



國泰金控

Cathay Financial Holdings

IFRS 17 Transition

March 2026



Agenda

- **Key messages**
- **IFRS 17 transition update**
 - Cathay Life
 - Cathay Century
- **Appendix**

Key messages

✓ Impact by subsidiaries

Cathay life is the most affected; Cathay Century sees limited; other subsidiaries are unaffected.

✓ CSM: key driver of future earnings

CSM balances for Cathay FHC, Cathay Life and Cathay Century total NT\$524.2bn, NT\$511.9bn and NT\$1.0bn, respectively.

✓ Adjusted equity (incl. after-tax CSM) better reflects economic value

IFRS 17 transition results in a one-off impact on equity.

Equity declined: Cathay FHC NT\$252.0bn; Cathay Life NT\$244.5bn.

Adjusted equity: Cathay FHC NT\$1,095.7bn; Cathay Life NT\$914.0bn — both higher than IFRS 4 equity.

✓ Enhanced earnings predictability and stability

Under IFRS 17, Cathay Life's earnings are expected to become more predictable and stable, supporting greater earnings stability at Cathay FHC.

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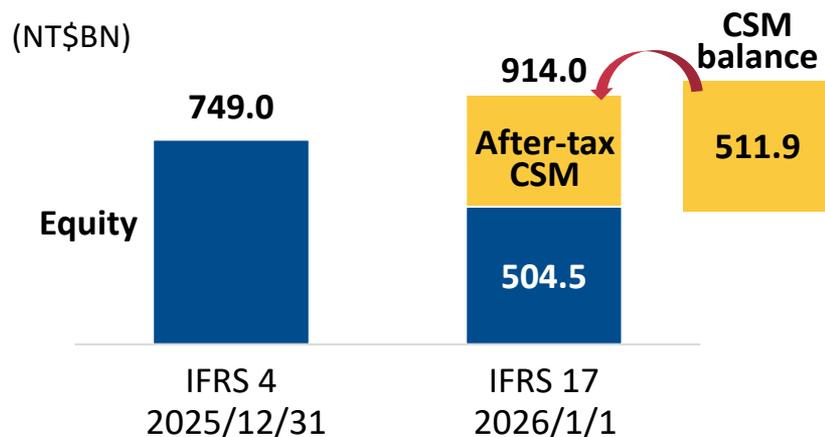
Cathay Life

Cathay Century

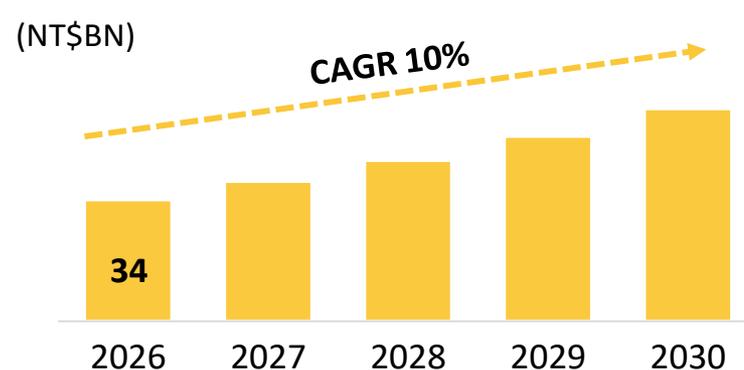
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Cathay Life – IFRS 17 transition highlights

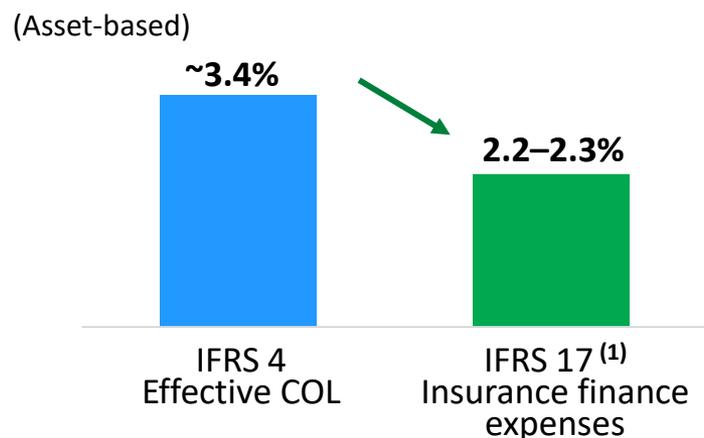
One-off equity impact; adjusted equity (incl. after-tax CSM) exceeds IFRS 4 equity



