# 6.2.4 Emerging Risk Management

Each year, Cathay FHC analyzes emerging risk factors of domestic and international concern by referencing international risk trend reports and other sources. The Group identifies and assesses emerging risks that may have potential long-term impacts on key businesses and continues to work with subsidiaries to develop emerging risk management measures, which are regularly monitored and reviewed. As no significant changes were observed in external risk patterns during the year, the Group continued to focus on AI and social health issues, designating the emerging risks for the year as "Potential Risks from AI-Driven Emerging Technology Applications" and "Social Health Impact Risks Arising from Social Isolation and Loneliness."

## Risk Identification Process

**Step 1 – Risk Identification**

- Refer to opinions from external experts and relevant domestic and international reports to collect information on potential emerging risks and conduct a preliminary identification of how these risks may impact the Group's business operations

**Step 2 – Risk Assessment**

- Each subsidiary assesses the potential impact of the initially identified emerging risks on their business and subsequently focuses on managing the most significant risks
- Cathay FHC consolidates and determines the group's emerging risks based on the assessments

**Step 3 – Risk Response**

- Establish mitigating actions for emerging risks; monitor and track the risks regularly

**Step 4 – Risk Report**

- Risk Management Division regularly presents emerging risks and response measures to Risk Management and Information Security Committee and Board of Directors for oversight of emerging risk management

## Emerging Risk Assessment Results and Mitigating Actions

| Risk Category | Potential Risks of AI-Driven Emerging Technology Applications | Social Health Impact Risks Arising from Social Isolation and Loneliness |
|---|---|---|
| Description | With the rapid evolution of generative AI and related technologies and tools—including multimodal AI, agentic AI, and enterprise AI—the Company is applying these technologies across multiple areas, such as content generation, automation, operational decision-making, and customer service. However, data and model biases, as well as misinterpretation of context, may lead to inaccurate or misleading recommendations, outputs, or decisions, potentially increasing operational risks. In addition, malicious external actors may use deepfake technology to create and disseminate false information, or leverage AI to automate cyberattacks, potentially resulting in disputes and reputational harm. | • In recent years, with the rapid development of digital technology, changes in lifestyle and work patterns, and changes in demographic structure and social interaction patterns, the frequency and quality of interpersonal interactions may decline, leading to an increasing prevalence of insufficient social connection ( such as social isolation and loneliness ). However, compared with mental and physical health, social health has historically received less attention--the World Health Organization has even identified loneliness as a pressing public health issue.<br>• According to the latest report "From loneliness to social connection – charting a path to healthier societies" released by the World Health Organization ( WHO ) Commission on Social Connection in June 2025, one in six people worldwide experienced loneliness during 2014–2023, and more than 870,000 deaths each year are associated with health problems stemming from loneliness. Loneliness and social isolation are not only associated with cardiovascular diseases ( such as heart disease and stroke ), diabetes, cognitive decline, and mental health risks ( such as depression and anxiety ), but may also increase the risk of premature death, which will have long-term and significant impacts on policyholder health, business operations, and social well-being. |
| Impact | • **AI-Driven Malicious Attacks:** Malicious external actors may leverage generative AI to create and disseminate highly realistic impersonation content or misinformation, and to facilitate cyberattacks targeting the Company or its customers. Such incidents could result in the unauthorized disclosure of the Company's confidential information or personal data, potentially subjecting the Company to regulatory investigations and/or penalties, causing financial losses, and resulting in material adverse reputational harm, thereby undermining customer trust.<br>• **Increased compliance costs:** In response to AI governance and regulatory requirements, the Company has simultaneously strengthened AI policy regulations, management systems, risk assessments, model validation, and data governance, while also investing more manpower and resources, resulting in higher operating costs. | **Life Insurance**<br>• **Health deterioration and increased claims pressure:** Social isolation and loneliness may increase the risk of mental health conditions and chronic diseases among policyholders, which could in turn increase life insurance claims payments and create potential risks to the Company's insurance liabilities and claims management.<br>• **Changes in Service and Product Demand:** Policyholders with weaker social connections may rely more on the Company's policy services, claims assistance and health promotion support mechanisms. As a result, the Company may need to adjust its service processes, product design, and resource allocation on a timely basis, potentially increasing operating costs and other expenditures.<br>• **Increased Uncertainty in Risk Assessment:** Social isolation and loneliness are emerging risk factors. Current research and data in this area are still developing, potentially leading to greater uncertainty in the Company's life insurance policy pricing and risk assessment, and increasing pricing difficulty.<br>**Operations**<br>• **Declining productivity and heightened talent attrition risk:** Employees experiencing social isolation or loneliness may be adversely affected in terms of physical and mental well-being, productivity, and collaboration effectiveness. Over the longer term, this may increase turnover intentions and talent mobility, potentially affecting the stability of the Company's human capital and its operational efficiency. |

