



國泰金控

Cathay Financial Holdings

2021 First Quarter Briefing

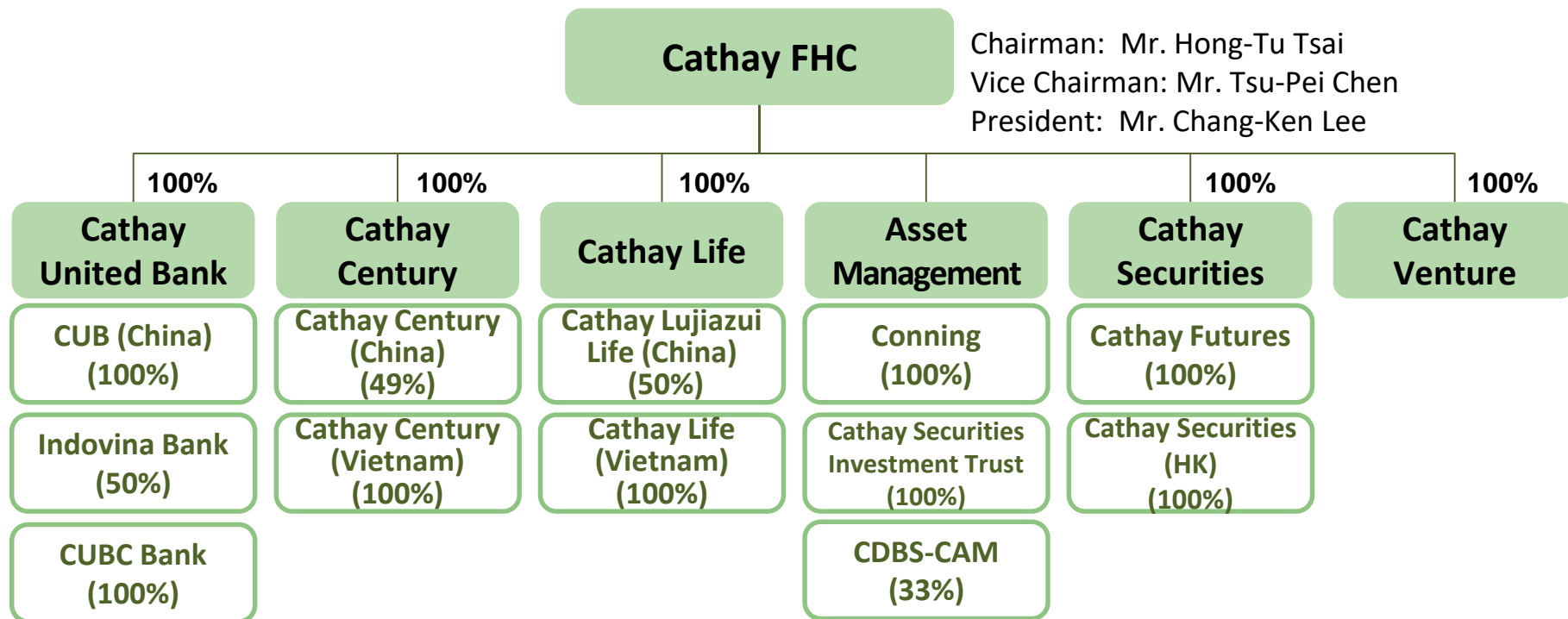
May 2021



Agenda

- **Introduction of Cathay FHC**
- **1Q21 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Cathay Life Embedded Value & Appraisal Value**
- **Cathay's CSR Efforts**
- **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

- 2nd biggest non-life insurer
- Market share in total premium income: 10.7% (1Q21).

- No. 1 life insurer in terms of total assets and total premium
- Market share in total premium: 21.7% (1Q21).

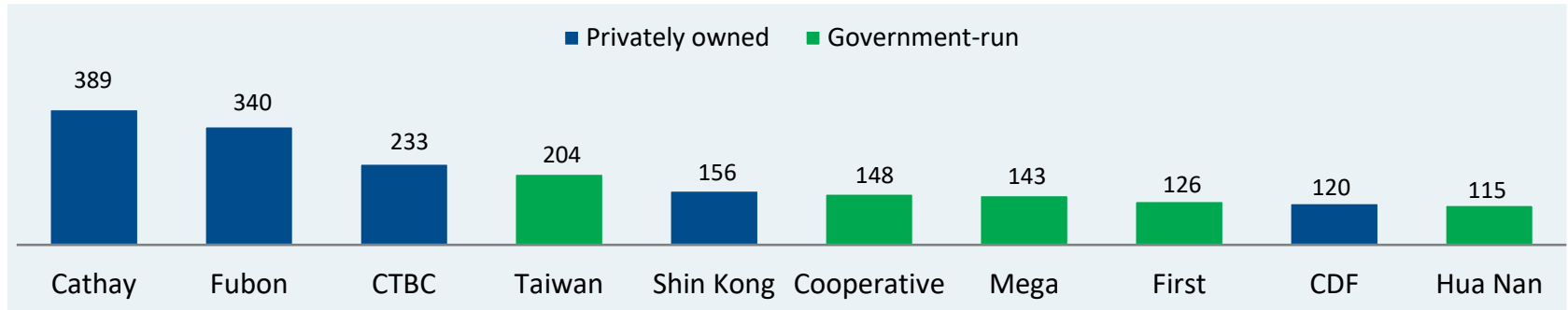
- Building global asset management platform
- Largest AUM among asset managers in Taiwan

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

Market leader in Taiwan's FIG sector

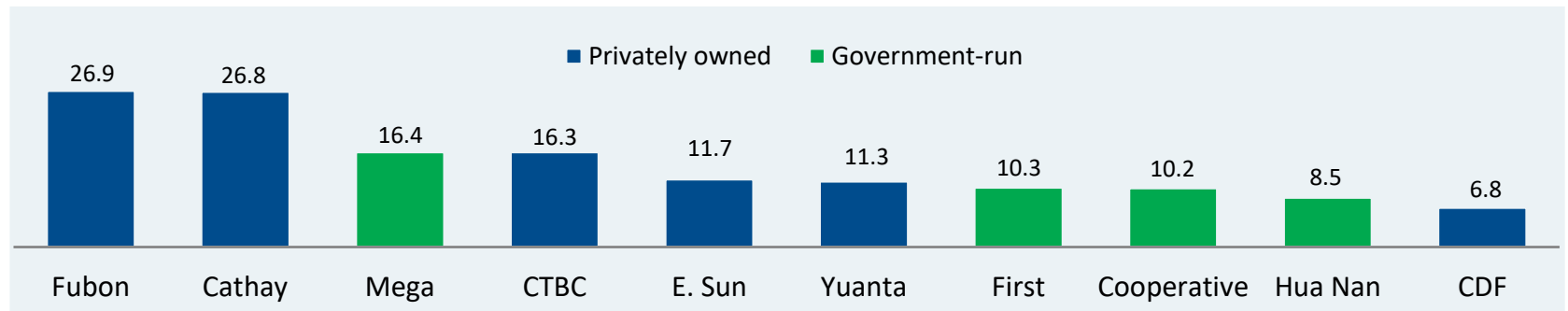
- Largest listed financials group by assets.

Ranking of total asset (US\$bn)



Note: Total assets as of March 31, 2021

Ranking of market cap (US\$bn)



Note: Market capitalization as of May 31, 2021

Cathay FHC's continuous effort in ESG integration

2011



- Established CSR Committee

2012



- Published the first CSR report

2014

- CSR Committee to Corporate Sustainability Committee, supervised by the Board
- Formed Responsible Investment team

- Cathay Century P&C Insurance self-complied to PSI
- The only Taiwan FIG participated in CDP Non-Disclosure Campaign & Climate Action 100+ Initiatives

- Cathay Life self-complied to PSI
- Joined Asia Investor Group on Climate Change (AIGCC)

- Cathay United Bank signed Equator Principles, the first in Taiwan
- Included in DJSI Emerging Market Index



2017



2016

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

2015

2018

- Cathay United Bank self-complied to PRB
- Included in DJSI World Index
- Pioneered to sign on TCFD initiative

2019

- Leading position in investment engagement: CA100+, AIGCC
- Active in engagement with government

2020

- Cathay Securities ESG Equity research reports for Taiwan stocks
- Taiwan Sustainable Investment Survey

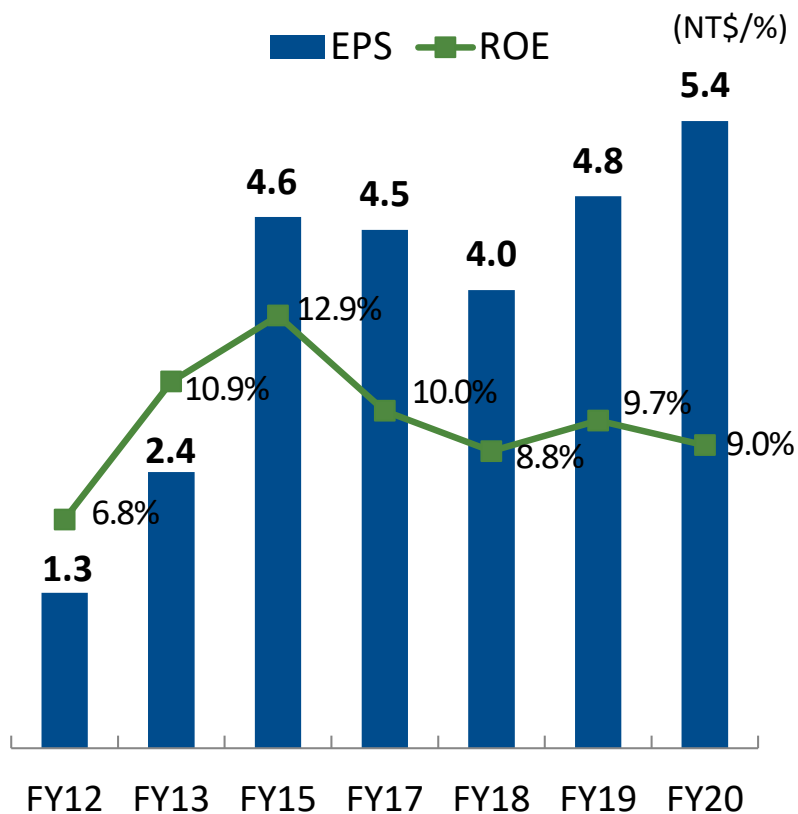


Participating in global and domestic ESG initiatives

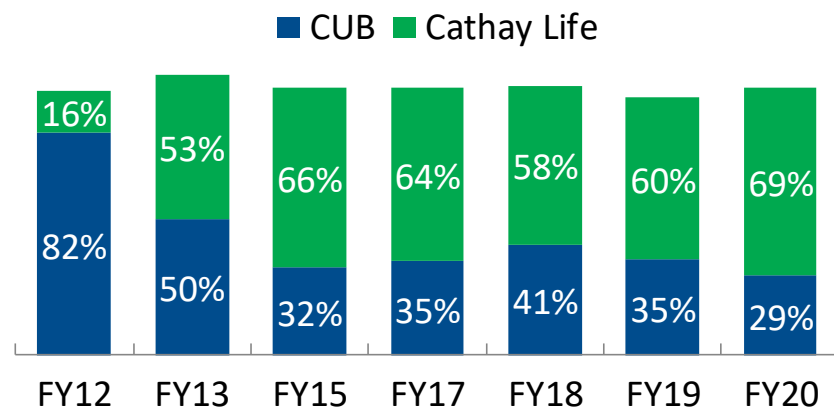
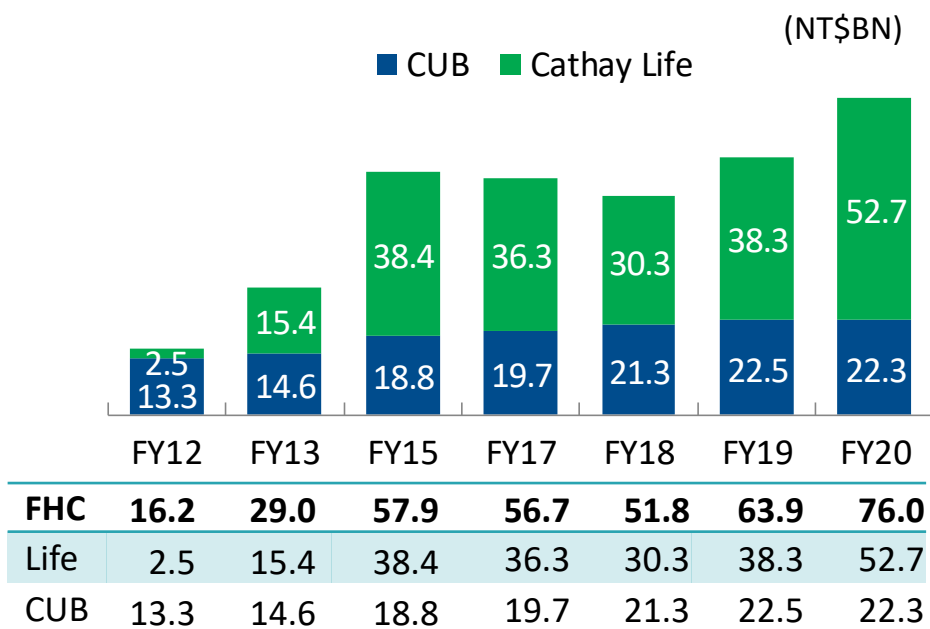
Initiatives	Joined company / Time
CDP	<ul style="list-style-type: none"> Cathay FHC (2012)
Low Carbon Investment Registry	<ul style="list-style-type: none"> Cathay FHC (2014)
Taiwan Stewardship Principles	<ul style="list-style-type: none"> Cathay Life & Cathay SITE (2016) Cathay Century Insurance (2017) Cathay United Bank & Cathay Securities (2018)
Asia Investor Group on Climate Change (AIGCC)	<ul style="list-style-type: none"> Cathay FHC (2016)
CDP Non-disclosure engagement campaign	<ul style="list-style-type: none"> Cathay FHC (2017)
Climate Action 100+	<ul style="list-style-type: none"> Cathay Life & Cathay SITE (2017)
PRI (signatory / voluntary self-complied)	<ul style="list-style-type: none"> Conning Inc. (PRI signatory in 2015) Cathay Life (voluntary self-complied in 2015)
PSI (voluntary self-complied)	<ul style="list-style-type: none"> Cathay Life (2016) Cathay Century Insurance (2017)
PRB (voluntary self-complied)	<ul style="list-style-type: none"> Cathay United Bank (2018)
TCFD	<ul style="list-style-type: none"> Cathay FHC (2018)
Valuing Water Finance Task Force	<ul style="list-style-type: none"> Cathay FHC & Cathay Life (2020)
Asian Utilities Engagement Program	<ul style="list-style-type: none"> Cathay FHC (2021)

Cathay FHC continued to deliver solid earnings

EPS & ROE



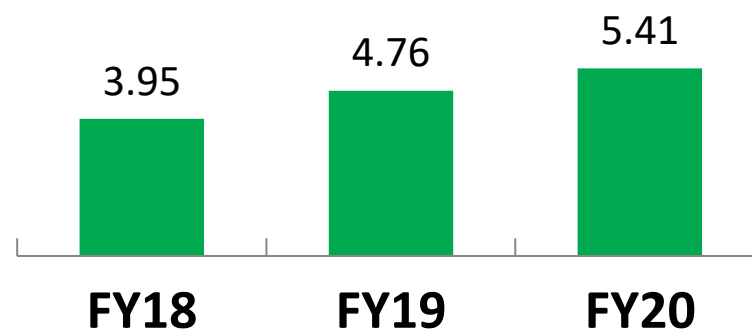
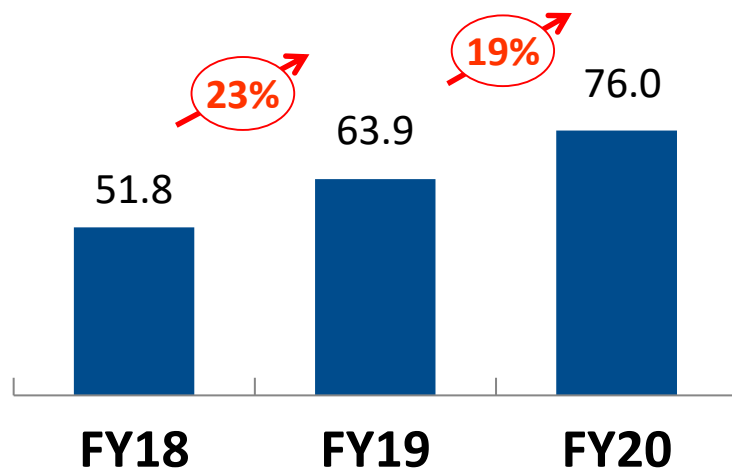
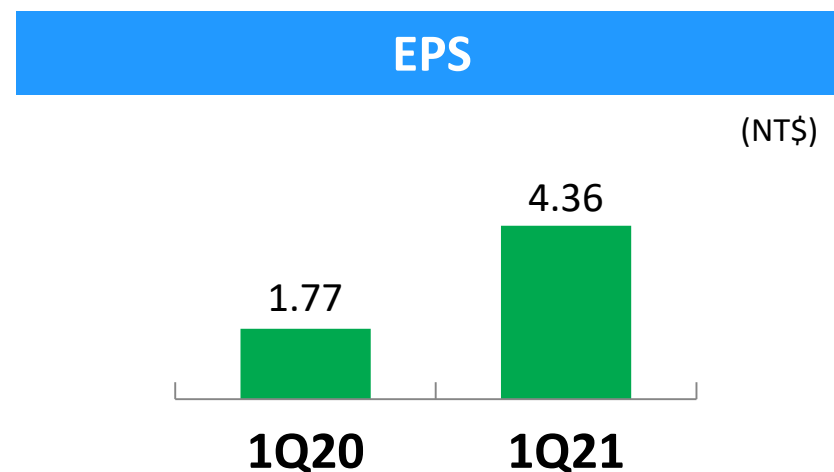
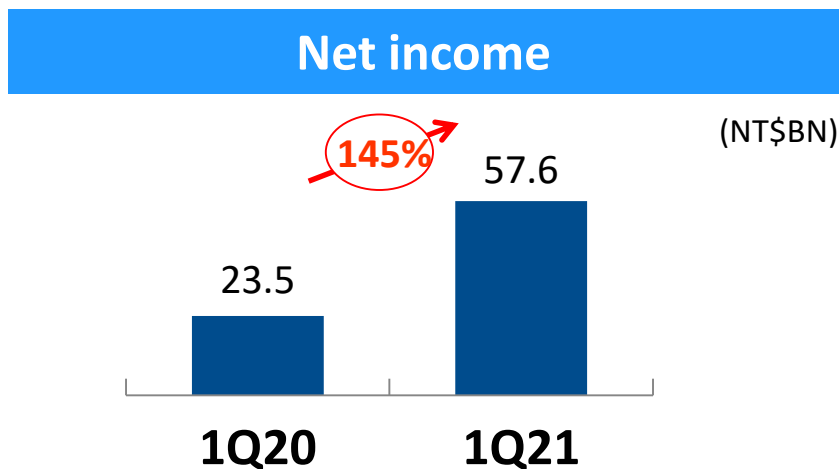
Profit contribution



- 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).

Cathay FHC – Net income & EPS

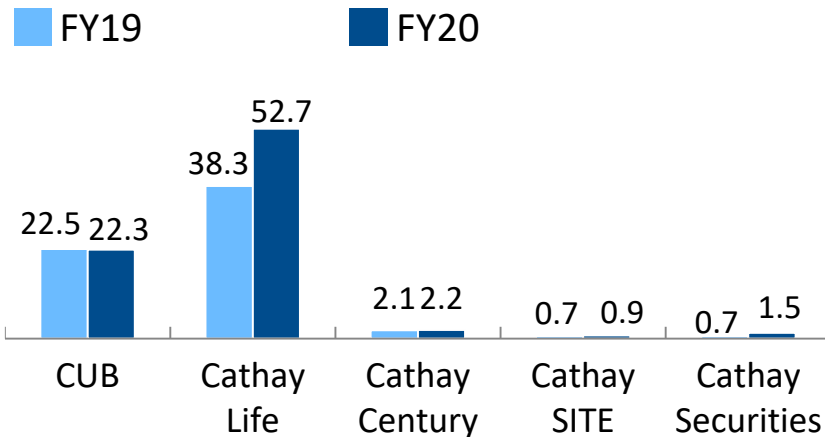
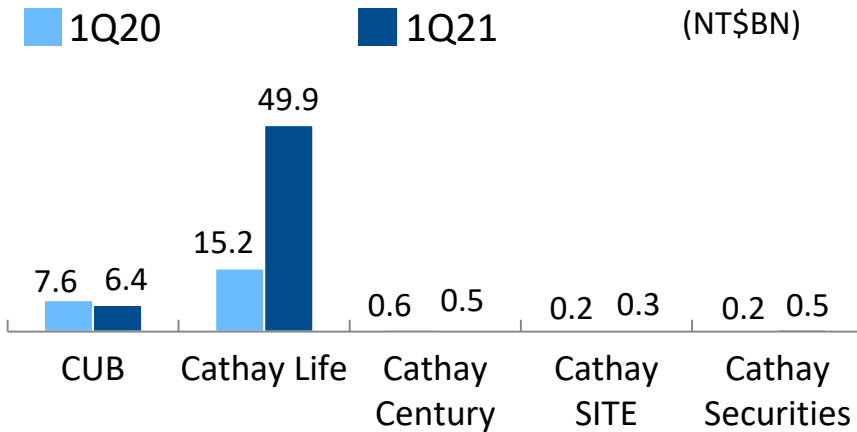
- 1Q21 net income reached quarterly record driven by sound investment performance.