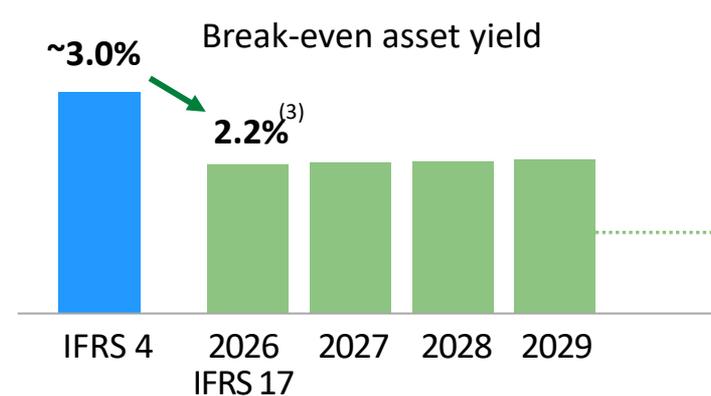
Growing CSM⁽²⁾ release supports future earnings



Lower liability costs support a stable positive spread

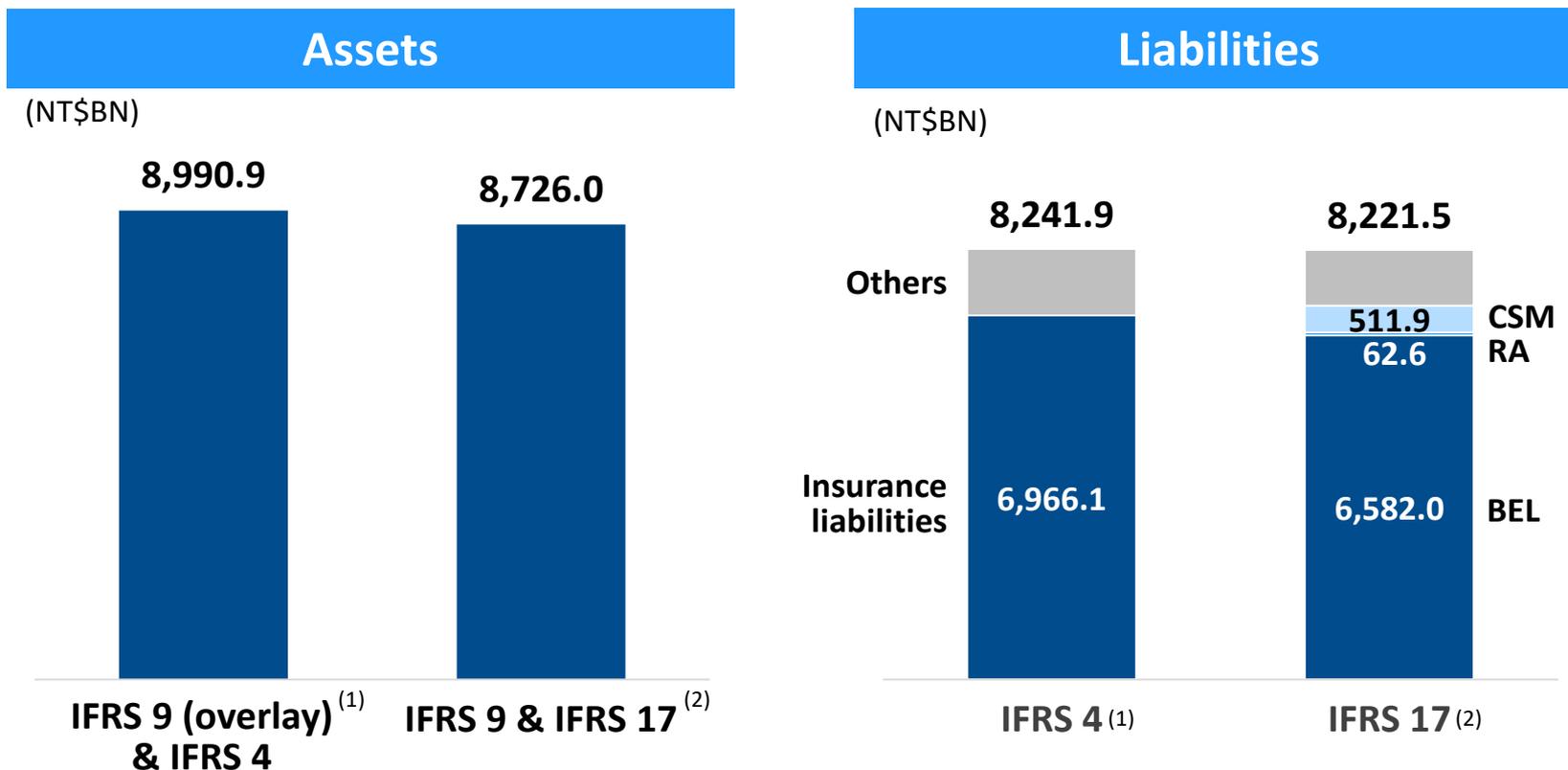


Increasing CSM release helps stabilize break-even asset yield



Key balance sheet changes at transition

- Insurance liabilities are measured using market-based discount rates. Future profits from insurance contracts are recognized as CSM within liabilities, amounting to NT\$511.9bn, and are released to P&L over the coverage period.
- Changes in assets mainly reflect financial asset redesignation and the reclassification of policy loans into insurance liabilities.



