

1.5 Risk/Opportunity Analysis & Management Guidelines of Sustainability Topics

For the identified key material issues with financial materiality and impact materiality, we follow the IFRS S1 sustainability standards to evaluate the risks and opportunities these issues present to the Bank. Based on the GRI guidelines, we establish management policies and set short-, medium-, and long-term targets and response measures. We will regularly review our progress and disclose it in our sustainability report, continuously improving our management policies to achieve the targets of sustainable business operations.

■ Key Material Issues



Sustainable Finance and Responsible Finance

Integrate ESG factors into our core business activities and work with our clients to implement sustainable value to achieve the goal of corporate and ecological coexistence and co-prosperity.

Opportunities and Risks

- Sustainable finance and responsible finance values support environmentally and socially responsible investment projects that promote environmental and social well-being.
- Achieving sustainable value not only enhances the Bank's market position, but also contributes to long-term profitability, providing ongoing economic benefits to the Bank.
- If invest in investments in projects with high environmental risks or low social responsibility may result in failure to value sustainable and responsible finance, as well as on the Bank's long-term profitability and market position.

Action Plans

- Incorporate ESG and climate risk management into investment and lending processes to monitor client climate performance, facilitate their transition, and strengthen engagement.
- Set decarbonization targets and zero-coal financing targets to reliably progress towards net zero emissions across financial assets by 2050.
- Launch green consumer loans.

Specific Performance

- Enhance the Equator Principles (EP) policy and the review mechanism for EP cases.
- Plan, promote, and analyze ESG standards.
- Align and manage international ESG and corporate sustainability frameworks.
- Adhere to and promote the United Nations Principles for Responsible Banking.

Management Policies and Commitments

- Cathay FHC and its subsidiaries must adhere to the "Cathay FHC and Subsidiaries Responsible Investment and Lending Policy" when making investments and loans. This is to fulfill the responsibility of financial institutions to stakeholders, prudently manage environmental, social, and governance (ESG) risks, pursue long-term investment performance, leverage financial influence, promote continuous improvement in ESG performance of investment and lending targets, contribute to global sustainable development goals, and achieve sustainable society and business operations.

Management Assessment Mechanisms

- Cathay FHC and its subsidiaries have established the "Cathay FHC and Subsidiaries Policy on Prohibited Investments and Loans," which clearly defines areas of concern, including controversial industries and countries. The Responsible Investment working group reviews companies and countries in these areas annually based on specific screening criteria, updating the "Exclusion List for Investments and Loans." Subsidiaries are required to exclude these targets from their investment and lending activities.

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Digital Transformation and Innovation

Enhancing business models and service quality through technological innovation and digital strategies.

Opportunities and Risks

- By leveraging digitalization and technological innovation, business process efficiency and customer experience can be improved, thereby enhancing market competitiveness.
- Digital transformation also helps protect the environment by reducing resource consumption and improving energy efficiency, thereby reducing the Bank's environmental impact.
- Lacking digital skills and innovative thinking can lead to customer churn and limited ability to innovate.
- Employees whose skills lag behind digital trends can affect operational efficiency and service quality, ultimately impacting market competitiveness.

Action Plans

- Assist clients in conducting a financial health assessment and provide them with a personalized and diverse range of high-quality financial products and financial planning tools. This promotes healthy financial behavior among clients. Leverage technology to continuously develop inclusive digital financial products, promote and optimize intelligent assistant capabilities, and enable customers to access financial services without the limitations of physical branches and hours of operation, thereby expanding financial accessibility and affordability.

Specific Performance

- CUB has launched a variety of innovative products such as the CUBE App, CUBE Online Banking, and Financial Service Stations, obtaining 13 invention patents. These initiatives empower customers from all walks of life to achieve their personal financial goals through personalized digital banking experiences, enabling them to take control of their future.
- The Bank's digital and data-related talents now exceed 700 individuals, spanning across departments such as digital, data, and platform, bringing positive impacts to the Bank's digital transformation efforts.

