



# 2019 Fourth Quarter Briefing

March 2020

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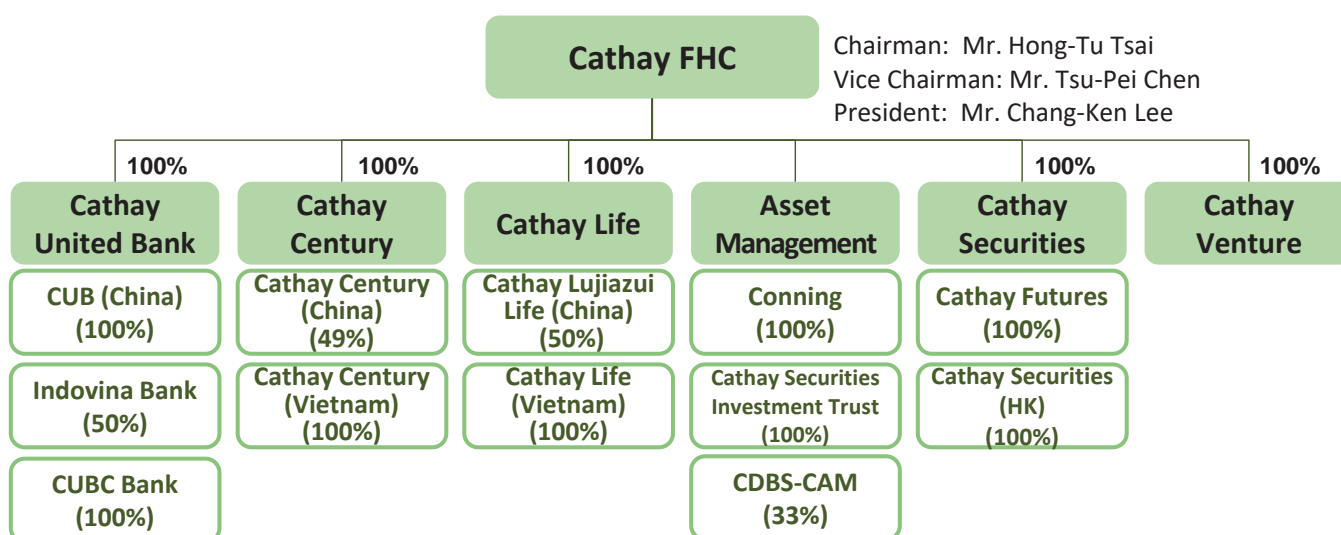
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# Agenda

- Introduction of Cathay FHC
- 2019 Business Overview and 2020 Outlook
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- M&A Key Highlights
- Appendix

## Cathay FHC: largest FHC, comprehensive products



- One of the largest private banks in terms of total assets
- No. 2 credit card issuer
- The largest brokerage settlement bank

- 2<sup>nd</sup> biggest non-life insurer
- Market share in total premium income: 13.1% (FY19).

- No. 1 life insurer in terms of total assets and total premium
- Market share in total premium: 19.4% (FY19).

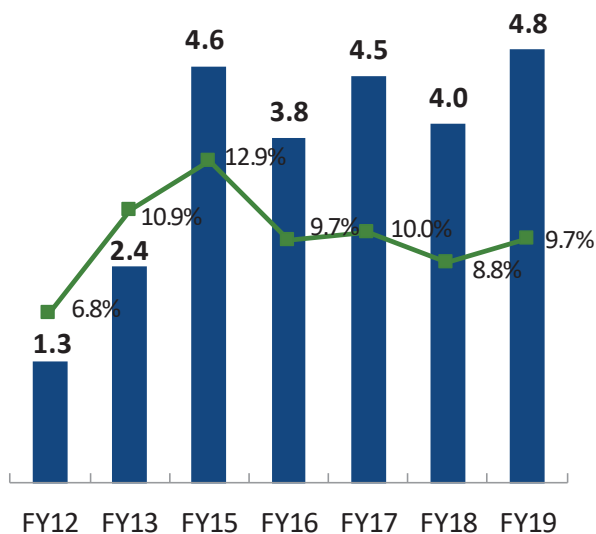
- Building global asset management platform
- Largest AUM among asset managers in Taiwan

- Investment banking, brokerage, and prop trading businesses
- Strong underwriting and capital raising platform
- Diversified products and services

# Cathay FHC continued to deliver solid earnings

## EPS & ROE

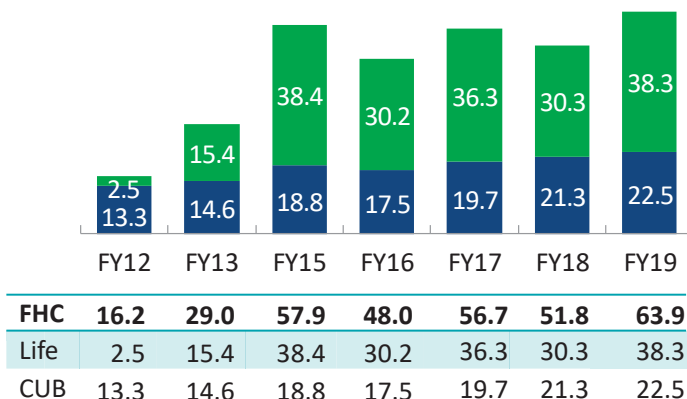
■ EPS ■ ROE (NT\$/%)



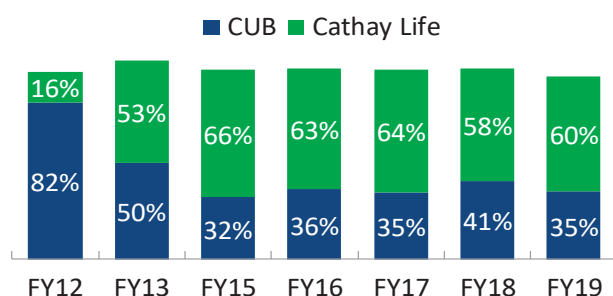
- Note: (1) FY13 figures do not reflect the impact from applying fair value method on investment property.  
 (2) Since Cathay FHC has more subsidiaries other than Cathay Life and CUB, besides, due to affiliate transactions, the Cathay FHC net income might not equal to the sum of Cathay Life and CUB's.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

## Profit contribution

■ CUB ■ Cathay Life (NT\$BN)



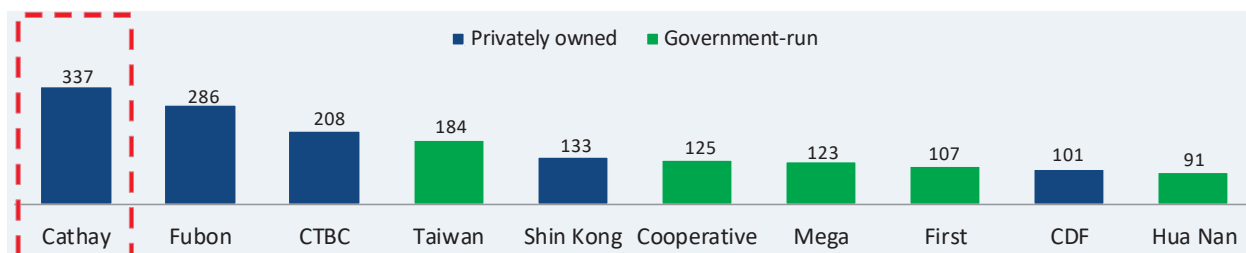
	FY12	FY13	FY15	FY16	FY17	FY18	FY19
<b>FHC</b>	<b>16.2</b>	<b>29.0</b>	<b>57.9</b>	<b>48.0</b>	<b>56.7</b>	<b>51.8</b>	<b>63.9</b>
Life	2.5	15.4	38.4	30.2	36.3	30.3	38.3
CUB	13.3	14.6	18.8	17.5	19.7	21.3	22.5



# Market leader in Taiwan's FIG sector

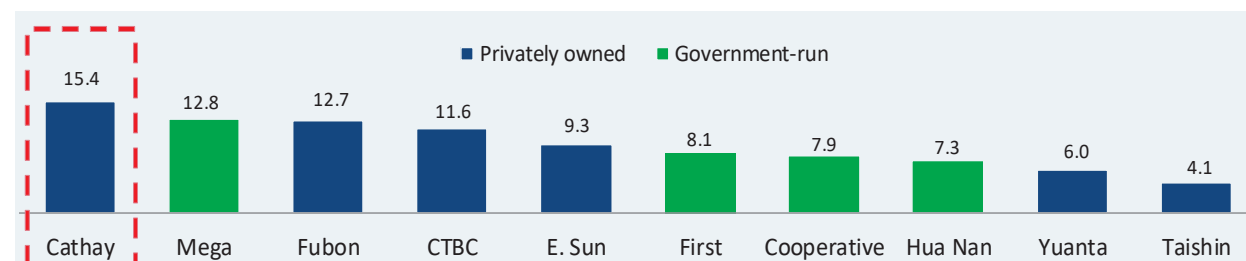
█ Largest listed financials group by market capitalization and assets.

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



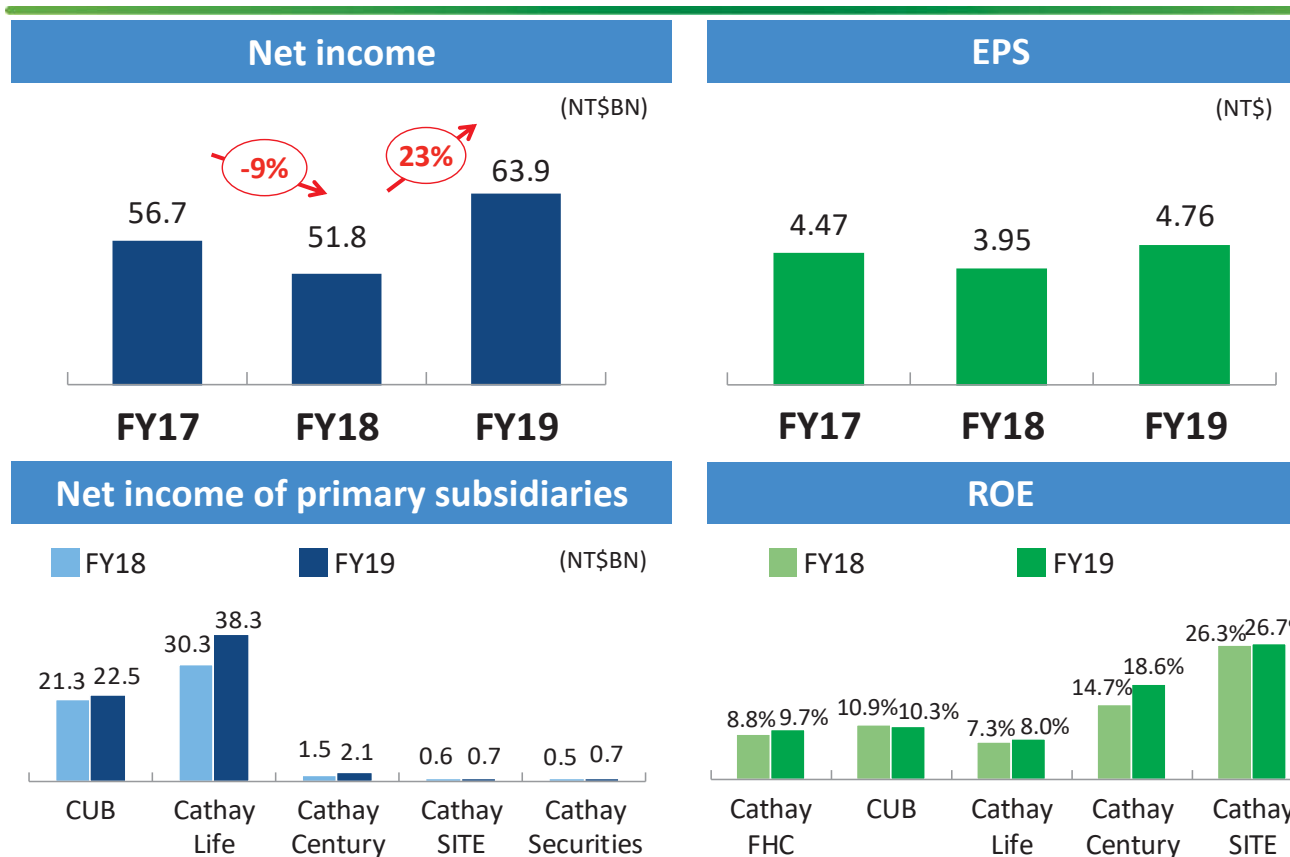
Note: Total assets as of December 31, 2019

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

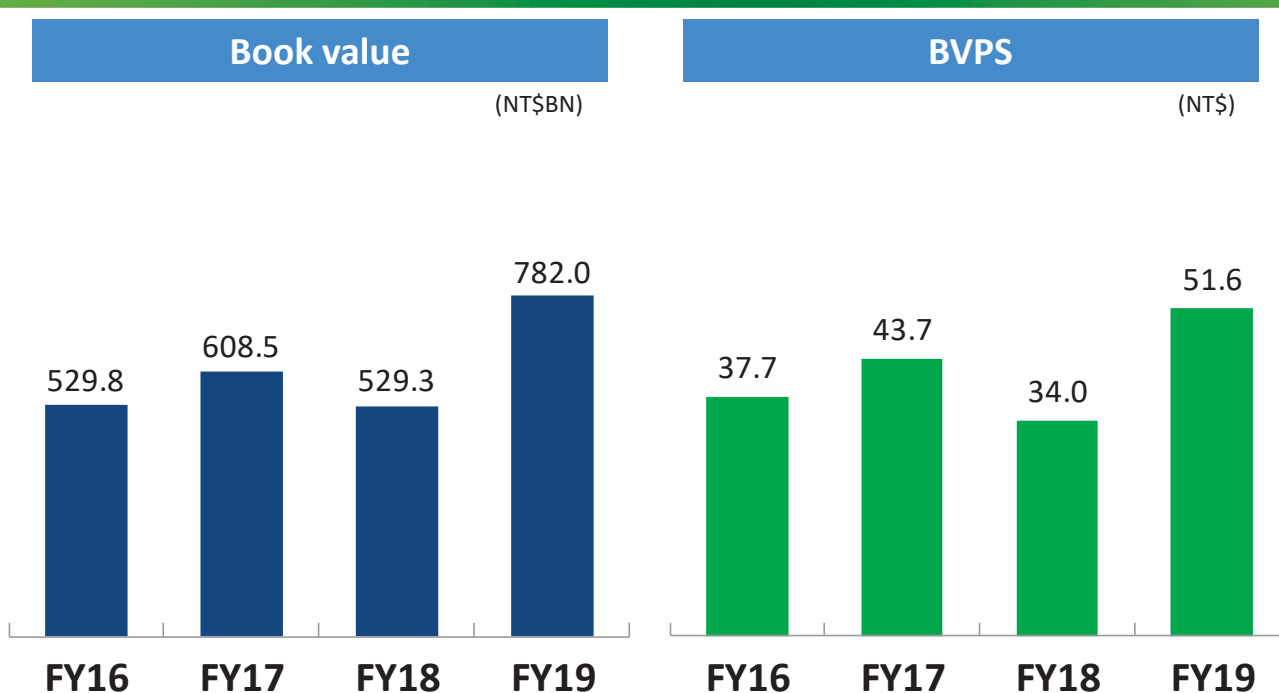


Note: Market capitalization as of March 31, 2020

## Cathay FHC – Net income & EPS



## 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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## 2019 Business overview

### Cathay United Bank

- Continued to adjust loan mix. NIM improved QoQ. Net interest income grew steadily.
- Overseas expansion continued. FX loan grew steadily. Offshore earnings accounted for 40% of pre-tax earnings.
- Fee income increased 8% YoY, among which credit card fees and wealth management fees grew 9% and 7% respectively.

