

# 2014 First Quarter Briefing

2014. May



國泰金控

Cathay  
Financial Holdings

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# Agenda

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- **1Q14 Business overview**

  - Cathay United Bank

  - Cathay Life

  - Cathay Century

- **Overseas expansion**

- **Fair value method on investment property**

- **Fair value of insurance liability**

- **Cathay Life Embedded value & appraisal value**

- **Appendix**

  - Capital adequacy

  - Recovery plan for special reserve of unrealized gains on property

  - Fair Value of Insurance Contracts: Risk-free Rate (USD)

# 1Q14 Business overview

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## Cathay United Bank

- Delivered 8% loan growth with benign asset quality
  - Fee income grew by 28% YoY
  - Offshore earnings kept growing and its contribution to pre-tax profits increased to 50%
- 

## Cathay Life

- Regular-paid products accounted for 92.5% of traditional policies; ranked No.1 by FYPE
  - Overseas investment 45.5%; hedging cost 0.58%; maintained stable investment performance
  - Adopted fair value method on investment property, shareholders' equity increased
- 

## Cathay Century

- Market share of 12%, premium income grew by 3% YoY; maintained No.2 market position
  - Expanded business development in China and Vietnam, premium income up by 38% and 18% YoY, respectively
- 

## Cathay SITE

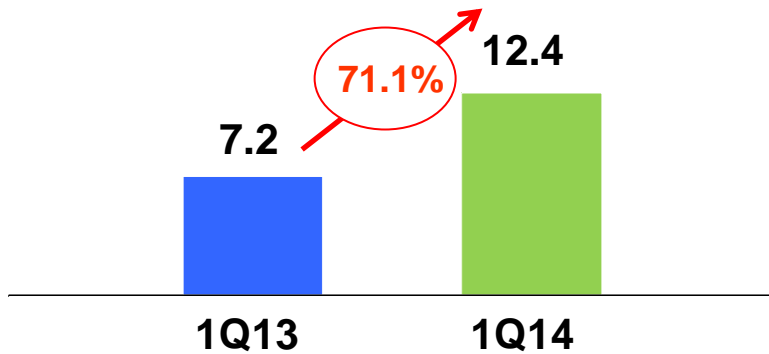
- Ranked No.1 in terms of AUM, which amounted to NT\$425BN
  - Continued to launch new products and broaden the business of individual & institutional clients
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## Cathay Securities

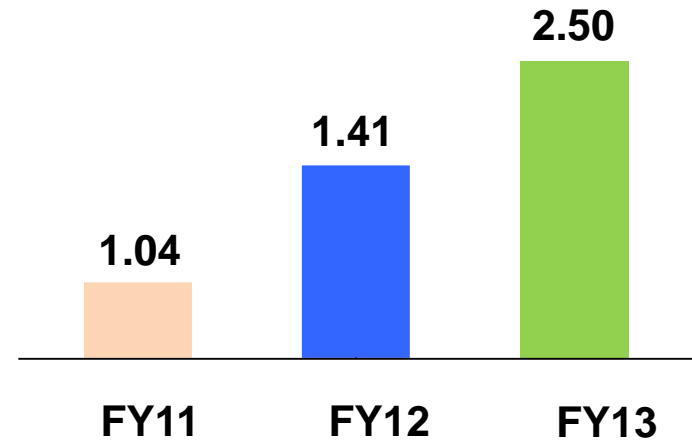
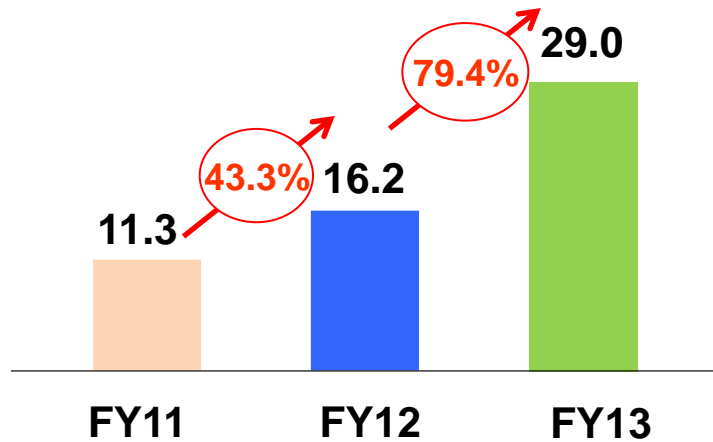
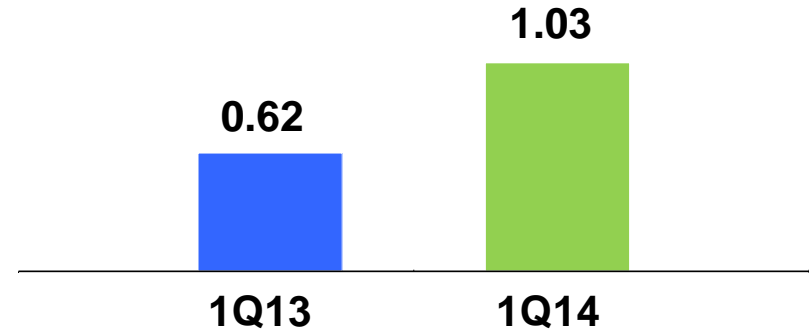
- Each business line performed steadily; market share kept increasing
- Net income improved significantly with 1Q14 net profits reached historically high

# Cathay FHC — Net income & EPS

## Net income (NT\$BN)



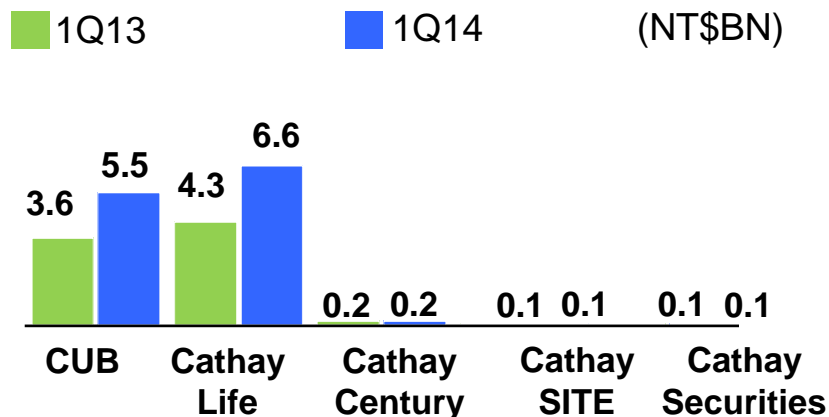
## EPS (NT\$)



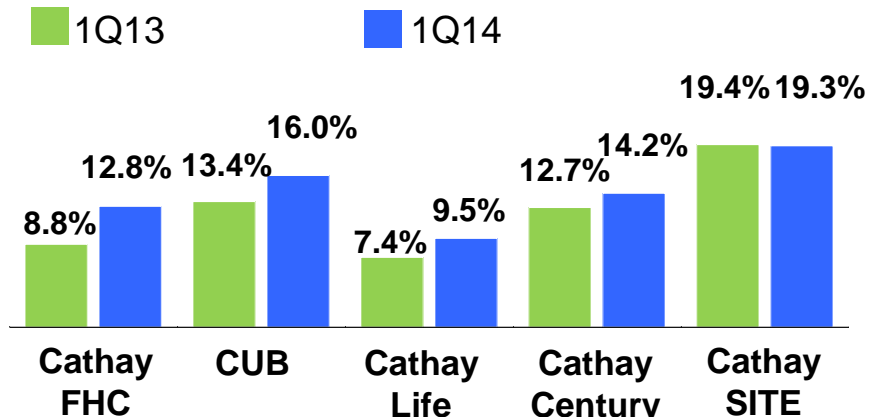
Note: Figures of FY12 & FY13 & 1Q14 were under IFRS principle; net income calculation included minority interest; EPS excluded minority interest.

# Cathay FHC — Financial results of subsidiaries

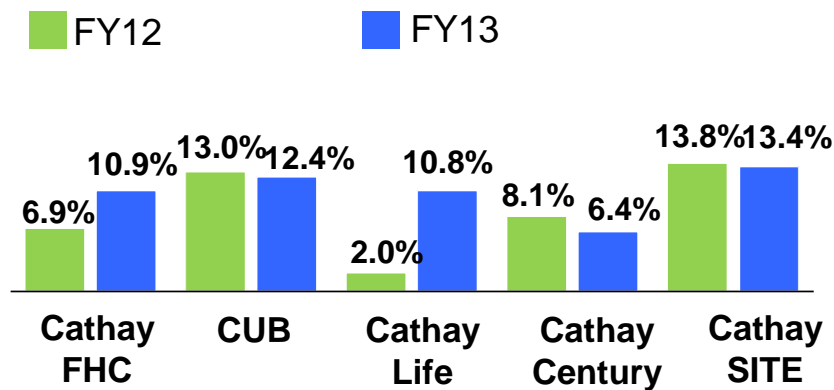
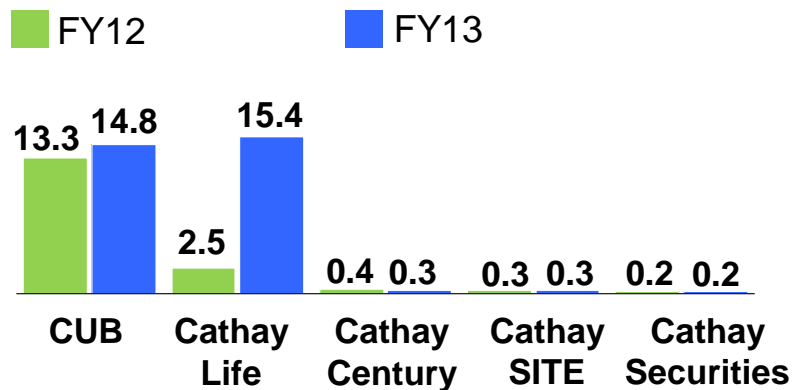
## Net income of primary subsidiaries



## ROE



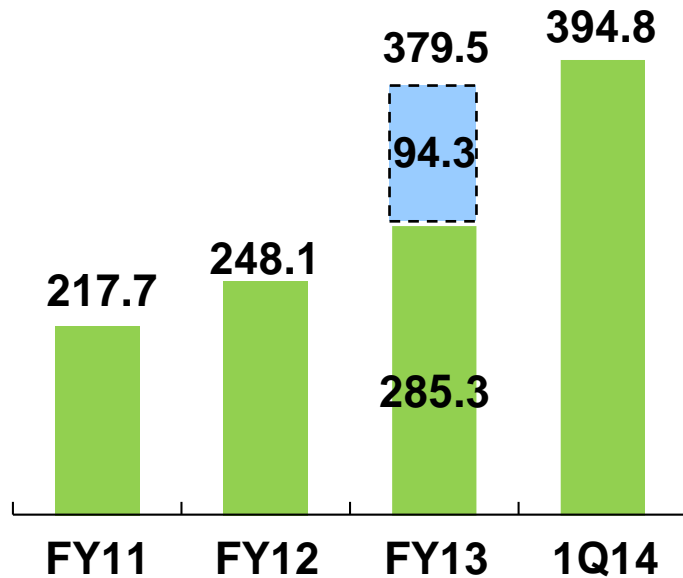
\*Apply fair value method on investment property on 2014/1/1. 1Q13 ROE are pro forma reflecting the impact to book value. The impact to 1Q13 ROE of Cathay FHC, CUB and Cathay Life was -2.4%, -0.3% and -4.3%, respectively. Details on page 34 & 35 for illustration.



# Cathay FHC — Book value & BVPS

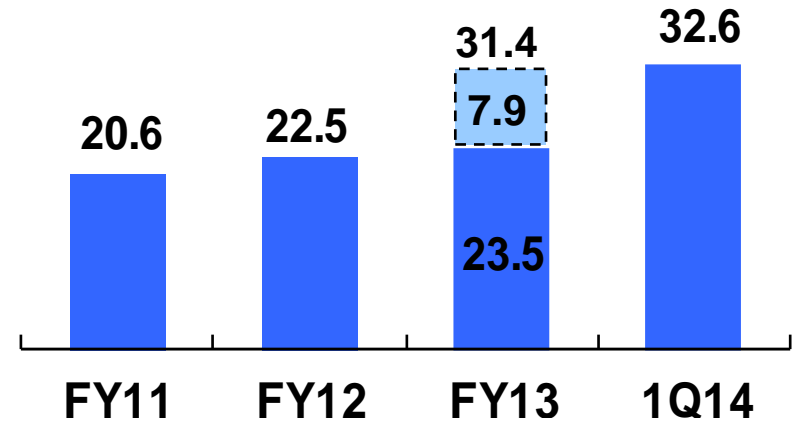
## Book value (NT\$BN)

■ 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) FY13 figures are pro forma adjusted numbers of fair value method on investment property. Details on page 34 & 35 for illustration.  
 (2) Book value of FY12 & FY13 & 1Q14 included minority interest, BVPS excluded minority interest.  
 (3) Totals may not sum due to rounding.

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- **1Q14 Business overview**

Cathay United Bank

Cathay Life

Cathay Century

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- **Fair value method on investment property**

- **Fair value of insurance liability**

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- **Appendix**

Capital adequacy

Recovery plan for special reserve of unrealized gains on property

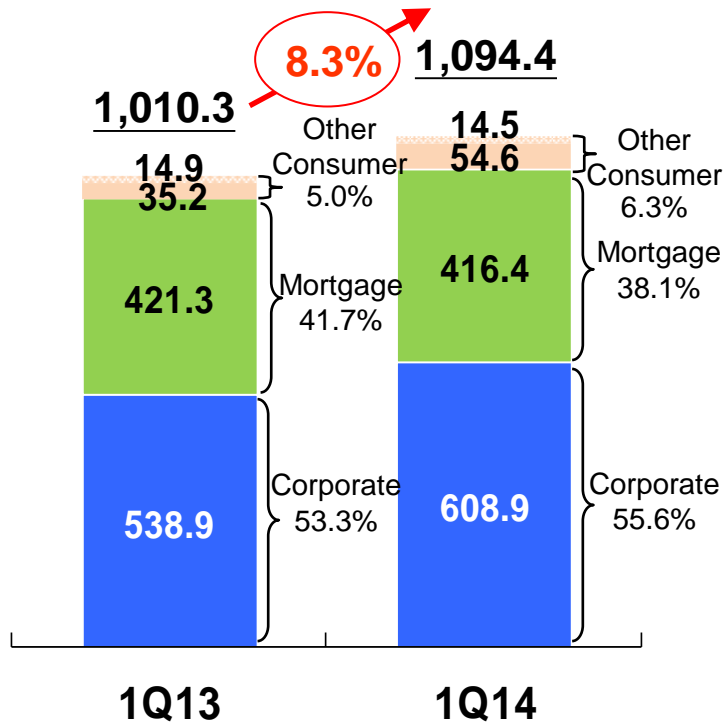
Fair Value of Insurance Contracts: Risk-free Rate (USD)



