

2017 Fourth Quarter Briefing

March 2018



國泰金控

Cathay
Financial Holdings

Agenda

- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Impact of IFRS 9 Adoption**
- **Appendix**

2017 Business overview

Cathay United Bank

- Loan maintained stable with benign credit quality
- Continued to expand overseas operation, FX loan grew by 29% YoY, offshore earnings accounted for 46% of pretax earnings
- Credit card fee continued to grow by 14% YoY

Cathay Life

- Continued value-driven strategy; FYP and FYPE ranked No. 1 in the industry
- Hedging cost improved to 0.89%, after-hedging investment yield reached 4.0%, overall investment performance maintained stable
- RBC ratio is 309%, remained solid capital adequacy

Cathay Century

- Premium income grew by 5% YoY, market share reached 13.1%, maintained No.2 market position
- Offshore business continued to grow, developed online products in China, expanded local business in Vietnam

Cathay SITE

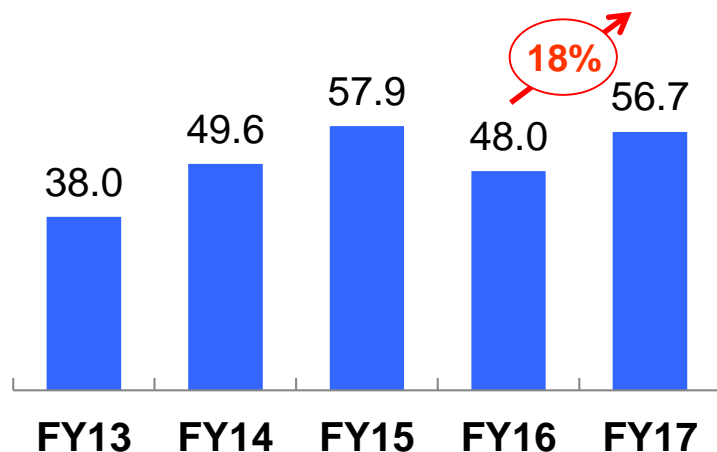
- Ranked No.1 in terms of AUM, which amounted to NT\$587BN
- Received “Best Institutional House” by Asia Asset Management and “Taiwan Fund Award” by Taiwan Foundation of Finance, Lipper and Smart in 2017

Cathay Securities

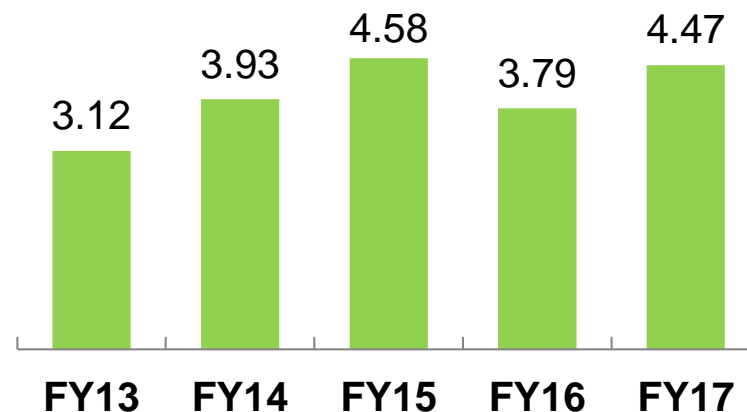
- Each business line grew steadily. Sub-brokerage business ranked No.1 in the industry, brokerage market share reached historical high
- Enhanced digital technology applications to optimize clients' experience

Cathay FHC – Net income & EPS

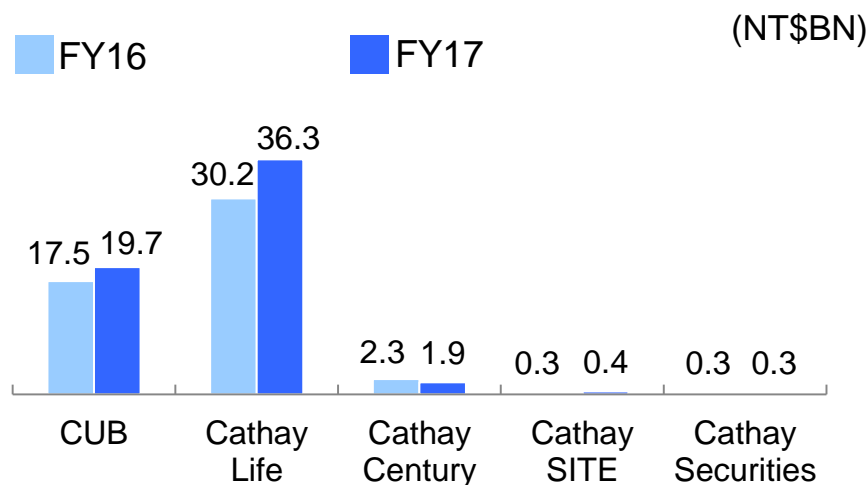
Net income (NT\$BN)



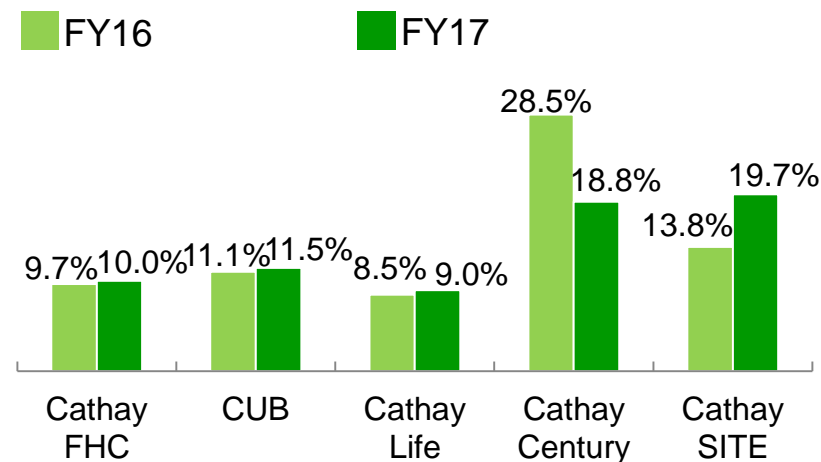
Adjusted EPS (NT\$)



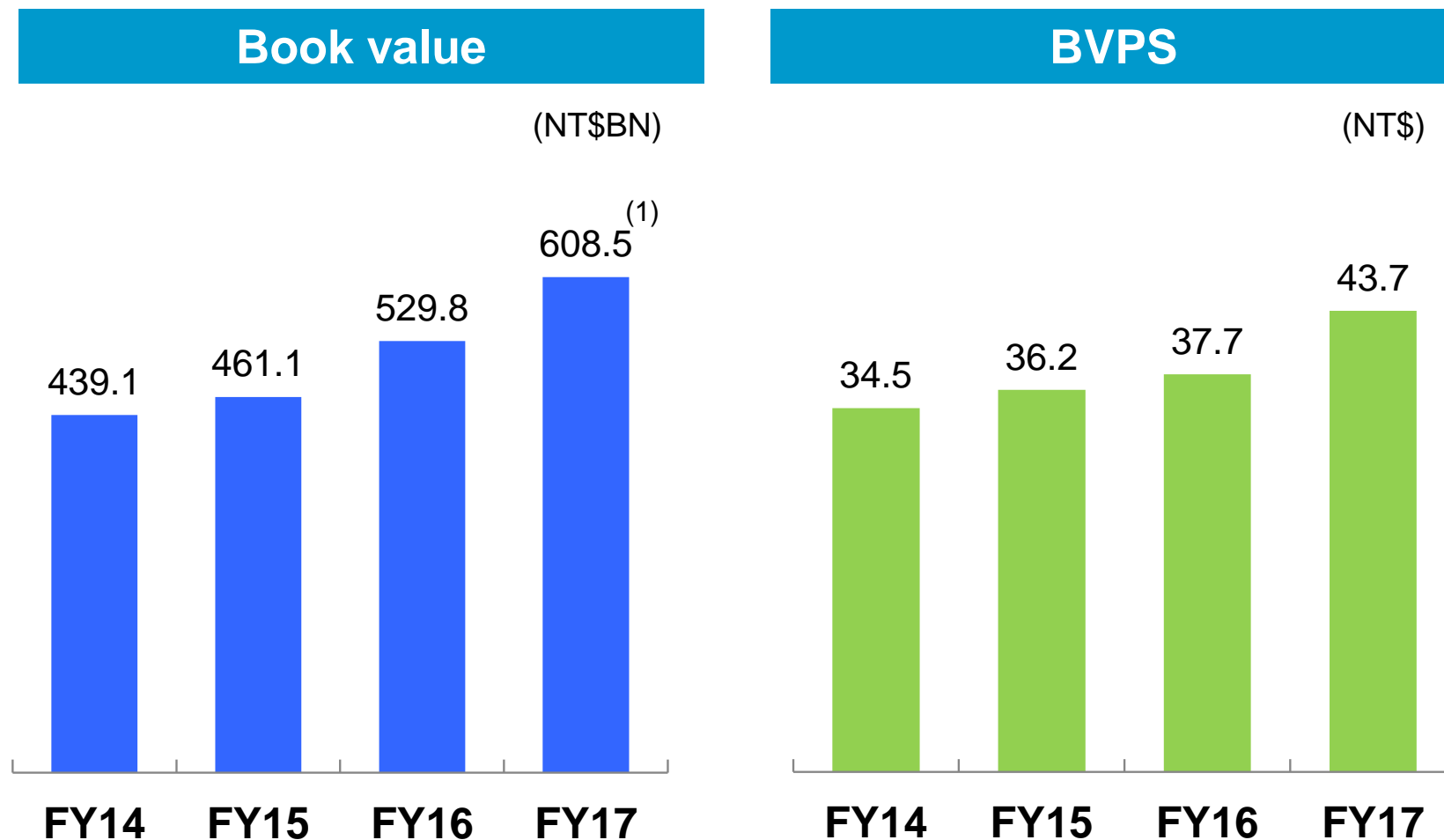
Net income of primary subsidiaries (NT\$BN)



ROE



Cathay FHC – Book value & BVPS



Note: (1) Book value includes preferred shares and minority interest, BVPS represented the BVPS attributable to common shareholders

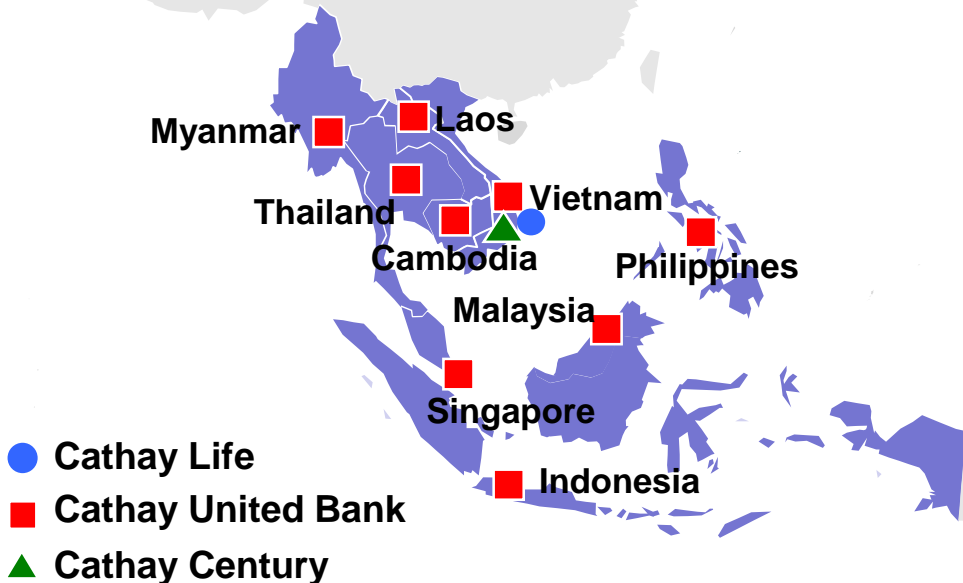
Agenda

- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Impact of IFRS 9 Adoption**
- **Appendix**

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	40	42									
P&C	26	2									
Asset Mgt	1			1							
Securities	1			1							

- Note: (1) Footprints in Thailand, Myanmar and Indonesia are representative offices.
 (2) Cathay FHC owns 49% stake of Cathay Century (China), and 33% stake of CDBS Cathay Asset Management.
 (3) Investments in RCBC and Bank Mayapada are funded by Cathay Life.



