

Taishin International Bank

Hong Kong Branch

Recommendation on Climate-related Disclosure

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Taishin International Bank Co., Ltd. Hong Kong Branch
(Incorporated in Taiwan with limited liability)

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1. Governance

1.1. Senior Management's Oversight¹

At the Taishin International Bank Hong Kong Branch ("the Branch"), the Risk Management Committee oversees and manages all risk related matters for the Branch. It has the following responsibilities related to climate change:

- Cultivating a risk culture from the top that embeds climate-related considerations into the business activities and decision-making process
- Regularly report climate-related issues and climate-related management information to Head Office
- Ensuring proper functioning of the risk management framework
- Driving necessary changes in addressing climate-related issues
- Overseeing and managing climate-related risks, including reviewing, and approving the Risk Appetite Statement (RAS)

At the Branch, the Management Committee follows the climate strategy set out in Head Office and is responsible for:

- Ensuring appropriate resources, processes, systems, and controls to support the strategy implementation

1.2. Management's Role

The Risk Management Committee discussed climate-related matters on a monthly basis and report to Head Office on ad hoc basis should circumstances require an urgent decision.

The Branch adopts three lines of defense ("LoD") risk governance structure. The responsibilities of managing climate-related risks are allocated among three LoD as following:

¹ TCFD recommendation requires disclosure on board's oversights of climate-related risks and opportunities, adopted as senior management's oversight given the circumstances of the Branch.

- First line of defense includes Corporate Banking and Treasury & Financial Market, which are identified as business units where risks are taken. When conducting lending and investment assessment, relevant staffs should possess sufficient awareness and understanding to identify and assess potential climate-related risks.
- Second line of defense is responsible for overseeing climate-related risks in business activities, keeping abreast of the latest development of climate-related risks, on-going risks monitoring and reviewing relevant policies and procedures, which include Risk Management, Credit Risk and Legal & Compliance.
- Internal Audit (“IA”) acts as third line of defense and is independent from first and second LoD. IA is responsible for providing assurance and periodic audit evaluation on the effectiveness of the Branch’s climate-related risk management (including the first and second LoD).

2. Strategy

2.1. Climate-related Risks and Opportunities – Overview

The Branch followed the TCFD recommendations to identify climate risks and opportunities:

Transition Risks

The climate risk assessment begins with an identification of the 4 transition risk factors including:

- Policy and regulation
- Technology development
- Market
- Reputation

In general, high-carbon emission industries are usually affected by policies and regulations over short to medium term. While considering the variety of sectoral characteristics, each industry's attribution of transition risk factors would be different. For example, the profitability of the transportation sector is mainly driven by market behaviours and policy changes.

Physical Risks

Acute climate-related events (e.g., heatwaves, floods, hurricanes, wildfires, etc.) can impair or destroy asset values, and increase underwriting risks for insurers, higher capital expenditure and operational costs, and a decrease in the liquidity and asset value.

On the other hand, chronic impacts may particularly come from increased temperatures, sea levels rise and precipitation, possibly leading to heatwaves, floods, and hurricanes. The impacts may affect labour, capital, and agriculture productivity in certain areas that experience longer-term, incremental shifts in climate patterns.

Opportunities

Major climate-related opportunities are also identified and analyzed to supplement a comprehensive understanding of the climate-related impacts on high-carbon industry. Climate-related opportunities we identified include:

- Resource efficiency
- Energy source
- Products and services
- Market opportunity
- Resilience

Each industry's attribution of opportunity factors would be different given the variety of sectoral characteristics. For example, energy source is material opportunity to Real estate sector, because new advances in photovoltaic technology and developing urban wind resources can reduce external energy needs and reduce reliance on fossil fuel-generated power over medium to long term.

2.2. Climate-related Risks and Opportunities – Impacts

For comparison and assessment within and across industries, a heat map analysis on both loan and bond portfolio is conducted with a materiality categorization based on publicly available information and qualitative judgement.

Business activities involved in high-carbon sectors result in financial exposures around high greenhouse gas (“GHG”) emissions and high energy consumption. It may lead to policy, legal and litigation risk, shared across these sectors. New climate-related disclosure requirements, compliance measures and public policies, such as carbon taxes and stricter energy efficiency and low carbon materials etc., will lead to higher operating and investment cost.

