

China Airlines Ltd.

Operational Procedures for Lending Funds to Others

Article 1: Purpose

The Company has formulated these Procedures to follow for lending funds to other parties in order to ensure its rights as creditor.

Article 2: Lending Counterparties

1. Companies that have a business relationship with the Company.
2. Companies in which the Company holds 50% or more of outstanding shares and requires funds for a short-term period. "Short-term period" for the purpose of these Procedures means one year or shorter.

Article 3: Reasons for and Necessity of Loaning Funds to Others

Should a company that has a business relationship with the Company or in which the Company holds 50% or more of outstanding shares make a request based on a need for funds, the Company may offer financing.

Article 4: Total Lending Amount and Financing Limit for Individual Entities

1. The total amount of financing shall not exceed 20% of the net value of the Company.
2. The total amount for lending to an individual company having business relationship with the Company shall not exceed the total transaction amount between the parties. The "total transaction amount" refers to the accumulated amount during the period of one year prior to the time of lending.
3. The total lending amount for a company in which the Company holds 50% or more of outstanding shares shall not exceed 10% of the net value of the Company or the amount of the Company's investment in said company.

Article 5: Procedures for Fund Lending

1. Application Procedure

The borrower shall collate necessary basic and financial information and provide such information to the Company in a written application also including the proposed use for the funds, loan term, and amount.

2. Credit Assessment and Review

- (1) After receipt of an application, the Company's the relevant unit shall investigate and evaluate the counterparty's business, financial condition, debt-repayment ability and credit, earning power, and purpose of loan. Together these factors shall be used to evaluate the operational risk of the loan to the Company, and

impact on its financial condition and shareholder interests and the results shall be drafted into a report to be reviewed by the Finance Division. After approval by the Chairman the application will be brought before the Board of Directors for approval.

- (2) If the Company has independent directors, when making loans to others, the Board of Directors shall take into full consideration each independent director's opinion. Independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board of Directors.

3. Approval and Notification

- (1) For loan applications not approved by the Board of Directors following evaluation, the relevant unit shall promptly inform the loan applicant the reasons why their application was declined.
- (2) For loan applications approved by the Board of Directors following evaluation, the relevant unit shall promptly inform the borrower and provide a detailed description of the Company's loan conditions including amount, term, interest rate, and whether collateral or a collateral margin and guarantor are required. The borrower will be asked to complete the signing formalities within the prescribed time limit.

4. Document Signing

- (1) Both parties shall formulate the terms of the agreement, which will be reviewed by the Finance Division then confirmed by the Legal Insurance Division after which signing formalities can be completed.
- (2) The agreement content must conform to the approved loan conditions. After the borrower and guarantor sign/seal on the agreement, Finance Division shall complete the loan processing procedures.

5. Collateral Appraisal and Conditions

In cases where collateral is required, the borrower shall provide such collateral and be pledged as security for the loan. The Company must also assess the value of the collateral in order to protect the rights of the Company as creditor.

6. Disbursement

After the loan conditions have been approved and the borrower has signed the contract, registration of collateral shall be performed. Once the procedures have been checked and verified, the funds shall be disbursed.

Article 6: Authorization of Loans

Loaning of funds shall be reported to the Chairman for approval and

conducted following resolution by the Board of Directors. The Board shall authorize the Chairman to disburse loan funds or offer revolving credit for one year for amounts below the authorized limit.

Article 7: Interest Calculation and Lending Term

1. The loan interest shall be set at the agreed upon rate. The interest rate may not be below the Company's cost of capital at the time.
2. The term of funds lent by the Company shall not exceed one year.

Article 8: Control Measures for Outstanding Loans and Overdue Debt Handling Procedures

1. Following the disbursement of loan funds, the Company shall pay attention to the borrower's financial, business, and credit situation etc. In cases involving collateral, the Company shall pay attention to its guarantee value and any change thereto. If there is a significant change, this should be reported to the Chairman and the situation should be handled in accordance with the Chairman's instructions.
2. When the loan is paid back on or before the maturity date, the borrower shall calculate the interest in advance and reimburse together with the principal. Then the collateral shall be returned to the borrower.
3. At maturity, the borrower shall repay the principal and interest. In the event the borrower is unable to repay and requires extension, such borrower shall submit its request in advance and the same shall be submitted to the Board of Directors for approval. In the event of violation, the Company shall dispose of or recover the collateral as prescribed by law.

