

3.1.1 Responsible Lending

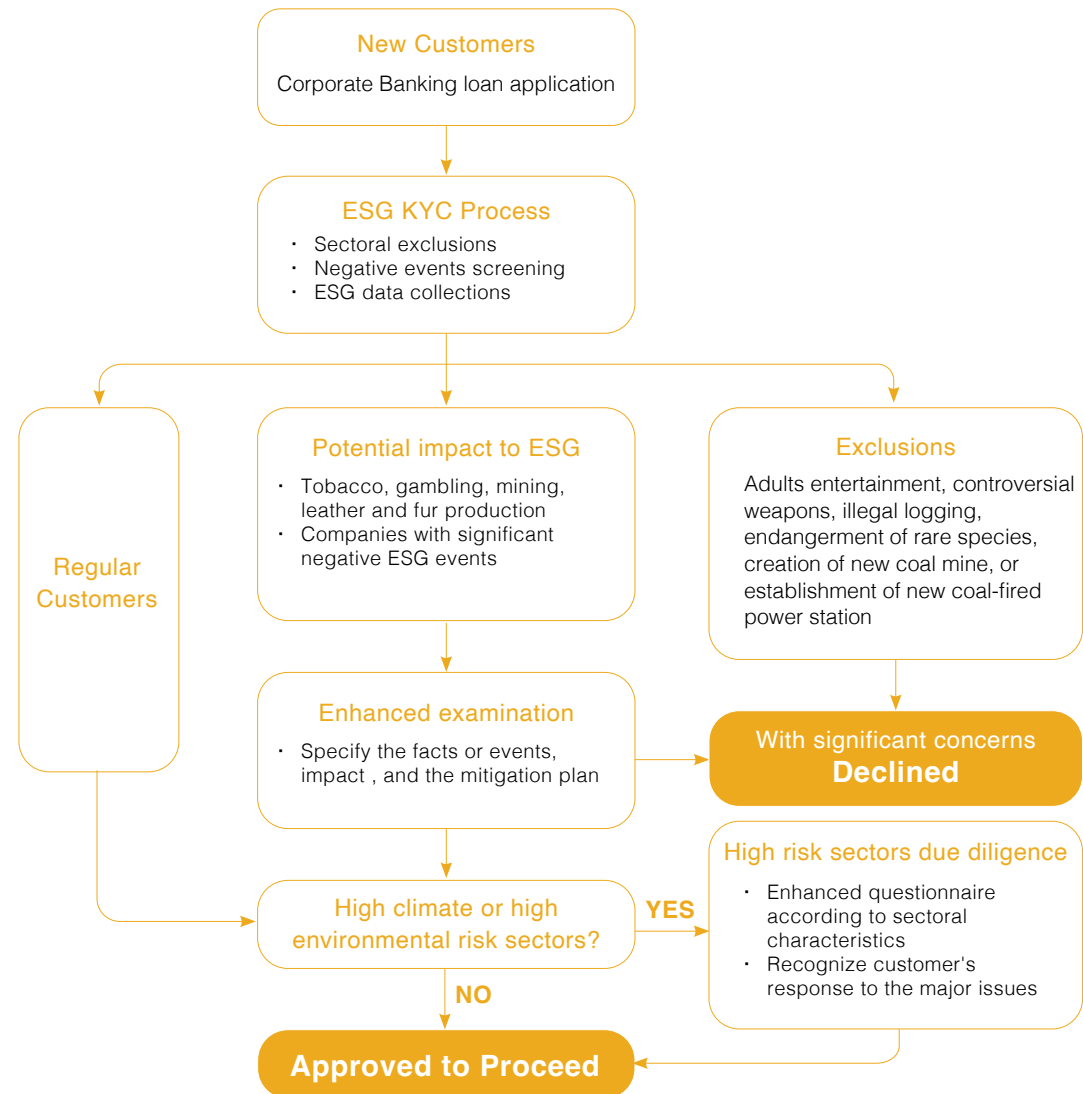
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■ Exercising Internal and External Influence

