as the Climate Bond Initiative criteria for Low Carbon Buildings. However, the company has not yet disclosed a methodology on how to assess the top 15% for the Philippines.

- Aquaculture Stewardship Council (ASC) for sustainable fisheries reserves the right to award certification with variances from the standard in some cases, which could result in financing for aquaculture activities that do not fully comply with the standard.12 Sustainalytics recommends that RCBC limit financing to those fisheries that are fully aligned with the standard.

**Project Evaluation and Selection:**
- RCBC’s project evaluation and selection process is executed by an internal committee comprised of representatives from the company’s Credit Risk, Business, and Sustainability teams. The committee’s project selection process is based on and aligned with the requirements set through RCBC’s Social and Environmental Management System (SEMS) policy and the Eligible Green and Social Categories. Sustainalytics assesses this process as being in line with market practices.

**Management of Proceeds:**
- RCBC will manage and track the sustainable finance proceeds on a portfolio basis, which is managed by RCBC’s Balance Sheet Management Team and Enterprise Risk Division. Pending full allocation, the unallocated sustainable finance proceeds will be held in cash and/or invested in short-term liquid instruments. Sustainalytics views this process aligned with current market practices.

**Reporting:**
- RCBC intends to provide annual allocation reporting covering data on the amount or percentage of allocation to the eligible portfolio of assets, examples of projects financed (subject to confidentiality considerations) and the balance of unallocated proceeds. In addition, RCBC intends to disclose, wherever feasible, an impact report with data on installed capacity and annual renewable energy generation in MW, type of green building certifications and number of buildings in each type, and number of public transportation projects financed, annual energy savings (in kWh), reduction in energy demand, number of loans to SMEs, number of loans to underserved individuals, number of affordable houses financed, number of patients served, and number of hospital beds. Sustainalytics considers RCBC’s allocation and impact reporting practices to be aligned with local and international market practices and expectations due to scope and granularity of its coverage.

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7 The report of the World Bank indicates that emissions from geothermal power plants can be as high as 1,300g/kWh: [https://openknowledge.worldbank.org/bitstream/handle/10986/24691/GreenhouseGasEmissions1powerproduction.pdf?sequence=1&isAllowed=y](https://openknowledge.worldbank.org/bitstream/handle/10986/24691/GreenhouseGasEmissions1powerproduction.pdf?sequence=1&isAllowed=y)


9 Some geothermal plants drawing on high-temperature geothermal reservoirs in carbon-rich rocks produce relatively high GHG emissions (World Bank). While high emitting geothermal sources are rare, studies indicate the potential for high temperature geothermal reservoirs and carbonate in the rock bed in the Philippines. [https://www.geothermal-energy.org/pdf/IGAstandard/WGC/2005/2609.pdf](https://www.geothermal-energy.org/pdf/IGAstandard/WGC/2005/2609.pdf)

10 While Sustainalytics notes the bank’s intention to conduct additional environmental due diligence on financing activities certified with a variance from the standard, it is encouraged to prioritize the allocation of bond proceeds to financing activities that have received full and complete ASC certifications to ensure that recipients are achieving a higher level of positive impact. A list of variance requests and variances previously granted is available on ASC’s website: ASC’s list of variance requests and variances previously granted is available here: [http://variance-requests.asc-aqua.org](http://variance-requests.asc-aqua.org)
Alignment with Sustainability Bond Guidelines 2018, Green Loan Principles 2018 and ASEAN Sustainability Bond Standards

Sustainalytics recognizes that the RCBC Sustainability Finance Framework is not exclusively project-based and that proceeds may be allocated to finance general-purpose lending to micro-, small and medium (MSMEs) enterprises, rural banks and pure-play companies, defined as businesses deriving 80% of revenues from eligible categories. Sustainalytics recognizes that (i) the GBP, SBP, SBG, GLP and ASBS favor project-based lending, and that (ii) in general, there is less transparency associated with reporting on non-project-based financing. However, Sustainalytics recognizes that general-purpose financing is limited to the minority, underserved, and low-income individuals as well as the MSMEs and as defined by Philippine law and thus considers this use of proceeds as contributing to socioeconomic advancement and empowerment. (Please see Section 3 for more information on the impact)

Section 2: Sustainability Strategy of the Issuer

Contribution of Framework to Issuer’s sustainability strategy

RCBC has committed to disseminate social and environmental considerations throughout its operations and the businesses it serves. To achieve its commitment, RCBC partnered with the International Finance Corporation (IFC) to advance its sustainability standards, ever since the latter became a public shareholder in RCBC in 2012.

While the company’s exposure to the power industry still includes a small portion of fossil fuel assets (8%), Sustainalytics highlights that RCBC provided direct financial support to South East Asia’s largest solar power plant and served as the biggest funder to the 132.5 MW solar farm in Cadiz City, Negro Occidental, Philippines. Although RCBC has not defined quantitative energy reduction and climate targets, Sustainalytics views positively RCBC’s advancement into renewable energy financing as a defining step towards the bank’s expansion into environmentally impactful projects and considers that the bank would substantially strengthen its sustainability profile. Sustainalytics recommends RCBC to implement quantitative environmental and social targets into its business activities to proceed to the next step.

In addition to its environmental efforts, RCBC offers a diverse range of ongoing small and micro enterprise solutions products in order to facilitate the supply of SME financing on a long-term and sustainable basis while achieving government’s law on SME funding, which oblige all lending institutions registered under Central Bank of Philippines to allocate 8% of total loan portfolio to MSMEs and at least 2% to MEs. RCBC has established the Rizal Micro Bank to accomplish its mandate to provide additional working capital loans to micro and small enterprises. As of December 2017, the portfolio mix of the bank was 16% microfinance loans, 62% small business loans, and 22% agricultural loans to value chain players in the agricultural sector.

