

Risk Management Policy, Procedures, Scope, Organizational Structure, and Key Operations

Risk Management Policy, Procedures, and Processes

1. Union Bank of Taiwan (UBOT) established its "Risk Management Policy" in August 2005 and has periodically revised it, with the most recent revision approved on July 8, 2024, during the 12th Board of Directors' second meeting. This policy serves as the highest guiding principle for the Bank's risk management.
2. Additionally, specific guidelines for credit risk, market risk, operational risk, liquidity risk, and interest rate risk have been developed and approved by the Board of Directors. These include:
 - (1). Capital Adequacy Management Guidelines
 - (2). Credit Risk Management Guidelines
 - (3). Operational Risk Management Guidelines
 - (4). Market Risk Management Guidelines
 - (5). Liquidity Risk Management Policy
 - (6). Interest Rate Risk in the Banking Book Management Policy
3. The Bank formulates risk management procedures based on regulatory requirements and the Bank's operational status. An appropriate risk reporting mechanism has been established. Business management units must submit accurate risk management reports to appropriate management levels for decision-making. The Risk Management Department regularly reports to the Asset-Liability and Risk Management Committee, the Audit Committee, and the Board of Directors.
4. The risk management process includes:
 - (1). Risk identification

- (2). Risk measurement
- (3). Risk monitoring
- (4). Risk mitigation
- (5). Risk reporting

Scope of Risk Management

1. The Bank mandates effective identification, measurement, and monitoring of risks for all business activities. Business responsibility units must establish suitable risk management mechanisms and set risk limits based on business characteristics. They must periodically assess risk exposures and control risks within acceptable levels to achieve rationalized risk and reward objectives.
2. The scope of the risk management includes the following major risks:
 - (1). Credit Risk
 - (2). Operational Risk
 - (3). Market Risk
 - (4). Compliance Risk
 - (5). Liquidity Risk
 - (6). Interest Rate Risk
 - (7). Human Resource Risk
 - (8). Disaster Emergency Crisis Risk
 - (9). Climate Change and Environmental Sustainability Risk

Risk Management Organizational Structure

Risk management organizational structure and responsibilities are as follows:

1. **Board of Directors:** The highest decision-making unit for risk management policies, responsible for reviewing and approving risk policies, organizational structures, and responsibilities.

2. **Audit Committee:** Assists the Board of Directors in reviewing the risk management policies, examining risk control reports, and supervising the execution of risk management.
3. **Asset-Liability and Risk Management Committee:** Chaired by the Chairman, this committee reviews and examines management reports or information submitted by Business Management Units and the Risk Management Department to ensure the effectiveness of risk management.
4. **Risk Management Department:** Reviews risk management mechanisms established by business management units, prepares risk control reports for the Board of Directors, and develops various risk management tools.
5. **Business Management Units:** Responsible for formulating and supervising the implementation of management regulations, processes, and control mechanisms across operational units.
6. **Operational Units:** Execute daily management operations based on the management regulations and control mechanisms set by business management units.

Risk Management Operations

1. The Bank actively promotes and implements risk management mechanisms, reporting quarterly to the Board of Directors on key risk management operations.
2. Key historical milestones include:
 - (1). **2005:** Established the "Risk Management Policy" as the highest guiding principle for risk management.
 - (2). **2006–2012:** Developed specific guidelines for credit risk, market risk, operational risk, interest rate risk in the banking book, and liquidity risk.
 - (3). **2010–2021:** Built the following risk management tools:
 - 2010: Operational Risk Reporting Platform for electronic collection operational risk data.

- 2012: Operational Risk Indicators for periodic monitoring and improvement measures.
 - 2013: Corporate Finance Internal Rating Model for credit rating.
 - 2014: operational Risk Controls Self-assessment.
 - 2020: Operational Risk Detection Mechanism.
 - 2021: Individual Loan Scoring Model and Credit Card Scoring Model.
- (4). **2023**: Integrated Task Force on Climate Related Financial Disclosures (TCFD) into ESG reports.

3. 2024 Operations:

- (1). Quarterly risk management reports are submitted to the Audit Committee and the Board of Directors. These reports cover the Bank's capital adequacy ratio, credit risk, operational risk, market risk, banking book interest rate risk, interest rate risk in the banking book, and liquidity risk management. The first-quarter report includes monitoring results of operational risk detection, and the second-quarter report includes Task Force on Climate Related Financial Disclosures (to be submitted to the Audit Committee starting from Q3 2024).
- (2). Monitoring the operational risk detection includes reviewing indicator changes, verifying compliance of relevant internal regulations with supervisory requirements, and ensuring alignment with key focus areas for detection management.
- (3). In accordance with the Financial Supervisory Commission's "Guidelines for Climate Financial Disclosures by Domestic Banks," the Bank prepares Task Force on Climate Related Financial Disclosures (TCFD) integrated into the ESG Report. The report addresses four dimensions of climate risk management: governance, strategy, risk management, indicator and targets. It also evaluates the financial impacts of three climate scenarios as outlined in the "Planning for Climate Change Scenario Analysis by Domestic Banks" issued by the competent authority.

(4). Revised the "Risk Management Policy," "Credit Risk Management Guidelines," "Operational Risk Management Guidelines," "Market Risk Management Guidelines," "Capital Adequacy Management Guidelines," "Liquidity Risk Management Policy," and "Interest Rate Risk in the Banking Book Management Policy." Under the risk management structure, the Audit Committee has been newly added to assist the Board of Directors in risk management matters. Additionally, the "Risk Management Policy" has been updated to include the "Climate Change and Environmental Sustainability Risk Management Guidelines" and enhanced "Risk Management Procedures" with operational risk detection procedures and indicators.

(5). Established the "Sustainability Credit and Investment Policy," which mandates that the Bank (including subsidiaries) incorporate ESG principles into business decision-making and processes. The policy outlines business promotion and management principles, mechanisms for managing high-risk industries and enterprises, and alignment policies to ensure adherence across all units.

4. Strengthening Climate Change Risk Management and ESG Awareness

To enhance the Bank's climate change risk management and ESG awareness, related education, training, and initiatives have been implemented as follows:

(1). Climate-Related Risk Management Education and Training

● **Board Members:**

In 2023, three educational training sessions were arranged, with a total of 11 participants and 9 training hours. Topics included TCFD (Task Force on Climate-Related Financial Disclosures) and the 2050 Net Zero initiatives.

● **Senior Managers and Related Personnel:**

In 2023, training sessions were conducted for 21 participants, totaling 60 hours. Courses covered climate risk assessment and IFRS S1/S2 standards.

- **All Relevant Employees:**

In 2023, 679 participants attended training sessions, with a total of 180 training hours.

(2). Internal Climate and Sustainability Risk Management Mechanisms

- **Climate and Environmental Sustainability Risk Management Guidelines:**

The Bank developed and implemented guidelines covering greenhouse gas inventories and educational promotion.

- **Dedicated Personnel for Environmental Sustainability:**

The General Affairs Department has designated personnel responsible for promoting environmental sustainability measures and strengthening the Bank's internal climate risk response capabilities.

(3). Additional Measures

- **Energy Conservation and Resource Recycling:**

In 2023, the General Affairs Department implemented mechanisms for energy conservation and resource recycling, including multiple internal promotional events and employee training sessions.