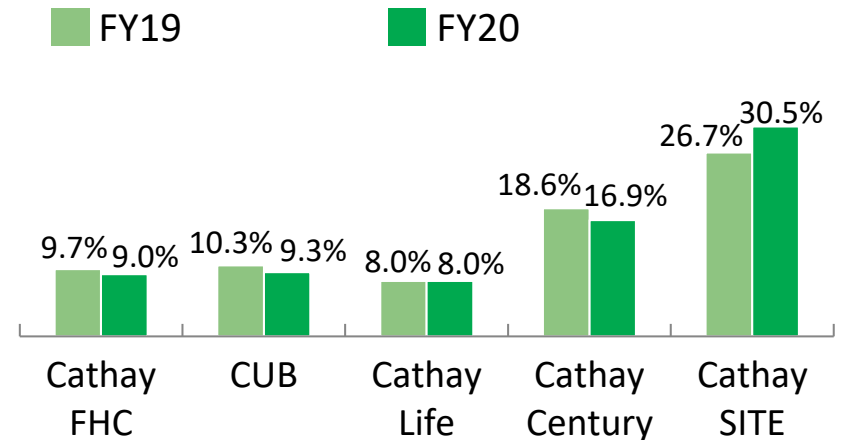
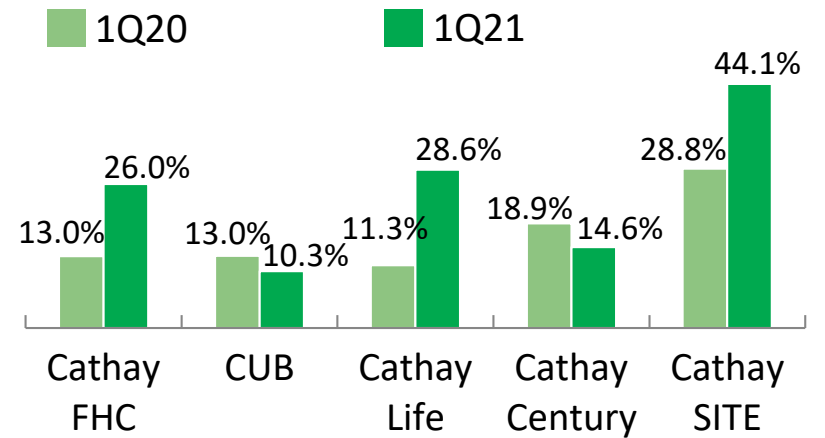
Cathay FHC – Net income & ROE

- Cathay Life delivered strong investment performance and quarterly record earnings. Cathay Securities and Cathay SITE also reported record Q1 earnings, attributed to economy recovery and financial markets rally.
- CUB's core business remained solid despite showed earnings decline due to high YoY base of investment gains.

Net income of primary subsidiaries (NT\$BN)

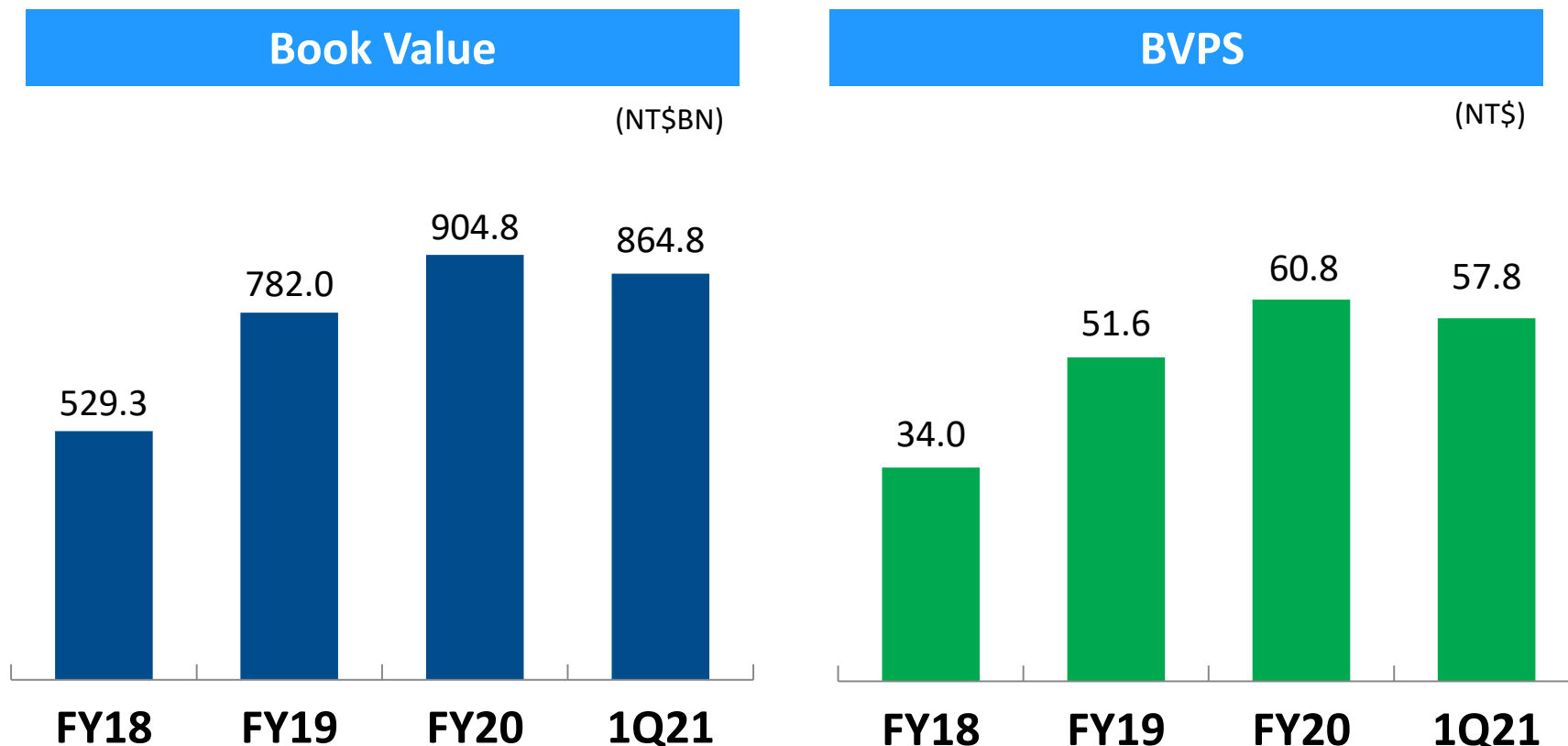


ROE



Cathay FHC – Book value & BVPS

- Strong earnings offset part of book value decline caused by reduced unrealized gains of fixed income assets due to uptick in U.S. bond yield.



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.

1Q21 Business overview

Cathay United Bank

- Delivered robust loan growth. NIM improved and net interest income grew steadily.
- Overseas expansion continued. Offshore earnings accounted for 49% of pre-tax earnings.
- Fee income grew YoY. Wealth management fee and credit card fee grew 10% and 7%, respectively.

Cathay Life

- Focused on value-driven strategy. Protection type FYP grew ~40% YoY. AUM of investment-linked products reached NT\$670bn, ranked No.1 in the industry.
- Delivered sound investment performance with after-hedging investment yield of 6.3%, driving quarterly record earnings.
- EV rose 22% or NT\$209bn to NT\$1144BN (NT\$ 86.8 per share of FHC).

Cathay Century

- Premium income grew steadily. Ranked in second place with 10.7% 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\$1,115 BN. 1Q21 net profit achieved a record high over the same period.
- Recognized by Asia Asset Management, Benchmark and received TFF-Bloomberg Best Fund Award in 2021.

Cathay Securities

- Optimized customer experience with digital-only business model. Focused on digital customers to increase customer base.
- Delivered another record-breaking first quarter earnings.

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Cathay FHC in South East Asia

	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia	Laos	Philippines	Myanmar	Thailand	Indonesia
Bank	7	36	16	1	1	1	1	1	1	1	1
Life	53	132									
P&C	26	2									
Asset Mgt.	1			1							
Securities				2							

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



■ Banking

- Vietnam: Contemplated purchase and acquisition of 100% shares of a financial services company; Indovina Bank performed steadily.
- Cambodia: Subsidiary's businesses grew steadily.
- Philippines: Invested in RCBC.⁽²⁾
- Indonesia: Invested in Bank Mayapada.⁽²⁾

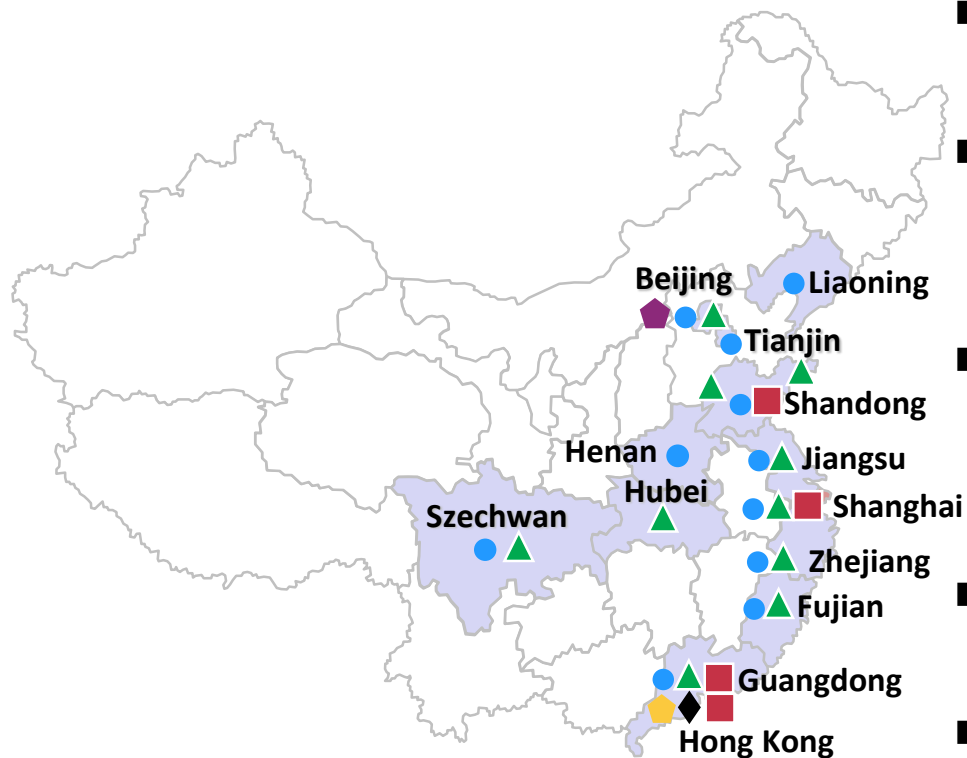
■ Cathay Life (Vietnam)

- Total premium grew 56% YoY to VND 503BN in 1Q21.
- 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**
 - Total premium grew 21% YoY to RMB 1.1BN in 1Q21.
 - Each business line grew steadily.
- **Cathay Century (China)**
 - Formed a strategic alliance with Ant Financial group. Actively developed eCommerce-related financial services.
- **Cathay Securities (HK)**
 - Continued to grow local and cross-border business.
- **JV with China Development Bank Securities (CDBS Cathay Asset Management)**
 - Business line grew steadily.
- **Conning Asia Pacific Limited**
 - Continued to expand asset management business.

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Cathay United Bank

Cathay Life

Cathay Century

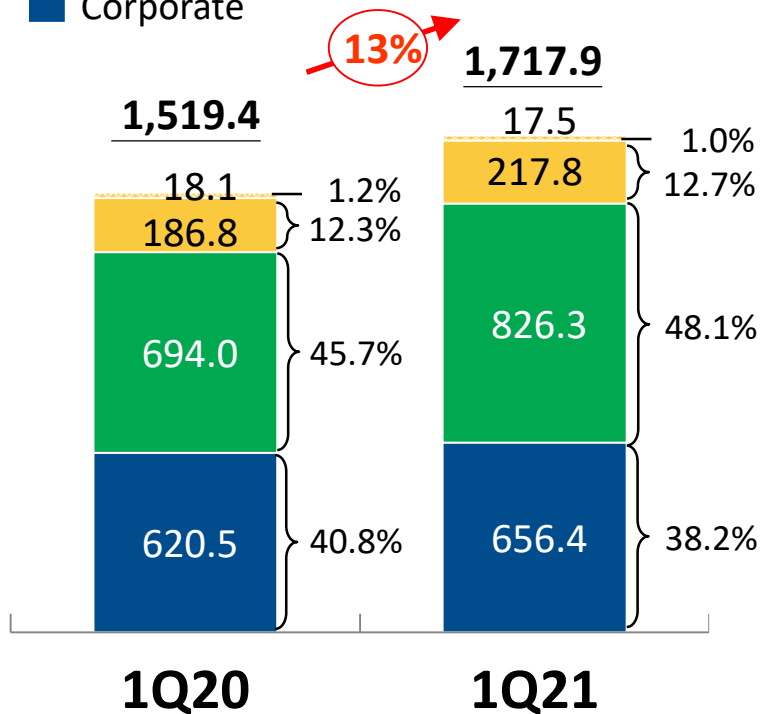
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Cathay United Bank – Loan & Deposit breakdown

- Robust loan growth across consumer, mortgage and corporate loans.
- Deposit grew solidly with higher demand-deposit ratio.

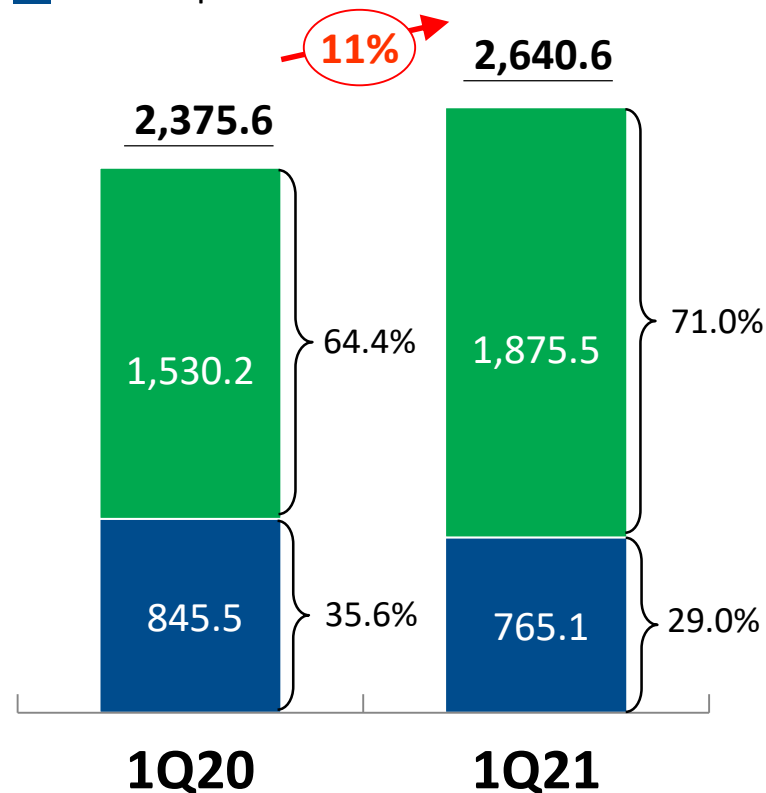
Loan breakdown

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



Deposit breakdown

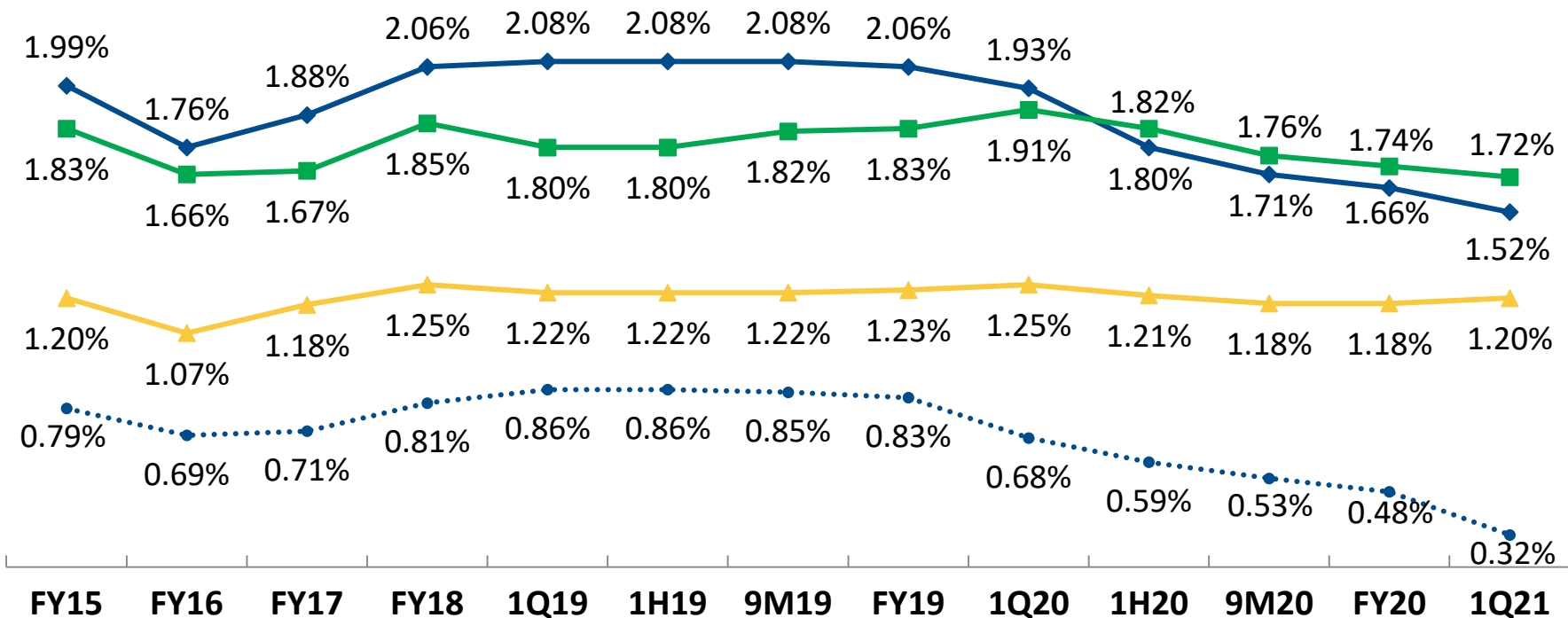
- Demand deposit (NT\$BN)
- Time deposit



Cathay United Bank – Interest yields

□ Lower funding cost supported 1Q21 NIM and spread expansion.

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



	Quarterly	<u>4Q18</u>	<u>1Q19</u>	<u>2Q19</u>	<u>3Q19</u>	<u>4Q19</u>	<u>1Q20</u>	<u>2Q20</u>	<u>3Q20</u>	<u>4Q20</u>	<u>1Q21</u>
Spread		1.83%	1.80%	1.81%	1.85%	1.86%	1.91%	1.73%	1.65%	1.69%	1.72%
NIM		1.22%	1.22%	1.22%	1.23%	1.26%	1.25%	1.17%	1.13%	1.17%	1.20%

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

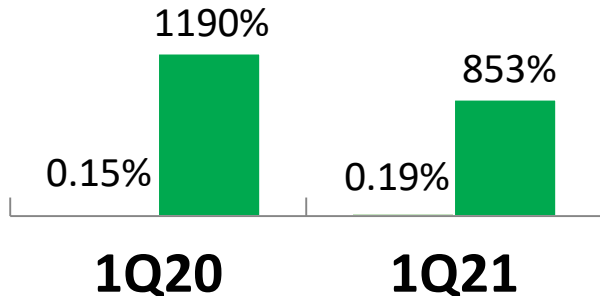
(2) China subsidiary was launched in Sep 2018. Hence, since 9M18, China subsidiary results was excluded.

Cathay United Bank – Credit quality

- Asset quality remained benign with NPL at 0.19% and coverage ratio at 853%.