Note: (1) As of 2025/12/31; (2) 2026/1/1

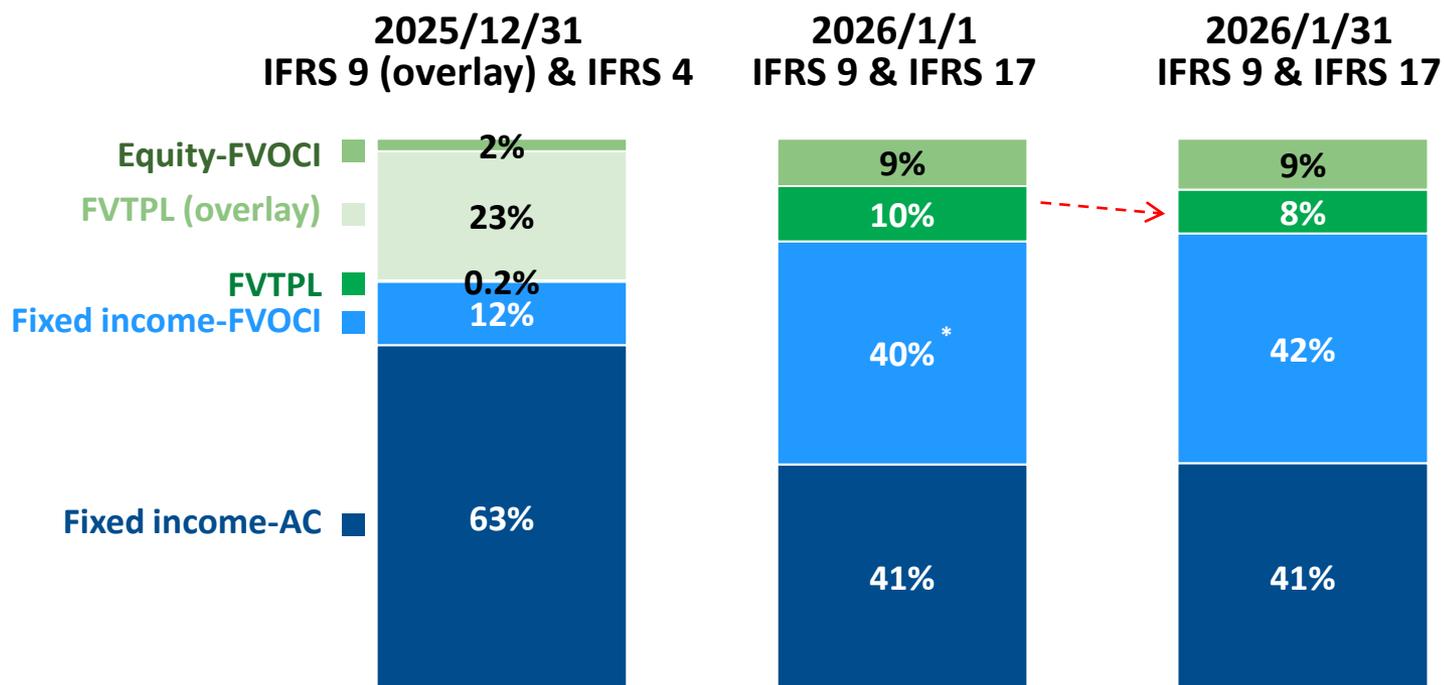
BEL (Best Estimate Liability): Present value of future fulfillment cash flows, based on current market interest rates and current estimates.

RA (Risk Adjustment): Compensation for bearing uncertainty arising from non-financial risks in insurance contracts.

Financial asset redesignation to align with liabilities & ALM

- Financial assets were redesignated to align with liabilities, considering NTD-USD interest rate dynamics.
 - USD liability portfolio: USD assets aligned under ALM, with the majority classified as FVOCI.
 - TWD liability portfolio: certain fixed-income assets remained at AC to mitigate equity volatility.
- FVTPL equity previous under the overlay approach were redesignated to FVOCI to reduce earnings volatility.
- Selective redesignation to FVTPL for portfolio repositioning, followed by redeployment into higher-quality assets to enhance recurring income and capital efficiency.

