



國泰金控

Cathay Financial Holdings

2018 Fourth Quarter Briefing

March 2019



Agenda

- **2018 Business Overview and 2019 Outlook**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Appendix**

2018 Business overview

Cathay United Bank

- Delivered solid loan and deposit growth with benign credit quality.
- Overseas expansion continued. FX loan grew steadily.
- Fee income continued to increase. Credit card fee grew 13% YoY. Number of active cards ranked No.1 in the industry.

Cathay Life

- Focused on value-driven strategy. FYP and FYPE remained No. 1 in the industry. FYP for protection products grew ~50% YoY.
- Cost of liability continued to improve. Pre-hedging recurring yield increased to 3.5%.
- Maintained solid capital position with RBC ratio of 292%.

Cathay Century

- Premium income grew 6% YoY. Remained in second place with 13.0% market share.
- Developed online business in China and enlarged local team in Vietnam. Overseas premium income continued to rise.

Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$635.1 BN.
- Received “Best Institutional House” and “Best New ETF” awards from Asia Asset Management and “Risk Management Award” from Benchmark magazine. Selected by Thomson Reuters Lipper and Morningstar as “Taiwan Fund Award” winner.

Cathay Securities

- Brokerage business grew steadily. Sub-brokerage market share ranked No.1.
- Optimized customer experience with new digital business model.

2019 Outlook

Cathay United Bank

- Continue to adjust loan mix. Maintain benign asset quality.
 - Increase credit card and wealth management fee income.
 - Continue to expand overseas business and increase offshore earnings.
-

Cathay Life

- Focus on the sales of regular-paid products, foreign currency denominated policies and investment linked policies to improve value of new business.
 - Continue to enhance capital efficiency and maintain stable hedging cost.
-

Cathay Century

- Grow both personal and commercial insurance.
 - Increase the efficiency of capital and net profits.
 - Develop online business in China and enlarged local team in Vietnam.
-

Cathay SITE

- Offer comprehensive product lines to meet customers' needs.
 - Integrate global asset management business to broaden international exposure.
 - Leverage group resources and expand external distribution channels to increase AUM.
-

Cathay Securities

- Utilize digital technology to enhance cross-selling synergy and broaden client base.
- Enhance existing platform and develop innovative products.
- Continue to expand overseas business.

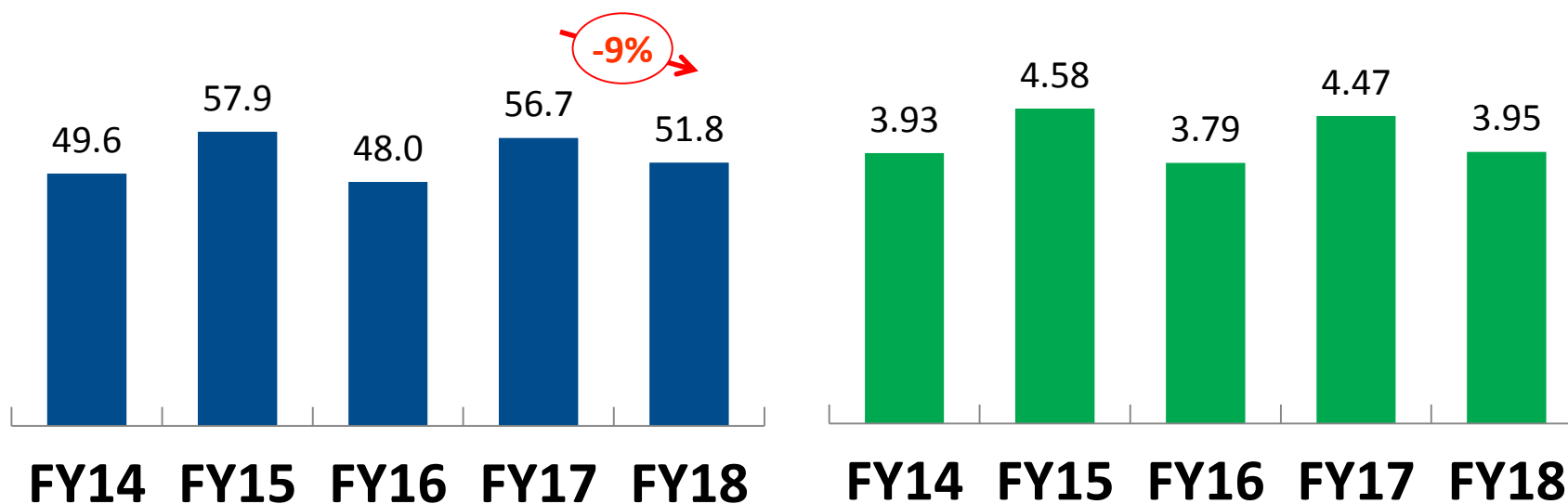
Cathay FHC – Net income & EPS

Net income

(NT\$BN)

EPS

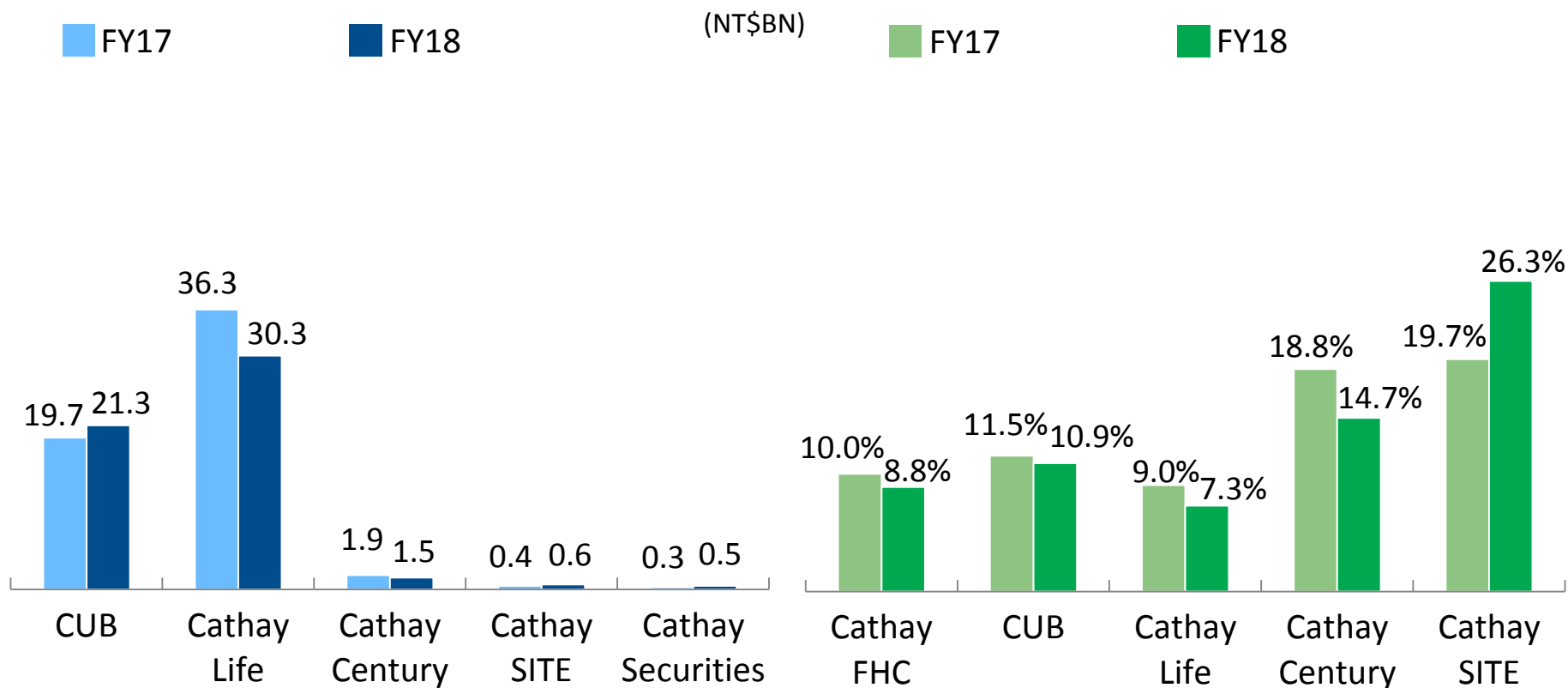
(NT\$)



Cathay FHC – Net income & EPS

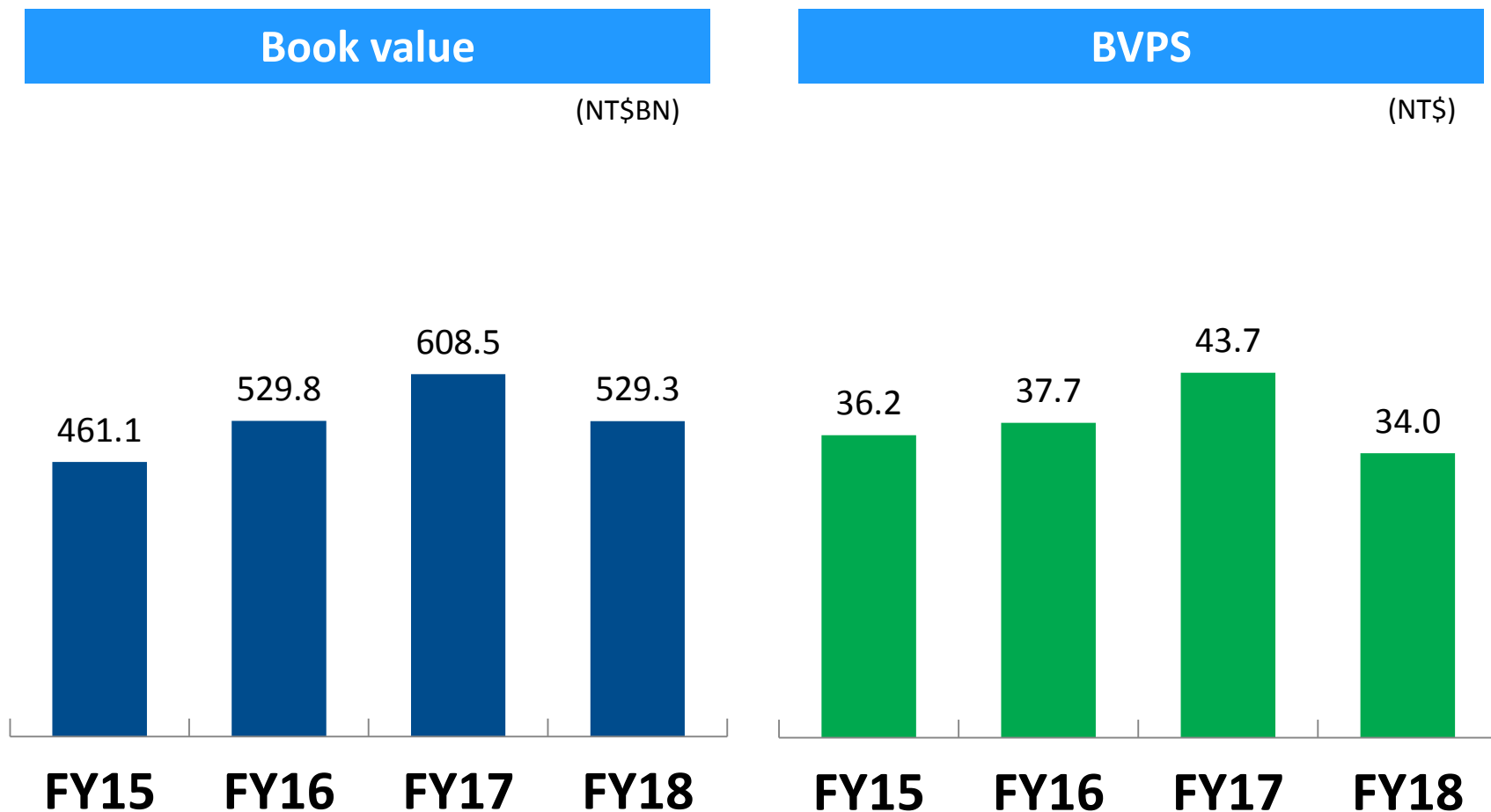
Net income of primary subsidiaries

ROE



Note : Starting from 1Q18, ROE calculation was based on IFRS 9.

Cathay FHC – Book value & BVPS



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

(2) Starting Jan.1, 2018, the reporting was based on IFRS 9.

