

February 2014

# CDF's Acquisition of Cosmos Bank

Confidential

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# 1 Transaction Summary

# Transaction Summary

CDF plans to acquire 100% ownership of Cosmos Bank via share swap

## Transaction Summary

- CDF and Cosmos Bank have agreed upon CDF's acquisition of 100% of shares in Cosmos Bank via share swap
- Upon the completion of share swap and the approval of regulatory authorities, CDIB will sell its Corporate Banking, Global Financial Markets and banking-related investments to Cosmos Bank

## Share Swap Consideration

- Each share of Cosmos Bank (including privately-placed common shares) in exchange for NT\$13.40 and 0.2 new common share of CDF to be issued <sup>1</sup>

## Funding

- The total cash consideration to be paid by CDF will be approximately NT\$20.4 billion, funded by CDF's owned capital, and:
  - CDIB's planned capital reduction of NT\$5 billion
  - KGI's planned capital reduction of NT\$8 billion

## Regulatory Approval Required

- The proposed share swap plan
- CDIB's planned capital reduction
- KGI's planned capital reduction
- The sale of CDIB's Corporate Banking and Global Financial Markets businesses to Cosmos Bank

*Note: 1. Both CDF and Cosmos Bank have agreed that the date of share swap should be after CDF's ex-dividend date and that shareholders of Cosmos Bank will not participate in CDF's 2013 cash dividend distribution. However, if CDF declares a cash dividend exceeding NT\$0.5 per share, the cash consideration will be adjusted upward to:  $NT\$13.40 + 0.2 * (\text{cash dividend per share declared by CDF} - NT\$0.5)$*

# Integration Timeline

Integration through three phases

## Phase I Share Swap

- Boards of directors of both CDF and Cosmos Bank approved the share swap plan on February 10, 2014
- Boards of directors of CDF and Cosmos Bank will summon special shareholders' meetings on April 8, 2014 to approve the share swap plan
- CDF will apply to Financial Supervisory Commission ("FSC") for acquiring Cosmos Bank as a wholly-owned subsidiary of CDF via share swap, tentatively scheduled to be completed by the end of July 2014

## Phase II Integration

- Upon the approval of the regulatory authorities, CDIB will sell its Corporate Banking and Global Financial Markets businesses to Cosmos Bank
- CDIB will also sell its leasing and asset management subsidiaries as well as banking-related investments to Cosmos Bank

## Phase III Transformation

- To ensure a smooth transition of its Principal Investment business in both Taiwan and Mainland China, CDIB plans to transform itself into a venture capital firm during a two-year transition period, subject to further regulatory approval
- CDF will achieve business synergies by integrating its commercial banking, venture capital, private equity and securities businesses

# Strategic Value of CDF's Acquisition of Cosmos Bank

Optimal capital allocation and strengthened profitability

## Strategic Implications of the Acquisition

### Optimal Capital Allocation

- CDF's financial leverage (total assets / net worth) will increase from 4X to 5X
- More efficient capital allocation will help improve CDF's ROE

### Enhanced Market Position

- The commercial banking license obtained through the acquisition enables CDF to expand the deposit base, strengthen corporate banking business and expand into consumer banking business

### Synergy Opportunities

- With the addition of Cosmos Bank, CDF will build a more comprehensive financial services platform
- Revenue-enhancing synergies are created through a comprehensive cross-selling of securities and commercial banking products

# 2 Optimal Capital Allocation

# Financial Snapshots - CDF

The superior profitability of CDIB's Corporate Banking / GFM <sup>1</sup> business

(NT\$ million)	2011			2012			January – September 2013		
	Profit	Capital Usage	Return on Capital	Profit	Capital Usage	Return on Capital	Profit	Capital Usage	Return on Capital <sup>2</sup>
<b>Principal Investment</b>	<b>2,852</b>	<b>54,870</b>	<b>5.2</b>	<b>2,393</b>	<b>51,942</b>	<b>4.6</b>	<b>1,844</b>	<b>59,183</b>	<b>4.2</b>
Greater China	2,709	38,174	7.1	1,591	34,433	4.6	1,477	37,196	5.3
International	143	16,696	0.9	802	17,509	4.6	367	21,987	2.2
<b>Corporate Banking / GFM <sup>1</sup></b>	<b>311</b>	<b>14,572</b>	<b>2.1</b>	<b>1,659</b>	<b>12,198</b>	<b>13.6</b>	<b>2,274</b>	<b>15,517</b>	<b>19.5</b>
Corporate Banking	1,014	8,918	11.4	820	8,941	9.2	1,107	10,274	14.4
GFM <sup>1</sup>	(702)	5,654	(12.4)	839	3,257	25.7	1,167	5,243	29.7
<b>Securities <sup>3</sup></b>	<b>(960)</b>	<b>9,106</b>	<b>(10.5)</b>	<b>2,224<sup>4</sup></b>	<b>36,844<sup>4</sup></b>	<b>6.0</b>	<b>1,763</b>	<b>43,844</b>	<b>5.4</b>

Note: 1. Global Financial Markets; 2. Annualized figures; 3. Profit from Securities excludes profit attributable to strategic investment; 4. 2012 figures of Securities are based on the assumption of 100% ownership of KGI

