
2013 First Half Briefing



國泰金控

Cathay Financial Holdings

September 2013

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Agenda

- **1H13 Business highlights**

- **1H13 Financial results**
 - Cathay United Bank
 - Cathay Life
 - Cathay Century

- **Overseas expansion**

- **Appendix**
 - 1) Recovery plan for special reserve of unrealized gains on property
 - 2) Property reappraisal
 - 3) Embedded value & appraisal value
 - 4) Fair value of insurance liability

1H13 Business highlights

Cathay United Bank

- Loan maintained flat with benign credit quality
- Fee income grew by 24.1% YoY
- Offshore earnings and its contribution to pre-tax profits kept increasing

Cathay Life

- Regular-paid products accounted for 95.3% of traditional policies; ranked No.1 by FYPE
- Cash position 5.9%; overseas investment 42.9%; hedging cost 0.14%
- Sufficient capital adequacy ratio; RBC ratio above 250%

Cathay Century

- Market share increased to 12.8%, premium income grew by 9.9% YoY; maintained No.2 market position
- Expanded business development in China and Vietnam, premium income up by 81% and 68% YoY, respectively

Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$381BN
- Continued to launch new products and broaden the business of individual & institutional clients

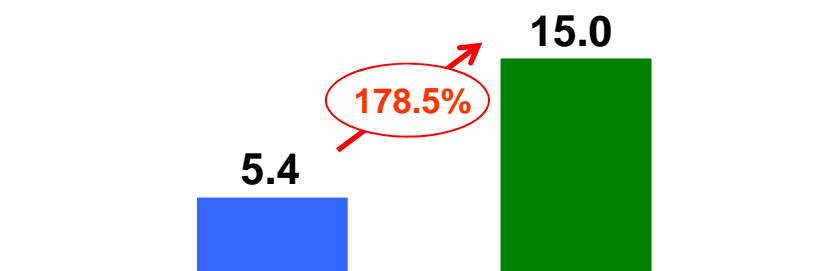
Cathay Securities

- Each business line performed steadily
- Underwriting volume increased significantly YoY

Cathay FHC — Net income & EPS

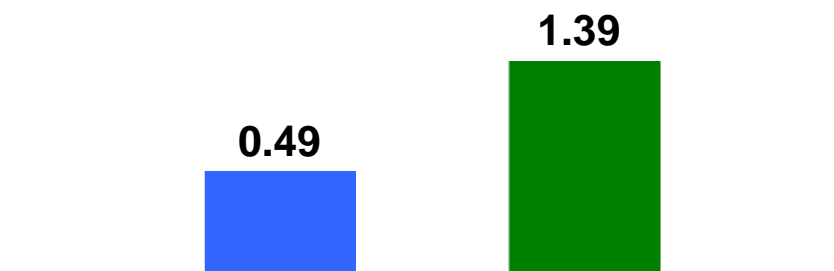
Net income

■ 1H12 ■ 1H13 (NT\$BN)

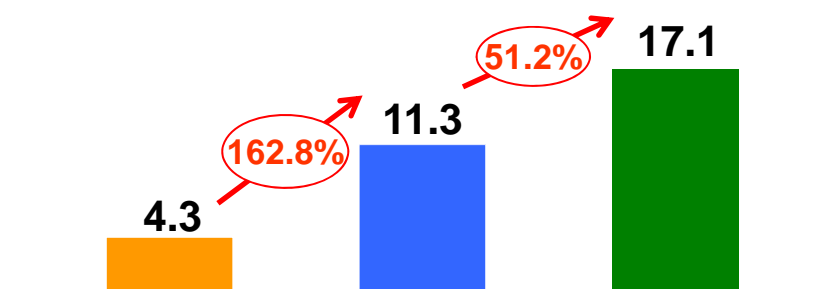


EPS

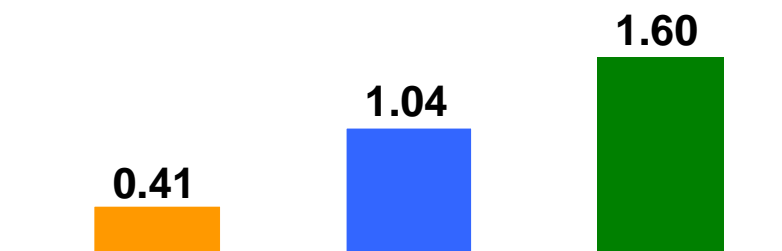
■ 1H12 ■ 1H13 (NT\$)



■ FY10 ■ FY11 ■ FY12 (NT\$BN)



■ FY10 ■ FY11 ■ FY12 (NT\$)

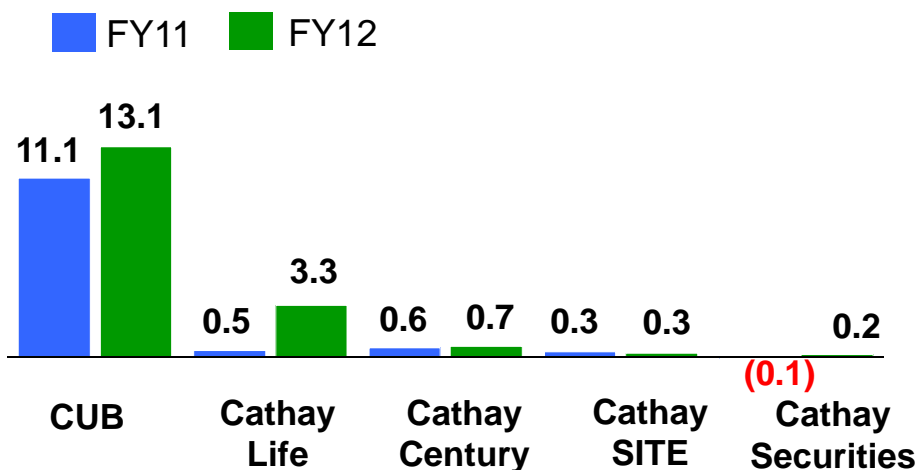
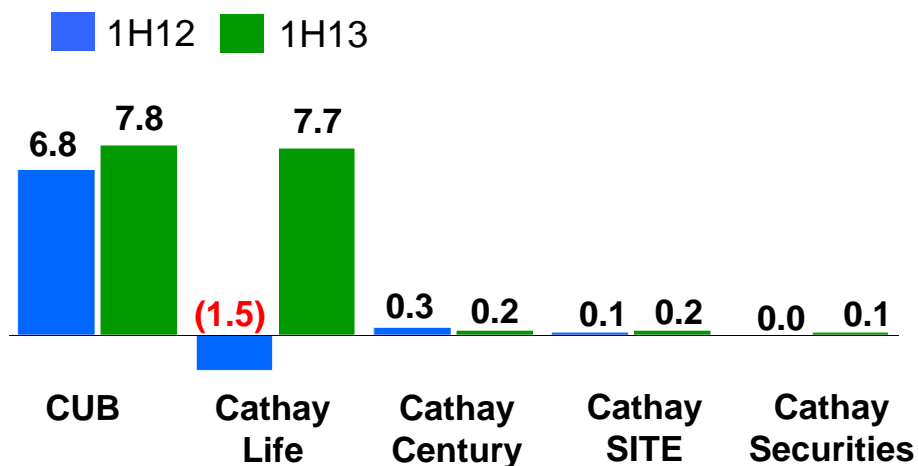


Note: (1) Data of 1H12 & 1H13 was based on IFRS principle; net income calculation included minority interest; EPS excluded minority interest

(2) Cathay FHC 1H13 EPS included the impact of - NT\$ 0.29 from provision for FX fluctuation reserve and + NT\$ 0.47 from recovery of special reserve on property unrealized gains.

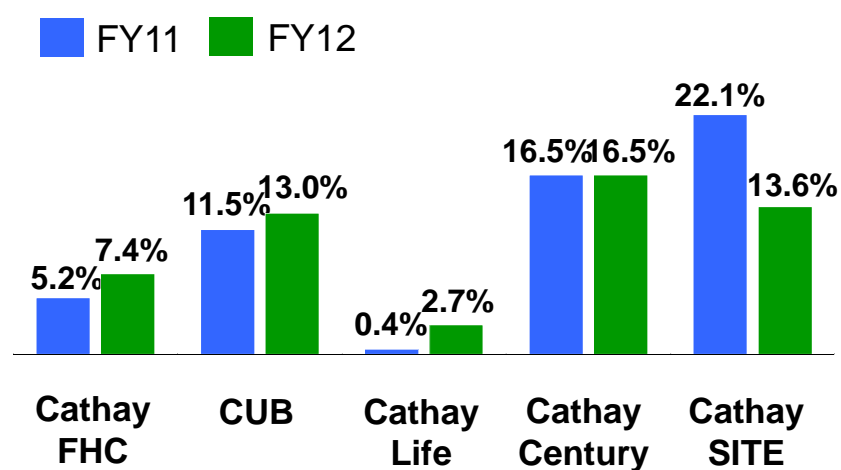
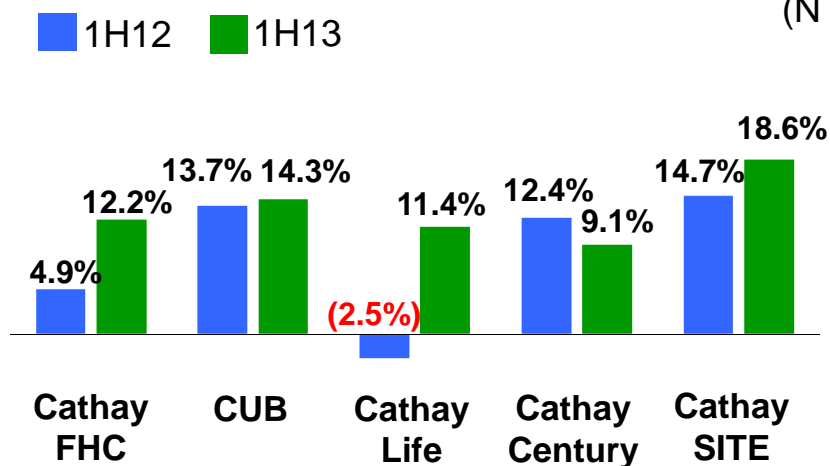
Cathay FHC — Net income & EPS

Net income of primary subsidiaries



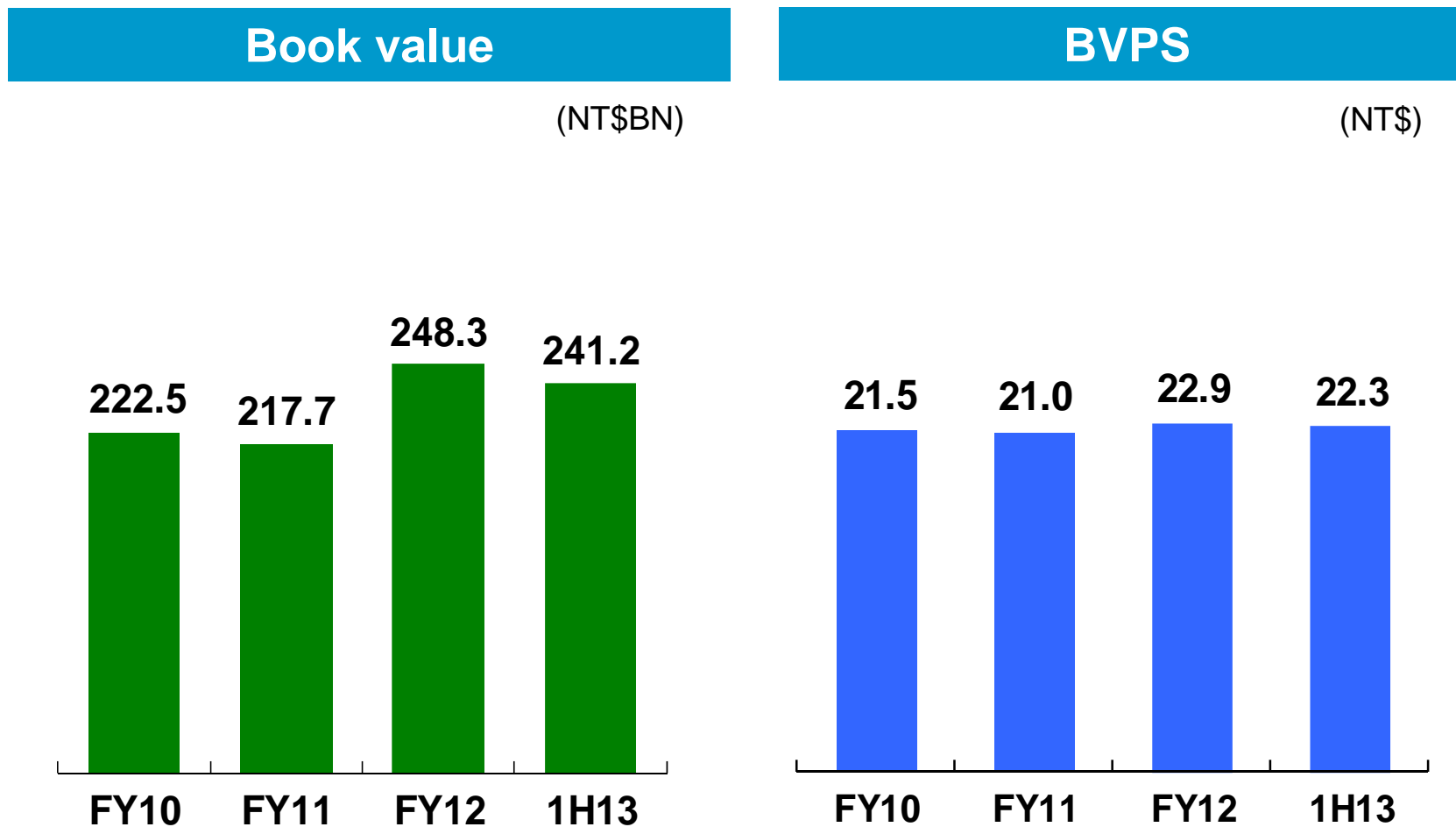
ROE

(NT\$)



Note: Cathay Life 1H13 net income included the impact from provision for FX fluctuation reserve and recovery of special reserve on property unrealized gains.

