






5.3 Risk Management

Risk Management Approach

 Management Policies and Commitments	<p>"Cathay United Bank Risk Management Policy" is established in accordance with the Enterprise Risk Management (ERM) framework. Through the integration of the frontline, middle, and rear of defense, business units, risk management units, and audit units collaborate jointly, each fulfilling its respective responsibilities to monitor risks.</p>
 Corresponding to SDGs	 
 Specific Performance	<ul style="list-style-type: none"> The operational status meets the capital adequacy ratio target for D-SIBs. The Risk Management Unit regularly prepares risk management reports and presents them to senior management and the Board of Directors according to internal processes.
 Management Assessment Mechanisms	<ul style="list-style-type: none"> Formulation of Business Continuity Management (BCM) Guidelines and establishment of the Business Continuity Management Committee, convening regular meetings to review the implementation status of the BCM system. Conducting regular self-assessment and self-inspection of legal compliance and internal control by each unit. "Effectiveness of internal control execution" and "Effectiveness of legal compliance" are included as performance evaluation items for managers and all staff members. Regularly conduct bank-wide stress tests and take necessary responsive measures based on the results.
 Optimization Measures	<ul style="list-style-type: none"> Continuously enhancing the resilience verification mechanism for climate/natural issues (e.g., climate- and nature-related scenario analysis) to strengthen the Bank's operational resilience. Implement scenario-based exercises to ensure the accuracy and completeness of the Business Continuity Plan (BCP) implementation.

5.3.1 Risk Management Policy

As the business environment becomes increasingly complex, the types of risks and their impact have also become more diversified. In accordance with ERM, we have formulated the "Cathay United Bank Risk Management Policy" to establish a comprehensive climate risk management framework. Through steps such as identification, assessment, response, and monitoring, we continuously improve and implement risk management in our operational activities, reducing potential risks, and striving for sustainable business operations.

The scope of risk management in the Bank includes market risk, credit risk, operational risk, liquidity risk, reputation risk, ESG, and climate risk. We carefully assess the relationships and interactions among various risks and actively monitor global trends and industry changes to establish relevant risk management regulations. In order to strengthen ESG and climate-related risk management mechanisms, we have included ESG risk in our risk management scope since 2018. In 2021, we further expanded our risk management scope by formulating the "ESG and Climate Risk Management Guidelines" as a core framework for establishing or implementing ESG and climate risk management mechanisms throughout the Bank. Following these guidelines, we have developed various management regulations related to ESG risk and climate risk, including the addition of climate risk appetite statements and limits management, to enhance our efforts in managing ESG and climate-related risks.

To effectively manage the Bank's capital, ensure a sound capital structure, and promote prudent business growth, we have established corresponding management strategies and processes for various risks. We have formulated regulations such as the "Capital Management Policy," "Capital Adequacy Management Guidelines," and "Stress Testing Management Guidelines." These guidelines take into account factors such as market interest rate risk, fluctuations in property prices, changes in borrower credit ratings, industry changes, and concentration risks. Different stress scenarios are identified based on these factors, and stress tests are conducted accordingly. The results are reported to the Risk Management Committee and the Board of Directors. In accordance with regulatory requirements of financial regulators, relevant information is regularly disclosed on the Traditional Chinese Edition CUB website in the Risk Disclosure section.

CUB establishes a robust and comprehensive risk management culture and environment through channels such as information dissemination, regular risk management meetings, and employee training, thereby implementing risk management functions. The Risk Management Unit regularly prepares risk management reports and presents them to senior management and the Board of Directors, allowing senior management and the Board to fully understand the risks faced by the Bank in its operations. This supports formulation of operational decisions by management and facilitates the Bank's sustainable development goals to be achieved.

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

1 Blueprint of Sustainable Strategy

2 Climate Strategy

3 Health Strategy

4 Empowerment Strategy

5 Sustainable Governance and Risk Management

6 Appendix

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

1 Blueprint of Sustainable Strategy

2 Climate Strategy

3 Health Strategy

4 Empowerment Strategy

5 Sustainable Governance and Risk Management

6 Appendix

- **Board of Directors:** As the highest approving authority for the Bank’s risk strategy and major risk policies, the Board of Directors approves risk management strategies, policies, and frameworks. The Board of Directors oversees the management outcomes of credit risk, operational risk, capital adequacy management, reputation risk, and emerging risks, and they ensure the appropriate allocation of relevant resources.

- **Risk Management Committee:** Responsible for formulating risk management policies and implementing the risk management strategy approved by the Board of Directors. This includes assessing the Bank’s risk tolerance, reviewing existing risk mitigation measures, and supervising the effectiveness of risk management. Chaired by the Chief Risk Officer, the committee convenes monthly meetings to review and oversee the execution of risk management and internal control measures.




- **Risk Management Unit:** Operates independently from business units to handle risk management activities (e.g., credit risk, market risk, and operational risk), the Unit identifies, measures, monitors, and responds to risks. The unit convenes regular risk management meetings, reports risk management information to senior management, and issues timely warnings to prevent potential issues.