Overall, Sustainalytics is of the opinion that RCBC has demonstrated steps towards supporting environmentally and socially impactful projects. In this sense, Sustainalytics is of the opinion that RCBC is well-positioned to issue green bonds, social bonds and loans as a means to enhance its sustainability profile.

Well positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes the positive impact of the eligible projects, the projects also have potential environmental and social risks, particularly related to workers’ health and safety, biodiversity and community relations related to large infrastructure and renewable energy projects. Moreover, social benefit programs in general can include risks of increasing inequality if not targeted at the right target population. Sustainalytics highlights the following measures that RCBC has taken to mitigate these risks:

• RCBC implemented an Environmental Management System Policy (SEMS) in partnership with the International Finance Corporation, applicable at all financing stages (initiation, evaluation, approval,
documentation, implementation and monitoring). According to SEMS, RCBC oblige its borrowers to consider social and environmental requirements before the project proposal such as IFC exclusion list, applicable national laws on environment, health, safety and social issues, and any standards established therein, and IFC Performance Standards. RCBC implemented a structured approach to analyzing the environmental and social risks of nominated projects, including a preliminary environmental and social risk and impact assessment (ESIA) based on eight Performance Standards on (i) Assessment and Management of Environmental and Social Risks and Impacts, (ii) Labor and Working Conditions, (iii) Resource Efficiency and Pollution Prevention (iv) Community Health, Safety and Security, (v) Land Acquisition and Involuntary Resettlement, (vii) Biodiversity Conservation and (viii) Cultural Heritage. This includes the International Finance Corporation (IFC) Exclusion List and IFC Performance Standards. Sustainalytics views RCBC's risk and impact assessment approach positively since it ensures that possible risks have been identified and assessed during the project selection process. Additionally, in order to ensure adequate oversight and accountability throughout the entire ESIA assessment, RCBC implemented specific governance structures, namely a SEMS officer heading a separate SEMS unit (as the second line of defense) responsible for the effective implementation of its Social and Environmental Framework.

- RCBC’s social categories target defined segments of the population groups such as minority, underserved, and low-income individuals as well as the small, medium and micro enterprises defined by the Philippines Central Bank’s Manual of Regulation for Banks. However, Sustainalytics considers some of RCBC’s categories to be less targeted, including education and rural banks, and recommends RCBC to provide on issuance details of the projects and companies financed and to provide evidence through its annual reporting that the financed projects and assets indeed address the named targeted segments.

Overall, Sustainalytics is of the opinion that RCBC is adequately positioned to mitigate environmental and social risks commonly associated with its Eligible Green and Social Assets.

- In February 2016 hackers infiltrated systems at the central bank of Bangladesh, and funneled money to bank accounts overseas. RCBC was one of two banks that processed the requests and allowed USD 81 million in transfers to RCBC accounts. While RCBC’s own investigations cleared RCBC’s CEO and Treasurer from involvement, both resigned from their positions before RCBC received a fine for violations of the country’s banking rules. In November 2016, charges were filed against six current and former executives for allegedly failing to flag the suspicious transaction. RCBC disclosed to Sustainalytics that since 2016, it has improved controls for customer onboarding, monitoring and processing of large transactions and training on integrity. Sustainalytics welcomes RCBC’s efforts and encourages the bank to continuously strengthen its control mechanisms and ensure due diligence mechanisms as well as close tracking and monitoring of funding.

Section 3: Impact of Use of Proceeds

All seven green and five social use of proceeds categories are recognized as impactful by GBP and SBP. Sustainalytics has focused on six below where the impact is specifically relevant in local context of the Philippines.

Importance of employment generation and SME development in the Philippines

According to the World Bank, the Philippines is a lower-middle-income developing country. While average annual growth between 2010–2017 was 6.4% and poverty declined from 28.6% in 2006 to 21.6% in 2015, the country’s Human Development Index (HDI) value increased by only 1% between in the same

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17 RCBC SEMS Policy available at: https://www.rcbc.com/Others/SemsPolicy
18 Information retrieved from https://www.rcbc.com/Others/SustainabilityEfforts
22 The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.
timeframe, an indication of a regression in the country's ability to transform growing economic product and incomes into human development outcomes. Moreover in the Philippines, small and medium enterprises (SMEs) operate as a main source of employment, accounting for more than half of jobs and 99.6% of all enterprises in Philippines. Although SMEs contribute one third of the Philippines’ GDP, SME loans’ percentage to total loans has been decreasing. Despite an obligatory rate for banks of 8% of all loans to MSMEs, banks have been allocating less loans than obliged. Moreover, studies showed that bank loans only account for 39% of total SME funding instruments in Philippines since lenders requiring collateral before extending credit, enforcing borrowers to find alternative funding sources such as capital leasing and supplier credit. The Philippine government has started to provide high level of support for SMEs through, for example its five-year MSME Development Plan (2017-2022), which established several funding programs for SMEs such as Access of Small Entrepreneurs to Sound Lending Opportunities (ASENSO) Program, aiming to lower the effective cost of borrowing and requirements, and Credit Surety Fund Program (CSF), aiming to increase the credit worthiness of MSMEs experiencing difficulties in obtaining loans.

RCBC intends to provide loans on SMEs as defined by the Philippines Central Bank’s Manual of Regulation for Banks. Given the use of governmental definitions by RCBC as well as the economically disadvantaged position of the country and importance of SMEs in the labor market, Sustainalytics is of the opinion that the financing of SMEs by RCBC will contribute to employment generation and can help advance the Philippine government’s efforts towards empowering SMEs and employment generation.

**Importance of investing in healthcare in the Philippines**

RCBC intends to use part of the proceeds to finance or refinance hospitals accredited to PhilHealth, manufacturers and traders of generics, and drugstores that sell generic products. Sustainalytics considers RCBC’s criteria as impactful given that generics can help lower out-of-pocket costs, and given that PhilHealth covers costs for low-income groups at accredited hospitals.

