Climate Risk Management Policy of Chang Hwa Commercial Bank

Formulated by the 26th Board of Directors at the 34th meeting on December 29, 2022

Article 1 Purpose of the Policy

The Bank adheres to international agreements, such as the United Nations Framework Convention on Climate Change and its protocols, and the Task Force on Climate-related Financial Disclosures (TCFD). These agreements are utilized to identify and evaluate climate risks and opportunities, improve our management of climate risks, and increase transparency of information. Our policy was developed in accordance with the Financial Supervisory Commission's "Guidelines for Climate-related Financial Disclosures by Banks in Taiwan," the "Chang Hwa Commercial Bank Sustainable Development Policy," the "Chang Hwa Bank Management Regulations for Detection of Operational Risks," and the "The Integrated Risk Management Policy for Chang Hwa Bank."

Article 2 Management Policy and Scope of Application

The Bank acknowledges that climate risks must be an essential component of the Integrated Risk Management framework and that climate risk factors be taken into account when determining our risk appetite, strategy, and business plans. This includes identifying and evaluating climate-related risks and opportunities, as well as recognizing the impact of climate risks on business risks. By doing so, we can improve our resilience through appropriate response strategies.

The Bank and its subsidiaries shall comply with this policy in all operational activities and business developments. However, our overseas branches and subsidiaries may establish relevant policies and regulations in compliance with local laws and regulations.

Article 3 Definitions Related to Climate Risk

The term "climate risk" as used in this policy refers to the potential risks that may arise from natural disasters, regulations, or economic factors related to climate change that may cause physical or transition risks leading to direct or indirect losses for the Company during our operations and business development. The management of climate risk involves the Bank's mechanisms for managing these risks, the development and implementation of climate adaptation and climate mitigation, and the effective management of the impacts and opportunities brought about by climate change. The following definitions are relevant to this policy:

I. Physical risk: Financial implications risks caused by acute extreme weather events or chronic climate patterns change brought by climate change.

II. Transition risk: Financial implications risks that arise from the extensive policy, legal, technological, and market changes that may be required to transitioning to a lower-carbon economy.

III. Climate adaptation: Appropriate strategies that mitigate negative impacts or develop favorable opportunities in response to climate impacts or influences.

IV. Climate mitigation: Human intervention aiming to reduce greenhouse gas emissions or increase greenhouse gas storage in order to mitigate the potential impacts of climate change.

Article 4 Organization and Responsibilities

The organizational structure and responsibilities within the Bank related to climate risk management are as follows:

I. Board of Directors

(I) Approving climate risk management policies and guiding, monitoring, and managing climate risks accordingly to ensure that the Bank's qualitative and quantitative measures are in line with risk appetite.

(II) The Board of Directors should recognize the potential financial impacts of climate risks on the Bank and bear the ultimate responsibility for establishing and maintaining adequate and effective mechanisms for managing those risks.

II. Sustainable Development Committee

(I) The Sustainable Development Committee is a specialized unit for sustainable development and is responsible for supervising and reviewing the Bank's efforts to achieve its sustainable development goals, including climate risk management.

(II) Periodically reviewing the climate-related financial disclosures of the Bank.

III. Risk Management Committee

(I) Implementing climate risk management policies and major decisions, management mechanisms, and monitoring indicators approved by the Board of Directors, and regularly reviewing their effectiveness and implementation status.

(II) Continuously monitoring exposures to climate risks and reviewing the resilience of the Bank's response strategies under different climate scenarios.

IV. Climate-Related Financial Disclosure Working Group

A working group was established to identify or assess climate risks and opportunities, develop environmentally friendly policies, supervise their implementation, and report periodically to the Board of Directors, the Sustainable Development Committee, and the Risk Management Committee according to respective responsibilities.

Article 5 Management Mechanism

To effectively identify, measure, monitor, and report climate risks and opportunities, the Bank has established the following management mechanisms:

(I) Identification of Climate Risks and Opportunities:

Taking into account relevant domestic and international laws, guidelines, and research reports related to climate change, the Bank identifies climate risks and assesses their potential impact on its operations, strategies, products, and financial planning in different time horizons (e.g. short, medium, and long-term). Response strategies and measures are formulated accordingly, while also considering market development potential to identify potential climate business opportunities.

