

Cathay Financial Holding Co., Ltd
2010 First Half Briefing



August 2010

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Agenda

- **1H10 Overview and 2H10 Outlook**
- **1H10 Financial results**
 - Cathay Financial Holdings
 - Cathay United Bank
 - Cathay Life
 - Cathay Century
- **Overseas expansion**

1H10 Overview

Cathay Life

- FYP grew 74% YoY; maintained leading position with FYP market share of 32%.
- FYP weighting of high margin products increased to 49.2%, FYPE grew 60.5% YoY. Both support VNB growth.
- Cash position lowered to 16.7%, overseas investment increased to 37.2%.

Cathay United Bank

- Loan growth of 6.6% YoY, NT\$ demand deposit ratio increased to 57.7%.
- Asset quality further improved. NPL ratio of 0.34% and coverage ratio of 206.6%. Both are better than industry.
- Fee income grew 41.9% YoY. Wealth management fee income grew 79% YoY.

Cathay Century

- Market share increased to 11.2%, and premium income grew 6.9% YoY. Maintain No.2 market position.

Cathay Securities

- 1H10 after-tax net income of 140mn.
- Each business lines continued to deliver stable earnings.

China Strategy

- Bank: Shanghai rep. office received approval from FSC to upgrade to branch in August.
- Life and P&C : accelerate business growth based on existing network
 - Cathay Life (China)'s total premium grew 20% YoY; policyholders increased to 2.11 million.
 - Cathay Century (China) had premium growth of 191.3% YoY, and obtained approval to prepare Guangdong branch.

2H10 Outlook

Cathay Life

- Improve product mix
Continue to increase sale of traditional, health, accident & others to grow FYPE and VNB.
- Regulatory relaxation increases flexibility of investment strategy and investment yields
 - Unrealized property gains of \$41bn are eligible for RBC capital.
 - Insurers allowed to invest in China securities. Cathay Life will be allowed to invest a maximum of \$100bn under Taiwan regulation.

Cathay United Bank

- Maintain sound asset quality; moderate growth of loans and interest spread.
- Maintain growth momentum of fee income.

Cathay Century

- Utilize group customer base and expand external channels to maintain No. 2 position within the industry.
- Enhance quality of customer service and increase brand value.

Cathay Securities

- Continue to grow brokerage market share.
- Enhance profitability by continuing to develop underwriting and financial products.

China Strategy

Short-term Target

- Life and P&C: focus on business penetration through existing network; improve organizational development; increase agent productivity.
- Bank: prepare Shanghai branch.

Long-term Target

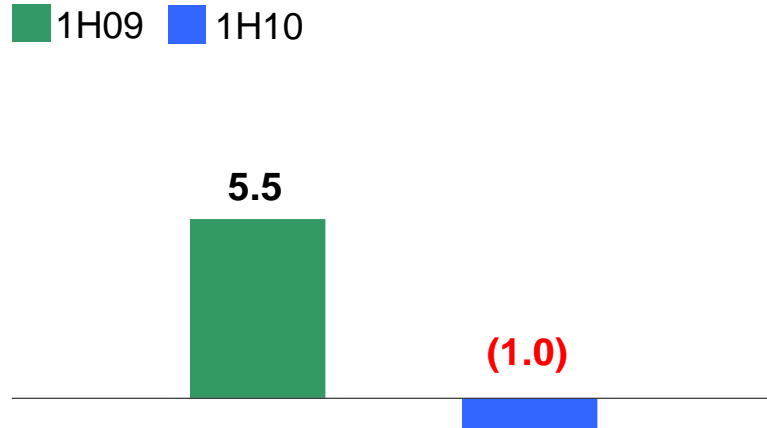
- Life and P&C: expand business coverage and cross sell.
- Bank: continue to evaluate subsidiary and potential investment opportunities, balance development of corporate & consumer banking; extend network by following Cathay Life's footprint

Agenda

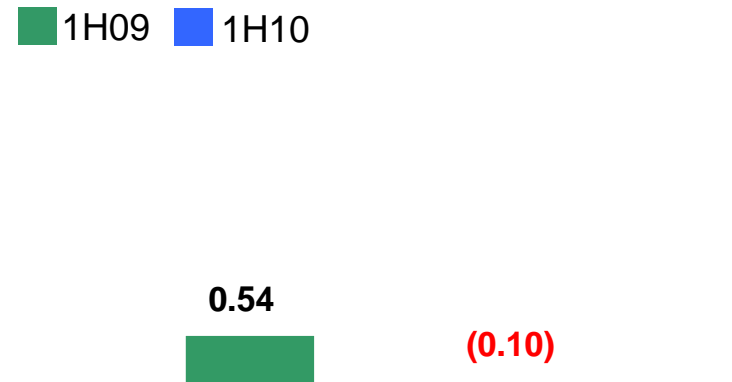
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Cathay FHC — Net income & EPS

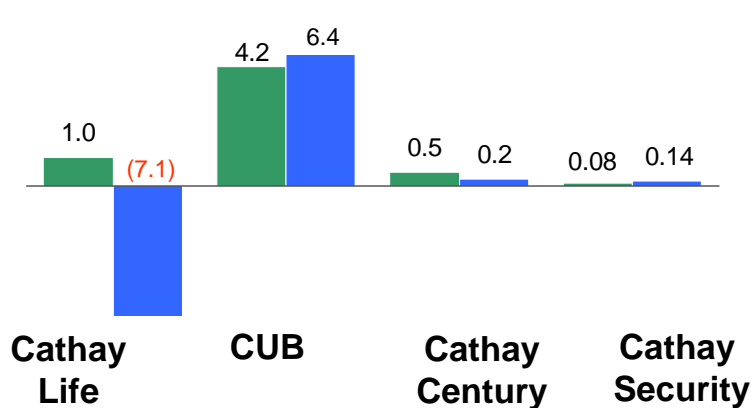
Net Income (NT\$BN)



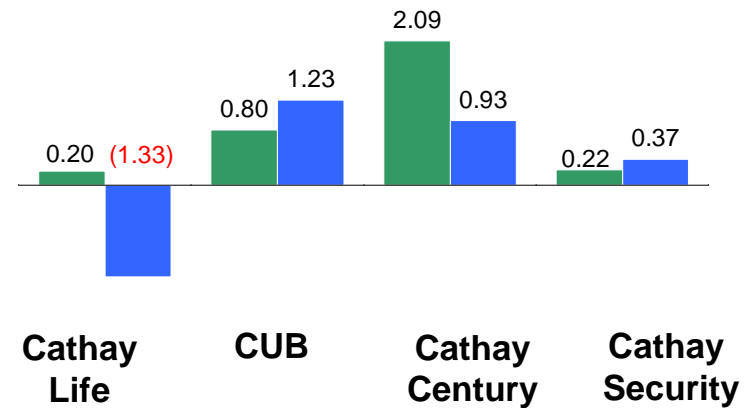
EPS (NT\$)



Net income of main subsidiaries



EPS of main subsidiaries



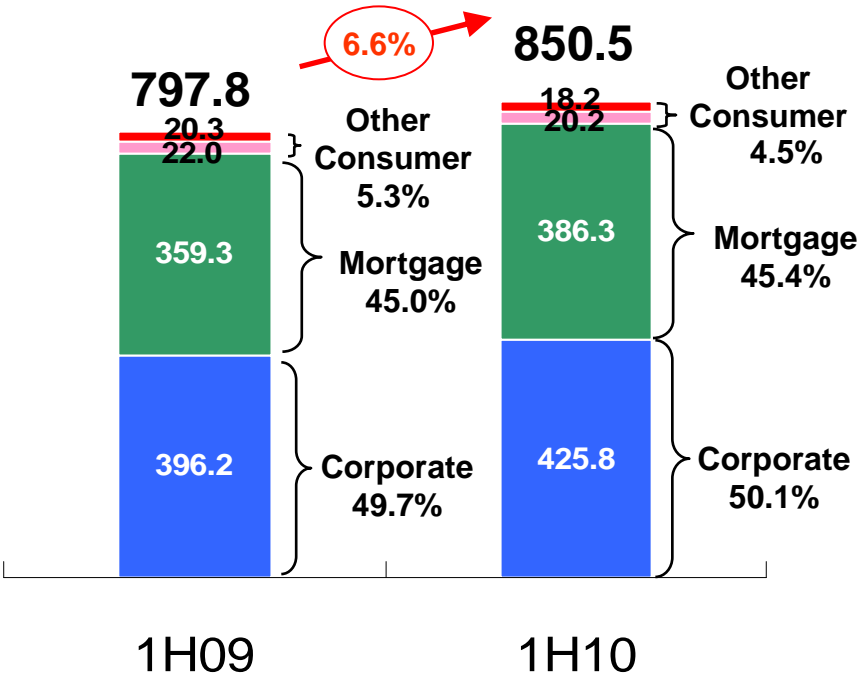
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Cathay United Bank — Loan & deposit breakdown