# Cathay United Bank — Loan & Deposit breakdown

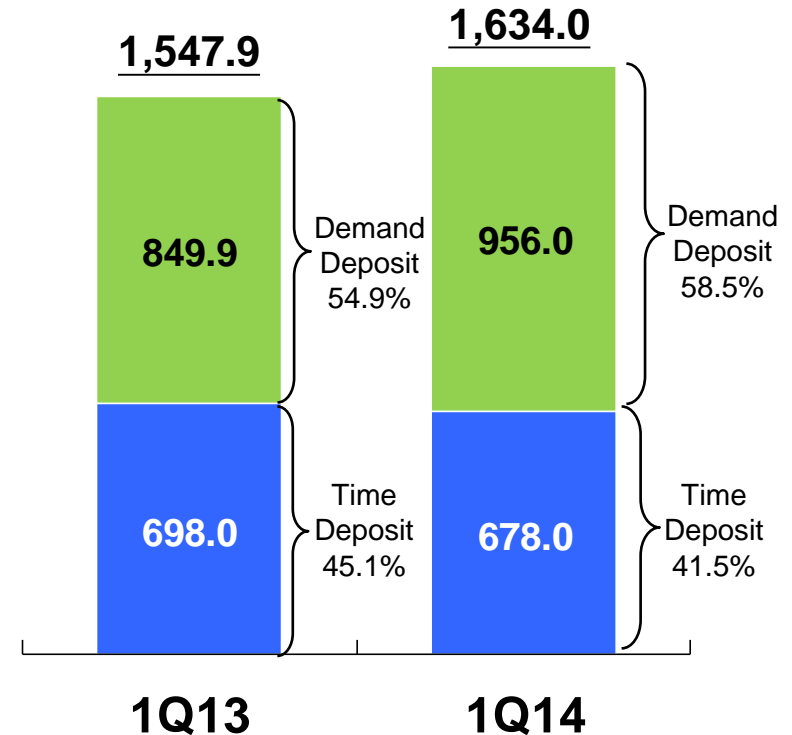
## Loan breakdown

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



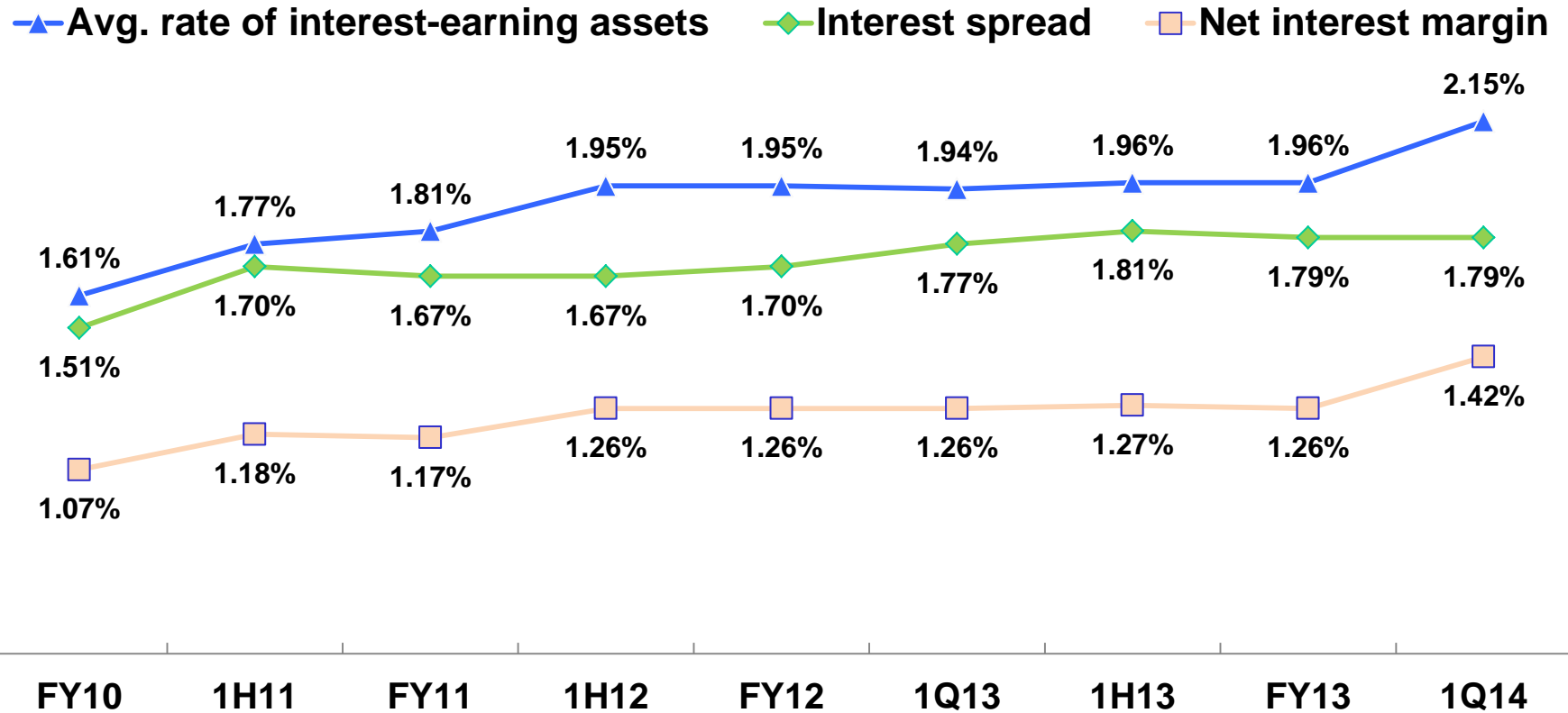
## Deposit breakdown

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



Note: Totals may not sum due to rounding.

# 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)

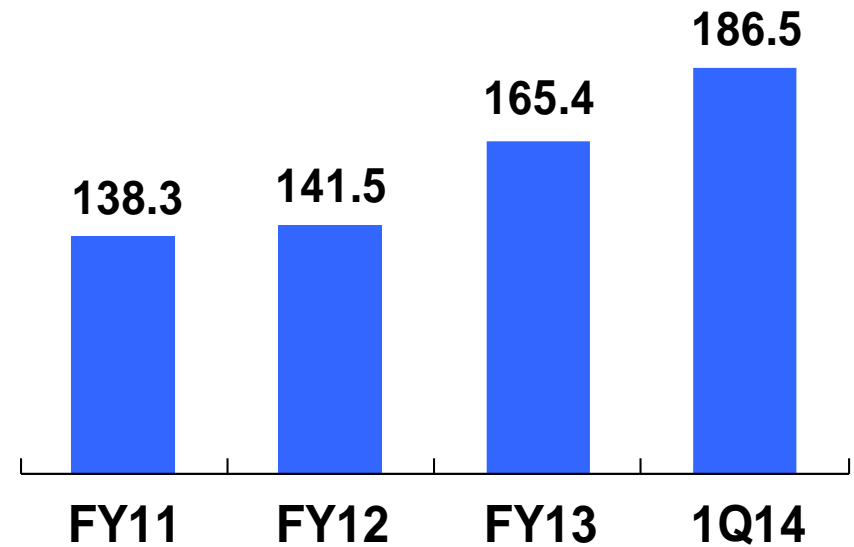


As % of total loans

10.6%	10.6%	10.3%	10.0%
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## Foreign currency loans

(NT\$BN)

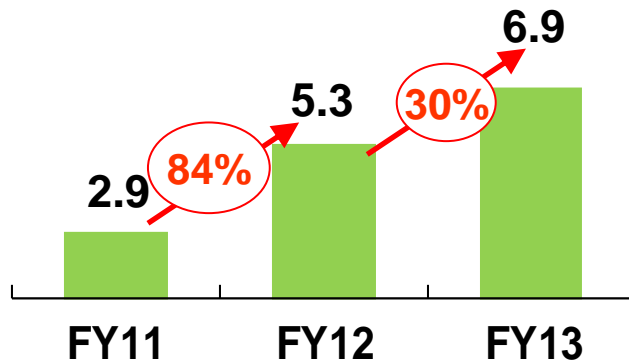
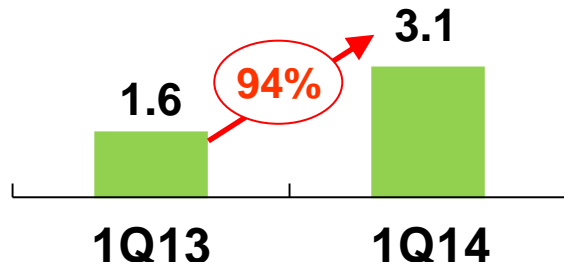


13.7%	14.0%	15.9%	17.0%
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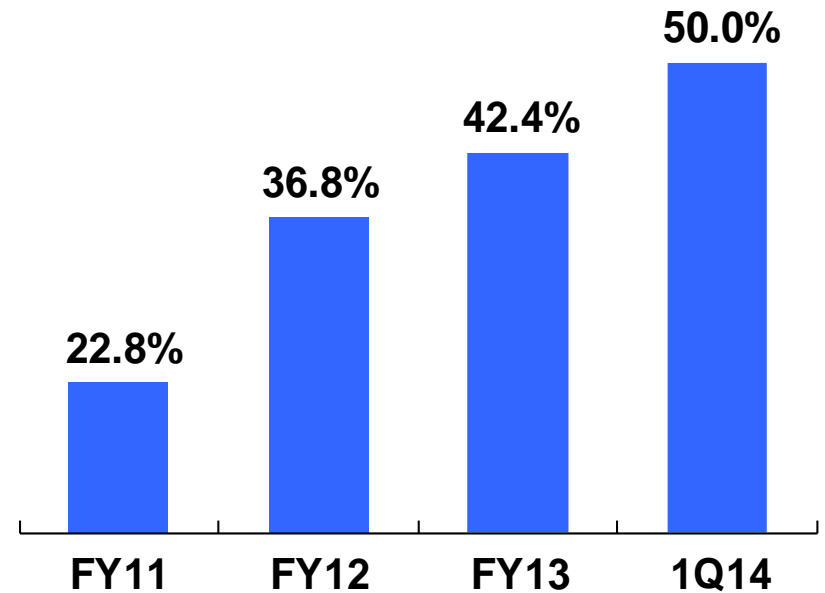
# Cathay United Bank – Offshore earnings

## Offshore earnings

(NT\$BN)








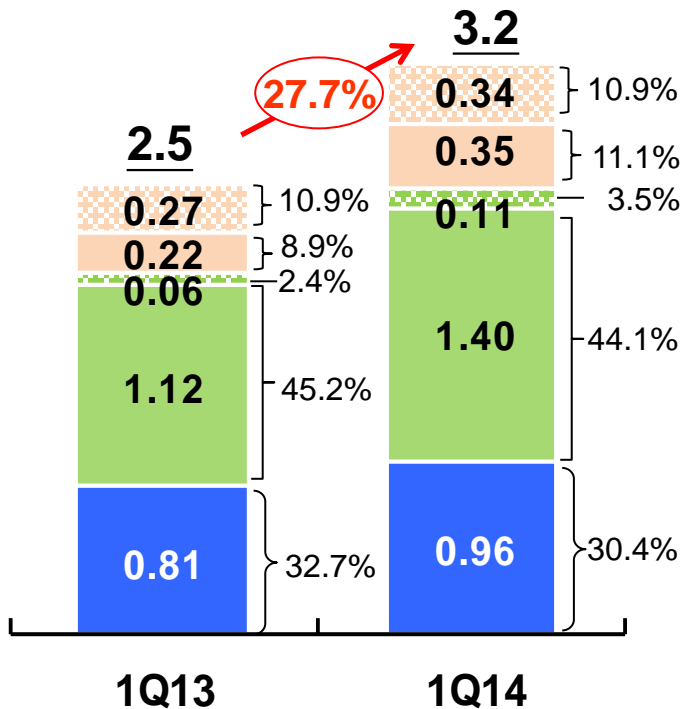
## As % of CUB pre-tax profits



# Cathay United Bank – Fee income






## Fee income breakdown (quarterly)

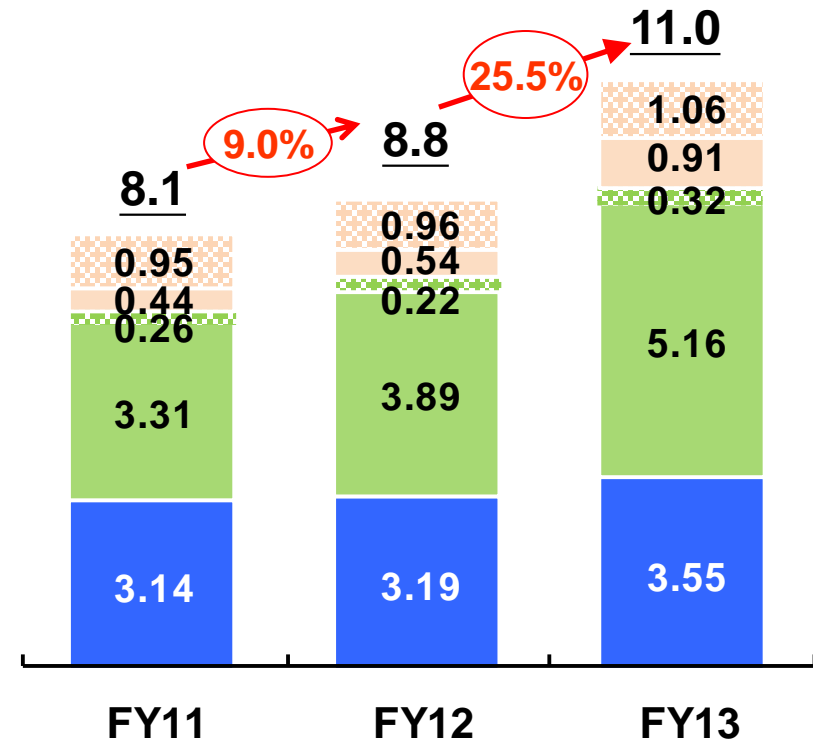
-  Others (NT\$BN)
-  Syndicated loans
-  FX
-  Wealth management
-  Cards related



Note: Totals may not sum due to rounding.

## Fee income breakdown (annual)

-  Others (NT\$BN)
-  Syndicated loans
-  FX
-  Wealth management
-  Cards related



# Cathay United Bank – Wealth management fee breakdown

## Wealth management fee breakdown (quarterly)

1Q13 1Q14

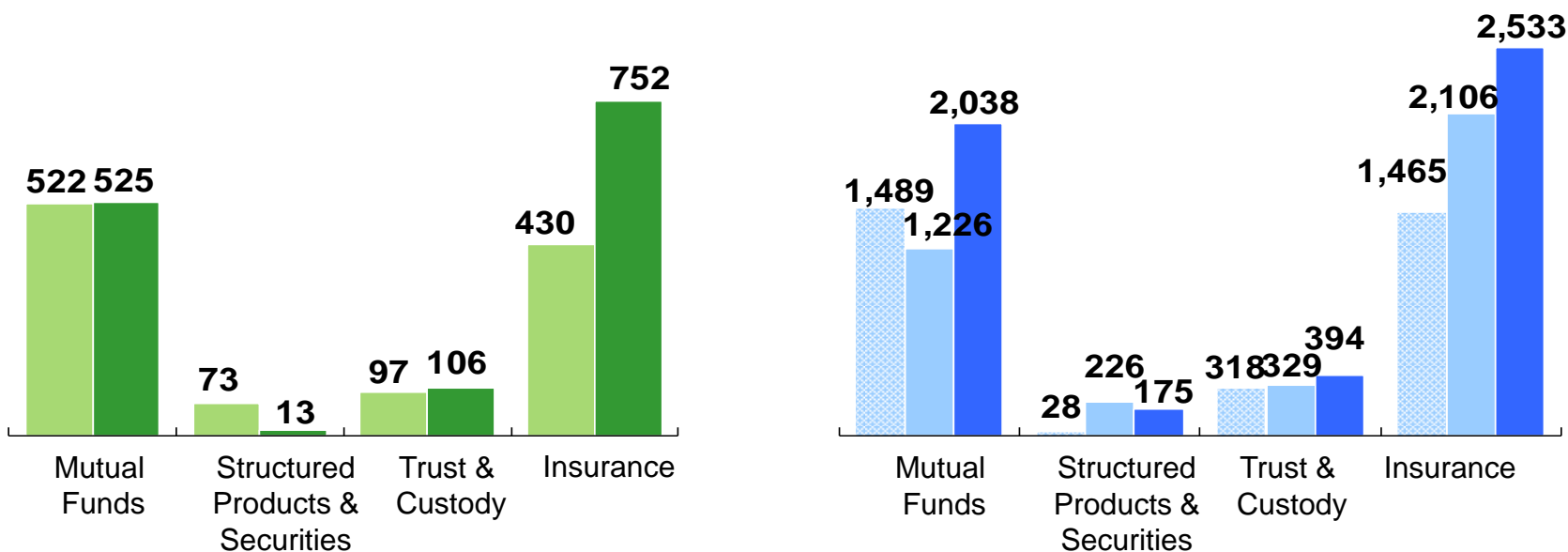
## Wealth management fee breakdown (annual)

FY11 FY12 FY13

(NT\$MN)	1Q13	1Q14	FY11	FY12	FY13
<b>Wealth Management Fee Income*</b>	<b>1,125</b>	<b>1,399</b>	<b>3,309</b>	<b>3,894</b>	<b>5,163</b>
<b>YoY growth (%)</b>	<b>6.5%</b>	<b>24.4%</b>	<b>5.3%</b>	<b>17.7%</b>	<b>32.6%</b>

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

<b>Revenue from DCI, SI &amp; others</b>	<b>85</b>	<b>413</b>	<b>71</b>	<b>141</b>	<b>1,159</b>
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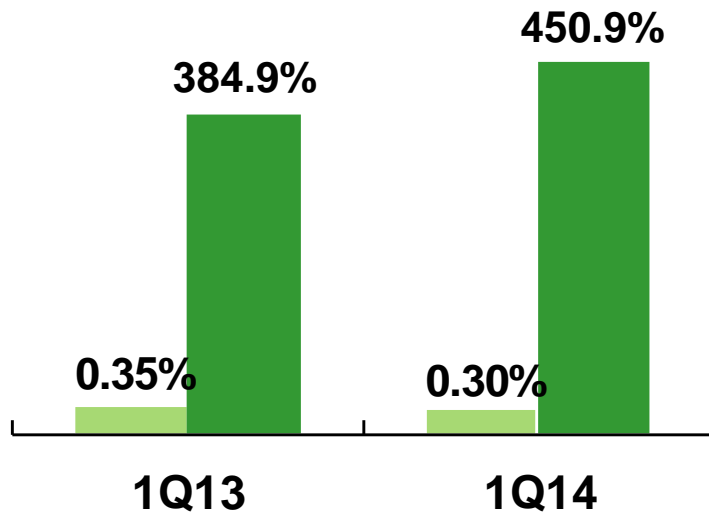
Note: Wealth management fee excludes revenue from DCI, SI and others.

Note: Totals may not sum due to rounding.

