

Cathay Financial Holdings Co., Ltd
2011 First Half Briefing



September 2011

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Agenda

- **1H11 Overview and 2H11 Outlook**
- **1H11 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**
- **Development of Asset Management Business**

1H11 Overview

Cathay Life

- FYP of regular-pay traditional products grew by 17% YoY, ranked #1 in terms of FYP and FYPE market share.
- Cash position reduced to 11.3%, overseas investment increased to 40.7%, hedging cost improved, and reported turnaround in profit for 1H11.
- Continued to increase the number of policyholders and premium income in China ; expanded service footprints steadily in Vietnam.

Cathay United Bank

- Total loans grew by 10.4% YoY.
- Maintained superior asset quality; NPL ratio of 0.37% and coverage ratio of 225.4%.
- Fee income grew by 12.8% YoY.

Cathay Century

- Market share increased to 11.8%, premium income grew by 16% YoY; maintained No.2 market position.
- China: Shandong branch began operations in June; 8 branches in 6 provinces and cities
- Vietnam: Hanoi branch began operations in May.

Cathay Securities

- 1H11 after-tax net income of NT\$ 100MN.
- Each business line continued to deliver stable earnings.

Cathay SITE

- Become a Cathay FHC 100% owned subsidiary in June.
- 1H11 after-tax net income of NT\$ 180MN, EPS of NT\$ 4.27.
- Obtained QFII license from China in June.

2H11 Outlook

Cathay Life

- Continue to increase sales of high margin products.
- Improve capital efficiency and control hedging cost to enhance investment yields.
- Focus on business penetration through existing network in China and Vietnam; increase agent productivity.

Cathay United Bank

- Maintain steady growth momentum of loans and fee income.
- Increase LDR and NIM.
- Maintain sound asset quality.
- Raise Shanghai branch's capital to RMB 1BN, aim for profit in first year.

Cathay Century

- Expand marketing channels to maintain the growth of premium income.
- Enhance quality of customer service and increase brand value.
- Improve organizational development in China and Vietnam; expand distribution channels.

Cathay Securities

- Continue to grow brokerage market share.
- Enhance profitability by continuing to develop underwriting and financial products.

Cathay SITE

- Continue to increase total AUM, expand services for institutional and retail clients.
- Pursue the asset management mandate of
 - 1) QDII from China
 - 2) Domestic / Foreign institutional investors.

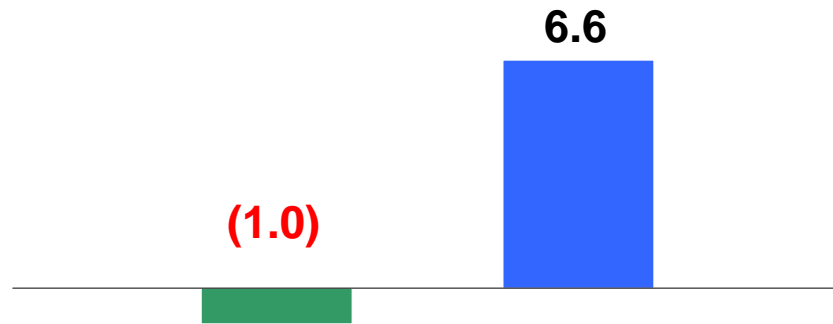
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Cathay FHC — Net income & EPS

Net income (NT\$BN)

1H10 1H11

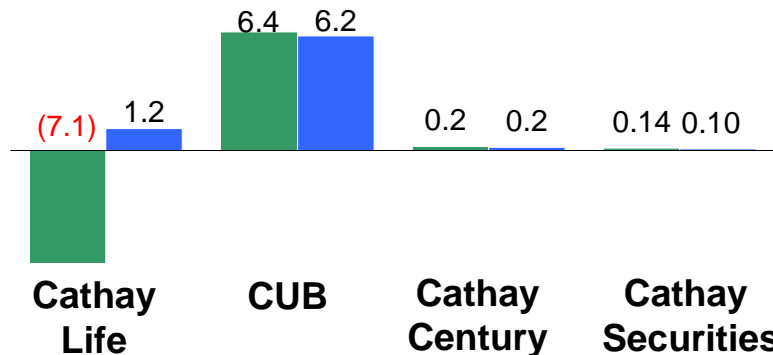


EPS (NT\$)

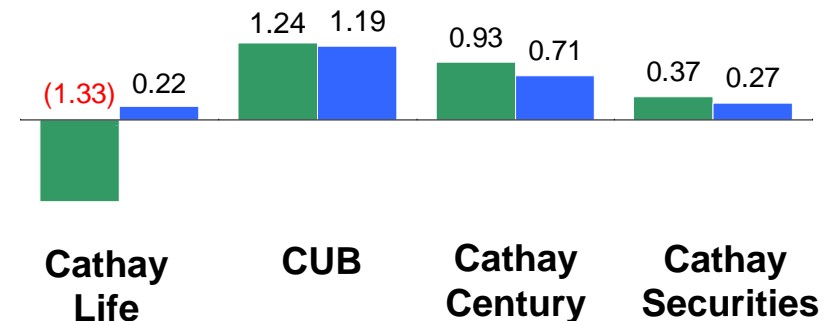
1H10 1H11



Net income of primary subsidiaries



EPS of primary subsidiaries



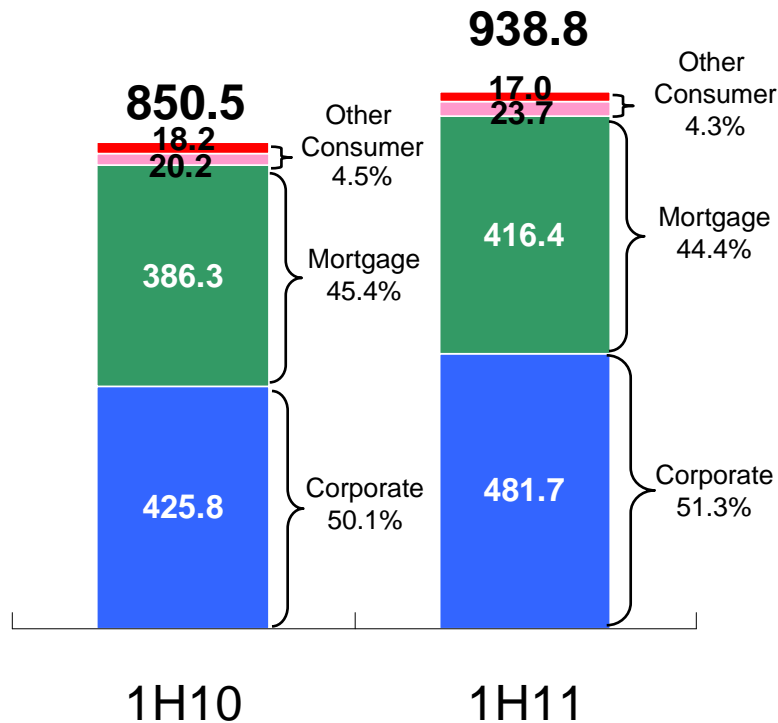
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Cathay United Bank — Loan & deposit breakdown

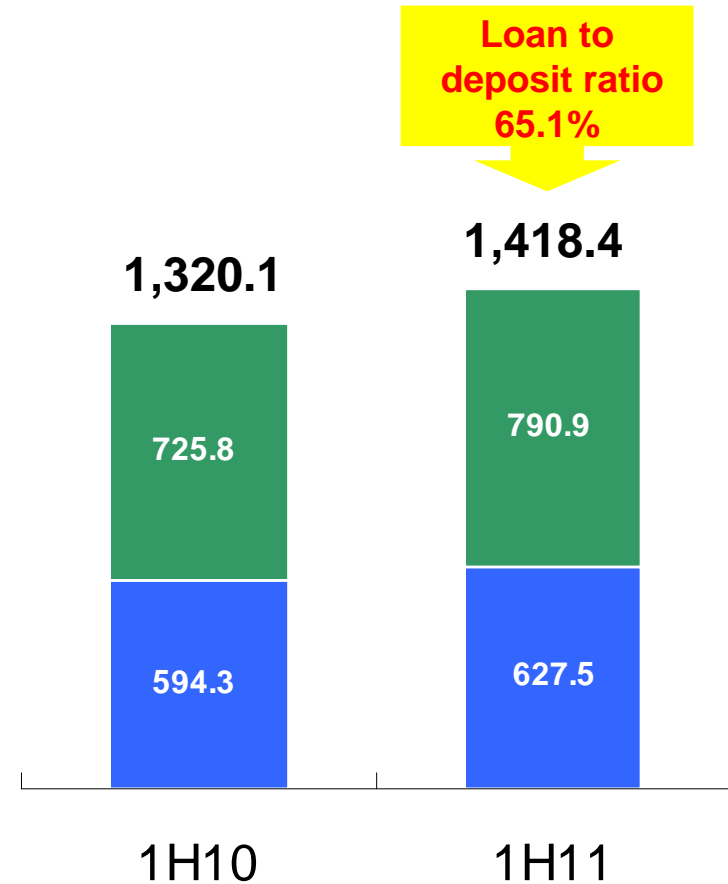
Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



