SinoPac Financial Holdings Company Limited
Risk Management Policy

☐ Not formulated in accordance with external regulations
■ Formulated in accordance with external regulations

Formulating Unit: Risk Management Division   Approval Level: Board of Directors

Chapter 1 General Principles

Article 1. To effectively manage the various risks arising from the operations of our company and its subsidiaries, pursuant to Article 35 of the 'Implementation Regulations for Internal Controls and Auditing Systems of Financial Holding Companies and Banks,' this policy is hereby established.

The term 'subsidiaries' mentioned in the preceding clause shall be determined in accordance with Article 4 of the Financial Holding Company Act.

Article 2. This policy regulates risks from an integrated risk management perspective by identifying and evaluating relevant risk factors that impact the company's value. It also requires related subsidiaries or departments to coordinate and implement corresponding measures to facilitate the management and control of these risks, including credit risk, market risk, operational risk, asset-liability risk, reputational risk, legal risk, compliance risk, strategic risk, and other risks.

1. Market risk: Refers to the risk of financial assets and liabilities changing in value due to fluctuations in market risk factors, resulting in losses. Market risk factors include interest rates (including credit factors), stock prices, exchange rates, and commodity prices.

2. Credit risk: Refers to the risk of losses arising from the issuer, counterparty, or debtor's failure to fulfill their obligations or changes in their credit quality.
   Credit risk can be categorized into issuer risk and counterparty credit risk.

   (1) Issuer Risk: Refers to the risk of the issuer, debtor, or guarantor experiencing bankruptcy, legal violations, changes in tax laws or accounting principles to deteriorate its credit, leading to the inability to fulfill repayment obligations or comply with issuance terms.

   (2) Counterparty Credit Risk: Refers to the risk of the counterparty, custodian, broker, and other participants in financial transactions not fulfilling their contractual obligations, including pre-settlement and settlement risks.

3. Operational risk: Refers to the risk of direct or indirect losses caused by inappropriate or erroneous internal operations, personnel, systems, or external events.

4. Asset-Liability risk: Includes exchange rate risk, liquidity risk, banking book interest rate risk, and capital adequacy risk.

   (1) Exchange Rate Risk: Refers to the risk of adverse effects on assets, liabilities, or income due to fluctuations in exchange rates of the functional currencies used by the company's overseas subsidiaries or units.

   (2) Liquidity Risk: Refers to the risk of potential losses arising from the inability to obtain funds to support asset increases or meet maturing liabilities, such as cash outflows related to withdrawals by depositors, credit drawdowns, or other cash outflows from interest, fees, or off-balance-sheet transactions.

   (3) Banking Book Interest Rate Risk: Refers to the risk of adverse changes in assets and liabilities due to fluctuations in market interest rates, which may affect interest income and expenses, as well as the value of on-balance-sheet and off-balance-sheet items.

   (4) Capital Adequacy Risk: Refers to the risk arising from improper assessment, measurement, or management of capital adequacy as prescribed by the competent authority for the Company and its subsidiaries.

5. Reputation risk: Refers to the risk of losses resulting from negative evaluations in the public media, leading to the termination or disruption of the company's relationships with customers.

6. Legal risk: Refers to the risk of significant negative impacts on the company's operations or financial condition due to the inability to execute contracts, contractual disputes, litigation, or unfavorable judgments involving contracting parties.

7. Compliance risk: Refers to the risk of being penalized by competent authorities due to failure to comply with legal requirements while conducting business operations.

8. Strategy risk: Refers to the risk arising from inappropriate strategies or changes in the business operating environment.

9. Other risks: Refers to risks related to operations that are not covered in the above categories, including emerging risks, climate change risks, and others.

Chapter 2 Regulation of Matters concerning the Company and its Subsidiaries

Article 3. In order to effectively identify, measure, control, and analyze various risks, the Company and its subsidiaries, in addition to complying with relevant laws and regulations, shall establish appropriate risk management frameworks, management criteria, control mechanisms, risk reporting systems, and a sound risk management culture based on this policy. These efforts aim to integrate and manage various relevant risks and periodically review and amend management mechanisms or measures to prevent the occurrence of significant risk events.

Article 4. The Board of Directors of the Company and its subsidiaries shall be responsible for approving risk management criteria, policies, risk appetite, or limits, and shall authorize the management to be responsible for day-to-day risk management work. The management shall continuously supervise risk management-related activities and assess risk management performance in accordance with the authorization, while ensuring that risk management personnel possess the necessary ethical standards and professional expertise. The audit unit shall regularly evaluate the risk management system and control mechanisms, audit their implementation, and directly report the results to the Board of Directors.

Article 5. The risk appetite and limits referred to in this policy mean the types and levels of risks that the Company and its subsidiaries are willing and able to accept in order to achieve their business strategies and budget goals, while complying with relevant laws and regulations. The risk management unit or personnel shall monitor the indicators of risk appetite and limits and regularly report them to the Board of Directors.

Article 6. Under the jurisdiction of the Chairman, the Company shall establish a "Risk Management Committee," with the Chairman as the convener, to review the company's risk management policies, framework, systems, and overall limits, examine overall exposure and risk conditions, supervise risk management activities of the Company and its subsidiaries, integrate and coordinate the management of major risk events, and review other risk management issues.

Matters concerning the number, appointment, responsibilities, etc., of the members of the Risk Management Committee shall be handled in accordance with the "Risk Management Committee Establishment Regulations" approved by the Board of Directors.

