

2013 Fourth Quarter Briefing

2014. April



國泰金控

Cathay
Financial Holdings

Agenda

- **2013 Business overview and 2014 Outlook**
- **2013 Business overview**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**
- **Appendix**
 - 1)Capital Adequacy
 - 2)Recovery plan for special reserve of unrealized gains on property
 - 3)Reappraisal gains on property
 - 4)Fair value method on investment property
 - 5)Embedded value & appraisal value

2013 Business overview

Cathay United Bank

- Delivered mild loans growth with benign asset quality
 - Fee income grew by 25% YoY
 - Offshore earnings kept growing and its contribution to pre-tax profits increased to 42%
-

Cathay Life

- FYP of Regular-paid products grew 24% YoY; ranked No.1 by FYPE
 - Overseas investment 45.4%; hedging cost 0.26%; investment performance improved
 - Solid capital adequacy with RBC ratio above 250%
-

Cathay Century

- Market share increased to 13%, premium income grew by 9% YoY; maintained No.2 market position
 - Expanded business development in China and Vietnam, premium income up by 96% and 75% YoY, respectively
-

Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$424BN
 - Continued to launch new products and broaden the business of individual & institutional clients
-

Cathay Securities

- Each business line performed steadily; market share and net income continued to improve
- The number of underwriting cases reached historically high

2014 Outlook

Cathay United Bank

- Maintain steady loan growth momentum; increase LDR and NIM
 - Increase fee income contribution
 - Continue to grow offshore earnings and business coverage
-

Cathay Life

- Focus on regular-paid products, foreign currency denominated policies and investment linked policies to improve value for new business
 - Continue to increase overseas investment and maintain stable hedging cost
 - Recover NT\$10BN special reserve of property unrealized gains
-

Cathay Century

- Enhance cross-selling synergy, channel capacity and service quality to improve profit and operation efficiency
 - Continue to expand the network in China & Vietnam
-

Cathay SITE

- Diversify the product offering to increase AUM and broaden the business of individual & institutional clients
-

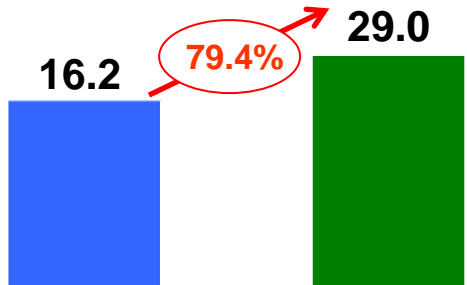
Cathay Securities

- Leverage group resources and diversify its product offering to expand the business and increase profit

Cathay FHC — Net income & EPS

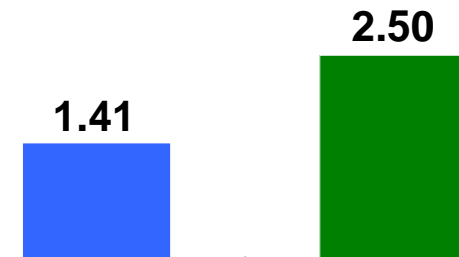
Net income

FY12 FY13 (NT\$BN)



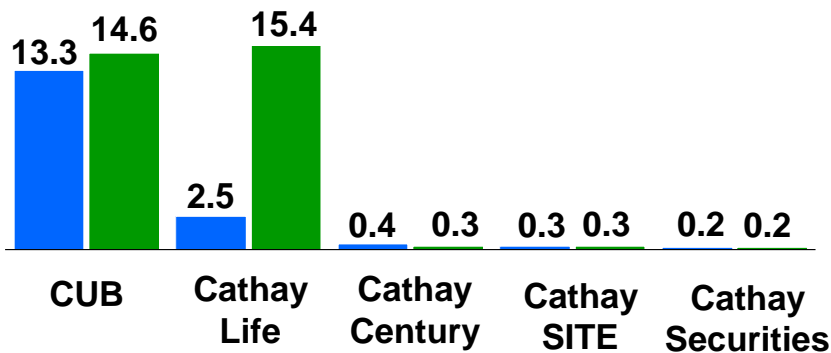
EPS

FY12 FY13 (NT\$)

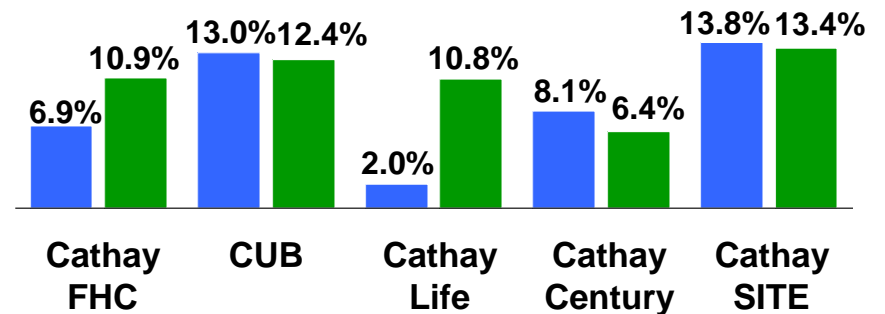


Net income of subsidiaries

(NT\$BN)



ROE



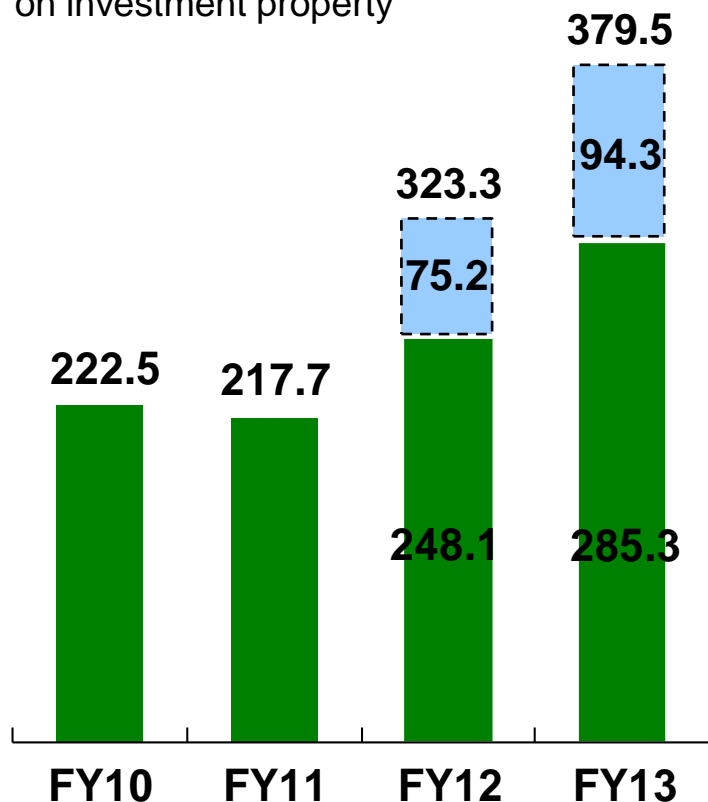
Note : (1) Figures were under IFRS principle; net income calculation included minority interest; EPS excluded minority interest.

(2) Cathay FHC FY13 EPS included the impact of - NT\$ 0.44 from provision for FX fluctuation reserve and + NT\$ 0.87 from recovery of special reserve on property unrealized gains.

Cathay FHC — Book value & BVPS

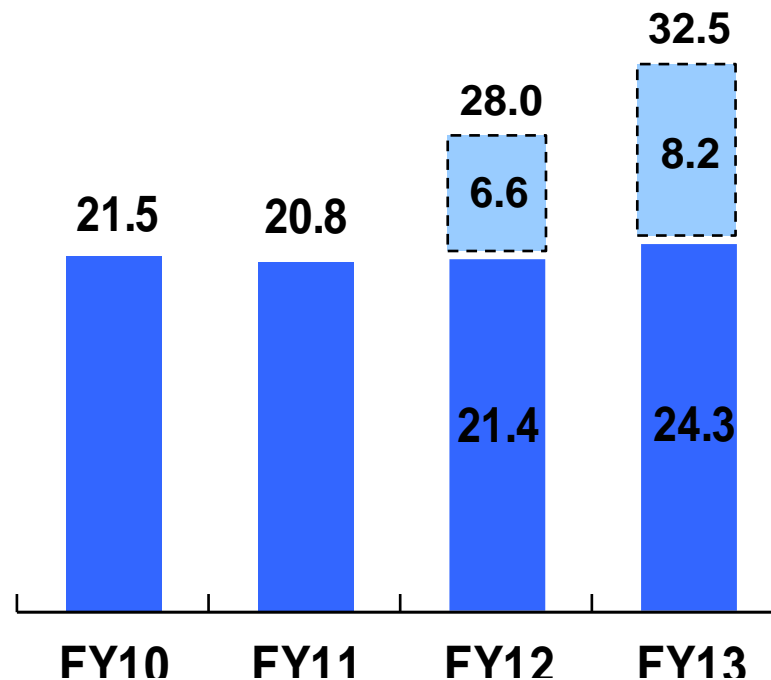
Book value (NT\$BN)

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



BVPS (NT\$)

■ Impact to BVPS from fair value method on investment property



Note: (1) Book value of FY12 & FY13 included minority interest and were the pro-forma book value after applying fair value method on investment property. Details on page 37 for illustration.

(2) BVPS excluded minority interest and figures of FY12 & FY13 were calculated on pro-forma book value.

(3) Totals may not sum due to rounding.

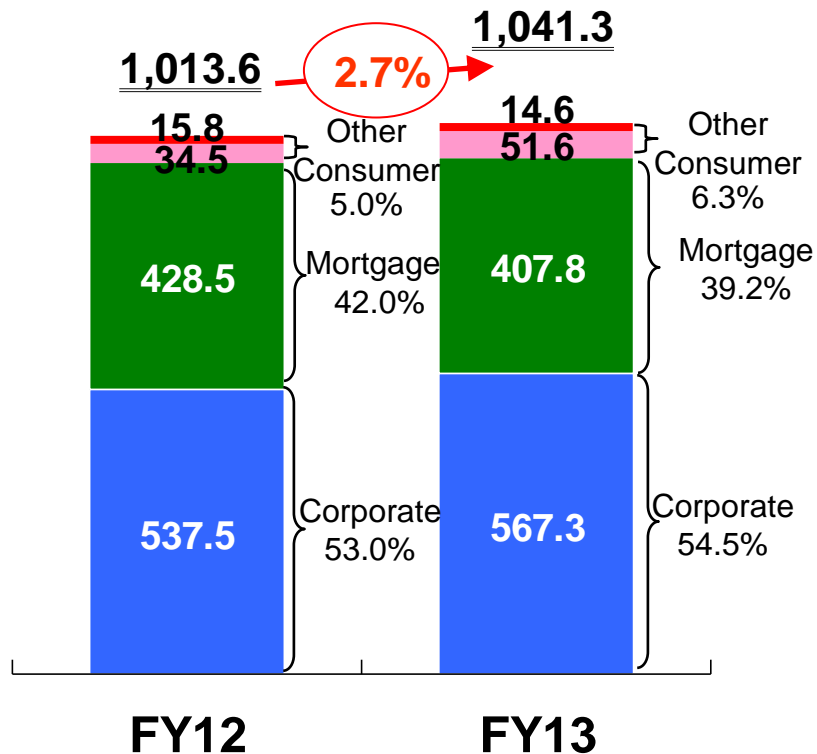
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Cathay United Bank — Loan & Deposit breakdown

