

# 2015 Third Quarter Briefing

February 2016



國泰金控

Cathay  
Financial Holdings

## Disclaimer

---

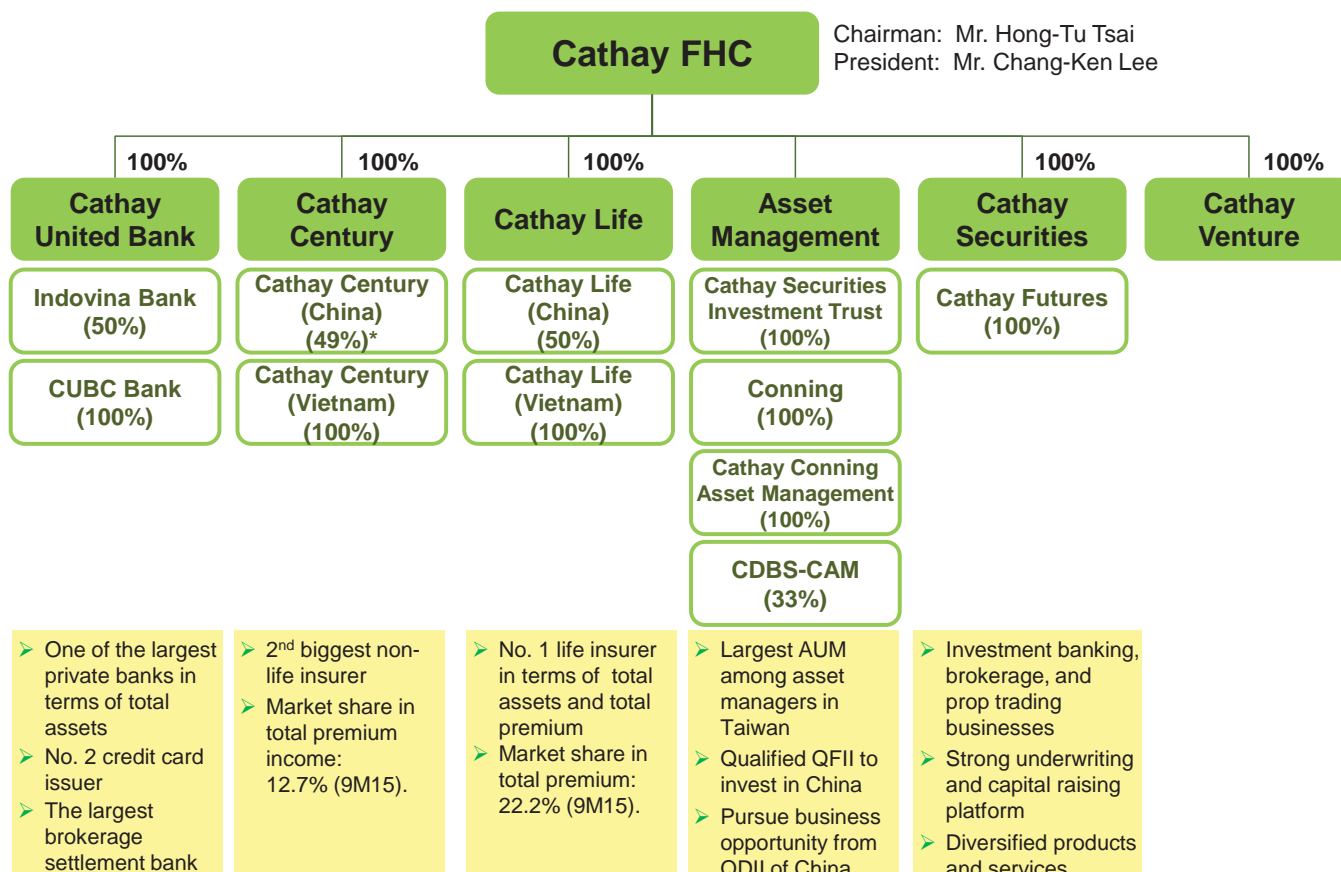
- ❑ This document is provided by Cathay Financial Holding Co., Ltd. (the "Company"). Except for the numbers and information included in the Company's financial statements, the information contained in this document has not been audited or reviewed by any accountant or independent expert. The Company makes no express or implied representations or warranties as to the fairness, accuracy, completeness, or correctness of such information or opinions. This document is provided as of the date herein and will not be updated to reflect any changes hereafter. The Company, its affiliates and their representatives do not accept any responsibility or liability for any damage caused by their negligence or any other reasons, nor do they accept responsibility or liability for any loss or damages arising from the use of this document or the information contained herein or anything related to this document.
- ❑ This document may contain forward-looking statements, including but not limited to all statements that address activities, events or developments that the Company expects or anticipates to take place in the future based on the projections of the Company toward the future, and various factors and uncertainty beyond the Company's control. Therefore, the actual results may differ materially from those contained in the forward-looking statements.
- ❑ This document is not and cannot be construed as an offer to purchase or sell securities or other financial products or solicitation of an offer.
- ❑ This document may not be directly or indirectly reproduced, redistributed or forwarded to any other person and may not be published in whole or in part for any purpose.

# Agenda

- **Introduction of Cathay FHC**
- **9M15 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Cathay's CSR Efforts**
- **M&A Key Highlights**
- **Cathay Life's EV & Assumptions**
- **Capital Adequacy**

3

## Cathay FHC: largest FHC, comprehensive products



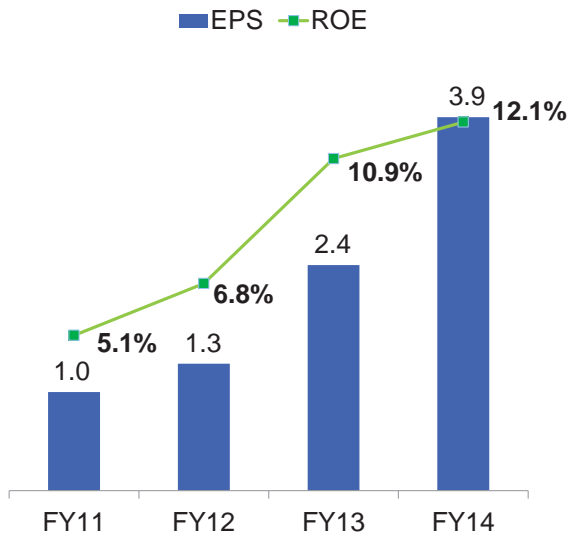
\* The capital injection from Ant Financial is subject to the regulatory approval

4

# Cathay's earnings accelerates as life turnarounds

## EPS & ROE

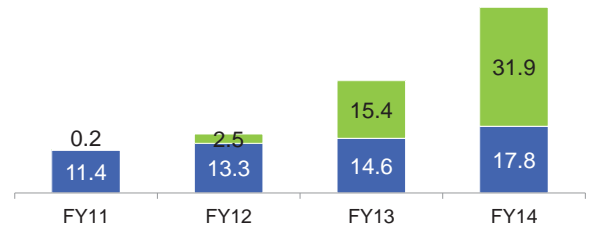
(NT\$)



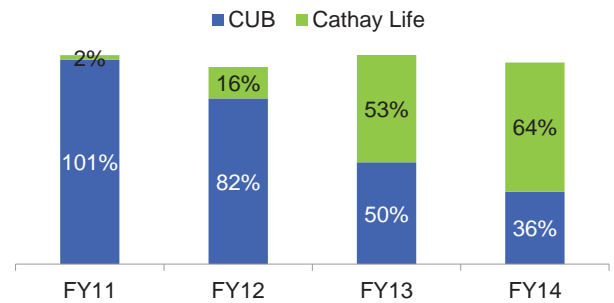
## Profit contribution

(NT\$ BN)

■ CUB ■ Cathay Life



	FY11	FY12	FY13	FY14
<b>FHC</b>	<b>11.3</b>	<b>16.2</b>	<b>29.0</b>	<b>49.8</b>
<b>Life</b>	<b>0.2</b>	<b>2.5</b>	<b>15.4</b>	<b>31.9</b>
<b>CUB</b>	<b>11.4</b>	<b>13.3</b>	<b>14.6</b>	<b>17.8</b>



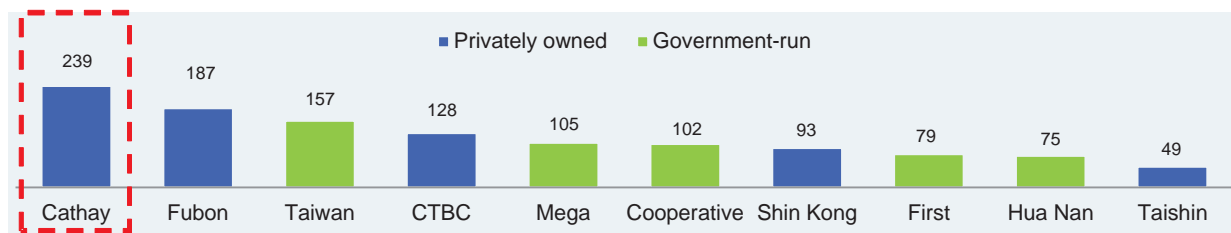
- Note: (1) FY13 figures do not reflect the impact from applying fair value method on investment property.  
 (2) Since Cathay FHC has more subsidiaries other than Cathay Life and CUB, besides, due to affiliate transactions, the Cathay FHC net income might not equal to the sum of Cathay Life and CUB's.  
 (3) EPS has been adjusted for stock dividend (stock split).

5

# Market leader in Taiwan's FIG sector

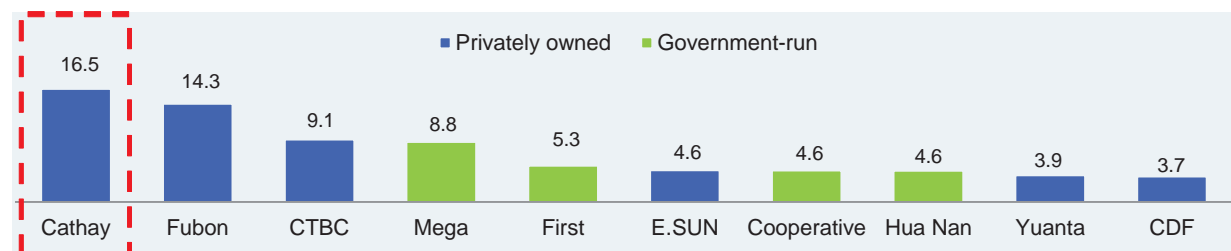
□ Largest listed financials group by market capitalization and assets.

## Ranking of total asset (US\$bn)



Note: Total assets as of Sep.30, 2015

## Ranking of market cap (US\$bn)



Note: Market capitalization as of Dec.31, 2015

6

# Agenda

---

- Introduction of Cathay FHC
- **9M15 Business Overview**
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

7

## 9M15 Business overview

---

### Cathay United Bank

- Loan maintained stable with benign credit quality
- Fee income grew by 25% YoY, wealth management fee grew by 46%
- Continued to expand overseas footprints; Philippines Manila branch and Shanghai Jiading sub-branch have been opened in 4Q15

### Cathay Life

- Regular-paid policies accounted for 97% of traditional life FYP, ranked No.1 by FYPE
- Overseas investment increased to 56%; hedging cost reduced to 0.53%; after-hedging investment yield reached 4.6%

### Cathay Century

- Market share reached 12.7%, maintained No.2 market position
- Continue to reduce loss ratio; 9M15 after-tax profit grew by 60% YoY
- Cathay Insurance(China)'s strategic alliance with Ant Financial will increase its exposure to the growing internet finance market

### Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$425BN
- Highly regarded by clients, rewarded by "Asia Investors" with "Market Award - Taiwan" in 2015 and by "Asia Asset Management Journal" with "2014 Best Institutional House" and "2014 Best Domestic Equity Fund" in 2014

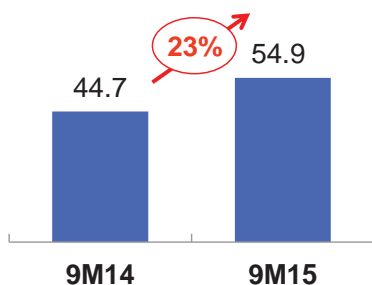
### Cathay Securities

- Delivered significant growth with 9M15 net profits. 9M15 after-tax profit and EPS both reached historical high
- Aggressively grew brokerage, sub-brokerage and IPO & SPO business
- Acquisition of Horizon Securities (HK) has been completed and now the company name is Cathay Securities (HK)

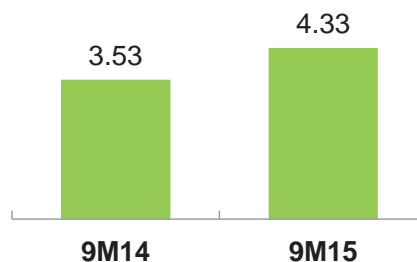
8

# Cathay FHC – Net income & EPS

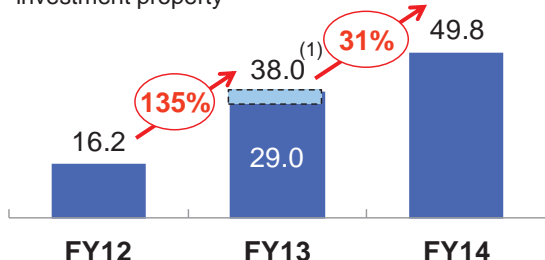
## Net income (NT\$BN)



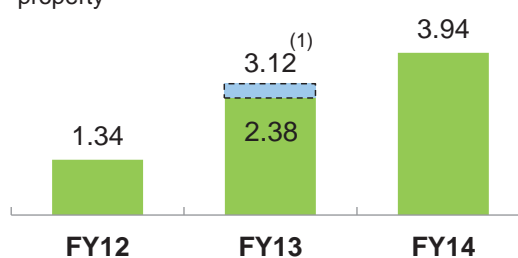
## Adjusted EPS (NT\$)



■ Impact to net income from fair value method on investment property



■ Impact to EPS from fair value method on investment property



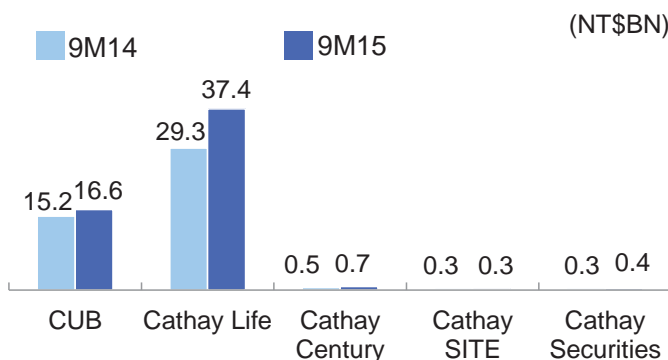
Note: (1) FY13 figures reflected the impact from applying fair value method on investment property, starting 2014/1/1. The impact to FY13 net income and EPS of Cathay FHC was NT\$9.0BN and NT\$0.74, respectively.

(2) EPS has been adjusted for stock dividend (stock split).

