Shin Kong Financial Holding Co., Ltd.
Risk Management Measures

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Chapter 1. General Provisions

Article 1 Sources of Law

This Risk Management Measures of Shin Kong Financial Holding Co., Ltd. (hereinafter referred to as the Measures) is formulated according to the Risk Management Policy of Shin Kong Financial Holding Co., Ltd. (hereinafter referred to as the Policy) to identify, measure, supervise and control all risk management matters of the Company and its subsidiaries.

Article 2 Risk Management System

Responsibilities of the Company's Risk Management Department are as follows:

I. Formulate a comprehensive risk management policy and related risk management measures in accordance with relevant laws，regulations, and the Company's overall business strategy.

II. Control and supervise credit extension, investment, derivative financial products, foreign exchange transactions, and other major risk matters of the Company and its subsidiaries; aggregate risk control reports, risk assessment reports, etcetera, from all relevant units; and regularly prepare and submit a comprehensive risk management report.

III. Control the use of risk limits of the Company, and manage any transactions without approval, authorization, or exceeding limits, and transactions with any potential abnormal loss of risk positions on a case by case basis.

IV. Control the Company's and supervise its subsidiaries' credit extension, endorsement, or other transactions to the same person, the same concerned person, or the same concerned enterprise, and aggregate, disclose and report the result to competent authorities accordingly.

V. Control the data content, market price & index data, model & evaluation method, parameter setting, and system flow & operation processing procedures of the Company's risk quantification system.

VI. Aggregate the capital adequacy statement of each subsidiary, prepare an analysis of changes in the capital adequacy of Financial Holding Group, and report to the competent supervisor.

VII. Other Tasks Assigned

When relevant regulations of a competent authority or the management mode of Financial Holding Group to its subsidiaries changes, the Risk Management Department shall manage the risk-related business of subsidiaries in accordance with the updated standards.

Chapter 2. Credit Risk Management

Article 3 Definition of Credit Risk

Credit risk refers to the risk that a counterparty cannot or refuses to perform its obligations, or its debtor's credit is degraded, or it is unable to pay off.

Article 4 Competent Unit for Credit Risk

The competent unit for credit risk management is the Risk Management Department in the Company, or the unit or personnel responsible for risk management in each subsidiary.

Article 5 Identification of Credit Risk

The Company and its subsidiaries shall identify business-related credit risks according to the principle of prudence and conservatism; the credit risks considered include (but are not limited to) the following risk factors:

I. Issuer Risk:

Issuer risk refers to the default loss caused by the bond issuer to repay its debt or the impairment of bond value due to the deterioration of a bond issuer's credit.

II. Debt Risk:

Debt risk refers to risks arising from the influence of the debt's characteristics and terms, such as collateral, mortgage, or affiliation, on the guarantee provided by the debt and the order of creditors' claims.

III. Counterparty Risk:

Counterparty risk refers to the loss` caused by a counterparty's failure to comply with the conditions and obligations agreed in the contract.

IV. Target Asset Risk:

Target asset risk refers to the risk of loss due to deterioration of the credit status of the target asset linked to a financial product or the occurrence of a pre-agreed default event.

Article 6 Measurement of Credit Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools to measure credit risk based on the nature of individual business while considering risk tolerance, cost-effectiveness, etcetera, and following relevant laws and regulations on credit risk management.

Article 7 Supervision and Control of Credit Risk

The principles for supervision and control of credit risk by the Company and its subsidiaries are as follows:

I. The Company and its subsidiaries shall, as necessary, formulate various management measures or regulations on credit risk.

II. The Company and its subsidiaries shall establish a specific hierarchical authorization system to investigate the credit profile, financial situation, technical capability, and industrial prospects of the transaction party according to relevant internal regulations, prepare relevant evaluation reports accordingly, and submit to the appropriate authorization level for approval.

III. When the amount of each business activity undertaken exceeds a certain amount or the Company's net worth ratio, the Company and its subsidiaries shall issue a risk assessment opinion by the risk management unit based on the needs of their business nature.

IV. The Company and its subsidiaries shall appoint the Committees as the highest review body for all businesses to conduct reviews on credit extension, investment, underwriting, etcetera.

V. The Company and its subsidiaries shall set risk limits and relevant control standards for each business activity or transaction party based on the needs of their business nature, and adjust based on factors such as economic boom cycle, industrial boom cycle, and changes in each individual customer's credit.

VI. During the period of credit extension, investment, and underwriting, the relevant management units of the Company and its subsidiaries shall regularly conduct credit reviews, interviews, or on-site inspections based on the importance (total transaction amount) and risk level (credit rating) of the transaction party, and prepare reports to the management as decision-making reference.

