

Cathay Financial Holding Co., Ltd.

2009 First Quarter Briefing



May 2009

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Agenda

- **2009 first quarter financial results**

 - Cathay Financial Holdings

 - Cathay United Bank

 - Cathay Life

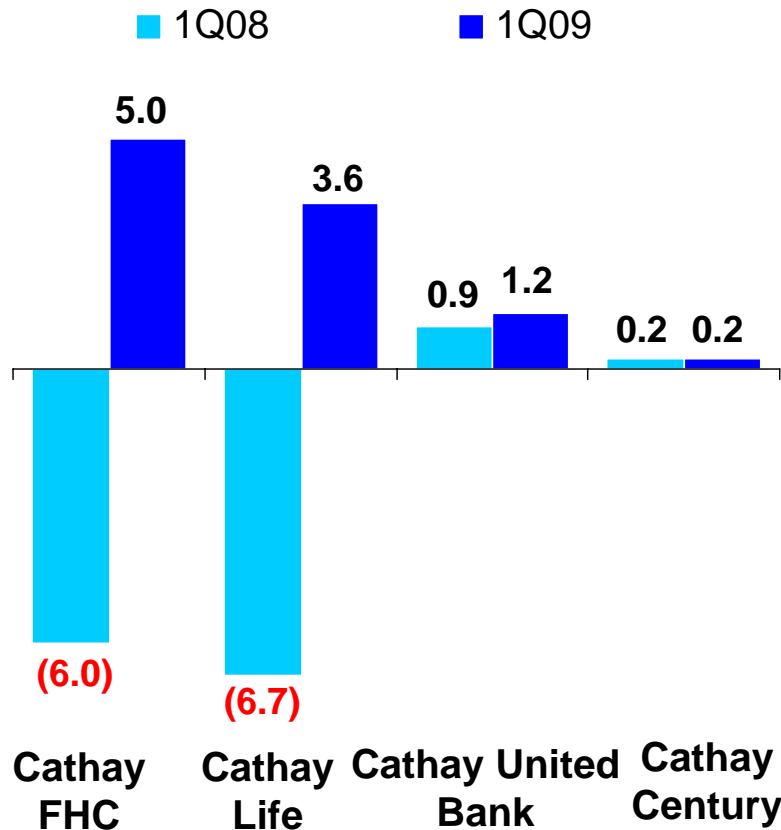
 - Cathay Century

 - Cathay FHC in Vietnam

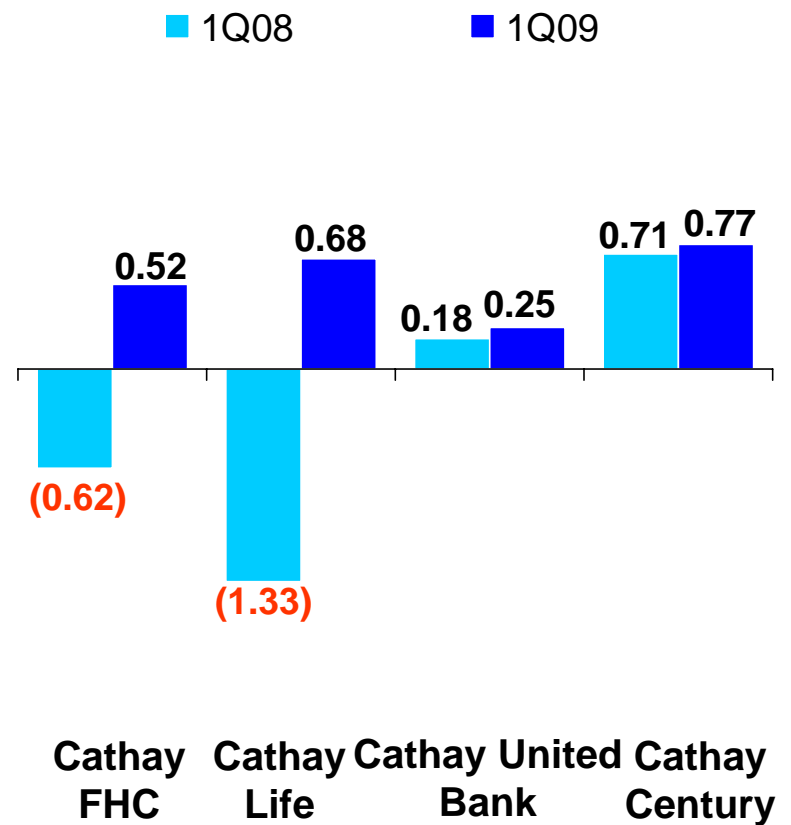
- **Embedded Value & Appraisal Value**

Cathay FHC – Net income & EPS

Net Income (NT\$BN)



Earnings Per Share (NT\$)



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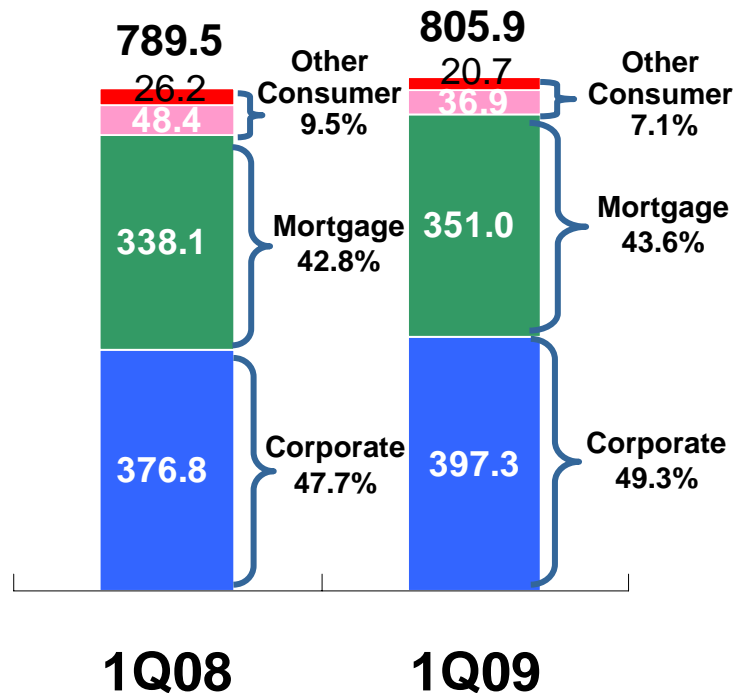
 - Cathay FHC in Vietnam

