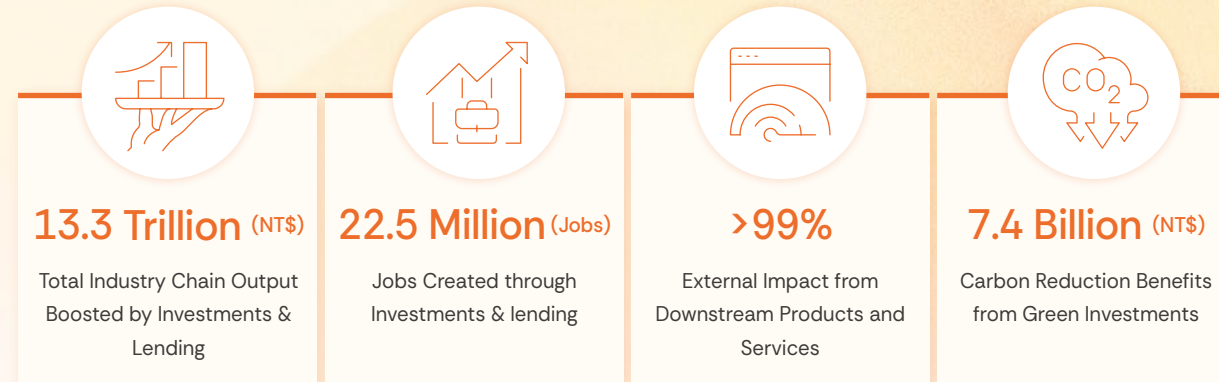


1.4 Impact Measurement & Valuation (IMV)

Profits and Losses of Five Major Capitals (5C P&L)