■ Banking

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

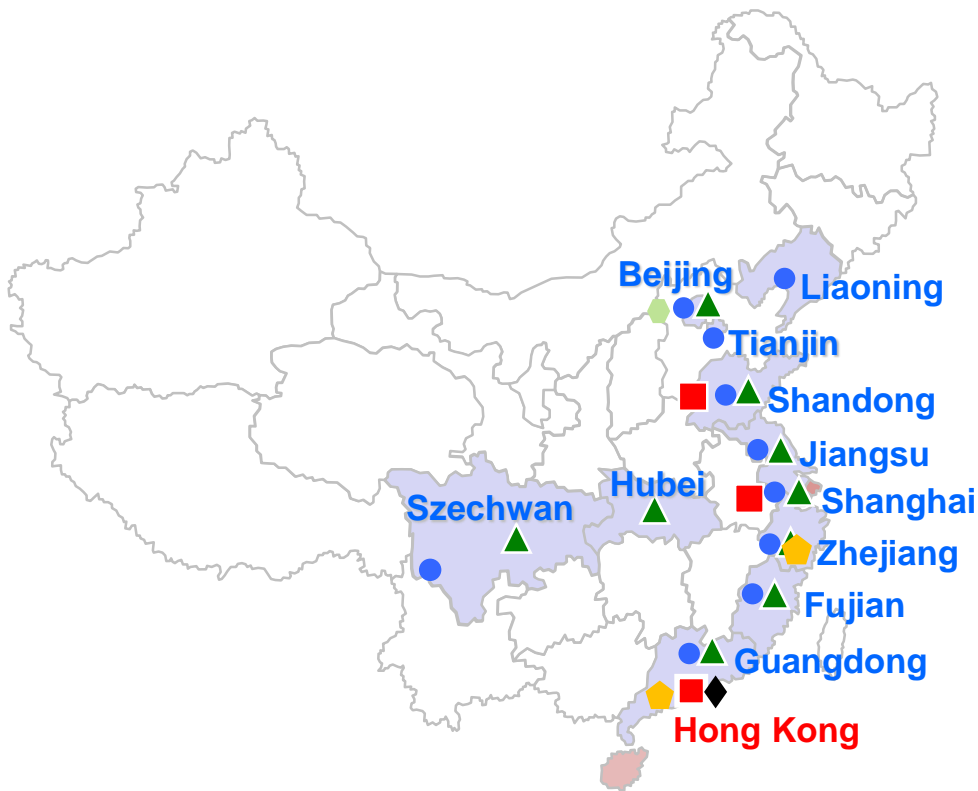
■ Cathay Life

- 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

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

- Received local regulatory approval for Shanghai subsidiary

■ Cathay Lujiazui Life

- Premium income grew by 82% YoY
- FY17 solvency ratio reached 292% after capital injection in 4Q2017

■ Cathay Century (China)

- Forms a strategic alliance with Ant Financial group and now grows new business lines smoothly

■ 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

Agenda

- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**

Cathay United Bank

Cathay Life

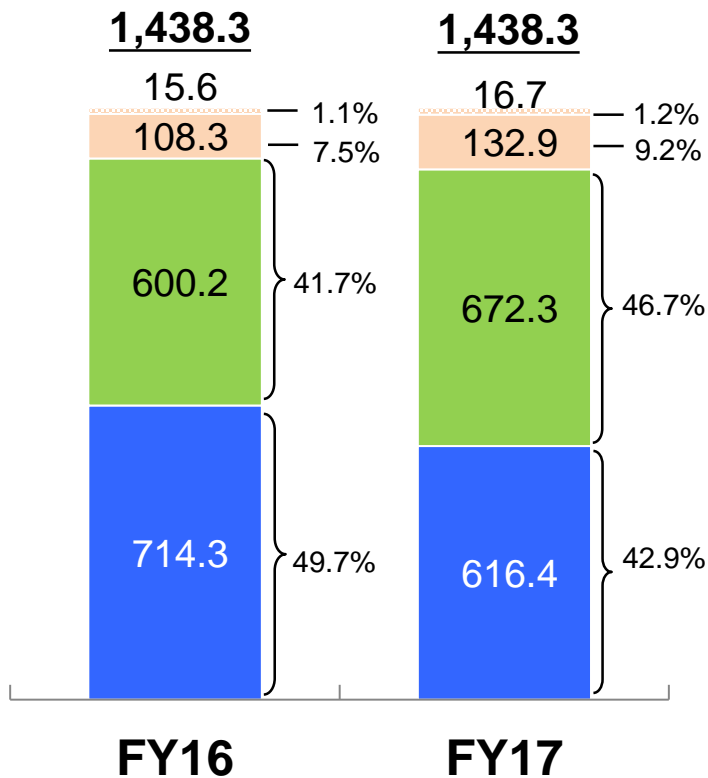
Cathay Century

- **Impact of IFRS 9 Adoption**
- **Appendix**

Cathay United Bank – Loan & deposit breakdown

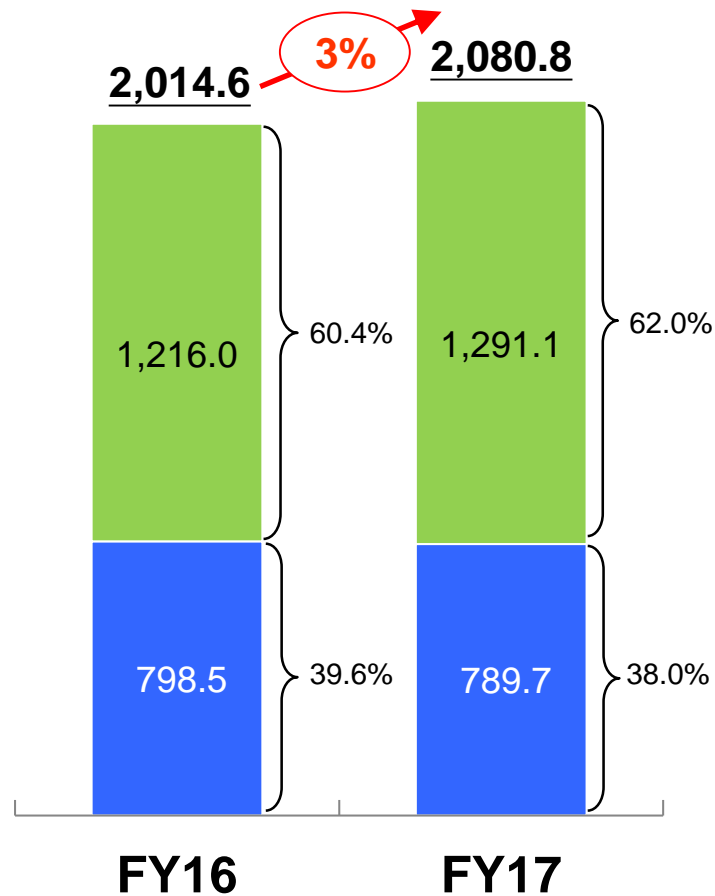
Loan breakdown

- Credit Card related (NT\$BN)
- Consumer
- Mortgage
- Corporate



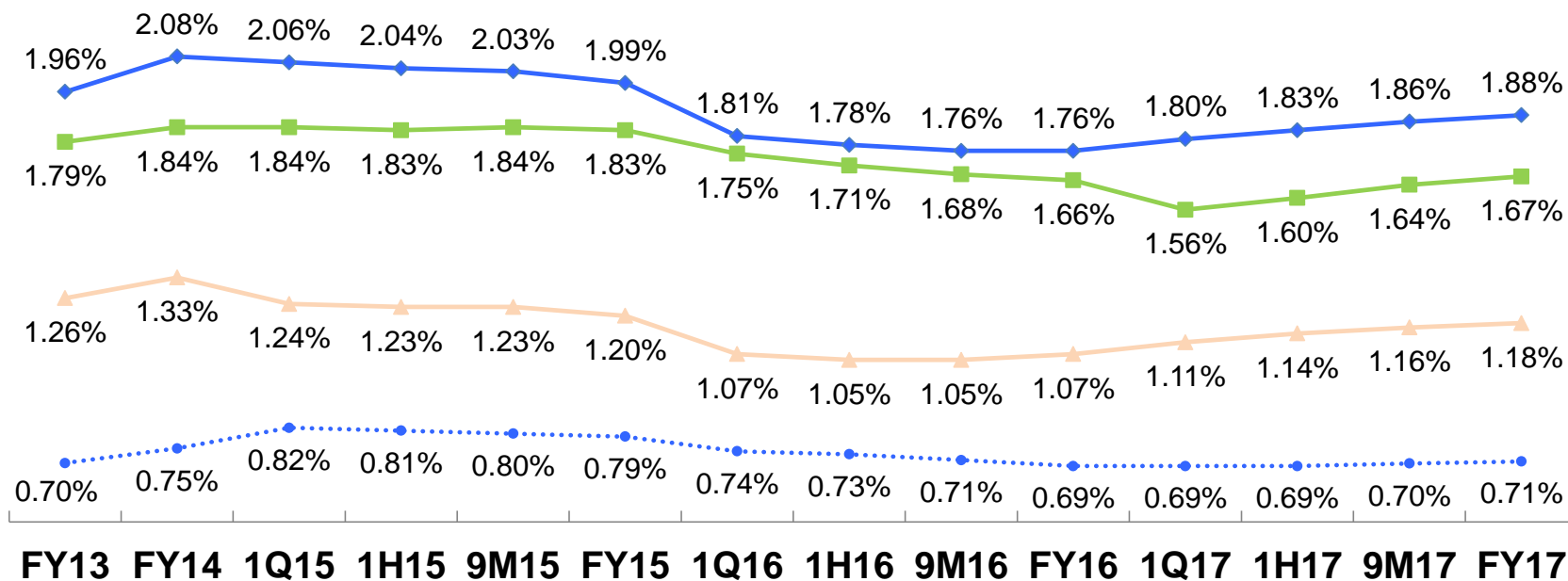
Deposit breakdown

- Demand Deposit (NT\$BN)
- Time Deposit



Cathay United Bank – Interest yields

◆ Avg. rate of interest-earning assets ■ Interest spread ▲ Net interest margin ●●● Funding cost



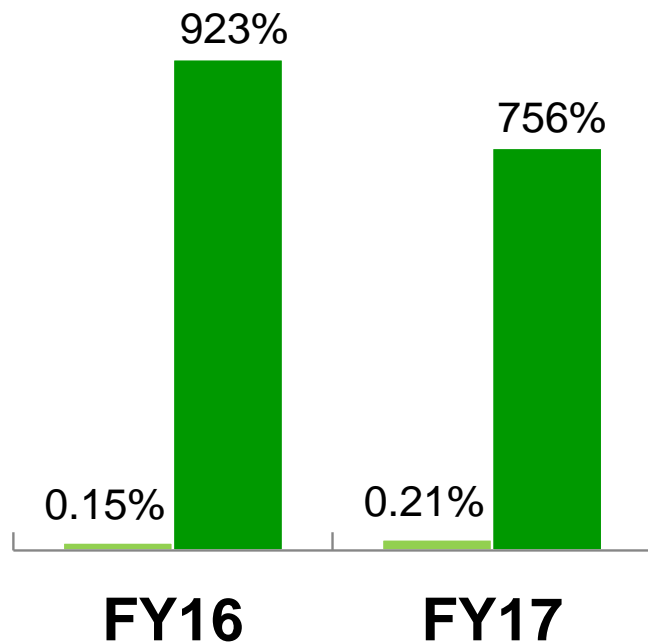
	<u>1Q15</u>	<u>2Q15</u>	<u>3Q15</u>	<u>4Q15</u>	<u>1Q16</u>	<u>2Q16</u>	<u>3Q16</u>	<u>4Q16</u>	<u>1Q17</u>	<u>2Q17</u>	<u>3Q17</u>	<u>4Q17</u>
Quarterly Spread	1.84%	1.83%	1.84%	1.81%	1.75%	1.68%	1.62%	1.59%	1.56%	1.64%	1.74%	1.76%
Quarterly NIM	1.24%	1.22%	1.21%	1.12%	1.07%	1.02%	1.06%	1.10%	1.11%	1.18%	1.20%	1.22%