# Cathay United Bank – Credit quality

## NPL & Coverage ratio

- NPL ratio
- Coverage ratio

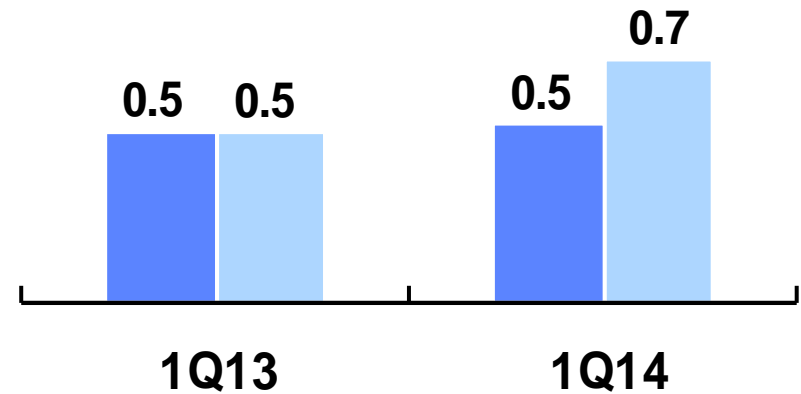


Mortgage NPL 0.06%

0.04%

## Gross provision

- Gross provision (NT\$BN)
- Recovery



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- **Fair value of insurance liability**

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  - Recovery plan for special reserve of unrealized gains on property






  - Fair Value of Insurance Contracts: Risk-free Rate (USD)



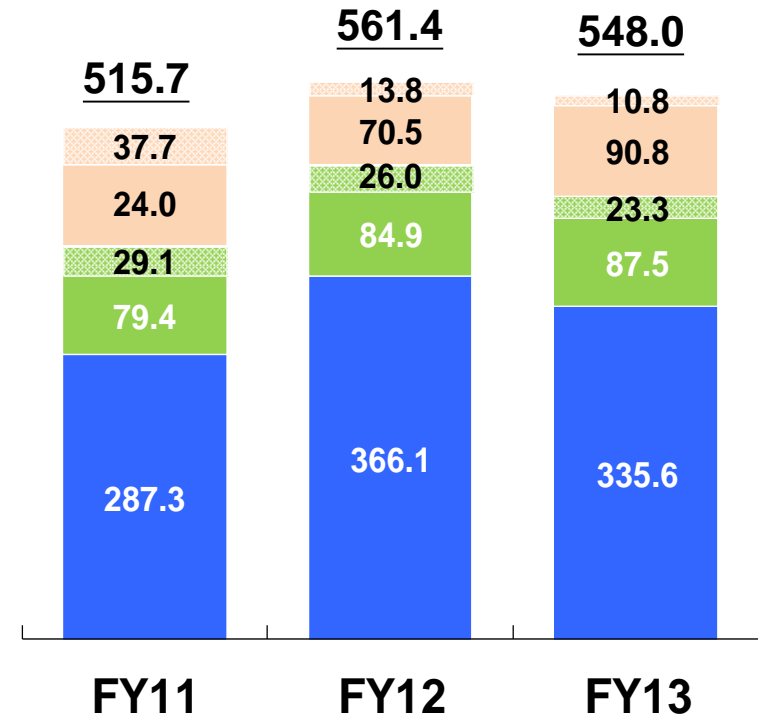
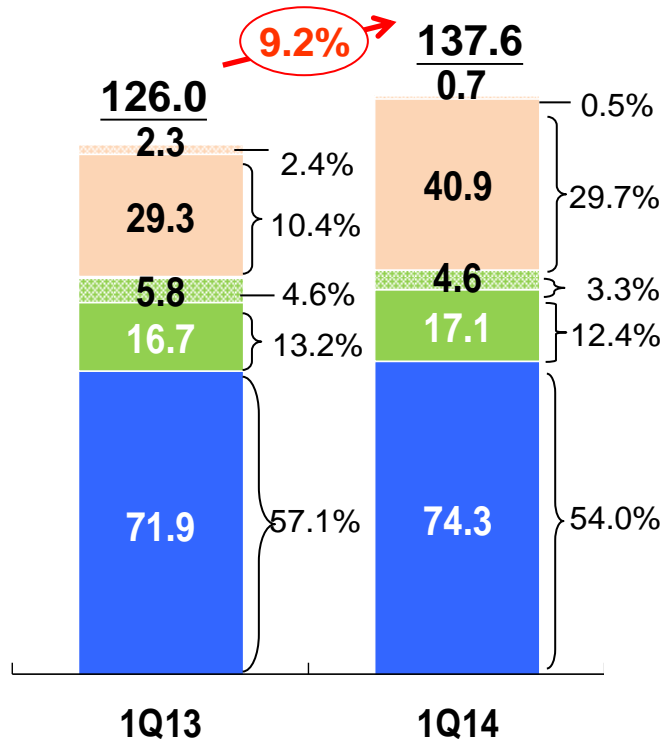
# Cathay Life – Total premium

## Total premium (quarterly)

## Total premium (annual)

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







(NT\$BN)

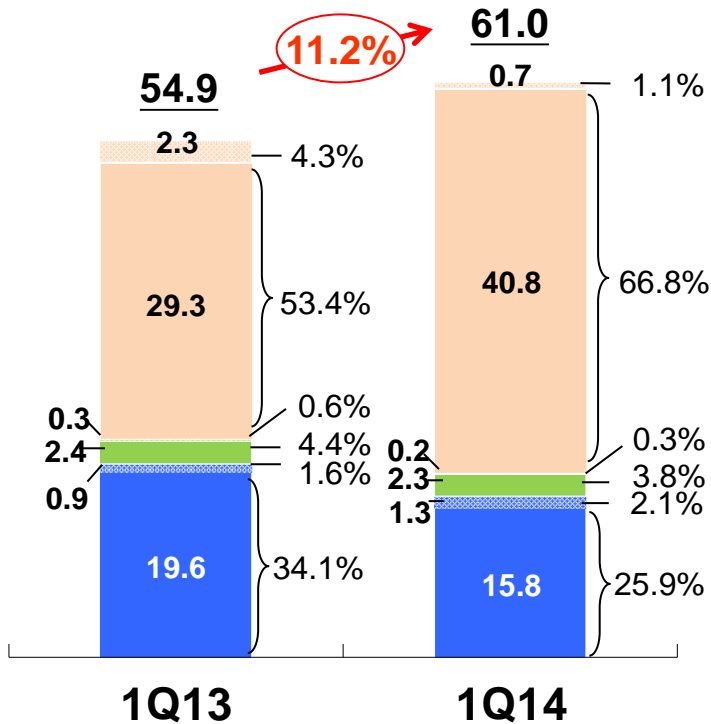


Note: Totals may not sum due to rounding.






# Cathay Life — FYP & FYPE

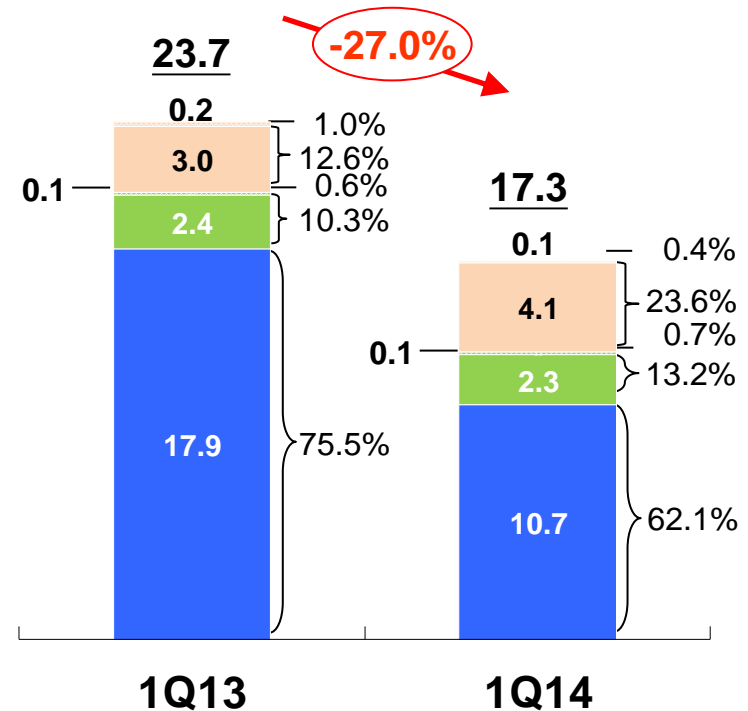
## FYP

-  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

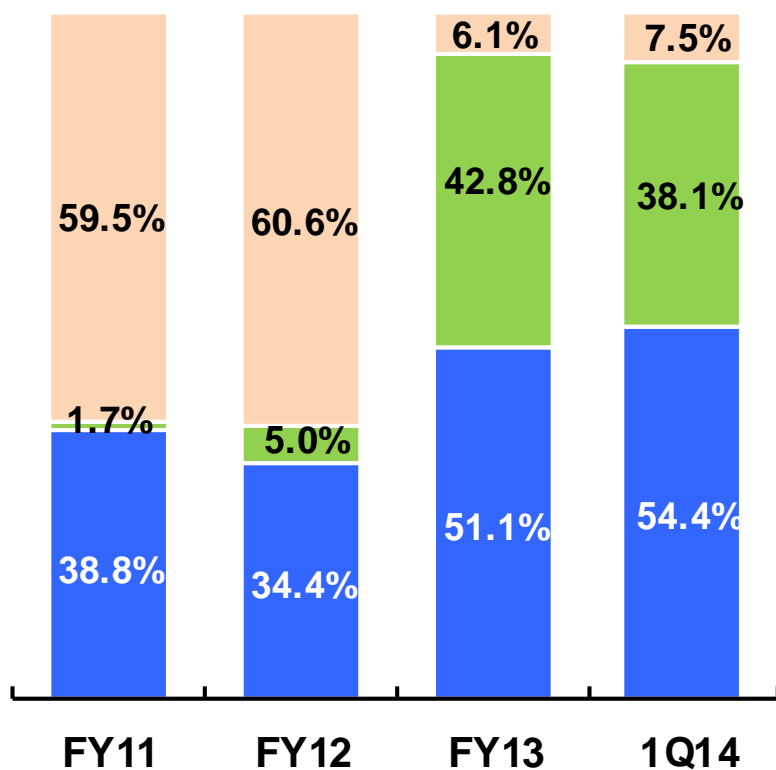


Note: Totals may not sum due to rounding.

# Cathay Life– Regular paid policies improve margin and VNB

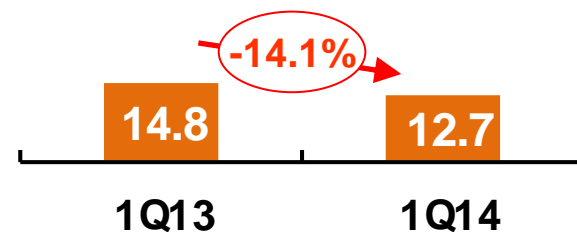
## Breakdown of Traditional FYP

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

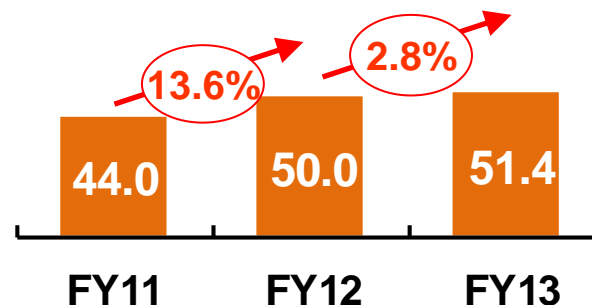


## VNB

Profit Margin	1Q13	1Q14
VNB/FYP	27%	21%
VNB/FYPE	62%	73%



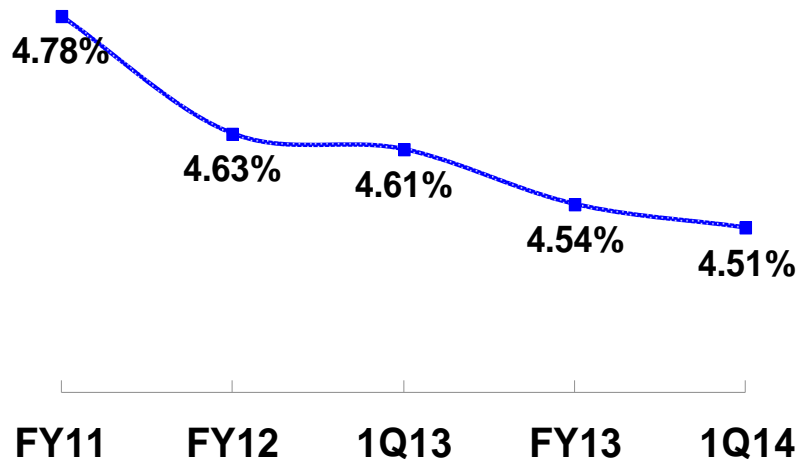
Profit Margin	FY11	FY12	FY13
VNB/FYP	17%	19%	26%
VNB/FYPE	55%	54%	70%



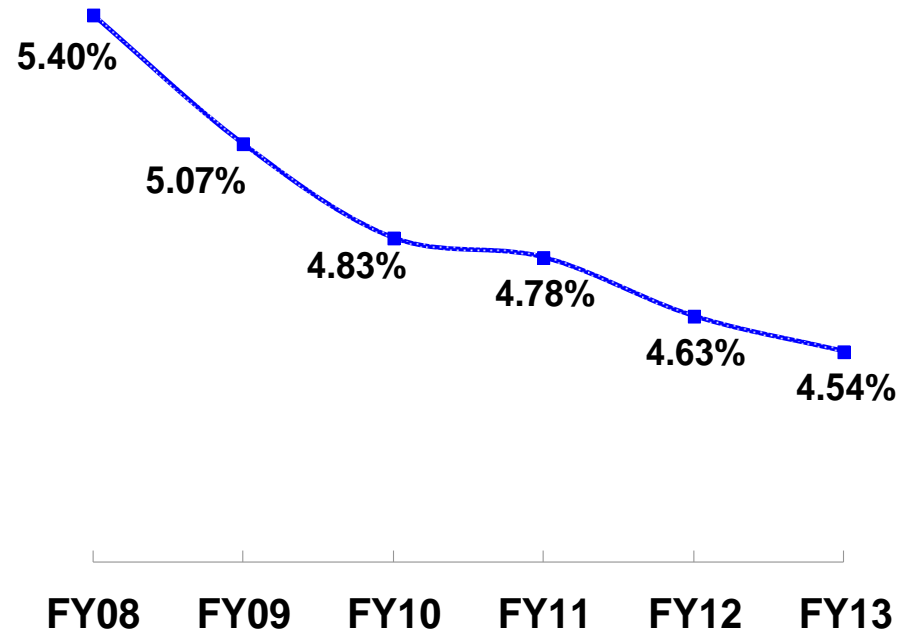
Note : FY13 VNB is based on Cathay Life's 2013 EV actuarial assumptions.

# 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)	4Q11	4Q12	4Q13	1Q14		
<b>Total investments<sup>(2)</sup></b>	<b>2,959.2</b>	<b>3,283.7</b>	<b>3,785.1</b>	<b>3,873.0</b>		
	Weight	Weight	Weight	Amount	Weight	Amount
<b>Cash &amp; Cash equivalents</b>	<b>8.6%</b>	<b>8.2%</b>	<b>3.7%</b>	<b>138.4</b>	<b>3.8%</b>	<b>145.6</b>
<b>Equity- Domestic</b>	<b>8.5%</b>	<b>8.1%</b>	<b>8.9%</b>	<b>337.3</b>	<b>8.7%</b>	<b>338.4</b>
<b>Equity- International</b>	<b>4.0%</b>	<b>4.3%</b>	<b>4.9%</b>	<b>186.5</b>	<b>4.7%</b>	<b>182.7</b>
<b>Bond- Domestic</b>	<b>16.4%</b>	<b>16.6%</b>	<b>14.4%</b>	<b>546.1</b>	<b>13.5%</b>	<b>524.3</b>
<b>Bond- International<sup>(3)</sup></b>	<b>38.6%</b>	<b>39.6%</b>	<b>38.9%</b>	<b>1472.5</b>	<b>40.8%</b>	<b>1579.1</b>
<b>Mortgage &amp; Secured loans</b>	<b>10.2%</b>	<b>10.3%</b>	<b>12.2%</b>	<b>461.2</b>	<b>12.2%</b>	<b>473.7</b>
<b>Policy loans</b>	<b>6.4%</b>	<b>5.5%</b>	<b>4.7%</b>	<b>177.9</b>	<b>4.5%</b>	<b>173.6</b>
<b>Real estate</b>	<b>5.4%</b>	<b>5.6%</b>	<b>10.6%</b>	<b>402.2<sup>(1)</sup></b>	<b>10.6%</b>	<b>410.3<sup>(1)</sup></b>
<b>Others</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.7%</b>	<b>62.9</b>	<b>1.2%</b>	<b>45.2</b>

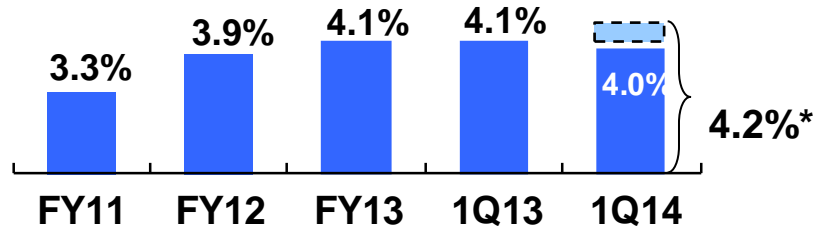
Note (1): Real estate included NT\$71.3BN of investment property appraisal gain from IFRS adoption and NT\$133.1BN of impact from fair value method on investment property.

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

(3): Includes foreign currency deposit and related adjustments

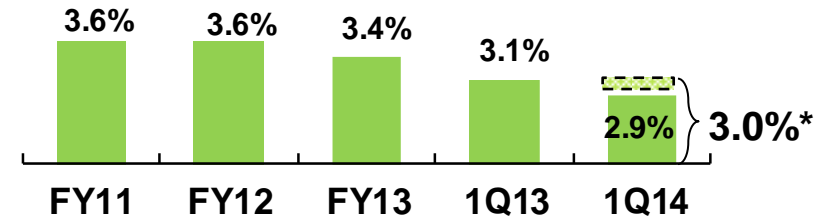
# Cathay Life – Investment performance highlight

## After-hedging investment yield



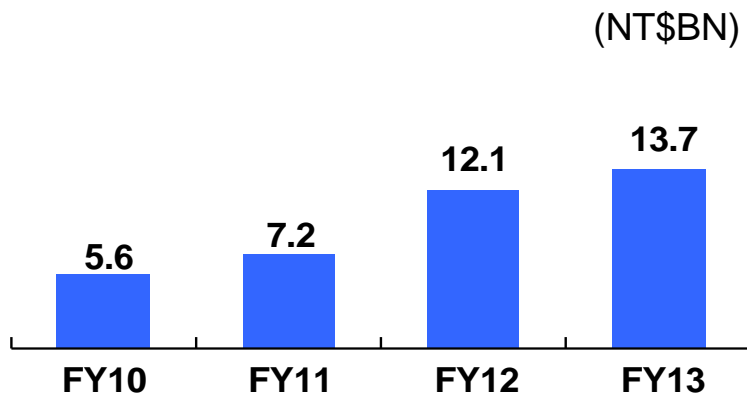
\*Fair value method on investment property has led to higher book value; it therefore reduced investment yield and recurring yield by 0.2% and 0.1%, respectively.