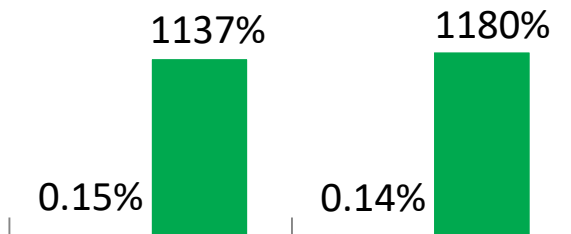
NPL & Coverage ratio

- NPL ratio
- Coverage ratio



Mortgage NPL

0.19 % 0.10 %

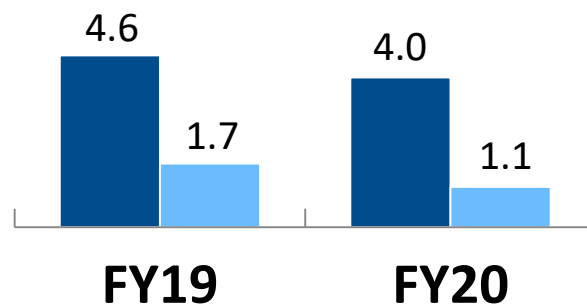
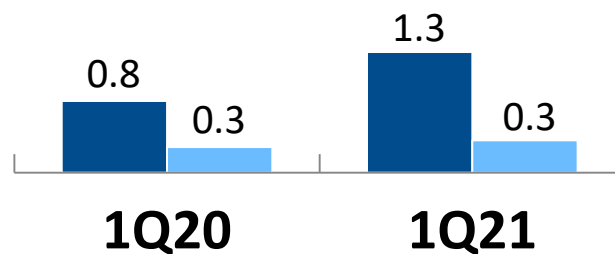


Mortgage NPL

0.21 % 0.11 %

Gross provision

- Gross provision (NT\$BN)
- Recovery

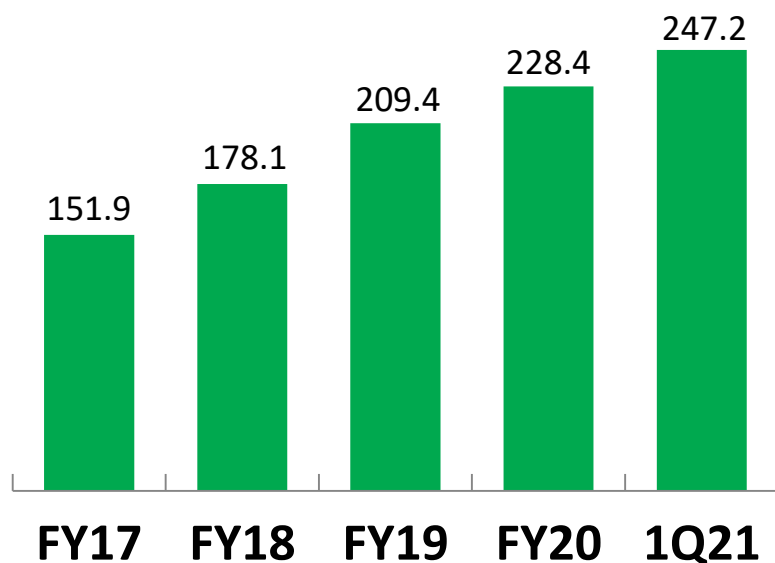


Cathay United Bank – SME & FX loans

- Grow SME and foreign currency loans while ensuring asset quality.

SME loans

(NT\$BN)

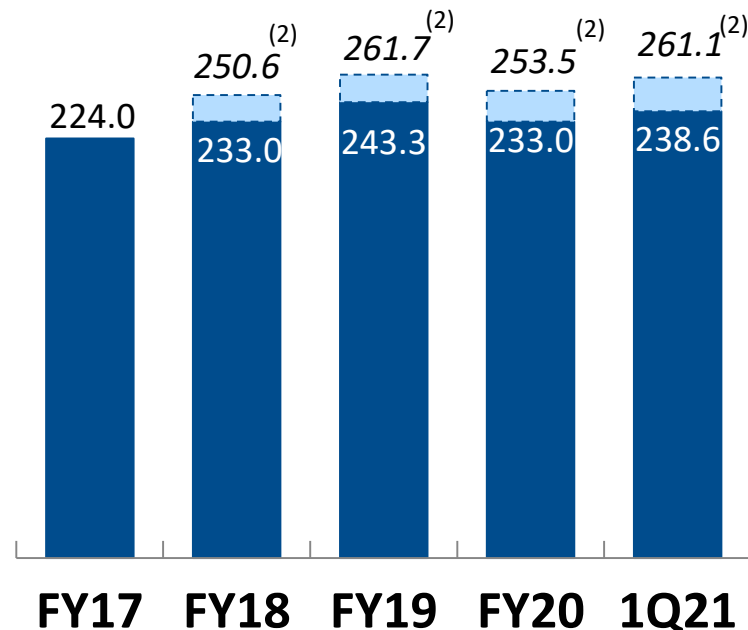


As % of total loans

10.7% 11.4% 13.8% 14.1% 14.5%

Foreign currency loans

(NT\$BN)



15.8% 15.0% 16.1% 14.4% 14.0%

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

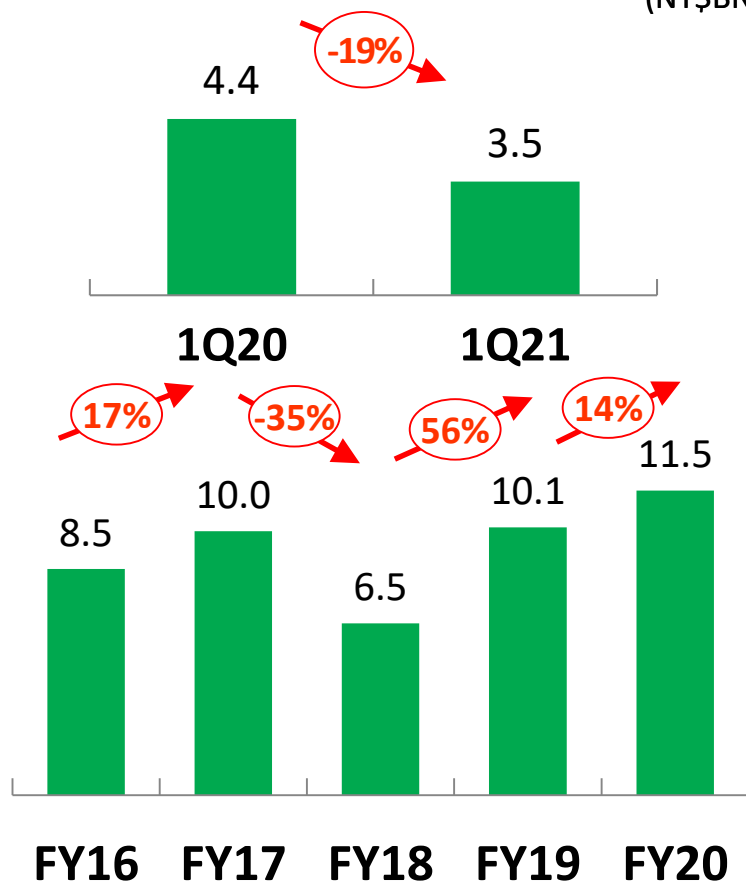
(2) China subsidiary was launched in Sep 2018, hence FY18, FY19, FY20 and 1Q21 foreign currency loan balance excluded NT\$17.6BN , NT\$18.4BN , NT\$20.5BN and NT\$22.5BN from China subsidiary, respectively. (preliminary)

Cathay United Bank – Offshore earnings

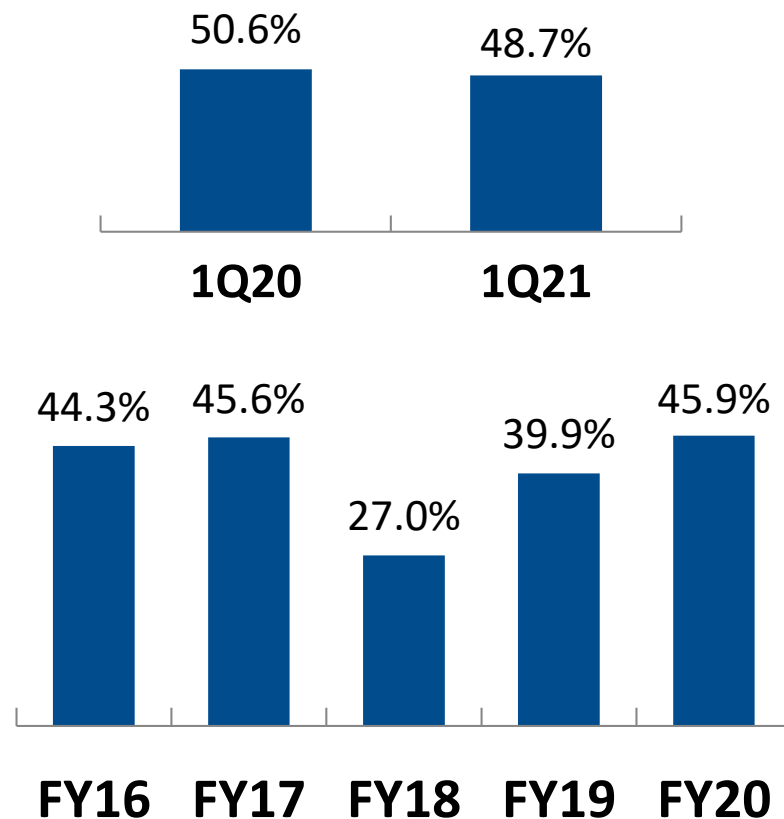
- Offshore earnings declined due to high YoY base of investment gains.
- Expand overseas business by deepening overseas presence and capture investment opportunities. Offshore earnings accounted for 49% of pre-tax earnings.

Offshore earnings

(NT\$BN)



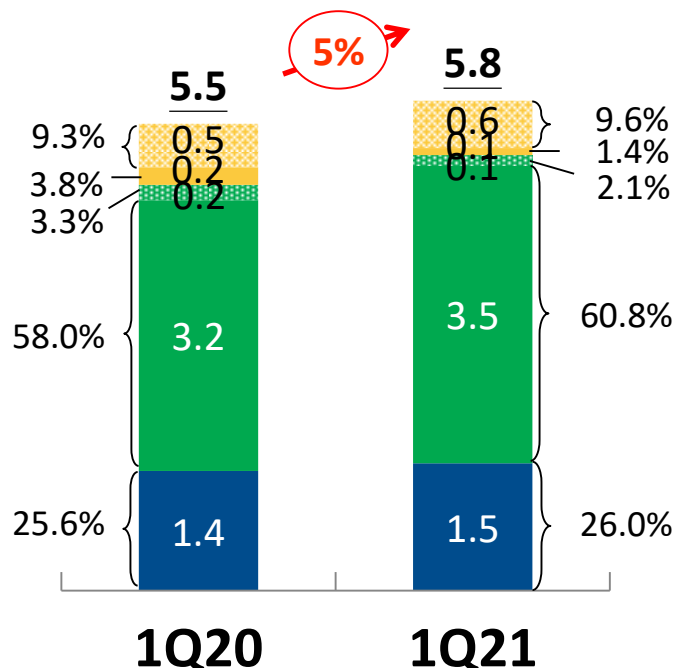
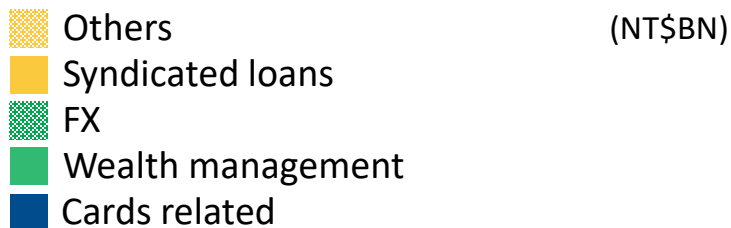
As % of CUB pre-tax profits



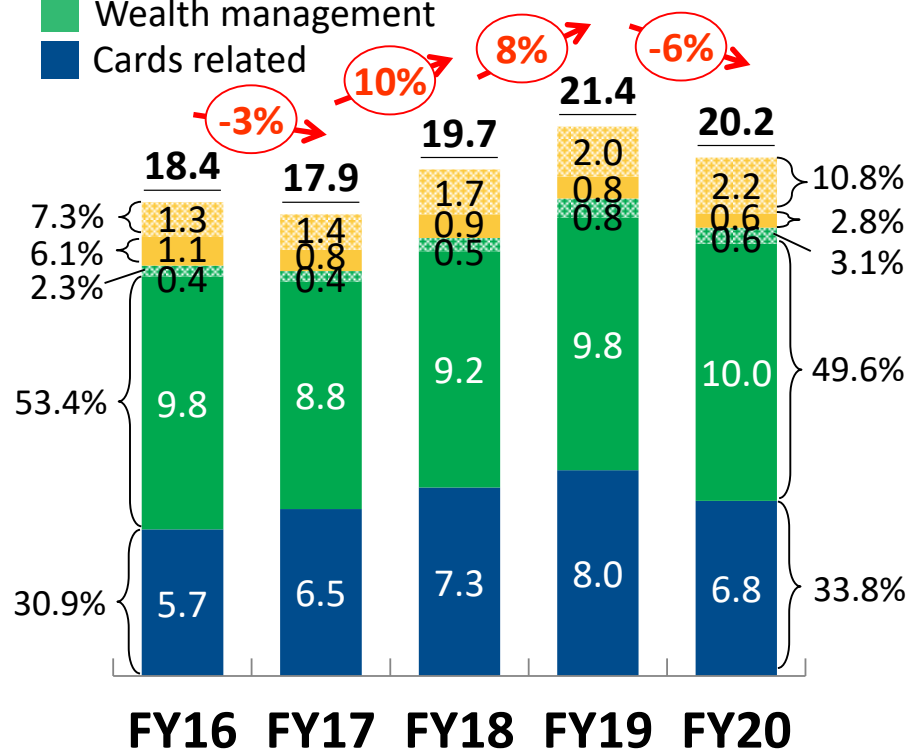
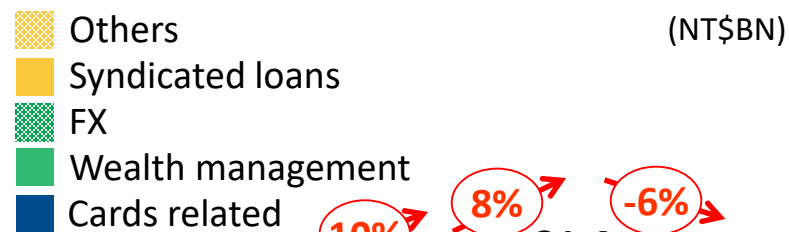
Cathay United Bank – Fee income

- Fee income grew 5% YoY attributed to credit card fee recovery and successive wealth management fee growth.

Quarterly fee income



Annual fee income

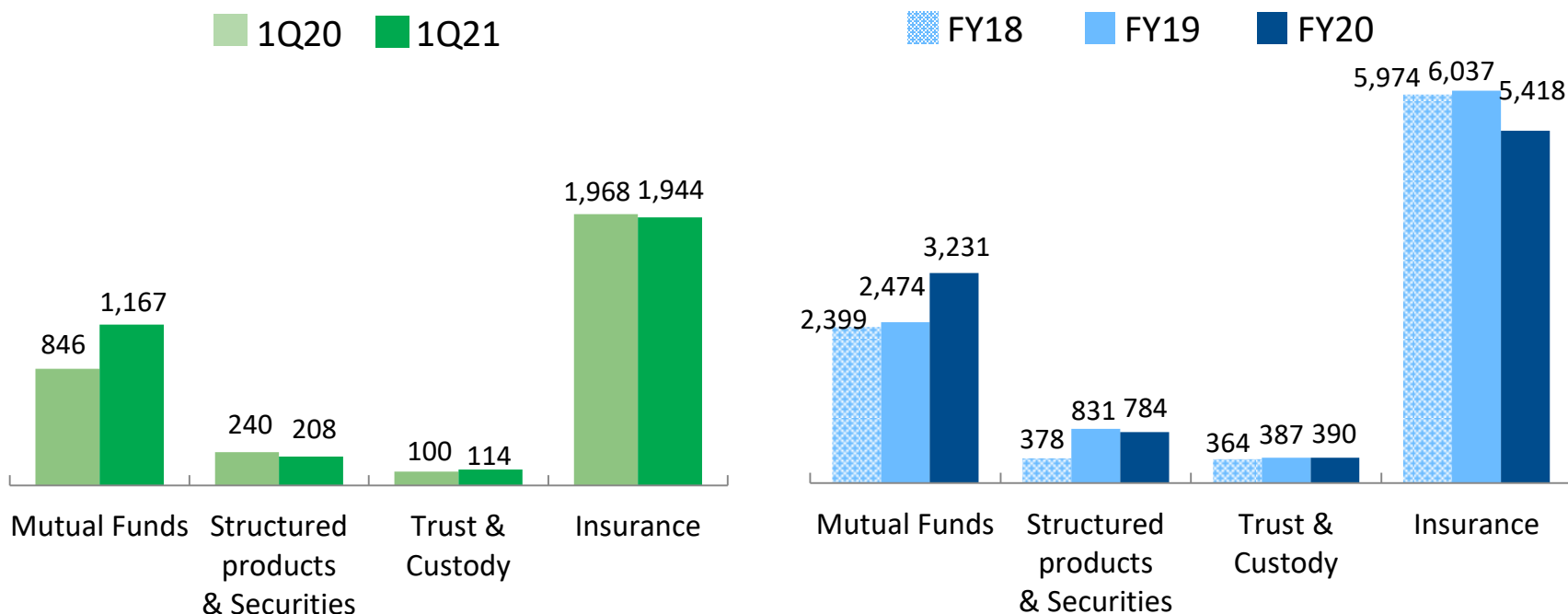


Cathay United Bank – Wealth management fee

- Wealth management fee increased 10% YoY, driven by continued strong influx of mutual funds.

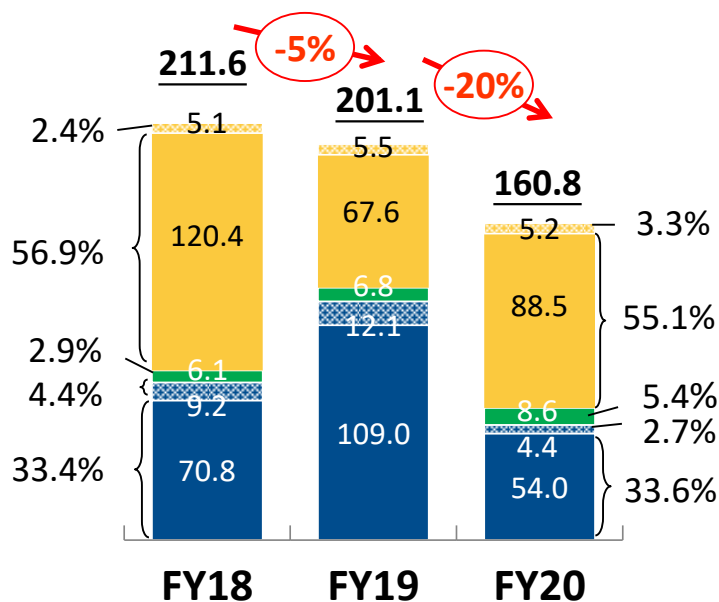
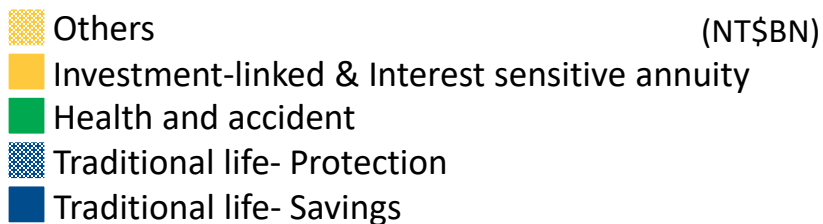
Wealth management fee breakdown

(NT\$MN)	1Q20	1Q21	FY18	FY19	FY20
Wealth management fee income	3,182	3,500	9,183	9,808	9,991
YoY growth (%)	-2.2%	10.0%	3.9%	6.8%	1.9%



Cathay Life – Annual FYP & APE

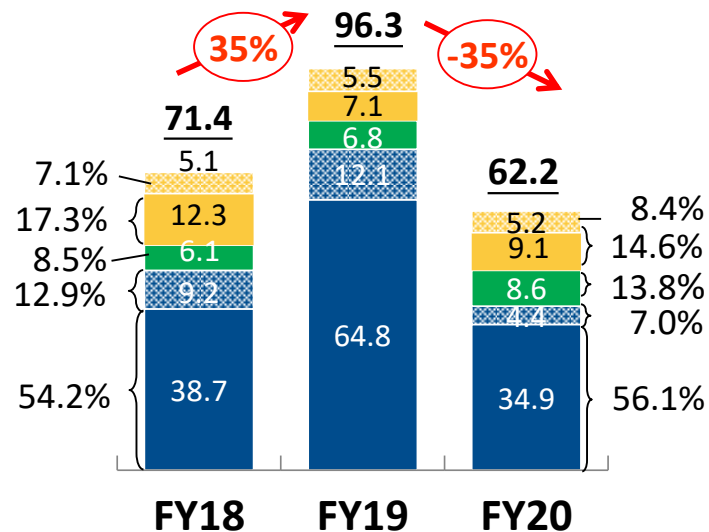
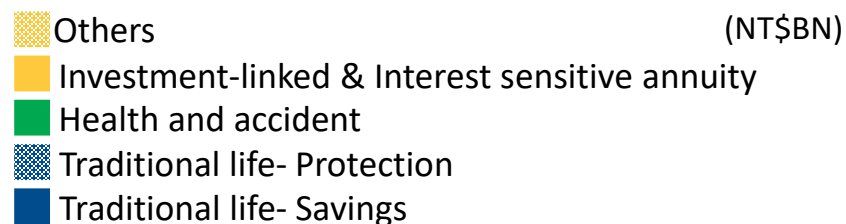
First Year Premium



FX polices %
(excl. investment-linked)

47% **50%** **68%**

Annualized FYP (APE)



