

Risk Management Status Report in 2022



Risk Management

To ensure sound and steady operation as well as sustainable development, Walsin Lihwa has a comprehensive risk management system for the Board of Directors, Audit Committee, President, President's Office, Auditing Office, individual risk management units, individual units, and subsidiaries of the company to together engage in risk management.

Risk Management Procedures



Risk Identification

Identify the sources of material risks and events that may affect the company's strategies and organizational goals as well as their causes and potential consequences.

Risk Measurement

Analyze the identified risks' probabilities and their impacts to consider control and management measures by factoring in past experiences.

Risk Monitoring

Monitor the changes and developments of risks all the way to adjust countermeasures accordingly.

Risk Disclosure

Decide how to disclose risks by factoring the company's strategies and goals as well as stakeholders' perspectives.

Supervision and Ongoing Dynamic Review

Foci of Implementation in 2022



Compliance with Relevant Laws and Regulations; Enactments of Company Bylaws and Policies

Compliance with the Latest Laws and Regulations to Amend Company Bylaws and Relations Accordingly

Factor domestic and overseas law amendments into management and daily business practices to integrate the two and enable effective implementation.

Risk Management Policy and Measure Development

Understand market and external environment changes to identify potential risks and develop relevant strategies to strengthen responsiveness to risks.



Proactive Implementation of Relevant Measures; Thorough Risk Management

Regular Reporting

The management supervises and reviews risk management throughout the company to timely detect existing risks.

Promotion by Education and Training

Employees receive education and training on business integrity, ethical management, legal compliance, and information security to help promote risk management.



Enhancement of the Depth and Width of Implementation Effectiveness; Implementation of Multifaceted Management Strategies

TCFD Implementation and Management Framework Development

Identify climate risks and opportunities' potential impacts on finance to develop management countermeasures to mitigate such impacts.

SASB Disclosure Standards

Identify relevant issues to enable risk factor and management policy assessments.

Major Risks in Asia Pacific

	Risk Level	Risk Trend	Corresponding Risk Categories at Walsin Lihwa
Impacts on revenues and earnings for inability to resolve stiff production costs in addition to family disposable incomes reduced by inflation	High	Worsening	5. Raw material price and supply chain risks 7. Strategy and operational risks
Impacts on operation and solvency resulting from the cost of capital and fewer financing opportunities	High	Worsening	1. Interest rate risks
Growth slowed down by dampened consumption and disrupted supply chains resulting from the zero COVID Policy in Mainland China	High	Unchanged	2. Exchange rate risks 4. Occupational safety risks
Worldwide growth and trade activities disturbed by global and regional obstacles	Rising	Worsening	5. Raw material price and supply chain risks 7. Strategy and operational risks
Global economy to be further affected by escalating geopolitical tension	Rising	Worsening	7. Strategy and operational risks
Stricter policy requirements in response to more frequent and serious natural disasters and climate change events	Rising	Worsening	3. Climate change and environmental risks
Systematic risks on the rise resulting from business models disrupted by digitalization and cyberattacks	Rising	Unchanged	6. Information security risks

Note: Taiwan Ratings identified the major risks in Asia Pacific in the 3rd quarter of 2022 to commence a one-year follow-up of such risks.