Furthermore, this group of sectors is vulnerable to the effects of acute physical risks from extreme weather events as it requires high investments in plants, equipment, and buildings that are relatively fixed in terms of location. For example, increased frequency of tropical cyclones will lead to damage to property and

disruption to operations, resulting in higher insurance premium, higher risk workplace and lower revenue.

It is also identified that some climate related risks and opportunities are unique to specific sector due to its distinct business nature.

Real estate

Flooding is recognized as a major physical risk for Real estate sector. Increased heavy precipitation events cause larger damage to properties from localized flash flooding and higher storm surges linked to rising sea levels or tropical cyclones increase damage to coastal properties.

In term of opportunity, lengthening the typical lifespan of buildings will reduce the emission and the operating cost associated with demolition and redevelopment while shifting to greener building materials can reduce the embodied carbon emission.

Chemicals

The development of more low-carbon technologies exerts high pressures on Chemicals sector to optimize and restructure products. The sector needs to invest in new climate technology to reduce carbon emissions, otherwise facing a higher risk of obsolescence. This would place an additional burden on the sector's operations.

Chemicals sector-specific opportunities include new market and product developments. New advances in decarbonized energy sources and technologies, such as biodegradable plastics and electric car batteries that reduce carbon emissions from production, could induce new demand for sustainability related products to adapt to and mitigate climate change.

Paper

Rising consumer demand for low-carbon products threatens companies with high-emission processes if they fail to meet pollution limits. New climate targets will increase operating costs, while flooding can disrupt transport and contaminate water sources. The Paper industry is also vulnerable to heat waves, raising costs and impacting employee safety.

Optimizing materials and using energy-efficient equipment can reduce costs and improve efficiency. As consumers favour low-emission products, manufacturers can select certified materials and develop green options, with government support for decarbonization in the Paper industry.

Textile

Textile companies face rising costs and risks from failing to adopt sustainable practices, stricter regulations, and climate change impacts. Disruptions from cyclones, floods, and heatwaves lead to raw material shortages, production delays, and higher expenses, threatening profitability and market stability.

For opportunities, advanced recycling and water-efficient technologies cut emissions and resource use, while climate-neutral textiles and services like rental and repair promote sustainability. Expanding recycling policies drive demand for recycled products, boosting revenue and benefiting the environment.

Non-ferrous metals

Non-ferrous metals companies face rising risks from stricter carbon policies, changing market demand, and climate-related disruptions. Physical risks such as cyclones, floods, and heatwaves can interrupt mining and smelting operations, damage facilities, raise costs, and threaten worker safety.

Opportunities lie in low-carbon technologies, renewable energy use, and resource-efficient production. Growing demand from electric vehicles and renewable energy infrastructure, together with recycling and greener production methods, can reduce emissions, lower costs, and improve competitiveness.

Electric Utilities (Exclude renewable and nuclear electricity)

Firms emitting high greenhouse gases, like coal-fired power generators, face reputational risks and potential stranded assets due to stricter carbon regulations. Increased tropical cyclones may also lead to greater facility damage, supply chain disruptions, higher insurance costs, and reduced productivity.

For opportunities, incorporating renewable energy and new technologies in utility generation allows firms to lower carbon emissions and compliance costs. As companies move toward decarbonization, demand for gas and energy from renewable and alternative sources is likely to rise.

2.3. Financial Resilience to Climate Change

In order to assess the Branch's resilience to potential shocks brought about by climate change, scenario analysis and stress testing has been performed to assess the climate-related impacts on the Branch's portfolio and operation. The Branch's climate risk stress test ("CRST") comprises four scenarios, namely two physical risk scenarios representing different climate situations and two transition risk scenarios representing different pathways (i.e., disorderly and orderly) to a low-emission economy. Physical risk and transition risk are assessed separately under these scenarios, allowing the Branch for a better understanding of the impact on each risk.

For transition risk assessment, two scenarios (i.e., disorderly and orderly) published by the Network of Central Banks and Supervisors for Greening the Financial System ("NGFS") are selected. The orderly transition pathway (i.e., represented by the NGFS "Below 2°C" scenario) is applied as the Business-as-Usual ("BAU") scenario to assess climate-related impacts in short to medium-term horizons (i.e., in 2030 & 2035), while the disorderly transition pathway (i.e., represented by the NGFS "Delayed Transition" scenario) is used as the worst-case scenario to analyse impacts in the longer term (i.e., in 2040).

