Shanghai Commercial & Savings Bank

Risk Management Policy

Established by the Risk Management Department
Established 2006.03.11
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Amended 2017.03.25
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Chapter 1 General Provisions

Article 1 The Policy was enacted in accordance with the regulations of the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries. The Policy was formulated to establish a consensus on good risk management practices and promote effective control of risk within all units, thereby promoting the healthy development of the Bank as well as increase value for all shareholders.

Article 2 The Board of Directors is responsible for the approval of overall risk management policies and is ultimately responsible for ensuring the establishment and appropriate maintenance of effective risk control measures; the Risk Management Committee was founded and authorized by the Board of Directors to reinforce the functionality of the board and improve risk management mechanisms; the president is responsible for executing the operational strategies and policies approved by the Board of Directors, establishing appropriate internal control policies and monitoring their effectiveness and appropriateness, building an organizational culture that stresses risk management and makes bank employees aware of inherent risk, and implementing risk management functions in daily operational activities.

The Risk Management Department shall make regular revisions in accordance with the laws and regulations of competent authorities or management requirements and submit them to the president; such policies are reviewed by the Risk Management Committee and approved by the Board of Directors.

Article 3 The Risk Management Department should facilitate the

execution of risk management by establishing and managing risk management mechanisms[1] throughout the Bank; additionally, the department will provide the periodic risk management reports for the president's approval, review by the Risk Management Committee, and filing for reference by the Board of Directors. The units responsible for the Bank's various businesses shall deliberate on the provisions of the Policy to determine whether the rules and regulations are appropriate for each business.

To promote the sound operation of each business unit's risk management, the risk management rules and regulations based on the necessity of risk control shall clearly define risk management:

A. objectives

B. organization and its responsibilities

C. information system and its procedure.

Article 4 Risk management mechanisms must consider overall exposure to risk and asset allocation and control large exposure. In principle, allowance for losses should be reviewed regularly and protection mechanisms must be implemented in data security. The Risk Management Department and all responsible departments shall review and adjust the Bank's risk management policy, risk limits, and risk management regulations as needed depending on the status of operations. A minimum of 1 regular review must be conducted each year.

Chapter 2 Risk Management Organization

Article 5 Risk management is the duty and mission of all employees at the Bank and is not the sole responsibility of the Risk Management Department. All departments shall clearly define their roles and responsibilities and collaborate to fulfill overall risk management at the Bank.

Article 6 The Bank shall hire professionals with expertise in risk management and provide them with the independent authority to

[1] 2021.09.23 Article 38 of the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries.

effectively manage risk. Individuals and units responsible for risk management shall maintain independence to ensure that the risk management mechanisms are effectively implemented.

Article 7 Risk Management Units and Responsibilities

1. Board of Directors: The highest supervisory unit with ultimate responsibility for risk management in the Bank. The board ensures the appropriateness and effectiveness of risk management in the Bank by approving policies, organizations, systems, procedures, and information systems.

2. Risk Management Committee: The committee is established and authorized by the Board of Directors to reinforce the functionality of the board and improve risk management mechanisms. The committee reviews various risk management recommendations and reports to the Board of Directors with the care of a good administrator.

3. President: The president supervises and executes the risk management policies approved by the Board of Directors, such as clear designation and allocation of necessary departments, professional staff, and resources for the implementation of risk management.

4. Risk Management Department: An independent unit responsible for the control of risk through exercise of the following duties and responsibilities:

   (1) Plan and formulate bank-wide risk management policies, organizations, systems, procedures, and information systems.

   (2) Establish bank-wide risk limits.

   (3) Assess and monitor the Bank's risk tolerance, the current risk exposure, organize risk strategies, and risk compliance.

   (4) Provide risk management reports according to risk management rules and regulations and for the filing and review of relevant units.

   (5) Other risk management related tasks assigned by the Board of Directors or senior level management.

