

**Cathay Financial Holding Co., Ltd.**  
**2009 Third Quarter Briefing**



**November 2009**

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# Agenda

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- **Business overview**
- **9M09 financial results**
  - Cathay Financial Holdings
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Overseas expansion**
- **Cathay Life's property reappraisal**

# Business Overview

## Improved capital structure

- Cathay Life's net worth recovered to 105.9 bn as of Sep. 30th, 2009
- Issuance of NT\$20 bn unsecured subordinated bonds successfully completed on October 8<sup>th</sup>, of which NT\$10 bn will be injected into Cathay Life in the form of preferred shares

## Cathay Life

- Maintained high FYP growth rate; improving product mix supports growth of VNB.
- Improving interest spread

## Cathay United Bank

- Maintained good asset quality and moderate loan growth
- Improving trend for NIM and fee income

## China strategy

- Following regulatory approval, Cathay United Bank will leverage Cathay Life's existing network to service Taiwanese, domestic Chinese and foreign businesses; seek to upgrade rep. office to branch first and continue to evaluate subsidiary.

## Property reappraisal result

- Total after-tax unrealized gain is NT\$107.8 billion.

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- **Business overview**

- **9M09 financial results**

  - Cathay Financial Holdings

    - Cathay United Bank

    - Cathay Life

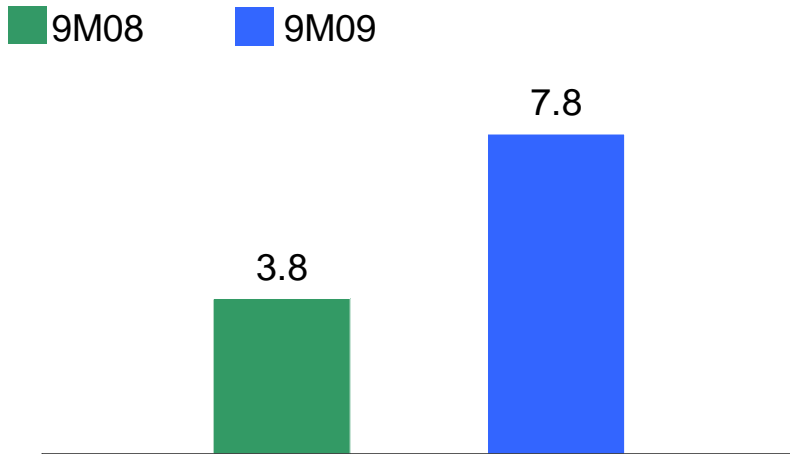
    - Cathay Century

- **Overseas expansion**

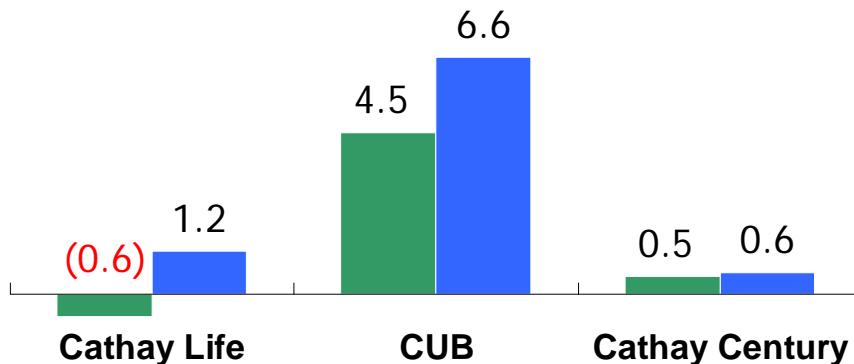
- **Cathay Life's property reappraisal**

# Cathay FHC – Net income & EPS

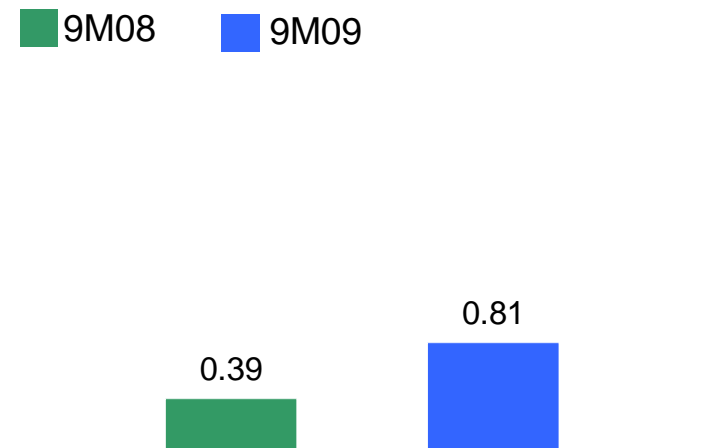
## Net Income (NT\$BN)



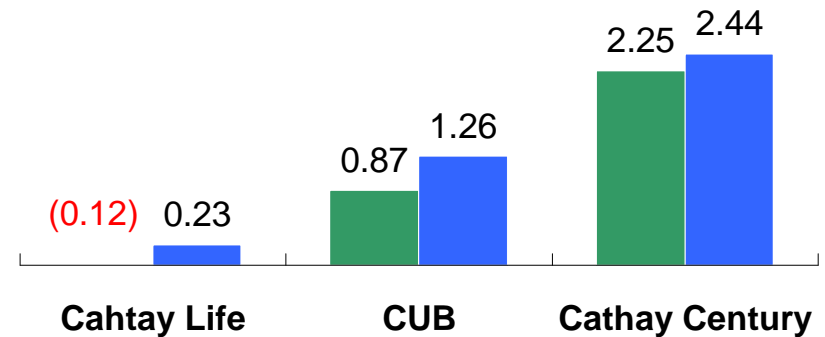
## Net income of main subsidiaries



## Earnings Per Share (NT\$)



## EPS of main subsidiaries



# Agenda

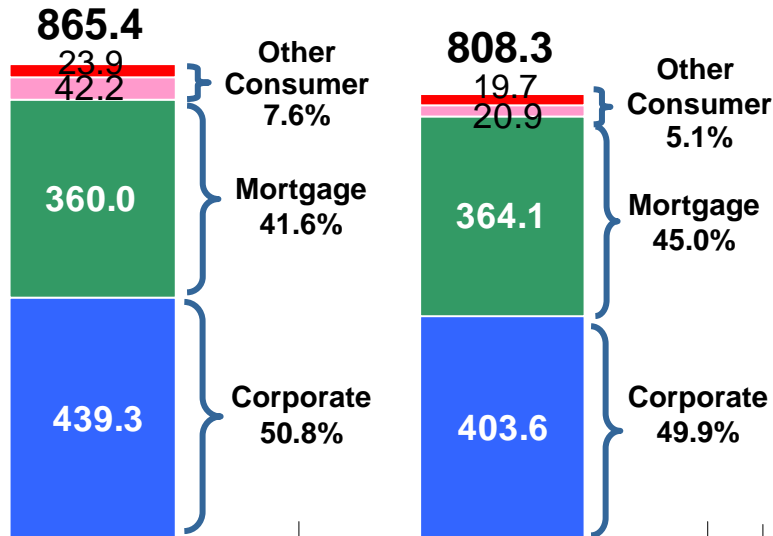
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# Cathay United Bank – Loan & deposit breakdown

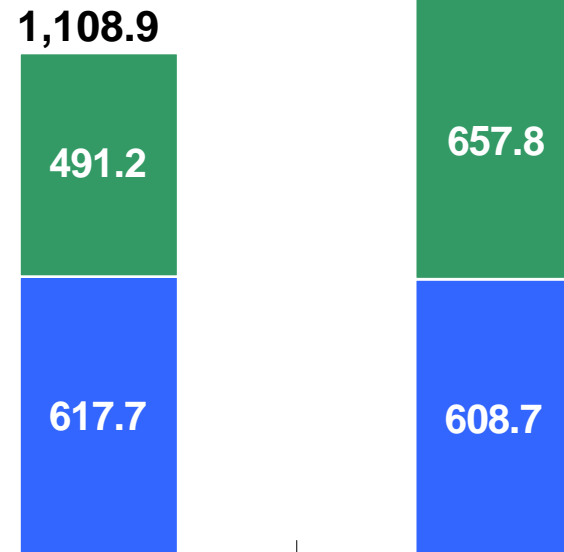
## Loan breakdown (NT\$BN)