ESG Risk Management in Credit Process

E.SUN has developed a responsible lending business process to scrutinize potential ESG risks through practical actions. Each new credit application must undergo an ESG assessment, including sensitivity industry checks, major environmental / social negative event evaluations, and collection of sustainability-related information based on different sectoral characteristics. If the counterparty is involved in activities such as arms production, pornography, illegal logging, harmful endangered wildlife, coal-fired power generation, or coal mining, the deal should be avoided. For companies related to tobacco, gambling, or those with significant past environmental and social negative events, enhanced explanations are required.

Additionally, E.SUN also has mechanisms for climate risk and environmental risk checks in the credit process. For high-risk industry, enhanced explanations based on the industry's risk characteristics are required to understand the company's environmental sustainability response.



Collection of Corporate ESG Data

Through the internal "Corporate ESG Assessment Form" and by encouraging companies to fill out the self-assessment questionnaire provided by the Joint Credit Information Center, E.SUN collects corporate customers' ESG information and the state of sustainable economic activities. In addition to assessing sustainability-related risks, the questionnaire also includes carbon emissions information, energy management information, ESG development status, and a self-assessment form for sustainable economic activities. By utilizing the questionnaire, companies can gain insight into the areas of ESG development that are of interest to external stakeholders. E.SUN can also effectively respond to the information disclosure aspects of the Financial Supervisory Commission's "Green Finance Action Plan."

Corporate ESG Evaluation Form

1. Financial data
2. Negative ESG event scanning
3. ESG data
4. Sustainable economic activities
5. High risk sectors checklist



Internal Carbon Pricing

E.SUN implemented internal carbon pricing for loan portfolio from July 2022. This pricing mechanism refers to international carbon trading mechanisms, taking into account the weighted average price in the global carbon trading market provided by the World Bank, as well as international decarbonization pathways. The annual carbon reduction targets will be set for each business unit following the decarbonization pathway, aiming to guide business units to consider the transformation risks faced by credit companies and the impact of international carbon prices.

Execution in the past 3 years

2021

- Establishment of an internal carbon pricing task force.
- Researching international carbon trading mechanisms, as well as collecting and analyzing international carbon price trends.

2022

- Implementation of internal carbon pricing for credit portfolio with the status dashboard to business units starting in July.
- Disclosure of the carbon emissions, internal carbon costs and decarbonization target associated with credit borrowers.
- Encouraging green credit and sustainable linked loan businesses through internal carbon costs exemption mechanisms.

2023

- Establishing an online version of carbon dashboard and related charts for tracking and monitoring carbon emissions.
- Providing a "credit-related carbon calculator" for business units to estimate internal carbon costs.

■ Equator Principles

Following the 4th edition of the Equator Principles framework, each project financing case will be assessed systematically based on the risks associated with climate change, human rights, and biodiversity. The objective is to enhance the capabilities of environmental and social risk management, and to continuously improve the control and monitoring processes, as well as strengthen post-loan management.

