



# ESG Integration in Investment and Lending





# Cathay's ESG Integration in Investment and Lending

## TABLE OF CONTENTS

<b>I.</b>	<b>Cathay Financial Holdings' Responsible Investment (RI) Approach</b>	
i.	Cathay FHC's RI Policies, Guidelines and Covered assets .....	3
ii.	Overall Responsible Investment approach .....	7
iii.	Responsible Investment Approaches for Different Assets	
1.	Listed Equity and Corporate Bonds .....	8
2.	Government Bonds .....	14
3.	Property .....	15
4.	Corporate Loan .....	16
5.	Other Investments (infrastructure, private equity and etc.) .....	18
<b>II.</b>	<b>Responsible Investment Approach in Primary Subsidiaries</b> .....	<b>20</b>
<b>III.</b>	<b>Cathay Life Insurance RI policy Application to Internally/Externally Managed Asset Classes</b> .....	<b>21</b>



## Cathay FHC's RI Policies, Guidelines and Covered Assets

### (1) Formalized guidelines on ESG factors

RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
Overall	Overall risk monitoring	(1) Considering political stability, corruption, and literacy rate for emerging markets investments. (2) Considering EIU country operational risk map (including social safety, political stability, and government efficiency) for the investments in strategically developed countries (mainly in Southeast Asia).	V	V	V	V	V	V	<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a> <a href="#">Cathay FHC 2021 Annual Report Chapter 7-VI</a>
	Responsible Investment and Lending Policy	(1) Controversial behaviors (2) Material ESG issues	V	V	V		V		<a href="#">Responsible Investment and Lending Policy</a>

### (2) Asset class-specific RI guidelines

RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
Integration of ESG factor	ESG risk review procedures	(1) Cathay FHC commits to integrate material ESG issues into investment/lending processes. Material ESG issues included 3 pillars, 10 themes and 37 ESG key issues (including GHG emission, human capital development, human right, board composition, data security and other ESG factors). (2) Cathay life insurance established first ESG risk review procedures in Taiwan to integrate ESG factors in listed equity and fixed income investment (non-corporate bonds and corporate bonds)	V	V					<a href="#">Responsible Investment and Lending Policy</a> <a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>
	Responsible Property Investment and Management Policy	(1) Renewable energy, Environmental conservation, occupational safety and health management				V			<a href="#">Cathay ESG Integration Report</a>
	Environmental, Social, and Governance (ESG) Rules for Corporate Loans	(1) Environmental pollution, occupational safety and health management, integrity and business ethics, human rights issues, etc.					V		<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>



RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
	Asset manager mandating and monitoring	(1) Checking whether counterparties have signed the PRI, local stewardship principles or ESG integration framework (2) Utilizing data from external professional ESG database to review ESG performances of funds or institutions. (3) Cathay Life lists responsible investment requirements for asset managers in the mandate contract and (4) Cathay Life reviews their ESG performance annually.						V	<a href="#">Cathay ESG Integration Report</a>

### (3) Sector-specific RI guidelines

RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
Integration of ESG factor	Focus Areas of Investment and Lending Exclusion Policy	(1) Focus Areas: controversial weapons, pornography industry (For equity, corporate bonds and loan)	V	V			V		<a href="#">Cathay FHC Investment and Lending Exclusion Policy</a>
	Investment Management Principles for Sensitive Industries	Focus Areas: controversial weapons, pornography industry, Coal-related industries (e.g., coal-fired power plants, coal mining, coal freight - rail, and coal support services, etc.), Gambling, Logging, Palm Oil, oil & gas related industry (integrated oil & gas industry, oil & gas exploration and production, and industrial gas, etc.), construction materials, aluminum, steel, airlines (1) If a company is classified into a sensitive industry and involve high environmental, social and moral risks that lead to negative social impacts, it shall be placed on the exclusion list. (2) If a company is classified into a sensitive industry and has a medium-high level of impact on the environment and society, it shall be placed on the watchlist.	V	V					<ul style="list-style-type: none"> <li>➤ <a href="#">Cathay FHC 2021 Corporate Sustainability Report</a></li> <li>➤ <a href="#">2021 Cathay Life Insurance Responsible Investment and Stewardship Report</a></li> </ul>



RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
	Environmental, Social, and Governance (ESG) Rules for Corporate Loans	(1) Established exclusion lists, including: Coal-related industries, Coal-fired/nuclear power generation, Upstream mining of oil and natural gas, Mining, Controversial weapons, Human rights violations, Pornography, Tobacco, Gambling, Logging in tropical rain forests, Gillnet production and gillnetting, etc. (2) Targeting power generation, paper, chemical materials, general manufacturing, mining and metal industries to further strengthen its ESG risk management mechanism					V		<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>
<b>Sustainability themed investing</b>	<ul style="list-style-type: none"> <li>➢ Defined 5 themed investing/lending</li> <li>➢ Support Taiwanese government's national development strategy</li> </ul>	(1) <b>Low carbon</b> : renewable energy, mass transit or low carbon transportation, green building, waste pollution control, green bond. (2) <b>Infrastructure</b> : sewage treatment (3) <b>Aging society</b> : biotechnology industry, pharmaceutical Industry, long term caring Industry (4) <b>Community and Inclusive Finance</b> : education, micro finance. (5) <b>Water Resources</b> : water supply, water treatment	V	V	V	V	V	V	<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>

(4) Screening/exclusion policy

RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure	
			Equity	Corporate bonds	Government bonds	Property	Loan		Others (Infrastructure, private equity and etc.)
<b>Exclusionary screening</b>	Investment and Lending Exclusion Policy	(1) Controversial industries: controversial weapons, pornography industry (2) Controversial behaviors: Entities have disputes over critical environmental, social, moral, or legal disputes.	V	V			V		<a href="#">Investment and Lending Exclusion Policy</a>



RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure
			Equity	Corporate bonds	Government bonds	Property	Loan	
		(3) Controversial countries: violate the human rights or having major disputes over human rights.			V			
	Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Guideline	(1) Money Laundering (2) Financing of Terrorism	V	V	V	V	V	<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>
	Environmental, Social, and Governance (ESG) Rules for Corporate Loans	(1) Established exclusion lists, including: Coal-related industries, Coal-fired/nuclear power generation, Upstream mining of oil and natural gas, Mining, Controversial weapons, Human rights violations, Pornography, Tobacco, Gambling, Logging in tropical rain forests, Gillnet production and gillnetting, etc.					V	<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>

(5) Engagement policy and(Proxy) voting policy

RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure
			Equity	Corporate bonds	Government bonds	Property	Loan	
Corporate engagement and shareholder action	Cathay Financial Holdings Engagement Policy	(1) Corporate governance (2) Climate change (3) Other environmental and social issues	V					➤ <a href="#">Cathay Financial Holdings Engagement Policy</a>
	Cathay Life Insurance Co., Ltd. — Stewardship Principles (Including Voting Policy)	(1) Environment: pollution (2) Social: violation of human rights, and deprivation of labor rights (3) Corporate governance: false financial statements and improper compensation of directors and supervisor	V					➤ <a href="#">Cathay Life Insurance 's Stewardship Compliance Statement</a> ➤ <a href="#">2021 Cathay Life Insurance Responsible Investment and Stewardship Report</a>
	Working with global initiatives (ex: AIGCC, CDP Non-Disclosure Campaign, Climate Action 100+, Ceres Valuing Water Finance Task Force, Asian Utilities)	(1) Climate change (2) Water (3) Forest	V					<a href="#">Cathay FHC 2021 Corporate Sustainability Report</a>



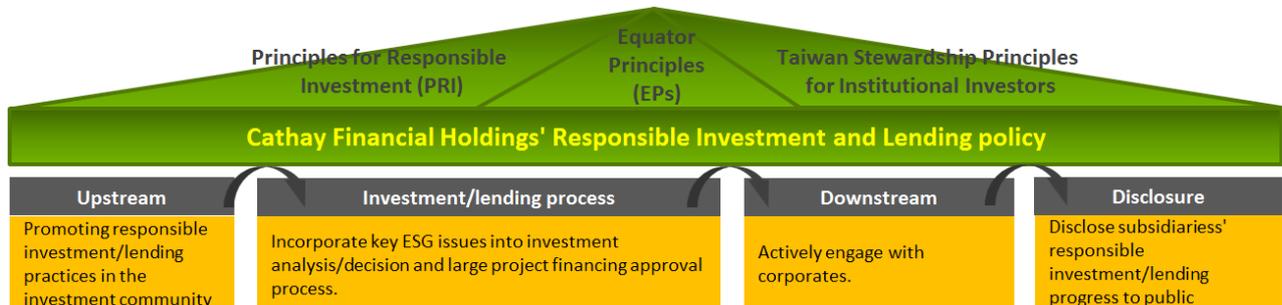
RI Practice	Guidelines or related policies	ESG factors we considered	The asset classes covered					Public disclosure
			Equity	Corporate bonds	Government bonds	Property	Loan	
	Engagement Program, CDP SBT Campaign)							



