



2022 Responsible Investment and Stewardship Report

2022-01-01-2022-12-31



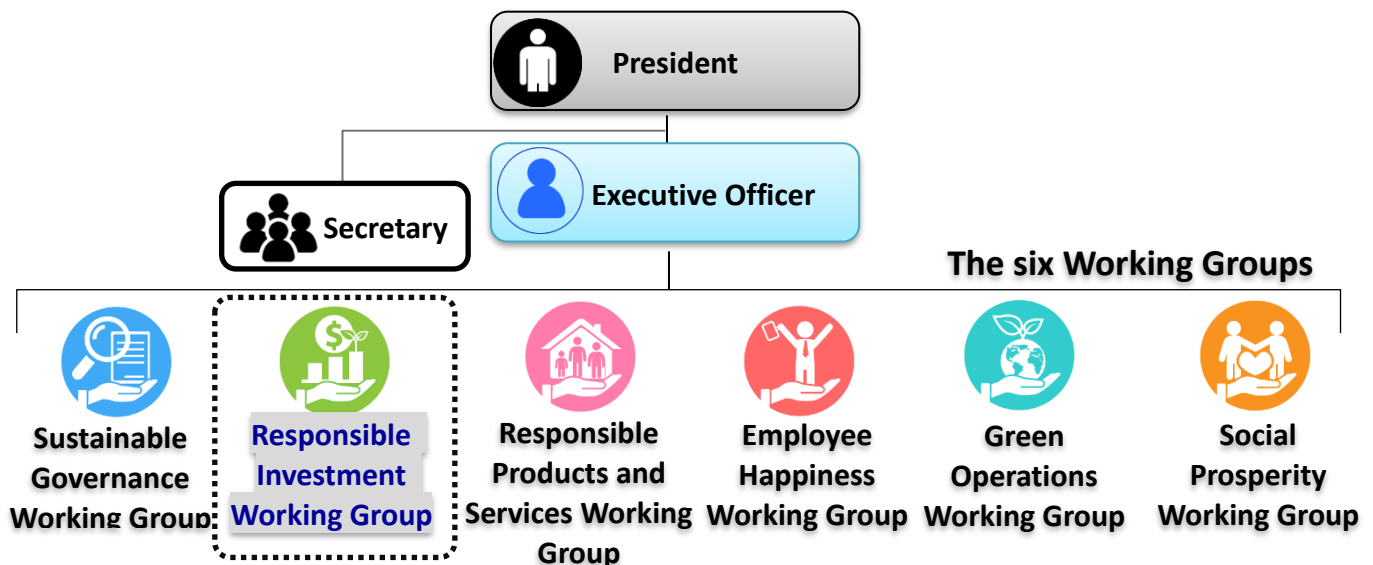
國泰人壽
Cathay Life Insurance

ABOUT CATHAY LIFE INSURANCE



Founded in 1962, Cathay Life Insurance has 31 thousand employees, 8.13 million policy holders, and total assets of over US\$ 266 billion, and is the leader of Taiwan's insurance industry. "Lead the way in sustainable insurance and ensure the happiness of society" is Cathay Life's vision of sustainability, which consists of four strategic directions: Commitment, Accountability, Richness, and Eco-Living (C.A.R.E.).

■ Cathay Life Corporate Sustainability Team



■ Strategic Focuses & Directions



STATEMENT

Since 2015, Cathay Life has been self-complied with the Principles for Responsible Investment (PRI) on its own initiative. On July 25, 2016, Cathay Life signed the Taiwan Stewardship Principles for Institutional Investors issued by TWSE Corporate Governance Center, and became the first insurance company in Taiwan to become a signatory.

Taiwan Stewardship Principles
for Institutional Investors



Signatory

 Cathay Life Insurance
2016.07.25

When Cathay Life use the core investment capabilities to pursue growth, we will always commit to integrate environmental, social and governance (ESG) factors into investment decision-making and ownership practice, through the system establishments and process adjustments in order to fully exercise its expertise and influence as an institutional investor and fulfill the duties of an asset owner, thereby increasing the long-term values of its customers and shareholders and realizing responsible investment.



[Cathay Life
Compliance Statement-
Stewardship Principles for
Institutional Investors](#)

This report is not only we demonstrate our efforts in responsible investment and stewardship but also claim to abide by six principles of PRI and Taiwan Stewardship Principles for Institutional Investors. After being countersigned by the legal affairs office and corporate governance manager, it is submitted to the general manager for approval and then proactively disclosed.

As of December 31, 2022, Cathay Life has complied with the Principles for Responsible Investment (PRI) and the six principles of the (Taiwan) Stewardship Principles for Institutional Investors without fail.

ABOUT

The contents in this report is released after reviewed by the legal affairs office, chief corporate governance officer, and approved by the general manager. The information disclosure period of this report is from January 1, 2022 to December 31, 2022. The report discloses information on Cathay Life Insurance, and the scope is limited to Taiwan.

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Responsible Investment Organization and Mechanism

Cathay Life Insurance's total assets exceed US\$ 266bn (US\$ 238.7bn of which are investment assets), accounting for about 1/4 of Taiwan's overall life insurance industry. As one of the largest institutional investors in Taiwan, Cathay Life has long been focusing on appropriately using the funds of policy holders and shareholders to make its capital usage more meaningful. With the growing awareness worldwide on corporate sustainability and ESG issues, responsible investment has become a mainstream value. In response, Cathay Life also considers the integration ESG issues into our investment decision making process. We not only pay attention to the operational prospect of our investees, but also hope to set a model for our investees that focuses on sustainable development. From encouraging our investees' development towards becoming a good company and demonstrating good behavior to changing other companies, we can make our environment more sustainable, retain long-term viability of our operations, mitigate the impact of ESG risks, and generate positive economic benefits, all in order to establish a model for corporate accountability and create a sustainable future.

(I) Working Group and Inputs

Cathay Life Insurance is the first insurance company in Taiwan to establish a Responsible Investment Working Group. The Responsible Investment Working Group consists of 14 departments from the front-, middle- and back-offices involved in investment, and is headed by the executive managers of equity investment department. In 2022, a dedicated unit was established to oversee and plan responsible investment matters. The working group continues to expand research resources to strengthen the Company's responsible investment capacity and improve our sustainability performance, in the hope of becoming a leader in responsible investment in Taiwan.



(II) Our Missions

1. Set short-, medium- and long-term goals and responsible investment and climate related plans each year.
2. Research benchmark peers' policies and mechanisms of responsible investment, sustainability trends, and international framework.
3. To progressively internalize ESG concepts into investment teams, thereby making sustainable investment an integral part of everyday investment:
 - (1) To organize training courses to improve investment teams' understanding of responsible investment and develop talent in ESG investment;
 - (2) Regularly issue CLIMATE PLUS, a monthly e-newsletter on responsible investment, to share the latest domestic and international responsible investment initiatives, actions, and the industry's carbon reduction trends.
4. The external professional ESG database and tools are integrated with the internal investment management system, in order to help the investment team to timely monitor the ESG rating and Climate VaR of investee companies. In addition, the Company has developed internal management tools, including the commitment to net zero/ RE 100/ SBTi, and historical carbon emissions data. The information is shown graphically to provide front-end investment offices an avenue to keep track of carbon emissions and climate commitments of investee companies.
5. Plan annual stewardship activities, including setting engagement strategies to communicate with investee companies, planning exercising voting rights, analyzing shareholder voting rights, and other relevant procedures.

Internal lecturers

The responsible investment courses are included in the compulsory courses for new employees' training, which introduce the internal responsible investment mechanism, thereby allowing ESG principles to take root in our investment teams.



External professional lecturers

In addition to introducing ESG trends, the professional lecturers also provide in-depth description of ESG database methodology to assist the investment teams in incorporating ESG data into the investment decision-making process.



CLIMATE PLUS NEWSLETTER

- ✓ International Climate Initiatives
- ✓ ESG policies and regulations
- ✓ Industry's carbon reduction trends
- ✓ Responsible Investment News



310 people
senior executives and investment teams

360 hr/ppl/yr
Learning time

US\$2,000+
investment amount

ESG Analysis Tool

Update ESG Tools regularly



keep track of carbon emission information of investee companies



keep track of carbon emission trends of investee companies



search for current ESG ratings

search for climate risk value CVar

upload ESG assessment reports

Investment amount : **US\$2,600+ thousand**

Subscriptions of Third-Party databases **MSCI** **ISS** **Bloomberg** BloombergNEF **CDP**

(III) ESG policies and mechanism

1. Perfecting ESG management policies

In order to make our responsible investment comprehensively cover various types of assets (e.g., equity, bonds, funds, and real estate), we not only comply with the Responsible Investment and Lending Policy established by Cathay FHC, but also establish relevant ESG directions and policies tailored to individual investments in assets of different natures (please see the figure below and details as [annexed table](#)). In addition, we report the implementation results of responsible investment to the Board of Directors every year.

2. Fully implementing responsible investment

We exclude assets that fall outside the scope of responsible investment operations (e.g., cash, foreign exchange hedging, and separate account). The total responsible investment assets amount to US \$208 billion.

Securities Investment

- We stipulate “Investment Management Procedures” and “Investment Policy” to follow the PRI by refining the investment procedures, utilizing its investment information systems, and referring to the external research resources.
- We also established “Stewardship Principles,” which incorporates ESG factors into various stewardship activities.

Equity and Fixed Income

- ESG Risk Review Procedure ([P.10](#))
- Interacting with investee companies ([P.21](#))

Fund and Mandate

Asset Manager Mandating and Monitoring ([P.18](#))

Corporate Lending

We stipulate “Responsible Lending Policy” and “Notice for Review of Loans to Corporations” and design an ESG checklist to verify lending customers’ achievements of ESG matters. ([P.17](#))

Real Estate Investment

We establish its “Responsible Property Investment and Management Policy”, which states that real estate investments must improve the performance of its real estate holdings so as to engage in the proper utilization of Earth’s resources and the proper management of investment and operating risks. ([P.17](#))

3. Managing conflicts of interest

Cathay Life is consistently committed to steady, pragmatic operations based on the principle of business integrity. In order to ensure that our use of funds is in line with the policyholders' expectations and shareholders' rights and interests, we established a management system for specific conflicts of interest. The system properly manages and implements internal control of conflicts of interest in the patterns that are likely to occur, so as to avoid various conflicts of interest between Cathay, its employees and policyholders, or shareholders and other stakeholders.

(1) Implementing the promotion of education

In order to enable employees in our investment teams to better understand the spirit of avoiding conflicts of interests, and adhere to high ethical standards and comply with relevant internal and external laws and regulations when implementing investment businesses, Cathay Life has prepared documents for communication on conflicts of interest for employees to refer to at any time, convened meetings among relevant departments from time to time to discuss relevant matters, and included courses on conflicts of interest as compulsory courses for new investment-related employees. In the meantime, we have organized educational trainings for all employees every year. In 2022, a total of 4,638 Cathay employees participated in internal training courses and discussion meetings on conflicts of interest, amounting to average training hours of 32 minutes per person.

(2) Stipulating directions and regulations

Cathay Life Insurance has established the "Guidelines for the Prevention and Management of Conflicts of Interest in Investment" to set a mechanism for preventing conflicts of interest in investment transactions, and regulate investment and trading personnel and those who are aware of the content of investment transactions prior to the transactions, to adhere to high-ethical standards and perform investment businesses with diligence and professionalism to avoid conflicts of interest. Furthermore, we manage such affairs through regulations on matters, such as restriction on trading venues and equipment,

retention of transaction records, transaction authorization control, pre-transaction prohibition, post-transaction reporting/audit, and prohibition of improper benefit acceptance, among others.

Investment team shall follow the aforementioned mechanism to implement daily management and annual self-check. In addition, the auditing unit shall implement audits on “reports, transactions, and conflicts of interest” to ensure the effectiveness of the control system. In 2022, no incidents involving conflicts of interest occurred in Cathay Life Insurance, which demonstrated the effectiveness of our preventive mechanism for conflicts of interest.

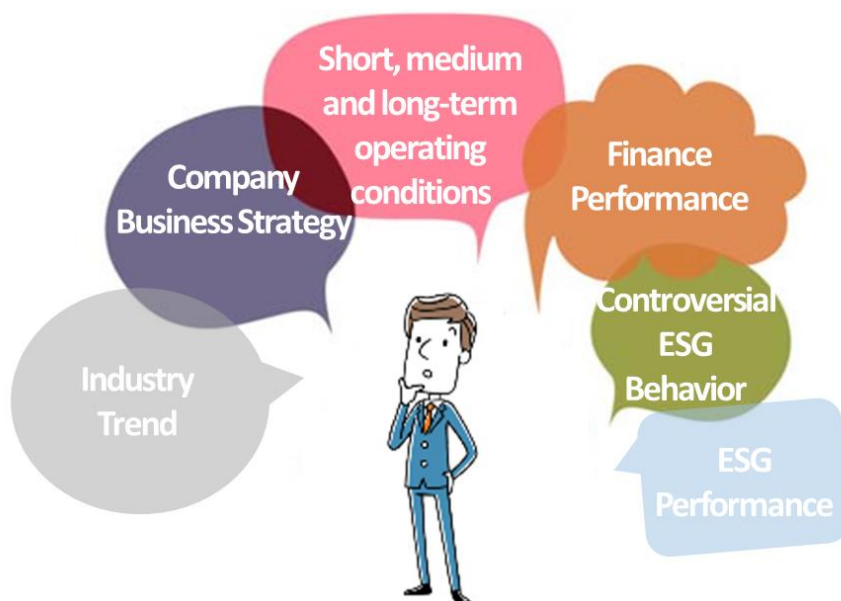
Responsible Investment Measures

(I) Implementing integration of ESG factors

1. Incorporating ESG issues into the investment decision-making process

In order to lower the overall risks of investment portfolios and refine the sustainability project of responsible investment, Cathay Life is the first insurance company in Taiwan to establish ESG Risk Review Procedures. When investing in equity and fixed income, we must consider the financial and non-financial performances of the investee companies, and adopt ESG integrated management mechanisms such as comply-or-explain and escalation process.

In order to lower the overall risks of investment portfolios, our investment teams not only conduct the traditional fundamental analysis in individual stock study reports but also include ESG evaluation to more comprehensively evaluate the investment value of the investment targets. There were a total of 1,220 reports in 2022.



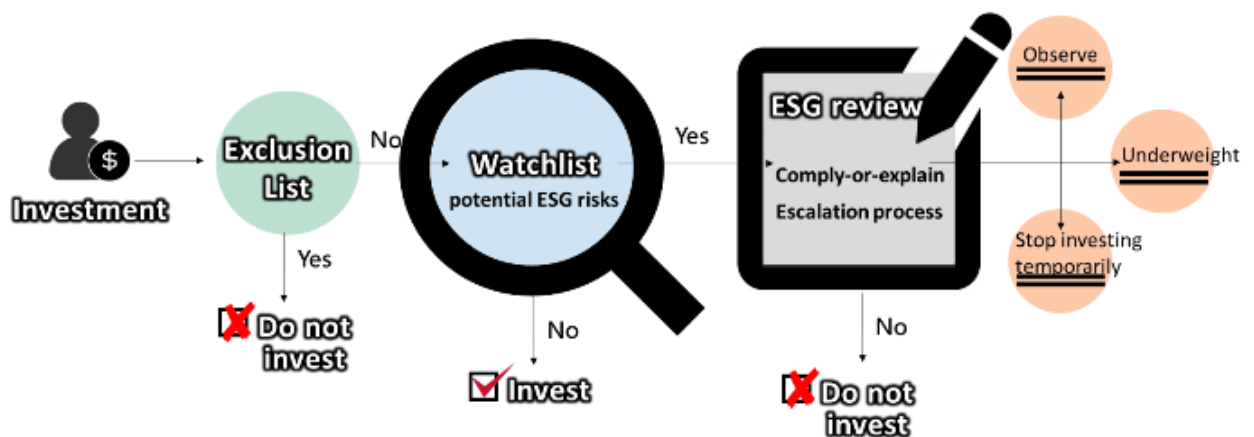
(1) Carefully considering the ESG performance of investment buylist

When adding a new investment target in our buylist, investment teams must check if the target is included in the exclusion list or watchlist. Targets on the exclusion list shall not be accepted in our investment buylist. If a target belongs to the watchlist, further reports that evaluate its capabilities of ESG risk management shall be provided and the internal escalation process shall be conducted before

adding the target as a new investee. Furthermore, the new investee company shall be continuously observed and followed up on its ESG performance in order to avoid ESG risks.