Loan breakdown (NT\$BN)

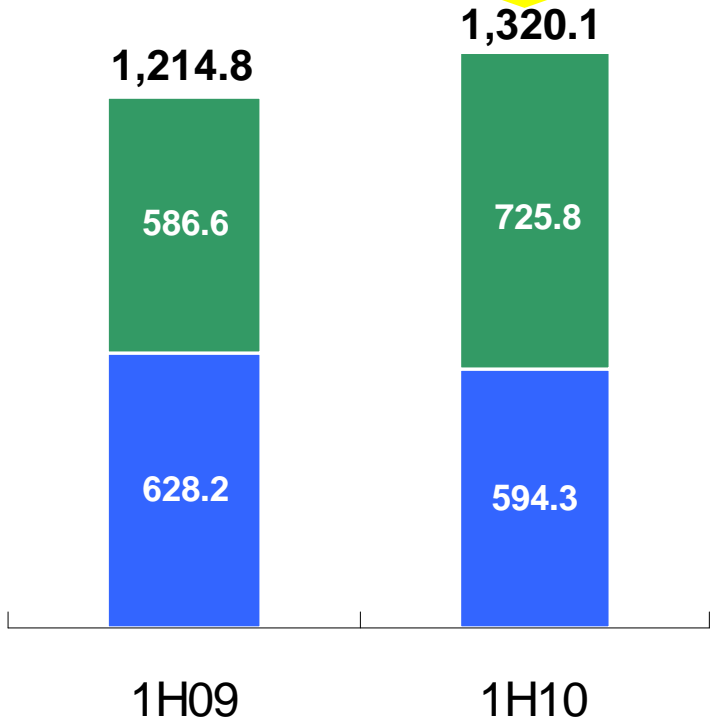
- Credit card related
- Consumer
- Mortgage
- Corporate



Deposit breakdown (NT\$BN)

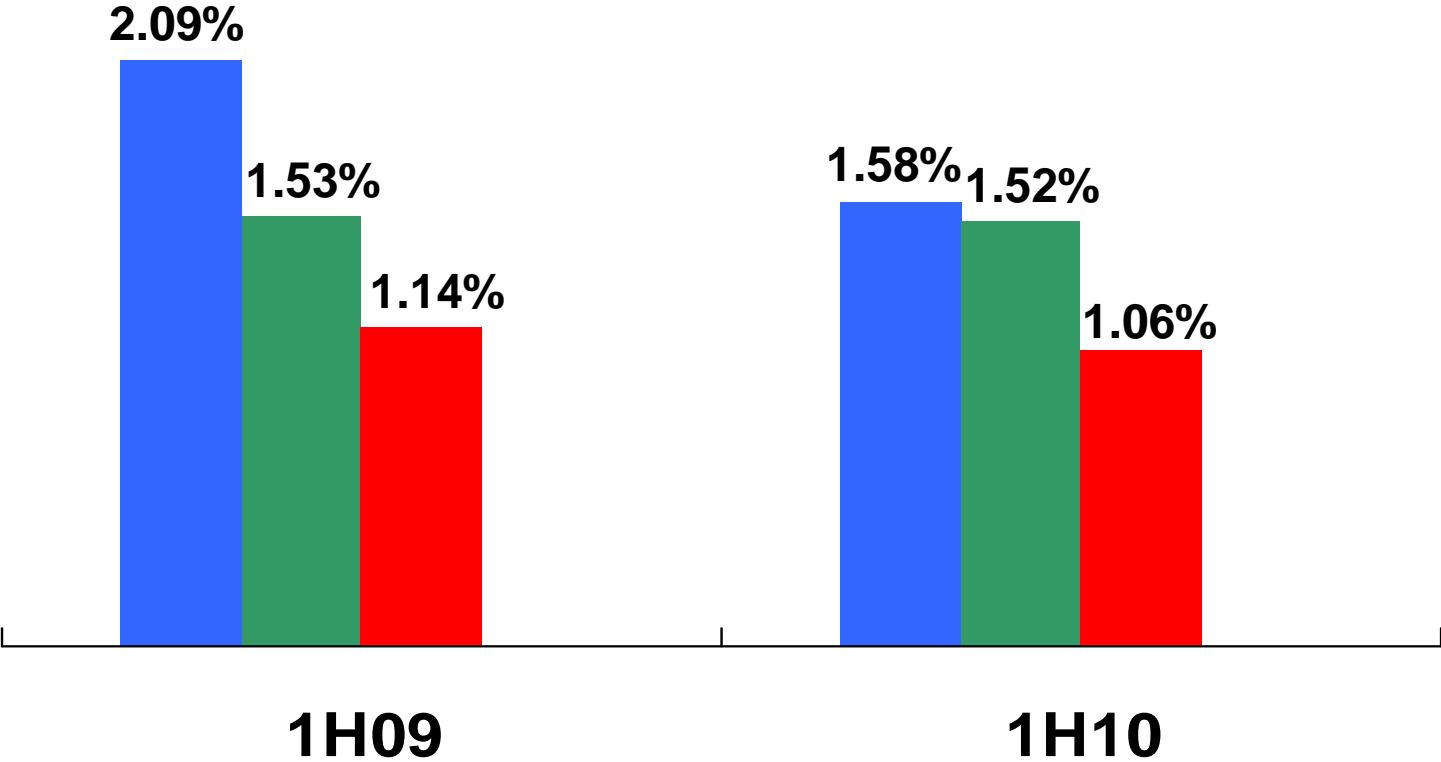
- Demand deposit
- Time deposit

NTD demand deposit ratio 57.7%



Cathay United Bank — Interest yields

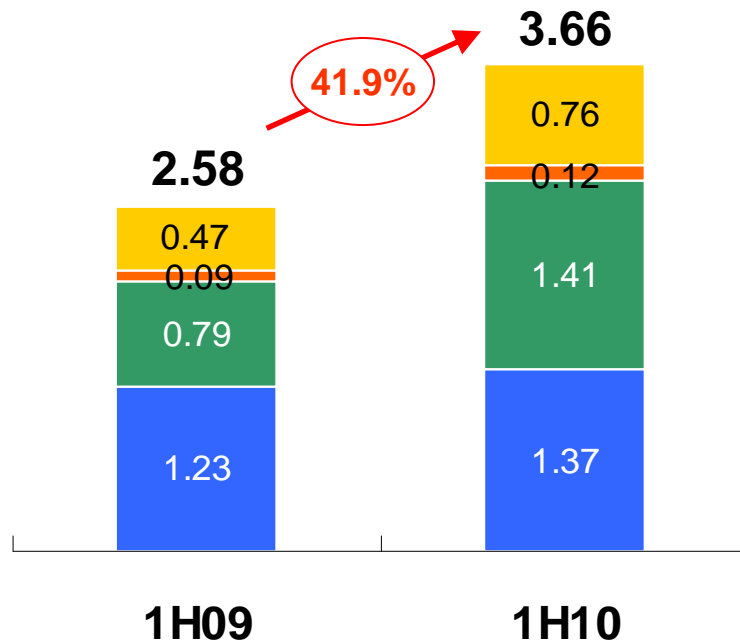
■ Avg. rate of interest-earned assets ■ Interest spread ■ Net interest margin



