O-Bank Co., Ltd. Risk Management Policy

Approved by the 22nd meeting of the 8th Board of Directors on March 14, 2023

Chapter 1 General Principles

Article 1
In order to establish an effective risk management system, ensure the Bank’s sound operation and development, and provide a basis for business risk management and implementation, the Bank has drafted a risk management policy in tandem with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries” promulgated by the Financial Supervisory Commission.

Article 2
This policy shall be adhered to by the board of directors, management, and all staff to ensure the quality of assets and finances, safeguard the security of the institution's assets, and ensure compliance with relevant laws and regulations.

Article 3
This policy categorizes risks into various types, including credit risk, operational risk, market risk, interest rate risk in the banking book, liquidity risk, anti-money laundering and counter-terrorism financing risk, new business initiatives, climate risk, reputation risk, and strategic risk. The Bank shall establish appropriate management measures for each type of risk based on the guidelines provided in Chapter 3 of this policy.

Article 4
In pursuit of growth, the Bank will assume the risks outlined in this policy. The Bank will adopt effective resource allocation and enhance competitiveness as its operational strategy. While maintaining acceptable levels of risk, the Bank will seek to optimize risk and return, achieve operational goals, and ensure adequate capitalization. The Bank shall establish risk appetite statements, both quantitatively and qualitatively, including risk appetite statements (as annex). The Bank, including overseas branches, must comply with the specified risk appetite and statements.

Article 5
The Bank shall effectively manage its capital adequacy ratio in accordance with the regulatory requirements of the competent authority, enhance the efficiency of capital allocation, and maintain it above the relevant minimum ratio. This helps ensure the financial soundness and risk resilience of the Bank.

Article 6
All risks associated with on-balance sheet and off-balance sheet activities undertaken by the company shall be managed. In addition to complying with the relevant regulations set by the competent authority, the Bank must adhere to this policy and other applicable guidelines.

Chapter 2 Risk Management Organizational Structure and Responsibilities

Article 7
Ultimate responsibility for setting the Bank’s risk appetite rests with the board of directors. The Auditing Division, Audit Committee, and Compensation Committee report to the board of directors. Risk Management Committee are under chairman. Assets and Liabilities Committee, and Loan Evaluation Subcommittee, which are under

the president of the Bank, hold Loan Assets Quality Evaluation Meetings for discussing and considering risk management proposals regularly. The Risk Management Division is responsible for establishing a total scheme of risk management and monitoring the execution of such management.

Article 8 The responsibilities and authority allocation of the bank’s risk management are as follows:

1. Board of Directors: The highest decision-making body for risk management in the bank. The Board formulates overall risk management policies and risk appetite based on the overall operational strategy and business environment. The Board continuously oversees the effective functioning of the risk management framework to ensure its appropriateness and to have a comprehensive understanding of the bank's risk profile.
2. Audit Division: Reporting to the Board of Directors, it conducts internal audits to evaluate the effectiveness of the bank's risk management.
3. Audit Committee: The committee is responsible for the adopted or revised internal control system; evaluating the effectiveness of the internal control system; determining or revising procedures for the handling of major financial business actions involving the acquisition or disposal of assets and the trading of derivatives; reviewing matters that involve directors as stakeholders; reviewing major asset and derivative transactions; reviewing issuance or private offerings of equity-type securities; reviewing CPA appointment/discharge or remuneration; reviewing the appointment and discharge of financial and accounting or internal audit managers; reviewing annual and semi-annual financial statements signed or sealed by the chairman, manager and accounting supervisor; and reviewing other major matters stipulated by the Bank or the competent authority.
4. Compensation Committee: Considers individual performance, company business performance, and the rational relationship with future risks to formulate and periodically review the policies, systems, standards, and structures with regard to evaluating the performance of directors and managerial officers and setting their remuneration. Assess the remuneration of directors and managerial officers on a regular basis.
5. Risk Management Committee: The committee is responsible for reviewing the Bank’s risk management policies and regulations, annual risk appetite, quota, and risk management proposals and mechanisms that call for board approval as well as overseeing and reviewing risk management measures concerning credit, market, and operational risk, liquidity, information security, AML, personal information, climate change, and emergencies, thereby bolstering the Bank’s risk management regime and ensuring the effectiveness of its risk management procedures.
6. Asset and Liability Management Committee: Establishes various meetings to comprehensively manage asset and liability management, liquidity risk, interest rate sensitivity, market risk management, capital adequacy management, and review major operational performance of key business projects and formulate business operation strategies and policies.
7. Risk Management Division: Responsible for bank-wide management and supervision of the implementation of risk management decisions and deliverables by relevant units. In case of significant risk incidents that endanger financial or business conditions, appropriate measures shall be taken immediately, and timely reports shall be submitted, including:
   (1) Planning and establishing risk management policies and control mechanisms for credit risk, operational risk, market risk, interest rate risk in the banking book, and liquidity risk, as well as supervising the implementation of compliance by various units.
   (2) Planning and formulating credit policies and credit investigation systems.