## Pre-hedging recurring yield

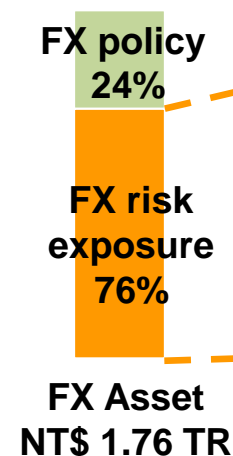


Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend. Most dividend will be recognized in 2Q & 3Q.

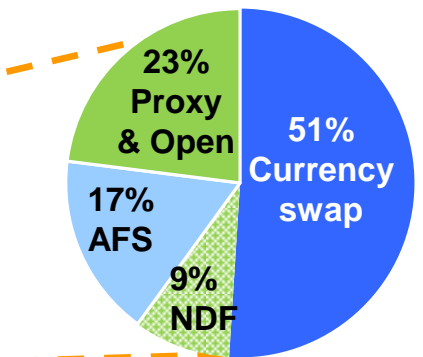
## Cash dividend



## FX Asset



## FX risk exposure

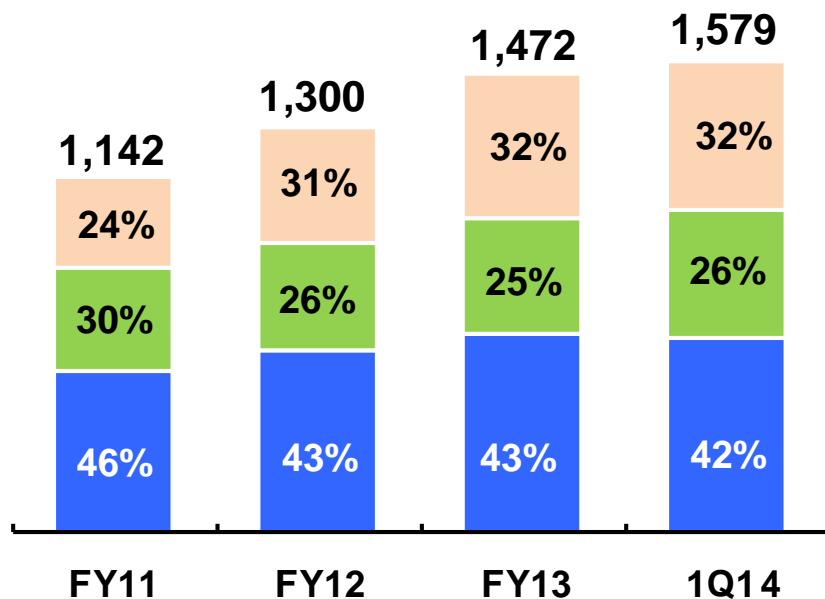


1Q14 Annualized hedging cost 0.58%

# Cathay Life – International bond investment highlight

## Overseas Bond by Region

■ Asia & others  
■ Europe  
■ USA  
 (NT\$BN)



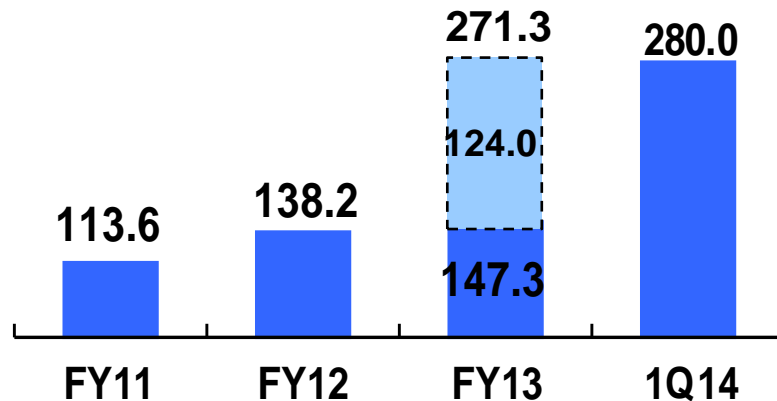
## Top 5 of European Exposure

Country	As % of overseas bond investment	As % of European bond investment
UK	6.1	23.8
Germany	5.1	19.9
France	4.7	18.2
Netherlands	3.6	14.0
Italy	1.8	6.9
<b>Total</b>	<b>21.2</b>	<b>82.8</b>

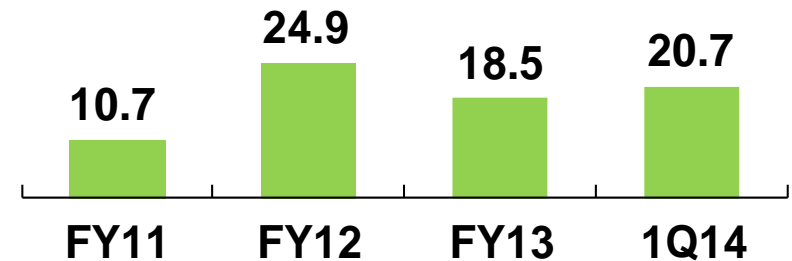
# Cathay Life – Book value & Unrealized G/L of AFS financial assets

## 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: FY13 figures are pro forma adjusted numbers of fair value method on investment property. Details on page 34 & 35 for illustration. Book value of FY12 & FY13 & 1Q14 included minority interest.



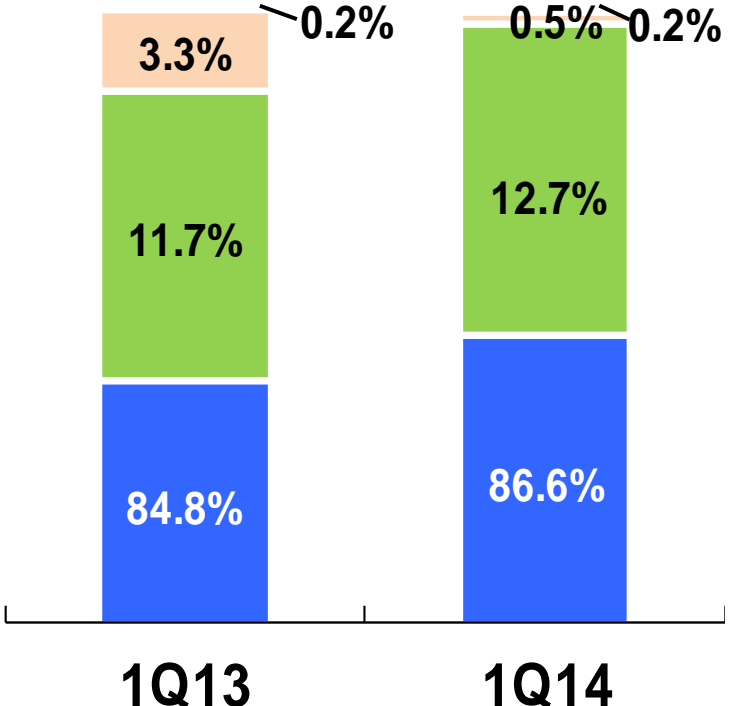
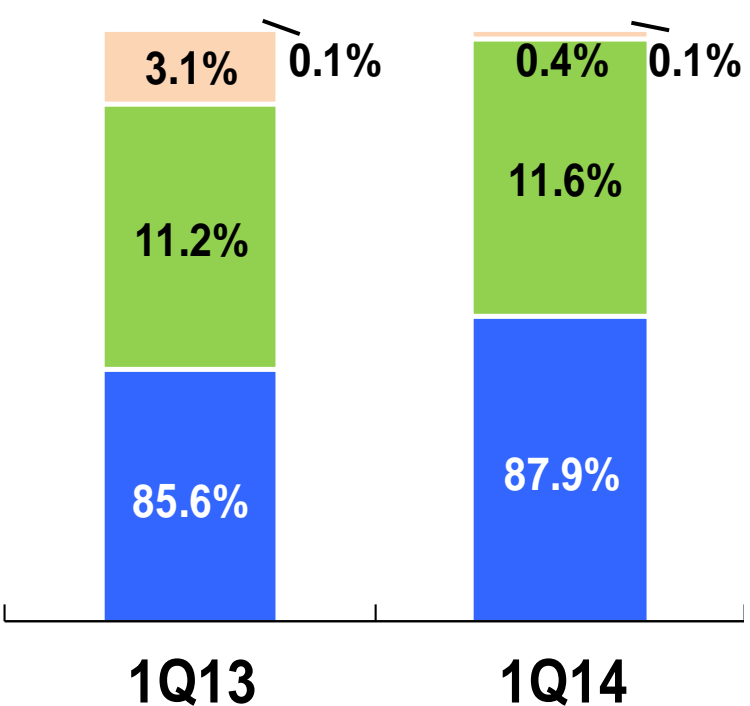
# Cathay Life — Distribution channel

FYP

FYPE

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

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

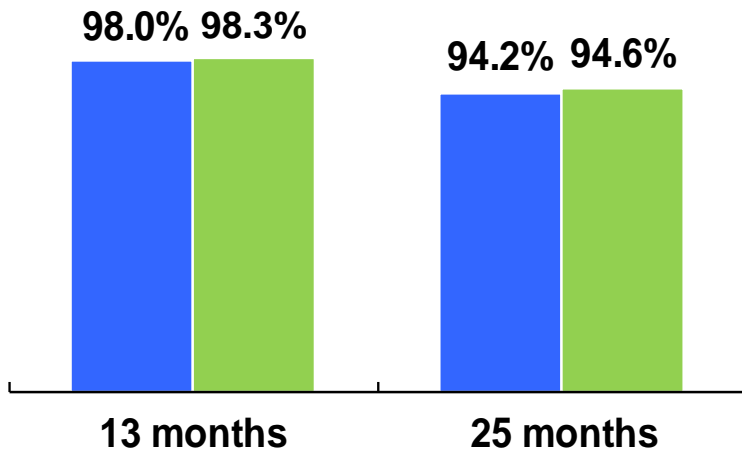


# Cathay Life – Operational indicators

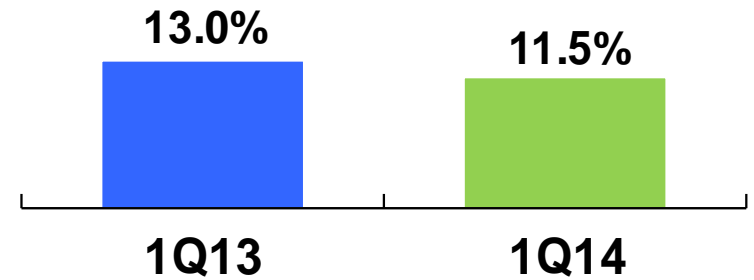
## Persistence ratio

■ 1Q13

■ 1Q14



## Expense ratio



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  - Cathay United

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- **Fair value of insurance liability**

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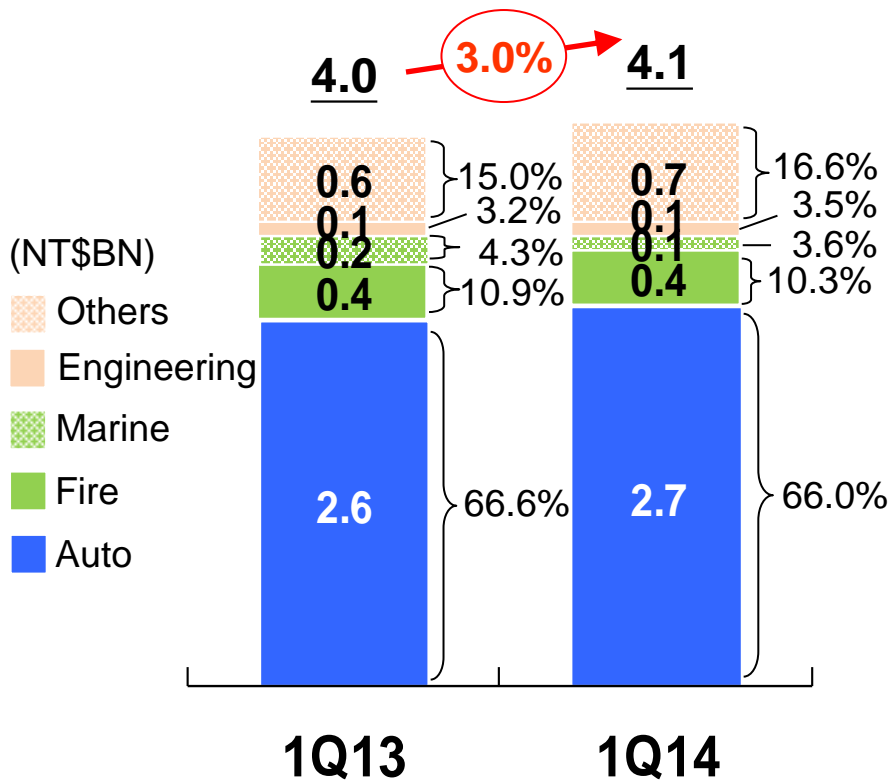
  - Capital adequacy

  - Recovery plan for special reserve of unrealized gains on property

  - Fair Value of Insurance Contracts: Risk-free Rate (USD)

# Cathay Century

## Premium income

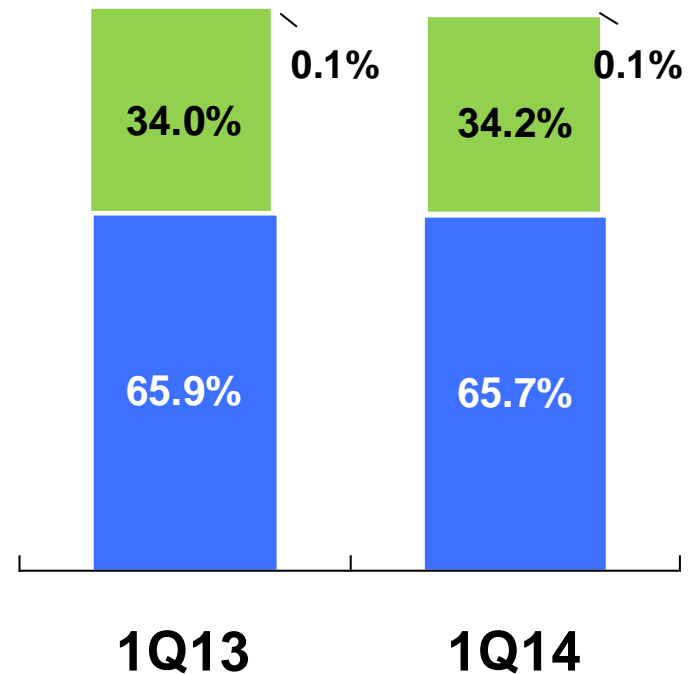


<b>Market share</b>	<b>12.3%</b>	<b>12.1%</b>
<b>Retention</b>	<b>78.6%</b>	<b>78.7%</b>

Note: Totals may not sum due to rounding.

## Distribution channel

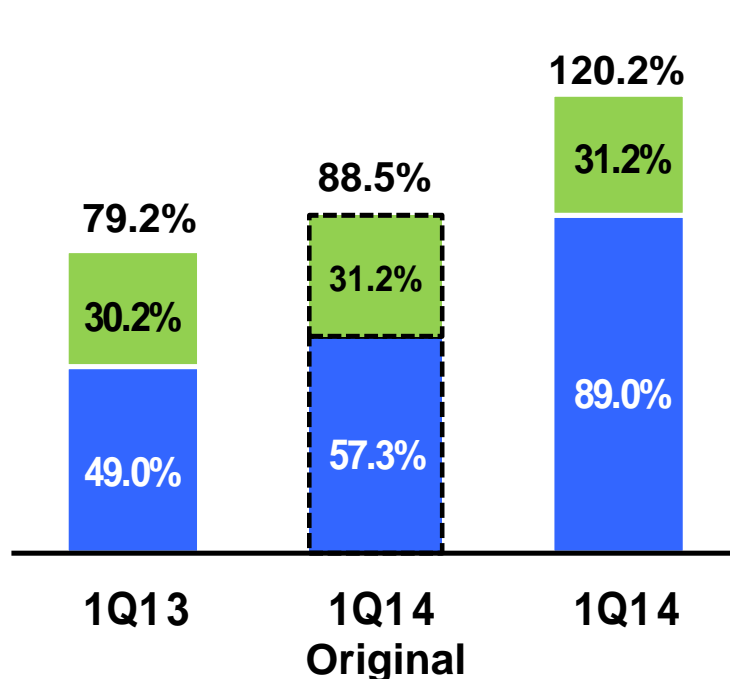
- Others
- Cathay P&C agents
- Cathay group channel



# Cathay Century – Distribution channel

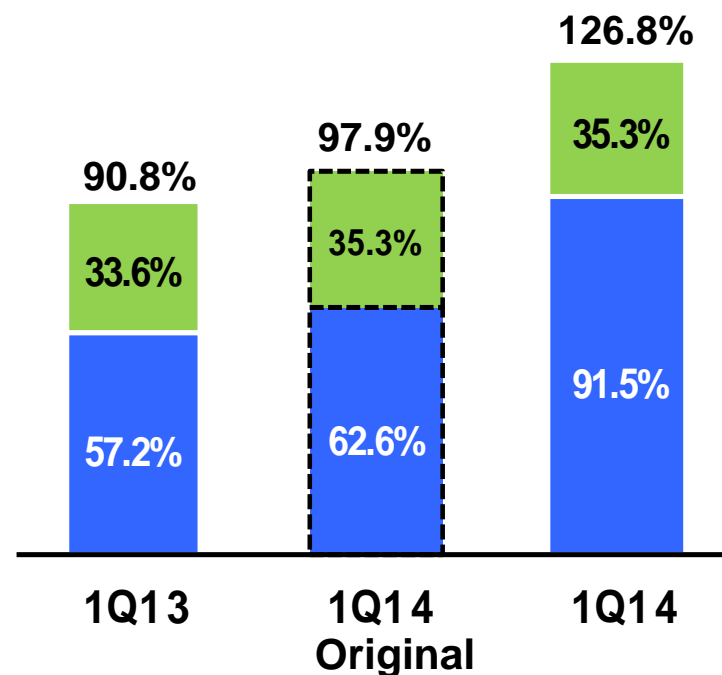
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Note : From 2014/1/1, the loss provisions rules on compulsory car insurance was changed and the loss ratio increased significantly compared to last year. However, the shortfall between retained earned pure premium and net loss provision plus claim payment was offset by recovery of special reserve and therefore has no impact on net profit.