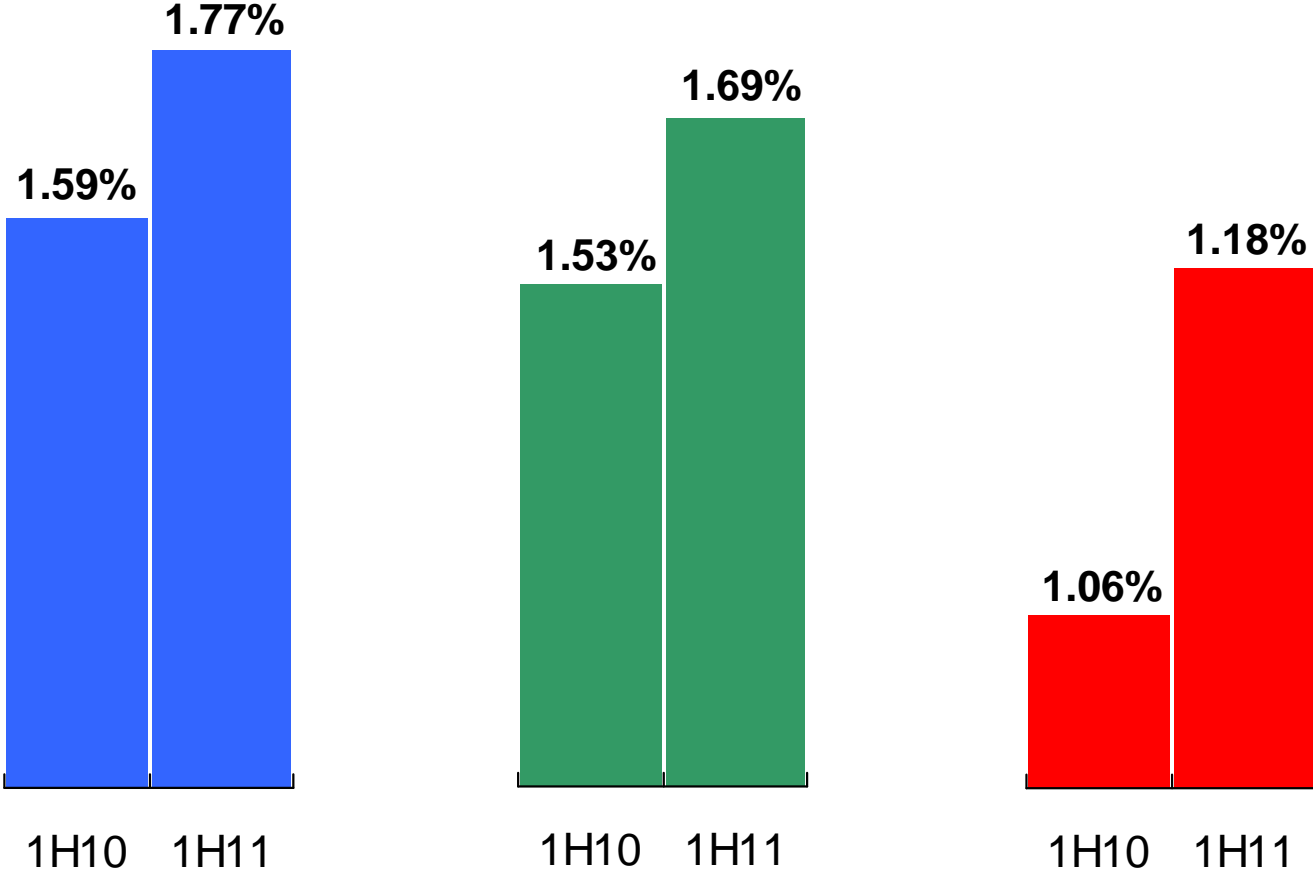
Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit



Cathay United Bank – Interest yields

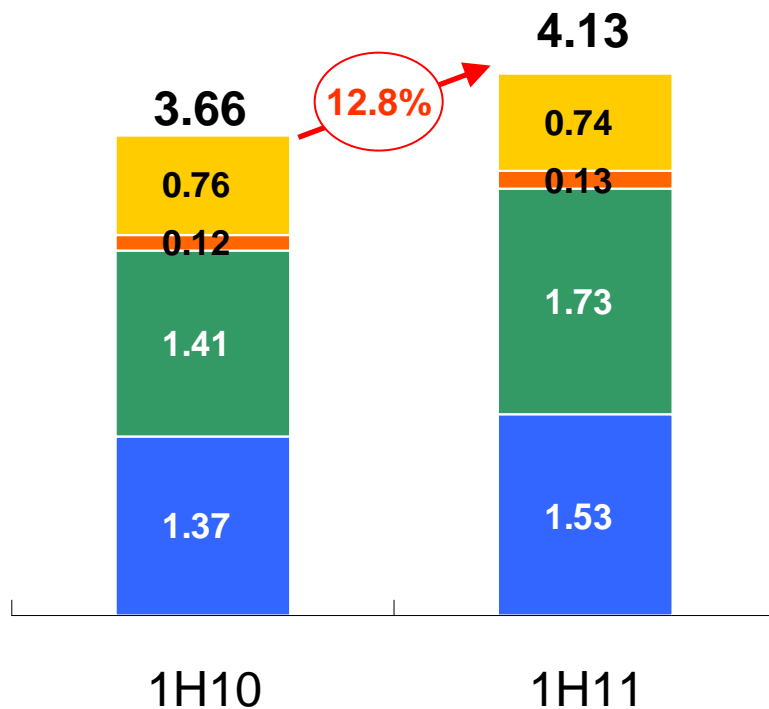
■ Avg. rate of interest-earning assets ■ Interest spread ■ Net interest margin



Cathay United Bank – Fee income

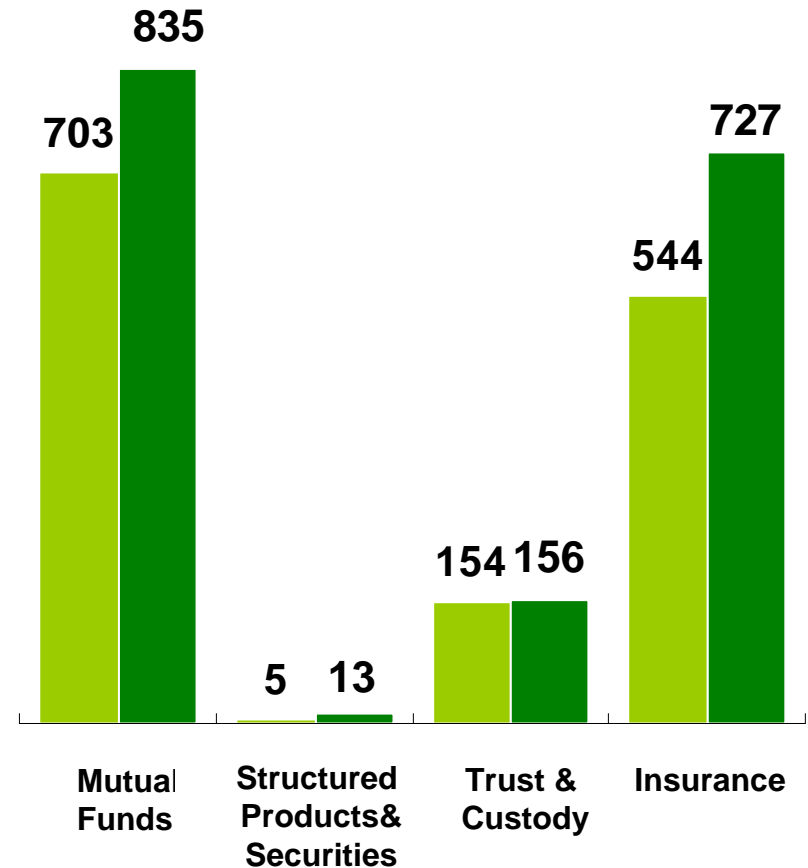
Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



