

Second-Party Opinion UnionBank Sustainable Finance Framework



Evaluation Summary

Use of Proceeds Instruments

Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018

Sustainalytics is of the opinion that the UnionBank Sustainable Finance Framework is credible and impactful and aligns with the four core components of the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018 (the "Use of Proceeds Principles"). The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Clean Transportation, Sustainable Water and Wastewater Management, Green Buildings, Access to Essential Services, Employment Generation and Socio-economic Advancement and Empowerment – are aligned with those recognized by the Use of Proceeds Principles and will lead to positive environmental and social impact.

Green, Social and Sustainable Deposits

The UnionBank Sustainable Finance Framework includes deposits as an eligible financial product. Sustainalytics is of the opinion that the principles of impact and transparency that underlie the sustainable investment industry, as well as many of its norms and standards, are applicable to green, social and sustainable deposits, and that UnionBank's internal processes and the use of funds aligns with those principles.

Evaluation Date January, 30 2023
Issuer Location Manila,
The Philippines

The UoPs and SPTs contribute to the following SDGs:



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Scope of Work and Limitations

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent¹ opinion on the alignment of the UnionBank Sustainable Finance Framework (the "Framework") with current market standards. As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018 (the "Use of Proceeds Principles")^{2,3,4}
- The UnionBank of the Philippines' sustainability strategy, performance and sustainability risk management.

As part of this engagement, Sustainalytics held conversations with various members of the UnionBank of the Philippines' management team to understand the sustainability impact of their business processes and the core components of the Framework. The UnionBank of the Philippines' representatives have confirmed that:

- (1) They understand it is the sole responsibility of UnionBank to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and the UnionBank of the Philippines.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. The Second-Party Opinion is valid (i) for issuances made aligned with the respective Framework for which the opinion was written, and (ii) for a period of twelve (12) months for sustainable banking deposit products and twenty-four (24) months for bond and loan issuances from the evaluation date stated herein.

For the use of proceeds instruments, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics' expertise as an ESG research provider. The Second-Party Opinion:

- Addresses the anticipated impacts of eligible assets expected to be financed with labelled financing instruments proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.
- Opines on the potential allocation of proceeds but does not guarantee the realized allocation of the labelled financing instruments proceeds towards eligible activities
- Refers to the Framework, which serves as a reference document for all future issuances of green, social and sustainability labelled financing instruments offered by the UnionBank of the Philippines and/or any of its consolidated subsidiaries across the Group

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that the UnionBank of the Philippines has made available to Sustainalytics for the purpose of this Second-Party Opinion.

¹ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

² The bond Principles, Guidelines and Handbooks are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

³ The loan Principles and Guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: https://www.lsta.org/content/?_industry_sector=guidelines-memos-primary-market

⁴ The ASEAN Sustainability Bond Standards are administered by the ASEAN Capital Markets Forum and are available at: <https://www.theacmf.org/initiatives/sustainable-finance/asean-sustainability-bond-standards>

For inquiries, contact the Sustainable Finance Solutions project team:

Arnab Deb (Mumbai)
Project Manager
arnab.deb@morningstar.com

Jasmine Hussain (Singapore)
Project Support
jasmine.hussain@morningstar.com

Cheryl Tay (Singapore)
Client Relations
susfinance.apac@sustainalytics.com
(+852) 3008 2391

Chetna Chauhan (Mumbai)
Project Support
Chetna.chauhan@morningstar.com

Ayushi Agrawal (Mumbai)
Project Support
Ayushi.agrawal@morningstar.com

Introduction

UnionBank (“UnionBank” or the “Bank”) provides commercial banking products and services. The Bank’s main business segments are consumer banking, corporate and commercial banking and treasury, and its product offerings include loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. Headquartered in Manila, the Philippines, and established in 1989, UnionBank and its subsidiaries⁵ have a total of 7,290 employees across 2,446 branches as of December 2021.

UnionBank has developed the UnionBank Sustainable Finance Framework dated January 2023 (the “Framework”), under which the Bank and its subsidiaries may issue or originate green, social and sustainability bonds and loans, sell repurchase agreements⁶ and launch green, social and sustainability deposits. UnionBank engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s alignment with market expectations, including the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018. The Framework has been published in a separate document.⁷

The use of proceeds instruments will finance or refinance, in whole or in part, existing or future projects that are expected to support the transition towards a low-carbon economy and support socio-economic improvement and advancement in the Philippines.

The Framework defines eligibility criteria in the following six green categories:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Clean Transportation
5. Sustainable Water and Wastewater Management
6. Green Buildings

The Framework defines eligibility criteria in the following three social categories:

1. Access to Essential Services
2. Employment Generation
3. Socio-economic Advancement and Empowerment

⁵ UnionBank’s subsidiaries include UBX, FUFAl, FUP, UPI, City Savings, PETNET, Bangko Kabayan, Fairbank and Progressive Bank.

⁶ UnionBank has confirmed to Sustainalytics that the repurchase agreements (“repos”) are use of proceeds repos only, and the proceeds from selling these repos will be exclusively used to finance or refinance, in whole or in part, existing or future eligible projects or the borrower’s sustainable asset portfolio. The Bank has also confirmed to Sustainalytics that collateral of the repos that are carbon-intensive or that are known to be financing carbon-intensive assets will be excluded from the Framework on a best-effort basis.

⁷ The UnionBank Sustainable Finance Framework is available on UnionBank’s website at: <https://www.unionbankph.com/sustainability/sustainable-finance>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of the Framework with Relevant Market Standards

Alignment of bonds, loans and repurchasing agreements with the Use of Proceeds Principles

Sustainalytics is of the opinion that the UnionBank Sustainable Finance Framework is credible, impactful and aligns with the Use of Proceeds Principles. For detailed information please refer to Appendix 2: Sustainability Bond or Sustainability Bond Programme External Review Form. Sustainalytics highlights the following elements of UnionBank's Framework:



Use of Proceeds

Overall Assessment of Green Use of Proceeds

Under the Framework, UnionBank intends to provide project-based lending and may use part of the proceeds for general purpose loans for pure play businesses that derive at least 90% of their revenue from activities identified in the eligible categories. Sustainalytics acknowledges that the GBP, SBP and SBG favour project-based lending and financing, which provide more transparency in general than non-project-based lending, but notes that financing pure play companies through green and social bonds is commonly accepted in the market as an approach which can generate positive impact.