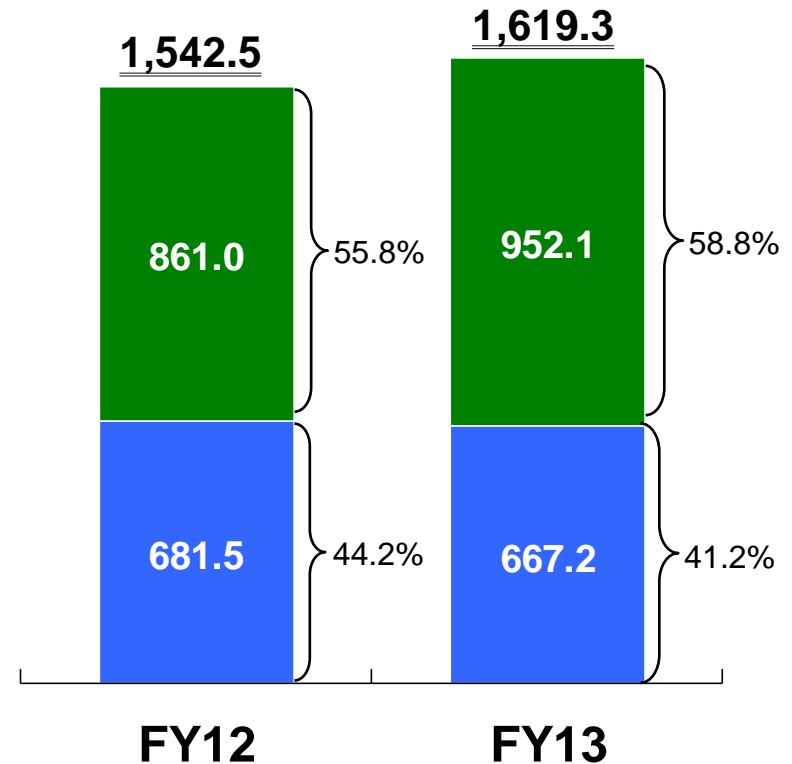
Loan breakdown

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

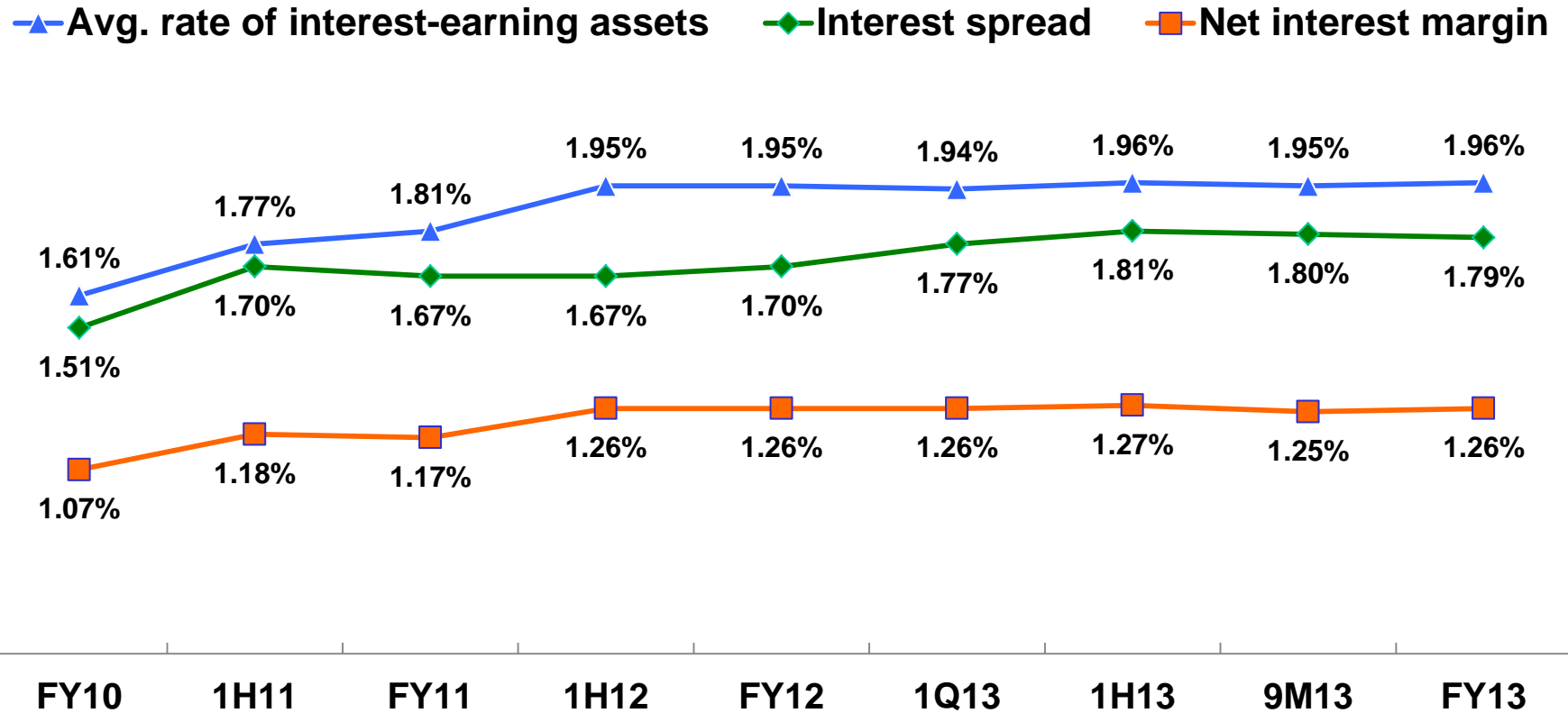


Deposit breakdown

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



Cathay United Bank – Interest yields

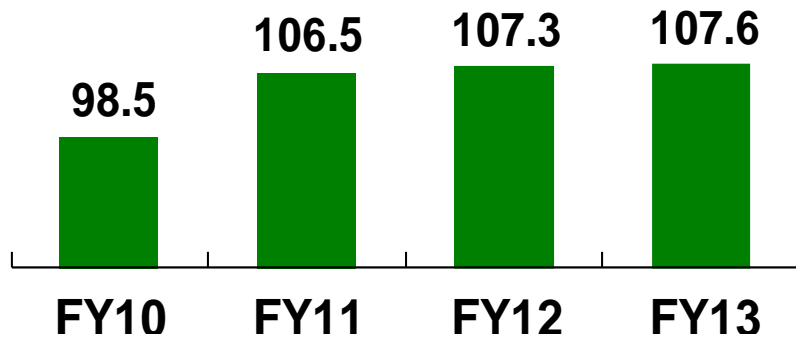


Note: Credit card related loans are included in the calculation.

Cathay United Bank — SME & FX loans

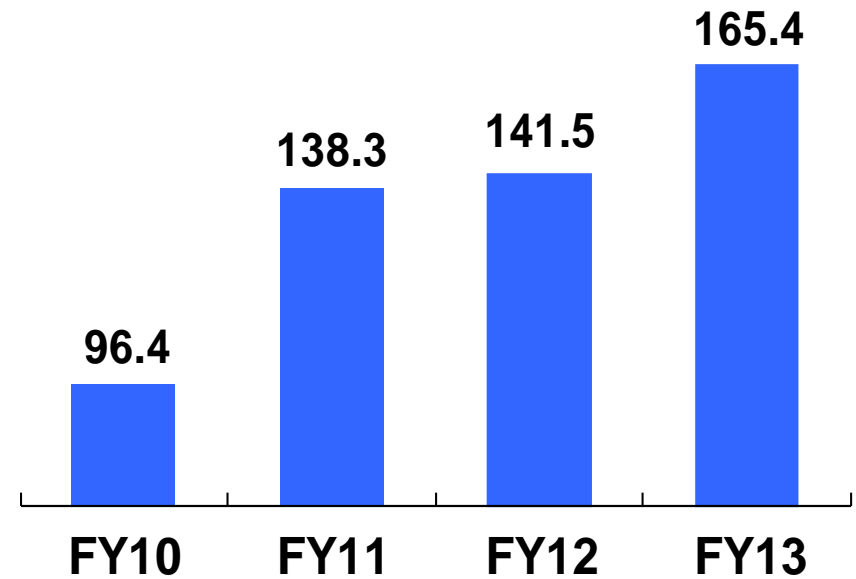
SME loans

(NT\$BN)



Foreign currency loans

(NT\$BN)



As % of total loans

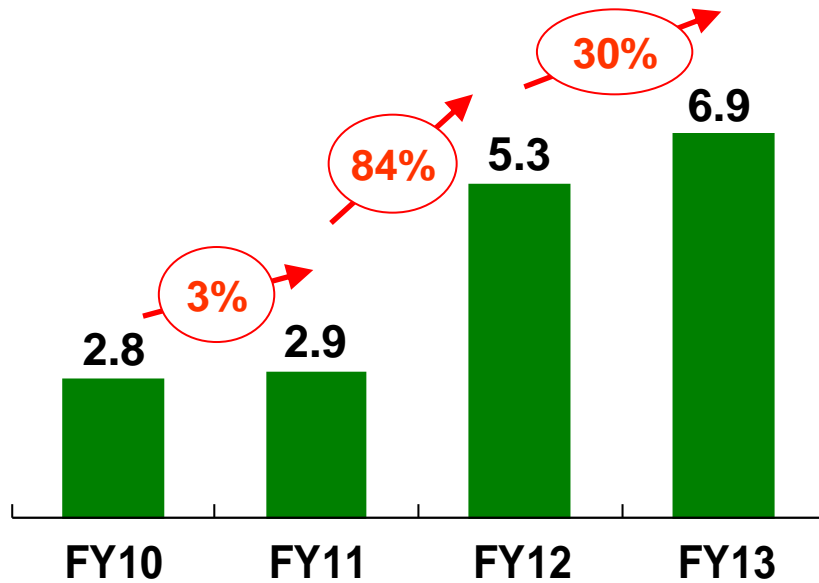
10.9% 10.6% 10.6% 10.3%

10.7% 13.7% 14.0% 15.9%

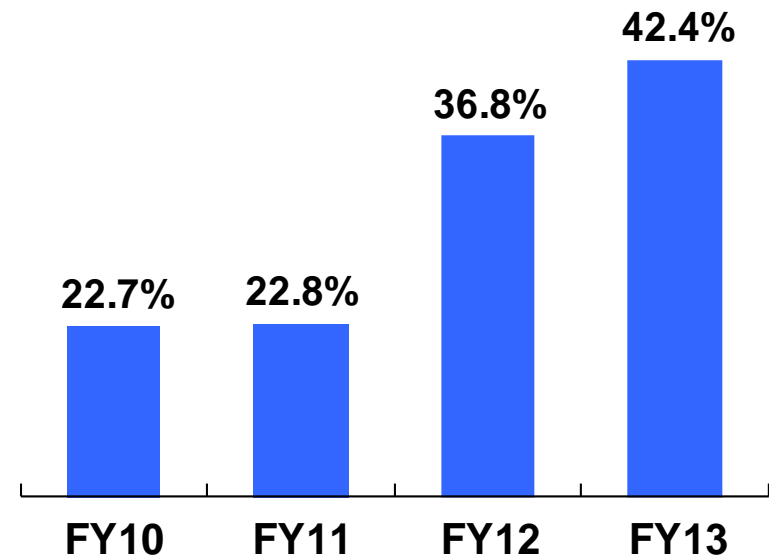
Cathay United Bank – Offshore earnings

Offshore earnings

(NT\$BN)