(2) Reviewing the ESG performances of investment positions on a periodic or ad hoc basis

Our investment team mainly utilizes MSCI ESG research data to monitor changes in the ESG performance of existing investment targets (including listed equities, corporate bonds, financial bonds and government bonds), with supplemental data from National Taipei University's Taiwan Sustainability Value Index and TWSE's Corporate Governance Evaluation System. When an investment target declines in ESG performance and is placed on the watchlist, our investment teams must immediately provide an evaluation report to understand the target's decline in ESG ratings, reasons for its negative incidents, and the response measures it has taken, and then take appropriate risk management measures (e.g., continuing to observe and follow up on developments, reducing position size, or holding current position). Furthermore, we conduct a comprehensive ESG review of existing investment targets every September.



In 2022, all listed equities, corporate bonds, financial bonds and government bonds investment targets with potential ESG risks have been reviewed, and a total of 264 cases have been reviewed through the ESG review procedure. Besides, investment team removed 3 investment targets from the buylist after considering basic aspects and ESG performance.

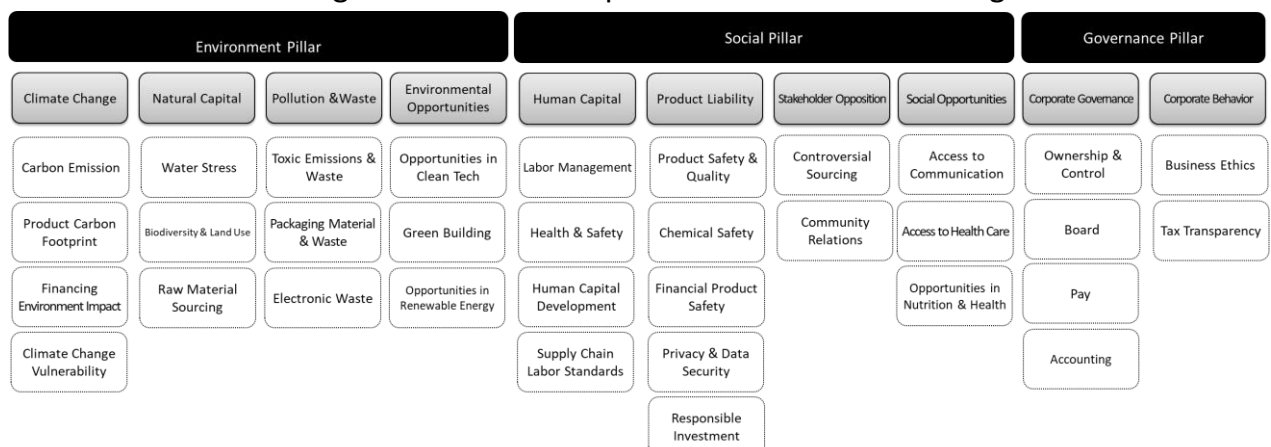
- Exclusion list

We comply with Cathay FHC and Subsidiaries Investment and Lending Exclusion Policy and our own Investment Management Principles for Sensitive Industries and place government bonds issued by countries that systematically violate human rights or exhibit major disputes over human rights and controversial industries that involve high environmental, social and moral risks that lead to negative social impacts, on the “exclusion list.” Each year, we regularly adjust and review the exclusion list according to factors including international sustainability trends and ESG risks.

- Watchlist

(1) Considering risks from material ESG factors

The Governance pillar is the core of ESG and the foundation for evaluating the ESG performance of each company. The environmental and social pillars, on the other hand, are associated with the core competencies of operation and emphasize material issues related to corporate operation or finance performance (e.g., water resource management for the semiconductor manufacturing industry). Cathay Life evaluates the ESG performance of investee companies with reference to data from MSCI international ESG research institutions and uses consistent standards regardless of industry. We evaluate companies according to their exposure to ESG risks and how they manage those risks compare to peers. The MSCI ESG ratings range from the leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). Company rated on the ‘B, CCC’ scale will be put on the watchlist and must undergo ‘ESG risk review procedures’ before investing.



【MSCI ESG Key Issues】

Cathay life adopted the MSCI ESG rating methodology, using the indicators listed in the graph above. Take one of the indicators, 'carbon emission', as an example. It will be considered in the investment decision-making process, be used as a reference basis while negotiating with the investee companies, and be used when calculating the investment portfolio's carbon footprint.

Focus of Assessment	The assessment is based on each company's quality of carbon management and its efforts to manage climate-related risks and opportunities.
Risks and Opportunities	<ul style="list-style-type: none"> • Costs associated with carbon pricing or carbon taxes increase • Regulatory caps lead to facility refurbishment or operational disruption
Evaluation Index	Direct GHG emissions (scope1), indirect GHG emissions (scope2), carbon intensity (tons CO2e/USD million sales), emission reduction target setting and achievement status

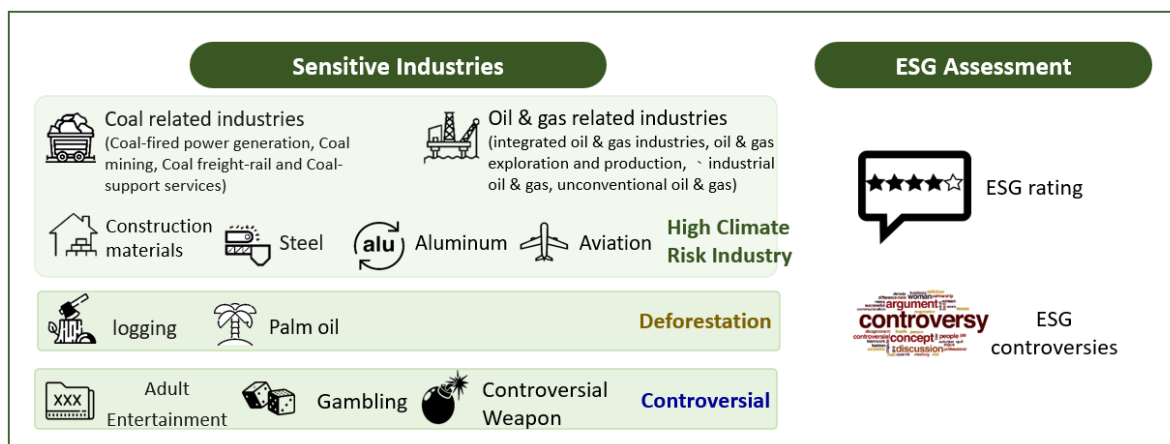
(2) Evaluating controversial incidents

We evaluate investee companies' compliance with the UN Global Contract and monitors their ESG incidents in real-time. If an investee company is involved in a severe ESG controversy of a significant impact scale and receives an orange or red flag under the MSCI ESG controversies scoring, it will be placed on the watchlist and must undergo 'ESG risk review procedures' before investing.

Environment	Social			Governance
	Customers	Labor Rights & Supply Chain	Human Rights & Community	
<ul style="list-style-type: none"> • Biodiversity & Land Use • Toxic Emissions & Waste • Energy & Climate Change • Water Stress • Operational Waste (Non-Hazardous) • Supply Chain Management • Other 	<ul style="list-style-type: none"> • Anticompetitive Practices • Customer Relations • Privacy & Data Security • Marketing & Advertising • Product Safety & Quality • Other 	<ul style="list-style-type: none"> • Impact on Local Communities • Human Rights Concerns • Civil Liberties • Other 	<ul style="list-style-type: none"> • Labor Management Relations • Health & Safety • Collective Bargaining & Union • Discrimination & Workforce Diversity • Child Labor • Supply Chain Labor Standards • Other 	<ul style="list-style-type: none"> • Bribery & Fraud • Governance Structures • Controversial Investments • Other

(3) Classifying targets from sensitive industries

According to Cathay Life's Investment Management Principles for Sensitive Industries, if a company belongs to a sensitive industry and has a medium-high level of impact on the environment and society, it shall be placed on the watchlist.



Cathay Life Insurance evaluates industry-specific ESG risks every year and adjusts sensitive industries in a timely manner. Companies are assessed for the degree of their operational involvement in sensitive industries, the percentage of revenue earned from businesses in sensitive industries, etc. so as to determine the investment and lending exclusion list, and the watchlist of investment targets. The industry watchlist is described as follows:

i. Coal related Industries

“Coal phase-out” is a global consensus on coal to reduce carbon emissions and combat climate change. In 2019, Cathay Life Insurance was the first institutional investor in Taiwan to phase out coal power, placing coal mining companies with a coal share of revenue above 50% and coal-fired power producers who have not actively switched to renewable energy, on the “exclusion list.” In 2021, Cathay Life Insurance became the first committed institutional investor to phase out coal power, and place industries of the coal value chain—coal transportation industry and coal-related auxiliary services—on the “investment and lending exclusion list.” We further reduced the revenue percentage threshold to 30% in 2022, and proposed a

progressive coal phase-out plan to reduce investments in coal companies to avoid holding controversial assets and prevent investments from becoming stranded assets.

ii. Unconventional Oil and Gas Industry

The scope of unconventional oil and gas covers extra heavy crude oil (such as oil sands), shale oil, and liquefied natural gas (LNG) extracted from unconventional fossil fuels. In 2022, in response to COP26, the Glasgow Climate Pact, which is committed to end public finance for new unabated fossil fuel energy sector, we included the unconventional oil and gas industry in the list of sensitive industries, considering that unconventional oil and gas cause more GHG emissions compared with conventional oil and gas. Furthermore, their high energy and water consumption also exacerbates climate change impacts.

iii. Deforestation-related activities

Deforestation not only exacerbates climate change risks, but also leads to biodiversity loss. Among them, the slash-and-burn clearing or deforestation for large-scale oil palm monocultures for commercial purposes has exerted the most devastating environmental impact. Therefore, the palm oil industry and timber industry are both listed as sensitive industries.

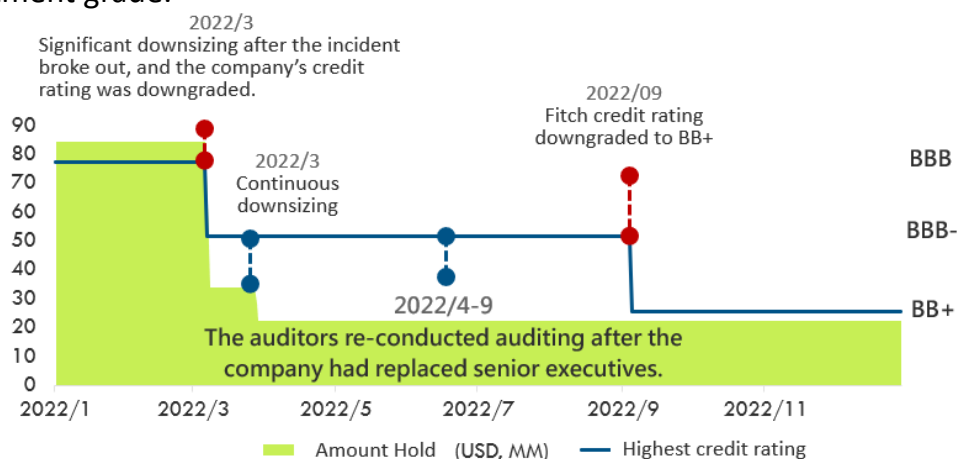
Case study: Integrating ESG factors into investment decisions

Company P is a state-owned oil refining company. In March 2022, its financial report could not be released as the accounting firm refused to sign off. Since it may be connected to corruption involving the country's former president and the company's senior executive, after assessment, the investment team found that the company would most likely be downgraded for internal control failings.

In March 2022, Company P's Fitch credit rating was downgraded from BBB to BBB-. As a result, the investment team significantly cut down its position on Company P. In the following week, its S&P credit rating was downgraded from BBB- to BB+, indicating that its corporate governance risk had increased. Subsequently, the company replaced the CEO and senior executives and undertook reorganization, and the accounting firm also

agreed to re-perform the audit. In September 2022, its Fitch credit rating was further downgraded from BBB- to BB+. Meanwhile, 2021 audit of the company was completed, and its financial results were announced.

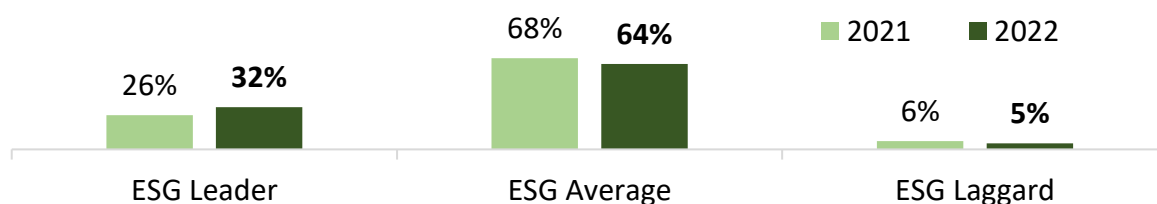
We believe that it will still take some time to verify whether Company P has taken practicable improvements for its corporate governance. In addition, the former president of Company P's parent company and senior executives of Company P are still under investigation following allegations of corruption, and thus the possibility of penalties or fines cannot be excluded. Investment will only be considered when corporate governance and business performance improve, and its credit rating returns to investment grade.



Changes in investment decisions

Through the ESG risk review procedure, regular employee training and new employee orientation, we gradually guide the investment team to pay attention to responsible investment and ESG issues.

As Cathay Life has actively engaged with investee companies to help them improve their ESG ratings and selected targets with better ESG performance when allocating assets, the proportion of companies with MSCI ESG ratings of 'AAA or AA' (Leader) that Cathay Life had invested in increased in 2022. On the other hand, the proportion of companies with MSCI ESG ratings of 'B or CCC' (Laggard) that Cathay Life invests in has decreased.



Note:

1. MSCI ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).



2. As the ESG risk review procedure is applicable to the company's self-operated position, the above statistics only include self-operated position and exclude data without MSCI ESG ratings.

2. Incorporating ESG factors into corporate lending decision-making process

When implementing know your customer (KYC) guidelines, Cathay Life designs an ESG checklist, which assesses corporate lending customers' environmental, social and corporate governance performance in order to ensure their ESG implementation. These customers are further divided into those "Excluded loan customer," those "Requiring closer watch loan Customer," and those "General loan Customer." In 2022, there were a total of 22 audit cases, only two of which were related to customers that required greater attention (environmental protection incidents). The remaining cases did not involve ESG incidents and were considered as audits on "general customers."

3. Real estate investment

As a demonstration of our commitment to ecology and environmental protection, for 2016 onwards, architects commissioned by Cathay are required to design buildings invested and developed by Cathay based on green building standards, so that all real estates can reach certain standards of energy use, greening, and waste. All new buildings have obtained the green building or LEED certification since 2023. Currently, we have 14 green buildings in total.

(II) Asset manager mandating and monitoring

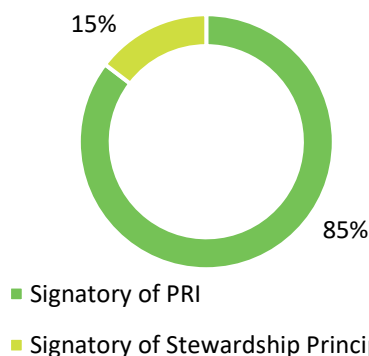
In order to ensure that its mandated asset management is subject to responsible investment management, Cathay Life takes various measures on assets under management by mandataries to ensure that its mandate institutions or the ETFs and Fund it invests in are in line with Cathay's principles:

1. Mandate institutions

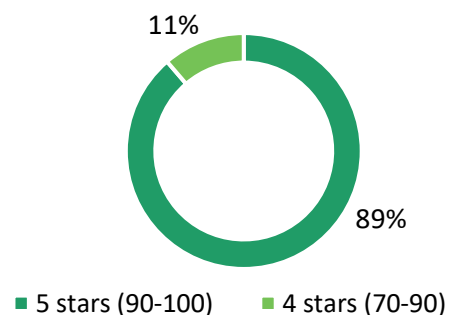
We take signing the Principles for Responsible Investment (PRI) into consideration for mandate partner evaluation to ensure that Cathay life's mandate partners fulfill their duties as asset managers. We also stipulate when signing agreements that PRI must be included in decision-making considerations, and that the investment targets' fulfillment of obligations in accordance with relevant ESG regulations be assessed. We will also ask our mandate partners to comply with Cathay FHC and Subsidiaries Investment and Lending Exclusion Policy and our own Investment Management Principles for Sensitive Industries and present review reports detailing their ESG measures on an annual basis.

