Chang Hwa Commercial Bank Sustainable Finance Policy

Approved at the 14th Meeting of the 27th Board of Directors on Jun. 27th, 2024

Article 1 Purpose

Chang Hwa Commercial Bank, Ltd. (hereinafter referred to as “the Bank”) incorporates Environmental, Social, and Governance (ESG) principles into its core strategy. The Bank is committed to leveraging its financial influence through sustainable financial services, driving collective efforts with customers to address the balance between climate change and environment, promoting the transform to Net Zero, and upholding the values of equality and inclusivity in human rights. In doing so, the Bank aims to contribute to the realization of the United Nations Sustainable Development Goals (SDGs) and has thus established this policy.

Article 2 Responsible Units

The implementation of this policy is supervised and executed by the Sustainable Development Committee, with each relevant business management units responsible for implementing plans and subsequent operational matters.

Article 3 Applicable Targets

This policy applies all business activities (including corporate finance, consumer finance, investment activities) of to the Bank, including overseas branches and subsidiaries.

Article 4 Adhering to Principles

The Bank shall integrate the SDGs and Taiwan Sustainable Development Goals (T-SDGs) into its operational development plans and business decision-making processes. It shall align its overall management policies and business strategies with the principles and spirit of various domestic and international sustainability-related frameworks, standards, guidelines, or initiatives. This ensures consistency between the Bank’s business strategies and key sustainability initiatives.

The domestic and international sustainability-related frameworks, standards, guidelines, or initiatives mentioned in the preceding paragraph are listed (including but not limited to) as follows:

I. The Principles for Responsible Banking (PRB), Principles for Responsible Investment (PRI), Equator Principles (EP), the UN Global Compact, and others.

II. Regulations issued by domestic competent authorities, such as Sustainable Development Best Practice Principles for TWSE/TPEx Listed Companies, Stewardship Principles for Institutional Investors, Credit Investigation/Credit Granting Guidelines for Members of The Bankers Association Of The Republic Of China, Guidance on climate risk financial disclosures for domestic banks, Banking Industry Friendly Financial Service Guidelines, and others.

In addition to the aforementioned requirements, all of the Bank's global business units must comply with local laws and regulatory policies set forth by supervisory authorities in their respective jurisdictions.

Article 5 Implementation Plan

The Bank should incorporate sustainability issues into the management review process, due diligence procedures, internal education and training, and external engagement across various financial services.

The following implementation plans should be incorporated into existing regulations or the establishment of relevant compliance guidelines:

I. Each relevant business management units should regularly identify sustainability issues and ESG risk/opportunity, incorporate identified significant sustainability issues and ESG risks (including climate-related risks) into risk appetite assessment, and establish relevant indicators and targets to monitor risk situations, and grasp opportunities for sustainable innovation and development.

II. Sustainable finance activities should incorporate ESG factors into the risk assessment and management as crucial considerations based on the nature of the business.

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

1. Environmental (E) factors: Climate change adaptation, carbon emissions, energy and resource management, waste disposal, air pollution, biodiversity, etc.
2. Social (S) factors: Human rights, labor rights, gender equality, food safety, fair treatment, inclusivity, etc.
3. Governance (G) factors: Corporate governance, business integrity, board performance, shareholder equity, information security, legal compliance, anti-money laundering and countering financing of terrorism, etc.

(II) 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 sustainable finance activities.

(III) Investment and financing management

1. Exclusion:

(1) The Counter-Terrorism Financing Act specifies sanctioned individuals or legal persons or entities, as well as individuals or groups identified or investigated by foreign governments or international organizations as terrorists or terrorist organizations.

(2) The economic activities related to sex industry, narcotics, controversial weapons, and illegal gambling.

2. ESG sensitive industries or entities that have significant adverse impacts on ESG should strengthen their risk assessment and review processes.

(IV) In the sustainable finance's credit investigation and granting credit process, investment strategies, and product reviews, the Bank should focus on grasping opportunities for sustainable transformation and business prospects to guide and support corporate and retail clients towards Net-Zero and sustainable development, and practice responsible sustainable finance, while also expanding operational performance.