Cathay FHC — Book value & BVPS



Note: Figures of FY12 & 1H13 were under IFRS principle: book value included minority interest, while BVPS excluded minority interest

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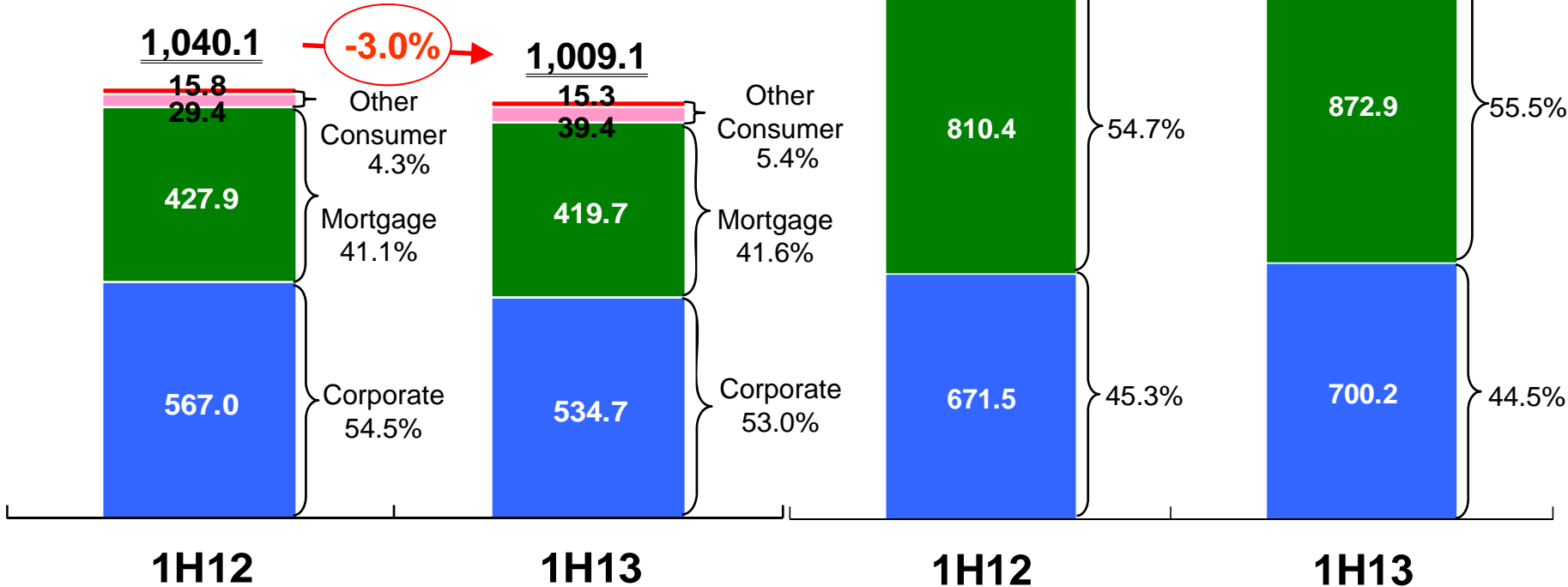
Cathay United Bank — Loan & Deposit breakdown

Loan breakdown

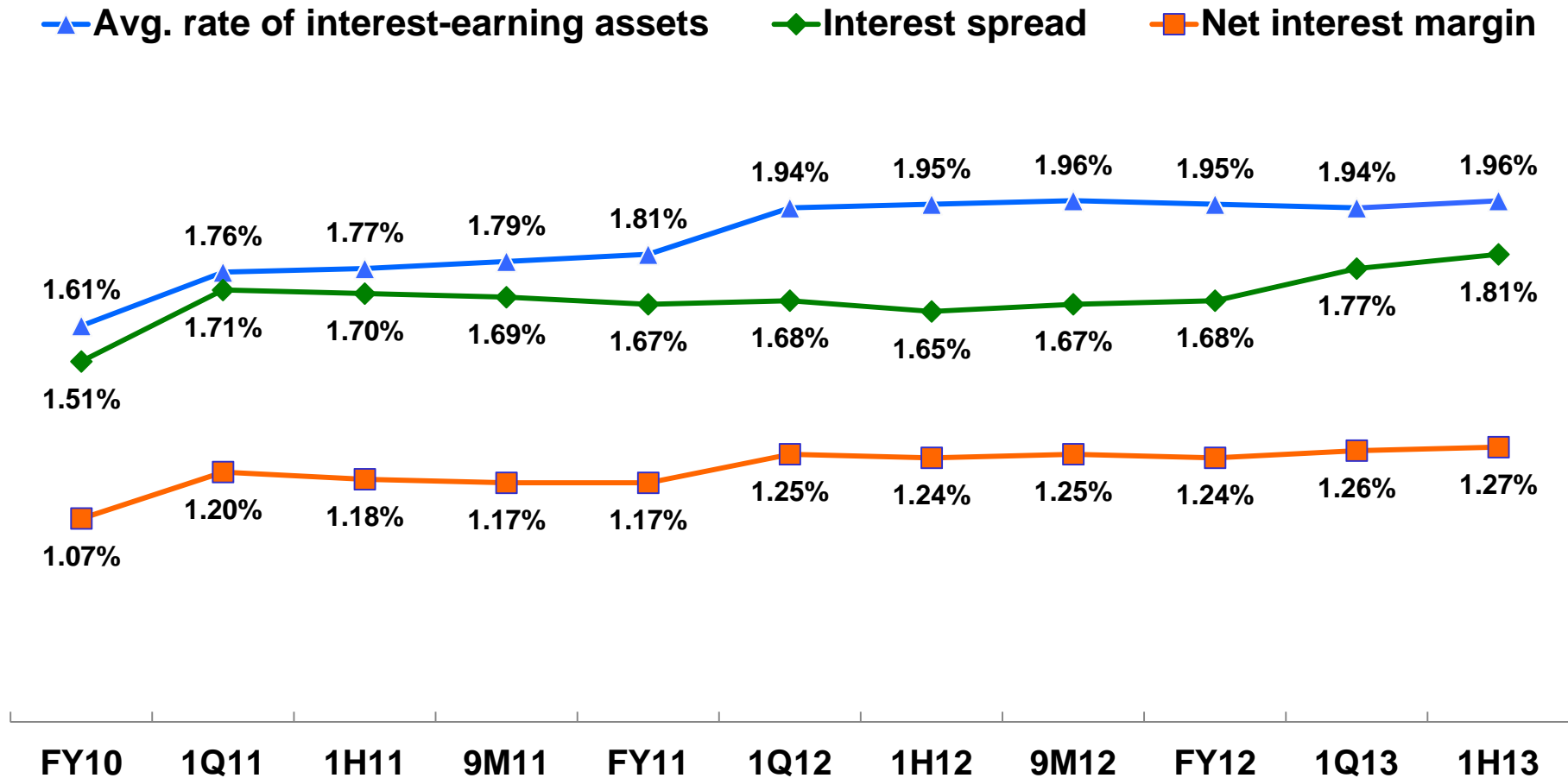
Deposit breakdown

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

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



Cathay United Bank – Interest yields

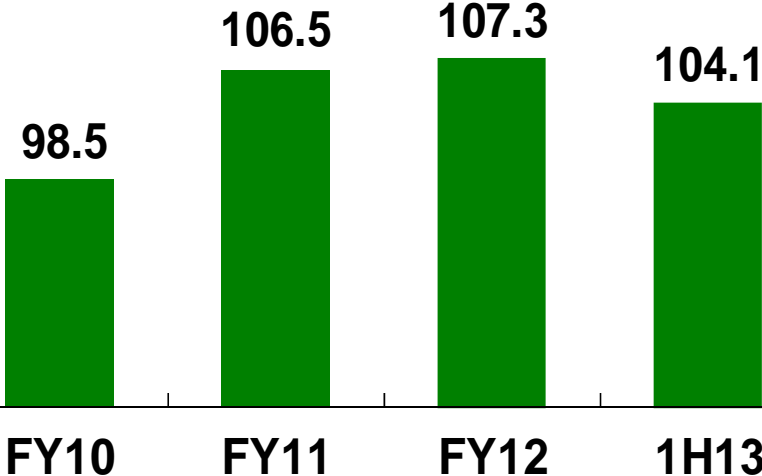


Note: Credit card related loans are included in the calculation

Cathay United Bank — SME & Foreign currency loans

SME loans

(NT\$BN)

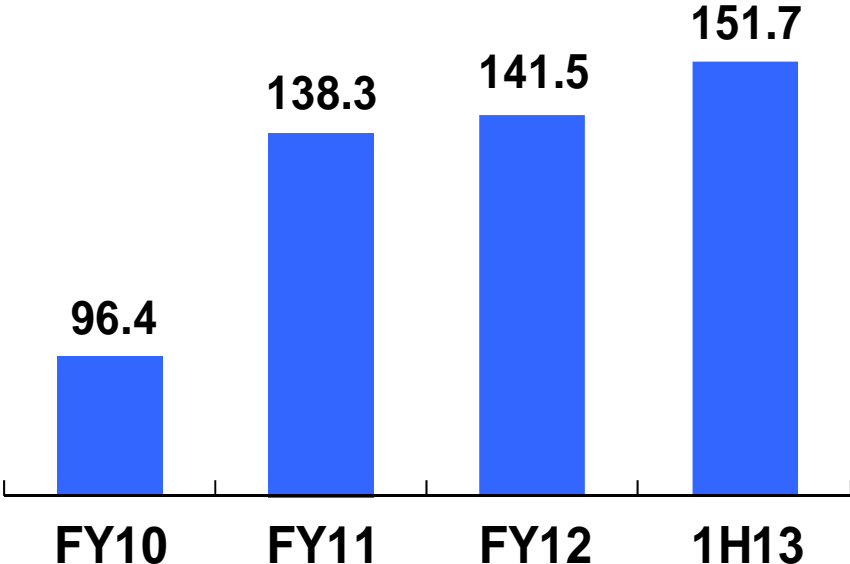


As % of total loans

10.9%	10.6%	10.6%	10.3%
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Foreign currency loans

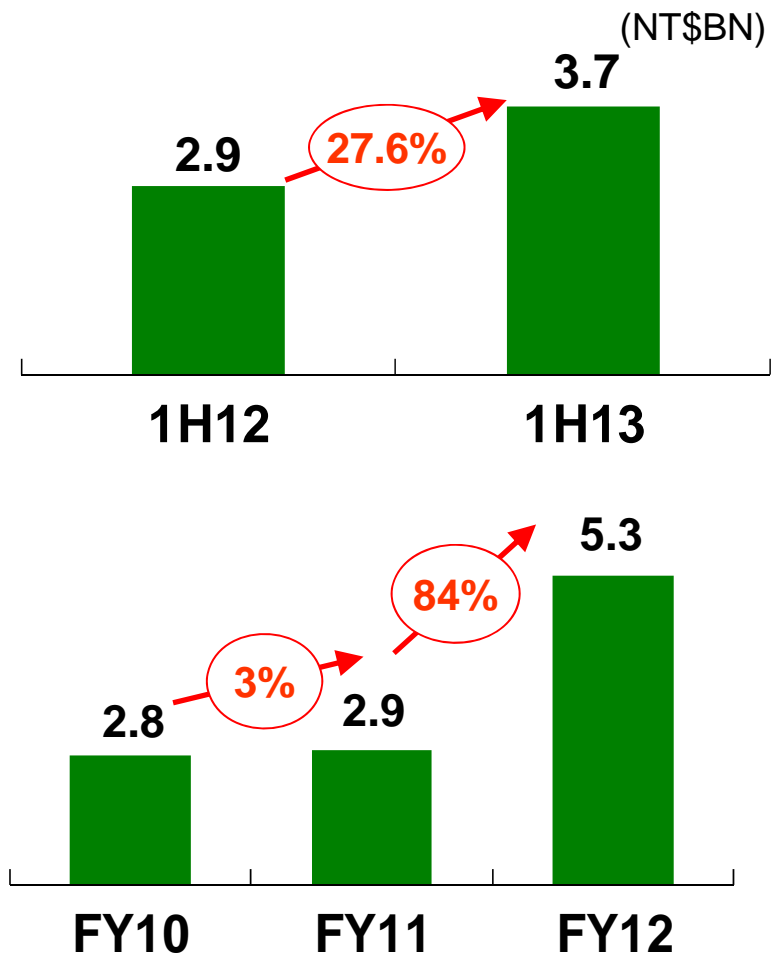
(NT\$BN)



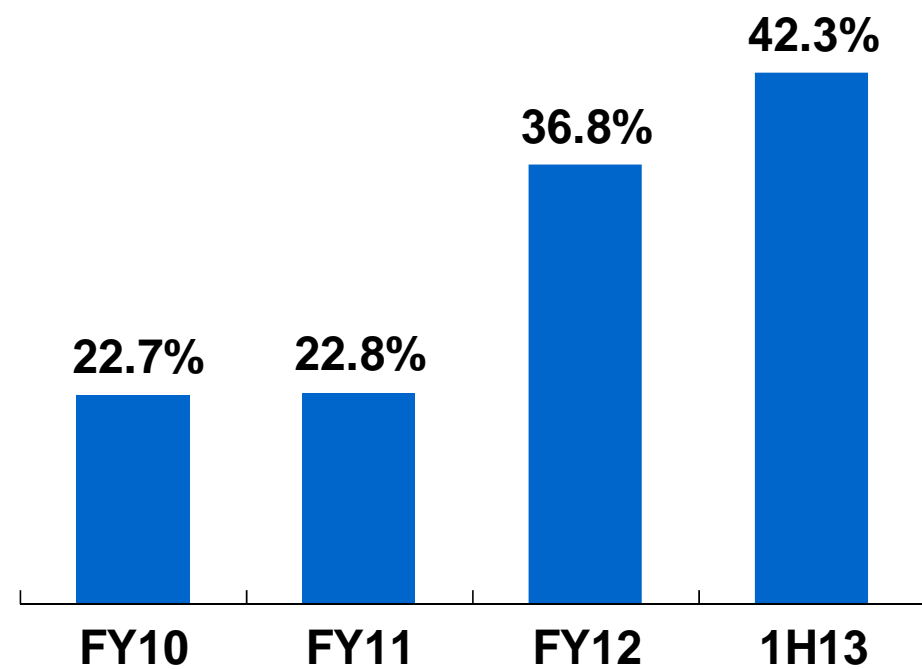
10.7%	13.7%	14.0%	15.0%
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Cathay United Bank – Offshore earnings

