

Cathay Financial Holding Co., Ltd.
2010 First Quarter Briefing



May 2010

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Agenda

- **1Q10 Business overview**
- **1Q10 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**
- **Embedded Value & Appraisal Value**

1Q10 Business overview

Cathay Life

- FYP grew 74% YoY; maintained leading position with FYP market share of 32%, and increased FYP weightings of traditional life and health, accident & others to 49.5% (from 39.6% in 2009) to support VNB growth
- Increased overseas investment to 34.6% of investment assets; 2010 target is 40%
- Maintained flexible investment and hedging strategy in response to volatility of capital and FX markets

Cathay United Bank

- Asset quality improved over last year. NPL ratio of 0.48% and coverage ratio of 156.3% are better than industry
- Fee income growing, growth rate 36% YoY
- NIM improving (1Q10 : 1.07% vs. 4Q09 : 1.02%)

Cathay Century

- Market share increased to 11%, higher than 10% last year
- Both gross and retained combined ratios improved. Gross combined ratio of 68.4% and retained combined ratio of 88.4% are better than industry

Cathay Securities

- Delivered successful cross selling performance, steady growth in brokerage business, securities underwriting and issuance of financial products

China Strategy

- Bank: applied to upgrade rep. office to branch
- Cathay Life and P&C : accelerating business growth based on existing network
Cathay life's total premium grew 26% YoY; policyholders increased to 1.79 million; obtained Tianjin operation license
P&C subsidiary had premium growth of 214% YoY, obtained approval to open Fujian branch in March

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 - Cathay Century

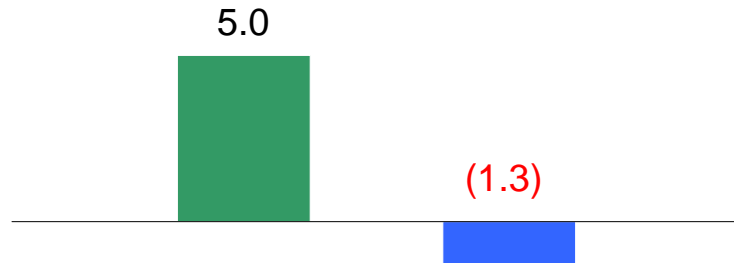
- **Overseas expansion**

- **Embedded Value & Appraisal Value**

Cathay FHC — Net income & EPS

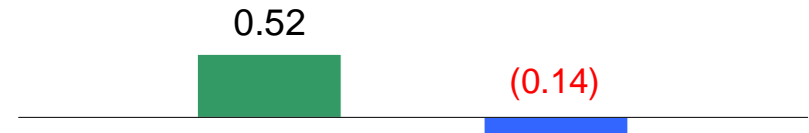
Net Income (NT\$BN)

■ 1Q09 ■ 1Q10

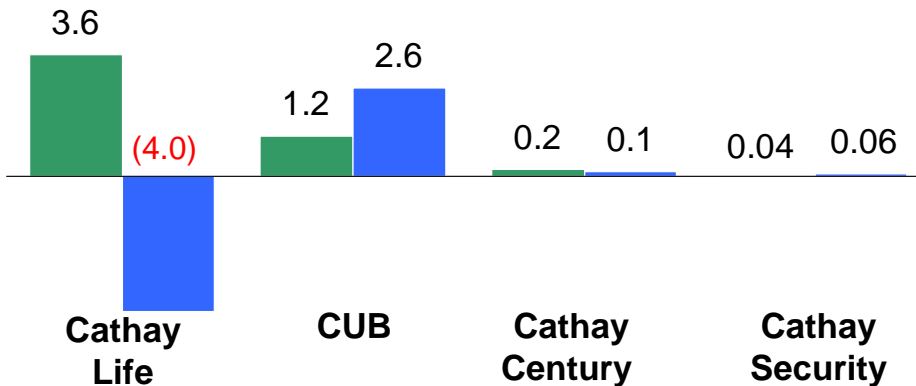


Earnings Per Share (NT\$)

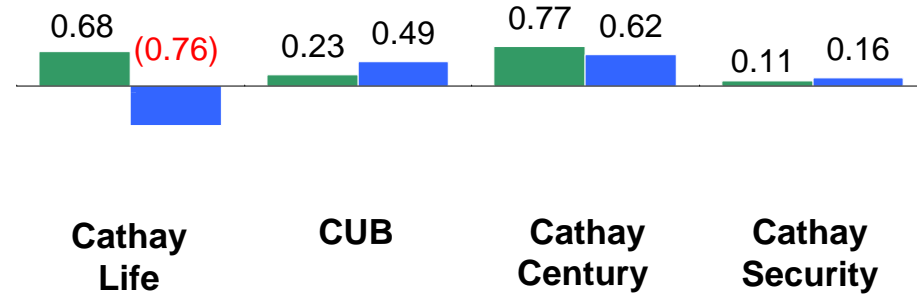
■ 1Q09 ■ 1Q10



Net income of main subsidiaries



EPS of main subsidiaries



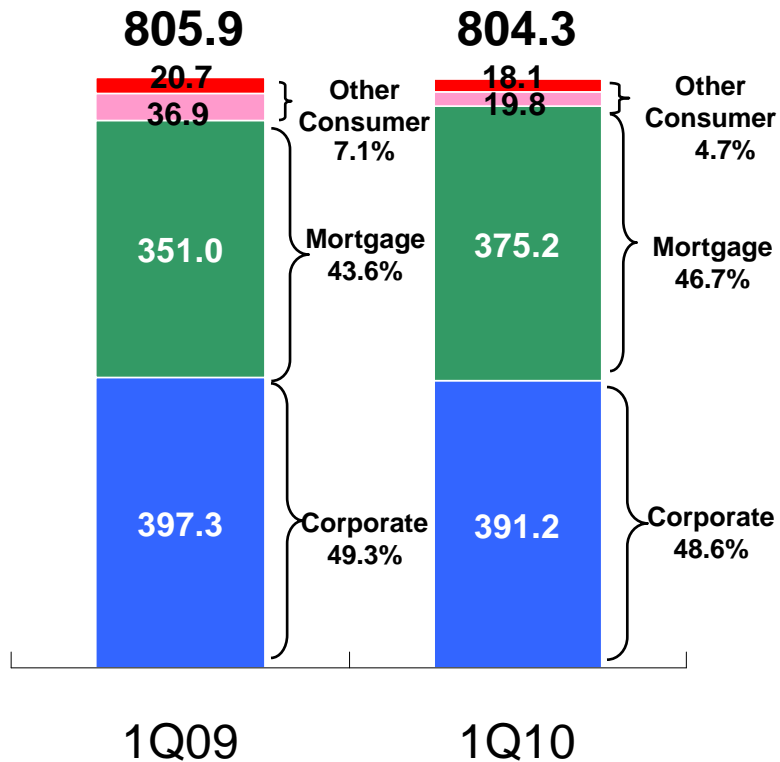
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Cathay United Bank — Loan & deposit breakdown