III. The Bank should establish the engagement procedure of existing investment and financing subjects and the priority engagement subjects or issues. Through various communication channels and methods, engage with these subjects in order of priority to discuss on climate change and sustainable development. These methods include (but are not limited to) providing sustainable-related information, hosting seminars, regular correspondence (such as phone calls, letters, emails), distributing surveys, convening/participating in meetings, exercising shareholders rights and interests, or sustainable investment and financing. Collaborative engagement with other entities or pooling resources can also promote the subjects a shift towards sustainable development.

IV. Blueprint for Net-Zero Emissions

(I) The Bank's climate strategy, action plan and position align with the principles of the United Nations' "Paris Agreement." Each related business management unit of associations should evaluate and monitor the association's climate position before joining and after joining to ensure alignment with the Bank's position. Each related business management unit should inventory and confirm that the climate position of the associations the Bank has joined aligns with our own. If there are significant discrepancies, an assessment should be conducted to determine whether to maintain membership.

(II) Establishing science-based emission reduction targets and conducting regular monitoring; The Bank should implement a tiered management mechanism for investment and financing subjects across different asset classes related to carbon reduction goals. Formulate enegagement action plans of varying intensities according to the tiered management mechanism to encourage investment and financing subjects to reduce greenhouse gas emissions, to set net-zero goals, to plan for low-carbon transition.

(III) Gradually reduce investment and financing positions industries related to thermal coal and unconventional oil and gas, and complete global phase-out by 2040.

1. Before the global phase-out year, the Bank should maintain ongoing engagement with investment and financing subjects that may be affected in carbon reduction or transformation.

2. Before global phase-out year, exceptions may be assessed for the

investment or financing involving funds earmarked for green transformation or sustainable development, or for the proposals with specific carbon reduction or transformation plans made by the subject.

V. Implementation of Due Diligence Review

(I) In conducting pre-assessment for sustainable finance operations, it’s advisable to refer to the supervisory authority’s “Taiwan Sustainable Taxonomy Guidelines” to identify subjects’ sustainable economic activities and incorporate ESG factors to implement mechanisms like KYC (Know Your Customer) and CDD (Client Due Diligence). After the commencement of financial business relationships, regular monitoring should be carried out to track whether investment and financing subjects encounter any ESG negative news and whether the planned activities are being properly executed.

(II) The Bank should establish relevant mechanisms to adhere to and implement the Equator Principles. This includes participation in Equator Principles-related activities, conducting environmental and social risk assessments for credit cases, conducting annual reviews, providing education and training, and disclosing the implementation status.

(III) The Bank should reference the Principles for Responsible Investment (PRI) and adhere to the Stewardship Principles for Institutional Investors and Chang Hwa Bank Stewardship Principles. This entails fulfilling the responsibility to funding contributor by integrating ESG factors into investment risk assessments and actively participating in the sustainable development and management of invested companies through voting and engagement strategies. By leveraging investor influence, we can enhance the overall long-term value of responsible investment.

(IV) If there are any ESG-related risks, an assessment can be conducted to mitigate exposure, establish improvement measures, monitor progress, or discontinue further investment and financing.

VI. Fair Treatment of Customers and Financial Inclusion

To enhance financial accessibility and inclusivity, the Bank pledges to devote efforts to both financial and non-financial aspects of business development and innovation. Financial products and services should ensure fair and equitable treatment of customers throughout the provision process to minimize customer complaints. Additionally, we aim to address the needs of diverse groups, aspiring for everyone to have access to equal, inclusive, and affordable financial services, products, and education.

VII. Promoting Sustainable Business Opportunities

The Bank should develop, promote, and facilitate sustainable financial products and services. It should also actively communicate with customers, offering sustainable credit, sustainable development bonds, digital finance, wealth management, and insurance products.

Article 6 Establishment of Operating Standards

The relevant operational norms and procedure of this policy, along with any modifications, are subject to approval by the President. Subsidiaries are responsible for the approval of the relevant specification and mechanisms based on their hierarchical structure.

Article 7 Information Disclosure

The effectiveness of this policy, apart from being disclosed as required by laws or regulations or at the request of regulatory authorities, should also be disclosed in the Bank’s ESG Report and on the Bank’s official website in accordance with applicable international standards or relevant guidelines.

Article 8 Matters not Specified in This Policy

If there are any matters not specified by this policy, they will be addressed in accordance with applicable laws, regulations, and the Bank’s internal regulations.

Article 9 Approved Level

This policy shall take force upon approval by the Board of Directors. The same shall hold true for amendments or abolishment hereto.