Offshore earnings

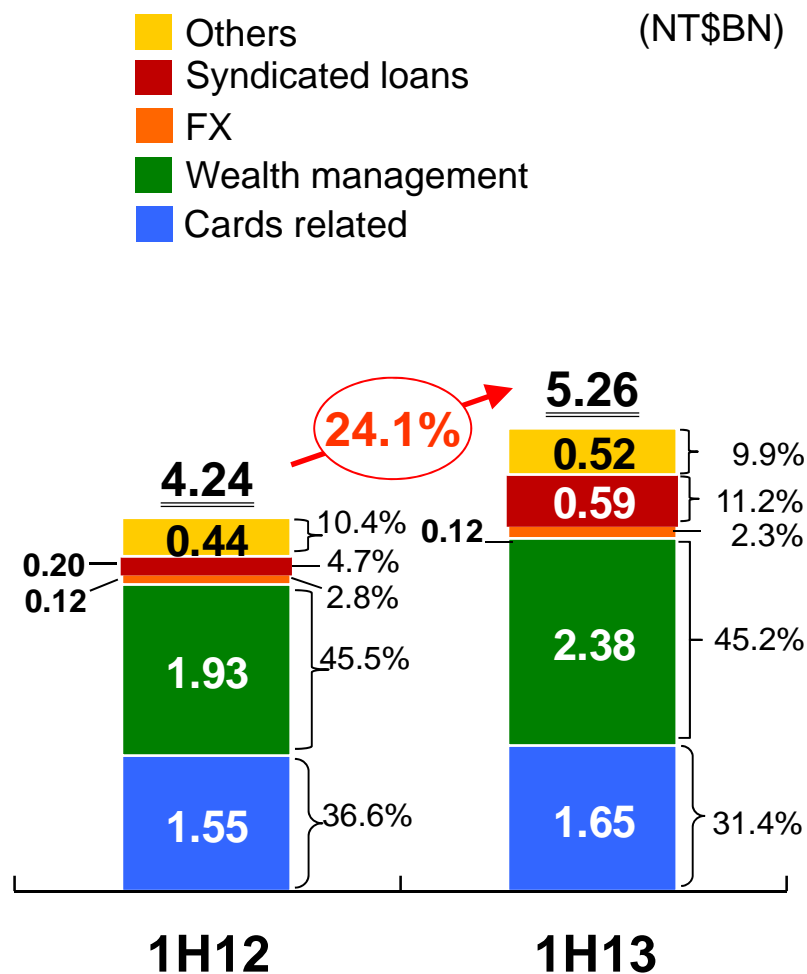


As % of CUB pre-tax profits

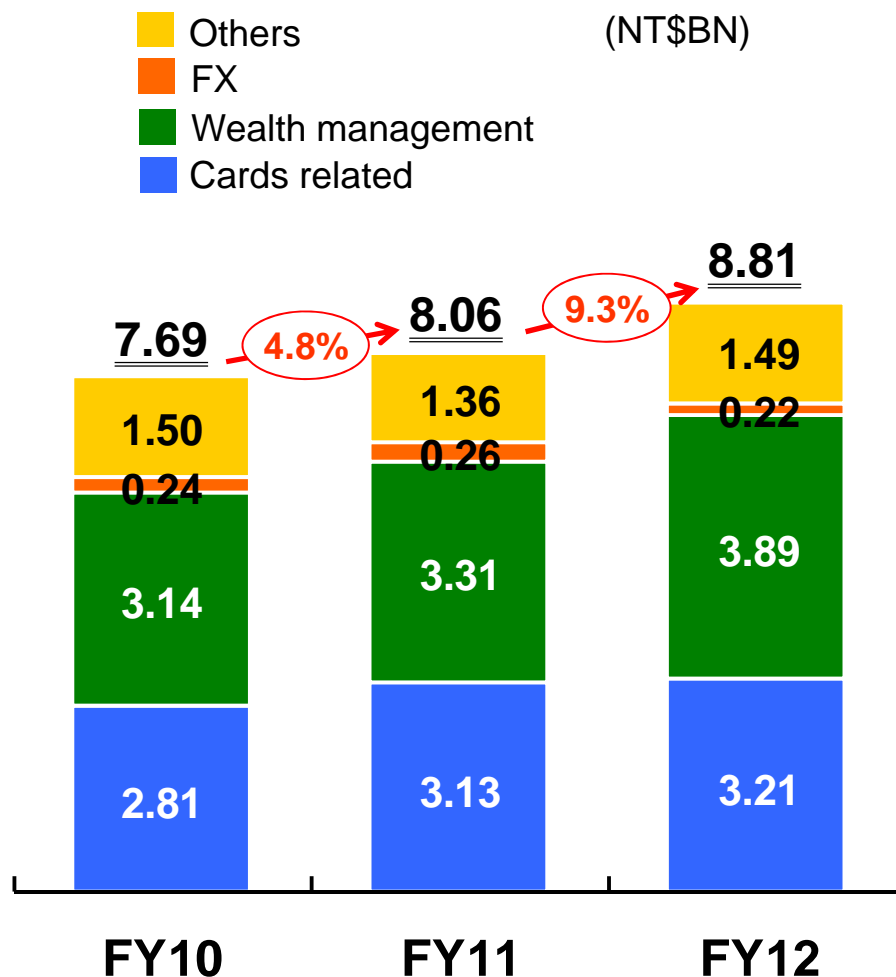


Cathay United Bank – Fee income

Fee income breakdown



Fee income breakdown (annual)



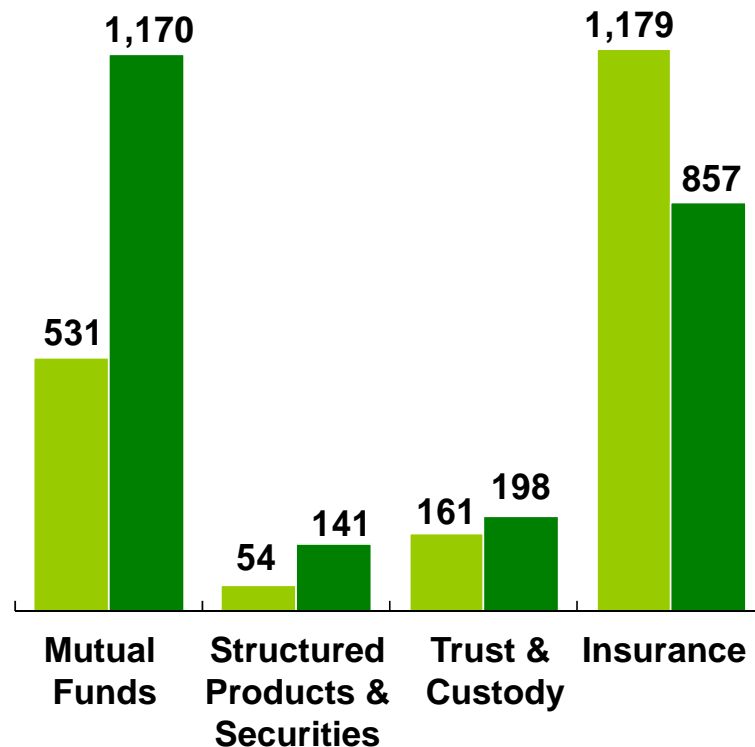
Note: Totals may not sum due to rounding

Cathay United Bank – Wealth management

Wealth management fee breakdown

1H12 1H13 (NT\$MN)

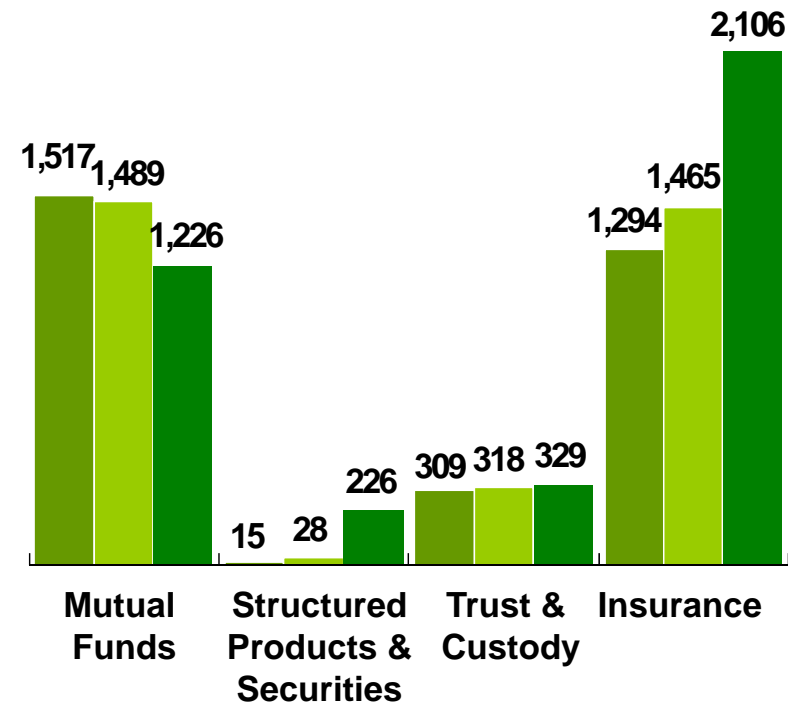
	1H12	1H13
Fee income	1,929	2,378
YoY growth	11.2%	23.3%



Wealth management fee breakdown (annual)

FY10 FY11 FY12 (NT\$MN)

	FY10	FY11	FY12
Fee income	3,142	3,309	3,894
YoY growth	52.4%	5.3%	17.7%

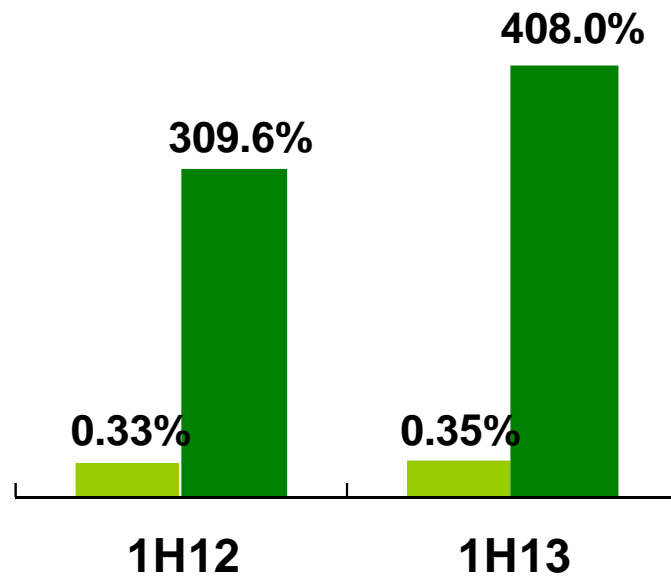


Note: Wealth management fee in 1H13 excludes NT\$357 mm of revenue from DCI, SI and others.

Cathay United Bank – Credit quality

NPL & Coverage ratio

- NPL ratio
- Coverage ratio

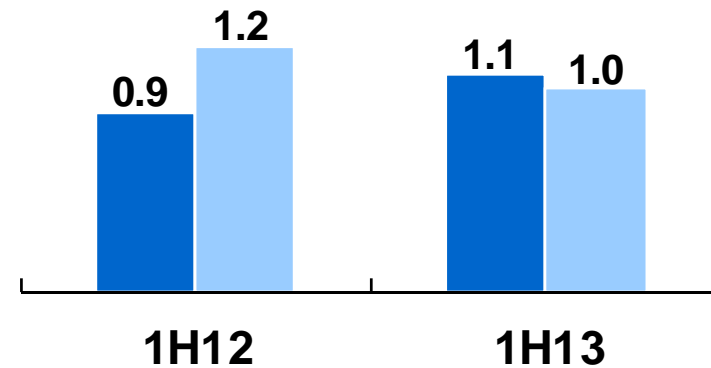


Mortgage NPL	0.07%	0.04%
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Gross provision

(NT\$BN)

- Gross provision
- Recovery



Agenda

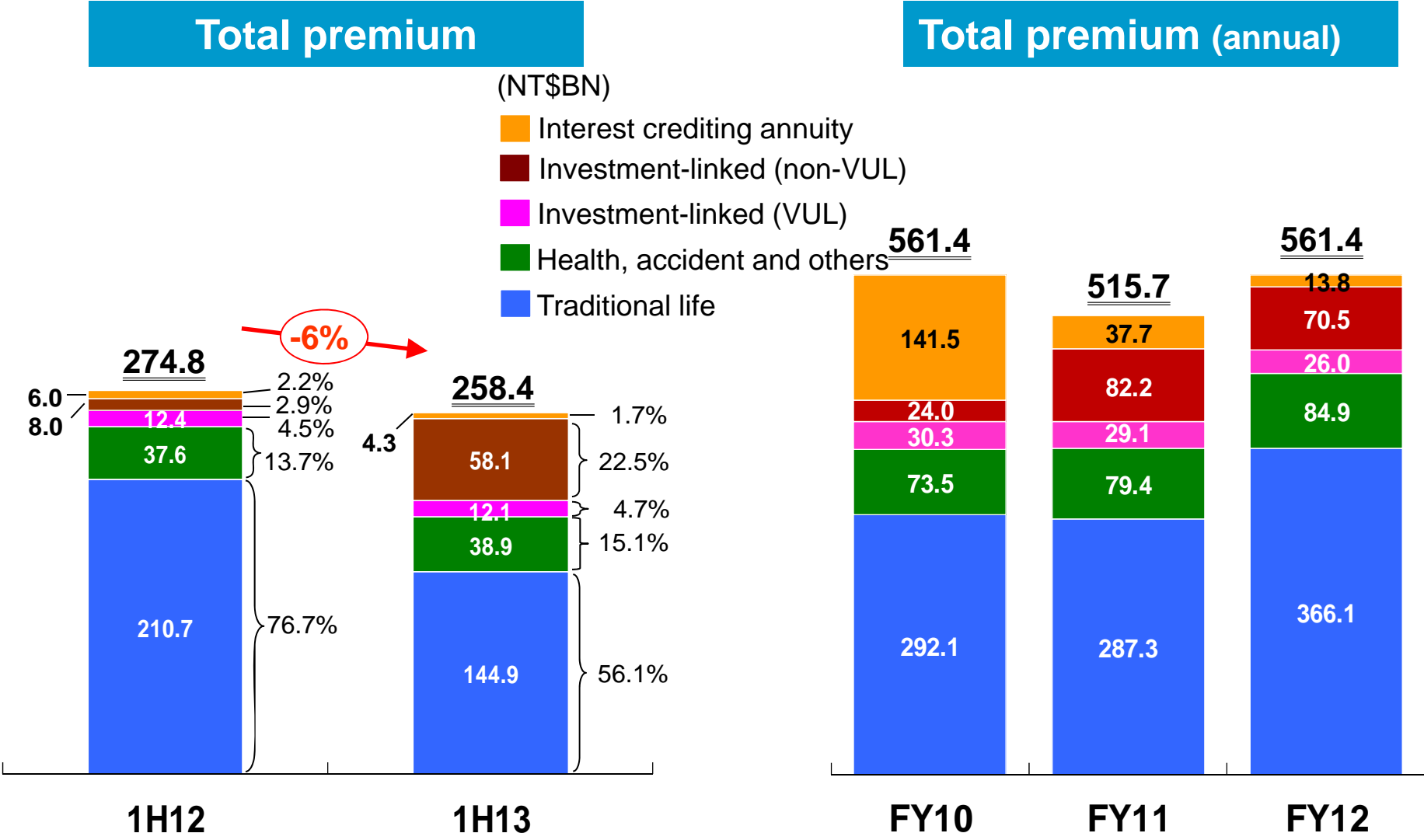
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Cathay Life – Total premium

