

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 practice.



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.

Evaluation date	07 May 2019
Issuer Location	Manilla, Philippines

Report Sections

Introduction	2
Sustainalytics' Opinion	3
Appendices	12

For inquiries, contact the Sustainable Finance Solutions project team:

Lili Hocke (Amsterdam)
Project Manager
lili.hocke@sustainalytics.com
(+31) 20 205 00 40

Begum Gursoy (Timisoara)
Project Support
begum.gursoy@sustainalytics.com
(+31) 20 888 7292

Nicholas Gandolfo (Singapore)
Client Relations
susfinance.apac@sustainalytics.com
(+65) 3157 0314

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),¹ the Green Loan Principles 2018 (GLP)² and ASEAN Sustainability Bond Standards 2018 (ASBS).^{3,4} This Framework has been published in a separate document.⁵

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.

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/>

² The Green Loan Principles are administered by the Loan Market Association (LMA) and Asia Pacific Loan Market Association (APLMA) https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

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 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 distributors 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.⁶ 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.⁷
 - Loans to cooperatives that are formed by any of the target populations identified in the Social Bond Principles.
 - 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).

⁶ 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).

⁷ Rules and Regulations for BP 220 available at: http://hlurb.gov.ph/wp-content/uploads/laws-and-issuances/Revised_IRR_BP220_2008.pdf

RCBC Sustainable Finance Framework

- 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/kWh⁸ 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.

⁸ Climate Bond Initiative, Background Paper 2013:

<https://www.climatebonds.net/files/files/Climate%20Bonds%20Solar%20Criteria%20Background%20Paper.pdf>

⁹ 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/Greenhouse0gas0mal0power0production.pdf?sequence=1&isAllowed=y>

¹⁰ Climate Bond Initiative, Geothermal Criteria: <https://www.climatebonds.net/files/files/Geothermal%20Energy%20Criteria.pdf>

¹¹ 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>

¹² 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/>

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.¹³ 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.¹⁴ 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.¹⁵ 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.¹⁶

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,

¹³ Environmental, Social and Governance in Practice: Challenges and Opportunities statement available at: <https://www.rcbc.com/Others/SustainabilityEfforts>

¹⁴ RCBC leads funding of South East Asia's largest solar farm article available at: https://www.rcbc.com/Others/news_article_2016_6

¹⁵ The Magna Carta for MSMEs as amended by Republic Act (RA) 9501: https://www.lawphil.net/statutes/repacts/ra2008/ra_9501_2008.html

¹⁶ RCBC Annual Report 2017: https://www.rcbc.com/Content/Web/img/about/pdf/annual/RCBC_2017_ANNUAL_REPORT20180625125930.pdf

documentation, implementation and monitoring). According to SEMs, RCBC obliges 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.¹⁷ 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.¹⁸ This includes the International Finance Corporation (IFC) Exclusion List and IFC Performance Standards.¹⁹ 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.²⁰ While average annual growth between 2010-2017 was 6.4% and poverty declined from 26.6% in 2006 to 21.6% in 2015,²¹ the country's Human Development Index (HDI)²² value increased by only 1% between in the same

¹⁷ RCBC SEMs Policy available at: <https://www.rcbc.com/Others/SemsPolicy>

¹⁸ Information retrieved from <https://www.rcbc.com/Others/SustainabilityEfforts>

¹⁹ RCBC corporate website: <https://www.rcbc.com/Others/Sustainability> ; <https://www.rcbc.com/Others/SemsPolicy>

²⁰ World Bank Country and Lending Groups <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

²¹ The World Bank in the Philippines <http://www.worldbank.org/en/country/philippines/overview>

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,²³ “an indication of a regression in the country’s ability to transform growing economic product and incomes into human development outcomes”.²⁴

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.²⁵ Although SMEs contribute one third of the Philippines’ GDP, SME loans’ percentage to total loans has been decreasing.²⁶ Despite an obligatory rate for banks of 8% of all loans to MSMEs, banks have been allocating less loans than obliged.²⁷ 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.²⁸ The Philippine government has started to provide high level of support for SMEs through, for example its five-year MSME Development Plan (2017-2022),²⁹ which established several funding programs for SMEs such as Access of Small Entrepreneurs to Sound Lending Opportunities (ASENSO) Program,³⁰ aiming to lower the effective cost of borrowing and requirements, and Credit Surety Fund Program (CSF),³¹ 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.³² 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,³³ 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).³⁴ 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-pockets costs are for pharmaceutical products,³⁵ 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.³⁶ 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

²³ Human Development Indices and Indicators: 2018 Statistical Update http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/PHL.pdf

