

**Cathay Financial Holdings Co., Ltd**  
**2010 Third Quarter Briefing**



**November 2010**

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# Agenda

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- **9M10 Business overview**
- **9M10 Financial results**
  - Cathay Financial Holdings
  - Cathay United Bank
  - Cathay Life
  - Cathay Century
- **Overseas expansion**

# 9M10 Business Overview

## Cathay Life

- Considering market conditions, Cathay Life restructured its product mix in advance, terminated selling short-term interest crediting annuity products.
- FYPE grew 56.3% YoY. Maintained No.1 market position.
- Cash position lowered to 15.1%, overseas investment increased to 38.7%.
- Effective proxy hedge and higher CS hedging position. Accumulated hedging cost of 1.2%.
- AFS unrealized gain reached 11.1 billion; shareholder equity recovered to 114.4 billion, exceeding 2009 year end level.

## Cathay United Bank

- Loan growth of 7.7% YoY, NTD demand deposit ratio increased to 59.2%.
- Maintained sound asset quality. NPL ratio of 0.34% and coverage ratio of 201.2%. Both are better than industry.
- Fee income grew 36.2% YoY. Wealth management fee income grew 65.8% YoY.

## Cathay Century

- Market share increased to 11.2%, and premium income grew 5.4% YoY. Maintain No.2 market position.

## Cathay Securities

- 9M10 after-tax net income of 193mn.
- Each business line continued to deliver stable earnings.

## China Strategy

- Bank: Shanghai rep. office received approval from CBRC to upgrade to branch in October.
- Life and P&C : accelerated business growth based on existing network
  - Cathay Life(China) raised capital by RMB 400mn. Total registered capital increased to RMB 1,200mn. Tianjin branch obtained operating approval in October; total offices reached 36.
  - Cathay Century(China) had premium growth of 278% YoY, Guangdong branch obtained operating approval in October; Zhejiang branch is under preparation.

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- **9M10 Business Overview**

- **9M10 Financial Results**

  - Cathay Financial Holdings

  - Cathay United Bank

  - Cathay Life

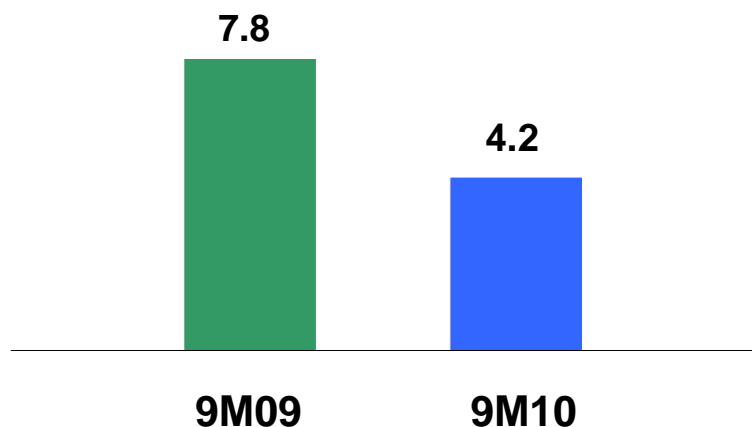
  - Cathay Century

- **Overseas expansion**

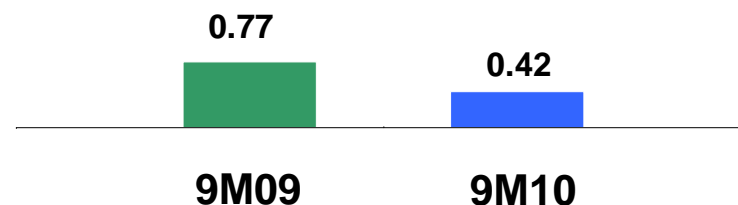


# Cathay FHC — Net income & EPS

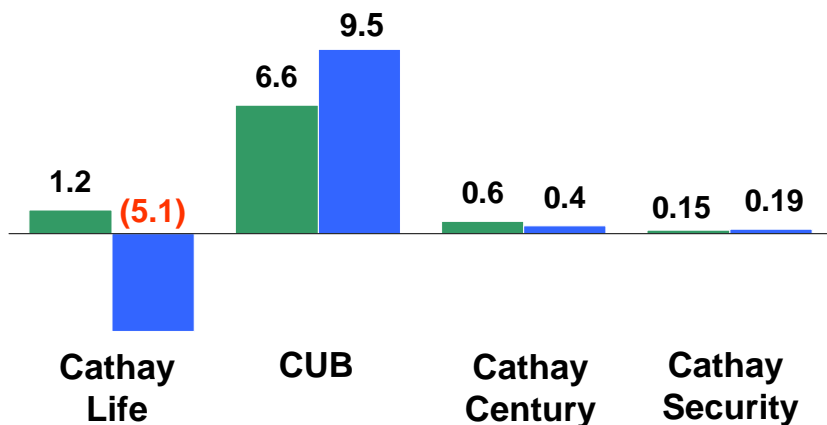
## Net Income (NT\$BN)



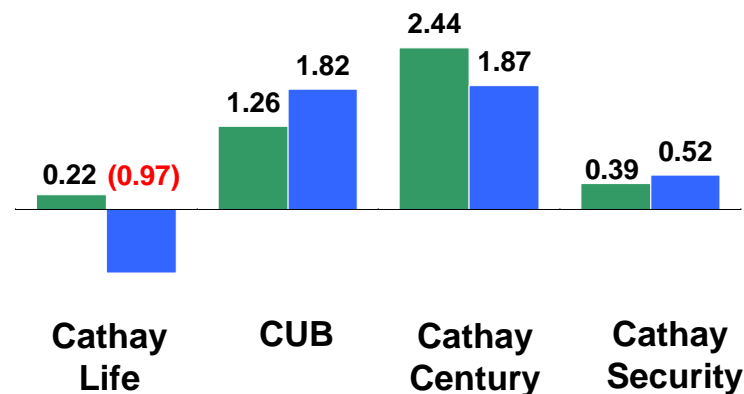
## EPS (NT\$)



## Net income of main subsidiaries

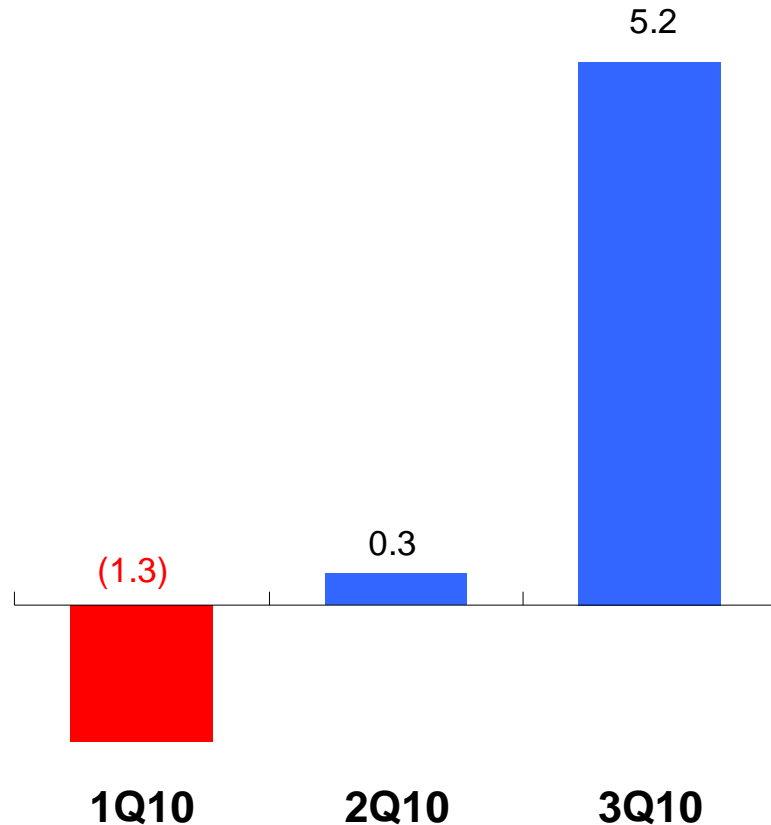


## EPS of main subsidiaries

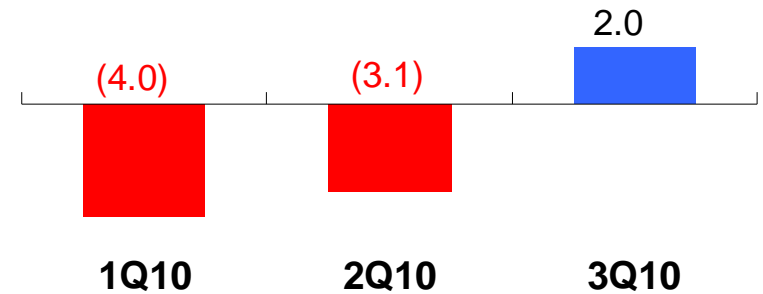


# Cathay FHC — Quarterly net income of main subsidiaries

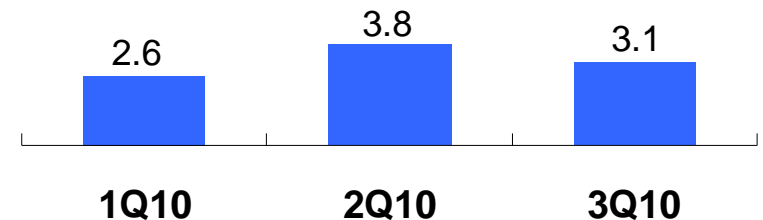
## Cathay FHC (NT\$BN)