## Overall Responsible Investment approach

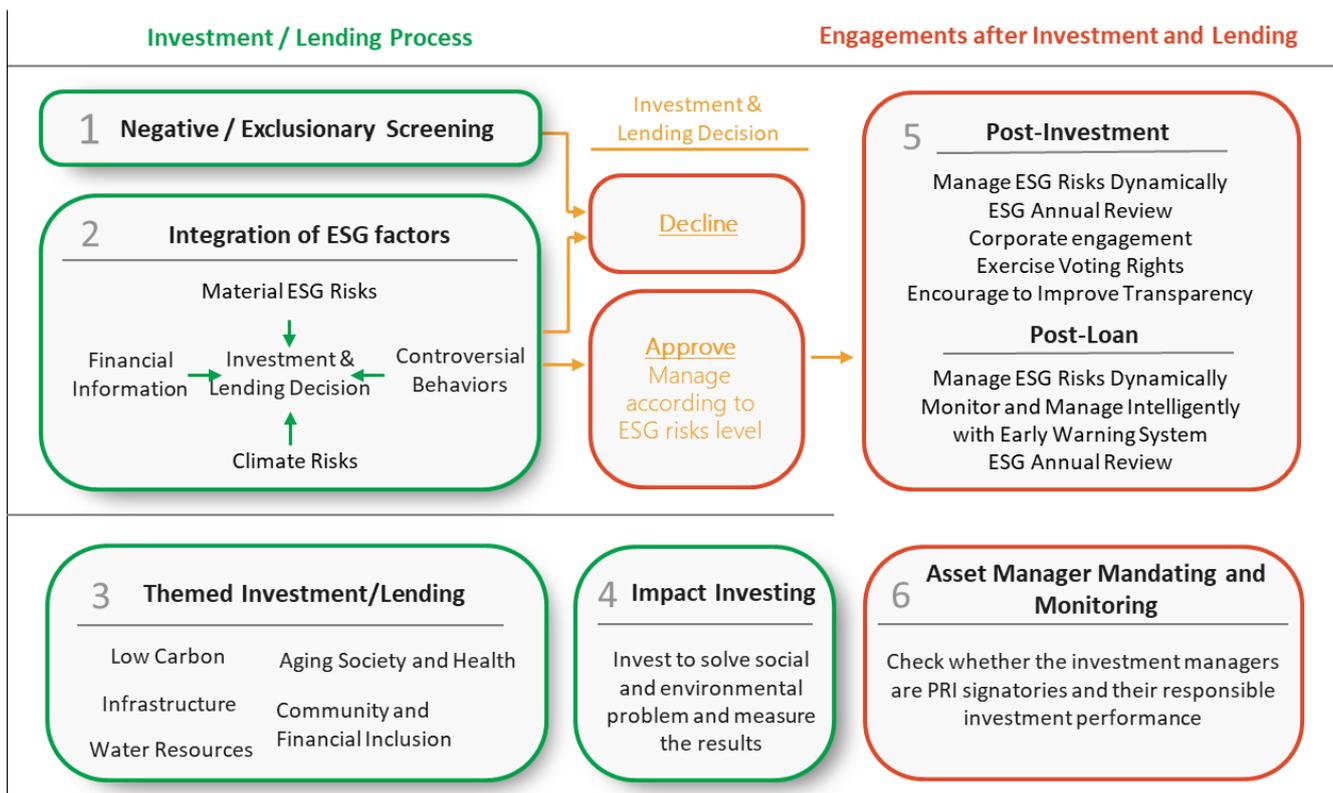
### (1) Cathay FHC Responsible Investment Management Framework and Policy

Cathay FHC set our Responsible Investment and Lending Policy with detailed guidelines referring to the Principles for Responsible Investment (PRI), the Equator Principles (EPs) and Taiwan Stewardship Principles for Institutional Investors. This serves as foundation for our subsidiaries to formulate their own related policies and regulations.



Please see the [Cathay Financial Holdings Responsible Investment and Lending Policy](#) for details.

### (2) Cathay FHC's responsible investment and lending framework



### (3) Responsible Investment/Lending Teams

Cathay fully recognized the impact financial industry can bring through responsible investment/lending. Cathay has established a Responsible Investment Working Group in 2014, which supervises Cathay FHC's responsible investment strategies and sets up policies. Cathay Life and Cathay SITE have also respectively established their Responsible Investment Task Force, which comprises the front/mid/back-offices of the investment team. The task force continuously learns the best international practices, trends and methodologies to establish action plans to refine and improve the ESG integration process. Cathay Life has established responsible investment department to further improve the responsible investment management.

The Working Group's responsibilities include:



1. Research on international trends and methodologies
2. Research on ESG issues
3. Exchanges experience with global peers on related issues
4. Refine and improve the ESG integration process
5. Establish specific implementation plans
6. Plan for training programs
7. Actively engage investees

CUB established the Sustainable Finance Loan Management Section in 2016, which is responsible for reviewing EPs-related cases, and renamed it to the Sustainable Finance Section in 2017. The Section is now the dedicated unit in charge of promoting corporate sustainability and ESG risks management within the bank. Its responsibility includes:

- Set management guidelines regarding the policies and standard procedures related to the Equator Principles.
- Review the environmental and social impacts of EP-related projects and provide advice and consultation.
- On-going monitoring, post-loan management and information management and analysis.
- Hold internal trainings, communications, process tracking, and information disclosure.
- Monitoring Industry ESG risks and client behavior.

Cathay Responsible Investment Working Group		
The Responsible Investment Working Group is led by Cathay FHC's Chief Investment Officer. Its 7 members are executive managers in the investment departments of Cathay's subsidiaries.		
Cathay Life	Cathay SITE	CUB
47 team members 3 dedicated employees	12 team members 2 dedicated employee	Dedicated Team of the Sustainable Finance Section

Reference: [Cathay FHC 2021 Corporate Sustainability Report \(P. 31\)](#) · [Cathay ESG Integration Report \(p.23, 34\)](#)

**(4) Provide Teams with ESG Analysis Tools and Build a Comprehensive ESG Environment**

Sufficient ESG information and data is the basis for strong ESG management. Cathay thus purchased access to several international ESG databases to provide teams with comprehensive ESG data and analysis information, and created related tools to provide teams with a comprehensive ESG investment environment.

**(5) Delivering ESG Training to Strengthen Capability of ESG Risks Management**

Cathay is active in its exchanges with external industrial, governmental and academic institutions and invited foreign experts to bring ESG analysis education and training at least twice a year for investment team to learn global trends and RI practices. In addition, we also provided training materials for EPs project financing management regulations and ESG Regulations for Corporate Loans, which are updated on management demand. In 2021, a total of 2502 employees from Cathay FHC, Cathay Life, CUB, Cathay SITE, and Cathay Century participated in Cathay's courses as well as external conferences; the average training hours per participant was 1.13 hours.



## Responsible Investment Approach for Different Assets

### Listed equity and Corporate Bonds

- **Negative/exclusionary screening**

**Our further actions in 2021:**

- (1) Cathay Life included Coal-related industries, Oil and Gas, Construction materials industry, Aluminum industry, Steel industry, Aviation industry into sensitive industries.

Cathay FHC established its Investment/lending exclusion policy to monitor following items:

**“Exclusion List”**

1. Controversial industries: controversial weapons, pornography industry)
2. Controversial countries: violate the human rights or having major disputes over human rights
3. Controversial behaviors

**“Focus Areas”** (Cathay FHC clearly defined the companies list of “Focus Areas” and “Exclusion List” by the revenue)

- Controversial industries: controversial weapons, pornography industry)

The policy is regularly reviewed by the responsible investment working group. Please see [Cathay Financial Holdings Investment and Lending Exclusion Policy](#) for details

Cathay Life established its 《Investment Management Principles for Sensitive Industries》 and identified sensitive industries. If a company belongs to a sensitive industry and involve high environmental, social and moral risks that lead to negative social impact, it shall be placed on the exclusion list.

List of industries/business for advanced management

Cathay Life Sensitive industries	Cathay United Bank Exclusion list	Cathay Century Sensitive industries	Cathay Securities Companies that do not comply with sustainable development (Note)	Cathay SITE Domestic exclusion list
<ul style="list-style-type: none"> <li>● Controversial weapons</li> <li>● Pornography</li> <li>● Coal-related industries (coal-fired power generation, coal mining, coal railway transportation, and coal ancillary services)</li> <li>● Gambling industry</li> <li>● Palm oil and lumbering industry</li> <li>● Oil and Gas (Includes integrated oil and gas, oil &amp; gas exploration &amp; production and industrial gases, etc.)</li> <li>● Construction materials industry</li> <li>● Aluminum industry</li> <li>● Steel industry</li> <li>● Aviation industry</li> </ul>	<ul style="list-style-type: none"> <li>● Controversial weapons</li> <li>● Human rights violations</li> <li>● Pornography</li> <li>● Mining</li> <li>● Coal-fired/nuclear power generation</li> <li>● Coal-related industries</li> <li>● Upstream mining of oil and natural gas</li> <li>● Tobacco industries</li> <li>● Gambling</li> <li>● Logging in tropical rain forests</li> <li>● Gillnet production and gillnetting</li> </ul>	<ul style="list-style-type: none"> <li>● Tobacco</li> <li>● Gambling</li> <li>● Pornography</li> <li>● Nuclear proliferation</li> <li>● biochemical weapons</li> <li>● Ammunition and Land Mines</li> <li>● Manufacturing</li> <li>● Logging in tropical rain forests</li> <li>● Coal Mining</li> </ul>	<ul style="list-style-type: none"> <li>● Arms industry</li> <li>● Pornography industry</li> <li>● Logging in tropical rain forests</li> <li>● Gillnet fishing industry</li> <li>● Environmental toxin industry</li> <li>● Radioactive material industry</li> <li>● Tobacco manufacturing industry</li> <li>● Friable asbestos fiber industry</li> <li>● Gaming industry</li> </ul>	<ul style="list-style-type: none"> <li>● Gambling</li> <li>● Arms trade</li> <li>● Tobacco, alcohol, and drugs</li> <li>● Human rights violations</li> <li>● Violation of labor regulations</li> <li>● Child labor</li> <li>● Pornography industry</li> </ul>



Reference: [Cathay FHC 2021 Corporate Sustainability Report \(P.34\)](#)

## ● Sector-specific RI guidelines

### Our further actions in 2021:

- (1) Cathay Life included Coal-related industries, Oil and Gas, Construction materials industry, Aluminum industry, Steel industry, Aviation industry into sensitive industries.

