

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



**May 2010**

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# Agenda

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- **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 United Bank

    - Cathay Life

    - Cathay Century

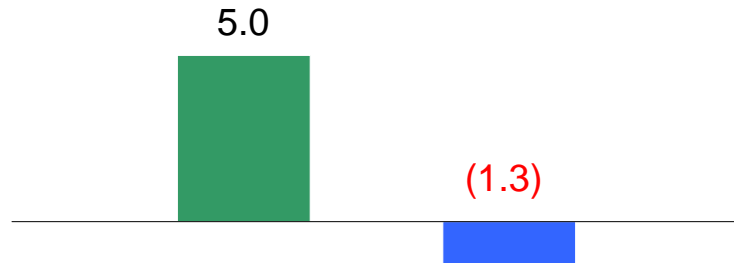
- **Overseas expansion**

- **Embedded Value & Appraisal Value**

# Cathay FHC — Net income & EPS

## Net Income (NT\$BN)

■ 1Q09 ■ 1Q10

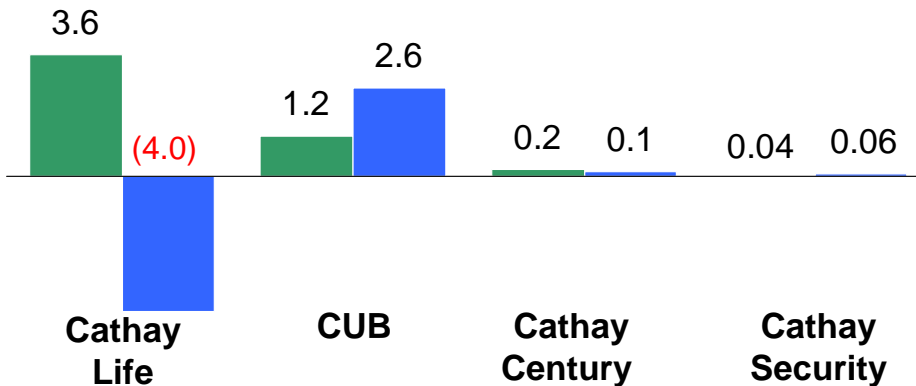


## Earnings Per Share (NT\$)

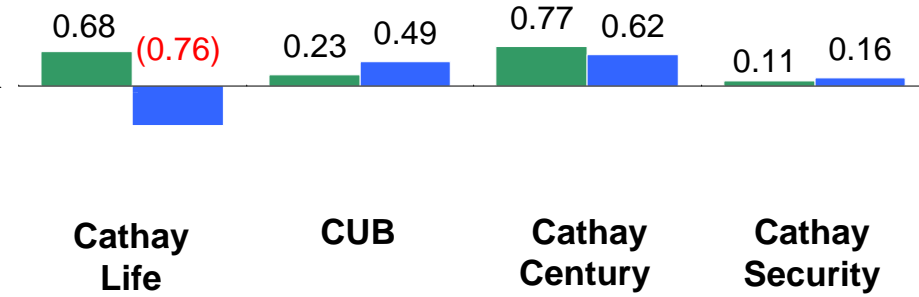
■ 1Q09 ■ 1Q10



## Net income of main subsidiaries



## EPS of main subsidiaries



# Agenda

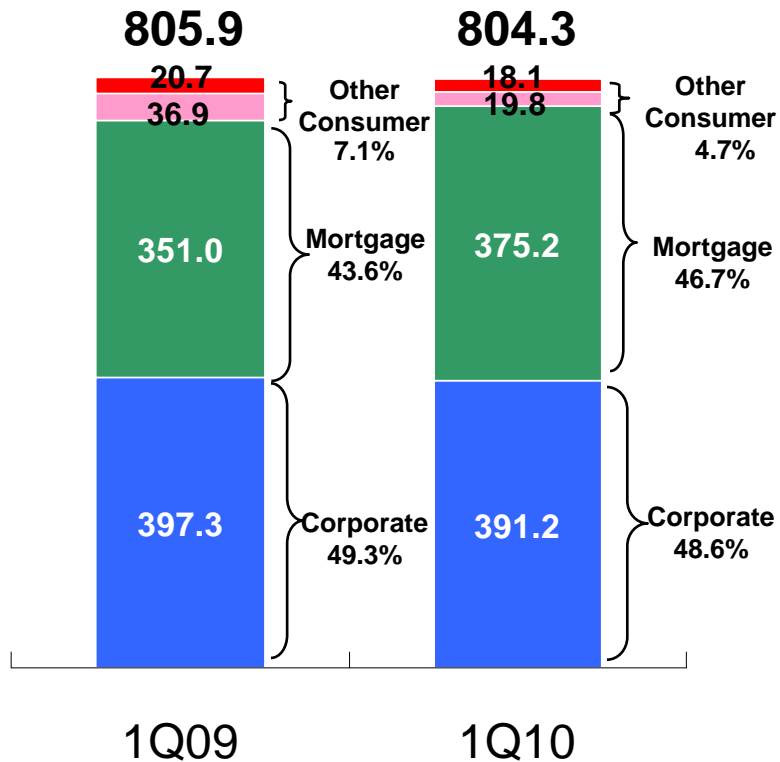
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# Cathay United Bank — Loan & deposit breakdown

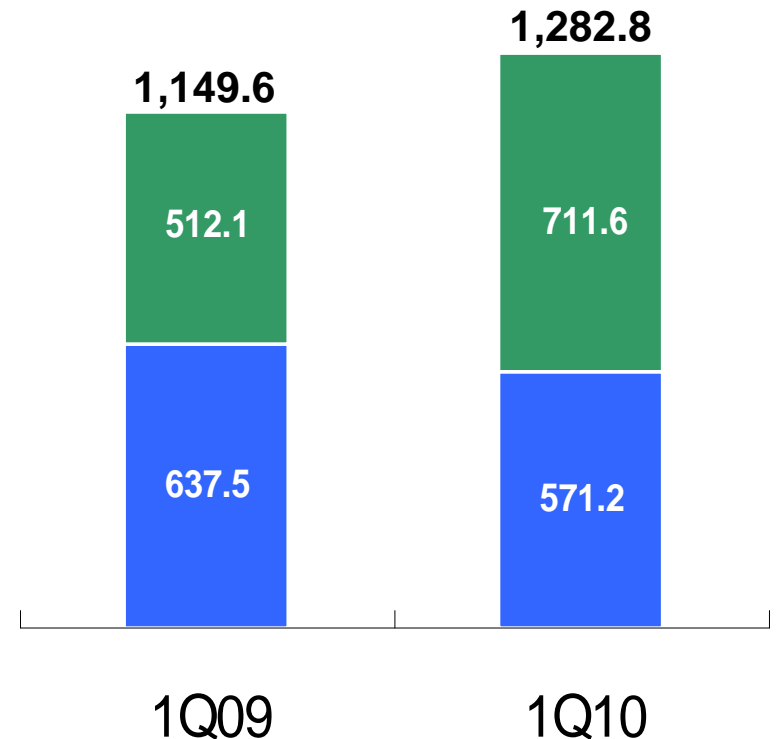
## Loan breakdown (NT\$BN)

