



Melayani Dengan Setulus Hati

SUSTAINABILITY BOND FRAMEWORK



PT BANK RAKYAT INDONESIA (PERSERO) TBK

MARCH 2019

1. The Issuer

1.1. About Bank BRI

Established in 1895 and today the oldest commercial bank in Indonesia, PT Bank Rakyat Indonesia (Persero) Tbk (“Bank BRI”) is the largest bank in Indonesia by assets, loans and deposits as of December 31, 2018, with a long history of serving micro, small and medium enterprises (“**MSMEs**”). Loans to MSMEs through Bank BRI’s micro and retail segments together comprised 75.4% of Bank BRI’s total loans as of December 31, 2018. Bank BRI’s continued focus on MSMEs is demonstrated by the numerous awards conferred on Bank BRI, including the “Best Microfinance Product” award from The Asian Banker in 2017. Bank BRI was among those recognized as “First Mover Sustainable Banking” by *Otoritas Jasa Keuangan* (“OJK”), Indonesia’s Financial Services Authority, emphasizing Bank BRI’s contribution to the Indonesian government’s program of financial literacy, financial inclusion, and social and economic resilience.

Bank BRI’s presence covers a vast area of the Indonesian archipelago extending from rural to urban areas, and from coastal to mountain areas. Bank BRI serves its customer base of over 60 million accounts—the largest in Indonesia—through a network of 9,500 outlets as of December 31, 2018, also the largest and most comprehensive in Indonesia.

Bank BRI’s outlets include branches, sub-branches, BRI units, cash offices, *Teras* BRI and *Teras* Mobile, complemented by e-channels, which include automatic teller machines and electronic data capture terminals, linked on a real-time online basis and evidence of Bank BRI's commitment to provide access to financial services across society levels.

Bank BRI intends to continue its focus on the micro segment, its core banking operation and main driver of loan growth. Through the micro segment, Bank BRI caters to microcredit borrowers and offers and administers certain government-sponsored programme loans. The retail segment caters to small and medium enterprises and consumer clients. Bank BRI’s corporate segment services larger businesses and state-owned enterprises, including lending to projects with environmental benefit.

Indonesia is no exception to socio-economic inequality, and therefore, gaps in wealth distribution. In an endeavor to reduce inequality through sustainable growth, the government administers various programs, in which Bank BRI participates as an agent of development. Bank BRI is committed to the conservation of natural resources and the environment, as well as sustainable economic development to improve quality of life and the environment, both for Bank BRI itself, local communities, and the Indonesian society in general.

1.2. Commitment to Sustainability

Bank BRI was recognized by OJK as top-ranked in all categories (Banking, Capital Markets, Securities, Insurance, Financing, and Other Financial Institutions) in December 2016, acknowledging Bank BRI's strong commitment to encourage implementation of sustainable finance.

In addition, Bank BRI was named "Best Bank for KUR¹ Loan Disbursement" in November 2018 by *Kementerian Koordinator Bidang Perekonomian*, Indonesia's Coordinating Ministry for Economic Affairs and "Best Bank for MSMEs" among Indonesia's largest banks (BUKU 3 & 4) in November 2018 by Bank Indonesia. BRI took further steps in its sustainable finance policy by designing and launching the Bank BRI Sustainable Finance Action Plan 2019-2023.

As a first mover in Indonesian sustainable finance, Bank BRI continues to implement its internal sustainable finance policy and commitment to participating in sustainable economic development to improve quality of life and the environment to benefit all stakeholders. Bank BRI complies with the provisions stipulated in OJK Regulation POJK No 51/POJK.03/2017.

In support of inclusive and sustainable growth, Bank BRI intends to issue its first sustainability bond pursuant to the Bank BRI Sustainability Bond Framework (the "**Framework**"). Bank BRI believes such instruments are an important investment channel for projects that general social and/or environmental impact and contribute to achieving the United Nations Sustainable Development Goals ("**UN SDGs**")².

¹ "[Kredit Usaha Rakyat](#)", Bank BRI website.

2. Alignment with Market Standards

The Framework is consistent with the Sustainability Bond Guidelines³, the Social Bond Principles⁴, and the Green Bond Principles⁵, each last issued by the International Capital Markets Association (“ICMA”) in June 2018 (collectively, the “**ICMA Standards**”). Further, the Framework is consistent with the Association of Southeast Asian Nations (ASEAN) Sustainability Bond Standards⁶, the ASEAN Social Bond Standards⁷, and the ASEAN Green Bond Standards⁸, each issued in November 2018 (collectively, the “**ASEAN Standards**”).

The Framework is comprised of four core components: Use of Proceeds, Project Evaluation and Selection, Management of Proceeds, and Reporting, consistent with the ICMA Standards and the ASEAN Standards.

3. Framework Overview

3.1. Use of Proceeds

Amounts generated from bond(s) issued pursuant to the Framework (the “**Proceeds**”) will be used to finance and/or refinance, in whole or in part, eligible projects among the categories below and expected to result in positive environmental and/or social impact (the “**Eligible Project Categories**”).

⁶ [ASEAN Sustainability Bond Standards](#), ASEAN Capital Markets Forum website.