Use of Proceeds	Activity	Classification	Sustainalytics' Assessment
Renewable Energy	Wind energy	Green	- Financing or refinancing the acquisition, development, operation and maintenance of onshore or offshore wind power generation projects. - This is aligned with market practice.
	Solar energy		- Investment in solar photovoltaic and concentrated solar power (CSP) generation - The Framework specifies that financing will be limited to CSP projects that generate at least 85% electricity from solar energy sources. - This is aligned with market practice.
	Tidal energy		- Investments in tidal energy generation projects - This is in line with market practice.
	Hydropower energy		- Financing or refinancing hydropower generation projects that meet one of the following criteria: i) run-of-river without an artificial reservoir or low storage capacity; ii) a life cycle carbon intensity below 50 gCO ₂ e/kWh or power density greater than 10 W/m ² for new facilities; or iii) a life cycle carbon intensity below 100 gCO ₂ e/kWh or power density greater than 5 W/m ² for facilities that became operational before the end of 2022. - UnionBank has confirmed to Sustainalytics that an environmental and social impact assessment will be undertaken for all new hydropower projects. Only projects with no significant risks, controversies or expected negative impact will be financed. - Sustainalytics considers the investments under this category to be in line with market practice.
	Geothermal energy		- Investments in geothermal projects with direct emissions below 100 gCO ₂ /kWh. - This is in line with market practice.
	Bioenergy		- Financing or refinancing of bioenergy electricity generation projects with a life cycle emission intensity below 100 gCO ₂ e/kWh and sustainably managed non-waste feedstock that is certified by recognized standards, such as

			<p>RSB,⁸ ISCC Plus,⁹ and wood certified under FSC¹⁰ or PEFC.¹¹ Sustainalytics considers it good practice to specify all eligible schemes and certifications and encourages UnionBank to report on any other schemes it intends to use.</p> <ul style="list-style-type: none"> - Financing or refinancing of biofuel production that meets one of the following criteria: <ul style="list-style-type: none"> - For new installations: life cycle emissions at least 65% lower than the fossil fuel baseline; - For installations pre-2021: a life cycle emission reduction of at least 60% below the fossil fuel baseline; or - For installations pre-2015: a life cycle emission reduction of at least 50% below the fossil fuel baseline. - UnionBank has confirmed to Sustainalytics that biofuel feedstock production will not take place on land with high biodiversity within the last 10-15 years, which are in competition with food production nor that deplete carbon pools. Additionally, feedstock from palm oil and peat are excluded from financing under the Framework. - The Framework specifies that the following fossil fuel baselines from the EU Renewable Energy Directive II¹² will be adopted: i) biofuels (for transportation) – 94 gCO₂e/MJ; ii) bioliquids (production of electricity) – 183 gCO₂e/MJ; iii) bioliquids (production of heat) – 80 gCO₂e/MJ. - This is aligned with market practice.
	Supporting renewable energy infrastructure		<ul style="list-style-type: none"> - Investments in infrastructure, including associated equipment and appliances, that are wholly dedicated to supporting the renewable energy technologies outlined above. - Investments in energy storage systems that are connected to renewables, including: i) electrochemical, such as battery and hydrogen storage; ii) thermal; and iii) mechanical, including pumped hydropower storage. UnionBank has confirmed to Sustainalytics that all energy storage systems are connected to renewables. - For all new pumped hydropower storage, UnionBank has confirmed to Sustainalytics that an environmental and social impact assessment will be undertaken. Only projects with no significant risks, controversies or expected negative impact will be financed. - Sustainalytics considers the investments under this category to be in line with market practice.
Energy Efficiency	Energy efficient appliances and products	Green	<ul style="list-style-type: none"> - Financing or refinancing the acquisition, development, operation and maintenance of energy efficiency technologies that result in an energy efficiency improvement or emissions reduction of at least 15% compared to the baseline. Sustainalytics views positively the inclusion of a defined energy efficiency threshold, which ensures meaningful energy savings. - Examples of intended expenditures include: i) smart grid systems that are designed to improve grid efficiency, such as wide area monitoring system components and measurement equipment, advanced or smart meters, monitoring and control automation devices and big data or computing platforms; ii) standby generators that run on renewable energy as defined in the Framework; iii) energy efficient hardware in data centres, such as modular UPS systems with at least 95% efficiency, precision aircons with DC fans and LEDs; and iv) digitalization and network

⁸ Roundtable for Sustainable Biomaterials (RSB), at: <https://rsb.org/the-rsb-standard/>

⁹ International Sustainability and Carbon Certification (ISCC) plus, at: <https://www.iscc-system.org/>

¹⁰ Forest Stewardship Council (FSC), at: <https://fsc.org/en>

¹¹ Programme for the Endorsement of Forest Certification (PEFC), at: <https://www.pefc.org/>

¹² European Commission, "Directive of the European Parliament and of the Council amending Directive (EU) 2018/2001 of the European Parliament and of the Council", (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52021PC0557&from=EN>

			<p>solutions and infrastructure, such as Internet of Things, modernization of existing broadband networks to high-speed networks, data analytics and cloud computing solutions performed in data centers with an annualized PUE of less than 1.5.</p> <ul style="list-style-type: none"> - UnionBank has confirmed to Sustainalytics the exclusion of energy-efficient technologies that are: i) designed or intended for processes that are inherently carbon intensive; ii) primarily driven or powered by fossil fuels, such as oil- or gas-fired boilers, cogeneration and combined heat and power units; and iii) designed or intended for production processes in industries that are heavy emitters, such as steel, cement and aluminium. Additionally, the Bank will exclude the financing of consumer appliances. - This is in line with market practice.
Pollution Prevention and Control	Waste management	Green	<ul style="list-style-type: none"> - Investments in the acquisition, development and maintenance of waste management projects that help prevent or reduce waste from the source. - Examples of intended expenditures include waste collection, sorting and transportation projects, such as automatic waste loading and collection facilities, where source segregation of waste will be conducted, as well as electric waste transportation vehicles with zero direct emissions. - The Framework specifies the exclusion of the creation or expansion of landfills. - This is in line with market practice.
	Waste recycling		<ul style="list-style-type: none"> - Investments in the design, manufacture and distribution of equipment that support waste recycling of electronic waste, plastic and glass, among other sources. - Examples of intended expenditures include the manufacture of containers for recyclables. - Regarding electronic waste projects, UnionBank has confirmed the presence of robust waste management processes to mitigate associated risks with electronic waste recycling, such as health hazards and leakages of toxic substances into the surrounding environment. - Plastic recycling projects will be limited to mechanical recycling. - This is in line with market practice.
Clean Transportation	Rail transport	Green	<ul style="list-style-type: none"> - Investments in passenger rail with a direct emission threshold below 50 gCO₂/pkm. - Investments in freight rail with a direct emission threshold below 25 gCO₂/pkm. - This is in line with market practice.
Sustainable Water and Wastewater Management	Sustainable water and wastewater management	Green	<ul style="list-style-type: none"> - Financing or refinancing of projects that improve water quality, support waste conservation and improve the efficiency of water usage through water recycling, treatment and reuse. - Wastewater treatment systems, including desalination plants powered by low-carbon sources, such as renewables, or the average carbon intensity of electricity used is lower than 100 gCO₂e/kWh. Additionally, the Bank has confirmed the presence of appropriate waste management plans for brine disposal and the exclusion of the treatment of wastewater from fossil fuel operations. UnionBank has confirmed that treatment of wastewater from fossil fuel operations (such as produced water from fracking) is excluded from the Framework. - Water capture, storage and drainage infrastructure, including storm water management systems, water distribution systems, aquifer storage and sewerage systems.

