

China Airlines Ltd.

Operational Procedures for Derivatives Trading

Amended and approved by the Shareholders' Meeting on June 26, 2015

Article 1 Purpose

In order to effectively manage the Company's assets, debts, and income and expenses, reduce risks associated with fluctuations in exchange rates, interest rates, and oil prices, and increase industry competitiveness, these Procedures have been formulated in accordance with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies promulgated by the Financial Supervisory Commission.

Article 2 Transaction Principles and Guidelines

1. Types of Transactions

For the purpose of these Procedures, derivatives refer to forward contracts, options contracts, futures contracts, leverage contracts, and swap contracts, and compound contracts combining the above products, whose value is derived from assets, interest rates, foreign exchange rates, indexes, oil prices, or other interests. The term "forward contracts" does not include insurance contracts, performance contracts, after-sales service contracts, long-term leasing contracts, or long-term purchase (sales) agreements.

2. Operational and Hedging Strategies

The primary purpose of the Company's derivatives transactions shall be to avoid market risks (hedging). Transactions shall, as much as possible, be used to hedge against interest, exchange rate, and oil price risks resulting from Company operations. In principle, counterparties shall be banks or oil companies that have business dealings with the Company or that can provide expert information.

3. Division of Responsibilities

(1) Risk Management Committee

Drafting a hedging strategy, response measures, and resolutions regarding derivative trading limits.

(2) President

Approval of the type of trade and execution of trades.

(3) Financial Managers (all levels)

1. Execution of forward exchange, FX options, and oil derivatives transactions within the authorized limits after approval.

2. Control and management of company-wide transaction totals and product types.

3. Decisions regarding appointment and dismissal of traders.
 4. Formulation of the risk report format.
 5. Establishment of the risk assessment and performance assessment models.
- (4) Trading Personnel
1. Formulation of trading strategies within their authorized scope and directly executing trades with the counterparty.
 2. Collation and recordation of transaction receipts, certificates, and other transaction-related information.
4. Performance Assessment
- The Company shall perform performance assessments for derivatives transactions at least twice per month and report the findings to a Company executive at the level of Senior Vice President or higher.
5. Total Transaction and Loss Limits
- Company trading of derivative products includes exchange rate, interest rate, and oil and other related products, stock index forward contracts, options, and futures with the aim of meeting the Company's actual operational needs. With active risk avoidance and the goal of economic hedging, the derivatives transaction limits and total loss limits for the entire Company are as follows:
- (1) Interest Rate Derivatives: Losses are limited to 50% of the net increase of long-term liabilities, lease liabilities, and sale-leaseback transactions positions currently and over the next five years.
 - (2) Exchange Rate Derivatives: Ceiling of 50% of the total of foreign currency liabilities and actual net demand for foreign currency over the next five years.
 - (3) Oil Derivatives: Ceiling of 50% of actual annual demand.
 - (4) Loss Amount Restrictions: Losses for an individual contract assessed to be greater than 3% of the Company's shareholder equity for two months in a row. Aggregate contract losses assessed greater than 10% of the Company's shareholder equity for two months in a row. Response measures shall be formulated and submitted to the Board of Directors should either situation occur.

Article 3 Operational Procedures

1. Authorized amount: Any individual derivative transaction may only be conducted after approval and execution by the President. However, forward exchange, FX options, cross currency swaps, interest rate swaps, and fuel hedging transactions are performed to hedge against operational risk. Because circumstances can change rapidly and to ensure proper flexibility, the President may authorize the Vice President of Finance to conduct transactions of the derivative products listed in the previous sentence within the amount limits set by the Risk Management Committee

and shall sign and report as required by the Procedures.

2. Units responsible for implementation: Because of the special properties of derivatives transactions, which include rapid changes, relatively large monetary amounts, frequent trading, and computational complexity, those responsible for derivatives trading and the management thereof must have a high level of expertise. Therefore, the Finance Division shall appoint specialists to perform trades.
3. Appraisal procedures: In accordance with Company needs and the nature of the products, price inquiries shall be made with at least two financial institutions with outstanding reputations to serve as a price reference.
4. When the Company engages in derivatives trading, relevant personnel authorized as laid out in these Procedures shall handle the transactions then submit reports to the next Board of Directors meeting.
5. The Company shall prepare a memorandum book for transactions of derivative financial products recording the type, amount, the date of passage by the Board of Directors and the matters requiring careful assessment as outlined in Article 2, Paragraph 1, Subparagraph 4 and Article 8, Paragraph 1, Subparagraphs 1 and 2.