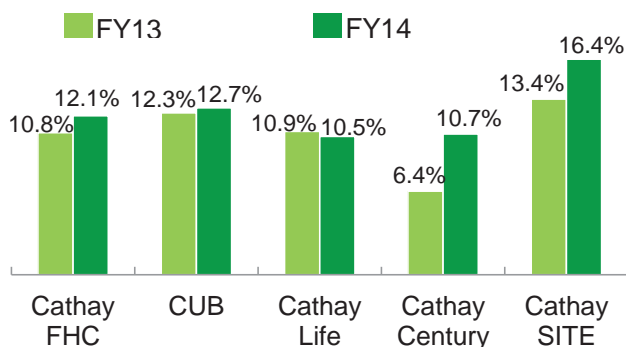
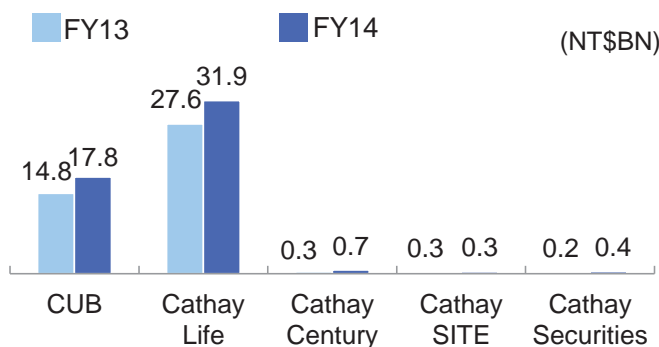
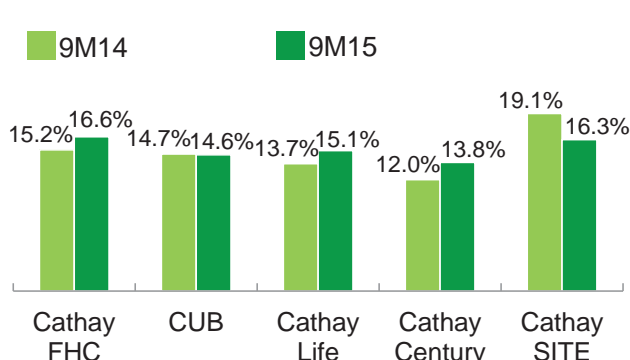
9

# Cathay FHC – Financial results of subsidiaries

## Net income of primary subsidiaries (NT\$BN)



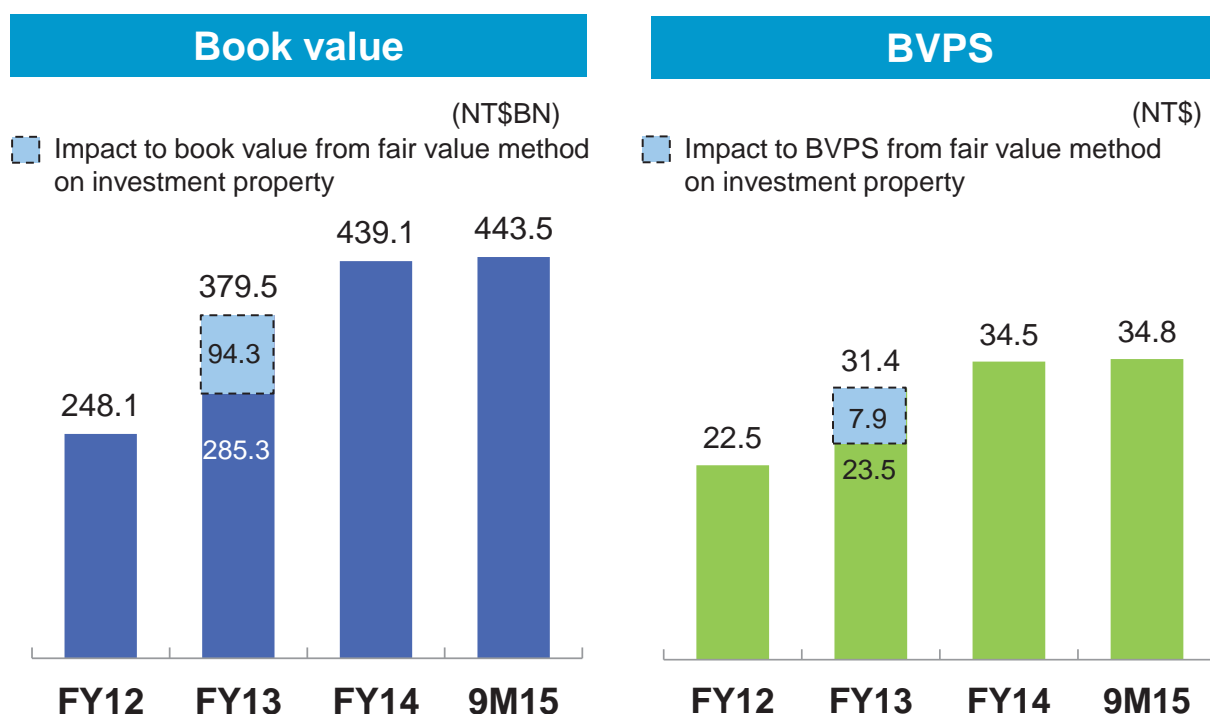
## ROE



Note: FY13 ROE reflected the impact from applying fair value method on investment property, starting 2014/1/1. The impact to FY13 ROE of Cathay FHC, CUB and Cathay Life was -0.1%, -0.1% and 0.1% respectively.

10

# Cathay FHC – Book value & BVPS



Note: FY13 figures reflected the impact from applying fair value method on investment property

11

## Agenda

- Introduction of Cathay FHC
- 9M15 Business Overview
- **Overseas Expansion**
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

12

# Cathay FHC in South East Asia

	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia	Laos	Philippines	Thailand	Myanmar	Indonesia
Bank	5*	37	16	1	1	1	1	1	1	1	1
Life	30	10									
P&C	24	2									
Asset Mgt	1			1							

\* Footprints in Thailand, Myanmar and Indonesia are representative offices. CUB obtained approval to set up a sub-branch in Jiading Dist. of Shanghai.



## ■ Cathay United Bank

- Vietnam: Business performed steadily with solid financial performance and superior asset quality
- Cambodia: Owns most footprints among Taiwanese banks
- Philippines: Manila branch has been opened in 4Q15
- Philippines: Invests 21.6% stake in RCBC
- Indonesia: Invests 24.9% stake in Bank Mayapada

## ■ Cathay Life

- Cathay Life (Vietnam) has performed steadily and continuously expanded agent force

## ■ Cathay Century

- Continues to expand local channels and enhance growth momentum

Note: Investments in RCBC and Bank Mayapada are funded by Cathay Life.

13

# Cathay FHC in China



## ■ Cathay United Bank

- Each business line has performed steadily in Shanghai branch. Jiading Dist. sub-branch has been opened in 4Q15
- Applying for Shenzhen branch

## ■ Cathay Life (China)

- 9M15 solvency ratio 373%
- Reported pre-tax profits of 135MN RMB in 9M15

## ■ Cathay Century (China)

- Strong premium income growth in 9M15 up by 17% YoY
- Capital injection from Ant Financial is subject to regulatory approval

## ■ Cathay Securities

- Acquisition of Horizon Securities (HK) has been completed

## ■ JV with China Development Bank Securities (CDBS Cathay Asset Management)

- Continued to launch new products, mainly focus on fixed income funds

## ■ Conning

- Acquisition of 100% Conning stake has been completed

- Cathay Life (China)
- Cathay United Bank
- ▲ Cathay Century (China)
- ◆ Cathay Securities
- ◆ Cathay Conning Asset Management
- ◆ CDBS Cathay Asset Management Company

14

# Agenda

- Introduction of Cathay FHC
- 9M15 Business Overview
- Overseas Expansion
- Business Performance Summary

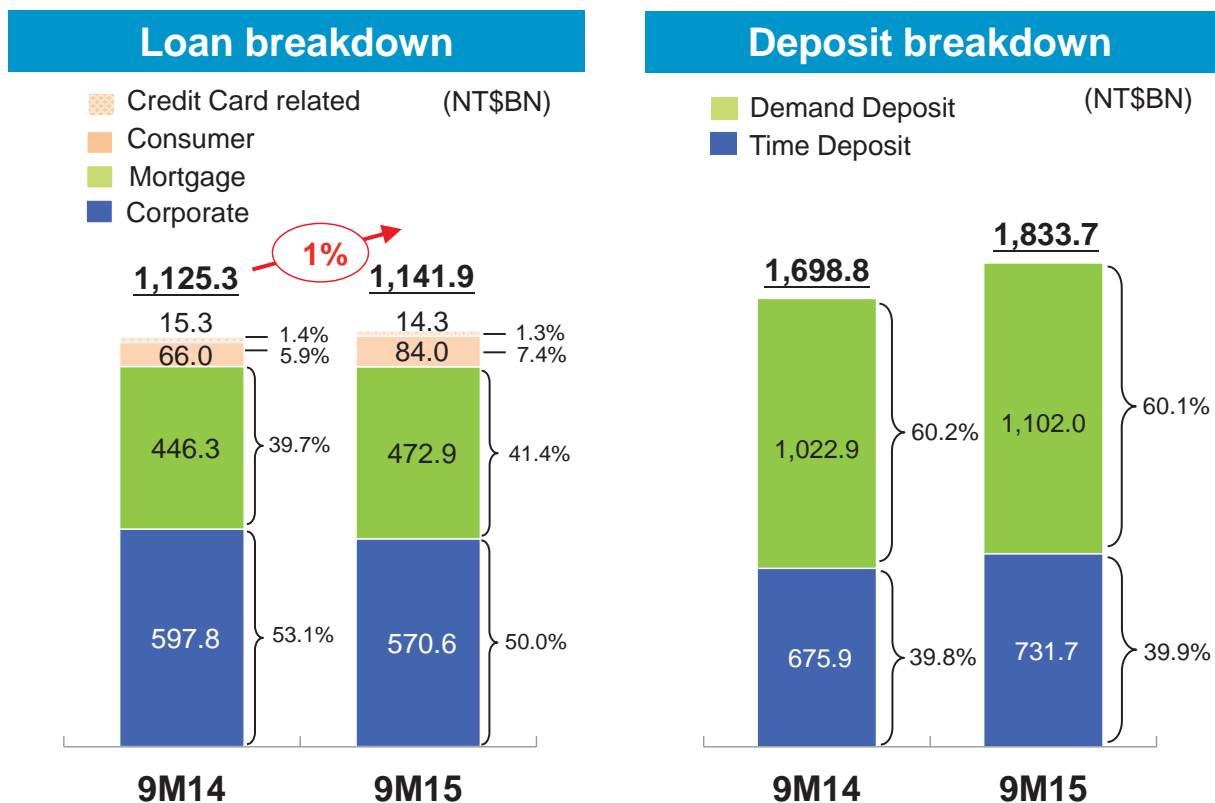
## Cathay United Bank

Cathay Life  
Cathay Century

- Cathay's CSR Efforts
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

15

## Cathay United Bank – Loan & deposit breakdown

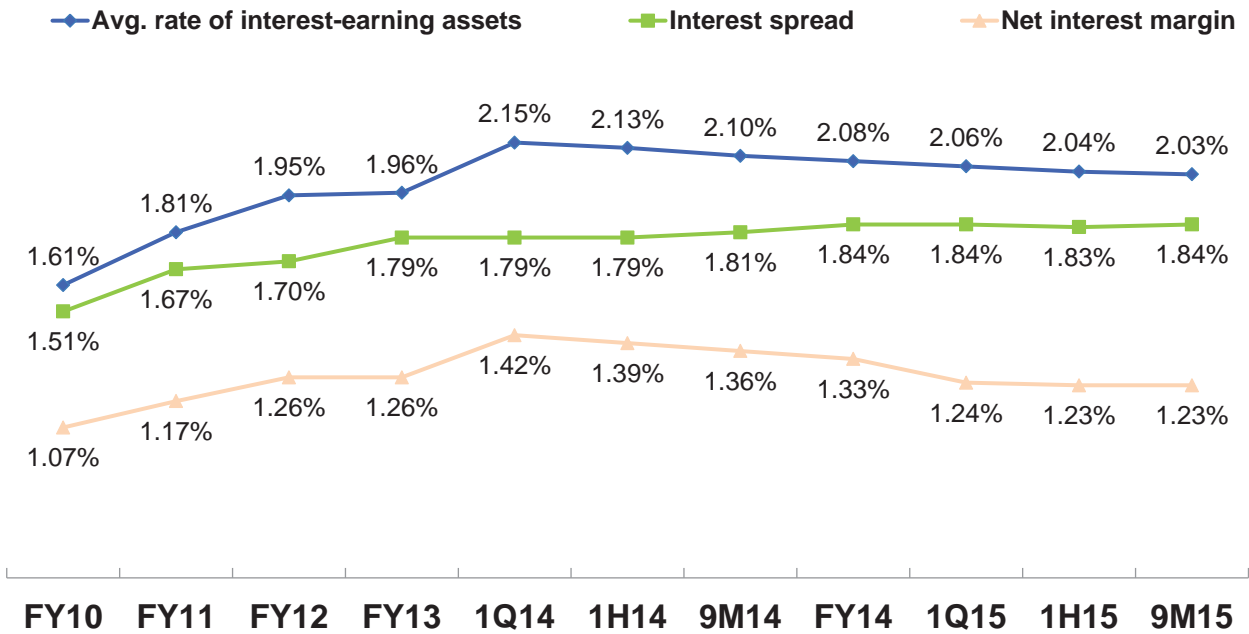


Note: Totals may not sum due to rounding.

16



# Cathay United Bank – Interest yields



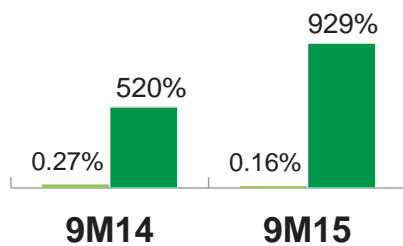
Note: Credit card related loans are included in the calculation of interest spread.