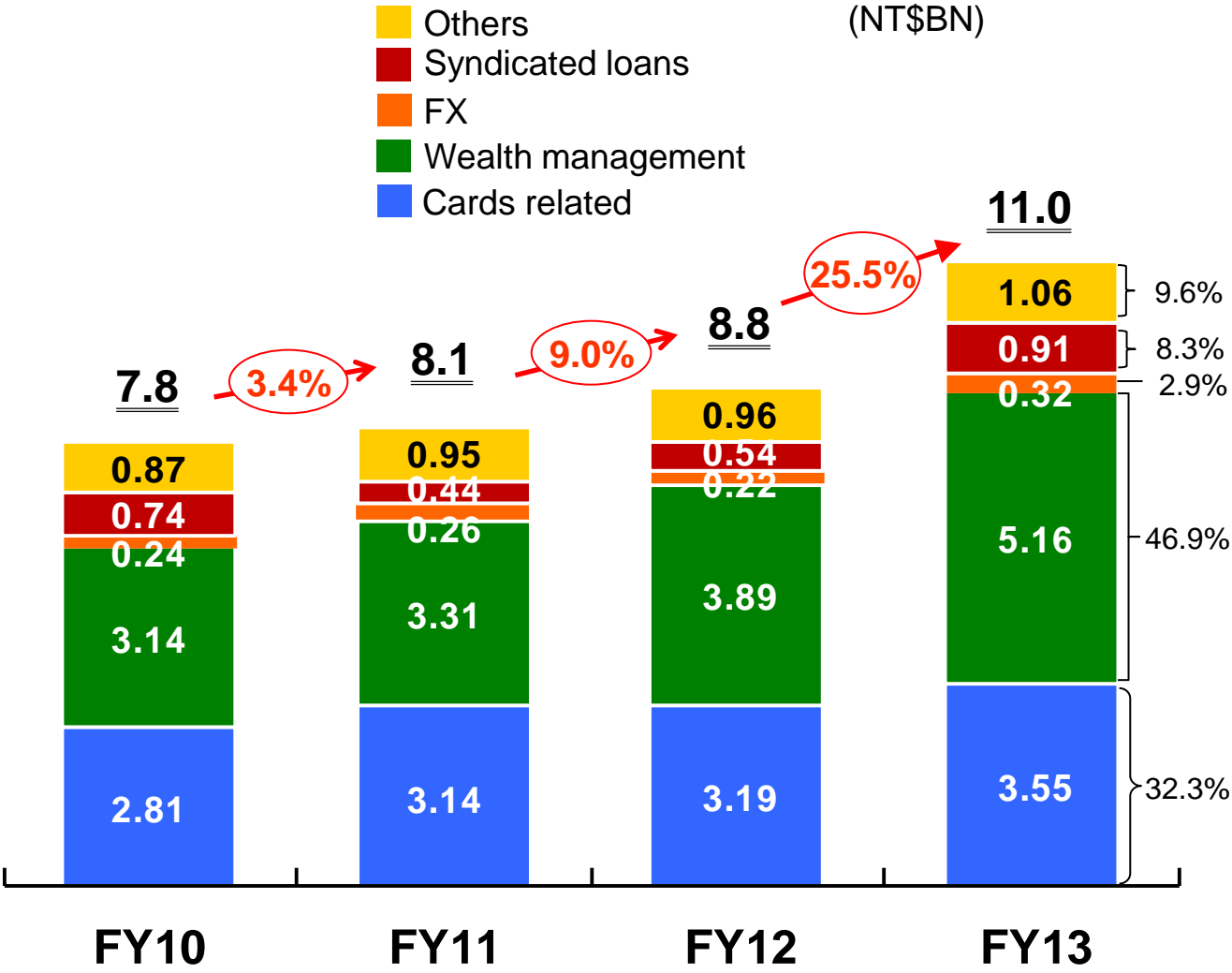


As % of CUB pre-tax profits



Cathay United Bank – Fee income

Fee income breakdown



Cathay United Bank – Wealth management fee breakdown

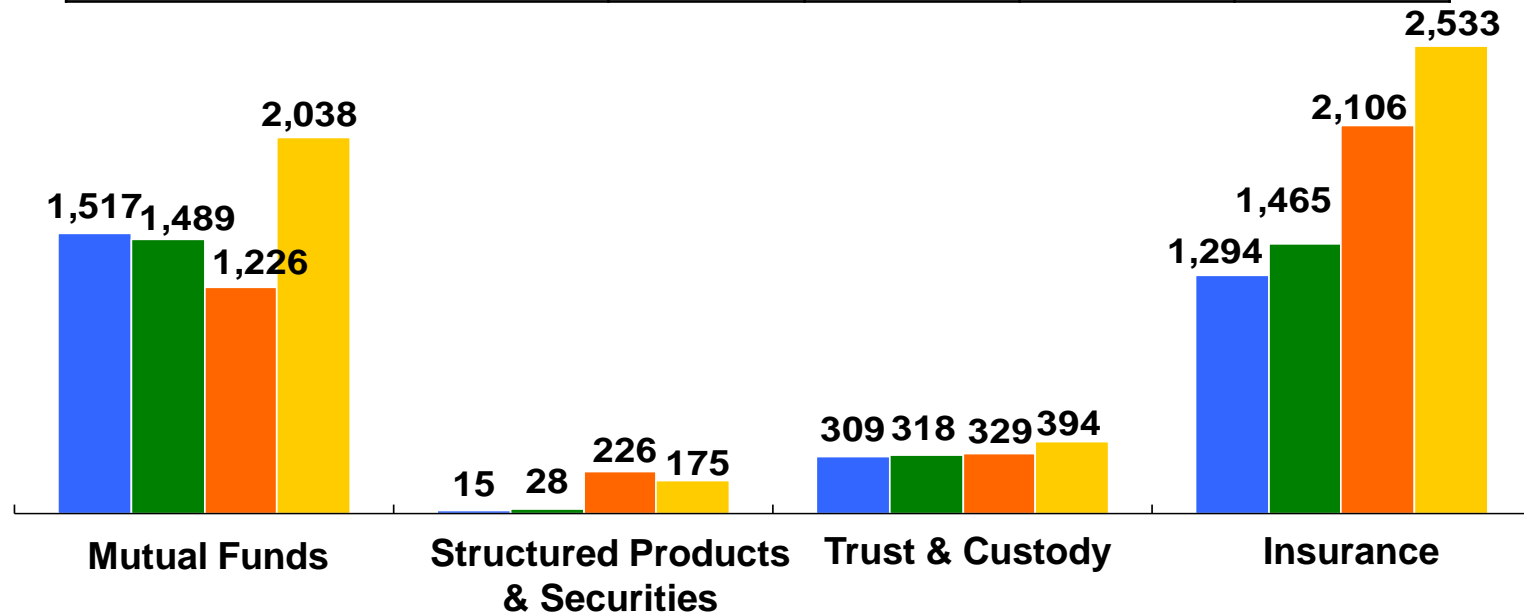
Fee income breakdown

FY10 FY11 FY12 FY13

(NT\$MN)	FY10	FY11	FY12	FY13
Wealth Management Fee income	3,142	3,309	3,894	5,163
YoY growth	52.4%	5.3%	17.7%	32.6%

Wealth management fee excludes revenue from DCI, SI and others.

Revenue from DCI, SI & Others	60	71	141	1,159
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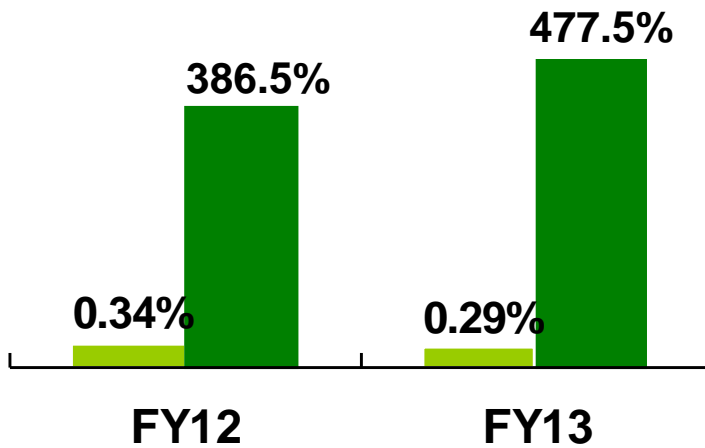
Note: Totals may not sum due to rounding.

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

Cathay United Bank – Credit quality

NPL & Coverage ratio

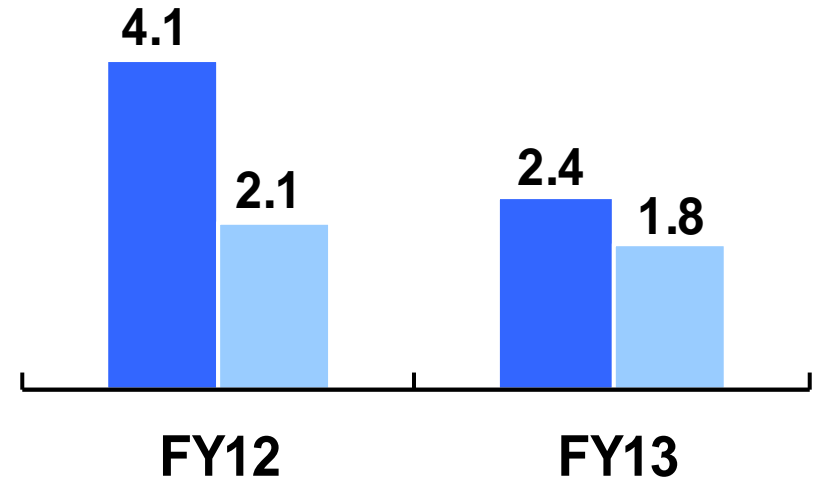
- NPL ratio
- Coverage ratio



Mortgage NPL	0.06%	0.02%
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Gross provision