| Risk Category | Potential Risks of AI-Driven Emerging Technology Applications | Social Health Impact Risks Arising from Social Isolation and Loneliness |
|---|---|---|
| Impact on Key Businesses | Operations | Life Insurance, Operations |
| Mitigating Actions | • **Establishment of a Dedicated Governance Organization:** To achieve Group consensus and unify the development of the AI framework, a financial holding company-level "Data and AI Governance Committee" has been established. This committee promotes group data sharing and AI application development through cross-subsidiary collaboration, while setting group AI governance standards and management mechanisms to ensure the group adheres to the principles of Responsible AI ( RAI ) for AI technology development and financial service applications. An "AI CoE ( Center of Excellence )" has also been established under the Committee: bringing together data and artificial intelligence development, IT, compliance, legal, risk management, and information security-related units from the financial holding company, bank, life insurance, and property insurance subsidiaries to jointly promote AI strategy development, technology governance, and project review-related standards and technical tools in order to meet business needs and create safe, efficient, and responsible AI applications.<br>• **Establishment of a Dedicated AI Evaluation Center:** In response to the enactment of the "Artificial Intelligence Basic Act," an AI evaluation center was established in 2025 to perform quality assurance ( QA ) and ensure the transparency of the AI decision-making process, compliance with laws and regulations, and conformity to the six principles of the financial AI guidelines of the Financial Supervisory Commission: "fairness and non-discrimination, transparency and explainability, reliability, accountability, ethics, data security, and privacy protection."<br>• **Released Cathay Financial Holdings' Generative AI technological development framework ( GAIA ):** GAIA 1.0 serves as the core engine for internal AI applications and resolves privacy concerns about using external AI tools. The framework consists of three main modules: knowledge base, guardrails, and Model Hub. In 2026, it will continue to build on its existing architecture, evolving from a generative AI assistant to agentic AI. It also announced GAIA framework 2.0, which includes four modules:(1) the "Agent Core framework" responsible for coordinating AI Agent task allocation and collaboration processes,(2) the "Agent Workspace controlled environment" providing a safe and autonomous operating environment,(3) the "Agent Protocol connection protocol" connecting common languages between Agents, and (4) the "Agent Marketplace integration platform" for centralized management of AI tools and components. | • The Company collected international journals and academic research, identified risk transmission pathways and groups at high risk of loneliness or social isolation for critical business operations, and held cross-company exchange meetings to build consensus and promote direction. The Company prioritized planning a questionnaire inventory of the risk status as a reference for the continuous evaluation and refinement of current response measures.<br>**Life Insurance**<br>• Risk Assessment: Cathay Life Insurance's 2026 Life Risk Trend Survey Report includes international loneliness / social isolation questions to survey the general public regarding their state of loneliness / isolation.<br>• Current Response ( Ongoing ): Limit claims frequency and amount through health insurance product design; share potential claims risks that are not easily identified through reinsurance sharing; track the claims ratio with social isolation factors; strengthen customer acquisition activities for high-risk groups and spillover group activities; and incorporate mental health services into product design and embed spillover mechanisms.<br>**Operations**<br>• Risk Assessment: Cathay Financial Holdings' 2025 occupational safety questionnaire includes international loneliness / social isolation questions to investigate and confirm the current status of employee loneliness / isolation.<br>• Current Measures ( Ongoing ): The Company continues to hold social and diverse club activities, and implements the Employee Assistance Program ( EAP ), including caring articles, mental and health-themed lectures, and handicraft stress-relief activities to strengthen employee social connections and support channels. |

## 6.2.5 Climate and Nature-Related Financial Disclosures

In June 2018, Cathay FHC became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The Chief Risk Officer (CRO) leads the Climate and Nature Task Force, which is responsible for coordinating discussions and collaboration on climate- and nature-related risk management. In 2022, Cathay FHC became a member of the Taskforce on Nature-related Financial Disclosures (TNFD) Forum, and in 2023, it became a TNFD Adopter, voluntarily aligning its nature-related disclosures with the TNFD framework. Cathay FHC's 2024 Climate and Nature Report was officially reviewed and recognized by the TNFD in 2025 and published on the TNFD website as one of its disclosure case studies. For comprehensive information on Cathay FHC's climate- and nature-related financial disclosures, please refer to the 2025 Climate and Nature Report.

### Governance

To enhance the effectiveness of the Board of Directors and implement sustainable governance, Cathay FHC established the Board-level Corporate Sustainability Committee and the Risk Management and Information Security Committee. These committees are responsible for reviewing and overseeing the execution and management of ESG- and climate-related policies, systems, strategies, and plans. In 2024, the Group appointed its first Chief Climate Officer (CCO), a role held concurrently by the CRO, to strengthen the formulation of climate strategies and the implementation of climate risk management actions. In 2025, Cathay FHC further strengthened its sustainability governance framework by establishing the position of Chief Sustainability Officer (CSO), held concurrently by the President. The CSO oversees Group-wide ESG strategies, targets, and performance, and ensures effective coordination and execution across departments and areas of expertise.

### Governance Framework