Chang Hwa Bank Responsible Investment Guidelines

Approved by the President on July 19, 2024

Article 1 (Purpose)

The Bank, while pursuing return on investment, we align with the United Nations Sustainable Development Goals (SDGs), responsible investment in the financial industry, and the trend of institutional investors' stewardship. We integrate environmental, social, and corporate governance (ESG) issues into our investment evaluation process to enhance the overall interests of our funding contributors (including clients, beneficiaries, and shareholders). This is done to fulfill our stewardship responsibilities, as outlined in these guidelines.

Article 2 (According to)

I. Chang Hwa Commercial Bank Sustainable Finance Policy.
II. Chang Hwa Bank Stewardship Principles.
III. Climate Risk Management Policy of Chang Hwa Commercial Bank.

Article 3 (Applicable Subject)

These guidelines apply to the Bank (including overseas branches).

Article 4 (Asset Scope)

The Bank actively engages in investment activities using its own funds, which include

TWSE/TPExlisted equities, domestic/foreign corporate and financial bonds in the banking book.

Article 5 (ESG Investment Principles)

Reference to the United Nations Principles for Responsible Investment (PRI), Stewardship Principles for Institutional Investors, and Chang Hwa Bank Stewardship Principles, incorporating ESG factors into the investment analysis and decision-making process, and managing and implementing responsible investment in the most appropriate manner that meets the objectives of different asset classes and investment strategies.

The definition and scope of ESG factors include but are not limited to the following examples:

I. Environmental (E) factors: Climate change adaptation, carbon emissions, energy and resource management, waste disposal, air pollution, biodiversity, etc.

II. Social (S) factors: Human rights, labor rights, gender equality, food safety, treating customers fairly, inclusion, etc.

III. Governance (G) factors: Corporate governance, ethical management, board performance, shareholder equity, information security, legal compliance, anti-money laundering and countering financing of terrorism, etc.

Article 6 (Prohibited Undertaking Items)

I. The Counter-Terrorism Financing Act specifies sanctioned individuals or legal persons or entities, and identitied or investigated by foreign governments or international organizations as terrorists or terrorist organizations.

II. Exclude negative industries (such as involving in pornography, drugs, controversial weapons, and illegal gambling).

Article 7 (Pre-assessment and Post-investment Management Process for TWSE/TPEx Listed Equity Investments)

In order to implement responsible investment, the Bank conducts an evaluation of the ESG status of the selected targets using “ESG Checklist (including climate risks)” to assess whether there are major violations of ESG-related issues to determine the feasibility of investment.

I. Selecting Investment Targets

First, exclude the items prohibited in Article 6 and give priority to companies that rank in the top 5% of the Corporate Governance Evaluation. Support thematic investments that contribute to the development of ESG issues, with a particular emphasis on industries or investment targets that prioritize ESG issues.

II. ESG Integration and Risk Assessment

(I) In addition to financial factors, the investment evaluation process also considers ESG factors. This is done by referring to various information sources such as the Taiwan Depository & Clearing Corporation's IR Platform, the Market Observation Post System, and Bloomberg Terminal. These sources are used to analyze the target's risks and opportunities.

(II) By referencing Bloomberg ESG and FTSE Russell ESG ratings, we assess whether the investment targets meet the Bank's score standards. This assessment is done by querying the scores from third-party ESG rating agencies and serves as the basis for evaluating ESG information.

(III) Risk assessment involves considering adverse events such as negative news, adverse records, unethical behavior, incidents of infringement, regulatory violations, criminal judgments, or inclusion in sanction lists related to ESG factors, which should be regarded as significant considerations for investment activities.

III. Exerting Investor Influence

(I) We monitor news, operations strategies, operating status, financial performance, industry dynamic, environmental protection, social responsibilities, labor rights, and corporate governance issues of investees on a daily basis.

(II) Participate in the investor conferences of the investees through calls, internet, or in-person meetings.

(III) Assign representatives to attend the general and extraordinary shareholders' meetings of the investees.

IV. Dynamic Adjustment of Positions

(I) Where an investee damages the overall interests of the Bank and funding contributors and seriously violates related ESG issues, the Bank shall express its position and requests to the investee and may join other investors with similar views in expressing concerns or reassessing our investment in the investment target.

(II) If the investee violates ESG issues and has no improvements despite being subject to punitive action, the Bank will clear its position of the investment target to reduce sustainability investment risks.

Article 8 (Pre-assessment and Post-investment Management Process of Bond Investments)

In order to implement responsible investment, the Bank conducts an evaluation of the ESG status of the selected targets using “ESG Checklist (including climate risks)” to assess whether there are major violations of ESG-related issues to determine the feasibility of investment.

I. Selecting Investment Targets

First, exclude the items prohibited in Article 6 and give priority to companies that rank in the top 5% of the Corporate Governance Evaluation or those sustainable development bonds recognized by the Taipei Exchange. Support thematic investments that contribute to the development of ESG issues, with a particular emphasis on industries or investment targets that prioritize ESG issues.