			<ul style="list-style-type: none"> - Water conservation initiatives, including water metering equipment and high-efficiency drip, flood and pivot irrigation systems. - Sustainalytics considers the investments under this category to be in line with market practice.
Green Buildings	Green Buildings	Green	<ul style="list-style-type: none"> - Financing or refinancing the acquisition, development and renovation of commercial and residential buildings that meet one of the following criteria: <ul style="list-style-type: none"> - Have achieved or are expected to achieve one of the following green building certifications: i) LEED (Gold or above);¹³ ii) BREEAM (Excellent or above);¹⁴ iii) BERDE (4 stars or above);¹⁵ or iv) EDGE (Certified or above);¹⁶ or - Belong to the top 15% of low-carbon buildings in the relevant area based on emissions intensity performance or primary energy demand. Sustainalytics views these certifications as credible, and the levels selected as impactful. - Financing or refinancing the retrofit of residential and commercial buildings that lead to an energy-efficiency improvement or emission reduction of at least 30% compared to the pre-retrofit baseline. Examples of intended activities as part of the retrofit of buildings include energy-efficient HVAC systems and lighting, water usage efficiency systems and advanced building management systems aimed at energy-efficiency and water use efficiency improvements. - Sustainalytics considers the investments under this category to be in line with market practice.

Overall Assessment of Social Use of Proceeds

Use of Proceeds	Activity	Classification	Sustainalytics' Assessment
Access to Essential Services	Healthcare	Social	<ul style="list-style-type: none"> - Financing the acquisition, development and maintenance of public or private hospitals, clinics and healthcare centres that provide free or subsidized care. <ul style="list-style-type: none"> - Sustainalytics notes that the Philippines has a universal healthcare system, governed by PhilHealth,¹⁷ to ensure that public healthcare facilities and services are accessible to all, regardless of ability to pay. Regarding private facilities, financial aid is offered through PhilHealth to indigent individuals¹⁸ to ensure accessibility and affordability to private healthcare services. - Financing the acquisition, development and maintenance of private and public facilities that cater to improving the well-being of vulnerable and disadvantaged communities,¹⁹ such as elderly and disabled care homes and hospices. UnionBank has confirmed to Sustainalytics that these facilities provide free or

¹³ LEED: <https://www.usgbc.org/leed>

¹⁴ BREEAM: <https://bregroup.com/products/breeam/>

¹⁵ BERDE: <https://philgbc.org/>

¹⁶ EDGE: <https://edge.gbci.org/>

¹⁷ The Philippine Health Insurance Corporation (PhilHealth) is a tax-exempt, government-owned and controlled corporation, established in 1995 with the aim to implement universal health coverage in the Philippines. Under PhilHealth, the Philippine government subsidizes the premium contribution of poor families identified by the National Household Targeting System for Poverty Reduction. Additionally, low-income families or individuals are covered in the No Balance Billing Policy, where no other fees and expenses shall be charged and be paid for by the indigent patients above and beyond the package rates.

PhilHealth, "Agency's Mandate and Functions" at: https://www.philhealth.gov.ph/about_us/mandate.php

¹⁸ Indigent individuals are those who have no visible means of income or whose income is insufficient for family subsistence, as identified by the Department of Social Welfare and Development.

PhilHealth, "Indigent Members", at: <https://www.philhealth.gov.ph/members/indigent/>

¹⁹ UnionBank adopts the Department of Social Welfare and Development's definition of vulnerable and disadvantaged communities.

Government of the Philippines, "Guidelines in the Preparation of the Social Protection and Development Report", at:

https://www.dswd.gov.ph/issuances/AOs/AO_2011-007.pdf

			<p>subsidized care under PhilHealth coverage, which ensure accessibility to all with affordability mechanisms in place.</p> <ul style="list-style-type: none"> - Investments in the R&D of essential drugs,²⁰ including for rare diseases and vaccines for COVID-19. UnionBank has confirmed that R&D expenditures will be capped at 10% of total proceeds. - Financing the production and distribution of COVID-19 testing kits, medication and vaccines in public and private hospitals that provide free or subsidized care under PhilHealth coverage, which ensures accessibility to all with affordability mechanisms in place. - Investments in the storage and manufacturing of machinery dedicated to the production of health, safety and hygiene supplies. UnionBank has confirmed to Sustainalytics that the supplies will be given to public and private hospitals, clinics and healthcare centres that provide free or subsidized care under PhilHealth coverage, which ensures accessibility to all with affordability mechanisms in place. - Sustainalytics recognizes that the role of UnionBank in private healthcare and eldercare projects is limited to financing the acquisition, development and maintenance of private hospitals, clinics, healthcare and eldercare centres and facilities for the disabled, and that the Bank does not have control on deciding the detailed criteria on low-income groups and affordability mechanisms. Given this context, Sustainalytics encourages the Bank, where feasible, to provide further disclosure on the private healthcare facilities financed, relevant beneficiaries and to report on the social impact achieved - Sustainalytics considers the investments under this category to be in line with the market practice.
	Education	Social	<ul style="list-style-type: none"> - Financing or refinancing the acquisition, development and maintenance of public schools, universities and institutions offering vocational, non-degree and technical education, programmes and training that are accessible to all, regardless of ability to pay, and are additionally accredited by the Technical Education and Skills Development Authority.²¹ - The Framework specifies that investments in education will be aimed at providing education and skills training that cater to populations that are not able to acquire a degree from universities. - This is in line with market practice.
Employment Generation	Micro, small and medium enterprise (MSME) financing	Social	<ul style="list-style-type: none"> - Lending to MSMEs,^{22,23} including financing relief to those significantly impacted by natural, human-made or health or disasters, such as the COVID-19 pandemic - Sustainalytics considers the investments under this category to be in line with market practice.
Socio-economic Advancement	Access to financial services	Social	<ul style="list-style-type: none"> - Financing the provision of loans that support the financial inclusion of undeserved individuals and communities, including the underbanked, minority or Indigenous peoples, low-income

²⁰ Essential drugs as defined by the WHO model list of essential medicines.

WHO, "WHO model list of essential medicines – 22nd list, 2021", at: <https://www.who.int/publications/i/item/WHO-MHP-HPS-EML-2021.02>

²¹ The Technical Education and Skills Development Authority is the government agency tasked with managing and supervising technical education and skills development in the Philippines.

²² UnionBank relies on the Bangko Sentral ng Philipinas' definition of MSMEs as enterprises that meet the following criteria: i) micro – total asset value less than PHP 3 million (USD 55,000); ii) small – total asset value between PHP 3 million and PHP 15 million (USD 55,000 and USD 273,350); and iii) medium – total asset value between PHP 15 million and PHP 100 million (USD 273,350 and USD 1,822,300).