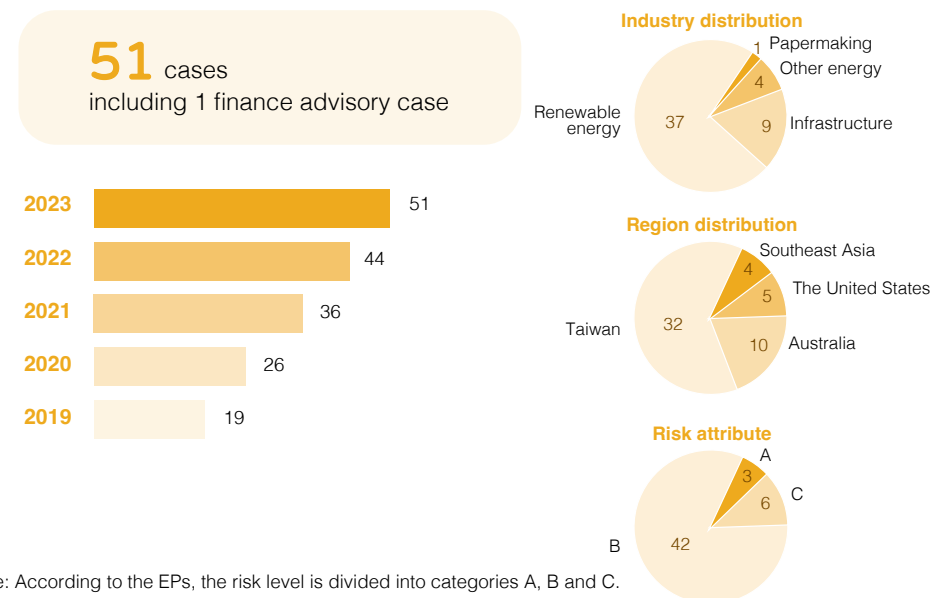
The development focus for 2023 is as follows

1. Actively participate in Equator Principles conferences and attend the Washington DC Annual Meeting to evaluate future development directions through member discussions, ensuring continuous alignment with international standards.
2. Continuously enhance biodiversity assessment capabilities by utilizing both domestic and international databases, such as the International Biodiversity Assessment Tool (IBAT), to assess the impact of projects on biodiversity. Engage in communication and dialogue with borrowers to understand how projects can address biodiversity concerns.

2023 Achievements

As of 2023, a total of 7 financing project cases have been signed following the Equator Principles and 2 cases were declined. We have totally assessed 51 cases in response to the government's renewable energy policies, and 37 of these cases were green energy projects.

Cumulative number of approved case under the Equator Principles



■ Sustainable Lending Business

E.SUN has a long-standing commitment to environmental sustainability and respond to international trends and domestic policies. We continuously support the sustainable transformation of corporate clients through sustainable lending such as green loans, sustainability-linked loans, as well as lending to ESG-friendly industries. By taking tangible actions, we aim to facilitate corporate clients in their journey towards achieving the net-zero emissions goal.

Balance unit: NT\$ Million

Sustainable lending	Balance as of 2022	Balance as of 2023
Green loans	53,741	80,926
Sustainability-Linked Loans	40,642	60,062
Total value of sustainable lending	94,383	140,988
Total value of corporate lending*	866,051	904,244
Percentage over total corporate lending	10.90%	15.59%

*The overlapped amount has been deducted when calculating the total value.

Loans to ESG-friendly Industries

E.SUN continues to allocate resources to environmentally and socially friendly industries, supporting green energy, energy storage, circular economy, healthcare, and education sectors.

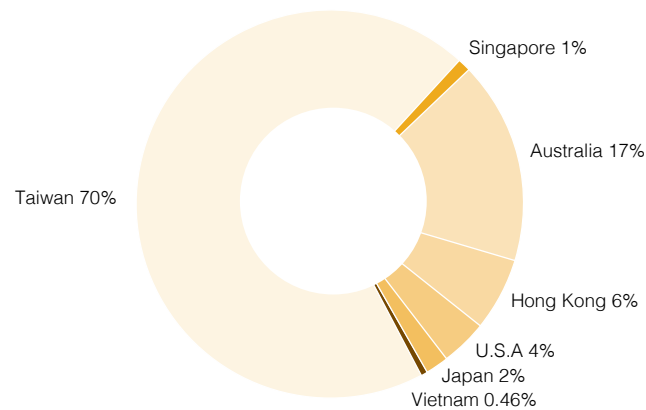
Lending to ESG-friendly industries	Industry categories	Balance as of 2022	Balance as of 2023
Environmental-friendly Industries	Solar power	1,055	1,114
	Bicycles	7,112	5,128
	LED	732	887
	Batteries	2,929	3,014
	Electric vehicles	114	92
Social-friendly Industries	Circular economy	3,439	4,241
	Medical care	24,454	25,728
	Education	6,161	5,688
	Sports & Fitness	4,360	3,440
	Telecommunications	4,176	4,994
Innovative industries*	Network communication equipment	6,456	6,005
	Industrial robots	17	48
	5+2 Innovative Industries and supply chains	211,410	215,532
Total value of loans to ESG-friendly industries		272,415	275,912

*Based on the definition of the government's 5+2 Innovative Industries, while excluding the national defense sector and sub-industries with higher sustainability risks in the related supply chain (such as cement, plastic, steel, etc.). Overlapped lending has been excluded.