17

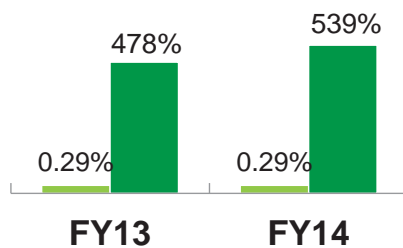
# Cathay United Bank – Credit quality

## NPL & Coverage ratio

- NPL ratio
- Coverage ratio



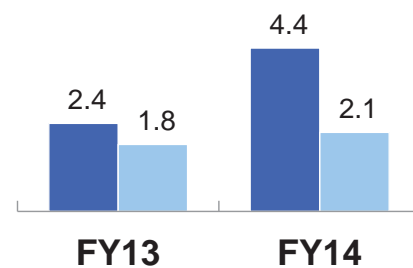
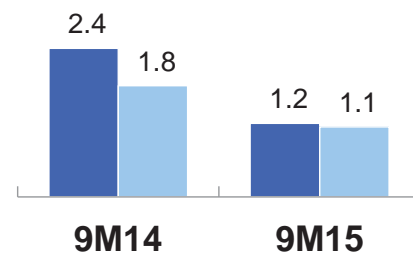
Mortgage NPL **0.05%** **0.05%**



Mortgage NPL **0.02%** **0.04%**

## Gross provision

- Gross provision (NT\$BN)
- Recovery

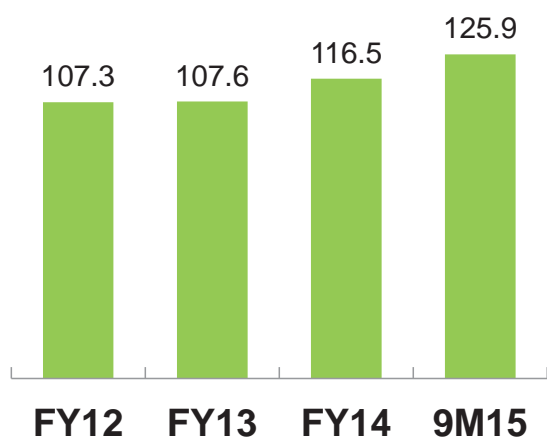


18

# Cathay United Bank – SME & FX loans

## SME loans

(NT\$BN)

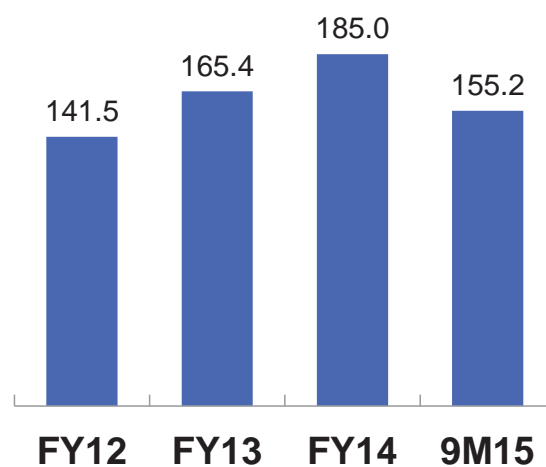


As % of total loans



## Foreign currency loans

(NT\$BN)



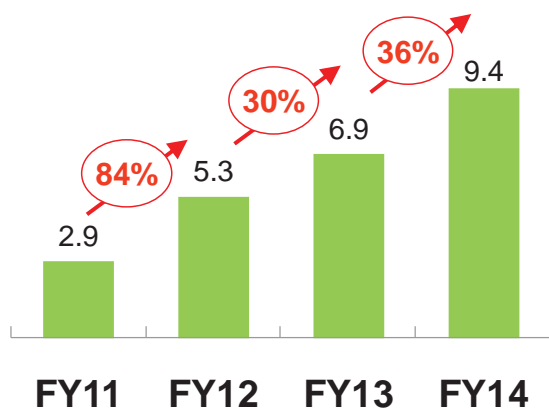
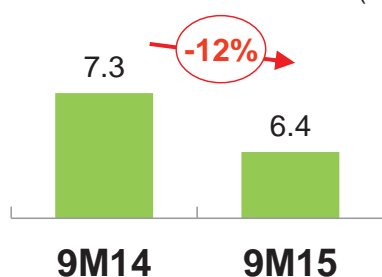
Note: Total loans exclude credit card revolving balance.

19

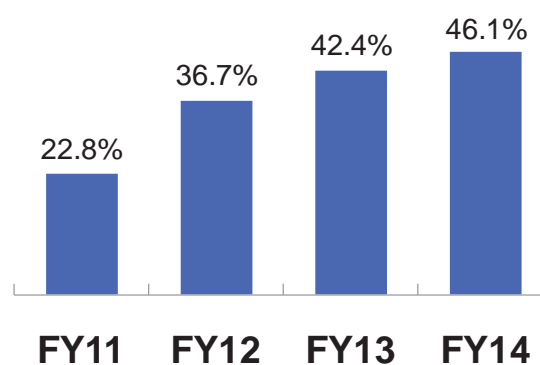
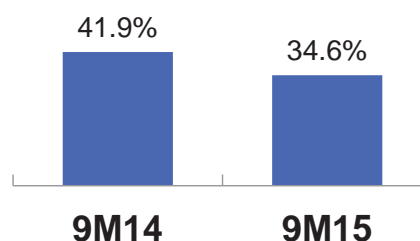
# Cathay United Bank – Offshore earnings

## Offshore earnings

(NT\$BN)



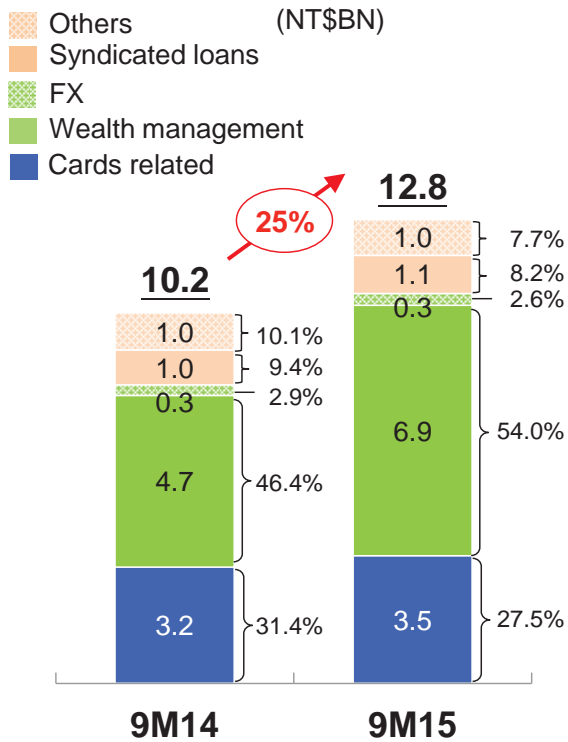
## As % of CUB pre-tax profits



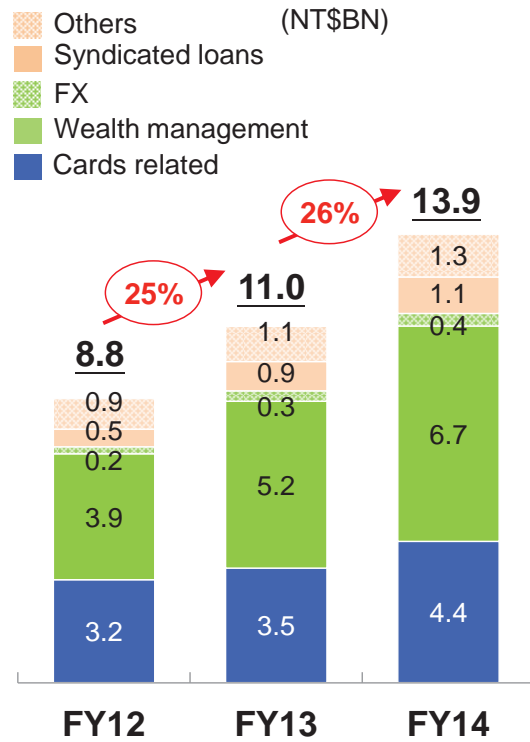
20

# Cathay United Bank – Fee income

## Fee income breakdown (quarterly)



## Fee income breakdown (annual)



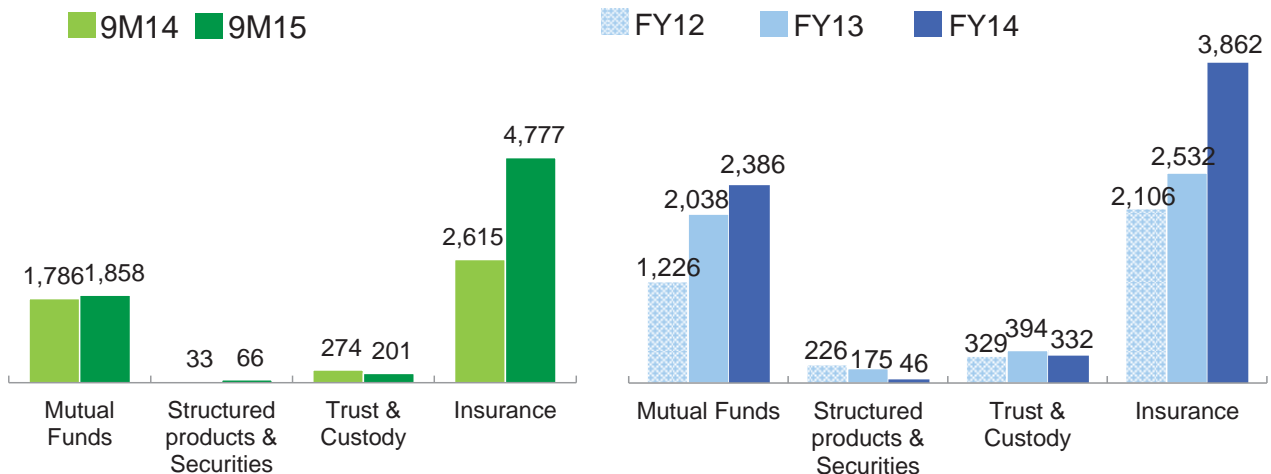
Note: Totals may not sum due to rounding.

21

# Cathay United Bank – Wealth management fee

## Wealth management fee breakdown

(NT\$MN)	9M14	9M15	FY12	FY13	FY14
Wealth Management Fee Income*	4,742	6,914	3,894	5,163	6,673
YoY growth (%)	28.7%	45.8%	17.7%	32.6%	29.2%



Note: (1) Wealth management fee excludes revenue from DCI, SI and others.  
 (2) Totals may not sum due to rounding.

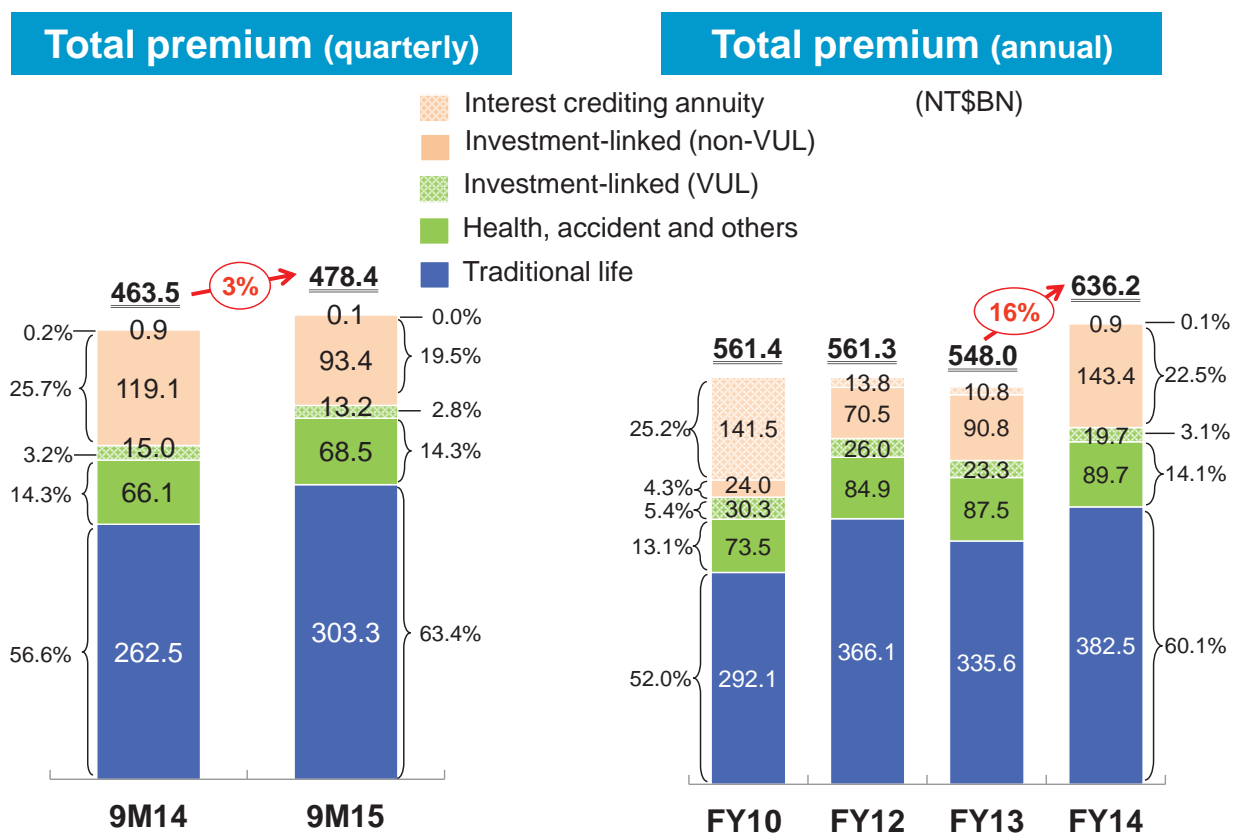
22

# Agenda

- Introduction of Cathay FHC
- 9M15 Business Overview
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

23

## Cathay Life – Total premium



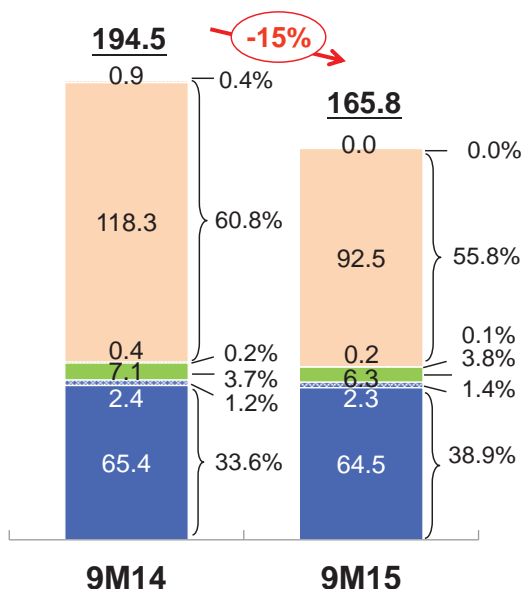
Note: Totals may not sum due to rounding.

24

# Cathay Life – FYP & FYPE

## FYP

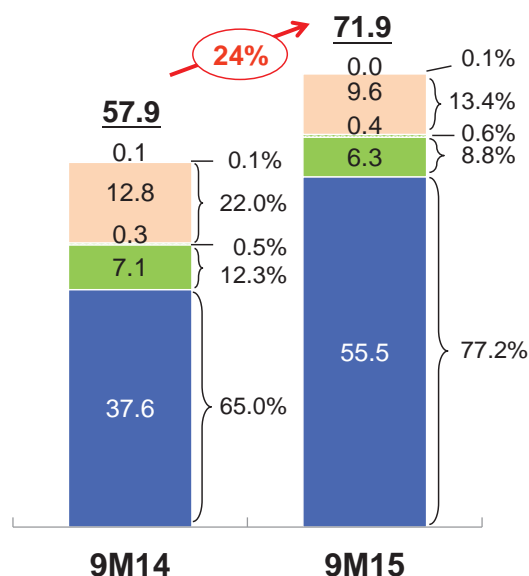
- Interest crediting annuity (NT\$BN)
- Investment-linked (non-VUL)
- Investment-linked (VUL)
- Health, accident and others
- Traditional life – single paid
- Traditional life – regular paid



Note: Totals may not sum due to rounding.

