The Integrated Risk Management Policy for Chang Hwa Bank

Stipulated by the 4th Interim Meeting of the 22nd Board of Directors, as of April 17th, 2009
Amended by the 27th Meeting of the 23rd Board of Directors, as of December 27th, 2013
Amended by the 23rd Meeting of the 26th Board of Directors, as of February 22nd, 2022
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Chapter 1. General Provisions

I. Purpose

The purpose of the Integrated Risk Management Policy for Chang Hwa Bank(Bank) is to establish an independent risk management mechanism to effectively evaluate and monitor the Bank's risk tolerance, status of risk, determination of risk response strategies and compliance with risk management procedures, and to serve as the highest guiding principles of the Bank's internal risk management, which aims to identify, assess, monitor and report various risks.

II. Basis

This Policy is formulated in accordance with the Financial Supervisory Commission's *"Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries"*.

III. Principles and Guidelines

In order to establish the Bank's risk management system, aside from compliance with all relative rules and regulations, the Bank shall execute risk management procedures in accordance with the roles and responsibilities set by this Policy for establishing the unified authority and effective management.

Chapter 2. Integrated Risk Scope

IV. Integrated Risk Scope and Definition

The term risk used in the Policy is defined as all possible losses from the uncertainty implied in the Bank's activities, which includes credit risk, market risk, operational risk, interest rate risk in the Banking Book, liquidity risk, climate risk and other risks, defined as the following.

1. Credit risk means the risk of loss due to failure of debtors or counterparties to fulfill their

contractual obligations or their ability to fulfill contractual obligations is impaired.

2. Market risk is the risk of loss resulting from adverse movements in fair value of on- and off-balance-sheet financial instruments due to changes in market risk factors. Market risk factors include interest rates, exchange rates, equity prices and commodity prices.
3. Operational risk is the risk of loss resulting from inadequate or failed internal operation processes, people and systems, or from external events including compliance risk but excluding strategic and reputational risks.
4. Interest rate risk in the Banking Book (IRRBB) means the risk of loss of earnings or impairment of economic value resulting from unfavorable change of revenues, costs and present value of assets and liabilities due to the volatility of interest rate.
5. Liquidity risk is the risk of loss that the Bank may suffer due to inability to raise enough funds to perform obligations when due and to meet the demands of assets growth.
6. Climate risk refers to the physical or transition risks caused by climate change including but is not limited to natural disasters, laws and regulations or economic factors that cause the Bank to risk of direct or indirect loss.
7. Other risks are the risks that will impose a negative impact resulting in a major loss for the Bank, including but not limited to reputational risk and strategic risk. The possibility of the quantification of such risks is trivial. However, the Bank needs to develop an adequate management procedure to reduce risks of potential losses.

The forgoing risks, except other risks executed in accordance to this Policy, shall be established detailed guidelines by responsible units pursuant to this Policy.

Chapter 3. Risk Management Framework

V. Board of Directors

1. The Board of Directors should fully understand the various risks the Bank has taken, and is held ultimately accountable for the integrated risk management policy of the Bank.
2. Approve adequate risk management policies and procedures, risk appetite statement, and risk management mechanism, to establish risk management awareness.
3. Supervise implementing situation of risk management framework and policy, to ensure adequacy and understanding of the Bank’s risk status.

VI. Senior Management Committee

1. Plan and integrate the approval, supervision and coordinated function of the Bank’s risk management items, the guidelines to be established separately.
2. Implement the risk management policies and procedures, risk appetite statement, and risk management mechanism approved by the Board of Directors.
3. Review risk management processes and supervise its’ adequacy.
4. Ensure effective communication and coordination of relative risk management functions and various inter-unit risks.

VII. The Three Lines of Defense

All divisions of the Bank shall assume the responsibility for risk management and implement the Bank's risk management effectively. The risk management structure of the Bank is composed of three lines of defense, defined in the following section.

VIII. The First Line of Defense

The first line of defense is defined as the risk-taking unit, which is responsible for the risk management and self-assessment of its daily activities. Aside from units on the second and third line of defense, all units of the Bank shall be designated as first line of defense, and job functions include the following:

1. Identify the source of each risk and assess the level of each risk during daily activities.
2. Adopt strategy and take action based on risk exposed including diversification, aversion, mitigation and bearing of risks.
3. Review risk exposure and key risk indicators of the Bank’s activities periodically.
4. Construct and strengthen risk management culture.
5. Leverage the level of risk exposure and the annual profit target.

IX. The Second Line of Defense

The second line of defense is an independent risk management unit of the Head Office. These units are responsible for risk monitor, strategy and policy formulation to ensure the Bank’s neutrality and consistency on risk identification, assessment, monitor and report. Implementation of risk management mechanism shall include the following principles:

1. Monitor capital adequacy based on its business scale, various risk situations, financial status and future operation plans.
2. Establish management mechanism for assessment, control and supervision of liquidity risks.
3. Allocate various assets while considering the overall risk exposure, capital utilization and profit target, and establish risk management mechanism for various businesses.
4. Establish evaluation and classification method for Bank’s asset quality, calculate and control large exposures; review and provision against loss periodically.
5. Establish information security protection mechanism and contingency plan covering the Bank’s business, transaction, and information exchange.
6. Mechanism for anti-money laundering and combating the financing of terrorism (AML/CFT) and management of compliance with relevant laws and regulations, including the management mechanism for identifying, assessing, and monitoring AML/CFT risks.
7. In accordance with the relevant laws and regulations of the competent authority, consider the climate risks that may affect the operation and business of the Bank, and establish an appropriate management mechanism to assess and measure climate risks by taking into account the degree of exposure, scenario analysis, and stress testing.

