

Cathay Financial Holdings Co., Ltd
2012 First Quarter Briefing



May 2012

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Agenda

- **1Q12 Business overview**
- **1Q12 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**
- **Embedded value & appraisal value**

1Q12 Business overview

Cathay United Bank

- Total loans grew by 9.0% YoY; NPL ratio of 0.26% and coverage ratio of 402.1%.
- Fee income grew by 10.3% YoY; wealth management fee income increased by 24.2% YoY.
- Shanghai branch maintained strong earnings momentum and reported 1Q12 pre-tax profits of US\$ 1.88 MN.

Cathay Life

- Ranked No.1 in terms of FYP and FYPE market share.
- Unrealized gains from available for sale investments improved significantly; book value above NT\$130 BN.
- Hedging cost kept decreasing to 1% in 1Q12.

Cathay Century

- Market share of 11.2%, maintained No.2 market position.
- Continued to improve business efficiency, ROE reached 27.7%.

Cathay SITE

- Ranked No.1 in terms of AUM, which amounted to NT\$ 399BN.
- Utilized US\$100 MN QFII quota to invest in Chinese funds; plan to launch A-shares funds.

Cathay Securities

- Market share of brokerage business reached a historically high of 0.96%, up 21.5% YoY.
- Organized 9 IPOs as lead underwriter.
- Expand footprints in Taiwan to improve service penetration.

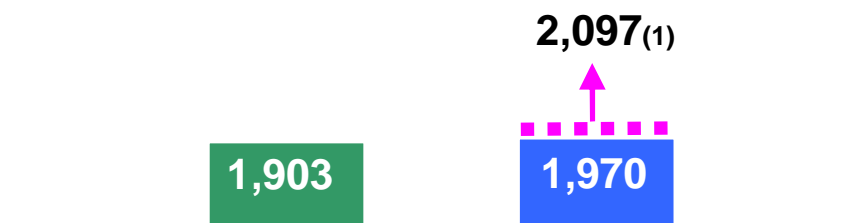
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Cathay FHC — Net income & EPS

Net income (NT\$MN)

1Q11 1Q12

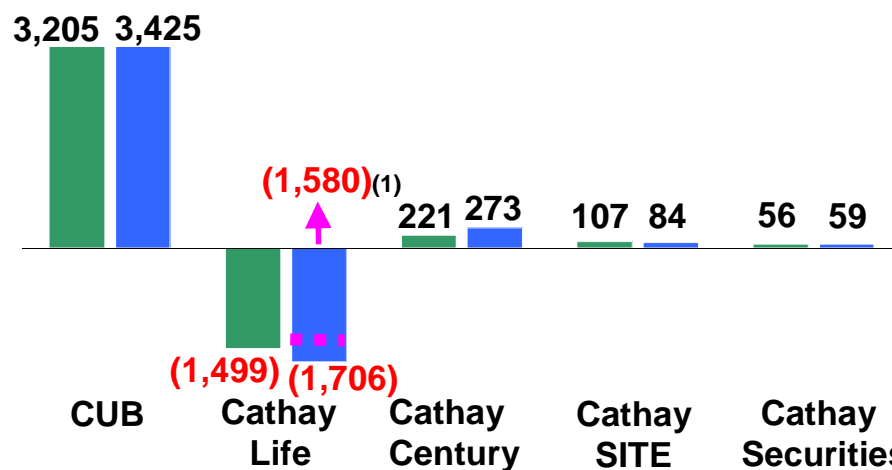


EPS (NT\$)

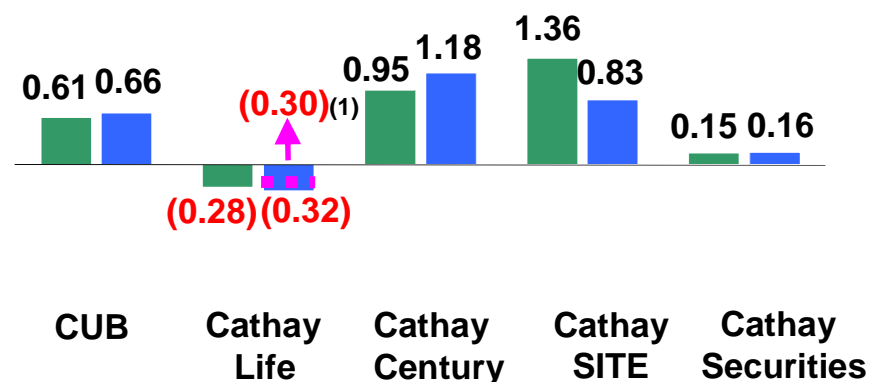
1Q11 1Q12



Net income of primary subsidiaries



EPS of primary subsidiaries



Note(1): 1Q12 after-tax income & EPS, excluding FX fluctuation reserve.

Note(2): Capital of Cathay SITE in 1Q11 was 0.8 bn; 1Q12 was 1.5 bn.

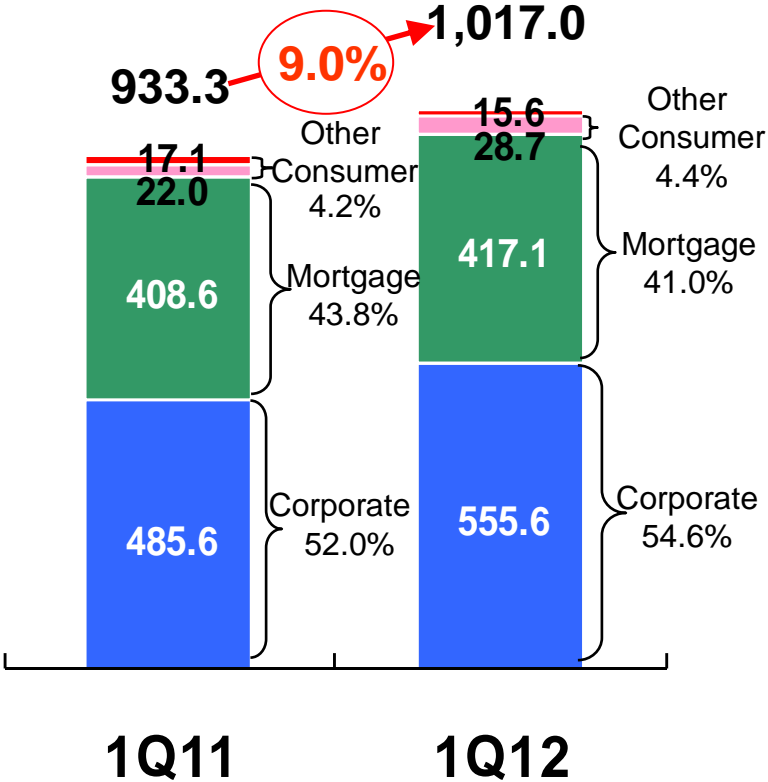
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Cathay United Bank — Loan & deposit breakdown

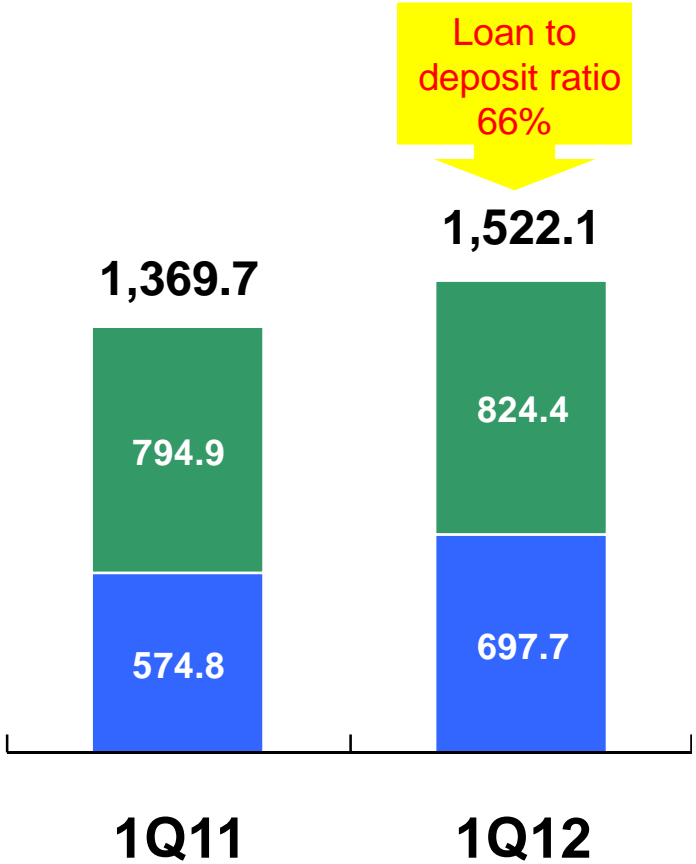
Loan breakdown (NT\$BN)