- **Embedded Value & Appraisal Value**

Cathay United Bank – Loan & deposit breakdown

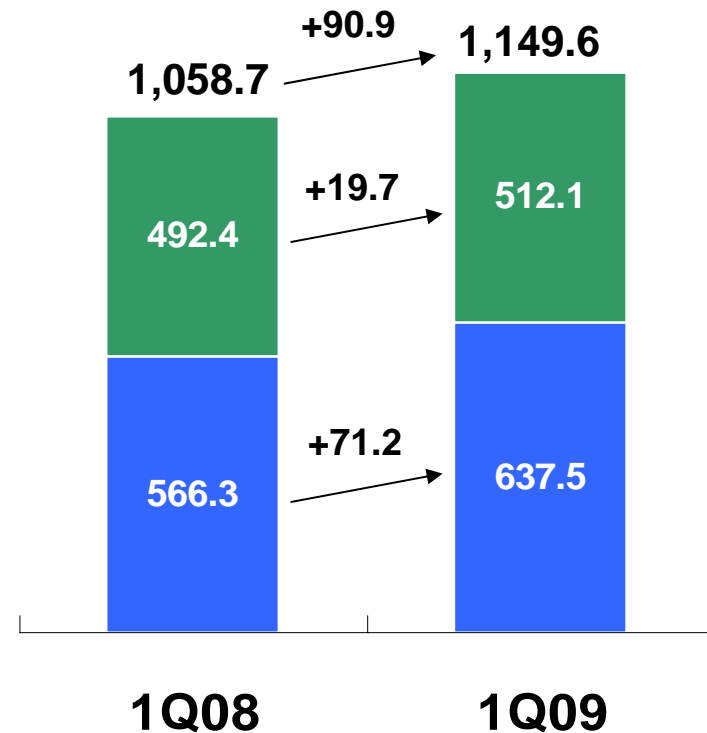
Loan breakdown (NT\$BN)

- Credit card related
- Consumer
- Mortgage
- Corporate



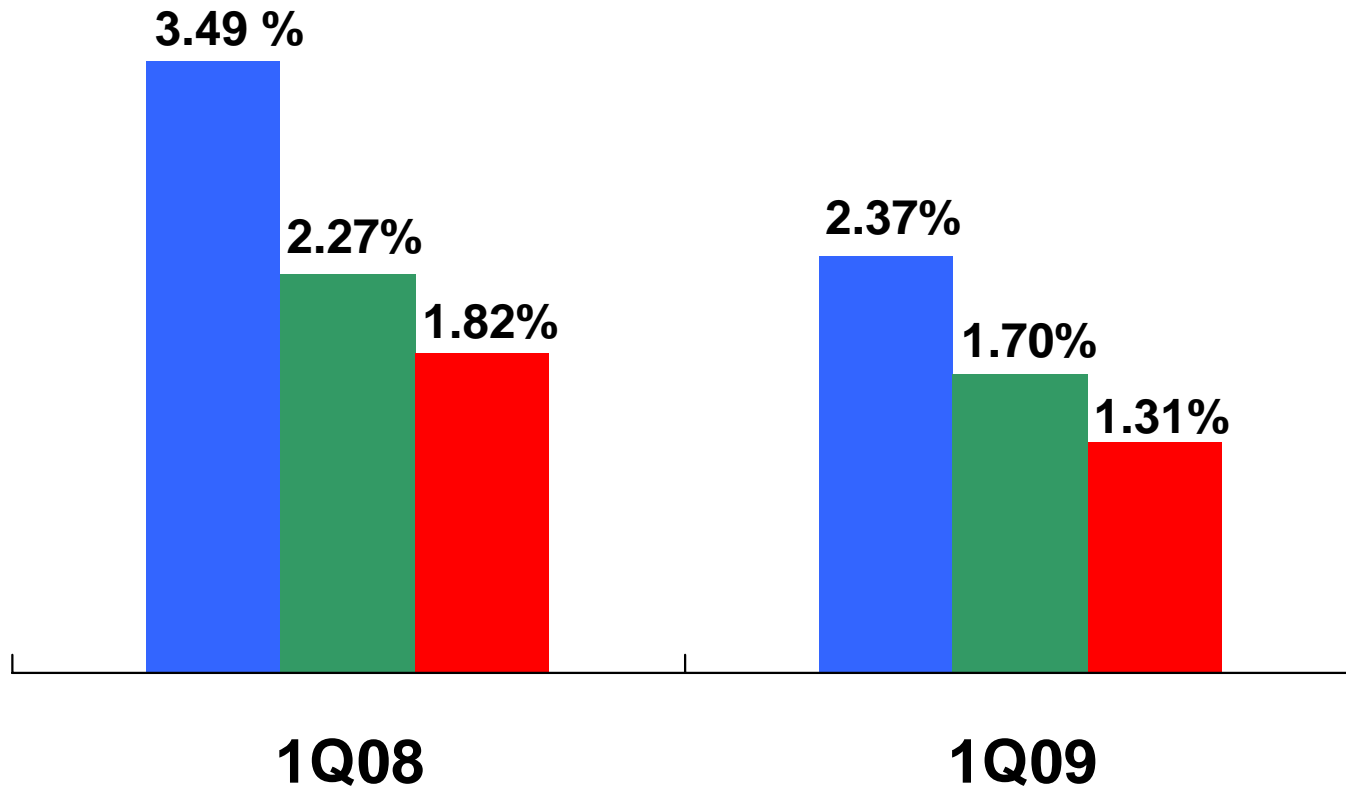
Deposit breakdown (NT\$BN)

- Demand deposit
- Time deposit



Cathay United Bank – Interest yields

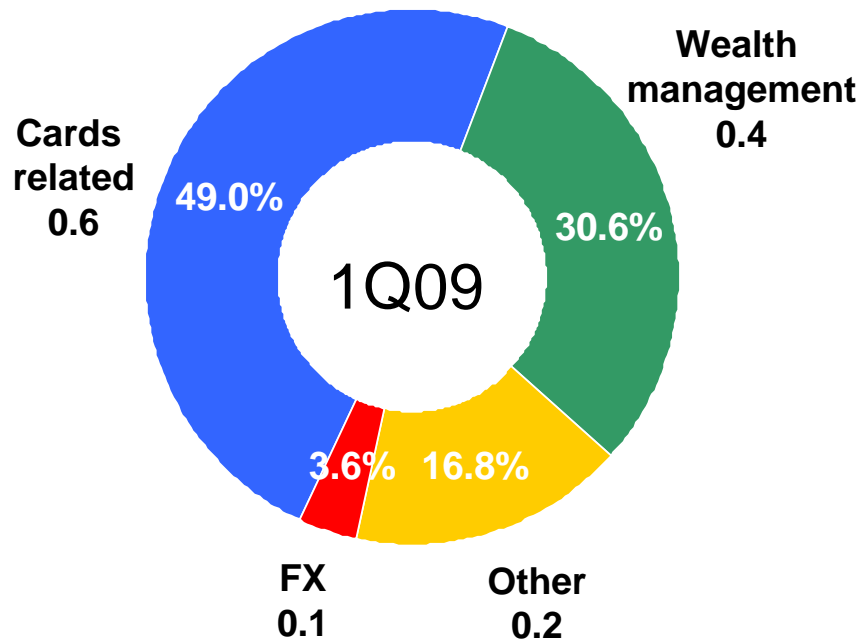
■ Avg rate of interest-earned assets ■ Interest spread ■ Net interest margin