VII. When reviewing business such as credit extension, investment, or underwriting, the Company and its subsidiaries shall consider risk concentration and follow relevant regulations on concentration risk to spread credit risk and balance credit extension or investment portfolio.

Chapter 3. Market Risk Management

Article 8 Definition of Market Risk

Market risk refers to the potential loss of assets or portfolios due to fluctuation of commodity prices on the market or changes in other economic factors.

Article 9 Competent Unit for Market Risk

The competent unit for market risk management is the Risk Management Department in the Company, or the unit or personnel responsible for risk management in each subsidiary.

Article 10 Identification of Market Risk

The Company and its subsidiaries shall consider market risk factors including (but not limited to): interest rate risk, exchange rate risk, equity risk, commodity risk, and volatility risk.

I. Interest Rate Risk: Interest rate risk refers to the adverse impact on results of holding position in a financial product marked to market (MTM; Mark To Market) due to changes in market interest rates.

II. Exchange Rate Risk: Exchange rate risk refers to the adverse impact on holding foreign currency or holding position in foreign currency-related investments due to changes in exchange rates on the foreign exchange market.

III. Equity risk: Equity risk refers to the adverse impact on results of holding position in equity securities marked to market due to changes in market prices. To measure the risk of equity securities investment due to price changes, it is necessary to include the whole market, each specific category of stocks, and each individual stock.

Commodity Risk: Commodity risk refers to the loss of market value due to changes in the prices of cash commodities and their derivative financial products.

IV. Volatility Risk: Volatility refers to the result that a holding position in financial products may have adverse effects due to fluctuation of investment objectives.

Article 11 Measurement of Market Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools to measure market risks based on the nature of individual business while considering risk tolerance, cost-effectiveness, etcetera, and following relevant laws and regulations on market risk management.

To assess the market risk profile of the Group, the Company shall designate unified market risk quantitative indicators and model parameters to manage the consistency and aggregation of risk disclosure.

Article 12 Supervision and Control of Market Risk

The principles for supervision and control of market risk by the Company and its subsidiaries are as follows:

I. The company and its subsidiaries shall, as necessary, formulate various management measures or regulations on market risks.

II. When each subsidiary engages in various business activities, such as credit extension, investment, or underwriting, it shall, as necessary, set a risk limit for its holding position in financial products, the limit of which includes the cap of actual holding amount and maximum loss range, and establish relevant control procedures.

III. Investment units such as the finance, investment, or underwriting departments of each subsidiary shall submit their holding positions and profit and loss assessment statements to its supervisor every day and submit them to the management of each corresponding subsidiary and the Risk Management Department of the Company on time according to relevant provisions.

IV. Each subsidiary shall, as necessary, evaluate the market price of its holding positions.

The Company and its subsidiaries shall comply with the following requirements when adopting a value-at-risk (VaR) model as the standard for market risk measurement:

I. The calculation standard of value at risk (VaR) shall follow the calculation method recently published by Bank for International Settlements (BIS) or suggested by competent authorities.

II. Rules related to Stress Testing and Back Testing of VaR model should be established.

(I) Stress Testing:

The risk management quantification system should evaluate the impact of various major events on financial commodity positions regularly or irregularly, measure the possible losses caused by major events, and evaluate the Company's affordability.

(II) Back Testing:

Compare the risk value generated by a model over time with the profit and loss of a holding position to check the validity of the model.

Chapter 4. Operational Risk Management

Article 13 Definition of Operational Risk Management

Operational risk refers to the risk of losses caused by inadequate or failed internal operations, personnel, and systems, or by external events.

The definition in the preceding paragraph includes legal risk but excludes strategic risk and reputational risk.

Legal risk includes (but is not limited to) fines, penalties or punitive damages, and private settlements caused by supervisory measures.

Article 14 Competent Unit for Operational Risk

The competent unit for risk management is each department or unit in the Company (hereinafter collectively referred to as each operation unit), and the Risk Management Department assists in the aggregation of risk information, while each subsidiary formulates relevant specifications on its own based on its situation.

Article 15 Identification of Operational Risk

The Company and its subsidiaries shall refer to Basel to identify risk categories based on business nature, such as:

I. Internal Fraud
II. External Fraud
III. Employment Practices and Workplace Safety
IV. Clients, Products, and Business Practices
V. Damage to Physical Assets
VI. Business Disruption and System Failures
VII. Execution, Delivery, and Process Management

Article 16 Measurement of Operational Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools following relevant laws and regulations or based on the Company's business scale and actual needs (if applicable regulations are not available) to measure operational risks.

Article 17 Supervision and Control of Operation Risk

The principles for supervision and control of operational risks by the Company and its subsidiaries are as follows:

I. The board of directors shall attach great importance to operational risk and take it as one of the main risks, approve or authorize the management to approve each operating unit's Operational Risk Management System, and review regularly.