(3) Controlling, analyzing, and reporting on the bank's overall risk asset portfolio.
(4) Establishing and maintaining credit risk ratings and scoring models.
(5) Identifying, measuring, monitoring, managing, disclosing, and reporting on credit risk, operational risk, market risk, interest rate risk in the banking book, and liquidity risk throughout the Bank.

8. Corporate Credit Management Department:
   (1) Drafting, revising, and reviewing regulations and contract documents related to corporate banking credit business.
   (2) Handling the operations and control matters related to corporate banking credit review, reevaluation, post-lending management, and loss assessment.
   (3) Managing the identification, measurement, monitoring, management, disclosure, and reporting of credit risks in corporate banking.
   (4) Handling the review of corporate banking credit contracts, collateral evaluation, release of credit limits, and the management of credit debt documents and collateral.

9. Retail Credit Management Department:
   (1) Managing the mechanism, regulations, identification, measurement, monitoring, warning, management, disclosure, and reporting of personal financial risks.
   (2) Handling personal financial credit investigations, reviews, credit inquiries, provision for doubtful accounts, loss assessment, and post-lending management.
   (3) Executing property appraisal for all domestic real estate collateral.

10. Legal & Compliance Division: Responsible for preventing money laundering and countering the financing of terrorism, these duties include planning and formulating policies and procedures related to anti-money laundering and countering the financing of terrorism, risk prevention plans, drafting and revising regulations, and providing in-service training on anti-money laundering and countering the financing of terrorism.

11. Corporate Communications Department: Responsible for managing the bank's brand image, public relations, and media relations it ensures appropriate external communications and monitors/responds to media coverage and public sentiment.

12. Strategic Planning Department:
    Responsible for strategic planning and managing investment projects, these duties include analyzing and implementing the bank's overall operational policies and strategic planning, formulating and planning international affairs development strategies, and managing communication with investment projects.

Article 9:
Risk management is a collective responsibility across the Bank. All units, including head office and business units, should actively promote and implement risk management to ensure effective risk management for the overall business.

Chapter 3 Risk Management Procedures

Article 10: To effectively manage risks, risk management procedures should include at least risk identification, measurement, monitoring, reporting, and response.

Article 11: Risk identification refers to the process of analyzing to identify the types and characteristics of risks associated with each business or product.

Article 12: Risk measurement involves reasonably estimating various potential losses or the characteristics of potential loss-impacts. The methods can be qualitative or quantitative. For quantifiable risk characteristics, appropriate quantitative methods should be used to measure the risk level, while for non-quantifiable risk characteristics, suitable qualitative methods can be used to express the risk level.

Article 13: Risk monitoring means monitoring the actual level of risk based on the risk limits for each business to ensure that risks comply with approved limit regulations.

