

# 2015 Fourth Quarter Briefing

April 2016



國泰金控

Cathay  
Financial Holdings

## Disclaimer

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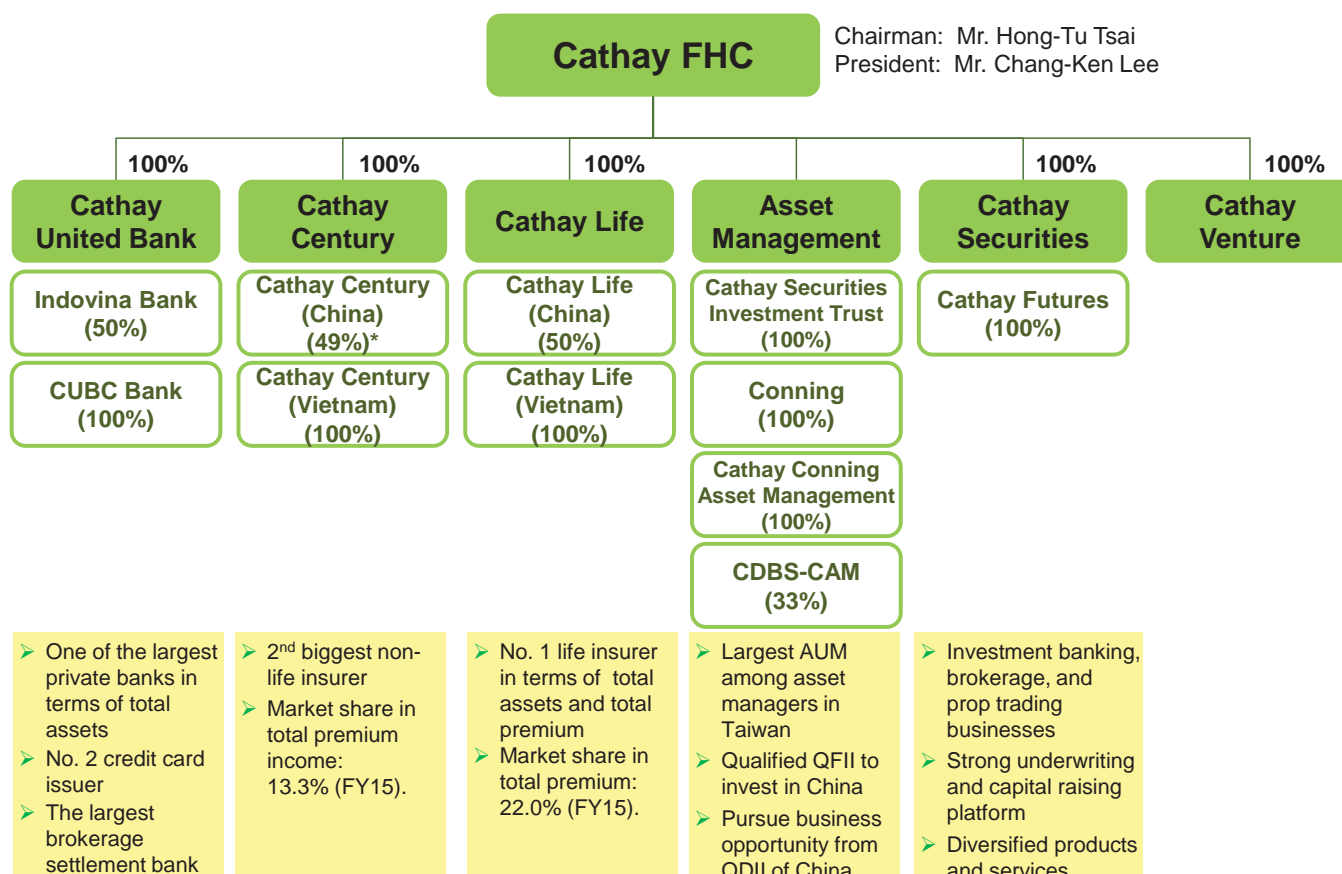
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# Agenda

- **Introduction of Cathay FHC**
- **2015 Business Overview and 2016 Outlook**
- **Overseas Expansion**
- **Business Performance Summary**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Cathay's CSR Efforts**
- **M&A Key Highlights**
- **Appendix**

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## Cathay FHC: largest FHC, comprehensive products



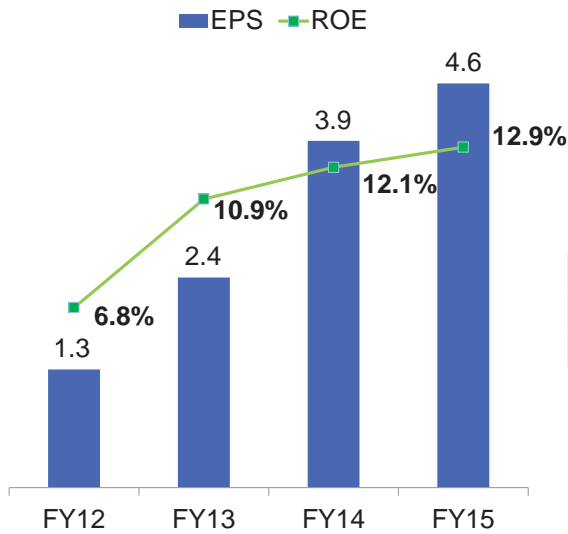
\* The capital injection from Ant Financial is subject to the regulatory approval

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# Cathay's earnings accelerates as life turnarounds

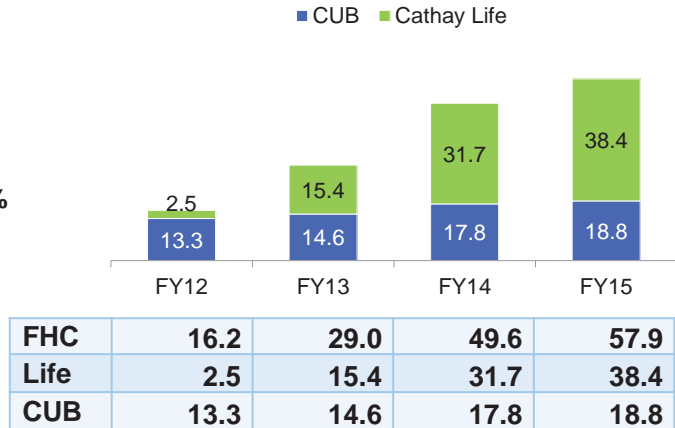
## EPS & ROE

(NT\$)



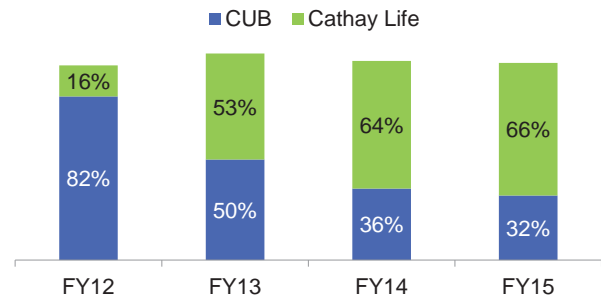
## Profit contribution

(NT\$ BN)



	FY12	FY13	FY14	FY15
FHC	16.2	29.0	49.6	57.9
Life	2.5	15.4	31.7	38.4
CUB	13.3	14.6	17.8	18.8

- 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).

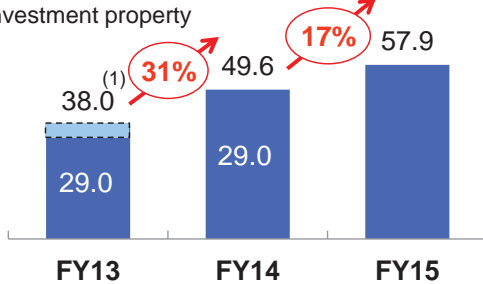


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# Cathay FHC – Net income & EPS

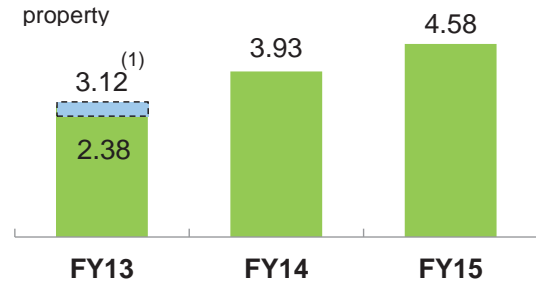
## Net income (NT\$BN)

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



## Adjusted EPS (NT\$)

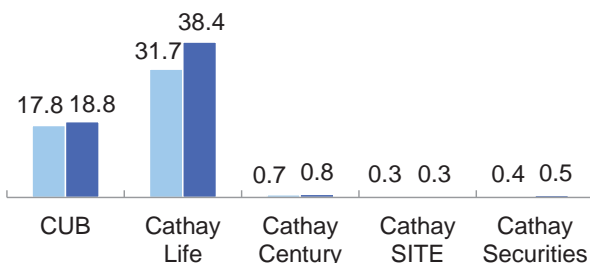
■ Impact to EPS from fair value method on investment property



- 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).

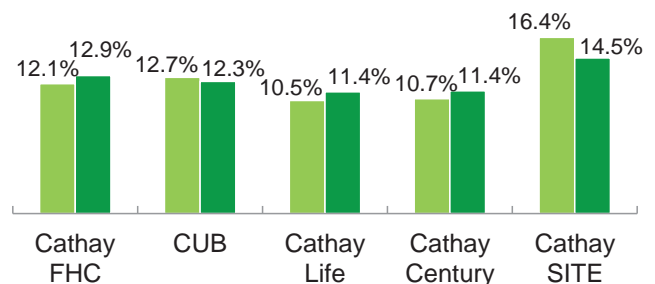
## Net income of primary subsidiaries

■ FY14 ■ FY15 (NT\$BN)



## ROE

■ FY14 ■ FY15

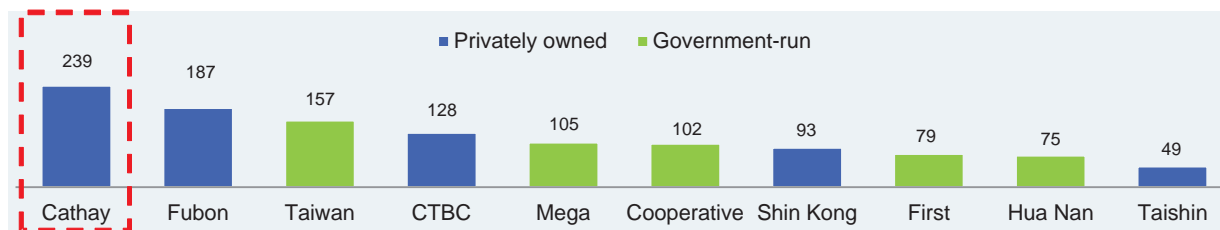


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# Market leader in Taiwan's FIG sector

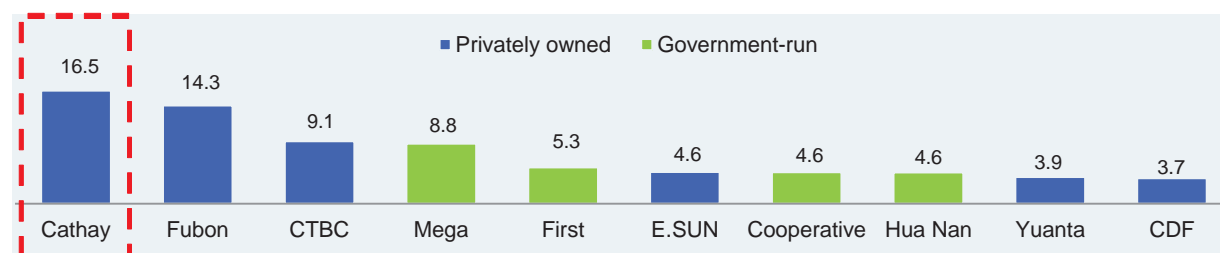
- Largest listed financials group by market capitalization and assets.

