Statement

Cathay Life Insurance and its affiliates under Cathay Financial Holding Company (Cathay FHC) hold a common goal to promote sustainability. Cathay FHC is recognized as one of the most respected financial institutions in Taiwan while Cathay Life Insurance has devoted tremendous efforts to foster sustainability in insurance industry. In 2016 Cathay Life Insurance became the first Taiwan insurance company complied with the Principles for Sustainable Insurance (PSI) by incorporating ESG issues into our decision-making and promoting our belief in sustainability to our stakeholders. This document is our first PSI disclosure report updating our achievement on PSI principles. Cathay Life expects to publish PSI disclosure report annually.

About Cathay Life

Cathay Life Insurance is the largest life insurer in Taiwan with total assets of US$170.8bn as of end 2016. The firm was founded in 1962 and has 30,700 employees servicing more than 8 million customers. Total premium income reached US$20.7bn in 2016 with focus on value-driven strategy. Its parent company Cathay FHC is the largest FHC in Taiwan with total assets of US$251.1bn.
### Company Strategy

| Establish a company strategy at the Board and executive management levels to identify, assess, manage and monitor ESG issues in business operations | 1. We incorporate ESG issues into decision-making in a wide variety of business operation including products, underwriting, claims, investment, risk management, employment environment and community engagement.  
2. The Board of Directors of Cathay FHC directly supervises the Sustainability Committee and Team. Each subsidiary including Cathay Life fully complies with group ESG initiatives via own sustainability teams supervised by an independent director and executive management. |
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| Dialogue with company owners on the relevance of ESG issues to company strategy | 1. The Sustainability Team of Cathay Life presents its ESG progress and new initiatives to the Board of Directors on semi-annual basis.  
2. Cathay Life invites independent directors to attend and provide advices in the firm’s quarterly Corporate Sustainability Committee while the company also update its ESG progress to independent directors whenever appropriate.  
3. Cathay FHC investor relation team updates group ESG issues to its shareholders through analysts meetings. |
| Integrate ESG issues into recruitment, training and employee engagement programmes | 1. Cathay Life highly values the importance of ESG issues. Its “Code of Ethics” provides rules to prevent any form of discrimination and encourage employees to safeguard the friendly working environment. Cathay Life has also recruited minority such as aboriginal population and handicap talents.  
2. Newly hired employee must take courses on corporate sustainability in orientation. Every employee needs to take mandatory training course on ESG related topics and compliance, anti-money laundry on regular basis.  
3. Cathay Life strive to maintain an environment with common value, diversity, equality and free of discrimination-free and harassment. The firm cares about employee rights, innovation and career development; it has provided many internal platforms for direct communication with employee. |
### Risk Management and Underwriting

<table>
<thead>
<tr>
<th>Establish processes to identify and assess ESG issues inherent in the portfolio and be aware of potential ESG-related consequences of the company’s transactions</th>
<th>Cathay Life has incorporated the following ESG related issues into products and underwriting process to ensure ESG issues are clearly accessed:</th>
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<tbody>
<tr>
<td></td>
<td>• Ethic: evaluate potential risk from moral issues or intention of tax evasion.</td>
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<td>• Customer privacy: proper process to ensure high security of customer information protection.</td>
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<td>• Equality: ensure equal right to insurance policy applications from handicap customers.</td>
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<td></td>
<td>• Preventing improper selling: ensure inclusion of proper meaningful risk amount in life insurance policies with face amount increased by compounded interest.</td>
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<td>• Customer protection: evaluate whether new transactions are acceptable by careful review on customers’ characteristics including age, knowledge, intelligence, expression capability and health status.</td>
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<td>Integrate ESG issues into risk management, underwriting and capital adequacy decision-making processes, including research, models, analytics, tools and metrics</td>
<td>1. Future risk pricing: Cathay Life builds a complete set of risk measurement tools through cooperation with industry experts and academia to gauge future trends related to aging population. The models are also applied to product pricing.</td>
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<td>2. Risk assessment and warning: To be in line with international best management practices, Cathay Life establishes Loss Data Collection system (LDC) and Risk and Control Self-Assessment (RCSA) tools to strengthen the mechanisms for operational risk management and reduce the associated risks.</td>
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<td>3. Solvency Mechanisms: Cathay Life integrates various types of quantification models on financial risk, such as investment asset evaluation and stochastic models of market risk factors. It has further developed a comprehensive assessment model to ensure sufficient solvency. The model was reviewed by external consultants in 2014 and verified to meet the best practices of large multinational insurance companies.</td>
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4. Customer protection:
In addition to establishing the information security and personal data protection policy, Cathay Life protects customers’ personal information with the Security Information and Event Management (SIEM) and Network Data Loss Prevention (NDLP) systems and has continuously obtained ISO 27001:2013 and BS 10012 certifications.