II. ESG Integration and Risk Assessment

Same as the first paragraph in the previous article, second subparagraph.

III. Exerting Investor Influence

(I) We monitor news, operations strategies, operating status, financial performance, industry dynamic, environmental protection, social responsibilities, labor rights, and corporate governance issues of investees on a daily basis.

(II) Meet with the investees through phone calls, emails, or in-person visits.

IV. Dynamic Adjustment of Positions

For investment targets with an amount exceeding 1% of the net worth of the Bank after final calculation for the preceding fiscal year, where an investment target damages the overall interests of the Bank and funding contributors and seriously violates related ESG issues, the Bank will engage with the investee, and we will also evaluate the potential reduction of our investment position based on the progress made in addressing these issues.

Article 9 (Specific Industry Investment Criteria)

I. Carbon-intensive Industry

If the investment target is defined as a carbon-intensive industry based on the “Regulations for Industry Credit and Investment Limit Management of Chang Hwa Bank” an additional climate risk assessment must be conducted.

For investment targets that are identified as "not participating in any initiative organizations and have not disclosed or submitted emission information," we engage with them to encourage participation in advocacy organizations, and requiring future disclosure of carbon emission information.

II. Highly Sensitive Industry

For investment targets that belong to the following industries should undergo an enhanced risk assessment and review:

(I) Industries related to thermal coal: Enterprises listed in the "Global Coal Exit List (GCEL)[1]," covering:

1. Coal mining: The "Coal Industry Sector" includes "Mining".
2. Coal-fired power generation: The "Coal Industry Sector" includes "Power".
3. Coal infrastructure: The "Coal Industry Sector" includes "Services".

State-owned enterprises that have provided transition plans or government-owned entities with more than 50% ownership are excluded.

(II) Unconventional oil & gas industry: Enterprises listed in the "Global Oil & Gas Exit List (GOGEL)[2]" and belong to upstream suppliers, excluding state-owned enterprises that have provided transition plans or government-owned entities with more than 50% ownership.

(III) With 2023 as the base year, the Bank will gradually reduce its investment in industries related to thermal coal and unconventional oil & gas and complete global phase-out by 2040.

1. In principle, no new investments will be made in the industries related to thermal coal and unconventional oil & gas, unless they involve state-owned enterprises or companies in which the government holds more than 50% of the shares, or the use of funds are for sustainable development.
2. Before the global phase-out year, the Bank should maintain ongoing communication with investment targets that may be affected, engaging in discussions regarding carbon reduction or transformation.

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1 Global Coal Exit List (GCEL): a list published by the international non-governmental organization Urgewald.

2 Global Oil & Gas Exit List (GOGEL): a list published by the international non-governmental organization Urgewald.

3. Before the global phase-out year, exceptions may be assessed for the use of funds explicitly for green transition or development of sustainability, or for proposals with specific decarbonization efforts or transition plans.
4. Phase-out Schedule:
   (1) Reduce investment in the thermal coal and unconventional oil & gas industries by 50% by 2030.
   (2) Reduce investment in the thermal coal and unconventional oil & gas industries by 75% by 2035.
   (3) By 2040, completely eliminate investment in thermal coal and unconventional oil & gas related industries.

Article 10 (Investment Performance Measurement)

I. Establish specific key performance indicators (KPIs) for responsible investment and regularly track them to measure the impact and contribution of responsible investment.

II. Management of Science-Based Targets (SBT)[3]

The Bank is committed to achieving SBT certification for 51.9% of the value of its listed companies issued stocks and bonds by 2028, with 2022 as the base year. As part of this commitment, the Bank will continue to monitor the emissions from its investment portfolio and track its progress towards meeting the SBT targets. This will help the Bank understand the impact on and contribution to climate change.

Article 11 (Division of Responsibilities and Duties)

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[3] Science Based Targets (SBT): The Science Based Targets initiative (SBTi) was jointly established by the Carbon Disclosure Project (CDP), the United Nations Global Compact, the World Resource Institute (WRI), and the World Wide Fund for Nature (WWF). The initiative aims to control global temperature rise to below 1.5°C through the use of scientific tools and methods.

guidelines, the responsibilities and duties of relevant divisions at the Head Office are listed as follows:

I. Undertaking Unit (Treasury Division and Overseas Branches)

Regularly review investment strategies and positions to align with SBT objectives and fulfill responsible investment obligations.

II. Risk Management Division

Regularly report to the Risk Management Committee regarding the undertaking status of investment targets.

III. International Banking Division

Assist in promoting the net-zero emission investment target and encourage overseas business units to invest in green industries or sustainability investment targets.

Article 12 (Matters not Specified in These Guidelines)

If there are any matters not specified in these guidelines, they will be addressed in accordance with applicable laws, regulations, and the Bank's internal regulations.

Article 13 (Level of approval authority)

These guidelines shall be implemented upon approval by the President and all subsequent amendments or revocation shall follow the same procedure.