

2015 Fourth Quarter Briefing

March 2016



國泰金控

Cathay
Financial Holdings

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Agenda

- **2015 Business Overview and 2016 Outlook**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **CUB's progress in Equator Principles**
- **Appendix**

2015 Business overview

Cathay United Bank

- Loan maintained stable with benign credit quality
 - Fee income grew by 19% YoY, wealth management fee grew by 32%
 - Continued to deepen customer relationship and expand overseas footprints
-

Cathay Life

- Regular-paid policies accounted for 97% of traditional life FYP, ranked No.1 by FYPE
 - Value of New Business grew by 8% YoY
 - Maintained strong capital adequacy, RBC ratio reached 305%
-

Cathay Century

- Market share reached 13.3%, maintained No.2 market position
 - Continued to reduce loss ratio; FY15 after-tax profit grew by over 40% YoY
 - Increase overseas footprints to extend offshore business
-

Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$431BN
 - Taiwan Futures Exchange, Lipper and Smart rewarded Cathay Mandarin Fund and Cathay Global Infrastructure Fund with “Taiwan Fund Award” in 2016, and Asia Investors rewarded Cathay SITE with “Market Award - Taiwan” in 2015
-

Cathay Securities

- Delivered significant growth with FY15 net profits. FY15 after-tax profit and EPS
- Expanding overseas business to grow offshore market

2016 Outlook

Cathay United Bank

- Maintain mild growth in loan with benign asset quality
 - Increase fee income contribution
 - Continue to grow offshore earnings and business coverage
-

Cathay Life

- Focus on sales of regular-paid products, foreign currency denominated policies and investment linked policies to improve value of new business
 - Continue to increase overseas investment and maintain stable hedging cost
-

Cathay Century

- Develop best operation and sales organization and utilize digital application to enhance service quality and satisfaction
 - Increase the efficiency of capital and net profits
 - Continue to expand overseas and develop quality channel for better local branding
-

Cathay SITE

- Perform market segmentation strategy meanwhile offer complete product lines to meet customers' requirements
 - Leverage group resources and expand external distribution channels to increase AUM
-

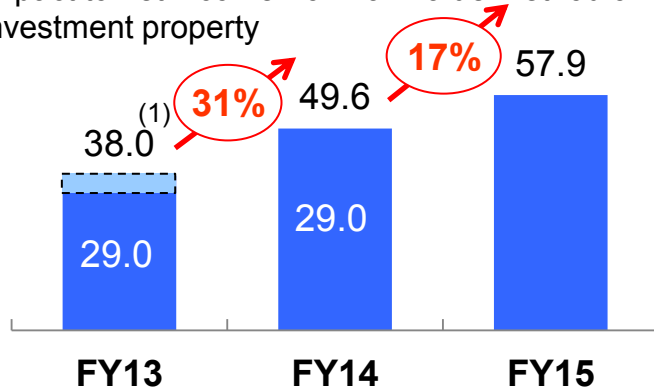
Cathay Securities

- Actively utilize digital technology to expand cross-selling opportunities
- Continue to expand overseas business

Cathay FHC – Net income & EPS

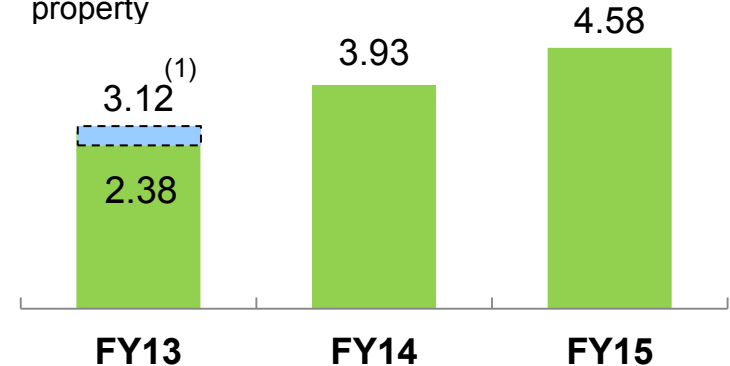
Net income (NT\$BN)

■ Impact to net income from fair value method on investment property



Adjusted EPS (NT\$)

■ Impact to EPS from fair value method on investment property

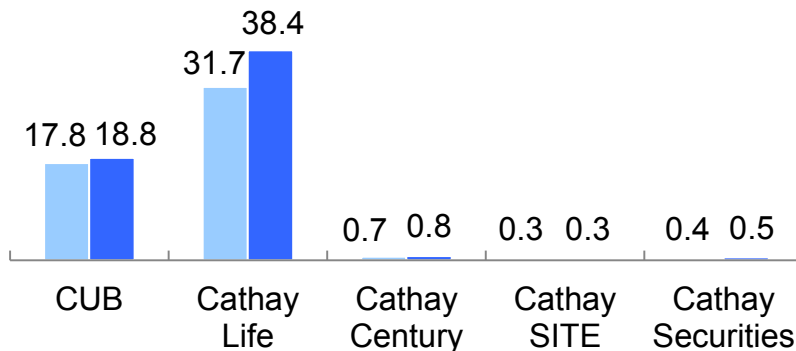


Note: (1) FY13 figures reflected the impact from applying fair value method on investment property, starting 2014/1/1. The impact to FY13 net income and EPS of Cathay FHC was NT\$9.0BN and NT\$0.74, respectively.

(2) EPS has been adjusted for stock dividend (stock split).

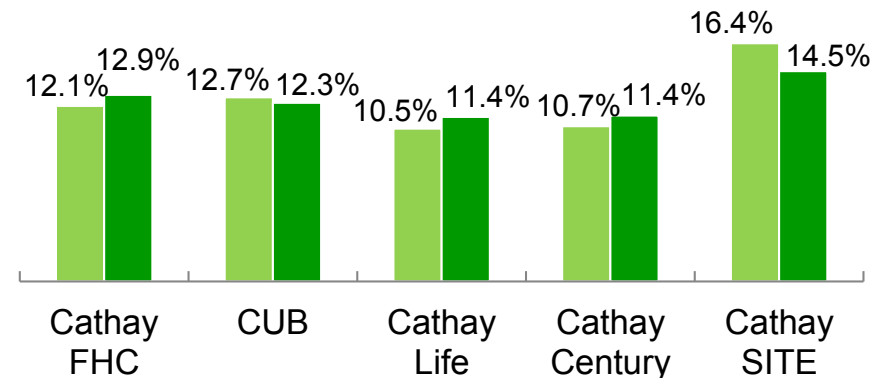
Net income of primary subsidiaries (NT\$BN)

■ FY14 ■ FY15



ROE

■ FY14 ■ FY15

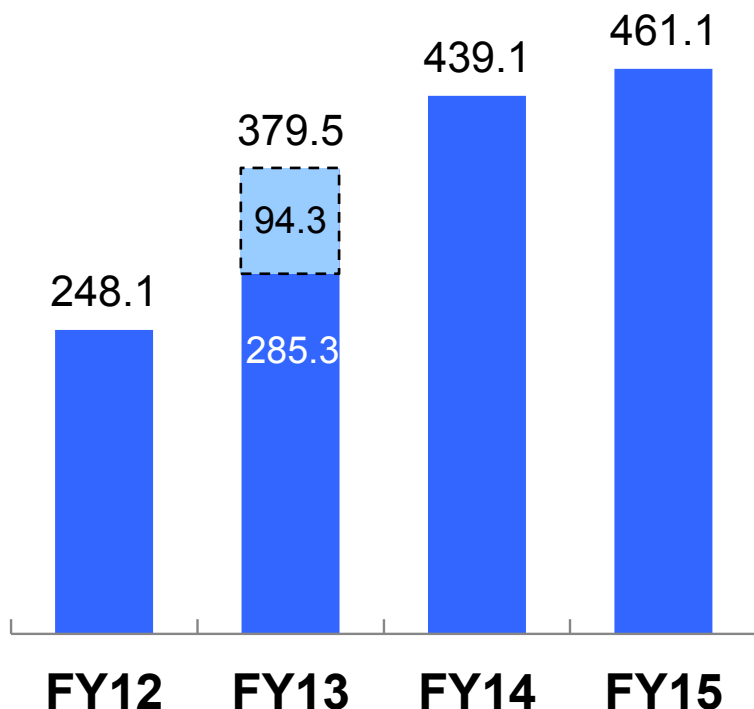


Cathay FHC – Book value & BVPS

Book value

(NT\$BN)

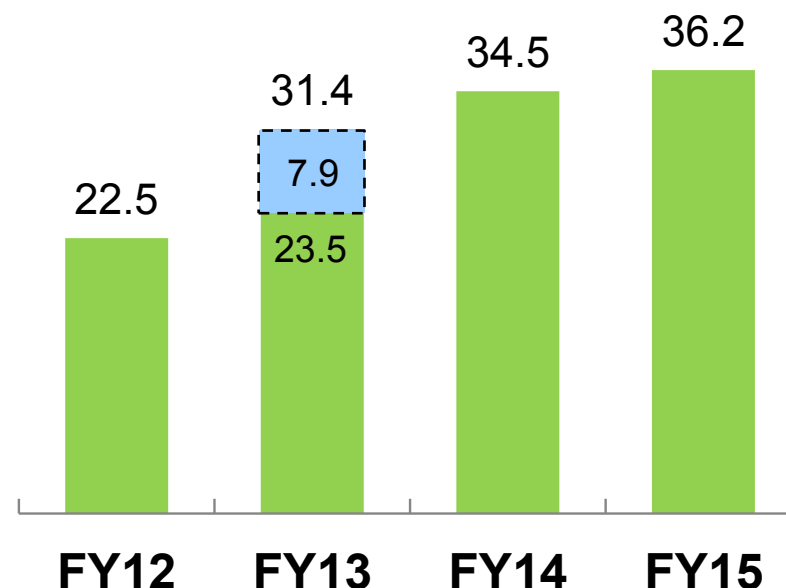
■ Impact to book value from fair value method on investment property



BVPS

(NT\$)

■ Impact to BVPS from fair value method on investment property



Note: FY13 figures reflected the impact from applying fair value method on investment property

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Cathay FHC in South East Asia

	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia	Laos	Philippines	Thailand	Myanmar	Indonesia
Bank	6*	37	16	1	1	1	1	1	1	1	1
Life	30	10									
P&C	25	2									
Asset Mgt	1			1							
Securities				1							

Note: Footprints in Thailand, Myanmar and Indonesia are representative offices. CUB obtained the approval to set up Shenzhen branch.



