

# 2014 Fourth Quarter Briefing

March, 2015



國泰金控

Cathay  
Financial Holdings

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# Agenda

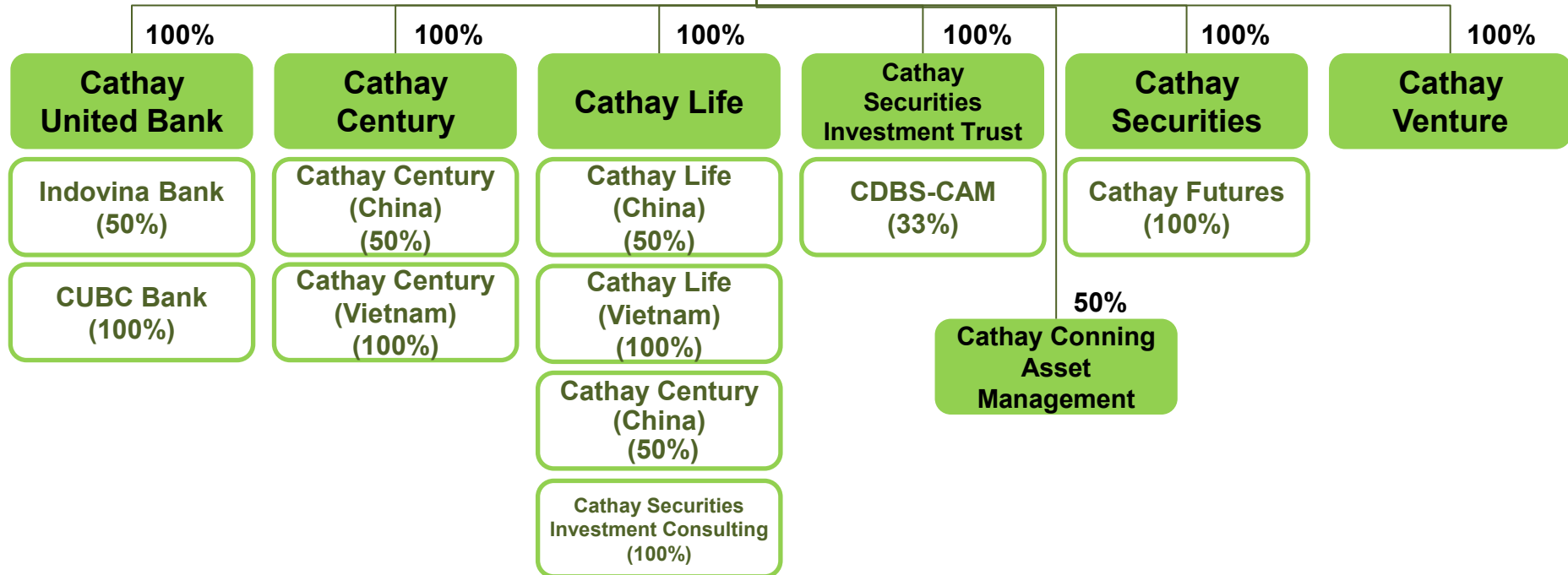
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- **Introduction of Cathay FHC**
- **2014 Business overview and 2015 outlook**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Overseas expansion**
- **Cathay United Bank adopts the “Equator Principles”**
- **Takeover of Global Life and Singfor Life**
- **Appendix**

# Cathay FHC: largest FHC, comprehensive products

## Cathay FHC

Chairman: Mr. Hong-Tu Tsai  
President: Mr. Chang-Ken Lee



- One of the largest private banks in terms of total assets
- No. 2 credit card issuer
- The largest brokerage settlement bank

- 2<sup>nd</sup> biggest non-life insurer
- Market share in total premium income: 13.6% (FY14).

- No. 1 life insurer in terms of total assets and total premium
- Market share in total premium: 23% (FY14).

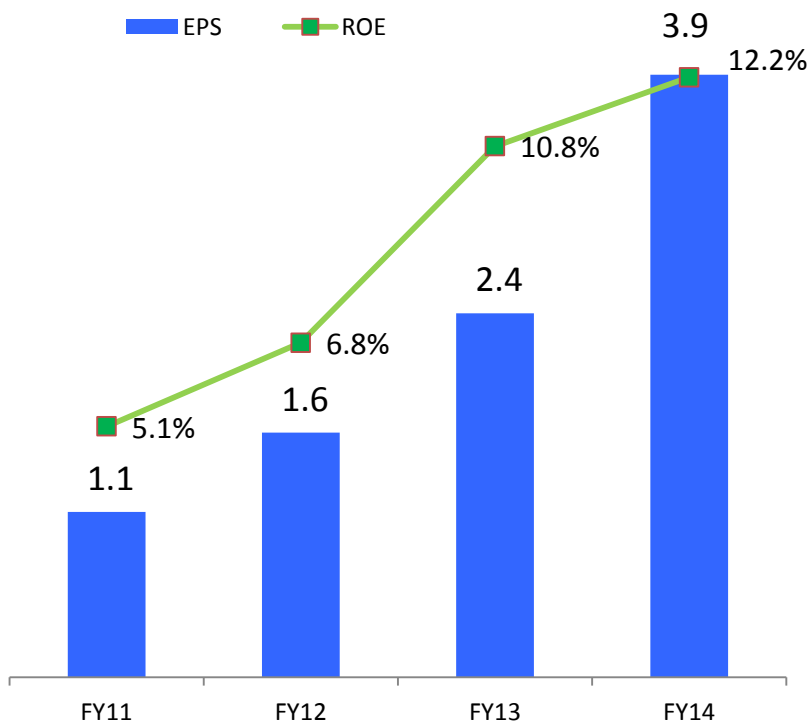
- Largest AUM among asset managers in Taiwan
- Qualified QFII to invest in China
- Pursue business opportunity from QDII of China

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

# Cathay's earnings accelerates as life turnarounds

## EPS & ROE

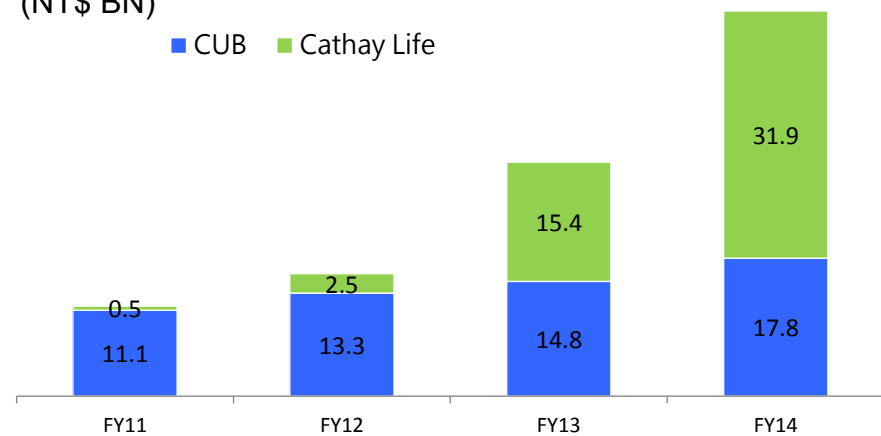
(NT\$)



## Profit contribution

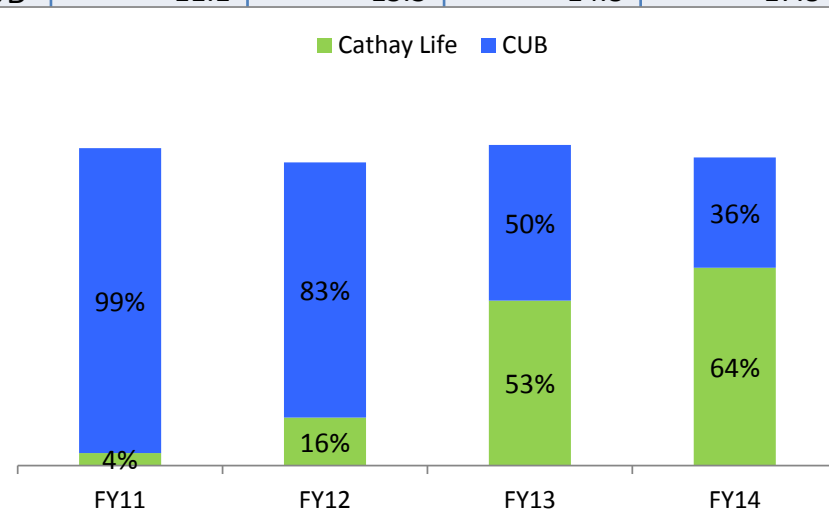
(NT\$ BN)

■ CUB ■ Cathay Life



|             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|
| <b>FHC</b>  | <b>11.1</b> | <b>16.2</b> | <b>29.0</b> | <b>49.8</b> |
| <b>Life</b> | 0.5         | 2.5         | 15.4        | 31.9        |
| <b>CUB</b>  | 11.1        | 13.3        | 14.8        | 17.8        |

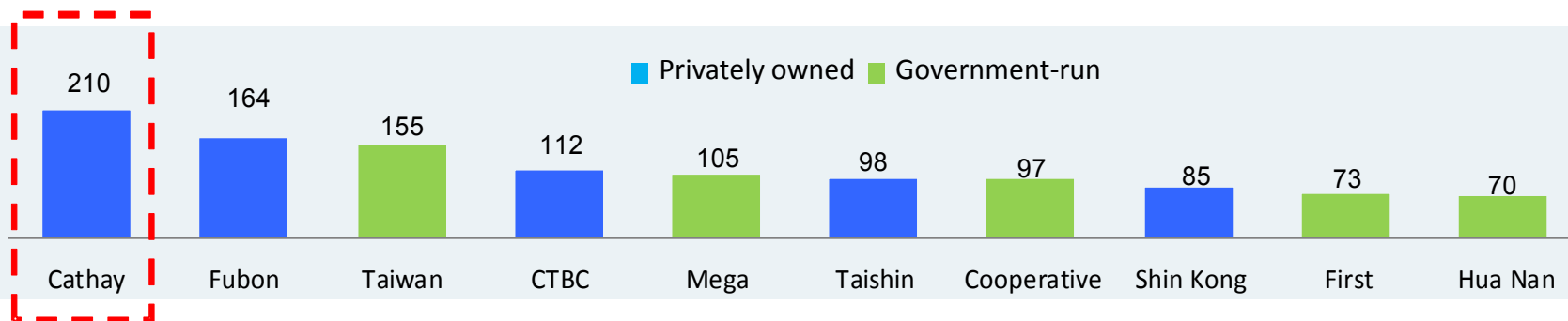
■ Cathay Life ■ CUB



# Market leader in Taiwan's FIG sector

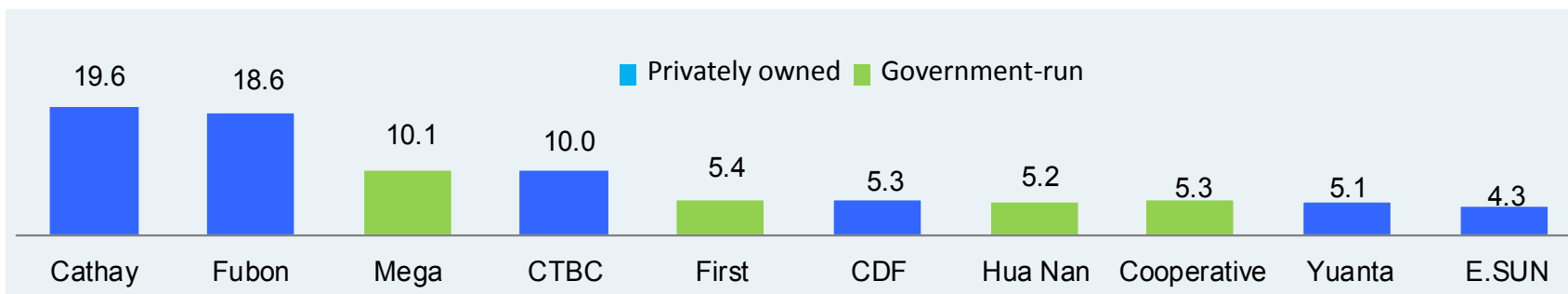
- Largest listed financials group by market capitalization and assets.

## Ranking of total assets (US\$bn)



Note: The data of total assets was as of Sep.30,2014.

## Ranking of market cap (US\$bn)



Note: Market capitalization as of Mar.20, 2015

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# 2014 Business overview

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## Cathay United Bank

- Delivered 8% loan growth with benign asset quality
- Fee income grew by 26% YoY
- Continued to expand overseas footprints; offshore earnings accounted for 46% of pre-tax profits

## Cathay Life

- Regular-paid dominated traditional life FYP, ranked No.1 by FYPE, VNB grew stably
- Maintained robust capital adequacy, RBC ratio reached 287%
- Overseas investment increased to 49.2%; hedging cost reduced to 0.34%; investment performance continued to improve

## Cathay Century

- Premium income grew by 8% YoY, market share reached 14%, maintained No.2 market position
- Promoted high margin products; improved investment performance
- Continued overseas expansion to achieve economies of scale

## Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$429BN
- Continued to launch new products to develop retail & institutional clients business
- Highly regarded by clients, rewarded by “Asia Asset Management Journal” with “2014 Best Institutional House” and “2014 Best Domestic Equity Fund”

## Cathay Securities

- Delivered significant growth with FY14 net profits. Earnings, EPS and ROE all reached historically high
- Each business line has performed steadily. The trading volumes of sub-brokerage reached historically high, ranked No. 3 in market.



# 2015 Outlook

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## Cathay United Bank

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

## Cathay Life

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

## Cathay Century

- Enhance cross-selling synergy and utilize digital application to enhance service quality and competitiveness
  - Promote productivity of current sales force, expand external channels to increase operating capacity
  - Continue to expand overseas and develop quality channel to enhance efficiency
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## Cathay SITE

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

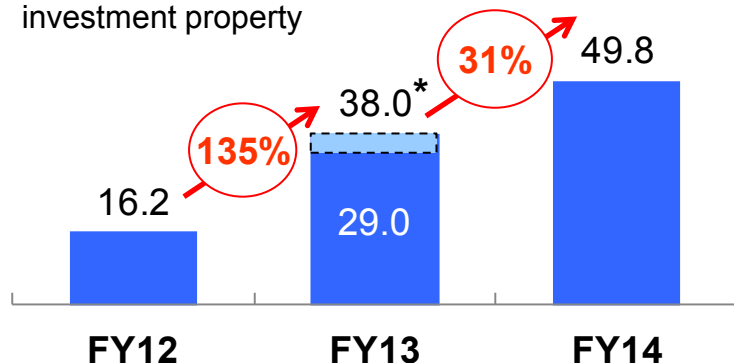
## Cathay Securities

- Actively utilize digital technology to expand cross-selling opportunities
- Explore potential IPO opportunities of quality companies

# Cathay FHC – Net income & EPS

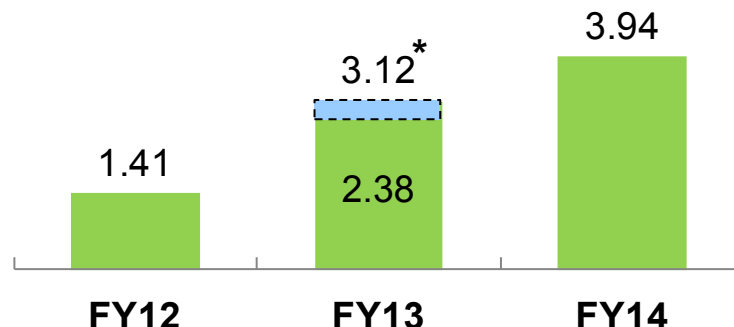
## Net income (NT\$BN)

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



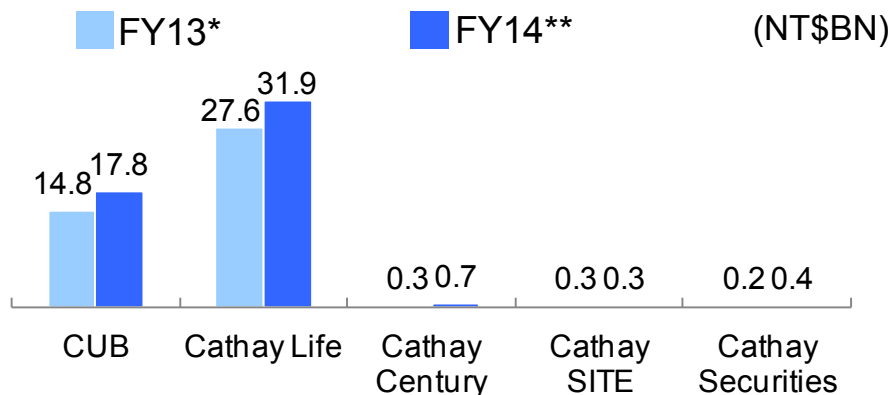
## EPS (NT\$)

■ Impact to EPS from fair value method on investment property



\* FY13 figures were pro forma reflecting the impact from applying fair value method on investment property, starting 2014/1/1. The impact to FY13 net income and EPS of Cathay FHC was NT\$9.0BN and NT\$0.74, respectively.