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Cathay FHC in South East Asia

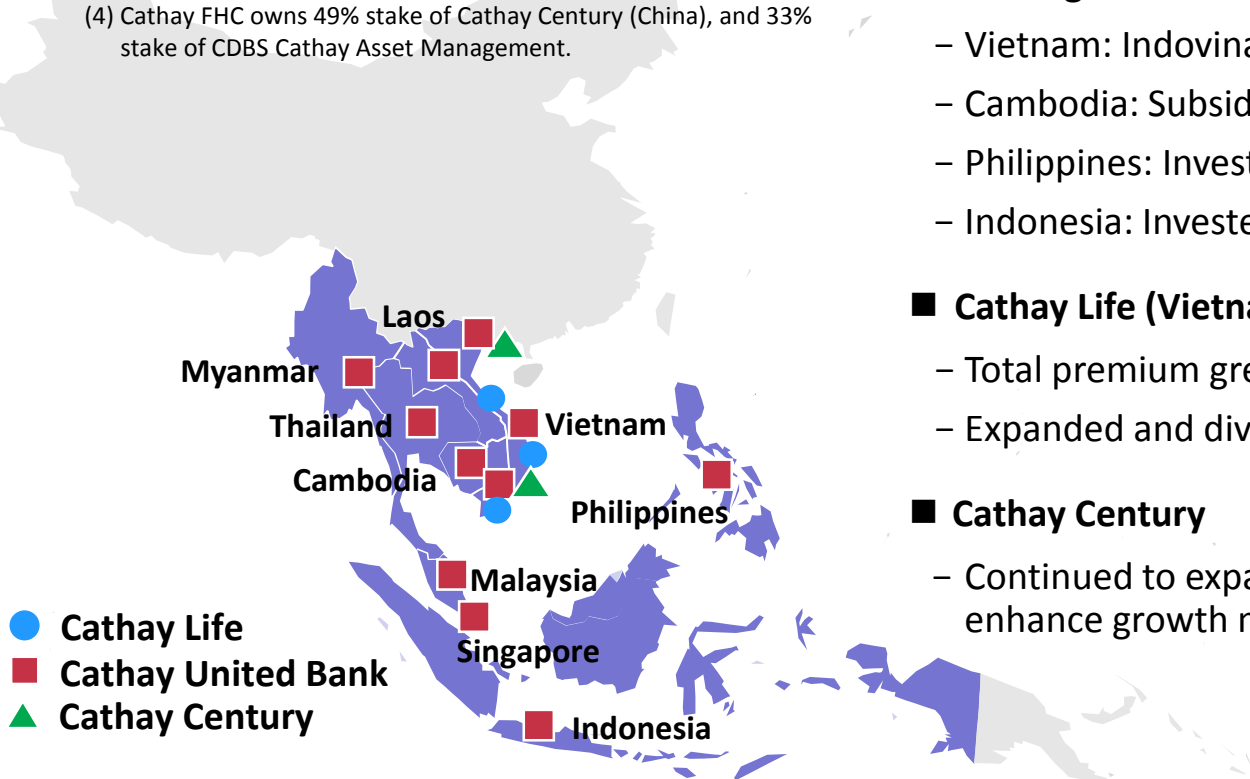
	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia	Laos	Philippines	Thailand	Myanmar	Indonesia
Bank	7	36	15	1	1	1	1	1	1	1	1
Life	51 ⁽¹⁾	59									
P&C	27	2									
Asset Mgt.	1			1							
Securities				1							

Note: (1) Henan branch office opened in January, 2019.

(2) Footprints in Thailand, Myanmar and Indonesia are rep. offices.

(3) Investments in RCBC and Bank Mayapada are funded by Cathay Life.

(4) Cathay FHC owns 49% stake of Cathay Century (China), and 33% stake of CDBS Cathay Asset Management.



■ Banking

- Vietnam: Indovina Bank performed steadily.
- Cambodia: Subsidiary's businesses grew steadily.
- Philippines: Invested 23% stake in RCBC⁽³⁾
- Indonesia: Invested 40% stake in Bank Mayapada⁽³⁾

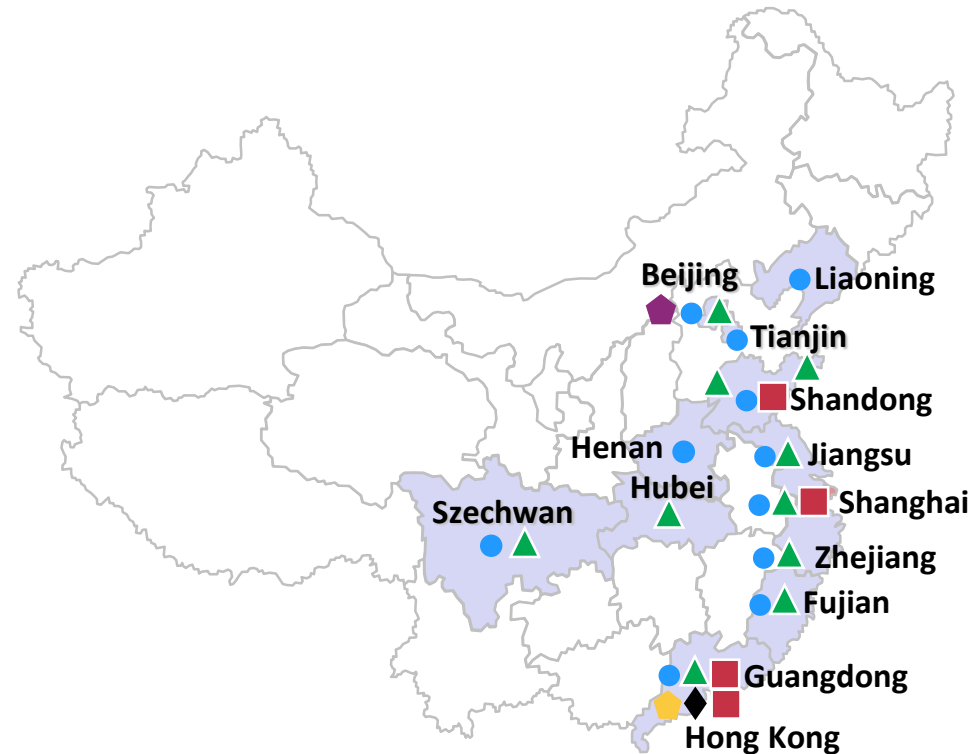
■ Cathay Life (Vietnam)

- Total premium grew 51% YoY to VND 691BN in 2018.
- Expanded and diversified distribution channels.

■ Cathay Century

- Continued to expand local distribution 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**
 - Upgrade China operation into a fully-owned local subsidiary in Sep. 2018.
- **Cathay Lujiazui Life**
 - Total premium grew 46% YoY to RMB 2.3BN in 2018.
- **Cathay Century (China)**
 - Formed a strategic alliance with Ant Financial group to capture new business opportunities.
- **Cathay Securities (HK)**
 - Each business line grew steadily.
- **JV with China Development Bank Securities (CDBS Cathay Asset Management)**
 - Continued to launch new products. Mainly focused on fixed income funds.
- **Conning Asia Pacific Limited**
 - Continued to expand asset management business.

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Cathay United Bank





Cathay Life

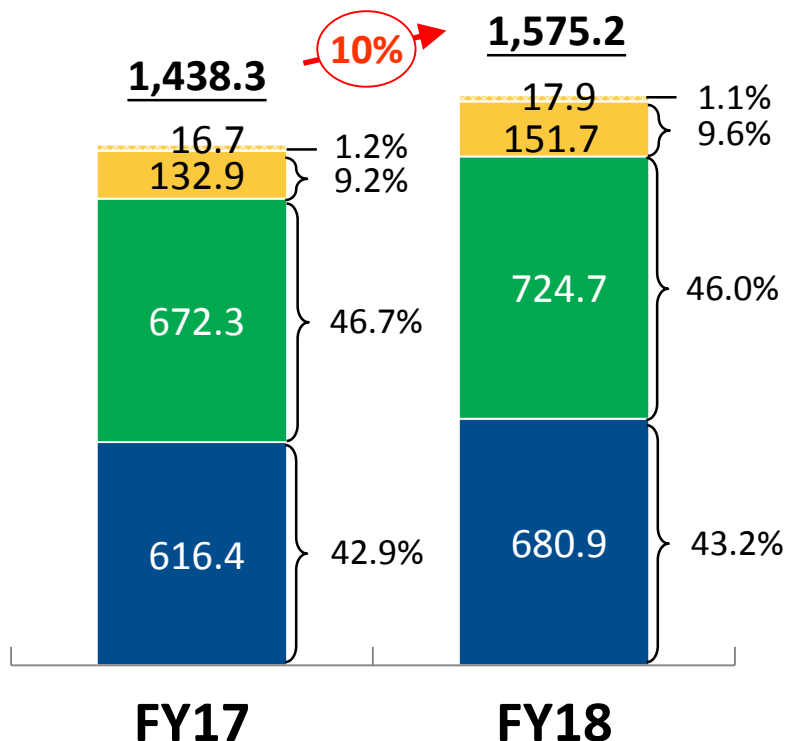
Cathay Century

- **Appendix**



Cathay United Bank – Loan & Deposit breakdown

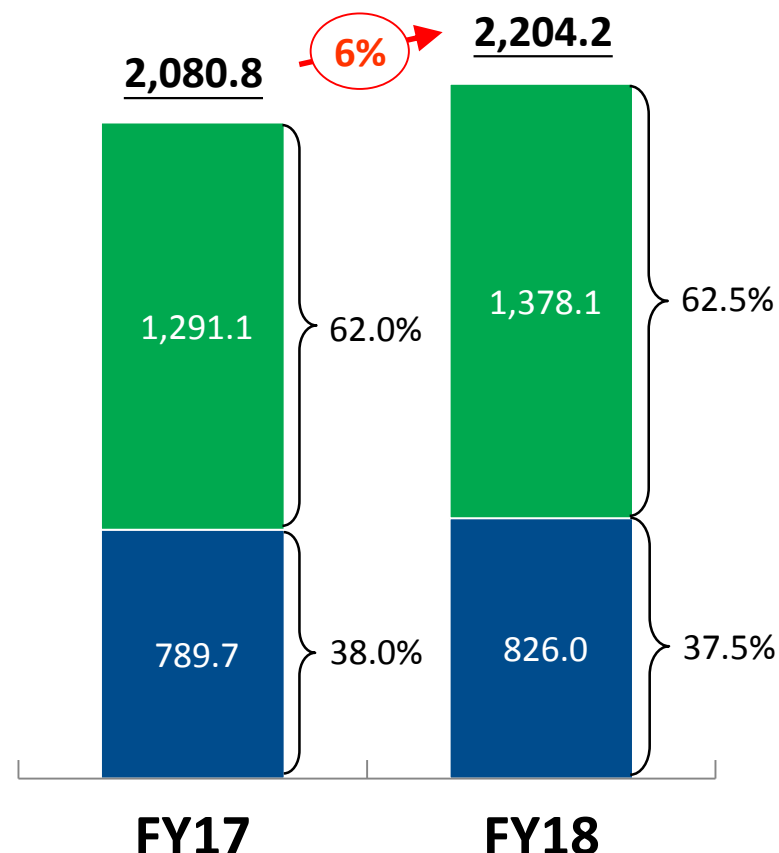
Loan breakdown

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



Deposit breakdown

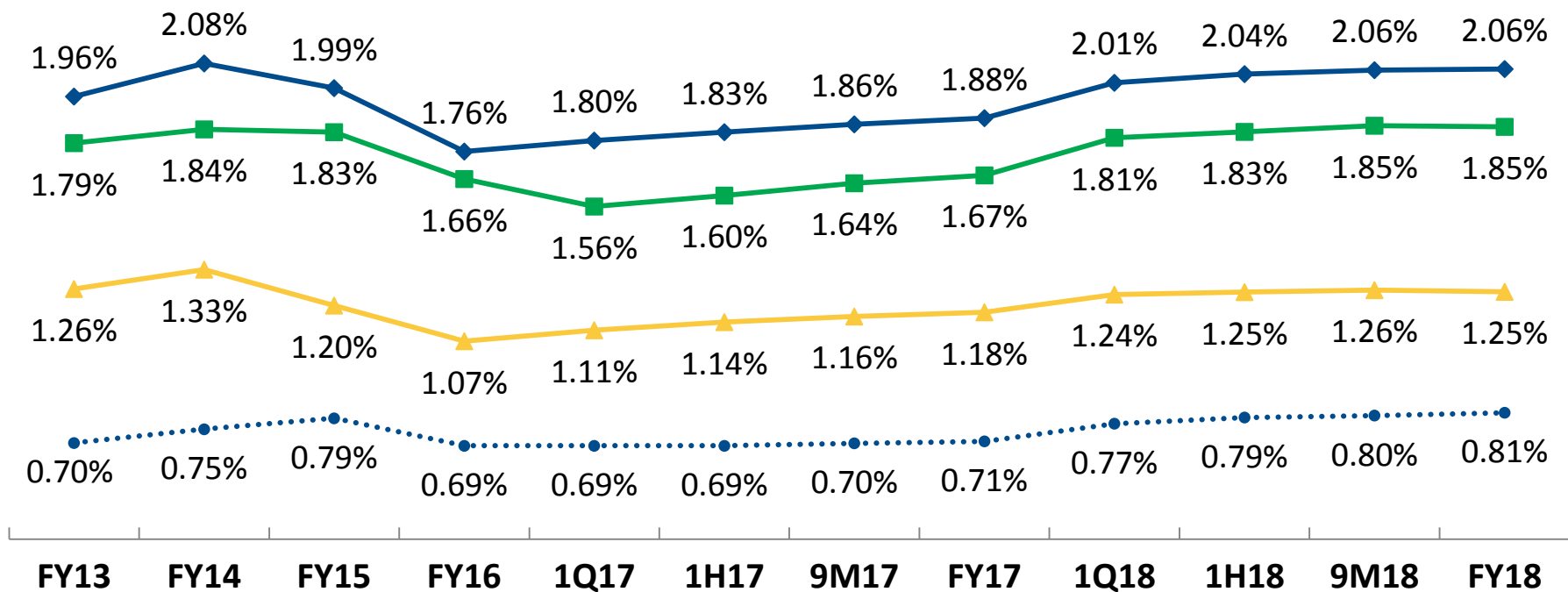
-  Demand Deposit (NT\$BN)
-  Time Deposit



Note : China subsidiary was launched in Sep 2018, hence FY18 loan and deposit excluded preliminary amount of NT\$18BN and NT\$5BN, respectively.