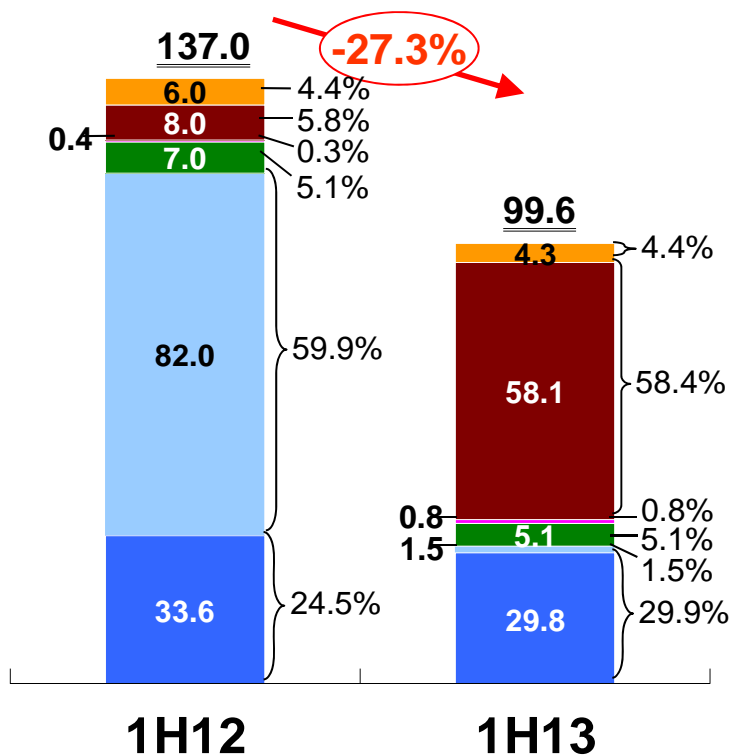


Note: Totals may not sum due to rounding

Cathay Life — FYP/ FYPE

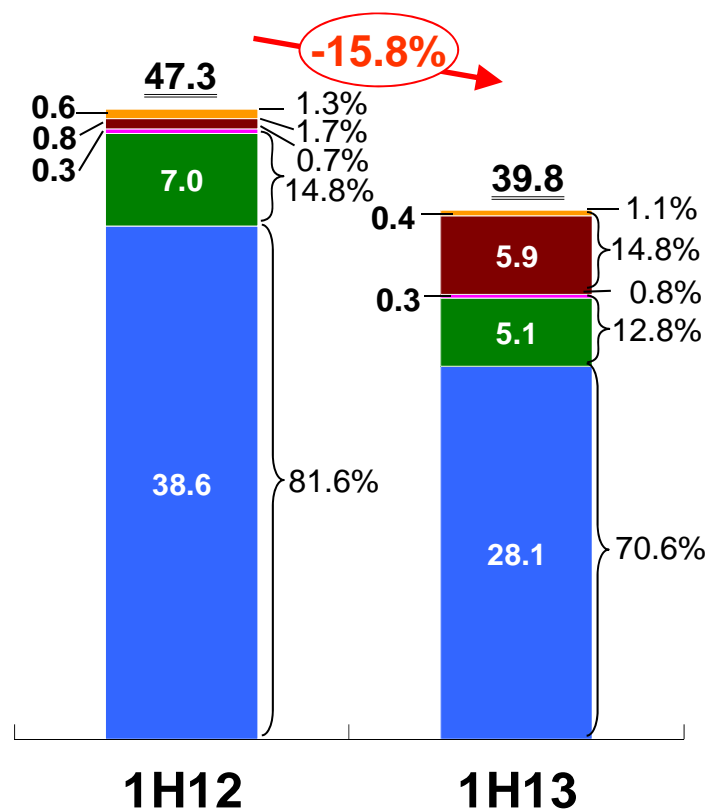
FYP

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



FYPE

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

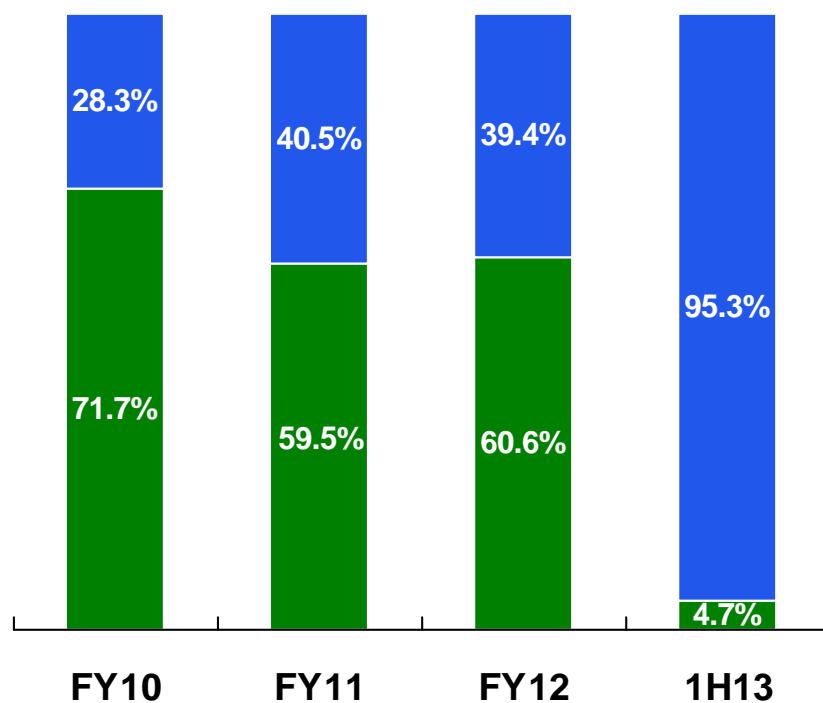


Note: Totals may not sum due to rounding

Cathay Life– Regular paid policies improve margin and VNB

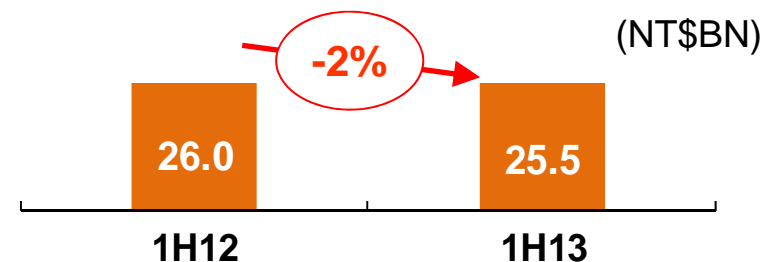
Breakdown of Traditional FYP

- Traditional life - regular paid
- Traditional life - single paid

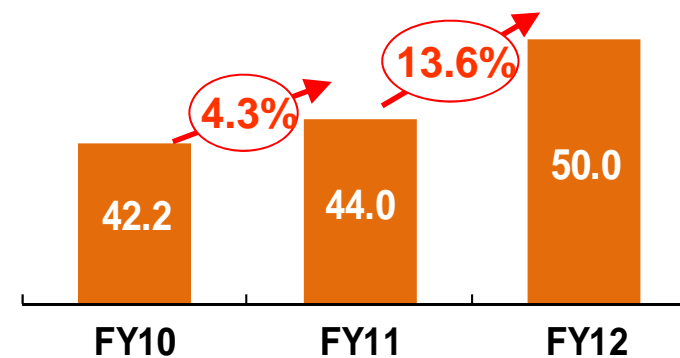


VNB

Profit Margin	1H12	1H13
VNB/FYP	19%	26%
VNB/FYPE	55%	64%



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



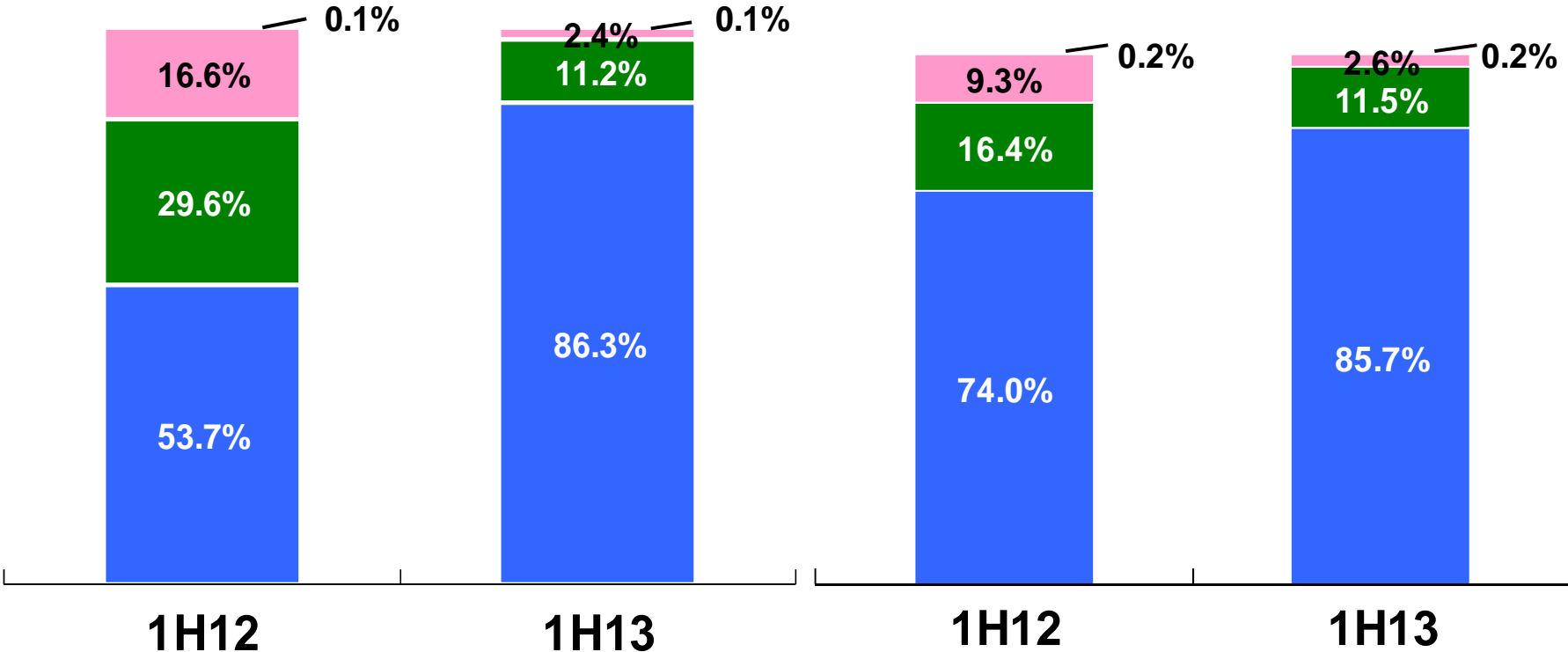
Cathay Life — Distribution channel

FYP

FYPE

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

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



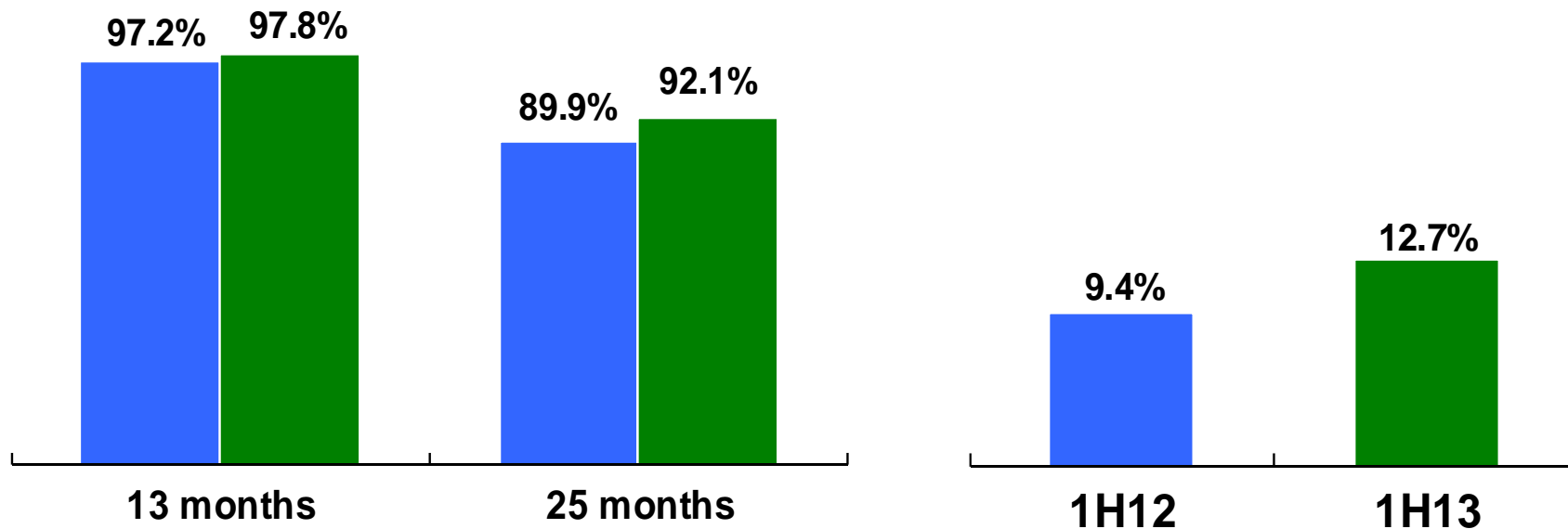
Note: Totals may not sum due to rounding

