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Message from the Chairman

Cathay Sustainability Story

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6.3 Ethical Corporate Management

GRI：2-23、2-24、2-27、2-28、416-2、418-1；SASB：FN-CB-510a.1、FN-CB-510a.2、FN-AC-510a.1、FN-AC-510a.2

6.3.1 Ethical Corporate Management

At Cathay, we prioritize ethical corporate management and have established several policies and guidelines to promote a culture of integrity within the company. These include the “Policy and Code of Operation Integrity,” “Procedures and Guidelines of Integrity Management Operation,” and “Code of Conduct for Employee.” We require all employees to comply with these internal policies while performing their duties, and unethical behavior is strictly prohibited. Additionally, we ask our employees to participate in public affairs in compliance with the law. Meanwhile, Cathay is an active participating member in associations over the years. Cathay FHC President Chang-Ken Lee is the current director of the Bankers Association of Taipei. President of Cathay Life, Shan-Chi Liu, is the current Managing Supervisor of the Life Insurance Association of the Republic of China. Participation in key associations is a part of Cathay’s effort to facilitate stronger collaboration between the industry and the government by formulating the relevant policies that will further the development of the financial sector.

Cathay FHC has adopted “Policy and Code of Operation Integrity” . We implement the following management mechanism to review the implementation status of ethical corporate governance:

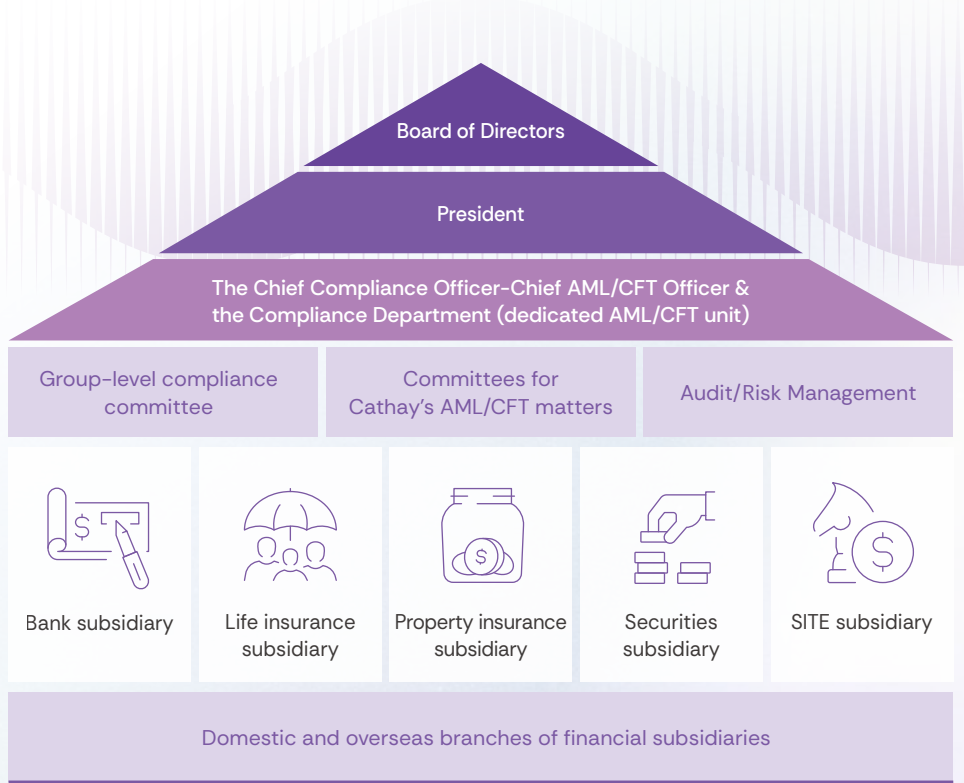
Management Mechanism	Results
Conduct regular self-evaluations and review for unethical risk behavior	<ul style="list-style-type: none">▪ We conduct an annual ethical management risk assessment. Items evaluated include offering or accepting improper benefits (offering/accepting bribes), illegal political contributions, unethical charitable contributions, violation of recusals, violation of stakeholder interests, violation of intellectual property rights and information confidentiality, etc. If the review identifies existing or potential unethical behavior, corrective and remedial action must be taken immediately.▪ We conducted the unethical conduct risk assessment for 2022 in 2023 and presented the assessment results to the board; the same assessment for 2023 was conducted in Q1 of 2024.
Training	Employee ethics and code of conduct training is a required annual course. The training lasts one hour. The training completion rate for 2023 was 100%.
Whistleblower Mechanism & Reporting Channels	We have established clear reporting channels following our “Procedure for handling cases of reporting unethical or dishonest conduct” and the group’s reporting mechanism. We have also established a response protocol to ensure that all reports are thoroughly investigated, and that the legal rights of whistleblowers and any other relevant personnel are protected throughout the process. We are committed to protecting the identity of whistleblowers and any other individuals involved in the investigation to prevent any potential retaliation or unfair treatment. In 2023, there were no reported cases of insider trading, antitrust, monopoly and market manipulation violations, or unethical or dishonest cases.