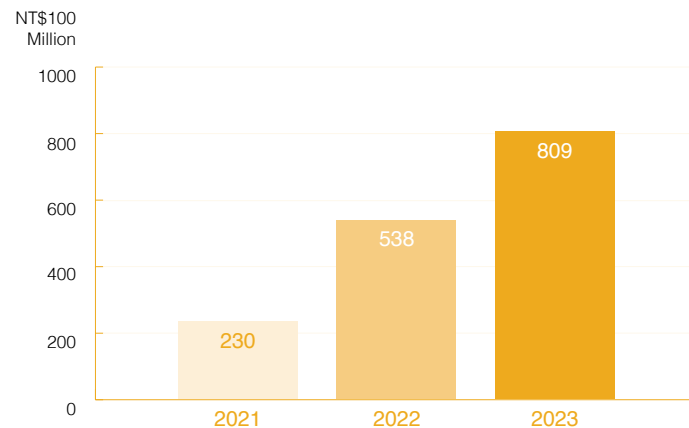
Green Loan

In order to support sustainable development of businesses, we provide green credit to assist businesses in financing green energy projects, energy storage systems, green buildings, energy-saving equipment, and other projects specifically used for green initiatives. In 2022, E.SUN adopted the Green Loan Principles of the Loan Market Association (LMA) and formulated relevant regulations and operating procedures. As of 2023, the total green credit balance reached NT\$80.9 billion, with an annual growth rate of approximately 50%. The green credit balance accounted for 7.95% of total corporate lending.

Proportion of Green loans by region (based on the balance in 2023)



Green Loans' balance for the past three years



(1) Green Project Financing

E.SUN assists businesses and the green energy industry in Taiwan, from rooftop, ground-mounted, and floating solar photovoltaic systems to fishery-solar symbiosis developed in response to the government's policy. We continue to support the solar photovoltaic industry in Taiwan by attracting investors to revitalize solar assets and reinvesting in development and construction, thereby creating a positive cycle for green investment and financing. E.SUN also participates in important offshore wind farms, solar farms, other new energy, and energy storage projects both domestically and internationally through our offshore wind power and green energy expert teams. Our footprint extends to China, Vietnam, Australia, the United States, and other countries. As of the end of 2023, the total balance of green energy and energy storage related projects reached NT\$51.4 billion (NT\$33.9 billion in 2022, reaching a 52% growth).

Important Milestones:

- 2020**
 - Led and arranged domestic wind farm project financing.
 - Participation in large-scale domestic solar farm financing.
- 2021**
 - Fully committed to developing project finance for renewable energy and expanding diverse green energy-related businesses such as domestic fishery-solar symbiosis and overseas geothermal power generation.
- 2022**
 - Launched the operation solar farm financing project.
 - Led a syndicated loan for a large-scale domestic solar portfolio.
 - Financed solar farm project in Vietnam.
- 2023**
 - Financed solar farm project in the United States.
 - The only financial institution in Taiwan to respond to The Global Renewables Alliance's 3xRenewable initiative, advocating for triple renewable energy targets.

2023	Total installed capacity	Growth rate	Expected carbon reduction	Avoided social costs of carbon
Wind Energy	447MW	+13.7%	465,000 metric tons	US\$88.3 million
Solar Energy	1,036MW	+41.5%	503,000 metric tons	US\$95.6 million

* Installed capacity: The supported project's installed capacity is recognized based on the participation ratio (i.e., allocated loan amount/project total loan amount). In 2022, the supported cases' installed capacity for wind power and solar photovoltaics were 393 MW and 732 MW respectively.