Management Policies and Commitments

- CUB's digital banking services prioritize "customer experience" as the core focus. It actively participates in financial innovation policies and Fintech development, continuously playing an active role. In addition to consistently introducing diverse innovative digital services and products, it also collaborates with internal and external partners to develop various scenario-based services. This aims to create the best online and offline experiences while committing to enhancing digital security, making digital channels an indispensable part of customers' lives.

Management Assessment Mechanisms

- The board of directors of CUB encourages all relevant units to carry out business digital transformation. In addition to providing necessary assistance, they also regularly supervise the development progress and implementation status of the aforementioned projects.
- Continue digital transformation to maintain uninterrupted financial services; make full use of the abundant resources of the Bank and Cathay FHC to launch new financial products and services. Through cross-device/cross-platform virtual and real integration, it provides digital cash flow services, strengthens account collection and payment functions, and becomes the main bank account of customers.

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Social Impact

Social impact includes the implementation of measures aimed at promoting the welfare of the community and protecting the environment.

**Opportunities
and Risks**

- Actively improve strategic satisfaction and productivity among strategic partners to promote stable cooperation. Respond to customer and community needs to strengthen customer relationships and expand business opportunities. Comply with environmental protection regulations to enhance public trust and corporate reputation.
- Neglecting strategic partners can lead to dissatisfaction and reduced productivity, which can affect the stability of cooperation. Ignoring customer and community needs can damage customer relationships and limit business development. Failure to comply with environmental protection regulations may result in public dissatisfaction and legal liability, affecting corporate reputation and long-term development.

Action Plans

- Promote youth self-awareness, career exploration, and skill development to bridge the gap between education and employment, equipping youth with both soft and hard skills for the workplace. Eliminate social inequalities so that everyone can improve their quality of life through their own efforts.

**Specific
Performance**

- Java Talent Development Program : A total of 31 candidates were recruited, with a final qualification rate of 78%. The satisfaction rate of trainees in the classes was 4.9 out of 5.
- CSP Internship Program : A total of 120 interns were recruited, with a conversion rate of 50%.
- CIP Internship Program: A total of 33 interns were recruited, with an average satisfaction rating of 4.6 out 5 and willingness to work in the financial sector score of 4.61 out of 5.
- In 2024, the cumulative volunteer hours totaled 6,556.5 hours, involving 893 individuals.
- CUB continues to promote financial education and organized three financial education sessions and campaigns for rural schools in 2024. A total of 54 people participated in these sessions.

**Management
Policies and
Commitments**

- The Bank focuses on two main pillars: "Youth Empowerment" and "Supporting the Underprivileged." We support young people and people with disadvantage in acquiring knowledge and skills. By actively leveraging the Group's resources to promote sustainable actions, we are committed to advancing social sustainability and envision building an inclusive and equitable society.

**Management
Assessment
Mechanisms**

- Set annual metrics and targets and review the achievement of goals regularly.
- Expanding our internship program by partnering with more schools and offering internships in a wider range of fields, while also increasing the number of participants. Additionally, we are actively working to improve the satisfaction, recommendation, and reputation of our internship program among students.

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Privacy and Information Security

Protecting customer data to prevent unauthorized access and leaks.

Opportunities and Risks

- Effectively protecting customer privacy and data security builds customer trust and reputation.
- Failure to properly manage customer privacy and data security can lead to customer dissatisfaction and a crisis of confidence. Data breaches or information security incidents can result in legal action and fines, which can damage a company's reputation and subsequently affect customer loyalty and business opportunities.

Action Plans

- Mitigating the risk of malicious cyberattacks on the enterprise involves more than just strengthening information security measures in software and hardware infrastructure. It also involves mitigating and transferring uncertain risks to ensure stable business operations.

Specific Performance

- In response to the Financial Cyber Security Action Plan, the Bank has adopted the international cybersecurity management standard ISO 27001. Every half year, it commissions independent third-party organizations to verify compliance. Additionally, network security assessment tools for cybersecurity maturity assessments had been implemented, and we regularly review and improve based on assessment results. Risk transfer through cybersecurity insurance strengthens operational resilience, enhances corporate governance assessments, boosts customer and shareholder confidence, and contributes to sustainable development.

