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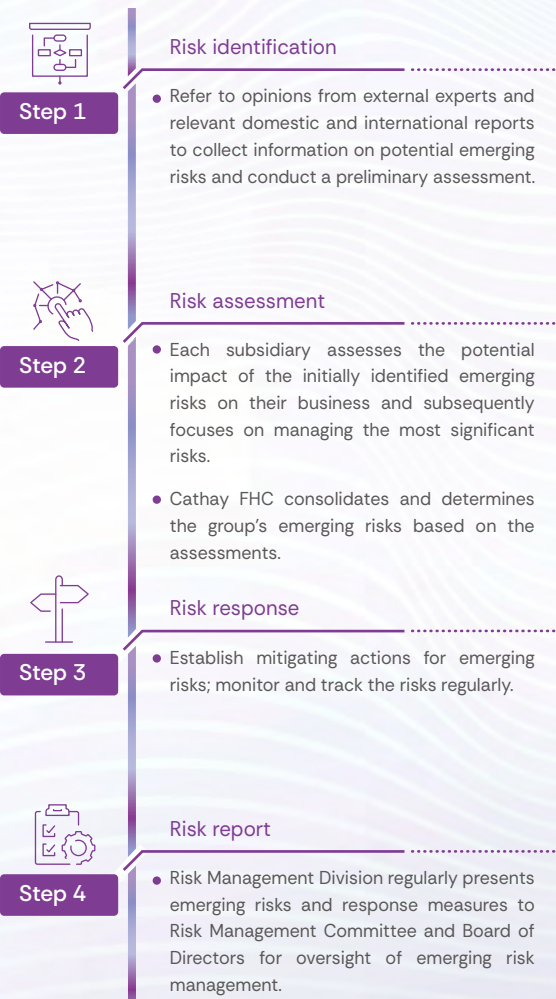
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## 6.2.4 Emerging Risk Management

Cathay FHC analyzes emerging risk factors of concern both domestically and internationally, and collaborating with its subsidiaries to assess potential business impacts and develop corresponding risk management measures. The emerging risks identified this year are: “Artificial Intelligence (AI) Risk” and “Social Isolation and Loneliness.”

### • Risk Identification Process



## Emerging Risk Assessment Results

Risk Category	Artificial Intelligence (AI) Risk	Social Isolation and Loneliness
Description	With the advancement of AI technologies and the emergence of various application models, the convergence of different models and techniques is expected to result in more sophisticated and harder-to-detect fraud and cyberattacks through deepfakes or generative AI. As AI technologies are applied, the operation of AI models may involve sensitive data, posing challenges to model security and data confidentiality. When leveraging AI for decision-making, risks such as AI hallucination and bias recognition must be carefully managed. These potential risks may further impact the Company's reputation and operations.	Following the COVID-19 pandemic, society has undergone rapid transformation, including accelerated urbanization and changes in family structures, resulting in weakened social support networks for individuals. The World Health Organization (WHO) has identified “loneliness” as an emerging public health crisis, highlighting its close association with mental health issues, increased risk of chronic diseases, and premature death. Rising social isolation and deteriorating mental health may gradually impact business operations and insurance risk exposure.
Impact	<ul style="list-style-type: none"> <li>External malicious attacks may lead to the leakage of sensitive information, such as trade secrets or critical personal data, resulting in loss of competitiveness and erosion of customer trust.</li> <li>Operating costs may increase due to the need to prevent external attacks and comply with regulatory requirements for AI system development and deployment.</li> <li>If AI models contain data bias, computational errors, or generate inappropriate recommendations, they may result in poor decision-making, potentially harming business development, customer experience, and overall operations.</li> </ul>	<ul style="list-style-type: none"> <li>If Cathay employees experience performance issues due to social isolation or mental health challenges, it may lead to reduced productivity, increased sick leave, higher turnover, and greater talent attrition risk. This could also result in higher healthcare expenditures and negatively affect overall workplace morale.</li> <li>If Cathay's insurance policyholders experience health deterioration due to loneliness or stress, it may lead to an increase in claims or greater uncertainty in policy pricing and risk assessments.</li> </ul>
Mitigation Actions	<ul style="list-style-type: none"> <li>AI model application: Gradual implementation of AI models and establishment of relevant management mechanisms.</li> <li>Mitigation of malicious behavior: Conduct regular reviews of AI-related applications (e.g., services that leverage facial recognition) to ensure accuracy and security.</li> <li>AI governance: Develop a comprehensive AI governance framework that covers strategy, organization, legal compliance, processes, technology, and applications.</li> </ul>	<ul style="list-style-type: none"> <li>Employee management: Use surveys to understand employee needs, identify mental health issues early, and provide psychological support or case-specific assistance.</li> <li>Insurance: Spillover-effect insurance policies incorporate group fitness goals to encourage collective efforts toward physical and mental well-being.</li> </ul>