Cathay United Bank — Fee income

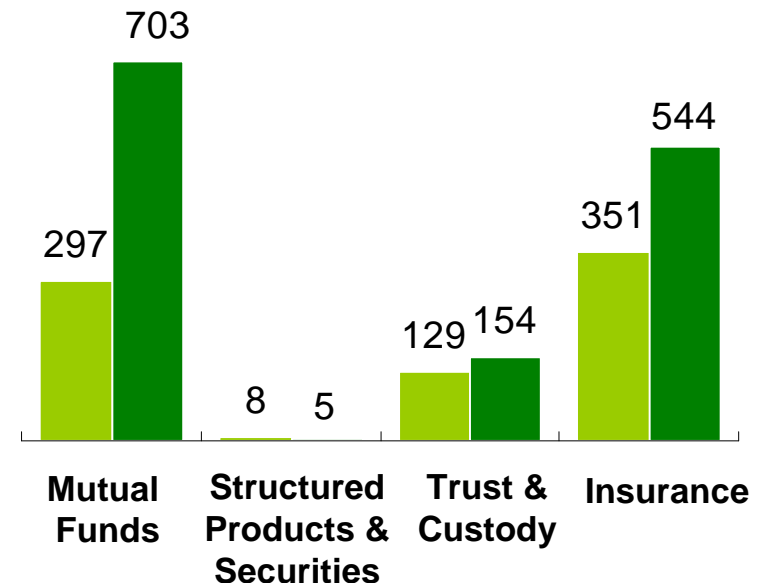
Fee income breakdown (NT\$BN)

- Others
- FX
- Wealth management
- Cards related



Wealth Management fee breakdown (NT\$MN)

- 1H09
- 1H10



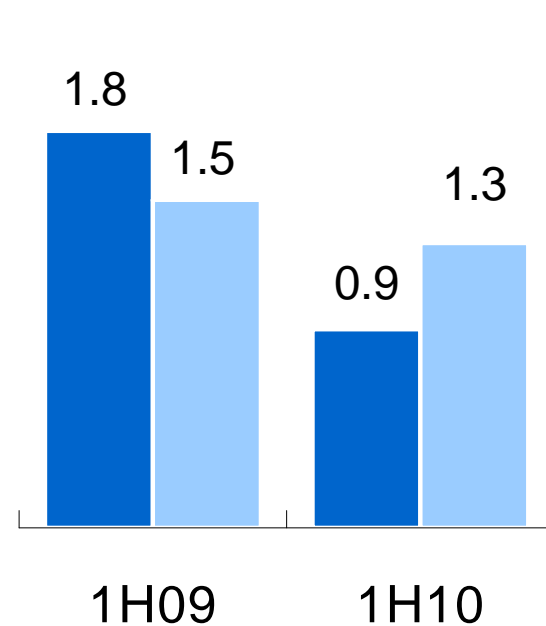
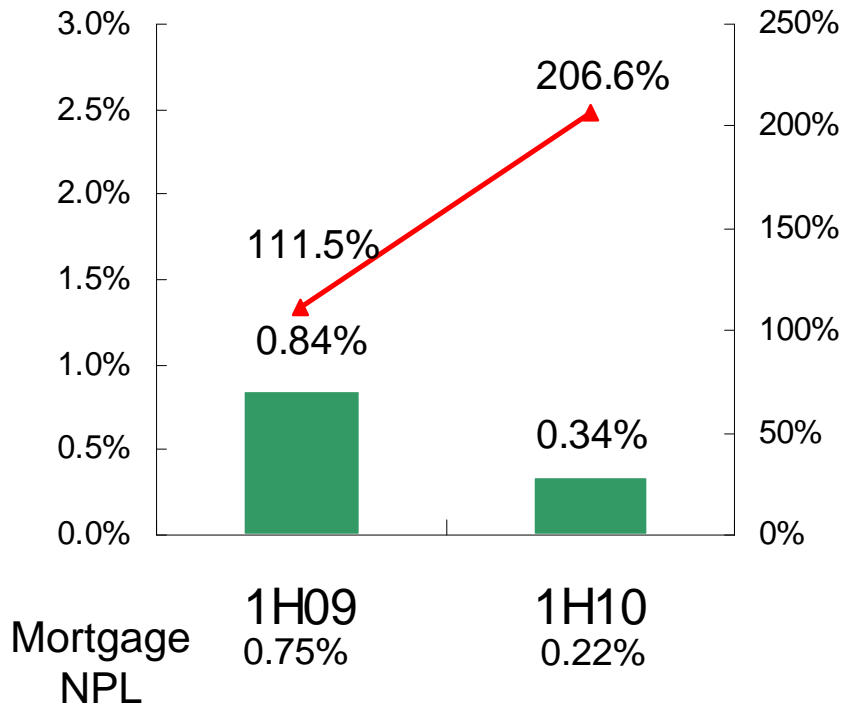
Cathay United Bank — Credit quality

NPL & Coverage ratio

Gross Provision (NT\$BN)