Management Policies and Commitments

- Establishing the "Information Security Policy," with the decision-making level being the Board of Directors, to be reviewed annually to ensure the confidentiality, integrity, availability, and legality of information assets.

Management Assessment Mechanisms

- 7×24 Cybersecurity Monitoring Center Service Mechanism involves multidimensional correlation analysis of cybersecurity equipment, network devices, operating systems, and other logs to provide real-time alerts and identify cybersecurity events, abnormal connections, and other behaviors.
- Cathay FHC has established a cross-company "Cybersecurity Emergency Response Team" to promptly assess and control the cybersecurity situation of the Bank and its subsidiaries through event reporting and emergency response procedures.
- Various scenario playbooks are developed and utilized to continuously conduct cybersecurity incident response drills.
- External cybersecurity consultants and response teams are engaged to provide appropriate and professional advice and emergency response support.
- Planning and construction of the zero trust framework is now completed. CUB will now be gradually adopting and rolling out the zero trust framework based on the five pillars of CISA's ZTMM.
- Continuously monitored network threat trends and periodically assessed and adjusted the scope of cybersecurity insurance coverage.

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Customer Relationship and Service

Maintaining and enhancing relationships with customers by providing high-quality service is crucial, alongside ensuring the legality and integrity of marketing activities.

Opportunities and Risks

- Providing excellent customer service and effective relationship management builds trust and satisfaction, ensuring long-term business stability and success. Conducting legal and ethical marketing campaigns avoids misleading advertising and strengthens the Bank's public image and brand reputation.
- Failure to maintain high standards of customer service and relationship management can lead to a decline in customer trust and satisfaction. Misleading advertising and unlawful marketing strategies can result in legal action and fines, which can severely damage the Bank's public image and brand reputation.

Action Plans

- Continue to provide fair and equitable service to customers, while continually adjusting product or service offerings to meet consumer protection standards. Customer satisfaction with the digital service experience.

Specific Performance

- Conduct training on the principle of fair customer treatment.
- Reduce customer complaints this year through the customer complaint reduction plan.
- Customer service center scored 67.1 points in Transactional Net Promoter Score (tNPS) (reference standard is 60 points).
- CUBE APP scored 37.2 points in NPS (reference standard is 30 points).

Management Policies and Commitments

- To establish a corporate culture that values consumer protection in financial services, "Fair Customer Treatment" is designated as a core corporate culture and a key principle of the Bank. It is made a core value and behavioral guideline for all employees of the Bank. Approved by the Board of Directors, the "Fair Customer Treatment Policy" is implemented to realize a customer-centric approach. Through continuous improvement of consumer service processes, we ensure a positive customer experience, providing secure and high-quality financial services. We have established policies, strategies, and internal regulations that exceed current regulatory requirements to promote sustainable innovation and inclusive financial services. The Board of Directors serves as the highest decision-making and supervisory body for the Bank's "Fair Customer Treatment Policy." Together with senior management, it leads the implementation of fair treatment principles in the Bank. We have set up a Treating Customers Fairly Committee, chaired by the CEO, to promote related measures and financial-friendly services in accordance with the Bank's fair treatment policy guidelines, and to report regularly to the Board of Directors.

Management Assessment Mechanisms

- Reporting to the Board of Directors every six months on the implementation of the Fair Customer Treatment Policy, and quarterly reporting review and improvement of complaint cases to the Board.
- Directors and senior management lead the "Service Quality Team," introducing FinTech to enhance customer service quality.
- Implement a digital platform NPS customer feedback collection mechanism to better align with customer needs.
- Continuously update the implementation of the Fair Customer Treatment Policy, digital financial service processes, and privacy protection policies to comply with legal changes and adapt to the latest technological advancements. This ensures the organization's commitment to safeguarding customer rights and interests.
- Utilize technology to develop inclusive digital financial products and services, catering to a diverse customer base. Enhance digital platforms and optimize smart assistant functionalities to deliver high-quality financial services, thereby expanding accessibility and affordability of financial services for all.