## 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

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## 2015 Business overview

### Cathay United Bank

- Loan maintained stable with benign credit quality
- Fee income grew by 19% YoY, wealth management fee grew by 32%
- Continued to deepen customer relationship and expand overseas footprints

### Cathay Life

- Regular-paid policies accounted for 97% of traditional life FYP, ranked No.1 by FYPE
- Value of New Business grew by 8% YoY
- Maintained strong capital adequacy, RBC ratio reached 305%

### Cathay Century

- Market share reached 13.3%, maintained No.2 market position
- Continued to reduce loss ratio; FY15 after-tax profit grew by over 40% YoY
- Increase overseas footprints to extend offshore business

### Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$431BN
- Taiwan Futures Exchange, Lipper and Smart rewarded Cathay Mandarin Fund and Cathay Global Infrastructure Fund with "Taiwan Fund Award" in 2016, and Asia Investors rewarded Cathay SITE with "Market Award - Taiwan" in 2015

### Cathay Securities

- Delivered significant growth with FY15 net profits. FY15 after-tax profit and EPS
- Expanding overseas business to grow offshore market

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## 2016 Outlook

### Cathay United Bank

- Maintain mild growth in loan with benign asset quality
- Increase fee income contribution
- Continue to grow offshore earnings and business coverage

### Cathay Life

- Focus on sales of regular-paid products, foreign currency denominated policies and investment linked policies to improve value of new business
- Continue to increase overseas investment and maintain stable hedging cost

### Cathay Century

- Develop best operation and sales organization and utilize digital application to enhance service quality and satisfaction
- Increase the efficiency of capital and net profits
- Continue to expand overseas and develop quality channel for better local branding

### Cathay SITE

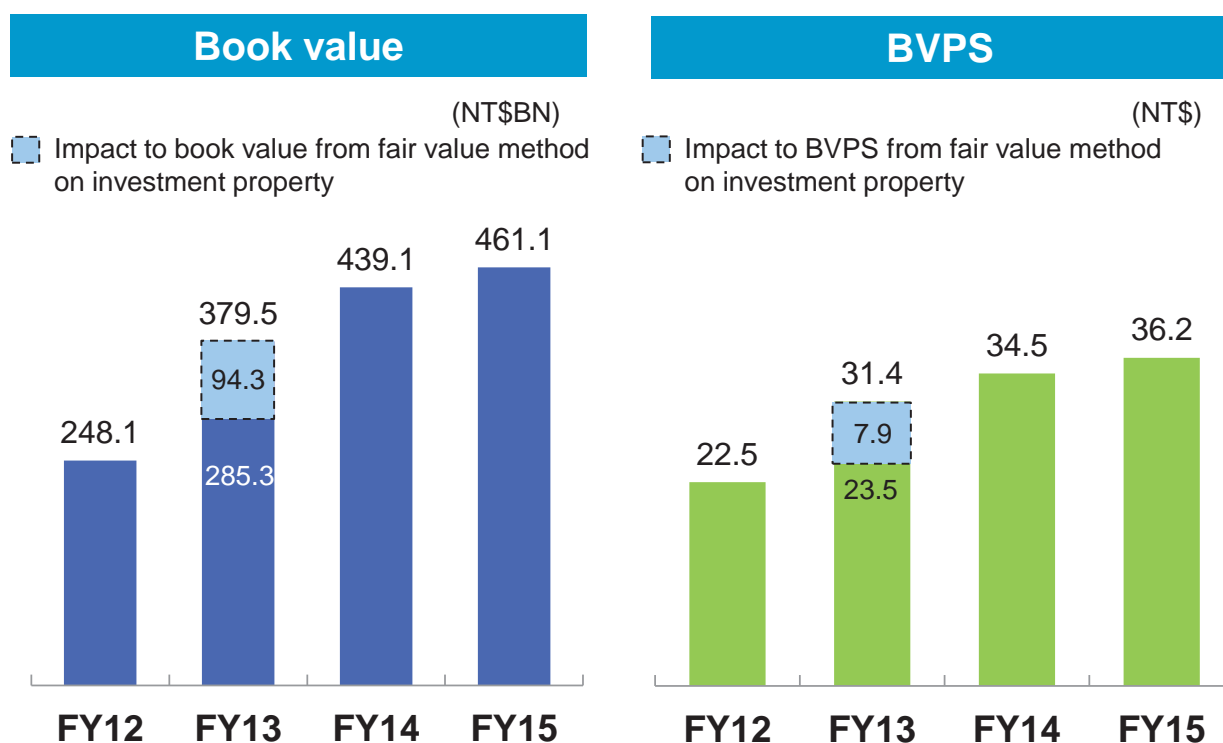
- Perform market segmentation strategy meanwhile offer complete product lines to meet customers' requirements
- Leverage group resources and expand external distribution channels to increase AUM

### Cathay Securities

- Actively utilize digital technology to expand cross-selling opportunities
- Continue to expand overseas business

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# Cathay FHC – Book value & BVPS



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

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# Cathay FHC in South East Asia

	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia	Laos	Philippines	Thailand	Myanmar	Indonesia
Bank	6*	37	16	1	1	1	1	1	1	1	1
Life	30	10									
P&C	25	2									
Asset Mgt	1			1							
Securities				1							

Note: Footprints in Thailand, Myanmar and Indonesia are representative offices. CUB obtained the approval to set up Shenzhen branch.



## ■ Banking

- Vietnam: Business performed steadily with solid financial performance and superior asset quality
- Cambodia: Owns most footprints among Taiwanese banks
- Philippines: Manila branch has opened in October 2015
- Philippines: Invest 22.3% stake in RCBC\*
- Indonesia: Invest 24.9% stake in Bank Mayapada\*

## ■ Cathay Life

- Cathay Life (Vietnam) has performed steadily. Continued to expand agent force.

## ■ Cathay Century

- Continue to expand local channels to enhance growth momentum

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

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# Cathay FHC in China



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

## ■ Cathay United Bank

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

## ■ Cathay Life (China)

- FY15 solvency ratio 309%
- Reported pre-tax profits of 92MN RMB in 2015

## ■ Cathay Century (China)

- Strong premium income growth in FY15 up by 17% YoY
- Increase footprints to extend offshore business
- Capital injection from Ant Financial is subject to regulatory approval

## ■ Cathay Securities

- Set up Cathay Securities (HK) to expand overseas business

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

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

## ■ Conning

- Continued to expand asset management business

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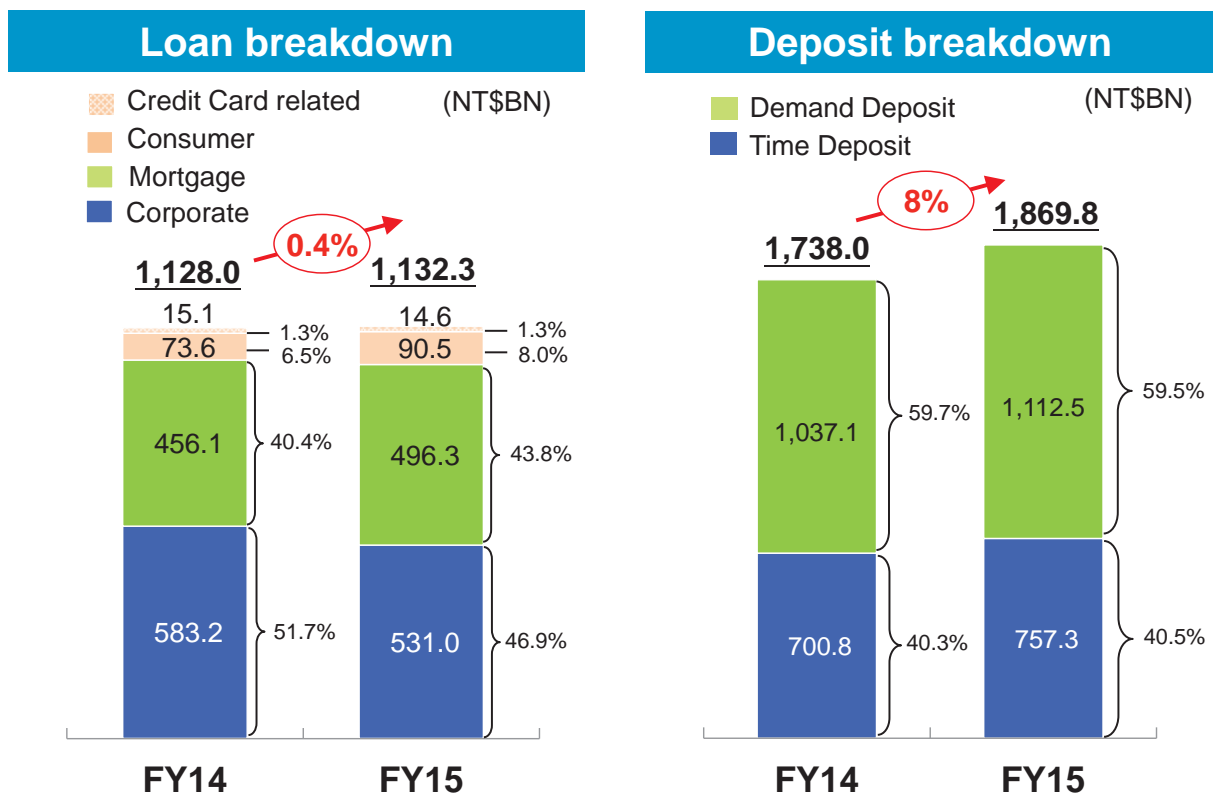
## Cathay United Bank

Cathay Life  
Cathay Century

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## Cathay United Bank – Loan & deposit breakdown

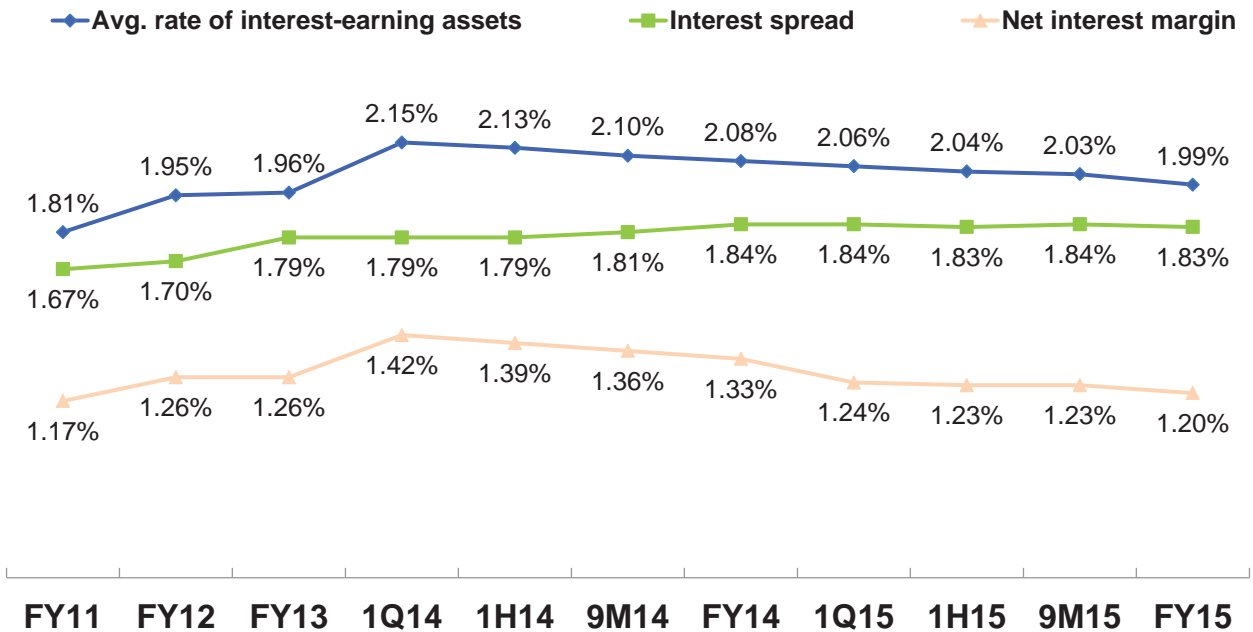


Note: Totals may not sum due to rounding.