Risk Matrix

→ Risk Exposure = Probability * Risk Impact

Low Risk

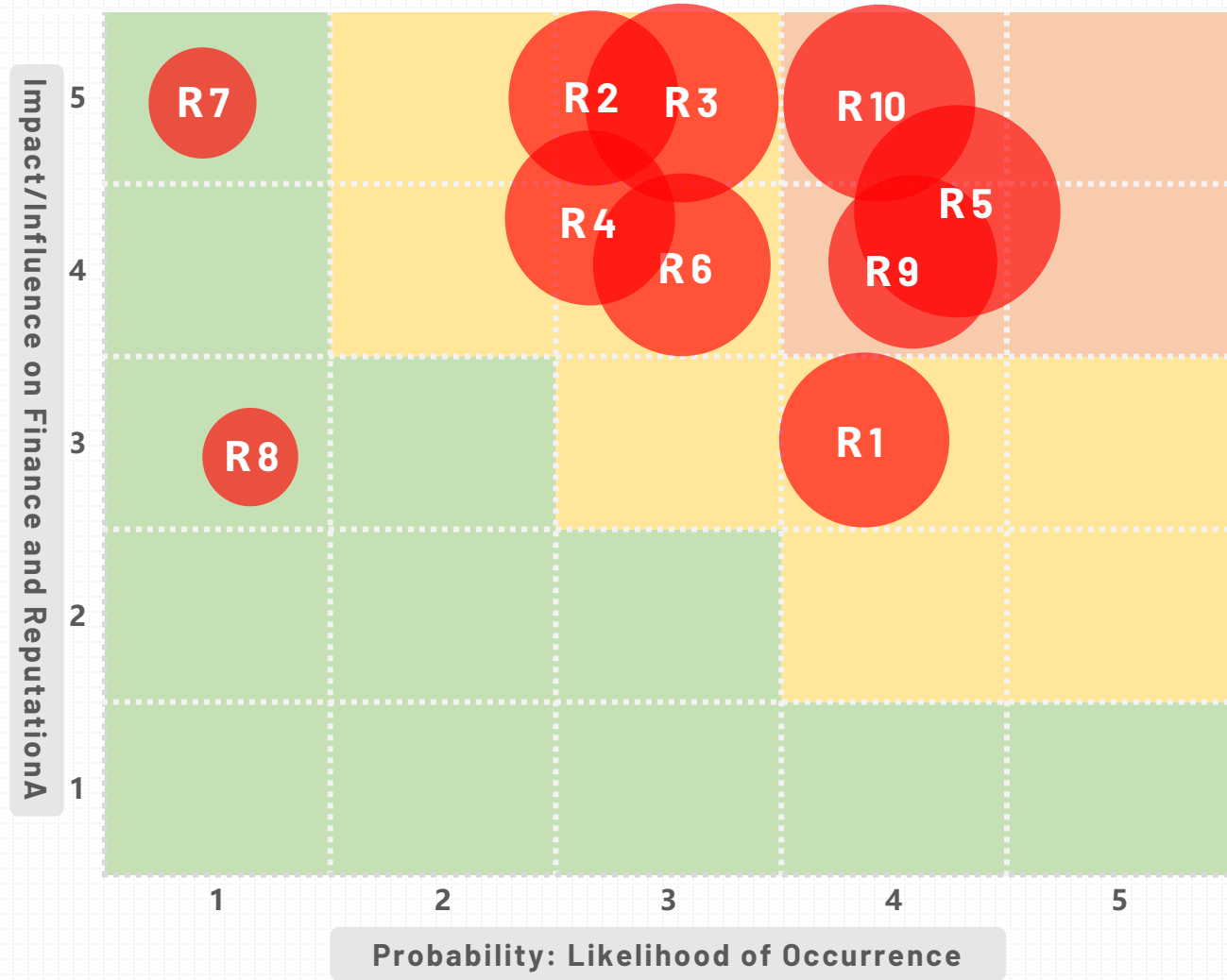
Medium Risk

High Risk

Risk Categories

Risks in 2022

Interest Rate Risks	R1	Higher financing costs
	R2	Liquidity risks resulting from deleveraging
Exchange Rate Risk	R3	Rising costs of procurement in foreign currency resulting from US Federal rate hikes, tension across the Taiwan Strait, and Taiwan Dollar depreciation incurred by foreign remittance
	R4	Renminbi depreciation as a result of China's failed economic recovery incurred by the zero COVID policy
Climate Change and Environmental Risks	R5	How to achieve the net zero roadmap by energy saving, green power development, and low-carbon investment
	R6	Mitigation of climate change impacts
Occupational Safety Risks	R7	Pandemic and employee health
Raw Material Price and Supply Chain Risks	R8	Nickel market volatility risks resulting from price manipulation
Information Security Risks	R9	How to enable comprehensive information security management against malicious attacks
Strategy and Operational Risks	R10	How to deal with business cycle fluctuations, force majeure factors, and competition within the same industry



High Probability Risks and How to Control and Manage Them



Probability
Medium to high

Impact
Medium to high

- ✓ Sustainable carbon management roadmap planning and low-carbon investment
- ✓ Strengthening review of energy saving measures: Renewable energy compliance and utilization assessments
- ✓ Green power implementation planning: Green supply chain and procurement promotion
- ✓ Reporting to the board on a regular basis for guidance and supervision of business decisions