Of the asset management companies providing discretionary investment services to Cathay life in 2022, 100% of them were signatories to the PRI or local stewardship principles. In addition, about 90% of Cathay's mandate institutes that accepted the PRI annual assessment had received five stars (5/5) for Investment & Stewardship (note 1), and 10% of the outsourced units received four points. The full score for this item was 100 points, and Cathay life's outsourced units received an average score of 87 points, as opposed to the median score of all signatories to the PRI for this item of 60 points.

Mandate institutes signing the PRI or the country's local stewardship principles



Mandate institutes that accepted the PRI annual assessment have scored points in Investment & Stewardship



Note:

1. Investment & Stewardship Policy mainly assess the signatory's overall approach to responsible investment (including policies related to ESG integration, opportunities and ownership), as well as the appropriateness of these policies and their percentage in the actively or passively managed assets.
2. The statistics on the right are applicable to mandate institutions that participated in PRI annual assessment. Institutions that did not participate in the assessment include new signatories to the PRI (0.01% of mandate assets) and institutions that have signed the Stewardship Principles.

Cathay Life's annual review results show that the investment teams of outsourced units have responsible investment units or other dedicated units. In addition to following the Group's Negative Investment and Lending Policy, and the Company's Investment Management Principles for Sensitive Industries, international ESG rating agencies or internal databases are also used for ESG performance review, indicating that all of Cathay Life's assets are managed by units that attach greater importance to ESG risks and opportunities.

2. ETF and Funds

The following methods are adopted to understand the ESG policies and measures of counterparties or funds that are selected by Cathay Life-invested ETFs or funds and that are in line with Cathay Life's investment philosophy:

- (1) Checking whether counterparties have signed the PRI or governmental stewardship principles;
- (2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.

【 Summary of Cathay's active management on Mandate, ETFs and Fund 】

	Mandate institutions	ETFs and funds
Checks whether they have signed the PRI or governmental Stewardship Principles	★	★
Requires them to observe investment exclusion lists and regulations on sensitive industries	★	
Utilizes data from international ESG rating institutions to review ESG performance	★	★
Stipulates in mandate agreements that any investment must consider ESG and climate factors	★	
Review ESG implementation results and their ESG measures annually	★	

3. Third-party service providers monitoring

To ensure the quality of data and the independence of service providers, in addition to reviewing data methodologies and assessing their limitations, we also hold meetings with providers when we have concerns regarding the data or think there is a potential conflict of interest.

(1) Meeting with MSCI when concerns arise:

We will regularly review the MSCI rating methodology, such as ESG rating, ESG controversies and Climate VaR, and ensure the data quality and accuracy of data coverage continue to meet the needs of the business. We hold meetings with MSCI to discuss the ESG materiality we care about and any shortcomings around data or research output when concerns arise to solve problems from our investment team and drive continuous quality improvements.

(2) Issuer companies' AGM/EGM voting proposals with ISS:

Our team is in ongoing contact with ISS whenever questions arise with regard to a specific piece of research and the application of our voting policy. Additionally, to broaden our internal research views, we discuss global trends in ESG with ISS and review their proxy voting guidelines for each market annually.

(III) Interacting with investee companies

Owing to the tremendous impact of corporate sustainability development on business operations, which in turn affects the rights of institutional investors, Cathay Life believes that continual communication with investee enterprises to attach importance to ESG risks and opportunities together is the best way to add value to all parties involved. Therefore, we interact with investee companies through dialogue, engagement and proxy voting, thus demonstrating the stewardship measurement of active ownership.

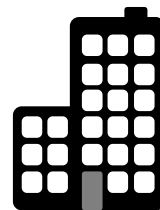


1. Dialogue

Cathay Life communicates with the top management, investor relations (IR) departments, or CSR team of investee companies in the forms of telephone conferences, forums, investor seminars, or attending shareholders' meetings. Among the dialogue methods with investee company we adopt, we deem company visits the most straight-forward and efficient. Through face-to-face dialogue, we are able to improve our understanding of information on investee companies, discern the gap between disclosed information and actualities, keep track of key risks and opportunities, and perfect the soundness of our investment analysis. The outcome of 2022 company visits is as follows:



A total of **3,490**
employees participated








Visited a total of **739** companies;
total no. of visits reached **2,795**
Averaged **3.8** visits per company visited

2. Engagement

The Engagement Policy, jointly established by Cathay Life, Cathay FHC, and various Cathay subsidiaries, publicizes Cathay's sustainable spirit and corporate governance values to exert our influence as a sustainable investor. We uphold the importance of engagement and adopt a progressive approach to communicating ESG-related concepts with companies, so that they become aware of the impact of ESG on themselves and recognize the importance of ESG issues, and then take a further step to participate in and implement ESG. In addition, we also participate in various relevant activities to share our responsible investment measures with other insurance companies to urge the investment business industry to realize responsible investment, so that a genuine positive cycle of the industry can be created.

(1) Setting up engagement process

i. Make sure the engagement complies with our stewardship policy through five - stage engagement process :

				
Main engagement themes	Engagement targets selection	Engagement period	Engagement results evaluation	Post-engagement investment actions
<ul style="list-style-type: none"> Climate change ESG rating ESG information disclosure 	<ul style="list-style-type: none"> Enterprises with high carbon emissions Those in need of improvement of ESG rating or ESG information disclosure 	<ul style="list-style-type: none"> 5 years Adjust according to situation 	<ul style="list-style-type: none"> Case closed successfully Positive progress No clear progress Case closed Unsuccessfully 	<ul style="list-style-type: none"> Continuous observation and tracking Adjust investment limit Stop investing temporarily Put it in the exclusion list

STEP 1: Main engagement themes

Recognizing the impact of extreme weather and climates brought by climate change on companies, as well as the importance of ESG issues, we choose “climate change” and “enterprise ESG rating/information disclosure” to be our main engagement themes.

STEP 2: Engagement targets selection

To objectively estimate the investee companies' ESG performance of and verify the key ESG issues of engagement, after deciding on engagement themes, the following methods are used to select the subjects of engagement and related issues that require engagement:

<u>Main engagement themes</u>	<u>Description</u>
Climate Change	<ul style="list-style-type: none">■ Since greenhouse gas emissions are the main cause of climate change, we directly use carbon emissions from corporations as the main screening criteria;■ By participating in international initiatives, subjects of engagement are selected based on standards of international organizations.
ESG Rating	<ul style="list-style-type: none">■ Cathay Life Insurance believes that if companies place emphasis on major ESG issues related to their business operations or finances when implementing ESG management, they will not only maximize the effectiveness and efficiency of social resources, but also promote a virtuous cycle of social “sustainability” and “win-win situation.”■ To ensure neutrality of corporate ESG assessments, we select companies whose ESG ratings are falling behind as subjects of engagement based on MSCI ESG research data, with material ESG issues adopted in-depth engagement. The themes discussed include but are not limited to the following topics:<ol style="list-style-type: none">1. Environment: Water Stres, Biodiversity, Land Use... ;2. Social : Human Capital, Labor Management, Chemical Safety... ;3. Governance : Board Structure, AGM proposals... ;
ESG Information Disclosure	<ul style="list-style-type: none">■ Participate in international initiatives to encourage and promote corporate ESG information disclosure.■ Case-by-case assessment: Immediately engage and communicate with companies when insufficient information disclosure is found during internal assessments (such as ESG assessment or voting assessment).

STEP 3: Engagement Period

When engaging with an investee company, an enterprise must first recognize the importance of the ESG theme or climate change issue in terms of its impact on the enterprise's operations, and then adjust procedures or even restructure its organization in response to the issues it confronts. This process is very demanding for an enterprise and requires time to make adjustments. Therefore, an engagement with enterprises rarely achieves significant effects in its first year; a successful engagement takes three to five years at least. For this reason, we refer to international standard and set our engagement period is five years.

STEP 4: Engagement Results Evaluation

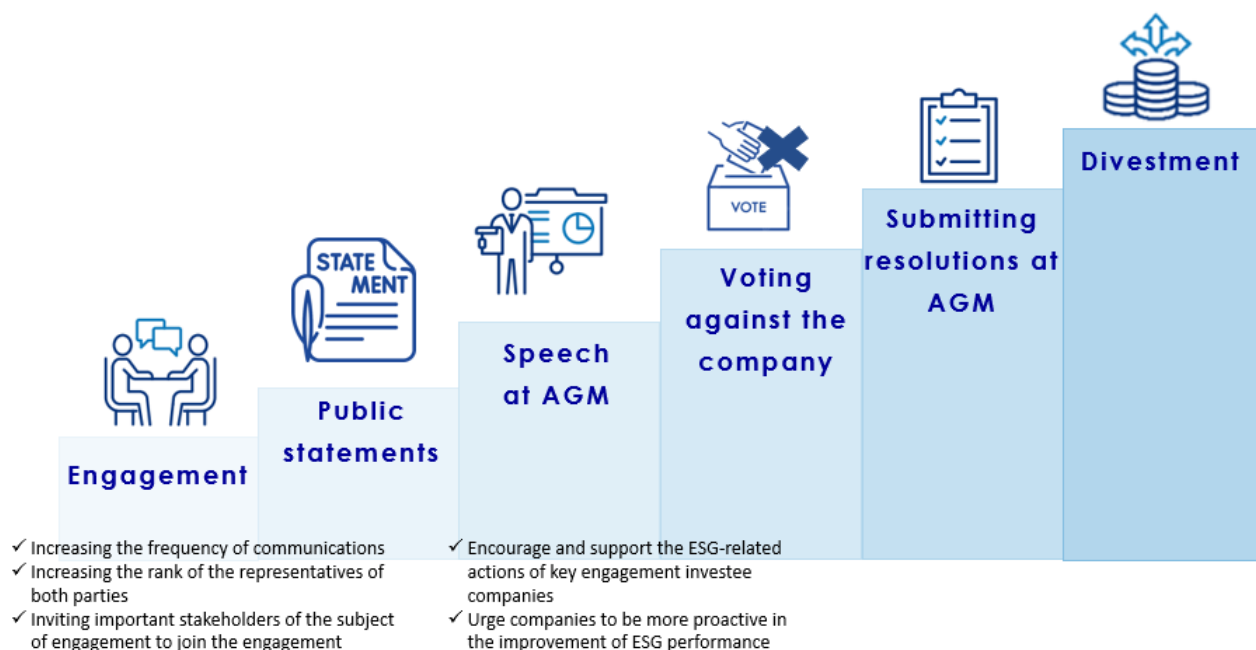
We engage with investee companies based on their key ESG issues. We record the results of our communications from time to time, and evaluate the effect of engagement on various ESG issues every year.

STEP 5: Post-engagement investment actions

Discuss based on the investee company's response and improvement status as a basis for subsequent investment adjustments, such as continuous observation and tracking, adjusting investment limit, stopping investing temporarily or putting it in the exclusion list.

ii. Adoption of Engagement Escalation Strategy

As the combination of capital markets and ESG quickly materialized, the customers are optimistic towards sustainability in the supply chain, and the competent authority's requirements for ESG information disclosure become more clear. Cathay Life not only assess the enterprises' ESG performances during the investment process, but also actively exercises shareholder activism, setting up a dedicated team for one-on-one communication with the investee company. As an active and responsible professional institutional investor, we also timely assess and adopt better and different engagement strategies, in order to encourage investee companies in ESG implementation, and urge companies to actively improve ESG performance. We believe that these strategies can effectively help achieve our ultimate engagement goal, and create long-term values for both parties.



(2) Implementing Engagement Measures

International Initiatives

📍 Worked with international investors

🤝 **5** international Initiatives



Individual Engagement

📍 One-on-one dialogs

🗣️ **80** companies

Collective Engagement

📍 Invited all enterprises

🌐 **1,246** companies

i. Collaborating with organizations of international initiatives to expand our influence together

① Asia Investor Group on Climate Change (AIGCC)

Cathay FHC is a founding member and the only member from Taiwan of the Asia Investor Group on Climate Change (AIGCC). Cathay Life and Cathay FHC also joined three working groups under the AIGCC, including “Paris-aligned Investment”, “Engagement and Policy”, and “Physical risks and Resilience”, and worked with international investors to study climate-related risks and opportunities and to construct Asian investment frameworks based on climate change.

② Ceres Valuing Water Finance Task Force

In recent years, climate change has indirectly changed the water cycle and precipitation. In addition, the World Economic Forum's Global Risks Report has listed water crisis as one of the top risks in terms of global impact for eight consecutive years. For these reasons, Cathay Life and Cathay FHC took timely actions by joining the Ceres Valuing Water Finance Task Force since September 2020, and cooperate with the international investment institutions to formulate action plans for water resource management companies. In mid-2022, we completed the preliminary research tasks, which will serve as the basis for subsequent engagement between institutional investors and enterprises.

Cathay FHC and Cathay Life Insurance are the only two financial institutions in Asia that have joined this organization. In addition to providing water stress thoughts as professional institutional investors and assisting investors' response actions related to water resources, Cathay Life Insurance has also kept track of forward-looking trends of global water resources and grasped risks and opportunities of water resources in various industries. By doing so, Cathay Life Insurance can prevent relevant risks and improve investment resilience when facing water resource challenges.

ii. Actively Engaging with Enterprises to Exert Influence in Sustainable Finance

Since 2017, Cathay Life has participated international initiatives, including CDP Non-Discloser Campaign and Climate Action 100+ (hereinafter referred to as "CA100+") and AIGCC Asia Utilities Engagement Program and began to engage with our investee companies on "Climate change" issues. Since 2019, Cathay Life has communicated with our investee companies on "Improve ESG Transparency and ESG Ratings" issues based on the results of international ESG Rating assessments through one-on-one engagements.

In addition to one-on-one engagements with companies, we also adopt a collaborative engagement to organize climate change forums to encourage companies to learn more about climate change and respond to the risks and opportunities of climate change through reciprocal exchange and improvement with all Taiwanese companies. In 2022, we had engaged with 326 companies, which accounted for 85% of Cathay Life's listed domestic equity positions.

① Participating in international initiatives



- Cathay Life takes it upon itself to act as a leading investor. Through one-on-one communications, we have encouraged companies which have yet to respond CDP questionnaires, urging enterprises to disclose climate change measures and carbon emission, understand the shortage of water resources, and consider the issue of sustainable forests, in order to formulate relevant response strategies and management approaches.
- Cathay Life has participated in the campaign since 2017 and is the only corporate participant from Taiwan.
- Key achievements:
 - ✓ Success rate of engagement: Engaged a total of 41 companies with a success rate of 61% (25 companies), which is well above the global average.
 - ✓ Progress rate: Cathay Life has successfully engaged 60 companies since 2017, of which 57% of the companies improved their CDP scores in the following year.



- Climate action 100+ was launched in 2017, and is the world's largest investor climate initiative ever. It urges companies to take carbon reduction actions pursuant to the Paris Agreement. Of the 166 companies around the world on the watchlist, Cathay Life is actively engaging with all three Taiwanese enterprises on this list, in the hope that they will reduce carbon emissions in response to the Paris Agreement to achieve the goals and promises of transformation into a low-carbon energy and net-zero emissions.
- Cathay Life has participated in the campaign since 2017 and is the only insurer participant from Taiwan.
- Key achievements:
 - ✓ All three Taiwanese companies have expressed their commitment to net-zero emissions or carbon neutrality by 2050, and set short- and mid-term carbon reduction targets. Furthermore, SBT of one of the companies have even been approved by the Science Based Targets initiative (SBTi).
 - ✓ Two of these companies were listed as carbon reduction and climate governance case studies in the annual reports of Climate Action 100+ and ACGA and CLSA, indicating that their active climate actions are well recognized by international organizations.