### “Focus Areas” (Defined according to [Cathay Financial Holdings Investment and Lending Exclusion Policy](#))

Cathay FHC has defined the industry of “Focus Areas” which includes controversial weapons and pornography industry. During the investment/lending process, we evaluate the companies’ risks if they meet the criteria of “Focus Areas” but not in the “Exclusion List”.

Cathay Life established 《Investment Management Principles for Sensitive Industries》 and identified sensitive industries.

- (1) If a company is classified into a sensitive industry and involve high environmental, social and moral risks that lead to negative social impacts, it shall be placed on the exclusion list.
- (2) If a company is classified into a sensitive industry and has a medium-high level of impact on the environment and society, it shall be placed on the watchlist.

Cathay’s primary subsidiaries have all compiled a list of industries/business of concern to strengthen their management. Please refer to the List of industries/business for advanced management mentioned before.

Reference: [Cathay Life 2021 Responsible Investment and Stewardship Report](#) 、 [Cathay FHC 2021 Corporate Sustainability Report \(P.32\)](#)

## ● Integration of ESG factors

### Summary results in 2021:

1. Cathay Life has reviewed all listed equity and fixed income (non-corporate bonds & corporate bonds) and 288 cases with potential risks have been reviewed through the ESG review procedure. Furthermore, 11 investment targets were excluded from investment buylist after considering their fundamentals and ESG performance.
2. Cathay United Bank reviewed the potential ESG risk of its investment positions in equity, corporate bonds, and non-corporate bonds in 2021. Continued monitoring will be conducted for 37 cases.
3. The total investment carbon footprint is 11million CO<sub>2</sub>e in 2021 and 11% lower than 2020.
4. The investment weighted average carbon footprint is 248 tCO<sub>2</sub>e/\$ m revenue in 2021 and 11% lower than 2020.

Cathay believes that ESG can create long-term value. The ESG factors considered by Cathay FHC are as following:

1. The companies’ controversial behavior
2. Material ESG issues include 3 pillars, 10 themes and 37 ESG key issues, including: GHG emission, human capital development, human right, board composition, data security and other ESG factors.

### Cathay Life ESG risk review mechanism

Cathay Life is the first insurance company in Taiwan to establish ESG Risk Review Procedures In order to lower the overall risks of investment portfolios.

When investing in listed equity and fixed income, we assess the financial and non-financial performances of the investee companies, and subject to comply-or-explain and escalation process for further actions.

Investment teams in Cathay Life have to include ESG assessment in their stock research reports. 1,662 reports have been done in 2021.



- (1) Assesses ESG performance prudentially to build the investment buylist
  1. When adding a new investment target in our buylist, investment teams must check if the target is included in the exclusion list or watchlist. Targets on the exclusion list shall not be accepted in our investment buylist.
  2. If a target belongs to the watchlist, further reports that evaluate its capabilities of ESG risk management shall be provided and the internal escalation process shall be conducted before adding the target as a new investee.
  3. Furthermore, the new investee company shall be continuously observed and followed up on its ESG performance in order to avoid ESG risks.
  
- (2) Reviewing the ESG performances of investment positions on a periodic and ad hoc basis
  1. Investment teams monitor the changes in the ESG performance of existing investment targets at any time, utilizing data from external professional ESG research institutions.
  2. When an investment target declines in ESG performance and is placed on the watchlist, investment teams must immediately provide an evaluation report and take appropriate risk management measures (e.g., continuing to observe and follow up on developments, reducing position size, or holding current position).
  3. Furthermore, we conduct a comprehensive ESG review of existing investment targets every September.
  4. In 2021, a total of 288 stock and bond positions were reviewed.



Please see [Cathay Life 2021 Responsible Investment and Stewardship Report](#)

Cathay United Bank, Cathay Century Insurance and Cathay SITE also integrate ESG factors into investment process. Summarize below:

Subsidiary	Summary
Cathay United Bank	<ul style="list-style-type: none"> <li>● Established Environmental, Social, and Governance (ESG) Rules for Corporate Loans</li> <li>● CUB reviews investment ESG risks with reference to internal ESG Rating System and international ESG rating database.</li> <li>● Cathay United Bank reviewed the potential ESG risk of its investment positions in equity, corporate bonds, and non-corporate bonds in 2021. Continued monitoring will be conducted for 37 cases.</li> </ul>
Cathay Century Insurance	<ul style="list-style-type: none"> <li>● Cathay Century Insurance clearly stipulates in the "Cathay Century Investment Management Process" and "Cathay Century Investment Policy" that the PRI must be taken into consideration when engaging in capital utilization.</li> <li>● Evaluate non-financial factors with reference to international ESG rating database to integrate ESG into investment process.</li> </ul>
Cathay SITE	<ul style="list-style-type: none"> <li>● Cathay SITE utilizes international ESG database to integrate ESG into investment analysis, decision, execution and review.</li> <li>● Cathay integrate multiple international ESG data resources and Taiwan Corporate Governance Evaluation System into existing information system to build the ESG information platform. Every investment analyst could search the ESG information</li> </ul>



	<p>of companies.</p> <ul style="list-style-type: none"> <li>• Cathay SITE continuously established and integrated the ESG database that can be used to produce analysis reports on the current ESG status of mutual funds and discretionary investment portfolios managed by Cathay SITE. With the update of the database, managers can monitor the current ESG status of the overall investment portfolios at any time, including the ESG ratings of held shares, changes in ratings, any serious disputes related to shareholding.</li> </ul>
--	---

Please see: [Cathay ESG Integration Report](#) (p.43)

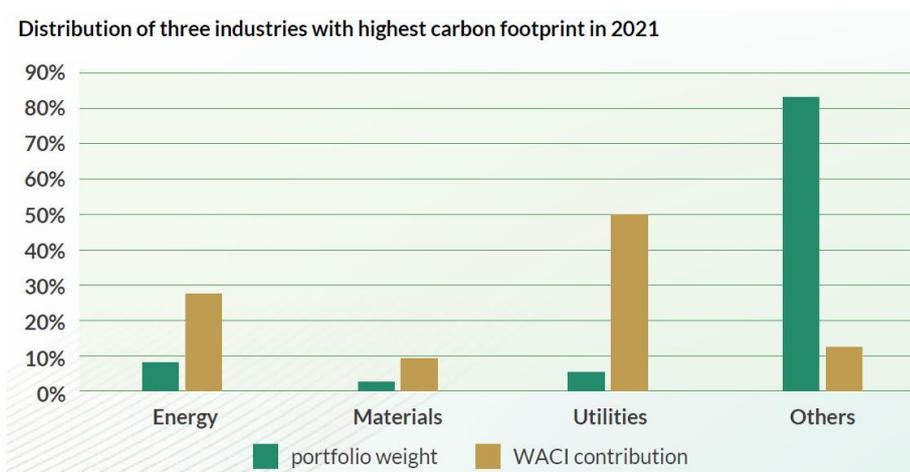
### Strengthen the climate management and transition to zero carbon

Cathay is actively promoting the zero carbon transformation of financial assets for better climate risk management of investment positions. Cathay follow the TCFD recommendation, conducting climate risk scenario analysis, and becoming the first financial institution in Taiwan to calculate the investment carbon footprint in 2018. Since 2020, Cathay has been using the methodology of the Partnership for Carbon Accounting Financials (PCAF) to calculate investment carbon footprint, so that we could better track and manage them. The total investment carbon footprint is 11million CO2e in 2021 and 11% lower than 2020.

Cathay has strengthened the management of climate factors in its integrated ESG management mechanism, and has enhanced risk assessment and review of sensitive industries. As a leader of climate engagement in Taiwan, Cathay engages investees in the hopes that they will commit to climate goals and strengthen their climate management. We further established the transformative goal of zero carbon for financial assets according by officially committing Science-Based Targets (SBT) in 2021 to comply with the Paris Agreement.

An analysis of the carbon footprint of Cathay's investment portfolio shows that the top three industries in terms of carbon emissions contributions—energy, materials, and utilities—account for less than 18% of the overall position, but over 85% of the investment portfolio's carbon footprint. Cathay's climate actions correspond to this situation. For example, Cathay Life listed coal-power plants that are not actively transitioning to renewable energy as exclusion list, and also participated in the Asian Utilities Engagement Program to encourage companies to implement carbon reduction mechanisms, so as to achieve the net zero emissions scenario of the Paris Agreement.