²⁴ UNDAF, Partnership Framework for Sustainable Development 2019 – 2023: <https://www.unicef.org/about/execboard/files/Philippines-UNDAF-2019-2023.pdf>

²⁵ <https://www.adb.org/sites/default/files/publication/41742/asia-sme-finance-monitor-2013.pdf>

²⁶ Improving Access to Finance for the Underserves, Deloitte <https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/financial-services/sea-fsi-digital-banking-small-medium-enterprises-noexp.pdf>

²⁷ The Magna Carta for MSMEs as amended by Republic Act (RA) 9501: https://www.lawphil.net/statutes/repacts/ra2008/ra_9501_2008.html

²⁸ Improving Access to Finance for the Underserves, Deloitte <https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/financial-services/sea-fsi-digital-banking-small-medium-enterprises-noexp.pdf>

²⁹ Department of Trade and Industry, SME Links <https://www.dti.gov.ph/18-main-content/static?start=40>

³⁰ Access of Small Enterprises to Sound Lending Opportunities (ASENSO): <https://www.sss.gov.ph/sss/appmanager/pages.jsp?page=asenso>

³¹ Credit Surety Fund Program (CSF) http://www.bsp.gov.ph/loans/loans_csf.asp

³² Enterprise with 10 to 199 employees and/or assets valued from P3 million to P100 million

³³ Out of pocket expenditures currently stand at 47% in Indonesia, 12% in Thailand and 37% in Vietnam. More information available at: <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS>

³⁴ More information on the payment scheme as defined in PhilHealth available at: <https://www.philhealth.gov.ph/circulars/2017/circ2017-0006.pdf>

³⁵ The role of national health insurance for achieving UHC in the Philippines: a mixed methods analysis, paper available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6008596/>

³⁶ Access to medicines in the Philippines: Overcoming the barriers, article available at: <https://think-asia.org/bitstream/handle/11540/7967/pidspn1723.pdf?sequence=1>

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

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/>

³⁹ Rules and Regulations for BP 220 available at: http://hlurb.gov.ph/wp-content/uploads/laws-and-issuances/Revised_IRR_BP220_2008.pdf

⁴⁰ Countryside poverty accounts for more than 76%⁴⁰ 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>

⁴¹ Overview of Internal Migration in Philippines, document available at:

<https://bangkok.unesco.org/sites/default/files/assets/article/Social%20and%20Human%20Sciences/publications/philippines.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>

⁴⁴ Republic Act No. 7353 http://www.bsp.gov.ph/regulations/laws_rb.asp

⁴⁵ Rural Microenterprise Finance Project in Philippines <https://www.adb.org/sites/default/files/evaluation-document/35123/files/25351-phi-pper.pdf>

⁴⁶ Rural Banks Still in The Lending Game <https://www.bworldonline.com/rural-banks-still-in-the-lending-game/>

⁴⁷ Rural Banks: Making a Difference in Financial Inclusion <http://rbap.org/2016/06/rural-banks-making-a-difference-in-financial-inclusion/>

⁴⁸ Rural Banks: Making a Difference in Financial Inclusion <http://rbap.org/2016/06/rural-banks-making-a-difference-in-financial-inclusion/>

⁴⁹ Report on the State of Financial Inclusion in the Philippines 2016: <http://www.bsp.gov.ph/downloads/Publications/2016/Financial%20Inclusion.pdf>

⁵⁰ Agri-Agra Reform Credit Act of 2009 can be found at: <http://www.acpc.gov.ph/agri-agra-reform-credit-act-of-2009-r-a-10000/>

⁵¹ Rural Banks Still in The Lending Game <https://www.bworldonline.com/rural-banks-still-in-the-lending-game/>

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.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.⁵³ Although the Philippine economy has been shifting to industry and service sector, agriculture emissions still demonstrates an upwards trend, driven by rice cultivation.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.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.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.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,⁵⁸ aquaculture and fishery is associated with significant environmental impacts, ranging from decreasing water quality, disease spreading and faunal modification from aquaculture⁵⁹ to overfishing, habitat destruction, bycatch and derelict fishing gear from fishing practices.⁶⁰ In 2016, the Philippines ranked 8th among the top fish producing countries in the world,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.⁶² The education system in the Philippines includes private and

⁵² Rural Microenterprise Finance Project in Philippines <https://www.adb.org/sites/default/files/evaluation-document/35123/files/25351-phi-pper.pdf>

⁵³ Working Group III: Mitigation of Climate Change can be found at: <https://www.omlopezcenter.org/the-philippine-climate-change-assessment/>

⁵⁴ Greenhouse Gas Emissions in the Philippines

https://www.climatelinks.org/sites/default/files/asset/document/2016_USAID_Philippines%20GHG%20Emissions%20Fact%20Sheet.pdf