- Credit Card related
- Consumer
- Mortgage
- Corporate



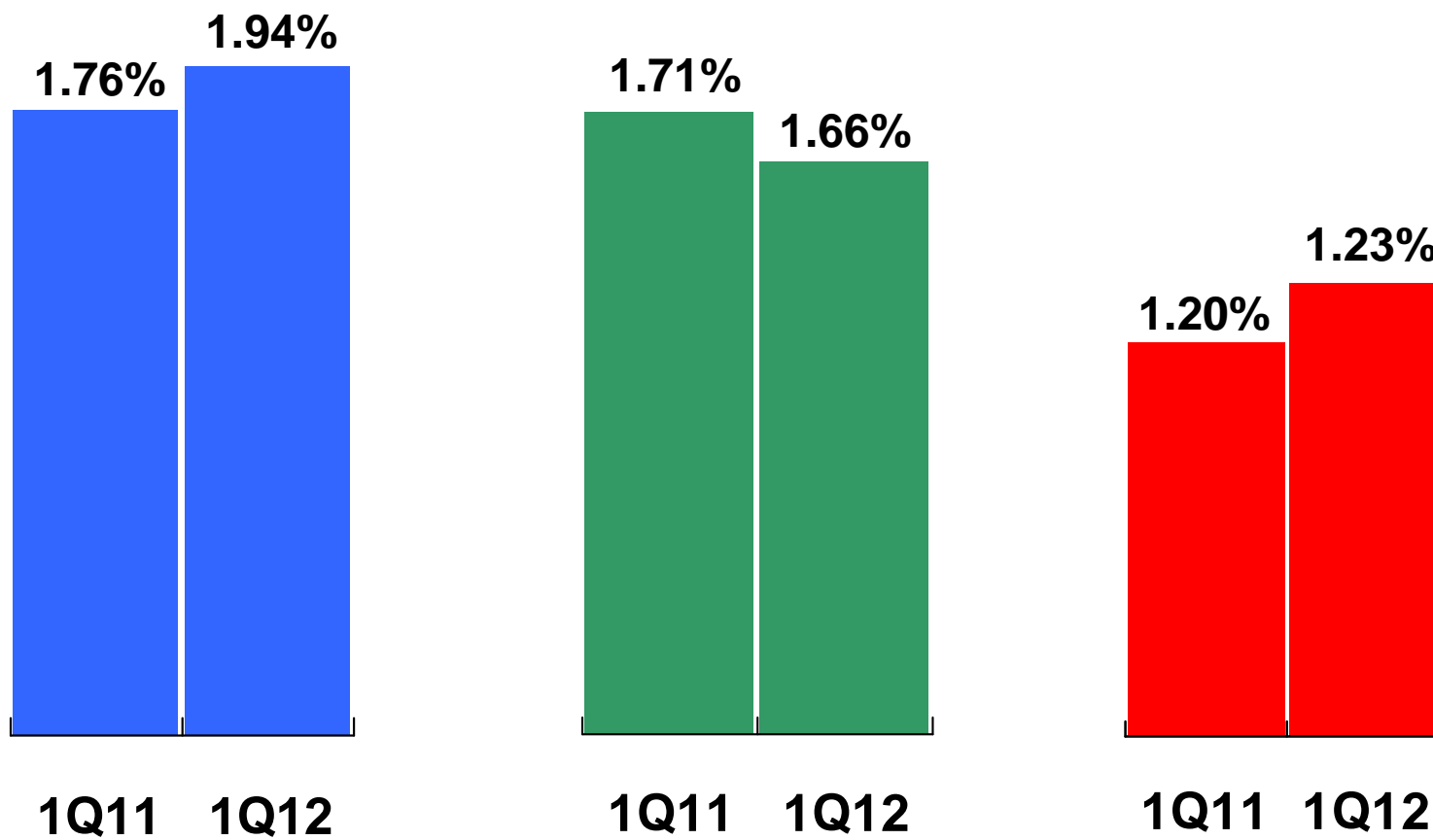
Deposit breakdown (NT\$BN)

- Demand Deposit
- Time Deposit



Cathay United Bank – Interest yields

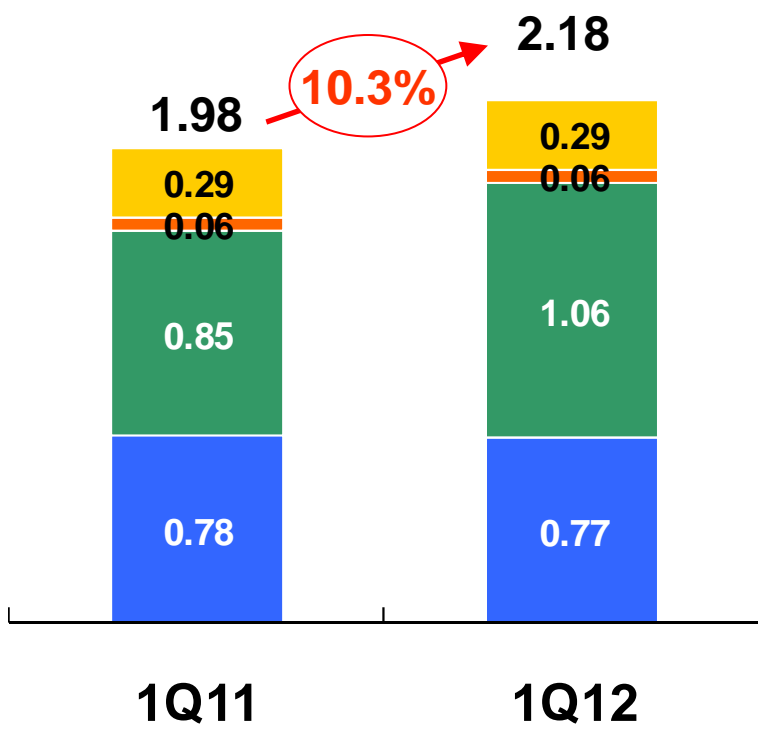
■ Avg. rate of interest-earning assets ■ Interest spread ■ Net interest margin



Cathay United Bank – Fee income

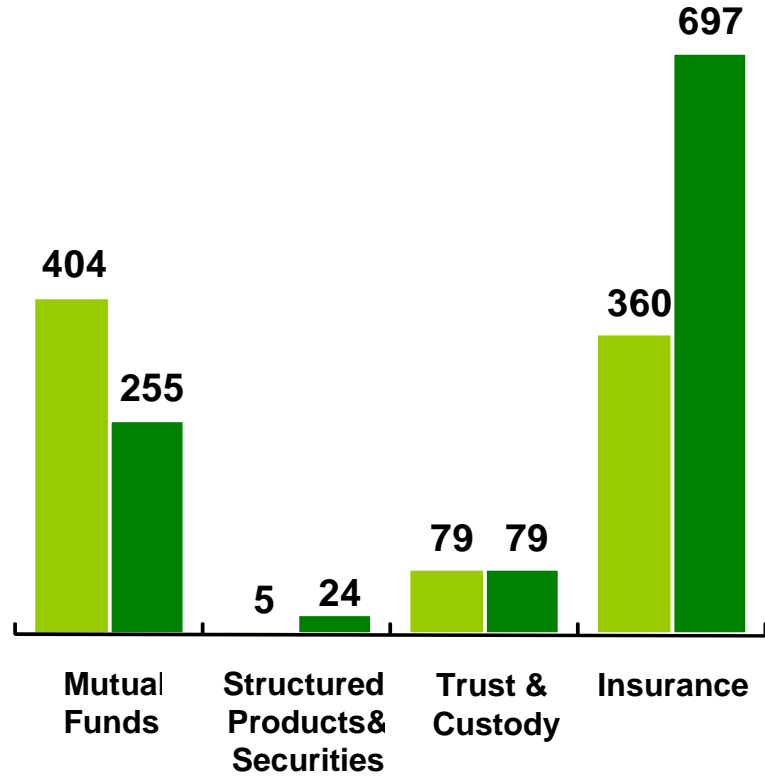
Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



Wealth management fee breakdown (NT\$MN)