Cathay United Bank – Interest yields

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



	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Quarterly									
Spread	1.59%	1.56%	1.64%	1.74%	1.76%	1.81%	1.85%	1.90%	1.83%
NIM	1.10%	1.11%	1.18%	1.20%	1.22%	1.24%	1.26%	1.27%	1.22%
NIM-pro forma excl. China ⁽²⁾					1.19%	1.21%	1.22%	1.25%	1.22%

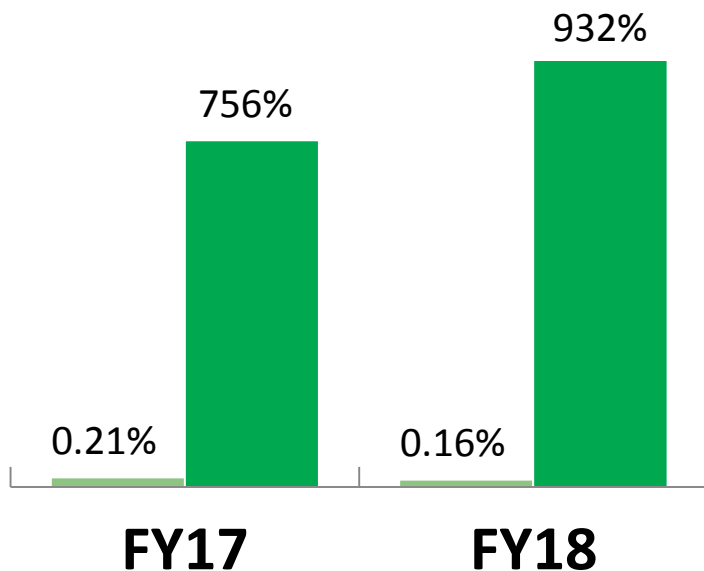
Note : (1) Credit card related loans are included in the calculation of interest spread.

(2) China subsidiary was launched in Sep 2018. Hence, since 9M18, China subsidiary results was excluded.

Cathay United Bank – Credit quality

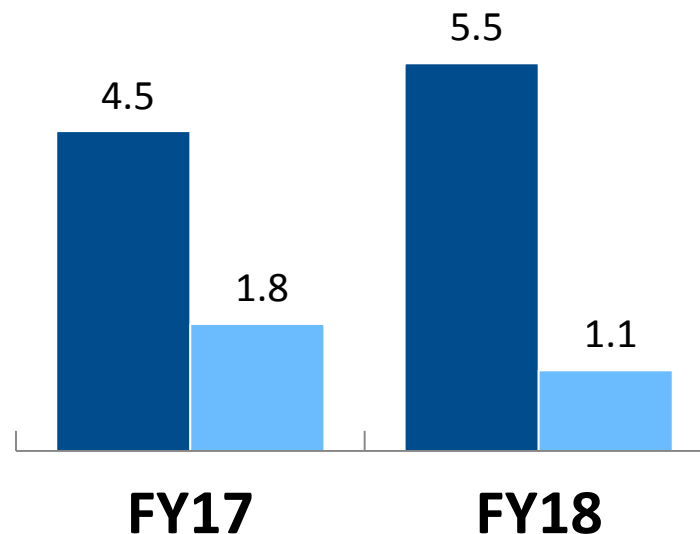
NPL & Coverage ratio

- NPL ratio
- Coverage ratio



Gross provision

- Gross provision (NT\$BN)
- Recovery



Mortgage NPL

0.15%

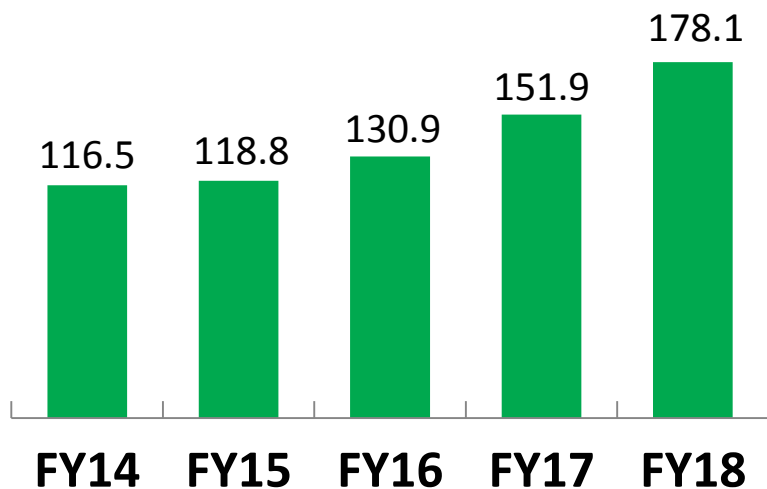
0.15%

Note : China subsidiary was launched in Sep 2018. Hence, FY18 number excluded China subsidiary results. (NPL ratio: 0.18%, Coverage ratio: 1762.67%, Gross provision: NT\$10.6MN, Recovery: 0; preliminary).

Cathay United Bank – SME & FX loans

SME loans

(NT\$BN)

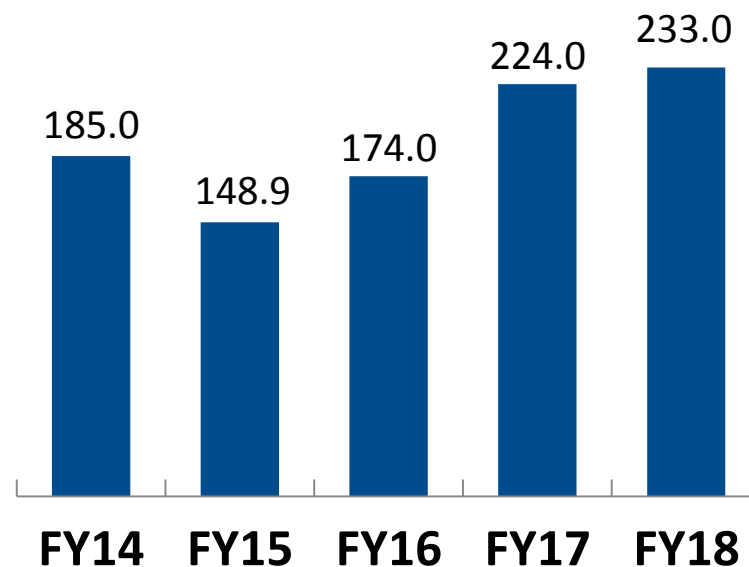


As % of total loans

10.5% 10.5% 9.2% 10.7% 11.4%

Foreign currency loans

(NT\$BN)



16.6% 13.3% 12.2% 15.8% 15.0%

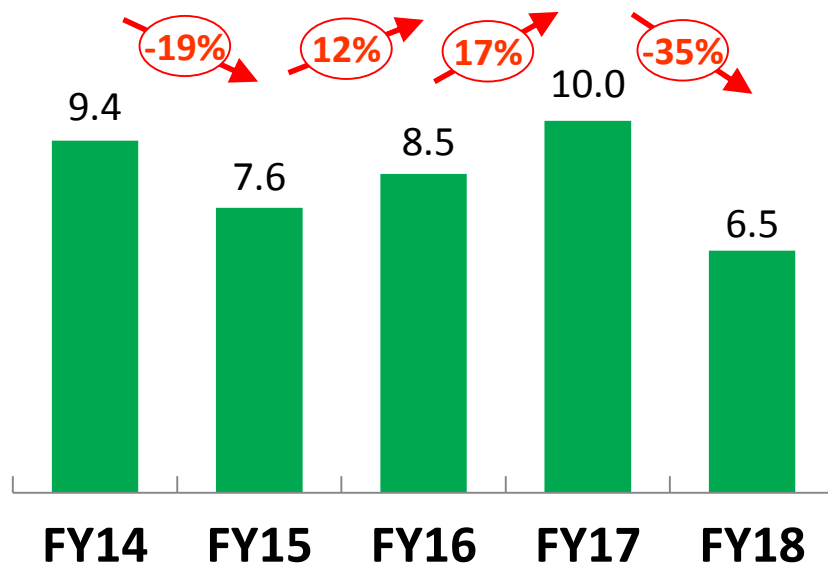
Note : (1) Total loans exclude credit card revolving balance.

(2) China subsidiary was launched in Sep 2018, hence FY18 foreign currency balance excluded NT\$18BN (preliminary) from China subsidiary.

