

# O-Bank Climate Risk Management Policy

Approved by the 20th meeting of the 8th Board of Directors on Dec 27, 2022

## Article 1 Purpose

According to the "Guidelines for Domestic Banks' Climate Risk Financial Disclosures " issued by the Financial Supervisory Commission, the " Supervisory Policy Manual Unit GS-1 Climate Risk Management" issued by the Hong Kong Monetary Authority (HKMA) ,the "Task Force on Climate-related Financial Disclosures (TCFD)" announced by the International Financial Stability Board (Financial Stability Board; FSB) and other relevant regulations, the Bank has formulated Climate Risk Management Policy to reduce the impact of climate change on the Bank's various businesses and operations, improve information transparency, and achieve the goal of a low-carbon economy.

## Article 2 Scope of application

The scope of application of this policy includes the credit extension and investment positions of the domestic and foreign business units of the bank, as well as the bank's own operating activities. Given that climate risk assessment and analysis methods are still in the development stage, the Bank will gradually introduce and continue to improve climate risk management assessment methods and related promotion projects, taking into account actual business and relevant regulations of the competent authority.

## Article 3 Risk Types of Climate Change

Due to the continuous emission of greenhouse gases from various economic activities, resulting in extreme climate caused by global warming, climate risk (or climate change risk) is formed; according to TCFD's classification of climate risk sources, it can be divided into two categories, namely transition risk and physical risk described as follows:

1. Transition risk: In order to achieve the goal of low-carbon economy, the Bank will face risk factors such as external policies and regulations, technical transition, market preference and reputation.
  - (1) Policies and regulations: Competent authorities formulate policies and regulations to mitigate climate change or promote adaptation to climate change. For example, control greenhouse gas emissions, implement carbon pricing mechanisms, etc.
  - (2) Technical transition: Turning to low-carbon, high-efficiency energy technology improvement or innovation, facing uncertain risks such as increased development expenditure costs and technology development failures.
  - (3) Market preference: a global consensus on energy conservation and carbon reduction has been formed, and the market supply and demand structure has changed. For example, consumers' demand for high-energy-consuming products has declined, and their interest in investing in high-carbon emission industries has declined.
  - (4) Reputation: industry stigma or negative feedback from stakeholders increases.
2. Physical risk: The risk factors of impacts caused by climate change or extreme weather can be divided into immediate and long-term risks according to the time scale of risk events.
  - (1) Imminent risk: The imminent physical risk is mostly a single event. For example, typhoon or rainstorm cause flooding, drought, etc.
  - (2) Long-term risk: refers to long-term changes in climate patterns. For example, global warming causes sea levels to rise.

#### **Article 4 Opportunities created by climate change**

Mitigating and adapting to climate change will create opportunities for banks, for example, through improving resource efficiency, adopting low-carbon energy sources, developing new products and services, entering new markets and adapting to climate change.

#### **Article 5 Climate risk transmission (relevance)**

Climate risk is not a new and independent risk. It is transmitted to various businesses and operating activities undertaken by the bank through the above-mentioned types of climate risk, directly or indirectly exacerbating the traditional risks of the bank, such as credit risk, market risk, operational risk and liquidity risk, etc. When measuring traditional risks, the Bank should consider the correlation with climate risks, such as the impact of carbon taxes or carbon border tariffs on corporate operations, increasing credit risks; government policies and regulations, resulting in increased legal liabilities or compliance costs; The withdrawal of deposits or the use of credit lines due to factors such as climate risk compliance and transformation will affect the liquidity of the Bank.

