

Confidential



Q2 2011 Results Update

August 24, 2011

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Figures in this presentation and the presentation materials distributed herewith are preliminary numbers.

# Agenda

## I. SKFH

II. Life Insurance Business

III. Banking Business

IV. Appendix

- Life Premium Summary

# SKFH – 1H 2011 Overview

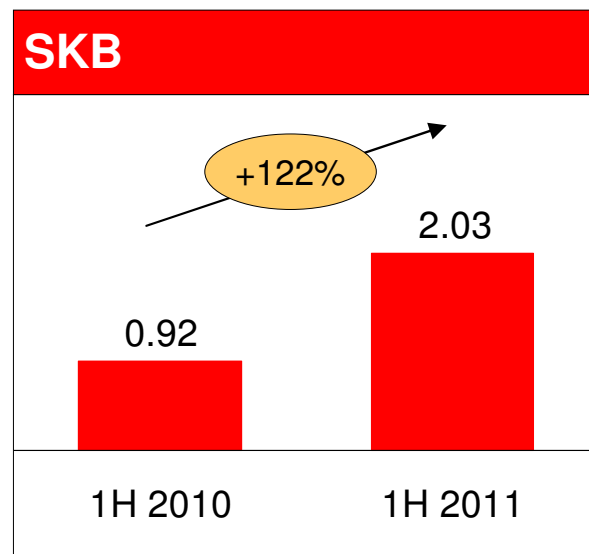
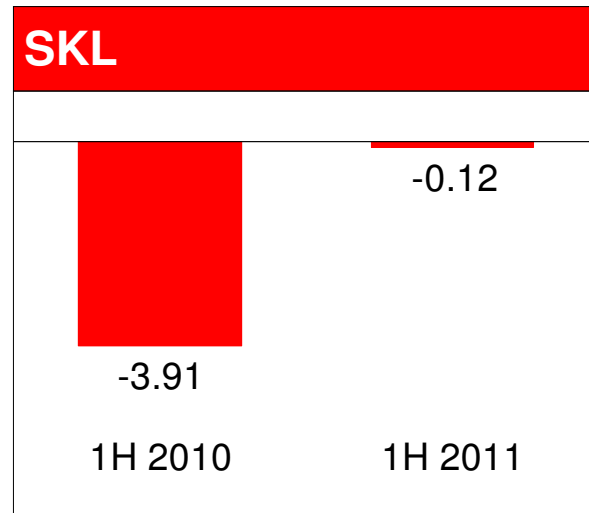
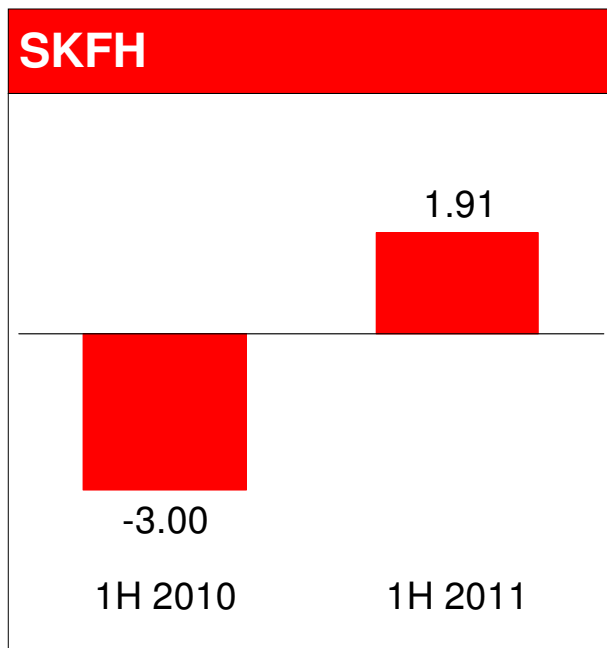
- Although global markets remain volatile in the second quarter due to concerns in European sovereign debt crisis and signs on emerging economies growth slowing down, SKFH recorded an after-tax profit of NT\$1.91bn in 1H. EPS was NT\$0.23.
- Subsidiaries' core business remained solid
  - SKL:
    - ◆ FX hedging cost remained at 200 bps below in the medium/long term target. Total investment income increased 12.9% YoY
    - ◆ Sales of traditional products were 37.2% higher than 1H 2010, with FYP from regular premium products 40.4% higher YoY
  - SKB:
    - ◆ Asset quality continued to improve. New NPL generation was NT\$-61mn
    - ◆ Net interest income increased 16.6% YoY
- Actively deploying in overseas market
  - SKFH: SKFH expects to establish a financial leasing company in China through the venture capital subsidiary in Q4
  - SKL: SKHNA Life obtained approval from the China Insurance Regulatory Commission (CIRC) to establish its Shaanxi branch in Xi'an City