Distribution of three industries with highest carbon footprint in 2021





Carbon footprint of investment portfolios in 2020-2021

		unit	Proprietary Assets		Cathay SITE (Asset Manager)	
			2021	2020	2021	2020
Absolute Emissions	Equity	tCO2e	1,059,599	1,025,288	311,296	230,101
	Bond	tCO2e	10,207,824	11,682,803	961,146	593,907
	Equity+Bond	tCO2e	11,267,423	12,708,091	1,272,443	824,008
WACI	Equity	tCO2e/\$ m revenue	149	139	149	158
	Bond	tCO2e/\$ m revenue	268	304	358	369
	Equity+Bond	tCO2e/\$ m revenue	248	278	241	276

Sectoral and regional carbon footprint of investment portfolios in 2021

	unit	Proprietary Assets		Cathay SITE (Asset Manager)	
		Absolute Emissions	WACI	Absolute Emissions	WACI
		tCO2e	tCO2e/\$ m revenue	tCO2e	tCO2e/\$ m revenue
Sectoral	Energy	4,685,104	64	142,767	36
	Material	1,631,457	27	98,620	29
	Utilities	3,569,384	120	66,544	38
Regional	Asia-Pacific	5,195,475	92	568,015	104
	America	4,545,499	119	363,811	87
	Europe	1,121,929	16	227,992	15

Notes for the two carbon footprint sheet:

Note 1: Total carbon emissions is calculated according to PCAF methodology.

Note 2: Weighted average carbon intensity (WACI) is calculated based on the method recommended by the TCFD.

Note 3: The scope of proprietary assets includes Cathay Life, Cathay United Bank, Cathay Century and Cathay Securities.

Note 4: Assets managed by Cathay SITE don't include mandate assets.

Note 5: For investees without carbon emission data, Cathay estimates carbon emissions using the PCAF methodology. The data coverage of proprietary assets is 100%. The data coverage of assets managed by Cathay SITE is 97% in 2021, and 92% in 2020.

Note 6: The data of sectoral and regional carbon footprint includes equity and bond.



● **Sustainability Themed Investing**

Cathay defined 5 sustainable themed investing: Low Carbon, Infrastructure, Aging Society and Health, Community and Inclusive Finance and Water Resources in order to invest in sustainable targets. Cathay believes sustainability issues are important to industry development. It's also essential to whole society. We believe we could track industry trends to get long-term return and exercise our core competencies to help toward the sustainable society through themed investing.

Sustainability Themed Investing/Lending	Description	Corresponding SDGs
Low-carbon	<ul style="list-style-type: none"> <li>➤ Cathay FHC participated in the Low Carbon Investment Registry (LCI Registry) campaign launched by the Global Investor Coalition on Climate Change (GIC) in 2014.</li> <li>➤ Cathay defined low-carbon industries in 2017, which includes               <ol style="list-style-type: none"> <li>1. energy (excluding nuclear power and fossil fuel)</li> <li>2. architecture</li> <li>3. waste recycling</li> <li>4. transport</li> <li>5. high efficiency industry</li> <li>6. financial products (e.g., green bonds).</li> </ol> </li> </ul>	8,9,11,13
infrastructure	<ul style="list-style-type: none"> <li>➤ Cathay defined infrastructure related industries according to relevant government rules, including:               <ol style="list-style-type: none"> <li>1. Transportation</li> <li>2. Public facilities</li> <li>3. social housing</li> <li>4. environmental remediation facilities.</li> </ol> </li> </ul>	8,9,11
Aging society and health	<ul style="list-style-type: none"> <li>➤ Cathay defines the aging society and health industries in reference to the definitions developed by Taiwan National Development Council and PRI. This include               <ol style="list-style-type: none"> <li>1. related services</li> <li>2. related products</li> <li>3. related facilities.</li> </ol> </li> </ul>	3
Community and inclusive finance	<ul style="list-style-type: none"> <li>➤ Cathay established the scope of the Community and Financial Inclusion Industry after referencing PRI definitions of related industries, which includes:               <ol style="list-style-type: none"> <li>1. Education</li> <li>2. micro finance industries</li> </ol> </li> </ul>	1,4,8,9
Water Resource	<ul style="list-style-type: none"> <li>➤ Cathay defined water resources industries including,               <ol style="list-style-type: none"> <li>1. Water supply</li> <li>2. Water treatment</li> </ol> </li> </ul>	6,9



Unit : NT\$ billion	2018		2019		2020		2021	
	Investment	Loan	Investment	Loan	Investment	Loan	Investment	Loan
Low Carbon	132.7	18.3	142.5	22.7	174.8	25.2	207.6	31.4
● Renewable Energy	11.4	12.3	11.1	10.0	11.9	11.4	23.5	17.2
● Architecture	77.7	0.4	79.2	7.8	74.6	3.2	76.7	4.4
● Waste Recycling	4.6	2.2	3.4	1.9	4.2	3.5	5.0	4.8
● Transportation	24.3	3.3	31.4	2.8	54.7	7.0	70.7	4.0
● Energy Saving Industry	8.7	0.1	6.6	0.1	15.1	0.2	12.1	0.9
● Green Bond	5.9	0.0	10.8	0.0	14.3	0.0	19.6	0.0
Infrastructure	551.0	40.5	603.1	55.5	662.3	66.9	737.7	71.1
● Transportation Facilities	30.9	6.2	40.2	4.8	52.3	5.3	60.5	6.7
● Facilities of Public Utilities	462.5	28.9	493.3	40.3	526.4	43.4	586.3	44.7
● Social Housing and Elderly Residence Projects	0.0	3.3	0.0	8.3	0.0	15.2	0.0	14.9
● Environmental Remediation Facilities	4.6	2.2	3.4	1.9	3.4	3.1	4.8	4.8
● Infrastructure Construction and Software	53.0	0.0	66.2	0.1	80.2	0.0	86.1	0.0
Aging Society and Health	344.7	13.3	404.7	10.9	401.4	32.6	411.9	35.2
● Health Service	70.1	3.0	62.5	1.8	115.3	2.6	112.3	3.0
● Life Supporting Service	0.0	0.1	0.0	0.2	0.0	0.2	0.0	0.2
● Financial Management	132.3	0.2	163.4	0.1	113.5	0.1	123.4	0.1
● Sports Service	0.1	2.0	0.1	1.8	0.8	1.8	0.0	2.9
● Manufacturing of Pharmaceuticals and Health Product	99.4	0.5	115.5	1.1	119.4	2.7	129.2	3.7
● Medical and Rehabilitation Equipment	28.9	3.5	28.3	1.4	32.6	3.4	26.7	1.9
● Sales of Pharmaceutical and Medical Goods	6.3	2.1	29.5	2.1	9.7	2.7	8.6	3.3
● Sporting Goods	7.5	1.9	5.5	2.3	10.1	3.9	11.7	5.2
● Facilities Supply	0.0	0.0	0.0	0.0	0.0	15.3	0.0	14.9
Community and Inclusive Finance	-	-	5.2	4.0	7.8	3.9	3.7	4.5
● Micro Finance	-	-	4.4	0.0	4.5	0.0	3.4	1.1
● Education	-	-	0.8	4.0	3.3	3.9	0.3	3.3
Water Resource	-	-	-	-	7.2	0.9	7.8	0.9

Note : 65 loan were included in 2021 Community and Inclusive Finance Themed Lending

Reference: [Cathay FHC 2021 Corporate Sustainability Report \(P.34, 112\)](#)

## ● Corporate engagement and shareholder action

### Summary in 2021:

- (1) Actively participates in [AIGCC](#) activities
  - Paris Aligned Investment Working Group
  - Engagement & Policy Working Group
  - Physical Risks & Resilience Working Group
  - Cathay FHC and Cathay Life participated in the Asian Utilities Engagement Program launched by the AIGCC. A company engaged by Cathay Life have committed to phasing out their coal-fired power generation assets before the end of 2040.
- (2) Actively participates in [Climate Action 100+](#) initiative (CA 100+)
  - Proactively communicates to all three target companies in Taiwan, which have all committed to net-zero or carbon neutral.
  - Ms. Sophia Cheng, Chief Investment Officer of Cathay Financial Holdings, has been one of the members of CA 100+ Asia Advisory Group since 2018. She actively provides constructive feedback



to help to develop effective communication with CA100+ focus companies and investors.