## Cathay Life (NT\$BN)



## Cathay United Bank (NT\$BN)



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- **9M10 Financial results**

  - Cathay Financial Holdings

  - Cathay United Bank

  - Cathay Life

  - Cathay Century

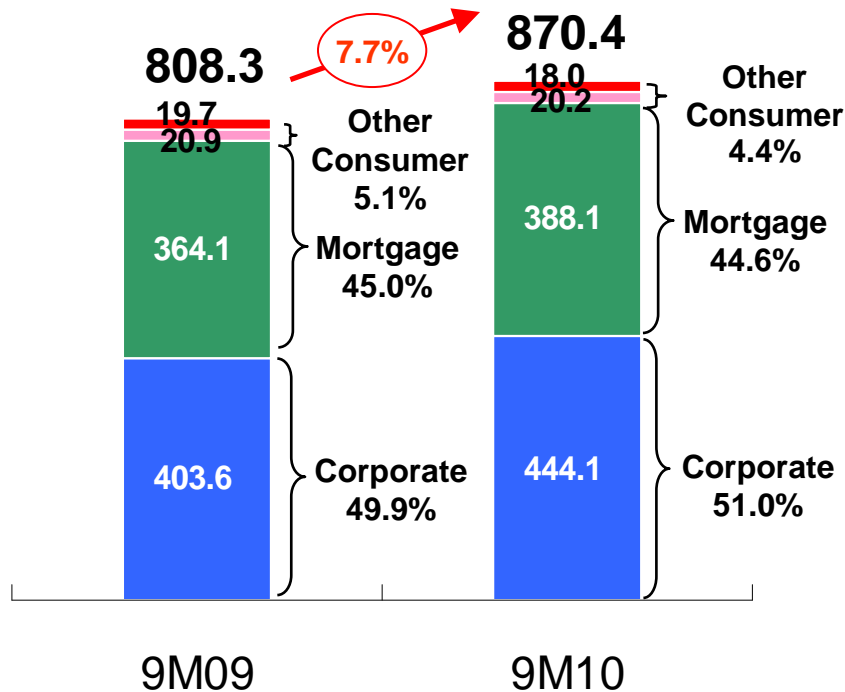
- **Overseas expansion**



# Cathay United Bank — Loan & deposit breakdown

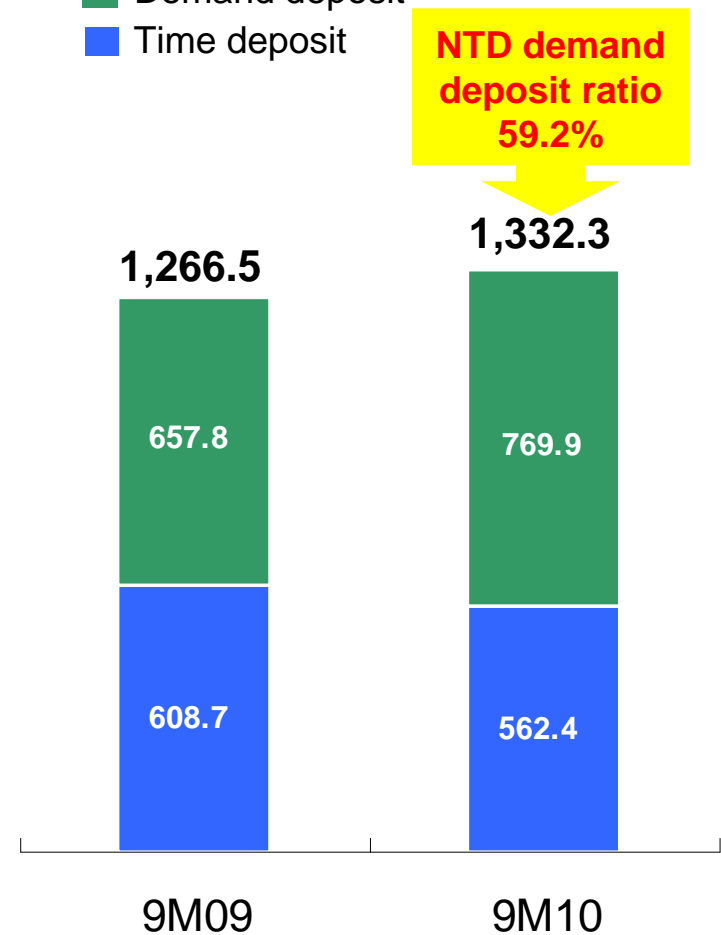
## Loan breakdown (NT\$BN)

- Credit card related
- Consumer
- Mortgage
- Corporate



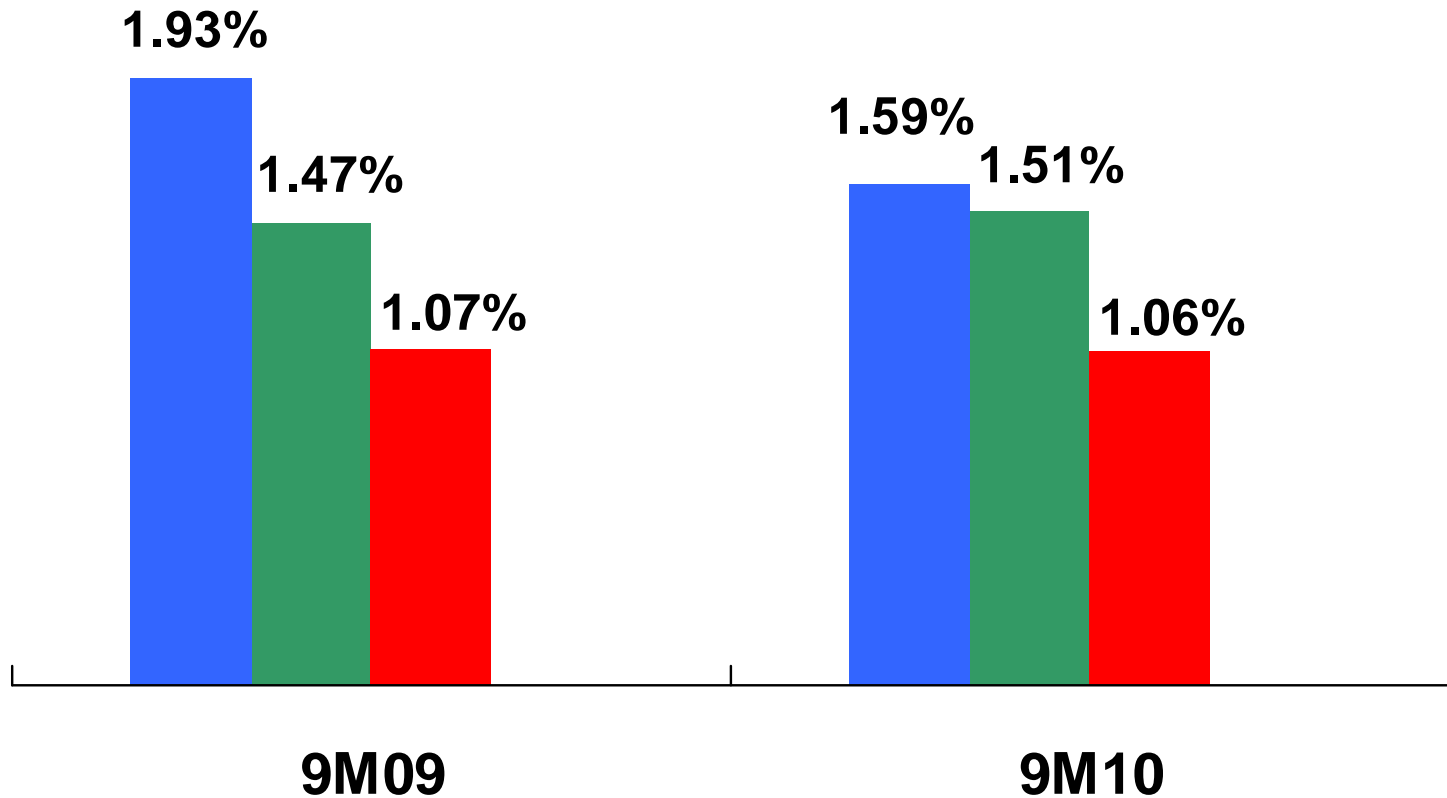
## Deposit breakdown (NT\$BN)

