

# “Second-party Opinion” on Sustainable Product Framework of Cathay United Bank Company, Limited, Hong Kong Branch

by Hong Kong Quality Assurance Agency (HKQAA)

Prepared by:



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## 1. Introduction

Cathay United Bank Company, Limited, Hong Kong Branch (“the Branch”) has developed the Sustainable Product Framework of Cathay United Bank Company, Limited, Hong Kong Branch (“the Framework”) in February 2025. The Framework outlines the strategic approach and governance mechanisms for the structuring, issuance, and management of a comprehensive suite of sustainable financial products. These products include Sustainable Deposits, Green Loans, Sustainability-Linked Loans, Green Bonds, Sustainability-Linked Bonds, and Transition Finance.

The Framework is structured around internationally recognized components, including:

- Use of Proceeds
- Project Evaluation and Selection
- Management of Proceeds
- Reporting
- External Review

which are applicable to Sustainable Deposits, Green Loans and Green Bonds.

For Sustainability-Linked Loans and Sustainability-Linked Bonds, the Framework further details:

- Selection of Key Performance Indicators (KPIs)
- Calibration of Sustainability Performance Targets (SPTs)
- Loan/Bond Characteristics
- Reporting and Verification

The Framework also gives provision to Transition Finance with the following components:

- Climate Solutions
- Aligned and Aligning Entities
- Managed Phaseout Strategies

To ensure credibility and transparency, the Branch has engaged the Hong Kong Quality Assurance Agency (HKQAA) to provide a Second-Party Opinion (SPO) on the Framework’s alignment with global standards and its application across the Branch’s sustainable product offerings. As part of this engagement, HKQAA conducted a thorough review of relevant documentation, including internal procedures, investment policies, and the terms and conditions governing each product category.

Given the absence of formalized standards for Sustainable Deposits, HKQAA referenced the Green Bond Principles (2022), Social Bond Principles (2023), and Sustainability Bond Guidelines (2021) issued by the International Capital Market Association (ICMA), due to their structural and thematic similarities.

For other product categories, the following standards were used as guiding references:

- Green Loans and Green Bonds:
  - Green Loan Principles (2023) by APLMA, LSTA, and LMA
  - Green Bond Principles (2022) by ICMA
- Sustainability-Linked Loans and Bonds:

- Sustainability-Linked Loan Principles (2023) by APLMA, LSTA, and LMA
- Sustainability-Linked Bond Principles (2024) by ICMA
- Transition Finance:
  - GFANZ Secretariat Technical Review Note – Scaling Transition Finance and Real-Economy Decarbonization by the Glasgow Financial Alliance for Net Zero (GFANZ)

Additionally, as Green, Social, and Sustainability Loans may be utilized to build respective asset portfolios supporting Sustainable Deposits, the Social Loan Principles (2023) and Green Loan Principles (2023) by APLMA, LSTA, and LMA were also considered as secondary references.

Through this engagement, HKQAA has assessed the Framework’s alignment with the core components of the aforementioned principles and guidelines. This report presents HKQAA’s independent opinion on the Framework and should be read in conjunction with the full Framework document.

## 2. Context of Sustainable Products

Sustainability is recognized as a core strategic priority for Cathay United Bank. The Bank is committed to embedding sustainability-related policies across its operations, products, and services to drive long-term value creation and responsible growth. This commitment is reflected in its 2023 Sustainability Report, which outlines the Bank’s dedication to:

- Pursuing long-term investment performance
- Leveraging financial influence to promote ESG improvements among investment and lending targets
- Contributing to global sustainable development goals
- Advancing a sustainable society and resilient business operations

In alignment with these objectives, the Hong Kong Branch has issued the “Principles Governing Sustainable Time Deposits Product for Hong Kong Branch” in June 2025. This document sets out the foundational guidelines for structuring and managing sustainable deposit products.

Further reinforcing its sustainability strategy, the Branch developed the Green and Sustainability-Linked Loan Policy in February 2025. This policy defines the methodology for classifying products and services under Green and Sustainability-Linked Debt instruments. It applies to green, social, and sustainability loans, which collectively form the green asset, social asset, and sustainability asset portfolios that underpin the Sustainable Deposit offering.

In addition to these formal policies, the Branch has established internal procedures for other sustainable financial products — including Green Loans, Sustainability-Linked Loans, Green Bonds, Sustainability-Linked Bonds, and Transition Finance. These procedures are documented in the Sustainable Product Process Flow, which serves as an operational guide for the structuring, issuance, and management of the Branch’s sustainable finance activities.