Bangko Sentral ng Philipinas, "332 Mandatory Allocation of Credit Resources to Micro, Small and Medium Enterprises", at: <https://mor.bsp.gov.ph/332-mandatory-allocation-of-credit-resources-to-micro-small-and-medium-enterprises/>

²³ UnionBank adopts the IFC's exclusion list for lending that is prohibited in the following areas: production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, weapons and munitions, alcoholic beverages, tobacco, gambling, casinos and equivalent enterprises, radioactive materials, drift net fishing using nets in excess of 2.5km in length, forced or child labour, commercial logging in primary tropical moist forest and the production or trade in wood or other forestry products other than from sustainably managed forests.

IFC, "IFC Exclusion List", at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/ifcexclusionlist

and Empowerment		<p>individuals,²⁴ people with disabilities and non-professional overseas Filipino workers²⁵ and their families.</p> <ul style="list-style-type: none"> - UnionBank has communicated to Sustainalytics that the loans will be offered with interest rates that are lower than market rate, such as those that are capped by relevant government agencies.^{26,27} - Regarding the presence of responsible lending practices, the Bank will adhere to the Republic Act 3765,²⁸ which requires creditors to provide full disclosure to borrowers on the true cost of credit, with the aim to avoid the risk of predatory lending. Sustainalytics encourages the Bank to develop and publicly disclose a Bank-wide responsible lending practice policy to increase the robustness of its commitment to avoid the risk of predatory lending. - Sustainalytics considers the investments under this category to be in line with market practice.
	Financing for women and women-owned MSMEs	<ul style="list-style-type: none"> - Provision of loans aimed at promoting entrepreneurship for women who are of low-income.²⁹ The Bank has confirmed that the loans will be offered with interest rates that are lower than market rate. To avoid the risk of predatory lending, UnionBank will adhere to the Republic Act 3765, which requires creditors to provide full disclosure to borrowers on the true cost of credit. - Lending to women-owned MSMEs defined by the IFC³⁰ as enterprises that are: <ul style="list-style-type: none"> - At least 51% owned by women or - At least 20% owned by women and: i) has at least one women as the CEO, COO, president or vice president; and ii) at least 30% of the board of directors is composed of women, where a board exists. - This is in line with market practice.
	Financing of vehicle loans	<ul style="list-style-type: none"> - Financing that supports the provision of vehicle loans for motorcycles and other light vehicles to individuals from low-income areas³¹ - The Bank has confirmed to Sustainalytics that vehicle loans will finance vehicles that adhere to current national emission standards governed by the Philippine Clean Air Act of 1999³² and

²⁴ UnionBank adopts the Philippine Statistic Authority’s definition of low-income individuals, who earn a monthly income of less than PHP 12,030 (USD 217) for a family of five. Philippine Statistic Authority, “Proportion of Poor Filipinos was Recorded at 18.1 Percent in 2021”, (2022), at: <https://psa.gov.ph/poverty-press-releases/nid/167972>

²⁵ UnionBank describes overseas Filipino workers (OFWs) as Filipino migrant workers working abroad to provide for their families, typically as the sole income earner of the entire family. OFWs are mostly considered low-income and vulnerable, particularly to the risk of exploitation, abuse and trafficking in persons. The intended OFWs targeted under the Framework are those that mainly hold blue-collared jobs, such as construction workers, service and sales workers, plant and machine operators and assemblers, or technicians. This differentiates them from Filipinos working overseas as licensed professionals, or even those with white collared jobs.

²⁶ For example, the Department of Education has set a ceiling on contractual interest rates at 0.625%, 0.75% and 0.805% per month for a one-year, two-year and three-year loan term, respectively, that applies to loans that can be extended to their employees from financial institutions. This compares favourably to the more-than 1% market rate on average offered by commercial banks in the Philippines for personal loans. Government of the Philippines, “Enhanced Guidelines on Accreditation/Re-accreditation of Private Entities Under the Automatic Payroll Deduction System Program”, (2021), at: https://www.deped.gov.ph/wp-content/uploads/2021/05/DO_s2021_020.pdf

²⁷ eCompareMo, “2021 Update: Personal Loans In The Philippines With The Lowest Interest Rates”, (2021), at: <https://www.ecomparemo.com/info/banks-with-the-lowest-interest-rates-for-personal-loans-in-the-philippines>

²⁸ Bangko Sentral ng Pilipinas, “306 ‘Truth in Lending Act’ Disclosure Requirement”, at: <https://morib.bsp.gov.ph/306-truth-in-lending-act-disclosure-requirement-2/>

²⁹ UnionBank adopts the Philippine Statistic Authority’s definition of low-income individuals, who earn a monthly income of less than PHP 12,030 (USD 217) for a family of five. Philippine Statistic Authority, “Proportion of Poor Filipinos was Recorded at 18.1 Percent in 2021”, (2022), at: <https://psa.gov.ph/poverty-press-releases/nid/167972>

³⁰ IFC, “IFC’s Definition of Targeted Sectors”, at: https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors

³¹ Low-income areas are defined according to the Philippine Statistics Authority. Philippine Statistics Authority, “Highlights of the Preliminary Results of the 2021 Annual Family Income and Expenditure Survey”, (2022), at: <https://psa.gov.ph/system/files/2021%20FIES%20Annual.pdf>

³² Republic of the Philippines, Department of Environment and Natural Resources, Environment Management Bureau, “Philippine Clean Air Act of 1999 – RA8749”, at: <https://r12.emb.gov.ph/philippine-clean-air-act-of-1999-ra8749/>

			<p>exclude those used in carbon-intensive sectors, such as fossil fuel production. Additionally, UnionBank will offer vehicle loans with flexible or lenient financing terms and requirements, such as interest rates that are lower than the market rate.</p> <ul style="list-style-type: none"> - UnionBank will adhere to the Republic Act 3765, which requires creditors to provide full disclosure to borrowers on the true cost of credit, with the aim to avoid the risk of predatory lending. - This is in line with market practice.
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Project Evaluation and Selection

- UnionBank has established a Sustainable Finance Taskforce (the “Taskforce”)³³ to oversee the implementation and monitoring of the processes in place that govern the Framework. The Taskforce is chaired by the Bank’s Treasurer and comprises senior-level individuals from UnionBank’s Treasury, Corporate Banking and Sustainability departments.
- The Taskforce is responsible for reviewing and approving the selected eligible assets based on the eligibility criteria defined in the Framework. Eligible assets or projects will then be classified under a green or social asset portfolio.
- The Bank has processes in place for evaluating and mitigating environmental and social risks commonly associated with eligible projects. This process will be applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail, please refer to Section 2.
- Based on the establishment of a dedicated taskforce responsible for project evaluation and selection and the presence of risk management systems, Sustainalytics considers this process to be in line with market practice.