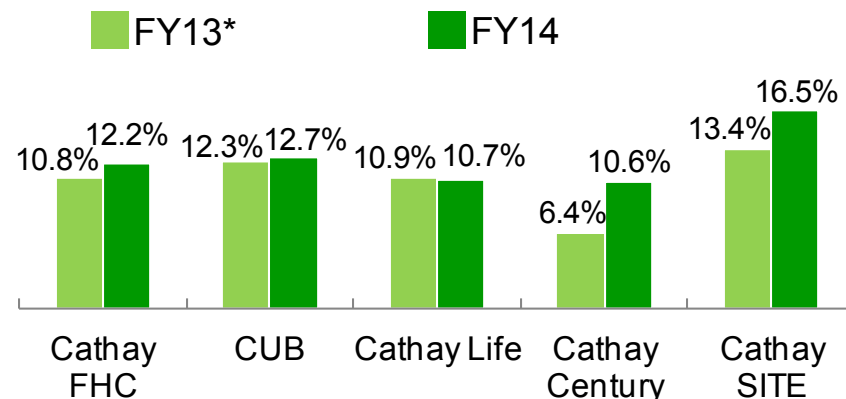
## Net income of primary subsidiaries (NT\$BN)



\* FY13 figures were pro forma assuming the fair value method on investment property.

\*\*CUB and Cathay Life FY14 net income included appraisal gain from investment property of -NT\$0.07BN and NT\$13.8BN, respectively.

## ROE

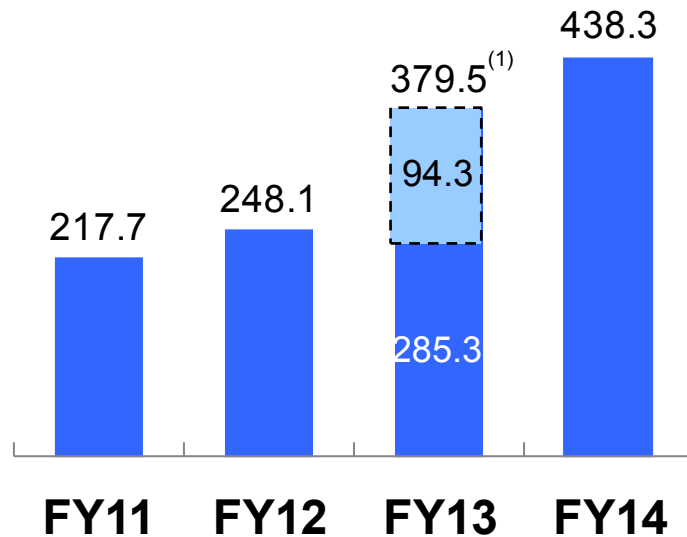


\* FY13 ROE was pro forma reflecting the impact from applying fair value method on investment property, starting 2014/1/1. The impact to FY13 ROE of Cathay FHC, CUB and Cathay Life was -0.1%, -0.1% and 0.1% respectively.

# Cathay FHC – Book value & BVPS

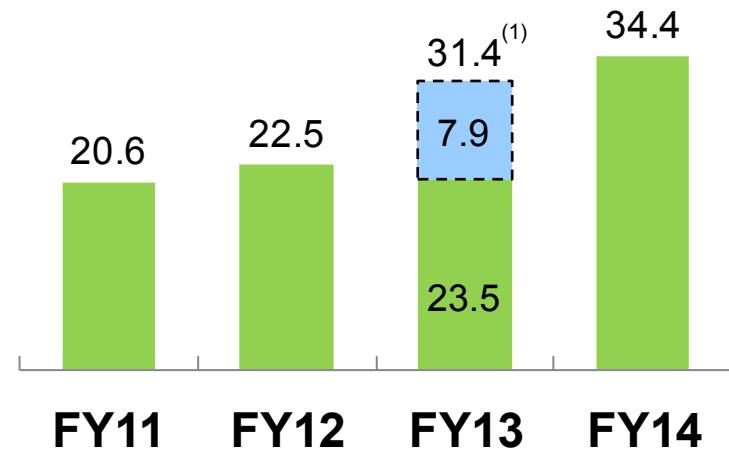
## Book value (NT\$BN)

■ 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 were pro forma adjusted numbers of fair value method on investment property.  
 (2)Book value of FY12 & FY13 & 9M14 included minority interest, BVPS excluded minority interest.  
 (3)Totals may not sum due to rounding.





# Agenda

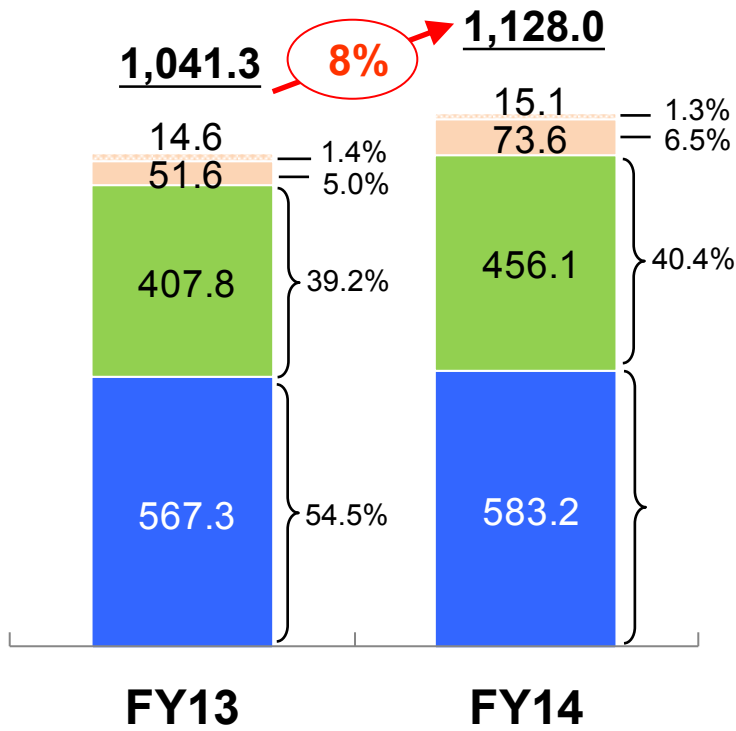
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# Cathay United Bank – Loan & deposit breakdown

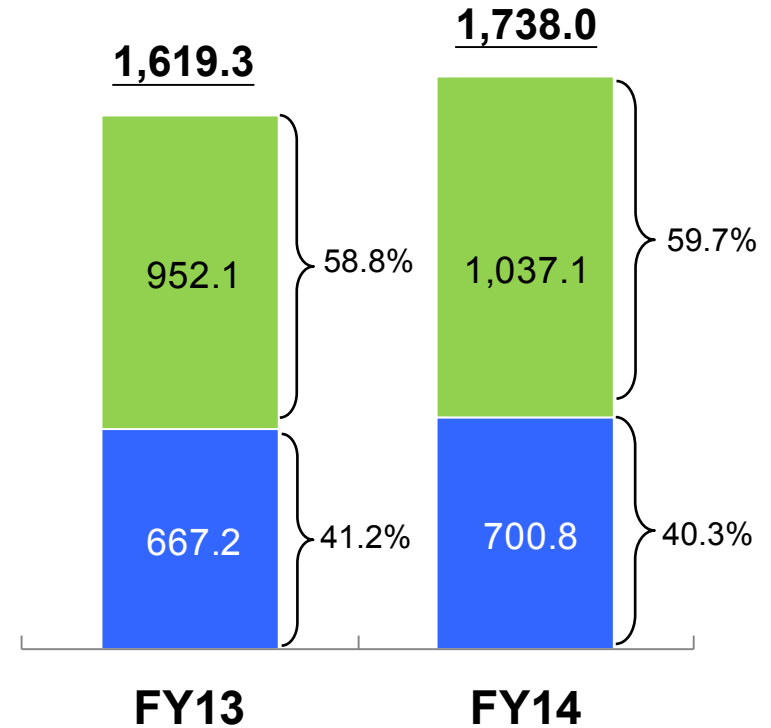
## Loan breakdown

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



## Deposit breakdown

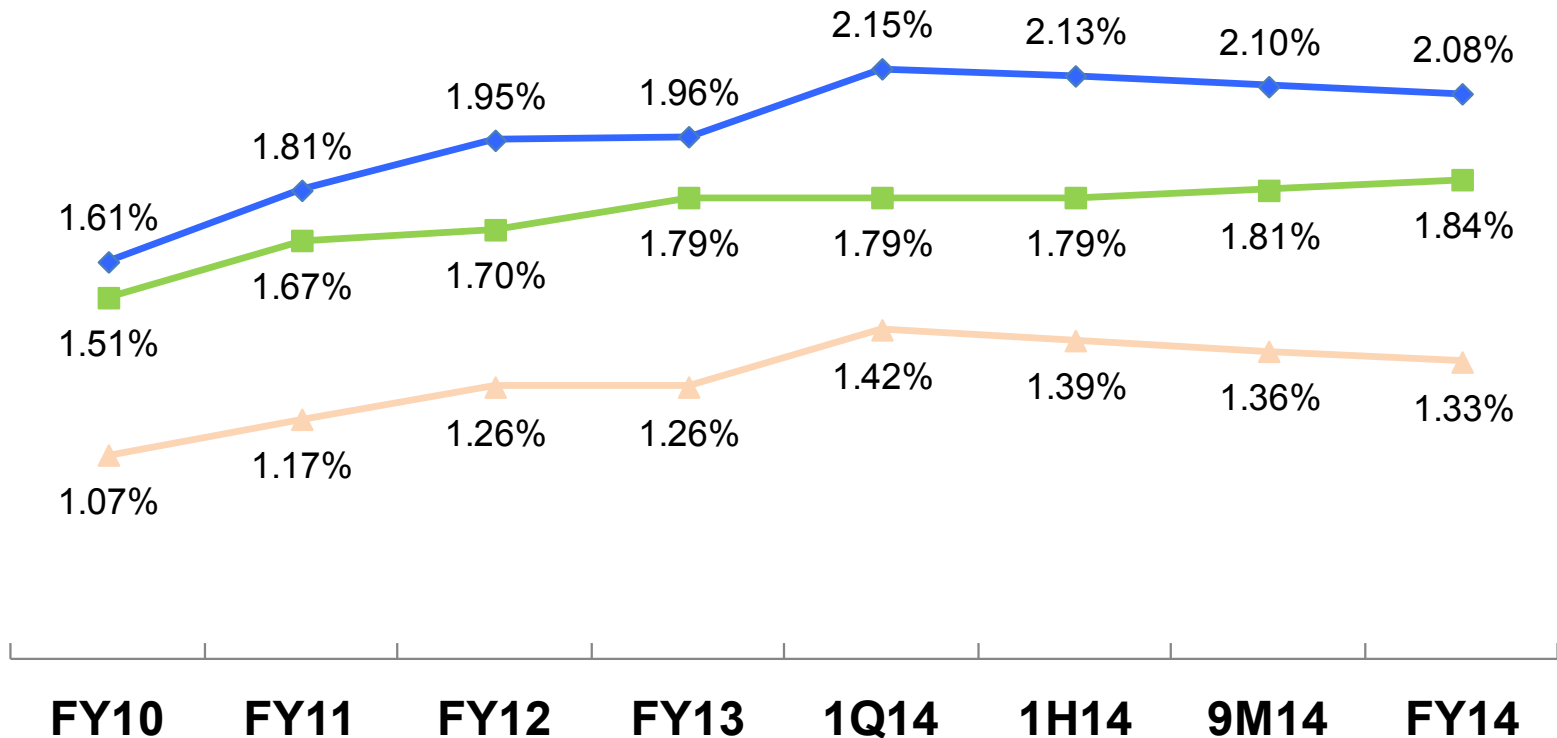
-  Demand Deposit (NT\$BN)
-  Time Deposit



Note: Totals may not sum due to rounding.

# Cathay United Bank – Interest yields

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

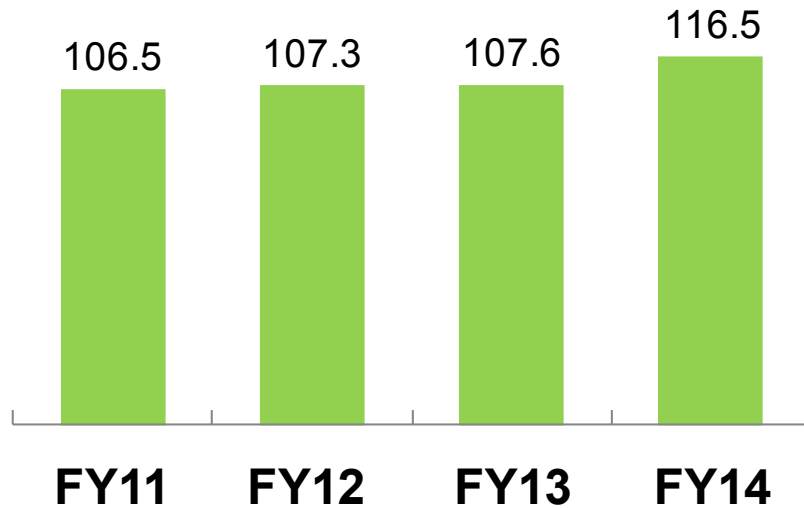


Note: Credit card related loans are included in the calculation.

# Cathay United Bank – SME & FX loans

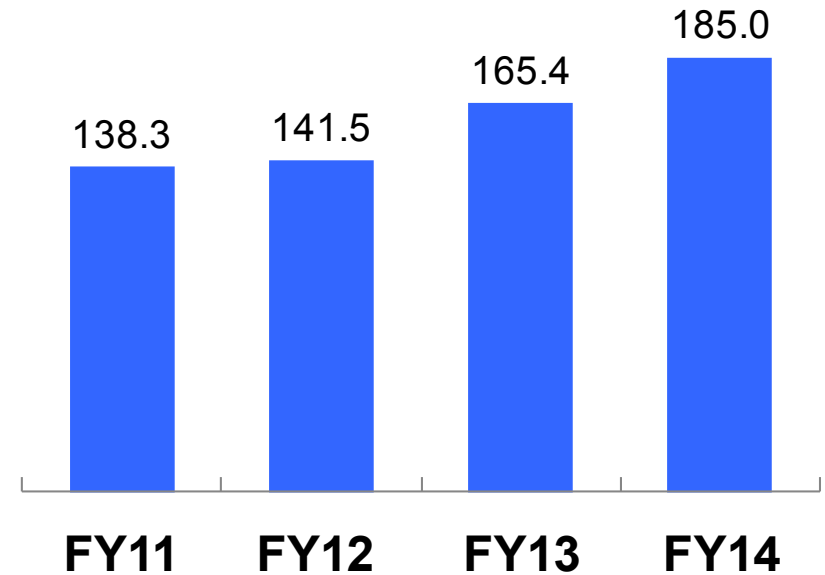
## SME loans

(NT\$BN)



## Foreign currency loans

(NT\$BN)



As % of total loans

11.4% 11.5% 10.5% 10.5%

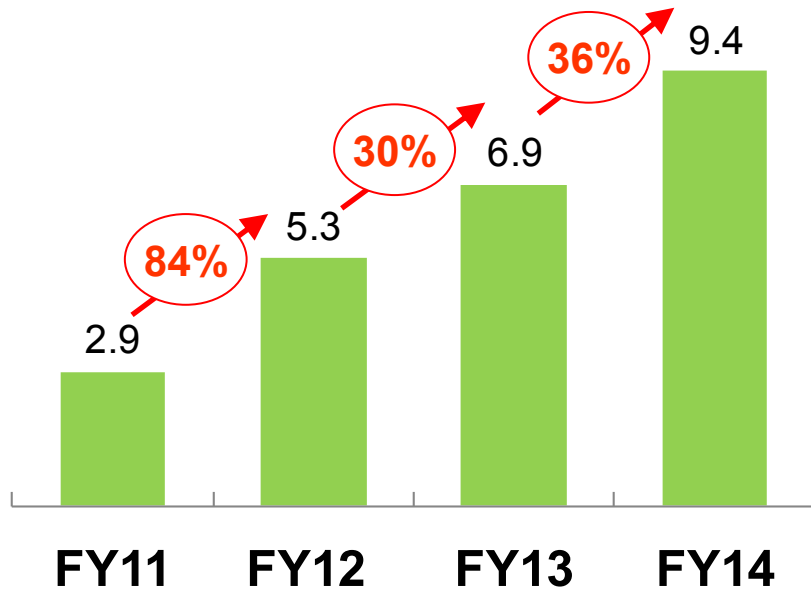
14.8% 15.1% 16.1% 16.6%

Note: Total loans exclude credit card revolving balance.