Wealth management fee breakdown (NT\$MN)

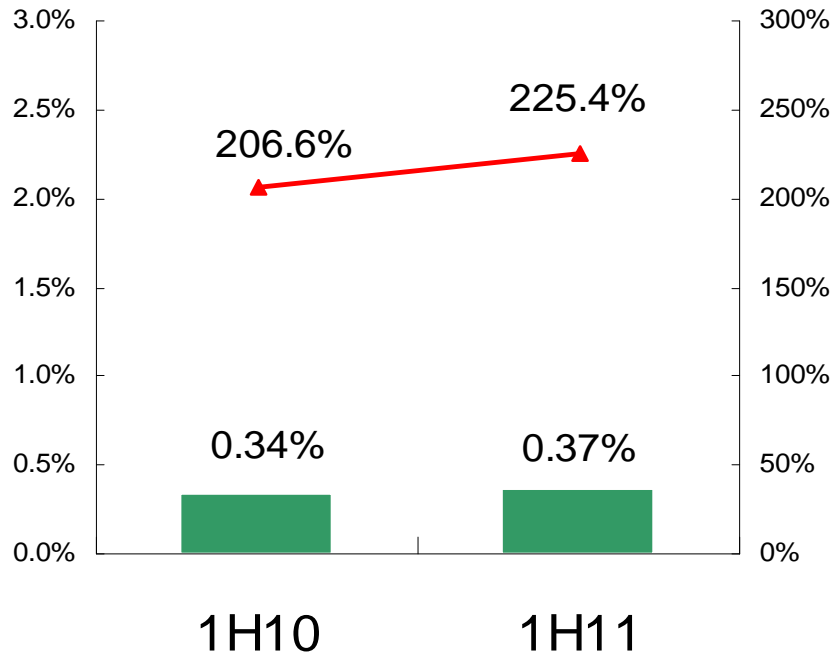
- 1H10
- 1H11



Cathay United Bank – Credit quality

NPL & Coverage ratio

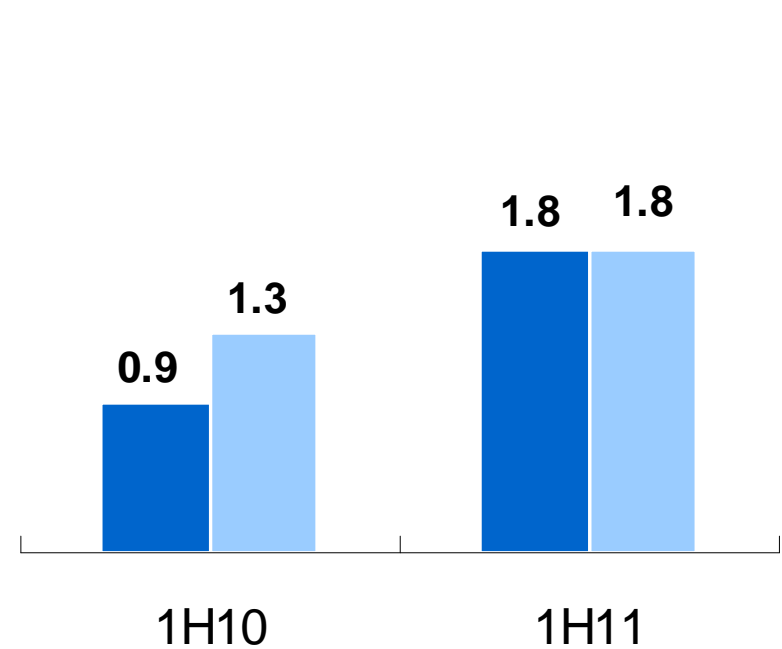
- NPL ratio(LHS)
- Coverage ratio(RHS)



Mortgage NPL	1H10	1H11
	0.22%	0.09%

Gross provision (NT\$BN)