Cathay Life – Operational indicators

Persistency ratio

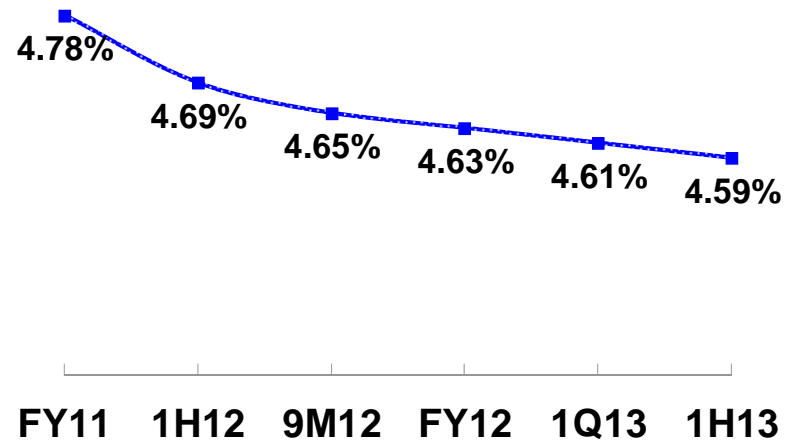
Expense ratio

■ 1H12 ■ 1H13

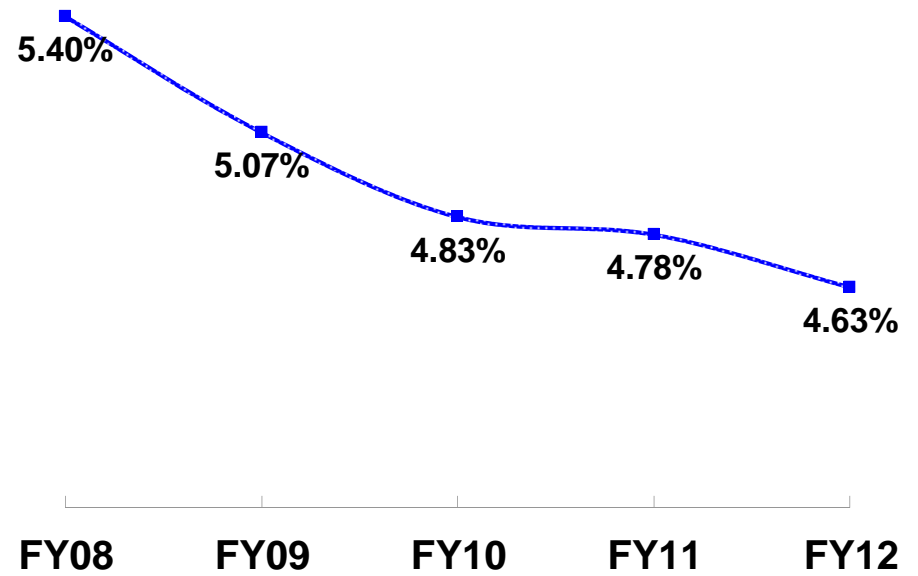


Cathay Life – Cost of liability

Cost of liability (quarterly)



Cost of liability (annual)



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

Cathay Life – Investment portfolio

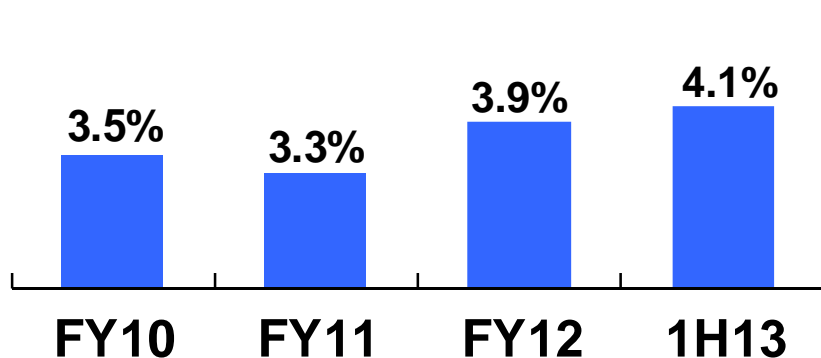
(NT\$BN)	4Q10	4Q11	4Q12	1H13		
Total investments⁽¹⁾	2,745.30	2,959.2	3,283.7	3,469.3		
	Weight	Weight	Weight	Amount	Weight	Amount
Cash & Cash equivalents	12.9%	8.6%	8.2%	268.7	5.9%	203.1
Equity- Domestic	7.3%	8.5%	8.1%	267.5	9.0%	310.9
Equity- International	1.7%	4.0%	4.3%	141.7	4.5%	156.9
Bond- Domestic	15.6%	16.4%	16.6%	544.7	16.2%	561.2
Bond- International⁽²⁾	38.5%	38.6%	39.6%	1,299.9	38.4%	1,333.8
Mortgage & Secured loans	10.6%	10.2%	10.3%	337.3	11.7%	406.4
Policy loans	7.0%	6.4%	5.5%	181.6	5.1%	177.1
Real estate	5.0%	5.4%	5.6%	183.5	7.4%	256.6
Others	1.5%	2.0%	1.8%	58.8	1.8%	63.1

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

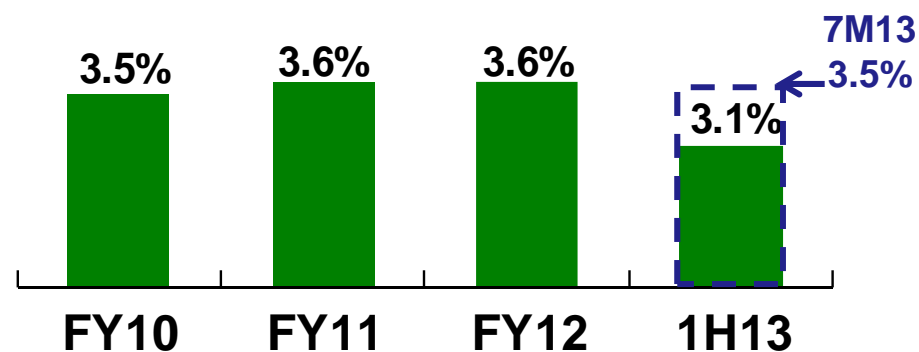
(2): Includes foreign currency deposit and related adjustments

Cathay Life – Investment performance highlight

After-hedging investment yield



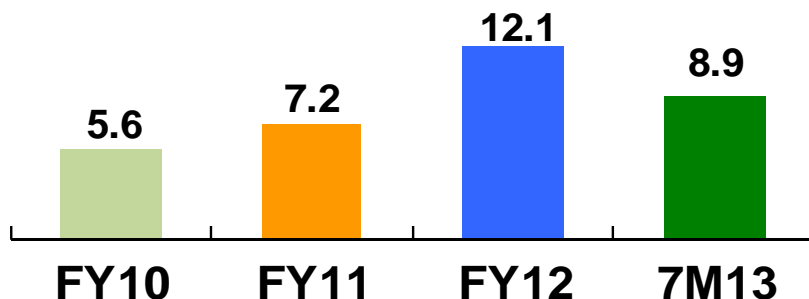
Pre-hedging recurring yield



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

Cash dividend

(NT\$BN)



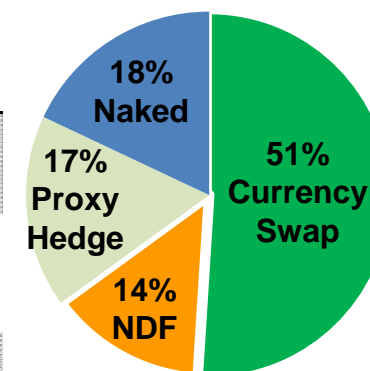
Annualized Hedging cost

1H13 Net hedging cost

0.14%

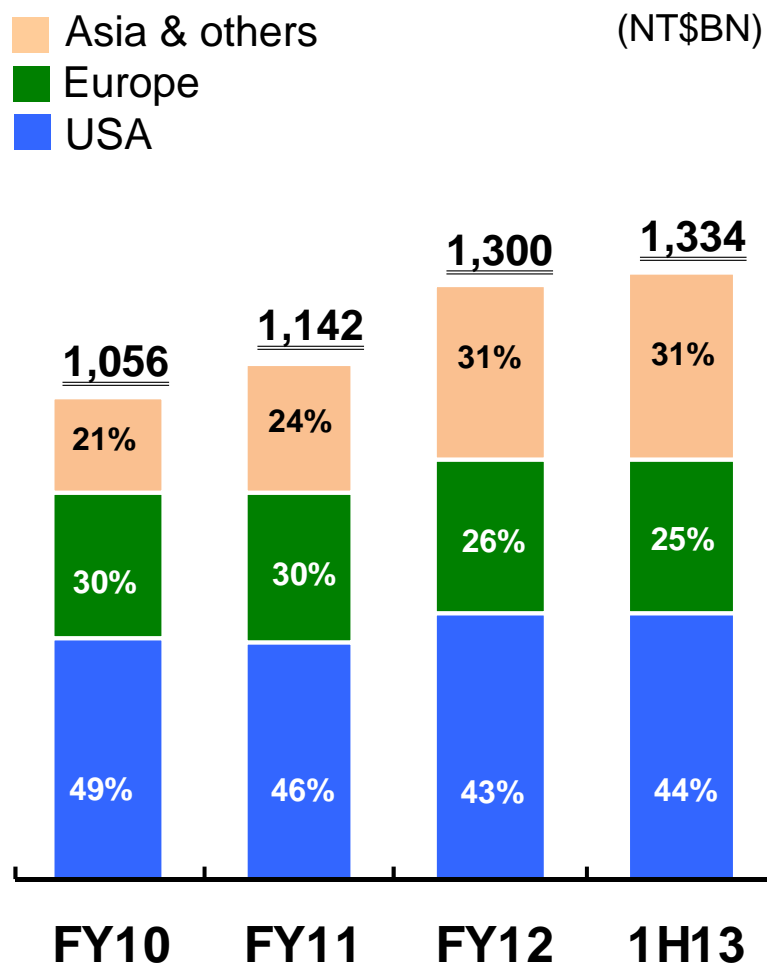
CS & NDF hedging

0.32%



Cathay Life – International bond investment highlight

Overseas Bond by Region



Top 5 of European Exposure

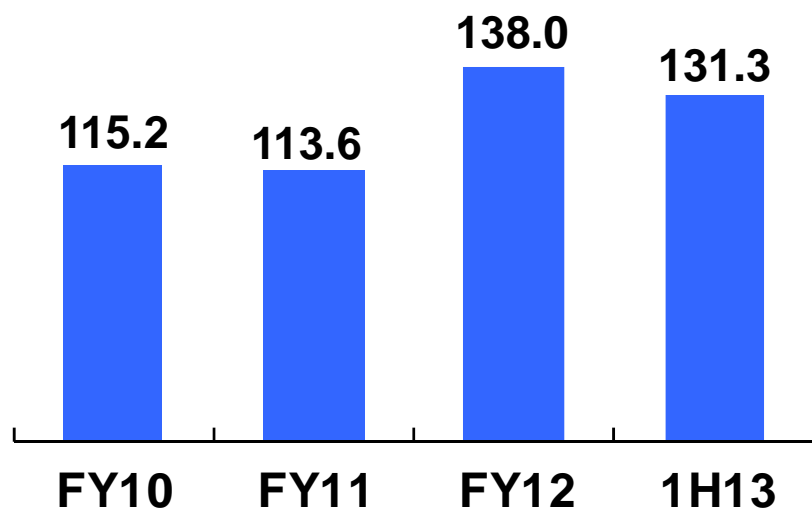
Country	As % of international bond investment
UK	7.4
Germany	5.7
France	4.6
Netherlands	2.7
Switzerland	1.0
Total	21.4

Note: Top 5 countries account for 87% of European exposure

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

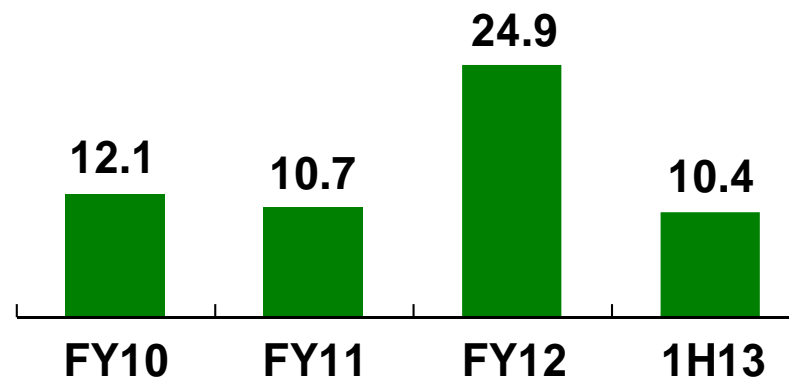
Book value

(NT\$BN)



Unrealized G/L of AFS financial assets

(NT\$BN)



Note: Figures of FY12 & 1H13 were under IFRS principle: book value included minority interest

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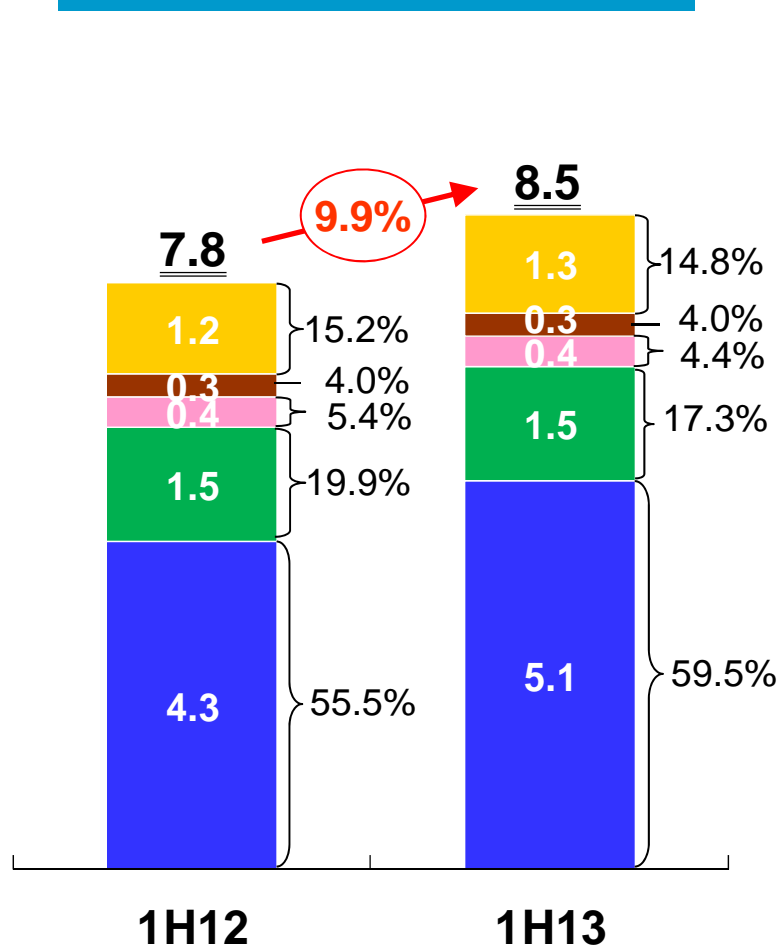
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Cathay Century – Premium income

