

# Shin Kong Financial Holding Co., Ltd.

## Sustainable Finance Policy

Formulated on December 18, 2020  
First amendment and renamed on May 3, 2021  
Second amendment on May 4, 2022  
Third amendment on May 23, 2023

### **Article 1 Purpose**

Shin Kong Financial Holding strives for sustainable finance, and incorporates environment, social, corporate governance (hereinafter referred to as ESG) factors and the UN's Sustainable Development Goals (SDGs) into the decision-making process of investment, lending and life insurance, in order to reduce potential sustainability risks, enhance the long-term value for stakeholders such as the company, employees and shareholders, fulfill corporate social responsibility, and achieve sustainable development of the company, society, and environment.

### **Article 2 Scope**

The policy is implemented for the long-term positions owned and managed by SKFH and its subsidiaries, and is also applicable to outsourced investment institutions. The scope of business includes the investment, lending and life insurance, and we shall review specific risks, strategies and action plans according to the characteristics of products and services.

### **Article 3 Term definition**

Terms in the policy are defined as follows:

1. SKFH: Shin Kong Financial Holding Co., Ltd.
2. Subsidiaries: Shin Kong Financial Holding Co., Ltd directly invests subsidiaries with 100% of the total number of issued voting shares or total capital.

### **Article 4 Authority**

SKFH has set up a Sustainable Finance Group supervised by Corporate Sustainability Committee based on authorities and responsibilities, which is responsible for planning and implementing sustainable finance in company-wide. The missions and duties of the Sustainable Finance Group shall be subject to Shin Kong Financial Holding Co., Ltd. Corporate Sustainability Committee's Rules.

## **Article 5 Principle of practice**

In order to effectively implement this policy for each major product and service, SKFH complies with international standards and frameworks for investment, lending and life insurance, such as Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB), Equator Principles (Eps), Principles for Sustainable Insurance (PSI), in response to supporting international initiatives and following Taiwan Stock Exchange's "Stewardship Principles for Institutional Investors " to implement the goal of sustainable finance.

## **Article 6 Incorporate ESG factors into investment, lending and life insurance decision-making processes**

SKFH and its subsidiaries shall incorporate ESG factors into the decision-making process of investment, lending and life insurance. Evaluate the ESG comprehensive performance of the counterparties prudently through the analysis of public and non-public information as an important consideration for whether to do business or not. If there is a serious violation of ESG evaluation standards of the policy, the business shall not be approved, so as to reduce positional sustainability risks and promote sound development. According to international trends and domestic regulations, the major ESG factors we focus on are defined as follows:

1. Environment (E): Climate change, biodiversity, environmental pollution
2. Social (S): Human rights, gender equality
3. Corporate governance (G): Ethical corporate management best practice, board performance

## **Article 7 Exclusion list**

SKFH and its subsidiaries have established an exclusion list for industries and countries with high ESG risks. If the counterparties hit the following exclusion criteria, they shall not be dealt with:

1. Sex industry, Drug industry and Controversial arms industry.
2. Countries or regions with serious deficiencies in combating money laundering and financing of terrorism

## **Article 8 Asset class specific guidelines**

The decision-making principles for the investment, lending and life insurance shall be in accordance with asset class specific guidelines as follows:

1. Investment: SKFH and its subsidiaries should follow the six principles of PRI when

formulating investment strategies and making investment decisions:

- (1) Incorporating ESG factors into the investment analysis and decision-making processes.
  - (2) Exercising voting rights actively and incorporating ESG factors into the voting policies and practices.
  - (3) Encouraging investee companies to disclose ESG information appropriately.
  - (4) Promoting acceptance and implementation of the Principles within the investment industry.
  - (5) Working together to enhance the effectiveness in implementing the Principles
  - (6) Disclosing the effectiveness and progress of PRI implementation.
2. Lending: SKFH and its subsidiaries should follow PRB and EPs, and evaluate the ESG risks of borrowers carefully in lending decision-making process. If the loan purpose is used to promote sustainable development goals, preferential loan terms may be offered. Borrowers in controversial industries or carbon-intensive industries should be engaged with towards positive transition. No new loans shall be granted until the borrowers have made any necessary improvements. For those with severe ESG issues, gradual divestment should be considered.
  3. Life insurance: SKFH and its subsidiaries should follow PSI and incorporate ESG factors into daily operations such as life insurance decision-making, claims management, risk management, product and service development, sales and promotion, and underwriting policies. It is also important to increase awareness among customers and business partners regarding ESG issues, risk management, and solution development. SKFH and its subsidiaries should work with the government, insurance regulators, and stakeholders to promote ESG practices and regularly disclose compliance progress in PSI to ensure transparency.