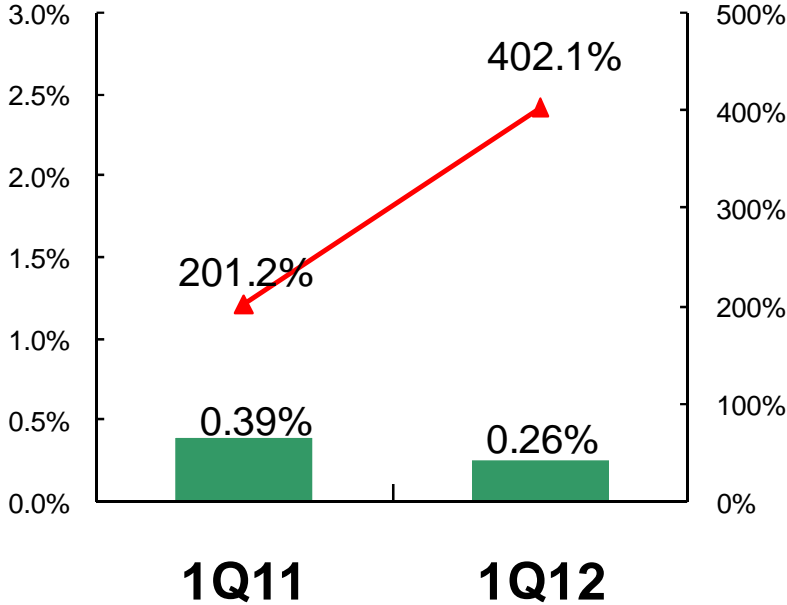
- 1Q11
- 1Q12



Cathay United Bank – Credit quality

NPL & Coverage ratio

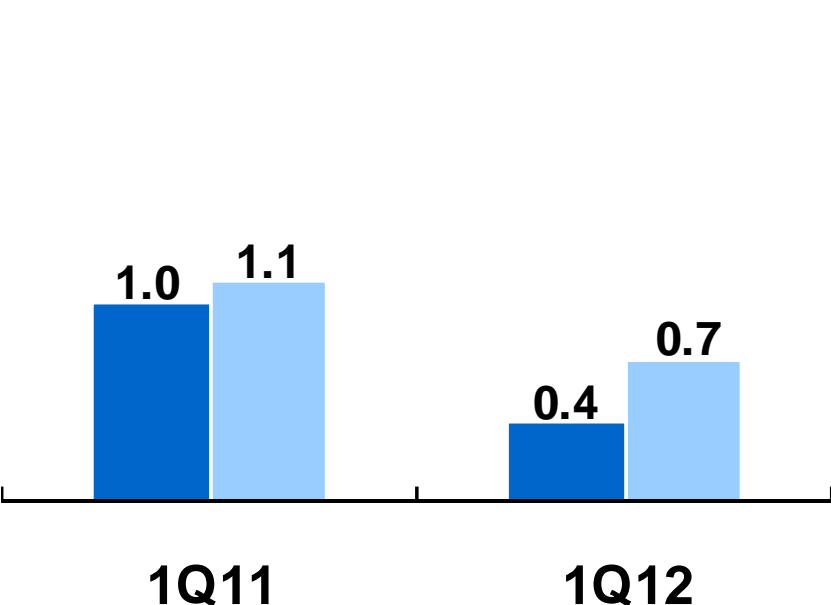
■ NPL ratio(LHS)
▲ Coverage ratio(RHS)



Mortgage NPL	0.09%	0.07%
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Gross provision (NT\$BN)