- Credit card related
- Consumer
- Mortgage
- Corporate



## Deposit breakdown (NT\$BN)

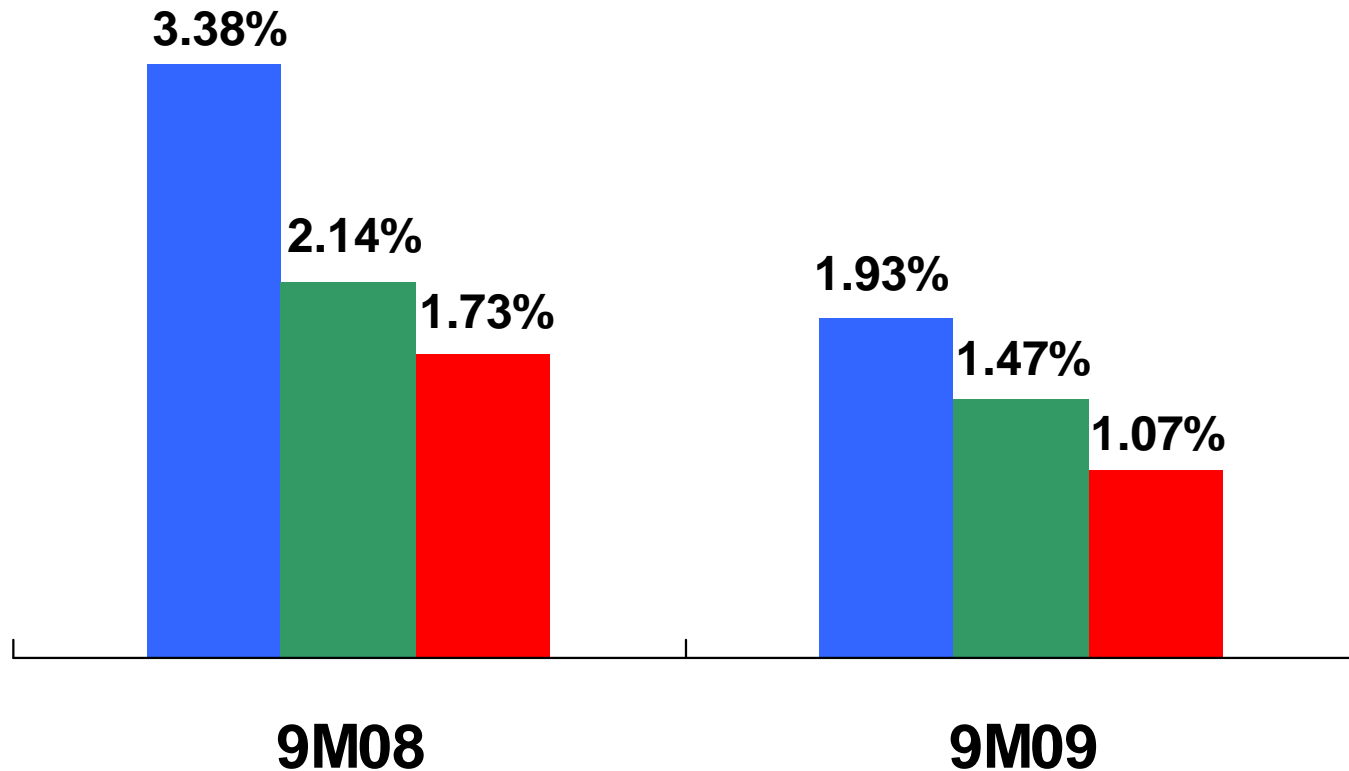
- Demand deposit
- Time deposit





# Cathay United Bank – Interest yields

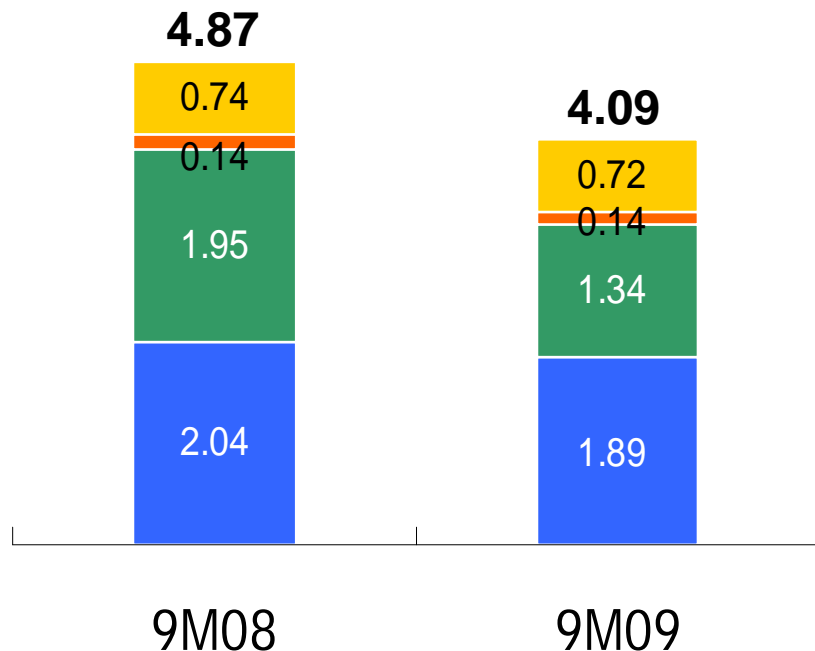
■ Avg. rate of interest-earned assets ■ Interest spread ■ Net interest margin



# Cathay United Bank– Fee income

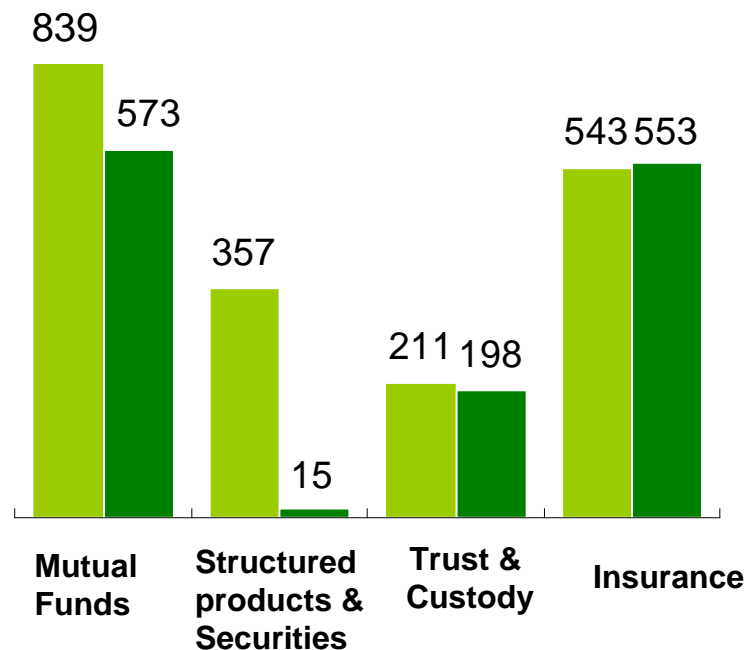
## Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