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



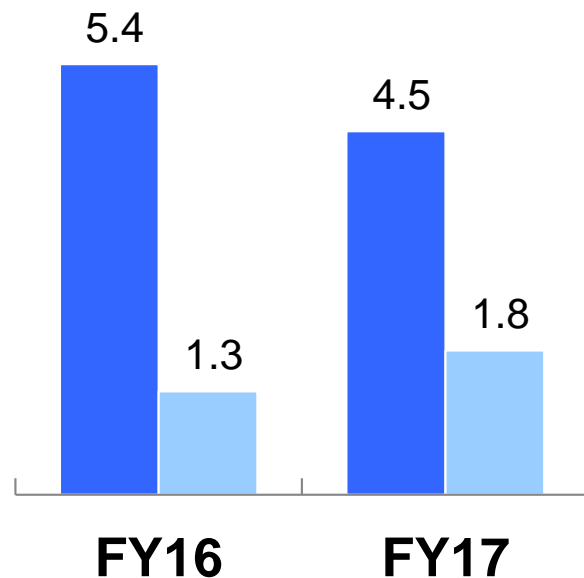
Mortgage NPL

0.08%

0.15%

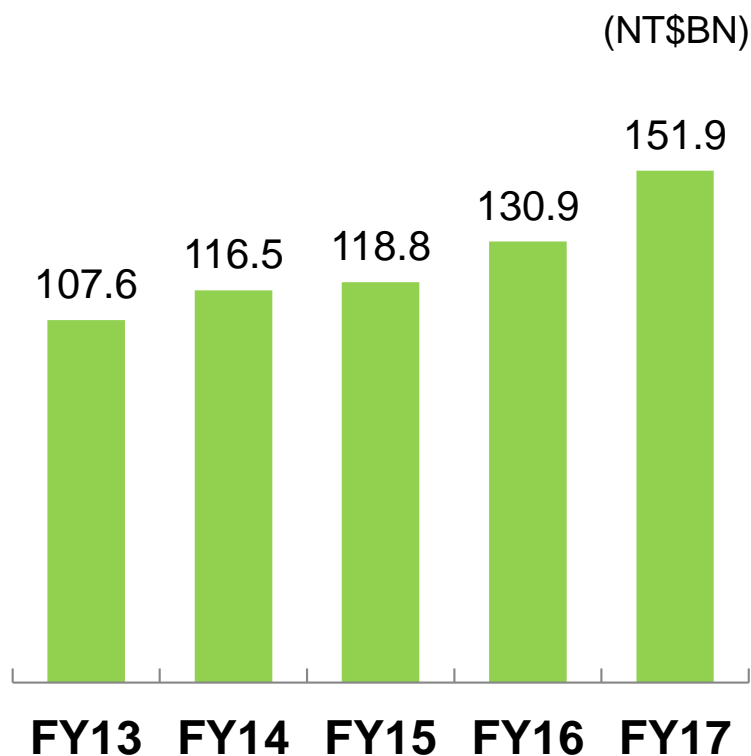
Gross provision

- Gross provision (NT\$BN)
- Recovery



Cathay United Bank – SME & FX loans

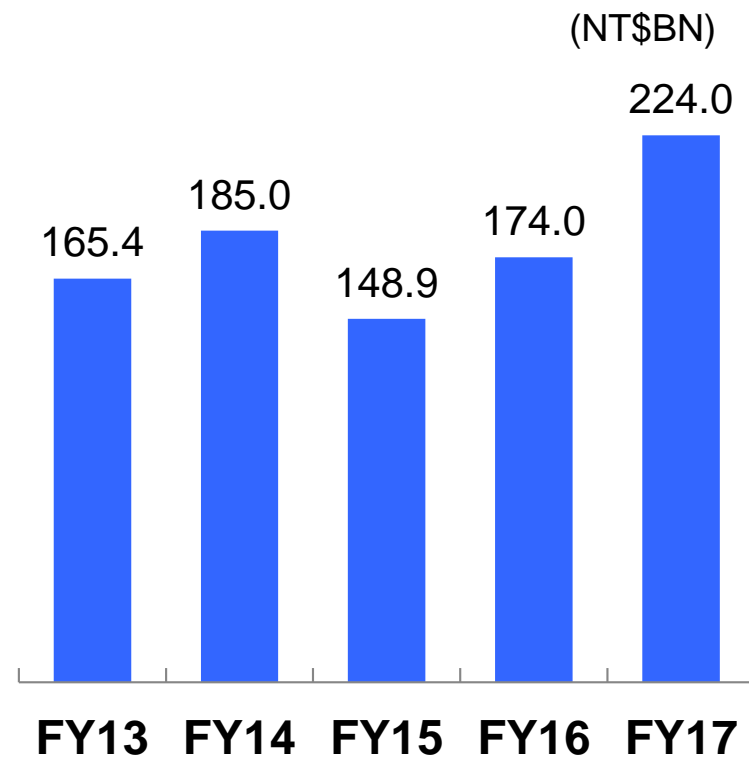
SME loans



As % of total loans

10.5% 10.5% 10.6% 9.2% 10.7%

Foreign currency loans



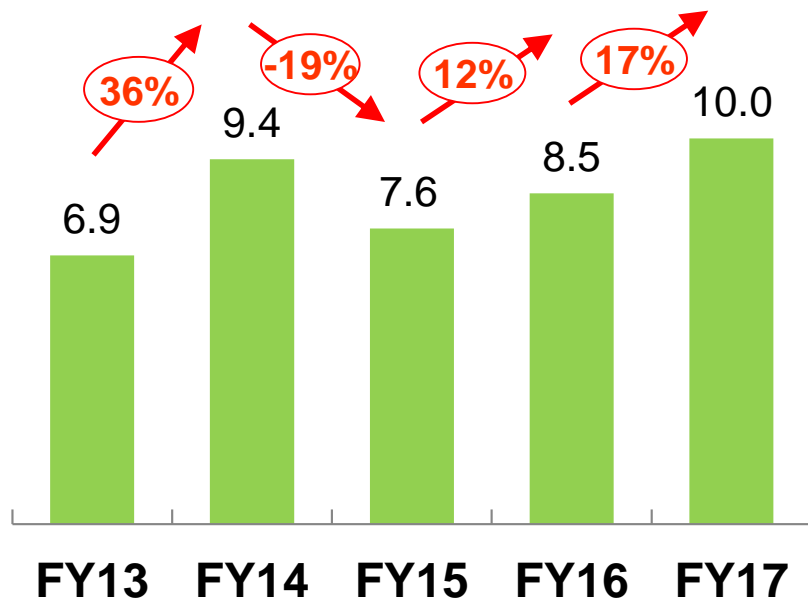
16.1% 16.6% 13.3% 12.2% 15.8%

Note: Total loans exclude credit card revolving balance.

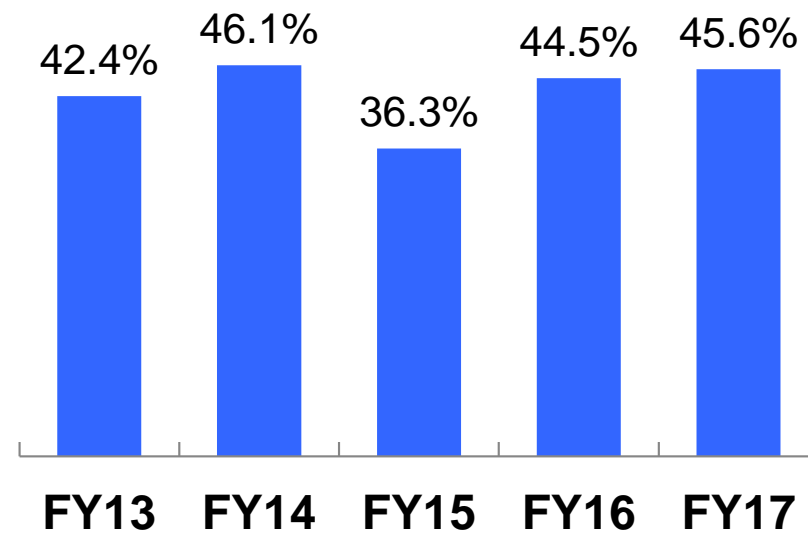
Cathay United Bank – Offshore earnings

Offshore earnings

(NT\$BN)



As % of CUB pre-tax profits

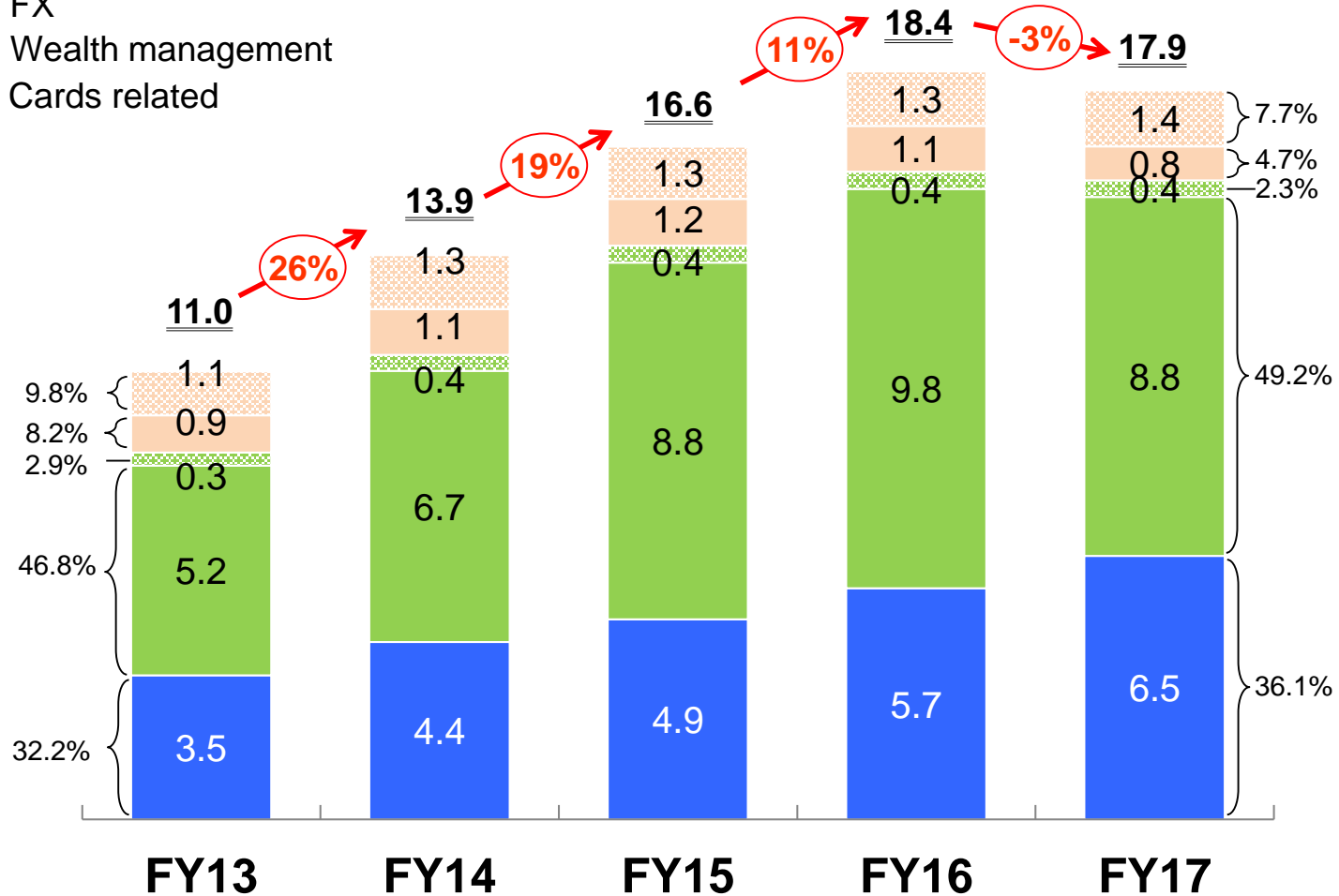


Cathay United Bank – Fee income

Fee income breakdown

(NT\$BN)

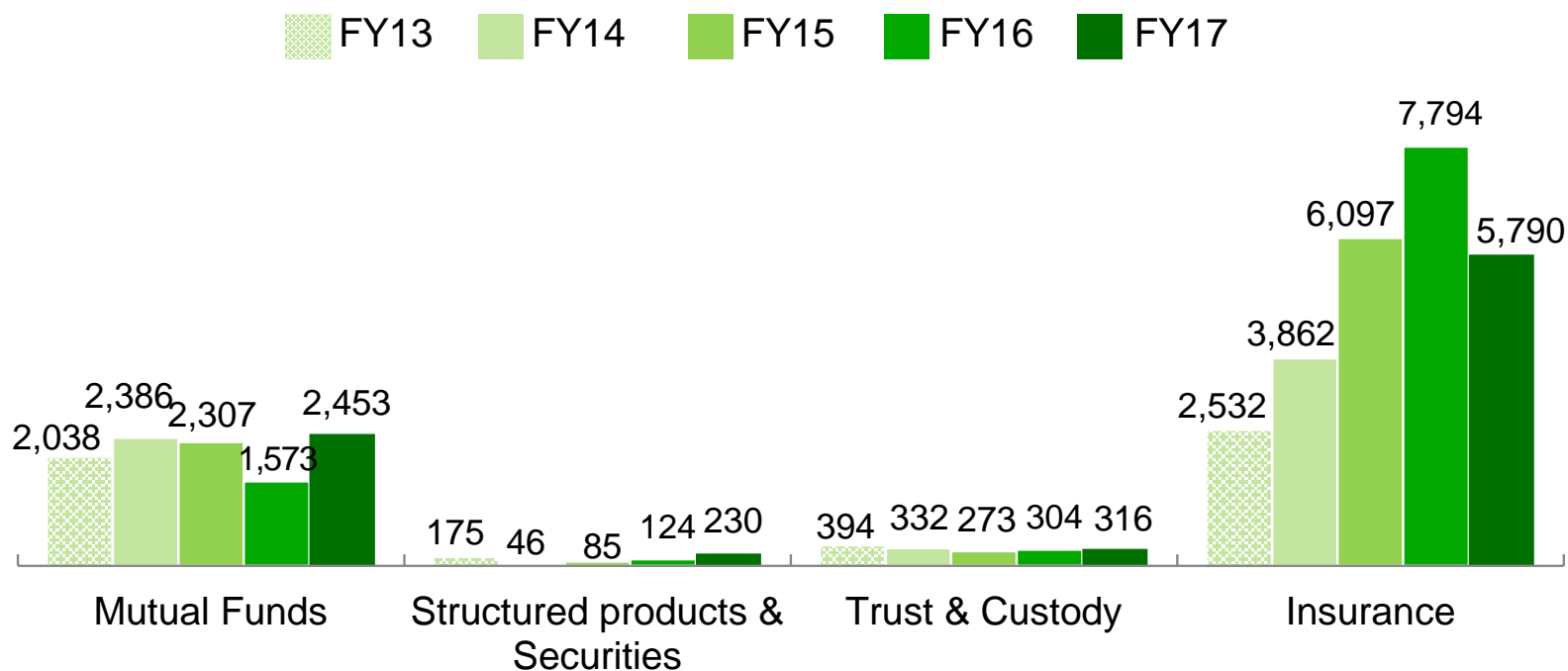
- Others
- Syndicated loans
- FX
- Wealth management
- Cards related