- (3) Participates Ceres Valuing Water Finance Task Force as the only financial institution in Taiwan participating the initiative.
- (4) Participating CDP Non-Disclosure Campaign and achieve satisfactory progress.
- (5) Participating CDP Science-Based Targets Campaign. As of the end of 2021, the campaign has successfully encouraged 79 companies worldwide with approximately 140 million metric tons of carbon emissions commit to the SBT.
- (6) Cathay Securities began working with Cathay Futures and National Taipei University in 2020 to build the first professional ESG analysis team in Cathay Futures and provide ESG analysis service to institutional investors. As of December 2021, the team has completed 200 ESG research reports on individual stocks.
- (7) We co-hosted Cathay Sustainable Finance and Climate Change Summit with TWSE. Enterprises that registered accounted for 76% of the total market value of TWSE and 51% of Taiwan's total carbon emissions in 2021. Over 1,000 people were online at the same time and over 240 directors, supervisors and corporate governance officers participated in the forum.
- (8) Cathay Life Insurance actively votes in shareholder meetings and supports climate resolutions aligned with the carbon reduction goals of Paris Agreement. In 2021, Cathay Life supported 100% change-related resolutions.
- (9) Recognition
  - Cathay has gained international recognition for our efforts over the years. The Investor Agenda announced the Investor Climate Action Plans (ICAP) in 2021, and Cathay FHC was the only asset owner in Asia to be included in the world's top ten best practice for our corporate engagement and policy advocacy performance.
  - Cathay Life and CUB were the only insurance company and bank selected as part of Taiwan Stock Exchange Corporation's "Recommendations for Disclosure Based on Stewardship Principles for Institutional Investors and Case Studies of Companies with Superior Disclosure" in 2021.
  - Cathay SITE received the 2020 Benchmark Stewardship Award.

#### **- Cathay FHC Engagement Policy**

Corporate engagement and shareholder action enables Cathay to have in-depth assessment on investees/borrowers' management, strategy, operation & corporate governance. It also strengthens our internal research and analysis to be one of the references when making voting decisions and considering the continuance of business partnership. We could also share our ESG opinions to investees/borrowers to enhance their business value or lower our investment/lending risks.

Please see [Cathay Financial Holdings Engagement Policy](#) for details.

#### **- Cathay FHC Engagement Strategy**

We define two main strategies to deepen the engagement with investees.

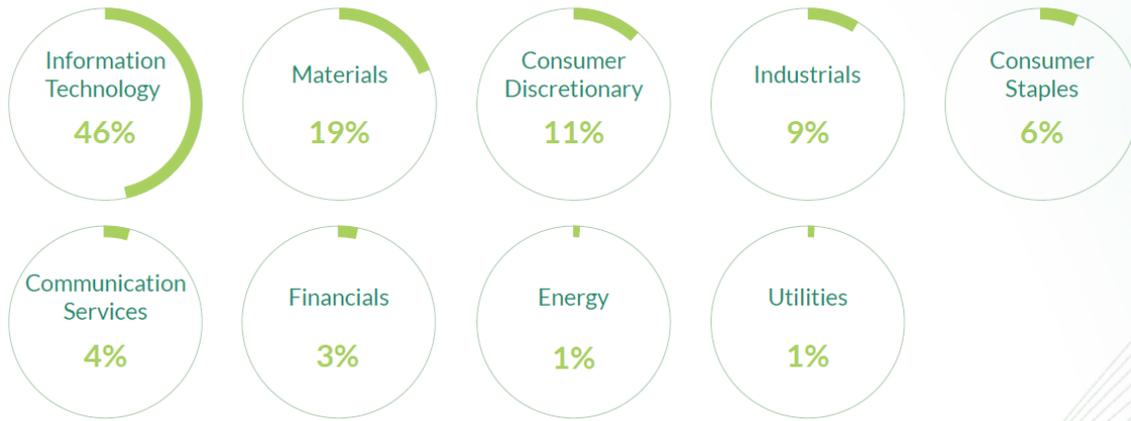
1. Climate Change
2. ESG

#### **-2021 Direct Engagement Results**

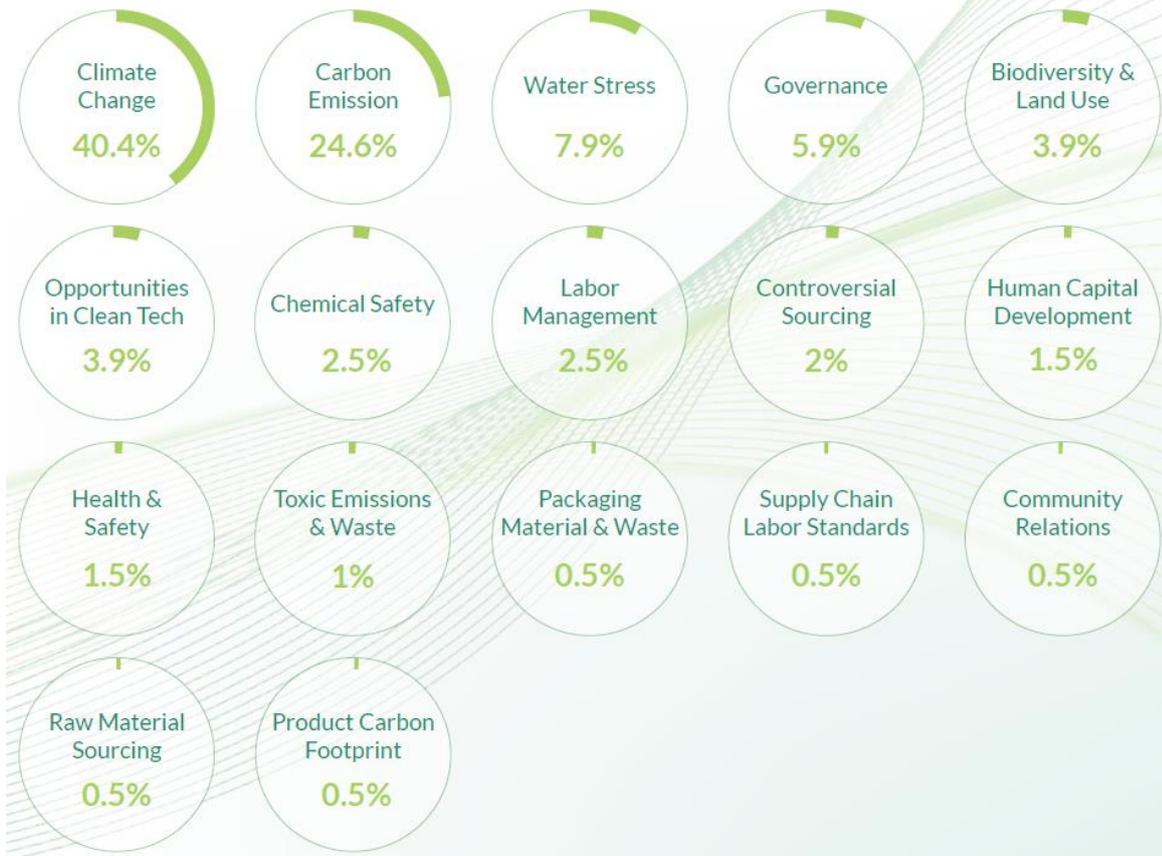
In 2021, Cathay Life engaged 80 companies directly on 14 material ESG issues in 160 cases through telephone meetings and in-person meetings. The main targets for engagement were companies in the "information technology" and "raw materials" industries, and the main communication issues were "adaptation to climate change" and "carbon emissions".



### Distribution of direct engagement targets by industry



### Distribution of direct engagement topics



### -Actively participating in climate change initiatives

#### 3. CDP Non-Disclosure Campaign

This is an investor-led engagement initiative with the aim of urging the companies to disclose environmental information on climate change, deforestation and water security. Cathay FHC has been participating in the CDP Non-Disclosure Campaign for three consecutive years since 2017, and is the only one Taiwanese financial institution joining the campaign.

Cathay respectively communicated with these companies by emphasizing the issues such as climate change, deforestation and water security may bring significant impact to the business operation. Cathay also urged the companies to publicly disclose related information and management measures so the investors can assess aforementioned risks.

The success rate of engagement was 25%, which is higher than the global average, after engaging 40 companies in 2021. Cathay has successfully engaged 35 companies since 2017 and 52% of the companies



improved their CDP scores in the following year, which demonstrated the long-term positive impact of successful engagement.

#### **4. Climate Action 100+**

The initiative identified 167 focus companies of high carbon emitters and global investors are collaborating to urge them to address climate change risks and opportunity. Cathay Life and Cathay SITE are the only two Taiwanese financial institutions participating in the Climate Action 100+ initiative since 2017.

We have been respectively engaging with all three Taiwanese focus companies since December 2017. We assess the ESG performance of these companies and their peers, and ESG trends of the industry. And combine ESG research and fundamental research to make the engagement plan. We met the top management of these three companies and have been collaborating with international investors to urge the companies integrate climate risks into business strategy. We also detail the investor expectations on climate reduction and the carbon actions their peers have been taken. Ultimately, we are aiming to urge the companies to reduce the carbon emission align with Paris Agreement.

In addition, Ms. Sophia Cheng, Chief Investment Officer of Cathay Financial Holdings, has been joining CA 100+ Asia Advisory Group since 2018 and providing constructive feedback to help to develop effective communication with CA100+ focus companies and investors.

Cathay help investees understand our engagement goal by leveraging deep ESG study and sharing climate change international trends, in order to encourage them to improve climate change governance and disclosure. All three engaged target companies have all committed to net-zero or carbon neutral.

##### **Case study of individual engagement**

Formosa Petrochemical Corporation (FPCC) is one of CA100+ focus companies. In October 2021, Formosa Plastics Group and FPCC announced “striving to achieve carbon neutrality by 2050”. Cathay FHC appreciates and highly recognizes FPCC’s ambition on carbon reduction.

