

Development Bank of the Philippines Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Development Bank of the Philippines Sustainable Financing Framework is credible and impactful, and aligns with the Green Bond Principles (GBP), Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG)2018 and ASEAN Sustainability Bond Standards (ASBS). This assessment is based on the following:



USE OF PROCEEDS The eligible category for the use of proceeds are aligned with those recognized by the GBP, SBP and SBG 2018. Sustainalytics considers the eligible projects in (i) Clean transport, (ii) Affordable basic infrastructure, (iii) Renewable energy, (iv) Energy efficiency, (v) Sustainable water and wastewater management, (vi) Pollution prevention and control, (vii) Socio-economic advancement and empowerment, (viii) Green buildings, (ix) Access to essential services, (x) Affordable housing, and (xi) Employment generation to have positive environmental or social impacts and to advance the UN Sustainable Development Goals 3, 7, 8, 9, and 11.



PROJECT EVALUATION / SELECTION The Development Bank of the Philippines (DBP)’s Lending Program Management Group (LPMG) will select and evaluate assets based on the Eligibility Criteria, with assistance from other bank units. The Development Advocacy Committee (DAC) composed of Board of Directors including the Chairman, and the President and Chief Executive Officer, will oversee the asset selection and evaluation process. DBP’s internal process in evaluating and selecting projects is in line with market practice.



MANAGEMENT OF PROCEEDS DBP will track the use of proceeds through its internal reporting systems. Pending full allocation, the unallocated proceeds will be invested in high quality money market instruments in accordance with DBP’s liquidity management strategy. DBP’s processes to manage and track proceeds are in line with market practice.



REPORTING DBP commits to provide allocation reporting through its website on an annual basis, including information on the allocated amount per eligible category and the amount of unallocated proceeds. Impact reporting will include relevant performance indicators, where feasible. Sustainalytics views DBP’s allocation as aligned with market practice and encourages the bank to develop relevant impact indicators and detailed reporting.

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Issuer Location	Makati City, Philippines

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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 Development Bank of the Philippines Sustainable Financing Framework align with the ASEAN Sustainability Bond Standards (also see Appendix 2).

Introduction

Development Bank of the Philippines Sustainable Financing Framework

The Development Bank of the Philippines (“DBP” or “the bank”) is a governmental financial institution that provides development and corporate banking, corporate financing, trade products and services in addition to revolving credit lines or treasury products. DBP operates more than 127 branches, it was founded in 1947 and is headquartered in Makati City, the Philippines. DBP has developed the Development Bank of the Philippines Sustainable Financing Framework (the “Framework”) under which it intends to issue social, green and sustainability bonds and use the proceeds to finance and refinance, in whole or in part, existing and/or future assets with positive environmental and social outcomes in the Philippines. The Framework defines eligibility criteria in 11 areas:

1. Clean transport
2. Affordable basic infrastructure
3. Renewable energy
4. Energy efficiency
5. Sustainable water and wastewater management
6. Pollution prevention and control
7. Socio-economic advancement and empowerment
8. Green buildings
9. Access to essential services
10. Affordable housing
11. Employment generation

DBP engaged Sustainalytics to review the Development Bank of the Philippines dated October 2019¹ and provide a second-party opinion on the Framework’s environmental and social credentials and its alignment with the Social Bond Principles (“SBP”), Green Bond Principles (“GBP”), Sustainability Bond Guidelines 2018 (“SBG”) and ASEAN Sustainability Bond Standards (ASBS).² This Framework has been published in a separate document.³

As part of this engagement, Sustainalytics held conversations with various members of DBP’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 DBP’s sustainability bonds. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Development Bank of the Philippines Sustainable Financing Framework and should be read in conjunction with that Framework.

¹ This SPO is a slightly revised version of a previous SPO (dated September 2019). It has been updated to incorporate new information provided by the issuer on the look back period. Sustainalytics is of the opinion that the changes do not have a material effect on the impact of the intended use of bond proceeds or the Framework’s alignment with the SBP.

² 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/>; the ASEAN Sustainability Bond Standards are administered by the ASEAN Capital Markets Forum: <http://www.theacmf.org/initiatives/sustainable-finance/asean-social-bond-standards>

³ The Development Bank of the Philippines Sustainable Financing Framework is available on DBP’s website at: <https://clicktime.symantec.com/3jacfeo5iEmzvUGLAG9rf27Vc?u=https%3A%2F%2Fwww.dbp.ph%2Fdbp-sustainability-framework%2F>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Development Bank of the Philippines Sustainable Financing Framework

Summary

Sustainalytics is of the opinion that the Development Bank of the Philippines Sustainable Financing Framework is credible and impactful and aligns with the four core components of the GBP, SBP and SBG 2018. Sustainalytics highlights the following elements of the Development Bank of the Philippines Sustainable Financing Framework.