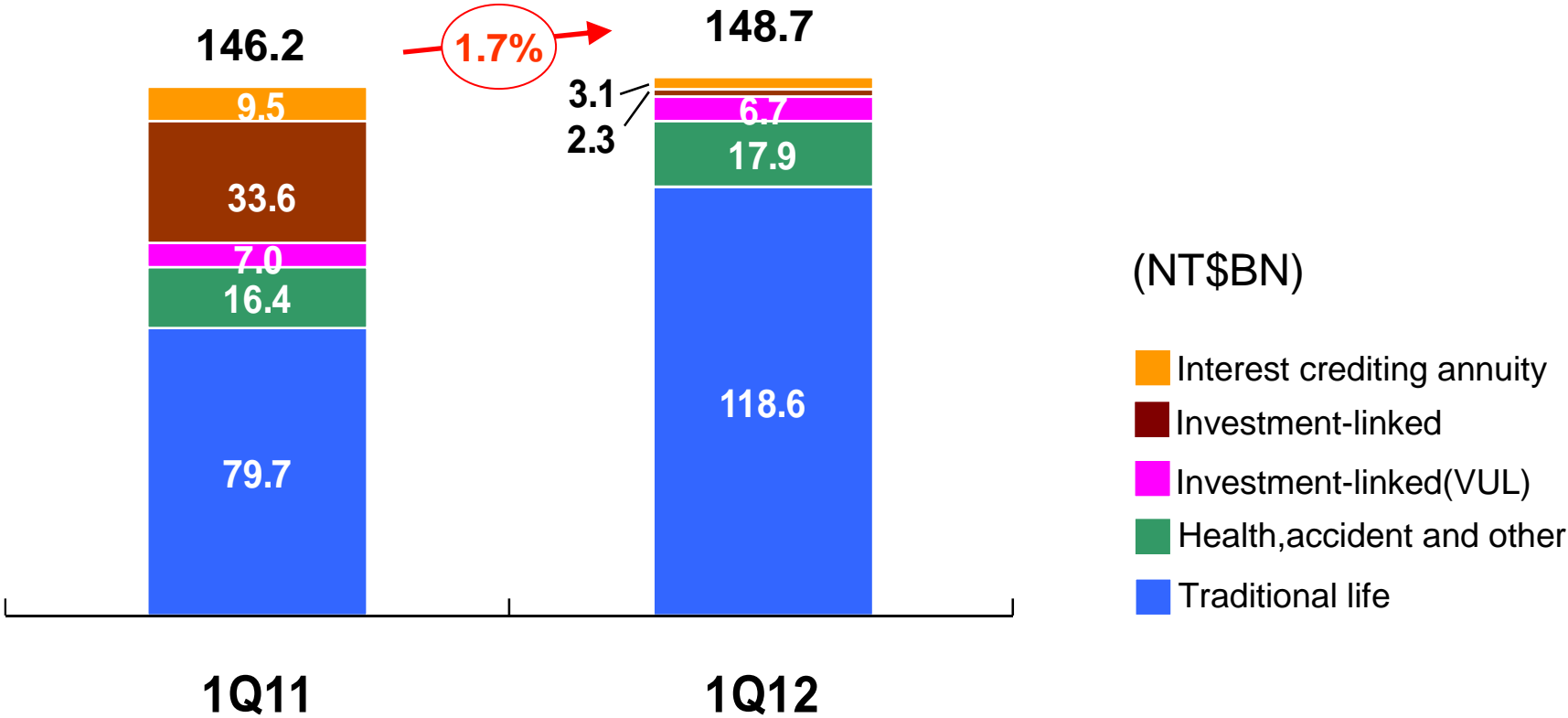
■ Gross provision
■ Recovery



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Cathay Life – Total premium

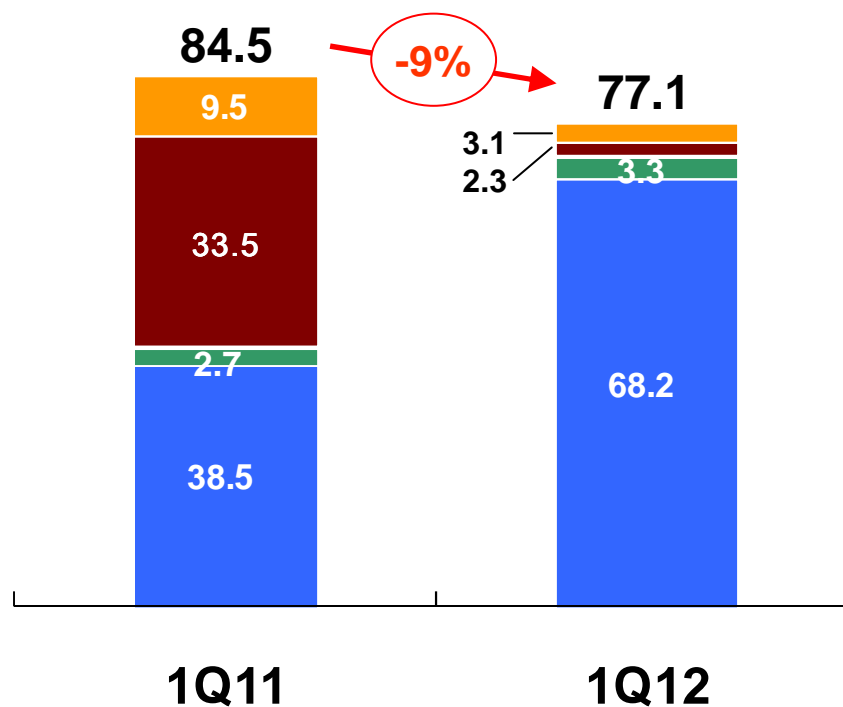


Note : Totals may not sum due to rounding

Cathay Life — FYP/ FYPE

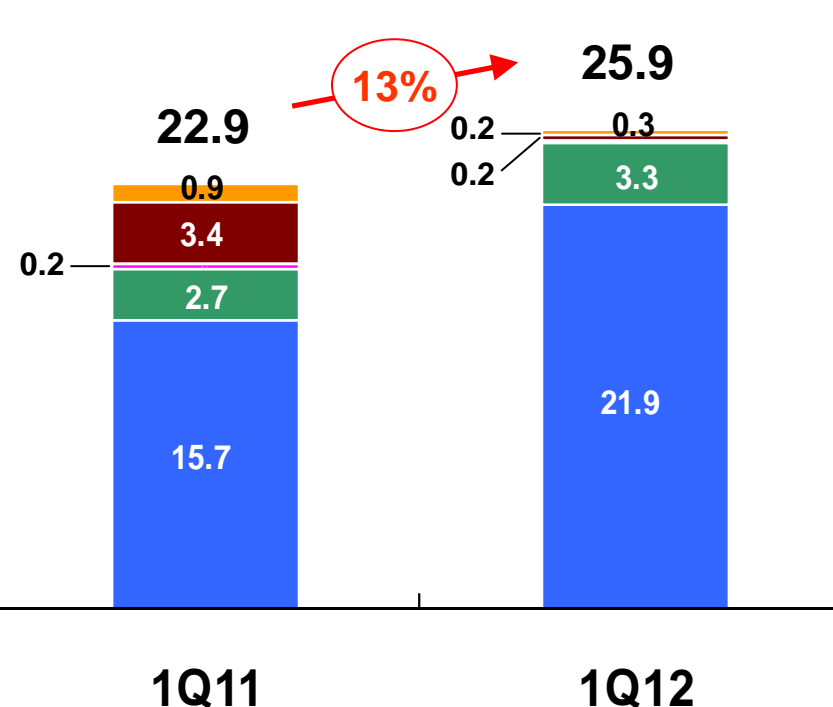
First year premium (FYP)

- 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

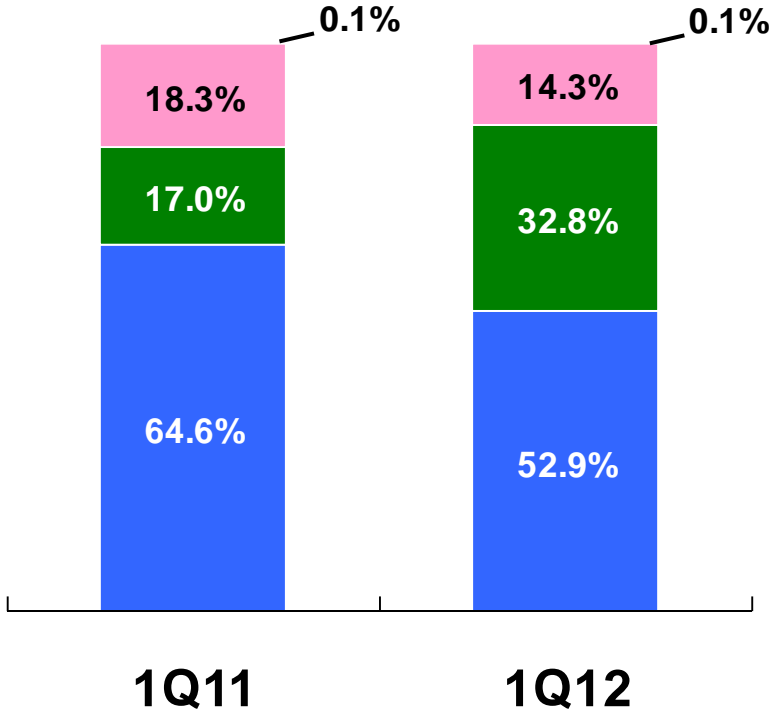


Note: Total may not sum due to rounding

Cathay Life — Distribution channel

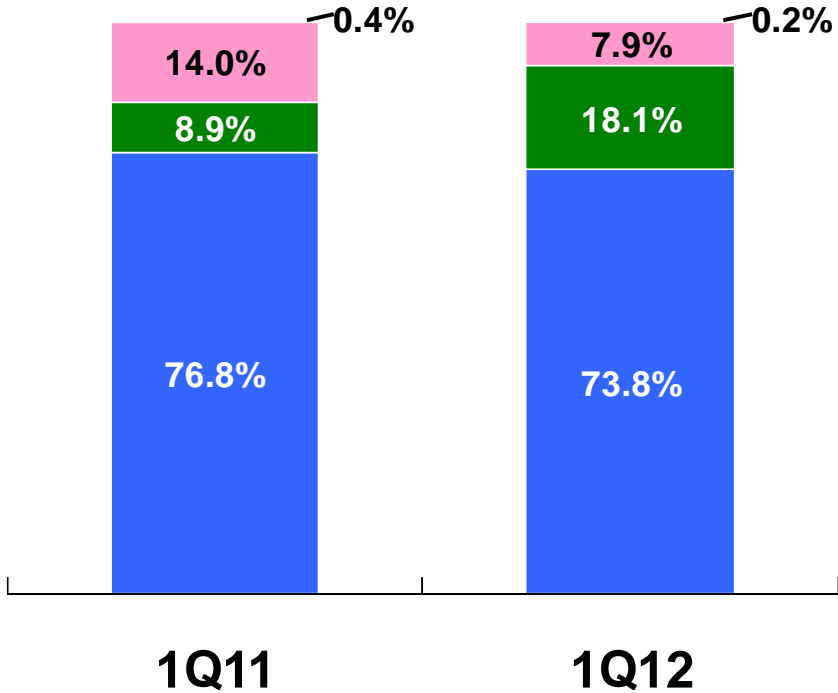
First year premium (FYP)

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



First year premium equivalent (FYPE)

