

Cathay Financial Holdings Co., Ltd
2011 Third Quarter Briefing



November 2011

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Agenda

- **9M11 Overview**
- **9M11 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**

9M11 Overview

Cathay United Bank

- Maintained superior asset quality; NPL ratio of 0.38% and coverage ratio of 222.1%.
- Fee income grew by 9.3% YoY with steady growth momentum.
- Sustained stable profitability.

Cathay Life

- FYP of regular-pay traditional products grew by 15% YoY, ranked #1 in terms of FYP and FYPE market share.
- Cash position reduced to 9%, overseas investment continued to increase, and hedging cost improved.

Cathay Century

- Market share increased to 11.9%, premium income grew by 14.6% YoY; maintained No.2 market position.
- 4 branches newly established in China, continued to deepen and expand distribution channels.

Cathay SITE

- Ranked #1 in terms of AUM, which amounted to NT\$ 360BN.
- Continued to complement product lines, fund raising amount kept on growth.

Cathay Securities

- Market share of brokerage business kept increasing, with 23% YoY growth.
- Each business line has performed stably.

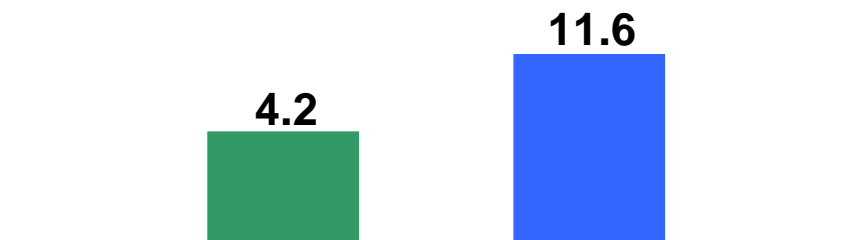
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Cathay FHC — Net income & EPS

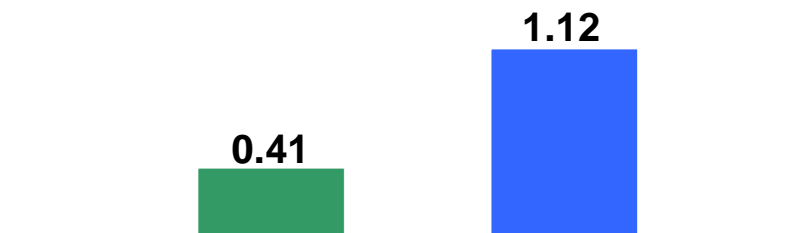
Net income (NT\$BN)

9M10 9M11

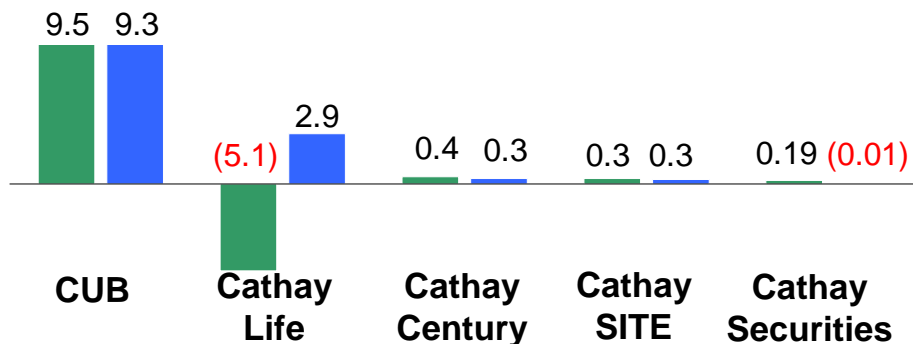


EPS (NT\$)

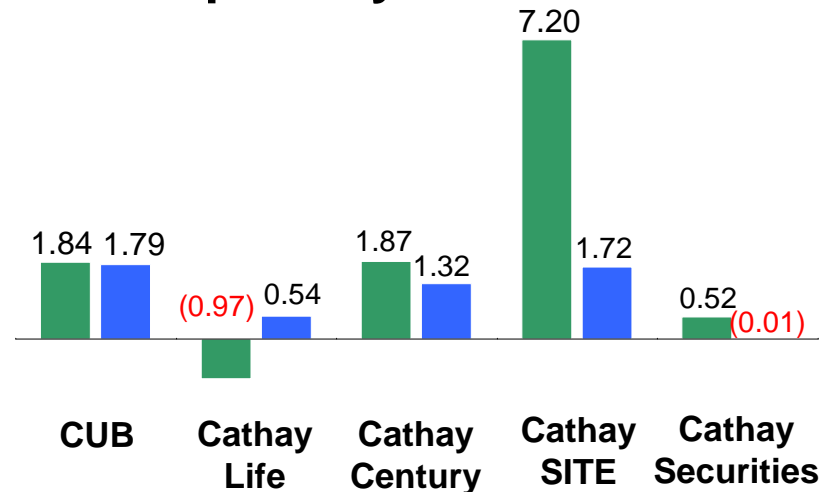
9M10 9M11



Net income of primary subsidiaries

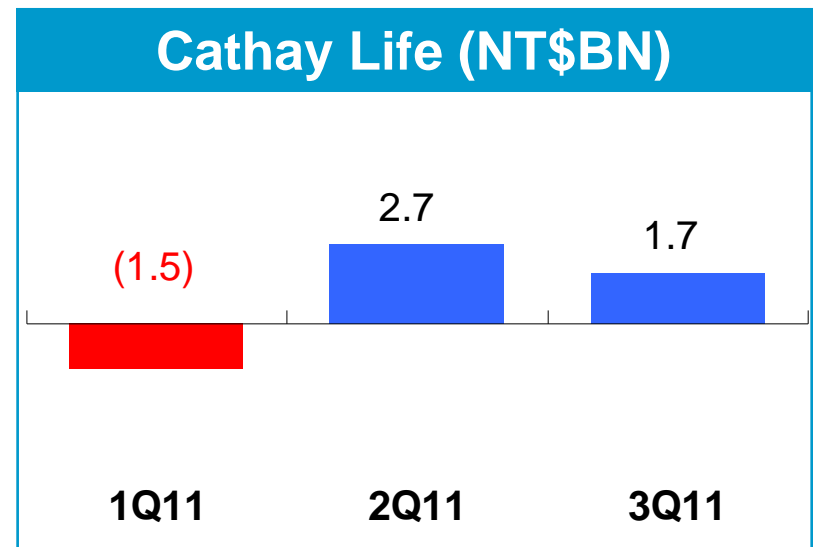
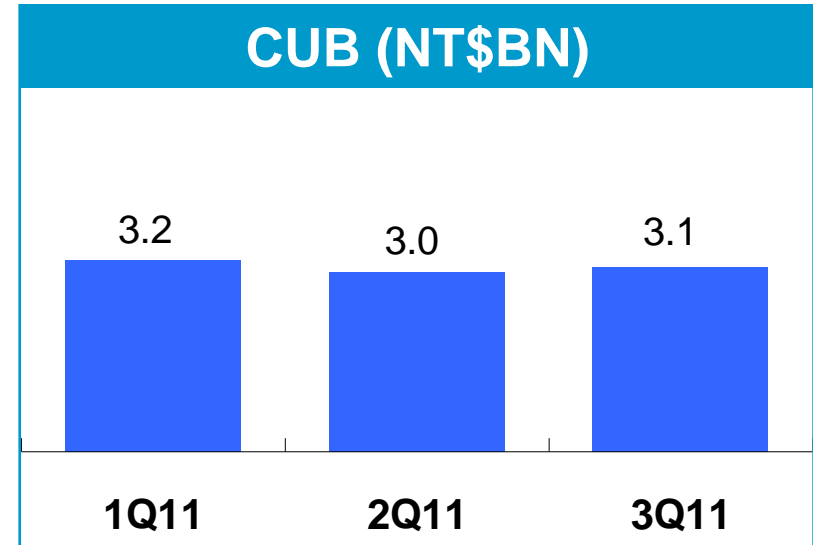
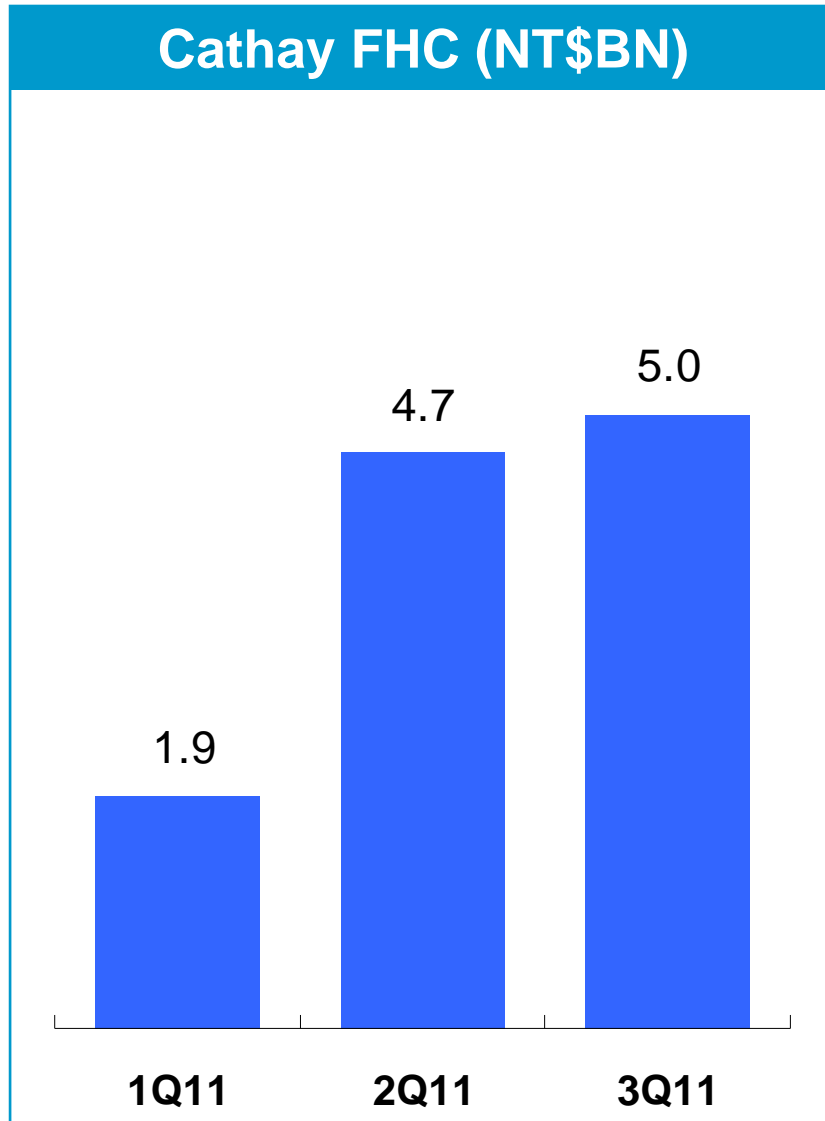