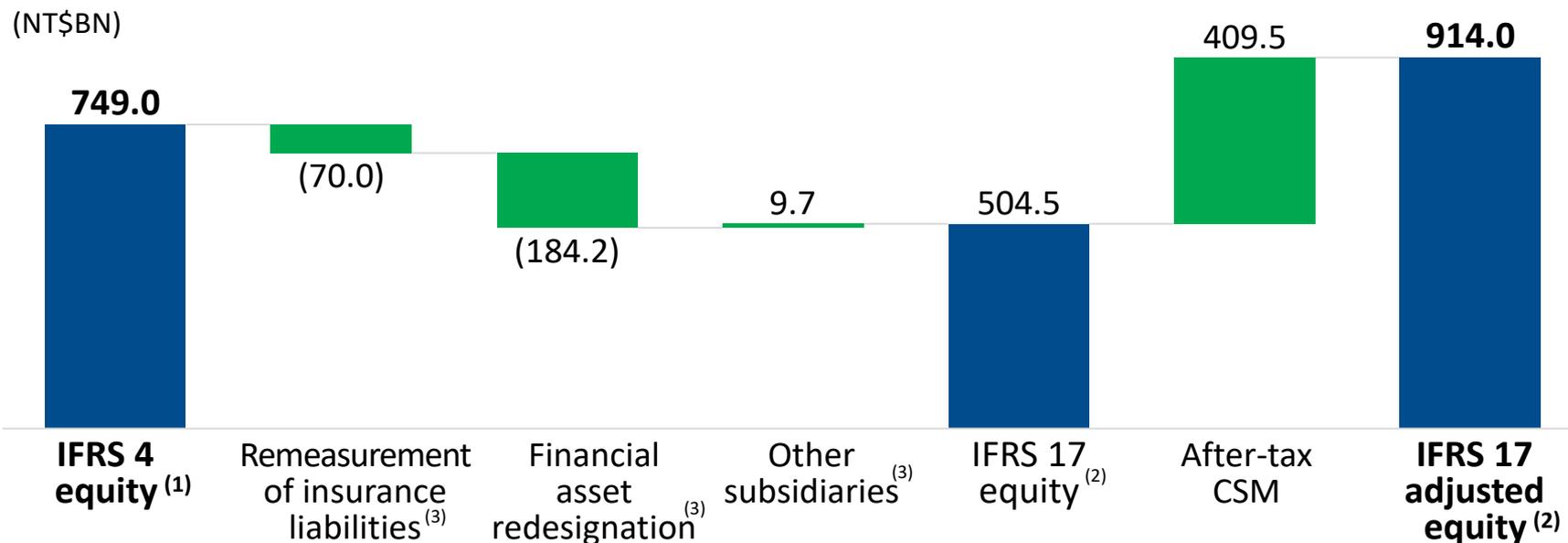
Financial asset redesignation



Adjusted equity better reflects economic value

- The one-off equity impact mainly reflects the remeasurement of NTD high-guaranteed-rate policies using current market interest rates.
- CSM represents future insurance profits. Adjusted equity (incl. after-tax CSM) better reflects economic value.
- Adjusted equity totals NT\$914.0bn, exceeding the IFRS 4 level.

Changes in equity at IFRS 17 transition



E/A ratio 9.4%

6.8%

11.9%

IFRS 17 enhances earnings transparency and predictability

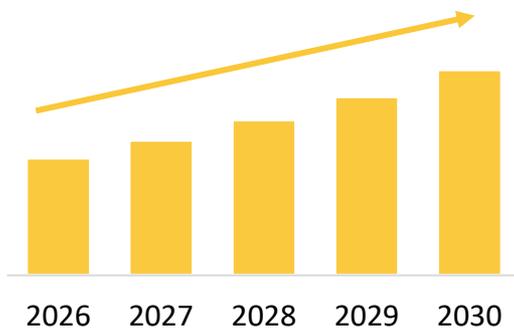
- ❑ CSM release becomes a key driver of earnings.
- ❑ Liability interest costs (insurance finance expenses) decline to ~2.2–2.3% (asset-based), supporting a positive spread.
- ❑ FVOCI equity realized gains are recognized in retained earnings, continuing to support dividend capacity.
- ❑ Overall earnings predictability and stability improve under IFRS 17.

IFRS 9 (Overlay) & IFRS 4		IFRS 9 & IFRS 17		
Revenues	<ul style="list-style-type: none"> Premium income Investment income (incl. realized gains of equity investment w/overlay) 	Insurance service result	<ul style="list-style-type: none"> CSM & risk adjustment (RA) release Expected claims and expenses paid Actual claims and expenses paid 	1 CSM recognized as profit over the contract coverage period
Expenses	<ul style="list-style-type: none"> Incurred claims Changes in insurance policy reserves Expenses 	Financial result	<ul style="list-style-type: none"> Investment income (net of hedging cost) Insurance finance expenses 	2 Interest spread
Net income		Other operating result	<ul style="list-style-type: none"> Other income Other expenses 	3 ILP fee income, indirect expenses, and mortality–interest spread offset reserve
OCI	<ul style="list-style-type: none"> Changes in FVOCI assets 	Net income		
		OCI	<ul style="list-style-type: none"> Effect of changes in discount rates on insurance liabilities Changes in FVOCI assets 	4 Changes in financial assets and discount rate effects on insurance liabilities
		Retained earnings		5 Net income and FVOCI equity realized gains