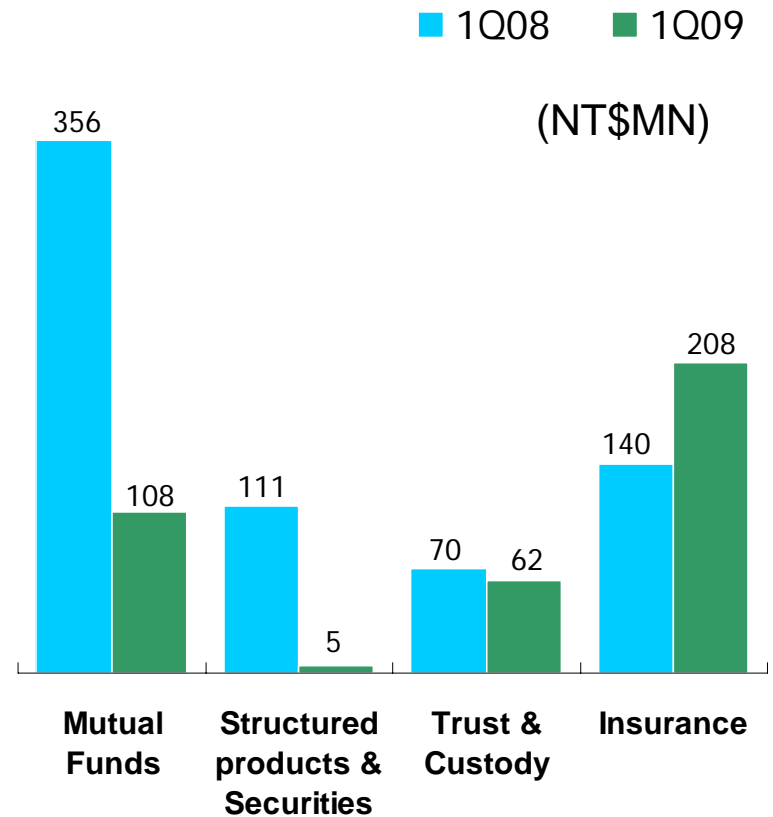
Note : 1Q08 number is adjusted

Cathay United Bank – Fee income

Fee income breakdown (NT\$BN)



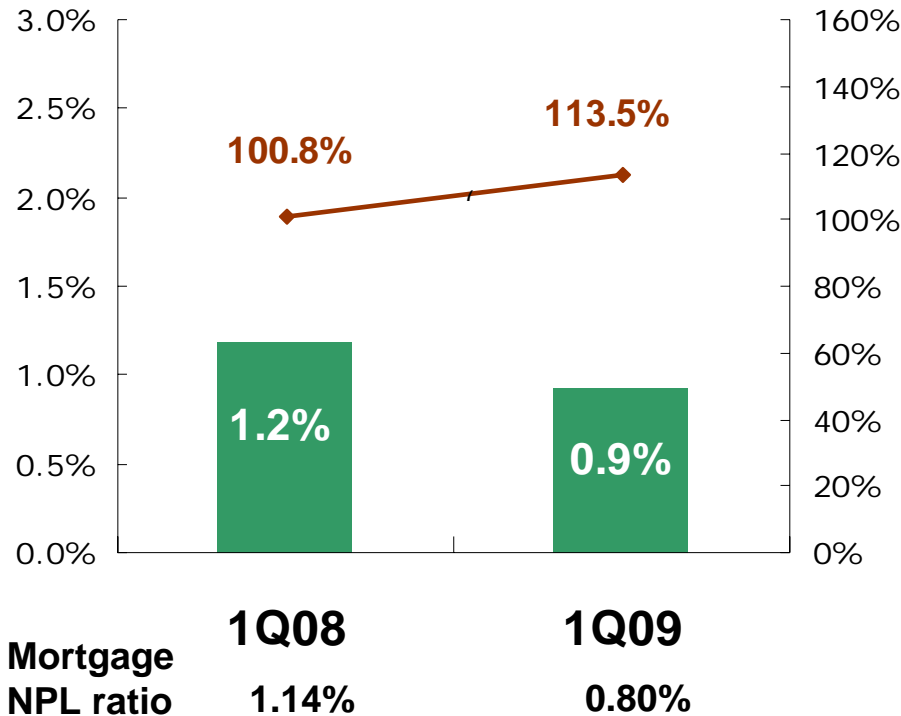
Wealth management fee breakdown



Cathay United Bank – Credit quality

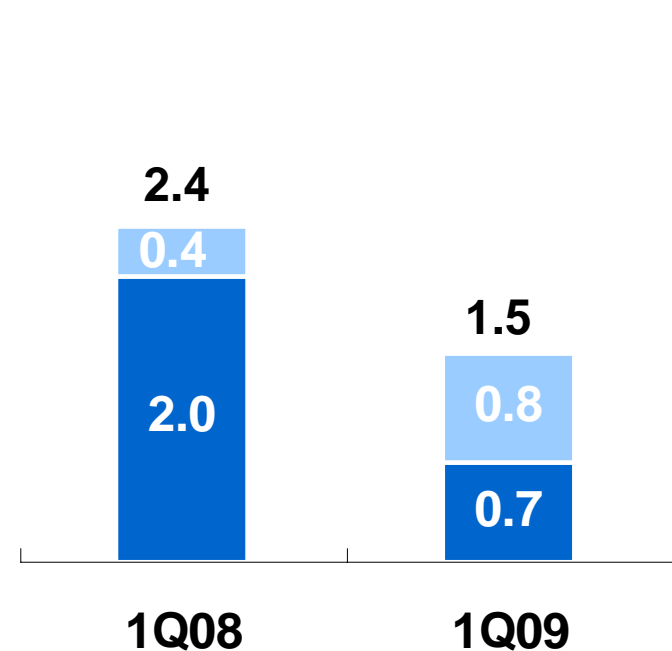
NPL & Coverage ratio

■ NPL (LHS) — Coverage ratio (RHS)



Gross provisions (NT\$BN)