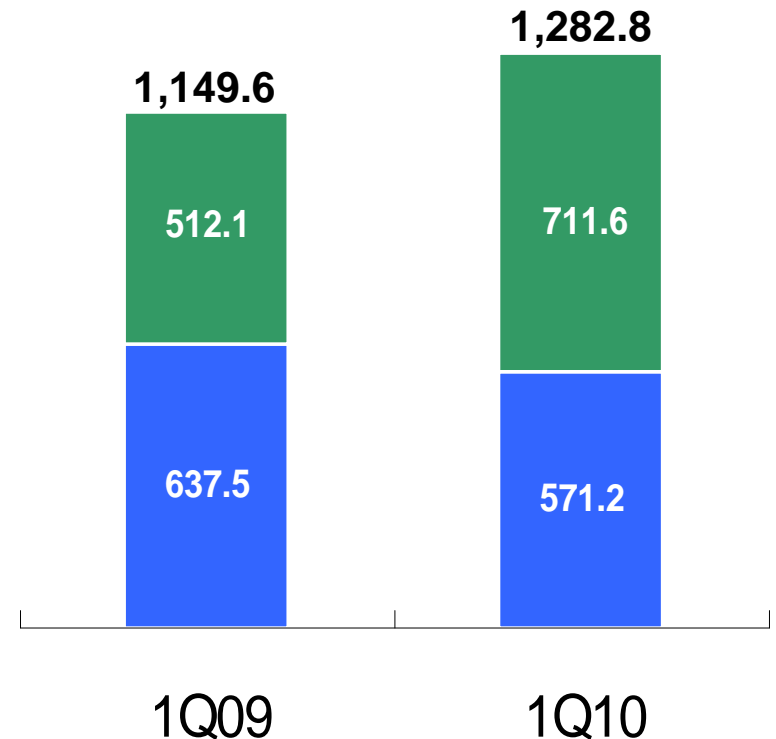
Loan breakdown (NT\$BN)

- Credit card related
- Consumer
- Mortgage
- Corporate



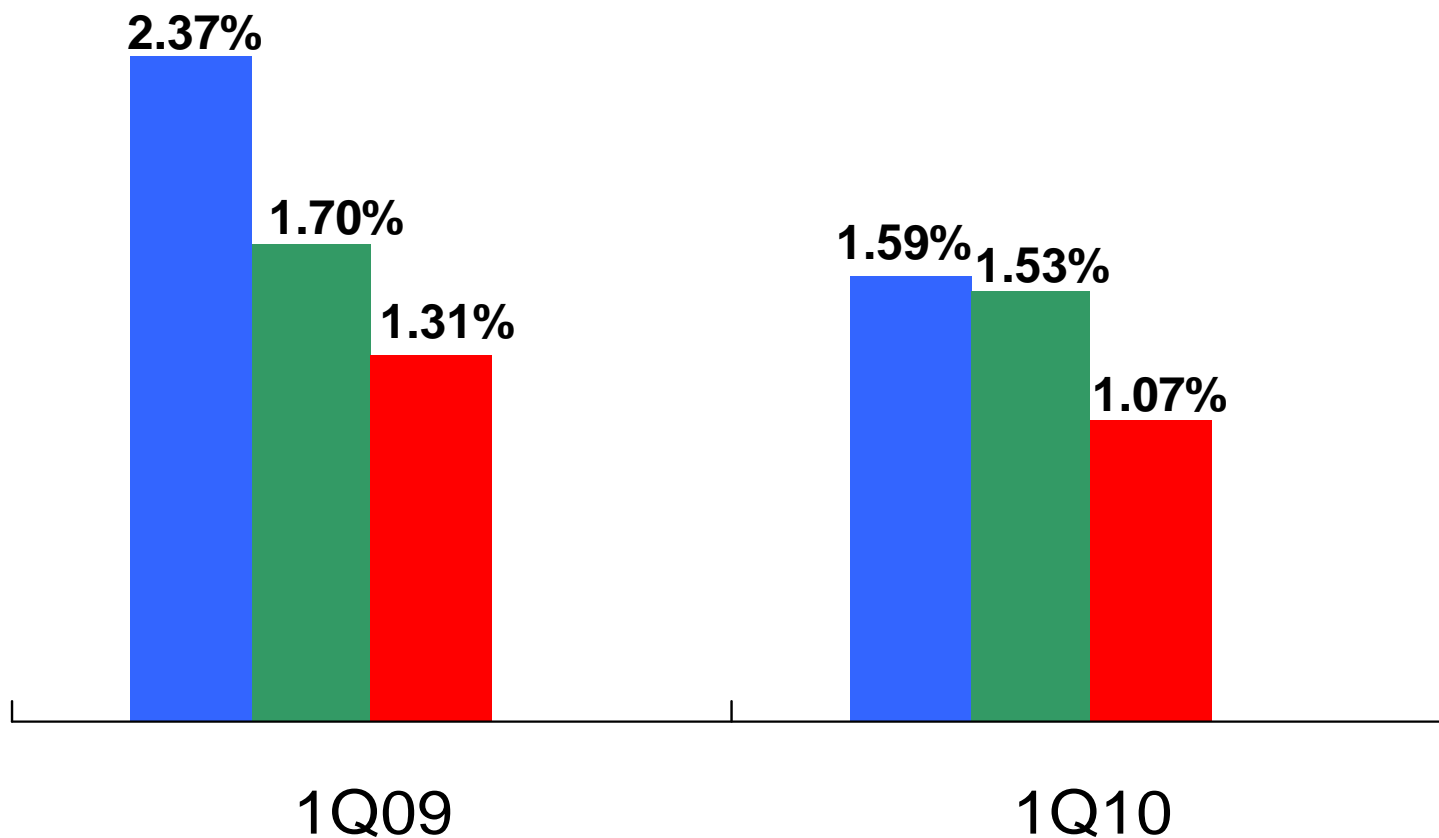
Deposit breakdown (NT\$BN)