## FYPE

- Interest crediting annuity (NT\$BN)
- Investment-linked (non-VUL)
- Investment-linked (VUL)
- Health, accident and others
- Traditional life

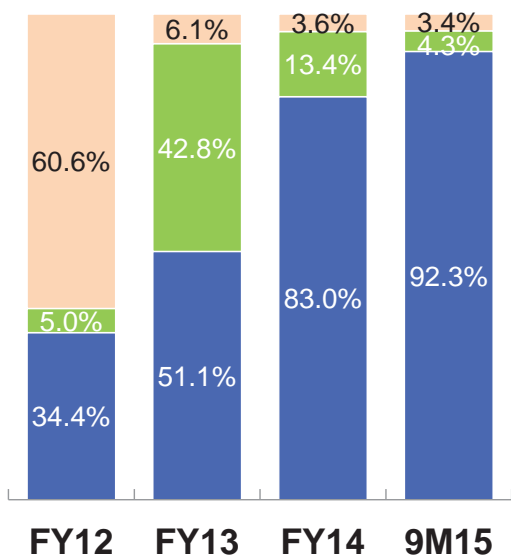


25

# Cathay Life – Regular paid policies remain as focus

## Breakdown of Traditional FYP

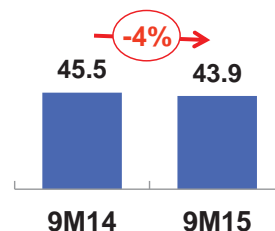
- Traditional life – single paid
- Traditional life - 2 year regular paid
- Traditional life - 3 year and above regular paid



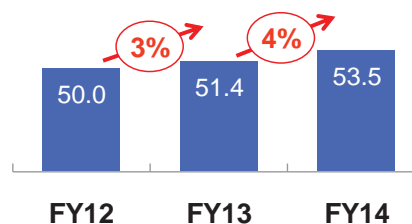
Note: Totals may not sum due to rounding.

## VNB

Profit Margin	9M14	9M15
VNB/FYP	23%	27%
VNB/FYPE	79%	61%



Profit Margin	FY12	FY13	FY14
VNB/FYP	19%	26%	23%
VNB/FYPE	54%	70%	75%

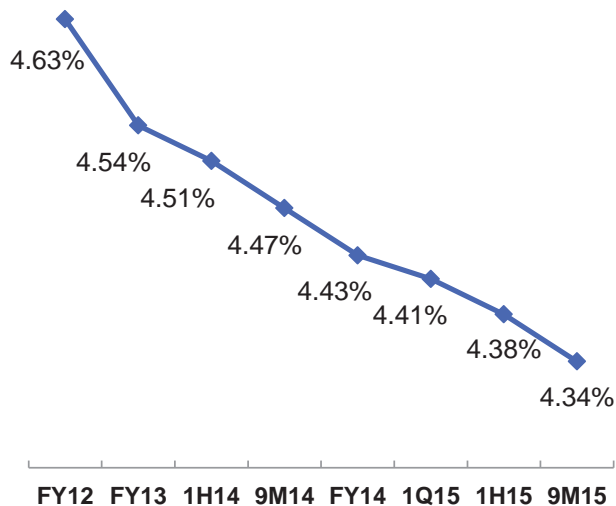


Note: FY14 and 9M15 VNB is based on Cathay Life's 2014 EV actuarial assumptions.

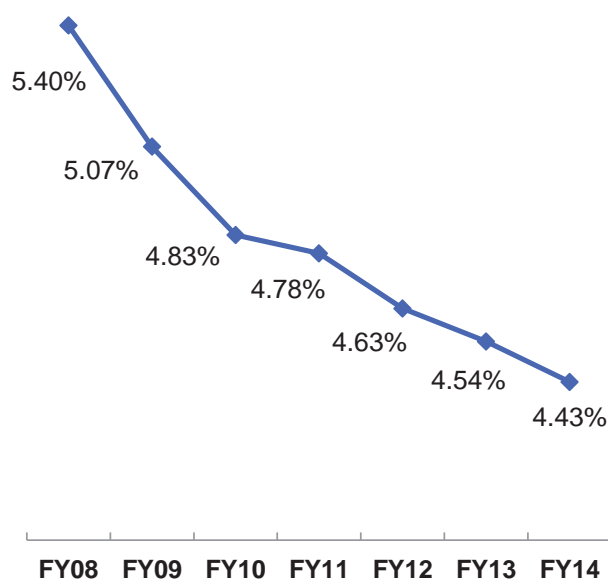
26

# Cathay Life – Cost of liability

## Cost of liability (quarterly)



## Cost of Liability (annual)



Note: The figures of cost of liability are reserve-based.

27

# Cathay Life – Investment portfolio

(NT\$BN)	4Q12	4Q13	4Q14	9M15		
<b>Total investments<sup>(1)</sup></b>	<b>3,283.7</b>	<b>3,785.1</b>	<b>4,169.1</b>	<b>4,575.4</b>		
	<b>Weight</b>	<b>Weight</b>	<b>Weight</b>	<b>Amount</b>	<b>Weight</b>	<b>Amount</b>
Cash & Cash equivalents	8.2%	3.7%	3.2%	131.6	1.9%	86.3
Equity- Domestic	8.1%	8.9%	8.4%	350.9	7.7%	352.4
Equity- International	4.3%	4.9%	5.0%	209.4	5.6%	256.3
Bond- Domestic	16.6%	14.4%	11.0%	459.2	8.6%	394.0
Bond- International <sup>(1)</sup>	39.6%	38.9%	43.6%	1,816.7	49.0%	2,240.3
Mortgage & Secured loans	10.3%	12.2%	12.7%	529.6	10.7%	488.5
Policy loans	5.5%	4.7%	4.0%	166.4	3.7%	168.4
Real estate <sup>(2)</sup>	5.6%	10.6%	10.5%	439.4	10.7%	489.1
Others	1.8%	1.7%	1.6%	65.9	2.2%	100.0

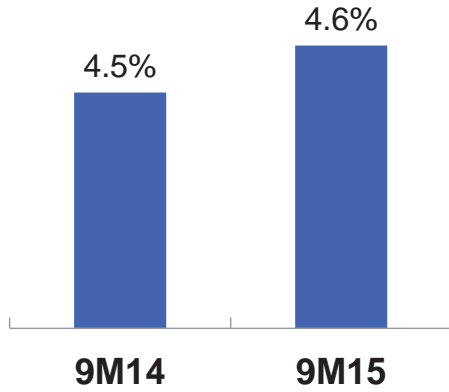
Note: (1) Total assets excluded separate account assets; international bond includes foreign currency deposit and related adjustments

(2) Real estate included 2013/1/1 IFRS adoption appraisal gain NT\$71.3BN from investment property and the impact of NT\$133.1BN from the change to fair value method on investment property on 2014/1/1. FY2014 appraisal gain from subsequent measurement of investment property is NT\$16.6BN.

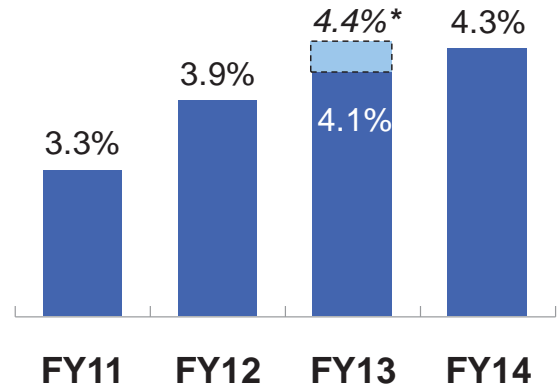
28

# Cathay Life – Investment performance highlight

## After-hedging investment yield



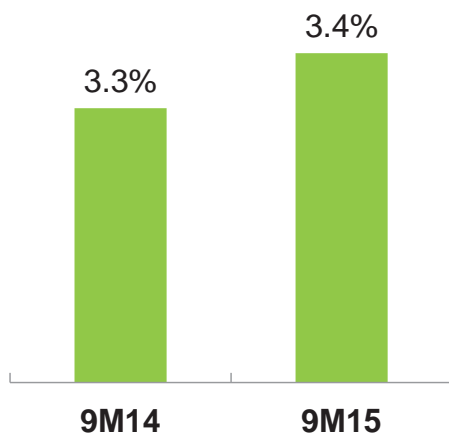
## After-hedging investment yield (annual)



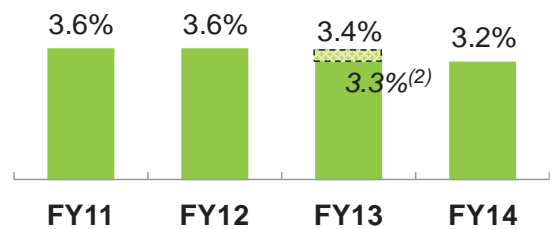
Note: FY13 (4.4%) was pro forma adjusted number of fair value method on investment property.

# Cathay Life – Investment performance highlight

## Pre-hedging recurring yield<sup>(1)</sup>



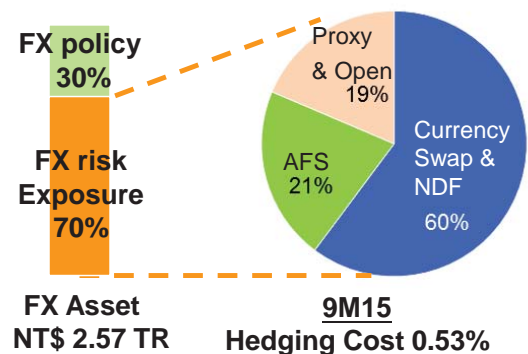
## Pre-hedging recurring yield



Note: (1) Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend. Most dividend will be recognized in 2Q & 3Q.

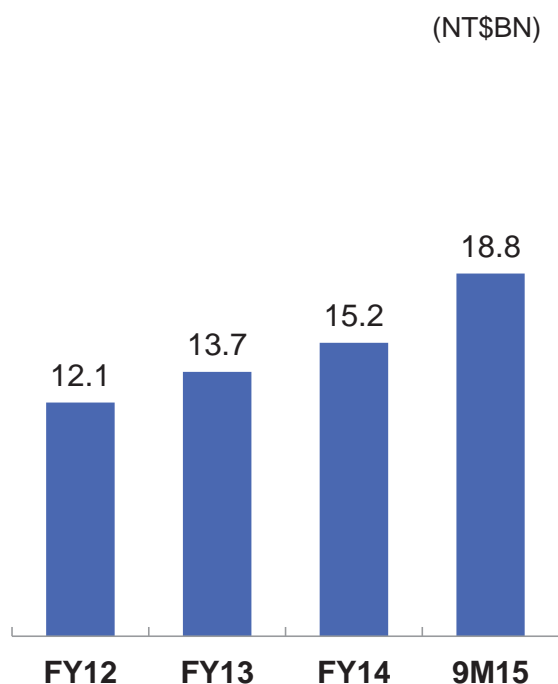
(2) FY13 (3.3%) was pro forma adjusted number of fair value method on investment property.

## Currency Hedging Structure

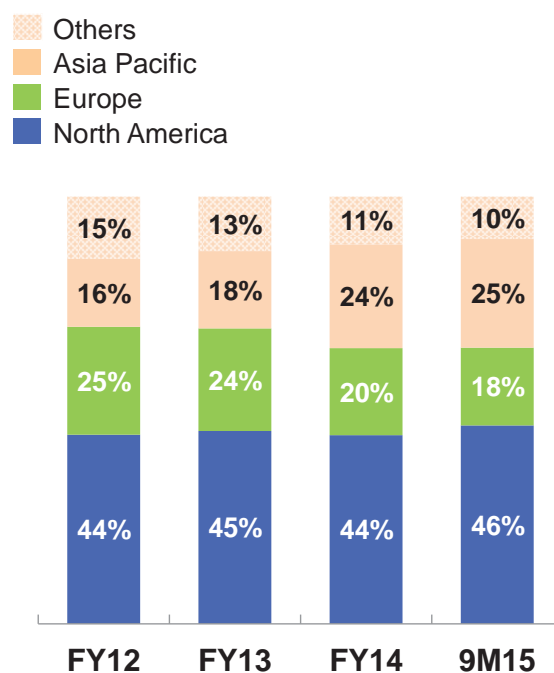


# Cathay Life – Cash dividend & Overseas fixed income by region

## Cash dividend



## Overseas Fixed Income by Region\*

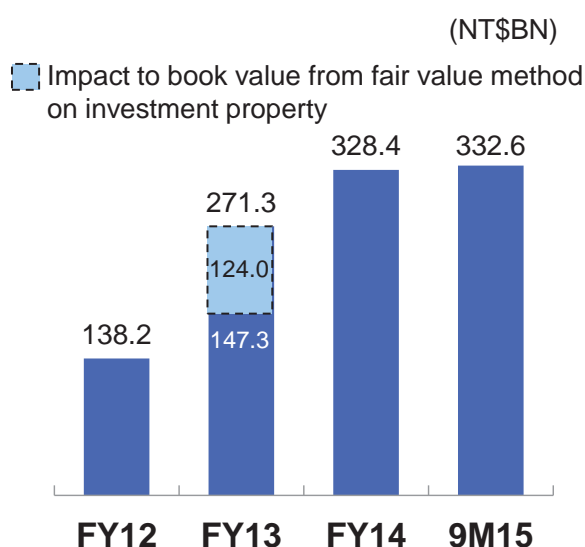


Note: Exclude overseas deposit and equity.