- Credit card related
- Consumer
- Mortgage
- Corporate



## Deposit breakdown (NT\$BN)

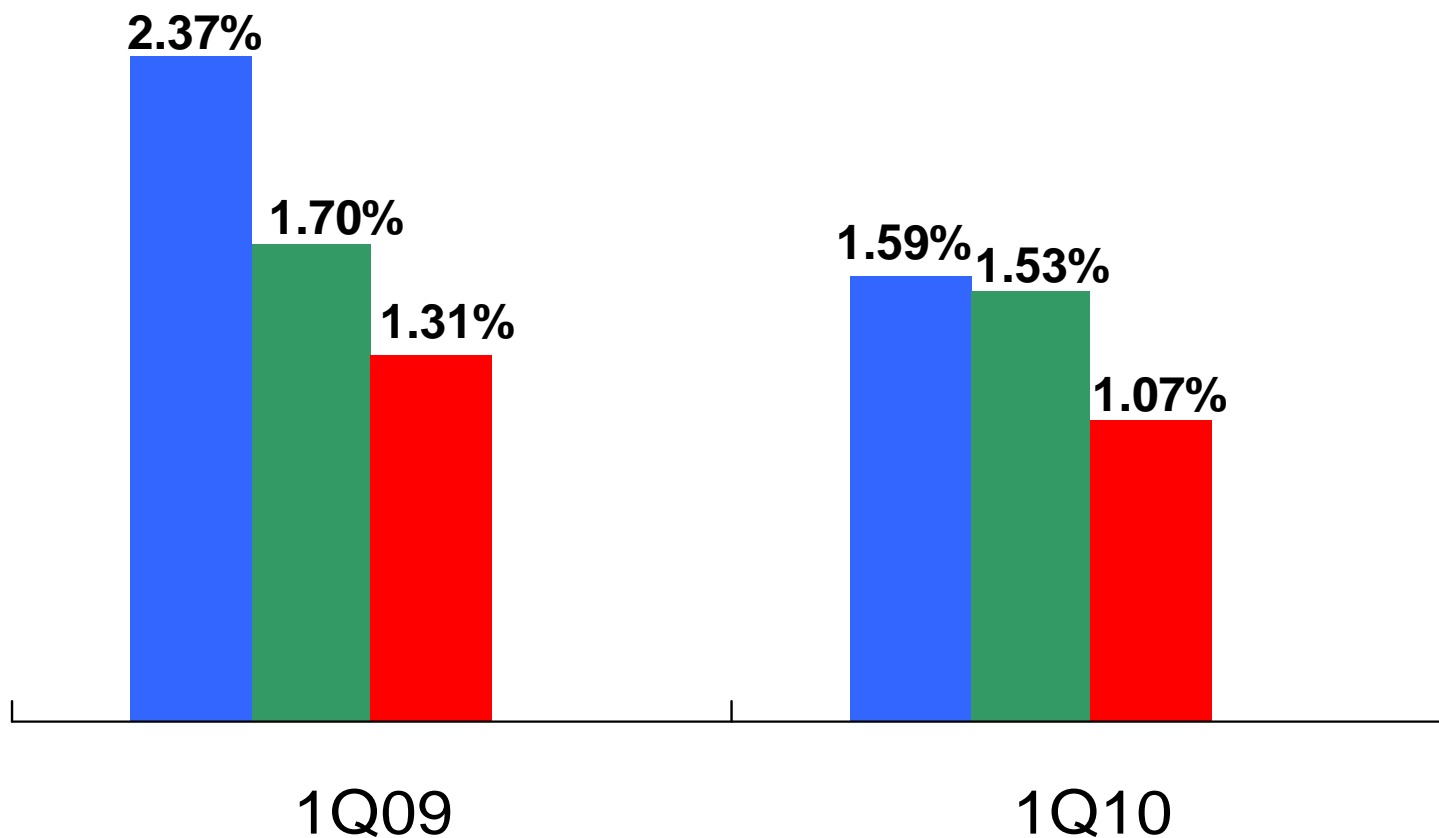
- Demand deposit
- Time deposit





# Cathay United Bank — Interest yields

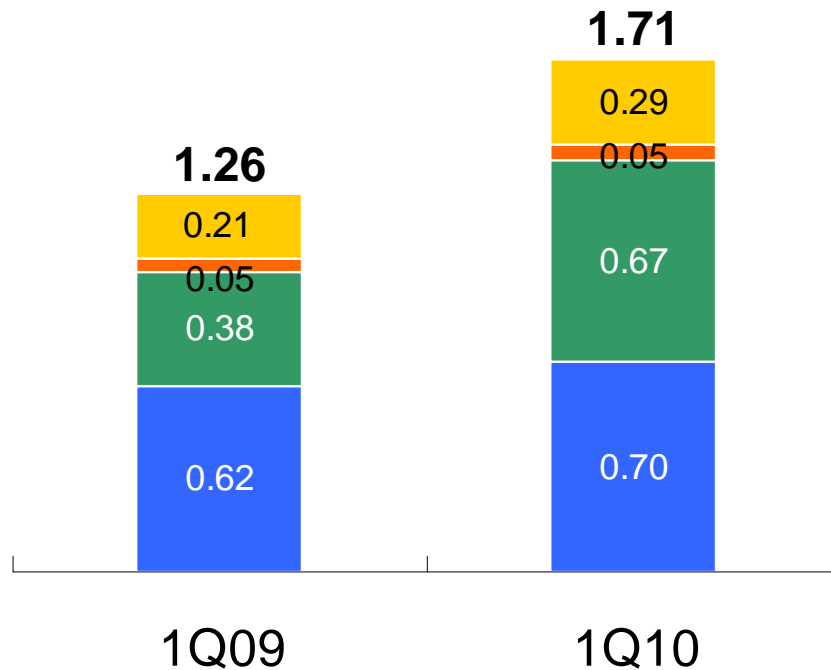
■ Avg. rate of interest-earned assets ■ Interest spread ■ Net interest margin



