Sustainability Bond

Sustainability bond issuance to support a sustainable finance

Juni 2021
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Senior Vice President at PT Bank Rakyat Indonesia

Work Experience
• Senior Vice President of Credit Risk & Policy Division (2020 – Present)
• Vice President, Head of Balance Sheet Management (2019-2020)
• Assistant Vice President, Head of Corporate M&A (2018-2019)

Education
• Master Degree in Business Administration, Melbourne Business School (2012)
• Bachelor Degree in Electrical Engineering, University of Gajah Mada, (2003)
• Sustainable Finance Roadmap
• Sustainability Bond Issuance in 2019
Sustainable Finance Roadmap

Sustainable Finance roadmap through ESG Framework
Our milestones...

First Mover on Indonesia Sustainable Banking

Served as The Chairman of Indonesia Financial Sustainability Initiatives

Indonesian Bank with the largest Sustainable Business Portfolio

The First South East Asian Bank Issued Sustainable Bond

Constituent of Indonesia ESG Leader Index

Committed to Integrate ESG across business activities through Internal Sustainable Finance Policies

BRI Sustainable Business Activities*

Loan Portfolio

As of March 31, 2021

Rp579.7 T

64.7% of Total Loans

*Based on Financial Services Authority Regulation (P2K) No. 53/POJK.07/2017 on the Application of Sustainable Finance for Financial Services Institutions, Issuers and the BRI Companies.
Continuing ESG framework implementation to maintain a sustainable business...

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<tbody>
<tr>
<td>• BRI published its first Sustainable Finance</td>
<td>• First Mover on Sustainable Finance</td>
<td>• Sustainable Bond Issuance in 2019</td>
<td>• New Sustainable Finance Roadmap</td>
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<tr>
<td>• The FSA initiated “First Step to Sustainable Financing”</td>
<td>• Internal ESG Policies: BRI Sustainable Policy, ESG Risk Management Policy on CPO, Sustainability Implementation Strategy, Sustainable Action Plan 2019 – 2023,</td>
<td>• 63% of Loan categorized as sustainable financing (Dec’20)</td>
<td>• Integration of ESG aspects into Corporate Plan</td>
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<td>• SDG Implementation</td>
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<td>• Capacity Building Programs</td>
<td>• ESG-enhanced KPI</td>
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<td>• BRI won the 1st place and best of the best of sustainable Finance Award</td>
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<td>• Implemented international reporting standard TCFD, SASB, GRI</td>
<td>• ESG-related sectoral loan policies</td>
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<td>• Participated in CDP Pilot Project</td>
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<td>• GHG emission Calculation</td>
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<td>• Improving ESG Rating Score, won 14 categories on National ESG Awards</td>
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<td>• Included in Indonesia ESGL Index 2021</td>
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Our commitment for sustainable banking...

We are committed to give optimal values to stakeholders by implementing a Sustainable Finance Strategies in our banking activities

**Assets**

- Financing sustainable projects, such as **Renewable Energy**, **Energy Efficiency**, **Pollution Control & Prevention**, **Biodiversity Conservation**, **Eco-Friendly Transportation**, **Green Building**, etc.
- Credit risk management policy on CPO

**Liabilities**

- ESG-linked Liability Products: **BRI Sustainability Bond 2019**
- Socially Responsible Liability Products with **Anti-Money Laundering and Counter-Terrorism Financing Policies**

**Operations**

- Paperless Operations
  - **BRI Digital Office**
  - **BRISPOT or Digital Loan Mobile Application**
- Green IT Infrastructure
- Reuse, Reduce, Recycle
- Measuring and Tracking Carbon Emission

**Human Capital**

- Socially Responsible Human Capital Strategy with **Diversity and Equality Policies**
- **BRISMART (e-Learning System)**
Sustainability Bond

Sustainability Bond issuance as an alternative source of funds
Sustainability Bonds issuance is answering both capital market and regulator’s concern regarding ESG framework implementation...

Sustainability Bond menjadi salah satu alternative pendanaan berbasis social dan lingkungan. Hal ini mengikuti demand pasar modal yang semakin concern terhadap isu social dan pengelolaan lingkungan maupun perubahan iklim sekaligus merupakan wujud implementasi POJK 51 mengenai penerapan Keuangan Berkelanjutan dan POJK 60 Mengenai Obligasi Hijau...

