

Cathay Financial Holdings Co., Ltd
2011 First Quarter Briefing



May 2011

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Agenda

- **1Q11 Business overview**
- **1Q11 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**
- **Cathay Life's property reappraisal**
- **Embedded value & appraisal value**

1Q11 Business Overview

Cathay Life

- Ranked #1 in terms of FYP and FYPE market share.
 - Increased sales of high margin products, FYP of regular-pay traditional products grew by 55% YoY.
 - Domestic and international equity increased to 10% from 9% at the end of 2010; cash position continues to be reduced.
-

Cathay United Bank

- Annualized ROE of 13.2%; higher than 12% in 2010.
 - Total loans grew by 16.0% YoY.
 - Maintained superior asset quality; NPL ratio of 0.39% and coverage ratio of 201.2%.
 - Fee income grew by 15.8% YoY.
-

Cathay Century

- Premium income grew 13% YoY.
 - Market share of 11.6%; maintained No.2 market position.
-

Cathay Securities

- Net income of NT\$ 56MN.
 - Each business line continued to deliver stable earnings.
-

Overseas

- China: Cathay Life's policyholder base increased to 2.93MN; currently 37 branches in 9 provinces.
Cathay Century's Shandong and Beijing branches are under preparation; currently 7 branches in 5 provinces and cities.
- Vietnam: CUB and Indovina bank have 37 branches.
Cathay Life has 10 branches in 6 provinces and cities.
Cathay Century received operating permit for its Hanoi branch.

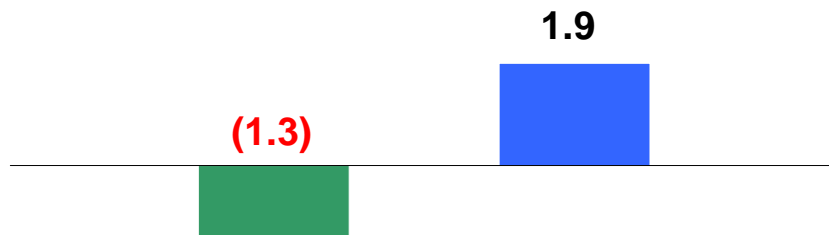
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Cathay FHC — Net income & EPS

Net income (NT\$BN)

1Q10 1Q11



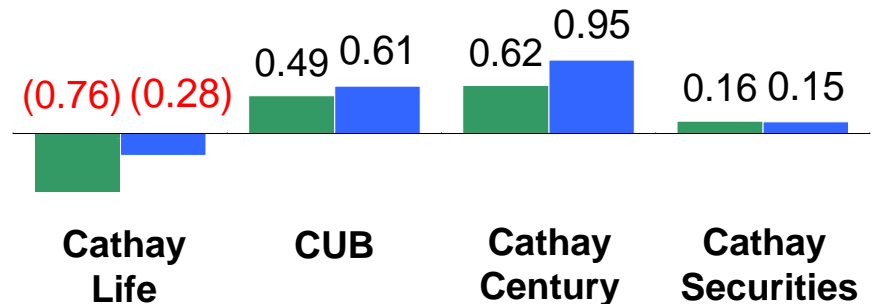
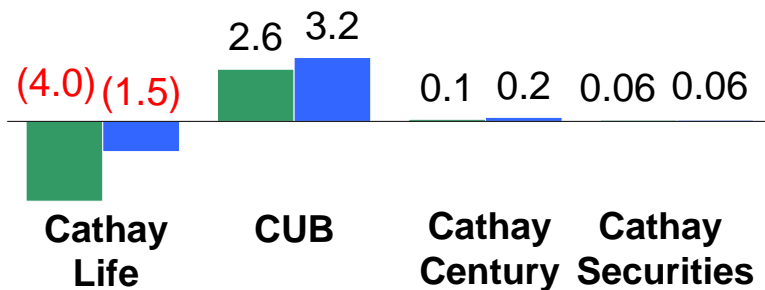
EPS (NT\$)

1Q10 1Q11



Net income of primary subsidiaries

EPS of primary subsidiaries



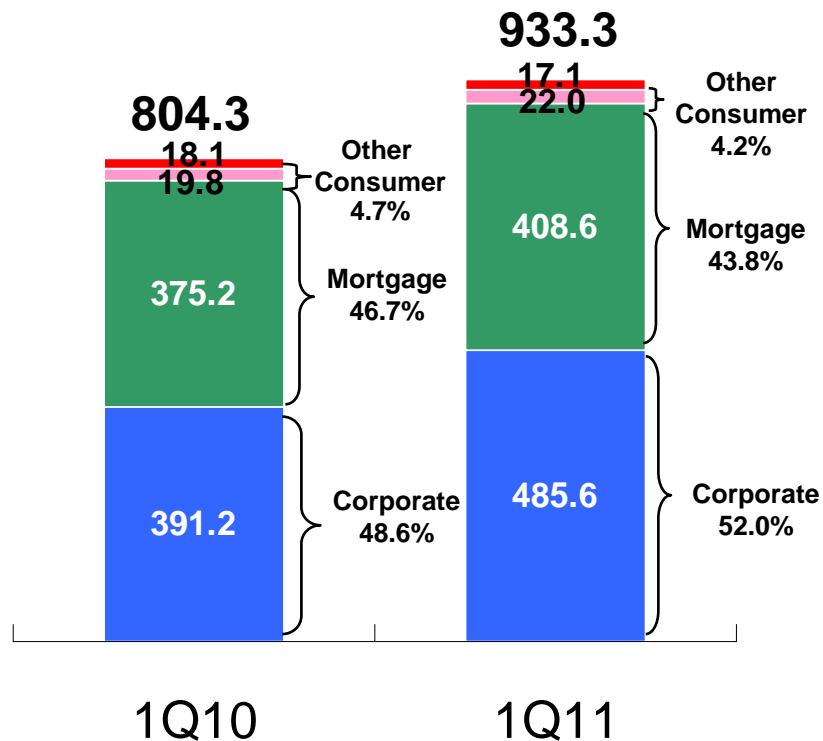
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Cathay United Bank — Loan & deposit breakdown

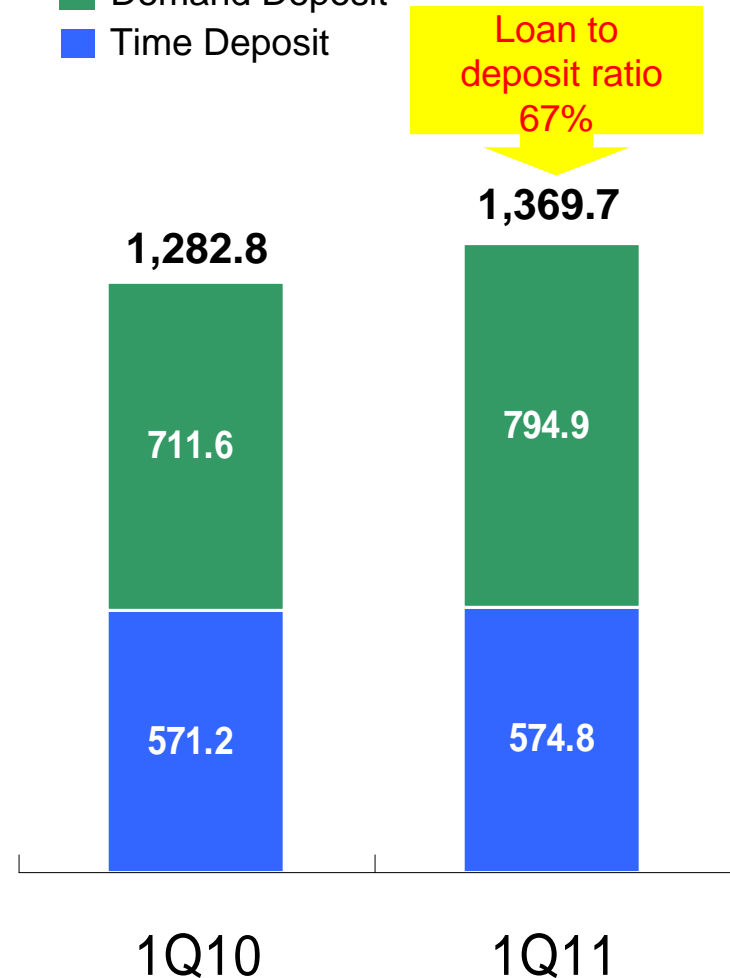
Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