# Cathay United Bank — Fee income

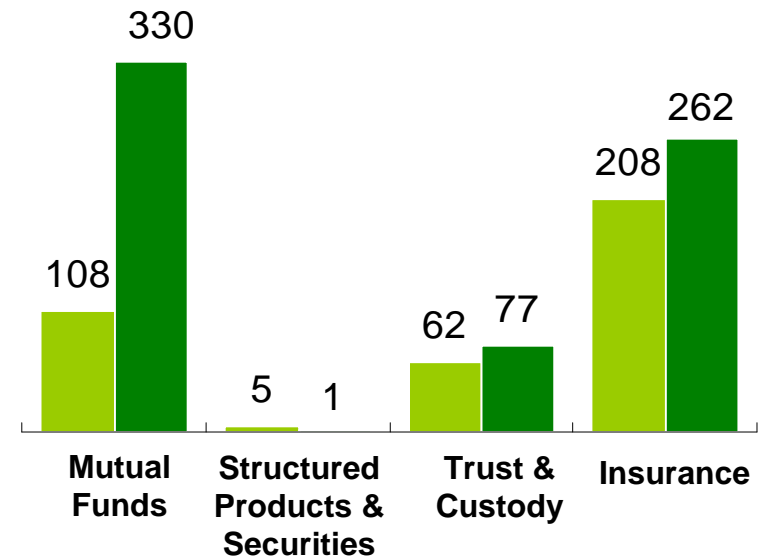
## Fee income breakdown (NT\$BN)

- Others
- FX
- Wealth management
- Cards related



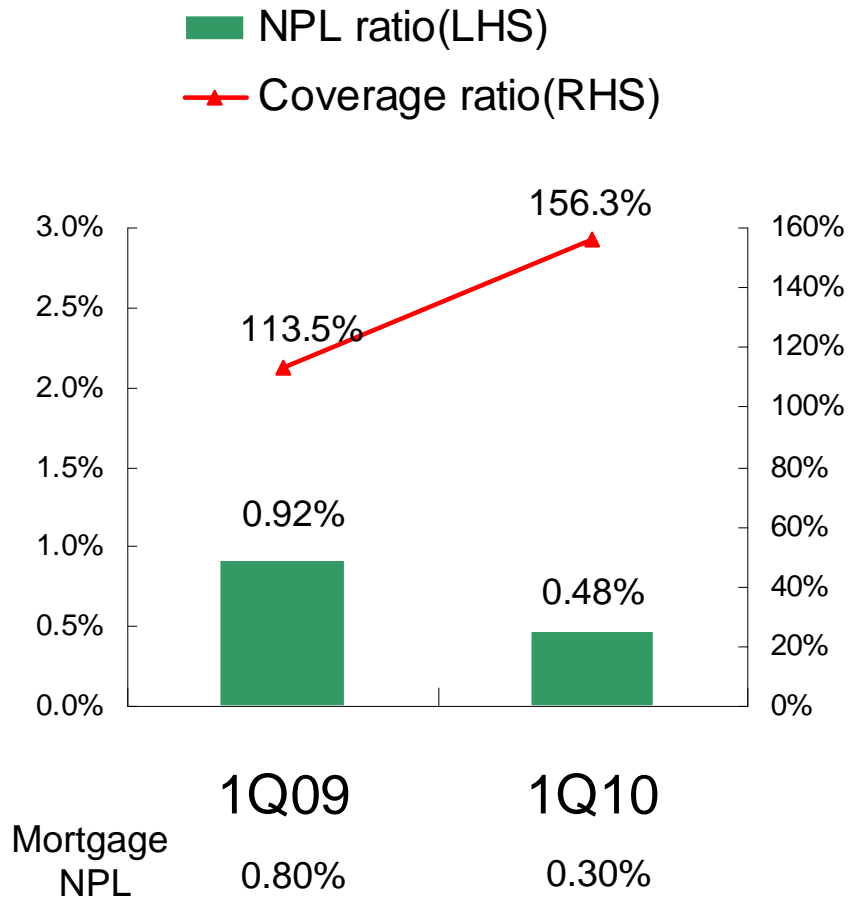
## Wealth Management fee breakdown (NT\$MN)

