

2013 Fourth Quarter Briefing

2014. March



Cathay
Financial Holdings

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Agenda

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

2013 Business overview

Cathay United Bank

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

Cathay Life

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

Cathay Century

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

Cathay SITE

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

Cathay Securities

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

2014 Outlook

Cathay United Bank

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

Cathay Life

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

Cathay Century

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

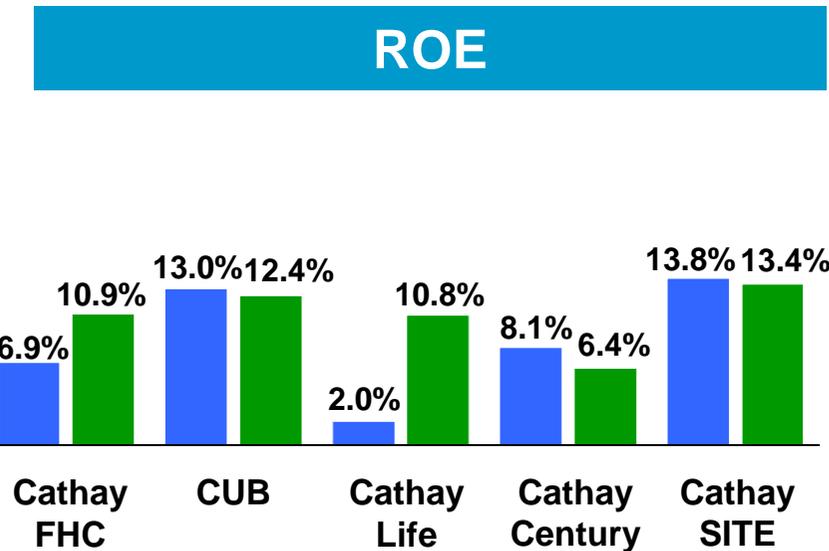
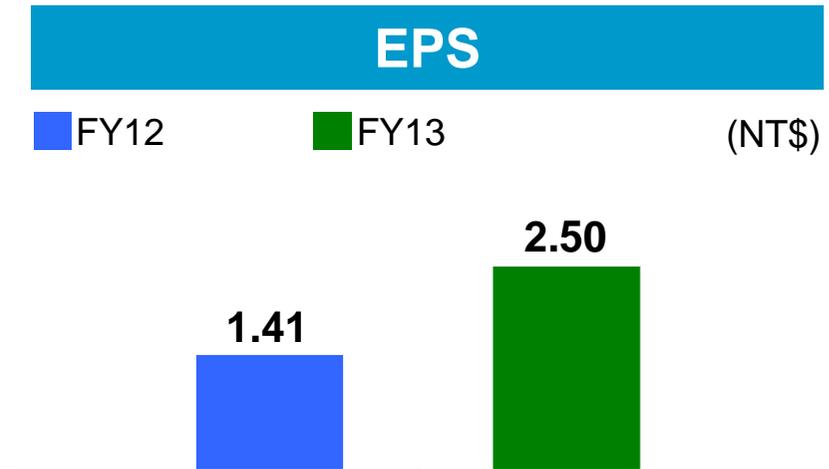
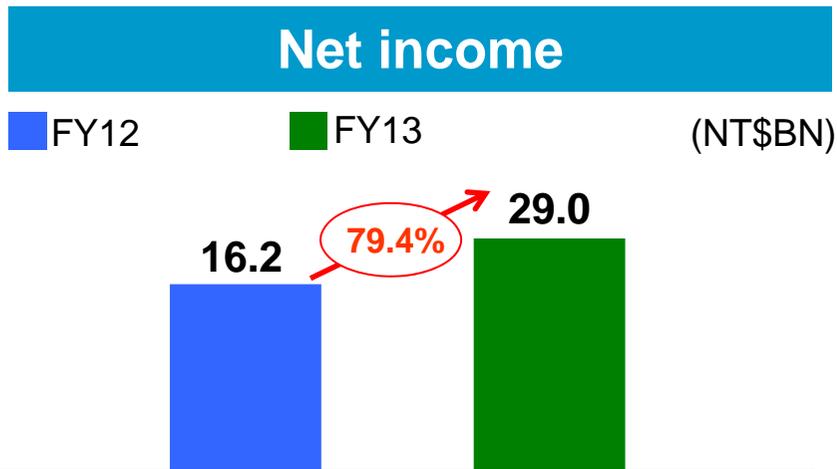
Cathay SITE

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

Cathay Securities

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

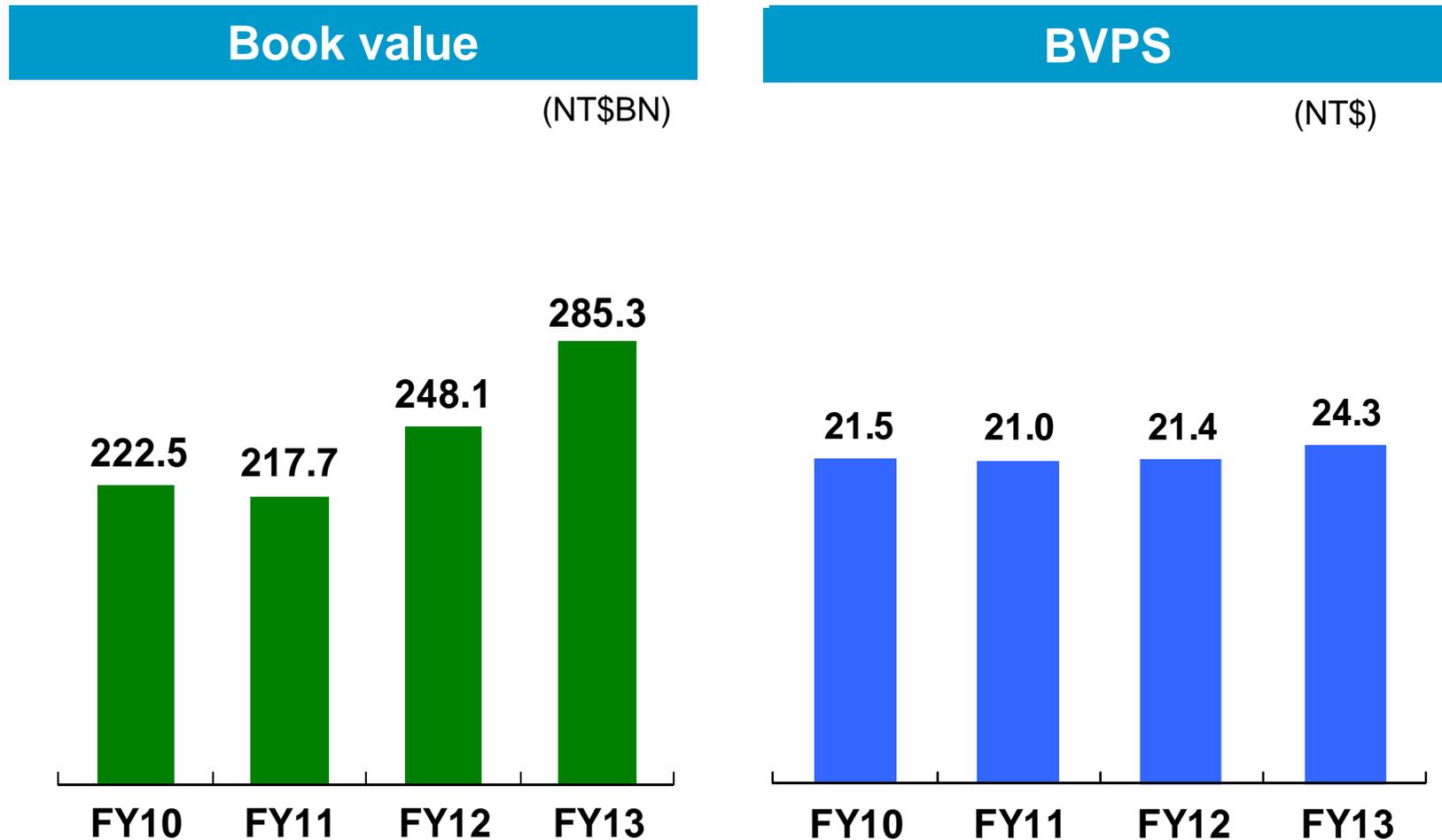
Cathay FHC — Net income & EPS



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

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

Cathay FHC — Book value & BVPS



Note : Figures of FY12 & FY13 were under IFRS principle: book value included minority interest, while BVPS excluded minority interest.

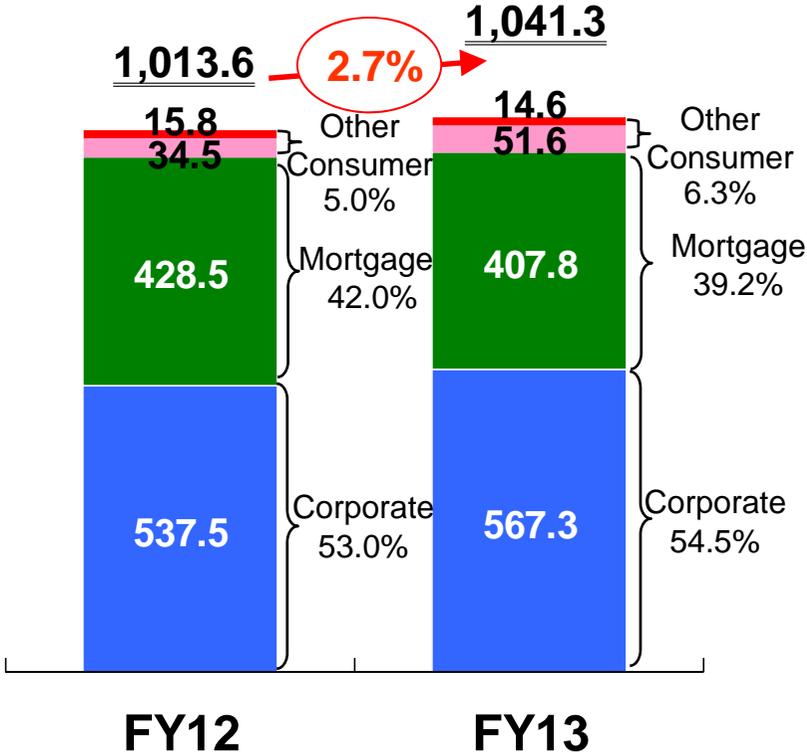
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Cathay United Bank — Loan & Deposit breakdown

