

Union Bank of Taiwan Risk Management Policy

Adopted on: August 3, 2005 (5th Board of Directors, 129th Meeting)

First Revision: February 25, 2009 (6th Board of Directors, 23rd Meeting)

Second Revision: July 28, 2010 (7th Board of Directors, 11th Meeting)

Third Revision: November 7, 2018 (10th Board of Directors, 4th Meeting)

Fourth Revision: January 27, 2021 (10th Board of Directors, 20th Meeting)

Latest Revision: July 8, 2024 (12th Board of Directors, 2nd Meeting)

Article 1 General Provisions

1. To address potential expected or unexpected risks, we establish a comprehensive risk management system. This ensures effective resource allocation and enhances competitiveness while maintaining operational risks within tolerable limits. Compliance with capital adequacy standards and adherence to the Basel Committee's international standards are integral to this policy.
2. This policy must be followed by all Union Bank employees to protect assets, maintaining asset and financial quality, and comply with relevant laws and regulations.
3. All business units must effectively identify, measure, and monitor risks. Every responsibility units must establish appropriate risk management mechanisms and regulations based on the nature of the business, including setting risk limits and transaction or authorization thresholds. Regular risk assessments must be conducted to ensure risks remain within acceptable levels and achieve a balance between risks and returns.

Article 2 Risk Management Organization and Responsibilities

1. Board of Directors: The highest decision-making unit of risk management. Responsibilities include:
 - (1). Reviewing and approving overall risk policies and total risk limits.
 - (2). Establishing or modifying the risk management organizational structure and scope.
 - (3). Determining the responsibilities of risk management roles.

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: 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: An independent unit dedicated to risk management, responsible for Basel's three pillars, reviewing risk management mechanisms established by business management units, compiling risk control reports for appropriate levels, and developing risk measurement tools.
5. Business Management Units: Responsible for drafting regulations, processes, and control mechanisms for their respective business activities, supervising branches to execute necessary management affairs, and reporting daily risk information and exposure to appropriate levels.
6. Operational Units: Responsible for managing daily operations in compliance with regulations, verifying the accuracy, and completeness of operational data.

Article 3 Credit Risk Management Guidelines

1. Establish credit risk strategies, processing , and control principles to address credit risk.
2. Develop credit risk management process to identify, measure, mitigate, monitor, and report risks. This ensures effective management of credit risk associated with all products and activities.
3. Establish credit risk measurement system and database. Internal historical data should be categorized and stored to provide sufficient information for management levels to monitor risk.

Article 4 Operational Risk Management Guidelines

1. Establish operational risk strategies, processing , and control principles to address operational risk.
2. Develop management tools such as operational risk events reporting, key risk indicators, operational Risk Controls Self-assessment, and internal control assessments. Analyze and review operational risk loss events to evaluate the effectiveness of control measures and implement enhancements where necessary.

Article 5 Market Risk Management Guidelines

1. Establish market risk strategies, processing , and control principles to address market risk.
2. Identify risk factors affecting products (e.g., interest rates, exchange rates, and price changes) to measure and monitor market risk for both on- and off-balance sheet positions.
3. Review and adjust risk limits in response to economic and financial changes or shifts in business strategies to ensure compliance with established policies, internal controls, and operational procedures.

Article 6 Compliance Risk Management Guidelines

1. Establish a compliance system and designate a dedicated compliance unit. Assign a senior executive as the Bank's Chief Compliance Officer.
2. Regularly review compliance policies and implementation status, and develop annual compliance plan.
3. Build financial regulation database to collect and disseminate information on laws and regulations related to banking operations. Periodically review and update operational guidelines and management regulations to ensure alignment with applicable laws.
4. Conduct compliance training and awareness programs to enhance employees' understanding of and commitment to regulatory compliance.

5. Define compliance assessment procedures and employ a risk-based approach to verify that internal operations meet regulatory requirements.
6. Ensure all new business initiatives and financial products are thoroughly evaluated and comply with relevant regulations and risk management requirements.

Article 7 Liquidity Risk Management Guidelines

1. Establish liquidity risk strategies, processing , and control principles to address liquidity risks.
2. Define observation or warning indicators and establish internal control procedures for liquidity risk assessment.
3. Develop contingency plans to address severe liquidity shortages caused by unforeseen events.

Article 8 Interest Rate Risk Management Guidelines

1. Establish interest rate risk strategies, processing , and control principles for managing interest rate risk associated with the Bank's asset and liability positions.
2. Develop interest rate risk measurement indicators and adjust pricing management strategies in response to interest rate trends.

Article 9 Human Resource Risk Management Guidelines

1. Employees required by law to hold professional qualifications must obtain them within the specified timeframe. Business management units must designate personnel to regularly report updates on employees' qualifications and certifications to the Human Resources Department.
2. The Human Resources Department must maintain an employee database, including names, ages, certifications, qualification types, and expiration dates, and update it as necessary.

3. Management and employees must not engage in acts of dishonesty, improper benefits transfers, conflict of interest with customer, or actions that harm customer's rights.
4. Management and employees must keep customer transaction data and related information confidential, except as required by law or regulatory authorities.

Article 10 Crisis Management Guidelines

1. Develop crisis management mechanism to address potential risks, complementing the operational processes established by business management units.
2. The crisis management mechanism must include:
 - (1). A crisis management team led by the General Manager and composed of department heads to handle emergency incidents.
 - (2). An emergency communication and reporting system specifying notification methods and subsequent procedures for handling incidents.
3. During emergencies, relevant units must follow established workflows and handling procedures. Collect and track related reports and external responses to aid decision-making. Prepare report post-incident including detailing causes, processes, actions, impacts, and reviews, and submit it to the General Manager or the crisis management team for reference.
4. Designate spokespersons or public relations staff to issue statements or clarify issues with the media during emergencies.

Article 11 Climate Change and Environmental Sustainability Risk Management Guidelines

1. Comply with laws and regulations related to climate, energy, and environmental protection. Conduct and disclose greenhouse gas inventories, water usage, and waste management statistics. Develop related policies and enhance employee awareness of energy conservation.

2. Identify and assess climate change risks and opportunities, establish management measures, regularly disclose governance practices, and set indicators or targets to evaluate relevant issues.

Article 12 Risk Management Procedures

1. Establish risk management procedures based on regulatory requirements and the Bank's operational status. Develop reporting mechanisms to ensure management levels receive accurate information for decision-making. Risk Management Department should Regularly report to the Asset-Liability and Risk Management Committee, Audit Committee, and Board of Directors.
2. The risk management process includes risk identification, measurement, monitoring, mitigation, and reporting.
3. We should detect, evaluate, and manage risks comprehensively. Establish indicators to monitor and control risks effectively.

Article 13 Risk Countermeasure

Business management units must adopt risk countermeasures aligned with operational strategies and financial objectives to minimize the impact of loss events. Possible countermeasures include:

1. Risk Avoid: Implement measures to stop or reduce activities likely to cause risks.
2. Risk Transfer: Transfer part or all of the risks to third parties through insurance or outsourcing.
3. Risk Reduce: Employ control measures, such as internal audits, to lower the likelihood or impact of risks.
4. Risk Accept: Accept potential risks and prepare to manage their consequences.

Article 14 Supplementary Provisions

1. Matters not covered in this policy shall be handled in accordance with the relevant laws and regulations of the competent authorities and the relevant regulations of Union Bank.

2. This policy will be implemented after approval by the board of directors; the same applies when revised.