Asian Utilities Engagement Program

- As the world seeks to achieve emission reduction targets and tackle climate change by “phasing out of coal,” Cathay Life has adopted a more positive attitude by leveraging the power of dialog to influence enterprises’ measures related to “phasing out of coal.” In cooperation with global institutional investors, Cathay Life has "engaged" with seven large coal-fired power generation plants, in order to promote their low-carbon transitions and comply with the net-zero emissions scenario set out in the Paris Agreement.
- Cathay Life has participated in the campaign in 2021 and is the only corporate participant from Taiwan.
- Key achievements:
- SBT of Firm C, whom Cathay Life and other insitutional investors have engaged with, were approved by the Science Based Targets initiative (SBTi). It is committed to phasing out coal-fired power generations assets by the end of 2040, and replacing natural gas with hydrogen in power plants to help achieve net-zero emissions by 2050. It is also committed to Just Transition during the course of transitioning from coal to low-carbon energy, and mitigating the impact on employees and society.



Ceres Ceres Valuing Water Finance Initiative

- The greenhouse effect and extreme climate conditions caused by carbon emissions have led to instability of water supply. In view of this, Ceres Valuing Water Finance Task Force completed a preliminary research in mid-2022, and established six major water resources management framework for companies with high water footprints. In the same year, it also launched the Valuing Water Finance Initiative for engaging with enterprises.
- To contribute to sustainability, Cathay Life has become the only corporate participant in this initiative from Taiwan since 2022. It will officially initiate dialogues with companies in 2023, with the hope to promote their business operations and manage water footprint risks in the supply chain. The water risk will be assessed and mitigated as a financial risk, and actions will be taken to protect water resources.
- Cathay Life has participated in the campaign since 2022 as the only corporate participant from Taiwan, with official dialogues starting from 2023.

Participation of International Initiatives and Individual Engagement Case 1

■ **Background:**

Company F was included in the focus list by Climate Action 100+ for their crucial role in the global low-carbon transformation and for being a top 100 company of carbon emissions, and is considered to be in need of improvement in ESG rating.

■ **Engagement contents and progress:**

Cathay started to engage with Company F in 2018. In order to facilitate the company's understanding of CA100+ and why investors demand enterprises to reduce carbon footprints, Cathay introduced CA100+ goals, the importance of ESG issues, and international responsible investment trends. We also compiled the climate change response strategies of many international petrochemical companies, and invited experts and scholars to share their knowledge on biomass energy technologies. Cathay adopted various methods with the hope of minimizing the time Company F spends on groping in the dark alone, so as to facilitate momentum for the company's carbon reduction plans.

Cathay not only communicates with Company F frequently through phone calls or emails conducted by specially-assigned personnel to keep abreast of Company F's progress, but also holds several face-to-face or online engagement meetings with Company F every year. We've also worked with several international investment institutions and consolidated the influential power of investors to urge the company to take carbon reduction actions in accordance with the Paris Agreement. Cathay's management team also places great importance on corporate engagement. In order to strengthen climate change governance mechanisms, on several occasions, President Chang-Ken Lee of Cathay FHC personally led Chief Investment Officer Sophia Cheng as well as senior executives from Cathay Life Insurance and Cathay Securities Investment Trust to visit senior executives in Enterprise F's General Administration Division and the chairman and president of Company F. The leaders of the two companies engaged in active dialogs to explore feasible carbon reduction plans. Following Company F 's announcement in October 2021 to commit to "achieving carbon neutrality by 2050," its affiliated companies have also committed to carbon neutrality by 2050. The chairman even announced in the 2022 shareholders' meeting that the company will be striving towards carbon neutrality by 2050. Cathay FHC praises the carbon reduction ambitions of FPG and FPCC and hopes they can continue to take action to reduce carbon emissions.

We are happy to witness the first independently published TCFD Report in 2022 by F company. The report disclosed short-, mid-, and long-term carbon reduction goals for 2025, 2030, and 2050, the related action plans, and GHG emissions pathways before 2030. In the case studies section (p.22) of the "Progress Update 2022" report published by CA100+, F company's commitment to carbon neutrality by 2050 and its first independently produced TCFD Report in 2022 was recognized by the initiative.

■ **Follow-up action and plans:** To understand the company's subsequent climate change response actions

■ **Action after engagement:**

Considering that the company was the first to release the independent TCFD report in 2022, with disclosure of short-, medium-, and long-term carbon reduction goals, which is aligned with the engagement target we set. The chairperson also reiterated the company's commitment toward carbon neutrality by 2050 in the 2022 AGM. As such, we will continue to place the company on the buylist.



Participation of International Initiatives and Individual Engagement Case 2

■ **Background :**

Firm C is one of the companies listed in the Asia Utilities Engagement Program. Considering its geographic and market familiarity, Cathay Life plays the role of supporting investors, and engaged with Firm C along with other foreign institutional investors.

■ **Engagement contents and progress:**

During the engagement process, Firm C was highly responsive to issues regarding transition to low carbon. It had good communication and interaction with investors. Firm C's SBT were approved by the SBTi in September 2021. It updated its climate action vision, proposed 2030 carbon emissions intensity target, and gave its commitment to phasing out coal-fired power generation assets by the end of 2040 (ten years earlier than its previous commitment) and replacing natural gas with hydrogen energy to achieve net-zero emissions by 2050.

In 2022, the engagement focused on the company's decarbonization strategy and capital expenditure planning for transitioning to low carbon. In the course of transitioning to low-carbon energy to achieve net-zero emissions, existing employees and society may be subject to negative influences, Cathay Life, as a supporting investor, suggested that leading investors should discuss and request the company to attach greater importance in Just Transition from coal to a low-carbon energy. At the follow-up meeting, investors officially recommended the formulation of a transition policy. Firm C stated that it would disclose actions related to the transition in the 2023 sustainability report by referring to the WBCSD report.

We are glad to see that Firm C announced on its sustainability report and TCFD report in March 2023 that it would adopt a well-planned and orderly methodology to ensure a just transition process from fueled power generation assets to zero-carbon energy. Citing its coal-fired power station in Australia as an example, Firm C announced a schedule for decommissioning the power plant in advance, and arranged training for its employees. It would also engage in a partnership with local offshore wind farms, with a plan to transfer employees to the wind farms. This would allow Firm C to create employment opportunities, and play a better role in local economic development. In addition, Firm C also planned to provide renewable energy to help ensure local power supply, and reduce the impact of decommissioning coal-fueled power plants.

■ **Follow-up action and plans :**

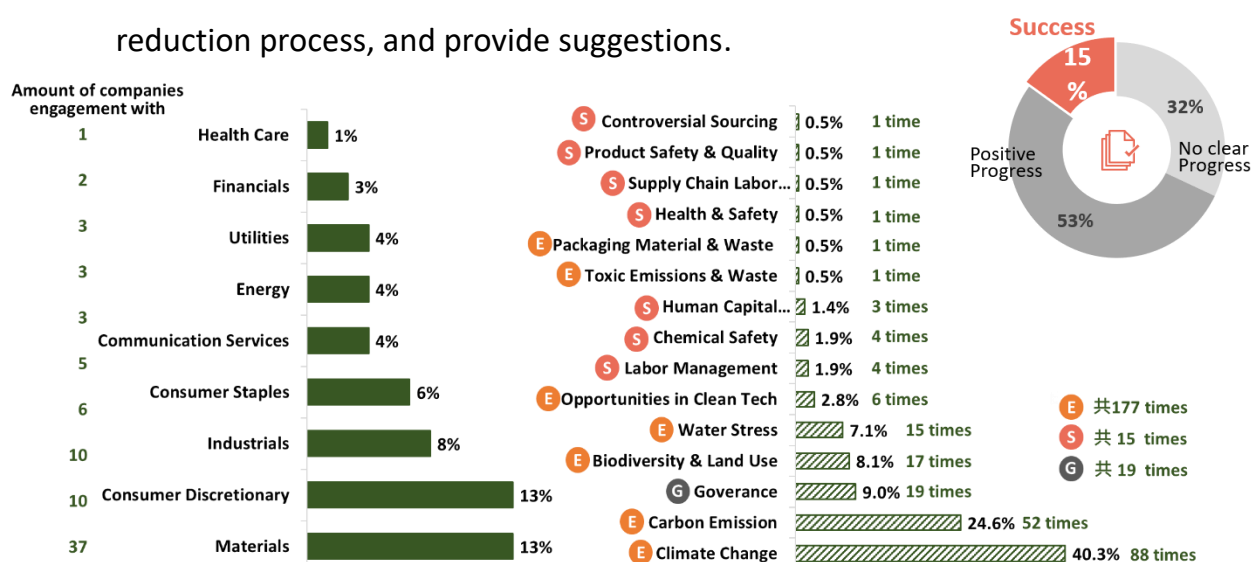
Continue to monitor Company C's subsequent responsive climate change actions in 2023.

■ **Action after engagement:**

Considering that the company has set a science-based targets (SBT) and actively invest in low-carbon transformation projects, it is included in the watchlist according to the company's "Investment Management Principles for Sensitive Industries" and must undergo 'ESG risk review procedures' before investing.

② Individual Engagement

In 2022, through one-on-one engagements, Cathay Life communicated with 80 enterprises on 15 material ESG issues for a total of 211 times. The main engagement targets were enterprises from industries of “information technologies” and “raw materials”; the main issues for communications were “adapting to climate change” and “carbon emissions.” The exercise could help us understand the company’s actions in adapting to climate change, as well as discussing the company’s carbon reduction plan, and response measures for low-carbon transition. This allows us to learn about the limitations and difficulties in the company’s adaption to climate change or during the carbon reduction process, and provide suggestions.



Note: The above statistics did not include participation in investor conferences or AGM.

Learning from our experience participating in international initiatives, Cathay Life Insurance also started to engage with investee companies in Taiwan voluntarily, choosing “climate change” and “enterprise ESG rating/information disclosure” as the main topics. The contents include enhancing climate change-related disclosure and management in accordance with the TCFD framework, keeping track of enterprise carbon emissions, understanding enterprise carbon reduction and transition planning to low carbon, setting SBT, and other climate change-related issues, so as to solve material ESG issues.

Description of Individual Engagement with Enterprise H - Engagement of Response to Climate Change and Improvement of ESG Rating Performance

● Background

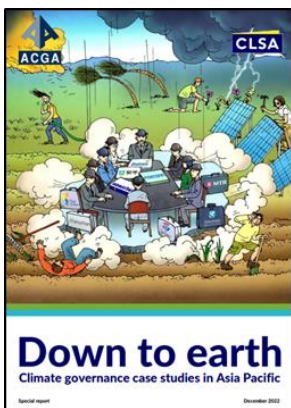
Enterprise H plays a crucial role in the global supply chain and low-carbon transformation. It was listed by Climate Action 100+ as an engagement target. As the overall ESG evaluation still had room for improvement, it was listed in Cathay's list. Since 2019, Cathay Life has performed in-depth engagement with Enterprise H, and developed mutual trust based on dialogue. In addition to understanding the company's climate change adaptation and improvement practices to tackle material ESG issues, we also discussed the company's carbon reduction plan, and provided recommendations on how to handle the challenges it faced during the transition to low carbon, and how to strengthen labor management and chemical safety. After gaining an in-depth understanding of the importance of ESG and climate change, Enterprise H continued to improve its internal ESG governance and systems, and provided more transparency in terms of ESG disclosure, and multiple stakeholder communication channels.

● Main engagement Goal

1. Set specific short-term (before 2025) and medium-term (2026~2030) targets
2. Improve CA 100+ Net Zero Benchmark performance
3. Improve MSCI ESG Rating

● Engagement contents and progress:

Cathay Life was delighted to see that Enterprise H formulated six ESG strategies in 2022, with eight long-term goals for the environment (E), ten long-term goals for society (S), and 14 long-term goals for corporate governance (G). In 2022, Enterprise H was selected as one of case studies on climate governance in "Down to earth: Climate governance case studies in Asia Pacific" (p.31) issued by ACGA and CLSA. In Enterprise H's report, dialogues with Cathay were important as they provided partnership support rather than supervision. We hope to uphold the spirit of support and co-learning rather than supervision and questioning, so as to make progress along with enterprises in Taiwan.



I would say [these engagements are] more like a partnership, especially with Cathay because it is also a listed company so on the one hand they are also monitored by their stakeholders so they also need to make progress. On the other hand, they invest in so many companies that they become like a mentor. They have experience from both sides. Sometimes this makes the conversation much more meaningful. Sometimes if you are not doing the ESG yourself, you have lots of expectations and that expectation is just too far away from the current situation. But because Cathay is already in that kind of situation themselves so they can share with you how to progress. **I would say it's much more like partnership. It's not just someone sitting there monitoring you.** —H company

● Follow-up action and plans

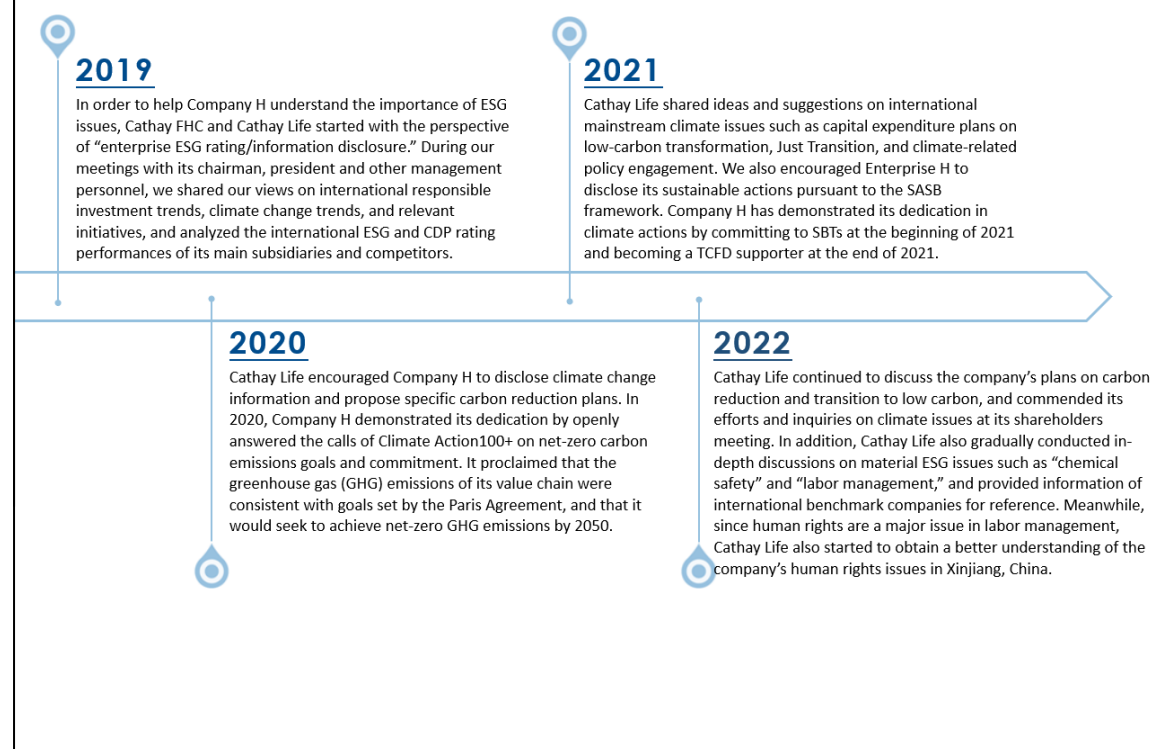
In 2023, we will have engagement meeting at least half an year and continue to monitor the company's subsequent planning for carbon reduction pathways to reach the zero emissions goal.

● Action after engagement

Company H has committed to SBT since early 2021, become a TCFD supporter since late 2021, and set short- and medium-term carbon reduction target in 2022, and improved the CA 100+ Net Zero Benchmark evaluation(Y of sub-indicators are 9 items by 2022 from 5 items from 2021). Given that the company has already conducted some specific climate-change response actions, which is aligned with the part of engagement target we set, we will continue to place it on the buylist.

● Engagement progress with company H

From communication to “encourage companies to pay attention to ESG issues” before 2020, to engagement for “partnership with companies for precise implementation” after 2021.