Access to healthcare services in the Philippines is currently limited primarily due to high out-of-pocket spending, accounting for 54% of healthcare spending by patients. In 2013, the government has implemented a payment scheme for the country’s insurance system, PhilHealth, in order to cover all fees and expenses for indigent citizens based on specific criteria identified by the Department of Social Welfare and Development (DSWD). According to the payment scheme, all benefits are covered for public hospitals, as well as accredited private hospitals.

In addition, Philippines, almost half of the total out-of-pocket costs are for pharmaceutical products, essentially limiting the access to affordable and qualitative healthcare treatment for vulnerable communities. Studies indicated that limited income resulted in insufficient access of vulnerable communities to good quality pharmaceutical products due to high prices. RCBC intends to use its part of the bonds’ proceeds to increase access to affordable medicine through investments in distributors and drugstores that provide generics as well as generic manufacturers. Sustainalytics views RCBC’s qualifying criteria, i.e. the distribution, trading and manufacturing of generics, on drugstores, distributors, traders and

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23 Human Development Indices and Indicators: 2018 Statistical Update [link]
24 UNDAF, Partnership Framework for Sustainable Development 2019 – 2023 [link]
25 [link]
26 Improving Access to Finance for the Underserved, Deloitte [link]
27 The Magna Carta for MSMEs as amended by Republic Act (RA) 9501 [link]
28 Improving Access to Finance for the Underserved, Deloitte [link]
29 Access of Small Entrepreneurs to Sound Lending Opportunities (ASENSO) [link]
30 Credit Surety Fund Program (CSF) [link]
31 Enterprise with 10 to 199 employees and/or assets valued from P3 million to P100 million
32 Out of pocket expenditures currently stand at 47% in Indonesia, 12% in Thailand and 37% in Vietnam. More information available [link]
33 More information on the payment scheme as defined in PhilHealth available at: [link]
34 The role of national health insurance for achieving UHC in the Philippines: a mixed methods analysis, paper available at: [link]
35 Access to medicines in the Philippines: Overcoming the barriers, article available at: [link]
manufacturers positively and believes that the investments can contribute to decreasing the out-of-pocket expenses.

Based on the above, Sustainalytics views that RCBC’s financing of healthcare, both through access to hospital services and to treatment medication will provide a positively impact social determinants of health and thus potentially increase access and affordability to health-related services in the Philippines.

Importance of social housing in the Philippines
RCBC intends to finance “Socialized Housing” and “Economic Housing”37 projects as defined by the Housing and Land Use Regulatory Board of Philippines38 which are within the affordability level of the average and low-income earners, 30% of the gross family income as determined by the National Economic and Development Authority.39 Due to significant rural poverty levels,40 the Philippines experiences high numbers migrating to urban areas.41 The urban migration pattern in a total housing backlog of around 4 million units with an excess of 300,000 units being required annually to eliminate the deficit (Subdivision and Housing Developers Association (SHDA)).42 The same statistics also indicated that less than 27% of the 1.88 million housing units produced between 2003 to 2012 were classified as socialized housing, indicating the importance of affordable housing.

Sustainalytics believes that RCBC’s funding of affordable housing projects classified as socialized housing and economic housing will provide a meaningful contribution to reduce the supply gap and directly impact the livelihoods of vulnerable communities. Similarly, Sustainalytics highlights that such projects are likely have a positive impact in reducing poverty within non-income dimensions and improve the overall sense of immediate security.

Importance of financing Rural Banks in the Philippines
The Rural Banks were founded in the 1950s to promote basic financial services in the rural communities in Philippines.43 In 1992, the Rural Bank Act No.7353 was established by Government of Philippines to enhance the incomes of the underserved rural poor, and create employment opportunities, particularly in agricultural and fishery sector.44 Institutions like the Asian Development Bank and the International Fund for Agricultural Development (IFAD) financed the Philippine government to foster access to finance in rural areas.45 Although Rural Banks accounts for only 1.5% of the Philippine banking system, they support underserved sectors in countryside by providing lending solutions to specific client groups such as farmers and fisherfolk.46 As of 2015, Rural Banks covered 59% of the country’s municipalities while bigger banks were present only in highly urbanized and densely populated areas.47 Moreover, Rural Banks have established Micro-Banking Offices (MBOs), to increase the access in areas where it’s not economically feasible to establish a branch. As of 2017, 78% of MBOs in previously unbanked areas were owned by Rural Banks48 while 37% of all cities and municipalities have remained underbanked.49 As of 2018, only Rural Banks have managed to comply with the Agri-Agra Reform Credit Act50 which obliges banks to allocate 10% of total loans to agrarian beneficiaries and 15% to farmers and fisherfolk.51

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37 HLURB Memorandum Circular No. 13 Series of 2017 defines Socialized Housing as Php450,000 and below and Economic Housing as above Php450,000 to Php1,700,000. Please refer to circular for full details. As the HLURB may amend thresholds, this is subject to change without further notice.
38 More information on the Land Use Regulatory Board of Philippines available at: http://hlurb.gov.ph/
40 Countryside poverty accounts for more than 76% of the 26 million Filipinos living in extreme poverty and 12 million in extreme poverty: Poverty in the Philippines, Causes, Constraints and Opportunities, article available at: https://www.adb.org/sites/default/files/publication/27529/poverty-philippines-causes-constraints-opportunities.pdf
42 Affordable housing is a top priority in the Philippines, article available at: https://oxfordbusinessgroup.com/analysis/back-basics-affordable-housing-priority
43 Banks supervised by Philippines Central Bank: http://www.bsp.gov.ph/banking/bspsup.asp
Sustainalytics acknowledges that one of the fundamental targets of the Rural Banks, expanding lending activities to underserved, was not duly realized due to high default rates, credit and liquidity risks associated with lending to the very poor.\textsuperscript{52} Sustainalytics also acknowledges that there is no clear evidence to demonstrate the impact of Rural Banks in employment generation. However, Sustainalytics is of the opinion that Rural Banks do play an important role in improving access to finance in rural areas in the Philippines for underserved sectors, especially agricultural and fishery.