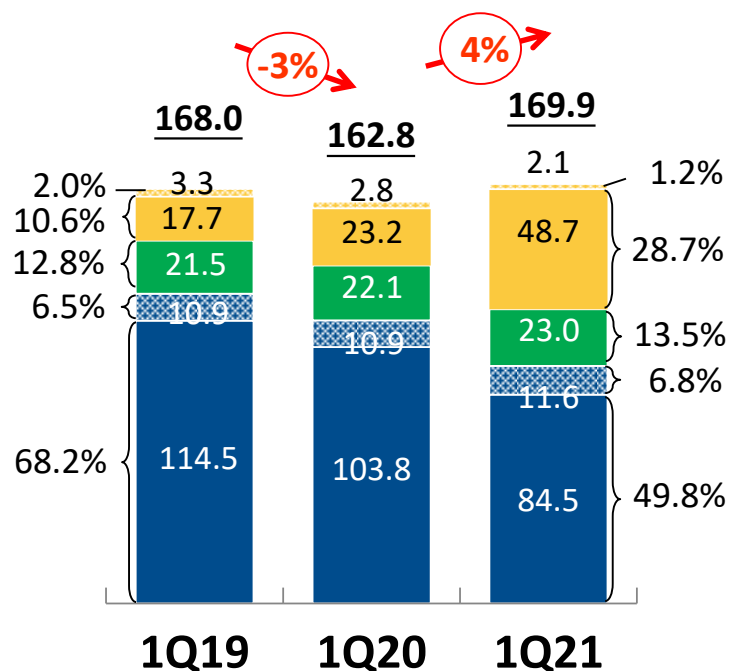
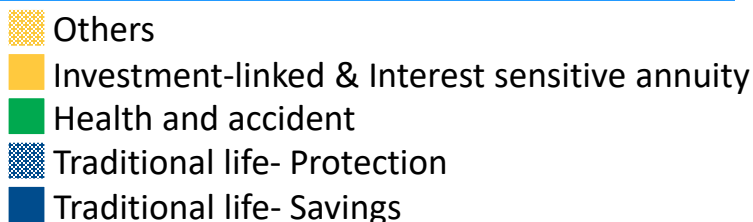
Note:(1) Protection type policies includes “Traditional life-Protection” and “Health and accident”

(2) Annualized FYP (APE) = 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

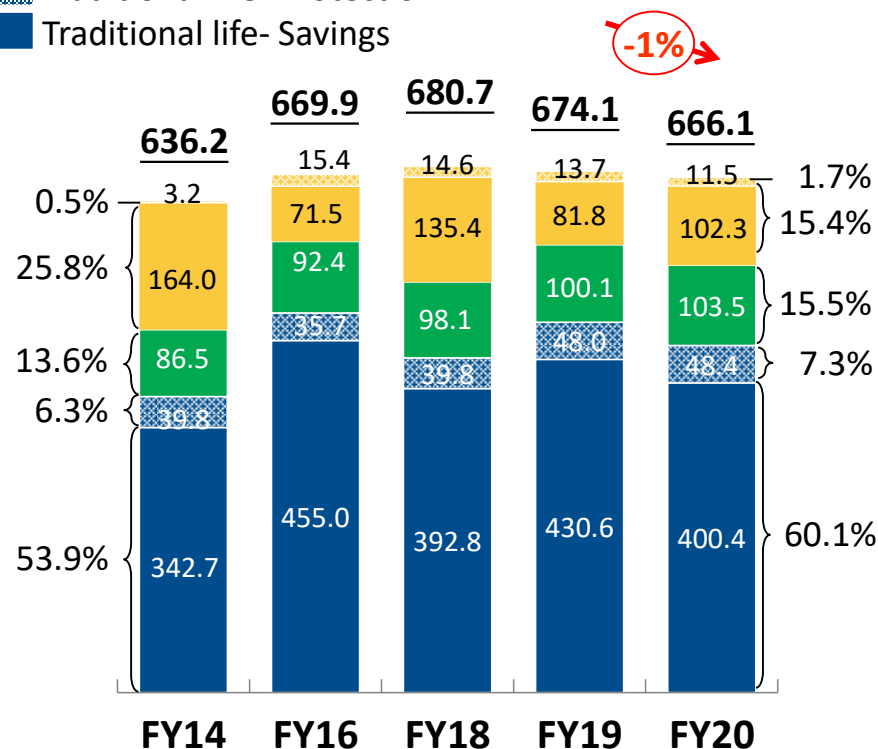
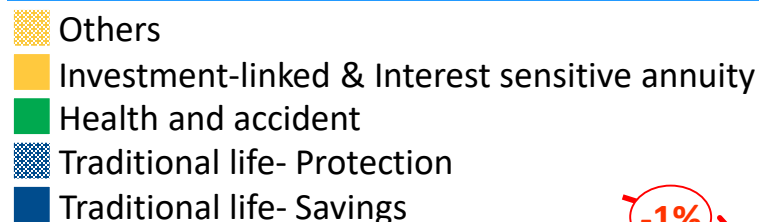
Cathay Life – Total premium

■ Total premium increased 4% YoY due to growth in FYP driven by hot sale of investment-linked products.

Quarterly total premium



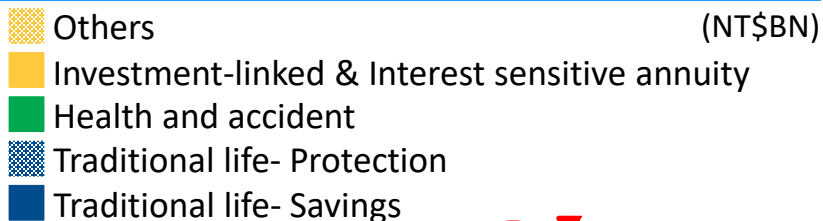
Annual total premium



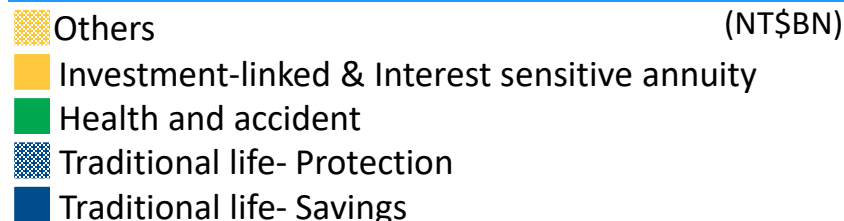
Cathay Life – Quarterly FYP & APE

- FYP of 40% growth YoY was driven by substantial growth in investment-linked policies, attributed to strong capital markets.
- FYP of protection type policies grew ~40% YoY, a strong support to contractual service margin (CSM).

First Year Premium



Annualized FYP (APE)



FX polices %
(excl. investment-linked)

1Q19	1Q20	1Q21
57%	61%	74%

Note: (1) Protection type policies includes "Traditional life-Protection" and "Health and accident"

(2) Annualized FYP (APE) = 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 of new business

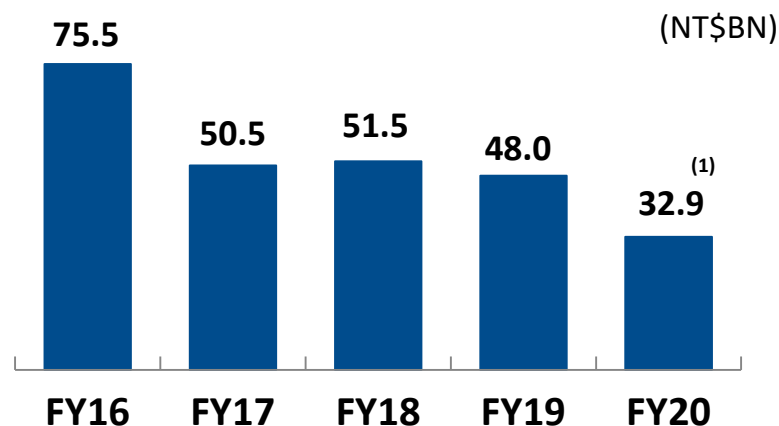
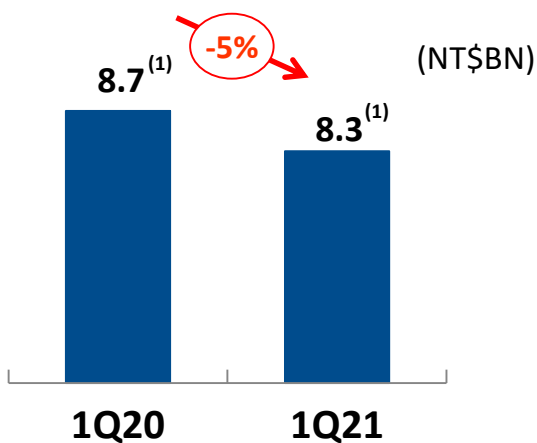
- VNB and VNB margin declined due to high YoY base driven by deferred premium income from stop-selling effect. Excluding the aforementioned effect, VNB and VNB margin both increased.

Value for New Business

Profit Margin	1Q20 ⁽¹⁾	1Q21 ⁽¹⁾
VNB/FYP	21%	14%
VNB/FYPE	48%	59%

Value for New Business (annual)

Profit Margin	FY16	FY17	FY18	FY19	FY20 ⁽²⁾	FY20 ⁽¹⁾
VNB/FYP	38%	22%	24%	24%	20%	20%
VNB/FYPE	56%	64%	72%	50%	51%	53%



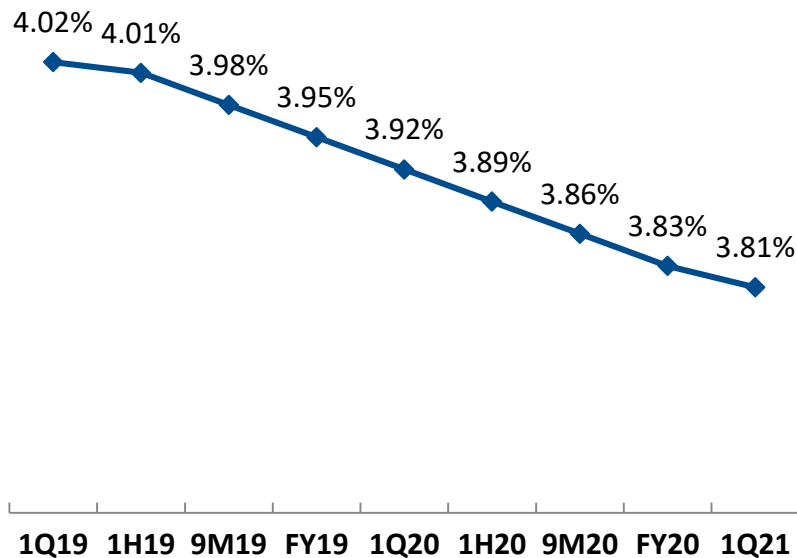
Note : (1) 1Q20, FY20 and 1Q21 VNB were based on 2020 Embedded Value assumptions.

(2) Based on 2019 Embedded Value assumptions, 1Q20 & FY20 VNB were NT\$8.5BN and NT\$31.8BN ; VNB/FYP were both 20% , VNB/FYPE were 47% and 51%, respectively.

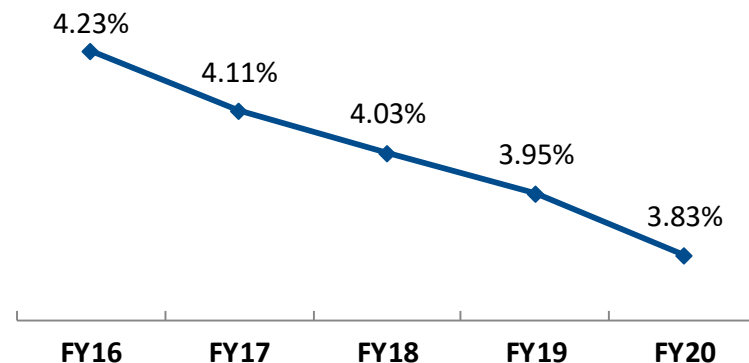
Cathay Life – Cost of liability and break-even asset yield

- Continued to strengthen value-driven strategy.
- Cost of liability and break-even asset yield continued to improve.

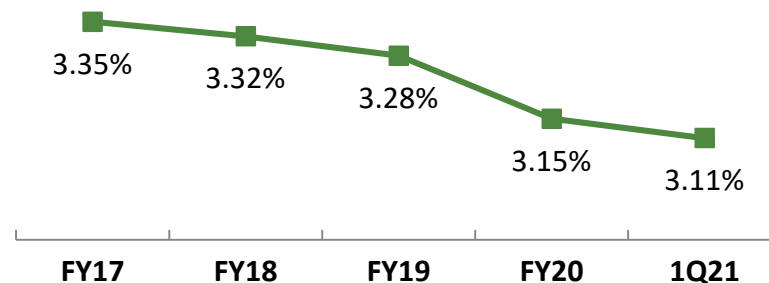
Cost of liability (quarterly)



Cost of liability (annual)



Break-even asset yield



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

Cathay Life – Investment portfolio

(NT\$BN)	FY18	FY19	FY20			1Q21		
Total investments⁽¹⁾	5,761.0	6,415.0	6,945.1			6,970.3		
	Weight	Weight	Weight	Amount	Return	Weight	Amount	Return
Cash & Cash equivalents	1.1%	3.7%	4.8%	335	0.4%	3.8%	267	0.2%
Equity- Domestic	7.5%	5.0%	6.3%	438	13.5%	7.1%	492	30.2%
Equity- International ⁽²⁾	6.7%	5.8%	5.9%	407	5.5%	6.1%	425	16.7%
Bond- Domestic	5.0%	7.9%	8.0%	553	4.6%	7.8%	540	1.0%
Bond- International ⁽¹⁾⁽²⁾	58.6%	58.9%	58.0%	4,028	5.5%	58.5%	4,079	6.5%
Mortgage & Secured loans	7.1%	5.3%	4.5%	311	1.7%	4.4%	308	1.5%
Policy loans	3.0%	2.7%	2.4%	167	5.6%	2.4%	166	5.3%
Real estate	8.7%	8.2%	7.7%	537	2.9%	7.7%	538	2.3%
Others	2.4%	2.6%	2.4%	168		2.2%	155	

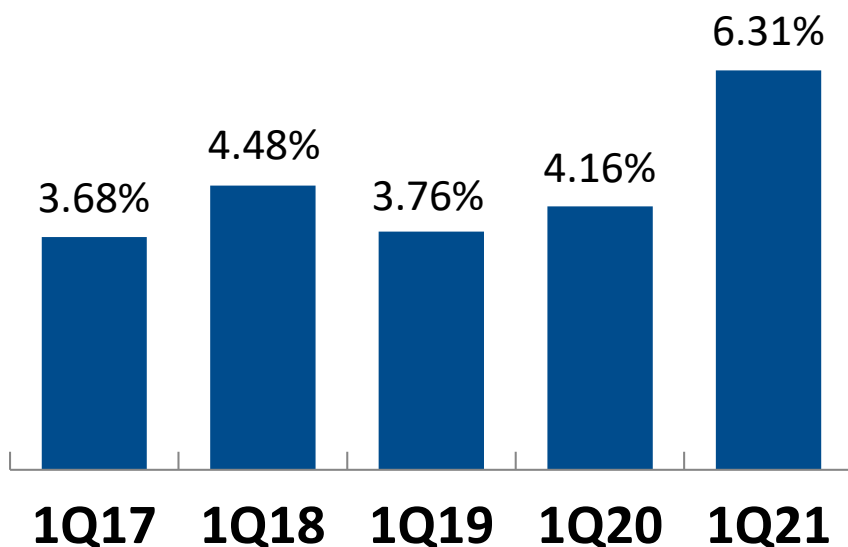
Note: (1) Total assets excluded separate account assets; international bond includes foreign currency deposit and related adjustments

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

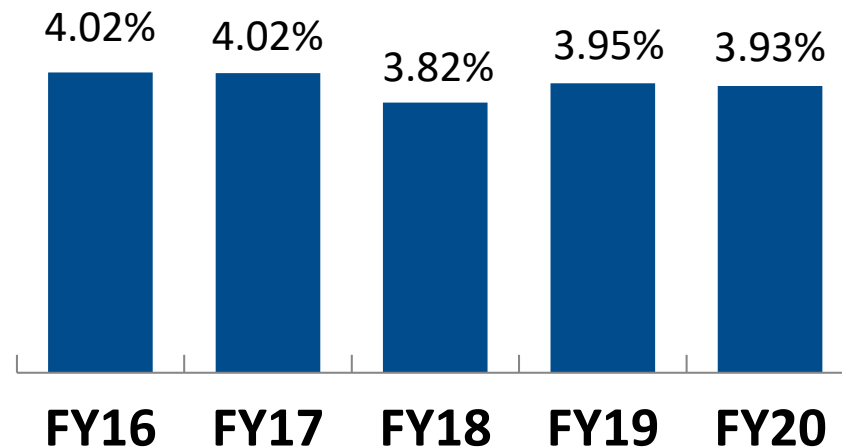
Cathay Life – Investment performance highlight

- Strong gains from equity and fixed income position boosted the after-hedging investment yield.

After-hedging investment yield



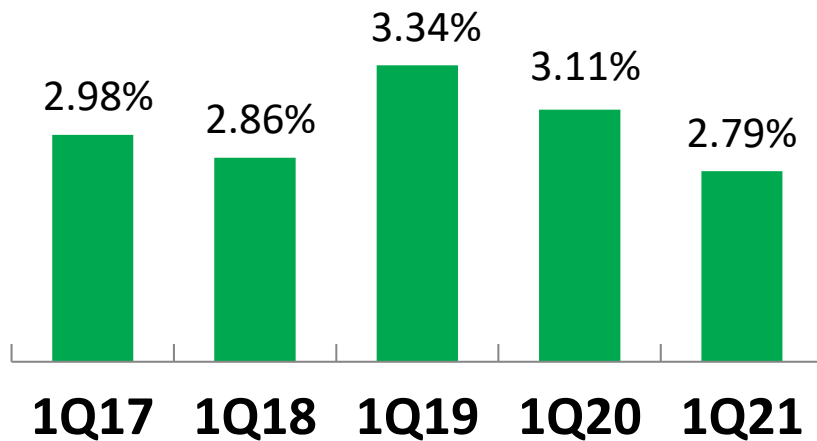
After-hedging investment yield



Cathay Life – Investment performance highlight

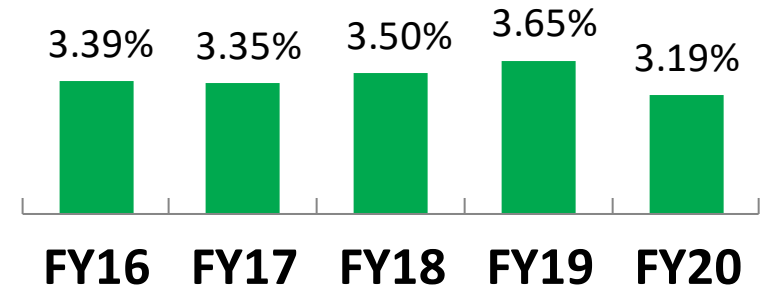
- Lower global interest rate in 2020 had led to reduction in 1Q21 pre-hedging recurring yield. The rebound in U.S. bond yield YTD should help to enhance recurring income gradually.
- Hedging cost improved in 1Q21.

Pre-hedging recurring yield



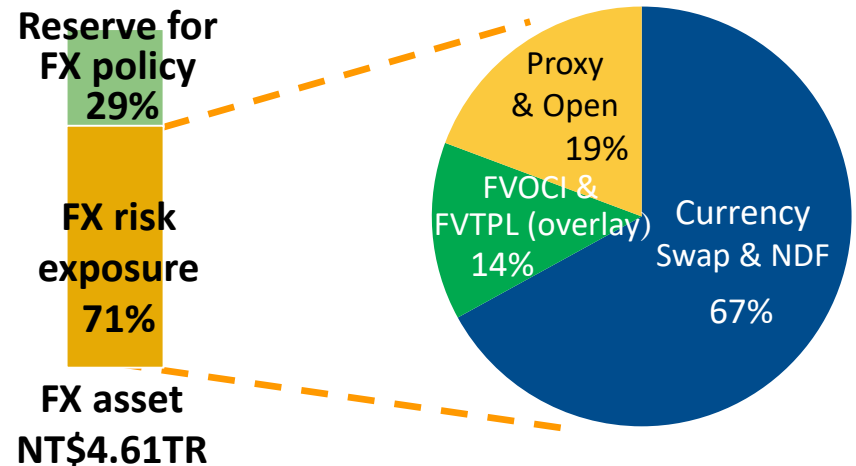
Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.

Pre-hedging recurring yield



Currency hedging structure

1Q21 Hedging cost 1.40%

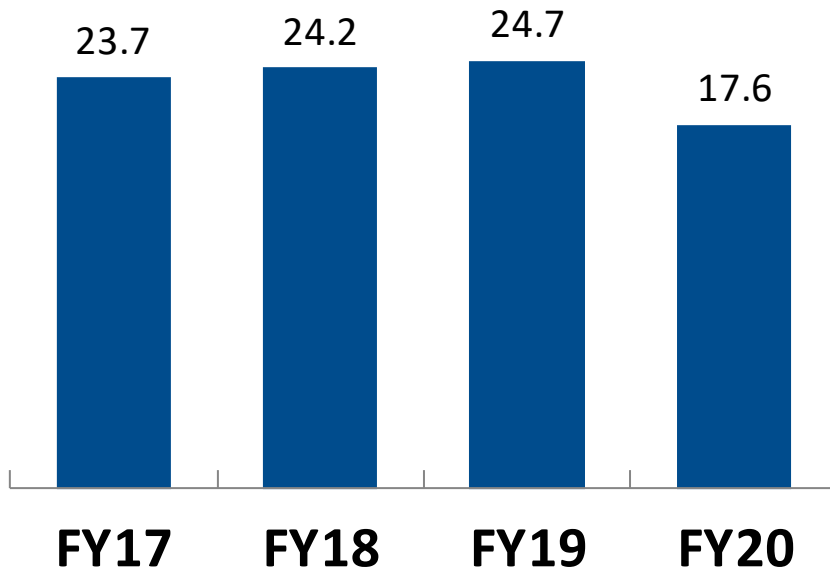


Cathay Life – Cash dividend income & Overseas fixed income by region

□ Diversified fixed income investment across regions to balance risk and return.