- Demand deposit
- Time deposit



Cathay United Bank — Interest yields

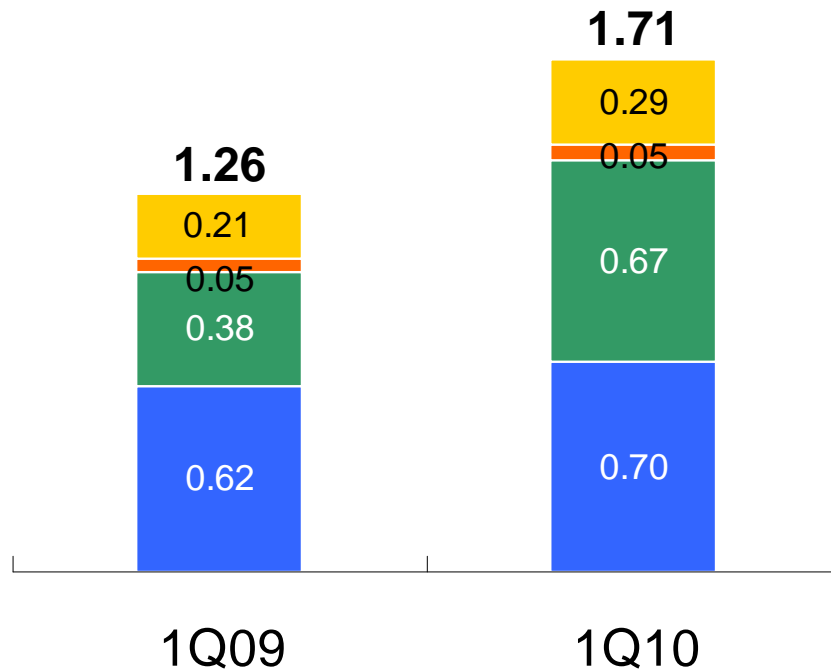
■ Avg. rate of interest-earned assets ■ Interest spread ■ Net interest margin



Cathay United Bank — Fee income

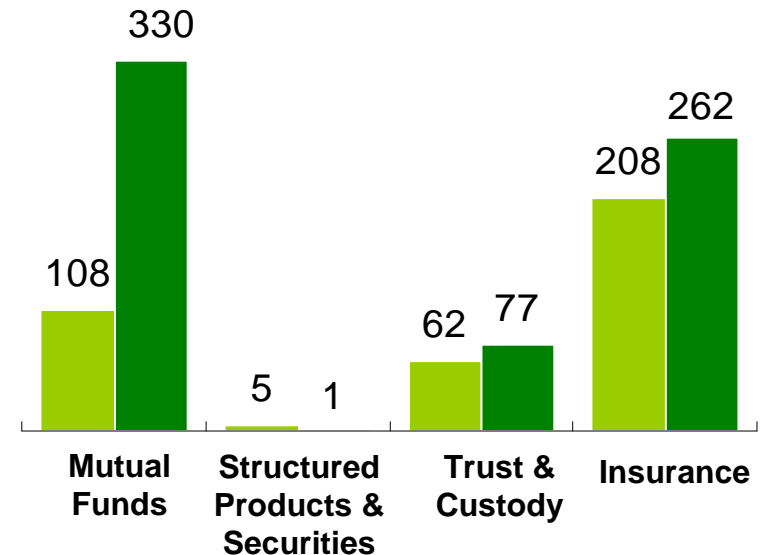
Fee income breakdown (NT\$BN)

- Others
- FX
- Wealth management
- Cards related



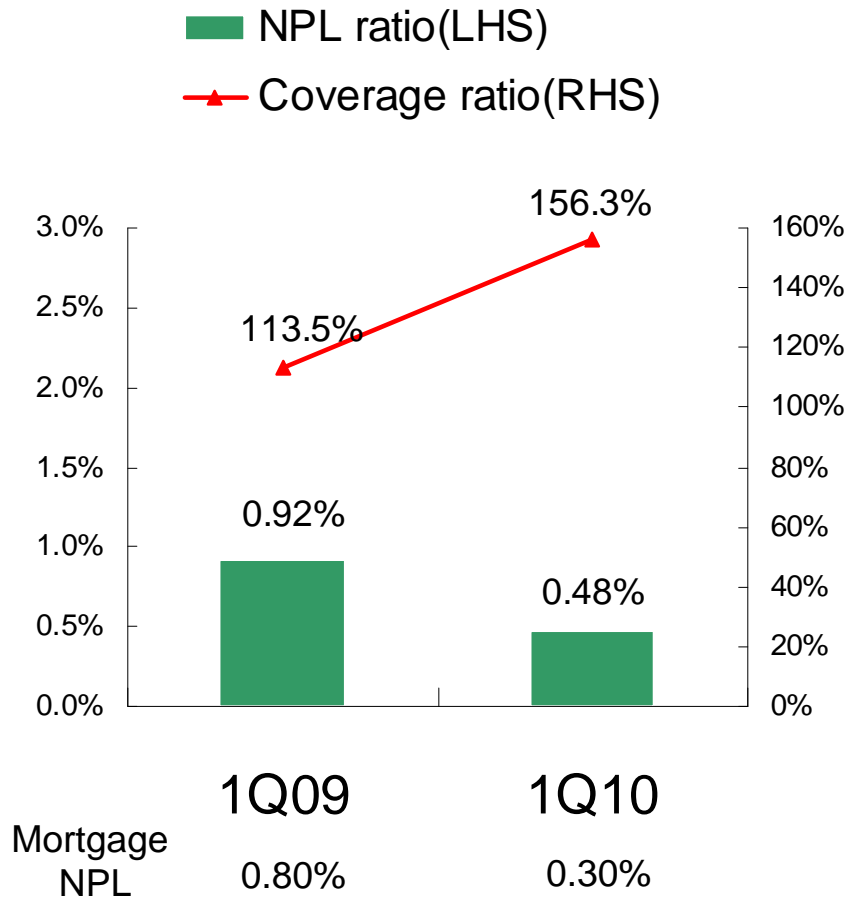
Wealth Management fee breakdown (NT\$MN)

