

**Cathay Financial Holdings Co., Ltd**  
**2010 Fourth Quarter Briefing**



**March 2011**

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# Agenda

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- **2010 Business overview and 2011 outlook**
- **2010 Financial results**
  - Cathay Financial Holdings
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Overseas expansion**

# 2010 Business Overview

## Cathay Life

- Ranked #1 in terms of FYP and FYPE market share
  - FYPE grew significantly with 48.2% growth YoY
  - Cash position reduced to 13% from 17% at end of 2009
  - Overseas investment increased to 40% from 34% at end of 2009
- 

## Cathay United Bank

- ROE of 12.0%, financial results reached 6-year new highs
  - Total loans grew by 9.2% YoY
  - NPL ratio of 0.28% and coverage ratio of 277.2%; both better than peers
  - Fee income grew by 32.4% YoY
- 

## Cathay Century

- Second largest player; market share increased to 11.6% from 11.2% in 2009
- 

## Cathay Securities

- Net income of NT\$ 222 MN, reached historical high
- 

## Overseas

- China:  
CUB opened its Shanghai branch; first Taiwan bank in China  
Cathay Life opened 6 new branches; currently 37 branches in 9 provinces  
Cathay Century opened 2 new branches; currently 7 branches in 5 provinces and cities
- Vietnam:  
CUB and Indovina Bank opened 9 new branches; currently 38 branches  
Cathay Life opened 2 new branches. Currently, 9 branches in 6 provinces and cities.  
Cathay Century initiated operations and obtained Hanoi operating license in Mar. 2011

# 2011 Business Outlook

## Cathay Life

- Continue to emphasize higher margin products
  - Keep reducing cash position; increase investment overseas and in equity, real estate and mortgage & secured loans
  - Maintain hedging costs in-line with internal target
- 

## Cathay United Bank

- Maintain moderate growth in loan and fee income
  - Increase loan-to-deposit ratio and net interest margin
  - Maintain sound asset quality
- 

## Cathay Century

- Diversify distribution channels; strengthen business structure
  - Steadily grow premium income; maintain good combined ratio
- 

## Cathay Securities

- Continue to develop businesses and enhance profitability
- 

## Overseas

- CUB's Shanghai branch: achieve profitability in the first year
- Deepen development of existing branches; strengthen distribution channels
- Provide complete financial services, seek differentiation from peers.



# Agenda

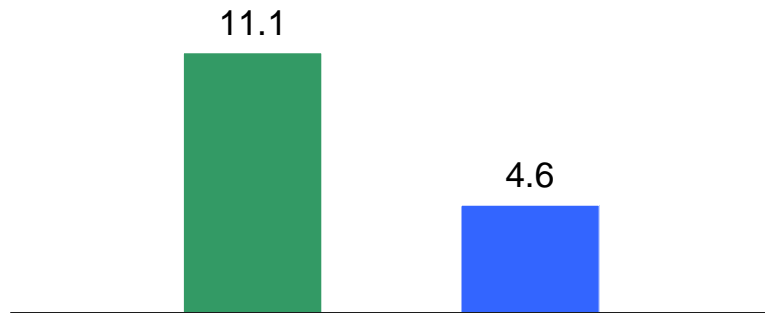
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# Cathay FHC — Net income & EPS

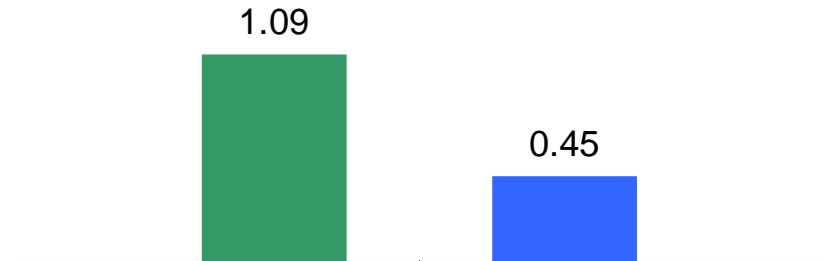
## Net income (NT\$BN)

FY09 FY10

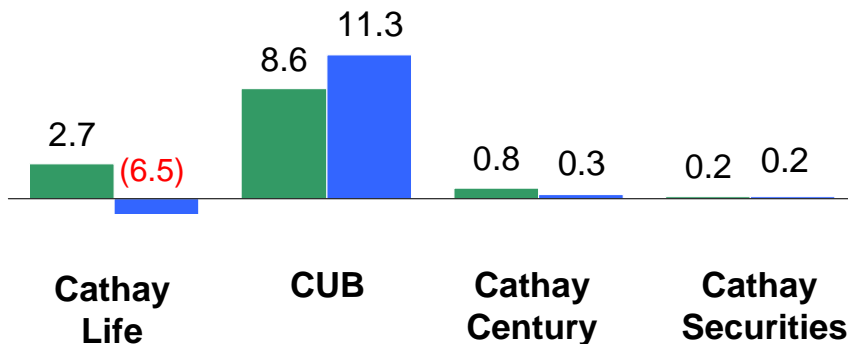


## EPS (NT\$)

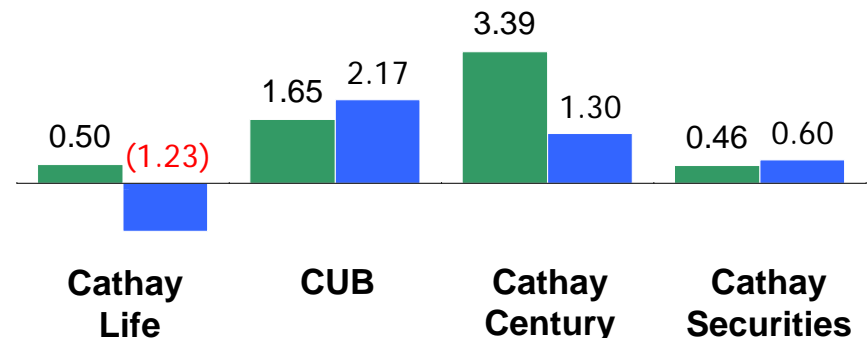
FY09 FY10



## Net income of primary subsidiaries



## EPS of primary subsidiaries



# Agenda

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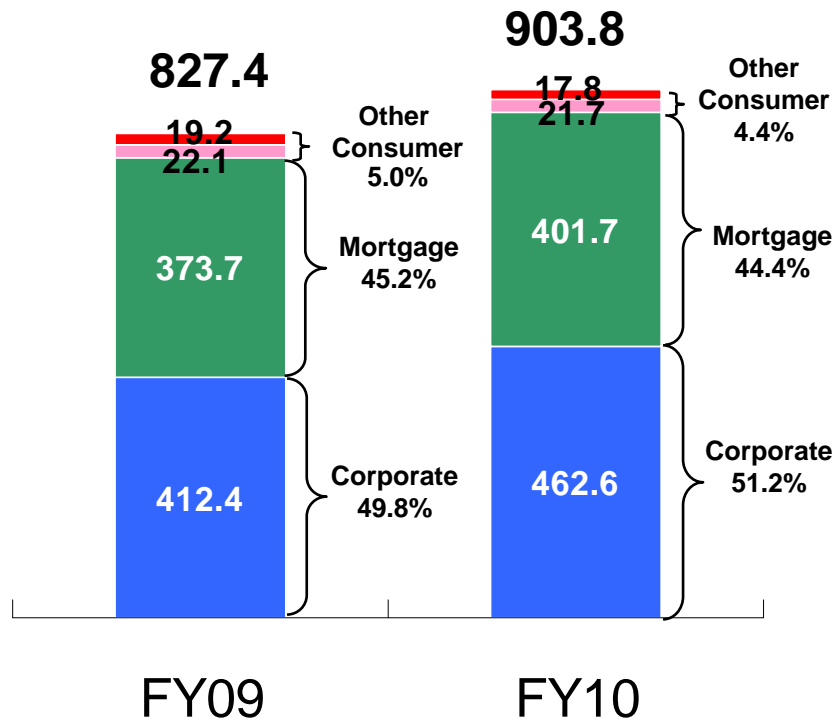
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# Cathay United Bank — Loan & deposit breakdown

