

# **Cathay Financial Holdings Tax Governance Report 2022**

## **1. 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 operate, 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 jurisdiction 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 jurisdiction 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.

Any amendments or revocations to the Cathay FHC's tax governance policy require approval through a resolution by the Board of Directors, please click on the link below:

[Cathay Financial Holdings Tax Governance Policy](#)

## 2. Cathay FHC's various economic entities, main operations, and locations

No.	Company	Main Operations	Location	Average Number of Employees
1	Cathay Financial Holdings Co., Ltd. (Cathay FHC)	Financial holdings company	Taiwan	46,182
2	Cathay Life Insurance Co., Ltd. (Cathay Life)	Life insurance	Taiwan	
3	Cathay United Bank (CUB)	Banking	Taiwan	
4	Cathay Century Insurance Co., Ltd. (Cathay Century)	Property insurance	Taiwan	
5	Cathay Securities Corporation (Cathay Securities)	Securities	Taiwan	
6	Cathay Venture Inc. (Cathay Venture)	Venture capital	Taiwan	
7	Cathay Securities Investment Trust Co., Ltd. (Cathay SITE)	Entrusted investments	Taiwan	
8	Cathay Securities Investment Consulting Co., Ltd. (Cathay SICE)	Securities investment consulting services	Taiwan	
9	Cathay Futures Co., Ltd. (Cathay Futures)	Futures services	Taiwan	
	Cathay Private Equity Co., Ltd	Private equity	Taiwan	
11	Cathay Industrial Research and Design Center Co., Ltd.	Real Estate Rental and Leasing	Taiwan	
12	Cathay Power Inc.	Energy technology services	Taiwan	
13	SUNRISE PV ONE CO., LTD	Energy technology services	Taiwan	
14	Cathy Sunrise Two Co., Ltd.	Energy technology services	Taiwan	
15	Cathy Sunrise Electric Power Two Co., Ltd.	Energy technology services	Taiwan	
16	Bai Yang Energy Co., Ltd.	Energy technology services	Taiwan	
17	Hong Sheng New Technology Co., Ltd.	Energy technology services	Taiwan	
18	Shen Lyu Co., Ltd.	Energy technology services	Taiwan	
19	Nan Yang Power Co., Ltd.	Energy technology services	Taiwan	
20	Shu Guang Energy Co., Ltd.	Energy technology services	Taiwan	

No.	Company	Main Operations	Location	Average Number of Employees
21	Neo Cathay Power Corp.	Energy technology services	Taiwan	
22	Si Yi Co., Ltd.	Energy technology services	Taiwan	
23	Da Li Energy Co., Ltd.	Energy technology services	Taiwan	
24	Yong Han Co., Ltd.	Energy technology services	Taiwan	
25	CM Energy Co., Ltd.	Energy technology services	Taiwan	
26	Tian Ji Energy Co., Ltd.	Energy technology services	Taiwan	
27	Tian Ji Power Co., Ltd.	Energy technology services	Taiwan	
28	Hong Tai Energy Co., Ltd.	Energy technology services	Taiwan	
29	Hong Tai Power Co., Ltd.	Energy technology services	Taiwan	
30	Chen Fong Power Co., Ltd.	Energy technical services and electric power supply, electric transmission and power distribution machinery manufacturing	Taiwan	
31	Cathay Lujiazui Life Insurance Company Limited (Cathay Lujiazui Life)	Life insurance	China	2,523
32	Lin Yuan (Shanghai) Real Estate Co., Ltd.	Office leasing	China	
33	Cathay United Bank (China) Ltd.	Banking	China	
34	Conning Asia Pacific Limited	Asset Management	Hong Kong	45
35	Cathay United Bank, Hong Kong Branch	Banking	Hong Kong	
36	Cathay Securities (Hong Kong) Ltd.	Securities services	Hong Kong	
37	Cathay Capital (Asia) Limited	Investment services	Hong Kong	
38	Cathay United Bank, Singapore Branch	Banking	Singapore	111
39	Global Evolution Fund Management Singapore Pte. Ltd.	Asset Management Services	Singapore	
40	Cathay United Bank (Cambodia)	Banking	Cambodia	615

