

# 2017 First Quarter Briefing

May 2017



國泰金控

Cathay  
Financial Holdings

## Disclaimer

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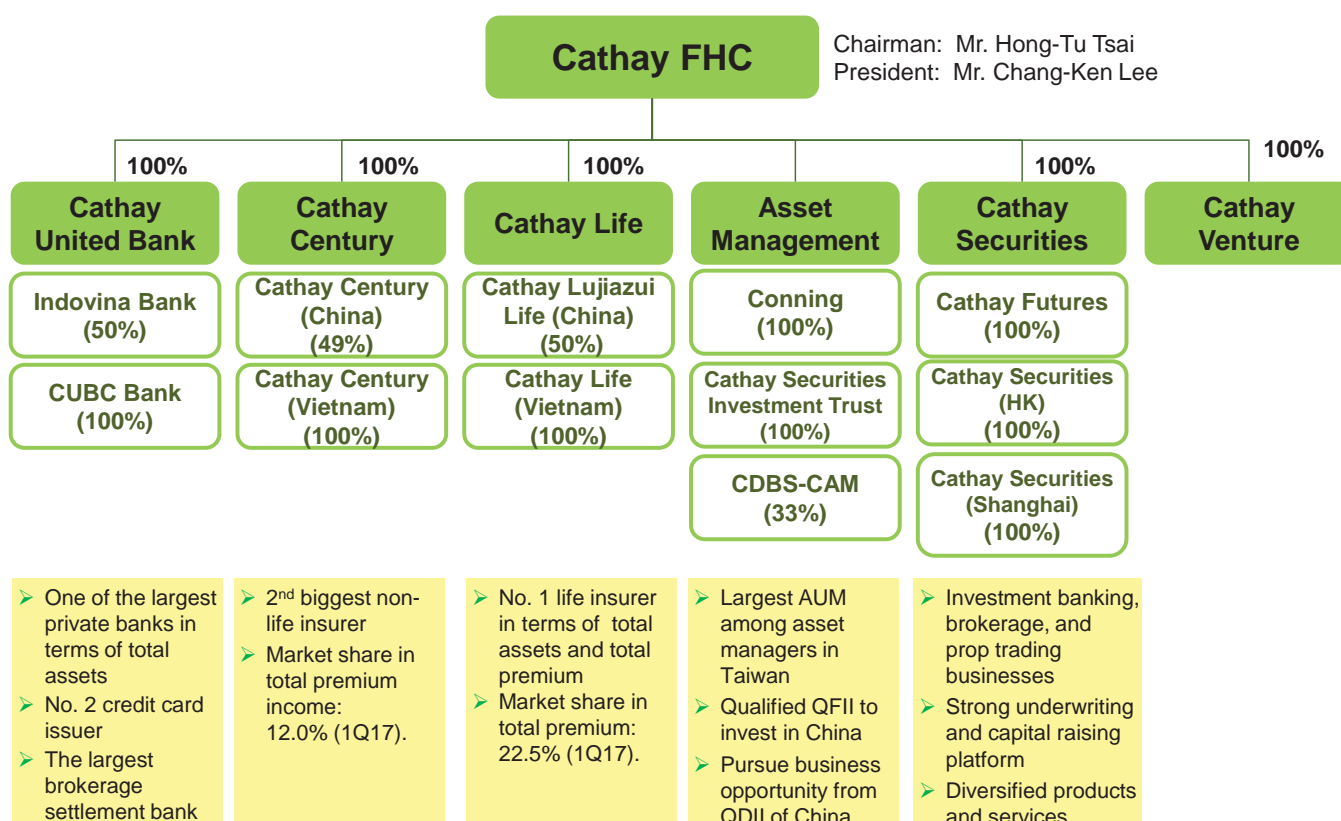
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# Agenda

- **Introduction of Cathay FHC**
- **1Q17 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Cathay Life Embedded Value & Appraisal Value**
- **Cathay's CSR Efforts**
- **M&A Key Highlights**
- **Appendix**

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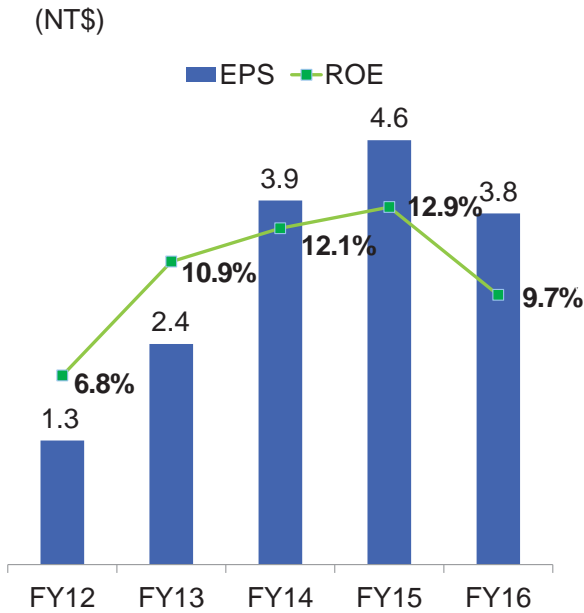
## Cathay FHC: largest FHC, comprehensive products



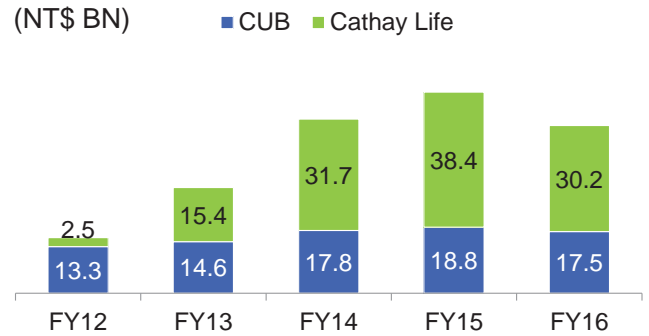
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# Cathay's earnings accelerates as life turnarounds

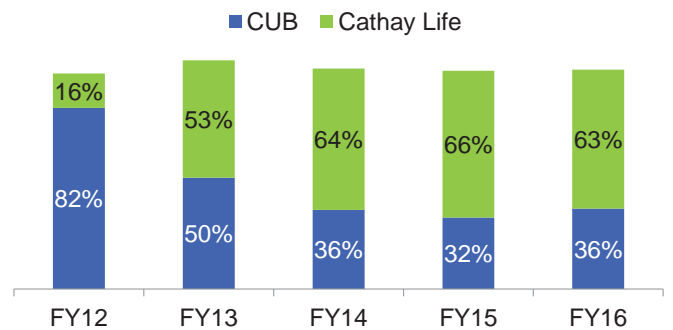
## EPS & ROE



## Profit contribution



FHC	16.2	29.0	49.6	57.9	48.0
Life	2.5	15.4	31.7	38.4	30.2
CUB	13.3	14.6	17.8	18.8	17.5



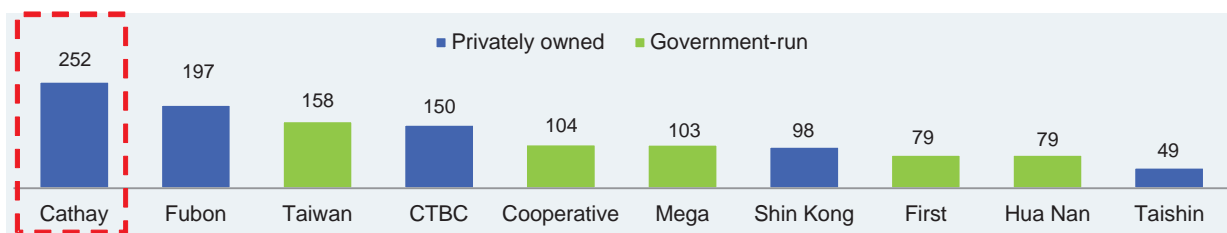
- Note: (1) FY13 figures do not reflect the impact from applying fair value method on investment property.  
 (2) Since Cathay FHC has more subsidiaries other than Cathay Life and CUB, besides, due to affiliate transactions, the Cathay FHC net income might not equal to the sum of Cathay Life and CUB's.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

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# Market leader in Taiwan's FIG sector

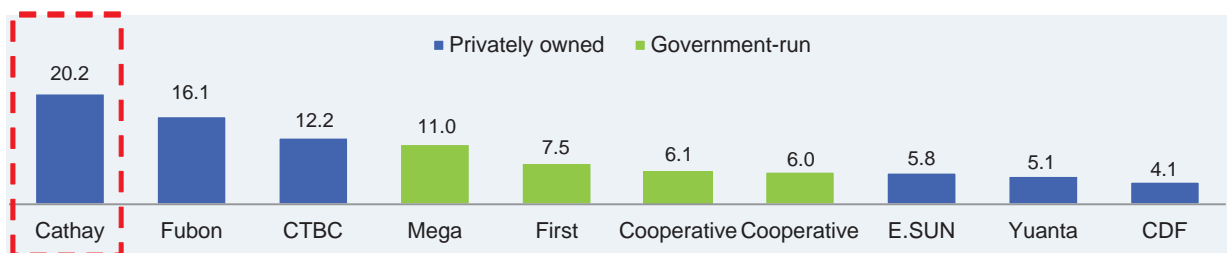
- Largest listed financials group by market capitalization and assets.

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



Note: Total assets as of Dec. 30, 2016

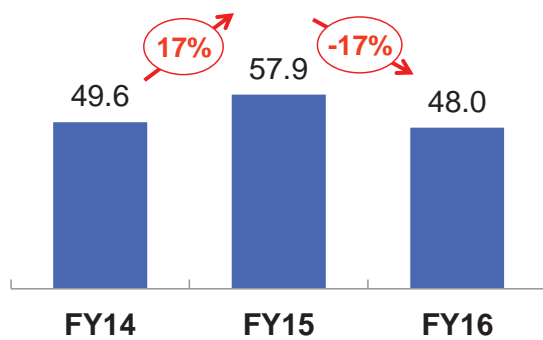
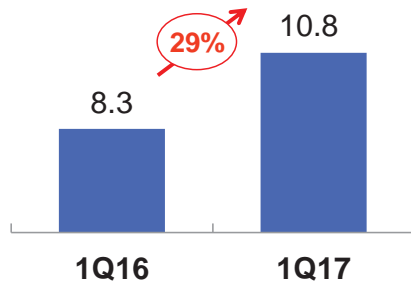
## Ranking of market cap (US\$bn)



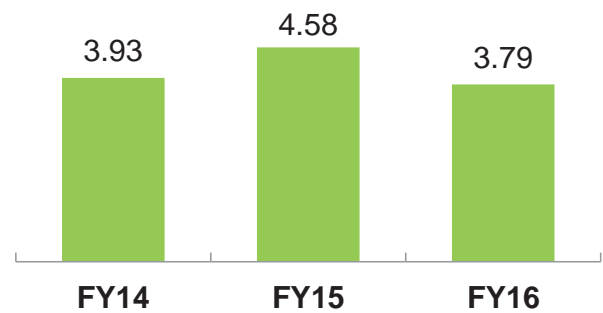
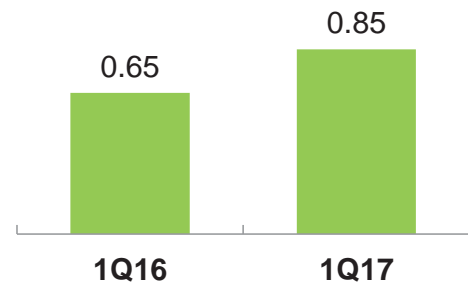
Note: Market capitalization as of Apr. 28, 2017

# Cathay FHC – Net income & EPS

## Net income (NT\$BN)



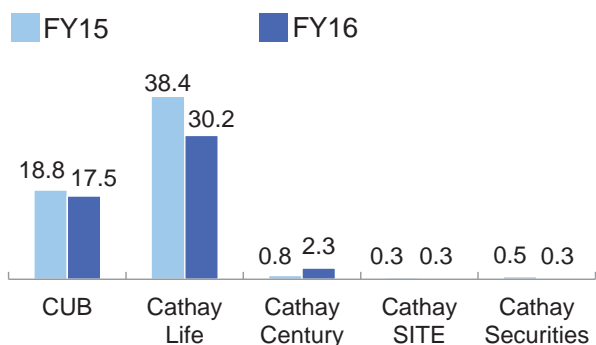
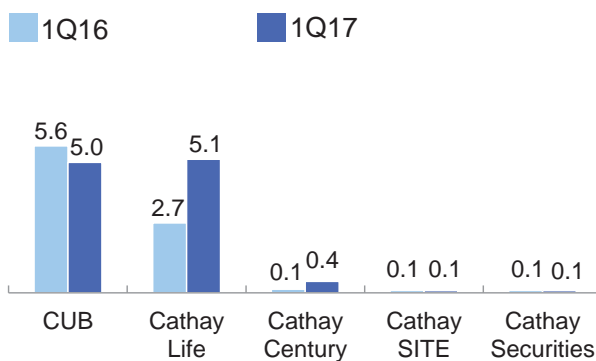
## Adjusted EPS (NT\$)



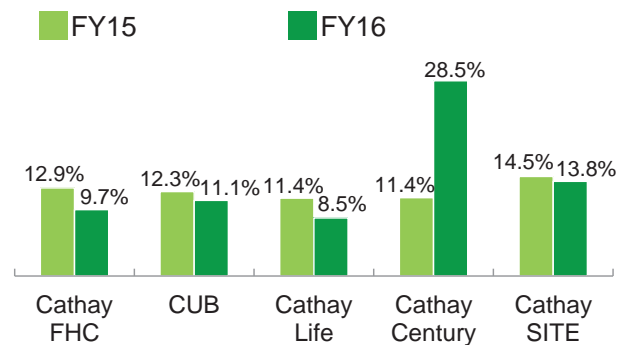
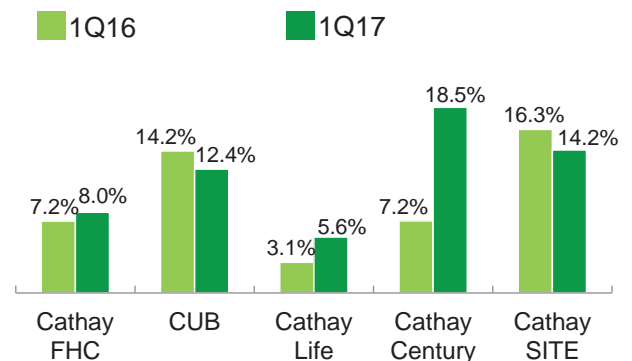
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# Cathay FHC – Net income & EPS

## Net income of primary subsidiaries

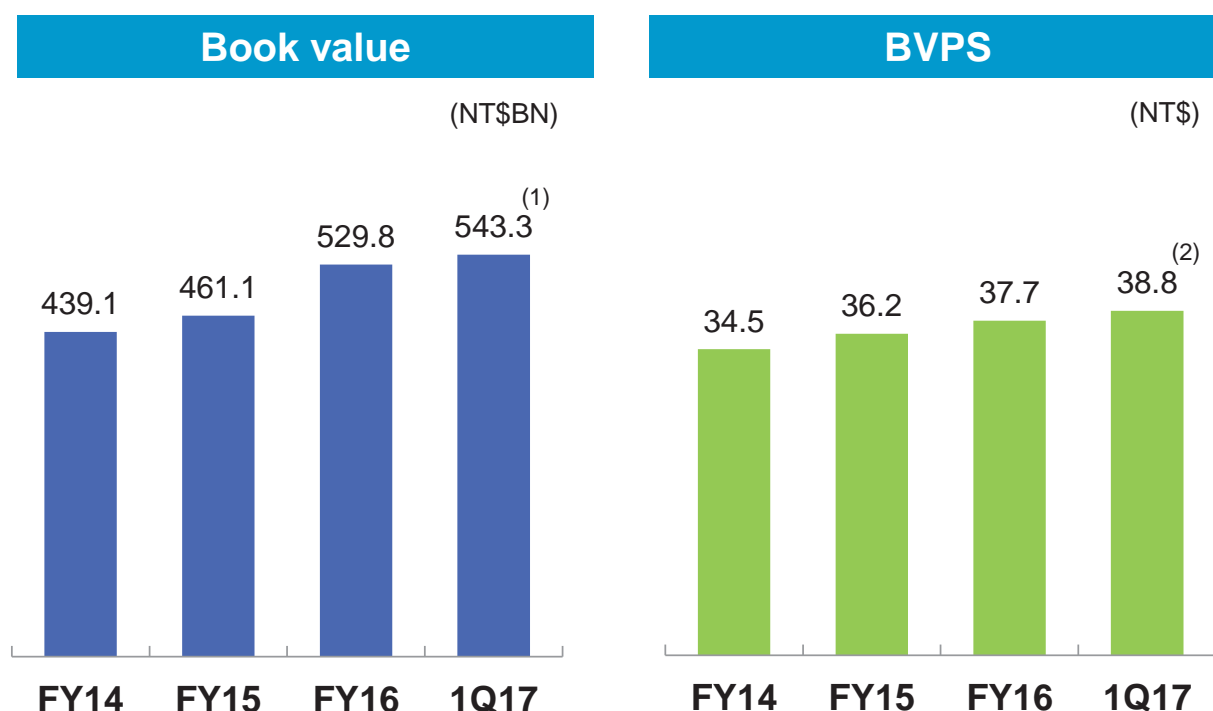


## ROE



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# Cathay FHC – Book value & BVPS



Note: (1) FY16 and 1Q17 book value both include preferred shares NT\$50.0BN.