Article 9: Internal Controls

1. The Company shall prepare a memorandum book for its fund-lending activities and record each the following information: borrower, amount, date of approval by the Board of Directors, lending date, and matters to be carefully evaluated under provision.
2. After funds have been transferred pursuant to a loan, the person handling the loan shall collate the loan file, contract, and all correspondence into a book for safekeeping. Promissory notes or collateral and other paperwork shall be recorded and kept by a specified staff member.
3. The Company's internal auditors shall audit the Operational Procedures for Lending Funds to Others and the implementation thereof no less frequently than quarterly, and prepare written records accordingly. If any material breach is discovered, the Audit Committee shall be informed in writing.

4. If, as a result of a change in circumstances, the loan counterparty is inconsistent with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies or the loan balance exceeds specified limits, a rectification plan shall be formulated and submitted to the Audit Committee. Said plan shall be implemented to rectify the situation within the timeframe set out in the plan in order to strengthen Company internal controls.

Article 10: Control Procedures for Company Subsidiaries Providing Loans to Others

1. When a Company subsidiary intends to loan funds to others, the subsidiary shall formulate loan procedures in accordance with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies.
2. Subsidiaries must provide the Company with a detailed list of all loans to other companies for the previous month prior to (not including) the 10th day of each month
3. Subsidiary internal auditors shall also audit the Operational Procedures for Lending Funds to Others and the implementation thereof no less frequently than quarterly, and prepare written records accordingly. If any material breach is discovered, the relevant unit at the Company and the Company's Audit Committee shall be informed in writing, which in turn shall provide the written information to the Audit Committee.
4. When the relevant unit at the Company and the Company's internal auditors perform audits at subsidiaries as outlined in the annual audit plan, they shall investigate implementation of the subsidiary's Operational Procedures for Lending Funds to Others. If any material breach is discovered, the auditors shall continue to track the progress of improvements and provide a follow up report to the Chairman.

Article 11: Public Announcement and Reporting

1. The Company shall announce the amount of funds lent to other parties by the Company and its subsidiaries in the preceding month on the Market Observation Post System before the 10th day of the month.
2. If the balance of funds lent by the Company meets any of the following circumstances, it shall be announced and reported within two days commencing immediately from the date of occurrence of the fact ("Date of occurrence" means the date of contract signing, date of payment, dates of boards of directors resolutions, or other date that can confirm the counterparty and monetary amount of the transaction, whichever date is earlier):
 - (1) The balance of funds lent to other parties by the Company and its subsidiaries reaches 20% or more of the net worth of the Company specified in its latest financial statement.

- (2) The balance of funds lent to any single enterprise by the Company and its subsidiaries reaches 10% or more of the net worth of the Company specified in its latest financial statement.
 - (3) The increase of funds lent by the Company or its subsidiaries reaches NT\$10 million or more, and reaches 2% or more of the net worth of the Company specified in its latest financial statement.
3. The Company shall announce and report on behalf of any subsidiary thereof that is not a public company of the Republic of China any matters that such subsidiary is required to announce and report pursuant to Subparagraph 3 of the above Paragraph.

Article 12: The Company shall evaluate the status of loans of funds, and shall set aside sufficient allowance for bad debts. It shall also adequately disclose relevant information in its financial reports and provide the certifying certified public accountants with relevant materials for the performance of necessary audit procedures.

Article 13: Penalties

If any Company managers or relevant personnel are in breach of these Procedures and/or of any related laws and regulations, penalties shall be incurred in accordance with Company Rewards and Punishments Regulations proportional to the gravity of the breach.

Article 14: Implementation and Revision

1. After receiving approval of the Audit Committee, these Procedures shall be sent to the Board of Directors and come into effect following approval of the Shareholders' Meeting. If any director expresses dissent and such opinion is recorded in the in the minutes or a written statement, the Company shall submit the dissenting opinions for discussion by the Shareholders' Meeting. The same procedures also apply for revisions.
2. If the Company has independent directors, when these Procedures are up for discussion with the Board of Directors as prescribed by the previous Paragraph, the Board of Directors shall take into full consideration each independent director's opinion. Independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board of Directors.

Article 15: These Procedures were adopted on May 25, 1990 and the 8th revision was made on June 25, 2013. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.