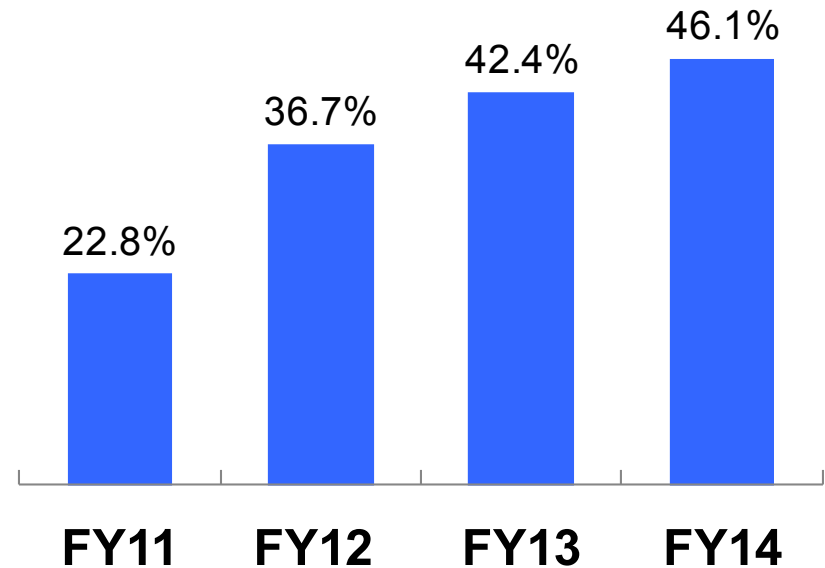
# Cathay United Bank – Offshore earnings

## Offshore earnings

(NT\$BN)



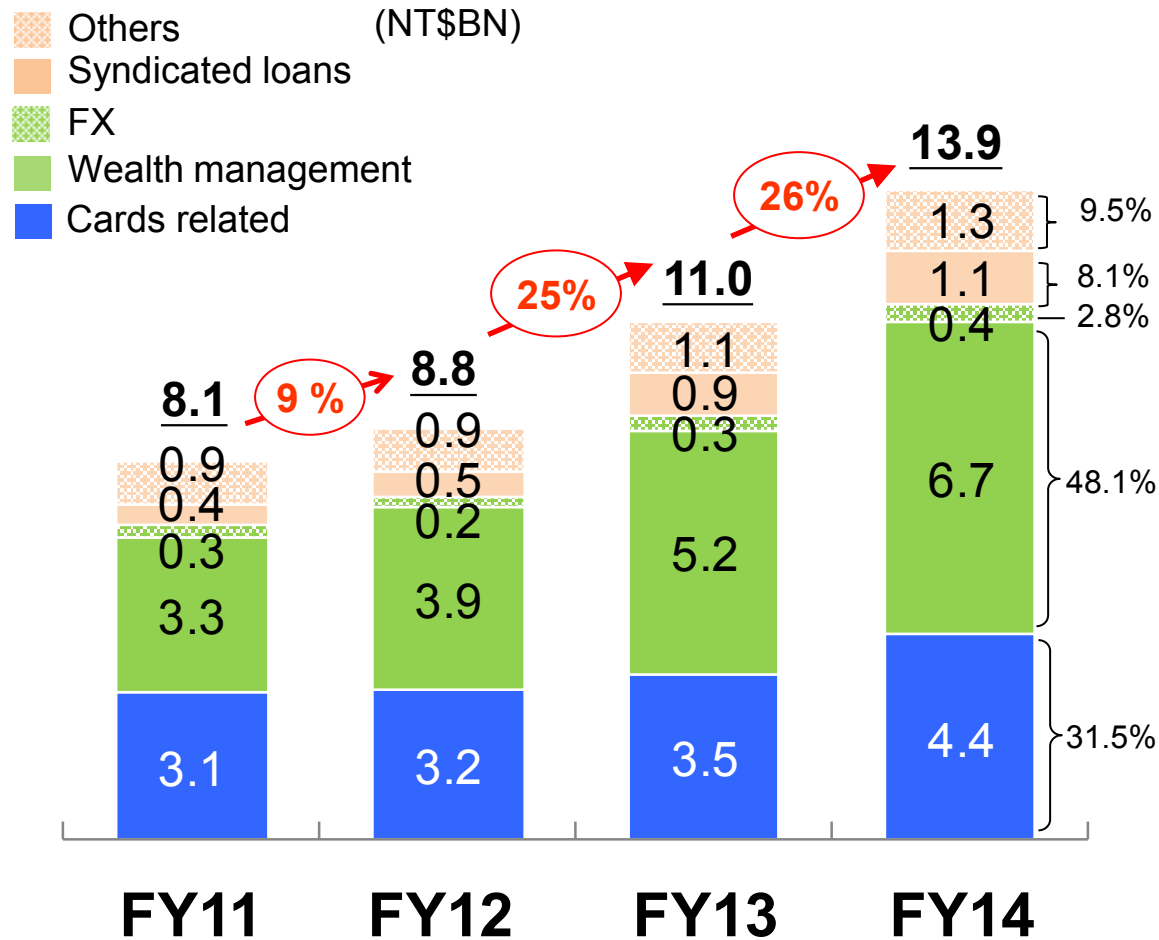
## As % of CUB pre-tax profits





# Cathay United Bank – Fee income

## Fee income breakdown



Note: Totals may not sum due to rounding.

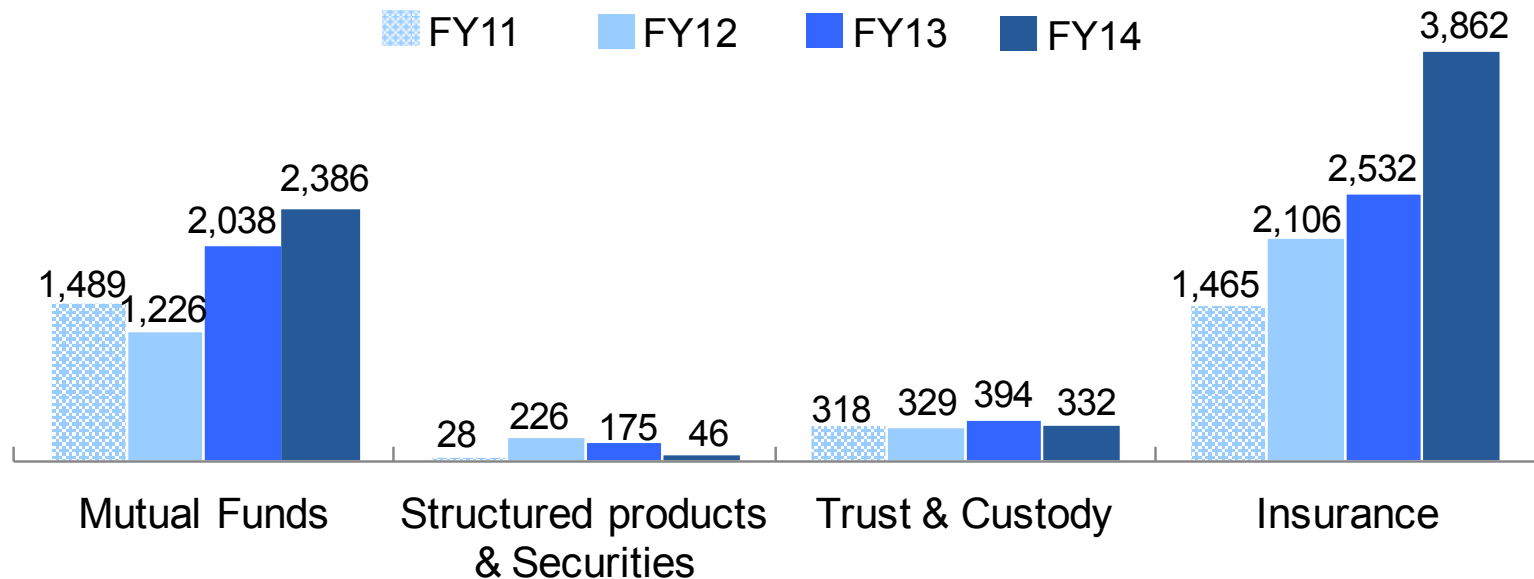
# Cathay United Bank – Wealth management fee breakdown

## Wealth management fee breakdown

| (NT\$MN)                      | FY11  | FY12  | FY13  | FY14  |
|-------------------------------|-------|-------|-------|-------|
| Wealth Management Fee Income* | 3,309 | 3,894 | 5,163 | 6,673 |
| YoY growth (%)                | 5.3%  | 17.7% | 32.6% | 29.2% |

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

|                               |    |     |       |       |
|-------------------------------|----|-----|-------|-------|
| Revenue from DCI, SI & others | 71 | 141 | 1,159 | 1,934 |
|-------------------------------|----|-----|-------|-------|



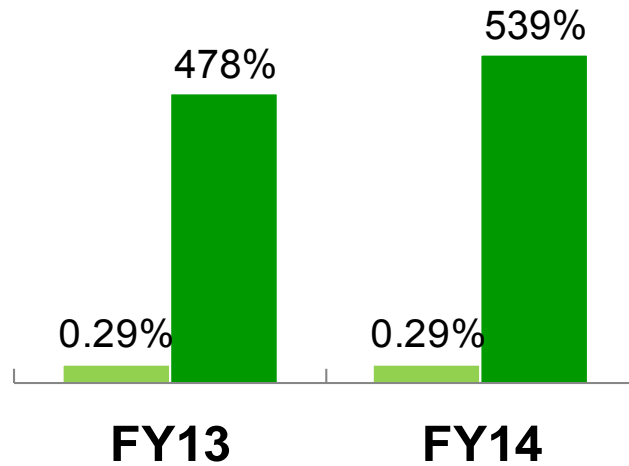
Note: (1)Wealth management fee excludes revenue from DCI, SI and others.

(2)Totals may not sum due to rounding.

# Cathay United Bank – Credit quality

## NPL & Coverage ratio

- NPL ratio
- Coverage ratio

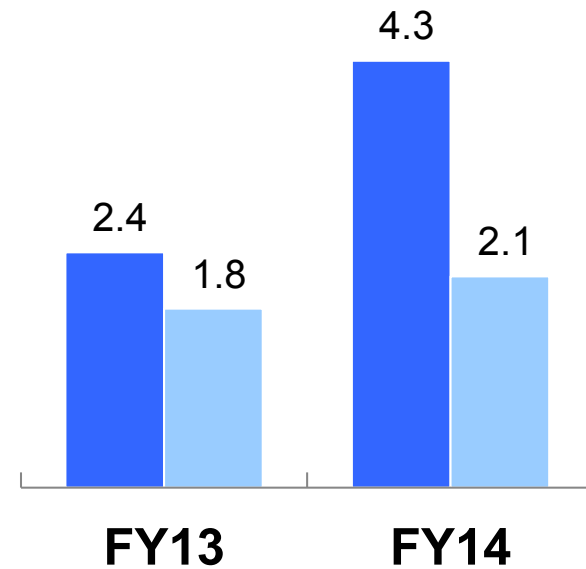


### Mortgage NPL

|       |       |
|-------|-------|
| 0.02% | 0.04% |
|-------|-------|

## Gross provision

- Gross provision (NT\$BN)
- Recovery

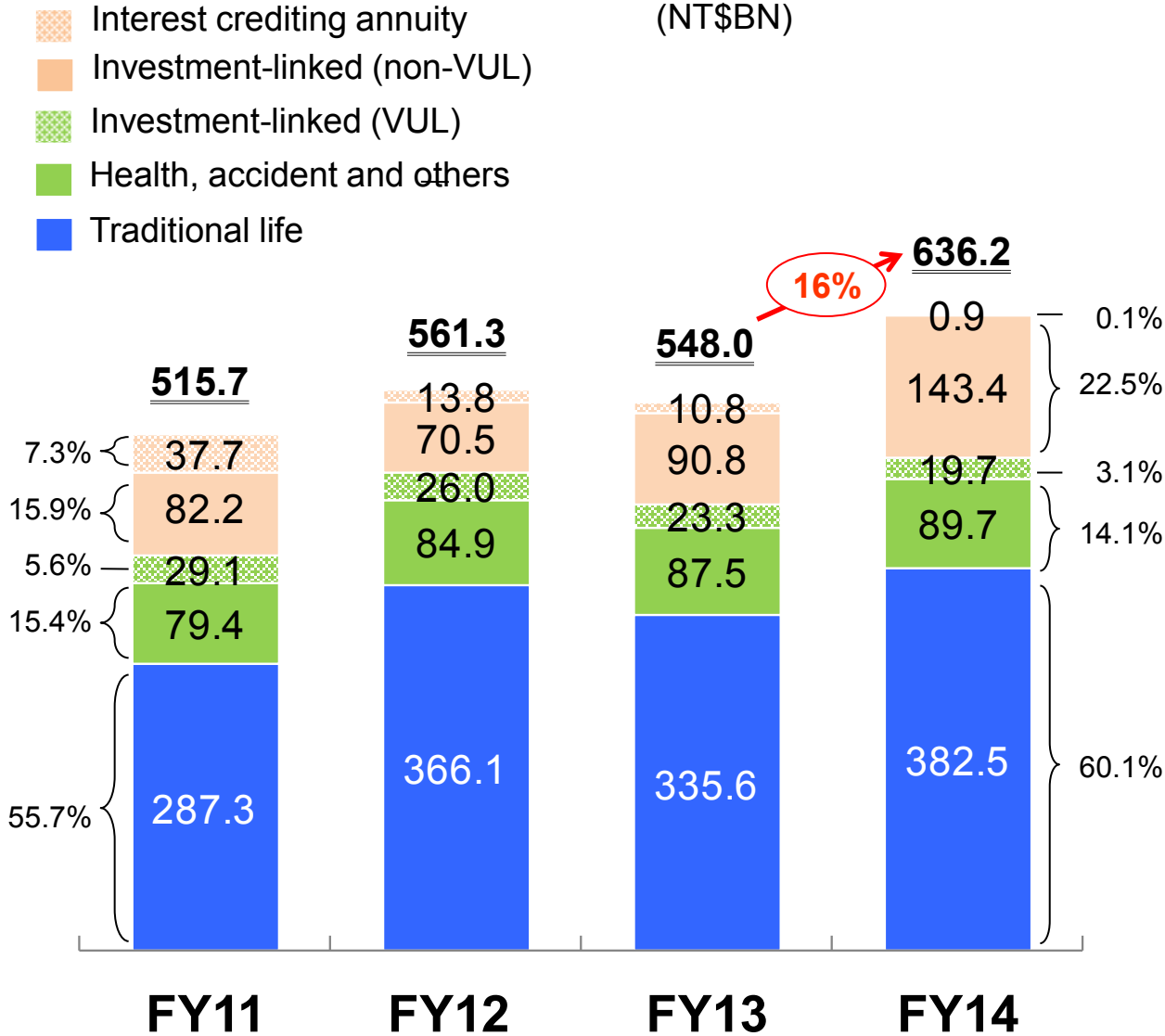


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# Cathay Life – Total premium

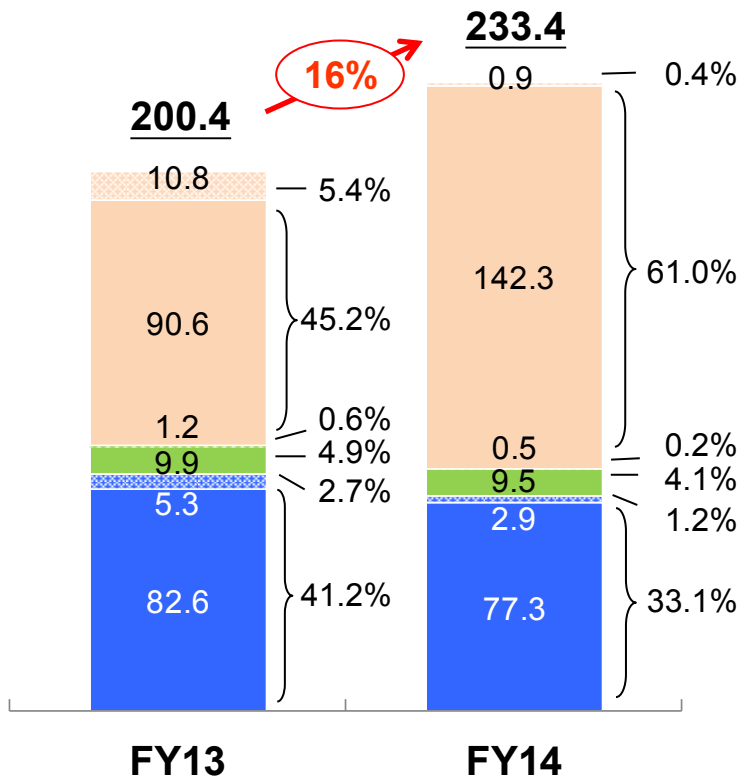


Note: Totals may not sum due to rounding.






# Cathay Life – FYP & FYPE

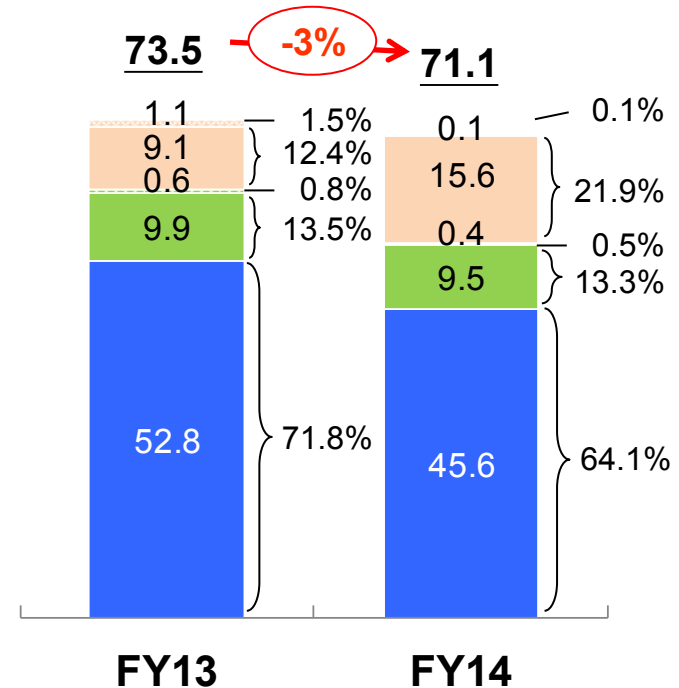
## FYP

-  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

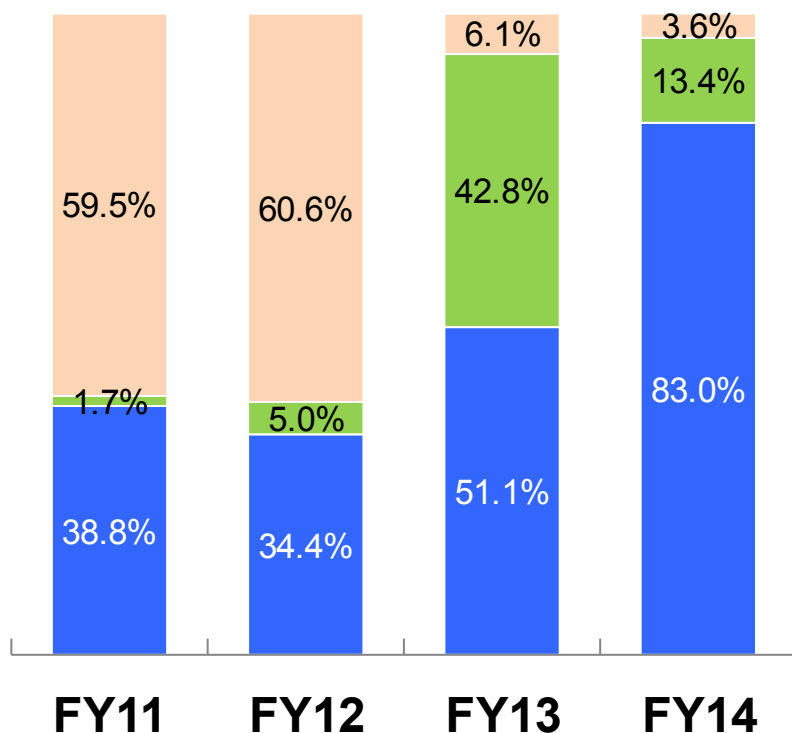


Note: Totals may not sum due to rounding.