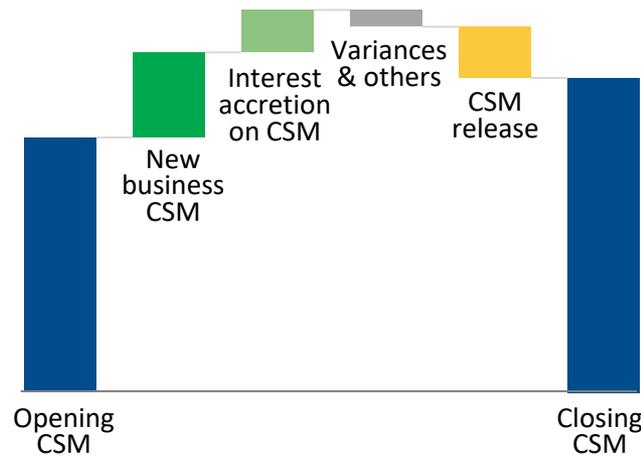
CSM contribution to earnings increase over time

- Strong new business CSM generation supports earnings and capital strength.
- CSM balance grows as new business CSM generation exceeds CSM release.
- CSM contribution to earnings increases overtime.

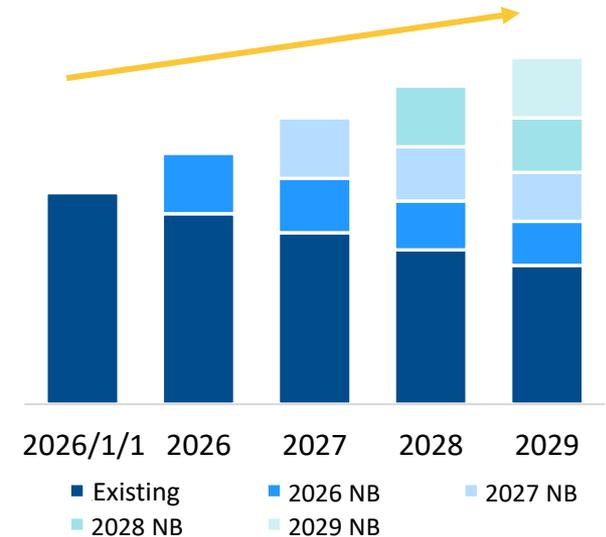
Illustrative underwriting profit*
(% of earnings)



