E.SUN FHC Climate Change Risk Management Framework

2021.06

I. Background

Pursuant to the E.SUN FHC Corporate Social Responsibility Best Practice Principles and Task Force on Climate related Financial Disclosure (TCFD), this Statement was established to implement E.SUN's evaluation of potential risks and opportunities brought by climate change, develop mitigation and adaptation measures for climate risks, and improve the Company's climate change risk management ability.

II. Applicability

These Principles are applicable to the Company and its subsidiaries, including their entire business operations.

III. Definitions

(I) Climate risks refer to transformation risks related to low carbon economy and physical risks related to the impact of climate change.

(II) Transformation risks refer to the risks brought by policy, law, technology, and market changes.

(III) Physical risks refer to the risk of extreme weather events (such as: typhoon and flood) or long-term climate model changes (such as persistent high temperatures and sea level rise) brought by climate change.

IV. Organization and responsibilities

1. The Sustainable Development Committee is the dedicated unit responsible for supervising and coordinating the effective operation of the Company's climate risk strategies and management mechanisms.
2. The Climate Change Task Force is subordinate to the Sustainable Development Committee, and members should include the risk management unit and business management units of each subsidiary, which are responsible for planning the climate risk management system, as well as identifying and evaluating climate change risks and opportunities. Reports shall be submitted to the Risk Management Committee and Sustainable Development Committee on an annual basis.
3. The risk management unit of each subsidiary shall establish qualitative or quantitative methods and indicators, further develop related management measures, and strive to mitigate or adapt to the impact of climate change.

4. The business management departments of each subsidiary shall incorporate business process management (BPM) and decision analysis into climate change issues based on their business situation, including the identification and assessment of climate-related risks and opportunities for their business, the measurement of the impact on business, strategy, and financial planning, the setting of management indicators/goals, and suitable process adjustments or taking risk mitigation and adaptation measures.

V. Climate risk management process

(I) Risk identification

1. Reference domestic and overseas climate change research reports, and identify the paths/mechanisms how climate change increases conventional risks through physical risks and transformation risks.
2. Develop management mechanisms based on assessments of the Climate Change Task Force.

(II) Risk assessment

1. Climate risk management principles shall take into consideration the material impact that length of time (short-term, mid-term, long-term) may have on business, and implement risk-oriented differentiated management.
2. Physical risk assessment shall take into consideration the effect of climate risk on business locations, real estate investments and loans/guarantee and region/subjects, including existing operations and new operations.
3. Transformation risk assessment shall take into consideration the type of business and climate-related risk factors (e.g. carbon emission of the investment/lending target's industry), and risk classification rules shall be established for management.
4. Climate risks are non-linear complex events in a dynamic environment, and risk analysis and measurement shall be carried out via scenario analysis (stress tests). In principle, the main position of a business exposed to climate risk shall be considered, and the scenario shall reference the guidelines announced by the competent authority or authoritative institution.

(III) Risk response

Regularly monitor the exposure to high risk regions, carbon emission of high carbon emission industries, and compare them to E.SUN's asset position. Reduce the impact of climate risk by encouraging customers to engage in energy conservation and carbon reduction, including the use of low carbon equipment, renewable energy, and application for green building permit.

(IV) Risk reporting

1. The business management departments of each subsidiary should establish climate risk indicators/goals, and report them to the risk management unit.
2. Continue to implement carbon reduction measures in response to the Science Based Target initiative (SBTi) and examine goal attainment on an annual basis.
3. Disclose information according to the TCFD.