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# Cathay United Bank – Interest yields



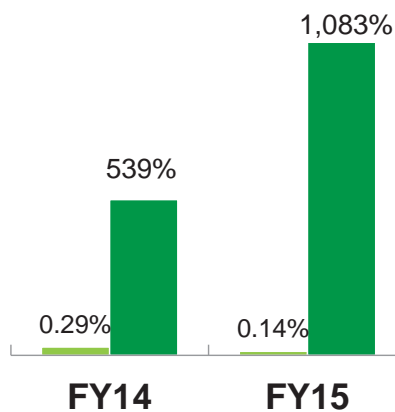
Note: Credit card related loans are included in the calculation of interest spread.

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# Cathay United Bank – Credit quality

## NPL & Coverage ratio

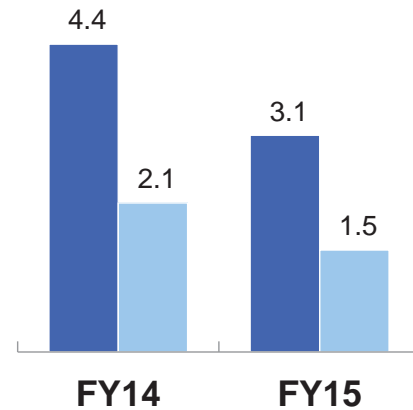
- NPL ratio
- Coverage ratio



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

## Gross provision

- Gross provision (NT\$BN)
- Recovery

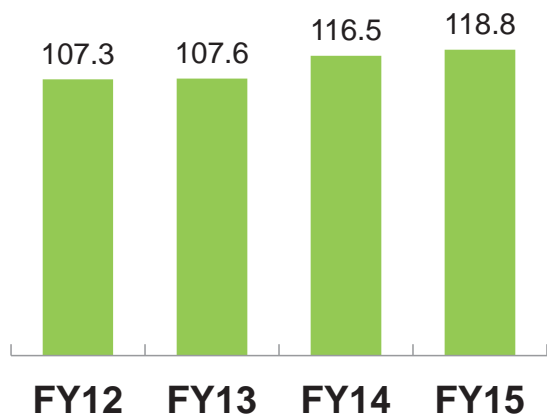


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# Cathay United Bank – SME & FX loans

## SME loans

(NT\$BN)

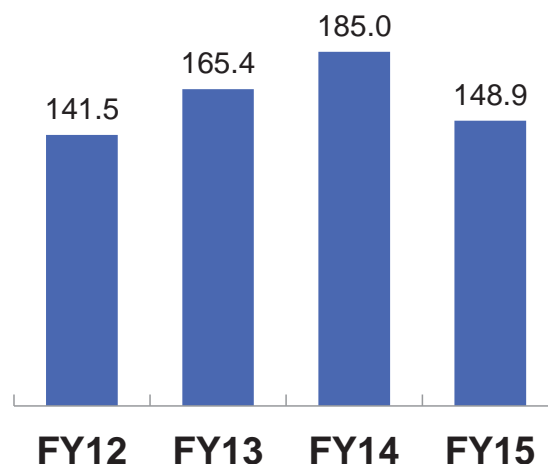


As % of total loans

11.5% 10.5% 10.5% 10.6%

## Foreign currency loans

(NT\$BN)



15.1% 16.1% 16.6% 13.3%

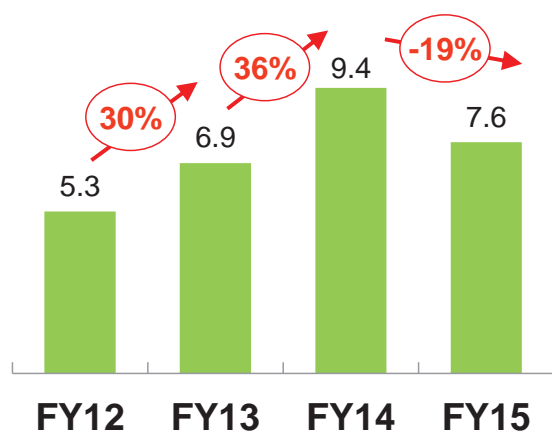
Note: Total loans exclude credit card revolving balance.

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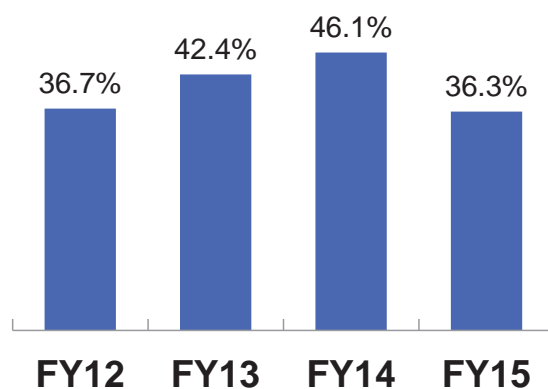
# Cathay United Bank – Offshore earnings

## Offshore earnings

(NT\$BN)



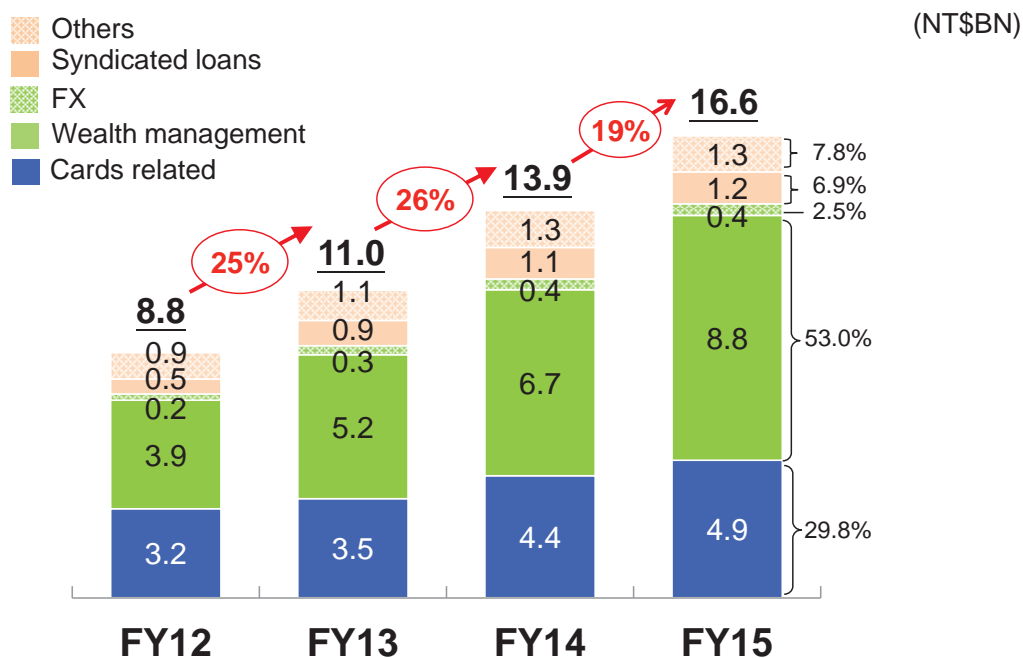
## As % of CUB pre-tax profits



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# Cathay United Bank – Fee income

## Fee income breakdown



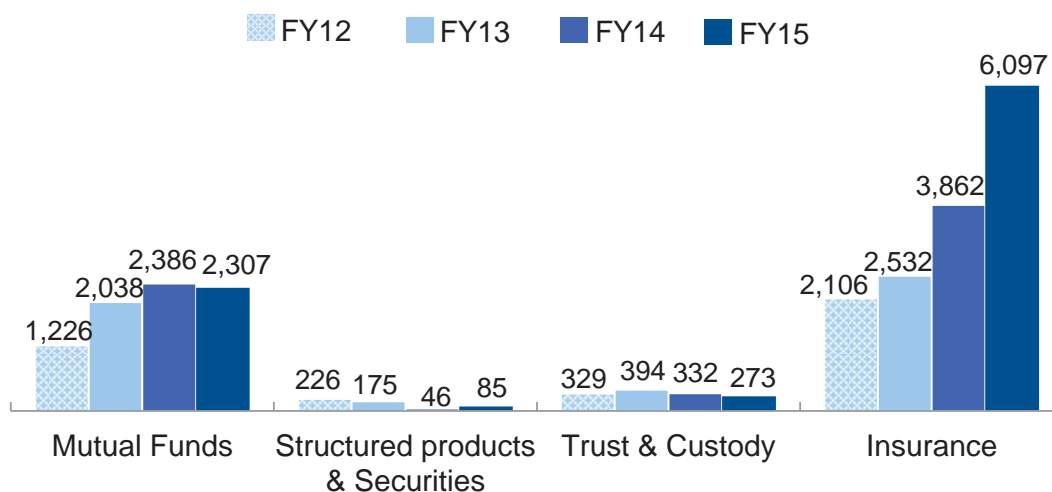
Note: Totals may not sum due to rounding.

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# Cathay United Bank – Wealth management fee

## Wealth management fee breakdown

(NT\$MN)	FY12	FY13	FY14	FY15
Wealth Management Fee Income*	3,894	5,163	6,673	8,779
YoY growth (%)	17.7%	32.6%	29.2%	31.6%



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

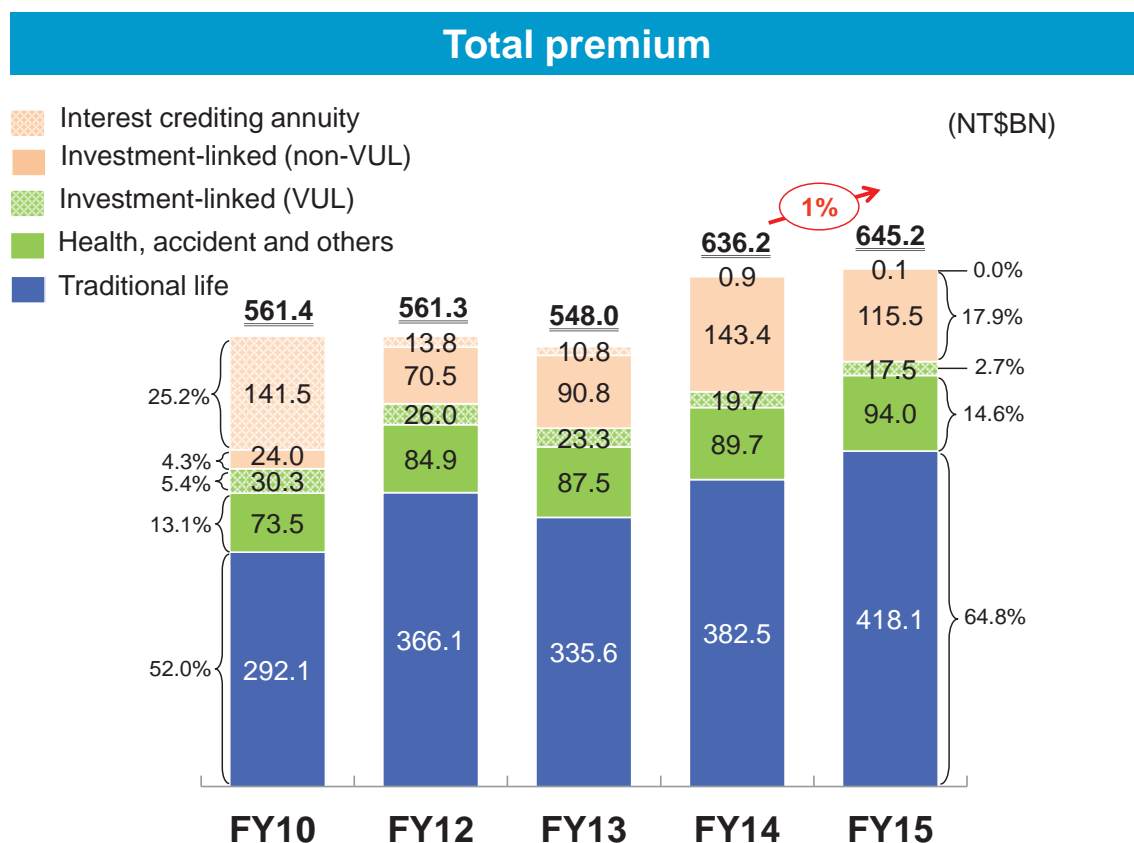
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## Cathay Life – Total premium