- 1Q09
- 1Q10

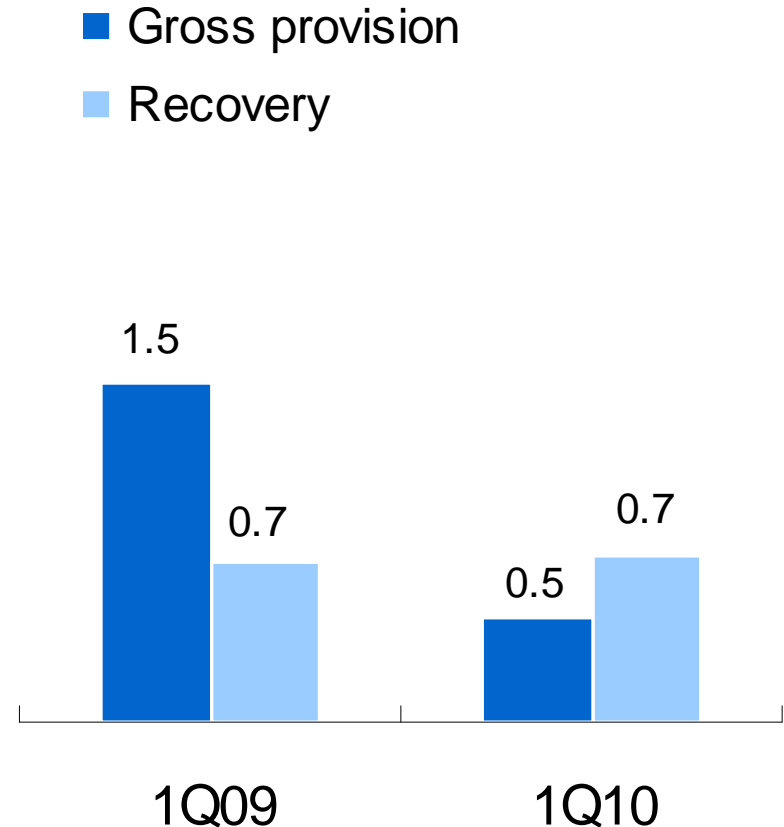


# Cathay United Bank — Credit quality

## NPL & Coverage ratio



## Gross provision (NT\$BN)



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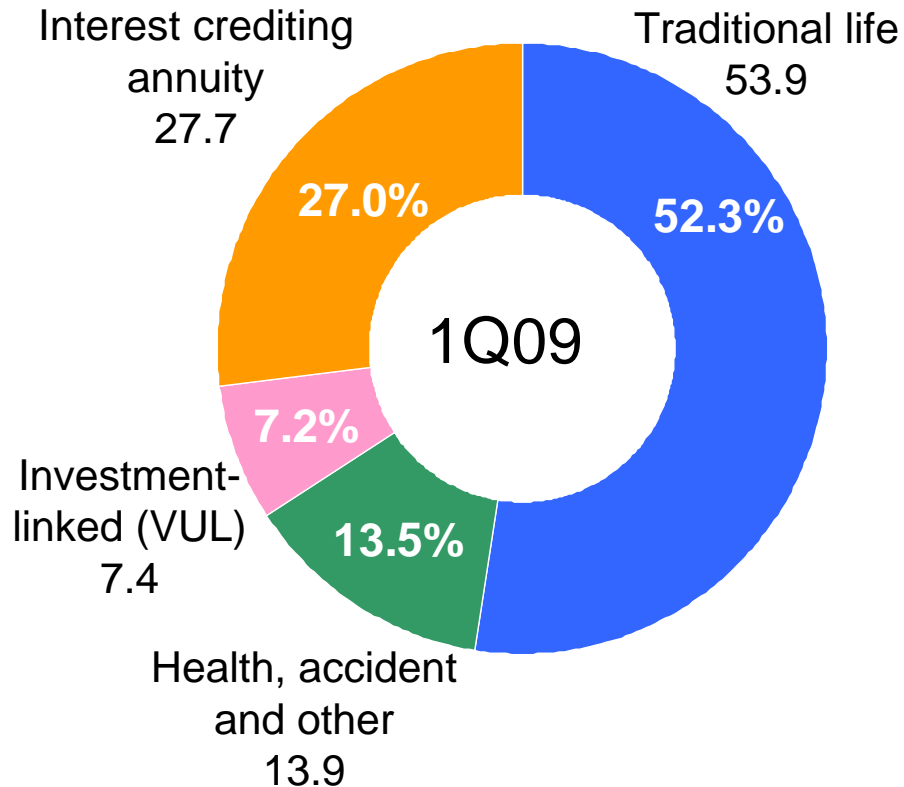
  - Cathay Century

- **Overseas expansion**

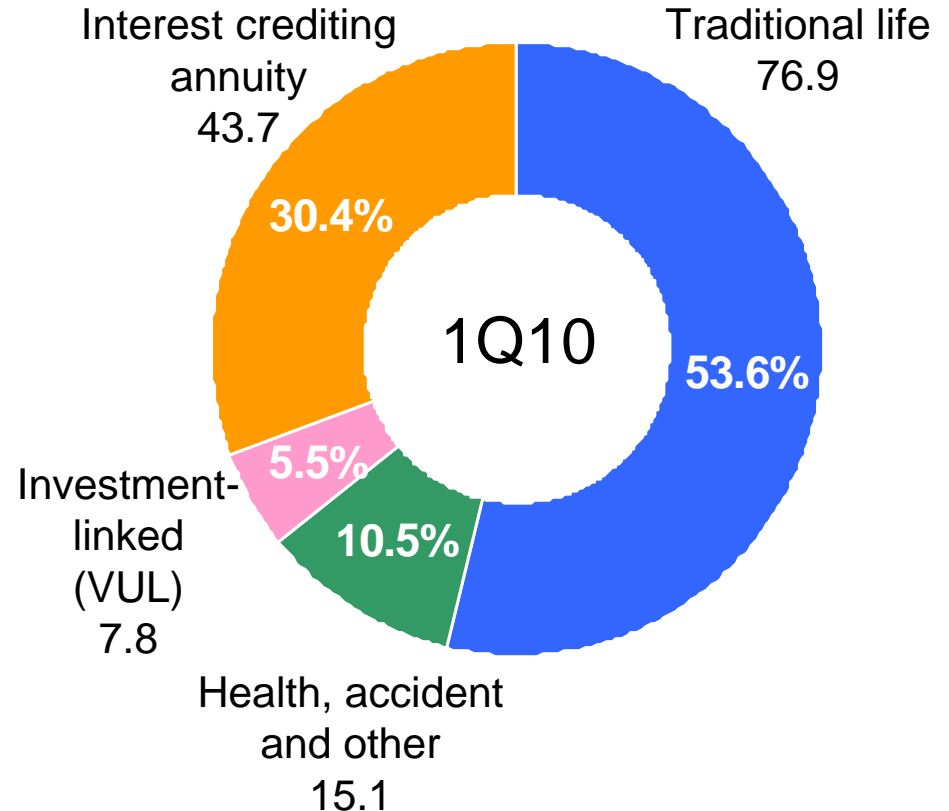
- **Embedded Value & Appraisal Value**

# Cathay Life — Total Premium

(NT\$BN)