## Loan breakdown (NT\$BN)

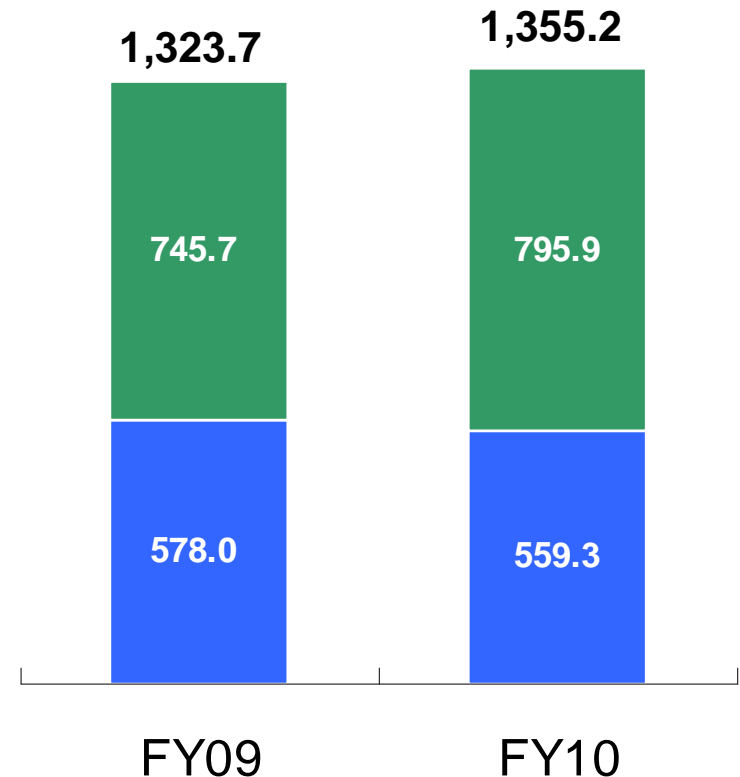
- Credit Card related
- Consumer
- Mortgage
- Corporate



## Deposit breakdown (NT\$BN)

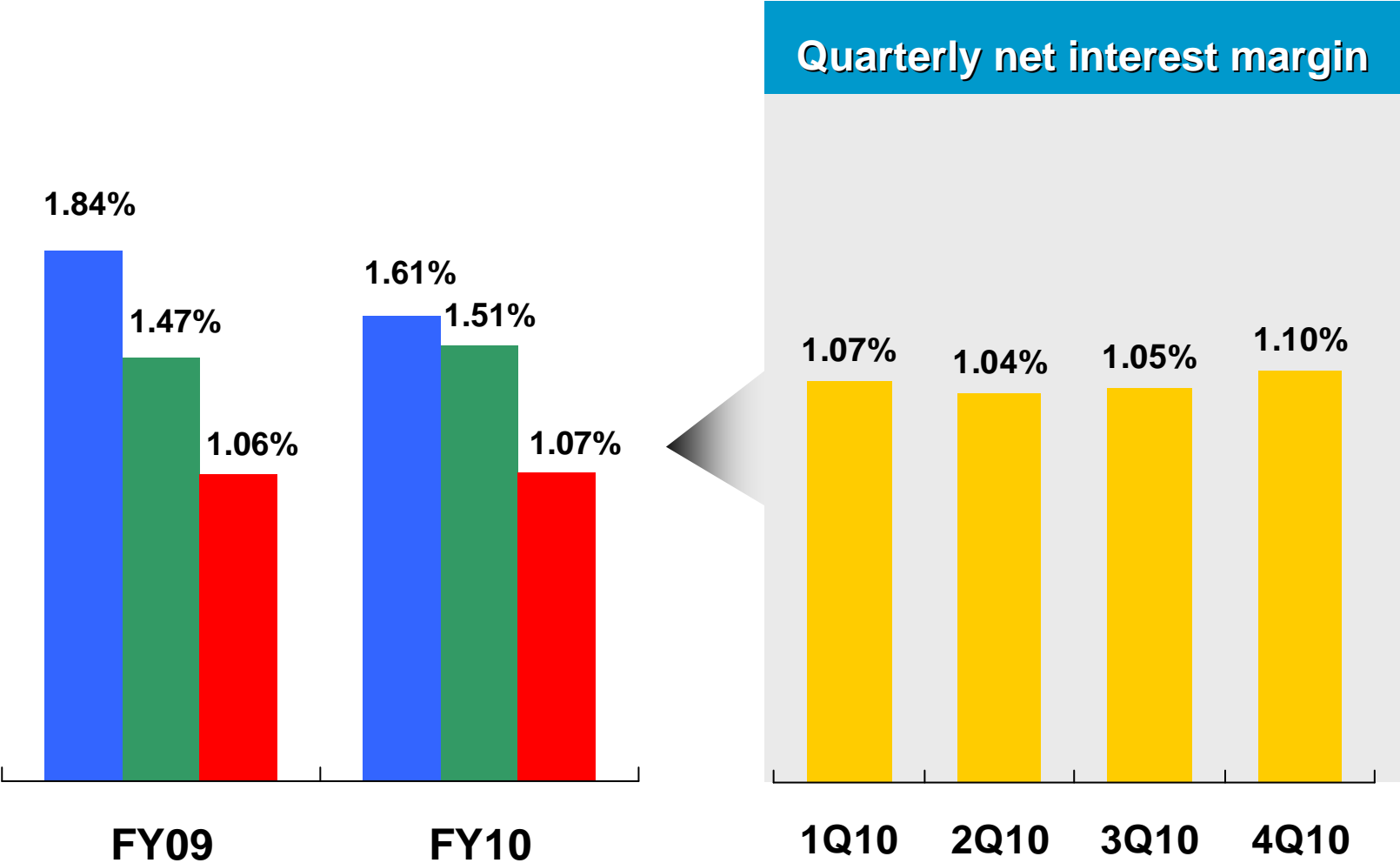
- Demand Deposit
- Time Deposit

NTD demand  
deposit ratio  
60.2%



# Cathay United Bank – Interest yields

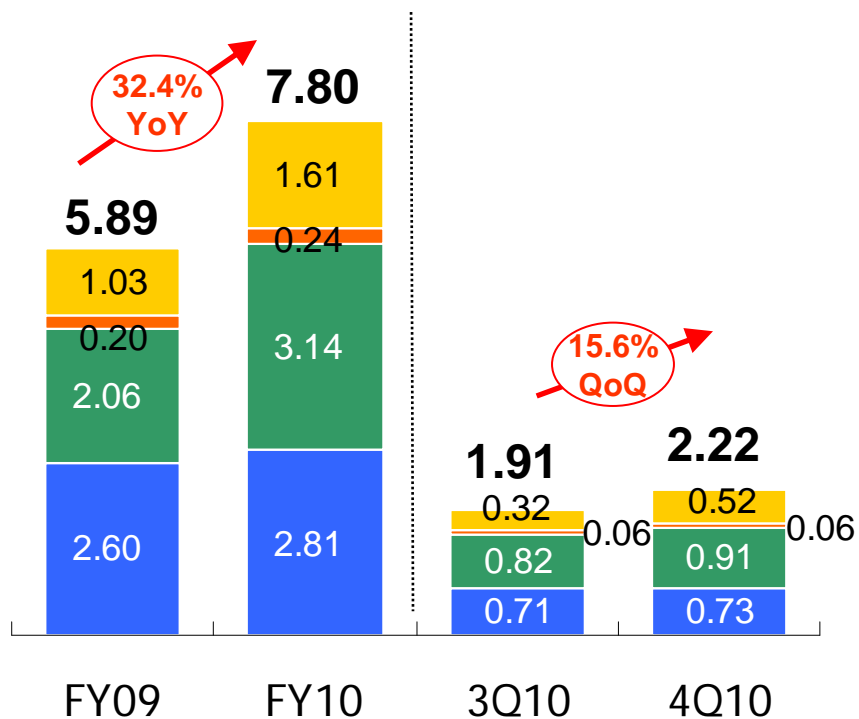
■ Avg. rate of interest-earning assets   ■ Interest spread   ■ Net interest margin