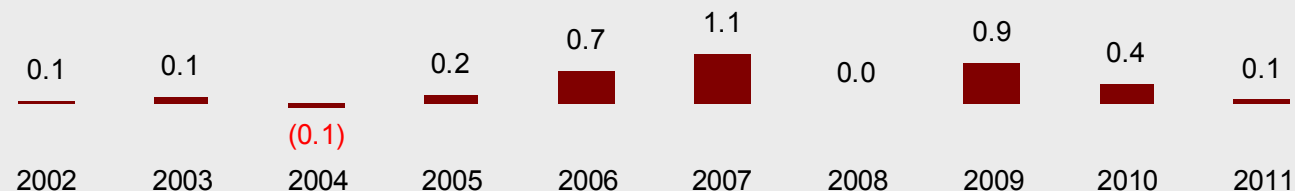
# Industry Profitability Trend

More capital should be allocated to Corporate Banking and GFM<sup>1</sup> business

## Principal Investment

- Profits of Taiwanese venture capital firms have been sliding due to the waning competitive edge of the Taiwan's IT sector

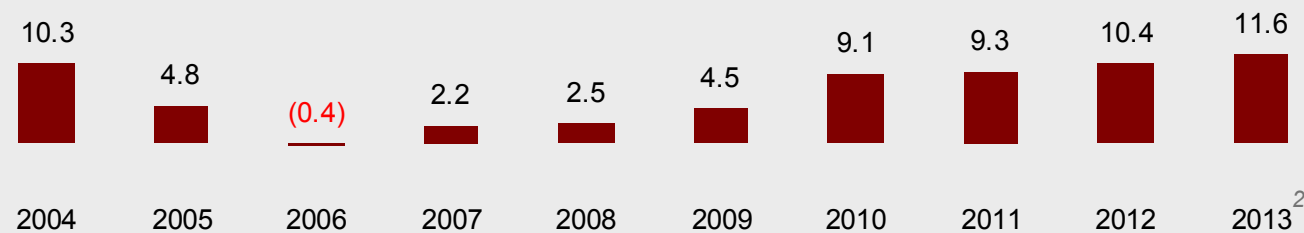
Average earnings per share of Taiwan's venture capital companies, NT\$ per share



## Banking

- Taiwanese banks have witnessed improving profits, driven by the recovery from the consumer credit crisis, a buoyant property market and the growth of high-margin foreign currency loans

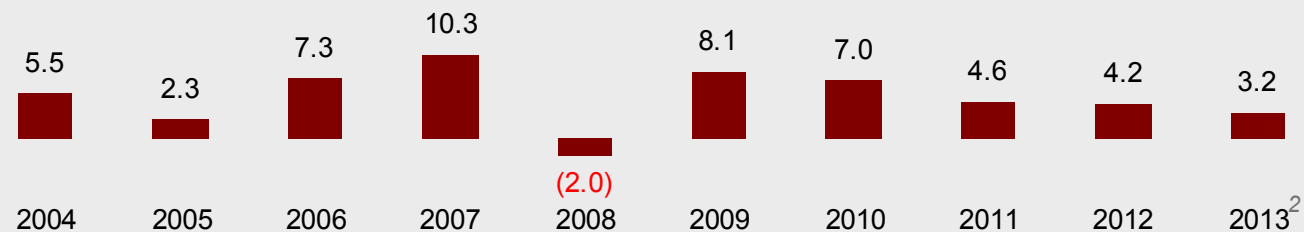
Average pre-tax return on equity of Taiwanese banks, percent



## Securities

- Taiwan stock market has experienced a sluggish volume recovery even after the Global Financial Crisis due to a slow global economic growth

Average after-tax return on equity of Taiwanese securities companies, percent



Note: 1. Global Financial Markets; 2. 2013 figures are annualized

# Capitalization

CDF and subsidiaries will maintain strong capitalization post acquisition

## Post-Acquisition Capital Adequacy Ratio and Double Leverage Ratio

	September 2013 (Unaudited)	Post-Conversion Pro Forma
<b>China Development Financial (CDF)</b>		
Capital Adequacy Ratio	170.1%	132.0% ~ 136.0%
Double Leverage Ratio	111.1%	115.5% ~ 116.5%
Debt / Equity Ratio	17.4%	17.0% ~ 18.0%
<b>China Development Industrial Bank (CDIB)</b>		
Tier 1 Capital Ratio	18.1%	17.0% ~ 17.6%
Capital Adequacy Ratio	18.1%	17.0% ~ 17.6%
<b>KGI Securities</b>		
Capital Adequacy Ratio	384.5%	290% ~ 310%
<b>Cosmos Bank</b>		
Capital Adequacy Ratio	12.7% <sup>1</sup>	12.8% ~ 13.2%

Note: 1. As of June 2013

# 3 Enhanced Market Position

# CDIB's Corporate Banking Business

A well-diversified portfolio

## Service Platform

- CDIB serves more than 700 corporate clients across Taiwan's major industries
- Headquartered in Taipei, CDIB has branch offices in Taoyuan, Taichung and Kaohsiung
- CDIB's leasing subsidiary in Kunshan, China commenced operation in April 2012, and opened its Shanghai office in May 2013

## Credit Growth

- Total credits grew robustly during 2010-2013 with a three-year compound annual growth rate ("CAGR") exceeding 20%
- Total credits stood at NT\$156.5 billion as of September 30, 2013, up 39% from December 31, 2012

## Asset Quality

- NPL ratio stood at 0.18% as of September 30, 2013, lower than an industry average of 0.45%
- Coverage ratio was 797% as of September 30, 2013, well above an industry average of 264%