   (6) Upon the discovery of major risk exposure that may

endanger the Bank's financial health and businesses or violate compliance, appropriate response measures should be undertaken immediately. Additionally, if the situation arises, appropriate measures should be taken immediately and the matter must be reported to the president, Risk Management Committee, and Board of Directors.

5. Compliance Department: Responsible for the planning, management, and execution of legal compliance measures; support and assist with compliance risks in all levels of management, including risks such as money laundering and financing of terrorism.

6. Information Technology General Department: Responsible for establishing bank-wide information systems based on the risk management requirements proposed by business units, building appropriate information technology infrastructure, and ensuring system stability and network security; the department of the Bank that handles information technology risk.

7. Information Security Department: Responsible for the planning and monitoring of information security as well as performing maintenance to establish bank-wide information security mechanisms for the purpose of risk management. Administer bank-wide risk identification,

   assessment, and management; provide information technology risk management reports and recommendations; responsible for the management of the Bank's risks related to information technology along with the Information Technology General Department.

8. Auditing Department: On occasion, conduct risk-oriented audits and evaluations to determine whether internal control measures are appropriate and operating effectively in businesses or relevant departments; provide timely recommendations for improvement.

9. All Responsible Units: In principle, business units and the president designate risk management staff based on the scale, importance, and complexity of operations for the execution of internal risk management procedures within units so that communication and execution of tasks can be facilitated between such staff and the Risk Management

Department. Managers of each unit shall supervise and manage risk within their respective units.

Chapter 3 Risk Management Procedures

Article 8 Risk management policies must be properly implemented through risk management procedures, adjusted according to operational environments, and written into rules and regulations and guidelines. Risk management procedures include identification, assessment, monitoring, reporting, and response measures; an information system must be established to facilitate the execution of risk management.

Article 9 Risk Identification

The Bank shall identify and catalog the source of risk factors as stemming from operational activities or financial products such as market risks, credit risks, operational risks, liquidity risks, country risks, legal compliance risks, information technology risks, climate risks, and other sustainability-related risks.

As the financial operating environment becomes increasingly complex, the types and methods of risk occurrence may be unpredictable. In order to reduce the impact of operations, it is advisable to maintain flexibility to respond to emerging risks.

Article 10 Risk Assessment

1. The Bank shall establish a suitable quantitative risk management system based on actual conditions and requirements.
2. In the event that quantitative risk management is not cost-effective, qualitative analysis (such as text descriptions) can be used to assess the probability of risk and degree of impact.

Article 11 Risk Monitoring

The Risk Management Department shall comply with the risk management organization and systems by formulating appropriate risk monitoring frequency and reporting mechanisms.

Article 12 Risk Reporting and Response Measures

The Risk Management Department obtains credible data provided by responsible units, or gathers such information on its own initiative, for producing independent and effective risk assessment models for assessment and production of risk reports and response measure systems. The department establishes internal and external formats, frequencies, and response measures for risk reports based on the nature of business and characteristics of products, the contents of which must be regularly reviewed and updated.

Chapter 4 Risk Management Mechanisms

Article 13 The guidelines held by the Bank's businesses relating to market risks, credit risks, operational risks, liquidity risks, country risks, legal compliance risks, information technology risks, climate risks, or emerging risks shall be established in the appropriate risk management regulations and implemented by their respective units.

Article 14 Market Risk

1. Market risk management measures should include

   (1) The organization structure, operations, reported content, and procedures of risk management.

   (2) Permitted scope of transaction.

   (3) Market risk assessment and monitoring methods.

   (4) Methods for handling market risk limits, authorized approval levels, and exceeding limits.

   (5) Measures against special and problematic transactions.

   (6) Regularly review and revise risk management limits according to adjustments in operating strategy as well as changes in economic and financial conditions to conform with relevant policies, internal controls, and operating procedures.

2. The frequency of market risk assessments for each

business unit should be based on its risk nature and necessity.