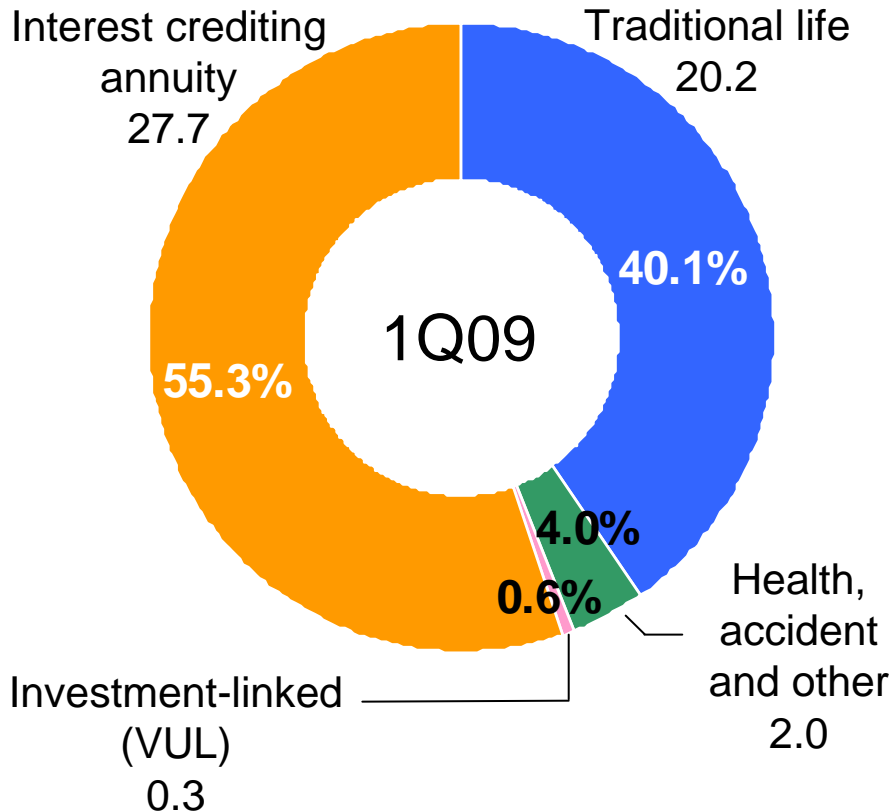
**Total NT\$ 102.9BN**



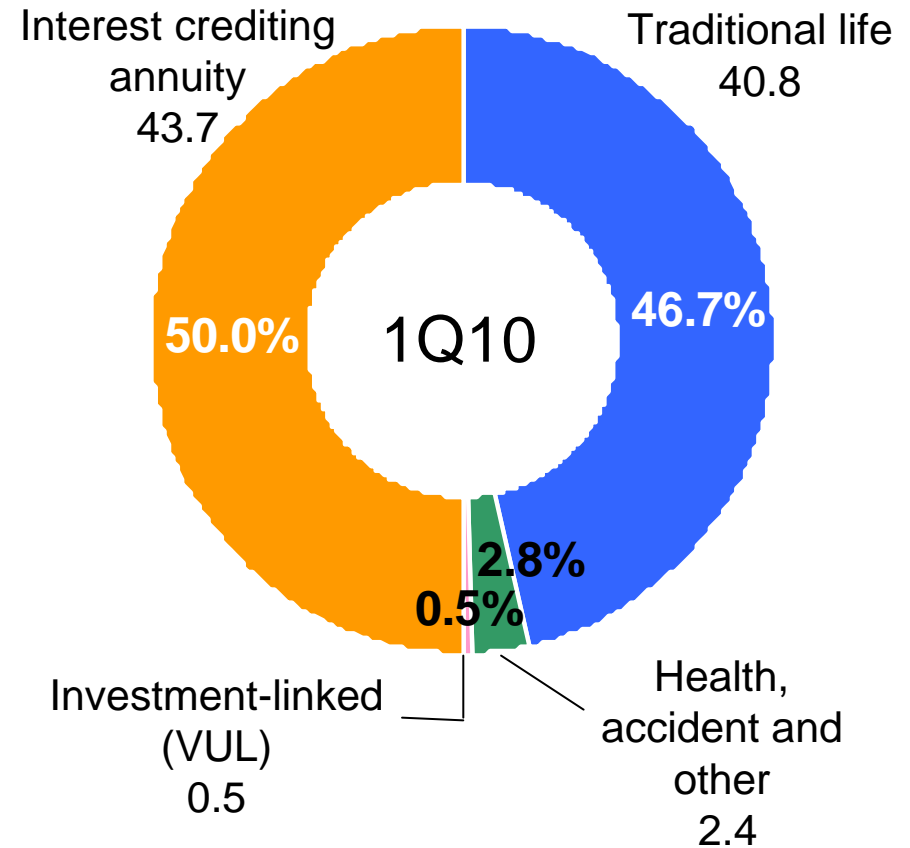
**Total NT\$ 143.5BN**

# Cathay Life — First Year Premium

(NT\$BN)



**Total NT\$ 50.2BN**



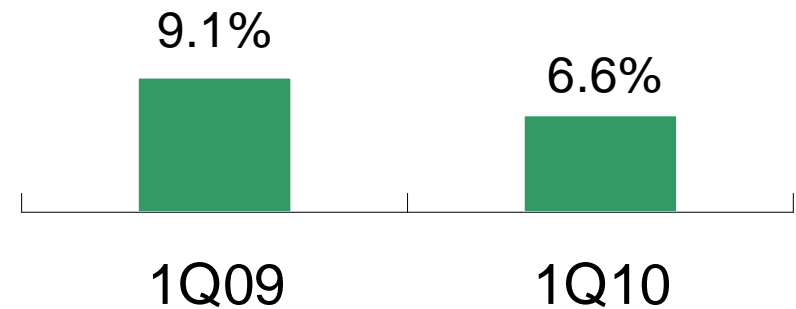
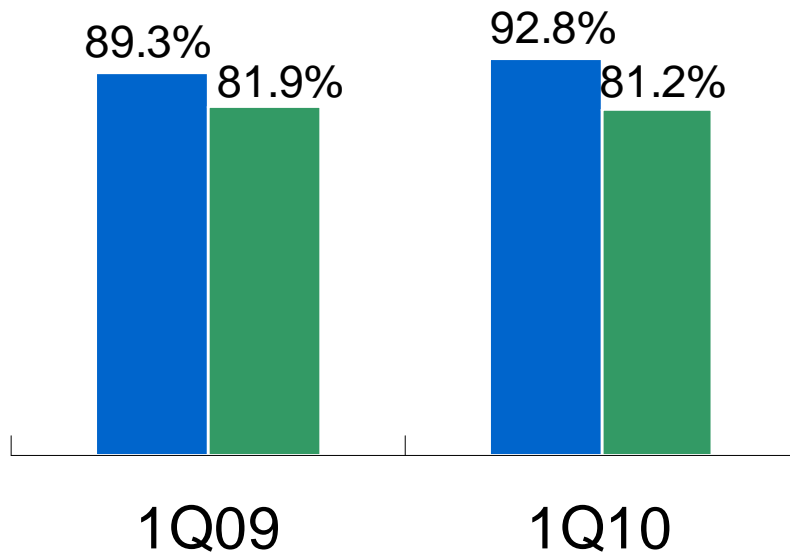
**Total NT\$ 87.4BN**

# 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 <sup>(1)</sup>	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
<b>Total investments</b> <sup>(2)(3)</sup>	<b>2,459.9</b>	<b>100.0%</b>	<b>2,534.4</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



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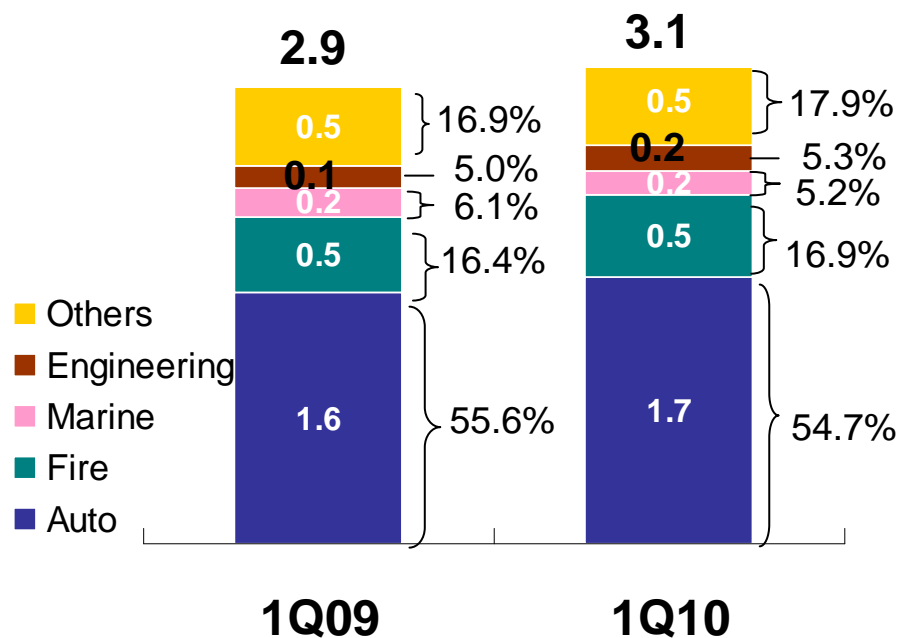
  - Cathay Century