(2) FY16 and 1Q17 BVPS represented the BVPS attributable to common shareholders. If FY16 and 1Q17 BVPS were calculated by "book value / outstanding common shares", it would be NT\$41.7 and NT\$42.8, respectively.

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# 1Q17 Business overview

## Cathay United Bank

- Delivered 23% loan growth with benign credit quality
- Credit card fee grew by 16% YoY
- Offshore earnings accounted for 53% of pretax earnings

## Cathay Life

- Continued value-driven strategy; FYPE ranked No.1 in the industry
- Overseas investment reached 62%, overall investment performance maintained stable
- Completed NT\$35bn perpetual bond issuance, remained solid capital adequacy

## Cathay Century

- Premium income grew by 4% YoY
- Market share reached 12%, maintained No.2 market position
- Offshore business continued to grow

## Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$506BN
- Received “Best Institutional House” by Asia Asset Management and “Taiwan Fund Award” by Taipei Foundation of Finance, Lipper and Smart in 2017

## Cathay Securities

- Each business line grew steadily. Sub-brokerage business ranked No.1 in the industry
- Enhanced digital technology applications to optimize clients' experience.

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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	38	16									
P&C	26	2									
Asset Mgt	1			1							
Securities	1			1							

Note: Footprints in Thailand, Myanmar and Indonesia are representative offices. Cathay FHC owns 49% stake of Cathay Century (China)



## ■ Banking

- Vietnam: Business performs steadily with solid financial performance
- Cambodia: Owns most footprints among Taiwanese banks
- Philippines: Invests 23% stake in RCBC\*
- Indonesia: Invests 40% stake in Bank Mayapada\*

## ■ Cathay Life

- Cathay Life (Vietnam) has performed steadily
- Continues to expand agent force
- Increases footprints to extend offshore business

## ■ Cathay Century

- Continues 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 Lujiazui Life
- Cathay United Bank
- ▲ Cathay Century (China)
- ◆ Cathay Securities
- ◆ Conning Asia Pacific Limited
- ◆ CDBS Cathay Asset Management Company

## ■ Cathay United Bank

- Shanghai branch earnings continues to grow
- Plans to upgrade Shanghai branch to subsidiary

## ■ Cathay Lujiazui Life

- 1Q17 solvency ratio reached 211%
- Reported after-tax profits of 10MN RMB in 1Q17

## ■ Cathay Century (China)

- Alliance with Ant Financial group: Transaction completed in 2H16

## ■ Cathay Securities (HK)

- Each business line has performed steadily

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

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

## ■ Conning Asia Pacific Limited

- Continues to expand asset management business

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- Introduction of Cathay FHC
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- Business Performance Summary

## Cathay United Bank

Cathay Life

Cathay Century

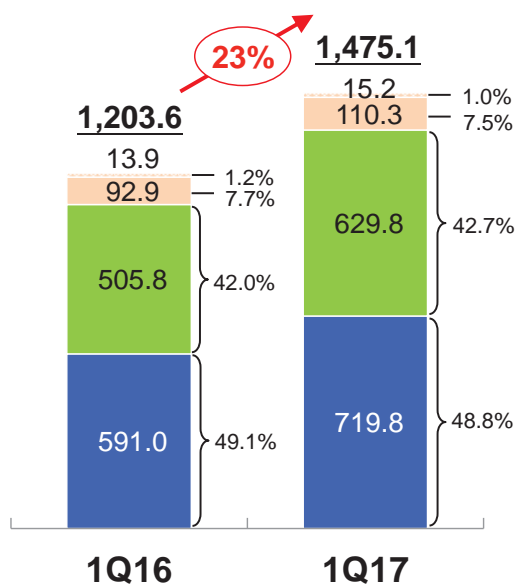
- Cathay Life Embedded Value & Appraisal Value
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## Cathay United Bank – Loan & deposit breakdown

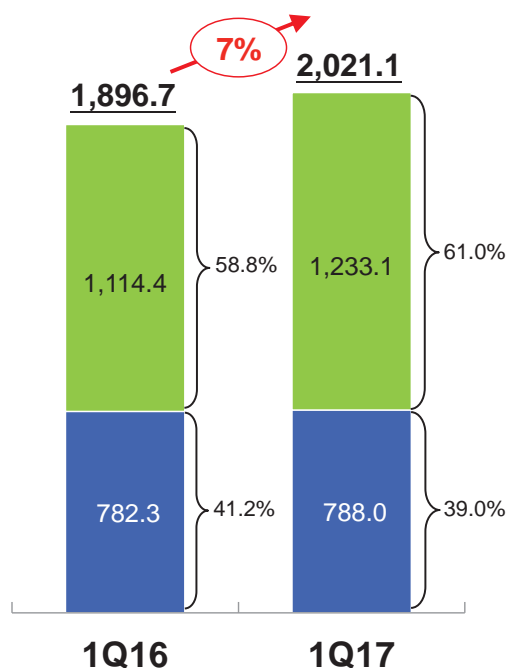
### Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



### Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit

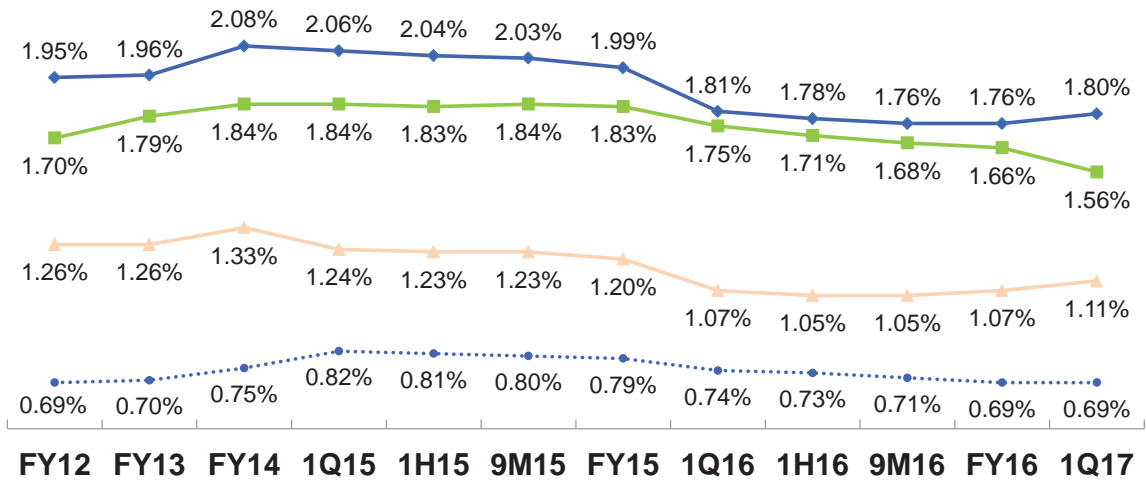


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# Cathay United Bank – Interest yields

— Avg. rate of interest-earning assets — Interest spread — Net interest margin — Funding cost



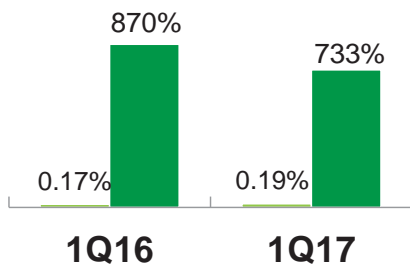
	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
<b>Quarterly Spread</b>	1.84%	1.83%	1.84%	1.81%	1.75%	1.68%	1.62%	1.59%	1.56%
<b>Quarterly NIM</b>	1.24%	1.22%	1.21%	1.12%	1.07%	1.02%	1.06%	1.10%	1.11%

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

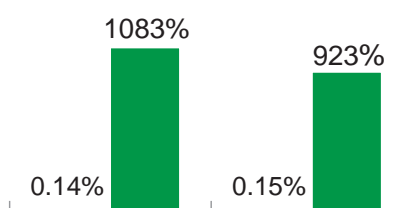
# Cathay United Bank – Credit quality

## NPL & Coverage ratio

■ NPL ratio  
■ Coverage ratio



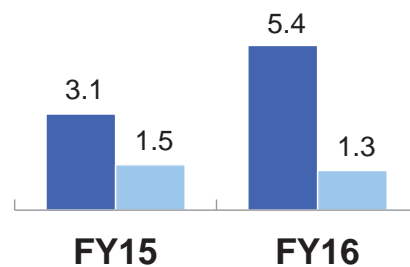
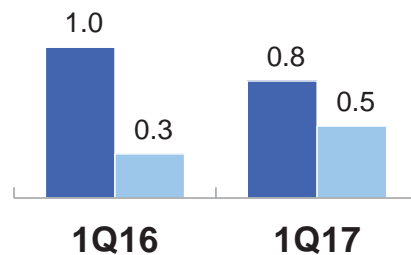
Mortgage NPL **0.05%** **0.10%**



Mortgage NPL **0.04%** **0.08%**

## Gross provision

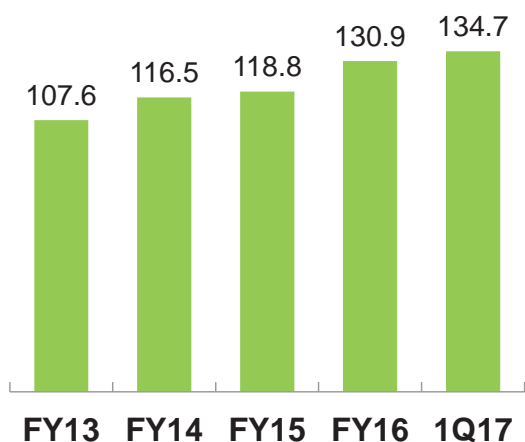
■ Gross provision (NT\$BN)  
■ Recovery



# Cathay United Bank – SME & FX loans

## SME loans

(NT\$BN)



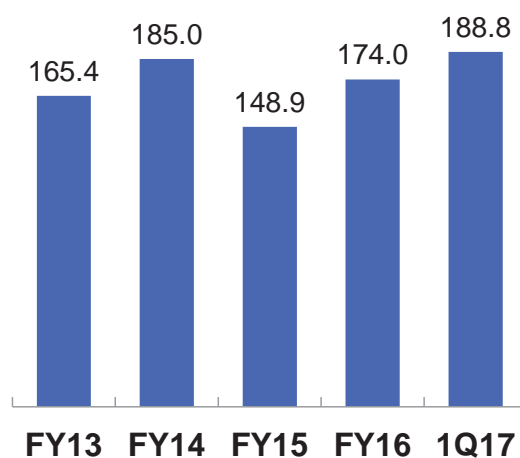
FY13 FY14 FY15 FY16 1Q17

As % of total loans

10.5% 10.5% 10.6% 9.2% 9.2%

## Foreign currency loans

(NT\$BN)



FY13 FY14 FY15 FY16 1Q17

16.1% 16.6% 13.3% 12.2% 12.9%

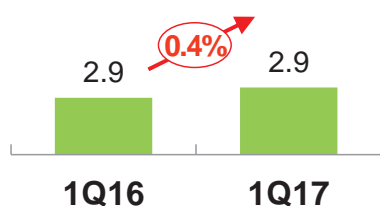
Note: Total loans exclude credit card revolving balance.