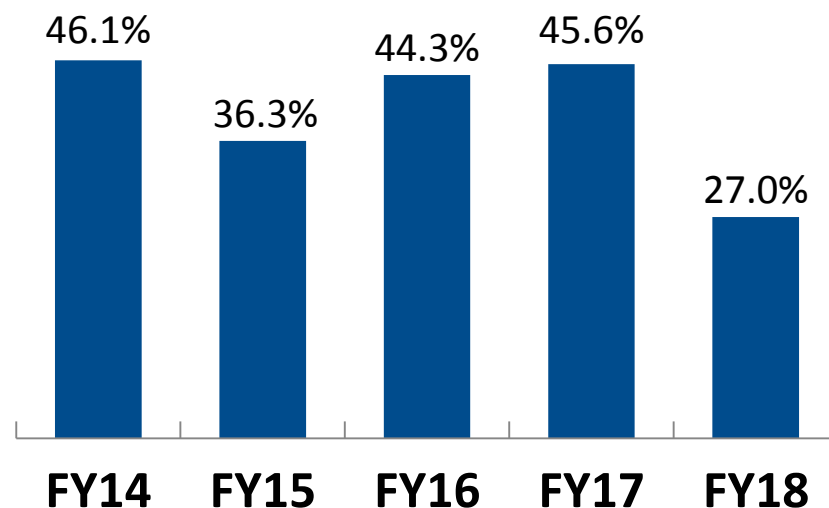
Cathay United Bank – Offshore earnings

Offshore earnings

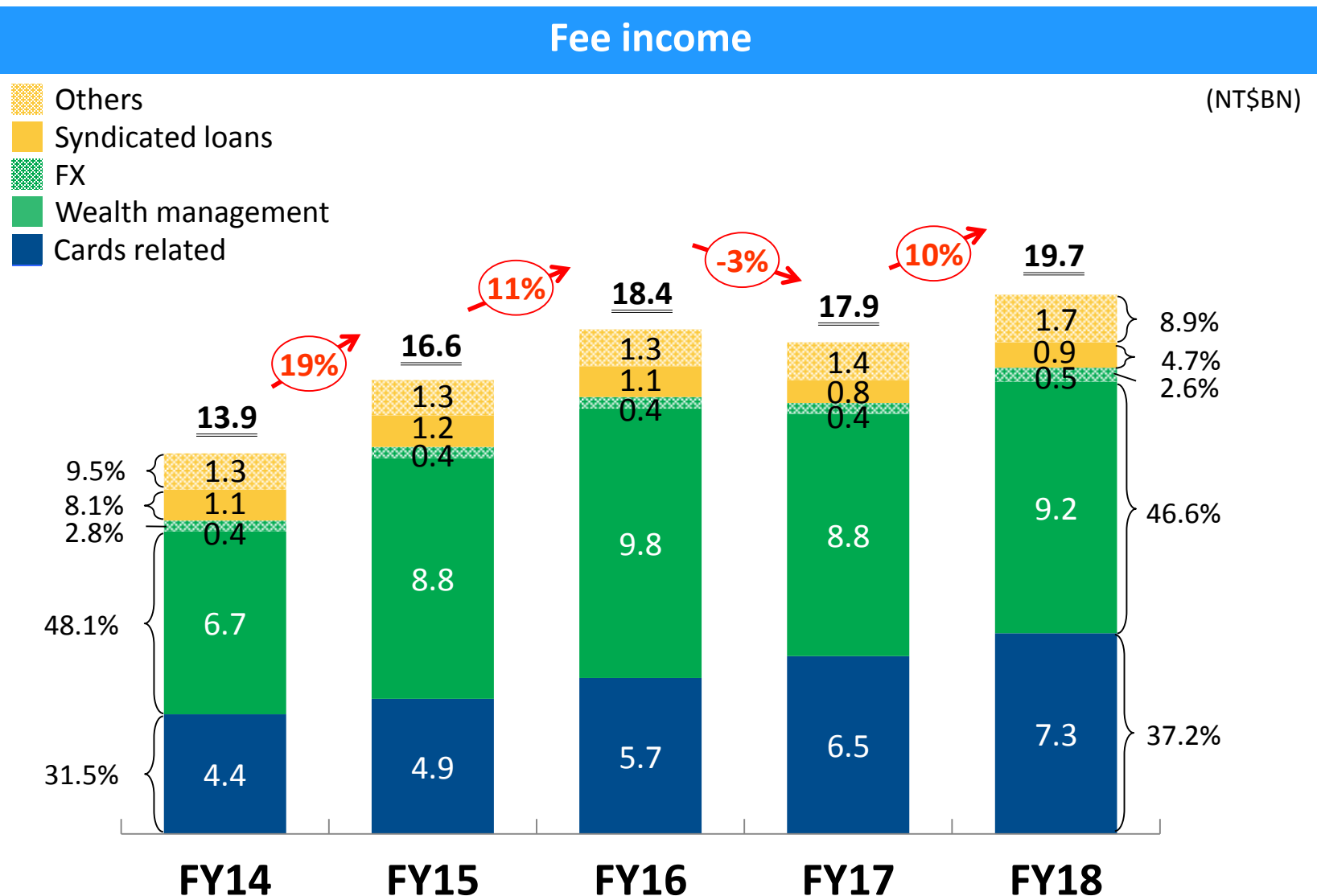
(NT\$BN)



As % of CUB pre-tax profits



Cathay United Bank – Fee income



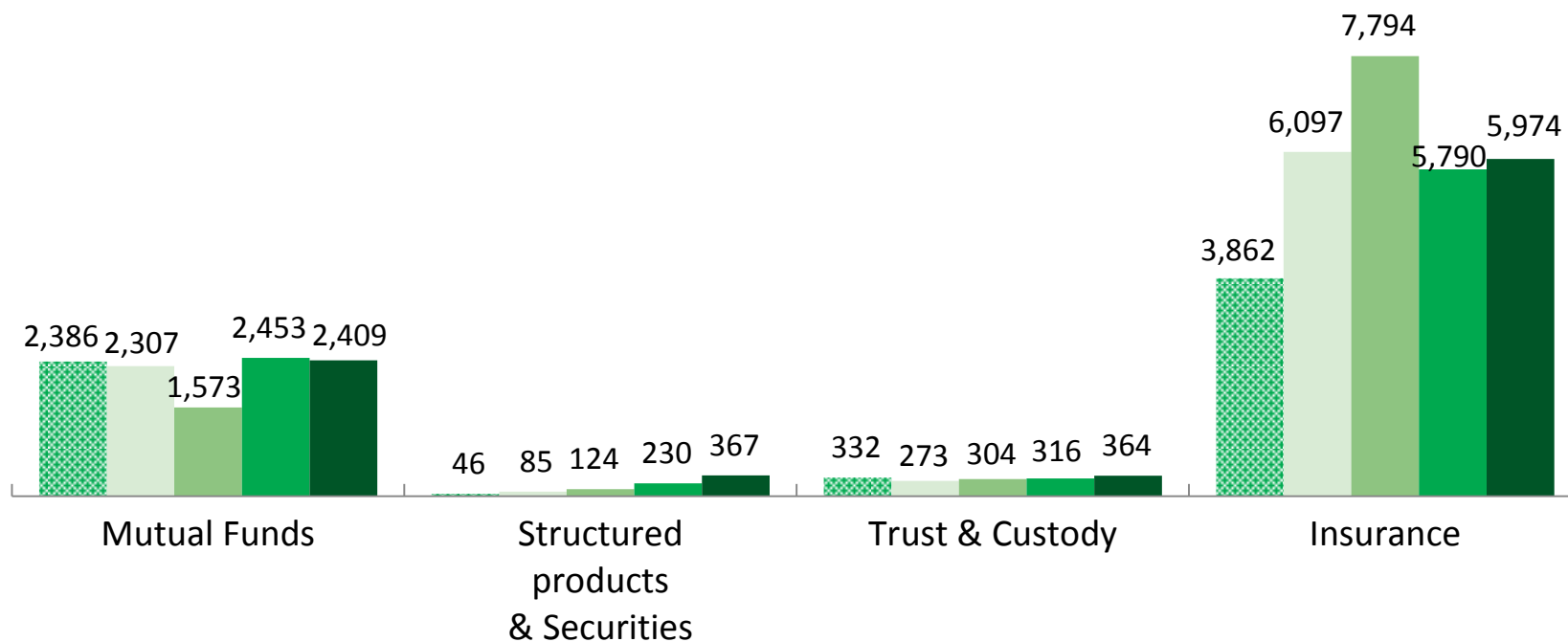
Note : China subsidiary was launched in Sep 2018, hence FY18 fee income excluded NT\$ 5.8MN (preliminary) from China subsidiary.

Cathay United Bank – Wealth management fee

Wealth management fee breakdown

(NT\$MN)	FY14	FY15	FY16	FY17	FY18
Wealth management fee income	6,673	8,779	9,828	8,837	9,183
YoY growth (%)	29.2%	31.6%	11.9%	-10.1%	3.9%

FY14
 FY15
 FY16
 FY17
 FY18








Agenda

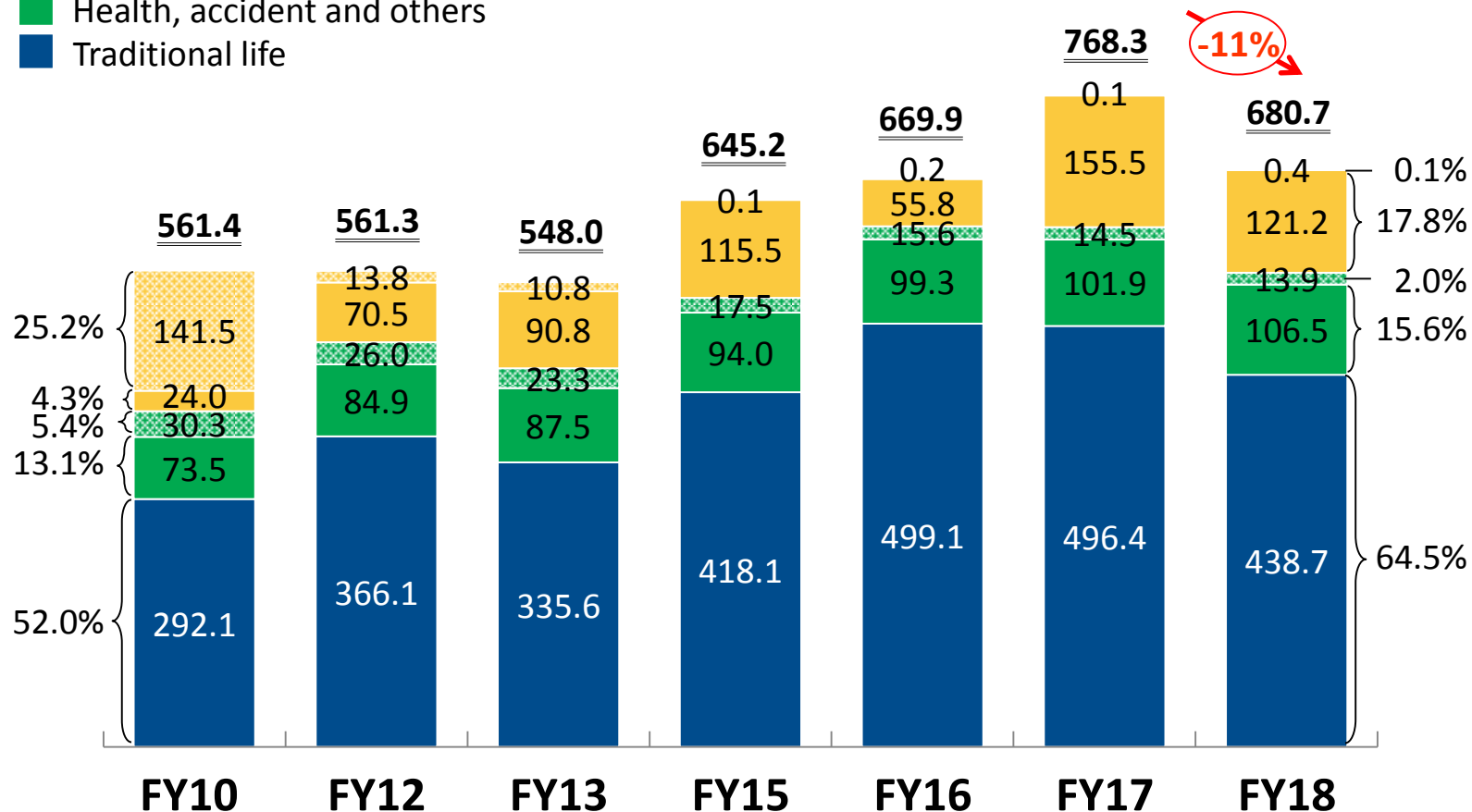
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Cathay Life – Total premium

Total premium

(NT\$BN)

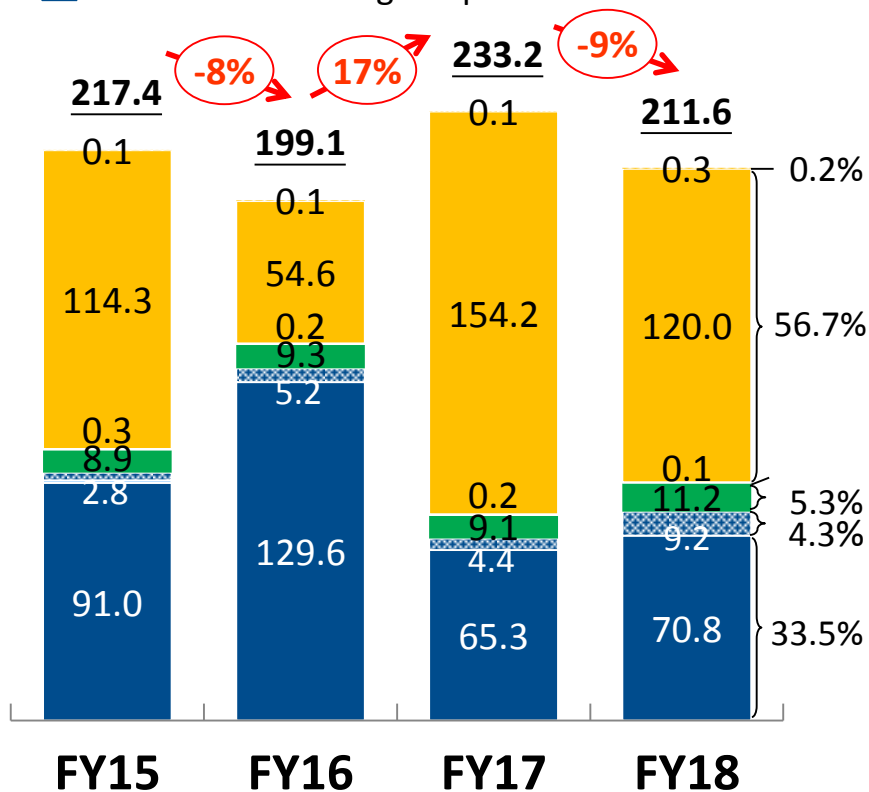
-  Interest sensitive annuity
-  Investment-linked (non-VUL)
-  Investment-linked (VUL)
-  Health, accident and others
-  Traditional life