For physical risk assessment, two Representative Concentration Pathway (“RCP”) scenarios from the Intergovernmental Panel on Climate Change (“IPCC”), i.e., RCP 8.5 and RCP 2.6, are selected. The RCP 2.6 scenario is applied as the Business-as-Usual (“BAU”) scenario to assess climate-related impacts in short to medium-term horizons (i.e., in 2030 & 2035), while the RCP 8.5 scenario (i.e., a high greenhouse gas concentration climate change pathway) is used as the worst-case scenario to analyse impacts in the longer term (i.e., in 2050).

Based on the transition and physical risk assessments, an overview of climate-related impacts on the Branch’s portfolio as of June 2025 (30th June 2025 for loan portfolio and 30th June 2025 for bond portfolio) is presented below.

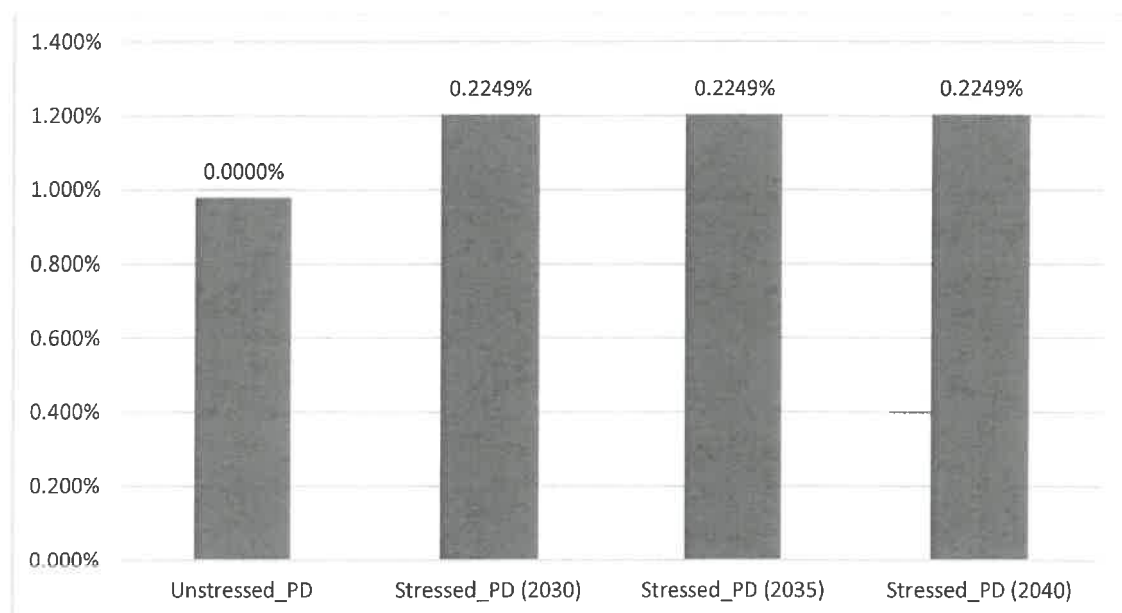
Transition Risk Assessment

Loan Portfolio

Based on the Branch’s loan portfolio, 13.67% of the portfolio exposure are under high-carbon industries, including Real estate, Chemicals, Paper, Textile and Non-ferrous metals (as Textile and Non-ferrous metals have immaterial exposure of <1.00%, quantitative analysis would not be performed for these industries). According to the assessment performed, the results have indicated that transition risk will mainly manifest itself in terms of the increased credit risk.

Under the disorderly transition scenario, the average Probability of Default (“PD”) for high-carbon industry loan portfolio will increase from 0.981% in 2025 to 1.205% in 2040. Under the orderly scenario, it is assessed that the average PD for the high-carbon industry loan portfolio will gradually increase throughout the decade (see chart 1 below).

Chart 1 – Average PD of high-carbon industry portfolio



It should be noted that the exposure to high-carbon industries only accounts for 13.67% of the Branch's loan portfolio. By monitoring the loan exposures to high-carbon industries going forward, the Branch would be able to control and mitigate the climate-related impacts caused on its loan portfolio.