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

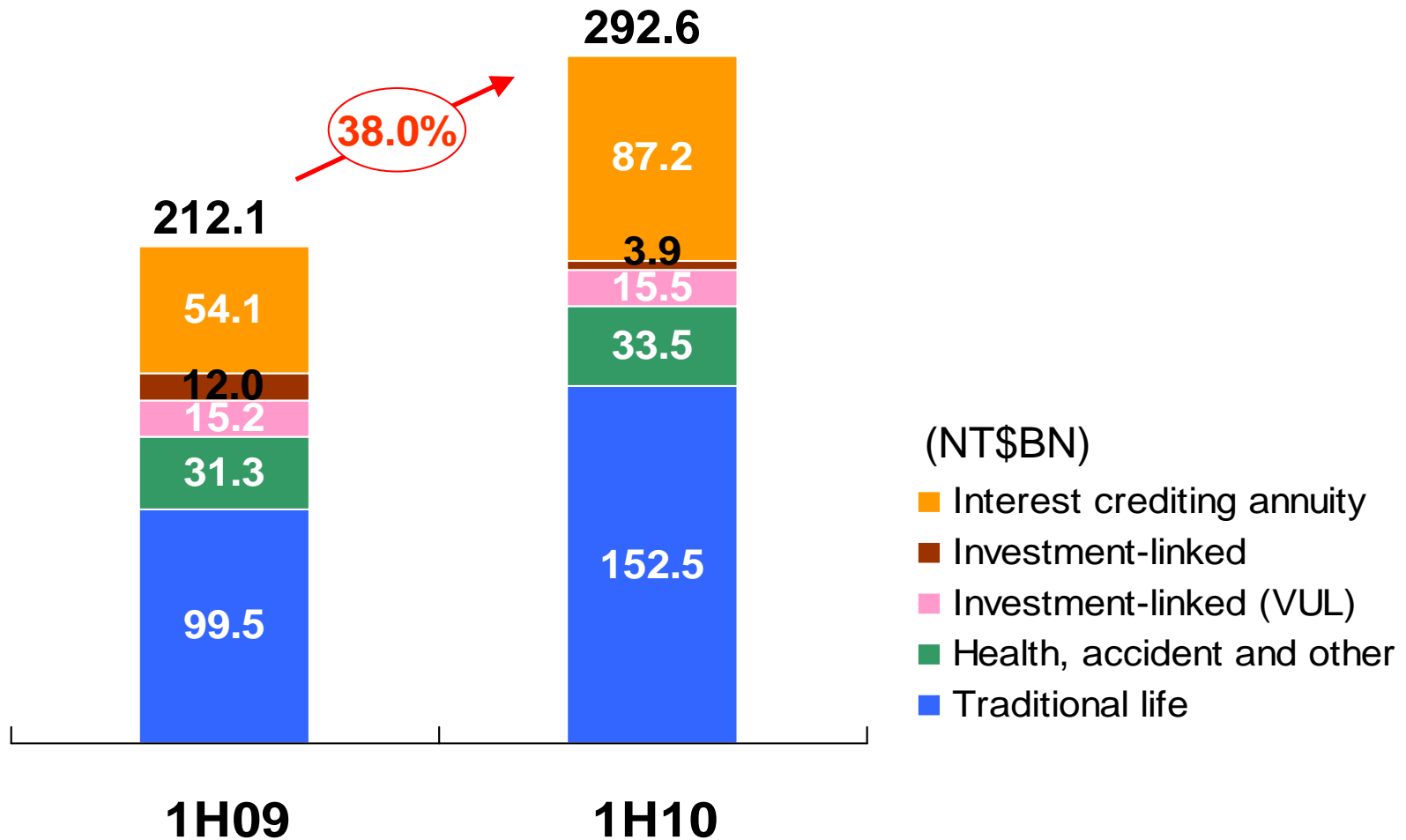
■ Gross provision
 ■ Recovery



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Cathay Life — Total premium

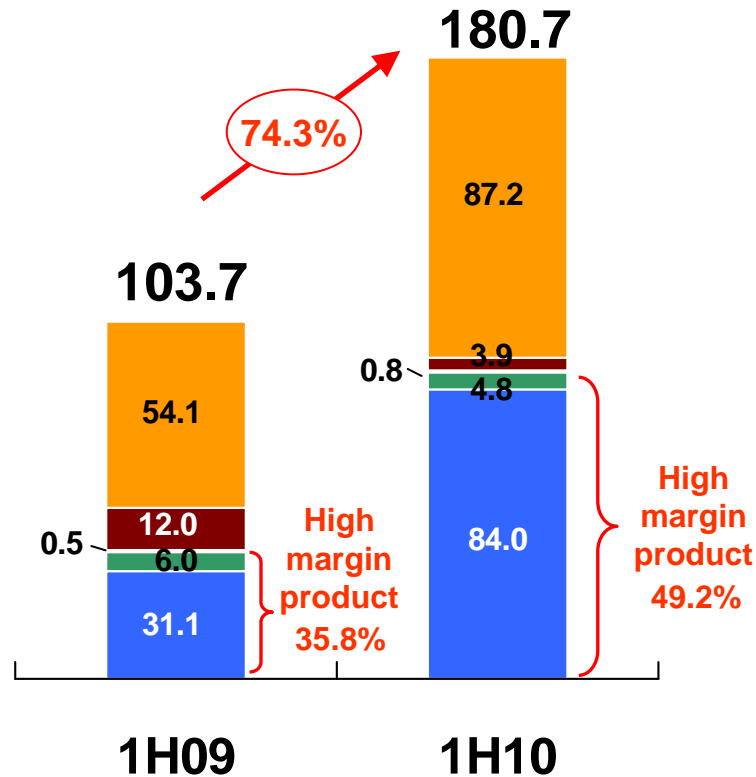


Cathay Life — FYP/ FYPE

First year premium (FYP)

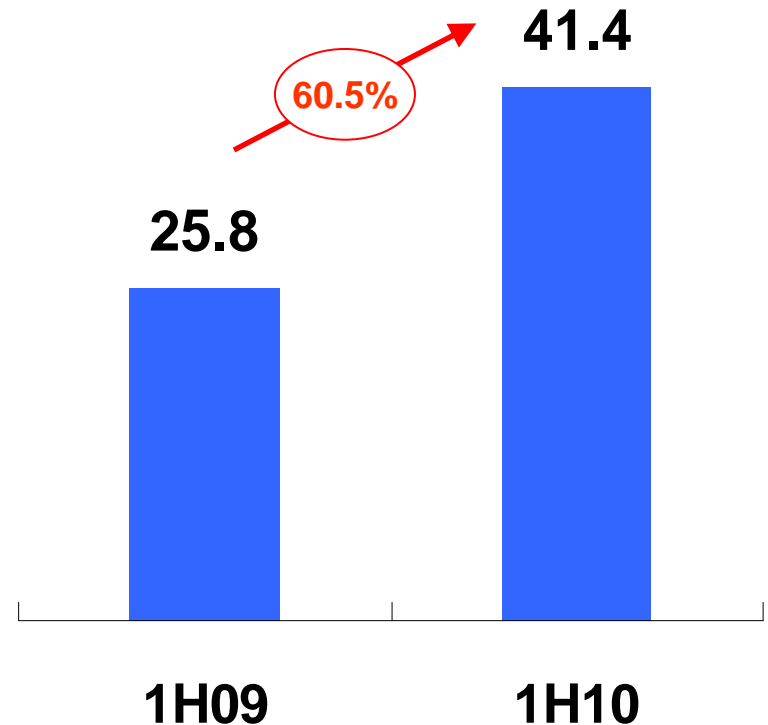
(NT\$BN)

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



First year premium equivalent (FYPE)

(NT\$BN)

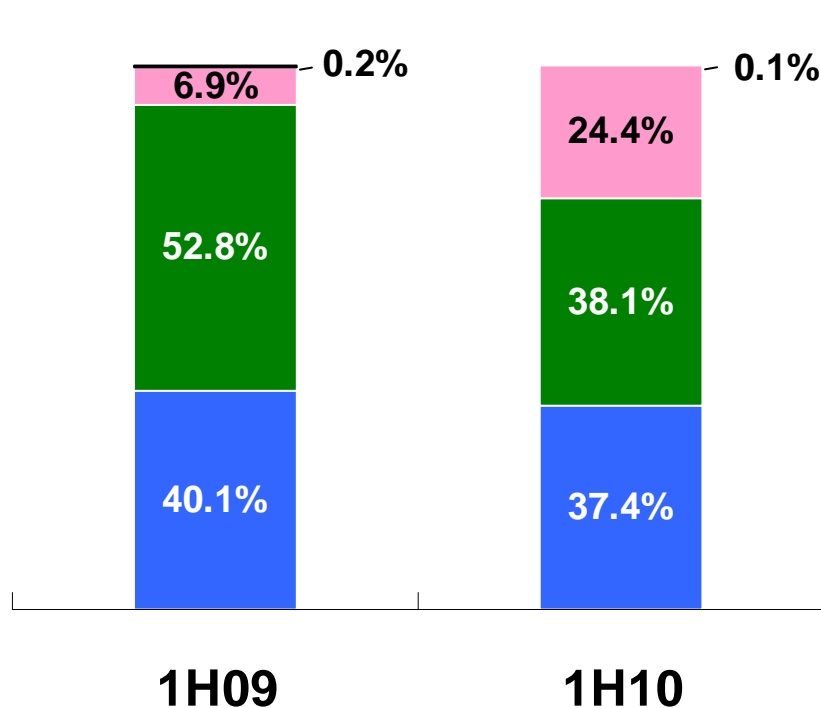


Note: FYPE is weighted FYP according to different payment period. Weighting factors range from 10%~100%.

Cathay Life — Distribution channel

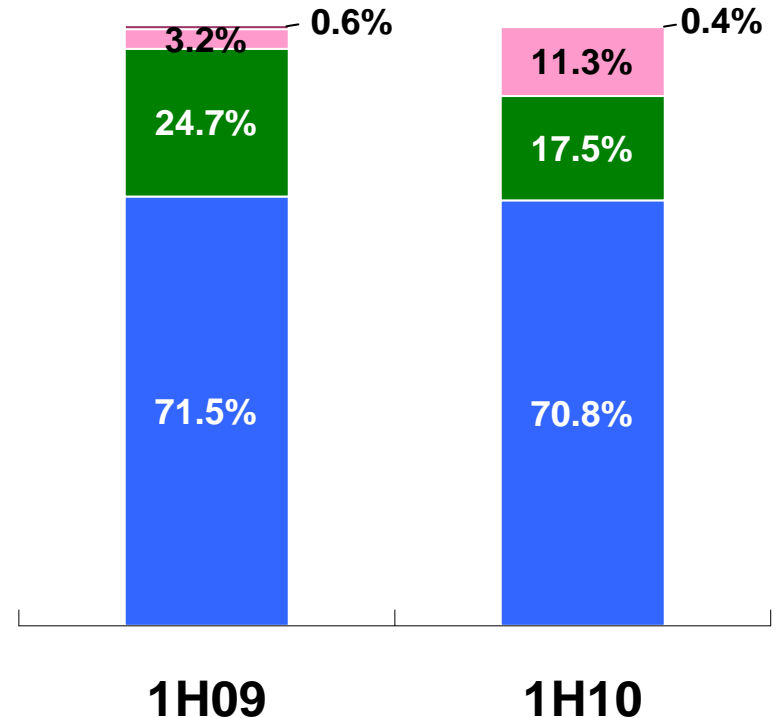
First year premium (FYP)

- Others
- Bancassurance- external
- Bancassurance- CUB
- Tied agents



First year premium equivalent (FYPE)

- Others
- Bancassurance- external
- Bancassurance- CUB
- Tied agents



Note: FYPE is weighted FYP according to different payment period. Weighting factors range from 10%~100%.