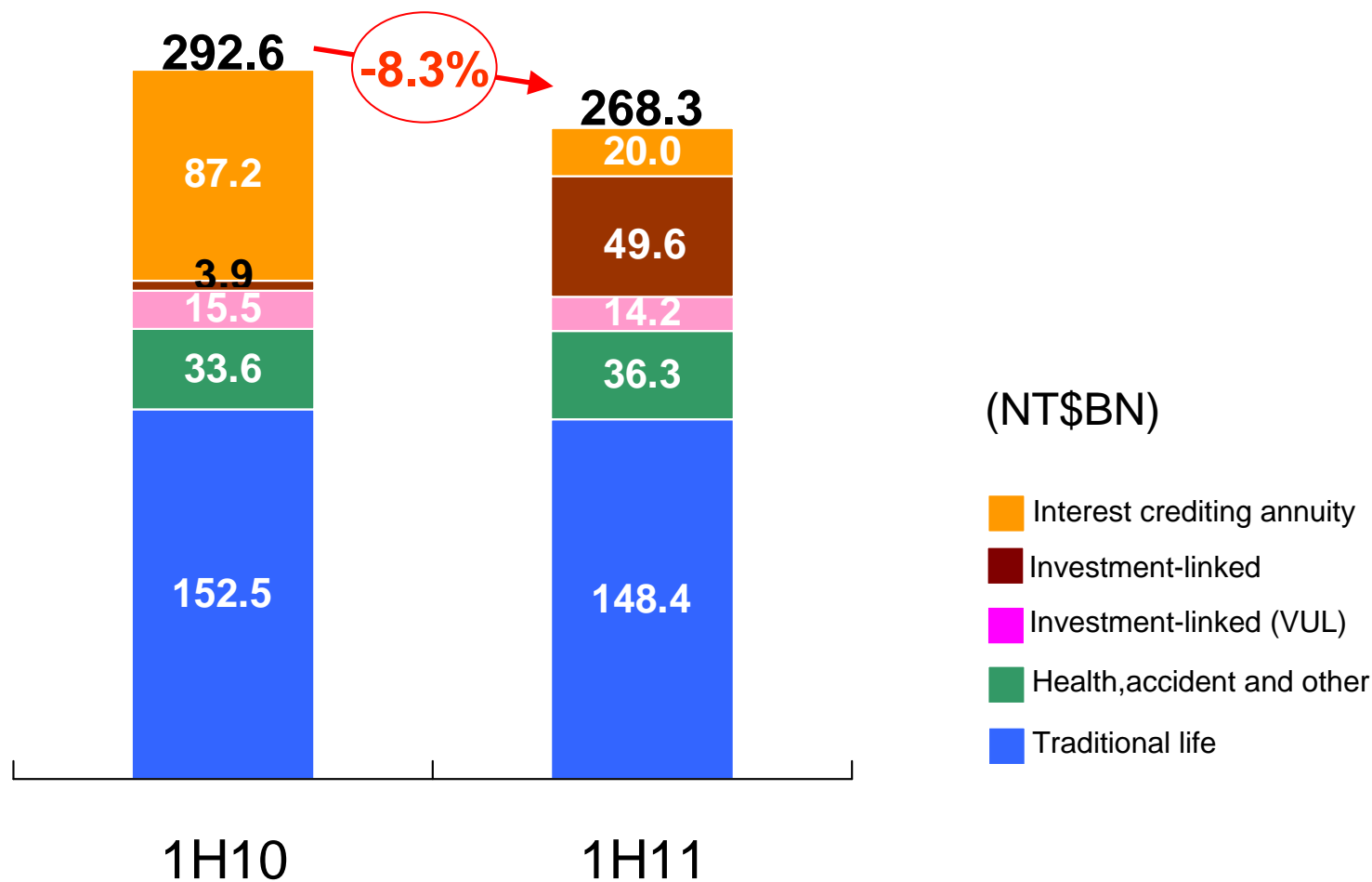
- Gross provision
- Recovery



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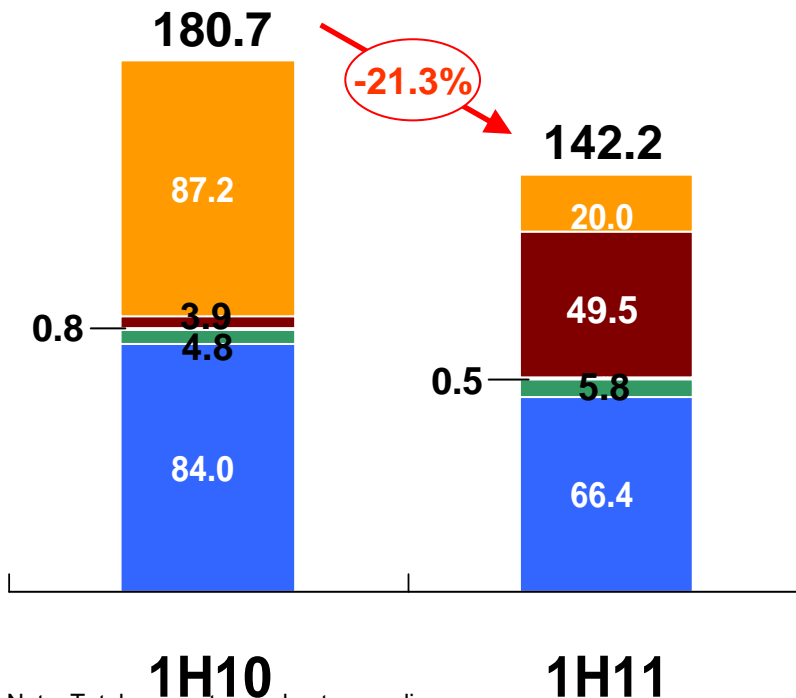
Cathay Life – Total premium



Cathay Life — FYP/ FYPE

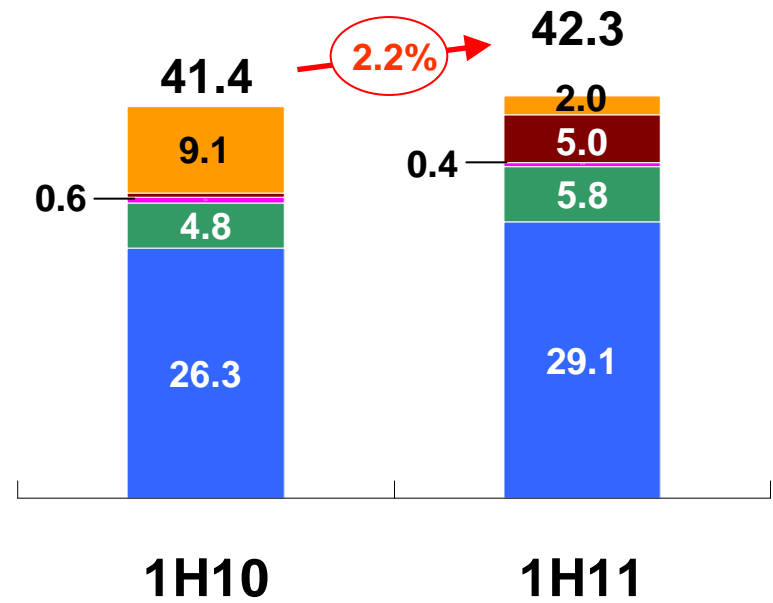
First year premium (FYP)

- 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

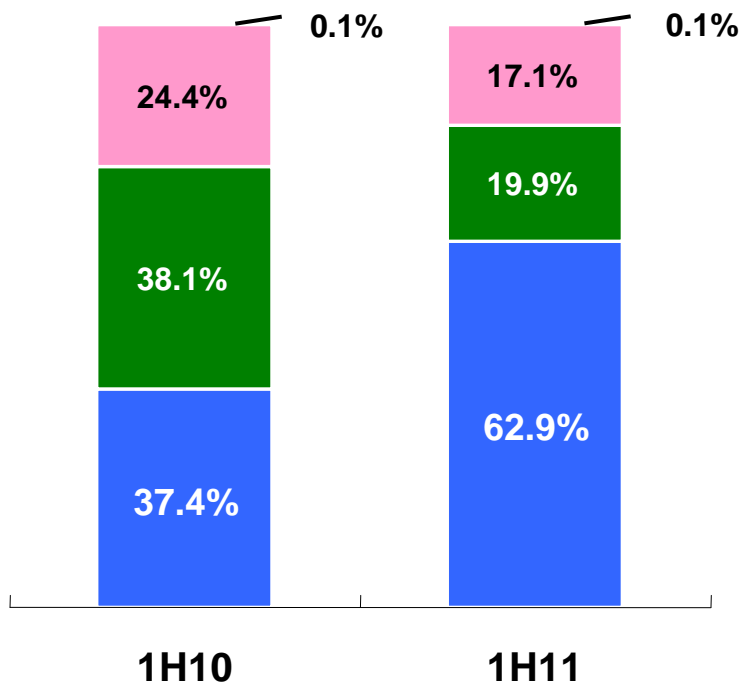


Note: Total may not sum due to rounding

Cathay Life — Distribution channel

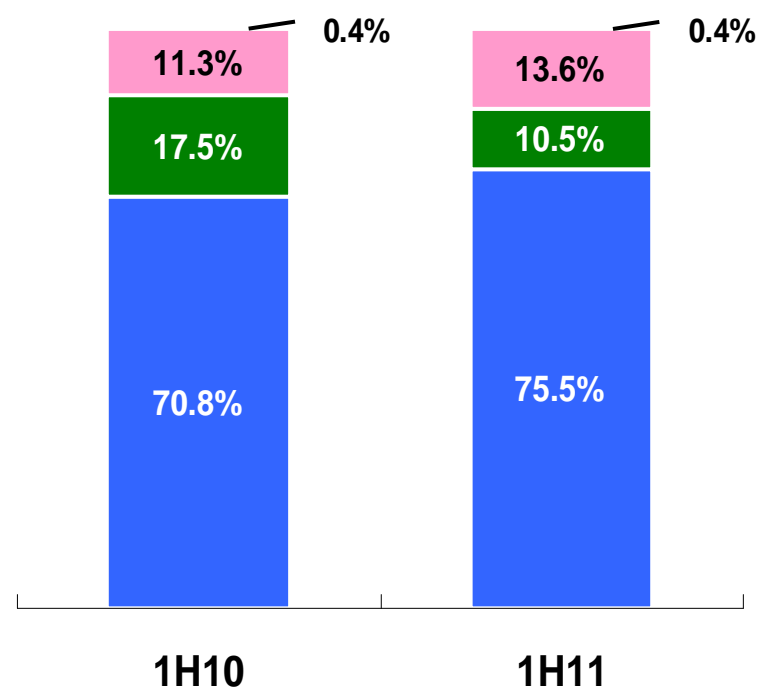
First year premium (FYP)

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



First year premium equivalent (FYPE)