# Cathay United Bank – Fee income

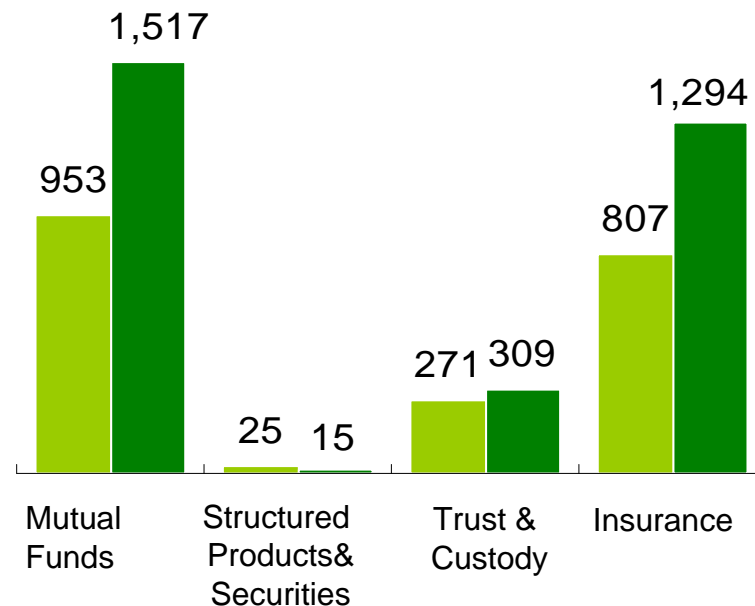
## Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



## Wealth management fee breakdown (NT\$MN)

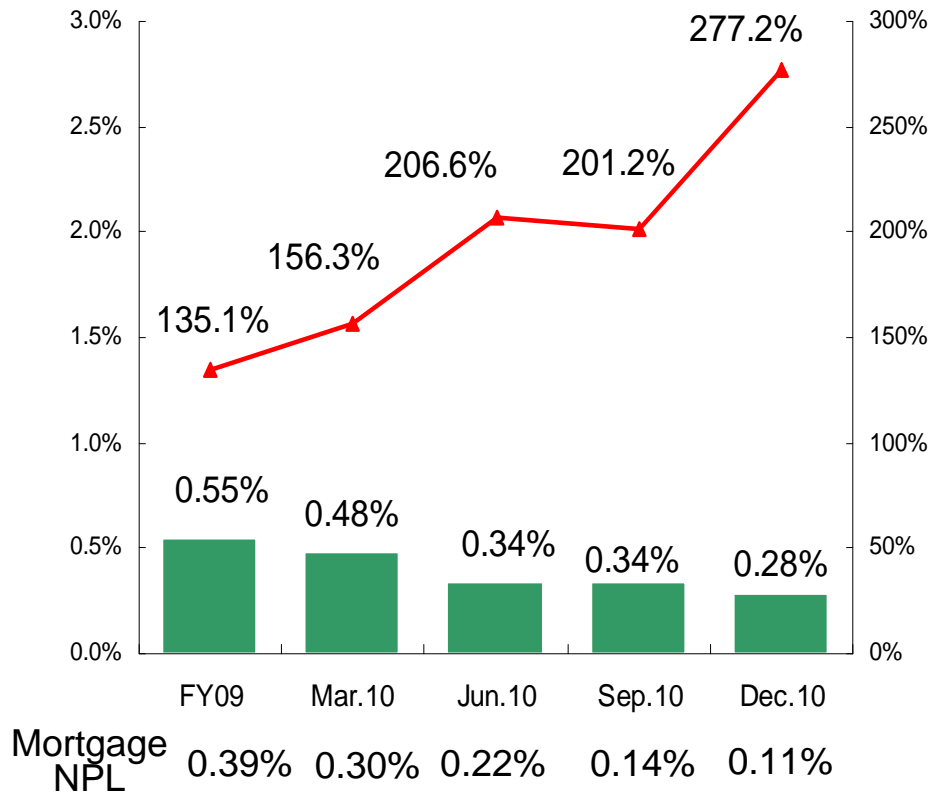
- FY09
- FY10



# Cathay United Bank – Credit quality

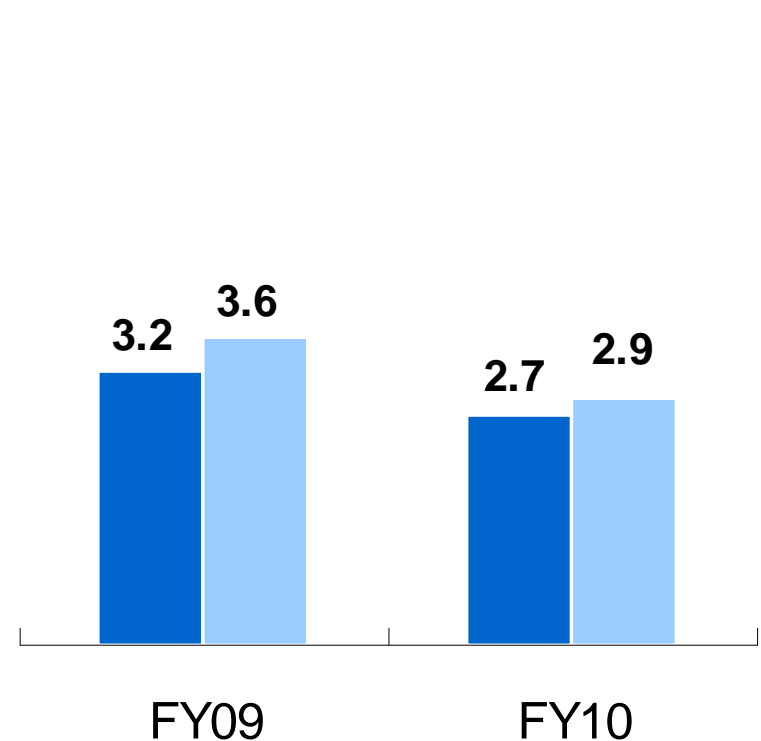
## NPL & Coverage ratio

- NPL ratio(LHS)
- ▲ Coverage ratio(RHS)