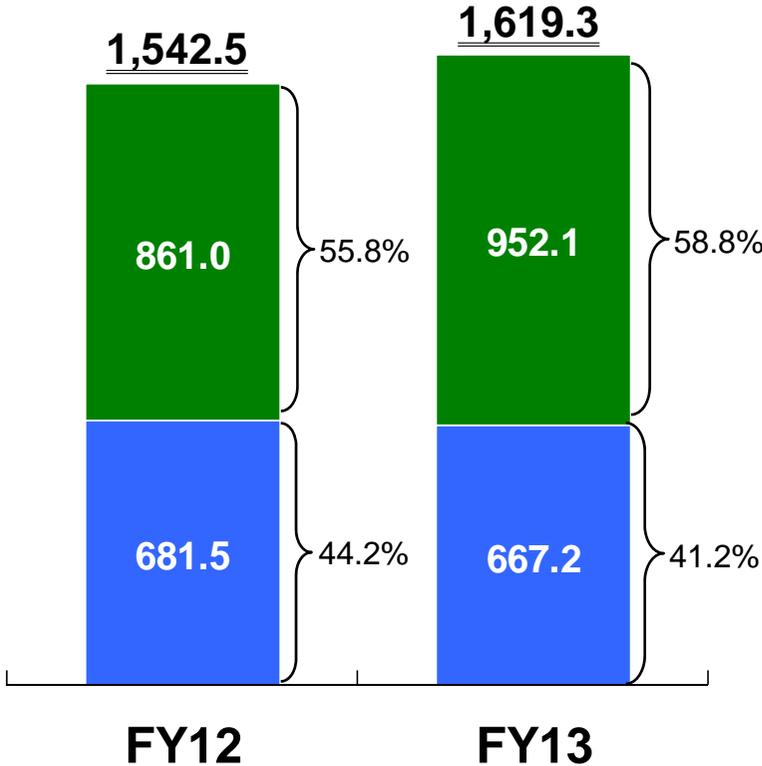
Loan breakdown

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



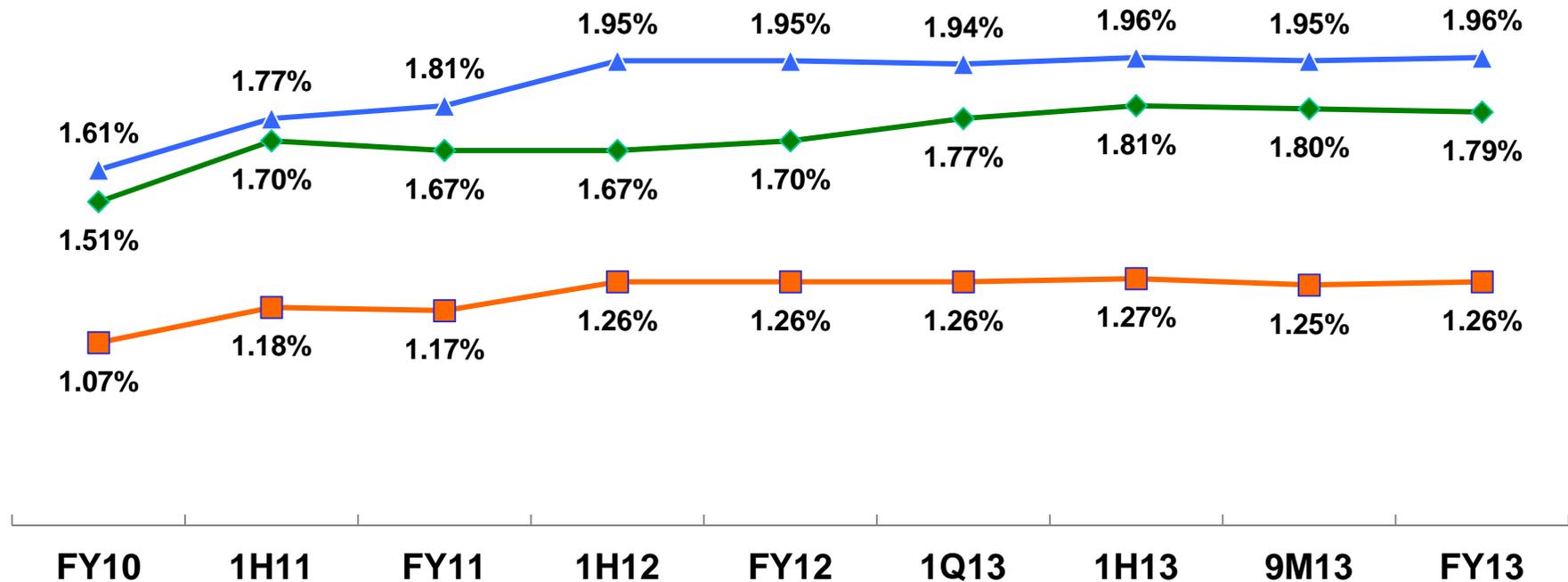
Deposit breakdown

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



Cathay United Bank – Interest yields

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

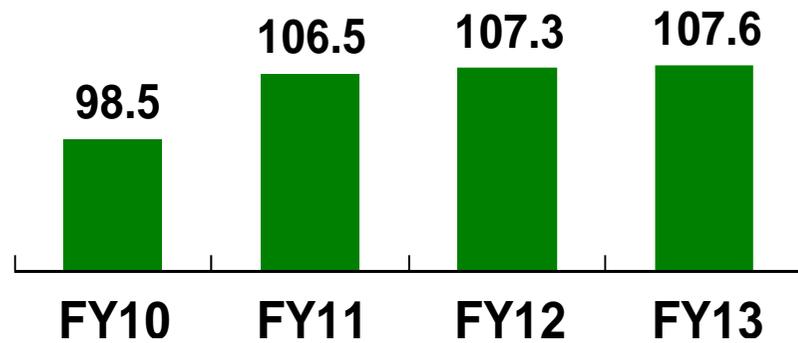


Note: Credit card related loans are included in the calculation.

Cathay United Bank — SME & FX loans

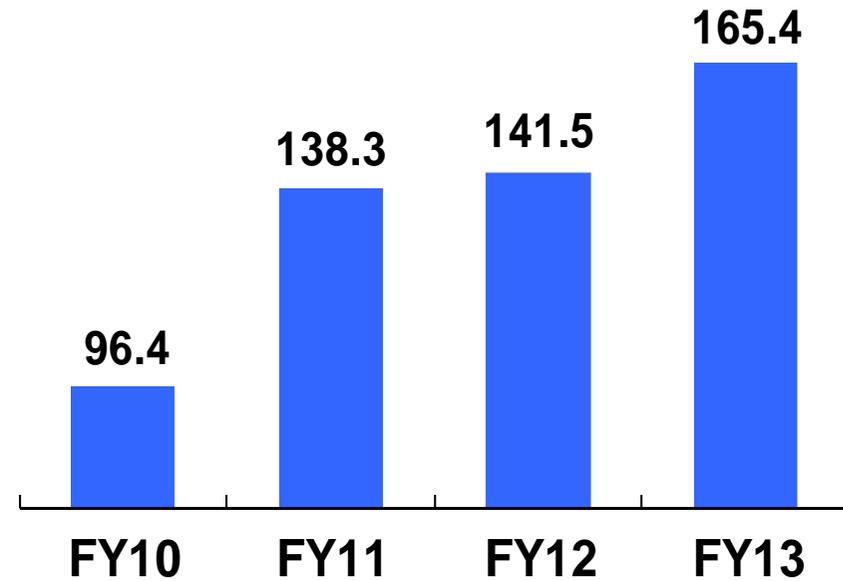
SME loans

(NT\$BN)



Foreign currency loans

(NT\$BN)



As % of total loans

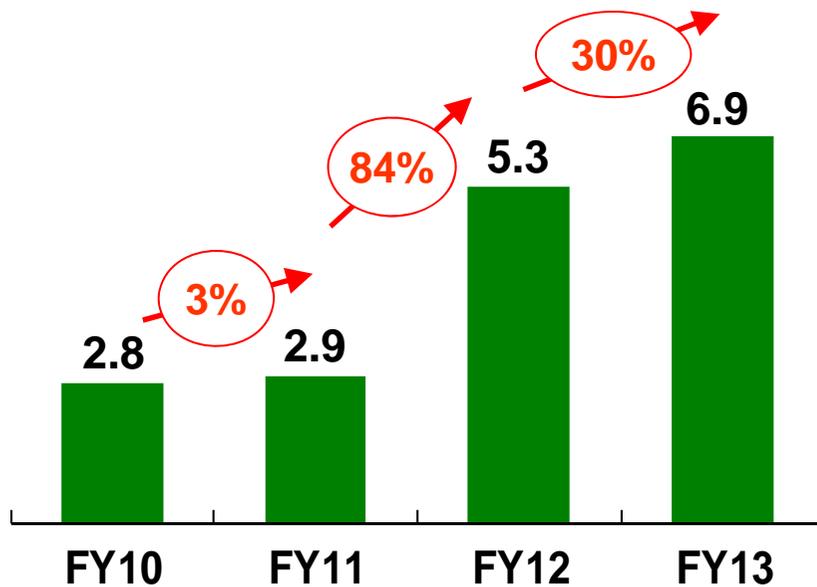
10.9% 10.6% 10.6% 10.3%

10.7% 13.7% 14.0% 15.9%

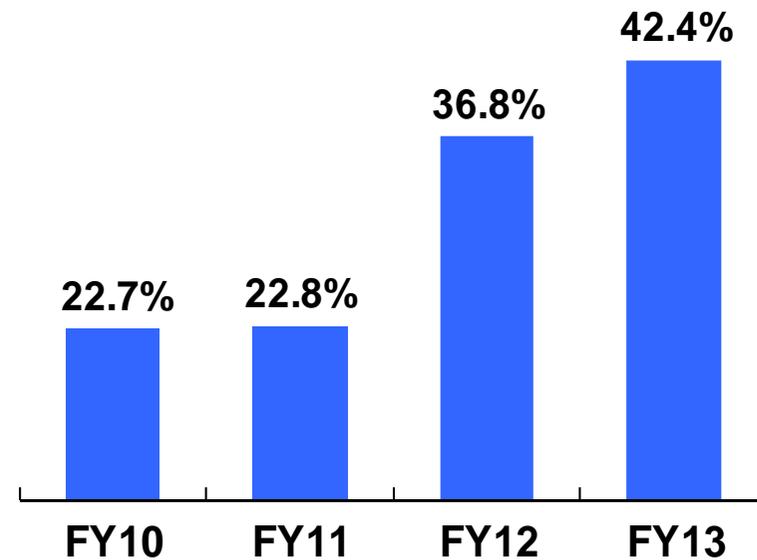
Cathay United Bank – Offshore earnings

Offshore earnings

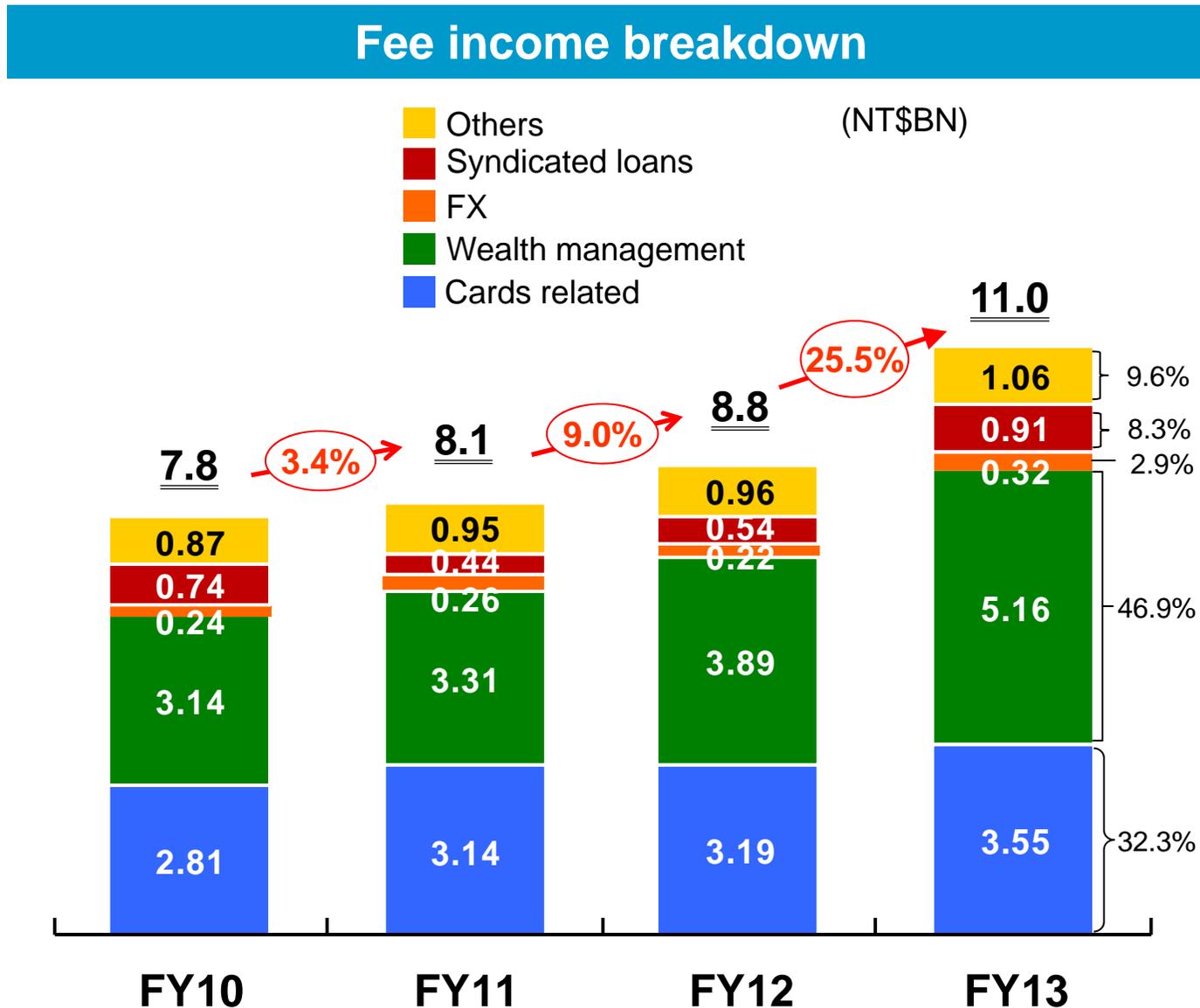
(NT\$BN)