- Demand deposit
- Time deposit



# Cathay United Bank – Interest yields

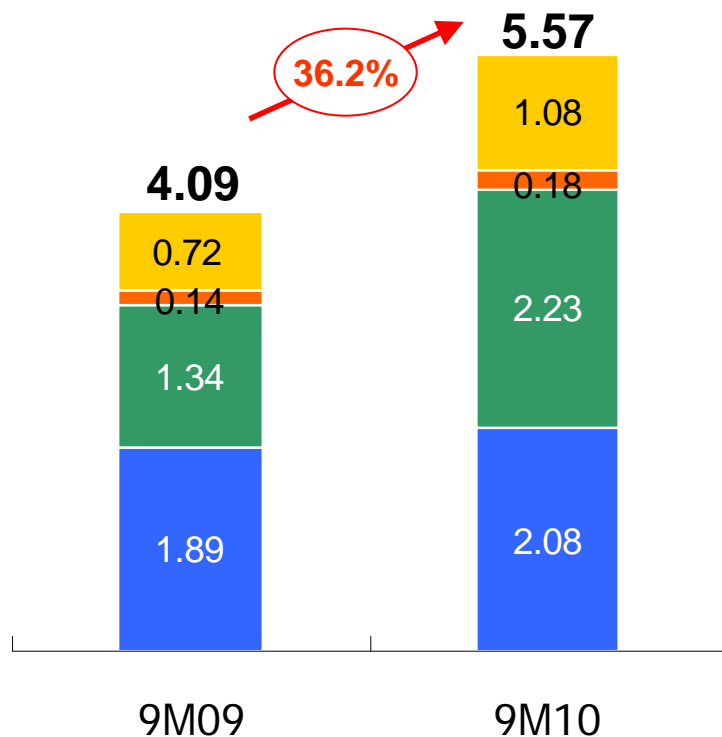
■ Avg. rate of interest-earned assets ■ Interest spread ■ Net interest margin



# Cathay United Bank – Fee income

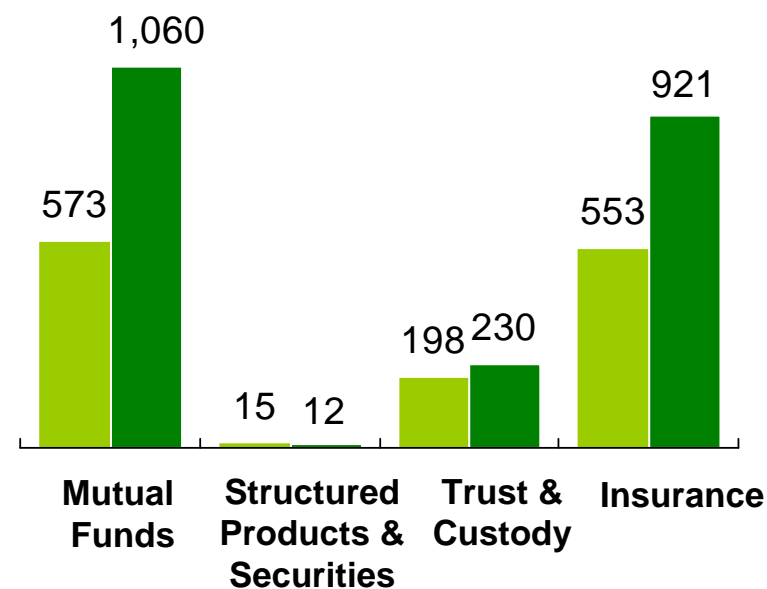
## Fee income breakdown (NT\$BN)

- Other
- FX
- Wealth management
- Cards related



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

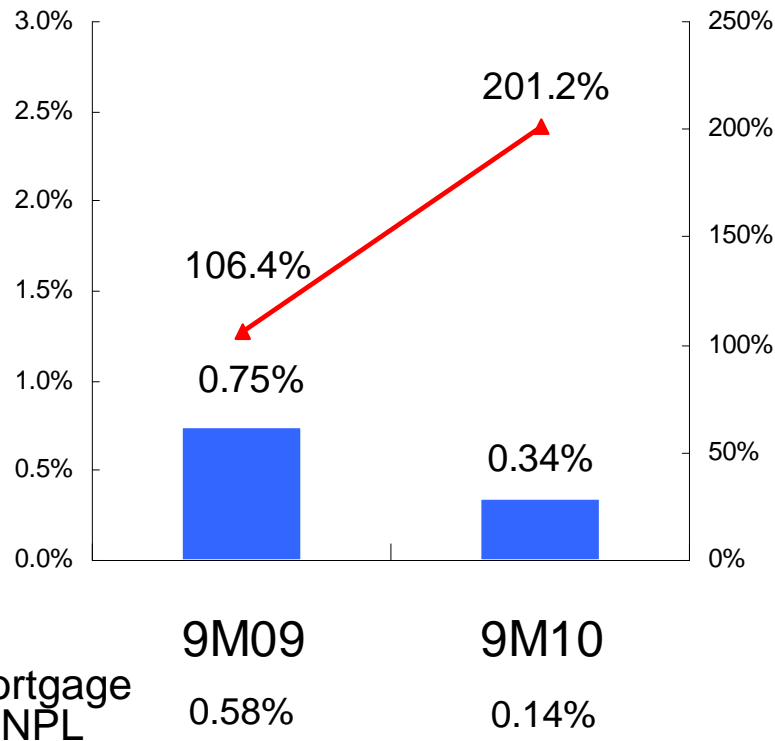
- 9M09
- 9M10



# Cathay United Bank – Credit Quality

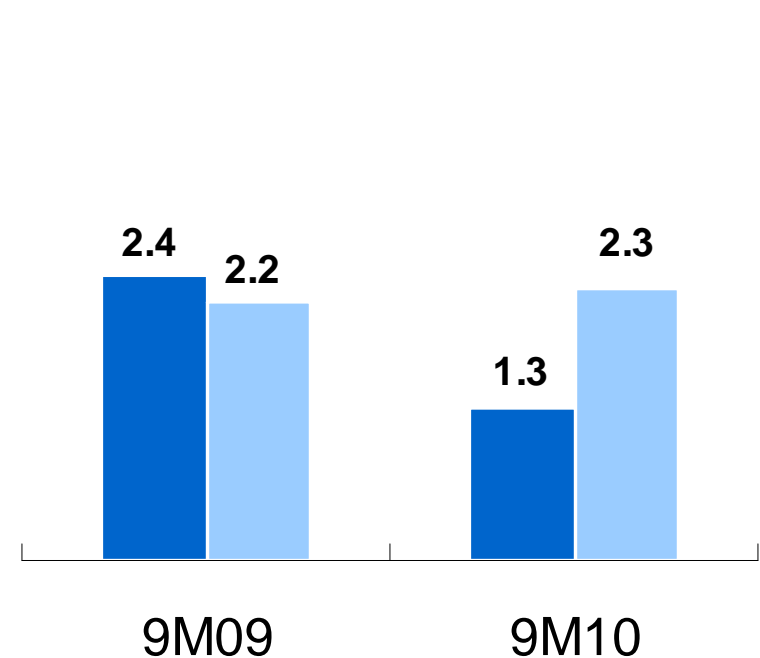
## NPL & Coverage ratio

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



## Gross Provision (NT\$BN)

- Gross provision
- Recovery



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  - Cathay United Bank

  - Cathay Life

  - Cathay Century

- **Overseas expansion**

# Cathay Life – International practice of premium disclosure

- Most life insurance companies in developed countries (ex. Japan, US, UK and China) are ranked by total premium.
- Some countries use “adjusted first year premium” (similar to Taiwan’s FYPE) to measure a life insurer’s new business. For example:

## Japan

- Life insurance association of Japan (LIAJ) and annual reports of life insurers disclose APE as a new business indicator

## UK

- Website of life insurers disclose APE as a new business indicator

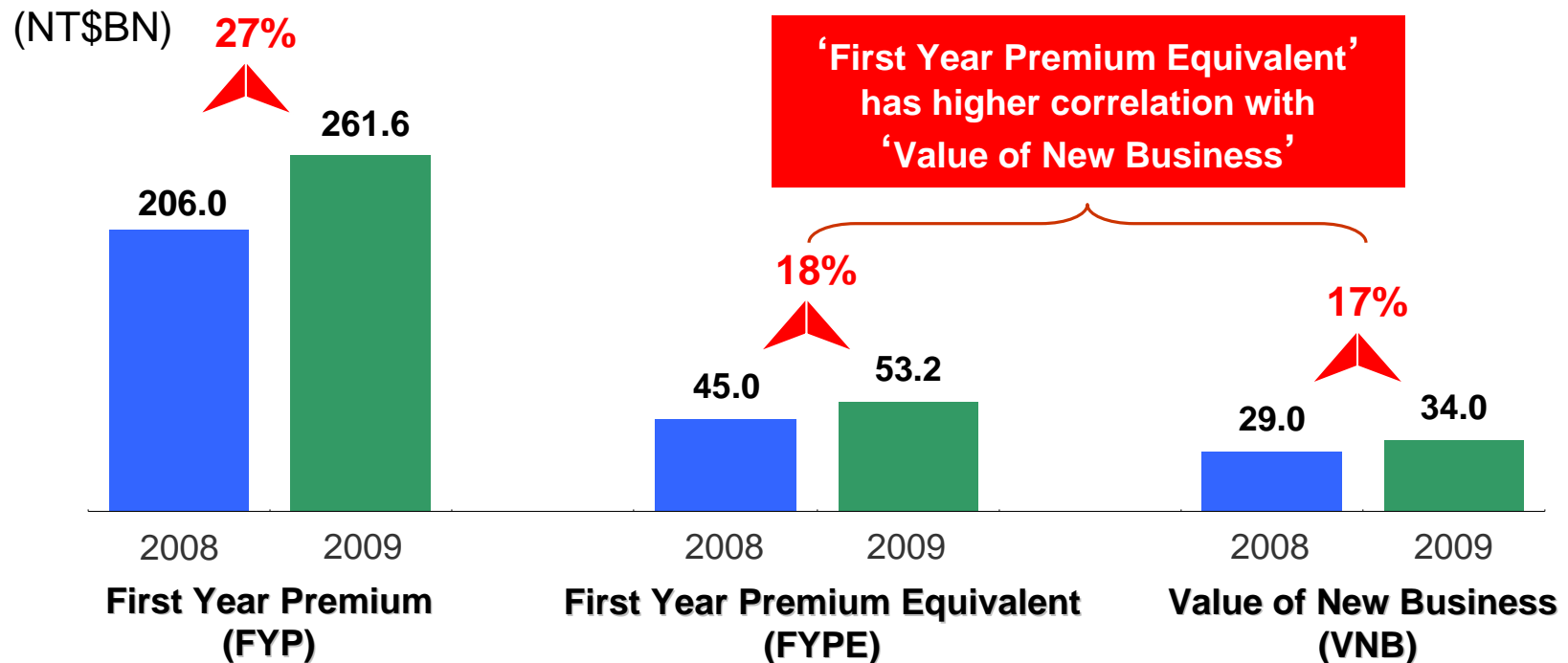
## China

- Life insurers are required to report monthly “standard premium” to CIRC, local bureau, and insurance association.

