

# 2014 Third Quarter Briefing



國泰金控

Cathay  
Financial Holdings

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# Agenda

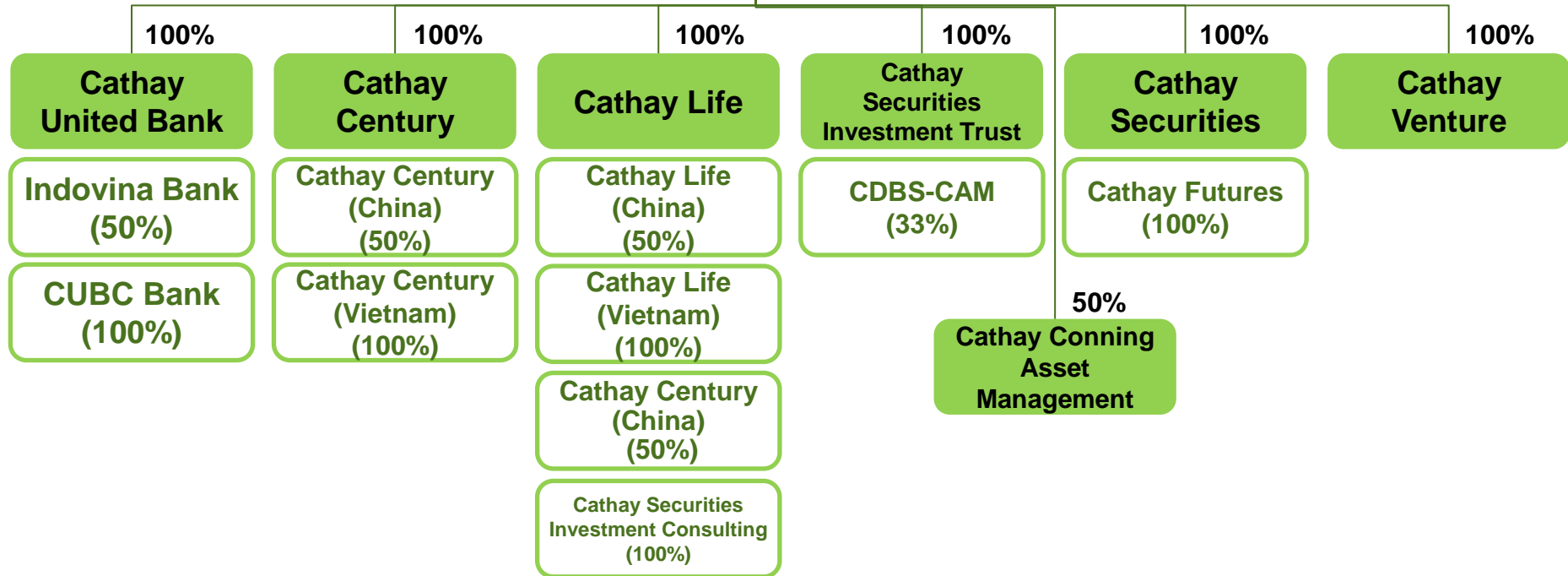
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- **Introduction of Cathay FHC**
- **9M14 Business overview**
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Overseas expansion**
- **Acquisition of Conning**
- **Appendix**

# 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: 13.3% (2013) / 13.2% (9M14).

- No. 1 life insurer in terms of total assets and total premium
- Market share in total premium: 21.2% (2013) / 22.2% (9M14).

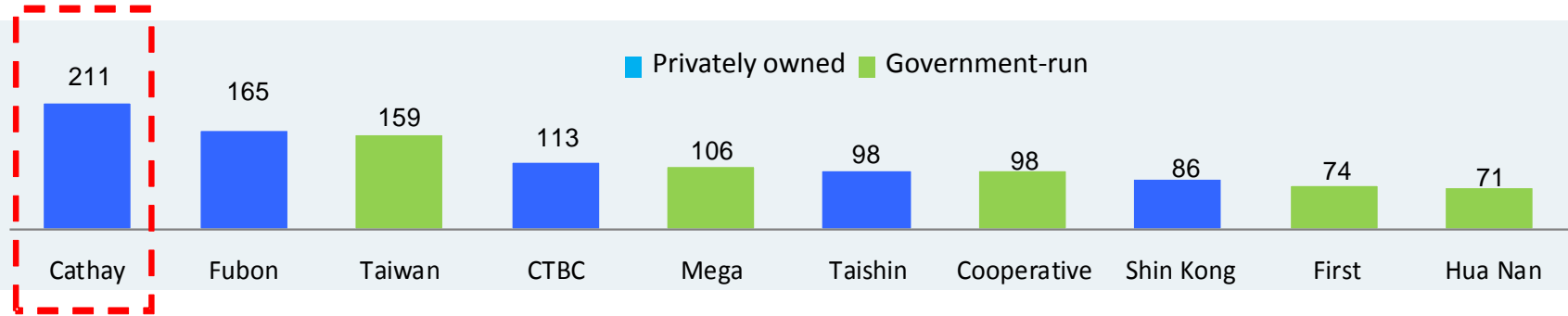
- Largest AUM among asset managers in Taiwan
- Qualified QFII to invest in China
- Pursue business opportunity from QDII of China

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

# Market leader in Taiwan's FIG sector

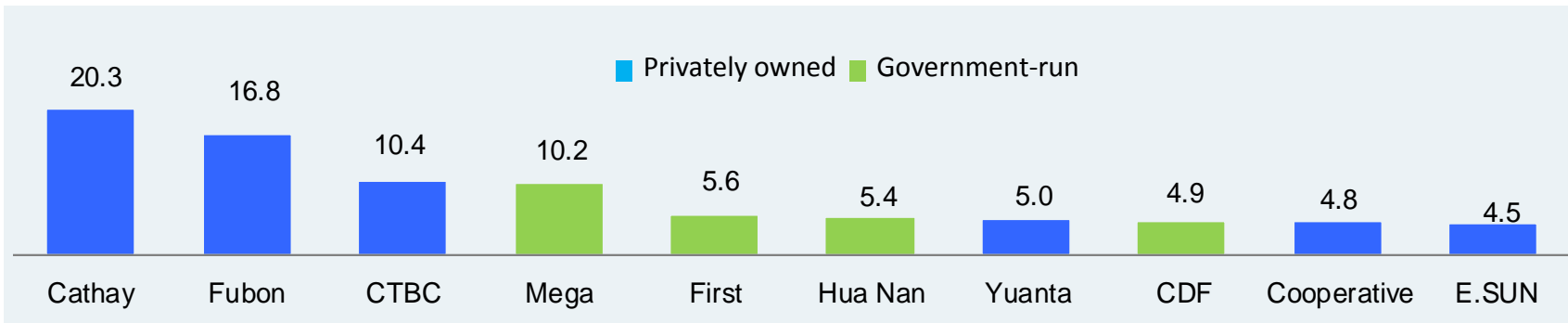
- Largest listed financials group by market capitalization and assets

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



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

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

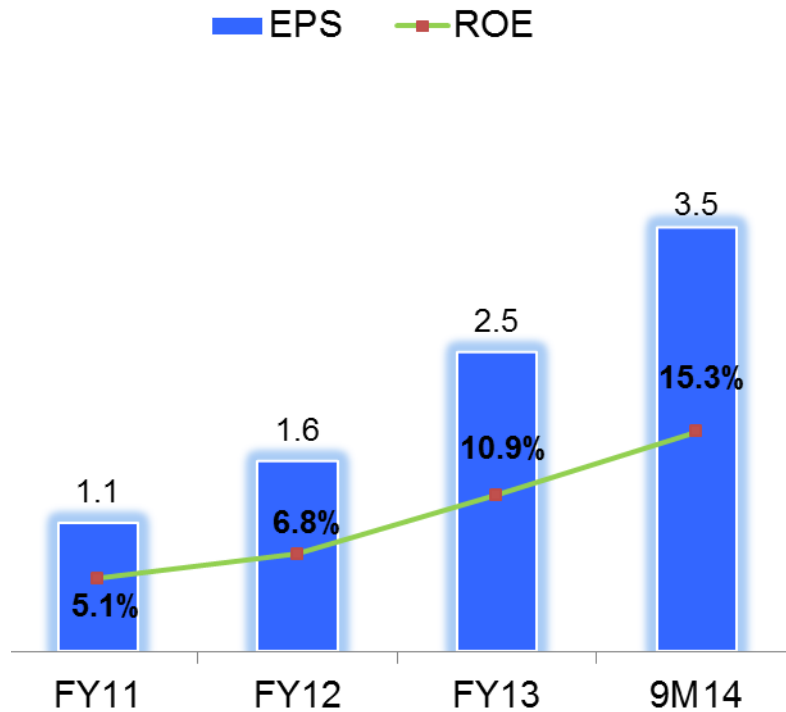


Note: Market capitalization as of Nov.30,2014

# Cathay's earnings accelerates as life turnarounds

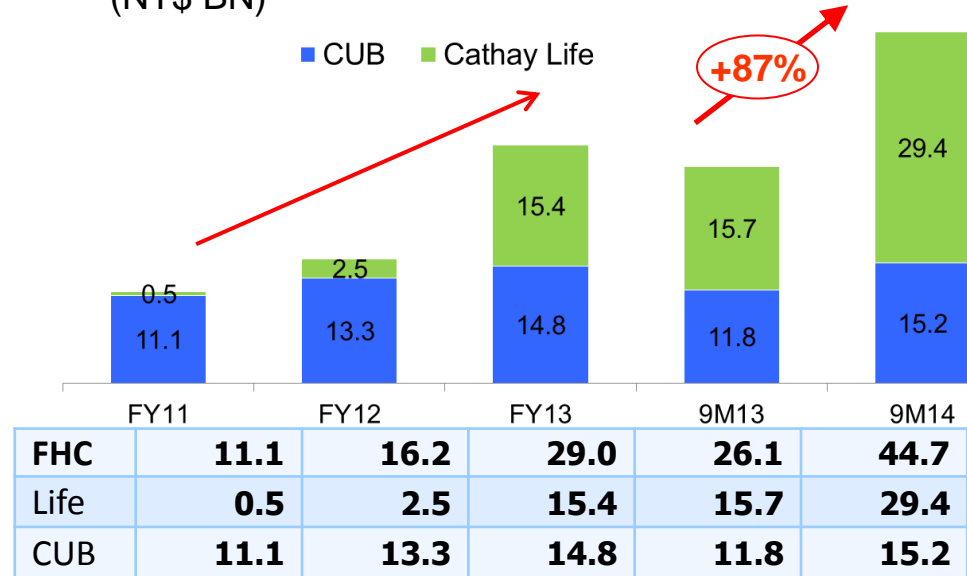
## EPS & ROE

(NT\$)

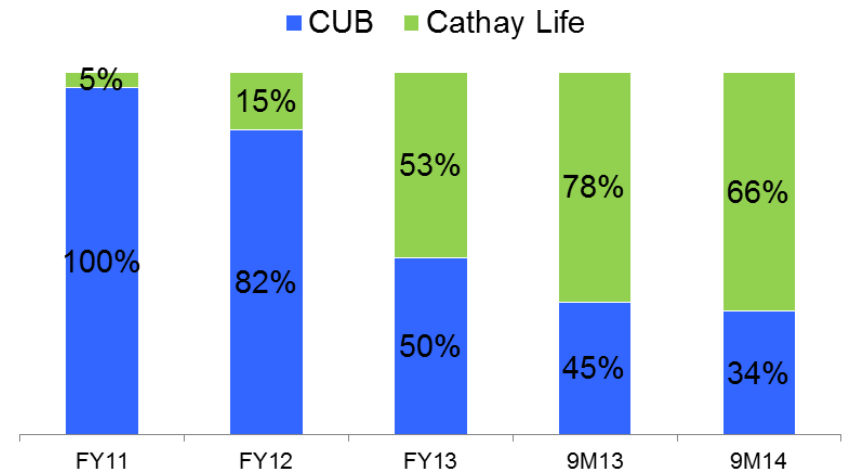


## Profit contribution

(NT\$ BN)



	FY11	FY12	FY13	9M13	9M14
<b>FHC</b>	<b>11.1</b>	<b>16.2</b>	<b>29.0</b>	<b>26.1</b>	<b>44.7</b>
<b>Life</b>	<b>0.5</b>	<b>2.5</b>	<b>15.4</b>	<b>15.7</b>	<b>29.4</b>
<b>CUB</b>	<b>11.1</b>	<b>13.3</b>	<b>14.8</b>	<b>11.8</b>	<b>15.2</b>



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# 9M14 Business overview

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## Cathay United Bank

- Delivered 14% loan growth with benign asset quality
  - Fee income grew by 27% YoY
  - Continued to expand overseas branch network; offshore earnings contributed to 42% of pre-tax profits
- 

## Cathay Life

- Regular-paid products accounted for 96% of traditional life FYP; ranked No.1 by FYPE
  - US denominated policy accounted for 54% of FYP in Q3, supporting the growth of VNB.
  - Overseas investment 46.3%; hedging cost 0.5%
- 

## Cathay Century

- Market share of 13%, premium income grew by 7% YoY; maintained No.2 market position
  - Expanded business in China and Vietnam, premium income grew steadily
- 

## Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$429BN
  - Continued to launch new products and broaden the business of individual & institutional clients
- 


## Cathay Securities

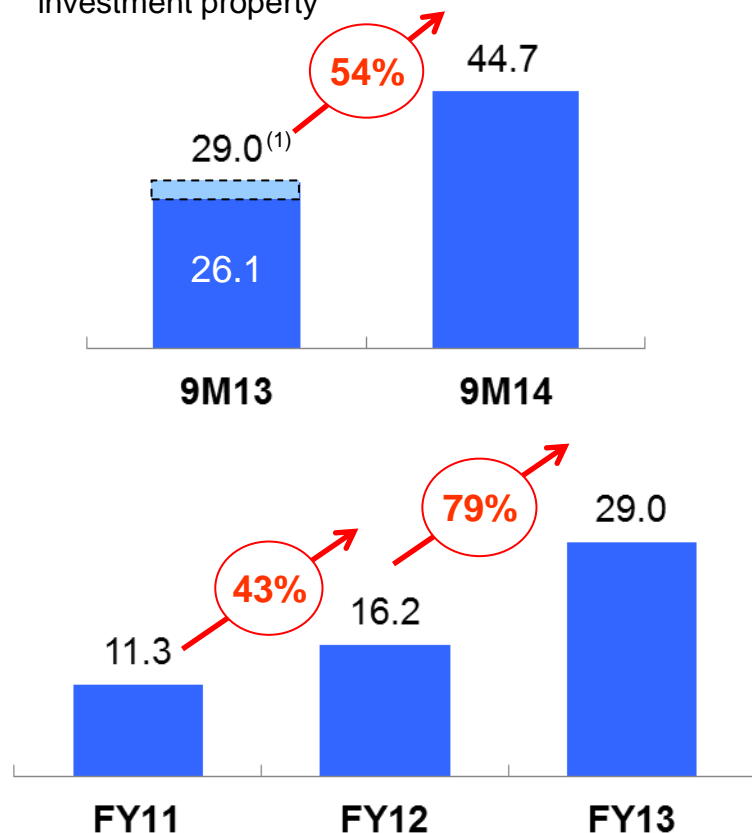
- Significant growth with 9M14 net profits, EPS and ROE reached historically high
- The trading volumes of sub-brokerage reached historically high




# Cathay FHC – Net income & EPS

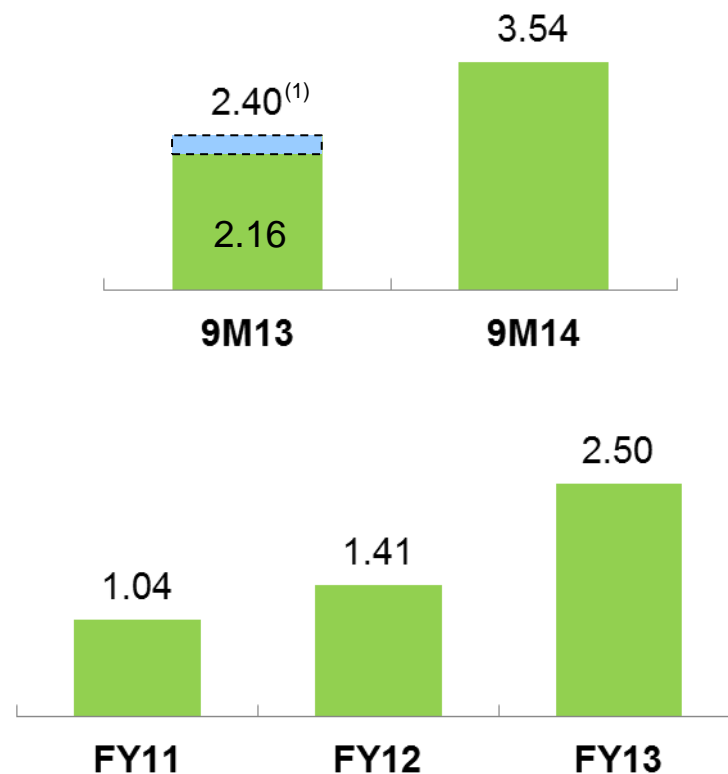
## Net income (NT\$BN)

 Impact to net income from fair value method on investment property



## EPS (NT\$)

 Impact to EPS from fair value method on investment property



Note: (1)9M13 figures were pro forma reflecting the impact from applying fair value method on investment property, starting 2014/1/1.