# Agenda

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- **1Q14 Business overview**

  - Cathay United

  - Cathay Life

  - Cathay Century

- **Overseas expansion**

- **Fair value method on investment property**

- **Fair value of insurance liability**

- **Cathay Life Embedded value & appraisal value**

- **Appendix**

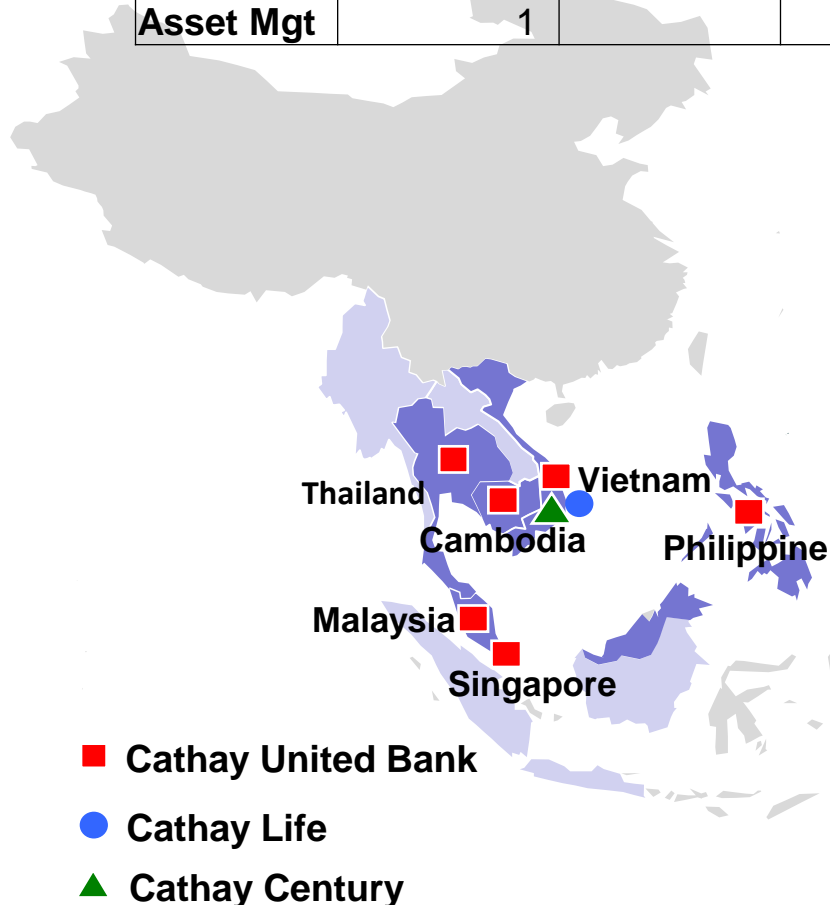
  - Capital adequacy

  - Recovery plan for special reserve of unrealized gains on property

  - Fair Value of Insurance Contracts: Risk-free Rate (USD)

# 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

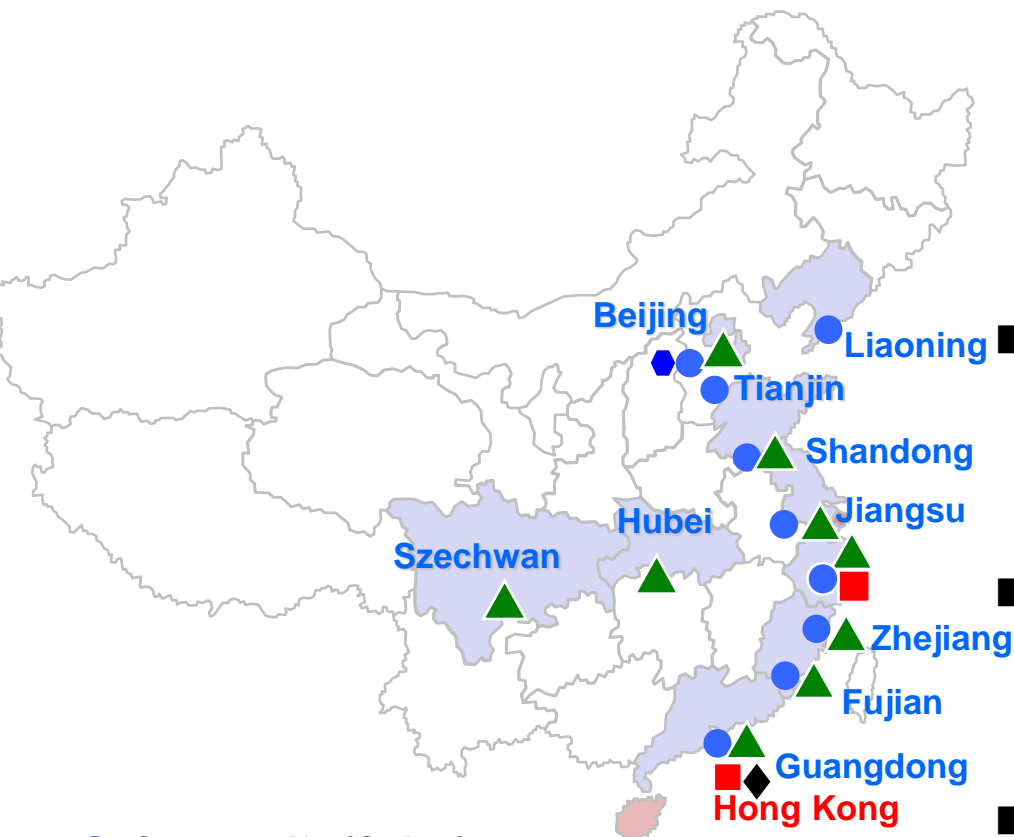
## ■ Cathay Life

- Operate 6 footprints in Vietnam
- 1Q14 net income reached NT\$34MN

## ■ Cathay Century

- 1Q14 total premium income increased by 18% 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 this year
- Plan to apply Shenzhen branch and upgrade Shanghai branch into subsidiary

## ■ Cathay Life (China)

- China Eastern Airline completed shares transfer to Lujiazui in Apr.
- Agent productivity grew by 85% YoY in 1Q14

## ■ Cathay Century (China)

- Strong premium income growth in 1Q14, up by 38% YoY
- Has set up 20 business footprints in 18 cities

## ■ JV with Conning (CCAM)

- AUM amounted to USD\$1.01BN in 1Q14

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

- Continued to launch new products, mainly fixed income funds



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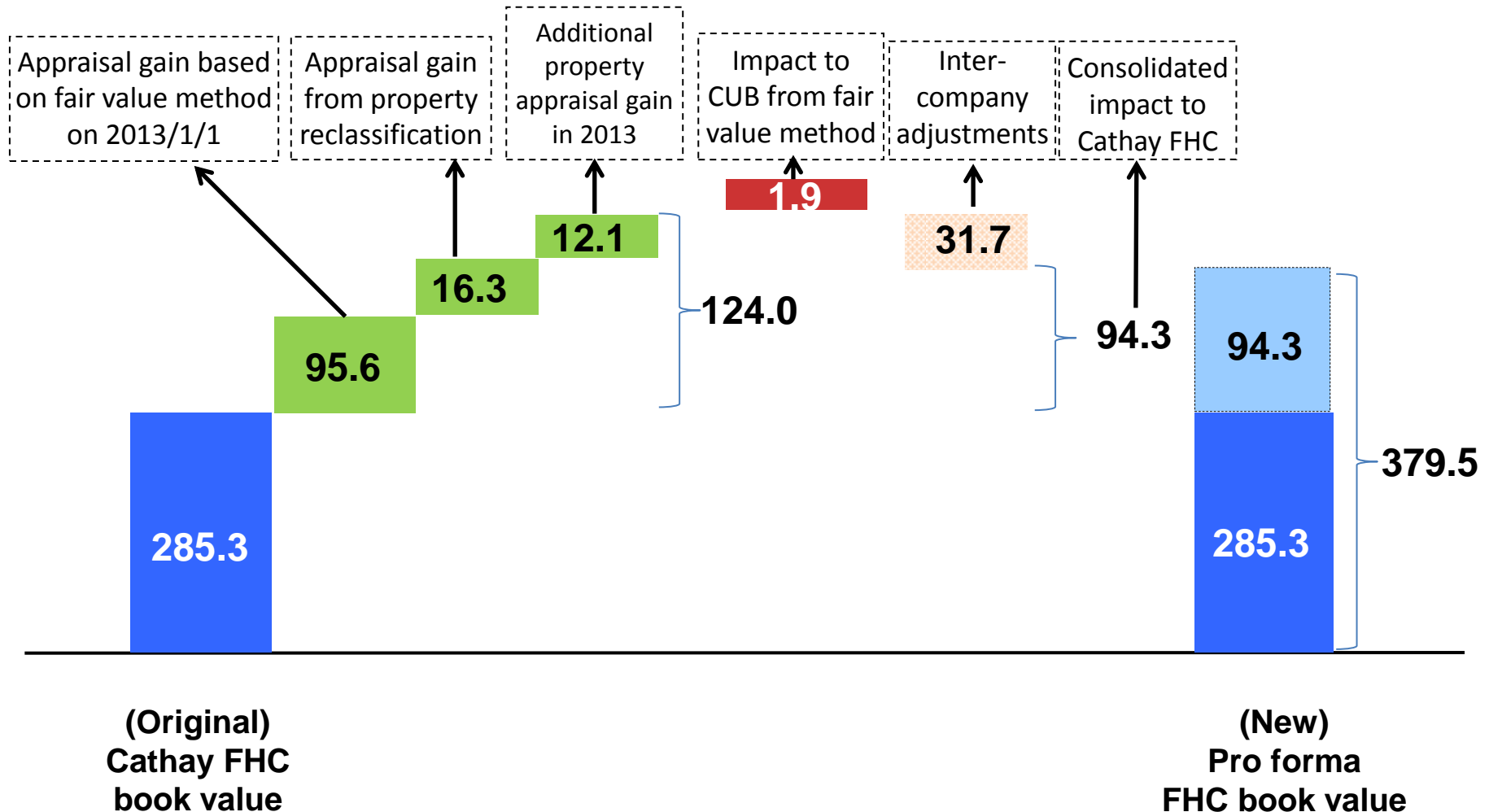
  - Capital adequacy

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# 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.

## 2013 pro forma numbers - impact of investment property further evaluation using fair value method

(NT\$ BN)		1Q13			2013		
		Cathay FHC	CUB	Cathay Life	Cathay FHC	CUB	Cathay Life
Net income	Pro forma numbers	-	-	-	38.0	14.8	27.6
	Difference	-	-	-	+9.0	+0.1	+12.1
Book value	Pro forma numbers	330.7	110.4	237.9	379.5	133.1	271.3
	Difference	+75.2	+1.2	+95.6	+94.3	+1.9	+124.0
ROE (%)	Pro forma numbers	8.8%	13.4%	7.4%	10.8%	12.3%	10.9%
	Difference	-2.4%	-0.3%	-4.3%	-0.1%	-0.1%	+0.1%

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  - Capital adequacy

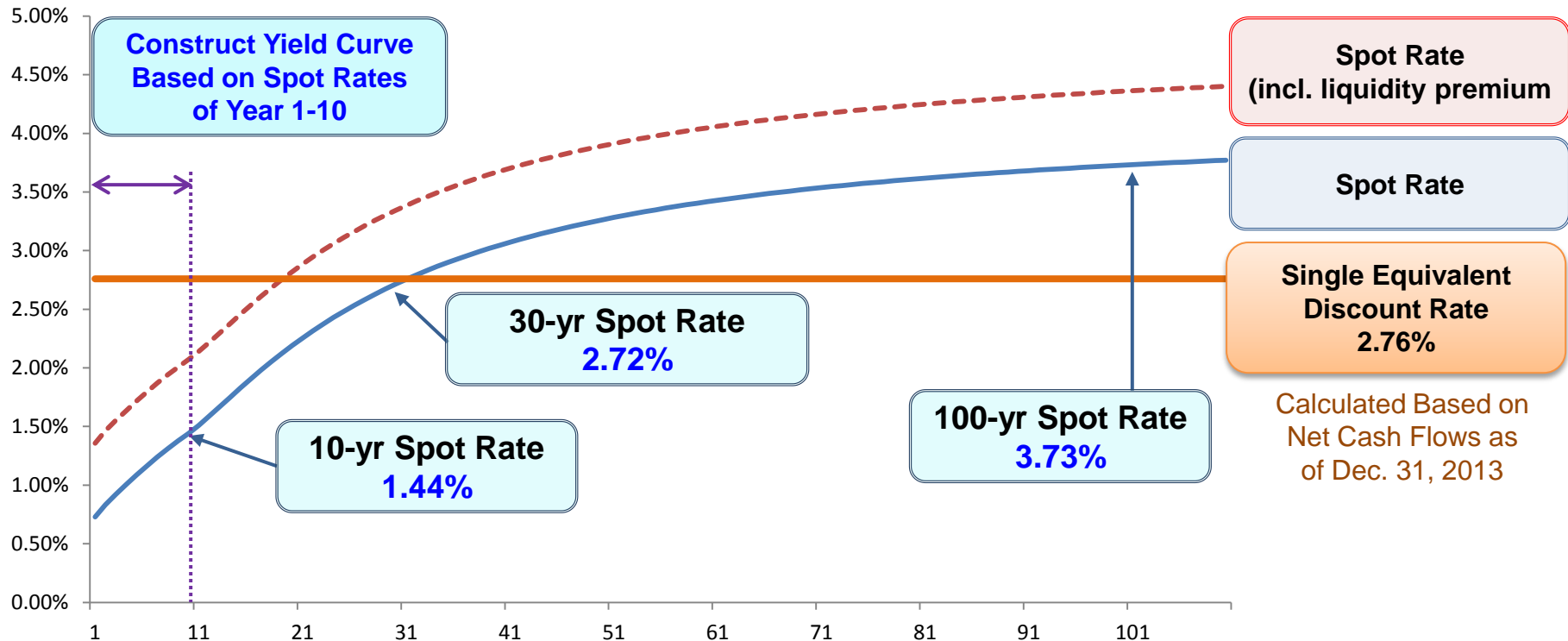
  - Recovery plan for special reserve of unrealized gains on property

  - Fair Value of Insurance Contracts: Risk-free Rate (USD)

# Fair Value of Insurance Contracts: Risk-free Rate (NTD)

## NTD Risk-free Rate

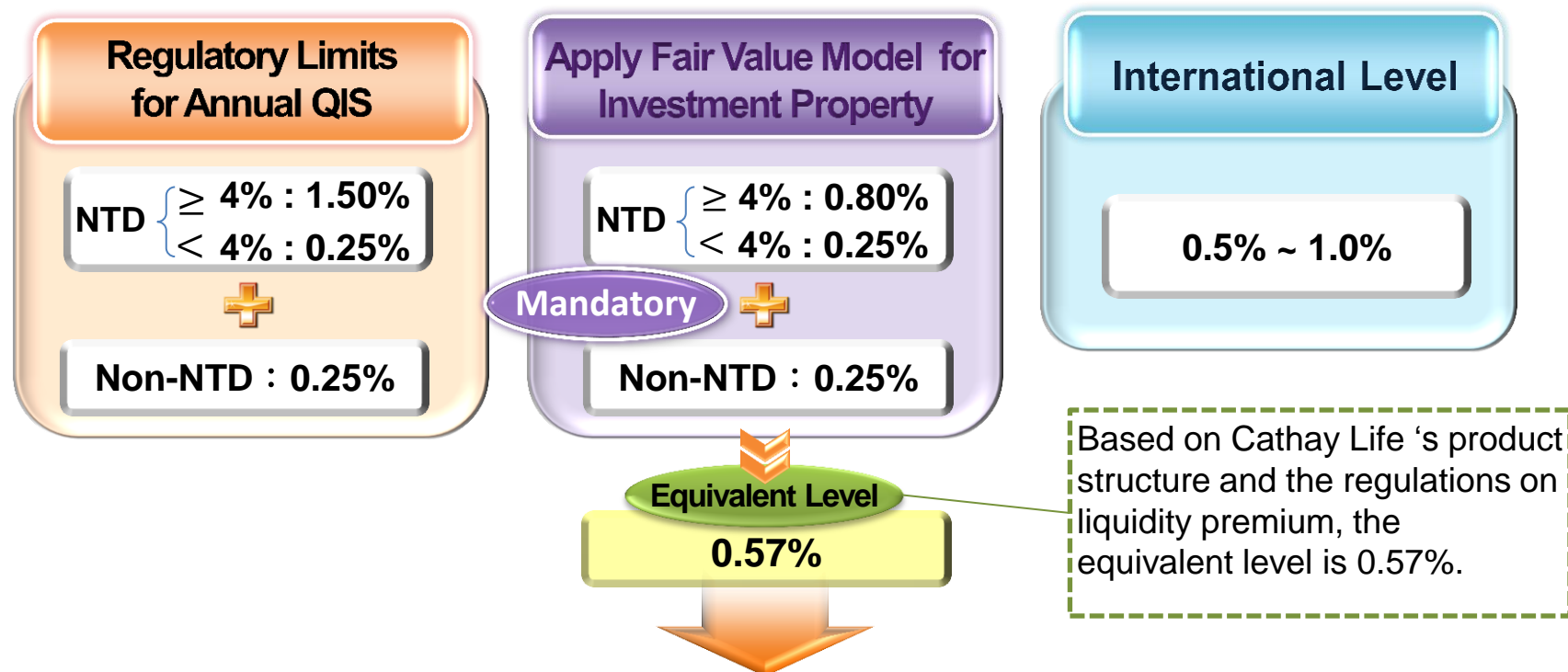
Calculate 3-yr daily MA yield curve based on the zero coupon yield curve announced by OTC (Svensson) and use the extrapolation method provided by [EU Solvency II QIS 5](#) to construct the complete yield curve.