- Use of Proceeds:
 - DBP will finance or refinance green, social and sustainability projects and activities that are related to the Bank's various sustainability programs.⁴
 - As part of the Bank's umbrella programs for the improvement of transportation infrastructure, several clean transport and infrastructure projects and activities will be financed.⁵ Activities include the acquisition of shipping vessels fueled by Liquid Natural Gas (LNG);⁶ construction of railway infrastructure; acquisition of rolling stocks and freight equipment; bus rapid transit (BRT);⁷ the construction of bike paths and walkways; acquisition of public utility vehicles (PUVs); and the acquisition/production of electric vehicles and sustainable biofuels. Sustainalytics positively notes the efficiency and emissions thresholds that have been set for shipping vessels (30% more energy efficient than market average) and passenger/freight transportation (75g/CO₂ per passenger km and 25g/CO₂ per ton per km).
 - Sustainalytics also highlights that the Bank's financing of green buildings is limited to recognized certification schemes (LEED Gold or equivalent) and retrofitting that results in at least a 30% energy efficiency gain.
 - The Bank has several programs that aim to improve access to affordable basic infrastructure, including water, sanitation, renewable energy and biofuel infrastructure (limited to sustainable biofuel distribution).⁸ Sustainalytics notes that these activities can have both positive social and environmental impacts and that the Philippines is a country in which basic infrastructure is lacking overall,⁹ as such Sustainalytics considers the named activities to have a positive social impact in the local context. Given the lack of specification on the target population for infrastructure development, Sustainalytics encourages the Bank develop robust and transparent reporting on the beneficiaries and positive impacts achieved through these developments.
 - The Bank's energy efficiency projects and activities will be primarily related to its Energy Efficiency Savings (E2SAVE) Financing Program, which aims to provide financial assistance to the public and private sectors energy efficiency projects. Activities that fall under this category include financing of highly efficient mechanical/electrical equipment and industrial technologies; utilization of by-product gas, waste and pressure. Sustainalytics notes the overall importance of energy efficiency to achieve a low carbon economy but notes that no minimum energy efficiency threshold is set and thus, strongly encourages that the Bank develop robust reporting on the impact of these activities to demonstrate the positive energy efficiency gains.
 - The Bank also finances waste, storage, collection and transport of solid waste infrastructure to materials recovery or recycling facilities, as well Materials Recovery Facilities (MRFs) and waste-to-energy/waste-to-fuel facilities (with less than 100g/CO₂/kWh).¹⁰ While Sustainalytics views pollution prevention and control activities as important to mitigating environmental impact, Sustainalytics encourages DBP to report details on the projects and technologies financed in its impact reporting to demonstrate the efficacy of the projects and their impact.
 - DBP finances Micro, Small and Medium Enterprises (MSME) through its Sustainable Agribusiness Financing Program and Sustainable Enterprises for Economic Development (SEED) program, including

⁴ For a list of the Bank's sustainability programs, refer to the Framework.

⁵ Including, shipping transport, rail transport and urban mass transport systems.

⁶ Vessels should demonstrate 30% more energy efficiency than the market average.

⁷ Wikipedia, "Bus rapid transit", (2019), at: https://en.wikipedia.org/wiki/Bus_rapid_transit

⁸ DBP in its frameworks excludes the production and distribution of energy from biomass that is derived from sources that competes with food production or grown in areas with currently or previously high biodiversity or will decrease carbon pools in the soil.

⁹ Business World, "Philippines' infrastructure challenge: A huge gap or a black hole?", (2018), at: <https://www.bworldonline.com/philippines-infrastructure-challenge-huge-gap-black-hole/>

¹⁰ Refers to projects with an emission limited to up to 100g/CO₂/kWh and should include air emissions abatement technology.

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financing of Aspiring Women Entrepreneurs and agricultural SMEs.¹¹ The Bank has established exclusionary criteria for a number of activities that are controversial,¹² which Sustainalytics views as a strong approach. However, it is important to highlight that the Bank's Sustainable Agribusiness program will provide financing to SMEs that produce agriculture and livestock without any additional sustainable certification systems ensuring responsible agricultural/livestock management practices. In addition, Sustainalytics recognizes that the GBP, SBP and SBG prefer project-based lending and financing, and that there is, in general, less transparency with non-project-based lending. While the Framework includes project-based lending, it also considers the inclusion of MSME general purpose loans. Given the importance of SME lending to spur economic development and employment in the Philippines and the exclusion of loans for controversial activities, Sustainalytics considers the financing of MSMEs to be impactful. For further information refer to Section 3: Impact of Use of Proceeds.