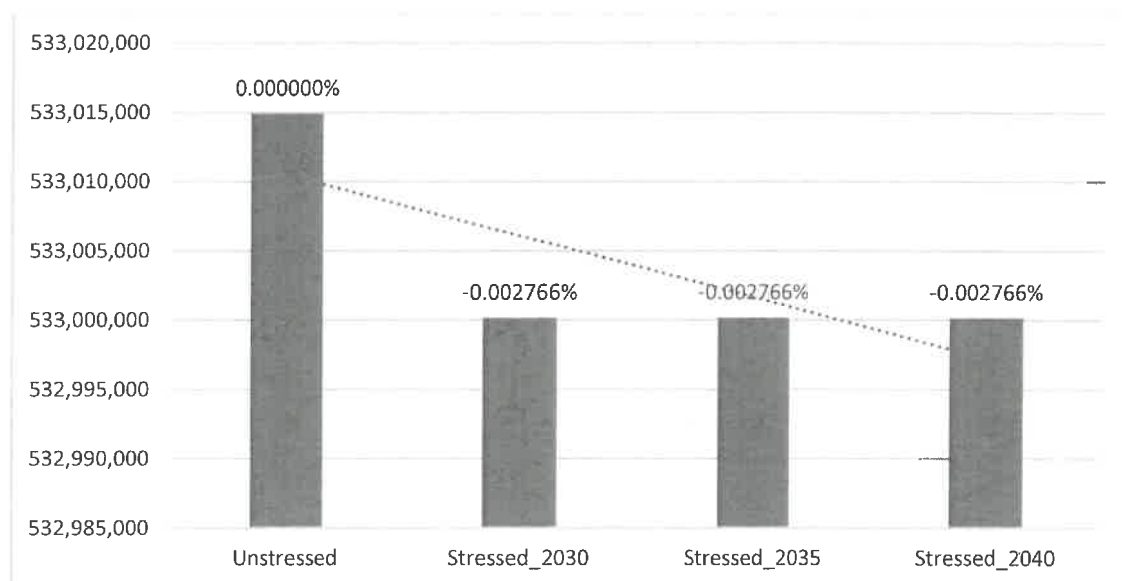
Bond Portfolio

Based on the Branch's bond portfolio, 3.32% of the portfolio exposure are under high-carbon industries, including Electric utilities (exclude renewable and nuclear electricity) and Real estate. According to the assessment performed, the results have indicated that transition risk will mainly manifest itself in terms of the decreased market value.

Under the disorderly transition scenario, the market value of bonds issued by high-carbon industries will decrease by 0.002766% in 2040 as compared to the level in 2025 (see chart 2 below). Among the high-carbon industries, bonds issued by the Electric utilities (exclude renewable and nuclear electricity) industry are more severely affected than those in the Real estate sector.

Based on the assessment results, it is observed the transition risk impact to the Branch's bond portfolio could be considered as minimal.