- 1Q09
- 1Q10

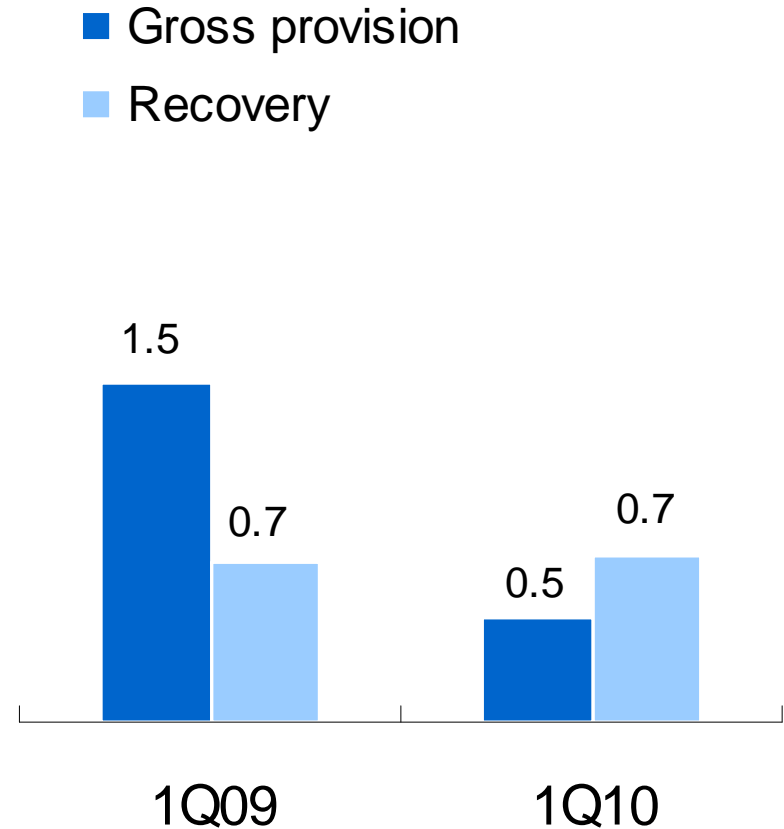


Cathay United Bank — Credit quality

NPL & Coverage ratio



Gross provision (NT\$BN)



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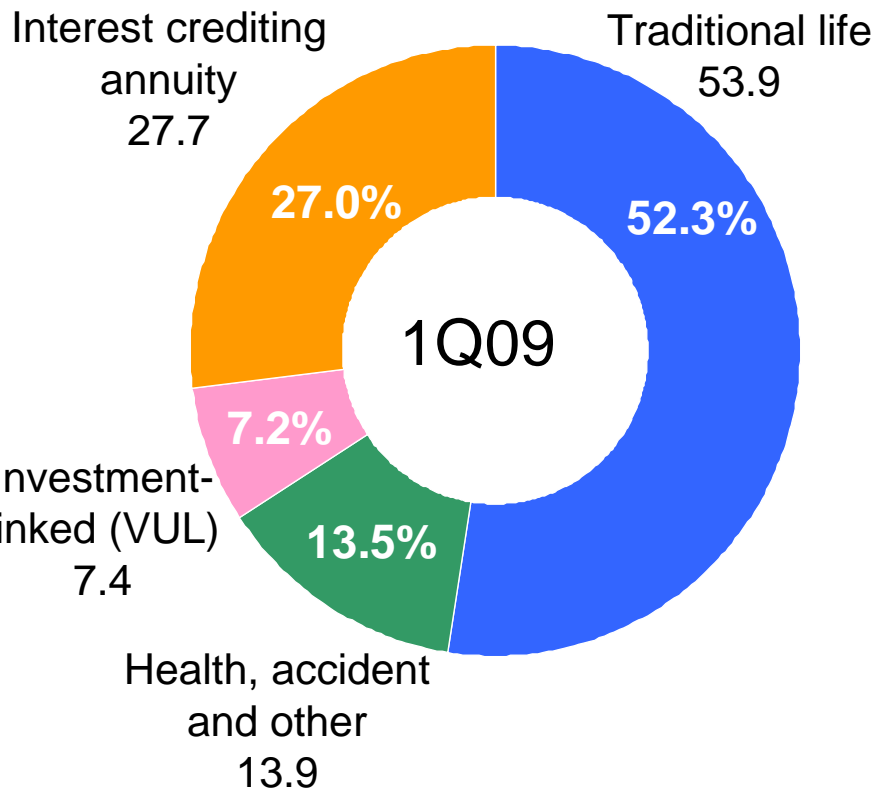
 - Cathay Century

- **Overseas expansion**

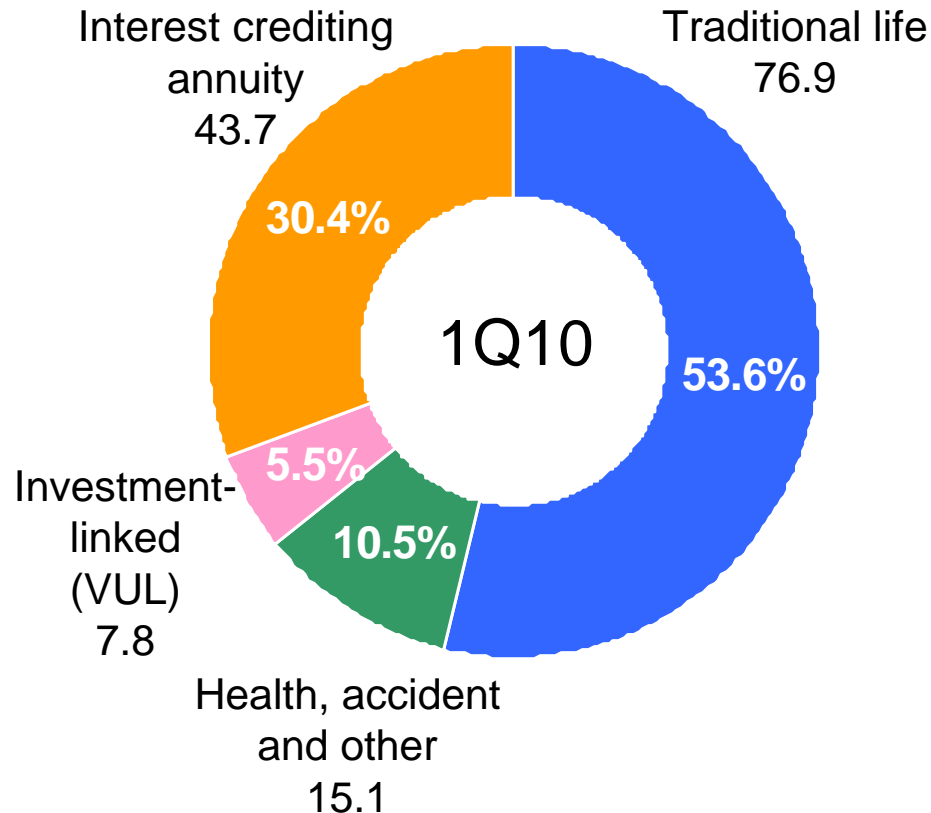
- **Embedded Value & Appraisal Value**

Cathay Life — Total Premium

(NT\$BN)