■ Banking

- Vietnam: Business performed steadily with solid financial performance and superior asset quality
- Cambodia: Owns most footprints among Taiwanese banks
- Philippines: Manila branch has opened in October 2015
- Philippines: Invest 22.3% stake in RCBC*
- Indonesia: Invest 24.9% stake in Bank Mayapada*

■ Cathay Life

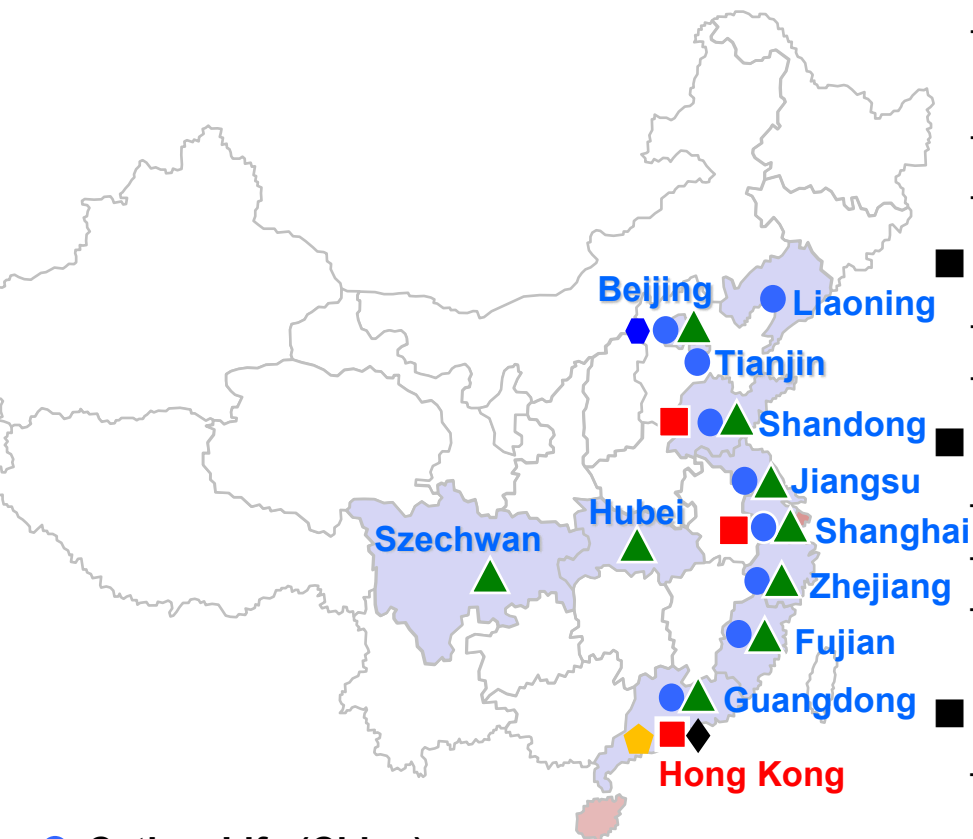
- Cathay Life (Vietnam) has performed steadily. Continued to expand agent force.

■ Cathay Century

- Continue to expand local channels to enhance growth momentum

Note: Investments in RCBC and Bank Mayapada are funded by Cathay Life.

Cathay FHC in China



- Cathay Life (China)
- Cathay United Bank
- ▲ Cathay Century (China)
- ◆ Cathay Securities
- ◆ Cathay Conning Asset Management
- ◆ CDBS Cathay Asset Management Company

■ Cathay United Bank

- Each business line has performed steadily in Shanghai branch. Jiading Dist. sub-branch has opened in 4Q15
- Shenzhen branch has been approved
- Apply for Xiamen branch

■ Cathay Life (China)

- FY15 solvency ratio 309%
- Reported pre-tax profits of 92MN RMB in 2015

■ Cathay Century (China)

- Strong premium income growth in FY15 up by 17% YoY
- Increase footprints to extend offshore business
- Capital injection from Ant Financial is subject to regulatory approval

■ Cathay Securities

- Set up Cathay Securities (HK) to expand overseas business

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

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

■ Conning

- Continued to expand asset management business

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Cathay United Bank

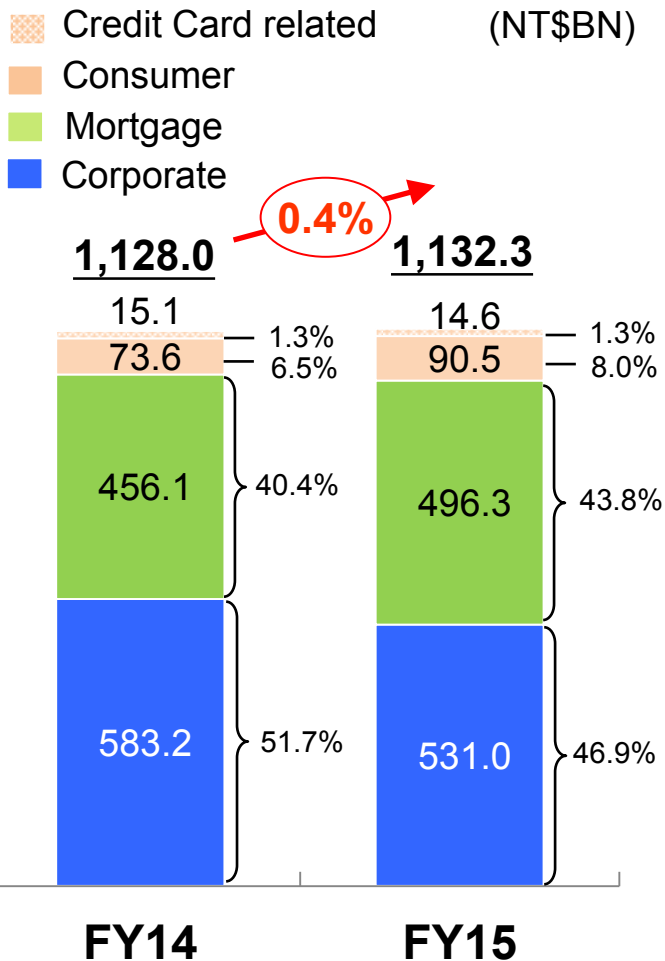
Cathay Life

Cathay Century

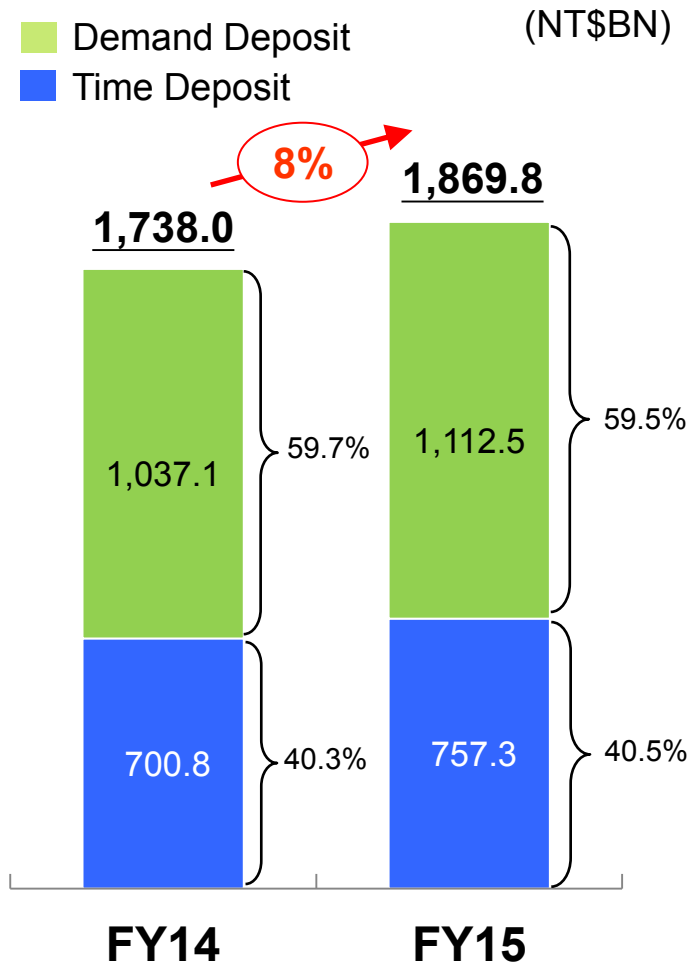
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Cathay United Bank – Loan & deposit breakdown

Loan breakdown

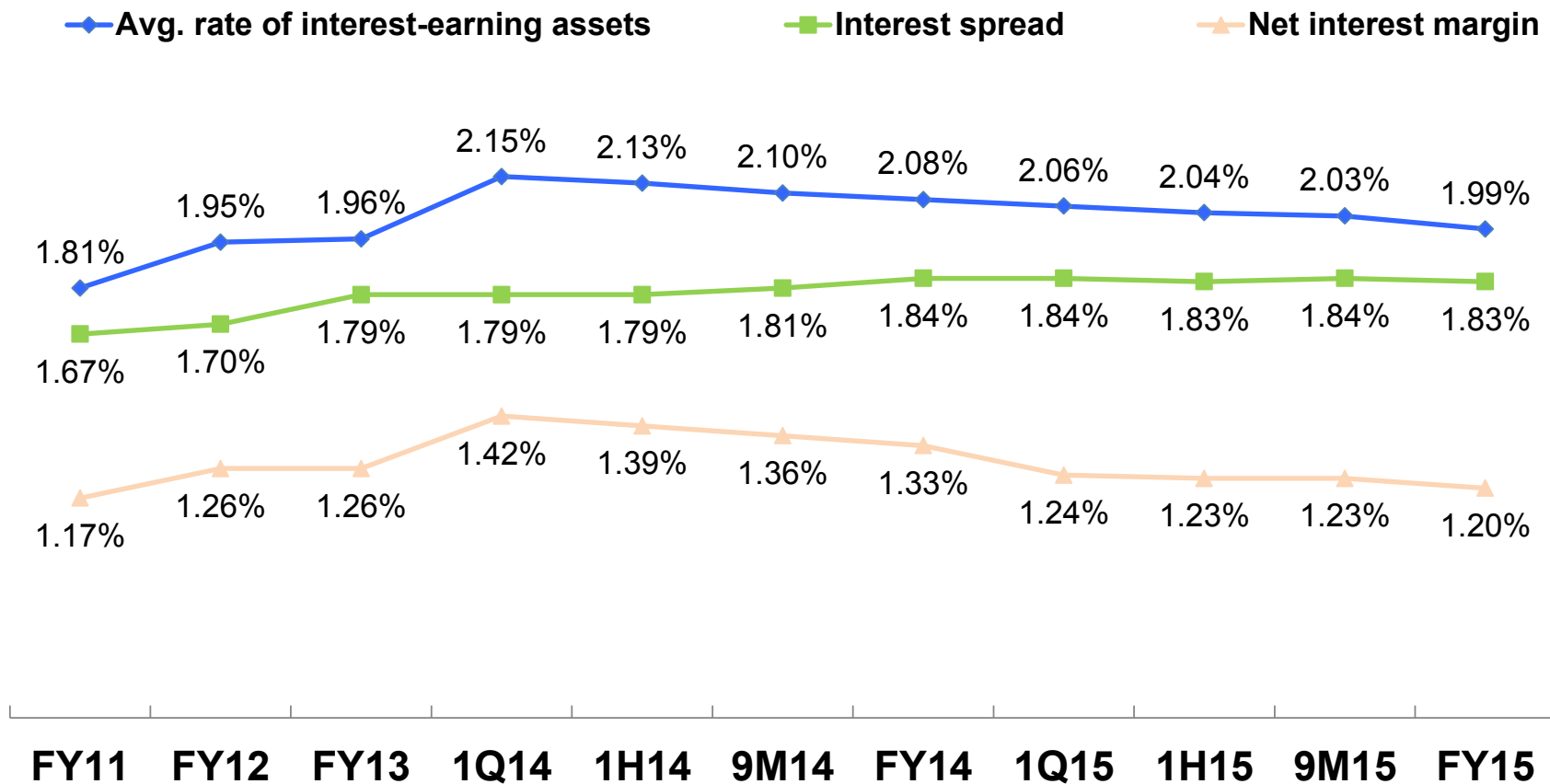


Deposit breakdown



Note: Totals may not sum due to rounding.

Cathay United Bank – Interest yields

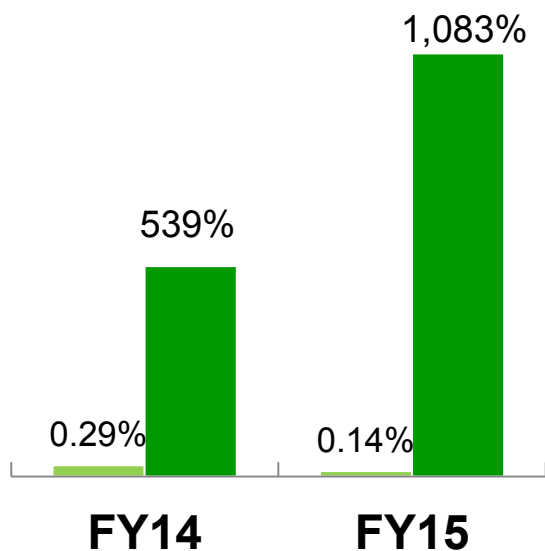


Note: Credit card related loans are included in the calculation of interest spread.

