Climate and Nature Risk Management Policy of Chang Hwa Commercial Bank

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

Revised by the 27th Board of Directors at the 7th meeting on December 4, 2023

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Article 1 Purpose of the Policy

For the purpose of identifying and assessing risks and opportunities related to climate change and the nature, enhancing the Bank's capability in managing related risks, and continuously improving information transparency, the Policy is established in accordance with the United Nations Framework Convention on Climate Change and its related agreements, as well as international climate- and nature-related agreements and guidelines[1]. Additionally, the Policy has been developed in accordance with governmental regulations, including the "Climate Change Response Act", the "Guidelines for Climate-related Financial Disclosures by Banks in Taiwan", and the relevant management regulations and policies of the Bank.

Article 2 Management Policy and Scope of Application

The Bank integrates climate and nature risk factors into risk appetite, strategies, and business plans. Based on the degree of interdependence and impact between the Bank and these factors, it identifies and assesses relevant risks and opportunities to enhance the resilience of its responding strategies.

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

Article 3 Definitions Related to Climate Risk

[1] The Task Force on Climate-related Financial Disclosures (TCFD), the Taskforce on Nature-related Financial Disclosures (TNFD), and other relevant international agreements, as well as the 'IFRS S2 Climate-related Disclosures' issued by the IFRS Foundation.

The term "Climate and Nature-related Risk" as used in the Policy refers to the potential risks that may arise from natural disasters, regulations, or economic factors related to climate and nature change that may cause physical or transition risks leading to direct or indirect losses for the Bank in its operations and business development. Climate-related opportunities refer to the potential positive effects arising from climate change for the Bank. The Bank shall establish relevant management mechanisms, develop and implement adaptation and mitigation measures for climate and nature changes, and effectively assess the corresponding impacts and business opportunities.

The followings are the definitions of relevant terms in the Policy:

I. Physical Risk: Financial risks caused by acute extreme disaster events or chronic environmental changes caused by climate change and nature variations.

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

III. Adaptation: Appropriate strategies to mitigate negative impacts or capitalize on favorable opportunities in response to actual or anticipated environmental impacts and influences.

IV. Mitigation: Human intervention aiming to reduce greenhouse gas emissions, increase greenhouse gas storage, decrease the consumption of natural resources, and enhance biodiversity to mitigate the speed and scale of environmental changes.

V. Greenhouse Gas Emissions: Refers to the total amount of various greenhouse gases multiplied by the warming potential of each substance, expressed in carbon dioxide equivalents.

VI. Greenhouse Gases: Refers to CO_2, CH_4, N_2O, HFC_s, PFC_s, SF_6, NF_3 and others announced by the Central authorities.

VII. Financial Effects: The effects of climate and nature-related risks and opportunities on the Bank's financial position, financial performance, and cash flows. The following items shall be disclosed:

(I)"Current financial effects" occurring during the reporting period.

(II) "Anticipated financial effects" over various future time horizons (e.g., short, medium, and long term), taking into consideration how climate and nature-related risks and opportunities are included into the Bank’s financial planning.

Article 4 Organization and Responsibilities

The organizational structure and responsibilities within the Bank are as follows:

I. Board of Directors

(I)In accordance with the Policy, exposure to climate- and nature-related risks and opportunities shall be guided, monitored, and managed to ensure that the Bank's qualitative and quantitative measures are in line with its risk appetite and incorporate considerations of relevant opportunities.

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

(III) The Board of Directors should consider the goals of relevant international agreements and the schedule of national policy requirements, and continue to monitor the Bank's management and disclosure of climate- and nature-related risks and opportunities effectively.

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 and nature risk management.

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

III. Risk Management Committee

(I)Implementing climate- and nature-related risk management policies and major decisions, management mechanisms, and monitoring

indicators approved by the Board of Directors, and regularly reviewing the effectiveness and implementation status.

(II) Continuously monitoring risk exposures and reviewing the resilience of the Bank's responding strategies under various climate scenarios.

IV. Task Force on Climate- and Nature-Related Financial Disclosure

A task force was established to identify and assess climate- and nature-related risks and opportunities, formulate relevant business-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- and nature-related risks and opportunities, the Bank has established the following management mechanisms:

I. Identification of Risks and Opportunities:

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

II. Measurement of Risks and Opportunities:

On the risk side, scenario testing is conducted through various approaches for the qualitative and quantitative assessment of risks. Analyses of potential losses and financial impacts are also performed in a timely manner and evaluate the resilience and adaptability of the Bank's risk-related strategies, which are adjusted based on the results of scenario testing. On the opportunity side, the Bank shall consider the associated impacts and business opportunities, using qualitative and quantitative methods to assess the extent of their financial impact.