## Self-funding

- CDIB continues to diversify its funding sources and expand its deposit base
- Total deposits jumped to NT\$140.4 billion as of September 30, 2013, up 353% from NT\$31 billion as of January 1, 2009

## Growth Strategy

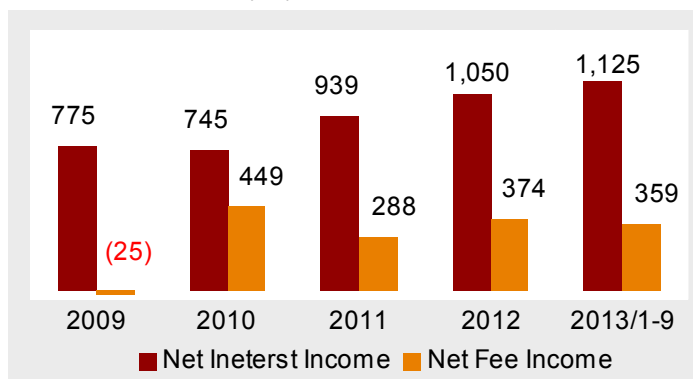
- CDIB will continue to grow its existing business organically
- CDIB will continue to be active in high-yield financing with a focus on acquisition and LBO transactions
- CDIB will keep expanding its leasing business in Mainland China

