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1.3 Stakeholder Engagement and Materiality Analysis

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1.3.1 Stakeholder Engagement

Cathay FHC engages with stakeholders in accordance with the four fundamental principles outlined in AA1000 Stakeholder Engagement Standard (AA1000 SES): Materiality, Inclusivity, Responsiveness, and Impact. In the meantime, we identified nine major stakeholder groups with our sustainability blueprint designed to hone in on our sustainability strategies. We subsequently compiled the "Cathay FHC Stakeholder Engagement Strategies" to listen to, understand, and respond to stakeholder voices and concerns through multiple channels/mechanisms. We aim to establish mutual benefit and trust through continued communication and engagement.

For more information on Cathay FHC's communication channel engagement frequency and feedback mechanisms, as well as the complete list of interactions in 2023, please see the official Cathav FHC website.

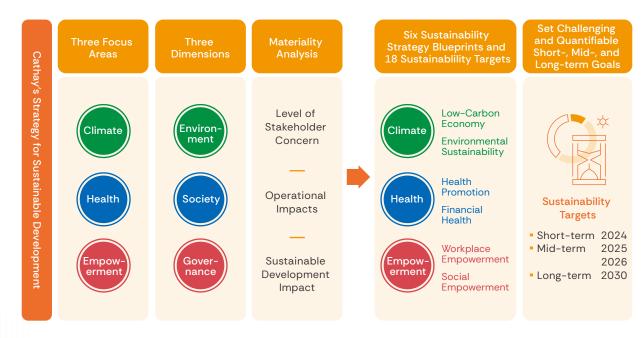


1.3.2 Materiality Analysis

Materiality Analysis of CS Issues and Formulation of Sustainable Strategies

Cathay FHC conducts annual materiality analyses based on the "GRI Universal Standards 2021" and the "GRI 3: Material Topics 2021." The analyses also incorporate the double materiality concept from the European Financial Reporting Advisory Group (EFRAG) as part of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS). The materiality analysis methodology, based on impact, helps identify significant sustainability issues and develop stakeholder communication strategies and an internal sustainability strategy blueprint.

For Double Materiality analysis: Cathay FHC first integrates the Financial Materiality approach, prioritizing sustainability issues based on the financial or corporate value impacts of our operations. Prioritization is supplemented by Impact Materiality assessments, which encompass both non-monetary and monetized evaluation methods to determine significance. Cathay FHC assesses the concerns of stakeholders, the impact on operations, and the impact on sustainable development through surveys. After identifying 19 significant issues and validation by the CS committee, these issues are reported to the board of directors. Besides setting long-term objectives, the process integrates enterprise risk management (ERM) to identify risk factors, severity, and probability of occurrence.



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Analyze and Assess the Significance of Impact





2 Identify Potential Issues



6 Level of Stakeholder Concern



Operational Impacts



Sustainable Development Impact



Confirm

6 Define



Disclose and Report

 Disclose and Formulate Long-term Sustainability Goals

By analyzing global sustainability disclosure standards, sustainability ratings, industry benchmarks, international trend reports, and our sustainability vision and organizational development goals, Cathay FHC conducts daily operations and interacts with stakeholders to ensure ongoing communication and feedback.

Compile and Identify

Confirm 26 CS issues, of which nine are related to governance, six are related to environment. and 11 are related to society.

nine major stakeholder groups to provide feedback on the level of their concern regarding 26 CS issues through a questionnaire. A total of 5.584 stakeholders responded, including:

- Customers: 4.545
- Employees: 971
- Investors: 5
- Media: 17
- ernment organizations: 7
- Youth: 5
- Suppliers: 27

Cathay FHC invited its

- Associations and gov-
- Communities: 7

To identify the impact of ESG issues on our operations, a materiality assessment questionnaire was distributed to 26 senior executives. including the Cathay FHC President, presidents of Cathay subsidiaries, senior executives, and CS Committee members. They were asked to assess the degree of impact of CS issues on the company's operations.

Cathay FHC refers to the impact metrics suggested by Harvard Business School's Impact-Weighted Accounts, as well as the profits and losses of five major capitals (5C P&L) methodologies defined in the biannual Impact Measurement & Valuation (IMV), to assess the significance of the impact of sustainability issues

Once impacts are identified and prioritized, they are incorporated into discussions regarding the sustainability strategy blueprint with senior managers and the sustainability team. Nineteen material CS issues are then finalized and reported to the CS committee that operates under the board of directors.

Disclose contents of material issues that correspond to the GRI Standard; set short- and long-term goals corresponding to the material issues and disclose them in the Cathay FHC sustainability report. For progress and achievements in 2023, please refer to the official Cathay FHC site.



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The Significance of CS Issue Impacts

Cathay FHC references the Impact-Weighted Accounts recommended by Harvard Business School, inviting 22 executives related to ESG topics to assess the scale, scope, irreparable characteristics, and future probability of both positive and negative impacts. This helps identify the significant impacts caused or facilitated by the company and prioritize ESG issues by severity. According to the 11 significant impacts identified, "Responsible Finance," "Sustainable financial Products," and "Corporate Governance" were the top CS Issues with an "Extremely High" impact. A total of 15 CS Issues including "Business Performance," "Business Continuity," "Environmental Impact of Operations," and "Digital Transition and Innovation," etc. were considered to have a "High" impact. Six CS Issues including "Privacy and Information Security," "Sustainable Procurement," "Environmental Impact of Operations," and "Digital Transition and Innovation" were considered to have a significant impact.

+ Enhancing Financial Sector Development through Product Innovation + Tax Payment + Enhancing Investors' Financial Capital 20 Impacts + Facilitating Industry Transformation through Investment and Lending Impact Positive Negative + Enhance Industry Focus on Sustainability 1 Economic + Affordable Services to Vulnerable 2 2 Environment Groups + Paying Employee Salaries Human/ 6 5 Human + Increasing Employment Opportunities Rights Severity - Improper Use of Capital Influences the Source of Impact: Severity = 1+2+3 Market ① Value Balancing Alliance (VBA) ① Level - Investment and Lending in High Carbon @ Harvard Business School 2 Scope **Emissions Industries** Impact-Weighted Accounts 3 Irreparability - Misuse of Employee and Customer Data 3 London Benchmarking Group (LBG) Economic + Positive Impact Environment - Negative Impact Human/Human **Rights**

Further, Cathay FHC uses Impact Valuation methodologies to assess impacts on the economy, environment, and people, including actual and potential, long-term and short-term, positive and negative, and remediable and irremediable impacts. By monetizing and quantifying these impacts, the most significant ESG issues are prioritized. According to the results, the four positive impacts of top priority are "Investment enhances industry value," "Insurance claims," "Net profit after tax," and "Employee salary and benefits." The most significant negative impact is "Investment-induced pollutant emissions." From these significant impacts, we can further define ESG topics with significant impacts as well: "Responsible finance," "Carbon emissions in financial assets," "Sustainable financial products," Business performance," "Financial planning and services," "Health promotion and life security," and "Attracting and retaining talents." For detailed analysis results please see the chapter 1.4 Impact Measurement & Valuation (IMV).