Cathay Life – FYP & APE

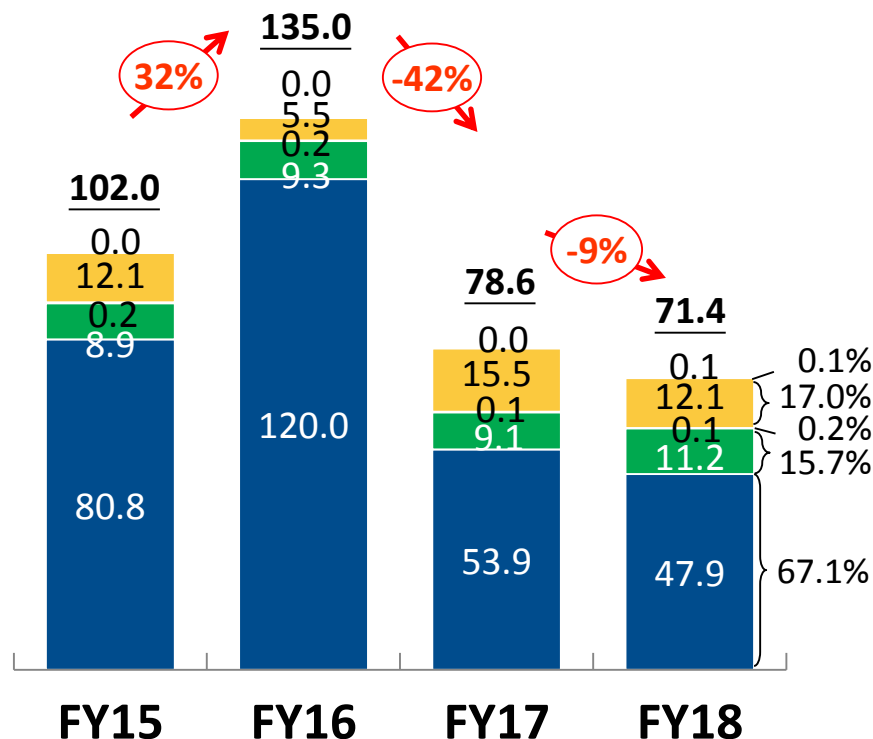
First Year Premium

- 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 FYP (APE)

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

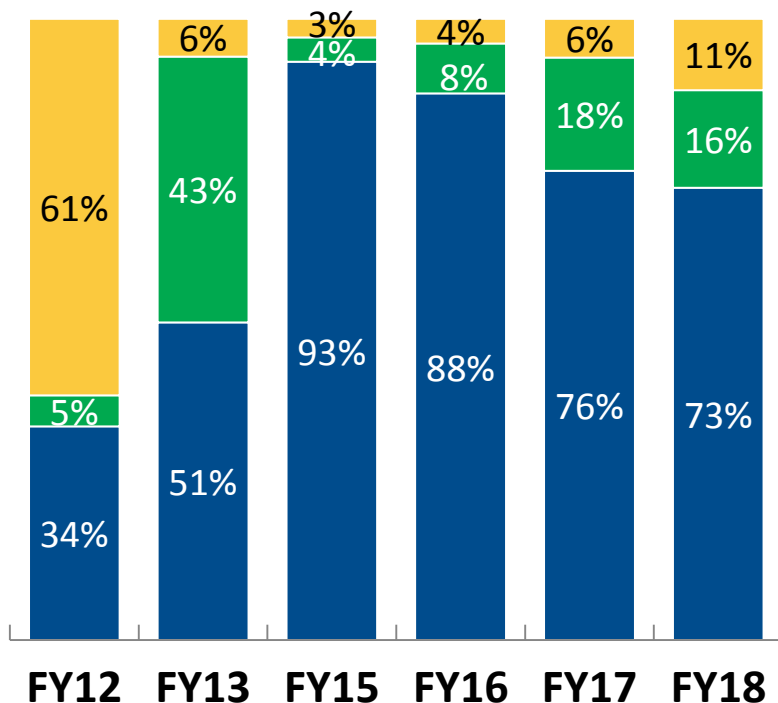


Note: Annualized FYP = 10% x single-paid FYP + 20% x 2-yr-paid FYP + ... + 50% x 5-yr-paid FYP + 100% x 6-yr and above payment term FYP

Cathay Life – Regular paid policies & VNB

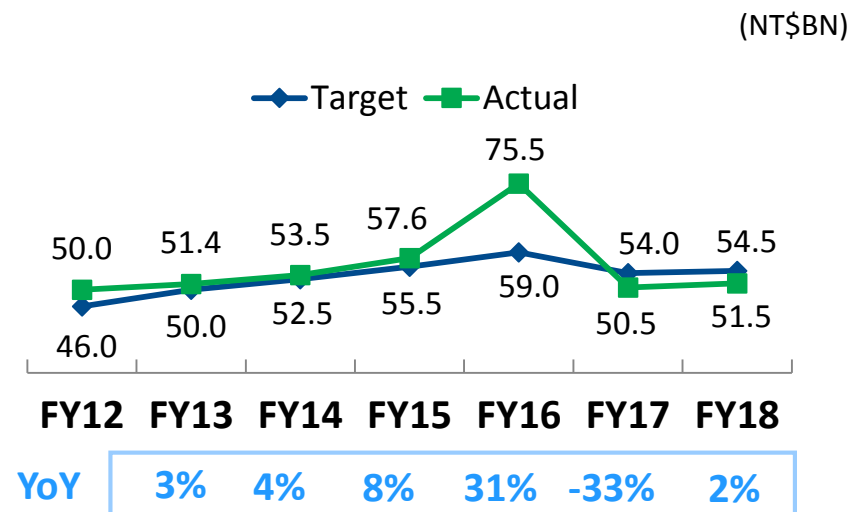
Breakdown of traditional FYP

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



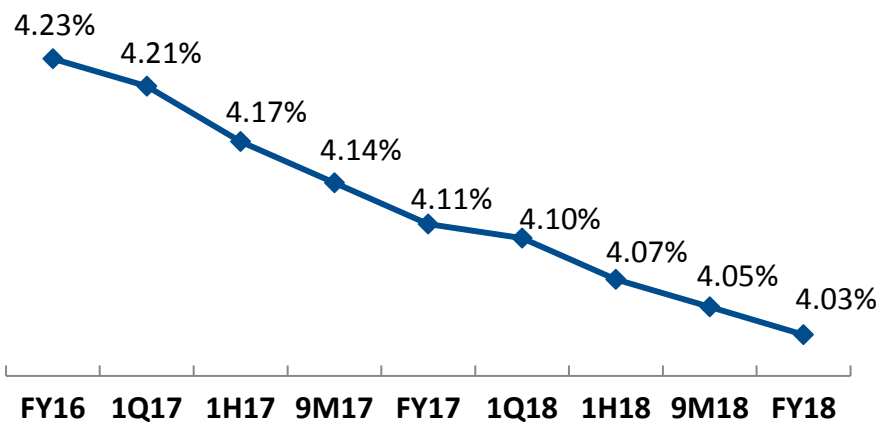
Value for New Business

Profit Margin	FY12	FY13	FY14	FY15	FY16	FY17	FY18
VNB/FYP	19%	26%	23%	27%	38%	22%	24%
VNB/FYPE	54%	70%	75%	57%	56%	64%	72%

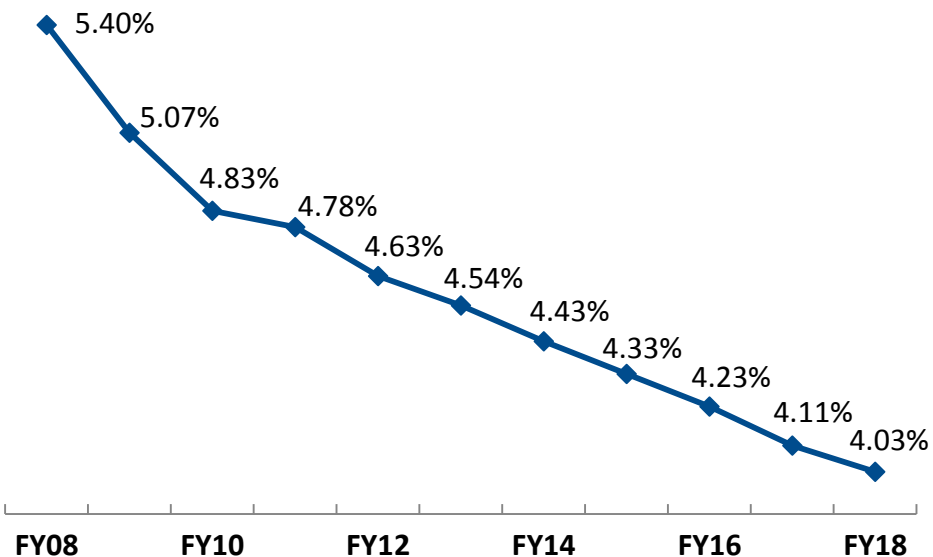


Cathay Life – Cost of liability

Cost of liability (quarterly)



Cost of Liability (annual)



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

Cathay Life – Investment portfolio

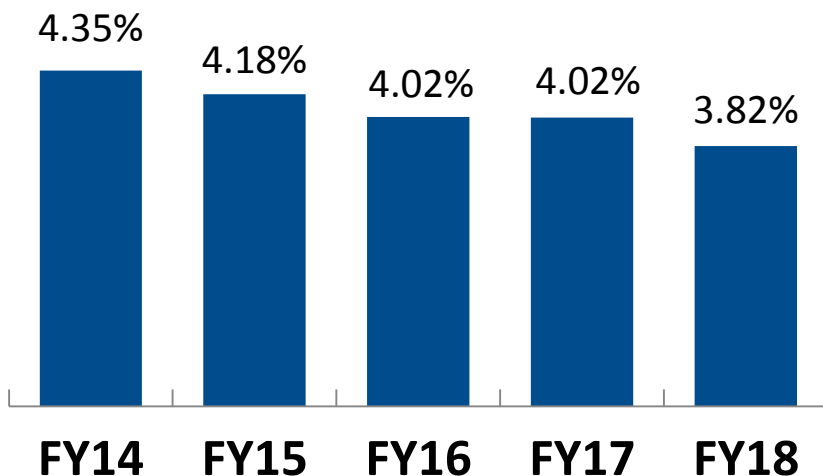
(NT\$BN)	FY15	FY16	FY17			FY18		
Total investments⁽¹⁾	4,636.6	5,001.1	5,502.6			5,761.0		
	Weight	Weight	Weight	Amount	Return	Weight	Amount	Return
Cash & Cash equivalents	1.3%	1.3%	1.6%	87	0.5%	1.1%	61	0.6%
Equity- Domestic	7.4%	7.9%	8.4%	465	9.1%	7.5%	431	9.6%
Equity- International ⁽²⁾	6.2%	6.4%	6.3%	347	8.3%	6.7%	388	8.7%
Bond- Domestic	8.0%	6.5%	5.5%	305	2.1%	5.0%	287	3.6%
Bond- International ⁽¹⁾⁽²⁾	50.6%	53.8%	55.7%	3,063	5.0%	58.6%	3,374	4.6%
Mortgage & Secured loans	10.2%	8.9%	8.1%	444	1.8%	7.1%	411	2.0%
Policy loans	3.6%	3.3%	3.0%	166	5.8%	3.0%	170	5.8%
Real estate	10.5%	9.8%	9.2%	496	2.3%	8.7%	501	2.3%
Others	2.1%	2.2%	2.4%	130		2.4%	140	

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

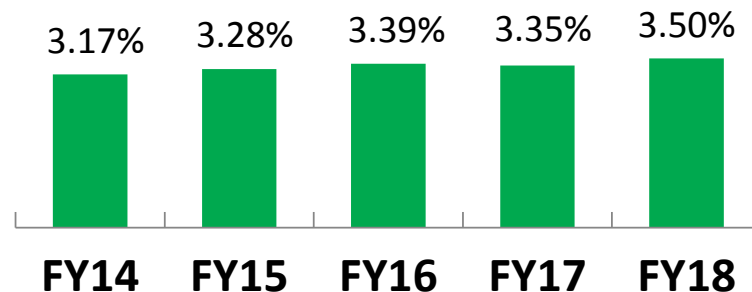
(2) Yields of international equity and international bond are pre-hedge investment yields.