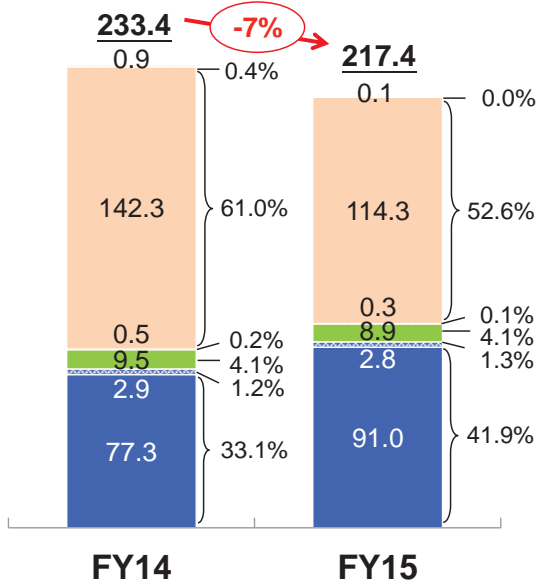
Note: Totals may not sum due to rounding.

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# Cathay Life – FYP & FYPE

## FYP

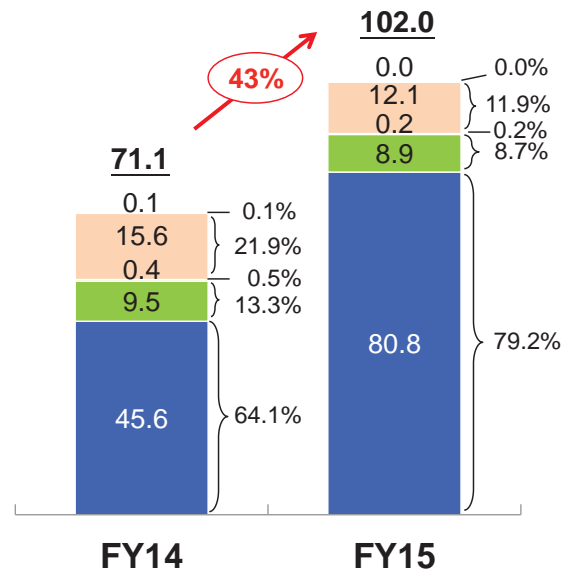
- Interest crediting annuity (NT\$BN)
- Investment-linked (non-VUL)
- Investment-linked (VUL)
- Health, accident and others
- Traditional life – single paid
- Traditional life – regular paid



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

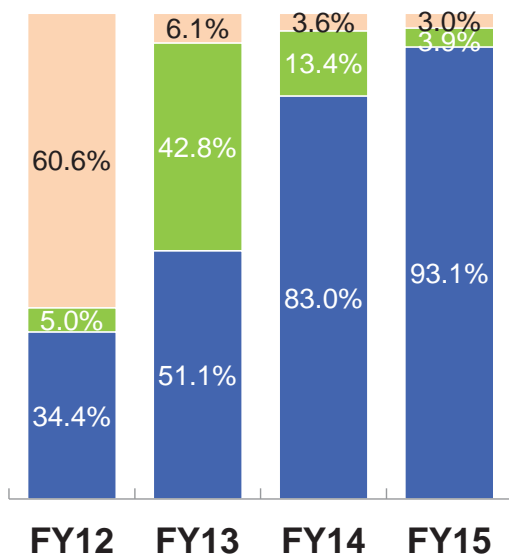


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# Cathay Life – Regular paid policies remain as focus

## Breakdown of Traditional FYP

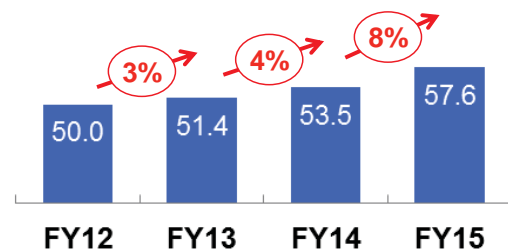
- Traditional life – single paid
- Traditional life - 2 year regular paid
- Traditional life - 3 year and above regular paid



Note: Totals may not sum due to rounding.

## VNB

Profit Margin	FY12	FY13	FY14	FY15
VNB/FYP	19%	26%	23%	27%
VNB/FYPE	54%	70%	75%	57%

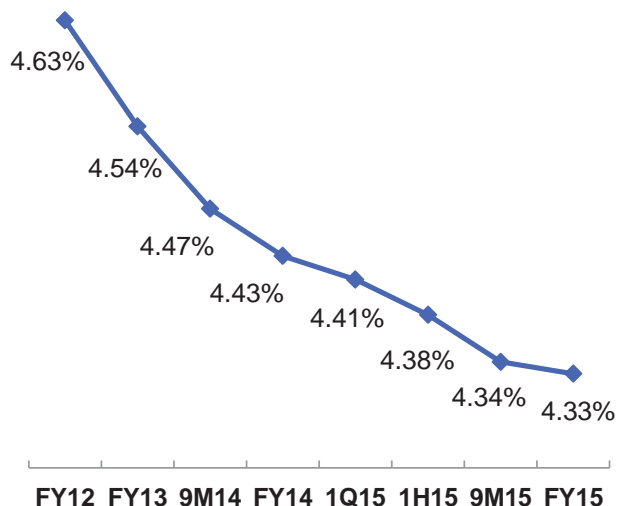


Note: FY14 and FY15 VNB is based on Cathay Life's 2014 EV actuarial assumptions.

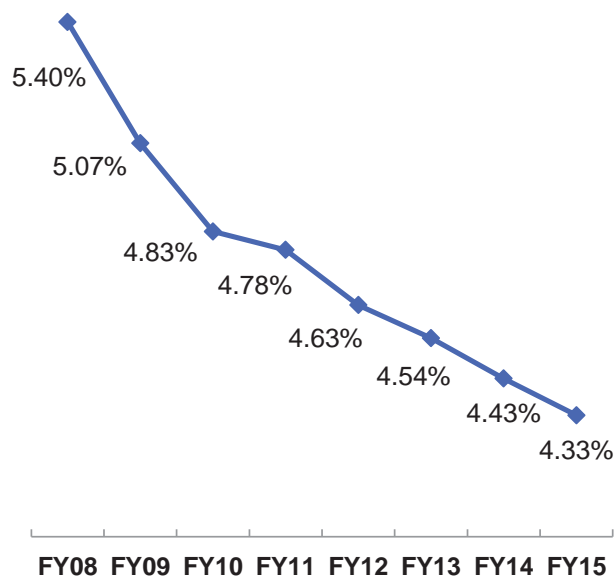
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# Cathay Life – Cost of liability

## Cost of liability (quarterly)



## Cost of Liability (annual)



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

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# Cathay Life – Investment portfolio

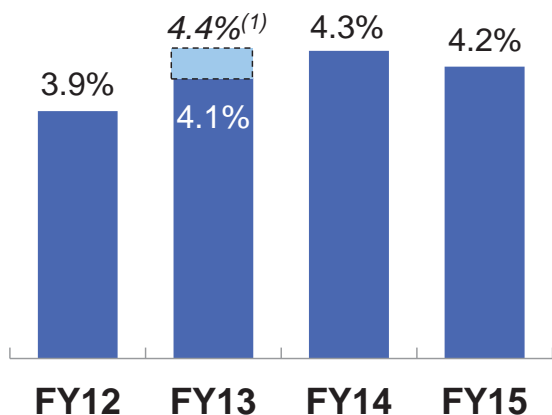
(NT\$BN)	4Q12	4Q13	4Q14	4Q15		
<b>Total investments<sup>(1)</sup></b>	<b>3,283.7</b>	<b>3,785.1</b>	<b>4,169.1</b>	<b>4,636.6</b>		
	<b>Weight</b>	<b>Weight</b>	<b>Weight</b>	<b>Amount</b>	<b>Weight</b>	<b>Amount</b>
Cash & Cash equivalents	8.2%	3.7%	3.2%	131.6	1.3%	61.1
Equity- Domestic	8.1%	8.9%	8.4%	350.9	7.4%	343.0
Equity- International	4.3%	4.9%	5.0%	209.4	6.2%	289.2
Bond- Domestic	16.6%	14.4%	11.0%	459.2	8.0%	373.0
Bond- International <sup>(1)</sup>	39.6%	38.9%	43.6%	1,816.7	50.6%	2,344.8
Mortgage & Secured loans	10.3%	12.2%	12.7%	529.6	10.2%	471.5
Policy loans	5.5%	4.7%	4.0%	166.4	3.6%	169.2
Real estate <sup>(2)</sup>	5.6%	10.6%	10.5%	439.4	10.5%	489.0
Others	1.8%	1.7%	1.6%	65.9	2.1%	95.8

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 and FY2015 appraisal gain from subsequent measurement of investment property are NT\$16.6BN and NT\$11.0BN respectively.

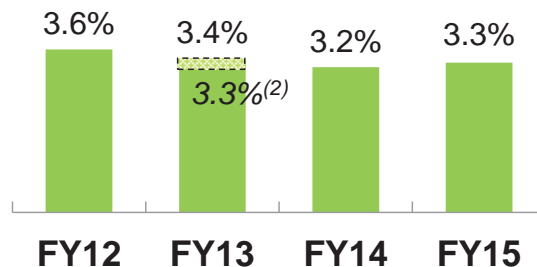
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# Cathay Life – Investment performance highlight

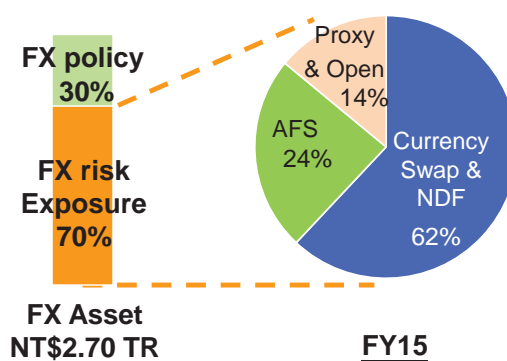
## After-hedging investment yield



## Pre-hedging recurring yield



## Currency Hedging Structure



FX risk Exposure 70%  
FX Asset NT\$2.70 TR

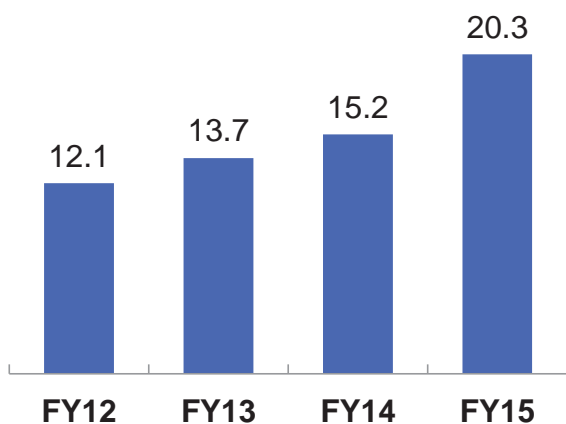
FY15 Hedging Cost 0.58%

Note: (1) FY13 (4.4%) was pro forma adjusted number of fair value method on investment property.  
(2) FY13 (3.3%) was pro forma adjusted number of fair value method on investment property.  
(3) Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend. Most dividend will be recognized in 2Q & 3Q.