5. International accounting practice:
Cathay Life has established an IFRS 17 Task Force and the IFRS 9 expected credit losses model to improve the transparency of corporate information. We hope such efforts can mitigate the impact to Taiwanese insurers during the transition to new accounting standards so that insurers can be on the right track following the international trends. Also, the insurers would protect policyholders’ rights and be a responsible insurer if having the smooth transition of new accounting standards.

Sales and Marketing

| Educate sales and marketing staff on ESG issues relevant to products and services and integrate key messages responsibly into strategies and campaigns | 1. Cathay Life organizes training courses on service quality, first risk selection, knowledge of claims, and anti-money laundering on a regular basis to assist employees in providing products that cover comprehensive protection for policyholders in the process of sales and promotions. Cathay Life also encourages employees to participate in certified financial planner (CFP) training, so as to provide policyholders with better financial planning services.

2. Cathay Life launched the Agents Upgrade Project (AG2.0) to improve the performance of the sales team. |

| Make sure product and service coverage, benefits and costs are relevant and clearly explained and understood | 1. Sales documents and training materials are reviewed by the related departments before implementation to ensure that all information, such as coverage, expenses, and cost-effectiveness, is clearly specified based on the applicable regulations. Cathay Life also discloses these documents and materials on its website.

2. Cathay Life conducts comprehensive telephone interviews with the insured to ensure that policyholders have a thorough understanding of purchased products and the related risks. |
### Product and Service Development

1. Cathay Life has incorporated ESG issues into its product development processes and has prioritized its product introduction in line with the Group’s four major focus areas: Renewable Energy and Infrastructure, Aging Society and Health, Women Empowerment, Community and Financial Inclusion. This helps to cover special interest groups who demand insurance coverage: micro insurance to protect the rights of the disadvantaged; products and smart services designed for the elderly; health insurance to address the rise in health awareness; mobile services that increase efficiency and reduce paper waste; and the [New Immigrant Care Program](#).

2. Cathay Life has been developing long-term care policies to anticipate an aging society, including making benefits-in-kind policy real. We have built an incidence rate database for the elderly population in response to government’s long-term care policies. Cathay Life also played an active role to assist the authorities to create regulations on tax-qualified long-term care policy and itemized deductions in order to encourage demand for long-term care products and help elderly people gain more protection. Our experiences in this area have been praised by the government. We also suggested FSC (Financial Supervisory Commission) to implement insurance policy revitalization mechanism to let policyholders convert the policies from mortality protection to health insurance, long-term care insurance, or annuity insurance so that policyholders can boost insurance protection for their retirement life.

3. Cathay Life sets up reminders for customers’ rights through various channels and has monitoring mechanisms in place across business units to ensure service quality. Service procedures are evaluated and certified according to international standards, such as the [Qualicert](#), EN15838, and the ISO 10002 certifications.