Cathay United Bank – Wealth management fee

Wealth management fee breakdown

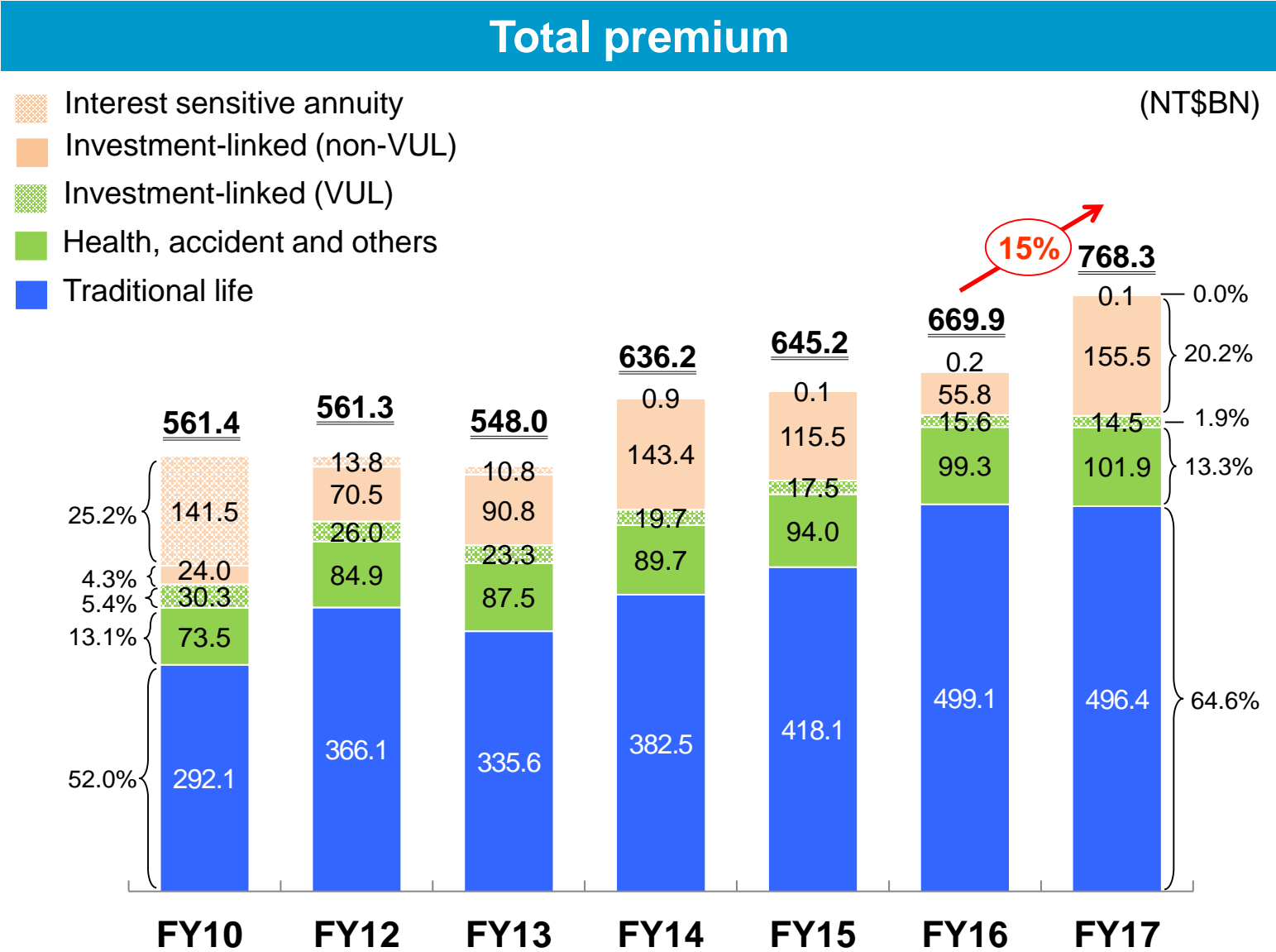
(NT\$MN)	FY13	FY14	FY15	FY16	FY17
Wealth Management Fee Income*	5,163	6,673	8,779	9,828	8,837
YoY growth (%)	32.6%	29.2%	31.6%	11.9%	-10.1%



Agenda

- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life**
 - Cathay Century
- **Impact of IFRS 9 Adoption**
- **Appendix**

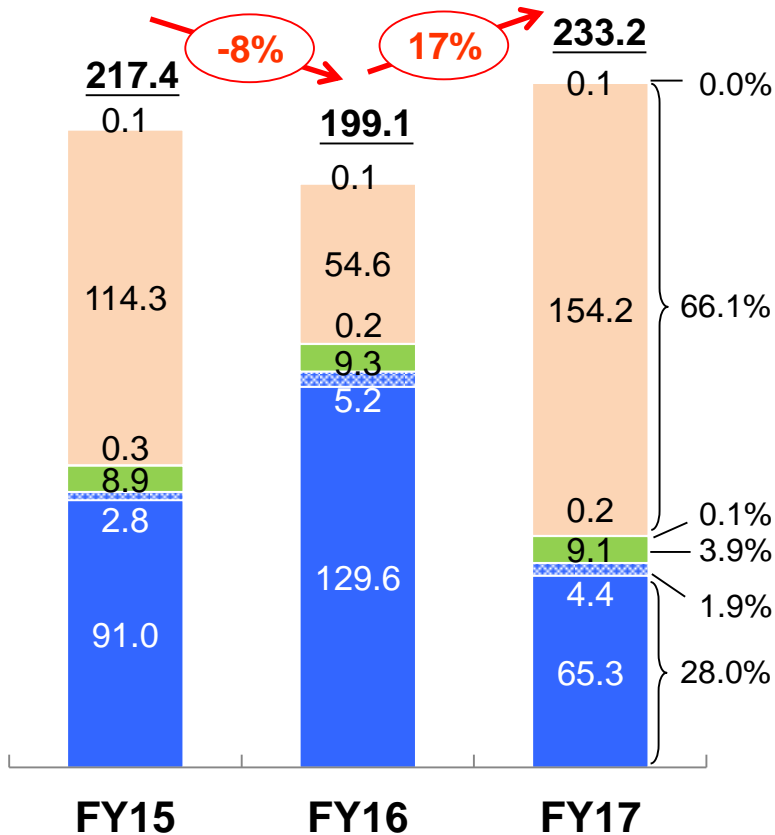
Cathay Life – Total premium



Cathay Life – FYP & FYPE

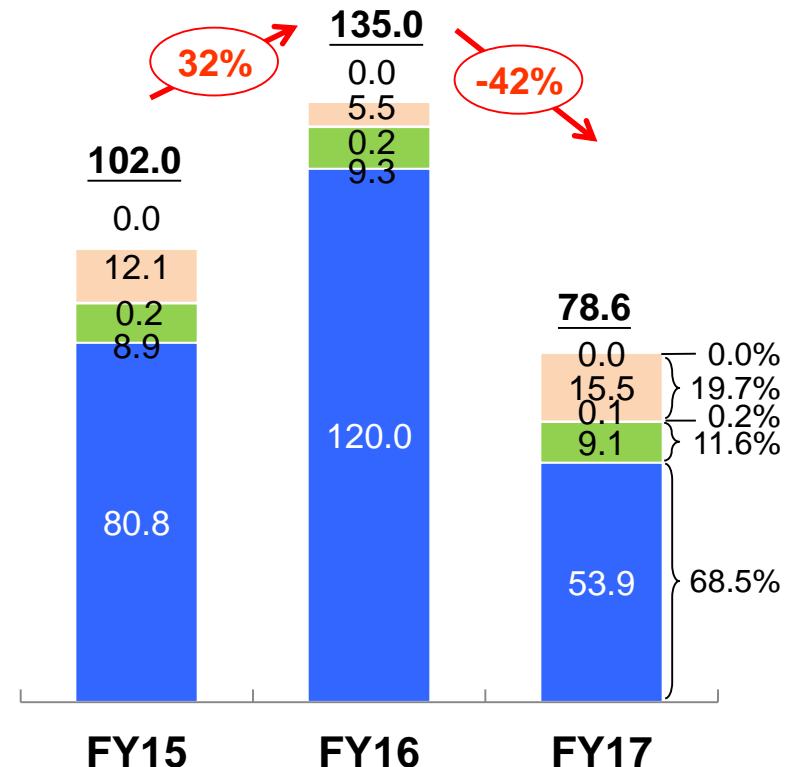
First Year Premium

- 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

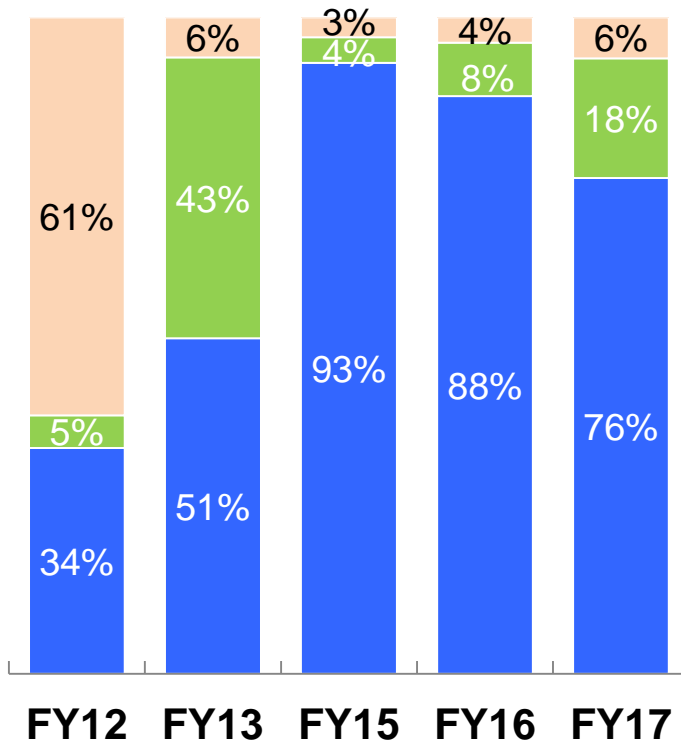
- Interest sensitive annuity (NT\$BN)
- Investment-linked (non-VUL)
- Investment-linked (VUL)
- Health, accident and others
- Traditional life