### Cathay Life

- Focused on value-driven strategy. FYP for protection products grew 24% YoY. Annualized FYP (APE) grew 35% YoY. VNB increased 21% YoY to 62.5 BN.
- Cost of liability continued to improved. Pre-hedging recurring yield increased 15bps YoY to 3.65%.
- Maintained solid capital position with RBC ratio of 346%.

### Cathay Century

- Premium income grew 9% YoY. Remained in second place with 13.1% 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\$810.1 BN.
- Recognized by Asia Asset Management, Asian Investor, Benchmark and received Morning Star & Smart Magazine Taiwan Fund Award and TFF-Bloomberg Best Fund Award in 2019.

### Cathay Securities

- Brokerage business grew steadily. Sub-brokerage market share ranked No.1.
- Optimized customer experience with new digital business model.
- Received The Asset AAA Digital Awards "Taiwan Best Digital Branch Project" in 2020.

# 2020 Outlook

## Cathay United Bank

- Continue to adjust loan mix. Increase capital efficiency. Maintain benign asset quality.
- Deepen customer relationships. Enhance and customize wealth management services.
- Continue to expand and localize overseas business. 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.
- Adjust investment portfolio dynamically. Continue dynamic hedging strategy to maintain stable hedging cost.

## Cathay Century

- Grow both personal and commercial insurance with quality & quantity.
- Increase capital efficiency. Grow business and net profits steadily.
- Deepen local presence in Vietnam and develop online business in China.

## Cathay SITE

- Offer comprehensive product lines to meet customers' needs.
- Integrate global asset management resources and expand distribution channels.

## Cathay Securities

- Utilize digital technology to expand customer base.
- Enhance existing platform and develop innovative products based on customers' needs.

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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	16	1	1	1	1	1	1	1	1
Life	51 <sup>(1)</sup>	80 <sup>(1)</sup>									
P&C	27	2									
Asset Mgt.	1			1							
Securities				1							

Note: (1) Cathay Lujiazui Life and Cathay Life (Vietnam) footprints includes headquarter and branches.  
 (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

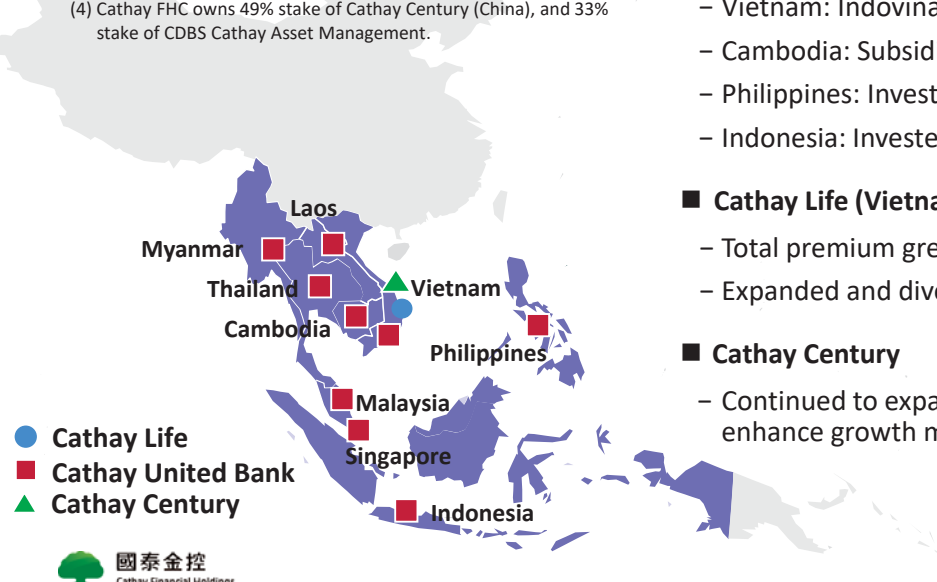
- Vietnam: Indovina Bank performed steadily.
- Cambodia: Subsidiary's businesses grew steadily.
- Philippines: Invested 23% stake in RCBC<sup>(3)</sup>
- Indonesia: Invested 37% stake in Bank Mayapada<sup>(3)</sup>

## Cathay Life (Vietnam)

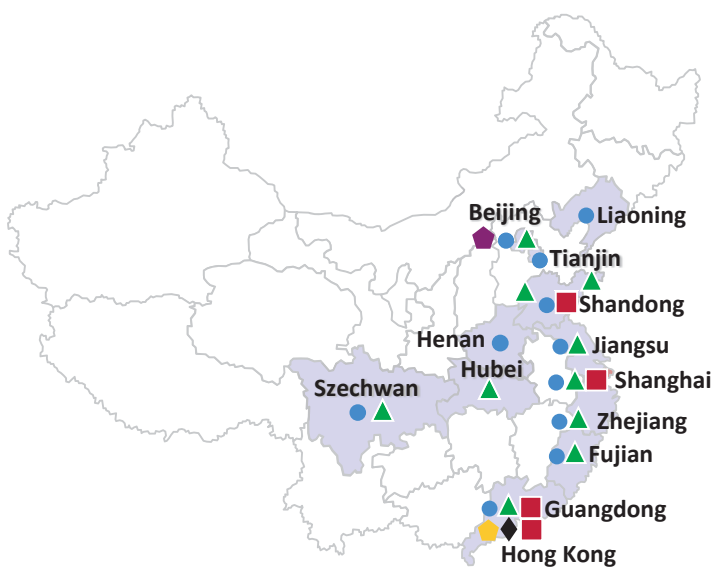
- Total premium grew 53% YoY to VND 1.05TN in 2019.
- Expanded and diversified distribution channels.

## 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

- The China subsidiary performed steadily.

## Cathay Lujiazui Life

- Each business line grew steadily.
- Total premium grew 15% YoY to RMB 2.7BN in 2019.

## Cathay Century (China)

- Formed a strategic alliance with Ant Financial group. Actively developed eCommerce-related financial services.

## 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

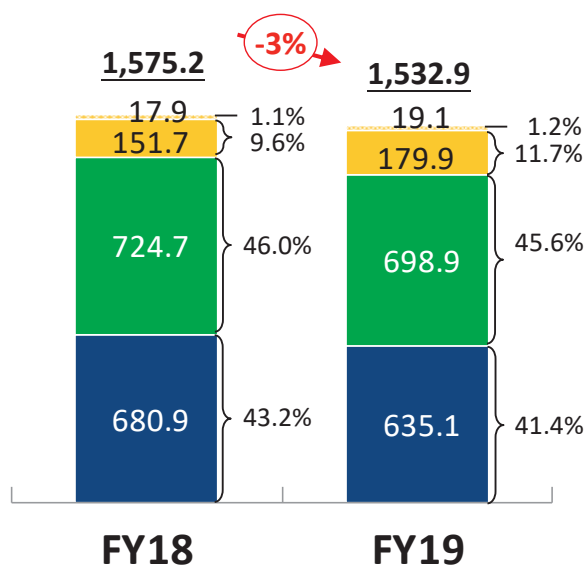
Cathay Century

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## Cathay United Bank – Loan & Deposit breakdown

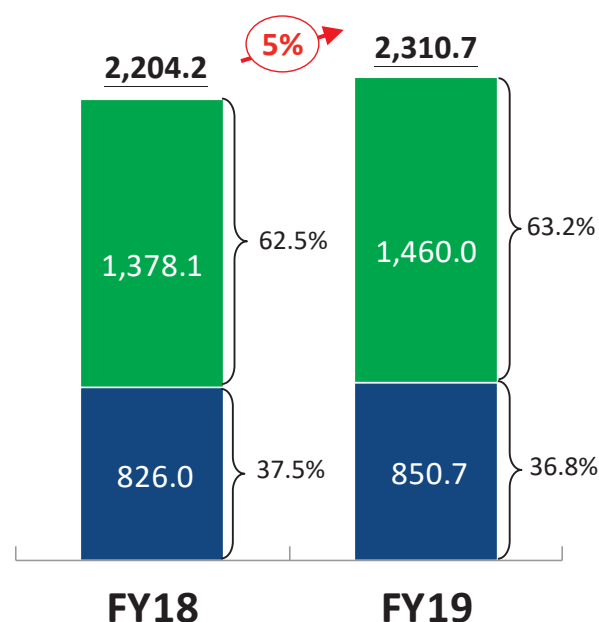
### Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



### Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit

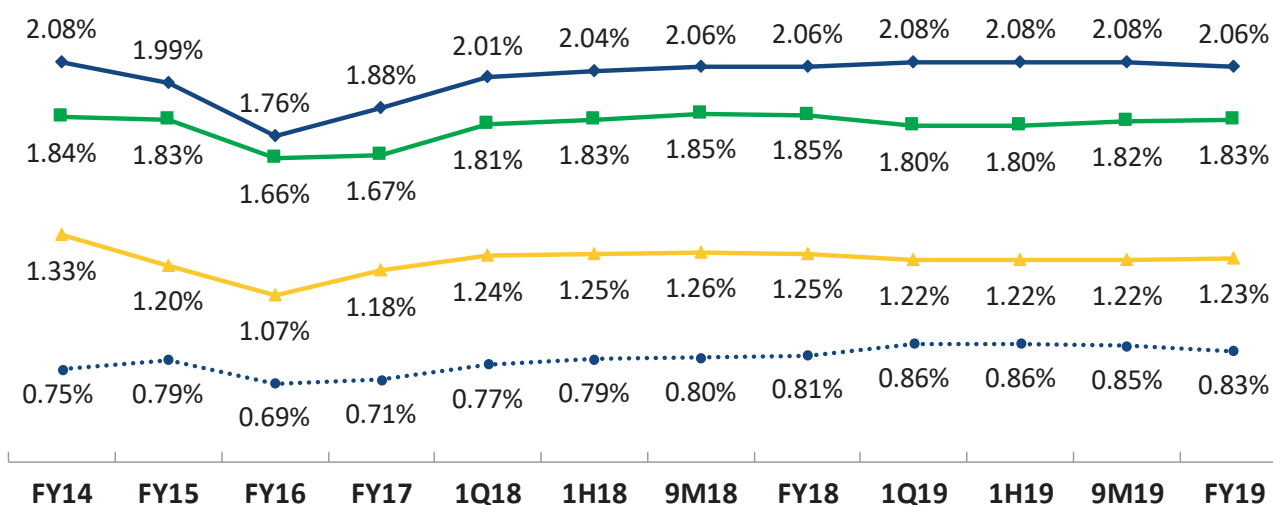


Note : China subsidiary was launched in Sep 2018, hence FY18 & FY19 loan excluded NT\$17.6BN and NT\$18.4BN and deposit excluded NT\$5.4BN and NT\$18.1BN, respectively. (preliminary)



# Cathay United Bank – Interest yields

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



Quarterly	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Spread	1.76%	1.81%	1.85%	1.90%	1.83%	1.80%	1.81%	1.85%	1.86%
NIM	1.22%	1.24%	1.26%	1.27%	1.22%	1.22%	1.22%	1.23%	1.26%
NIM-pro forma excl. China <sup>(2)</sup>	1.19%	1.21%	1.22%	1.25%	1.22%	1.22%	1.22%	1.23%	1.26%

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

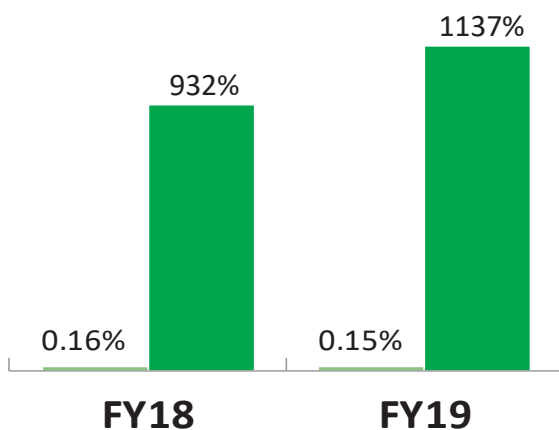
(2) China subsidiary was launched in Sep 2018. Hence, since 9M18, China subsidiary results was excluded.



