

# Chang Hwa Commercial Bank

## Sustainable Financial Commitments

In order to move towards the goal of net zero, Chang Hwa Bank(hereinafter referred to as "the Bank") outlines four major visions- "Carbon - Expand the greenhouse gas inventory and actively take action on carbon reduction" , "Capital - Create investment value and exert long-term sustainable influence" , "Credit - Follow the Equator Principles and assist enterprises in transformation by green finance" , and "Customer - Value the Principle to Treat Clients Fairly and optimize financial friendly services" . The Bank integrates ESG factors into the operation process of investment, financing, financial products and services, and proposes Sustainable Financial Commitments. It will actively support enterprises with environmental protection (E), social responsibility (S) or corporate governance (G), and assist customers in developing green energy industries and green economies transformation to build a sustainable low-carbon society.

### **Commitment 1**

**Incorporate ESG factors into financial business evaluation and management.**

### **Commitment 2**

**Plan to set carbon reduction targets to reach net zero.**

### **Commitment 3**

**Gradually reduce investment and financing positions in industries related to coal and unconventional oil and gas.**

## Commitment 1

Incorporate ESG factors into financial business evaluation and management.

### Responsible Financing

#### I. Adopt the Equator Principles

Chang Hwa Bank signed the "Equator Principles" in 2022, and committed to establishing relevant control mechanisms in accordance with the Equator Principles, internalizing environmental and social risk management into the credit review process of project financing, and formulating the "Equator Principles Credit Extension Operating Regulations ", which has been implemented from February 1, 2023, and strengthen the management of ESG issues such as human rights and climate change risks in the process of project financing credit application, so as to exert the influence of funds and reduce the risk of climate change on the client and the Bank's asset quality.

(I) The bank's credit application process for cases applying the Equator Principles

			Responsible units	
1	Case applicability judgment and risk classification	Applicability judgment	Business unit (Judgment)	Credit Management Division (Review)
		Risk classification		
2	Request for information	Request relevant documents regarding EP	Business unit	
3	Environmental and social risk assessment and review	Environmental and social risk assessment	Credit Management Division	
		Environmental and social risk assessment review	Credit Management Division	
4	Submission and signing	Commitment clause and signing contract	Business unit	
5	Post-loan management	Conduct annual review of EP	Business unit	Credit Management

				Division
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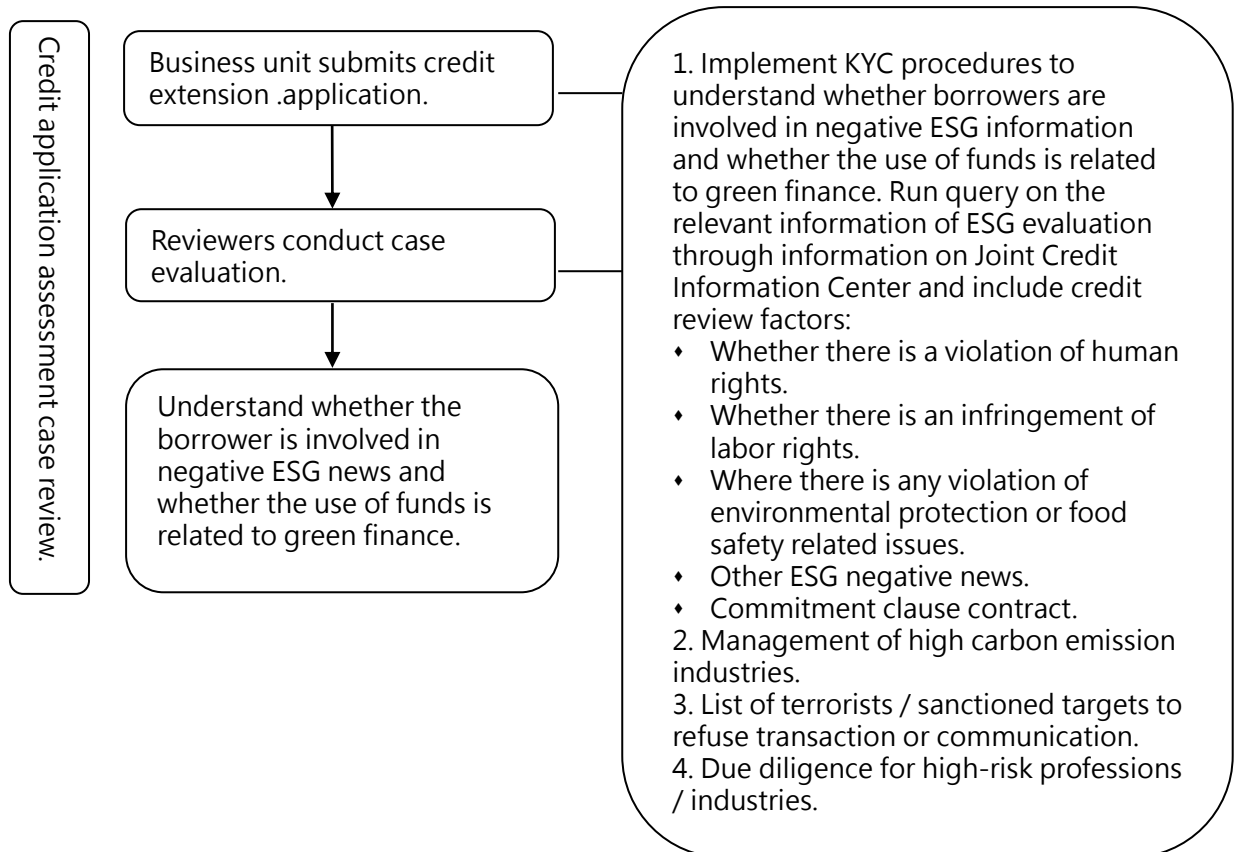
(II) According to the regulations of the Equator Principles Association, starting from 2024, the Bank will publicly disclose the relevant information of the project financing undertaken on the official website of the Equator Principles every year, including the industry category, risk classification, region, the environmental and social risks reviewed, and the independent third-party review status, etc.