Note: The "Spot Rate" mentioned above refers to 3-yr daily MA yield curve.

# Fair Value of Insurance Contracts: Liquidity Premium

If insurers apply fair value model for investment property, their insurance liabilities should also be assessed under fair value basis. Taiwan adopts a relatively strict standard of liquidity premium compared to the international level of 0.5%~1%.



According to the regulations on liquidity premium mentioned above, Cathay Life's reserve is sufficient and allowed to recognize after tax full amount of investment property appraisal gain under fair value method into shareholder's equity.

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# Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2012/12/31	2013/12/31
In-force business investment yield	3.8% ~ Year 2032 5.03% for NTD policies 4.3% ~ Year 2032 6.14% for USD policies 2.68% ~ Year 2032 3.11% for Interest crediting annuity (Equivalent investment yield: 4.34%, rolling over to 2013: 4.39%)	3.94% ~ Year 2033 5.07% for NTD policies 4.47% ~ Year 2033 6.11% for USD policies 2.71% ~ Year 2033 3.10% for Interest crediting annuity (Equivalent investment yield: 4.39%)
Future one year's new business investment yield	2.73%~ Year 2032 5.03% for NTD policies 4.02% ~ Year 2032 6.14% for USD policies 2.38% ~ Year 2032 2.66% for Interest crediting annuity	2.76%~ Year 2033 5.07% for NTD policies 4.02% ~ Year 2033 6.11% for USD policies 2.42% ~ Year 2033 2.67% for Interest crediting annuity
Risk discount rate	10%	10%
Adjusted net worth	324	352
Value of in-force business	323	396
Cost of capital (CoC)	-82	-113
Value of in-force business (After CoC)	241	283
Embedded Value (EV)	565	635
EV / per share <sub>2</sub>	106.5 (53.0) <sub>2</sub>	119.7 (55.0)
Appraisal Value (AV)	1,001	1,093
Value of future one year's new business (After CoC)	50	52.5
AV / per share <sub>2</sub>	188.6 (93.9) <sub>2</sub>	206.0 (94.7)

Note: 1. EV/AV calculation does not include business of Cathay Life in China and Vietnam.

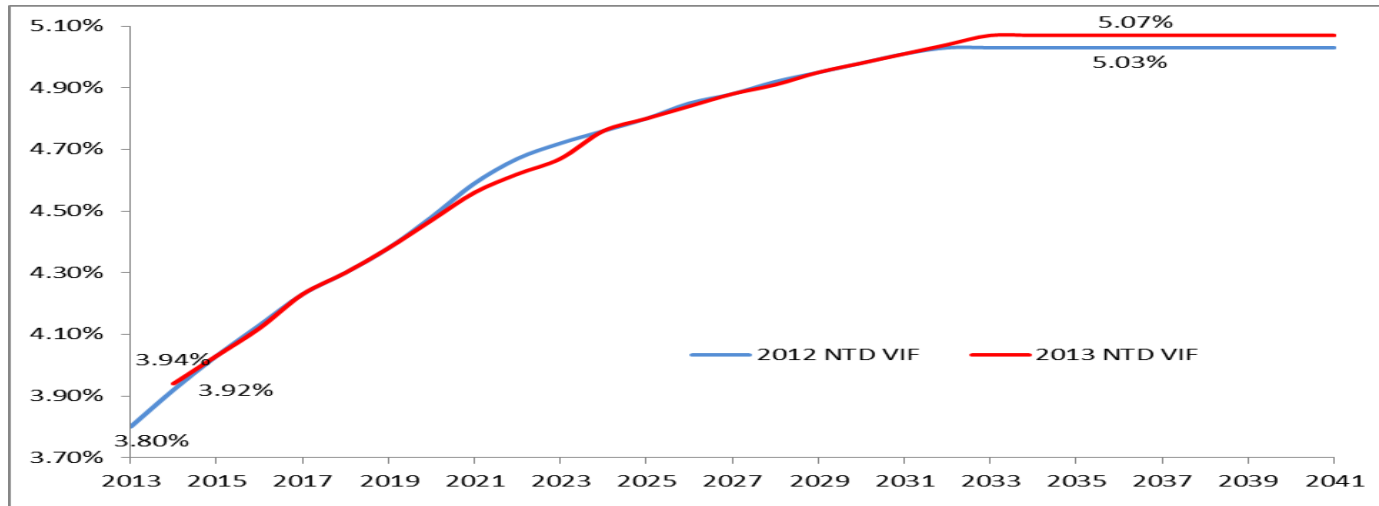
2. per share = per Cathay Life share; (per share) = per FHC share. EV and AV per share is based on 10.7bn shares at end of 2012. If includes shares adjustment of stock dividend (split), right issue and ECB conversion, 2013 weighted outstanding shares would be 11.5bn shares. EV and AV per FHC share of 2012 would be 48.9 and 86.7, respectively.

3. Totals may not sum due to rounding.

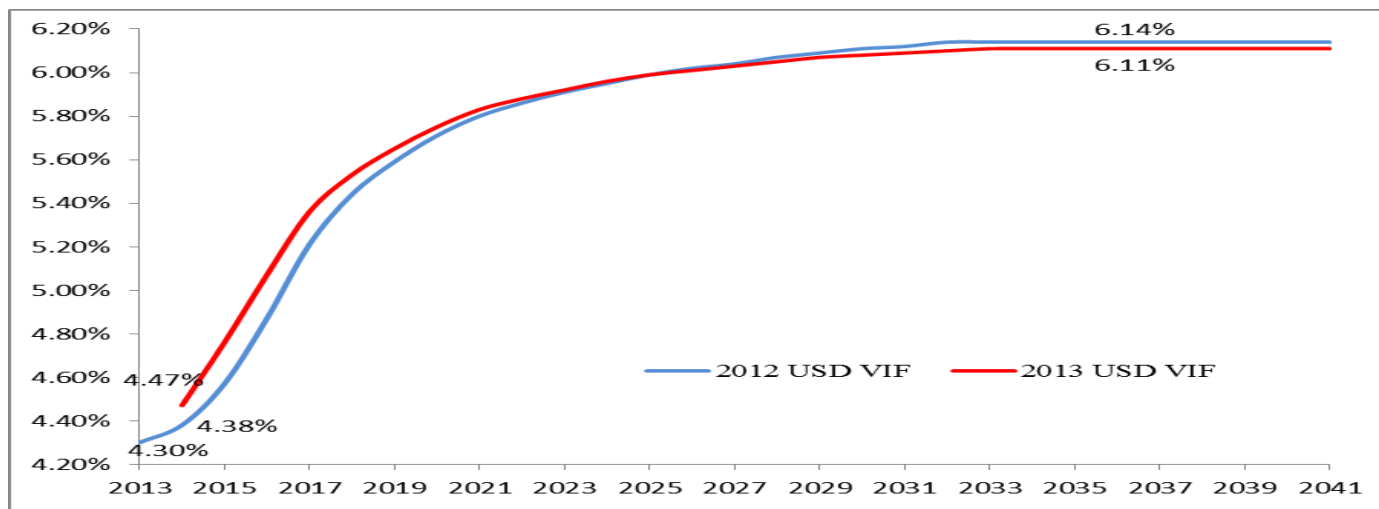


# Economic Assumptions: In-force business investment yield

- Investment return assumptions for the value of in force business of NTD-denominated policies as of the end of 2012 & 2013.

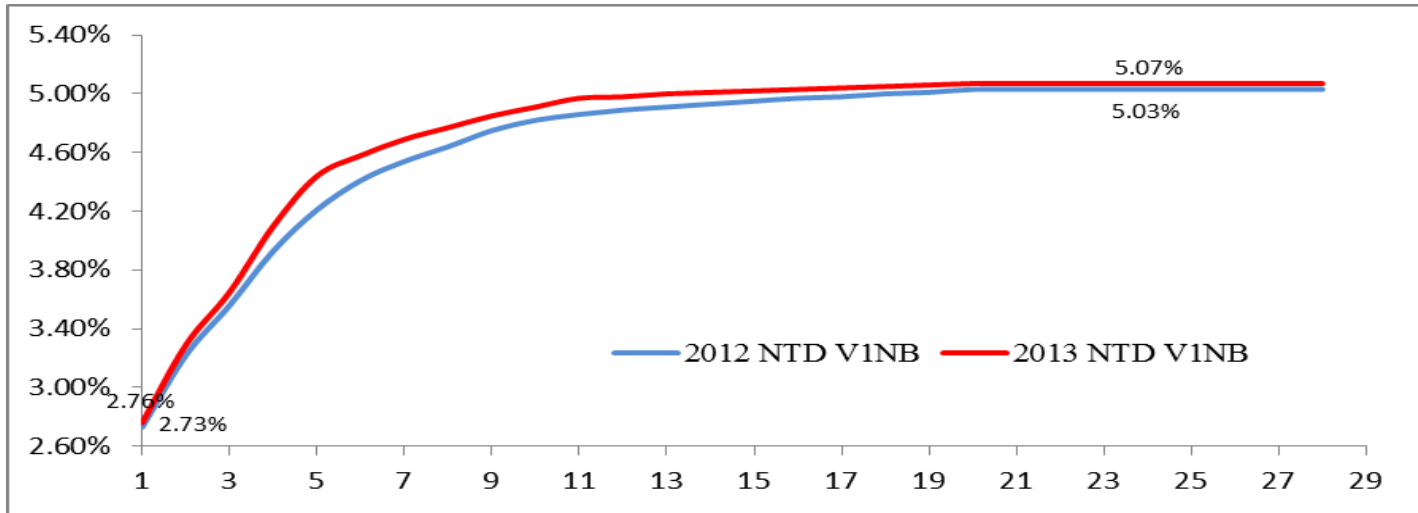


- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2012 & 2013.

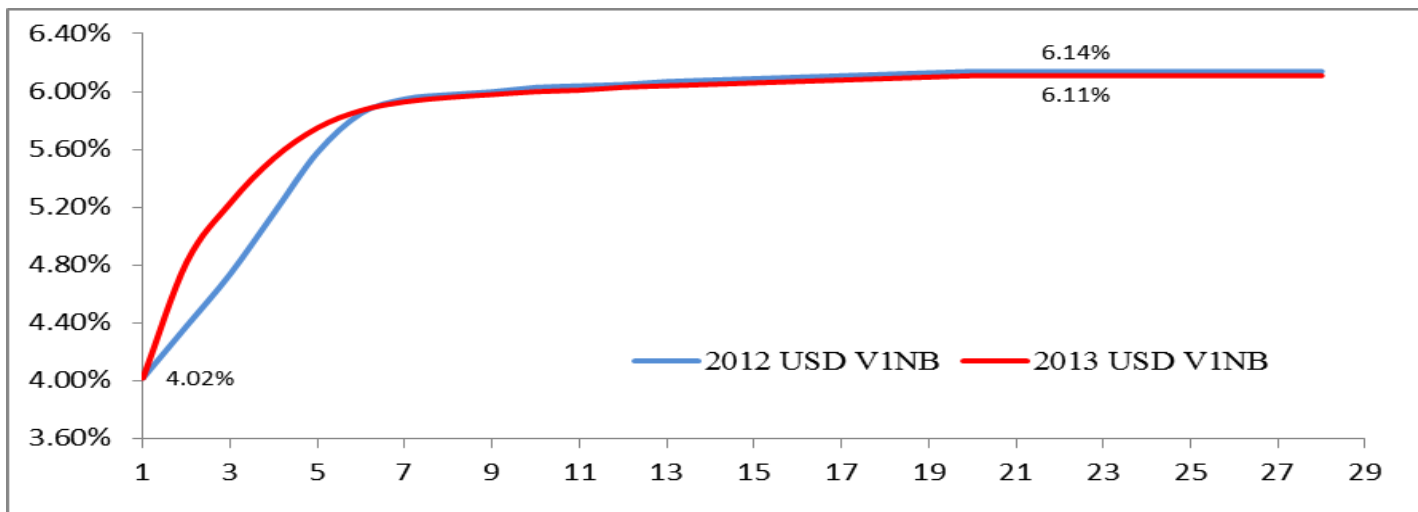


# Economic Assumptions: Future one year's new business investment yield

- Investment return assumptions for the value of future one year's new business of NTD-denominated policies as of the end of 2012 & 2013.



- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2012 & 2013.



# Cost of Capital Projection and Non-economic Assumptions

## ■ RBC capital requirement:

Apply 2013 RBC formula announced by Insurance Bureau to project future capital requirement.

1. K factor = 0.5.
2. Capital Requirement = 200% RBC.
3. Risk-based capital calculation reflects company's current and future operation status.
4. C3 risk capital of traditional products includes 10% of its previous year's C3 risk capital in all projection years.
5. Reflect all changes of RBC formula announced by Insurance Bureau in 2013.
  - (1) Changes in the calculation of asset concentration risks.
  - (2) Reclassification of ETFs (Exchange Traded Funds) and domestic equity funds from C1o to C1s.

## ■ 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.

# Sensitivity Analysis

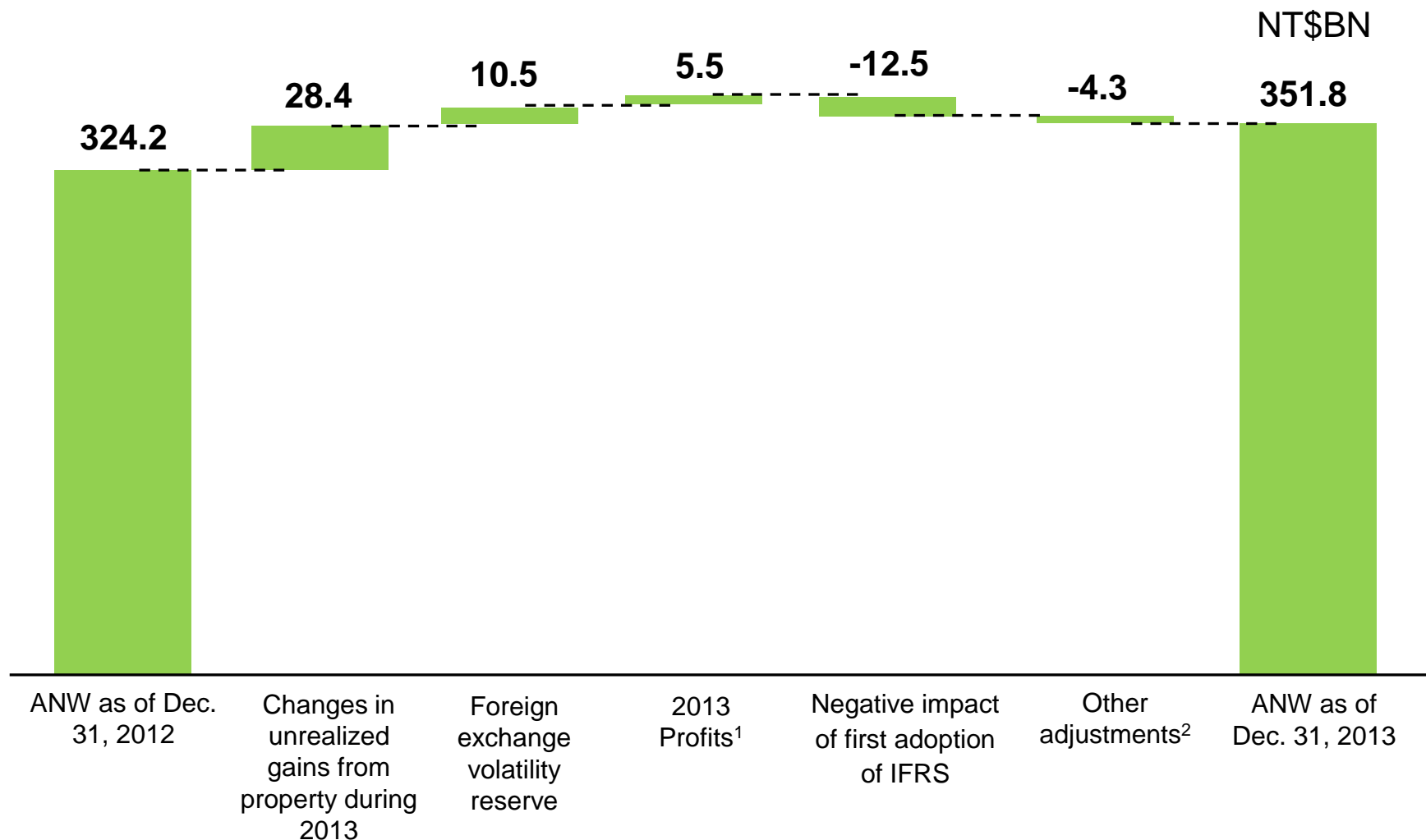
NT\$BN, except for per share figures

Valuation date	2013/12/31					
Assumption	Investment yield - 0.25%	Investment yield + 0.25%	Investment yield + 0.25% (capped) <sup>1</sup>	Base Case	Discount rate - 0.5%	Discount rate + 0.5%
Adjusted net worth	352	352	352	352	352	352
Value of in-force business	314	477	457	396	422	372
Cost of capital (CoC)	-118	-107	-109	-113	-108	-117
Value of in-force business (After CoC)	196	370	348	283	314	255
<b>Embedded Value</b>	<b>548</b>	<b>722</b>	<b>700</b>	<b>635</b>	<b>666</b>	<b>607</b>
EV / per share	103.3 (47.5)	136.0 (62.5)	131.9 (60.6)	119.7 (55.0)	125.5 (57.7)	114.4 (52.6)
<b>Appraisal Value</b>	<b>977</b>	<b>1,200</b>	<b>1,168</b>	<b>1,093</b>	<b>1,158</b>	<b>1,029</b>
Value of future one year's new business (After CoC)	47.7	57.3	54.9	52.5	56.5	48.9
<b>AV / per share</b>	<b>184.1 (84.6)</b>	<b>226.1 (103.9)</b>	<b>220.1 (101.2)</b>	<b>206.0 (94.7)</b>	<b>218.2 (100.3)</b>	<b>193.9 (89.1)</b>

Note:1. "Investment yield +0.25% (capped)" : the investment return is capped by 5.07% for NTD policies, 6.11% for USD policies, and 3.10% for interest crediting annuity.