# Cathay United Bank – Credit quality

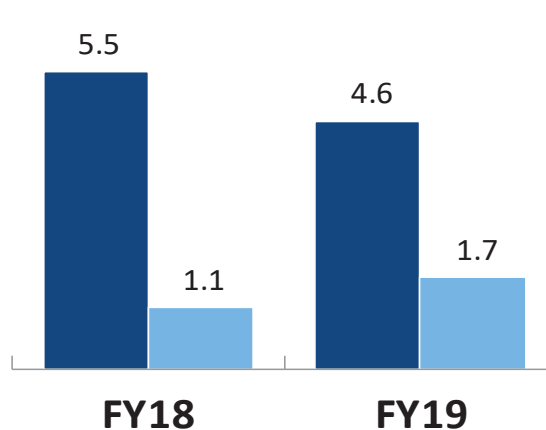
## NPL & Coverage ratio

■ NPL ratio  
■ Coverage ratio



## Gross provision

■ Gross provision (NT\$BN)  
■ Recovery

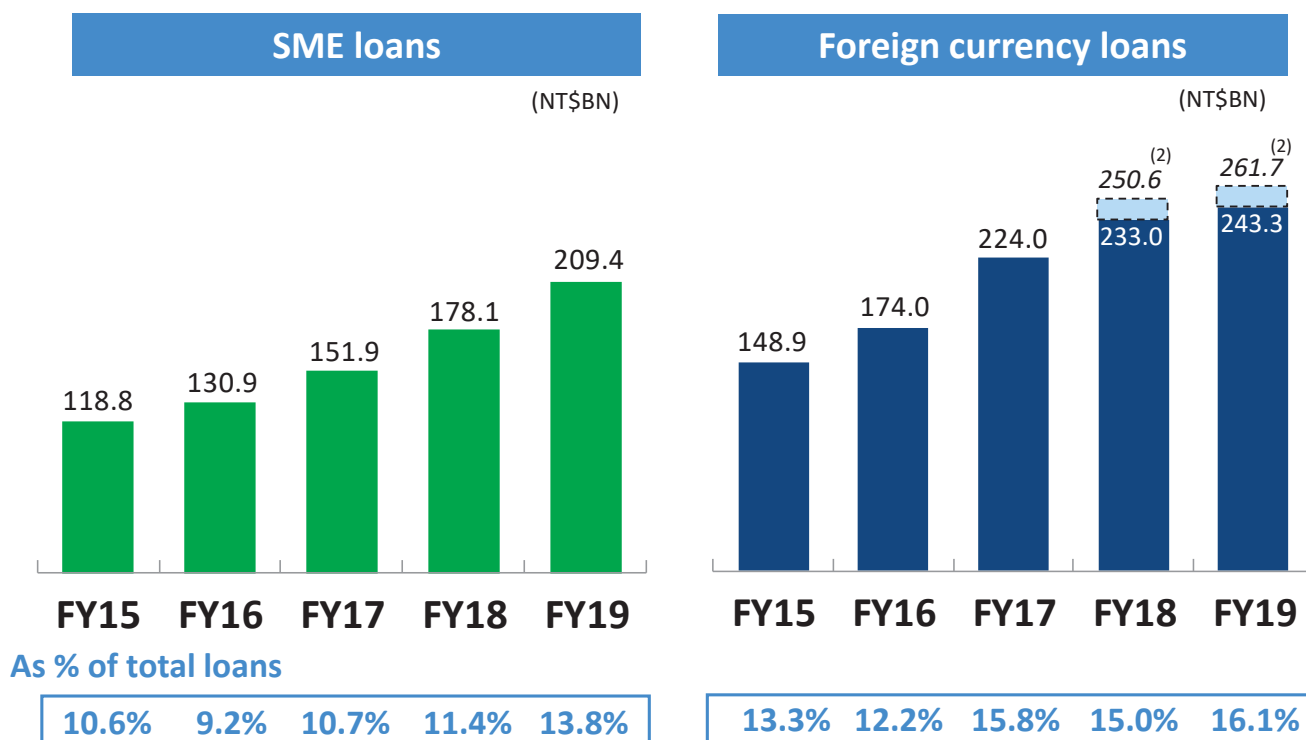


Mortgage NPL **0.15%** **0.21%**

Note : China subsidiary was launched in Sep 2018. Hence, FY18 & FY19 number excluded China subsidiary results. (NPL ratio: 0.18% and 0.00%, Gross provision: NT\$10.6MN and NT\$26.1MN, Recovery: NT\$0MN and NT\$36.2MN; preliminary).



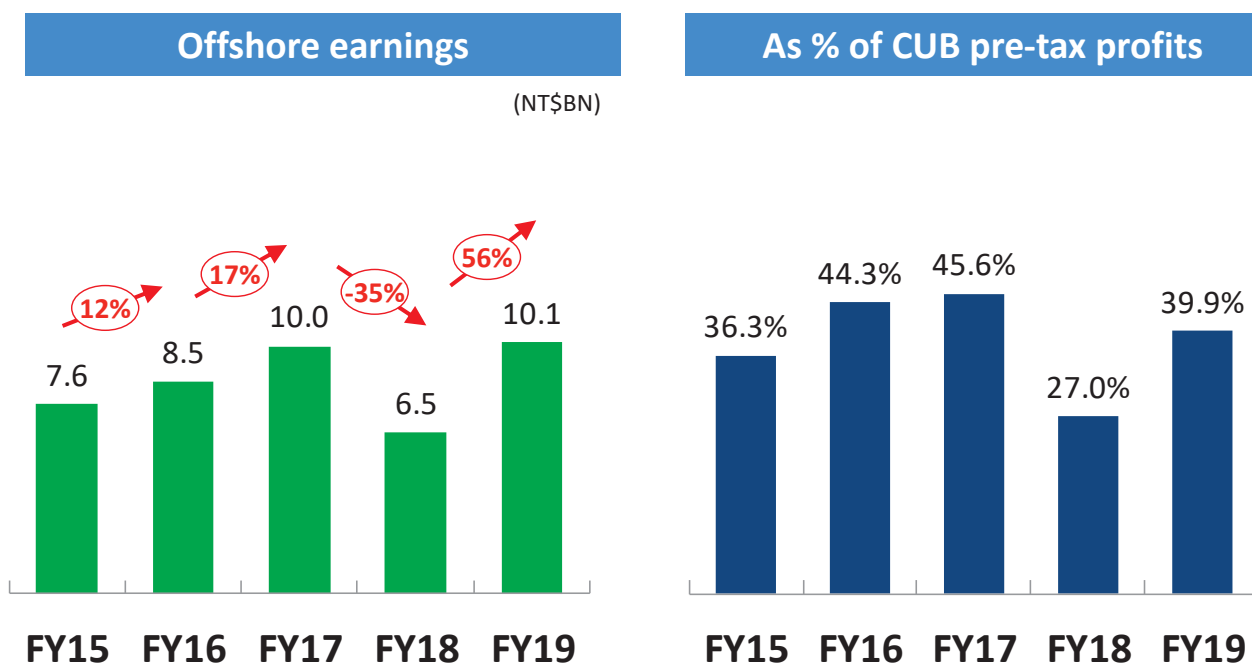
# Cathay United Bank – SME & FX loans



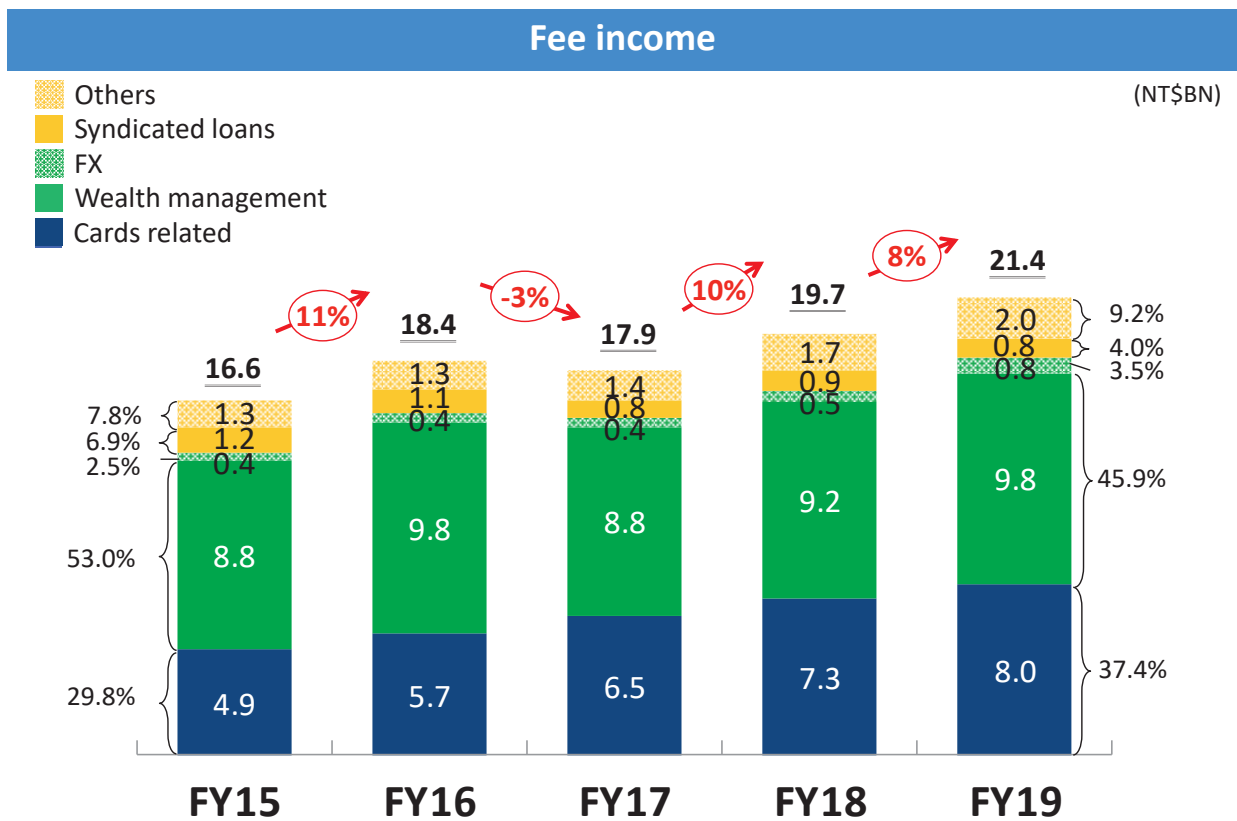
Note : (1) Total loans exclude credit card revolving balance.

(2) China subsidiary was launched in Sep 2018, hence FY18 and FY 19 foreign currency loan balance excluded NT\$17.6BN and NT\$18.4N from China subsidiary, respectively. (preliminary)

# Cathay United Bank – Offshore earnings



# Cathay United Bank – Fee income

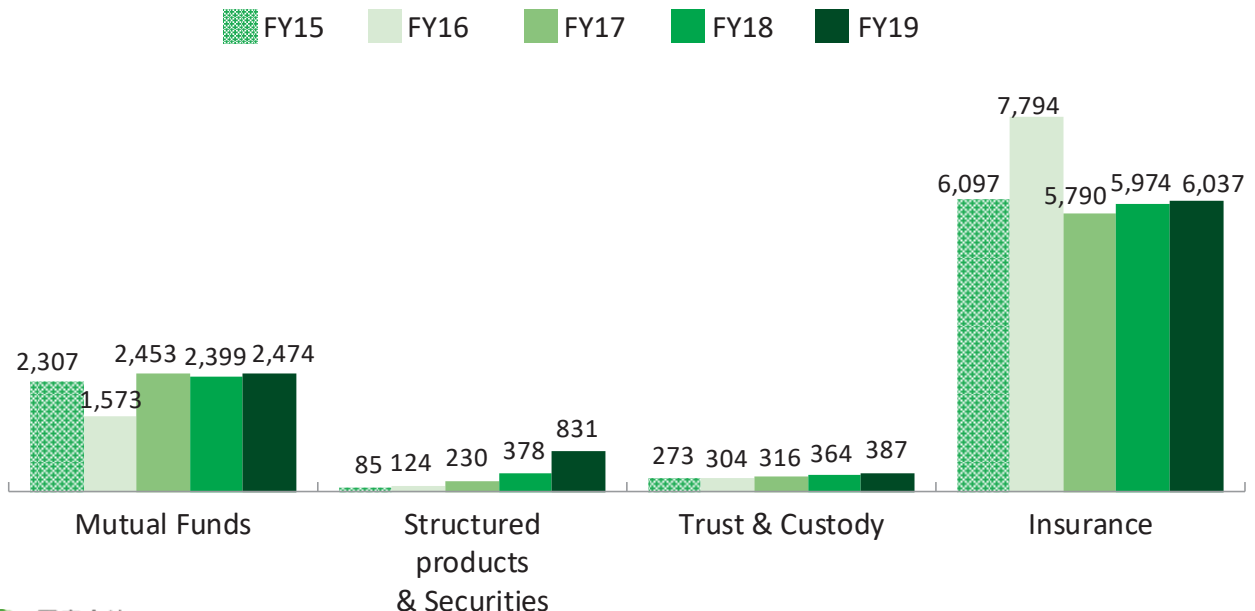


Note : China subsidiary was launched in Sep 2018, hence FY18 (Sep.-Dec.) and FY 19 fee income excluded NT\$ 5.8MN and NT\$18.9MN from subsidiary, respectively. (preliminary)

# Cathay United Bank – Wealth management fee

## Wealth management fee breakdown

(NT\$MN)	FY15	FY16	FY17	FY18	FY19
<b>Wealth management fee income</b>	<b>8,779</b>	<b>9,828</b>	<b>8,837</b>	<b>9,183</b>	<b>9,808</b>
<b>YoY growth (%)</b>	<b>31.6%</b>	<b>11.9%</b>	<b>-10.1%</b>	<b>3.9%</b>	<b>6.8%</b>



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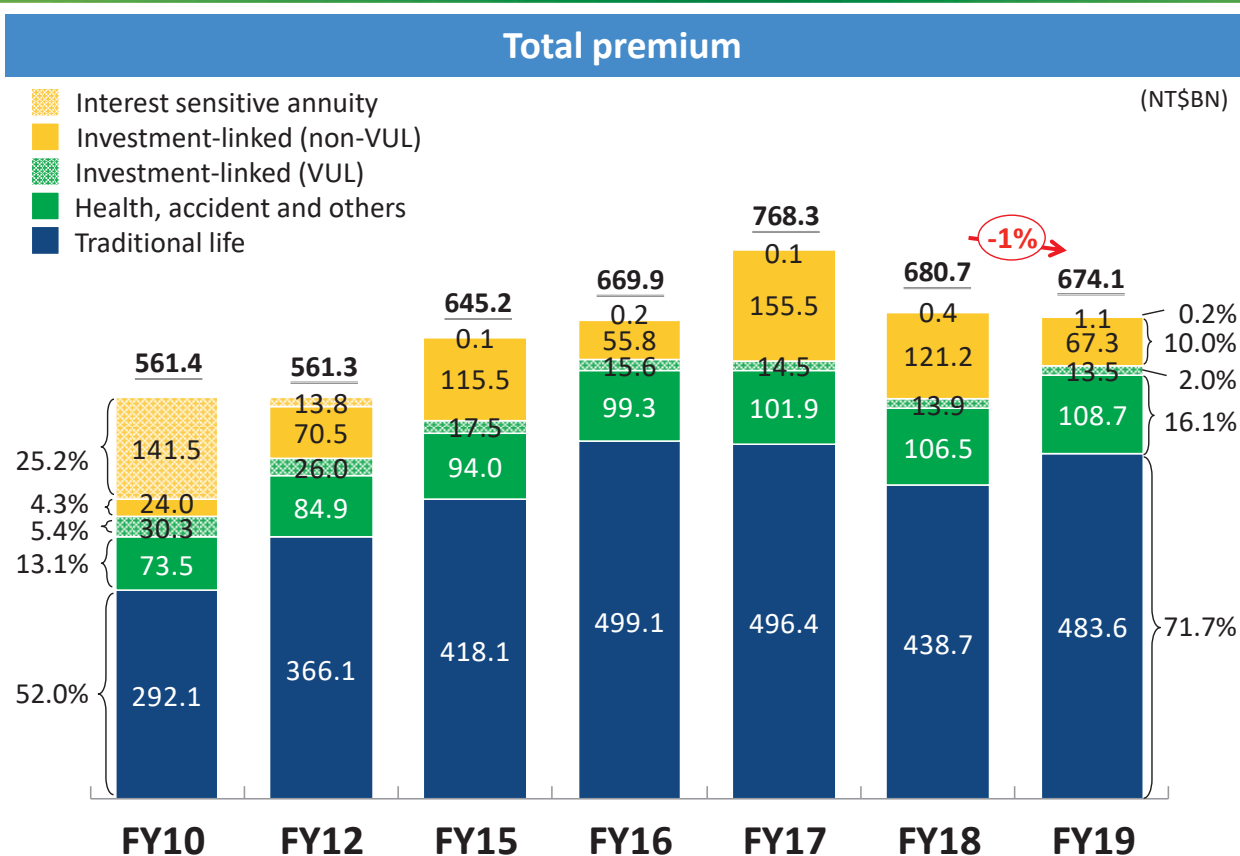
Cathay United Bank