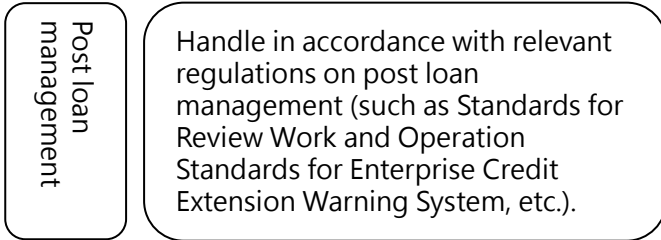
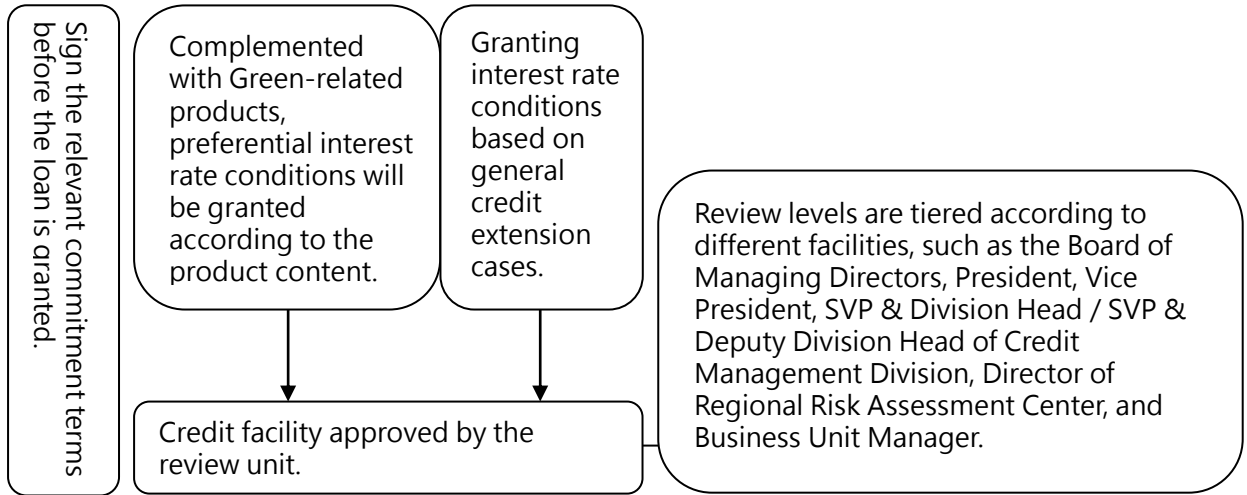
\*For details, please refer to the Bank's ESG Report, the "Equator Principles" page of the Sustainable Development Zone of the official website, or the Financing Negotiation and Cooperation Zone of the website of "The Bankers Association Of The Republic Of China" .