As % of CUB pre-tax profits



Cathay United Bank – Fee income

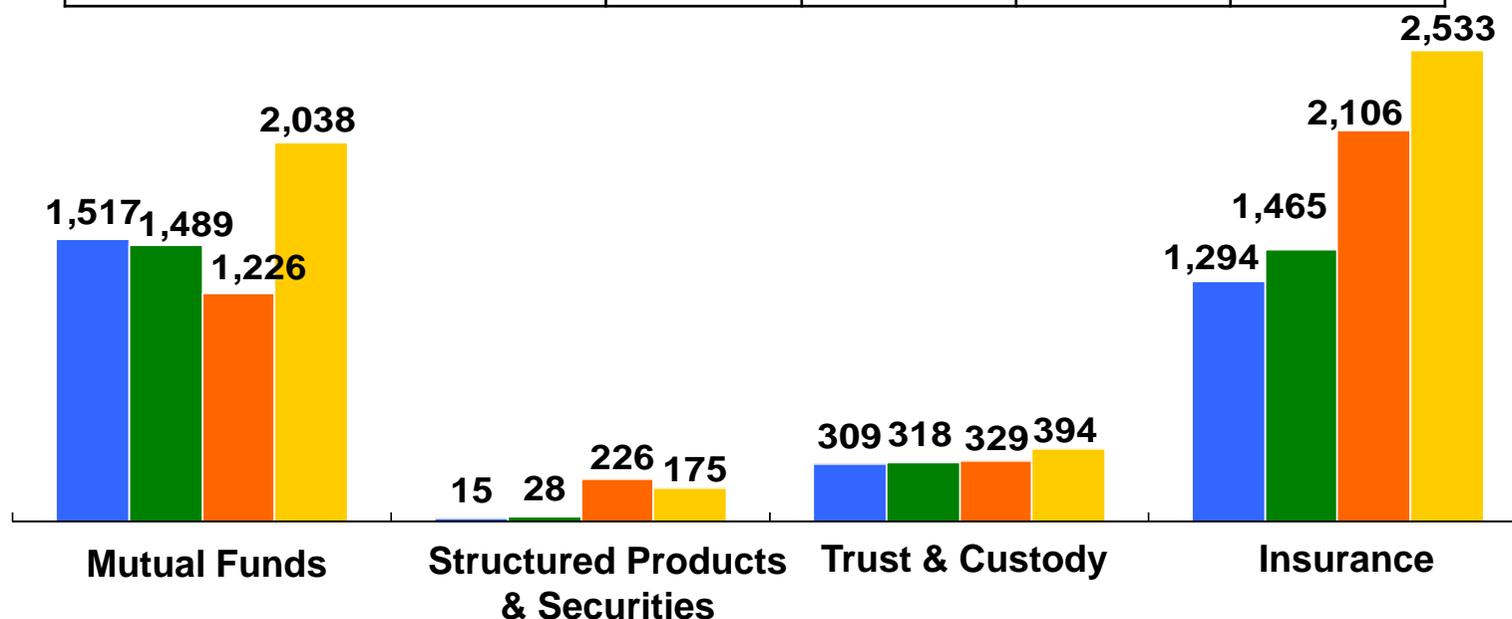


Cathay United Bank – Wealth management fee breakdown

Fee income breakdown

FY10 FY11 FY12 FY13

(NT\$MN)	FY10	FY11	FY12	FY13
Wealth Management Fee income	3,142	3,309	3,894	5,163
YoY growth	52.4%	5.3%	17.7%	32.6%
Wealth management fee excludes revenue from DCI, SI and others.				
Revenue from DCI, SI & Others	60	71	141	1,159



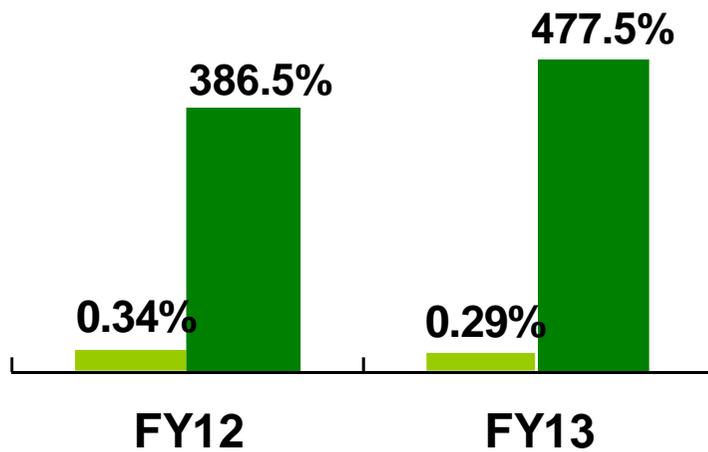
Note: Totals may not sum due to rounding.

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

Cathay United Bank – Credit quality

NPL & Coverage ratio

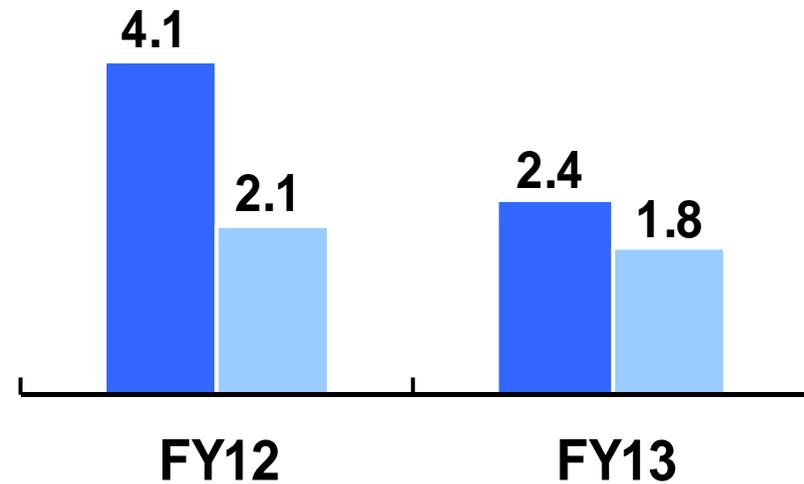
- NPL ratio
- Coverage ratio



Mortgage NPL	0.06%	0.02%
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Gross provision

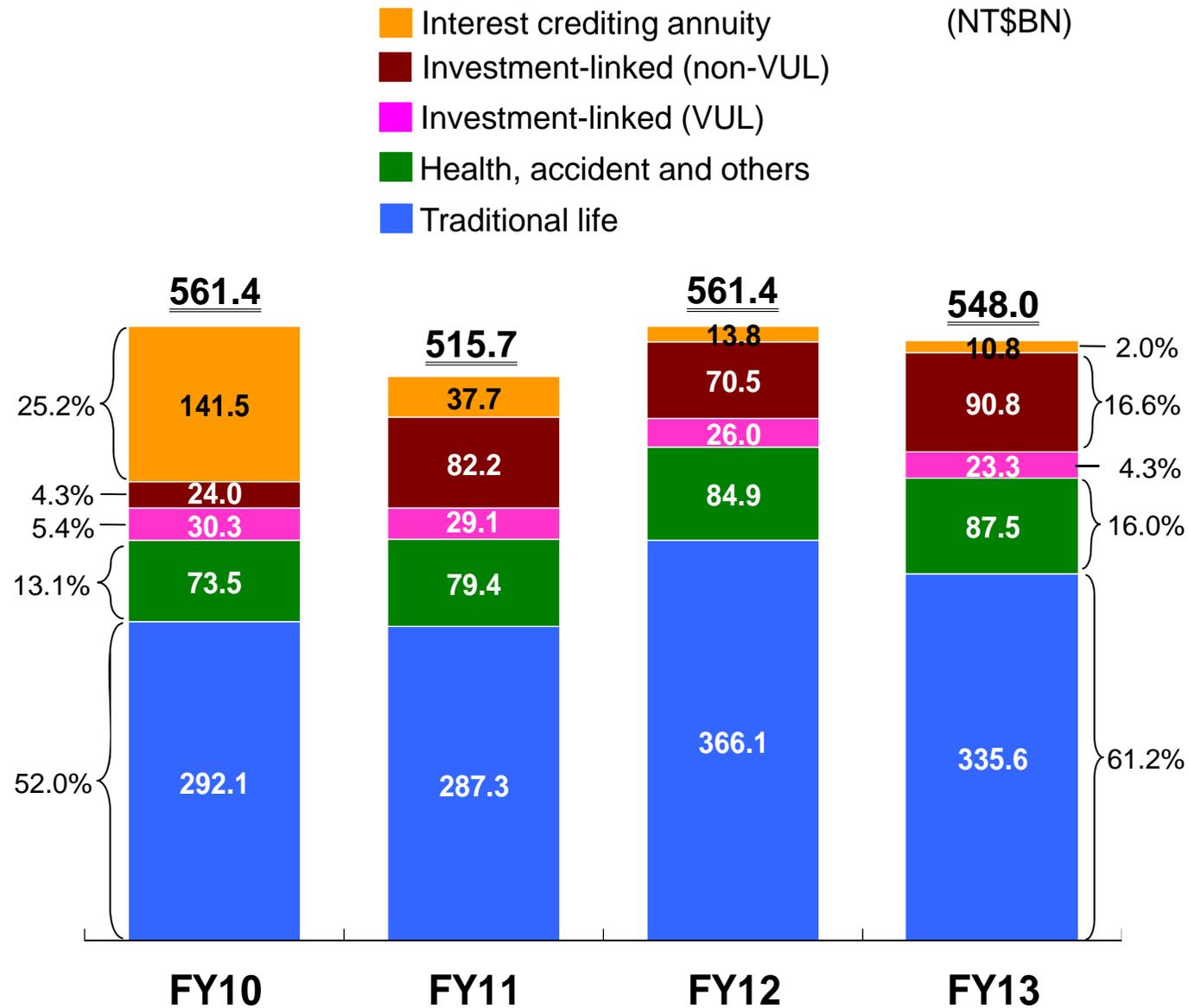
- Gross provision (NT\$BN)
- Recovery



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Cathay Life – Total premium

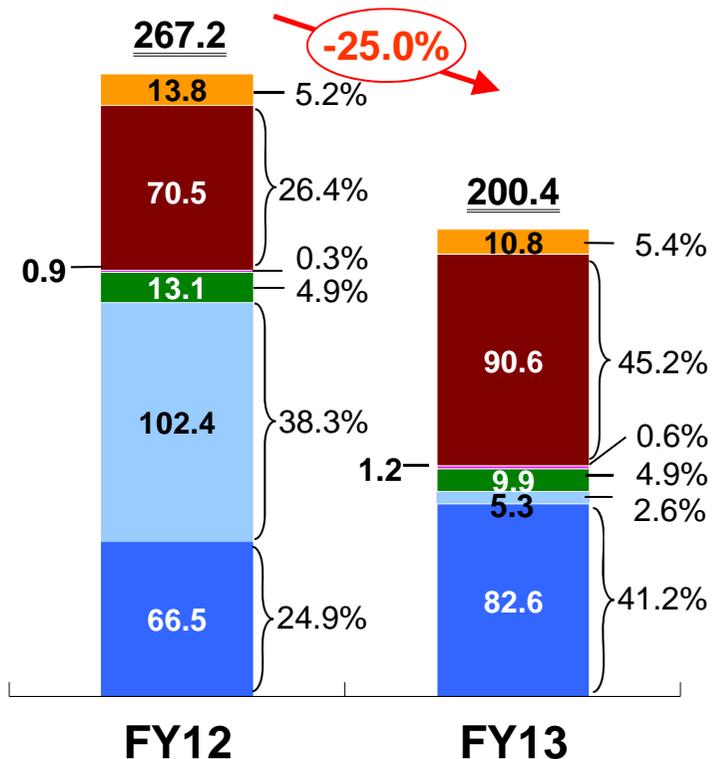


Note: Totals may not sum due to rounding.