■ Recovery ■ Net provisions



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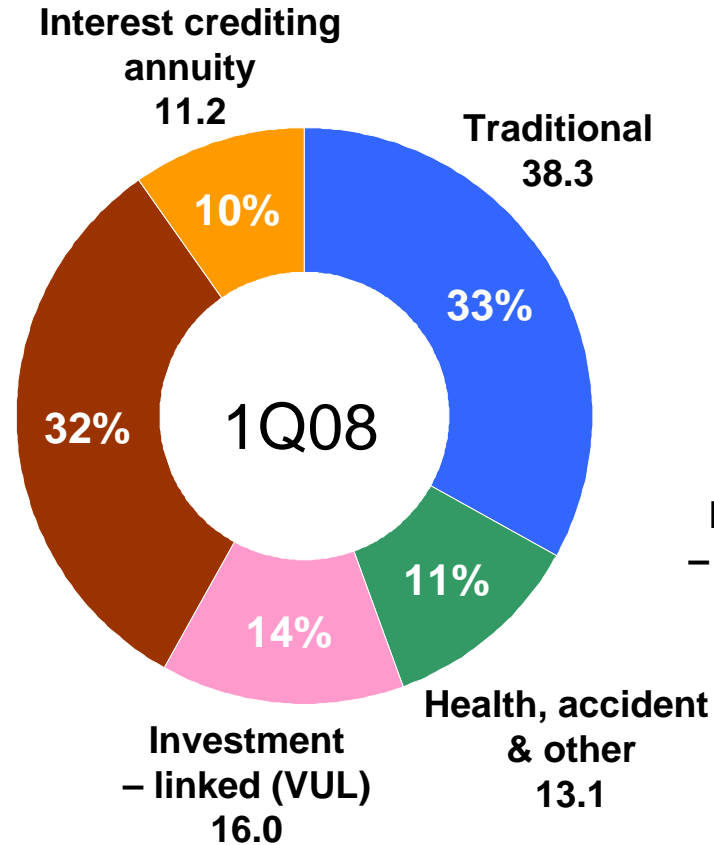
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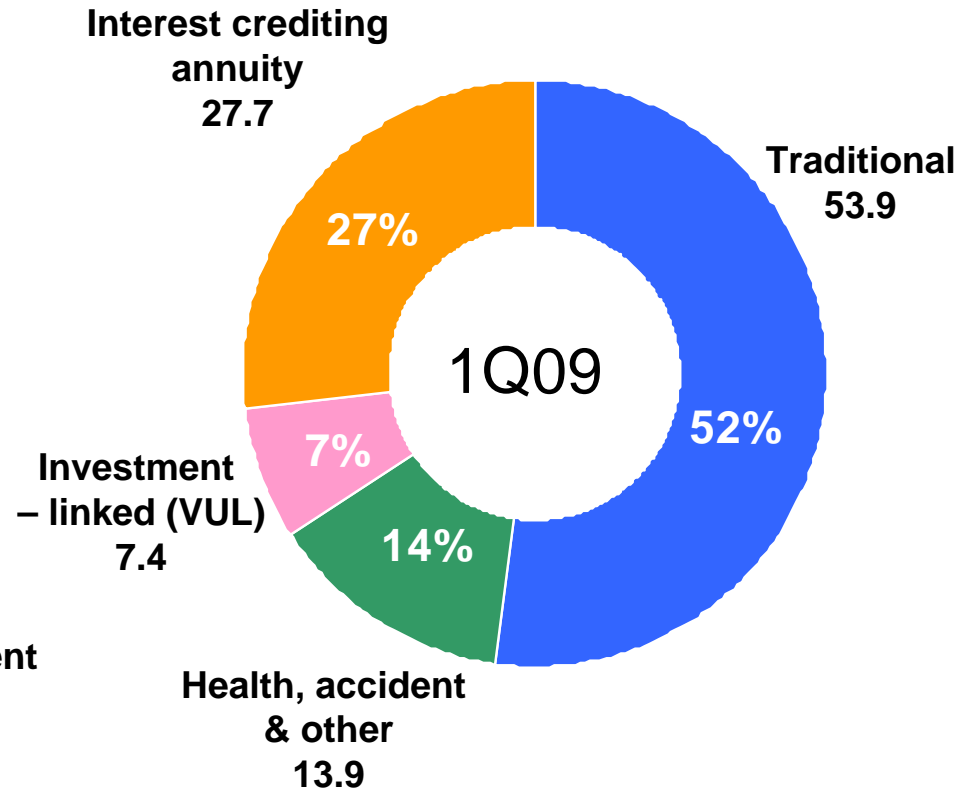
- **Embedded Value & Appraisal Value**

Cathay Life – Total premium

(NT\$BN)