Management of Proceeds

- The Taskforce will oversee the management of proceeds on a portfolio basis.
- The Bank will create a sustainable finance register to monitor, classify and track the allocation of proceeds to either the green or social asset portfolio. The register will include information such as the relevant terms or details of each sustainable finance instrument raised under the Framework and the details of eligible assets that have been earmarked for allocation.
- UnionBank intends to fully allocate net proceeds within 36 months of issuance and has defined a three-year look-back period for refinancing opex. Pending allocation, unallocated proceeds will be held in cash or cash equivalents, invested in accordance with the Bank’s corporate treasury policy or used to repay UnionBank’s existing short-term debts.³⁴ Regarding the selling of repurchase agreements, the Bank has confirmed a temporary allocation period that is aligned with the maturity of the repurchase agreements.
- The Taskforce will ensure that the amount allocated to eligible assets is equal to or greater than the aggregate amount of net proceeds raised under the Framework. If designated assets are terminated or cease to fulfil the Framework’s eligibility criteria, the Taskforce is responsible for removing the relevant asset and allocate proceeds to replacement eligible assets as soon as reasonably practicable. Additionally, the Taskforce will provide semi-annual reports of the eligible green and social assets to UnionBank’s board of directors.
- Based on the existence of internal tracking mechanisms to allocate proceeds in a timely manner and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.

³³ Each of UnionBank’s subsidiaries that intend to raise financing under the Framework will form their respective taskforces that are aligned with that of the Bank.

³⁴ UnionBank has confirmed to Sustainalytics that the Bank will exclude any debt refinance that is associated with carbon-intensive activities or assets that are inherently emissions intensive or otherwise negatively impactful.



Reporting

- UnionBank will report on the allocation and impact of proceeds on an annual basis until full allocation through a Sustainable Finance Allocation and Impact Report, which will be made publicly available on its website.
- Allocation reporting will include the amount and share of proceeds allocated to eligible green or social assets, a brief description of assets being financed, the balance of unallocated proceeds, the share of financing versus refinancing and the amount and share of proceeds aligned with each Sustainable Development Goal.
- The Bank is committed to reporting on relevant environmental and social impact metrics, including the methodologies and underlying assumptions related to the use of the selected impact metrics, where feasible. Examples of the impact metrics include: i) annual generation of renewable energy (measured in MWh or GWh for electricity and GJ or TJ for other energy); ii) annual reduction or avoidance of GHG emissions; iii) the amount of potable water distributed before and after the project (measured in m³); iv) the number of patients served at hospitals and other healthcare facilities constructed; and v) the number of underserved individuals or communities financed. For the full list of environmental and social impact metrics, please refer to Appendix 2.
- Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment of Green, Social and Sustainable Deposits with Market Expectations

Sustainalytics is of the opinion that the UnionBank Sustainable Finance Framework is credible and that the green, social and sustainable deposits³⁵ will fund overall impactful social and environmental projects. Sustainalytics further notes the alignment of the Framework with the concepts underpinning the sustainable finance market, namely those of impact and transparency.



Impact

The Framework will advance the sustainability objectives of the Bank by investing in eligible projects with positive environmental and social impact across 11 categories. Refer to the Use of Proceeds component in Section 1 for Sustainalytics' opinion on the alignment of eligible projects with market expectations.



Transparency

Transparency is recognized as a key principle in sustainable finance as it provides assurance that investments are delivering positive impact. Sustainalytics highlights the following elements of the UnionBank Sustainable Finance Framework that facilitate transparency to clients:

Disclosures regarding management of proceeds

- The Bank will earmark the net proceeds raised from the green, social and sustainable deposits to eligible assets with a relevant tag using a separate sustainable finance register. UnionBank is committed to ensuring no double accounting of eligible assets financed through different instruments.

³⁵ Sustainalytics notes that the Framework allows for green, social and sustainable deposits for retail and commercial customers of the Bank. The Bank has communicated to Sustainalytics that the deposits are long-term (five-year) fixed-rate deposits.

- The Bank's Taskforce – chaired by the Bank's Treasurer and composed of senior-level individuals from UnionBank's Treasury, Corporate Banking and Sustainability departments – will be responsible for monitoring and tracking the allocated proceeds.
- Unallocated proceeds will be held in cash or cash equivalents, invested in accordance with the Bank's corporate treasury policy or used to repay UnionBank's existing short-term debts.³⁶
- Sustainalytics considers this level of disclosure to investors as sufficient to ensure the credibility of the proceeds management process.

Reporting

- UnionBank will report on the allocation and impact of proceeds from the green, social and sustainability deposits as part of a Sustainable Finance Allocation and Impact Report for all eligible financial instruments on an annual basis.
- The Bank commits to reporting on the same allocation and impact disclosure components for green, social and sustainability bonds, loans, repurchase agreements and deposits. Additionally, UnionBank commits to reporting on the excess amount of deposits available in the Bank's portfolio, if any. UnionBank has communicated its intent to ensure no double accounting across all allocation and impact reporting commitments made under the Framework. For details on the level of allocation and impact reporting, please refer to the Reporting component under the Alignment of bonds, loans and repurchasing agreements with the Use of Proceeds Principles section above.
- Based on the allocation and impact reporting practices and a commitment to ensuring no double accounting, Sustainalytics considers this process to be in line with market expectations for such financial products.

Section 2: Assessment of UnionBank's Sustainability Strategy

Credibility of UnionBank's Sustainability Strategy

Sustainalytics is of the opinion that UnionBank demonstrates a commitment to sustainability through its environmental, social and governance mission, which is centered around three focus areas: i) digital transformation, which includes digital capability building and innovation; ii) sustainable finance, which focuses on integrating environmental and social risks in all of the Bank's lending decisions and investing in technologies that enhance financial inclusion; and iii) inclusive prosperity, which focuses on monitoring and measuring the environmental and social impact of the Bank and its sustainability initiatives.³⁷

UnionBank is committed to social financing that contributes to socio-economic advancement and seeks to deliver positive social impact on communities and businesses. Moreover, the Bank is dedicated to fostering inclusive finance and has established several initiatives with the aim to make its financial products and services accessible and affordable to diverse segments of society, including rural communities, the unbanked and underbanked and local MSMEs. For example, through its subsidiary UBX, the Bank launched the i2i financial services and banking network aimed at addressing the gaps in access to finance by connecting rural and larger banks to the country's main banking system.³⁸ The network has enabled nationwide digital cash transfers and promoted financial inclusion for more than 1,900 financial and non-financial institutions, rural banks, merchants, remittance centres and underserved communities in more than 11,000 locations across the country to date.³⁹ Regarding support for MSMEs, the Bank has several programmes and initiatives that cater to scaling up business capabilities for MSMEs. Examples include Sentro, a free online shopping platform with pre-integrated payment and logistics capabilities that supports the ease of building an online business for MSMEs; and SeekCap, an MSME lending platform that facilitates easy access to financing with same-day-approval loans.