Cathay Life — FYP & FYPE

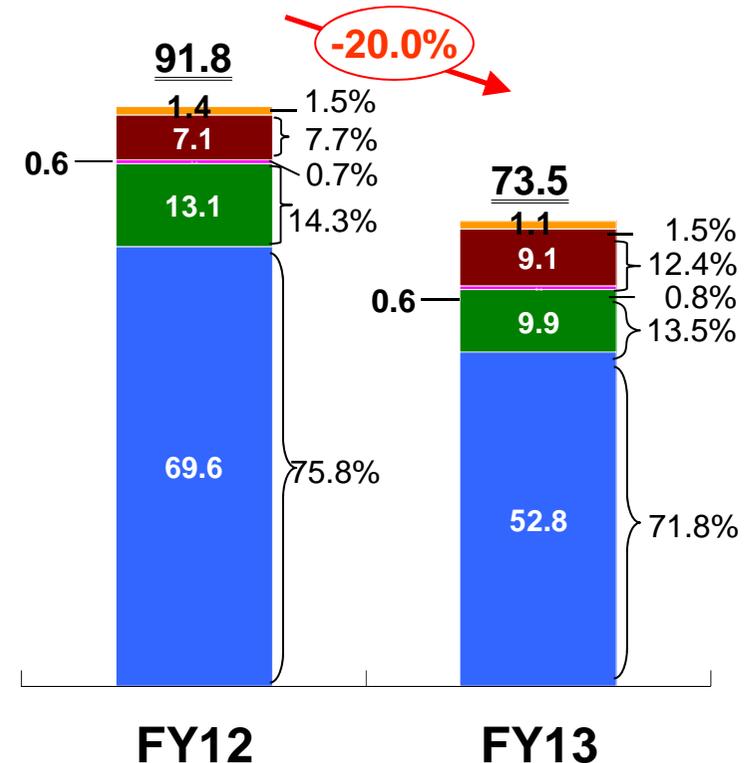
FYP

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



FYPE

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

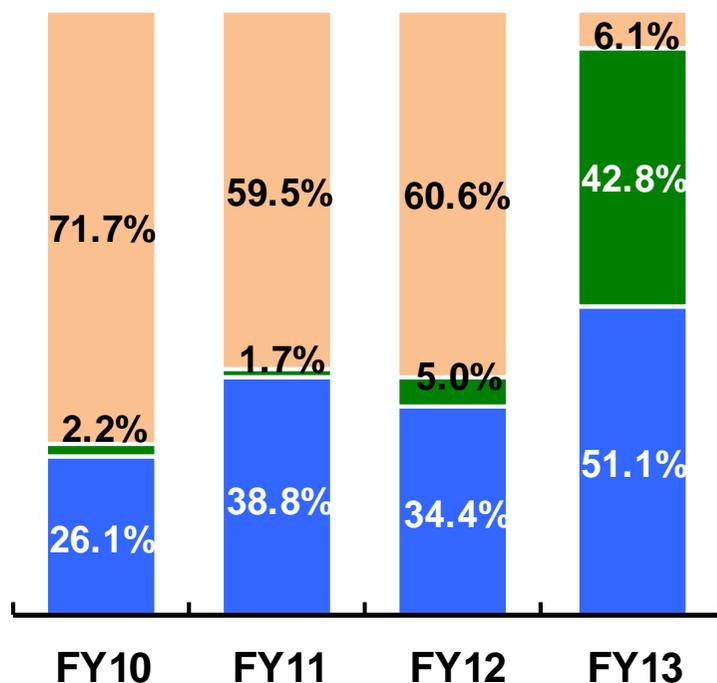


Note: Totals may not sum due to rounding.

Cathay Life– Regular paid policies improve margin and VNB

Breakdown of Traditional FYP

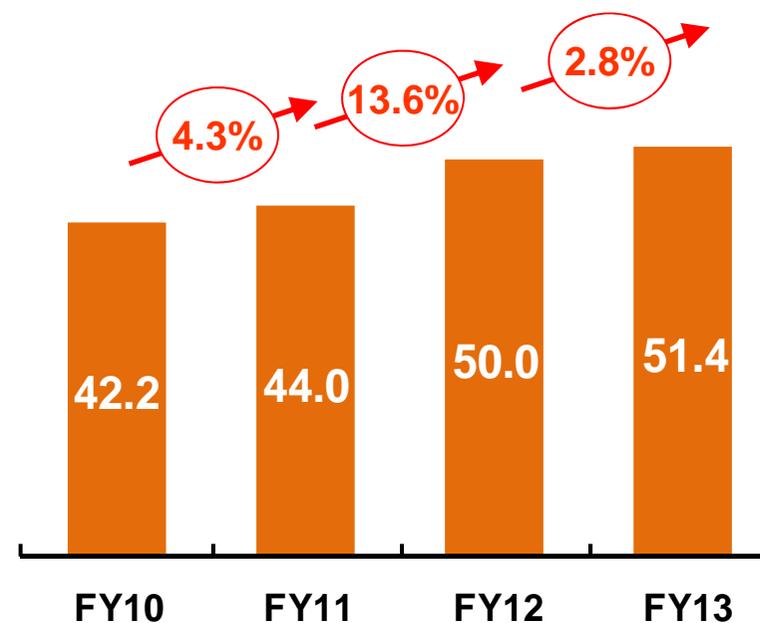
- Traditional life – single paid
- Traditional life - 2 year regular paid
- Traditional life - 3 year and above regular paid



VNB

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

(NT\$BN)



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

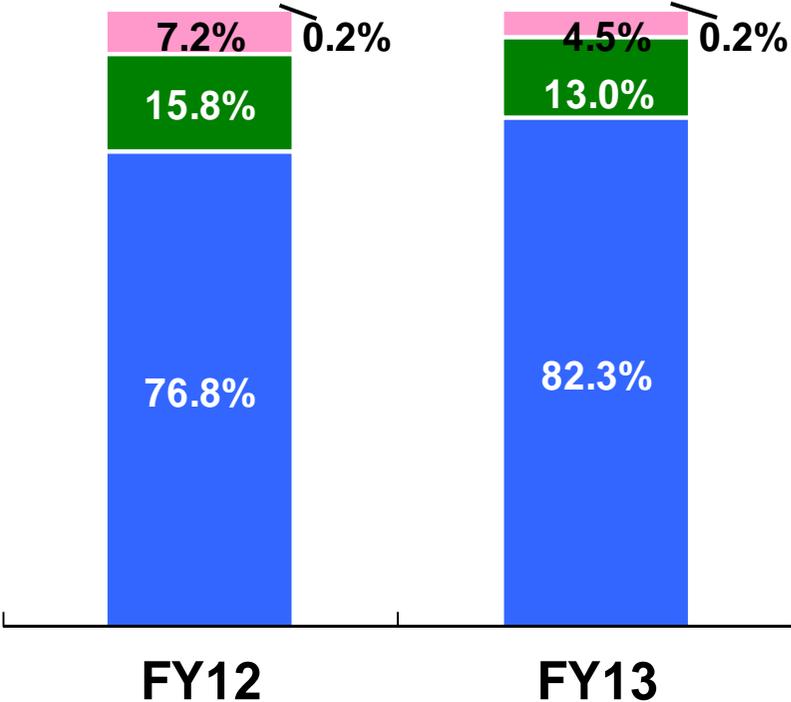
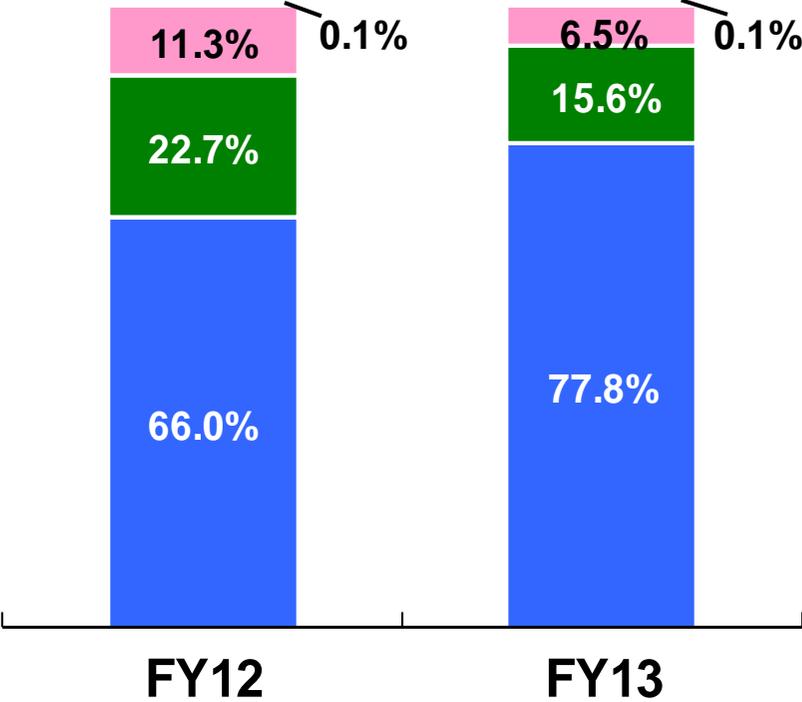
Cathay Life — Distribution channel

FYP

FYPE

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

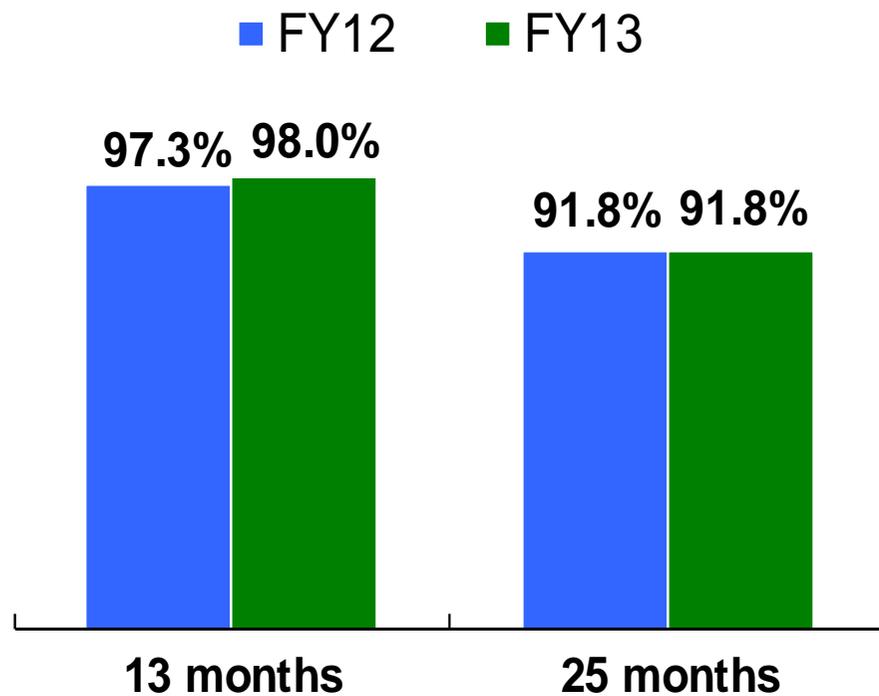
- Others
- Bancassurance-external
- Bancassurance-CUB
- Tied agents



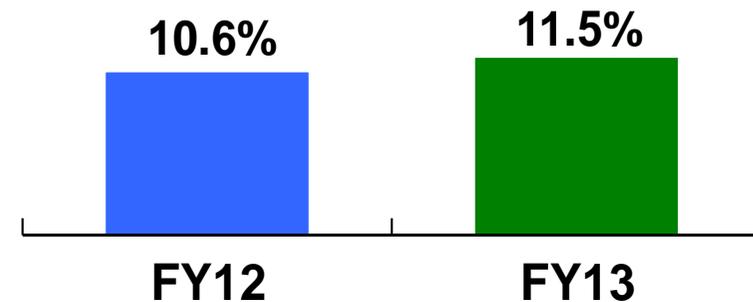
Note: Totals may not sum due to rounding.