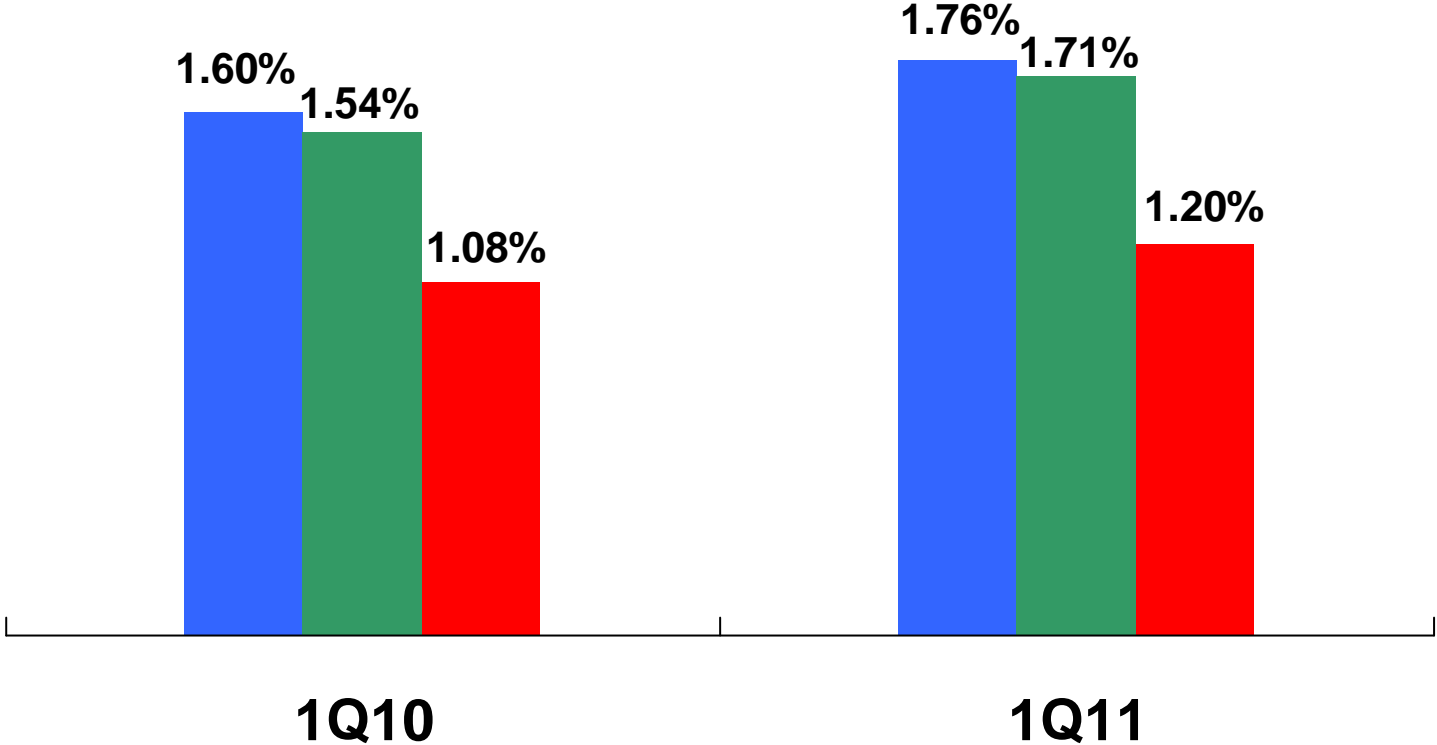
Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit



Cathay United Bank – Interest yields

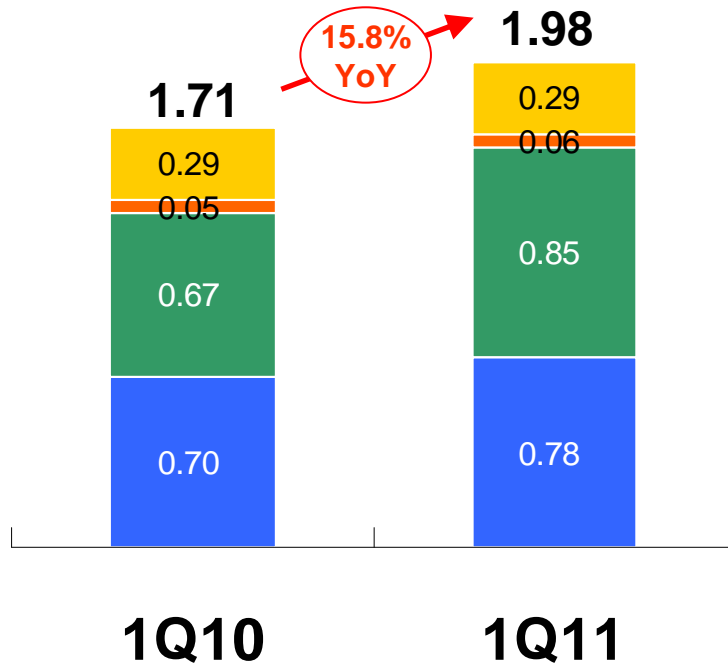
■ Avg. rate of interest-earning assets ■ Interest spread ■ Net interest margin



Cathay United Bank – Fee income

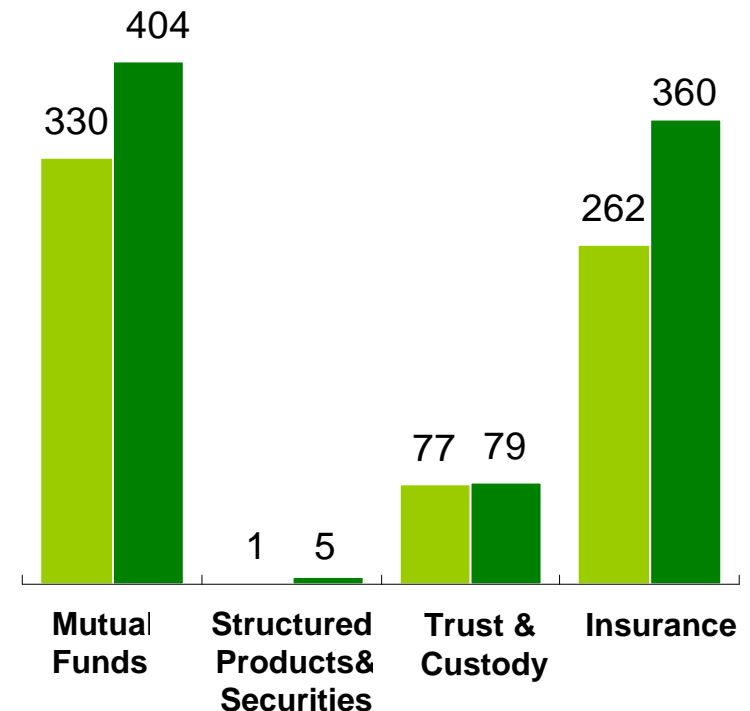
Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



Wealth management fee breakdown (NT\$MN)

- 1Q10
- 1Q11



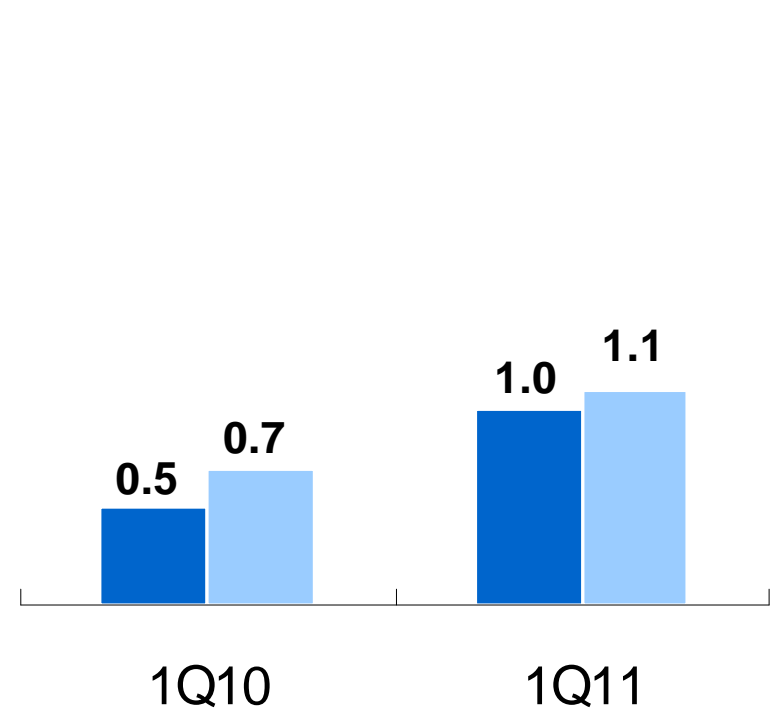
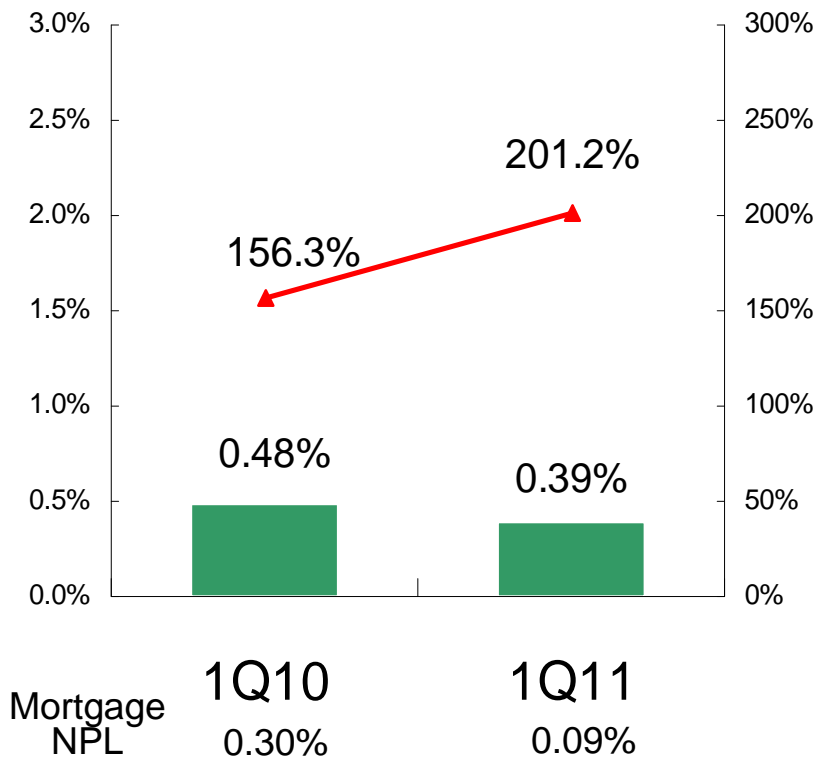
Cathay United Bank – Credit quality