Cathay United Bank – Credit quality

NPL & Coverage ratio

- NPL ratio
- Coverage ratio



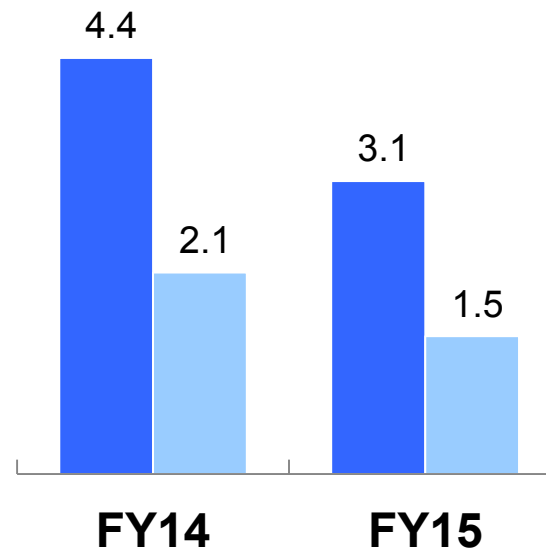
Mortgage NPL

0.04%

0.04%

Gross provision

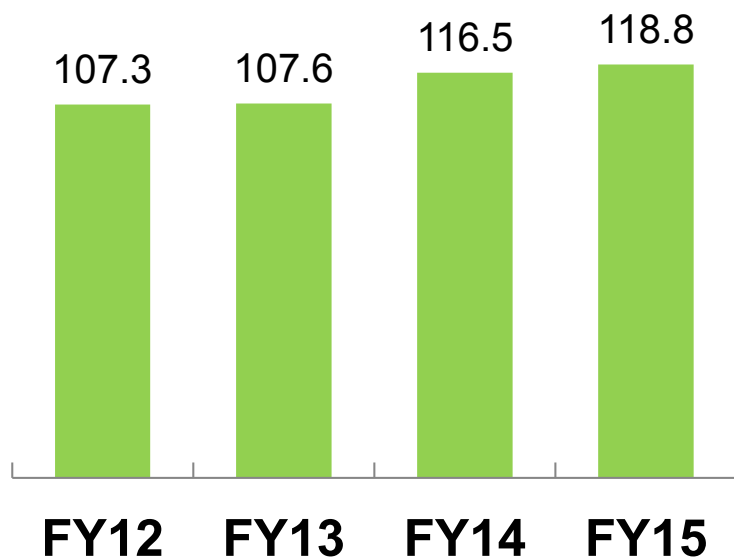
- Gross provision (NT\$BN)
- Recovery



Cathay United Bank – SME & FX loans

SME loans

(NT\$BN)

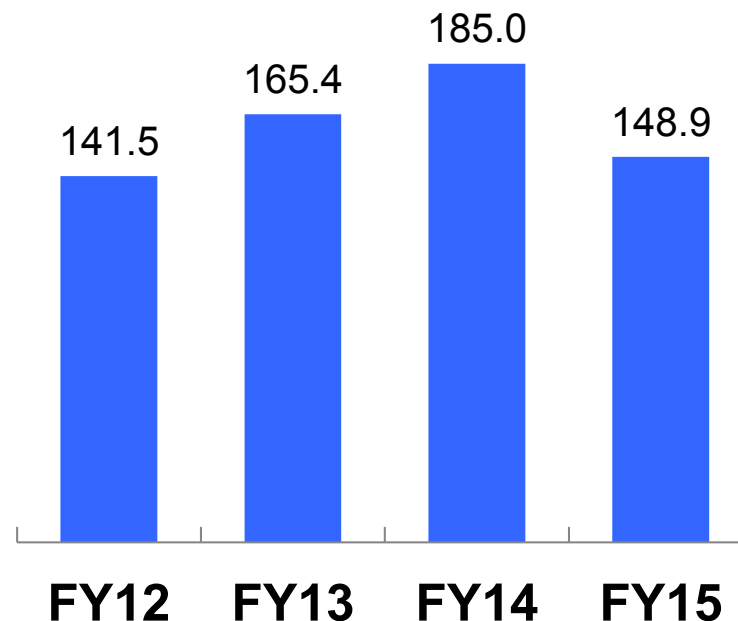


As % of total loans

11.5% 10.5% 10.5% 10.6%

Foreign currency loans

(NT\$BN)



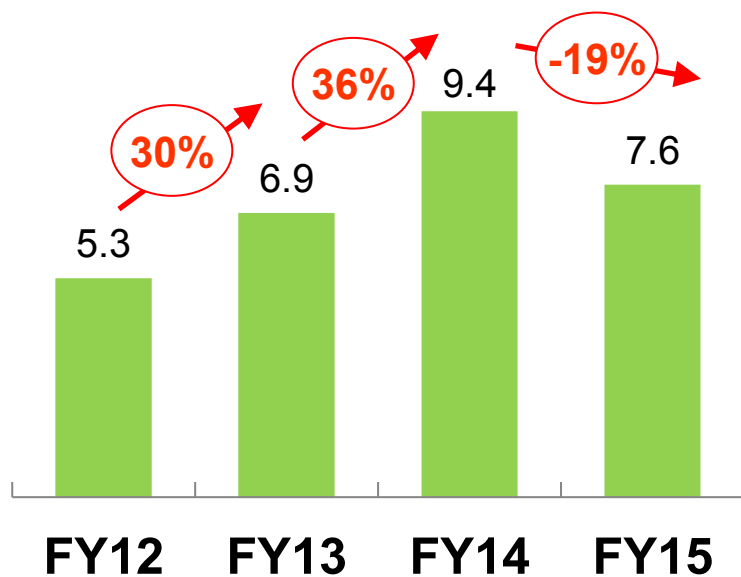
15.1% 16.1% 16.6% 13.3%

Note: Total loans exclude credit card revolving balance.

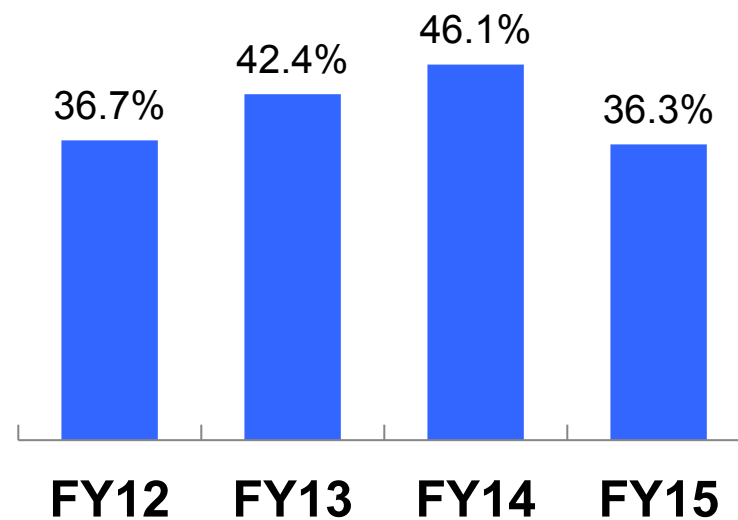
Cathay United Bank – Offshore earnings

Offshore earnings

(NT\$BN)