Cash dividend income

(NT\$BN)



Overseas fixed income by region



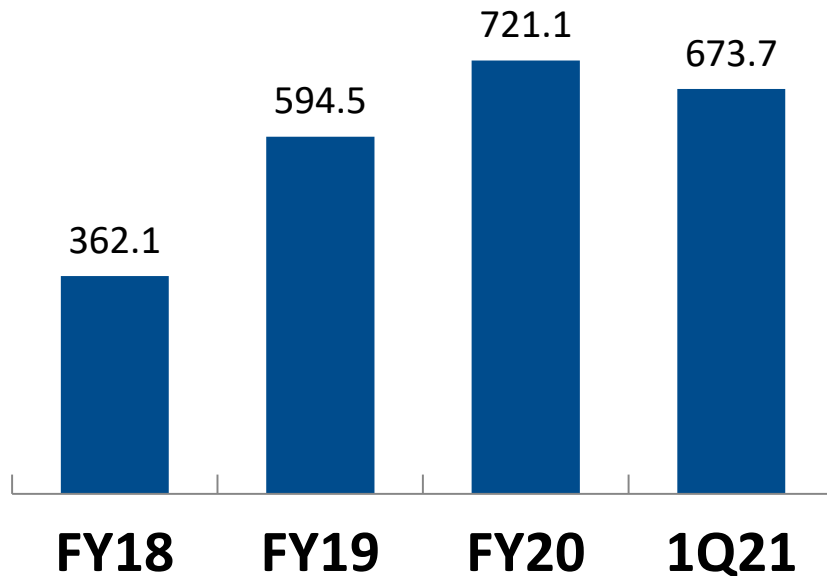
Note: Exclude overseas deposit.

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

- Book value remained strong. Unrealized gain from fixed income reduced, reflecting YTD U.S. bond yield rebound.

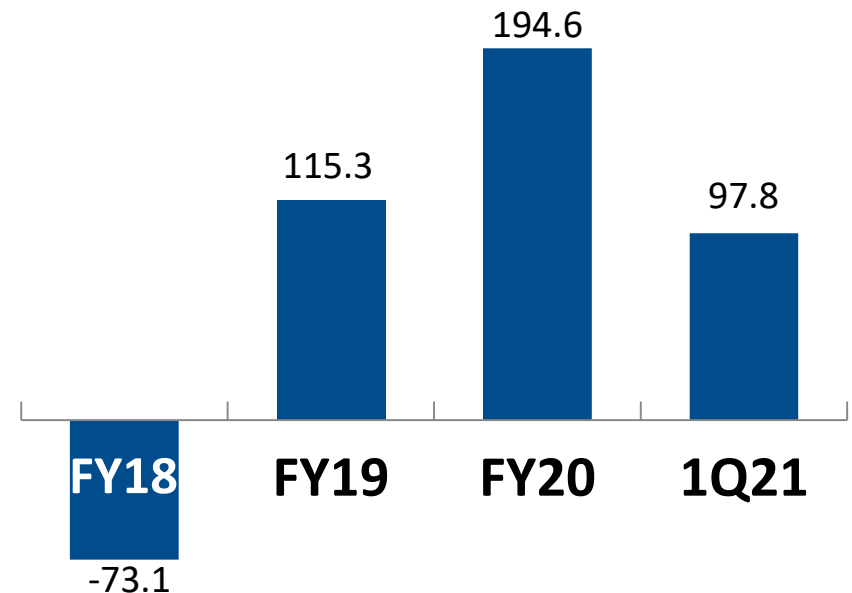
Book value

(NT\$BN)



Unrealized G/L of financial assets

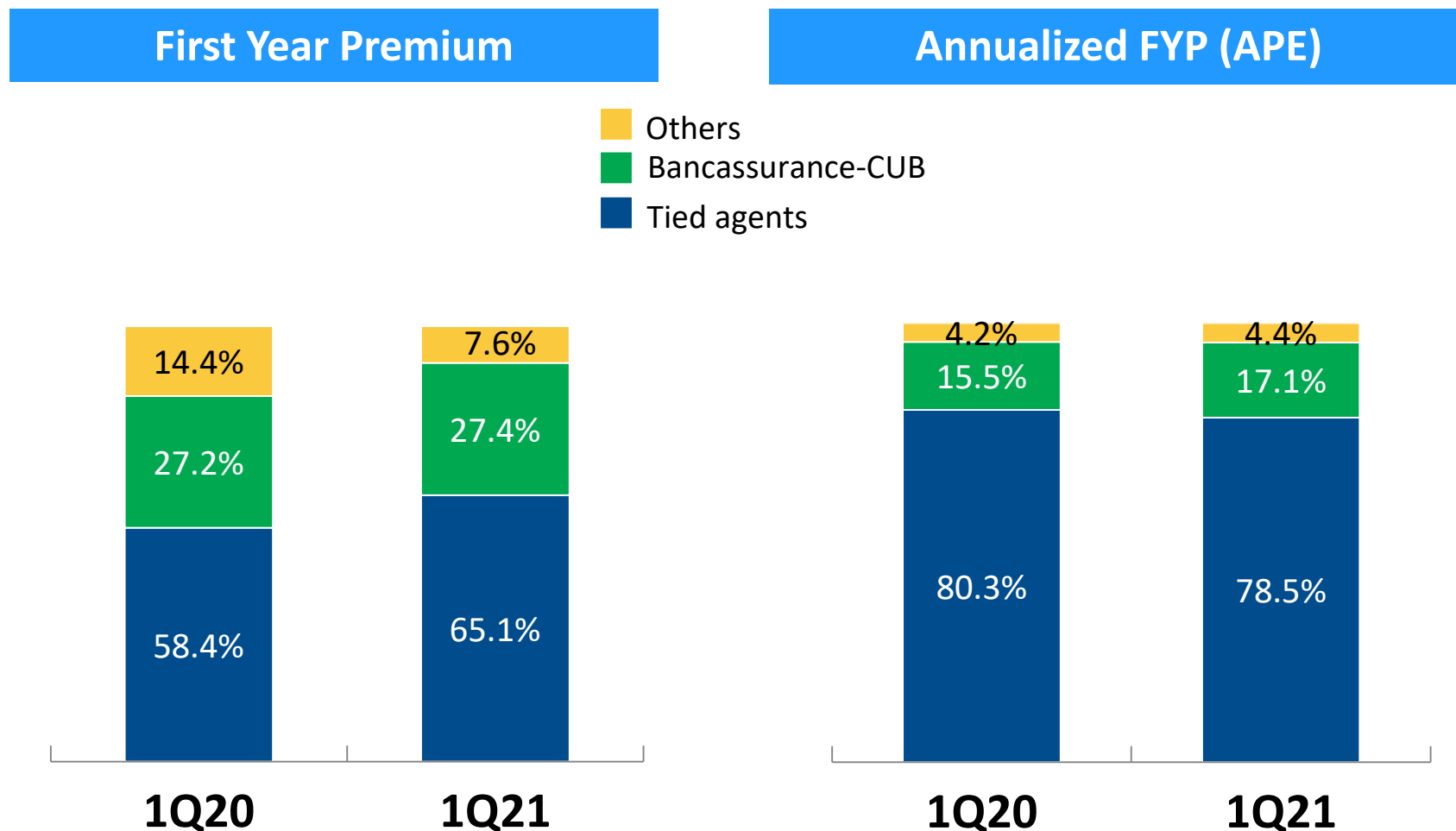
(NT\$BN)



Note: FVOCI & FVTPL (overlay approach)

Cathay Life – Distribution channel

- Premium income was mainly generated by Cathay Life agents and Cathay United Bank. Group's strong selling capability provides solid contribution to premium income and VNB.



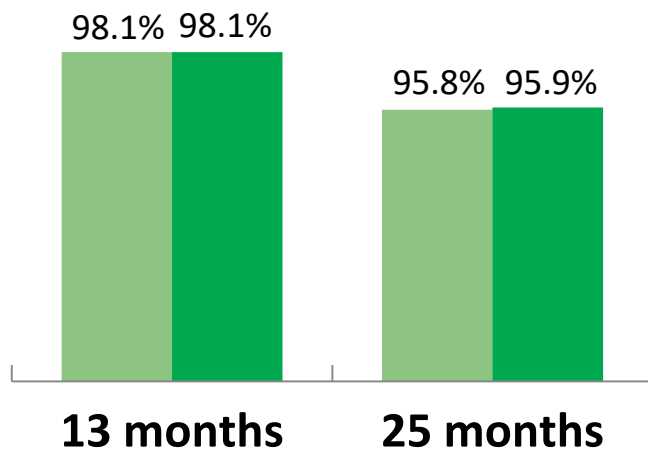
Cathay Life – Operational indicators

- Expense ratio increased YoY due to increased sales of protection type of policies leading to higher underwriting cost and commission expenses.

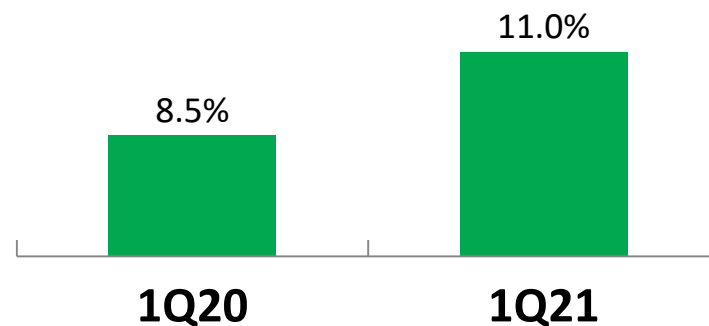
Persistency ratio

■ 1Q20

■ 1Q21



Expense ratio



Agenda

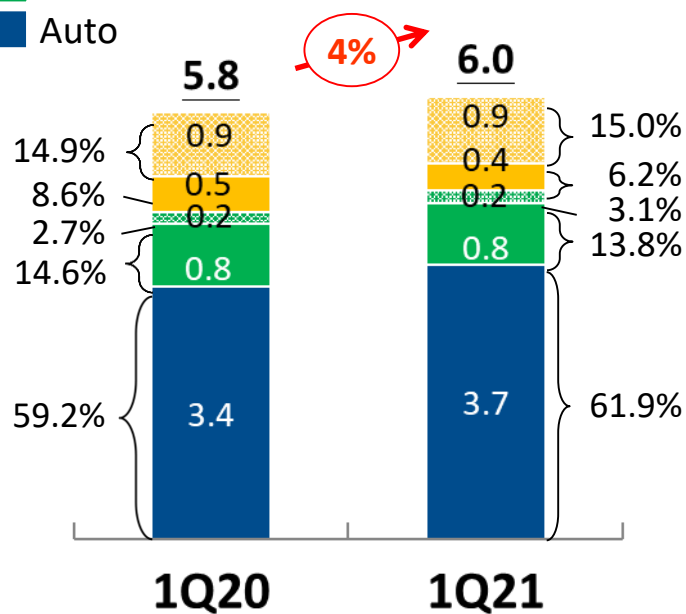
- Introduction of Cathay FHC
- 1Q21 Business Overview
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 - Cathay Century
- Cathay Life Embedded Value & Appraisal Value
- Cathay's CSR Efforts
- Appendix

Cathay Century – Premium income & Distribution channel

- Premium income grew 4% YoY. Market share was 10.7%, ranked No. 2 in the industry.
- Benefiting from cross-selling synergy, over 60% of premium income was generated by the group's channel.

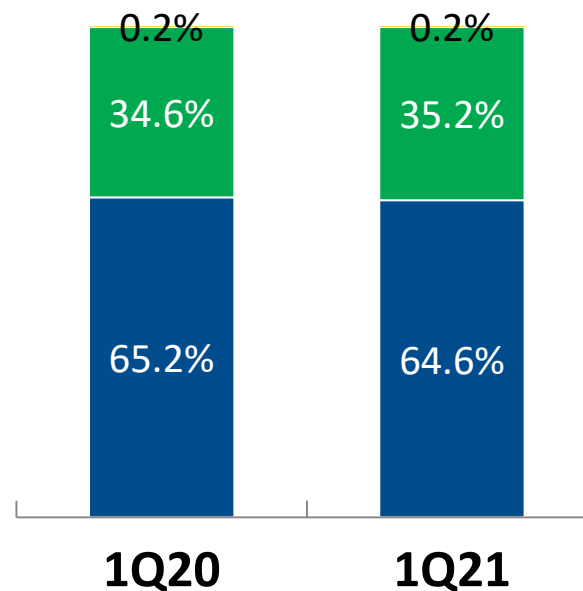
Premium income

- Others
 - Engineering
 - Marine
 - Fire
 - Auto
- (NT\$BN)



Distribution channel

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



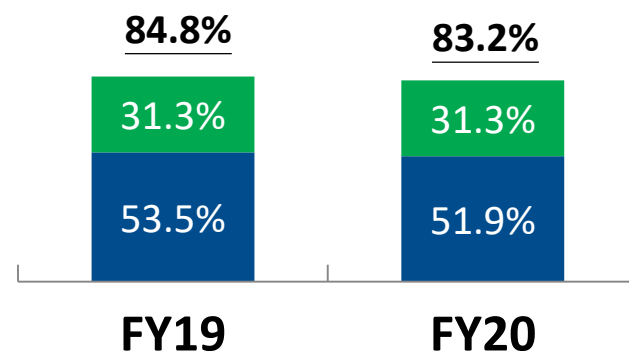
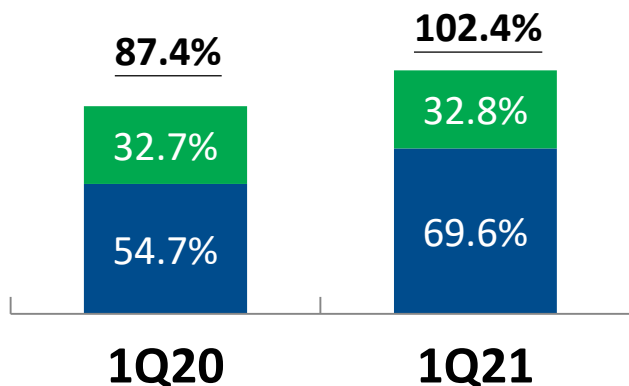
Market share	10.9%	10.7%
Retention	77.9%	76.1%

Cathay Century – Combined ratio

- Gross combined ratio and retained combined ratio increased due to relatively large claim events from commercial fire insurance.

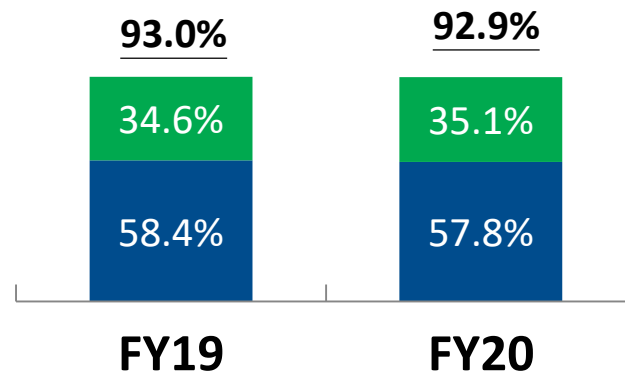
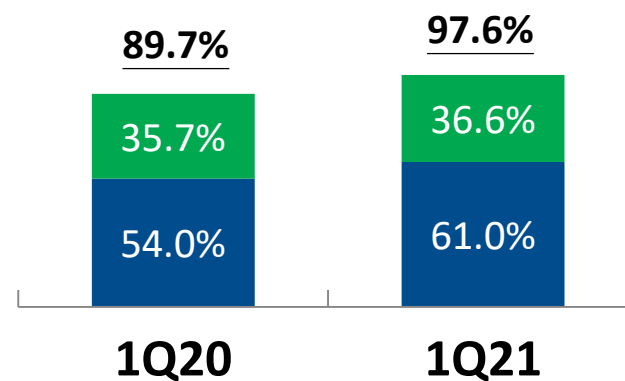
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



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Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2019/12/31	2020/12/31
In-force business investment yield	3.57% ~ Year 2039 4.61% for NTD policies 4.36% ~ Year 2039 5.24% for USD policies (Equivalent investment yield: 3.86% Rolling over to 2020: 3.91%)	3.67% ~ Year 2040 4.70% for NTD policies 4.26% ~ Year 2040 5.31% for USD policies (Equivalent investment yield: 3.97%)
Risk discount rate	9.5%	9.5%
Adjusted net worth	621	743
Value of in-force business	550	633
Cost of capital (CoC)	-236	-232
Value of in-force business (After CoC)	314	401
Embedded Value (EV)	935	1,144
EV / per share	159.8(74.1)	195.5(86.8)
Future one year's new business investment yield	2.41% ~ Year 2039 4.35% for NTD policies 3.86% ~ Year 2039 5.15% for USD policies	2.55% ~ Year 2040 4.52% for NTD policies 3.95% ~ Year 2040 5.23% for USD policies
Value of future one year's new business (After CoC)	35.0	34.5
Appraisal Value (AV)	1,242	1,446
AV / per share	212.3(98.4)	247.2(109.8)

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 in 2019 and 2020 are 5.85bn.

(4) The outstanding shares of Cathay FHC in 2019 and 2020 are 12.62bn and 13.17bn, respectively.

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

Summary

NT\$BN, except for per share figures

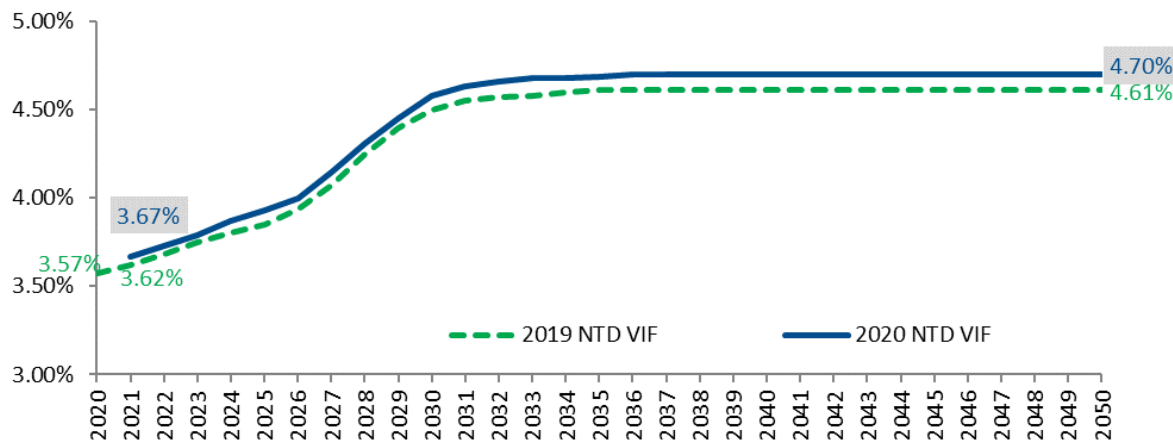
Valuation date		2019	2020	Growth rate	1Q21
Embedded value	Equity	589	714	21%	--
	Adjusted net worth	621	743	20%	--
	Value of in-force business(before CoC)	550	633	15%	--
	Cost of capital (CoC)	-236	-232	-2%	--
	Value in-force business (after CoC)	314	401	28%	--
	Embedded value	935	1,144	22%	--
Value of one year's new business	First year premium (FYP)	201.1	160.8	-20%	59.4
	First year premium equivalent (FYPE)	96.3	62.2	-35%	14.1
	Value of one year's new business (V1NB)	48.0	32.9	-32%	8.3
	Profit margin (V1NB/FYP)	24%	20%	--	14%
	Profit margin (V1NB/FYPE)	50%	53%	--	59%
	Profit margin (V1NB/FYP)(investment-linked(non-VUL)is excluded)	34%	41%	--	47%
Appraisal value (20 years NB)	Multiple	8.8	8.8	--	--
	Appraisal value	1,242	1,446	16%	--
Basic Value per share	EV / per share of Cathay FHC	74.1	86.8	17%	--
	AV / per share of Cathay FHC	98.4	109.8	12%	--

Note: (1) Basic EV and AV per share is based on weighted average of outstanding shares in 2019 and 2020, which are 12.62bn and 13.17bn, respectively.

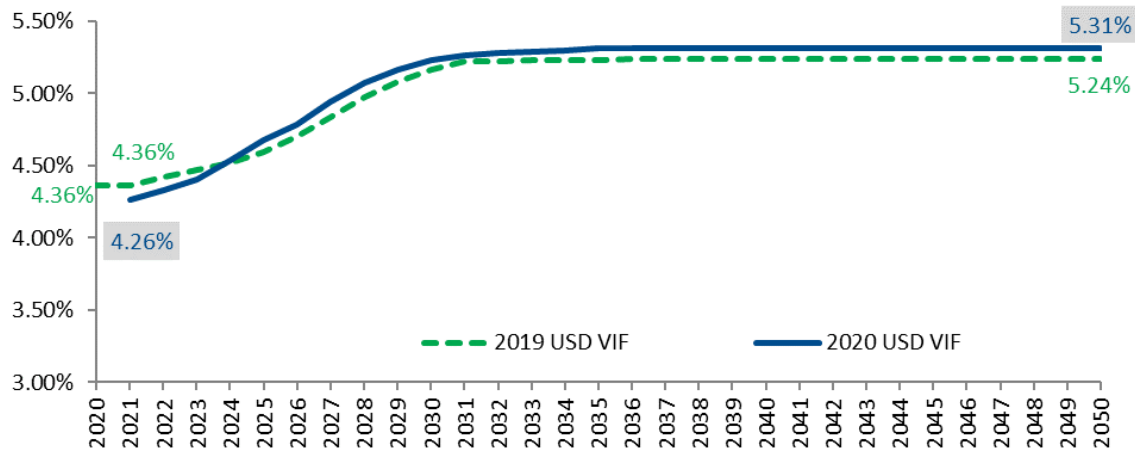
(2) Totals may not sum due to rounding.