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

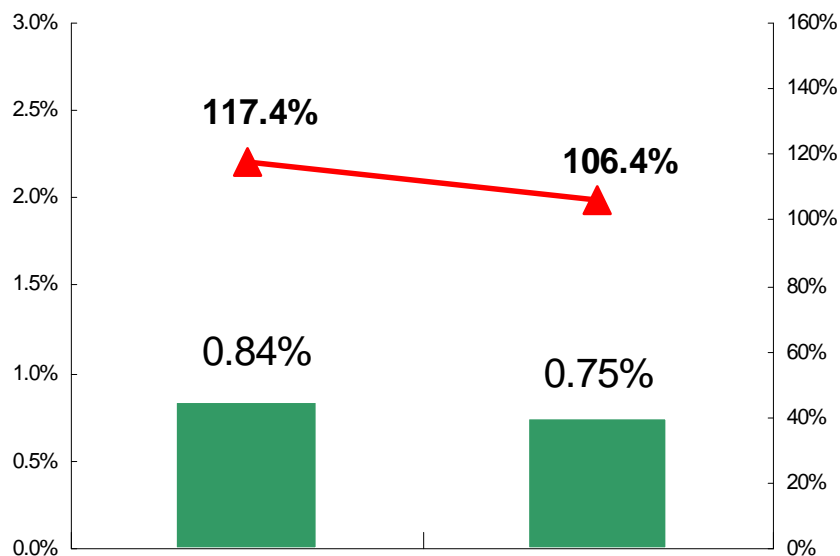
- 9M08
- 9M09



# Cathay United Bank–Credit quality

## NPL & Coverage ratio

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



Mortgage  
NPL ratio

**9M08**

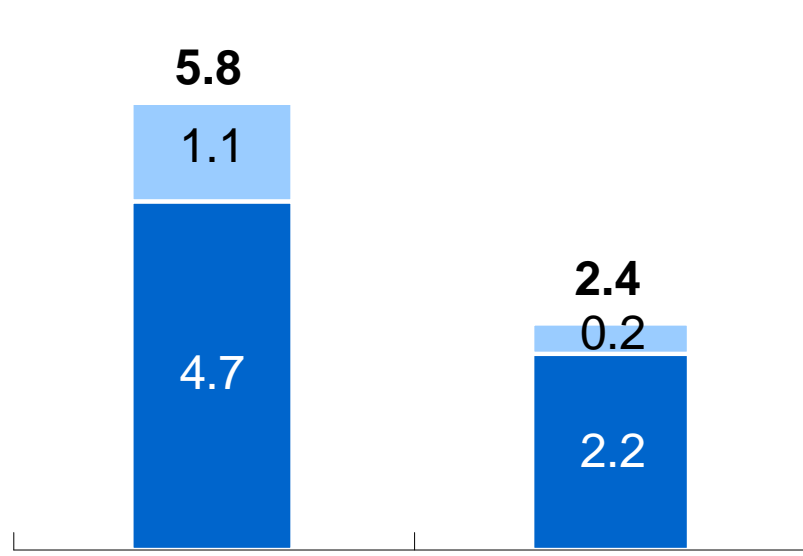
0.79%

**9M09**

0.58%

## Gross provision (NT\$BN)

- Net provisions
- Recovery



**9M08**

**9M09**

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  - Cathay Life**

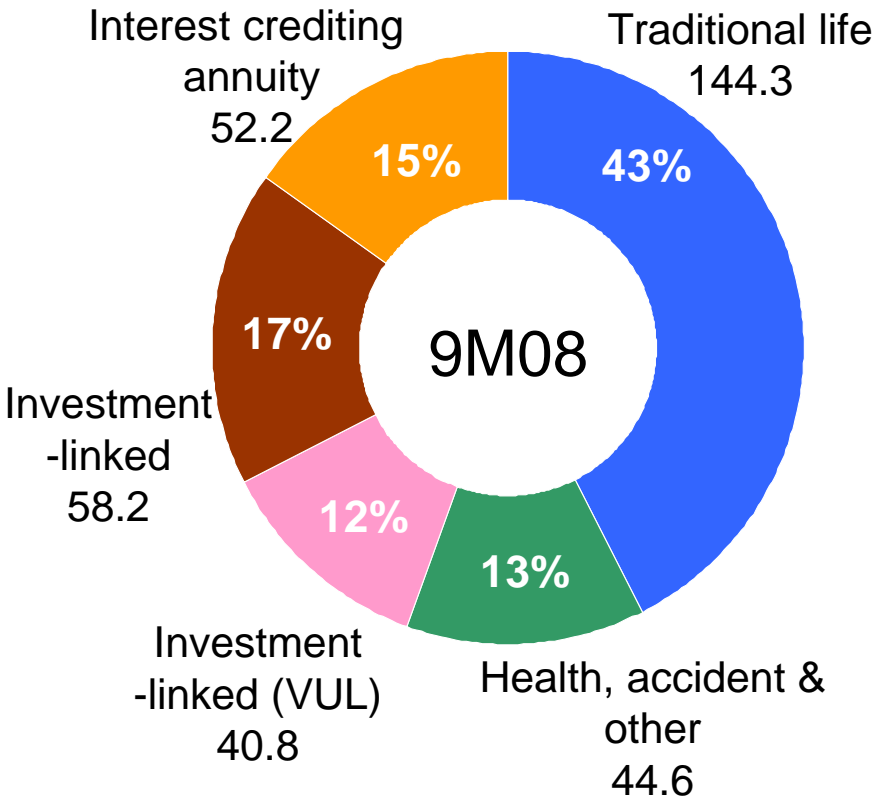
  - Cathay Century

- **Overseas expansion**

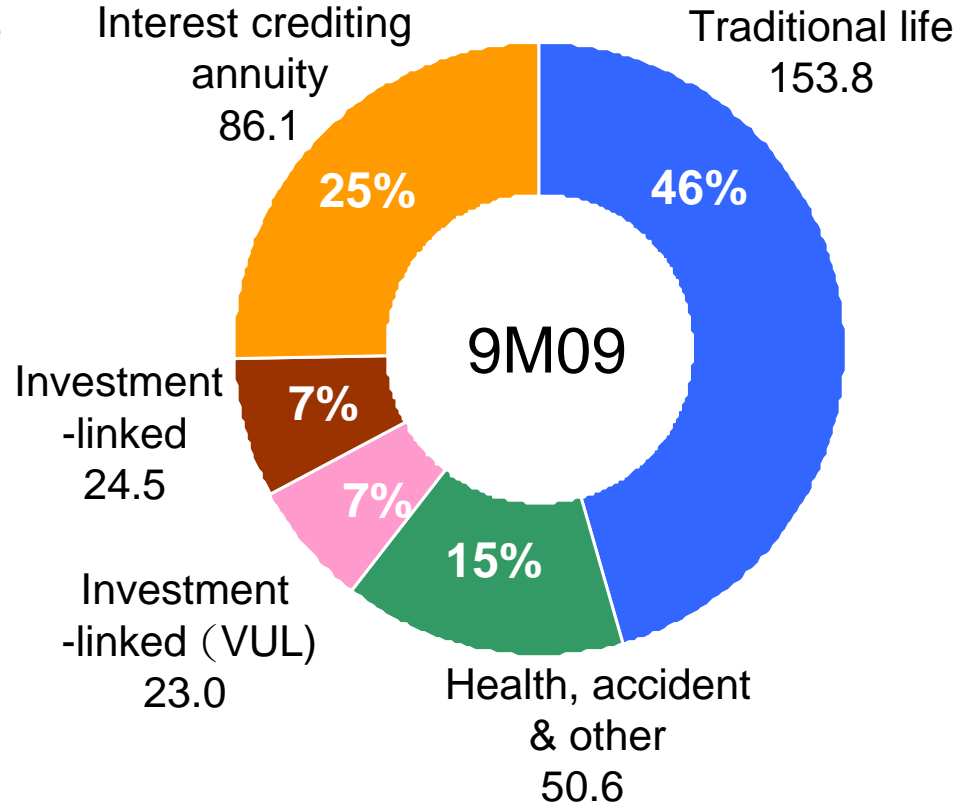
- **Cathay Life's property reappraisal**

# Cathay Life – Total premium

(NT\$BN)