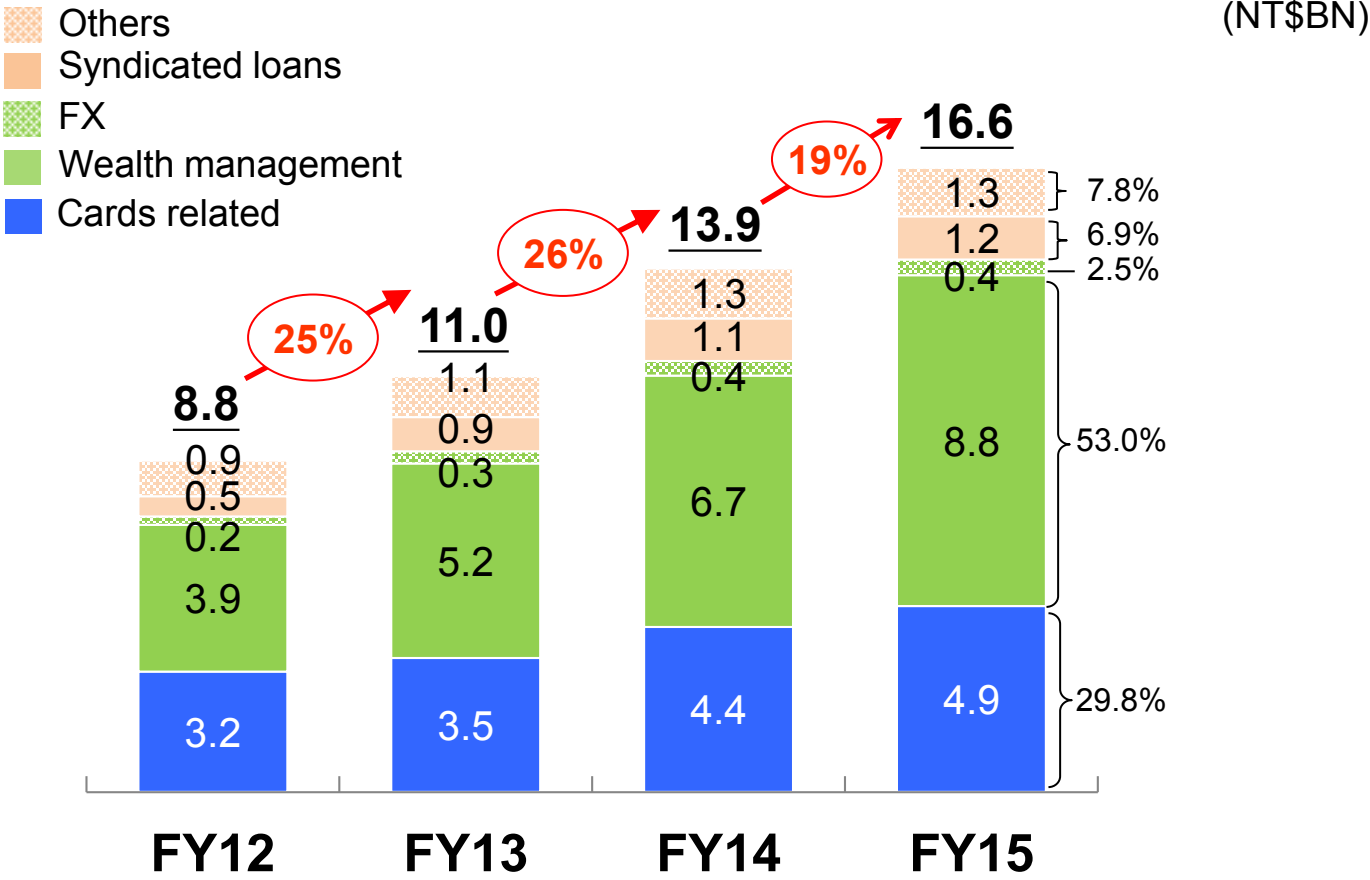


As % of CUB pre-tax profits



Cathay United Bank – Fee income

Fee income breakdown

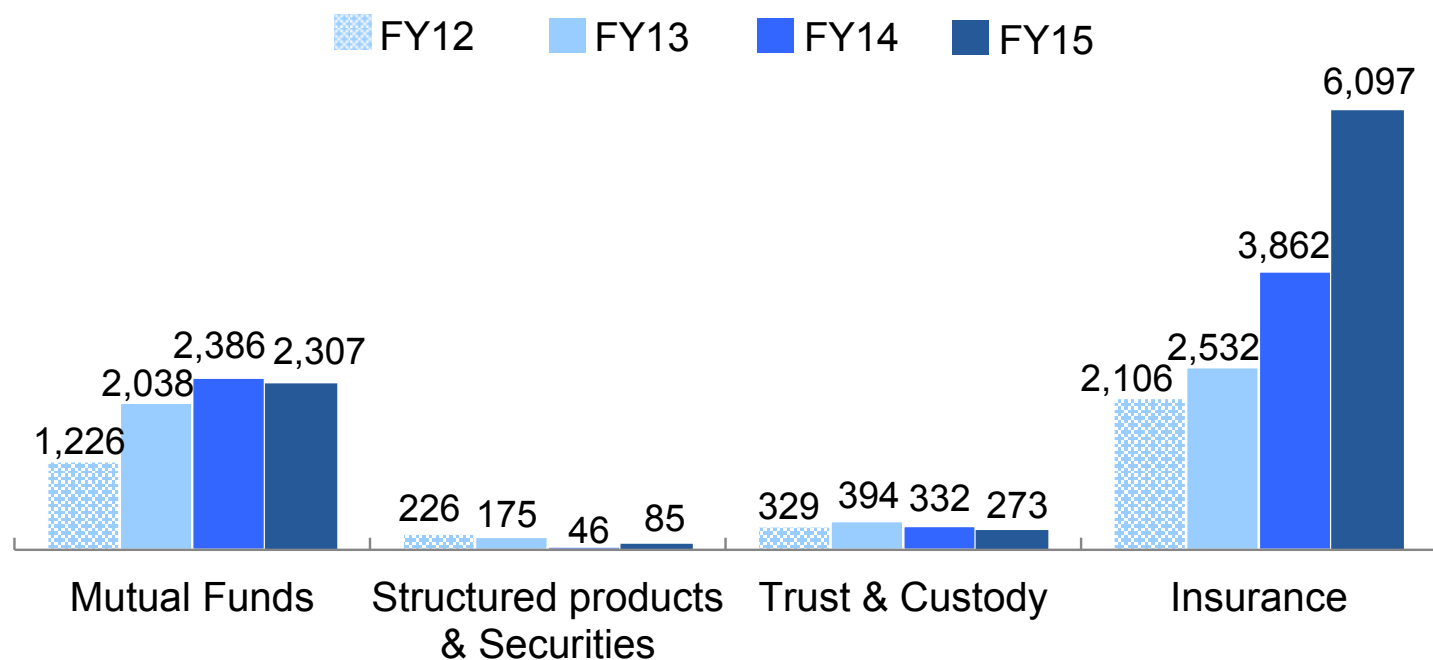


Note: Totals may not sum due to rounding.

Cathay United Bank – Wealth management fee

Wealth management fee breakdown

(NT\$MN)	FY12	FY13	FY14	FY15
Wealth Management Fee Income*	3,894	5,163	6,673	8,779
YoY growth (%)	17.7%	32.6%	29.2%	31.6%



Note: (1) Wealth management fee excludes revenue from DCI, SI and others.

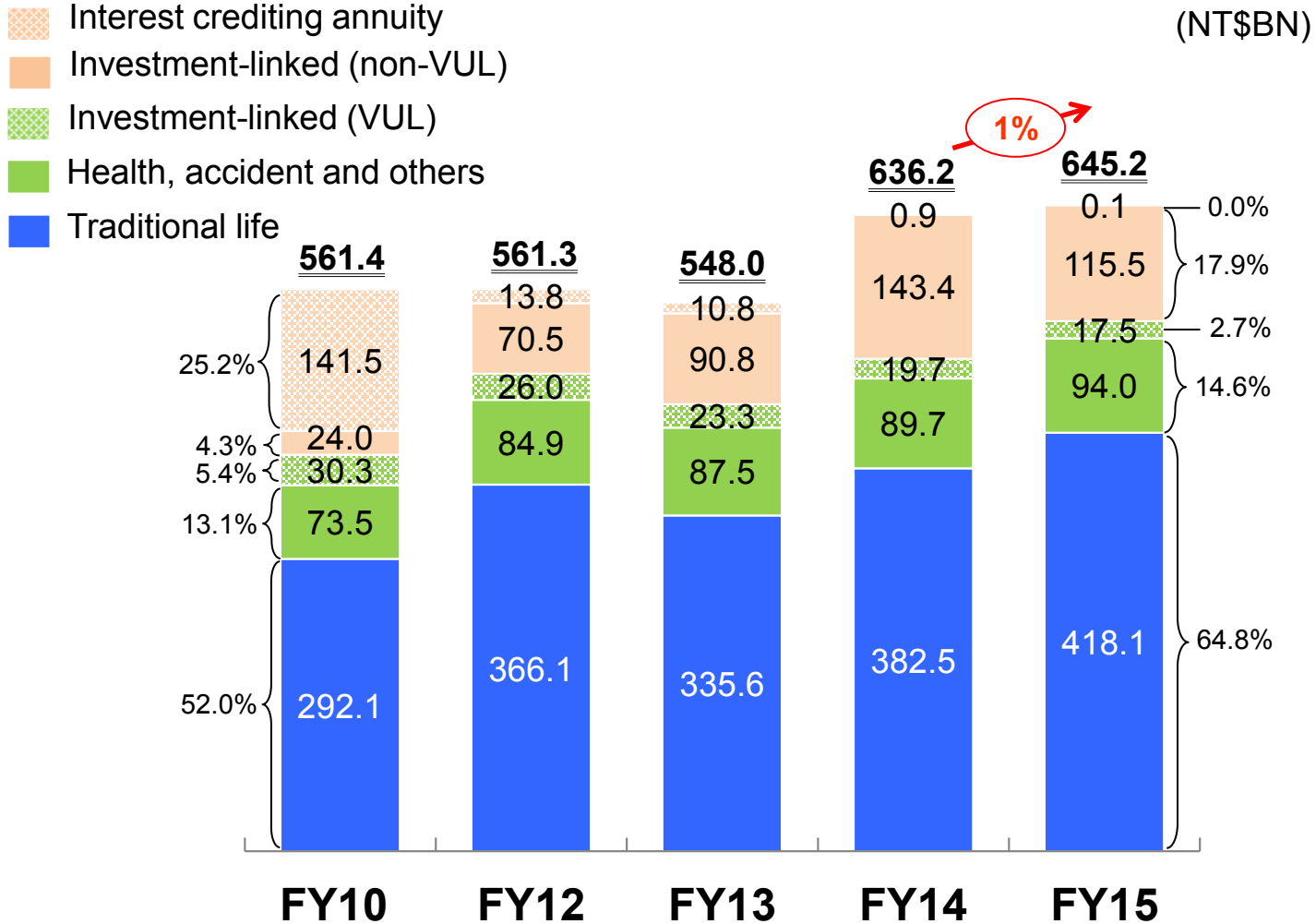
(2) Totals may not sum due to rounding.

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Cathay Life – Total premium







Total premium

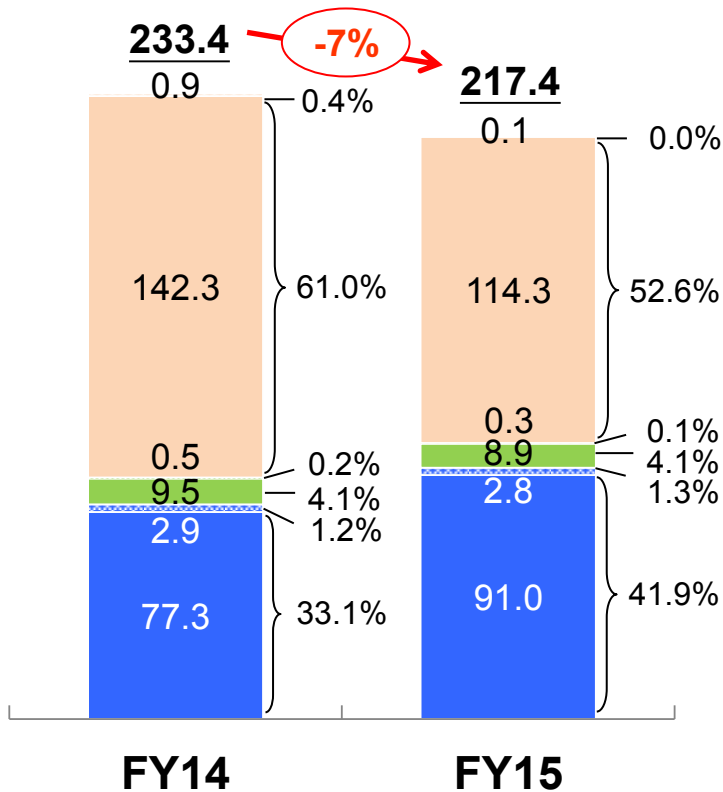


Note: Totals may not sum due to rounding.






Cathay Life – FYP & FYPE

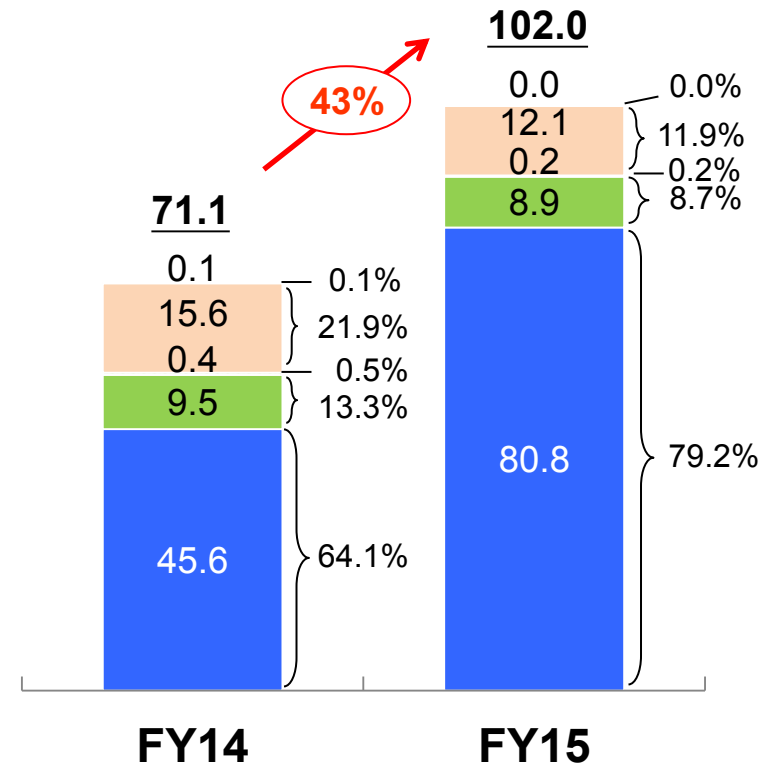
FYP

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



FYFE

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

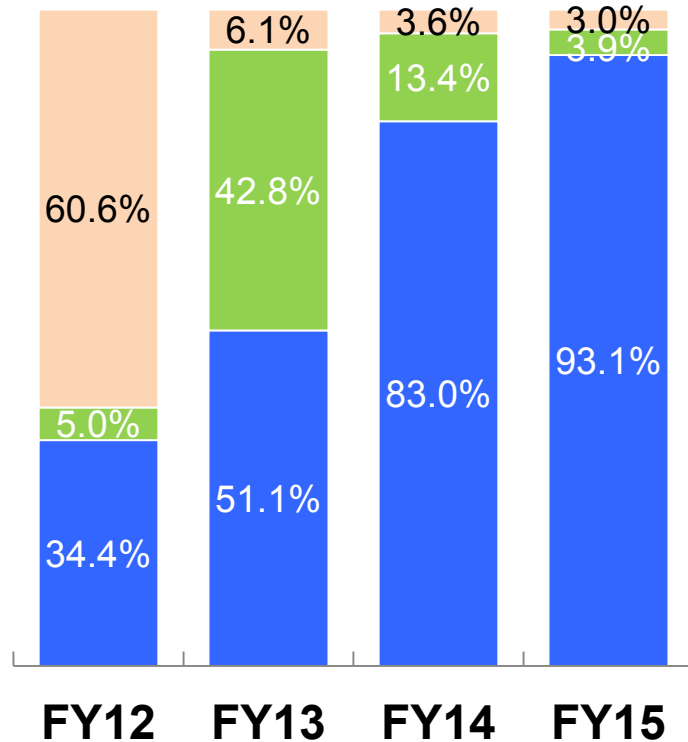


Note: Totals may not sum due to rounding.