(II) Climate Risk Measurement:

Climate scenario testing is conducted through various approaches to qualitative and quantitative assessment of climate risks. Analyses of potential climate-related losses are also performed in a timely manner and evaluate the resilience and adaptability of our climate risk-related strategies, which are adjusted based on the results of climate scenario testing.

(III) Climate Risk Monitoring:

Measurable and actionable key metrics for climate risk have been established based on our core business activities. These metrics take into account the duration of the climate risk impact (short, medium, or long term) as well as other relevant factors such as industry, geographic location, and credit rating. Individual key metrics contain specific targets, and we regularly monitor progress towards achieving them. Additionally, we conduct appropriate assessments to evaluate the execution progress of each metric.

(IV) Climate Risk Report:

The status of climate risk management execution is regularly consolidated and reported to the Board of Directors, following a report to the Risk Management Committee. This is done to assist in the development of strategic plans and the monitoring of business operations. In the process of monitoring climate risks, appropriate response measures shall be taken immediately, and reported to the Board in the event of any significant abnormalities or special circumstances.

The Bank's climate-related financial disclosures are regularly reported to the Sustainable Management Committee and the Board of Directors.

Article 6 The Three Lines of Defense in Climate Risk Management

Clear allocation of responsibilities for climate risk management across each line of defense shall be in place to effectively manage climate risks for the Bank:

I. In the first line of defense, risk-bearing units shall evaluate climate risks in their operations, especially for industries that are significantly impacted by climate risks.

II. In the second line of defense, risk management units shall effectively monitor the implementation of climate risk management in the first line of defense, while the compliance units shall ensure that all operations comply with legal regulations.

III. In the third line of defense, internal auditing units shall evaluate the effectiveness of the first and second lines of defense in monitoring climate risks and provide improvement suggestions in a timely manner.

Article 7 Evaluation Methods and Procedures

The Bank has established climate risk assessment methods and procedures based on its clients and asset portfolios to identify and evaluate the severity of climate risks, prioritize risks, and define material climate risks.

The Bank should identify the correlation between climate risks and other risks, such as credit, market, operational, and liquidity risks, and adopt differentiated risk management measures based on the assessed level and priority of climate risks.

The Bank should establish management measures for clients who pose high climate risks. Factors to consider should include the materiality of the climate risk, the client's willingness and ability to improve their climate risk, and whether there are alternative measures to offset the Bank's exposure to such risk. If a client fails to effectively manage their climate risks, the Bank may take responsive measures, including but not limited to reflecting additional risk costs in risk pricing, setting exposure limits for high-risk loans, and re-evaluating the business relationship with the client.

The Bank shall establish management measures for assets with high climate risk, considering factors such as the materiality of the climate risk, the Bank's management capability over such assets, and the availability of alternative measures to mitigate exposure. In cases where climate risks have not been effectively managed for assets, the Bank may take responsive measures, including but not limited to transferring losses from climate risks borne by the Bank, setting investment limits for high climate risk assets, and controlling the concentration of high-risk regions or industries.

Article 8 Stress Tests

As a part of our business operations, we conduct scenario analysis and stress testing regarding physical and transition risks to evaluate our risk exposure and assess the impact of climate risks on our business. This includes assessing our resilience to climate risks under various climate scenarios.

The Bank shall select reasonable scenarios related to its operations and explain how climate risks are transmitted and affect its financial risks. The selected scenarios should include forward-looking information to consider the uncertainty and long-term outlook of climate change, and avoid underestimating potential future risks solely based on historical data.

Documentation related to key assumptions or variables in scenario analyses and stress testing, including scenario selection, reasonableness of assumptions, evaluation results, necessary actions to be taken, and actual measures taken to address risks, should be kept for 5 years.

Article 9 Public Disclosure

The bank shall disclose its management of climate risks based on aspects such as governance, strategy, risk management, metrics, and targets. It shall periodically review climate-related financial disclosures to gradually enhance the completeness, accuracy, and relevance of disclosure content.

Article 10 Implementation and Amendment

This policy should be reviewed and amended in a timely manner based on internal and external environmental factors, global trends, business development directions, and relevant laws and regulations.

This policy shall be implemented upon approval by the Board of Directors and shall be amended in the same manner.