③ Collective Engagement

Sustainable Finance and Climate Change Summit

As sustainability pioneer, Cathay Life has cooperated with Cathay FHC to organize the Climate Change Forum since 2017, becoming the first institution investor that held group engagements; in 2020, however, COVID-19 threw the world into a state of turmoil. The spirit and implementation of ESG can highlight an enterprise's resilience and ability to respond when facing situations of great uncertainty. Therefore, we expanded the scope of the forum and organized the Sustainable Finance and Climate Change Summit.

In 2022, the Group continued to uphold the concept of “Leading Taiwan to the World; Bringing the World to Taiwan,” and invited top leaders in industry, the government and academia to share forward-looking perspectives related to global climate change and net-zero emission transformation, as well as Taiwan’s sustainable development or carbon reduction policies. The measure is aimed to guide companies on corporate sustainability and net-zero carbon emission strategies.



> 2,300 people

Listed companies joined accounted for:

- more than 70% of Taiwan market capitalization
- 46% of Taiwan’s total carbon emissions

2022 Sustainable Finance and Climate Change Summit Forum Opening Video



3. Proxy Voting

In pursuit of the greatest benefits for customers and shareholders, Cathay Life supports companies that attach importance to sustainable development. Attendance of shareholders' meetings, exercise of voting rights and offering of opinions on proposals in the shareholders' meetings of investee companies are some of the ways in which we perform stewardship.

Currently, we exercise voting rights on our own. The Company has not entrusted a third-party consulting institution as a proxy to exercise voting rights on its behalf. However, if such need arises in the future, apart from prudently assessing the depth and breadth of the proxy related to voting proposals and appropriateness of voting policies, so as to select a consulting institution that meet Cathay Life Insurance's needs and voting philosophy, the Company will also request on exercising voting rights in accordance with Cathay Life Insurance's principles and due diligence for internal voting.

(1) Setting up Proxy voting process



STEP 1: Selection on companies

The Company established the threshold for exercising voting rights based on its influence on the overall operations of investee companies through conducting a feasibility analysis. In principle, voting rights will only be exercised if the shareholding reaches a certain percentage or amount. However, voting rights can still be exercised after an assessment performed by relevant units.

STEP 2: Assessment on proposals

Cathay Life exercises its voting rights for proposals in shareholders' meetings in accordance with external laws and regulations and its own internal voting policies. Before exercising these rights, our investment teams carefully evaluate each proposal based on Cathay's voting guidelines and research of investee companies, along with the ISS voting recommendations, and then present a report on "evaluation and analysis of proxy voting," which therefore will be by no means identical to the ISS recommendations.

STEP 3: Communication procedures

Compared to conveying concerns for investee companies by directly speaking up or voting in shareholders' meetings, we believe that working to reach consensus with investee companies in terms of long-term value creation may bring more positive impacts on investee companies and exert our influence as an institutional investor, thereby simultaneously benefiting Cathay Life, investee companies, and the society at large. Therefore, in the following situations, the Company's responsible units of investment and the Responsible Investment Working Group will cooperate to directly communicate with investee companies. If necessary, the company will make a speech or propose an agenda at the shareholders' meeting of the invested company after careful assessment.

- ✓ When there are controversial and high-profile issues
- ✓ When information needed to conduct voting analysis is insufficient
- ✓ When the core shareholder companies of domestic listed stocks recommend to 'against' in their preliminary voting recommendations
- ✓ When overseas-listed stocks holding 1.5 percent or more of investee companies' outstanding shares at the end of the previous year recommend to "against" in their preliminary voting recommendations

STEP 4: Way of Proxy Voting

To fully express an opinion on each proposal at the meeting and reduce the time and space restrictions of voting, the Company will mainly exercise voting rights in electronic form, and a representative may be assigned to exercise voting rights at a shareholders' meeting of an investee company if necessary.

While voting for the domestic listed or OTC companies' AGM proposals, we generally use the Taiwan Depository & Clearing Corporation Stockvote Platform as the competent authority encourages investors to exercise voting rights online. As for the foreign in-house investment, we would vote through the Proxy Edge voting platform, and for the foreign companies under the mandate portfolio, we authorize managers of mandate institutions to attend shareholders' meetings and exercise voting rights.

A case of pre-voting communication




The company in question made a proposal to “To Re-appoint ○○ As Auditors And To Authorize The board Of Directors To Fix Their Remuneration” in 2020. As over 50% of the remuneration was not related to auditing, it may involve conflicts of interest. Therefore, we preliminarily recommended to “against” after our internal research. Given Cathay’s influence on this company, we implemented a communication procedure. After meetings with this company in 2020, we concluded that the excess percentage was not high. Furthermore, this company provided reasonable explanations and promised to take non-audit expenses into consideration in the future. For these reasons, we eventually supported the resolution.

In the some resolution made by the company in question in 2021, over 50% of the remuneration was once again not related to auditing, and thus a meeting was held to communicate with the company.

Based on the general accounting practices, this company stated that the auditor listed fees of subsidiaries as: (1) service fees for the internal control report; and (2) consulting related fees. Subsequently, the auditor will be reminded of recognizing accounting items according to its nature. The company’s subsidiary is expected to be officially listed in the fourth quarter of this year, with progress currently on schedule. There may still be listing-related fees this year, yet they will be recognized as review fees in the financial report.

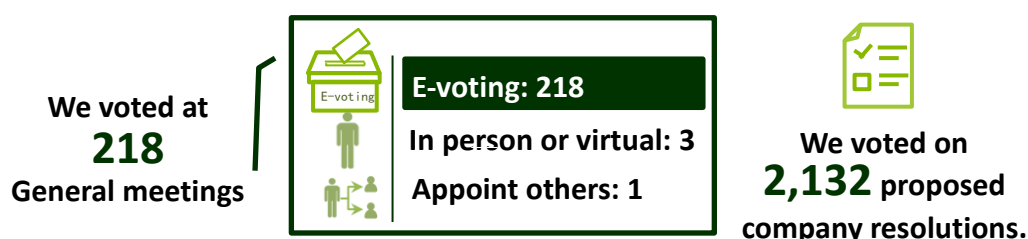
It was decided not to exercise voting rights in 2021 for this resolution as (1) the dispute is mainly related to identifying the accounting classification method, and the company proposed specific improvement measures, yet (2) we have already communicated with the company on the same issue for the second consecutive year.

For the same resolution the company proposed in 2022, we understood that its audit-related fees for the listing of its subsidiaries were recognized as “audit services” in order to convey the information to the market more accurately. As such, the percentage of non-audit expenses dropped to 31% in 2022. Meanwhile, Cathay Life Insurance also affirmed this case and supported the proposal.

	Communication procedures	Direction of votes
● 2020	Company provided reasonable explanations and promised to take non-audit expenses into consideration in the future.	 For
● 2021	It happened again that the proportion of non-audit fees in the payment of accountants’ fees exceeded 50%. Although the company has stated that it was due to market practices, internal communication will be conducted again, but it is considered that the same topic has been communicated for the second year.	Abstention 
● 2022	To more accurately convey information to the market, the company had made reasonable adjustments to the calculation of audit fees. In addition, Cathay Life Insurance also affirmed the case in which the percentage of non-audit expenses dropped to 31%.	 For

(2) The Exercise of Voting Rights

As of the end of 2022 Cathay Life Insurance had attended 218 shareholder meetings at home and abroad and voted 2,132 resolutions. In addition to exercising voting rights electronically, representatives and managers of outsourced units were appointed to attend in person the shareholders' meetings of four companies. Of which, speeches were made in the shareholders' meetings of two companies to encourage and support the investee companies' improvement in ESG performance. Cathay Life Insurance will look forward to these companies' continuous undertakings in ESG.



Cases of Speech at investee Annual General Meeting

■ Company H :

Since 2019, Cathay Life has successively engaged with Company H on climate change and ESG-related issues. We have also seen that Company H has put a lot of effort in the past few years. Therefore, Cathay Life express our thanks and appreciation on carbon reduction ambition and ESG improvement of Company H in their annual general meeting. As Company H has also put considerable efforts in low-carbon transformation, Cathay Life suggest the following two points about ESG disclosure at annual general meeting, so that the interests of all parties can understand Company H's efforts and practices of climate action. Company H also expressed that they will continue to improve the disclosure of ESG-related information in the future:

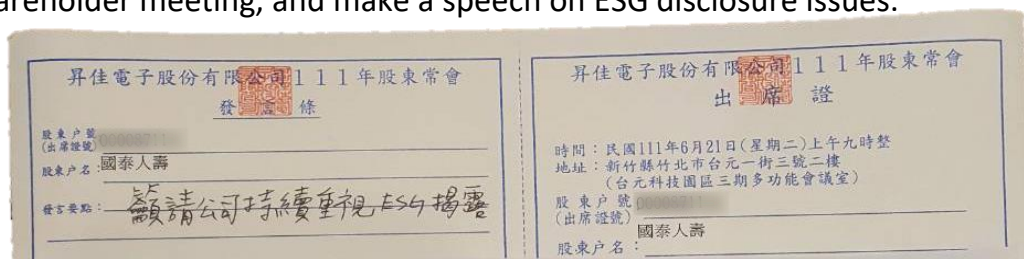
1. Disclosure quantitative scenario analysis according to the TCFD framework;
2. Align its capital expenditure plans with the company's long-term greenhouse gas reduction goals or with the Paris Agreement's objective;



Link: <https://www.youtube.com/watch?v=poUiZZGFwjU&t=3s> (:1:12:47~1:19:08)

■ Company S :

Since the competent authority has more explicit requirements on the disclosure of corporate sustainability and climate change information, TWSE/TPEX listed companies will face pressure not only from shareholder supervision, but also from the competent authority which urges improvement of ESG performance and disclosure. To enable people to better understand Company S's implementation status of its ESG plan, in 2022, Cathay Life Insurance entrusted an agency as a representative for discretionary investment held to attend Company S's shareholder meeting, and make a speech on ESG disclosure issues.

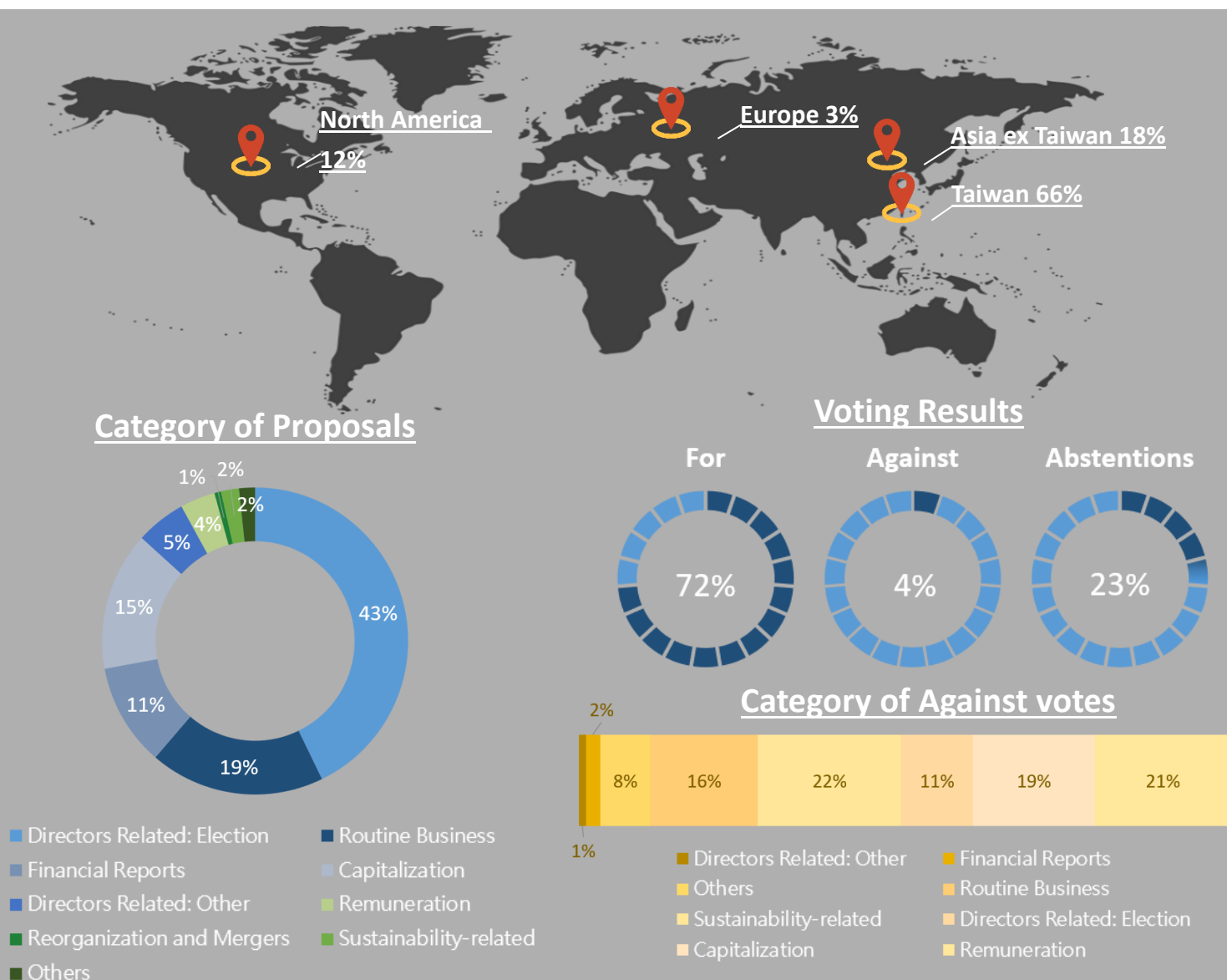


Company S has been operating steadily since it was first listed on the OTC market in 2020, and released its sustainability report for the first time in 2022. The company ranked 6%-20% among the OTC companies in the 2021 and 2022 corporate governance evaluations. Apart from affirming Company S's success in taking the first step in information disclosure, Cathay Life Insurance also encouraged the company to strengthen ESG governance, and actively communicate with ESG rating agencies, so as to understand the improvements that can be made, and raise its ESG rating. These measures will enable Company S to work towards sustainability-related businesses and obtain recognition from more investors.

(3) Voting Results

In 2022, shareholders' meetings held in Taiwan accounted for the highest percentage of all the meetings we attended at 66%, followed by those in other countries within the Asia Pacific region (18%). The proposals for voting were mainly for the election of directors and supervisors (43%), followed by operations (19%) and capitalization (15%).

Cathay Life Insurance respects the professional know-how of investee companies and, in the interest of sustainable growth and low-carbon transitions, supports all proposals from the managers of investee companies in general. However, ESG proposals that obstruct the sustainable development of investee companies will not in principle win our support. Therefore, we voted for 72%, against 4%, and abstained from 23% of the proposals we voted on this year.



i. Reason of Against

Cathay Life believes that shareholders have the right to review material issues one by one rather than be forced to vote on multiple proposals collectively as a bundle. If a motion classifies into multiple types of proposals of the same category, and the contents of these proposals may clash with or obstruct shareholders' rights or economic interests, Cathay Life may directly oppose the whole proposal bundle in the motion.

In addition, we pay attention to the overall ESG performance of investee companies. We will cast opposition votes against proposals deemed inconsistent with the spirit of corporate governance, detrimental to shareholders' rights and interests, or having negative impacts on the environment or society. Below are the proposal categories of our main concerns and the considerations for our opposition:



Election of Directors

- ✓ We pay attention to whether directors are independent, serve for too long or have too many concurrent positions in other companies.
- ✓ The Company will proactively communicate with companies whose business operations or value chains (1) generate a large amount of greenhouse gas emissions; and (2) may cause biodiversity risks, but have not taken appropriate actions to reduce climate risks. In addition, it may also abstain from voting or oppose the election of directors (such as chairmen, CEOs and relevant committee members of companies) or climate-related proposals of senior executives based on the spirit of environment accountability.



Remuneration and benefits

- ✓ Compensation and benefits are mainly about attracting, retaining and rewarding people who are critical to the long-term sustainable growth of companies, so if the compensation plan is not linked to the company's long-term sustainable value or has no relationship with performance goals, we may oppose the company's salary-related proposals.