## II. Incorporate ESG assessment factors into financing processes

The Bank implements the KYC (Know Your Customer) and CDD (Client Due Diligence) mechanism in the general credit application process of corporate credit and personal credit, and incorporates ESG assessment factors into the review process in pre-examination, loan approval decision-making, and post-loan management:

### (I) The Bank's Credit Extension Process





## 1. Prior review

During credit application, it is necessary to understand whether the borrower is involved in negative ESG news. For example, check whether the credit application case involves violations of E (waste production, air pollution, biodiversity extinction, etc.), S (human rights, labor rights, food safety, etc.), G (legal proceedings, equity competition, etc.) related negative news through public websites or other media channels.

### ► Exclusions

A. Industries Prohibited from Granting Credit : In principle, considering that virtual currencies and P2P online lending platform operators may entail risks of money laundering and funding terrorist, the Bank does not accept the establishment or adding of new business relationship to those industries and due diligence for customers in high-risk industries is more intense.

B. Enhanced evaluation: In principle, the Bank should avoid granting credit to industries that have a significant adverse impact on the sustainable development of environment or social (such as non-public welfare games, arms and weapons, etc.), or grant credit only after careful assessment.

C. Personal credit that should not be undertaken : The borrowing is used to finance illegal or unethical purposes (e.g., sex industry, opening casinos, underground banks, etc.) or engage in short-term profit-making speculative activities (e.g., gambling, stock speculation, arbitrage, etc.) or engage in financing business activities.

### (1) Corporate Finance

ESG financing principles are added to the "Financing Process Procedures". When applying for credit, it is checked whether the borrower is involved in ESG negative news, and ESG factors such as human rights, labor rights, environmental protection, food safety, and corporate governance are internalized into the credit review process, and the company's ESG-related information is obtained through the Joint Credit Information Center, and whether

the use of funds is related to green finance as to engage with enterprises on sustainable issues in a timely manner.

Aspect	ESG Factors in Corporate Finance Review
E	<ul style="list-style-type: none"> <li>● Whether it involves environment-related negative news</li> <li>● Whether it violates the relevant laws and regulations on environmental protection (such as improper discharge of sewage, waste, air pollution, etc.) and is punished.</li> <li>● Whether it belongs to the list of emission source manufacturers listed by the Environmental Protection Administration or the high carbon emission industry defined by the Bank.</li> </ul>
S	<ul style="list-style-type: none"> <li>● Whether it involves negative social news</li> <li>● Whether there have been incidents of human rights violations</li> <li>● Is there any violation of labor rights</li> <li>● Is there any violation of food safety incidents</li> </ul>
G	<ul style="list-style-type: none"> <li>● Whether it involves negative corporate governance news</li> <li>● Whether it is a stakeholder</li> <li>● No risk of money laundering</li> <li>● No information security risk (not a list of terrorists/sanctioned targets to refuse transaction or communication)</li> <li>● Whether involved in criminal proceedings has been adjudicated</li> <li>● Whether there is a note of bad credit account/collateral</li> <li>● Whether there is a state of being detained by the court</li> </ul>

(2) Personal Credit

When applying for credit, the Bank shall incorporate ESG factors into personal credit considerations, and implement KYC and CDD mechanisms. If there is a major violation of ESG, the transaction will be refused or the communication will be declined, so as to reduce the adverse impact on the environment and society, and fulfill the corporate social

responsibility.

Aspect	ESG Factors in Personal Finance Review
E	<ul style="list-style-type: none"> <li>● Whether the use of funds is related to a green use of proceeds</li> </ul>
S (G)	<ul style="list-style-type: none"> <li>● Whether the client is a stakeholder</li> <li>● Whether the client is on the control list, such as PEPs or people involved in negative reports</li> <li>● No risk of money laundering</li> <li>● No information security risk (not a list of terrorists/sanctioned targets to refuse transaction or communication)</li> <li>● Personal credit and check credit status</li> <li>● Whether the client is on the blacklist (relevant information on gangster fraud cases, economic and financial crimes, foreign exchange fraud, credit card suspension by peers, etc.)</li> <li>● The risk level of the client (such as occupation, etc.)</li> </ul>

2. Credit Approval Decision-making

During credit application, the Bank shall check whether the credit account is a credit case suitable for green loans, and grant preferential interest rate conditions according to the content, so as to improve the opportunity of the credit account's green transformation.