# Cathay Life – FYPE vs. VNB

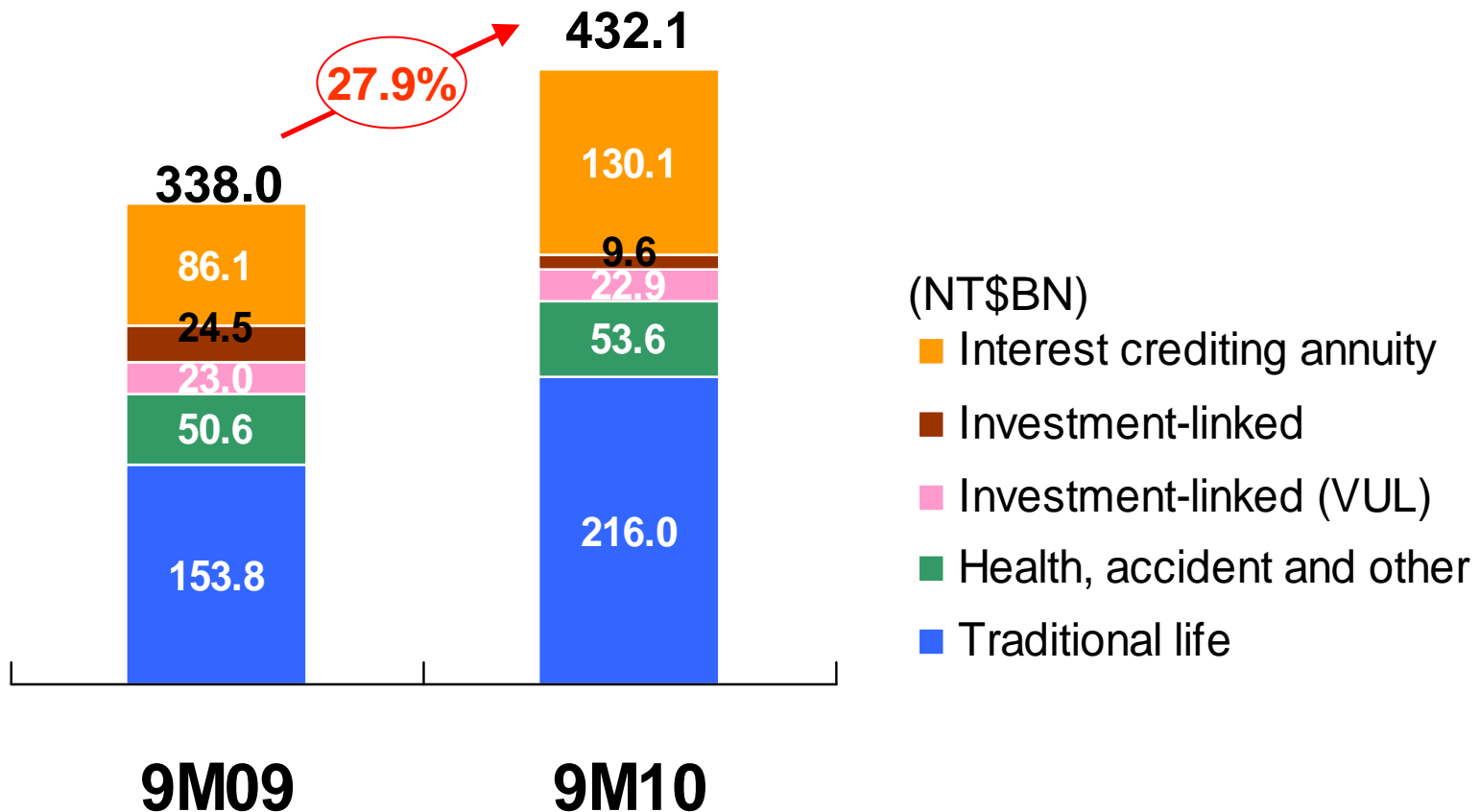
To measure new business growth more precisely, regulator requiring disclosure of “First Year Premium Equivalent” starting in August, 2010:

- Date of disclosure : On the 15<sup>th</sup> of every month
- Website of disclosure: Taiwan Insurance Institute





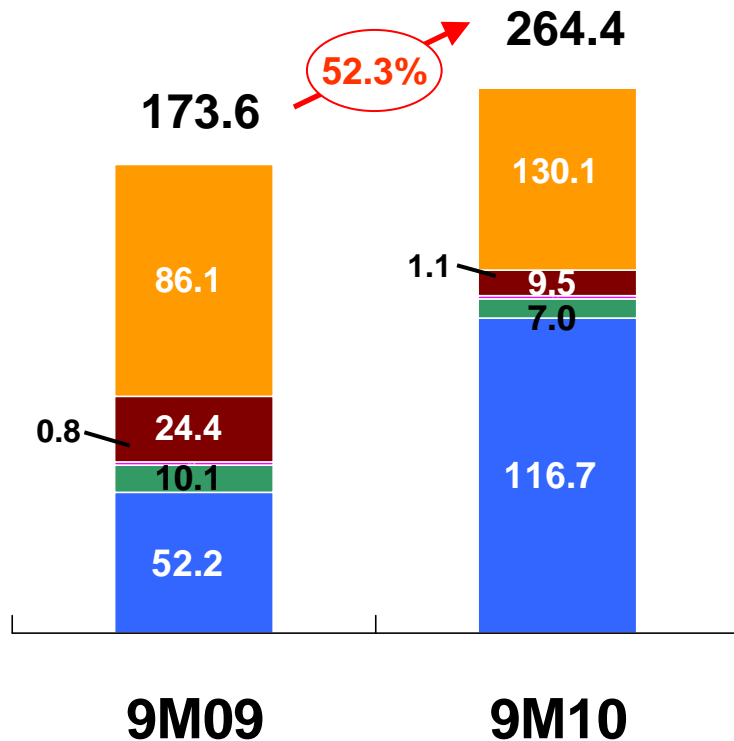
# Cathay Life – Total premium



# Cathay Life — FYP/ FYPE

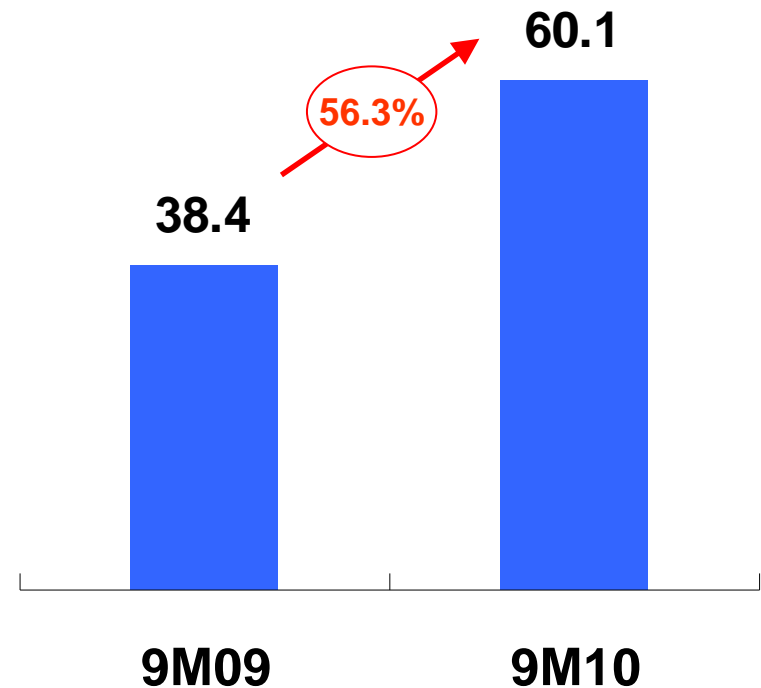
## First year premium (FYP)

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



## First year premium equivalent (FYPE)

(NT\$BN)