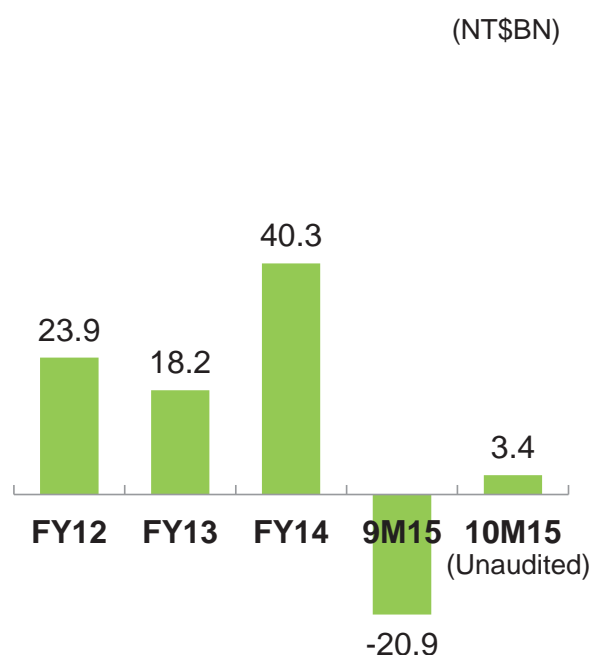
31

# Cathay Life – Book value & Unrealized G/L of AFS financial assets

## Book value



## Unrealized G/L of AFS financial assets

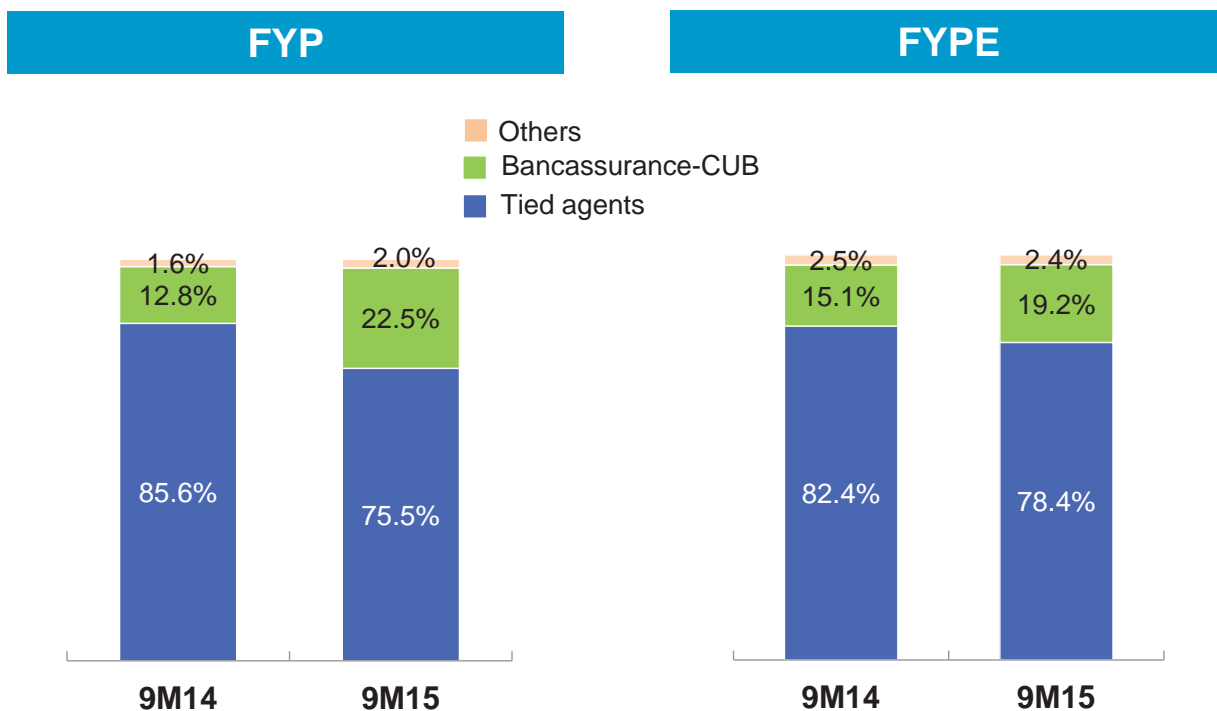


Note: FY13 figures reflected the impact from applying fair value method on investment property

32

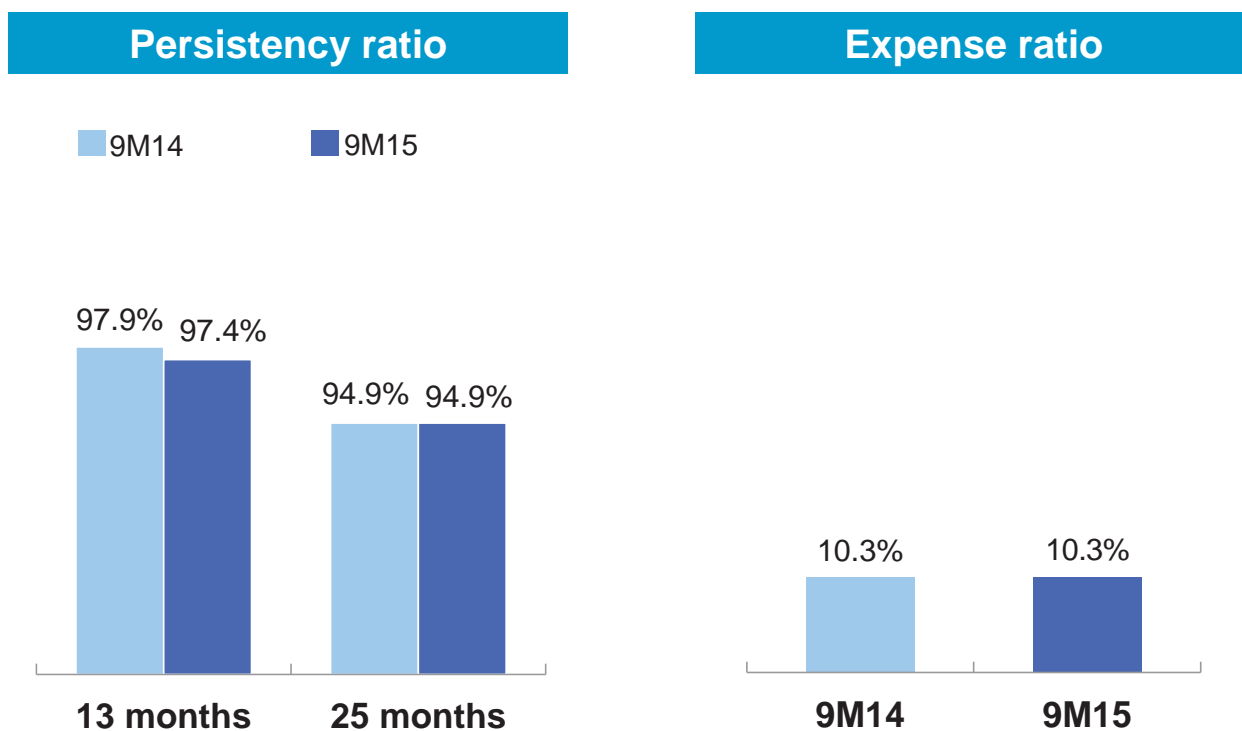


# Cathay Life – Distribution channel



33

# Cathay Life – Operational indicators



34

# Agenda

- Introduction of Cathay FHC
- 9M15 Business Overview
- Overseas Expansion
- Business Performance Summary

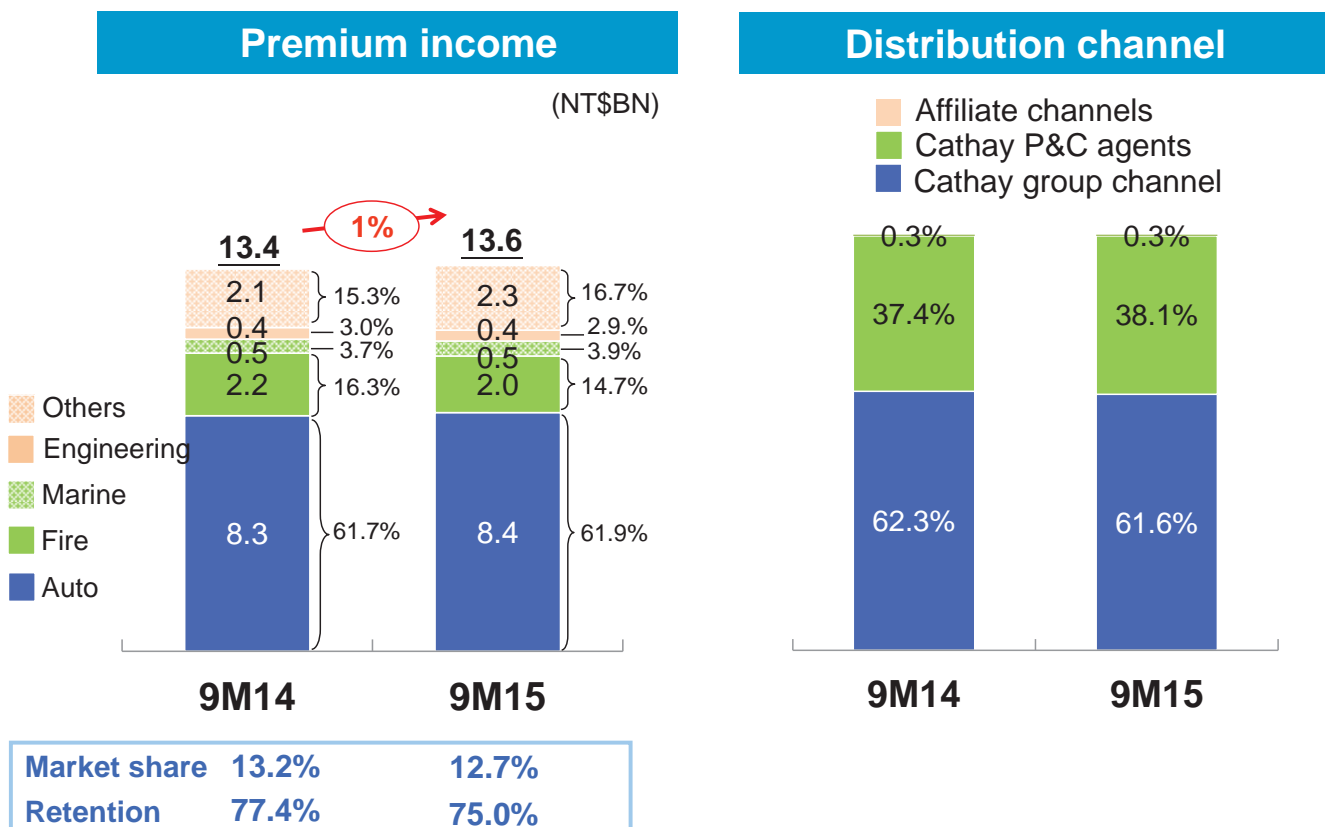
Cathay United Bank  
Cathay Life

## Cathay Century

- Cathay's CSR Efforts
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

35

## Cathay Century – Premium income & distribution



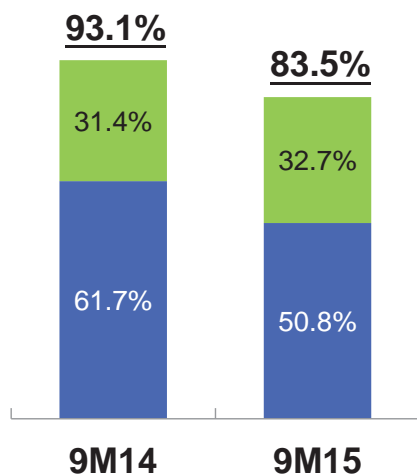
Note: Totals may not sum due to rounding.

36

## Cathay Century – Combined ratio

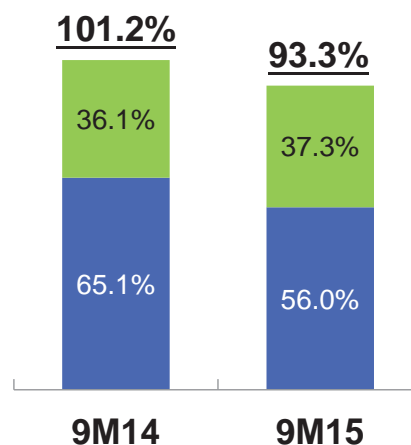
### Gross combined ratio

- Gross expense ratio
- Gross loss ratio



### Retained combined ratio

- Retained expense ratio
- Retained loss ratio



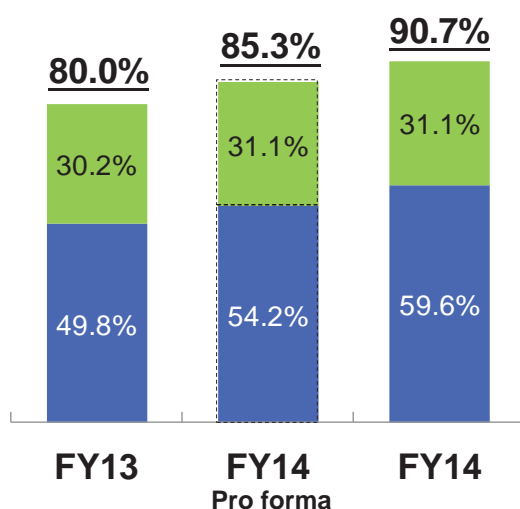
Note: From 2014/1/1, the loss provisions rules on compulsory car insurance was changed and the regulatory change cause an one-off impact on the of 2014 loss ratios.

37

## Cathay Century – Combined ratio (annual)

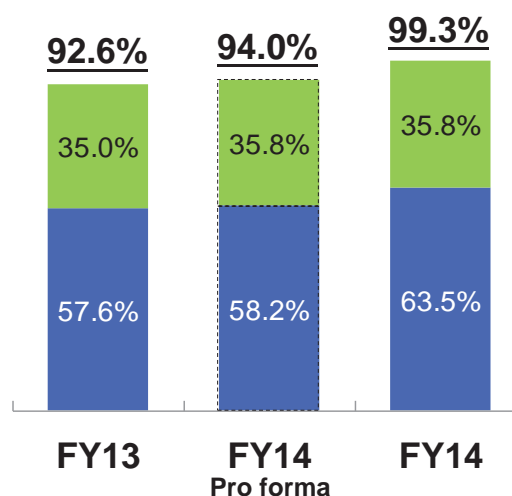
### Gross combined ratio

- Gross expense ratio
- Gross loss ratio



### Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Note: From 2014/1/1, the loss provisions rules on compulsory car insurance was changed and the loss ratio increased significantly compared to last year. However, the shortfall between retained earned pure premium and net loss provision plus claim payment was offset by recovery of special reserve and therefore has no impact on net profit.

38

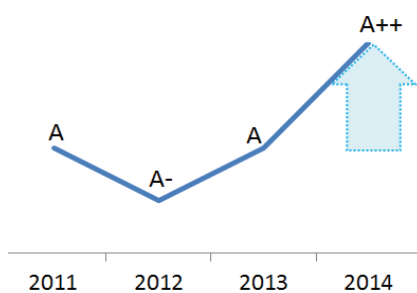
# Agenda

- Introduction of Cathay FHC
- 9M15 Business Overview
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Cathay's CSR Efforts**
- M&A Key Highlights
- Cathay Life's EV & Assumptions
- Capital Adequacy

39

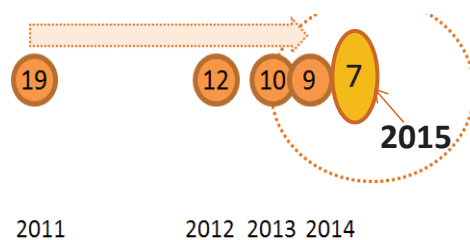
## Continuous efforts in CSR

Recognized the highest ranking of IDTR in 2014-2015

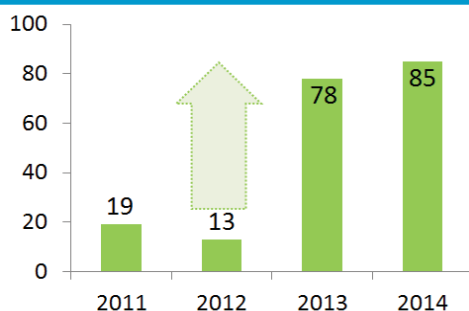


Ranked Top 7 of Taiwan Corporate Citizenship Award

Top 7 among Taiwan companies  
Top 2 in Financial sector in Taiwan



CDP disclosure score exceeded the worldwide industry average



The leader to be recognized by DJSI and Equator Principles

MEMBER OF  
**Dow Jones Sustainability Indices**  
In Collaboration with RobecoSAM

Top 1 among Taiwan life insurance companies

Top 2 in Taiwan financial sector



Top 1 in Taiwan

Top 6 in Asia

Note:

1. Information Disclosure and Transparency Ranking (IDTR) is an important evaluation initiated by TWSE.
2. Taiwan Corporate Citizenship Award is ranked by Taiwan Common Wealth Magazine.
3. CDP has the largest database of corporate climate change related information.