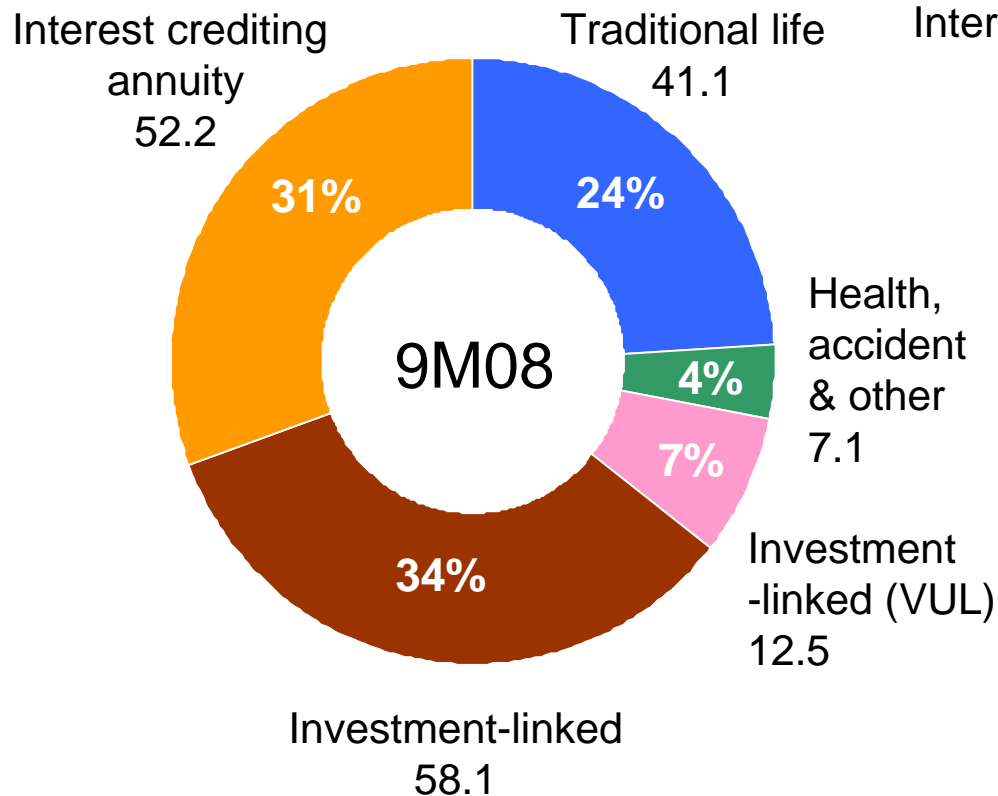
**Total NT\$ 340.1BN**



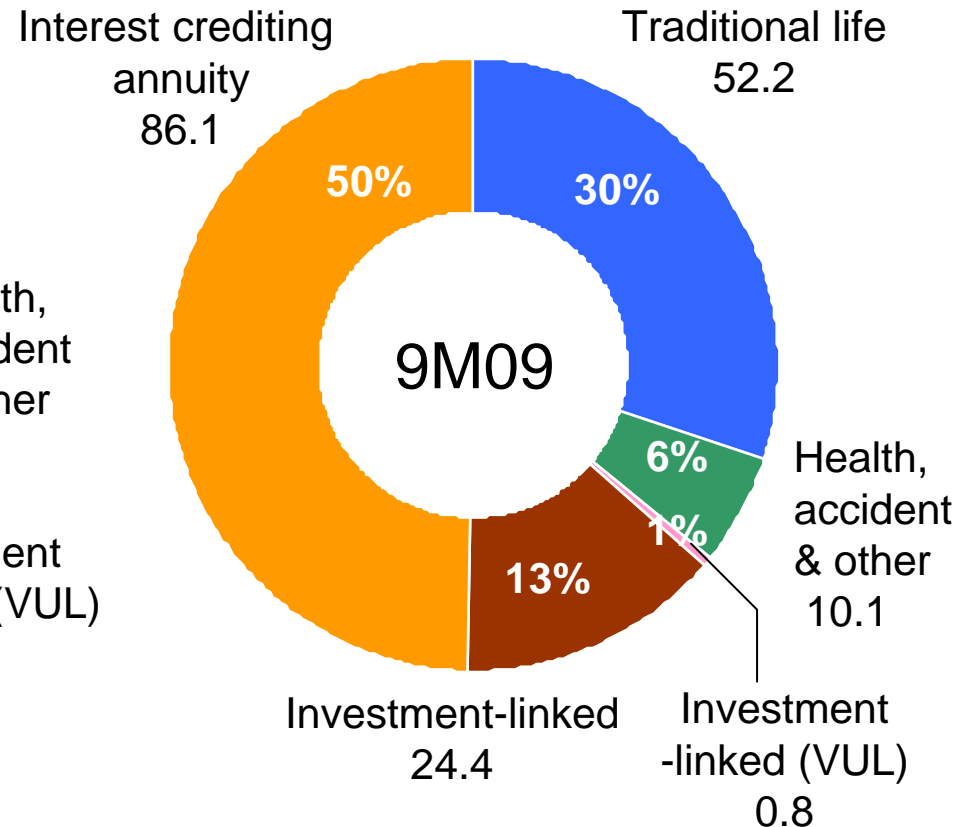
**Total NT\$ 338.0BN**

# Cathay Life – First Year Premium

(NT\$BN)



**Total NT\$ 171.0BN**



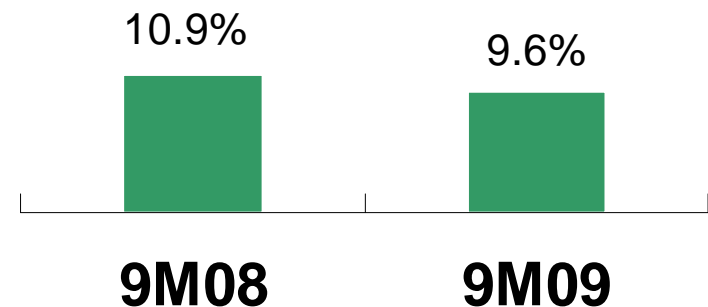
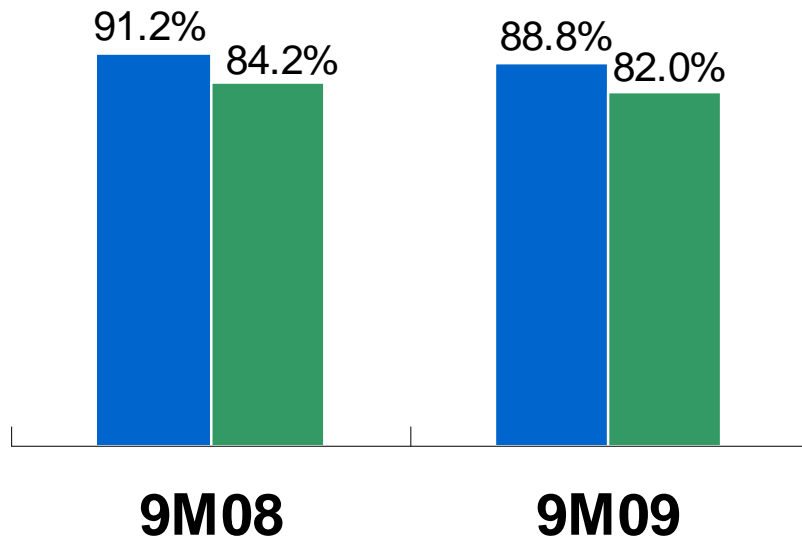
**Total NT\$ 173.6BN**

# Cathay Life– Operational indicators

## Persistence ratio

## Expense ratio

■ 13months    ■ 25months



# Cathay Life–Investment Portfolio

	2Q09		3Q09		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	312.3	13.6%	360.5	15.3%	1.7%	48.1
Equities – Domestic	131.0	5.7%	141.9	6.0%	0.3%	10.8
Equities – International	37.0	1.6%	36.5	1.6%	-0.1%	-0.4
Bonds – Domestic	351.0	15.3%	348.8	14.8%	-0.5%	-2.2
Bonds - International <sup>(1)</sup>	764.5	33.3%	776.1	32.9%	-0.4%	11.6
Mortgage & Secured loans	330.9	14.4%	320.9	13.6%	-0.8%	-9.9
Policy loans	196.8	8.6%	197.3	8.4%	-0.2%	0.4
Real estate	126.1	5.5%	129.3	5.5%	0.0%	3.2
Others	47.2	2.1%	45.2	1.9%	-0.1%	-2.0
<b>Total investments<sup>(2)(3)</sup></b>	<b>2,296.8</b>	<b>100.0%</b>	<b>2,356.5</b>	<b>100.0%</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

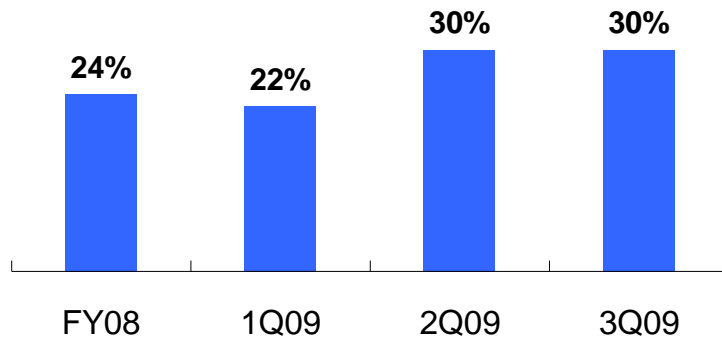
Note (4) : Total may not sum due to rounding