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

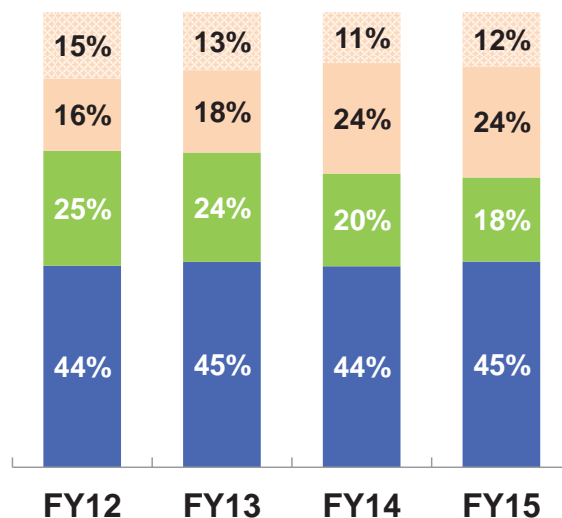
## Cash dividend

(NT\$BN)



## Overseas Fixed Income by Region\*

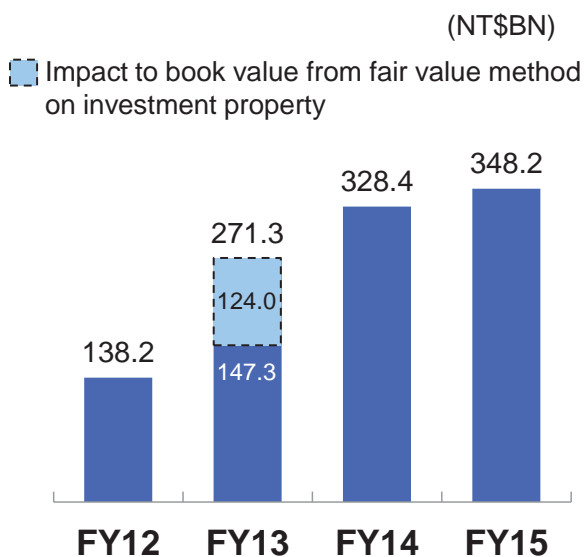
Others  
Asia Pacific  
Europe  
North America



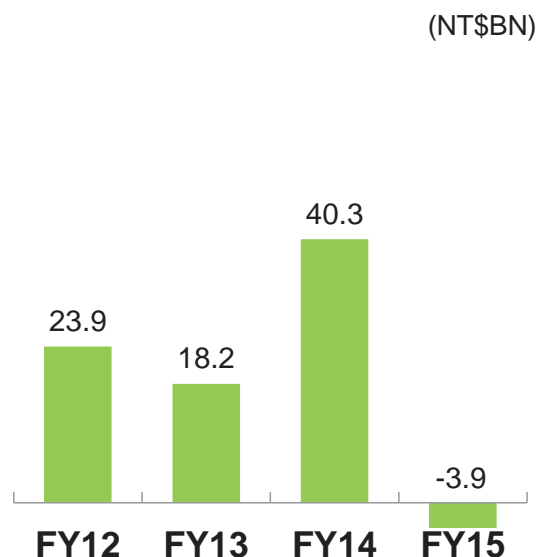
Note: Exclude overseas deposit and equity.

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

## Book value



## Unrealized G/L of AFS financial assets



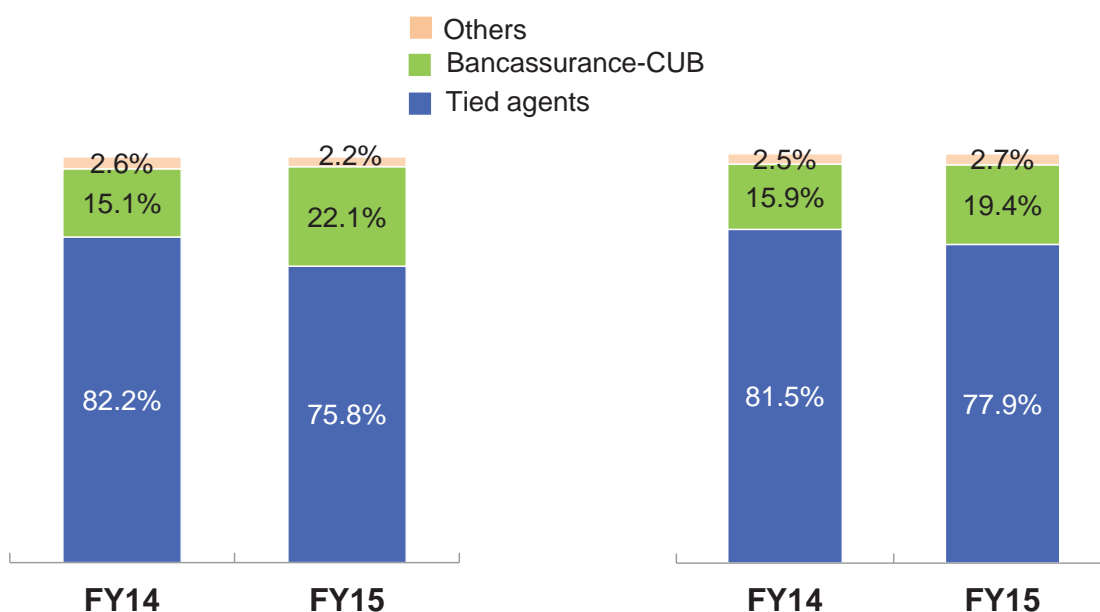
Note: FY13 figures reflected the impact from applying fair value method on investment property

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# Cathay Life – Distribution channel

## FYP

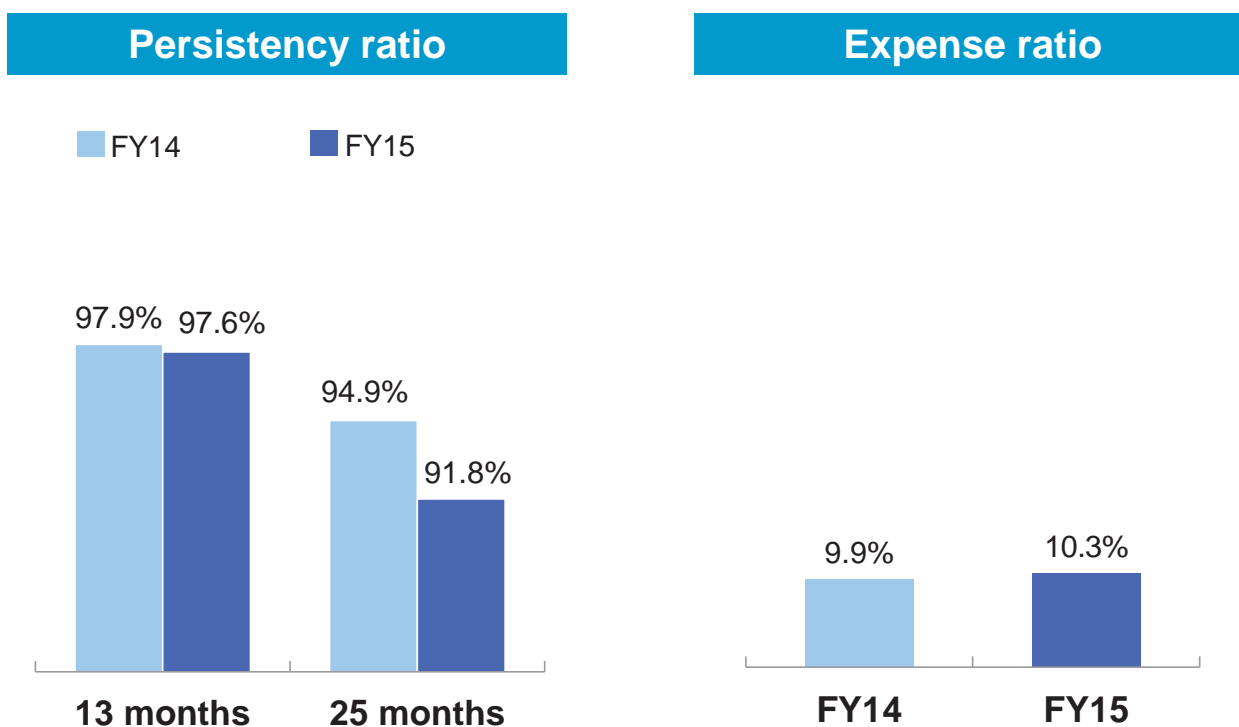
## FYPE



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# Cathay Life – Operational indicators



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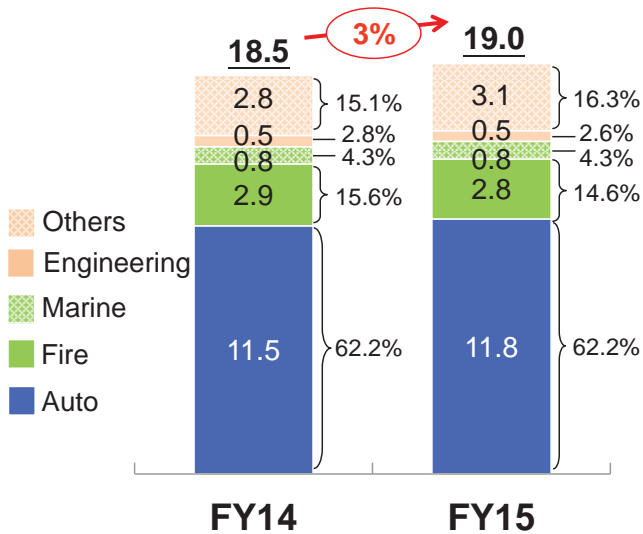
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# Cathay Century – Premium income & distribution

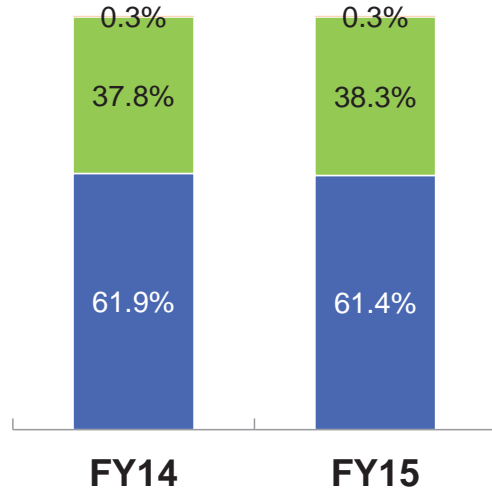
## Premium income

(NT\$BN)



## Distribution channel

- Affiliate channels
- Cathay P&C agents
- Cathay group channel



Market share	13.6%	13.3%
Retention	76.9%	74.9%

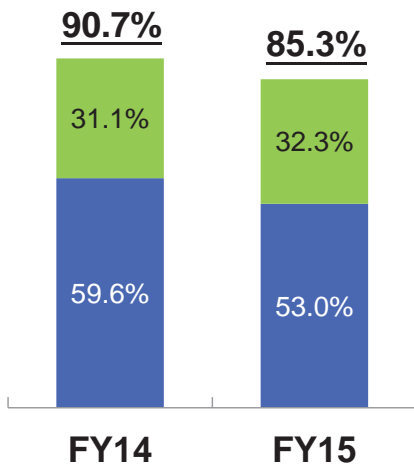
Note: Totals may not sum due to rounding.