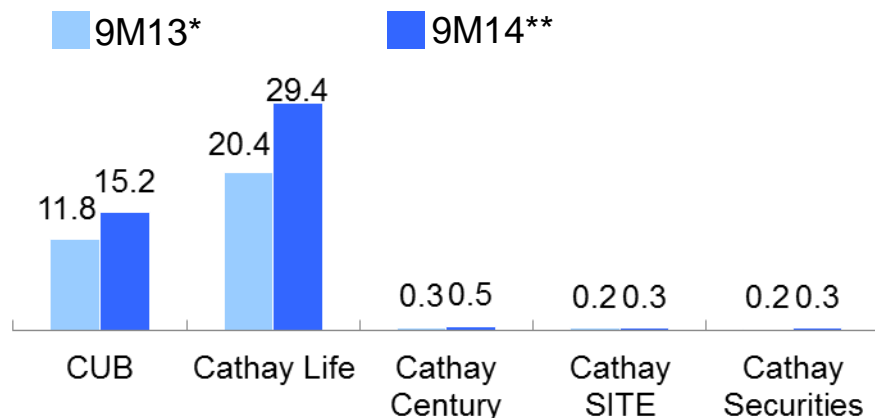
The impact to 9M13 net income and EPS of Cathay FHC was NT\$2.9BN and NT\$0.24, respectively.

(2)Book value of FY12 & FY13 & 9M14 included minority interest, BVPS excluded minority interest.

(3)Totals may not sum due to rounding.

# Cathay FHC – Financial results of subsidiaries

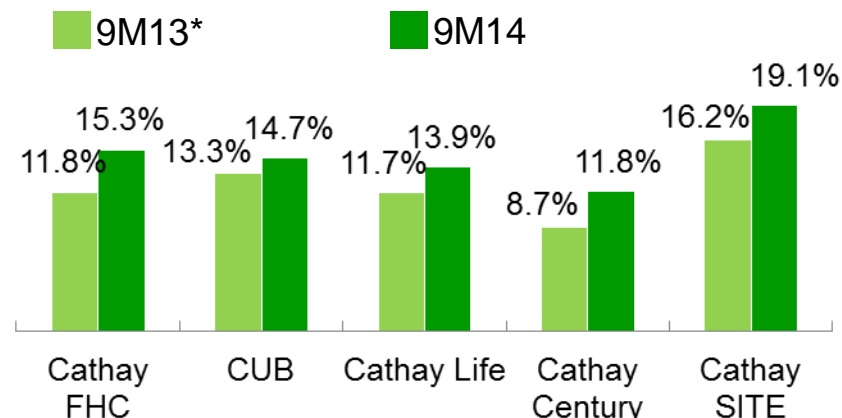
## Net income of primary subsidiaries



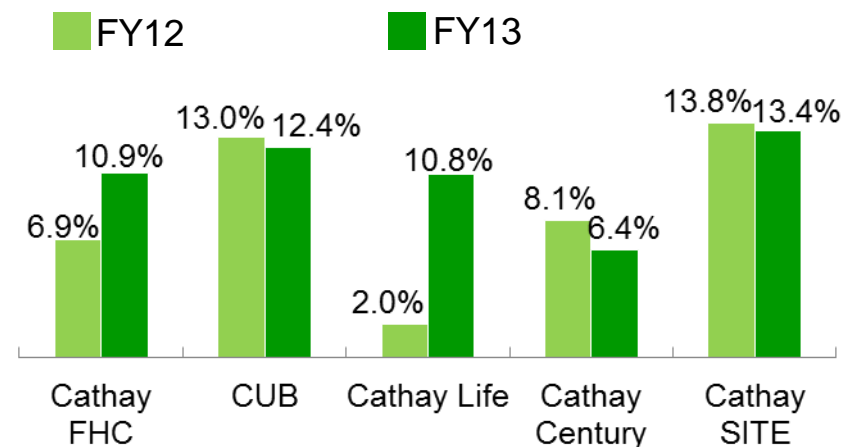
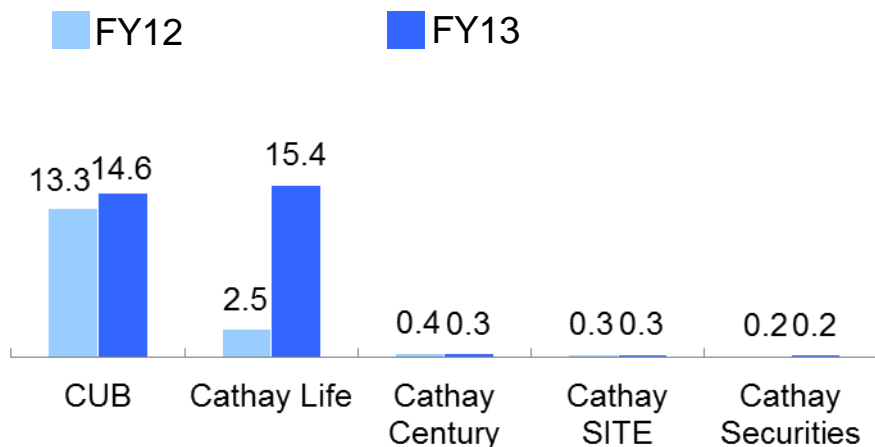
\* 9M13 figures were pro forma assuming the fair value method on investment property.

\*\* CUB and Cathay Life 9M14 net income included appraisal gain from investment property of -NT\$0.03BN and NT\$13.7BN, respectively.

## ROE



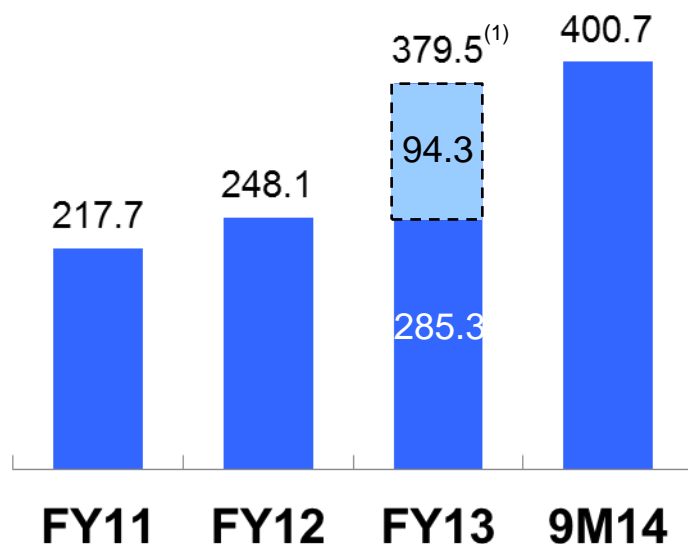
\* 9M13 ROE was pro forma reflecting the impact from applying fair value method on investment property, starting 2014/1/1. The impact to 9M13 ROE of Cathay FHC, CUB and Cathay Life was -2.4%, -0.1% and -3.9% respectively.



# Cathay FHC – Book value & BVPS

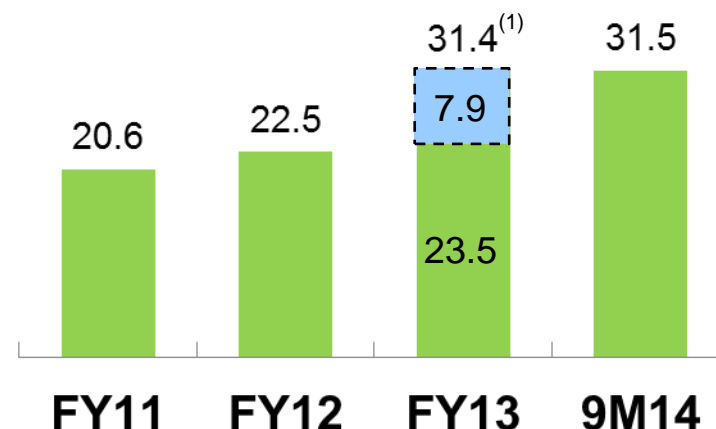
## Book value (NT\$BN)

■ 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.

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- **Overseas expansion**

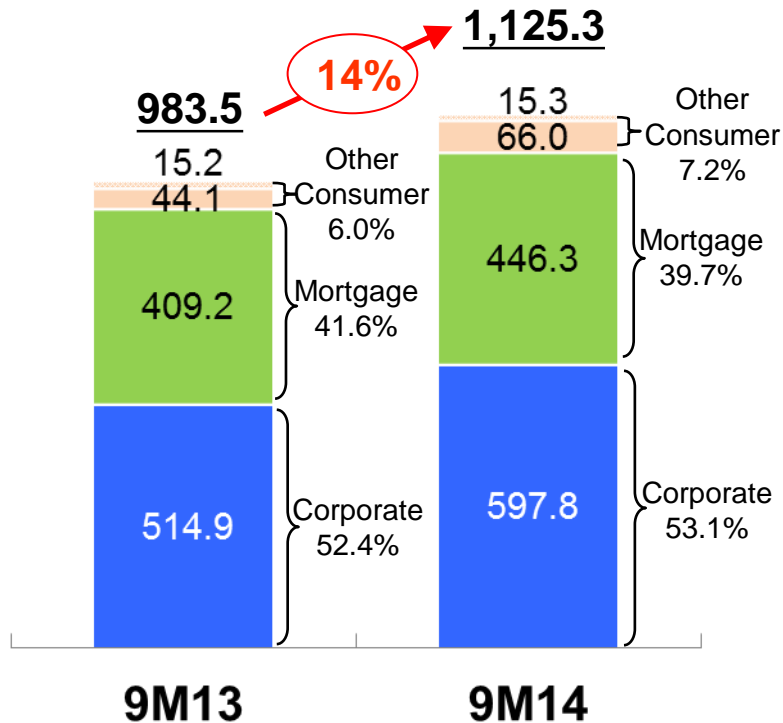
- **Acquisition of Conning**

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# Cathay United Bank – Loan & Deposit breakdown

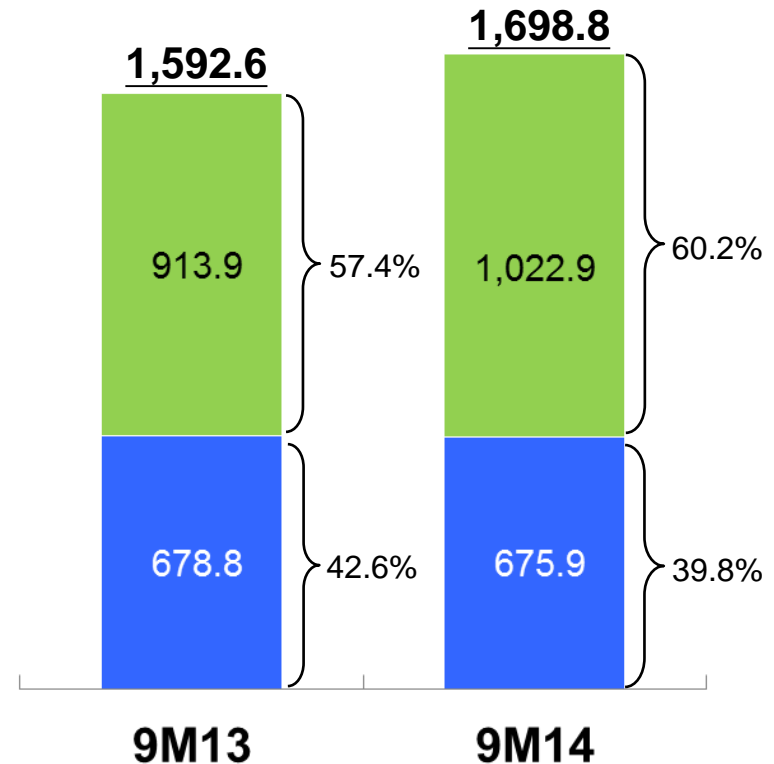
## Loan breakdown

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



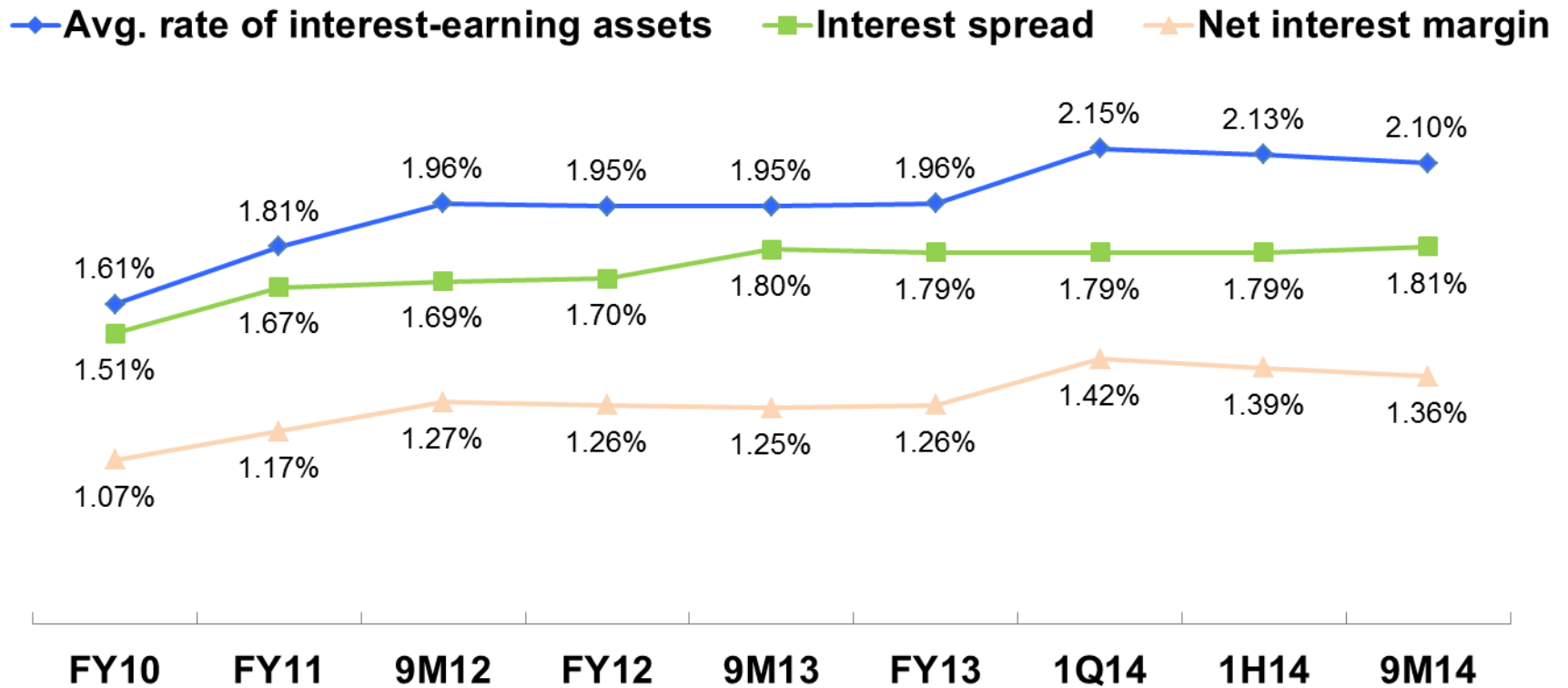
## Deposit breakdown

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



Note: Totals may not sum due to rounding.