**Cathay Life**

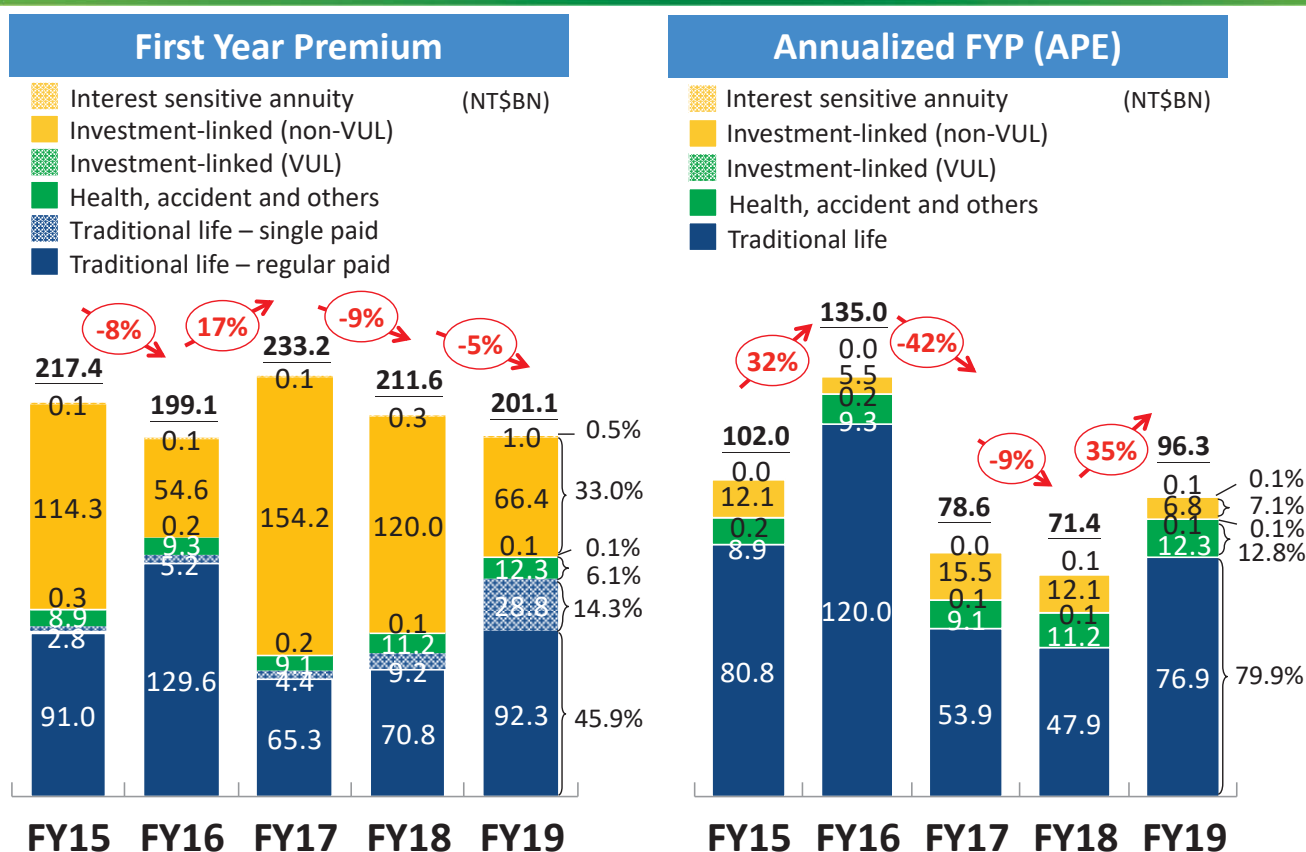
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## Cathay Life – Total premium



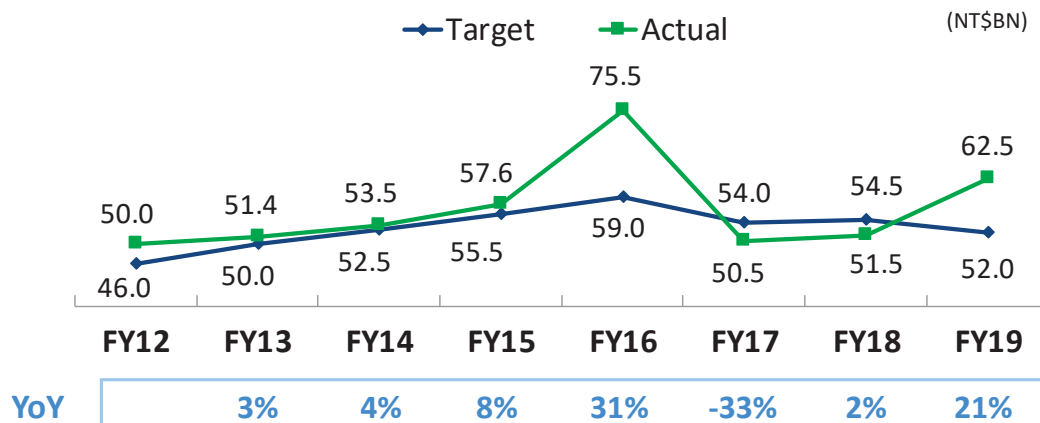
# Cathay Life – Annual FYP & APE



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

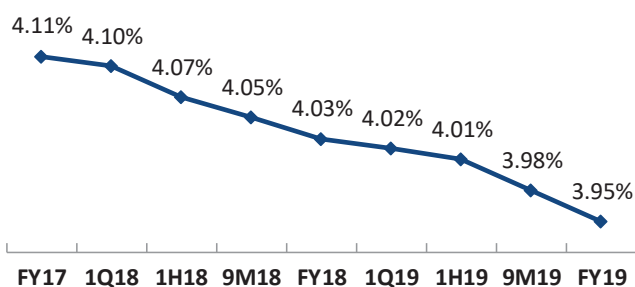
# Cathay Life – Value for new business

Profit Margin	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
VNB/FYP	19%	26%	23%	27%	38%	22%	24%	31%
VNB/FYPE	54%	70%	75%	57%	56%	64%	72%	65%

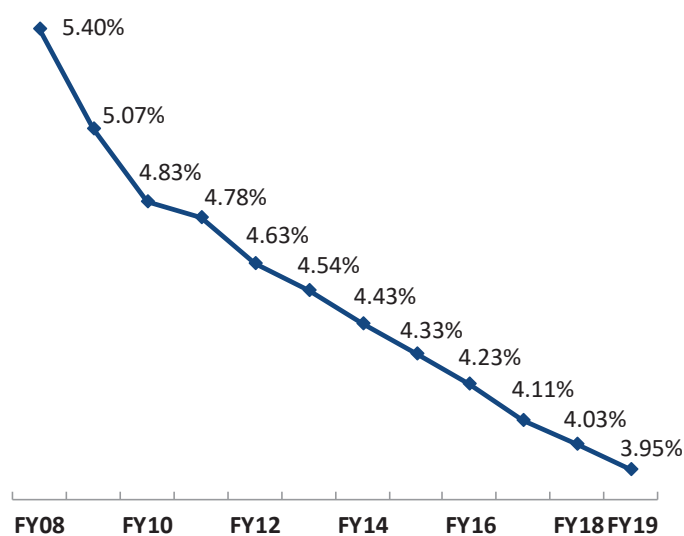


# Cathay Life – Cost of liability

## Cost of liability (quarterly)



## Cost of Liability (annual)



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

# Cathay Life – Investment portfolio

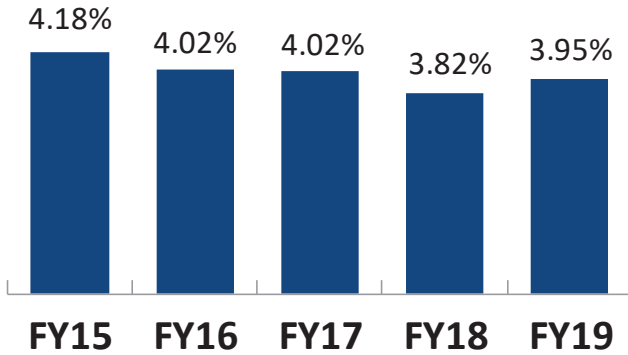
(NT\$BN)	FY16	FY17	FY18			FY19		
Total investments <sup>(1)</sup>	5,001.1	5,502.6	5,761.0			6,415.0		
	Weight	Weight	Weight	Amount	Return	Weight	Amount	Return
Cash & Cash equivalents	1.3%	1.6%	1.1%	61	0.6%	3.7%	237	0.6%
Equity- Domestic	7.9%	8.4%	7.5%	431	9.6%	5.0%	322	7.9%
Equity- International <sup>(2)</sup>	6.4%	6.3%	6.7%	388	8.7%	5.8%	370	6.5%
Bond- Domestic	6.5%	5.5%	5.0%	287	3.6%	7.9%	505	5.7%
Bond- International <sup>(1)(2)</sup>	53.8%	55.7%	58.6%	3,374	4.6%	58.9%	3,777	5.3%
Mortgage & Secured loans	8.9%	8.1%	7.1%	411	2.0%	5.3%	341	2.1%
Policy loans	3.3%	3.0%	3.0%	170	5.8%	2.7%	171	5.6%
Real estate	9.8%	9.2%	8.7%	501	2.3%	8.2%	526	2.7%
Others	2.2%	2.4%	2.4%	140		2.6%	165	

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.

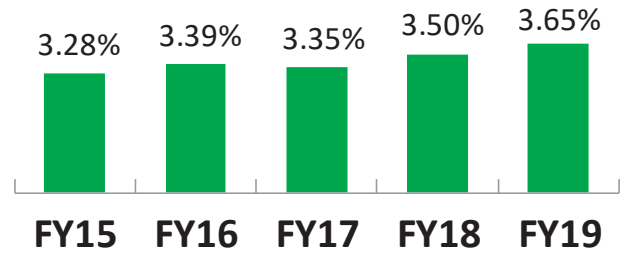
# Cathay Life – Investment performance highlight

## After-hedging investment yield



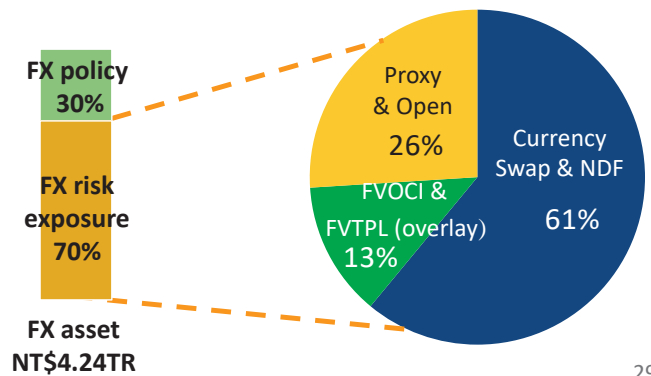
Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.

## Pre-hedging recurring yield



## Currency hedging structure

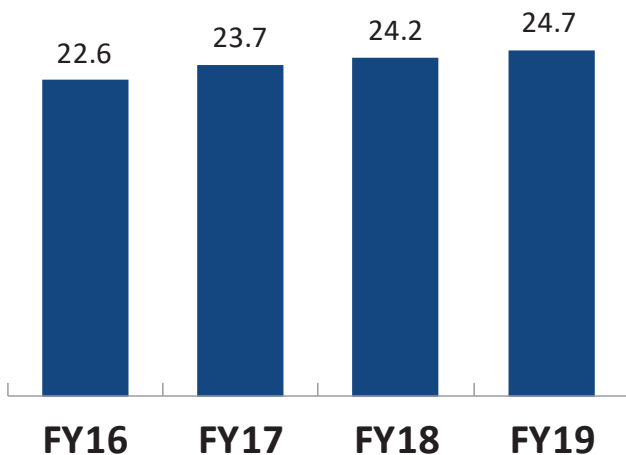
**FY19 Hedging cost 1.40%**



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

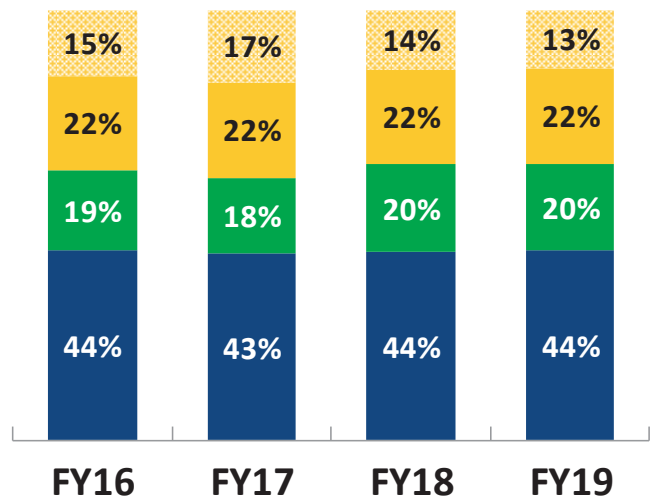
## Cash dividend income

(NT\$BN)