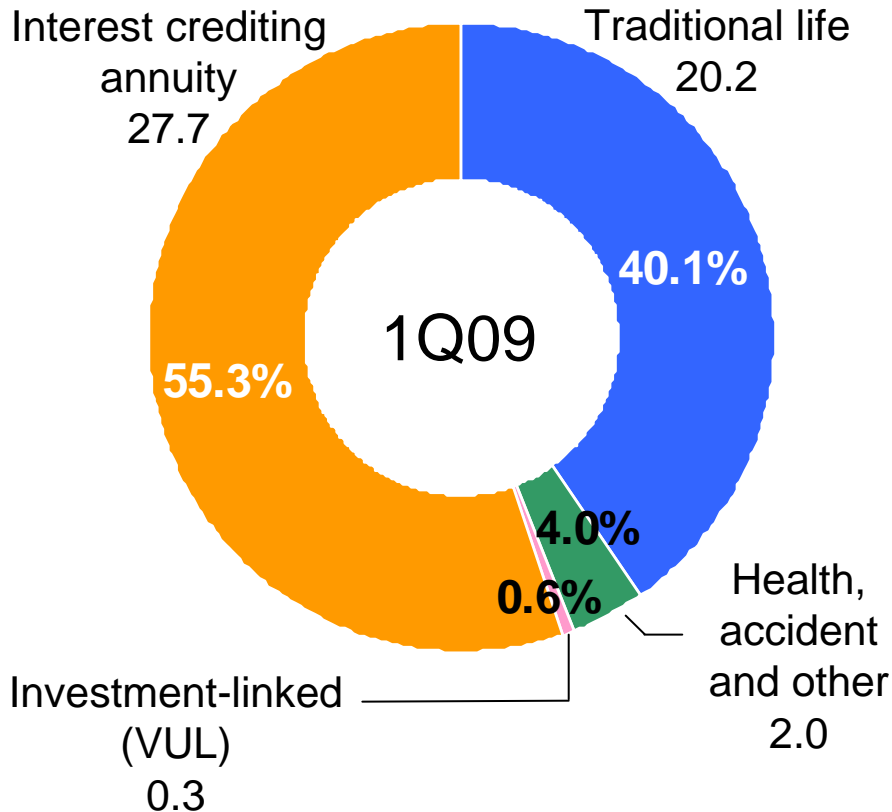
Total NT\$ 102.9BN



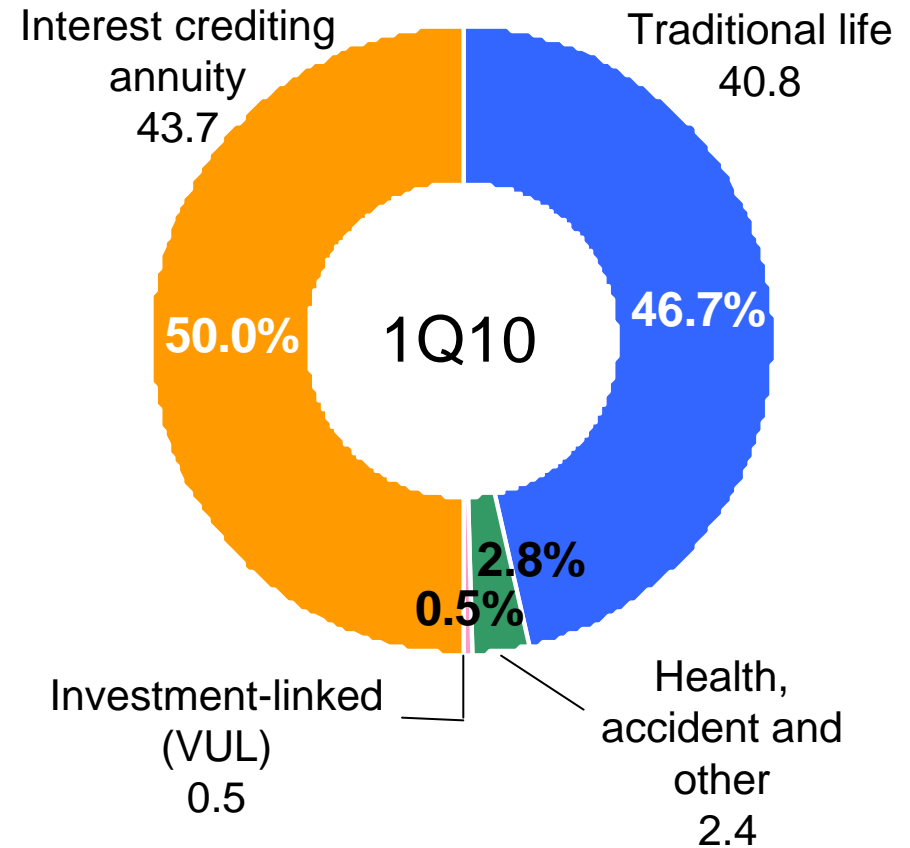
Total NT\$ 143.5BN

Cathay Life — First Year Premium

(NT\$BN)



Total NT\$ 50.2BN



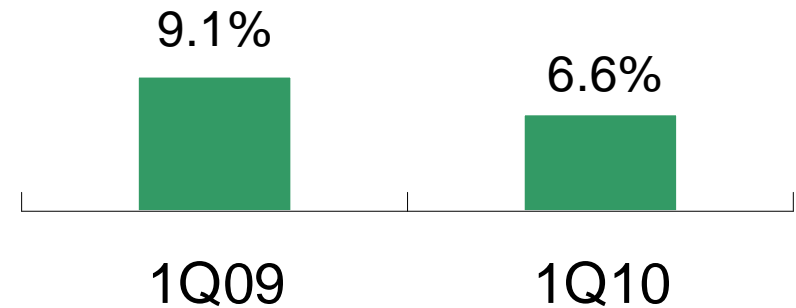
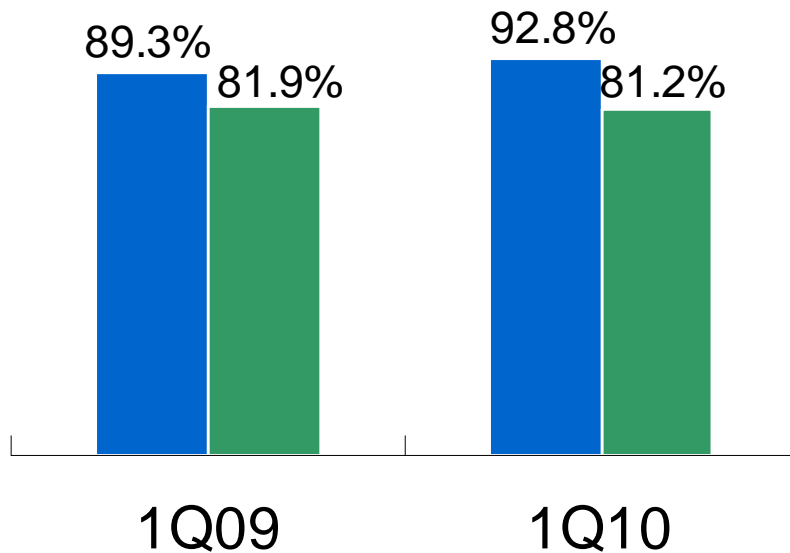
Total NT\$ 87.4BN

