

## **Climate Risk Screening Procedures for O-Bank Investment and Financing Recipients**

### **I. Purpose**

In order to implement sustainable finance and encourage investment and financing recipients to pay serious attention to environmental protection and corporate social responsibility, O-Bank conducts climate risk screening for investment and financing recipients in industries that pose high climate risks, and continues to engage with investment and financing recipients to encourage them to gradually reduce behaviors that generate climate change risks.

### **II. Scope of application**

O-Bank conducts climate risk screening for investment and financing recipients in "industry that poses high climate and environmental risks" as follows:

- (1) Carbon-intensive industries:** Semiconductors (excluding IC design), electricity supplier (limited to steam power generation and combined-cycle power generation), ocean transportation, air transport, petroleum and coal products, mining & quarrying, fertilizers and nitrogen compounds, cement and cement products, basic iron and steel, and aluminum products.
- (2) Industries that have a harmful environmental impact:** Raising of cattle, tanning and dressing of leather; dressing and dyeing of fur, textile enterprises, enterprises engaged in the manufacture of raw chemicals, manufacture of paper & paper product, and manufacture of pesticides and environmental agents.
- (3) Enterprises listed in the Mandatory Greenhouse Gas Reporting System of the Ministry of Environment's Climate Change Administration as generating annual GHG emissions of greater than 25 thousand tonnes.**

### **III. Screening content**

- (1) Climate risk governance:** Screen to see whether the party has climate risk management policies or documents, and whether it reports periodically to its board or management regarding climate risks.
- (2) Climate risk strategies:** Screen to see whether the party's principal places of business or collateral located in high-risk areas, whether the party has assessed and responded to physical risks (direct or indirect losses resulting from climate-change-triggered specific natural disasters or long-term change in climate models), whether the party has assessed and responded to transition risks (risks that arise as society transitions to a low-carbon economy due to the impact of legislation, low-carbon technologies, and societal preferences), whether the party has adopted response measures or training programs in preparation for climate-related disasters (e.g. floods, windstorm disaster), whether the party formulate response strategies for carbon pricing mechanisms such as carbon fees or carbon taxes imposed by

governments of various countries, and whether the party's business locations or collateral have purchased typhoon or flood insurance.

- (3) Greenhouse gas (GHG) emissions:** Screen to see whether the party has conducted an inventory of GHG emissions, whether it has publicly disclosed its GHG emissions or obtained an external verification certificate for its GHG emissions, whether it has set a GHG reduction target, whether its GHG reduction target conforms with SBTi specifications, whether the party achieved its GHG reduction target for the previous year, energy consumption per NT\$1 million in operating revenues compared with the previous year, whether the party has adopted measures at its business locations to reduce operating GHG emissions, whether the party has plans or commitments for 100% use of renewable energy, and whether the party has commitments for net-zero emissions.

#### IV. Screening method

Any investment or financing recipients that falls within "II. Scope of application" above must be assessed by a "TCFD Climate Risk Checklist" (see Attachment 1 below) to provide the data for attachment data in credit analysis reports and investment analysis reports. On the basis of the risk assessment composite score set out in the "TCFD Climate Risk Checklist," the following measures are implemented:

- (1) Credit recipients:** When a screening yields a score indicating that a credit recipient poses high risk, it needs to be controlled closely (e.g. lowering of the credit rating; depending on the facts of the individual case may require the customer to post collateral; require it to implement corrective action within a prescribed period of time; raise the customer's loan interest rate; etc.) and the Bank will conduct a follow-up assessment of any ongoing influence.
- (2) Investment recipients:** When a screening yields a score indicating that an investment recipient poses high risk, if the Bank conducts an assessment and still wishes to invest or to retain its investment, the decision must be raised to the approval of the bank President, and the Bank must re-assess its climate risks each year to confirm whether there have been any improvements in its climate change management. The result of this re-assessment will serve as the basis for deciding whether to continue retaining the investment.

V. All other matters on which these Screening Procedures are silent shall be handled in accordance with the "Guidelines for Promoting Sustainability of Corporate Loans and Credits," the "Financial Transactions Handbook," and the "Equity Transactions Handbook."