In response to the COVID-19 pandemic, UnionBank issued a seven-year social bond aimed at financing more than 2,000 loans to MSMEs that were significantly impacted by the pandemic. Moreover, the Bank financed several digital initiatives through its subsidiary CitySavings with the aim to provide support to education and medical frontline workers during the pandemic. For example, in recognizing the need for convenient and affordable transportation, the Bank supported the Motor Moto programme, which offered education personal and medical frontliners with a zero-interest payable loans for pre-owned motorcycles.

³⁶ UnionBank has confirmed to Sustainalytics that the Bank will exclude any debt refinance that is associated with carbon-intensive activities or assets that are inherently emissions intensive or otherwise negatively impactful.

³⁷ UnionBank, "Sustainability Report", (2021), at: <https://www.unionbankph.com/sites/default/files/2022-04/UB-2021-SR.pdf>

³⁸ Ibid.

³⁹ Ibid.

Furthermore, under Project Peraparasyon, the Bank supports initiatives that aim to increase financial literacy among educators and non-teaching personnel.

While Sustainalytics recognizes the sustainability-focused efforts of UnionBank, Sustainalytics encourages the Bank to set and communicate short-, medium- and long-term, timebound and quantitative targets for future sustainable financing, such as GHG emission reduction targets for financed and operational emissions. Sustainalytics is of the opinion that the UnionBank Sustainable Finance Framework is aligned with the Bank's overall sustainability strategy and initiatives.

UnionBank's Environmental and Social Risk Management

Sustainalytics recognizes that the net proceeds from the eligible instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. While UnionBank plays a limited role in the development of the projects which it finances, it is exposed to risks associated with the companies or projects that it may finance. Some key environmental and social risks potentially associated with the eligible projects could include issues involving occupational health and safety, land use and biodiversity risks associated with large-scale infrastructure development, predatory lending or over-indebtedness for financially vulnerable individuals, business ethics and stakeholder engagement.

In the following section, Sustainalytics comments on UnionBank's ability to mitigate such potential risks:

- To integrate environmental and social risks into its lending decisions, the Bank established an Environmental and Social Risk Policy, which outlines a two-pronged approach for conducting due diligence, granting approval and ensuring ongoing monitoring of existing and emerging risks:⁴⁰
 - As part of environmental and social risk due diligence, the Bank will screen credit borrowers and score them depending on various factors, including industry, location, nature of activities, potential impact and reputational risk. Activities deemed to have a higher environmental impact are subject to further due diligence measures.
 - During the approval phase, the borrower's environmental and social risk score is weighed against the potential benefit from its activities. Borrowers that present unusual risks or projects that are deemed to be environmentally critical are required to seek additional approval from the board of directors.
 - To safeguard against existing and emerging environmental and social risks, the Bank will continuously monitor the environmental and social risks of its wholesale credit portfolio and report the portfolio risk performance on a regular basis to the Risk Management Committee.
- To mitigate risks related to predatory lending or over-indebtedness for financially vulnerable individuals, the Bank adheres to the Republic Act 3765,⁴¹ which requires creditors to provide full and transparent disclosure to borrowers on the true cost of credit. Under the act, creditors are required to supply borrowers with a clear statement in writing, information regarding individually itemized charges, fees and other related costs, the interest or finance charge to be paid and the ratio of interest or finance charges to the total amount of the loan extended prior to each credit transaction. Penalty charges are incurred in the event of a violation of the act.
- To manage risks associated with business ethics, the Bank's code of conduct details the requirements and guidelines for employees to uphold ethical behaviour, employ fair and honest means when promoting products and services and to promote integrity and accountability during employees' daily conduct.⁴² Additionally, the Bank has developed a whistleblowing mechanism for employees, business partners, investors and customers to report malpractices regarding unlawful activity, fraud, corruption and any violation of the Bank's code of conduct.⁴³
- Regarding risks associated with stakeholder engagement, the Bank has specific internal functions responsible for managing and maintaining regular communication with a range of stakeholders, including its shareholders, investors and creditors, consumers and suppliers.⁴⁴ The Investor Relations Office is responsible for conducting regular dialogue with investors and shareholders and overseeing the Bank's disclosure on compliance with regulations governance policies. The Bank's Consumer Affairs Group is responsible for overseeing and managing the Bank's customer experience and resolving issues or concerns raised in line with a dedicated consumer assistance management system. To manage suppliers, the Bank's Supplier Accreditation Policy requires a supplier assessment to be conducted during the supplier selection phase, which considers various criteria, including the suppliers' business vitality, involvement in any major lawsuit or government action and status in its respective industry.

⁴⁰ Ibid.

⁴¹ Bangko Sentral ng Pilipinas, "306 'Truth in Lending Act' Disclosure Requirement", at: <https://mor.bsp.gov.ph/306-truth-in-lending-act-disclosure-requirement-2/>

⁴² UnionBank, "Good Governance Standards: Ethical Standards and Governance Policies", at: <https://www.unionbankph.com/about-us/corporate-governance/good-governance-standard?report=1&acc=4220>

⁴³ UnionBank, "Good Governance Standards: Governance Policies", at: <https://www.unionbankph.com/about-us/corporate-governance/good-governance-standard?report=1&acc=4220>

⁴⁴ UnionBank, "Good Governance Standards: Stakeholder Relations", at: <https://www.unionbankph.com/about-us/corporate-governance/good-governance-standard?report=1&acc=4220>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that UnionBank has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the projects financed.

Section 3: Impact of the Use of Proceeds Categories selected

Impact of renewable energy projects in the Philippines

The Philippines ratified the Paris Agreement in March 2017 and updated its Nationally Determined Contribution in April 2021 to raise the country's ambition of reducing its GHG emissions by 75% relative to its business-as-usual scenario by 2030.⁴⁵ To achieve this climate target, the Philippines needs to significantly decarbonize its energy sector to shift away from its heavy reliance on fossil fuels. Currently, the country derives approximately 75.2% of its energy from fossil fuels; its energy mix comprises coal (47%), natural gas (22%), oil-based sources (6.2%) and renewable energy (24%), including hydro, geothermal, wind and solar.⁴⁶ Due to the reliance on fossil fuels, more than half of the Philippines' GHG emissions come from the energy sector.⁴⁷ To advance the country's efforts in decarbonizing its energy mix and meeting future energy needs, the Philippines government proposed a new National Renewable Energy Program 2020-2040, which includes a target of increasing the share of renewable energy in the power generation mix by 35% by 2030 and 50% by 2040.⁴⁸ Achieving the 2040 target would require nearly 74 GW of additional renewable energy capacities and approximately PHP 17.9 billion (USD 32.4 million) in predevelopment renewable energy investments.⁴⁹

Given the importance of promoting renewable energy use in reducing the Philippines' dependency on fossil fuels, Sustainalytics considers that UnionBank's investment in renewable energy projects will help contribute to the country's renewable energy goals and achievement of its climate targets.