Importance of sustainably managing living and natural resources in the Philippines

In the Philippines, the agriculture sector accounts for 30% of total GHG emissions, with agricultural land covering approximately 42% of country’s territory.\textsuperscript{53} Although the Philippine economy has been shifting to industry and service sector, agriculture emissions still demonstrates an upwards trend, driven by rice cultivation.\textsuperscript{54} In 2010, the government adopted several priorities to mitigate climate change on agricultural food and natural resources such as (i) developing a crop-livestock-forestry integration system as a sustainable approach to reduce GHG emissions, (ii) developing a package of mitigation technologies for agriculture which considers the technical and economic mitigation potential.\textsuperscript{55} The UN Food and Agriculture Organization (FAO) recognizes the positive environmental contribution of organic farming to the increase in soil carbon sequestration due to the replacement of synthetic fertilizers with biomass management.\textsuperscript{56} As such, Sustainalytics considers the financing of organic agriculture to contribute towards lowering the sector’s environmental footprint while contributing to the government’s climate change agenda.

Forests are one of the major contributors in reducing GHG emissions due to their function as carbon sinks, capturing and holding carbon dioxide. In contrast, unsustainable forest and land management practices can emit significant amounts of GHG.\textsuperscript{57} According to IPCC, Agriculture, Forestry and Other Land Use (AFOLU) sector accounts for 24% of total GHG emissions, demonstrating the importance of mitigation strategies and implementation of sustainable forestry management. RCBC limits investments in forestry activity to recognized third-party certified forests, i.e. Forest Stewardship Council’s® (FSC) and Endorsement of Forest Certification (PEFC). While PEFC has faced criticism from civil society organizations, FSC is considered to be the strongest forest certification system for sustainable forest management. See Appendix 1 for Sustainalytics’ assessment of the FSC and PEFC standards. Given this context, Sustainalytics believes that RCBC’s financing of environmentally sustainable forestry, as demonstrated by the FSC and PEFC certifications, will be impactful and will directly contribute to reducing net GHG emissions.

While fish is an important part of the diet of many regions,\textsuperscript{58} aquaculture and fishery is associated with significant environmental impacts, ranging from decreasing water quality, disease spreading and faunal modification from aquaculture\textsuperscript{59} to overfishing, habitat destruction, bycatch and derelict fishing gear from fishing practices.\textsuperscript{60} In 2016, the Philippines ranked 8\textsuperscript{th} among the top fish producing countries in the world,\textsuperscript{61} demonstrating the need of well-managed fishery and aquaculture practices. Sustainalytics is of the opinion that RCBC’s financing of fisheries and aquaculture facilities certified to MSC or ASC certifications, can contribute to increase environmentally responsible fishery management practices. Refer to Appendix 1 for further summary of the reference fishery and agriculture standards.

Importance of education in the Philippines

A 2018 report by the Philippines Statistics Authority indicate that education is the poverty dimension which is the most common in the Philippines.\textsuperscript{62} The education system in the Philippines includes private and

\textsuperscript{53} Working Group III: Mitigation of Climate Change can be found at: https://www.omlopezcenter.org/the-philippine-climate-change-assessment/
\textsuperscript{55} Working Group III: Mitigation of Climate Change can be found at: https://www.omlopezcenter.org/the-philippine-climate-change-assessment/
\textsuperscript{57} Agriculture, Forestry and other Land Use https://www.thegef.org/topics/agriculture-forestry-and-other-land-uses
\textsuperscript{58} Global Food Security, Volume 3, Issue 1, February 2014, Pages 59-66: Fisheries in transition: Food and nutrition security implications for the global South, Ben Belton &Shukantala Haraksingh Thilsted
\textsuperscript{61} Philippine Fisheries Profile 2017 https://www.bfar.da.gov.ph/publication
\textsuperscript{62} Philippines Statistics Authority, November 2018: https://psa.gov.ph/content/filipino-families-are-most-deprived-education-0
public institutions. The Department of Education (DepEd) is the main government agency responsible for basic education. Primary and secondary education in DepEd-managed schools all over the country is free. There are also private primary and secondary schools that impose fees. Regarding higher education, there are approximately 2,300 higher education institutions in the Philippines of which 30% are public and 70% private higher education institutions.\(^{63}\) Both types of institutions fall under the supervision of the Commission of Higher Education (CHED).\(^{64}\) However some private university and schools charging tuition fees which are up to 200% of annual income in the Philippines.\(^{65,66}\) In 2018, the Government of the Philippines passed the “Universal Access to Quality Tertiary Education Act” (Republic Act 10931),\(^{67}\) which (i) removes tuition for state universities and colleges, CHED-accredited local universities and colleges and Technical Education and Skills Development Authority (TESDA)-accredited technical-vocational institutions, (ii) provides tertiary education subsidy (TES) and (iii) a student loan programme for students opting to go to a private higher education institution where the TES subsidy is insufficient to cover its tuition and fees may avail of this loan program. Given the governmental subsidy scheme and the importance of also private education institutions in the Philippines, Sustainalytics considers the financing of education institutions public and private to be impactful. Nevertheless, Sustainalytics considers that there may be some education institutions which will be out of reach for the majority of students given the fee structure of these institutions and recommends that RCBC discloses on issuance the institutions financed.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