NPL & Coverage ratio

Gross provision (NT\$BN)

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

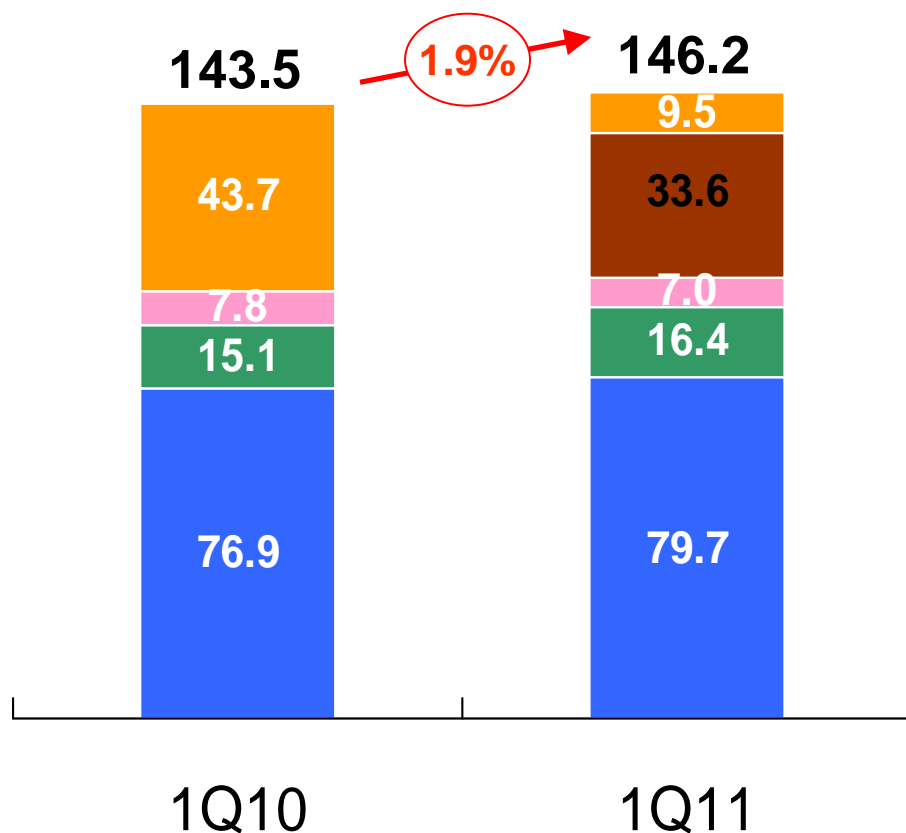
■ Gross provision
 ■ Recovery



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Cathay Life – Total premium



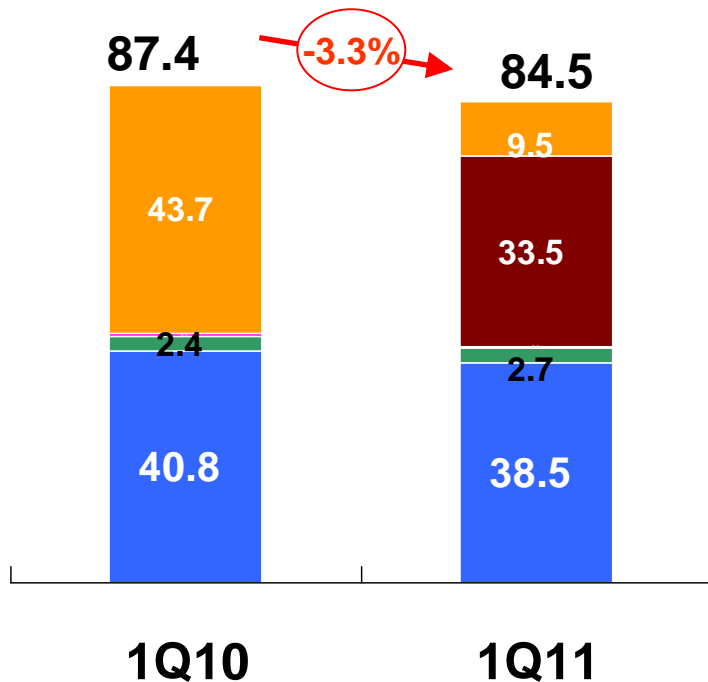
(NT\$BN)

- Interest crediting annuity
- Investment-linked
- Investment-linked(VUL)
- Health, accident and other
- Traditional life

Cathay Life — FYP/ FYPE

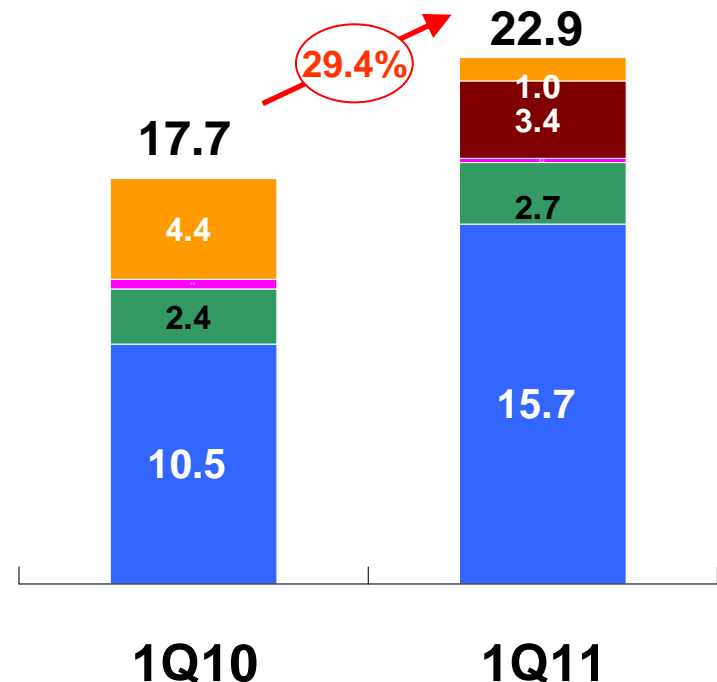
First year premium (FYP)