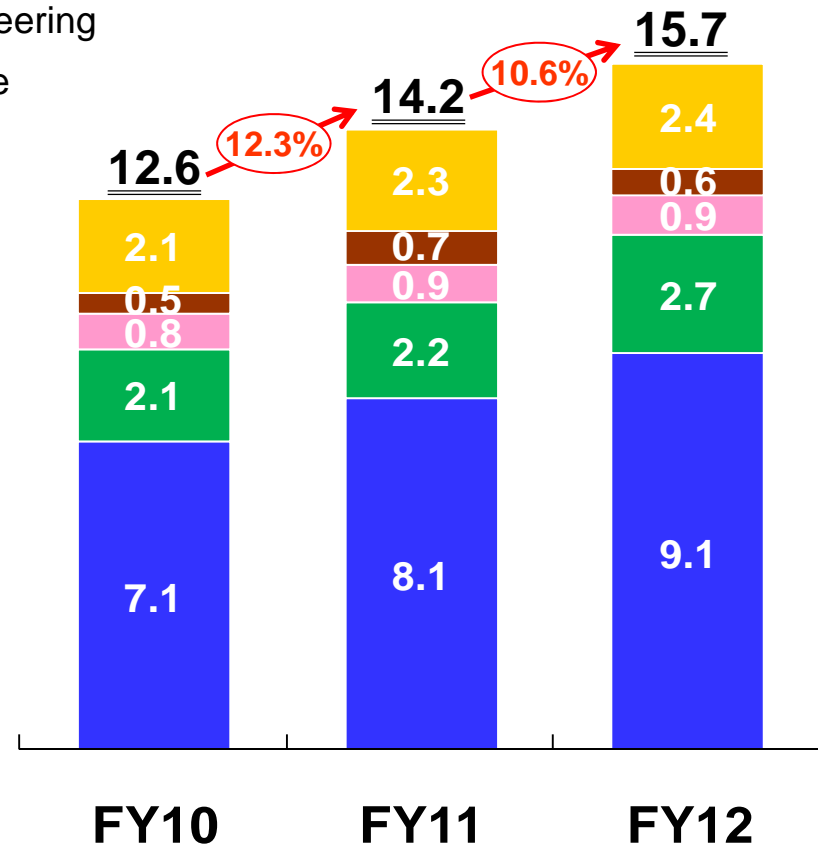
Premium income



Premium income

(NT\$BN)

- Others
- Engineering
- Marine
- Fire
- Auto



Mkt share 12.2%

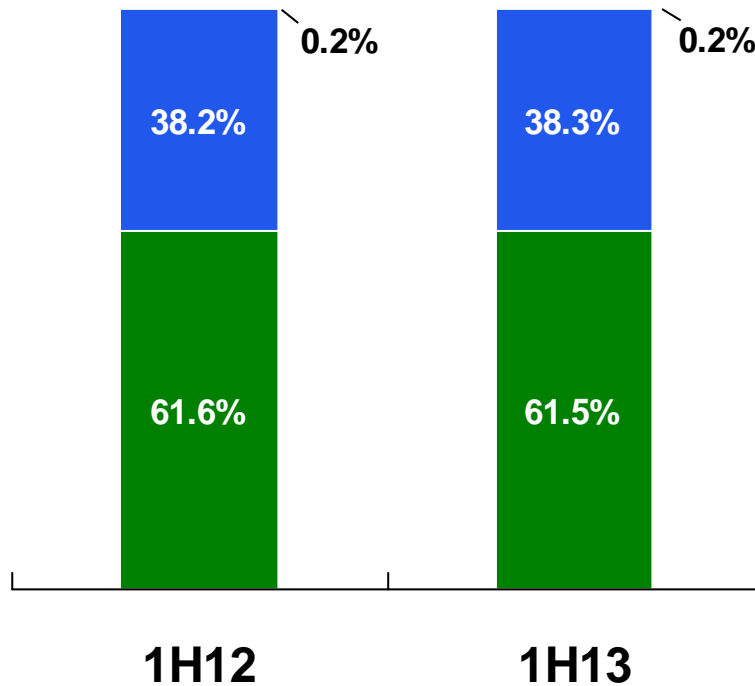
12.8%

Note: Totals may not sum due to rounding

Cathay Century – Distribution channel

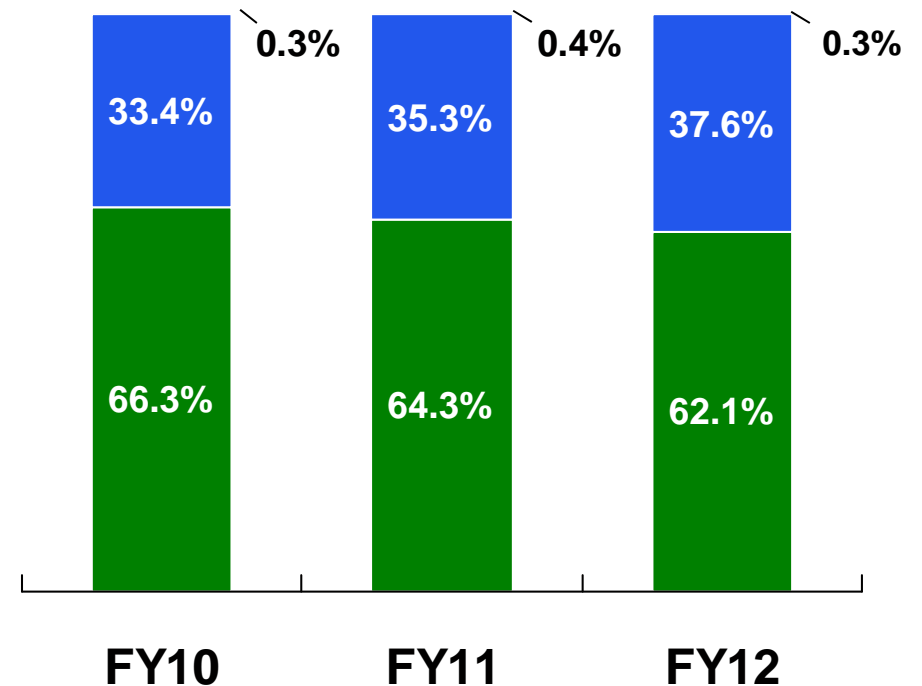
Distribution channel

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



Distribution channel

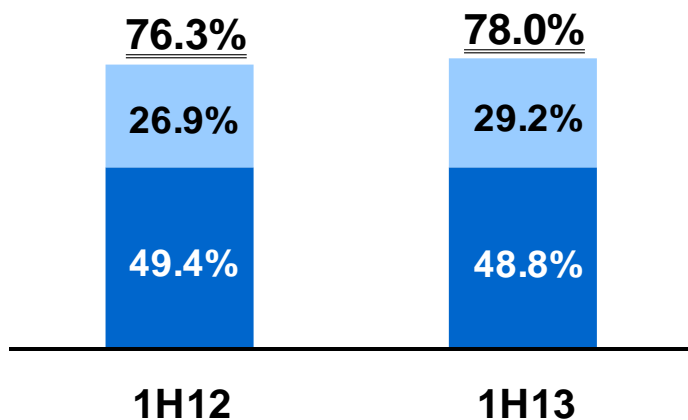
- Others
- Cathay P&C agents
- Cathay group channel



Cathay Century – Combined ratio

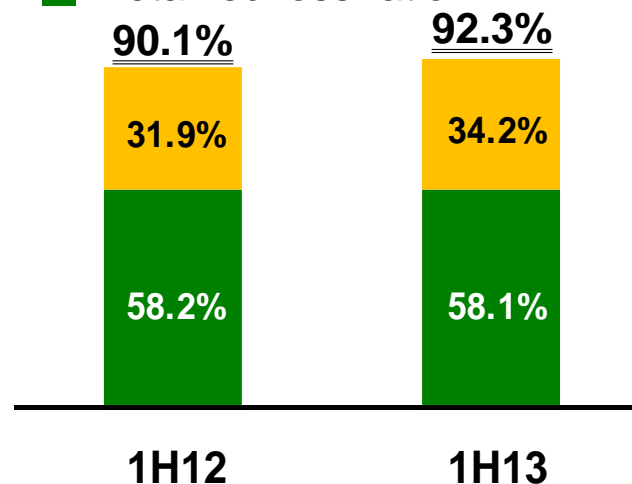
Gross combined ratio

- Gross expense ratio
- Gross loss ratio

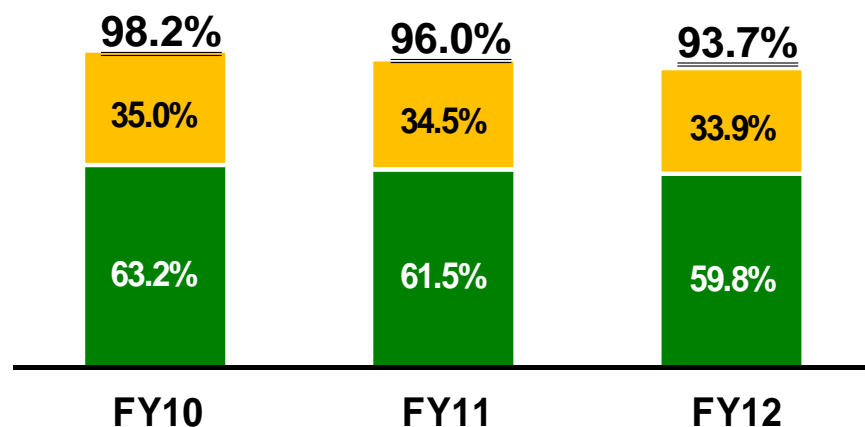
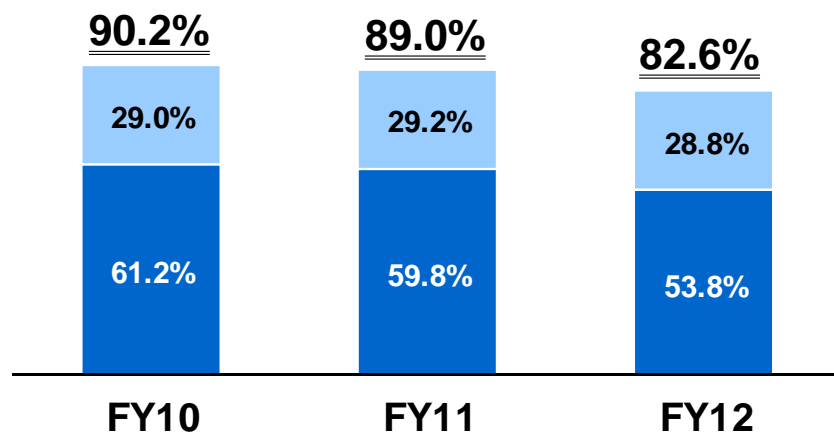


Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retained ratio 72.8% 74.4%



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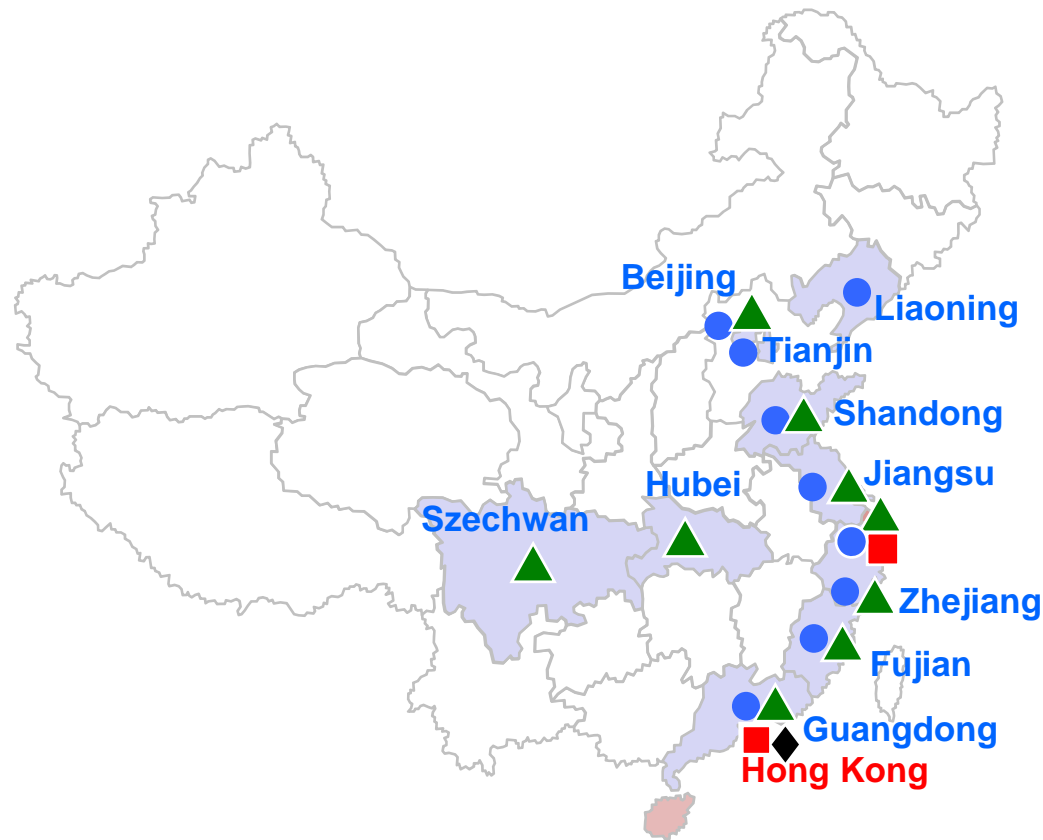
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Cathay FHC in China



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

■ Cathay United Bank

- Each business line performed steadily
- Plan to apply Minhang Sub-branch and Qingdao Branch

■ Cathay Life (China)

- Total premium grew by 8.3% YoY in 1H13
- Enhanced market segmentation strategy to improve underwriting quality

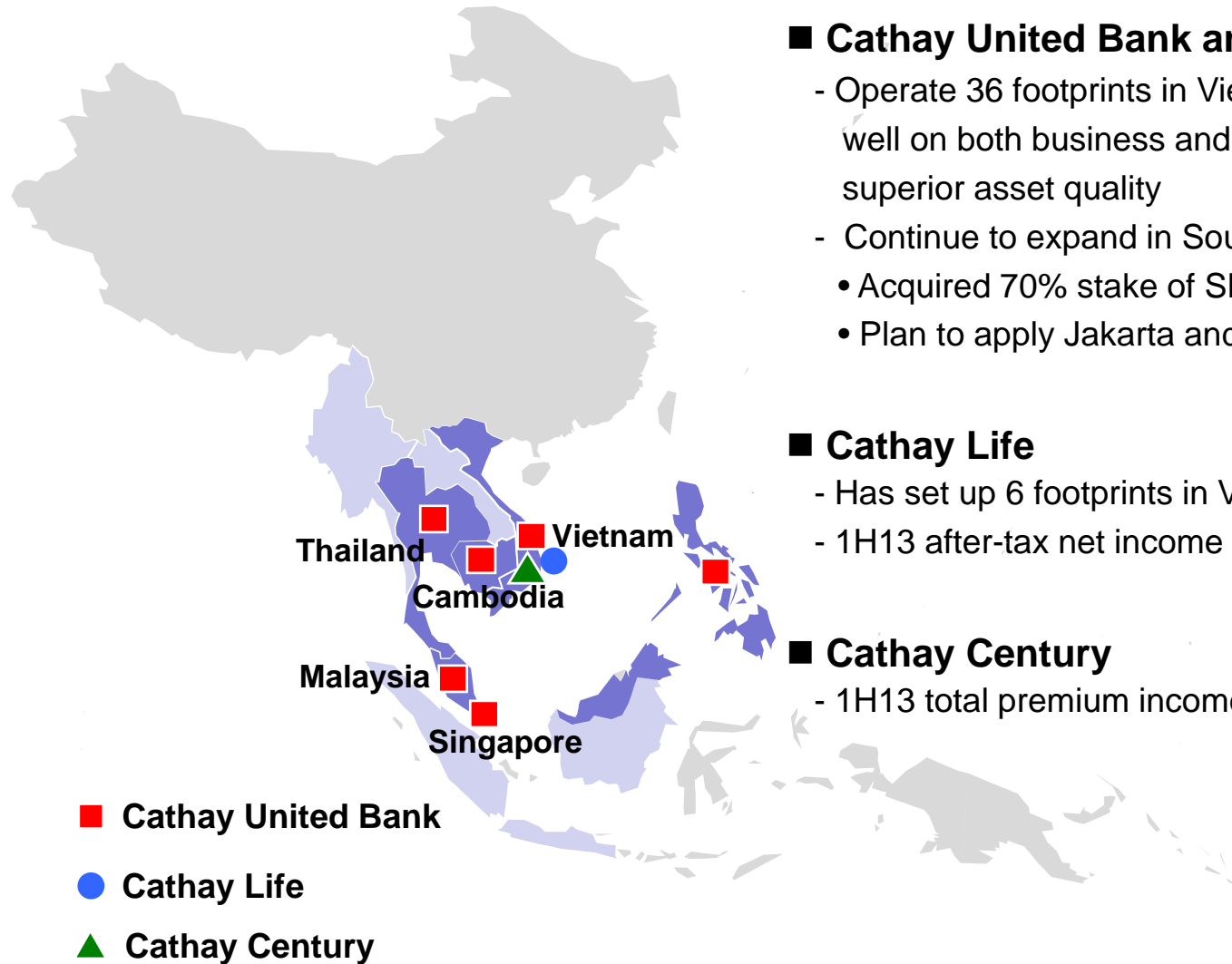
■ Cathay Century (China)