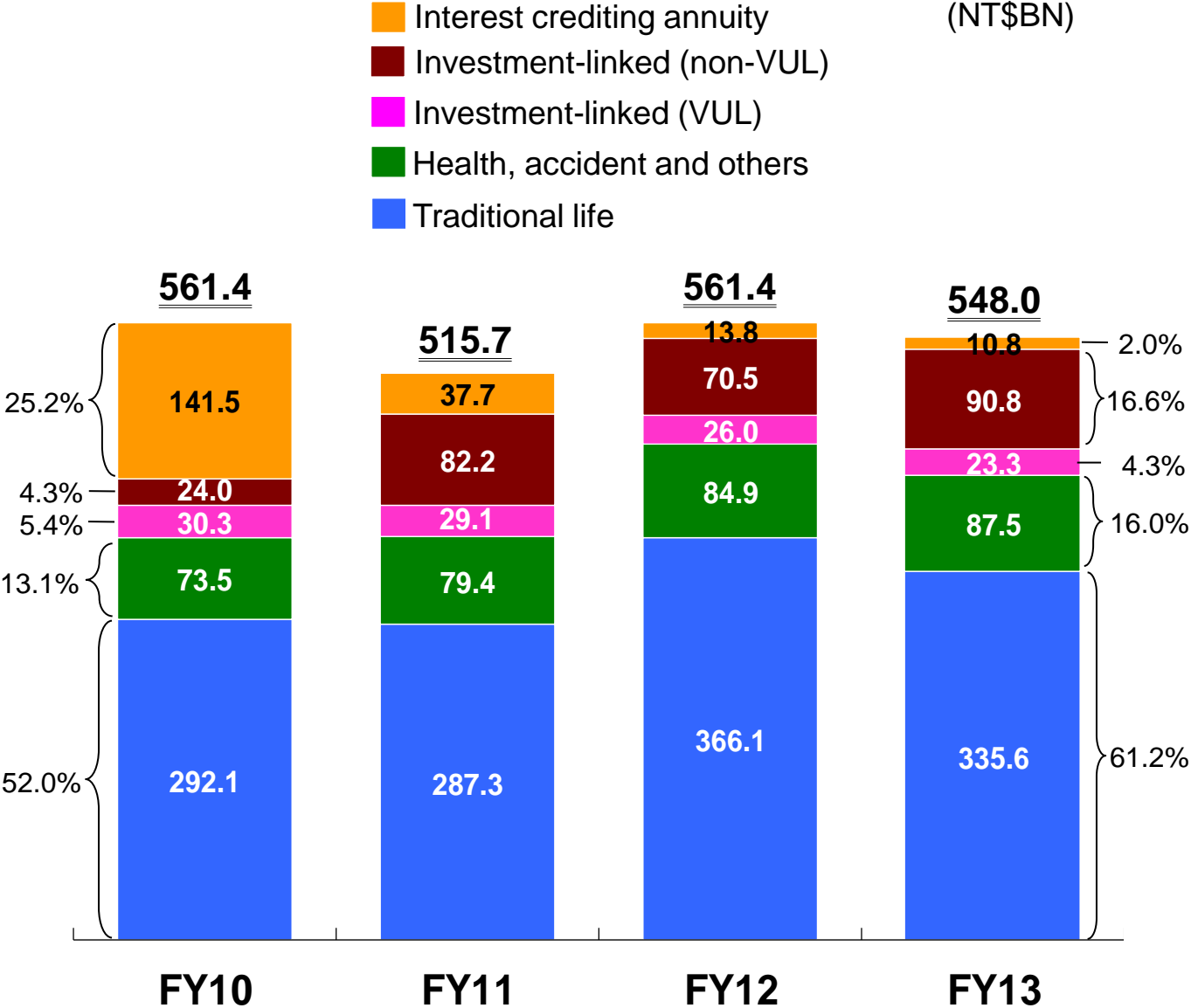
- Gross provision (NT\$BN)
- Recovery



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Cathay Life – Total premium

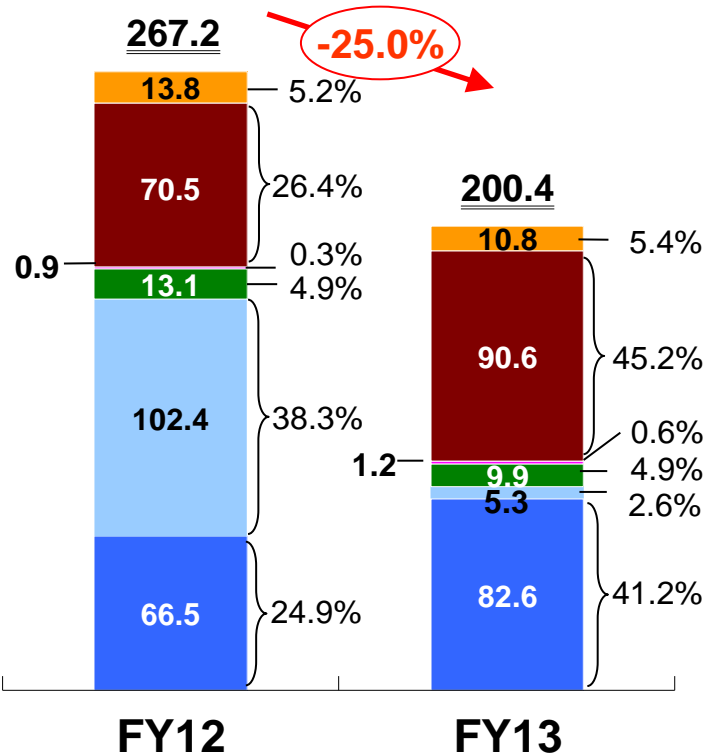


Note: Totals may not sum due to rounding.

Cathay Life — FYP & FYPE

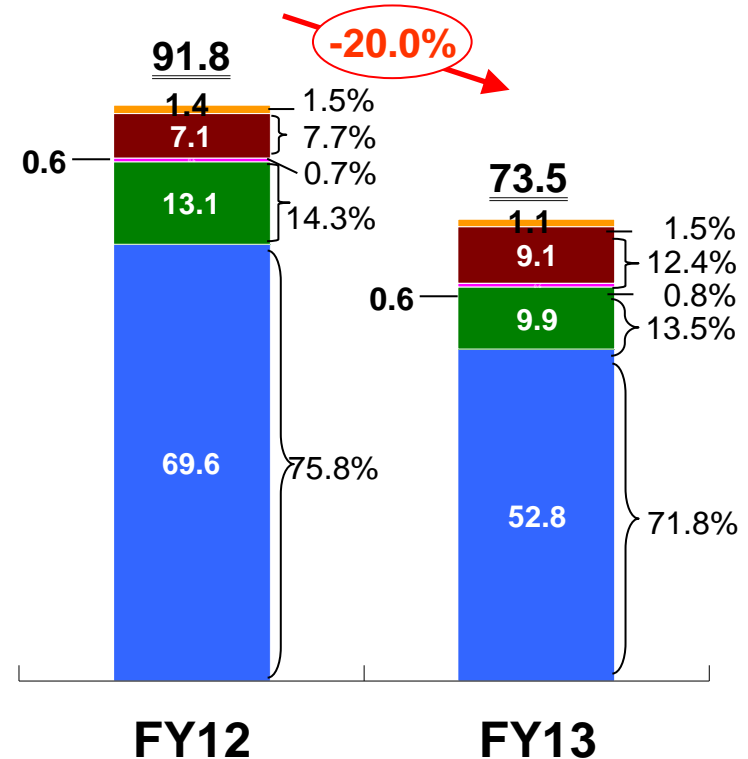
FYP

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



FYPE

- 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 improve margin and VNB

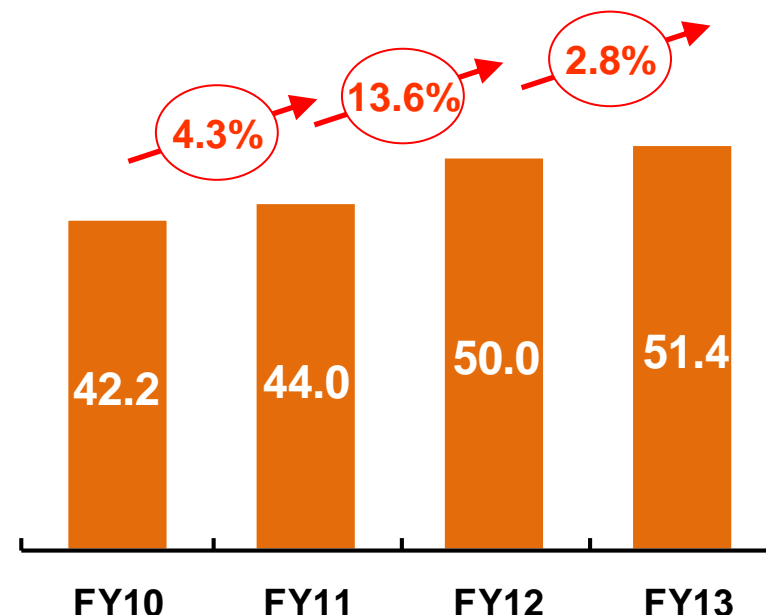
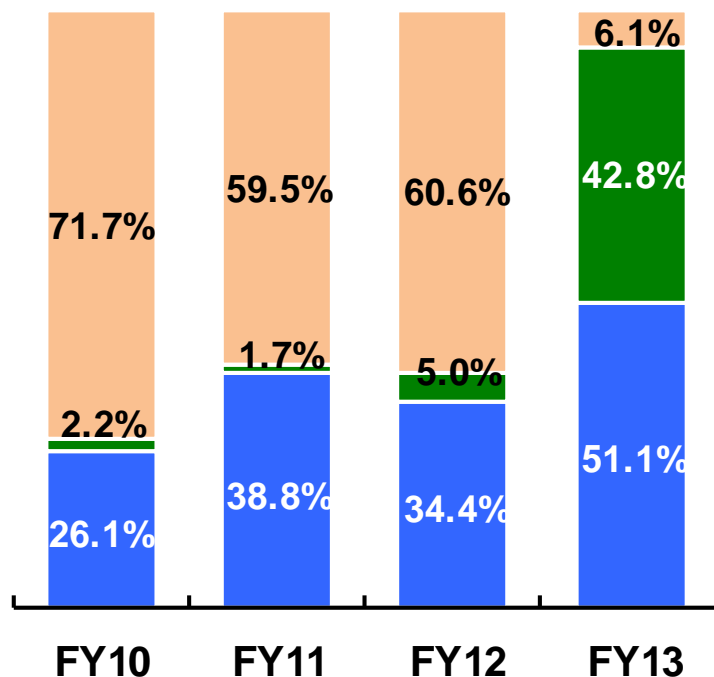
Breakdown of Traditional FYP

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

VNB

Profit Margin	FY10	FY11	FY12	FY13
VNB/FYP	13%	17%	19%	26%
VNB/FYPE	54%	55%	54%	70%

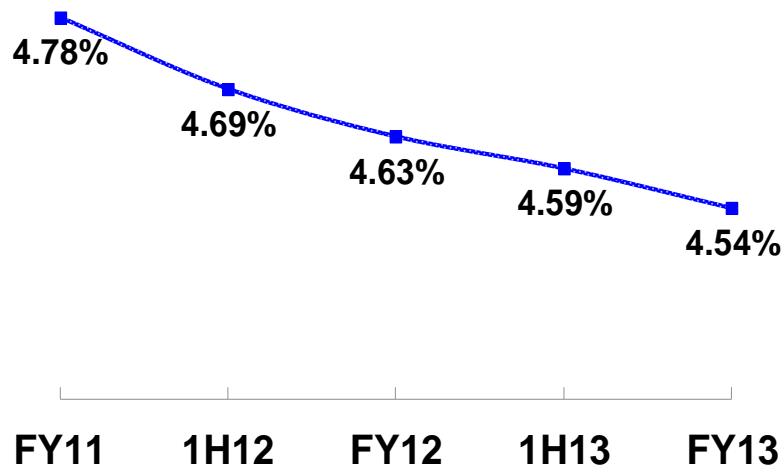
(NT\$BN)



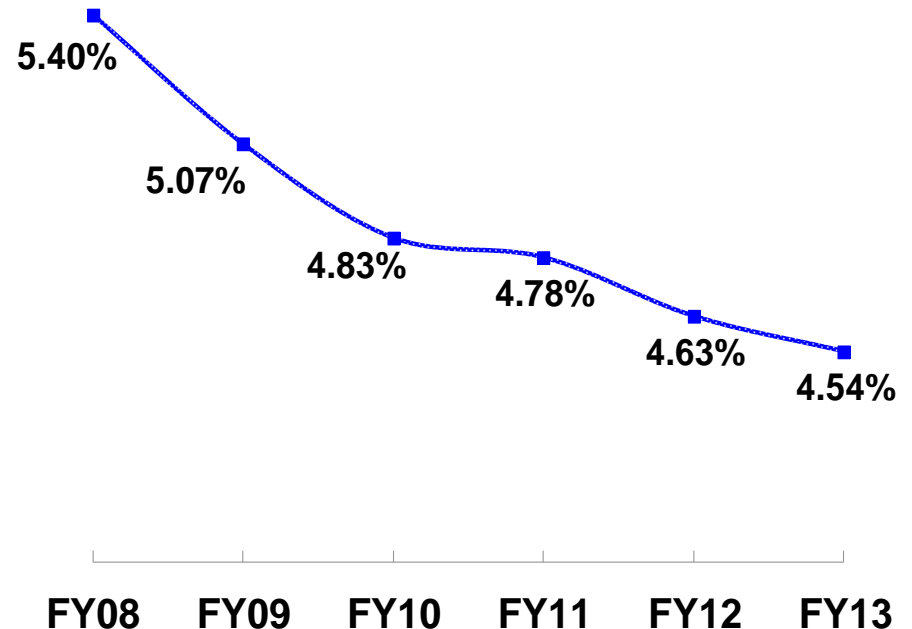
Note : 2013 VNB is based on 2012 EV's assumption. 2013 actual VNB number will be disclosed in first quarter analyst meeting.