4. Taiwan’s individual average insurance coverage is relatively low despite that insurance penetration rate (premiums to GDP) has been highest in the world for many years. Cathay Life has been promoting regular-paid insurance product strategy in the meetings with Taiwan Insurance Institute and government. We have pioneered since 2011 to gradually lower the weighting of single-paid insurance policies and focus on value driven policies, not market share focus.
Develop or support literacy programmes on risk, insurance and ESG issues

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<th>Claims Management</th>
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<td>Respond to clients quickly, fairly, sensitively and transparently at all times and make sure claims processes are clearly explained and understood</td>
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1. Cathay Life specifies the channels, procedures, and required documents of claims on its website to increase customers’ understanding of claims procedures.

2. Cathay Life promotes a mobile claims system which maximizes automation on claim application, reviews, approval and payments. This helps to accelerate the review process from 14 to 7 minutes for normal claims and to enhance claim settlement rate to 98%.

Integrate ESG issues into repairs, replacements and other claims services

Cathay Life takes the following ESG issues into account when streamlining the claims process and managing the related risks:

- Ethical issues: Cathay Life detects high-risk claims based on a risk-rating system and practical experience. Where fraud is suspected, a crime prevention mechanism is initiated.

- Environmental and social momentous events: Cathay Life provides a fast-track claims mechanism for environmental and social disasters. The Regulations Governing Services Provided for Policyholders Involved in Natural Disasters offers the best service practices in the event of major disasters.
Investment Management

Integrate ESG issues into investment decision-making and ownership practices (e.g. by implementing the Principles for Responsible Investment)

1. Cathay Life is not a qualified signatory to the United Nations’ PRI because of its special political situation. The company however still upholds responsible investment practices by clear articles in its Investment Management Procedures and Investment Policy that its investment includes the consideration of PRI. The company has adjusted its investment procedure to ensure ESG factors are incorporated into investment decision-making process. It has an internal research platform while leverages external research resources.

2. Cathay Life stipulates principles of responsible investment in the Corporate Loans Review Guideline and designs an ESG checklist to verify borrowers’ achievements of ESG matters.

3. Cathay Life continues to provide ESG-related training programs to improve internal education of international trends and principles and practices of responsible investment.

4. Cathay Life has made use of several ESG databases with the aim of improving its own ESG resources to assist the decision-making process of responsible investing.

5. Starting 2016 Cathay Life requires that buildings invested by the company should be constructed in line with the green building design principles. This demonstrating its commitment to environmental protection.
### Principle 2. We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

#### Clients and Suppliers

| Dialogue with clients and suppliers on the benefits of managing ESG issues and the company’s expectations and requirements on ESG issues | 1. Cathay Life updates sustainability information on its corporate sustainability (CS) website, compiles the Brochure for Cathay Life Corporate Sustainability, and incorporates CS-related issues into product brochures (such as Cathay Life Wei Shin Ai (Trickling Love) Petty Amount Whole Life Insurance) to disclose its accomplishments in ESG issues.  
2. Cathay Life facilitates customers’ engagement in ESG issues by investing in electronic and mobile services and organizing energy-saving activities.  
3. Cathay Life held the Supplier Conference in 2016 to promote the importance of ESG issues. A total of 200 suppliers attended the conference.  
4. 96% of overseas investment managers mandated by Cathay Life for the management of equities, bonds, private equity and hedge fund are the signatories of the UNPRI. The rest of the aforementioned investment managers are also regulated by the local authorities or have been actively engaged in responsible investing. Cathay Life will consider investment managers’ performance on responsible investment when selecting our mandate managers in 2017. |