# Cathay United Bank – Interest yields

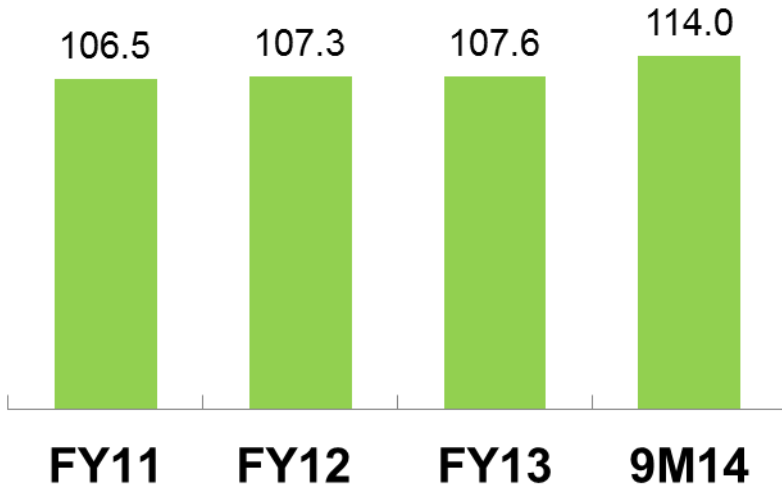


Note: Credit card related loans are included in the calculation.

# Cathay United Bank – SME & FX loans

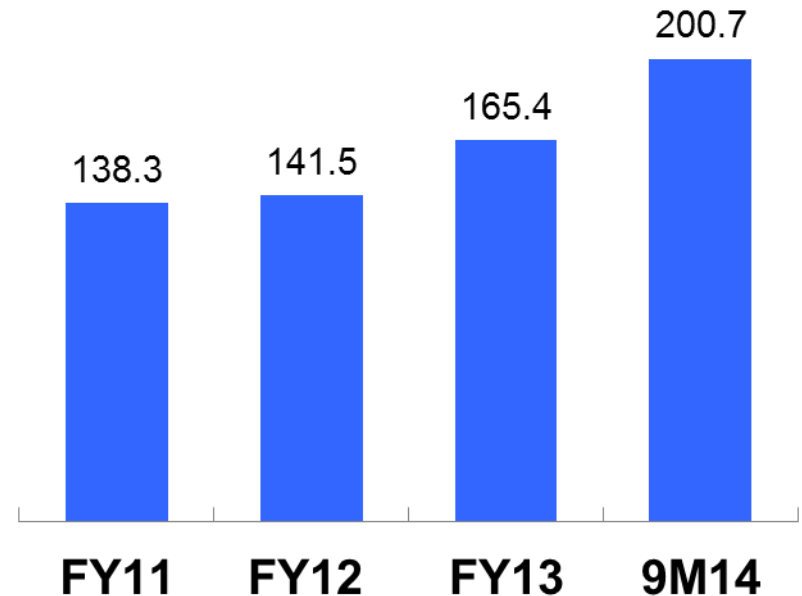
## SME loans

(NT\$BN)



## Foreign currency loans

(NT\$BN)



As % of total loans

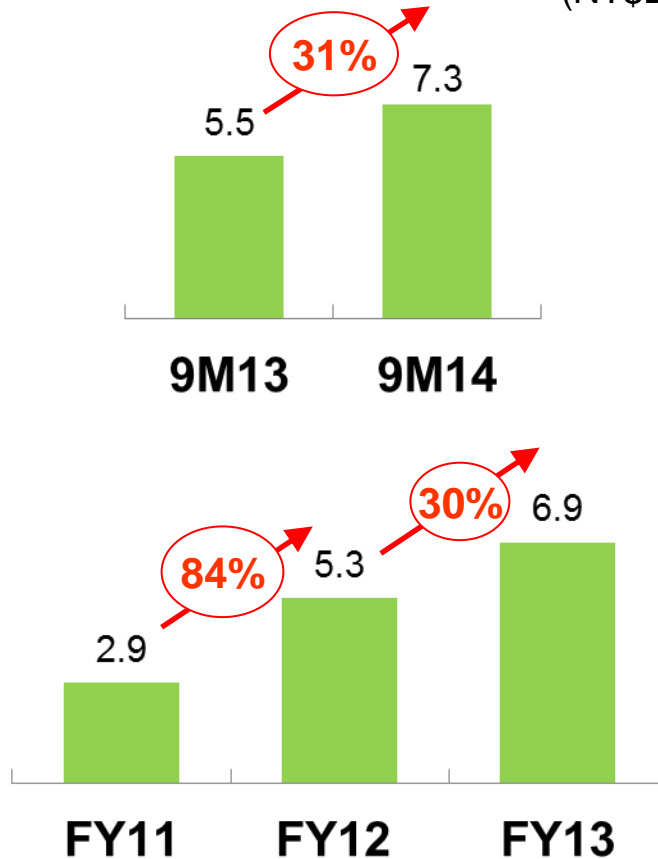
11.4% 10.6% 10.3% 10.3%

13.7% 14.0% 15.9% 17.8%

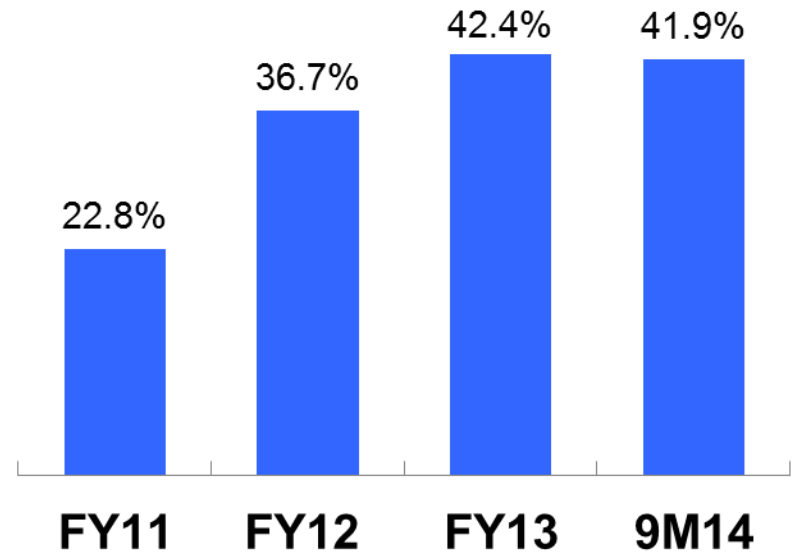
# Cathay United Bank – Offshore earnings

## Offshore earnings

(NT\$BN)



## As % of CUB pre-tax profits

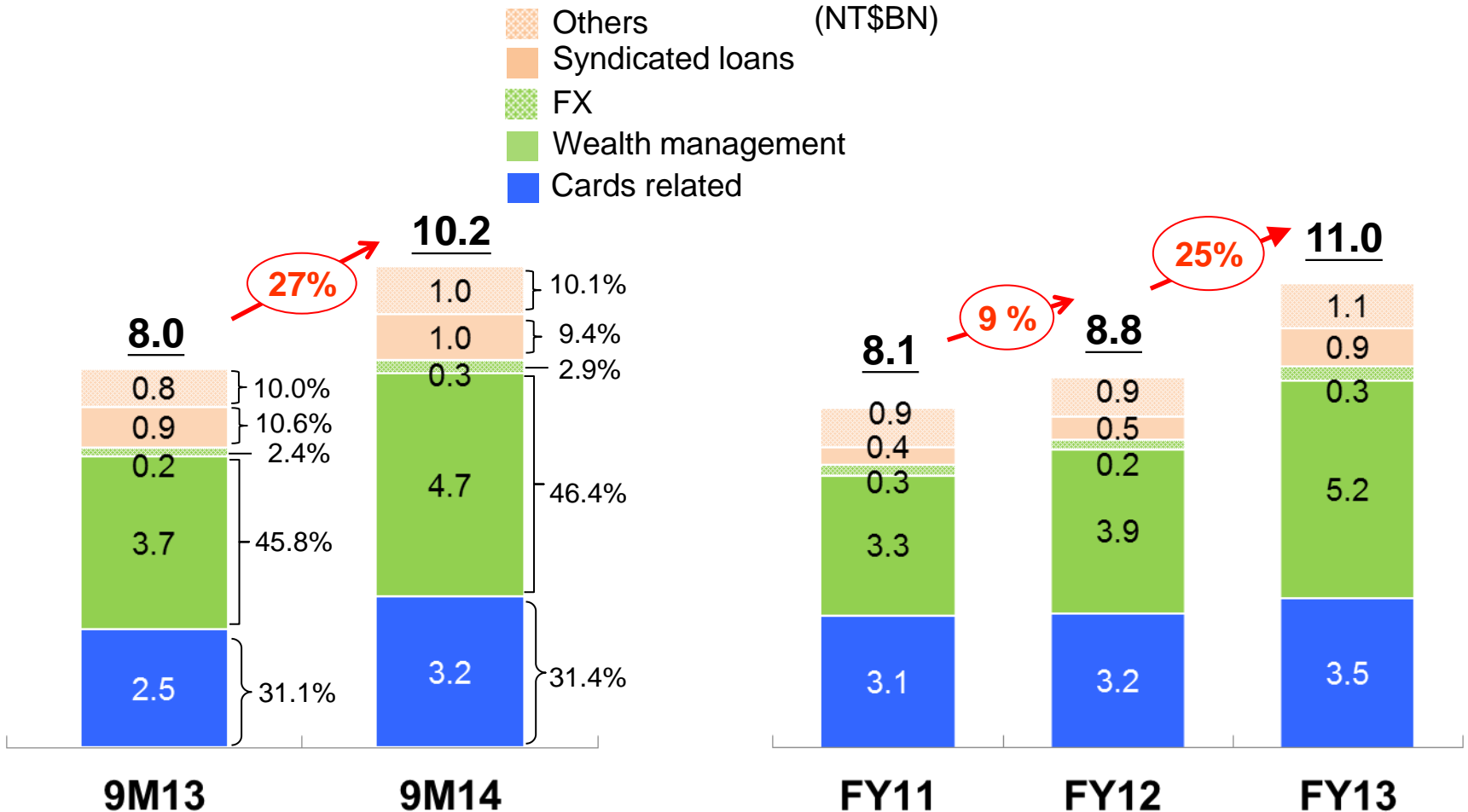




# Cathay United Bank – Fee income

## Fee income breakdown (quarterly)

## Fee income breakdown (annual)



Note: Totals may not sum due to rounding.

# Cathay United Bank – Wealth management fee breakdown

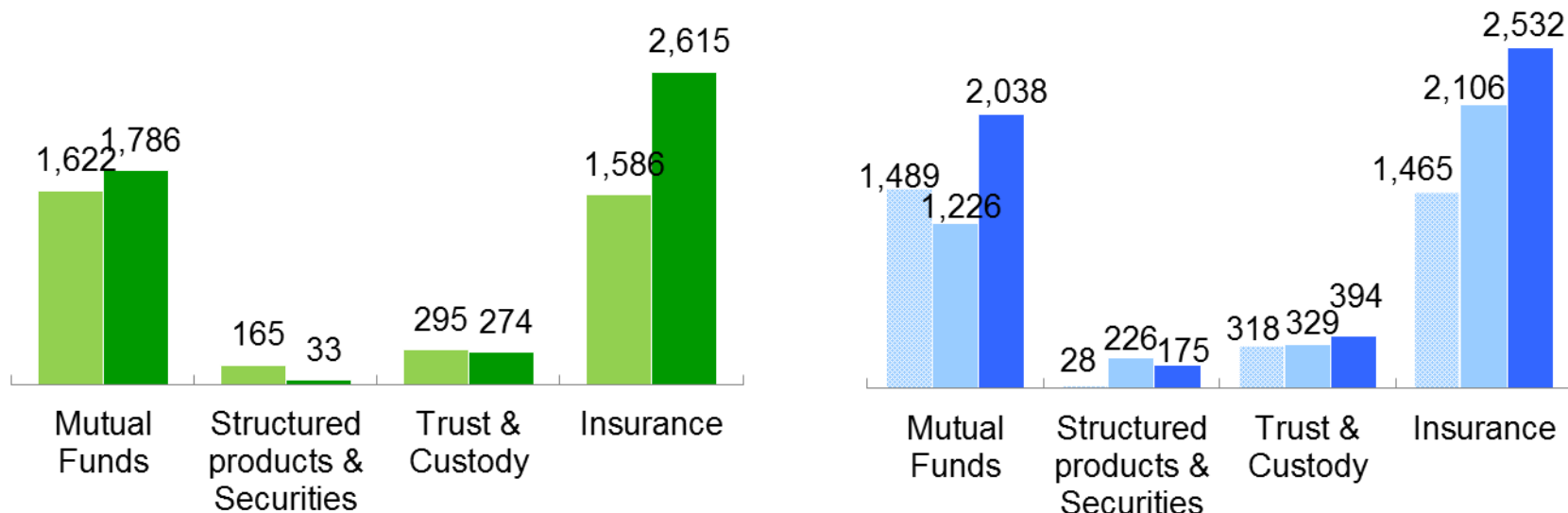
## Wealth management fee breakdown (quarterly)

## Wealth management fee breakdown (annual)

(NT\$MN)	9M13	9M14	FY11	FY12	FY13
<b>Wealth Management Fee Income*</b>	<b>3,684</b>	<b>4,742</b>	<b>3,309</b>	<b>3,894</b>	<b>5,163</b>
<b>YoY growth (%)</b>	<b>29.1%</b>	<b>28.7%</b>	<b>5.3%</b>	<b>17.7%</b>	<b>32.6%</b>
<b>*Wealth management fee excludes revenue from DCI, SI and others.</b>					
<b>Revenue from DCI, SI &amp; others</b>	<b>780</b>	<b>1,650</b>	<b>71</b>	<b>141</b>	<b>1,159</b>

■ 9M13 ■ 9M14

■ FY11 ■ FY12 ■ FY13

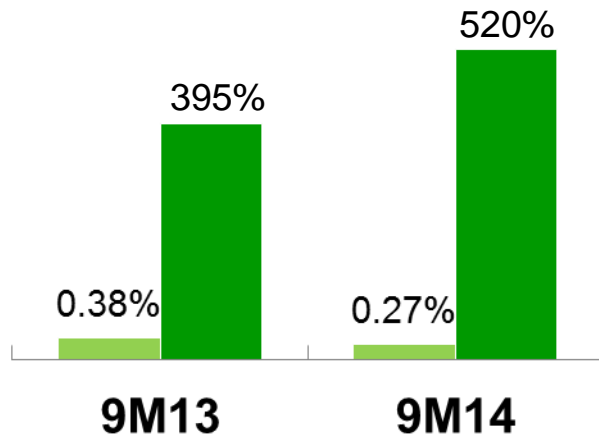


Note: (1) Wealth management fee excludes revenue from DCI, SI and others.  
 (2) Totals may not sum due to rounding.

