

# **Chailease Holdings Co., Ltd.**

## **Procedures for Engaging in Derivatives Trading**

Approved by Shareholders' Meeting on Dec. 1, 2010  
Amended and approved by Shareholders' Meeting on May 30, 2013  
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### Article 1 Purpose of this Regulation:

In order to follow through on information disclosure, protection of investment, and strengthen the Company's risk management system on derivative transactions, the Company drafts Procedures for Engaging in Derivatives Trading (the Procedures) based on "Regulations Governing the Acquisition and Disposal Assets by Public Companies".

### Article 2 Scope of Application:

1. The "Derivatives" called in the Procedures means forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, whose value is derived from a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable; or hybrid contracts combining the above contracts; or hybrid contracts or structured products containing embedded derivatives.
2. The forward contracts indicated in the Procedures does not include insurance contract, performance contract, after-sales service contracts, long term leasing contract and long term procurement (sales) contract.

### Article 3 Transaction Principals and Guidelines:

1. Transaction Type:

The Company could engage in derivatives such as interest rates, exchange rate, and currency related forward contract, option and exchange, and the compound contracts combining the above products.

2. Management and Hedging Strategies:

The object of derivative transaction that the Company intends to engage in shall choose the products that could hedge against the risk arising

from business operation as the main consideration. Trading partner, in principle, shall be selected from the financial institutions that usually have business dealings with the Company to avoid credit risk; and determine whether the transaction type is hedging or non-hedging as the basis for accounting entries.

### 3. Division of Power and Responsibilities:

#### (1). Trading Department:

- I. Responsible for gathering financial market information and being familiar with derivative products and related regulations.
- II. Evaluate the Company's risk exposure, develop operation strategy, and operate according to the Company's authorization.

#### (2). Accounting and Financial Department:

Relevant Accounting Processing shall be in accordance with generally accepted accounting principles (GAAP) and other applicable laws and regulations.

The GAAP described in the preceding paragraph shall mean the following, as endorsed by the Financial Supervisory Commission (FSC), Executive Yuan: International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

### 4. Transaction Limit:

- (1) For operation of derivatives of which main purpose is hedging: not to exceed the Company's risk exposure.
- (2) For operation of derivatives of which main purpose is not hedging: The Company temporarily does not operate derivatives products that are not for hedging.

### 5. Performance Evaluation:

For operation of non-hedging derivative products, using each contract's operation gain or loss as the basis for performance evaluation and the operating gain/loss is settled monthly.

6. The Amount of Loss Ceiling:

For operation of hedging derivative products, the amount of loss ceiling for each contract is 20% of an individual contract; the loss ceiling for accumulated loss is 10% of the net worth in latest financial statements.

Article 4 Operating Procedure:

1. After the trading department developed operating strategy and submitted to the competent supervisor for approval, the trading department could operate within the authorized amount. The authorized amount are listed below:

Authorized Amount	Competent Manager
Transaction Amount for a trade is below NT\$300,000,000 (include)	Department Manager
Transaction Amount for a trade is below NT\$500,000,000 (include)	Vice President
Transaction Amount for a trade is below NT\$1,000,000,000(include)	President
Transaction Amount for a trade is below NT \$3,000,000,000	Chairman
Transaction Amount for a trade is above NT \$3,000,000,000	Board of Directors(Note)

Note : The transaction shall have the agreement from more than 1/2 of the members in the Audit Committee first, before it could be sent to the Board of Directors for a resolution. If the case does not obtain the support of more than 1/2 of the members in the Audit Committee, it shall be agreed by more than 2/3 of all the directors in the Board and the resolution of the Audit Committee shall be recorded in the meeting minute of the Board of Directors meeting.

2. The Company shall report to the most recent Board of Directors after it authorizes the relevant personnel to handle derivatives trading in accordance with the Procedures.

Article 5 Public Disclosure of information:

1. According to “Regulations Governing the Acquisition and Disposal of Assets by Public Companies”, the Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.
2. Under any of the following circumstances, the Company shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations on the date of occurrence of the event :
  - (1) Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company
  - (2) Unrealized Losses from derivatives trading reaching 3% of net worth of the Company.
  - (3) When the Company at the time of public announcement makes an error or omission in an item required by the Procedures to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.
  - (4) Change to the originally publicly announced and reported information.

Article 6 Risk Management measures:

1. Scope of Risk Management:
  - (1). Credit Risk Consideration: The key principle is that the trading targets are limited to financial institutions that have business relationship with the Company and could provide professional information to the Company.

(2). Market Risk Consideration: Only trade through financial institutions in the open market.

(3). Liquidity Risk Consideration:

- I. Mainly trade products with high liquidity
- II. Trading target must have sufficient equipment, information and trading capability and are able to trade at any market.
- III. Accounting and Financial Department shall watch for the cash flow status to ensure that the Company has sufficient cash to complete derivative transactions.

(4). Operation Risk Consideration: Must strictly comply with the authorized amount and operating procedure to avoid operation risk.

