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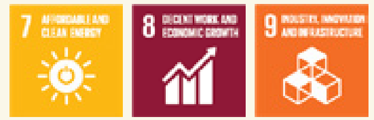
2.2.2 Responsible Financing

The Bank voluntarily adheres to the Principles for Responsible Investment (PRI) and the Principles for Responsible Banking, integrating ESG and climate risk management into its existing investment and lending processes. Prior to transactions, it diligently assesses the ESG and climate risks of investment targets and manages them accordingly. Post-transaction, it continuously monitors their ESG and climate performance, engaging in dialogue with the companies to assist in their transition, ensuring the appropriateness of the investment portfolio.

Sustainable Finance and Responsible Finances Management Approach

Management Policies and Commitments	Cathay FHC and its subsidiaries must adhere to the "Cathay FHC and Subsidiaries Responsible Investment and Lending Policy" when making investments and loans. This is to fulfill the responsibility of financial institutions to stakeholders, prudently manage environmental, social, and governance (ESG) risks, pursue long-term investment performance, leverage financial influence, promote continuous improvement in ESG performance of investment and lending targets, contribute to global sustainable development goals, and achieve sustainable society and business operations.
Corresponding to SDGs	
Specific Performance	• Enhance the Equator Principles (EP) policy and the review mechanism for EP cases • Plan, promote, and analyze ESG standards • Align and manage international ESG and corporate sustainability frameworks • Adhere to and promote the United Nations Principles for Responsible Banking
Management Assessment Mechanisms	Cathay FHC and its subsidiaries have established the "Cathay FHC and Subsidiaries Policy on Prohibited Investments and Loans, " which clearly defines areas of concern, including controversial industries and countries. The Responsible Investment working group reviews companies and countries in these areas annually based on specific screening criteria, updating the "Exclusion List for Investments and Loans." Subsidiaries are required to exclude these targets from their investment and lending activities.
Optimization Measures	We commit to surpassing one trillion in sustainable lending (green lending and loans linked to sustainable performance) by 2030.

Responsible Investment/Lending Process

Exclusion List → No Investment/Lending

Integrated ESG Factors

ESG Material Risks

Financial Evaluation → Decision Making ← Controversial Behavior

Climate/Biodiversity/Human Rights Risks

Investment/Lending

- ESG Due Diligence and Risk Assessment
- Management of Sensitive Industries
- Project Finance of Equator Principles (EP)

Post-Responsible Investment/Lending Due Diligence Practices

Investment

Regular Monitoring and Review

(1) Sensitive industry concentration of the investment portfolio and Scope 3 financial carbon emissions.

(2) Investee's climate risk and ESG performance

The aforementioned items should be reviewed at least semiannually to inform adjustments in investment positions or to take appropriate management measures based on the ESG performance of investees, including monitoring, reducing holdings, or suspending further investments.

Lending

Corporate borrowers are required to undergo an annual ESG risk review. This involves carefully assessing the initially approved ESG lending conditions, compliance status, and historical changes in ESG ratings. Continuous monitoring of clients' ESG risk changes and early warning information is essential for timely response. Additionally, a financial asset transition strategy should be developed to enhance engagement with borrowers.

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Relevant Policies and Control Measures

Exclusionary Screening	CUB adheres to the Group's investment and lending exclusion policy by establishing an exclusion list of Industries/Enterprises/Business Activities that we do not engage with.
	In 2024, we plan to introduce new management measures related to unconventional oil and gas and natural gas. We exclude controversial weapons, human rights violations, pornography, mining, coal/nuclear power generation, coal-related activities, upstream oil and gas extraction, tobacco, gambling, rainforest logging, and drift gill-net manufacturing and fishing. This aligns with SDG 14 "Life Below Water" and SDG 15 "Life on Land" to conserve and sustainably use the oceans, seas and marine resources for sustainable development and protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
Integrated ESG Factors	The Bank incorporates ESG factors into existing investment and credit decision-making processes to effectively manage ESG-related risks.
	• **ESG Due Diligence and Risk Assessment:** CUB stringently controls the ESG-related risks arising from investment and corporate lending cases and has established an ESG risk rating management mechanism to conduct differentiated tiered management. **Investments:** For industries classified as sensitive, CUB requires the completion of a "Climate Risk Assessment Form" as part of the due diligence process, incorporating climate risk factors such as carbon emissions data, carbon reduction goals and strategies, potential temperature increase, water footprint, and water resource management policies. Additionally, if the investment target has a poor ESG risk rating, an "ESG Risk Assessment Form" must be completed to further evaluate whether to invest and determine post-investment management measures. **Corporate Lending:** During the KYC (Know-Your-Customer) process for corporate lending cases, CUB includes the evaluation of ESG-related risks such as environmental pollution, harm to social welfare, human rights violations, governance, and climate and nature risks. This involves reviewing ESG incidents related to the borrower, consulting the borrower on incident improvement measures, risk mitigation strategies, and tracking inspection items. ESG risk reviews for corporate lending cases are conducted according to ESG risk classification, requiring borrowers to provide ESG risk management plans, including but not limited to carbon emissions data, carbon reduction goals and strategies, and water resource management policies. CUB also assesses the borrower's transition opportunities, such as the technical difficulties and capital needs for carbon reduction, and evaluates the opportunity of engagement through green loans and sustainability-linked loans. • **Management of Sensitive Industries:** Considering climate risk sensitivity factors such as carbon emissions and water usage, CUB has established a management mechanism for sensitive industries to deeply assess environmental and climate-related risks. In 2024, CUB has: (1) Added "biodiversity" as a new sensitivity factor, and (2) Implemented tiered management for sensitive industries, controlling highly sensitive industries according to industry-specific limit regulations. • **Project Finance of Equator Principles (EP):** CUB includes biodiversity, climate change, and human rights risks as essential items in the Equator Principles (EP) project finance assessment. Each EP case is reviewed according to the eight IFC Performance Standards, including PS6 on biodiversity, with clear incorporation of review comment.

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For projects with significant potential environmental and social impacts and risks (Equator Principles Category A and B projects), the evaluation process involves independent environmental and social risk assessments by professional third-party consultants. Post-lending, rigorous post-loan management mechanisms are required, including annual monitoring reports reviewed by professional third-party consultants to ensure proper monitoring of environmental and social risks associated with EP lending cases. As of the end of 2023, 3 cases reached Financial Close (ready for disbursement upon signing) in accordance with Equator Principles, with new approved lending amounting to approximately NT$1.585 billion. As of December 2023, CUB has accumulated a total of 24 EP credit cases that have reached Financial Close.