# Cathay United Bank – Credit quality

## NPL & Coverage ratio

- NPL ratio
- Coverage ratio

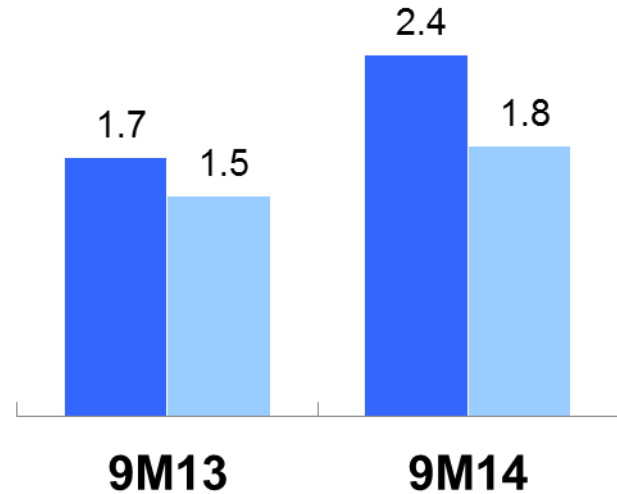


Mortgage NPL

0.04%	0.05%
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## Gross provision

- Gross provision (NT\$BN)
- Recovery



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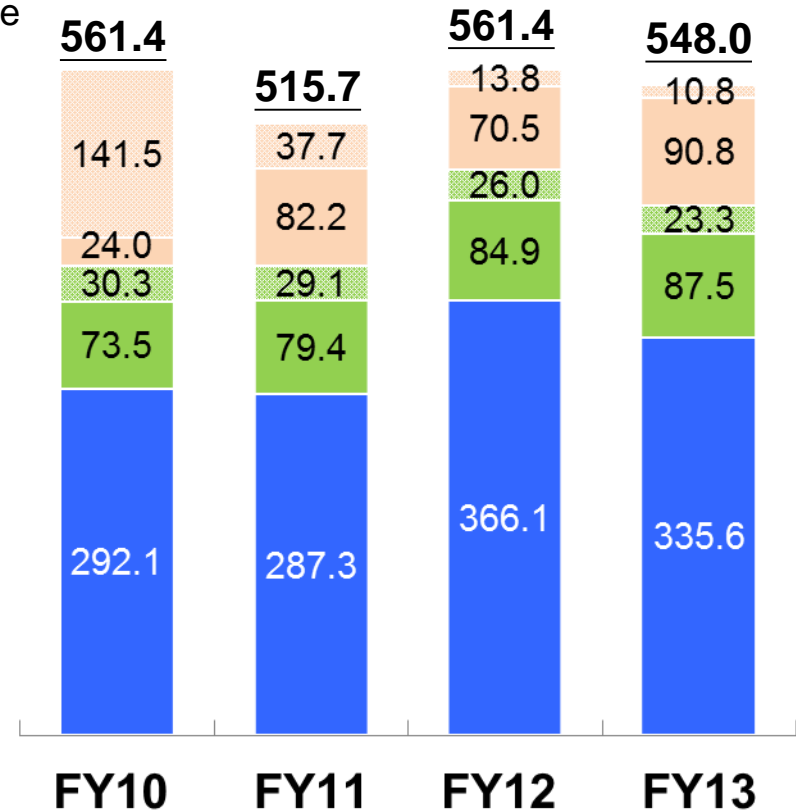
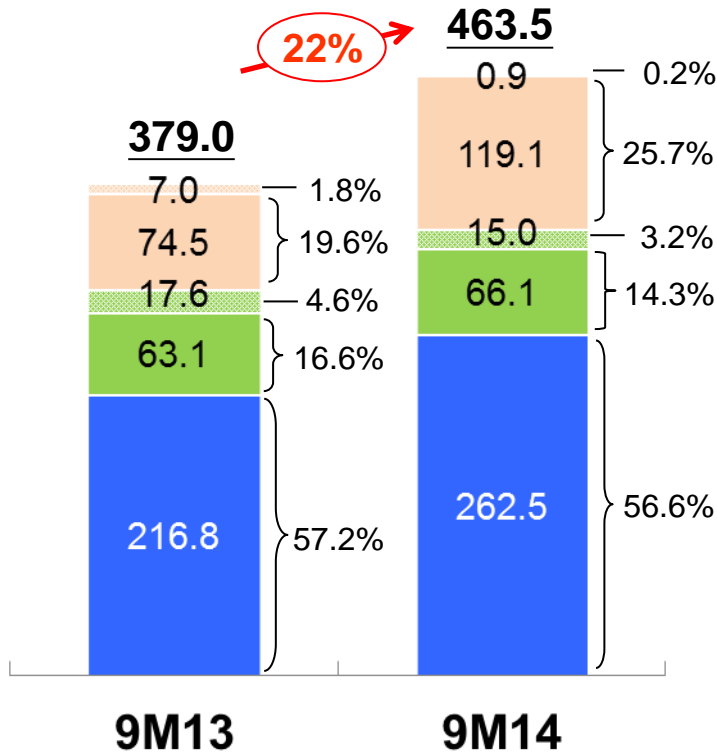
# Cathay Life – Total premium

## Total premium (quarterly)

## Total premium (annual)

(NT\$BN)

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

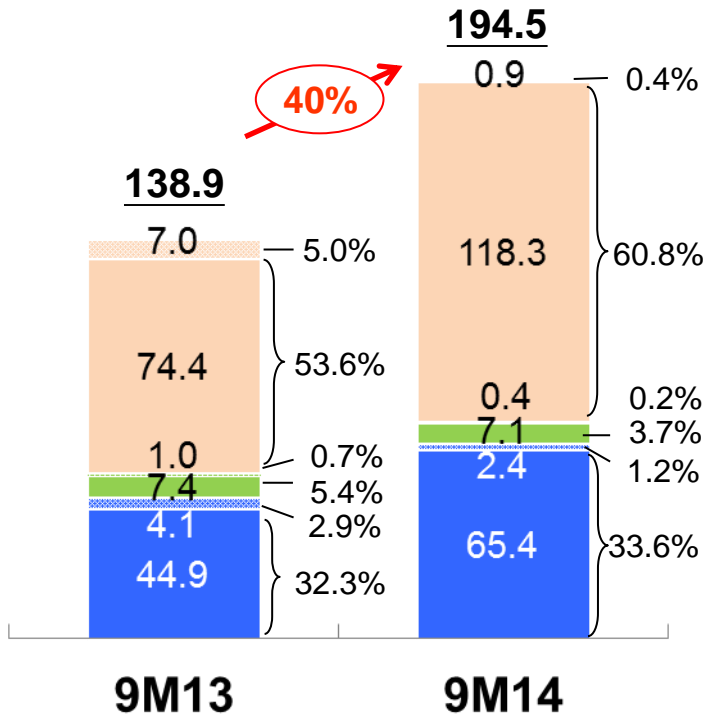


Note: Totals may not sum due to rounding.

# Cathay Life – FYP & FYPE

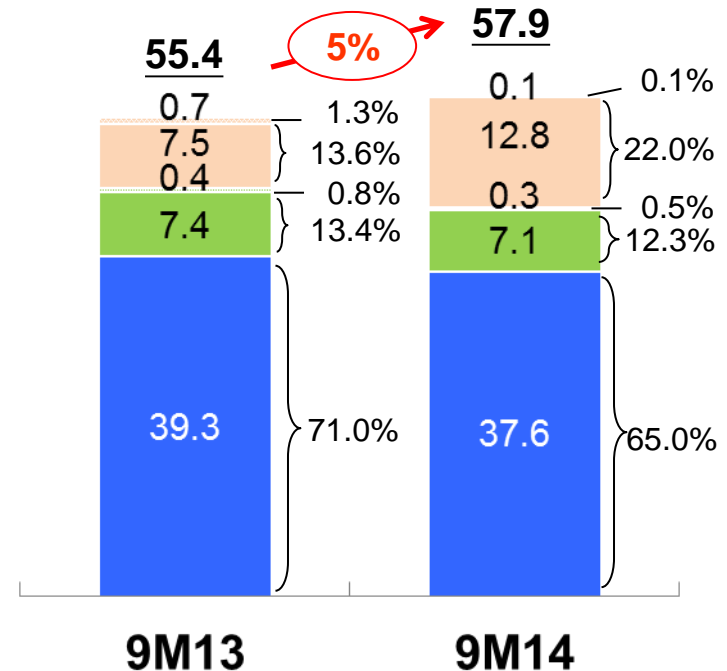
## FYP

- 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

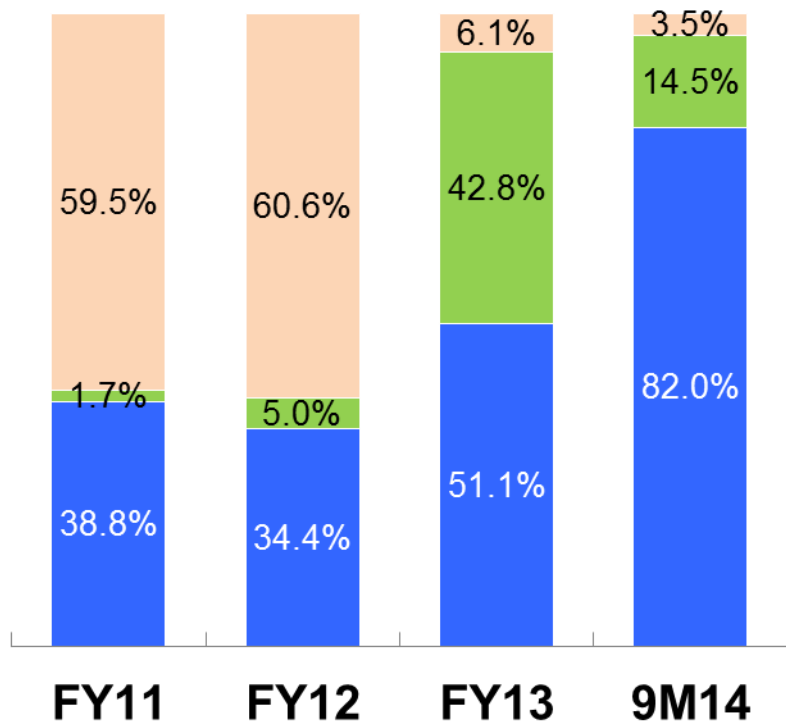


Note: Totals may not sum due to rounding.

# Cathay Life – Regular paid policies remain as focus

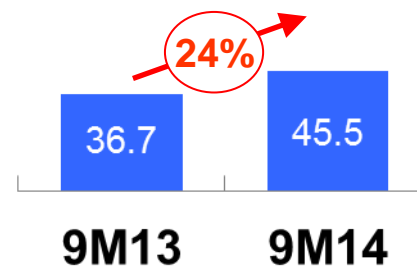
## Breakdown of Traditional FYP

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

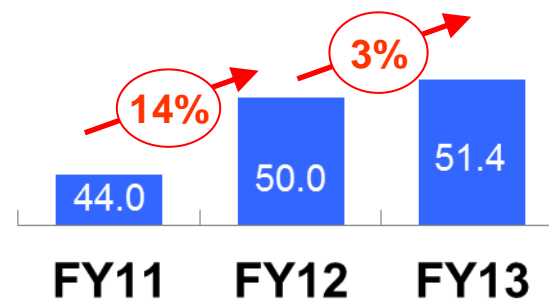


## VNB

Profit Margin	1H13	9M13	1H14	9M14
VNB/FYP	26%	26%	18%	23%
VNB/FYPE	64%	66%	68%	79%



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

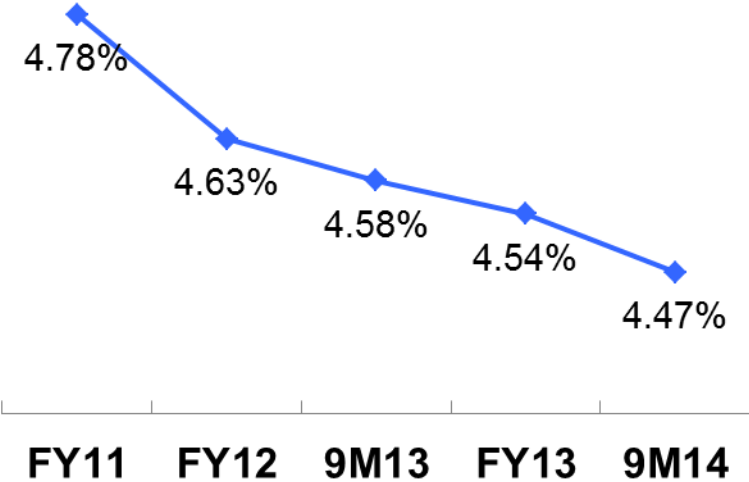


Note: Totals may not sum due to rounding.

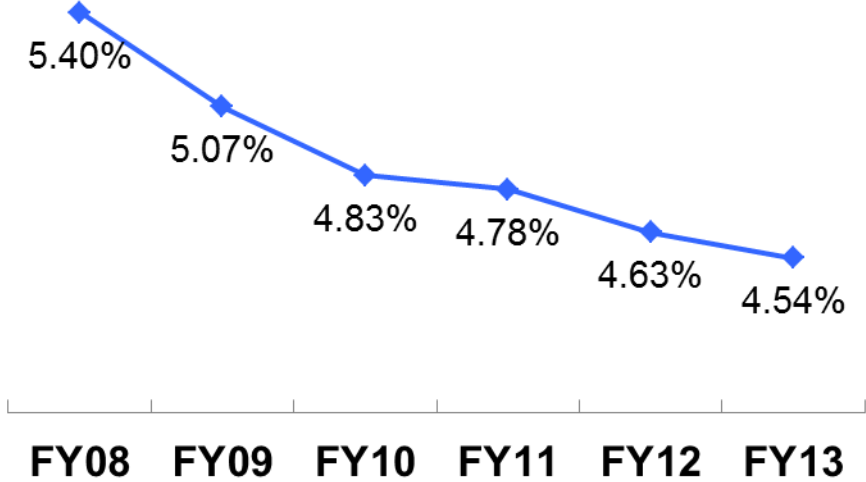
Note : 9M14 VNB is based on Cathay Life's 2013 EV actuarial assumptions.

# 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	3Q14		
<b>Total investments<sup>(3)</sup></b>	<b>2,959.2</b>	<b>3,283.7</b>	<b>3,785.1</b>	<b>4,008.5</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>3.7%</b>	<b>149.5</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>336.3</b>
<b>Equity- International</b>	<b>4.0%</b>	<b>4.3%</b>	<b>4.9%</b>	<b>186.5</b>	<b>4.9%</b>	<b>195.8</b>
<b>Bond- Domestic</b>	<b>16.4%</b>	<b>16.6%</b>	<b>14.4%</b>	<b>546.1</b>	<b>12.2%</b>	<b>488.9</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>41.4%</b>	<b>1660.4</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>509.9</b>
<b>Policy loans</b>	<b>6.4%</b>	<b>5.5%</b>	<b>4.7%</b>	<b>177.9</b>	<b>4.2%</b>	<b>168.9</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>11.2%</b>	<b>447.2<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>1.3%</b>	<b>51.7</b>

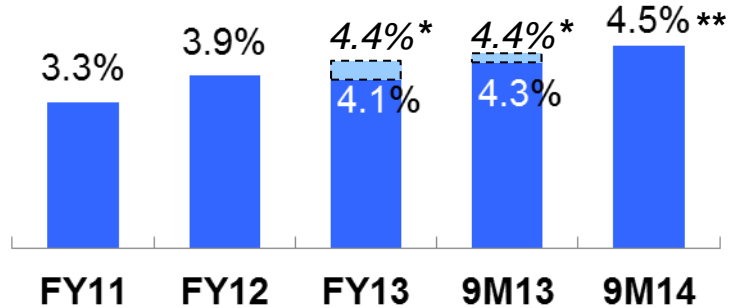
Note (1) Real estate included NT\$71.3BN of investment property appraisal gain from IFRS adoption and NT\$133.1BN of impact from fair value method on investment property.

(2) Real estate included NT\$16.2BN 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

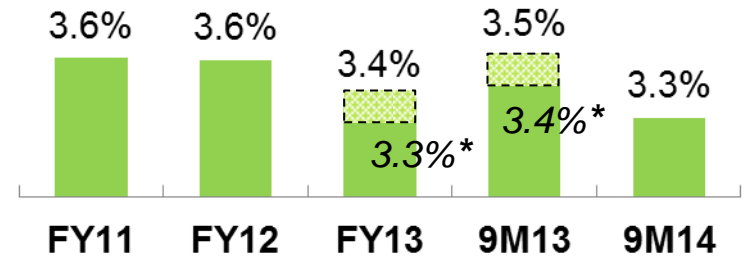
## After-hedging investment yield



\* FY13 and 9M13 (4.4% and 4.4%) were pro forma adjusted numbers of fair value method on investment property.

\*\* Cathay Life 9M14 net income included appraisal gain from investment property of NT\$13.7BN.

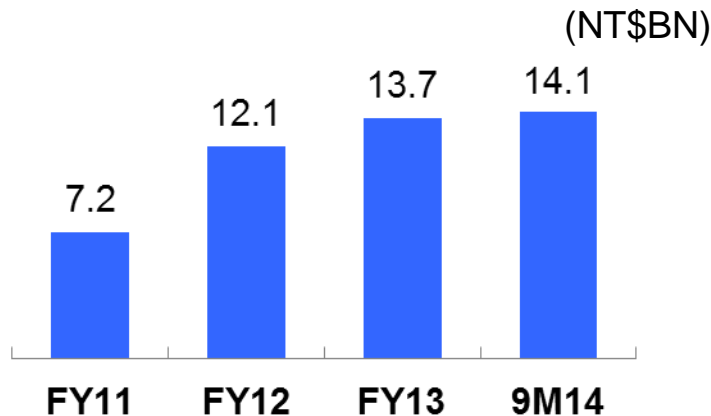
## Pre-hedging recurring yield



\* FY13 and 9M13 (3.3% and 3.4%) 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.