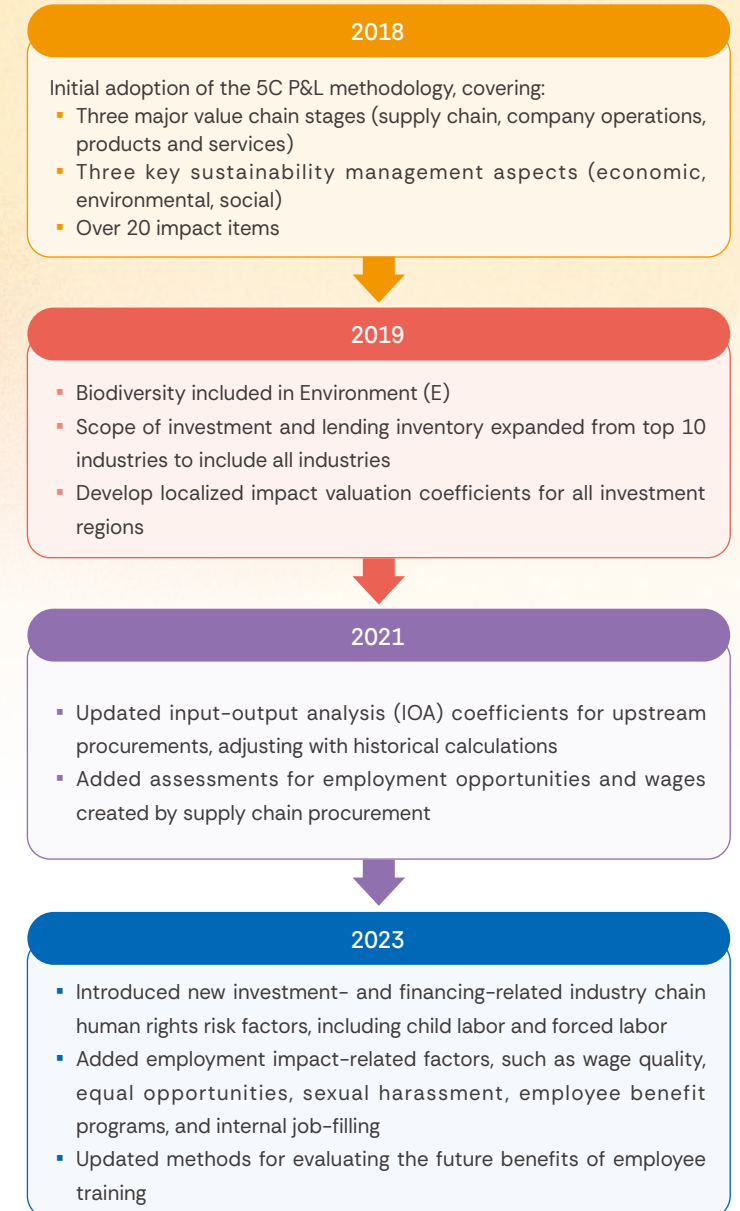


In pursuing corporate sustainability, Cathay FHC abides by the spirit of “What if We Could,” aspiring to leverage our influence in the financial industry and drive positive change across sectors. This commitment aims to enhance societal well-being while mitigating environmental footprints and human rights risks, thereby creating long-term positive value for stakeholders. Since 2018, Cathay FHC has collaborated with academic institutions to develop the Profits and Losses of Five Major Capitals (5C P&L) assessment framework, which is based on impact valuation methodologies and integrates financial profit and loss (P&L) with Triple Bottom Line (TBL) management concepts. It evaluates the external impacts of value chain activities on the economy, environment, and human rights through a sustainability impact pathway driven by causal relationships, translating these impacts into monetized social benefits (positive) and costs (negative).

According to the analysis, the external impacts generated by Cathay FHC’s operations are primarily concentrated in the downstream financial products, services, and investment activities within its value chain. In 2023, investments and lending facilitated by financial support resulted in an overall industry chain output of approximately NT\$13.3 trillion, created around 22.5 million indirect job opportunities, and generated NT\$1.8 trillion in wages. However, the consumption of natural resources and environmental pollution arising from industry supply and demand processes, along with the potential human rights risks faced by workers within the industry chain, posed a potential social cost of NT\$1 trillion. To facilitate the low-carbon transition across industries, Cathay FHC has not only established a stringent ESG risk management mechanism through its Responsible Investment Working Group but also continues to expand investments in low-carbon industries such as renewable energy, green buildings, waste recycling, and public transportation. It is estimated that the social cost avoided through low-carbon investments in 2023 amounts to approximately NT\$7.4 billion.



As a science-based management tool, Cathay FHC continues to refine and enhance the depth and breadth of the 5C P&L assessment method, ensuring more comprehensive and rational results. Adopting an impact mindset helps us consider a broader and more profound range of impacts during decision-making, uncovering the potential risks and opportunities that sustainable issue management may bring to long-term development. We are tirelessly striving for more comprehensive corporate sustainability management and effective resource allocation in order to earn stakeholder trust and achieve shared value.

Cathay 5C P&L Methodology and Development Timeline



01 Sustainability Strategies & Governance

Cathay FHC's Sustainability Impact Pathway

Cause of Impact	Material Issue	Output Metric	IRIS Catalog of Metrics	Impact on well-being	Type of Major Capital	Impact Item	Type of Impact	Monetary (NT\$)	Impact Rating	Impact Stakeholders
 Supply Chain	Responsible Procurement	Payment to Suppliers	PI5478	Procurement drives industry supply-demand relationships	Finance and Integrity Capital	Social Externality: Boosting Supply Chain Value	Positive (+)	16,842,893,843	●●●●○○○○	Society
				Procurement creates employment opportunities in the supply chain	Human capital	Social Externality: Income of Supply Chain Employees	Positive (+)	2,386,790,639	●●●○○○○○	External employees
				Environmental impacts of GHG emissions during supply chain manufacturing	Natural capital	Environmental Externality: Supply Chain GHG Emissions	Negative (-)	119,882,804	●●○○○○○○	Environment
				Environmental impacts of air pollutants during supply chain manufacturing	Natural capital	Environmental Externality: Supply Chain Air Pollutants	Negative (-)	419,818,004	●●○○○○○○	Environment
 Business Operations	Business Performance	Operating Profit	FP1301	Increase financial capital stock for investor returns	Finance and Integrity Capital	Gross Value added (GVA): Operating Profit	Positive (+)	51,513,817,000	●●●●●○○○	Investors
		Public Expenses	FP5261	Support government expansion of infrastructure and social welfare	Finance and Integrity Capital	Gross Value added (GVA): Public Expense	Positive (+)	11,259,552,000	●●●●○○○○	Society
		Depreciation and amortization	FP9573	Develop industry tech for supplier revenue	Finance and Integrity Capital	Gross Value added (GVA): Depreciation and amortization	Positive (+)	8,635,961,000	●●●○○○○○	Suppliers
		GHG Emissions	OI1479	Rising GHG concentrations contribute to global warming	Natural capital	Environmental Externality: Operational GHG Emissions	Negative (-)	103,336,494	●●○○○○○○	Environment
	Environmental Impact of Operations	Renewable Energy (Self-generated)	OI2496	Decreasing GHG concentrations mitigates global warming	Natural capital	Environmental Externality: Environmental Benefits of Using Renewable Energy	Positive (+)	9,856,879	●○○○○○○○	Environment
		Renewable Energy (Purchased)	OI3324	Decreasing GHG concentrations mitigates global warming	Natural capital					Environment
		Depletion of Water Resources	OI0263	Change in water resource stores causes stress on local communities	Natural capital	Environmental Externality: Operational Water Resource Depletion	Negative (-)	6,499	●○○○○○○○	Environment
		Fuel Usage (Gasoline/Diesel)	OI1496	Fuel use causes air pollution, leading to health and ecological impacts	Natural capital	Environmental Externality: Operational Air Pollution	Negative (-)	5,904,235	●○○○○○○○	Environment
		Waste Management	OI6192	Incineration and landfills cause air pollution and GHG emissions	Natural capital	Environmental Externality: Operational Waste Management	Negative (-)	2,312,206	●○○○○○○○	Environment
		Reduce Paper Usage	-	Digitalization of services reduces the environmental impacts of paper use	Natural capital	Environmental Externality: Reduction in Paper Use	Positive (+)	9,118,084	●○○○○○○○	Environment