| Provide clients and suppliers with information and tools that may help them manage ESG issues | 1. Taking the lead in response to the government’s energy-saving and carbon-reduction policies, Cathay Life provides electronic services, such as insurance purchases, claims, and payments, in addition to organizing energy-saving activities. Cathay Life will continue to facilitate the engagement of policyholders and citizens in environmental activities.  
2. In order to promote the health management of policyholders, Cathay Life launched health insurance with features of spillover effect to encourage policyholders to improve their health via health management tools, extending the effectiveness of insurance from ex post compensation to prior prevention.  
3. Cathay Life will continue to hold the supplier CS conference to facilitate communications with regard to ESG issues and provide guidelines and standards for the corporate social responsibility (CSR) matters. |
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<tr>
<th>Integrate ESG issues into tender and selection processes for suppliers</th>
<th>Cathay Life has incorporated ESG issues into the Procurement Management Policy and identified CSR as the basic conditions of the procurement contract. In the future, we will keep taking advantage of the Group’s purchasing power to support the development of green products and build a sustainable supply chain.</th>
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</table>
| Encourage clients and suppliers to disclose ESG issues and to use relevant disclosure or reporting framework | 1. Cathay Life’s parent company Cathay FHC has published its annual Corporate Sustainability Report based on the GRI (Global Reporting Initiative) framework and the CS report was assured by a third-party accreditation institution. The CS Report includes ESG efforts by Cathay Life and is available on [Cathay FHC’s website](#).  
2. Cathay Life follows the Principles for Sustainable Insurance (PSI) and publishes the PSI Disclosure Report annually. The report is available on the [company’s website](#).  
3. Cathay Life hosts a supplier conference annually, where suppliers are invited to share their experiences in promoting ESG matters through a model of benchmarking (representatives in 2016 were IBM and Chunghwa Telecom). Cathay Life will continue to promote information exchange platforms that facilitate interactions between suppliers. |

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**Insurers, Reinsurers and Intermediaries**

| Promote the adoption of the Principles | 1. Cathay Life values sustainable development greatly. Currently three of our counterparty reinsurance companies are already signatories of the PSI.  
2. Cathay Life explains its implementation of sustainable development with Cathay United Bank. Taking environmental issues for example, Cathay Life has extended the principle of electronic and mobile services to contracted insurance brokers/agencies. |
| Support the inclusion of ESG issues in professional education and ethical standards in the insurance industry | With a focus on education and training, Cathay Life provides ESG materials for Cathay United Bank and urges the bank to pay close attention to ESG issues. |
Governments, Regulators and Other Policymakers

| Support prudential policy, regulatory and legal frameworks that enable risk reduction, innovation and better management of ESG issues | 1. Cathay Life provides its industry and investment experience to help the government establish a framework for responsible investment. We were the first insurance company to sign the Taiwan Stewardship Principles for Institutional Investors.
2. Cathay Life has in place the related policies and mechanisms in accordance with the government's anti-money laundering and combating the financing of terrorism regulations.
3. In response to the government's renewable energy policy, Cathay Life has invested NT$11bn in the development of the low-carbon green energy industry. We also invested NT$328mn in domestic wastewater treatment in support of the government's strategy for reclaimed water resources.
4. In response to the aging of society, Cathay Life provided advice on the definition of diseases, the terms for insurance, and the period of exemption when the Model Provision for Long-term Care Insurance was formulated. We also assisted the competent authorities in setting up the regulations related to tax-qualified long-term care insurance and itemized deductions. In 2016, Cathay Life won the Government Employee Long-term Care Project with exclusive access to government employee in an effort to encourage them to purchase insurance for long-term strengthen financial security. |

| Dialogue with governments and regulators to develop integrated risk management approaches and risk transfer solutions | 1. Cathay Life held discussions with life insurance associations and other life insurance companies on the life insurance white paper, aiming to reinforce the risk management and future development of the insurance industry. The company has also provided government recommendations for the future development of the insurance industry.
2. In assisting the domestic regulatory agencies’ efforts to strengthen the industry's actuarial capacity, Cathay Life has participated in the Actuarial Institute of Chinese Taipei (AICT) since 2011 to draft the Actuarial Standards of Practice for the Fair Value Valuation of Liabilities, as well as review and refine annually in line with international norms. |
3. Cathay Life has actively participated in the new risk-based capital system (RBC2), sharing its international experience, exploring solutions, and setting up risk assessment models in cooperation with the industry, government, and academia.