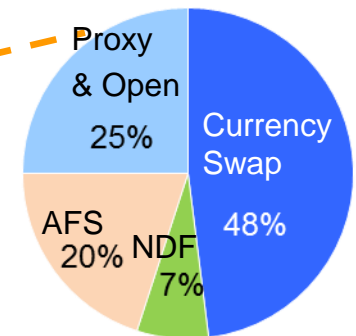
## Cash dividend



## FX Asset



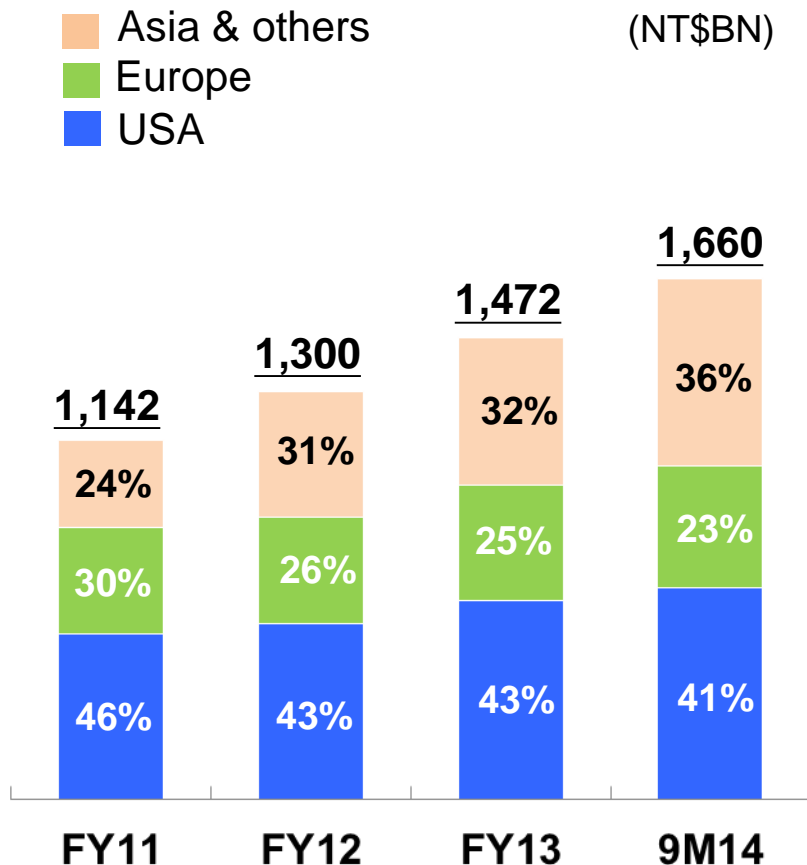
## FX risk exposure



9M14 Annualized hedging cost 0.50%

# Cathay Life – Overseas bond investment highlight

## Overseas Bond by Region



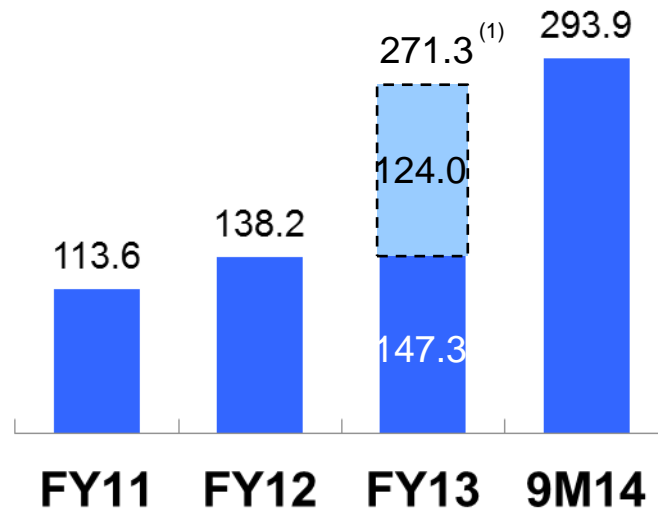
## Top 5 of European Exposure

Country	As % of overseas bond investment	As % of European bond investment
UK	6.0	25.9
France	4.9	21.0
Germany	4.3	18.7
Netherlands	3.4	14.7
Switzerland	1.1	4.8
<b>Total</b>	<b>19.7</b>	<b>85.1</b>

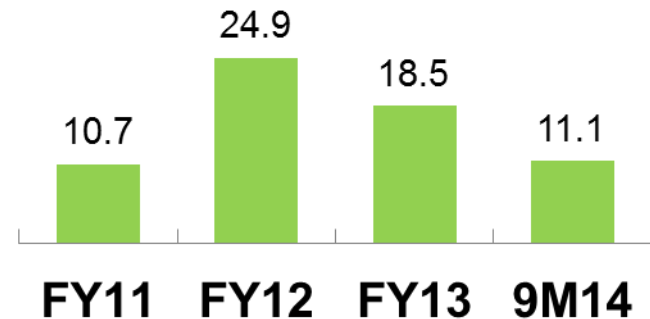
# Cathay Life – Book value & Unrealized G/L of AFS financial assets

## Book value (NT\$BN)

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



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



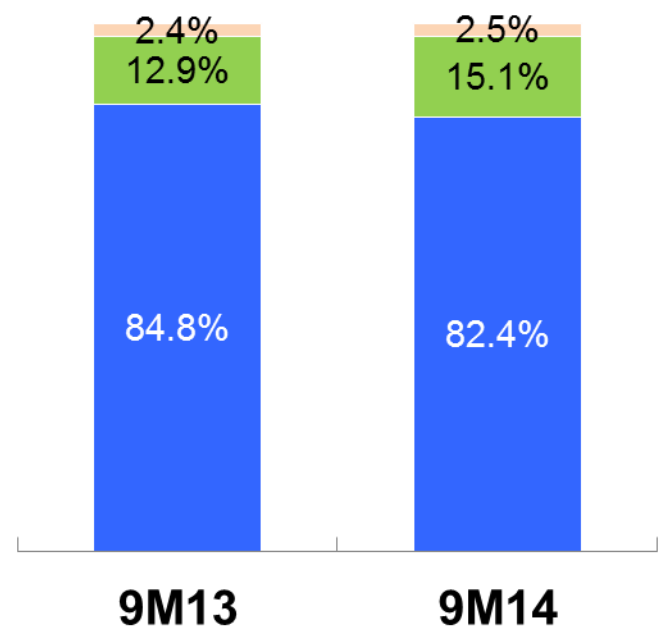
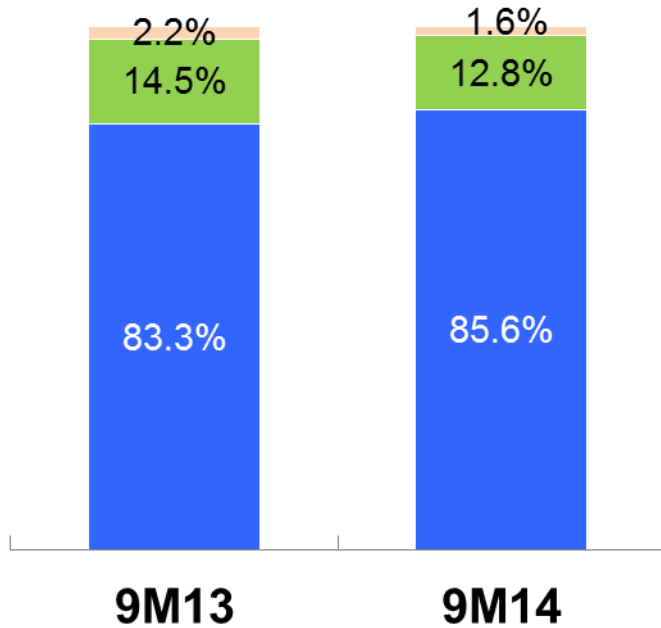
Note: (1)FY13 figures were pro forma adjusted numbers of fair value method on investment property.  
 (2)Book value of FY12 & FY13 & 9M14 included minority interest, BVPS excluded minority interest.  
 (3)Totals may not sum due to rounding.

# Cathay Life – Distribution channel

FYP

FYPE

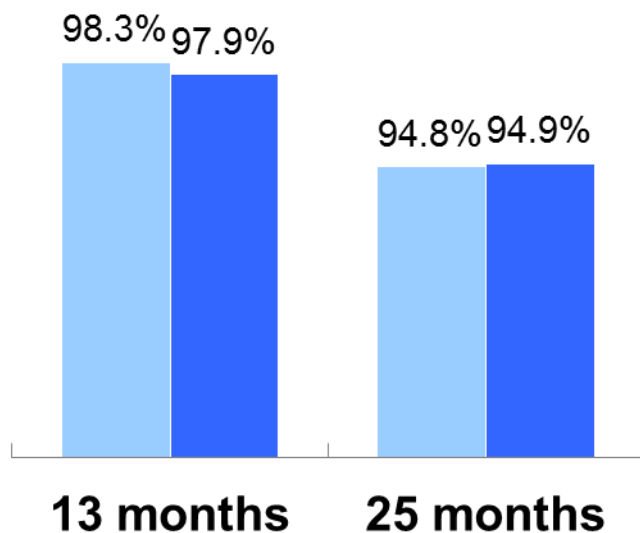
- Others
- Bancassurance-CUB
- Tied agents



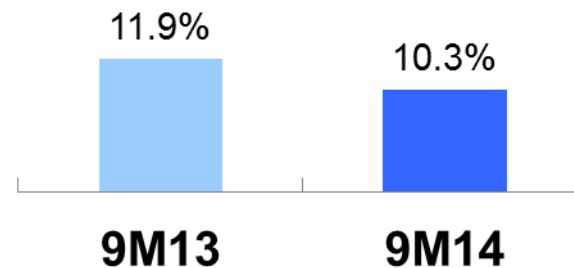
# Cathay Life – Operational indicators

## Persistency ratio

9M13 9M14



## Expense ratio



# Agenda

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- **Introduction of Cathay FHC**

- **9M14 Business overview**

  - Cathay United Bank

  - Cathay Life

  - Cathay Century

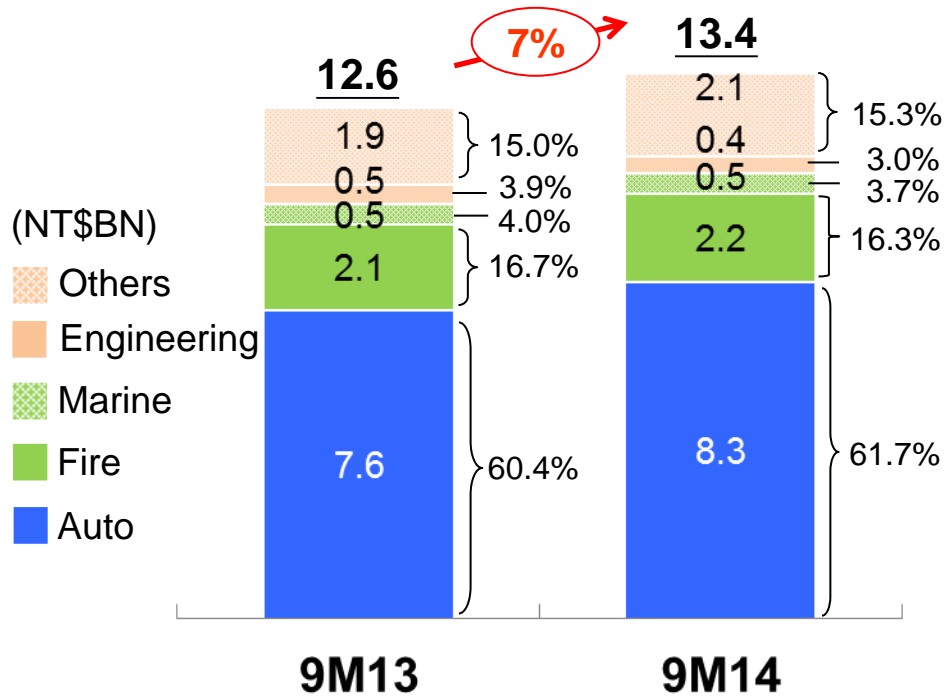
- **Overseas expansion**

- **Acquisition of Conning**

- **Appendix**

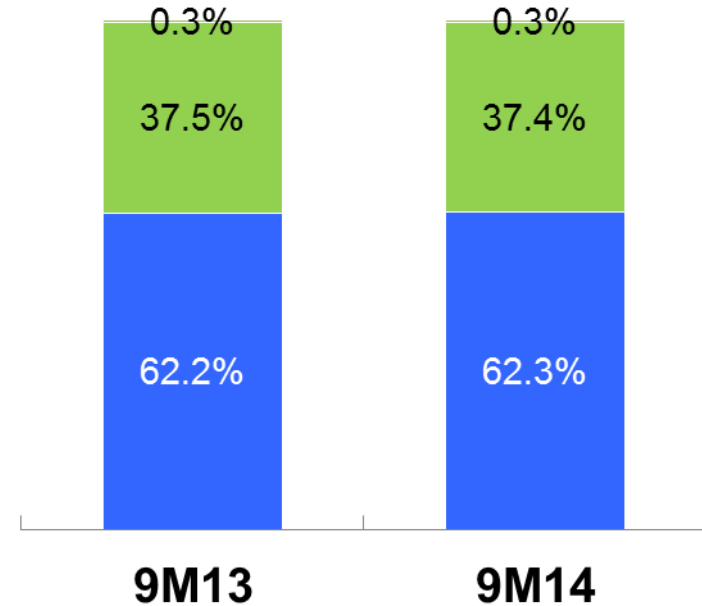
# Cathay Century

## Premium income



## Distribution channel

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



Market share	13.0%	13.2%
Retention	75.9%	77.4%

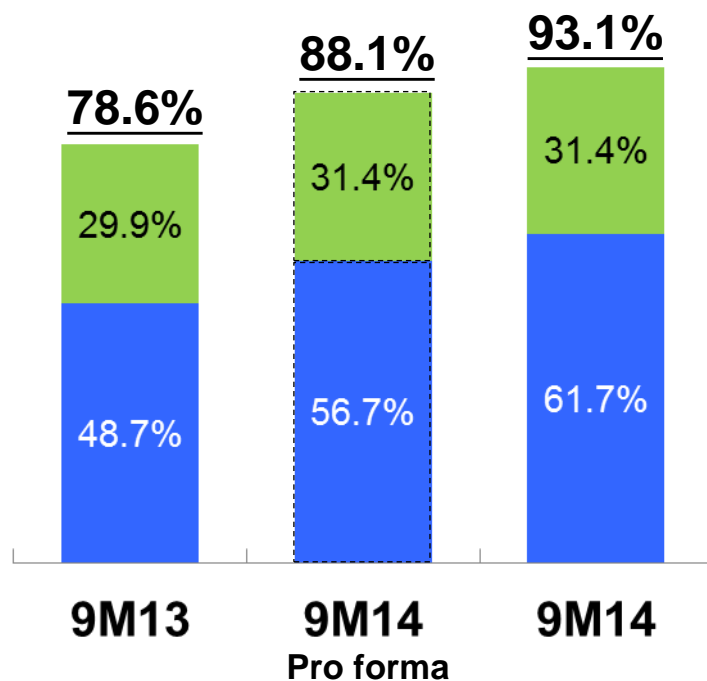
Note: Totals may not sum due to rounding.



# Cathay Century – Distribution channel

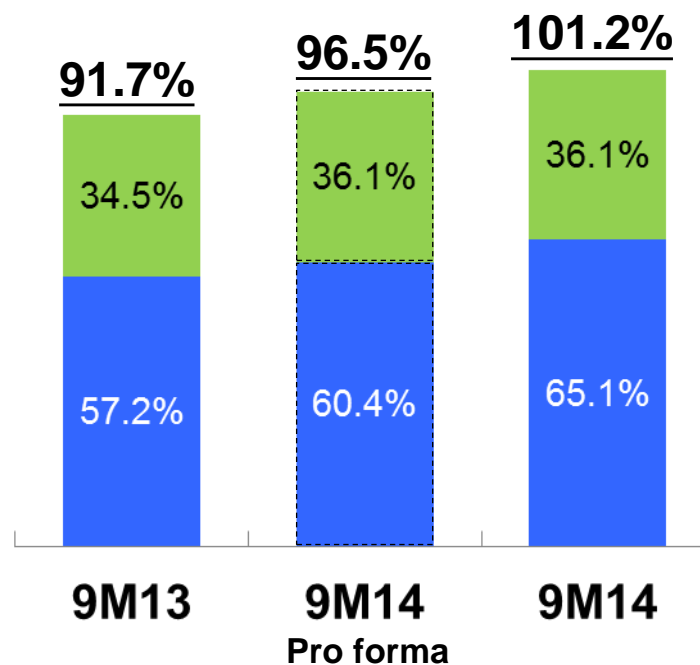
## Gross combined ratio

- 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.