# Cathay Life – 2009 strategies

## Increase FYP market share

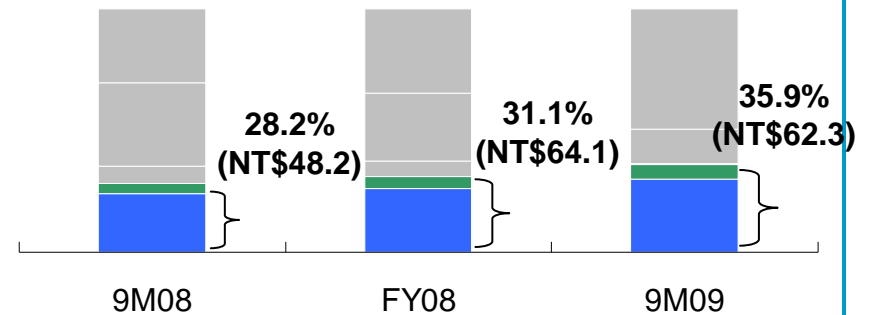
**2009 FYP market share target 30%**



## Improve product mix

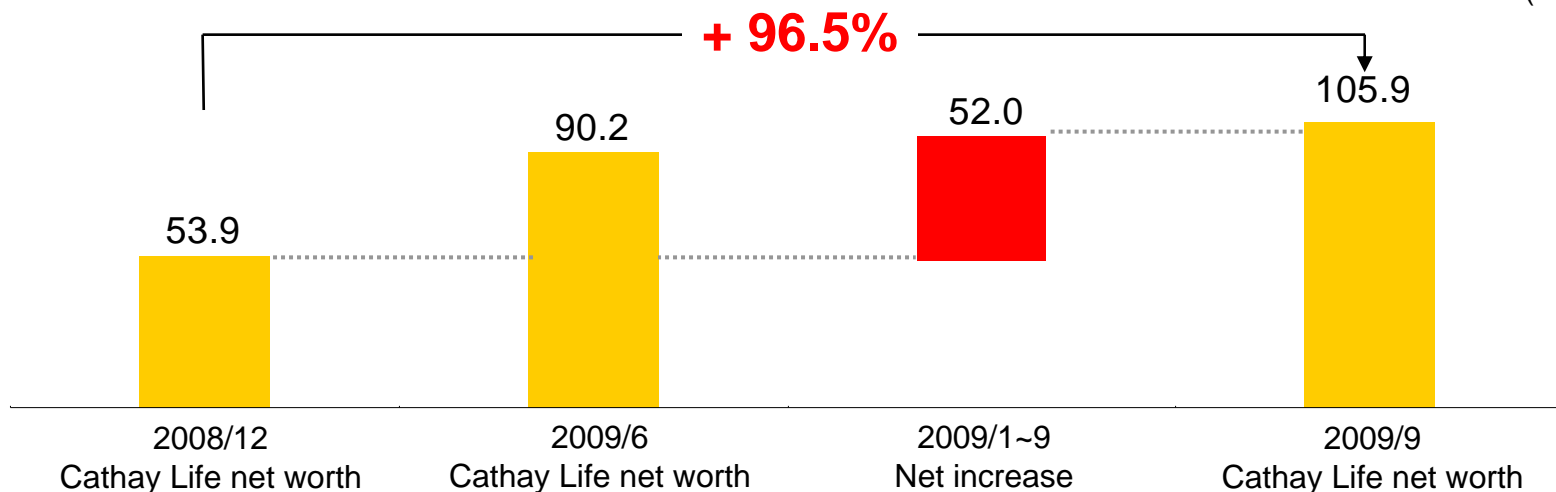
■ Health, accident & other  
■ Traditional life  
(NT\$BN)

**FYP weightings of traditional life and health, accident & other continue to increase**



## Recovered net worth

(NT\$BN)



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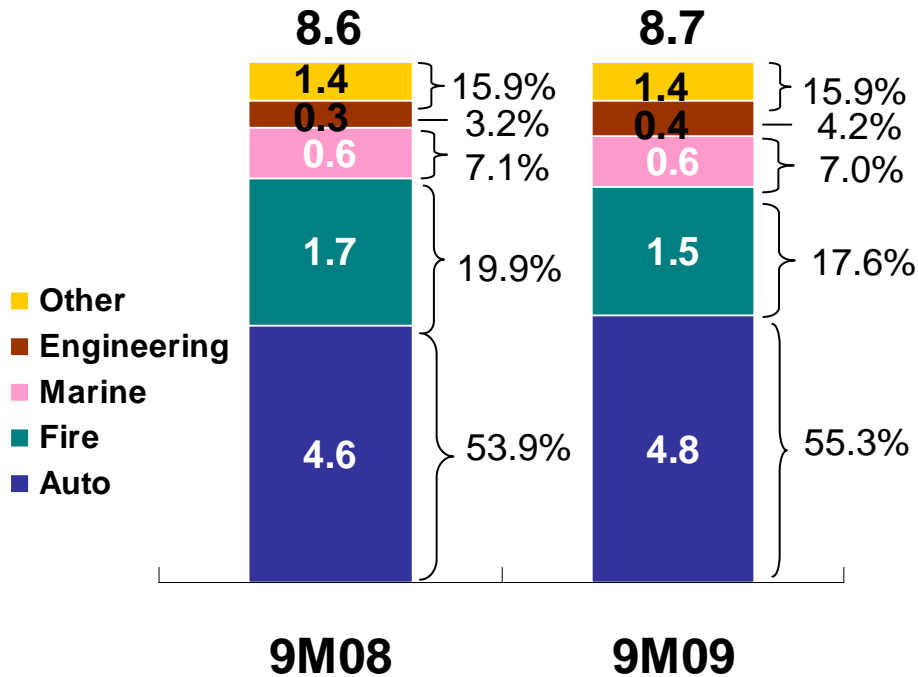
  - Cathay Century

- **Overseas expansion**

- **Cathay Life's property reappraisal**

# Cathay Century

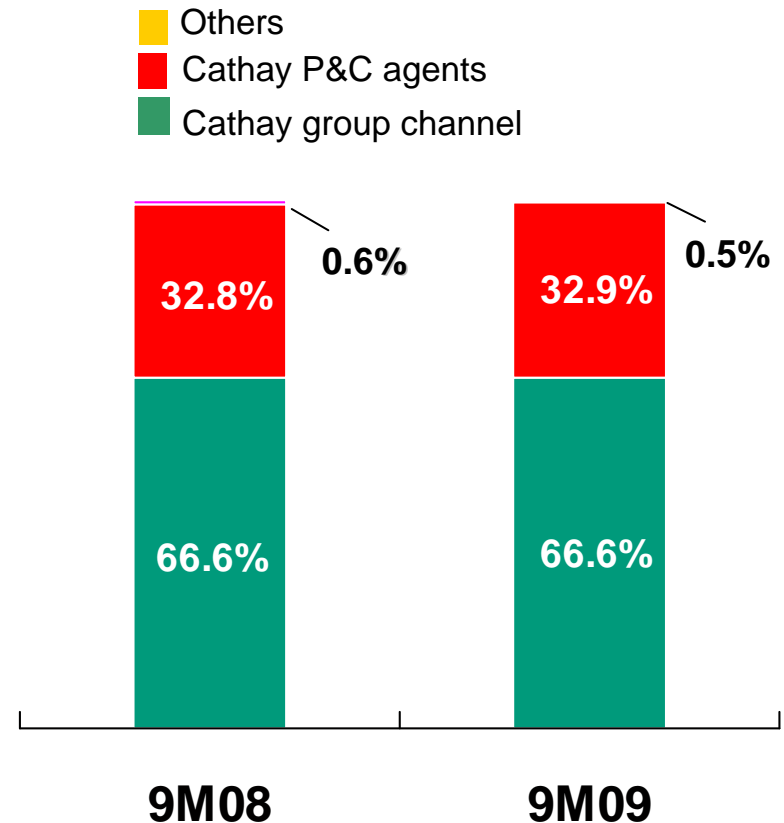
## Product breakdown (NT\$BN)



Mkt share 10.0%

10.8%

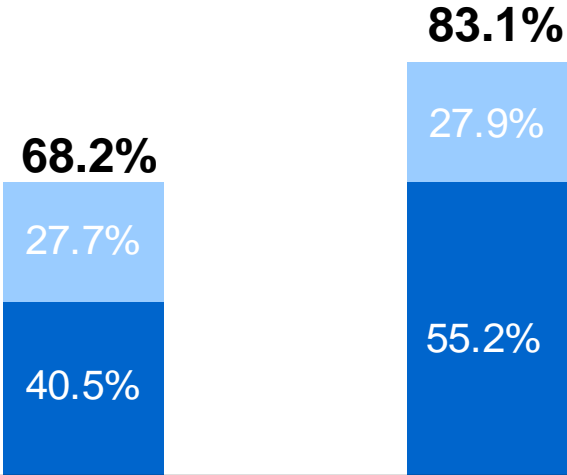
## Distribution channel



# Cathay Century

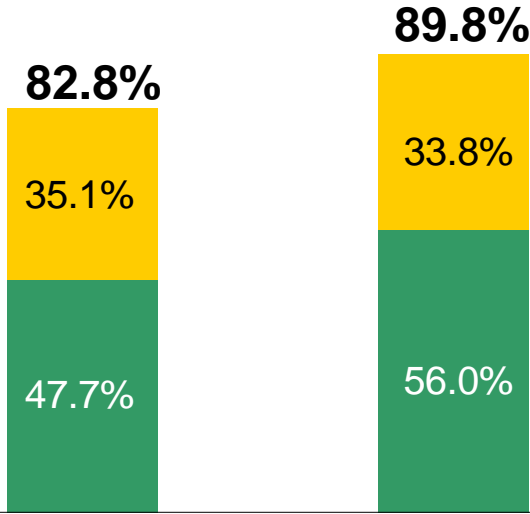
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retention rate	9M08	9M09
Retention rate	68.9%	71.0%

