

## Material Issues and Risk Management

Cathay Financial Holdings integrates Enterprise Risk Management (ERM) processes based on the results of materiality analysis. Potential risks are identified, and analyzed for severity and likelihood of occurrence. Mitigation measures are then developed according to the level of risk.

Material Issues	Potential Risks	Severity <sup>1</sup>	Likelihood of Occurrence	Mitigation and Response
Digital Transition and Innovation	<p>&gt;Increased risk from disruptions in critical telecommunications infrastructure, networks, and digital payments services due to reliance on the internet. Disruptions may result from power outages, blackouts, natural disasters, etc.</p>	Major	Within 1-10 years	<p>&gt;Take the following actions according to the "Business Continuity Management Guidelines" and "BCM Implementation Guidelines": regularly conduct business impact analysis and risk assessments; develop emergency response measures; and inventory backup resource needs and business recovery procedures.</p> <p>&gt;Implement response measures according to the "Emergency Response Procedures for Information System Interruptions and Major Impact Events" during disasters.</p> <p>&gt;Conduct regular maintenance and backup drills for power systems. Develop backup plans before implementing power-related projects and use different telecommunications networks for important external services to provide mutual backup.</p>
Business Continuity	<p>&gt;Increased power and energy demand or reduced/abnormal supply can pose risks of power outages or electricity price hikes, affecting Cathay, its customers, and its investment targets.</p>	Major	Within 1-10 years	<p>&gt; Follow the "Business Continuity Management Guidelines" and "BCM Implementation Guidelines" to conduct regular business impact analysis and risk assessments. Based on the results, revise or develop new emergency response measures for various risk sources, inventory backup resource needs, and business recovery procedures to ensure the rapid resumption of services and continuous operations.</p> <p>&gt;Use uninterruptible power systems (UPS) for critical operational facilities or equipment and perform regular maintenance to ensure normal operations during temporary power outages.</p> <p>&gt;Implement and comply with the ISO 22301 business continuity management system.</p> <p>&gt;Actively promote energy-saving measures to mitigate the adverse impact of electricity price increases on operations.</p>

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				>Engage with investee companies to understand their strategies and plans for procuring green energy to monitor the progress of the company's green energy transition.
Privacy and Information Security	Internal information systems may be compromised due to insufficient control of information security frameworks and network privacy mechanisms, leading to the leakage of customer information, etc., which can result in litigation, fines, and operational disruptions.	Major	Within 1-10 years	<ul style="list-style-type: none"> <li>&gt;Regularly review and implement measures from the group's information security blueprint to enhance protection against security threats.</li> <li>&gt;Continue to strengthen employee and customer information security awareness through training and promotional programs.</li> <li>&gt;Enhance the continuous operation capability of information services.</li> <li>&gt;Implement and maintain effective international certifications such as ISO 27001 and BS 10012 to ensure the effectiveness of management systems.</li> <li>&gt;Collect and analyze information and risks on external information security threats and conduct vulnerability remediation; Work with external entities to keep abreast of information security risks.</li> <li>&gt;Conduct regular cybersecurity drills to enhance emergency response capabilities for information security incidents.</li> </ul>
Risk Management	>Political and economic instability in the countries or regions where Cathay's investments are located may pose risks to the overall economy, financial markets, central bank policies, supply chains, and operations	Major	Within 1 year	<ul style="list-style-type: none"> <li>&gt;Country Risk Management: <ul style="list-style-type: none"> <li>(1) Established Country Risk Management mechanisms to regularly monitor credit ratings and risks of sovereign bonds; keep pace with evolving political and economic risks around the world; decentralize international business operations; minimize risks from concentrated business activities; and strengthen country risk management.</li> <li>(2) Participate in external political seminars or forums to improve and enhance professional knowledge in the political field through increased cross-disciplinary exchange opportunities.</li> </ul> </li> <li>&gt;Business Continuity Management (BCM): Established group-wide BCM mechanism and organized tabletop war-game exercises to strengthen operational resilience.</li> </ul>
Sustainable Financial Products	>With increasing consumer awareness of sustainability, if Cathay cannot continue to develop and offer financial	Minor	Within 1 year	>Collaborate with the government and academia to expand innovative applications of the group's climate and nature data.

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	products to meet consumer needs, this will negatively impact revenue.			
Responsible Finance	>Failing to adequately assess the risks associated with promoting green financing and investment may result in Cathay bearing the risk of customer defaults.	Minor	Within 1 year	>Validate strategic ambitions and assess financial impacts with scenario analysis. >Establish ESG audit processes and industry exclusion and restriction policies.
Carbon Emissions in Financial Assets	>Ambiguities in climate policy (both domestic and foreign), may make it difficult for Cathay's investment targets to drive transformation, negatively impacting Cathay's revenues.	Minor	Within 1 year	>Validate strategic ambitions and assess financial impacts with scenario analysis. >Encourage investees and borrowers to undergo low-carbon transformation through engagement strategies. >Establish ESG audit processes and industry exclusion and restriction policies.
	>With increasing global carbon reduction regulation, carbon-intensive industries face transformation pressures, which may incur increased financial stress or higher default risks.	Minor	Within 1 year	>Validate strategic ambitions and assess financial impacts with scenario analysis. >Establish ESG audit processes and industry exclusion and restriction policies.
Environmental Impact of Operations	>Climate-related disasters such as typhoons, floods, and extreme temperatures can cause significant financial, personnel, and operational losses to Cathay, investment subjects, and insured companies.	Minor	Within 1 year	>Provide corporate catastrophe services. >Consider the potential impact of climate risk factors such as floods, mudslides, and earthquakes on the safety of our assets when selecting business and investment locations; Regularly inspect properties and step up safety inspections and repairs. Maintain and refine our BCM strategy to include natural disaster scenarios, contingency measures, business continuity plan (BCP), and scheduled drills to increase our resilience to climate change
Attracting and Retaining Talents	>High employee turnover results in insufficient expertise, which, coupled with the company's need to face new economic developments, significantly impacts the demand for and progress in nurturing technological innovation talent.	Major	Within 1-10 years	>Employee Reskilling & Upskilling: Execute Cathay FHC's Upskill & Reskill program and 360-degree feedback system to ensure employees are aware of their strengths and weaknesses for their current positions, career development pathways, and necessary skills for future development in Cathay. >Active Leadership Pipeline: Regularly convene meetings to review talent development structures, remuneration, and benefits to ensure Cathay is competitive in attracting and retaining talents. >DEI Workplace: Promote diversity, equity, and inclusivity (DEI) in the workplace & bolster employee data engineering.

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<p>Note 1: Internally, Cathay categorizes risk severity into five levels, from most to least severe: Extreme, Critical, Major, Minor, Insignificant. Likelihood of occurrence categories include: Likely to occur within 1 week, Likely to occur within 1 month, Likely to occur within 1 year, Likely to occur within 1-10 years, Likely to occur after 10 years</p>				