Article 15 Credit Risk

1. Credit risk management systems should include

   (1) The organization structure, operation manual, and reporting protocols of risk management.

   (2) Prior credit assessment and subsequent credit monitoring.

   (3) The establishment and revision of credit policy that encompasses methods for handling credit grading systems, authorized approval levels, and exceeding limits as well as for managing exceptions.

   (4) Conduct appropriate supervision and controls with consideration to the impact of general economic conditions on credit risk. Establish limit control mechanisms and management principles for the counterparty industries and concentrated risk limits of transaction targets as well as the content and quality of credit portfolios; implement appropriate adjustments to operating strategy based on changes in economic and financial conditions.

2. The frequency of credit risk assessments for each business unit should be based on the nature of financial products and requirements of business.

Article 16 Operational Risk

1. Each responsible unit shall establish comprehensive control structures based on the nature of their respective business and set internal control protocols at all levels; appropriate staff shall be delegated to avoid roles with conflicting duties and prevent operational risks that may result in direct or indirect losses due to improper or erroneous internal control procedures.

2. The Bank shall establish mechanisms for the management of information security to ensure the safety of all business and client data.

3. The Bank shall establish an emergency response plan to ensure that all businesses may continue to function during

extraordinary circumstances and prevent major losses to the Bank.

4. The Bank shall implement Risk Control Self-Assessment (RCSA) as the primary tool to manage the identification and assessment of risk; a bank-wide risk profile of all operations shall be defined through procedure analysis, risk identification, risk assessment, and plotting of risk maps.

5. The Bank shall implement a database to record losses due to operational risk and establish reporting protocols and mechanisms to manage internal operational risks. Factors of potential financial losses must be understood and the potential amounts of loss must be analyzed using internal loss data collection and record keeping, which will be used as reference for improving internal control protocols. The Board of Directors and managerial staff of all levels must be made aware of the overview of bank-wide risk to better manage, reduce, or transfer operational risks.

Article 17 Liquidity Risk

1. Liquidity risk management systems should include

   (1) The organization structure, operations, reported content, and procedures of risk management.

   (2) Liquidity risk assessment and monitoring methods.

2. Units managing liquidity risk shall formulate response plans for fund movement in the event of irregular or emergency circumstances.

Article 18 Country Risk

Country risk management systems should include

1. The organization structure, operations, reported content, and procedures of risk management.

2. Country risk assessment and monitoring methods.

3. Handling methods for exceeding country risk.

Article 19 Compliance Risk

1. Compliance supervisors of all units shall adhere to the

Bank's legal compliance policies and systems; compliance risk must be evaluated and managed based on the laws and regulations governing the Bank's compliance and operational activities.

2. Compliance supervisors in all units of the Bank shall monitor contractual documents and operational regulations to ensure the legality of transactions.

3. The Bank shall provide a communication channel for consultation whereby compliance guidelines can be conveyed and employees may receive quick clarification for questions regarding compliance, so that legal compliance may be implemented.

Article 20 Information Technology Risk

1. The Bank shall implement an information infrastructure suitable to the scale of businesses and risk conditions; all system risks must be continually assessed and monitored to ensure the system's availability, stability, and security.

2. The Bank shall implement mechanisms to report and manage risks in areas such as personal data security, network security control, and disaster response.

3. The Bank shall evaluate the risks of applying emerging technologies.

Article 21 Climate risk

Climate risk management aspects should include:

1. The organizational structure, operations and reporting contents and processes of risk management.

2. Climate risk assessment and monitoring methods.

3. Management measures for high climate risk customers and assets.

4. Handling of major anomalies or special circumstances of climate risks.

Article 22 Emerging risks

Emerging risk identification process:

1. The Risk Management Department refers to research reports released by external organizations and corporate sustainability reports of industry benchmark companies every year, and provides a list of risk factors and a new risk assessment form to all relevant authorities.