Cathay Life – Investment performance highlight

After-hedging investment yield

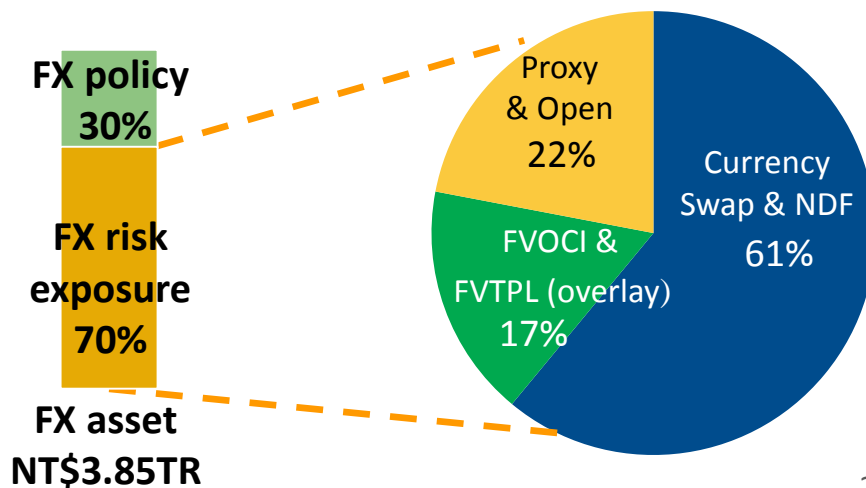


Pre-hedging recurring yield



Currency hedging structure

FY18 Hedging cost 1.28%

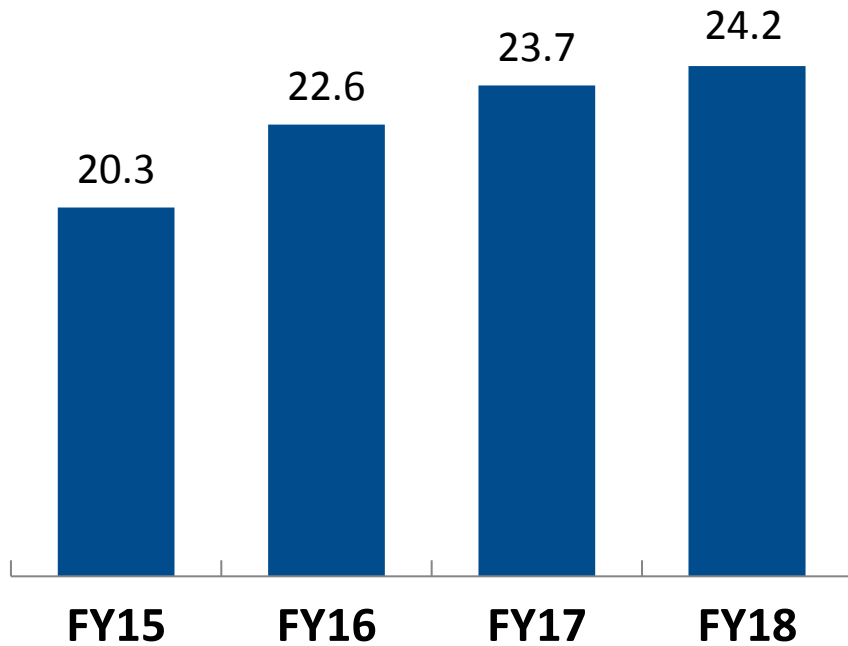


Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.

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

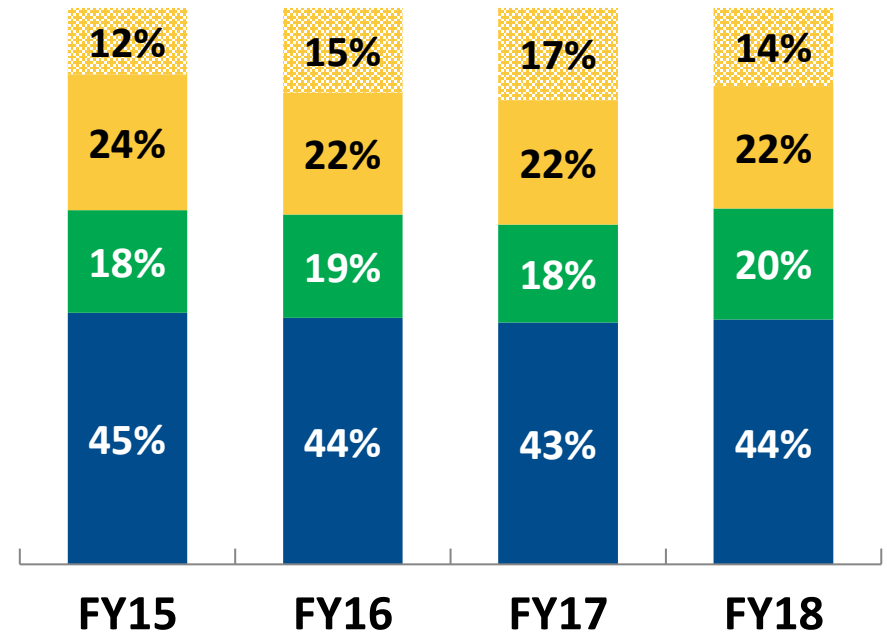
Cash dividend income

(NT\$BN)



Overseas fixed income by region

- Others
- Asia Pacific
- Europe
- North America

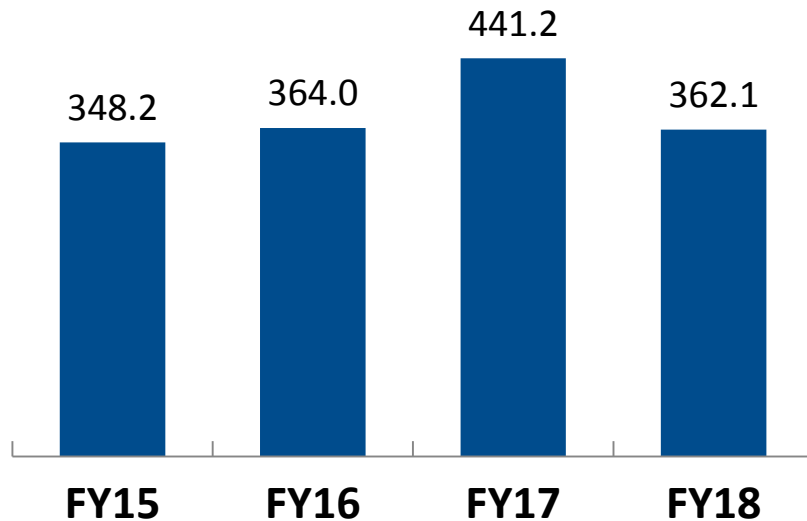


Note: Exclude overseas deposit.

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

Book value

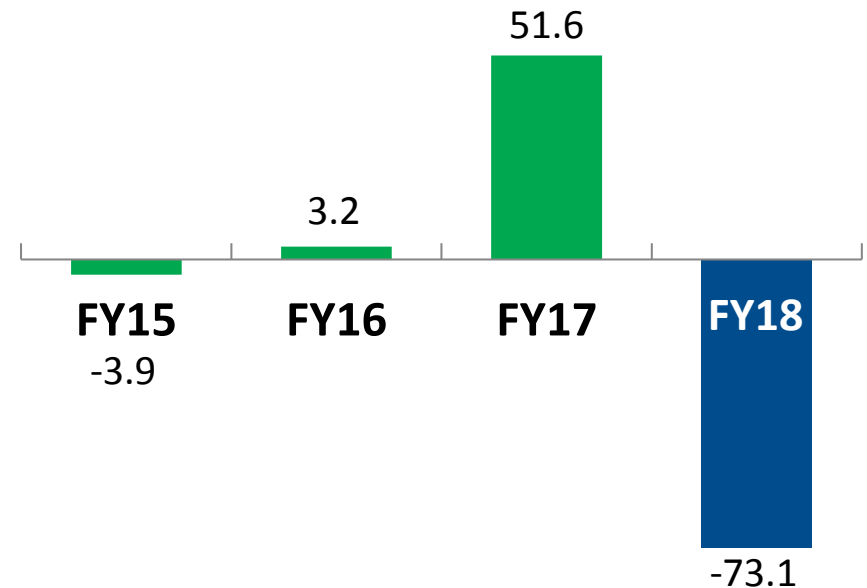
(NT\$BN)



Unrealized G/L of financial assets

(NT\$BN)

- AFS financial assets
- FVOCI & FVTPL (overlay approach)

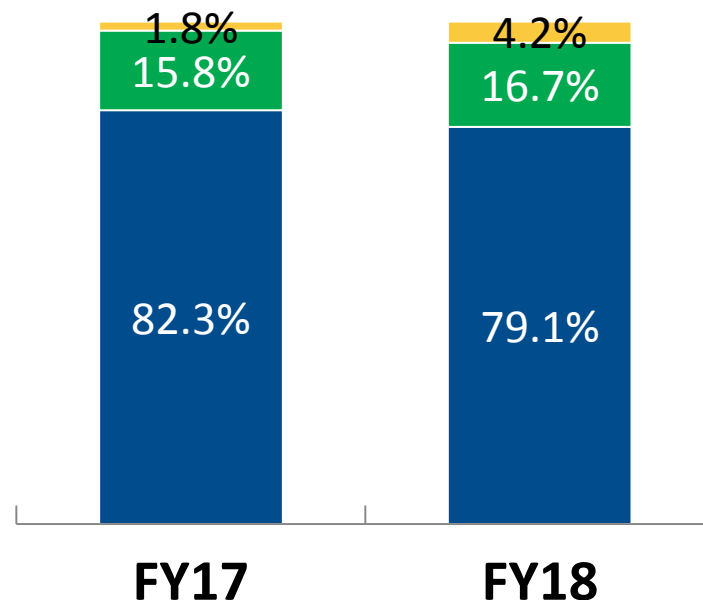
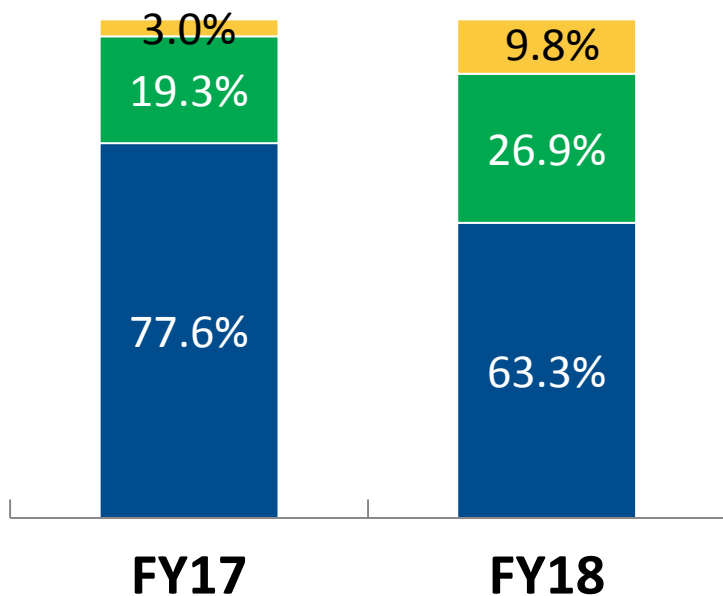


Cathay Life – Distribution channel

First Year Premium

Annualized FYP (APE)