Cathay Life—Operational indicators

Persistence ratio

Expense ratio

■ 13 months ■ 25 months



Cathay Life — Investment Portfolio

| | 4Q09 | | 1Q10 | | Weight Change | Amount Change |
|--|----------------|---------------|----------------|---------------|---------------|---------------|
| | Amt. (NT\$BN) | % | Amt. (NT\$BN) | % | | |
| Cash & Cash equivalents | 420.2 | 17.1% | 487.0 | 19.2% | 2.1% | 66.9 |
| Equities- Domestic | 165.5 | 6.7% | 141.2 | 5.6% | -1.2% | -24.4 |
| Equities- International | 41.7 | 1.7% | 33.7 | 1.3% | -0.4% | -8.0 |
| Bonds- Domestic | 355.8 | 14.5% | 353.6 | 14.0% | -0.5% | -2.3 |
| Bonds- International ⁽¹⁾ | 789.8 | 32.1% | 844.9 | 33.3% | 1.2% | 55.2 |
| Mortgage & Secured loans | 312.5 | 12.7% | 304.4 | 12.0% | -0.7% | -8.1 |
| Policy loans | 195.2 | 7.9% | 192.9 | 7.6% | -0.3% | -2.3 |
| Real estate | 128.8 | 5.2% | 133.5 | 5.3% | 0.0% | 4.7 |
| Others | 50.5 | 2.1% | 43.3 | 1.7% | -0.3% | -7.2 |
| Total investments ⁽²⁾⁽³⁾ | 2,459.9 | 100.0% | 2,534.4 | 100.0% | | |

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

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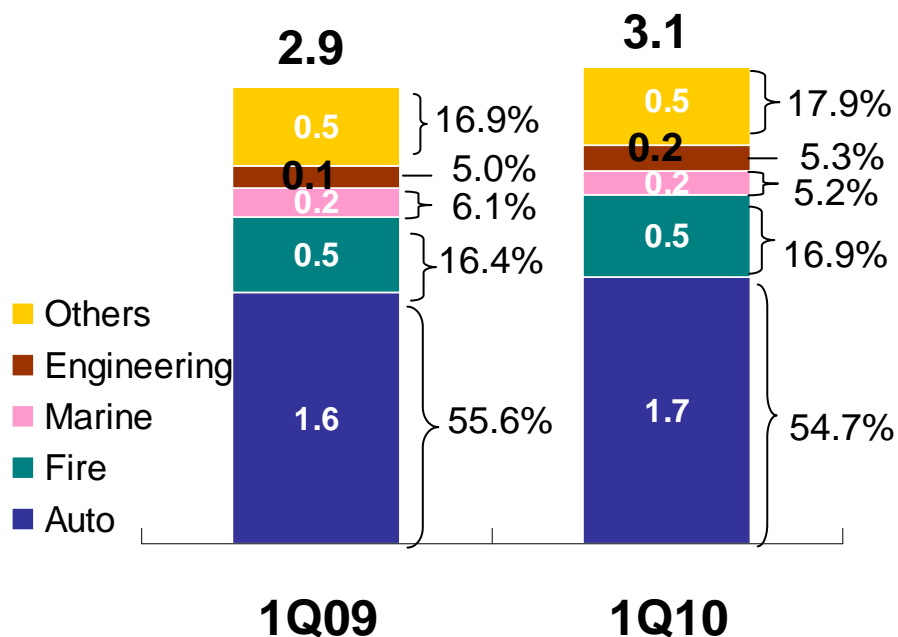
 - Cathay Century

- **Overseas expansion**

- **Embedded Value & Appraisal Value**

Cathay Century

Product breakdown (NT\$BN)

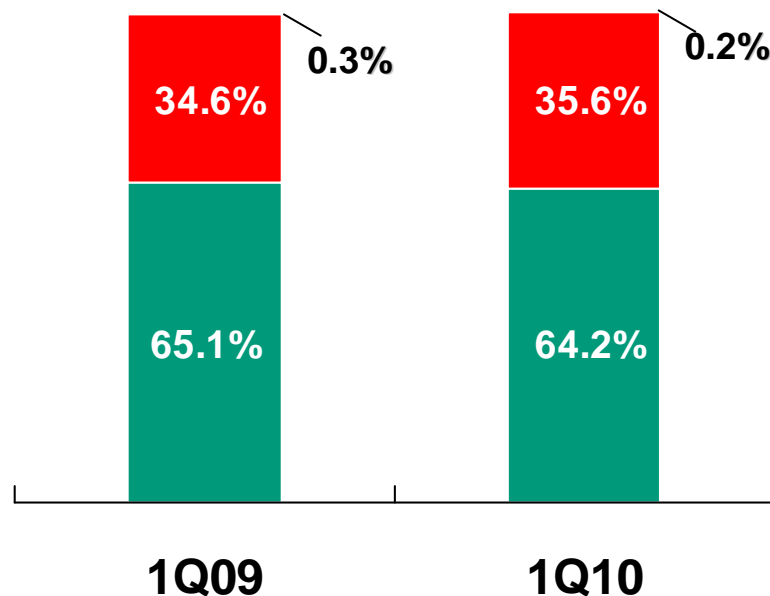


MKT share 10.0%

11.0%

Distribution channel

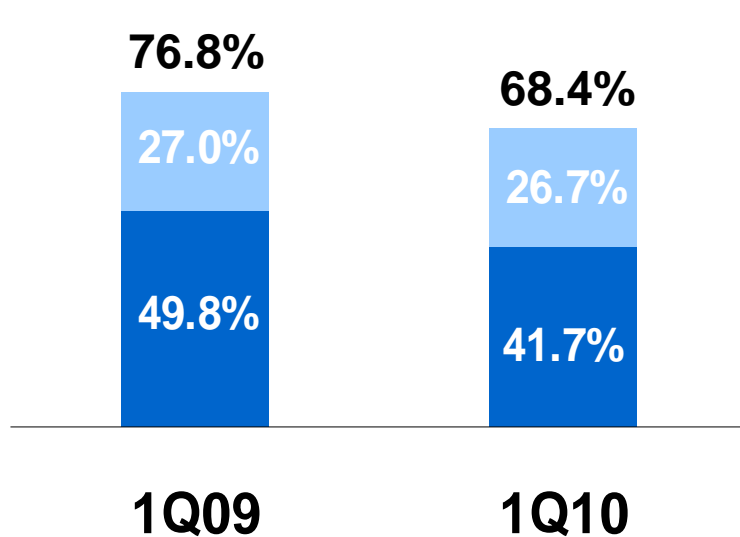
- Others
- Cathay P&C agents
- Cathay group channel