Cathay Life – Operational indicators

Persistency ratio

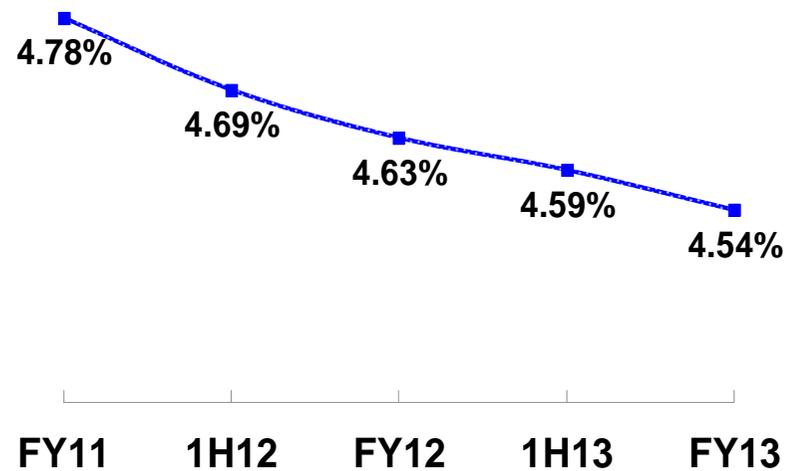


Expense ratio

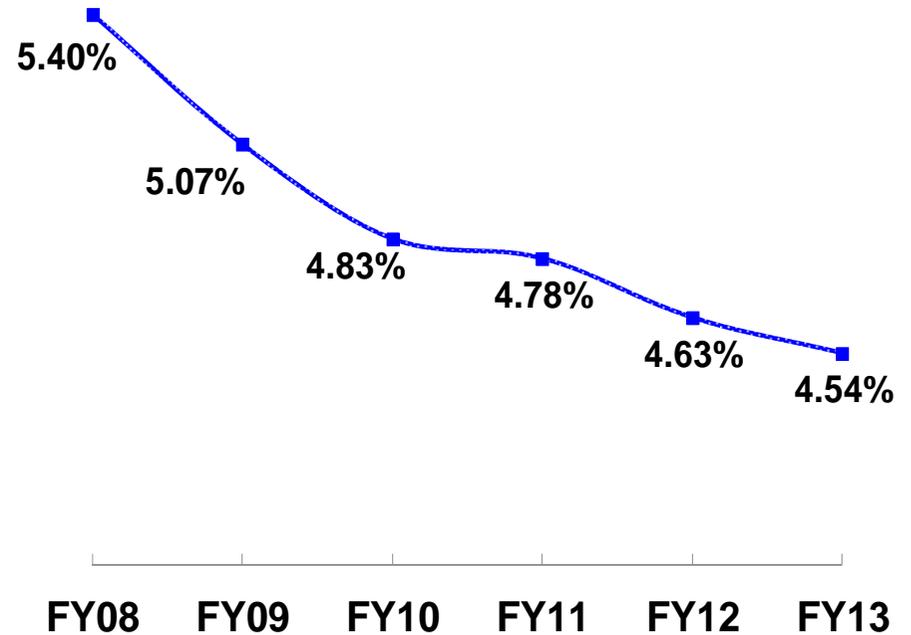


Cathay Life – Cost of liability

Cost of liability



Cost of liability (annual)



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

Cathay Life – Investment portfolio

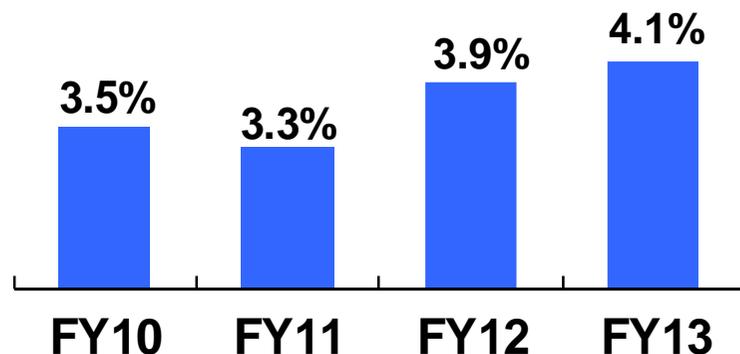
(NT\$BN)	4Q10	4Q11	4Q12	4Q13		
Total investments⁽¹⁾	2,745.3	2,959.2	3,283.7	3,652.0		
	Weight	Weight	Weight	Amount	Weight	Amount
Cash & Cash equivalents	12.9%	8.6%	8.2%	268.7	3.8%	138.4
Equity- Domestic	7.3%	8.5%	8.1%	267.5	9.2%	337.3
Equity- International	1.7%	4.0%	4.3%	141.7	5.1%	186.5
Bond- Domestic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

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

(2): Includes foreign currency deposit and related adjustments

Cathay Life – Investment performance highlight

After-hedging investment yield

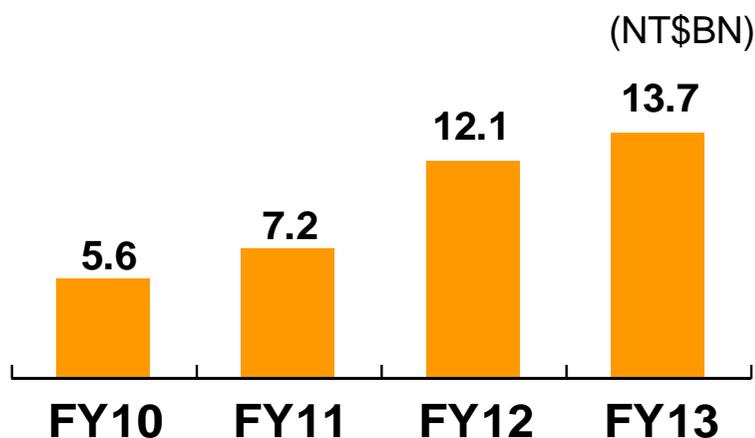


Pre-hedging recurring yield

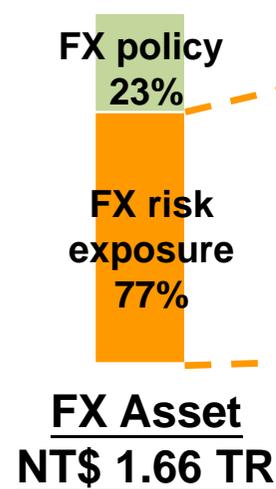


Note: Pre-hedging recurring income doesn't include capital gains but rental, interest revenue and cash dividend.

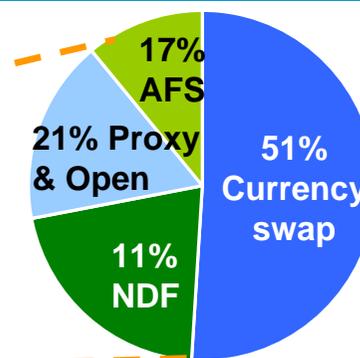
Cash dividend



FX Asset



FX risk exposure

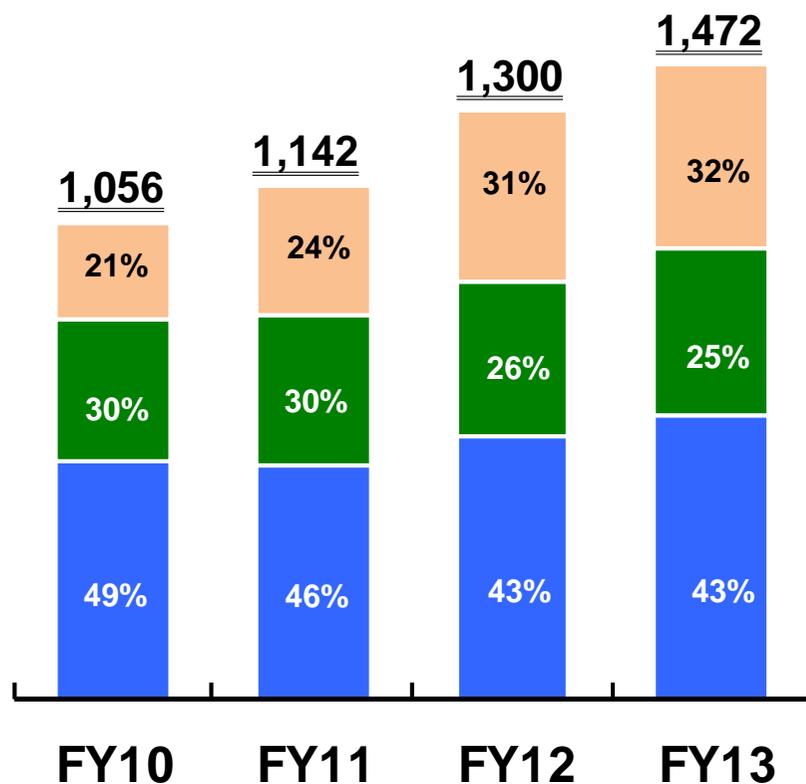


2013 Hedging cost
0.26%

Cathay Life – International bond investment highlight

Overseas Bond by Region

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



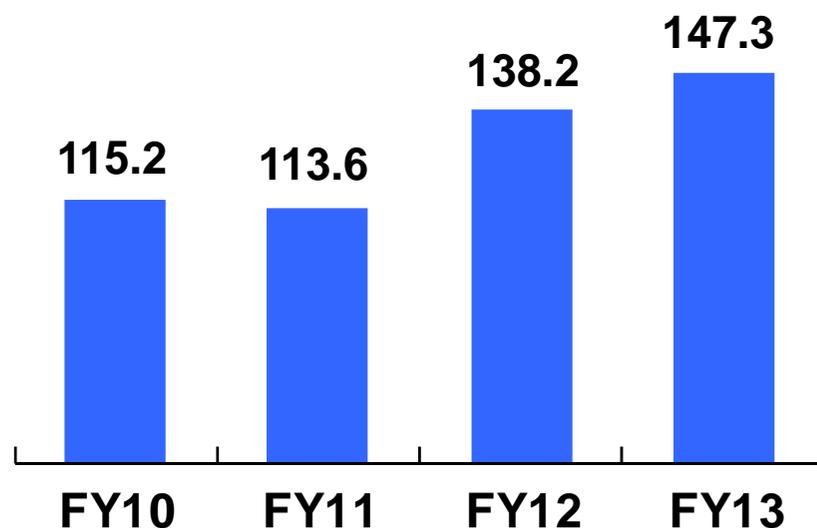
Top 5 of European Exposure

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

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

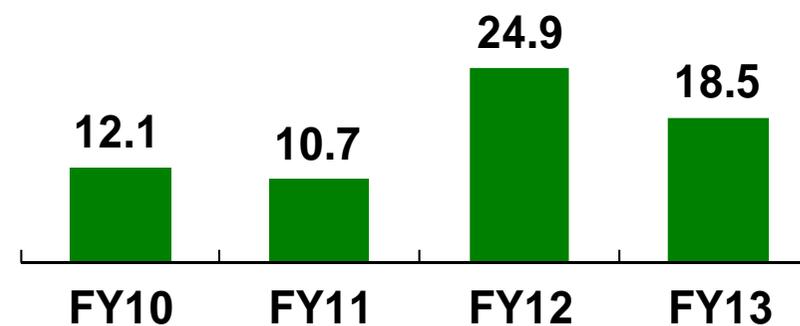
Book value

(NT\$BN)