- The Bank ensures a targeted approach for affordable housing and access to essential services by limiting financing to social housing projects and public or Philippine Health Insurance Corporation (PhilHealth) accredited healthcare facilities (please see impact section for further details on PhilHealth).
 - DBP does not disclose a look back period in its framework. Sustainalytics encourages DBP to report on the amount of financing dedicated to existing or new projects.
- Project Evaluation and Selection:
 - The Bank's LPMG will select and evaluate assets based on the Eligibility Criteria, with assistance from other bank units such as the Enterprise Risk Management Group, the Corporate Banking Group, SME Retail and the Middle-Market Lending Group, Provincial Lending Groups, the Strategic Planning Group, and the Asset and Liability Management Department (ALMD). The Development Advocacy Committee (DAC) is composed of Board of Directors including the Chairman, and the President and Chief Executive Officer, who will oversee the asset selection and evaluation process. DBP's internal process in evaluating and selecting projects is in line with market practice.
 - Management of Proceeds:
 - ALMD and LPMG will track the receipt and use of proceeds through its internal reporting systems. Monitoring reports will be provided at least annually to the DAC to ensure all Eligible Assets are appropriately identified. Pending full allocation, the unallocated proceeds will be invested in high quality money market instruments per in accordance with DBP's liquidity management strategy. DBP's processes to manage and track proceeds are in line with market practice.
 - Reporting:
 - DBP commits to provide allocation and impact reporting through its website on an annual basis. Allocation reporting will contain the total amount of allocated proceeds, a break-down of the allocation at a category level, and the balance of unallocated proceeds and information on how the unallocated proceeds are managed.
 - Impact reporting will include relevant performance indicators, where feasible, which may include: Savings in electricity consumption, number of crops harvested for financing for sustainable agribusiness projects, and number of households served for financing sanitation facilities. Sustainalytics views DBP's allocation as aligned with market practice and encourages the bank to develop relevant impact indicators and detailed reporting for all categories.

Alignment with Sustainability Bond Guidelines 2018 and ASEAN Sustainability Bond Standards

Sustainalytics recognizes that the Development Bank of the Philippines Sustainable Financing Framework is not exclusively project-based and that proceeds may be allocated to finance general-purpose lending to micro- small and medium (MSMEs) enterprises. Sustainalytics recognizes that (i) the GBP, SBP, SBG, 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 the importance of SME lending to spur economic development and employment in the Philippines and considers the financing of MSMEs in this context to be impactful. For further information refer to Section 3: Impact of Use of Proceeds. For detailed information please refer to Appendix 2 and 3: Alignment with the ASEAN Sustainability Bond Standard and Sustainability Bond/ Sustainability Bond Programme External Review Form.

¹¹ Examples include, working capital, export financing, fixed asset acquisition, purchase order and letter of credit financing, etc. for a full list of instruments, please refer to the Framework.

¹² Exclusionary activities include financing illegal activities, production/trade of dangerous drugs, generation of fossil fuel, arms, gambling, prostitution, etc. for a full list of exclusionary criteria, please refer to the Framework.

Section 2: Sustainability Strategy of the Issuer

Contribution of Framework to Issuer’s sustainability mandate and strategy

Sustainalytics is of the opinion that DBP has established a strong mission to support infrastructure development, efficient social services, environmental protection and sustainable growth and integrated responsible finance into its core banking operations, in line with its mission as development bank to provide capital and technical assistance for economic development projects in the Philippines. The Bank has developed several programs under which it finances projects with positive environmental and/or social outcomes such as “Financing Utilities for Sustainable Energy Development (FUSED) Program”, “Water for Every Resident (WATER) Program”, “Green Financing Program (GFP)”, “Sustainable Enterprises for Economic Development (SEED) Program”, “Sustainable Agribusiness Financing Program (SAFP)”, “Strategic Healthcare Investment for Enhanced Lending and Development (SHIELD)”, “Residential Real Estate Financing Program (RRFP)” or “DBP Educational Fund Program (DEFP)”. Through these programs, DBP will finance companies supporting the expansion of renewable energy generation infrastructure, industrial pollution control projects, solid and hazardous waste management projects, MSMEs, sustainable agribusiness financing, or to social services projects, in line with DBP’s mission and profile as a development bank oriented towards sustainable development. Although DBP has not set quantifiable targets for the development of environmental and social projects in the Philippines, Sustainalytics highlights that DBP’s projects resulted in the generation of 374,087 MWh renewable energy and 175,930 in tons of related CO₂ savings, 169 tons recycled waste per day, and the establishment of 2,285 of hospital beds,¹³ in addition to other impactful environmental and social outcomes.