## Gross provision (NT\$BN)

- Gross provision
- Recovery

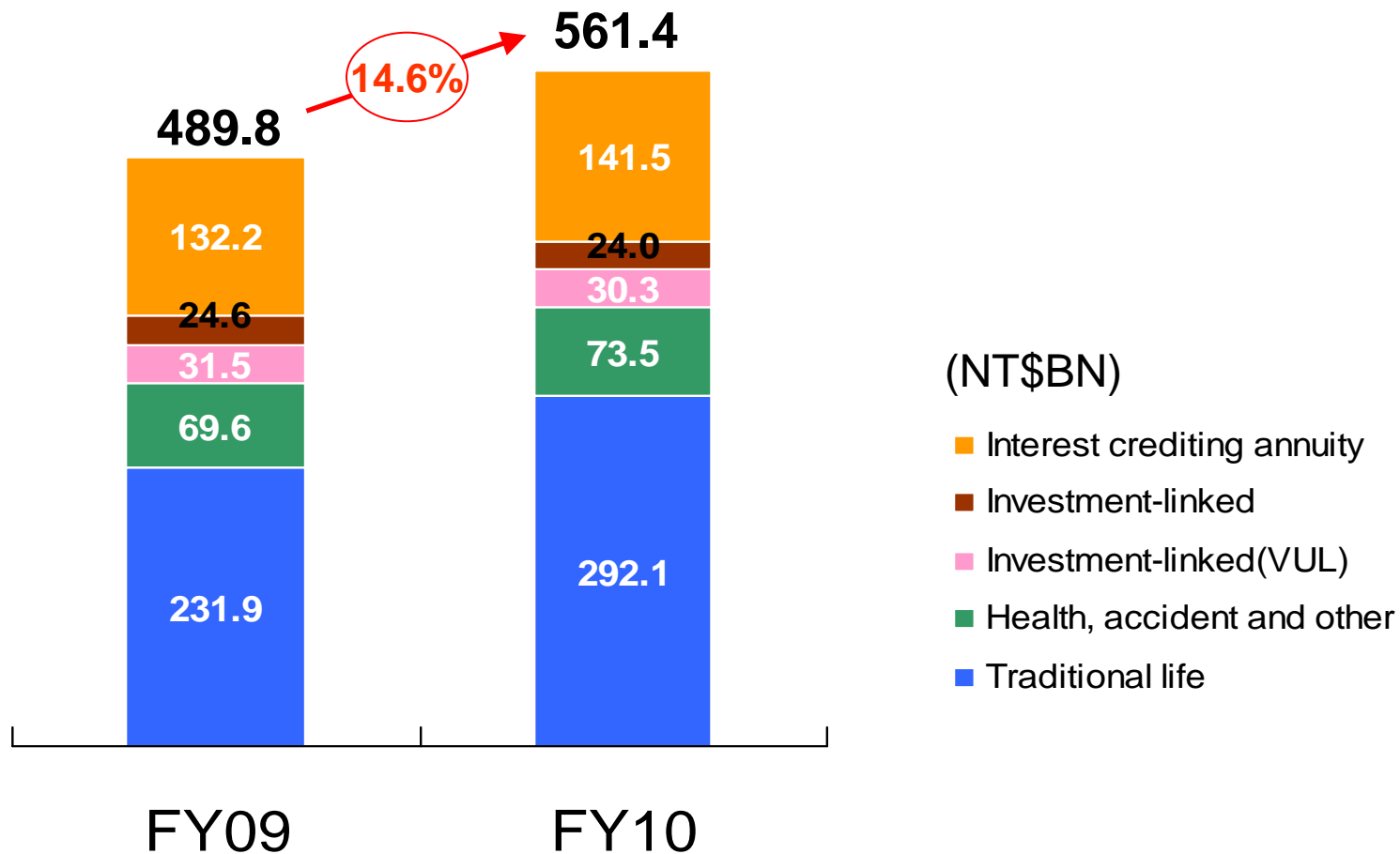


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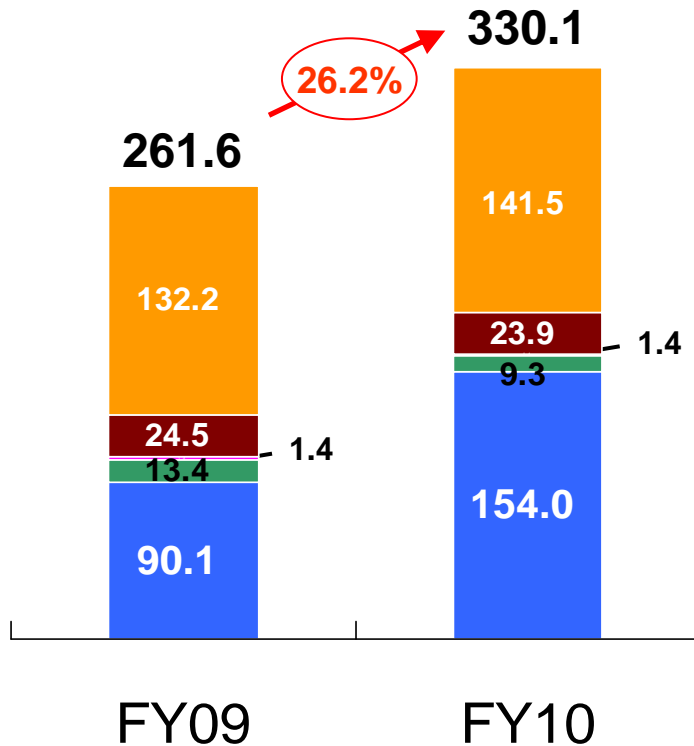
# Cathay Life – Total premium



# Cathay Life — FYP/ FYPE

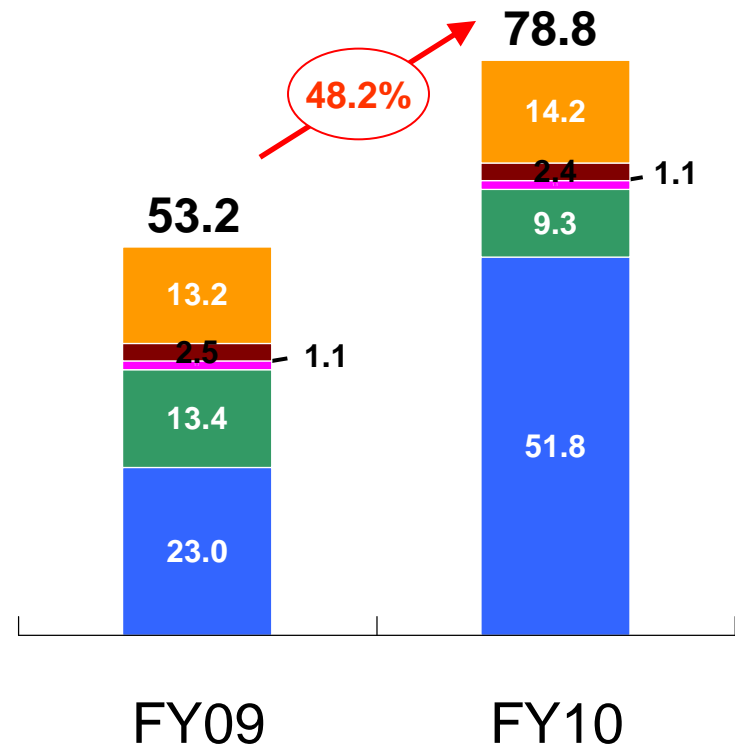
## First year premium (FYP)

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



## First year premium equivalent (FYPE)

- Interest crediting annuity (NT\$BN)
- Investment-linked
- Investment-linked(VUL)
- Health,accident and other
- Traditional Life



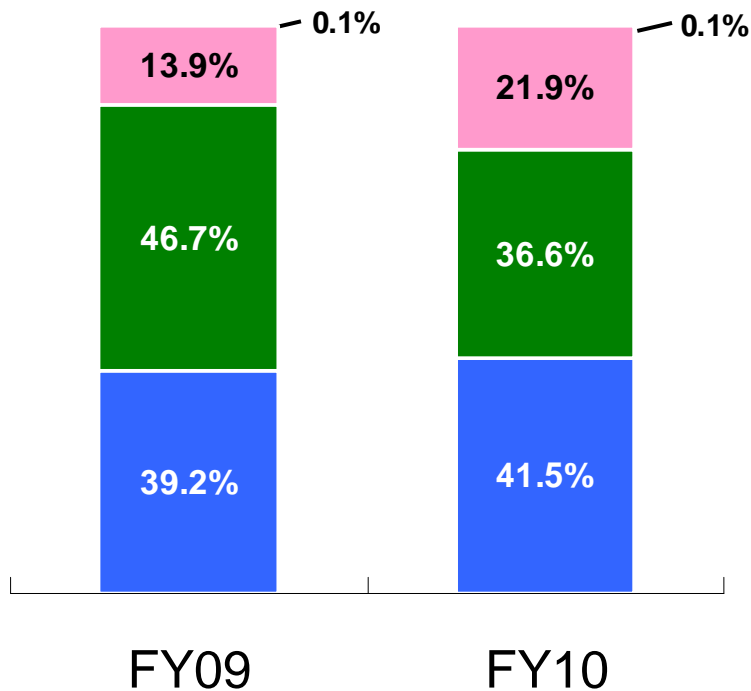
Note: Totals may not sum due to rounding