Cathay has been engaging with FPCC since 2018, which started with introducing the goals of CA100+, the importance of ESG issues, and international trends in responsible investment. This information would help the company understand the CA100+ and why investors request the companies reducing carbon emissions. Cathay also provided an overview of the climate change responding strategies implemented by international oil & gas companies, and invited experts and academia to share their knowledge on biofuel technologies. By adopting a variety of approaches, Cathay hopes to help the company save the time it would have spent conducting research on its own as well as facilitate the implementation of its carbon reduction plans.

Cathay FHC has the dedicated team being responsible for conducting frequent communications with FPCC via telephone or e-mail, and also has numerous in-person or online meetings with the company every year. Furthermore, Cathay works with several international institutional investors to urge the company to take carbon reduction actions according to the Paris Agreement. Cathay's management team attaches great importance to corporate engagement. Mr. Chang-Ken Lee, President of Cathay FHC, personally participated in many engagement meetings and led Sophia Cheng, Chief Investment Officer of Cathay FHC, and senior executives from Cathay Life and Cathay SITE to visit the senior executives at the Group Administration Office at Formosa Plastics Group, as well as the chairperson and president of FPCC. The leaders of Cathay and the company actively explores the feasibility of carbon reduction plans in the engagement meetings.

Led by the Group Administration Office under Formosa Plastics Group and senior executives of FPCC, FPCC has annually disclosed climate-related information in line with the TCFD framework since 2020, including physical/transformation risk management plans and climate risk scenario analysis. The management team at FPCC also looked into the feasibility of many carbon reduction



options, such as biofuel and carbon capture technologies. In October 2021, the Formosa Plastics Group and FPCC announced “striving to achieve carbon neutrality by 2050”.

## **5. The Asia Investor Group on Climate Change (AIGCC)**

Cathay FHC has participated AIGCC since 2016 as the founding member. Sophia Cheng, Chief Investment Officer of Cathay FHC, was appointed Chair of AIGCC in 2018 and a member of Climate Action 100+ Asia Advisory Group in 2019.

Cathay has actively participated in AIGCC activities over the years. Cathay and global investors have jointly signed the Global Investor Statement to Governments on Climate Change to call on governments around the world to take carbon reduction actions in line with the Paris Climate Agreement. Cathay also became part of three AIGCC working groups in 2020: Net Zero Investment, Engagement and Policy, and Physical Risks and Resilience, which will provide recommendations for related topics and study feasible tools and solutions.

Cathay FHC and Cathay Life participated in the Asian Utilities Engagement Program launched by the AIGCC in 2021. The program engages Asian utilities that account for 23% of global carbon emissions, and encourages companies to implement carbon reduction mechanisms to achieve net zero emissions as described in the Paris Agreement. A company engaged by Cathay Life have committed to phasing out their coal-fired power generation assets before the end of 2040.

## **6. Ceres Valuing Water Finance Task Force**

Climate change has indirectly changed the water cycle and precipitation patterns in recent years. Taiwan has faced water shortage crises in recent years, which have affected the operations of certain industries that rely heavily on water resources.

Cathay Life and Cathay FHC joined the Ceres Valuing Water Finance Task Force in 2019 as the only participating financial institution in Taiwan. We obtained information on forecasts of global water resources and learned about the risks and opportunities of water resources in different sectors. The participation has helped Cathay ward off related risks and increased investment resilience when faced with challenges in water resources.

### **-Hosting Climate Change Forums to raise the awareness of investees, borrowers, listed companies in Taiwan and government**

#### **Actively engage with various stakeholders to promote Taiwan actions.**

1. Cathay FHC has organized the Taiwan Climate Change Forum for three consecutive years aiming to urge investee companies to take actions against climate impact. We invited, Mr. Al Gore, former U.S. Vice President in 2017 to discuss climate change issues with more than 20 Taiwanese business leaders.

In 2018, we also invited the international organization such as CDP and PwC to share the practices of climate actions in the form of workshops. A total of 86 individuals and 55 companies participated in the event in 2018.

Cathay FHC hosted the 2019 Climate Change Forum in co-organized with TWSE and AIGCC, and we broadened the target audience to all the listed companies besides our investee companies. A total of 154 participants from 91 companies joined the event. More than half of the companies in the FTSE TWSE Taiwan 50 Index took part in the event.

Cathay worked with Taiwan Stock Exchange to incorporate sustainable financial issues and expanded the Summit in 2020. We invited business leaders, chief government officials of competent authorities on climate change, and sustainable finance experts from the academia to jointly discuss trends and practical experience. 293 people from 157 companies attended the event. The listed companies attendees accounted for 70% of the total market value of TWSE and 40% of Taiwan's total carbon emissions.



2. Cathay invited key figures from Taiwan's industry, government, and academia, and also major investors and international experts from America, Europe, and Oceania, sharing the global market and policy trends, and communicating the mindset and experience of corporate's ESG implementation and zero carbon transformation, thereby helping Taiwanese corporates accelerate low carbon transformation and find the development chance in the net-zero future. Enterprises that registered accounted for 76% of the total market value of TWSE and 51% of Taiwan's total carbon emissions in 2021. Over 1,000 people were online at the same time and over 240 directors, supervisors and corporate governance officers participated in the forum.



3. Cathay Securities began working with Cathay Futures and National Taipei University in 2020 to build the first professional ESG analysis team in Cathay Futures and provide ESG analysis service to institutional investors. We utilized the SEED rating framework, which was developed by the Corporate Sustainability Research Team of National Taipei University, to establish the first ESG rating mechanism aligned with international methodologies in Taiwan. It greatly extend the coverage of ESG Rating on Taiwan's listed companies. It provides responsible investors with the latest ESG research reports, and also urges Taiwanese companies to take sustainable development seriously through communicating with rated companies. As of December 2021, the team has organized 30 ESG research presentations for corporate customers, and jointly completed 200 ESG research reports on individual stocks together with the team of National Taipei University. We selected individual stocks with a sustainability rating of BBB or better for inclusion in the concept-based stock selection area of Cathay Securities' stock selection app, thereby providing general investors with a channel for selecting good ESG stocks, in order to expand the influence of this ESG research service. This industry-academia collaboration not only helps Taiwanese companies strengthen their ESG disclosures and management, but also hopes that companies will become more responsible in improving their ESG performance through the disclosure of companies with a good ESG rating, and thereby make the world a better place.

Note: SEED stands for social, economic, and environmental disclosure.

## - Implementation of Stewardship Code

### ➤ Update in 2021:

1. Cathay Life and CUB were the only insurance company and bank selected as part of Taiwan Stock Exchange Corporation's "Recommendations for Disclosure Based on Stewardship Principles for Institutional Investors and Case Studies of Companies with Superior Disclosure" in 2021.
  2. In 2021, Cathay Life supported 100% change-related resolutions.
- Five subsidiaries (Cathay Life, Cathay Century, CUB, Cathay SITE and Cathay Securities) are signatories to the Taiwan Stewardship Principles for Institutional Investors. In particular, Cathay Life has published the first stewardship report among Taiwanese financial institutions. Furthermore, it also shared its practical experience in industry and investment to help the government establish the responsible investment framework. Cathay Life participated in multiple forums to urge other peers to implement and integrate PRI in the investment process.



- In 2021, Cathay attended a total of 1,669 shareholders' meetings and voted on 9,173 proposals. Cathay voted in favor of 8,914 proposals, against 116 proposals, and abstained from voting on 113 proposals (Note).
- Cathay also communicates with the management team of investee companies in the forms of telephone conferences, forums, investor seminars, or attending shareholders' meetings. In 2021, a total of 5,750 delegates from Cathay Life, CUB, Cathay Century and Cathay SITE visited 1,798 companies.

**Stewardship Compliance Statements, please see:**

[Cathay Life](#)

[Cathay Century](#) (Chinese only)

[Cathay SITE](#) (Chinese only)

[Cathay Securities](#) (Chinese only)

[Cathay United Bank](#) (Chinese only)

**Stewardship Report, please see:**

- [Cathay Life Proxy Voting Report](#)
- [Cathay Century's vote disclosure report](#) (Chinese only)
- [Cathay SITE's Voting Disclosure](#) (Chinese only)
- [Cathay Securities' Voting Disclosure](#) (Chinese only)
- [Cathay United Bank's Voting Disclosure](#) (Chinese only)

## **Voting Policy**

In order to achieve maximum for clients / beneficiaries / shareholders, the Company has established a clear proxy voting policy and be a proactive voter at shareholders' meetings and does not necessarily support proposals made by management.

For example, Cathay Life and Cathay Century evaluated proposals carefully: To show respect for the professionalism of investee companies and to promote its principle, the Company opposes proposals violating the corporate governance of investee companies, such as false financial statement and improper compensation of directors and supervisors, or those having a negative influence on the environment or society at large, such as pollution, violation of human rights, and deprivation of labor rights. Except as otherwise stipulated by law, the Company may abstain from proposals involving the election of directors and supervisors.

Cathay Life Insurance actively votes in shareholder meetings and supports climate resolutions aligned with the carbon reduction goals of Paris Agreement. The aim is to guide the companies to take more concrete climate actions. In 2021, Cathay Life supported 100% change-related resolutions.

Subsidiaries should disclose voting results every year.