# Agenda

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- **Introduction of Cathay FHC**

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  - Cathay Life

  - Cathay Century

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- **Appendix**

# 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	20	2									
Asset Mgt	1			1							

\* Footprints in Philippines, Thailand and Myanmar are representative offices. Applying representative 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
- Footprint number ranked No.1 among Taiwanese banks in Cambodia
  - Laos branch opened in 4Q14
  - Planed to upgrade Philippines and Myanmar representative offices to branches; to set up representative office in Indonesia

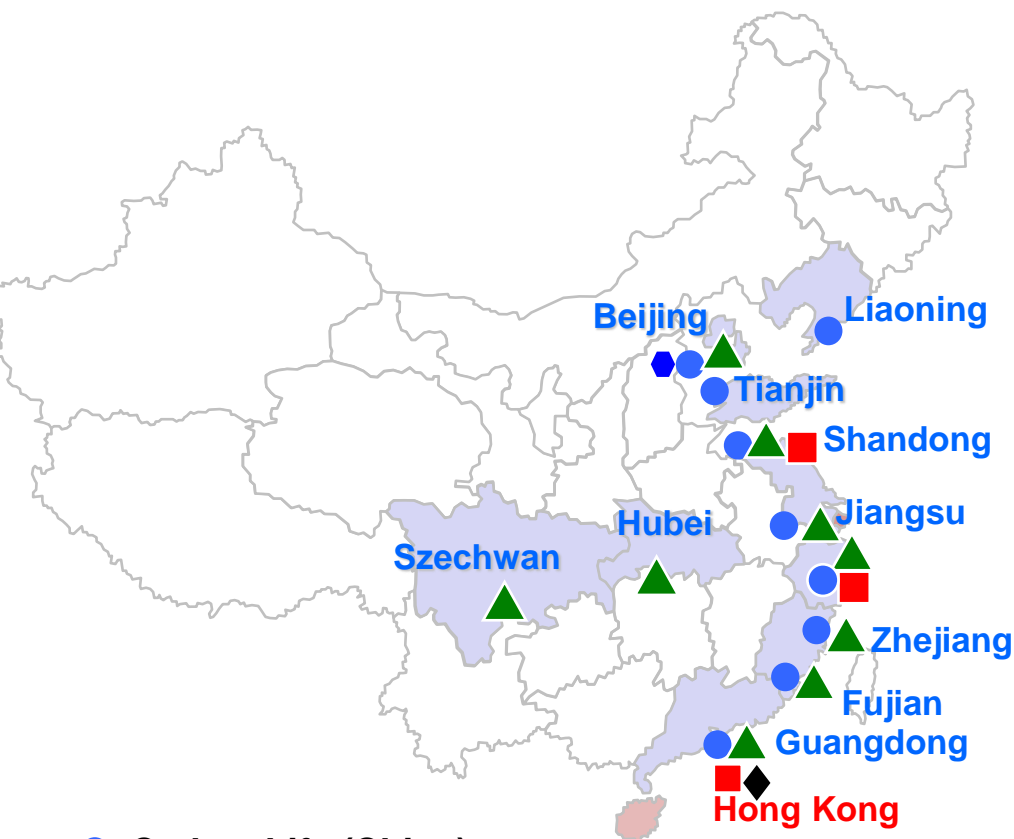
## ■ Cathay Life

- 9M14 net income reached NT\$135MN

## ■ Cathay Century

- 9M14 total premium income increased by 7% 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

- Shanghai Free-Trade Zone Sub-branch began operation in July. Qingdao Branch opened in October
- Plan to apply Shenzhen branch, Jiading Sub-branch and upgrade Shanghai branch into subsidiary

## ■ Cathay Life (China)

- Completed RMB400MN capital injection with solvency ratio of 370%
- Agent productivity grew by 78% YoY in 9M14

## ■ Cathay Century (China)

- Strong premium income growth in 9M14, up by 10% YoY

## ■ JV with Conning (CCAM)

- AUM amounted to USD\$1.04BN in 9M14

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

- Continued to launch new products, mainly fixed income funds

# Agenda

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- **Introduction of Cathay FHC**
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  - Cathay Century
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# Transaction Overview

## Transaction

- 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 gain of approximately US\$5 million

## Regulatory Approval

- Transaction subject to regulatory approval in Taiwan, US, UK and HK; expected closing in second half of 2015

## Strategic Rationale

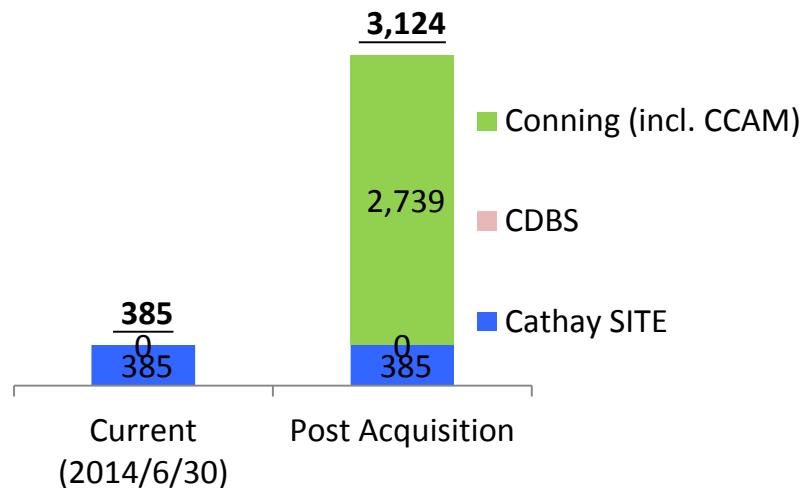
- Transaction will significantly expand Cathay’s global presence in asset management
- Significant step forward in realizing “Banking + Insurance + Asset Management” strategy

# “Banking + Insurance + Asset Management”

- Acquisition of a world-class asset management business led by an experienced management team
- Significantly increases Cathay’s AuM; provides more balanced business profile and solid foundation for growth
- Asset management is a capital-light business that can generate steady fee income

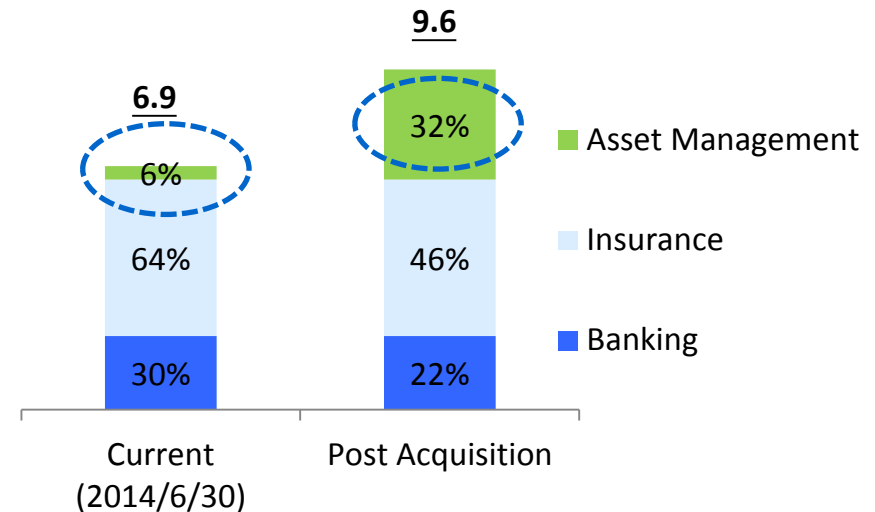
## Cathay Asset Management AuM

NT\$ Billion



## Cathay Group AuM\*

NT\$ Trillion

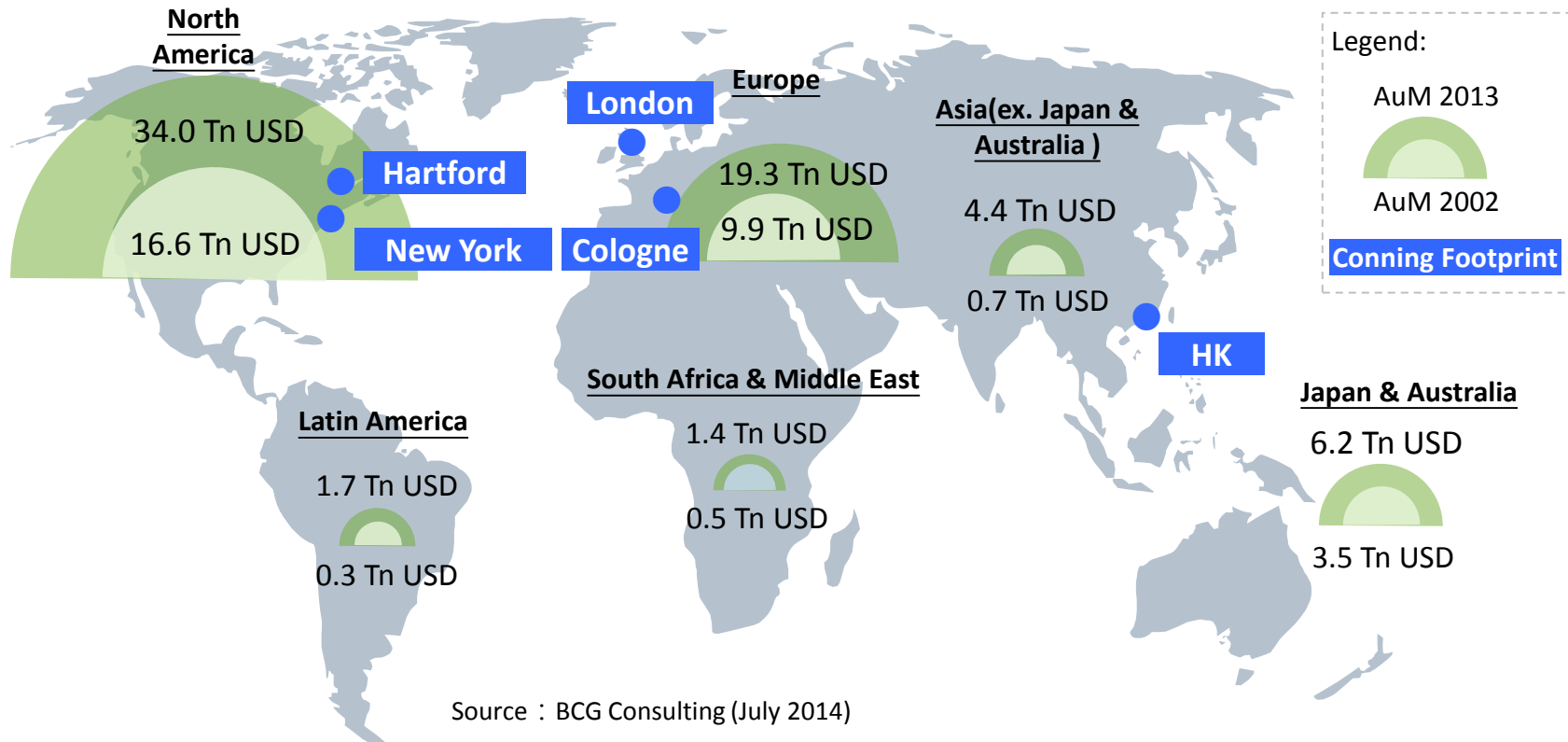


Note: “Banking” and “Insurance”= asset values;  
“Asset management”= assets under management

# Global Asset Management Opportunity

- North America and Europe are the largest asset management markets
- Asia (ex. Japan and Australia) has strongest growth momentum
- Conning has presence in major financial markets

## Global Asset Management Market (2002 vs. 2013)





# About Conning

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## Background

- Leading asset manager for insurance and pension clients with \$92 billion in AuM
- Founded in 1912; insurance specialists for more than 50 years; investing insurance assets for nearly three decades

## Footprint

- Global footprint with around 290 employees in Hartford, New York, London and Cologne
- Established Cathay Conning Asset Management (CCAM) with Cathay Financial Holdings, in Hong Kong in 2012
- AuM currently primarily from US clients, but growing in Europe and Asia

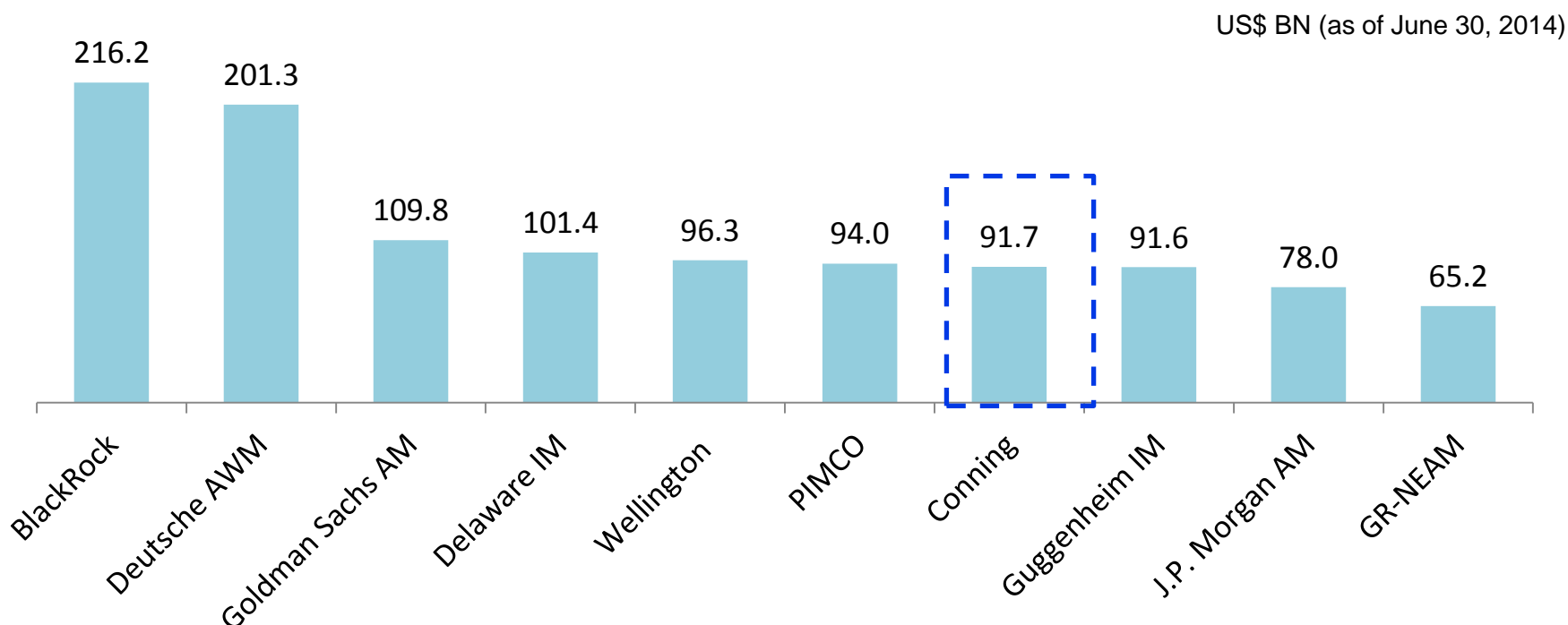
## Core Businesses

- Client service platform combining asset management, risk and capital management solutions (RCMS), and insurance industry research
- Specializing in fixed income, equity and alternative investment strategies for insurers and pension accounts

# Top Tier Insurance Asset Manager

- Conning ranked as 7<sup>th</sup> largest in global insurance asset management industry
- 95% of clients are insurance companies; pensions and endowment funds are target clients as well.