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

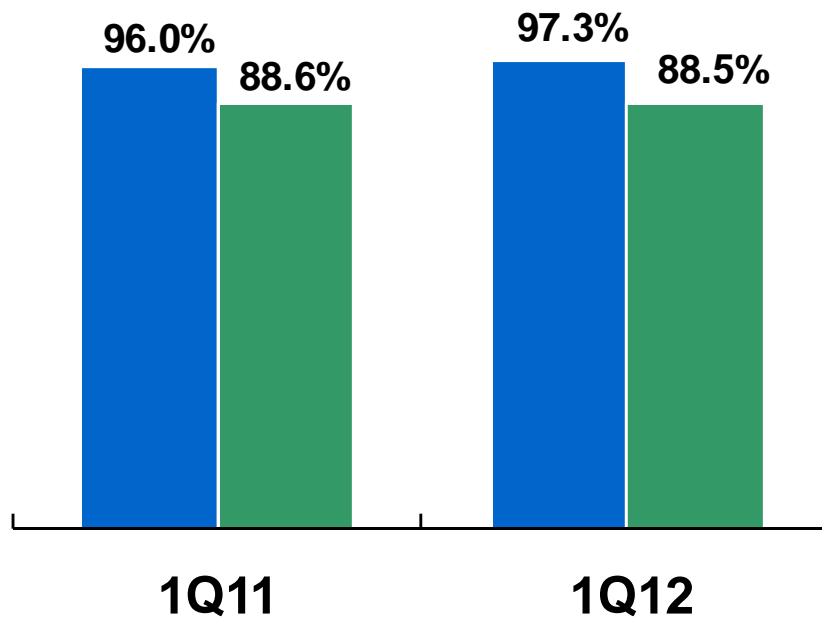


Note : Totals may not sum due to rounding

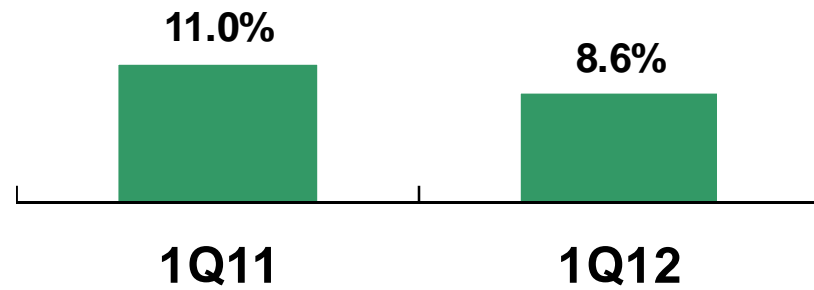
Cathay Life – Operational indicators

Persistency ratio

■ 13 months ■ 25 months



Expense ratio



Cathay Life – Investment portfolio

	4Q11		1Q12		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	253.6	8.6%	338.0	11.0%	2.4%	84.4
Equity- Domestic	251.1	8.5%	271.5	8.8%	0.3%	20.4
Equity- International	118.2	4.0%	133.4	4.3%	0.3%	15.2
Bond- Domestic	485.3	16.4%	504.9	16.4%	0.0%	19.6
Bond- International ⁽¹⁾	1,142.4	38.6%	1,115.7	36.2%	-2.4%	-26.7
Mortgage & Secured loans	302.8	10.2%	304.9	9.9%	-0.3%	2.0
Policy loans	188.3	6.4%	184.6	6.0%	-0.4%	-3.7
Real estate	158.5	5.4%	159.7	5.2%	-0.2%	1.3
Others	59.0	2.0%	65.9	2.1%	0.1%	6.9
Total investments⁽²⁾⁽³⁾	2,959.2	100.0%	3,078.6	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

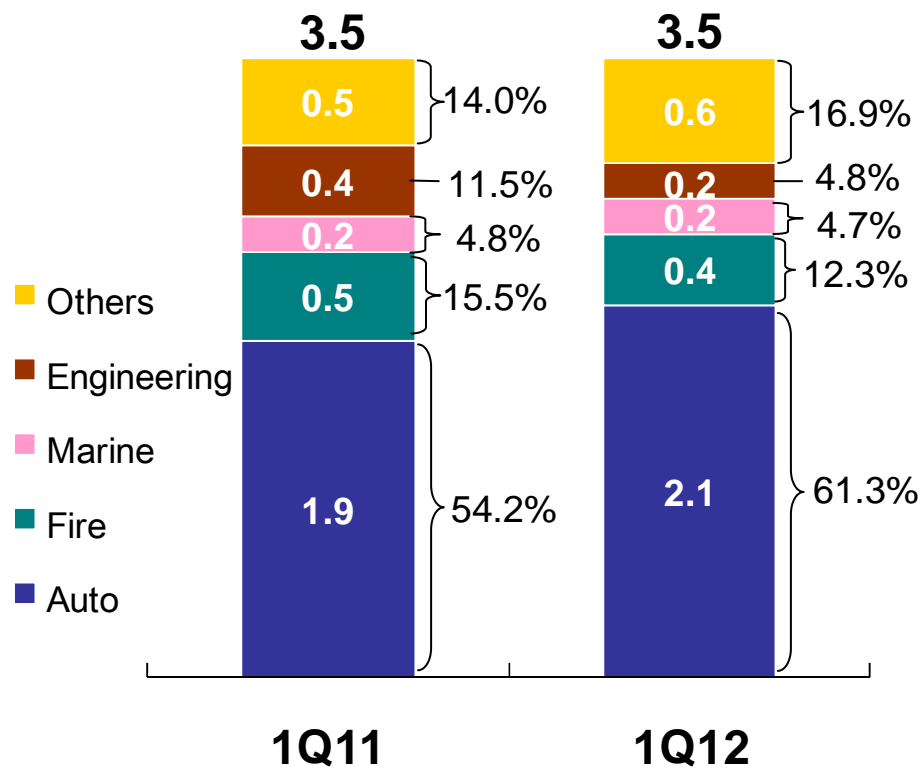
Note (4) : Total may not sum due to rounding

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Cathay Century

Product breakdown (NT\$BN)



Mkt Share 11.6%

11.2%

Distribution channel

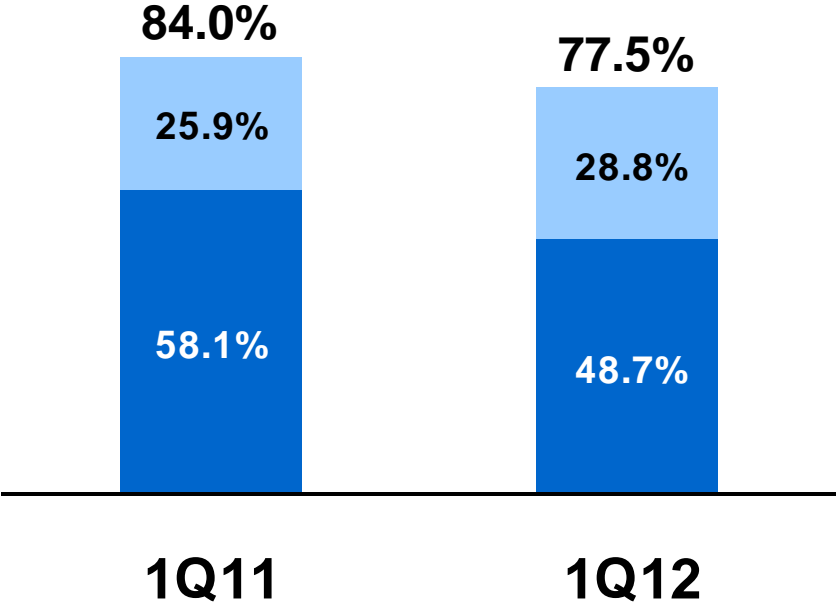
- Others
- Cathay P&C agents
- Cathay group channel



Cathay Century

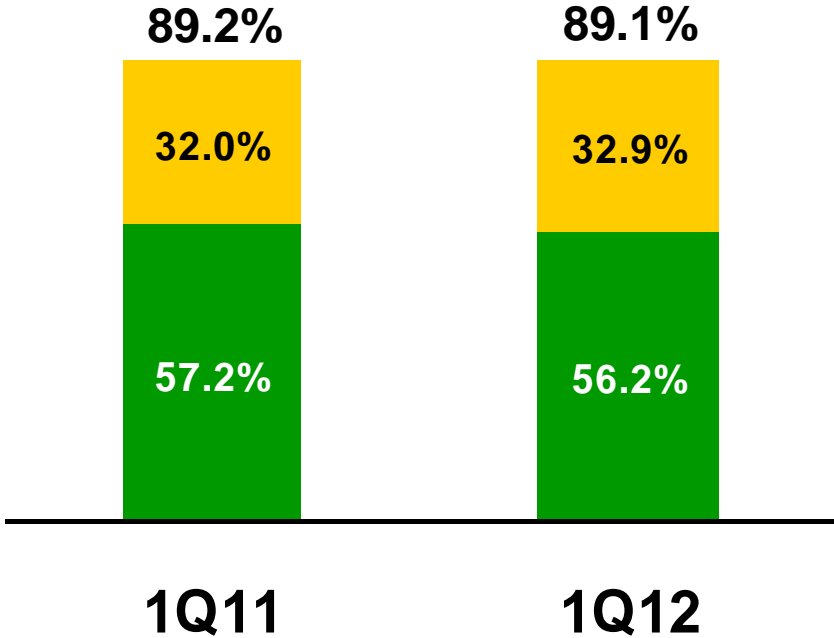
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio

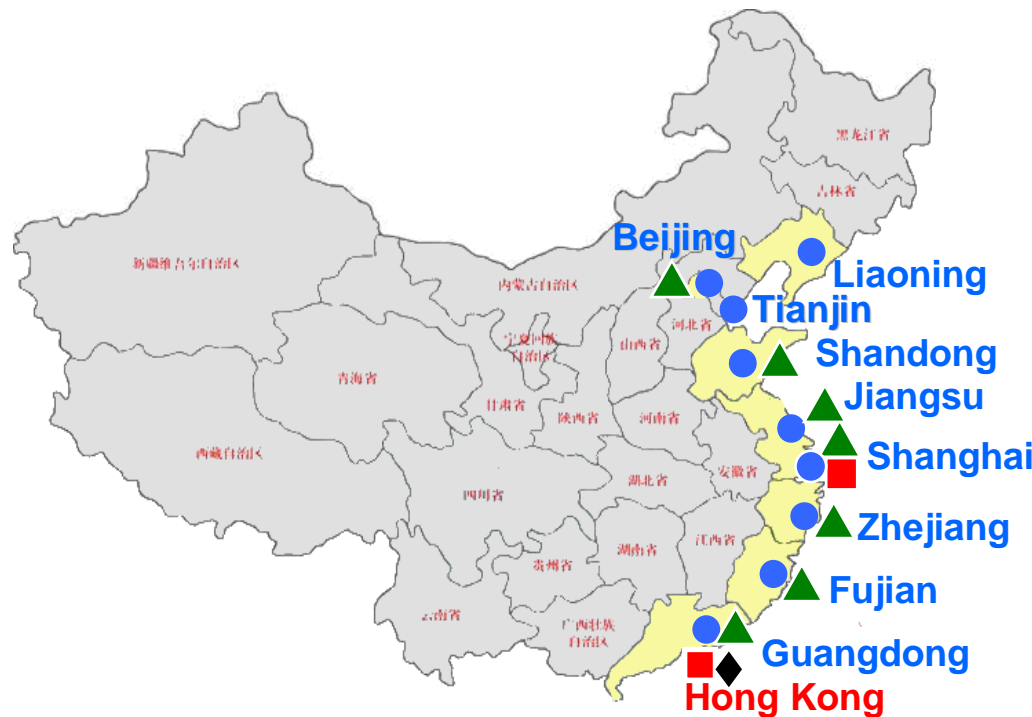


Retained rate 70.6% 76.2%

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Cathay FHC in China



- Footprint
- Cathay Life (China)
 - Cathay United Bank
 - ▲ Cathay Century (China)
 - ◆ Cathay Conning Asset Management

■ Cathay Life (China)

- Total premium income rose by 5%
- Policyholders: approximately 3.08 MN, grew by 5% YoY

■ Cathay United Bank

- 1Q12 pre-tax net income of Shanghai branch was US\$1.88MN
- Raised Shanghai branch's capital to RMB 1BN
- Applied for RMB business, planned to set up Minhang Sub-branch and Qingdao Branch

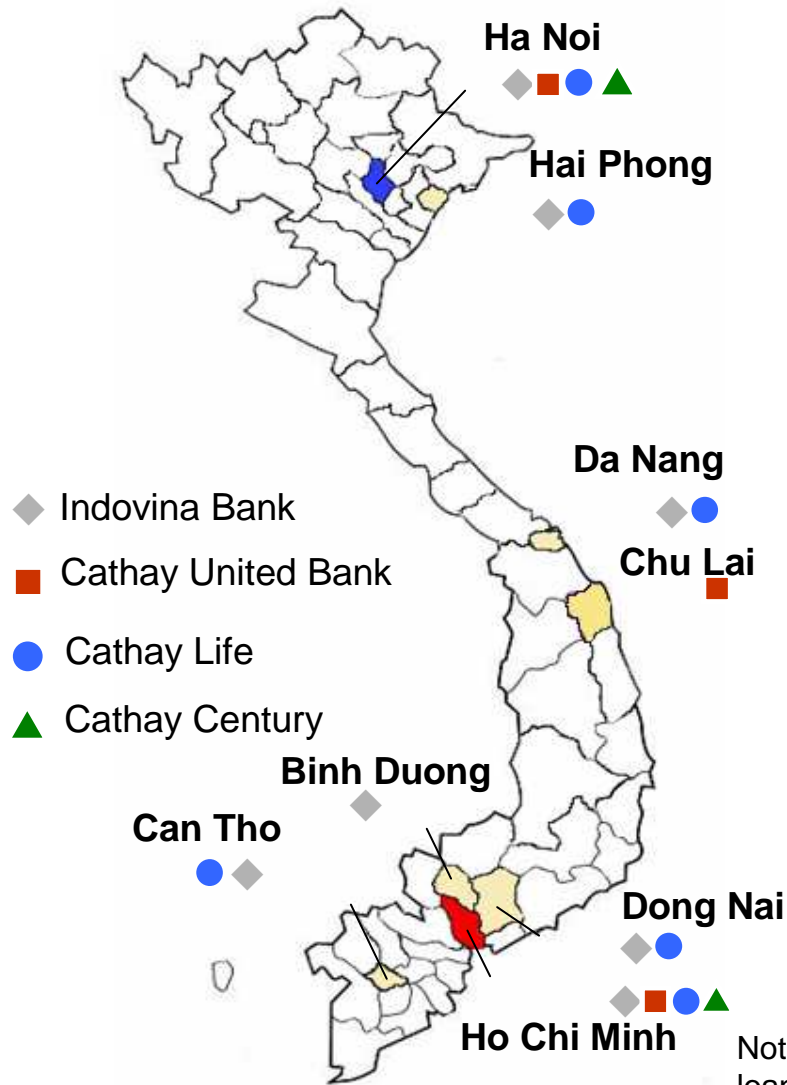
■ Cathay Century (China)

- Strong premium income growth, grew by 72% YoY

■ Cathay Conning Asset Management

- Planned to start operation

Cathay FHC in Vietnam



■ Indovina Bank

- 1Q12 pre-tax net income: US\$ 6.85MN
- NPL ratio: 2.02% (avg. NPL ratio of local players is approximately 4%)

■ Cathay United Bank

- 1Q12 pre-tax net income of Chu Lai branch: US\$ 1.53 MN

Indovina Bank and Cathay United Bank were both rated as the top-tier bank by Central Bank of Vietnam. (1)

■ Cathay Life

- Policyholders: 42,451, up 63.3% YoY
- Market share of FYP reached 2.8% (2)

■ Cathay Century

- Began operation at the end of 2010, each business line performed steadily

Note (1) : Central Bank of Vietnam classifies banks into four groups with different loan growth limits: top tier:17%, second tier:15%, third tier 8%, fourth tier:0%.

Note (2) : Market share of FYP ranked No.7 among 14 players.

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Embedded Value & Appraisal Value

NT\$BN, except for per share figures

Valuation date	2010/12/31	2011/12/31
Investment yield	3.9% ~ Year 2025 5% for General account 2.8% ~ Year 2025 3.7% for Interest crediting annuity (level after 15 years)	3.8% ~ Year 2031 5% for General account 2.71% ~ Year 2031 3.2% for Interest crediting annuity (level after 20 years)
Discount rate	10%	10%
Cost of Capital (CoC)	-82	-76
Adjusted net worth (After CoC)	193	199
Value of in force business	256	276
Embedded Value	449	475
EV / per share	84.6 (44.2)	89.4 (46.1)
Appraisal Value	810	870
Value of future 1 year's new business (After CoC)	43	46
AV / per share	152.7 (79.8)	163.9 (84.5)

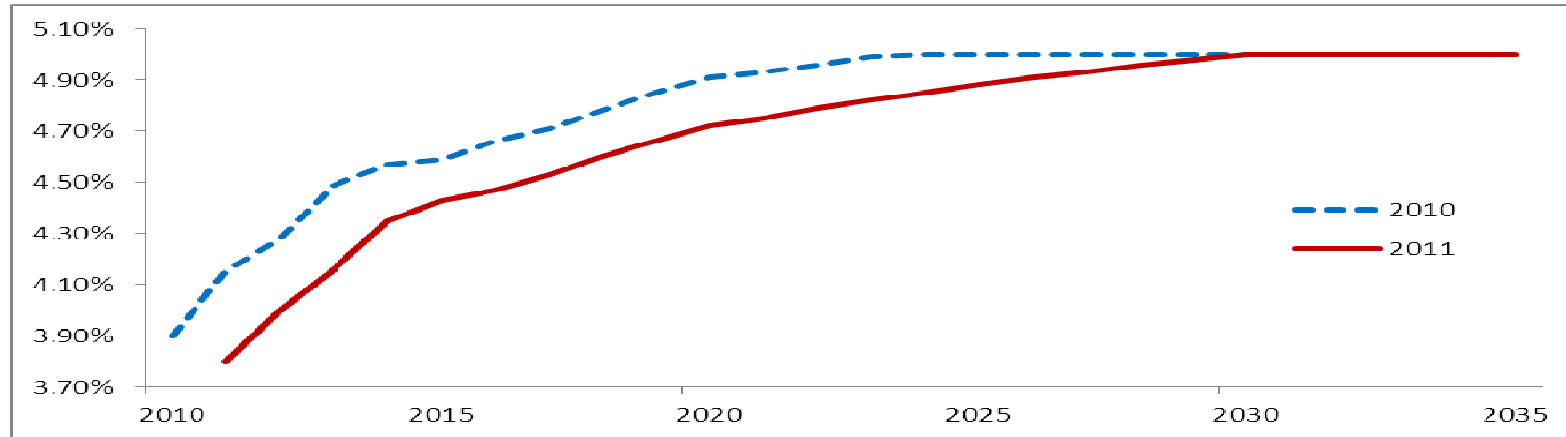
Note: 1. EV/AV calculation does not include business of Cathay Life in China and Vietnam.