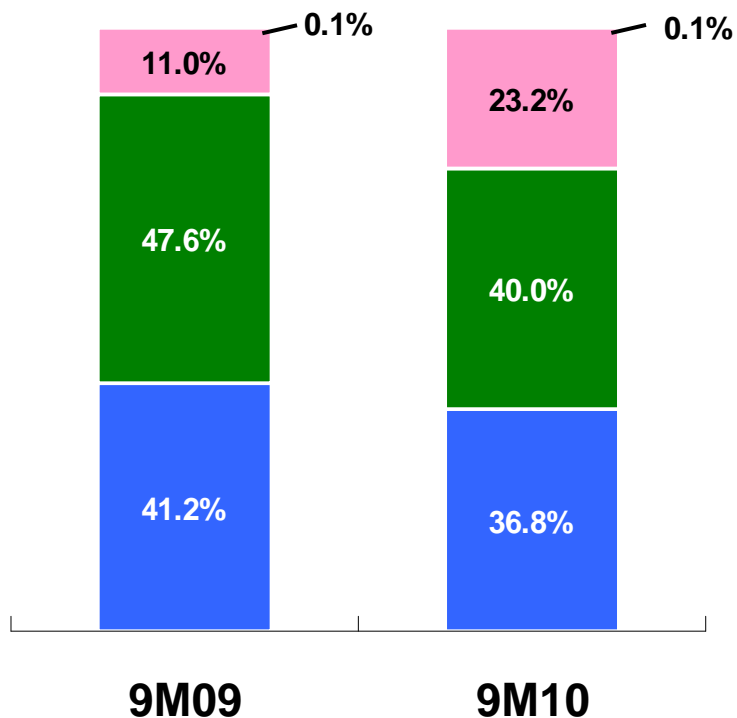


Note : Total may not sum due to rounding

# Cathay Life — Distribution channel

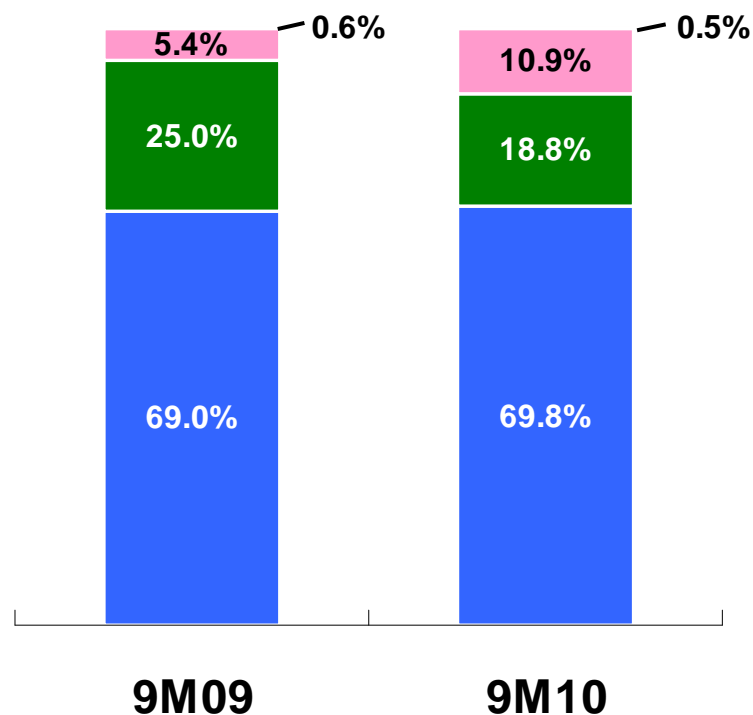
## First year premium (FYP)

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



## First year premium equivalent (FYPE)

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



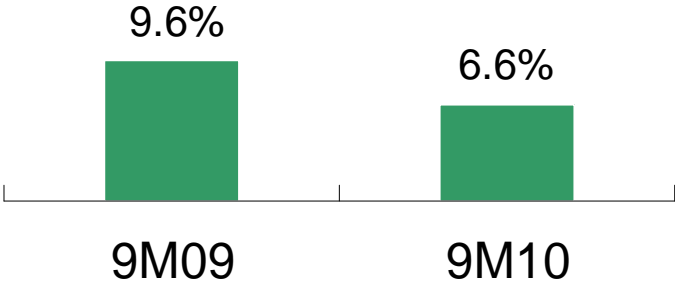
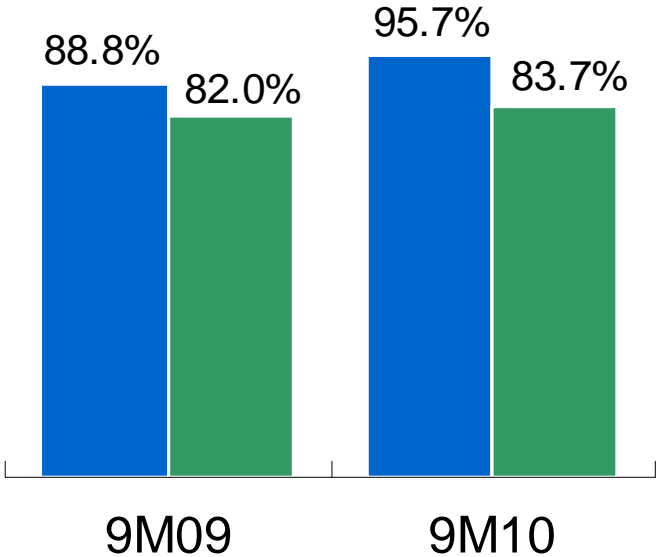
Note : Total may not sum due to rounding

# Cathay Life – Operational indicators

## Persistency ratio

## Expense ratio

■ 13 months ■ 25 months



# Cathay Life – Investment portfolio

	2Q10		3Q10		Weight Change	Amount Change
	Amt. (NT\$BN)	%	Amt. (NT\$BN)	%		
Cash & Cash equivalent	436.5	16.7%	406.6	15.1%	-1.7%	-29.9
Equity- Domestic	153.7	5.9%	174.4	6.5%	0.6%	20.7
Equity- International	55.7	2.1%	55.2	2.0%	-0.1%	-0.5
Bond- Domestic	371.2	14.2%	397.4	14.7%	0.5%	26.2
Bond- International <sup>(1)</sup>	915.6	35.1%	989.4	36.7%	1.6%	73.8
Mortgage & Secured loans	299.5	11.5%	295.6	11.0%	-0.5%	-3.8
Policy loans	192.7	7.4%	191.4	7.1%	-0.3%	-1.4
Real estate	135.6	5.2%	135.6	5.0%	-0.2%	0.0
Others	49.2	1.9%	52.5	1.9%	0.1%	3.2
<b>Total investments</b> <sup>(2)(3)</sup>	<b>2,609.6</b>	<b>100%</b>	<b>2,698.0</b>	<b>100%</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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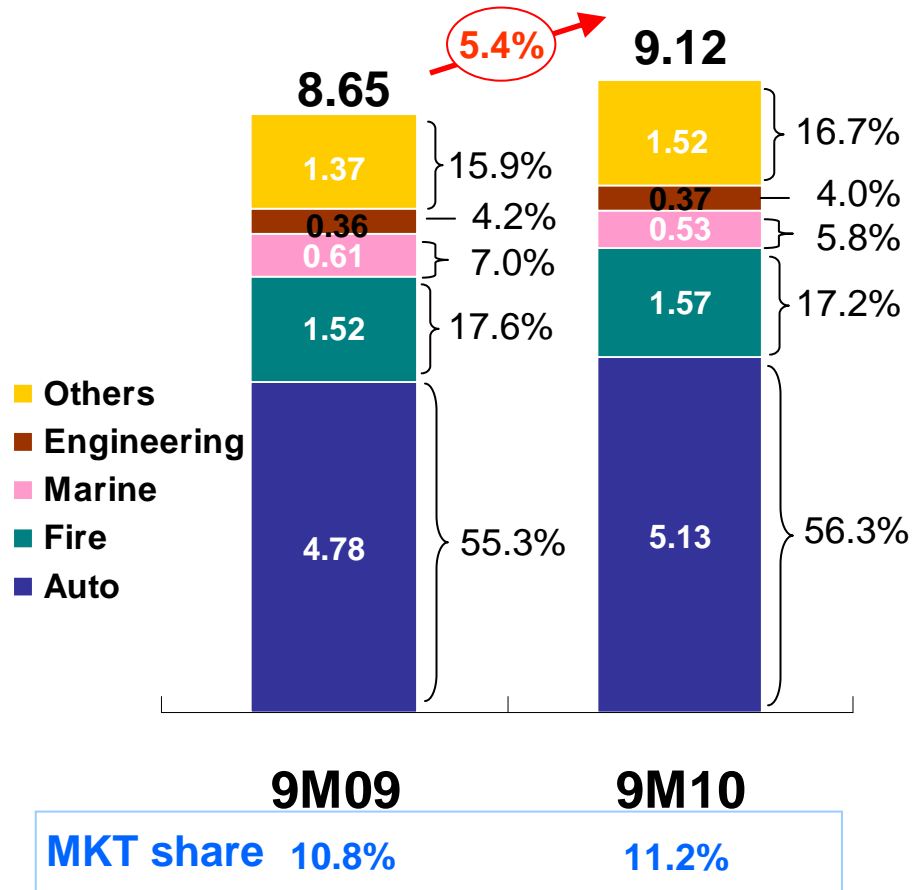
  - Cathay Life