Attachment 1

TCFD Climate Risk Checklist	
Screening topic	Screening indicator
Climate risk governance	Does the party have climate risk management policies or documents?
	Does the party report periodically to its board or management regarding climate risks?
Climate risk policies	<p>Is the party's main place of business or collateral located in high-risk areas:</p> <p>1. Taiwan:</p> <p>(1) Whether the property is located in an area where both degree of hazard and vulnerability on flooding/slopeland risk are grade 4 or above, according to the National Science and Technology Center for Disaster Reduction (NCDR).            [Please visit the Climate Change Disaster Risk Map Platform.  <a href="https://dra.ncdr.nat.gov.tw/Frontend/Tools/ShowMapBoxWMS">https://dra.ncdr.nat.gov.tw/Frontend/Tools/ShowMapBoxWMS</a>            Select the Global Warming Scenario 2°C, enter the address, then select:            1. Degree of hazard/vulnerability on flooding risk            2. Degree of hazard/vulnerability on slopeland risk]</p> <p>(2) Whether the property is located on the 1st floor (or below) and is more than 40 years old.</p> <p>2. Hong Kong region</p> <p>(1) Whether the property is located in high-risk coastal low-lying or windy residential areas and flooding blackspots identified by the Hong Kong Drainage Services Department (DSD).            (2) Whether the property is located on the 1st floor (or below) and is more than 40 years old.            [Please visit the Hong Kong DSD website for checking the above criterias.            (Coastal low-lying or windy residential areas)  <a href="https://www.dsd.gov.hk/TC/Flood_Prevention/Our_Flooding_Situation/Coastal_Low_lying_or_Windy_Residential_Areas/index.html">https://www.dsd.gov.hk/TC/Flood_Prevention/Our_Flooding_Situation/Coastal_Low_lying_or_Windy_Residential_Areas/index.html</a>            (Flooding blackspots)  <a href="https://www.dsd.gov.hk/TC/Flood_Prevention/Our_Flooding_Situation/Flooding_Blackspots/index.html">https://www.dsd.gov.hk/TC/Flood_Prevention/Our_Flooding_Situation/Flooding_Blackspots/index.html</a>]</p> <p>3. Other overseas regions:            Whether the property is located on the 1st floor (or below) and is more than 40 years old.</p>
	Has the party assessed and responded to physical risks (direct or indirect losses resulting from climate-change-triggered specific natural disasters or long-term change in climate models)? Examples might include extreme high or low temperatures, floods, and droughts caused by extreme climate conditions.

	Has the party assessed and responded to transition risks (e.g. risks that arise as society transitions to a low-carbon economy due to the impact of legislation, low-carbon technologies, and societal preferences)? Examples might include energy transformation.
	Has the party adopted response measures or training programs (e.g. remote work rules, flood prevention facilities, office building power generators, emergency & disaster drills) in preparation for climate-related disasters (e.g. flooding, windstorm disaster) to maintain business continuity?
	Has the party formulated response strategies for carbon pricing mechanisms such as carbon fees or carbon taxes imposed by governments of various countries, in order to control operating costs and ensure business continuity.
	Has the party purchased typhoon or flood insurance for business locations (or leased office buildings) or collateral? (Applicable only to credit recipients)
Greenhouse gas (GHG) emissions	Has the company already conducted an inventory of GHG emissions?
	Has the company publicly disclosed its GHG emissions or obtained an external verification certificate for its GHG emissions?
	Has the company set a GHG reduction target and it conform with SBTi specifications?
	(A company that has not set a GHG reduction target need not fill out this field.)
	If the company has set a GHG reduction target, has the party achieved its target for the previous year?
	In comparison with the previous year, has the company's energy consumption (e.g. energy consumption or water consumption) per NT\$1 million in operating revenues been reduced in the most recent year?
	Does the company use green electricity at its business locations, switch to energy-efficient equipment, install water recycling equipment, conduct in-house promotional activities focusing on conserving energy and reducing carbon emissions, etc. in order to reduce operating CO2 emissions?
	Has the company had plans or commitments for 100% use of renewable energy?
	Has the company had commitments for net-zero emissions?