Article 7. The Company shall establish Risk Management Division under the General Manager, responsible for formulating and planning the overall risk management policies, criteria, and risk management systems of the Company and its subsidiaries. After approval by the Board of Directors, the Risk Management Division shall be responsible for promoting various policies, criteria, and systems and conducting periodic assessments of the implementation results and management performance of each subsidiary.

Article 8. The management of the Company and its subsidiaries should, based on the nature, scale, and type of business operations and exposure, submit proposals for approval by the Board of Directors, that they should establish independent risk management units or appoint dedicated personnel, concurrent personnel, or assign other units of the Company and its subsidiaries to be responsible for risk management, to ensure that all exposed risks are properly managed.

The risk management units or personnel shall periodically report to the Board of Directors on the implementation of risk management and improvement recommendations. In the event of significant risk incidents, appropriate measures shall be promptly taken and reported to the Board of Directors.

Article 9. The main responsibilities of the risk management units or personnel of the Company and its subsidiaries include:

1. Formulating the company's own risk management policies and related control criteria for their own operations.

2. Establishing risk management process for risk identification, measurement, communication, and monitoring.

3. Following the principle of risk concentration management, establishing consistent management mechanisms from top to bottom and across companies and business lines.

4. Assisting in implementing matters requested by the Risk Management Division.

Article 10. Risk management within the Company and its subsidiaries is not limited to risk management units. Each unit shall conduct risk identification, classification, management, and measurement and establish relevant management mechanisms based on the risks that may arise from their responsibilities as the cornerstone of risk management and measurement.

Article 11. To implement the overall risk management of the Company and its subsidiaries, personnel appointments, dismissals, promotions, rewards, punishments, and performance evaluation of the head of each subsidiary's Risk Management Division and personnel concurrently serving as personnel of the Group's Risk Management Division shall be subject to the approval of the head of the Risk Management Division of the Company in accordance with the "Layered Responsibility Management Regulations."

Article 12. Depending on the nature of the business and the complexity of risks, the Company and its subsidiaries may establish a Risk Management Committee to coordinate risk management matters.

Article 13. Each subsidiary of the Company shall establish management criteria for new products or new business, regulating risk assessments, risk management procedures and control mechanisms, and accounting and operational processing procedures, and obtain approval from relevant authorities or the Board of Directors.

Article 14. Each subsidiary of the Company shall evaluate the necessity of classifying its business exposure positions into different book categories and managing them separately based on factors such as the number of types of exposure positions, the nature of the positions, risk characteristics and other factors. If distinction is necessary, relevant book management regulations must be formulated.

Article 15. When planning market risk management systems, the Company and its subsidiaries should include:

1. Authorization, framework, process, and operational content related to market risk management.

2. Permissible trading scope.

3. Market risk measurement methods.

4. Levels of market risk limits approval and measures for exceeding limits.

5. Contingency management in the event of significant changes in the financial market.

Article 16. When planning credit risk management systems, the Company and its subsidiaries should include:

1. Authorization, framework, process, and operational content related to credit risk management.

2. Scope of application of credit risk.

3. Credit review.

4. Credit rating management.

5. Credit portfolio management principles and procedures.

6. Contingency management in the event of significant changes in the financial market.

Article 17. When planning operational risk management systems, the Company and its subsidiaries should include:

1. Authorization, framework, process, and operational content related to operational risk management, complying with principles of separation of front and back offices, independence and accountability of control and authority.

2. Content and scope of application of operational risks.

3. Operational risk management principles and procedures.

4. Internal control regulations.

5. Contingency management in the event of significant incidents.

Article 18. If the Company or any of its subsidiaries encounter a significant risk event or the likelihood of such an event, the management department should promptly report it to the Group's risk management unit, the relevant subsidiary's risk management unit or personnel, the CEO, and the Chairman. In cases where it poses a severe threat to operations, the Company should follow the 'Operational Crisis Response Measures' to take necessary response actions.

Article 19. In addition to complying with the "Risk Management Policy" of the Company, the Company and each subsidiary engaging in digital financial-related business shall establish secure and trustworthy information systems in accordance with the "Information Security Policy" of the Company to ensure the security of data, systems, equipment, and networks to safeguard customer rights and ensure the effectiveness of the company's risk management.

For new products or new business related to digital financial business, they shall also adhere to the relevant company management regulations.

Article 20. The Company and its subsidiaries shall cooperate with the risk management organization and authorities to establish an appropriate risk reporting framework, compile and report necessary risk management information.

Chapter 3 Supplementary Provisions

Article 21. The policy shall be implemented after approval by the Board of Directors, and the same shall apply when amended.

Adopted on June 26, 2009, at the 6th meeting of the Third Board of Directors in 2009.
Amended on May 21, 2010, at the 5th meeting by the Third Board of Directors in 2010.
Amended on November 26, 2010, at the 11th meeting by the Third Board of Directors in 2010.
Amended on December 21, 2012, at the 12th meeting by the 4th Board of Directors in 2012.
Amended on June 21, 2013, at the 6th meeting by the 4th Board of Directors in 2013.
Amended on June 22, 2018, at the 6th meeting by the 6th Board of Directors in 2018.
Amended on December 21, 2018, at the 12th meeting by the 6th Board of Directors in 2018.
Amended on December 20, 2019, at the 12th meeting by the 6th Board of Directors in 2019.