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Cause of Impact	Material Issue	Output Metric	IRIS Catalog of Metrics	Impact on well-being	Type of Major Capital	Impact Item	Type of Impact	Monetary (NT\$)	Impact Rating	Impact Stakeholders
 Business Operations	Attracting and Retaining Talents	Employee Compensation & Benefits	OI4724	Compensation that allows for quality of life, well-being, and purchasing power	Human capital	Social Externality: Salaries Above Living Wage	Positive (+)	27,159,893,811	●●●●○○○○	Internal employees
		Employee Benefit Programs	OI2742	Paid leave and family-friendly culture foster work-life balance	Human capital	Social Externality: Salaries Below Living Wage	Negative (-)	16,852,663	●○○○○○○○	Internal employees
	Talent and Skill Development	Employee Training & Development	OI7877	Training enhances professional skills and employability	Human capital	Social Externality: Family-friendly culture and support	Positive (+)	281,092,945	●●○○○○○○	Internal employees
		Internal Job-Filling	OI6995	Internal promotion and job transfers increase income	Human capital	Social Externality: Future benefits of employee training	Positive (+)	6,545,972,992	●●●○○○○○	Internal employees
	Inclusive Workplace	Gender Pay Ratio	OI1855	High-paying positions create segregation due to gender differences	Human capital	Social Externality: Internal Job-Filling	Positive (+)	1,776,564,748	●●●○○○○○	Internal employees
		Workplace Sexual Harassment	OI9077	Physical and emotional damage, leading to future medical costs and loss of well-being	Human capital	Social Externality: Equal Opportunity	Negative (-)	3,498,739,279	●●●○○○○○	Internal employees
		Number of Employees with Health Risks	OI4061	Cardiovascular disease risks and medical expenses due to workload	Human capital	Social Externality: Sexual Harassment	Negative (-)	12,247,859	●○○○○○○○	Internal employees
		Number of Employees with Improved Health	OI4061	Health promotion improving lifestyle and health status	Human capital	Social Externality: Employee Health Risks	Negative (-)	85,281,589	●○○○○○○○	Internal employees
	Employee health and well-being	Occupational Accidents	OI3757 OI6525	Physical and emotional impact and cost of medical resources	Human capital	Social Externality: Employee Health Promotion	Positive (+)	2,119,366	●○○○○○○○	Internal employees
		Social Investment	OI7421	Improving community relations and quality of life	Social and Relationship Capital	Social Externality: Occupational Accidents	Negative (-)	6,803,000	●○○○○○○○	Internal employees
	Youth empowerment, female empowerment, helping the underprivileged					Social Externality: Value of Social Investment	Positive (+)	420,121,138	●●○○○○○○	Society