# Cathay Life – Regular paid policies remain as focus

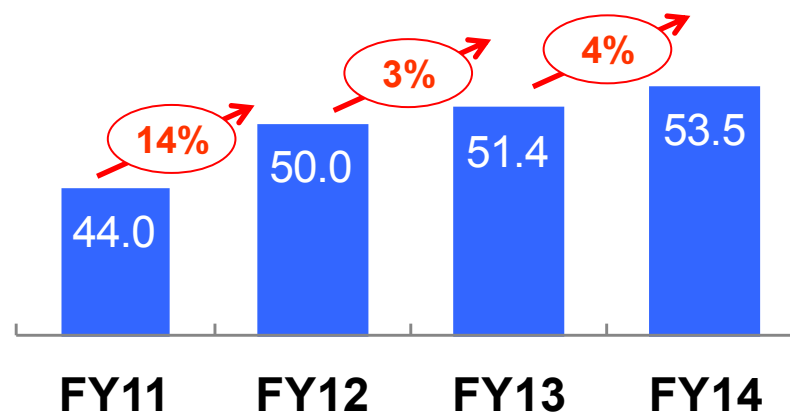
## Breakdown of Traditional FYP

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



## VNB

| Profit Margin | FY11 | FY12 | FY13 | FY14 |
|---------------|------|------|------|------|
| VNB/FYP       | 17%  | 19%  | 26%  | 23%  |
| VNB/FYPE      | 55%  | 54%  | 70%  | 75%  |

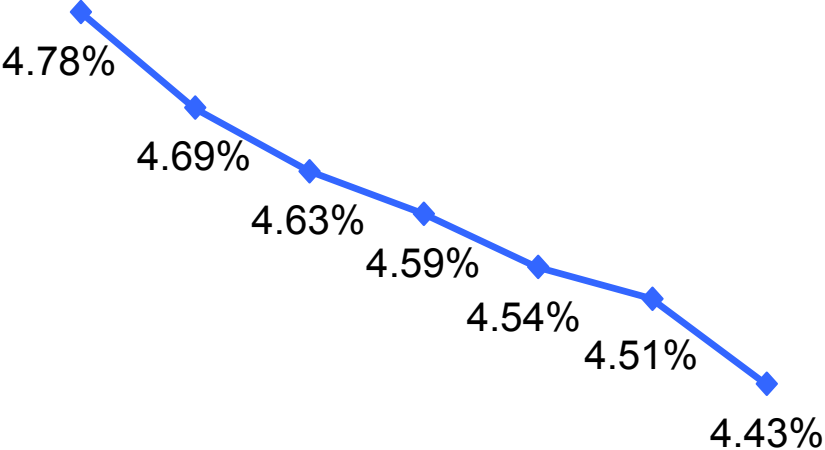


Note: Totals may not sum due to rounding.

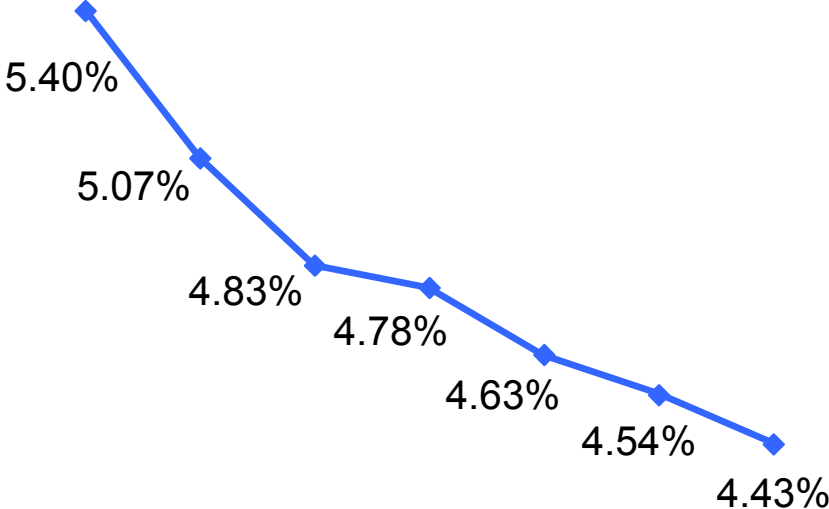
Note : FY14 VNB is based on Cathay Life's 2013 EV actuarial assumptions.

# Cathay Life – Cost of liability

## Cost of Liability



## Cost of Liability (annual)



FY11 1H12 FY12 1H13 FY13 1H14 FY14

FY08 FY09 FY10 FY11 FY12 FY13 FY14

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



# Cathay Life – Investment portfolio

| (NT\$BN)                                 | 4Q11           | 4Q12           | 4Q13           | 4Q14                       |               |                               |
|--|----------------|----------------|----------------|----------------------------|---------------|-------------------------------|
| <b>Total investments<sup>(3)</sup></b>   | <b>2,959.2</b> | <b>3,283.7</b> | <b>3,785.1</b> | <b>4,169.1</b>             |               |                               |
|  | <b>Weight</b>  | <b>Weight</b>  | <b>Weight</b>  | <b>Amount</b>              | <b>Weight</b> | <b>Amount</b>                 |
| <b>Cash &amp; Cash equivalents</b>       | <b>8.6%</b>    | <b>8.2%</b>    | <b>3.7%</b>    | <b>138.4</b>               | <b>3.2%</b>   | <b>131.6</b>                  |
| <b>Equity- Domestic</b>                  | <b>8.5%</b>    | <b>8.1%</b>    | <b>8.9%</b>    | <b>337.3</b>               | <b>8.4%</b>   | <b>350.9</b>                  |
| <b>Equity- International</b>             | <b>4.0%</b>    | <b>4.3%</b>    | <b>4.9%</b>    | <b>186.5</b>               | <b>5.0%</b>   | <b>209.4</b>                  |
| <b>Bond- Domestic</b>                    | <b>16.4%</b>   | <b>16.6%</b>   | <b>14.4%</b>   | <b>546.1</b>               | <b>11.0%</b>  | <b>459.2</b>                  |
| <b>Bond- International<sup>(3)</sup></b> | <b>38.6%</b>   | <b>39.6%</b>   | <b>38.9%</b>   | <b>1,472.5</b>             | <b>43.6%</b>  | <b>1,816.7</b>                |
| <b>Mortgage &amp; Secured loans</b>      | <b>10.2%</b>   | <b>10.3%</b>   | <b>12.2%</b>   | <b>461.2</b>               | <b>12.7%</b>  | <b>529.6</b>                  |
| <b>Policy loans</b>                      | <b>6.4%</b>    | <b>5.5%</b>    | <b>4.7%</b>    | <b>177.9</b>               | <b>4.0%</b>   | <b>166.4</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>10.5%</b>  | <b>439.4<sup>(1)(2)</sup></b> |
| <b>Others</b>                            | <b>2.0%</b>    | <b>1.8%</b>    | <b>1.7%</b>    | <b>62.9</b>                | <b>1.6%</b>   | <b>65.9</b>                   |

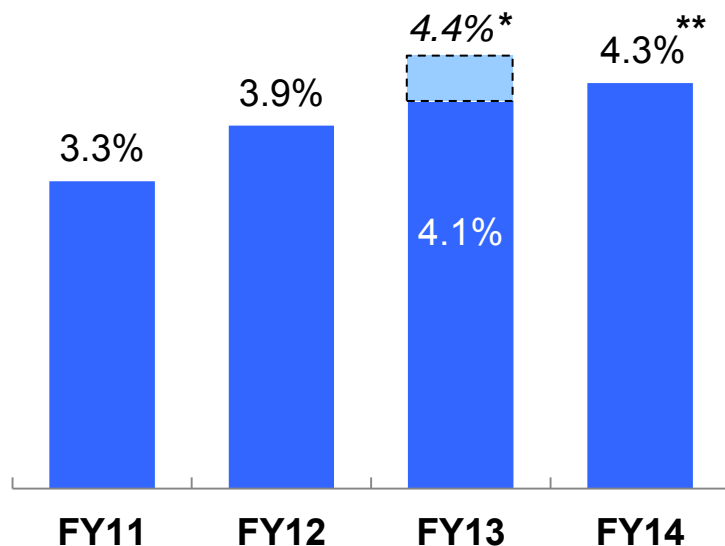
Note (1) Real estate included NT\$71.3BN of investment property appraisal gain from IFRS adoption and NT\$133.1BN of impact from fair value method on investment property.

(2) Real estate included NT\$16.6BN of appraisal gain from investment property.

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

# Cathay Life – Investment performance highlight

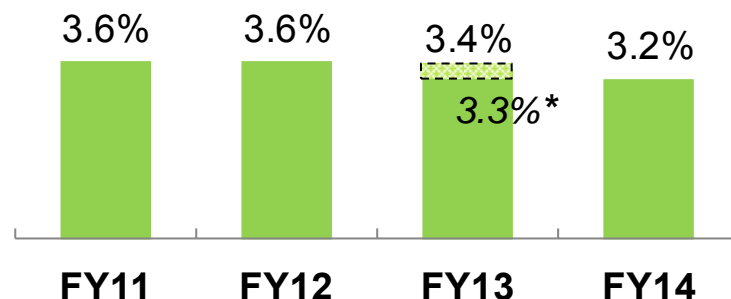
## After-hedging investment yield



\* FY13 (4.4% ) were pro forma adjusted numbers of fair value method on investment property.

\*\* Cathay Life FY14 net income included appraisal gain from investment property of NT\$13.8BN.

## Pre-hedging recurring yield

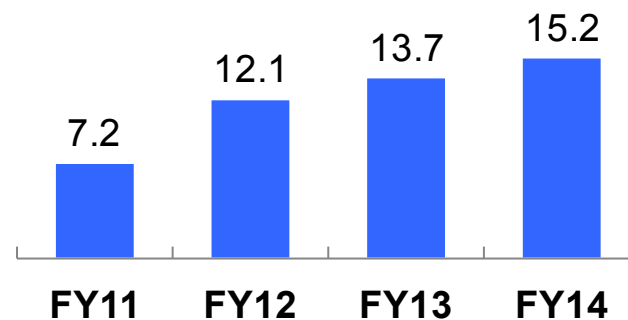


\* FY13 (3.3%) were pro forma adjusted numbers of fair value method on investment property.

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

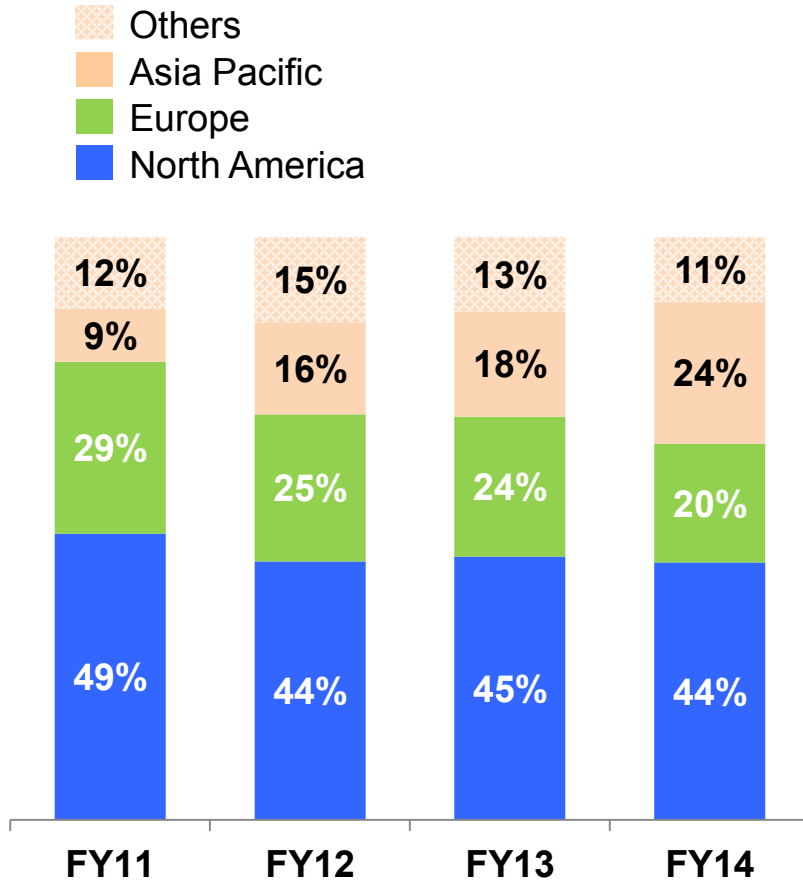
## Cash dividend

(NT\$BN)

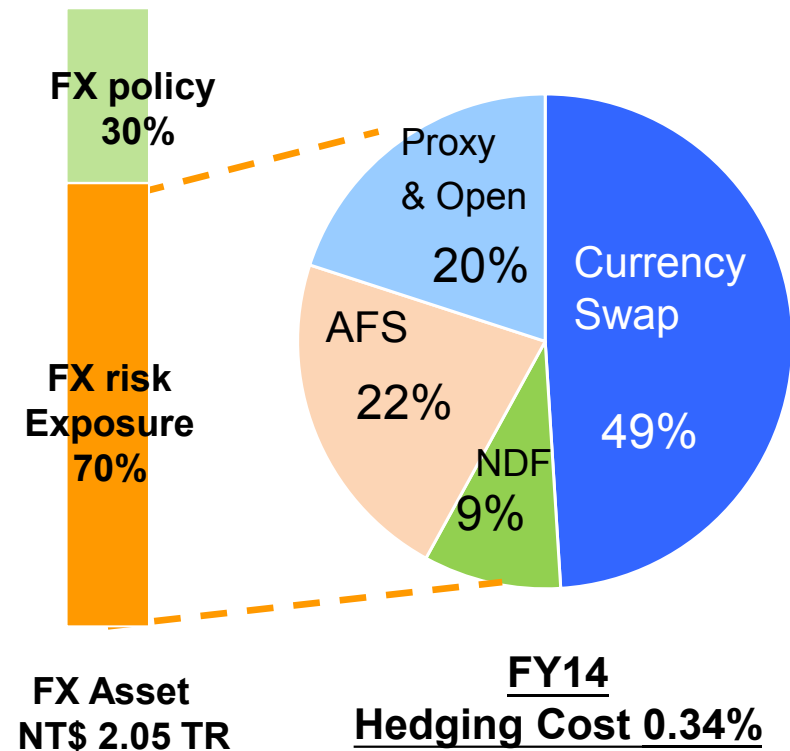


# Cathay Life – International bond investment highlight

## Overseas Fixed Income by Region



## Currency Hedging Structure



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

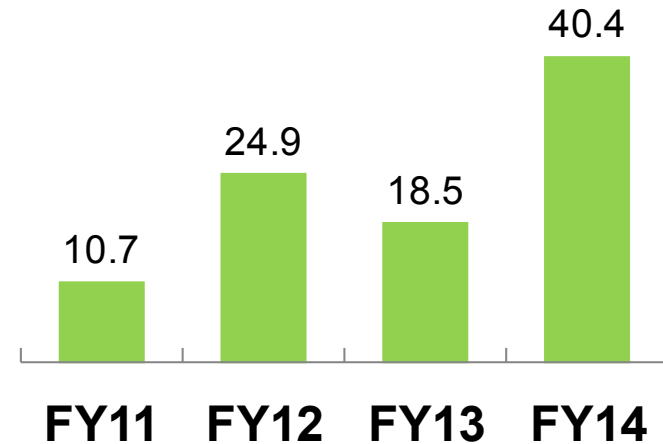
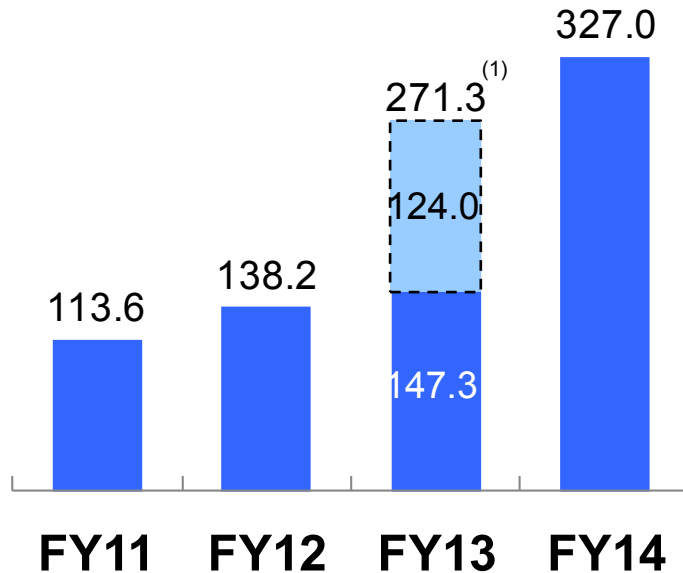
## Book value