Article 14: Risk reporting and response refer to the presentation of risk management execution information. The risk management unit shall report risk-related reports and response measures to the Risk Management Committee and the Board of Directors regularly.

Chapter 4 Guidelines for Various Risk Management

Section 1 Credit Risk

Article 15: Credit risk refers to the risk of default losses arising from borrowers, counterparties, or investment entities being unable to fulfill their contractual obligations. The Bank should have an independent credit risk management mechanism and establish systematic methods to assess and monitor various credit risks.

Article 16: The Bank should gradually establish a credit risk management system and related databases, categorizing and preserving historical data, both internal and external, required for measuring credit risk to appropriately assess risk factors.

Article 17: To measure the quality of individual credits and the overall credit portfolio effectively and differentiate various degrees of credit risk exposure, the Bank should establish an internal credit rating system and continuously maintain its effectiveness.

Article 18: The Bank should establish a limit control mechanism to reduce concentration credit risk, which includes credit exposure, transactions, and investments concentrated in a single counterparty, group, specific industry, specific region, etc.

Section 2: Operational Risk

Article 19: Operational risk refers to the risk of losses caused by improper or erroneous internal operations, personnel, or systems, or losses resulting from external events. It includes legal risk but excludes strategic risk and reputational risk.

Article 20: The Bank should establish a sound operational risk management mechanism, foster a bank-wide awareness of operational risk management, and implement operational risk management methodologies and tools to effectively identify, assess, monitor, report, control, and offset operational risks within the Bank, ensuring that operational risk remains within tolerable levels. The Bank should formulate operational risk tolerance within an acceptable level of operational risk and use it as a reference for operational risk assessment and management.

Article 21: To enhance the monitoring and reporting of operational risk management, the Bank should establish regulations for collecting operational risk events, including clear collection thresholds, collection methods, and collection processes. It should also gradually establish an operational risk loss event database to provide functions for information disclosure, data collection, storage, management, and analysis.

Section 3: Market Risk

Article 22: Market risk is the risk of losses arises from trading portfolio due to volatility of market rish factors, such as interest rate, foreign exchange, equity and commodity. The Bank should execute daily valuations of financial instrument held in the trading book to effectively control market risk.

Article 23: The market risk factors (such as interest rates, exchange rates, price changes, etc.) included in the market risk measurement system of the Bank should sufficient to measure all market risks of on- and off-balance sheet trading positions. These factors should be comprehensively considered to establish appropriate risk limits, trading or authorization limits, stop-loss points, etc.

Article 24: The Bank should regularly review and revise risk management limits in response to movements in the economic and financial environment and adjust business strategies to ensure the limits are complied with relevant policies, internal controls, and operational procedures.

Article 25: When engaging in market risk management, the segregation of responsibilities among front, middle, and back offices should be followed to ensure the independence and accountability of market risk management.

Article 26: Business units of the Bank should classify their held positions into "trading book" and "banking book" based on their purposes. For positions included in the "trading book," relevant management rules and implementation details should be established to ensure efficient market risk control mechanisms.

Article 27: The Bank should gradually plan and establish risk quantification models (such as Value at Risk measurement, sensitivity analysis, stress testing, etc.) for measuring market risk in each unit. These models should calculate all of the daily exposed positions in trading book and compare them with approved market risk limits to provide reference for senior management decision-making.

Article 28: To ensure the accuracy and credibility of proprietary valuation models, the Bank should conduct periodic back testing to verify the accuracy of the models.

Section 4: Banking Book Interest Rate Risk

Article 29: Banking Book Interest Rate Risk implies the adverse variation in future cash flows of income and costs or assets and liabilities due to fluctuations in interest rates, leading to reduced earnings or economic value impairment. The Bank should estimate monthly market valuations of financial instrument positions held in the banking book to efficiently control banking book interest rate risk.