# CDIB's Corporate Banking Business (Cont'd)

Steady improvement in NII and fees with solid asset quality

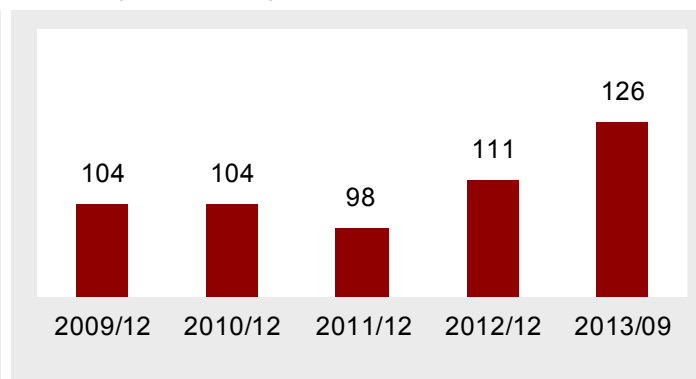
## Steady Improvement in NII & Fees

Net interest income (NII) & net fees income, NT\$mn



## Improved Interest Spread

Interest spread, basis points



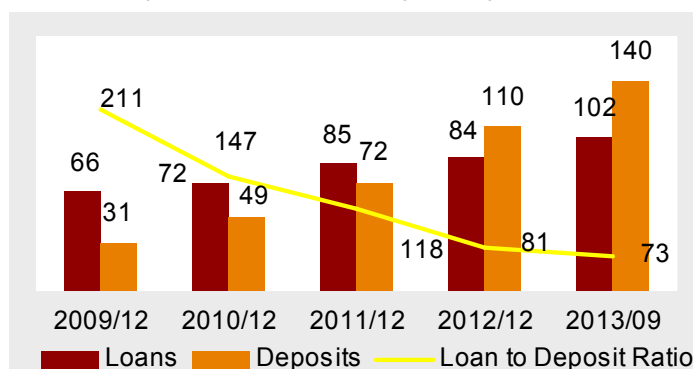
## Solid Asset Quality

Non-performing loan ratio, percent



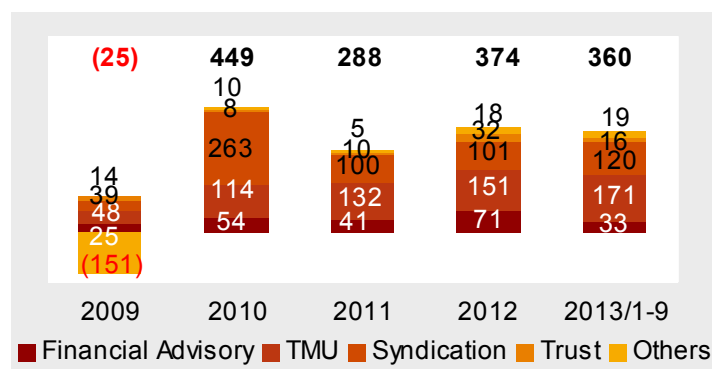
## Improved Self-funding

Loans & deposits, NT\$bn; loan/deposits, percent



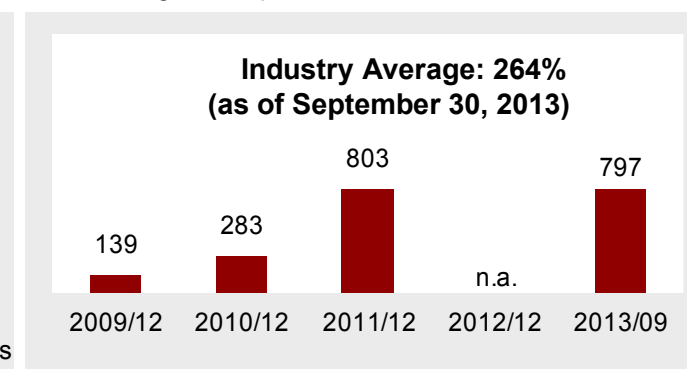
## Diversified Fee Income Source

Net fee income mix, total fee income, NT\$mn



## Relatively High Reserve Coverage Ratio

NPL coverage ratio, percent

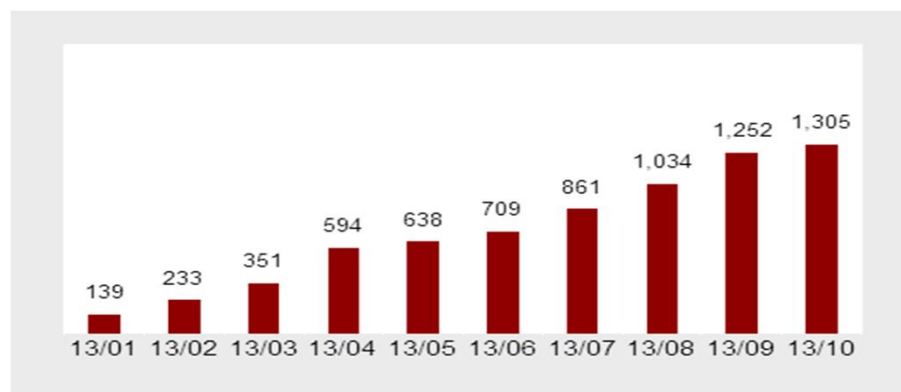


# CDIB's Corporate Banking Business (Cont'd)

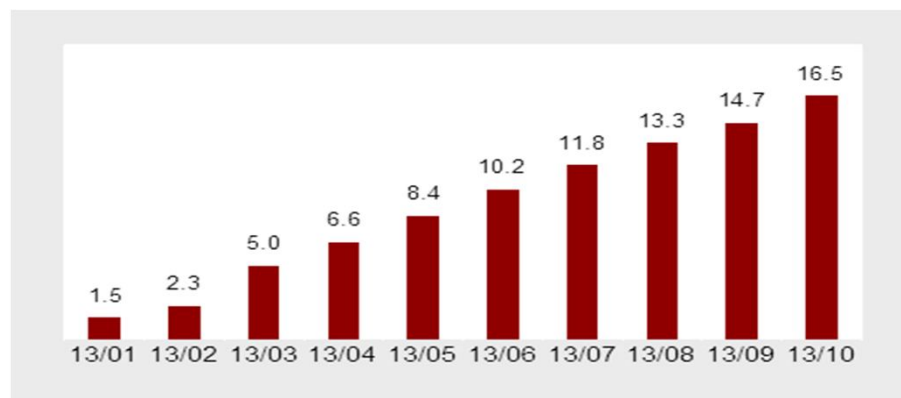
Continued credit growth attributable to trade finance

## Total Credit Exposure Continued to Increase

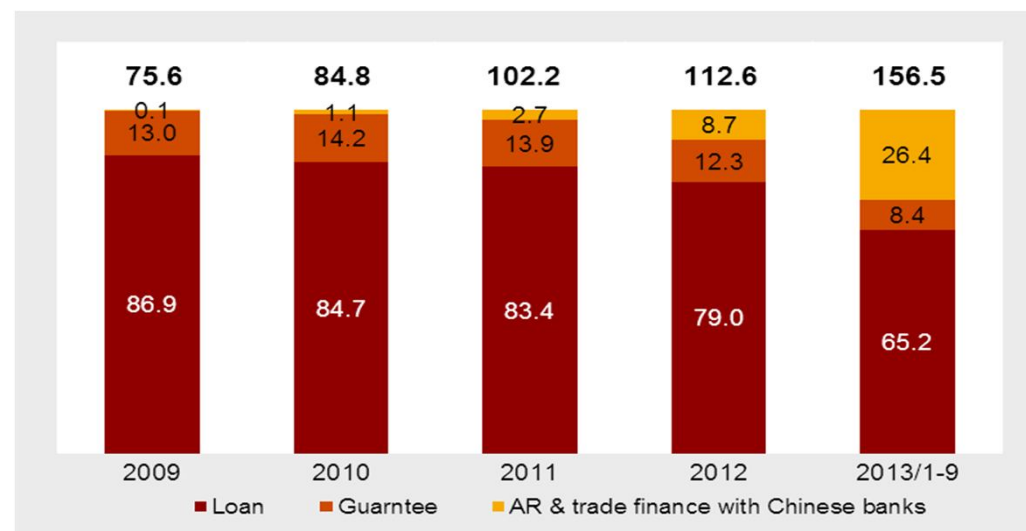
Cumulative forfeiting volume, US\$mn



Cumulative AR financing & factoring, NT\$bn



Total credits, NT\$bn, total credit breakdown, percent



# Opportunities and Challenges

The acquisition of Cosmos Bank will complement CDIB's and KGI's businesses

## ■ The acquisition of Cosmos Bank will complement CDIB's Corporate Banking Business

CDIB	Cosmos Bank
Insufficient network coverage	49 branches as well as ATMs and Automated Loan Machines (ALMs)
Lack of mid- and long-term funding	A more diversified deposit base
Lack of consumer banking products	Focus on consumer banking and wealth management
An industrial network built over the past 50 years	Lack of access to new business
CDF's brand new corporate identity	Less-known brand identity

## ■ The acquisition will expand KGI's cross-selling initiatives with CDIB/Cosmos Bank from merely underwriting to registry, brokerage and wealth management services

