

5.3 Responsible Lending

CUB is dedicated to managing ESG and climate risks and has adopted the "Guidelines Governing ESG and Climate Risk Management." Our commitment to addressing climate change and mitigating environmental, social and governance risks is evident in the integration of responsible lending into our core competencies and operations. As a strong supporter of the Paris Climate Agreement and TCFD framework, we have established a clear definition of climate risks (including transition and physical risks) and integrated them into our lending procedures and ESG management mechanisms. We are committed to continuously improving responsible lending risk management and building our capacity to respond to ESG and climate-related risks. In addition, CUB voluntarily committed to complying with the UN Principles for Responsible Banking (PRB) in 2018 to promote responsible banking and exert our financial influence. In February 2021, we became the first bank in Taiwan to have our UN PRB efforts successfully assured by accounting firms. As part of our efforts, we continue to invite our value chain partners to work together to promote sustainable environmental and social development to fulfill our corporate social responsibility. For details on the implementation of the ESG review for Cathay United Bank's corporate lending status, please refer to [Table 2](#) in the Appendix.



Exclusion

CUB operates in accordance with Cathay FHC's exclusion list and has developed an exclusion list from lending, including controversial weapons, human rights violations, adult entertainment, mining, coal-fired/nuclear power generation, coal-related industries, upstream mining of oil and natural gas, the tobacco industry, gambling, gaming, logging in tropical rainforests, and gillnet production and gillnetting



Credit Facility Application

- ESG Risk Rating Mechanism: CUB places stringent control over ESG-related risks arising from loans. We continue to refine our ESG risk management mechanism by integrating climate change, environmental impact, and human rights issues into consideration. An internal ESG risk rating management mechanism has also been established
- Sensitive Industry: CUB classifies industries that are highly exposed to climate risks, such as carbon emissions, water use, electricity use and waste, as sensitive industries. We have also developed a risk management mechanism for these industries to better understand and assess environmental and climate-related risks



Credit Review Assessment

- Risk Assessment and Mitigation: CUB follows the "Environmental, Social, and Governance (ESG) Rules for Corporate Loans," which require Know Your Customer (KYC) and ESG risk assessments when processing corporate loans. We integrate ESG considerations into our credit underwriting and management processes through risk ratings. In addition, we require post-incident remediation and risk mitigation measures based on the level of risk identified
- Equator Principles (EPs): CUB follows the "Rules Governing Project Finance of the Equator Principles" in managing environmental and social risks during transaction review and processing, including environmental and social risk classification, assessment, review and post-lending management. CUB assesses environmental and social performance against standards set by the International Finance Corporation, as well as third-party advisory reports. The results of the review are incorporated into the credit risk assessment and loan terms to ensure better management of environmental and social risks for Equator Principles-related financing projects. In 2022, two cases reached financial close in accordance with EP regulatory disclosures. For an overview of past Equator Principles-related transactions, please refer to [Table 3](#) in the Appendix.



Post-Loan Management

- Annual Review and Early Warning: CUB performs an annual ESG risk assessment on all corporate borrowers to evaluate the loan's ESG lending status, compliance, and ESG rating changes; Continuously monitoring changes in a client's ESG risk profile is crucial to provide early warning and respond effectively to potential ESG risks. Furthermore, we develop financial asset transformation strategies and enhance customer engagement. For detailed implementation information, please refer to [2.1 Low Carbon Economy](#).

■ Principles for Responsible Banking (PRB)

As the largest privately owned bank in Taiwan with the largest number of branches, CUB has always been committed to the growth and development of businesses and individuals. To this end, we offer a wide range of products and services to meet the financial needs of both institutional and individual investors. CUB is an industry leader in both credit card and wealth management services. CUB translates Cathay's corporate social responsibility into real actions. We work with all stakeholders to leverage our positive financial impact and continue to monitor the negative social, economic and personal impacts caused by environmental changes and the pandemic. For the PRB implementation summary, please refer to [Appendix 7.3](#). For detailed information, please refer to CUB's 2022 Report on the Implementation of the Principles for Responsible Banking (PRB).

■ Implementation of Principles for Responsible Banking (PRB): Creating effective organizations with a responsible banking culture

CUB has established a Corporate Sustainability Working Group as a continuation of Cathay FHC's Corporate Sustainability Committee governance framework. It is the core unit for promoting corporate sustainability and is chaired by the President of CUB. Within the CS Team, there are six task forces, all led by senior CUB executives. The CS Team meets quarterly and takes forward Cathay's three focus areas in its sustainability strategy - climate, health and empowerment. The team has developed short-, medium- and long-term action plans that integrate our core competencies. The implementation of these actions is aimed at embedding the core philosophy of sustainable development in our daily work. The team presents major sustainability tasks to the board of directors at least once a year. In 2022, the team presented to the board twice.

Progress Toward Material Impact Objectives

Goal		Monitor & Tracking	Progress
Renewable energy loans	Increase the share of renewable energy to 85% of total electricity supply lending" by 2025.	Quarterly tracking	<ul style="list-style-type: none"> ● As of the end of 2022, the share of renewable energy supply accounted for 87.56%, which is an early target achievement. ● With CUB's early achievement of the renewable energy lending target, the Bank continues to leverage its core competency in supporting the energy and low-carbon transition. As a result, "Green Deposit/Loan Products or Services" has been set as a new target. We are committed to providing more financing to become the strongest supporter of our customers' low-carbon transition efforts, working together to enhance their sustainable competitiveness.
High emissions industry loan	"Zero Coal Financing" : Achieve zero coal lending by the end of Q1 2027. (note)	Quarterly tracking	<ul style="list-style-type: none"> ● The revolving credit line for zero coal generation loans would reset to zero at the end of 2022 and would not be renewed after the buffer period. ● Medium to long-term quota will be phased out and no new loans will be approved.
Green Deposit/Loan Products or Services	Based on 2022, the scale of green deposit products or services will grow by 100% by 2030.	Annual tracking	<ul style="list-style-type: none"> ● New goal in 2022.

Note: upstream/midstream/downstream coal industry chain includes coal-related mining, manufacturing, wholesale and retail, all are listed on the bank's exclusion list.