3. Post-loan management

The Bank shall conduct reviews and assessments in accordance with the "Corporate Customers Early Warning Evaluation Procedure" and "Review Work Standard" after the loan is approved to understand whether the credit customer is embroiled in negative news or has properly utilized the loan as per original loan application plan.

(II) Disclosure the Implementation of ESG review

The Bank regularly discloses implementation of ESG review on the official website and the ESG report, and discloses the number of credit cases involved in ESG risks and the results of review (conditionally approved or unapproved).

**III. Engagement**

(I) In response to the international development trend of green

finance and to encourage enterprises to increase financing for green and sustainable development, the Bank has launched the "Sustainability Linked Loans Project" for listed, OTC, emerging or public offering companies. The bank obtains indicators such as "controlling greenhouse gas emissions", "carbon reduction effect", "power management", "energy consumption", and "reduction of waste" from corporate through public information. If one of the indicators improves compared with the previous year, the interest rate can be reduced accordingly, so as to encourage enterprises to take into account the promotion of ESG concepts while pursuing operational growth.

- (II) For high-carbon-emission industries<sup>1</sup>, perform additional climate risk checks to monitor their climate risks; if the credit recipient is a listed (OTC)/emerging company, if it has not participated in any initiative organization and has not submitted and disclose GHGs emission information, the Bank should engage with the credit recipient, requiring them to disclose GHGs emissions and carbon reduction information in the future, and encourage them to participate in initiative organizations to guide enterprises in low-carbon transformation, with a view to contribute to the net zero goal with the customers.
- (III) Disclosure of engagement information: The Bank regularly discloses information on ESG engagement with company on the credit on our official website and ESG report, and continues to track the company's follow-up actions on related issues, and join with customers to move towards sustainable development.
- (IV) Engage with personal credit clients: During the negotiation process of personal credit, the Bank will confirm to customers whether the use of loan funds is related to a green use of proceeds, such as whether the house renovation adopts environmentally friendly construction methods or materials. If it is green and eco-friendly, it can be considered and evaluated in the credit application to encourage credit clients to opt for greener products and adopt a more sustainable lifestyle.

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<sup>1</sup> If the enterprise belongs to the latest annual list of emission source manufacturers that should be verified and recorded for greenhouse gas emissions released by the Environmental Protection Administration or industries with high carbon emissions as defined by the Bank (For example: oil and gas exploration and production, mining, petrochemical industry, coal-fired power generation, etc.)



## Responsible Investment and Stewardship

### I. Principles and initiative spirit

(I) The Bank, while pursuing return on investment, we should pay attention to the SDGs, PRI, UN Global Compact, and related international **principles**, guidelines or initiative, as well as include ESG performance of investees into the investment evaluation procedures.

(II) The Bank has signed the "Statement of Compliance with Stewardship Principles for Institutional Investors" and established the "Chang Hwa Bank Stewardship Principles". The Bank monitors, analyzes, and evaluates the information on ESG issues of investees and achieves the target of sustainable operation goals of investees through dialogue and interaction with them, in order to create long-term value for funding contributors and the overall financial market. The Bank incorporated ESG sustainable investment goals into KPIs to more actively implement responsible investment and create social sustainable value.

(III) After approved, the Bank discloses implementation results of its stewardship (records of voting, negotiation, etc.) to funding contributors every year and also uploaded the information to the Stewardship Principles for Institutional Investors section of the Bank's official website for perusal by clients, investors, and the general public.

### II. Incorporate ESG assessment factors into investment processes

(1) Targets (Coverage : 75-100%)

A. Where the investment amount in a domestic stock (excluding those of the nature of creditor's rights or options) approved in accordance with Article 74-1 of the Banking Act and authorized by the competent authority for investment exceeds NTD 100 million (or foreign currency of an equivalent value) or where the percentage of shares held exceeds 5%.