## Rankings



Note : Conning AuM includes acquisition of Brookfield's core fixed income insurance asset management business

Source : The Insurance Investment Outsourcing Report (2014 Edition)

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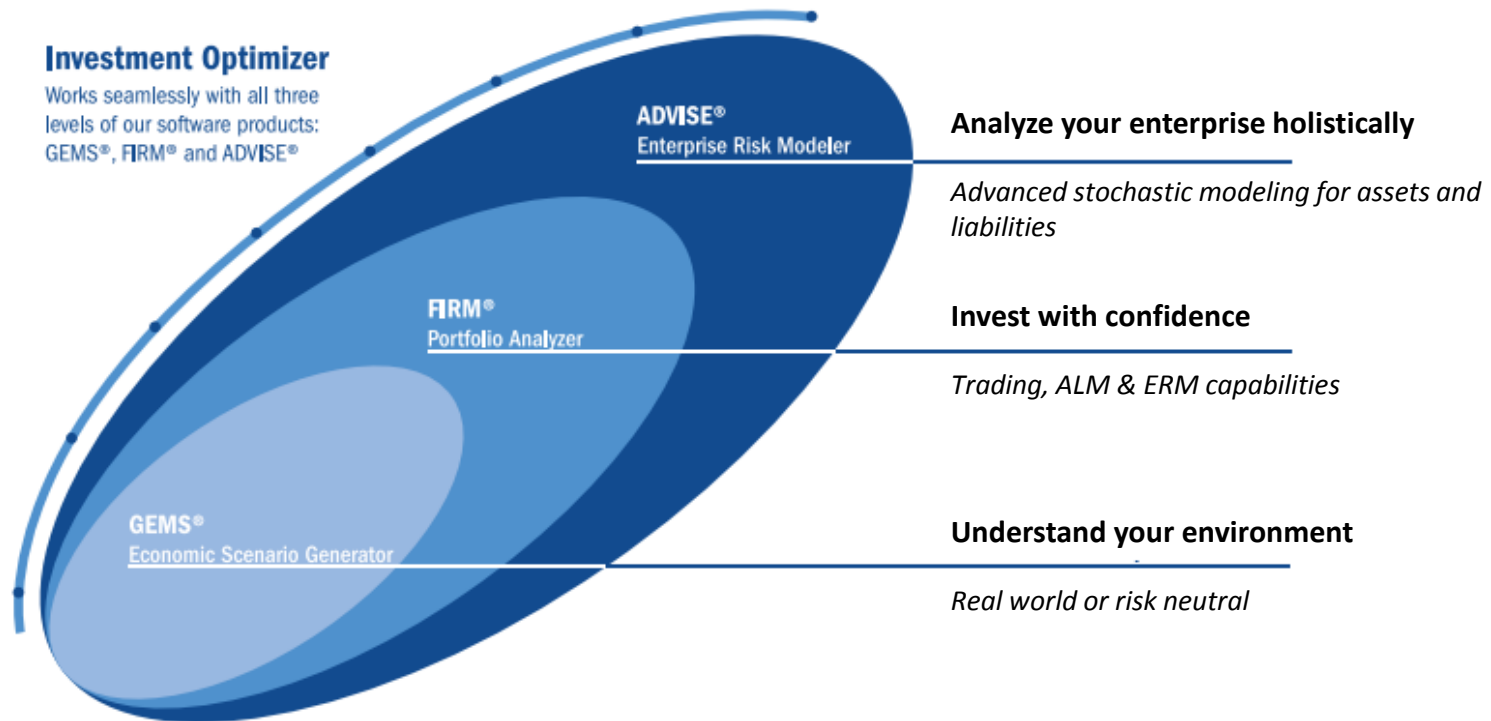
# Expanded Asset Management Capabilities

- Acquisition expands Cathay's asset management capabilities across asset classes and geographies
- Significant opportunities for continued expansion of investment capabilities

Cathay's Asset Management Capabilities					
Region	Asset	Cathay SITE	CDBS	CCAM	Conning
Asia	Equity	√		√	
	Fixed income	√	√		
North America	Equity				√
	Fixed income				√
	Customized Solutions				√
Europe	Fixed income				√
	Customized Solutions				√

# Strength in ALM and Risk Management

- Enterprise risk management analytics and investment advisory services to support capital management and asset allocation decisions
- Sophisticated software platform provides enterprise-level analysis and optimization of assets and liabilities



# Highly Experienced Management Team



## Woody E. Bradford, CFA

## President and Chief Executive Officer

**Woody E. Bradford, CFA**, is President and Chief Executive Officer at Conning. Prior to joining Conning in 2010, Mr. Bradford was an Operating Partner with Advent International, a global private equity firm. Previously, he spent 12 years at Putnam Investments where he had multiple roles, including Head of Corporate Development and Chief Operating Officer of Global Distribution. Mr. Bradford is a graduate of Worcester Polytechnic Institute and of the Harvard Business School, where he graduated as a Baker Scholar. Mr. Bradford is currently Chairman of the Board of Directors of the Greater Boston Food Bank and previously served as a member of the Supervisory Board of Quoniam Asset Management GmbH. Mr. Bradford has over 20 years of industry experience.

### Management Team

#### Russell Büsst, SIEDip – CIO, Europe (3 YOS / 29 YOE)

- Previously CEO of Amundi's UK subsidiary
- Holds a degree in Engineering and a Securities Industry diploma

#### Glenn Heiser, CPA – CAO (20 YOS / 31 YOE)

- Previously employed by Travelers
- BS and MBA from the University of Connecticut
- Joined Conning in 1994

#### Mark Konyn – CEO, CCAM (2 YOS / 27 YOE)

- Previously CEO of RCM Asia-Pacific / Allianz Global Investors and Head of Institutional Business Development at Fidelity Investments based in Hong Kong
- First Class (Hons.) degree in Business Administration
- Ph.D. in Risk Analysis

#### Jung Lee – CFO (3 YOS / 17 YOE)

- Previously employed by SFRi, Swiss Re, and Securitas Capital
- Degree in Economics from the University of Pennsylvania

#### Stephen Sonlin, CFA – RCMS (13 YOS / 32 YOE)

- Previously employed by Swiss Re Investors
- BA – Temple University
- Joined Conning in 2001

#### Robert Pearce – CCO (9 YOS / 20 YOE)

- Previously Vice President, Investment Advisory Compliance, at The Advest Group
- BA and MBA from Pepperdine University

#### James Romano, CFA – CRO (17 YOS / 23 YOE)

- Previously employed by John Hancock, Travelers and United Technologies
- Graduate of Central Connecticut State University and Rensselaer Polytechnic Institute (MS – Finance)

#### Richard Segal, FSA, MAAA – CIO (13 YOS / 37 YOE)

- Previously CEO of Charter Oak Capital
- Graduate of Fordham University
- Current President of Goodwin Capital
- MA (Statistics) – Columbia University

#### Vi Smalley, Esq. – General Counsel (8 YOS / 20 YOE)

- Previously employed by Citigroup Insurance Investments
- BA – Smith College
- University of Connecticut School of Law

YOS – Years of Service  
YOE – Years of Experience

# 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.

# 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.

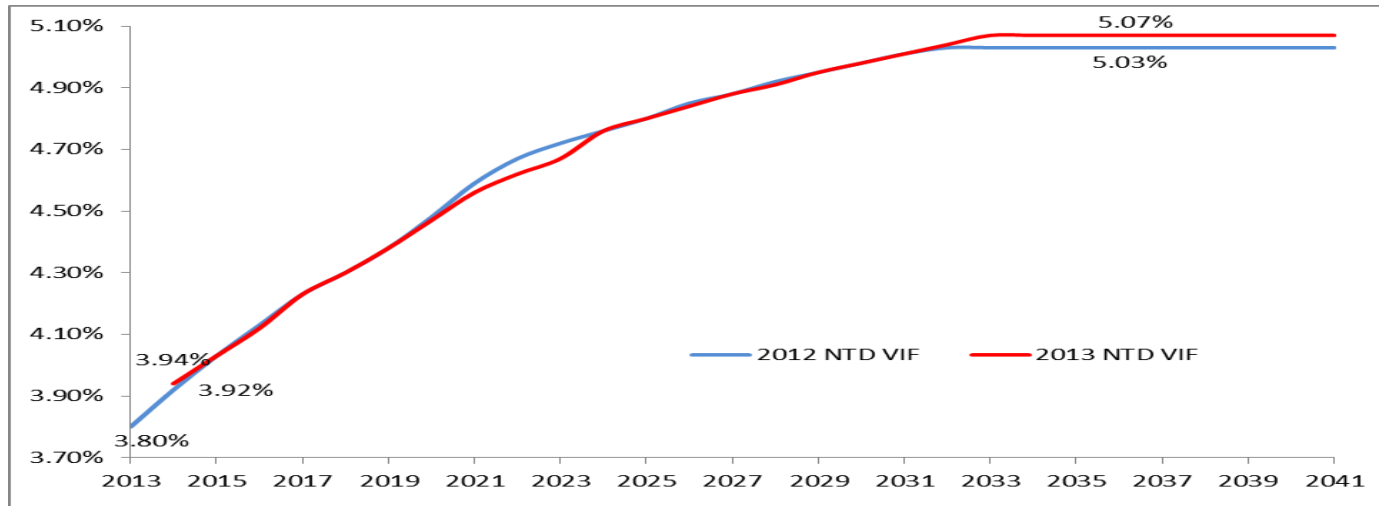
2.EV and AV per share is based on 2013 weighted outstanding shares of 11.5bn shares. The shares adjustment reflected stock dividend (split), right issue and ECB conversion.

3.Totals may not sum due to rounding.

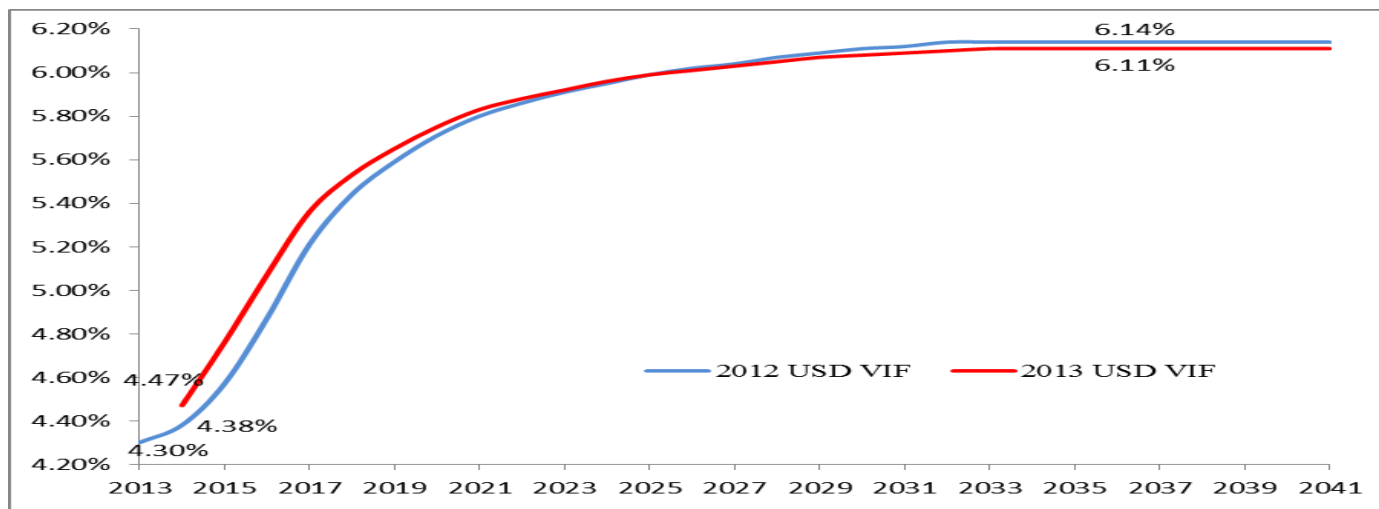


# Economic Assumptions: In-force business investment yield

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

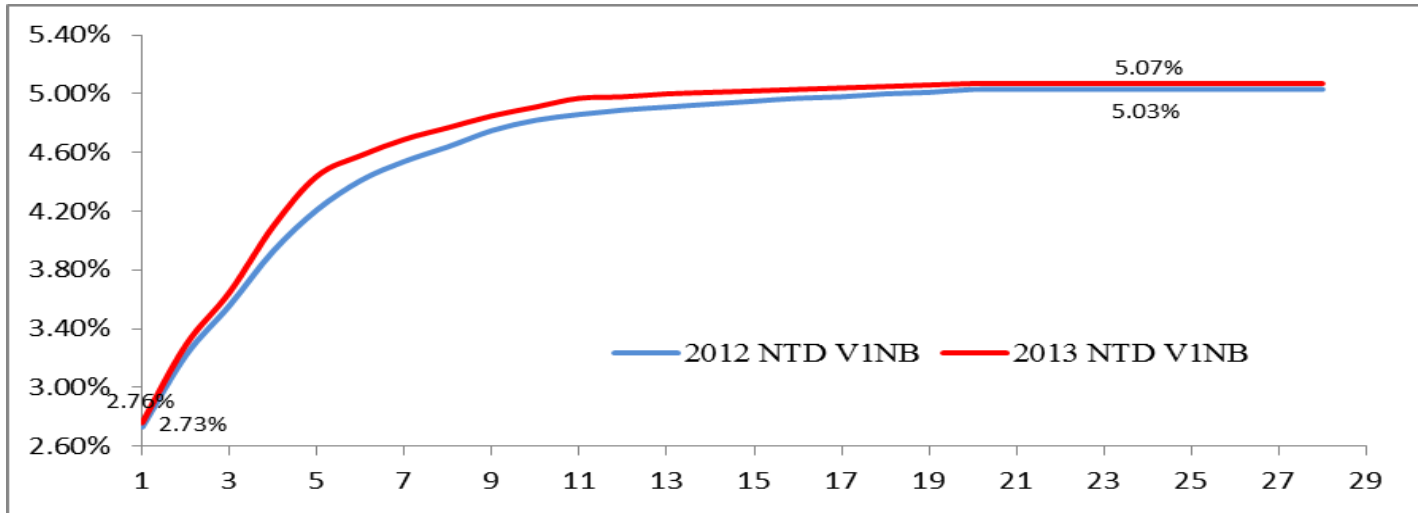


- Investment return assumptions for the value of in force business of USD-denominated policies as of the end of 2012 & 2013.

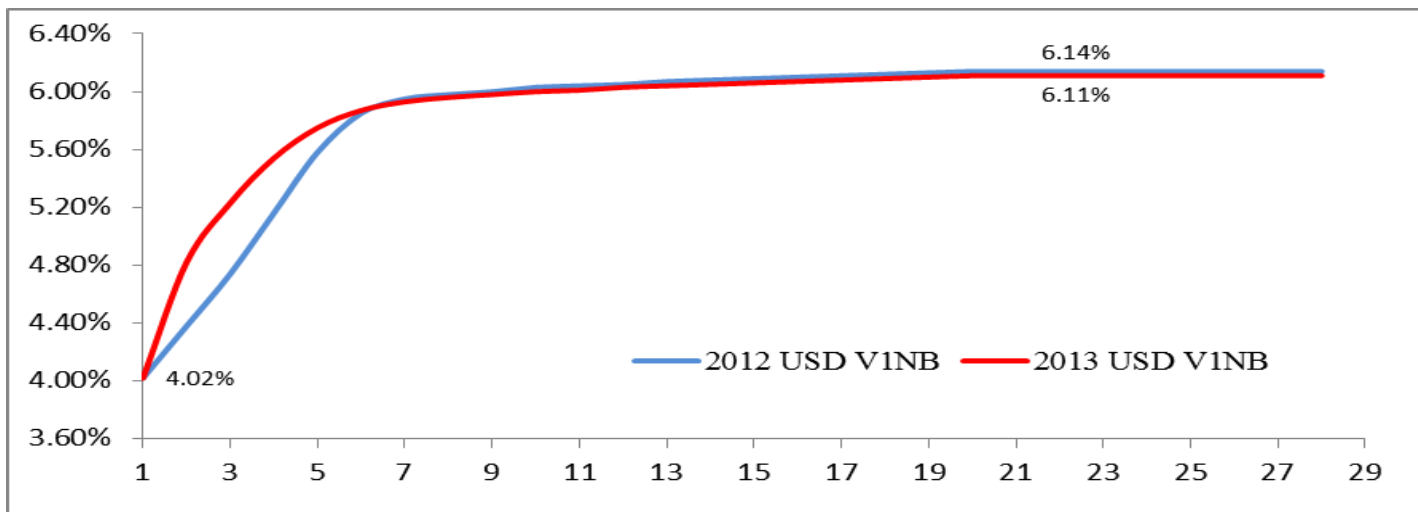


# Economic Assumptions: Future one year's new business investment yield

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



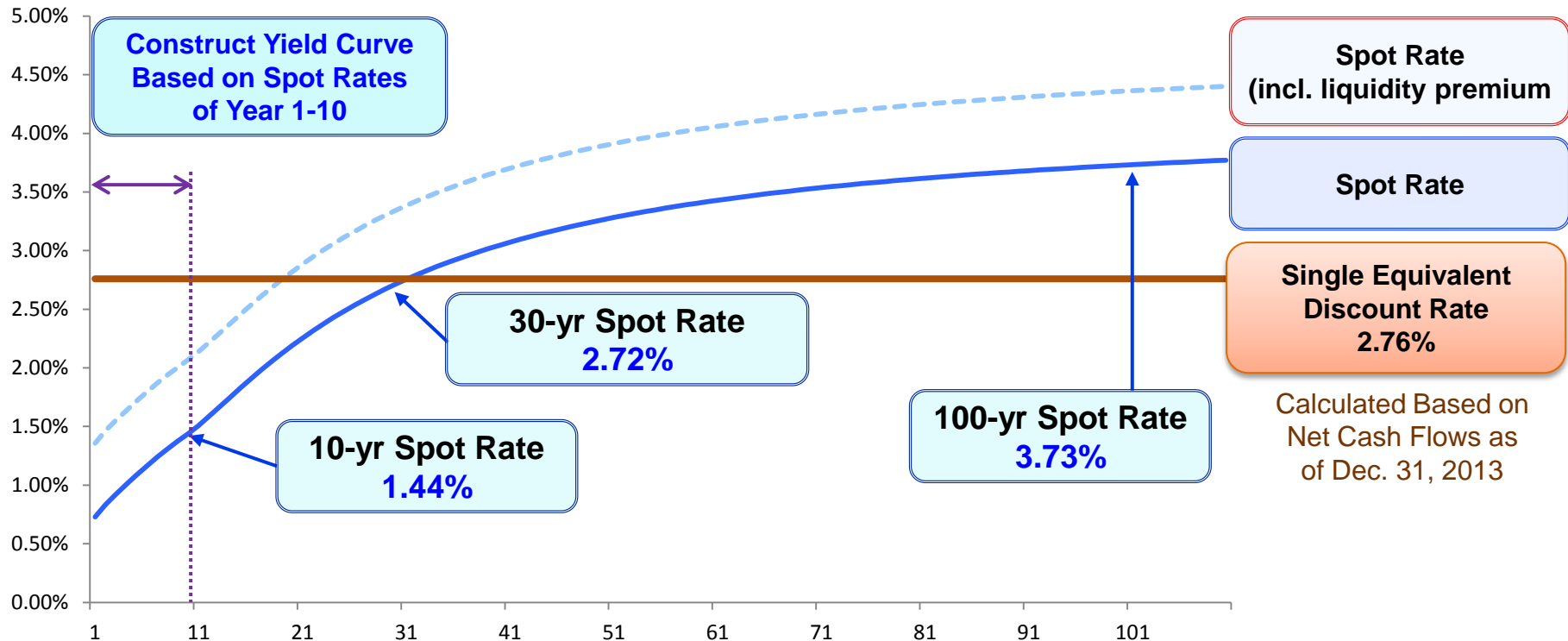
- Investment return assumptions for the value of future one year's new business of USD-denominated policies as of the end of 2012 & 2013.