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<th>Use of Proceeds Category</th>
<th>SDG</th>
<th>SDG target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to Essential Services</td>
<td>3.</td>
<td>Good Health and Well-being</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>Quality Education</td>
</tr>
<tr>
<td></td>
<td>3.8</td>
<td>Achieve universal health coverage, including financial risk protection,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>access to quality essential health-care services and access to safe,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>effective, quality and affordable essential medicines and vaccines for all</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>7.</td>
<td>Affordable and Clean Energy</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>7.2</td>
<td>By 2030, increase substantially the share of renewable energy in the</td>
</tr>
<tr>
<td>Green Buildings</td>
<td></td>
<td>global energy mix</td>
</tr>
<tr>
<td></td>
<td>7.3</td>
<td>By 2030, double the global rate of improvement in energy efficiency.</td>
</tr>
<tr>
<td>Clean transportation</td>
<td>11.</td>
<td>Make cities</td>
</tr>
<tr>
<td></td>
<td>11.1</td>
<td>By 2030, ensure access for all to adequate, safe and affordable housing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and basic services and</td>
</tr>
</tbody>
</table>


\(^{64}\) Ibid.


<table>
<thead>
<tr>
<th>Affordable Housing</th>
<th>Affordable Basic Infrastructure</th>
<th>and human settlements inclusive, safe, resilient and sustainable</th>
<th>upgrade slums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pollution Prevention and Control</td>
<td>Sustainable Water Management</td>
<td>6. Clean Water and Sanitation</td>
<td>6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.</td>
</tr>
<tr>
<td>Environmentally Sustainable Management of Living Natural Resources and Land Use</td>
<td></td>
<td>12. Responsible Consumption and Production</td>
<td>12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse</td>
</tr>
<tr>
<td>Employment Generation</td>
<td>Socioeconomic Advancement and Empowerments</td>
<td>8. Decent work and economic growth</td>
<td>8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10. Reduce inequalities</td>
<td>10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average</td>
</tr>
</tbody>
</table>

**Conclusion**

RCBC has developed the Rizal Commercial Banking Corporation Sustainable Finance Framework under which it intends to issue green bonds, social bonds and green loans and use the proceeds to finance and/or refinance, projects and pure-play companies that provide environmental and social impacts while supporting RCBC’s strategy and vision in 12 categories: (i) Renewable Energy, (ii) Green Buildings, (iii) Clean Transportation, (iv) Energy Efficiency, (v) Pollution Prevention and Control, (vi) Sustainable Water Management, (vii) Environmentally Sustainable Management of Living Natural Resources and Land Use, (viii) Affordable Basic Infrastructure, (ix) Access to Essential Services, (x) Employment Generation, (xi) Affordable Housing and (xii) Socioeconomic Advancement and Empowerments.

Sustainalytics has assessed the framework and considers it to be aligned with the Sustainable Bond Guidelines, the Green Loan Principles and the ASEAN Sustainability Bond Standards. Sustainalytics considers the projects and activities financed under the framework to contribute to positive social and environmental impact. However, Sustainalytics acknowledges that the framework does not identify a GHG emission threshold for biomass and geothermal power generation plants and includes financing of general-purpose loans for pure-play companies and SMEs. Sustainalytics further encourages RCBC to disclose the private education institutions financed and to limit financing of ASC certified standards to those which are fully aligned with the standard.

Overall, given the above Sustainalytics considers the RCBC Sustainable Finance Framework to be credible and impactful and aligned with the Sustainability Bond Guidelines, the Green Loan Principles and The ASEAN Sustainability Bond Standards.
Appendices

Appendix 1 Certification schemes used by RCBC in its Sustainability Bond Framework

Overview and Comparison of Green Building Certification Schemes

<table>
<thead>
<tr>
<th></th>
<th>BERDE</th>
<th>LEED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background</strong></td>
<td>BERDE (Building for Ecologically Responsive Design Excellence) is administered by the Philippine Green Building Council (PhilGBC) and is recognized by the Philippine Department of Energy. In 2009, the scheme was developed in line with the World Green Building Council’s Quality Assurance for Green Building Rating Tools methodology.</td>
<td>Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.</td>
</tr>
<tr>
<td><strong>Certification levels</strong></td>
<td>1 Star</td>
<td>Certified</td>
</tr>
<tr>
<td></td>
<td>2 Stars</td>
<td>Silver</td>
</tr>
<tr>
<td></td>
<td>3 Stars</td>
<td>Gold</td>
</tr>
<tr>
<td></td>
<td>4 Stars</td>
<td>Platinum</td>
</tr>
<tr>
<td></td>
<td>5 Stars</td>
<td></td>
</tr>
<tr>
<td><strong>Areas of Assessment:</strong></td>
<td>Management is part of the Core Framework of BERDE.</td>
<td>Integrative process, which requires, from the beginning of the design process, the identification and creation of synergies between the various project stakeholders regarding the construction choices and the technical systems.</td>
</tr>
<tr>
<td><strong>Environmental Project Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Areas of Assessment:</strong></td>
<td>Core Framework:</td>
<td>Energy and atmosphere</td>
</tr>
<tr>
<td><strong>Environmental Performance of the Building</strong></td>
<td></td>
<td>Sustainable Sites</td>
</tr>
<tr>
<td></td>
<td>• Energy Efficiency and Conservation</td>
<td>Location and Transportation</td>
</tr>
<tr>
<td></td>
<td>• Water Efficiency and Conservation</td>
<td>Materials and resources</td>
</tr>
<tr>
<td></td>
<td>• Waste Management</td>
<td>Water efficiency</td>
</tr>
<tr>
<td></td>
<td>• Use of Land and Ecology</td>
<td>Indoor environmental quality</td>
</tr>
<tr>
<td></td>
<td>• Green Materials</td>
<td>Innovation in Design</td>
</tr>
<tr>
<td></td>
<td>• Transportation</td>
<td>Regional Priority</td>
</tr>
<tr>
<td></td>
<td>• Indoor Environmental Quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Emissions</td>
<td></td>
</tr>
<tr>
<td><strong>Requirements</strong></td>
<td>Minimum requirements + Points</td>
<td>Prerequisites (independent of level of certification) + Credits with associated points</td>
</tr>
<tr>
<td></td>
<td>Projects applying for BERDE Certification must comply with the minimum requirements before an assessment can begin. Afterwards, the project is analysed on the 9 areas of assessment and receives points depending on performance. The distribution of points for the areas of assessment is different depending on the certification type (BERDE GBRS New Construction, BERDE GBRS Operations and BERDE GBRS Renovations). Based on the total number of points, a certain number of stars are awarded to the project. The minimum rating for a project to be certified is 51 points (1 star).</td>
<td>These points are then added together to obtain the LEED level of certification</td>
</tr>
<tr>
<td></td>
<td></td>
<td>There are several different rating systems within LEED. Each rating system is designed to apply to a specific sector (e.g. New Construction, Major Renovation, Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, Existing Buildings: Operation and Maintenance).</td>
</tr>
</tbody>
</table>
Overview and Analysis of FSC and PEFC Certifications