Importance of MSME lending in the Philippines

In Southeast Asia, MSMEs accounted for an average of 97.7% of all enterprises, 67.3% of employment and 40.8% of a country's economic output (either in GDP or gross value added).⁵⁰ MSMEs constituted 99.58% of all businesses operating in the Philippines in 2021 and generated more than 5 million jobs or 64.67% of the country's total employment.⁵¹ Together, these MSMEs contributed a total of 35.7% in value added to the Philippine economy.⁵² Despite their importance to the Philippine economy, MSMEs face several challenges, including limited access to finance and markets, a lack of a conducive business environment and high vulnerability to disruptions, particularly from natural disasters that compromise their product market, labour, business continuity and recovery.⁵³ The Philippines, considering its geography and location, is the fourth most disaster-affected country in the past two decades globally and incurred PHP 463 billion (USD 8.4 billion) in damages as a result of natural extreme events and disasters between 2010 and 2019.^{54,55}

In recognizing the importance of MSMEs as drivers of inclusive economic growth, the Philippines government established the MSME Development Plan 2017-2022 with a focus on supporting the development and strengthening of the business environment, capacity and opportunities for MSMEs.⁵⁶ For example, as part of policies and programmes aimed at improving access to finance for MSMEs, the government mandated all lending institutions to allocate at least 8% for micro and small enterprises and at least 2% for medium enterprises of their total loan portfolio for MSME lending for a period of 10 years from

⁴⁵ UNFCCC, "Republic of the Philippines Nationally Determined Contribution Communicated to the UNFCCC on 15 April 2021", (2021), at: <https://unfccc.int/sites/default/files/NDC/2022-06/Philippines%20-%20NDC.pdf>

⁴⁶ US International Trade Association, "Philippines Energy Market", (2020), at: <https://www.trade.gov/market-intelligence/philippines-energy-market>

⁴⁷ 1.5°C national pathway explorer, "What is The Philippines' pathway to limit global warming to 1.5°C?", (2021), at: <https://1p5ndc-pathways.climateanalytics.org/countries/philippines/>

⁴⁸ Government of the Philippines, "2020-2040 Philippine Energy Plan", at: https://www.doe.gov.ph/sites/default/files/pdf/pep/PEP%202022-2040%20Final%20eCopy_20220819.pdf?withshield=1

⁴⁹ Ibid.

⁵⁰ Asian Development Bank, "Asia Small And Medium-Sized Enterprise Monitor 2022", at: <https://www.adb.org/sites/default/files/publication/843146/asia-sme-monitor-2022-volume-1.pdf>

⁵¹ Government of the Philippines, "2021 MSME Statistics", at: <https://www.dti.gov.ph/resources/msme-statistics/>

⁵² Ibid.

⁵³ Government of the Philippines, "Micro, Small and Medium Enterprise Development Plan 2017-2022", (2018), at: <https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/e-library/Growing+a+Business/MSME+Development+Plan+2017-2022.pdf>

⁵⁴ UNDRR, "The human cost of disasters: an overview of the last 20 years (2000-2019)", (2020), at: <https://www.undrr.org/publication/human-cost-disasters-overview-last-20-years-2000-2019>

⁵⁵ Philippine Statistics Authority, "Damages Due to Natural Extreme Events and Disasters Amounted to PhP 463 Billion", (2020), at: <https://psa.gov.ph/content/damages-due-natural-extreme-events-and-disasters-amounted-php-463-billion>

⁵⁶ Government of the Philippines, "Micro, Small and Medium Enterprise Development Plan 2017-2022", (2018), at: <https://dtiwebfiles.s3-ap-southeast-1.amazonaws.com/e-library/Growing+a+Business/MSME+Development+Plan+2017-2022.pdf>

the date of enacting the Republic Act 9501 (2008-2018).⁵⁷ The Credit Surety Fund Program was also developed to enhance the credit worthiness of MSMEs facing challenges in obtaining loans due to a lack of collateral, credit knowledge and track record.⁵⁸ Moreover, the SME Roving Academy learning programme was established to enhance the productivity and competitiveness of MSMEs.⁵⁹ However, despite the presence of supportive policies and programmes for MSME development, MSMEs in the Philippines still suffer from low productivity compared to larger firms, with a key contributor being the lack of market access.⁶⁰ Other prevailing challenges include operational inadequacies, human resource limitations, insufficient access to market information and lack of competitive abilities.⁶¹

Sustainalytics is of the opinion that UnionBank's financing of MSMEs could advance the Philippines' MSME Development Plan 2017-2022 goals.

Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The UnionBank Sustainable Finance Framework is expected to help advance the following SDGs and targets:

Use of Proceeds	SDG	SDG Target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and Clean Energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Pollution Prevention and Control	11. 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.
	12. Responsible Production and consumption	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, while increasing 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.
Access to Essential Services	3. Good Health and Wellbeing	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
	4. Quality Education	4.4 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

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Fransisco, J.P. et al. (2019), "The Challenges to SME Market Access in the Philippines and the Role of Business Associations", Asia Pacific Foundation of Canada, at: <https://apfcanada-msme.ca/sites/default/files/2020-07/The%20Challenges%20to%20SME%20Market%20Access%20in%20the%20Philippines%20and%20the%20Role%20of%20Business%20Associations.pdf>

⁶¹ Ibid.

Employment Generation	8. 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
Socio-economic Advancement and Empowerment	10. Reduced Inequalities	10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average

Conclusion

UnionBank has developed the UnionBank Sustainable Finance Framework under which it may issue or originate green, social and sustainability bonds, and loans, sell repurchase agreements and launch green, social and sustainability deposits to finance or refinance projects that are expected to generate positive environmental and social impact. The Framework outlines a process to track, allocate, and manage the proceeds, and makes a commitment to report on the allocation and impact of the use of proceeds.

Based on the above, Sustainalytics is confident that UnionBank is well positioned to (i) issue or originate the eligible instruments in alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018 and (ii) launch green, social and sustainability deposits. The Framework also outlines criteria for eligible investments for the green, social and sustainability deposits as well as the supporting processes for project evaluation and selection and reporting which, in Sustainalytics’ opinion, are sufficient. Given this context, Sustainalytics is of the opinion that the Framework is credible and is expected to deliver overall positive social and environmental benefits.