Chart 2 – Market Value of High-carbon Bond Portfolio



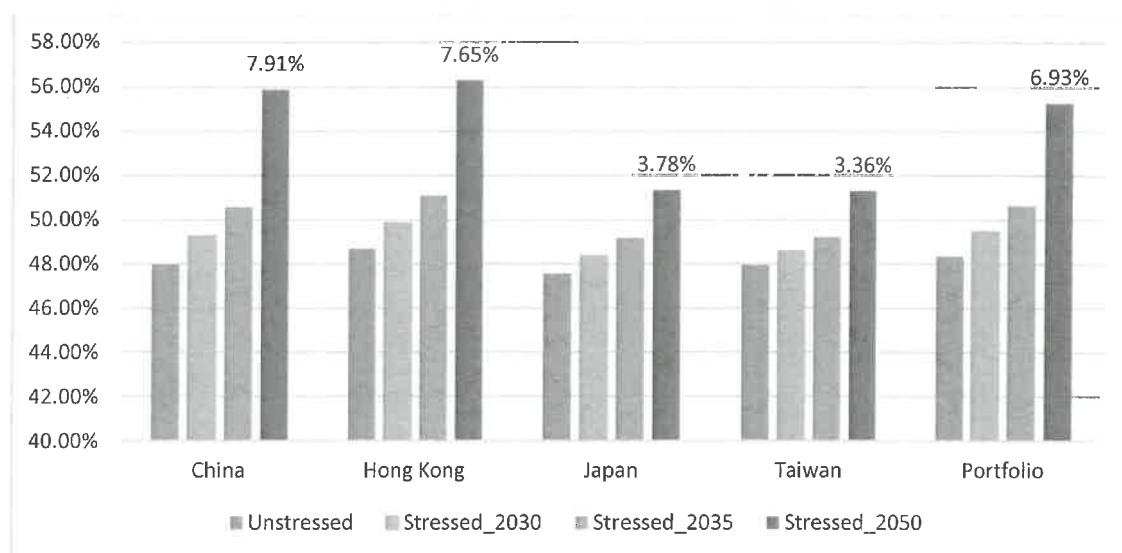
Physical Risk Assessment

Loan Portfolio

Based on the Branch's loan portfolio, 11.38% of the portfolio exposure are pledged with property-related collateral, which include locations in China, Hong Kong, Japan and Taiwan. According to the assessment performed, the results have indicated that physical risk will mainly manifest itself in terms of the increased credit risk.

Under the RCP 8.5 scenario, the average Loss Given Default ("LGD") for property-related lending will increase by 6.93% in 2050 as compared to the level in 2025. Among the locations, exposures in China are the most severely affected. Even under the RCP 2.6 scenario, it is assessed that the average LGD of property-related lending will move higher steadily throughout the decade (see chart 3 below).

Chart 3 – Average LGD of Property-related Lending



Nevertheless, it should be noted that the exposure to property-related lending accounts for only 11.38% of the Branch's loan portfolio. By monitoring the loan exposures to property-related lending going forward, the Branch would be able to control and mitigate the climate-related impacts caused on its loan portfolio.

Operational Loss

With consideration to the Branch's operation, damages to business premises are not included in the scope of physical risk assessment since the Branch does not own or invest in any property. In addition, potential loss in operating income caused by extreme weather events could be neglected as the Branch has an effective Business Continuity Plan ("BCP") in place and most of its employees are able to work remotely.

Therefore, there is minimal impact to the Branch's operation from a physical risk assessment perspective.

3. Risk Management

3.1. Identifying and Assessing Climate-related Risks

Transmission to Traditional Risk Types

The Branch evaluated transmission to traditional risk types to understand the impact of climate risk. The climate risk impact may be evaluated quantitatively or qualitatively, depending on the traditional risk types and the maturity of the development. Below illustrates climate risks transmission to traditional risk types.

Traditional Risk Types	Climate Risks Transmission to Traditional Risk Types
Credit Risk	Climate risk may decrease the ability of loan borrower's repayment or bond issuer's coupon payment/notional redemption and may impact the Branch's recovery of the loan/bond outstanding in the event of default. Climate risk may also decrease the values of collaterals, which are posted by the borrowers as a measure originally adopted by the Branch to mitigate credit risk arising from loans, through physical risk drivers.
Market Risk	Market risk may increase when there is a large, sudden, and negative price adjustment triggered by climate risk drivers, resulting in reduction in values of financial assets. Climate risk could also lead to a breakdown in correlations between assets or a change in market liquidity for assets, undermining risk management assumptions.
Liquidity Risk	The Branch's counterparties may withdraw deposits and draw down credit lines in the event driven by climate risk drivers. As such, the Branch may need sufficient funding sources to ensure the Branch can fulfill all obligations as a result of sharply increased cash-out flows.
Operational and Legal Risk	The Branch's operational risk may increase during extreme weather events and the business continuity may be challenged during such time. Increasing legal and regulatory compliance risk may also rise when the Branch deals with climate-sensitive investments and businesses.
Reputational Risk	Reputational risk may increase based on changing market or consumer sentiment. Consumer may be in favor of more climate or environmentally friendly products, services, and

	business practices. Inaction of addressing climate issues may adversely impact market and consumer perception to the Branch and subsequently impacting the Branch's abilities to maintain or establish business relationships.
Strategic Risk	The Branch may face strategic risk if failing to respond and address climate issues in a changing market environment. Competitiveness and market standing may be lost during such time when the Branch misses to adopt climate or environmentally friendly solutions and responsible practices.

Identifying and Assessing Climate Risks on Portfolio and Counterparty Level

Portfolio Level Assessment

At portfolio level, the Branch has assessed the impacts of climate risks on its loan and bond portfolio through the assessments on portfolio exposure to transition and physical risks.