Unrealized G/L of AFS financial assets

(NT\$BN)



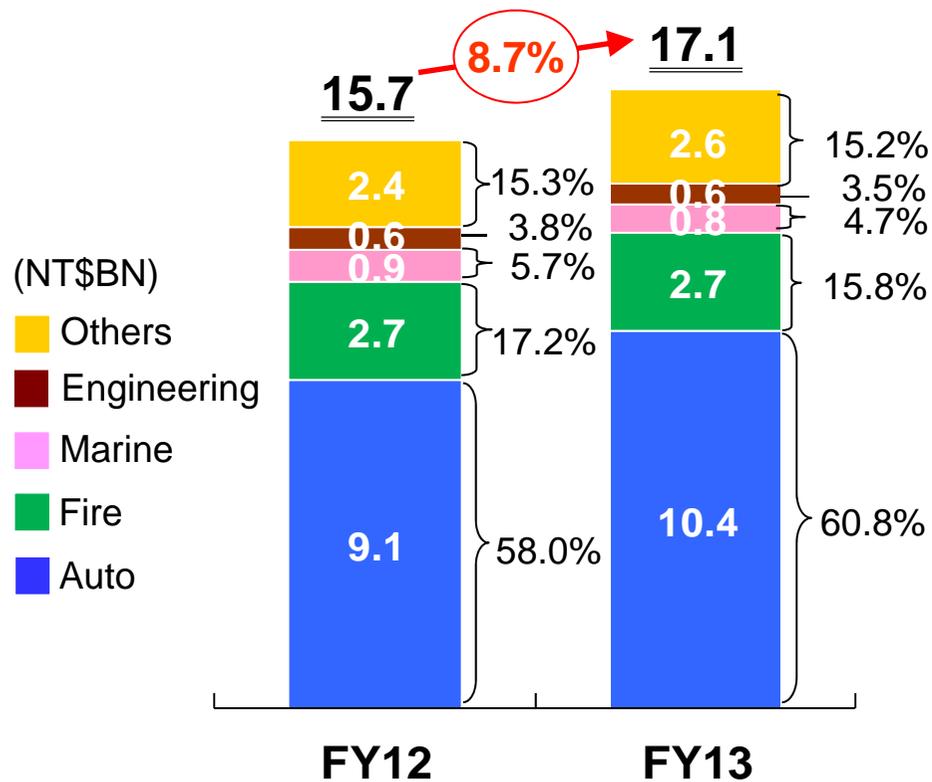
Note: Figures of FY12 & FY13 were under IFRS principle: book value included minority interest.

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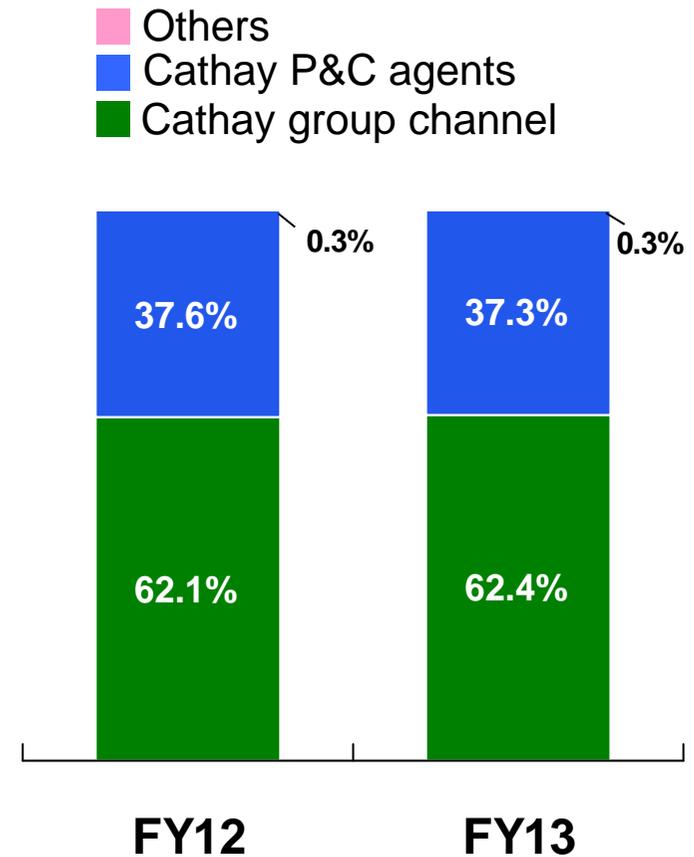
Cathay Century

Premium income



Mkt share	FY12	FY13
	12.7%	13.4%

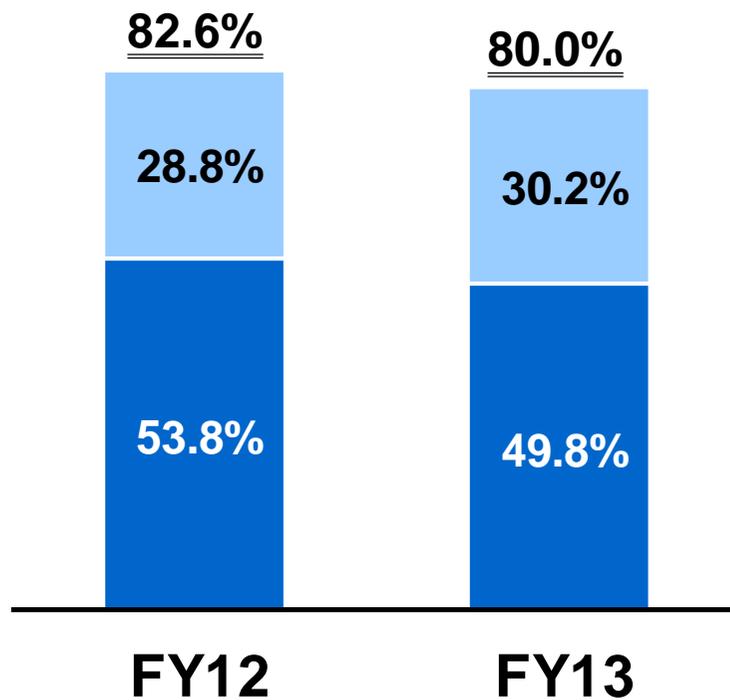
Distribution channel



Cathay Century – Distribution channel

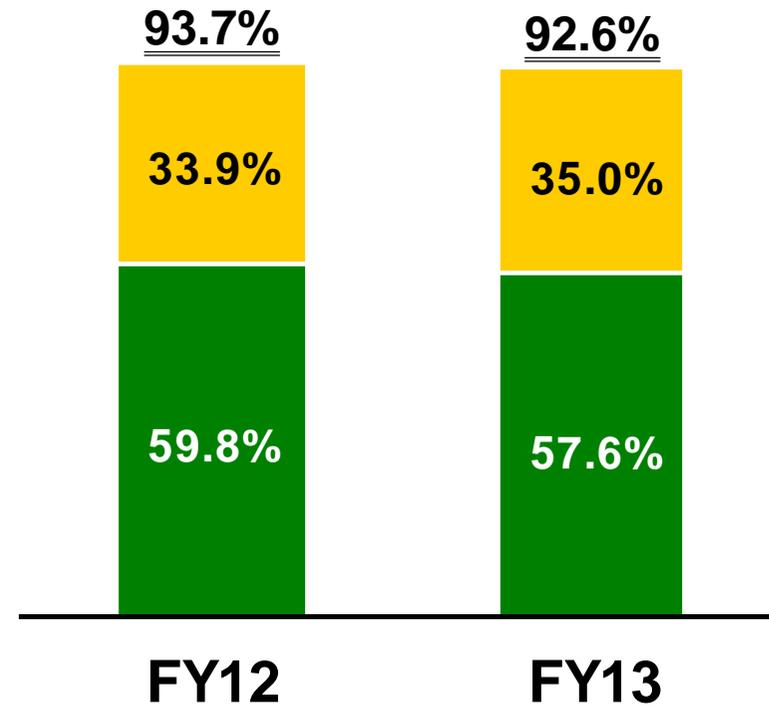
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retained ratio

74.3%

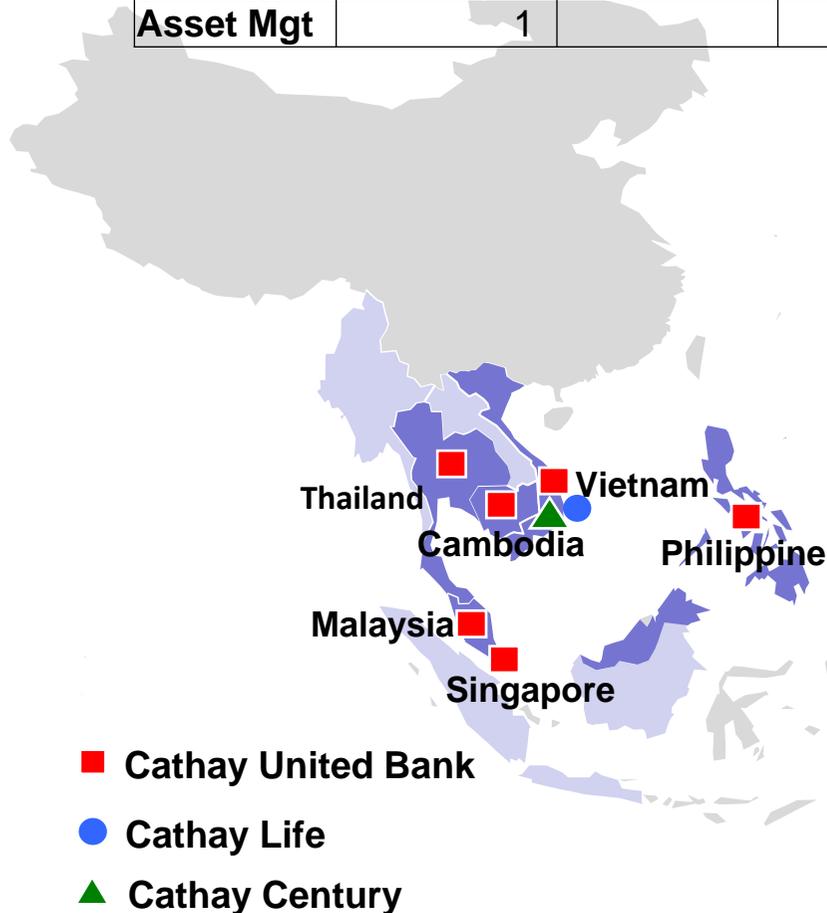
76.1%

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Cathay FHC in South East Asia

