

Risk appetite, higher risk factors and mitigating actions of Nanya's major risk categories

- In accordance with the " Risk Management Regulations" which was approved by the Board of Directors in December 2020, when conducting risk analysis and evaluation, each department must analyze the attributes and influence of the identified risk factors, and set appropriate quantitative or qualitative measurement indicators to evaluate the risk level, risk appetite and tolerance.
- According to the above requirements, Nanya has classified the identified risk factors into 20 major risk categories, and defines the risk appetite of each category and the corresponding disposal principles as follows:

A. Risk appetite and the corresponding disposal principles :

- Low risk appetite - Areas in which the company require aggressive avoid risk, or acts to minimize or eliminate the likelihood that the risk will occur. To avoid potential downside costs, we usually maintain a very strong control environment.
- Medium risk appetite - Areas in which the company must constantly evaluate the balance between the potential upside benefits and potential downside costs when making decisions.
- High risk appetite - Areas in which the company prefers a disciplined risk-taking approach to maximize possible benefits.

B. Risk appetite for 20 major risk categories

Risk Category	A. Major facilities, equipment, and components	B. Interruption of public utilities (shortage of natural gas, water, electricity, drains, and fuel)	C. Natural disasters, severe weather (flooding, typhoons, earthquakes)	D. Disruption of supply chain systems	E. Severe transportation accidents
Risk Appetite	Medium	Low	Medium	Low	Medium
Risk Category	F. Major industrial accidents	G. Interruption of communications	H. Loss of information systems (ERP, SAP, WMS)	I. Loss of inventory and stocks	J. R&D capabilities
Risk Appetite	Low	Medium	Medium	High	Medium
Risk Category	K. Shortage of resources	L. Customer close-down or order cancellation	M. Finance (interest rate, exchange rate, asset-liability structure)	N. Loss of personnel (resignation, accidental death, dying of disease, kidnapping, headhunting)	O. Sabotage, strikes, thefts, and smuggling

Risk Appetite	Medium	High	High	Low	Medium
Risk Category	P. Collusion and embezzlement	Q. Illnesses and infectious diseases	R. Violation of laws or regulations	S. Information security (hacking, virus, terminal protection failure)	T. Loss of corporate image, reputation, and brand value
Risk Appetite	Low	Medium	Low	Medium	Medium

- Each department of the company must continuously identify various risk factors in response to changes and trends in the internal and external environment every year, and evaluate the risk index by considering the consequence and likelihood, and formulate mitigation actions accordingly. A total of 179 risk factors were identified in 2022.

A. Risk index evaluation criteria

After assessing the consequence and likelihood of each risk factor, we made a risk matrix according to its risk index and take countermeasures.

Risk Index = Consequence (C) x Likelihood (L)

- Evaluation criteria for Consequence : 1=mild; 5=very severe
- Evaluation criteria for Likelihood: 1=rarely; 5=always

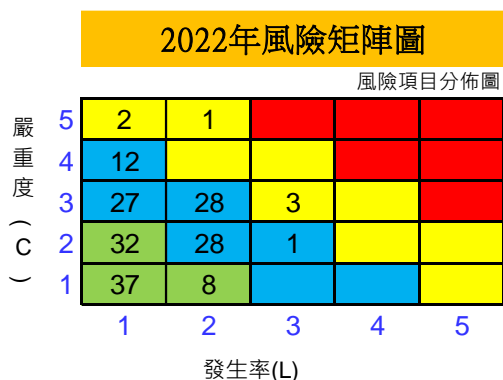
Consequence 嚴重度	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	2	3	4	5
		Likelihood 發生率				

B. Countermeasures for risk assessment results

- Risk index (C x L)=1~2, keep under observation
- Risk index (C x L)=3~6, Indicators set up for monitoring
- Risk index (C x L)=8~12 or 5, Require improvement plans
- Risk index (C x L)=15~25, Need immediate improvement

C. Results of risk identification and mitigation actions in 2022:

- Nanya's 179 risk factors in 2022 are identified with the risk matrix and the number of risk factors are as follows, including 0 items needed immediate improvement, 6 items required improvement plans, 96 items should have indicators set up for monitoring, and 77 items were kept under observation.



Risk Level	Operational	Information Security	Finance	Hazard	Legal	Sum
keep under observation (Score:1 - 2)	46	2	3	23	3	77
Indicators set up for monitoring (Score:3 - 6)	85	8		2	1	96
Require improvement plans (Score:8- 12 or 5)	5	1				6
Need immediate improvement (Score:15-25)						
Total	136	11	3	25	4	179

- According to the risk identification results in 2022, there were 6 risk items that required improvement plan: Taipower's power supply is abnormal, earthquake, fire, employee resignation/ headhunting, COVID-19 Impact, and supply chain information security threat. Summarized the risk category, risk items that required improvement plans, and mitigating actions as follows.