## **Article 9 Sector specific guidelines**

When dealing with controversial industries and carbon-intensive industries, the sector specific guidelines are as follows:

1. Controversial industries
  - (1) Definition: Tobacco, Gambling, Fur Trading and Tropical rainforest logging
  - (2) Guiding principle: Conduct ESG risk due diligence and prudent assessment on counterparties in accordance with Sector specific guidelines, which is the basis for decision-making on whether to deal with or not, and those who meet the guidelines can be considered for business dealings.

## 2. Carbon-intensive industries

- (1) Definition: Including but not limited to whole production cycle of thermal coal and unconventional oil and gas industries.
  - (i.) Coal-related industries: Coal mining, Coal infrastructure, Coal trading, Coal-fired power generation, and Coal transport and logistics.
  - (ii.) Unconventional Oil & Gas industries: Tar Sands, Shale Oil & Gas, Arctic Oil & Gas, Ultra-deep-water Oil & Gas, and Liquefied Natural Gas derived by unconventional extractions.
- (2) Guiding principle: Conduct ESG risk due diligence and prudent assessment on counterparties' climate change risks and negative impacts on climate change in accordance with sector specific guidelines. Based on the results, SKFH and its subsidiaries could actively take engagement actions with counterparties to implement relevant mitigation measures to reduce climate-related risks. SKFH will refer to international standards and the performance of carbon emissions in the same industry to formulate risk regulations for controlling in carbon-intensive industries

### **Article 10 Schedule for phasing out thermal coal and unconventional oil and gas-related industries**

SKFH and its subsidiaries are committed to withdrawing from businesses involving thermal coal and unconventional oil and gas-related industries by 2045, including listed equities and bonds, project financing, credit lines and loans, fixed income products underwriting business, and all active, passive, and outsourced managed investment. The phase-out goals in accordance with the previous commitments are:

1. By 2030, cease direct project investment and financing of not only thermal coal as well as unconventional oil and gas projects (including new projects or expansion of existing projects) but also projects from companies which are still expanding related businesses.
2. By 2035, phase out most of our direct investment and financing from companies in the thermal coal and unconventional oil and gas-related industries in industrialized countries in the European Union and OECD Member States.
3. By 2040, phase out gradually from the investment and financing support of global thermal coal and unconventional oil and gas-related industries.
4. By 2045, phase out completely from the investment and financing support of global thermal coal and unconventional oil and gas-related industries.

If the aforementioned related industries have specific decarbonization actions or transition plans, including the emissions reduction target validated by Science-Based Targets

initiative(SBTi), developing carbon capture technology to remove carbon emissions, or other decarbonization actions verified by third-party organizations, the counterparties will be evaluated on a case-by-case basis, and the business rights and responsibilities of each subsidiary company are authorized to be approved.

Paragraph 1: Thermal coal-related industries refer to coal mining, coal infrastructure, coal trading, coal-fired power generation, coal transport and logistics, and other related industries covering the whole production cycle; Unconventional Oil & Gas industries refer to tar sands, shale oil & gas, arctic oil & gas, ultra-deep-water oil & gas, liquefied natural gas derived by unconventional extractions., and other related industries covering the whole production cycle.

Subparagraph 2 of Paragraph 2: The scope of withdrawal is business deriving more than 50% of their revenue or generated power from thermal coal and unconventional oil and gas-related industries, without developing a low-carbon transition plan in alignment with the targets under the Paris Agreement.

Subparagraph 3 of Paragraph 2: The scope of withdrawal is business deriving more than 30% of their revenue or generated power from thermal coal and unconventional oil and gas-related industries, without developing a low-carbon transition plan in alignment with the targets under the Paris Agreement.