## ■ The enhanced serviced platform will be well-positioned to unlock huge business potential

- The strengthened operating scale will provide a solid foundation for robust asset growth
- The comprehensive product lines (including Cosmos Bank, CDIB's Corporate Banking, Global Financial Markets, leasing and asset management subsidiaries) will help attract high caliber employees
- The service platform post acquisition will have a much larger scale, thus reducing its cost-income ratio and boosting ROE

# A Comprehensive Service Network

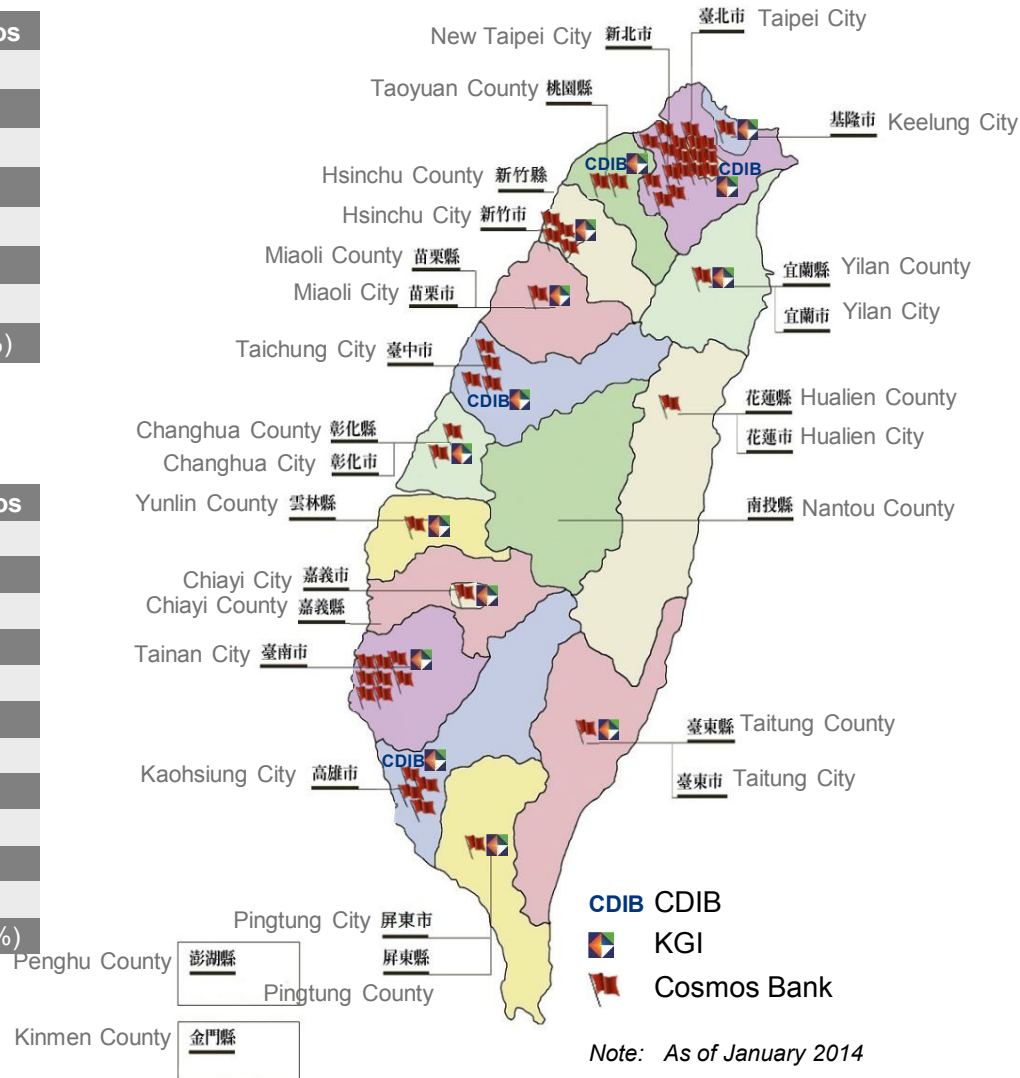
Cosmos Bank's branch office network is able to support KGI's business

## Central

CDIB	KGI	Cosmos
Miaoli		
-	2	1
Taichung		
1	9	4
Changhua		
-	2	2
Subtotal		
1(25%)	13(15%)	7(14%)

## South

CDIB	KGI	Cosmos
Yunlin		
-	2	1
Chiayi		
-	1	1
Tainan		
-	6	8
Kaohsiung		
1	8	4
Pingtung		
-	3	1
Subtotal		
1(25%)	20(23%)	15(31%)



## North

CDIB	KGI	Cosmos
Keelung		
-	1	1
Taipei Metropolitan Area		
1	37	17
Taoyuan		
1	6	2
Hsinchu		
-	7	4
Subtotal		
2(50%)	51(58%)	24(49%)

## East

CDIB	KGI	Cosmos
Yilan		
-	2	1
Hualien		
-	-	1
Taitung		
-	2	1
Subtotal		
- (0%)	4(5%)	3(6%)