⁵⁵ Working Group III: Mitigation of Climate Change can be found at: <https://www.omlopezcenter.org/the-philippine-climate-change-assessment/>

⁵⁶ FAO 2011, Organic Agriculture and Climate Change Mitigation, A Report of The Round Table on Organic Agriculture and Climate Change:

http://www.fao.org/fileadmin/templates/organicag/pdf/11_12_2_RTOACC_23_webfiles.pdf

⁵⁷ Agriculture, Forestry and other Land Use <https://www.thegef.org/topics/agriculture-forestry-and-other-land-uses>

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 & Shakuntala Haraksingh Thilsted

⁵⁹ UNESCO – EOLSSSAMPLE CHAPTERS, Encyclopedia of Life Support Systems (EOLSS): FISHERIES AND AQUACULTURE – Vol. IV – Environmental Impact of Aquaculture - A. Dosda: https://www.researchgate.net/publication/268175875_ENVIRONMENTAL_IMPACT_OF_AQUACULTURE

⁶⁰ European Environmental Agency, <https://www.eionet.europa.eu/gemet/en/concept/2834>; Environmental Science Org, Environmental Consequences of Fishing Practices: <https://www.environmentalscience.org/environmental-consequences-fishing-practices>

⁶¹ Philippine Fisheries Profile 2017 <https://www.bfar.da.gov.ph/publication>

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:

Use of Proceeds Category	SDG	SDG target
Access to Essential Services	3. Good Health and Well-being	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency.
Green Buildings	9. Industry, Innovation and infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Clean transportation	11. Make cities	11. 1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and

⁶³ Education system Philippines | Nuffic | 1st edition, December 2015 | version 2, May 2018: <https://www.nuffic.nl/documents/319/education-system-philippines.pdf>

⁶⁴ Ibid.

⁶⁵ GMA News online, LOOK: The country's most expensive and most affordable colleges and universities, published May 2015: <https://www.gmanetwork.com/news/news/nation/489818/look-the-country-s-most-expensive-and-most-affordable-colleges-and-universities/story/>

⁶⁶ Development and Cooperation, Top tier schools and diploma mills, published June 2012: <https://www.dandc.eu/en/article/expensive-not-always-worth-much-higher-education-philippines>

⁶⁷ Senate of the Philippines, Press Release March 20, 2018 "Free Higher Education will produce quality graduates" – Gatchalian: https://www.senate.gov.ph/press_release/2018/0320_gatchalian1.asp

RCBC Sustainable Finance Framework

Affordable Housing Affordable Basic Infrastructure	and human settlements inclusive, safe, resilient and sustainable	upgrade slums 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Pollution Prevention and Control Sustainable Water Management	6. Clean Water and Sanitation 12. Responsible Consumption and Production	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. 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Environmentally Sustainable Management of Living Natural Resources and Land Use	15. Life on Land	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.
Employment Generation Socioeconomic Advancement and Empowerments	8. Decent work and economic growth 10. Reduce inequalities	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 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

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

	BERDE	LEED
Background	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.	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.
Certification levels	1 Star 2 Stars 3 Stars 4 Stars 5 Stars	Certified Silver Gold Platinum
Areas of Assessment: Environmental Project Management	Management is part of the Core Framework of BERDE.	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.
Areas of Assessment: Environmental Performance of the Building	Core Framework: <ul style="list-style-type: none"> • Energy Efficiency and Conservation • Water Efficiency and Conservation • Waste Management • Use of Land and Ecology • Green Materials • Transportation • Indoor Environmental Quality • Emissions 	Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority
Requirements	Minimum requirements + Points 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).	Prerequisites (independent of level of certification) + Credits with associated points These points are then added together to obtain the LEED level of certification 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).

Performance display	<p>☆☆☆☆☆ 1 Star</p> <p>☆☆☆☆ 2 Stars</p> <p>☆☆☆☆☆ 3 Stars</p> <p>☆☆☆☆☆ 4 Stars</p> <p>☆☆☆☆☆ 5 Stars</p>	
Accreditation	Certified BERDE Assessors (CBA) trained and certified by TUV Rheinland	LEED AP BD+C LEED AP O+M
Qualitative considerations	<p>BERDE puts more emphasis on water savings than LEED and is less stringent about energy requirements than BREEAM.</p> <p>Unlike most other schemes, BERDE has points which account for heritage conservation.</p> <p>BERDE is mainly used in the Philippines.</p>	Widely recognised internationally, and strong assurance of overall quality.