  - Cathay Century

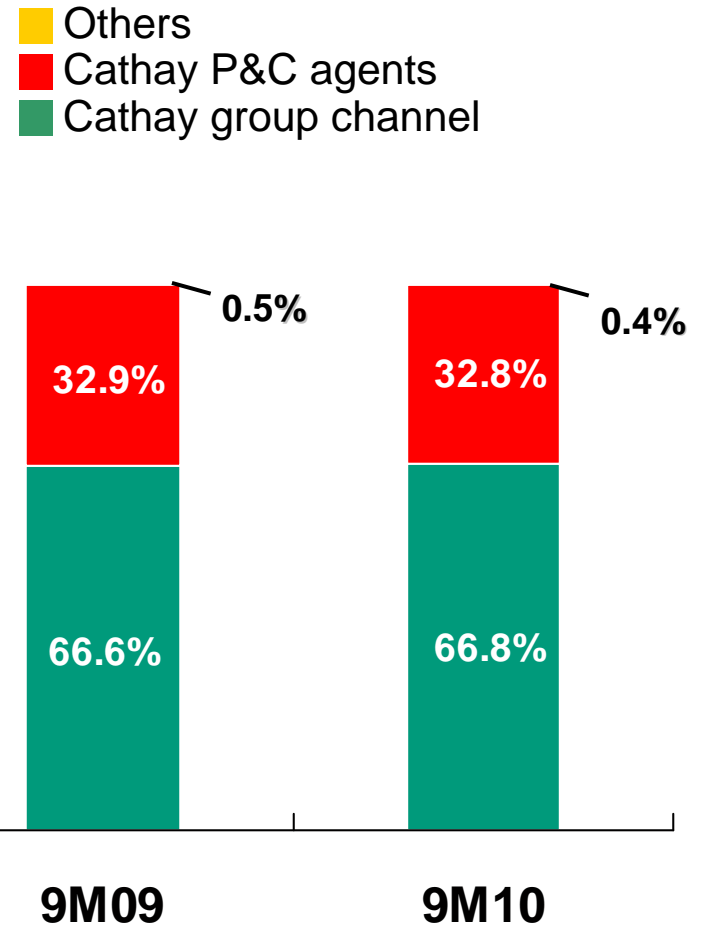
- **Overseas expansion**

# Cathay Century

## Product breakdown (NT\$BN)



## Distribution channel

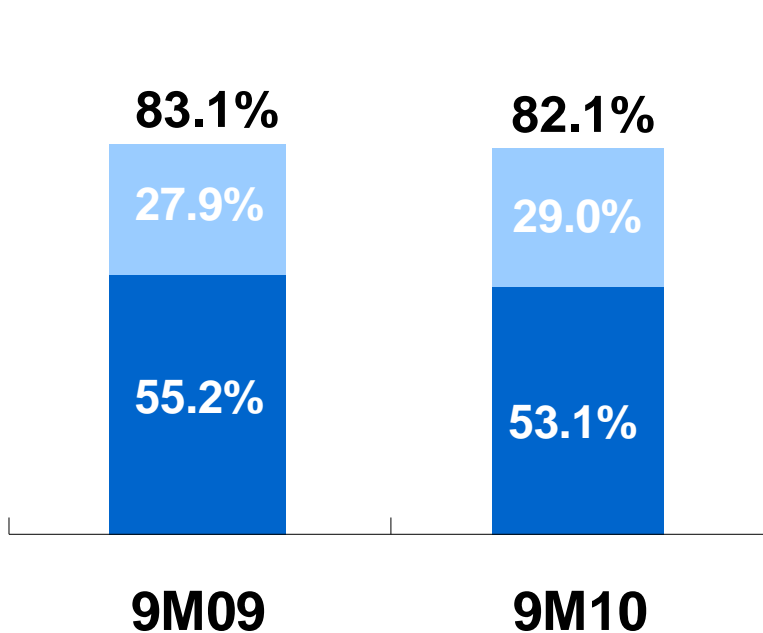




# Cathay Century

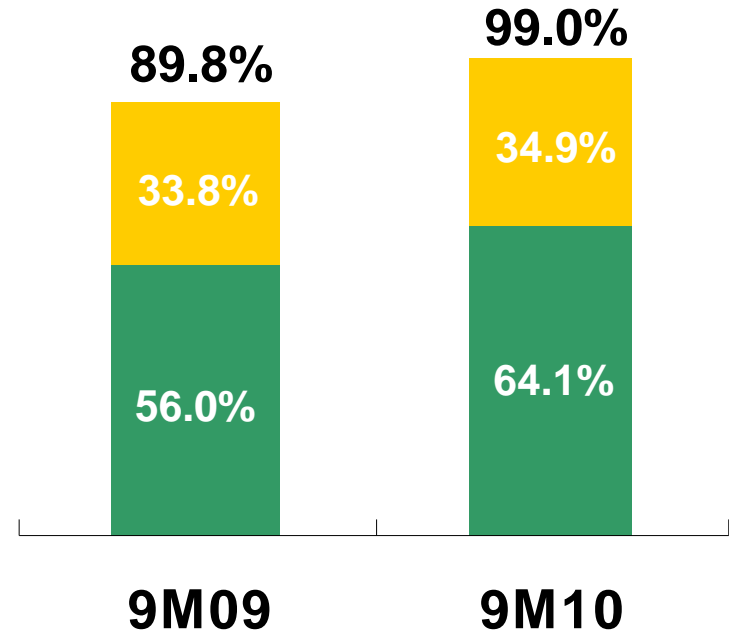
## Gross combined ratio

- Gross expense ratio
- Gross loss ratio



## Retained combined ratio

- Retained expense ratio
- Retained loss ratio



Retained rate 71.0%

72.4%

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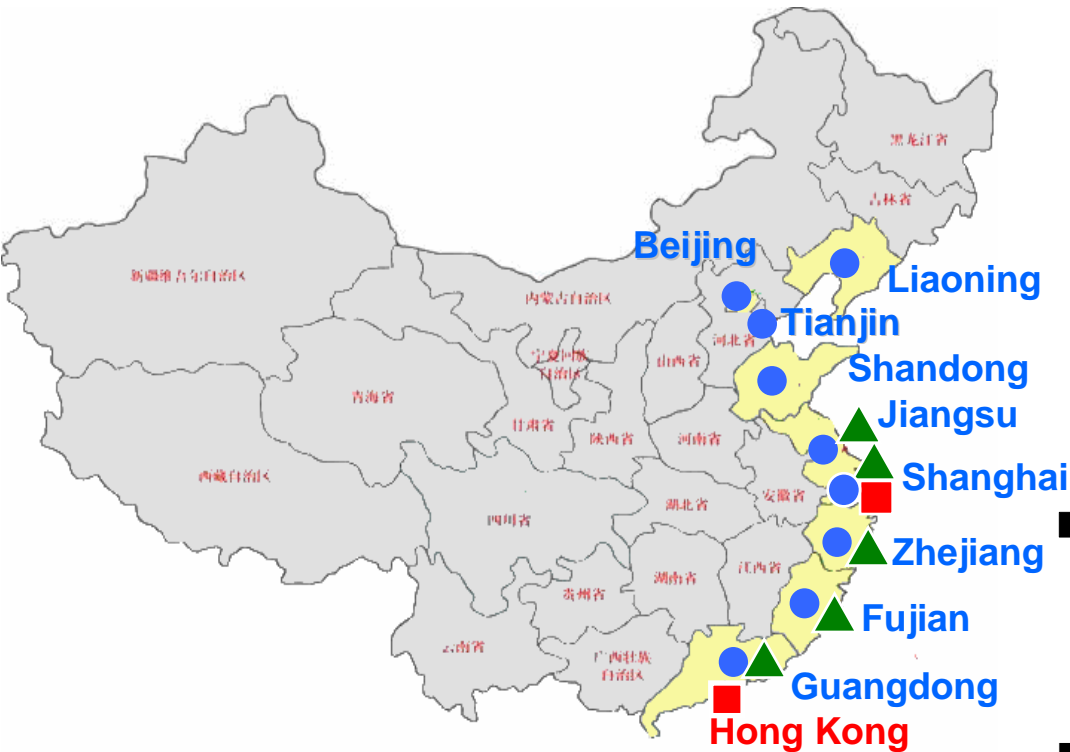
  - Cathay United Bank

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- **Overseas expansion**

# Cathay FHC in China



## ■ Cathay Life (China)

- Joint venture between Cathay Life Insurance and China Eastern Airline Group
- Registered capital: RMB1,200 MN<sup>(1)</sup>
- Sales force: 2,121 tied agents
- Footprint: 36 offices in 28 cities, 9 provinces
  - Serviced cities account for approximately 30% of China's GDP
  - Office number ranked seventh highest among local foreign players
- Policyholders: approximately 2.44 MN<sup>(2)</sup>

## ■ Cathay United Bank

- 1 Hong Kong branch (2001)
- Shanghai rep. office received approval from CBRC to upgrade to branch in October 2010.