Financial statement and audit

- ✓ Whether the capital structure affects shareholders' investment values and their priority to receive benefits over other debtors in the company. For this reason, if the company's auditors are not independent or the proportion of non-audit fees to the total audit fees is too high, we may oppose the relevant proposals for the appointment of auditors.



Profit Distribution

- ✓ Cathay Life is normally in favor of distributing cash or stock dividends generated by income or derived from capital and statutory reserves, unless the dividend rate is not in the best interests of shareholders (such as being continuously too low without adequate explanation) or is unfavorable to the company's sustainable financial condition (such as being too high for the company's financial condition).

ii. Reason of Abstentions

Subject to Article 146-1 of Insurance Act in Taiwan, insurance companies cannot cast a vote in the election of directors or supervisors at the public company, those in Taiwan being invested, hence the abstention votes for proposals related to the appointment of directors and supervisors.

If the preliminary voting recommendations is "against", investee company is willing to improve after we communicate and engage with the investee company.

iii. Reason of voting for : Absent the above concerns, we will vote in favor.

Case of proposal opposition: Senior management remuneration

■ Key points of say on pay analysis:

The main purpose of remuneration is to attract, retain, and reward directors, senior management personnel or key employees who play critical roles in ensuring long-term sustainable business growth of the Company. For this reason, remuneration indicators of the bonus system shall be challenging and stringent, and provide appropriate incentives, while performance evaluation indicators and actual performance shall also be fully disclosed to provide investors with sufficient information for evaluation.

■ Factors against the company's advisory proposal on Senior Executive Compensation:

- Inconsistency between remuneration for senior executives and company performance
- Too much equity given to the new CEO who lacks the ability to meet performance goals
- The named executive officers (NEOs) of companies have also received a large number of restricted shares (to an extent that the senior executives' restricted shares will still have substantial value even if the share prices of the companies showed poor performance)
- Remuneration plans are not linked to objective and preset performance standards.

■ Follow-up action if we are not satisfied with the result of the motion:

Suppose the company fails to respond to the remuneration proposal with a low support rate. In that case, we may possibly vote against the company's say on pay proposal in the next year and oppose directors serving on the company's remuneration committee or other responsible for related matters.

Case of proposal abstention: Climate Accountability

■ Key points of analysis on climate accountability:

Check if companies from high-emission industries and the focus companies on the CA100+ list have committed to a net-zero emission target, set scope 1, 2, and 3 emission reduction targets, implemented climate-related financial disclosures, or have specific carbon reduction strategies.

■ Factors abstain from voting certain directors:

Although Company C has committed to reducing its Scope 1 and 2 GHG emissions by 2025 and 2030, respectively, and has established a low-carbon technology department in response to its commitment to eliminate routine flaring by 2025, the company has not yet set its carbon reduction target specifically for Scope 3 emissions (the proposed goal of achieving net zero emissions by 2050 includes only Scopes 1 and 2).

Compared to other oil and gas industry peers, Company C's GHG reduction targets appear less ambitious and inconsistent with a net-zero emissions scenario. Many of Company C's peers have committed to more aggressive GHG reduction targets, such as achieving net-zero emissions across the value chain by 2050. In addition, other companies are reducing their investment in oil and gas development while committing to work with customers to reduce their demand for oil and gas. They are also increasing their investment in alternative fuels and technology research and development as part of their commitment to reducing Scope 3 emissions. In contrast, Company C's targets do not reflect similar efforts to reduce its carbon footprint. If the global marketplace takes more ambitious action to limit global warming to 2°C, we expect Company C to face significant regulatory, competitive, legal, and financial risks.

■ Follow-up action if we are not satisfied with the result of the proposal:

Suppose the company fails to respond to the climate appeals of shareholders and does not take more active climate actions. In that case, we may oppose directors in charge of related affairs the following year and simultaneously convey Cathay Life's ideas to the company again.

(4) Environment and Social Issues:

i. Definition

Cathay Life Insurance designates environmental and social-related proposals as sustainability-related proposals, and conducts case-by-case inspections depending on individual companies' status and proposals, while voting decisions are made based on internal evaluation.

① Environment-related proposals:

Proposals related to climate change, water resources, biodiversity, carbon emissions, waste treatment and renewable energy.

② Society-related proposals

Proposals related to human rights, gender, race, animal welfare, charitable donations, workplace diversity, equality and inclusion, information security and personal privacy.

ii. Guideline for exercising voting rights

Cathay Life Insurance supports proposals related to strengthening investee companies' capability to develop long-term sustainable value, in order to motivate companies to adopt more specific environmental and social response actions. Generally, we support:

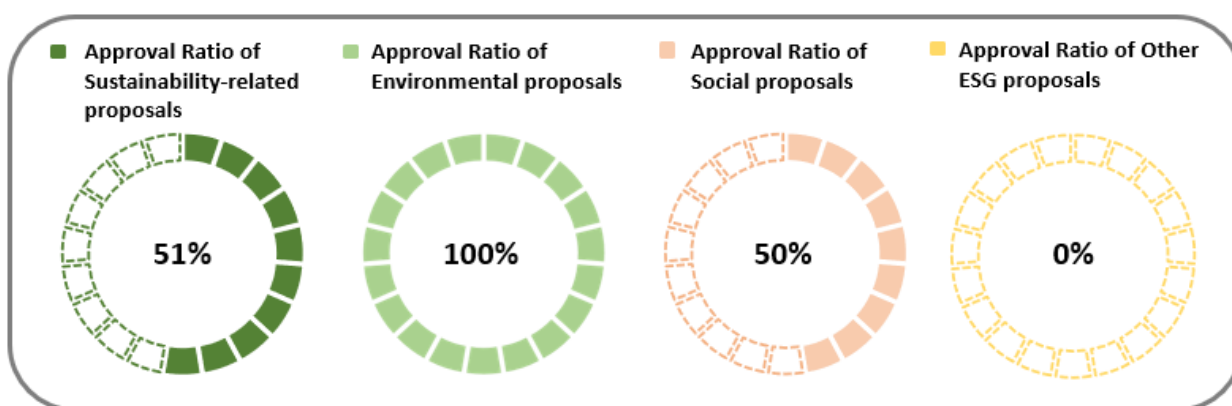
- ① climate-related proposals in line with carbon reduction goals of the Paris Agreement
- ② society-related proposals that comply with the United Nations Guiding Principles (UNGPs) on Business and Human Rights
- ③ performance disclosure proposals that should raise a company's awareness and sense of responsibility toward environmental or social performance ;
- ④ proposals that can reduce a company's major environmental and social risks and increase or protect shareholder value

In general, shareholder proposals enable shareholders to effectively express their opinions to the senior management of companies. Many shareholders will submit proposals on promotion of ESG in companies at the shareholders'

meetings. Currently, the sustainability-related proposals are mainly shareholder proposals, and the Company will prudently assess the reasonableness of such proposals before making voting decisions. On the other hand, some companies would also submit proposals on environmental and social (E&S) actions or future plans, seeking shareholders' consent. In principle, Cathay Life Insurance supports management or shareholder proposals.

iii. Voting result of sustainability-related resolutions

In 2022, we had given our support to 100% of environment-related proposals that help corporate sustainable development, including greenhouse gas reduction goals, climate risk management, and disclosure of low-carbon economy transition. For society-related proposals, we supported assessment report on the impact of company operations on human rights, the announcement and proposal on diversity and inclusion, and disclosure of political and lobbying activities and expenses. However, shareholder proposals with inadequate reasonableness would not win our support. Thus, the Company supported only 50% of the society-related proposals in 2022.



Say on climate proposal: Proposal requiring companies to set GHG reduction targets

- Current status: Firm C's GHG emission reduction targets falls behind other major counterparts in the industry. It is also one of the three top-50 S&P 500 companies that have not made commitments for credible climate actions. Furthermore, Firm C's current climate action plan has no clear statement of the short, medium and long-term goals.
- Description: Firm C lacked scientifically based emission reduction targets, and did not take into account emissions related to agriculture, land use, and deforestation in its supply chain. Disclosure of more information about Firm C's GHG reduction efforts would enable investors to better understand its low-carbon transition and how it would tackle climate change risks. Therefore, Cathay life voted in favor of the proposal.
- Voting results: 70% voted in favor of the proposal, indicating that shareholders hoped that Firm C would reduce the impacts of supply chain on climate change, and raise the emission reduction targets. Firm C also set scope 1 and 2 emission reduction targets in July, and indicated that it would set scope 3 carbon reduction targets in 2023.

Social-related proposal: Request companies to report working condition of warehouses














Firm A continued to face accusations regarding poor working conditions and related labor disputes.

- Current status: Firm A continued to face accusations regarding poor working conditions and related labor disputes.
- Description: There had been much coverage on Firm A's unsafe working conditions, slow response to the pandemic, and dismissal of workers who publicly raised concerns on the pandemic. This resulted in a substantially higher employee turnover compared to its industry peers. In order to understand the company's risk mitigation strategies related to human capital management, legal compliance and monitoring, and enable shareholders to comprehensively assess employee health and safety, and thereby avoid related disputes, Cathay life supported the request on the company to commission a third-party to conduct an evaluation on the warehouse work environment.
- Voting results: The proposal failed to pass in 2022 but received 43.74% support, a significant improvement from the shareholders' support for social-related proposals in previous years, showing that shareholders are paying more attention to these proposals. Besides, high levels of support for such proposals would also send a strong signal to Company A of the importance of taking action on these issues.

(IV) Sustainable Investment

In addition to constructing a comprehensive system and procedures for responsible investment, Cathay Life also takes proactive actions when making investments. Apart from investing in low-carbon investment projects, which is one of the climate strategies, Cathay Life often invests in projects related to environmental sustainability and improvement of social development. We hope to that the growth from the financial industry would lead to a win-win situation in social sustainability and business operations. In 2022, sustainability-related investment amounted to US\$45 billion, which increased by 14% compared with 2021.

1. Theme Investing

Investment themes	Alignment to UN SDGs	2022 Investment Amount	Description
 Low-carbon and green energy industry	 	US\$ 7,236 MM	To respond to climate risks and to answer the call of the Taiwanese government's 2050 net zero emission target, Cathay Life Insurance actively invest in low-carbon green energy industries and contribute to the creation of a happy planet.
 Infrastructure	 	US\$ 24,749 MM	As infrastructure satisfies people's basic needs and serves as a key category in the foundations of national development, improvement of infrastructure, which aims to maintain economic and social growth, annihilate poverty, and help adapt to the impact brought by climate change, is therefore a key to perpetuate sustainability.
 Water resources		US\$ 199 MM	Cathay Life pays attention to sustainable development of the environment consistently. In addition to the risk of climate change, the shortage of water resources, the dramatic increase of urban population, and the violent changes in climate have rendered the effective use and treatment of water resource a major concern of the present era. We hope that our investments in household wastewater treatment and water resource development can complement local sewage systems in ways that improve the living environment.
 Health industries		US\$ 12,954 MM	Cathay Life not only pays attention to public health through products and events, but also uses the power of investment to proactively invest in health-related industries, including drug developments and biotechnologies.
 Financial inclusion	 	US\$ 91 MM	Upholding our philosophy of being "people-oriented," which is incorporated into our core competencies of investment, Cathay Life invests in industries related to education and microfinance, hoping in doing so to contribute to the realization of inclusive finance.

Note: Due to the overlapping of some sustainable investment contents, the total amount of sustainable investment is not a combination of each theme investment.

2. Impact investing

With net zero policy and ESG development picking up momentum around the world, companies are seeking financing for green and sustainable plans, and projects of social benefit. As such, Cathay life has engaged in impact investing via diversified investment products. As of 2022, the accumulated impact investing amounted to US\$1,969 million.

Green Bond

US\$ 1,071 MM



- Covers investments in renewable energy, energy efficiency, clean transportation, green buildings, and wastewater management, in order to support enterprises' environmental protection plans.
- In support of the first round of green bond issuance in Taiwan, Cathay Life Insurance purchased US\$30 million in green bonds (approximately 17% of the total amount issued in the first round).

Social Bond

US\$ 66 MM



- By investing in social bonds for the development plans of basic services, needs and affordable housing, Cathay Life Insurance helps companies produce a positive influence on society.

Sustainability Bond

US\$ 796 MM



- In addition to direct investment of green bonds and social bonds, Cathay Life Insurance also invests in sustainability bonds related to green investment and social impact investment plans, and encourages enterprises to make substantial investments in social and environmental improvement issues.

Impact Fund

US\$ 36 MM

- Cathay Life Insurance seeks to exert a positive influence by investing in shares of companies with products or plans that have a positive impact on society and the environment.

3. Sustainability-Linked Bond (SLB)

In addition to impact investing, Cathay Life also invests in sustainable-linked bonds (SLBs) that have been developing rapidly in the past two years. The SLBs are designed to link bond interest and principal payment terms to the issuer's sustainable development performance, so as to ensure that the issuer will implement sustainable development business decisions and sustainable business models. The SLBs invested by Cathay Life come with a sustainability target of achieving 100% greenhouse gas reduction. They support companies in implementing carbon reduction in business operations. As of 2022, the investment amount totaled US\$168.7 million.

(V) TCFD

Confronted by the increasingly severe impact of climate change, Cathay Life has taken the initiative in promoting the framework of the Task Force on Climate-related Financial Disclosures (TCFD) issued in June 2017 by Financial Stability Board (FSB). In 2022, Cathay Life and its parent company Cathay FHC science-based targets (SBT) were approved by the Science Based Targets initiative (SBTi) and moving towards the goal of Net Zero Emissions by 2050.

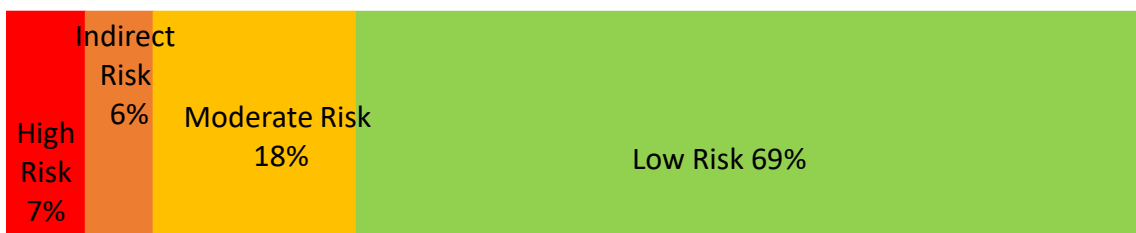
1. The impact of quantified climate change on investment portfolios

Physical risks caused by extreme weather may damage investee companies and even impact their production capacities, thus increasing the probability of companies' defaults or decreases in their market values. To control global warming, governments around the world are intensifying their supervision of carbon emissions by implementing carbon pricing or carbon emissions trading mechanisms; but such measures have created a transition risk that has led to an increase in the costs of investee companies and affected their profits and values, thus reducing Cathay's income and values of assets we are investing in. Therefore, we use Backward looking quantitative methods and Forward looking scenario simulation methods to manage the risks and get opportunities of climate change in investment portfolios in advance.

(1) Backward looking: Portfolio of Carbon footprint

i. Assess the exposure to the climate risk

Based on the methodology of the MSCI ESG Industry Risk Intensity, Cathay Life identified the exposure of equity and corporate bonds to different level climate risks. Our inventories show that 7% of our positions are involved in high climate-related risks; therefore, our climate-related risks are controllable.



Note:

High Risk	Based on the nature of their business activities, companies in that industry face a high level of risk exposure to the Direct climate change Issue.
Indirect Risk	Based on the nature of their business activities, companies in that industry face a high level of risk exposure to the Indirect climate change issues.
Moderate Risk	Based on the nature of their business activities, companies in that industry face a medium level of risk exposure to the Direct climate change Issue.
Low Risk	Based on the nature of their business activities, companies in that industry face a low level of risk exposure to climate change Issue.

ii. Inventory the carbon footprint of the investment portfolio

① Carbon footprint of investment portfolio- company operations (Scope 1 and scope 2)

To fulfill the commitment of the Paris Agreement and meet stringent global carbon emission regulations with preparation in advance, in 2018, pursuant to the TCFD guidelines, Cathay Life became the first company to calculate the carbon footprint (Scope 1 and Scope 2) of listed equity assets and corporate bond based on the weighted average carbon intensity. The evaluation serves as one of the climate change risk management and assessment tools for its investment portfolio. Since 2020, Cathay Life voluntarily made the decision to comply with the guidelines of the Partnership for Carbon Accounting Financial (PCAF). Based on the methodology of the guidelines, the total carbon emissions of investment portfolios (Scope 1 and Scope 2) and in turn, the portfolio carbon intensity are calculated to measure carbon footprint of investment portfolios, all of which will serve as indicators for monitoring the performance of carbon reduction targets from different perspectives.