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# Cathay United Bank – Offshore earnings

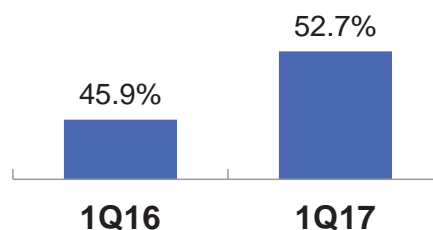
## Offshore earnings

(NT\$BN)

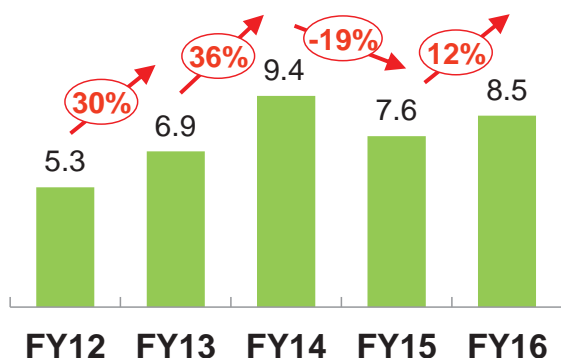


1Q16 1Q17

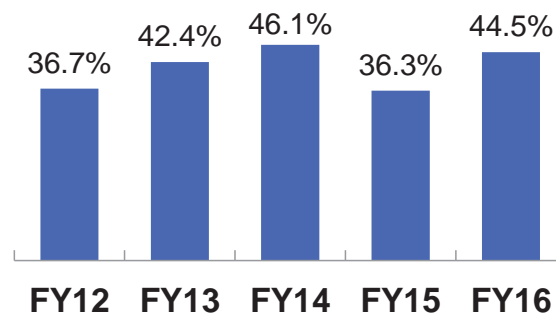
## As % of CUB pre-tax profits



1Q16 1Q17



FY12 FY13 FY14 FY15 FY16



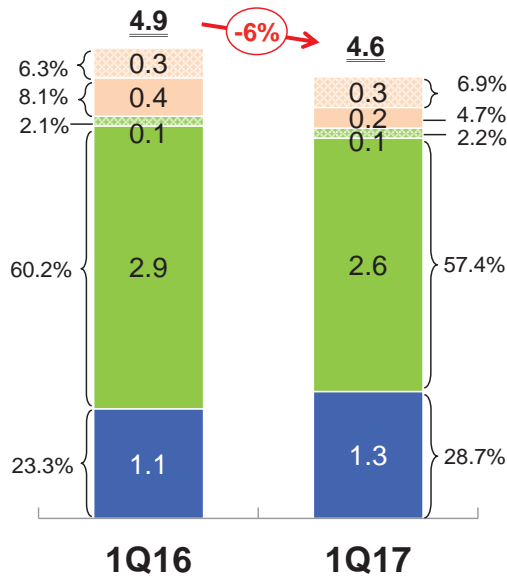
FY12 FY13 FY14 FY15 FY16

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# Cathay United Bank – Fee income

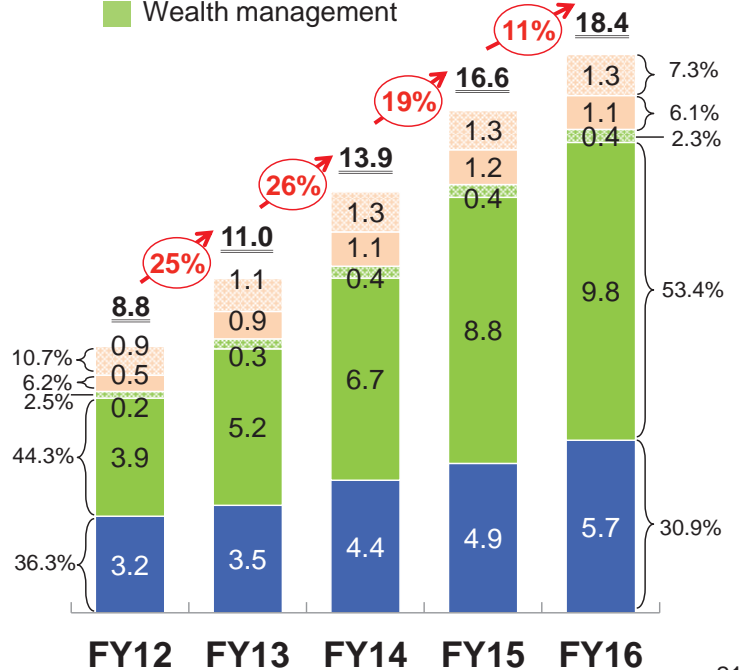
## Fee income breakdown (quarterly)

- Others (NT\$BN)
- Syndicated loans
- FX
- Wealth management
- Cards related



## Fee income breakdown (annual)

- Others (NT\$BN)
- Syndicated loans
- FX
- Wealth management
- Cards related



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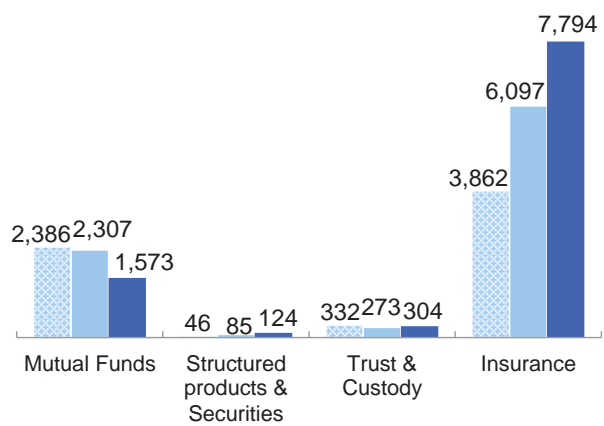
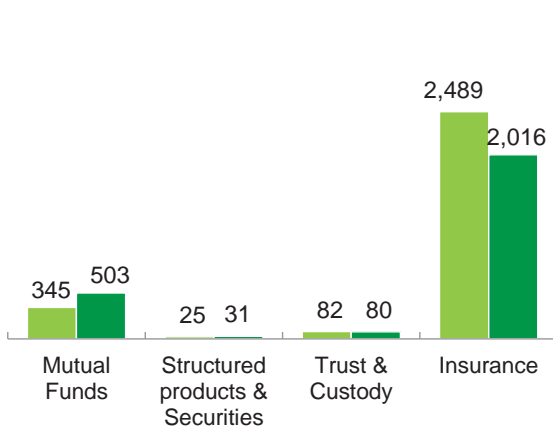
# Cathay United Bank – Wealth management fee

## Wealth management fee breakdown

(NT\$MN)	1Q16	1Q17	FY14	FY15	FY16
Wealth Management Fee Income	2,948	2,641	6,673	8,779	9,828
YoY growth (%)	58.3%	-10.4%	29.2%	31.6%	11.9%

1Q16 1Q17

FY14 FY15 FY16

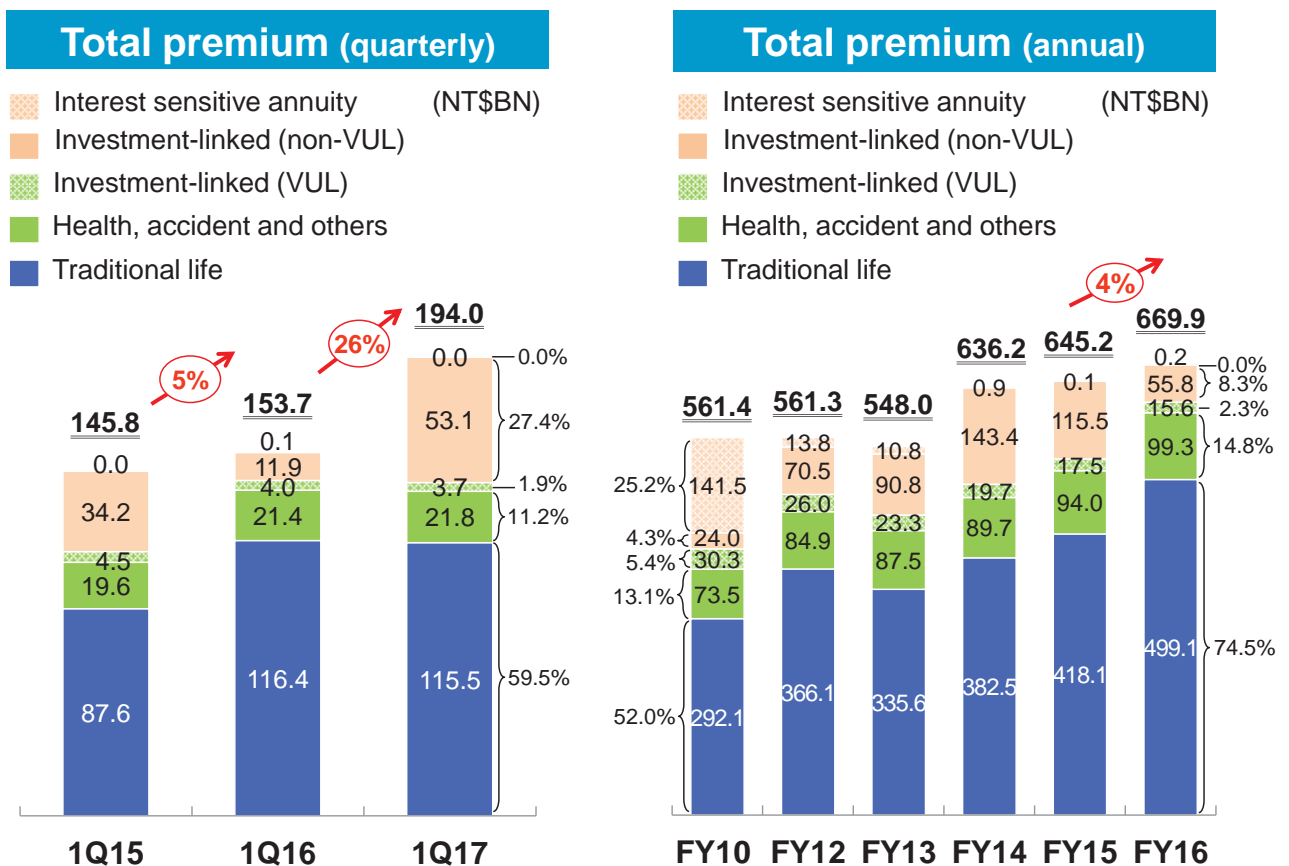


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# Agenda

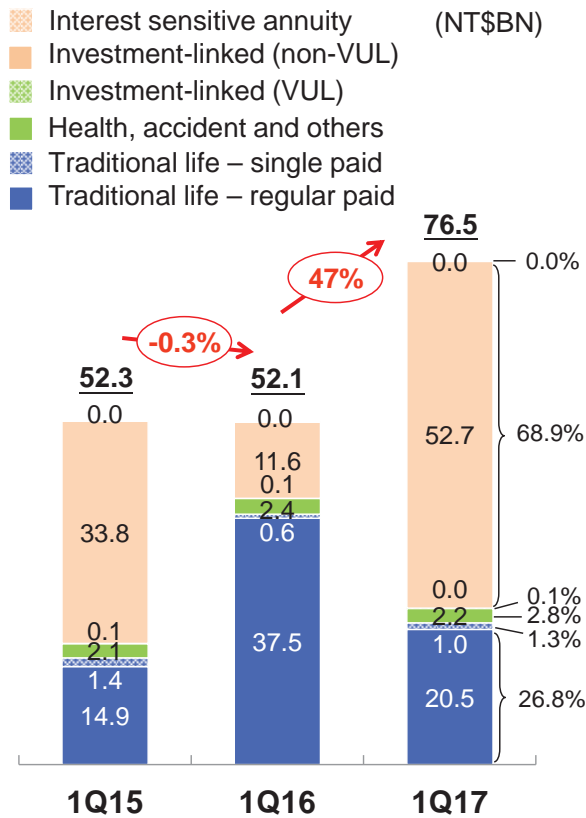
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## Cathay Life – Total premium

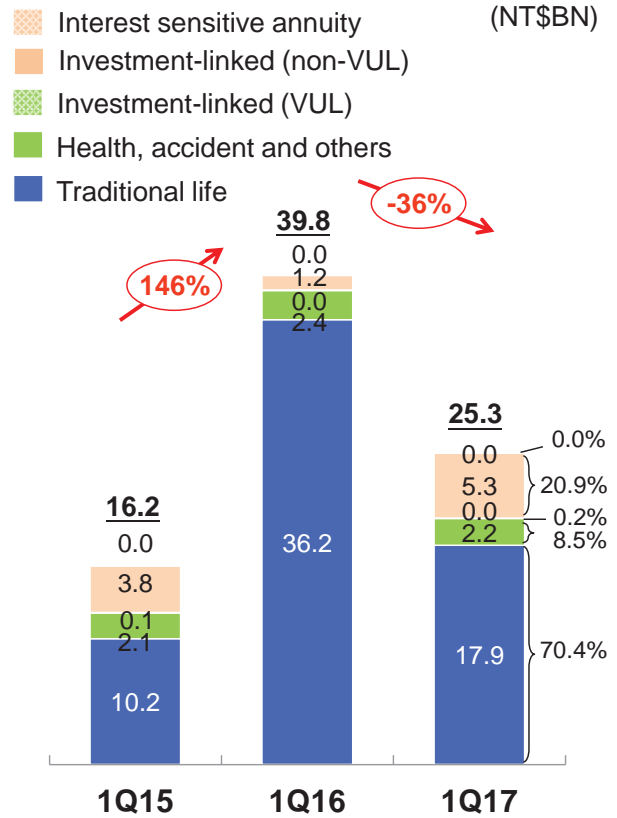


# Cathay Life – FYP & FYPE

## First Year Premium



## Annualized First Year Premium

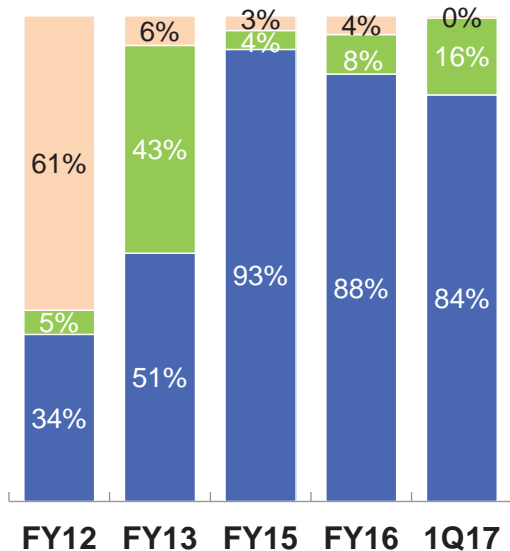


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# Cathay Life – Regular paid policies remain as focus

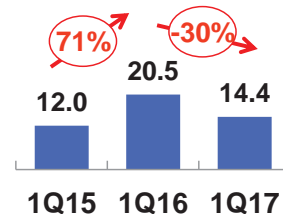
## Breakdown of Traditional FYP

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

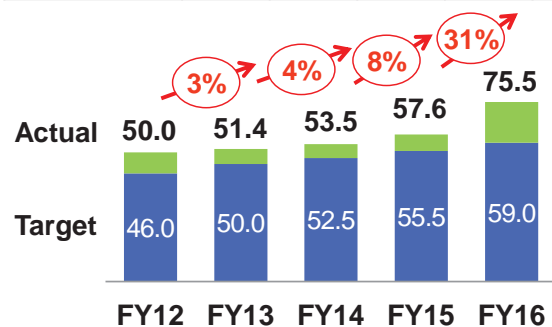


## Value for New Business

Profit Margin	1Q15	1Q16	1Q17
VNB/FYP	23%	39%	19%
VNB/FYPE	74%	51%	57%



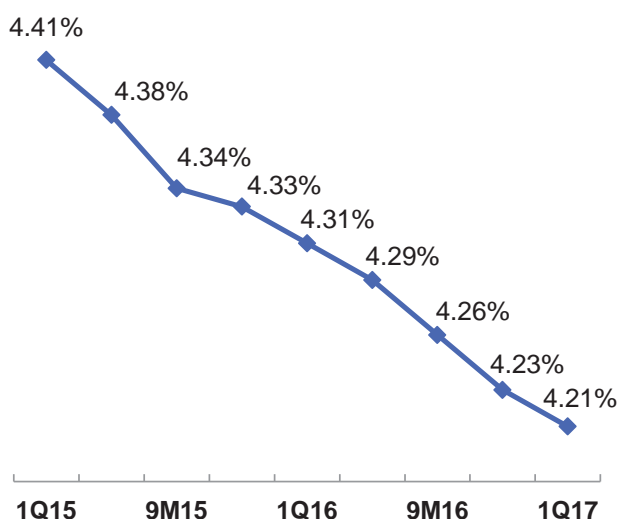
Profit Margin	FY12	FY13	FY14	FY15	FY16
VNB/FYP	19%	26%	23%	27%	38%
VNB/FYPE	54%	70%	75%	57%	56%