1) Transition Risk

With reference to HKMA's pilot CRST exercise, the Branch has focused its transition risk assessment on corporate loans and bond investments. To determine the scope of assessment, the Branch has mapped the industry classifications of its loan obligors and bond issuers currently in system to high-carbon industries, i.e., (1) Real estate; (2) Chemicals; (3) Textile; (4) Paper; (5) Electric utilities (exclude renewable and nuclear electricity); (6) Non-ferrous metals. After the identification of loan obligors and bond issuers in scope for assessment, based on the materiality threshold and sector exposure amounts, the Branch proceeded to perform qualitative analysis at sector level for immaterial industries (i.e., with exposure less than 1% of total portfolio), while detailed quantitative assessment at counterparty level is performed for sectors with material exposures.

2) Physical Risk

Different from transition risk assessment, since physical risk arises from weather-related events and progressive shifts in climate patterns, the impact of physical risk is less differentiated among industries. Instead, geographical locations are used as an important factor to identify physical risk. Hence, to determine the scope of the Branch's physical risk assessment, all types of property-related collateral loans are identified and included for counterparty level assessment with details in below section. After identifying locations of collaterals in the Branch's portfolio that are impacted by physical risks, the Branch proceeded to perform detailed quantitative assessment at regional level and Hong Kong district level.

Counterparty Level Assessment

Once determined the scopes for climate risk assessment on the Branch's loan and bond portfolio, counterparty level assessment is carried out to analyze transition and physical risk impacts.

1) Transition risk

Loan portfolio

The transition risk assessment on the Branch's loan portfolio is performed under 2 NGFS scenarios (i.e., disorderly and orderly scenarios) over 3-time horizons, including 2030, 2035 and 2040. The assessment begins with an identification of key transition risk factors/scenario dimensions in NGFS scenarios, followed by a comprehensive economic response assessment from designed transmission channels at the sectoral level. The transition risk effects would transmit to potential financial impacts through 3 categories (i.e., Revenues, Expenditures and Investment) in the financial statements of obligors for each selected high-carbon emission industries.

Subsequently, the Branch has applied the obligor's stressed financials as inputs to the Head Office's credit risk model to assess the transition risk impacts on the repayment ability of the obligors in terms of its probability of default.

Bond portfolio

For the Branch's bond portfolio, under climate risk scenarios, assuming the interest rate and liquidity environments remain unchanged, the climate risk impact would therefore simply be reflected by the increase in credit risk. Hence, the Branch has leveraged the credit spread change of the bonds to estimate the fair value change of bond due to transition risk impacts.

To obtain change in credit spread, the industry-level PDs under climate scenarios are calibrated through a re-rating process by simulating the stress to financial statements from in-scope obligors as performed in loan portfolio transition risk assessment. Subsequently, the log-odd of relative change in PD at the industry level is taken as the change in credit spread under climate scenarios for bonds with issuers in the same industry.

2) Physical risk

The Branch evaluates the exposure of individual clients in the loan portfolios for which property-related collaterals are identified. The geographical location of collateral is used to determine counterparties with higher physical risk impact.

The physical risk assessment on the Branch's loan portfolio is performed under 2 IPCC scenarios (i.e., RCP 2.6 and RCP 8.5) over 3 timestamps (i.e., 2030, 2035 and 2050). By observing the climate events in Hong Kong and key locations of property-related collaterals identified in the Branch's loan portfolio, along with the consideration of data availability, the Branch has focused its assessment on physical risk due to tropical cyclone and flooding.

The Branch has assessed the physical risk impacts on the collateral values of property-related loans through 3 physical damage indicators, namely, annual expected damage rate from tropical cyclones, floods, and the consolidated expected damage rate from tropical cyclones and floods. The annual expected damage rates are calculated through relative change in annual damage rates and baseline damage rates, which are obtained from external data sources, such as

World Resources Institute’s (“WRI”), NGFS CA Climate Impact Explorer (CIE), and Hong Kong Observatory (“HKO”).

Once obtained the projected stressed damage rates from tropical cyclone and flooding, the Branch has quantified physical risk impacts by calculating stressed collateral values. Subsequently, the stressed collateral values are used as inputs to compute stressed LGD on the Branch’s loan portfolio level.

Identifying and Assessing Climate Risks on Operation Level

Besides climate risk implication to the Branch’s loan and bond investment portfolios, with the consideration that physical assets of the Branch may be impaired and business operation may be impacted during extreme weather event, the physical risk impact on operation is also assessed.