Article 4 Public Announcement and Reporting Procedures

1. When the Company and any subsidiaries that are not domestic public companies engage in derivatives trading reach levels requiring public reporting, the unit responsible for the implementation shall review and include all relevant information on the actual date of occurrence and deliver to the Finance Division for public announcement and reporting.
2. Engagement in derivatives transactions that result in unrealized losses amounting to 3% or more of shareholder equity or reach the amount ceilings stipulated in these Procedures for contracts in the aggregate or a single contract shall publically announce and report the situation within two days of the actual date of occurrence.
3. The Company shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries that are not domestic public companies in the prescribed format and publically announce and report by the 10th day of each month.
4. When the Company or a subsidiary, at the time of public announcement, makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.

Article 5 Accounting Principles

The accounting of derivatives transactions executed by the Company shall be governed by International Financial Reporting Standards and relevant laws. To create a complete set of financial books and accounting records, a fair presentation

of the transaction process and result shall be recorded based on the nature of each derivative transaction. When the Company prepares periodic financial reports, these shall be handled in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers promulgated by the Financial Supervisory Commission and relevant accounting reporting requirements.

Article 6 Internal Control System

1. Risk Management

- (1) Credit risk: In principle, counterparties shall be banks or oil companies that have business dealings with the Company or that can provide expert information in order to reduce the possibility of loss due to counterparty non-compliance.
- (2) Market risk: Prior to making derivatives transactions, an assessment of the potential variation in market factors shall be made and market risk shall be managed by following explicit operating procedures and frequent review of the profits and loss of existing positions.
- (3) Liquidity risk: To ensure liquidity, the transacting bank must have adequate facilities, information, and trading capabilities and be able to trade in any market.
- (4) Cash flow risk: To ensure the stability of the Company's operational cash flow, the source of funding for derivatives transactions should be limited to the Company's own capital and the operational amount should take into consideration of the funding need in the cash income forecast for the next year.
- (5) Operational risk: To avoid operational risk, execution of transactions must comply with authorized amounts and operational procedures.
- (6) Legal risk: Any documents signed with the banks must be reviewed by the legal Insurance Division first before formal execution to avoid any legal risks.
- (7) Product risk: Internal trading personnel and the counterparty bank should possess complete and accurate professional knowledge of financial products and request the banks to sufficiently disclose risk to avoid financial loss due to financial product misapplication.
- (8) Cash settlement risk: In addition to being required to abide by the authorized amount, authorized trading personnel shall also keep aware of Company cash flow to ensure there is ample cash on hand for any required payments.

2. Internal Controls

- (1) The personnel conducting the derivatives transactions shall not also serve as the personnel in charge of confirmation and settlement of derivatives
- (2) The personnel assessing, supervising and controlling risk shall be in separate department from the personnel in (1) of this Subparagraph, and should report regularly to the Chairman and President.

Article 7 Internal Audit System

1. The Company's internal audit personnel shall review the appropriateness of the internal control procedure for transactions of derivative financial product on a regular basis, and shall prepare audit reports on a monthly basis with regard to the compliance situations by the Transaction Division with these Procedures. If any material breach is discovered, the Audit Committee shall be informed in writing.
2. If any Company subsidiary also engages in derivatives trading, that subsidiary shall also follow the procedure outlined in the previous paragraph.

Article 8 When performing derivatives transactions, the Board of Directors shall appoint top executives to pay attention to the supervision and control of derivatives transaction risk by following the below management principles:

1. Periodically evaluate whether the risk management actions presently in use are proper and strictly comply with the Regulations Governing the Acquisition and Disposal of Assets by Public Companies and these Procedures.
2. Supervise the transactions and any income or loss thereof, and if finding any unusual circumstances, take response action and report them to the Board of Directors immediately. Independent directors, if any, should be present at the meeting and express their opinions.
3. Periodically evaluate whether the performance of transactions of derivative financial products corresponds to the existing business strategies and whether the risk borne is tolerable by the Company.

Article 9 Other Issues

These Procedures shall be agreed to by half or more of all members of the Audit Committee and after approval by the Board of Directors shall be brought before the Shareholders' Meeting for approval. This also applies for any revisions thereof. Those not approved by half or more of all members of the Audit Committee, but approved by two thirds of Directors are not subject to the restrictions in the previous two sentences and the Audit Committee's resolution shall be recorded in the minutes of the Board of Directors Meeting.

Article 10 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 11 These Procedures were adopted on September 13, 1996 and the 9th revision was

made on June 26, 2015. Other matters not stipulated in these Procedures shall be conducted in accordance with all relevant laws and regulations.