**Regulation**

POJK 51/POJK.03/2017 tentang Penerapan Keuangan Berkelanjutan bagi LJK, emiten dan perusahaan publik

Kewajiban menyusun Rencana Aksi Keuangan Berkelanjutan (RAKB), meliputi:

a. Pengembangan Produk dan/atau Jasa Keuangan Berkelanjutan termasuk peningkatan portofolio pembiayaan, sumber dana, investasi atau penempatan pada instrumen keuangan atau proyek yang sejalan dengan penerapan Keuangan Berkelanjutan;

b. Pengembangan kapasitas intern LJK; atau
c. Penyesuaian organisasi, manajemen risiko, tata kelola, dan/atau standar prosedur operasional (standard operating procedure)

**Purpose-based Bonds**

“.. is a type of bond instrument where the proceeds will be to finance / refinance environmental projects..”

(--Green Bond--)  

“.. is a type of bond instrument where the proceeds will be to finance / refinance activities that support / have an impact on social improvement, eg poverty program, gender issue, Micro - SME finance program etc...”  

(--Social Bond--)  

“.. is a combination of Green and Social Bond..”  

(--Sustainability Bond--)
Second Opinion needs to be available in issuing Sustainability Bond...

Sebelum menerbitkan Sustainable Bonds, emiten harus mendapatkan Second Opinion atas implementasi ESG Framework dari Lembaga pemerikat independen...

1. **Commitment**
   - Komitmen Bank terhadap isu ESG.

2. **Asset Profiling & Selection**
   - Melakukan mapping terhadap aset

3. **Framework & Second Opinion**
   - Membuat kerangka kerja dan mendapatkan second opinion dari provider

4. **Permission Process**
   - Mengurus perizinan dan administrasi terkait penerbitan obligasi

5. **Internal Process**

6. **Due Dilligence & Roadshow**

7. **Pricing & Launching**
Second Opinion focus mostly focus on use of proceeds dan disclosure...
Pihak asesor akan melihat penggunaan dana, proses seleksi dan evaluasi project yang akan didanai, pengelolaan dana tersebut maupun pelaporan mengenai progress dan penggunaan dana ...
Sustainability Bond Framework is a reference to our commitments...

I. Use of Proceeds:
- The full amount of net proceeds of any Bank BRI Sustainability Bonds ("Sustainability Bonds") will be allocated to Eligible Social Project Categories and Eligible Project Categories as defined in the next page.
- Bank BRI is committed to exclusionary criteria such as large-scale hydro projects, fossil fuel related assets, palm oil operations related assets, for its Sustainability Bonds(1):

II. Project Evaluation and Selection:
Bank BRI has a two-step approach for project evaluation and selection:
- Relevant business units nominate projects after screening with the eligibility and exclusionary criteria of the Framework;
- Teams including the Enterprise Risk & Portfolio Management Division, Asset and Liabilities Management Division and the Treasury Business Division will review and approve nominated projects.

III. Management of Proceeds:
- A register will be created to facilitate monitoring and reporting.
- Should a project becomes no longer eligible, it will be removed and replaced.
- For proceeds pending allocation, BRI may deploy into cash or high-quality marketable instruments.

IV. Reporting:
- Bank BRI will provide reporting on both allocation and impact from any Sustainability Bonds issuances.
- Until full proceed allocation and/or should material changes be required to past Allocation Reports.

“The framework will become an investor's reference for issuer commitments..”
LRT Project as our champion in green projects category...

Green Project

GBP criteria

- Renewable energy
- Energy efficiency
- Pollution control & prevention
- Sustainable management of natural resource
- Biodiversity conservation
- Clean transportation
- Water and waste water management
- Climate change adaptation
- Eco-friendly products
- Green building

Eligible on BRI’s Framework

1. Renewable energy
2. Green buildings
3. Pollution prevention and control
4. Environmentally sustainable management of living natural resources and land use
5. Clean transportation
6. Sustainable water and waste water management

LRT (Clean Transportation)
KUR, KPRS and MSME Financing as our champion in social category...