40

## Incorporate in the DJSI emerging markets index

- ❑ Cathay FHC has been selected as a DJSI Emerging Markets Component in Sep. 2015
- ❑ Cathay FHC is committed to develop ESG in the long term. The company attained the highest rating of A++ from TWSE Information Disclosure and Transparency Ranking, and became one of the top 5% of listed companies in Corporate Governance Evaluation of Taiwan

### DJSI in the World

- ❑ Dow Jones Sustainability Index (DJSI) launched in 1999, which is based on an analysis of corporate economic, environmental and social performance and select top 10% performers in each industry as its index components. The DJSI now is the most recognized sustainability index in the world.

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

41

## CUB is the first EPFI in Taiwan

- ❑ **Equator principles: sustainability and environmental protection**
  - CUB became the Equator Principles Financial Institutions (EPFIs) in Mar. 2015.
  - Being an EP signatory not only reinforces CUB's corporate commitment to sustainability and environmental protection, but also helps CUB integrate long established environmental and social risk evaluation system.
- ❑ **Cathay FHC will continue to develop its sustainable finance policy with its subsidiaries**



### EPFIs in the World

There are 82 financial institutions in more than 30 countries that adopt the EPs as of December, 2015.

- ❑ EPFIs in Asia : Mizuho Bank, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, Industrial Bank (China), IDFC(India), Cathay United Bank and E.Sun Bank.

42

# Agenda

---

- Introduction of Cathay FHC
- 9M15 Business Overview
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- **M&A Key Highlights**
- Cathay Life's EV & Assumptions
- Capital Adequacy

43

## Transaction Overview – RCBC

---

<b>Transaction Structure</b>	<ul style="list-style-type: none"><li>□ Investment in 280 million shares of Rizal Commercial Banking Corporation ("RCBC"), which consist of both new and existing shares</li><li>□ Post transaction, Cathay Life Insurance ("Cathay") owns 20% of RCBC with 3 board seats of the company</li><li>□ Depending on market conditions, Cathay may increase its investment in RCBC, via placement or open market purchase, to no more than 30% in the future</li></ul>
<b>Purchase Price</b>	<ul style="list-style-type: none"><li>□ PHP64.00 per share. Total consideration of acquiring 280 million shares was PHP17.92 billion (c. US\$400 million or NT\$12.9 billion). Post-money P/B is c.1.57x</li></ul>
<b>Regulatory Approval</b>	<ul style="list-style-type: none"><li>□ The transaction has been completed.</li></ul>
<b>Strategic Rationale</b>	<ul style="list-style-type: none"><li>□ Strong potential of the Philippine market</li><li>□ Expand regional banking platform</li><li>□ Stable investment return</li><li>□ Potential strategic cooperation</li></ul>

44

## Transaction Overview – Bank Mayapada

<b>Transaction Structure</b>	<ul style="list-style-type: none"> <li>□ Cathay Life will acquire a 40% stake in PT Bank Mayapada International, Tbk ("Bank Mayapada") from selling shareholders:             <ul style="list-style-type: none"> <li>• Stage 1 : acquire 24.9% stake (USD 164 million)</li> <li>• Stage 2 : acquire 15.1% stake</li> </ul> </li> </ul>
<b>Purchase Price</b>	<ul style="list-style-type: none"> <li>□ Total consideration is ~IDR3.52tn (USD 295 million), representing a P/B multiple of ~ 3.15x</li> </ul>
<b>Timetable</b>	<ul style="list-style-type: none"> <li>□ Stage 1 has been completed in the first half of 2015</li> <li>□ Closing of Stage 2 is subject to Fit and Proper Test as stipulated by the Indonesia Financial Services Authority ("OJK")</li> </ul>
<b>Strategic Rationale</b>	<ul style="list-style-type: none"> <li>□ Participation in Indonesia's growth opportunity</li> <li>□ Stable investment return</li> <li>□ Expansion of regional banking platform</li> <li>□ Potential strategic cooperation</li> </ul>

45

## Transaction Overview – Conning

<b>Transaction Structure</b>	<ul style="list-style-type: none"> <li>□ Conning Holdings Corporation ("Conning") is a leading asset manager for insurance and pension clients with \$90 billion AuM (4Q14)</li> <li>□ Cathay Life Insurance Company ("Cathay Life") acquires 100% of Conning</li> </ul>
<b>Purchase Price</b>	<ul style="list-style-type: none"> <li>□ Acquisition price of US\$240 million in cash             <ul style="list-style-type: none"> <li>• P/AuM of 0.26% based on AuM as of September 30, 2014</li> </ul> </li> <li>□ Cathay Financial Holdings will sell its approximately 10% stake in Conning to Cathay Life             <ul style="list-style-type: none"> <li>• Pre tax disposal gain amounts to US\$ 5 million</li> </ul> </li> </ul>
<b>Regulatory Approval</b>	<ul style="list-style-type: none"> <li>□ The transaction has been completed.</li> </ul>
<b>Strategic Rationale</b>	<ul style="list-style-type: none"> <li>□ Transaction will significantly expand Cathay's global presence in asset management</li> <li>□ Significant step forward in realizing "Banking + Insurance + Asset Management" strategy</li> </ul>

46

## Transaction Overview – Conning Acquires Octagon

<b>Transaction</b>	<ul style="list-style-type: none"> <li>❑ Octagon Credit Investors is a specialist credit-focused manager with expertise in bank loans, collateralized loan obligations (“CLOs”) and high yield bonds</li> <li>❑ \$12.8 billion in assets under management</li> <li>❑ Conning to acquire a majority ownership stake in Octagon</li> <li>❑ Octagon to operate as a subsidiary of Conning</li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>❑ Adds scale and accelerates Conning’s product development objectives</li> <li>❑ Facilitates participation in growing market for specialty mandates</li> <li>❑ Expands distribution opportunities for both firms</li> <li>❑ Important asset classes for insurers, other sophisticated institutions, and retail investors</li> </ul>
<b>Investment Details</b>	<ul style="list-style-type: none"> <li>❑ Total capital commitment up to \$175.6 million</li> <li>❑ Conning to acquire 82% controlling interest</li> <li>❑ Includes significant capital investment to support risk retention requirements</li> </ul>
<b>Regulatory &amp; Closing Conditions</b>	<ul style="list-style-type: none"> <li>❑ Expected to close early in 2016, subject to customary regulatory approvals and closing conditions</li> </ul>

47

## Alliance with Ant Financial

<b>Transaction Structure</b>	<ul style="list-style-type: none"> <li>❑ Cathay Insurance Company Ltd. (China) (“Cathay Insurance (China)”) is planning a new capital issuance of RMB 833 million. Zhejiang Ant Small &amp; Micro Financial Services Group (“Ant Financial”) will be the sole subscriber. Total capital after issuance will increase from RMB 0.8 billion to RMB 1.63 billion</li> <li>❑ After the transaction, Ant Financial, Cathay Insurance, and Cathay Life will separately hold stakes of 51%, 24.5% and 24.5%, respectively of Cathay Insurance (China)</li> </ul>
<b>Transaction Rationale</b>	<ul style="list-style-type: none"> <li>❑ The alliance will enable Cathay Financial Holdings to increase its exposure to the rapidly growing internet finance market</li> <li>❑ The strategic investor, Ant Financial, operates the largest internet financial services platform in China and possesses a large customer base and enormous volume of transaction data, which are critical assets for the development of internet finance</li> <li>❑ The alliance represents a combination of traditional finance and internet business to create new ecosystem for internet finance</li> </ul>
<b>Regulatory Approval</b>	<ul style="list-style-type: none"> <li>❑ The transaction is subject to customary regulatory approvals and is expected to be completed in the first half of 2016</li> </ul>

48



# Transaction Overview – Global Life and Singfor Life

<b>Transaction Structure</b>	<ul style="list-style-type: none"><li>□ The takeover of the assets, liabilities and operations of Global Life and Singfor Life. (the “Companies”)</li><li>□ Transaction Price : Subsidization of NTD\$ 30.3 bn by Taiwan Insurance Guarantee Funds</li></ul>
<b>Support Measures</b>	<ul style="list-style-type: none"><li>□ Increase asset allocation flexibility</li><li>□ Relax certain related regulations</li></ul>
<b>Progress update</b>	<ul style="list-style-type: none"><li>□ Cathay Life has completed the takeover on July 1, 2015. The company has kept the business operations smooth and unhindered</li><li>□ Cathay Life expects that the cost of liability will increase 1 bp because of this acquisition. Overall, the company remains its target of improving 5-10 bps on the cost of liability annually</li><li>□ The acquisition has positive impact on Cathay Life’s EV and net worth. Also it has increased Cathay Life’s asset allocation flexibility</li></ul>

- ❖ Exercise corporate social responsibility and provide the strength and stability to the policyholders of the Companies and the general public.

49

## Agenda

- **Introduction of Cathay FHC**
- **9M15 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Cathay’s CSR Efforts**
- **M&A Key Highlights**
- **Cathay Life’s EV & Assumptions**
- **Capital Adequacy**

50

# Embedded Value & Appraisal Value

Valuation date	2013/12/31	2014/12/31
In-force business investment yield	3.94% ~ Year 2033 5.07% for NTD policies 4.47% ~ Year 2033 6.11% for USD policies 2.71% ~ Year 2033 3.10% for Interest crediting annuity (Equivalent investment yield: 4.39% rolling over to 2014: 4.54%)	4.01% ~ Year 2034 5.05% for NTD policies 4.40% ~ Year 2034 6.07% for USD policies 2.75% ~ Year 2034 3.02% for Interest crediting annuity (Equivalent investment yield: 4.46%)
Future one year's new business investment yield	2.76% ~ Year 2033 5.07% for NTD policies 4.02% ~ Year 2033 6.11% for USD policies 2.42% ~ Year 2033 2.67% for Interest crediting annuity	2.54% ~ Year 2034 5.03% for NTD policies 4.47% ~ Year 2034 6.07% for USD policies 2.19% ~ Year 2034 2.62% for Interest crediting annuity
Risk discount rate	10%	10%
Adjusted net worth	352	403
Value of in-force business	396	434
Cost of capital (CoC)	-113	-128
Value of in-force business (After CoC)	283	306
Embedded Value (EV)	635	709
EV per shr (EV per FHC shr)	119.7 (55.0) <sup>(3)</sup>	133.6(56.4)
Appraisal Value (AV)	1,093	1,191
Value of future one year's new business (After CoC)	52.5	55.5
AV per shr (AV per FHC shr)	206.0 (94.7) <sup>(3)</sup>	224.4(94.8)

Note: (1) EV/AV calculation does not include business of Cathay Life in China and Vietnam. In addition, EV/AV calculation does not include the takeover of the assets, liabilities and operations of Global Life Insurance and Singfor Life Insurance.

(2) per share = per share of Cathay Life; (per share) = per share of Cathay FHC

(3) EV and AV per FHC share of 2013 is based on 2013 weighted average of outstanding shares. If the weighted average of outstanding shares in 2014 were used, EV and AV per FHC share of 2013 would be 50.5 and 87.0, respectively.

(4) May not sum to total due to rounding..

51

## Summary

Valuation date		2013	2014	Growth rate	1Q15
Embedded value	Equity	271	325	20%	--
	Adjusted net worth	352	403	14%	--
	Value of in-force business	396	434	10%	--
	Cost of capital (CoC)	-113	-128	14%	--
	Value in-force business (after CoC)	283	306	8%	--
	Embedded value	635	709	12%	--
Value of one year's new business	First year premium (FYP)	200.4	233.4	16%	52.3
	First year premium equivalent (FYPE)	73.5	71.1	-3%	16.2
	Value of one year's new business (V1NB)	51.4	53.5	4%	12.0
	Profit margin (V1NB/FYP)	26%	23%	--	23%
	Profit margin (V1NB/FYPE)	70%	75%	--	74%
	Profit margin (V1NB/FYP)(investment-linked(non-VUL)is excluded)	44%	53%	--	60%
Appraisal value (20 years NB)	Multiple	8.7	8.7	--	--
	Appraisal value	1,093	1,191	9%	--
Basic Value per share	EV per FHC shr	55.0 <sup>(1)</sup>	56.4 <sup>(2)</sup>	3%	--
	AV per FHC shr	94.7 <sup>(1)</sup>	94.8 <sup>(2)</sup>	0%	--
Adjusted Value per share	EV per FHC shr	50.5 <sup>(2)</sup>	56.4 <sup>(2)</sup>	11%	--
	AV per FHC shr	87.0 <sup>(2)</sup>	94.8 <sup>(2)</sup>	9%	--

Note: (1) Basic EV and AV per share is based on 2013 weighted average of outstanding shares 11.5bn.

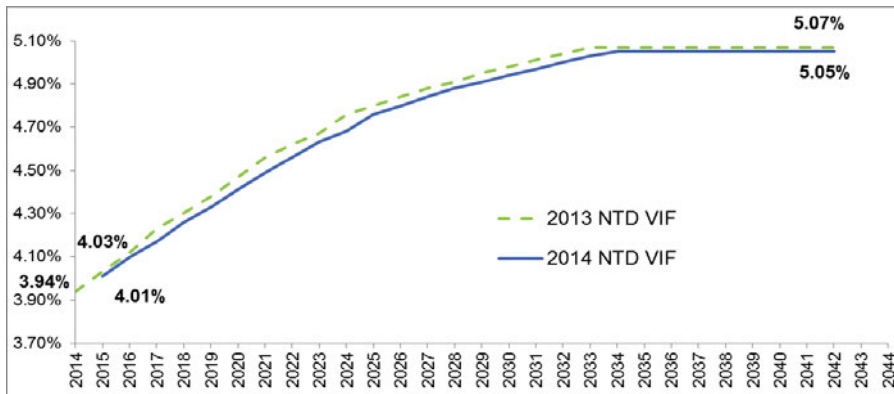
(2) Adjusted EV and AV per share calculation is based on 2014 weighted average of outstanding shares 12.6bn.

(3) Totals may not sum due to rounding.

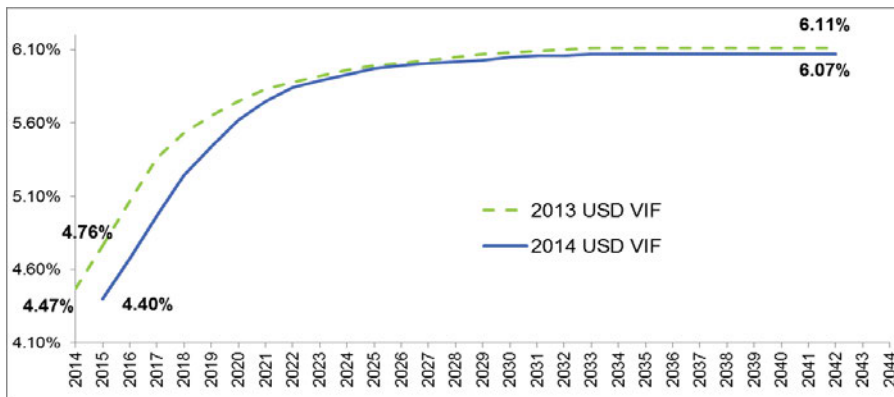
52

# Economic Assumptions: In-force business investment yield

- Investment return assumptions for the value of in force business of NTD-denominated policies as of the end of 2013 & 2014.