No	Risk category	Risk items require improvement plans	Mitigating actions
1	Interruption of public utilities (shortage of natural gas, water, electricity, drains, and fuel)	Taipower's power supply is abnormal	<p>A. Emergency generators and DUPS backup power systems have been installed in the factory.</p> <p>B. The machine must comply with SEMI-F47 to reduce the sensitivity of the machine to power voltage drop and reduce the abnormality of power trip.</p> <p>C. The power supply in the factory adopts a double-circuit design to reduce the abnormal risk of single-circuit power supply.</p> <p>D. Customize the power saving plan to reduce the overall power consumption.</p> <p>E. When the power supply is insufficient, the load of non-production equipment is reduced to reduce power consumption.</p> <p>F. Regularly arrange contingency drills according to the recent abnormal power supply situation, so as to prepare for rapid response when power supply is abnormal.</p>
2	Natural disasters, severe weather (flooding, typhoons, earthquakes)	Earthquake	<p>A. FAB 3AN has installed anti-seismic equipment to improve the anti-seismic ability of the machine.</p> <p>B. Compared with 3AN, FAB 3A installs anti-vibration tables on all newly installed machines to increase the anti-seismic capacity of the machines.</p> <p>C. Completed the structural improvement of the old model with weaker anti-seismic design to increase the anti-seismic capacity.</p> <p>D. Cooperate with the launch of the anti-earthquake mechanism, revise the abnormal handling specifications of equipment, and reduce the manpower burden of engineers handling machines and abnormal goods when an earthquake occurs.</p>

3	Major industrial accidents	Fire	<p>A. In accordance with CNDICI-0386 key points for employees to participate in process safety management operations, regular inspection and maintenance, regular inspection of electric panels and tape heaters with infrared thermal imaging equipment.</p> <p>B. Regularly carry out fire drills to increase the resilience of employees.</p> <p>C. Execute the construction application in accordance with the company's regulations to avoid non-compliant construction behaviors.</p> <p>D. Full installation of very early smoke detection system.</p> <p>E. The machine equipment is made of flame-resistant and flame-resistant materials.</p> <p>F. Fully remove and control flammable materials in clean rooms.</p>
4	Loss of personnel (resignation, accidental death, dying of disease, kidnapping, headhunting)	Employee resignation/headhunting	<p>A. Committed to the long-term talent cultivation plan, planting a stable source of direct and indirect human resources in the future.</p> <p>a. Cooperating with various northern universities of science and technology to handle production-carrying internship projects.</p> <p>b. Establish long-term industry-education special classes with various high-quality colleges and universities to provide stable R&D and internship manpower.</p> <p>c. Continue to handle the Future Star Scholarship Program of various national colleges of engineering to increase the company's exposure.</p> <p>d. Continue to offer Layout/IC design and other industry-university special courses, and combine with colleges and universities to cultivate talents.</p> <p>B. Establish a referral bonus system and invite excellent talents to return to work to increase the source of human resources.</p> <p>C. Plan the retention plan of direct interns to retain excellent direct employees.</p>
5	Illnesses and infectious diseases	COVID-19 Impact	<p>A. Epidemic prevention team meetings are held weekly to discuss various response measures in real time.</p> <p>B. Conduct daily epidemic investigations, grasp the risk of overlapping colleagues' footprints, and formulate regulations on business trips, number of meetings, departmental dinners, etc., to reduce the associated risks of infection/quarantine.</p> <p>C. Before returning to the factory for consecutive holidays, colleagues must complete the rapid screening and negative results before entering the factory, and start the general screening and environmental cleaning of the factory.</p> <p>D. Provide rapid screening reagents for each colleague, and have sufficient inventory.</p> <p>E. Continue to pay attention to the vaccination rate at home and abroad, encourage employees to vaccinate and report back early, so as to grasp the vaccination</p>

			coverage rate of the company's employees and the group's epidemic prevention capacity.
6	Information security (hacking, virus, terminal protection failure)	Supply chain information security threat	<p>A. Nanya plans to implement differential management through supplier classification; design a self-evaluation form for suppliers to evaluate the current status of their information security, and then use suppliers' self-evaluation results and attributes as the basis for classification; conduct on-site audits for key high-risk suppliers.</p> <p>B. The goal is to complete audits of (3) high risk suppliers before November 30, 2023.</p>