# Cathay Life — Distribution channel

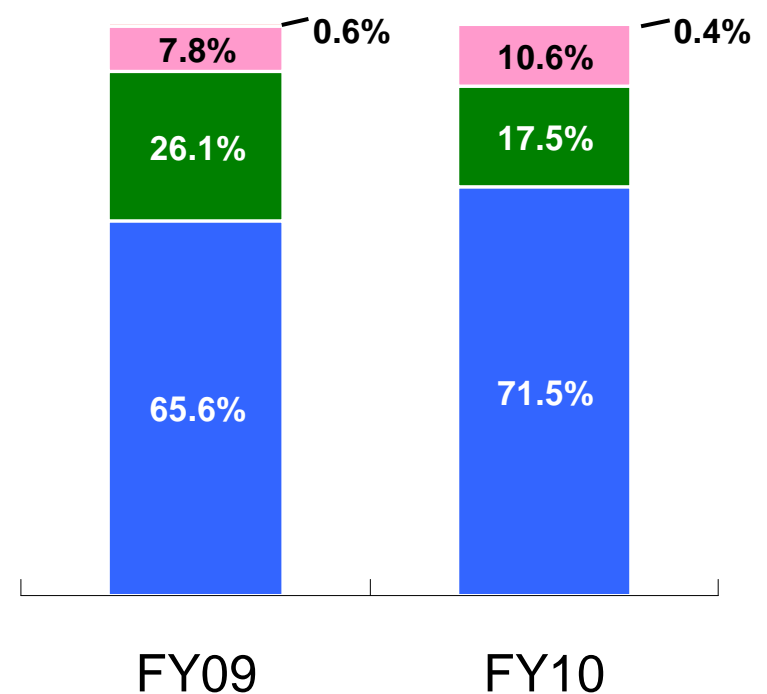
## First year premium (FYP)

- Other
- Bancassurance-external
- Bancassurance-CUB
- Tied agents



## First year premium equivalent (FYPE)

- Other
- Bancassurance-external
- Bancassurance-CUB
- Tied agents

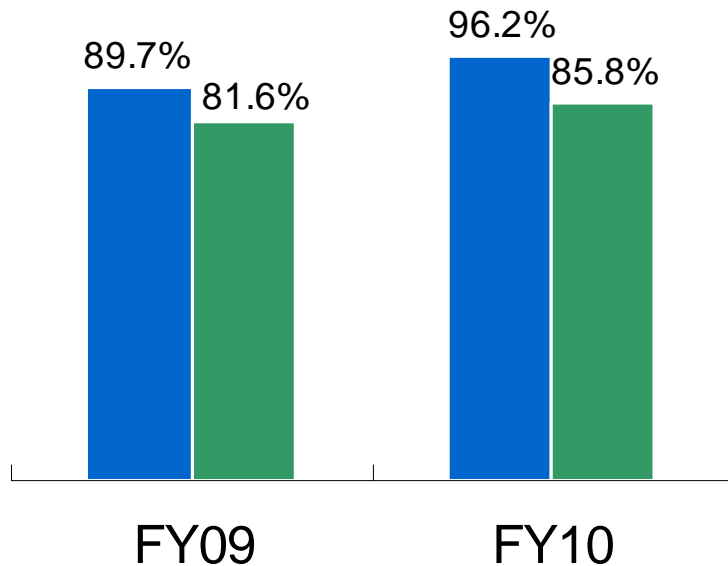


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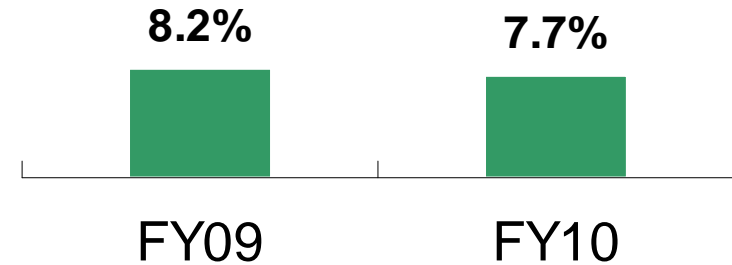
# Cathay Life – Operational indicators

## Persistency ratio

■ 13 months    ■ 25 months



## Expense ratio



# Cathay Life – Investment portfolio

	3Q10		4Q10		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	406.6	15.1%	352.9	12.9%	-2.2%	-53.7
Equity- Domestic	174.4	6.5%	199.6	7.3%	0.8%	25.2
Equity- International	55.2	2.0%	45.9	1.7%	-0.4%	-9.3
Bond- Domestic	397.4	14.7%	429.5	15.6%	0.9%	32.1
Bond- International <sup>(1)</sup>	989.4	36.7%	1,055.9	38.5%	1.8%	66.6
Mortgage & Secured loans	295.6	11.0%	291.5	10.6%	-0.3%	-4.2
Policy loans	191.4	7.1%	191.0	7.0%	-0.1%	-0.4
Real estate	135.6	5.0%	137.3	5.0%	-	1.7
Others	52.5	1.9%	41.7	1.5%	-0.4%	-10.8
<b>Total investments<sup>(2)(3)</sup></b>	<b>2,698.0</b>	<b>100%</b>	<b>2,745.3</b>	<b>100%</b>		

Note (1) : Includes foreign currency deposit and related adjustments

Note (2) : Excludes separate account assets

Note (3) : Total investments only includes funds available to invest

Note (4) : Totals may not sum due to rounding

# Cathay Life – Hedging cost

- **Proxy hedging is still an effective hedging instrument in the long run:**  
Historical data show that TWD is usually weaker than other Asian currencies
- **Based on past experience, hedging cost of 2% or below is a reasonable level**  
Reduce hedging cost by adjusting the weighting of traditional and proxy hedging

	TWD movement (TWD/USD)	Asian Currency movement (Asian Currency Index)	Total hedging cost
2005	2.9% ▼	0.4% ▼	1.6%
2006	0.8% ▲	5.0% ▲	1.9%
2007	0.5% ▲	4.9% ▲	1.8%
2008	1.3% ▼	5.9% ▼	3.5%
2009	2.5% ▲	3.0% ▲	0.7%
2010	9.1% ▲	5.2% ▲	1.8%
Average	1.5% ▲	2.0% ▲	1.9%