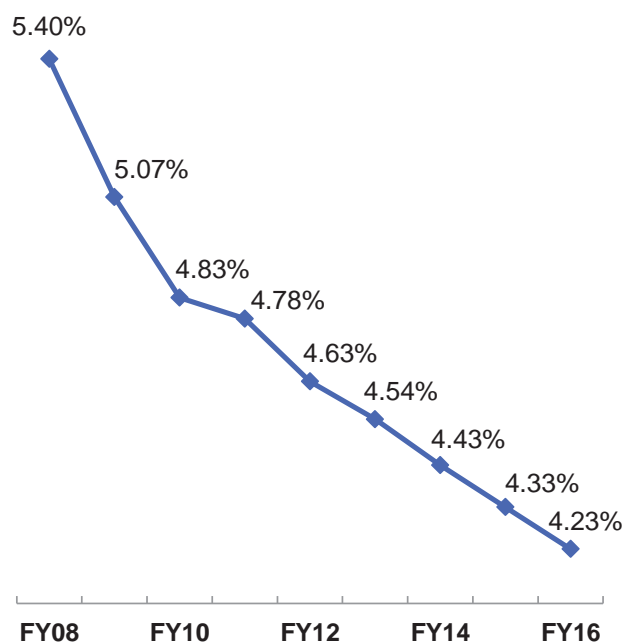
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# Cathay Life – Cost of liability

## 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

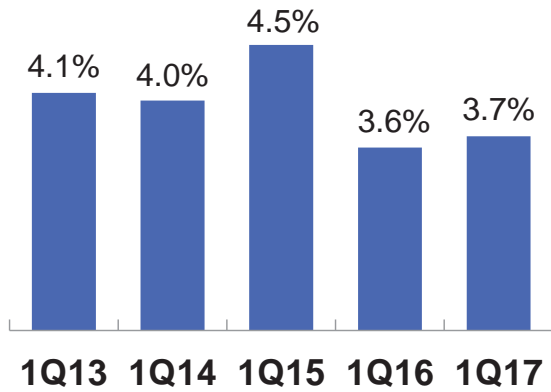
(NT\$BN)	FY14		FY15		FY16		1Q17	
	Weight	Weight	Weight	Amount	Return	Weight	Amount	Return
<b>Total investments<sup>(1)</sup></b>	<b>4169.1</b>	<b>4,636.6</b>	<b>5,001.1</b>	<b>5,068.3</b>				
Cash & Cash equivalents	3.2%	1.3%	1.3%	63.1	0.5%	1.4%	71.7	0.6%
Equity- Domestic	8.4%	7.4%	7.9%	393.9	5.0%	7.9%	402.0	9.1%
Equity- International <sup>(2)</sup>	5.0%	6.2%	6.4%	319.0	5.0%	6.6%	332.7	7.4%
Bond- Domestic	11.0%	8.0%	6.5%	327.1	2.3%	6.3%	318.2	1.9%
Bond- International <sup>(1)(2)</sup>	43.6%	50.6%	53.8%	2,692.3	5.7%	53.8%	2,728.7	5.1%
Mortgage & Secured loans	12.7%	10.2%	8.9%	445.2	1.9%	8.8%	444.6	1.8%
Policy loans	4.0%	3.6%	3.3%	164.9	6.1%	3.3%	166.0	5.6%
Real estate	10.5%	10.5%	9.8%	487.9	3.3%	9.7%	489.5	2.4%
Others	1.6%	2.1%	2.2%	107.8		2.3%	114.9	

Note: (1) Total assets excluded separate account assets; international bond includes foreign currency deposit and related adjustments  
 (2) Yields of international equity and international bond are pre-hedge investment yields.

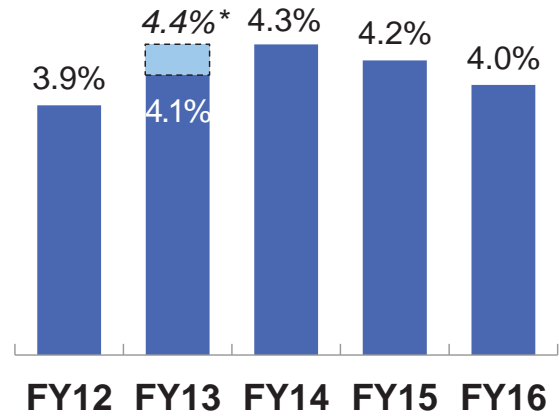
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# Cathay Life – Investment performance highlight

## After-hedging investment yield



## After-hedging investment yield (annual)

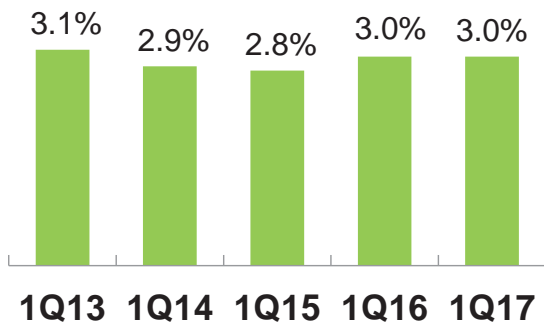


Note: FY13 (4.4%) was pro forma adjusted number of fair value method on investment property.

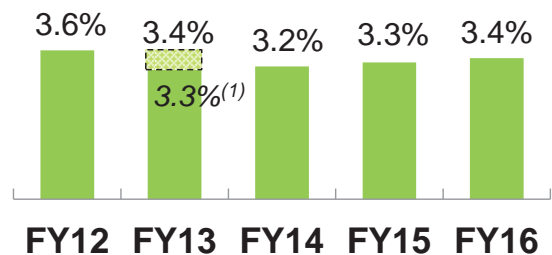
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# Cathay Life – Investment performance highlight

## Pre-hedging recurring yield

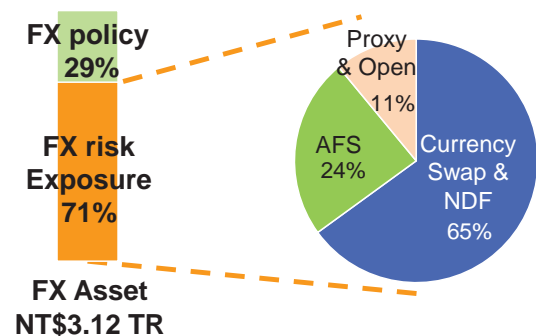


## Pre-hedging recurring yield



## Currency Hedging Structure

1Q17 Hedging cost 1.55%

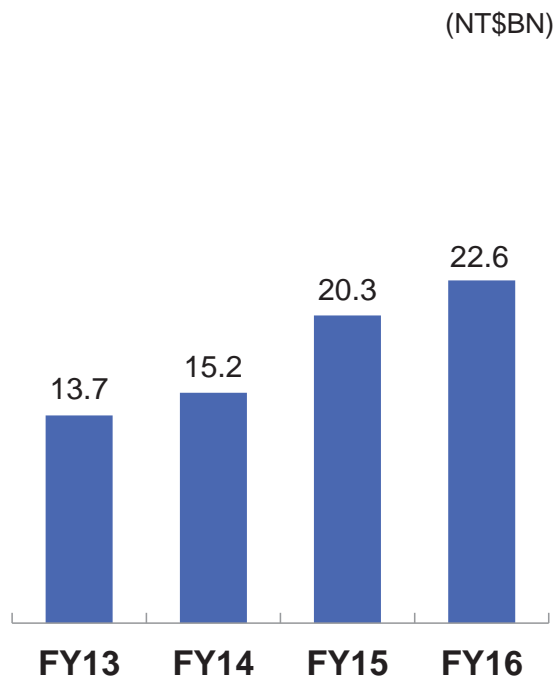


Note: (1) FY13 (3.3%) was pro forma adjusted number of fair value method on investment property.  
 (2) Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend. Most dividend will be recognized in 2Q & 3Q.

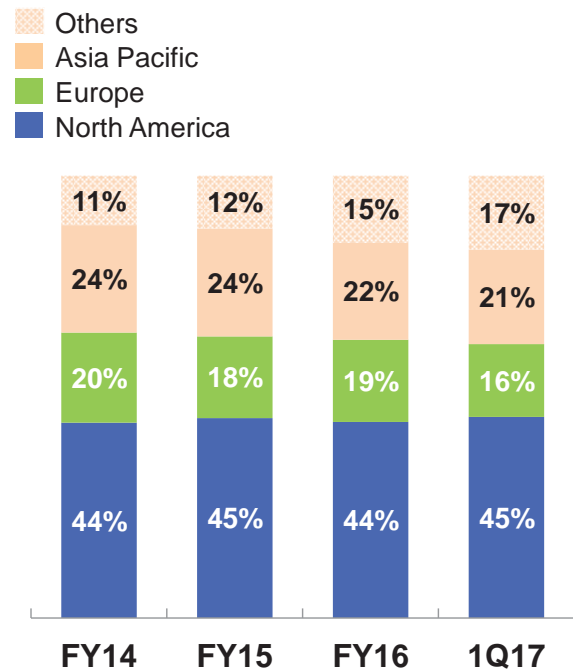
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# Cathay Life – Cash dividend income & Overseas fixed income by region

## Cash dividend income



## Overseas fixed income by region\*

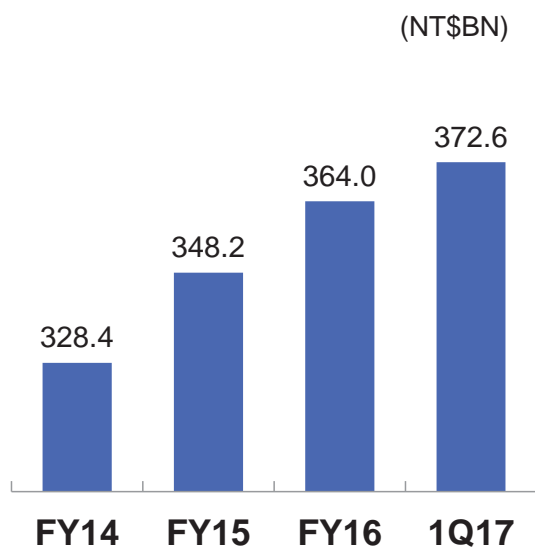


Note: Exclude overseas deposit and equity.

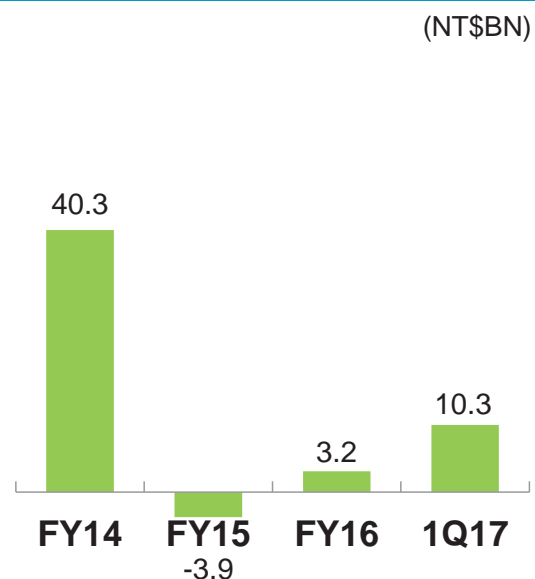
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# Cathay Life – Book value & Unrealized G/L of AFS financial assets

## Book value



## Unrealized G/L of AFS financial assets



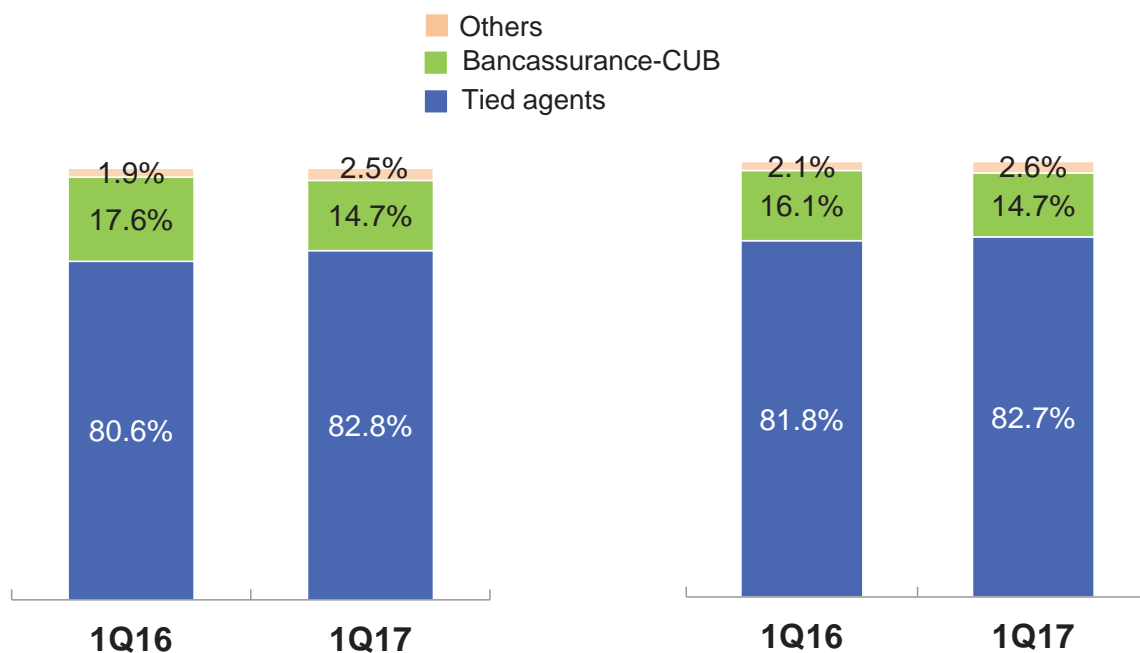
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# Cathay Life – Distribution channel

## First Year Premium

## Annualized First Year Premium

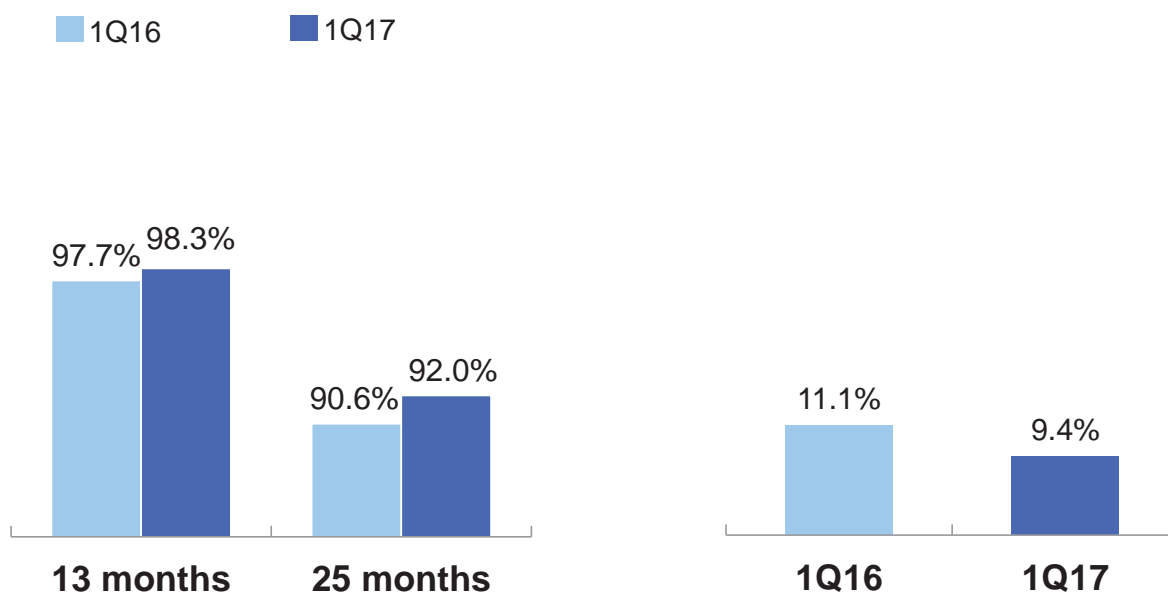


33

# Cathay Life – Operational indicators

## Persistency ratio

## Expense ratio



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# Agenda

- Introduction of Cathay FHC
- 1Q17 Business Overview
- Overseas Expansion
- Business Performance Summary