- 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

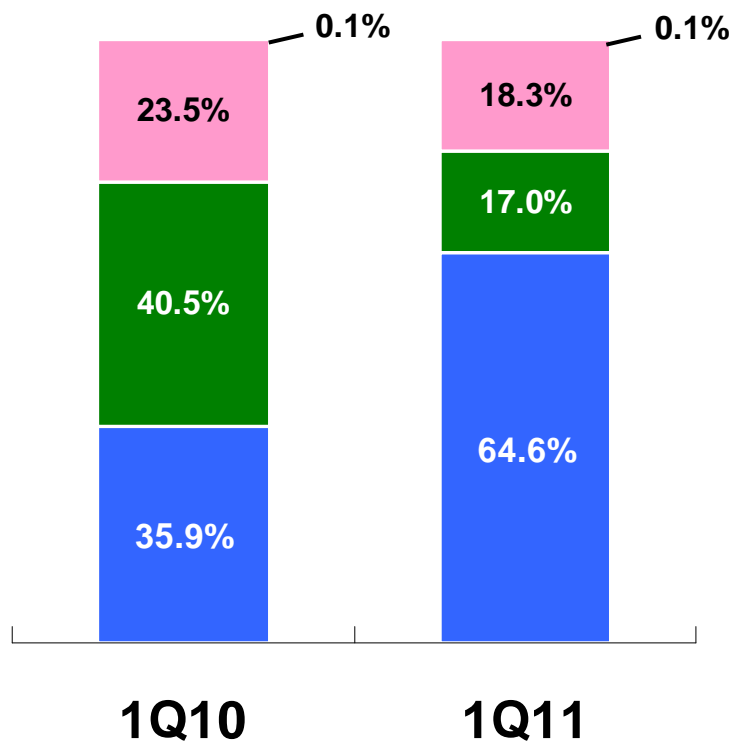


Note: Total may not sum due to rounding

Cathay Life — Distribution channel

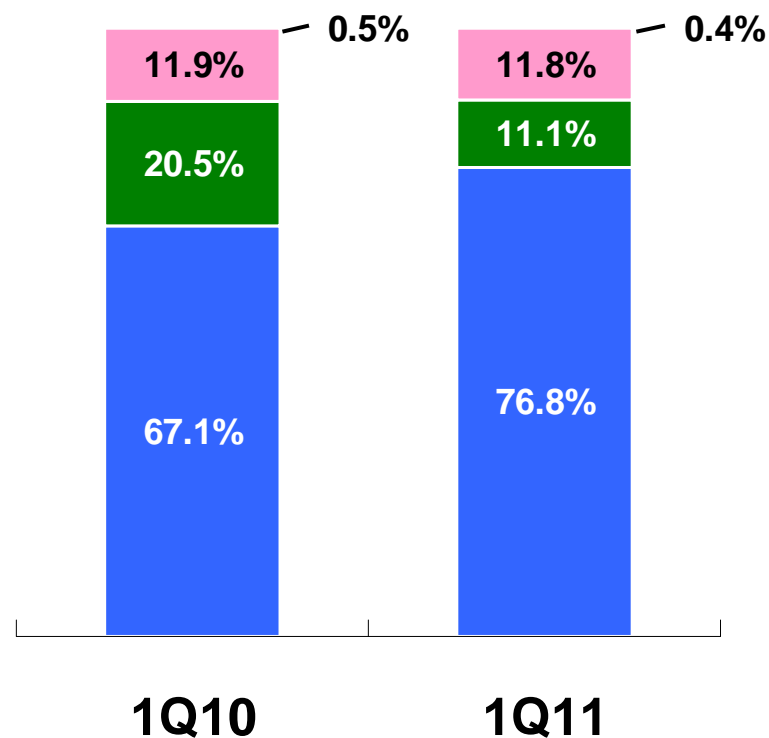
First year premium (FYP)

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



First year premium equivalent (FYPE)

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

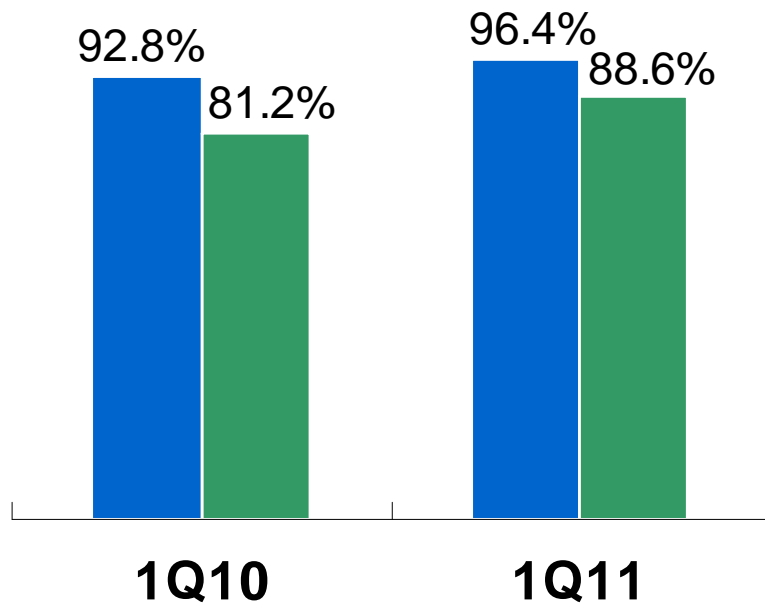


Note : Totals may not sum due to rounding

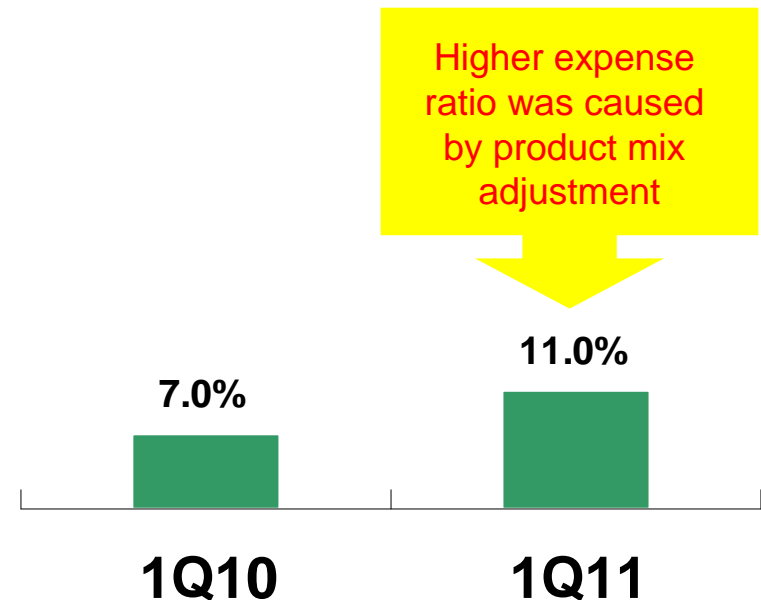
Cathay Life – Operational indicators

Persistency ratio

■ 13 months ■ 25 months



Expense ratio



Cathay Life – Investment portfolio

	4Q10		1Q11		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	352.9	12.9%	350.5	12.5%	-0.4%	-2.4
Equity- Domestic	199.6	7.3%	212.8	7.6%	0.3%	13.1
Equity- International	45.9	1.7%	67.0	2.4%	0.7%	21.0
Bond- Domestic	429.5	15.6%	435.9	15.5%	-0.1%	6.4
Bond- International ⁽¹⁾	1,055.9	38.5%	1,072.7	38.2%	-0.3%	16.8
Mortgage & Secured loans	291.5	10.6%	291.6	10.4%	-0.2%	0.2
Policy loans	191.0	7.0%	189.2	6.7%	-0.2%	-1.8
Real estate	137.3	5.0%	141.3	5.0%	-	4.1
Others	41.7	1.5%	49.9	1.8%	0.3%	8.2
Total investments⁽²⁾⁽³⁾	2,745.3	100%	2,810.9	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

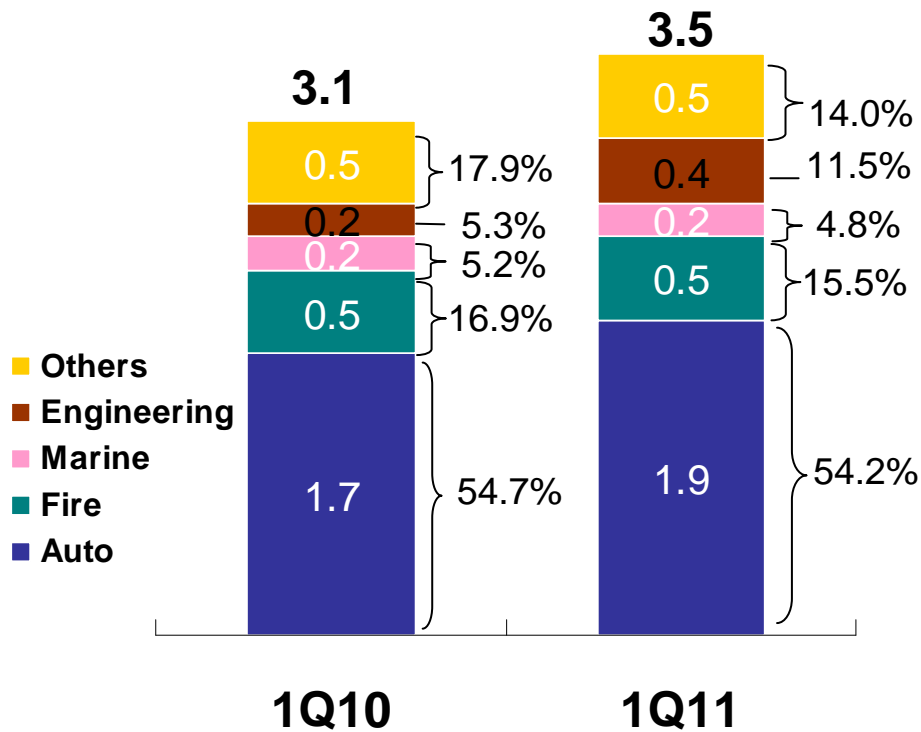
Note (4) : Totals may not sum due to rounding