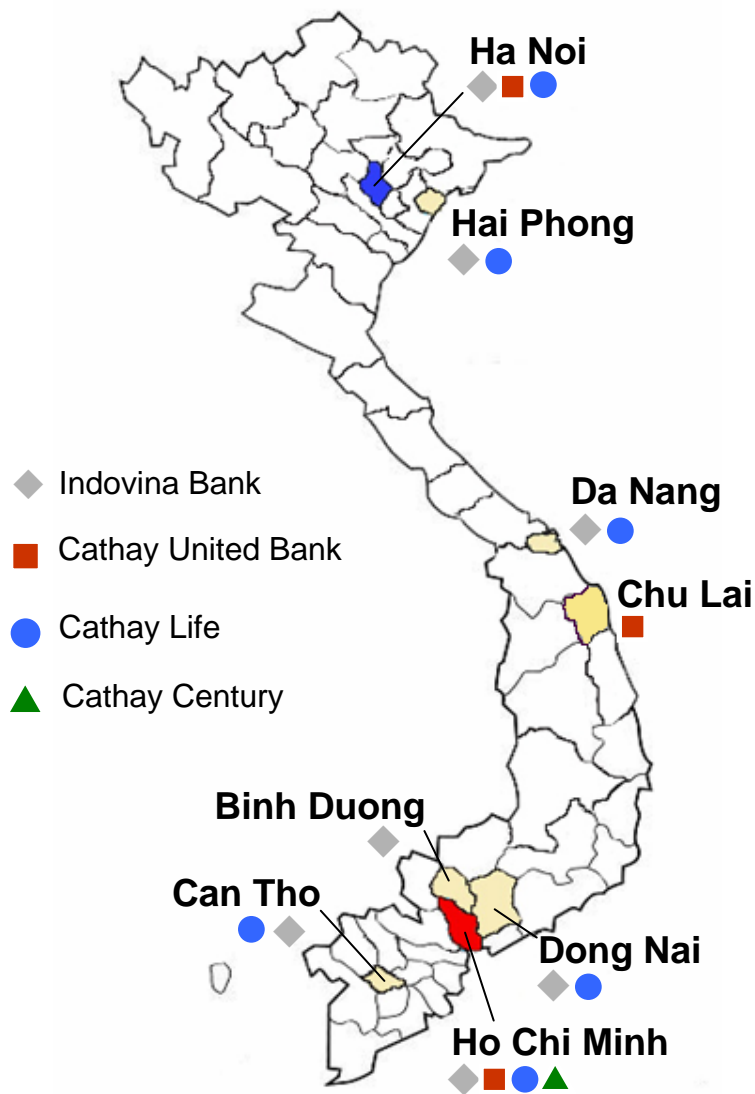
## ■ Cathay Century (China)

- 50% owned by Cathay Life and 50% owned by Cathay Century
- Headquartered in Shanghai
- 3 branches( Jiangsu, Fujian, and Guangdong)
- Obtained Zhejiang operation license

Note(1): Capital raising of RMB 400MN, is under China regulator's review

Note(2): Numbers are effective policyholders as of 2010/09/30

# Cathay FHC in Vietnam



## ■ Indovina Bank

- Joint venture bank between CUB and VietinBank with 35 locations( 9 new locations in 2010)
- Total assets : USD834.1 MN
- NPL ratio : 0.27%(avg. NPL ratio of local players is approximately 3%)
- Pre-tax income: USD8.37 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 USD2.67 MN

## ■ Cathay Life

- Headquartered in Ho Chi Minh
- 5 branches (Hanoi, Da Nang, Can Tho, Dong Nai, and Hai Phong)
- Sales force: 5,610 tied agents
- Net loss was approximately USD 0.47 MN

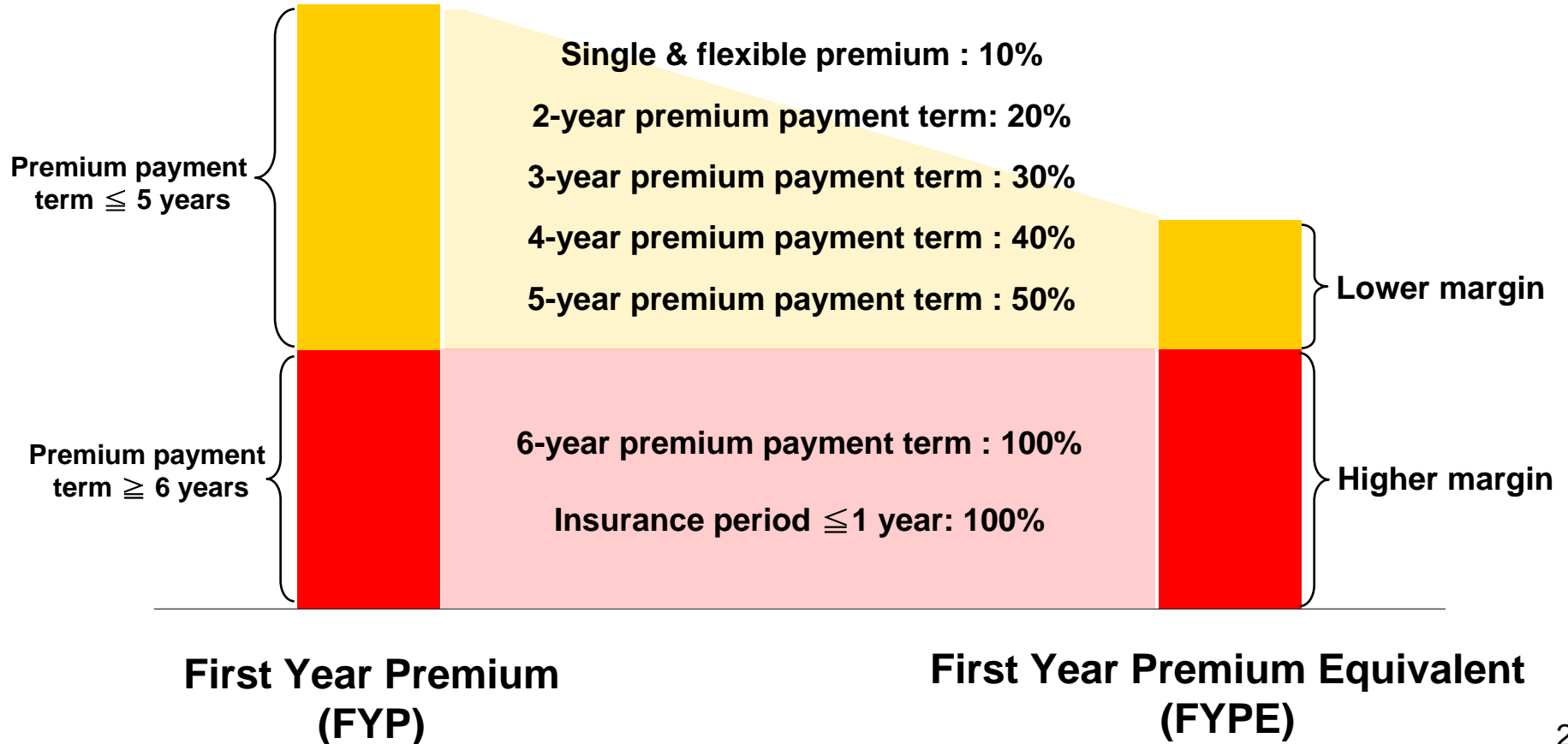
## ■ Cathay Century

- 1 rep. office (Ho Chi Minh)
- Received approval-in-principle from MOF of Vietnam

Note: All numbers are as of 2010/09/30

# Appendix – Definition of FYPE

$$\text{FYP} \times \text{Premium Multiple (determined by product margin)} = \text{FYPE}$$