B. Long-term equity investments processed in accordance with Article 74 of the Banking Act.

C. Where the Bank serves as a trustee who holds voting rights for trust assets, investment in domestic stocks held by the trust assets for more than one year with an amount of more than NTD

300 million (or foreign currency of an equivalent value) or where the percentage of shares held exceeds 5%.

D. Where an investment in a single company or bond issued by a financial institution exceeds 1% of the net worth of the Bank after final calculation for the preceding fiscal year.

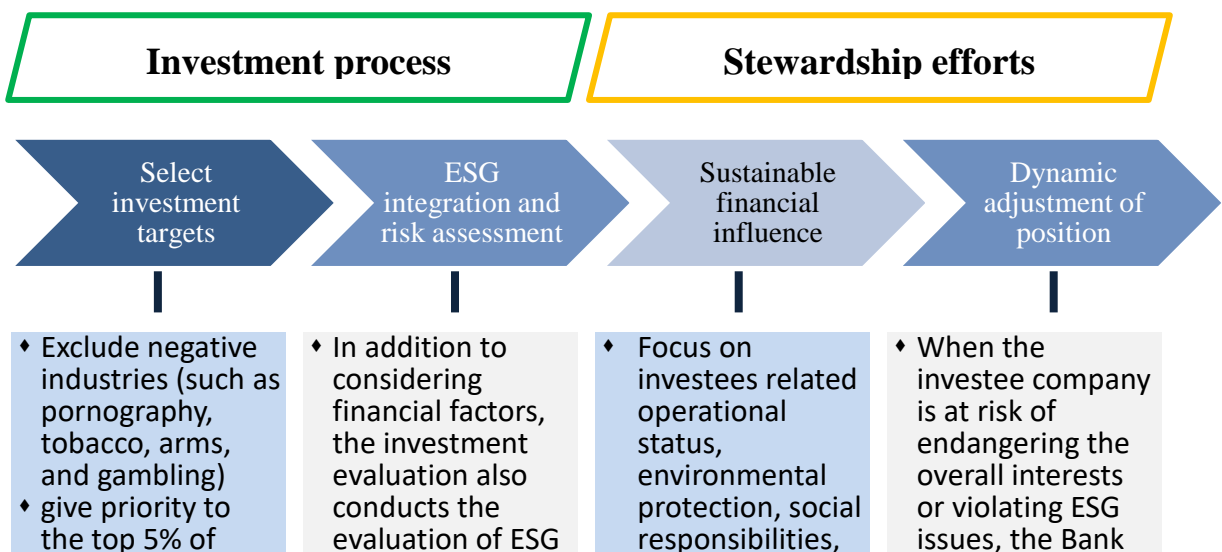
(2) ESG review process

A. ESG factors :

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

B. **ESG Investment Process** : The Bank has developed "ESG Checklist" and adopted a negative exclusion screening mechanism to exclude controversial industries such as pornography, arms, and gaming from investment targets, and then analyze the target' s risks and opportunities based on ESG factors, then refers to related information such as Taiwan Depository & Clearing Corporation's IR Platform, the Market Observation Post System, and Bloomberg to make investment decisions.

C. ESG Investment Flowchart :



<p>companies of the Corporate Governance Evaluation results and Sustainable development bonds approved by the Taipei Exchange</p> <ul style="list-style-type: none"> <li>◆ Impose investment caps on industries with high energy consumption.</li> <li>◆ Support thematic investment conducive to the development of ESG matters; invest in industries or underlying assets that place importance on ESG matters.</li> </ul>	<p>factors and analyzes risks and opportunities.</p> <ul style="list-style-type: none"> <li>◆ Industries with high carbon emissions as defined by the Bank are subject to climate risk assessments.</li> </ul>	<p>human rights protection, and corporate governance.</p> <ul style="list-style-type: none"> <li>◆ Encourage enterprises to participate in initiative organizations and disclose carbon emission information through engagements.</li> <li>◆ Attend investors' conferences, the board of directors or supervisors, general shareholders' meetings, or extraordinary shareholders' meetings of investees.</li> <li>◆ Serve as a director and supervisor of investee</li> </ul>	<p>will express its position and demands, or conduct a position reduction assessment.</p> <ul style="list-style-type: none"> <li>◆ If the invested company violates ESG issues and has no improvements despite being subject to punitive action, the Bank will clear its position and reduce risks.</li> </ul>
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#### D. Control measures for specific industries in response to climate change