## 3. Framework Overview and Opinion

The Sustainable Product Framework was developed as a comprehensive guiding document for the structuring and governance of the Branch’s sustainable financial offerings. These include Sustainable

Deposits (comprising green-themed, social-themed, and sustainability-themed deposits), Green Loans, Sustainability-Linked Loans, Green Bonds, Sustainability-Linked Bonds, and Transition Finance.

The Preface of the Framework introduces the Branch's sustainability strategy and outlines the relevant industry standards and principles that inform the Framework's design. It serves to provide potential depositors and stakeholders with a clear understanding of the rationale and foundational considerations behind the Framework. The second to the eighth section 2 of the Framework provide detailed summary and guidance on the structuring and implementation of each sustainable product category.

For Sustainable Deposits, the Framework specifies that:

- Green-themed deposits are supported by a portfolio of eligible green assets
- Social-themed deposits are backed by a portfolio of eligible social assets
- Sustainability-themed deposits are underpinned by a combined portfolio of eligible green and social assets

The Framework outlines the eligibility criteria for asset selection, as well as the tracking and management of proceeds, temporary allocation mechanisms, and disclosure requirements to ensure transparency and accountability.

For other sustainable products — namely Green Loans, Sustainability-Linked Loans, Green Bonds, Sustainability-Linked Bonds, and Transition Finance—the Framework commits to aligning with internationally recognized principles and guidance, including:

- Green Loan Principles (GLP)
- Sustainability-Linked Loan Principles (SLLP)
- Green Bond Principles (GBP)
- Sustainability-Linked Bond Principles (SLBP)
- GFANZ Secretariat Technical Review Note – Scaling Transition Finance and Real-Economy Decarbonization

Further elaboration on the alignment of the Branch's structuring and management practices with these principles is provided in Sections 4 to 7 of the Framework. The terms and conditions governing Sustainable Deposits were also reviewed, and it was concluded that these requirements can be effectively fulfilled through the proper implementation of the Framework.

## **4. Sustainable Deposit**

### **4.1 Sustainable Deposit - Use of Proceeds**

According to information provided by the Branch, Sustainable Deposits are primarily structured as time deposits with a minimum tenor of one month. The net proceeds from these deposits are fully committed by the Branch to finance and/or refinance eligible green, social, and sustainability assets, in alignment with the categories defined in Section 2.1 – Use of Proceeds of the Framework.

The Framework clearly articulates the exclusive use of proceeds to generate positive environmental and/or social outcomes, which is considered a sound and transparent approach. This information will be made publicly available to potential depositors to ensure clarity and accountability.

The eligible green categories are aligned with those defined under the Green Bond Principles (2022) issued by the International Capital Market Association (ICMA). The Framework identifies ten eligible green categories:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Environmentally Sustainable Management of Living Natural Resources and Land Use
5. Terrestrial and Aquatic Biodiversity Conservation
6. Clean Transportation
7. Sustainable Water and Wastewater Management
8. Climate Change Adaptation
9. Circular Economy Adapted Products, Production Technologies and Processes
10. Green Buildings

The eligible social categories are aligned with the Social Bond Principles (2023) and include six categories:

1. Affordable Basic Infrastructure and Services
2. Access to Essential Services
3. Affordable Housing
4. Employment Generation and Programs Supporting a Just Transition
5. Food Security, Sustainable Food, and Agriculture
6. Socioeconomic Advancement and Empowerment

The Framework provides specific eligibility criteria for each category, enabling depositors and stakeholders to understand the expected environmental and social benefits. This approach is considered both typical and acceptable within the sustainable finance market.

The Framework specifies a look-back period of up to 84 months (7 years) for eligible green, social, and sustainability assets prior to the issuance date of the relevant deposit. This allows for the inclusion of previously financed or refinanced projects, such as those supported by green or social bonds or loans. For example, if a green bond with a 1-year look-back period is refinanced and later selected as an eligible asset within the 84-month window, the total look-back period would effectively be 8 years.

While the Green Bond Principles (2022) and Social Bond Principles (2023) recommend clarification of look-back periods, they do not prescribe a specific limit. The Framework's approach to defining and disclosing this period is therefore considered clear and acceptable.

The Framework's reference to and alignment with the ICMA Green Bond Principles (2022), Social Bond Principles (2023), and Sustainability Bond Guidelines (2021) for investments in green, social, and sustainability bonds is viewed as market-aligned and appropriate. Furthermore, the exclusion criteria outlined in the Framework are consistent with industry norms and are also considered typical and acceptable.

## 4.2 Sustainable Deposit - Project Evaluation and Selection Process

The evaluation and selection process for eligible assets, as outlined in the Framework, is supported by an internal procedure that provides operational clarity and consistency. The level of detail presented in the Framework is considered typical and acceptable in the context of sustainable finance practices.