II. The board of directors shall ensure that the Company's operational risk management framework is supervised by qualified auditors to establish an efficient and comprehensive internal control system.

III. The competent unit for operational risk management shall establish relevant management procedures to identify and measure the operational risks of commodities, businesses, processes, information, etcetera.

IV. The management of each operation unit shall keep the operational risk management system running continuously within the unit so that employees can understand the relevant responsibilities regarding operational risks.

V. Depending on operation scale and actual needs, each subsidiary shall establish qualitative and quantitative measurement tools for operational risks and incorporate them into general operational risk management procedures, record actual losses, and evaluate current risk exposure.

VI. The operational risks of each subsidiary shall be included in the comprehensive risk assessment report and submitted to the competent supervisor.

VII. The Company and its subsidiaries shall set up emergency response mechanisms in accordance with relevant regulations to ensure their ability to continue operations is maintained in the event of major losses or disasters.

Chapter 5. Liquidity Risk Management

Article 18 Definition of Liquidity Risk Management

Liquidity risk is divided into:

I. Funding Liquidity Risk: The Company cannot obtain sufficient funds to fulfill its responsibilities.

II. Market Liquidity Risk: Due to insufficient market depth or out-of-order market, the Company cannot easily liquidate a position or reverse set-off a holding position unless the buying price is greatly increased or the selling price is lowered.

Article 19 Competent Unit for Liquidity Risk

In the Company, the competent unit for managing funding liquidity risk is the Finance and Investor Relations Department; the competent unit for managing market liquidity risk is the Risk Management Department. In the subsidiaries, a management unit or management personnel is appointed based on each organization's situation.

Article 20 Identification of Liquidity Risk

The liquidity risk management factors regulated by the Company include:

I. Funding Liquidity Risk:

Funding liquidity risk refers to the risk of failing to fulfill a contract or commitment or to satisfy a customers' claim due to lacking proper funding sources.

II. Market Liquidity Risk:

Market liquidity risk refers to the risk that the Company or its subsidiaries cannot negotiate a transaction with any transaction party on the market to liquidate a position or offset a holding position at a reasonable price.

Article 21 Measurement of Market Liquidity Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools following the regulations of competent authorities or based on the Company's business scale and actual needs (if applicable regulations are not available) to measure liquidity risks.

Article 22 Supervision and Control of Liquidity Risk

The fund dispatching departments of the Company and its subsidiaries shall compile a market assessment report based on the business scale and actual needs to assess possible maximum cash outflow and inflow and manage the fundraising plan.

The market liquidity management units of the Company and its subsidiaries shall establish a control mechanism for market liquidity risk based on the business scale and actual needs, as follows:

I. Take market trading volume into consideration to select investment targets or set investment limits.

II. Based on the different characteristics of various types of assets, the control methods for their liquidity risks shall be specified in their respective control measures for asset risk.

Chapter 6. Management of Concentration Risk (High-Value Risk Exposure)

Article 23 Definition of Concentration Risk

Concentration risk refers to the situation in which the Company or its subsidiaries concentrate risks on a single natural person, a single legal person, a single related enterprise, a single country, a single region, or a single industry.

Article 24 Competent Unit for Concentration Risk

The competent unit for concentration risk management is the Risk Management Department in the Company, or the unit or personnel responsible for risk management in each subsidiary.

Article 25 Identification of Concentration Risk

The Company shall define "the same person," "the same concerned party," and "the same concerned enterprise" (hereinafter collectively referred to as the same transaction party) to serve as a basis for each subsidiary to summarize the credit extension and non-credit extension transactions with the same transaction party.

The definition of credit extension and non-credit extension transactions shall comply with relevant regulations of competent authorities.

Article 26 Measurement of Concentration Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools to measure market risks based on the nature of individual business while considering risk tolerance, cost-effectiveness, etcetera, and following relevant laws and regulations on market risk management.

Article 27 Supervision and Control of Concentration Risk

This Company shall formulate relevant operating standards in accordance with the applicable laws and regulations on high-value risk exposure and relevant provisions of the Measures to supervise and control concentration risks.

The operating standards referred to in the preceding paragraph shall at least regulate the management of the following matters, as well as the relevant reporting operations to competent authorities:

I. Within one month after each quarter, the Company and its subsidiaries' credit extension, endorsement, or other transactions to the same transaction party, where the total transaction amount reaches a certain amount or a certain percentage of the Company's net worth or more.

II. The management and disclosure of the total amount of transactions (including credit, investment, and other transactions, etc.) with the same transaction party by the Company and its subsidiaries.