Risk Management

Identify, assess, and manage various risks that may affect operations, including financial, legal, environmental, social, and corruption risks.

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Opportunities and Risks

- Effective risk management strategies and procedures, including regular risk assessments and emergency response measures, ensure stable operations and long-term development of the enterprise. Good risk management helps reduce financial losses, avoid legal issues, and enhance the company's reputation and market position.
- Lack of effective risk management strategies and procedures may lead to unstable operations and affect long-term development. Poor risk management can result in financial losses, legal issues, and environmental and social problems, thereby impacting the company's reputation, customer trust, and market position.

Action Plans

- Maintain sound capital adequacy and robust risk management mechanisms to achieve sustainable development goals.

Specific Performance

- The operational status meets the capital adequacy ratio target for D-SIBs.
- The Risk Management Unit regularly prepares risk management reports and presents them to senior management and the Board of Directors according to internal processes.

Management Policies and Commitments

- "Risk Management Policy" is established in accordance with the Enterprise Risk Management (ERM) framework. Through the integration of the frontline, middle, and rear of defense, business units, risk management units, and audit units collaborate jointly, each fulfilling its respective responsibilities to monitor risks.

Management Assessment Mechanisms

- A Business Continuity Management (BCM) mechanism has been established, along with corresponding strategies and various backup and recovery plans, to ensure operational continuity and resilience. This enables CUB to swiftly resume critical operations in the event of a major emergency, minimizing losses and safeguarding customer interests.
- Regularly conduct bank-wide stress tests and take necessary responsive measures based on the results, continuously enhancing the resilience verification mechanism for climate/natural issues (e.g., climate- and nature-related scenario analysis) to strengthen the Bank's operational resilience.



Compliance with Legal Requirements

Comply with relevant laws and regulations, including those in labor, environment, and finance to maintain the long-term stability and development of the Bank.

Opportunities and Risks

- Effective risk management strategies and procedures, including regular risk assessments and emergency response measures, help ensure stable operations and long-term development. Sound risk management reduces financial losses, avoids legal issues, and enhances the company's reputation and market position.
- Lack of effective risk management strategies and procedures may lead to operational instability and hinder long-term development. Poor risk management can result in financial losses, legal issues, environmental and social issues, ultimately damaging the company's reputation, customer trust, and market position.

Action Plans

- Establish an effective compliance system that fully embraces the importance of adhering to laws and regulations.

Specific Performance

- Conducted legal compliance awareness courses, 21 units in total.
- Conducted online induction courses on compliance regulations for new employees.
- Monthly conducted 15-hour annual in-service training for compliance personnel.
- Conducted two training units: "Employee Code of Conduct: Guidelines on Gifts and Illicit Gains" and "Case Studies on Employee Integrity."
- Organized mandatory courses on the reporting system for the entire bank in 2024.
- Held domestic and international regulatory compliance supervisor contact meetings in 2024, 8 sessions in total.

Management Policies and Commitments

- "Legal compliance" is an integral part of our corporate culture and a cornerstone of our business activities. The development of our business should inevitably adhere to legal requirements and should not conflict with them. Sacrificing legal requirements for short-term gains is not an option.
- "Legal compliance" is a shared responsibility among all levels of management and every employee in the Bank. Senior management should lead by example, and all levels of management and employees must understand that legal compliance is not solely the responsibility of senior management but also an everyday duty for every employee and department. Each employee should be aware that complying with relevant laws and regulations is a fundamental part of their job responsibilities. By embracing and practicing the concept of legal compliance across the organization, we can operate within a framework of sound risk management policies, ultimately leading to greater returns and creating more value for our stakeholders.
- To establish a robust legal compliance system within the Bank and strengthen employees' understanding of the rule of law, we are enhancing the dissemination and education of financial laws and ethical norms. This initiative aims to ensure that our daily management and business activities consistently adhere to relevant legal requirements, thereby promoting the sound operation of the Bank. In accordance with our organizational structure and risk management policies, the Board of Directors has approved the formulation of the "Implementation Guidelines for Legal Compliance System" for the Bank. These guidelines are designed to implement legal compliance practices and continuously enhance employees' awareness of financial laws and regulations. We will optimize our legal compliance control mechanisms, both domestically and internationally, to ensure that the Bank strictly adheres to relevant legal requirements in daily management and business activities. We will maintain open communication, coordination, and collaboration with legal compliance supervisors and colleagues in various departments, adapting promptly to changes in the domestic and international economic environment and relevant financial regulation amendments. Furthermore, we will continuously strengthen the legal compliance awareness of all employees and effectively supervise the implementation of relevant internal regulations in each department. This ensures that the Bank consistently complies with relevant legal requirements in daily management and business activities, thereby promoting the sustainable operation of the Bank. Together, we are committed to realizing the vision of "everyone is responsible for legal compliance, and compliance and accountability leads to shared benefits."