Regarding the inventory results in 2022, the total carbon emissions were 9,564,162 tCO₂e, the portfolio carbon intensity was 71.35 tCO₂e/US mn invested, and the weighted average carbon intensity was 235 tCO₂e/US mn revenues, representing decreases of 11.4%, 7.3% and 7.5% respectively from 2021.

The total carbon emissions of the top 50 listed companies accounted for 85.2% of the emissions, and the top 100 companies issuing corporate bonds accounted for 86.6%. Among the total emissions of industries with high

climate change risks, the percentage of asset position of the integrated oil and gas industry accounted for only 4.9%, but its carbon emissions accounted for 19.4%. However, the overall asset position and carbon emissions of industries with high climate-related risks declined by 0.3% and 10.7% respectively compared with the previous year. The investments in the Americas accounted for 51%, and the carbon emissions accounted for 58% of total carbon emissions. In due course, we will continue to monitor changes in these metrics and engage in discussions with high carbon emission industries.

Carbon Footprints of Various Asset Classes in 2021-2022

	Unit	2022	YOY	2021
Listed equity				
Total carbon emissions	tCO ₂ e	540,112	-46.0%	999,435
Portfolio carbon intensity	tCO ₂ e/US mn invested	33.04	-19.7%	41.14
Weighted average carbon intensity	tCO ₂ e/US mn revenues	109	-26.0%	147
Carbon emissions coverage rate	%	100%	0.0%	100%
Data quality score		2.47	55.2%	1.59
Corporate bond				
Total carbon emissions	tCO ₂ e	9,024,050	-7.9%	9,800,240
Portfolio carbon intensity	tCO ₂ e/US mn invested	76.67	-9.3%	84.49
Weighted average carbon intensity	tCO ₂ e/US mn revenues	252	-8.6%	276
Carbon emissions coverage rate	%	100%	0.0%	100%
Data quality score		2.49	38.6%	1.80
Total				
Total carbon emissions	tCO ₂ e	9,564,162	-11.4%	10,799,675
Portfolio carbon intensity	tCO ₂ e/US mn invested	71.35	-7.3%	76.99
Weighted average carbon intensity	tCO ₂ e/US mn revenues	235	-7.5%	254
Carbon emissions coverage rate	%	100%	0.0%	100%
Data quality score		2.49	41.2%	1.76

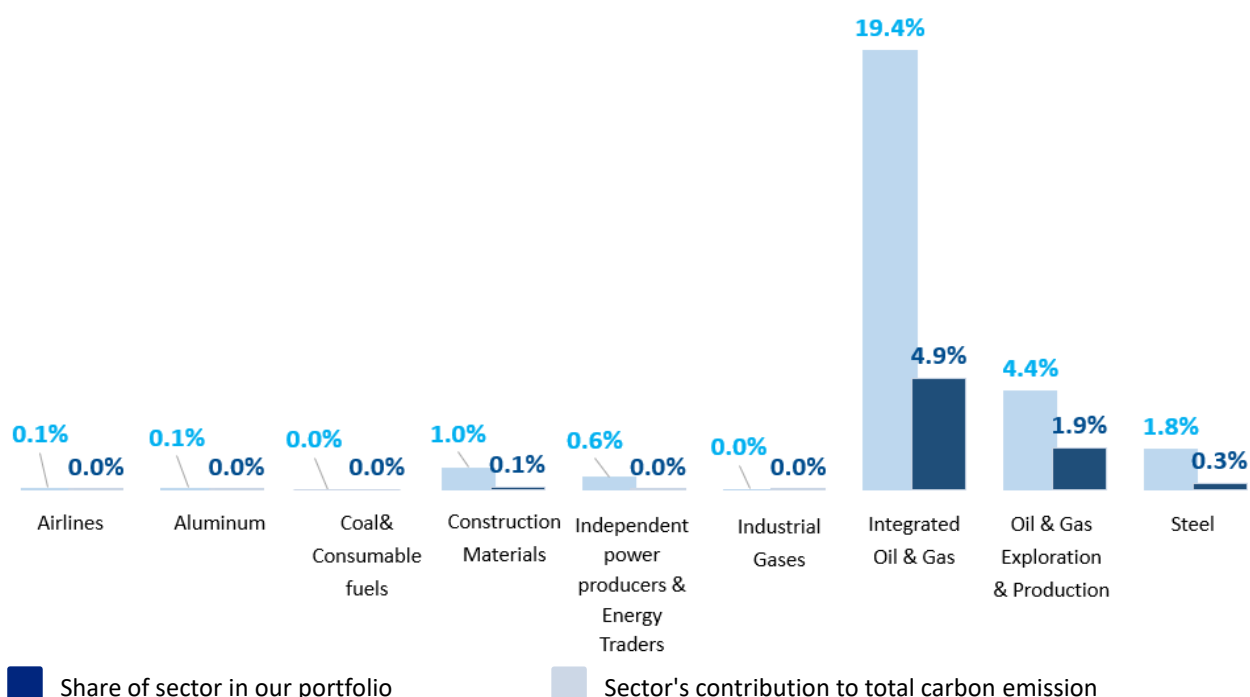
Note:

1. Data quality score (one point stands for the best data quality, indicating that all carbon emissions data are verified by third-party organizations; five points stands for the worst data quality). In 2022, due to the adoption of the MSCI Total Portfolio Footprint methodology, the best data quality score was two points, which increased the data quality score from 1.76 points to 2.49 points.
2. Since 2018, the Company calculated the carbon footprints of investment portfolios, and conducted carbon inventory on investment positions (FVTPL, FVOCI and AC) of listed Equity and corporate bonds

Analysis of the Total Carbon Emission Concentrations in 2022



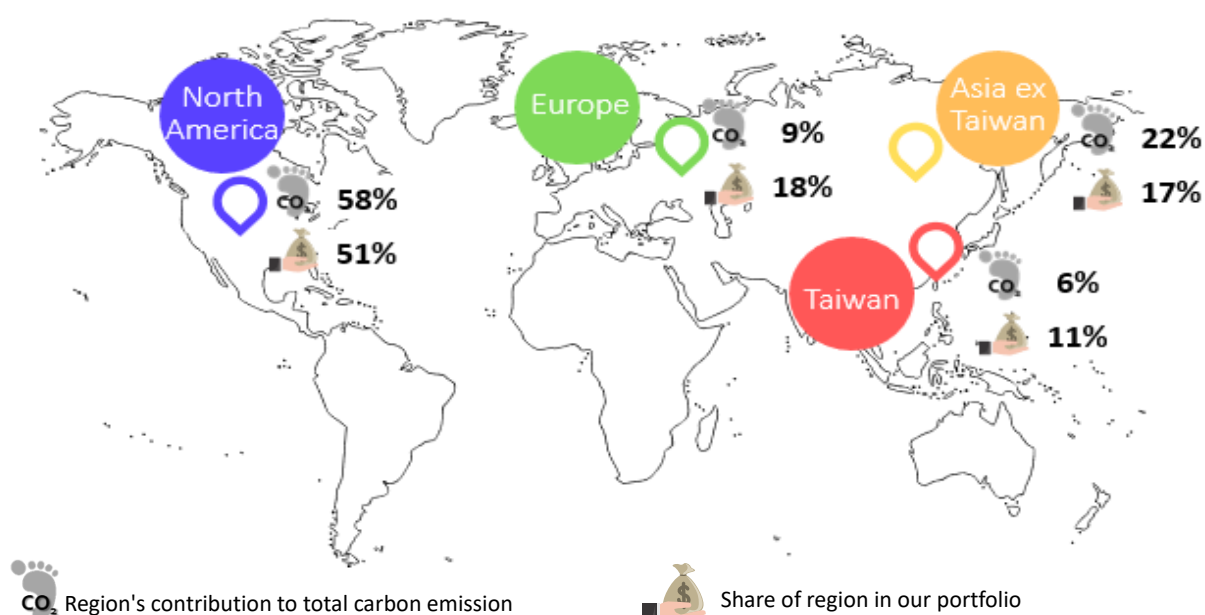
Distribution of carbon footprint in high climate-related risk industries in 2022



■ Share of sector in our portfolio

■ Sector's contribution to total carbon emission

Distribution of Carbon Emissions by Region in 2022



②Investment Portfolio Carbon Emissions - Company Operations and the Value Chain (Scopes 1, 2, and 3)

To have a more comprehensive understanding of the investment portfolio carbon emission, Cathay Life has expanded the scope of its investment portfolio since 2022. In addition to the investee companies' scope 1 and 2 emissions inventory, we also conducted investee companies' scope 3 emissions inventory to obtain a more comprehensive inventory scope. Considering poor disclosure quality and low completeness of the carbon information of companies in scope 3, Cathay Life adheres to the PCAF guidelines, and incorporated the industries in Scope 3 for calculating the total carbon emissions of "oil and gas industry, metal and mining industry, transportation industry, and construction materials industry" investment portfolio company operations (scope 1 and scope 2) and the value chain (scope 3), and continue to observe data changes. In the future, we will gradually conduct carbon emissions inventory of all industries in scope 3 depending on the coverage and carbon information disclosure quality.

	Total carbon emissions (tCO ₂ e)	Carbon emissions coverage rate	Data quality score
Oil & Gas			
Scope 1&2	3,317,980	100%	3.28
Scoep 3	25,412,013	93%	3.33
Metals & Mining			
Scope 1&2	482,321	100%	2.81
Scoep 3	2,541,410	100%	3.00
Transportation			
Scope 1&2	19,321	100%	2.29
Scoep 3	476,305	100%	2.39
Construction Materials			
Scope 1&2	95,433	100%	2.14
Scoep 3	26,356	100%	3.16

③ Sovereign bond carbon emissions

The PCAF guidelines published the calculation of sovereign bond carbon emissions in 2022. Based on the PCAF guidelines, Cathay Life Insurance conducted Scope 1 carbon inventory and disclosed the total sovereign bond carbon emissions.

	Unit	2022
Sovereign Bond		
(Scope1, LULUCF not included)		
Total carbon emissions	tCO ₂ e	5,205,315
Portfolio carbon intensity	tCO ₂ e/US mn invested	323.5
Carbon emissions coverage rate	%	100%
Data quality score		2
Sovereign Bond		
(Scope1, LULUCF included)		
Total carbon emissions	tCO ₂ e	5,063,457
Portfolio carbon intensity	tCO ₂ e/US mn invested	352.5
Carbon emissions coverage rate	%	89%
Data quality score		1.84

Note: Land use, land-use change and forestry (LULUCF): Human activities affect the carbon cycle between the terrestrial biosphere and the atmosphere through land use, land-use change and forestry, resulting in the increase of carbon dioxide Change.

(2) Forward looking scenario analysis : Assess the C VaR of portfolio

i. Listed equity and corporate bond

In response to climate change, enterprises may pay for additional carbon emission costs in the future, and will also face the impact of extreme weather events on assets, equipments, and operating capacities, which may lead to loss of asset value for investors. Cathay Life introduced a model developed by MSCI, and adopted climate scenarios such as NGFS and RCP8.5 emissions to measure the Climate Value-at-Risk (Climate VaR, CVaR) of equity investment (excluding sovereign bonds) ^{Note 1}. A comparison of trends in the two most recent years shows that if the latest model and database data are used to retrospectively calculate the risk value in 2021, the overall risk (including transformation and entity) in 2022 will be lower than that in 2021. Therefore, the related risks are controllable.

NGFS Scenario and MSCI CVaR Scenario Analysis Results

NGFS Scenarios	Net Zero 2050 (Orderly)	Delayed Transition (Disorderly)	Nationally Determined Contributions (Hot House World)
Scenarios and assumption	Formulate climate policies in advance and implement them gradually. We expect to achieve net zero emissions and answer to calls for limiting temperature increase to 1.5°C by 2050. Physical and transition risks are deemed medium risks.	Assuming that the scenarios will remain the same before 2030, there may be high transition risks as transition costs may surge by the sudden promotion of strong emission reduction policies after 2030.	Transition risks may be the lowest, but the physical risks may be the highest if the scenario only covers existing national policies, without new actions on carbon reduction.
Carbon price by 2050 ^{Note 2} (USDt/CO2)	672.7	621.9	34.1
Degrees of warming by the end of century	1.5°C	2°C	3°C
Description of transition risks	[Medium Risk] Timely and orderly implementation of climate policies	[High Risk] Delayed and abrupt implementation of climate policies	[Low Risk] Implement the existing commitment to the nationally determined contributions, without new actions on carbon reduction

Description of physical risks ^{Note 3}	[Medium Risk] Average climate change scenario	[Medium Risk] Average climate change scenario	[High Risk] Extreme climate change scenario																
MSCI CVaR Scenario analysis results	<div> <div>Transition Risks</div> <div>Physical Risks</div> <div>Integrated (Transition + Physical)</div> </div> <table border="1"> <thead> <tr> <th>Scenario</th> <th>Transition Risks</th> <th>Physical Risks</th> <th>Integrated (Transition + Physical)</th> </tr> </thead> <tbody> <tr> <td>[Medium Risk] Average</td> <td>-1.19%</td> <td>-4.62%</td> <td>-5.80%</td> </tr> <tr> <td>[Medium Risk] Average</td> <td>-6.27%</td> <td>-4.62%</td> <td>-10.89%</td> </tr> <tr> <td>[High Risk] Extreme</td> <td>-0.03%</td> <td>-10.77%</td> <td>-10.80%</td> </tr> </tbody> </table>			Scenario	Transition Risks	Physical Risks	Integrated (Transition + Physical)	[Medium Risk] Average	-1.19%	-4.62%	-5.80%	[Medium Risk] Average	-6.27%	-4.62%	-10.89%	[High Risk] Extreme	-0.03%	-10.77%	-10.80%
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Note:

1. Climate Value-at-Risk (CVaR) refers to the discounted cost of climate risk accumulatively borne by investment portfolios up to the year 2080. Please refer to the [MSCI website](#) for details.
2. The carbon price development roadmap for NGFS scenarios is the main MSCI parameter used. Please refer to [NGFS Phase 2 Scenario Explorer](#) for details.
3. In terms of the trade-offs between the impact of transition and physical risks, given that MSCI takes into account the effect of other emission scenarios in reducing physical climate risks in the short term, there is no significant difference between the Business-as-Usual and RCP 8.5 scenarios. Therefore, the emission scenario RCP 8.5 was adopted to analyze physical risks, with only two climate scenarios: average climate and extreme climate(95th percentile).
4. 2021 equity and bond investment portfolios MSCI CVaR Scenario analysis results – back-calculation

NGFS Scenarios	Net Zero 2050 (Orderly)	Delayed Transition (Disorderly)	Nationally Determined Contributions (Hot House World)
Transition Risks	-1.75%	-7.37%	-0.04%
Physical Risks	-5.65%	-5.65%	-12.38%
Integrated (Transition + Physical)	-7.39%	-13.02%	-12.43%

ii. Sovereign Bond

As MSCI added a new method to measure the CVaR of sovereign bonds in 2022, Cathay Life has expanded the scope of assessment of securities investment by sovereign bond. Using the MSCI CVaR methodology for sovereign bonds, we measured the magnitude of losses caused by rising bond yields on the overall sovereign bond investment portfolio in different NGFS transition scenarios. Results show that related transition losses are controllable.

Analysis results using MSCI Sovereign CVaR Notes 1, 2 scenarios (transition risks)		
Net Zero 2050 (Orderly)	Delayed Transition (Disorderly)	Nationally Determined Contributions (Hot House World)
-3.4%	-1.4%	-0.7%

Note:

1. The MSCI Sovereign CVaR methodology computed the discounted profit/loss all the way to 2050 to be borne by the sovereign bond portfolio due to changes in the yield rates of government bonds of various countries. See the [MSCI website](#) for details.
2. Description of the MSCI Sovereign Climate VaR data source: (1) The latest data is dated Jan 31, 2023; (2) The MSCI data covers 54% of the overall sovereign bond investment portfolio.