- Others
- Bancassurance-CUB
- Tied agents

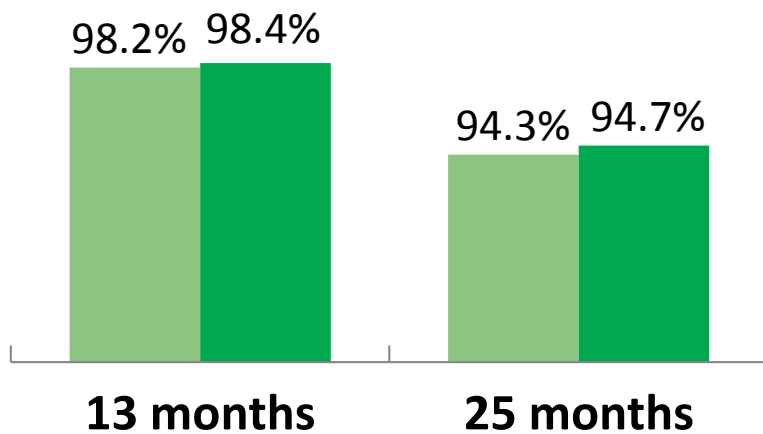


Cathay Life – Operational indicators

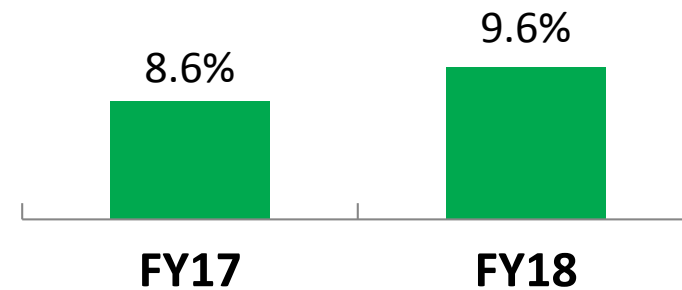
Persistency ratio

FY17

FY18



Expense ratio

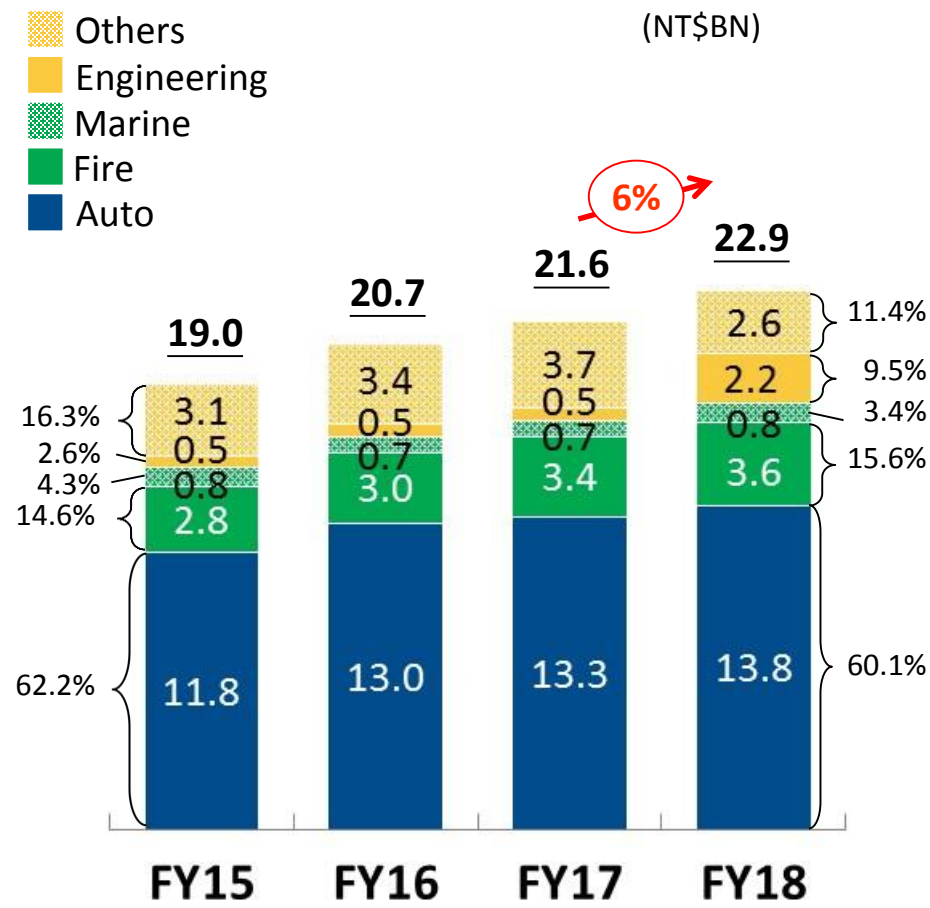


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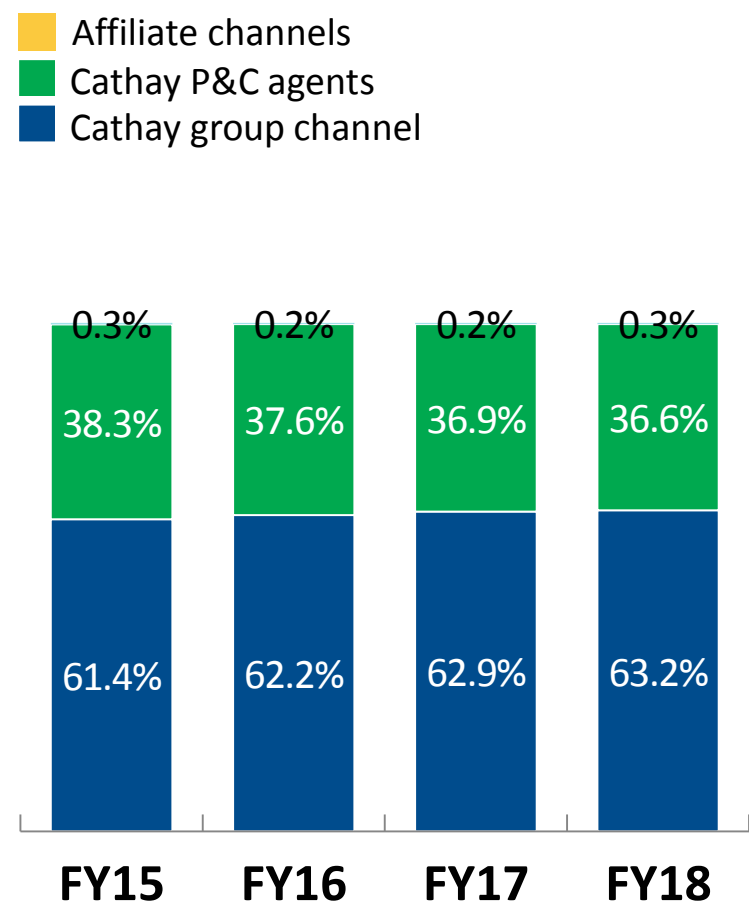
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Cathay Century – Premium income & Distribution channel

Premium income (NT\$BN)



Distribution channel

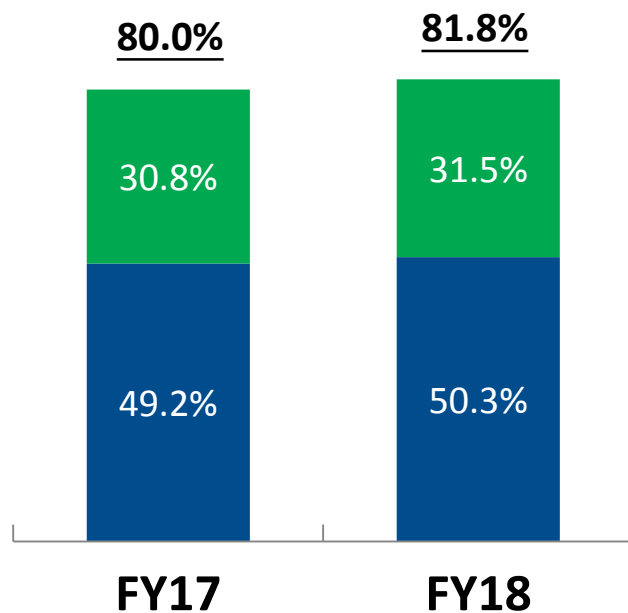


Market share	13.3%	13.6%	13.1%	13.0%
Retention	74.9%	75.7%	76.2%	77.1%

Cathay Century – Combined ratio

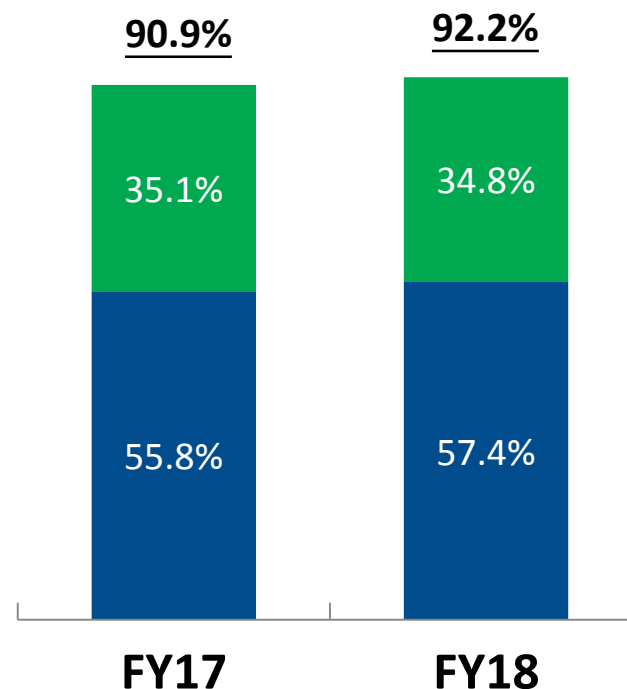
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio

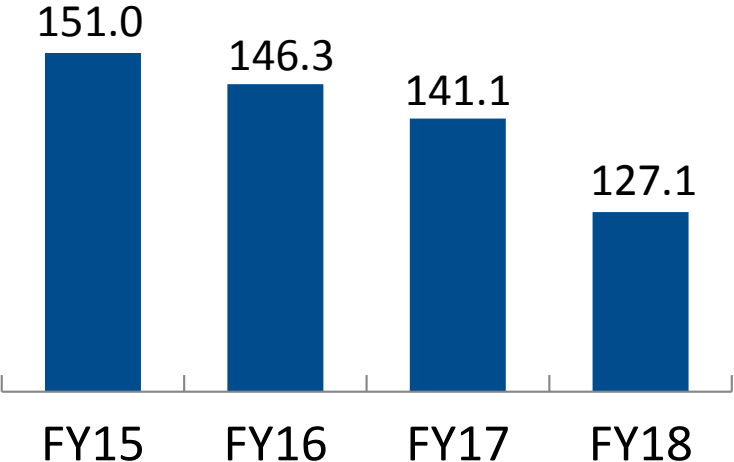


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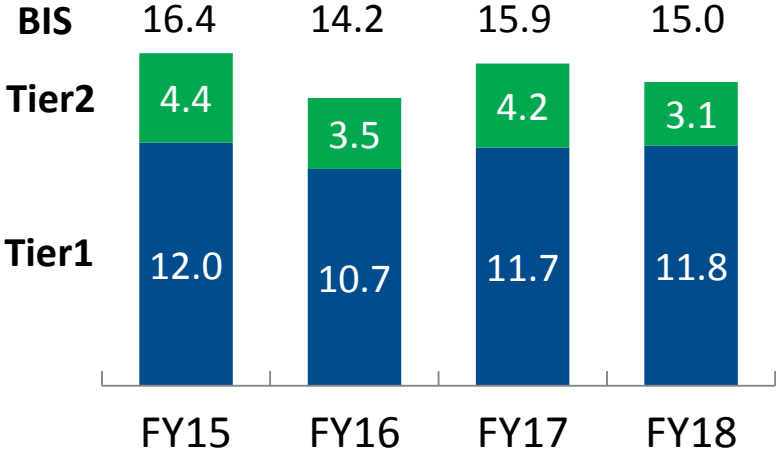
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Capital adequacy

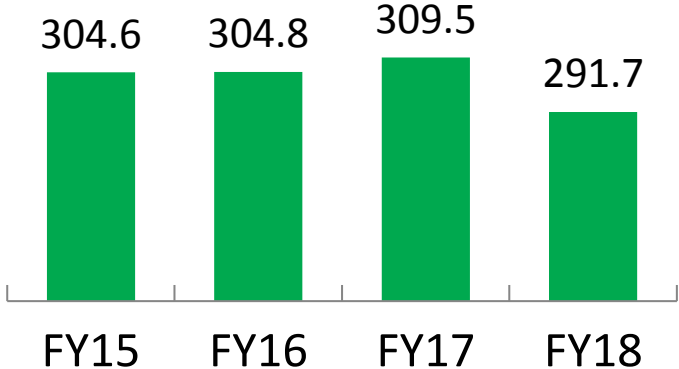
Cathay FHC CAR (%)



CUB Capital Adequacy (%)

