



Rizal Commercial Banking Corporation  
Sustainable Finance Framework  
30 April 2019

# Rizal Commercial Banking Corporation

## Sustainable Finance Framework

Rizal Commercial Banking Corporation, including all its subsidiaries globally (“RCBC” or the “Bank”), is responsible for the preparation and fair representation of this Sustainable Finance Framework (the “Framework”) as of 30 April 2019.

### 1. Introduction to RCBC

RCBC was established in 1960 as a development bank and is licensed by the Bangko Sentral ng Pilipinas (“BSP”) for both commercial and investment banking. It is one of the largest universal banks in the Philippines with total consolidated resources of PHP 645 billion as of end Dec 2018. As a diversified financial services institution, RCBC serves corporate and individual banking needs through the most appropriate vehicles to serve its chosen markets with innovative products and services. With an inclusive financial business model in mind, in 2009 it ventured into the microfinance business to service the smallest entrepreneurs via the Rizal Microbank.

A pioneering financial services organization, RCBC has received numerous awards from various institutions including "Best Banking Group in the Philippines", "SME Bank of the Year", "Overall Best Private Bank in the Philippines", "Domestic Retail Bank of the Year"; and "Philippines' Overall Best for Interest Rates, and Best Cash Management Bank in the Philippines".

#### 1.1 RCBC’s Sustainability Strategy

RCBC is committed to uphold social and environmental responsibility in all its business activities. We recognize that balancing non-financial factors such as environmental and social issues with financial priorities is essential to being a good corporate citizen and is fundamental to risk management and the protection of our investors and shareholders.

RCBC's Social and Environmental Management System (“SEMS”) Policy is patterned after the International Finance Corporation (“IFC”) Performance Standards for Environment and Social Sustainability, the directives of Environmental Management Bureau and other government agencies, and best practices. The SEMS Policy requires all lending relationships/credits, both pipeline and portfolio, to be vetted from a social and environmental perspective.

RCBC aims to influence social responsibility within the organization and with its clients. The bank believes that good sustainable practices is a key pillar of responsible lending which can have a meaningful impact on the communities and the environment.

## 2. RCBC's Sustainable Finance Framework

The Sustainable Finance Framework articulates RCBC's strategy to deploy Sustainable Financing Instruments ("SFI") to fund loans and projects that have clear environmental and/or social benefits. Sustainable Financing Instruments include Green Bonds, Social Bonds, Sustainability Bonds, Green Loans, and other debt financing instruments which fund Eligible Green and Social Assets that conform to Sustainable Finance principles:

- International Capital Market Association ("ICMA") *Green Bond Principles 2018* ("GBP"), *Social Bond Principles 2018* ("SBP"), *Sustainability Bond Guidelines 2018*;
- ASEAN Capital Markets Forum ("ACMF") *ASEAN Green Bond Standards 2018*, *ASEAN Social Bond Standards 2018*, *ASEAN Sustainability Bond Standards 2018*;
- Loan Market Association ("LMA"), Asia Pacific Loan Market Association ("APLMA") and Loan Syndications and Trading Association ("LSTA") *Green Loan Principles 2018*.

Under this framework, RCBC can issue green, social or sustainable debt instruments. This framework supersedes the Green Finance Framework issued by RCBC in December 2018, given the alignment of the two frameworks for green issuances.

In alignment with the above principles and guidelines, RCBC's Sustainable Finance Framework is structured with the following key pillars:

- I. Use of Proceeds
- II. Process for Asset Evaluation and Selection
- III. Management of Proceeds
- IV. Reporting

RCBC may pursue to have some of the green bonds and loans issued/borrowed under this Framework to also be certified by Climate Bonds Initiative ("CBI") against the Climate Bonds Standard.

## 2.1 Use of Proceeds

RCBC intends to allocate an amount equal to the incremental net proceeds of any SFI to finance and refinance RCBC's loans to customers or its own operating activities in Eligible Green Categories and/or Eligible Social Categories where

- The net proceeds of RCBC's Green Bond or Green Loan will be allocated to Eligible Green Categories as defined in 2.1.1;
- The net proceeds of RCBC's Social Bond or Social Loan will be allocated to Eligible Social Categories as defined in 2.1.2;
- The net proceeds of RCBC's Sustainability Bond will be allocated to Eligible Green Categories and Eligible Social Eligible Categories as defined in 2.1.1 and 2.1.2, respectively

For the avoidance of doubt, loans that are sanctioned for general corporate purposes must be for businesses with at least 80% of the asset or revenue derived from the Eligible Green or Social categories at the time of consideration.