EPS of primary subsidiaries



Note: Common stock of Cathay SITE increased to NT\$1.5 bn from NT\$0.4 bn in 3Q11

Cathay FHC — Quarterly net income



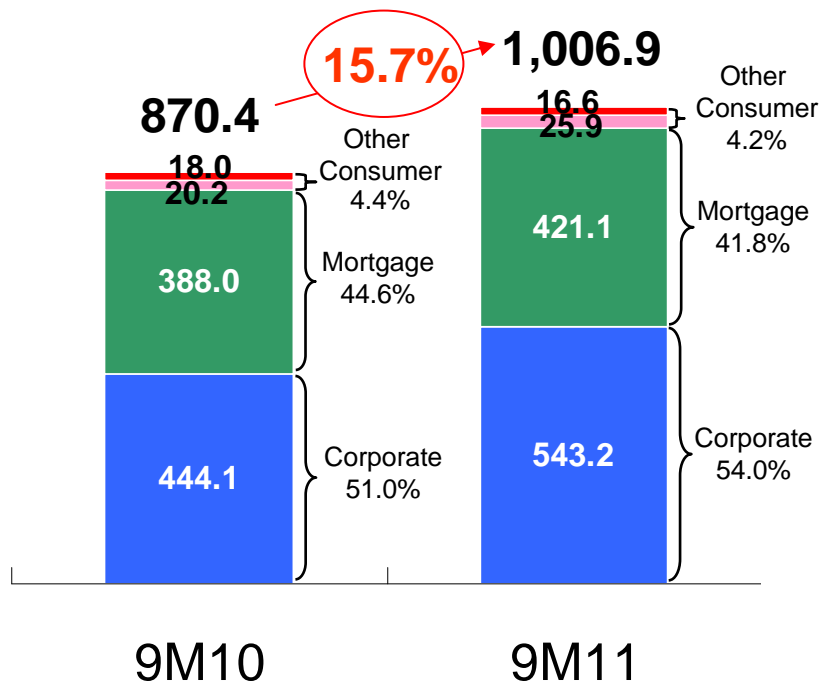
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Cathay United Bank — Loan & deposit breakdown

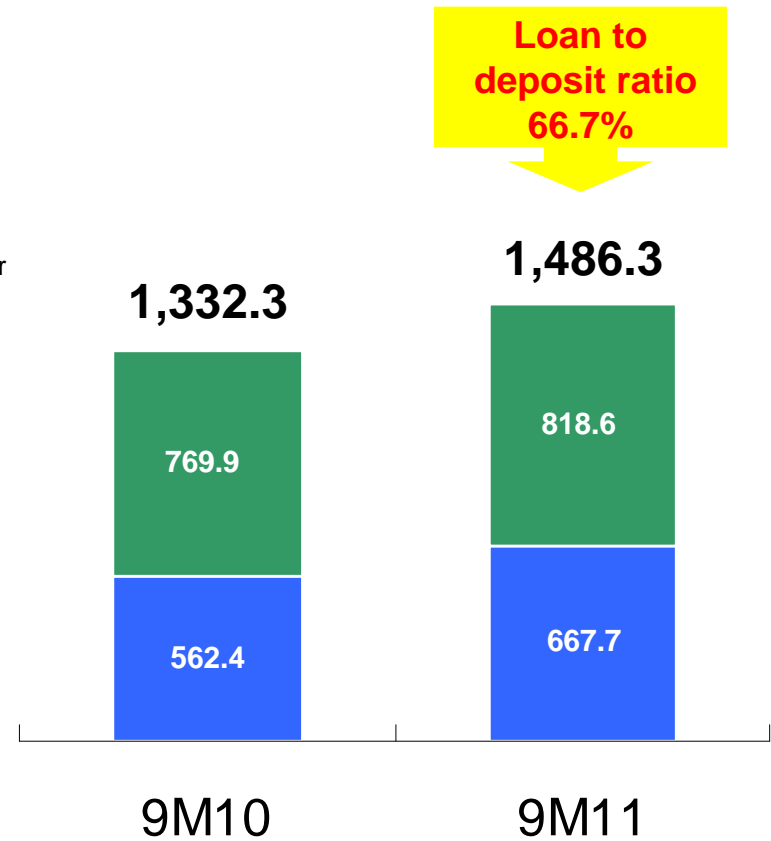
Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



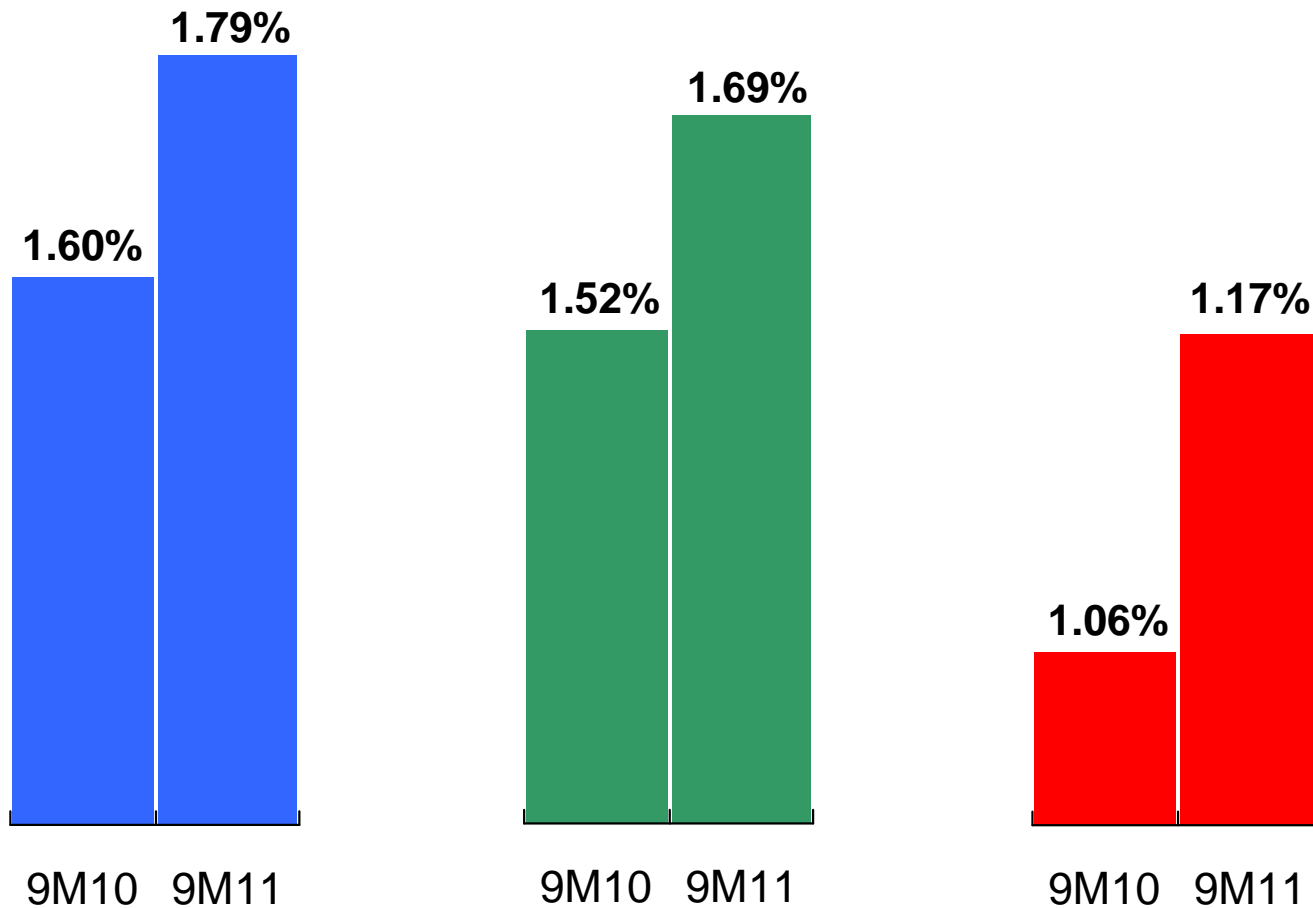
Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit



Cathay United Bank – Interest yields

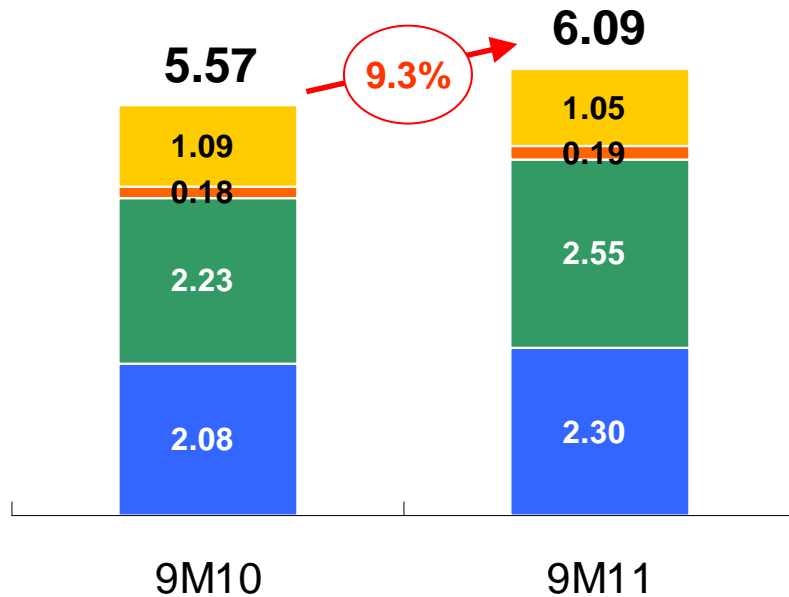
■ Avg. rate of interest-earning assets ■ Interest spread ■ Net interest margin



Cathay United Bank – Fee income

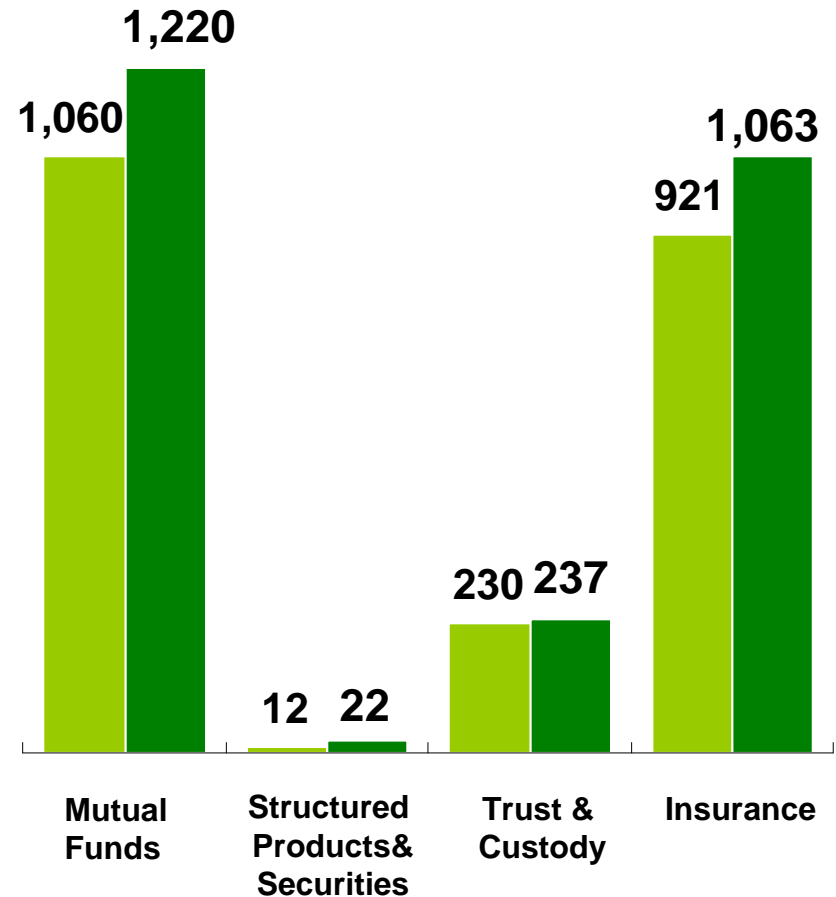
Fee income breakdown (NT\$BN)

- Others
- FX
- Wealth management
- Cards related



Wealth management fee breakdown (NT\$MN)

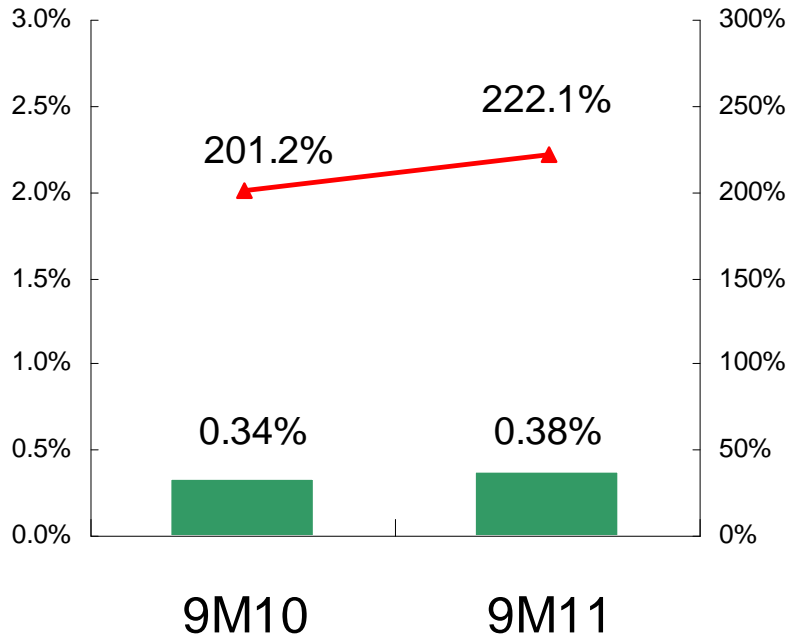
- 9M10
- 9M11



Cathay United Bank – Credit quality

NPL & Coverage ratio

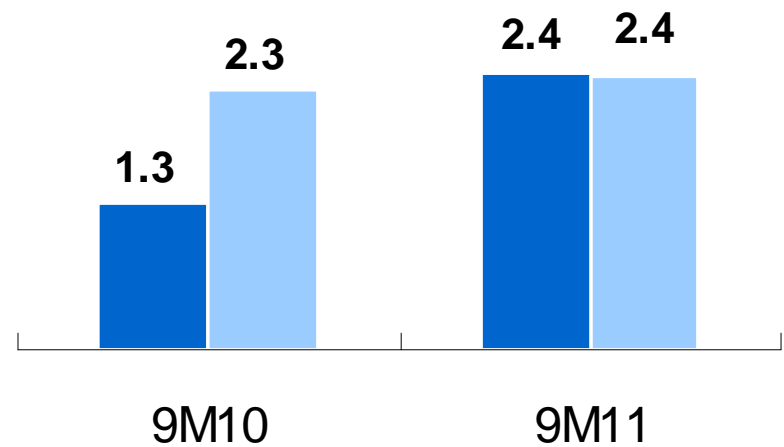
- NPL ratio(LHS)
- ▲ Coverage ratio(RHS)



Mortgage NPL	0.14%	0.08%
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Gross provision (NT\$BN)