Illustrative CSM movement



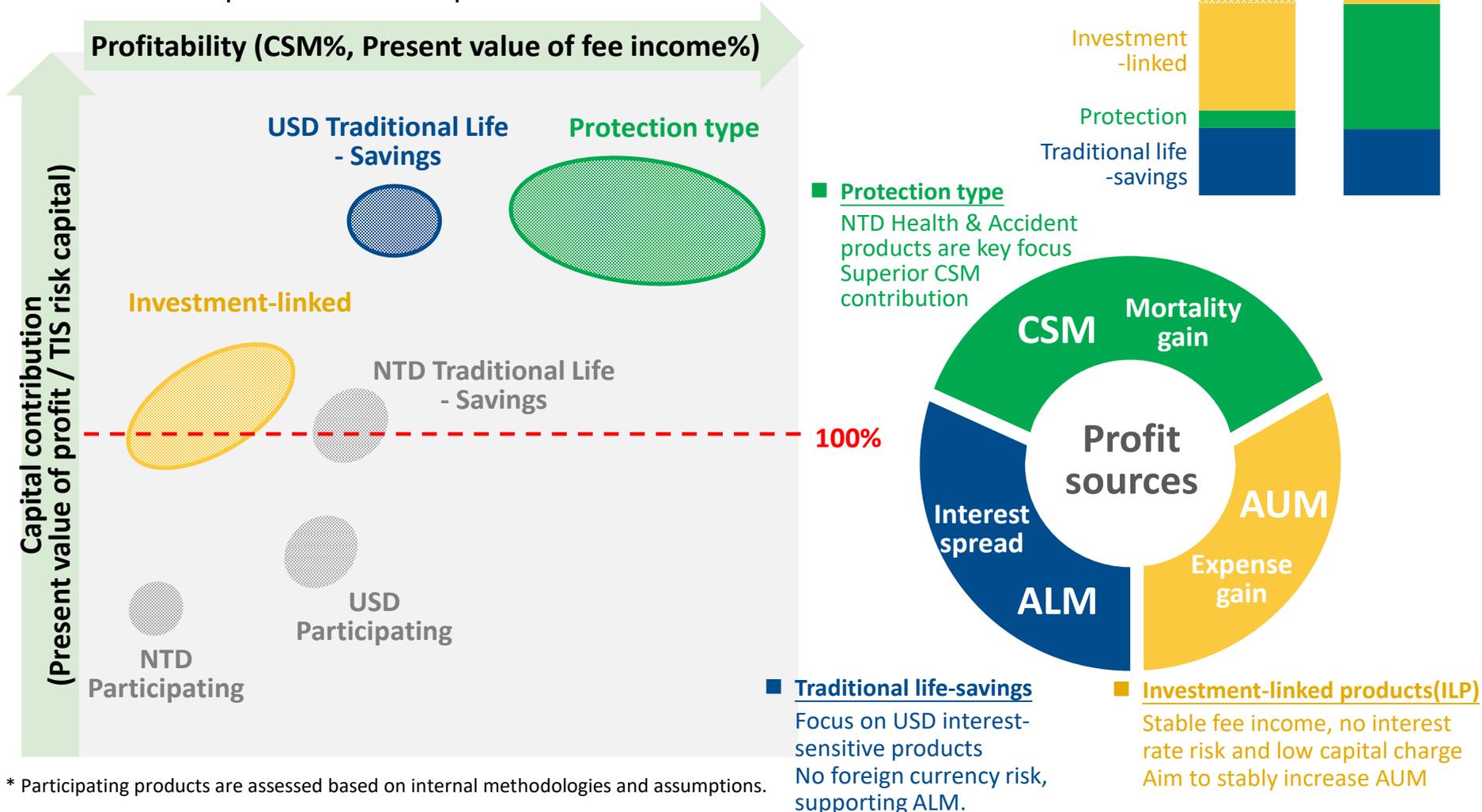
Illustrative CSM balance



Note: Underwriting profit includes insurance service result and other operating result.
Existing refers to existing business; NB refers to new business.

Product strategy focused on CSM and capital contribution

- CSM accumulation remains a top priority; health products account for over 60% of new business CSM.
- Focus on products with capital contribution above 100%.

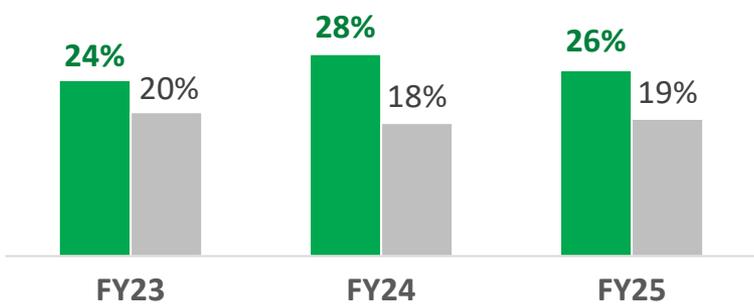


Distribution strength and health ecosystem support NB CSM

- Strong distribution supports high-quality new business CSM generation.
- All health insurance products integrate spillover mechanisms, supported by the health ecosystem to enhance customer engagement.

Health insurance* sales support NB CSM

■ Health insurance FYP market share ■ Total FYP market share



FitBack health promotion program

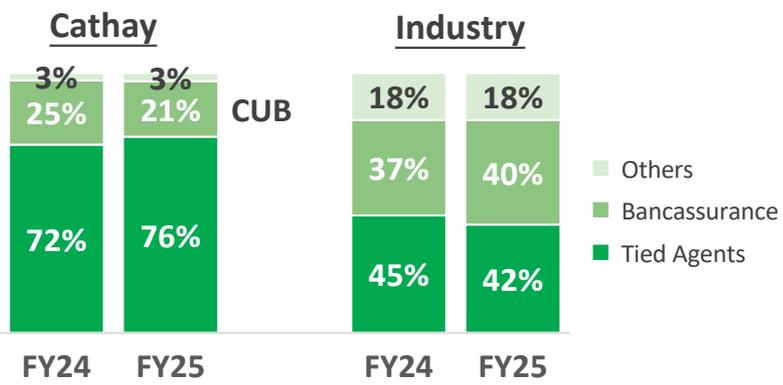
Compensation >>> Prevention

Members > 1.7mn

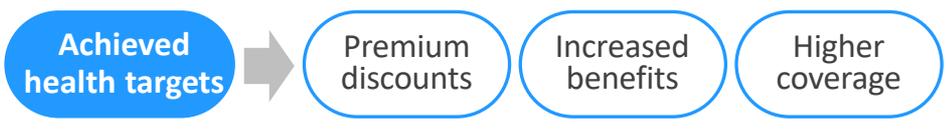
Health goal tracking: steps, heart rate, sleep, fitness

Health ecosystem: Nutrition & dietary, Fitness programs, Health advisory, Long-term care

Strong distribution (FYP by channel)



Industry-leading scale in spillover insurance products



All health products integrate spillover mechanisms
585k policies; NT\$34.8bn FYP (2025)



Strengthening ALM to manage balance sheet volatility



Asset allocation strategy

- ✓ Liability-driven investments, aligning asset allocation with insurance liabilities.
- ✓ **Increase allocation to fixed-income assets** to strengthen ALM and reduce equity volatility.
- ✓ **Enhance recurring income**, including interest and dividend income.
- ✓ **Gradual increase in NTD-denominated assets** to reduce currency mismatch.