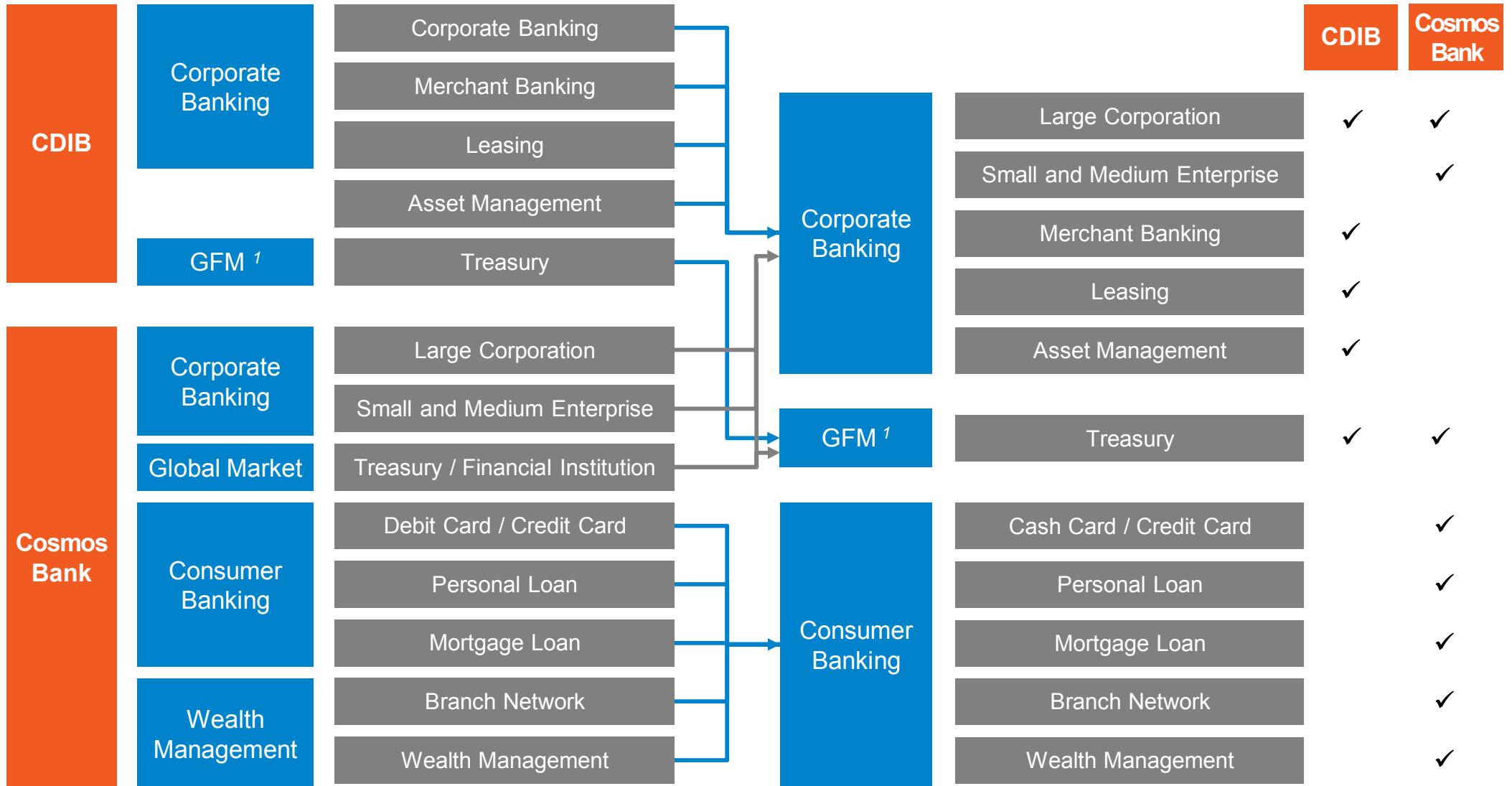
## Total

Total		
4(100%)	88(100%)	49(100%)