- In accordance with the "Regulations for Industry Credit and Investment Limit Management of Chang Hwa Bank", in response to climate change, the Bank imposes autonomous total amount control in investment and financing. The Bank collects climate risk information is collected every year, and credit and investment limit ratios are adjusted for individual industry combinations with climate transition or physical risks, such as: power supply industry, oil and gas mining, chemical raw material manufacturing, etc.
- If the investment target is a high-carbon industry defined in the " Regulations for Industry Credit and Investment Limit Management of Chang Hwa Bank", such as: oil and natural gas exploration and production, mining industry, Manufacture of Paper, petrochemical industry, Manufacture of Cement, steel industry, electric power industry and air transportation industry, etc., a climate risk review must be conducted.

### III. Engagement with Corporate

#### (I) Engagement Policy (Coverage : 50-75%)

- The Bank gives priority to communicating with investee companies on the ESG issues of major concern, such as climate change and sustainable development. Through the screening mechanism established by material of issues, industry report research, third-party ESG rating agencies, and target industries/proportion of position/geographical location, etc., the Bank focuses on targets with poor financial or ESG performance for priority communication, and conducts due diligence and review of their ESG performance.
- If the Bank discovers that there are major problems, we will communicate with the company as necessary before voting at the shareholders' meeting of the Bank's investee and express opinions by exercising voting rights.
- The Bank continues to pay attention to and analyze ESG issue information of investee companies and dialogues and interacts with investees through official letters, conference calls, visits, and attendance at investor conferences and general and extraordinary shareholders' meetings to achieve the sustainable management goals of the investees.
- When the investees has a major violation of corporate governance principles on a specific issue or the risk of damaging the long-term value of the Bank's capital providers and beneficiaries, the Bank will express our position and demands to the investees, interview the handling situation with the management of the investees from time to time, and do not rule out joint expression of demands with other investors.

#### (II) Engaging positions

Engaging positions	
<b>E</b>	If the investment target of high-carbon industry does not participate in any initiative organization and does not disclose or submit information on emissions, the Bank shall engage with the company to encourage it to participate in an initiative organization and require it to disclose information on carbon emissions in the future.
<b>S</b>	Ask the target that violate major social issues such as the human rights of labor and labor relations to propose

Engaging positions	
	improvement and review plans.
<b>G</b>	If the target has specific evidence to prove that it violates laws and regulations in the execution of business, and has a significant impact on the rights and interests of investors, the Bank will adjust the position of the target in a timely manner depending on its improvement plan and situation.

#### IV. Equity voting

©Voting Policy/Principle (Coverage : 75-100%)

(I) Voting methods for shareholders' meeting

The Bank shall exercise voting rights in writing or electronically. Where an investee adopts electronic voting for a shareholders' meeting, the Bank shall, as a principle, use electronic voting except where attendance in person at the shareholders' meeting is necessary due to business requirements.

(II) Principle for exercising voting rights at shareholders' meeting

When the Bank is supposed to vote at the shareholders' meeting of the Bank's investee, the responsible unit shall conduct a review prior to the voting. In the event that material issues are found, the Bank shall communicate (e.g., stakeholder engagement) with the management team of that company before the shareholders' meeting.

(III) Voting position

The Bank pays attention to the overall ESG performance of investees. Out of respect for investees' business expertise, we support proposals put forth by the management team at a shareholder's meeting (administrative affairs such as regular financial statements, annual business reports, and earnings distribution, as well as proposals bearing no negative impact on the operation and financial situation of the invested company) in principle. However, in the event of important types of proposals that the Bank is concerned about like those listed below, we will vote against them or abstain from voting:

Voting position			
Aspect	Support	Against	Abstain
<b>E</b>	support	Regarding environmental	