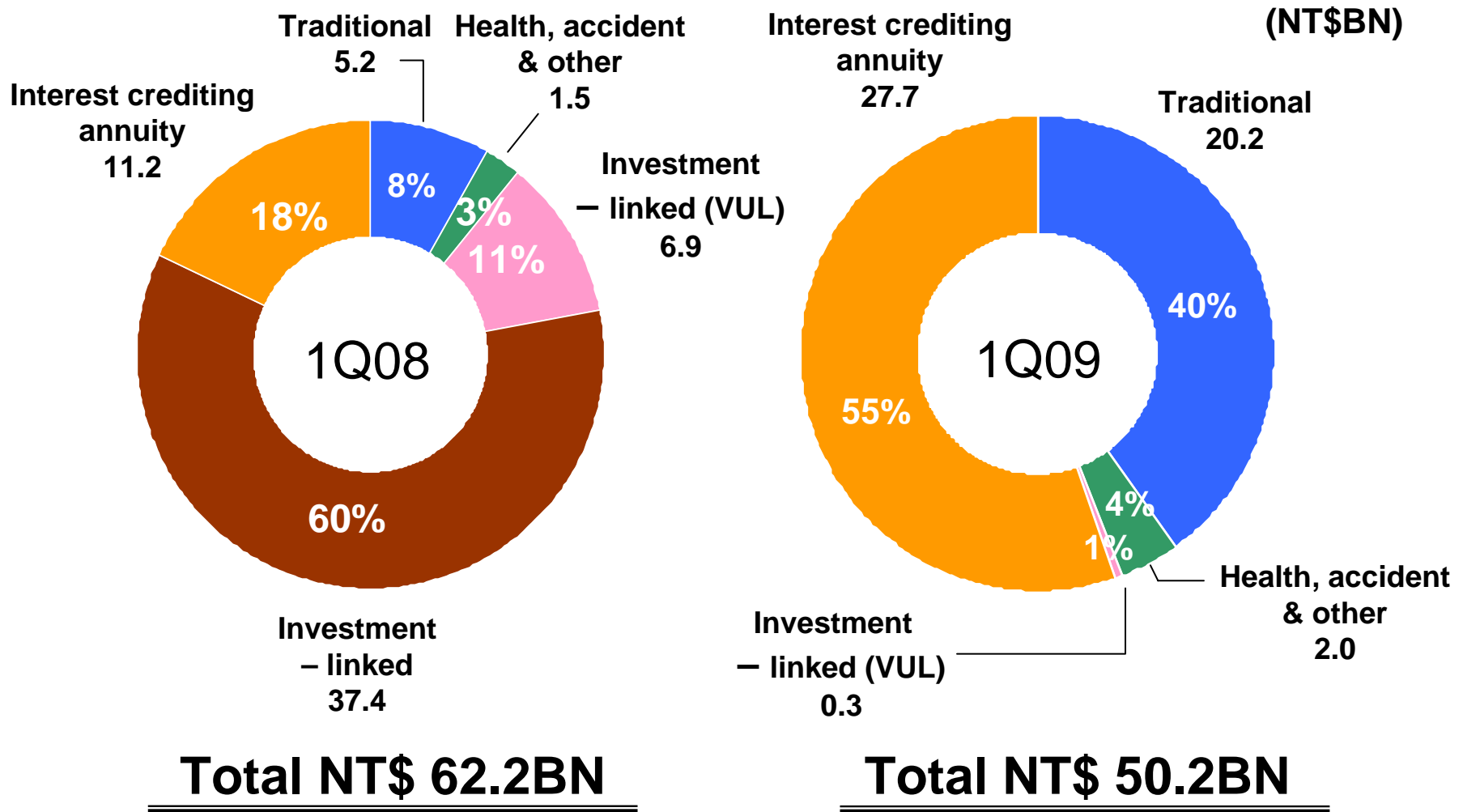


Total NT\$ 116.0BN



Total NT\$ 102.9BN

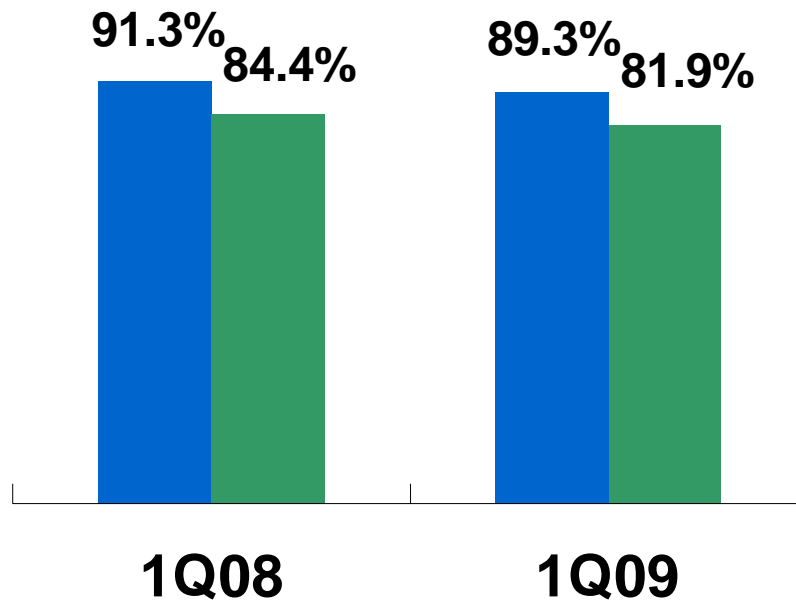
Cathay Life – First Year Premium



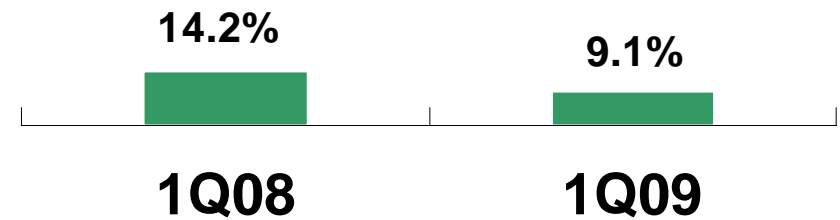
Cathay Life – Operational indicators

Persistency ratio

■ 13months ■ 25months



Expense ratio



Cathay Life – Investment portfolio

	4Q08		1Q09		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	232.5	10.9%	261.0	11.8%	0.9%	28.5
Equities – Domestic	113.2	5.3%	136.3	6.1%	0.8%	23.1
Equities – International	29.3	1.4%	31.4	1.4%	0.0%	2.1
Bonds – Domestic	339.3	15.9%	327.1	14.8%	-1.1%	-12.2
Bonds - International ⁽¹⁾	715.2	33.5%	753.5	34.0%	0.5%	38.3
Mortgage & Secured loans	344.5	16.1%	339.3	15.3%	-0.8%	-5.2
Policy loans	199.1	9.3%	196.1	8.8%	-0.5%	-3.0
Real estate	121.0	5.7%	126.3	5.7%	0.0%	5.3
Others	40.6	1.9%	46.7	2.1%	0.2%	6.1
Total investments⁽²⁾⁽³⁾	2,134.7	100.0%	2,217.7	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

Agenda

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 - Cathay Life

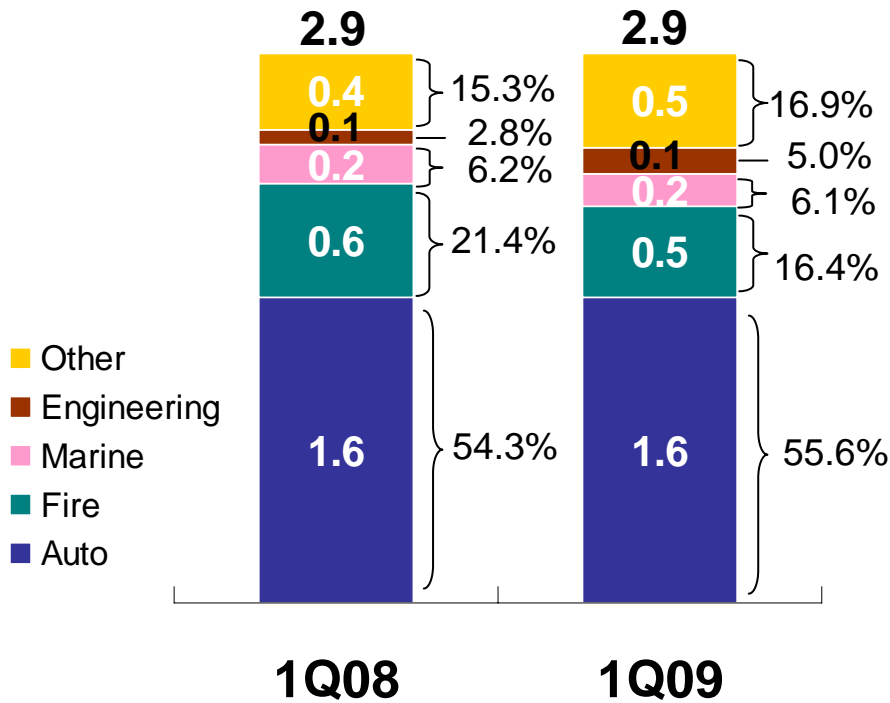
 - Cathay Century

 - Cathay FHC in Vietnam

- **Embedded Value & Appraisal Value**

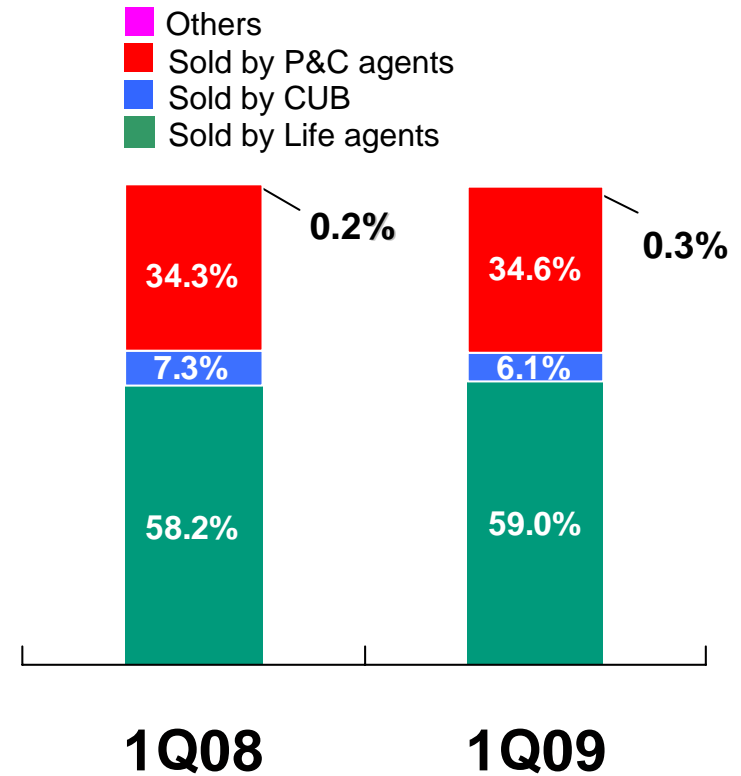
Cathay Century

Product breakdown (NT\$BN)