Appendices

Appendix 1: Alignment with ASEAN Sustainability Bond Standards' Criteria

ASEAN Sustainability Bond Standards' Criteria	Alignment with ASEAN SUS	Sustainalytics' comments on alignment with the ASEAN Sustainability Bond Standards
Eligibility	Yes	The ASEAN SBS requires that issuers must be in or that the proceeds be directed toward assets in an ASEAN country. UnionBank qualifies given that the Bank intends to finance projects in the Philippines.
Use of Proceeds	Yes	The ASEAN SBS offers specific clarification that fossil fuel power generation projects are excluded. The Bank has confirmed this exclusion criteria to Sustainalytics.
Process for Project Evaluation and Selection	Yes	The ASEAN SBS specifies information that must be clearly communicated to investors before issuance regarding project selection. UnionBank Sustainable Finance Taskforce, chaired by the Bank's Treasurer and comprises senior-level individuals from UnionBank's Treasury, Corporate Banking and Sustainability departments, will be responsible for reviewing and approving eligible assets under the Framework.
Management of Proceeds	Yes	The ASEAN SBS mandates that proceeds must be appropriately tracked and those temporary investments be disclosed. Under the Framework, UnionBank disclosed that it will classify, track and monitor the eligible instruments using sustainable finance register to either the green or social asset portfolio. Unallocated proceeds will be held in cash or cash equivalents, invested in accordance with the Bank's corporate treasury policy or used to repay UnionBank's existing short-term debts.
Reporting	Yes	The ASEAN SBS requires annual reporting on the allocation of funds and the expected impact. UnionBank confirms that it will provide an annual report that includes both allocation and impact reporting until full allocation.
Annual Review		The ASEAN SBS encourages, but does not require, annual reviews. As of 2023, UnionBank intends to provide annual reviews.

Appendix 2: Sustainability Bond or Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	UnionBank
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	UnionBank Sustainable Finance Framework
Review provider's name:	Sustainalytics
Completion date of this form:	January 30, 2023
Publication date of review publication: Original publication date:	Update to UnionBank Sustainable Finance Framework Second-Party Opinion published by Sustainalytics on 18 November 2020

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 GBP:

- | | |
|--|--|
| <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

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)*:

Sustainalytics is of the opinion that the UnionBank Sustainable Finance Framework is credible and impactful and aligns with the four core components of the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, Social Loan Principles 2021, ASEAN Sustainability Bond Standards 2018, ASEAN Green Bond Standards 2018 and ASEAN Social Bond Standards 2018 (the "Use of Proceeds Principles"). The eligible categories for the use of proceeds – Renewable Energy, Energy Efficiency, Pollution Prevention and Control, Clean Transportation, Sustainable Water and Wastewater Management, Green Buildings, Access to Essential Services, Employment Generation and Socio-economic Advancement and Empowerment – are aligned with those recognized by the Use of Proceeds Principles and will lead to positive environmental and social impact.

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 GBP | <input type="checkbox"/> Other <i>(please specify)</i> : |

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

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

UnionBank has established a Sustainable Finance Taskforce (the "Taskforce") to oversee the implementation and monitoring of the processes in place that govern the Framework. The Taskforce is chaired by the Bank's Treasurer and comprises senior-level individuals from UnionBank's Treasury, Corporate Banking and Sustainability departments. The Taskforce is responsible for reviewing and approving the selected eligible assets based on the eligibility criteria defined in the Framework. Eligible assets or projects will then be classified under a green or social asset portfolio. The Bank has processes in place for evaluating and mitigating environmental and social risks commonly associated with eligible projects. This process will be applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail, please refer to Section 2. Based on the

establishment of a dedicated taskforce responsible for project evaluation and selection and the presence of a risk management systems, Sustainalytics considers this process to be in line with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability 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 Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input 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*):

The Taskforce will oversee the management of proceeds on a portfolio basis. The Bank will create a sustainable finance register to monitor, classify and track the allocation of proceeds to either the green or social asset portfolio. The register will include information such as the relevant terms or details of each sustainable finance instrument raised under the Framework and the details of eligible assets that have been earmarked for allocation. UnionBank intends to fully allocate net proceeds within 36 months of issuance and has defined a three-year look-back period for refinancing opex. Pending allocation, unallocated proceeds will be held in cash or cash equivalents, invested in accordance with the Bank's corporate treasury policy or used to repay UnionBank's existing short-term debts. Regarding the selling of repurchase agreements, the Bank has confirmed a temporary allocation period that is aligned with the maturity of the repurchase agreements. The Taskforce will ensure that the amount allocated to eligible assets is equal to or greater than the aggregate amount of net proceeds raised under the Framework. If designated assets are terminated or cease to fulfil the Framework's eligibility criteria, the Taskforce is responsible for removing the relevant asset and allocate proceeds to replacement eligible assets as soon as reasonably practicable. Additionally, the Taskforce will provide semi-annual reports of the eligible green and social assets to UnionBank's board of directors. Based on the existence of internal tracking mechanisms to allocate proceeds in a timely manner and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

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

4. REPORTING

Overall comment on section (if applicable):

UnionBank will report on the allocation and impact of proceeds on an annual basis until full allocation through a Sustainable Finance Allocation and Impact Report, which will be made publicly available on its website. Allocation reporting will include the amount and share of proceeds allocated to eligible green and social assets, a brief description of assets being financed, the balance of unallocated proceeds, the share of financing versus refinancing and the amount and share of proceeds aligned with each Sustainable Development Goal. The Bank is committed to reporting on relevant environmental and social impact metrics, including the methodologies and underlying assumptions related to the use of the selected impact metrics, where feasible. Examples of the impact metrics include: i) annual generation of renewable energy (measured in MWh or GWh for electricity and GJ or TJ for other energy); ii) annual reduction or avoidance of GHG emissions; iii) the amount of potable water distributed before and after the project (measured in m3); iv) the number of patients served at hospitals and other healthcare facilities constructed; and v) the number of underserved individuals or communities financed. For the full list of environmental and social impact metrics, please refer to Appendix 2. Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Use of proceeds reporting:

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

Information reported:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>): Share of financing versus refinancing | |

Frequency:

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

Impact reporting:

- | | |
|---|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
|---|--|

- Linkage to individual bond(s)
- Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
- Energy Savings
- Decrease in water use
- Other ESG indicators (please specify):
 Annual renewable energy generation (measured in MWh or GWh for electricity and GJ or TJ for other energy), Capacity of renewable energy projects constructed, rehabilitated or served by transmission systems (measured in MW or GW), Amount of waste separated, collected, treated (including composted) or disposed of, or reused or recycled (measured in tons per annum or percentage of total waste), Amount of potable water distributed before and after the project (measured in m³), Amount of wastewater treated, reused, or avoided before and after the project (measured in m³), Number of individuals or percentage of population provided access to clean or potable water and sanitation services, Gross floor area of qualifying projects, Number or patient capacity of hospitals and other healthcare facilities constructed or upgraded, Number of patients served at hospitals and other healthcare facilities constructed, Number of individuals benefiting from improved healthcare measured by material increase in hospital beds per 1,000 persons or working operating rooms per 100,000 inhabitants, Volume of health safety equipment produced, Volume of vaccines, testing kits, or medicine distributed, or persons obtaining vaccines, testing kits, or medicine (such medicine helping address immediate wide-spread health crisis, or prevalent illnesses), Number of students enrolled or receiving vocational training, Number of MSMEs financed, Number of employees indirectly supported, Number of jobs created or retained, Number and profile of underserved individual or communities financed, Program types offered to advance socio-economic position of underserved individuals or communities, Profile of participants of such programs to advance socio-economic position of underserved individuals or communities.

Frequency

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): Sustainable Finance Allocation and Impact Report
 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.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

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

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies,

according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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