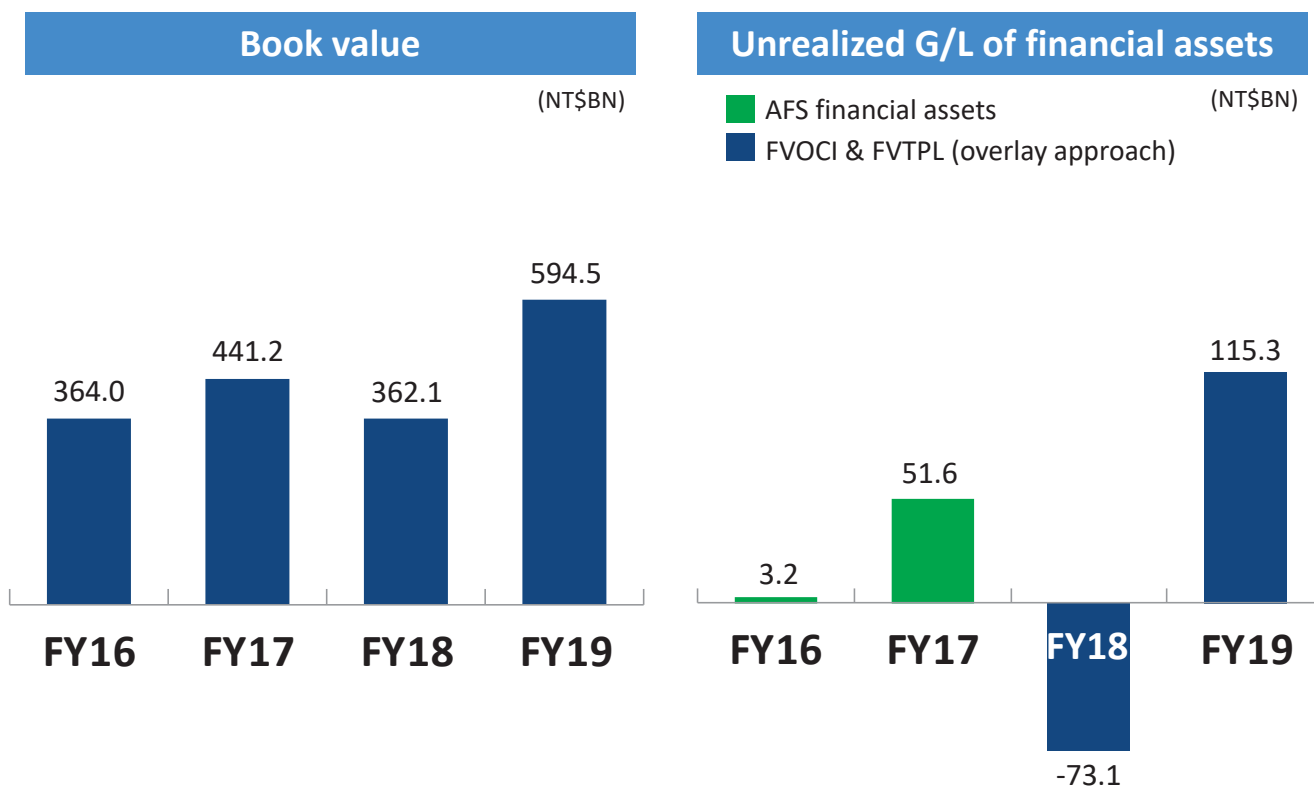
## Overseas fixed income by region

Others  
Asia Pacific  
Europe  
North America

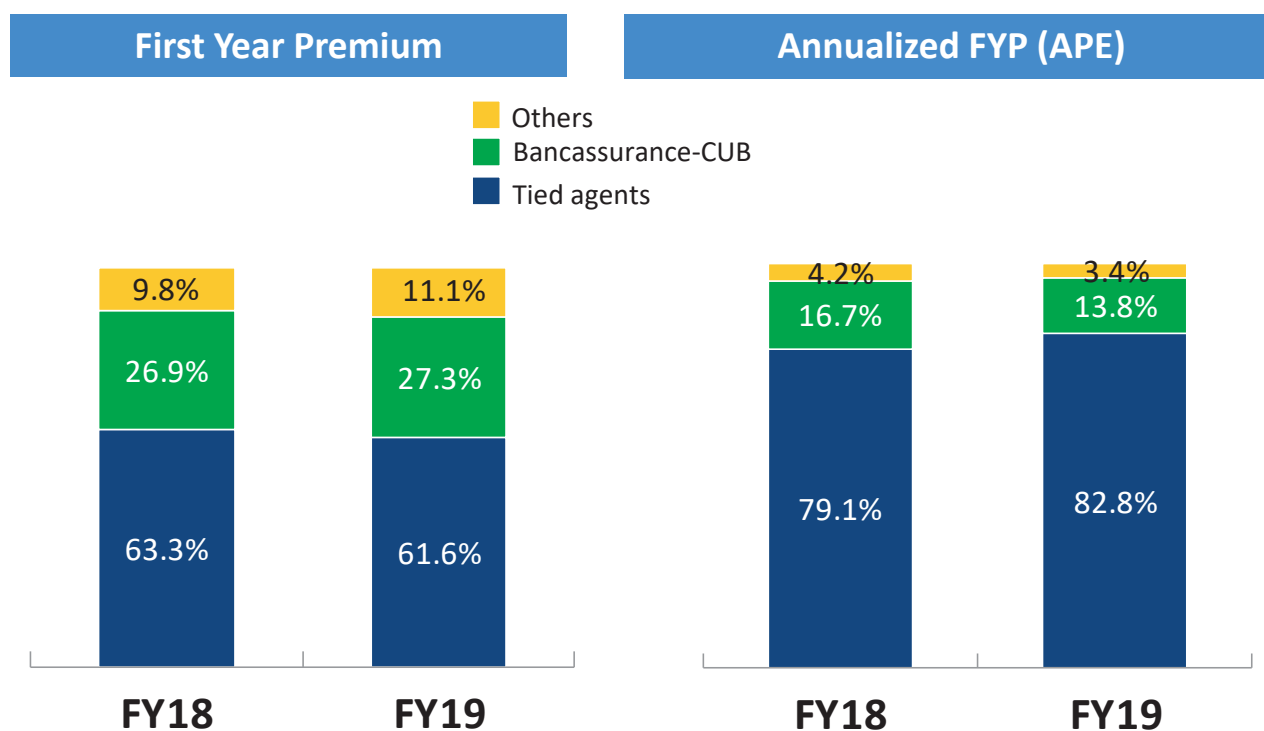


Note: Exclude overseas deposit.

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



# Cathay Life – Distribution channel

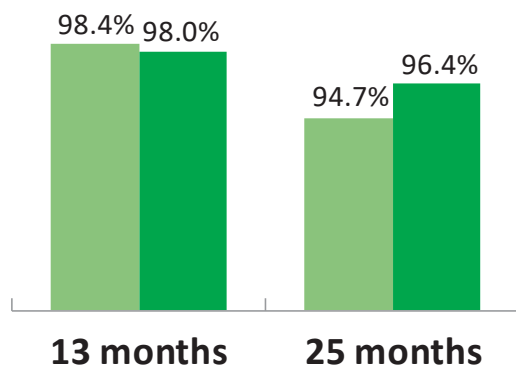




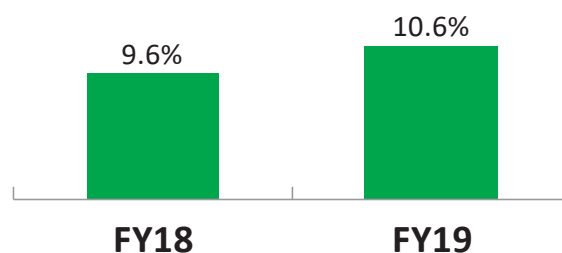
# Cathay Life – Operational indicators

## Persistency ratio

■ FY18      ■ FY19



## Expense ratio

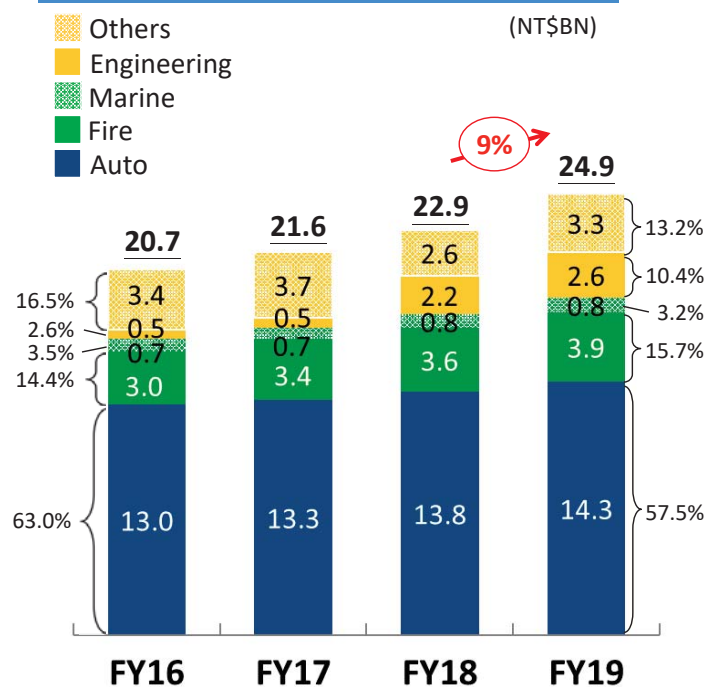


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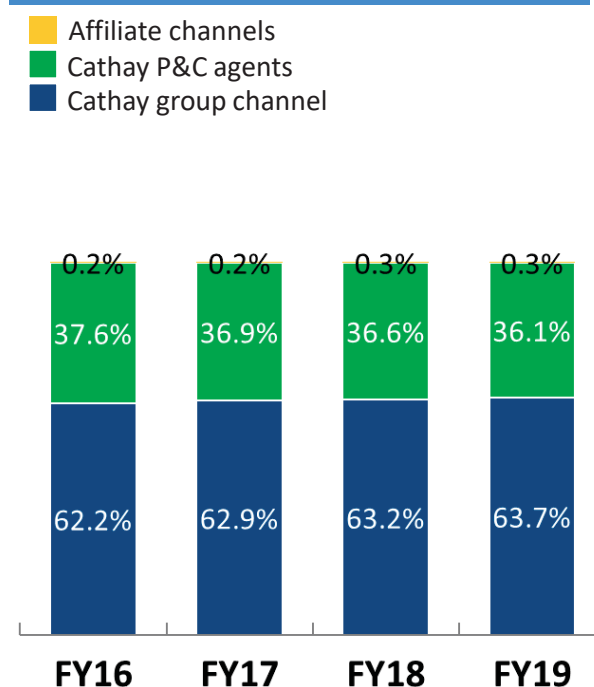
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# Cathay Century – Premium income & Distribution channel

## Premium income



## Distribution channel



Market share	13.6%	13.1%	13.0%	13.1%
Retention	75.7%	76.2%	77.1%	77.7%



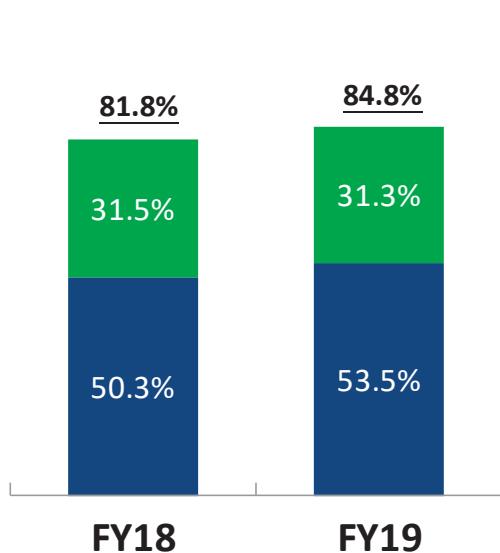
Note: Market share is based on direct insurance premium.

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# Cathay Century – Combined ratio

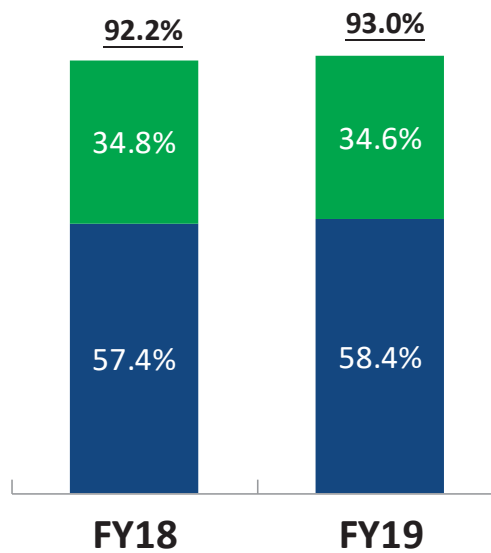
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



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# Continuous efforts in CSR

## Recognized by local regulatory authorities

Top 5 %



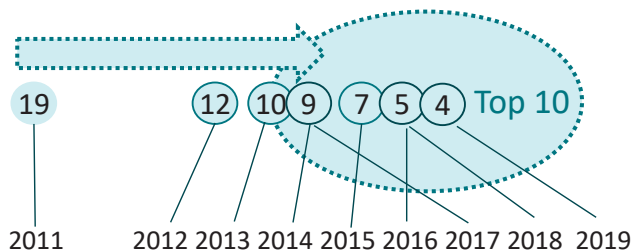
TWSE Corporate Governance Evaluation



Initial constituents of the FTSE4Good TIP Taiwan ESG Index.