* Expected carbon reduction: Calculated based on the supported project's installed capacity (including under construction projects) x 80% (financing ratio) x 8,760 (hours) x a wind power capacity factor of 30% (or 14% for solar photovoltaic capacity) x 0.495 (electricity carbon emission factor).

* Calculated based on the electricity carbon emission factor of 0.495 kilograms per kilowatt-hour, as published by the Energy Administration, Ministry of Economic Affairs, R.O.C.

* The social cost of carbon is calculated based on \$190 per metric ton, as listed in the research report "Report on the Social Cost of Greenhouse Gases" published by the US Environmental Protection Agency (EPA) in November 2023.

Collaborating with international investors to promote a balance between solar farms and biodiversity.

In 2023, E.SUN successfully led a syndicated loan to support an international investor, P Group, for the construction of 275 MW solar farms and the refinance of commissioned projects. The project sites are located in various counties and cities across Taiwan, assisting investors in acquiring construction funds and revitalizing assets to further invest in the development of solar farms in Taiwan. Some of the project sites are located in salt marshes, and the construction design has taken into account ecological surveys to preserve the land as an ecological habitat. Annual ecological monitoring of aquatic organisms, birds, and other wildlife is conducted to minimize the impact of operations on local species, maintaining a balance between solar farms and biodiversity.

Response to local policies, supporting the energy transition

Following the enactment of the Reduction Inflation Act in the United States, it has attracted investors to invest in the construction of renewable energy projects. E.SUN participated in the financing of a 225 MW ground-mounted solar farm project in Virginia, USA. The project has an annual electricity generation of 360 million kilowatt-hours, which can meet the electricity demand of 30,000 households in the local area.

Virginia is primarily reliant on gas-fired power generation. Under the Virginia Clean Economy Act, Virginia is required to gradually phase out gas power plants by 2045 and achieve a carbon-neutral economy by 2050. E.SUN, in collaboration with major financial institutions in the United States, is utilizing its financial strength to assist the local area in accelerating the energy transition and jointly achieve the vision of a carbon-neutral homeland.

(2) Green Buildings and Energy-saving Equipment

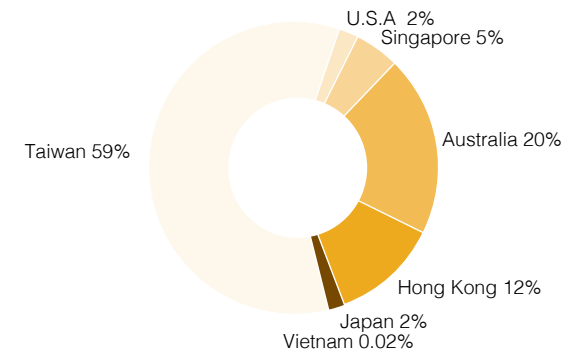
E.SUN responds to Taiwan's 2050 Net-Zero Emissions Strategy by not only assisting businesses in their "energy transition," but also supporting the promotion of "industrial transformation." This includes guiding enterprises to invest in green buildings, eco-friendly offices, energy-saving equipment, and more to reduce their energy consumption and consequently decrease their operational carbon emissions. By 2023, the balance for green buildings has increased to NT\$23.5 billion (NT\$17.6 billion in 2022), with a growth rate of 34%. Energy-saving equipment (and others) have increased to NT\$9 billion (NT\$5.1 billion in 2022), with a remarkable growth rate of 76%.