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

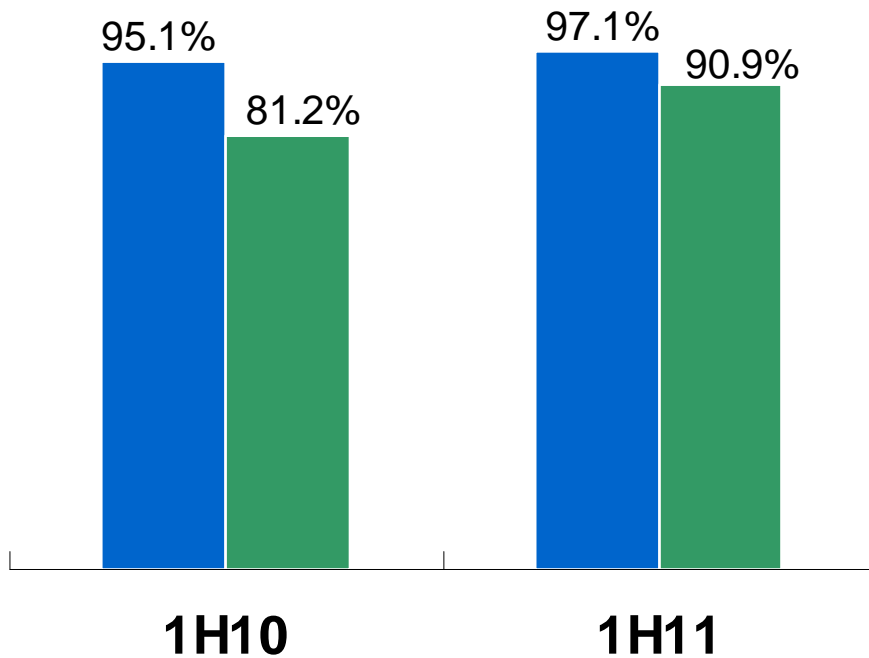


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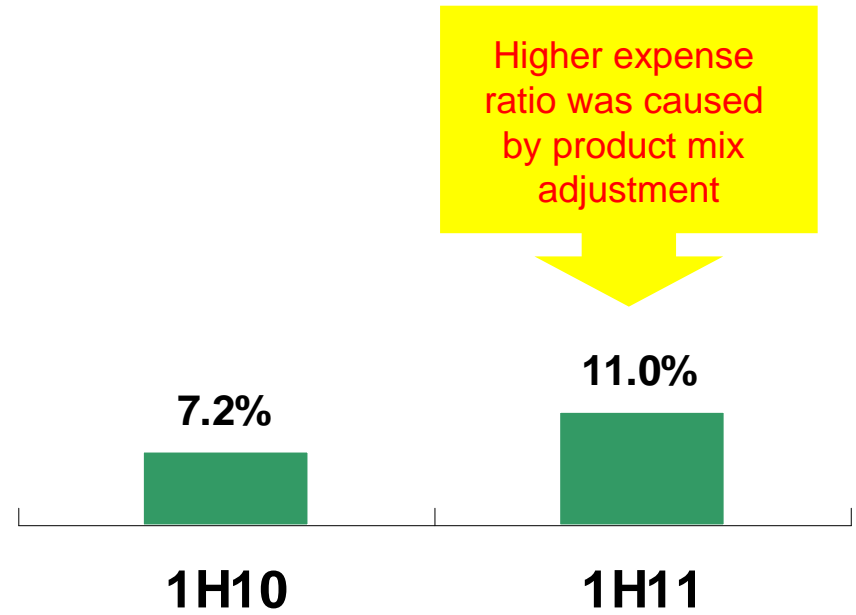
Cathay Life – Operational indicators

Persistency ratio

■ 13 months ■ 25 months



Expense ratio



Note: Due to definition change, expense ratio of 1H10 has been revised

Cathay Life – Investment portfolio

	1Q11		2Q11		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	350.5	12.5%	321.2	11.3%	-1.2%	-29.3
Equity- Domestic	212.8	7.6%	221.4	7.8%	0.2%	8.7
Equity- International	67.0	2.4%	85.0	3.0%	0.6%	18.1
Bond- Domestic	435.9	15.5%	462.7	16.2%	0.7%	26.8
Bond- International ⁽¹⁾	1,072.7	38.2%	1,075.1	37.7%	-0.5%	2.4
Mortgage & Secured loans	291.6	10.4%	294.9	10.3%	-	3.3
Policy loans	189.2	6.7%	187.8	6.6%	-0.2%	-1.4
Real estate	141.3	5.0%	142.2	5.0%	-	0.8
Others	49.9	1.8%	63.3	2.2%	0.4%	13.4
Total investments⁽²⁾⁽³⁾	2,810.9	100%	2,853.7	100%		

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

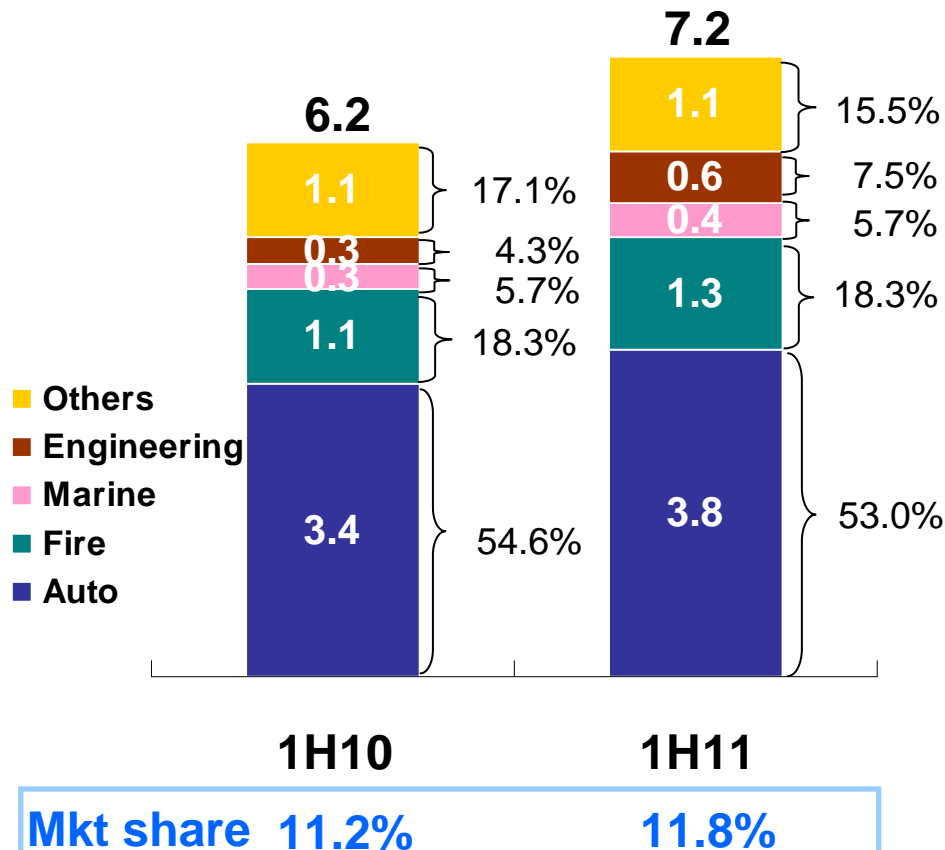
Note (4) : Totals may not sum due to rounding

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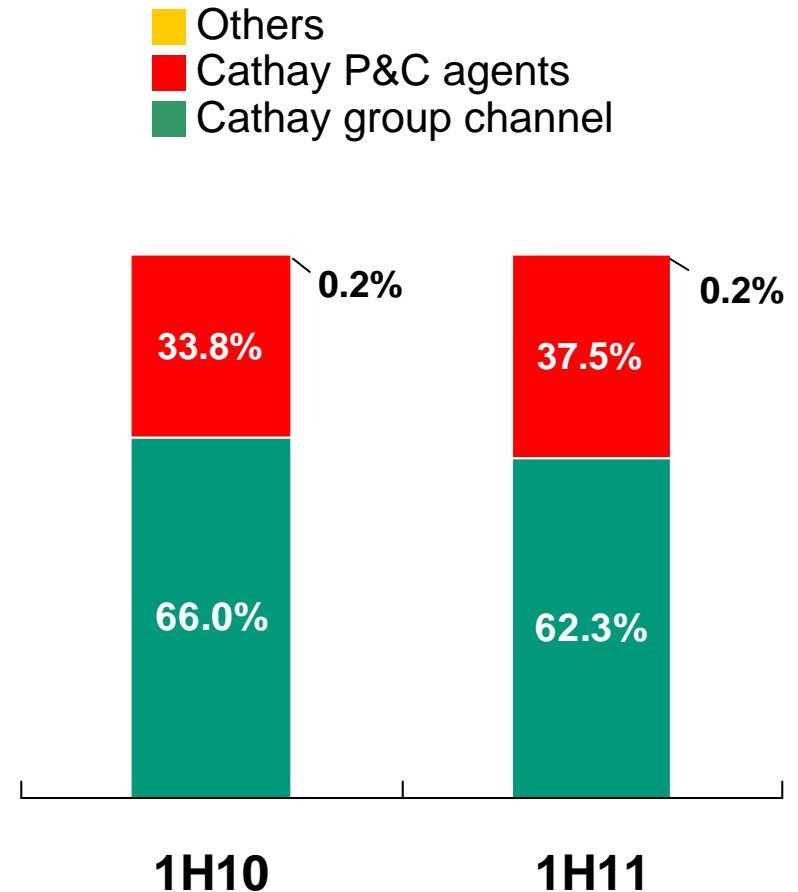
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Cathay Century