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 2019 & 2020.

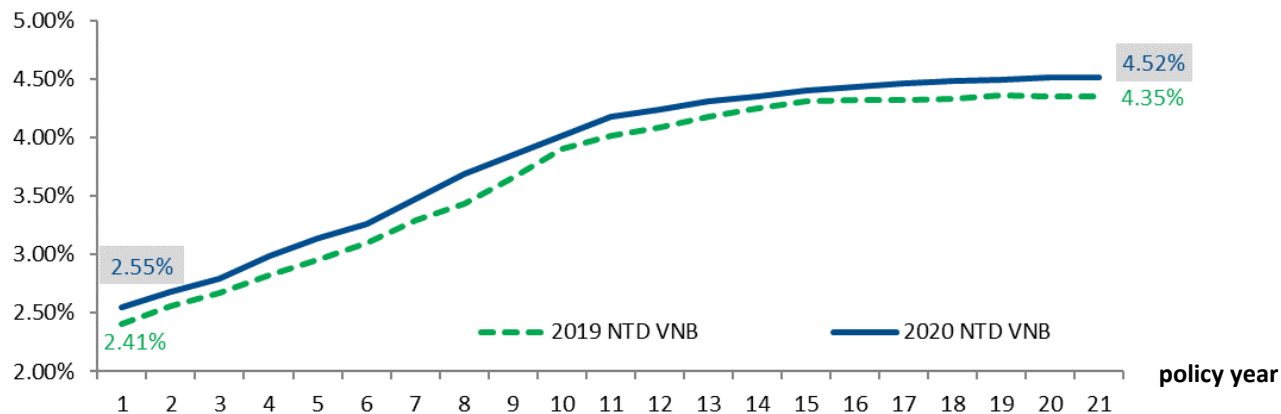


- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2019 & 2020.

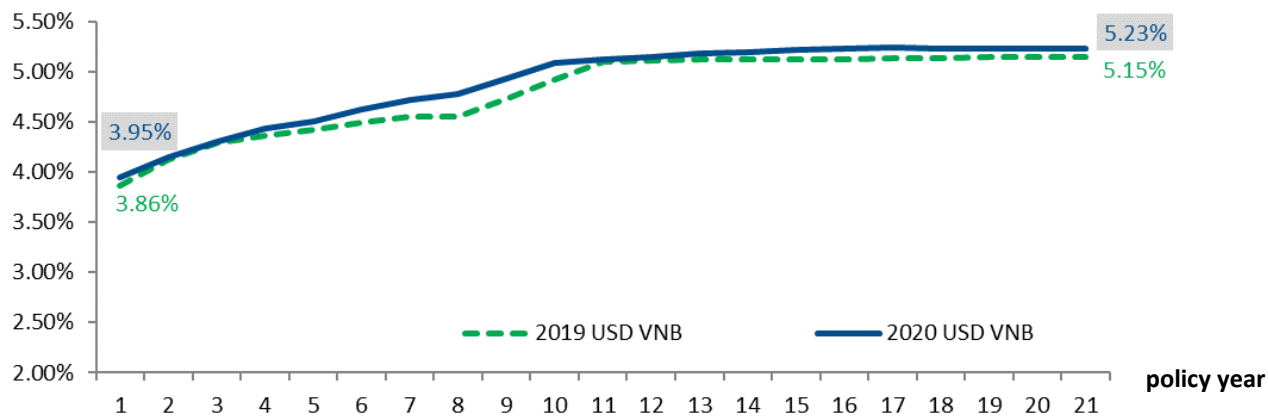


Economic Assumptions: Future one year's new business investment yield

- Investment return assumptions for the value of future one year's new business of NTD-denominated policies as of the end of 2019 & 2020.



- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2019 & 2020.



Cost of Capital Projection and Non-economic Assumptions

■ RBC capital requirement:

Apply 2020 RBC formula announced by Insurance Bureau to project future capital requirement.

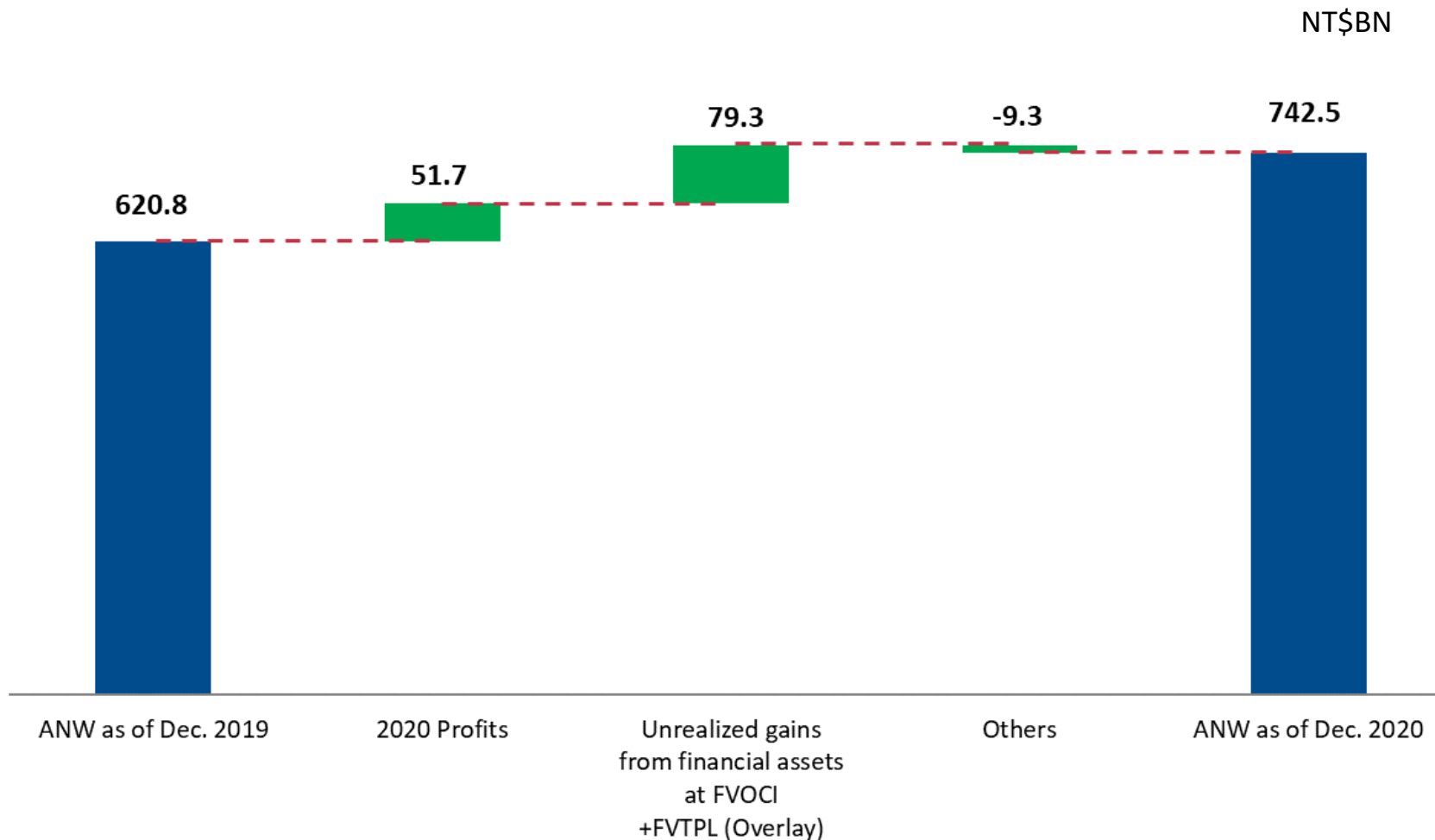
1. Capital Requirement = 200% RBC.
2. Risk-based capital calculation reflects company's current and future operation status.

■ Experience rate:

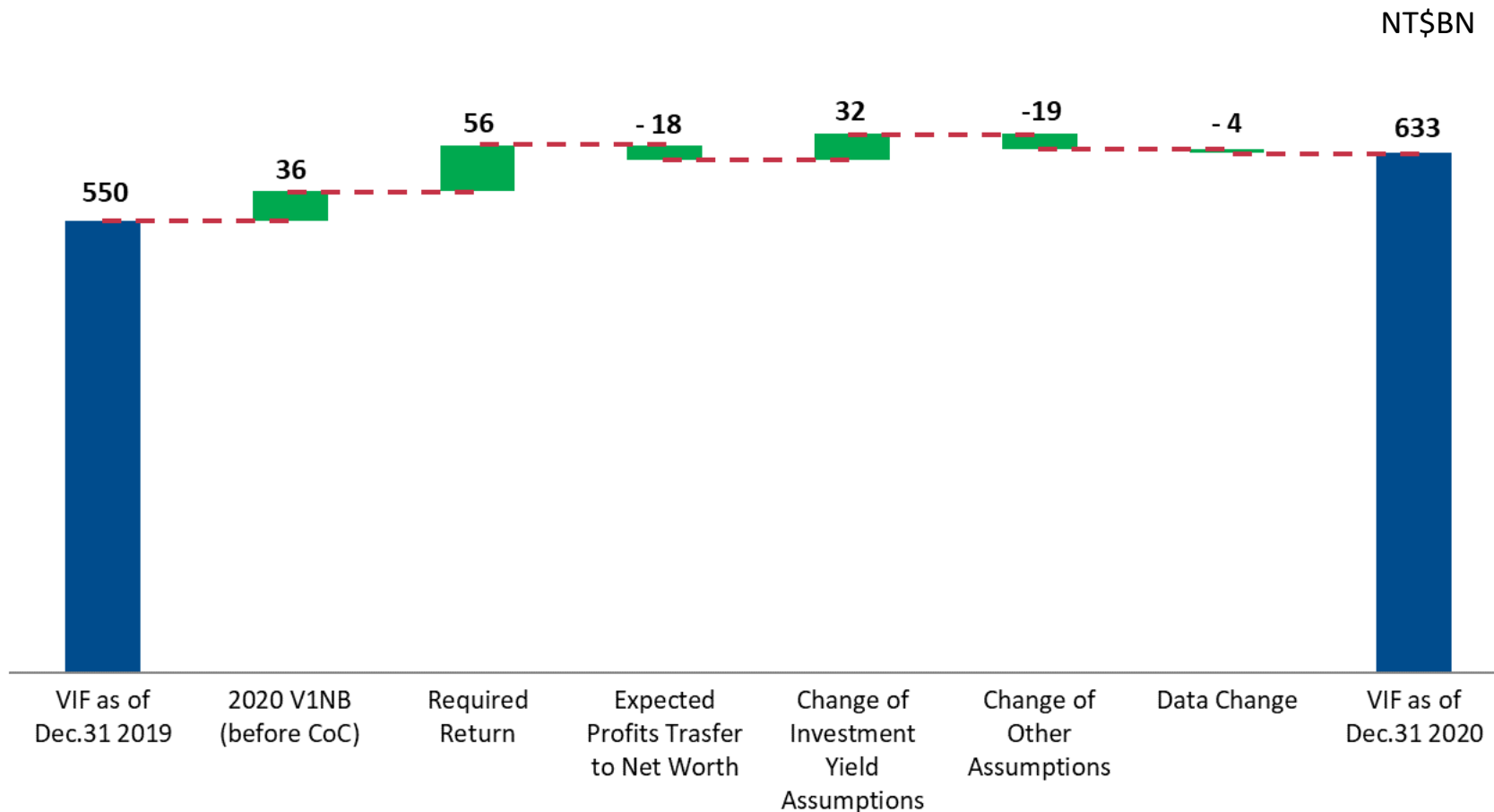
Experience Rate	Assumptions
Mortality Rate	In accordance with Cathay's most updated mortality trends.
Morbidity Rate	In accordance with Cathay's most updated morbidity trends and varied by product type.
Lapse Rate	In accordance with Cathay's most updated lapse rate trends and varied by product type.
Expenses assumption	In accordance with Cathay's most updated expense analysis and varied by product type; commissions are based on the actual commission rates.

- ## ■ PricewaterhouseCoopers Asia Actuarial Services provides an independent review of the actuarial assumptions on EV.

Analysis of change in Adjusted Net Worth (ANW)



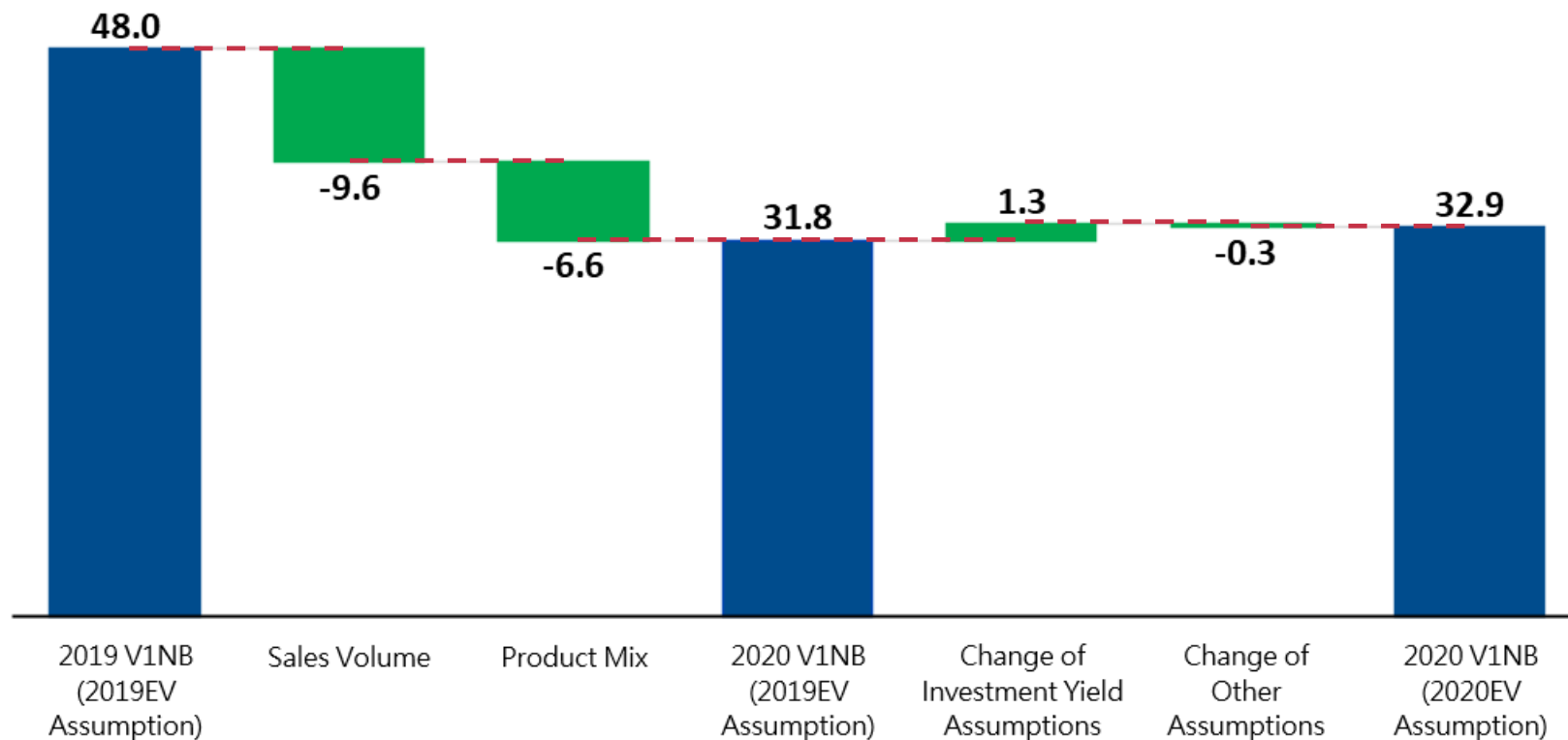
Analysis of change in value of in-force business (VIF)



- The value of one year new business (after CoC) of 2020 is 31.8 billion.
- Change of other assumptions mainly includes changes in foreign exchange rates (-13 billion).

Analysis of change in value of one year's new business (V1NB)

NT\$BN



Sensitivity Analysis

NT\$BN, except for per share figures

Valuation date	2020/12/31					
	Investment yield – 0.25%	Investment yield + 0.25%	Investment yield + 0.25% (capped) ⁽¹⁾	Base Case (Discount rate 9.5%)	Discount rate – 0.5%	Discount rate + 0.5%
Adjusted net worth	743	743	743	743	743	743
Value of in-force business	488	778	716	633	676	595
Cost of capital (CoC)	-243	-221	-226	-232	-223	-240
Value of in-force business (After CoC)	245	557	490	401	453	355
Embedded Value	988	1,299	1,232	1,144	1,196	1,097
EV / per share	168.8 (75.0)	222.0 (98.7)	210.6 (93.6)	195.5 (86.8)	204.4 (90.8)	187.5 (83.3)
Appraisal Value	1,264	1,625	1,549	1,446	1,526	1,374
Value of future one year's new business (After CoC)	30.8	38.2	36.5	34.5	37.3	32.0
AV / per share	216.0 (96.0)	277.8 (123.4)	264.7 (117.6)	247.2 (109.8)	260.7 (115.9)	234.9 (104.4)

Note: (1) "Investment yield +0.25% (capped)": the investment return is capped by 4.70% for NTD policies and 5.31% for USD policies.

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

YoY Comparison

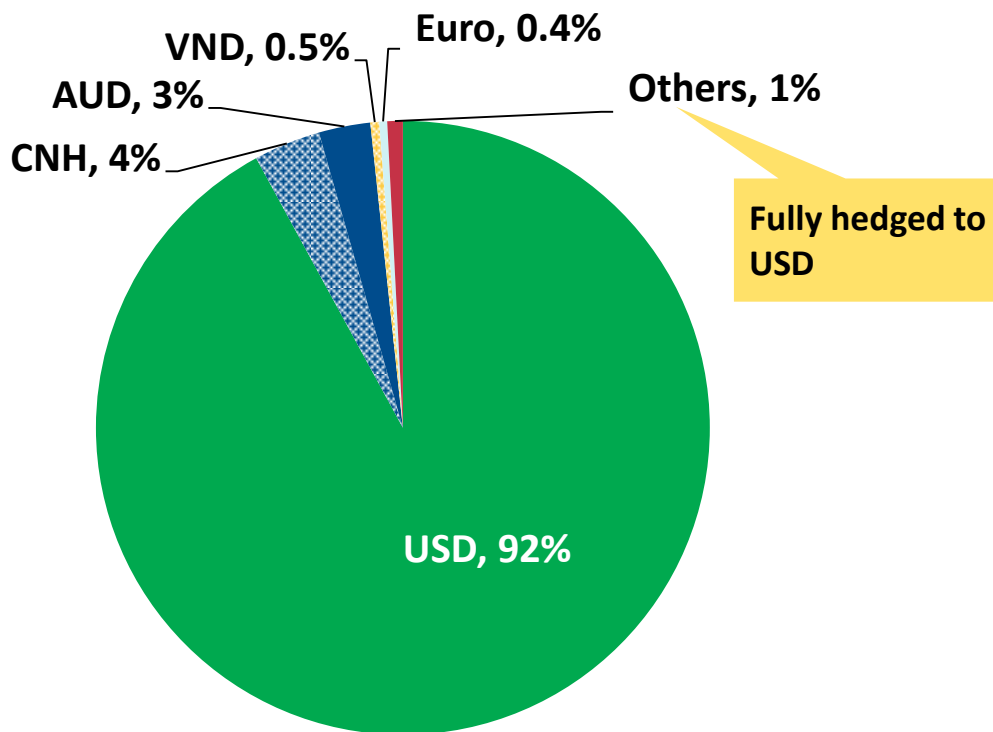
Under different discount rate assumptions, the results of the Year 2019 & 2020 go as follows.