- **Audit Department:** Formulates audit plans, audits, and evaluates internal control-related systems. Tracks and controls the execution status of various units and assists responsible units in improvement efforts.

The core focus of our risk management at the Bank is "Automated Efficiency and Intelligent Risk Control," continually optimizing risk control and legal compliance systems to promote a culture of risk management throughout the organization. As a key component of corporate governance, we value the importance of internal controls. This process requires oversight from the Board of Directors, guidance from management, and participation from all employees.

Through the integration of the three-line defense structure, CUB collectively ensures risk management with dedicated roles played by business units, The Risk Management Unit, and The Audit Department. By establishing these three lines of defense, we ensure the stability of our business activities while effectively managing and reducing potential risks, safeguarding the long-term interests of the Bank and stakeholders.

Three-Line Defense Structure for Risk Management

 1 First Line of Defense	The first line of defense comprises the business management units, product units, IT departments, and accounting departments directly involved in customer-facing activities and market operations. They are responsible for managing and controlling risks inherent in daily business activities.
 2 Second Line of Defense	The second line of defense is responsible for formulating the Bank’s overall risk management policies and procedures, monitoring the risk profile of business units, and ensuring alignment with the Bank’s risk appetite. This line includes the Risk Management Unit, Compliance Department, and information security departments. Their responsibilities involve overseeing and assessing the effectiveness of risk management practices within business units and reporting risk management outcomes to senior management.
 3 Third Line of Defense	The third line of defense consists of the audit unit, which is responsible for auditing and assessing the effectiveness of the internal controls and risk management systems designed and implemented by the first and second lines of defense. It also provides timely recommendations for improvement. Additionally, sustainability-related matters, including ESG risk management and compliance with corporate governance standards, have been incorporated into the audit scope.

5.3.2 Risk Identification and Response Measures

Risk Management Response Measures

Categories of Risk	Risk Management Response Measures	The Information Covered in Risk Management Reports and the Frequency of Reporting
Market Risk	Market risk refers to the risk of losses resulting from fluctuations in the prices or volatility of financial market instruments, which in turn affect the value of the Bank's financial assets. This risk is managed through various risk management measures, including setting and managing limits, regular reporting processes, independent monitoring management units, and oversight by senior committees. The adequacy of these management mechanisms is regularly reviewed.	The market risk reporting and measurement system covers portfolio valuation, various limits, profit and loss monitoring, management and calculation, stress testing and scenario analysis, pricing models, and qualitative/quantitative risk reporting or VaR (Value at Risk) analysis. These are regularly reported to the Board of Directors, senior management, and the Risk Management Committee.
Credit Risk	Credit risk refers to the risk that counterparties, including businesses, individuals, and financial institutions, with whom the Bank engages, may fail to fulfill their obligations as agreed, leading to potential financial losses. Engagement includes credit transactions such as lending activities, investment activities, and transactions involving financial products or contracts. Credit risk measurement includes the operation of various mechanisms, including credit approval processes, limit management, credit rating information, collateral information, periodic credit reviews, and non-performing asset management. The Bank continually enhances its risk quantification techniques and strengthens its risk measurement models while improving assessment mechanisms such as stress testing to adequately understand changes in asset quality and proactively adopt necessary precautionary measures as required.	The regular risk management reports are submitted to the Board of Directors, senior management, and the Risk Management Committee. Please refer to the Mandarin Chinese edition annual report for detailed information.
Operational Risk	Operational risk refers to the risk of loss resulting from misconduct or failed internal processes, personnel, systems, or external events, including legal risks but excluding strategic and reputational risks. The Bank employs mechanisms such as operational risk self-assessment, reporting of operational risk events, and regular monitoring of key risk indicators to achieve the objectives of identifying, assessing, and monitoring operational risks, ensuring the effectiveness of risk avoidance and mitigation tools. Results of operational risk self-assessment and monitoring of key risk indicators categorize the risk exposure levels into high, medium, and low, with corresponding response measures formulated for each level to effectively monitor and mitigate operational risk exposure. Additionally, regular tracking of operational risk events and reporting of analytical information serve as references for improvement initiatives such as process or system optimization.	Database establishment for operational risk events, and operational risk self-assessment and key risk indicator mechanisms will be executed regularly. The identification and assessment results, as well as the corresponding improvement measures, will be reported to the Risk Management Committee quarterly and annually. Relevant risk information will also be included in the semi-annual risk management report presented to the Board of Directors.