Based on DBP’s responsible financing activities, Sustainalytics considers that DBP is well positioned to issue sustainability bonds and that they will support the bank in advancing its sustainability preparedness and performance.

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

While the eligible projects are recognized as impactful by market norms (Green Bond Principles 2018, Social Bond Principles 2018, Sustainability Bond Guidelines 2018 and Green Loan Principles), Sustainalytics also recognizes that eligible projects may be associated with certain negative environmental and social outcomes. Some key environmental risks associated with the eligible green projects include workers’ health and safety, land use change or unintended air, water and land discharge risks (dust, particulate, groundwater or ground soil pollution) from water supply and distribution projects, waste and wastewater management, rail and urban mass transport or loss of biodiversity loss from large scale construction and infrastructure projects. Similarly, for the social use of proceeds categories, risks may relate to accidentally exacerbating inequalities through mistargeted affordable housing selection or offering lending and financial services to companies exposed to controversial or harmful business practices.

However, Sustainalytics is of the opinion that DBP has relevant and materially consistent procedures in place which help mitigate or offset environmental and social risks associated with the Eligible Categories, including the following:

- The bank established a comprehensive exclusionary criteria list excluding any assets, activities or companies involved in nuclear or non-renewable energy production or other harmful business practices such as landfills or hazardous waste management, or activities involving forced labor, violence against women, and child labor, gambling, military contracting. Sustainalytics highlights that DBP adopted thresholds for the financing of reservoir hydropower projects limited at 25MW capacity, freight and passenger transport capped at 25g CO₂ per ton per km and 75g CO₂ per passenger per km.
- Moreover, DBP confirmed that all projects selected for financing will undergo an environmental impact assessment consistent with its existing policies and the national regulations.
- In addition, DBP confirmed to Sustainalytics that all projects selected for financing will undergo an environmental impact assessment consistent with company policies and national regulations, which separates projects into three categories (Category A for high risk, Category B for medium risk and Category C for low risk), similarly with the Equator Principles’ classification.¹⁴ All Category A projects are automatically sent to DBP’s Program Development to undergo a subsequent Project Evaluation and Endorsement Report procedure, while Category B projects must undergo a Rapid Environmental Assessment. All Category A and Category B projects are assessed internally on a set of parameters including (i) the technical eligibility of the project for funding, (ii) the appropriateness of the

¹³ DBP Annual Report 2017 available at: <https://www.dbp.ph/wp-content/uploads/2018/10/DBP-2017-Annual-Report-FA.pdf>

¹⁴ As per the Equator Principles, Category A projects have potential significant adverse environmental and social risks and/or impact that are Category A projects have potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented. Category B projects have limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures. Category C projects have minimal or no adverse environmental and social risks and/or impacts. More information available at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/es-categorization

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proposed technology, (iii) the environmental requirements, (iv) the managerial and technical competence, (v) and the socio-economic impacts and safeguards and consistency with regional/provincial/ local development plans and programs.¹⁵

Overall, given DBP's comprehensive due diligence system implemented internally and the regulatory framework of the Philippines, Sustainalytics considers that the Development Bank of the Philippines is adequately positioned to identify and mitigate environmental and social risks related to eligible projects.

Section 3: Impact of Use of Proceeds

All 11 use of proceeds categories are recognized as impactful by GBP, SBP and SLLP. Sustainalytics has focused on six below where the impact is specifically relevant in local context.

Relevance of renewable energy generation in meeting Philippine climate targets

The Asian Development Bank estimated that by 2035 energy consumption of the Philippines will surge to 49.0 Mtoe, nearly double from 29.8 Mtoe in 2015.¹⁶ As of 2016, the share of renewable energy (solar, wind, geothermal, biomass, biofuels) in the Philippines' energy supply accounted for 37%, while fossil fuels (coal, oil, natural gas) accounted for 63%,¹⁷ indicating the need to rapidly increase the share of renewable energy in the energy supply of the Philippines. Given the current high reliance on fossil fuels with growing population and rising demand for energy, the government intends to promote a low-carbon future as one of its strategic directions for 2040 by increasing the capacity of renewable energy generation.¹⁸ Since 2011, the country has pursued a target to achieve renewable energy capacity of 15.3 GW by 2030 (4.7 GW in 2018). Moreover, as part of their commitments under the Paris Agreement, the Philippines intends to achieve 70% reduction of GHG emissions by 2030 compared to business-as-usual (BAU) level. Separately, as part of the Association of Southeast Asian Nations (ASEAN), the Philippines has also committed to contribute to the region's target to double the share of renewables achieving 23% of the region's total primary energy supply by 2025. Given this context, Sustainalytics positively views that DBP's financing of renewable energy related projects is aligned with the Philippines' governmental policy goals and will contribute to the region's climate objectives.