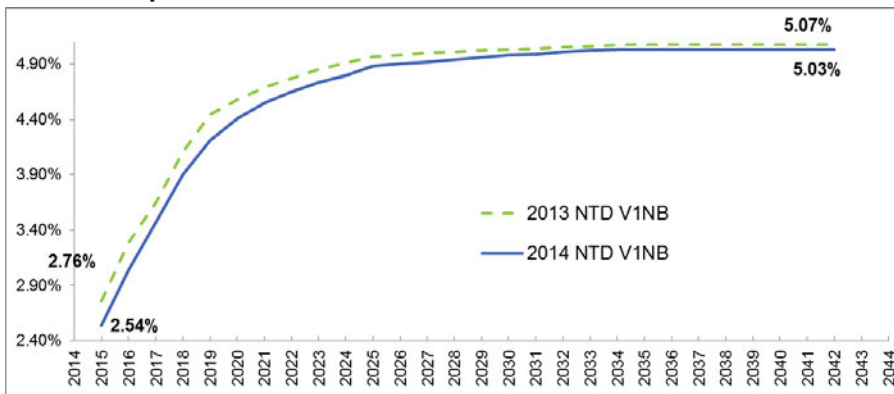
- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2013 & 2014.



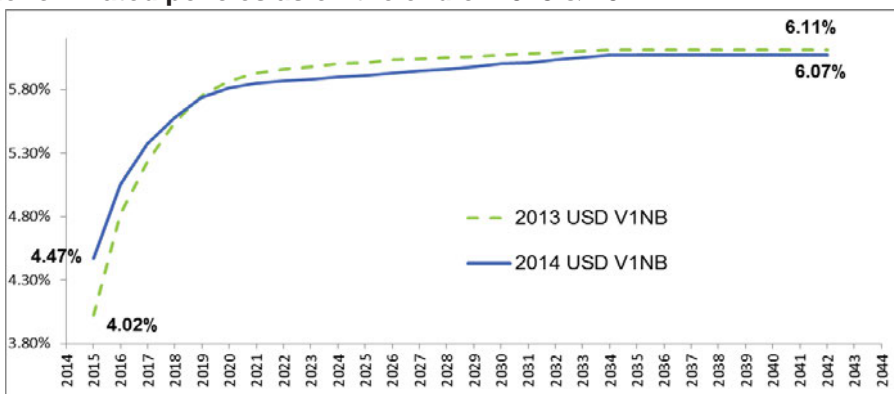
53

# Economic Assumptions: Future one year's new business investment yield

- Investment return assumptions for the value of future one year's new business of NTD-denominated policies as of the end of 2013 & 2014.



- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2013 & 2014.

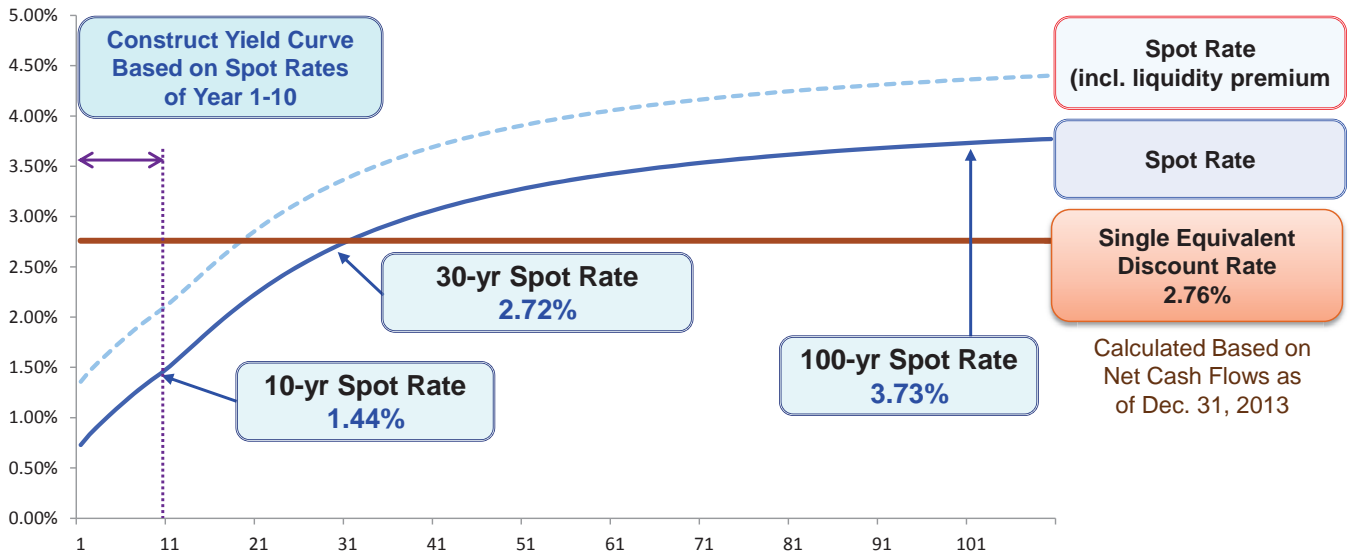


54

# Fair Value of Insurance Contracts: Risk-free Rate (NTD)

## NTD Risk-free Rate

Calculate 3-yr daily MA yield curve based on the zero coupon yield curve announced by OTC (Svensson) and use the extrapolation method provided by [EU Solvency II QIS 5](#) to construct the complete yield curve.

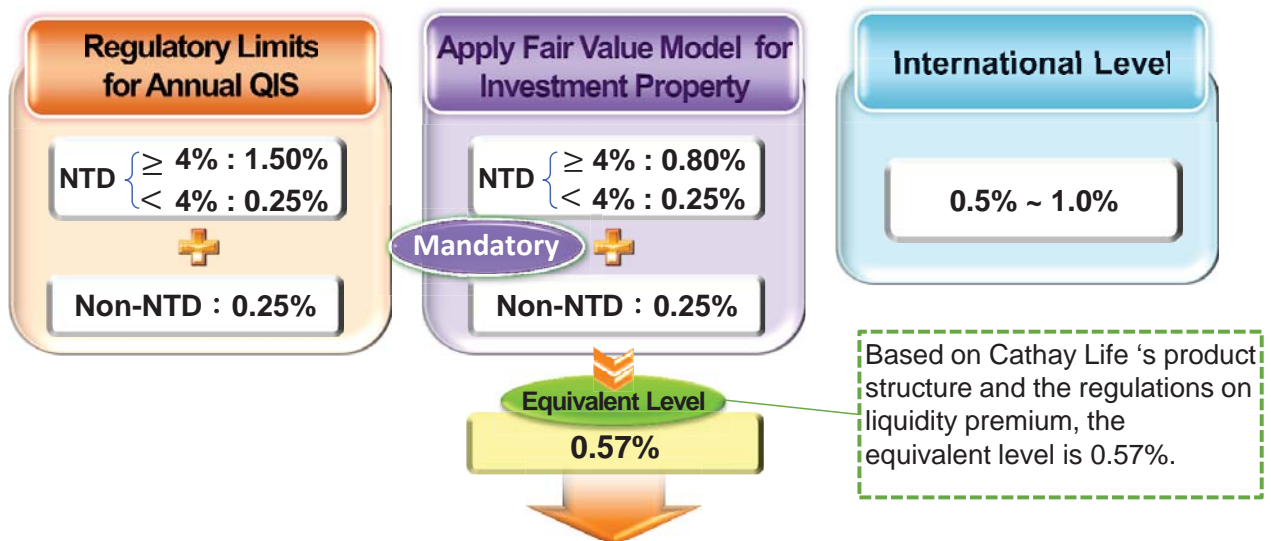


Note: The "Spot Rate" mentioned above refers to 3-yr daily MA yield curve.

55

# Fair Value of Insurance Contracts: Liquidity Premium

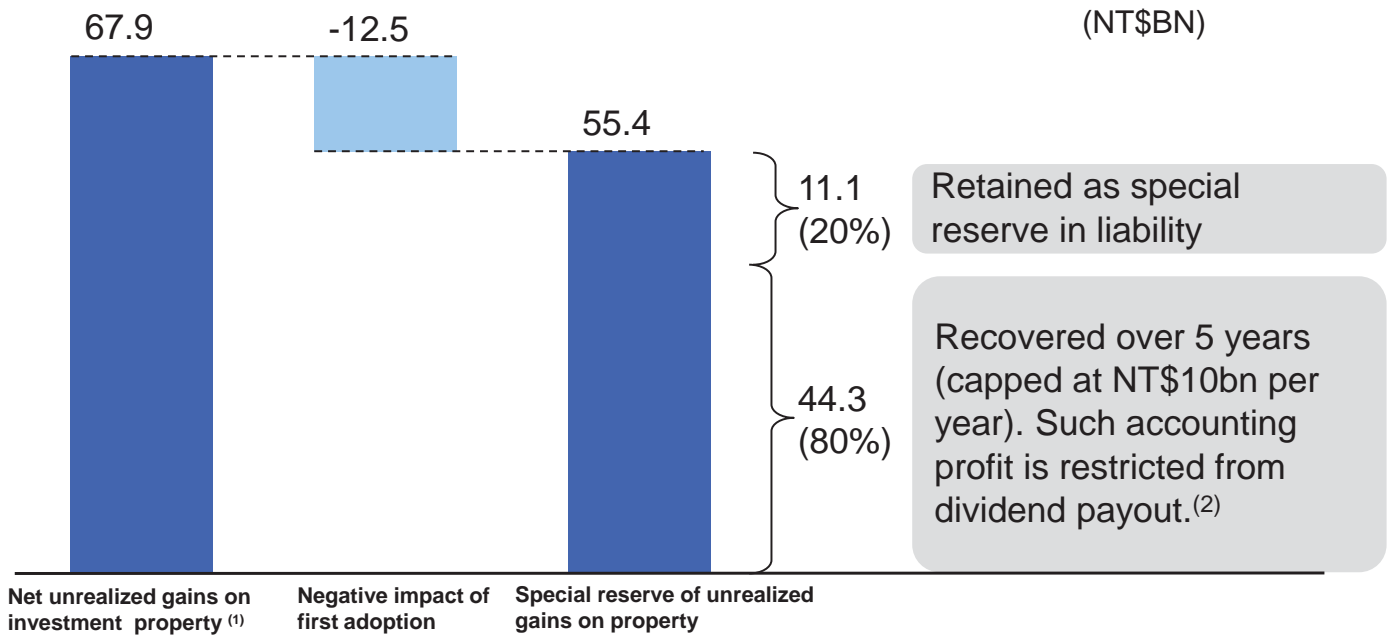
If insurers apply fair value model for investment property, their insurance liabilities should also be assessed under fair value basis. Taiwan adopts a relatively strict standard of liquidity premium compared to the international level of 0.5%~1%.



According to the regulations on liquidity premium mentioned above, Cathay Life's reserve is enough and allowed to recognize after tax full amount of investment property appraisal gain under fair value method into shareholder's equity.

56

# Special reserve of unrealized gains on property

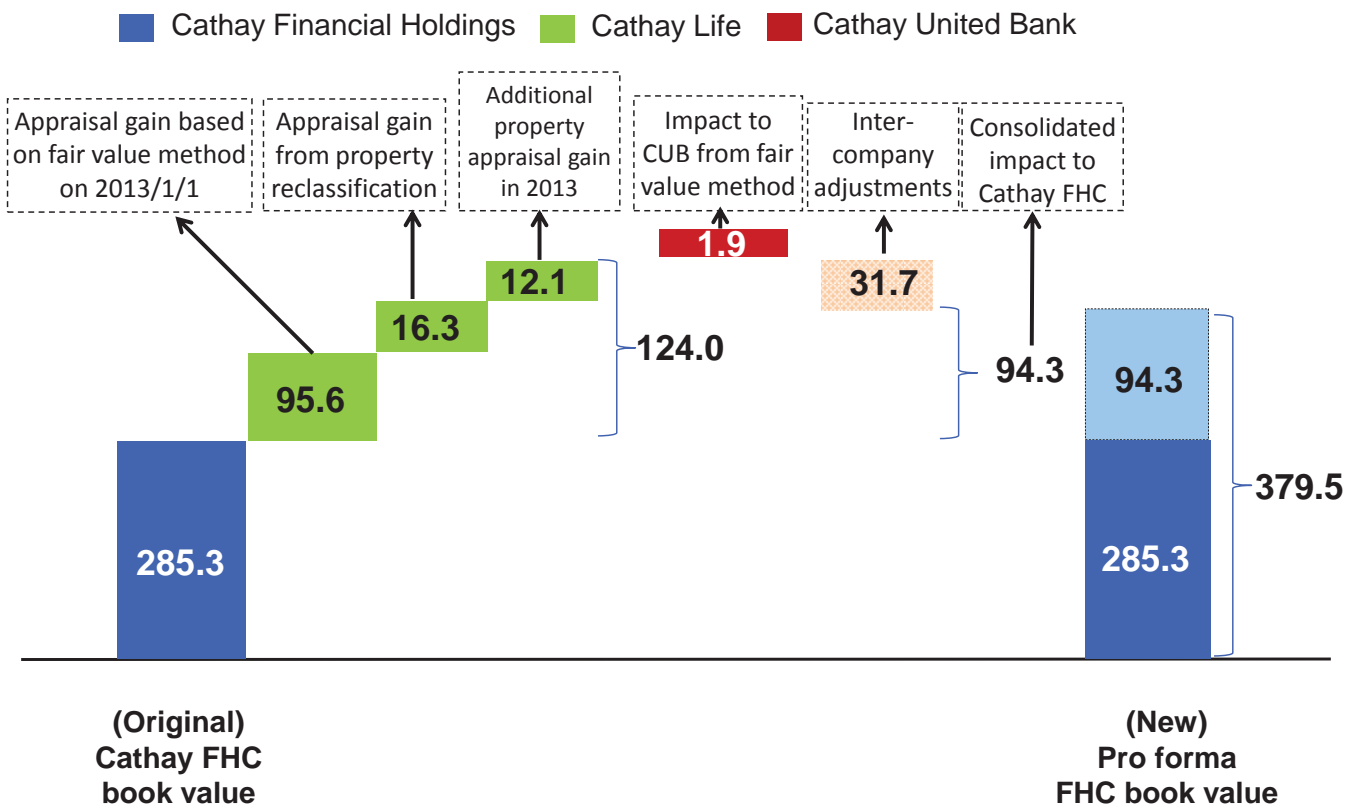


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(2) The recovery of such special reserve is subject to regulatory approval each year. Hence, the actual recovery depends on the fair valuation results each year.