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Cause of Impact	Material Issue	Output Metric	IRIS Catalog of Metrics	Impact on well-being	Type of Major Capital	Impact Item	Type of Impact	Monetary (NT\$)	Impact Rating	Impact Stakeholders
 Products and Services	Responsible Finance	Industry Investment and Financing	II8480	Industry investment and lending drives industry supply-demand relationships	Finance and Integrity Capital	Social Externality: Enhancing Industry Chain Value	Positive (+)	13,307,758,856,001	●●●●●●●●	Society
				Investment & lending creates job opportunities along industry chain	Human capital	Social Externality: Income of Industry Chain Employees	Positive (+)	1,771,814,995,244	●●●●●●●●	External employees
				Workers losing their freedom and suffering physical and mental health impacts due to forced labor	Human capital	Social Externality: Industry Chain Human Rights Risks - Forced Labor	Negative (-)	49,551,447,711	●●●●○○○○	External employees
				Future income loss from child laborers unable to receive quality education	Human capital	Social Externality: Industry Chain Human Rights Risks - Child Labor	Negative (-)	42,934,472,991	●●●●○○○○	External employees
				Environmental impact of GHG emissions resulting from industry chain supply and demand	Natural capital	Environmental Externality: Industry Chain GHG Emissions	Negative (-)	1,056,710,276,511	●●●●●●●●	Environment
				Environmental impact of air pollution resulting from industry chain supply and demand	Natural capital	Environmental Externality: Industry Chain Air Pollutants	Negative (-)			
	Sustainable Financial Products	Low-carbon Investing	II8480	Low-carbon investments avoid environmental impacts from GHG emissions	Natural capital	Environmental Externality: Environmental Benefits of Low-carbon Investments	Positive (+)	7,403,794,204	●●●○○○○○	Environment
	Health Promotion and Life Security	Number of Insurance	PI8785	Provide financial protection in the face of unexpected events and bring a sense of security to individuals and families	Social Capital	Social externalities: Insurance Benefits	Positive (+)	182,012,846,411	●●●●●●○○	Customers
	Financial Inclusion	Charitable Trust Donations	OI1619	Resources for underprivileged groups, improving quality of life	Social Capital	Social Externality: Charitable Trust Donations	Positive (+)	185,414,016	●○○○○○○○	Society
		Microinsurance Donations		Ensure basic protection to underprivileged groups to lessen their burden	Social Capital	Social Externality: Microinsurance Donations	Positive (+)	16,408,247	●○○○○○○○	Society

Note 1: IRIS (Impact Reporting & Investment Standards) is developed by the Global Impact Investing Network (GIIN), and provides a standardized framework of metrics for measuring the social, environmental, and economic performance of companies, thereby enhancing the comparability of impact investments.

Note 2: Impact Valuation Methodology draws on the Impact-Weighted Accounts (IWA) from Harvard Business School and the impact statement approach of the Value Balancing Alliance (VBA).

Note 3: Gross Value added (GVA) assesses the difference between the intermediate inputs and the final outputs of a company's operations, considering both the original inputs and public expenditures and highlighting the economic activities' benefits for various stakeholders.

Note 4: Externality refers to the positive or negative effects of Cathay FHC's operational activities on human well-being through interactions with various types of capital. These impacts are not directly reflected in the company's profits or costs. Environmental externalities consider the social costs of carbon, health costs, and ecosystem damages arising from GHG emissions, air pollution, waste, and water resource usage. Social externalities examine the effects of wage quality, career development, equal opportunities, and health and well-being on employees and society.

Note 5: Input-Output Model is for supply chain procurement and industry investment and financing. It calculates the social and environmental externalities, including the economic benefits derived from industry chain supply-demand effects, job creation, wage income, environmental footprints, and human rights risks. References include the OECD Input-Output Tables (2018), EXIOBASE 2, UNICEF, and Walk Free databases.

Note 6: Value coefficients are adjusted for regional economic conditions, based on the per capita Gross National Income (GNI) measured by Purchasing Power Parity (PPP) for different regions. This adjustment also considers inflation and exchange rates, aligning the time boundaries to the 2021 currency value baseline. Methodologies referenced include OECD (2012) and PwC UK (2015).

Level of Impact	Monetary Value (NT\$ 1M)	Level of Impact	Monetary Value (NT\$ 1M)
●○○○○○○○	0-100	●●●●●○○○	50,000-100,000
●●○○○○○○	100-1,000	●●●●●●○○	100,000-500,000
●●●○○○○○	1,000-10,000	●●●●●●●○	500,000-1,000,000
●●●●○○○○	10,000-50,000	●●●●●●●●	>1,000,000