Product breakdown (NT\$BN)



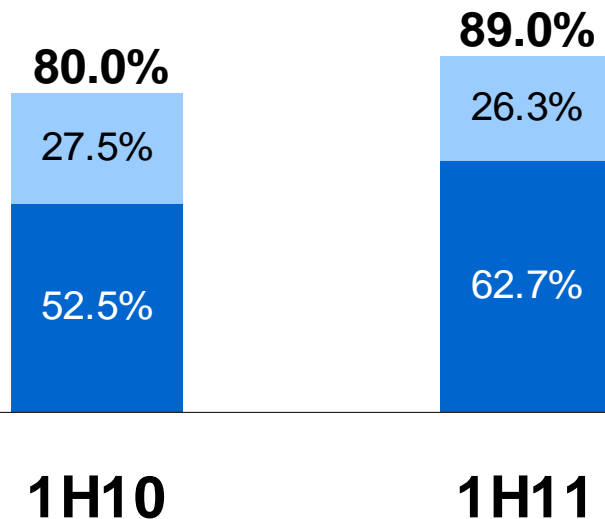
Distribution channel



Cathay Century

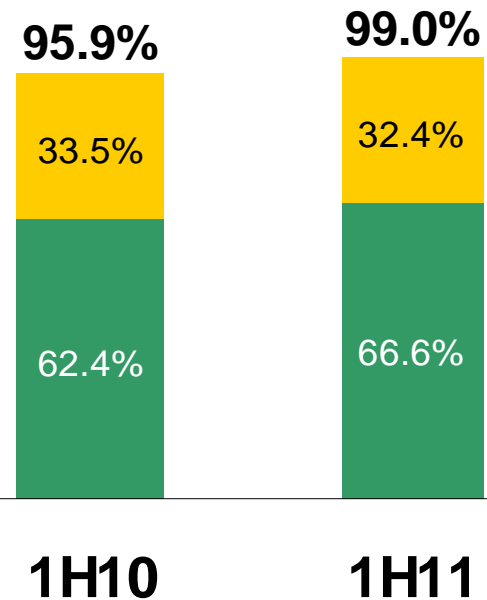
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retained rate **70.8%** **71.2%**

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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: 1,310 tied agents
- Footprint: 36 offices in 28 cities, 9 provinces
- Policyholders: approximately 3.07MN⁽¹⁾

■ Cathay United Bank

- Hong Kong branch
- 1H11 Pre-tax net income of Shanghai branch was approximately USD0.78 MN

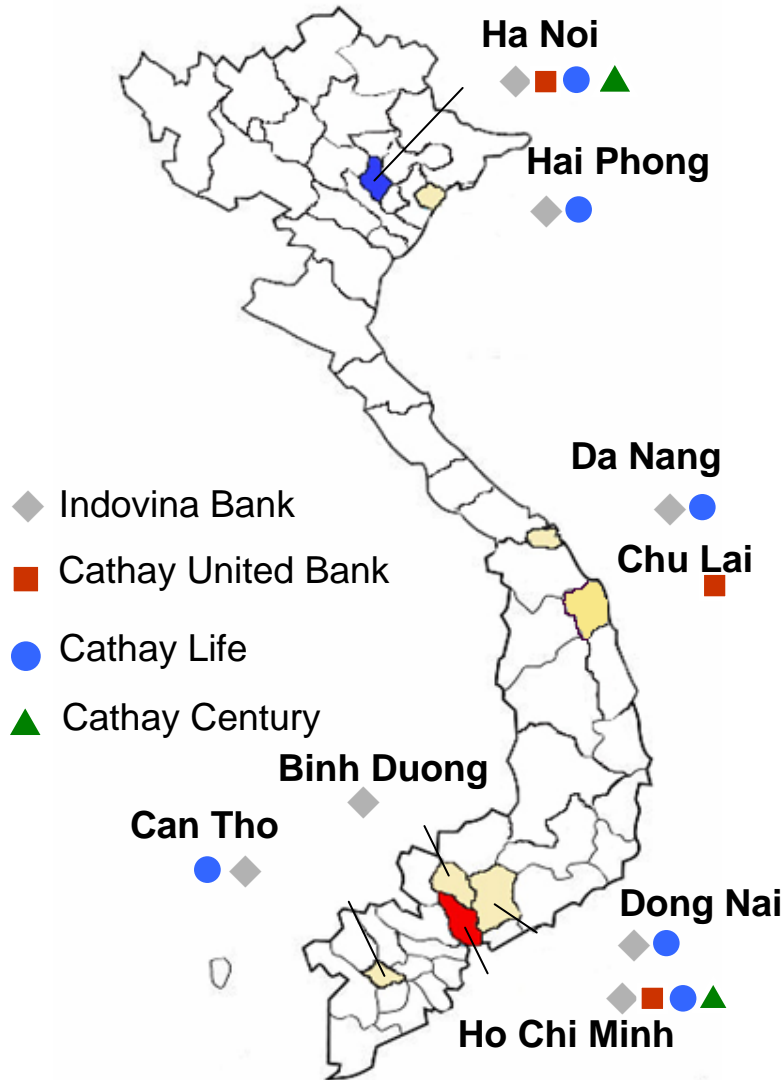
■ Cathay Century (China)

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

- Cathay Life plans to purchase headquarter's building in Shanghai; obtained approval from FSC in August.

Note(1): Numbers are effective policyholders as of 2011/06/30

Cathay FHC in Vietnam



■ Indovina Bank

- Joint venture bank between CUB and VietinBank with 34 locations
- Total assets : USD1,059.9 MN
- NPL ratio : 0.79%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax net income: USD16.13 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 USD3.73 MN

■ Cathay Life

- Headquartered in Ho Chi Minh
- 5 branches (Hanoi, Da Nang, Can Tho, Dong Nai, and Hai Phong)
- Sales force: 9,526 tied agents
- Net loss was approximately USD 0.67 MN

■ Cathay Century

- Began operations in Dec. 2010
- Headquartered in Ho Chi Minh
- 1 branch: Ha Noi