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

	Marine Stewardship Council ⁶⁸	Aquaculture Stewardship Council ⁶⁹	EU Organic ⁷⁰
Background	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.	The Aquaculture Stewardship Council (ASC) is an independent, international NGO that manages the ASC certification and labelling program for responsible aquaculture.	The EU Organic Farming is a European wide label organized under the European Commission's Council Regulation (EC) no 834/2007. The regulation covers the organic production and labelling of organic products including live or unprocessed agricultural projects, processed agricultural products for use of food, feed, and vegetative propagating material and seeds for cultivation.
Clear positive impact	Promoting sustainable fisheries practices.	Promoting sustainable aquaculture practices.	Promotion of a sustainable management system that respects nature's systems, contributes to biological diversity, uses energy responsibly, respects high animal welfare standards.
Minimum standards	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.	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.	The EU Organic Farming system prohibits the use of GMOs (minimum 95% GMO free), the use of ionizing radiation and sets core requirements for plant production, production rules for seaweed, livestock production rules, production rules for aquaculture animals.
Scope of certification or programme	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	ASC encompasses nine farm standards, covering 15 fish species as well as the harvest of seaweed. These farm standards lay out minimum requirements regarding both environmental and social performance. Additionally, a Chain of Custody Standard is	The EU Organic Farming system addresses key risks such as substance use (e.g. pesticides, soluble fertilizers, soil conditioners or plant protection products), the maintenance and enhancement of soil life, natural soil fertility, soil stability and biodiversity, preventing and combating

⁶⁸ <https://www.msc.org/standards-and-certification/fisheries-standard>

⁶⁹ <https://www.asc-aqua.org/what-we-do/our-standards/farm-standards/>

⁷⁰ <https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming>

	<p>impacts.</p> <p>The Chain of Custody standard addresses certified spurchsing, product identification, seperation, traceability and records, and good management.</p>	<p>mandatory for all supply chain actors in order to ensure traceability.</p>	<p>soil damage (compaction, erosion).</p>
<p>Verification of standards and risk mitigation</p>	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065.</p> <p>Certification is valid for up to five years.</p>	<p>Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the ASC standard and ISO 17065.</p> <p>Major non-compliances must be remedied within three months.</p>	<p>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.</p>
<p>Third party expertise and multi-stakeholder process</p>	<p>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)</p>	<p>Developed in line with United Nation’s Food and Agriculture Organization) UN FAO) and International Labour Organisation (ILO) principles.</p> <p>Managed in accordance with the International Social and Environmental Accreditation and Labelling (ISEAL) Codes of Good Practice.</p>	<p>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.</p>
<p>Performance display</p>			
<p>Qualitative considerations</p>	<p>The MSC label is the most widely recognized sustainable fisheries label worldwide, and is generally accepted to have positive impacts on marine environments.</p> <p>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.</p>	<p>Widely recognized, and modeled on the successful MSC certification.</p> <p>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.</p> <p>While a reputable certification overall, the standard does not fully mitigate all the risks associated with aquaculture.</p>	<p>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.</p>

Appendix 2: Alignment to the ASEAN Sustainability Bond Standards

ASEAN Sustainability Bond Standards' Criteria	Alignment with ASEAN SUS	Sustainalytics' comments on alignment with the ASEAN Sustainability Bond Standards.
Eligibility	Yes	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.
Use of Proceeds	Yes	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.
Process for Project Evaluation and Selection	Yes	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.
Management of Proceeds	Yes	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.
Reporting	Yes	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.
Annual Review	Yes	The ASEAN SUS encourages, but does not require, annual reviews. The RCBC commits to have an annual review where its feasible. RCBC states in its reports that it intends to publish annually a limited assurance or verification statement for the allocation of proceeds.

Appendix 3: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Rizal Commercial Banking Corporation
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: [specify as appropriate]	Rizal Commercial Banking Corporation Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 2019
Publication date of review publication: [where appropriate, specify if it is an update and add reference to earlier relevant review]	

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:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> 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.

RCBC Sustainable Finance Framework

-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:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

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

Use of proceeds categories as per SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs | <input type="checkbox"/> Other (<i>please specify</i>): |

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

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.

RCBC Sustainable Finance Framework

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

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:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (*if applicable*):

RCBC Sustainable Finance Framework

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 pribeds. Sustainability 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:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input checked="" type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Information reported (expected or ex-post):

- | | |
|--|---|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> 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

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify):
https://www.rcbc.com/About/InvestorRelations |
| <input type="checkbox"/> 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:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):

Date of publication:

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

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

Disclaimer

© Sustainalytics 2019. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the "Opinion") are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the "Sustainability Bond Framework" in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided "as is" and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

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

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