To ensure robust implementation, the Branch has committed to providing guidance and training to staff responsible for evaluating and nominating green, social, and sustainability assets. According to the Branch's input, staff are instructed to consider the following key aspects—beyond the criteria already defined in the Framework—when assessing asset eligibility:

1. Availability of information regarding the environmental and/or social benefits of the asset
2. The process by which the borrower determines whether a project qualifies under the applicable eligible green project categories
3. Assessment of environmental and social risks associated with the asset
4. For projects related to greenhouse gas (GHG) emissions reduction, staff are expected to understand the borrower's current emissions profile, the constraints and challenges faced during the decarbonization process, and the proposed mitigation strategies—including technological and financial requirements

This enhanced due diligence approach is considered appropriate and aligned with market best practices, supporting the credibility and integrity of the asset selection process under the Framework.

## 4.3 Sustainable Deposit - Management of Proceeds

The management of proceeds under the Framework demonstrates a structured and controlled approach, ensuring that funds are allocated and monitored in accordance with the defined sustainability objectives. The Sustainable Product Process Flow outlines a two-stage process:

1. Settlement and Receipt of Deposits
  - Allocation of proceeds to eligible projects
  - Management and tracking of proceeds in accordance with the Framework
2. Post-Product Offering
  - Ongoing monitoring of the use of proceeds
  - Disclosure of deposit allocation and impact of funded projects
  - Appointment of an external reviewer to assess the use of proceeds

This approach is considered typical and acceptable, reflecting market best practices in sustainable finance.

To address potential issues related to unallocated proceeds, the Framework includes a safeguard mechanism:

- At the time of year-end settlement, the balance of Sustainable Deposits must not exceed 80% of the year-end balance of eligible assets.

- If regular monitoring indicates that the Sustainable Deposit balance may exceed this threshold, the Branch reserves the right to suspend or terminate new applications for Sustainable Deposits to maintain integrity and compliance.

This proactive measure ensures that the proceeds remain closely tied to eligible green, social, and sustainability assets, thereby preserving the credibility of the product.

Proceeds from each deposit instrument are internally managed by the Green Transition Service Department, which oversees allocation and compliance. This governance structure supports the core component of tracking proceeds to eligible assets within the Branch's internal management system, promoting transparency and reinforcing the integrity of the Sustainable Deposit instrument. This practice is also considered typical and acceptable.

The Framework provides sufficient detail regarding the refinancing of assets and reallocation of proceeds, ensuring flexibility while maintaining control and alignment with sustainability goals. Additionally, the Framework commits to full allocation of net proceeds within 24 hours of deposit receipt. This prompt allocation is viewed as an acceptable and efficient practice, supporting timely deployment of funds toward impactful projects.

#### **4.4 Sustainable Deposit - Reporting**

The Branch has committed to maintaining transparent and timely reporting on the use of proceeds from its Sustainable Deposits. Up-to-date information will be made readily available and updated annually via the Branch's official website. This disclosure will include:

- Allocation of proceeds to eligible green, social, and sustainability assets
- Expected environmental and/or social benefits associated with the funded projects

This approach to proceeds allocation reporting is considered typical and acceptable, aligning with market expectations for transparency and accountability in sustainable finance.

In addition, the methodologies and assumptions used to quantify and report the environmental and social impacts of eligible projects will also be publicly disclosed. This includes any metrics, baselines, or estimation techniques applied in the benefit assessment process. The inclusion of such methodological transparency is likewise viewed as typical and acceptable, and it enhances the credibility and comparability of reported outcomes.

#### **4.5 Sustainable Deposit - External Review**

The Branch has committed to engaging a qualified independent verifier to review the Sustainable Product Framework and provide a Second Party Opinion (SPO). This engagement aligns with the recommendations set forth in the Green Bond Principles, reinforcing the credibility and robustness of the Framework.

To ensure transparency and stakeholder confidence, the external review reports will be made publicly available through annual updates on the Branch's official website. This practice is considered typical and acceptable, and it reflects a strong commitment to accountability and adherence to international standards in sustainable finance.

## **5 Green Loan**

### **5.1 Green Loan - Use of Proceeds**

All net proceeds from the issuance of Green Loans will be exclusively allocated by the Branch to finance and/or refinance eligible Green Projects, in alignment with the eligible green categories outlined in Sections 3.1 and 5.1 of the Framework ("3.1. Use of Proceeds"). The Framework clearly articulates the exclusive use of proceeds for projects that deliver positive environmental impacts, and it will be made publicly available to potential investors to ensure transparency and accountability.