Cathay Life – Regular paid policies remain as focus

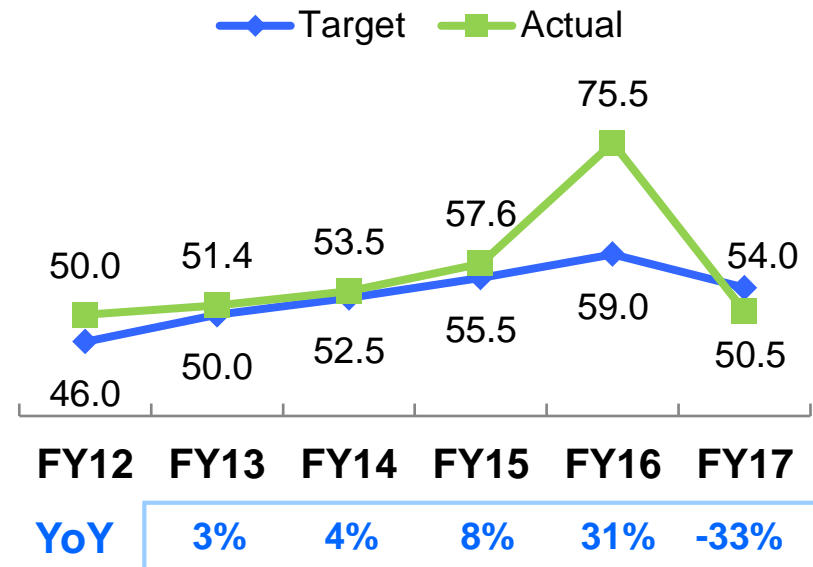
Breakdown of Traditional FYP

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



Value for New Business

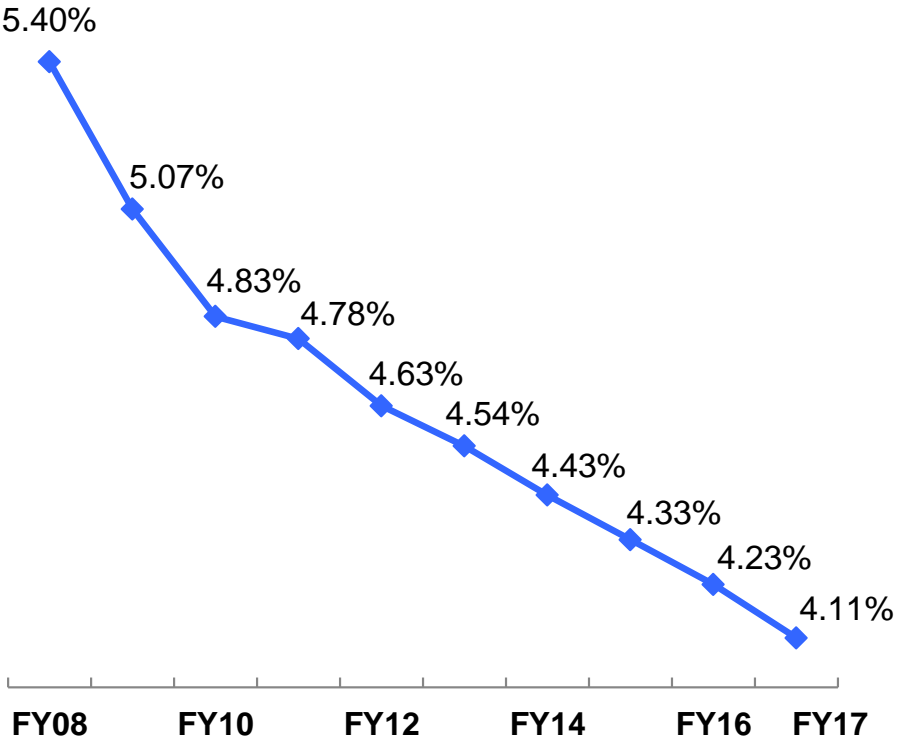
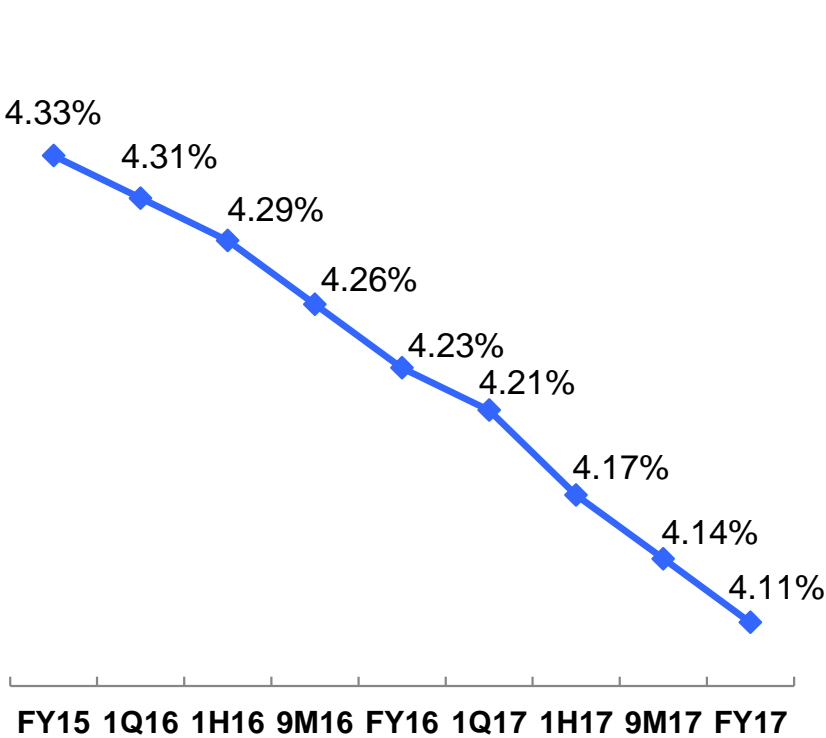
Profit Margin	FY12	FY13	FY14	FY15	FY16	FY17
VNB/FYP	19%	26%	23%	27%	38%	22%
VNB/FYPE	54%	70%	75%	57%	56%	64%



Cathay Life – Cost of liability

Cost of liability (quarterly)

Cost of Liability (annual)



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

Cathay Life – Investment portfolio

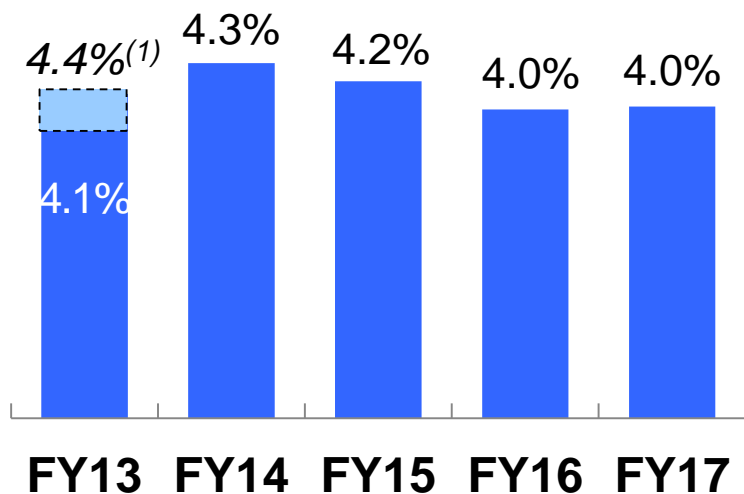
(NT\$BN)	FY14	FY15	FY16			FY17		
Total investments⁽¹⁾	4169.1	4,636.6	5,001.1			5,502.6		
	Weight	Weight	Weight	Amount	Return	Weight	Amount	Return
Cash & Cash equivalents	3.2%	1.3%	1.3%	63	0.5%	1.6%	87	0.5%
Equity- Domestic	8.4%	7.4%	7.9%	394	5.0%	8.4%	465	9.1%
Equity- International ⁽²⁾	5.0%	6.2%	6.4%	319	5.0%	6.3%	347	8.3%
Bond- Domestic	11.0%	8.0%	6.5%	327	2.3%	5.5%	305	2.1%
Bond- International ⁽¹⁾⁽²⁾	43.6%	50.6%	53.8%	2,692	5.7%	55.7%	3,063	5.0%
Mortgage & Secured loans	12.7%	10.2%	8.9%	445	1.9%	8.1%	444	1.8%
Policy loans	4.0%	3.6%	3.3%	165	6.1%	3.0%	166	5.8%
Real estate	10.5%	10.5%	9.8%	488	3.3%	9.2%	496	2.3%
Others	1.6%	2.1%	2.2%	108		2.4%	130	

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

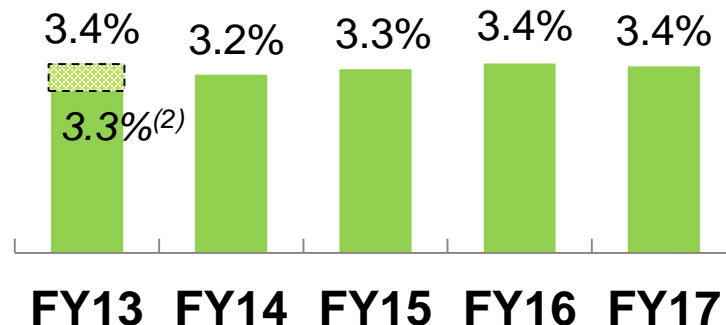
(2) Yields of international equity and international bond are pre-hedge investment yields.

Cathay Life – Investment performance highlight

After-hedging investment yield

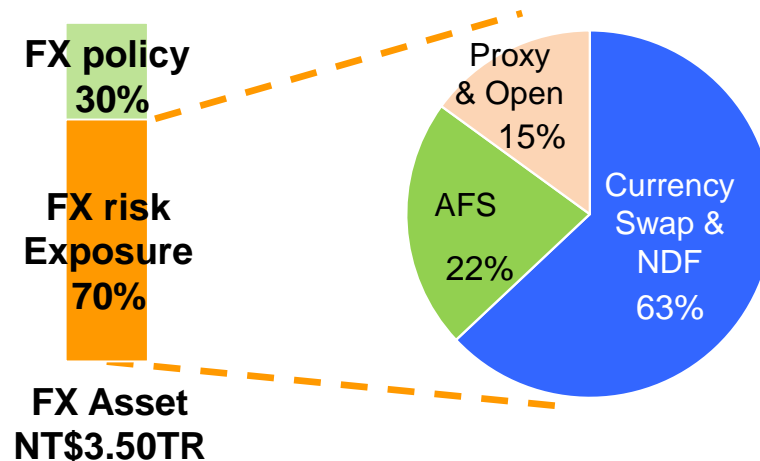


Pre-hedging recurring yield



Currency Hedging Structure

FY17 Hedging cost 0.89%

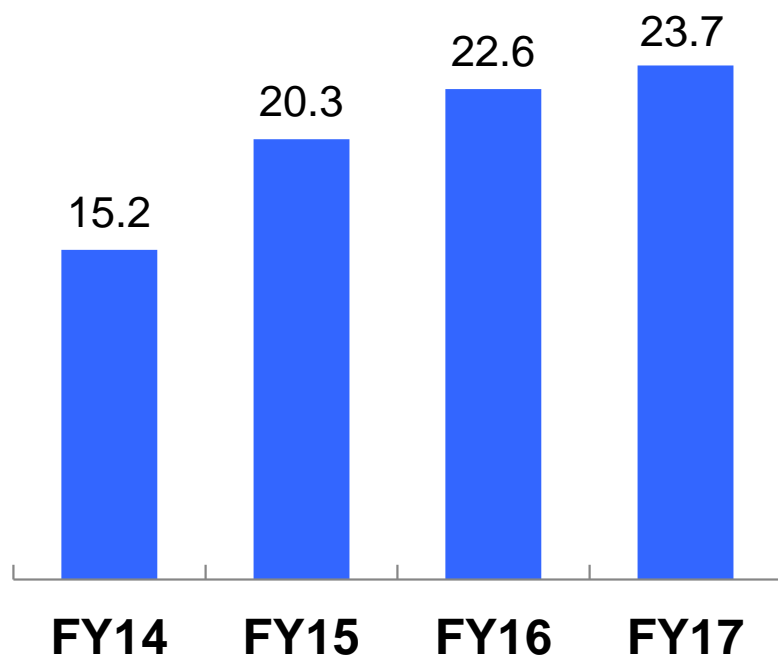


Note: (1) FY13 after-hedging investment yield 4.4% was pro forma adjusted number of fair value method on investment property.
 (2) FY13 pre-hedging recurring yield 3.3% was pro forma adjusted number of fair value method on investment property.
 (3) Pre-hedging recurring income doesn't include capital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

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

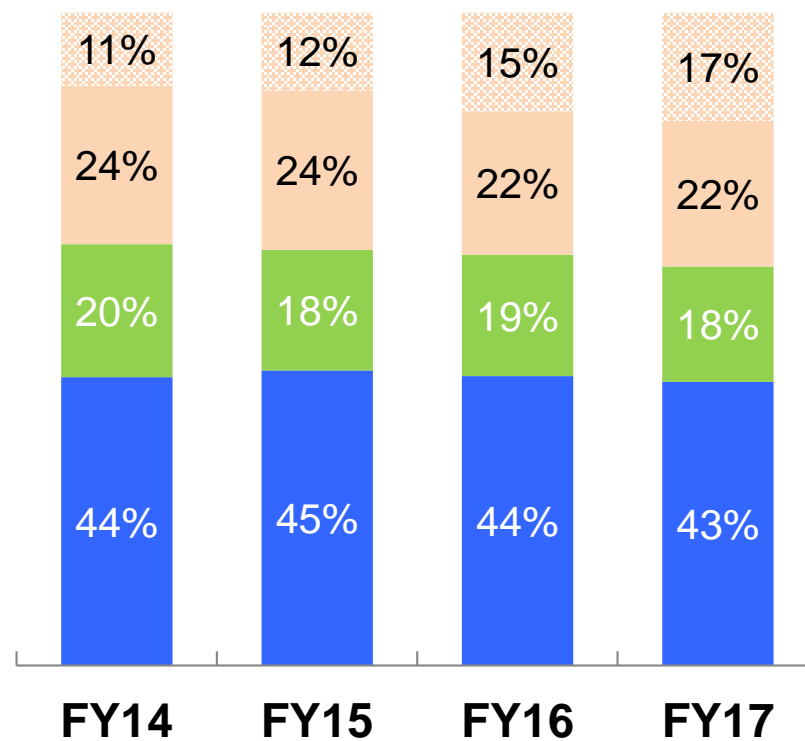
Cash dividend income

(NT\$BN)



Overseas fixed income by region*

- Others
- Asia Pacific
- Europe
- North America

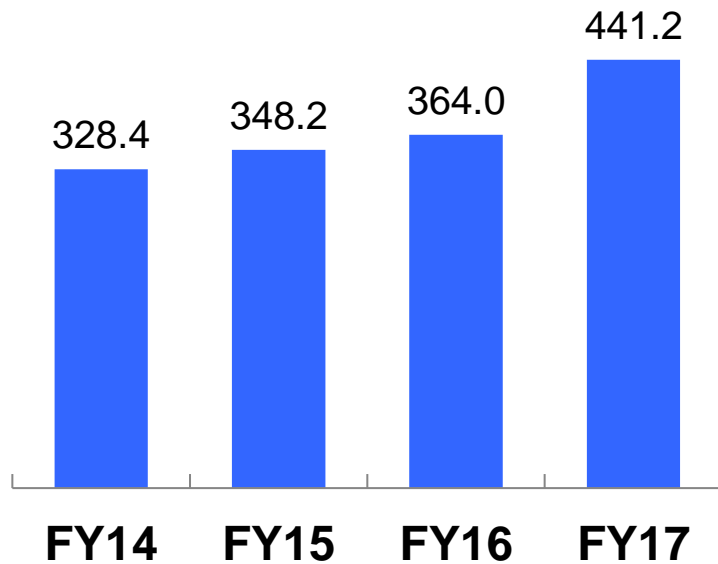


Note: Exclude overseas deposit and equity.