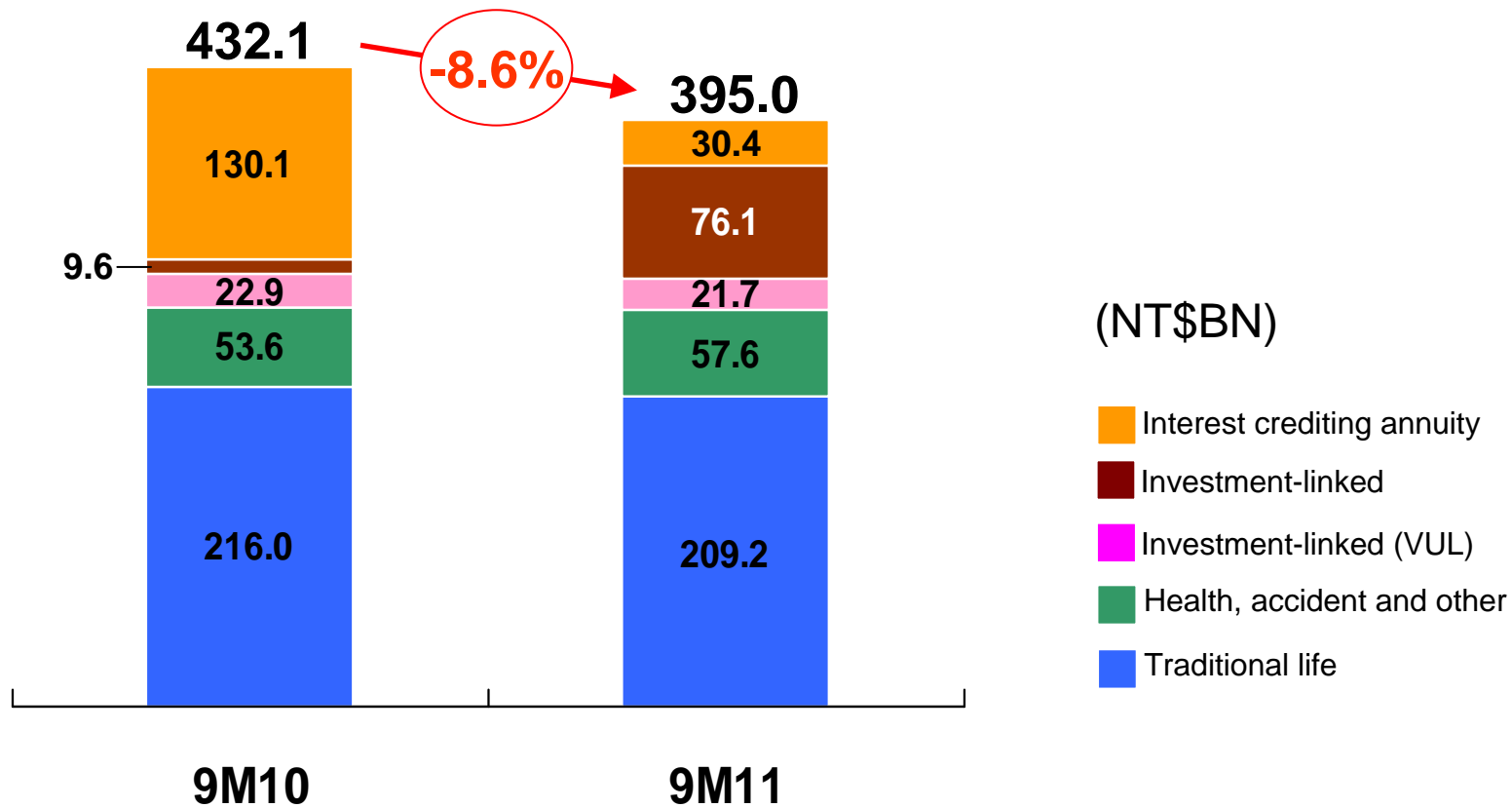
- Gross provision
- Recovery



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- **Overseas expansion**

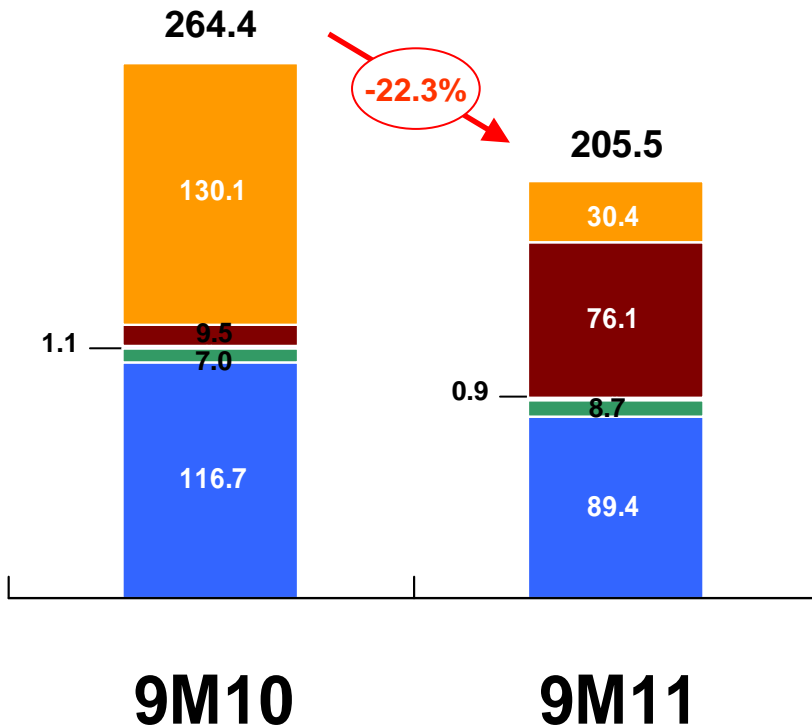
Cathay Life – Total premium



Cathay Life — FYP/ FYPE

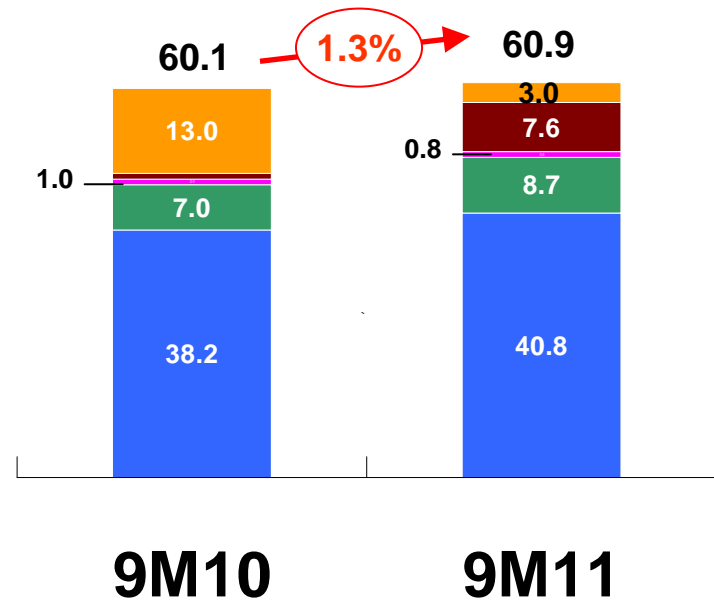
First year premium (FYP)

