

2020 Cathay FHC's Report on Remuneration of the President

2020.05.31

Manager performance evaluations and the remuneration policy, system, standard, and structure are reviewed by the Remuneration Committee of Cathay FHC, and then submitted to the Board of Directors for resolution. Our goal is for managers to fulfill their duties to improve our long-term business performance, and further achieve our business strategies and ensure shareholders equity. Cathay carries out performance management and pays remuneration in accordance with the Manager Performance Development Guidelines and Guidelines for Remuneration of Senior Management. The performance of managers is evaluated based on annual goal attainment, and results serve as the basis for remuneration.

(I) Linking Remuneration of the President to Long-term and Short-term Performance

The remuneration structure of Cathay's president consists of a fixed salary, bonuses, and long-term incentive (LTI), in which the fixed salary is linked to the president's responsibilities, performance, and abilities, with reference to market standards. Bonuses are based on Cathay's overall business performance and the president's personal performance in the current year. Cathay established a long-term incentive program to provide managers with incentives to pursue long-term performance. The president's bonus is deferred in the form of phantom stock for a period of 3 years, thereby linking the president's remuneration with Cathay's long-term performance.

(II) Remuneration of the President is Linked to Performance Indicators and Approval Procedures

	Evaluation Indicator	Approval Procedure
Fixed salary	Paid on a monthly basis	Reviewed by the Remuneration Committee and Board of Directors
Variable salary	1. Cathay's business performance: Changes in shareholding ratio by foreign investors (relative to other financial institutions), after-tax EPS of common stock, Cathay's double leverage ratio, Cathay's capital adequacy ratio 2. Individual performance: Talent Experience and Development Program; results of	

	<p>supervising Cathay’s compliance management mechanisms, AML/CFT management mechanisms, and SOC service mechanisms; and attainment of GHG reduction goals by Cathay FHC and its subsidiaries</p> <p>3. Internal control implementation results</p> <p>4. Compliance implementation results</p>	
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(III) Remuneration Structure of the President

Unit: NTD

Position/ Name	Fixed salary	Variable salary		Total remuneration
		Cash award;	LTI	
President Chang-Ken Lee	15,000,000	21,270,000	4,644,800	40,914,800

The 2020 remuneration of President Chang-Ken Lee was 30.307 times the mean employee compensation, and 38.095 times the median employee compensation.

Note: Employees above are “full-time non-managerial staff” as defined in the announcement of Taiwan Stock Exchange, and exclude managers, part-time workers, and employees who have worked at Cathay for less than 6 months (including domestic and foreign employees). The average number of employees is used for calculation.

(IV) LTI Structure

Cathay established a long-term incentive program to provide managers with incentives to pursue long-term performance. The president's bonus is deferred in the form of phantom stock for a period of 3 years, after which it is calculated based on the stock price and paid in cash. Furthermore, a LTI is provided based on performance and stock price changes over the 3 years, thereby linking the president’s remuneration with Cathay’s long-term performance.

We also established a clawback mechanism to ensure our long-term business performance and shareholder equity. Bonuses that were granted but not yet distributed may be clawed back in the event of intentional or gross negligence in violation of the law, internal regulations, and related contracts, or business conduct that puts the Company at severe risk, or other unethical conduct.

Position/Name	LTI			
	Phantom Stock (Thousand Shares)			
	Paid in 2020 (Granted in 2017)	To be paid in 2021 (Granted in 2018)	To be paid in 2022 (Granted in 2019)	To be paid in 2023 (Granted in 2020)
President Chang-Ken Lee	96	169	181	194