However, it is observed that all operation premises are not owned by the Branch, and existing insurance will cover the damage caused by the natural disasters or accidents. In addition, potential loss in operating income caused by extreme weather events could be neglected as the Branch has an effective Business Continuity Plan (“BCP”) in place and most of its employees are able to work remotely. Therefore, the Branch has assumed that climate-related impacts on the Branch’s operational risk would be insignificant.

3.2. Processes for Managing Climate-related Risks

To manage climate risk in a holistic manner, the Branch has established a climate risk management framework, consisting of risk identification, assessment, monitoring, and control and mitigation. Risk identification and assessment aim to collect climate-related data and information to understand the potential climate risks for the Branch and to qualitatively and quantitatively assess the climate risks the Branch is exposed to. Monitoring is to ensure the exposures to climate-related risks is consistent with the Branch’s risk appetite using a set of climate-related risk metrics. Control and mitigation are in place for the Branch to apply climate-related mitigation measures to manage the exposure to the associated risks.

Monitoring Climate Risks

To facilitate the processes to monitor exposures to climate-related risks, the Branch regularly evaluates its portfolio and own operation against a set of climate-related metrics. The list of climate risk impact indicators consists of both qualitative and quantitative metrics and is organized into portfolio, counterparty, and operation levels. For both portfolio and counterparty levels, the Branch has set up metrics for evaluating exposures to physical and transition risks respectively.

Regarding portfolio level, the Branch has focused its monitoring over its loans and bond investments portfolios, identifying sectors which are more vulnerable to transition risks and locations of collaterals in the Branch's portfolio that are more likely to be impacted by physical risks. After conducting the monitoring at portfolio level, the Branch drills down further to the counterparty level to understand its exposures in a more granular level, analyzing the loan obligors and bond issuers individually. On top of the Branch's portfolio, operation level monitoring is also carried out to understand the physical risk exposure of the Branch to extreme weather events leading to business interruption.

Controlling and Mitigating Climate Risks

The Branch has set up a number of measures to manage its exposures to climate-related risks, having regard to the policy and procedures of Head Office, its climate risk management strategy, and its risk appetite. The Branch mitigates such risks by adopting sector-level, counterparty-level and operation-level measures.

At the sectoral perspective, the Branch has enhanced monitoring of high-risk sectors with material exposures. The Branch has also applied counterparty-level measures such as strengthening data and information collection to manage exposures to climate-related risks. Apart from considering measures to mitigate the climate risks posed to the Branch's portfolio, the Branch has incorporated climate-related considerations in its Business Continuity Planning (BCP) procedures to prevent climate-related disruptions to its operation.

3.3. Integration to Overall Risk Management

The Branch has taken climate change into consideration and formulates processes for climate risk management as one of the key actions in the overall risk management.

Given the business risks posed by climate change, the Branch embeds climate change and its related risks into its current risk management framework, strengthens its climate risk governance and identifies climate change's potential risks and opportunities in a comprehensive manner. The Branch has incorporated climate risk into the three lines of defense and enhanced its current policies and procedures from various perspectives, including risk policies, risk appetite statements, and business policies, to ensure climate-related considerations have been incorporated into the existing risk management processes.

Enhancing Risk Management Capability

To address information and data challenges, the Branch has formulated questionnaire to collect climate-related data and information from customers. The questionnaire would enable the Branch to strengthen the engagement with clients to develop a better understanding of climate-related impact on clients' business. It would also enable the Branch to obtain more climate-related information from clients and thereby applying the appropriate control and mitigation measures. For example, the Branch would be able to identify whether the counterparty has incorporated climate-related considerations in their risk management and whether the counterparty has any carbon emission targets.

4. Metrics and Targets

The Branch has developed a template to monitor its exposures to climate-related risks (both physical and transition risks) on the portfolio level and counterparty level. The template assists the Branch to monitor and report on certain climate-related metrics, and hence better manage climate-related risks. For example, the exposure percentage of high carbon industries to total portfolio.

Apart from monitoring metrics, below summarizes metrics used when conducting scenario analysis and stress testing.

Transition Risk

Metrics for the Branch's loan portfolio:

- Exposure to high-carbon sectors
- Probability of default

Metrics for the Branch's bond portfolio:

- Exposure to high-carbon sectors
- Market value

Physical Risk

Metrics for the Branch's loan portfolio:

- Exposure of loan with property-related collateral
- Annual and accumulative damage rates from extreme weather events
- Collateral value
- Loss given default