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 - Cathay United Bank

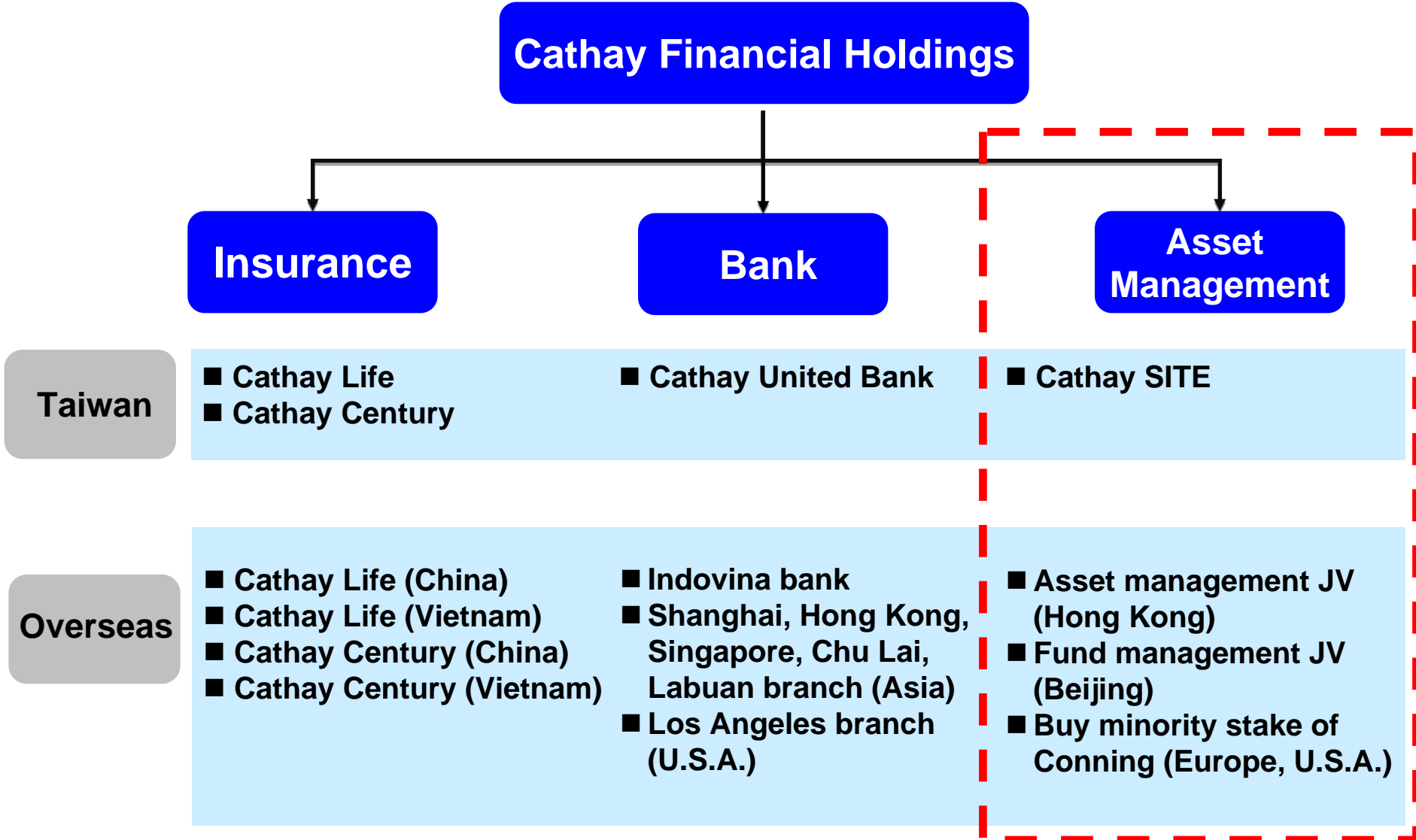
 - Cathay Life

 - Cathay Century

- **Overseas expansion**

- **Development of Asset Management Business**

Complement on strength in banking and insurance



Global Asset Management Platform

Taiwan : Cathay FHC acquire 100% stake in Cathay SITE



- Increase economies of scale to become the No. 1 asset management company in Taiwan.
- Sharpen capabilities, improve capital efficiency.
- Pursue the asset management mandate of
 - 1) QDII from China ;
 - 2) Domestic / Foreign institutional investors.

Overseas : Expand presence in the asset management industry



- Buy minority stake of Conning (U.S.A.), a leading asset manager for insurance industry.
- Plan to form a JV with Conning in Hong Kong.
- Service institutional investors in Asia, Europe and U.S.A..



- Form a JV in Beijing with China Development Bank Securities.
- Participate in RMB's fund management market in China.

Grow asset management business worldwide with a full range of investment products for institutional and retail clients.



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

	FY2009	FY2010	FY10/ FY09 % Chg	1H10	1H11	1H11/ 1H10/ % Chg	2Q10	2Q11	2Q11/ 2Q10/ % Chg
<u>Statement of Income Data</u>									
Interest income	0.553	0.869	57.1%	0.420	0.453	7.9%	0.212	0.231	9.0%
Income from subsidiaries									
Cathay Life	2.672	(6.516)	-	(7.072)	1.177	-	(3.052)	2.676	-
Cathay United Bank	8.688	11.332	30.4%	6.469	6.226	-3.8%	3.884	3.032	-21.9%
Cathay Century	0.794	0.301	-62.1%	0.216	0.165	-23.7%	0.072	(0.056)	-
Other	0.030	0.215	616.7%	0.084	(0.642)	-	0.031	(0.759)	-
Total income from subsidiaries, net	12.184	5.332	-56.2%	(0.302)	6.926	-	0.936	4.894	422.6%
Gain/Loss on foreign exchange	0.000	0.000	-	0.000	0.000	-	0.000	(0.000)	-
Other income	0.061	0.059	-2.8%	0.007	(0.000)	-	0.007	(0.000)	-
Operating costs	(0.751)	(1.155)	53.7%	(0.575)	(0.570)	-0.8%	(0.291)	(0.287)	-1.6%
Administrative and general expenses	(0.319)	(0.329)	3.0%	(0.152)	(0.159)	4.5%	(0.085)	(0.096)	13.8%
Income taxes (expense) benefit	(0.677)	(0.176)	-74.0%	(0.426)	(0.011)	-97.4%	(0.494)	0.005	-
Net income	11.051	4.601	-58.4%	(1.028)	6.639	-	0.285	4.746	1565.9%
EPS (NT\$)	1.09	0.45		(0.10)	0.64				
<u>Balance Sheet Data</u>									
Long-term investments in stock	216.3	218.8		192.8	210.0				
Total assets	261.1	268.0		247.1	269.7				
Total shareholders' equity	212.2	218.5		192.6	208.5				
Total consolidated assets	4,295.5	4,688.9		4,445.0	4,844.6				
Total consolidated shareholders' equity	215.4	222.5		195.5	212.4				
<u>Operating Metrics</u>									
ROAE(standalone)	6.2%	2.1%		-1.0%	6.2%				
ROAA (standalone)	5.1%	1.7%		-0.8%	4.9%				
ROAA(consolidated)	0.3%	0.1%		-0.1%	0.3%				

Notes:

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For more details, please refer to our official financial reports.

(2) Total may not sum due to rounding

Cathay Life Summary Financial Data (NT\$BN)	FY10/ FY09			1H11/ 1H10/			2Q11/ 2Q10/		
	FY2009	FY2010	% Chg	1H10	1H11	% Chg	2Q10	2Q11	% Chg
Summary Statement of Income Data									
Premium income ⁽¹⁾	442.048	515.069	16.5%	240.869	203.542	-15.5%	120.618	101.351	-16.0%
Reinsurance premium ceded	(6.298)	(23.737)	276.9%	(11.820)	(10.206)	-13.7%	(5.993)	(6.606)	10.2%
Changes in unearned premium reserve	0.517	(0.879)	-	0.355	2.058	479.4%	0.145	0.838	479.5%
Retained earned premium	436.267	490.453	12.4%	229.404	195.393	-14.8%	114.770	95.582	-16.7%
Reinsurance commission earned	7.783	9.254	18.9%	5.135	5.353	4.2%	2.454	3.481	41.9%
Handling fee earned	3.813	2.213	-42.0%	1.069	1.488	39.2%	0.537	0.520	-3.1%
Investment income									
Interest income	73.321	77.340	5.5%	37.455	42.288	12.9%	19.164	21.388	11.6%
Gain on disposal of investment	(26.402)	33.625	-	7.901	50.421	538.1%	(0.844)	25.711	-
Other investment income, net	30.509	(22.050)	-	(7.102)	(48.071)	576.9%	1.531	(23.209)	-
Total investment income, net ⁽²⁾	77.428	88.916	14.8%	38.254	44.638	16.7%	19.852	23.890	20.3%
Separate account product revenues	144.069	137.096	-4.8%	1.081	64.128	5831.9%	(7.528)	23.151	-
Retained claims payment	(229.763)	(271.336)	18.1%	(127.266)	(130.294)	2.4%	(62.724)	(69.062)	10.1%
Changes in liability reserves	(250.064)	(286.133)	14.4%	(134.236)	(94.006)	-30.0%	(66.934)	(41.265)	-38.3%
Commissions and operating expense									
Brokerage expenses	(27.697)	(29.839)	7.7%	(14.788)	(16.849)	13.9%	(7.560)	(7.790)	3.0%
Marketing, administrative and general expenses	(11.323)	(12.339)	9.0%	(5.284)	(6.310)	19.4%	(2.851)	(3.401)	19.3%
Total commissions and operating expenses	(39.021)	(42.178)	8.1%	(20.072)	(23.158)	15.4%	(10.411)	(11.191)	7.5%
Other operating expenses	(146.107)	(139.143)	-4.8%	(2.024)	(65.325)	3127.7%	6.956	(23.736)	-
Operating income	4.406	(10.858)	-	(8.655)	(1.781)	-79.4%	(3.029)	1.369	-
Non-operating income	1.571	2.070	31.8%	1.119	0.864	-22.8%	0.571	0.458	-19.7%
Non-operating expense	(1.344)	(0.822)	-38.8%	(0.408)	(0.407)	-0.1%	(0.205)	(0.204)	-0.3%
Income taxes	(1.970)	3.095	-	0.871	2.502	187.1%	(0.388)	1.053	-
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Net income	2.662	(6.516)	-	(7.072)	1.177	-	(3.052)	2.676	-
Balance Sheet Data									
Total assets	2742.9	3047.7		2897.1	3174.5				
Total stockholders' equity	113.1	113.8		92.8	104.6				
Operating Metrics									
First Year Premium(FYP)	261.6	330.1		180.7	142.2				
First Year Premium Equivalent(FYPE)	53.2	78.8		41.4	42.3				
Expense ratio	8.2%	7.7%		7.2%	11.0%				
13-mos persistency ratio	89.7%	96.2%		95.1%	97.1%				
25-mos persistency ratio	81.6%	85.8%		81.2%	90.9%				
ROAE	3.2%	-5.7%		-13.7%	2.2%				
ROAA	0.1%	-0.2%		-0.5%	0.1%				