Management Assessment Mechanisms

- Each unit shall conduct self-assessment of relevant legal compliance matters semi-annually based on the latest revised "Self-Assessment Checklist for Legal Compliance." At the same time, the Legal Compliance Department shall assess the effectiveness of legal compliance operations in each unit (excluding the Audit Office). The annual legal compliance assessment results, approved by the President, will serve as a reference for evaluating management and department heads.
- Quarterly meetings with legal compliance officer are held to ensure that the entire organization adheres to internal and external regulations in its daily operations.
- Supervise overseas subsidiaries to collect and report local legal changes and regulatory focal points monthly, assessing their impact on business operations to enable headquarters to identify legal compliance requirements and local regulatory demands for overseas subsidiaries.
- Continuously track the progress of operations and management regulation updates across various units on the "Group Compliance System" to ensure that the Bank's operational activities comply with legal requirements.
- Plan to adopt the "Cathay Group Regulations Database Platform" in phases and leverage AI tools to map relationships between internal and external regulations. The Platform features functions to help improve the operational efficiency of various units. Functions include daily regulatory update notifications, internal/external regulation analysis tools, and maintenance features for information relevant to internal regulations.
- Implement checks on the suitability of compliance managers and personnel at overseas subsidiaries and confirm whether local compliance resources are adequate to ensure that the subsidiaries comply with local laws.

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■ Identification of Focused and Basic Issues

Sustainability Issues	Impacts	Management Policies
Talent and Skill Development	<ul style="list-style-type: none"> Investing in the professional growth and skill development of employees to effectively adapt to rapid market changes and technological innovations. 	4.1 Workplace Empowerment
Business Performance	<ul style="list-style-type: none"> Financial performance, including revenue growth, cost control, and asset utilization efficiency. 	1.1.1 Overview of Operations
Climate Change	<ul style="list-style-type: none"> Policies and actions related to climate change, including the assessment and management of physical risks (such as loss of assets or business interruption due to natural disasters) and transition risks (such as the impact of policy changes on the business). 	2.1 Climate and Nature-Related Financial Disclosures
Attracting and Retaining Talents	<ul style="list-style-type: none"> Attracting and retaining key talent through effective human resource management strategies to support business objectives and long-term development. 	4.1.1.2 Attracting and Retaining Talents
Fraud Prevention and Advocacy	<ul style="list-style-type: none"> Prevent fraud through effective policies and procedures, as well as awareness campaigns. 	3.2.1 Anti-Fraud Guard Network
Corporate Governance and Ethical Corporate Management	<ul style="list-style-type: none"> Ensure transparency, accountability, and integrity in business operations through effective governance structures, diverse governance teams, and rigorous conflict of interest management. 	5.1 Corporate Governance 5.2 Ethical Corporate Management
Financial Inclusion	<ul style="list-style-type: none"> Provide broad and affordable financial services, especially to low-income and vulnerable groups, to promote economic inclusion in society. 	3.2.3 Financial Inclusion
Workplace Diversity and Inclusion	<ul style="list-style-type: none"> Promote diversity and equal opportunity in the workplace. 	4.1.1.1 Diverse and Inclusive Workplace
Green Operations	<ul style="list-style-type: none"> Environmental policies and practices related to workplace operations, including the use of green energy, promotion of digital workflows, and green building renovations. 	2.3 Environmental Sustainability