X. The Third Line of Defense

The third line of defense is the independent internal audit unit. The Bank shall establish adequate audit procedures to regularly review each unit of the Bank’s operation regarding the actual practice of the risk management. Any deficiencies and abnormalities found during audit shall be included in an audit report to manage and monitor risks accordingly.

Chapter 4. Risk Management Procedures

XI. Five Components of Risk Management Process

Risk management process consists of the identification, assessment, monitoring, reporting and management procedures. To carry out the Policy, the Bank shall implement the aforementioned procedures.

XII. Risk Identification Principle

1. Risk identification shall be conducted using systematic method, beginning with individual products, services and internal operating activities, taking its relation with overall operating activities and external environment into consideration, properly identify the nature of risk, in order to fully understand the Bank's risk situation.
2. When identifying risks, major risk factors shall be concluded from individual products, services and internal operating activities, in accordance with the type of risks covered.
3. When external environment changes significantly, the Bank should immediately examine the rationality and eligibility of risk identification method, and make necessary adjustments to ensure effective functioning of risk management mechanism and to grasp the changes in risks of the Bank.

XIII. Risk Assessment Principle

1. The Bank shall clearly state its chosen method for risk assessment, and planning of risk management information and systems required for assessment, to properly conduct risk assessment.
2. The Bank shall set quantitative or other feasible qualitative measuring methods for different types of risks, to assess all possible risks.
3. Regularly review and verify the assumptions of risk assessment method, data source, adequacy and integrity of model method and procedures, and retain documentation records.

XIV. Risk Monitoring Principle

1. The Bank shall establish an adequate risk monitoring system and procedure, and assess the threshold of various risk exposures endured by the Bank.
2. When monitoring risk, if a major risk exposure is unacceptable or cannot be measured, the risk taking unit shall formulate a countermeasure, take appropriate actions, and report to senior management or committees and Board of Directors.
3. Any unusual conditions or exceeding risk limit shall be reported to senior management immediately and adopt necessary measures.

XV. Risk Reporting Principle

1. The Bank shall plan and design all required risk report or chart templates, according to the applicable units, levels and purposes.
2. Establish appropriate internal risk report framework in accordance with the Bank's risk management organization and roles, summarized report shall include all necessary information for risk management purposes.
3. The Bank shall disclose its risk exposures to the public according to authorities' rules and regulations, including capital adequacy, exposure situation and important items related to risk management.

XVI. Risk Management Implementation Procedures Principle

1. The Bank's risk management implementation procedures shall be consistent with this Policy. Implementing rules regarding standard operating procedures, reporting process and division of responsibility for various risks involving operating activities shall be established.
2. Risk limit and related managing rules shall be established for various risks in accordance with the risk appetite statement approved by the Board of Directors.
3. Regular review of risk management implementing procedures adapting to significant changes in market situation or business strategy, and make necessary adjustments.

Chapter 5. Other Risk Management

XVII. Strategic Risk Definition

Strategic risk is the risk of loss caused by changing business environment, inappropriate strategic decisions or implementations, in the attempt to achieve the Bank's vision and goals.

XVIII. Strategic Risk Management Framework

The Board of Directors and Senior Management shall supervise the rationality of the Bank's strategic risk management framework, and appoint the appropriate units or task forces to assist with management of strategic risk.

XIX. Strategic Risk Management Procedure

1. The Bank shall establish strategic plan for implementing and setting goals, in accordance with the strategic objectives approved by the Board of Directors, while taking into

account the current operating scale and business items; the Bank shall adjust and change content with both internal and external environment, to make it more prospective. The strategic objectives refer to the Bank's short, medium and long term objectives set to achieve sustainable management.

2. During the process of implementing strategic plan, the Bank shall ensure appropriate and adequate financial, staff, information and facilities resources at its disposal; examine whether the current organizational structure, standard operating procedures, employee attitude and corporate culture should adjust with the plan.
3. When implementing strategic plan, the Bank shall monitor its progress to ensure completion on schedule. If any adverse factors such as unexpected operation or market affect the implementation progress significantly during the implementation period, the Bank shall immediately report to Board of Directors and Senior Management and propose countermeasures.
4. During the process of implementing strategic plan, the difference between actual implementation results and expected outputs shall be tracked and compared, and remedial and corrective measures shall be taken when necessary.

XX. Strategic Risk Support Procedure

The Bank shall establish other related supporting procedures, other than the foregoing management procedures, to effectively achieve strategic objectives.

XXI. Reputational Risk Definition

Reputational risk refers to reputation incidents that impose a negative impact resulting in a major loss for the Bank in terms of its reputation, governance or financial outlook.

XXII. Reputational Risk Management

1. The Bank shall establish sound corporate governance system, compliance procedure and good moral culture, to reduce reputational risk.
2. The Bank shall implement spokesperson system and establish unified procedure, appointing spokespersons that is familiar with the Bank's operations, financials and businesses.
3. When a crisis occurs and damages the Bank's reputation, in addition to immediately

initiate emergency measures, a spokesperson should make a statement in due course to reduce the impact of negative news and avoid damaging the Bank's reputation.

Chapter 6. Supplementary Provisions

XXIII. Implementation and Amendment

This Policy shall be implemented after being reviewed and approved by the Board of Directors, and the same shall apply to the amendments.