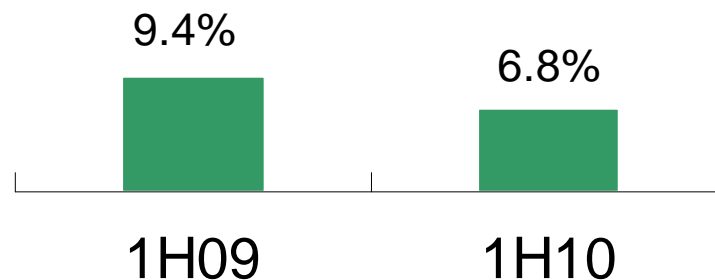
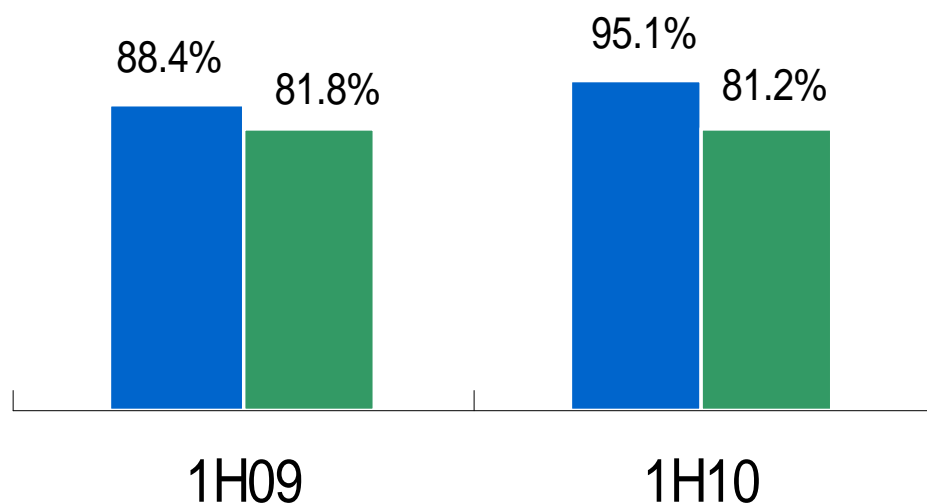
Cathay Life — Operational indicators

Persistency ratio

Expense ratio

■ 13 months

■ 25 months



Cathay Life — Investment portfolio

	1Q10		2Q10		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalents	487.0	19.2%	436.5	16.7%	-2.5%	-50.6
Equity- Domestic	141.2	5.6%	153.7	5.9%	0.3%	12.6
Equity- International	33.7	1.3%	55.7	2.1%	0.8%	22.0
Bond- Domestic	353.6	14.0%	371.2	14.2%	0.2%	17.6
Bond- International ⁽¹⁾	844.9	33.3%	915.6	35.1%	1.8%	70.7
Mortgage & Secured loans	304.4	12.0%	299.5	11.5%	-0.5%	-4.9
Policy loans	192.9	7.6%	192.7	7.4%	-0.2%	-0.2
Real estate	133.5	5.3%	135.6	5.2%	-0.1%	2.1
Others	43.3	1.7%	49.2	1.9%	0.2%	5.9
Total investments ⁽²⁾⁽³⁾	2,534.4	100.0%	2,609.6	100%		

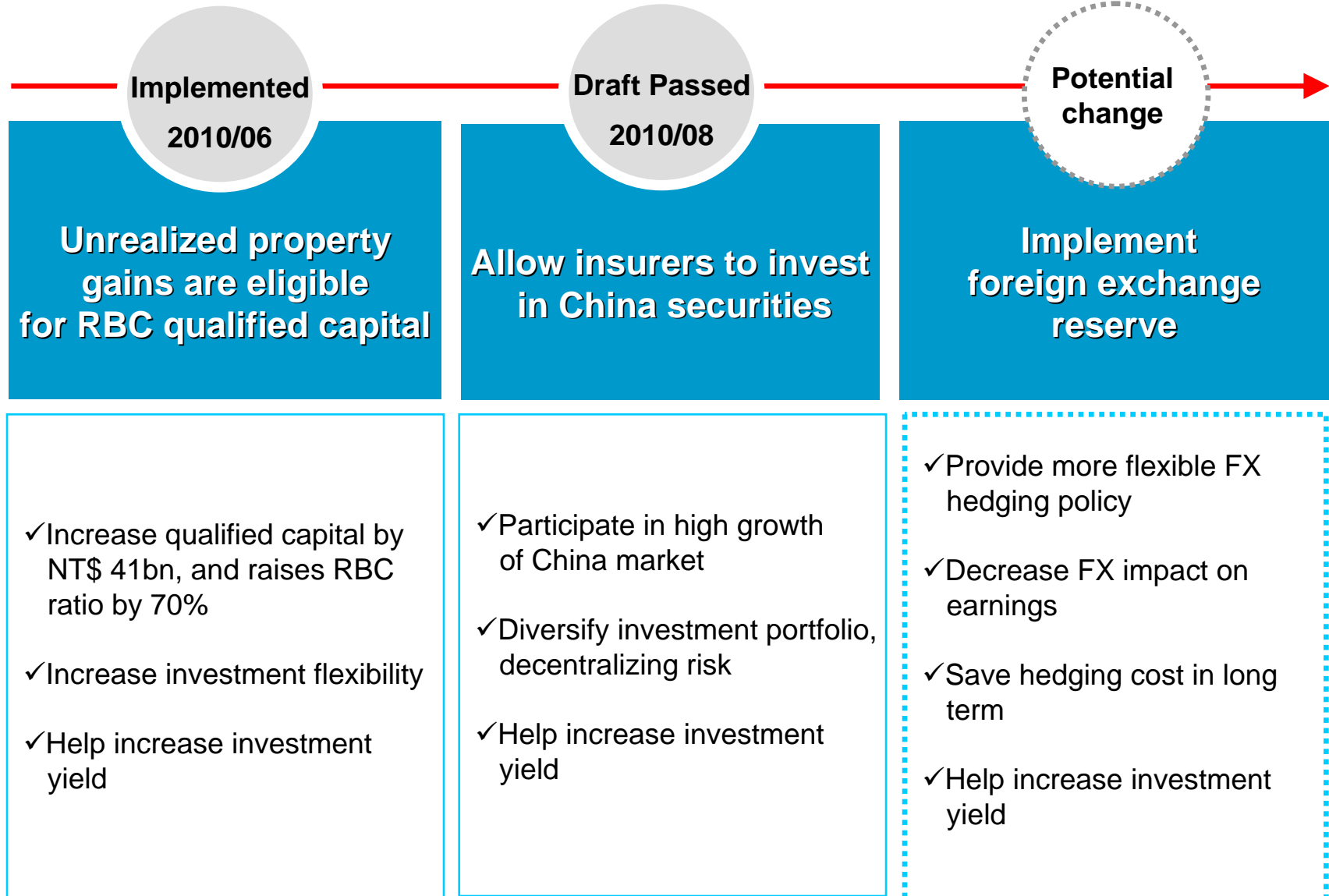
Note (1) : Includes foreign currency deposit and related adjustments