Cathay Century

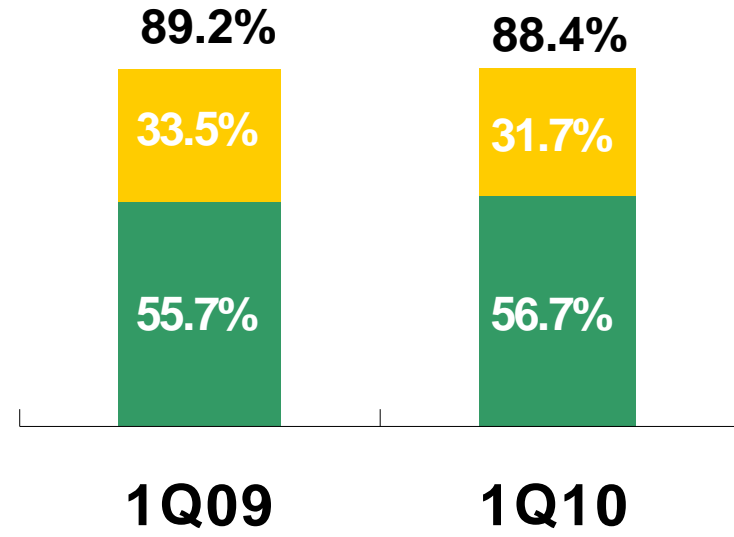
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retain expense ratio
- Retained loss ratio



Retention rate 70.1%

71.1%

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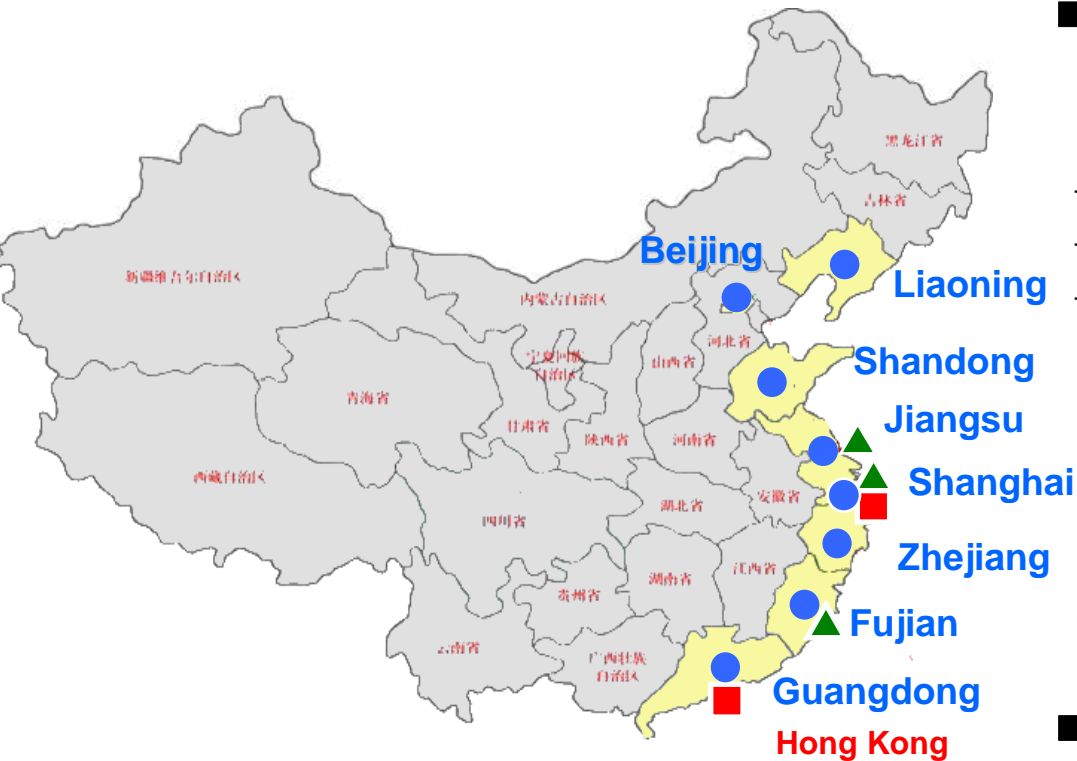
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- **Overseas expansion**

- **Embedded Value & Appraisal Value**

Cathay FHC in China



■ Cathay Life (China)

- Joint venture between Cathay Life Insurance and China Eastern Airline Group
- Registered capital: RMB 800 MN
- Sales force: 2,051 tied agents
- Footprint: 33 offices in 27 cities, 8 provinces
 - Serviced cities account for approximately 30% of China's GDP
 - Office number ranked fourth highest among local foreign players
 - Obtained Tianjin operation license
- Policyholders: approximately 1.79 MN⁽¹⁾

■ Cathay United Bank

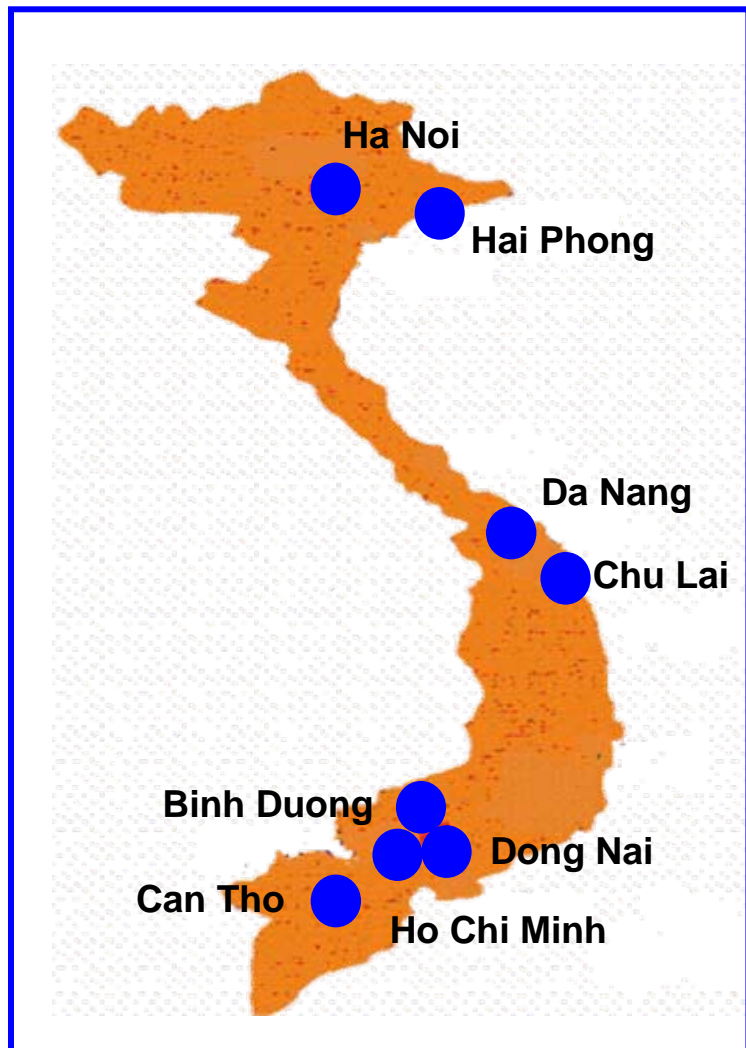
- 1 Hong Kong branch (2001)
- 1 Shanghai Rep. office (2002)