The eligible green categories defined in the Framework are aligned with those recognized under the Green Loan Principles (GLP). Specifically, the Framework identifies eleven eligible categories as follows:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Environmentally Sustainable Management of Living Natural Resources and Land Use
5. Terrestrial and Aquatic Biodiversity Conservation
6. Clean Transportation
7. Sustainable Water and Wastewater Management
8. Climate Change Adaptation
9. Circular Economy Adapted Products, Production Technologies, and Processes
10. Green Buildings
11. Green Technologies

To ensure the environmental integrity of the financing, the Branch has established a look-back period of up to 84 months prior to the issuance date of the relevant instrument, within which eligible Green Projects must have been initiated.

Furthermore, the Framework includes a list of excluded activities, which are considered standard and acceptable within the market context, reinforcing the credibility and environmental ambition of the Branch's green financing strategy.

It is recommended to explicitly describe the roles of both the issuer and the borrower in financing and refinancing activities that support their green project in future updates.

### **5.2 Green Loan - Project Evaluation and Selection**

The evaluation and selection process for eligible Green Projects, as outlined in the Framework, is supported by an internal procedure established by the Branch. The level of detail provided in the Framework is considered typical and acceptable within market practice, ensuring transparency and consistency in project selection.

In accordance with the Green Loan Principles (GLP), the borrower is expected to clearly communicate its environmental sustainability objectives, the process for determining project eligibility, and the approach to identifying and managing associated environmental and social risks. To uphold these standards, the borrower will be required to obtain a pre-signing Second Party Opinion (SPO) from an independent external reviewer. This SPO will serve to confirm that the proposed project aligns with the relevant Green Loan Principles.

In addition to the criteria set forth in the Framework, the Branch will consider the following aspects when evaluating nominated eligible Green Projects:

1. Environmental Impact Documentation: Availability of environmental impact assessments, certifications, or reports that substantiate the project's environmental benefits.
2. Strategic Alignment: Consistency of the nominated project with the Branch's sustainability policies and strategic objectives.
3. Regulatory Compliance: Adherence to applicable local, national, and international environmental and social standards, as well as regulatory requirements.

This evaluation practice is deemed acceptable and reflects a robust approach to ensuring the credibility and environmental integrity of the Branch's green financing activities.

### **5.3 Green Loan - Management of Proceeds**

The Branch has established a robust mechanism to ensure effective management and control of proceeds. This framework guarantees that funds raised through Green Loans is exclusively allocated to finance or refinance Eligible Projects, in alignment with the Green Loan Principles (GLP). The management process is clearly outlined in the Sustainable Product Process Flow, which demonstrates a structured and transparent approach. Based on our review, this practice is considered standard and appropriate within the industry.

### **5.4 Green Loan - Reporting**

The Branch will maintain and annually update publicly accessible information on the use of proceeds through its official website. This disclosure will include detailed information on the allocation of proceeds, as well as the anticipated environmental and/or social impacts of the financed projects. The allocation reporting will be conducted in alignment with the Green Loan Principles. Furthermore, the methodologies and key assumptions used to estimate the environmental benefits of Eligible Projects will be transparently disclosed. This approach is considered standard market practice and is deemed appropriate and credible by external reviewers.

### **5.5 Green Loan - External Review**

The Branch is committed to engaging a qualified external verifier to conduct an independent review of this Framework and provide a Second Party Opinion, in accordance with the recommendations outlined in the Green Loan Principles. The resulting external review reports will be made publicly accessible through annual updates on the Branch's official website. This practice is widely recognized as standard and appropriate within the sustainable finance market.

## **6 Sustainability-Linked Loan**

### **6.1 Selection of Key Performance Indicators (KPIs)**

The Branch and the Borrowers shall mutually agree upon a set of Key Performance Indicators (KPIs) that are core, relevant, and material to the Borrowers' business operations. These KPIs must be clearly measurable or quantifiable, and capable of being benchmarked against appropriate standards or industry peers. This approach is consistent with the Sustainability-Linked Loan Principles (SLLP), ensuring alignment with recognized market standards for sustainability-linked financing.

### **6.2 Calibration of Sustainability Performance Targets (SPTs)**

In accordance with the benchmarking requirements outlined in the Sustainability-Linked Loan Principles (SLLP), the Branch will calibrate the selected Sustainability Performance Targets (SPTs) using a multi-faceted benchmarking approach. This includes an analysis of the Borrowers' performance over the past three years, relevant industry benchmarks (including but not limited to peers, sectoral standards), and, where applicable, science-based baselines or reference points to support meaningful KPI improvements.

To ensure the ambition level of the SPTs is appropriate, the Branch will engage an independent external party to identify ambitious targets. Furthermore, the SPTs and their associated timelines must align with the Borrowers' overarching sustainability objectives and strategic development plans. The Borrowers' commitment to achieving the SPTs will also be confirmed as part of this process.

Prior to the launch of the product, the Borrowers will be required to obtain a pre-signing Second Party Opinion (SPO) from an independent external reviewer. This is to ensure that the structure of the loan or bond is fully aligned with the core principles of the SLLP.