Note (2) : Excludes separate account assets

Note (3) : Total investments only includes funds available to invest

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

Cathay Life — Regulatory changes

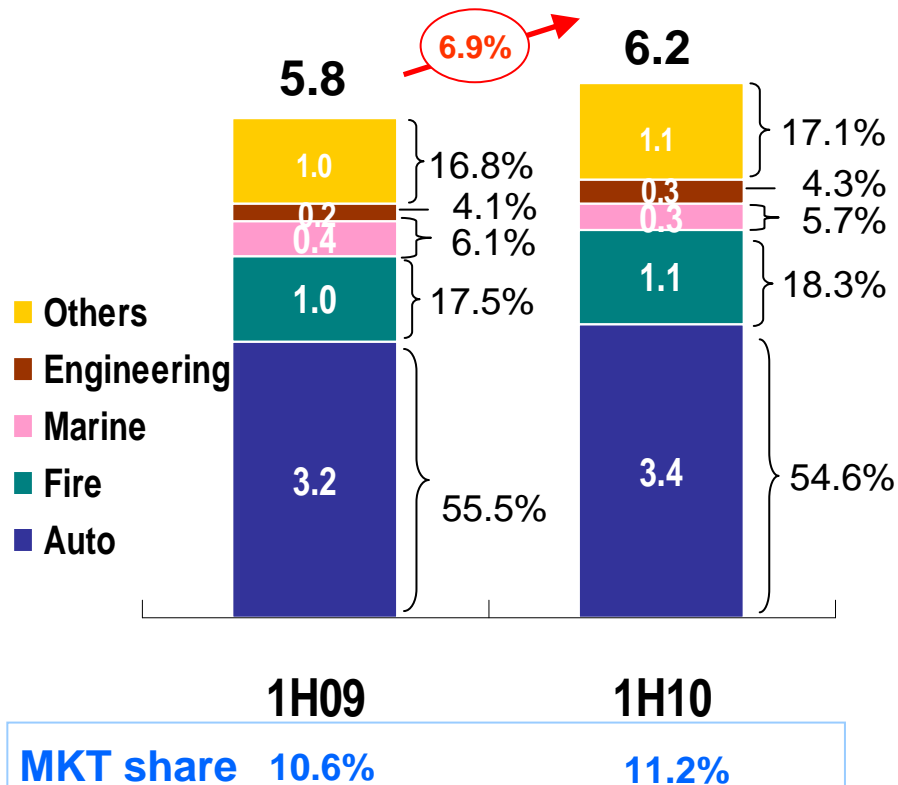


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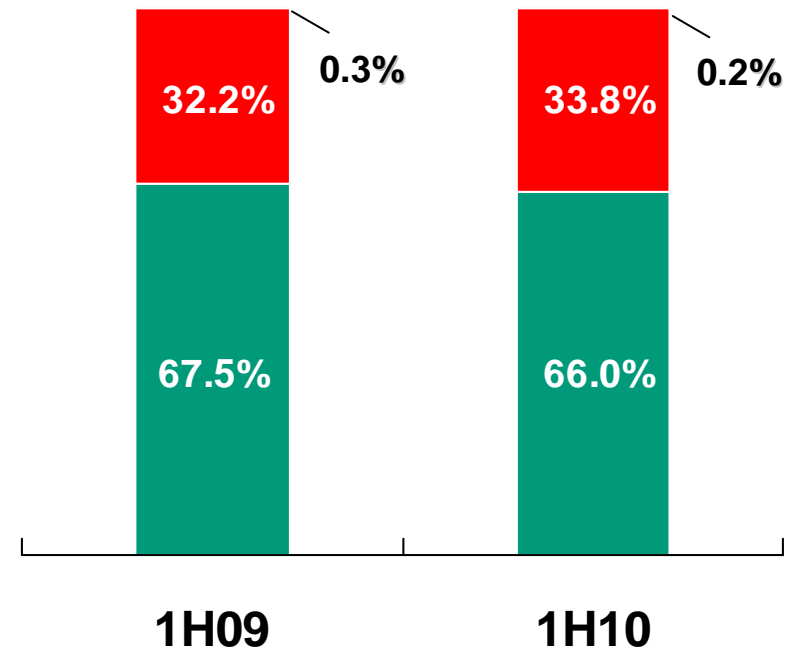
Cathay Century

Product breakdown (NT\$BN)



Distribution channel

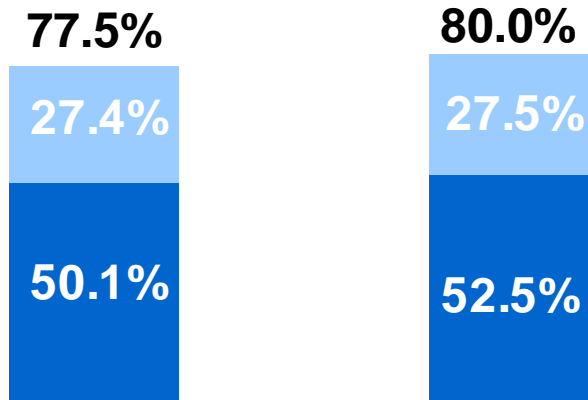
- Others
- Cathay P&C agents
- Cathay group channel



Cathay Century

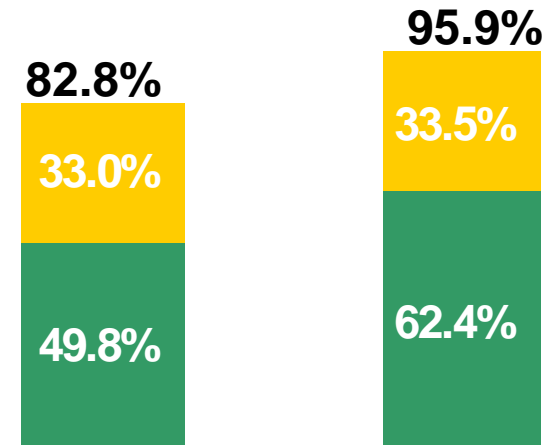
Gross combined ratio

- Gross expense ratio
- Gross loss ratio



Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retention rate 70.8%

70.8%

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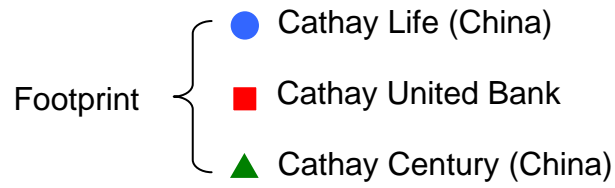
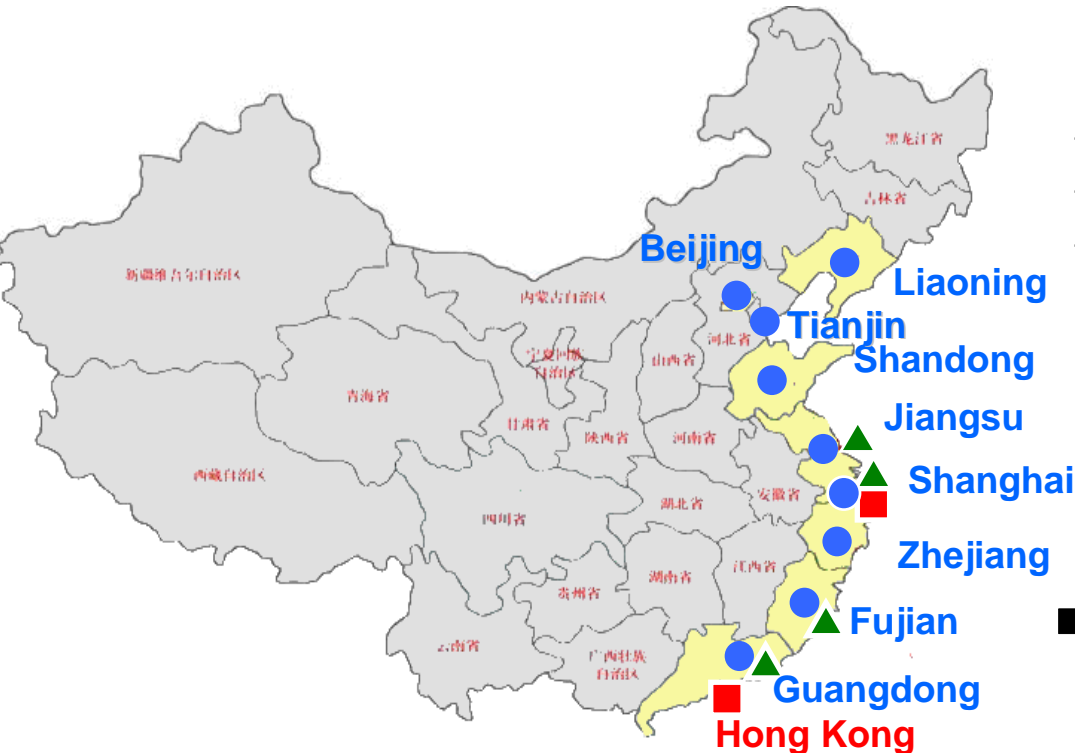
 - Cathay United Bank