NT\$BN

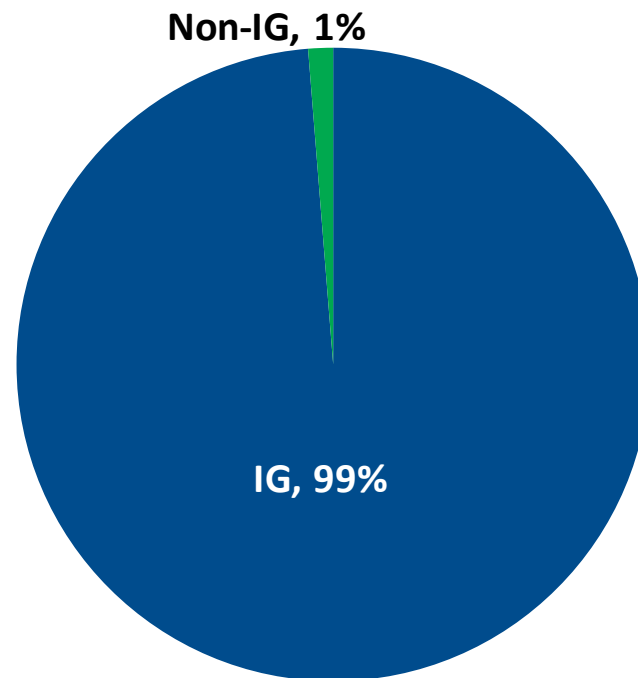
Valuation date	2019/12/31	2020/12/31
Embedded Value	892~984	1,097~1,196
Value of future one year's new business	32.2~38.1	32.0~37.3
Appraisal Value	1,172~1,318	1,374~1,526

Cathay Life – Overseas bond breakdown by currency and rating

Overseas bond by currency (1Q21)

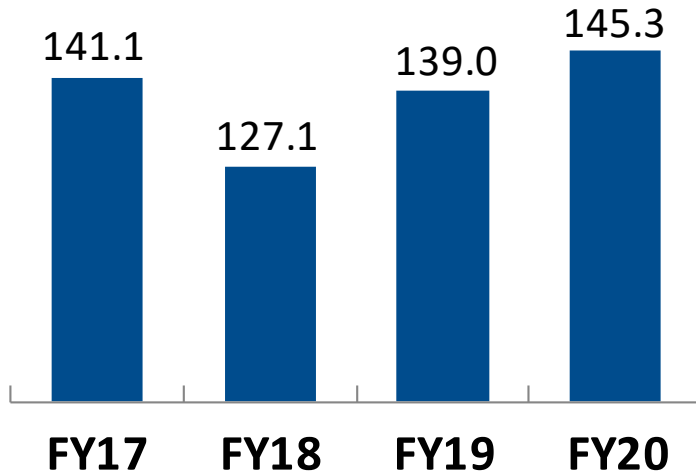


Overseas bond by rating (1Q21)

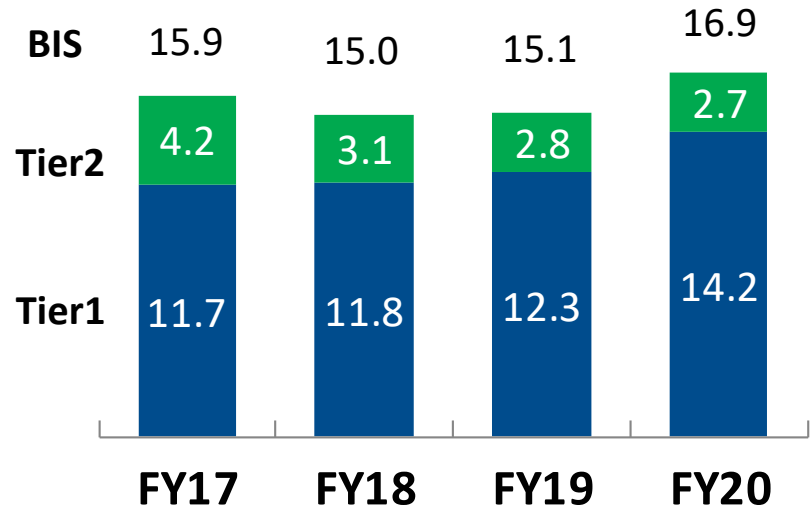


Capital adequacy

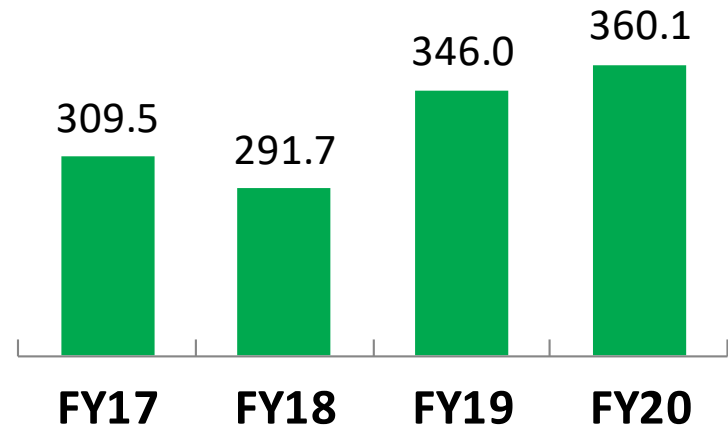
Cathay FHC CAR (%)



CUB Capital Adequacy (%)



Cathay Life RBC (%)



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Well-recognized corporate sustainability performance

Recognized by local regulatory authorities

**Top 20 %
Corporate Governance**

Over 1,000 listed companies

TWSE Corporate Governance Evaluation



**FTSE4Good
TIP Taiwan ESG Index**

Included in
FTSE4Good TIP Taiwan ESG Index
since 2017

Note: The FTSE4Good TIP Taiwan ESG Index is designed by FTSE Russell and Taiwan Index Plus Corp (TIP), wholly-owned subsidiary of Taiwan Stock Exchange.

Recognized by ESG ratings agencies

Member of
**Dow Jones
Sustainability Indices**

Powered by the S&P Global CSA

Included in
DJSI World & DJSI EM



FTSE4Good

Recognized by Media



Top 10 World Corporate Citizen for **8** consecutive years, **Top 4** in 2020



Global Views

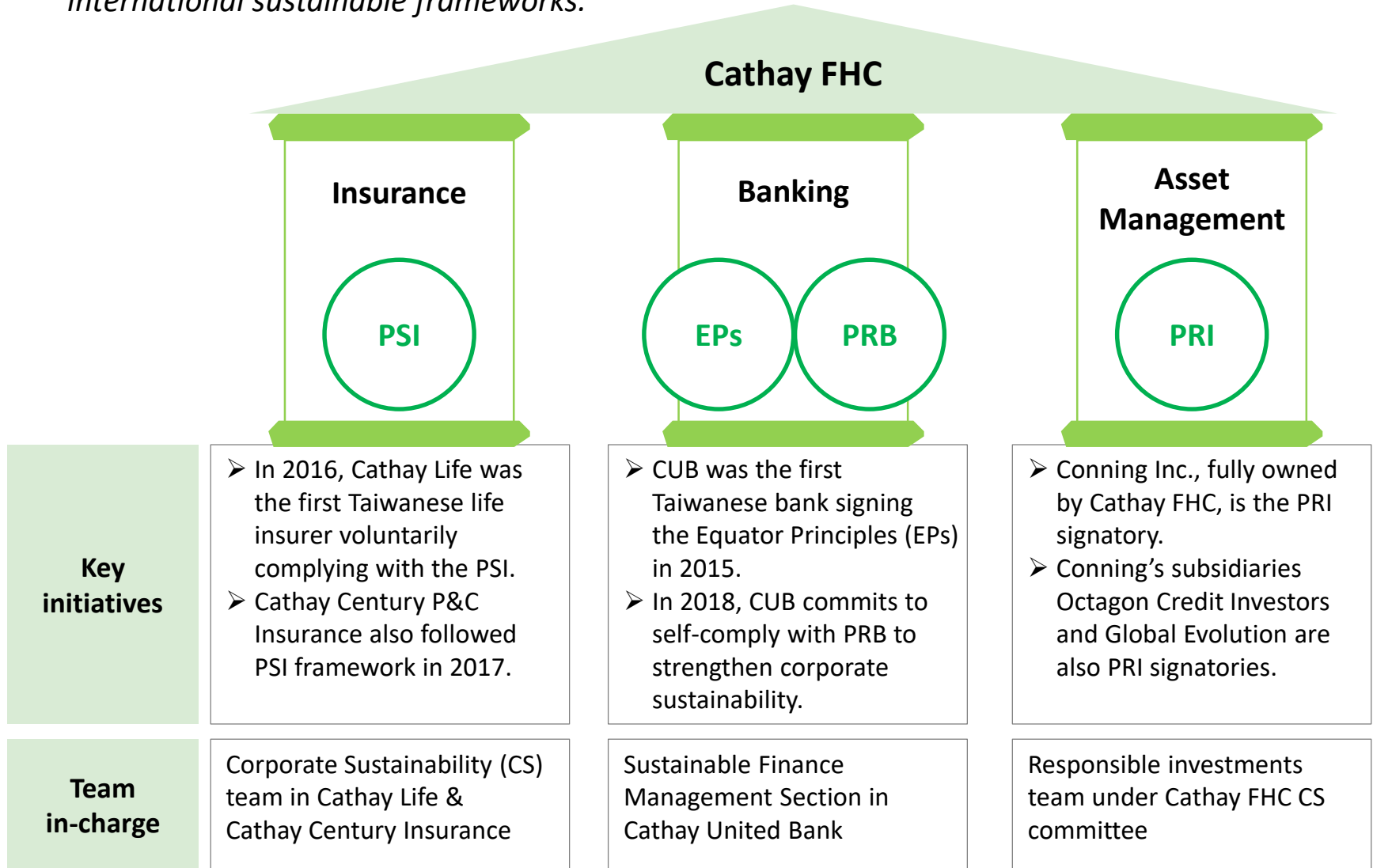
First Prize in Annual Survey
for **3** consecutive year
(Finance & Insurance)



2020 Taiwan
Corporate Sustainability Awards

Integrating sustainability into our business

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



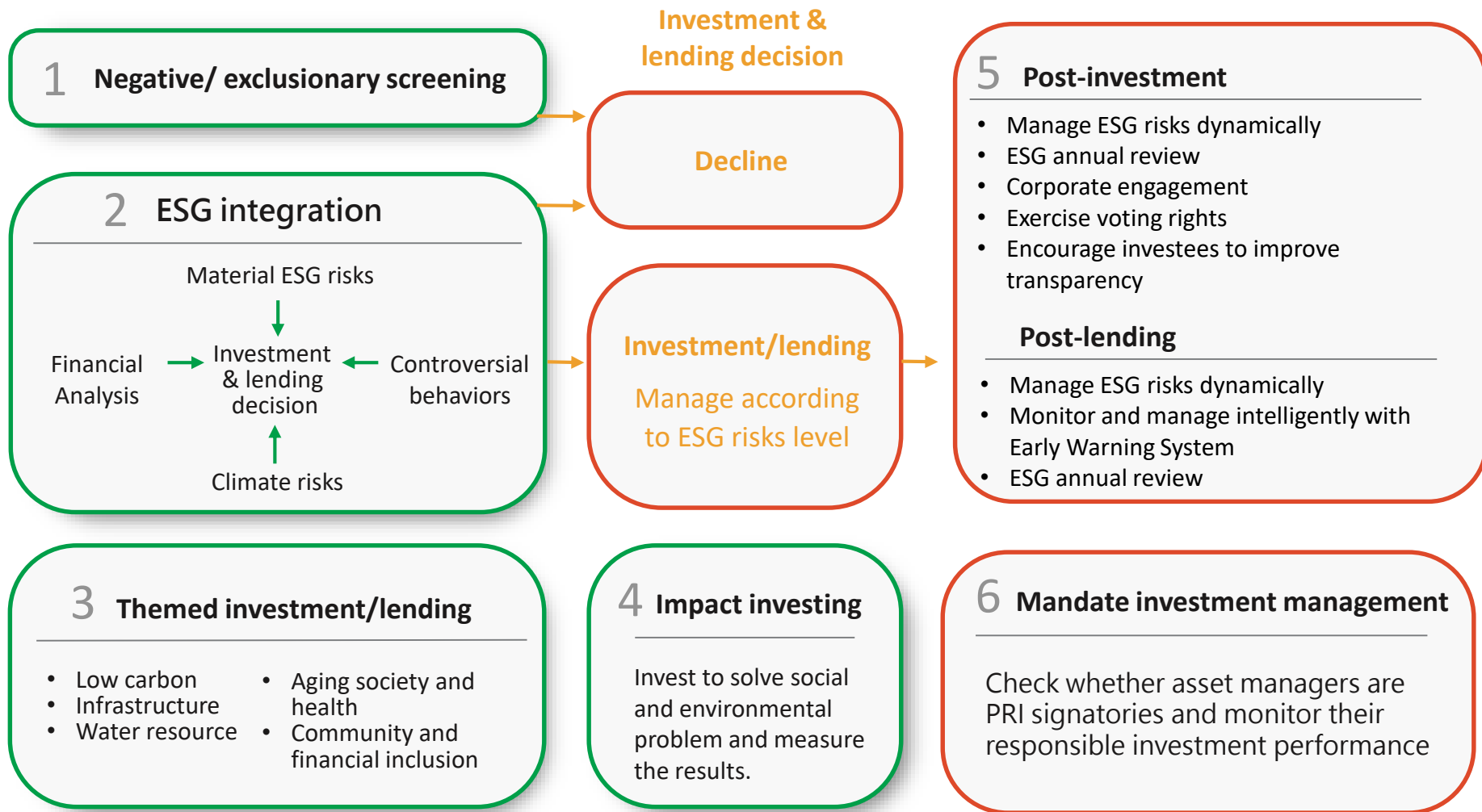
Integrating ESG issues into all business processes

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

Integrating ESG into responsible investment and lending

Investment/ Lending Process

Engagements after Investment/ Lending

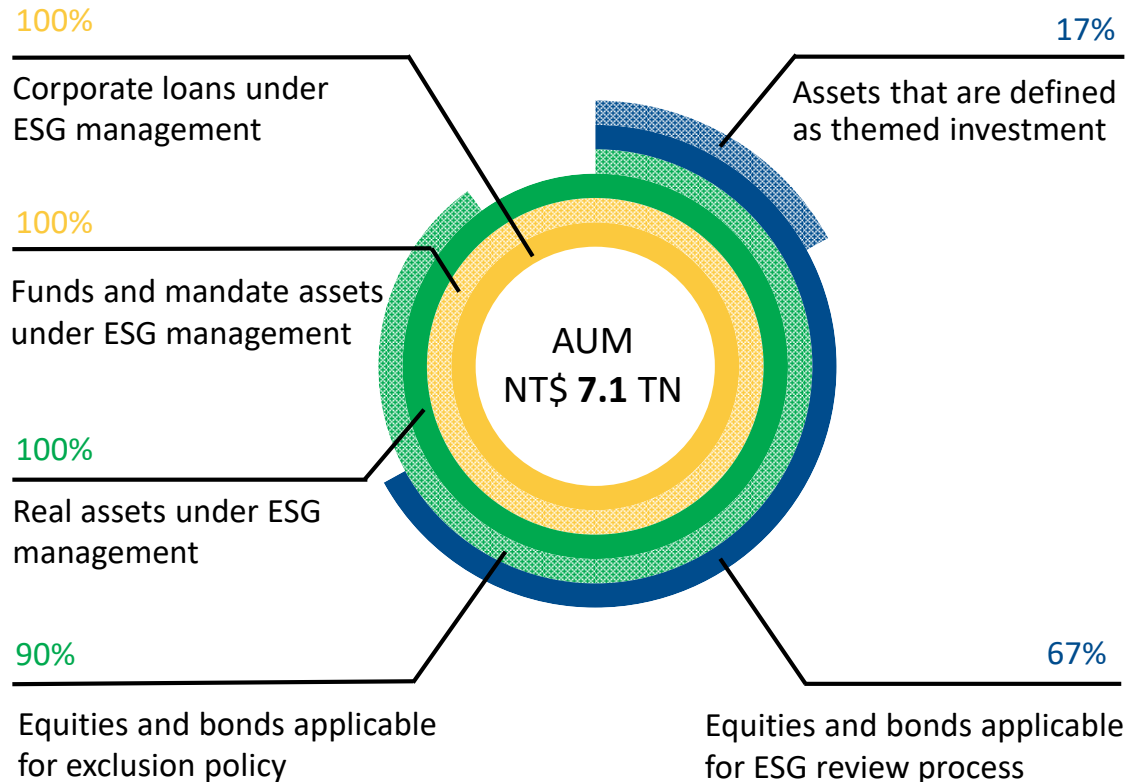


Implementing responsible investment across multiple asset classes

Responsible investment/lending policies

- Responsible Investment and Lending Policy
- Investment and Lending Exclusion Policy
- Stewardship Policy
- Engagement Policy
- Voting Policy
- Rules Governing Project Finance and Equator Principles
- Responsible Property Investment and Management Policy
- Risk Management Policy

NT\$7.1 TN assets under responsible investment and lending



Actively participating in Global ESG initiatives

Asia Investor Group on Climate Change (AIGCC)

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

Sophia Cheng, CIO of Cathay FHC, was appointed as the chair of AIGCC in November 2018.



Low Carbon Investment Registry

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 2020 reached US\$ 7.12 billion.



Climate Governance Initiatives

Participated in “Global Investor Statement to Governments on Climate Change” since 2014, urging governments of the G7 and G20 nations to fulfill their commitments to Paris Agreement.

Signed “The Investor Agenda” in 2018 to support low carbon investment, corporate engagement, TCFD climate disclosures and policy advocacy.

Supported TCFD initiative since 2018, actively managing climate-related risks.



Engaging with investee companies of ESG improvement

Engagement policies and strategies

Cathay defined “**climate change**” and “**ESG**” as the main engagement strategy.

Aimed to strengthen Taiwan corporates’ awareness and capability in response to climate risks and opportunities.

Urged Taiwan corporates to enhance ESG disclosures in line with global standards.

ESG
Improvement

Investee engagement

More than 500 signatories with AUM over USD 47 trillion have joined Climate Action 100+ to engage 167 systemically important emitters and encourage them to curb emissions, improve governance and strengthen climate-related financial disclosures. **Cathay Life and Cathay SITE are only two signatories in Taiwan.**

Cathay has been engaging with Taiwanese companies.



CDP non-disclosure campaign

The only financial institution in Taiwan has **participated in the CDP non-discloser engagement campaign for 4 consecutive years, encouraging Cathay’s investee companies to respond to CDP questionnaires.**

Cathay has successfully engaged 25 companies since 2017 and 65% of the companies improved their CDP scores in the following year.



Bring positive environmental impact by solar & wind power loan

Wind Power



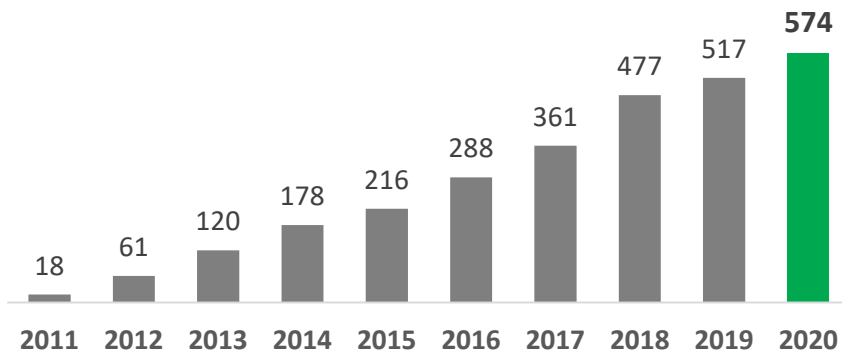
Solar Power



Green Insurance



Solar power station financing loans total installed capacity in Taiwan and overseas (MW)



Environment Impact



Total installed capacity of solar power and wind turbines financing as of the end of 2020

1,342MW



Expected CO2 emissions reduction per years

1.6 million Metric tons



Carbon emissions reduced by solar power devices and offshore wind turbines in 2019 equal to carbon absorption of Da'an Forest Park

4,366 Da'an Forest Parks



Cumulative insured amount for hydroelectric power plants, solar power plants, and offshore wind farms constructions and equipment

117.2 billion



Green vehicles insured as of 2020

14,135 Green vehicles



Public bicycles riders insured as of 2020

47.6 million Bicycle riders

Commitment to TCFD implementation

2015/12 Financial Stability Board (FSB) established TCFD

2017

TCFD released final Recommendations report

2018

Supported by global companies and investors

2018/06 **Signed on TCFD initiative** and committed to disclose climate-related information align with TCFD recommendations. Benchmark global best practices on TCFD implementation.

2018/07 **Published CSR report following TCFD recommendations**

2018/12 **Cathay established TCFD task force led by the CRO to manage the impact of climate-related risks on important assets and products.**

2019

2019/07 Cathay was **the first Taiwan financial institution to disclose the carbon footprints of its investment portfolio.**

2019/08 Cathay TCFD task force planned to put emphasis on comprehensive quantitative analysis and scenario analysis of climate risks, and to incorporate the results of these analysis to improve management processes.

2020

2020/05 Cathay established the three focus areas of "**Climate**, Health, and Empowerment" for the development of the sustainability strategy.