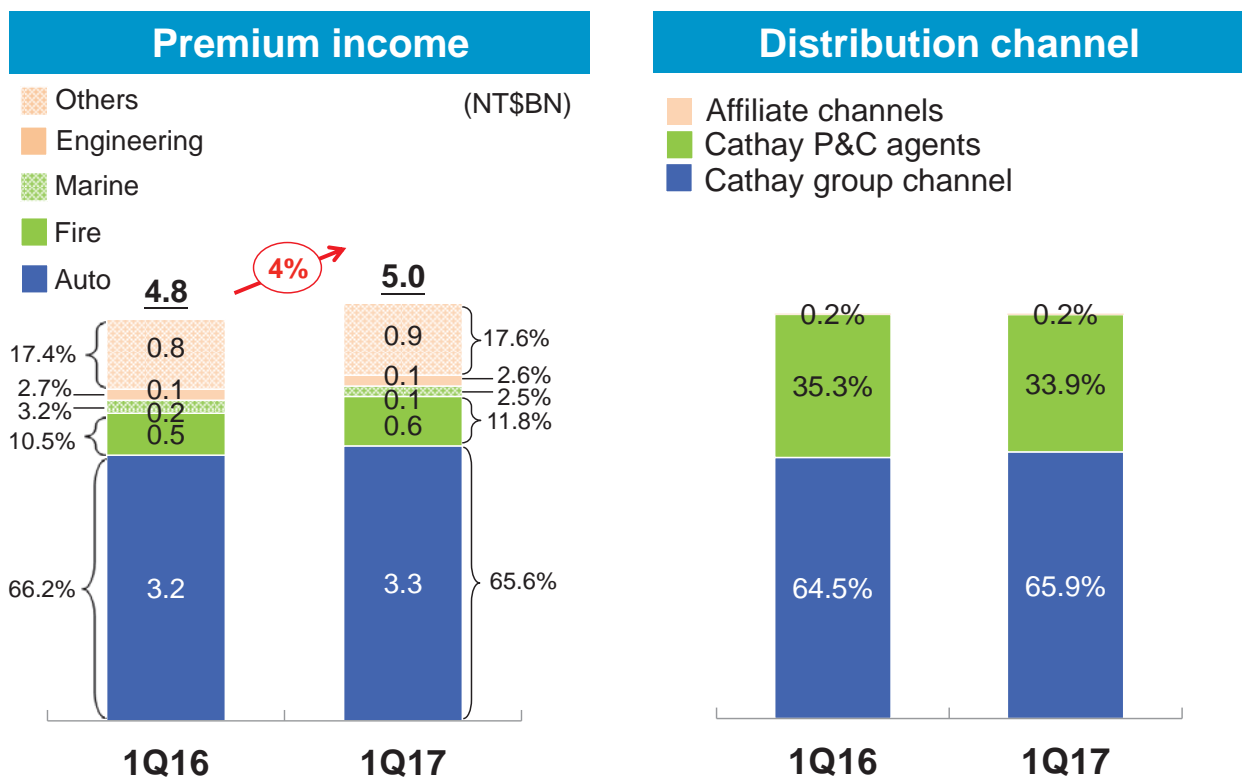
Cathay United Bank  
Cathay Life

## Cathay Century

- Cathay Life Embedded Value & Appraisal Value
- Cathay's CSR Efforts
- M&A Key Highlights
- Appendix

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## Cathay Century – Premium income & distribution



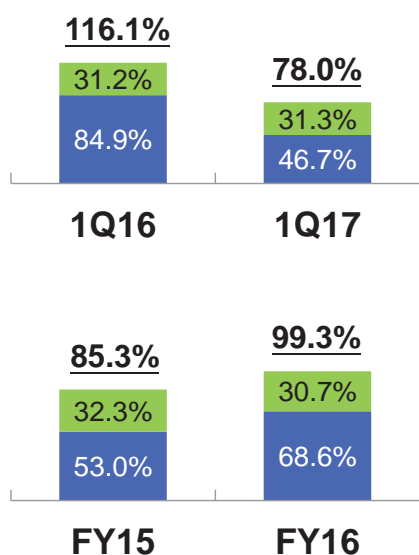
Market share	12.5%	12.0%
Retention	76.6%	77.2%

36

# Cathay Century – Combined ratio

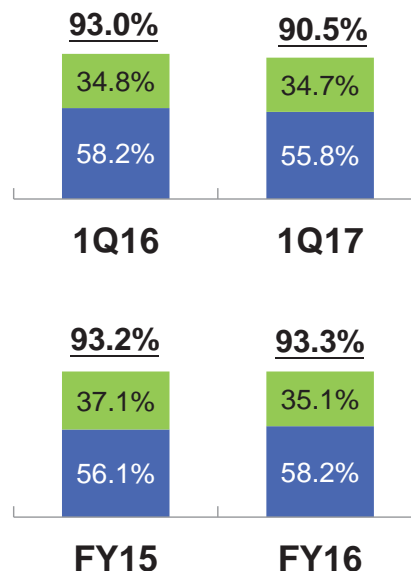
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



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# Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2015/12/31	2016/12/31
In-force business investment yield	3.95% ~ Year 2035 5.02% for NTD policies 4.67% ~ Year 2035 5.81% for USD policies (Equivalent investment yield: 4.40% rolling over to 2016: 4.45%)	4.00% ~ Year 2036 5.05% for NTD policies 4.76% ~ Year 2036 5.82% for USD policies (Equivalent investment yield: 4.50%)
Risk discount rate	10%	10%
Adjusted net worth	393	392
Value of in-force business	490	633
Cost of capital (CoC)	-148	-169
Value of in-force business (After CoC)	342	464
Embedded Value (EV)	735	856
EV / per share	138.5 (58.5)	161.3 (68.1)
Future one year's new business investment yield	2.96%~ Year 2035 4.90% for NTD policies 4.37% ~ Year 2035 5.81% for USD policies	2.97%~ Year 2036 4.91% for NTD policies 4.38% ~ Year 2036 5.84% for USD policies
Value of future one year's new business (After CoC)	59.0	54.0
Appraisal Value (AV)	1,249	1,328
AV / per share	235.3 (99.4)	250.3 (105.7)

- Note: (1) EV/AV calculation does not include business of Cathay Life in China and Vietnam.  
(2) per share = per share of Cathay Life; (per share) = per share of Cathay FHC  
(3) The outstanding shares of Cathay Life and Cathay FHC are 5.3bn and 12.6bn, respectively.  
(4) May not sum to total due to rounding.

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## Summary

NT\$BN, except for per share figures

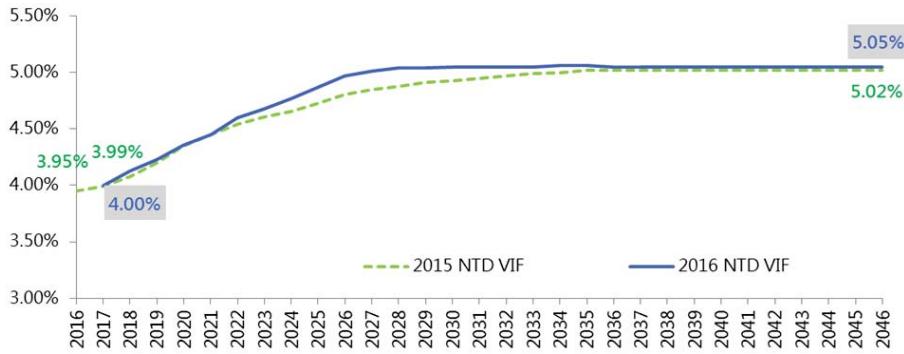
Valuation date		2015	2016	Growth rate	1Q17
Embedded value	Equity	346	361	4%	--
	Adjusted net worth	393	392	0%	--
	Value of in-force business(before CoC)	490	633	29%	--
	Cost of capital (CoC)	-148	-169	14%	--
	Value in-force business (after CoC)	342	464	36%	--
	Embedded value	735	856	16%	--
Value of one year's new business	First year premium (FYP)	217.4	199.1	-8%	76.5
	First year premium equivalent (FYPE)	102.0	135.0	32%	25.3
	Value of one year's new business (V1NB)	57.6	75.5	31%	14.4
	Profit margin (V1NB/FYP)	27%	38%	--	19%
	Profit margin (V1NB/FYPE)	57%	56%	--	57%
	Profit margin (V1NB/FYP)(investment-linked(non-VUL)is excluded)	53%	51%	--	53%
Appraisal value (20 years NB)	Multiple	8.7	8.7	--	--
	Appraisal value	1,249	1,328	6%	--
Basic Value per share	EV / per share of Cathay FHC	58.5	68.1	16%	--
	AV / per share of Cathay FHC	99.4	105.7	6%	--

- Note: (1) Basic EV and AV per share is based on weighted average of outstanding shares 12.6bn.  
(2) Totals may not sum due to rounding.

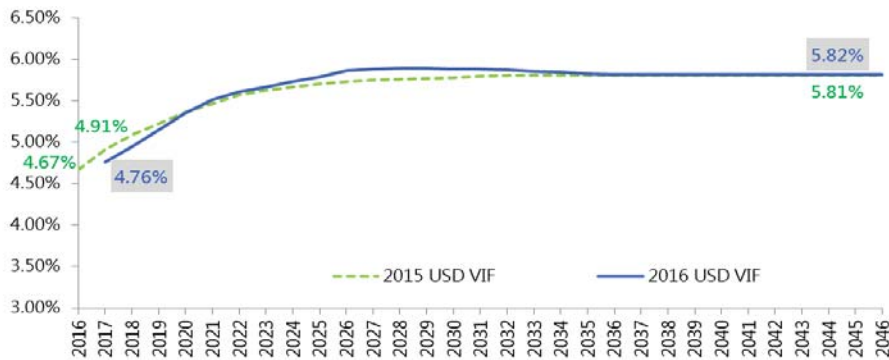
40

# 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 2015 & 2016.



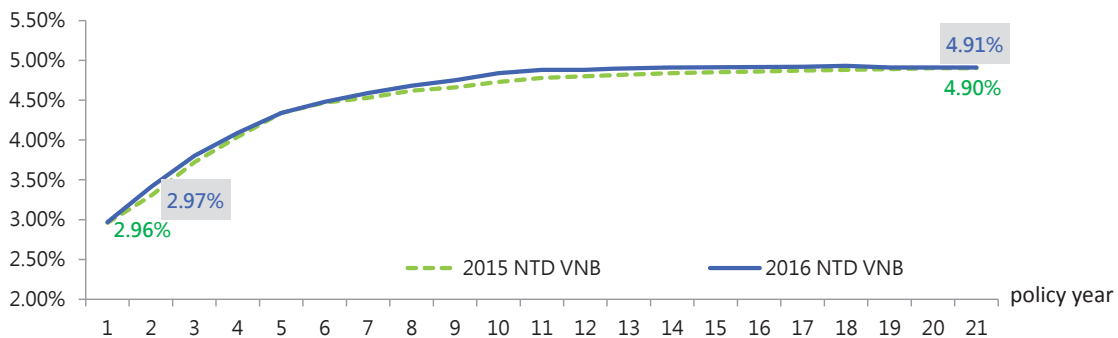
- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2015 & 2016.



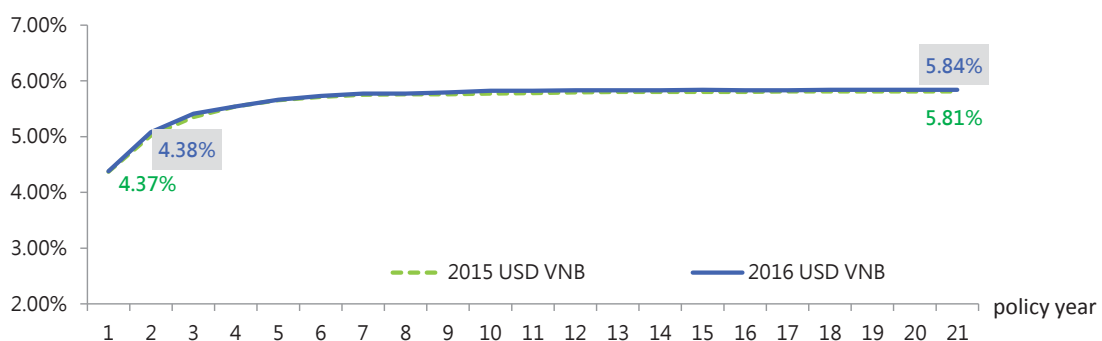
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# Economic Assumptions: Future one year's new business investment yield

- Investment return assumptions for the value of future one year's new business of NTD-denominated policies as of the end of 2015 & 2016.



- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2015 & 2016.



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# Cost of Capital Projection and Non-economic Assumptions

## ■ RBC capital requirement:

Apply 2016 RBC formula announced by Insurance Bureau to project future capital requirement.

1. Capital Requirement = 200% RBC.
2. Risk-based capital calculation reflects company's current and future operation status.
3. Reflect RBC calculation change in 2016
  - ① C3 risk capital of traditional products includes 40% of its previous year's C3 risk capital in all projection years
  - ② The risk factor of domestic listed stocks (not served as directors or supervisors), equity funds, and balanced funds is to drop from 0.2274 to 0.2165
  - ③ The risk factor for foreign stocks in developed markets is to increase from 0.1844 to 0.2009, and that for developing markets is to increase from 0.2485 to 0.2887.

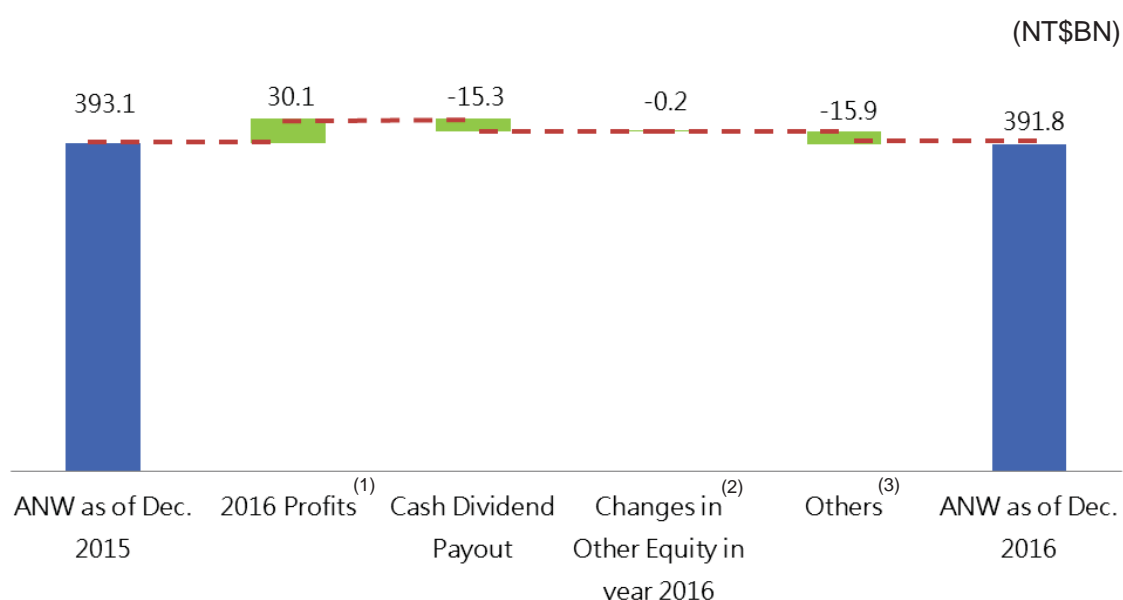
## ■ Experience rate:

Experience Rate	Assumptions
Mortality Rate	In accordance with Cathay's most updated mortality trends.
Morbidity Rate	In accordance with Cathay's most updated morbidity trends and varied by product type.
Lapse Rate	In accordance with Cathay's most updated lapse rate trends and varied by product type.
Expenses assumption	In accordance with Cathay's most updated expense analysis and varied by product type; commissions are based on the actual commission rates.