Importance of low carbon and public transportation in the Philippines

DBP confirmed to Sustainalytics that it will allocate a portion of the sustainability proceeds to finance transportation system in the Philippines, through projects such as PASADA¹⁹ which is expected to help decrease the transportation sector's current 13% global GHG emissions share.²⁰ Under the PASADA program, the DBP is allowed to finance the acquisition of new buses, mini-buses, new public utility jeepneys (buses), utility vehicles express units compliant with EURO 4 emissions²¹ standards (or above) or other electric alternatives. While currently jeepneys remain the most widespread mode of public transportation²² in the Philippines' metropolitan areas, they are widely regarded as a major source of air pollution.²³ As jeepneys are originally converted US military jeeps left in the country by the US Forces in the World War, they have been typically in function for more than 15 years²⁴ and received no emission standard certification, an issue seen even more so crucial since around 80% of passenger travel kilometers are traveled in this mode of transportation.²⁵ Results of motor vehicle inspections indicate that the replacement of diesel particulate traps for buses and jeepneys would result in the highest reduction of particulate and CO₂ emissions, with the Philippines' Department of Transportation estimating that GHG emissions would be reduced by 22.36 million tons by 2030 following

¹⁵ More information on how DBP identifies and mitigates the environmental impact of its banking activities are available at: <https://www.devbnkphl.com/about.php?cat=407&f4c6b3cbf78e7feaf1f63aaa627067a9>

¹⁶ Philippines Energy Sector Assessment, Strategy, and Road Map available at: <https://www.adb.org/sites/default/files/publication/463306/philippines-energy-assessment-strategy-road-map.pdf>

¹⁷ Philippine Energy Plan 2017-2040 available at: https://www.doe.gov.ph/sites/default/files/pdf/announcements/acd_15_phil_energy_plan_2017-2040.pdf

¹⁸ Philippine Energy Plan 2017-2040 available at: https://www.doe.gov.ph/sites/default/files/pdf/announcements/acd_15_phil_energy_plan_2017-2040.pdf

¹⁹ DBP's PASADA Program (Program Assistance to Support Alternative Driving Approaches) has the objective to implement the Philippines' government Public Utility Vehicle Modernization Program (PUVMP). More information available at: <https://www.dbp.ph/developmental-banking/infrastructure-and-logistics/pasada/>

²⁰ Information retrieved from the Philippines' Senate Report "GHG Emissions At A Glance" available at: <https://www.senate.gov.ph/publications/AAG%202013-03%20GHG%20emission.pdf>

²¹ EURO 4 emissions limits for petrol engines are: CO – 1.0g/km, HC – 0.10 g/km, NO_x – 0.08, PM – no limit, while for diesel engines they are set for CO – 0.50 g/km, HC+NO_x – 0.30 g/km, NO_x – 0.25 g/km and PM – 0.025 g/km; more information available at: <https://www.senate.gov.ph/publications/AAG%202013-03%20GHG%20emission.pdf>

²² Breakthroughs and Breakdowns of the Transportation System in the Philippines, study conducted by the National Academy of Science and Technology, available at: <http://www.nast.ph/index.php/downloads/category/88-transportation?download=289:nast-napalang-02june2016>

²³ <https://asia.nikkei.com/Spotlight/Environment/Emerging-Asia-s-jeepney-buses-and-tuk-tuks-go-green>

²⁴ The Rise and Fall of Jeepneys in Metro Manila, Philippines, a Stanford Engineering article available at: <http://sus.stanford.edu/blog/2018/3/19/the-rise-and-fall-of-jeepneys-in-metro-manila-philippines>

²⁵ CO₂ Emissions from the Land Transport Sector in the Philippines: Estimates and Policy Implications, article available at:

https://www.researchgate.net/publication/229033232_CO2_Emissions_from_the_Land_Transport_Sector_in_the_Philippines_Estimates_and_Policy_Implications

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the phasing out of old jeepneys. Sustainalytics highlights that DBP limited financing of vehicles to those emitting less than 75g CO₂/km/passenger for passenger transport and 25g CO₂/km/ton for freight transport. As the purchase price for newly built jeepneys (Euro 4 emission standard or electric), minibuses and city buses are estimated between USD 20,000 to USD 90,000,²⁶ or 5 to 22 times the price of an old jeepney, the main barrier towards the transition towards a low-carbon public transportation constitutes the down payment for a new vehicle (10-20% of the investment cost),²⁷ thus disincentivizing private investments. Sustainalytics evaluates DBP's financing of new public utility vehicles to contribute to providing positive incentives for the transition to low-carbon public transportation, ultimately contributing to reduce traffic related air pollution and GHG emission in the Philippines.