- 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

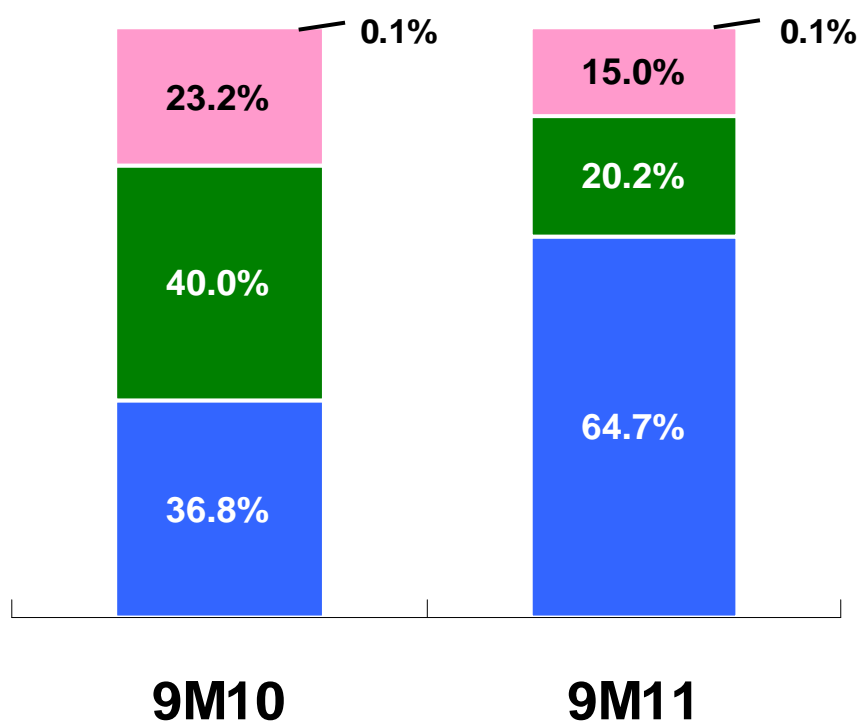


Note: Total may not sum due to rounding

Cathay Life — Distribution channel

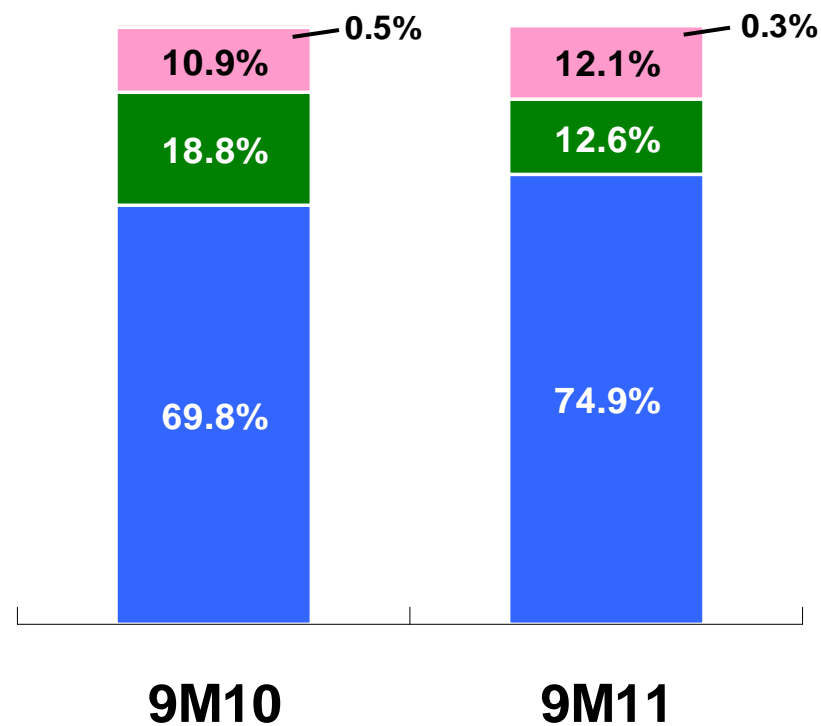
First year premium (FYP)

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



First year premium equivalent (FYPE)

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



Note: Total may not sum due to rounding

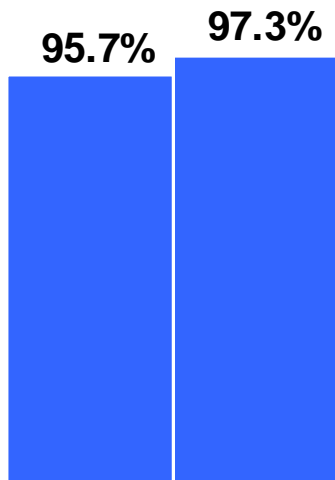
Cathay Life – Operational indicators

Persistence ratio

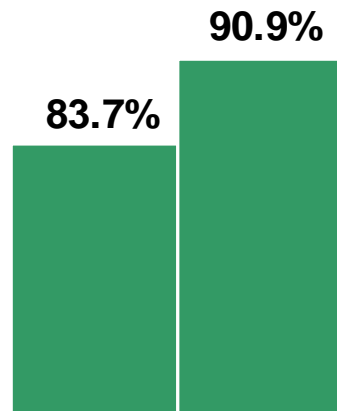
Expense ratio

■ 9M10

■ 9M11



13 months



25 months

6.6%

9M10

Higher expense ratio was caused by product mix adjustment

11.1%

9M11

Note: Due to definition change, expense ratio of 9M10 has been revised

Cathay Life – Investment portfolio

	2Q11		3Q11		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	321.2	11.3%	257.7	9.0%	-2.3%	-63.5
Equity- Domestic	221.4	7.8%	256.0	8.9%	1.2%	34.6
Equity- International	85.0	3.0%	99.9	3.5%	0.5%	14.8
Bond- Domestic	462.7	16.2%	475.6	16.6%	0.4%	12.9
Bond- International⁽¹⁾	1,075.1	37.7%	1,082.5	37.7%	0.0%	7.3
Mortgage & Secured loans	294.9	10.3%	298.5	10.4%	0.1%	3.6
Policy loans	187.8	6.6%	188.0	6.6%	0.0%	0.2
Real estate	142.2	5.0%	142.4	5.0%	0.0%	0.2
Others	63.3	2.2%	69.2	2.4%	0.2%	6.0
Total investments⁽²⁾⁽³⁾	2,853.7	100.0%	2,869.9	100.0%		16.2

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

Note (2) : Excludes separate account assets

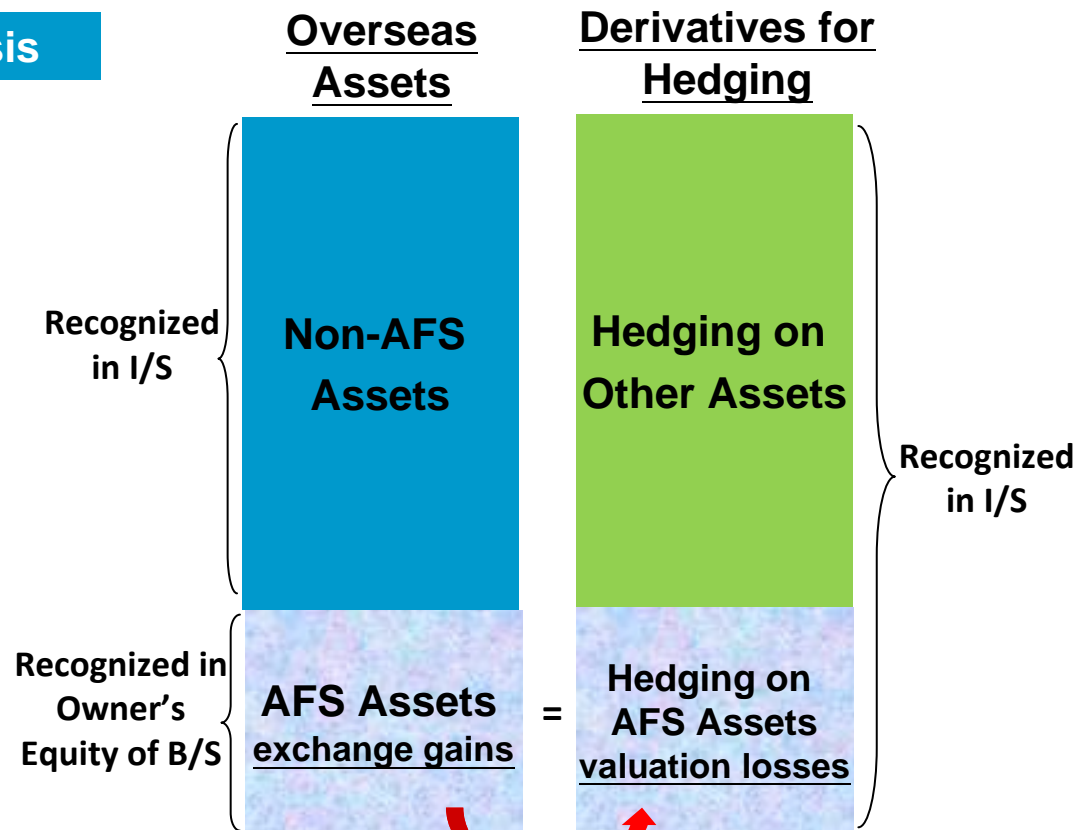
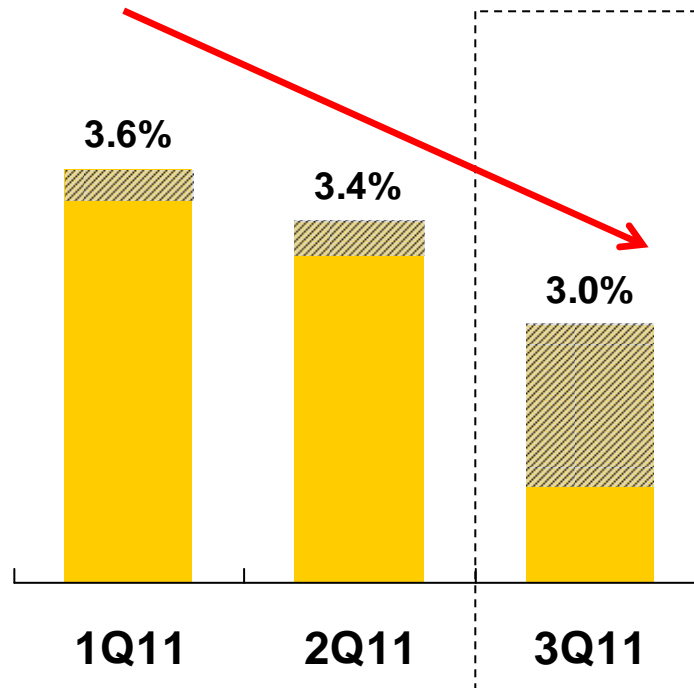
Note (3) : Total investments only includes funds available to invest

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

Elaboration of 3Q11 hedging cost

- Due to NTD depreciation in 3Q, the international equity position occurred unrealized foreign exchange gain, which could only be recognized in owners' equity.
- Cathay currently use derivatives to hedge all overseas exposure. The hedging contracts for equity position generated equal MTM loss, which offset the unrealized gain described above.
- If considering the unrealized foreign exchange gain, the hedging cost in 3Q is 0.9%.