### 2.1.1 Eligible Green Categories

A portfolio of Eligible Green Assets (together forming the "Eligible Green Portfolio") in the following categories would be defined and created:

- **Renewable energy** - renewable energy projects such as solar, wind, hydropower (capacity of 25MW and below), biomass (source certified to be sustainably managed by recognized third-party standards and excluding those that compete with food production) and geothermal
- **Green buildings** - buildings that meet recognised standards, such as Philippines BERDE Green Building Rating System (4-star and above), LEED (Gold and above), or belonging to the top 15% of low carbon buildings in their respective category and local context
- **Clean transportation** - electric vehicles, infrastructure for electric vehicles such as charging stations as well as public mass-passenger transportation, passenger and freight rail infrastructure (excluding rail transport dedicated to fossil fuels), and non-motorised transportation
- **Energy efficiency** - development or production of products or technologies that reduce industrial energy consumption, such as improved chillers, transition to fibre networks, improved lighting technology and reduced power usage in manufacturing operations (excluding fossil fuel based technologies)
- **Pollution prevention and control** - reduction of air emissions, greenhouse gas control (excluding investments directly linked to fossil fuel technology), soil remediation, waste management (excluding landfills), such as waste prevention, waste reduction,

waste recycling and energy/emission-efficient waste to energy (municipal waste to energy to include emission abatement technology)

- **Sustainable water management** – sustainable infrastructure for clean water, wastewater treatment, sustainable urban drainage systems and other forms of flooding mitigation
- **Environmentally sustainable management of living natural resources and land use** – environmentally sustainable agriculture<sup>1</sup>, environmentally sustainable fishery and aquaculture<sup>2</sup>, environmentally-sustainable forestry<sup>3</sup>, including afforestation or reforestation, and preservation or restoration of natural landscapes

The proceeds may also be used to fund the following assets/projects within RCBC's own operations which have positive environmental impact:

- **Renewable energy** – installation of solar panels or other renewable energy equipment
- **Energy efficiency** – purchase and installation of products or technologies that reduce energy consumption in office buildings and facilities, such as improved lighting technology (excluding efficiency improvements in fossil fuel based technologies)
- **Pollution prevention and control** – purchase and installation of recycling infrastructure (excluding landfills), including waste minimisation, management, recycling and reuse
- **Green buildings** – construction or lease of office space in buildings that meet recognised standards, such as Philippines BERDE Green Building Rating System (4-star and above), LEED (Gold and above), or belonging to the top 15% of low carbon buildings in their respective category and local context

### 2.1.2 Eligible Social Categories

A portfolio of Eligible Social Assets (together forming the “Eligible Social Portfolio”) in the following categories would be defined and created:

- **Affordable basic infrastructure** - construction, operation or upgrading of basic infrastructure, such as clean drinking water, sewers, and sanitation
- **Access to essential services** – healthcare (hospitals accredited by PhilHealth, elderly care, pharmaceutical manufacturers (minimum 80% of revenues to generic medicines), distributors and traders, drugstores, etc.) that provide access to

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<sup>1</sup> Defined as third-party certified organic farming

<sup>2</sup> Defined as certified by Marine Stewardship Council or Aquaculture Stewardship Council, or other equivalent standards

<sup>3</sup> Defined as Programme for the Endorsement of Forest Certified (PEFC) or Forest Stewardship Council (FSC) certified forestry, or other equivalent standards

underserved (including through affordable/generic medicines) and education (schools, universities, vocational training, sheltered workshops)

- **Employment generation** – loans to small, medium and micro enterprises<sup>4</sup> (“SME”) as defined by the BSP
- **Affordable housing** – loans to development or purchase of “Socialized Housing” and “Economic Housing” as defined by the Housing and Land Use Regulatory Board (HLURB) of Philippines<sup>5</sup>
- **Socioeconomic advancement and empowerment** – loans to minority, underserved, and low-income individuals, including through rural banks as defined by the Philippines Central Bank’s Manual of Regulation for Banks and cooperatives<sup>6</sup> as defined by the Philippines Republic Act 9520

## Exclusionary Criteria

RCBC has developed a list of exclusionary criteria on the use of the SFI proceeds (see Appendix 1). In this regard, we commit to not knowingly using the SFI proceeds for the financing of assets/projects included in the exclusionary criteria.

## 2.2 Project Evaluation and Selection

The selection of Eligible Green and Social Assets will be performed by the business units in nominating loans or projects in accordance with the Eligible Green or Social Categories in 2.1.1 and 2.1.2, and evaluated according to RCBC’s SEMS Policy. The Philippines Standard Industrial Classification system was also utilized to identify certain green and social assets.

RCBC’s SEMS is a declaration of our commitment to sustainable development and protection of environmental and social safeguards.

A committee comprising of representatives from Credit Risk, Business, and Sustainability teams would be responsible for the evaluation and approval of Eligible Green and Social Assets. A project would be approved only if it meets the criteria of SEMS and Eligible Green or Social Categories as detailed in 2.1.1 and 2.1.2.

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<sup>4</sup> 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). Please refer to circular for full details. As the BSP may amend thresholds, this is subject to change without further notice.

<sup>5</sup> 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.

