

2.2.2 Responsible Financing

The Bank voluntarily adheres to the Principles for Responsible Investment (PRI) and the Principles for Responsible Banking, integrating ESG and climate risk management into its existing investment and lending processes. Prior to transactions, it diligently assesses the ESG and climate risks of investment targets and manages them accordingly. Post-transaction, it continuously monitors their ESG and climate performance, engaging in dialogue with the companies to assist in their transition, ensuring the appropriateness of the investment and lending portfolios.

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

CHAPTER 1
Blueprint of Sustainable Strategy

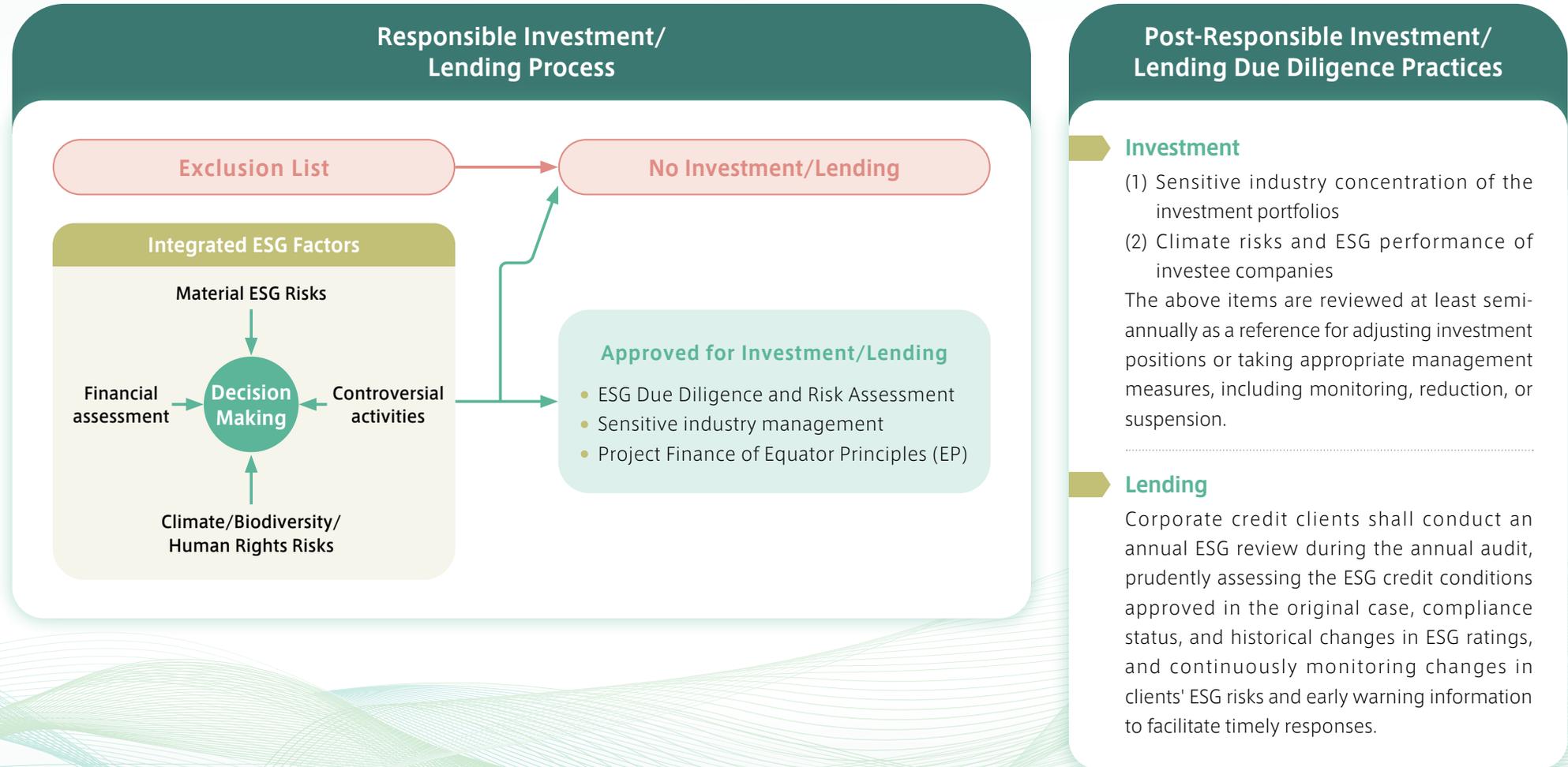
CHAPTER 2
Climate Strategy

CHAPTER 3
Health Strategy

CHAPTER 4
Empowerment Strategy

CHAPTER 5
Sustainable Governance and Risk Management

CHAPTER 6
Appendix



Relevant Policies and Control Measures

CUB adheres to the Group's investment and lending policies by establishing an exclusion list of industries/enterprises/business activities that we do not engage with. In 2024, new management measures related to unconventional oil and gas, as well as natural gas, were added.

Exclusionary Screening

We exclude controversial weapons, human rights violations, pornography, mining, coal/nuclear power generation, coal-related activities, conventional/unconventional oil and natural gas upstream extraction, tobacco industry, gambling, tropical rainforest logging, and drift gill-net manufacturing and fishing. This aligns with SDG 14 "Life Below Water" and SDG 15 "Life on Land" to conserve and sustainably use the oceans, seas and marine resources for sustainable development and protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

The Bank incorporates ESG factors into existing investment and corporate credit decision-making processes to effectively manage ESG-related risks.