# 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.

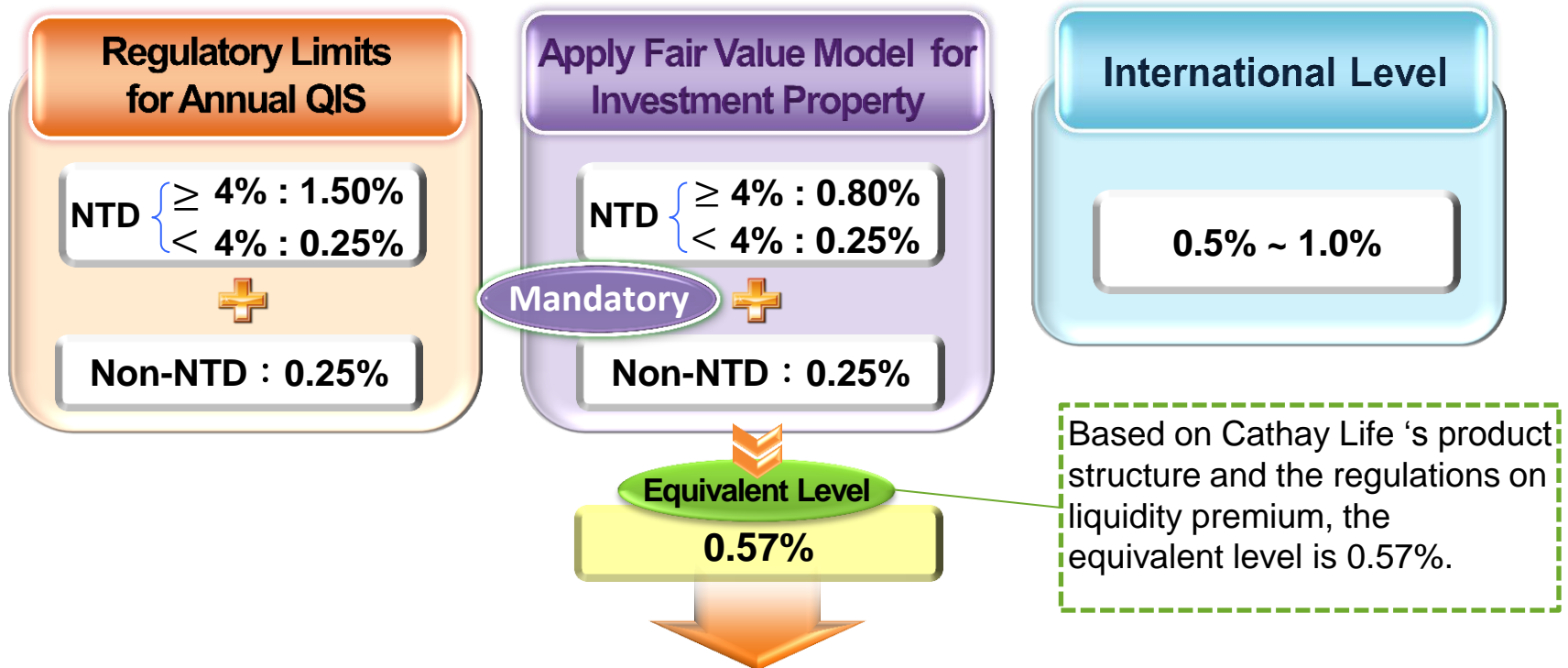


Calculated Based on Net Cash Flows as of Dec. 31, 2013

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

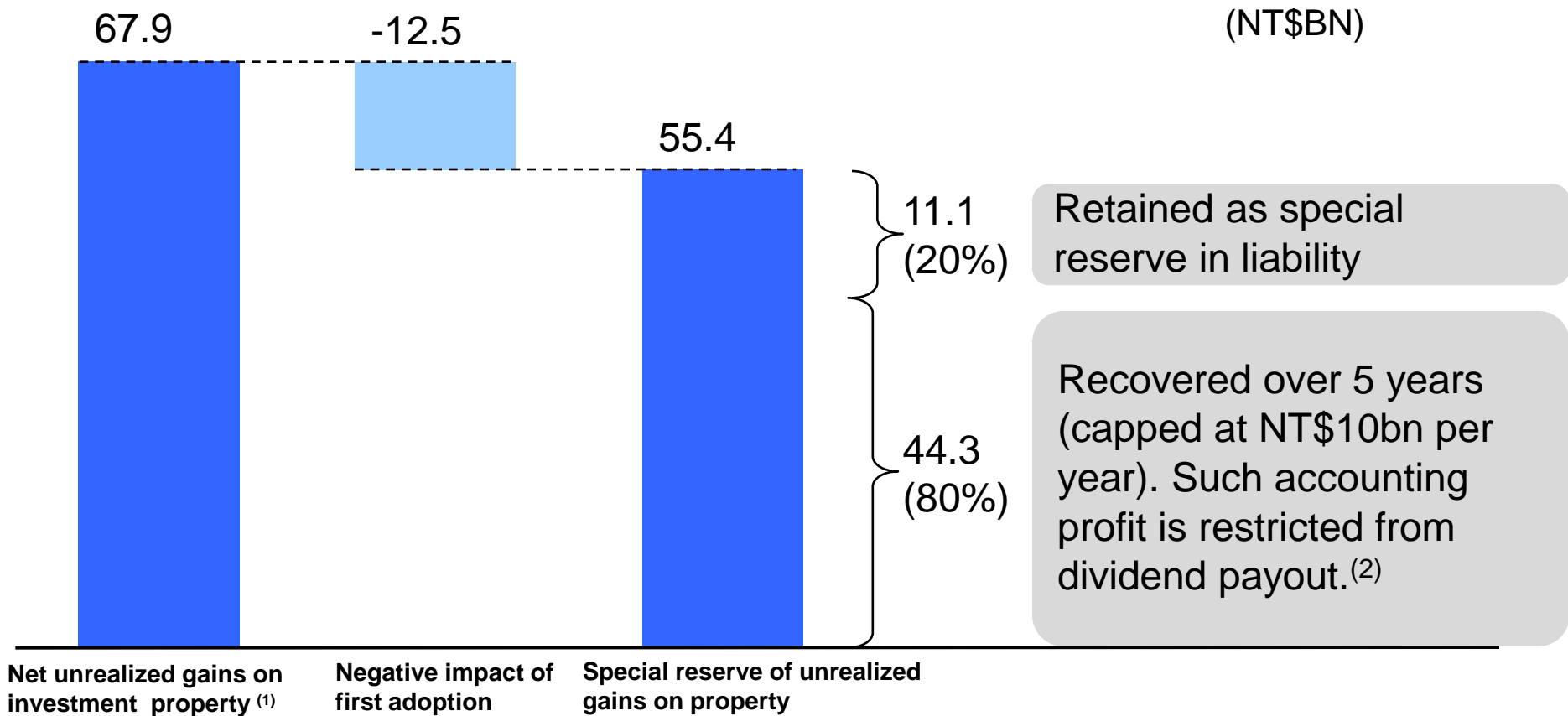
# Fair Value of Insurance Contracts: Liquidity Premium

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

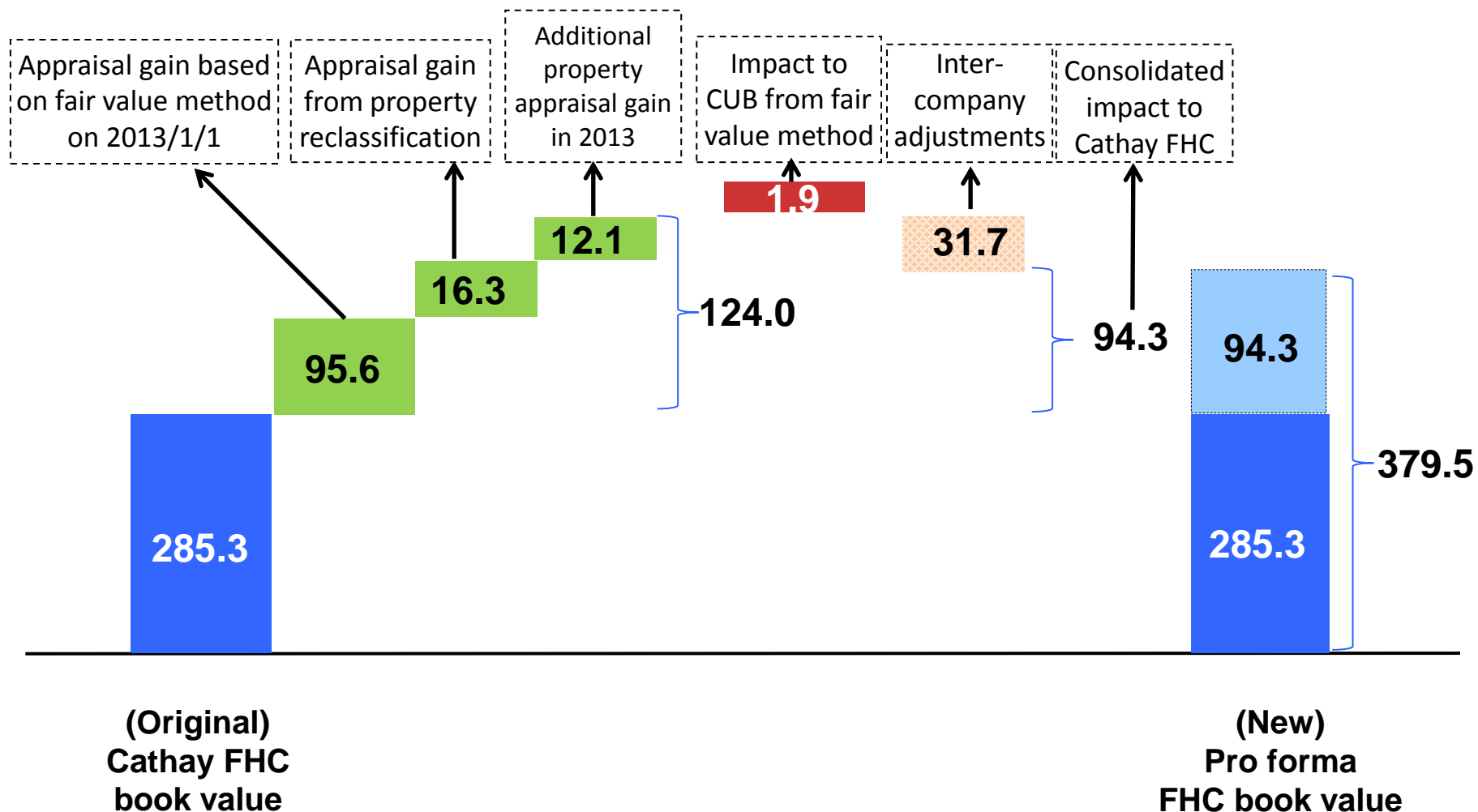


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

(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

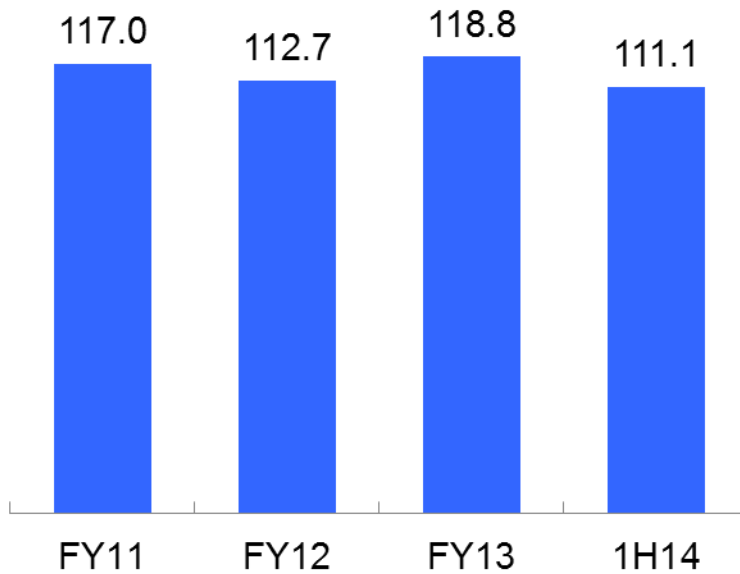
■ Cathay Financial Holdings 
 ■ Cathay Life 
 ■ Cathay United Bank



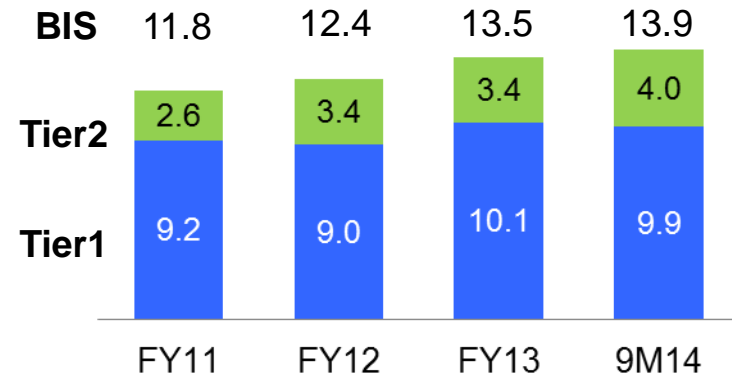
Note: Totals may not sum due to rounding.

# Capital adequacy

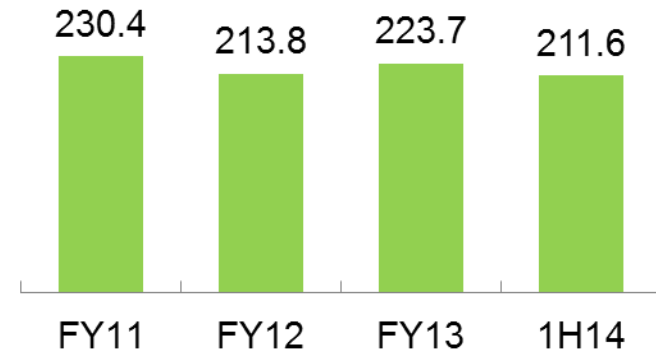
## Cathay FHC CAR (%)



## CUB Capital Adequacy (%)



## Cathay Life RBC(%)





Thank You