2. Each business management unit refers to the list of risk factors, conducts assessments through qualitative or quantitative methods based on their likelihood of occurrence and degree of impact, identifies emerging risks that should be paid attention to in operations and business, and develops the risk factors.

   After waiting for responses, mitigation measures or monitoring mechanisms for emerging risks, submit the emerging risk assessment form to the Risk Management Department.

3. The Risk Management Department compiles the emerging risks of each business management unit, submits them to the Sustainability Development Committee and the Risk Management Committee for review, and reports to the Board of Directors for approval, based on which the Bank's emerging risks are established.

4. Continuously observe the impact of the identified risks and the operation of mitigation measures, and disclose them to the public with the annual corporate sustainability report.

Article 23 Monitoring and Reporting of Risk Management

The Risk Management Department shall monitor and report the Bank's market risk, interest risk, credit risk, operational risk, liquidity risk, country risk, compliance risk, information technology risk, climate risk, emerging risk and regulations within the Basel accords concerning the capital adequacy ratio of the Bank.

Chapter 5 Stress Test

Article 24 Stress tests must be conducted according to regulations of

competent authorities and the instruction of senior managerial staff; tests must evaluate the impact to the capital adequacy ratio and liquidity in stress scenarios where the Bank loses risk tolerance. The results of stress tests may be used as key references for establishing risk limits at the Bank.

Chapter 6 Risk Assessment for New Businesses or Material Investments

Article 25 Prior to expansion into new businesses or material investments, the responsible departments must evaluate risks and profits for internal review and approval for the purpose of ensuring the risk management and internal controls of new businesses or products. In the event where regulations have been set forth by a competent authority with regard to the opening of new types of business or material investments, the Bank shall comply with the relevant regulations.

Chapter 7 Sustainable financial development

Article 26 The Bank shall be committed to sustainable risk management, fulfilling corporate social responsibility, valuing the rights and interests of stakeholders, and conducting sustainability materiality assessments. The Bank integrates environmental, social, and corporate governance (ESG) factors, along with materiality assessment results, into all measurement indicators and related processes for risk management to improve asset quality, improve business development, and achieve the win-win goals of profitable growth and sustainable operations.

Chapter 8 Concurrently engaged in bond, beneficiary securities, asset-based securities underwriting and self-trading business[2]

Article 27 The bank's concurrent underwriting and self-trading business of bonds, beneficiary securities, asset-based securities and self-trading businesses shall comply with:

1. Establish relevant regulations regarding the scope of transactions, overall and individual position risk limits, exposure limits for the same group, approval levels, etc. The risk management unit should regularly review the exposure situation and report to the board of directors.

[2] 2023.07.31 Article 9 of the Financial Supervisory Commission's Bank Foreign Affairs Order No. 11202181261

2. The Bank should formulate a product suitability policy, which should at least include understanding customers, customer classification, product review and classification, product suitability, marketing process control, and risk notification (if the Off-Shore Banking Unit does not apply to the Financial Consumer Protection Act, Maximum possible losses, etc.), bank risk control, internal control and internal audit systems and other regulations.

Chapter 9 Supplementary Provisions

Article 28 The Risk Management Department shall support all responsible units with the disclosure of risk information in annual reports, the Bank's website, and other required areas as stipulated by competent authorities.

Article 29 Risk management staff shall improve the effectiveness of risk management by observing developments in international and domestic systems, which may be used as bases for enhancing the effective implementation of risk management systems.

Article 30 All units shall coordinate with the Human Resources Department for the effective execution of risk management systems; comprehensive staff training measures shall be designed with respect to individual circumstances to achieve the various goals set forth by risk management policies.

Article 31 Any matters not covered herein shall comply with the relevant guidelines set forth by the Bank and competent authorities.

Article 32 This policy will be implemented after being submitted to the Board of Directors for approval. The same procedures shall apply to future amendments.