The Company shall take the following measures when it finds that the total amount of transactions with the same transaction party exceeds the warning standard:

I. Suspend new credit extension, investment, underwriting, and other business activities to the transaction party.

II. Require its subsidiaries to reduce their risk exposure to the transaction party.

III. The newly added credit extension, investment, underwriting, and other business activities with the transaction party shall be jointly decided by the highest review body and the Risk Management Department of the Company.

Chapter 7. Climate-related Risk Management

Article 28 Definition of Climate-related Risk

Climate-related risk is mainly divided into "transition risk" and "physical risk".

I. "Transition risk" originates from the process of social transition to a low-carbon economy under the influence of policies and regulations, low-carbon emission technology, and social preference.

II. "Physical risk" originates from direct or indirect loss arising from specific natural disasters caused by climate change or long-term changes in climate patterns.

Article 29 Competent Unit for Climate-related Risk

The competent unit for climate-related risk management is the Risk Management Department and Sustainable Development Department in the Company. Subsidiaries may designate management units or personnel depending on the subsidiary's business size and actual needs.

Article 30 Identification of Climate-related Risk

The Company and its subsidiaries shall consider climate-related risk factors including but not limited to: transition risks related to a low-carbon economy and physical risks related to climate change.

Article 31 Measurement of Climate-related Risk

The Company and its subsidiaries shall establish qualitative and quantitative evaluation tools following relevant laws and regulations or based on the Company's business scale and actual needs (if applicable regulations are not available) to measure climate-related risk.

Article 32 Supervision and Control of Climate-related Risk

The principles for supervision and control of climate-related risks by the Company and its subsidiaries are as follows:

I. The Company and its subsidiaries shall, as necessary, formulate various management measures or regulations on climate-related risks.

II. The Company and its subsidiaries shall establish appropriate climate-related risk management mechanisms based on their scale and business nature, and regularly review their climate-related financial disclosures.

Chapter 8. Other Matters

Article 33 Financial Derivatives

The Company's trading and subsequent management of financial derivative products shall be handled in accordance with relevant provisions of "Regulations Governing Acquisition or Disposal of Assets by Public Companies" by competent authorities and "Procedures for Acquisition or Disposal of Assets" of the Company.

The Company's subsidiaries are engaged in financial derivatives trading. Accordingly, they shall follow regulations of competent authorities and conduct relevant management and reporting operations; The risk management unit shall prepare an evaluation report at least once every quarter to disclose the holding purpose, holding balance, and related risk factor evaluation based on the category of the financial derivatives, and submit to the competent supervisor for sign-off.

Article 34 Asset Quality

The Company is engaged in non-credit transactions. Accordingly, for non-credit assets on and off the balance sheet, it shall conduct regular asset quality assessments according to the characteristics of the assets, laws and regulations, generally accepted accounting principles, and other relevant regulations.

The Company's subsidiaries engaged in credit transactions shall formulate handling procedures or operating guidelines for risk limits, early warning mechanisms, asset appraisal methods, provision for loss allowance or preparations, etcetera, following relevant laws and regulations, or based on actual needs. Such handling procedures or operating guidelines should be sent to the competent supervisor for approval and then submitted to the Company for future reference.

The Company's subsidiaries engaged in non-credit transaction actions shall formulate handling procedures or operating guidelines for risk limits, early warning mechanisms, asset appraisal methods, etcetera, following relevant laws and regulations, or based on actual needs. Such handling procedures or operating guidelines should be sent to the competent supervisor for approval and then submitted to the Company for future reference.

Article 35 Overall Risk Assessment Report

The Company shall prepare a comprehensive risk assessment report at least quarterly to reveal the overall risk exposure and its specific opinions and report to the board of directors so that it understands the overall risk profile regularly.

Each subsidiary shall prepare a comprehensive risk assessment report of itself at least quarterly to reveal the overall risk exposure, relevant risk limits, self-assessment opinions, etcetera, based on the subsidiary's main risk categories or business categories. Each subsidiary shall submit such report to the competent supervisor for sign-off, then send it to the Company for future reference, and report it to the Company's Risk Management Committee.

The Company shall, depending on actual needs, delegate the Risk Management Department to prepare a unified format, guidelines, and internal model approach for the comprehensive risk assessment report of the subsidiaries, to establish consistency and comparability of the reports among the subsidiaries.

Article 36 Emergency Notification for Major Event

To reduce the influence of major external events on the Company as a whole, the Company shall establish an emergency notification mechanism for major events to serve as the information exchange platform between the Company and its subsidiaries. Such emergency notification mechanism is expected to play an early warning role for the Company to discover potential risk events as early as possible and grasp the current asset quality situation to enhance overall resilience.

Chapter 9. Supplementary Provisions

Article 37 Matters not covered in these Measures shall be handled in accordance with this policy or relevant laws and regulations.

Article 38

The Measures shall be implemented after submitted to and approved by the board of directors. The same applies to amendments.