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



■ Cathay United Bank

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

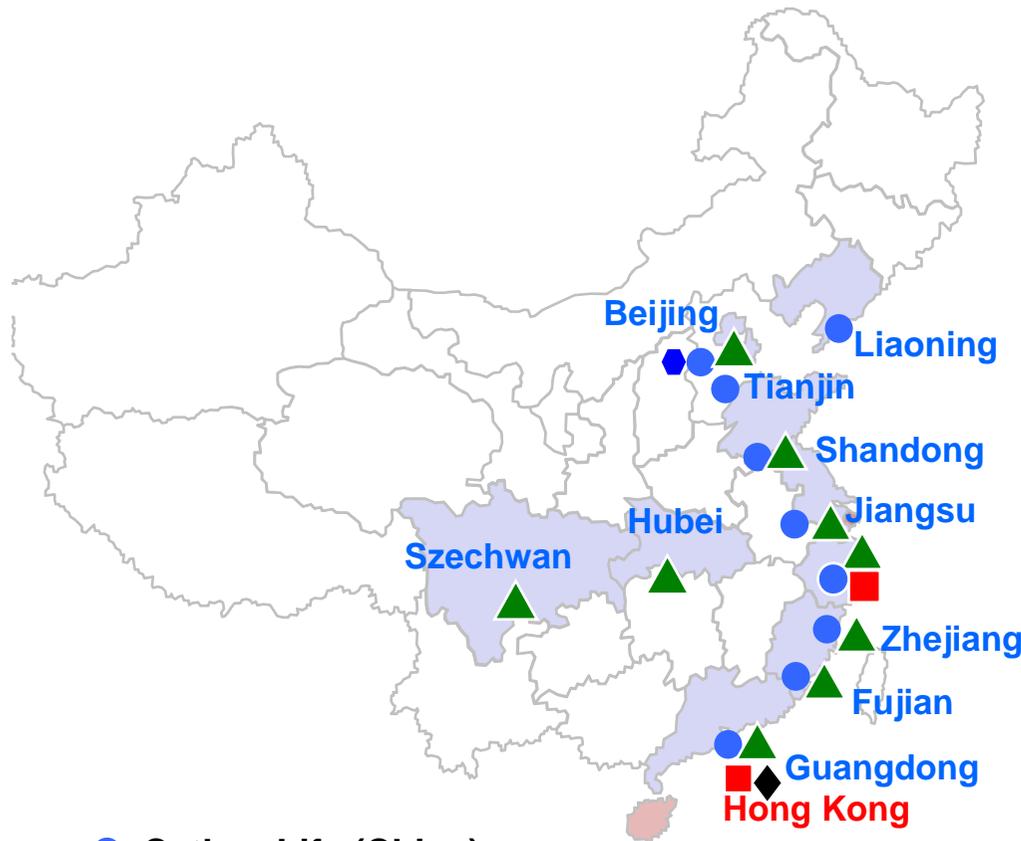
■ Cathay Life

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

■ Cathay Century

- 2013 total premium income increased by 75% YoY

Cathay FHC in China



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

■ Cathay United Bank

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

■ Cathay Life (China)

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

■ Cathay Century (China)

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

■ JV with Conning (CCAM)

- AUM amounted to USD\$1.06BN in 2013

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

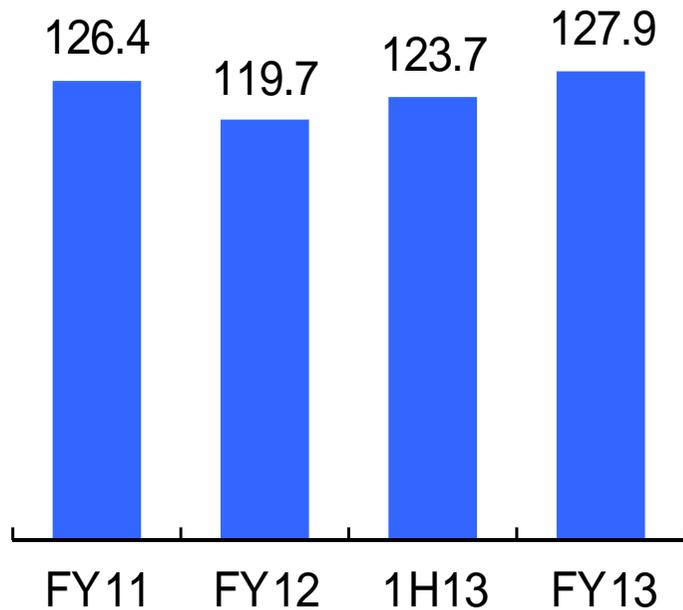
- Began operation in Sep. 2013

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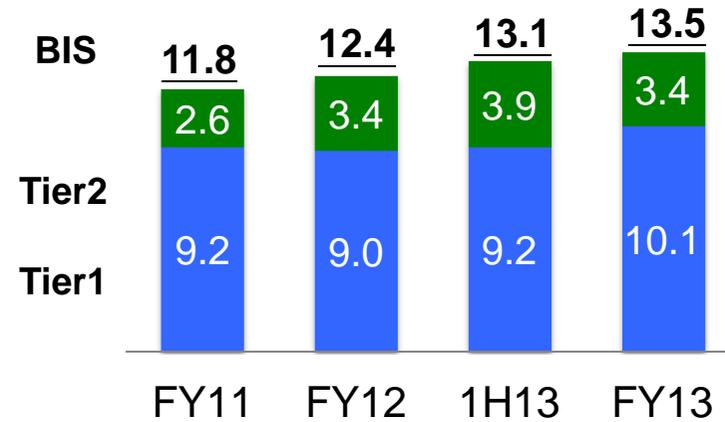
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Solid Capital Adequacy

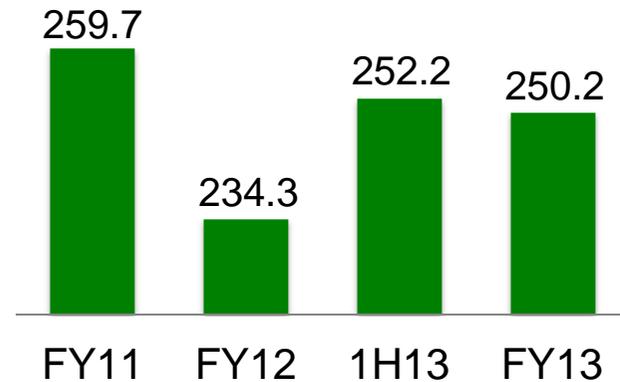
Cathay FHC CAR (%)



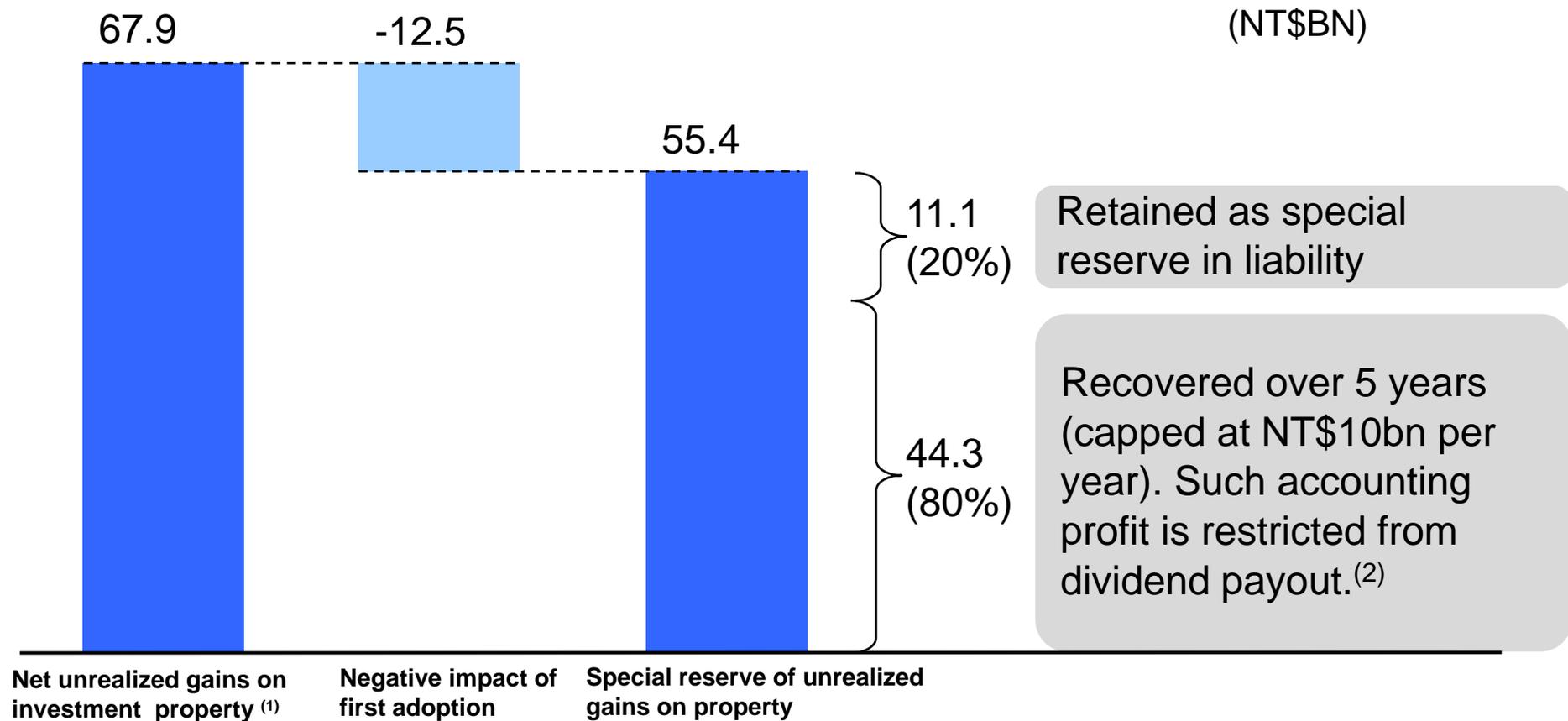
CUB Capital Adequacy (%)



Cathay Life RBC(%)



Special reserve of unrealized gains on property

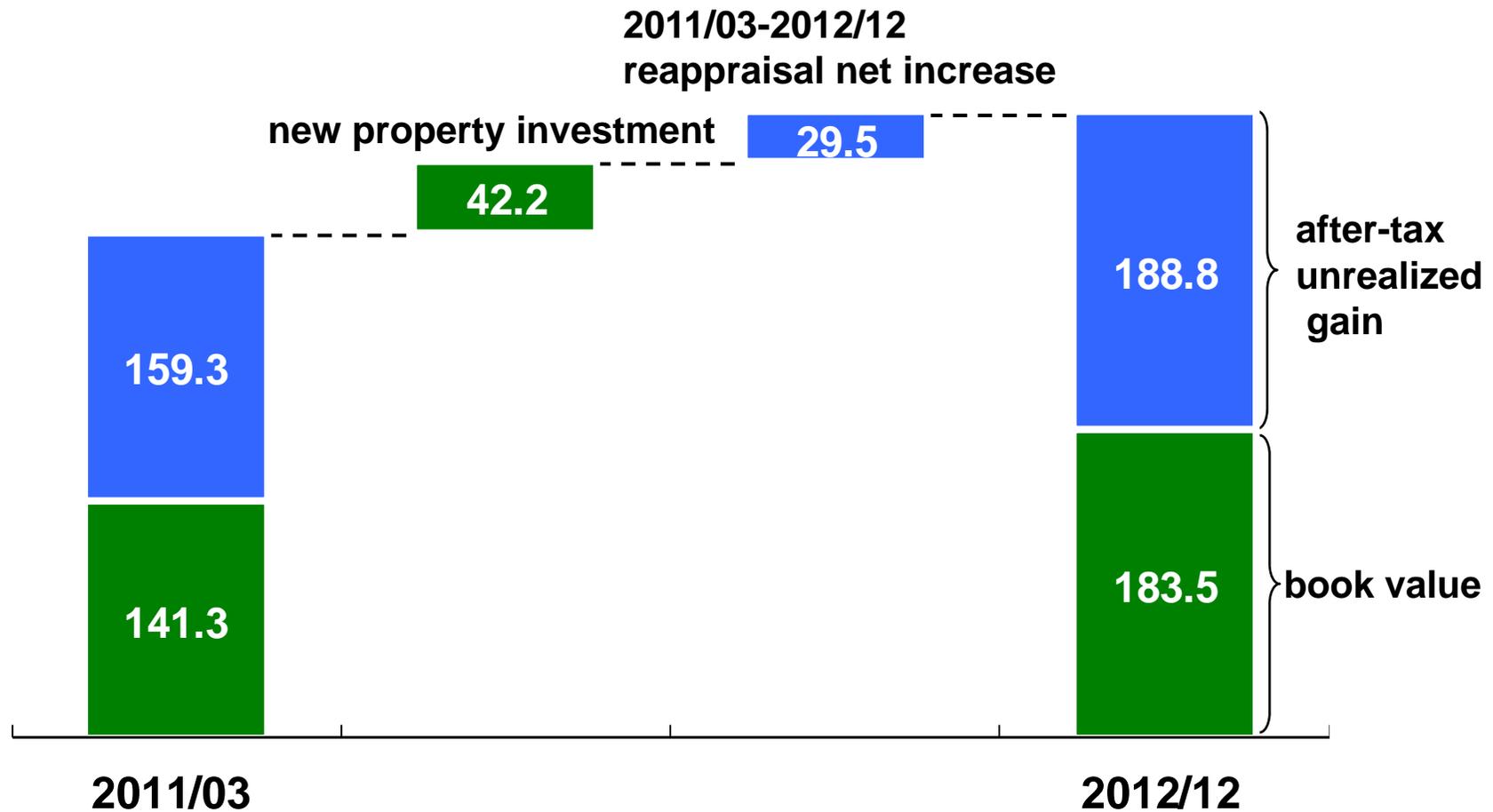


Note: (1) Net unrealized gains on investment property is calculated by discounting rental income at industry average WACC(3.29%), net of related taxes. The amount is therefore well below the property market value.