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# Cathay Century – Combined ratio

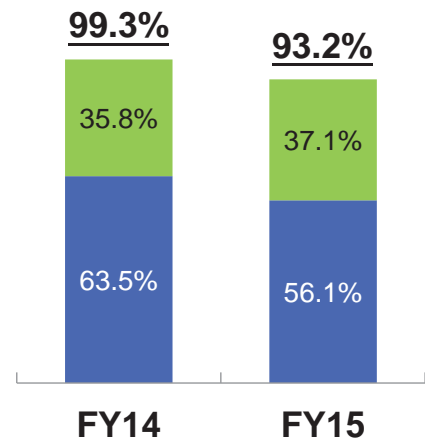
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



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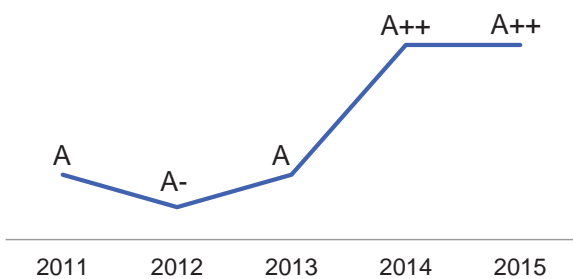
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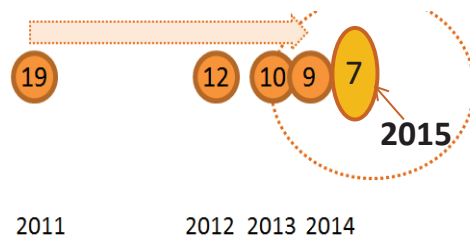
## Continuous efforts in CSR

Recognized the highest ranking of IDTR in 2014-2015

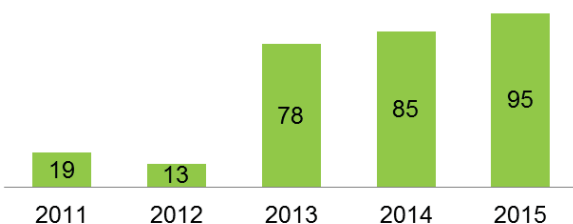


Ranked Top 7 of Taiwan Corporate Citizenship Award

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.

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# 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

# CUB is the first EPFI in Taiwan

## EPFIs in the World

- ❑ 82 Equator Principles Financial Institutions (EPFIs) in 36 countries have officially adopted the EP as of March 2016 .
- ❑ 8 of EPFIs are Asian financial institutions.

Region	Europe	North America	Latin America	Africa	Oceania	Asia	Middle East
EPFIs no.	33	14	10	9	5	8	3



# Review and categorize the risk of EP projects

EPFIs categorize the potential Environmental & Social (E&S) risks and impacts of each project.



Source : EP III

41

## Comprehensive EP risk management mechanism



### □ CUB has comprehensive E&S risk management mechanism for the EP projects, including:

- Standard loan approval procedures in accordance with the EP
- Management guidelines for reviewing and post-loan monitoring
- Incorporating covenants based on E&S risk categories
- E&S risk assessment IT system
- Conducting internal EP trainings

### □ CUB's EP achievements in the past one year:

- **Taiwan** - Completed the first EP loan case in Taiwan
  - Loan to "Formosa I Wind Power Co." to build offshore wind power farm in Chunan Miaoli.
  - Formosa I Wind Power Co. was selected to the "Offshore Wind Power Demonstration Incentive Program" initiated by Ministry of Economic Affairs, Taiwan ROC.
- **International** - Received the international EP loan cases in Australia, Indonesia, Vietnam and Myanmar.

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# Agenda

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- Introduction of Cathay FHC
- 9M15 Business Overview
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  - Cathay United Bank
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  - Cathay Century
- Cathay's CSR Efforts
- **M&A Key Highlights**
- Appendix

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## Transaction Overview – RCBC

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<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>

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## 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>

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## 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>

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## 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>

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## 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>

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# 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.

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## Agenda

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# 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..

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## 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.

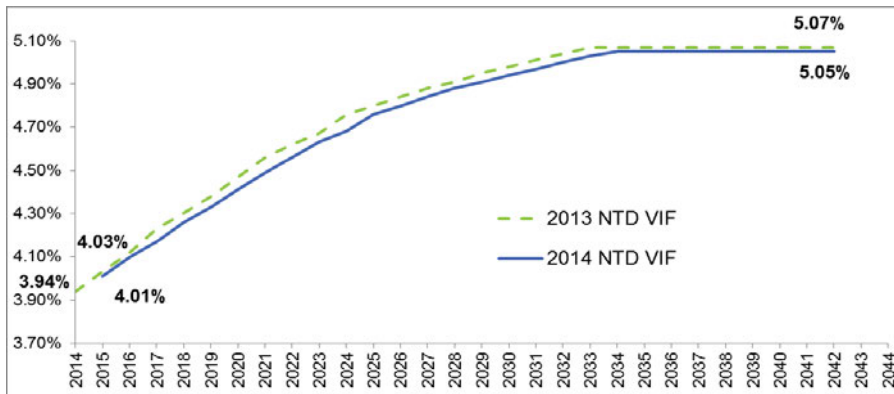
(2) Adjusted EV and AV per share calculation is based on 2014 weighted average of outstanding shares 12.6bn.

(3) Totals may not sum due to rounding.

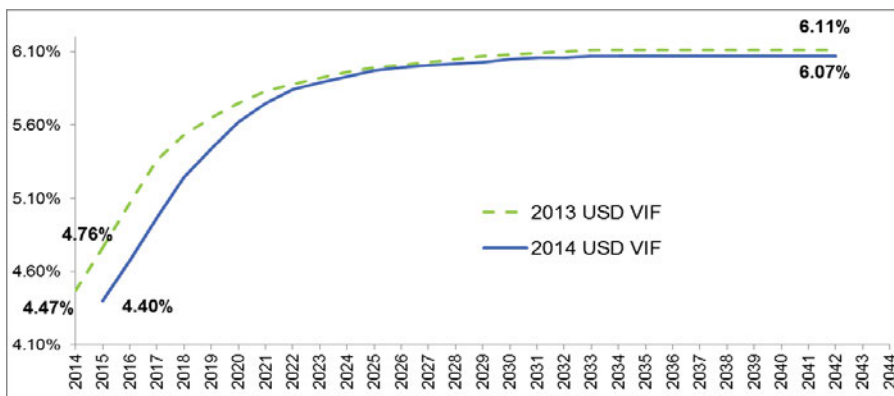
52

# 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.



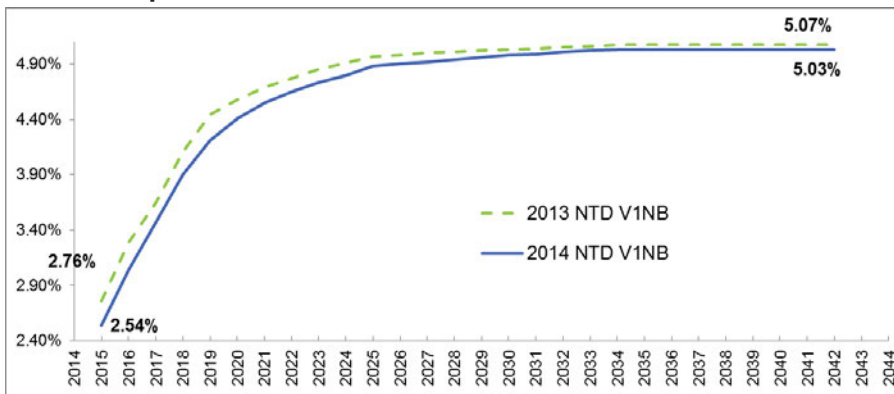
- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2013 & 2014.



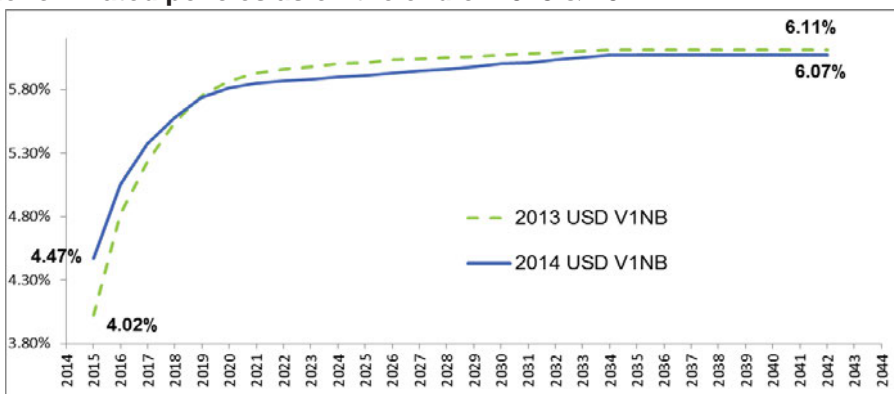
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# Economic Assumptions: Future one year's new business investment yield

- 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.

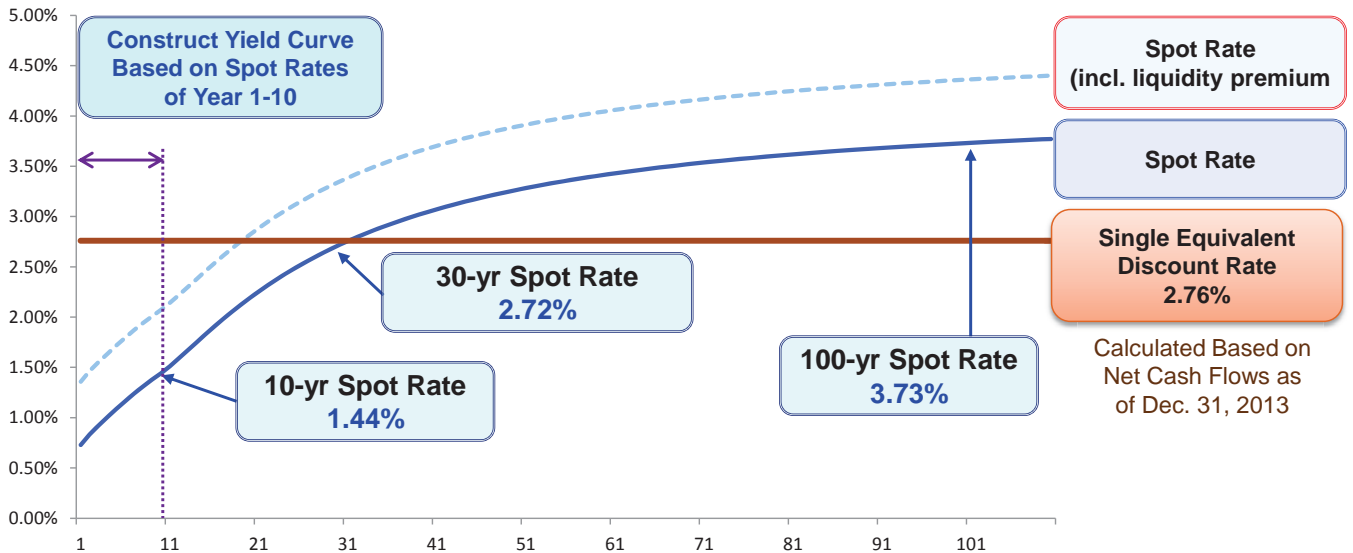


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# Fair Value of Insurance Contracts: Risk-free Rate (NTD)