Article 30: The Bank should use asset-liability management to plan an optimal asset-liability portfolio, maximizing the utilization of funds. Through interest rate risk management, the Bank should make decisions, promote appropriate business policies, and implement management measures to avoid excessive concentration of interest rate risk.

Article 31: When engaging in banking book interest rate risk management, the segregation of responsibilities among front, middle, and back offices should be followed to ensure the independence and accountability of banking book interest rate risk management.

Article 32: Business units of the Bank should classify their held positions into "trading book" and "banking book" based on their purposes. For positions included in the "banking book," relevant management rules and implementation details should be established to ensure efficient banking book interest rate risk control mechanisms.

Section 5: Liquidity Risk

Article 33: Liquidity risk implies the risk of being unable to fulfill contracts, commitments, customer requests, etc., due to a lack of appropriate funding sources or being forced to sell assets at a low price, resulting in losses. The Bank should formulate liquidity risk management regulations, maintain appropriate liquidity ratios and establish contingency plans based on the nature of its business. It should also diversify and expand funding sources.

Article 34: The Bank should use asset-liability management to plan an optimal asset-liability portfolio, maximizing the utilization of funds. Through liquidity risk management, the Bank should make decisions, promote appropriate business policies, and implement management measures to avoid excessive concentration of funding sources and uses, thereby preventing liquidity problems.

Article 35: When engaging in liquidity risk management, the liquidity management and liquidity risk monitoring units should operate independently of each other to ensure the independence and accountability of liquidity risk management.

Article 36: The Bank's measurement methods for liquidity risk should cover significant factors influencing the bank's liquidity risk to assist in assessing and monitoring liquidity risk under normal and stress situations.

Article 37: The Bank should develop appropriate contingency plans for liquidity crises and continuously monitor the liquidity status in routine operational activities to ensure the continuity of operations.

Section 6: Money Laundering and Terrorism Financing Risk

Article 38: The Bank shall comply with anti-money laundering regulations and take all reasonable measures to gradually establish an internal control operation mechanism to identify, assess, and manage money laundering and terrorism financing risks using information systems effectively, in order to achieve effective prevention. The related operational procedures and regulations shall be separately issued and implemented by the compliance unit.

Section 7: New Business Opening Risk

Article 39: To ensure that all new financial products and businesses (including those of overseas branches) are subjected to rigorous assessment procedures, comply with relevant regulations, and take all reasonable measures to reduce risks, the Head Office should follow the "Procedures for Approval of New Financial Products and Businesses" or "Procedure for Review of New Derivative Financial Products," and overseas branches (such as Hong Kong Branch) should follow the "Procedure for Approval and Risk Assessment of New Financial Products and Businesses of Hong Kong Branch" and submit to the Bank's Risk Management Committee for review.

Section 8: Emerging Risks

Article 40: Emerging risks refer to new types of risks that financial institutions may encounter due to increasingly stringent regulatory mechanisms, rapid technological developments, global environmental changes, and uncertainties in economic and political developments. These risks may differ from past or unexpected risks and may have adverse effects on future business or operations. Emerging risk factors include, but are not limited to, climate risk, infectious diseases, information security, geopolitical risks, and economic bubbles.

Article 41: When formulating business strategy planning, the Bank should consider relevant emerging risks. The responsible units should identify potential emerging risk factors and assess possible impacts or effects to plan for appropriate countermeasures gradually.

Section 9: Reputation Risk

Article 42: The Bank should follow relevant internal and external regulations when disclosing major external information and news to ensure the accuracy and appropriateness of external information disclosure. Additionally, the Bank should establish a management mechanism for external speeches to ensure the appropriateness of the information authorized for release.

Article 43: The Bank should effectively monitor related reputation risks in media and public opinion and respond promptly to significant negative reports. When significant negative reports or discussions jeopardize the Bank's reputation, the Bank should follow the emergency event handling guidelines to clarify or explain externally.