III. Risk Monitoring:

Measurable and executable key metrics for risk and opportunities have been established based in the Bank's core business activities. These metrics take into account the time horizons of the impact (short-, medium-, or long-term) as well as other relevant factors such as industry, geographic location, and credit rating. Individual key metrics contains specific targets, and the Bank regularly monitors progress towards achieving them. Additionally, the Bank conducts appropriate assessments to evaluate the execution progress of each metric.

IV. Risk Report:

The identification results of material risks and opportunities, along with the status of the risk management implementation is regularly consolidated and reported to the Board of Directors, following a report to the Risk Management Committee. This is conducted to assist in the development of strategic plans and the monitoring of business operations. In the process of monitoring risks, appropriate responding measures shall be taken immediately, and reported to the Board in the event of any significant abnormalities or special circumstances.

Article 6 The Three Lines of Defense in Climate Risk Management

To effectively implement the Bank's risk management, the responsibilities for climate and nature risk management across each line of defense shall be clearly defined:

I. Risk-taking units in the first line of defense shall evaluate relevant risks in their operations, with a particular focus on industries or customers highly susceptible to these impacts, and implement appropriate risk control measures.

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

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

Article 7 Evaluation Methods and Procedures

The Bank may establish risk and opportunity assessment methods

and procedures based on its own operations, clients, or asset portfolios to identify and evaluate the levels of risks and opportunities, prioritize them, and define the materiality of risks and opportunities.

The Bank should identify the interconnectivity between climate and nature risks and other risks, such as credit, market, operational, and liquidity risks, and implement differentiated risk management measures based on the assessed levels and priorities of the risks.

The Bank should establish management measures for its own operations and clients who pose high risks. Factors to consider should include the materiality of the risk, willingness and ability to improve risk, and any alternative to offset the Bank's risk. If a client or supplier fails to effectively manage its 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 or supplier.

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

Article 8 Scenario Analysis

I. Climate Change Scenario Analysis

As a part of the business operations, the Bank conducts scenario analysis regarding physical and transition risks to evaluate risk exposures and assess the impact of climate risks on its business. This includes assessing its 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 risks solely based on historical data.

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

Before the end of June each year, the climate change scenario analysis of the previous year is conducted and disclosed in accordance with the regulatory requirements.

II. Nature-Related Risk Assessment

The Bank should identify and assess nature-related risks by referring to the LEAP (Locate, Evaluate, Assess, Prepare) approach recommended by the Taskforce on Nature-related Financial Disclosures (TNFD). The Bank shall evaluate its investment and financing portfolios' dependencies and impacts on nature, and incorporate the assessment results into its risk management.

Article 9 Metrics and Targets

To implement the management of risks and opportunities, the Bank should establish key metrics and short-, medium-, and long-term targets related to material climate change, the natural environment, or greenhouse gas emissions. The Bank should regularly monitor the achievement of these targets and properly evaluate the progress of each metric. The Bank should propose relevant explanations and improvement measures if the progress falls behind its target.

Greenhouse gas emissions should be calculated in accordance with common domestic and international inventory standards, guidelines or methods. In order to improve the quality of relevant information disclosure, external agencies recognized by the Central authorities may be regularly commissioned to verify (or assure) its greenhouse gas emissions.

Article 10 Reward Mechanism

In order to promote the implementation of climate risk management, greenhouse gas reduction, mitigation of the impact of climate change, and environmental protection throughout the Bank, and jointly achieve the metrics and targets, appropriate rewards may be provided to related units or personnel with performance.

The implementation method should be conducted in accordance with the relevant policies of the Bank.

Article 11 Public Disclosure

The Bank shall disclose its management of climate- and nature-related risks based on 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 12 Establishment of Operation Guidelines

The President is authorized to approve the Operation Guidelines related to the Policy to implement, and the same applies to any amendment.

Article 13 Implementation and Amendment

The 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.

The Policy shall be implemented upon approval by the Board of Directors after review and approval by the Risk Management Committee, and the same applies to any amendment.