- PricewaterhouseCoopers Asia Actuarial Services provides an independent review of the actuarial assumptions on EV.

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## Analysis of change in Adjusted Net Worth (ANW)



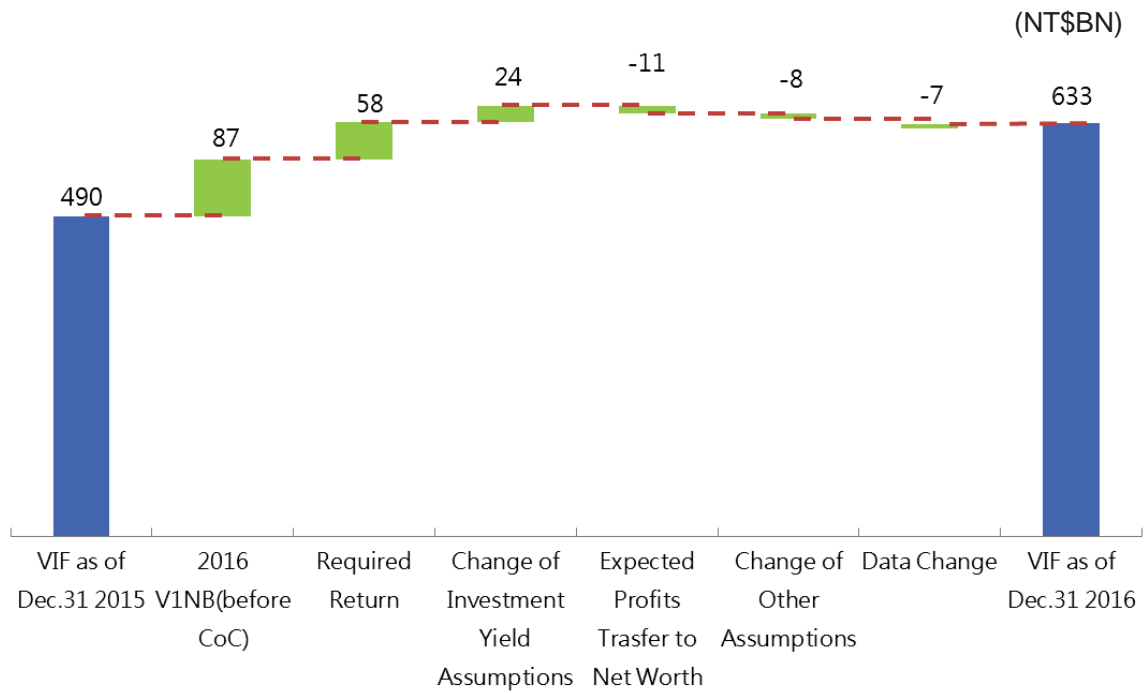
Note: (1) "2016 Profits" is stand-alone profits of Cathay Life Insurance in Taiwan.

(2) "Changes in Other Equity in year 2016" include changes in exchange differences resulting from translating the financial statements of foreign operations, changes in unrealized valuation(losses) gains from available-for-sale financial assets, changes in effective portion of gains(losses) on hedging instruments in cash flow hedges, changes in remeasurements of defined benefit plans.

(3) "Others" include changes in special reserve of unrealized gains on property(-10 billion), changes in Foreign exchange volatility reserve(-6.2 billion) and etc.

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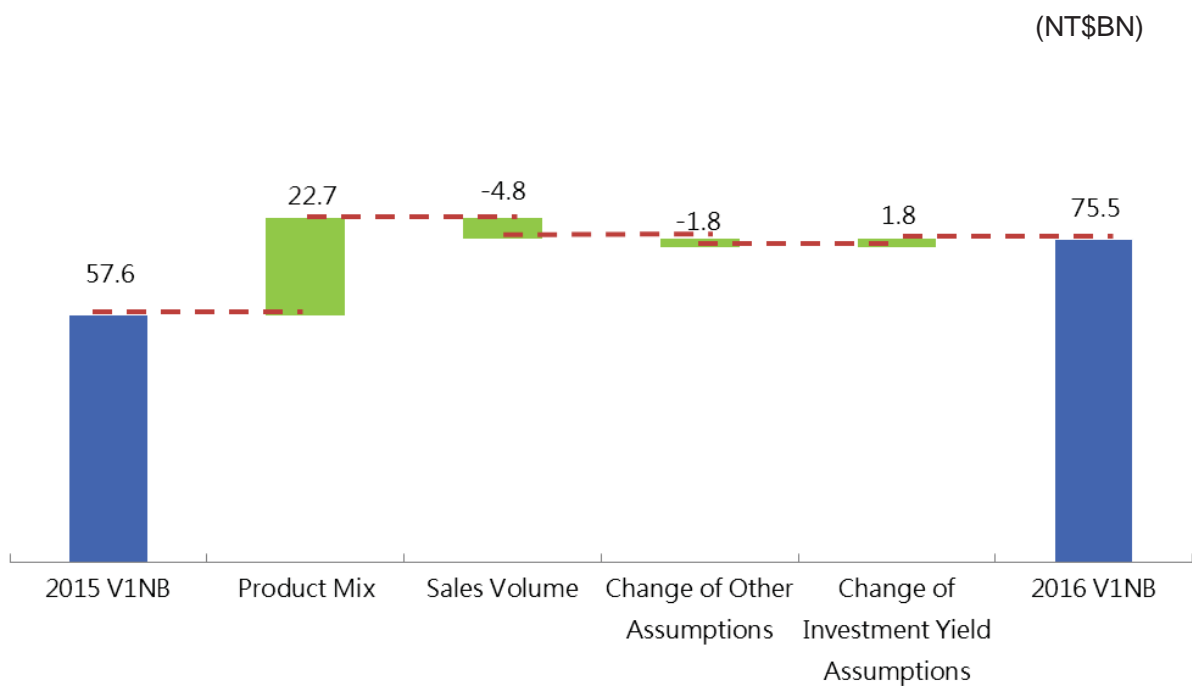
## Analysis of change in value of in-force business (VIF)



- The value of one year new business (after CoC) of 2016 is 75.5 billion.

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## Analysis of change in value of one year's new business (V1NB)



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# Sensitivity Analysis

NT\$BN, except for per share figures

Valuation date	2016/12/31					
	Investment yield - 0.25%	Investment yield + 0.25%	Investment yield + 0.25% (capped) <sup>(1)</sup>	Base Case	Discount rate - 0.5%	Discount rate + 0.5%
Adjusted net worth	392	392	392	392	392	392
Value of in-force business	514	752	694	633	673	596
Cost of capital (CoC)	177	161	165	169	162	175
Value of in-force business (After CoC)	336	591	529	464	511	422
<b>Embedded Value</b>	<b>728</b>	<b>983</b>	<b>921</b>	<b>856</b>	<b>903</b>	<b>813</b>
EV / per share	137.2 (57.9)	185.2 (78.2)	173.6 (73.3)	161.3 (68.1)	170.2 (71.9)	153.2 (64.7)
<b>Appraisal Value</b>	<b>1,169</b>	<b>1,478</b>	<b>1,400</b>	<b>1,328</b>	<b>1,394</b>	<b>1,266</b>
Value of future one year's new business (After CoC)	48.5	59.5	55.4	54.0	58.3	50.2
AV / per share	220.3 (93.0)	278.5 (117.6)	263.8 (111.4)	250.3 (105.7)	262.7 (111.0)	238.6 (100.8)

Note: (1) "Investment yield +0.25% (capped)": the investment return is capped by 5.05% for NTD policies and 5.82% for USD policies.

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

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## YoY Comparison

Under the different discount rate assumption (9.5%~10.5%), the results of the Year 2015 & 2016 go as follows.

(NT\$BN)

Valuation date	2015/12/31	2016/12/31
<b>Embedded Value</b>	<b>700~774</b>	<b>813~903</b>
<b>Value of future one year's new business</b>	<b>54.6~63.9</b>	<b>50.2~58.3</b>
<b>Appraisal Value</b>	<b>1,182~1,323</b>	<b>1,266~1,394</b>

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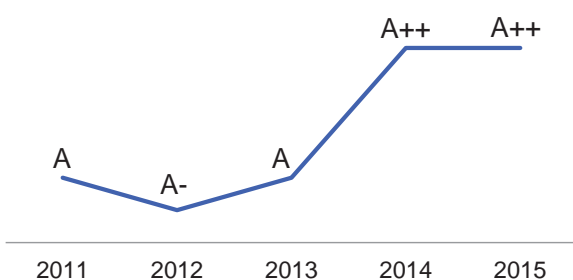
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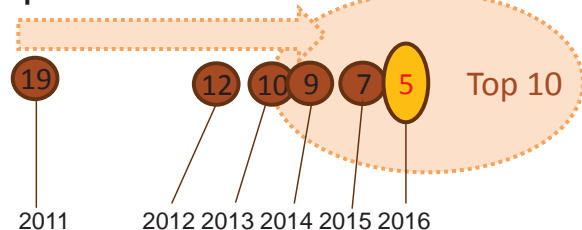
## Continuous efforts in CSR

Recognized the highest ranking of IDTR in 2014-2015

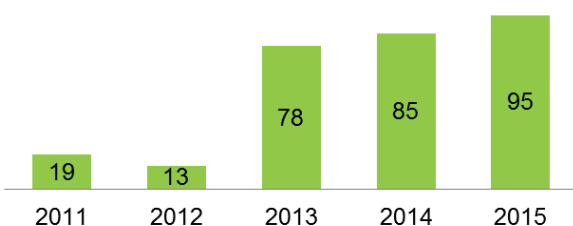


Ranked Top 5 of Taiwan Corporate Citizenship Award

Top 7 among Taiwan companies  
Top 2 in Taiwan Financial sector



CDP disclosure score exceeded the worldwide industry average



Recognized by international ESG ratings

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

- ✓ Selected in DJSI Emerging Markets since 2015
- ✓ The first Taiwan insurance company included in DJSI

**vigeo eiris**  
RANKING  
Emerging 70

- ✓ Selected in the index since 2015
- ✓ The only insurance company included in the index

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.



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# 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



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# Cathay Life complies with the PSI

- ❑ Cathay Life insurance started to comply with the PSI at Q1 of 2016

## PSI in the World

- ❑ Launched at the 2012 UN Conference on Sustainable Development
- ❑ Served as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.
- ❑ A total of 55 insurance companies signed the PSI initiative (2017/2). Eight signatories are from property insurers and reinsurers in the Asia region.



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# About the PSI, Our Strategy and Practice

## Principles

- I. We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.
- II. We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
- III. We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
- IV. We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

## Our Strategy and Practice

- ❑ Not only value the financial performance, but devote efforts to CS development . We apply our core competitiveness to contribute and be the driving force to the development of the industry.
- ❑ Improve financial inclusion, reinforce operation management and augment the power of the value chain to the environment and society.
- ❑ Expand influences to employees, clients, business partners and the general publics.
- ❑ Starting from 2017, we will proactively release disclosure report yearly.

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## M&A Transaction: Conning in USA

- Cathay Life acquired 100% stake of Conning Holdings Corporation in 2015 for US\$240 million. P/AuM was 0.26% upon announcement
- Cathay FHC expected to expand its global presence in asset management and realize “Banking + Insurance + Asset Management” strategy

### Conning Asset Management

- Founded in 1912, Conning is a leading global investment management firm focusing on insurers and pension funds. It ranks as top 10 globally in insurance mandate with \$95 billion AuM (FY2016)
- Conning operates through its offices in North America, Europe and Asia

<u>Assets by Client Type (US\$BN)</u>	<u>Assets</u>	<u>Assets by Region (US\$BN)</u>	<u>Assets</u>
Property-Casualty	37.4	North America	65.6
Life	38.2	United Kingdom	5.5
Managed CLO Funds	10.5	Bermuda	1.1
Pension Plans	3.0	Continental Europe	1.9
Healthcare	1.8	APAC	20.5
Banks	1.6	Other	0.5
Others	2.5		
<b>Total AUM</b>	<b>95.1</b>	<b>Total AUM</b>	<b>95.1</b>

Note: Totals may not sum due to rounding.

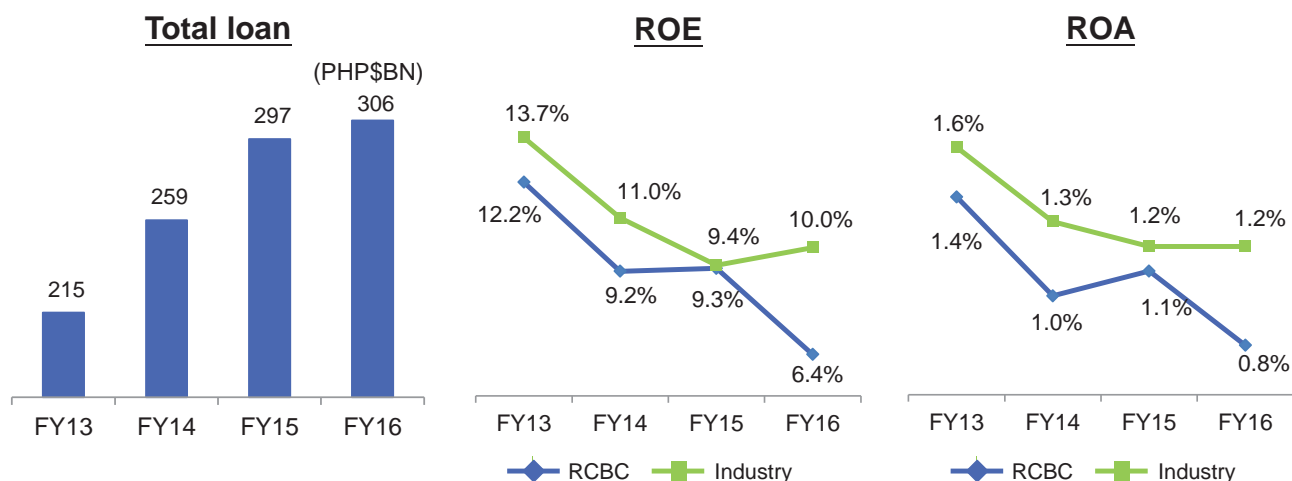
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## M&A Transaction: RCBC in Philippines

- Cathay Life invested in 20% shares of Rizal Commercial Banking Corporation (“RCBC”) with 3 board seats of the company in 2015. Total investment was PHP17.92 billion (c. US\$400 million). Post-money P/B was c.1.57x upon announcement
- Cathay Life may increase its investment in RCBC via placement or open market purchase, up to 30%

### RCBC’s Performance

- RCBC is one of the large private-owned banks in terms of total assets, with 477 branches and over 6,000 employees