Note : Up arrow symbolizes appreciation, down arrow symbolizes depreciation

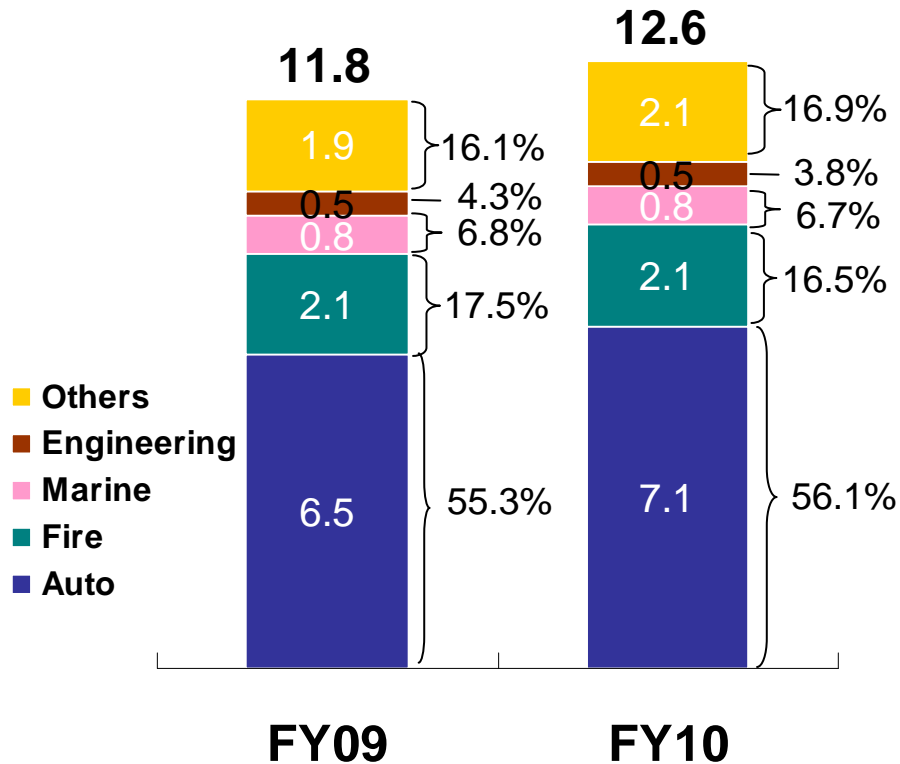
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# Cathay Century

## Product breakdown (NT\$BN)



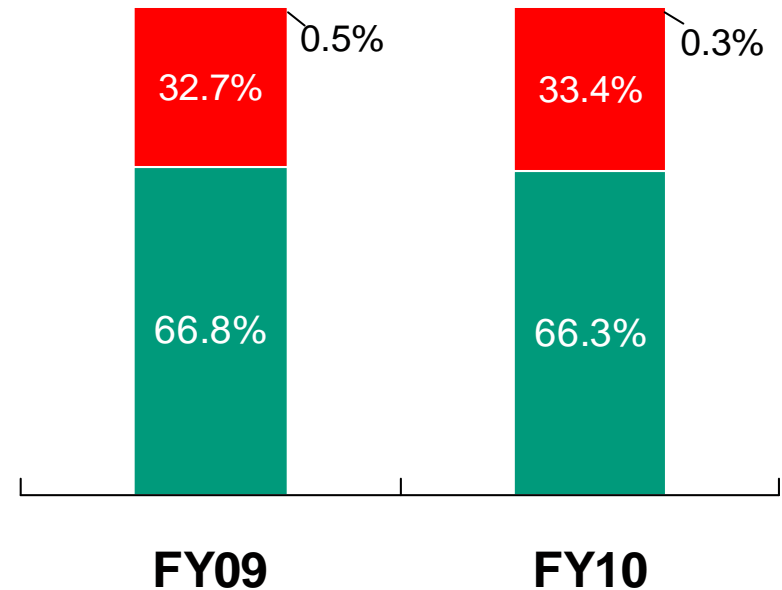
Mkt share

11.2%

11.6%

## Distribution channel

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



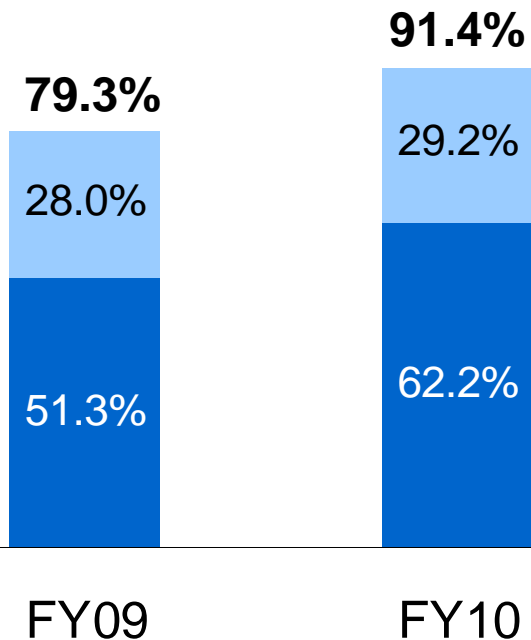
FY09

FY10

# Cathay Century

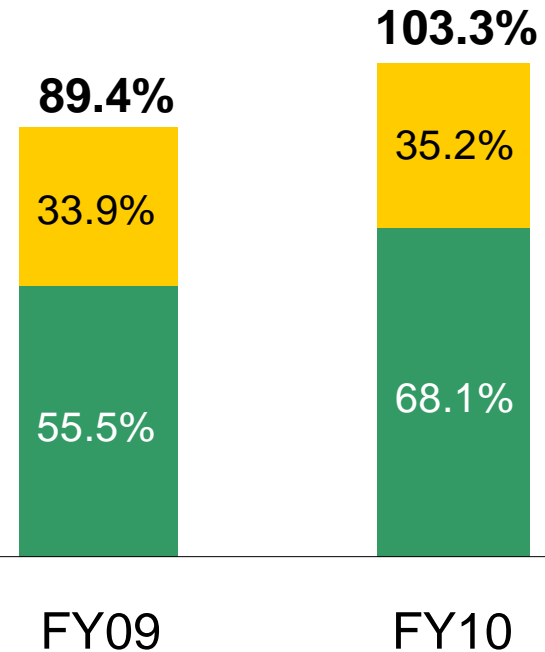
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retained rate **71.5%** **72.6%**

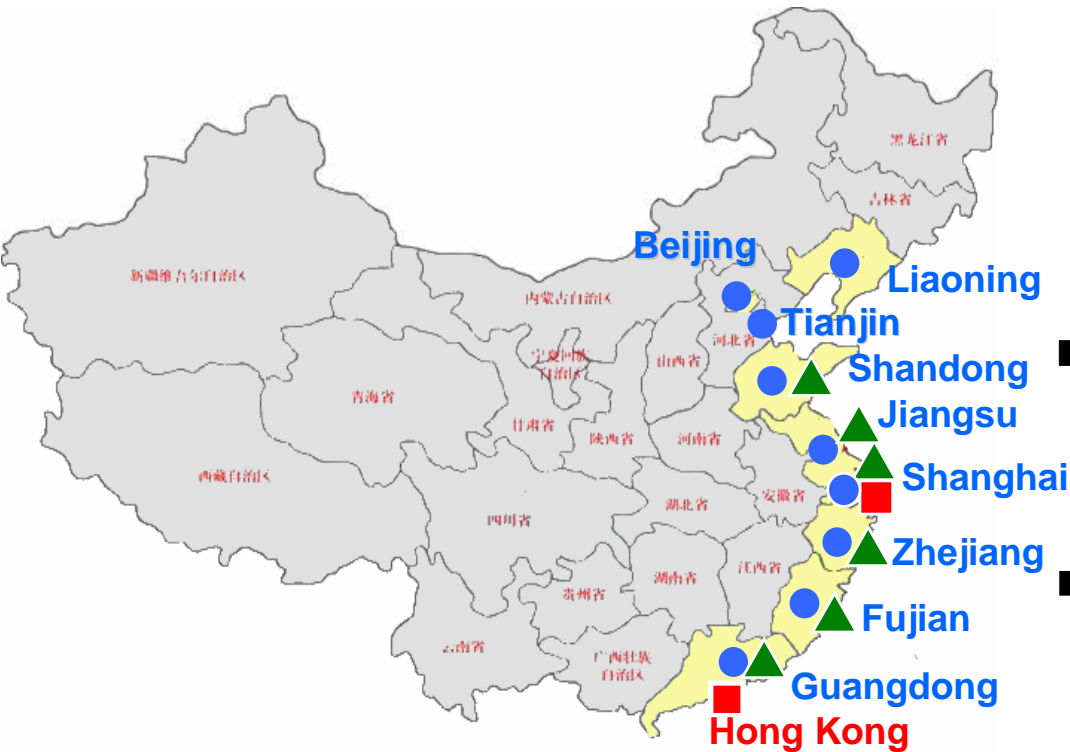


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# Cathay FHC in China



## ■ Cathay Life (China)

- Joint venture between Cathay Life Insurance and China Eastern Airline Group
- Registered capital: RMB1,200 MN
- Sales force: 1,645 tied agents
- Footprint: 37 offices in 28 cities, 9 provinces
- Policyholders: approximately 2.87 MN<sup>(1)</sup>

## ■ Cathay United Bank

- 1 Hong Kong branch (2001)
- Shanghai branch initiated operation on Dec. 23, 2010.