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

	FY2008	FY2009	FY09/ FY08 % Chg	9M09	9M10	9M10/ 9M09/ % Chg	3Q09	3Q10	3Q10/ 3Q09/ % Chg
<b>Statement of Income Data</b>									
Interest income	0.484	0.553	14.4%	0.399	0.643	61.1%	0.133	0.223	67.0%
Income from subsidiaries									
Cathay Life	(1.995)	2.672	-	1.193	(5.129)	-	0.147	1.943	1224.2%
Cathay United Bank	4.459	8.688	94.8%	6.571	9.520	44.9%	2.401	3.107	29.4%
Cathay Century	0.476	0.794	66.9%	0.565	0.432	-23.5%	0.082	0.216	164.1%
Other	(0.082)	0.030	-	0.038	0.276	626.3%	0.080	0.082	1.6%
Total income from subsidiaries, net	2.858	12.184	326.3%	8.367	5.099	-39.1%	2.711	5.347	97.3%
Gain/Loss on foreign exchange	(0.717)	0.000	-	0.000	(0.000)	-	(0.000)	(0.000)	60.0%
Other income	0.383	0.061	-84.0%	0.061	0.055	-10.1%	0.060	0.048	-20.1%
Operating costs	(0.396)	(0.751)	89.7%	(0.472)	(0.865)	83.2%	(0.165)	(0.290)	76.0%
Administrative and general expenses	(0.487)	(0.319)	-34.5%	(0.209)	(0.253)	20.7%	(0.085)	(0.101)	18.4%
Income taxes (expense) benefit	0.071	(0.677)	-	(0.304)	(0.451)	48.1%	(0.278)	(0.026)	-90.8%
Net income	2.196	11.051	403.2%	7.842	4.228	-46.1%	2.377	5.202	118.8%
EPS (NT\$)	0.23	1.14		0.77	0.42				
<b>Balance Sheet Data</b>									
Long-term investments in stock	144.9	216.3		205.7	218.3				
Total assets	168.6	261.1		231.4	268.9				
Total consolidated assets	3,746.2	4,295.5		4,141.9	4,608.0				
Total shareholders' equity	142.4	212.2		203.2	217.9				
<b>Operating Metrics</b>									
ROAE(standalone)	1.2%	6.2%		6.1%	2.6%				
ROAA (standalone)	1.1%	5.1%		5.2%	2.1%				
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	9M09	9M10	9M10/ 9M09/ % Chg	3Q09	3Q10	3Q10/ 3Q09/ % Chg
<b>Summary Statement of Income Data</b>									
Premiums income <sup>(1)</sup>	346.454	442.048	27.6%	297.076	405.209	36.4%	108.007	128.326	18.8%
Investment income									
Interest income	76.394	73.321	-4.0%	55.302	56.896	2.9%	17.857	19.441	8.9%
Gain on disposal of investment	0.000	0.000	-	0.000	10.396	-	0.000	2.495	-
Other investment income, net	(13.886)	4.069	-129.3%	1.858	(2.245)	-	0.969	4.857	401.3%
Total investment income, net <sup>(2)</sup>	62.508	77.391	23.8%	57.160	65.047	13.8%	18.826	26.793	42.3%
Other income	6.005	13.665	127.6%	8.661	17.851	106.1%	3.299	5.846	-
Insurance claims payment	(274.858)	(231.833)	-15.7%	(163.593)	(209.603)	28.1%	(64.705)	(76.615)	18.4%
Provisions for reserves									
Provisions	(356.922)	(455.987)	27.8%	(298.199)	(408.625)	37.0%	(107.606)	(131.218)	21.9%
Recoveries	250.197	206.441	-17.5%	135.400	172.501	27.4%	55.635	64.830	16.5%
Total provisions for reserves, net	(106.724)	(249.546)	133.8%	(162.799)	(236.124)	45.0%	(51.971)	(66.389)	27.7%
Commissions and operating expense									
Brokerage expenses	(26.428)	(27.041)	2.3%	(20.333)	(21.111)	3.8%	(6.540)	(6.966)	6.5%
Marketing, administrative and general expenses	(11.021)	(11.323)	2.7%	(7.984)	(8.383)	5.0%	(2.812)	(3.073)	9.3%
Total commissions and operating expenses	(37.450)	(38.364)	2.4%	(28.316)	(29.494)	4.2%	(9.352)	(10.039)	7.3%
Other operating expenses	(2.546)	(8.955)	251.7%	(4.797)	(20.409)	325.5%	(2.248)	(6.790)	-
Operating income	(6.611)	4.406	-	3.393	(7.523)	-	1.856	1.132	-39.0%
Non-operating income	1.441	1.571	9.0%	1.076	1.592	47.9%	0.360	0.472	31.1%
Non-operating expense	(0.822)	(1.344)	63.4%	(1.132)	(0.616)	-45.6%	(0.868)	(0.208)	-76.0%
Income taxes	4.019	(1.970)	-	(2.145)	1.418	-	(1.202)	0.547	-
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	-	1.193	(5.129)	-	0.146	1.943	1226.7%
<b>Balance Sheet Data</b>									
Total assets	2358.9	2742.9		2641.7	3004.0				
Total stockholders' equity	53.9	113.1		105.9	114.4				
<b>Operating Metrics</b>									
First year premium	206.0	261.6		173.6	264.4				
Expense ratio	10.3%	8.2%		9.6%	6.6%				
13-mos persistency ratio	90.4%	89.7%		88.8%	95.7%				
25-mos persistency ratio	83.9%	81.6%		82.0%	83.7%				
ROAE	-2.2%	3.2%		2.0%	-6.0%				
ROAA	-0.1%	0.1%		0.1%	-0.2%				

Notes:

- (1) Excludes investment-linked products premium income.  
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**Cathay United Bank**
**Summary Financial Data**

(NT\$BN)

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<b>Summary Statement of Income Data</b>									
Interest income	40.242	23.868	-40.7%	18.436	16.240	-11.9%	5.450	5.618	3.1%
Interest expense	(19.724)	(10.170)	-48.4%	(8.216)	(5.456)	-33.6%	(2.342)	(1.924)	-17.9%
Net interest income	20.518	13.698	-33.2%	10.220	10.785	5.5%	3.107	3.694	18.9%
Net operating income except interest income									
Net handling fee	5.100	4.677	-8.3%	3.183	4.646	46.0%	1.214	1.606	32.3%
Gains on financial assets and liabilities at fair value through P&L	(2.067)	2.840	-	2.511	0.313	-87.5%	0.887	0.267	-69.9%
Realized gains on available-for-sale financial assets	0.163	1.517	831.6%	1.071	1.767	64.9%	0.651	0.466	-28.5%
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%	0.173	0.163	-5.7%	0.070	0.045	-35.8%
Realized gain - equity method	0.000	0.000	-	0.000	0.000	-	0.000	0.000	-
Gain on foreign exchng - net	1.102	0.592	-46.3%	0.505	0.526	4.1%	0.249	0.173	-30.6%
Impairment gain/loss	(3.109)	(0.171)	-94.5%	(0.036)	0.000	-	(0.001)	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	0.000	-
Investments in debt securities with no active market, net	(1.758)	0.180	-	0.178	0.058	-67.2%	0.173	0.020	-88.4%
other income, net	1.116	1.930	73.0%	1.247	1.942	55.7%	0.309	0.867	180.3%
Net operating income	21.535	25.523	18.5%	19.051	21.239	11.5%	6.658	7.137	7.2%
Provisions for possible losses	(0.926)	0.000	-	(0.162)	0.000	-	0.126	0.000	-100.0%
Operating expenses	(14.176)	(14.400)	1.6%	(10.440)	(10.799)	3.4%	(3.651)	(3.681)	0.8%
Income from continuing operations before income taxes	6.453	11.122	72.4%	8.449	10.439	23.6%	3.134	3.455	10.3%
Income tax benefit (expense)	(1.992)	(2.434)	22.2%	(1.878)	(0.919)	-51.1%	(0.733)	(0.348)	-52.5%
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%	6.571	9.520	44.9%	2.401	3.107	29.4%
<b>Balance Sheet Data</b>									
Total assets	1,351.6	1,510.3		1,469.5	1,545.5				
Total shareholders' equity	82.9	93.1		91.2	94.4				
<b>Operating Metrics</b>									
Cost income ratio	65.7%	56.4%		54.8%	50.9%				
ROAE	5.4%	9.9%		10.1%	13.5%				
ROAA	0.3%	0.6%		0.6%	0.8%				
<b>Assets Quality</b>									
NPL ratio (international standard)	0.9%	0.6%		0.8%	0.3%				
Coverage ratio (international standard)	109.3%	135.1%		106.4%	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)**

	FY 2008	FY2009	FY09/ FY08 % Chg	9M09	9M10	9M10/ 9M09 % Chg	3Q09	3Q10	3Q10/ 3Q09 % Chg
<b>Summary Statement of Income Data</b>									
Premiums income	11,829.6	11,822.2	-0.1%	8650.3	9120.0	5.4%	2858.1	2928.1	2.5%
Reinsurance premiums ceded	(3,771.5)	(3,374.7)	-10.5%	(2511.8)	(2513.6)	0.1%	(819.7)	(705.8)	-13.9%
Premiums income, net	8,058.1	8,447.5	4.8%	6138.6	6606.4	7.6%	2038.4	2222.3	9.0%
Investment									
Interest income	391.0	330.3	-15.5%	256.2	226.0	-11.8%	73.2	71.0	-3.0%
Other investment income, net	(565.8)	49.1	-	41.1	121.7	196.2%	76.0	260.5	242.9%
Total investment income	(174.8)	379.4	-	297.3	347.7	16.9%	149.1	331.5	122.3%
Other operating income	336.4	347.2	3.2%	262.2	251.5	-4.1%	68.0	68.0	0.0%
Insurance claims payment, net	(3,688.7)	(4,116.2)	11.6%	(3236.9)	(3929.3)	21.4%	(1231.6)	(1371.6)	11.4%
Provisions for reserves									
Provisions	(6,655.1)	(7,003.4)	5.2%	(6284.7)	(6779.9)	7.9%	(311.6)	(186.4)	-40.2%
Recoveries	5,812.8	6,197.0	6.6%	5908.4	6629.9	12.2%	223.5	158.4	-29.1%
Total provisions for reserves, net	(842.3)	(806.4)	-4.3%	(376.4)	(150.1)	-60.1%	(88.1)	(28.0)	-68.2%
Commissions, operating and other expenses	(2,997.4)	(3,221.9)	7.5%	(2324.8)	(2629.0)	13.1%	(851.7)	(997.8)	17.2%
Operating income	691.2	1,051.0	52.0%	760.0	497.5	-34.5%	84.4	224.4	166.0%
Non-operating income	10.7	3.1	-71.4%	0.1	5.1	8520.3%	0.0	0.3	6348.8%
Non-operating expense	(12.2)	0.1	-	0.1	(0.1)	-	0.0	(0.2)	-
Income taxes	(211.2)	(268.8)	27.3%	(195.1)	(70.2)	-	(2.9)	(8.5)	-
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%	564.9	432.3	-23.5%	81.6	216.0	164.8%
<b>Summary Balance Sheet Data</b>									
Total assets	19,503.5	20,942.2		20890.3	20640.5				
Total stockholders' equity	3,096.4	4,300.0		3997.3	3680.5				
<b>Operating Metrics</b>									
Written Combined ratio	71.9%	79.3%		83.1%	82.1%				
Net Combined ratio	84.7%	89.4%		89.8%	99.0%				
ROAE	13.7%	21.2%		21.2%	14.5%				
ROAA	2.5%	3.9%		3.7%	2.8%				

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



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

**Shares Outstanding**  
**(Millions of shares)**

	<b>As of</b> <b>9/30/2010</b>
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</u> (As of 30-Jun-2010)			<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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