- **Overseas expansion**

- **Embedded Value & Appraisal Value**

# Cathay Century

## Product breakdown (NT\$BN)

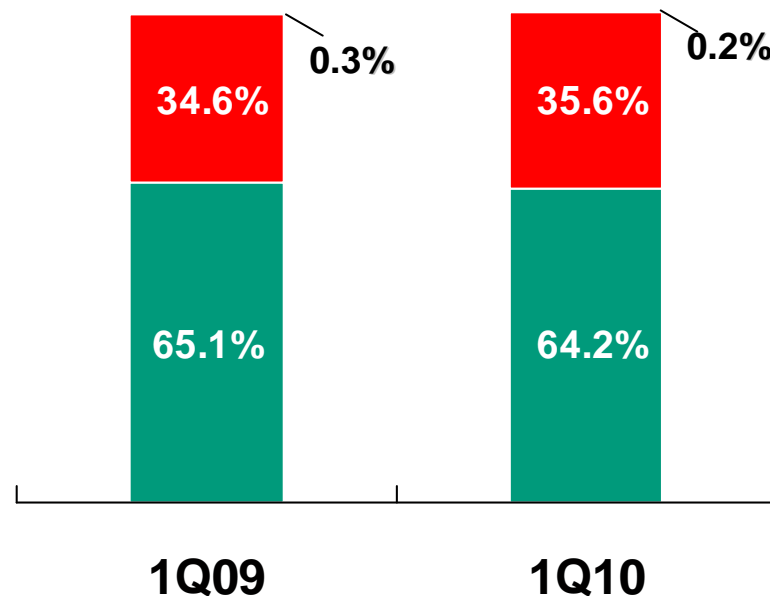


MKT share 10.0%

11.0%

## Distribution channel

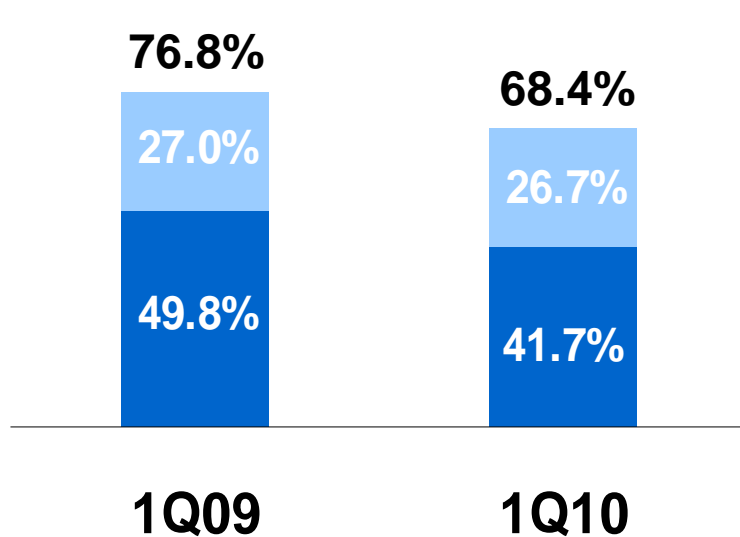
- Others
- Cathay P&C agents
- Cathay group channel



# Cathay Century

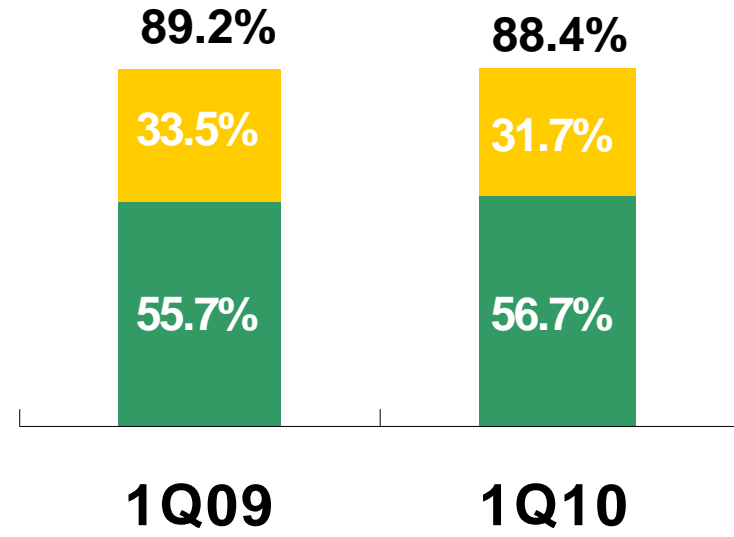
## Gross combined ratio

- 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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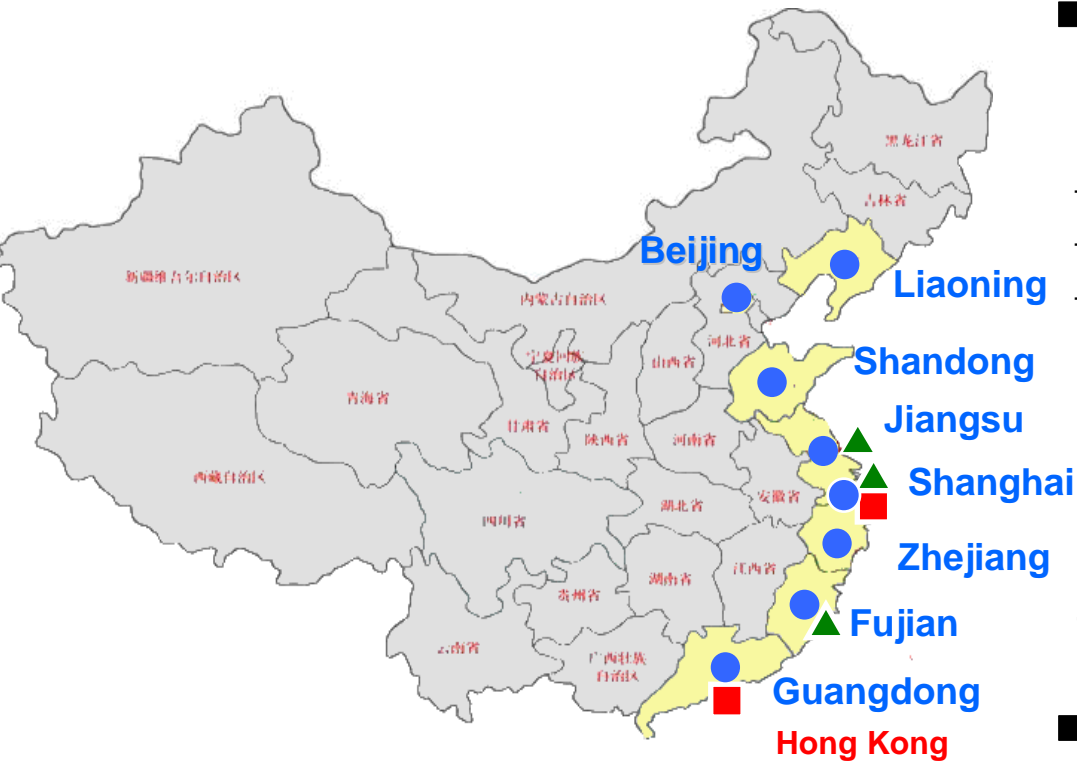
  - Cathay Life