Cathay Life – Cost of liability

Cost of liability



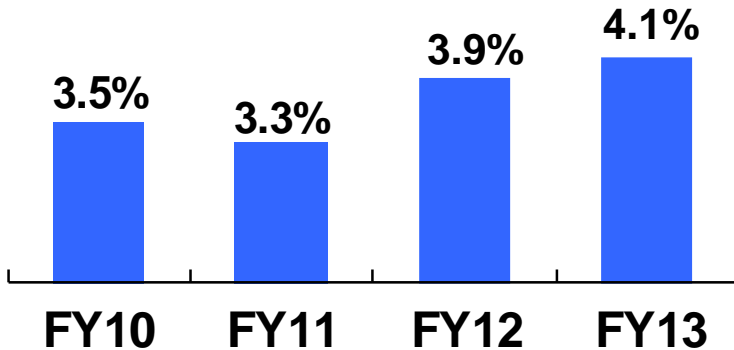
Cost of liability (annual)



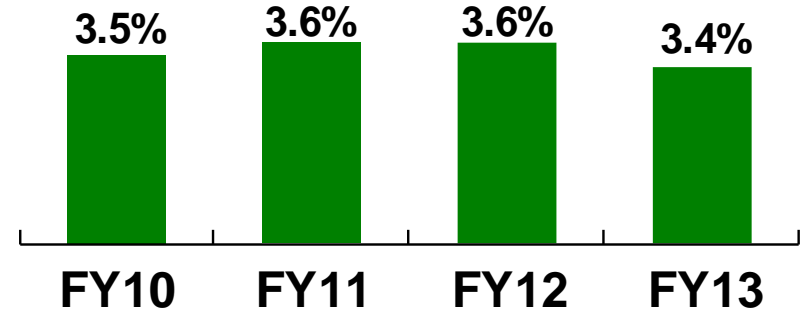
Note: The figures of cost of liability are reserve-based.

Cathay Life – Investment performance highlight

After-hedging investment yield

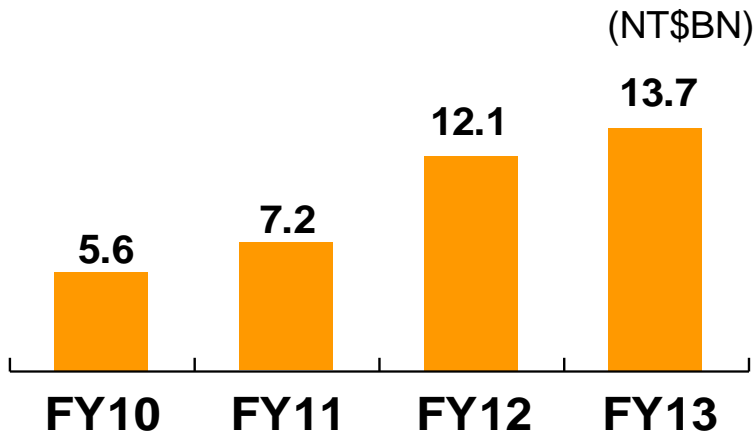


Pre-hedging recurring yield

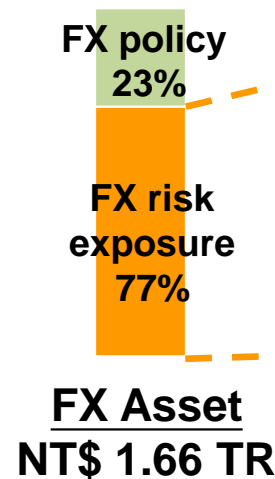


Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.

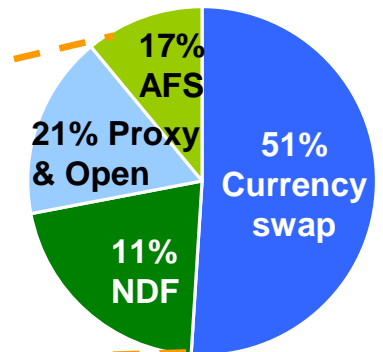
Cash dividend



FX Asset



FX risk exposure



2013 Hedging cost
0.26%

Cathay Life – Investment portfolio

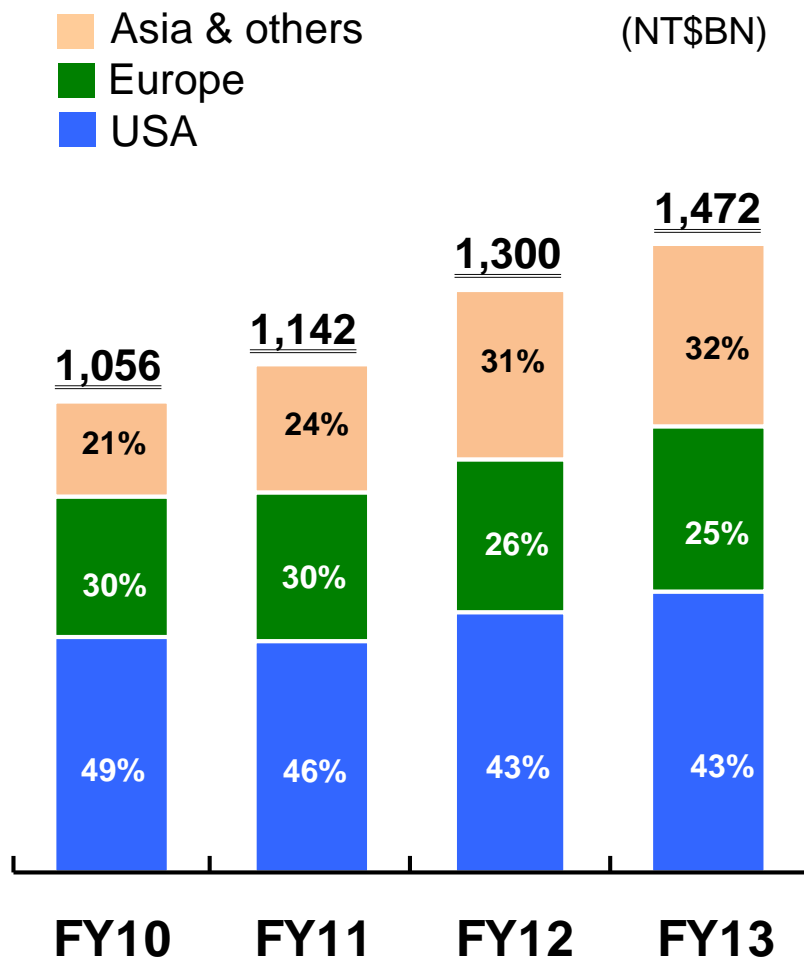
(NT\$BN)	4Q10	4Q11	4Q12		4Q13	
Total investments⁽¹⁾	2,745.3	2,959.2	3,283.7		3,652.0	
	Weight	Weight	Weight	Amount	Weight	Amount
Cash & Cash equivalents	12.9%	8.6%	8.2%	268.7	3.8%	138.4
Equity- Domestic	7.3%	8.5%	8.1%	267.5	9.2%	337.3
Equity- International	1.7%	4.0%	4.3%	141.7	5.1%	186.5
Bond- Domestic	15.6%	16.4%	16.6%	544.7	15.0%	546.1
Bond- International⁽²⁾	38.5%	38.6%	39.6%	1,299.9	40.3%	1472.5
Mortgage & Secured loans	10.6%	10.2%	10.3%	337.3	12.6%	461.2
Policy loans	7.0%	6.4%	5.5%	181.6	4.9%	177.9
Real estate	5.0%	5.4%	5.6%	183.5	7.3%	265.4
Others	1.5%	2.0%	1.8%	58.8	1.8%	66.7

Note (1): Total assets excluded from separate account assets; totals may not sum due to rounding

(2): Includes foreign currency deposit and related adjustments

Cathay Life – International bond investment highlight

Overseas Bond by Region



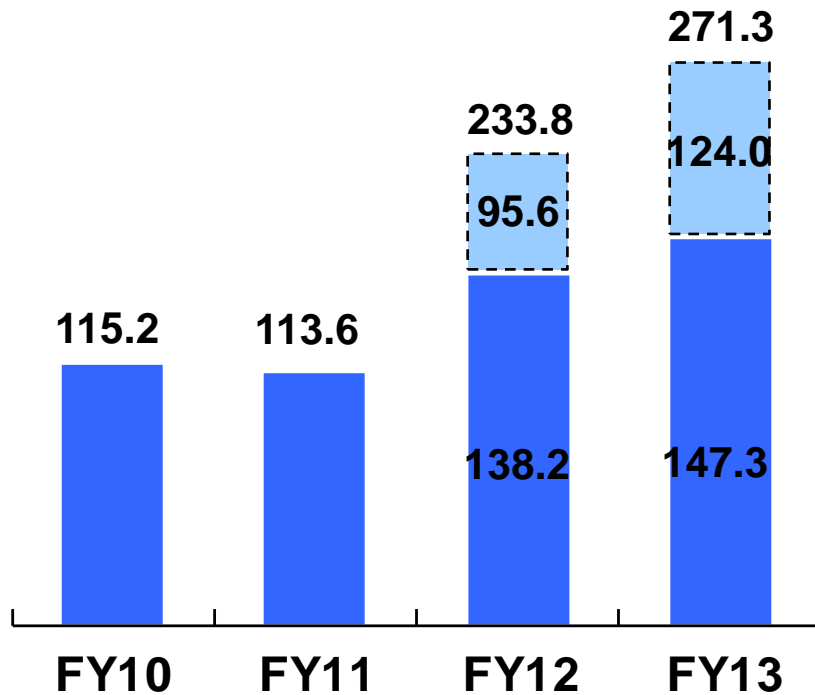
Top 5 of European Exposure

Country	As % of overseas bond investment	As % of European bond investment
UK	6.5	26.3
Germany	5.3	21.6
France	4.6	18.4
Netherlands	3.6	14.7
Switzerland	1.1	4.3
Total	21.1	85.3

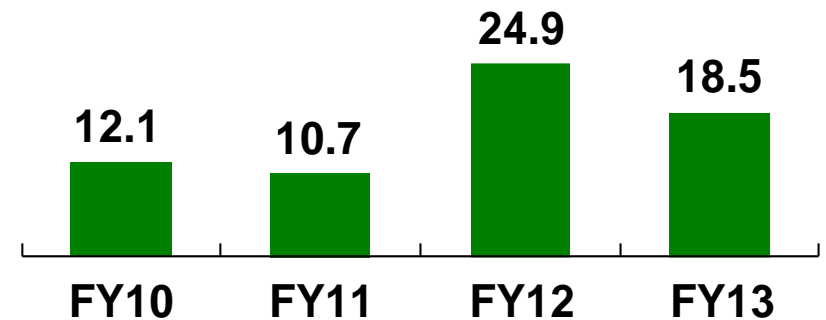
Cathay Life – Book value & Unrealized G/L of AFS financial assets

Book value (NT\$BN)

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



Unrealized G/L of AFS financial assets (NT\$BN)



Note: Book value of FY12 & FY13 included minority interest and were the pro-forma book value after applying fair value method on investment property. Details on page 37 for illustration.