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Cathay Century

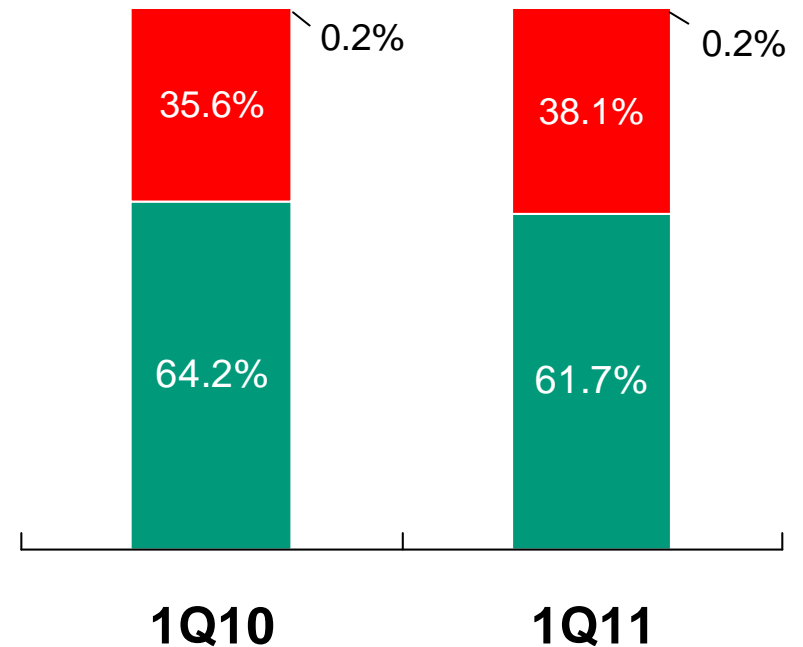
Product breakdown (NT\$BN)



Mkt share 11.0% 11.6%

Distribution channel

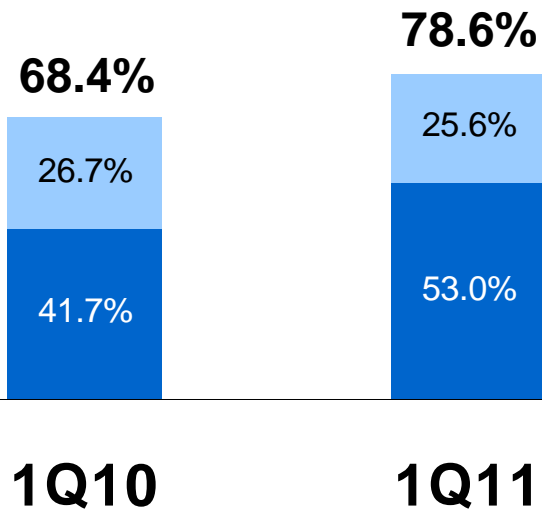
- Others
- Cathay P&C agents
- Cathay group channel



Cathay Century

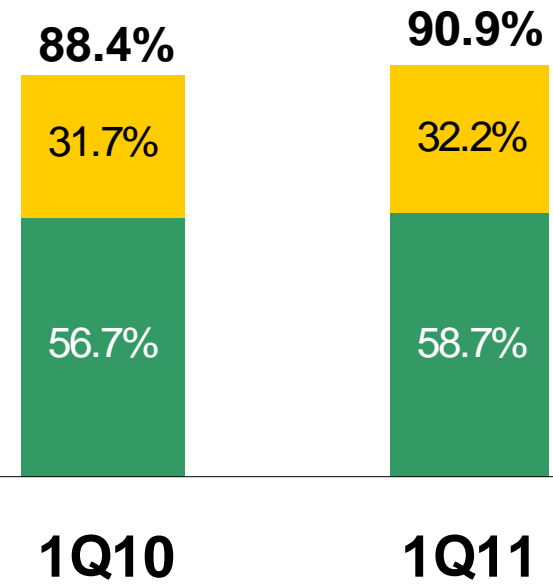
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio

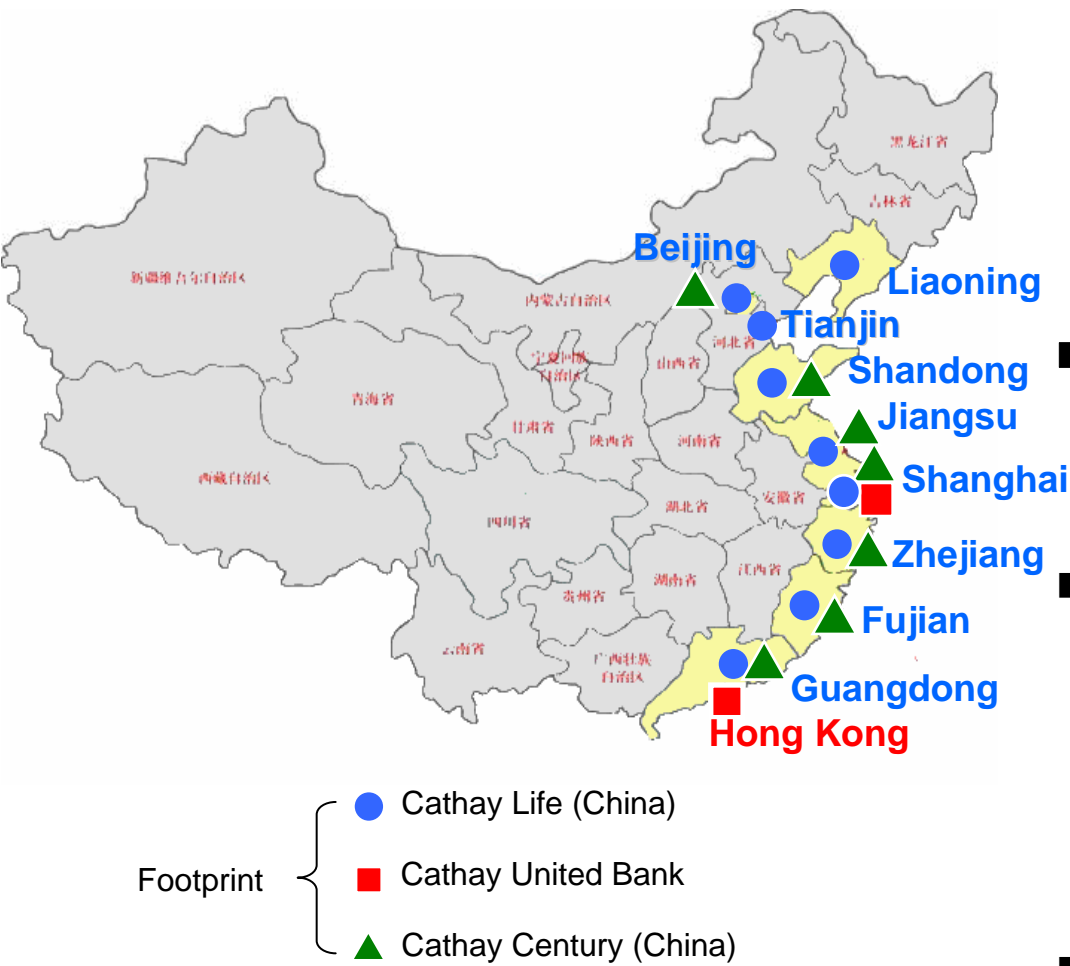


Retained rate	71.1%	70.6%
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Cathay FHC in China



■ Cathay Life (China)

- Joint venture between Cathay Life Insurance and China Eastern Airline Group
- Registered capital: RMB1,200 MN
- Sales force: 1,229 tied agents
- Footprint: 37 offices in 28 cities, 9 provinces
- Policyholders: approximately 2.93MN⁽¹⁾

■ Cathay United Bank

- 1 Hong Kong branch (2001)
- Shanghai branch began operations on Dec. 23, 2010, and reported profit in 1Q11