Integrated ESG Factors

- ESG Due Diligence and Risk Assessment:** CUB stringently controls the ESG-related risks arising from investment and corporate lending cases and has established an ESG rating management mechanism to conduct differentiated tiered management.
 - Investments:** For industries classified as sensitive, CUB requires the completion of a "Climate Risk Assessment Form" as part of the due diligence process, incorporating climate risk factors such as carbon emissions, water usage, SBT-related disclosure of potential warming, carbon reduction targets, water resource management, and biodiversity policies. Additionally, if the investment target has poor ESG performance or any negative ESG incidents in the past three years, an "ESG Risk Assessment Form" must be completed to further evaluate whether to invest and determine post-investment management measures.
 - Corporate Lending:** During the KYC (Know-Your-Customer) process for corporate credit cases, CUB includes the evaluation of ESG-related risks such as environmental pollution penalties, harm to social welfare, human rights violations, governance, and climate and nature risks. This involves reviewing ESG incidents related to the credit client, consulting the client on incident improvement measures, risk mitigation strategies, and tracking inspection items. In addition, CUB encourages clients to provide ESG risk management plans to improve their sustainability performance. For their plans, they are encouraged to refer to the Taiwan Sustainable Taxonomy and Recommended Items for Transition Plans or international net-zero transition standards or guidelines. Recommended items include technical difficulties, funding requirements, water resource management policies, and related information. At the same time, we encourage credit clients to consider transition opportunities, such as green loans or sustainability-linked loans, to promote capital flow toward low-carbon and sustainable development. Reviewers assess the risk mitigation measures and follow-up inspection items based on the ESG risk incidents involved in the credit case, which serve as references for review opinions. If the case involves serious harm or meets exclusion criteria, actions such as loan reduction, setting restrictive conditions, or loan rejection may be applied to guide clients to value relevant issues and implement responsible lending principles. In 2024, there were 47 high-risk cases subject to enhanced environmental review, totaling NT\$16.76 billion; 6 cases involving environmental pollution were approved with restrictive conditions, totaling NT\$6.44 billion.
- Management of Sensitive Industries:** Based on the binding nature of government policies in various countries, the impact of each industry on climate-related risks, the Group's climate risk appetite, and quantifiable foundations, CUB uses carbon emissions, water usage, and biodiversity as sensitivity factors to establish a sensitive industry management mechanism and implement tiered management. For highly sensitive industries, a quota management mechanism is introduced, and the usage of quotas for highly sensitive industries is regularly monitored.
- Project Finance of Equator Principles (EP):** CUB includes biodiversity, climate change, and human rights risks as essential items in the Equator Principles (EP) project finance assessment. Each EP case is reviewed according to the eight IFC Performance Standards, including PS6 on biodiversity, with clear incorporation of review comment.

Relevant Policies and Control Measures

ESG Rating and Classification Module System

Introduction

Through technologies such as data extraction, analysis, and processing, CUB has developed the "ESG Rating and Classification Module System" by integrating ESG big data. This automated system can quickly screen borrowers' ESG risk levels, support post-lending management and risk alerts, helping the front office to instantly grasp client risks, the middle office to monitor asset quality, and the back office to reduce operational risks. It not only saves manual query time but also identifies potential ESG deficiencies or concerns in clients, reducing reputational or financial risks for the Bank and comprehensively enhancing risk management.

To align with international trends, group development, and the promotion of sustainable finance, in addition to adopting the Equator Principles and voluntarily following the UN Principles for Responsible Banking, the system is periodically updated and processed according to external regulations and international standards to create sustainable value and deepen awareness of environmental, social, and governance risks.

Highlights

- Leading the financial industry in implementing internal ESG rating and management frameworks;
- Pioneering ESG risk classification and differentiated management, covering the entire credit process end-to-end, and using AI algorithms to automatically interpret corporate ESG performance scores;
- Using automated extraction technology to obtain both negative penalty and positive ESG information of clients, including SMEs;
- Through "weighting" design, standardizing and aggregating borrowers' positive and negative performance, and classifying into four rating levels to assess clients' sustainability risks and opportunities, thereby informing credit decisions.

Milestones

- September 11, 2020: "Negative ESG Rating Classification Module" approved as a "Utility Model" patent by the Intellectual Property Office, Ministry of Economic Affairs.
- July 1, 2023: "Negative ESG Rating Classification Module" approved as an "Invention" patent.
- April 21, 2024: "Automated ESG Rating Classification Module" approved as a "Utility Model" patent.
- December 7, 2024: "Automated ESG Rating Classification Module" submitted for "Invention" patent re-examination.

The Equator Principles (EPs) focus on assessing the potential environmental and social risks associated with large-scale project financing. For cases with significant risk levels (i.e., Category A and B projects), the evaluation process requires engagement of professional third-party consultants to conduct independent environmental and social risk assessments. As of the end of 2024, 3 cases reached Financial Close (ready for disbursement upon signing) in accordance with EPs, with new approved lending amounting to approximately NT\$ 3.94 billion. By the end of December 2024, CUB has accumulated a total of 27 EP credit cases that have reached Financial Close.