Hedging Cost Declined on QoQ basis



Note 1: The shaded area indicates the effect on exchange P/L of AFS assets.

Note 2: The hedging costs above are quarterly and have been annualized.

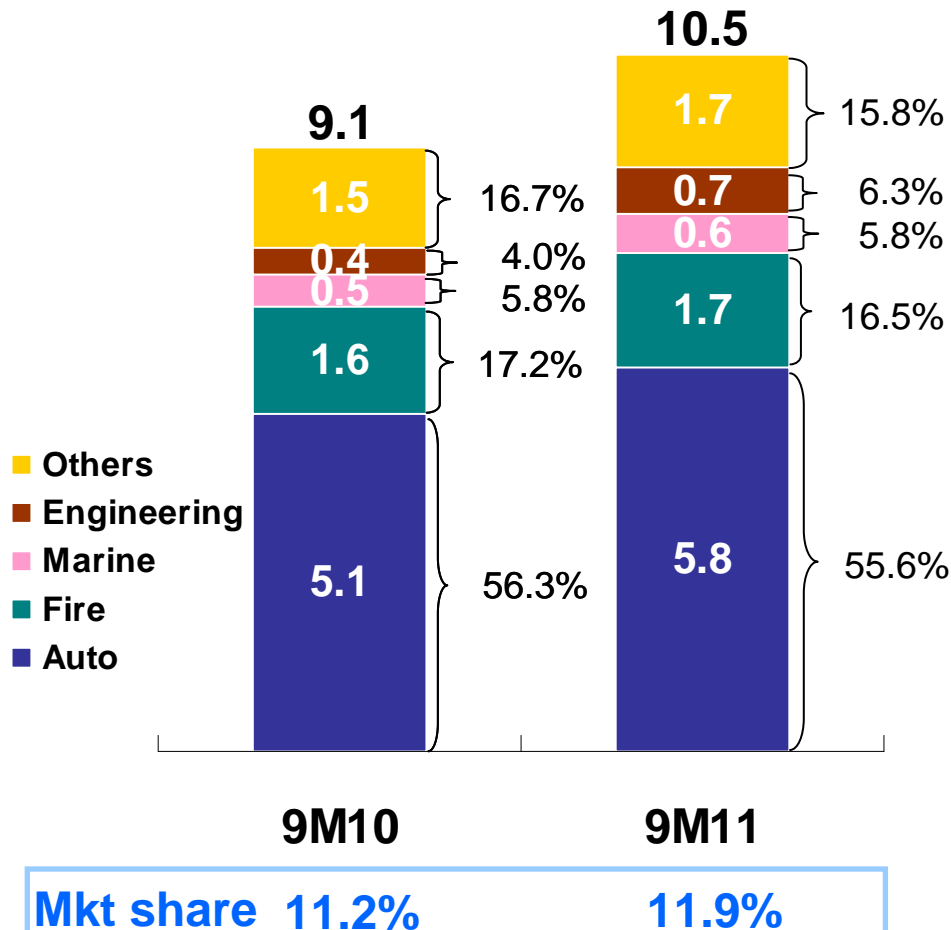
No impact on book value

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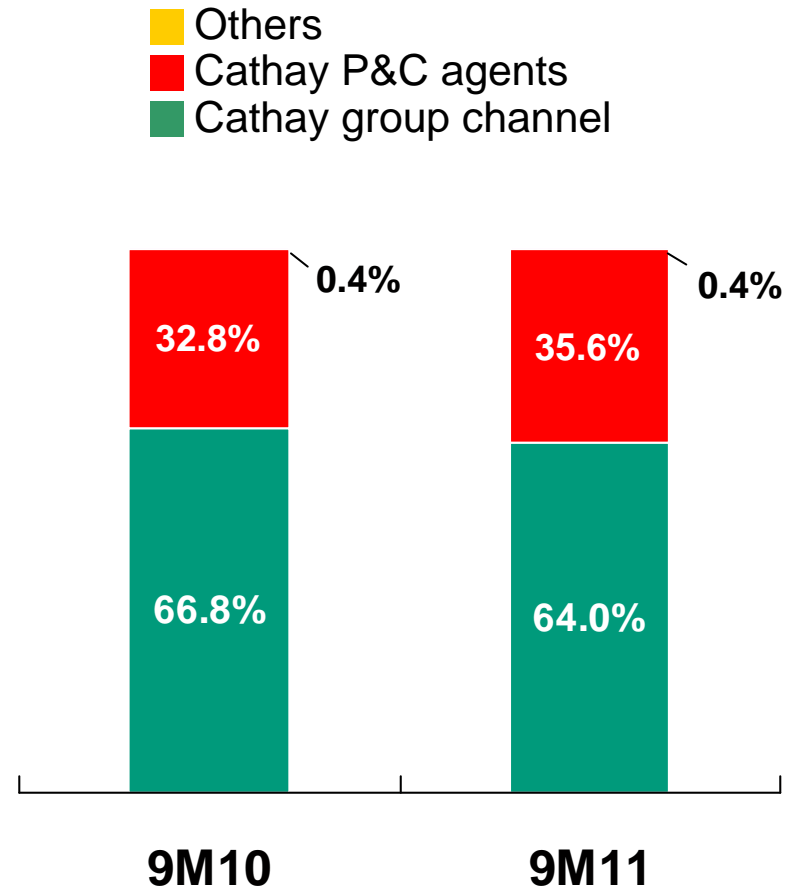
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Cathay Century

Product breakdown (NT\$BN)



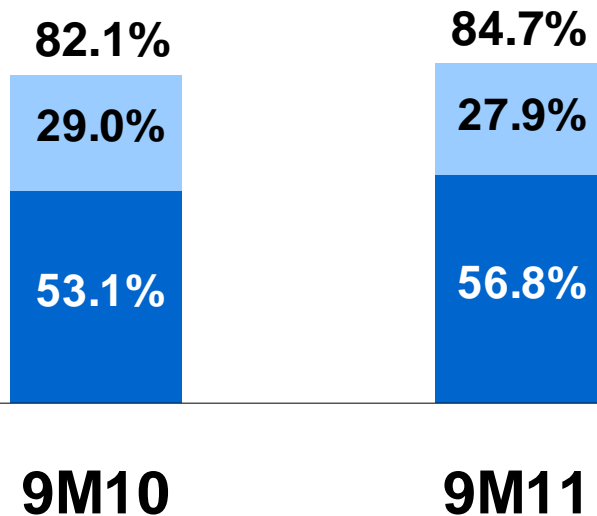
Distribution channel



Cathay Century

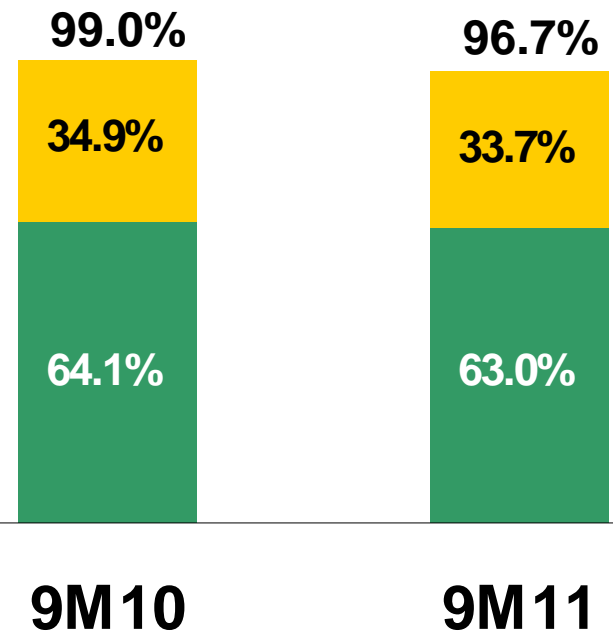
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