### **6.3 Loan/Bond characteristics**

In line with the Sustainability-Linked Loan Principles (SLLP), the financial and/or structural characteristics of the instrument may vary depending on whether the predefined Sustainability Performance Targets (SPTs) are achieved. To ensure alignment with these principles, in the case of a Sustainability-Linked Loan (SLL) issued by the Branch, a potential margin adjustment mechanism will be triggered based on the Borrowers' fulfilment or non-fulfilment of the agreed SPTs.

### **6.4 Reporting**

To ensure transparency and accountability, the Borrowers are required to submit verification documents demonstrating their performance against each predefined Sustainability Performance Target (SPT). These documents may include, but are not limited to, sustainability reports verified or assured by independent third-party professional institutions, as well as ratings, awards, or certificates issued by such entities.

The Branch will actively monitor the Borrowers' progress toward the SPTs to assess whether the targets remain ambitious, relevant, and aligned with the Borrowers' core business activities. This

ongoing evaluation process is consistent with the requirements set forth in the Sustainability-Linked Loan Principles (SLLP).

## 6.5 Verification

The Branch is committed to engaging a qualified, independent third-party professional institution to conduct an annual review of the Borrowers' performance against the pre-determined Sustainability Performance Targets (SPTs). This independent assessment ensures the integrity and credibility of the performance evaluation process. The practice is fully aligned with the Sustainability-Linked Loan Principles (SLLP) and Sustainability-Linked Bond Principles (SLBP).

## 7 Green Bond

### 7.1 Green Bond - Use of Proceeds

All net proceeds from the issuance of Green Bonds will be exclusively allocated by the Branch to finance and/or refinance eligible Green Projects, in alignment with the eligible green categories outlined in Sections 3.1 and 5.1 of the Framework ("5.1. Use of Proceeds"). The Framework clearly articulates the exclusive use of proceeds for projects that deliver positive environmental impacts, and it will be made publicly available to potential investors to ensure transparency and accountability.

The eligible green categories defined in the Framework are aligned with those recognized under the Green Bond Principles (GBP). Specifically, the Framework identifies ten eligible categories for Green Bonds as follows:

1. Renewable Energy
2. Energy Efficiency
3. Pollution Prevention and Control
4. Environmentally Sustainable Management of Living Natural Resources and Land Use
5. Terrestrial and Aquatic Biodiversity Conservation
6. Clean Transportation
7. Sustainable Water and Wastewater Management
8. Climate Change Adaptation
9. Circular Economy Adapted Products, Production Technologies, and Processes
10. Green Buildings

To ensure the environmental integrity of the financing, the Branch has established a look-back period of up to 84 months prior to the issuance date of the relevant instrument, within which eligible Green Projects must have been initiated.

Furthermore, the Framework includes a list of excluded activities, which are considered standard and acceptable within the market context, reinforcing the credibility and environmental ambition of the Branch's green financing strategy.

## 7.2 Green Bond - Project Evaluation and Selection

The evaluation and selection process for eligible Green Projects, as outlined in the Framework, is supported by an internal procedure established by the Branch. The level of detail provided in the Framework is considered typical and acceptable within market practice, ensuring transparency and consistency in project selection.

In accordance with the Green Bond Principles (GBP), the borrower is expected to clearly communicate its environmental sustainability objectives, the process for determining project eligibility, and the approach to identifying and managing associated environmental and social risks. To uphold these standards, the borrower will be required to obtain a pre-signing Second Party Opinion (SPO) from an independent external reviewer. This SPO will serve to confirm that the proposed project aligns with the relevant Green Bond Principles.

In addition to the criteria set forth in the Framework, the Branch will consider the following aspects when evaluating nominated eligible Green Projects:

4. Environmental Impact Documentation: Availability of environmental impact assessments, certifications, or reports that substantiate the project's environmental benefits.
5. Strategic Alignment: Consistency of the nominated project with the Branch's sustainability policies and strategic objectives.
6. Regulatory Compliance: Adherence to applicable local, national, and international environmental and social standards, as well as regulatory requirements.

This evaluation practice is deemed acceptable and reflects a robust approach to ensuring the credibility and environmental integrity of the Branch's green financing activities.

## 7.3 Green Bond - Management of Proceeds

The Branch has established a robust mechanism to ensure effective management and control of proceeds. This framework guarantees that funds raised through Green Bonds is exclusively allocated to finance or refinance Eligible Projects, in alignment with the Green Bond Principles (GBP). The management process is clearly outlined in the Sustainable Product Process Flow, which demonstrates a structured and transparent approach. Based on our review, this practice is considered standard and appropriate within the industry.