Contribution of water and sanitation infrastructures for the sustainable development of Philippine communities

Statistics from the Philippines' Environmental Management Bureau indicate the prevalence of waterborne diseases in the country, such as cholera, rotavirus, hepatitis A, typhoid fever,²⁸ particularly due to the country's inefficient wastewater treatment. It is estimated that only 10% of the country's wastewater is treated, resulting in the contamination of more than 58% of the Philippines' groundwater.²⁹ Sustainalytics highlights the intersectionality of groundwater pollution and waterborne diseases and indicates that the largest source of water pollution originates from the inadequate treatment of domestic water and sewage (48%),³⁰ due to inadequate wastewater and sanitation facilities. To solve the issue, the World Bank calculated that more than USD 838 million in investments are required to be invested annually in local water facilities in order for the Philippine government to achieve the government target of 100% water supply nationally, while another USD 619 million need to be invested in sanitation in order to achieve universal coverage for the Philippines by 2028.³¹ Sustainalytics is of the opinion that DBP's investments into water and sanitation infrastructures will ensure a meaningful contribution to bridge the financial gap required by the national government of the Philippines to ensure universal coverage for basic health infrastructure for its citizens, limiting their exposure to waterborne diseases.

Importance of affordable housing in the Philippines

DBP intends to finance "Socialized Housing"³² projects as defined by the Housing and Land Use Regulatory Board of Philippines³³ 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.³⁴

The housing backlog in the Philippines was 6.7 million households in 2015 and is estimated to reach 12.3 million households by 2030. Socialized housing (450K pesos and below) accounts for 25% of the estimate housing demand between 2016 and 2030.³⁵ Furthermore, due to the rapid population growth in the cities driven by high rate of internal migration from rural areas, the portion of informal settlers without adequate access to decent living conditions has increased from 4.1% of total urban population in 2003 to 5.4% in 2012. The Philippines Housing Industry Roadmap 2012-2030, set out an industry target to produce two million houses from 2017 to 2022, and additional seven million houses from 2023 to 2030.³⁶ However, even fully achieved, the targeted nine million is below the estimated backlog by 2030, indicating that further efforts are needed to increase housing units priced at 3 million pesos and below.

Given the housing situation in the Philippines, Sustainalytics believes that DBP's funding of socialized housing will create positive impact by supporting affordable housings.

Importance of supporting SMEs in the Philippines

Small and medium enterprises (SMEs) operate as a major source of employment in the Philippines, as they account for more than half of the employment and comprise 99.6% of enterprises in the country.³⁷ However, despite SMEs

²⁶ Transforming Public Transport in the Philippines, report by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH available at: https://www.changing-transport.org/wp-content/uploads/2016_Full_NAMA_Concept_Jeepney_NAMA.pdf

²⁷ Transforming Public Transport in the Philippines, report by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH available at: https://www.changing-transport.org/wp-content/uploads/2016_Full_NAMA_Concept_Jeepney_NAMA.pdf

²⁸ Republic of the Philippines Department of Health statistics available at:

https://www.doh.gov.ph/sites/default/files/statistics/Food%20and%20Waterborne%20Diseases%20Monthly%20Report_MW1-MW30_2018_No.7.pdf

²⁹ Wastewater Management in the Philippines, the Environmental Management Bureau Region 3, document available at:

https://www.wipo.int/edocs/mdocs/mdocs/en/wipo_ip_mnl_15/wipo_ip_mnl_15_t4.pdf

³⁰ Wastewater Management in the Philippines, the Environmental Management Bureau Region 3, document available at:

https://www.wipo.int/edocs/mdocs/mdocs/en/wipo_ip_mnl_15/wipo_ip_mnl_15_t4.pdf

³¹ Water Supply and Sanitation in the Philippines, Turning Finance Into Services for the Future, report by the World Bank and the Water and Sanitation Program available at: <https://www.wsp.org/sites/wsp/files/publications/WSP-Philippines-WSS-Turning-Finance-into-Service-for-the-Future.pdf>

³² HLURB Memorandum Circular No. 13 Series of 2017 defines Socialized Housing as Php450,000 and below. Please refer to circular for full details. As the HLURB may amend thresholds, this is subject to change without further notice.