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

Cathay Life's property reappraisal

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



EV & AV Summary

NT\$BN

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

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

(2) Totals may not sum due to rounding.



Thank You

Cathay Financial Holdings
 (NT\$MN)

	(ROC GAAP)		(IFRS)		FY13/ FY12	(IFRS)		4Q13/ 4Q12
	FY10	FY11	FY12	FY13	% Chg	4Q12	4Q13	% Chg
Income Statement Data (Consolidated)								
Operating Income								
Net interest income	92,741	105,055	112,727	114,535	2%	28,913	28,607	-1%
Net commission and fee	185	920	2,207	765	-65%	228	(1,284)	-663%
Net earned premium	448,216	398,192	457,392	441,427	-3%	105,443	156,838	49%
Change in liability reserve	(235,134)	(196,217)	(306,443)	(293,570)	-4%	(62,052)	(105,979)	71%
Net claims payment	(278,363)	(259,386)	(230,508)	(228,125)	-1%	(62,686)	(69,694)	11%
Investment income	13,721	(638)	26,780	47,121	76%	4,318	11,230	160%
Contribution from associates-equity method	245	107	(50)	157	-	(93)	102	-
Other net non-interest income	4,698	10,536	8,554	6,998	-18%	3,844	395	-90%
Bad debt expense	0	(1,063)	(3,173)	(1,487)	-53%	(2,288)	(199)	-91%
Operating expense	(43,744)	(47,889)	(51,772)	(55,849)	8%	(12,825)	(16,736)	30%
Income before taxes	2,565	9,618	15,715	31,971	103%	2,800	3,280	17%
Income taxes	1,718	1,667	457	(2,951)	-745%	631	(1,039)	-265%
Net income	4,283	11,285	16,172	29,020	79%	3,431	2,241	-35%
EPS (NT\$)	0.39	1.04	1.41	2.50		0.31	0.18	
Dividend Payout								
Cash dividend per share	0.60	0.50	0.70	-				
Stock dividend per share	0.20	0.50	0.70	-				
Outstanding shares (Millions of shares)	10,154	10,158	11,412	11,546				
Balance Sheet Data								
Total assets	4,689,190	5,005,403	5,510,953	6,076,857				
Total shareholders' equity	222,507	217,712	248,149	285,260				
Operating Metrics								
ROAE (Consolidated)	1.96%	5.13%	6.92%	10.88%				
ROAA (Consolidated)	0.10%	0.23%	0.31%	0.50%				
Double leverage ratio(inc. preferred stock)	112%	119%	116%	114%				
Capital Adequacy Metrics								
Capital Adequacy Ratio	145%	126%	120%	128%				

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(3) FY13 CAR is based on IFRS, while previous years were based on ROC GAAP.

(4) Total may not sum due to rounding.

Cathay Life

(NT\$MN)	(ROC GAAP)		(IFRS)		FY13/ FY12	(IFRS)		4Q13/ 4Q12/
	FY10	FY11	FY12	FY13	% Chg	4Q12	4Q13	% Chg
Income Statement Data (Consolidated)								
Net written premium	439,699	388,122	445,658	426,804	-4%	102,086	146,406	43%
Net earned premium	438,463	390,184	445,573	418,262	-6%	101,596	143,217	41%
Reinsurance commission earned	9,254	11,737	14,371	11,610	-19%	3,409	2,877	-16%
Fee income	2,213	2,872	2,581	3,090	20%	819	700	-14%
Recurring investment income	89,646	101,321	109,976	113,932	4%	25,468	26,010	2%
Gain on disposal of investment								
Realized gain (loss)-Equity	17,700	13,389	8,122	16,586	104%	1,421	5,417	281%
Realized gain (loss)-Debt	1,936	9,960	12,362	14,604	18%	3,999	1,615	-60%
FX and others, net	(19,040)	(32,360)	(11,384)	(4,197)	-63%	(1,783)	(314)	-82%
Investment income, net	90,241	92,310	119,076	140,925	18%	29,105	32,727	12%
Other operating income	1,430	1,621	1,610	1,275	-21%	356	263	-26%
Separate account revenues	54,653	87,360	104,180	90,719	-13%	28,214	22,020	-22%
Net claims payment	(272,907)	(253,108)	(222,173)	(210,029)	-5%	(59,443)	(57,636)	-3%
Changes in liability reserves	(232,542)	(197,431)	(306,151)	(292,978)	-4%	(62,421)	(105,749)	69%
Acquisition and commission expense	(30,114)	(32,812)	(33,722)	(34,188)	1%	(8,033)	(9,430)	17%
Other operating costs	(3,488)	(4,396)	(4,842)	(5,570)	15%	(1,271)	(1,573)	24%
Financial cost	0	0	745	303	-59%	196	(82)	-142%
Separate account expense	(54,653)	(87,360)	(104,180)	(90,719)	-13%	(28,214)	(22,020)	-22%
Operating expense	(13,880)	(15,211)	(17,801)	(17,640)	-1%	(4,927)	(5,150)	5%
Net non-operating income	1,254	934	965	1,156	20%	383	314	-18%
Income taxes	3,100	3,548	2,286	(793)	-135%	480	(787)	-264%
Net income	(6,978)	248	2,519	15,425	512%	249	(310)	-225%

Balance Sheet Data

Total assets	3,059,952	3,289,797	3,717,231	4,062,132
General account	2,790,701	2,995,746	3,387,674	3,685,880
Separate account	269,251	294,051	329,557	376,253
Reserves for life insurance liabilities	2,597,016	2,803,537	3,148,281	3,448,659
Total liabilities	2,944,762	3,176,238	3,579,018	3,914,829
Total shareholders' equity	115,190	113,558	138,213	147,304

Operating Metrics

First Year Premium(FYP)	330,101	255,530	267,169	200,419
First Year Premium Equivalent(FYPE)	78,809	80,517	91,773	73,461
Expense ratio	7.7%	11.1%	10.6%	11.5%
13-M persistency ratio	96.2%	97.1%	97.3%	98.0%
25-M persistency ratio	85.8%	89.7%	91.8%	91.8%
ROAE	-5.74%	0.40%	1.97%	10.80%
ROAA	-0.23%	0.01%	0.07%	0.40%

Capital Adequacy Metrics

RBC ratio (Standalone)	295%	260%	234%	250%
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(4) FY13 RBC ratio is based on IFRS, while previous years were based on ROC GAAP.

(5) Total may not sum due to rounding.

Cathay United Bank

(NT\$MN)	(ROC GAAP)		(IFRS)		FY13/ FY12	(IFRS)		4Q13/ 4Q12/
	FY10	FY11	FY12	FY13	% Chg	4Q12	4Q13	% Chg
Income Statement Data (Consolidated)								
Operating Income								
Net interest income	15,470	18,719	21,284	21,915	3%	5,288	5,615	6%
Fee income	6,609	6,825	7,330	9,204	26%	1,911	2,405	26%
Investment income	3,745	4,038	5,366	5,634	5%	2,303	1,513	-34%
other income	2,016	932	966	867	-10%	205	202	-1%
Net operating income	27,841	30,514	34,947	37,620	8%	9,707	9,735	0%
Operating expenses	(15,160)	(16,715)	(17,840)	(20,281)	14%	(4,768)	(6,116)	28%
Pre-provision profit	12,681	13,799	17,107	17,340	1%	4,940	3,620	-27%
Net provisions for possible losses	0	(627)	(2,126)	(542)	-75%	(2,085)	(352)	-83%
Income before taxes	12,681	13,172	14,981	16,798	12%	2,855	3,268	14%
Income tax	(1,170)	(1,744)	(1,715)	(2,165)	26%	(240)	(414)	73%
Net income	11,511	11,428	13,266	14,634	10%	2,615	2,853	9%

Balance Sheet Data

Total assets	1,603,235	1,738,125	1,817,369	1,986,740
Loans, net	900,995	1,001,926	1,003,183	1,031,105
Financial assets	496,571	506,241	560,469	638,727
Total liability	1,505,262	1,636,798	1,712,364	1,855,487
Deposits	1,342,231	1,484,029	1,539,774	1,615,860
Financial Debenture Payable	23,655	36,024	42,519	52,417
Total shareholders' equity	97,974	101,327	105,005	131,253

Operating Metrics

Cost income ratio	54.5%	55.3%	51.1%	53.9%
ROAE	12.01%	11.52%	12.97%	12.39%
ROAA	0.73%	0.68%	0.75%	0.77%

Assets Quality

NPL	2,520	2,807	3,373	3,013
NPL ratio	0.28%	0.28%	0.34%	0.29%
NPL provisions	6,902	9,308	13,037	14,386
Coverage ratio	277%	332%	386%	478%

Capital Adequacy Metrics

BIS ratio (Standalone)	11.2%	11.8%	12.4%	13.5%
Tier I Ratio (Standalone)	9.6%	9.2%	9.0%	10.1%

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- (4) BIS and Tier 1 ratio of FY10-FY12 are based on ROC GAAP. The rest are based on IFRS.
- (5) Total may not sum due to rounding.

Cathay Century

(NT\$MM)	(ROC GAAP)		(IFRS)		FY13/ FY12	(IFRS)		4Q13/ 4Q12/
	FY10	FY11	FY12	FY13	% Chg	4Q12	4Q13	% Chg
Income Statement Data (Consolidated)								
Premium income	12,958	14,955	17,040	19,727	16%	4,476	5,276	18%
Net written premium	9,336	10,911	12,614	15,280	21%	3,292	4,139	26%
Net earned premium	9,135	9,995	11,724	14,156	21%	3,110	4,031	30%
Reinsurance commission earned	361	406	464	470	1%	125	107	-15%
Fee income	29	32	33	36	7%	8	9	6%
Investment	492	477	595	715	20%	109	141	29%
Interest income	332	377	387	422	9%	97	113	16%
Other investment income, net	160	100	208	293	41%	12	28	127%
Other operating income	1	0	0	0	-	0	0	-
Net claims payment	(4,765)	(5,850)	(6,669)	(7,835)	17%	(2,049)	(2,202)	7%
Changes in liability reserves	(1,154)	82	(369)	(592)	60%	291	(230)	-179%
Commissions and other operating costs	(587)	(655)	(774)	(1,083)	40%	(203)	(301)	48%
Operating expenses	(3,310)	(3,887)	(4,427)	(5,328)	20%	(1,249)	(1,500)	20%
Operating income	202	601	576	538	-7%	143	55	-62%
Net non-operating income	29	22	(9)	9	-	(0)	2	-
Income taxes	(40)	(133)	(196)	(218)	11%	(85)	(65)	-24%
Net income	191	491	371	329	-11%	58	(8)	-113%
Balance Sheet Data								
Total assets	23,839	27,041	29,188	31,709				
Total stockholders' equity	4,171	4,436	4,817	5,511				
Operating Metrics								
Gross Combined ratio	90.2%	89.0%	82.6%	80.0%				
Net Combined ratio	98.2%	96.0%	93.7%	92.6%				
ROAE	7.75%	16.54%	8.10%	6.37%				
ROAA	1.38%	2.49%	1.32%	1.08%				
Capital Adequacy Metrics								
RBC ratio (Standalone)	271%	301%	314%	312%				

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