ALM & risk management

USD liability portfolio:

- ✓ **Redesignation of AC assets to FVOCI** to better align with liability measurement.
- ✓ **Minimize dollar duration (DV01) gap** between assets and liabilities to reduce interest-rate-induced equity volatility.

NTD liability portfolio:

- ✓ **Partial redesignation of AC assets to FVOCI** based on historical Taiwan-U.S. interest rate dynamics to mitigate MTM volatility on equity.
- ✓ **Focus on USD interest-sensitive life products** to reduce currency mismatch exposure.

Note: Dollar Duration (DV01) measures the change in the market value of assets or liabilities for a 1bp change in interest rates. A smaller asset-liability DV01 indicates stronger ALM and lower equity sensitivity to interest rate movements.

Cathay Life – Key messages from IFRS 17 transition

CSM & Equity

- CSM represents future profits from insurance contracts, amounting to NT\$511.9bn.
- Adjusted equity (incl. after-tax CSM) better reflects economic value, reaching NT\$914.0bn and exceeding IFRS 4 equity.

Profitability

- Strong new business CSM generation supports earnings.
- Cost of liabilities (insurance finance expense) declines to market interest rate levels, supporting a stable positive spread.
- Earnings are primarily driven by CSM release and recurring spread, supporting more predictable and stable earnings and improved ROE.

ALM & Risk management

- Strengthened ALM and risk management capabilities support financial resilience and mitigate equity volatility.

Capital

- Strong new business CSM generation strengthens capital position, providing a stable buffer against volatility.

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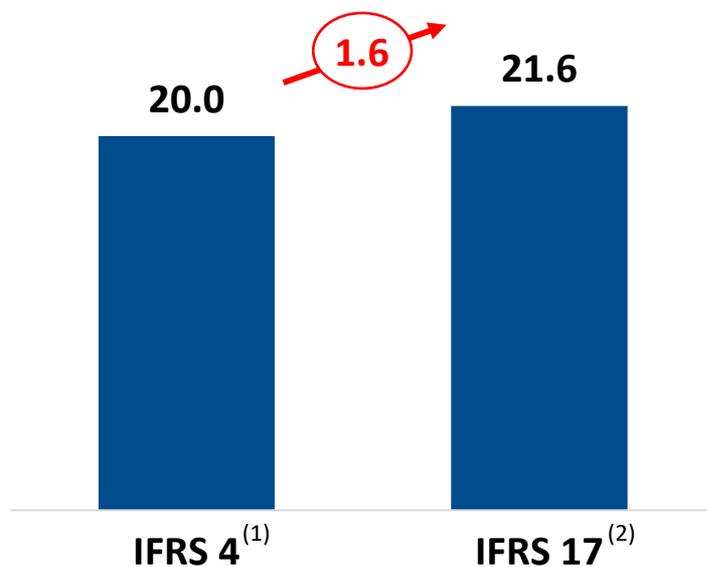
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Cathay Century – IFRS 17 transition highlights

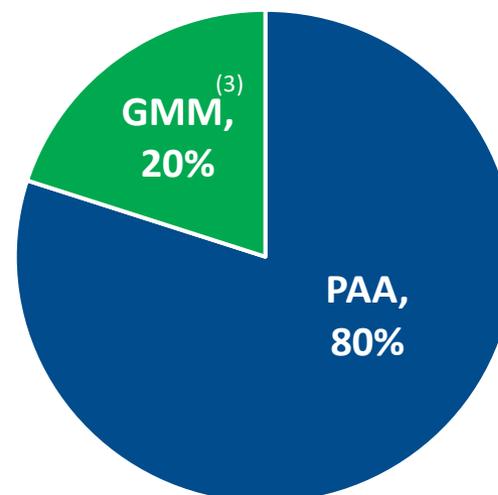
- Equity increases by NT\$1.6bn, mainly reflecting the deferral of acquisition costs and discounting of insurance liabilities.
- IFRS 17 impact as most contracts are short-duration, with 80% measured under the Premium Allocation Approach (PAA). Underwriting profitability remains driven by underwriting quality and premium growth.
- Retained combined ratio remains the key profitability metric; trends broadly comparable to IFRS 4.

Shareholder's equity

(NT\$BN)