⁷ [ASEAN Social Bond Standards](#), ASEAN Capital Markets Forum website.

⁸ [ASEAN Green Bond Standards](#), ASEAN Capital Markets Forum website.

Bank BRI further identified the UN SDG(s) to which each Eligible Project Category is aligned to below. The Project Categories are collectively aligned with the following eight UN SDGs.



a. Social Projects

Proceeds may be allocated to financing and refinancing projects providing or promoting one or more of the following categories to qualifying target populations, listed in no specific order.

- **Affordable basic infrastructure**, which refers to public clean drinking water infrastructure and sewers system, sanitation infrastructure, and public electricity infrastructure to increase access to electricity;



- **Access to essential services**, which refers to the financing of public healthcare centres, public schools and vocational training centers for all people in Indonesia, independent of age, socio-economic status, gender, ethnicity, religion and disability;



- **Affordable housing**, which refers to development of affordable houses or housing loans for low-income communities, each in line with the definition of low-income population under Decision of the Minister of Public Works and Public Housing of the Republic of Indonesia Number 552 / KPTS / M / 2016;



- **Employment generation**, including through the potential effect from financing MSMEs as defined under Law Of The Republic Of Indonesia Number 20 Year 2008 regarding Micro, Small, And Medium Enterprises; and



- **Socioeconomic advancement and empowerment** for underbanked or non-bankable communities and individuals based on (i) products with interest rates below than minimum commercial local lending rate, or (ii) KUR Loans⁹ as defined under Regulation of the Coordinating Minister for Economic Affairs as Chair of the Financing Policy Committee for Micro, Small and Medium Enterprises No 11/2017.



b. Environmental Projects

Proceeds may also be allocated to finance and/or re-finance projects in one or more of the following categories, listed in no specific order:

- **Renewable energy**, which refers to the acquisition, development, operation or maintenance of new and ongoing generation or transmission of

⁹ [“Kredit Usaha Rakyat”](#), Bank BRI website.

renewable energy activities, including offshore and onshore wind, solar, tidal, hydropower (≤ 25 MW) and geothermal ($< 100\text{g CO}_2/\text{kWh}$) projects;



- **Green buildings**, which refers to new construction or the renovation of residential or commercial buildings that (i) earn or have earned any of the following certifications: Building Research Establishment Environmental Assessment Model (“BREEAM”) Excellent or above; Leadership in Energy and Environmental Design (“LEED”) Gold or above, or the equivalent levels from the Green Building Council Indonesia, or (ii) improvements in the energy efficiency of manufacturing facilities by more than 15% compared to the baseline;



- **Pollution prevention and control**, which refers to reduction of air emissions, greenhouse gas control, waste prevention, or waste management, which include re-use and recycling, such as projects that recover or reuse materials and waste as energy or input into new products or as a resource;



- **Environmentally sustainable management of living natural resources and land use**, which refers to environmentally sustainable agriculture, environmentally sustainable animal husbandry, environmentally sustainable fishery and aquaculture or environmentally sustainable forestry, in particular certified as or with the EU Organic label, EU Ecolabel, USDA Organic label, Aquaculture Stewardship Counsel label, Marine Stewardship Counsel label, Rainforest Alliance Certified, UTZ Certified, or Fairtrade;



- **Clean transportation**, which refers to the building or operating electrified transport, urban metro, rail, and non-motorised, multimodal transportation (such as bicycle lanes and walking routes), or the construction of infrastructure to support mass transportation, including depot and maintenance facilities, signaling equipment, platform gates, and facilities required for safe, clean and efficient operation or other enabling infrastructure that promotes sustainable transportation); and



- **Sustainable water and waste water management**, which refers to infrastructure that improve water quality , efficiency or conservation, including the installation or upgrade of infrastructure for clean and/or drinking water, water recycling or wastewater treatment facilities, infrastructure and flooding mitigation systems such as stainable urban drainage systems and river training, or water metering activities to support water conservation initiatives.



c. **Activities Ineligible Under the Framework**

- Large-scale hydro projects (i.e., generation capacity of over 25 MW);
- Any assets involving fossil fuels, directly or indirectly;
- Any palm-oil operations, activities, projects, production, or distribution;
- Manufacture of alcoholic beverages or tobacco;
- Manufacture or trade in weapons, ammunition, and other goods used for military or paramilitary purposes;
- Production, trade in, or use of:
 - Nuclear reactors and related products, radioactive materials (except in the case of medical materials and quality-control equipment where the radioactive source is in small quantities and is adequately shielded), combustible elements not exposed to irradiation (cartridges for reactors), or
 - Harmful substances that are subject to international phase-outs or bans;
- Gambling, casinos and equivalent enterprises to the extent that such activities constitute the main business of the borrower/recipient;
- Agricultural or afforestation operations located on land designated as primary forest, high conservation value areas, or legally preserved areas;
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora;
- Use of logging equipment in unmanaged primary tropical rainforests;
- Economic activities involving harmful or exploitative forms of forced labor and/or child labor as defined by international conventions and/or national regulations; and
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.