<sup>6</sup> Cooperatives organized by the target population of ICMA’s Social Bond Principles

## 2.3 Management of Proceeds

The SFI proceeds will be managed by RCBC's Balance Sheet Management Team and Enterprise Risk Division in a portfolio approach, and would be allocated as follows:

- Green Bonds or Green Loans to the Eligible Green Portfolio
- Social Bonds to the Eligible Social Portfolio
- Sustainability Bonds to both Eligible Green Portfolio and Eligible Social Portfolio

RCBC will strive, over time, to achieve a level of allocation for the Eligible Green and Social Portfolio that at least matches or exceeds the net proceeds from its SFIs.

During the life of the SFIs, and upon becoming aware, if a loan ceases to fulfil the eligibility criteria, RCBC will remove the loan from the portfolio and replace it, when necessary, as soon as reasonably practicable.

To prevent double counting, RCBC will ensure that any Eligible Green Assets and Eligible Social Assets (especially those with more than 1 affiliation with the Use of Proceeds category) will not be listed more than once in either the Eligible Green Portfolio or the Eligible Social Portfolio.

For any SFI net proceeds that remain unallocated, RCBC will hold the proceeds in cash and/or invest in other short-term liquid instruments.

## 2.4 Reporting

RCBC intends to report the allocation of the net proceeds to the Eligible Green and Social Portfolio. Reporting will take place a year following the issuance of the applicable SFI and will be renewed annually until full allocation of the net proceeds.

Wherever feasible, RCBC may report on the aggregated impact of the Eligible Green and Social Portfolio on a categorical level. RCBC will align, on a best efforts basis, the reporting with the portfolio approach described in Green Bonds Working Towards a Harmonized Framework for Impact Reporting (December 2015) and Working Towards a Harmonized Framework for Impact Reporting for Social Bonds (June 2018).

The reports can be found here <https://www.rcbc.com/Others/Sustainability>.

## 2.4.1 Allocation reporting

The allocation report will provide:

- the amount or the percentage of new financing and refinancing
- the balance of unallocated proceeds
- examples of projects being financed (subject to confidentiality considerations)

## 2.4.2 Impact reporting

The impact report may provide relevant indicators, for example:

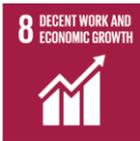
- Renewable energy – installed capacity and annual energy generation
- Green buildings – type of certifications and number of buildings in each type
- Clean transportation – type and number of public transportation projects financed
- Energy efficiency – annual energy savings (in kWh), % reduction in energy demand
- Employment generation – number of loans to SMEs, number of loans to underserved individuals
- Affordable housing – number of affordable houses financed,
- Access to essential services - number of patients served, number of hospital beds

## Alignment with United Nations' Sustainable Development Goals (UN SDGs)

In 2015, countries adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). RCBC Sustainable Finance Framework advances the following SDG goals and targets (not exhaustive):

Green/Social Bond Principles	SDG	SDG Goal	SDG Target description
Renewable energy		Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Green buildings		Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Clean transportation		Sustainable cities and communities	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

Green/Social Bond Principles	SDG	SDG Goal	SDG Target description
			needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Energy efficiency		Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Pollution prevention and control		Sustainable cities and communities	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management
		Responsible consumption and production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse
Sustainable water management		Clean water and sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Environmentally sustainable management of living natural resources and land use		Responsible consumption and production	12.3 By 2030, achieve the sustainable management and efficient use of natural resources
Affordable basic infrastructure		Industry, innovation and infrastructure	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Access to essential services		Good health and well-health	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

Green/Social Bond Principles	SDG	SDG Goal	SDG Target description
		Quality education	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship
Employment generation		Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
Affordable housing		Sustainable cities and communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Socioeconomic advancement and empowerment		Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

## 2.5 External Review

### 2.5.1 Pre-issuance review

This Sustainable Finance Framework has been reviewed by Sustainalytics, who has issued a Second Party Opinion, which can be found here ([link to be provided](#)).

### 2.5.2 Post-issuance review

RCBC intends to issue a limited assurance report or verification statement for the allocation of the SFI proceeds to the Eligible Green and Social Portfolio, starting one year after issuance and until full allocation.

## **Appendix 1 - Exclusionary Criteria**

The following projects/activities are ineligible for the use of SFI's proceeds:

1. Fossil fuel power generation as well as activities that are knowingly and intentionally dedicated to support the expansion of fossil fuel based technologies
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements
3. Production or trade in weapons and munitions
4. Production or trade in alcoholic beverages
5. Production or trade in tobacco
6. Production or trade in palm oil
7. Gambling, casinos and equivalent enterprises
8. Trade in wildlife or wildlife products regulated under CITES
9. Production or trade in radioactive materials
10. Production or trade in or use of unbonded asbestos fibers
11. Purchase of logging equipment for use in primary tropical moist forest
12. Production or trade in pesticides/herbicides subject to international phase outs or bans
13. SMEs that knowingly and intentionally engage in child labour, forced labour, unfair labour practices, conflict minerals and predatory lending

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