## 3.3 Risk Management

In the face of the rapidly changing financial market environment, comprehensive risk management is increasingly indispensable. To effectively stay abreast of operational risks and maintain stable operations, Yuanta Securities has established the “Risk Management Policy” and “Operational Risk Management Measures”. A complete risk assessment process and contingency plans are established accordingly, ensuring the smooth operation of the risk management mechanism. Through the three lines of defense in risk management, risks are monitored to reduce occurrence likelihood and mitigate potential negative impacts. Additionally, a risk management information system is in place to support overall risk management execution and control operational risks.

**Risk Management Systems and Policies**

**Risk Management Framework**

Yuanta Securities emphasizes a top-down risk management culture. The Board of Directors is the highest decision-making body for risk management. It is responsible for approving risk management policies and key risk management systems, setting annual risk limits and monitoring thresholds, and supervising the implementation of risk management systems to ensure comprehensive risk management across business operations. The Audit Committee assists the Board in performing its risk management responsibilities. The Risk Management Department, under the Board, is an independent risk management unit responsible for developing risk management systems, establishing risk management frameworks and effective risk measurement methods, monitoring and analyzing risks, as well as reporting and issuing warnings of significant risks.

**Risk Management Mechanism**

Yuanta Securities employs the three lines of defense model in risk management to identify and measure the Company’s overall risks. Each line of defense has clear organization, responsibilities, and functions to ensure the effective operation of the risk management mechanism. All business units understand the impact and scope of their activities on the Company’s overall risk as they formulate operational plans in advance in alignment with the Company’s risk appetite. These plans are regularly reviewed to ensure strict adherence to various risk management guidelines. Through autonomous management by business units supported by a comprehensive risk management mechanism, the frequency and impact of risks are effectively avoided or reduced, thereby fulfilling the Company’s risk management goals and risk appetite.

**Three Lines of Defense in Risk Management**

First Line of Defense: Business departments and operational, administration and other supportive departments

These departments are responsible for implementing risk management procedures in their respective duties, ensuring compliance with risk management regulations.

Second Line of Defense: Risk management and legal compliance departments

These departments are responsible for planning risk management and legal compliance systems, as well as risk monitoring and reporting.

Third Line of Defense: Internal Audit Department

The Audit Department is responsible for auditing the adherence and implementation of various regulations and internal control systems.

**Risk Management Policy**

The “Risk Management Policy” serves as the guiding framework for Yuanta Securities’ risk management practices. Management standards for various types of risks are established accordingly to ensure the comprehensiveness, effectiveness, and reasonableness of the Company’s risk management. This policy outlines the attributes of different risks and their impact on the Company’s operational stability and capital security, prescribing appropriate risk management systems for each type of risk while also specifying the risk management responsibilities of each department.

The Company has also formulated the “Operational Risk Management Measures”, which cover financial risk, operational risk, legal and legal compliance risk, and climate change risk. Each risk management unit is required to annually assess the presence or potential of the risks within their supervisory scope. The Risk Management Department then consolidates these assessment results and reports them to the Audit Committee and the Board of Directors.

**Risk Management Procedure**

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| Risk Identification | Risk Measurement | Risk Monitoring and Control | Risk Management Reporting |
| Through analysis, identify the attributes and types of risks inherent in each business activity.  | Make a reasonable estimation of the characteristics of risks that may result in potential losses or might influence potential losses.  | Based on the risk limits for each business activity, evaluate the actual risk level generated by that activity to ensure all risks are within the Company’s authorized limits.  | Report relevant risk management information to the respective responsible authorities and supervisors.  |

**Risk Appetite and Limits**

Risk appetite is the level of risk that the Company is willing to undertake after comprehensively evaluating various risk mitigation measures. Every year, the Company sets risk limits across all operations based on operational goals and risk tolerance. These limits are regularly reviewed and strictly followed to ensure that the risks exposed in all business activities align with the Company’s risk management objectives and risk appetite.

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| Risk type | Description of risk appetite and limits |
| Capital adequacy ratio limit | The Company’s ability to sustain the stable operation of its various businesses even after accounting for the maximum potential losses that may arise from undertaking different business activities.  |
| Various risk monitoring indicators and thresholds | The Company’s primary business risks are covered as various identified risks are monitored and properly managed to reduce loss and negative impact.  |

Risk monitoring indicators and thresholds are applicable from the date of approval by the Board of Directors and remain valid for one year. If adjustments are necessary within the year, the risk management unit responsible for monitoring the specific risk should propose changes. These changes should be co-signed by the Risk Management Department and submitted to the Audit Committee for approval before being submitted to the Board of Directors for final approval. If a risk monitoring indicator exceeds the threshold value, the responsible risk management unit should review the cause and propose countermeasures. These measures should be co-signed by the Risk Management Department and reported to the Chairman for approval.

**Risk Management Identification and Response Plan**

The scope of the Company’s risk management system is outlined in the table below in accordance with Yuanta Securities’ “Risk Management Policy”. A risk management system that fits the Company’s business portfolio, scale, and capital size was established. Moreover, when designing products, various risk factors are considered to ensure that all risks undertaken are effectively managed and adhere to the Company’s risk management system.