## 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.

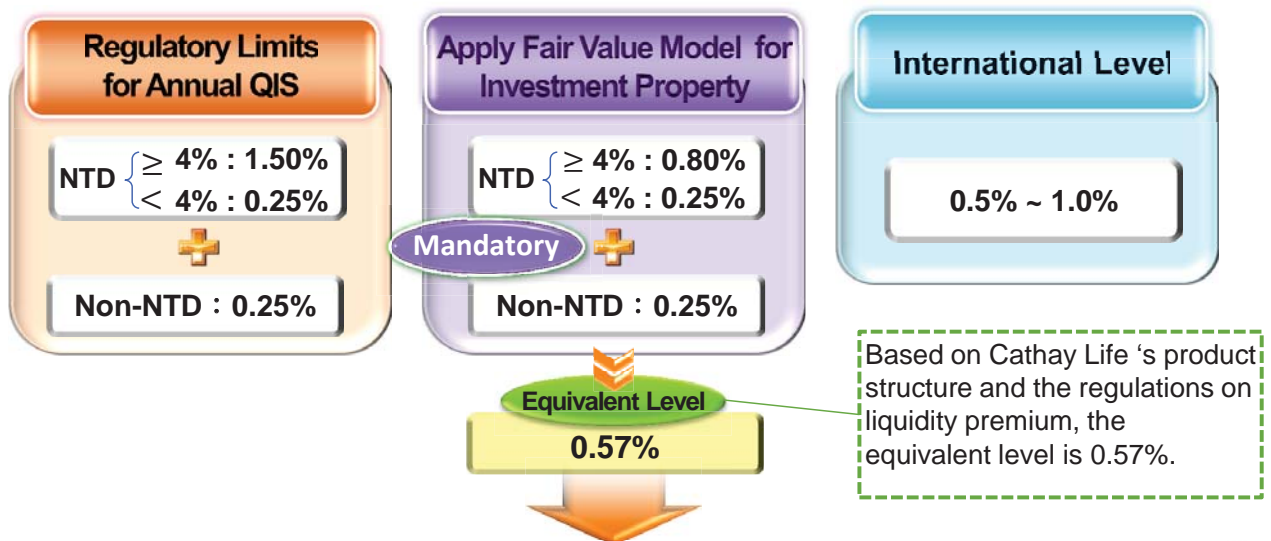


Note: The "Spot Rate" mentioned above refers to 3-yr daily MA yield curve.

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# Fair Value of Insurance Contracts: Liquidity Premium

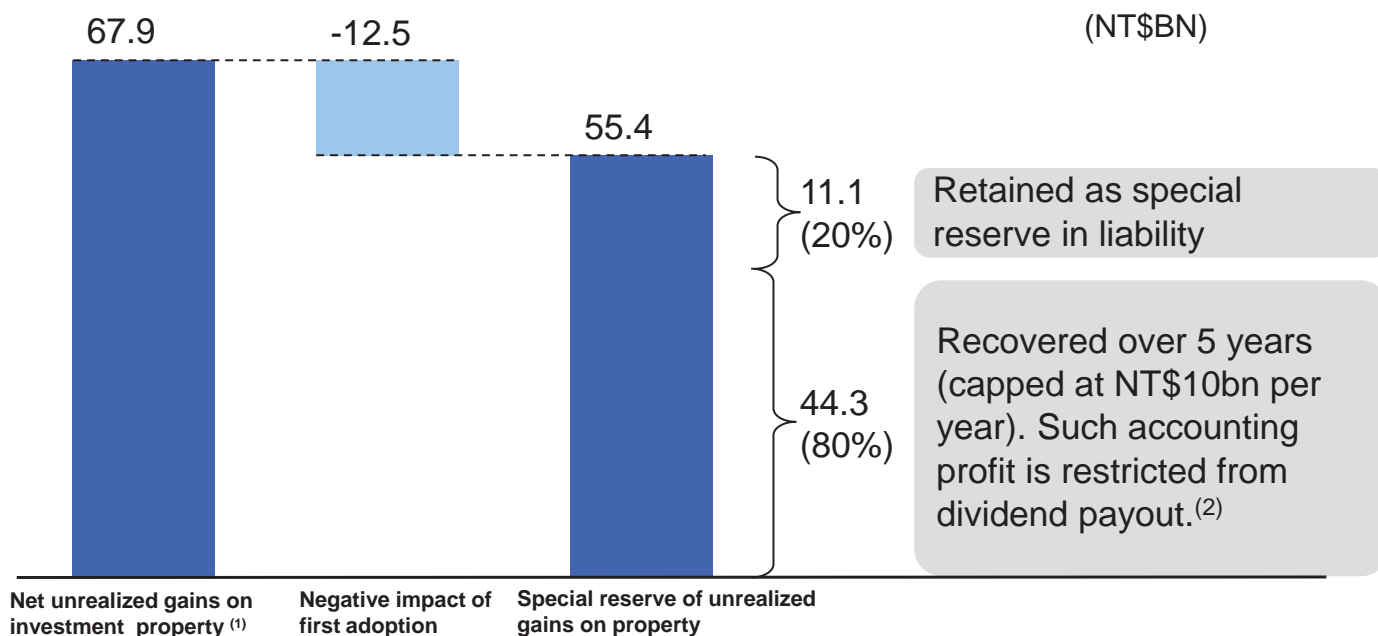
If insurers apply fair value model for investment property, their insurance liabilities should also be assessed under fair value basis. Taiwan adopts a relatively strict standard of liquidity premium compared to the international level of 0.5%~1%.



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.

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## Special reserve of unrealized gains on property

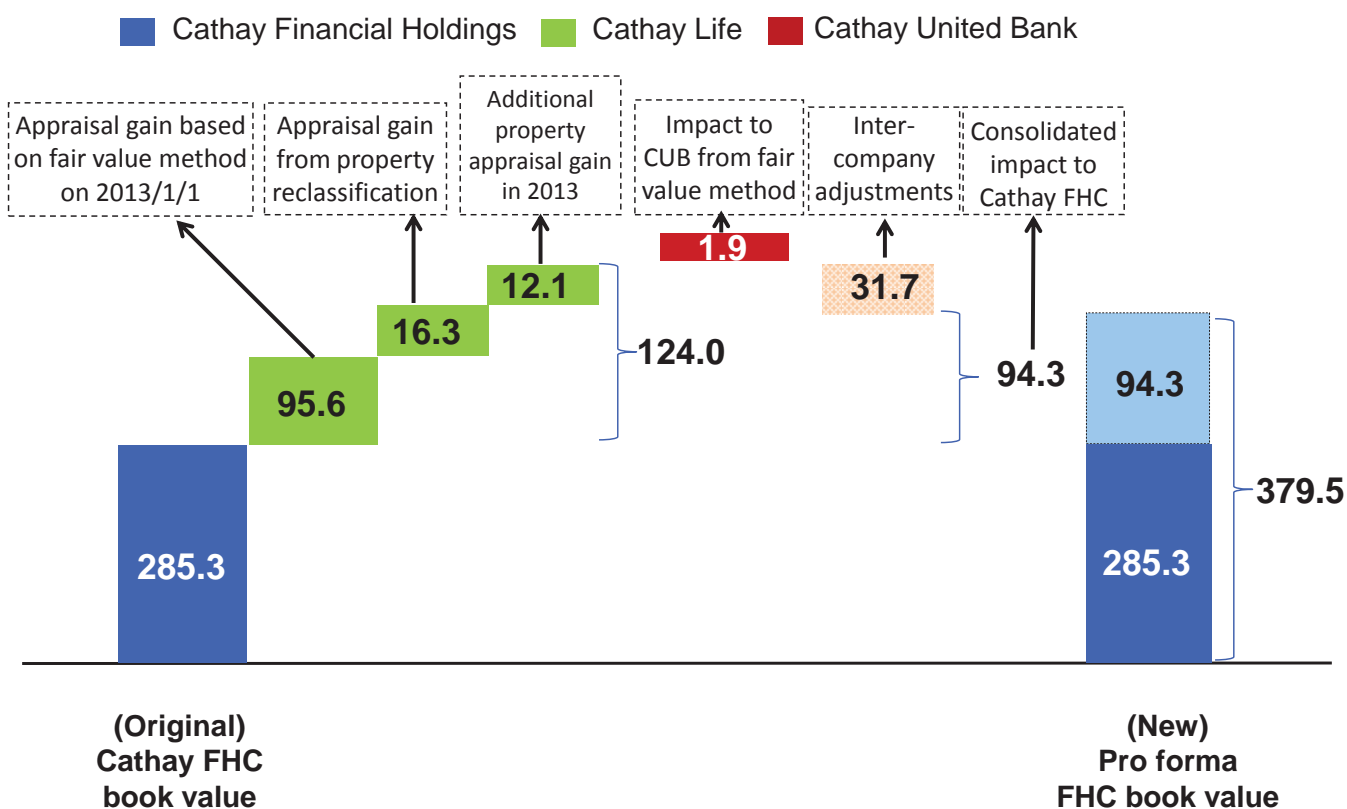


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(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.

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## Illustration of 2013 pro forma BV of Cathay FHC

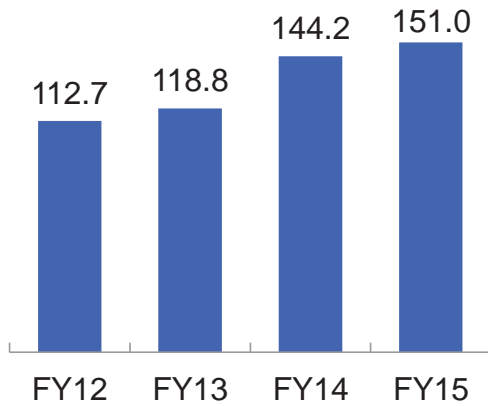


Note: Totals may not sum due to rounding.

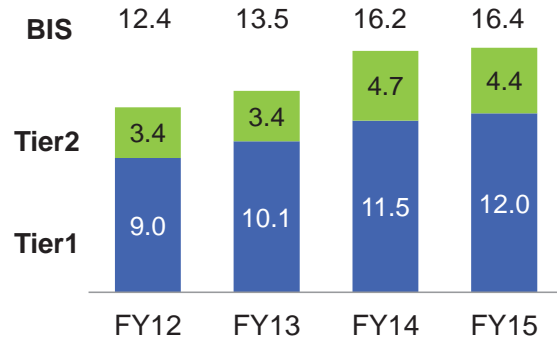
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# Capital adequacy

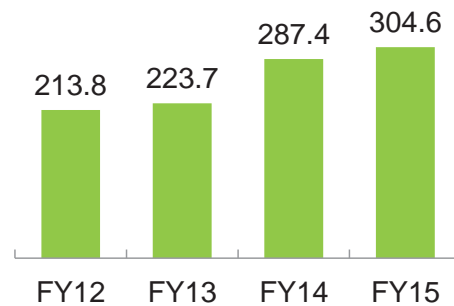
**Cathay FHC CAR (%)**



**CUB Capital Adequacy (%)**



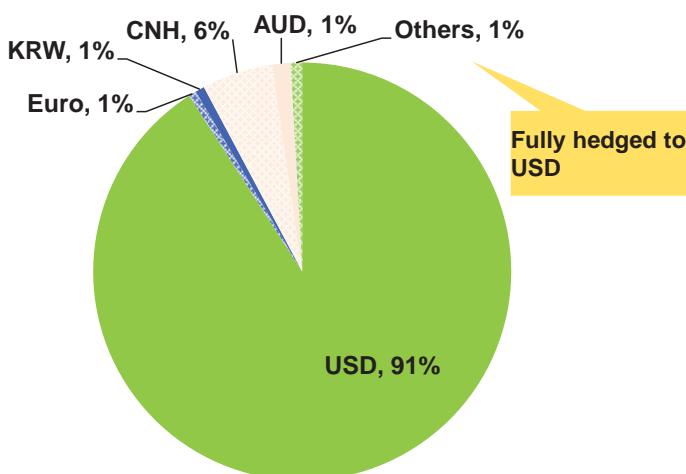
**Cathay Life RBC(%)**



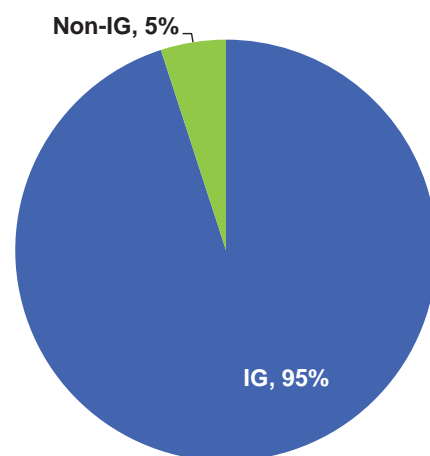
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## Cathay Life – Overseas bond breakdown by currency and rating

**Overseas bond by currency**



**Overseas bond by rating**



Note: Totals may not sum due to rounding.