 - Cathay Life

 - Cathay Century

- **Overseas expansion**

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: 2,163 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 2.11 MN ⁽¹⁾

■ Cathay United Bank

- 1 Hong Kong branch (2001)
- Shanghai rep. office received approval from FSC to upgrade to branch in August.

■ Cathay Century (China)

- 100% owned by Cathay FHC
- Headquarter in Shanghai.
- 2 branches (Jiangsu and Fujian)
- Obtained Guangdong operation license

Note(1): Numbers are effective policyholders as of 2010/06/30

Cathay FHC in Vietnam



Indovina Bank was awarded “CERTIFICATE OF MERIT”



The Prime Minister of the Socialist Republic of Vietnam, presented this “CERTIFICATE OF MERIT” to Indovina Bank.

■ Indovina Bank

- Joint venture bank between CUB and VietinBank with 32 locations(6 new locations in 1H2010)
- Total assets : USD699.8 MN
- NPL ratio : 0.34%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax income: USD6.2 MN
- Leading position among 6 joint venture banks in Vietnam
- Chosen as 2008 and 2009 best foreign bank by The State Bank of Vietnam(first place winner in two awarded banks)
- Awarded 2007 to 2009 excellent enterprise of banking by The Prime Minister of Vietnam(first place winner in two awarded banks)

■ Cathay United Bank

- 1 branch (Chu Lai), 2 rep. offices (Ho Chi Minh, Hanoi)
- Pre-tax net income of Chu Lai branch was approximately USD1.38 MN

■ Cathay Life

- Headquarter in Ho Chi Minh
- 4 branches (Hanoi, Da Nang, Can Tho, Dong Nai)
- Sales force: 4,929 tied agents
- Net loss was approximately USD0.04 MN

■ Cathay Century

- 1 rep. office (Ho Chi Minh)
- Accepted Principal Approval from MOF of Vietnam

Note: All numbers are as of June 2010

Cathay Financial Holdings

Summary Financial Data
(NT\$BN)

	FY2008	FY2009	FY09/ FY08 % Chg	1H09	1H10	1H10/ 1H09/ % Chg	2Q09	2Q10	2Q10/ 2Q09/ % Chg
Statement of Income Data									
Interest income	0.484	0.553	14.4%	0.265	0.420	58.2%	0.132	0.212	61.0%
Income from subsidiaries									
Cathay Life	(1.995)	2.672	-	1.046	(7.072)	-	(2.557)	(3.052)	19.4%
Cathay United Bank	4.459	8.688	94.8%	4.170	6.413	53.8%	2.945	3.856	30.9%
Cathay Century	0.476	0.794	66.9%	0.483	0.216	-55.3%	0.305	0.072	-76.4%
Other	(0.082)	0.030	-	(0.042)	0.194	-	(0.080)	0.114	-
Total income from subsidiaries, net	2.858	12.184	326.3%	5.657	(0.249)	-	0.613	0.990	61.4%
Gain/Loss on foreign exchange	(0.717)	0.000	-	0.000	0.000	-	(0.000)	0.000	-
Other income	0.383	0.061	-84.0%	0.001	0.007	401.9%	0.001	0.007	416.1%
Operating costs	(0.396)	(0.751)	89.7%	(0.307)	(0.575)	87.0%	(0.155)	(0.291)	88.5%
Administrative and general expenses	(0.487)	(0.319)	-34.5%	(0.124)	(0.152)	22.2%	(0.062)	(0.085)	36.9%
Income taxes (expense) benefit	0.071	(0.677)	-	(0.027)	(0.425)	1488.7%	(0.080)	(0.494)	521.0%
Net income	2.196	11.051	403.2%	5.465	(0.974)	-	0.451	0.339	-24.8%
EPS (NT\$)	0.23	1.14		0.54	(0.10)				
Balance Sheet Data									
Long-term investments in stock	144.9	216.3		186.7	192.9				
Total assets	168.6	261.1		212.0	247.2				
Total consolidated assets	3,746.2	4,295.5		3,981.3	4,443.7				
Total shareholders' equity	142.4	212.2		187.9	195.6				
Operating Metrics									
ROAE(standalone)	1.2%	6.2%		6.7%	-1.0%				
ROAA (standalone)	1.1%	5.1%		5.7%	-0.8%				
ROAA(consolidated)	0.1%	0.3%		0.3%	-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

Cathay Life Summary Financial Data (NT\$BN)	FY2008	FY2009	FY09/ FY08 % Chg	1H09	1H10	1H10/ 1H09/ % Chg	2Q09	2Q10	2Q10/ 2Q09/ % Chg
Summary Statement of Income Data									
Premiums income ⁽¹⁾	346.454	442.048	27.6%	189.069	276.884	46.4%	91.789	139.443	51.9%
Investment income									
Interest income	76.394	73.321	-4.0%	37.445	37.455	0.0%	18.583	19.164	3.1%
Gain on disposal of investment	0.000	0.000	-	0.000	7.901	-	0.000	0.000	-
Other investment income, net	(13.886)	4.069	-129.3%	0.889	(7.102)	-	(4.756)	0.695	-
Total investment income, net ⁽²⁾	62.508	77.391	23.8%	38.334	38.254	-0.2%	13.827	19.859	43.6%
Other income	6.005	13.665	127.6%	5.362	12.005	123.9%	3.461	6.027	74.1%
Insurance claims payment	(274.858)	(231.833)	-15.7%	(98.888)	(132.988)	34.5%	(57.449)	(65.808)	14.5%
Provisions for reserves									
Provisions	(356.922)	(455.987)	27.8%	(190.593)	(277.406)	45.5%	(91.163)	(137.536)	50.9%
Recoveries	250.197	206.441	-17.5%	79.765	107.671	35.0%	48.312	51.896	7.4%
Total provisions for reserves, net	(106.724)	(249.546)	133.8%	(110.827)	(169.735)	53.2%	(42.851)	(85.640)	99.9%
Commissions and operating expense									
Brokerage expenses	(26.428)	(27.041)	2.3%	(13.793)	(14.145)	2.6%	(6.796)	(7.152)	5.2%
Marketing, administrative and general expenses	(11.021)	(11.323)	2.7%	(5.171)	(5.310)	2.7%	(2.801)	(2.871)	2.5%
Total commissions and operating expenses	(37.450)	(38.364)	2.4%	(18.964)	(19.455)	2.6%	(9.597)	(10.023)	4.4%
Other operating expenses	(2.546)	(8.955)	251.7%	(2.549)	(13.619)	434.3%	(1.551)	(6.887)	344.1%
Operating income	(6.611)	4.406	-	1.537	(8.655)	-	(2.371)	(3.029)	27.8%
Non-operating income	1.441	1.571	9.0%	0.716	1.119	56.3%	0.398	0.571	43.3%
Non-operating expense	(0.822)	(1.344)	63.4%	(0.263)	(0.408)	54.7%	(0.126)	(0.205)	62.4%
Income taxes	4.019	(1.970)	-	(0.943)	0.871	-	(0.458)	(0.388)	-15.2%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Net income	(1.974)	2.662	-	1.046	(7.072)	-	(2.557)	(3.052)	19.4%
Balance Sheet Data									
Total assets	2358.9	2742.9		2541.6	2896.6				
Total stockholders' equity	53.9	113.1		90.2	92.8				
Operating Metrics									
First year premium	206.0	261.6		103.7	180.7				
Expense ratio	10.3%	8.2%		9.4%	6.8%				
13-mos persistency ratio	90.4%	89.7%		88.4%	95.1%				
25-mos persistency ratio	83.9%	81.6%		81.8%	81.2%				
ROAE	-2.2%	3.2%		2.9%	-13.7%				
ROAA	-0.1%	0.1%		0.1%	-0.5%				

Notes:

(1) Excludes investment-linked products premium income.