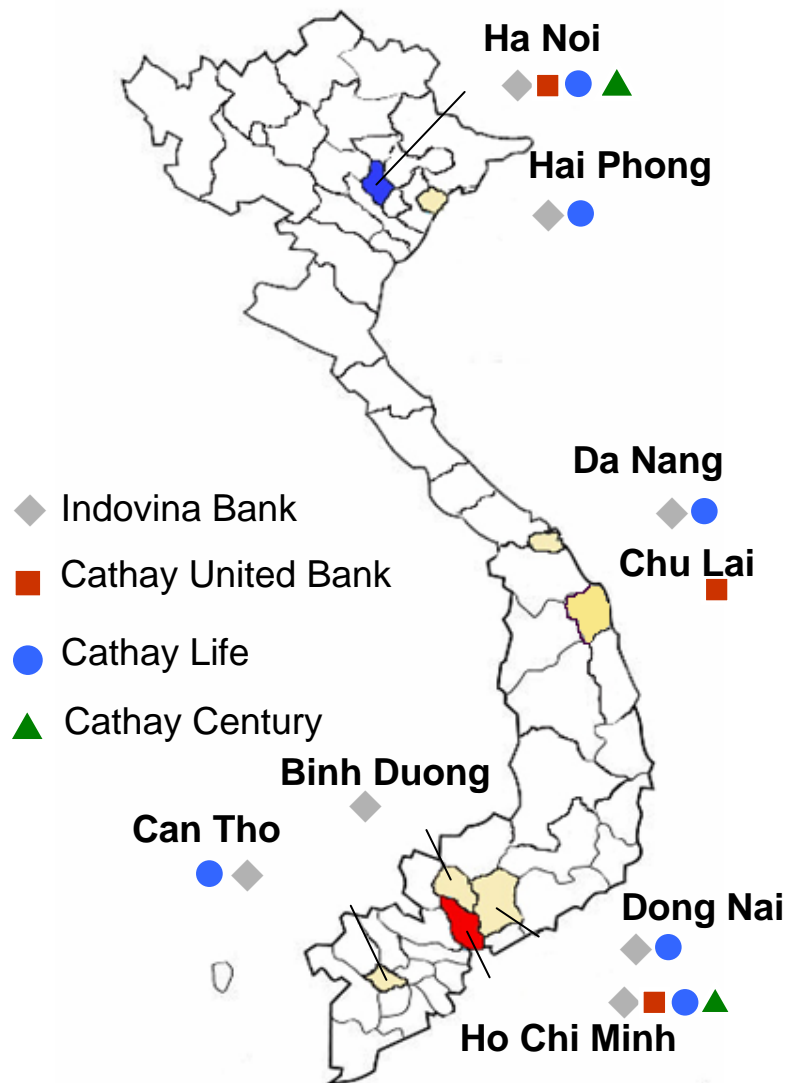
■ Cathay Century (China)

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

- Cathay Life plans to purchase headquarter's building in Shanghai

Note(1): Numbers are effective policyholders as of 2011/03/31

Cathay FHC in Vietnam



■ Indovina Bank

- Joint venture bank between CUB and VietinBank with 34 locations
- Total assets : USD1,020.2 MN
- NPL ratio : 0.74%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax income: USD10.03 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 USD1.90 MN

■ Cathay Life

- Headquartered in Ho Chi Minh
- 5 branches (Hanoi, Da Nang, Can Tho, Dong Nai, and Hai Phong)
- Sales force: 8,938 tied agents
- Net loss was approximately USD 0.07 MN

■ Cathay Century

- Began operations in Dec. 2010
- Headquartered in Ho Chi Minh
- Obtained Hanoi operating license

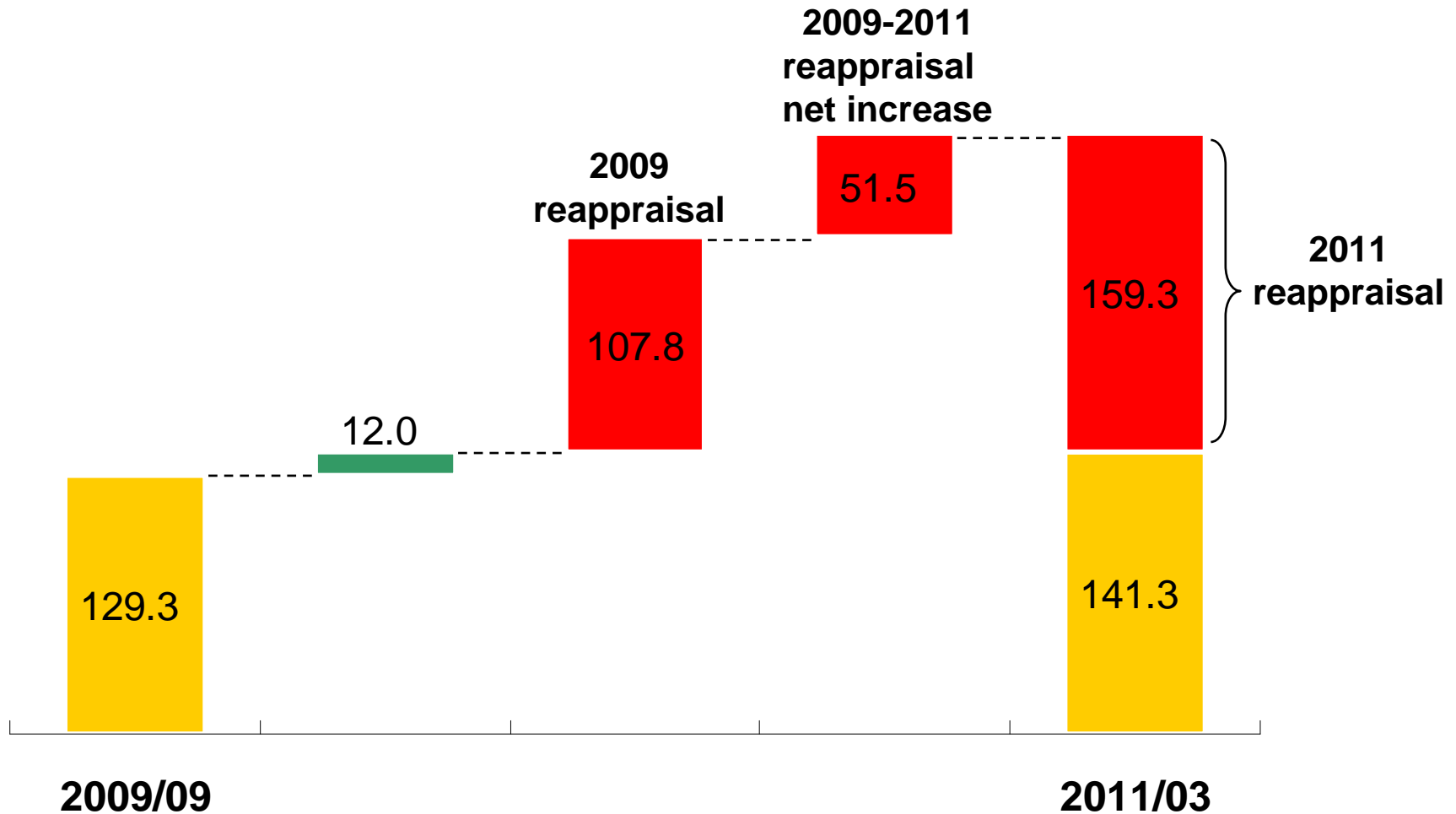
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Cathay Life's property reappraisal

(NT\$BN)

■ Real estate book value
 ■ Change in cost base
 ■ After-tax unrealized gain on real estate



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

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Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2009/12/31	2010/12/31
Investment yield	3.7% ~ Year 2014 5.1% for General account 2.7% ~ Year 2014 4.1% for Interest crediting annuity (level after 5 years)	3.9% ~ Year 2025 5% for General account 2.8% ~ Year 2025 3.8% for Interest crediting annuity (level after 15 years)
Discount rate	2009~2013: 10% 2014~: 11%	10%
Cost of Capital (CoC)	-69	-82
Adjusted net worth (After CoC)	155	193
Value of in force business	253	256
Embedded Value	407	449
EV / per share	77.3 (42.0)	84.6 (44.2)
Appraisal Value	707	810
Value of future 1 year's new business (After CoC)	35	43
AV / per share	134.2 (73.0)	152.7 (79.8)

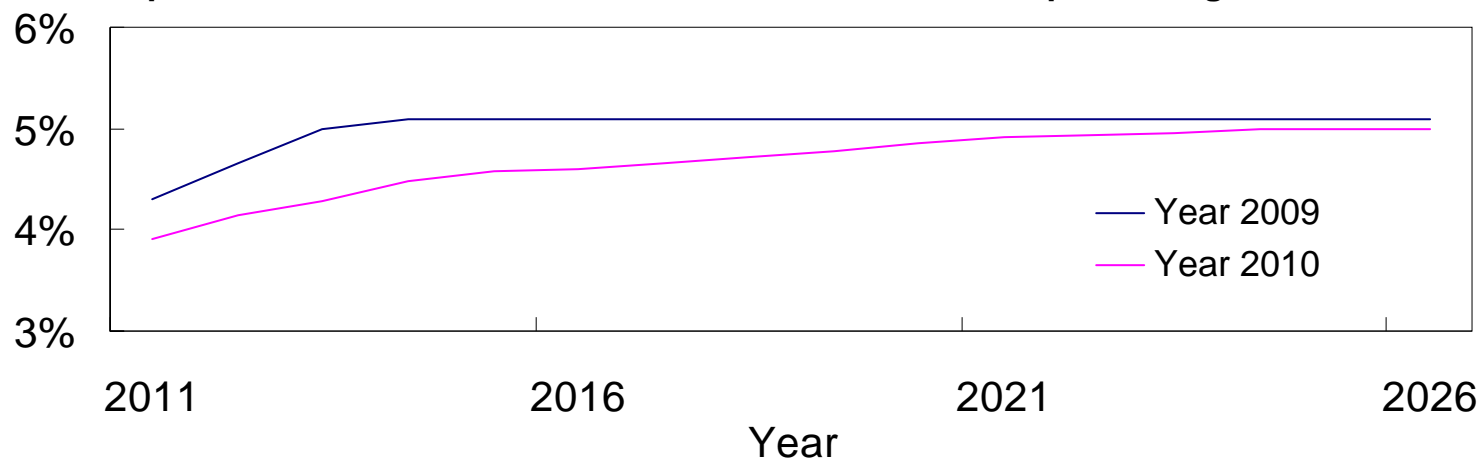
Note: 1. EV/AV calculation does not include business of Cathay Life in China.