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

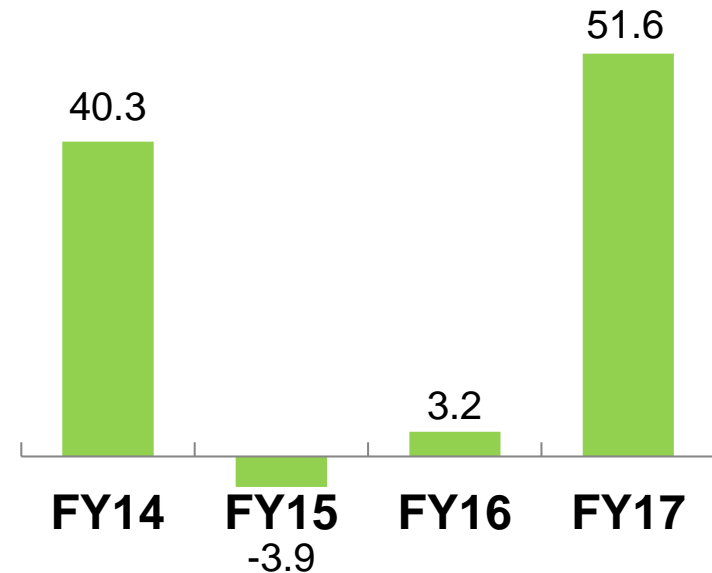
Book value

(NT\$BN)



Unrealized G/L of AFS financial assets

(NT\$BN)

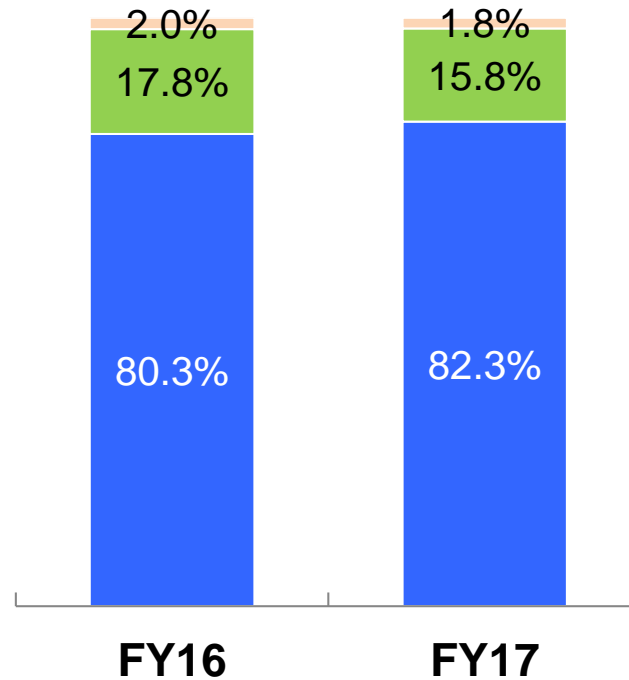
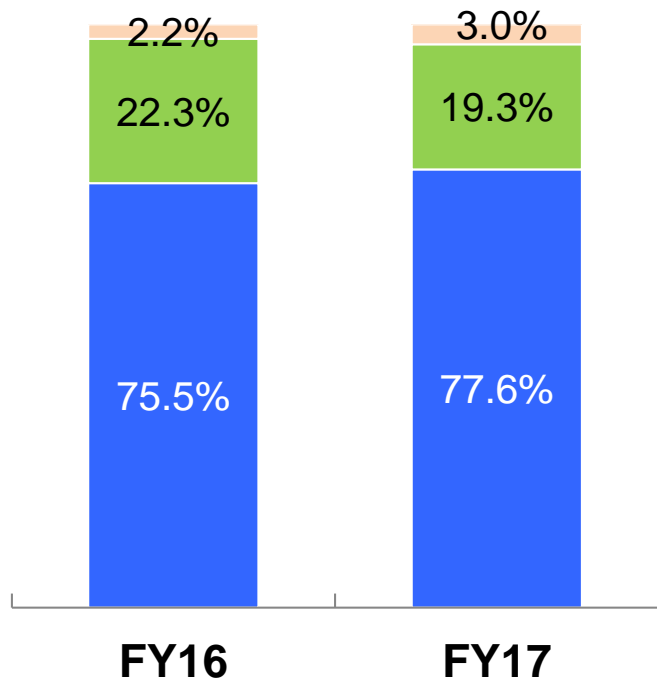


Cathay Life – Distribution channel

First Year Premium

Annualized First Year Premium

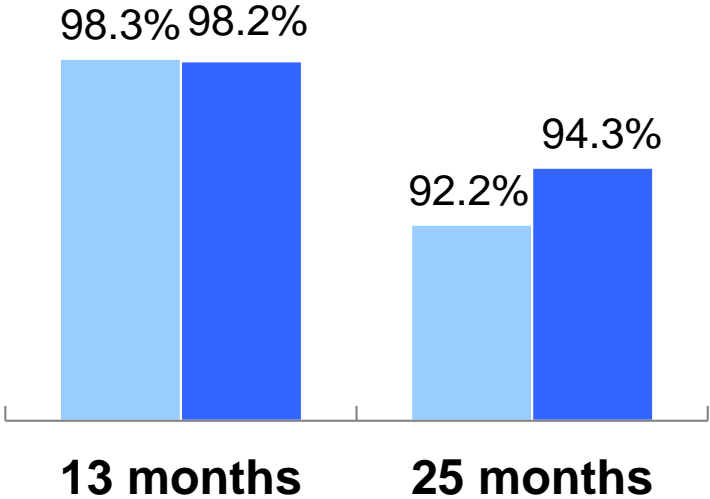
- Others
- Bancassurance-CUB
- Tied agents



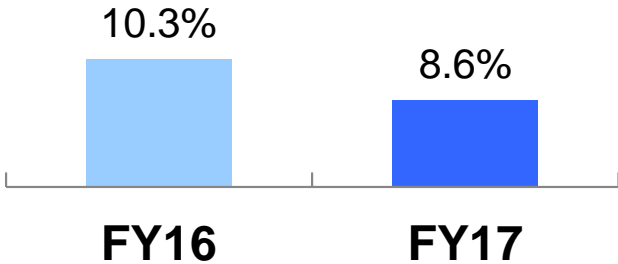
Cathay Life – Operational indicators

Persistence ratio

FY16 FY17



Expense ratio

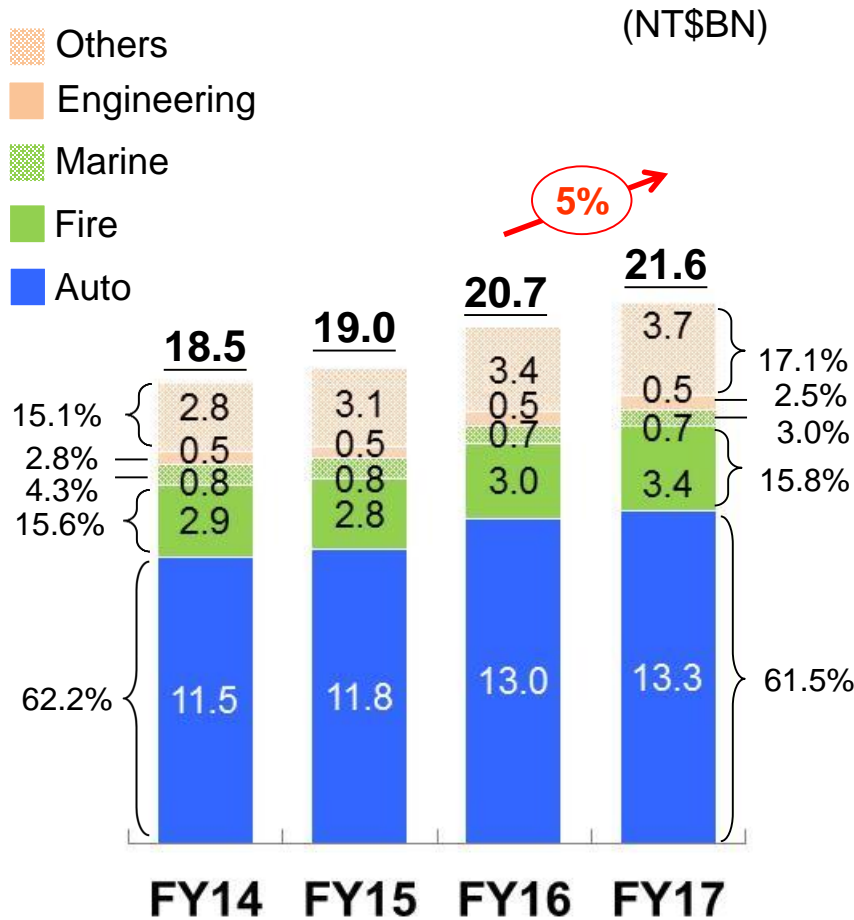


Agenda

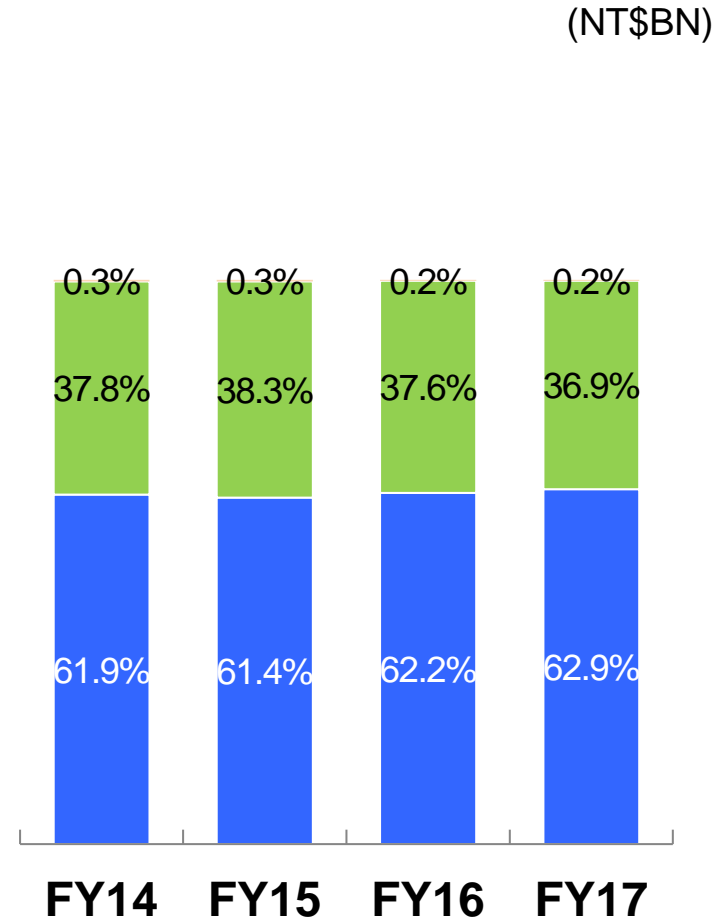
- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century**
- **Impact of IFRS 9 Adoption**
- **Appendix**