FSC and PEFC are both based on rigorous standards and on a multi-stakeholder structure. Both organizations are in line with international norms such as the International Labor Organization (ILO) conventions, the Convention on Biological Diversity (CBD), and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). In addition to compliance with laws in the country of certification, both schemes have a set of minimum requirements that companies are required to meet to obtain and maintain certifications. These requirements include compliance with standards around sustainable management of forests, management of environmental impact of operations, preservation of biodiversity, management of socio-economic and community relations, and sourcing of sustainable wood (chain of custody). Furthermore, both FSC and PEFC require external annual audits to ensure compliance and achieve and maintain certification. Despite these similarities, PEFC has faced certain criticisms from civil society actors. These are highlighted below:

(i) Type of organization: Since the FSC is an international labelling and certification system, it sets its own global standards. The PEFC, in contrast, is not a standard setter, but a mutual recognition scheme. The PEFC sets sustainability benchmarks according to international norms and endorses national certification schemes that comply with these benchmarks. A common criticism of this model is that it allows for more flexibility in the interpretation of international PEFC benchmarks as per regional, cultural, and socio-economic context, and results in the endorsement of less rigorous national certification schemes. However, the process for being endorsed by the PEFC is thorough; any national certification system seeking to obtain PEFC endorsement must submit to a comprehensive assessment process, including independent evaluation and public consultation. This evaluation of compliance with international PEFC benchmarks is carried out by independent, accredited certification organizations.

(ii) Indigenous People's Rights: FSC and PEFC both identify indigenous rights as an important standard in forest management. Both certification schemes require that forest management activities consider and do not infringe on indigenous people's rights, and the activities are carried out using frameworks ensuring their free and informed consent. A criticism of PEFC is that it requires only engagement with indigenous people in forest management decisions, while the FSC provides performance-oriented targets, and requires forest managers operating on indigenous lands to obtain indigenous people's consent through binding agreements.

(iii) Sourcing wood from non-certified sources: Both FSC and the PEFC have established standards around sourcing wood from non-certified and controversial sources. FSC’s standards direct forest managers to avoid wood harvested in violation of traditional and civil rights. A criticism of the comparable PEFC standard is that it limits identification of controversially sourced wood to situations where the local legislation is violated. However, PEFC standards explicitly reference the violation of local, national, and international legislation with regards to worker’s and indigenous people's rights as being a controversial source of wood.
## Overview and Assessment of Fishery, Aquaculture, and Agriculture Certifications in RCBC’s Framework

<table>
<thead>
<tr>
<th>Marine Stewardship Council</th>
<th>Aquaculture Stewardship Council</th>
<th>EU Organic Farming</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background</strong></td>
<td>Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.</td>
<td>The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.</td>
</tr>
<tr>
<td><strong>Clear positive impact</strong></td>
<td>Promoting sustainable fisheries practices.</td>
<td>Promoting sustainable aquaculture practices.</td>
</tr>
<tr>
<td><strong>Minimum standards</strong></td>
<td>A minimum score must be met across each of the performance indicators. As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.</td>
<td>Quantitative and qualitative thresholds which are designed to be measurable, metric- and performance-based. Certification may be granted with a “variance” to certain requirements of the standard. This variance is designed to allow the standard to adapt to local conditions, but has been criticized for weakening the standard and overriding the consultations involved in the standard-setting process.</td>
</tr>
<tr>
<td><strong>Scope of certification or programme</strong></td>
<td>The MSC standard consists of a fisheries standard and a chain of custody standard. The Fishery Standard assesses three core principles: sustainable fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social.</td>
<td>ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standars lay out minimum requirements regarding both environmental and social performance. Additionally, a Chain of Custody Standard is</td>
</tr>
</tbody>
</table>

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68 https://www.msc.org/standards-and-certification/fisheries-standard
| **Verification of standards and risk mitigation** | **Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065. Certification is valid for up to five years.** | **Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065. Major non-compliances must be remedied within three months.** | **Certified entities undergo audits to ensure compliance with criteria and continuous improvement at least once a year, or more often based on a risk assessment.** |
| **Third party expertise and multi-stakeholder process** | **Aligned with the UN Code of Conduct for Reponsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)** | **Developed in line with United Nation’s Food and Agriculture Organization (UN FAO) and International Labour Organisation (ILO) principles. Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.** | **The EU Organic Farming is a government-based standard resulting from public consultations and third-party deliberations in line with the European Commission’s typical legislative approach.** |
| **Performanc e display** | ![MSC label](image1.png) | ![ASC label](image2.png) | ![Bio label](image3.png) |
| **Qualitative considerati ons** | **The MSC label is the most widely recognized sustainable fisheries label worldwide, and is generally accepted to have positive impacts on marine environments. Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions, crew safety, and live tracking of supply chains.** | **Widely recognized, and modeled on the successful MSC certification. Some criticism has been focused on the ability to certify with a “variance”, in which certain aspects of the standard can be interpreted or waived during the audit procedure. While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.** | **Every Member State must designate one or more private and/or public control authorities in charge for the organic production and labelling of organic products in the EU Member States.** |
### Appendix 2: Alignment to the ASEAN Sustainability Bond Standards