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# 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<sup>(1)</sup>

## ■ Cathay United Bank

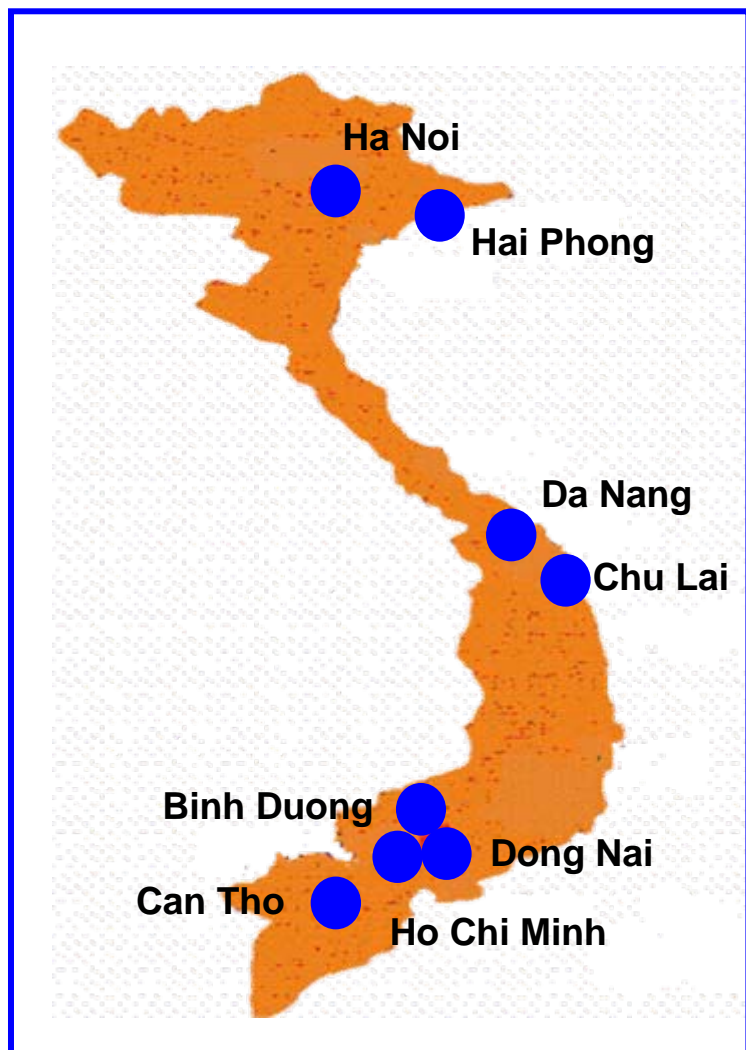
- 1 Hong Kong branch (2001)
- 1 Shanghai Rep. office (2002)

## ■ 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

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

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

**Cathay Financial Holdings**

**Summary Financial Data**

(NT\$BN)

	<b>FY2008</b>	<b>FY2009</b>	<b>FY09/ FY08 % Chg</b>	<b>1Q09</b>	<b>1Q10</b>	<b>1Q10/ 1Q09/ % Chg</b>
<b><u>Statement of Income Data</u></b>						
Interest income	0.484	0.553	14.4%	0.134	0.208	55.4%
Income from subsidiaries						
Cathay Life	(1.995)	2.672	-	3.603	(4.020)	-
Cathay United Bank	4.459	8.688	94.8%	1.225	2.557	108.8%
Cathay Century	0.476	0.794	66.9%	0.178	0.144	-19.1%
Other	(0.082)	0.030	-	0.037	0.080	-
Total income from subsidiaries, net	2.858	12.184	326.3%	5.043	(1.238)	-
Gain/Loss on foreign exchange	(0.717)	0.000	-	0.000	(0.000)	-
Other income	0.383	0.061	-84.0%	0.000	(0.000)	-
Operating costs	(0.396)	(0.751)	89.7%	(0.153)	(0.284)	85.5%
Administrative and general expenses	(0.487)	(0.319)	-34.5%	(0.063)	(0.067)	7.7%
Income taxes (expense) benefit	0.071	(0.677)	-	0.053	0.069	30.4%
Net income	2.196	11.051	403.2%	5.014	(1.313)	-
EPS (NT\$)	0.23	1.14		0.52	(0.14)	
<b><u>Balance Sheet Data</u></b>						
Long-term investments in stock	144.9	216.3		156.8	208.0	
Total assets	168.6	261.1		181.7	253.7	
Total consolidated assets	3,746.2	4,295.5		3,824.5	4,343.4	
Total shareholders' equity	142.4	212.2		157.8	206.8	
<b><u>Operating Metrics</u></b>						
ROAE(standalone)	1.2%	6.2%		13.5%	-2.5%	
ROAA (standalone)	1.1%	5.1%		11.5%	-2.0%	
ROAA(consolidated)	0.1%	0.3%		0.5%	-0.1%	

Notes:

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For more details, please refer to our official financial reports.

(2)Total may not sum due to rounding



<b>Cathay Life</b>						
<b>Summary Financial Data</b>						
<b>(NT\$BN)</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY09/ FY08 % Chg</b>	<b>1Q09</b>	<b>1Q10</b>	<b>1Q10/ 1Q09/ % Chg</b>
<b><u>Summary Statement of Income Data</u></b>						
Premiums income <sup>(1)</sup>	346.454	442.048	27.6%	97.280	137.441	41.3%
Investment income						
Interest income	76.394	73.321	-4.0%	18.862	18.291	-3.0%
Gain on disposal of investment	0.000	0.000	-	0.000	8.745	-
Other investment income, net	(13.886)	4.069	-	5.645	(8.641)	-
Total investment income, net <sup>(2)</sup>	62.508	77.391	23.8%	24.507	18.395	-24.9%
Other income	6.005	12.799	113.1%	1.901	5.979	214.5%
Insurance claims payment	(274.858)	(231.833)	-15.7%	(41.439)	(67.181)	62.1%
Provisions for reserves						
Provisions	(356.922)	(455.120)	27.5%	(99.430)	(139.871)	40.7%
Recoveries	250.197	206.441	-17.5%	31.453	55.775	77.3%
Total provisions for reserves, net	(106.724)	(248.680)	133.0%	(67.976)	(84.095)	23.7%
Commissions and operating expense						
Brokerage expenses	(26.428)	(27.041)	2.3%	(6.997)	(6.993)	-0.1%
Marketing, administrative and general expenses	(11.021)	(11.323)	2.7%	(2.370)	(2.439)	2.9%
Total commissions and operating expenses	(37.450)	(38.364)	2.4%	(9.367)	(9.432)	0.7%
Other operating expenses	(2.546)	(8.955)	251.7%	(0.998)	(6.732)	574.4%
Operating income	(6.611)	4.406	-	3.908	(5.626)	-
Non-operating income	1.441	1.571	9.0%	0.318	0.549	72.6%
Non-operating expense	(0.822)	(1.344)	63.4%	(0.137)	(0.203)	47.7%
Income taxes	4.019	(1.970)	-	(0.485)	1.260	-
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	(1.974)	2.662	-	3.603	(4.020)	-
<b><u>Balance Sheet Data</u></b>						
Total assets	2,358.9	2,742.9		2,437.4	2,821.8	
Total stockholders' equity	53.9	113.1		63.5	102.9	
<b><u>Operating Metrics</u></b>						
First year premium	206.0	261.6		50.2	87.4	
Expense ratio	10.3%	8.2%		9.1%	6.6%	
13-mos persistency ratio	90.4%	89.7%		89.3%	92.8%	
25-mos persistency ratio	83.9%	81.6%		81.9%	81.2%	
ROAE	-2.2%	3.2%		24.6%	-14.9%	
ROAA	-0.1%	0.1%		0.6%	-0.6%	

Notes:

(1) Excludes investment-linked products premium income.