# Financial Highlights – 1H 2011

	1H 2010	1H 2011	YoY Growth
NT\$m (except per share data), %			
Group net income	-2,999	1,910	-
First year premium (Insurance)	37,932	38,652	1.9%
Loans (Bank)	297,068	354,254	19.3%
Total assets	1,965,038	2,081,575	5.9%
Total shareholders' equity	80,224	97,025	20.9%
ROA (unannualized)	-0.13%	0.11%	-
ROE (unannualized)	-3.00%	2.25%	-
Earnings per share	-0.38	0.23	-

# Net Income – 1H 2011

NT\$bn



## Comments

- SKFH recorded an after-tax profit of NT\$1.91bn in 1H, NT\$4.91bn higher YoY
- SKL's cumulative after-tax loss was NT\$0.12bn for 1H
- SKB's 1H profit was 121.5% higher YoY due to widened interest spread and improvement in asset quality

# Net Income – 1H 2011

## Net income contribution

NT\$bn

Subsidiaries	Q1 2011	Q2 2011	1H 2010	1H 2011
Shin Kong Life	0.28	-0.40	-3.91	-0.12
Shin Kong Bank	1.02	1.01	0.92	2.03
Shin Kong Securities	0.00	0.00	0.07	0.00
Shin Kong Investment Trust	0.00	0.01	0.02	0.01
Shin Kong Insurance Brokers	0.02	0.02	0.04	0.04
Others <sup>(1)</sup>	-0.02	-0.03	-0.14	-0.05
<b>Net income</b>	<b>1.30</b>	<b>0.61</b>	<b>-3.00</b>	<b>1.91</b>

Note:

(1) Include other income of SKFH, income taxes, and profit from MasterLink Securities

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I. SKFH

**II. Life Insurance Business**

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- Life Premium Summary



## SKL – 1H 2011 Overview

- 1H 2011 pretax and after-tax profits from SKL were NT\$0.21bn and NT\$-0.12bn respectively amid volatilities in global FX and equity markets. ROE was -0.19%.
- FYP was NT\$38.65bn, up 1.9% YoY. Market share was 7.7%.
- Traditional and investment-linked products contributed most significant shares (34.1% and 39.8% respectively) of FYP. Sales of traditional products were 37.2% higher than 1H 2010, with FYP from regular premium products 40.4% higher YoY.
- Long-term profit generation is the main consideration in product sales. For example, SKL launched a long-term care whole-life product and a foreign currency whole-life protection product to drive mortality/expense gains.
- 13-month persistency was 86.1% and 25-month persistency was 85.2%.
- 1H annualized investment return was 3.88%.
- Song-Jiang REAT was auctioned in May. A gain of NT\$2.39bn is expected to be recognized no later than Q1 2012.

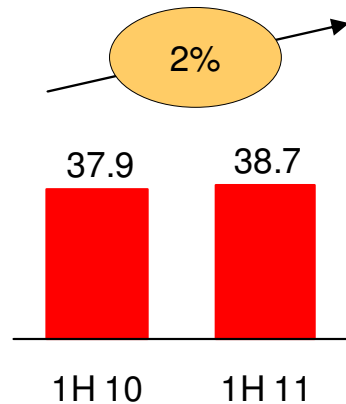
# Financial Highlights – 1H 2011

	1H 2010	1H 2011	YoY Growth
NT\$mn, %			
First year premium	37,932	38,652	1.9%
Total premium	93,254	88,715	-4.9%
Investment income	24,659	27,840	12.9%
Net income	-3,906	-120	-
Total assets	1,487,279	1,542,319	3.7%
Total shareholders' equity	48,581	60,634	24.8%
ROE (unannualized)	-7.40%	-0.19%	-
ROA (unannualized)	-0.27%	-0.01%	-