## Unrealized G/L of AFS financial assets

(NT\$BN)

(NT\$BN)

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



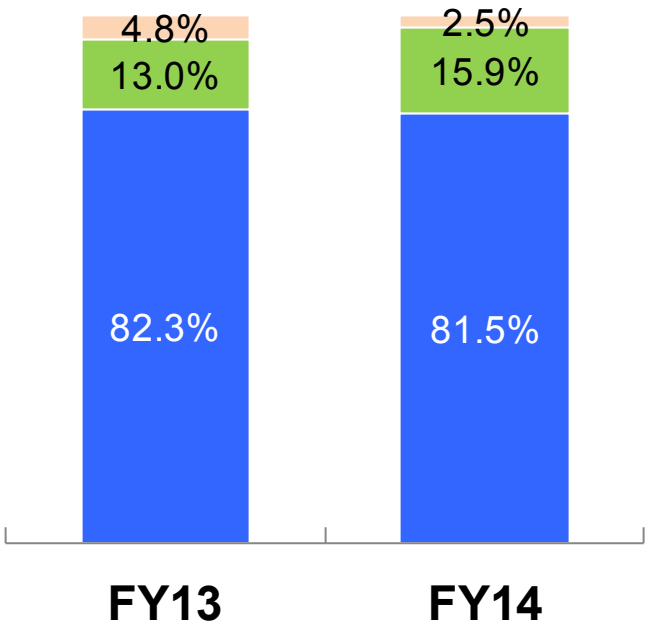
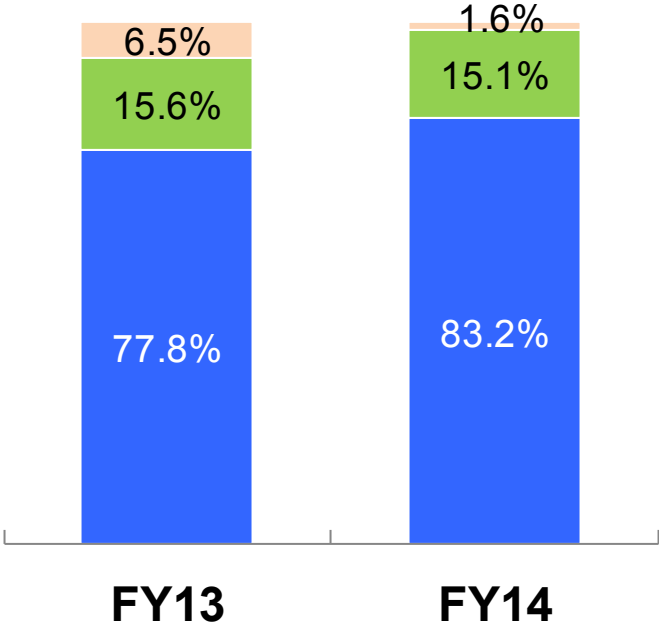
Note: (1)FY13 figures were pro forma adjusted numbers of fair value method on investment property.  
 (2)Book value of FY12 & FY13 & FY14 included minority interest, BVPS excluded minority interest.  
 (3)Totals may not sum due to rounding.

# Cathay Life – Distribution channel

FYP

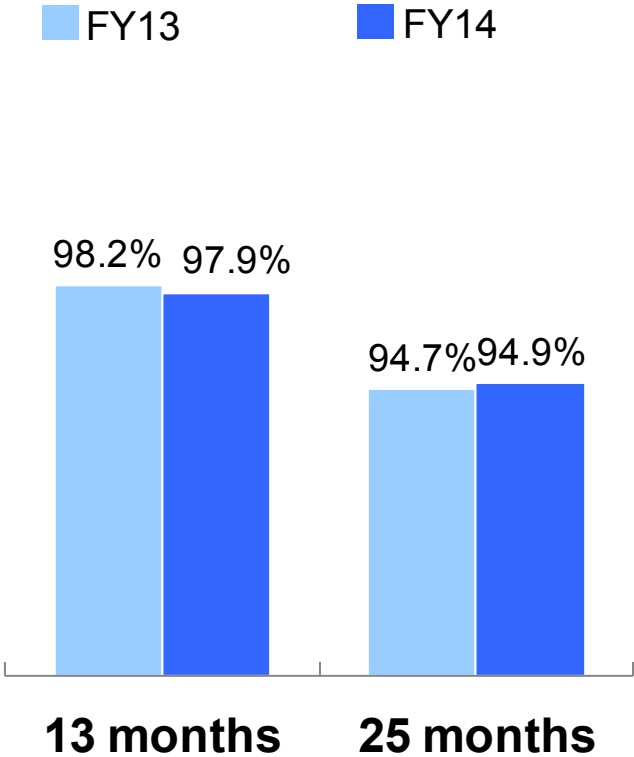
FYPE

- Others
- Bancassurance-CUB
- Tied agents

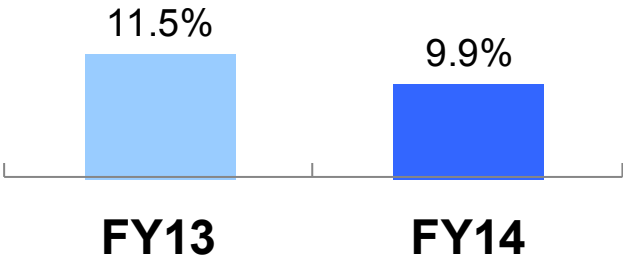


# Cathay Life – Operational indicators

## Persistency ratio



## Expense ratio



# Agenda

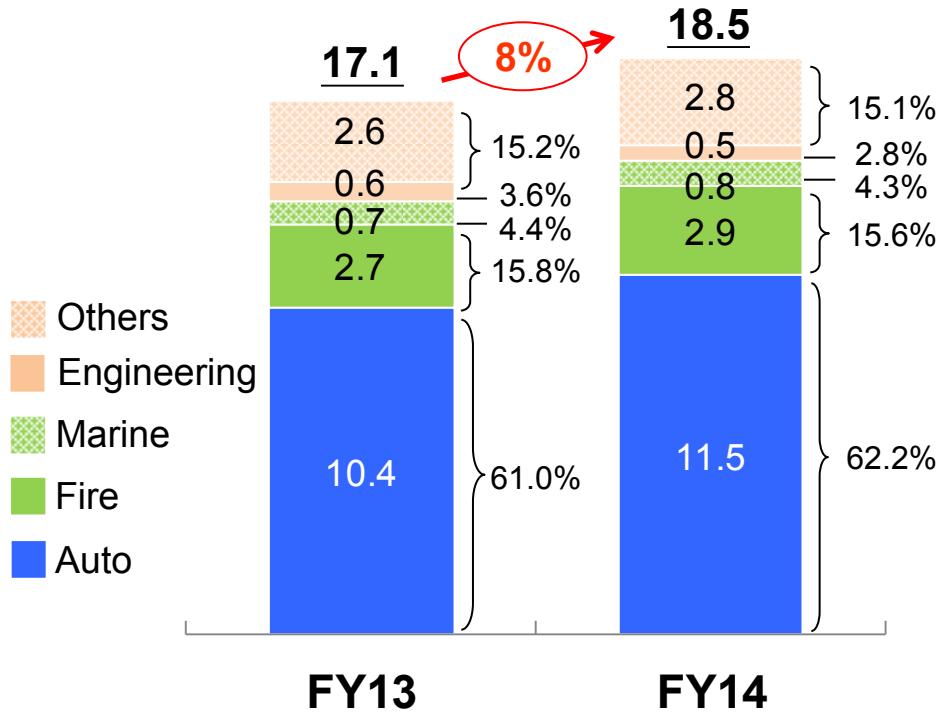
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- **Introduction of Cathay FHC**
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  - Cathay United Bank
  - Cathay Life
  - Cathay Century
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- **Appendix**

# Cathay Century

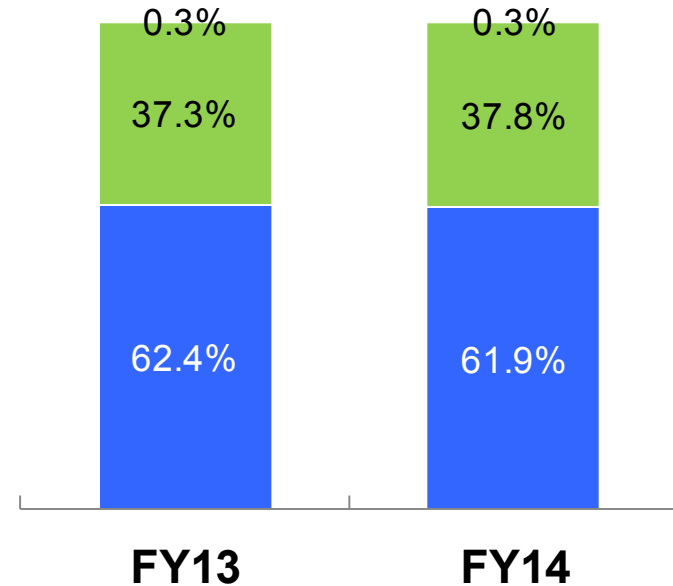
## Premium income

(NT\$BN)



## Distribution channel

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



|              |       |       |
|--------------|-------|-------|
| Market share | 13.4% | 13.6% |
| Retention    | 76.1% | 76.9% |

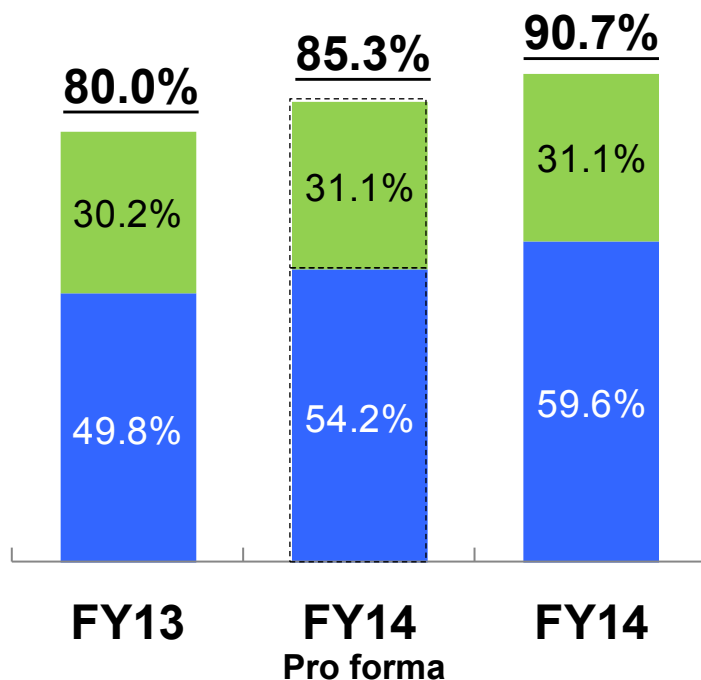
Note: Totals may not sum due to rounding.



# Cathay Century – Distribution channel

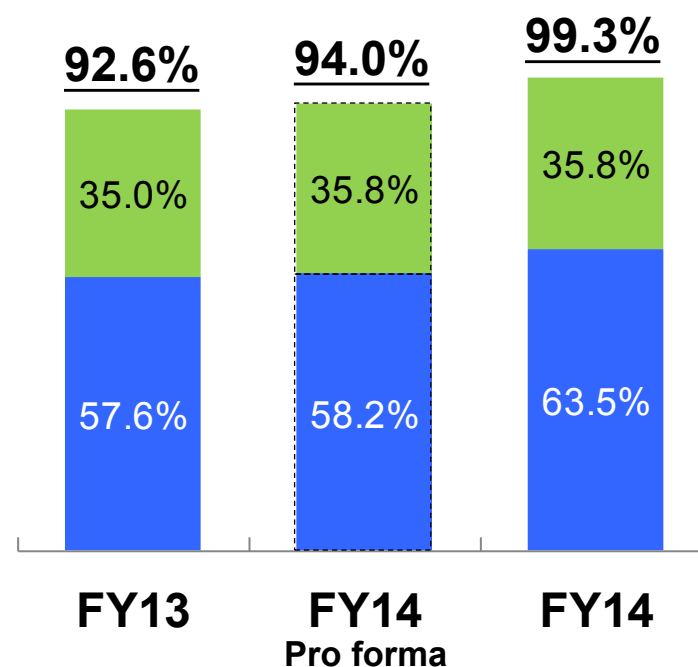
## Gross combined ratio

- 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.

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# Cathay FHC in South East Asia

|           | China | Vietnam | Cambodia | Hong Kong | Singapore | Malaysia | Laos | Philippines | Thailand | Myanmar | Indonesia |
|-----------|-------|---------|----------|-----------|-----------|----------|------|-------------|----------|---------|-----------|
| Bank      | 4     | 36      | 16       | 1         | 1         | 1        | 1    | 1           | 1        | 1       | 1*        |
| Life      | 31    | 6       |          |           |           |          |      |             |          |         |           |
| P&C       | 21    | 2       |          |           |           |          |      |             |          |         |           |
| Asset Mgt | 1     |         |          | 1         |           |          |      |             |          |         |           |

\* Footprints in Philippines, Thailand and Myanmar are representative offices. CUB is approved to set up a rep office in Indonesia.



■ Cathay United Bank

● Cathay Life

▲ Cathay Century

## ■ Cathay United Bank

- Business in Vietnam performed steadily with solid financial performance and superior asset quality
- Owns most footprints among Taiwanese banks in Cambodia
- Laos branch opened in 4Q14
- Planed to upgrade Philippines and Myanmar representative offices to branches

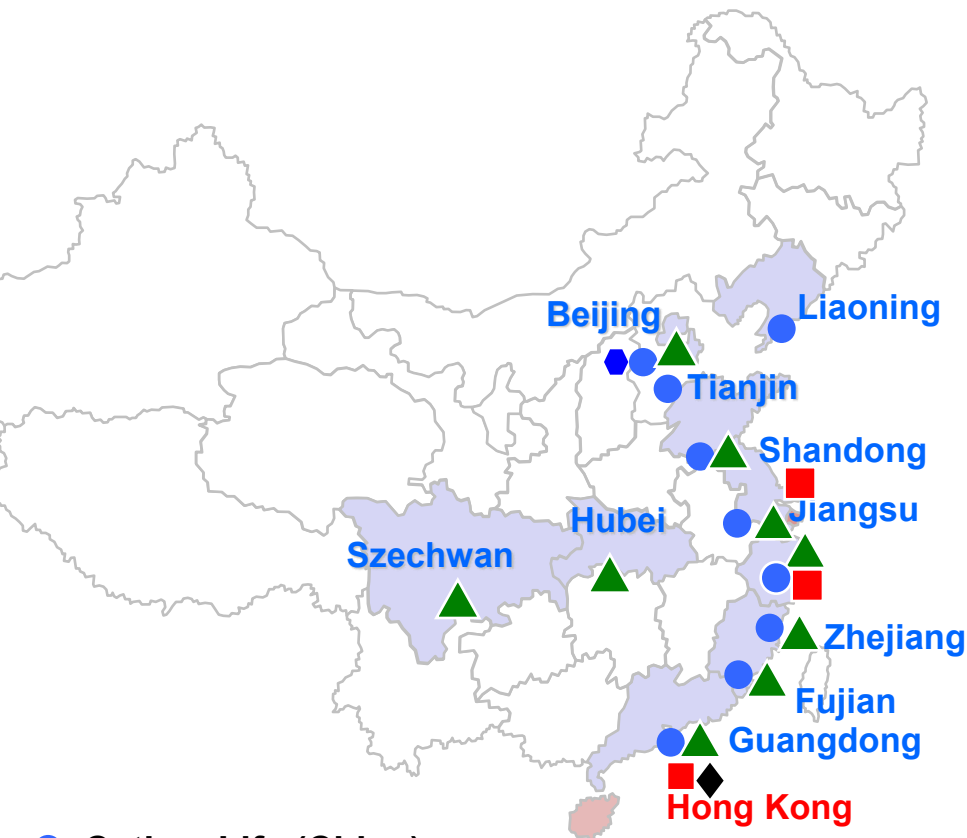
## ■ Cathay Life

- Applying to invest 20% stake in RCBC (Philippines) and 40% stake in Bank Mayapada (Indonesia)
- Planed to set up a subsidiary in Cambodia
- Cathay Life (Vietnam) FY14 net income reached NT\$160MN

## ■ Cathay Century

- Each business line has performed steadily

# 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

- Qingdao Branch opened in 4Q14
- Plan to apply Shenzhen branch, Jiading Sub-branch and upgrade Shanghai branch into subsidiary

## ■ Cathay Life (China)

- Completed capital injection with 363% solvency ratio
- Agent productivity grew by 70% YoY in FY14

## ■ Cathay Century (China)

- Each business line has performed steadily

## ■ JV with Conning (CCAM)

- AUM amounted to USD\$1.06BN in FY14

## ■ Cathay Securities

- Applying to acquire Horizon Securities (Hong Kong) to enhance overseas capacity

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

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

# Agenda

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# Equator Principles

## Origin

In 2003, the Equator Principles (EPs) were established by World Bank, International Finance Corporation (IFC) and other leading financial institutions in the world. It is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

## Purpose

Members of the EPs commit to implementing the EPs in their internal environmental and social policies, procedures and standards for financing projects and will request clients to comply with the EPs. Therefore, it can promote responsible environmental stewardship and socially responsible development.