Voting results, please see:

- [Cathay Life Proxy Voting Report](#)
- [Cathay Century's vote disclosure report](#) (Chinese only)
- [Cathay SITE's Voting Disclosure](#) (Chinese only)
- [Cathay Securities' Voting Disclosure](#) (Chinese only)
- [Cathay United Bank's Voting Disclosure](#) (Chinese only)



## **Responsible Investment Approach for Different Assets**

### **Government Bonds**

#### **(1) Negative/exclusionary screening**

Cathay FHC identifies the countries on the sanctions lists issued by the UN Security Council to come out our own exclusion list and to exclude the sovereign or government bonds of the countries on the list. Because Cathay believes countries that systematically violate the human rights or having major disputes over human rights will increase the risk of sovereign or government bonds issued by those countries. It is also contrary to international consensus on the promotion of human rights.

The policy is regularly reviewed by the responsible investment working group. Please see [Cathay Financial Holdings Investment and Lending Exclusion Policy](#) for details.

#### **(2) Integration of ESG factors - Risk monitor**

Cathay FHC's Risk Management Department sets country risk limitations in investments and lending.

- For developed countries, the limitation is determined by government fiscal conditions;
- For emerging markets, it is determined by factors including political stability, corruption, literacy rate and age distributions;
- For strategic developing countries (mainly Southeast Asia), we also refer to the EIU's operational risks that covers factors such as social security, political stability, government effectiveness and the labor market.

Cathay refers to the Security Risk Index and Social Stability Index issued by BMI as the indicators for social stability and security. Higher values implies improving stability and government effectiveness.

Please see [Cathay FHC 2021 Corporate Sustainability Report](#) \ [Cathay FHC 2021 Annual Report](#) (Chapter 7-VI)



## **Responsible Investment Approach for Different Assets**

### **Property**

Cathay Life has integrated the Principles for Responsible Investment (PRI) and Principles for Sustainable Insurance (PSI) in our “Real Estate Responsibility Investment and Management Policies”.

Cathay Life continuously enhance the energy efficiency of real estate. We also continuously strengthen competency training so as to properly utilize assets and resources to control investment and operational management risks.

#### **(1) Investing and Building Green Buildings**

- I. Buildings invested by the company shall be constructed in line with green building design principles.
- II. Cathay has begun evaluating and installing solar panels on its own buildings since 2016. The installed capacity is currently over 6,970 kW.
- III. As of 2021, we have a total of 17 green buildings (2 more than in 2020) and 21 green building certificates (5 more than in 2020).

Please see [2021 Cathay Life Sustainability Report](#) for details.



## **Responsible Investment Approach for Different Assets**

### **Corporate Loan**

#### ● **Cathay United Bank**

##### **Exclusion List**

Cathay United Bank has suspended all coal-fired power generation loans since October 2019 to comply with Cathay's Lending Exclusion Policy, and is actively participating in the supervision of industries with high carbon emissions, which has become an international trend. The Bank established the policy of "zero coal-fired power generation loans" in 2021, and set the goal to reduce the credit facility for the coal industry chain to zero by the end of the first quarter of 2027.

Cathay United Bank Exclusion list	<ul style="list-style-type: none"> <li>● Controversial weapons</li> <li>● Human rights violations</li> <li>● Pornography</li> <li>● Mining</li> <li>● Coal-fired/nuclear power generation</li> <li>● Coal-related industries</li> <li>● Upstream mining of oil and natural gas</li> <li>● Tobacco industries</li> <li>● Gambling</li> <li>● Logging in tropical rain forests</li> <li>● Gillnet production and gillnetting</li> </ul>
--------------------------------------	---

##### **Credit Facility Application**

##### **ESG Risk Rating Mechanisms**

Cathay United Bank rigorously monitors the environmental and social impact as well as climate risks derived from loans. We constantly perfect ESG risk management mechanisms; give consideration to climate change, environmental impact, and human rights issues; and have established internal ESG risk rating and management mechanisms.

##### **Sensitive Industries**

Cathay United Bank examines climate risks factors, such as carbon emissions, water consumption, electricity consumption, and waste, and has established risk management mechanisms for industries with high climate risk to assess related environmental and climate risks in greater detail.

##### **Credit Review Assessment**

##### **Risk Evaluation and Mitigation**

Cathay United Bank complies with the Environmental, Social, and Governance (ESG) Rules for Corporate Loans to conduct KYC and review ESG risks for corporate loans. We incorporate ESG factors into credit evaluation and management procedure through risk ratings. We also require post-incident improvements and risk mitigation measures based on the risk levels.

##### **Equator Principles**

Cathay United Bank implements environmental and social risk classification, assessment, review, and post-loan management for applicable transactions in accordance with the Rules Governing Project Finance of Equator Principles. In addition to conducting reviews in compliance with the environmental and social performance standards used by International Finance Corporation, we also reference third-party advisory reports and incorporate the review results into the credit risk review and loan conditions to better manage environmental and social risks of the Equator Principles transactions. Two cases reached Financial Close in accordance with EP regulations for disclosure in 2021.



## Post-Loan Management

### Annual Review and Early Warning

Cathay United Bank implements ESG risk annual review on all corporate borrowers to carefully evaluate the change of ESG loan conditions, compliance status, and ESG ratings for each individual customer. We keep tracking changes in customers' ESG risks and early-warning information for rapid response.

### Themed Lending

Cathay defined five types of themed lending to enhance sustainable lending, make full use of core competencies, and invest in a sustainable future. Please refer to Appendix Table 1 for detailed information.

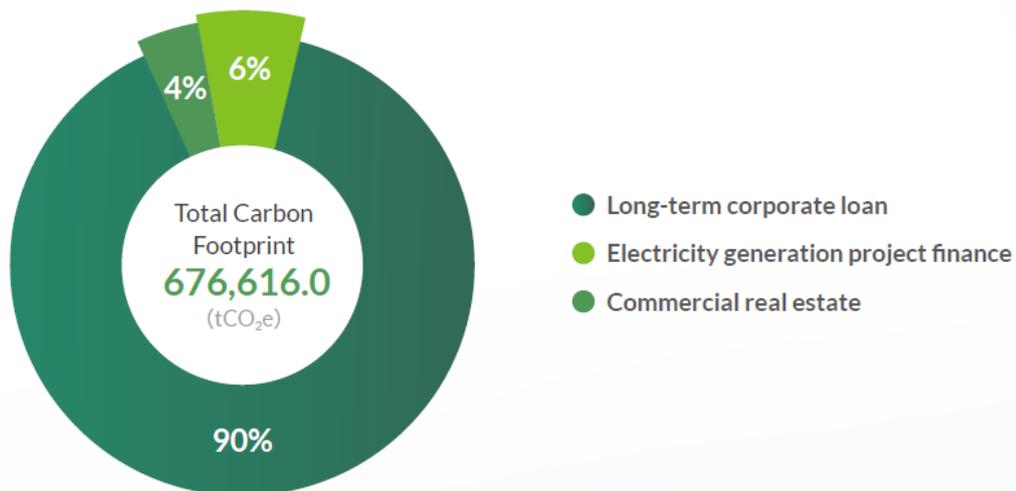
Low Carbon	Water Resource	Infrastructure	Aging Society and Health	Community and Financial Inclusion
NT\$31.4 billion	NT\$0.9 billion	NT\$71.1 billion	NT\$35.2 billion	NT\$4.5 billion

## Tracking and Management of Lending Portfolio's Carbon Footprint

In 2021, Cathay applied the methodology of Partnership for Carbon Accounting Financials (PCAF) and Science-Based Targets Initiative (SBTi) to calculate the lending portfolio's carbon footprint and set the carbon reduction target.

### The lending portfolio's carbon footprint in 2020

#### Corporate Loan Carbon Footprint by assets in 2020



Please see [Cathay FHC 2021 Corporate Sustainability Report \(p.41~42\)](#) for details.



## **Responsible Investment Approach for Different Assets** **Other investments (infrastructure, private equity and etc.)**

- **Infrastructure:**

- Solar power plant**

- Renewable energy is the key of future economies and society. Cathay Life has been exploring the solar power industry.

- We have been jointly investing in Galaxy Energy with AU Optronics since 2014. In 2016, Cathay Life initiated a model of joint venture with solar energy service providers in the form of special projects. Under this model, we have successively formed joint investments in the following companies: Taixu Energy (with Sino-American Silicon Products); Xinritai Co., Ltd. (with Neo Solar Power); and Solar Master Energy (with Power Master Group), thus promoting solar power industrial clusters and setting an example for other companies in the insurance industry.

- Cathay Life and Power Master Group jointly developed and built Yunlin Mailiao Tienji Solar Power Plant in October 2021, creating a symbolic example that "utilizes funds of a life insurance company for renewable energy public constructions" and "activates national land," which creates a triple win-win situation for the government, companies, and local communities. The total investment amount as of the end of 2021 that was approved by the Financial Supervisory Commission beforehand, reported afterwards, or from participation in capital increase reached NT\$4.3 billion, and the installed capacity that completed grid connection exceeded 247.8 MW.

- Water treatment investments**

- Cathay Life has long been concerned with the issues of environmental sustainability.