- Strong premium income growth in 1H13, up by 81% YoY
- Has set up 18 business footprints in 17 cities

■ CCAM

- Began operation last Sep.; AUM amounted to USD\$ 961MN in 1H13

Cathay FHC in South East Asia



■ Cathay United Bank and Indovina Bank

- Operate 36 footprints in Vietnam; performed well on both business and financial sides; maintained superior asset quality
- Continue to expand in South East Asia
 - Acquired 70% stake of SBC in Cambodia
 - Plan to apply Jakarta and Yangon (Myanmar) office

■ Cathay Life

- Has set up 6 footprints in Vietnam
- 1H13 after-tax net income was NT\$ 45.3MN

■ Cathay Century

- 1H13 total premium income increased by 68% YoY

Agenda

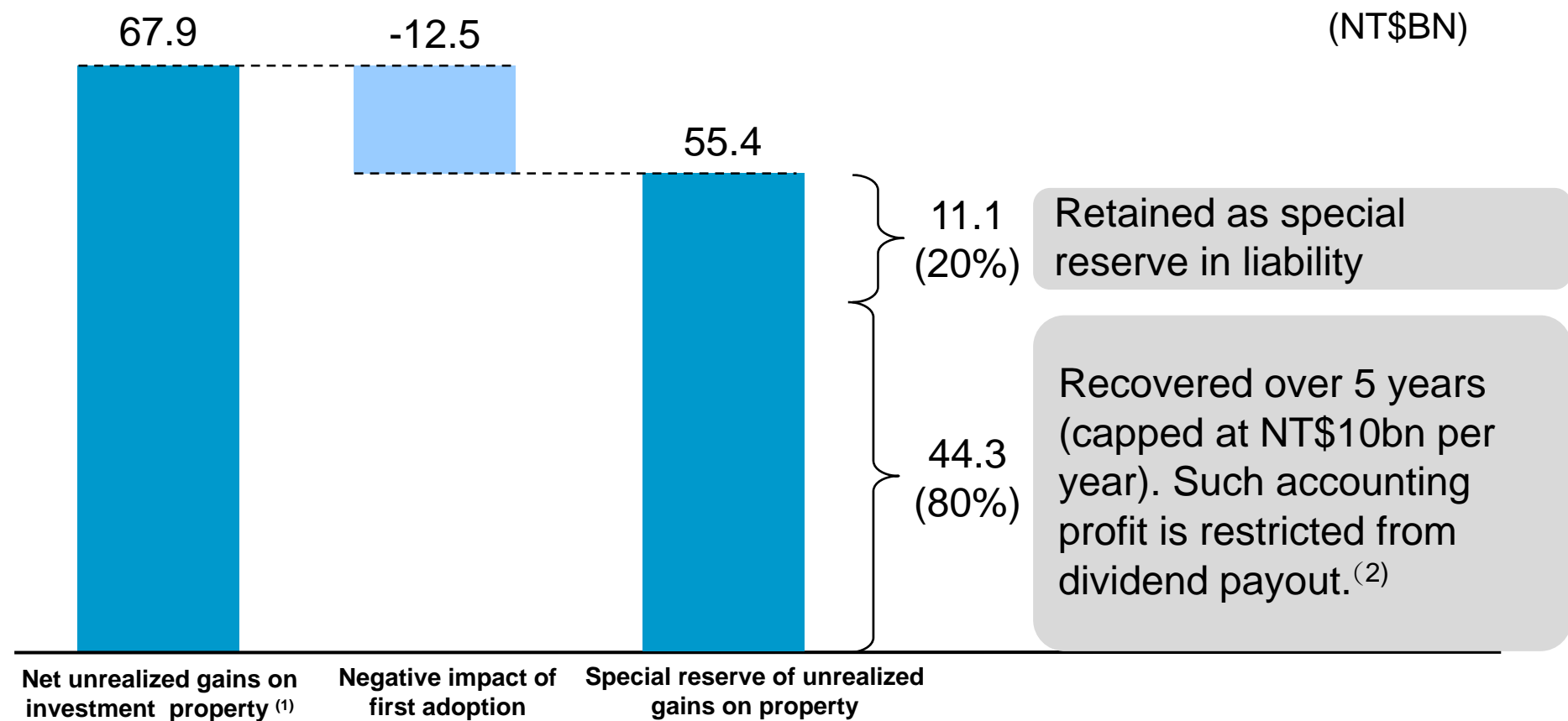
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Special reserve of unrealized gains on property

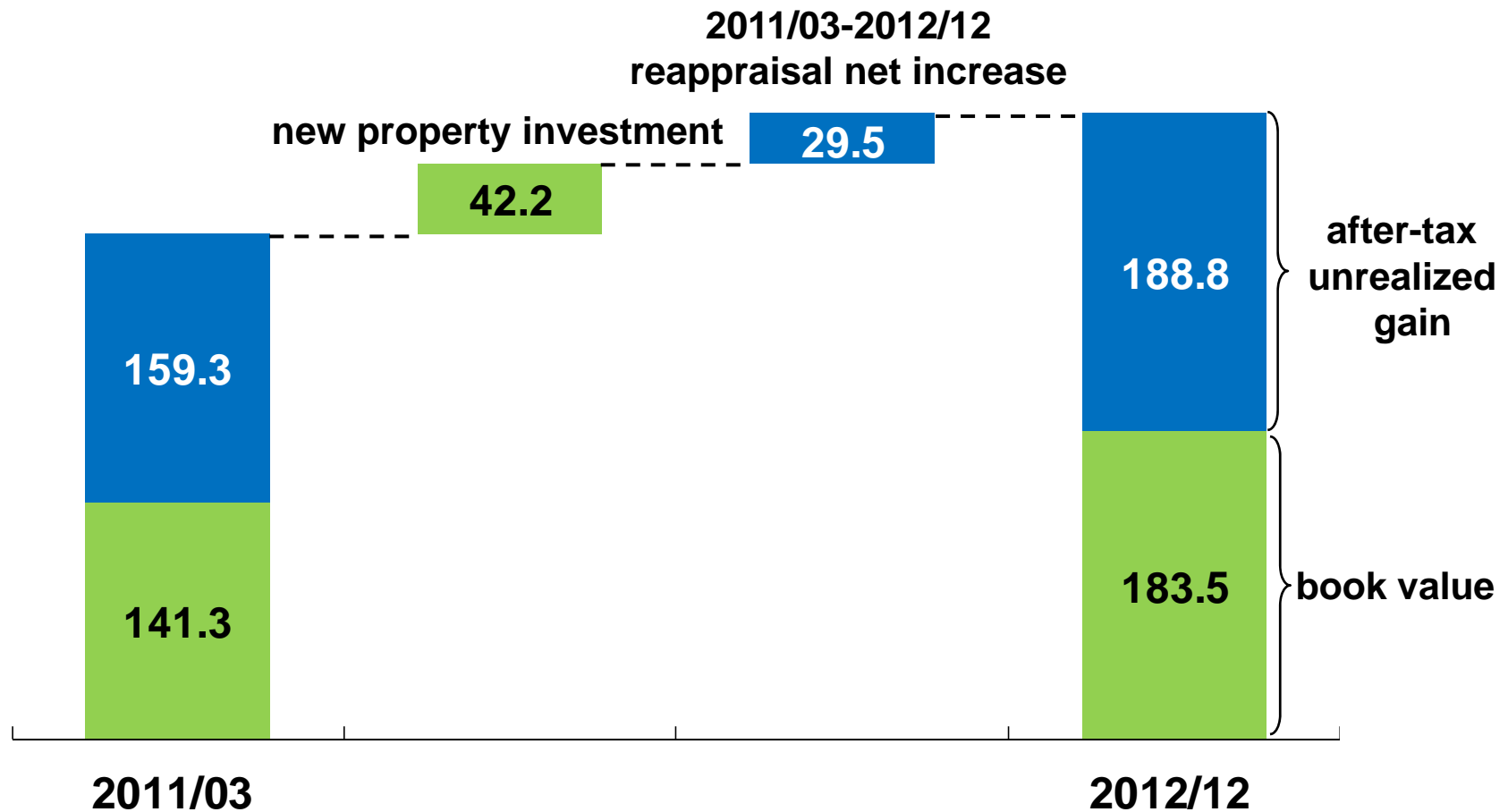


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

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

Cathay Life's property reappraisal

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



EV & AV Summary

NT\$BN

Valuation date		2011	2012	Growth rate	1H13
Embedded value	Equity	112	135	20%	-
	Cost of capital	-76	-82	-8%	-
	Adjusted net worth (After CoC)	199	242	22%	-
	Value in force	276	323	17%	-
	Embedded value	475	565	19%	-
Value of one year's new business	First year premium (FYP)	256	267	5%	99.6
	First year premium equivalent (FYPE)	81	92	14%	39.8
	Value of one year's new business (VNB)	44	50	14%	25.5
	Profit margin (VNB/FYP)	17%	19%	-	26%
	Profit margin (VNB/FYPE)	55%	54%	-	64%
Appraisal value (20 years NB)	Multiple	8.6	8.7	-	-
	Appraisal value	870	1,001	15%	-
Value per share ⁽¹⁾	EV / per share	46.1	53.0	15%	-
	AV / per share	84.5	93.9	11%	-

Note: (1) per share = per share of Cathay FHC
(2) Totals may not sum due to rounding.

Embedded Value & Appraisal Value

Appendix 3)

NT\$BN, except for per share figures

Valuation date	2011/12/31	2012/12/31
In-force investment yield	3.8% ~ Year 2031 5% for General account 2.71% ~ Year 2031 3.2% for Interest crediting annuity	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
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
Discount rate	10%	10%
Cost of Capital (CoC)	-76	-82
Adjusted net worth (After CoC)	199	242
Value of in force business	276	323
Embedded Value	475	565
EV / per share	89.4 (46.1)	106.5(53.0)
Appraisal Value	870	1,001
Value of future 1 year's new business (After CoC)	46	50
AV / per share	163.9 (84.5)	188.6(93.9)

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

(2) per share = per share of Cathay Life; (per share) = per share of Cathay FHC

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

Sensitivity Analysis of EV

NT\$BN, except for per share figures

Valuation date	2012/12/31					
Assumption	Investment yield - 0.25%	Investment yield + 0.25%	Investment yield + 0.25% (capped) ⁽¹⁾	Base Case	Discount rate – 0.5%	Discount rate + 0.5%
Cost of capital	-86	-78	-78	-82	-79	-85
Adjusted net worth (After CoC)	238	246	246	242	246	240
Value of in force business	250	396	378	323	345	303
Embedded Value	487	642	624	565	590	543
EV / per share	91.8(45.7)	121.0(60.2)	117.6(58.5)	106.5(53.0)	111.2(55.3)	102.3(50.9)
Appraisal Value	900	1,092	1,067	1,001	1,055	948
Value of future 1 year's new business (After CoC)	46	54	52	50	54	47
AV / per share	169.6(84.4)	205.8(102.4)	201.1(100.0)	188.6(93.9)	198.8(98.9)	178.6(88.9)

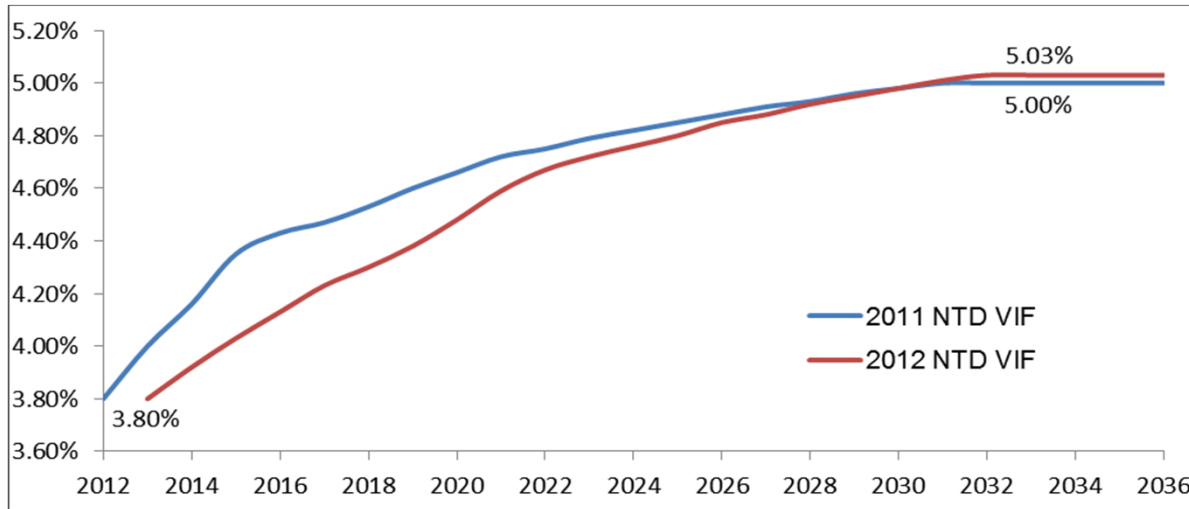
Note: (1) "Investment yield +0.25% (capped)" : the investment return is capped by 5.03% for NTD policies, 6.14% for USD policies, and 3.11% for interest crediting annuity.