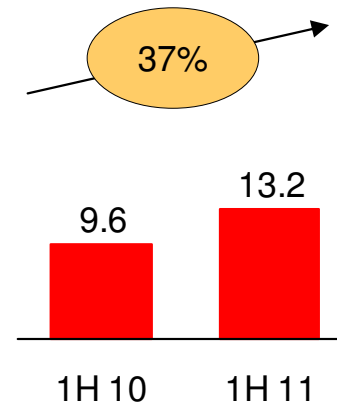
# First Year Premium – 1H 2011

NT\$bn

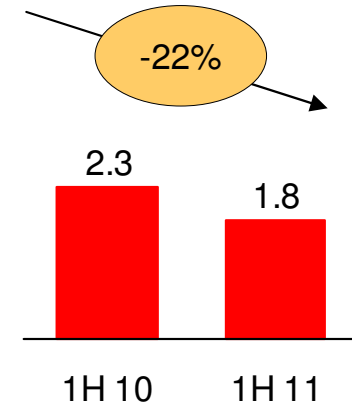
## Market share 7.7%



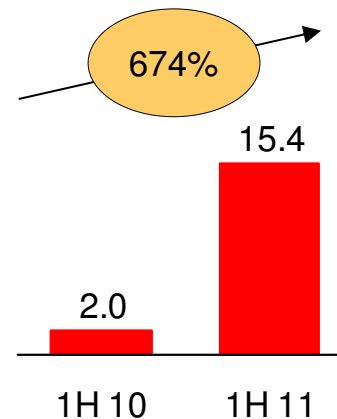