Section 10: Strategic Risk

Article 44: Strategic risk refers to the risk arising from inappropriate strategies or changes in the business environment.

Article 45: The Bank should evaluate risks on a bank-wide and integrated basis to determine the overall bank strategy.

Article 46: When deciding short-term, medium-term, and long-term operating strategies and goals, the Bank should conduct comprehensive assessments and analyses, covering internal environmental analysis of the bank, including operations, cost-effectiveness, and management performance analysis, as well as overall external environmental analysis, including macroeconomic environment and peer performance analysis, and self-comparison with competitors to identify internal strengths and weaknesses, such as SWOT analysis.

Chapter 5: Risk Management Information Disclosure

Article 47: The Bank shall disclose risk management-related information on its official website, financial reports, or annual reports in accordance with the regulations of the competent authority.

Chapter 6: Supplementary Provisions

Article 48: Matters not covered in this policy shall be handled in accordance with relevant laws and regulations.

Article 49: This Policy shall be implemented upon approval by the Board of Directors, and the same shall apply to any amendments.

Appendix: Risk Tolerance Statement

Risk Category
Risk Appetite Statement
1.Credit Risk
To achieve business objectives, appropriate target markets and industries should be chosen, and a thorough understanding and analysis of counterparty risk should be conducted. Maintaining asset quality at the industry average level and effectively controlling concentration risk are essential to maintaining a sound asset portfolio.

2.Operational Risk
In accordance with the principle of prudent management and considering the long-term profitability and acceptable risk management costs, while taking into account reasonable cost-effectiveness considerations, the Bank will continuously strengthen its operational risk management mechanisms and enhance the effectiveness of internal controls through effective policies, procedures, and control measures. This is aimed at reducing financial losses caused by process, personnel, and/or system failures.

3.Market Risk
Clear management measures and risk management indicators are established for trading activities and their risk attributes. Reporting, disposal methods, and decision-making levels for situations of excessive risk, alerts, and breaches should be properly regulated and faithfully implemented. The trading department must strictly adhere to trading principles and exercise prudence in selecting investment targets and conducting operations to keep the market risk exposure within the company's tolerance level.

4.Banking Book Interest Rate Risk
Continuously strengthening the management of BIS/LCR/NSFR ratios in our bank, we aim to improve the efficiency of capital utilization and sustain business growth through adjustments in asset structure allocation. Regarding the bond and debt securities investment portfolio, we closely monitor the maturity profile and credit quality of investment targets, while remaining agile in response to interest rate trends.

5.Liquidity Risk
Continuously strengthening the management of liquidity indicator ratios, controlling the concentration of funds by maturity and sources, establishing control over customer cash flows and asset quality management, to enhance the bank's liquidity management capability and business competitiveness, and to comply with regulatory requirements from supervisory authorities.

6.Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) Risk
Regularly monitor the bank's AML/CFT risk tolerance, and if the remaining risk complies with the risk tolerance, the bank may formulate enhancement plans for areas where the effectiveness of control measures is insufficient. If the remaining risk does not comply with the risk tolerance, the bank should develop improvement plans based on the principles of risk-based approach to mitigate the AML/CFT risk.

7.Climate Risk
The bank is committed to managing current and future physical risks and transition risks, and is a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The bank discloses the four core elements of climate-related financial information, including governance, strategy, risk management, and metrics and targets.

8.Reputation Risk
The bank adheres to relevant internal and external regulations when disclosing significant information and news, ensuring the accuracy and appropriateness of the

bank's external communications. Additionally, the bank continuously monitors reputation risk related to media and public opinion, and promptly responds to and addresses significant negative reports.

9.Strategic Risk

To determine short-term, medium-term, and long-term business strategies and objectives, comprehensive assessments and analyses should be conducted, including internal and external environmental analyses of the bank. This ensures effective avoidance of risks arising from inappropriate strategies or changes in the business operating environment.