³³ More information on the Land Use Regulatory Board of Philippines available at: <http://hlurb.gov.ph/>

³⁴ Rules and Regulations for BP 220 available at: http://hlurb.gov.ph/wp-content/uploads/laws-and-issuances/Revised_IRR_BP220_2008.pdf

³⁵ The Philippine Housing Industry Roadmap: 2012-2030 available at: <http://industry.gov.ph/wp-content/uploads/2015/05/3rd-TID-Mr.-Tanchis-Presentation-on-Mass-Housing.pdf>

³⁶ Ibid.

³⁷ ASIA SME Finance Monitor available at: <https://www.adb.org/sites/default/files/publication/41742/asia-sme-finance-monitor-2013.pdf>

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contributing one third of the Philippines' GDP, SME loans' percentage to total loans has decreased from 16% in 2010 to 10% in 2016. 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 search for alternative funding sources such as capital leasing and supplier credit.³⁸ The Government of the Philippines has started to provide support for SMEs, as outlined in its five-year MSME Development Plan (2017-2022),³⁹ including initiatives to accelerate the growth of SMEs with a focus on maximizing access to finance, improving business regulatory requirements and procedures, improving competitiveness, and broadening access to markets. Considering the importance of SMEs in the labor market, Sustainalytics is of the opinion that DBP's use of proceeds will contribute to employment generation in the Philippines and will help advance governmental efforts towards empowering SMEs and contribute to realize inclusive growth.

Importance of investing in healthcare in the Philippines

DBP intends to use part of the proceeds to finance or refinance public or PhilHealth accredited healthcare facilities and services.

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).⁴⁰ According to the payment scheme, all benefits are covered for public hospitals, as well as accredited private hospitals. Sustainalytics considers DBP's criteria as impactful given that PhilHealth covers costs for low-income groups at accredited hospitals.

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 8. Decent work and Economic Growth	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 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
Renewable Energy Energy efficiency Green Buildings	7. Affordable and Clean Energy 9. Industry, Innovation and infrastructure	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency. 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 Affordable Housing	11. Make cities and human settlements inclusive, safe, resilient and sustainable	11. 1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

³⁸ Digital banking for small and medium-sized enterprises, Improving Access to Finance for the Underserved available at:

<https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/financial-services/sea-fsi-digital-banking-small-medium-enterprises-noexp.pdf>.

³⁹ Micro, Small and Medium Enterprise Development Plan

2017-2022 available at: http://www.philexport.ph/c/document_library/get_file?uuid=e77ef7f0-d768-422f-8330-3090c0ce97bd&groupId=127524.

⁴⁰ More information on the payment scheme as defined in PhilHealth available at: <https://www.philhealth.gov.ph/circulars/2017/circ2017-0006.pdf>

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<p>Affordable Basic Infrastructure</p>		<p>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.</p>
--	--	---

Conclusion

DBP has developed the Development Bank of the Philippines Sustainable Financing Framework, under which it intends to issue green, social and sustainability bonds and use the proceeds to finance investments in (i) Clean transport, (ii) Affordable basic infrastructure, (iii) Renewable energy, (iv) Energy efficiency, (v) Sustainable water and wastewater management, (vi) Pollution prevention and control, (vii) Socio-economic advancement and empowerment, (viii) Green buildings, (ix) Access to essential services, (x) Affordable housing and (xi) Employment generation.

The use of proceeds categories specified in the Framework are aligned with those of the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines 2018. DBP has implemented a process by which proceeds will be tracked through its internal reporting systems, while the allocation, the management of proceeds along with the allocation of the use of proceeds will follow transparent procedures in line with market practices. Given the broad eligibility criteria, Sustainalytics recommends DBP to develop relevant impact indicators for all categories and detailed reporting to demonstrate the achieved impact of the projects financed.

Based on the above, Sustainalytics is confident that the Development Bank of the Philippines is well positioned to issue green, social and sustainability bonds and that the Development Bank of the Philippines Sustainable Financing Framework is credible, transparent and in alignment with the Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines 2018 and ASEAN Sustainability Bond Standards.

Appendices

Appendix 1 Certification scheme used by DBP in its Sustainability Finance Framework

Overview of Green Building Certification Schemes

	LEED
Background	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	Certified Silver Gold Platinum
Areas of Assessment: Environmental Project Management	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	Energy and atmosphere Sustainable Sites Location and Transportation Materials and resources Water efficiency Indoor environmental quality Innovation in Design Regional Priority
Requirements	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	
Accreditation	LEED AP BD+C LEED AP O+M
Qualitative considerations	Widely recognized internationally, and strong assurance of overall quality.