Note: As of January 2014

# Complimentary Product Lines

A full spectrum of products and services



Note: Global Financial Markets

# Expansion into Commercial Banking

Enhanced market position

## Market Position

As of September 30, 2013



## Service Platform Post Acquisition

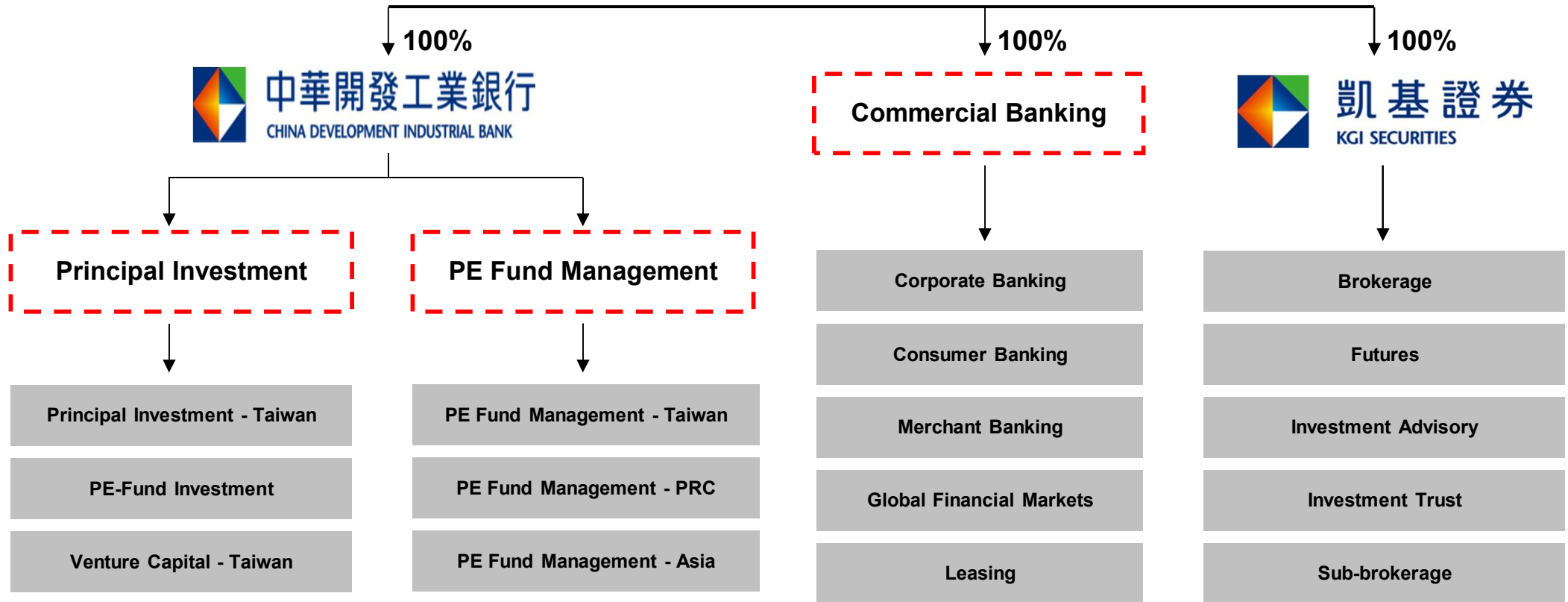


Market Position	CDIB (As of Sept 30, 2013)	Post Acquisition	Cosmos Bank
Domestic Branches	4	53	49
Market Share - Deposit	0.47%	0.95%	0.48%
Market Share - Loan	0.41%	0.81%	0.40%
NPL Ratio	0.2%	0.4%	0.6%
Coverage Ratio	796.7%	385%	245.7%