Subparagraph 4 of Paragraph 2: The scope of withdrawal is business deriving more than 5% of their revenue or generated power from thermal coal and unconventional oil and gas-related industries, without developing a low-carbon transition plan in alignment with the targets under the Paris Agreement.

## **Article 11 Engagement policy**

In order to ensure the long-term value of SKFH and its subsidiary fund providers, including shareholders and customers, reduce sustainability-related risks and seize opportunities, subsidiaries shall conduct research and analysis on the investees and borrowers (hereinafter referred to as engaged companies) and then use the collected information as a reference for subsequent voting decisions and ongoing business cooperation. Subsidiaries shall carry out engagement actions based on the engagement issues, may also select specific issues based on the business nature and relevance.

The ESG issues that SKFH and its subsidiaries focus on for engagement include but are not limited to:

1. Environment (E): Climate change, biodiversity, environmental pollution
2. Social (S): Human rights, gender equality

### 3. Corporate governance (G): Ethical corporate management best practice, board performance

The engagement methods include but are not limited to direct communication or joint cooperation with the engaged companies to improve, questionnaire surveys, public forums, expressing positions or submitting resolutions at annual general meetings, exercising voting rights, or collaborative engagement with public and private sectors, financial institutions, and initiative organizations in Taiwan and abroad.

After the subsidiaries take engagement actions, if the engaged companies have demonstrated actual improvements and have positive ESG impact or contributions, they should be prioritized on the list of investments, lending, or life insurance. If the engagement results meet the expected goals, or if the engaged companies have been assessed to have achieved maximum improvement, the subsidiaries may defer its engagement actions. If the engagement results do not meet the expected goals, the subsidiaries should increase the intensity of engagement actions based on SKFH's sustainable values, operational considerations, and risk management. The results of the escalating engagement will serve as a basis for decision-making on whether to continue business relationship, reduce investment or divestment.

SKFH and its subsidiaries shall disclose engagement results routinely, in order to demonstrate the progress of sustainable finance to external stakeholders.

### **Article 12 Voting Policy**

The exercise of voting rights of the domestic investees shall be done in written or electronic means in accordance with Company Act in Taiwan and the notice of the investees.

Careful evaluations are performed before exercising voting rights on significant ESG issues, controversial events, or resolutions that may affect long-term shareholder value. When necessary, we shall communicate with the company's management before the annual general meeting

SKFH and its subsidiaries' voting principles for investees' annual general meetings are as follows:

1. In respecting the management expertise of the investees and promoting their effective development, we generally but not absolutely support resolutions submitted by the management.
2. We express support for resolutions that effectively address corporate governance, environmental and climate-related issues, and social concerns.
3. Support should not be given to resolutions that significantly violate the ESG or



negatively affect the sustainable development of the investees, such as those that violate corporate governance, business ethics, or involve financial fraud, or those that have a negative impact on the environment or society, such as pollution, human rights violations, and climate issues, or those that pose a potential risk due to inadequate management to us and shareholder equity.

Voting records in investees' annual general meetings should be properly documented. The summary shall be disclosed on the website or institutional investors' stewardship report annually.

When subsidiaries hire external proxy voting service providers to handle voting-related matters, subsidiaries shall confirm that the voting research report and voting recommendations from the service providers are consistent with the voting policy principles.

### **Article 13 Outcome measurement and disclosure**

SKFHs is committed to promoting sustainable finance. In order to effectively review and track the process and performance of sustainable finance, SKFH established key performance indicators(KPIs) such as the reduction of greenhouse gas emissions from own operations, the reduction of financed emissions, the increasing amount on ESG-related investment and lending. The relevant KPIs are established and supervised by SKFH's Corporate Sustainability Committee every year, and are regularly disclosed in the sustainability report. The spirit of sustainable stewardship shall also be actively used to take engagement actions and exercise voting rights to drive the industries towards sustainable development.

### **Article 14 Vision**

SKFH continues to pay attention to the trends of local and international ESG and SDGs. All sustainable issues that can promote corporate sustainable managements and developments are considered in current state and future.

### **Article 15 Implementation**

The Policy shall be implemented after it is approved by the board of directors, and the same shall apply to all amendments.