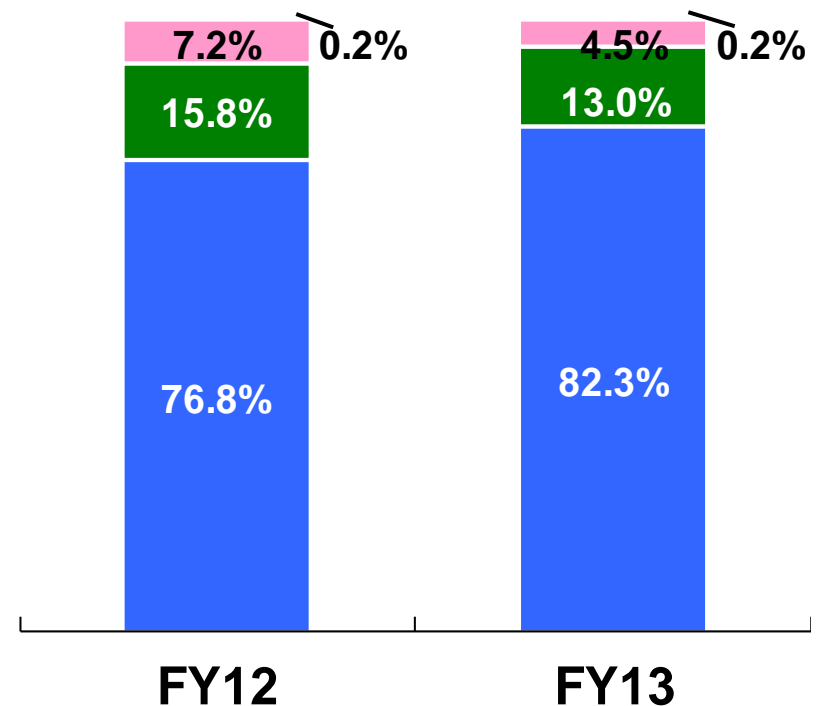
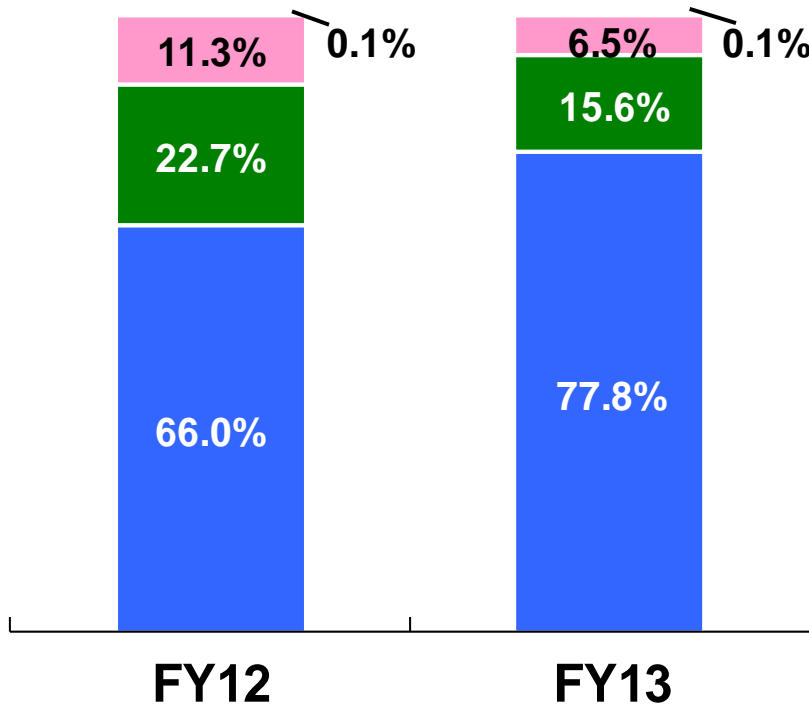
Cathay Life — Distribution channel

FYP

FYPE

- Others
- Bancassurance-external
- Bancassurance-CUB
- Tied agents

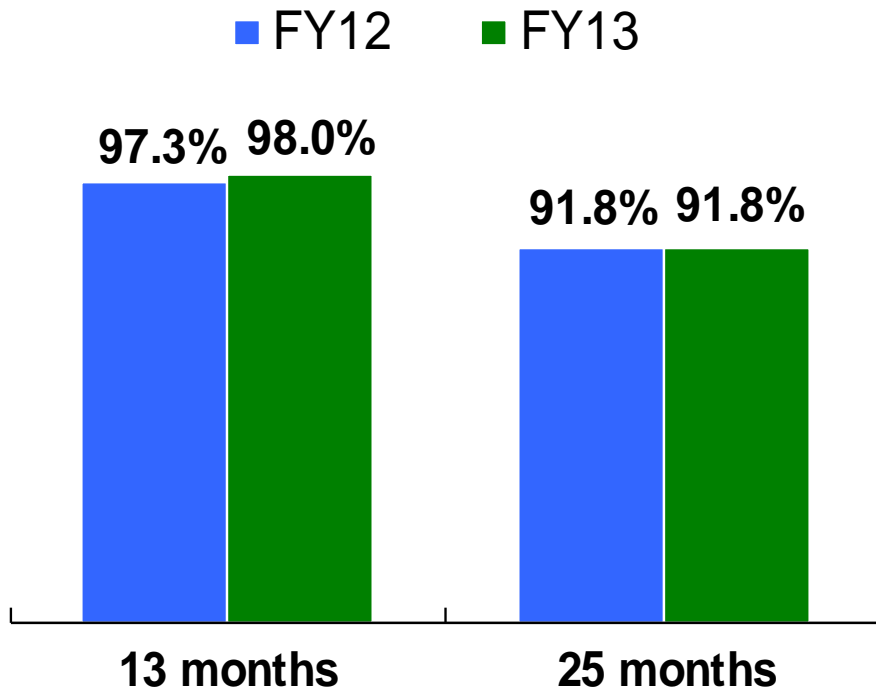
- Others
- Bancassurance-external
- Bancassurance-CUB
- Tied agents



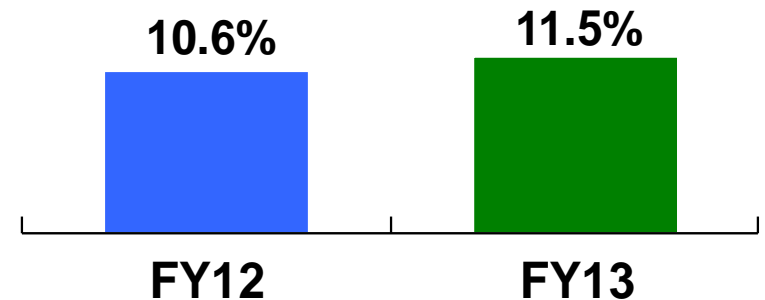
Note: Totals may not sum due to rounding.

Cathay Life – Operational indicators

Persistency ratio



Expense ratio

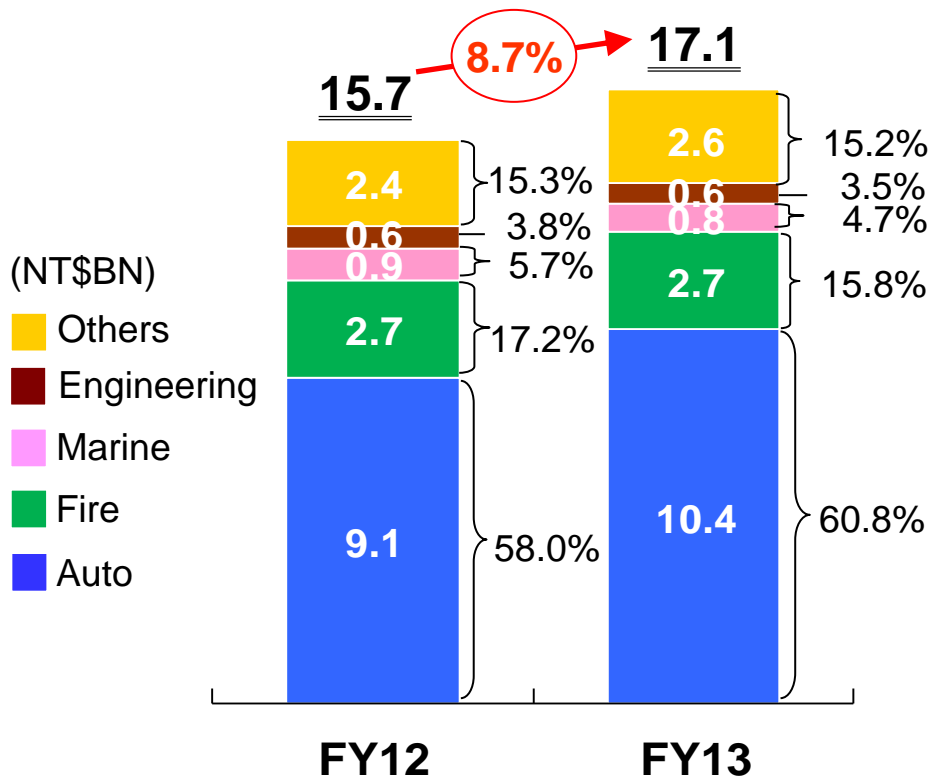


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Cathay Century

Premium income



FY12

FY13

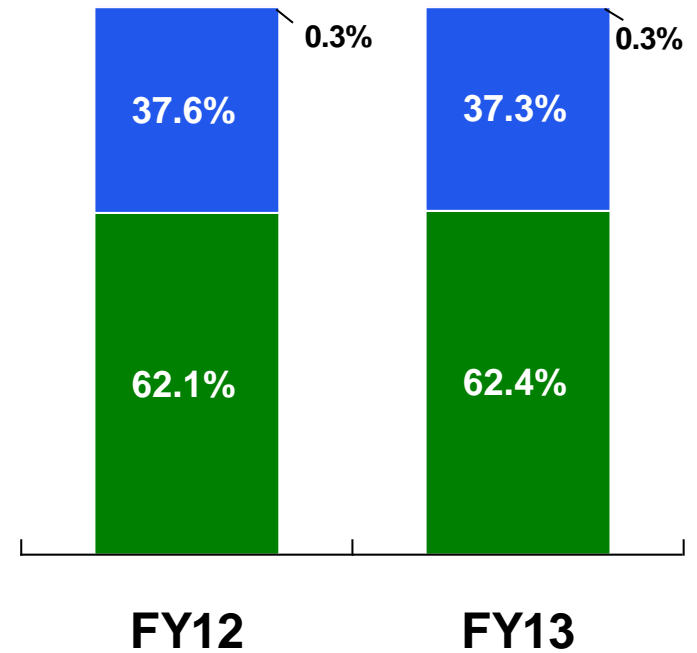
Mkt share

12.7%

13.4%

Distribution channel

- Others
- Cathay P&C agents
- Cathay group channel



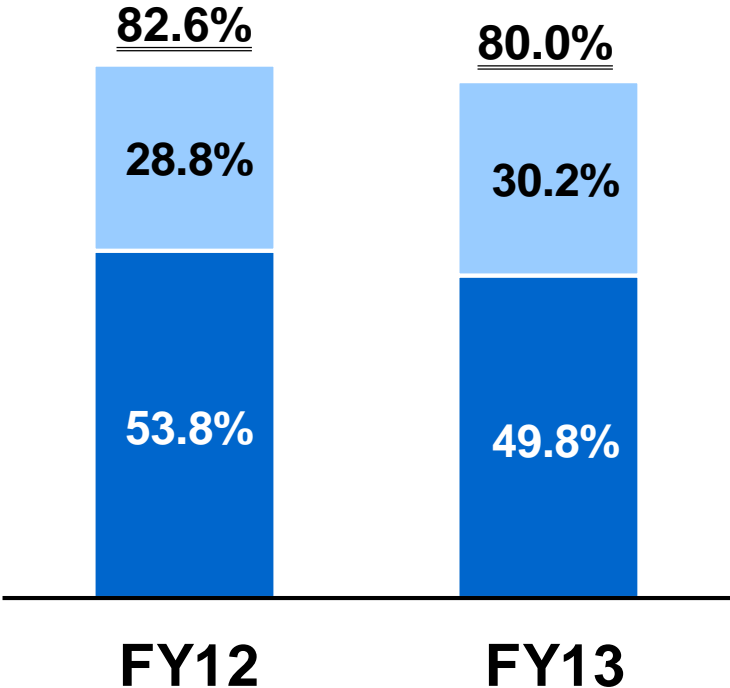
FY12

FY13

Cathay Century – Distribution channel

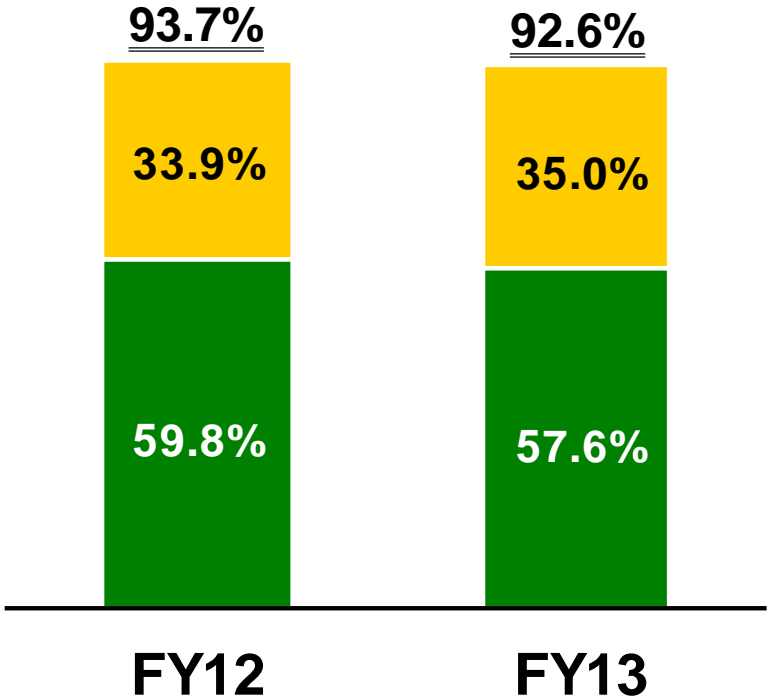
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio

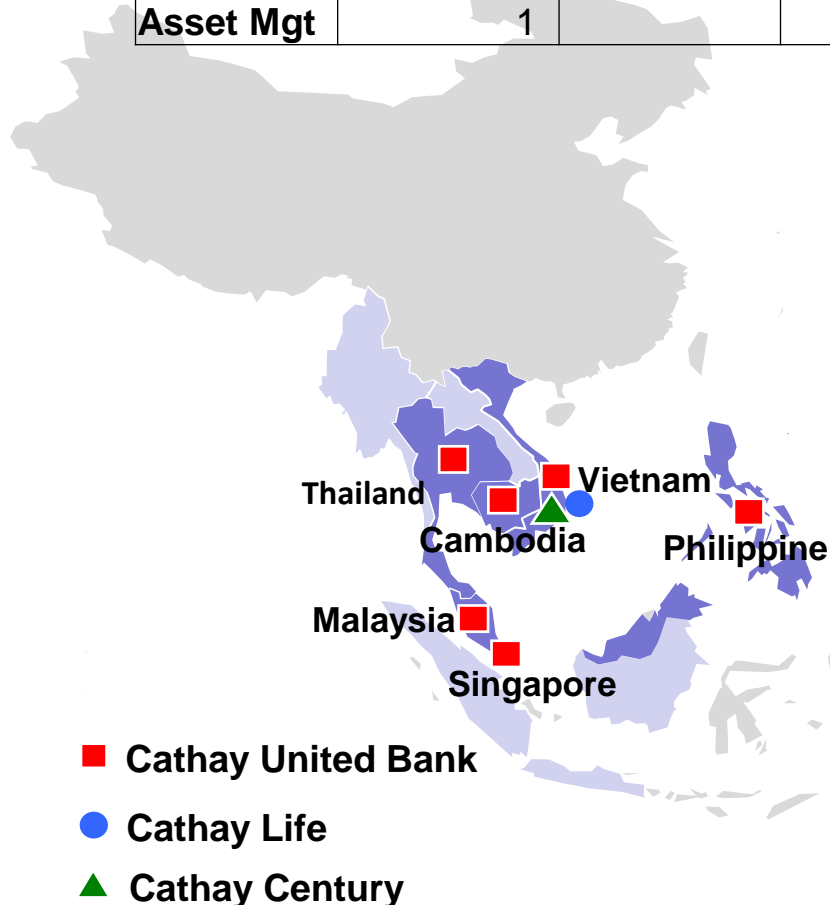


Retained ratio



Cathay FHC in South East Asia

	China	Vietnam	Cambodia	Hong Kong	Singapore	Malaysia
Bank	2	36	16	1	1	1
Life	31	6				
P&C	20	2				
Asset Mgt	1			1		



■ Cathay United Bank

- Operate 36 footprints in Vietnam with solid operating and financial performance; maintained superior asset quality
- Operate 16 footprints in Cambodia
- Plans to apply a branch in Laos and representative offices in Indonesia and Myanmar

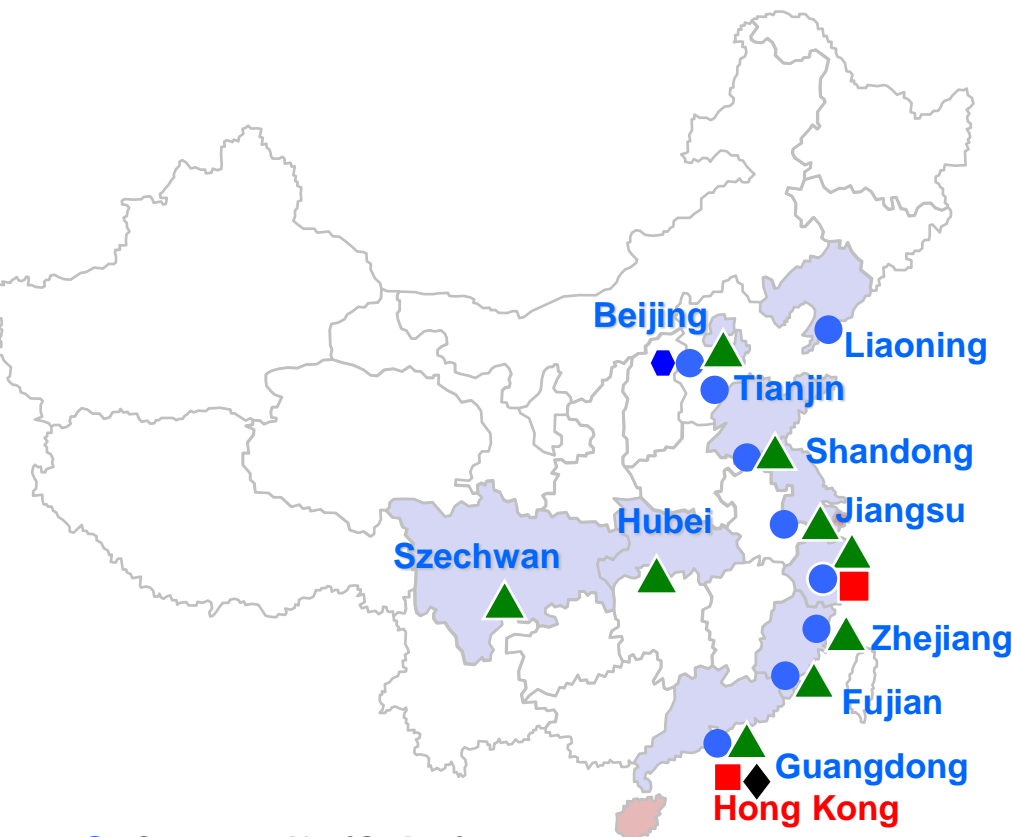
■ Cathay Life

- Operate 6 footprints in Vietnam
- 2013 net income reached NT\$ 126MN

■ Cathay Century

- 2013 total premium income increased by 75% YoY

Cathay FHC in China



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

■ Cathay United Bank

- Minhang Sub-branch began operation in March. Shanghai Free-Trade Zone Sub-branch and Qingdao Branch are expected to open by middle of this year
- Plan to apply Shenzhen branch and upgrade Shanghai branch into subsidiary

■ Cathay Life (China)

- Agent productivity grew by 30% YoY in 2013
- Enhanced client segmentation to improve underwriting quality

■ Cathay Century (China)

- Strong premium income growth in 2013, up by 96% YoY
- Has set up 20 business footprints in 18 cities

■ JV with Conning (CCAM)

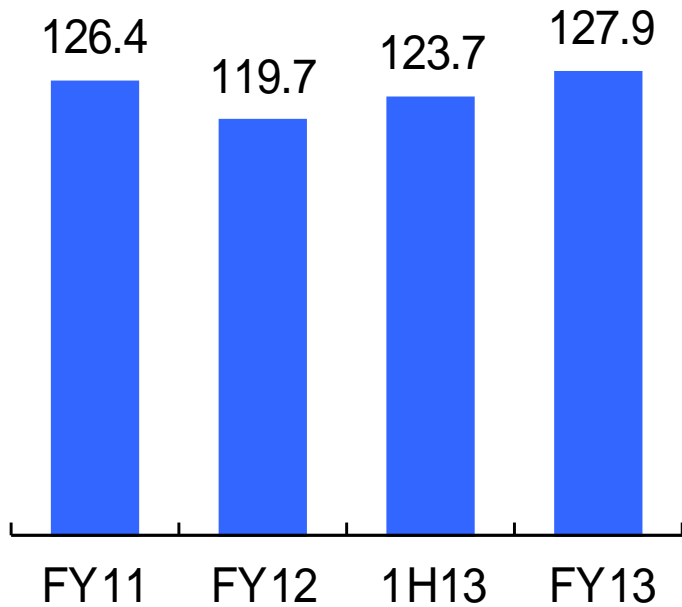
- AUM amounted to USD\$1.06BN in 2013

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

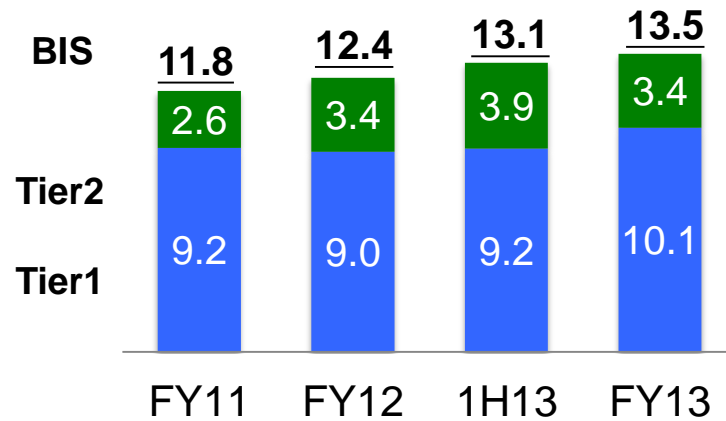
- Began operation in Sep. 2013

Solid capital adequacy

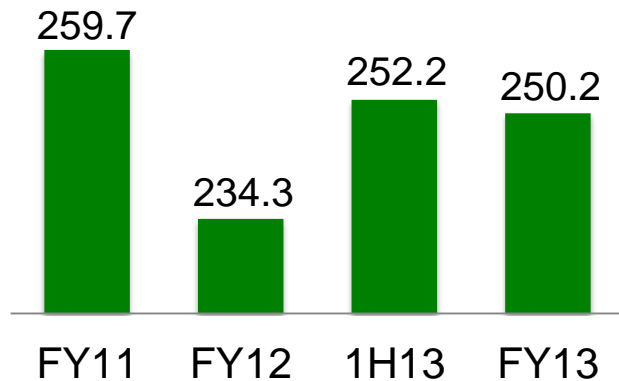
Cathay FHC CAR (%)