Cathay Life – Regular paid policies remain as focus

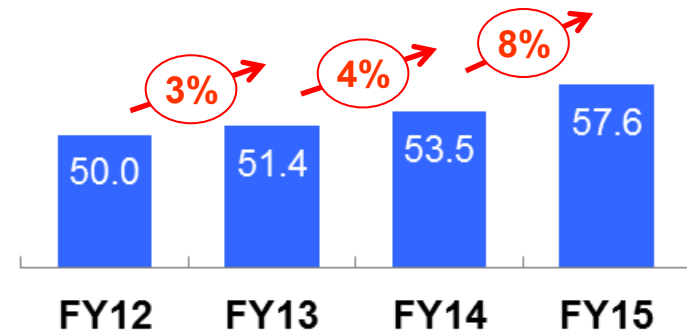
Breakdown of Traditional FYP

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



VNB

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



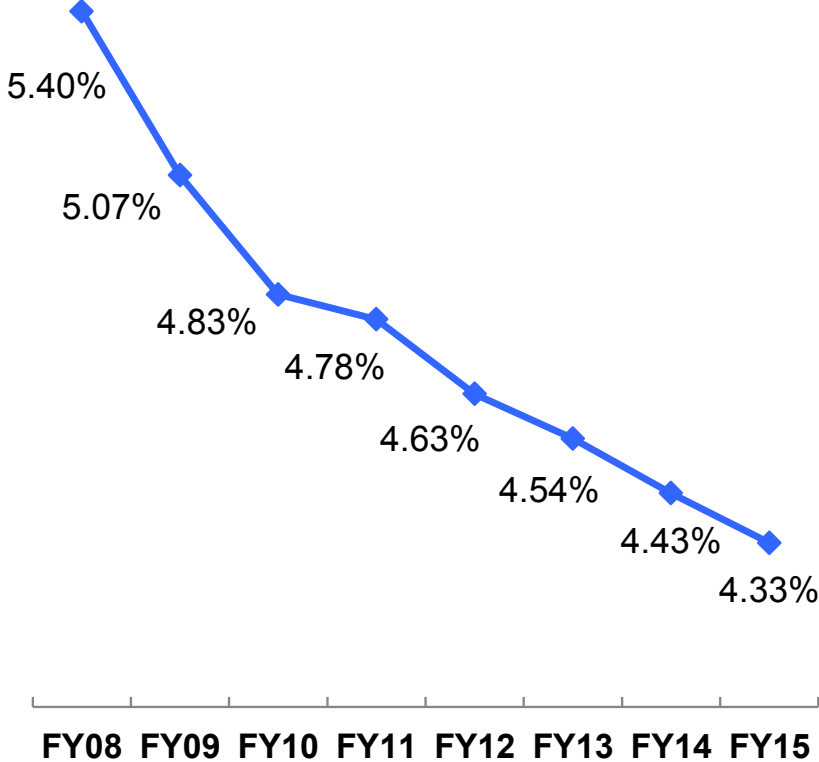
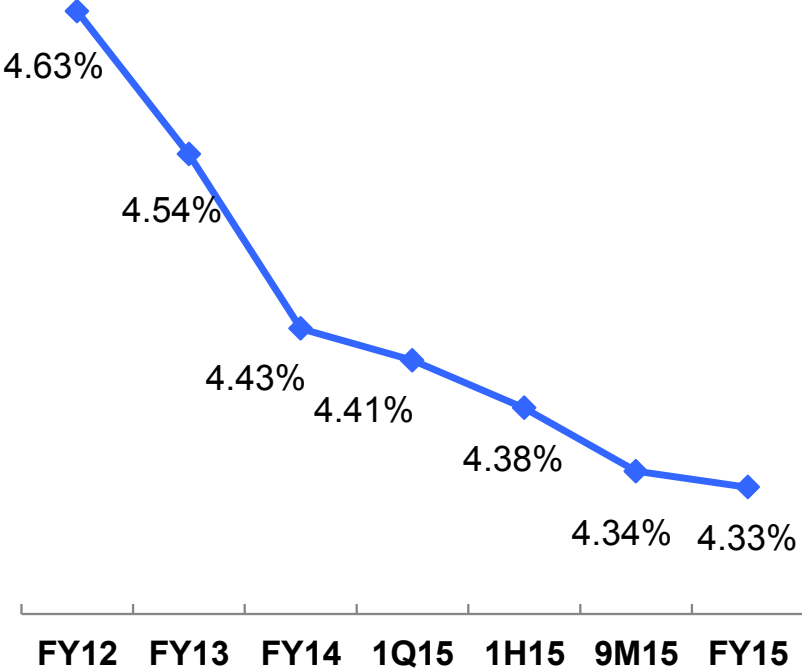
Note : FY14 and FY15 VNB is based on Cathay Life's 2014 EV actuarial assumptions.

Note: Totals may not sum due to rounding.

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

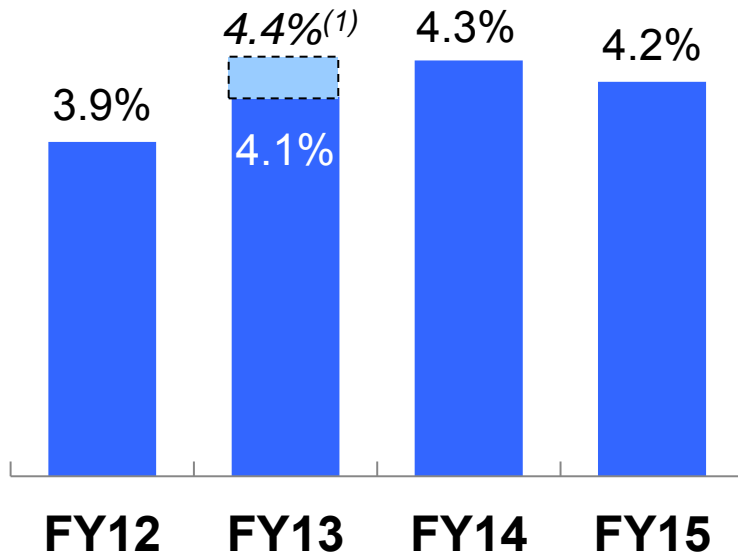
(NT\$BN)	4Q12	4Q13	4Q14	4Q15		
Total investments⁽¹⁾	3,283.7	3,785.1	4,169.1	4,636.6		
	Weight	Weight	Weight	Amount	Weight	Amount
Cash & Cash equivalents	8.2%	3.7%	3.2%	131.6	1.3%	61.1
Equity- Domestic	8.1%	8.9%	8.4%	350.9	7.4%	343.0
Equity- International	4.3%	4.9%	5.0%	209.4	6.2%	289.2
Bond- Domestic	16.6%	14.4%	11.0%	459.2	8.0%	373.0
Bond- International⁽¹⁾	39.6%	38.9%	43.6%	1,816.7	50.6%	2,344.8
Mortgage & Secured loans	10.3%	12.2%	12.7%	529.6	10.2%	471.5
Policy loans	5.5%	4.7%	4.0%	166.4	3.6%	169.2
Real estate⁽²⁾	5.6%	10.6%	10.5%	439.4	10.5%	489.0
Others	1.8%	1.7%	1.6%	65.9	2.1%	95.8

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

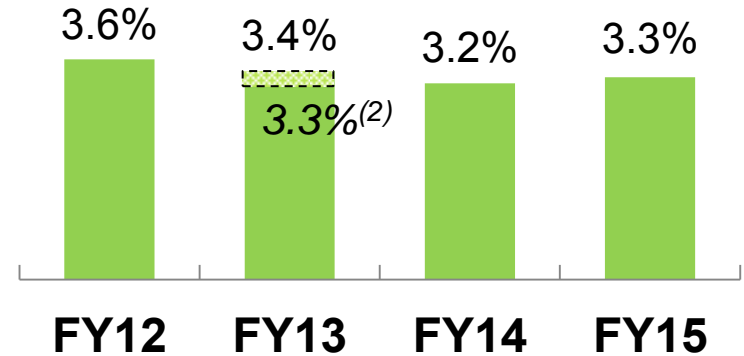
(2) Real estate included 2013/1/1 IFRS adoption appraisal gain NT\$71.3BN from investment property and the impact of NT\$133.1BN from the change to fair value method on investment property on 2014/1/1. FY2014 and FY2015 appraisal gain from subsequent measurement of investment property are NT\$16.6BN and NT\$11.0BN respectively.

Cathay Life – Investment performance highlight

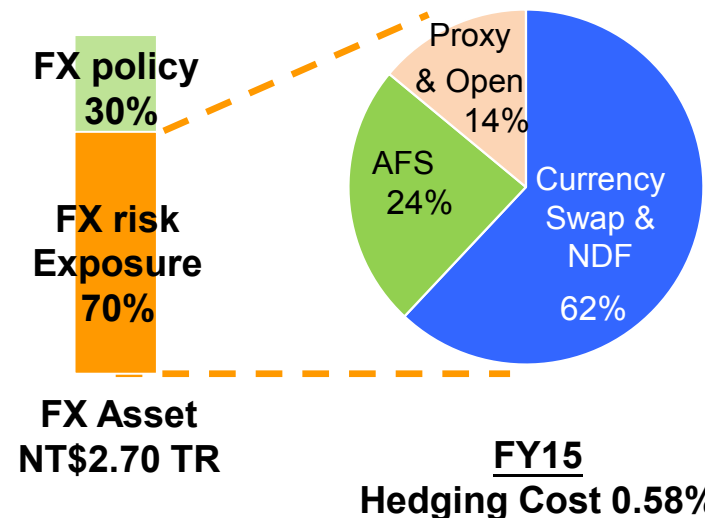
After-hedging investment yield



Pre-hedging recurring yield



Currency Hedging Structure

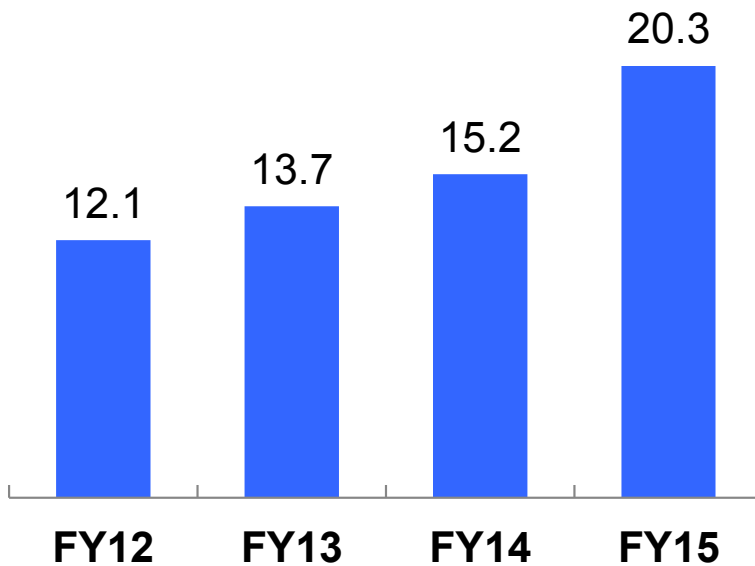


- Note: (1) FY13 (4.4%) was pro forma adjusted number of fair value method on investment property.
 (2) FY13 (3.3%) was pro forma adjusted number of fair value method on investment property.
 (3) Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.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