Mkt share	9.5%	10.0%
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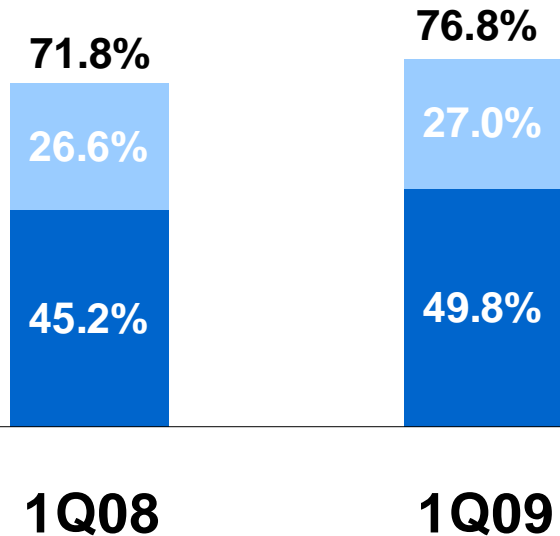
Distribution channel



Cathay Century

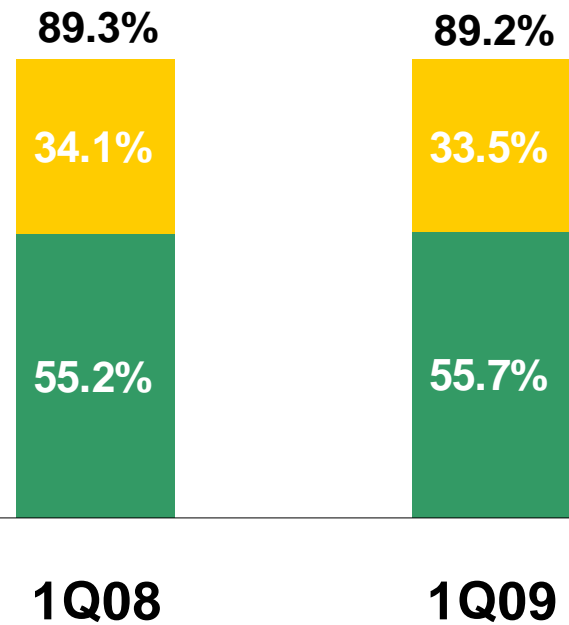
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retention rate 65.0% 70.1%

Agenda

■ **2009 first quarter financial results**

Cathay Financial Holdings

Cathay United Bank

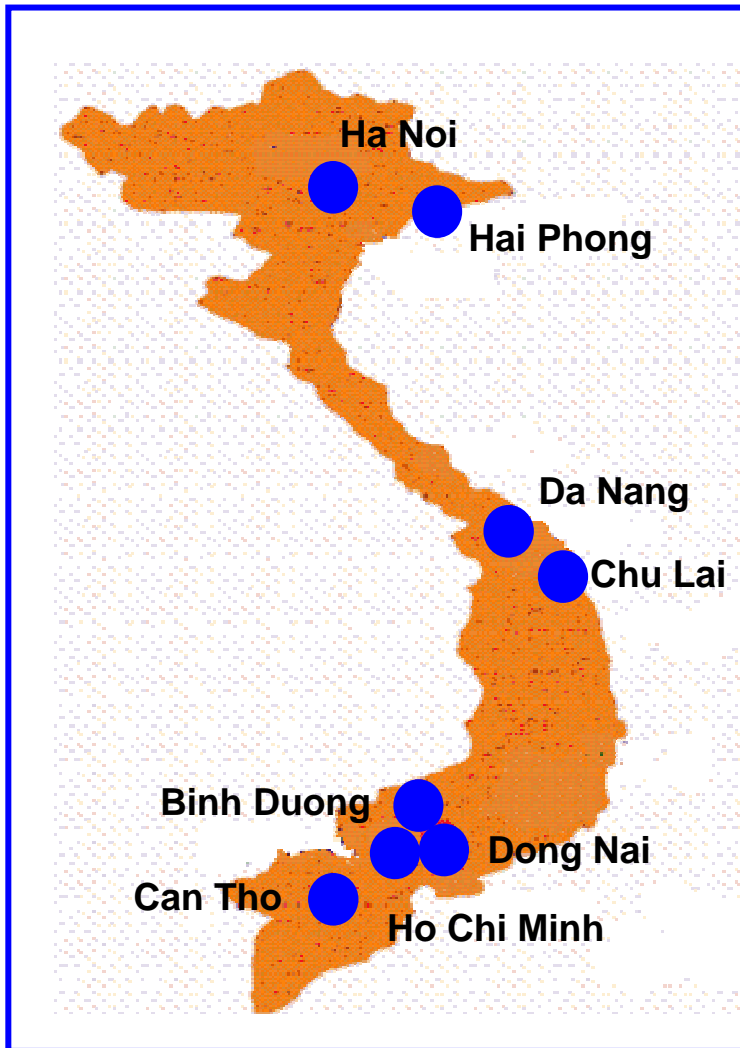
Cathay Life

Cathay Century

Cathay FHC in Vietnam

■ **Embedded Value & Appraisal Value**

Cathay FHC in Vietnam



■Indovina Bank

- Joint venture bank between CUB and VietinBank with 22 locations
- Total assets : USD520.4 MN⁽¹⁾ (approximately NTD17.1 BN)
- NPL ratio : 0.44%⁽¹⁾ (avg. NPL ratio of local players is 3.5%)
- Pre-tax income: USD15.6 MN⁽¹⁾ (approximately NTD510 MN)
- Leading position among 6 joint venture banks in Vietnam
- Chosen to be “the best foreign invested bank ” by central 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 is approximately NTD100 MN⁽¹⁾

■Cathay Life

- 3 offices (Ho Chi Minh, Hanoi, Da Nang)
- Net income is approximately NTD52 MN⁽¹⁾

■Cathay Century

- 1 rep. office (Ho Chi Minh)

Agenda

- **2009 first quarter financial results**

 - Cathay Financial Holdings

 - Cathay United Bank

 - Cathay Life

 - Cathay Century

 - Cathay FHC in Vietnam

- **Embedded Value & Appraisal Value**

Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2007/12/31	2008/12/31
Investment yield	5% (Interest crediting annuity: 4.3%)	First five years: 3.45%~5% Since the 6th year: 5.3% (Interest crediting annuity 2.75%~4.6%)
Discount rate	10.7%	First five years: 10% Since the 6th year: 11%
Cost of Capital (CoC)	-66	-66
Adjusted net worth (After CoC)	141	70
Value of in force business	226	221
Embedded Value	366	290
EV / per share	72.3 (39.8)	55.0 (30.0)
Appraisal Value	683	576
Value of future 1 year's new business (After CoC)	30	32
AV / per share	134.8 (74.3)	109.4 (59.6)