■ Cathay Century (China)

- 100% owned by Cathay FHC
- Headquarter in Shanghai.
- 2 branches (Jiangsu and Fujian)

Note(1): Numbers are effective policyholders as of 2010/03/31

Cathay FHC in Vietnam



■Indovina Bank

- Joint venture bank between CUB and VietinBank with 30 locations
- Total assets : USD670.9 MN
- NPL ratio : 0.45%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax income: USD2.8 MN
- Leading position among 6 joint venture banks in Vietnam
- Chosen as 2008 and 2009 best foreign bank by The State Bank of Vietnam

■Cathay United Bank

- 1 branch (Chu Lai), 2 rep. offices (Ho Chi Minh, Hanoi)
- Pre-tax net income of Chu Lai branch was approximately USD0.91 MN

■Cathay Life

- Headquarter in Ho Chi Minh
- 4 branches (Hanoi, Da Nang, Can Tho, Dong Nai)
- Sales force: 5,165 tied agents
- Net loss was approximately USD0.12 MN

■Cathay Century

- 1 rep. office (Ho Chi Minh)

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- **Embedded Value & Appraisal Value**

Embedded Value & Appraisal Value

NT\$BN, except for per share figures

| Valuation date | 2008/12/31 | 2009/12/31 |
|--|--|--|
| Investment yield | 2009: 3.45% 2010~2013: 3.9%~5% 2014~: 5.3% (Interest crediting annuity 2.75%~4.6%) | 2010~2013: 3.7%~5% 2014~: 5.1% (Interest crediting annuity 2.7%~4.1%) |
| Discount rate | 2009~2013: 10% 2014~: 11% | 2010~2013: 10% 2014~: 10.8% |
| Cost of Capital (CoC) | -66 | -69 |
| Adjusted net worth (After CoC) | 70 | 155 |
| Value of in force business | 221 | 253 |
| Embedded Value | 290 | 407 |
| EV / per share | 55.0 (30.0) | 77.3 (42.0) |
| Appraisal Value | 576 | 707 |
| Value of future 1 year's new business (After CoC) | 32 | 35 |
| AV / per share | 109.4 (59.6) | 134.2 (73.0) |

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

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

3. Totals may not sum due to rounding.

Assumptions

■ Investment yield :

| Year | 2010~2013 | 2014~ |
|--|-------------|-------|
| General account (excluding interest crediting annuity) | 3.7% ~ 5.0% | 5.1% |
| Interest crediting annuity segment account | 2.7% ~ 4.0% | 4.1% |

■ RBC capital requirement :

Apply year 2009 RBC formula to estimate expected capital requirement given RBC factors and formula are under reviewed by Insurance Bureau.

1. k value=0.46.
2. Investments in insurance-related business are required to be deducted from capital.
3. 2010 capital-adjusted measure: special reserve (catastrophe reserve) can be included in the capital after year 2010.
4. Capital requirement assumption = 200% RBC+ investments in insurance-related business - 2010 capital-adjusted measure.

■ Experience rate :

| Experience Rate | Assumptions |
|---------------------|--|
| Mortality Rate | Mortality rates were based on 58% and 39% of 1989 TSO table for male and female, respectively |
| Morbidity Rate | In accordance with Cathay's most updated morbidity trends and vary from different products |
| Lapse Rate | In accordance with Cathay's most updated lapse rate trends and vary from different products |
| Expenses assumption | In accordance with Cathay's most updated expense analysis and vary from different products; commissions are calculated on the basis of actual commission rate. |

- PricewaterhouseCoopers Asia Actuarial Services provides an independent review of the actuarial assumptions on EV.

Sensitivity Analysis

NT\$BN, except for per share figures

| Valuation date | 2009/12/31 | | | | |
|---|--------------------------|--------------------------|--------------|--------------------|--------------------|
| Assumption | Investment yield - 0.25% | Investment yield + 0.25% | Base Case | Discount rate - 1% | Discount rate + 1% |
| Investment yield(%) | 3.45~4.85 | 3.95~5.35 | 3.7~5.1 | 3.7~5.1 | 3.7~5.1 |
| Discount rate(%) | 10~10.8 | 10~10.8 | 10~10.8 | 9~9.8 | 11~11.8 |
| Cost of capital | -73 | -67 | -69 | -65 | -73 |
| Adjusted net worth (After CoC) | 151 | 157 | 155 | 159 | 151 |
| Value of in force business | 205 | 300 | 253 | 281 | 229 |
| Embedded Value | 356 | 457 | 407 | 440 | 381 |
| EV / per share | 67.6 (36.8) | 86.8 (47.2) | 77.3 (42.0) | 83.4 (45.4) | 72.2 (39.3) |
| Appraisal Value | 635 | 778 | 707 | 783 | 640 |
| Value of future 1 year's new business (After CoC) | 32 | 38 | 35 | 40 | 31 |
| AV / per share | 120.6 (65.6) | 147.6 (80.3) | 134.2 (73.0) | 148.6 (80.9) | 121.4 (66.1) |

Note : Totals may not sum due to rounding.

YoY Comparison

NT\$BN

| Valuation date | 2008/12/31 | 2009/12/31 |
|--|-------------------|-------------------|
| Embedded Value | 267-318 | 381-440 |
| Value of future 1 year's new business | 28-37 | 31-40 |
| Appraisal Value | 511-655 | 640-783 |