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

3. May not sum to total due to rounding.

Assumptions

■ The comparison of the 2010 and 2011 investment return assumptions of general account:



■ RBC capital requirement:

Apply year 2011 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.

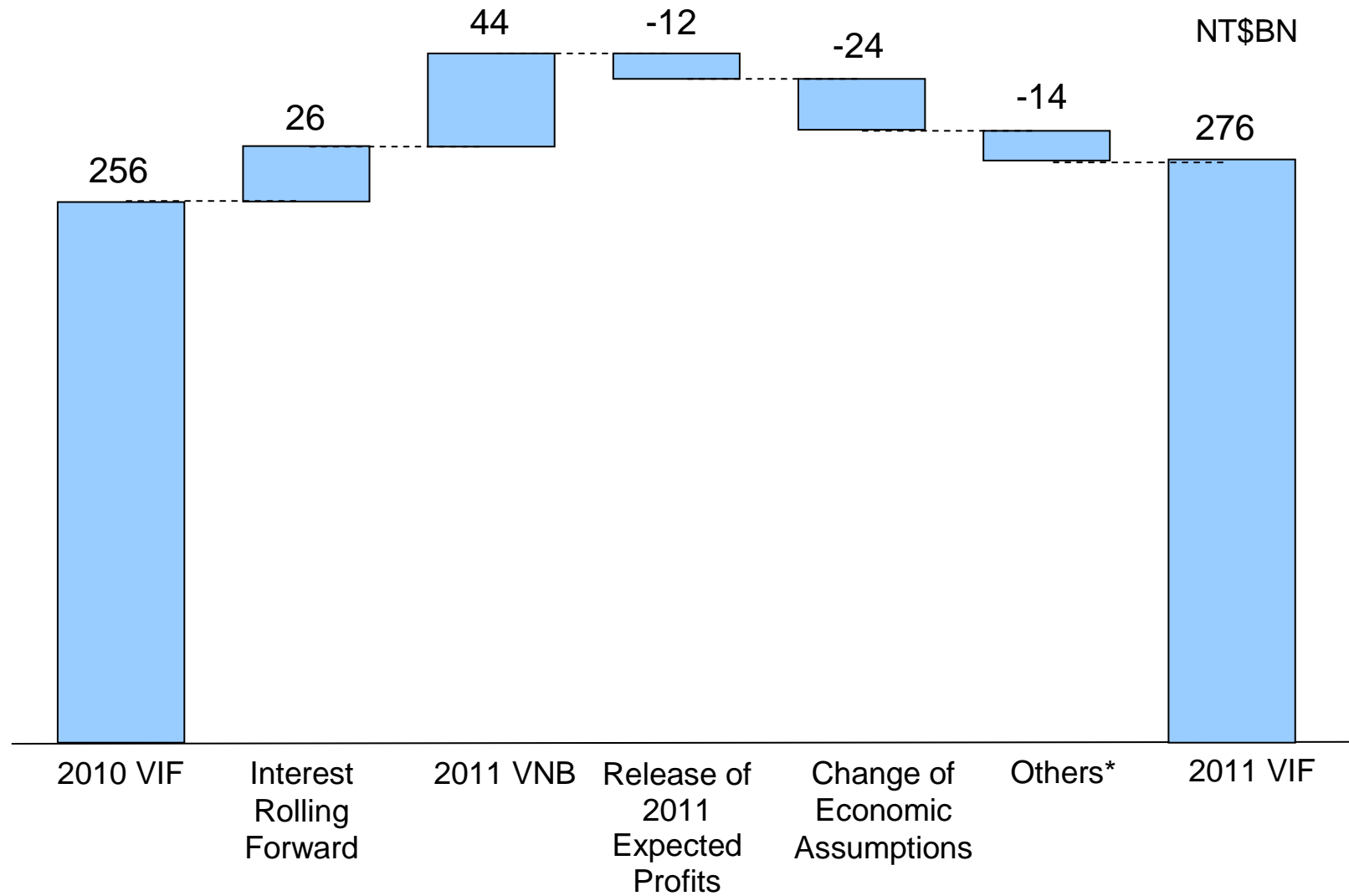
Sensitivity Analysis

NT\$BN, except for per share figures

Valuation date	2011/12/31				
Assumption	Investment yield - 0.25%	Investment yield + 0.25%	Base Case	Discount rate - 0.5%	Discount rate + 0.5%
Cost of capital	-81	-72	-76	-73	-79
Adjusted net worth (After CoC)	194	202	199	201	196
Value of in force business	212	340	276	294	260
Embedded Value	406	543	475	495	456
EV / per share	76.5(39.4)	102.3(52.7)	89.4(46.1)	93.3(48.1)	85.9(44.3)
Appraisal Value	778	962	870	920	825
Value of future 1 year's new business (After CoC)	41	51	46	49	43
AV / per share	146.5(75.5)	181.2(93.4)	163.9(84.5)	173.4(89.4)	155.4(80.1)

Note : May not sum to total due to rounding.

Value of In-force Movement



* 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

Under the different discount rate assumption (9.5%~10.5%), the results of the Year 2010 & 2011 list below.

NT\$BN

Valuation date	2010/12/31	2011/12/31
Embedded Value	432-467	456-495
Value of future 1 year's new business	40-45	43-49
Appraisal Value	769-854	825-920

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

	FY2010	FY2011	FY11/ FY10 % Chg	1Q11	1Q12	1Q12/ 1Q11 % Chg
Statement of Income Data						
Interest income	0.869	0.924	6.3%	0.222	0.239	7.8%
Income from subsidiaries						
Cathay Life	(6.520)	(0.180)	-97.2%	(1.499)	(1.710)	14.1%
Cathay United Bank	11.190	10.970	-2.0%	3.194	3.420	7.1%
Cathay Century	0.310	0.600	93.5%	0.221	0.270	22.2%
Other	0.326	0.202	-38.0%	0.127	0.210	65.4%
Total income from subsidiaries, net	5.306	11.592	118.5%	2.043	2.190	7.2%
Gain/Loss on foreign exchange	0.000	0.000	-	0.000	(0.001)	-
Other income	0.059	0.039	-34.5%	0.000	0.001	-
Operating costs	(1.155)	(1.166)	1.0%	(0.284)	(0.312)	9.9%
Administrative and general expenses	(0.329)	(0.345)	5.0%	(0.062)	(0.070)	12.9%
Income taxes (expense) benefit	(0.176)	0.085	-	(0.016)	(0.076)	382.0%
Net income	4.575	11.129	143.2%	1.903	1.970	3.5%
EPS (NT\$)	0.44	1.08		0.19	0.19	

Balance Sheet Data

Long-term investments in stock	218.8	223.3		213.2	246.3	
Total assets	265.9	266.2		260.5	289.7	
Total consolidated assets	4,689.2	5,005.4		4,781.3	5,203.4	
Total consolidated shareholders' equity	222.5	217.7		216.8	240.5	

Operating Metrics

ROAE(standalone)	2.1%	5.2%		3.5%	3.5%	
ROAA (standalone)	1.7%	4.2%		2.9%	2.8%	
ROAA(consolidated)	0.1%	0.2%		0.2%	0.2%	

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.

(3)Cumulative after-tax net income excluding FX fluctuation reserve of Cathay Financial Holding and Cathay Life would be NT\$2.10 bn and NT\$(1.58) bn respectively.

(4)Cumulative EPS excluding FX fluctuation reserve of Cathay Financial Holding and Cathay Life would be NT\$0.21 and NT\$(0.30) respectively.