Cathay Century – Premium income

Premium income



Distribution channel

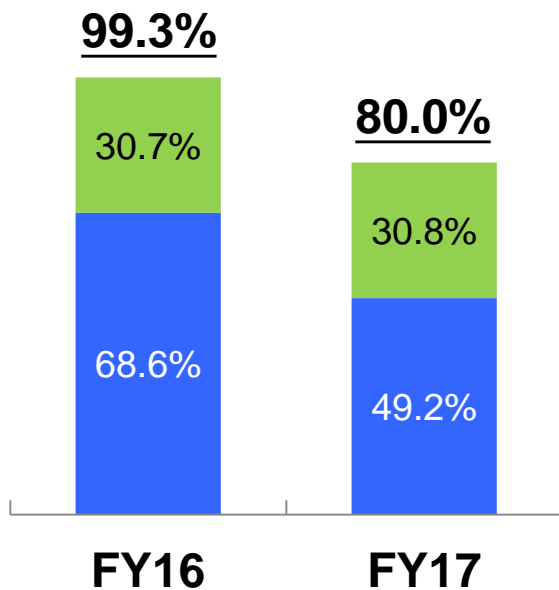


Market share	13.6%	13.3%	13.6%	13.1%
Retention	76.9%	74.9%	75.7%	76.2%

Cathay Century – Combined ratio

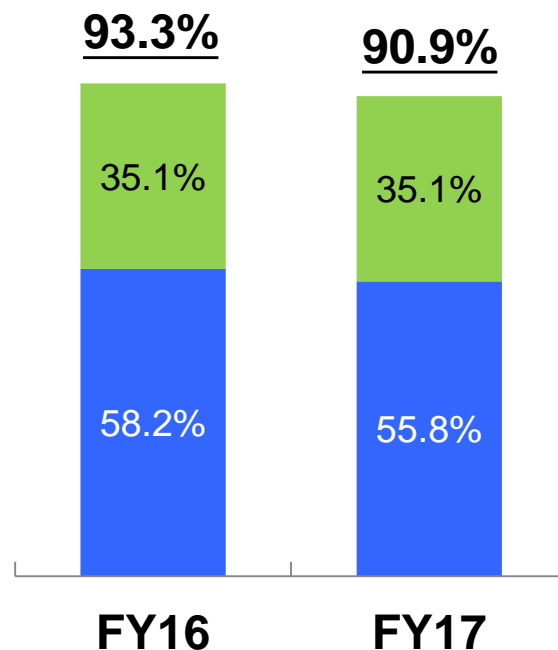
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio

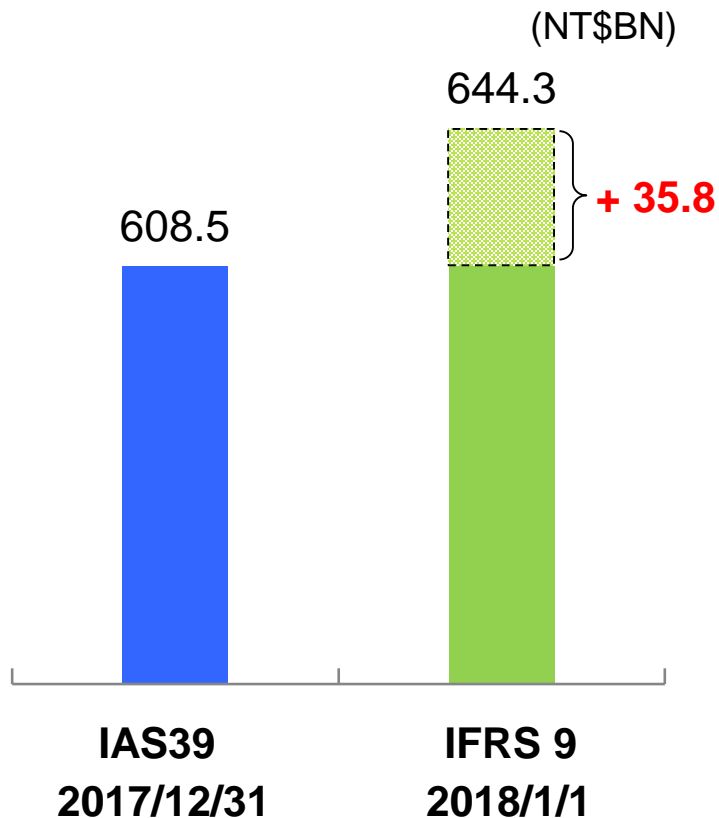


Agenda

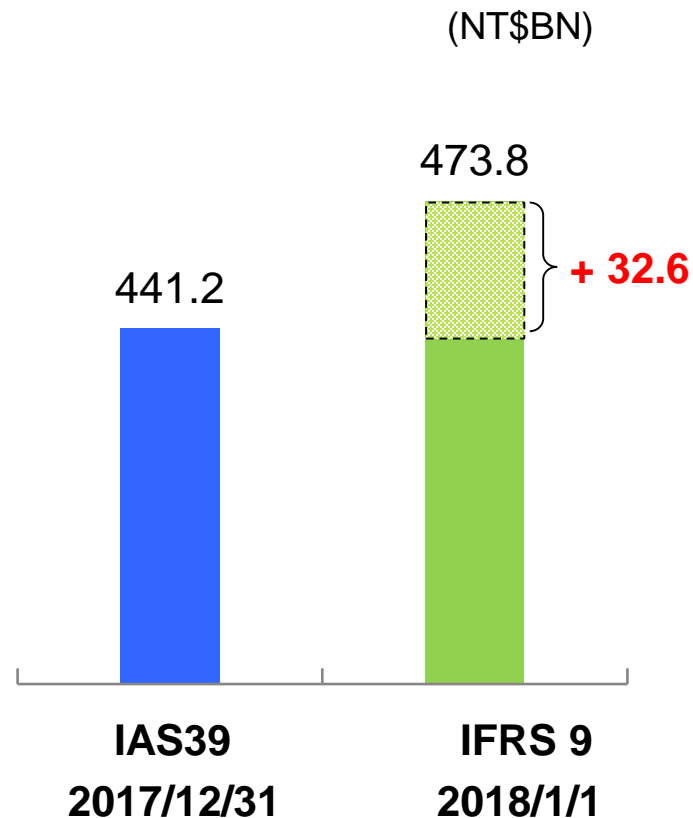
- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Impact of IFRS 9 Adoption**
- **Appendix**

Impact of IFRS 9 on Book value

Cathay FHC's Book value

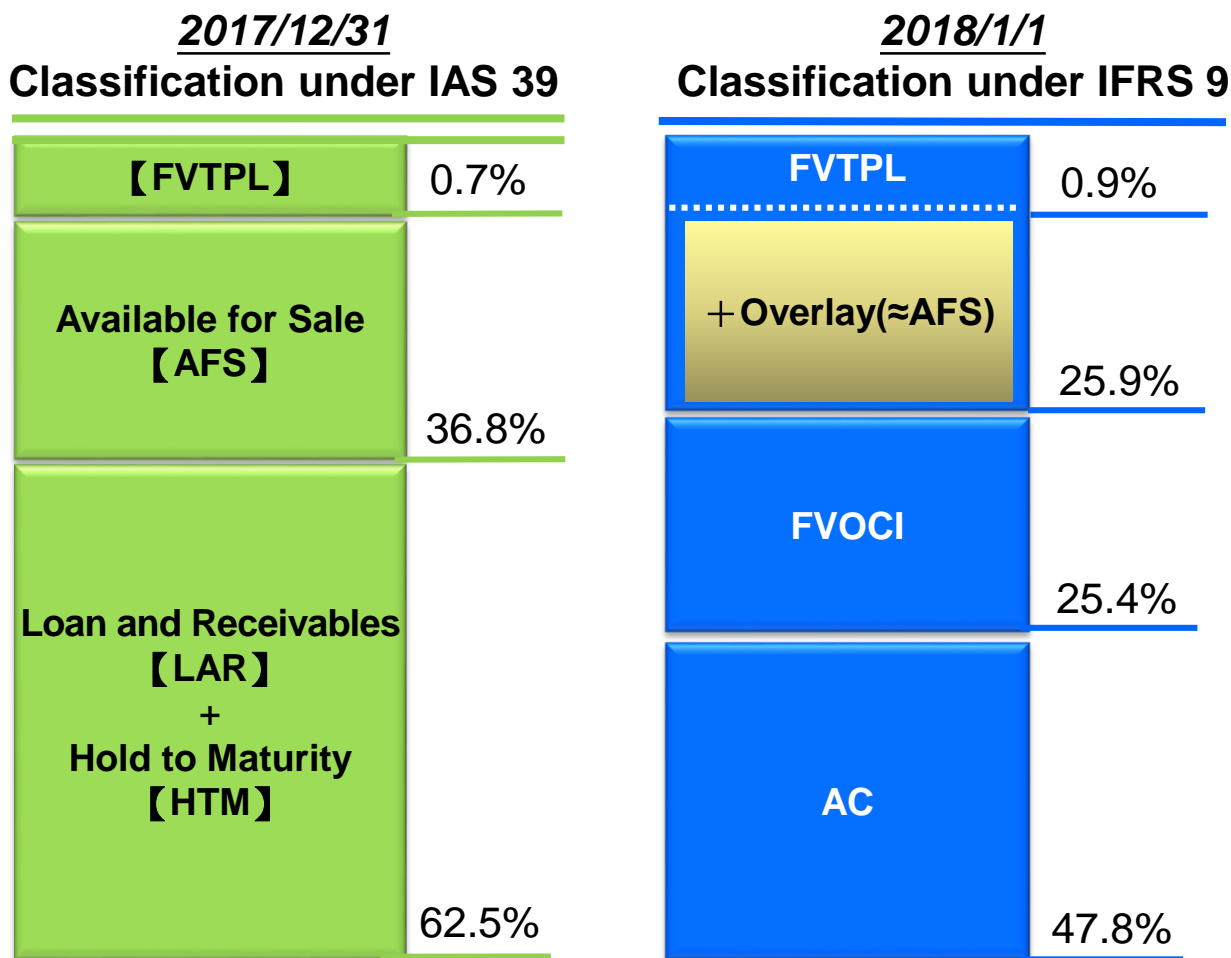


Cathay Life's Book value



Note: The book value under IFRS 9 is pro-forma amount for both Cathay FHC and Cathay Life.

Asset reclassification under IFRS 9 – Cathay Life



Cathay Life's book value increased by NT\$32.6 bn.

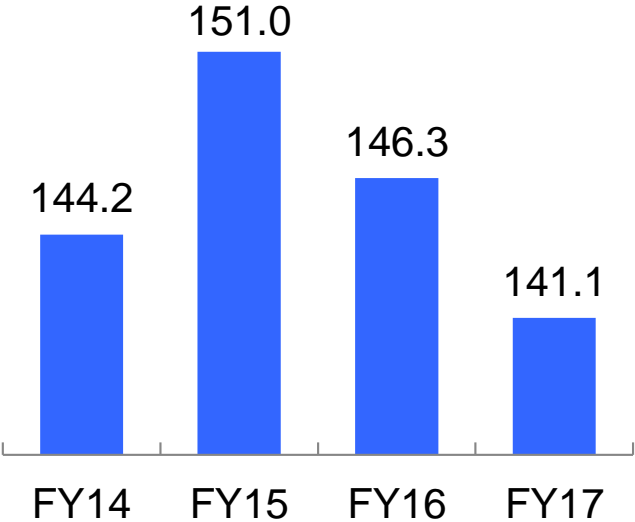
Note: FVTPL stands for Fair Value through Profit or Loss, FVOCI stands for Fair Value through Other Comprehensive Income, and AC stands for Amortized Cost.

Agenda

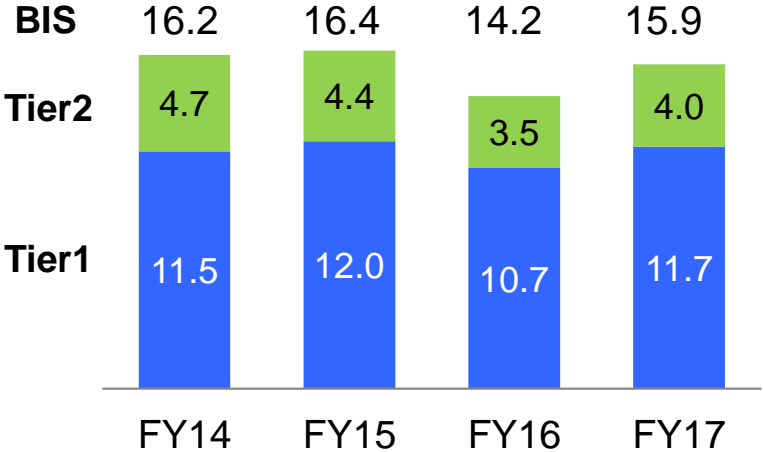
- **2017 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Impact of IFRS 9 Adoption**
- **Appendix**

Capital adequacy

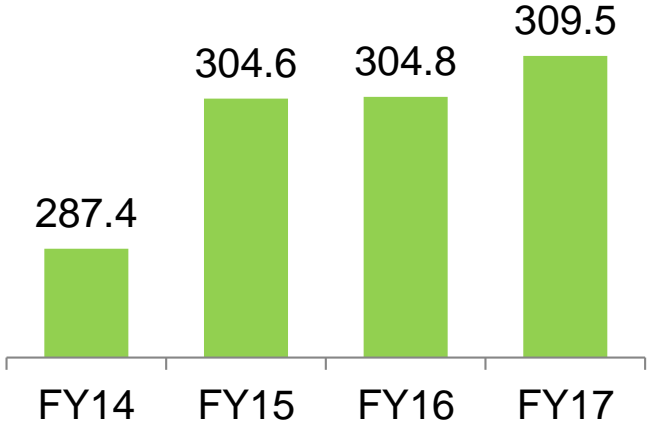
Cathay FHC CAR (%)