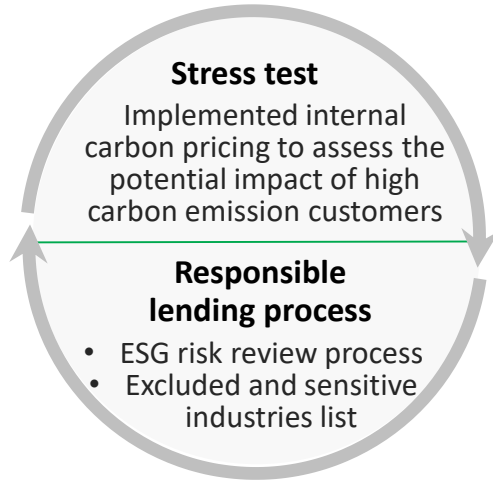
2020/11 Incorporated ESG (including climate change) risks into the Risk Management Policy

How companies can engage in TCFD initiative:

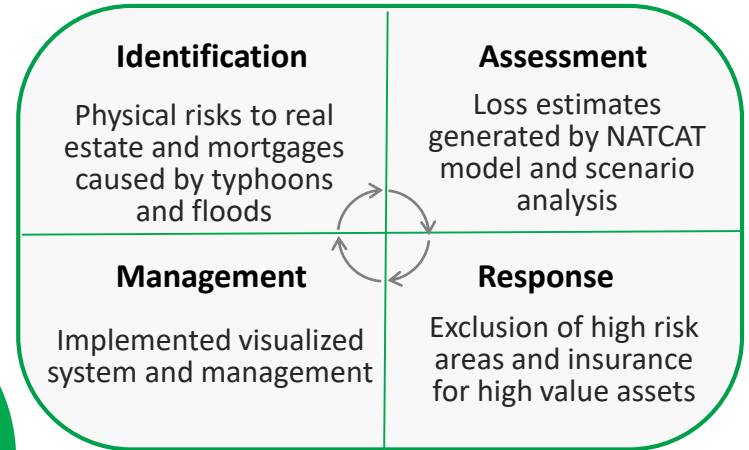
1. Agree with the wording of the commitment
2. Sign the commitment
3. Report climate-related financial information following the TCFD recommendations as fully as practicable within 3 years
4. Use the CDSB Framework or other applicable reporting frameworks for disclosure

Integrating climate risks/opportunities into businesses

Corporate lending

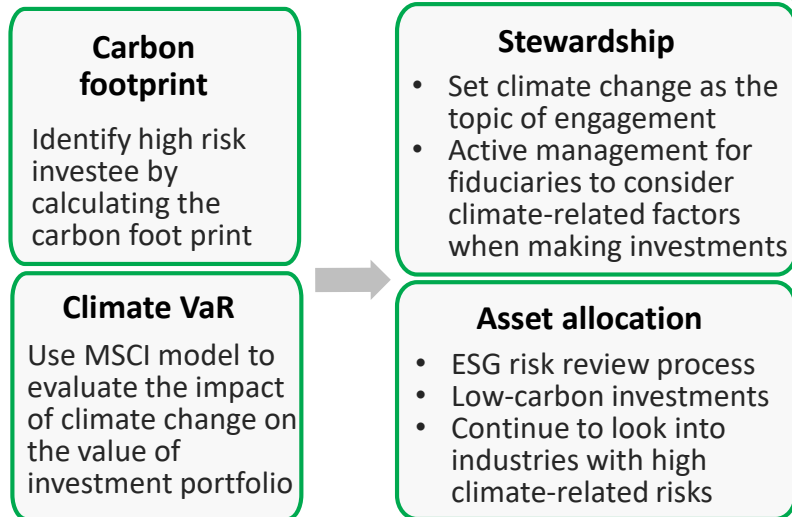


Self-owned real estate & mortgages

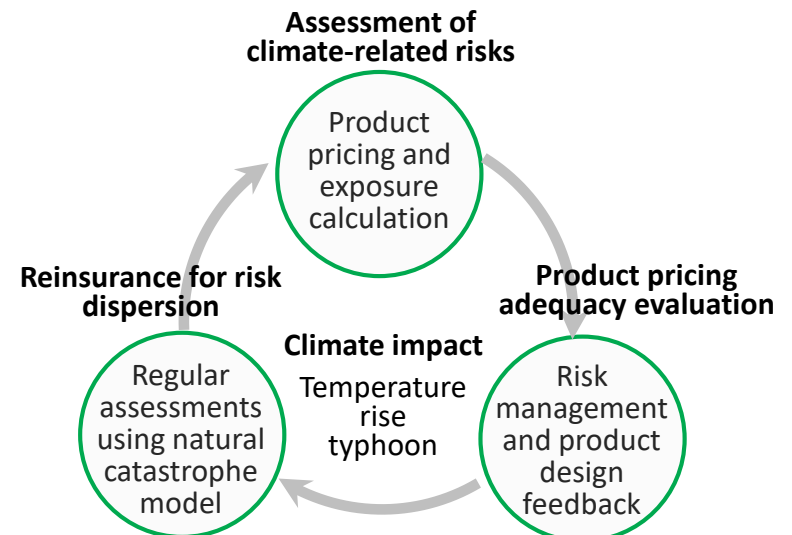


TCFD
Risk assessment & management

Responsible securities



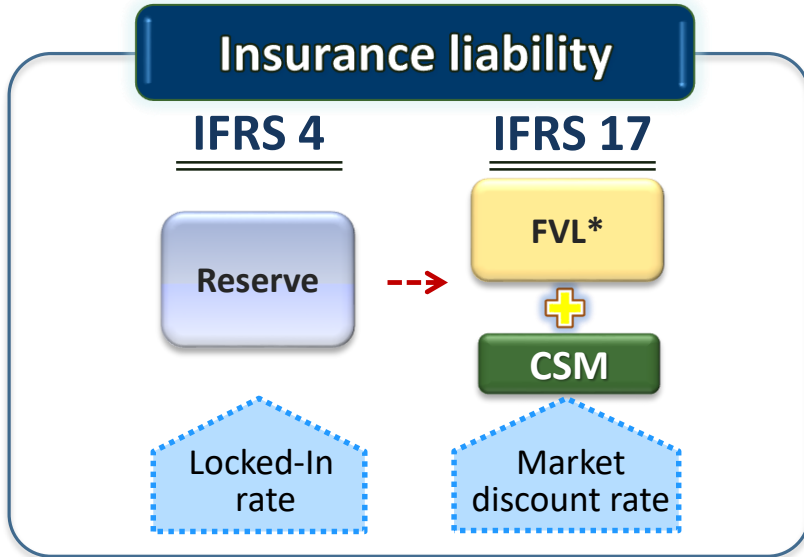
Life & property insurance Products



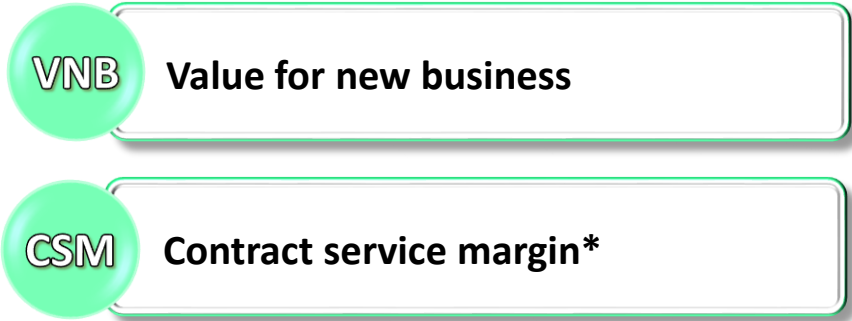
Agenda

- **Introduction of Cathay FHC**
- **1Q21 Business Overview**
- **Overseas Expansion**
- **Business Performance Summary**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Cathay Life Embedded Value & Appraisal Value**
- **Cathay's CSR Efforts**
- **Appendix**

IFRS 17 – Measurement



Profit indicators of new products



- 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.

VNB vs CSM

VNB

CSM

Investment Return

Company investment return

Discount Rate

10%

VS.

Market discount rate
= Risk Free Rate + Liquidity Premium

Embedded Option Cost (Crediting Rate)

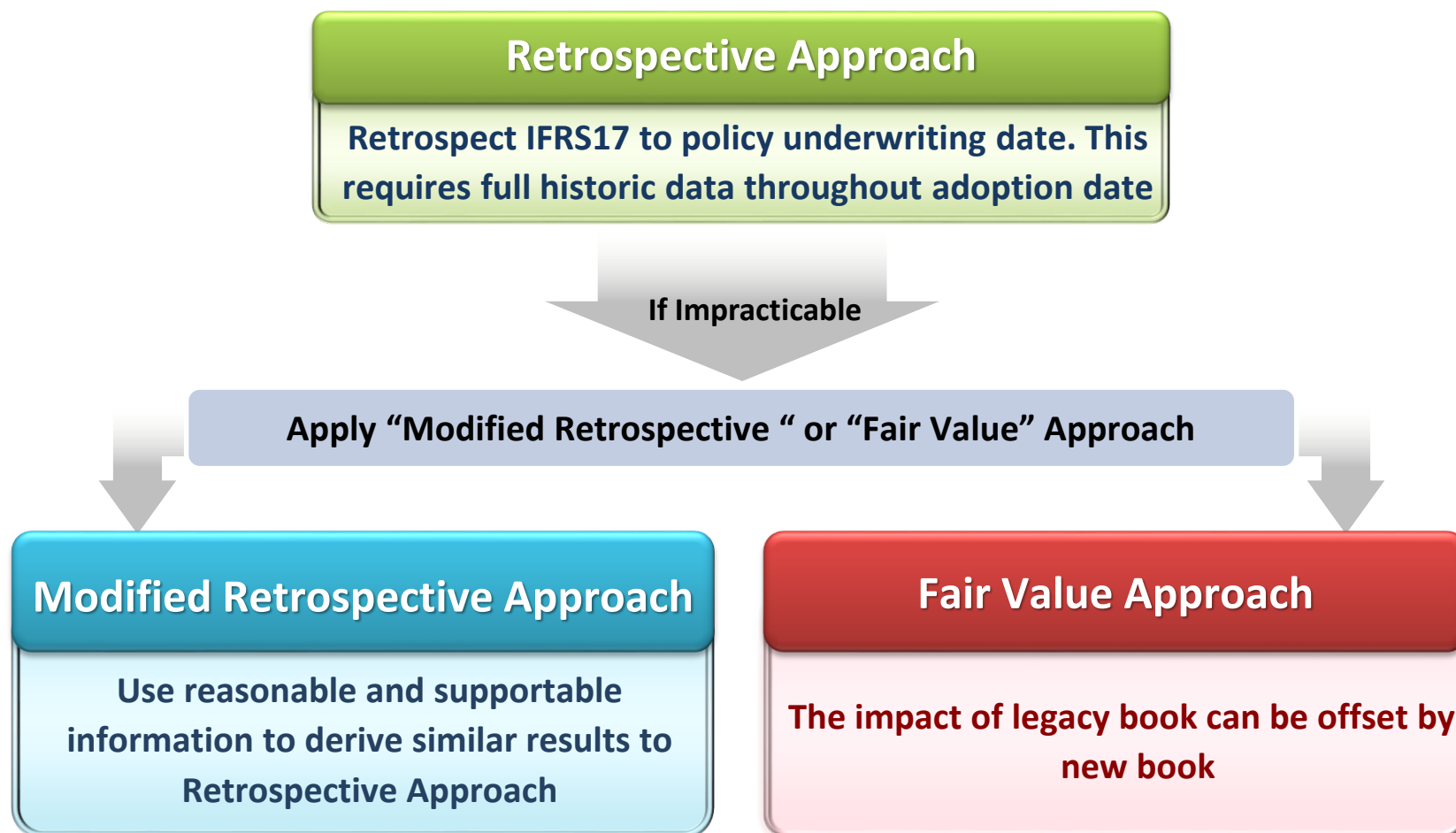
Deterministic Valuation

VS.

Stochastic Valuation

Comparable among companies

IFRS 17 – Adoption date



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

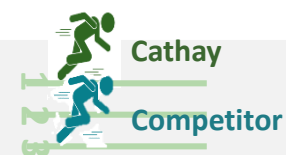
Accounting impact from IFRS 17

- ❑ 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 Financial Holdings
(NT\$MN)

Income Statement Data (Consolidated)	FY18	FY19	FY20	FY20/	1Q20	1Q21	1Q21/
				FY19			% Chg
Operating Income							
Net interest income	180,628	196,367	190,930	-3%	48,280	48,052	0%
Net commission and fee	7,312	2,346	7,244	209%	2,308	2,732	18%
Net earned premium	576,811	631,487	602,806	-5%	149,672	132,619	-11%
Change in liability reserve	(334,122)	(394,074)	(462,094)	17%	(116,255)	(103,848)	-11%
Net claims payment	(368,656)	(365,669)	(289,808)	-21%	(70,541)	(67,388)	-4%
Investment income	82,634	89,797	124,347	38%	25,974	71,438	175%
Contribution from associates-equity method	1,004	1,149	(12,085)	-1152%	(389)	567	246%
Other net non-interest income	(6,421)	411	6,480	1475%	6,786	1,588	-77%
Bad debt expense	(4,599)	(2,205)	(3,178)	44%	(334)	(1,322)	296%
Operating expense	(78,992)	(89,050)	(83,027)	-7%	(19,194)	(20,574)	7%
Income before taxes	55,599	70,557	81,616	16%	26,310	63,864	143%
Income taxes	(3,777)	(6,698)	(5,658)	-16%	(2,796)	(6,297)	125%
Net income	51,822	63,859	75,958	19%	23,513	57,567	145%
EPS (NT\$)	3.95	4.76	5.41		1.77	4.36	
Dividend Payout							
Cash dividend per share	1.50	2.00	2.50				
Stock dividend per share	0.00	0.00	0.00				
Weighted average outstanding shares (Millions of common shares)	12,563	12,618	13,169				
Balance Sheet Data (Consolidated)							
Total assets	9,224,484	10,065,479	10,950,472		10,038,125	11,080,842	
Total shareholders' equity	529,289	782,027	904,776		669,552	864,825	
Operating Metrics							
ROAE (Consolidated)	8.83%	9.74%	9.01%		12.96%	26.02%	
ROAA (Consolidated)	0.57%	0.66%	0.72%		0.94%	2.09%	
Double leverage ratio(inc. preferred stock)	112%	110%	111%		111%	111%	
Capital Adequacy Metrics							
Capital Adequacy Ratio	127%	139%	145%				

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Cathay Life

(NT\$MN)

Income Statement Data (Consolidated)

	FY18	FY19	FY20	FY20/ FY19 % Chg	1Q20	1Q21	1Q21/ 1Q20 % Chg
Net written premium	559,386	608,641	580,261	-5%	144,344	127,243	-12%
Net earned premium	558,929	607,820	579,563	-5%	144,868	127,786	-12%
Reinsurance commission earned	762	356	533	50%	9	5	-43%
Fee income	9,148	8,450	8,701	3%	2,229	2,494	12%
Recurring investment income	197,281	228,037	212,247	-7%	51,104	49,199	-4%
Gain on disposal of investment							
Realized gain (loss)-Equity	49,374	38,929	74,997	93%	16,040	47,132	194%
Realized gain (loss)-Debt	15,092	36,365	64,964	79%	21,124	28,452	35%
Gain on investment property	(740)	912	1,881	106%	19	(12)	-161%
FX and others, net	(44,019)	(61,689)	(90,182)	-46%	(20,181)	(15,287)	24%
Investment income, net	216,988	242,553	263,907	9%	68,107	109,485	61%
Other operating income	5,508	6,107	6,978	14%	1,603	1,950	22%
Separate account revenues	28,084	63,653	73,396	15%	(24,484)	39,233	260%
Net claims payment	(357,244)	(349,158)	(273,049)	-22%	(67,386)	(64,204)	-5%
Changes in liability reserves	(333,716)	(393,679)	(462,233)	17%	(116,371)	(103,606)	-11%
Acquisition and commission expense	(33,900)	(43,834)	(35,815)	-18%	(7,326)	(8,761)	20%
Other operating costs	(7,765)	(6,394)	(6,635)	4%	(1,679)	(1,878)	12%
Financial cost	(2,331)	(2,730)	(2,501)	-8%	(664)	(736)	11%
Separate account expense	(28,084)	(63,653)	(73,396)	15%	24,484	(39,233)	260%
Operating expense	(29,165)	(30,692)	(29,565)	-4%	(7,289)	(7,905)	8%
Net non-operating income	1,312	1,710	1,589	-7%	404	412	2%
Income taxes	1,773	(2,216)	1,209	-155%	(1,287)	(5,175)	302%
Net income	30,297	38,293	52,682	38%	15,217	49,867	228%

Balance Sheet Data

Total assets	6,391,395	7,085,624	7,675,559		6,974,781	7,770,034
General account	5,844,430	6,478,081	7,033,875		6,461,667	7,098,919
Separate account	546,964	607,542	641,685		513,114	671,115
Reserves for life insurance liabilities	5,313,167	5,683,424	6,085,534		5,789,888	6,187,240
Total liabilities	6,029,265	6,491,106	6,954,433		6,495,638	7,096,306
Total shareholders' equity	362,129	594,518	721,126		479,143	673,727

Operating Metrics (Standalone)

First Year Premium(FYP)	211,588	201,064	160,771		42,323	59,449
First Year Premium Equivalent(FYPE)	71,372	96,313	62,182		18,211	14,067
Expense ratio	9.6%	10.6%	9.5%		8.5%	11.0%
13-M persistency ratio	98.4%	98.0%	98.1%		98.1%	98.1%
25-M persistency ratio	94.7%	96.4%	95.5%		95.8%	95.9%
ROAE	7.25%	8.01%	8.01%		11.34%	28.60%
ROAA	0.48%	0.57%	0.71%		0.87%	2.58%

Capital Adequacy Metrics (Standalone)

RBC ratio	292%	346%	360%
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Cathay United Bank

(NT\$MN)				FY20/ FY19			1Q21/ 1Q20
<u>Income Statement Data (Consolidated)</u>	FY18	FY19	FY20	% Chg	1Q20	1Q21	% Chg
Operating Income							
Net interest income	33,397	36,446	35,223	-3%	9,116	9,212	1%
Fee income	16,678	17,090	16,331	-4%	4,442	4,617	4%
Investment income	9,862	8,996	9,482	5%	3,871	2,364	-39%
Other income	918	594	855	44%	280	111	-60%
Net operating income	60,855	63,126	61,891	-2%	17,710	16,305	-8%
Operating expenses	(31,340)	(33,806)	(32,686)	-3%	(8,205)	(7,756)	-5%
Pre-provision profit	29,515	29,320	29,205	0%	9,504	8,548	-10%
Net provisions for possible losses	(5,032)	(2,853)	(3,382)	19%	(589)	(1,245)	111%
Income before taxes	24,483	26,467	25,823	-2%	8,915	7,304	-18%
Income tax	(3,230)	(3,981)	(3,512)	-12%	(1,315)	(900)	-32%
Net income	21,253	22,486	22,311	-1%	7,600	6,404	-16%
Balance Sheet Data							
Total assets	2,843,881	2,973,496	3,229,460		3,070,575	3,273,976	
Loans, net	1,595,323	1,553,151	1,661,296		1,541,243	1,743,601	
Financial assets	878,001	897,677	1,028,595		1,007,703	1,057,436	
Total liability	2,638,074	2,741,601	2,982,805		2,835,055	3,021,528	
Deposits	2,227,662	2,335,331	2,648,995		2,402,191	2,696,407	
Financial Debenture Payable	55,600	53,900	53,800		53,900	52,300	
Total shareholders' equity	205,807	231,895	246,656		235,520	252,447	
Operating Metrics							
Cost income ratio	51.50%	53.55%	52.81%		46.33%	47.57%	
ROAE	10.86%	10.27%	9.32%		13.01%	10.26%	
ROAA	0.76%	0.77%	0.72%		1.01%	0.79%	
Assets Quality (Standalone)							
NPL	2,563	2,286	2,274		2,215	3,233	
NPL ratio	0.16%	0.15%	0.14%		0.15%	0.19%	
NPL provisions	23,879	25,983	26,846		26,355	27,583	
Coverage ratio	932%	1137%	1180%		1190%	853%	
Capital Adequacy Metrics (Standalone)							
BIS ratio	15.0%	15.1%	16.9%				
Tier I Ratio	11.8%	12.3%	14.2%				
LDR (Standalone)							
LDR	70.7%	65.5%	62.5%		63.2%	64.4%	
TWD LDR	77.7%	70.1%	69.7%		68.3%	71.7%	
FX LDR	46.6%	48.8%	38.7%		45.9%	39.6%	

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Cathay Century

(NT\$MM)					FY20/ FY19	1Q21/ 1Q20	
	FY18	FY19	FY20	% Chg	1Q20	1Q21	% Chg
<u>Income Statement Data (Consolidated)</u>							
Premium income	23,186	25,343	25,498	1%	5,847	6,057	4%
Net written premium	17,797	19,550	19,413	-1%	4,548	4,609	1%
Net earned premium	17,349	19,077	18,848	-1%	4,739	4,550	-4%
Reinsurance commission earned	556	572	572	0%	144	142	-1%
Fee income	43	42	45	6%	13	12	-8%
Investment	640	1,020	1,254	23%	150	480	219%
Interest income	559	555	546	-2%	141	136	-4%
Other investment income, net	81	465	708	52%	9	345	3537%
Other operating income	0	0	0	0%	0	0	0%
Net claims payment	(9,408)	(10,321)	(10,669)	3%	(2,623)	(2,474)	-6%
Changes in liability reserves	(406)	(395)	139	-135%	117	(242)	307%
Commissions and other operating costs	(3,043)	(3,409)	(3,411)	0%	(806)	(836)	4%
Operating expenses	(3,848)	(4,097)	(4,224)	3%	(1,021)	(1,068)	5%
Operating income	1,883	2,490	2,553	3%	713	564	-21%
Net non-operating income	(24)	5	5	1%	0	(1)	-399%
Income taxes	(349)	(389)	(385)	-1%	(136)	(71)	-48%
Net income	1,510	2,106	2,174	3%	577	491	-15%
<u>Balance Sheet Data</u>							
Total assets	37,956	43,008	44,298		40,955	45,849	
Total stockholders' equity	10,025	12,656	13,130		11,830	13,808	
<u>Operating Metrics</u>							
Gross Combined ratio	81.8%	84.8%	83.2%		87.4%	102.4%	
Net Combined ratio	92.2%	93.0%	92.9%		89.7%	97.6%	
ROAE	14.69%	18.57%	16.86%		18.86%	14.59%	
ROAA	3.96%	5.19%	4.98%		5.50%	4.36%	
<u>Capital Adequacy Metrics</u>							
RBC ratio (Standalone)	370%	339%	323%				

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