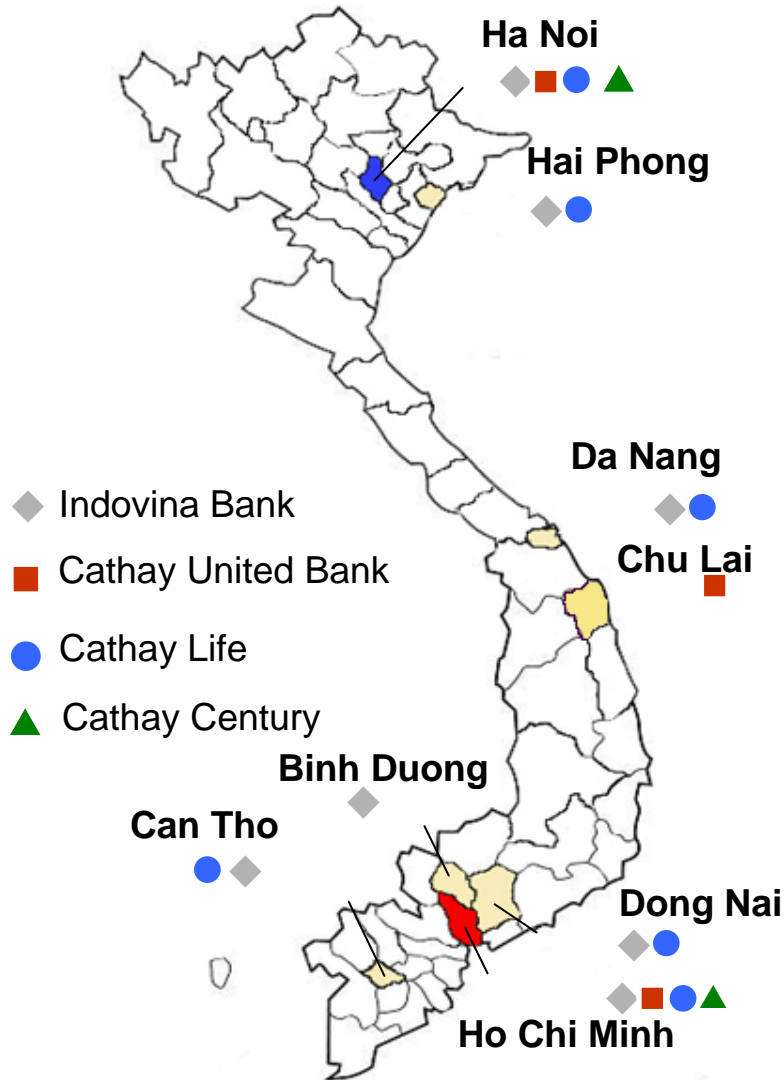
## ■ Cathay Century (China)

- 50% owned by Cathay Life and 50% owned by Cathay Century
- Headquartered in Shanghai
- 4 branches( Jiangsu, Fujian, Guangdong, and Zhejiang )
- Obtained Shandong operation license

- Cathay Life plans to purchase headquarter building in Shanghai

Note(1): Numbers are effective policyholders as of 2010/12/31

# Cathay FHC in Vietnam



## ■ Indovina Bank

- Joint venture bank between CUB and VietinBank with 35 locations
- Total assets : USD1,097 MN
- NPL ratio : 0.18%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax income: USD16.7 MN

## ■ Cathay United Bank

- 1 branch (Chu Lai), 2 rep. offices (Ho Chi Minh, Hanoi)
- Pre-tax net income of Chu Lai branch was approximately USD3.78 MN

## ■ Cathay Life

- Headquartered in Ho Chi Minh
- 5 branches (Hanoi, Da Nang, Can Tho, Dong Nai, and Hai Phong)
- Sales force: 8,072 tied agents
- Net loss was approximately USD 0.85 MN

## ■ Cathay Century

- Initiated operation in Dec. 2010
- Headquartered in Ho Chi Minh
- Obtained Hanoi operation license

Note: All numbers are as of 2010/12/31

**Cathay Financial Holdings**  
**Summary Financial Data**  
(NT\$BN)

	<b>FY2009</b>	<b>FY2010</b>	<b>FY10/ FY09 % Chg</b>	<b>4Q09</b>	<b>4Q10</b>	<b>4Q10/ 4Q09/ % Chg</b>
<b>Statement of Income Data</b>						
Interest income	0.553	0.869	57.1%	0.154	0.226	146.5%
Income from subsidiaries						
Cathay Life	2.672	(6.516)	-	1.479	(1.387)	-
Cathay United Bank	8.688	11.332	30.4%	2.117	1.812	85.6%
Cathay Century	0.794	0.301	-62.1%	0.229	(0.131)	-
Other	0.030	0.215	616.7%	(0.008)	(0.061)	-
Total income from subsidiaries, net	12.184	5.332	-56.2%	3.817	0.233	6.1%
Gain/Loss on foreign exchange	0.000	0.000	-	0.000	0.000	-
Other income	0.061	0.059	-2.8%	0.000	0.005	4762.1%
Operating costs	(0.751)	(1.155)	53.7%	(0.279)	(0.290)	104.0%
Administrative and general expenses	(0.319)	(0.329)	3.0%	(0.109)	(0.076)	69.3%
Income taxes (expense) benefit	(0.677)	(0.176)	-74.0%	(0.373)	0.274	-
Net income	11.051	4.601	-58.4%	3.209	0.372	11.6%
EPS (NT\$)	1.09	0.45				

**Balance Sheet Data**

Long-term investments in stock	216.3	218.8
Total assets	261.1	268.0
Total consolidated assets	4,295.5	4,688.9
Total shareholders' equity	212.2	218.5

**Operating Metrics**

ROAE(standalone)	6.2%	2.1%
ROAA (standalone)	5.1%	1.7%
ROAA(consolidated)	0.3%	0.1%

Notes:

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<b>Cathay Life</b> <b>Summary Financial Data</b> <b>(NT\$BN)</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY10/ FY09 % Chg</b>	<b>4Q09</b>	<b>4Q10</b>	<b>4Q10/ 4Q09/ % Chg</b>
<b>Summary Statement of Income Data</b>						
Premiums income <sup>(1)</sup>	442.048	515.069	16.5%	144.972	109.859	-24.2%
Investment income						
Interest income	73.321	77.340	5.5%	18.019	20.444	13.5%
Gain on disposal of investment	0.000	33.625	-	0.000	23.229	-
Other investment income, net	4.069	(22.055)	-	2.211	(19.810)	-
Total investment income, net <sup>(2)</sup>	77.391	88.910	14.9%	20.231	23.864	18.0%
Other income	13.665	23.754	73.8%	5.004	5.903	18.0%
Insurance claims payment	(231.833)	(283.623)	22.3%	(68.240)	(74.020)	8.5%
Provisions for reserves						
Provisions	(455.987)	(529.781)	16.2%	(157.788)	(121.156)	-23.2%
Recoveries	206.441	242.768	17.6%	71.040	70.268	-1.1%
Total provisions for reserves, net	(249.546)	(287.012)	15.0%	(86.748)	(50.888)	-41.3%
Commissions and operating expense						
Brokerage expenses	(27.697)	(29.839)	7.7%	(7.072)	(7.689)	-
Marketing, administrative and general expenses	(11.323)	(12.339)	9.0%	(3.340)	(3.955)	18.4%
Total commissions and operating expenses	(39.021)	(42.178)	8.1%	(10.412)	(11.644)	-
Other operating expenses	(8.299)	(25.778)	210.6%	(3.794)	(6.409)	68.9%
Operating income	4.406	(10.858)	-	1.013	(3.335)	-
Non-operating income	1.571	2.070	31.8%	0.494	0.479	-3.1%
Non-operating expense	(1.344)	(0.822)	-38.8%	(0.212)	(0.206)	-2.7%
Income taxes	(1.970)	3.095	-	0.174	1.676	861.1%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	2.662	(6.516)	-	1.470	(1.386)	-
<b>Balance Sheet Data</b>						
Total assets	2742.9	3047.7				
Total stockholders' equity	113.1	113.8				
<b>Operating Metrics</b>						
First Year Premium(FYP)	261.6	330.1				
First Year Premium Equivalent(FYPE)	53.2	78.8				
Expense ratio	8.2%	7.7%				
13-mos persistency ratio	89.7%	96.2%				
25-mos persistency ratio	81.6%	85.8%				
ROAE	3.2%	-5.7%				
ROAA	0.1%	-0.2%				

Notes:

(1) Excludes investment-linked products premium income.

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**Cathay United Bank**  
**Summary Financial Data**  
 (NT\$BN)

			FY10/ FY09		4Q10/ 4Q09	
	FY2009	FY2010	% Chg	4Q09	4Q10	% Chg
<b>Summary Statement of Income Data</b>						
Interest income	23.966	22.124	-7.7%	5.531	5.884	6.4%
Interest expense	(10.170)	(7.397)	-27.3%	(1.954)	(1.941)	-0.7%
Net interest income	13.796	14.727	6.7%	3.577	3.942	10.2%
Net operating income except interest income						
Net handling fee	4.677	6.548	40.0%	1.494	1.903	27.4%
Gains on financial assets and liabilities at fair value through P&L	2.840	0.530	-81.3%	0.329	0.216	-34.2%
Realized gains on available-for-sale financial assets	1.517	2.334	53.9%	0.446	0.567	27.3%
Realized gains on held-to-maturity financial assets	0.000	0.000	-	0.000	0.000	-
Invst inc - equity method	0.261	0.283	8.4%	0.088	0.120	36.1%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchng - net	0.592	0.653	10.3%	0.087	0.127	46.4%
Impairment gain/loss	(0.342)	(0.075)	-78.0%	(0.305)	(0.075)	-75.4%
Gains on reversal of foreclosed properties impairment	0.000	0.000	-	0.001	0.000	-100.0%
Gains/losses on disposal of foreclosed properties	(0.001)	1.040	-	(0.001)	0.000	-
Investments in debt securities with no active market, net	0.180	(0.120)	-	0.002	(0.178)	-
other income, net	1.930	1.271	-34.2%	0.845	0.203	-
Net operating income	25.452	27.191	6.8%	6.563	6.826	4.0%
Provisions for possible losses	0.000	0.000	-	0.000	(0.870)	-
Operating expenses	(14.400)	(14.806)	2.8%	(3.961)	(4.006)	1.2%
Income from continuing operations before income taxes	11.051	12.385	12.1%	2.602	1.949	-25.1%
Income tax benefit (expense)	(2.434)	(1.053)	-56.7%	(0.556)	(0.134)	-75.9%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	8.617	11.332	31.5%	2.046	1.815	-11.3%
<b>Balance Sheet Data</b>						
Total assets	1,510.2	1,576.6				
Total shareholders' equity	93.0	95.2				
<b>Operating Metrics</b>						
Cost income ratio	56.6%	54.5%				
ROAE	9.8%	12.0%				
ROAA	0.6%	0.7%				
<b>Assets Quality</b>						
NPL ratio (international standard)	0.6%	0.3%				
Coverage ratio (international standard)	135.1%	277.2%				

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**Cathay Century**  
**Summary Financial Data**  
(NT\$MM)

	FY2009	FY2010	FY10/ FY09 % Chg	4Q09	4Q10	4Q10/ 4Q09 % Chg
<b>Summary Statement of Income Data</b>						
Premiums income	11822.2	12629.5	6.8%	3171.9	3509.4	10.6%
Reinsurance premiums ceded	(3374.7)	(3459.9)	2.5%	(862.9)	(946.3)	9.7%
Premiums income, net	8447.5	9169.6	8.5%	2308.9	2563.2	11.0%
Investment						
Interest income	330.4	296.3	-10.3%	74.2	70.3	-5.2%
Other investment income, net	49.1	317.8	547.3%	8.0	196.1	2347.7%
Total investment income	379.5	614.1	61.8%	82.2	266.4	224.1%
Other operating income	347.2	345.9	-0.4%	85.0	94.4	11.0%
Insurance claims payment, net	(4116.2)	(5540.4)	34.6%	(879.3)	(1611.2)	83.2%
Provisions for reserves						
Provisions	(7003.4)	(7229.6)	3.2%	(718.7)	(449.7)	-37.4%
Recoveries	6218.4	6835.3	9.9%	310.0	205.5	-33.7%
Total provisions for reserves, net	(785.0)	(394.3)	-49.8%	(408.6)	(244.2)	-40.2%
Commissions, operating and other expenses	(3221.9)	(3869.6)	20.1%	(897.1)	(1240.6)	38.3%
Operating income	1051.1	325.3	-69.0%	291.1	(172.2)	-
Non-operating income	3.1	16.4	438.0%	3.0	11.3	278.7%
Non-operating expense	0.1	(0.2)	-	0.0	0.0	-
Income taxes	(268.8)	(40.4)	-85.0%	(73.7)	29.8	-
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0	-
Net income	785.3	301.1	-61.7%	220.4	(131.2)	-
<b>Summary Balance Sheet Data</b>						
Total assets	20,812.6	21,748.7				
Total stockholders' equity	4,300.0	3,471.7				
<b>Operating Metrics</b>						
Written Combined ratio	79.3%	91.4%				
Net Combined ratio	89.4%	103.3%				
ROAE	21.2%	7.8%				
ROAA	3.9%	1.4%				

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) All financial numbers are provided according to the new P&C insurance accounting principle of FSC promulgated on 01/01/2008.

(3) Total may not sum due to rounding





**國泰金控**  
**Cathay Financial Holdings**

**Shares Outstanding**  
**(Millions of shares)**

	<b>As of</b> <b>12/31/2010</b>
Total shares issued	10,154.4
Treasury shares	
CFH	0.0
Cross holdings of subsidiaries	
Cathay Life	0.0
Cathay United Bank	0.0
Cathay Century	0.0
Total cross-holdings of subsidiaries	0.0
Total treasury shares	0.0
Total shares outstanding	10,154.4

Notes: All data and information on this page is provided for informational purposes only, and may be subject to change. For more details, please refer to our official financial reports.



## Capital Adequacy Metrics

	<u>Capital Adequacy Metrics (As of 31-Dec-2010)</u>			<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	144.6%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	250%	-	300%	200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.17% / 9.55%			8.00% / 6.00%
Cathay Securities BIS Ratio	539%			150%

### Notes:

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