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**Cathay United Bank**
**Summary Financial Data**

(NT\$BN)

			FY09/ FY08			1Q10/ 1Q09
<u>Summary Statement of Income Data</u>	FY2008	FY2009	% Chg	1Q09	1Q10	% Chg
Interest income	40.242	23.868	-40.7%	7.232	5.313	-26.5%
Interest expense	(19.724)	(10.170)	-48.4%	(3.230)	(1.745)	-46.0%
Net interest income	20.518	13.698	-33.2%	4.002	3.568	-10.9%
Net operating income except interest income						
Net handling fee	5.120	4.677	-8.7%	0.973	1.398	43.7%
Gains on financial assets and liabilities at fair value through	(2.067)	2.840	-	0.562	0.215	-61.8%
Realized gains on available-for-sale financial assets	0.163	1.517	831.6%	0.046	0.508	1011.9%
Realized gains on held-to-maturity financial assets	(0.001)	0.000	-	0.000	0.000	-
Invst inc - equity method	0.247	0.261	5.9%	0.042	0.059	38.4%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchng - net	1.102	0.592	-46.3%	0.084	0.100	19.4%
Impairment gain/loss	(3.109)	(0.171)	-94.5%	(0.042)	0.000	-
Gains on reversal of foreclosed properties impairment	0.045	0.000	-99.4%	0.000	0.000	-
Gains/losses on disposal of foreclosed properties	0.180	0.000	-100.0%	0.000	0.000	-
Investments in debt securities with no active market, net	(1.758)	0.180	-	0.000	0.010	3068.8%
other income, net	1.116	1.930	73.0%	0.174	0.592	241.1%
Net operating income	21.555	25.523	18.4%	5.841	6.450	10.4%
Provisions for possible losses <sup>(1)</sup>	(0.926)	0.000	-	(0.776)	0.000	-
Operating expenses	(14.176)	(14.400)	1.6%	(3.434)	(3.486)	1.5%
Income from continuing operations before income taxes	6.453	11.122	72.4%	1.631	2.963	81.7%
Income tax benefit (expense)	(1.992)	(2.434)	22.2%	(0.406)	(0.406)	0.0%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-
Net income	4.461	8.688	94.8%	1.225	2.557	108.8%
<u>Balance Sheet Data</u>						
Total assets	1,351.6	1,510.3		1,349.4	1,475.2	
Total shareholders' equity	82.9	93.1		84.7	95.0	
<u>Operating Metrics</u>						
Cost income ratio	65.7%	56.4%		58.8%	54.1%	
ROAE	5.4%	9.9%		5.9%	10.9%	
ROAA	0.3%	0.6%		0.4%	0.7%	
<u>Assets Quality</u>						
NPL ratio (international standard)	0.9%	0.6%		0.9%	0.5%	
Coverage ratio (international standard)	109.3%	135.1%		113.5%	156.3%	

**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)**

			FY09/ FY08			1Q10/ 1Q09
	FY 2008	FY2009	% Chg	1Q09	1Q10	% Chg
<b>Summary Statement of Income Data</b>						
Premiums income	11,829.6	11,822.2	-0.1%	2939.7	3054.9	3.9%
Reinsurance premiums ceded	(3,771.5)	(3,374.7)	-10.5%	(880.2)	(881.9)	0.2%
Premiums income, net	8,058.1	8,447.5	4.8%	2059.5	2173.0	5.5%
Investment						
Interest income	391.0	330.3	-15.5%	81.5	67.5	-17.2%
Other investment income, net	(565.8)	49.1	-	(160.4)	(49.1)	-69.4%
Total investment income	(174.8)	379.4	-	(78.8)	18.4	-
Other operating income	336.4	347.2	3.2%	87.3	102.7	17.7%
Insurance claims payment, net	(3,688.7)	(4,116.2)	11.6%	(1062.6)	(1146.9)	7.9%
Provisions for reserves						
Provisions	(6,655.1)	(7,003.4)	5.2%	(5706.6)	(6457.4)	13.2%
Recoveries	5,812.8	6,197.0	6.6%	5549.8	6315.7	13.8%
Total provisions for reserves, net	(842.3)	(806.4)	-4.3%	(156.8)	(141.8)	-9.6%
Commissions, operating and other expenses	(2,997.4)	(3,221.9)	7.5%	(594.5)	(809.9)	36.2%
Operating income	691.2	1,051.0	52.0%	254.0	195.7	-23.0%
Non-operating income	10.7	3.1	-71.4%	0.0	0.0	-
Non-operating expense	(12.2)	0.1	-	(0.0)	0.0	-
Income taxes	(211.2)	(268.8)	27.3%	(75.8)	(51.5)	-32.0%
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0	-
Net income	478.5	785.2	64.1%	178.2	144.1	-19.1%
<b>Summary Balance Sheet Data</b>						
Total assets	19,398.7	20,812.6		19,805.6	21,234.9	
Total stockholders' equity	3,096.4	4,300.0		3,438.1	4,364.6	
<b>Operating Metrics</b>						
Written Combined ratio	71.9%	79.3%		76.8%	68.4%	
Net Combined ratio	84.7%	89.4%		89.2%	88.4%	
ROAE	13.7%	21.2%		21.8%	13.3%	
ROAA	2.5%	3.9%		3.6%	2.7%	

**Notes:**

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(2) 1Q09,1Q10 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



**國泰金控**  
**Cathay Financial Holdings**

**Shares Outstanding**  
(Millions of shares)

	<u>As of</u> <u>3/31/2009</u>
Total shares issued	9,670.8
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	9,670.8

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## Capital Adequacy Metrics

	<u>Capital Adequacy Metrics</u> <u>(As of 31-Dec-2009)</u>			<u>Legal</u> <u>Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	144.4%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	>	300%		200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	12.13% / 9.93%			8.00% / 6.00%
Cathay Securities BIS Ratio	617%			150%

### Notes:

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