	IFRS [™]	Governance	Strategy	Risk Management	Metrics & Targets
Ethics and Compliance		✔	✔	✔	✔

6.3.2 Compliance

Strengthening Corporate Compliance Culture

At Cathay FHC, we prioritize compliance management and strive to deepen our compliance culture across the group. To achieve this, we monitor domestic and overseas financial regulatory changes and take appropriate measures to ensure that all of our businesses are fully compliant with regulatory requirements. Group compliance and AML/CFT are managed as a whole at the group level and implemented by level and region. The board of directors appoints the Chief Compliance Officer / Chief AML Officer to manage the group’s compliance matters; the CCO reported on compliance matters to the board of directors and the Audit Committee twice in 2023.



Systematic Management of Compliance Risks

At Cathay FHC, compliance is a key aspect of our internal control implementation, with risk management at the core. We adopt a dynamic management model and prioritize prevention over response to maintain a proactive approach to compliance. In addition to promoting compliance with international regulations, we supervise our key subsidiaries to implement compliance risk management measures. We also leverage a compliance digital management platform and new technologies to strengthen the Group's internal control management.



Strategy		Execution
Group Compliance Management Mechanism and Performance Enhancement		<ul style="list-style-type: none">Cathay regularly conducts compliance performance reports, compliance self-evaluations and self-inspections, the results of which are included in the performance evaluation of senior management. We also convene a group compliance officer committee twice a year to strengthen the group's internal control and inter-company communication. At Cathay, we have established a reporting and management channel for major external compliance events. The events include significant regulatory violations and risk warning indicators for potential compliance rating downgrade by the financial regulator. The reporting mechanism helps the board and senior management to gain timely insight into relevant risk warnings for evaluation and formulate response improvement measures for implementation.We have established the mechanisms for reviewing penalties imposed on our competitors and the group, and the review standards for compliance performance across the group and at the subsidiary level to ensure proper regulatory performance supervision. The major penalties imposed on subsidiaries and improvement measures in 2023 are as follows. For full details, please refer to 2023 Cathay FHC Annual Report P. 156-163.
Group Mid-to Long-Term Compliance Focus		<ul style="list-style-type: none">Oversee implementation of compliance risk management by subsidiaries based on the risk characteristics of the industry; actively promote the group's compliance alignment with international standards, while keeping abreast of international regulatory trends to strengthen compliance management for the group's overseas businesses.Ensure compliance of the group's digital transition and strategic responses for digital scenarios/management while maintaining control of important company regulations and optimization programs targeting internal control and management.
Cathay Financial Group Whistleblowing Program		<ul style="list-style-type: none">We have established a Group Whistle-blowing Program to strengthen our internal control. The reporting channels are published on our official website and provide details on the reporting method, requirements, channels, response measures, documentation, principle of protection for Whistleblower, and enforcement actions.In 2023, the group received nine non-compliance complaints. Of the nine complaints, two were aimed at Cathay FHC and four at domestic subsidiaries. All six of the above complaints were found to be unproven and closed accordingly. Three were aimed at overseas branches, and two of which were found to be unproven and closed accordingly. One of the three complaints was verified and internal penalties were imposed accordingly. Cathay also increased advocacy to raise awareness, strengthened management, and regularly conducted random inspections.

Major Penalties and Remediation Measures in 2023

Subsidiaries	CUB
Reason	CUB incurred an NT\$12 million fine for a flawed oversight mechanism over the flow of funds between financial advisors and their customers; a flawed oversight mechanism over online banking logins at the same IP address; failure to ensure employee compliance with the Code of Conduct; and failure to enforce internal control systems.
Remediation	Completed partial remediation, including setting risk control over designated transfer accounts, requiring loan divisions to set control over designated transfer accounts, monitoring cash flow, and strengthening tracking and oversight mechanisms over online banking logins at the same IP address. CUB has yet to complete remediations for regular reconciliation sheets, which are expected to be completed before 2024 Q2.

Note: As of April 2024, there are two 2024 major penalties that are currently being handled internally and will be disclosed in detail in Cathay FHC's Sustainability Report 2024.

	2021	2022	2023
No. of Major Penalty <small>(Note)</small>	1	2	1
Penalty Amount	NT\$ 1.44 million	NT\$ 14 million	NT\$12 million

Note: Major penalties refer to cases handled in compliance with Article 2 of FSC's Regulations Governing Public Disclosure by the Financial Supervisory Commission of Material Enforcement Actions for Violations of Financial Legislation.

Strengthening AML/CFT/PF System

AML/CFL are top priorities on an international level. We adopt a “risk-based” approach to establish a group-wide management mechanism for AML/CFL. We also have an information-sharing system in place with Cathay FHC’s operations as its core. We aim to remain compliant with financial regulations while continuing to grow our business. To achieve this, we regularly update and refine our risk assessment methodologies, leveraging technology and data analytic tools to enhance the effectiveness of our AML/CFL management actions.