## 7.4 Green Bond - Reporting

The Branch will maintain and annually update publicly accessible information on the use of proceeds through its official website. This disclosure will include detailed information on the allocation of proceeds, as well as the anticipated environmental and/or social impacts of the financed projects. The allocation reporting will be conducted in alignment with the Green Bond Principles and Green Loan Principles. Furthermore, the methodologies and key assumptions used to estimate the environmental benefits of Eligible Projects will be transparently disclosed. This approach is considered standard market practice and is deemed appropriate and credible by external reviewers.

## **7.5 Green Bond - External Review**

The Branch is committed to engaging a qualified external verifier to conduct an independent review of this Framework and provide a Second Party Opinion, in accordance with the recommendations outlined in the Green Bond Principles. The resulting external review reports will be made publicly accessible through annual updates on the Branch's official website. This practice is widely recognized as standard and appropriate within the sustainable finance market.

## **8 Sustainability-Linked Bond**

### **8.1 Selection of Key Performance Indicators (KPIs)**

The Branch and the Borrowers shall mutually agree upon a set of Key Performance Indicators (KPIs) that are core, relevant, and material to the Borrowers' business operations. These KPIs must be clearly measurable or quantifiable, and capable of being benchmarked against appropriate standards or industry peers. This approach is consistent with the Sustainability-Linked Bond Principles (SLBP), ensuring alignment with recognized market standards for sustainability-linked financing.

### **8.2 Calibration of Sustainability Performance Targets (SPTs)**

In accordance with the benchmarking requirements outlined in the Sustainability-Linked Bond Principles (SLBP), the Branch will calibrate the selected Sustainability Performance Targets (SPTs) using a multi-faceted benchmarking approach. This includes an analysis of the Borrowers' performance over the past three years, relevant industry benchmarks (including but not limited to peers, sectoral standards), and, where applicable, science-based baselines or reference points to support meaningful KPI improvements.

To ensure the ambition level of the SPTs is appropriate, the Branch will engage an independent external party to identify ambitious targets. Furthermore, the SPTs and their associated timelines must align with the Borrowers' overarching sustainability objectives and strategic development plans. The Borrowers' commitment to achieving the SPTs will also be confirmed as part of this process.

Prior to the launch of the product, the Borrowers will be required to obtain a pre-signing Second Party Opinion (SPO) from an independent external reviewer. This is to ensure that the structure of the loan or bond is fully aligned with the core principles of the SLBP.

### **8.3 Loan/Bond characteristics**

In line with the Sustainability-Linked Bond Principles (SLBP), the financial and/or structural characteristics of the instrument may vary depending on whether the predefined Sustainability Performance Targets (SPTs) are achieved. To ensure alignment with these principles, in the case of a Sustainability-Linked Loan (SLL) issued by the Branch, a potential margin adjustment mechanism will be triggered based on the Borrowers' fulfilment or non-fulfilment of the agreed SPTs.

### **8.4 Reporting**

To ensure transparency and accountability, the Borrowers are required to submit verification documents demonstrating their performance against each predefined Sustainability Performance

Target (SPT). These documents may include, but are not limited to, sustainability reports verified or assured by independent third-party professional institutions, as well as ratings, awards, or certificates issued by such entities.

The Branch will actively monitor the Borrowers' progress toward the SPTs to assess whether the targets remain ambitious, relevant, and aligned with the Borrowers' core business activities. This ongoing evaluation process is consistent with the requirements set forth in the Sustainability-Linked Bond Principles (SLBP).

## **8.5 Verification**

The Branch is committed to engaging a qualified, independent third-party professional institution to conduct an annual review of the Borrowers' performance against the pre-determined Sustainability Performance Targets (SPTs). This independent assessment ensures the integrity and credibility of the performance evaluation process. The practice is fully aligned with the Sustainability-Linked Bond Principles (SLBP).

## **9 Transition Finance**

### **9.1 Climate Solutions**

In alignment with the principles outlined by the Glasgow Financial Alliance for Net Zero (GFANZ, 2023) in Scaling Transition Finance and Real-Economy Decarbonization, the Branch affirms its commitment to financing projects that contribute meaningfully to the reduction or removal of greenhouse gas (GHG) emissions within the real economy. Climate solutions may include technologies, products, infrastructure, or services that directly or indirectly support emission reductions.

To qualify as a transition-financed project, the following criteria must be met:

- The project must demonstrate a significant contribution to net reductions in real-economy GHG emissions.
- It must not result in increased lifetime emissions from assets that are scheduled for phase-out.
- It must be aligned with a science-based net-zero pathway.

The Branch will utilize internationally recognized frameworks to assess the eligibility of projects as climate solutions. This approach is considered standard and acceptable within the context of sustainable finance practices.

