

# Cathay Financial Holdings Tax Governance Report 2019

## I. Cathay FHC Tax Governance Policy

Cathay FHC established its Tax Governance Policy with the Board of Directors as the highest level decision-maker for tax risk management mechanisms. The policy was established to strengthen its response to international trends in tax governance, to effectively control tax risks and implement corporate sustainability, to increase value for shareholders, and to fulfill its CSR. Our Accounting Department within the Finance Division is responsible for tax management and delivers reports to the Risk Management Division on a regular basis. The Risk Management Division is responsible for delivering reports to the Board of Directors on an annual basis to ensure effective operation of the tax management mechanism, and that tax governance is properly implemented.

The Company's tax governance is based on the principles of good faith and integrity, and the Tax Governance Policy and Code of Conduct are as follows:

### I. Compliance:

We are committed to comply with the spirit as well as the letter of the tax laws and regulations of each jurisdiction in which we operates, and we accurately calculate all tax charges and file tax returns prior to legal deadlines so as to fulfill our obligations to pay taxes.

### II. Risk management:

We established a sound tax risk management structure and organizational culture, and carefully evaluate tax risks and response measures with consideration to the optimization of our overall tax burden and the impact on our reputation, risk management, and sustainability values under globalized operations.

### III. Economic substance:

We do not use tax structures intended for tax avoidance, do not transfer value created to low tax jurisdictions, or use secrecy jurisdictions (known as tax havens) to avoid taxes. Related-party transactions shall comply with arm's length principles and we are committed to complying with the transfer pricing rules in each jurisdictions where we operate, so as to fulfill our tax obligations in the jurisdictions where value is created.

### IV. Information transparency:

Tax-relevant information will be disclosed publicly to stakeholders on a regular basis to ensure transparency.

V. Integrity and communication:  
We will foster a mutually trustworthy and honest relationship with tax authorities in each jurisdictions where we operate. Where possible, we will provide practical industry views and market insights to improve the tax environment and tax system.

VI. Talent Cultivation:  
We shall ensure that our employees receive regular domestic and foreign training in order to enhance their competencies with regard to tax governance. We manage tax-related affairs based on principles of good faith and integrity and effectively manage tax risks in order to implement corporate sustainability, maintain shareholder equity, and fulfill our corporate social responsibility.

For Cathay FHC's tax governance policy, please click on the link below:  
[Cathay Financial Holdings Tax Governance Policy](#)

## II. Implementation of Tax Governance

### 1. Overview of Cathay FHC's global operations and tax payment

Cathay FHC complies with local tax laws of business locations around the world by calculating taxes due accurately and filing tax returns by statutory deadlines. Cathay FHC's net operating income was NT\$555.9 billion, pre-tax net profit was NT\$70.6 billion, and corporate income tax paid worldwide was NT\$4.0 billion in 2019. In 2019, 95.7% of our revenue, 93.0% of our operating profits, and 77.5% of income tax paid were in Taiwan, which is our main country of operation. See Table 1 below for the amount and percentage accounted for by each country.

**Table 1: Percentage of Revenue, Operating Profits, and Taxes Paid in Each Country in 2019**

Unit: NT\$ billion, %

By country	2019					
	Revenue (Note 1)	%	Operating Profits (Note 2)	%	Income Tax Paid	%
<b>Taiwan</b>	531.6	95.7%	65.6	93.0%	3.1	77.5%
<b>China</b>	11.7	2.1%	1.2	1.7%	0.3	7.5%
<b>Vietnam</b>	4.5	0.8%	1.8	2.5%	0.3	7.5%
<b>United Kingdom</b>	7.5	1.3%	1.8	2.5%	0.2	5.0%
<b>Others</b>	0.6	0.1%	0.2	0.3%	0.1	2.5%
<b>Total</b>	555.9	100%	70.6	100%	4.0	100%

Note 1: "Revenues" were disclosed as "Profit from operations" in the financial statement due to Regulations Governing the Preparation of Financial Reports by Financial Holding Companies.

Note 2: "Operating Profits" were disclosed as "Profit before income tax" in the financial statement due to Regulations Governing the Preparation of Financial Reports by Financial Holding Companies.

## 2. Description of Cathay FHC's effective tax rate and income tax rate paid

**Table 2: Income tax expense and taxes paid**

Unit: NT\$ billion

Item	2018	2019	Two-year average
Earnings before tax (A)	55.60	70.60	63.10
Reported taxes (B)	3.78	6.70	5.24
Effect of changes to statutory tax rate (17%→20%) (C)	3.30	-	1.65
Adjusted Reported taxes (D)=B+C	7.08	6.70	6.89
Cash taxes paid (E)	12.36	4.02	8.19

✧ Source: Cathay FHC's 2019 consolidated financial statements

**Table 3: Cathay FHC's effective tax rate and cash tax rate**

Effective tax rate	2018	2019	Two-year average	Adjusted average (adding back statutory tax-exempt income)	Industry average
Effective tax rate (F)=D/A	12.73%	9.49%	<b>10.92%</b>	<b>25.29%</b>	<b>21.10%</b>
Cash tax rate (G)=E/A	22.23%	5.69%	<b>12.98%</b>	<b>27.35%</b>	<b>24.66%</b>

✧ Source: Cathay FHC's 2019 consolidated financial statements

✧ Statutory tax exempt income includes: income from sales of domestic securities, dividend income due to tax integration, and offshore banking unit (OBU) income.

✧ The industry average is according to the Sustainability Assessment Companion issued by RobecoSAM in 2020, which is based on the average book effective tax rate and cash effective tax rate of the 24 industries in the Global Industry Classification Standard.

Cathay FHC's average effective tax rate for the past two years was lower than the industry average tax rate due to the following reasons:

1. Cathay FHC mainly operates in Taiwan (see Table 1 for details), approximately 93% of its operating income is from Taiwan, and the tax amount is calculated using Taiwan's corporate income tax rate of 20%.
2. On average 72% of Cathay FHC's operating profits in the past two years is statutory tax-exempt income in Taiwan. If statutory tax-exempt income is added back, then the average effective tax rate and cash tax rate will respectively increase to 25.29% and 27.35%, as shown in Table 3.