# 4 Synergy Opportunities

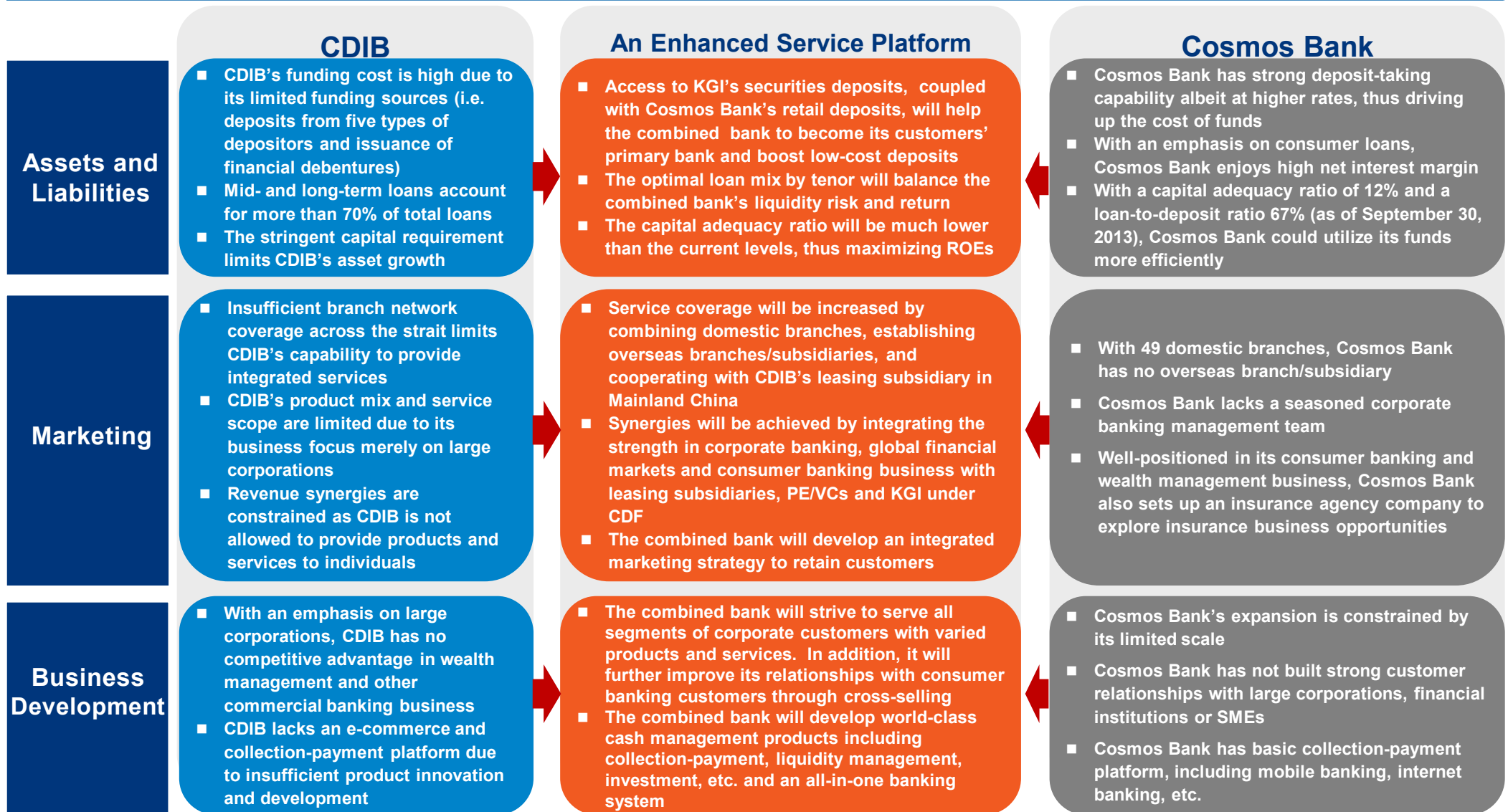
# The Core Business of CDF

CDF's three pillars of business



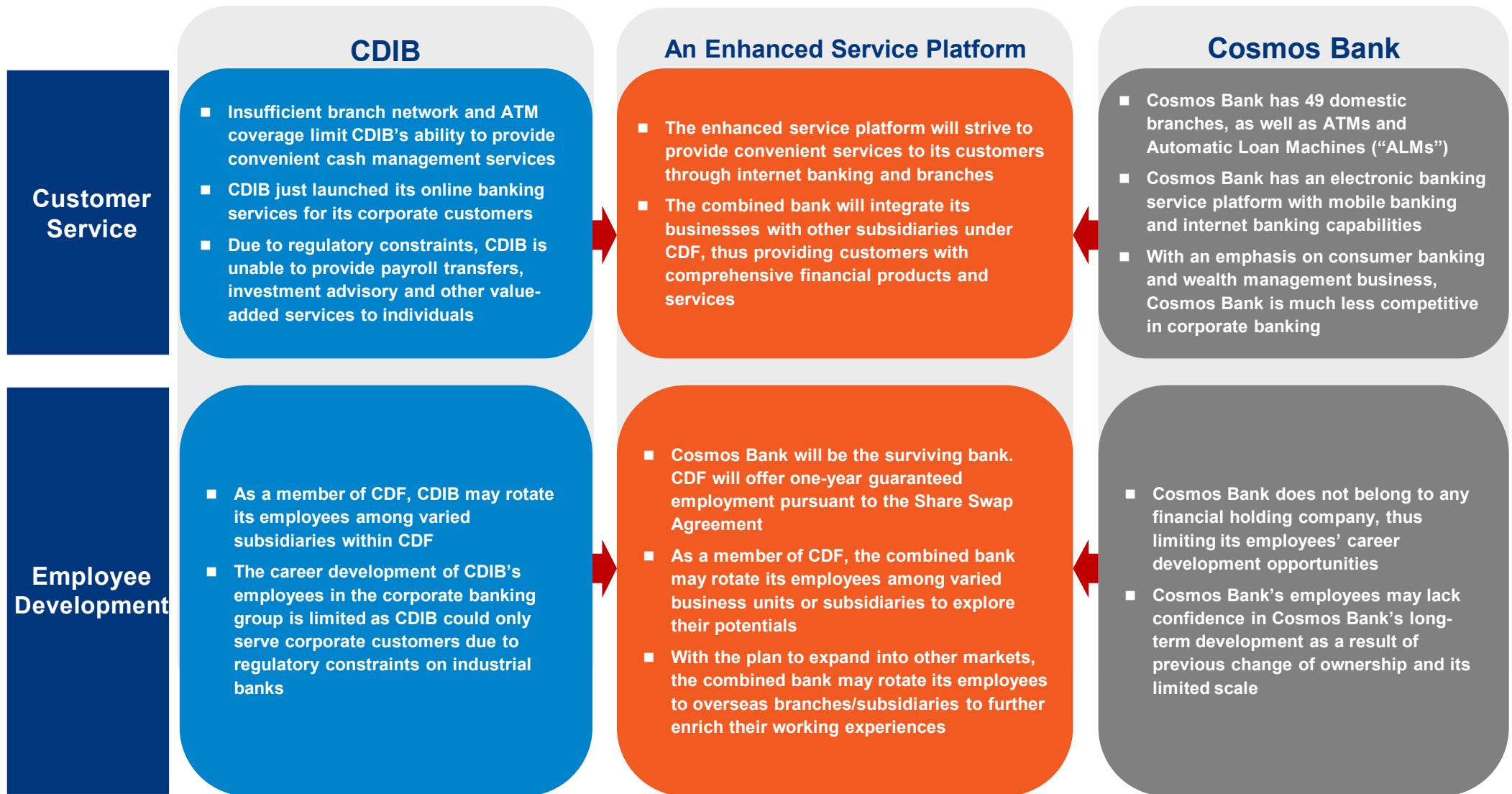
# An Enhanced Service Platform

## Business development



# An Enhanced Service Platform (Cont'd)

## Customer service and employee development



# Improving Liquidity and Efficiency Post Acquisition

Lifting regulatory constraints on CDIB's Corporate Banking business

## Lower the Cost of Capital

- An industrial bank can only take deposits from investee companies, corporate borrowers, insurance companies, non-profit organizations and government agencies
- The acquisition of Cosmos Bank will lower CDIB's funding cost through reducing the reliance on more expensive funding sources, e.g., financial debentures or structured products

## Improve Liquidity

- Wholesale deposits, mostly short-term time deposits, account for a lion's share of CDIB's deposits. The acquisition of a commercial bank will improve CDIB's liquidity by expanding and diversifying its deposit base

## Improving Efficiency

- Business integration can simplify management and lower cost
- With the rapid expansion of CDIB's Corporate Banking business, synergies will come from improving efficiency coupled with an expanded business scale

# 5 Q & A