Cathay Life – Cash dividend & Overseas fixed income by region

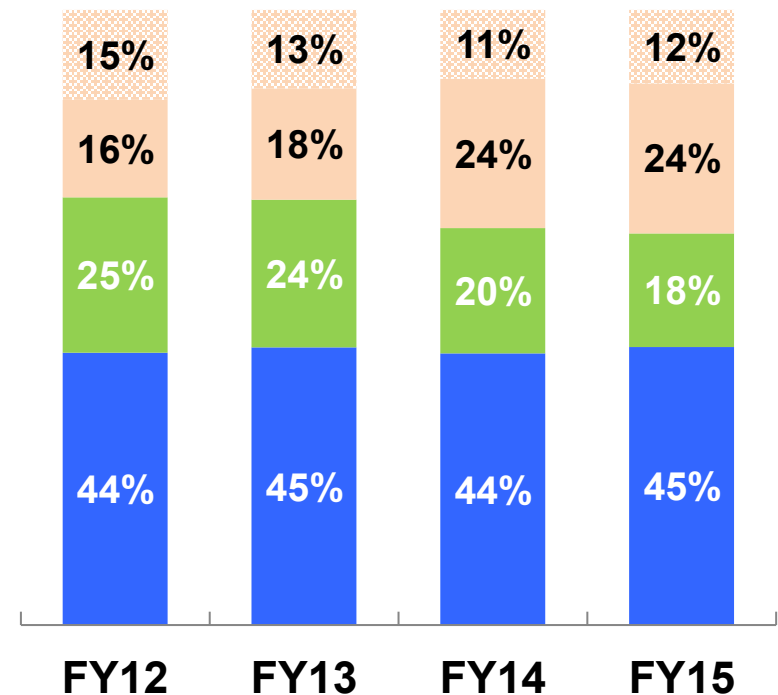
Cash dividend

(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

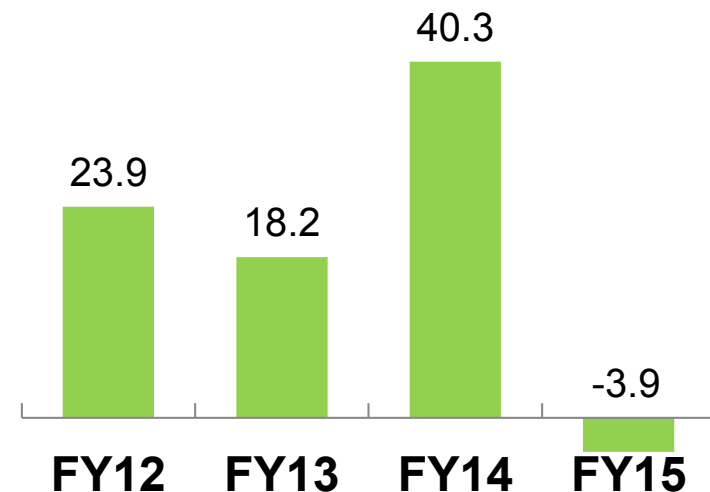
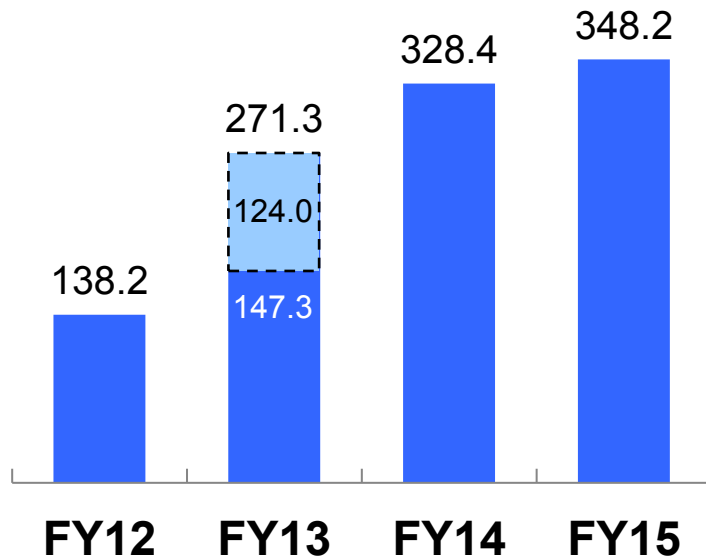
Book value

Unrealized G/L of AFS financial assets

(NT\$BN)

(NT\$BN)

■ Impact to book value from fair value method on investment property



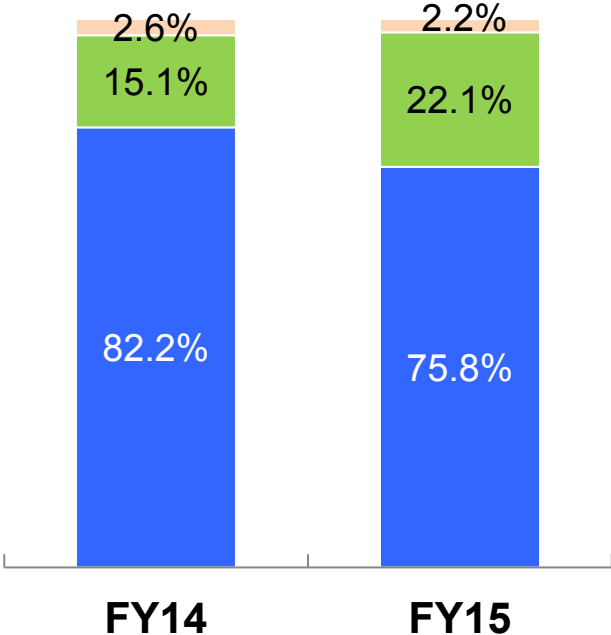
Note: FY13 figures reflected the impact from applying fair value method on investment property

Cathay Life – Distribution channel

FYP

FYPE

- Others
- Bancassurance-CUB
- Tied agents

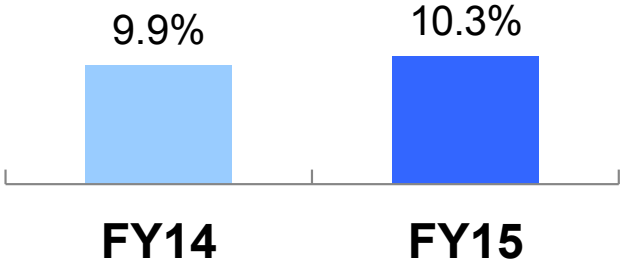
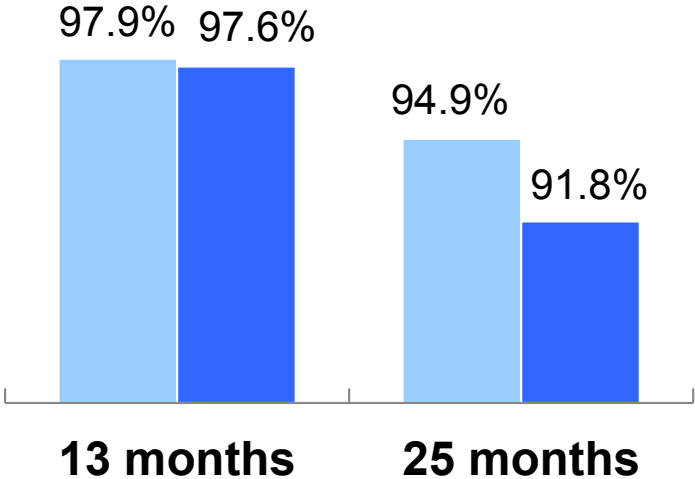


Cathay Life – Operational indicators

Persistency ratio

Expense ratio

FY14 FY15



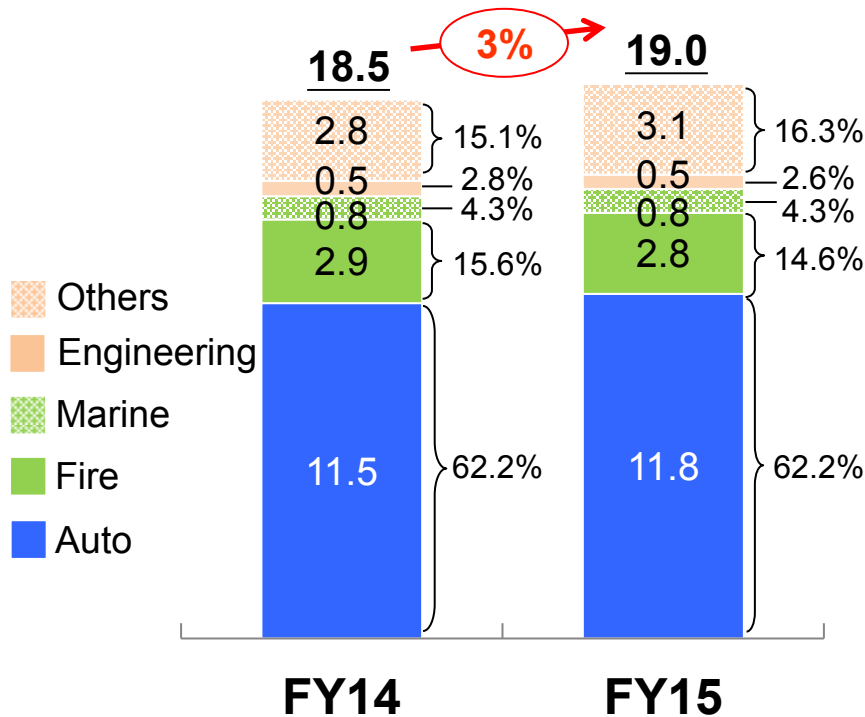
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Cathay Century – Premium income & distribution

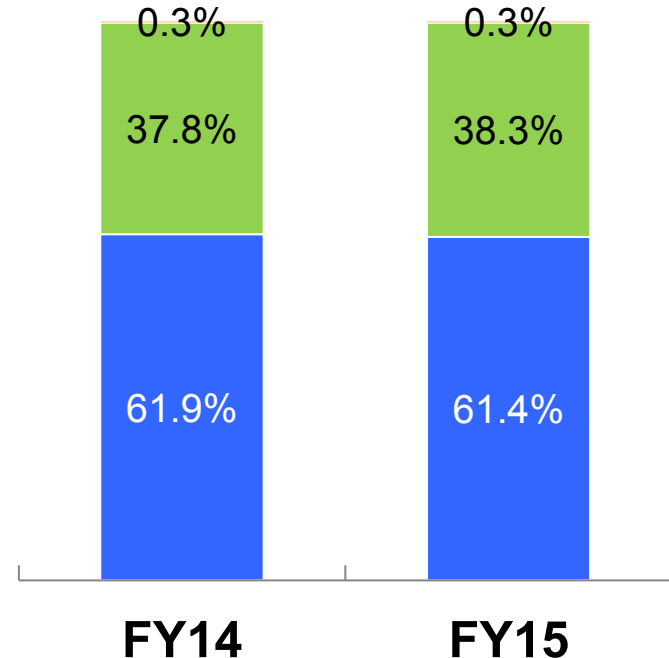
Premium income

(NT\$BN)



Distribution channel

- Affiliate channels
- Cathay P&C agents
- Cathay group channel



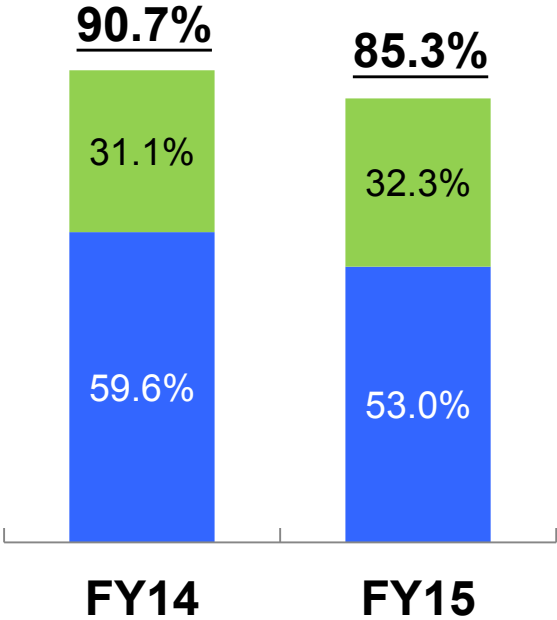
Market share	13.6%	13.3%
Retention	76.9%	74.9%

Note: Totals may not sum due to rounding.