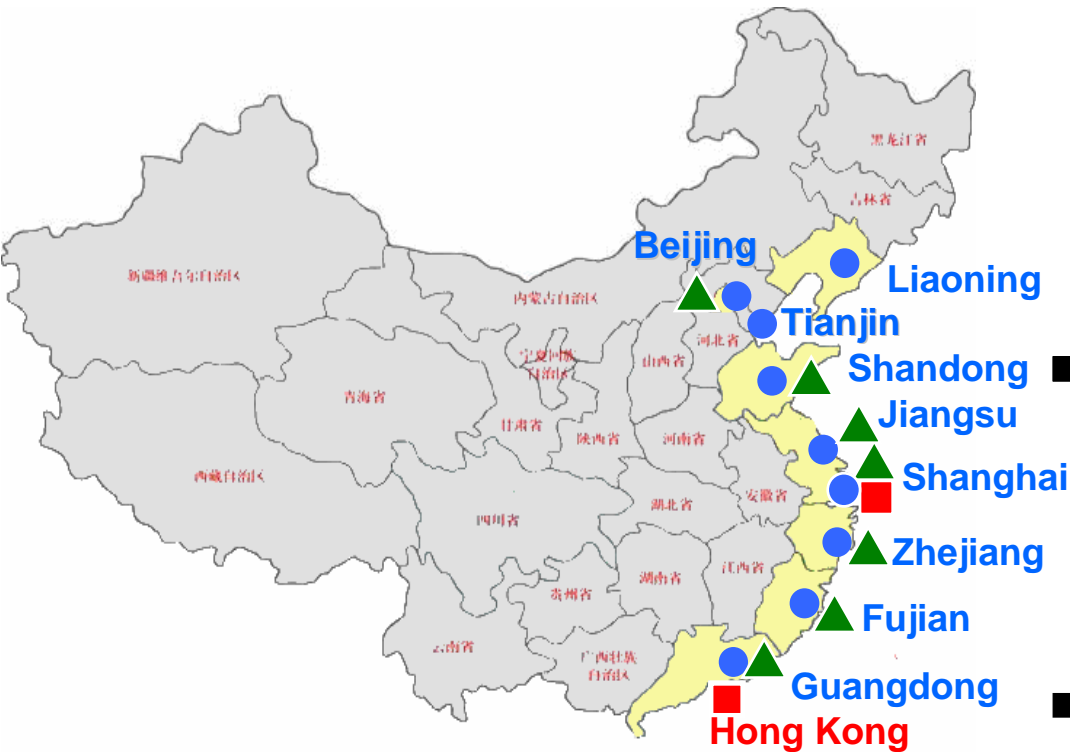
Retained rate 72.4%

73.1%

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Cathay FHC in China



■ Cathay Life (China)

- Total premium income rose by 14% YoY
- Policyholders: approximately 3.2 MN, grew by 32% YoY⁽¹⁾
- Productivity per tied agent kept improving, with 31% YoY growth

■ Cathay United Bank

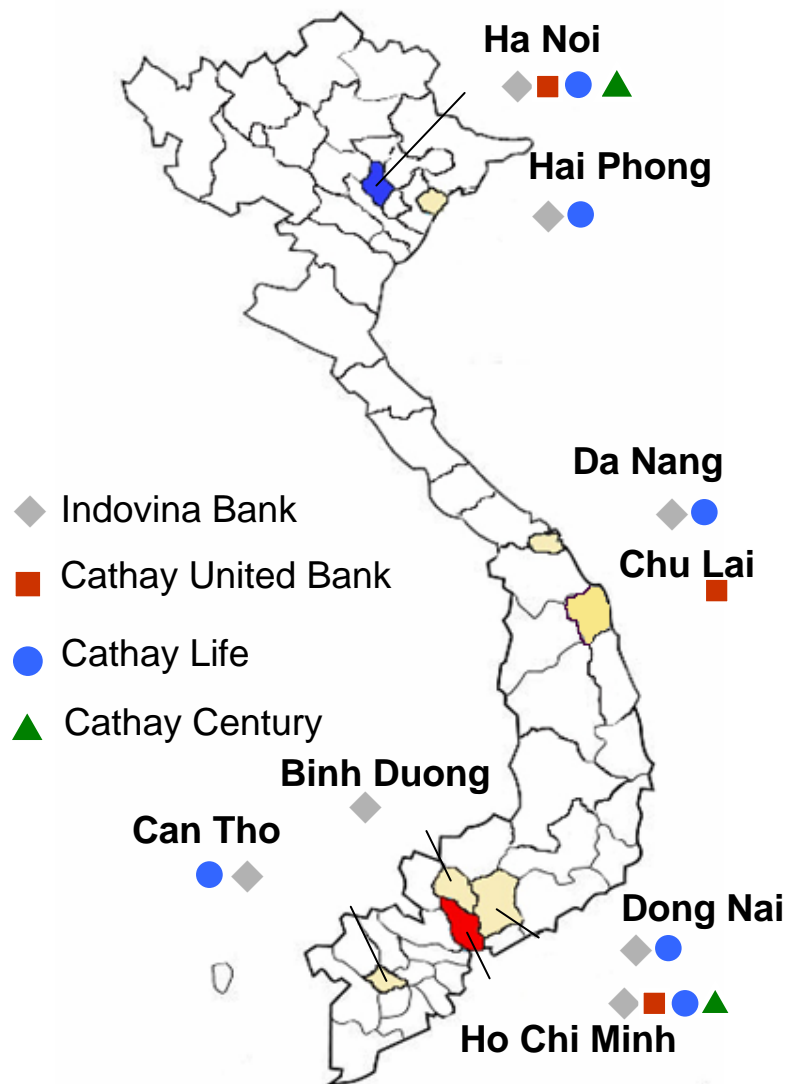
- 9M11 pre-tax net income of Shanghai branch was USD1.53 MN, grew by 21% QoQ
- Aim to report profits in the first year to apply for the license of RMB business from next year

■ Cathay Century (China)

- Strong premium income growth momentum, grew by 140% YoY
- Continued to improve performance and market position

Note(1): Numbers are effective policyholders as of 2011/09/30

Cathay FHC in Vietnam



■ Indovina Bank

- Pre-tax net income: USD21.1 MN
- NPL ratio: 2.02% (avg. NPL ratio of local players is approximately 3%)

■ Cathay United Bank

- Pre-tax net income of Chu Lai branch was approximately USD5.05 MN

■ Cathay Life

- The number of tied agents continued to increase, reached 12,000 as of 3Q11
- Strong growth in premium income, total premium grew by 109% YoY and FYP grew by 125% YoY

■ Cathay Century

- Began operation since the end of last year, each business line continued to perform well



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

	FY2009	FY2010	FY10/ FY09 % Chg	9M10	9M11	9M11/ 9M10/ % Chg	3Q10	3Q11	3Q11/ 3Q10/ % Chg
<u>Statement of Income Data</u>									
Interest income	0.553	0.869	57.1%	0.643	0.688	7.1%	0.223	0.235	5.5%
Income from subsidiaries									
Cathay Life	2.672	(6.516)	-	(5.129)	2.240	-	1.943	1.063	-45.3%
Cathay United Bank	8.688	11.332	30.4%	9.520	9.160	-3.8%	3.051	2.934	-3.8%
Cathay Century	0.794	0.301	-62.1%	0.432	0.310	-28.3%	0.216	0.145	-32.9%
Other	0.030	0.215	616.7%	0.250	0.200	-20.0%	0.166	0.842	407.7%
Total income from subsidiaries, net	12.184	5.332	-56.2%	5.073	11.919	134.9%	5.375	4.992	-7.1%
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%	0.055	0.040	-26.5%	0.048	0.041	-14.6%
Operating costs	(0.751)	(1.155)	53.7%	(0.865)	(0.864)	-0.1%	(0.290)	(0.294)	1.4%
Administrative and general expenses	(0.319)	(0.329)	3.0%	(0.253)	(0.258)	2.3%	(0.101)	(0.100)	-1.1%
Income taxes (expense) benefit	(0.677)	(0.176)	-74.0%	(0.451)	0.047	-	(0.025)	0.058	-
Net income	11.051	4.601	-58.4%	4.203	11.572	175.3%	5.230	4.933	-5.7%
EPS (NT\$)	1.09	0.45		0.41	1.12				

Balance Sheet Data

Long-term investments in stock	216.3	218.8		218.3	179.7
Total assets	261.1	268.0		266.8	223.0
Total consolidated assets	4,295.5	4,688.9		4,610.4	5,015.7
Total shareholders' equity	212.2	218.5		217.9	171.1

Operating Metrics

ROAE(standalone)	6.2%	2.1%		2.6%	7.9%
ROAA (standalone)	5.1%	1.7%		2.1%	6.3%
ROAA(consolidated)	0.3%	0.1%		0.1%	0.3%

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) Total may not sum due to rounding



Cathay Life

Summary Financial Data
(NT\$BN)