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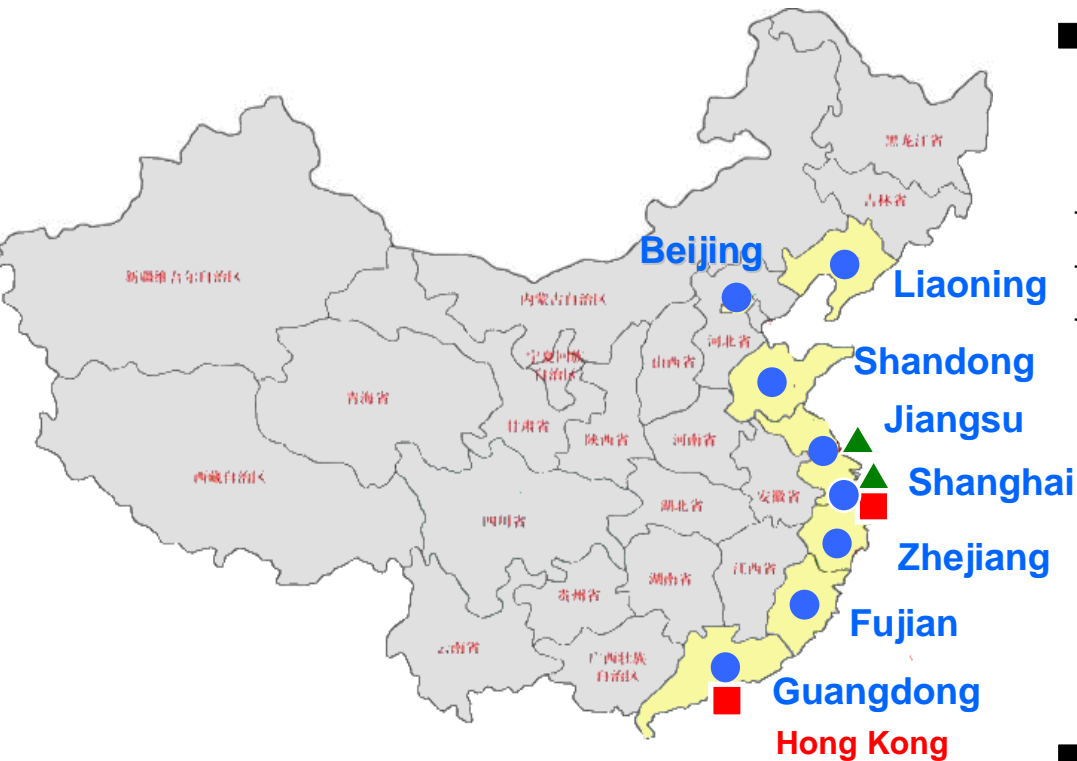
  - Cathay Life

  - Cathay Century

- **Overseas expansion**

- **Cathay Life's property reappraisal**

# Cathay FHC in China



- Footprint
- Cathay Life (Shanghai)
  - Cathay United Bank
  - ▲ Cathay Century (Shanghai)

## ■ Cathay Life (Shanghai)

- Joint venture between Cathay Life Insurance and China Eastern Airline Group
- Registered capital: RMB 800 MN
- Sales force: 2,728 tied agents (2009.9.30)
- Footprint: 32 branches in 27 cities, 8 provinces
  - Serviced cities account for approximately 30% of China's GDP
  - Branch number ranked third highest among local foreign players
  - Tianjin license is under application
- Policyholders: approximately 1.50 MN<sup>(1)</sup>

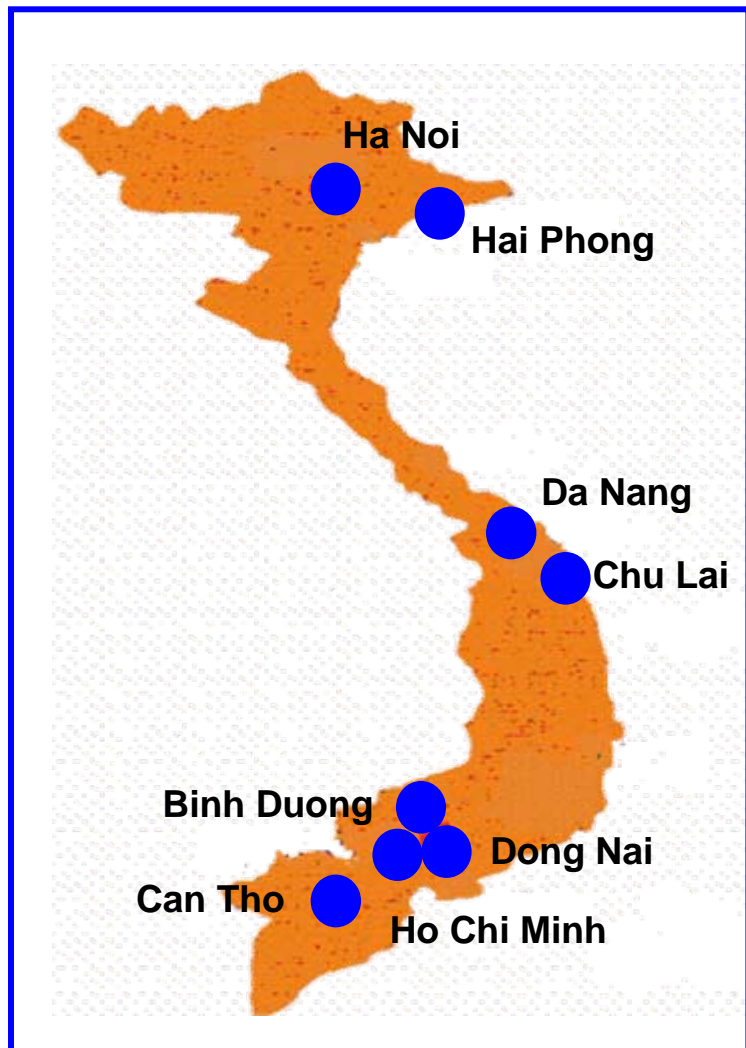
## ■ Cathay United Bank

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

## ■ Cathay Century (Shanghai)

- 100% owned by Cathay FHC
- 2 service footprints (Shanghai and Jiangsu)

# Cathay FHC in Vietnam



## ■Indovina Bank

- Joint venture bank between CUB and VietinBank with 26 locations
- Total assets : USD644.1 MN
- NPL ratio : 1.18% (avg. NPL ratio of local players is 3.5%)
- Pre-tax income: USD10.7 MN <sup>(1)</sup>
- Leading position among 6 joint venture banks in Vietnam
- Chosen as “best foreign invested 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 USD3.84 MN

## ■Cathay Life

- 4 offices (Ho Chi Minh, Hanoi, Da Nang, Can Tho)
- Sales force: 4,263 tied agents
- Net loss was approximately USD0.1 MN

## ■Cathay Century

- 1 rep. office (Ho Chi Minh)