- Cathay Life is the first insurance company to set up joint ventures with water resource suppliers. We hope that our investments in household wastewater treatment and water resource development can complement local sewage systems and improve the living environment.

- As of the end of 2020, our total investment amounted to US\$ 0.3 billion.

- **PE Fund and Hedge fund:**

- From 2017 onwards, Cathay Life has included ESG into considerations of new transaction counterparties in our PE/HF fund investment selection process.

- **Fund**

- 100% of Cathay Life's fund investment is managed by asset managers which either are PRI signatories or have signed the government stewardship code.

- The following methods are adopted to understand the ESG policies and measures of counterparties or funds that are selected by Cathay Life-invested ETFs or funds and that are in line with Cathay Life's investment philosophy:

- Checking whether counterparties have signed the PRI and local stewardship principles or implemented ESG;
    - Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or institutions for fund management.



### Impact Investing

In 2021, Cathay Life invested NT\$880 million for solutions for social inclusion and education, environmental resource requirements, and medical and quality of life issues.

### Cathay Sustainable Private Equity Fund

Cathay SITE became the first investment trust company in Taiwan approved to set up a subsidiary to issue private equity funds. 100% of the "Cathay Sustainable Private Equity Fund" is invested in key industries of sustainable development in Taiwan, including circular economy (e.g., sewage treatment and waste processing and reuse), renewable energy (e.g., solar energy, geothermal energy, hydropower, and energy storage), as well as the "5 + 2" innovative industries promoted by the government (e.g., Internet of Things, smart machinery, new agriculture, and long-term care). The promised investment totaled NT\$8 billion and the fund has invested NT\$4.8 billion in 2021. It has invested in 4 solar power plants, 1 wind farm, 2 waste disposal plants, and 1 IoT company.

### Impact investing of the Cathay Sustainable Private Equity Fund

Wind power	The Fund signed an agreement with Ørsted in 2020 and jointly obtained 50% shares of the 605MW Greater Changhua Southeast Wind Farm with the Caisse de dépôt et placement du Québec (CDPQ) to take part in the construction of the Wind Farm and provide clean energy to more than 650,000 households in Taiwan. The project is set to provide 1.95 billion kWh of electricity each year.
Solar power	Annual power generation each year: 573 million kWh.
Processing waste resin and waste paint residues.	The maximum monthly processing volume is 300 tons and the maximum annual processing volume is 3,600 tons.
Waste rubber processing	The maximum annual processing volume is 15,000 tons
Oil regeneration	Production of approximately 120,000 tons of steam each year.

Please see [Cathay FHC 2021 Corporate Sustainability Report\(P.34,46,47\)](#) · [Cathay Life 2021 Responsible Investment and Stewardship Report](#)



## Integrating ESG factors into primary subsidiaries

Cathay FHC has integrated RI guidelines and policies into the following major subsidiaries. Cathay FHC has diverse business segments, of which Cathay Life Insurance contributes nearly 80% of net profit. Another major subsidiary, Cathay United Bank, contributes nearly 17% of net profit. Less than 5% of profit comes from other subsidiaries.

(reference: [Cathay FHC Investor Conference Briefing](#) page 6)

RI Practice	Guidelines or related policies	Primary Subsidiaries			
		Cathay Life Insurance	Cathay United Bank	Cathay Century Insurance	Cathay SITE (Asset management)
Overall	Overall risk monitoring	V	V	V	V
	Responsible Investment and Lending Policy	V	V	V	V
Exclusionary screening	Investment and Lending Exclusion Policy	V	V	V	V
	Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Guideline	V	V	V	V
Integration of ESG factors	<b>Asset class-specific RI guidelines</b>				
	ESG risk review procedures	V	V		
	Integrating ESG information into investment systems				V
	Responsible Property Investment and Management Policy	V			
	ESG Principles of Loan	V			
	Environmental, Social, and Governance (ESG) Rules for Corporate Loans		V		
	<b>Sector-specific RI guidelines</b>				
	Investment and Lending Exclusion Policy	V	V	V	V
	Sector-specific RI guidelines of respective subsidiaries:	V	V	V	V
	Exclusion list/ Sensitive industries				
Sustainability themed investing	5 Themed Investing : 1. Low Carbon 2. Infrastructure 3. Aging Society and Health 4. Community and Financial Inclusion 5. Water Resources	V	V	V	V
Corporate engagement and Voting	Cathay Financial Holdings Engagement Policy	V	V	V	V
	Compliance Statement – Stewardship Principles for Institutional Investors (Including Voting Policy)	V	V	V	V
	Working with global initiatives (ex: AIGCC, CDP Non-Disclosure Campaign, Climate Action 100+, Ceres Valuing Water Finance Task Force, Asian Utilities Engagement Program, CDP SBT Campaign)	V			V



## Cathay Life Insurance RI policy on internally/externally managed asset classes

Asset class	Own assets managed internally or by third-parties	RI Policy	% of assets	Note
Listed equity	managed internally	Yes	1~5%	<ol style="list-style-type: none"> <li>1. <u>100% apply Investment and Lending Exclusion Policy.</u></li> <li>2. <u>100% apply Investment Management Principles for Sensitive Industries.</u></li> <li>3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income.</li> <li>4. Cathay FHC also established the <u>engagement policy</u> to improve investee's ESG information disclosure.</li> </ol>
	managed by third-parties	Yes	1~5%	<ol style="list-style-type: none"> <li>1. Mandate assets               <ol style="list-style-type: none"> <li>(1) <u>100% apply Investment and Lending Exclusion Policy.</u></li> <li>(2) <u>100% apply Investment Management Principles for Sensitive Industries.</u></li> <li>(3) Cathay life insurance have taken signing PRI into consideration as an one of evaluation items for mandate partner selection process and ask asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with asset management companies.</li> <li>(4) As of the end of 2020, <u>100%</u> of our listed equity mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or who have follow the <u>government stewardship code</u> in place.</li> </ol> </li> </ol>



				<p>2. Equity Fund &amp; Equity ETF:</p> <p>(1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG;</p> <p>(2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.</p> <table border="1"> <tr> <td></td> <td>Sign the PRI or governmental Stewardship Principles</td> <td>Review the ESG performances of funds or fund management institutions</td> </tr> <tr> <td>Equity Fund</td> <td>100%</td> <td>0%</td> </tr> <tr> <td>Equity ETF</td> <td>72%</td> <td>28%</td> </tr> </table>		Sign the PRI or governmental Stewardship Principles	Review the ESG performances of funds or fund management institutions	Equity Fund	100%	0%	Equity ETF	72%	28%
	Sign the PRI or governmental Stewardship Principles	Review the ESG performances of funds or fund management institutions											
Equity Fund	100%	0%											
Equity ETF	72%	28%											
Fixed income	managed internally	Yes	0~50%	<p>1. <u>100% apply Investment and Lending Exclusion Policy.</u></p> <p>2. <u>100% apply Investment Management Principles for Sensitive Industries.</u></p> <p>3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income.</p>									
	managed by third-parties	Yes	20~50%	<p>1. Mandate assets</p> <p>(1) <u>100% apply Investment and Lending Exclusion Policy.</u></p> <p>(2) <u>100% apply Investment Management Principles for Sensitive Industries.</u></p> <p>(3) As of the end of 2020, <u>100%</u> of our fixed income mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or who have follow the <u>governmental stewardship code</u> in place. Those who have not signed also have related responsible investment actions.</p> <p>2. Bond Fund&amp; Bond ETF:</p> <p>(1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG;</p> <p>(2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.</p>									



					Sign the PRI or governmental Stewardship Principles	Review the ESG performances of funds or fund management institutions
					Bond Fund	100%. 0%
					Bond ETF	99.8% 0.2%
Private equity	managed internally	Yes	1~5%	<ol style="list-style-type: none"> <li><u>100% apply Investment and Lending Exclusion Policy.</u></li> <li><u>100% apply Investment Management Principles for Sensitive Industries.</u></li> </ol>		
	managed by third-parties	Due Diligence	1~5%	<ol style="list-style-type: none"> <li>Mandate assets As of the end of 2020, <b>100%</b> of our private equity fund mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or who have follow the <u>governmental stewardship code</u> in place.</li> <li>Private Equity fund From 2017 onwards, Cathay Life has <u>taken ESG into considerations of new transaction counterparties</u> in our PE fund investment selection process.</li> </ol>		
Infrastructure	managed internally	Yes	below 1%	Cathay mainly adopt the <u>sustainability themed investing</u> approach in this asset class.		
	managed by third-parties	Yes	below 1%			
Property	managed internally	Yes	5~10%	<ol style="list-style-type: none"> <li>Property is <b>100%</b> covered by <u>Responsible Property Investment and Management Policy</u></li> <li>Cathay also adopt the <u>sustainability themed</u> investing approach in this asset class.</li> <li>As a demonstration of our commitment to ecology and environmental protection, for 2016 onwards, architects commissioned by Cathay are required to design buildings invested and developed by Cathay based on green building standards. °</li> </ol>		
	managed by third-parties	Due Diligence	below 1%	<ol style="list-style-type: none"> <li>Mandate assets As of the end of 2020, <b>100%</b> of our REITs mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or who <u>have follow the governmental stewardship code</u> in</li> </ol>		

Reference: [2021 Cathay Life Insurance Responsible Investment and Stewardship Report](#)