Promoting Diverse Compliance Training and Cultivating Technology Compliance/AML Talent

To enhance employees’ compliance awareness and cultivate talent in technology compliance/AML, Cathay FHC provides diverse compliance/AML training aligned with existing tech trends. The themes include basic compliance awareness, virtual asset development, relevant regulations and disputed cases in property insurance, cybercrime patterns and security awareness, AI legal issues in the digital economy, risks in the VASP ecosystem and group policies, and analysis and case studies of emerging money laundering patterns. Furthermore, Cathay actively nurtures technology compliance/AML professionals through project implementation that combines digital technology with professional experiences. These projects provide talent development opportunities to expand the talent pool in this area.

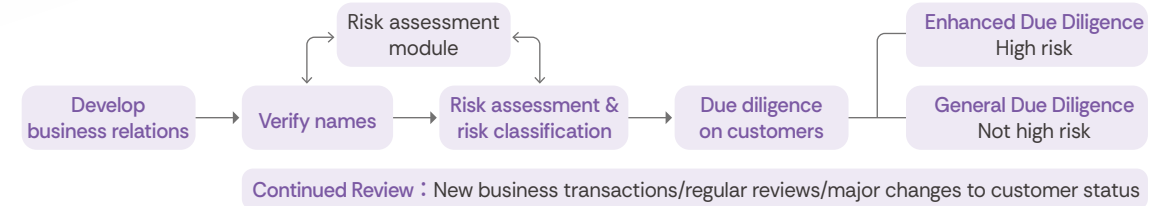
Cathay FHC compliance training hours in 2023

- General compliance courses 352 sessions (A total of 843,626 hours)
- Group compliance sharing club courses 7 sessions (A total of 1,181 hours)
- Compliance courses for new recruits 110 sessions (A total of 6,218 hours)
- Senior executive compliance courses 58 sessions (A total of 291 hours)
- Group AML/CFT training courses 194 sessions (A total of 34,678 hours)
- Director (supervisor) compliance courses 113 sessions (A total of 514 hours)

Strategy

Execution

- We established the “AML/CFT Management Guidelines,” group-level risk methodologies, risk factors, and risk alert mechanisms and monitoring indicators.
- Strengthen customer due diligence and keep up with monitoring measures of high-risk scenarios; self-inspection and internal audit items have been implemented into relevant SOPs. Cathay Subsidiaries’ Customer Due Diligence Framework:



Management Mechanism and Effectiveness Improvement

- Hold group-level AML/CFT meetings at least every six months; assist key subsidiaries in implementing AML/CFT management by assigning dedicated staff to various projects.
- Virtual Assets Service Providers (VASP) Program: In support of the latest National Money Laundering, Terrorist Financing and Proliferation Financing Risk Assessment Report, Cathay added VASP assessment to respond to potential emerging risks. Third-party advisors have been commissioned to assist with perfecting response measures and adjust the group’s policies. We aim to support subsidiaries in assessing VASPs as customers and carefully evaluating risks and mitigation measures.
- Group AML/CFT information sharing:
 - Establish group-level information sharing regulations and platform based on best practices recommended by the Financial Action Task Force (FATF) and the Bankers Association.
 - Emphasize an inter-subsidiary risk management approach and share a variety of information among subsidiaries to create a group-wide defense mechanism. The information includes a group-level list, suspicious transaction categories, suspicious customer/transaction information, inter-subsidiary risk data exchange, etc.



Group Mid-to Long-Term Development Focus

Cathay AML Joint Risk Defense” project:

- In recent years, the impact of digital technology and the emergence of mobile devices have transformed the roles, profiles, and behaviors of financial market participants. The convenience and diversity of financial services have also led to complexity in regulating financial services. Leveraging digital technology effectively against risks, optimizing oversight, and effectively managing resources are important aspects of the group’s overall efforts in anti-money laundering and countering the financing of terrorism.
- The project was initiated in 2022 to support the group’s gradual shift from traditional to digital operations and from decentralized to centralized service channels. The project encompasses anti-money laundering compliance, data analysis, algorithm modeling, risk prediction, and visual experience design. In the future, the project will continuously engage in self-learning in response to changes in external regulatory environments or the evolution of emerging technologies. This rolling self-learning approach aims to optimize the group’s risk prevention mechanism, effectively supervise and manage, and maximize the synergies of the group.
- In 2023, Cathay continued to roll out the Cathay AML Joint Risk Defense project, with specific subsidiaries having optimized and introduced data on suspicious transaction patterns into visual dashboards. With the project, Cathay also developed a group-wide AML/CFT business management platform that could be applied to Cathay FHC’s KYC, customer affiliation networks, group-wide digital security, and cross-industry affiliation diagrams, aiming to strengthen the group’s AML efforts.