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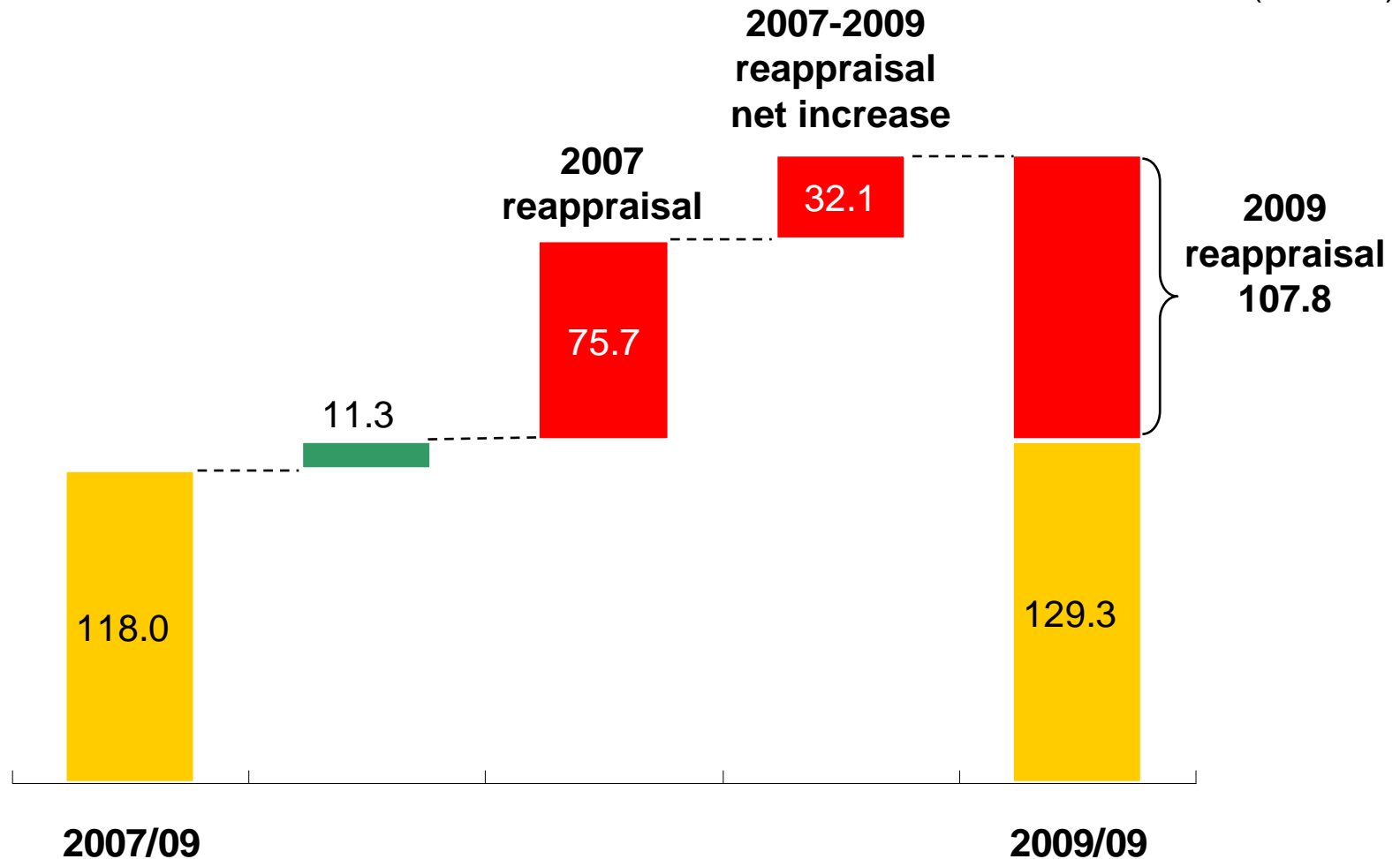
- **Overseas expansion**

- **Cathay Life's property reappraisal**



# Cathay Life's property reappraisal

■ Real estate book value   
 ■ Change in cost base   
 ■ After-tax unrealized gain on real estate  
 (NT\$BN)



Note: The change in cost base consists of new acquisitions, less disposals and less change in depreciation expense.

**Cathay Financial Holdings**

**Summary Financial Data**

(NT\$BN)

	FY2007	FY2008	FY08/ FY07 % Chg	9mos08	9mos09	9mos09/ 9mos08/ % Chg	3Q08	3Q09	3Q09/ 3Q08/ % Chg
<b>Statement of Income Data</b>									
Interest income	1.123	0.484	-56.9%	0.466	0.399	-14.4%	0.043	0.133	210.9%
Income from subsidiaries									
Cathay Life	23.033	(1.995)	-108.7%	(0.638)	1.193	-	4.647	0.146	-96.8%
Cathay United Bank	6.400	4.459	-30.3%	4.544	6.571	44.6%	1.540	2.401	55.9%
Cathay Century	1.040	0.476	-54.2%	0.522	0.565	8.2%	0.065	0.082	25.8%
Other	0.194	(0.082)	-142.4%	(0.031)	0.038	-	(0.006)	0.082	-
Total income from subsidiaries, ne	30.667	2.858	-90.7%	4.397	8.367	90.3%	6.246	2.711	-56.6%
Gain/Loss on foreign exchange	(0.097)	(0.717)	638.0%	(0.717)	0.000	-	0.010	(0.000)	-100.1%
Other income	0.616	0.383	-37.9%	0.374	0.061	-83.7%	0.041	0.060	44.3%
Operating costs	(0.985)	(0.396)	-59.8%	(0.358)	(0.472)	32.0%	(0.017)	(0.165)	861.8%
Administrative and general expenses	(0.226)	(0.487)	115.8%	(0.421)	(0.209)	-50.3%	(0.298)	(0.085)	-71.5%
Income taxes (expense) benefit	(0.350)	0.071	-	0.046	(0.304)	-757.7%	(0.017)	(0.278)	1536.6%
Net income	30.748	2.196	-92.9%	3.787	7.842	107.1%	6.007	2.377	-60.4%
EPS (NT\$)	3.18	0.23		0.39	0.81				

**Balance Sheet Data**

Long-term investments in stock	214.1	144.9		160.2	205.7				
Total assets	230.2	168.6		164.1	231.4				
Total consolidated assets	3,686.7	3,746.3		3,786.2	4,142.0				
Total shareholders' equity	226.6	142.4		157.7	203.2				

**Operating Metrics**

ROAE(standalone)	13.9%	1.2%		2.6%	6.1%				
ROAA (standalone)	13.5%	1.1%		2.6%	5.2%				
ROAA(consolidated)	0.9%	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

<b>Cathay Life</b>			<b>FY08/</b>			<b>9mos09/</b>			<b>3Q09/</b>
<b>Summary Financial Data</b>			<b>FY07</b>			<b>9mos08/</b>			<b>3Q08/</b>
<b>(NT\$BN)</b>	<b>FY2007</b>	<b>FY2008</b>	<b>% Chg</b>	<b>9mos08</b>	<b>9mos09</b>	<b>% Chg</b>	<b>3Q2008</b>	<b>3Q2009</b>	<b>% Chg</b>
<b>Summary Statement of Income Data</b>									
Premiums income <sup>(1)</sup>	302.993	346.454	14.3%	253.519	297.076	17.2%	93.332	108.007	15.7%
Investment income									
Interest income	69.497	76.394	9.9%	56.116	55.302	-1.5%	19.326	17.857	-7.6%
Gain on disposal of investment	28.586	0.000	-100.0%	8.333	0.000	-100.0%	(9.173)	0.000	-
Other investment income, net	(0.384)	(13.886)	3512.2%	(15.741)	1.858	-	18.640	0.969	-94.8%
Total investment income, net <sup>(2)</sup>	97.699	62.508	-36.0%	48.708	57.160	17.4%	28.793	18.826	-34.6%
Other income	2.801	6.135	119.1%	5.321	6.250	17.5%	0.700	0.888	26.9%
Insurance claims payment	(202.776)	(274.858)	35.5%	(204.907)	(163.593)	-20.2%	(72.025)	(64.705)	-10.2%
Provisions for reserves									
Provisions	(312.004)	(356.922)	14.4%	(253.996)	(298.199)	17.4%	(94.075)	(107.606)	14.4%
Recoveries	178.368	250.067	40.2%	177.682	135.400	-23.8%	61.864	55.635	-10.1%
Total provisions for reserves, net	(133.636)	(106.855)	-20.0%	(76.314)	(162.799)	113.3%	(32.211)	(51.971)	61.3%
Commissions and operating expense									
Brokerage expenses	(30.019)	(26.428)	-12.0%	(21.086)	(20.333)	-3.6%	(7.139)	(6.540)	-8.4%
Marketing, administrative and general expenses	(11.223)	(11.021)	-1.8%	(7.802)	(7.984)	2.3%	(2.737)	(2.812)	2.8%
Total commissions and operating expenses	(41.242)	(37.450)	-9.2%	(28.888)	(28.316)	-2.0%	(9.875)	(9.352)	-5.3%
Other operating expenses	(2.644)	(2.546)	-3.7%	(1.665)	(2.385)	43.2%	(0.600)	0.164	-
Operating income	23.195	(6.611)	-128.5%	(4.226)	3.393	-	8.115	1.856	-77.1%
Non-operating income	1.454	1.441	-0.9%	1.030	1.076	4.5%	0.369	0.360	-2.4%
Non-operating expense	(0.299)	(0.822)	175.0%	(0.547)	(1.132)	106.9%	(0.543)	(0.868)	59.8%
Income taxes	(0.881)	4.019	-556.3%	3.104	(2.145)	-	(3.293)	(1.202)	-63.5%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Net income	23.469	(1.974)	-108.4%	(0.638)	1.193	-	4.647	0.146	-96.8%
<b>Balance Sheet Data</b>									
Total assets	2354.9	2358.9		2386.8	2641.7				
Total stockholders' equity	123.4	53.9		70.7	105.9				
<b>Operating Metrics</b>									
First year premium	172.8	206.0		171.0	173.6				
Expense ratio	12.9%	10.3%		10.9%	9.6%				
13-mos persistency ratio	92.0%	90.4%		91.2%	88.8%				
25-mos persistency ratio	83.0%	83.9%		84.2%	82.0%				
ROAE	19.3%	-2.2%		-0.9%	2.0%				
ROAA	1.0%	-0.1%		0.0%	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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 (NT\$BN)