#### **Article 6 Governance Structure and Three Lines of Defense**

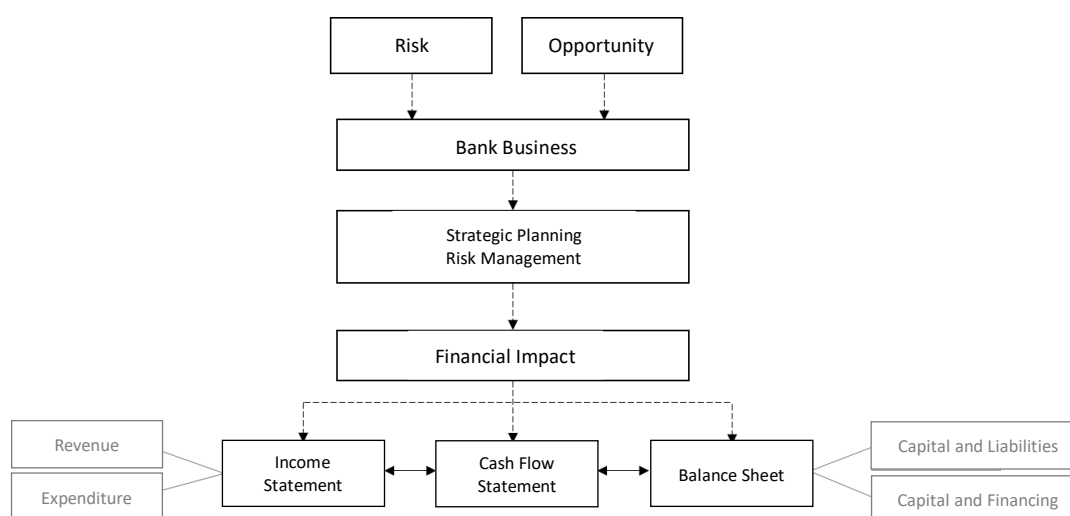
1. According to the Bank's "Risk Management Policy", the Board of Directors is the highest authority for risk management of the Bank, responsible for monitoring the Bank's climate risk exposure and disclosure, and is responsible for ultimate management. The risk management mechanism, risk appetite, strategy, and business plan approved by the board of directors shall take climate risk into consideration, including identifying and evaluating climate-related risks and opportunities, recognizing the possible impact of climate risk on the Bank's finances, and taking relevant international The goals of the agreement and the time frame required by the national policy are taken into consideration.
2. The Corporate Social Responsibility Committee under the Board of Directors is the coordinating and promoting unit of the Bank's climate risk management and assists the Board of Directors in introducing climate risk management.
3. In order to implement climate risk management, the Risk Management Committee is responsible for reviewing climate risk-related issues, supervising and reviewing the climate risk management mechanism, so as to improve the Bank's climate risk management system.
4. The Risk Management Division shall establish a climate risk management system and monitoring indicators to ensure the effectiveness of implementation and the resilience of the bank to face different climate scenarios, and allocate sufficient manpower to effectively implement the management process.
5. According to the three lines of defense structure of the bank's internal control, each should be responsible for climate risk management.
  - (1) The first line of defense is to identify and assess climate risks when handling related businesses, especially customers and asset positions in industries with high climate risks.
  - (2) The risk management unit of the second line of defense should effectively monitor the implementation of climate risk management by the first line of defense; the legal compliance unit should ensure that all units operate in compliance with laws and regulations.
  - (3) The third line of defense should evaluate the effectiveness of climate risk monitoring

conducted by the first and second lines of defense, and provide suggestions for improvement in a timely manner.

6. Risk management units should report climate risk-related information to the board of directors and the risk management committee at least annually, so that the board of directors and senior management can take it into consideration when formulating strategic planning and monitoring business. In the process of monitoring climate risks, if major abnormalities or special circumstances are found, corresponding measures should be taken immediately in accordance with internal regulations and reported to the board of directors.

## Article 7 Strategic Planning

1. The Bank shall identify climate-related risks and opportunities based on short, medium and long-term time intervals, assess the impact on the bank's operations, strategies, products and financial planning, incorporate them into strategic planning, and conduct the impact of climate risks and opportunities on the bank As shown below. The aforementioned short-term refers to the period of business planning outlook (1-3 years), medium-term (3-5 years), and long-term refers to the period when the impact exceeds the current asset portfolio of the bank (5-10 years).



2. Assessing climate risk impacts should state the current status and impact of carbon-related assets. Carbon-related assets include, but are not limited to, high-carbon-emitting industries and industrial risk risks that are vulnerable to climate change.
3. When formulating business, strategy, and financial planning, factors such as the impact and frequency of climate risks should be taken into consideration, and coping strategies and measures should be formulated.
4. Incorporate climate risks and opportunities into strategic planning, assess the financial impact on the bank, and use various climate change scenario tests to understand whether the resilience and adaptability of its own climate risk-related strategies are appropriate, and adjust strategies according to the results of climate change scenario tests.