(2) per share = per share of Cathay Life; (per share) = per share of Cathay FHC

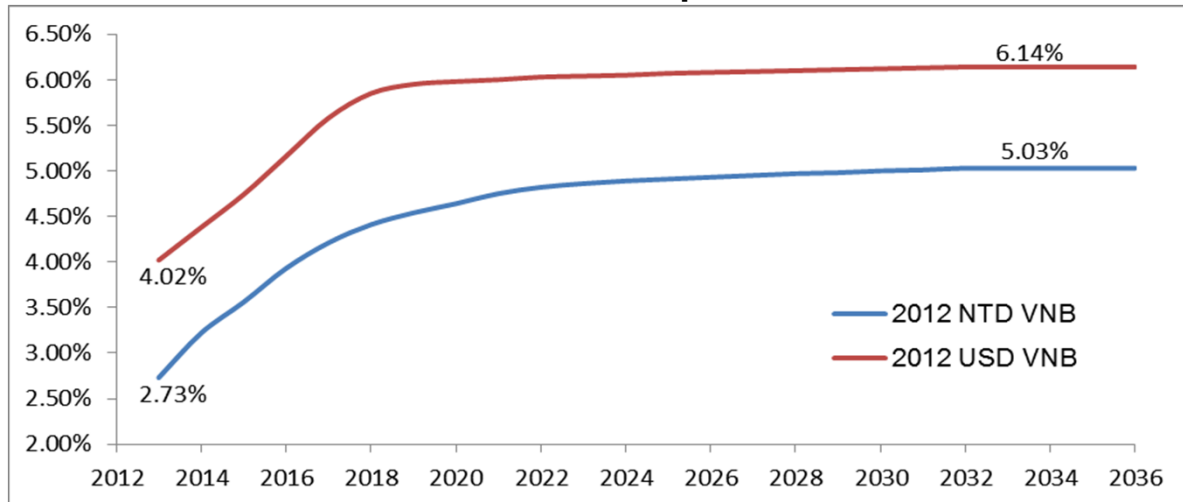
(3) May not sum to total due to rounding.

Assumptions of investment return in EV

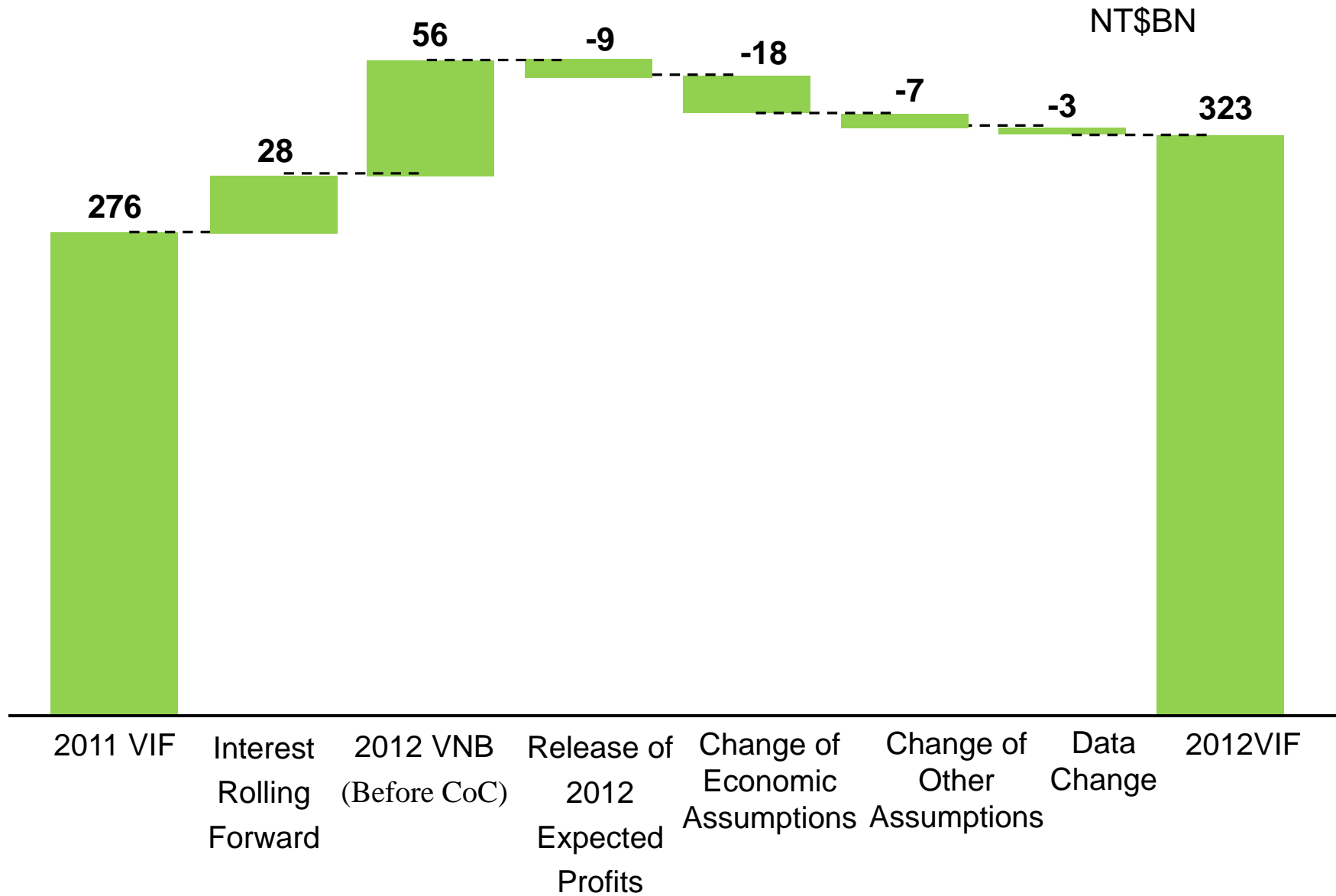
- Investment return assumptions for the value of in-force of NTD-denominated policies as of the end of 2011 & 2012.



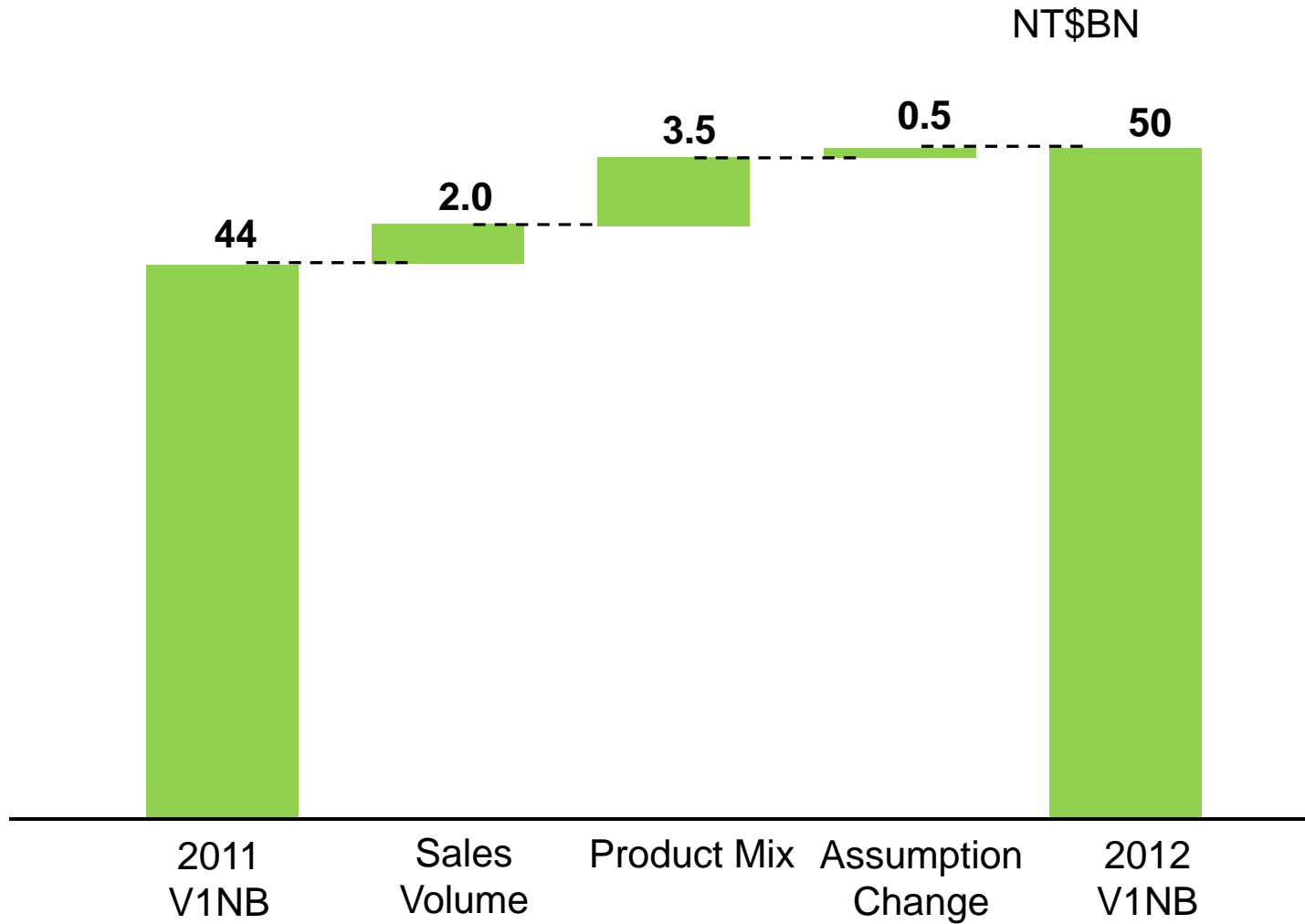
- Investment return assumptions for the value of one year's new business of NTD- and USD-denominated policies as of the end of 2012..



Movement analysis of VIF in EV



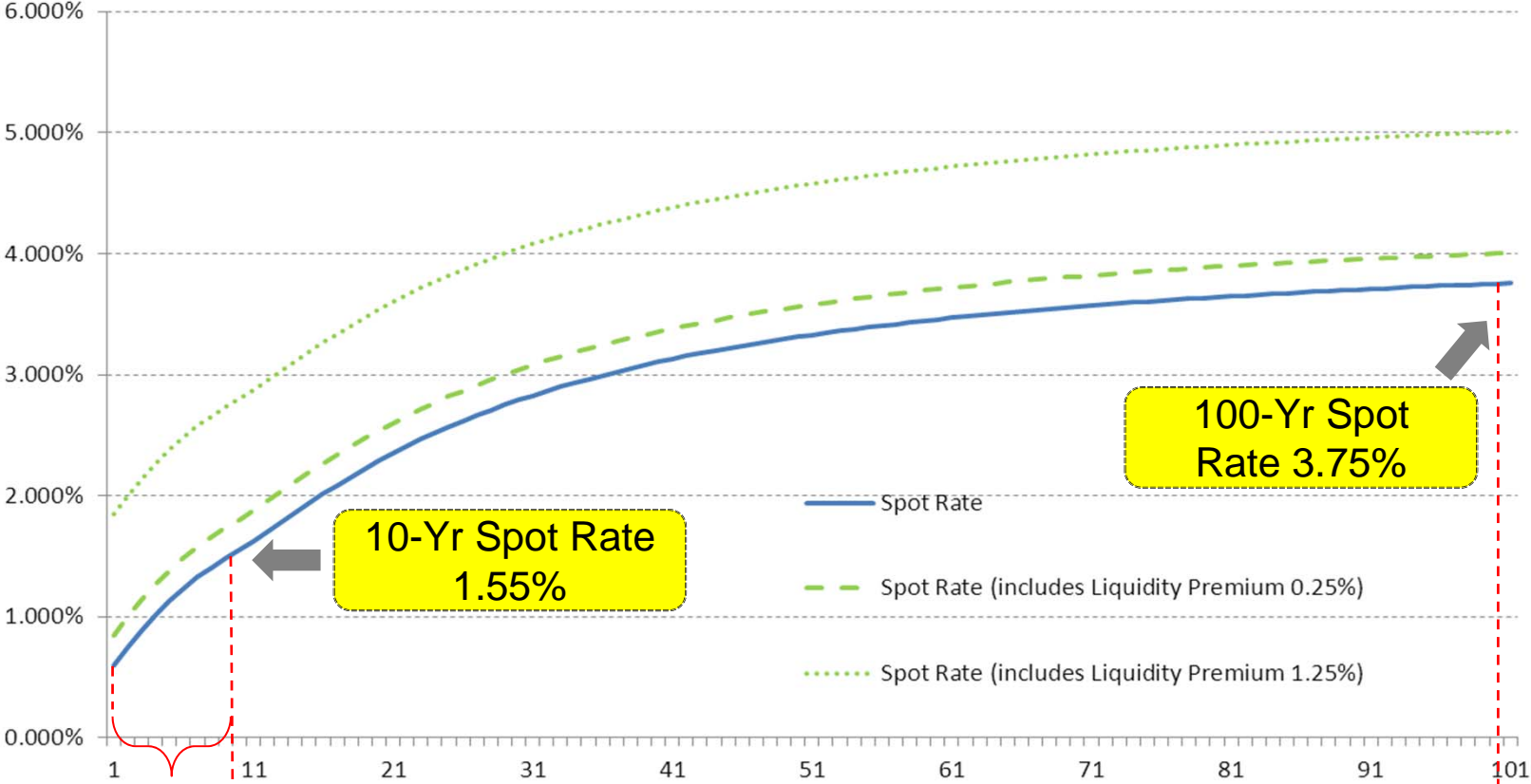
Movement analysis of VNB in EV



Discount rate assumptions of fair value

As of Sep.30,2012

■ Example: TWD discount curve



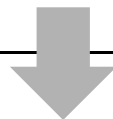
Year 1-10: use 3-yr MA of zero coupon treasury yield from OTC

Year 11-100: extrapolation toward the ultimate forward rate of 4.2% in Year 100.
(same methodology as the yield curve construction in Solvency II QIS 5)

Fair value: valuation results

As of Sep.30,2012

Portfolio	Upper limit of liquidity premium	Cathay's best estimate liquidity premium	Cathay's break even liquidity premium
TWD policies-guaranteed rate $\geq 4\%$ Short-term policies VUL (general account)	1.50%	1.25%	$\leq 1.00\%$
TWD policies-guaranteed rate $< 4\%$ FX policies	0.25%	0.25%	0.25%
Comparison between fair value liability(A) and statutory reserve(B)	(A)<(B)	(A)<(B)	(A)=(B)



If reserve is sufficient, 80% of “special reserve of unrealized gains on property ” is allowed to recover.