## Connotation

The EP is a set of 10 voluntary principles. Equator Principles Financial Institutions (EPFIs) should only provide loans to projects which borrowers will comply with the EPs to protect the environment.

# EPFIs in the World

## EPFIs in the World

1. There are 80 financial institutions in more than 30 countries that adopt the EPs as of March, 2015.
2. EPFIs in Asia : Mizuho Bank, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, Industrial Bank (China), IDFC(India) and Cathay United Bank.

| Region     | Europe | North America | Latin America | Africa | Oceania | Asia | Middle East |
|------------|--------|---------------|---------------|--------|---------|------|-------------|
| Member no. | 34     | 14            | 10            | 9      | 5       | 6    | 2           |

## CUB is the only EPFI in Taiwan

1. **FSC encourages banks to adopt the EPs:** In April 2014, The Bankers Association of ROC added an article in its Credit Policy for Member Banks, stating that we should consider the borrower's records on Environmental Protection, Enterprise Credibility and Integrity, and Social Responsibility while examining and assessing its project finance.
2. **Cathay United Bank is currently the first EPFI in Taiwan.**
3. **Future planning:** Consulting professional institutions for assistance in planning the EPs system; Implement internal EPs training; Communicate with clients; Establish the EPs risk evaluation and management system for project financing; Plan to start cooperation with other EPFIs to participate in international project financing, etc.

# Agenda

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# Transaction Overview

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## Transaction

- The takeover of the assets, liabilities and operations of Global Life and Singfor Life. (the “Companies”)
  - Transaction Price : Subsidization of NTD\$ 30.3 bn by Taiwan Insurance Guarantee Funds
- 

## Support Measures

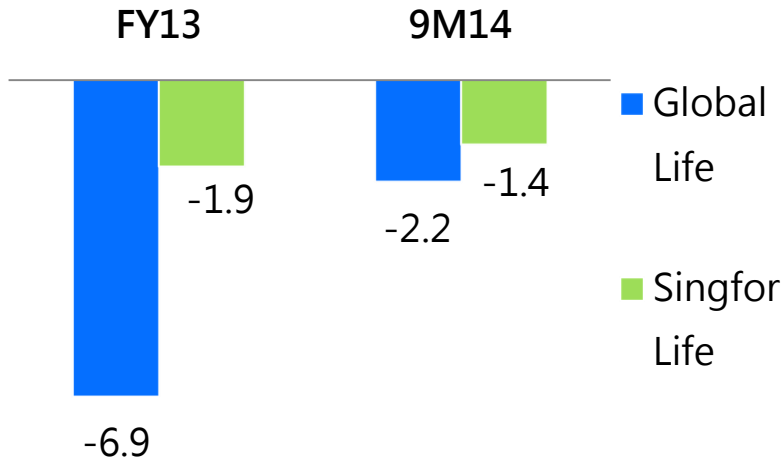
- Increase asset allocation flexibility
  - Relax certain related regulations
- 

- ❖ Exercise corporate social responsibility and provide the strength and stability to the policyholders of the Companies and the general public.

# Financial Review of Global Life and Singfor Life

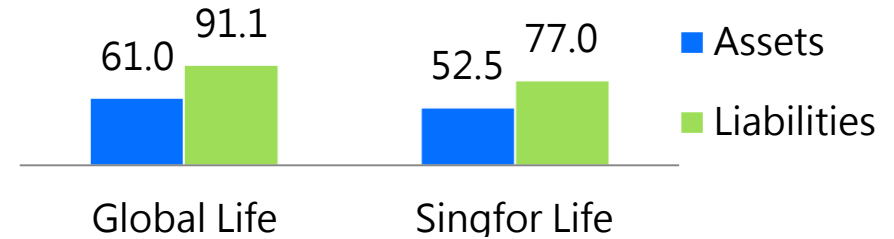
## Profit and Loss

(NT\$ bn)

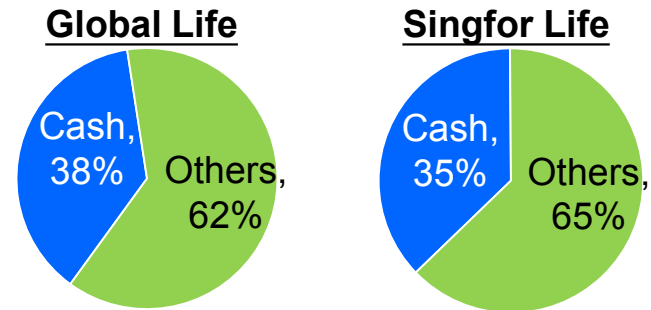


## Assets and Liabilities

(NT\$ bn)



## Assets Allocation



■ Target companies suffered losses due to :

- Insufficient assets versus liabilities
- Inefficient asset allocation
- Subject to burdensome provisioning

➔ The TIGF is providing a subsidy and the FSC is providing certain regulatory support measures, the takeover will not have an adverse impact on the operations, shareholder's equity and solvency of Cathay Life.

# Agenda

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# Transaction Overview – Conning

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## Transaction Structure

- Conning Holdings Corporation (“Conning”) is a leading asset manager for insurance and pension clients with \$92 billion in AuM
- Cathay Life Insurance Company (“Cathay Life”) will acquire 100% of Conning

## Purchase Price

- Acquisition price of US\$240 million in cash
  - P/AuM of 0.26% based on AuM as of September 30, 2014
- Cathay Financial Holdings will sell its approximately 10% stake in Conning to Cathay Life
  - Pre tax disposal gain amounts to US\$ 5 million

## Regulatory Approval

- The transaction is subject to the regulatory approval in Taiwan, US, UK and HK; expected closing in second half of 2015

## Strategic Rationale

- Transaction will significantly expand Cathay’s global presence in asset management
- Significant step forward in realizing “ Banking + Insurance + Asset Management” strategy

# Transaction Overview – Bank Mayapada

## Transaction Structure

- Cathay Life will acquire a 40% stake in PT Bank Mayapada International, Tbk ("Bank Mayapada") from selling shareholders:
  - Stage 1 : acquire 24.9% stake
  - Stage 2 : acquire 15.1% stake

## Consideration

- Total consideration is ~IDR3.52tn (~NT\$8.7bn), representing a P/B multiple of ~3.15x

## Timetable

- Closing of Stage 1 is subject to the approval from regulators in Taiwan. Closing for Stage 1 is expected by 1Q2015
- Closing of Stage 2 is subject to Fit and Proper Test as stipulated by the Indonesia Financial Services Authority ("OJK")

## Strategic Rationale

- Participation in Indonesia's growth opportunity
- Stable investment return
- Expansion of regional banking platform
- Potential strategic cooperation

# Transaction Overview – RCBC

## Transaction Structure

- Investment in 280 million shares of Rizal Commercial Banking Corporation (“RCBC”), which consist of both new and existing shares
- Post transaction, Cathay Life Insurance (“Cathay”) will own 20% of RCBC with 3 board seats of the company
- Depending on market conditions, Cathay may increase its investment in RCBC, via placement or open market purchase, to no more than 30% in the future

## Price

- PHP64.00 per share. Total consideration of acquiring 280 million shares would be PHP17.92 billion (c.USD0.40 billion or NTD12.55 billion\*). Post-money P/B is c.1.57x

## Regulatory Approval

- After board approvals, the signing of definitive agreements and the regulatory approval from both countries, the transaction is expected to be completed by the first quarter of 2015
- The parties plan to sign the contracts in Manila, Philippine on December 17th, 2014

## Strategic Rationale

- Strong potential of the Philippine market
- Expand regional banking platform
- Stable investment return
- Potential strategic cooperation

# 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%<br>for NTD policies<br>4.3% ~ Year 2032 6.14%<br>for USD policies<br>2.68% ~ Year 2032 3.11% for<br>Interest crediting annuity<br>(Equivalent investment yield: 4.34%,<br>rolling over to 2013: 4.39%) | 3.94% ~ Year 2033 5.07%<br>for NTD policies<br>4.47% ~ Year 2033 6.11%<br>for USD policies<br>2.71% ~ Year 2033 3.10% for<br>Interest crediting annuity<br>(Equivalent investment yield: 4.39%) |
| Future one year's new business investment yield     | 2.73% ~ Year 2032 5.03%<br>for NTD policies<br>4.02% ~ Year 2032 6.14%<br>for USD policies<br>2.38% ~ Year 2032 2.66% for<br>Interest crediting annuity   | 2.76% ~ Year 2033 5.07%<br>for NTD policies<br>4.02% ~ Year 2033 6.11%<br>for USD policies<br>2.42% ~ Year 2033 2.67% for<br>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.

# EV 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               | 1,093               | 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.

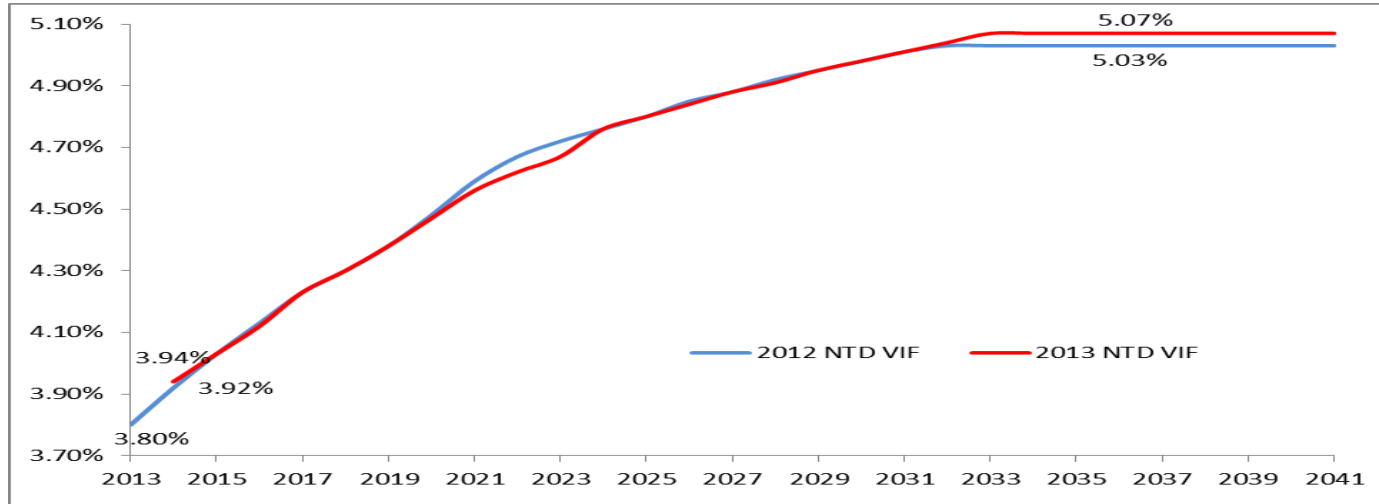
2.EV and AV per share is based on 2013 weighted outstanding shares of 11.5bn shares. The shares adjustment reflected stock dividend (split), right issue and ECB conversion.

3.Totals may not sum due to rounding.

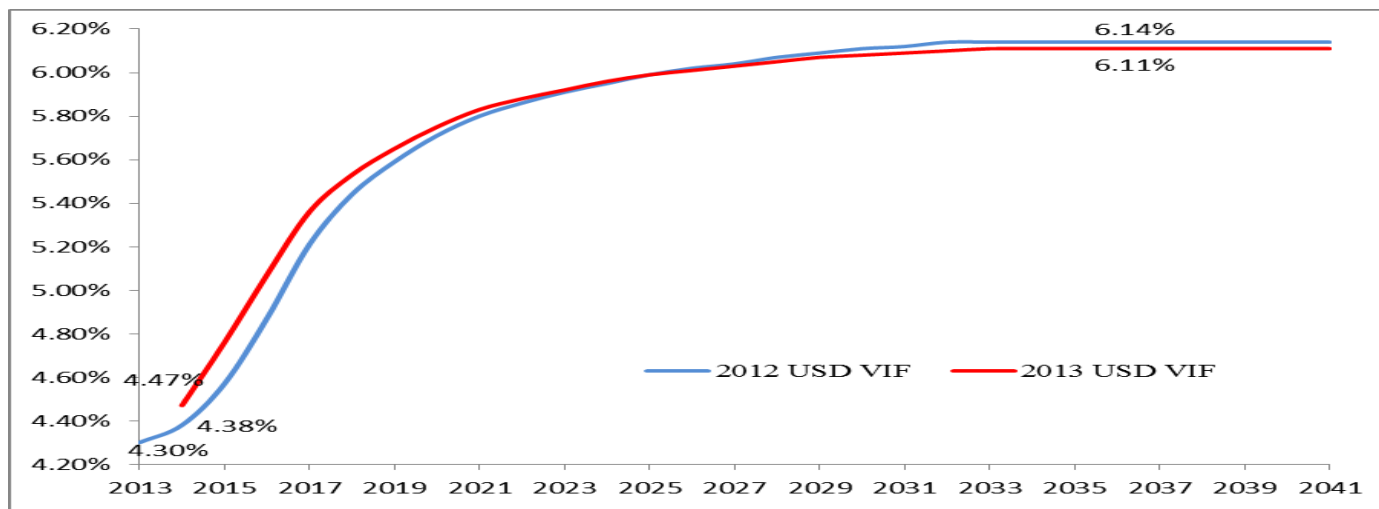


# Economic Assumptions: In-force business investment yield

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

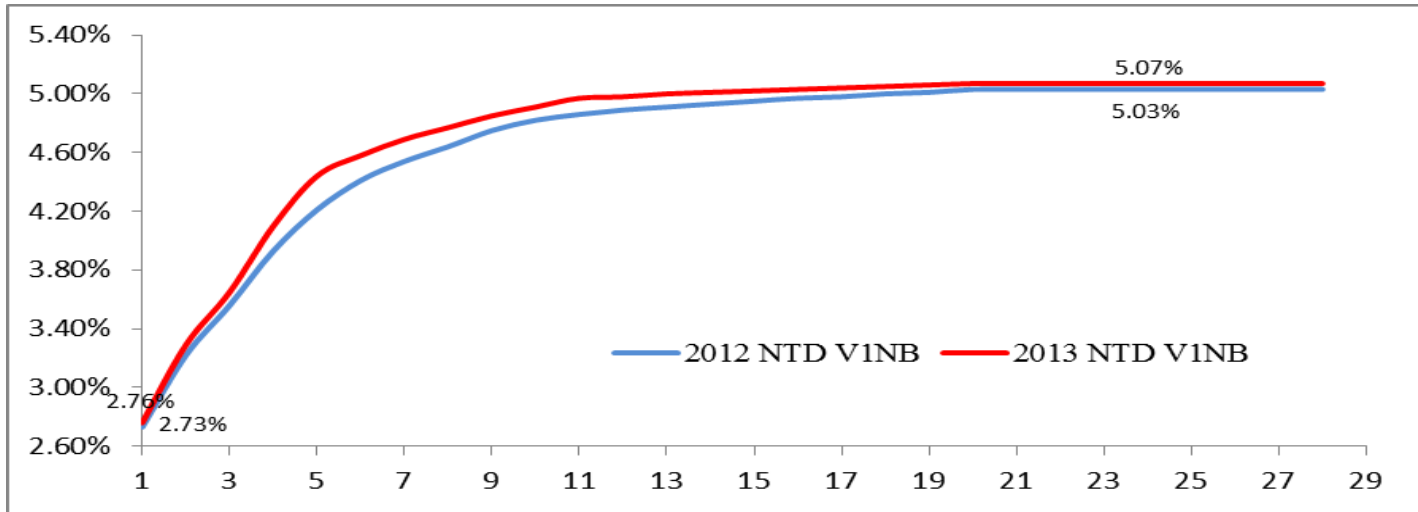


- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2012 & 2013.