### **9.2 Aligned and Aligning Entities**

To meet the criteria of an Aligned or Aligning entity, a formal net-zero commitment must be adopted by the entity's governing body. For entities classified as Aligned, the Branch will ensure that this commitment is supported by a credible net-zero transition plan. Such a plan should clearly outline the entity's governance structure, strategic approach, and measurable targets that facilitate an orderly and effective transition to net-zero emissions.

Establishing a net-zero transition plan is essential to validate the credibility of the entity's commitment. Where feasible, the Branch will conduct regular evaluations of the entity's progress using emission-based metrics, including Scope 1, Scope 2, and Scope 3 greenhouse gas emissions. These assessments will help determine whether the entity continues to meet the criteria for being considered Aligned or Aligning.

This practice is recognized as typical and acceptable within the sustainable finance landscape.

### **9.3 Managed Phaseout**

The Branch is committed to maintaining regular engagement with the asset owner to ensure that progress remains aligned with the predefined transition timeline. This includes verifying that the net-zero transition plan incorporates a clear and actionable schedule for the phaseout of high-emission assets. Such proactive engagement supports transparency and accountability throughout the transition process.

This practice is considered typical and acceptable within the context of sustainable finance and transition planning.

## **10 Conclusion**

The assessor at the Hong Kong Quality Assurance Agency (HKQAA) has concluded that the Framework provides sufficient and transparent information for depositors to understand the nature of eligible green and social projects, as well as the associated project evaluation and selection processes when disclosed. Additionally, the Framework offers clear guidance and robust internal controls, supported by the Sustainable Product Process Flow and relevant policies, to ensure consistent implementation and disclosure. For Green loan section, it is recommended to explicitly describe the roles of both the issuer and the borrower in financing and refinancing activities that support their green project in future updates.

The Framework is considered to be in alignment with the core components of the following international standards and principles:

- Green Bond Principles (2022)
- Social Bond Principles (2023)
- Sustainability Bond Guidelines (2021)
- Green Loan Principles (2023)
- Social Loan Principles (2023)
- Sustainability-Linked Loan Principles (2025)
- Sustainability-Linked Bond Principles (2023)
- GFANZ Secretariat Technical Review Note: Scaling Transition Finance and Real-Economy Decarbonization

## Appendix 1: Documents reviewed or referenced

No.	Author	Title
1	APLMA, LSTA, LMA	Green Loan Principles (February 2023)
2	ICMA	Green Bond Principles (June 2021)
3	ICMA	Social Bond Principles (June 2023)
4	ICMA	Sustainability Bond Guidelines (June 2021)
5	APLMA, LSTA, LMA	Social Loan Principles (February 2023)
6	APLMA, LSTA, LMA	Sustainability-Linked Loan Principles (March 2025)
7	ICMA	Sustainability-Linked Bond Principles (June 2024)
8	GFANZ	Secretariat Technical Review Note – Scaling Transition Finance and Real-Economy Decarbonization by the Glasgow Financial Alliance for Net Zero (December 2023)

## Appendix 2: About role(s) of review providers as defined by the Green Loan Principles 2023 and Social Loan Principles 2023

- 1. Consultant review:** a borrower can seek advice from consultants and/or institutions with recognised expertise in environmental sustainability or other aspects of the administration of a green/social loan. “Second party opinions” may also fall into this category.
- 2. Verification:** a borrower can have its green/social loan, associated green/social loan framework, or underlying assets independently verified by qualified parties, such as auditors or independent ESG rating providers. In contrast to certification, verification may focus on alignment with internal standards or claims made by the borrower.
- 3. Certification:** a borrower may have its green/social loan or associated green/social loan framework certified against an external green/social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties/certifiers.
- 4. Rating:** a borrower can have its green/social loan or associated green/social loan framework rated by qualified third parties, such as specialised research providers or rating agencies.

## Appendix 3: About role(s) of review providers as defined by the ICMA

**1. Second Party Opinion:** An institution with environmental/social/sustainability expertise that is independent from the issuer may provide a Second Party Opinion (either required or recommended pre-issuance as described in the respective Principles). The institution should be independent from the issuer's adviser for its green, social, sustainability and sustainability-linked 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. Any concerns about the institution's independence should be disclosed to investors.

**2. Verification:** An issuer can (or "needs to" in the case of sustainability-linked bonds post-issuance) obtain independent verification against a designated set of criteria, typically pertaining to environmental/social/sustainability or KPI performance and sustainability targets for the SLBs.

**3. Certification:** An issuer can have its green, social, sustainability and sustainability-linked bond or associated green, social, sustainability and sustainability-linked bond framework or Use of Proceeds or Key Performance Indicators (KPIs) and Sustainability Performance targets (SPTs) certified against a recognised external green/social/sustainability 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.