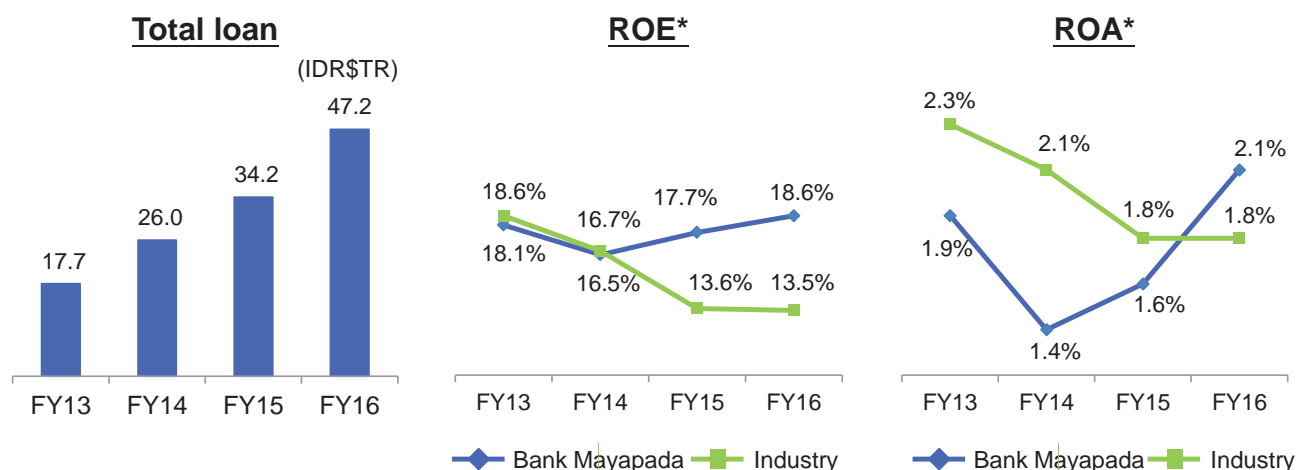


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## M&A Transaction: Bank Mayapada in Indonesia

- Cathay Life has completed the acquisition of 40% stake in PT Bank Mayapada International, Tbk (“Bank Mayapada”)
  - Stage 1 : acquire 24.9% stake (USD 164 mn) – completed in 1H15
  - Stage 2 : acquire 15.1% stake – completed in Oct 2016
- Total investment was ~IDR3.52tn (USD 295 million), representing a ~3.15x P/B multiple upon announcement

### Bank Mayapada’s Performance



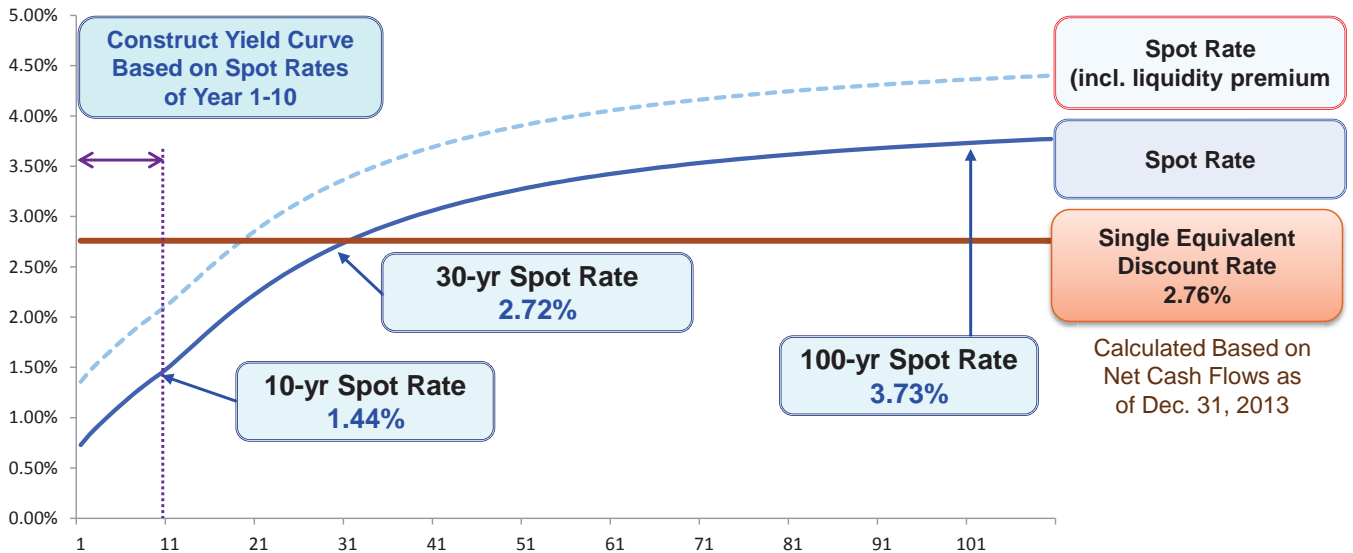
Note: ROE: Profit After Tax/Average Total Equity, ROA: Profit After Tax/Average Total Assets; ROE and ROA in the unaudited report are 25.5%(=Profit After Tax /Average Core Capital (Tier1) and 2.4% (=Profit Before Tax/Average Total Assets) respectively.

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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.

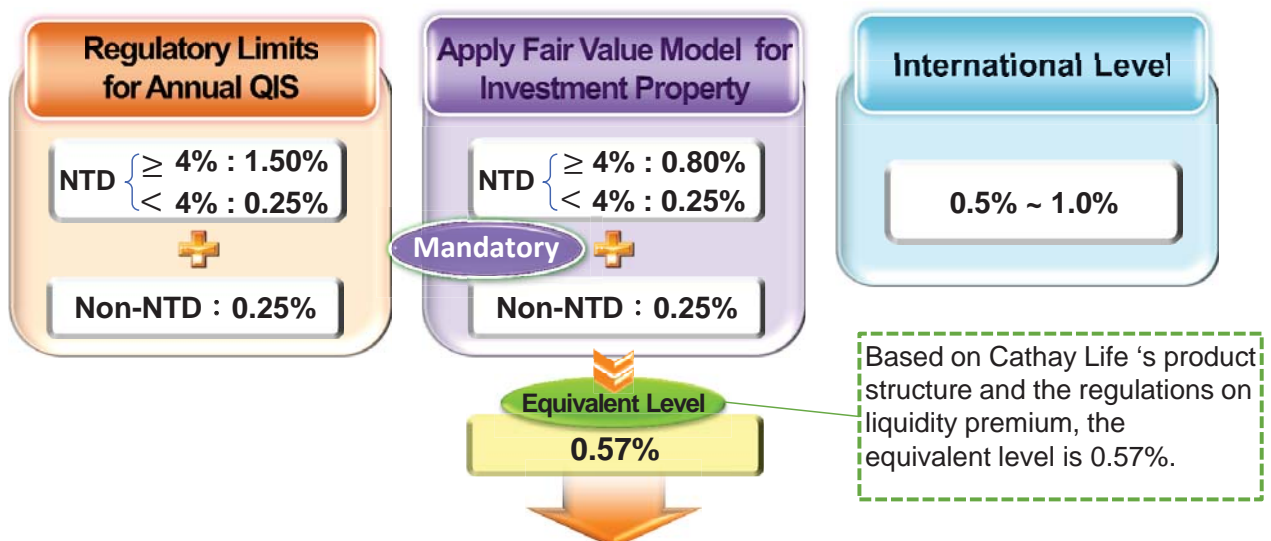


Note: The "Spot Rate" mentioned above refers to 3-yr daily MA yield curve.

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# Fair Value of Insurance Contracts: Liquidity Premium

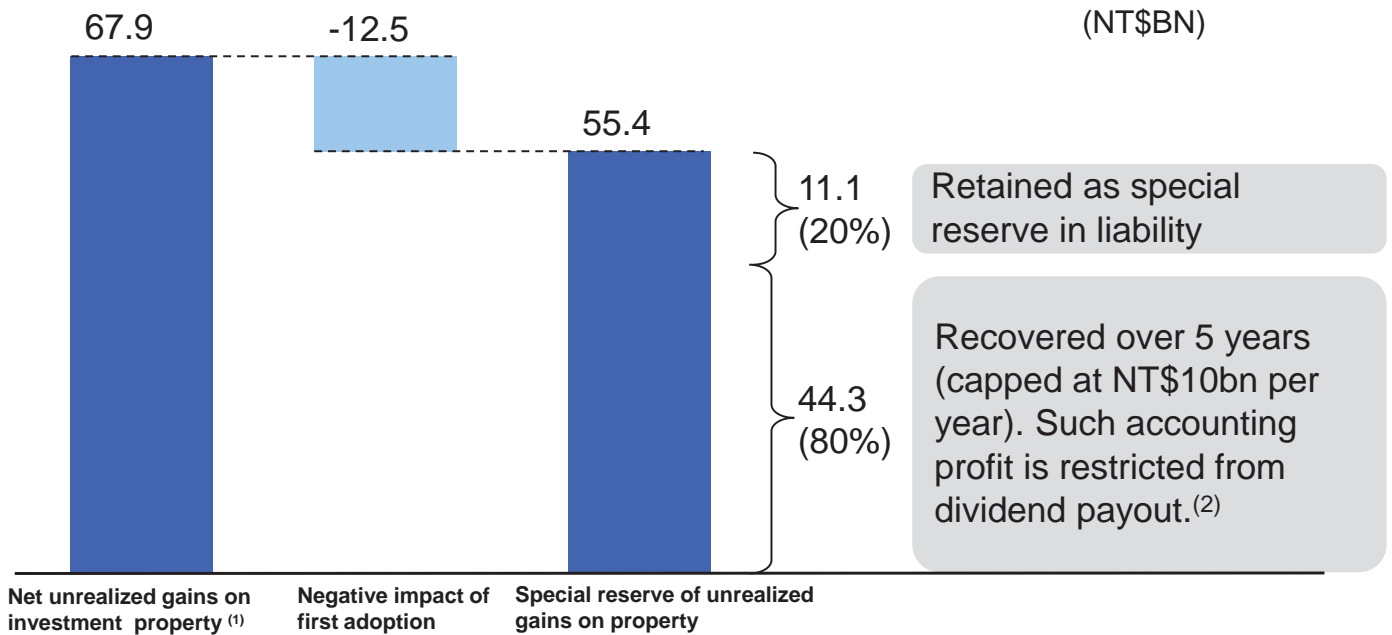
If insurers apply fair value model for investment property, their insurance liabilities should also be assessed under fair value basis. Taiwan adopts a relatively strict standard of liquidity premium compared to the international level of 0.5%~1%.



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

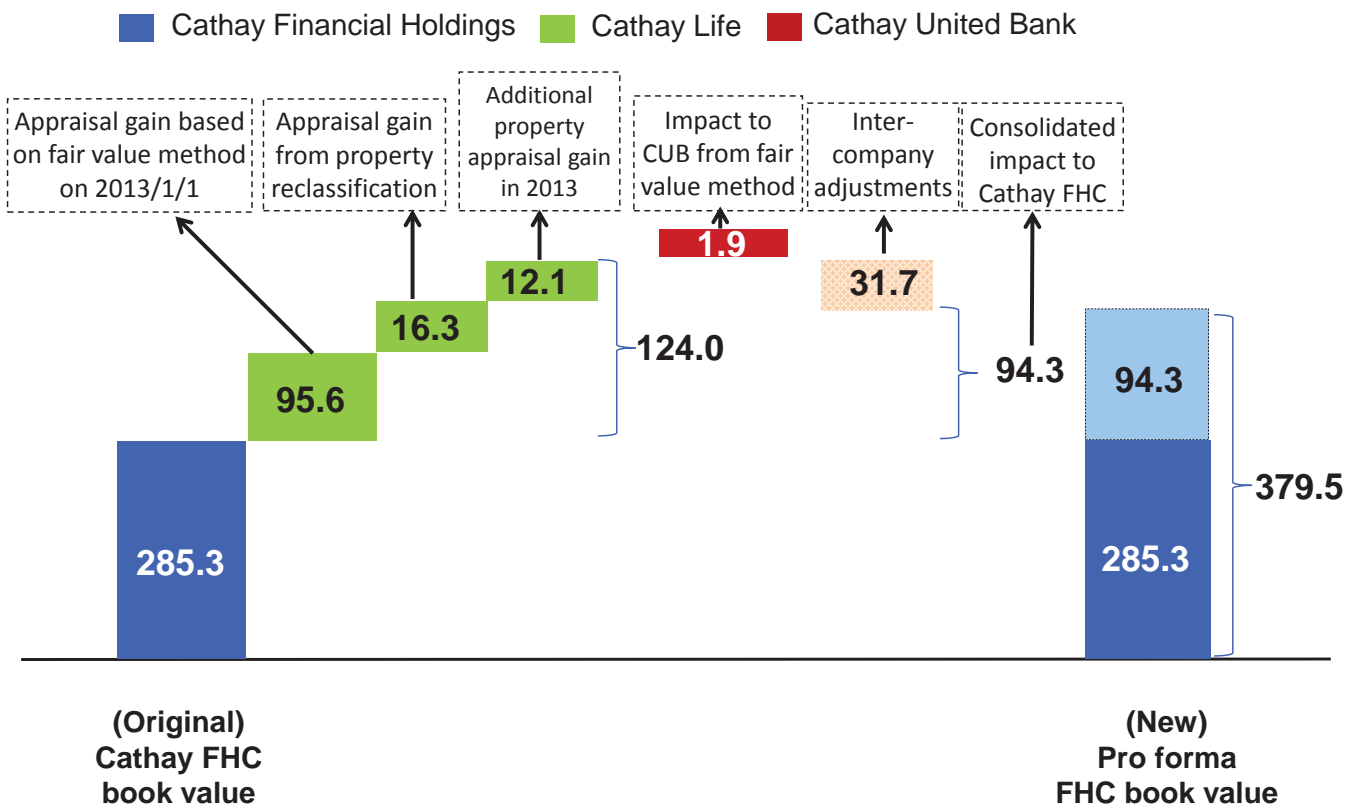


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(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



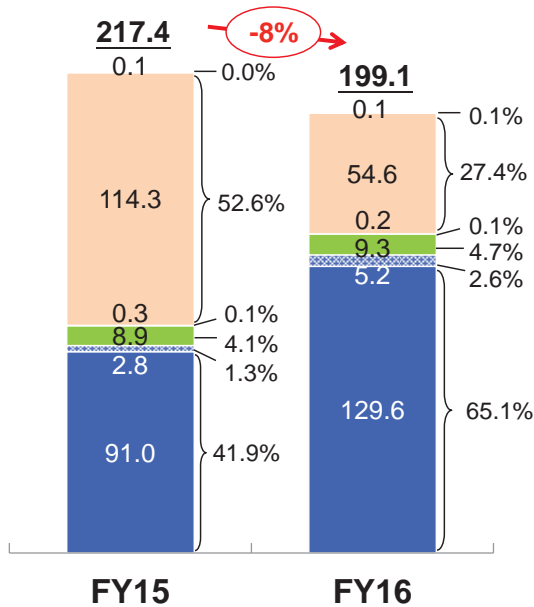
Note: Totals may not sum due to rounding.