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

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Summary Statement of Income Data									
Interest income	40.242	23.868	-40.7%	12.986	10.622	-18.2%	5.754	5.309	-7.7%
Interest expense	(19.724)	(10.170)	-48.4%	(5.874)	(3.531)	-39.9%	(2.644)	(1.786)	-32.4%
Net interest income	20.518	13.698	-33.2%	7.112	7.091	-0.3%	3.110	3.523	13.3%
Net operating income except interest income									
Net handling fee	5.120	4.677	-8.7%	1.969	3.040	54.4%	0.996	1.642	64.8%
Gains on financial assets and liabilities at fair value through P&L	(2.067)	2.840	-	1.624	0.047	-97.1%	1.062	(0.168)	-
Realized gains on available-for-sale financial assets	0.163	1.517	831.6%	0.420	1.301	209.8%	0.374	0.793	111.8%
Realized gains on held-to-maturity financial assets	(0.001)	0.000	-	0.000	0.000	-	0.000	0.000	-
Invst inc - equity method	0.247	0.261	5.9%	0.103	0.119	14.5%	0.061	0.060	-2.0%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchg - net	1.102	0.592	-46.3%	0.256	0.353	37.7%	0.172	0.253	46.7%
Impairment gain/loss	(3.109)	(0.171)	-94.5%	(0.035)	0.000	-	0.007	0.000	-
Gains on reversal of foreclosed properties impairment	0.045	0.000	-99.4%	(0.000)	0.000	-	(0.000)	0.000	-
Gains/losses on disposal of foreclosed properties	0.180	0.000	-100.0%	0.000	1.039	-	0.000	1.039	-
Investments in debt securities with no active market, net	(1.758)	0.180	-	0.005	0.038	675.8%	0.005	0.028	508.8%
other income, net	1.116	1.930	73.0%	0.938	1.075	14.6%	0.764	0.483	-36.9%
Net operating income	21.555	25.523	18.4%	12.393	14.102	13.8%	6.552	7.652	16.8%
Provisions for possible losses	(0.926)	0.000	-	(0.288)	0.000	-	0.488	0.000	-
Operating expenses	(14.176)	(14.400)	1.6%	(6.789)	(7.118)	4.8%	(3.355)	(3.632)	8.2%
Income from continuing operations before income taxes	6.453	11.122	72.4%	5.315	6.984	31.4%	3.685	4.021	9.1%
Income tax benefit (expense)	(1.992)	(2.434)	22.2%	(1.145)	(0.571)	-50.1%	(0.739)	(0.165)	-77.7%
Cumulative effect of changes in accounting principles	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Net income	4.461	8.688	94.8%	4.170	6.413	53.8%	2.946	3.856	30.9%
Balance Sheet Data									
Total assets	1,351.6	1,510.3		1,410.7	1,516.9				
Total shareholders' equity	82.9	93.1		84.5	91.0				
Operating Metrics									
Cost income ratio	65.7%	56.4%		54.8%	50.5%				
ROAE	5.4%	9.9%		9.8%	13.9%				
ROAA	0.3%	0.6%		0.6%	0.9%				
Assets Quality									
NPL ratio (international standard)	0.9%	0.6%		0.8%	0.3%				
Coverage ratio (international standard)	109.3%	135.1%		111.5%	206.6%				

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)

	FY 2008	FY2009	FY09/ FY08	1H10/ 1H09		2Q09		2Q10/ 2Q09	
			% Chg	1H09	1H10	% Chg	2Q09	2Q10	% Chg
Summary Statement of Income Data									
Premiums income	11,829.6	11,822.2	-0.1%	5792.2	6191.9	6.9%	2852.5	3137.0	10.0%
Reinsurance premiums ceded	(3,771.5)	(3,374.7)	-10.5%	(1692.1)	(1807.8)	6.8%	(811.9)	(925.9)	14.0%
Premiums income, net	8,058.1	8,447.5	4.8%	4100.1	4384.1	6.9%	2040.6	2211.1	8.4%
Investment									
Interest income	391.0	330.3	-15.5%	183.0	155.0	-15.3%	101.5	87.5	-13.8%
Other investment income, net	(565.8)	49.1	-	(34.8)	(138.6)	298.4%	125.6	(89.5)	-
Total investment income	(174.8)	379.4	-	148.2	16.4	-88.9%	227.1	(2.0)	-
Other operating income	336.4	347.2	3.2%	194.1	183.5	-5.5%	106.8	80.8	-24.3%
Insurance claims payment, net	(3,688.7)	(4,116.2)	11.6%	(2005.4)	(2557.6)	27.5%	(942.8)	(1410.7)	49.6%
Provisions for reserves									
Provisions	(6,655.1)	(7,003.4)	5.2%	(5973.1)	(6593.5)	10.4%	(266.5)	(136.1)	-49.0%
Recoveries	5,812.8	6,197.0	6.6%	5684.9	6471.5	13.8%	135.1	155.8	15.3%
Total provisions for reserves, net	(842.3)	(806.4)	-4.3%	(288.2)	(122.0)	-57.7%	(131.4)	19.7	-
Commissions, operating and other expenses	(2,997.4)	(3,221.9)	7.5%	(1473.2)	(1631.3)	10.7%	(878.7)	(821.5)	-6.5%
Operating income	691.2	1,051.0	52.0%	675.6	273.1	-59.6%	421.6	77.4	-81.7%
Non-operating income	10.7	3.1	-71.4%	0.1	4.8	8703.5%	0.1	4.8	8670.4%
Non-operating expense	(12.2)	0.1	-	0.1	0.1	-46.5%	0.1	0.1	96.6%
Income taxes	(211.2)	(268.8)	27.3%	(192.2)	(61.6)	-68.0%	(116.4)	(10.1)	-91.3%
Cumulative effect of changes in accounting principles	0.0	0.0	-	0.0	0.0		0.0	0.0	
Net income	478.5	785.2	64.1%	483.4	216.2	-55.3%	305.2	72.1	-76.4%
Summary Balance Sheet Data									
Total assets	19,398.7	20,812.6		20195.9	20591.1				
Total stockholders' equity	3,096.4	4,300.0		3873.1	3408.9				
Operating Metrics									
Written Combined ratio	71.9%	79.3%		77.5%	80.0%				
Net Combined ratio	84.7%	89.4%		82.8%	95.9%				
ROAE	13.7%	21.2%		27.7%	11.2%				
ROAA	2.5%	3.9%		4.9%	2.1%				

Notes:

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(2) 2Q09,2Q10 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)

	As of 6/30/2010
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 (As of 30-Jun-2010)</u>			<u>Legal Requirement</u>
Cathay Financial Holdings Capital Adequacy Ratio	141.5%			100%
Cathay Life RBC Ratio	250%	-	300%	200%
Cathay Century RBC Ratio	>	300%		200%
Cathay United Bank BIS Ratio / Tier 1 Ratio	11.21% / 9.12%			8.00% / 6.00%
Cathay Securities BIS Ratio	809%			150%

Notes:

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