57

# Illustration of 2013 pro forma BV of Cathay FHC

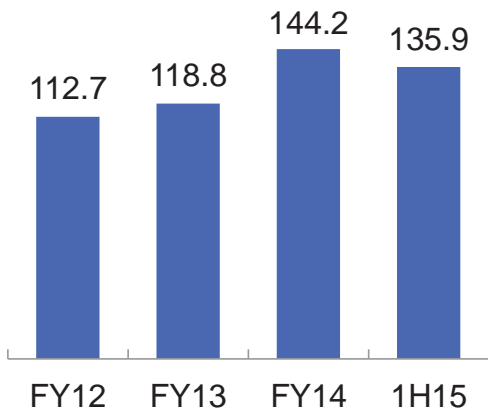


Note: Totals may not sum due to rounding.

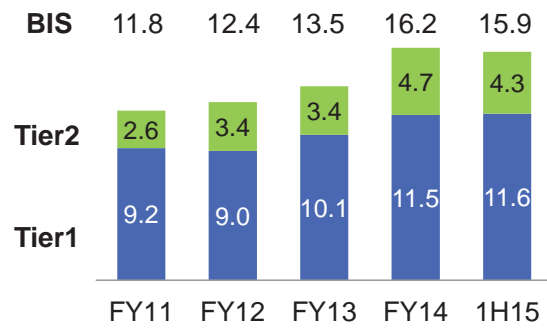
58

# Capital adequacy

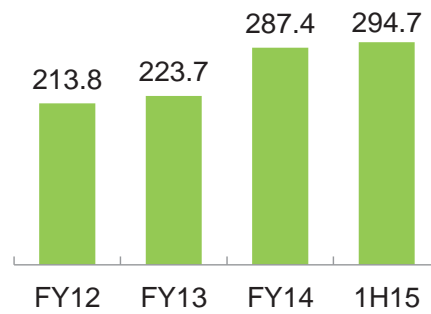
**Cathay FHC CAR (%)**



**CUB Capital Adequacy (%)**



**Cathay Life RBC(%)**



Thank You

**Cathay Financial Holdings**

(NT\$MN)			FY14/ FY13 % Chg	9M14	9M15	9M15/ 9M14 % Chg	3Q14	3Q15	3Q15/ 3Q14 % Chg
<b>Income Statement Data (Consolidated)</b>									
<b>Operating Income</b>									
Net interest income	114,558	125,083	9%	92,570	102,701	11%	31,062	36,391	17%
Net commission and fee	791	369	-53%	1,700	(2,909)	-271%	(310)	(1,610)	419%
Net earned premium	441,427	488,327	11%	338,919	389,089	15%	140,802	141,975	1%
Change in liability reserve	(293,570)	(290,800)	-1%	(192,620)	(239,059)	24%	(85,562)	(79,806)	-7%
Net claims payment	(228,125)	(285,869)	25%	(213,395)	(213,175)	0%	(77,115)	(79,695)	3%
Investment income	56,350	75,849	35%	61,690	62,081	1%	22,945	18,548	-19%
Contribution from associates-equity method	157	168	7%	119	637	435%	52	353	580%
Other net non-interest income	6,972	3,449	-51%	3,822	10,154	166%	878	(4,291)	-589%
Bad debt expense	(1,484)	(2,982)	101%	(1,190)	(554)	-53%	(747)	(387)	-48%
Operating expense	(54,277)	(57,350)	6%	(41,372)	(45,682)	10%	(15,042)	(17,270)	15%
<b>Income before taxes</b>	42,799	56,243	31%	50,245	63,284	26%	16,963	14,206	-16%
Income taxes	(4,779)	(6,458)	35%	(5,579)	(8,399)	51%	(2,846)	(555)	-80%
<b>Net income</b>	38,020	49,785	31%	44,666	54,885	23%	14,117	13,651	-3%
EPS (NT\$)	3.12	3.94		3.53	4.33		1.11	1.07	
<b>Dividend Payout</b>									
Cash dividend per share	1.50	2.00							
Stock dividend per share	0.50	0.00							
Weighted average outstanding shares (Millions of shares)	12,124	12,563		12,563	12,563				
<b>Balance Sheet Data</b>									
Total assets	6,177,273	6,944,837		6,661,721	7,520,230				
Total shareholders' equity	379,510	439,120		402,653	443,451				
<b>Operating Metrics</b>									
ROAE (Consolidated)	10.82%	12.10%		15.19%	16.58%				
ROAA (Consolidated)	0.65%	0.76%		0.93%	1.01%				
Double leverage ratio(inc. preferred stock)	111%	113%		114%	114%				
<b>Capital Adequacy Metrics</b>									
Capital Adequacy Ratio	119%	144%							

**Notes:**

(1) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

For more details, please refer to our official financial reports.

(2) Starting from 2015/1/1, Cathay FHC adopted IFRS 2013 version and has adjusted 9M14 financial data to pro-forma basis. 2014 total assets, liabilities, and shareholders' equity have also been adjusted accordingly.

(3) Total may not sum due to rounding.



**Cathay Life**

(NT\$MN)	FY14/			9M15/			3Q15/		
	FY13	FY14	FY13	9M14	9M15	9M14	3Q14	3Q15	3Q14
Income Statement Data (Consolidated)			% Chg			% Chg			% Chg
Net written premium	426,804	472,630	11%	327,432	376,994	15%	136,899	137,585	1%
Net earned premium	418,262	471,849	13%	327,065	376,690	15%	136,633	137,284	0%
Reinsurance commission earned	11,610	4,740	-59%	4,721	222	-95%	1,165	(60)	-105%
Fee income	3,090	5,943	92%	4,589	4,409	-4%	1,599	1,301	-19%
Recurring investment income	113,932	124,152	9%	94,837	107,038	13%	37,624	44,365	18%
Gain on disposal of investment									
Realized gain (loss)-Equity	16,586	23,357	41%	19,384	26,696	38%	5,929	(7,994)	-235%
Realized gain (loss)-Debt	14,604	12,828	-12%	9,102	12,810	41%	4,291	2,280	-47%
Investment property appraisal gains	13,045	16,579	27%	16,249	11,310	-30%	(127)	(1)	-99%
FX and others, net	(4,197)	(7,166)	71%	(7,802)	(8,635)	11%	(1,458)	3,049	-309%
Investment income, net	153,970	169,750	10%	131,770	149,219	13%	46,259	41,700	-10%
Other operating income	1,275	9	-99%	6	115	1776%	3	109	4011%
Separate account revenues	90,719	115,040	27%	100,214	5,163	-95%	3,807	(994)	-126%
Net claims payment	(210,029)	(275,195)	31%	(206,346)	(205,988)	0%	(74,457)	(76,981)	3%
Changes in liability reserves	(292,978)	(290,109)	-1%	(191,589)	(238,245)	24%	(85,272)	(79,430)	-7%
Acquisition and commission expense	(34,188)	(32,405)	-5%	(24,348)	(24,396)	0%	(9,164)	(8,280)	-10%
Other operating costs	(5,570)	(4,544)	-18%	(3,335)	(3,899)	17%	(1,337)	(1,440)	8%
Financial cost	303	(106)	-135%	(67)	(314)	367%	81	123	53%
Separate account expense	(90,719)	(115,040)	27%	(100,214)	(5,163)	-95%	(3,807)	994	-126%
Operating expense	(15,677)	(16,724)	7%	(11,590)	(15,620)	35%	(4,351)	(6,857)	58%
Net non-operating income	1,156	1,482	28%	1,126	853	-24%	230	180	-22%
Income taxes	(3,657)	(2,834)	-22%	(2,730)	(5,642)	107%	(1,632)	373	-123%
<b>Net income</b>	<b>27,569</b>	<b>31,854</b>	<b>16%</b>	<b>29,273</b>	<b>37,402</b>	<b>28%</b>	<b>9,758</b>	<b>8,022</b>	<b>-18%</b>

**Balance Sheet Data**

Total assets	4,195,229	4,704,976		4,499,313	5,133,994
General account	3,818,977	4,242,710		4,056,598	4,666,001
Separate account	376,253	462,267		442,715	467,993
Reserves for life insurance liabilities	3,448,659	3,770,679		3,646,664	4,162,355
Total liabilities	3,923,923	4,376,595		4,202,922	4,801,418
Total shareholders' equity	271,306	328,382		296,391	332,576

**Operating Metrics**

First Year Premium(FYP)	200,419	233,379		194,508	165,808
First Year Premium Equivalent(FYPE)	73,461	71,138		57,882	71,908
Expense ratio	11.5%	9.9%		10.3%	10.3%
13-M persistency ratio	98.2%	97.9%		97.9%	97.4%
25-M persistency ratio	94.7%	94.9%		94.9%	94.9%
ROAE	10.92%	10.54%		13.69%	15.09%
ROAA	0.69%	0.71%		0.90%	1.01%

**Capital Adequacy Metrics**

RBC ratio (Standalone)	224%	287%
------------------------	------	------

**Notes:**

(1) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

For more details, please refer to our official financial reports.

(2) Starting from 2015/1/1, Cathay Life adopted IFRS 2013 version and has adjusted 9M14 financial data to pro-forma basis.

2014 total assets, liabilities, and shareholders' equity have also been adjusted accordingly.

(3) Total may not sum due to rounding.



**Cathay United Bank**

(NT\$MN)	FY14/ FY13			9M15/ 9M14			3Q15/ 3Q14		
Income Statement Data (Consolidated)	FY13	FY14	% Chg	9M14	9M15	% Chg	3Q14	3Q15	% Chg
<b>Operating Income</b>									
Net interest income	21,915	25,779	18%	19,046	20,295	7%	6,467	6,921	7%
Fee income	9,204	11,806	28%	8,664	11,222	30%	3,467	3,789	9%
Investment income	5,650	7,384	31%	6,315	4,565	-28%	1,894	1,690	-11%
other income	956	1,064	11%	883	1,086	23%	274	310	13%
<b>Net operating income</b>	<b>37,725</b>	<b>46,033</b>	<b>22%</b>	<b>34,908</b>	<b>37,168</b>	<b>6%</b>	<b>12,103</b>	<b>12,710</b>	<b>5%</b>
Operating expenses	(20,216)	(22,822)	13%	(16,523)	(18,174)	10%	(6,085)	(6,549)	8%
<b>Pre-provision profit</b>	<b>17,509</b>	<b>23,211</b>	<b>33%</b>	<b>18,384</b>	<b>18,994</b>	<b>3%</b>	<b>6,018</b>	<b>6,161</b>	<b>2%</b>
Net provisions for possible losses	(542)	(2,471)	356%	(745)	(173)	-77%	(617)	(108)	-83%
<b>Income before taxes</b>	<b>16,967</b>	<b>20,741</b>	<b>22%</b>	<b>17,639</b>	<b>18,821</b>	<b>7%</b>	<b>5,400</b>	<b>6,053</b>	<b>12%</b>
Income tax	(2,188)	(2,892)	32%	(2,396)	(2,222)	-7%	(793)	(738)	-7%
<b>Net income</b>	<b>14,780</b>	<b>17,848</b>	<b>21%</b>	<b>15,243</b>	<b>16,599</b>	<b>9%</b>	<b>4,608</b>	<b>5,315</b>	<b>15%</b>
<b>Balance Sheet Data</b>									
Total assets	1,988,774	2,243,958		2,158,980	2,388,868				
Loans, net	1,031,105	1,119,281		1,115,695	1,137,114				
Financial assets	638,727	649,497		622,069	766,254				
Total liability	1,855,610	2,096,340		2,015,865	2,234,137				
Deposits	1,615,860	1,739,023		1,694,715	1,844,163				
Financial Debenture Payable	52,417	67,614		67,289	65,551				
Total shareholders' equity	133,164	147,617		143,115	154,730				
<b>Operating Metrics</b>									
Cost income ratio	53.59%	49.58%		47.33%	48.90%				
ROAE	12.33%	12.71%		14.74%	14.64%				
ROAA	0.78%	0.84%		0.98%	0.96%				
<b>Assets Quality</b>									
NPL	3,013	3,277		3,036	1,809				
NPL ratio	0.29%	0.29%		0.27%	0.16%				
NPL provisions	14,494	15,782		15,782	16,806				
Coverage ratio	478%	539%		520%	929%				
<b>Capital Adequacy Metrics</b>									
BIS ratio (Standalone)	13.5%	16.2%							
Tier I Ratio (Standalone)	10.1%	11.5%							

**Notes:**

(1) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

For more details, please refer to our official financial reports.

(2) Starting from 2015/1/1, Cathay United Bank adopted IFRS 2013 version and has adjusted 9M14 financial data to pro-forma basis.

2014 total assets, liabilities, and shareholders' equity have also been adjusted accordingly.

(3) Total may not sum due to rounding.

**Cathay Century**

(NT\$MM)	FY14/			9M15/			3Q15/		
	FY13	FY14	FY13 % Chg	9M14	9M15	9M14 % Chg	3Q14	3Q15	3Q14 % Chg
<b>Income Statement Data (Consolidated)</b>									
Premium income	19,727	21,279	8%	15,520	16,115	4%	5,175	5,702	10%
Net written premium	15,280	16,080	5%	11,776	12,401	5%	4,025	4,464	11%
Net earned premium	14,156	15,626	10%	11,685	12,634	8%	4,048	4,607	14%
Reinsurance commission earned	470	683	45%	510	381	-25%	162	120	-26%
Fee income	36	45	27%	32	34	6%	11	11	1%
Investment	715	918	28%	729	768	5%	351	251	-29%
Interest income	444	569	28%	428	413	-3%	152	145	-5%
Other investment income, net	271	348	29%	300	355	18%	199	106	-47%
Other operating income	0	0	-	3	14	388%	(1)	9	-1029%
Net claims payment	(7,835)	(8,747)	12%	(6,117)	(6,503)	6%	(2,206)	(2,314)	5%
Changes in liability reserves	(592)	(691)	17%	(1,031)	(814)	-21%	(291)	(376)	29%
Commissions and other operating costs	(1,083)	(1,210)	12%	(904)	(1,016)	12%	(336)	(374)	11%
Operating expenses	(5,328)	(5,824)	9%	(4,297)	(4,529)	5%	(1,447)	(1,581)	9%
<b>Operating income</b>	538	800	49%	609	970	59%	293	354	21%
Net non-operating income	9	29	238%	31	(14)	-145%	(1)	(6)	390%
Income taxes	(218)	(174)	-20%	(98)	(229)	135%	(53)	(97)	84%
<b>Net income</b>	329	656	99%	542	727	34%	239	251	5%
<b>Balance Sheet Data</b>									
Total assets	31,709	35,863		35,030	36,326				
Total shareholders' equity	5,511	6,829		6,617	7,180				
<b>Operating Metrics</b>									
Gross Combined ratio	80.0%	90.7%		93.1%	83.5%				
Net Combined ratio	92.6%	99.3%		101.2%	93.3%				
ROAE	6.37%	10.71%		11.98%	13.84%				
ROAA	1.08%	1.94%		2.16%	2.69%				
<b>Capital Adequacy Metrics</b>									
RBC ratio (Standalone)	312%	324%							

**Notes:**

(1) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

For more details, please refer to our official financial reports.

(2) All data and information are based on IFRS.

(3) Starting from 2015/1/1, Cathay Century adopted IFRS 2013 version and has adjusted 9M14 financial data to pro-forma basis.

2014 total assets, liabilities, and shareholders' equity have also been adjusted accordingly.

(4) Total may not sum due to rounding.