Voting position			
	in principle	hazards and other issues, such as: increasing the scope of high-pollution or high-carbon-emission business, purchasing machines that are prone to pollution, reducing the budget for environmental maintenance, etc.	
<b>S</b>	support in principle	Regarding human rights violations, labor relations and other issues, such as: cutting employee welfare budgets, increasing the number of days of unpaid leave, etc.	
<b>G</b>	support in principle	<p>On the premise that the protection of public equity interests is not involved, issues such as impeding corporate governance are as follows:</p> <ol style="list-style-type: none"> <li>1. Surplus and capital reserve allocation plan, whether cash or stock dividends from income generation or capital reserve and statutory surplus conform to the dividend policy, and do not affect the company's long-term capital structure and capital expenditures required for future operations.</li> <li>2. The board of directors' re-election proposal did not adopt a nomination system, or an independent director candidate serves as an independent director for</li> </ol>	Voting position for abstention include (but are not limited to) the re-election of directors and supervisors who have been disclosed by the media to be in dispute over management rights, and the situation where it is

Voting position			
		more than 3 terms. 3. The company fails to disclose the operation of corporate governance in the annual report in accordance with regulations.	difficult to fully understand the candidate's qualifications and background for the election of directors and supervisors.

\*For the information of the Bank' s support for ESG-related proposals, please refer to the Stewardship Principles for Institutional Investors section of the Bank's official website.

(IV) Proxy Voting Situation

The Bank has designated employees internally who are dedicated to investment management. Therefore, we do not use outsourced research or proxy voting service. Attendance in shareholders' meetings, research on ratification proposals and voting proposals, and the approach for exercising voting rights are assigned the related internal employees to attend to these affairs in accordance with regulations.

**V. Positive impact investment results**

(1)Engagement with the investee companies

The Bank values opportunities to communicate with investee companies. Common engagement activities include participating in shareholders' meetings and investor conferences, and sending letters, and gradually reach a sustainable consensus with the investee companies through the engagement process. The following is one of the cases :

The Bank, along with other institutional investors, participated in discussions with a specific investee company regarding its overall ESG performance and information disclosure. The three parties conducted a collaborative review of the company's current ESG status through an online meeting, discussing recommendations

on social aspects, economic aspects (including corporate governance), environmental aspects, and disclosure aspects. In response to stakeholder demands, including the government, customers, and investors, the company actively participates in various international initiatives related to climate change. It has already submitted its commitment to the Science Based Targets initiative (SBTi) in 2023 and aims to pass the SBTi target review by 2024. Additionally, the company has assessed the potential risks and adaptation strategies of climate change on its current and future operations using the Task Force on Climate-related Financial Disclosures (TCFD) methodology and has adopted the Sustainability Accounting Standards Board (SASB) sustainability indicators. In terms of the structure and operations of the Board of Directors, it is recommended to appoint female directors and increase the number of independent director seats. The Bank will continue to monitor and track the company's progress.

(2) Issuance of and investing in sustainable development bonds

To develop sustainable finance, the Bank has been actively issuing and investing in sustainable development bonds, including Green Bonds, Sustainability Bonds, Social Responsibility Bonds and Sustainability-Linked Bonds. The Bank issued the 1st senior unsecured financial debentures (Sustainability Bond) with a period of 5 years and a total amount of NT\$1 billion in 2023. In 2023, the total investment in Sustainability-related bonds are NT\$3 billion.



## Commitment 2

### Plan to set carbon reduction targets to reach net zero.

In response to the national goal of "Net Zero Emissions by 2050", Chang Hwa Bank committed to set the mid and long-term target of carbon reduction which to reduce greenhouse gas emissions by 42% by 2030 compared to the base year 2020 for restricting global temperature rise within 1.5°C, aiming to achieve net zero by 2050.

Chang Hwa Bank has signed the Science Based Targets initiative (SBTi) in 2022 and adopted PCAF's methodology to calculate the carbon emissions of the investment and financing portfolio (scope 3). With the goal of controlling the global temperature rise within 2°C, The Bank plans to set corresponding carbon reduction targets for each investment and financing portfolio and establish specific carbon reduction strategy. We submitted the SBTi targets for approval and passed the review. The objectives outlined in the national goal of Net Zero Emissions by 2050 and Paris Agreement.

### **Commitment 3**

**Gradually reduce investment and financing positions in industries related to coal and unconventional oil and gas.**

In order to implement responsible finance, contributing to the national goal of "Net Zero Emissions by 2050", Chang Hwa Bank commits to engage with the investment and financing subjects related to thermal coal and unconventional oil & gas fuels industry till global phase-out year.