How to achieve the Net Zero roadmap



Probability
Medium to high

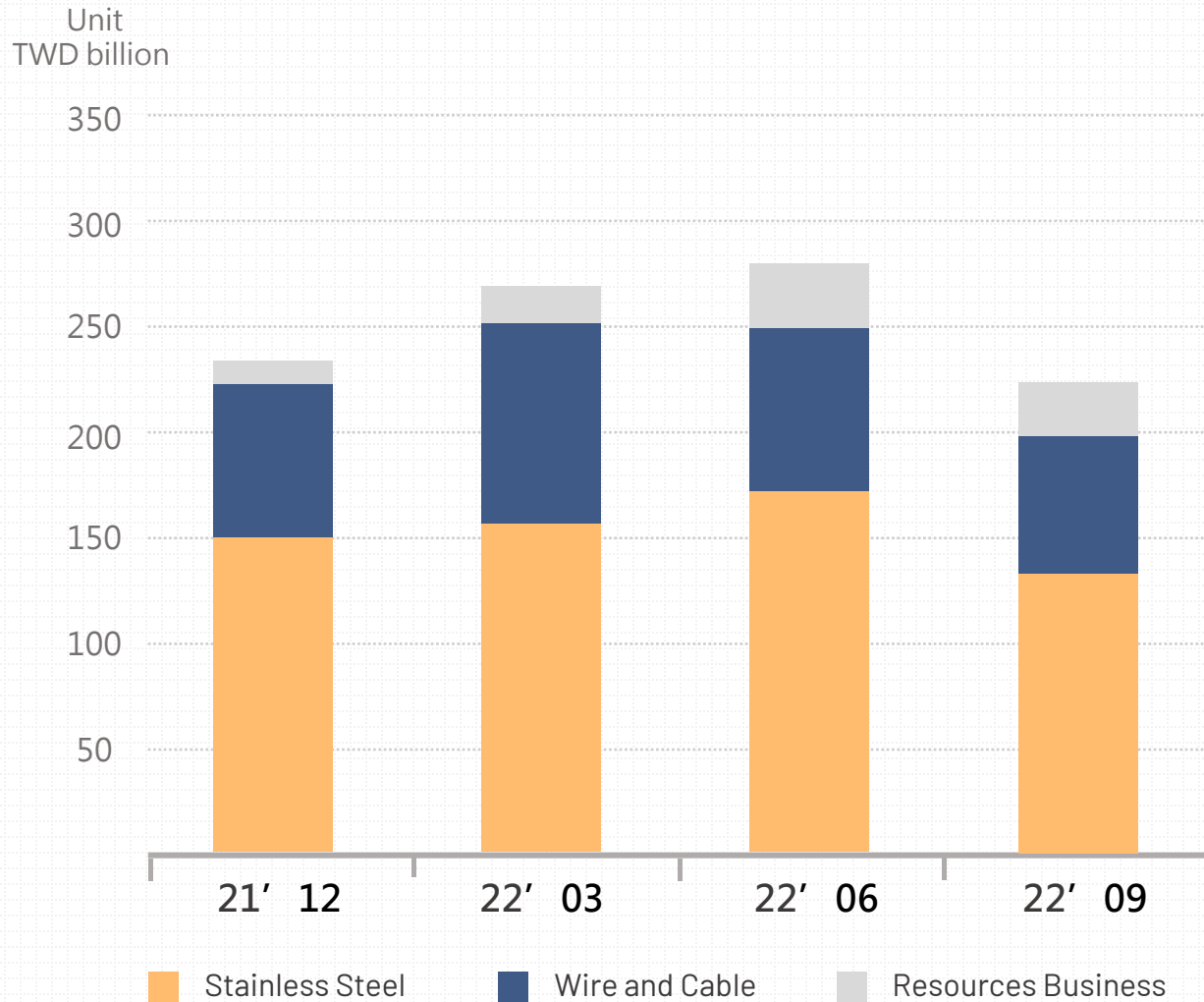
Impact
Medium to high

- ✓ ISO 27001 implementation
- ✓ Enactment, amendment, and promulgation of 19 information security regulations
- ✓ Commencement of education and training on information security
- ✓ Business impact analysis, business continuity drilling, and internal information auditing to be planned

**Defense against malicious attacks
Establishment of comprehensive information security mechanism**

High Probability Risks and How to Control and Manage Them (II)

→ Inventory Turnover Management



Probability Medium to high	Impact Medium to high
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- ✓ Quarterly business performance management meetings for individual business groups to report quarterly business results and propose improvement plans
- ✓ Monthly controller meetings to stay updated on how individual operation units achieve their business results
- ✓ Monthly working capital management meetings to review operation units' inventory turnovers
- ✓ Pricing of internal transactions to require higher interest payments from the operation units whose days in inventory are unreasonable

**How to deal with business cycle fluctuations
Force majeure factors and competition in the
same industry**

Risk Monitoring and Control



a

Financial Risk

b

Hazard Risk

c

Information Security Risks

d

Strategic Risks

e

Operating Risks

Risk type	Number of Risks Monitored
<ol style="list-style-type: none"> Interest rate fluctuation risks Exchange rate volatility risk 	3
<ol style="list-style-type: none"> Climate change and environmental risks Occupational safety risks 	3
<ol style="list-style-type: none"> Information security risks 	2
<ol style="list-style-type: none"> Strategic and operating risks Capital expenditure risks Technology risks 	8
<ol style="list-style-type: none"> Risks associated with raw material prices supply chain Legal risks Technology risks Management risks Corporate image risks 	8

hank you