Cathay Life

Summary Financial Data

(NT\$BN)

	FY2010	FY2011	FY11/ FY10 % Chg	1Q11	1Q12	1Q12/ 1Q11/ % Chg
Summary Statement of Income Data						
Premium income ⁽¹⁾	460.279	408.031	-11.4%	102.191	140.860	37.8%
Reinsurance premium ceded	(23.487)	(22.398)	-4.6%	(3.600)	(6.565)	82.4%
Changes in unearned premium reserve	(1.129)	2.072	-	1.220	0.151	-87.6%
Retained earned premium	435.664	387.705	-11.0%	99.811	134.446	34.7%
Reinsurance commission earned	9.254	11.737	26.8%	1.872	3.684	96.8%
Handling fee earned	2.213	2.872	29.8%	0.968	0.531	-45.1%
Investment income						
Interest income	77.340	86.315	11.6%	20.900	22.614	8.2%
Gain on disposal of investment	33.625	44.038	31.0%	24.710	9.241	-62.6%
Other investment income, net	(22.050)	(38.968)	76.7%	(24.862)	(4.871)	-80.4%
Total investment income, net ⁽²⁾	88.916	91.385	2.8%	20.748	26.984	30.1%
Separate account product revenues	53.991	87.181	61.5%	31.748	30.709	-3.3%
Changes in FX reserves				-	(0.152)	-
Retained claims payment	(271.098)	(251.366)	-7.3%	(52.002)	(61.231)	17.7%
Changes in liability reserves	(231.581)	(197.618)	-14.7%	(52.740)	(103.202)	95.7%
Commissions and operating expense						
Brokerage expenses	(29.887)	(32.573)	9.0%	(9.059)	(8.620)	-4.8%
Marketing, administrative and general expenses	(12.296)	(13.700)	11.4%	(2.908)	(3.438)	18.2%
Total commissions and operating expenses	(42.183)	(46.273)	9.7%	(11.967)	(12.058)	0.8%
Other operating expenses	(56.033)	(89.711)	60.1%	(41.588)	(22.390)	-46.2%
Operating income	(10.858)	(4.089)	-62.3%	(3.150)	(2.528)	-19.8%
Non-operating income	2.070	1.767	-14.6%	0.406	0.451	11.3%
Non-operating expense	(0.822)	(0.834)	1.4%	(0.203)	(0.227)	11.6%
Income taxes	3.095	3.611	16.7%	1.449	0.597	-58.8%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	(6.516)	0.456	-	(1.499)	(1.706)	13.8%
After-tax net income excluding FX fluctuation reserve				-	(1.580)	-
Balance Sheet Data						
Total assets	3048.1	3277.4		3,147.4	3,439.9	
Total stockholders' equity	113.8	112.4		105.2	132.3	
Operating Metrics						
First Year Premium(FYP)	330.1	255.5		84.5	77.1	
First Year Premium Equivalent(FYPE)	78.8	80.5		22.9	25.9	
Expense ratio	7.7%	11.1%		11.0%	8.6%	
13-mos persistency ratio	96.2%	97.5%		96.0%	97.3%	
25-mos persistency ratio	85.8%	90.0%		88.6%	88.5%	
ROAE	-5.7%	0.4%		-5.5%	-5.6%	
ROAA	-0.2%	0.0%		-0.2%	-0.2%	

Notes:

(1) Excludes investment-linked products premium income.

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

	FY2010	FY2011	FY11/ FY10 % Chg	1Q11	1Q12	1Q12/ 1Q11/ % Chg
Summary Statement of Income Data						
Interest income	22.130	27.408	23.8%	6.232	7.815	25.4%
Interest expense	(7.397)	(9.750)	31.8%	(1.990)	(2.844)	42.9%
Net interest income	14.733	17.658	19.9%	4.242	4.972	17.2%
Net operating income except interest income						
Net handling fee	6.445	6.711	4.1%	1.644	1.803	9.7%
Gains on financial assets and liabilities at fair value through P&L	0.567	1.250	120.6%	0.313	0.348	11.1%
Realized gains on available-for-sale financial assets	2.334	1.749	-25.1%	0.832	0.144	-82.7%
Realized gains on held-to-maturity financial assets	0.000	(0.002)	-	0.000	0.000	-
Invst inc - equity method	0.283	0.339	19.7%	0.131	0.081	-37.7%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchg - net	0.653	0.754	15.5%	0.183	0.365	99.5%
Impairment gain/loss	(0.075)	(0.112)	48.9%	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	1.040	0.007	(0.993)	0.007	0.000	-
Investments in debt securities with no active market, net	(0.120)	0.015	-	0.000	(0.001)	-
other income, net	1.271	1.173	-7.7%	0.340	0.524	54.2%
Net operating income	27.131	29.542	8.9%	7.691	8.236	7.1%
Provisions for possible losses	0.000	(0.526)	-	0.000	0.000	-
Operating expenses	(14.772)	(16.322)	10.5%	(4.018)	(4.355)	8.4%
Income from continuing operations before income taxes	12.358	12.694	2.7%	3.673	3.881	5.6%
Income tax benefit (expense)	(1.052)	(1.554)	47.7%	(0.469)	(0.456)	-2.7%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	11.306	11.140	-1.5%	3.205	3.425	6.9%
Balance Sheet Data						
Total assets	1,575.8	1,708.3		1,579.9	1,752.6	
Total shareholders' equity	95.2	98.2		98.1	100.8	
Operating Metrics						
Cost income ratio	54.5%	55.3%		52.2%	52.9%	
ROAE	12.0%	11.5%		13.3%	13.8%	
ROAA	0.7%	0.7%		0.8%	0.8%	
Assets Quality						
NPL ratio (international standard)	0.3%	0.3%		0.4%	0.3%	
Coverage ratio (international standard)	277.2%	331.6%		201.2%	402.1%	

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)

Summary Statement of Income Data	FY2010	FY2011	FY11/		1Q12/	
			FY10	% Chg	1Q11	1Q12
Premiums income	12,629.3	14,182.5	12.3%	3,531.3	3,468.6	-1.8%
Reinsurance premiums ceded	(3,459.9)	(3,732.2)	7.9%	(1,039.9)	(824.8)	-20.7%
Changes in unearned premium reserve	(151.1)	(797.3)	427.6%	(252.6)	(134.6)	-46.7%
Premiums income, net	9,018.3	9,653.0	7.0%	2,238.7	2,509.2	12.1%
Investment						
Interest income	296.3	296.7	0.2%	68.5	77.5	13.2%
Other investment income, net	34.4	(46.3)	-	60.0	38.2	-36.3%
Total investment income	330.6	250.5	-24.2%	128.5	115.8	-9.9%
Other operating income	345.9	351.6	1.6%	77.4	94.6	22.1%
Insurance claims payment, net	(4,676.6)	(5,732.7)	22.6%	(1,348.1)	(1,429.3)	6.0%
Provisions for reserves						
Total provisions for reserves, net	(1,107.0)	190.2	-	40.5	(3.5)	-
Commissions, operating and other expenses	(3,585.9)	(3,991.5)	11.3%	(886.3)	(968.9)	9.3%
Operating income	325.3	721.0	121.6%	250.7	317.8	26.8%
Non-operating income	16.3	14.5	-11.1%	1.6	4.6	184.7%
Non-operating expense	(0.2)	(3.3)	1983.4%	(0.4)	(4.6)	966.1%
Income taxes	(40.4)	(130.5)	223.3%	(31.0)	(45.2)	45.7%
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0	-
Net income	301.1	601.8	99.8%	220.8	272.6	23.4%
Summary Balance Sheet Data						
Total assets	22,755.4	25,565.1		23,417.9	25,825.0	
Total stockholders' equity	3,471.7	3,806.6		3,566.3	4,075.5	
Operating Metrics						
Written Combined ratio	91.4%	86.0%		84.0%	77.5%	
Net Combined ratio	103.3%	97.7%		89.2%	89.1%	
ROAE	7.8%	16.5%		25.1%	27.7%	
ROAA	1.4%	2.5%		3.8%	4.2%	

Notes:

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(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)

	<u>As of</u> <u>3/31/2012</u>
Total shares issued	10,357.5
Treasury shares	
CFH	200.0
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	10,157.5

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Capital Adequacy Metrics

	<u>Capital Adequacy Metrics (As of 3/31/2012)</u>	<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	130.96%	100%
Cathay Life RBC Ratio	250% - 300%	200%
Cathay Century RBC Ratio	> 300%	200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.78% / 9.21%	8.00% / 6.00%
Cathay Securities BIS Ratio	547%	150%

Notes:

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