## Article 8 Risk Identification and Measurement

1. The risk management process begins with the identification of existing and potential risks. When conducting climate risk assessment, relevant laws and regulations (such as the Climate Change Response Act) and internationally recognized standards should be referred to for identification and assessment.
2. The occurrence of climate risk mainly comes from carbon emissions. In order to identify the climate risks faced by the whole bank, the bank should conduct carbon inventory of the bank's own operations, credit and investment positions every year to calculate financial carbon emissions. The scope of the inventory should at least include scope 1 (direct emissions) and scope 2 (indirect emissions). Regarding the method and estimation method of carbon inventory, relevant operating rules should be formulated separately to facilitate compliance.
3. In view of the fact that in the process of low-carbon transformation of economic activities, enterprises will be the first to be impacted by carbon-intensive industries. Facing the transition risks, they should prioritize the establishment of a list of carbon-intensive or energy-intensive industries for monitoring. Identification of carbon-intensive or energy-intensive industries, such as electricity supply industry (excluding green energy), ocean/air transportation industry, smelting and refining of iron and steel industry, cement industry, petrochemical industry, fossil fuel mining industry, and other industries registered in Taiwan "National Greenhouse Gas Registration Platform of the Environmental Protection Agency of the Executive Yuan".
4. When handling credit business, it is necessary to identify whether it is an industry with carbon intensive or energy intensive, and evaluate the transition risks faced by the borrowers; in addition, evaluate the physical risks faced by the borrowers and the collateral collected, including but not limited to, such as rainstorm flooding, slope disaster, drought and water shortage, etc. Due to physical risks, the credit account's operating loss or the loss of collateral value.
5. When handling investment business, an assessment should be made on the investment target, whether the price fluctuation or value loss is caused by transition risks and physical risks.
6. The bank's own operation management should also incorporate climate risk into its management and assess physical risks, such as damage to buildings or interruption of operations due to extreme weather.
7. When identifying and assessing climate risks for individual investment and financing cases, comprehensively assess the level of risk and the order of importance, and conduct differentiated management. For businesses or transactions with high climate risks, relevant information should be retained in the system to facilitate differentiated management and disclosed in relevant risk management reports.
8. For customers and asset positions with high climate risks, evaluation methods, procedures, and management measures should be formulated. Control measures should at least consider the significance of climate risks, the willingness and ability of customers to improve their own climate risks, and alternatives to offset risk practice. For customers who fail to effectively manage their own climate risks, countermeasures may be taken,

such as reflecting additional costs in risk pricing, setting exposure limits for high climate risk loans, and reassessing the relationship with customers. If the bank fails to effectively manage the climate risk asset portfolio, it may take measures such as transferring the climate risk losses the bank has suffered, setting investment limits for high climate risk assets, and controlling the concentration of high climate risk areas or industries.

9. The Bank shall conduct scenario analysis and stress testing on the physical risks and transition risks of climate risks every year to assess the impact of climate risks on its business and finance, and measure the bank's resilience to climate risk under different climate scenarios. The scenarios adopted should include forward-looking information, avoid relying solely on historical data and underestimating potential future risks. Relevant documents should be kept for at least 5 years, including scenario selection, reasonable assumptions, evaluation results, considered actions, and actual countermeasures.

### **Article 9 Indicators and Target Setting**

1. To manage climate risks, the Bank should select representative historical data to qualitatively or quantify transition risks and physical risks, and establish key indicators of climate risks, so as to manage climate risks. The indicators should be set in consideration of the short-term, medium-term, and long-term impacts of climate risks, and the differences in relevant factors such as industry, geographical location, and risk level.
2. The Bank conducts carbon emission calculations for bank operations, credit granting, and investment positions to determine key climate risk indicators. The calculation and disclosure methods should first follow the relevant domestic regulatory requirements, and secondarily adopt international calculation methods.
3. The Bank shall, according to the key climate risk indicators set, respectively set the achievement goals, monitor and disclose the achievement of the goals every year, properly evaluate the implementation progress of each indicator, and provide explanations and improvement measures for lagging projects.

### **Article 10 Risk Monitoring and Reporting**

1. The risk management unit shall monitor the key climate risk indicators and targets set by the Bank, so as to submit reports in a timely manner.
2. The risk management unit shall report to the board of directors and the risk management committee at least annually on the implementation progress of key climate risk indicators and goals, and explain lagging projects and improvement measures.

### **Article 11 Supplementary Provisions**

1. Matters not covered in this policy shall be handled in accordance with the relevant laws and regulations of the competent authority and the Bank's regulations.
2. In order to implement this policy, according to the implementation needs, additional implementation rules or key points may be formulated and authorized to the general manager for approval.
3. This policy will be implemented after being approved by the board of directors, and it will be the same when it is revised.