Cathay Century – Combined ratio

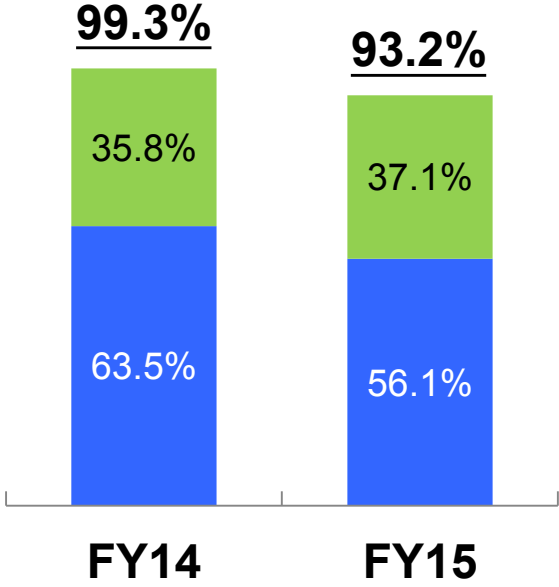
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



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CUB is the first EPFI in Taiwan

EPFIs in the World

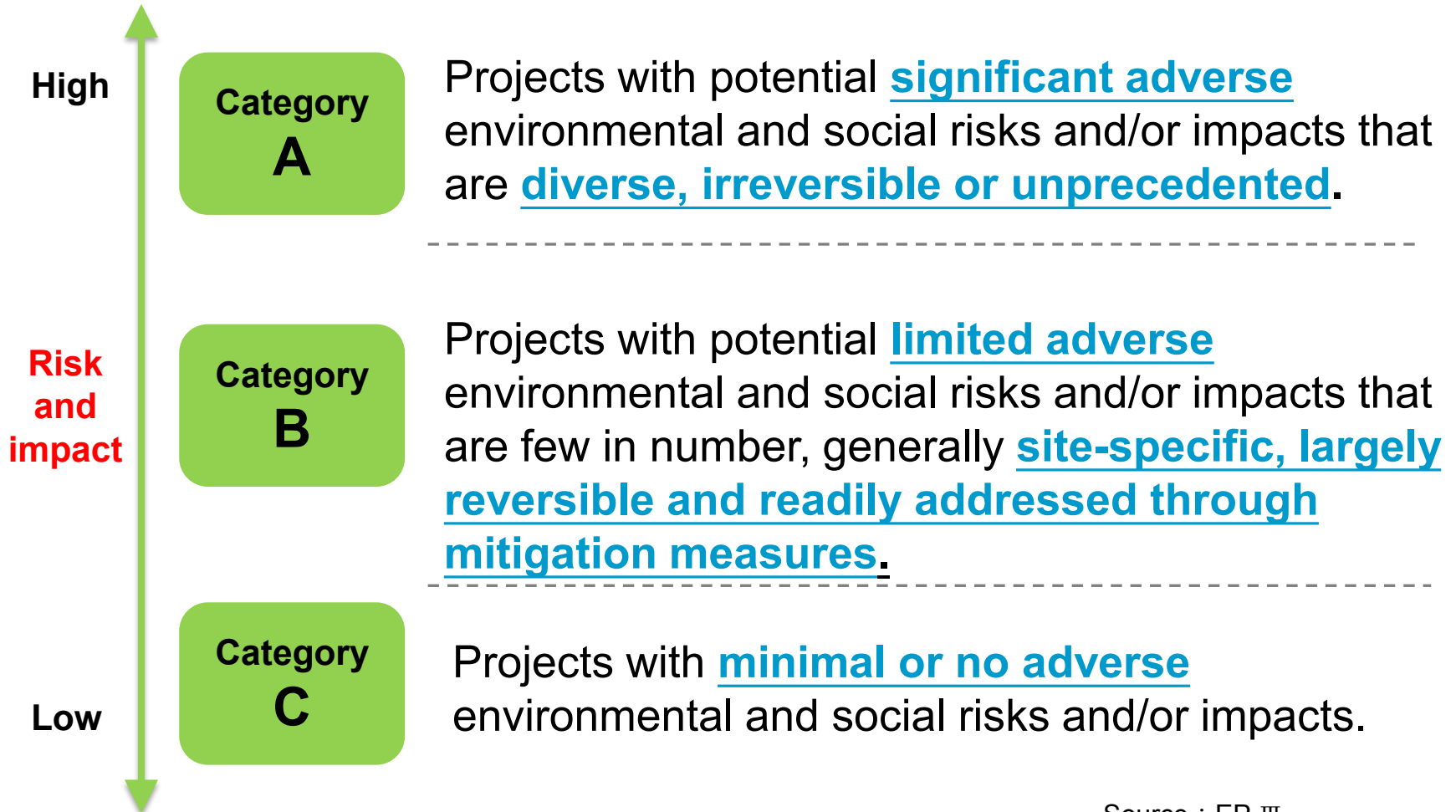
- 82 Equator Principles Financial Institutions (EPFIs) in 36 countries have officially adopted the EP as of March 2016 .
- 8 of EPFIs are Asian financial institutions.

Region	Europe	North America	Latin America	Africa	Oceania	Asia	Middle East
EPFIs no.	33	14	10	9	5	8	3



Review and categorize the risk of EP projects

EPFIs categorize the potential Environmental & Social (E&S) risks and impacts of each project.



Source : EP III

Comprehensive EP risk management mechanism



□ CUB has comprehensive E&S risk management mechanism for the EP projects, including:

- Standard loan approval procedures in accordance with the EP
- Management guidelines for reviewing and post-loan monitoring
- Incorporating covenants based on E&S risk categories
- E&S risk assessment IT system
- Conducting internal EP trainings

□ CUB's EP achievements in the past one year:

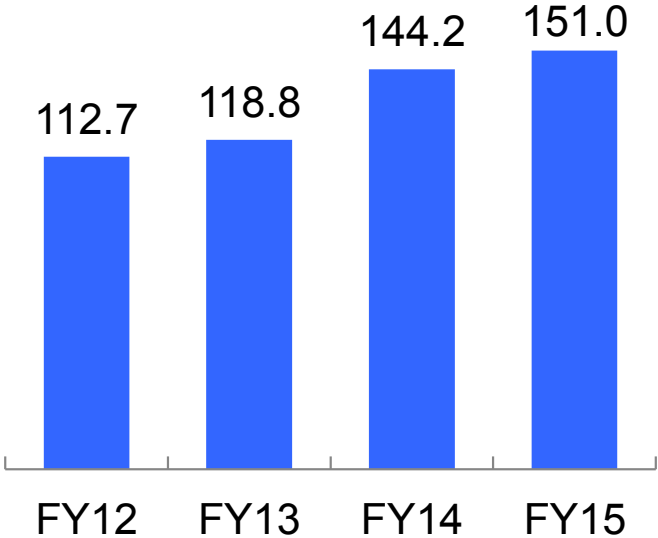
- **Taiwan** - Completed the first EP loan case in Taiwan
 - Loan to "Formosa I Wind Power Co." to build offshore wind power farm in Chunan Miaoli.
 - Formosa I Wind Power Co. was selected to the "Offshore Wind Power Demonstration Incentive Program" initiated by Ministry of Economic Affairs, Taiwan ROC.
- **International** - Received the international EP loan cases in Australia, Indonesia, Vietnam and Myanmar.

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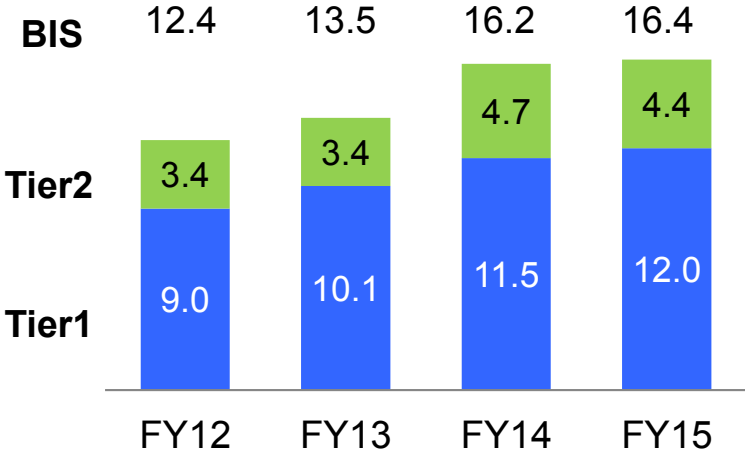
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Capital adequacy

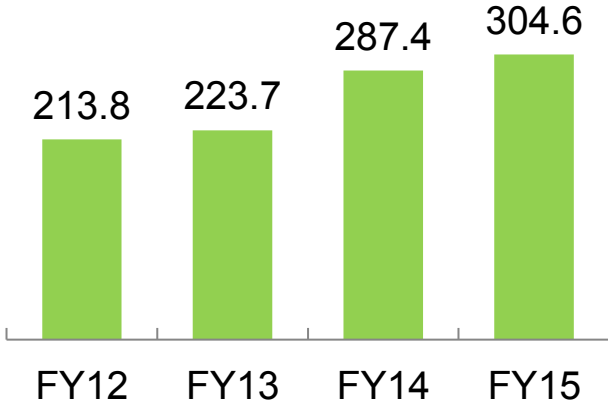
Cathay FHC CAR (%)



CUB Capital Adequacy (%)

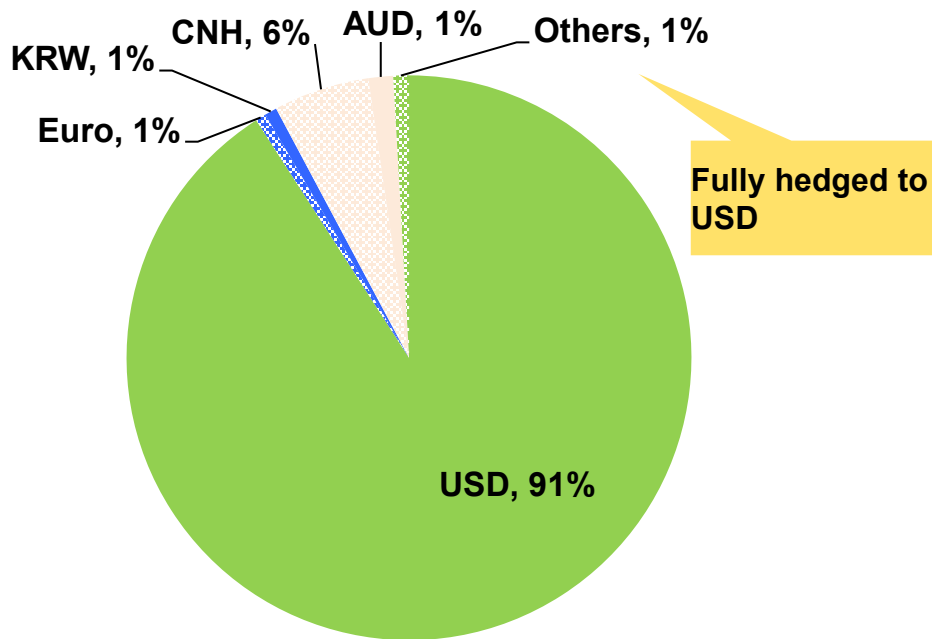


Cathay Life RBC(%)