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**Cathay Financial Holdings**

(NT\$MN)				FY15/ FY14 % Chg	4Q14	4Q15	4Q15/ 4Q14 % Chg
<b>Income Statement Data (Consolidated)</b>							
<b>Operating Income</b>							
Net interest income	114,558	125,123	139,962	12%	32,553	37,261	14%
Net commission and fee	791	369	(4,480)	-1313%	(1,331)	(1,571)	18%
Net earned premium	441,427	488,327	535,858	10%	149,408	146,769	-2%
Change in liability reserve	(293,570)	(290,800)	(306,598)	5%	(98,180)	(67,539)	-31%
Net claims payment	(228,125)	(285,869)	(309,104)	8%	(72,474)	(95,929)	32%
Investment income	56,350	75,751	63,734	-16%	14,061	1,653	-88%
Contribution from associates-equity method	157	168	1,108	561%	48	470	874%
Other net non-interest income	6,972	3,449	14,188	311%	(373)	4,034	-1180%
Bad debt expense	(1,484)	(2,982)	(2,467)	-17%	(1,793)	(1,913)	7%
Operating expense	(54,277)	(57,477)	(65,067)	13%	(16,106)	(19,385)	20%
<b>Income before taxes</b>	42,799	56,058	67,132	20%	5,813	3,848	-34%
Income taxes	(4,779)	(6,427)	(9,250)	44%	(848)	(851)	0%
<b>Net income</b>	38,020	49,631	57,882	17%	4,965	2,998	-40%
EPS (NT\$)	3.12	3.93	4.58		0.40	0.25	
<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				
<b>Balance Sheet Data</b>							
Total assets	6,177,273	6,944,837	7,568,975				
Total shareholders' equity	379,510	439,120	461,062				
<b>Operating Metrics</b>							
ROAE (Consolidated)	10.82%	12.10%	12.86%				
ROAA (Consolidated)	0.65%	0.76%	0.80%				
Double leverage ratio(inc. preferred stock)	111%	113%	111%				
<b>Capital Adequacy Metrics</b>							
Capital Adequacy Ratio	119%	144%	151%				

**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 FY14 financial data to pro-forma basis. FY14 total assets, liabilities, and shareholders' equity have also been adjusted accordingly.

(3) Total may not sum due to rounding.

**Cathay Life**

(NT\$MN)				FY15/ FY14			4Q15/ 4Q14
	FY13	FY14	FY15	% Chg	4Q14	4Q15	% Chg
<b>Income Statement Data (Consolidated)</b>							
Net written premium	426,804	472,630	519,014	10%	145,197	142,019	-2%
Net earned premium	418,262	471,849	518,250	10%	144,784	141,560	-2%
Reinsurance commission earned	11,610	4,740	200	-96%	19	(21)	-212%
Fee income	3,090	5,943	5,762	-3%	1,353	1,353	0%
Recurring investment income	113,932	124,152	140,977	14%	29,315	33,940	16%
Gain on disposal of investment							
Realized gain (loss)-Equity	16,586	23,357	30,072	29%	3,972	3,375	-15%
Realized gain (loss)-Debt	14,604	12,828	14,804	15%	3,726	1,995	-46%
Investment property appraisal gains	13,045	16,579	11,074	-33%	330	(237)	-172%
FX and others, net	(4,197)	(7,166)	(13,101)	83%	637	(4,466)	-801%
Investment income, net	153,970	169,750	183,827	8%	37,980	34,608	-9%
Other operating income	1,275	9	914	9777%	3	800	25396%
Separate account revenues	90,719	115,040	17,303	-85%	14,826	12,141	-18%
Net claims payment	(210,029)	(275,195)	(298,102)	8%	(68,849)	(92,114)	34%
Changes in liability reserves	(292,978)	(290,109)	(305,864)	5%	(98,520)	(67,619)	-31%
Acquisition and commission expense	(34,188)	(32,405)	(33,238)	3%	(8,057)	(8,842)	10%
Other operating costs	(5,570)	(4,544)	(5,541)	22%	(1,209)	(1,642)	36%
Financial cost	303	(106)	(296)	179%	(39)	18	-148%
Separate account expense	(90,719)	(115,040)	(17,303)	-85%	(14,826)	(12,141)	-18%
Operating expense	(15,677)	(16,869)	(23,021)	36%	(5,279)	(7,400)	40%
Net non-operating income	1,156	1,482	1,265	-15%	355	412	16%
Income taxes	(3,657)	(2,810)	(5,710)	103%	(80)	(68)	-15%
<b>Net income</b>	<b>27,569</b>	<b>31,734</b>	<b>38,447</b>	<b>21%</b>	<b>2,461</b>	<b>1,045</b>	<b>-58%</b>
<b>Balance Sheet Data</b>							
Total assets	4,195,229	4,704,976	5,180,081				
General account	3,818,977	4,242,710	4,699,512				
Separate account	376,253	462,267	480,568				
Reserves for life insurance liabilities	3,448,659	3,770,679	4,228,117				
Total liabilities	3,923,923	4,376,595	4,831,846				
Total shareholders' equity	271,306	328,382	348,235				
<b>Operating Metrics</b>							
First Year Premium(FYP)	200,419	233,379	217,378				
First Year Premium Equivalent(FYPE)	73,463	71,147	102,002				
Expense ratio	11.5%	9.9%	10.3%				
13-M persistency ratio	98.2%	97.9%	97.6%				
25-M persistency ratio	94.7%	94.9%	91.8%				
ROAE	10.92%	10.54%	11.36%				
ROAA	0.69%	0.71%	0.78%				
<b>Capital Adequacy Metrics</b>							
RBC ratio (Standalone)	224%	287%	305%				

**Notes:**

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**Cathay United Bank**

(NT\$MN)				FY15/ FY14 % Chg	4Q14	4Q15	4Q15/ 4Q14 % Chg
<b>Income Statement Data (Consolidated)</b>							
<b>Operating Income</b>							
Net interest income	21,915	25,779	26,729	4%	6,733	6,433	-4%
Fee income	9,204	11,806	14,344	21%	3,142	3,122	-1%
Investment income	5,650	7,326	5,599	-24%	1,010	1,034	2%
other income	956	1,064	1,380	30%	182	294	62%
<b>Net operating income</b>	<b>37,725</b>	<b>45,975</b>	<b>48,052</b>	<b>5%</b>	<b>11,067</b>	<b>10,884</b>	<b>-2%</b>
Operating expenses	(20,216)	(22,804)	(24,851)	9%	(6,281)	(6,677)	6%
<b>Pre-provision profit</b>	<b>17,509</b>	<b>23,170</b>	<b>23,201</b>	<b>0%</b>	<b>4,786</b>	<b>4,207</b>	<b>-12%</b>
Net provisions for possible losses	(542)	(2,471)	(1,922)	-22%	(1,726)	(1,748)	1%
<b>Income before taxes</b>	<b>16,967</b>	<b>20,700</b>	<b>21,279</b>	<b>3%</b>	<b>3,060</b>	<b>2,459</b>	<b>-20%</b>
Income tax	(2,188)	(2,885)	(2,513)	-13%	(489)	(291)	-40%
<b>Net income</b>	<b>14,780</b>	<b>17,814</b>	<b>18,767</b>	<b>5%</b>	<b>2,571</b>	<b>2,168</b>	<b>-16%</b>
<b>Balance Sheet Data</b>							
Total assets	1,988,774	2,243,958	2,383,377				
Loans, net	1,031,105	1,119,281	1,127,807				
Financial assets	638,727	649,497	791,192				
Total liability	1,855,610	2,096,340	2,226,608				
Deposits	1,615,860	1,739,023	1,881,657				
Financial Debenture Payable	52,417	67,614	51,900				
Total shareholders' equity	133,164	147,617	156,769				
<b>Operating Metrics</b>							
Cost income ratio	53.59%	49.60%	51.72%				
ROAE	12.33%	12.71%	12.33%				
ROAA	0.78%	0.84%	0.81%				
<b>Assets Quality</b>							
NPL	3,013	3,277	1,599				
NPL ratio	0.29%	0.29%	0.14%				
NPL provisions	14,494	17,675	17,323				
Coverage ratio	478%	539%	1083%				
<b>Capital Adequacy Metrics</b>							
BIS ratio (Standalone)	13.5%	16.2%	16.4%				
Tier I Ratio (Standalone)	10.1%	11.5%	12.0%				

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**Cathay Century**

(NT\$MM)				FY15/ FY14			4Q15/ 4Q14
<b>Income Statement Data (Consolidated)</b>	FY13	FY14	FY15	% Chg	4Q14	4Q15	% Chg
Premium income	19,727	21,279	22,449	5%	5,759	6,334	10%
Net written premium	15,280	16,080	17,254	7%	4,303	4,853	13%
Net earned premium	14,156	15,626	17,169	10%	3,941	4,535	15%
Reinsurance commission earned	470	683	517	-24%	173	136	-21%
Fee income	36	45	48	5%	13	14	2%
Investment	715	918	972	6%	189	204	8%
Interest income	444	609	564	-7%	181	151	-17%
Other investment income, net	271	308	408	32%	8	54	585%
Other operating income	0	7	15	101%	4	1	-86%
Net claims payment	(7,835)	(8,747)	(9,292)	6%	(2,630)	(2,790)	6%
Changes in liability reserves	(592)	(691)	(734)	6%	340	79	-77%
Commissions and other operating costs	(1,083)	(1,218)	(1,402)	15%	(313)	(386)	23%
Operating expenses	(5,328)	(5,823)	(6,197)	6%	(1,526)	(1,668)	9%
<b>Operating income</b>	538	801	1,095	37%	192	125	-35%
Net non-operating income	9	29	(4)	-114%	(2)	9	-690%
Income taxes	(218)	(174)	(287)	65%	(76)	(58)	-24%
<b>Net income</b>	329	657	804	22%	115	77	-33%
<b>Balance Sheet Data</b>							
Total assets	31,709	35,863	42,106				
Total shareholders' equity	5,511	6,829	7,219				
<b>Operating Metrics</b>							
Gross Combined ratio	80.0%	90.7%	85.3%				
Net Combined ratio	92.6%	99.3%	93.2%				
ROAE	6.37%	10.71%	11.44%				
ROAA	1.08%	1.94%	2.06%				
<b>Capital Adequacy Metrics</b>							
RBC ratio (Standalone)	312%	324%	359%				

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