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

1 Blueprint of Sustainable Strategy

2 Climate Strategy

3 Health Strategy

4 Empowerment Strategy

5 Sustainable Governance and Risk Management

6 Appendix

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

1 Blueprint of Sustainable Strategy

2 Climate Strategy

3 Health Strategy

4 Empowerment Strategy

5 Sustainable Governance and Risk Management

6 Appendix

Categories of Risk	Risk Management Response Measures	The Information Covered in Risk Management Reports and the Frequency of Reporting
Liquidity Risk	Liquidity risk refers to the risk that a financial institution may not be able to obtain funds at a reasonable price within a reasonable time frame to support asset growth or meet maturing liabilities, which may result in losses. The Bank adheres to the principle of maintaining stable liquidity, with conservative estimates of fund requirements. Diversification and stability are valued in fund sourcing, while fund utilization balances safety and profitability, with attention given to diversifying liquidity risk. When significant changes or anticipated changes in liquidity positions occur, relevant business units promptly inform the Finance & Accounting Department and the Market Risk Management Department. If necessary, an Asset and Liability Management Committee meeting may be convened to discuss response measures, with subsequent reporting to the Board for approval.	To manage liquidity risk, the Bank regularly prepares reports to ensure that all liquidity indicators meet liquidity requirements. Additionally, liquidity stress tests are conducted quarterly to assess the Bank's ability to meet repayment obligations in the event of a liquidity crisis. The results of these tests are reported to the Board every six months.
ESG and Climate Risk	Based on the "ESG and Climate Risk Management Guidelines" as the benchmark, and integrating various core functions, corresponding ESG management regulations are formulated to reduce environmental, social, and governance risks, as well as to seize opportunities in these areas. Efforts are also made to optimize internal credit, investment management mechanisms, and enhance external services and products. The Bank adheres to the Group's climate risk appetite statement: "For industries or enterprises sensitive to climate change risks, and regions with high physical risks, if it is assessed that related risks are difficult to manage or control, involvement or undertaking should be reduced or avoided." Accordingly, the "Sensitive Industry Quota Business Management Rules" are established, introducing quota management mechanisms to regularly monitor the use of financing in high-sensitive industry quotas, thereby strengthening climate and natural risk management.	The Bank has established both a "Sustainable Development Committee" and a "Risk Management Committee" to oversee their respective areas. Specialized units regularly report sustainability, ESG, and climate risk-related issues to the Board of Directors.
Reputational Risk	Potential risks to brand value and shareholder equity arising from misconduct by the company or employees, or negative media coverage are identified. The severity, speed of dissemination, and scope of impact of such events are assessed. By promptly notifying events, relevant response measures can be taken, and the negative impact of event development or media coverage can be continuously monitored.	Regularly organize reputation event data for presentation to the Risk Management Committee and reporting to the Board of Directors for verification.
Emerging Risks	Identify emerging risks that may not yet be apparent but could arise due to changes in the environment or society, in order to assess the significant impact these risks may have on the company's sustainable operations and to promote the Bank's sustainability objectives. This involves identifying and assessing emerging risks, compiling an annual risk map, and planning response and control measures.	Draw an annual risk map, report to the Risk Management Committee, and submit it to the Board of Directors for approval.

5.3.3 Crisis Management and Business Continuity Management

The Bank has established the "Cathay United Bank Business Crisis Response Management Guidelines," which clearly regulate emergency response measures in the event of liquidity crises, insufficient capital adequacy ratios, or other crises, including disruptions in market clearing operations, significant fines imposed by domestic and foreign regulatory authorities, natural disasters, man-made disasters, outbreaks of infectious diseases, political unrest, and employee strikes.

When a business crisis occurs, in addition to the units responsible for daily management, a crisis management team is established as the highest command unit. This team rapidly and effectively assesses the severity of the crisis, formulates and activates response measures to prevent the crisis from escalating further until it is resolved. The Bank conducts crisis response exercises annually to evaluate the effectiveness, serving as the basis for review and revision.

Contents

About this Report

Sustainable Development Milestones

Sustainability Awards and Recognition

Message from the Chairman

1 Blueprint of Sustainable Strategy

2 Climate Strategy

3 Health Strategy

4 Empowerment Strategy

5 Sustainable Governance and Risk Management

6 Appendix

To address the risk of significant operational disruptions resulting from major emergencies, the Bank has established a Business Continuity Management (BCM) mechanism. This involves assessing the frequency, impact, and predictability of risk sources to identify high-risk scenarios such as natural disasters, pandemics, or other events. Corresponding strategies and contingency recovery plans are developed to ensure the continuity and resilience of operations. In the event of a major emergency, these plans aim to swiftly restore critical business functions, minimizing losses and safeguarding customer interests. To ensure the continuous operation of information systems, in the event of a significant unexpected disaster in the information system environment, measures are in place to restore normal operations as quickly as possible. The Bank conducts two information system recovery backup exercises annually. Between 2022 and 2023, a total of four off-site backup drills were conducted, all of which were completed successfully and met the objectives of the exercises.

In addition, CUB obtained the British Standards Institution (BSI) ISO 22301:2019 certification for Business Continuity Management System in May 2022, and successfully passed the re-certification in March 2023. Furthermore, details regarding the [Business Continuity Management](#) are publicly disclosed on the Bank's Traditional Chinese edition official website.

5.3.4 Risk Management Training

To establish a robust and comprehensive risk management culture and environment, and to implement risk management functions effectively, the results of the risk management and internal control training conducted this year are as follows:

Total Risk Management Training Results

Results	General Risk Management Course
Number of Employees (people)	10,956
Total Training Hours	1,825.33 Hours
The Completion Rate	99.96%