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| Financial risks | Operational risks | Legal and Legal compliance risks | Climate change risks |
| Market risksCredit risksMarket liquidity risksFunding liquidity risksAsset-liability matching risksLarge-sum exposuresOperational risks | Information security risksHuman resources risksEmerging risksIntegrity management risksReputation risksStrategic risks | Legal compliance risksLegal risksMoney laundering and terrorism financing risks | Climate change risks in investmentClimate change risks in company operation |

The following table describes the risk management measurement mechanisms and the frequency of risk management reporting according to the most common types of risks faced by the financial industry.

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| Risk type | Management and measurement mechanism | Reporting frequency |
| Market risk | Market risk refers to the methods designated for measuring market risk based on the characteristics of financial product markets and strategies. In accordance with Yuanta Securities’ “Market Risk Management Measures,” methods such as calculating position costs, market risk factor sensitivity, and value at risk are used. Back-testing is also employed to ensure the reasonableness of market risk measurements.  | Daily |
| Credit risk | Yuanta Securities measures credit risk using metrics such as expected credit losses, issuer credit risk, guarantor credit risk, counterparty credit risk, and custodian credit risk. In accordance with Yuanta Securities’ “Financial Transaction Credit Risk Management Measures”, an internal credit rating system has been established to implement credit risk grading, along with a credit warning system to put the reporting process into effect and enhance the timeliness of responses to credit events.  | Weekly |
| Liquidity risk | Liquidity risk refers to the risk of potential losses when asset sales or position liquidations may result in losses due to persistent market trading volume insufficiency or a significant reduction in trading volume caused by market disorder. In accordance with Yuanta Securities’ “Market Liquidity Management Measures,” indicators such as the concentration of held positions and market trading volume are considered for quantifying market liquidity risk.  | Monthly |
| Operational risk | In accordance with Yuanta Securities’ “Operational Risk Management Measures”, operational risk refers to the risk of direct or indirect losses caused by improper or erroneous internal operations, personnel, and systems, or external events. Operational risk event data has been compiled and classified as the basis for operational risk measurement. When operational risk loss events occur, they should be reported according to the internal operational risk event reporting mechanism, following the specified reporting procedures, and analyzed for causes, processes, results, and improvement measures.  | Monthly |
| Legal risk | In accordance with Yuanta Securities’ “Risk Management Policy”, legal risk refers to the potential loss incurred from invalid contracts due to the lack of legal validity of contracts, acts beyond authority, clause omissions, and inadequate regulations. All legal documents or contracts signed by the Company must be reviewed by the Legal Department to facilitate legal risk control and avoid contract invalidation.  | Quarterly |
| Legal compliance risk | In accordance with Yuanta Securities’ “Legal Compliance Risk Management Policy”, compliance risk refers to the risk of penalties from competent authorities due to non-compliance with relevant regulations during business operations. The Legal Compliance Department has established a compliance risk management framework, including procedures, plans, and mechanisms for identifying, assessing, controlling, measuring, monitoring, and independently reporting legal compliance risks, to comprehensively control, supervise, and support the compliance matters of individual business units, cross-departmental, and cross-border operations of domestic and international departments, branches, and subsidiaries.  | Every six months |
| Climate change risk | Climate change risk refers to the potential risks arising from climate change responses or mitigation efforts.In accordance with Yuanta Securities’ “Management Measures for Climate Change Risk in Investment”, the reasonableness of climate change risk measurement methods, the significance of exposure, and the correlation between risk types are comprehensively considered to measure and manage climate change risks.  | Monthly |

**Crisis Management**

In accordance with Article 26 of the Corporate Governance Best Practice Principles, Yuanta Securities has established the “Crisis Handling Policy and Rules of Procedure” to ensure that the Company can effectively and swiftly respond to operational crises, minimizing harm and losses, and quickly restoring normal operations. It serves the highest guidelines for crisis response. The “Emergency Response Guidelines” have also been formulated to build a comprehensive crisis and emergency response system, providing a basis for departmental operations to ensure smooth functioning.

The Company’s crisis management team comprises the President, relevant supervisory managers, and department heads. When a crisis occurs, the President or a designated supervisory manager acts as the convener and calls the first meeting as soon as possible to analyze and assess various crisis response plans. If necessary, reports should be made to the management, directors, and parent company during the handling process. If the crisis event is classified as significant information legally required to be disclosed, it should be published on the Market Observation Post System within the stipulated timeframe to respond to external information requests and protect the interests of the Company, shareholders, customers, and all stakeholders.

**Risk Management Education and Training**

The Company arranges for directors and supervisors to receive risk management and internal control training annually to enhance their professional knowledge and responsiveness in risk management. In 2023, a total of 22 records of attendance participated, receiving a total of 66 hours of training.

To instill risk awareness and establish a risk management culture, the Company also organizes annual training for employees on risk management, internal control systems, and business continuity management mechanisms. This enhances the risk awareness and management capabilities of all employees and managers and integrates risk management concepts into daily decision-making. In 2023, a total of 5,506 records of attendance received training of 6,528 hours in total, achieving a 100% training completion rate.