**Social Project**

**Projects**
1. Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)
2. Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
3. Affordable housing
4. Employment generation including through the potential effect of SME financing and microfinance
5. Food security
6. Socioeconomic advancement and empowerment

**Target**
1. Living below the poverty line
2. Excluded and/or marginalized populations and /or communities
3. Vulnerable groups, including as a result of natural disasters
4. People with disabilities
5. Migrants and /or displaced persons
6. Undereducated
7. Underserved, owing to a lack of quality access to essential goods and services
8. Unemployed

**Eligible on BRI’s Framework**

1. Affordable basic infrastructure
2. Access to essential services
3. Affordable housing
4. Employment generation
5. Socioeconomic advancement and empowerment
Issuing Sustainability Bond may trigger concerns in detail related to ESG issues

- Dukungan BRI terhadap pembiayaan infrastruktur ramah lingkungan sejenis LRT (mass transportation)
- Eksposur pembiayaan di sektor Pertambangan Batubara & Perkebunan Sawit dan rencana kebijakan kedepan
- Strategy BRI dalam mengimplementasikan program green banking dan progress implementasinya
- Strategi BRI dalam menjaga sustainability sumber pendanaan bagi bisnis Micro Financing
- Dukungan BRI terhadap pemberdayaan perempuan di segmen Mikro
- Outlook sustainability program KUR Pemerintah bagi BRI
- Jumlah dan pengelolaan pekerja pada bisnis Mikro

- Kebijakan de-forestasi & Pollution Control di Indonesia dalam industri CPO?
- Kebijakan terkait Sustainability Financing?

- Liquidity Management
- Margin & Profitability
- Credit quality
- Capital Management
- Loan growth
- Funding Structure
- Digital disruption

- Corporate Performance
- Corporate SDG
- Indonesia SDG

- 60%
- 35%
- 5%
BRI Sustainability Bonds 2019 was issued in March 2019 with total proceed of USD 500mio, oversubscribed by 8X...

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<thead>
<tr>
<th>Issuer</th>
<th>PT. Bank Rakyat Indonesia (persero) Tbk</th>
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<tr>
<td>Offering</td>
<td>USD Sustainability Bond (senior)</td>
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<tr>
<td>Amount</td>
<td>USD 500,000,000</td>
</tr>
<tr>
<td>Tenor</td>
<td>5 Year</td>
</tr>
<tr>
<td>Maturity</td>
<td>28 Maret 2024</td>
</tr>
<tr>
<td>Coupon</td>
<td>3.95%</td>
</tr>
<tr>
<td>Listing</td>
<td>Singapore Exchange Securities Trading Limited</td>
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<tr>
<td>Governing Law</td>
<td>English Law</td>
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<tr>
<td>Join Lead Manager</td>
<td>Citigroup</td>
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<td>Credit Agricole</td>
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<td>Sustainability Second Opinion Provider</td>
<td>Sustainalytics</td>
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As of 2019, 16% of proceeds are used for Green financing and 84% are for Social financing...

**Proceed Allocation**

As of 30th December 2019, the proceeds of the 2019 BRI Sustainability Bond were fully allocated. Allocation information by type of project and sector are:

**By Project Type**

- Social Use of Proceeds: 16%
- Green Use of Proceeds: 84%

**By Eligible Category**

- Employment Generation (Kupedes): 41%
- Affordable Housing: 43%
- Clean Transportation: 7%
- Green Buildings: 1%
- Socioeconomic advancement and empowerment (Micro KUR loans): 8%

**Conclusion**

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of the 2019 BRI Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Sustainability Bond Framework. Bank BRI has disclosed to Sustainalytics that the proceeds of the sustainability bond were fully allocated as of December 2019.
Despite all the preparations, the market size of ESG funding is accelerating...

56 entities focus on managing ESG and are part of the (Sustainable Development Agenda) with a total fund management of around USD 7.9 trillion or less than or equal to Rp 110.000 triliun...

**GLOBAL ESG INVESTMENT**

- Global ESG AUM: US$40 Trillion
- 15% (CAGR)
- 2016: US$22.9 Trillion
- 2020: US$40 Trillion

Source: ESG Data Integration By Asset Managers: Targeting Alpha, Fiduciary Duty & Portfolio Risk Analysis, from consultancy Opimas.

**ESG INVESTMENT IN BBRI**

- Investment Value: Rp 404 Miliar
- Investment Value: Rp 1.31 Trillion (eq. US$91 billion or 0.0002% Global ESG AUM)
- November 2019: 224% (YoY)
- November 2020

Source: Nasdaq
In 2019, FI used to be dominating Sustainability Bonds market, but in 2020 Supranational Funds has larger share...

Source: Sustainable Bonds Insight 2021
Social and Sustainability Bonds market grew rapidly during pandemic with increasing appetite in shorter tenor...

Source: Sustainable Bonds Insight 2021
Thank You

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