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# Cathay Life – FYP & FYPE

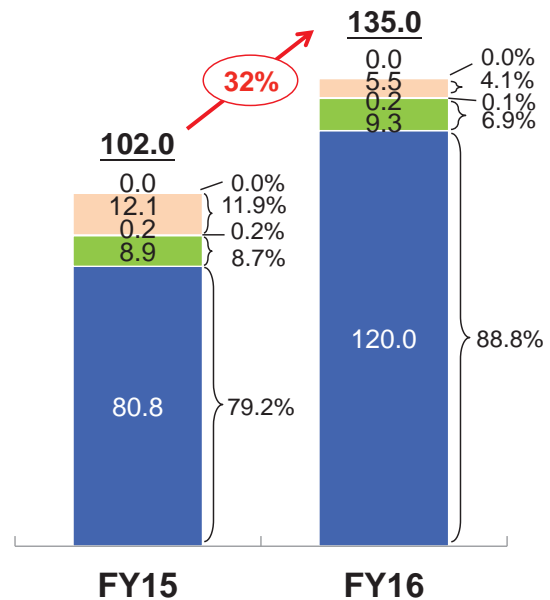
## First Year Premium

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



## Annualized First Year Premium

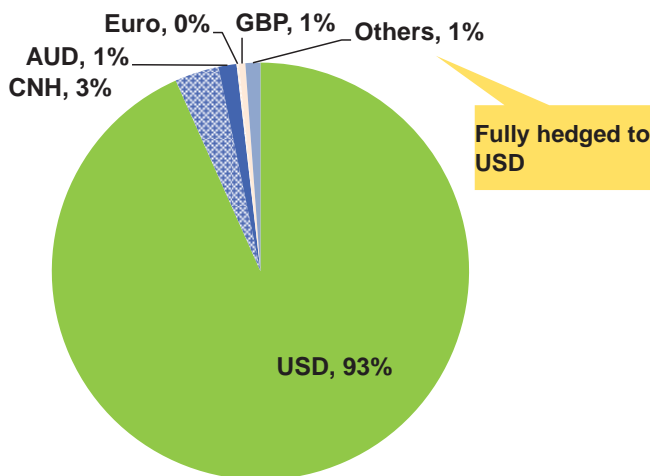
- Interest sensitive annuity (NT\$BN)
- Investment-linked (non-VUL)
- Investment-linked (VUL)
- Health, accident and others
- Traditional life



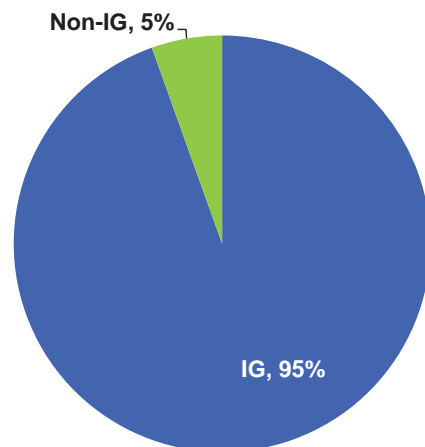
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# Cathay Life – Overseas bond breakdown by currency and rating

## Overseas bond by currency



## Overseas bond by rating

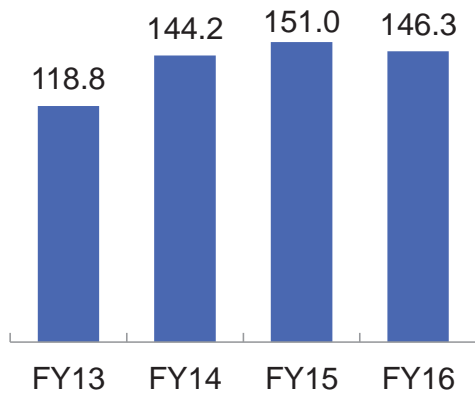


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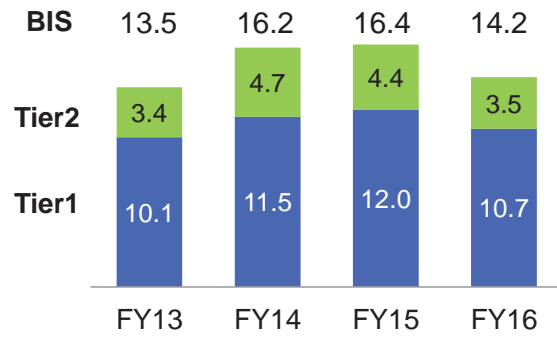


# Capital adequacy

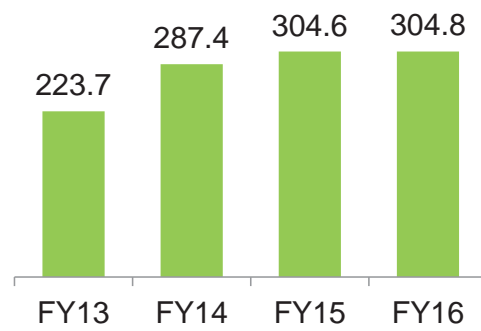
### Cathay FHC CAR (%)



### CUB Capital Adequacy (%)



### Cathay Life RBC(%)





**Cathay Financial Holdings**

(NT\$MN)

**Income Statement Data (Consolidated)**

	FY14	FY15	FY16	FY16/ FY15 % Chg	1Q16	1Q17	1Q17/ 1Q16 % Chg
<b>Operating Income</b>							
Net interest income	125,123	139,998	153,478	10%	37,596	40,525	8%
Net commission and fee	369	(4,480)	(7,913)	-77%	(3,353)	(216)	94%
Net earned premium	488,327	535,858	622,916	16%	143,931	143,875	0%
Change in liability reserve	(290,800)	(306,598)	(408,614)	-33%	(94,330)	(98,573)	-4%
Net claims payment	(285,869)	(309,104)	(308,697)	0%	(73,326)	(73,311)	0%
Investment income	75,751	63,734	37,782	-41%	9,000	5,064	-44%
Contribution from associates-equity method	168	1,108	1,202	9%	501	472	-6%
Other net non-interest income	3,449	14,151	40,512	186%	5,603	10,517	88%
Bad debt expense	(2,982)	(2,467)	(5,232)	-112%	(637)	(319)	50%
Operating expense	(57,477)	(65,067)	(75,250)	-16%	(16,684)	(17,176)	-3%
<b>Income before taxes</b>	56,058	67,132	50,185	-25%	8,301	10,859	31%
Income taxes	(6,427)	(9,250)	(2,145)	77%	37	(68)	-284%
Net income	49,631	57,882	48,039	-17%	8,338	10,790	29%

EPS (NT\$)	3.93	4.58	3.79		0.65	0.85	
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**Dividend Payout**

Cash dividend per share	2.00	2.00	2.00				
Stock dividend per share	0.00	0.00	0.00				
Weighted average outstanding shares (Millions of common shares)	12,563	12,563	12,563		12,563	12,563	

**Balance Sheet Data**

Total assets	6,944,837	7,568,975	8,135,137		7,636,684	8,279,518	
Total shareholders' equity	439,120	461,062	529,824		470,970	543,293	

**Operating Metrics**

ROAE (Consolidated)	12.10%	12.86%	9.70%		7.16%	8.04%	
ROAA (Consolidated)	0.76%	0.80%	0.61%		0.44%	0.53%	
Double leverage ratio(inc. preferred stock)	113%	111%	105%		110%	105%	

**Capital Adequacy Metrics**

Capital Adequacy Ratio	144%	151%	146%				
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(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)

<b>Income Statement Data (Consolidated)</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY16/</b>	<b>1Q16</b>	<b>1Q17</b>	<b>1Q17/</b>
				<b>FY15</b>			<b>% Chg</b>
Net written premium	472,630	519,014	605,910	17%	139,638	140,111	0%
Net earned premium	471,849	518,250	605,231	17%	139,932	140,493	0%
Reinsurance commission earned	4,740	200	363	81%	12	52	347%
Fee income	5,943	5,762	5,542	-4%	1,348	2,589	92%
Recurring investment income	124,152	140,977	161,051	14%	35,196	37,549	7%
Gain on disposal of investment							
Realized gain (loss)-Equity	23,357	30,072	14,346	-52%	6,058	17,581	190%
Realized gain (loss)-Debt	12,828	14,804	29,382	98%	5,070	5,231	3%
Gain on investment property	16,579	11,074	5,000	-55%	(7)	(2)	80%
FX and others, net	(7,166)	(13,101)	(17,469)	-33%	(3,498)	(13,655)	-290%
Investment income, net	169,750	183,827	192,310	5%	42,819	46,704	9%
Other operating income	9	914	5,032	450%	1,104	1,168	6%
Separate account revenues	115,040	17,303	39,589	129%	7,481	4,820	-36%
Net claims payment	(275,195)	(298,102)	(297,201)	0%	(70,801)	(71,370)	-1%
Changes in liability reserves	(290,109)	(305,864)	(408,398)	-34%	(94,225)	(98,438)	-5%
Acquisition and commission expense	(32,405)	(33,238)	(38,901)	-17%	(10,288)	(8,232)	20%
Other operating costs	(4,544)	(5,541)	(6,381)	-15%	(1,667)	(1,533)	8%
Financial cost	(106)	(296)	(413)	-40%	(15)	(293)	-1892%
Separate account expense	(115,040)	(17,303)	(39,589)	-129%	(7,481)	(4,820)	36%
Operating expense	(16,869)	(23,021)	(30,768)	-34%	(6,883)	(7,112)	-3%
Net non-operating income	1,482	1,265	1,956	55%	418	370	-11%
Income taxes	(2,810)	(5,710)	1,861	133%	927	733	-21%
Net income	31,734	38,447	30,235	-21%	2,679	5,131	92%

**Balance Sheet Data**

Total assets	4,704,976	5,179,877	5,556,950		5,211,934	5,611,606
General account	4,242,710	4,699,309	5,058,936		4,732,379	5,104,057
Separate account	462,267	480,568	498,014		479,554	507,549
Reserves for life insurance liabilities	3,770,679	4,228,117	4,567,324		4,287,444	4,602,079
Total liabilities	4,376,595	4,831,642	5,192,967		4,859,444	5,239,024
Total shareholders' equity	328,382	348,235	363,984		352,490	372,583

**Operating Metrics**

First Year Premium(FYP)	233,379	217,378	199,082		52,111	76,546
First Year Premium Equivalent(FYPE)	71,147	102,002	135,035		39,821	25,348
Expense ratio	9.9%	10.3%	10.3%		11.1%	9.4%
13-M persistency ratio	97.9%	97.6%	98.3%		97.7%	98.3%
25-M persistency ratio	94.9%	91.8%	92.2%		90.6%	92.0%
ROAE	10.54%	11.36%	8.49%		3.06%	5.57%
ROAA	0.71%	0.78%	0.56%		0.21%	0.37%

**Capital Adequacy Metrics**

RBC ratio (Standalone)	287%	305%	305%
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**Cathay United Bank**

(NT\$MN)				FY16/ FY15			1Q17/ 1Q16
<u>Income Statement Data (Consolidated)</u>	FY14	FY15	FY16	% Chg	1Q16	1Q17	% Chg
<b>Operating Income</b>							
Net interest income	25,779	26,729	25,910	-3%	6,210	7,033	13%
Fee income	11,806	14,344	15,745	10%	4,302	3,850	-11%
Investment income	7,326	5,599	8,278	48%	2,254	1,468	-35%
Other income	1,064	1,380	1,222	-12%	561	282	-50%
<b>Net operating income</b>	45,975	48,052	51,154	6%	13,327	12,633	-5%
Operating expenses	(22,804)	(24,851)	(26,959)	-8%	(6,166)	(6,550)	-6%
<b>Pre-provision profit</b>	23,170	23,201	24,195	4%	7,161	6,083	-15%
Net provisions for possible losses	(2,471)	(1,922)	(4,455)	-132%	(720)	(370)	49%
<b>Income before taxes</b>	20,700	21,279	19,740	-7%	6,441	5,712	-11%
Income tax	(2,885)	(2,513)	(2,229)	11%	(796)	(704)	12%
<b>Net income</b>	17,814	18,767	17,511	-7%	5,645	5,008	-11%
<b>Balance Sheet Data</b>							
Total assets	2,243,958	2,383,377	2,566,669		2,414,877	2,642,894	
Loans, net	1,119,281	1,127,807	1,437,531		1,199,942	1,471,529	
Financial assets	649,497	791,192	849,989		873,962	798,861	
Total liability	2,096,340	2,226,608	2,406,701		2,252,550	2,478,535	
Deposits	1,739,023	1,881,657	2,032,600		1,907,621	2,037,125	
Financial Debenture Payable	67,614	51,900	51,900		51,900	51,900	
Total shareholders' equity	147,617	156,769	159,968		162,327	164,359	
<b>Operating Metrics</b>							
Cost income ratio	49.60%	51.72%	52.70%		46.27%	51.85%	
ROAE	12.71%	12.33%	11.06%		14.15%	12.35%	
ROAA	0.84%	0.81%	0.71%		0.94%	0.77%	
<b>Assets Quality</b>							
NPL	3,277	1,599	2,133		2,034	2,753	
NPL ratio	0.29%	0.14%	0.15%		0.17%	0.19%	
NPL provisions	17,675	17,323	19,686		17,700	20,172	
Coverage ratio	539%	1083%	923%		870%	733%	
<b>Capital Adequacy Metrics</b>							
BIS ratio (Standalone)	16.2%	16.4%	14.2%				
Tier I Ratio (Standalone)	11.5%	12.0%	10.7%				

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**Cathay Century**

(NT\$MM)				FY16/ FY15			1Q17/ 1Q16
	FY14	FY15	FY16	% Chg	1Q16	1Q17	% Chg
<b>Income Statement Data (Consolidated)</b>							
Premium income	21,279	22,449	22,774	1%	5,682	5,080	-11%
Net written premium	16,080	17,254	17,390	1%	4,447	3,917	-12%
Net earned premium	15,626	17,169	17,213	0%	4,365	3,879	-11%
Reinsurance commission earned	683	517	526	2%	145	124	-14%
Fee income	45	48	44	-7%	11	10	-11%
Investment	918	972	2,082	114%	167	180	7%
Interest income	609	564	568	1%	152	131	-14%
Other investment income, net	308	408	1,514	271%	15	49	218%
Other operating income	7	15	0	-100%	1	0	-100%
Net claims payment	(8,747)	(9,292)	(9,559)	-3%	(2,500)	(2,015)	19%
Changes in liability reserves	(691)	(734)	(209)	71%	(106)	(135)	-27%
Commissions and other operating costs	(1,218)	(1,402)	(1,289)	8%	(773)	(679)	12%
Operating expenses	(5,823)	(6,197)	(5,974)	4%	(1,128)	(861)	24%
<b>Operating income</b>	801	1,095	2,834	159%	183	503	175%
Net non-operating income	29	(4)	(1)	81%	(6)	(5)	14%
Income taxes	(174)	(287)	(492)	-71%	(46)	(62)	-36%
Net income	657	804	2,342	191%	131	436	232%
<b>Balance Sheet Data</b>							
Total assets	35,863	42,106	38,250		42,637	37,904	
Total stockholders' equity	6,829	7,219	9,216		7,374	9,627	
<b>Operating Metrics</b>							
Gross Combined ratio	90.7%	85.3%	99.3%		116.1%	78.0%	
Net Combined ratio	99.3%	93.2%	93.3%		93.0%	90.5%	
ROAE	10.71%	11.44%	28.50%		7.19%	18.50%	
ROAA	1.94%	2.06%	5.83%		1.24%	4.58%	
<b>Capital Adequacy Metrics</b>							
RBC ratio (Standalone)	324%	359%	385%				

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