### Other Key Stakeholders

| Dialogue with intergovernmental and non-governmental organisations to support sustainable development by providing risk management and risk transfer expertise | 1. Cathay Life actively takes part in global initiatives by following the PSI to support the sustainable development of the insurance industry. In 2014, we participated in the Global Investor Coalition on Climate Change (GIC) and disclosed our investment in the LCI (low-carbon investment) Registry. In 2015, Cathay Life reported a standards-compliant investment amount of NT$42.5 billion.

2. The International Association of Insurance Supervisors (IAIS) has proposed the Supervision of Internationally Active Insurance Groups (IAIGs). Cathay Life has taken the initiative to participate in the second tier Common Framework (ComFrame) field testing since 2015 to review and improve its risk management while providing the IAIS with domestic information and opinions.

3. In response to the ongoing development of new accounting systems (such as IFRS 9 and IFRS 17), Cathay Life provides the International Accounting Standards Board (IASB) with domestic information and opinions based on internal evaluations and open consultations. We also participate in discussions with other international institutions, such as the International Actuarial Association (IAA) and the Asia-Pacific Financial Forum (APFF) to learn about international experiences and stay abreast of global trends and countermeasures. |

| Dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies | 1. Cathay Life promotes awareness of ESG issues and actively participates in seminars and lectures organized by industry associations and related institutions with the view of understanding the operations of the insurance industry and other industries and leverage any advantages.

2. Cathay Life sponsored and promoted the Elderly Care Program in cooperation with non-profit organizations to support the elderly regain confidence and stay healthy. |
### Dialogue with academia and the scientific community to foster research and educational programmes on ESG issues in the context of the insurance business

1. Cathay FHC and Cathay Life have several researches cooperation with professors and research teams from top universities in product and ALM related areas in order to better prepare for future insurance demand and prevent ESG risks.

2. Cathay FHC and Cathay Life has corporate with the several schools such as National Taiwan University, National ChengChi University and Tam Kang University by opening courses in insurance operation, which include ESG integration and responsible investment.

3. Cathay Life has cooperated with the Social Welfare Association of Taiwan by sponsoring awards to master and doctoral thesis on aging-related topics.

4. Since 2005, Cathay Life has cooperated with non-profit organizations (Good Shepherd Social Welfare Foundation, Eden Social Welfare Foundation, and The Pearl S. Buck Foundation), academic institutions (National Chiayi University, Shih Chien University, and National Taipei University of Education) to build a diversity-support program that helps immigrants and their children adapt to life in Taiwan and facilitate cultural integration. [The New Immigrant Care Program](#) has benefited 160,000 people.

5. Cathay Life works with the Taiwan Blood Services Foundation to organize Blood-Donation Campaigns every summer. In 2016, 175 blood donation stations were set up and collected 31,804 bags of blood.

6. Cathay Life initiated the [Dream Come True Program](#) since 2013 to sponsor ESG-based proposals made by rural elementary schools and facilitate sustainable community development. At present, 31 elementary schools and 800 students have benefited from the program.

### Dialogue with media to promote public awareness of ESG issues and good risk management

1. Cathay FHC publishes its [Corporate Sustainability Report](#) annually, which contains the company’s progress on ESG matters by Cathay Life.

2. Cathay Life publishes the [PSI Disclosure Report](#) annually, which contains the results of compliance with the four principles of the PSI.

3. Cathay Life has set up the [CS website](#) and made animations and brochure related CS topics to strengthen citizens’ understanding of ESG issues and the actions that Cathay Life have taken.
4. Executive officers of Cathay FHC and Cathay Life have advocated ESG integration and made internal/public speeches on the importance of responsible investment and ESG practices.