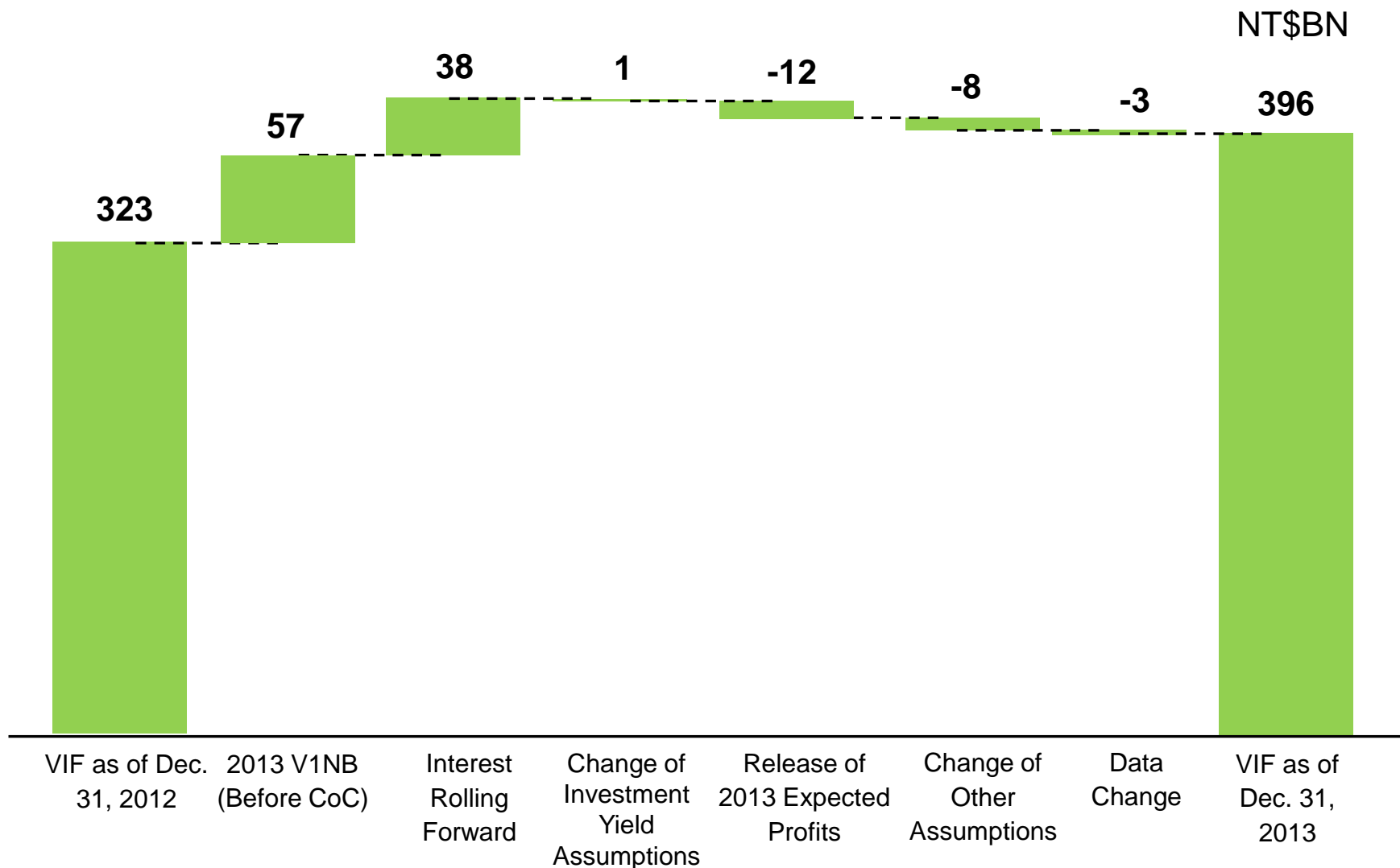
2. Totals may not sum due to rounding.

# Analysis of change in Adjusted Net Worth (ANW)



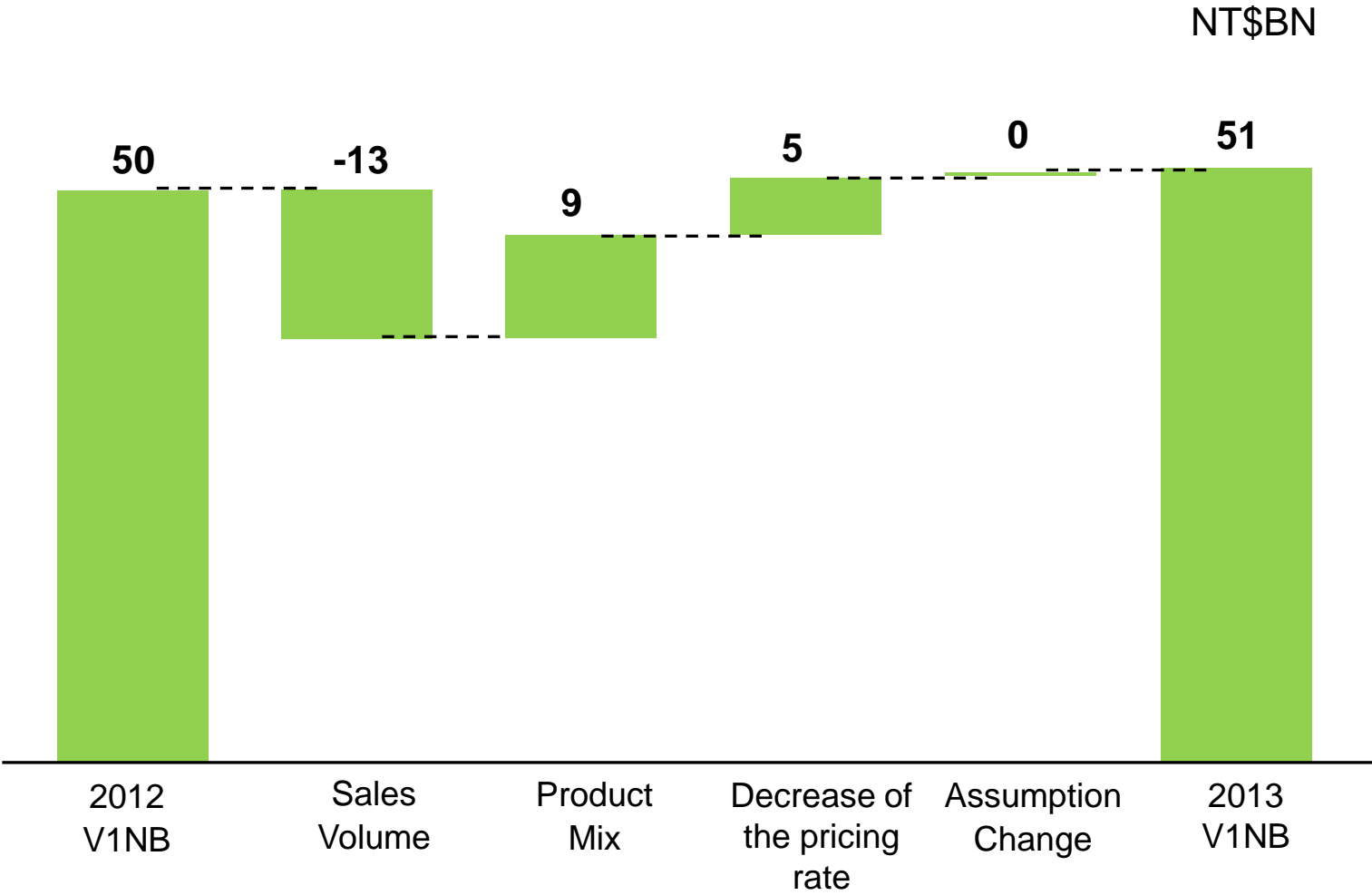
- Note: 1. The profit of 2013 is 15.5 Billion. However, 10 billion is recovered from special reserve of unrealized gains on property, which is already reflected in ANW of 2012. Thus, only reflect 5.5 billion in the item "2013 Profits".
2. Other adjustments include changes in other comprehensive income and the adjustment of first adoption of IFRS.

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



Note: The value of one year new business (after cost of capital) of 2013 is 51.4 billion.

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



# YoY Comparison

---

Under the different discount rate assumption (9.5%~10.5%), the results of the Year 2012 & 2013 go as follows.

NT\$BN

<b>Valuation date</b>	<b>2012/12/31</b>	<b>2013/12/31</b>
<b>Embedded Value</b>	<b>543-590</b>	<b>607-666</b>
<b>Value of future one year's new business</b>	<b>47-54</b>	<b>48.9-56.5</b>
<b>Appraisal Value</b>	<b>948-1,055</b>	<b>1,029-1,158</b>



# Summary

NT\$BN

Valuation date		2012	2013	Growth rate	1Q14
<b>Embedded value</b>	<b>Equity</b>	135	147	8%	--
	<b>Adjusted net worth</b>	324	352	8%	--
	<b>Value of in-force business</b>	323	396	23%	--
	<b>Cost of capital (CoC)</b>	-82	-113	38%	--
	<b>Value in-force business (after CoC)</b>	241	283	17%	--
	<b>Embedded value</b>	565	635	12%	--
<b>Value of one year's new business</b>	<b>First year premium (FYP)</b>	267	200	-25%	61
	<b>First year premium equivalent (FYPE)</b>	92	74	-20%	17
	<b>Value of one year's new business (V1NB)</b>	50	51	3%	13
	<b>Profit margin (V1NB/FYP)</b>	19%	26%	--	21%
	<b>Profit margin (V1NB/FYPE)</b>	54%	70%	--	73%
	<b>Profit margin excludes single paid investment-linked product(V1NB/FYP)</b>	25%	44%	--	55%
<b>Appraisal value (20 years NB)</b>	<b>Multiple</b>	8.7	8.7	--	--
	<b>Appraisal value</b>	1,001	1,104	10%	--
<b>Basic Value per share</b>	<b>EV / per FHC share</b>	53.0 <sup>(1)</sup>	55.0 <sup>(2)</sup>	4%	--
	<b>AV / per FHC share</b>	93.9 <sup>(1)</sup>	95.6 <sup>(2)</sup>	2%	--
<b>Adjusted Value per share</b>	<b>EV / per FHC share</b>	48.9 <sup>(2)</sup>	55.0 <sup>(2)</sup>	12%	--
	<b>AV / per FHC share</b>	86.7 <sup>(2)</sup>	95.6 <sup>(2)</sup>	10%	--

Note:1.EV and AV per share is based on 10.7bn shares at end of 2012.

2.EV and AV per share is based on 2013 weighted outstanding shares of 11.5bn shares. The shares adjustment reflected stock dividend (split), right issue and ECB conversion.

3.Totals may not sum due to rounding.

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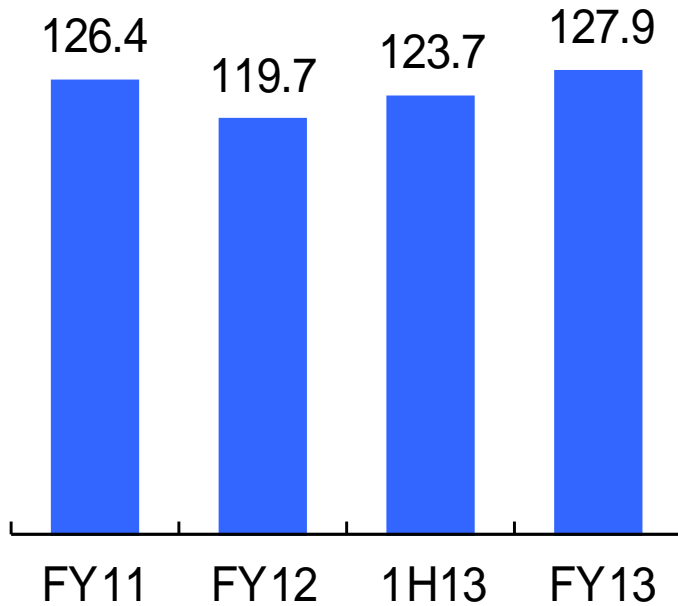
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  - Recovery plan for special reserve of unrealized gains on property

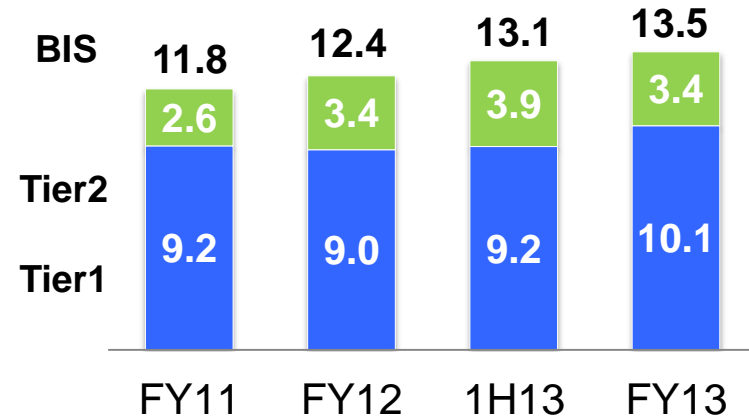
  - Fair Value of Insurance Contracts: Risk-free Rate (USD)

# Solid capital adequacy

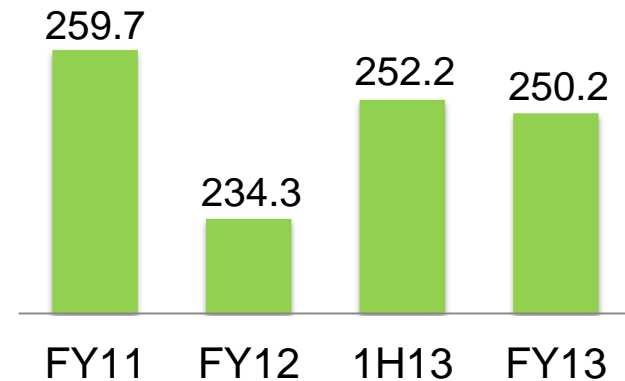
## Cathay FHC CAR (%)



