

Risk Management Policy

CTBC Holding's Risk Governance Policy, approved by the Board of Directors in 2011, serves as the Company's supreme guide for risk management. The goal of CTBC Holding's risk management is to maximize economic gains while using effective management methods to control risks within the scope approved by the Board of Directors. CTBC Holding establishes policies for managing the key risks faced by the company, covering management objectives, risk frameworks, roles and responsibilities, and risk management processes. These policies are implemented to effectively identify, measure, and control the risks faced by CTBC Holding and its subsidiaries such that the risks arising from business activities are maintained at an acceptable level.

Risk management scope and processes

The Company and its subsidiaries have business operations involving many types of risk and have risk management policies in place for key risks such as credit, market, liquidity, operational, insurance, and climate change risk. These policies include authorization and delegation mechanisms, risk limit management, monitoring indicators, and reporting processes, and serve as a basis for daily risk management. Each risk unit regularly prepares and reports on the monitoring indicators and implements early warning and stop-loss mechanisms. The main risks faced by the Company and its subsidiaries include credit risk and liquidity risk. For example, the on- and off-balance-sheet assets that expose the Company and its subsidiaries to credit risk primarily include loans, regulator-approved securities investments, and derivative financial transactions. The risk of financial loss arises if a client, guarantor, debtor, or counterparty fails to meet its contractual obligations due to financial problems or other factors. Liquidity risk refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet financial obligations, thereby impacting the Company's earnings or stockholders' equity value. In addition, relevant risk management procedures are incorporated into the development process for new products and services and are stated in policies such as the Market Risk Management Policy and the Risk Management Policy for Wealth Management.

The Company and its subsidiaries formulate and implement risk

management processes, including those listed below, based on business type, scale, and complexity as well as the significance and likelihood of risk occurrence.

1. Risk identification: Describe the risk characteristics of each business or the methods or processes for risk identification.
2. Risk measurement: Specify in risk policies the principles and practices for using imported risk measurement tools or methods and designate the units responsible for ensuring the effectiveness or appropriateness of the tools or methods.
3. Risk monitoring or action plans: Define regular and ad hoc risk monitoring principles and their corresponding management measures, process or contingency plans, and action plans. Relevant risk countermeasures include:
 - (1) Risk aversion: Not engaging in the business or activity.
 - (2) Risk transfer: Transferring all or part of the risk to a third party through the use of guarantee or other means.
 - (3) Risk control: Taking appropriate control measures to reduce the possibility of risk occurrence and impact.
 - (4) Risk taking: Taking no measures to change the likelihood of occurrence and accepting the possible impact.
4. Risk reporting: Establish information communication and reporting mechanisms, specifying the necessary content and relevant assessment principles to ensure timely and comprehensive risk disclosure.

Risk management principles

The Company and its subsidiaries formulate and implement appropriate risk management mechanisms, including those listed below, based on business type and scale.

1. Relevant units monitor capital adequacy to ensure its appropriateness based on business scale, credit risk, market risk, operational risk, and future operating trends.
2. Relevant units establish appropriate risk measurement and monitoring mechanisms to measure, monitor, and control risks.
3. Relevant units conduct appropriate investment allocations and risk management by considering the characteristics of overall risk exposure, capital, and liabilities.
4. A standardized assessment method is established for asset quality and classification, and relevant units calculate and control large exposures,

conduct regular reviews, and verify the provision of allowances for losses or provisions.

5. Relevant units establish information security protection mechanisms and emergency response plans for business, transactions, and information sharing between the Company and subsidiaries.
6. In response to climate change risks, relevant units establish management mechanisms to reduce the impact of climate change on overall operations.

Risk management framework and operations

CTBC Holding adopts an integrated approach to risk management, the framework for which includes the Company's Board of Directors, Chief Auditor, Risk Management Committee, Credit Approval Committee, and Risk Management Department; in addition, each subsidiary has established its own risk units. The related responsibilities are described as follows:

1. The Board of Directors is the highest supervisory unit for the group's risk management activities and is responsible for approving, reviewing, and supervising risk strategies and policies; developing a healthy and independent risk culture; and ensuring the operations of the management framework and the risk control functions. It also has ultimate responsibility for overall risk management.
2. The Chief Auditor is responsible for the planning and execution of all audit operations and reports directly to the Board of Directors.
3. The Risk Management Committee, operating according to the Risk Governance Policy as approved by the Board of Directors, establishes independent risk management functions. It ensures that CTBC Holding and its subsidiaries' operating activities, business development strategies, and risk appetite are in line with the Board's policies. The committee also assists the Board of Directors in executing communication, oversight, and recommendations regarding risk management; establishing an appropriate risk authorization system; and supervising and ensuring that the system is functioning properly. The effective functioning of the committee is intended to foster a healthy culture of risk management and managerial support among all employees throughout the organization. The annual attendance of Risk Management Committee members is also disclosed on our website under "meeting attendance."