No.	Company	Main Operations	Location	Average Number of Employees
	Corporation Limited (CUBC)			
41	CUBC Investment Co., LTD.	Investment services		
42	Cathay United Bank, Labuan Branch	Banking	Malaysia	11
43	Cathay United Bank, Vientiane Branch	Banking	Laos	18
44	Cathay United Bank, Manila Branch	Banking	Philippines	28
45	Cathay United Bank, Yangon Branch	Banking	Myanmar	18
46	Conning Japan Limited	Asset Management Services	Japan	0
47	Indovina Bank Limited	Banking	Vietnam	6,381
48	Cathay United Bank, Ho Chi Minh Branch	Banking	Vietnam	
49	Cathay Insurance (Vietnam) Co., Ltd.	Property insurance services	Vietnam	
50	Cathay Life Insurance (Vietnam) Co., Ltd.	Life insurance	Vietnam	
51	Cathay Woolgate Exchange Holding 1 Limited	Real estate investment and management	UK Jersey	0
52	Cathay Woolgate Exchange Holding 2 Limited	Real estate investment and management	UK Jersey	
53	Cathay Walbrook Holding 1 Limited	Real estate investment and management	UK Jersey	
54	Cathay Walbrook Holding 2 Limited	Real estate investment and management	UK Jersey	
55	Conning Holdings Limited	Holdings company	UK	25
56	Conning Asset Management Ltd.	Asset Management Services	UK	
57	Conning (Germany) GmbH	Risk management and software	Germany	11
58	Global Evolution Holding ApS	Holdings company	Denmark	49
59	Global Evolution Financial ApS	Asset Management Services	Denmark	
60	Global Evolution Fondsmæglerelskab A/S	Asset Management Services	Denmark	
61	Global Evolution Manco S.A.	Asset Management Services	Luxembourg	7
62	Conning U.S. Holdings, Inc.	Holdings company	US	364
63	Conning Holdings Corp.	Holdings company	US	

No.	Company	Main Operations	Location	Average Number of Employees
64	Conning & Company	Holdings company	US	
65	Global Evolution USA, LLC	Asset Management Services	US	
66	Conning, Inc.	Asset Management Services	US	
67	Goodwin Capital Advisers, Inc.	Asset Management Services	US	
68	Octagon Credit Investors, LLC	Asset Management Services	US	
69	Conning Investment Products, Inc.	Securities services	US	
70	Octagon Credit Opportunities GP, LLC	Fund management services	US	
71	Octagon Funds GP LLC	Fund management services	US	
72	Octagon Funds GP II LLC	Fund management services	US	
Total				56,388

### 3. Implementation Progress of Tax Governance

#### (1) Cathay FHC Global Operations Overview and Tax Payment

Cathay FHC adheres to local tax regulations in its global business locations, accurately calculates taxes, and files tax returns within the statutory deadlines. In 2022, Cathay FHC achieved a revenue of NT\$341.4 billion and a operating income of NT\$49.9 billion. The company paid NT\$10.95 billion in corporate income taxes globally. As Taiwan is the primary operating area, 90% of the net income, 93% of the profit before income tax, and 90% of the income tax expense originated from Taiwan. The income tax paid in Taiwan accounted for 91%. Please refer to Table 1 for the amounts and percentages in each country.

**Table 1: Net Income, Profit before income tax, Income Tax Expense, and Proportion of Paid Corporate Income Taxes in Major Operating Areas.**

Unit: NT\$ billion, %

By country	2022							
	Revenue (Note 1)	%	Operating Income (Note 2)	%	Income Tax Expense	%	Income Tax Paid	%
<b>Taiwan</b>	308.68	90.4	46.21	92.5	10.80	90.1	9.93	90.7
<b>China</b>	17.69	5.2	1.01	2.0	0.11	0.9	0.03	0.3
<b>Vietnam</b>	7.30	2.1	1.93	3.9	0.06	0.5	0.29	2.6
<b>US</b>	6.74	2.0	1.27	2.6	0.08	0.7	0.07	0.6
<b>Others</b>	1.02	0.3	(0.47)	(1.0)	0.94	7.8	0.63	5.8
<b>Total</b>	341.43	100.0	49.95	100.0	11.99	100.0	10.95	100.0

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 income" were disclosed as "Profit before income tax from continuing operations" in the financial statement due to Regulations Governing the Preparation of Financial Reports by Financial Holding Companies.

#### (2) Details of Cathay FHC's Effective Tax Rate and Income Tax Paid

**Table 2: Cathay FHC's Income Tax Expense and Income Tax Paid**

Unit: NT\$ billion

Item	2021	2022	Two-year average
<b>Profit before income tax (A)</b>	159.53	49.95	104.74
<b>Income Tax Expense (B)</b>	18.64	11.99	15.32
<b>Income tax paid (C)</b>	33.12	10.95	22.04

✧ Source: Cathay FHC's 2022 consolidated financial statement

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

Effective tax rate	2021	2022	Two-year average	Industry average
<b>Book effective tax rate (D)=B/A</b>	11.68%	24.00%	<b>14.62%</b>	<b>19.50%</b>
<b>Cash Effective Tax Rate (E)=C/A</b>	20.76%	21.92%	<b>21.04%</b>	<b>24.66%</b>

✧ Source: Cathay FHC's 2022 consolidated financial statement

- ✧ 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 2022, 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.

The two-year average of Cathay FHC's effective tax rate is lower than the industry average for the following reasons:

1. Single jurisdiction: the group's primary base of operations is in Taiwan (refer to Table 1), and 92.5% of the profit before income tax comes from Taiwan. In Taiwan, the corporate income tax is calculated based on either a 20% tax rate under the Income Tax Act or a 12% tax rate based on the Income Basic Tax Act.
2. The increase in the effective tax rate for 2022 is due to the undistributed earnings subject to additional tax has paid, and the pretax profits for this year have also decreased compared to last year, resulting in a decrease in the tax base for the effective tax rate.