## Ranked Top 10 in the Taiwan Corporate Citizenship Award

Ranked top 10 for 6 consecutive years



## Recognized by representative international ESG institutions

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

- ✓ Selected in DJSI Emerging Markets since 2015
- ✓ Selected in DJSI World since 2018
- ✓ RobecoSAM Silver Class

MSCI  
ESG Research  
IVA RATING  
**A**

**CDP**  
**A- level**

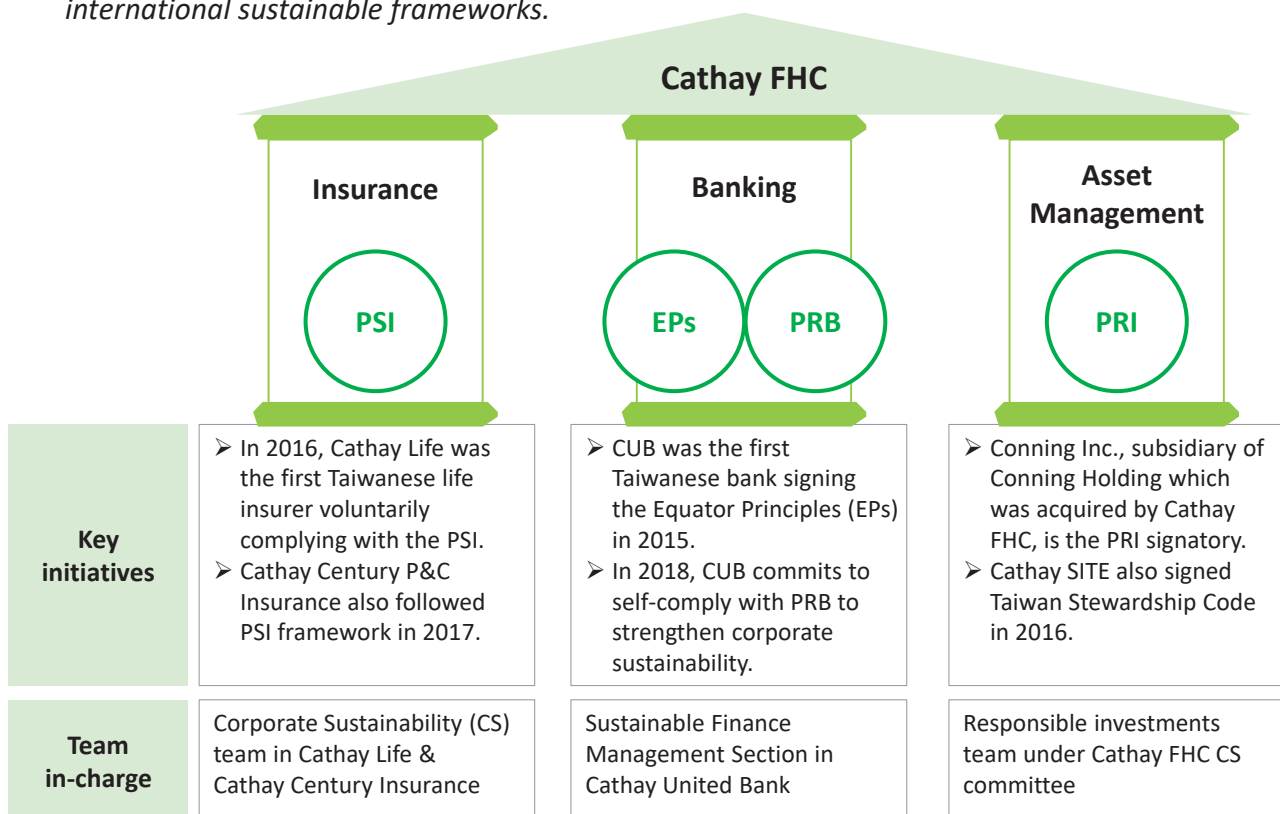
**SUSTAINALYTICS**  
Global Universe  
Rank: 464 out of 9765  
Percentile: 6th

**vigeo eiris**  
BEST EM PERFORMERS

**FTSE4Good**

# Integrating sustainability into our business

- Cathay integrates sustainability into major three business groups in accordance with the international sustainable frameworks.



# Integrating ESG issues into all business processes

Business Processes	Risk Management	Products & Services	Operation	After-Sales Management	Investment
<b>Integrating ESG into Business Process</b>	<ul style="list-style-type: none"> <li>• Consider ESG emerging risks</li> <li>• Improve the management of climate risk and opportunity by following TCFD framework</li> <li>• Set investment/lending limits and management procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Fintech and one-stop service</li> <li>• Strengthen the green finance and inclusive finance services</li> <li>• Integrate ESG issues to the underwriting and lending processes</li> </ul>	<ul style="list-style-type: none"> <li>• Paperless operations and Fintech</li> <li>• GHG inventory and carbon emission reduction</li> <li>• Water and waste control</li> </ul>	<ul style="list-style-type: none"> <li>• Review the product details and offer flexibility to customers when significant ESG incidents occur</li> <li>• Trigger critical disaster claims mechanism when significant ESG incidents occur</li> <li>• Disclose EPs projects</li> </ul>	<ul style="list-style-type: none"> <li>• Exclusion policy</li> <li>• ESG integration</li> <li>• Sustainability themed investing</li> <li>• Corporate engagement and shareholders' actions</li> <li>• Investment mandate management</li> </ul>

## Actively participate in Global ESG initiatives



- ❑ Cathay FHC was **the first Taiwan financial institution to join the CDP in 2012** aiming to improve the carbon emission data transparency of Cathay's investee companies and loan customers.
- ❑ Participated in the **CDP non-discloser engagement campaign** since 2017 encouraging Cathay's investee companies to respond to CDP questionnaires.
- ❑ The **response rate in 2017 and 2018 was 19% and 14% respectively**, higher than the overall response rate.



- ❑ Cathay FHC was **the only Taiwan financial institution to join the Low Carbon Investment Registry** initiated by GIC in 2014.
- ❑ The low carbon investment amount registered in 2015 reached US\$ 1.73 billion.



- ❑ **Cathay FHC joined AIGCC in 2016** and participates in the monthly conference calls discussing global trends in climate change.



- ❑ Cathay Life and Cathay SITE are **signatories to the Climate Action 100+ initiatives**.
- ❑ Cathay will **engage with Taiwan companies who are substantial greenhouse emitters** and encourage them to disclose the impact of climate-related risks and opportunities based on TCFD recommendation.

# Agenda

- Introduction of Cathay FHC
- 2019 Business Overview and 2020 Outlook
- Overseas Expansion
- Business Performance Summary
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- Cathay's CSR Efforts
- M&A Key Highlights
- Appendix

## M&A Transaction: Conning in USA

- Cathay Life acquired 100% stake of Conning Holdings Corporation in 2015 for US\$240 MN. 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 US\$179.3BN AuM (FY19)
- 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>
Life	75.1	Asia	78.5
Property-Casualty	46.0	North America	75.9
Others	22.0	Continental Europe	14.8
Retail	20.4	United Kingdom	7.4
Pension	15.8	Bermuda	1.9
<b>Total AUM</b>	<b>179.3</b>	Other	0.8
		<b>Total AUM</b>	<b>179.3</b>

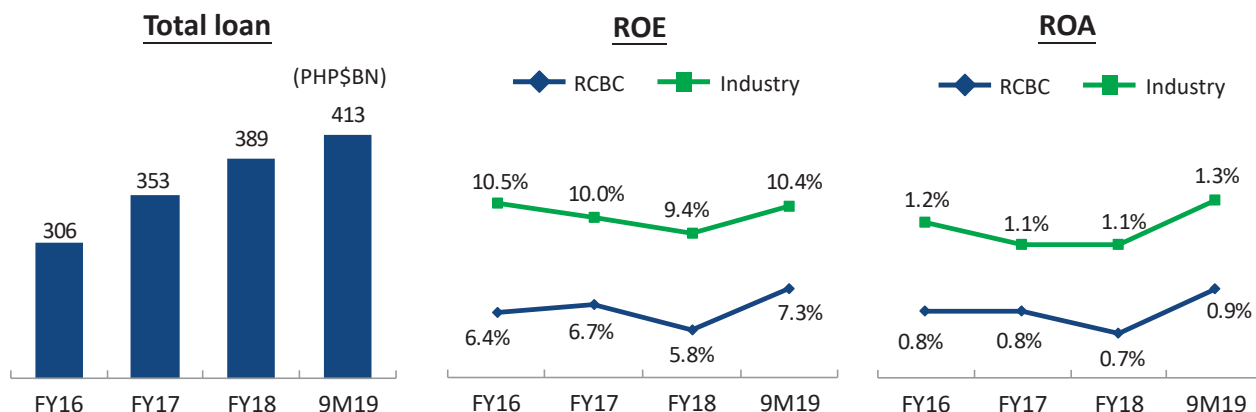
Note: Totals may not sum due to rounding.

## 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 PHP\$17.9 BN (c. US\$400 MN). 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

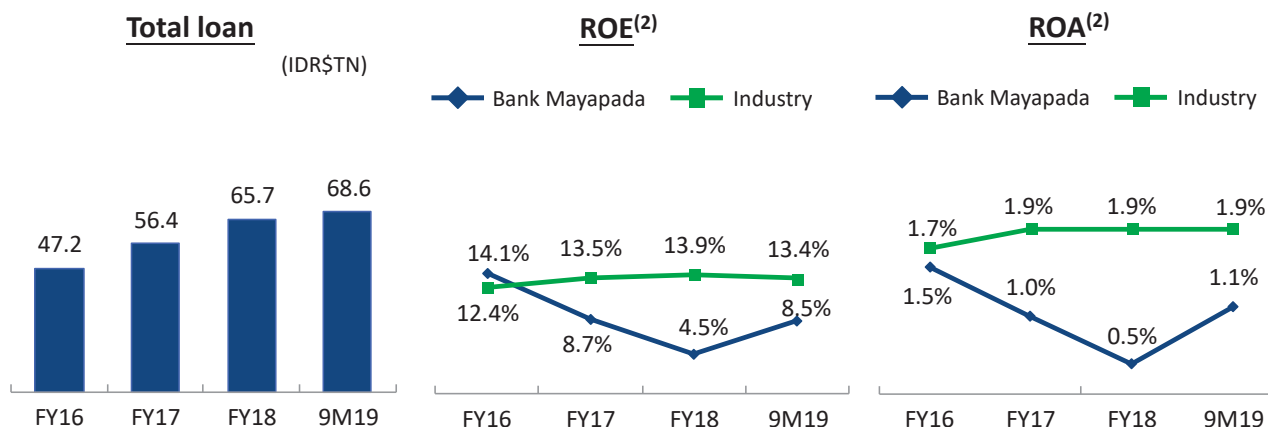
- RCBC is one of the large private-owned banks in terms of total assets, with 507 branches and 6,707 employees at the end of September 2019



## 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 (US\$ 164 MN) – completed in 1H15
  - Stage 2 : acquire 15.1% stake – completed in Oct 2016<sup>(1)</sup>
- Total investment was ~IDR\$3.52 TN (US\$ 295 MN), representing a ~3.15x P/B multiple upon announcement

### Bank Mayapada’s Performance



Note: (1) After the new share issued in Oct 2019, Cathay life owned 37% stake.

(2) ROE: Profit After Tax/Average Total Equity, ROA: Profit After Tax/Average Total Assets

# Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2017/12/31	2018/12/31
In-force business investment yield	3.92% ~ Year 2037 5.05% for NTD policies 4.67% ~ Year 2037 5.82% for USD policies (Equivalent investment yield: 4.43% Rolling over to 2018: 4.51%)	3.95% ~ Year 2038 5.00% for NTD policies 4.64% ~ Year 2038 5.78% for USD policies (Equivalent investment yield: 4.38%)
Risk discount rate	10%	10%
Adjusted net worth	464	387
Value of in-force business	670	722
Cost of capital (CoC)	-190	-210
Value of in-force business (After CoC)	480	512
Embedded Value (EV)	944	898
EV / per share	164.8(75.1)	156.9(71.5)
Future one year's new business investment yield	2.91%~ Year 2037 4.91% for NTD policies 4.22% ~ Year 2037 5.84% for USD policies	3.13%~ Year 2038 4.86% for NTD policies 4.66% ~ Year 2038 5.79% for USD policies
Value of future one year's new business (After CoC)	54.5	52.0
Appraisal Value (AV)	1,416	1,351
AV / per share	247.3(112.7)	235.9(107.5)

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 5.7bn and 12.6bn, respectively. (The outstanding shares of Cathay Life in 2017 reflects capital injection in June 2018.)

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



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## Summary

NT\$BN, except for per share figures

Valuation date		2017	2018	Growth rate	1Q19
Embedded value	Equity	436	357	-18%	--
	Adjusted net worth	464	387	-17%	--
	Value of in-force business(before CoC)	670	722	8%	--
	Cost of capital (CoC)	-190	-210	11%	--
	Value in-force business (after CoC)	480	512	7%	--
	Embedded value	944	898	-5%	--
Value of one year's new business	First year premium (FYP)	233.2	211.6	-9%	60.7
	First year premium equivalent (FYPE)	78.6	71.4	-9%	29.1
	Value of one year's new business (V1NB)	50.5	51.5	2%	20.0
	Profit margin (V1NB/FYP)	22%	24%	--	33%
	Profit margin (V1NB/FYPE)	64%	72%	--	69%
	Profit margin (V1NB/FYP)(investment-linked(non-VUL)is excluded)	57%	52%	--	41%
Appraisal value (20 years NB)	Multiple	8.7	8.7	--	--
	Appraisal value	1,416	1,351	-5%	--
Basic Value per share	EV / per share of Cathay FHC	75.1	71.5	-5%	--
	AV / per share of Cathay FHC	112.7	107.5	-5%	--

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.

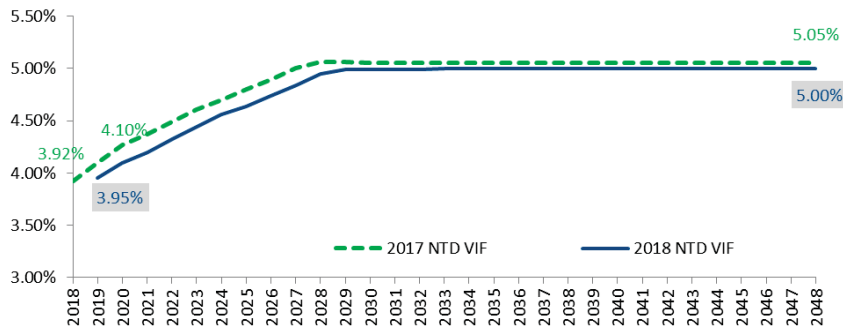


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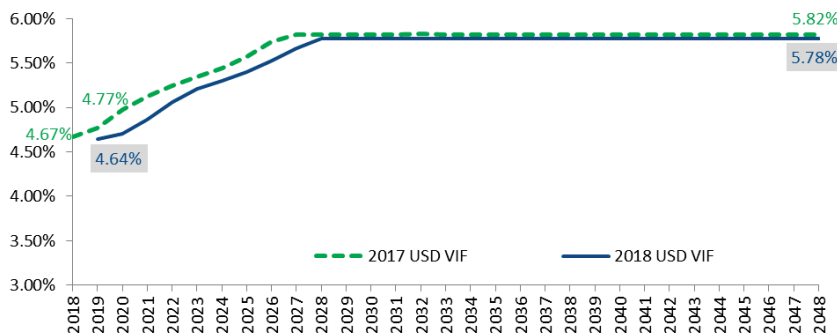


# Economic Assumptions: In-force business investment yield

■ Investment return assumptions for the value of in force business of NTD-denominated policies as of the end of 2017 & 2018.