**4. Green, Social, Sustainability and Sustainability-Linked Bond Scoring/Rating:** An issuer can have its green, social, sustainability and sustainability-linked bond associated framework or a key feature such as Use of Proceeds, selection of KPIs, calibration of the level of ambitiousness of SPTs, evaluated or assessed by third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology.

## Appendix 4: Hong Kong Quality Assurance Agency (HKQAA)

### Local Excellence, Global Perspective

Established by Hong Kong Government in 1989, Hong Kong Quality Assurance Agency (HKQAA) is a non-profit public organisation committed to introducing international management standards, and promoting good management practices and sustainability in Greater China for decades. As one of the leading conformity assessment organisations in the region, HKQAA not only provides certification, assessment, registration, training and research services to help organisations enhance management performance and competitiveness but also develops a wide range of good management practices and related criteria to cope with increasingly diversified market demands and the growing need for sustainable development, fostering a better environment and bringing benefits to the community.

### Ample Experience in Fostering Sustainable Economy

In recent years, sustainability has become one of the key forces driving organisations towards prolonged success. To support and encourage them to walk the talk, HKQAA has developed diverse services and obtained ample experience in the field of social responsibility, environmental protection, sustainability and responsible investment:

- With the initial support of **The Hongkong and Shanghai Banking Corporation Limited (HSBC)**, HKQAA introduced the **CSR Index** to provide quantitative metrics to measure organisations' maturity level in practicing their social responsibilities in 2008;
- HKQAA has been **the only Hong Kong organisation accredited as the Designated Operational Entity (DOE)** by the Executive Board of the Clean Development Mechanism (CDM) under the United Nations Framework Convention on Climate Change (UNFCCC) to deliver CDM validation and verification services since 2011;
- HKQAA has been providing assessment and rating services on companies' sustainability performance for the **Hang Seng Corporate Sustainability Index Series** since 2014;
- Since 2017, our expert has been nominated by the **Innovation and Technology Commission of the HKSAR Government** and the **China National Institute of Standardization** respectively to directly take part in the technical committee of ISO/ TC 207/SC 4 and the working group of **ISO/TC 207/SC 4/ WG 7** to develop **ISO 14030 Green bonds – Environmental performance of nominated projects and assets**;
- Since 2018, HKQAA has been admitted as an **Observer of the Green Bond Principles (GBP) under the International Capital Market Association (ICMA)**;
- Since 2018, HKQAA has become an **approved verifier under the Climate Bonds Standard**.
- Since 2018, the HKQAA expert was nominated by the **Innovation and Technology Commission of the HKSAR Government** to participate in the **ISO Technical Committee, Sustainable Finance (ISO/TC 322)** for the development of sustainable finance-related standards.

Contact HKQAA

Website: <http://www.hkqaa.org>

## Appendix 5: Methodologies and Limitations

### Level of Assurance and Methodology

The process applied in this assessment was based on the International Standard on Assurance Engagements 3000 (Revised) – “Assurance Engagement Other Than Audits or Reviews of Historical Financial Information” issued by the International Auditing and Assurance Standards Board (ISAE 3000). Our evidence-gathering process was designed to obtain a limited level of assurance as set out in ISAE 3000 for the purpose of provision of opinion.

Our assessment procedure, performed to support our opinion, covered reviewing relevant documentation, interviewing responsible personnel with accountability for preparing the framework contents and verifying the selected representative sample of project, data and information. Raw data and supporting evidence of the selected samples were also examined during the assessment process.

### Independence

Cathay United Bank Company, Limited, Hong Kong Branch (“Branch”) is responsible for the collection and presentation of the information presented. HKQAA does not involve in calculating, compiling, or developing the Framework. Our assessment activities are independent from Cathay United Bank Company, Limited, Hong Kong Branch (“Branch”).

### Limitations

There are inherent limitations in performing assurance as follows. Assurance engagements are based on selective testing of the information and data being examined and it is possible that fraud, error or non-compliance may occur and not be detected. The assurance did not provide assurance on information outside the defined reporting boundary and period. There are additional inherent risks associated with assurance over non-financial information including reporting which requires information to be assured against source data compiled using definitions and estimation methods that are developed by the reporting entity. Finally, adherence to ISAE 3000 is subjective and will be interpreted differently by different stakeholder groups.

The information contained in this document is not intended to provide professional advice, constitute any express or implied advice or recommendation by HKQAA for any investments and should not be relied upon in those regards. Persons intending to use any information obtained from this document are advised to obtain appropriate professional advice. Our assurance was limited to the Framework and did not include statutory financial statements, financial statements and economic performance. Our assurance is limited to policies and procedures in place as of 30 June 2025.

### Disclaimer

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