

Taiwan Business Bank Operational Risk Appetite Statement

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A. Introduction

The Taiwan Business Bank (hereinafter referred to as “TBB”) is the first financial service institution in Taiwan that specializes in supporting small and medium-sized enterprises (hereinafter referred to as “SME”), and is committed to fund domestic SMEs and to assist them in achieving long-term business development. Our business philosophy seeks business performance, protects shareholders’ interest, values employees’ contributions, and strives for corporate social responsibilities, under a stable and pragmatic business model, guided by financial expertise and trust.

TBB has strengthened policies for SMEs development, and respects the supervisory authority’s positions, therefore regulations are fundamental to TBB’s risk management. TBB operational risk management’s strategy seeks to establish the appropriate operating risk management environment under a daily operational framework. In accordance with the New Basel Capital Accord, TBB will continue developing operational risk management measures and adopt the Standardized Approach

for Operational risk.

The qualitative Operational Risk Appetite Statement is an important internal management document embedded in TBB's management strategy, business objective, and risk management. It will help all employees understand risk management issues TBB strives to adhere, and continuously develop relevant management measures in the pursue of its business objectives. Through proper employee education we hope to establish a risk culture throughout the whole bank.

B. Business Risk Management

Business risk management mainly describes the management priorities adopted by each business group in the implementation of its business objectives. The business risk management according to each TBB business group is listed as follow:

Corporate banking

- To improve asset quality, to strengthen credit analysis operations and collateral requisition, establish a standardized Account Receivable notify and field inspection system, and to increase the guarantee of the SME Credit Guarantee Fund.
- To achieve the strategic objective of obtaining a below national average Non-Performing Loans (NPL) ratio by post loan management, and an enhanced NPL management

Personal Banking

- Mortgage portfolio should be managed according to loan-to-value (LTV) depending on the real estate's location, based on the five "P" principles of credit (people, purpose, payment, protection, perspective) in order to control asset quality. Besides careful selection of consumers, the consumer credit loans should be subject to "22 times Debt Burden Ratio" rule.
- Wealth management business should strengthen customer's wealth protection, emphasizing Know Your Customer (KYC) techniques, and provide appropriate business products according to customer's conditions with the objective of maintaining a long term customer relationship. Also establish the mechanism to an unusual account transaction monitoring, verification, and reporting, identifying suspicious activity to prevent misappropriation of customer funds.
- Credit card business should be managed under quality and quantity considerations
- Insurance agent business should enhance customer's product suitability and rights. Also enforce implementation of the sales process, caring call recording, examine and analyze customer's complaints especially for elderly customers.

Financial Management

- Financial operation should strengthen valuation mechanism of subject assessments, market, credit and liquidity risks, and investment portfolio's diversification, under strict operational

controls from the front, middle and back offices.

Operation Management

- In order to enhance customer experience and customer relationship, digital banking business should adopt new and innovative financial service technology, and focus on transaction security and business risk control.
- To reinforce the information security management, the Bank established information security defense measures to ensure the uninterrupted operation, including but not limited to webpage firewall, invasion protection system, vulnerability scanning, penetration scan, cyber-attack monitoring, emergency response mechanism, simulation of hacker-attack scenarios to prevent different malicious attacks on the internet, and outsourcing in supply chain management. The Bank also established regulations of the information security management system, and implemented training and reporting systems to manage the overall implementation of information security.
- With regard to anti-fraud efforts, the Bank has introduced emerging technologies and information systems to establish a technology-based fraud prevention mechanism. It has also implemented customer caring inquiry procedures at service counters, strengthened fraud awareness campaigns, and provided educational training. These measures are all aimed at safeguarding customers rights and assets.

Legal Compliance

- Personal data protection should comply to regulations in issues such as personal data collection, processing and utilization of security maintenance measures, personal data security incident response, notification, prevention mechanisms, and in the implementation of related laws and regulations.
- Establish a Fair Dealing Policy as the central core of the corporate culture, provide fair, reasonable, convenient and friendly services in consideration of the needs of the elderly, financially vulnerable and physically or mentally handicapped, and set the policy as the code of conduct which the Bank follows.
- Implementation of anti-money laundering and countering terrorism financing should comply to relevant regulations through measures such as verifying customer identity (including identification and verification of beneficial owners), inspecting between client's name and trading-related activities, reporting of currency transactions above a certain thresholds, continuous monitoring of accounts and transactions (including monitoring of high-risk customers, etc.), reporting suspicious money laundering or terrorism financing and notification according to the Terrorism Financing Prevention Act, keeping records, hiring personnel under strict selection procedures, assessing money laundering and terrorism financing risk, executing

risk reduction measures, and related legal compliance measures.

- Emphasize on suspicious money laundering or terrorism financing evaluation. Based on a Risk-based approach, to implement anti-money laundering and countering terrorism financing, which is in considered of TBB's manpower and material resources, TBB's business scale, business goal and strategy, a stabilized corporate image, an affordable risk, and take the appropriate mitigation measures in accordance with the level of risk.

C. Operational Risk Management

TBB's operational risk management qualitative indicators should describe mainly, through qualitative texts, the operational risk incidents relevant to TBB's operating activities, in areas such as:

- It is a priority to ensure the ethics and behavior of bank employees. When engaging in various business activities, they should perform their duties in accordance with laws, work rules, business regulations and manuals.
- Legal compliance as TBB's main risk management objective.
- Major natural disasters and man-induced incidents should be confronted with customer rights' protection as our first priority, and business continuity as permanent objective.
- Error control and follow-up measures taken in workflow to avoid risk of recurrences.
- Staff understanding of business's standard operating procedures (SOP) and their implementation
- The implementation of Operational risk incidents notification for LDC (Loss Data Collection) system
- Employment's risk management training and awareness, and continuous development of operational risk management measures
- Information security and reliability as primary principle guiding information system operations

D. Zero Tolerance Indicator

The operational risk incidents that TBB does not desire and is trying to avoid can be summarized as follow:

- Business interruption caused by system crashes.
- Illegal incidents such as internal and external frauds related to ATMs and treasuries.
- Compliance violations and fraud.