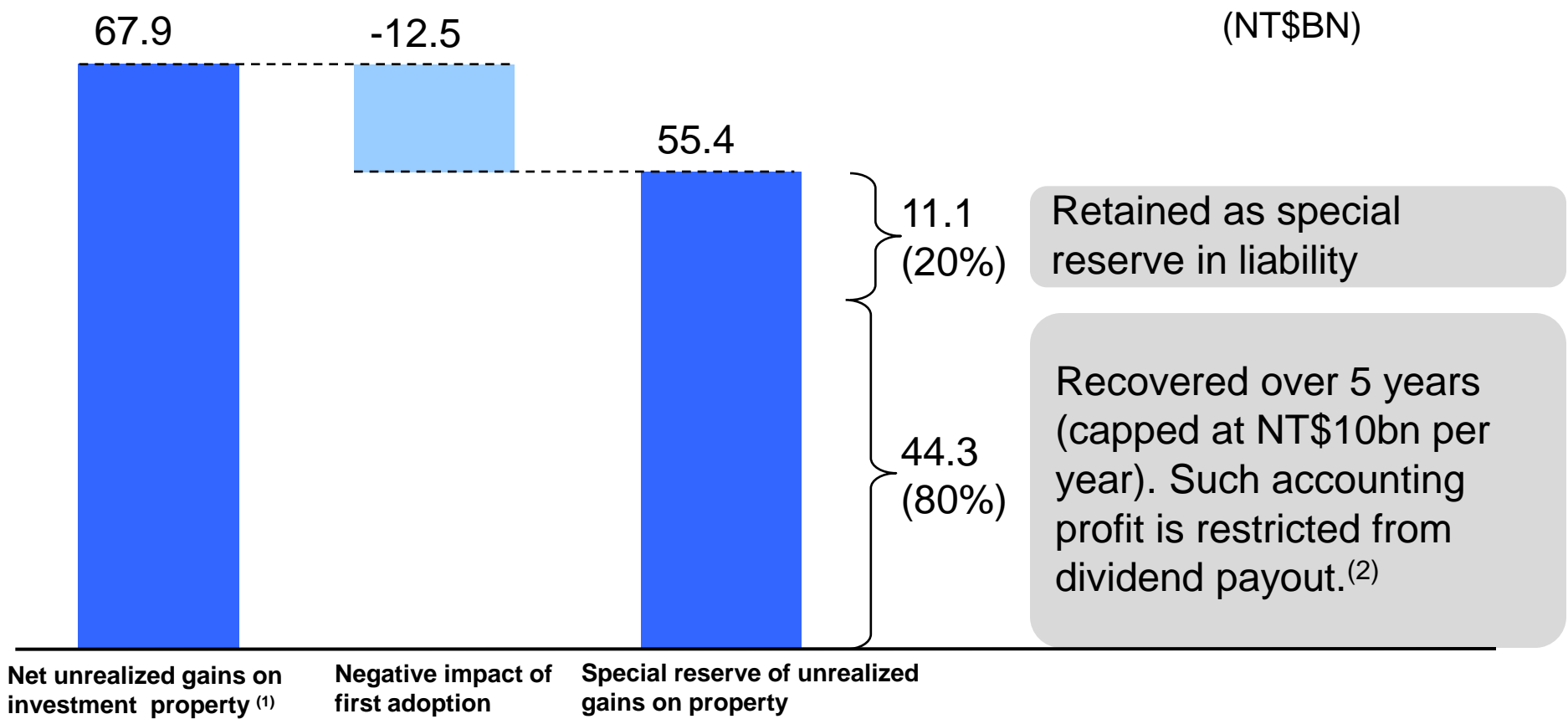
CUB Capital Adequacy (%)



Cathay Life RBC(%)



Special reserve of unrealized gains on property



Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(2) The recovery of such special reserve is subject to regulatory approval each year. Hence, the actual recovery depends on the fair valuation results each year.

Cathay Life's property reappraisal

■ Real estate book value ■ After-tax unrealized gain on real estate (NT\$BN)

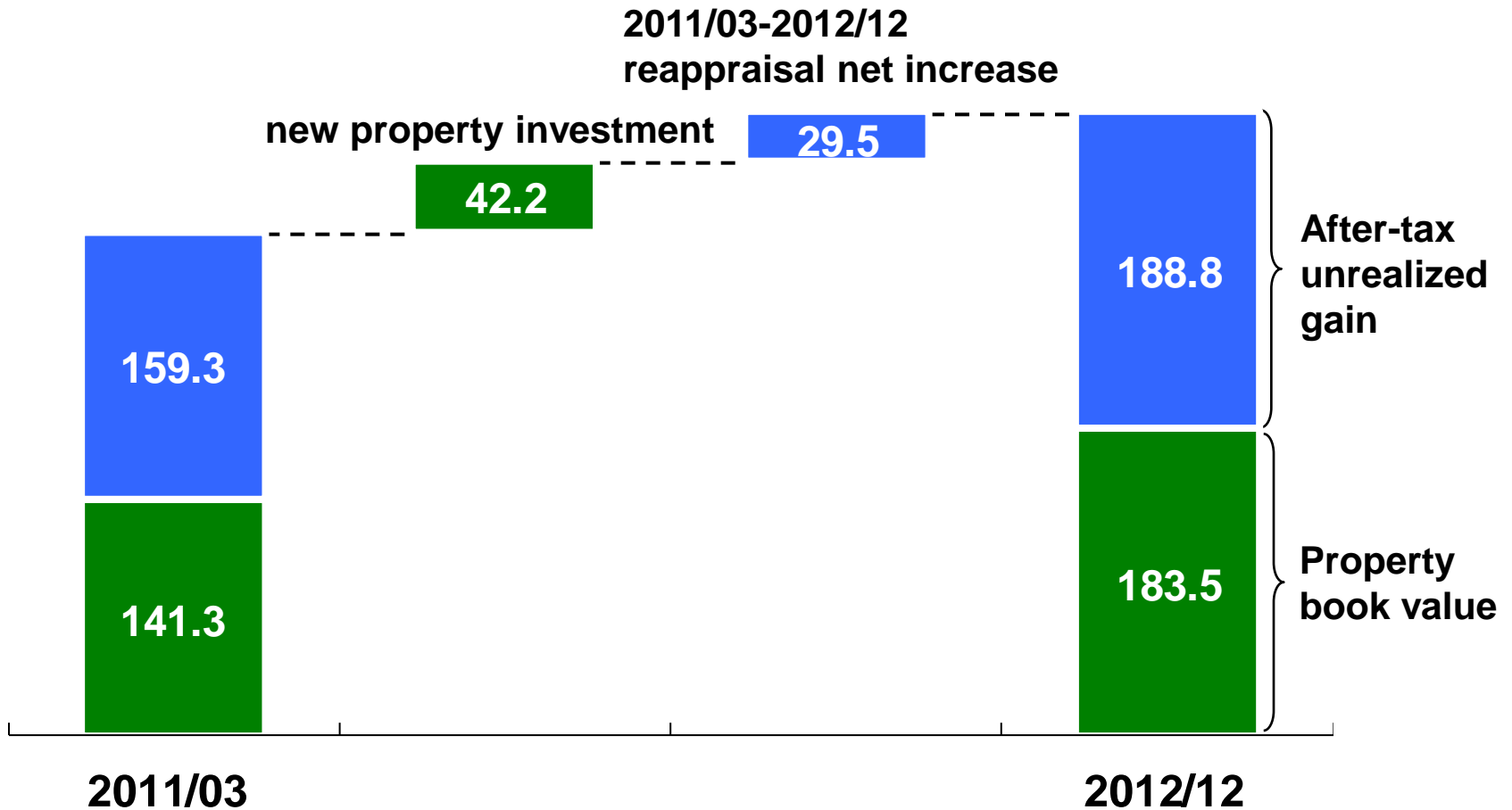
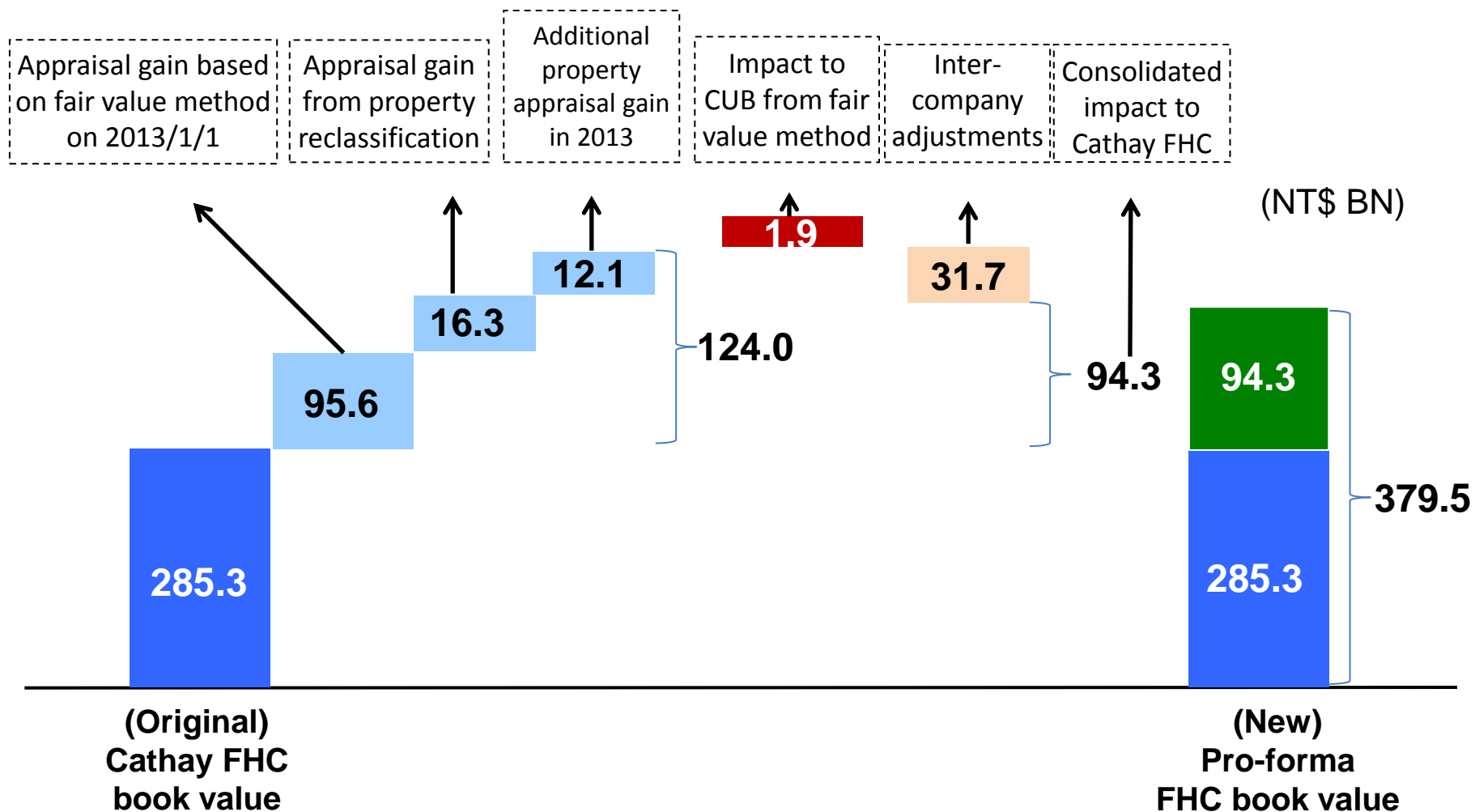


Illustration of 2013 pro-forma book value of Cathay FHC -after applying fair value method on investment property

■ Cathay Financial Holdings
 ■ Cathay Life
 ■ Cathay United Bank



Note: Totals may not sum due to rounding.

EV & AV Summary

NT\$BN

Valuation date		2011	2012	Growth rate	2013
Embedded value	Equity	112	135	20%	-
	Cost of capital	-76	-82	8%	-
	Adjusted net worth (After CoC)	199	242	22%	-
	Value in force	276	323	17%	-
	Embedded value	475	565	19%	-
Value of one year's new business	First year premium (FYP)	256	267	5%	200
	First year premium equivalent (FYPE)	81	92	14%	73
	Value of one year's new business (VNB)	44	50	14%	51
	Profit margin (VNB/FYP)	17%	19%	-	26%
	Profit margin (VNB/FYPE)	55%	54%	-	70%
Appraisal value (20 years NB)	Multiple	8.6	8.7	-	-
	Appraisal value	870	1,001	15%	-
Basic Value per share ⁽¹⁾	EV / per FHC share	46.1	53.0	15%	-
	AV / per FHC share	84.5	93.9	11%	-
Adjusted Value per share ⁽¹⁾	EV / per FHC share	41.1	48.9	19%	-
	AV / per FHC share	75.4	86.7	15%	-

Note: (1) Adjusted EV and AV per share calculation is based on 2013 weighted outstanding shares of 11.5bn shares. The adjustment reflected stock dividend (split), right issue and ECB conversion. Basic EV and AV per share is based on 10.3bn shares and 10.7bn shares at end of 2011 and 2012, respectively.

(2) Totals may not sum due to rounding.

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