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

3. Totals may not sum due to rounding.

Assumptions

■ The comparison of the 2009 and 2010 investment return assumptions of general account:



■ RBC capital requirement:

Apply year 2010 RBC formula to estimate expected capital requirement given RBC factors and formula are under reviewed by Insurance Bureau.

1. k value=0.48.
2. Investments in insurance-related business are required to be deducted from capital.
3. Capital requirement assumption = 200% RBC+ investments in insurance-related business.

■ Experience rate:

Experience Rate	Assumptions
Mortality Rate	In accordance with Cathay's most updated mortality trends.
Morbidity Rate	In accordance with Cathay's most updated morbidity trends and varied by different products
Lapse Rate	In accordance with Cathay's most updated lapse rate trends and varied by different products
Expenses assumption	In accordance with Cathay's most updated expense analysis and varied by 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.

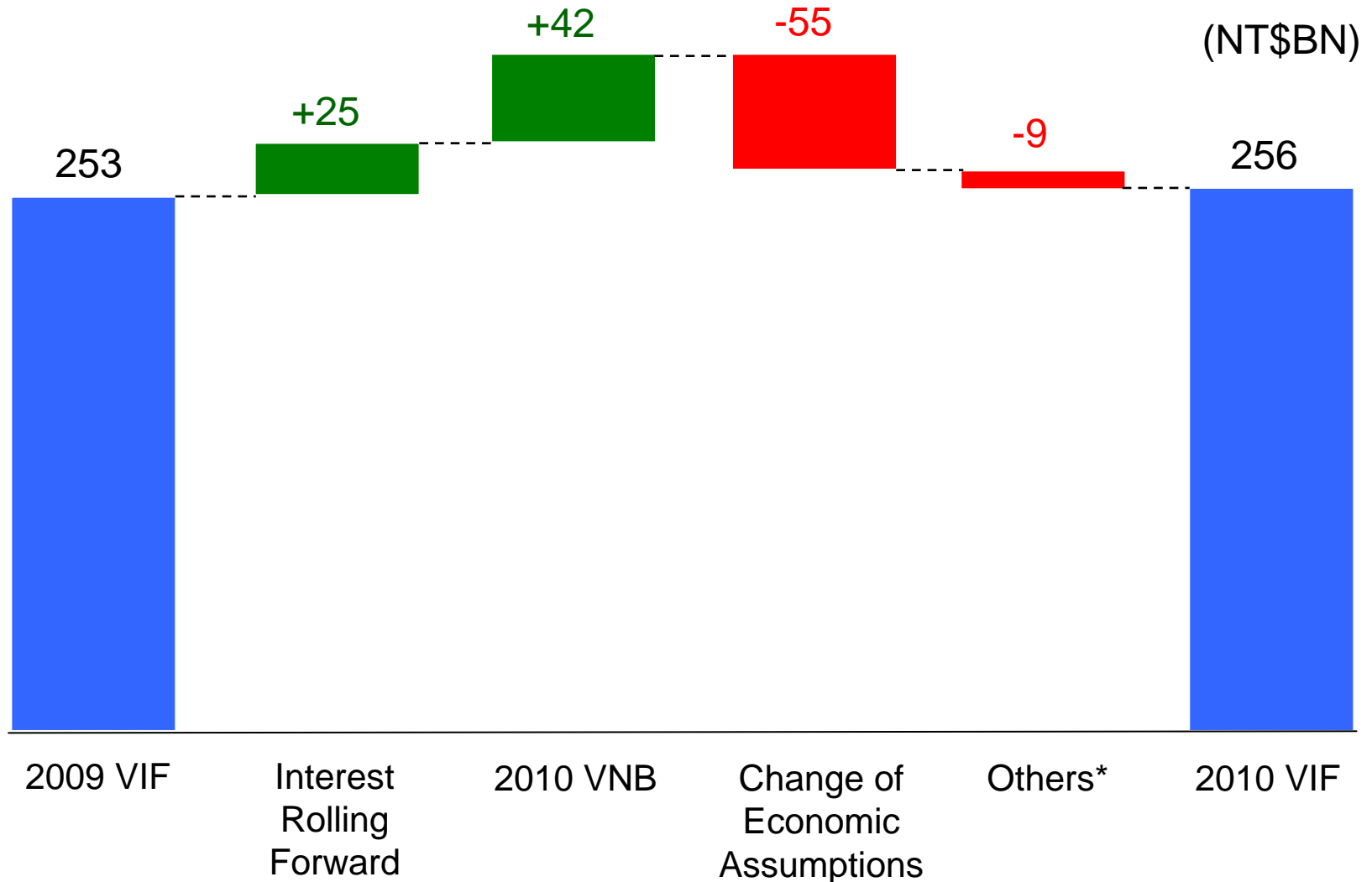
Sensitivity Analysis

NT\$BN, except for per share figures

Valuation date	2010/12/31				
Assumption	Investment yield - 0.25%	Investment yield + 0.25%	Base Case	Discount rate - 0.5%	Discount rate + 0.5%
Cost of capital	-86	-78	-82	-79	-84
Adjusted net worth (After CoC)	189	196	193	196	190
Value of in force business	199	313	256	272	242
Embedded Value	388	510	449	467	432
EV / per share	73.0 (38.2)	96.0 (50.2)	84.6 (44.2)	88.1 (46.0)	81.4 (42.5)
Appraisal Value	725	893	810	854	769
Value of future 1 year's new business (After CoC)	38	47	43	45	40
AV / per share	136.7 (71.4)	168.2 (87.9)	152.7 (79.8)	161.0 (84.2)	144.9 (75.7)

Note : Totals may not sum due to rounding.

Movement of Value of In-Force Business



* Others include change of actuarial assumptions, data change, the release of the CoC of the new business and the release of the new business strain.

YoY Comparison

(NT\$BN)

Valuation date	2009/12/31	2010/12/31
Embedded Value	381-440	432-467
Value of future 1 year's new business	31-40	40-45
Appraisal Value	640-783	769-854



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

	FY2009	FY2010	FY10/ FY09 % Chg	1Q10	1Q11	1Q11/ 1Q10/ % Chg
Statement of Income Data						
Interest income	0.553	0.869	57.1%	0.208	0.222	6.8%
Income from subsidiaries						
Cathay Life	2.672	(6.516)	-	(4.020)	(1.499)	-62.7%
Cathay United Bank	8.688	11.332	30.4%	2.585	3.194	23.6%
Cathay Century	0.794	0.301	-62.1%	0.144	0.221	53.5%
Other	0.030	0.215	616.7%	0.053	0.117	120.8%
Total income from subsidiaries, net	12.184	5.332	-56.2%	(1.238)	2.033	-
Gain/Loss on foreign exchange	0.000	0.000	-	(0.000)	0.000	-
Other income	0.061	0.059	-2.8%	(0.000)	(0.000)	-
Operating costs	(0.751)	(1.155)	53.7%	(0.284)	(0.284)	-
Administrative and general expenses	(0.319)	(0.329)	3.0%	(0.067)	(0.062)	-7.3%
Income taxes (expense) benefit	(0.677)	(0.176)	-74.0%	0.069	(0.016)	-
Net income	11.051	4.601	-58.4%	(1.313)	1.893	-
EPS (NT\$)	1.09	0.45		(0.13)	0.19	
Balance Sheet Data						
Long-term investments in stock	216.3	218.8		208.0	213.2	
Total assets	261.1	268.0		253.7	265.6	
Total shareholders' equity	212.2	218.5		203.9	212.8	
Total consolidated assets	4,295.5	4,688.9		4,344.5	4,779.9	
Total consolidated shareholders' equity	212.2	218.5		206.8	216.8	
Operating Metrics						
ROAE(standalone)	6.2%	2.1%		-2.5%	3.5%	
ROAA (standalone)	5.1%	1.7%		-2.0%	2.8%	
ROAA(consolidated)	0.3%	0.1%		-0.1%	0.2%	