CUB Capital Adequacy (%)

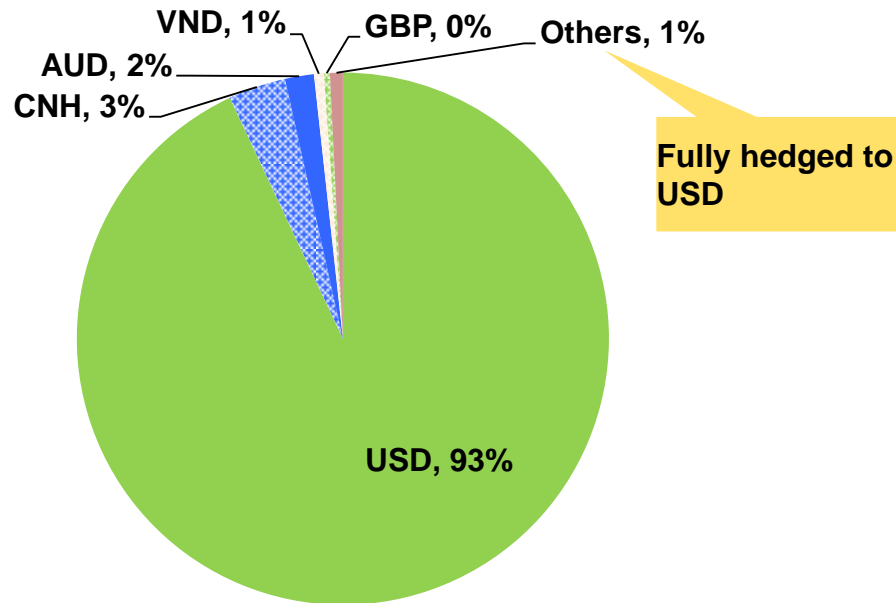


Cathay Life RBC(%)

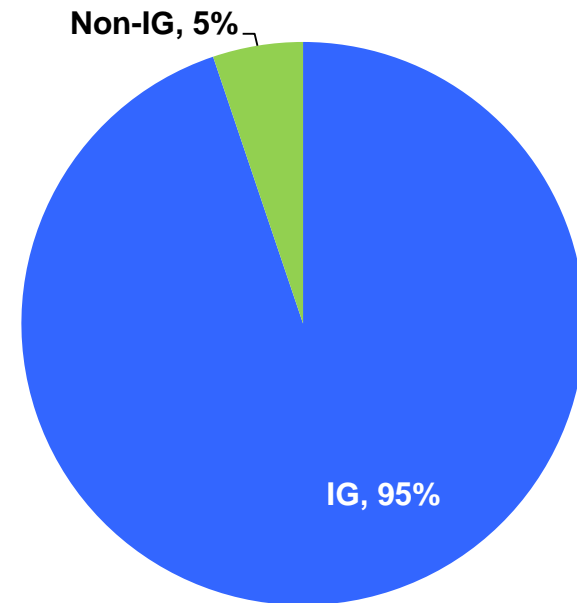


Cathay Life – Overseas bond breakdown by currency and rating

Overseas bond by currency (FY17)



Overseas bond by rating (FY17)



Note: Totals may not sum due to rounding.



Thank You

Disclaimer

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

Cathay Financial Holdings
(NT\$MN)

	FY15	FY16	FY17	FY17/			4Q17/
				FY16	4Q16	4Q17	% Chg
<u>Income Statement Data (Consolidated)</u>				% Chg	4Q16	4Q17	% Chg
Operating Income							
Net interest income	139,998	153,478	168,461	10%	39,389	43,480	10%
Net commission and fee	(4,480)	(8,050)	1,070	113%	(3,060)	(607)	80%
Net earned premium	535,858	622,916	624,617	0%	167,719	173,932	4%
Change in liability reserve	(306,598)	(408,614)	(445,833)	-9%	(103,580)	(126,543)	-22%
Net claims payment	(309,104)	(308,697)	(295,503)	4%	(85,587)	(76,720)	10%
Investment income	63,734	37,782	62,065	64%	5,098	12,094	137%
Contribution from associates-equity method	1,108	1,202	1,298	8%	251	223	-11%
Other net non-interest income	14,151	40,606	22,446	-45%	5,745	3,813	-34%
Bad debt expense	(2,467)	(5,232)	(3,460)	34%	(1,449)	(1,579)	-9%
Operating expense	(65,067)	(75,207)	(75,526)	0%	(21,304)	(21,544)	-1%
Income before taxes	67,132	50,185	59,636	19%	3,221	6,548	103%
Income taxes	(9,250)	(2,145)	(2,962)	-38%	5,568	1,865	-67%
Net income	57,882	48,039	56,673	18%	8,790	8,412	-4%
EPS (NT\$)	4.58	3.79	4.47		0.71	0.66	
Dividend Payout							
Cash dividend per share	2.00	2.00					
Stock dividend per share	0.00	0.00					
Weighted average outstanding shares (Millions of common shares)	12,563	12,563	12,563				
Balance Sheet Data							
Total assets	7,568,975	8,135,137	8,841,510				
Total shareholders' equity	461,062	529,824	608,471				
Operating Metrics							
ROAE (Consolidated)	12.86%	9.70%	9.96%				
ROAA (Consolidated)	0.80%	0.61%	0.67%				
Double leverage ratio(inc. preferred stock)	111%	105%	108%				
Capital Adequacy Metrics							
Capital Adequacy Ratio	151%	146%	141%				

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) Total may not sum due to rounding.

Cathay Life

(NT\$MN)

Income Statement Data (Consolidated)	FY15	FY16	FY17	FY17/	4Q16	4Q17	4Q17/
				FY16			% Chg
Net written premium	519,014	605,910	608,404	0%	163,611	169,696	4%
Net earned premium	518,250	605,231	607,547	0%	163,048	169,010	4%
Reinsurance commission earned	200	363	301	-17%	4	7	48%
Fee income	5,762	5,542	9,468	71%	1,446	2,556	77%
Recurring investment income	140,977	161,051	173,846	8%	37,108	40,690	10%
Gain on disposal of investment							
Realized gain (loss)-Equity	30,072	18,210	43,625	140%	6,075	10,323	70%
Realized gain (loss)-Debt	14,804	29,382	21,233	-28%	2,699	4,763	76%
Gain on investment property	11,074	5,000	(756)	-115%	(255)	(384)	-51%
FX and others, net	(13,101)	(21,333)	(28,258)	-32%	(5,441)	(6,509)	-20%
Investment income, net	183,827	192,310	209,691	9%	40,187	48,882	22%
Other operating income	914	5,032	5,069	1%	1,392	1,298	-7%
Separate account revenues	17,303	39,589	44,304	12%	6,862	8,052	17%
Net claims payment	(298,102)	(297,201)	(284,023)	4%	(82,345)	(73,107)	11%
Changes in liability reserves	(305,864)	(408,398)	(445,843)	-9%	(103,455)	(126,658)	-22%
Acquisition and commission expense	(33,238)	(38,901)	(32,507)	16%	(10,548)	(9,455)	10%
Other operating costs	(5,541)	(6,381)	(6,418)	-1%	(1,812)	(1,816)	0%
Financial cost	(296)	(413)	(1,963)	-375%	(48)	(590)	-1120%
Separate account expense	(17,303)	(39,589)	(44,304)	-12%	(6,862)	(8,052)	-17%
Operating expense	(23,021)	(30,768)	(28,790)	6%	(9,468)	(7,578)	20%
Net non-operating income	1,265	1,956	1,442	-26%	562	424	-25%
Income taxes	(5,710)	1,861	2,294	23%	5,906	2,346	-60%
Net income	38,447	30,235	36,268	20%	4,870	5,317	9%
Balance Sheet Data							
Total assets	5,179,877	5,556,950	6,097,655				
General account	4,699,309	5,058,936	5,542,385				
Separate account	480,568	498,014	555,269				
Reserves for life insurance liabilities	4,228,117	4,567,324	4,944,292				
Total liabilities	4,831,642	5,192,967	5,656,473				
Total shareholders' equity	348,235	363,984	441,181				
Operating Metrics							
First Year Premium(FYP)	217,378	199,082	233,250				
First Year Premium Equivalent(FYPE)	102,002	135,035	78,602				
Expense ratio	10.3%	10.3%	8.6%				
13-M persistency ratio	97.6%	98.3%	98.2%				
25-M persistency ratio	91.8%	92.2%	94.3%				
ROAE	11.36%	8.49%	9.01%				
ROAA	0.78%	0.56%	0.62%				
Capital Adequacy Metrics							
RBC ratio (Standalone)	305%	305%	309%				

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) Total may not sum due to rounding.

Cathay United Bank

(NT\$MN)				FY17/ FY16			4Q17/ 4Q16
	FY15	FY16	FY17	% Chg	4Q16	4Q17	% Chg
Income Statement Data (Consolidated)							
Operating Income							
Net interest income	26,729	25,910	29,701	15%	6,937	7,608	10%
Fee income	14,344	15,745	14,862	-6%	3,783	3,243	-14%
Investment income	5,599	8,278	9,442	14%	1,717	2,157	26%
Other income	1,380	1,222	1,216	0%	139	234	69%
Net operating income	48,052	51,154	55,222	8%	12,576	13,241	5%
Operating expenses	(24,851)	(26,959)	(29,301)	-9%	(7,363)	(8,700)	-18%
Pre-provision profit	23,201	24,195	25,920	7%	5,213	4,541	-13%
Net provisions for possible losses	(1,922)	(4,455)	(3,494)	22%	(1,295)	(1,616)	-25%
Income before taxes	21,279	19,740	22,426	14%	3,918	2,926	-25%
Income tax	(2,513)	(2,229)	(2,763)	-24%	(514)	(280)	46%
Net income	18,767	17,511	19,664	12%	3,404	2,646	-22%
Balance Sheet Data							
Total assets	2,383,377	2,566,669	2,735,704				
Loans, net	1,127,807	1,437,531	1,434,558				
Financial assets	791,192	849,989	859,590				
Total liability	2,226,608	2,406,701	2,553,396				
Deposits	1,881,657	2,032,600	2,098,368				
Financial Debenture Payable	51,900	51,900	63,350				
Total shareholders' equity	156,769	159,968	182,308				
Operating Metrics							
Cost income ratio	51.72%	52.70%	53.06%				
ROAE	12.33%	11.06%	11.49%				
ROAA	0.81%	0.71%	0.74%				
Assets Quality							
NPL	1,599	2,133	2,982				
NPL ratio	0.14%	0.15%	0.21%				
NPL provisions	17,323	19,686	22,553				
Coverage ratio	1083%	923%	756%				
Capital Adequacy Metrics							
BIS ratio (Standalone)	16.4%	14.2%	15.9%				
Tier I Ratio (Standalone)	12.0%	10.7%	11.7%				

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) Total may not sum due to rounding.

Cathay Century

(NT\$MM)				FY17/ FY16 % Chg	4Q16	4Q17	4Q17/ 4Q16 % Chg
Income Statement Data (Consolidated)							
Premium income	22,449	22,774	21,878	-4%	5,522	5,830	6%
Net written premium	17,254	17,390	16,610	-4%	4,209	4,355	3%
Net earned premium	17,169	17,213	16,344	-5%	4,032	4,163	3%
Reinsurance commission earned	517	526	489	-7%	115	134	16%
Fee income	48	44	42	-6%	10	10	-1%
Investment	972	2,082	892	-57%	8	128	1422%
Interest income	564	568	547	-4%	127	138	9%
Other investment income, net	408	1,514	345	-77%	(118)	(9)	92%
Other operating income	15	0	0		0	0	
Net claims payment	(9,292)	(9,559)	(9,138)	4%	(2,196)	(2,389)	-9%
Changes in liability reserves	(734)	(209)	10	105%	(119)	116	198%
Commissions and other operating costs	(1,402)	(3,015)	(2,859)	5%	(707)	(756)	-7%
Operating expenses	(6,197)	(4,248)	(3,609)	15%	(927)	(969)	-4%
Operating income	1,095	2,834	2,170	-23%	216	438	103%
Net non-operating income	(4)	(1)	(16)	-1862%	6	(2)	-130%
Income taxes	(287)	(492)	(297)	40%	(54)	(81)	-50%
Net income	804	2,342	1,858	-21%	168	356	111%
Balance Sheet Data							
Total assets	42,106	38,250	38,351				
Total stockholders' equity	7,219	9,216	10,517				
Operating Metrics							
Gross Combined ratio	85.3%	99.3%	80.0%				
Net Combined ratio	93.2%	93.3%	90.9%				
ROAE	11.44%	28.50%	18.83%				
ROAA	2.06%	5.83%	4.85%				
Capital Adequacy Metrics							
RBC ratio (Standalone)	359%	385%	392%				

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) Total may not sum due to rounding.