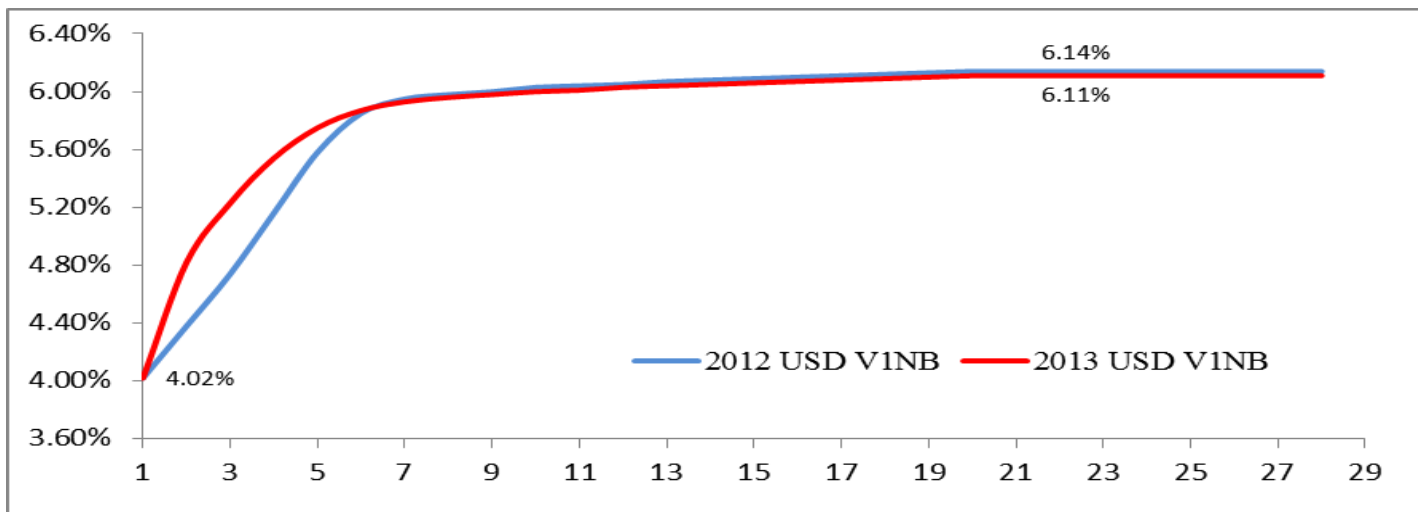


# Economic Assumptions: Future one year's new business investment yield

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



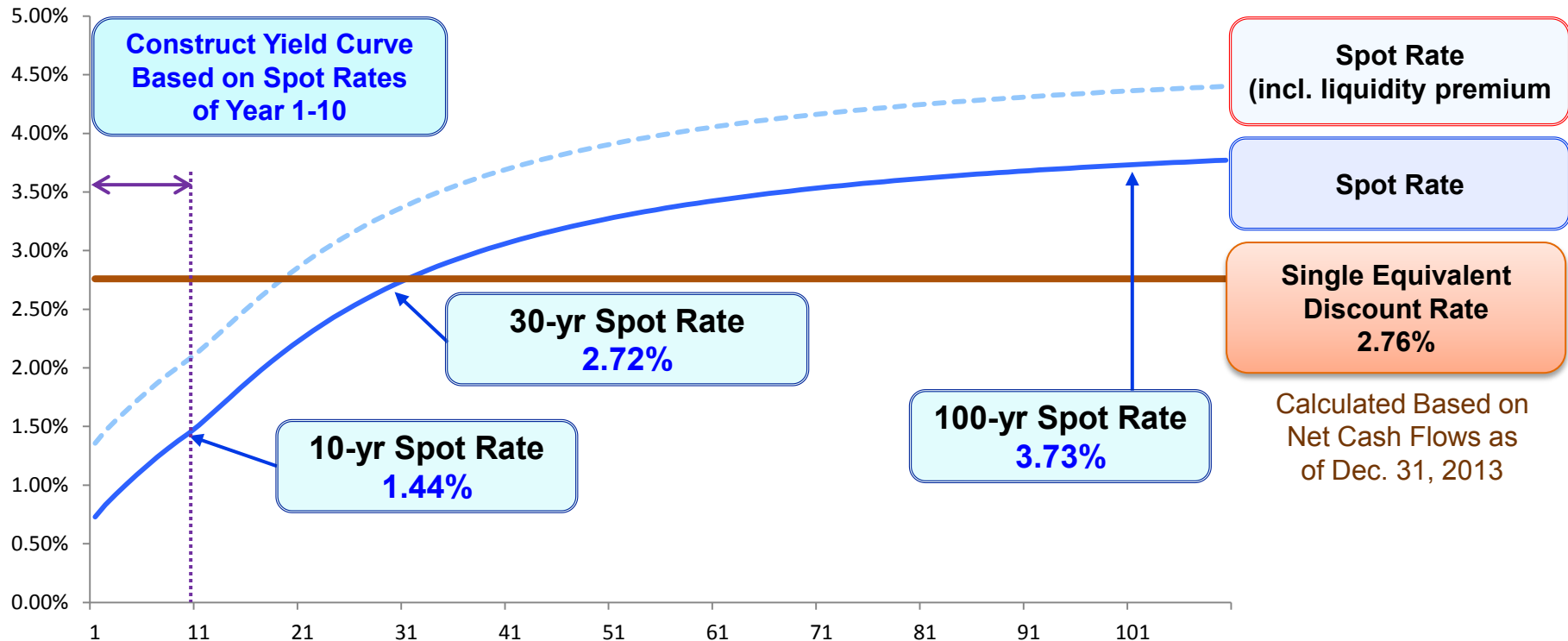
- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2012 & 2013.



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

## NTD Risk-free Rate

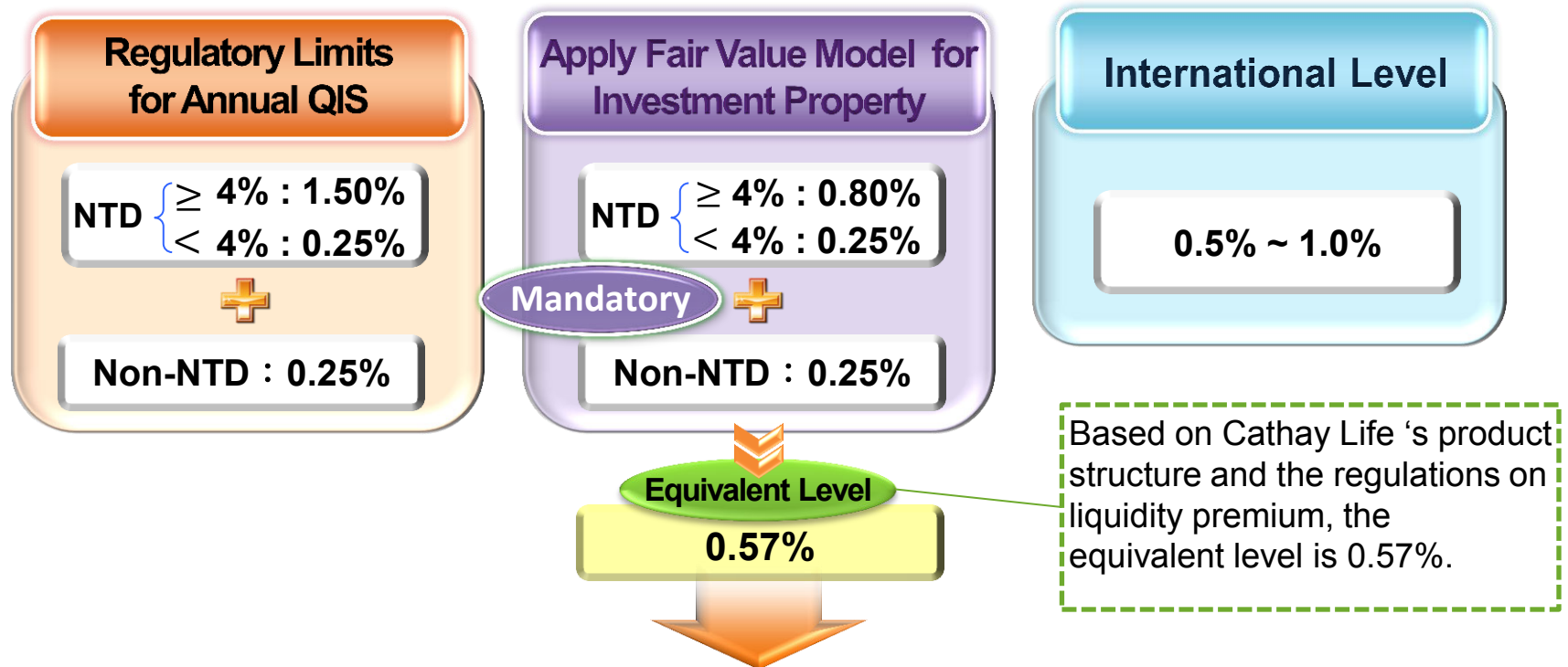
Calculate 3-yr daily MA yield curve based on the zero coupon yield curve announced by OTC (Svensson) and use the extrapolation method provided by [EU Solvency II QIS 5](#) to construct the complete yield curve.



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

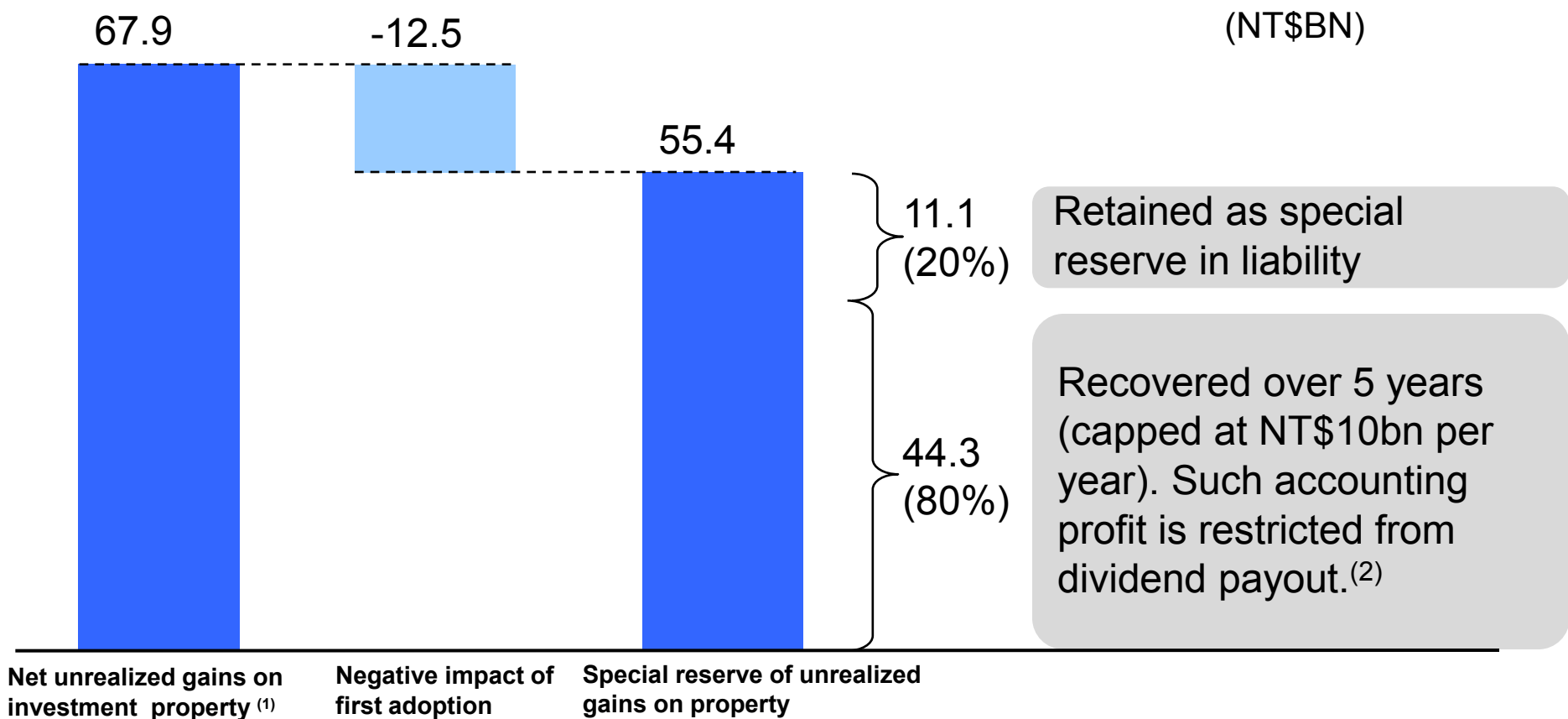
# Fair Value of Insurance Contracts: Liquidity Premium

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.

# Special reserve of unrealized gains on property

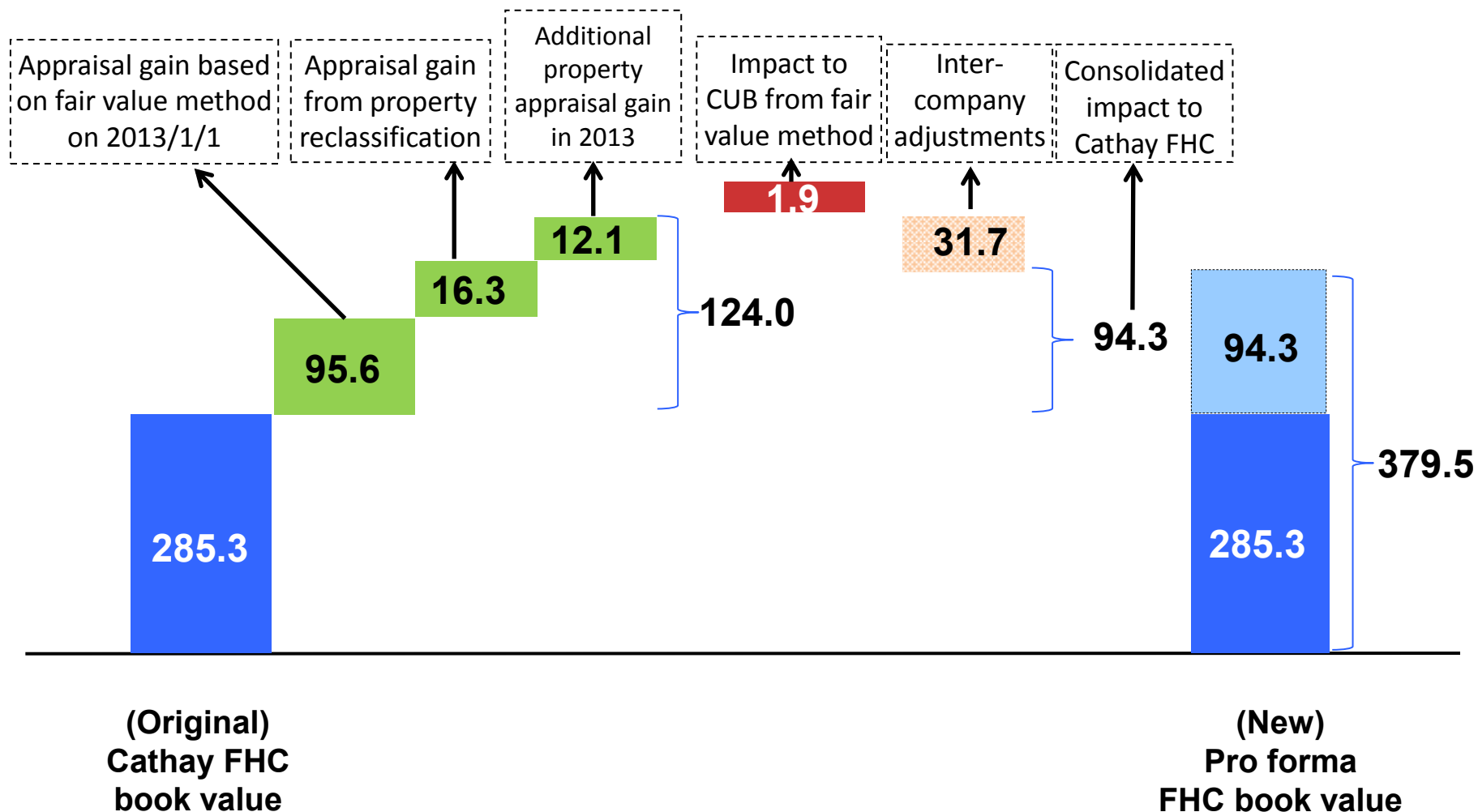


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(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.

# Illustration of 2013 pro forma book value of Cathay FHC

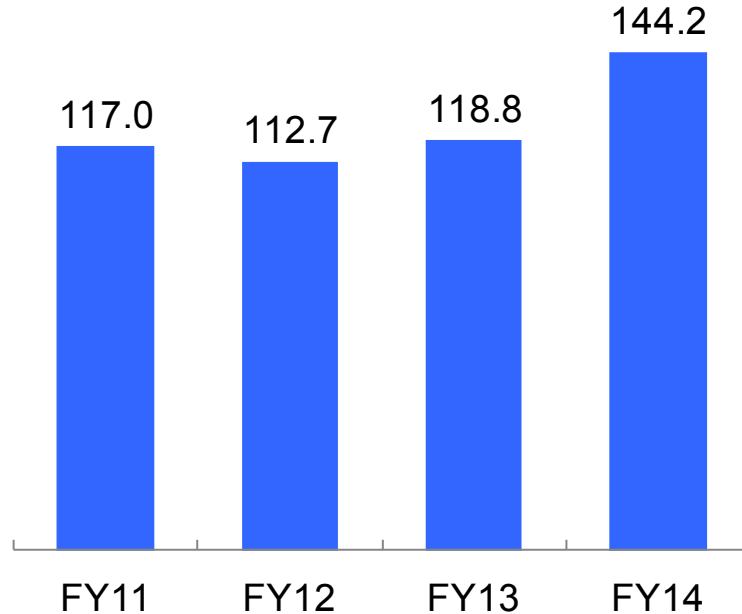
■ Cathay Financial Holdings 
 ■ Cathay Life 
 ■ Cathay United Bank



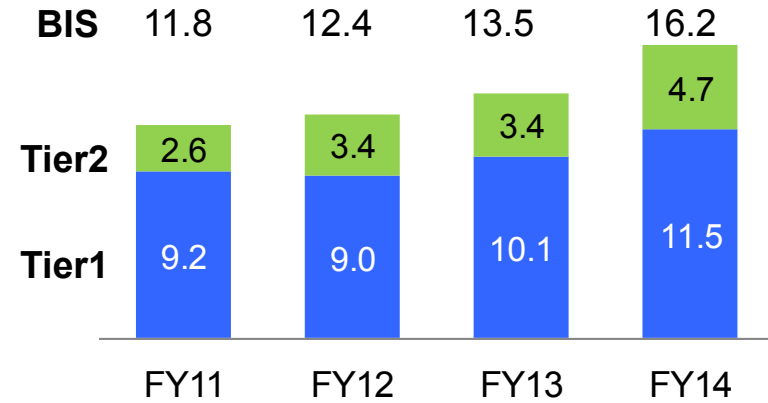
Note: Totals may not sum due to rounding.