Appendix 2: Alignment to the ASEAN Sustainability Bond Standards

ASEAN Sustainability Bond Standards' Criteria	Alignment with ASEAN SBS	Sustainalytics' comments on alignment with the ASEAN Sustainability Bond Standards.
Eligibility	Yes	The ASEAN SBS requires that issuers must be located in or that the proceeds be directed to assets in an ASEAN country. As a Philippines-based institution, DBP qualifies.
Use of Proceeds	Yes	The ASEAN SBS 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; DBP has included criteria in the Framework to this effect.
Process for Project Evaluation and Selection	Yes	The ASEAN SBS specifies information that must be clearly communicated to investors before issuance regarding project selection. Within its framework, DBP has described that its Lending Program Management Group ("LPMG"), shall be responsible in evaluating and selecting the assets eligible for financing using proceeds from the Bonds and that LPMG shall ensure the conformance with the Eligibility Criteria and with DAC instructions in relation to the Framework.
Management of Proceeds	Yes	The ASEAN SBS mandates that proceeds must be appropriately tracked and that temporary investments be disclosed. Within its framework, DBP will track the use of proceeds through its internal reporting systems. Pending full allocation, the unallocated proceeds will be invested in high quality money market instruments in accordance with DBP's liquidity management strategy.
Reporting	Yes	The ASEAN SBS requires annual reporting on the allocation of funds and the expected impacts. DBP states that it will provide information on allocation and non-financial impacts annually.
Annual Review	Yes	The ASEAN SBS encourages, but does not require, annual reviews. DBP intends to issue a limited assurance report or verification statement for the allocation of the proceeds to the Eligible Green and Social Portfolio starting one year after issuance and until full allocation

Appendix 3: Sustainability Bond / Sustainability Bond Programme

- External Review Form

Section 1. Basic Information

Issuer name:	Development Bank of the Philippines
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Development Bank of the Philippines Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	Updated version of a Second Party Opinion provided on September 2019

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

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

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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*):

DBP will finance or refinance green and social sustainability projects and activities that are related to the Bank's various sustainability programs. The eligible categories include: (i) Clean transport; (ii) Affordable basic infrastructure; (iii) Renewable energy; (iv) Energy efficiency; (v) Sustainable water and wastewater management; (vi) Pollution prevention and control; (vii) Socio-economic advancement and empowerment; (viii) Green buildings; (ix) Access to essential services; (x) Affordable housing, and (xi) Employment generation.

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 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 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*):

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The Bank's LPMG will select and evaluate assets based on the Eligibility Criteria, with assistance from other bank units such as the Enterprise Risk Management Group, Corporate Banking Group, SME Retail and Mid-Market Lending Group, Provincial Lending Groups, Strategic Planning Group, and Asset and Liability Management Department (ALMD). The Development Advocacy Committee (DAC) composed of Board of Directors including the Chairman, and the President and Chief Executive Officer, will oversee the asset selection and evaluation process. DBP's internal process in evaluating and selecting projects is in line with market practice.

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 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*):

ALMD and LPMG will track the receipt and use of proceeds through its internal reporting systems. Monitoring reports will be provided at least annually to the DAC to ensure all Eligible Assets are appropriately identified. Pending full allocation, the unallocated proceeds will be invested in high quality money market instruments per in accordance with DBP's liquidity management strategy. DBP's processes to manage and track proceeds are in line with market practice.

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 |

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- Disclosure of portfolio balance of unallocated proceeds Other (*please specify*):

4. REPORTING

Overall comment on section (if applicable):

DBP commits to provide allocation and impact reporting through its website on an annual basis. Allocation reporting will contain the total amount of allocated proceeds, a break-down of the allocation at a category level, and the balance of unallocated proceeds and information on how the unallocated proceeds are managed. Impact reporting will include relevant performance indicators, where feasible, which may include: Savings in electricity consumption, number of crops harvested for financing for sustainable agribusiness projects, and number of households served for financing sanitation facilities. Sustainalytics views DBP's allocation as aligned with market practice and encourages the bank to develop relevant impact indicators and detailed reporting for all categories.

Use of proceeds reporting:

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

Information reported:

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

Frequency:

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

Impact reporting:

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

Frequency:

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

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Number of beneficiaries

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- | | |
|---|--|
| <input type="checkbox"/> Target populations | <input checked="" type="checkbox"/> Other ESG indicators (please specify): |
| | No. Of kilometers of road built
No. of service connections
Number of passengers catered by the units broken down per vehicle unit
No. Of kilometers of road built
Energy produced and sold (kWh)
No. of crops harvested
No. of beds served
No. of CTS purchased
No. Of businesses financed |

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): website |
| <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.)

<https://www.dbp.ph/>

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 specialized 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.

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For more information, visit www.sustainalytics.com

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