(5). Legal Risk Consideration: Any documents sign with financial institutions, the personnel in charge shall communicate with legal personnel first to avoid any legal risk.

2. Internal Control on Operation Process:

(1). Trading personnel and operating personnel in confirmation and settlement are not to mutually hold a concurrent post.

(2). Trading personnel shall hand over the trade certificate or contract to the registering personnel for logging.

(3). Registering personnel must regularly check with the trading financial institutions on trading entries in the Company's account or send confirmation letters to the trading financial institutions for trade reconfirm.

(4). Registering personnel must check the trading records to see whether the total trading amount exceeds the limit specified in the Procedures.

3. Trading Position Assessment:

The position of derivative products held shall be assessed every week. If the derivative products are hedging transaction for business needs, they shall be assessed at least twice in a month and the assessment report shall be submitted to senior management personnel authorized by the Board of

Directors.

Article 7 The Board of Directors shall comply with the following principles to supervise the Company's engagement in derivative product transactions:

1. Designate senior management personnel to pay continuous attention to monitoring and controlling derivatives trading risk.
2. Regular assess trading performance to see whether it conforms to existing operating strategies and whether the risk the Company assumes is within the bearable range of the Company.

The senior management personnel designated by the Board of Directors shall:

1. Periodically evaluate the risk management measures currently employed are appropriate and are faithfully conducted in accordance with the Procedures for engaging in derivatives trading formulated by the Company.
2. When irregular circumstances are found in the course of supervising trading and profit-loss circumstances, appropriate measures shall be adopted and a report immediately made to the Audit Committee and the Board of Directors.

The risk assessing, monitoring and controlling personnel, and operation personnel such as trading personnel and confirmation and settlement personnel shall belong to different departments, and shall report assessment items to the Board of Directors or senior management personnel with no responsibility for trading or position decision-making every half a year.

Article 8 The Company shall establish a log book for derivatives trading and the log book shall record the following items:

1. Engaged derivative product transactions' type, amount and the Board of Director approval date.
2. The holding position of derivative products and regular assessment items.
3. Whether transaction performance complies with predefined operating strategies and the regular assessment of whether the risk assumed is within the Company's bearable scope.

4. Whether the risk management measures utilized are appropriate and whether the Company truly follows this principle and the Procedures for handling derivative product transaction to conduct regular assessments.

The Company's log book for logging derivatives trading shall be kept for 5 years.

Article 9 Internal Audit system:

The internal auditor shall regularly examine the adequacy of internal control on derivative trading and monthly check the compliance condition of the trading department to the Procedure and make audit report. If significant violation is found, the internal auditor shall notify Audit Committee in writing.

Article 10 If the relevant personnel in the Company violate the Procedures, he/she shall be dealt with according to the Company's "Regulations governing employee rewards and punishment".

Article 11 For any matters other than prescribed in the Procedures, "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and other relevant laws shall apply.

Article 12 Subsidiary controlling procedure

1. The subsidiary of the Company shall follow the rules in "Regulations Governing the Acquisition and Disposal of Assets by Public Companies" and draft the Procedures for engaging in derivative product transaction and check whether its operating procedure complies with the principles and regulations by itself and whether it conducts the relevant matters according to the regulations in defined processing procedure.
2. The Company's internal auditor shall review the Subsidiaries' self-examination report on its compliance to the Procedures for derivative product transactions and relevant matters.
3. The Company's subsidiary shall report its engagement with derivatives trading by the fifth day of each month in writing to the Company's Accounting and Financial Department. The Company shall publicly announce the relevant information of the subsidiaries. If the amount of

loss from engaging in derivative trading reaches the loss ceiling defined in the Procedures for all or individual contract, the Subsidiary shall hand over the relevant information to the Company on the date of occurrence of such loss. The Company shall publicly announce the relevant information for the subsidiaries.

4. If the unrealized losses on derivatives trading of the major Subsidiaries reach to 3 % or more of the net worth of the Company, the major Subsidiaries shall report to the Company in the on the date of occurrence. The Company shall publicly announce the relevant information for the Subsidiaries.
5. When the Subsidiaries find an error or omission on the public announcement which is required to announce by the Procedures, the Subsidiaries shall report to the Company on the date of occurrence. And, the Company shall correct and announce again.

Article 13 The Procedures shall have the agreement of more than 1/2 of the members in Audit Committee and then submitted to the Board of Directors for approval; after it is passed by the Board of Directors, it would be sent to the Shareholders' meeting for final approval. It would then be bulletined for enforcement. When the Procedures is amended, the same procedure shall be applied.

When the Procedures is submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the Minutes of the Board of Directors' Meeting.

If the Procedures does not have the agreement from more than 1/2 of the members in the Audit Committee, it could be approved upon by more than 2/3 of the all the directors in the Board and the resolution of the Audit Committee shall be recorded in the Minute of Board of Directors' Meeting.