# Capital adequacy

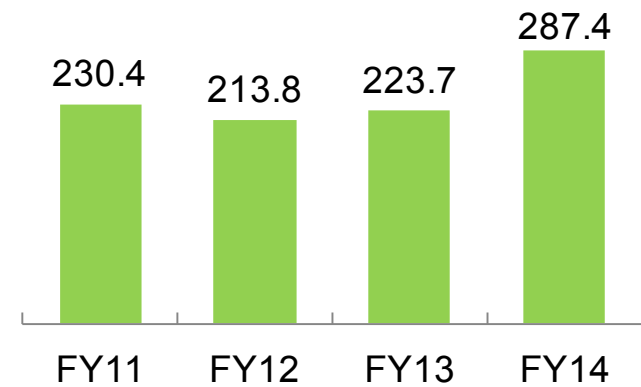
## Cathay FHC CAR (%)



## CUB Capital Adequacy (%)



## Cathay Life RBC(%)





Thank You





Cathay Financial Holdings

| (NT\$MN)  |           |           |           | FY14/<br>FY13 |           |          | 4Q14/<br>4Q13 |
|---|-----------|-----------|-----------|---------------|-----------|----------|---------------|
| Income Statement Data (Consolidated)                        | FY12      | FY13      | FY14      | % Chg         | 4Q13      | 4Q14     | % Chg         |
| <b>Operating Income</b>                                     |           |           |           |               |           |          |               |
| Net interest income   | 112,727   | 114,558   | 125,083   | 9%            | 29,190    | 32,546   | 11%           |
| Net commission and fee                                      | 2,207     | 791       | 369       | -53%          | (1,258)   | (1,331)  | 6%            |
| Net earned premium  | 457,392   | 441,427   | 488,327   | 11%           | 150,468   | 149,408  | -1%           |
| Change in liability reserve                                 | (306,443) | (293,570) | (290,800) | -1%           | (105,979) | (98,180) | -7%           |
| Net claims payment  | (230,508) | (228,125) | (285,869) | 25%           | (63,205)  | (72,474) | 15%           |
| Investment income   | 26,780    | 56,350    | 75,849    | 35%           | 16,852    | 14,126   | -16%          |
| Contribution from associates-equity method                  | (50)      | 157       | 168       | 7%            | 102       | 48       | -53%          |
| Other net non-interest income                               | 8,554     | 6,972     | 3,449     | -51%          | 367       | (373)    | -202%         |
| Bad debt expense  | (3,173)   | (1,484)   | (2,982)   | 101%          | (199)     | (1,793)  | 802%          |
| Operating expense   | (51,772)  | (54,277)  | (57,350)  | 6%            | (16,317)  | (16,074) | -1%           |
| <b>Income before taxes</b>                                  | 15,715    | 42,799    | 56,243    | 31%           | 10,021    | 5,903    | -41%          |
| Income taxes  | 457       | (4,779)   | (6,458)   | 35%           | (1,035)   | (863)    | -17%          |
| <b>Net income</b>   | 16,172    | 38,020    | 49,785    | 31%           | 8,986     | 5,040    | -44%          |
| EPS (NT\$)  | 1.41      | 3.12      | 3.94      |               | 0.72      | 0.40     |               |
| <b>Dividend Payout</b>                                      |           |           |           |               |           |          |               |
| Cash dividend per share                                     | 0.70      | 1.50      |           |               |           |          |               |
| Stock dividend per share                                    | 0.70      | 0.50      |           |               |           |          |               |
| Weighted average outstanding shares<br>(Millions of shares) | 11,412    | 12,124    | 12,563    |               |           |          |               |
| <b>Balance Sheet Data</b>                                   |           |           |           |               |           |          |               |
| Total assets  | 5,510,953 | 6,177,273 | 6,945,002 |               |           |          |               |
| Total shareholders' equity                                  | 248,149   | 379,510   | 438,321   |               |           |          |               |
| <b>Operating Metrics</b>                                    |           |           |           |               |           |          |               |
| ROAE (Consolidated)   | 6.92%     | 10.82%    | 12.17%    |               |           |          |               |
| ROAA (Consolidated)   | 0.31%     | 0.65%     | 0.76%     |               |           |          |               |
| Double leverage ratio(inc. preferred stock)                 | 116%      | 111%      | 113%      |               |           |          |               |
| <b>Capital Adequacy Metrics</b>                             |           |           |           |               |           |          |               |
| Capital Adequacy Ratio                                      | (2)       |           |           |               |           |          |               |
|   | 113%      | 119%      | 144%      |               |           |          |               |

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) Capital Adequacy Ratio of FY12 are based on ROC GAAP. The rest are based on IFRS.

(3) Total may not sum due to rounding.

**Cathay Life**

| (NT\$MN)                                    |              |               |               |            | FY14/        |              |              | 4Q14/       |
|---|--------------|---------------|---------------|------------|--------------|--------------|--------------|-------------|
|   | FY12         | FY13          | FY14          | % Chg      | FY13         | 4Q13         | 4Q14         | % Chg       |
| <b>Income Statement Data (Consolidated)</b> |              |               |               |            |              |              |              |             |
| Net written premium                         | 445,658      | 426,804       | 472,630       | 11%        | 146,406      | 145,197      | 145,197      | -1%         |
| Net earned premium                          | 445,573      | 418,262       | 471,849       | 13%        | 143,217      | 144,784      | 144,784      | 1%          |
| Reinsurance commission earned               | 14,371       | 11,610        | 4,740         | -59%       | 2,877        | 19           | 19           | -99%        |
| Fee income                                  | 2,581        | 3,090         | 5,943         | 92%        | 700          | 1,353        | 1,353        | 93%         |
| Recurring investment income                 | 109,976      | 113,932       | 124,152       | 9%         | 26,570       | 29,433       | 29,433       | 11%         |
| Gain on disposal of investment              |              |               |               |            |              |              |              |             |
| Realized gain (loss)-Equity                 | 8,122        | 16,586        | 23,357        | 41%        | 5,417        | 3,972        | 3,972        | -27%        |
| Realized gain (loss)-Debt                   | 12,362       | 14,604        | 12,828        | -12%       | 1,615        | 3,726        | 3,726        | 131%        |
| Investment property appraisal gains         | -            | 13,045        | 16,579        | 27%        | 6,289        | 212          | 212          | -97%        |
| FX and others, net                          | (11,384)     | (4,197)       | (7,166)       | 71%        | (314)        | 637          | 637          | -303%       |
| Investment income, net                      | 119,076      | 153,970       | 169,750       | 10%        | 39,577       | 37,980       | 37,980       | -4%         |
| Other operating income                      | 1,610        | 1,275         | 9             | -99%       | 263          | 3            | 3            | -99%        |
| Separate account revenues                   | 104,180      | 90,719        | 115,040       | 27%        | 22,020       | 14,826       | 14,826       | -33%        |
| Net claims payment                          | (222,173)    | (210,029)     | (275,195)     | 31%        | (57,517)     | (68,849)     | (68,849)     | 20%         |
| Changes in liability reserves               | (306,151)    | (292,978)     | (290,109)     | -1%        | (105,749)    | (98,520)     | (98,520)     | -7%         |
| Acquisition and commission expense          | (33,722)     | (34,188)      | (32,405)      | -5%        | (9,430)      | (8,057)      | (8,057)      | -15%        |
| Other operating costs                       | (4,842)      | (5,570)       | (4,544)       | -18%       | (1,573)      | (1,209)      | (1,209)      | -23%        |
| Financial cost                              | 745          | 303           | (106)         | -135%      | (82)         | (39)         | (39)         | -53%        |
| Separate account expense                    | (104,180)    | (90,719)      | (115,040)     | 27%        | (22,020)     | (14,826)     | (14,826)     | -33%        |
| Operating expense                           | (17,801)     | (15,677)      | (16,724)      | 7%         | (4,671)      | (5,243)      | (5,243)      | 12%         |
| Net non-operating income                    | 965          | 1,156         | 1,482         | 28%        | 312          | 355          | 355          | 14%         |
| Income taxes                                | 2,286        | (3,657)       | (2,834)       | -22%       | (789)        | (86)         | (86)         | -89%        |
| <b>Net income</b>                           | <b>2,519</b> | <b>27,569</b> | <b>31,854</b> | <b>16%</b> | <b>7,133</b> | <b>2,491</b> | <b>2,491</b> | <b>-65%</b> |
| <b>Balance Sheet Data</b>                   |              |               |               |            |              |              |              |             |
| Total assets                                | 3,717,231    | 4,195,229     | 4,705,262     |            |              |              |              |             |
| General account                             | 3,387,674    | 3,818,977     | 4,242,995     |            |              |              |              |             |
| Separate account                            | 329,557      | 376,253       | 462,267       |            |              |              |              |             |
| Reserves for life insurance liabilities     | 3,148,281    | 3,448,659     | 3,770,679     |            |              |              |              |             |
| Total liabilities                           | 3,579,018    | 3,923,923     | 4,378,266     |            |              |              |              |             |
| Total shareholders' equity                  | 138,213      | 271,306       | 326,996       |            |              |              |              |             |
| <b>Operating Metrics</b>                    |              |               |               |            |              |              |              |             |
| First Year Premium(FYP)                     | 267,169      | 200,419       | 233,379       |            |              |              |              |             |
| First Year Premium Equivalent(FYPE)         | 91,773       | 73,461        | 71,138        |            |              |              |              |             |
| Expense ratio                               | 10.6%        | 11.5%         | 9.9%          |            |              |              |              |             |
| 13-M persistency ratio                      | 97.9%        | 98.2%         | 97.9%         |            |              |              |              |             |
| 25-M persistency ratio                      | 93.3%        | 94.7%         | 94.9%         |            |              |              |              |             |
| ROAE  | 1.97%        | 10.92%        | 10.65%        |            |              |              |              |             |
| ROAA  | 0.07%        | 0.69%         | 0.72%         |            |              |              |              |             |
| <b>Capital Adequacy Metrics</b>             |              |               |               |            |              |              |              |             |
| RBC ratio (Standalone)                      | (2)          |               |               |            |              |              |              |             |
|   | 214%         | 224%          | 287%          |            |              |              |              |             |

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

(3) Total may not sum due to rounding.

**Cathay United Bank**

| (NT\$MN)                                    |               |               |               | FY14/<br>FY13<br>% Chg | FY14/<br>4Q13 | 4Q14/<br>4Q13<br>% Chg |             |
|---|---------------|---------------|---------------|------------------------|---------------|------------------------|-------------|
| <b>Income Statement Data (Consolidated)</b> |               |               |               |                        |               |                        |             |
|   | FY12          | FY13          | FY14          | % Chg                  | 4Q13          | 4Q14                   | % Chg       |
| <b>Operating Income</b>                     |               |               |               |                        |               |                        |             |
| Net interest income                         | 21,284        | 21,915        | 25,779        | 18%                    | 5,615         | 6,733                  | 20%         |
| Fee income                                  | 7,330         | 9,204         | 11,806        | 28%                    | 2,405         | 3,142                  | 31%         |
| Investment income                           | 5,366         | 5,650         | 7,384         | 31%                    | 1,529         | 1,068                  | -30%        |
| other income                                | 966           | 956           | 1,064         | 11%                    | 239           | 182                    | -24%        |
| <b>Net operating income</b>                 | <b>34,947</b> | <b>37,725</b> | <b>46,033</b> | <b>22%</b>             | <b>9,788</b>  | <b>11,125</b>          | <b>14%</b>  |
| Operating expenses                          | (17,840)      | (20,216)      | (22,822)      | 13%                    | (6,063)       | (6,285)                | 4%          |
| <b>Pre-provision profit</b>                 | <b>17,107</b> | <b>17,509</b> | <b>23,211</b> | <b>33%</b>             | <b>3,726</b>  | <b>4,840</b>           | <b>30%</b>  |
| Net provisions for possible losses          | (2,126)       | (542)         | (2,471)       | 356%                   | (352)         | (1,726)                | 390%        |
| <b>Income before taxes</b>                  | <b>14,981</b> | <b>16,967</b> | <b>20,741</b> | <b>22%</b>             | <b>3,374</b>  | <b>3,114</b>           | <b>-8%</b>  |
| Income tax                                  | (1,715)       | (2,188)       | (2,892)       | 32%                    | (434)         | (498)                  | 15%         |
| <b>Net income</b>                           | <b>13,266</b> | <b>14,780</b> | <b>17,848</b> | <b>21%</b>             | <b>2,939</b>  | <b>2,616</b>           | <b>-11%</b> |

**Balance Sheet Data**

|                             |           |           |           |
|-----------------------------|-----------|-----------|-----------|
| Total assets                | 1,817,369 | 1,988,774 | 2,243,847 |
| Loans, net                  | 1,003,183 | 1,031,105 | 1,119,281 |
| Financial assets            | 560,469   | 646,503   | 730,885   |
| Total liability             | 1,712,364 | 1,855,610 | 2,095,690 |
| Deposits                    | 1,539,774 | 1,615,860 | 1,739,023 |
| Financial Debenture Payable | 42,519    | 52,417    | 67,614    |
| Total shareholders' equity  | 105,005   | 133,164   | 148,157   |

**Operating Metrics**

|                   |        |        |        |
|-------------------|--------|--------|--------|
| Cost income ratio | 51.1%  | 53.59% | 49.58% |
| ROAE              | 12.97% | 12.33% | 12.69% |
| ROAA              | 0.75%  | 0.78%  | 0.84%  |

**Assets Quality**

|                |        |        |        |
|----------------|--------|--------|--------|
| NPL            | 3,373  | 3,013  | 3,277  |
| NPL ratio      | 0.34%  | 0.29%  | 0.29%  |
| NPL provisions | 13,037 | 14,494 | 15,782 |
| Coverage ratio | 386%   | 478%   | 539%   |

**Capital Adequacy Metrics**

|                           |       |       |       |
|---------------------------|-------|-------|-------|
|                           | (2)   |       |       |
| BIS ratio (Standalone)    | 12.4% | 13.5% | 16.2% |
| Tier I Ratio (Standalone) | 9.0%  | 10.1% | 11.5% |

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(3) Total may not sum due to rounding.

**Cathay Century**

| (NT\$MM)                                    |             |             |             | FY14/<br>FY13 |             |             | 4Q14/<br>4Q13 |
|---|-------------|-------------|-------------|---------------|-------------|-------------|---------------|
| <b>Income Statement Data (Consolidated)</b> | <b>FY12</b> | <b>FY13</b> | <b>FY14</b> | <b>% Chg</b>  | <b>4Q13</b> | <b>4Q14</b> | <b>% Chg</b>  |
| Premium income                              | 17,040      | 19,727      | 21,279      | 8%            | 5,276       | 5,759       | 9%            |
| Net written premium                         | 12,614      | 15,280      | 16,080      | 5%            | 4,139       | 4,303       | 4%            |
| Net earned premium                          | 11,724      | 14,156      | 15,626      | 10%           | 4,031       | 3,941       | -2%           |
| Reinsurance commission earned               | 464         | 470         | 683         | 45%           | 107         | 173         | 62%           |
| Fee income                                  | 33          | 36          | 45          | 27%           | 9           | 13          | 55%           |
| Investment                                  | 595         | 715         | 918         | 28%           | 141         | 189         | 34%           |
| Interest income                             | 387         | 444         | 569         | 28%           | 135         | 174         | 29%           |
| Other investment income, net                | 208         | 271         | 348         | 29%           | 6           | 15          | 159%          |
| Net claims payment                          | (6,669)     | (7,835)     | (8,747)     | 12%           | (2,202)     | (2,630)     | 19%           |
| Changes in liability reserves               | (369)       | (592)       | (691)       | 17%           | (230)       | 340         | -248%         |
| Commissions and other operating costs       | (774)       | (1,083)     | (1,210)     | 12%           | (301)       | (309)       | 3%            |
| Operating expenses                          | (4,427)     | (5,328)     | (5,824)     | 9%            | (1,500)     | (1,526)     | 2%            |
| <b>Operating income</b>                     | <b>576</b>  | <b>538</b>  | <b>800</b>  | <b>49%</b>    | <b>55</b>   | <b>192</b>  | <b>252%</b>   |
| Net non-operating income                    | (9)         | 9           | 29          | 238%          | 2           | (2)         | -171%         |
| Income taxes                                | (196)       | (218)       | (174)       | -20%          | (65)        | (76)        | 18%           |
| <b>Net income</b>                           | <b>371</b>  | <b>329</b>  | <b>656</b>  | <b>99%</b>    | <b>(8)</b>  | <b>115</b>  | <b>-1578%</b> |
| <b>Balance Sheet Data</b>                   |             |             |             |               |             |             |               |
| Total assets                                | 29,188      | 31,709      | 35,855      |               |             |             |               |
| Total stockholders' equity                  | 4,817       | 5,511       | 6,868       |               |             |             |               |
| <b>Operating Metrics</b>                    |             |             |             |               |             |             |               |
| Gross Combined ratio                        | 82.6%       | 80.0%       | 90.7%       |               |             |             |               |
| Net Combined ratio                          | 93.7%       | 92.6%       | 99.3%       |               |             |             |               |
| ROAE  | 8.10%       | 6.37%       | 10.59%      |               |             |             |               |
| ROAA  | 1.32%       | 1.08%       | 1.94%       |               |             |             |               |
| <b>Capital Adequacy Metrics</b>             |             |             |             |               |             |             |               |
| RBC ratio (Standalone)                      | (3)<br>314% | 312%        | 324%        |               |             |             |               |

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