3.2. Project Evaluation and Selection

Bank BRI evaluates projects with the aim that nominated financing and re-financing activity reflect both the ICMA Standards and the ASEAN Standards. In the process, Bank BRI defines projects as eligible if they generate positive environmental and/or social impact. Bank BRI has developed a two-step approach for project evaluation and selection:

- Relevant business units will be responsible for nominating projects to finance or re-financing after screening these projects themselves with the eligibility and exclusionary criteria, as appropriate, as part of their credit evaluation process; and
- Teams responsible to review and approve financing or re-financing nominated projects to ensure compliance with the Framework will include but will not be limited to the following:
 - Enterprise Risk & Portfolio Management Division
 - Asset and Liabilities Management Division
 - Treasury Business Division

Relevant business units will then identify and categorize all qualifying financing and re-financing activity according to Eligible Project Categories under the Framework to identify and monitor projects financed, therefore focusing only on those with positive environmental and social impact. Any lending for refinancing purposes will be limited to financing not older than three years.

Bank BRI will maintain a pool of qualifying assets financed or re-financed with proceeds from any bonds issued under the Framework (the “**Asset Pool**”). Bank BRI’s prudential risk management policies will be used to identify, monitor and evaluate assets in the Asset Pool.

3.3. Management of Proceeds

Proceeds allocation will be made only to social and environmental uses identified as eligible and in accordance with exclusionary criteria specified in the Framework. Bank BRI will monitor the Asset Pool via its internal information systems. A register will be created to facilitate monitoring and reporting for bond(s) issued pursuant to the Framework.

Bank BRI intends to maintain sufficient assets generating environmental or social benefit in the Asset Pool such that the amount financed or re-financed always exceeds net proceeds from bond(s) issued pursuant to the Framework. Should Bank BRI terminate financing or re-financing of a project or if Bank BRI determines the relevant asset becomes ineligible (or if it falls among its exclusion criteria), the specific asset will be removed from the Asset Pool. When necessary, additional assets will be added to the Asset Pool.

Bank BRI may deploy Proceeds pending for allocation at its own discretion into cash or high-quality marketable instruments such as government bonds, in accordance with its liquidity management strategy until appropriate uses are identified for the Proceeds.

The full amount of Proceeds to the Framework will be used for financing and/or refinancing projects generating positive environmental or social benefit and falling under the Eligible Project Categories. Bank BRI will estimate the proportion of proceeds it intends to designate for financing new projects and proceeds it intends to use for re-financing, based on existing eligible projects.

3.4. Reporting

a. Allocation Reporting

Bank BRI will report proceeds allocation from bond(s) issued pursuant to the Framework within one year after each successful issue (“**Allocation Report**”). Bank BRI will publish an Allocation Report annually until proceeds are fully allocated and/or should material changes be required to past Allocation Reports. Allocation Reports will provide the following details:

- amount of eligible assets by project category; and
- remaining balance of un-allocated proceeds at the end of the reporting period.

Bank BRI may provide its Allocation Report(s) under one of more of the following channels:

- Annual sustainability report;
- BRI website, <https://bri.co.id>, <http://www.ir-bri.com/>; and
- BRI newsletter.

Bank BRI will also endeavor to provide information on individual assets financed if practicable, such as if permitted under confidentiality agreements or appropriate considering competition.

b. Impact Reporting

Bank BRI will also provide social and/or environmental impact of the Bank BRI Sustainability Bond Asset Portfolio to the extent it is practical to do so. Metrics that may be used by Bank BRI include the following.

Social Projects

- Affordable basic infrastructure
 - Number of households adopting electricity and water facilities
- Access to essential services
 - Number of beneficiaries with access to medication at affordable prices
- Affordable housing
 - Number of low-income individuals receiving a loan for affordable housing
- Employment generation
 - Number of MSMEs financed
 - Amount of MSME loans disbursed
 - Sector distribution of MSME loan portfolio
- Socioeconomic advancement and empowerment
 - Number of MSMEs or individuals financed through the KUR programme
 - Amount of KUR loan disbursement

Environmental Projects

- Renewable energy
 - kWh of power generated from renewable energy
 - Tons of CO₂ (or other greenhouse gases) avoided
- Pollution prevention and control
 - Tonnes or m³ of waste treated
 - Tonnes or m³ of waste recycled
 - Tonnes or m³ of waste reused
- Environmentally sustainable management of living natural resources and land use
 - Number and areas of organic farms financed
 - Certifications expected to be obtained
- Clean transportation
 - Annual ridership of transit system(s) supported
 - Tons of CO₂ (or other greenhouse gases) avoided
- Sustainable water and waste water management
 - Total population serviced by the system(s)
 - Total locations with reduced flooding
 - Number of water meters installed
- Green buildings
 - Energy consumption reduced
 - Number of eligible buildings with third party-verified green building certifications

4. External Review

Bank BRI has engaged Sustainalytics to provide a Second Opinion of this Framework's alignment with the ICMA Standards and the ASEAN Standards.

Following the first issue under the Framework, Bank BRI intends to engage Sustainalytics to complete third party verification of Proceeds allocation and publish Third Party Verification Report(s). Such report(s) will be available on Bank BRI's website, <https://bri.co.id>.