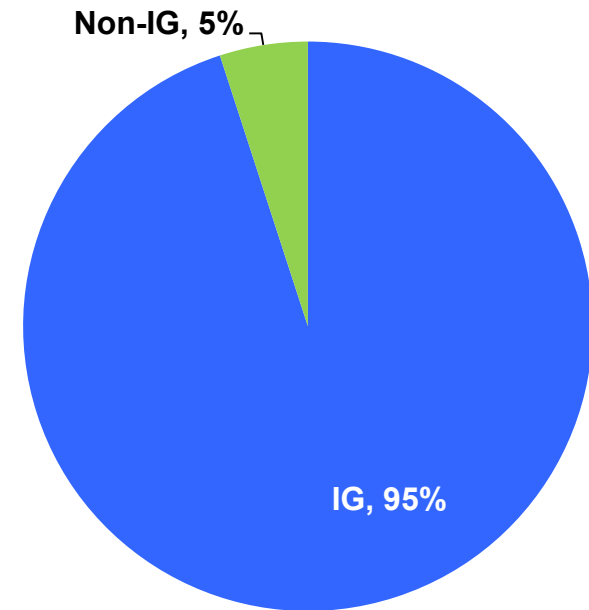


Cathay Life – Overseas bond breakdown by currency and rating

Overseas bond by currency



Overseas bond by rating



Note: Totals may not sum due to rounding.



Thank You

Cathay Financial Holdings

(NT\$MN)				FY15/ FY14 % Chg	4Q14	4Q15	4Q15/ 4Q14 % Chg
Income Statement Data (Consolidated)							
Operating Income							
Net interest income	114,558	125,123	139,962	12%	32,553	37,261	14%
Net commission and fee	791	369	(4,480)	-1313%	(1,331)	(1,571)	18%
Net earned premium	441,427	488,327	535,858	10%	149,408	146,769	-2%
Change in liability reserve	(293,570)	(290,800)	(306,598)	5%	(98,180)	(67,539)	-31%
Net claims payment	(228,125)	(285,869)	(309,104)	8%	(72,474)	(95,929)	32%
Investment income	56,350	75,751	63,734	-16%	14,061	1,653	-88%
Contribution from associates-equity method	157	168	1,108	561%	48	470	874%
Other net non-interest income	6,972	3,449	14,188	311%	(373)	4,034	-1180%
Bad debt expense	(1,484)	(2,982)	(2,467)	-17%	(1,793)	(1,913)	7%
Operating expense	(54,277)	(57,477)	(65,067)	13%	(16,106)	(19,385)	20%
Income before taxes	42,799	56,058	67,132	20%	5,813	3,848	-34%
Income taxes	(4,779)	(6,427)	(9,250)	44%	(848)	(851)	0%
Net income	38,020	49,631	57,882	17%	4,965	2,998	-40%
EPS (NT\$)	3.12	3.93	4.58		0.40	0.25	
Dividend Payout							
Cash dividend per share	1.50	2.00					
Stock dividend per share	0.50	0.00					
Weighted average outstanding shares (Millions of shares)	12,124	12,563	12,563				
Balance Sheet Data							
Total assets	6,177,273	6,944,837	7,568,975				
Total shareholders' equity	379,510	439,120	461,062				
Operating Metrics							
ROAE (Consolidated)	10.82%	12.10%	12.86%				
ROAA (Consolidated)	0.65%	0.76%	0.80%				
Double leverage ratio(inc. preferred stock)	111%	113%	111%				
Capital Adequacy Metrics							
Capital Adequacy Ratio	119%	144%	151%				

Notes:

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(3) Total may not sum due to rounding.

Cathay Life

(NT\$MN)				FY15/ FY14			4Q15/ 4Q14
Income Statement Data (Consolidated)	FY13	FY14	FY15	% Chg	4Q14	4Q15	% Chg
Net written premium	426,804	472,630	519,014	10%	145,197	142,019	-2%
Net earned premium	418,262	471,849	518,250	10%	144,784	141,560	-2%
Reinsurance commission earned	11,610	4,740	200	-96%	19	(21)	-212%
Fee income	3,090	5,943	5,762	-3%	1,353	1,353	0%
Recurring investment income	113,932	124,152	140,977	14%	29,315	33,940	16%
Gain on disposal of investment							
Realized gain (loss)-Equity	16,586	23,357	30,072	29%	3,972	3,375	-15%
Realized gain (loss)-Debt	14,604	12,828	14,804	15%	3,726	1,995	-46%
Investment property appraisal gains	13,045	16,579	11,074	-33%	330	(237)	-172%
FX and others, net	(4,197)	(7,166)	(13,101)	83%	637	(4,466)	-801%
Investment income, net	153,970	169,750	183,827	8%	37,980	34,608	-9%
Other operating income	1,275	9	914	9777%	3	800	25396%
Separate account revenues	90,719	115,040	17,303	-85%	14,826	12,141	-18%
Net claims payment	(210,029)	(275,195)	(298,102)	8%	(68,849)	(92,114)	34%
Changes in liability reserves	(292,978)	(290,109)	(305,864)	5%	(98,520)	(67,619)	-31%
Acquisition and commission expense	(34,188)	(32,405)	(33,238)	3%	(8,057)	(8,842)	10%
Other operating costs	(5,570)	(4,544)	(5,541)	22%	(1,209)	(1,642)	36%
Financial cost	303	(106)	(296)	179%	(39)	18	-148%
Separate account expense	(90,719)	(115,040)	(17,303)	-85%	(14,826)	(12,141)	-18%
Operating expense	(15,677)	(16,869)	(23,021)	36%	(5,279)	(7,400)	40%
Net non-operating income	1,156	1,482	1,265	-15%	355	412	16%
Income taxes	(3,657)	(2,810)	(5,710)	103%	(80)	(68)	-15%
Net income	27,569	31,734	38,447	21%	2,461	1,045	-58%
Balance Sheet Data							
Total assets	4,195,229	4,704,976	5,180,081				
General account	3,818,977	4,242,710	4,699,512				
Separate account	376,253	462,267	480,568				
Reserves for life insurance liabilities	3,448,659	3,770,679	4,228,117				
Total liabilities	3,923,923	4,376,595	4,831,846				
Total shareholders' equity	271,306	328,382	348,235				
Operating Metrics							
First Year Premium(FYP)	200,419	233,379	217,378				
First Year Premium Equivalent(FYPE)	73,463	71,147	102,002				
Expense ratio	11.5%	9.9%	10.3%				
13-M persistency ratio	98.2%	97.9%	97.6%				
25-M persistency ratio	94.7%	94.9%	91.8%				
ROAE	10.92%	10.54%	11.36%				
ROAA	0.69%	0.71%	0.78%				
Capital Adequacy Metrics							
RBC ratio (Standalone)	224%	287%	305%				

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Cathay United Bank

(NT\$MN)				FY15/ FY14 % Chg	4Q14	4Q15	4Q15/ 4Q14 % Chg
Income Statement Data (Consolidated)							
Operating Income							
Net interest income	21,915	25,779	26,729	4%	6,733	6,433	-4%
Fee income	9,204	11,806	14,344	21%	3,142	3,122	-1%
Investment income	5,650	7,326	5,599	-24%	1,010	1,034	2%
other income	956	1,064	1,380	30%	182	294	62%
Net operating income	37,725	45,975	48,052	5%	11,067	10,884	-2%
Operating expenses	(20,216)	(22,804)	(24,851)	9%	(6,281)	(6,677)	6%
Pre-provision profit	17,509	23,170	23,201	0%	4,786	4,207	-12%
Net provisions for possible losses	(542)	(2,471)	(1,922)	-22%	(1,726)	(1,748)	1%
Income before taxes	16,967	20,700	21,279	3%	3,060	2,459	-20%
Income tax	(2,188)	(2,885)	(2,513)	-13%	(489)	(291)	-40%
Net income	14,780	17,814	18,767	5%	2,571	2,168	-16%
Balance Sheet Data							
Total assets	1,988,774	2,243,958	2,383,377				
Loans, net	1,031,105	1,119,281	1,127,807				
Financial assets	638,727	649,497	791,192				
Total liability	1,855,610	2,096,340	2,226,608				
Deposits	1,615,860	1,739,023	1,881,657				
Financial Debenture Payable	52,417	67,614	51,900				
Total shareholders' equity	133,164	147,617	156,769				
Operating Metrics							
Cost income ratio	53.59%	49.60%	51.72%				
ROAE	12.33%	12.71%	12.33%				
ROAA	0.78%	0.84%	0.81%				
Assets Quality							
NPL	3,013	3,277	1,599				
NPL ratio	0.29%	0.29%	0.14%				
NPL provisions	14,494	17,675	17,323				
Coverage ratio	478%	539%	1083%				
Capital Adequacy Metrics							
BIS ratio (Standalone)	13.5%	16.2%	16.4%				
Tier I Ratio (Standalone)	10.1%	11.5%	12.0%				

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Cathay Century

(NT\$MM)				FY15/ FY14			4Q15/ 4Q14
Income Statement Data (Consolidated)	FY13	FY14	FY15	% Chg	4Q14	4Q15	% Chg
Premium income	19,727	21,279	22,449	5%	5,759	6,334	10%
Net written premium	15,280	16,080	17,254	7%	4,303	4,853	13%
Net earned premium	14,156	15,626	17,169	10%	3,941	4,535	15%
Reinsurance commission earned	470	683	517	-24%	173	136	-21%
Fee income	36	45	48	5%	13	14	2%
Investment	715	918	972	6%	189	204	8%
Interest income	444	609	564	-7%	181	151	-17%
Other investment income, net	271	308	408	32%	8	54	585%
Other operating income	0	7	15	101%	4	1	-86%
Net claims payment	(7,835)	(8,747)	(9,292)	6%	(2,630)	(2,790)	6%
Changes in liability reserves	(592)	(691)	(734)	6%	340	79	-77%
Commissions and other operating costs	(1,083)	(1,218)	(1,402)	15%	(313)	(386)	23%
Operating expenses	(5,328)	(5,823)	(6,197)	6%	(1,526)	(1,668)	9%
Operating income	538	801	1,095	37%	192	125	-35%
Net non-operating income	9	29	(4)	-114%	(2)	9	-690%
Income taxes	(218)	(174)	(287)	65%	(76)	(58)	-24%
Net income	329	657	804	22%	115	77	-33%
Balance Sheet Data							
Total assets	31,709	35,863	42,106				
Total shareholders' equity	5,511	6,829	7,219				
Operating Metrics							
Gross Combined ratio	80.0%	90.7%	85.3%				
Net Combined ratio	92.6%	99.3%	93.2%				
ROAE	6.37%	10.71%	11.44%				
ROAA	1.08%	1.94%	2.06%				
Capital Adequacy Metrics							
RBC ratio (Standalone)	312%	324%	359%				

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