- Note : 1. per share = per share of Cathay Life; (per share) = per share of Cathay FHC
 2. EV/AV calculation does not include business of Cathay Life in China
 3. EV/AV are based on internal calculations and the methodology is in line with past practice
 4. Totals may not sum due to rounding

Assumptions

■ Investment yield :

Year	2009	2010	2011	2012	2013	2014~
Interest crediting annuity(%)	2.75	3.20	3.60	3.95	4.30	4.60
Others(%)	3.45	3.90	4.30	4.65	5.00	5.30

■ RBC capital requirement :

Apply year 2008 RBC formula to estimate expected capital requirement given RBC factors and formula are under reviewed by Insurance Bureau.

1. k value=0.44.
2. Investments in insurance-related business are required to be deducted from capital.
3. 2009 capital-adjusted measure: special reserve (catastrophe reserve) and the recognition of 80% URCL from stock investment can be included in the capital.
4. Capital requirement assumption = 200% RBC+ investments in insurance-related business - 2009 capital-adjusted measure.

■ Experience rate :

Experience Rate	Assumptions
Mortality Rate	Mortality rates were based on 59% and 40% 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	2008/12/31				
Assumption	Investment yield - 0.25%	Investment yield + 0.25%	Base Case	Discount rate - 1%	Discount rate + 1%
Investment yield	3.2%~5.05%	3.7%~5.55%	3.45%~5.3%	3.45%~5.3%	3.45%~5.3%
Discount rate	10%~11%	10%~11%	10%~11%	9%~10%	11%~12%
Cost of capital	-69	-64	-66	-63	-68
Adjusted net worth (After CoC)	67	72	70	72	67
Value of in force business	180	261	221	246	199
Embedded Value	247	333	290	318	267
EV / per share	46.8 (25.5)	63.2 (34.4)	55.0 (30.0)	60.4 (32.9)	50.6 (27.6)
Appraisal Value	517	635	576	655	511
Value of future 1 year's new business (After CoC)	30	35	32	37	28
AV / per share	98.2 (53.5)	120.4 (65.6)	109.4 (59.6)	124.3 (67.7)	97.0 (52.9)

Note : Totals may not sum due to rounding

YoY Comparison

NT\$BN

Valuation date	2007/12/31	2008/12/31
Embedded Value	347-390	267-318
Value of future 1 year's new business	27-33	28-37
Appraisal Value	622-757	511-655

Cathay Financial Holdings

Summary Financial Data

(NT\$BN)

	FY2007	FY2008	FY08/ FY07 % Chg	1Q08	1Q09	1Q09/ 1Q08/ % Chg
Statement of Income Data						
Interest income	1.123	0.484	-56.9%	0.215	0.134	-37.7%
Income from subsidiaries						
Cathay Life	23.033	(1.995)	-108.7%	(6.737)	3.603	-153.5%
Cathay United Bank	6.400	4.459	-30.3%	0.885	1.225	38.4%
Cathay Century	1.040	0.476	-54.2%	0.165	0.178	8.0%
Other	0.194	(0.082)	-142.4%	0.019	0.037	94.7%
Total income from subsidiaries, net	30.667	2.858	-90.7%	(5.668)	5.043	-189.0%
Loss on foreign exchange	(0.097)	(0.717)	638.0%	(0.712)	0.000	-100.0%
Other income	0.616	0.383	-37.9%	0.343	0.000	-100.0%
Operating costs	(0.985)	(0.396)	-59.8%	(0.178)	(0.153)	-13.9%
Administrative and general expenses	(0.226)	(0.487)	115.8%	(0.043)	(0.063)	46.2%
Income taxes (expense) benefit	(0.350)	0.071	-120.4%	0.067	0.053	-20.9%
Net income	30.748	2.196	-92.9%	(5.976)	5.014	-183.9%
EPS (NT\$)	3.18	0.23		(0.62)	0.52	
Balance Sheet Data						
Long-term investments in stock	214.1	144.9		197.4	156.8	
Total assets	230.2	168.6		212.8	181.7	
Total consolidated assets	3,686.7	3,746.3		3,727.8	3,824.6	
Total shareholders' equity	226.6	142.4		209.5	154.2	
Operating Metrics						
ROAE(standalone)	13.9%	1.2%		-11.0%	13.5%	
ROAA (standalone)	13.5%	1.1%		-10.8%	11.5%	
ROAA(consolidated)	0.9%	0.1%		-0.7%	0.5%	

Notes:

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(2) Total may not sum due to rounding

Cathay Life						
Summary Financial Data						
(NT\$BN)	FY2007	FY2008	FY08/ FY07 % Chg	1Q08	1Q09	1Q09/ 1Q08/ % Chg
<u>Summary Statement of Income Data</u>						
Premiums income ⁽¹⁾	302.993	346.454	14.3%	68.043	97.280	43.0%
Investment income						
Interest income	69.497	76.394	9.9%	18.031	18.862	4.6%
Gain on disposal of investment	28.586	0.000	-100.0%	14.742	0.000	-100.0%
Other investment income, net	(0.384)	(13.886)	3512.2%	(29.892)	5.645	-118.9%
Total investment income, net ⁽²⁾	97.699	62.508	-36.0%	2.881	24.507	-
Other income	2.801	6.135	119.1%	2.718	1.901	-30.1%
Insurance claims payment	(202.776)	(274.858)	35.5%	(47.580)	(41.439)	-12.9%
Provisions for reserves						
Provisions	(312.004)	(356.922)	14.4%	(67.658)	(99.430)	47.0%
Recoveries	178.368	250.067	40.2%	39.565	31.453	-20.5%
Total provisions for reserves, net	(133.636)	(106.855)	-20.0%	(28.093)	(67.976)	142.0%
Commissions and operating expense						
Brokerage expenses	(30.019)	(26.428)	-12.0%	(7.734)	(6.997)	-9.5%
Marketing, administrative and general expenses	(11.223)	(11.021)	-1.8%	(2.293)	(2.370)	3.4%
Total commissions and operating expenses	(41.242)	(37.450)	-9.2%	(10.026)	(9.367)	-6.6%
Other operating expenses	(2.644)	(2.546)	-3.7%	(0.521)	(0.998)	91.7%
Operating income	23.195	(6.611)	-128.5%	(12.578)	3.908	-131.1%
Non-operating income	1.454	1.441	-0.9%	0.309	0.318	3.0%
Non-operating expense	(0.299)	(0.822)	175.0%	(0.002)	(0.137)	-
Income taxes	(0.881)	4.019	-556.3%	5.533	(0.485)	-108.8%
Cumulative effect of changes in accounting principle:	0.000	0.000	-	0.000	0.000	-
Net income	23.469	(1.974)	-108.4%	(6.738)	3.603	-153.5%
<u>Balance Sheet Data</u>						
Total assets	2354.9	2358.9		2384.2	2437.4	
Total stockholders' equity	123.4	53.9		105.7	63.5	
<u>Operating Metrics</u>						
First year premium	172.8	206.0		62.2	50.2	
Expense ratio	12.9%	10.3%		14.2%	9.1%	
13-mos persistency ratio	92.0%	90.4%		91.3%	89.3%	
25-mos persistency ratio	83.0%	83.9%		84.4%	81.9%	
ROAE	19.3%	-2.2%		-23.5%	24.6%	
ROAA	1.0%	-0.1%		-1.1%	0.6%	

Notes:

(1) Excludes investment-linked products premium income.