2. Climate change response strategies and relevant actions for investment portfolios

1

Participated in international organizations that keep track of international climate change trends ahead of time ([P.26-31](#))

- Asia Investor Group on Climate Change
- Ceres Valuing Water Finance Task Force

2

Implemented ESG risk reviews and engagements to mitigate investment risks

- Incorporated climate risk factors into investment processes ([P.10-16](#))
 - Implemented strict control for sensitive industries and required attention to environmental issues for general industries
- Timely adjust the sensitive industries following the international trends
 - Companies from unconventional oil & gas industries that haven't worked on low carbon transition will be added to the exclusion list.
- Climate change as engagement theme ([P.23](#))

3

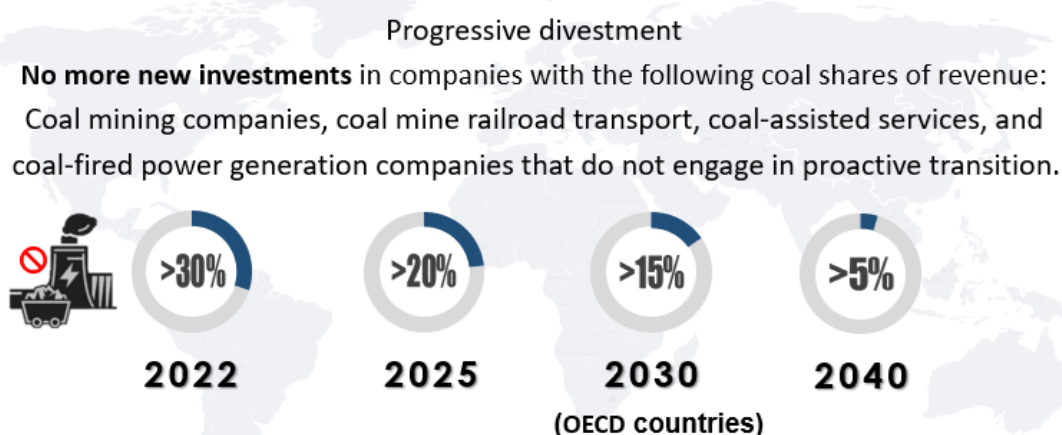
Low-carbon investment allocation strategies and action plans

■ Expanding low-carbon and green energy investments

- Achieved the goal of 40% growth by 2030 with 2018 as the baseline year, which was set in 2019.
- In 2022, we re-examined and expanded low-carbon and green energy investment growth targets by 20%, 25%, and 35% for 2023, 2025, and 2030 respectively, with 2020 as the baseline year.

■ Formulating coal phase-out plans to prevent investments from becoming stranded assets.

- Provide the necessary financial support for coal companies that have proactively set up low-carbon transformation goals. ([P.14](#))



Evaluation of the effectiveness of responsible investment

Insurance is a “people-oriented” industry, and responsible investment is the mission Cathay Life takes upon itself as the leader of the industry.

As insurance is a “people-oriented” industry, every time we sale a life insurance policy , it represents Cathay Life's promise to protect policyholders their entire life. On the basis of such promise, we not only pursue targets of stable and long-term income in terms of our use of capital, but also seek solid and sustainable organizational operations.

Having operated for 60 years, Cathay Life has assets worth over US\$ 266 billion, which account for one quarter of the total capital of Taiwan’s insurance industry. As the leader of the industry and one of the largest institutional investors in Taiwan, we not only fulfill our promises to policyholders and expectations from shareholders, but are also fully committed to making a more meaningful use of our capital. Therefore, despite the risky investment environment in the past few years, characterized by low interest rates for a long time, high volatility in the international market, and losses from differences of interest rates, we constantly give our best to fulfill the obligations as an asset owner and implement responsible investment. The evaluation of implementation effectiveness is summarized as follows:

(I) 100% responsible investment amounting to US \$208 billion

We began participating in the Group's Responsible Investment Working Group in 2014 and adopting the Principles for Responsible Investment (PRI) in 2015. Since then, we have set relevant expectations and goals for ourselves every year. We also have dedicated responsible investment personnel to refine and implement our responsible investment policies, covering various types of assets (stocks, bonds, funds, real estate, etc.) in order to become the leader of responsible investment in the Asia-Pacific region. To enhance the investment team’s understanding of responsible investment, the responsible investment course is listed as a compulsory course for newcomer training in the investment system (including basic introduction to responsible investment, interpretation of ESG rating reports, explanation of internal responsible investment mechanisms, etc.), and held regularly every year 2 sessions of responsible investment

training course(including international trends, climate change, case studies, etc.), and grouped workshops to allow investment team colleagues to discuss and share. Besides, in order to enable the investment team to learn more, we also encouraged investment team to participate in responsible investment seminars or education training organized by external international benchmark companies and sustainable organizations. The Group periodically organizes training courses, participates in external conferences, and publishes CLIMATE PLUS, a monthly e-newsletter on responsible investment, so as to improve our understanding of responsible investment, climate change, and international trends. Therefore, in 2022, a total of 353 Cathay employees participated in our training courses and external conferences; the average training hours stood at 91 minutes per person.

(II) We have worked with various stakeholders to exert our influence in sustainability.

During our investment decision-making process, we consider the ESG measures of potential investee companies to select companies with a prospect of sustainable development to invest in. By doing so, we can avoid the impact of ESG risks on Cathay's income from investments and ensure the rights and interests of our policyholders and shareholders. However, this approach is unable to make companies with poor ESG performance improve their performance. For this reason, Cathay Life adopted a more active approach to exert its influence on sustainability, hoping that by doing so we can become a stable force for society and bring a positive impact to the world.

1. We required mandate institutions to implement responsible investment, thereby ensuring the security of the capital of our policyholders and shareholders:

100% of our mandate assets were managed by asset management companies that are either PRI signatories or who have follow the governmental stewardship code in place. Of the asset management companies providing discretionary investment services to Cathay life in 2022, about 90% of Cathay's mandate institutes that accepted the PRI annual assessment had received five stars (5/5) for Investment & Stewardship section. The full score for this item was 100 points, and Cathay life's mandate institutions received an average score of 87 points, as opposed to the

median score of all signatories to the PRI for this item of 60 points, which shows that all the mandate assets of Cathay Life managed by the institutions that pays attention to the risks and opportunities of ESG and sustainability.

2. We proactively cooperated with international investors to exert a bigger influence:

We have participated in four international initiatives, thereby continuing to promote the global sustainable development with international organizations.

3. We engaged with investee companies to improve sustainable actions, thus creating a positive cycle

In 2022, through one-on-one engagements, Cathay Life communicated with 80 enterprises on 15 material ESG issues for a total of 211 times. The main issues for communications were “adapting to climate change” and “carbon emissions.” The exercise could help us understand the company’s actions in adapting to climate change, as well as discussing the company’s carbon reduction plan, and response measures for low-carbon transition. This allows us to learn about the limitations and difficulties in the company’s adaption to climate change or during the carbon reduction process, and provide suggestions.

(III) We directly invested in sustainable categories to support corporate sustainable transformation.

We are proactively seeking sustainable investment targets (e.g., low-carbon and green energy, water resources, infrastructure, health, and financial inclusion), in which we have invested US\$45 billion, up 14% compared to 2021. In 2022, Cathay Life will take further steps to invest in impact investing and sustainability-related bonds, which tackles issues including social integration, educational and environmental resource requirements, medical care, and quality of living. To accomplish this, Cathay Life has invested US\$1,969 million.

(IV) We implement climate management for investment portfolio to embark on low-carbon transition for our financial assets.

We are the first company in the financial industry to adopt a backward-looking

quantitative method for the carbon footprint of investment portfolio, and a forward-looking scenario analysis to stay ahead of climate-related risks and opportunities in investment portfolios. Furthermore, we have gradually reduced the carbon emissions of investment portfolio each year. In 2022, our total carbon emissions amounted to 9,564,162 tCO₂e; economic carbon intensity amounted to 71.35 tCO₂e/US mn invested; and weighted average carbon intensity amounted to 235 tCO₂e/US mn revenues, all of which had declined, by 11.4%, 7.3%, and 7.5%, respectively compared to those in 2021. In addition, to demonstrate our determination in carbon reduction for investment portfolio, we adopted the Science Based Targets for setting our carbon reduction path of investment portfolio, which was approved by the SBTi in 2022.

Annexed Table : RI policy on different asset classes

Asset class	Own assets managed internally or by third-parties	RI Policy	% of assets	Note
Listed equity	managed internally	Yes	1~5%	<ol style="list-style-type: none"> 1. 100% apply Investment and Lending Exclusion Policy. 2. 100% apply Investment Management Principles for Sensitive Industries. 3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income. 4. Cathay FHC also established the <u>engagement policy</u> to improve investee's ESG information disclosure.
	managed by third-parties	Yes	1~5%	<ol style="list-style-type: none"> 1. Mandate assets <ol style="list-style-type: none"> (1) 100% apply Investment and Lending Exclusion Policy. (2) 100% apply Investment Management Principles for Sensitive Industries. (3) Cathay life insurance have taken signing PRI into consideration as an one of evaluation items for mandate partner selection process and ask asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with asset management companies. (4) As of the end of 2022, 100% of our listed equity mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the government stewardship code</u> in place. 2. Equity Fund & Equity ETF: <ol style="list-style-type: none"> (1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG; (2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.
Fixed income	managed internally	Yes	20~50%	<ol style="list-style-type: none"> 1. 100% apply Investment and Lending Exclusion Policy. 2. 100% apply Investment Management Principles for Sensitive Industries. 3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income.
	managed by third-parties	Yes	20~50%	<ol style="list-style-type: none"> 1. Mandate assets <ol style="list-style-type: none"> (1) 100% apply Investment and Lending Exclusion Policy. (2) 100% apply Investment Management Principles for Sensitive Industries. (3) As of the end of 2022, 100% of our fixed income mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place. Those who have not signed also have related responsible investment actions. 2. Bond Fund& Bond ETF: <ol style="list-style-type: none"> (1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG; (2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.

Asset class	Own assets managed internally or by third-parties	RI Policy	% of assets	Note
Private equity	managed internally	Yes	1~5%	1. 100% apply Investment and Lending Exclusion Policy. 2. 100% apply Investment Management Principles for Sensitive Industries.
	managed by third-parties	Due Diligence	1~5%	1. Mandate assets As of the end of 2022, 100% of our private equity fund mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place. 2. Private Equity fund From 2017 onwards, Cathay Life has <u>taken ESG into considerations of new transaction counterparties</u> in our PE fund investment selection process.
Infrastructure	managed internally	Yes	below 1%	Cathay mainly adopt the <u>sustainability themed investing</u> approach in this asset class.
	managed by third-parties	Yes	below 1%	
Property	managed internally	Yes	5~10%	1. Property is 100% covered by <u>Responsible Property Investment and Management Policy</u> 2. Cathay also adopt the <u>sustainability themed investing</u> approach in this asset class. 3. As a demonstration of our commitment to ecology and environmental protection, for 2016 onwards, architects commissioned by Cathay are required to design buildings invested and developed by Cathay based on green building standards, so that all real estates can reach certain standards of energy use, greening, and waste. All new buildings have obtained the green building or LEED certification since 2023.
	managed by third-parties	Due Diligence	below 1%	1. Mandate assets As of the end of 2022, 100% of our REITs mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place. 2. REITs As of the end of 2022, 100% of our REITs assets were managed by fund management institutions that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place.
Derivatives & Alternatives, specify Hedge fund	managed internally	Not applicable	0.00%	
	managed by third-parties	Due Diligence	below 1%	1. Mandate assets We ask our hedge fund asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with them since 2017. 2. Hedge fund From 2017 onwards, Cathay Life has <u>taken ESG into considerations of new transaction counterparties</u> in our HF fund investment selection process.

Appendix I: Principles for Responsible Investment Content Index

Incorporate ESG issues into investment analysis and decision-making processes



PRINCIPLE 1 INCORPORATE

- Complies with Cathay FHC's Responsible Investment Policy and Investment and Lending Exclusion Policy
- Established the ESG risk review process;
- Stipulated Investment Management Principles for Sensitive Industries.
- Invested in sustainable investment targets
- Reported the implementation results of responsible investment to the Board of Directors every year

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P.10-15
P.49

Be active owners and incorporate ESG issues into our ownership policies and practices



PRINCIPLE 2 BE ACTIVE

- On July 25, 2016, Cathay Life signed the Taiwan Stewardship Principles for Institutional Investors issued by TWSE Corporate Governance Center, and became the first insurance company in Taiwan to become a signatory.
- Interacts with investee companies through dialog, engagement, and exercise of voting rights to demonstrate the Company's due diligence management as an active owner.

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Seek appropriate disclosure on ESG issues by the entities in which we invest



PRINCIPLE 3 SEEK DISCLOSURE

- Participated in CDP NDC and encouraged investee companies to respond to CDP questionnaires and disclose their carbon emission data and climate change measures.
- Participated in Climate Action 100+ and encouraged investee companies to strengthen climate risk disclosure and management.
- One-on-one engagements with companies to encourage the investee company to improve ESG and increase carbon governance, carbon targets, and carbon disclosure

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Promote acceptance and implementation of the Principles within the investment industry



PRINCIPLE 4 PROMOTE

- Took signing the Principles for Responsible Investment (PRI) into consideration for mandate partner evaluation, and required mandate partners to comply with Cathay Life's exclusion policy and implement ESG management.
- Participated in various activities, and hope that the peers can jointly implement responsible investment, such as participating the Valuing Water Finance Task Force.

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P.29

Work together to enhance our effectiveness in implementing the Principles



PRINCIPLE 5 COLLABORATE

- Participate in AIGCC, Ceres Valuing Water Finance Task Force, improve the learning and understanding of climate change and water resources, and strengthen the effectiveness of investor negotiation.
- Continuously hold the Sustainable Finance and Climate Change Summit in 2022 to promote the importance of ESG and climate change.

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Each report on our activities and progress towards implementing the Principles



PRINCIPLE 6 REPORT

- Published CS related reports on our activities and progress in the implementation of PRI.
- Since 2017, we have published a Stewardship Report on a yearly basis; in 2020, we added details regarding our responsible investments in the report.

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Appendix II: Taiwan Stewardship Principles for Institutional Investors Content Index



PRINCIPLE 1 STEWARDSHIP

Establish and disclose stewardship policies

- Complies with Taiwan Stewardship Principles for Institutional Investors and publish our compliance statement. P.2
- Stipulate Stewardship Policy since 2017.



PRINCIPLE 2 MANAGEMENT

Establish and disclose policies on managing conflicts of interest

- Ensures that we execute its businesses in the interest of its clients and shareholders, we have established Guidelines for Investment Conflict Prevention and Management. P.8-9
- No investment-related conflict of interest incidents in 2022.



PRINCIPLE 3 OBSERVATION

On-going observation of investee companies

- Observes financial and ESG performance of investee companies through ESG data from the MSCI ESG database, their website, conference calls, face-to-face meetings, participation in institutional investors' roadshows or attendance at shareholders' meetings or significant extraordinary general meetings P.10 & P.21-22



PRINCIPLE 4 INTERACTION

Maintain an appropriate dialogue and interaction with investee

- Interacts with investee companies through various activities such as being a guest speaker or panelist on seminar or participating international initiatives, and holding climate change forums. P.21 I 35



PRINCIPLE 5 PROXY VOTING

Establish clear voting policies and disclose voting results

- Stipulates Proxy Voting Policy to establish our threshold for exercising voting rights, exercising manners and publish the voting result annually based. P.36 - 48



Proxy voting report since 2015



PRINCIPLE 6 REPORT

Periodically Disclose Fulfillment Status of Stewardship Responsibilities

- Publishes a Stewardship Report every year.
- Cathay Life was once again selected into the Taiwan Stock Exchange's 2022 [List of Companies Most Compliant with the Taiwan Stewardship Principles for Institutional Investors](#). --

Other sustainability of Cathay Life

1.CS website

<https://patron.cathaylife.com.tw/ODAB/en/ODAB0000>



2.CS website-Stewardship

<https://patron.cathaylife.com.tw/ODAB/en/ODAB9000>