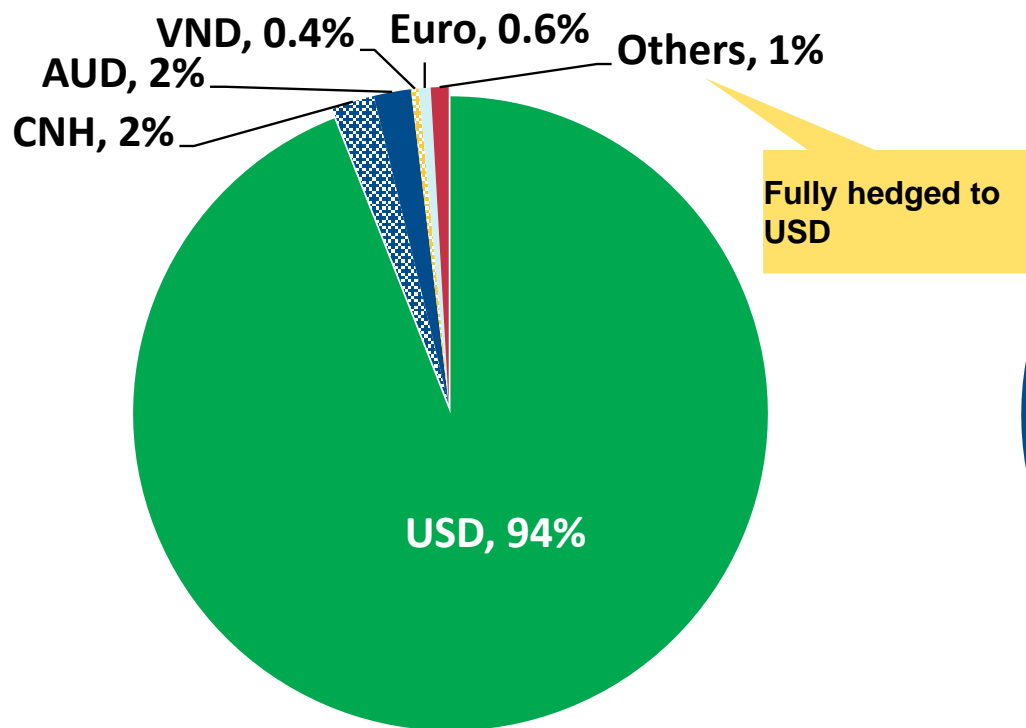


Cathay Life RBC (%)

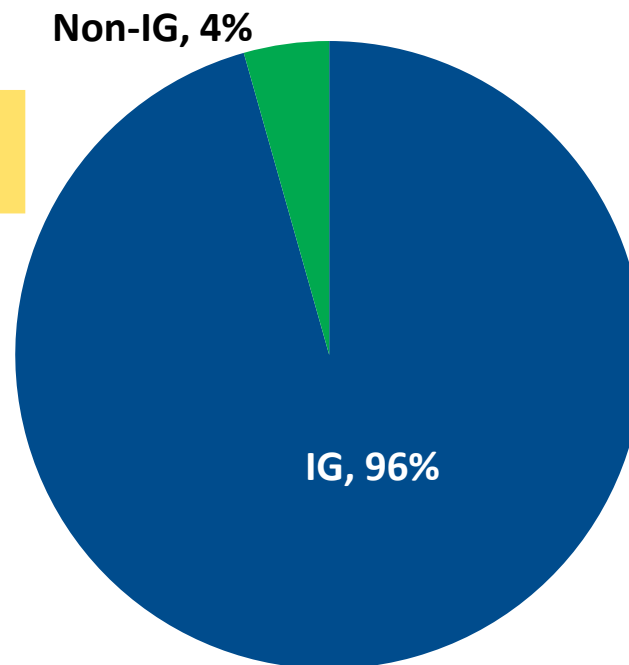


Cathay Life – Overseas bond breakdown by currency and rating

Overseas bond by currency (FY18)



Overseas bond by rating (FY18)



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Cathay Financial Holdings
(NT\$MMN)

Income Statement Data (Consolidated)	FY16	FY17	FY18	FY18/	4Q17	4Q18	4Q18/
				FY17			% Chg
Operating Income							
Net interest income	153,478	168,461	180,628	7%	43,480	48,223	11%
Net commission and fee	(8,050)	1,070	2,883	170%	(607)	(36)	94%
Net earned premium	622,916	624,617	576,811	-8%	173,932	171,190	-2%
Change in liability reserve	(408,614)	(445,833)	(334,122)	-25%	(126,543)	(94,801)	-25%
Net claims payment	(308,697)	(295,503)	(368,656)	25%	(76,720)	(105,240)	37%
Investment income	37,782	62,065	82,634	33%	12,094	1,249	-90%
Contribution from associates-equity method	1,202	1,298	1,004	-23%	223	(38)	-117%
Other net non-interest income	40,606	22,446	(1,378)	-106%	3,813	(621)	-116%
Bad debt expense	(5,232)	(3,460)	(4,599)	33%	(1,579)	(2,534)	60%
Operating expense	(75,207)	(75,526)	(79,606)	5%	(21,544)	(21,201)	-2%
Income before taxes	50,185	59,636	55,599	-7%	6,548	(3,809)	-158%
Income taxes	(2,145)	(2,962)	(3,777)	27%	1,865	1,034	45%
Net income	48,039	56,673	51,822	-9%	8,412	(2,775)	-133%
EPS (NT\$)	3.79	4.47	3.95		0.66	(0.23)	
Dividend Payout							
Cash dividend per share	2.00	2.50					
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 (Consolidated)							
Total assets	8,135,137	8,841,510	9,224,484				
Total shareholders' equity	529,824	608,471	529,289				
Operating Metrics							
ROAE (Consolidated)	9.70%	9.96%	8.83%				
ROAA (Consolidated)	0.61%	0.67%	0.57%				
Double leverage ratio(inc. preferred stock)	105%	108%	112%				
Capital Adequacy Metrics							
Capital Adequacy Ratio	146%	141%	127%				

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(3) Starting from 2018/1/1, Cathay FHC adopted IFRS9. The comparative information for prior periods was not restated.

Cathay Life

(NT\$MN)

Income Statement Data (Consolidated)	FY16	FY17	FY18	FY18/	4Q17	4Q18	4Q18/
				FY17			% Chg
Net written premium	605,910	608,404	559,386	-8%	169,696	166,666	-2%
Net earned premium	605,231	607,547	558,929	-8%	169,010	165,997	-2%
Reinsurance commission earned	363	301	762	153%	7	306	4591%
Fee income	5,542	9,468	9,148	-3%	2,556	2,082	-19%
Recurring investment income	161,051	173,846	197,281	13%	40,690	47,099	16%
Gain on disposal of investment							
Realized gain (loss)-Equity	18,210	43,625	49,374	13%	10,323	4,430	-57%
Realized gain (loss)-Debt	29,382	21,233	15,092	-29%	4,763	2,358	-50%
Gain on investment property	5,000	(756)	(740)	2%	(384)	(108)	72%
FX and others, net	(21,333)	(28,258)	(44,019)	-56%	(6,509)	(14,854)	-128%
Investment income, net	192,310	209,691	216,988	3%	48,882	38,925	-20%
Other operating income	5,032	5,069	5,508	9%	1,298	1,470	13%
Separate account revenues	39,589	44,304	28,084	-37%	8,052	(1,596)	-120%
Net claims payment	(297,201)	(284,023)	(357,244)	26%	(73,107)	(101,642)	39%
Changes in liability reserves	(408,398)	(445,843)	(333,716)	-25%	(126,658)	(94,603)	-25%
Acquisition and commission expense	(38,901)	(32,507)	(33,900)	4%	(9,455)	(9,150)	-3%
Other operating costs	(6,381)	(6,418)	(7,765)	21%	(1,816)	(2,059)	13%
Financial cost	(413)	(1,963)	(2,331)	19%	(590)	(592)	0%
Separate account expense	(39,589)	(44,304)	(28,084)	-37%	(8,052)	1,596	-120%
Operating expense	(30,768)	(28,790)	(29,165)	1%	(7,578)	(7,614)	0%
Net non-operating income	1,956	1,442	1,312	-9%	424	245	-42%
Income taxes	1,861	2,294	1,773	-23%	2,346	683	-71%
Net income	30,235	36,268	30,297	-16%	5,317	(5,952)	-212%

Balance Sheet Data

Total assets	5,556,950	6,097,655	6,391,395
General account	5,058,936	5,542,385	5,844,430
Separate account	498,014	555,269	546,964
Reserves for life insurance liabilities	4,567,324	4,944,292	5,313,167
Total liabilities	5,192,967	5,656,473	6,029,265
Total shareholders' equity	363,984	441,181	362,129

Operating Metrics (Standalone)

First Year Premium(FYP)	199,082	233,250	211,588
First Year Premium Equivalent(FYPE)	135,035	78,602	71,372
Expense ratio	10.3%	8.6%	9.6%
13-M persistency ratio	98.3%	98.2%	98.4%
25-M persistency ratio	92.2%	94.3%	94.7%
ROAE	8.49%	9.01%	7.25%
ROAA	0.56%	0.62%	0.48%

Capital Adequacy Metrics (Standalone)

RBC ratio	305%	309%	292%
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Cathay United Bank

(NT\$MN)				FY18/ FY17			4Q18/ 4Q17
<u>Income Statement Data (Consolidated)</u>	FY16	FY17	FY18	% Chg	4Q17	4Q18	% Chg
Operating Income							
Net interest income	25,910	29,701	33,397	12%	7,608	8,799	16%
Fee income	15,745	14,862	16,678	12%	3,243	3,805	17%
Investment income	8,278	9,442	9,862	4%	2,157	1,073	-50%
Other income	1,222	1,216	918	-25%	234	299	28%
Net operating income	51,154	55,222	60,855	10%	13,241	13,976	6%
Operating expenses	(26,959)	(29,301)	(31,340)	7%	(8,700)	(8,233)	-5%
Pre-provision profit	24,195	25,920	29,515	14%	4,541	5,743	26%
Net provisions for possible losses	(4,455)	(3,494)	(5,032)	44%	(1,616)	(2,720)	68%
Income before taxes	19,740	22,426	24,483	9%	2,926	3,023	3%
Income tax	(2,229)	(2,763)	(3,230)	17%	(280)	(174)	-38%
Net income	17,511	19,664	21,253	8%	2,646	2,849	8%
Balance Sheet Data							
Total assets	2,566,669	2,735,704	2,843,881				
Loans, net	1,437,531	1,434,558	1,595,323				
Financial assets	849,989	859,590	878,001				
Total liability	2,406,701	2,553,396	2,638,074				
Deposits	2,032,600	2,098,368	2,227,662				
Financial Debenture Payable	51,900	63,350	55,600				
Total shareholders' equity	159,968	182,308	205,807				
Operating Metrics							
Cost income ratio	52.70%	53.06%	51.50%				
ROAE	11.06%	11.49%	10.86%				
ROAA	0.71%	0.74%	0.76%				
Assets Quality (Standalone)							
NPL	2,133	2,982	2,563				
NPL ratio	0.15%	0.21%	0.16%				
NPL provisions	19,686	22,553	23,879				
Coverage ratio	923%	756%	932%				
Capital Adequacy Metrics (Standalone)							
BIS ratio	14.2%	15.9%	15.0%				
Tier I Ratio	10.7%	11.7%	11.9%				
LDR (Standalone)							
TWD LDR	78.8%	73.7%	77.7%				
FX LDR	40.4%	49.1%	46.6%				

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Cathay Century

(NT\$MM)				FY18/ FY17 % Chg	4Q17	4Q18	4Q18/ 3Q17 % Chg
<u>Income Statement Data (Consolidated)</u>							
Premium income	22,774	21,878	23,186	6%	5,830	6,144	5%
Net written premium	17,390	16,610	17,797	7%	4,355	4,635	6%
Net earned premium	17,213	16,344	17,349	6%	4,163	4,437	7%
Reinsurance commission earned	526	489	556	14%	134	162	21%
Fee income	44	42	43	3%	10	11	4%
Investment	2,082	892	640	-28%	128	(165)	-228%
Interest income	568	547	559	2%	138	138	0%
Other investment income, net	1,514	345	81	-76%	(9)	(303)	-3181%
Other operating income	0	0	0		0	0	
Net claims payment	(9,559)	(9,138)	(9,408)	3%	(2,389)	(2,433)	2%
Changes in liability reserves	(209)	10	(406)	4148%	116	(198)	271%
Commissions and other operating costs	(3,015)	(2,859)	(3,043)	6%	(756)	(800)	6%
Operating expenses	(4,248)	(3,609)	(3,848)	7%	(969)	(1,028)	6%
Operating income	2,834	2,170	1,883	-13%	438	(13)	-103%
Net non-operating income	(1)	(16)	(24)	-53%	(2)	(15)	-675%
Income taxes	(492)	(297)	(349)	18%	(81)	(40)	-50%
Net income	2,342	1,858	1,510	-19%	356	(68)	-119%
<u>Balance Sheet Data</u>							
Total assets	38,250	38,351	37,956				
Total stockholders' equity	9,216	10,517	10,025				
<u>Operating Metrics</u>							
Gross Combined ratio	99.3%	80.0%	81.8%				
Net Combined ratio	93.3%	90.9%	92.2%				
ROAE	28.50%	18.83%	14.69%				
ROAA	5.83%	4.85%	3.96%				
<u>Capital Adequacy Metrics</u>							
RBC ratio (Standalone)	385%	392%	370%				

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