4. The Credit Approval Committee is responsible for supervising, managing, and approving CTBC Holding and its subsidiaries' major credit risk cases.
5. The Risk Management Department is responsible for establishing and implementing various risk management policies for CTBC Holding and reporting related risk management information throughout the group. It also reports the Risk Integrated Management Report to the Risk Management Committee and the Board of Directors every quarter.
6. Risk management practices in 2024:
 - (1) The Risk Management Department consolidated the group's Risk Integrated Management Report on a quarterly basis and reported CTBC Holding and its subsidiaries' overall risk environment, risk control overview, and risk management measures to the Risk Management Committee and the Board of Directors.
 - (2) The Risk Management Department reported the Company's annual emerging risk identification results to the Risk Management Committee and the Board of Directors in April 2024. Management strategies and control mechanisms were implemented to reduce the impact of potential risks on business operations and thus achieve the Company's sustainable governance goals.
 - (3) CTBC Holding published its 2023 Climate-related Financial Disclosure Report, which follows the disclosure framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures as well as complies with the Taiwan Financial Supervisory Commission's Guidelines for Domestic Banks' Climate Risk Financial Disclosure, Guidelines for Financial Disclosure of Climate-Related Risks of Insurance Enterprise, and Best Practice Principles of Risk Management for Securities Firms. The report is compiled based on four dimensions: governance, strategy, risk management, and metrics and targets, along with 11 recommended disclosure items. In addition, CTBC Holding published its 2023 Nature-related Financial Disclosure Report, compiled by referencing the formal framework (Version 1.0) launched by the Taskforce on Climate-related Financial Disclosures (TNFD) in September 2023 as well as "Sector guidance: Additional guidance for financial institutions" Version 2.0. As CTBC Holding's first complete and systematic disclosure on nature-related topics, this report describes the Company's progress and actions based on the four pillars of governance, strategy, risk and impact management, and metrics and targets.

- (4) In response to the ongoing deterioration of the real estate markets in the U.S. and China, significant volatility in major global stock markets, slight decline in bond yields, and risk aversion-induced rising demand for the U.S. dollar, the Risk Management Department reported the group's stress-testing assessment results in June.
- (5) To foster greater risk awareness and understanding among the group's employees, the operational risk management course is part of new employee orientation. A total of 1,858 trainees completed the course in 2024.

Risk Appetite Statement

The Company and its subsidiaries shall adhere to the principles set forth in the Risk Appetite Statement and, based on the nature of their business and their management needs, establish quantitative or qualitative targets for monitoring and reporting, thereby ensuring the effective implementation of risk management in day-to-day operations.

The Company and its subsidiaries must make risk-related decisions and commitments with a full understanding of the constantly changing external political and economic environment. All risks shall be assessed objectively, taking into account the balance between risk and return and the potential impact on capital adequacy and capital allocation.

1. The Company and its subsidiaries undertake identifiable and manageable risks that conform to the Company's sustainable business strategy.

Risk decision-making and commitments must be made with full understanding of the changing external political and economic environment, and consider the Company as a whole. Risks shall be assessed objectively in terms of their potential impact on capital adequacy and capital allocation, with due consideration to balancing risk and return.

2. The Company and its subsidiaries undertake risks in a prudent and reasonable manner, and refrain from business that would harm the Company's reputation.

- (1) Maintain a balanced asset–liability structure: Exposure should not be overconcentrated in high-risk areas or a single target.
- (2) Avoid price competition and predatory loans: Adhere to prudent product pricing strategies and carefully select customers to prevent systemic risks and pro-cyclicality effects.
- (3) Prudently assess counterparties and their industries as well as potential

environmental and social in accordance with the following principles:
For cases involving enterprises or industries that are highly sensitive to environmental or climate change risks (including those with high carbon emissions, high natural resource or energy consumption, high pollution, and non-compliance with environmental laws), if careful review finds that relevant risks are difficult to control, it is advisable to reduce involvement or refrain from underwriting such cases.

Business involving pornography, violence, illegal organizations, terrorism, or other activities that threaten public safety is prohibited. Assisting in illegal, fraudulent, deceptive, tax evasion, or money laundering transactions is also prohibited. Controversial business involving the violation of human rights (including labor rights) is to be avoided. Political and military-related business should be carefully considered. The legality and reasonableness of related-party transactions or unconventional arrangements proposed by clients should be carefully reviewed.

CTBC Holding group risk management structure