IFRS 17 measurement model⁽²⁾



Note: (1) As of 2025/12/31; (2) 2026/1/1

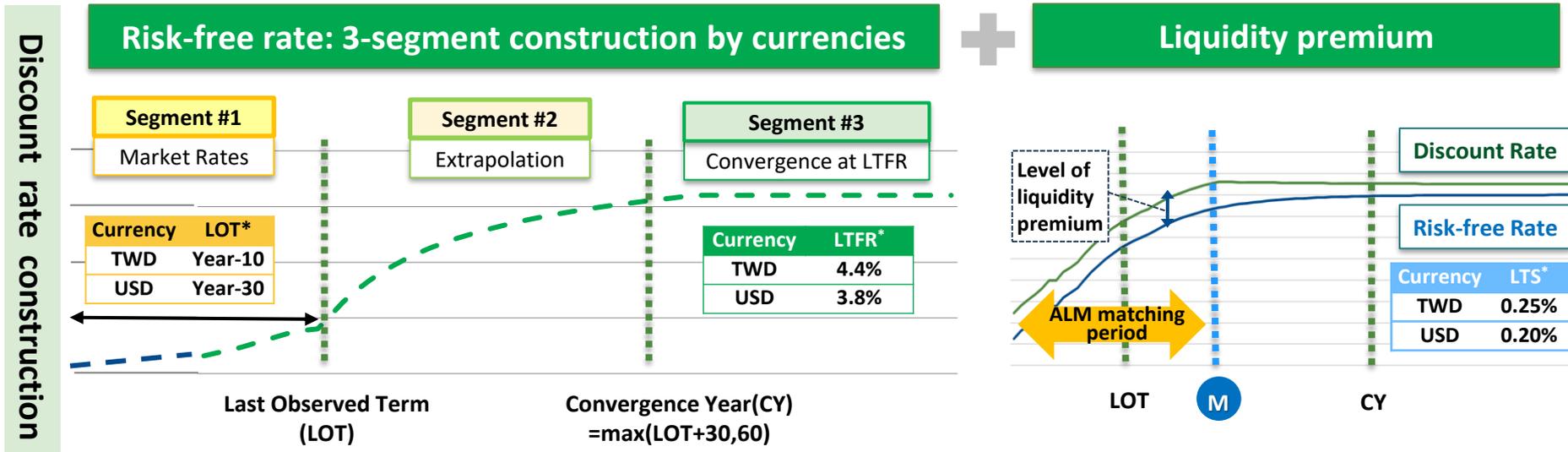
(3) Engineering and liability insurance contracts are measured under the General Measurement Model (GMM), with CSM balance of NT\$1.0bn at transition.

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IFRS 17 liability discount rate

- IFRS 17 does not prescribe a specific discount rate methodology. In Taiwan, the approach follows ICS guidelines as required by the FSC and is consistently applied to all insurers.
- Considering the low-liquidity nature of high guaranteed-rate policies (NTD reserve rate $\geq 6\%$), FSC allows an additional liquidity premium of up to 50 bps applied across the full tenor, also reflected in the Taiwan Insurance Solvency (TIS) framework.



Note: (1) Last Observed Term (LOT) is determined according to the observable and liquid term for each currency in the capital market.
 (2) Long-term Forward Rate (LTFR) is determined based on the sum of long-term real rate and inflation rate.
 (3) Long-term Spread (LTS) adjusts the risk-free rate to reflect the liquidity premium for long-duration insurance liabilities.

New solvency regime TIS: Higher capital requirements

- TIS requires higher capital, with stricter risk-based assessments, market-consistent liability valuation, and higher capital charges for various risks.

		RBC	Taiwan Insurance Solvency (TIS)
Adopted framework		RBC (NAIC)	ICS (IAIS)
Valuation	Fixed income	Amortized cost	Mark-to-market (market adjusted value)
	Stock	Average market value over half-year period	
	Insurance liability	Locked-in basis	
Capital resources		Tiering	Tiering CSM 100% recognized as capital
Risk measurement		VaR 95%	VaR 99.5%
Risk calculation		Factor-based	<ul style="list-style-type: none"> Stress approach (primarily), factor-based Broader risks (longevity/lapse/expense/catastrophe/non-default spread risks)

TIS: Transitional measures ease capital pressure

Transitional measures on Capital Resource

- **Gradual phase-in of the net fair value impact from assets and liabilities of legacy portfolios** ⁽¹⁾, based on insurers' RBC levels; subject to adjustment if capital strengthening progress falls short
 - RBC \geq 250%: base TIS ratio up to 125%; the gap up to 125% phased-in over 15 years, the portion above 125% over 5 years
 - 200% \leq RBC < 250%: base TIS ratio up to 50% of RBC; the gap up to base ratio phased-in over 15 years, the portion above base ratio over 5 years
 - RBC < 200%: subject to regulatory approval

Transitional measures on Required Capital

- **Linear increase of the capital requirement over a 15-year phase-in period**
 - Interest rate risk: from initial 50% to 100%
 - Longevity/lapse/expense/catastrophe/non-default spread risks: from initial 0% to 100%
 - Domestic stocks and real estate risk factors linearly converge to TIS from RBC

Localization

- **Morbidity/mortality/longevity/lapse/expense risk stress factors adjusted based on localized data**
- **Localization equity and real estate risk factors**

Risk factor	RBC	ICS (IAIS)	TIS
Taiwan listed stocks	21.65% (TWSE), 30% (OTC)	48% (EM)	35%
Domestic real estate	7.81%	25%	15%
Domestic public infrastructure ⁽²⁾	1.28%	37% (other equity)	1.28%

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