<table>
<thead>
<tr>
<th>ASEAN Sustainability Bond Standards’ Criteria</th>
<th>Alignment with ASEAN SUS</th>
<th>Sustainalytics’ comments on alignment with the ASEAN Sustainability Bond Standards.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
<td>Yes</td>
<td>The ASEAN SUS requires that issuers must be located in or that the proceeds be directed to assets in an ASEAN country. As a Philippines-based institution, BTSG Corporation qualifies.</td>
</tr>
<tr>
<td>Use of Proceeds</td>
<td>Yes</td>
<td>The ASEAN SUS offers specific clarification that fossil fuel power generation projects and projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry are excluded; RCBC has included criteria in the Framework to this effect.</td>
</tr>
<tr>
<td>Process for Project Evaluation and Selection</td>
<td>Yes</td>
<td>The ASEAN SUS specifies information that must be clearly communicated to investors before issuance regarding project selection. Within its framework, RCBC has described that an internal committee comprising representatives from the company’s Credit Risk, Business and Sustainability teams will select projects based on company’s Social and Environmental Management System (SEMS) policy.</td>
</tr>
<tr>
<td>Management of Proceeds</td>
<td>Yes</td>
<td>The ASEAN SUS mandates that proceeds must be appropriately tracked and that temporary investments be disclosed. Within its framework, RCBC disclosed that the sustainable finance proceeds are managed and tracked on a portfolio basis, which is managed by its RCBC’s Balance Sheet Management Team and Enterprise Risk Division. Pending full allocation, the unallocated sustainable finance proceeds will be held in cash and/or short-term liquid instruments according to the RCBC’s liquidity management policies.</td>
</tr>
<tr>
<td>Reporting</td>
<td>Yes</td>
<td>The ASEAN SUS requires annual reporting on the allocation of funds and the expected impacts. RCBC states that it will provide an annual allocation report until full allocation and commits to report on the impact of the use of proceeds, depending on data availability, on an annual basis.</td>
</tr>
<tr>
<td>Annual Review</td>
<td>Yes</td>
<td>The ASEAN SUS encourages, but does not require, annual reviews. The RCBC commits to have an annual review where feasible. RCBC states in its reports that it intends to publish annually a limited assurance or verification statement for the allocation of proceeds.</td>
</tr>
</tbody>
</table>
Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

<table>
<thead>
<tr>
<th>Issuer name:</th>
<th>Rizal Commercial Banking Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:</td>
<td>Rizal Commercial Banking Corporation Sustainable Finance Framework</td>
</tr>
<tr>
<td>Review provider’s name:</td>
<td>Sustainalytics</td>
</tr>
<tr>
<td>Completion date of this form:</td>
<td>May 2019</td>
</tr>
<tr>
<td>Publication date of review publication:</td>
<td>[where appropriate, specify if it is an update and add reference to earlier relevant review]</td>
</tr>
</tbody>
</table>

Section 2. Review overview

SCOPE OF REVIEW
The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

☐ Use of Proceeds  ☒ Process for Project Evaluation and Selection

☐ Management of Proceeds  ☒ Reporting

ROLE(S) OF REVIEW PROVIDER

☐ Consultancy (incl. 2nd opinion)  ☐ Certification

☐ Verification  ☐ Rating

☐ Other (please specify):

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.
Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The seven green and five social eligible categories are aligned with those recognized as impactful by the Green Bond Principles, Social Loan Principles, Green Loan Principles and ASEAN Sustainability Bond Standards 2018 (see Appendix 2).

RCBC does not include a look-back period for refinancing but committed to report on the amount of existing and new financing in its annual report.

RCBC uses credible third-party standards for some of its eligible categories, such as LEED (Gold and above), BERDE Green Building Rating System (4-star and above) for green buildings; Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) for forest management; and Marine Stewardship Council (MSC) and Aquaculture Stewardship Council (ASC) for sustainable fisheries (see Appendix 1 for additional details).

RCBC established exclusionary criteria for its use of proceeds categories, including fossil fuel power generation, and biomass that compete with food production or which is not certified to recognized third-party sustainability certification schemes.

RCBC intends to use part of the proceeds for loans to manufacturers of generics and drugstores. Given the importance of generics in the Philippines to lower out-of-pocket expenses, Sustainalytics considers the criteria to be impactful but encourages RCBC incorporate due diligence on product quality and safety standards of generic manufacturers in the evaluation process. RCBC also intends to finance traders and distributors of medical products. RCBC clarified that financing will be limited to those traders and distributors exclusively providing medical products, including generics.

RCBC has defined target populations under the following UoP categories:
- Financing small, medium and micro enterprises as defined by the Philippines Central Bank’s Manual of Regulation for Banks. Sustainalytics considers the Philippines as an economically disadvantaged country and thus considers the criterion to be sufficiently targeted.
- Financing, development and purchasing of economic housing and socialized housing as defined by the Housing and Land Use Regulatory Board (HLURB) of Philippines
- Loans to cooperatives that are formed by target population acknowledged by the Social Bond Principles

Sustainalytics considers the following elements to be limitations of the framework:

- RCBC intends to use part of the proceeds for project-based lending and part for general purpose loans for SMEs, Rural Banks and pureplay companies, defining pure-plays as businesses that derive 80% of revenues from eligible categories. Sustainalytics notes that the GBP, SBP, SBG, GLP and ASBS favor project-based lending, and that there is in general less transparency associated with reporting on non-project-based financing. Where proceeds are used for general purpose loans, Sustainalytics recommends RCBC to track and disclose the portion of general-purpose loans and to provide detailed impact reporting.
- RCBC intends to finance public and private education institutions. While Sustainalytics recognizes the general importance of education, as well as the role that private education institutions play in the provision of access to education in the Philippines, the inclusion of private education facilities, without any limitations, in the framework may allow the financing of education facilities that are considered out of reach for low income groups. (see Section 3 for more information)
- RCBC’s framework does not include a threshold for GHG emissions for biomass or geothermal projects. The carbon intensity of biomass electricity generation ranges from about 65 to 350gCO2/kWh and, while approximately two-thirds of geothermal projects globally have a carbon intensity of below 100gCO2/kWh (regarded by Sustainalytics as a best practice threshold), some geothermal facilities are considerably higher, ranging up to 1,300gCO2/kWh. While RCBC indicated that the emissions of two plants financed are below 180gCO2/kWh emissions, given the geological features of the Philippines, Sustainalytics considers the lack of a threshold in these areas to be a limitation and encourages RCBC to favour projects with lower carbon intensity and to report where possible on the intensity of projects financed.
- RCBC’s green building criterion includes the top 15% most efficient buildings in the country, which is aligned with current market practices as well as the Climate Bond Initiative criteria for Low Carbon Buildings. However, the company has not yet disclosed a methodology on how to assess the top 15% for the Philippines.
Aquaculture Stewardship Council (ASC) for sustainable fisheries reserves the right to award certification with variances from the standard in some cases, which could result in financing for aquaculture activities that do not fully comply with the standard. Sustainalytics recommends to limit financing to those fisheries that are fully aligned with the standard.

Use of proceeds categories as per GBP:

☒ Renewable energy
☒ Pollution prevention and control
☐ Terrestrial and aquatic biodiversity conservation
☒ Sustainable water and wastewater management
☐ Eco-efficient and/or circular economy adapted products, production technologies and processes
☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP

☒ Energy efficiency
☒ Environmentally sustainable management of living natural resources and land use
☐ Clean transportation
☐ Climate change adaptation
☒ Green buildings
☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP

If applicable please specify the environmental taxonomy, if other than GBP:

Use of proceeds categories as per SBP:

☒ Affordable basic infrastructure
☒ Affordable housing
☐ Food security
☐ Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP

☒ Access to essential services
☒ Employment generation (through SME financing and microfinance)
☒ Socioeconomic advancement and empowerment
☐ Other (please specify):

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

RCBC’s project evaluation and selection process is executed by an internal committee comprised of representatives from the company’s Credit Risk, Business, and Sustainability teams. The committee’s project selection process is based on and aligned with the requirements set through RCBC’s Social and Environmental Management System (SEMS) policy and the Eligible Green and Social Categories. Sustainalytics assesses this process as being in line with market practices.
Evaluation and selection

☒ Credentials on the issuer’s social and green objectives
☒ Defined and transparent criteria for projects eligible for Sustainability Bond proceeds
☒ Summary criteria for project evaluation and selection publicly available
☐ Documented process to determine that projects fit within defined categories
☐ Documented process to identify and manage potential ESG risks associated with the project
☐ Other (please specify):

Information on Responsibilities and Accountability

☒ Evaluation / Selection criteria subject to external advice or verification
☐ In-house assessment
☐ Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

RCBC will manage and track the sustainable finance proceeds on a portfolio basis, which is managed by its RCBC’s Balance Sheet Management Team and Enterprise Risk Division. Pending full allocation, the unallocated sustainable finance proceeds will be held in cash and/or invested in short-term liquid instruments. Sustainalytics views this process aligned with current market practices.

Tracking of proceeds:

☒ Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
☒ Disclosure of intended types of temporary investment instruments for unallocated proceeds
☐ Other (please specify):

Additional disclosure:

☐ Allocations to future investments only
☒ Allocations to both existing and future investments
☐ Allocation to individual disbursements
☐ Allocation to a portfolio of disbursements
☐ Disclosure of portfolio balance of unallocated proceeds
☐ Other (please specify):

4. REPORTING

Overall comment on section (if applicable):
RCBC intends to provide annual allocation reporting covering data on the amount or percentage of allocation to the eligible portfolio of assets, examples of projects financed (subject to confidentiality considerations) and the balance of unallocated proceeds. In addition, RCBC intends to disclose, wherever feasible, an impact report with data on installed capacity and annual renewable energy generation in MW, type of green building certifications and number of buildings in each type, and number of public transportation projects financed, annual energy savings (in kWh), reduction in energy demand, number of loans to SMEs, number of loans to underserved individuals, number of affordable houses financed, number of patients served, and number of recipients. Sustainalytics considers RCBC’s allocation and impact reporting practices to be aligned with local and international market practices and expectations due to scope and granularity of its coverage.

Use of proceeds reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify): 

**Information reported:**

- Allocated amounts
- Sustainability Bond financed share of total investment
- Other (please specify):

**Frequency:**

- Annual
- Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
- On a project portfolio basis
- Linkage to individual bond(s)
- Other (please specify):

**Frequency:**

- Annual
- Semi-annual
- Other (please specify):

**Information reported (expected or ex-post):**

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Number of beneficiaries
- Target populations
- Other ESG indicators (please specify): installed capacity and annual renewable energy generation in MW, type of green building certifications and number of buildings in each type, and number of public transportation projects financed, annual energy savings (in kWh), reduction in energy demand, number of loans to SMEs,
number of loans to underserved individuals, number of affordable houses financed, number of patients served, and number of pribeds

Means of Disclosure

☐ Information published in financial report
☐ Information published in ad hoc documents
☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

RCBC Investor Relations: https://www.rcbc.com/About/InvestorRelations

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

☐ Consultancy (incl. 2nd opinion) ☐ Certification
☐ Verification / Audit ☐ Rating
☐ Other (please specify):

Review provider(s): Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

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