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)

	FY2009	FY2010	FY10/ FY09 % Chg	1Q10	1Q11	1Q11/ 1Q10/ % Chg
Summary Statement of Income Data						
Premium income ⁽¹⁾	442.048	515.069	16.5%	120.251	102.191	-15.0%
Reinsurance premium ceded	(6.298)	(23.737)	276.9%	(5.827)	(3.600)	-38.2%
Changes in unearned premium reserve	0.517	(0.879)	-269.9%	0.211	1.220	479.4%
Retained earned premium	436.267	490.453	12.4%	114.634	99.811	-12.9%
Reinsurance commission earned	7.783	9.254	18.9%	2.682	1.872	-30.2%
Handling fee earned	3.813	2.213	-42.0%	0.533	0.968	81.7%
Investment income						
Interest income	73.321	77.340	5.5%	18.291	20.900	14.3%
Gain on disposal of investment	(26.402)	33.625	-227.4%	8.745	24.710	182.6%
Other investment income, net	30.509	(22.050)	-172.3%	(8.633)	(24.862)	188.0%
Total investment income, net ⁽²⁾	77.428	88.916	14.8%	18.402	20.748	12.7%
Separate account product revenues	144.069	137.096	-4.8%	8.609	40.977	376.0%
Retained claims payment	(229.763)	(271.336)	18.1%	(64.542)	(61.231)	-5.1%
Changes in liability reserves	(250.064)	(286.133)	14.4%	(67.302)	(52.740)	-21.6%
Commissions and operating expense						
Brokerage expenses	(27.697)	(29.839)	7.7%	(7.228)	(9.059)	25.3%
Marketing, administrative and general expenses	(11.323)	(12.339)	9.0%	(2.433)	(2.908)	19.5%
Total commissions and operating expenses	(39.021)	(42.178)	8.1%	(9.661)	(11.967)	23.9%
Other operating expenses	(146.107)	(139.143)	-4.8%	(8.980)	(41.588)	363.1%
Operating income	4.406	(10.858)	-	(5.626)	(3.150)	-44.0%
Non-operating income	1.571	2.070	31.8%	0.549	0.406	-26.1%
Non-operating expense	(1.344)	(0.822)	-38.8%	(0.203)	(0.203)	0.1%
Income taxes	(1.970)	3.095	-	1.260	1.449	15.0%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	2.662	(6.516)	-	(4.020)	(1.499)	-62.7%
Balance Sheet Data						
Total assets	2,742.9	3,047.7		2,822.3	3,147.4	
Total stockholders' equity	113.1	113.8		102.9	105.2	
Operating Metrics						
First Year Premium(FYP)	261.6	330.1		87.4	84.5	
First Year Premium Equivalent(FYPE)	53.2	78.8		17.7	22.9	
Expense ratio	8.2%	7.7%		7.0%	11.0%	
13-mos persistency ratio	89.7%	96.2%		92.8%	96.4%	
25-mos persistency ratio	81.6%	85.8%		81.2%	88.6%	
ROAE	3.2%	-5.7%		-14.9%	-5.5%	
ROAA	0.1%	-0.2%		-0.6%	-0.2%	

Notes:

(1) Excludes investment-linked products premium income.

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Cathay United Bank
Summary Financial Data

(NT\$BN)

			FY10/ FY09			1Q11/ 1Q10
<u>Summary Statement of Income Data</u>	FY2009	FY2010	% Chg	1Q10	1Q11	% Chg
Interest income	23.966	22.124	-7.7%	5.340	6.228	16.6%
Interest expense	(10.170)	(7.397)	-27.3%	(1.745)	(1.990)	14.1%
Net interest income	13.796	14.727	6.7%	3.595	4.238	17.9%
Net operating income except interest income						
Net handling fee	4.677	6.548	40.0%	1.398	1.644	17.6%
Gains on financial assets and liabilities at fair value through P&L	2.840	0.530	-81.3%	0.215	0.318	47.8%
Realized gains on available-for-sale financial assets	1.517	2.334	53.9%	0.508	0.832	63.7%
Realized gains on held-to-maturity financial assets	0.000	0.000	-	0.000	0.000	-
Invst inc - equity method	0.261	0.283	8.4%	0.059	0.131	122.8%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchg - net	0.592	0.653	10.3%	0.100	0.183	82.5%
Impairment gain/loss	(0.342)	(0.075)	-78.0%	0.000	0.000	-
Gains on reversal of foreclosed properties impairment	0.000	0.000	-	0.000	0.000	-
Gains/losses on disposal of foreclosed properties	(0.001)	1.040	-	0.000	0.007	-
Investments in debt securities with no active market, net	0.180	(0.120)	-	0.010	0.000	-96.2%
other income, net	1.930	1.271	-34.2%	0.592	0.340	-42.6%
Net operating income	25.452	27.191	6.8%	6.478	7.692	18.7%
Provisions for possible losses	0.000	0.000	-	0.000	0.000	-
Operating expenses	(14.400)	(14.806)	2.8%	(3.486)	(4.031)	15.6%
Income from continuing operations before income taxes	11.051	12.385	12.1%	2.991	3.661	22.4%
Income tax benefit (expense)	(2.434)	(1.053)	-56.7%	(0.406)	(0.467)	15.0%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	8.617	11.332	31.5%	2.585	3.194	23.5%
<u>Balance Sheet Data</u>						
Total assets	1,510.2	1,576.6		1,475.1	1,581.0	
Total shareholders' equity	93.0	95.2		94.9	98.0	
<u>Operating Metrics</u>						
Cost income ratio	56.6%	54.5%		53.8%	52.4%	
ROAE	9.8%	12.0%		11.0%	13.2%	
ROAA	0.6%	0.7%		0.7%	0.8%	
<u>Assets Quality</u>						
NPL ratio (international standard)	0.6%	0.3%		0.5%	0.4%	
Coverage ratio (international standard)	135.1%	277.2%		156.3%	201.2%	

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		1Q11/ 1Q10	
			% Chg	1Q10	1Q11	% Chg
Premiums income	11,822.2	12,629.5	6.8%	3,054.8	3,531.3	15.6%
Reinsurance premium ceded	(3,374.7)	(3,459.9)	2.5%	(881.9)	(1,039.9)	17.9%
Changes in unearned premium reserve	(177.5)	(151.1)	-14.9%	(27.9)	(252.6)	-22472.1%
Retained earned premium	8,270.0	9,018.5	9.1%	2,145.0	2,238.7	4.4%
Interest income	330.4	296.3	-10.3%	67.5	68.5	1.4%
Other investment income, net	(18.5)	34.4	-	(66.1)	60.0	-
Total investment income, net	311.9	330.6	6.0%	1.4	128.5	8987.8%
Other operating income	347.2	345.9	-0.4%	102.7	77.4	-24.6%
Insurance claims payment, net	(4,231.1)	(4,676.6)	10.5%	(1,031.6)	(1,348.1)	30.7%
Changes in liability reserves	(492.7)	(1,107.0)	124.7%	(229.1)	40.5	-
Commissions, operating and other expenses	(3,154.2)	(3,586.1)	13.7%	(792.8)	(886.3)	11.8%
Operating income	1,051.1	325.3	-69.0%	(195.7)	(250.7)	28.1%
Non-operating income	3.1	16.3	434.7%	0.0	1.6	-
Non-operating expense	(0.1)	(0.2)	99.7%	(0.0)	(0.4)	-
Income taxes	(268.8)	(40.4)	-85.0%	(51.5)	(31.0)	-39.9%
Net income	785.2	301.1	-61.6%	144.1	220.8	53.3%
<u>Summary Balance Sheet Data</u>						
Total assets	20,812.6	21,748.7		21,867.7	23,417.9	
Total stockholders' equity	4,300.0	3,471.7		4,364.6	3,566.3	
<u>Operating Metrics</u>						
Written Combined ratio	79.3%	91.4%		68.4%	78.6%	
Net Combined ratio	89.4%	103.3%		88.4%	90.9%	
ROAE	21.2%	7.8%		13.3%	25.1%	
ROAA	3.9%	1.4%		2.7%	3.9%	

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國泰金控
Cathay Financial Holdings

Shares Outstanding
(Millions of shares)

	As of 3/31/2011
Total shares issued	10,154.4
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	10,154.4

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Capital Adequacy Metrics

	<u>Capital Adequacy Metrics (As of 31-Dec-2010)</u>			<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	144.6%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	250%	-	300%	200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.17% / 9.55%			8.00% / 6.00%
Cathay Securities BIS Ratio	539%			150%

Notes:

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