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

			FY08/ FY07			1Q09/ 1Q08
	FY2007	FY2008	% Chg	1Q08	1Q09	% Chg
Summary Statement of Income Data						
Interest income	40.285	40.242	-0.1%	10.253	7.232	-29.5%
Interest expense	(19.121)	(19.724)	3.2%	(4.896)	(3.230)	-34.0%
Net interest income	21.164	20.518	-3.1%	5.357	4.002	-25.3%
Net operating income except interest income						
Net handling fee	5.132	5.120	-0.2%	1.353	0.973	-28.1%
Gains on financial assets and liabilities at fair value through P&L	(0.459)	(2.067)	350.2%	(0.692)	0.562	-181.3%
Realized gains on available-for-sale financial assets	1.707	0.163	-90.5%	0.365	0.046	-87.5%
Realized gains on held-to-maturity financial assets	(0.000)	(0.001)	375.2%	(0.001)	0.000	-100.0%
Invst inc - equity method	0.168	0.247	47.2%	0.028	0.042	52.7%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchng - net	0.716	1.102	53.9%	0.550	0.084	-84.7%
Impairment gain/loss	(0.115)	(3.109)	2598.8%	(0.056)	(0.042)	-24.5%
Gains on reversal of foreclosed properties impairment	(0.010)	0.045	-561.7%	0.019	0.000	-99.9%
Gains/losses on disposal of foreclosed properties	0.006	0.180	3150.7%	(0.003)	0.000	-
Investments in debt securities with no active market, net	(2.555)	(1.758)	-31.2%	(1.759)	0.000	-100.0%
other income, net	0.467	1.116	138.8%	0.117	0.174	49.0%
Net operating income	26.220	21.555	-17.8%	5.279	5.841	10.6%
Provisions for possible losses ⁽¹⁾	(4.086)	(0.926)	-77.3%	(0.352)	(0.776)	120.4%
Operating expenses	(14.008)	(14.176)	1.2%	(3.319)	(3.434)	3.5%
Income from continuing operations before income taxes	8.126	6.453	-20.6%	1.608	1.631	1.4%
Income tax benefit (expense)	(1.726)	(1.992)	15.4%	(0.723)	(0.406)	-43.8%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	6.400	4.461	-30.3%	0.885	1.225	38.4%
Balance Sheet Data						
Total assets	1,288.2	1,351.6		1300.9	1349.4	
Total shareholders' equity	81.4	82.9		82.2	84.7	
Operating Metrics						
Cost income ratio	53.4%	65.8%		62.87%	58.80%	
ROAE	8.1%	5.4%		4.3%	5.9%	
ROAA	0.5%	0.3%		0.3%	0.4%	
Assets Quality						
NPL ratio (international standard)	1.5%	0.9%		1.2%	0.9%	
Coverage ratio (international standard)	86.2%	109.3%		100.8%	113.5%	

Notes:

(1) 1Q08 and 1Q09 provisions net of NT\$2.0bn and NT\$0.7bn bad debt recoveries, respectively.

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Cathay Century
Summary Financial Data
(NT\$MM)

			FY08/ FY07			1Q08/ 1Q07
	FY2007	FY 2008	% Chg	1Q08	1Q09	% Chg
Summary Statement of Income Data						
Premiums income	11,153.7	11,829.6	6.1%	2,896.5	2,939.7	1.5%
Reinsurance premiums ceded	(3,460.6)	(3,771.5)	9.0%	(1,013.4)	(880.2)	-13.1%
Premiums income, net	7,693.1	8,058.1	4.7%	1,883.2	2,059.5	9.4%
Investment						
Interest income	396.2	391.0	-1.3%	92.5	81.5	-11.9%
Other investment income, net	205.9	(565.8)	-374.8%	164.1	(160.4)	-197.7%
Total investment income	602.0	(174.8)	-129.0%	256.7	(78.8)	-
Other operating income	288.4	336.4	16.7%	114.9	87.3	-24.0%
Insurance claims payment, net	(3,296.5)	(3,688.7)	11.9%	(1,005.0)	(1,062.6)	5.7%
Provisions for reserves						
Provisions	(6,617.6)	(6,655.1)	0.6%	(5,524.9)	(5,706.6)	3.3%
Recoveries	5,306.5	5,812.8	9.5%	5,436.5	5,549.8	2.1%
Total provisions for reserves, net	(1,311.1)	(842.3)	-35.8%	(88.4)	(156.8)	77.4%
Commissions, operating and other expenses	(2,681.9)	(2,997.4)	11.8%	(981.7)	(594.5)	-39.4%
Operating income	1,294.0	691.2	-46.6%	179.7	254.0	41.4%
Non-operating income	17.3	10.7	-38.5%	0.4	0.0	-100.0%
Non-operating expense	(0.1)	(12.2)	15982.9%	(1.7)	(0.0)	-98.1%
Income taxes	(264.9)	(211.2)	-20.3%	(13.3)	(75.8)	-
Cumulative effect of changes in accounting principles	0.0	-	-	0.0	0.0	-
Net income	1,046.3	478.5	-54.3%	165.0	178.2	8.0%
Summary Balance Sheet Data						
Total assets	18,979.8	19,503.5	2.8%	19,395.6	19,917.2	
Total stockholders' equity	3,869.9	3,096.4	-20.0%	3,932.2	3,438.1	
Operating Metrics						
Written Combined ratio	62.4%	71.9%		71.8%	76.8%	
Net Combined ratio	79.7%	84.7%		89.3%	89.2%	
ROAE	28.1%	13.7%		16.9%	21.8%	
ROAA	6.7%	2.5%		3.4%	3.6%	



Shares Outstanding
(Millions of shares)

	<u>As of</u> <u>3/31/2009</u>
Total shares issued	9,737.5
Treasury shares	
CFH	66.7
Cross holdings of subsidiaries	
Cathay Life	0.0
Cathay United Bank	0.0
Cathay Century	0.0
Lucky Bank	0.0
Total cross-holdings of subsidiaries	0.0
Total treasury shares	66.7
Total shares outstanding	9,670.8

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



Capital Adequacy Metrics

	<u>Capital Adequacy Metrics (As of 31-December-2008)</u>			<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	126%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	362%			200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.03% / 8.59%			8.00% / 6.00%
Cathay Securities BIS Ratio	1023%			150%

Notes:

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