Sustainability Linked Loan

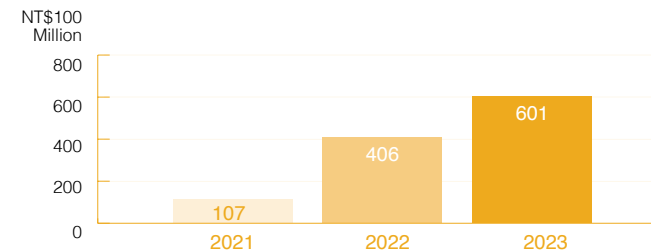
To encourage businesses to establish and achieve their ESG development goals and continue investing in sustainability, E.SUN has referred to the Sustainability Linked Loan Principles (SLLP) of the Loan Market Association (LMA) to formulate relevant regulations and operating procedures. We evaluate the company's actual investment in ESG, set sustainable development goals through joint discussions with companies, and provide financial service benefits if the company achieves those goals. As of 2023,

there have been 274 approved cases with a balance of NT\$60.1 billion (NT\$40.6 billion in 2022). The balance of sustainability linked loans accounts for 5.90% of total corporate lending. Additionally, E.SUN incorporates the sustainability linked loans into the annual performance evaluations to business units, using reward mechanisms to guide business units in understanding customer sustainability development processes and enhance their impact on the environment and society.

Proportion of Sustainability Linked loans by region (based on the balance in 2023)



Sustainability Linked loans' balance for the past three years



Assisting Corporate Success Case - Yulon Motor Co.

In addition to actively responding to the mitigation of global climate change, E.SUN has also long been concerned about the issue of biodiversity. In this regard, we have partnered with Yulon Motor Co. to sign a NT\$1 billion "Climate and Biodiversity Sustainability Linked Loan." During the loan period, E.SUN not only continues to track the climate action effectiveness of greenhouse gas emissions reduction and the proportion of renewable energy generation by the company, but also takes the lead in consulting with the company to include the restoration effectiveness of Taiwan's native tree species as a biodiversity indicator in the Taiwan.

E.SUN aims to encourage companies to take climate actions and incorporate biodiversity indicators into their sustainability strategies to achieve a vision of harmonious coexistence between humans and nature.

■ Supporting SMEs' Sustainability Development

SMEs in Taiwan play a crucial role in economic stability and employment growth. They have shown resilience in facing global challenges such as inflation and supply chain restructuring. E.SUN is dedicated to supporting them in the long term, offering a series of measures including sustainable financing, advisory consultations, and Credit Guarantee Fund support. These initiatives aim to assist SME customers in achieving sustainable transformation.

In 2023, E.SUN implemented multiple projects to provide financial support to SMEs in the field of sustainable development, including renewable energy, green buildings, and energy-saving equipment. By the end of the year, the total credit balance for sustainable financing to SMEs (including green credit and sustainability-linked loans) reached NT\$57.99 billion, accounting for 10.36% of the overall SME loan balance (compared to 6.34% in 2022).

Balance unit: NT\$ Million

	Balance in 2023
Sustainable SME loans	57,985
Total value of SME lending	559,448
% over total SME lending	10.36%

E.SUN has been a long-standing supporter of SMEs. As of the end of 2023, the balance of loans to SMEs accounted for 54.94% of total corporate lending. We also assist SMEs in their transition towards achieving net-zero emissions and becoming hidden champions through the Credit Guarantee Fund. E.SUN has continuously received the highest honor of the Credit Guarantee Outstanding Bank for 19 consecutive years. It has also been awarded the "Credit Guarantee Gold Award - Outstanding Financial Institution Group" first place for five consecutive years from the Ministry of Economic Affairs' "Outstanding Financial Institutions and Credit Managers in Small and Medium Enterprise Credit Guarantee Financing Business" awards.

Furthermore, E.SUN engages with SMEs and hidden champions in Taiwan through ESG consultation services and site visits. We assist these enterprises in understanding the sustainability trends of specific sectors and the ESG requirements of their supply chains, fostering the establishment of sustainable thinking and mechanisms within the companies. E.SUN is committed to expanding its influence and helping high-carbon-emitting SMEs, such as those in the metal productions and petrochemical industries to focus on carbon-related issues while jointly promoting carbon reduction and achieving net-zero emissions.