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<b>Summary Statement of Income Data</b>									
Interest income	40.285	40.242	-0.1%	30.189	18.436	-38.9%	10.041	5.450	-45.7%
Interest expense	(19.121)	(19.724)	3.2%	(14.779)	(8.216)	-44.4%	(5.128)	(2.342)	-54.3%
Net interest income	21.164	20.518	-3.1%	15.410	10.220	-33.7%	4.913	3.107	-36.7%
Net operating income except interest income									
Net handling fee	5.132	5.100	-0.6%	3.961	3.183	-19.6%	1.308	1.214	-7.2%
Gains on financial assets and liabilities at fair value through P&L	(0.459)	(2.067)	350.2%	(1.730)	2.511	-	(0.708)	0.887	-
Realized gains on available-for-sale financial assets	1.707	0.163	-90.5%	0.433	1.071	147.5%	0.043	0.651	1425.5%
Realized gains on held-to-maturity financial assets	(0.000)	(0.001)	375.2%	(0.001)	0.000	-	0.000	0.000	-
Invst inc - equity method	0.168	0.247	47.2%	0.161	0.173	7.3%	0.041	0.070	71.5%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchg - net	0.716	1.102	53.9%	0.598	0.505	-15.5%	(0.077)	0.249	-
Impairment gain/loss	(0.115)	(3.109)	2598.8%	(0.048)	(0.036)	-24.6%	0.000	(0.001)	-
Gains on reversal of foreclosed properties impairment	(0.010)	0.045	-	0.045	(0.000)	-100.9%	0.009	0.000	-100.0%
Gains/losses on disposal of foreclosed properties	0.006	0.180	3150.7%	0.180	0.000	-100.0%	(0.004)	0.000	-
Investments in debt securities with no active market, net	(2.555)	(1.758)	-31.2%	(1.758)	0.178	-	(0.012)	0.173	-
other income, net	0.467	1.116	138.8%	1.040	1.247	19.9%	0.352	0.309	-12.0%
Net operating income	26.220	21.535	-17.9%	18.291	19.051	4.2%	5.864	6.658	13.5%
Provisions for possible losses <sup>(1)</sup>	(4.086)	(0.926)	-77.3%	(1.147)	(0.162)	-85.8%	(0.182)	0.126	-
Operating expenses	(14.008)	(14.156)	1.1%	(10.714)	(10.440)	-2.6%	(3.767)	(3.651)	-3.1%
Income from continuing operations before income taxes	8.126	6.453	-20.6%	6.429	8.449	31.4%	1.915	3.134	63.6%
Income tax benefit (expense)	(1.726)	(1.992)	15.4%	(1.885)	(1.878)	-0.4%	(0.375)	(0.733)	95.5%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Net income	6.400	4.461	-30.3%	4.544	6.571	44.6%	1.540	2.401	55.9%
<b>Balance Sheet Data</b>									
Total assets	1,288.2	1,351.6		1364.0	1469.5				
Total shareholders' equity	81.4	82.9		81.2	91.2				
<b>Operating Metrics</b>									
Cost income ratio	53.4%	65.8%		58.6%	54.8%				
ROAE	8.1%	5.4%		7.5%	10.1%				
ROAA	0.5%	0.3%		0.5%	0.6%				
<b>Assets Quality</b>									
NPL ratio (international standard)	1.5%	0.9%		0.8%	0.8%				
Coverage ratio (international standard)	86.2%	109.3%		117.4%	106.4%				

**Notes:**

- (1) 9mos08 and 9mos09 provisions net of NT\$4.7bn and NT\$2.2bn bad debt recoveries, respectively.
- (2) 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.
- (3) Total may not sum due to rounding

**Cathay Century**
**Summary Financial Data**

(NT\$MM)

	FY2007	FY 2008	FY08/	9mos09/			3Q09/		
			FY07	9mos08	9mos09	% Chg	3Q2008	3Q2009	% Chg
<b>Summary Statement of Income Data</b>									
Premiums income	11,153.7	11,829.6	6.1%	8,606.0	8,650.3	0.5%	2798.5	2858.2	2.1%
Reinsurance premiums ceded	(3,460.6)	(3,771.5)	9.0%	(2,677.2)	(2,511.8)	-6.2%	(971.1)	(819.7)	-15.6%
Premiums income, net	7,693.1	8,058.1	4.7%	5,928.8	6,138.5	3.5%	1827.4	2038.5	11.6%
Investment									
Interest income	396.2	391.0	-1.3%	296.4	256.2	-13.5%	89.1	73.3	-17.8%
Other investment income, net	205.9	(565.8)	-374.8%	(197.5)	41.1	-	(289.3)	76.0	-
Total investment income	602.0	(174.8)	-129.0%	98.9	297.3	200.7%	(200.2)	149.2	-
Other operating income	288.4	336.4	16.7%	254.9	262.2	2.9%	65.0	68.0	4.7%
Insurance claims payment, net	(3,296.5)	(3,688.7)	11.9%	(2,733.6)	(3,236.9)	18.4%	(779.0)	(1231.6)	58.1%
Provisions for reserves									
Provisions	(6,617.6)	(6,655.1)	0.6%	(6,179.7)	(6,284.7)	1.7%	(354.2)	(311.6)	-12.0%
Recoveries	5,306.5	5,812.8	9.5%	5,629.5	5,908.5	5.0%	102.6	223.7	117.9%
Total provisions for reserves, net	(1,311.1)	(842.3)	-35.8%	(550.2)	(376.3)	-31.6%	(251.6)	(87.9)	-65.0%
Commissions, operating and other expenses	(2,681.9)	(2,997.4)	11.8%	(2,295.9)	(2,324.8)	1.3%	(545.5)	(851.7)	56.1%
Operating income	1,294.0	691.2	-46.6%	702.8	760.0	8.1%	116.1	84.5	-27.2%
Non-operating income	17.3	10.7	-38.5%	6.7	0.1	-99.1%	0.8	0.0	-99.5%
Non-operating expense	(0.1)	(12.2)	15982.9%	(1.7)	0.1	-	(0.0)	0.0	-
Income taxes	(264.9)	(211.2)	-20.3%	(185.7)	(195.1)	5.0%	(52.1)	(2.9)	-94.5%
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
Net income	1,046.3	478.5	-54.3%	522.1	564.9	8.2%	64.8	81.6	25.8%
<b>Summary Balance Sheet Data</b>									
Total assets	18,979.8	19,503.5		19,008.3	21,005.2				
Total stockholders' equity	3,869.9	3,096.4		3,136.4	3,997.3				
<b>Operating Metrics</b>									
Written Combined ratio	62.4%	71.9%		68.2%	83.1%				
Net Combined ratio	79.7%	84.7%		82.8%	89.8%				
ROAE	28.1%	13.7%		19.9%	21.2%				
ROAA	6.7%	2.5%		3.7%	3.7%				

**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) 9mos08,9mos09 financial numbers are provided according to the new P&amp;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>9/30/2009</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

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## Capital Adequacy Metrics

	<u>Capital Adequacy Metrics</u> <u>(As of 30-June-2009)</u>			<u>Legal</u> <u>Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	137%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	>	300%		200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.66% / 9.52%			8.00% / 6.00%
Cathay Securities BIS Ratio	885%			150%

**Notes:**

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