	FY2009	FY2010	FY10/ FY09 % Chg	9M10	9M11	9M11/ 9M10/ % Chg	3Q10	3Q11	3Q11/ 3Q10/ % Chg
Summary Statement of Income Data									
Premium income ⁽¹⁾	442.048	515.069	16.5%	360.633	299.379	-17.0%	119.764	95.838	-20.0%
Reinsurance premium ceded	(6.298)	(23.737)	276.9%	(17.601)	(15.697)	-10.8%	(5.780)	(5.491)	-5.0%
Changes in unearned premium reserve	0.517	(0.879)	-269.9%	0.198	2.984	1410.0%	(0.158)	0.926	-
Retained earned premium	436.267	490.453	12.4%	343.230	286.666	-16.5%	113.826	91.273	-19.8%
Reinsurance commission earned	7.783	9.254	18.9%	7.210	7.948	10.2%	2.075	2.595	25.1%
Handling fee earned	3.813	2.213	-42.0%	1.616	2.245	39.0%	0.546	0.757	38.6%
Investment income									
Interest income	73.321	77.340	5.5%	56.896	63.980	12.5%	19.441	21.692	11.6%
Gain on disposal of investment	(26.402)	33.625	-227.4%	10.396	57.451	452.6%	2.495	7.030	181.8%
Other investment income, net	30.509	(22.050)	-172.3%	(2.245)	(52.821)	2252.8%	4.857	(4.750)	-197.8%
Total investment income, net ⁽²⁾	77.428	88.916	14.8%	65.047	68.610	5.5%	26.793	23.971	-10.5%
Separate account product revenues	144.069	137.096	-4.8%	37.872	69.327	83.1%	36.791	5.198	-85.9%
Retained claims payment	(229.763)	(271.336)	18.1%	(200.553)	(195.833)	-2.4%	(73.287)	(65.539)	-10.6%
Changes in liability reserves	(250.064)	(286.133)	14.4%	(192.068)	(134.771)	-29.8%	(57.832)	(40.766)	-29.5%
Commissions and operating expense									
Brokerage expenses	(27.697)	(29.839)	7.7%	(22.185)	(24.273)	9.4%	(7.397)	(7.424)	0.4%
Marketing, administrative and general expenses	(11.323)	(12.339)	9.0%	(8.349)	(9.823)	17.7%	(3.064)	(3.513)	14.6%
Total commissions and operating expenses	(39.021)	(42.178)	8.1%	(30.533)	(34.095)	11.7%	(10.461)	(10.937)	4.5%
Other operating expenses	(146.107)	(139.143)	-4.8%	(39.343)	(71.123)	80.8%	(37.319)	(5.798)	-84.5%
Operating income	4.406	(10.858)	-	(7.523)	(1.027)	-86.3%	1.132	0.754	-33.3%
Non-operating income	1.571	2.070	31.8%	1.592	1.277	-19.8%	0.472	0.413	-12.6%
Non-operating expense	(1.344)	(0.822)	-38.8%	(0.616)	(0.614)	-0.2%	(0.208)	(0.207)	-0.5%
Income taxes	(1.970)	3.095	-	1.418	3.242	128.6%	0.547	0.741	35.4%
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)	-	(5.129)	2.878	-	1.943	1.701	-12.4%
Balance Sheet Data									
Total assets	2742.9	3047.7		3004.4	3287.6				
Total stockholders' equity	113.1	113.8		114.4	71.0				
Operating Metrics									
First Year Premium(FYP)	261.6	330.1		264.4	205.5				
First Year Premium Equivalent(FYPE)	53.2	78.8		60.1	60.9				
Expense ratio	8.2%	7.7%		6.6%	11.1%				
13-mos persistency ratio	89.7%	96.2%		95.7%	97.3%				
25-mos persistency ratio	81.6%	85.8%		83.7%	90.9%				
ROAE	3.2%	-5.7%		-6.0%	4.2%				
ROAA	0.1%	-0.2%		-0.2%	0.1%				

Notes:

(1) Excludes investment-linked products premium income.

(2) All data and information on this page is provided for informational purposes only, and may subject to adjustment.

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Cathay United Bank
Summary Financial Data

(NT\$BN)			FY10/ FY09			9M11/ 9M10			3Q11/ 3Q10
	FY2009	FY2010	% Chg	9M10	9M11	% Chg	3Q10	3Q11	% Chg
Summary Statement of Income Data									
Interest income	23.966	22.124	-7.7%	16.324	19.924	22.0%	5.618	7.109	26.5%
Interest expense	(10.170)	(7.397)	-27.3%	(5.456)	(6.907)	26.6%	(1.924)	(2.633)	36.8%
Net interest income	13.796	14.727	6.7%	10.869	13.017	19.8%	3.694	4.476	21.2%
Net operating income except interest income									
Net handling fee	4.677	6.548	40.0%	4.646	5.136	10.6%	1.606	1.658	3.2%
Gains on financial assets and liabilities at fair value through P&L	2.840	0.530	-81.3%	0.313	0.856	172.9%	0.267	0.174	-34.7%
Realized gains on available-for-sale financial assets	1.517	2.334	53.9%	1.767	1.671	-5.4%	0.466	0.467	0.2%
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%	0.163	0.264	61.5%	0.045	0.070	56.6%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchg - net	0.592	0.653	10.3%	0.526	0.623	18.4%	0.173	0.300	73.3%
Impairment gain/loss	(0.342)	(0.075)	-78.0%	0.000	(0.020)	-	0.000	0.022	-
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%	0.000	0.000	-100.0%
Investments in debt securities with no active market, net	0.180	(0.120)	-	0.058	0.002	-96.8%	0.020	(0.000)	-100.0%
other income, net	1.930	1.271	-34.2%	1.942	0.917	-52.8%	0.867	0.338	-60.9%
Net operating income	25.452	27.191	6.8%	21.323	22.471	5.4%	7.137	7.505	5.2%
Operating expenses	(14.400)	(14.806)	2.8%	(10.799)	(11.824)	9.5%	(3.681)	(3.979)	8.1%
Income from continuing operations before income taxes	11.051	12.385	12.1%	10.524	10.613	0.8%	3.455	3.491	1.0%
Income tax benefit (expense)	(2.434)	(1.053)	-56.7%	(0.919)	(1.279)	39.2%	(0.348)	(0.384)	10.3%
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%	9.605	9.334	-2.8%	3.107	3.107	0.0%
Balance Sheet Data									
Total assets	1,510.2	1,576.6		1,545.5	1,711.8				
Total shareholders' equity	93.0	95.2		94.4	96.3				
Operating Metrics									
Cost income ratio	56.6%	54.5%		54.8%	52.6%				
ROAE	9.8%	12.0%		10.1%	13.0%				
ROAA	0.6%	0.7%		0.6%	0.8%				
Assets Quality									
NPL ratio (international standard)	0.6%	0.3%		0.8%	0.4%				
Coverage ratio (international standard)	135.1%	277.2%		106.4%	222.1%				

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) Total may not sum due to rounding

Cathay Century
Summary Financial Data
 (NT\$MM)

Summary Statement of Income Data	FY2009	FY2010	FY10/ FY09			9M11/ 9M10			3Q11/ 3Q10
			% Chg	9M10	9M11	% Chg	3Q10	3Q11	% Chg
Premiums income	11,822.2	12,629.5	6.8%	9119.9	10455.0	14.6%	2928.1	3256.5	11.2%
Reinsurance premiums ceded	(3,374.7)	(3459.9)	2.5%	(2513.6)	(2812.9)	11.9%	(705.8)	(739.1)	4.7%
Changes in unearned premium reserve	177.5	151.1	-14.9%	(32.4)	(664.7)	1953.9%	(5.4)	(69.1)	-
Premiums income, net	8,270.0	9018.5	9.1%	6573.9	6977.4	6.1%	2216.8	2448.3	10.4%
Investment									
Interest income	330.4	296.3	-10.3%	226.0	223.0	-1.3%	71.0	70.5	-0.7%
Other investment income, net	(18.5)	34.4	-285.8%	55.4	26.1	-53.0%	167.9	(46.7)	-
Total investment income	311.9	330.6	6.0%	281.4	249.1	-11.5%	238.9	23.8	-90.0%
Other operating income	347.2	345.9	-0.4%	251.5	249.1	-1.0%	68.0	84.6	24.4%
Insurance claims payment, net	4,231.1	4676.6	10.5%	3326.5	4233.9	27.3%	1225.6	1467.0	19.7%
Provisions for reserves									
Total provisions for reserves, net				720.3	39.4	-94.5%	168.6	(90.6)	-153.7%
Commissions, operating and other expenses	3,586.1	3154.2	-12.0%	2562.4	2843.5	11.0%	905.1	1000.9	10.6%
Operating income	1,051.1	325.3	-69.0%	497.5	358.9	-27.9%	224.4	179.3	-20.1%
Non-operating income	3.1	16.3	434.7%	5.1	3.0	-40.7%	0.3	1.4	363.5%
Non-operating expense	0.1	0.2	-	0.1	0.6	331.6%	0.1	0.1	40.7%
Income taxes	(268.8)	(40.4)	-85.0%	(70.2)	(54.7)	-22.1%	(8.6)	(39.0)	354.5%
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%	432.3	306.6	-29.1%	216.1	141.6	-34.5%
Summary Balance Sheet Data									
Total assets	20,812.6	21,748.7		21,457.5	24,353.7				
Total stockholders' equity	4,300.0	3,471.7		3,680.5	3,509.1				
Operating Metrics									
Written Combined ratio	79.3%	91.4%		82.1%	84.7%				
Net Combined ratio	89.4%	103.3%		99.0%	96.7%				
ROAE	21.2%	7.8%		14.5%	11.7%				
ROAA	3.9%	1.4%		2.7%	1.8%				

Notes:

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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



Shares Outstanding
(Millions of shares)

	As of 9/30/2011
Total shares issued	10,357.5
Treasury shares	
CFH	171.6
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	10,185.9

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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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