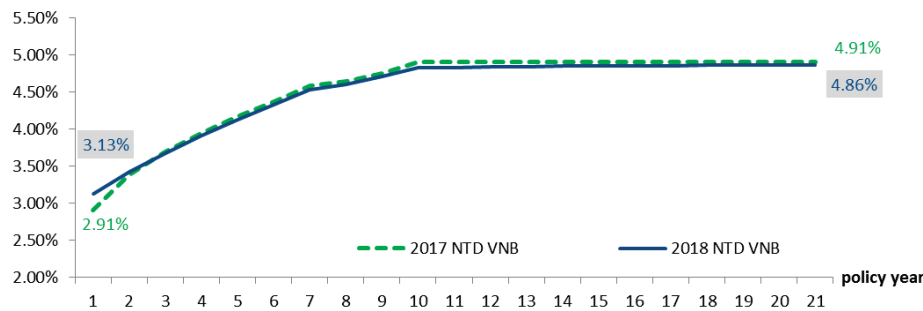


■ Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2017 & 2018.

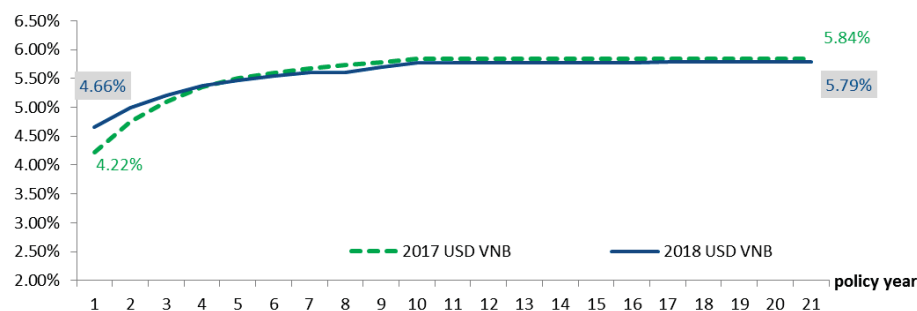


# Economic Assumptions: Future one year's new business investment yield

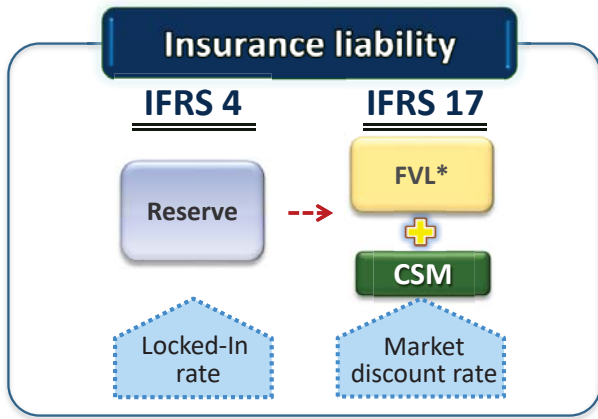
■ Investment return assumptions for the value of future one year's new business of NTD-denominated policies as of the end of 2017 & 2018.



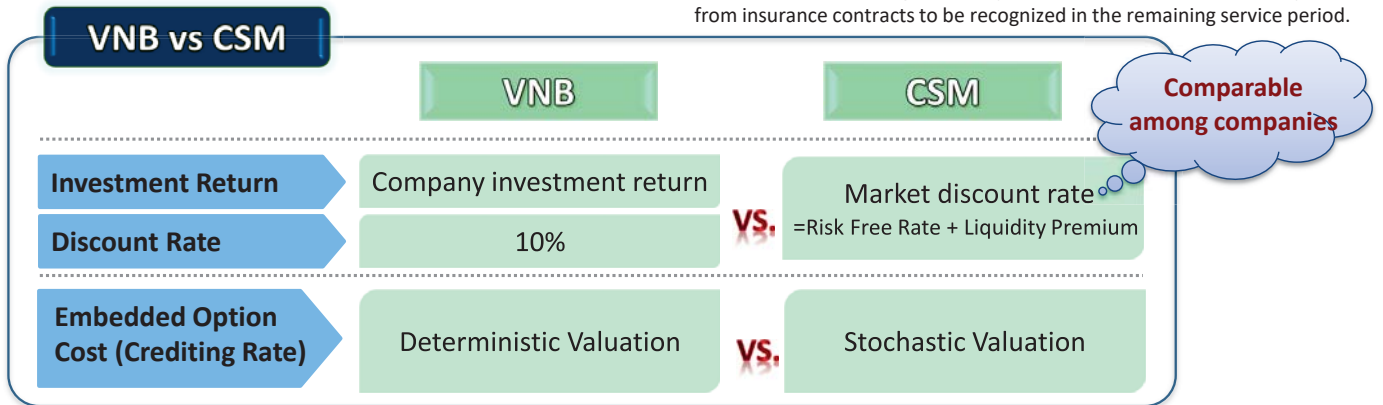
■ Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2017 & 2018.



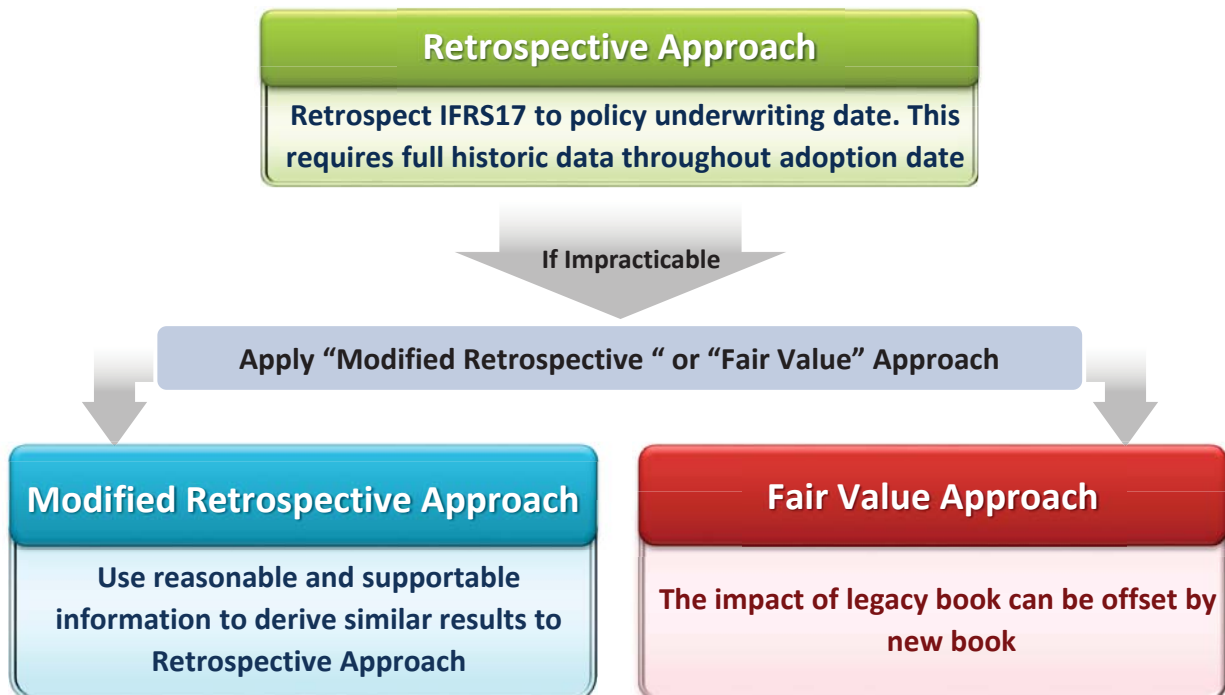
# IFRS 17 – Measurement



Note: 1. Fulfillment Value of Liabilities (FVL): present value of future cashflows derived from insurance sold, based on market discount rate at valuation date and most recent available actuarial assumptions.  
2. Contractual Service Margin (CSM): present value of future unearned profit from insurance contracts to be recognized in the remaining service period.



# IFRS 17 – Adoption date



Note: Legacy book - contracts with guaranteed rates  $\geq 4\%$   
New book - contracts with guaranteed rates  $< 4\%$

## Accounting impact from IFRS 17

- ❑ IFRS 17 implementation changes the measurement of insurance liability. It does not affect the value of insurance contracts but affects the timing of profit recognition for insurance services.
- ❑ Insurers need to mark to market both assets and liabilities.
- ❑ It may increase the volatility of shareholders' equity, hence asset-liability management expertise is critical.

## IFRS 17 impact & preparation

### Benefiting from IFRS 17

- The impact from legacy book is fully reflected on adoption date
- Reduce the interest expense of insurance liability thereafter



### Value-driven product strategy

#### CSM-focused products

- Protection products with superior CSM margin (CSM/FYP)
- Savings products with positive CSM



### Capital plan

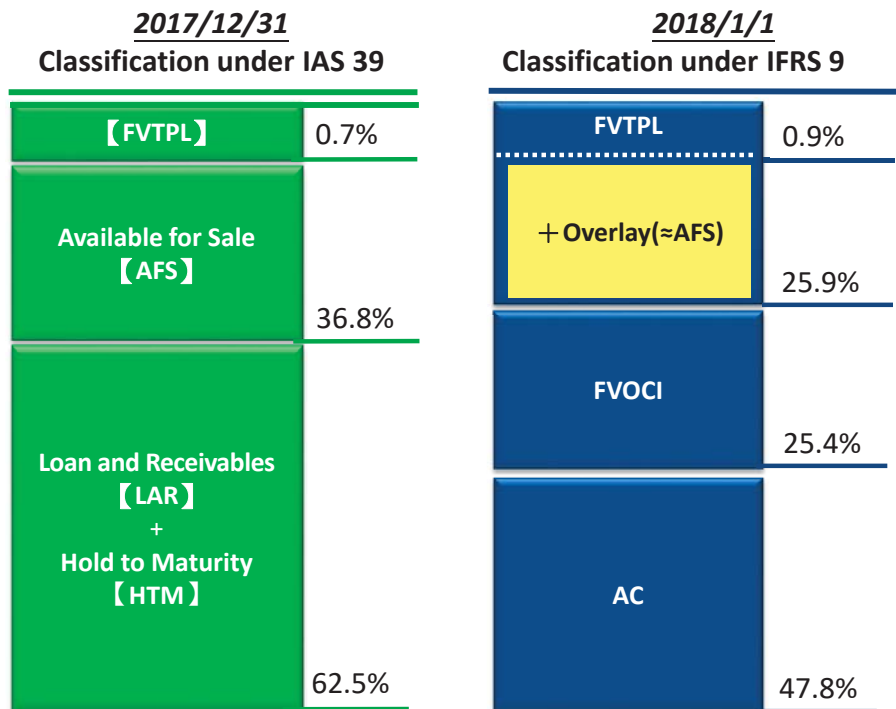
#### Capital market volatility and IFRS 17 adoption

- Build adequate capital buffer
- Early preparation ahead of the industry

### Healthier Industry development

- Better risk-pricing disciplines among competitors restore industry profit margins
- Strong ALM expertise is critical for achieving stable financial performance

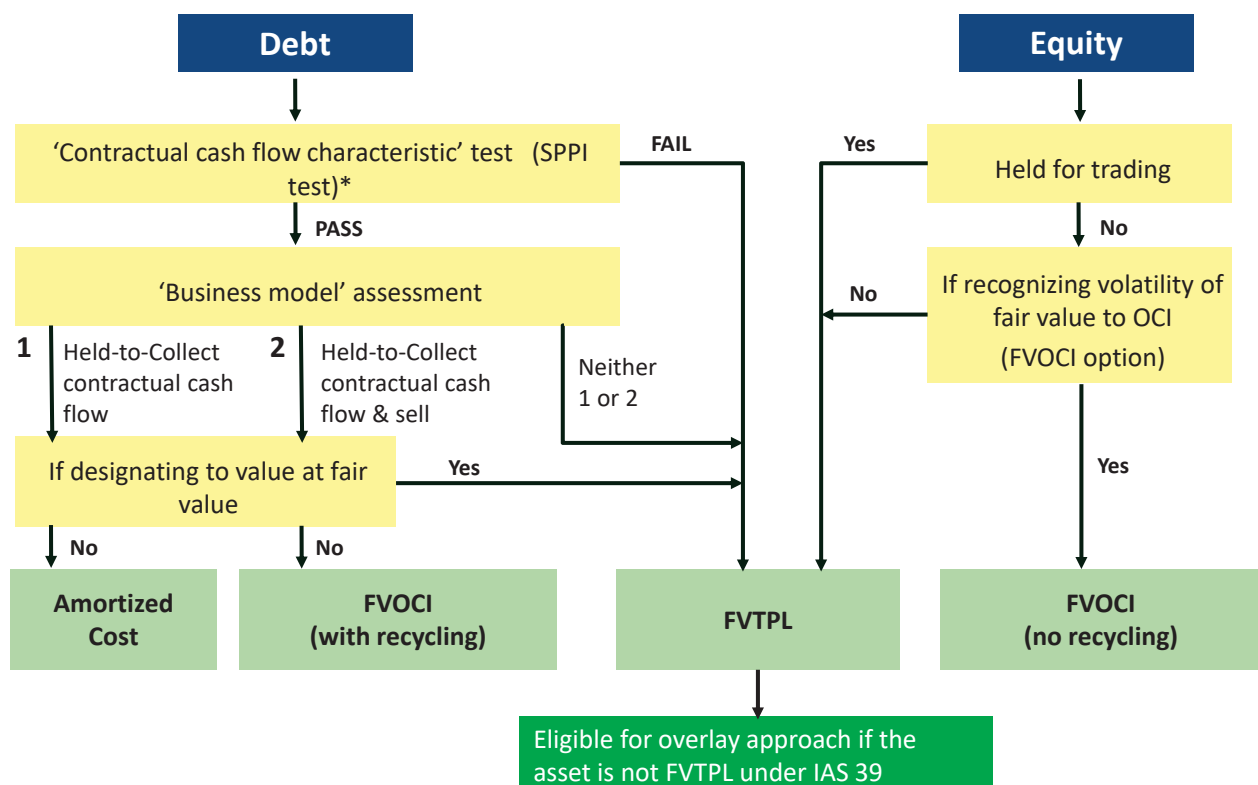
# Cathay Life - Asset reclassification under IFRS 9



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.