Notes:

(1) Excludes investment-linked products premium income.

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

Summary Statement of Income Data			FY09		1H10		2Q10		2Q11	
	FY2009	FY2010	% Chg	1H10	1H11	% Chg	2Q10	2Q11	% Chg	
Interest income	23.966	22.124	-7.7%	10.678	12.815	20.0%	5.338	6.587	23.4%	
Interest expense	(10.170)	(7.397)	-27.3%	(3.531)	(4.274)	21.0%	(1.786)	(2.283)	27.8%	
Net interest income	13.796	14.727	6.7%	7.147	8.542	19.5%	3.552	4.304	21.2%	
Net operating income except interest income										
Net handling fee	4.677	6.548	40.0%	3.040	3.478	14.4%	1.642	1.834	11.7%	
Gains on financial assets and liabilities at fair value through P&L	2.840	0.530	-81.3%	0.047	0.681	1360.0%	(0.168)	0.363	-	
Realized gains on available-for-sale financial assets	1.517	2.334	53.9%	1.301	1.205	-7.4%	0.793	0.373	-53.0%	
Realized gains on held-to-maturity financial assets	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-	
Invst inc - equity method	0.261	0.283	8.4%	0.119	0.194	63.3%	0.060	0.063	5.2%	
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-	
Gain on foreign exchng - net	0.592	0.653	10.3%	0.353	0.323	-8.5%	0.253	0.140	-44.7%	
Impairment gain/loss	(0.342)	(0.075)	-78.0%	0.000	(0.043)	-	0.000	(0.043)	-	
Gains on reversal of foreclosed properties impairment	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-	
Gains/losses on disposal of foreclosed properties	(0.001)	1.040	-	1.039	0.007	-99.3%	1.039	0.000	-100.0%	
Investments in debt securities with no active market, net	0.180	(0.120)	-	0.038	0.002	-95.1%	0.028	0.001	-94.7%	
other income, net	1.930	1.271	-34.2%	1.075	0.579	-46.2%	0.483	0.239	-50.6%	
Net operating income	25.452	27.191	6.8%	14.158	14.967	5.7%	7.681	7.274	-5.3%	
Operating expenses	(14.400)	(14.806)	2.8%	(7.118)	(7.845)	10.2%	(3.632)	(3.814)	5.0%	
Income from continuing operations before income taxes	11.051	12.385	12.1%	7.040	7.121	1.2%	4.049	3.460	-14.5%	
Income tax benefit (expense)	(2.434)	(1.053)	-56.7%	(0.571)	(0.895)	56.7%	(0.165)	(0.428)	159.4%	
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-	
Net income	8.617	11.332	31.5%	6.469	6.226	-3.8%	3.884	3.032	-21.9%	
Balance Sheet Data										
Total assets	1,510.2	1,576.6		1,516.8	1,629.9					
Total shareholders' equity	93.0	95.2		90.9	93.7					
Operating Metrics										
Cost income ratio	56.6%	54.5%		50.3%	52.4%					
ROAE	9.8%	12.0%		14.1%	13.2%					
ROAA	0.6%	0.7%		0.9%	0.8%					
Assets Quality										
NPL ratio (international standard)	0.6%	0.3%		0.3%	0.4%					
Coverage ratio (international standard)	135.1%	277.2%		206.6%	225.4%					

Notes:

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For more details, please refer to our official financial reports.

(2) Total may not sum due to rounding

Cathay Century
Summary Financial Data
 (NT\$MM)

<u>Summary Statement of Income Data</u>	FY2009	FY2010	FY10/ FY09	1H11/ 1H10		2Q10		2Q11/ 2Q10	% Chg
			% Chg	1H10	1H11	% Chg	2Q11		
Premiums income	11,822.2	12,629.5	6.8%	6191.8	7198.5	16.3%	3137.0	3667.2	16.9%
Reinsurance premiums ceded	(3,374.7)	(3,459.9)	2.5%	(1807.8)	(2073.8)	14.7%	(925.9)	(1033.9)	11.7%
Changes in unearned premium reserve	177.5	151.1	-14.9%	(26.9)	(595.6)	2111.0%	1.0	(342.9)	-
Premiums income, net	8,270.0	9018.5	9.1%	4357.1	4529.1	3.9%	2212.1	2290.4	3.5%
Investment									
Interest income	330.4	296.3	-10.3%	155.0	152.5	-1.6%	87.4	84.0	-3.9%
Other investment income, net	(18.5)	34.4	-285.8%	(112.5)	72.8	-	(46.3)	12.8	-
Total investment income	311.9	330.6	6.0%	42.5	225.3	430.0%	41.1	96.8	135.5%
Other operating income	347.2	345.9	-0.4%	183.6	164.6	-10.4%	80.8	87.1	7.8%
Insurance claims payment, net	4,231.1	4676.6	10.5%	(2101.0)	(2766.9)	31.7%	#####	(1418.8)	32.7%
Provisions for reserves									
Total provisions for reserves, net	(492.7)	(1107.0)	124.7%	(551.8)	(130.0)	-76.4%	(322.7)	(89.5)	-72.3%
Commissions, operating and other expenses	3,586.1	3154.2	-12.0%	(1657.3)	(1842.5)	11.2%	(864.5)	(956.2)	10.6%
Operating income	1,051.1	325.3	-69.0%	273.1	179.6	-34.2%	77.5	(71.1)	-
Non-operating income	3.1	16.3	434.7%	4.8	1.6	-65.7%	4.8	0.0	-99.0%
Non-operating expense	0.1	0.2	-	0.1	0.5	563.5%	0.0	0.1	44.7%
Income taxes	(268.8)	(40.4)	-85.0%	(61.6)	(15.6)	-74.6%	(10.0)	15.4	-
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
Net income	785.2	301.1	-61.6%	216.3	165.1	-23.7%	72.2	(55.8)	-
<u>Summary Balance Sheet Data</u>									
Total assets	20,812.6	21,748.7		20,591.1	24,697.7				
Total stockholders' equity	4,300.0	3,471.7		3,408.9	3,509.1				
<u>Operating Metrics</u>									
Written Combined ratio	79.3%	91.4%		80.0%	89.0%				
Net Combined ratio	89.4%	103.3%		95.9%	99.0%				
ROAE	21.2%	7.8%		11.2%	9.5%				
ROAA	3.9%	1.4%		2.1%	1.4%				

Notes:

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(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



Shares Outstanding
(Millions of shares)

	<u>As of</u> <u>6/30/2011</u>
Total shares issued	10,357.5
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	10,357.5

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Capital Adequacy Metrics

	<u>Capital Adequacy Metrics (As of 30-Jun-2011)</u>			<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	123.95%			100%
Cathay Life RBC Ratio	200%	-	250%	200%
Cathay Century RBC Ratio	200%	-	250%	200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.91% / 9.07%			8.00% / 6.00%
Cathay Securities BIS Ratio	507%			150%

Notes:

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