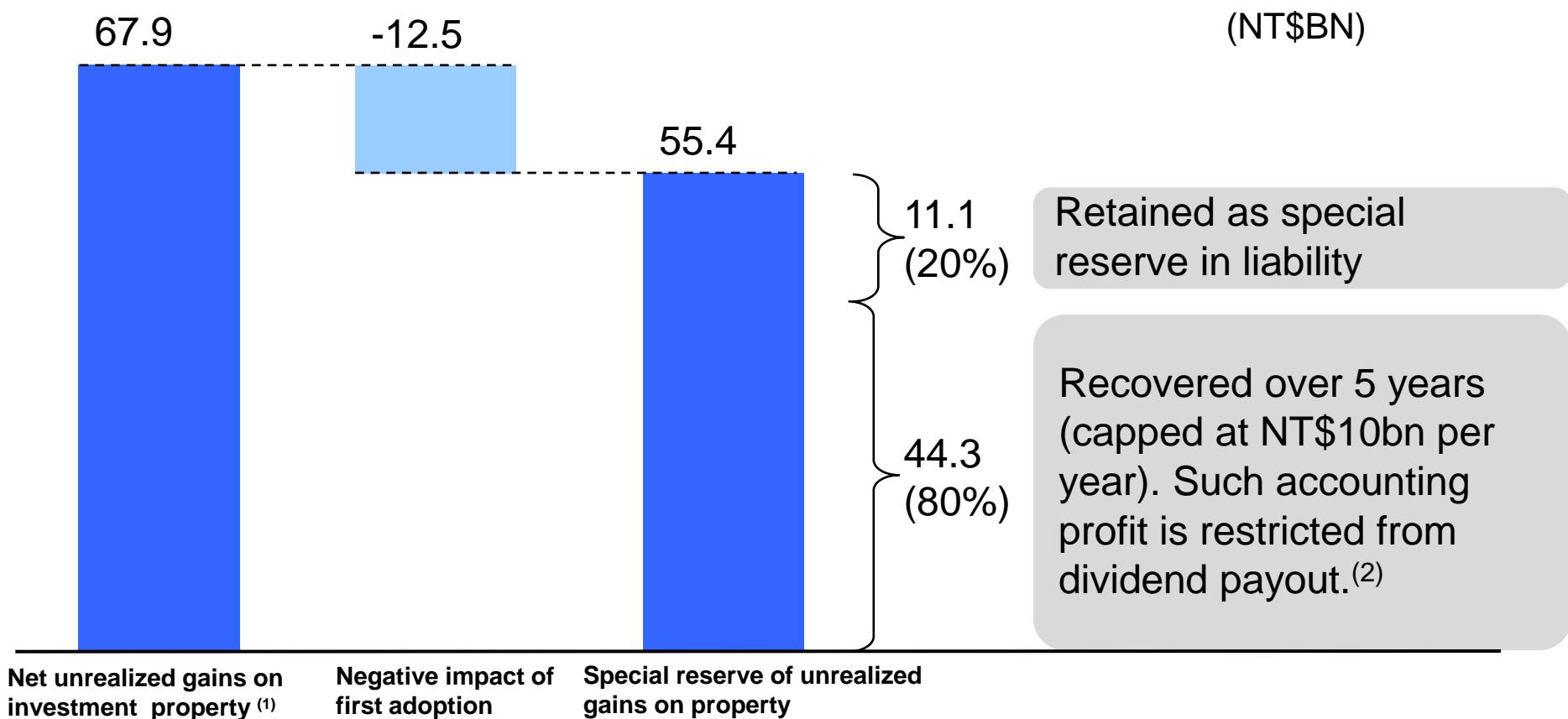
## CUB Capital Adequacy (%)



## Cathay Life RBC(%)



# Special reserve of unrealized gains on property



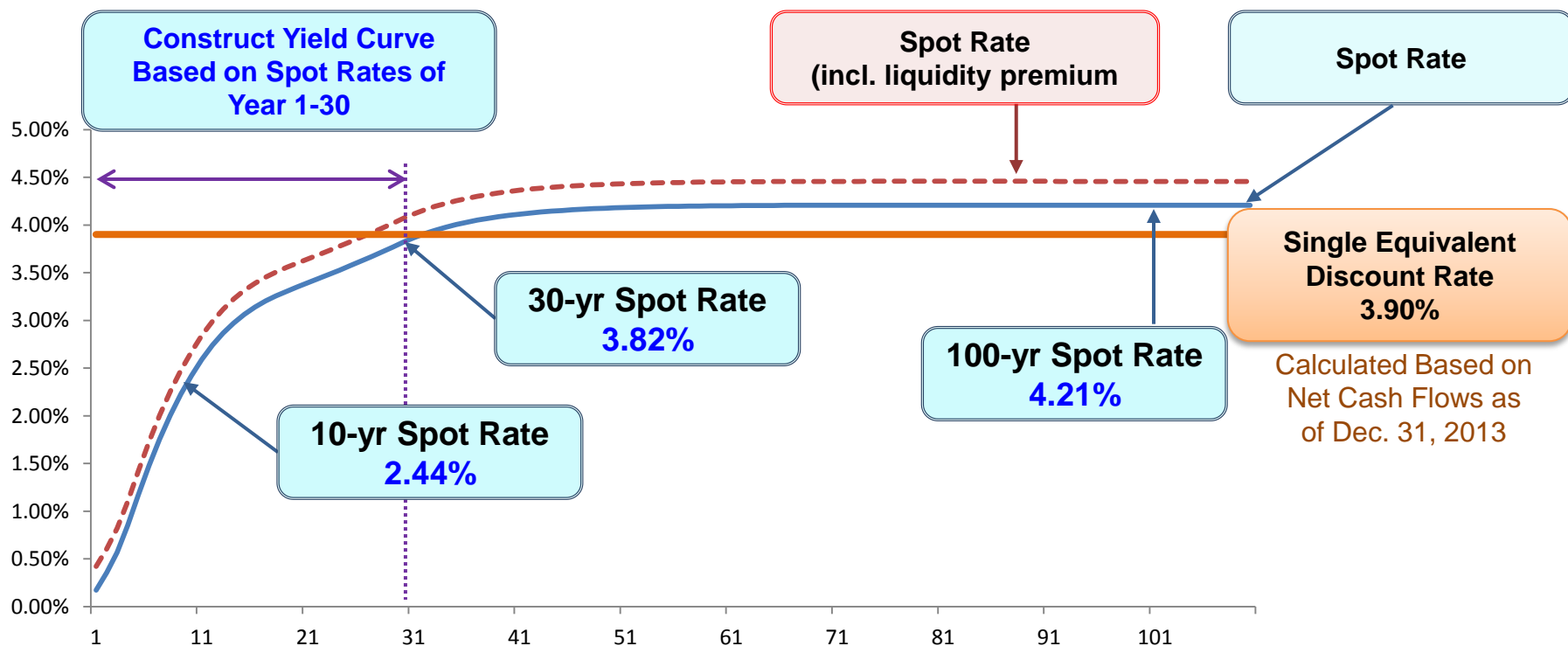
Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(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.

# Fair Value of Insurance Contracts: Risk-free Rate (USD)

## USD Risk-free Rate

Calculate 3-yr daily MA yield curve based on the zero coupon yield curve announced by U.S. Dept. of the Treasury and use the extrapolation method provided by [EU Solvency II QIS 5](#) to construct the complete yield curve.



Note: The "Spot Rate" mentioned above refers to 3-yr daily MA yield curve.

# Note

# Note

# Note



# Note



Thank You

Cathay Financial Holdings (NT\$MMN)	(IFRS)		FY13/ FY12	FY13 (Pro Forma)	(IFRS)		1Q14/ 1Q13
	FY12	FY13	% Chg		1Q13	1Q14	% Chg
<b>Income Statement Data (Consolidated)</b>							
<b>Operating Income</b>							
Net interest income	112,727	114,535	2%	114,535	28,344	30,534	8%
Net commission and fee	2,207	765	-65%	765	335	223	-33%
Net earned premium	457,392	441,427	-3%	441,427	92,102	94,642	3%
Change in liability reserve	(306,443)	(293,570)	-4%	(293,570)	(63,916)	(60,276)	-6%
Net claims payment	(230,508)	(228,125)	-1%	(228,125)	(47,643)	(56,537)	19%
Investment income	26,780	47,121	76%	56,373	11,089	14,516	31%
Contribution from associates-equity method	(50)	157	-	157	23	30	28%
Other net non-interest income	8,554	6,998	-18%	6,998	147	2,294	1461%
Bad debt expense	(3,173)	(1,487)	-53%	(1,487)	(89)	8	-
Operating expense	(51,772)	(55,849)	8%	(54,273)	(12,337)	(12,775)	4%
<b>Income before taxes</b>	15,715	31,971	103%	42,800	8,055	12,660	57%
Income taxes	457	(2,951)	-745%	(4,779)	(835)	(306)	-63%
<b>Net income</b>	16,172	29,020	79%	38,020	7,219	12,353	71%
EPS (NT\$)	1.41	2.50		3.28	0.62	1.03	
<b>Dividend Payout</b>							
Cash dividend per share	0.70	1.50		1.50			
Stock dividend per share	0.70	0.50		0.50			
Outstanding shares (Millions of shares)	11,412	11,546		11,546	11,412	11,965	
<b>Balance Sheet Data</b>							
Total assets	5,510,953	6,076,857		6,177,863	5,753,821	6,373,130	
Total shareholders' equity	248,149	285,260		379,510	330,728	394,761	
<b>Operating Metrics</b>							
ROAE (Consolidated)	6.92%	10.88%		10.82%	8.83%	12.76%	
ROAA (Consolidated)	0.31%	0.50%		0.65%	0.51%	0.79%	
Double leverage ratio(inc. preferred stock)	116%	114%		111%	112%	110%	
<b>Capital Adequacy Metrics</b>							
Capital Adequacy Ratio	120%	128%		128%			

Notes:

(1) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

For more details, please refer to our official financial reports.

(2) The adjusted numbers of FY13 Pro Forma reflect the accounting policy change on the subsequent measurement of investment property, from cost method to fair value method.

(3) BIS and Tier 1 ratio of FY12 are based on ROC GAAP. The rest are based on IFRS.

(4) Total may not sum due to rounding.

**Cathay Life**

(NT\$MN)	(IFRS)		FY13/ FY12	(IFRS)		1Q14/ 1Q13/	
	FY12	FY13	% Chg	FY13 (Pro Forma)	1Q13	1Q14	% Chg
<b>Income Statement Data (Consolidated)</b>							
Net written premium	445,658	426,804	-4%	426,804	88,896	91,050	2%
Net earned premium	445,573	418,262	-6%	418,262	86,689	91,369	5%
Reinsurance commission earned	14,371	11,610	-19%	11,610	2,973	1,676	-44%
Fee income	2,581	3,090	20%	3,090	849	1,073	26%
Recurring investment income	109,976	113,932	4%	113,932	25,588	28,157	10%
Gain on disposal of investment							
Realized gain (loss)-Equity	8,122	16,586	104%	16,586	4,212	8,835	110%
Realized gain (loss)-Debt	12,362	14,604	18%	14,604	3,632	3,346	-8%
FX and others, net	(11,384)	(4,197)	-63%	(4,197)	614	(1,901)	-409%
Investment income, net	119,076	140,925	18%	153,970	34,046	38,439	13%
Other operating income	1,610	1,275	-21%	1,275	325	0	-100%
Separate account revenues	104,180	90,719	-13%	90,719	37,908	54,945	45%
Net claims payment	(222,173)	(210,029)	-5%	(210,029)	(43,148)	(54,920)	27%
Changes in liability reserves	(306,151)	(292,978)	-4%	(292,978)	(63,962)	(59,932)	-6%
Acquisition and commission expense	(33,722)	(34,188)	1%	(34,188)	(8,934)	(7,722)	-14%
Other operating costs	(4,842)	(5,570)	15%	(5,570)	(1,148)	(1,059)	-8%
Financial cost	745	303	-59%	303	192	51	-73%
Separate account expense	(104,180)	(90,719)	-13%	(90,719)	(37,908)	(54,945)	45%
Operating expense	(17,801)	(17,640)	-1%	(19,602)	(3,421)	(3,391)	-1%
Net non-operating income	965	1,156	20%	1,156	159	566	256%
Income taxes	2,286	(793)	-135%	(3,657)	(283)	408	-
<b>Net income</b>	<b>2,519</b>	<b>15,425</b>	<b>512%</b>	<b>27,569</b>	<b>4,337</b>	<b>6,557</b>	<b>51%</b>

**Balance Sheet Data**

Total assets	3,717,231	4,062,132		4,195,229	3,939,875	4,323,951
General account	3,387,674	3,685,880		3,818,977	3,580,500	3,910,009
Separate account	329,557	376,253		376,253	359,375	413,942
Reserves for life insurance liabilities	3,148,281	3,448,659		3,448,659	3,219,549	3,515,865
Total liabilities	3,579,018	3,914,829		3,923,923	3,701,942	4,043,959
Total shareholders' equity	138,213	147,304		271,306	237,933	279,993

**Operating Metrics**

First Year Premium(FYP)	267,169	200,419		200,419	54,853	61,007
First Year Premium Equivalent(FYPE)	91,773	73,461		73,461	23,668	17,283
Expense ratio	10.6%	11.5%		11.5%	13.0%	11.5%
13-M persistency ratio	97.9%	98.2%		98.2%	98.0%	98.3%
25-M persistency ratio	93.3%	94.7%		94.7%	94.2%	94.6%
ROAE	1.97%	10.80%		10.92%	7.36%	9.52%
ROAA	0.07%	0.40%		0.69%	0.45%	0.62%

**Capital Adequacy Metrics**

RBC ratio (Standalone)	234%	250%		250%
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## Notes:

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(2) The adjusted numbers of FY13 Pro Forma reflect the accounting policy change on the subsequent measurement of investment property, from cost method to fair value method.

(3) FY13 RBC ratio is based on IFRS, while FY12 are based on ROC GAAP.

(4) Total may not sum due to rounding.

**Cathay United Bank**

(NT\$MN)	(IFRS)		FY13/ FY12	FY13 (Pro Forma)	(IFRS)		1Q14/ 1Q13/
	FY12	FY13	% Chg		1Q13	1Q14	% Chg
<b>Income Statement Data (Consolidated)</b>							
<b>Operating Income</b>							
Net interest income	21,284	21,915	3%	21,915	5,288	6,205	17%
Fee income	7,330	9,204	26%	9,204	2,084	2,634	26%
Investment income	5,366	5,634	5%	5,738	1,161	2,093	80%
other income	966	867	-10%	867	163	363	123%
<b>Net operating income</b>	<b>34,947</b>	<b>37,620</b>	<b>8%</b>	<b>37,725</b>	<b>8,695</b>	<b>11,294</b>	<b>30%</b>
Operating expenses	(17,840)	(20,281)	14%	(20,216)	(4,561)	(5,203)	14%
<b>Pre-provision profit</b>	<b>17,107</b>	<b>17,340</b>	<b>1%</b>	<b>17,509</b>	<b>4,134</b>	<b>6,091</b>	<b>47%</b>
Net provisions for possible losses	(2,126)	(542)	-75%	(542)	124	135	9%
<b>Income before taxes</b>	<b>14,981</b>	<b>16,798</b>	<b>12%</b>	<b>16,967</b>	<b>4,258</b>	<b>6,227</b>	<b>46%</b>
Income tax	(1,715)	(2,165)	26%	(2,188)	(619)	(775)	25%
<b>Net income</b>	<b>13,266</b>	<b>14,634</b>	<b>10%</b>	<b>14,780</b>	<b>3,639</b>	<b>5,452</b>	<b>50%</b>
<b>Balance Sheet Data</b>							
Total assets	1,817,369	1,986,740		1,988,774	1,862,971	2,042,755	
Loans, net	1,003,183	1,031,105		1,031,105	1,000,453	1,084,969	
Financial assets	560,469	638,727		638,727	607,793	593,842	
Total liability	1,712,364	1,855,487		1,855,610	1,752,561	1,903,521	
Deposits	1,539,774	1,615,860		1,615,860	1,546,638	1,629,387	
Financial Debenture Payable	42,519	52,417		52,417	42,683	52,513	
Total shareholders' equity	105,005	131,253		133,164	110,410	139,234	
<b>Operating Metrics</b>							
Cost income ratio	51.1%	53.9%		53.59%	52.46%	46.07%	
ROAE	12.97%	12.39%		12.33%	13.41%	16.01%	
ROAA	0.75%	0.77%		0.78%	0.79%	1.08%	
<b>Assets Quality</b>							
NPL	3,373	3,013		3,013	3,524	3,243	
NPL ratio	0.34%	0.29%		0.29%	0.35%	0.30%	
NPL provisions	13,037	14,386		14,386	13,564	14,623	
Coverage ratio	386%	478%		478%	385%	451%	
<b>Capital Adequacy Metrics</b>							
BIS ratio (Standalone)	12.4%	13.5%		13.5%			
Tier I Ratio (Standalone)	9.0%	10.1%		10.1%			

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(3) BIS and Tier 1 ratio of FY12 are based on ROC GAAP. The rest are based on IFRS.

(4) Total may not sum due to rounding.

**Cathay Century**

(NT\$MM)	(IFRS)		FY13/ FY12	(IFRS)		1Q14/ 1Q13/
	FY12	FY13	% Chg	1Q13	1Q14	% Chg
<b>Income Statement Data (Consolidated)</b>						
Premium income	17,040	19,727	16%	4,428	4,727	7%
Net written premium	12,614	15,280	21%	3,470	3,623	4%
Net earned premium	11,724	14,156	21%	3,112	3,728	20%
Reinsurance commission earned	464	470	1%	127	163	28%
Fee income	33	36	7%	7	9	25%
Investment	595	715	20%	119	149	26%
Interest income	387	422	9%	93	125	35%
Other investment income, net	208	293	41%	26	24	-9%
Other operating income	0	0	-	0	0	-
Net claims payment	(6,669)	(7,835)	17%	(1,807)	(1,914)	6%
Changes in liability reserves	(369)	(592)	60%	47	(344)	-834%
Commissions and other operating costs	(774)	(1,083)	40%	(229)	(267)	16%
Operating expenses	(4,427)	(5,328)	20%	(1,184)	(1,307)	10%
<b>Operating income</b>	576	538	-7%	191	217	14%
Net non-operating income	(9)	9	-	9	21	145%
Income taxes	(196)	(218)	11%	(44)	(30)	-31%
<b>Net income</b>	371	329	-11%	156	208	34%
<b>Balance Sheet Data</b>						
Total assets	29,188	31,709		29,191	32,842	
Total stockholders' equity	4,817	5,511		5,003	6,220	
<b>Operating Metrics</b>						
Gross Combined ratio	82.6%	80.0%		79.2%	120.2%	
Net Combined ratio	93.7%	92.6%		90.8%	126.8%	
ROAE	8.10%	6.37%		12.69%	14.21%	
ROAA	1.32%	1.08%		2.13%	2.58%	
<b>Capital Adequacy Metrics</b>						
RBC ratio (Standalone)	314%	312%				

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(4) Total may not sum due to rounding.