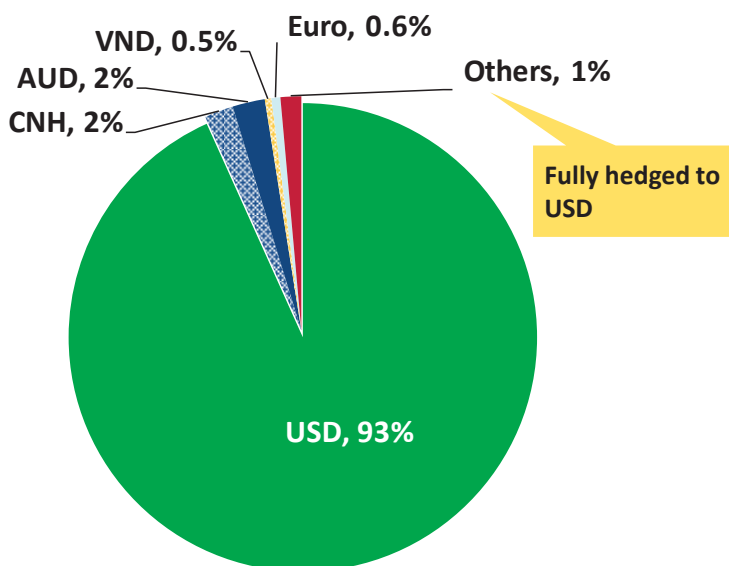
## Asset classification under IFRS 9 with overlay approach



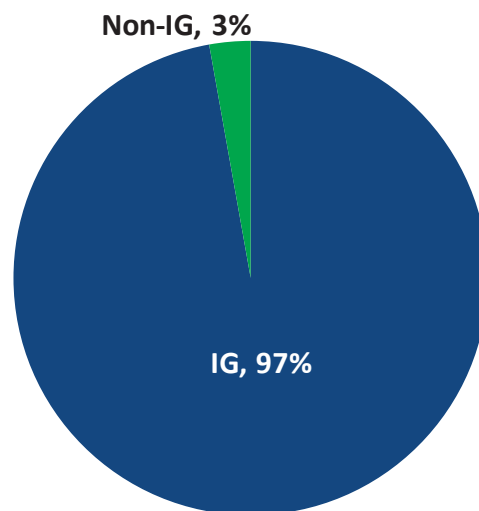
Note: SPPI means cash flow are solely payments of the principal and interests on the principal amount outstanding. Interests consist of the consideration of time value and credit risk associated with the principal.

# Cathay Life – Overseas bond breakdown by currency and rating

Overseas bond by currency (FY19)

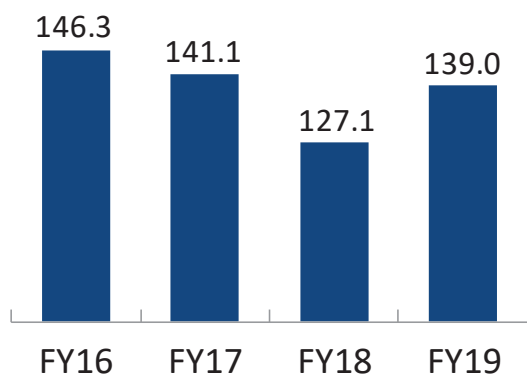


Overseas bond by rating (FY19)

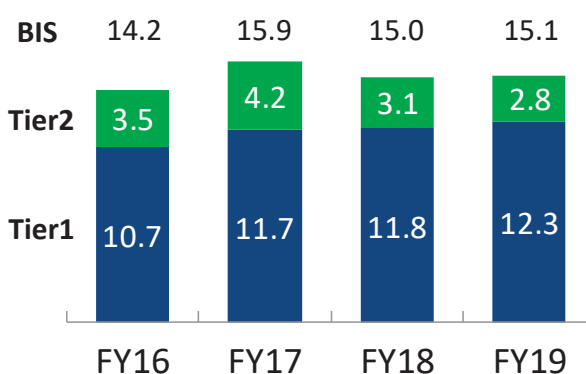


## Capital adequacy

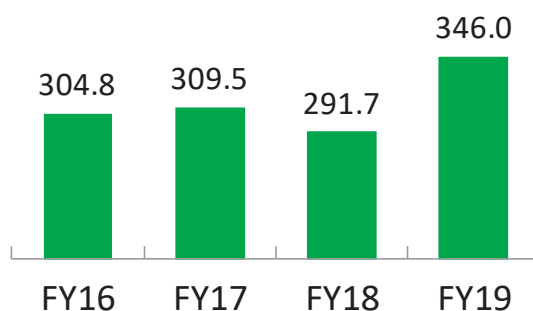
Cathay FHC CAR (%)



CUB Capital Adequacy (%)



Cathay Life RBC (%)



**Cathay Financial Holdings**  
**(NT\$MN)**

				FY19/ FY18		4Q19/ 4Q18	
	FY17	FY18	FY19	% Chg	4Q18	4Q19	% Chg
<b><u>Income Statement Data (Consolidated)</u></b>							
<b>Operating Income</b>							
Net interest income	168,461	180,628	196,367	9%	48,223	49,426	2%
Net commission and fee	1,070	7,312	2,346	-68%	1,121	(438)	-139%
Net earned premium	624,617	576,811	631,487	9%	171,190	184,747	8%
Change in liability reserve	(445,833)	(334,122)	(394,074)	18%	(94,801)	(137,238)	45%
Net claims payment	(295,503)	(368,656)	(365,669)	-1%	(105,240)	(78,590)	-25%
Investment income	62,065	82,634	89,621	8%	1,249	12,646	912%
Contribution from associates-equity method	1,298	1,004	1,149	14%	(38)	505	1423%
Other net non-interest income	22,446	(6,421)	587	109%	(1,966)	4,891	349%
Bad debt expense	(3,460)	(4,599)	(2,205)	-52%	(2,534)	(1,585)	-37%
Operating expense	(75,526)	(78,992)	(89,050)	13%	(21,013)	(25,136)	20%
<b>Income before taxes</b>	59,636	55,599	70,557	27%	(3,809)	9,227	342%
Income taxes	(2,962)	(3,777)	(6,698)	77%	1,034	2,480	140%
Net income	56,673	51,822	63,859	23%	(2,775)	11,707	522%
EPS (NT\$)	4.47	3.95	4.76		(0.23)	0.90	
<b><u>Dividend Payout</u></b>							
Cash dividend per share	2.50	1.50					
Stock dividend per share	0.00	0.00					
Weighted average outstanding shares (Millions of common shares)	12,563	12,563	12,618				
<b><u>Balance Sheet Data (Consolidated)</u></b>							
Total assets	8,841,510	9,224,484	10,065,479				
Total shareholders' equity	608,471	529,289	782,027				
<b><u>Operating Metrics</u></b>							
ROAE (Consolidated)	9.96%	8.83%	9.74%				
ROAA (Consolidated)	0.67%	0.57%	0.66%				
Double leverage ratio(inc. preferred stock)	108%	112%	110%				
<b><u>Capital Adequacy Metrics</u></b>							
Capital Adequacy Ratio	141%	127%	139%				

**Notes:**

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**Cathay Life**

(NT\$MN)

<b>Income Statement Data (Consolidated)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY19/ FY18</b>		<b>4Q19/ 4Q18</b>	
				<b>% Chg</b>	<b>4Q18</b>	<b>4Q19</b>	<b>% Chg</b>
Net written premium	608,404	559,386	608,641	9%	166,666	178,293	7%
Net earned premium	607,547	558,929	607,820	9%	165,997	177,600	7%
Reinsurance commission earned	301	762	356	-53%	306	334	9%
Fee income	9,468	9,148	8,450	-8%	2,082	2,222	7%
Recurring investment income	173,846	197,281	228,037	16%	47,099	47,514	1%
Gain on disposal of investment							
Realized gain (loss)-Equity	43,625	49,374	38,929	-21%	4,430	10,211	130%
Realized gain (loss)-Debt	21,233	15,092	36,365	141%	2,358	14,395	511%
Gain on investment property	(756)	(740)	912	223%	(108)	290	368%
FX and others, net	(28,258)	(44,019)	(61,689)	-40%	(14,854)	(15,443)	-4%
Investment income, net	209,691	216,988	242,553	12%	38,925	56,968	46%
Other operating income	5,069	5,508	6,107	11%	1,470	1,700	16%
Separate account revenues	44,304	28,084	63,653	127%	(1,596)	17,353	1187%
Net claims payment	(284,023)	(357,244)	(349,158)	-2%	(101,642)	(73,304)	-28%
Changes in liability reserves	(445,843)	(333,716)	(393,679)	18%	(94,603)	(137,130)	45%
Acquisition and commission expense	(32,507)	(33,900)	(43,834)	29%	(9,150)	(14,033)	53%
Other operating costs	(6,418)	(7,765)	(6,394)	-18%	(2,059)	(2,019)	-2%
Financial cost	(1,963)	(2,331)	(2,730)	17%	(592)	(704)	19%
Separate account expense	(44,304)	(28,084)	(63,653)	127%	1,596	(17,353)	1187%
Operating expense	(28,790)	(29,165)	(30,692)	5%	(7,614)	(7,846)	3%
Net non-operating income	1,442	1,312	1,710	30%	245	515	111%
Income taxes	2,294	1,773	(2,216)	225%	683	3,413	399%
Net income	36,268	30,297	38,293	26%	(5,952)	7,716	230%
<b>Balance Sheet Data</b>							
Total assets	6,097,655	6,391,395	7,085,624				
General account	5,542,385	5,844,430	6,478,081				
Separate account	555,269	546,964	607,542				
Reserves for life insurance liabilities	4,944,292	5,313,167	5,683,424				
Total liabilities	5,656,473	6,029,265	6,491,106				
Total shareholders' equity	441,181	362,129	594,518				
<b>Operating Metrics (Standalone)</b>							
First Year Premium(FYP)	233,250	211,588	201,064				
First Year Premium Equivalent(FYPE)	78,602	71,372	96,313				
Expense ratio	8.6%	9.6%	10.6%				
13-M persistency ratio	98.2%	98.4%	98.0%				
25-M persistency ratio	94.3%	94.7%	96.4%				
ROAE	9.01%	7.25%	8.01%				
ROAA	0.62%	0.48%	0.57%				
<b>Capital Adequacy Metrics (Standalone)</b>							
RBC ratio	309%	292%	346%				

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**Cathay United Bank**

(NT\$MN)					FY19/ FY18	4Q19/ 4Q18	
<u>Income Statement Data (Consolidated)</u>	FY17	FY18	FY19	% Chg	4Q18	4Q19	% Chg
<b>Operating Income</b>							
Net interest income	29,701	33,397	36,446	9%	8,799	9,393	7%
Fee income	14,862	16,678	17,090	2%	3,805	4,009	5%
Investment income	9,442	9,862	8,996	-9%	1,073	792	-26%
Other income	1,216	918	594	-35%	299	142	-52%
<b>Net operating income</b>	55,222	60,855	63,126	4%	13,977	14,336	3%
Operating expenses	(29,301)	(31,340)	(33,806)	8%	(8,233)	(8,786)	7%
<b>Pre-provision profit</b>	25,920	29,515	29,320	-1%	5,744	5,550	-3%
Net provisions for possible losses	(3,494)	(5,032)	(2,853)	-43%	(2,720)	(1,302)	-52%
<b>Income before taxes</b>	22,426	24,483	26,467	8%	3,024	4,248	40%
Income tax	(2,763)	(3,230)	(3,981)	23%	(174)	(884)	408%
<b>Net income</b>	19,664	21,253	22,486	6%	2,850	3,365	18%
<b>Balance Sheet Data</b>							
Total assets	2,735,704	2,843,881	2,973,496				
Loans, net	1,434,558	1,595,323	1,553,151				
Financial assets	859,590	878,001	897,677				
Total liability	2,553,396	2,638,074	2,741,601				
Deposits	2,098,368	2,227,662	2,335,331				
Financial Debenture Payable	63,350	55,600	53,900				
Total shareholders' equity	182,308	205,807	231,895				
<b>Operating Metrics</b>							
Cost income ratio	53.06%	51.50%	53.55%				
ROAE	11.49%	10.86%	10.27%				
ROAA	0.74%	0.76%	0.77%				
<b>Assets Quality (Standalone)</b>							
NPL	2,982	2,563	2,286				
NPL ratio	0.21%	0.16%	0.15%				
NPL provisions	22,553	23,879	25,983				
Coverage ratio	756%	932%	1137%				
<b>Capital Adequacy Metrics (Standalone)</b>							
BIS ratio	15.9%	15.0%	15.1%				
Tier I Ratio	11.7%	11.8%	12.3%				
<b>LDR (Standalone)</b>							
TWD LDR	73.7%	77.7%	70.1%				
FX LDR	49.1%	46.6%	48.8%				

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**Cathay Century**

(NT\$MM)					FY19/ FY18	4Q19/ 4Q18	
	FY17	FY18	FY19	% Chg	4Q18	4Q19	% Chg
<b><u>Income Statement Data (Consolidated)</u></b>							
Premium income	21,878	23,186	25,343	9%	6,144	7,150	16%
Net written premium	16,610	17,797	19,550	10%	4,635	5,598	21%
Net earned premium	16,344	17,349	19,077	10%	4,437	5,196	17%
Reinsurance commission earned	489	556	572	3%	162	145	-10%
Fee income	42	43	42	-1%	11	10	-6%
Investment	892	640	1,020	59%	(165)	257	256%
Interest income	547	559	555	-1%	138	144	4%
Other investment income, net	345	81	465	473%	(303)	113	137%
Other operating income	0	0	0	0%	0	0	0%
Net claims payment	(9,138)	(9,408)	(10,321)	10%	(2,433)	(2,840)	17%
Changes in liability reserves	10	(406)	(395)	-3%	(198)	(108)	-46%
Commissions and other operating costs	(2,859)	(3,043)	(3,409)	12%	(800)	(1,014)	27%
Operating expenses	(3,609)	(3,848)	(4,097)	6%	(1,028)	(1,118)	9%
<b>Operating income</b>	<b>2,170</b>	<b>1,883</b>	<b>2,490</b>	<b>32%</b>	<b>(13)</b>	<b>528</b>	<b>4024%</b>
Net non-operating income	(16)	(24)	5	123%	(15)	6	138%
Income taxes	(297)	(349)	(389)	11%	(40)	(75)	88%
Net income	1,858	1,510	2,106	40%	(68)	459	772%
<b><u>Balance Sheet Data</u></b>							
Total assets	38,351	37,956	43,008				
Total stockholders' equity	10,517	10,025	12,656				
<b><u>Operating Metrics</u></b>							
Gross Combined ratio	80.0%	81.8%	84.8%				
Net Combined ratio	90.9%	92.2%	93.0%				
ROAE	18.83%	14.69%	18.57%				
ROAA	4.85%	3.96%	5.19%				
<b><u>Capital Adequacy Metrics</u></b>							
RBC ratio (Standalone)	392%	370%	339%				

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

## **Note**

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