## Traditional



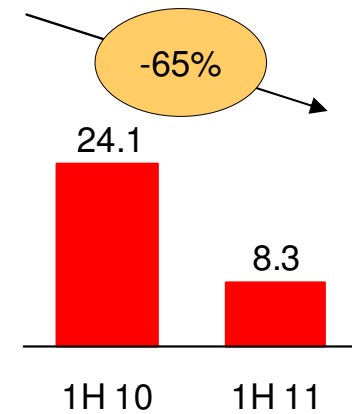
## PA, Health and Group



## Investment-linked



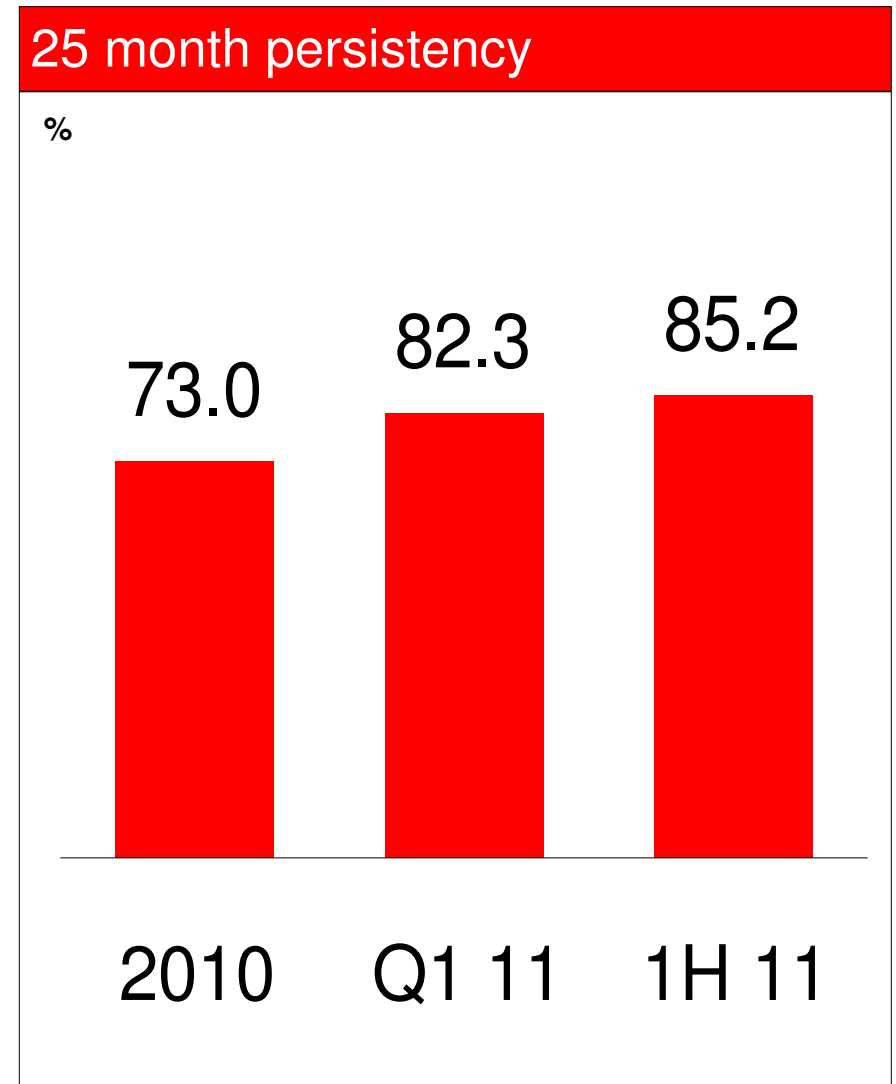
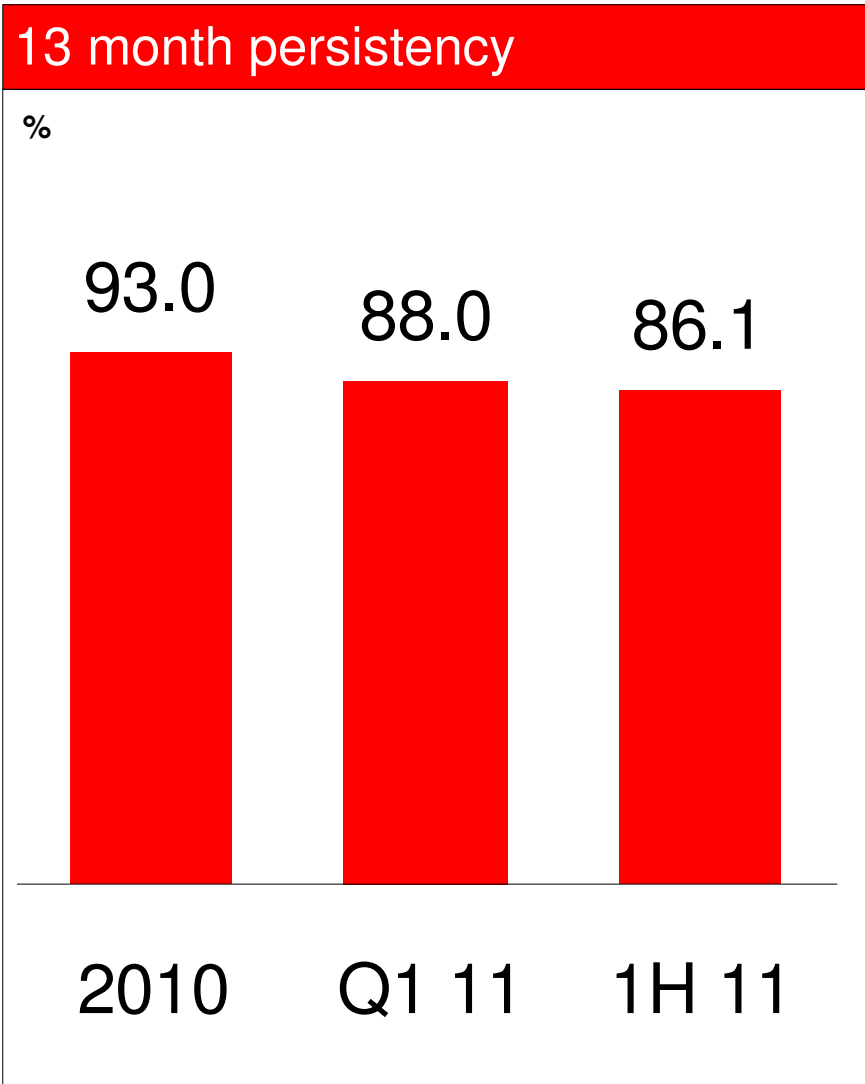
## Interest-sensitive



### Comments

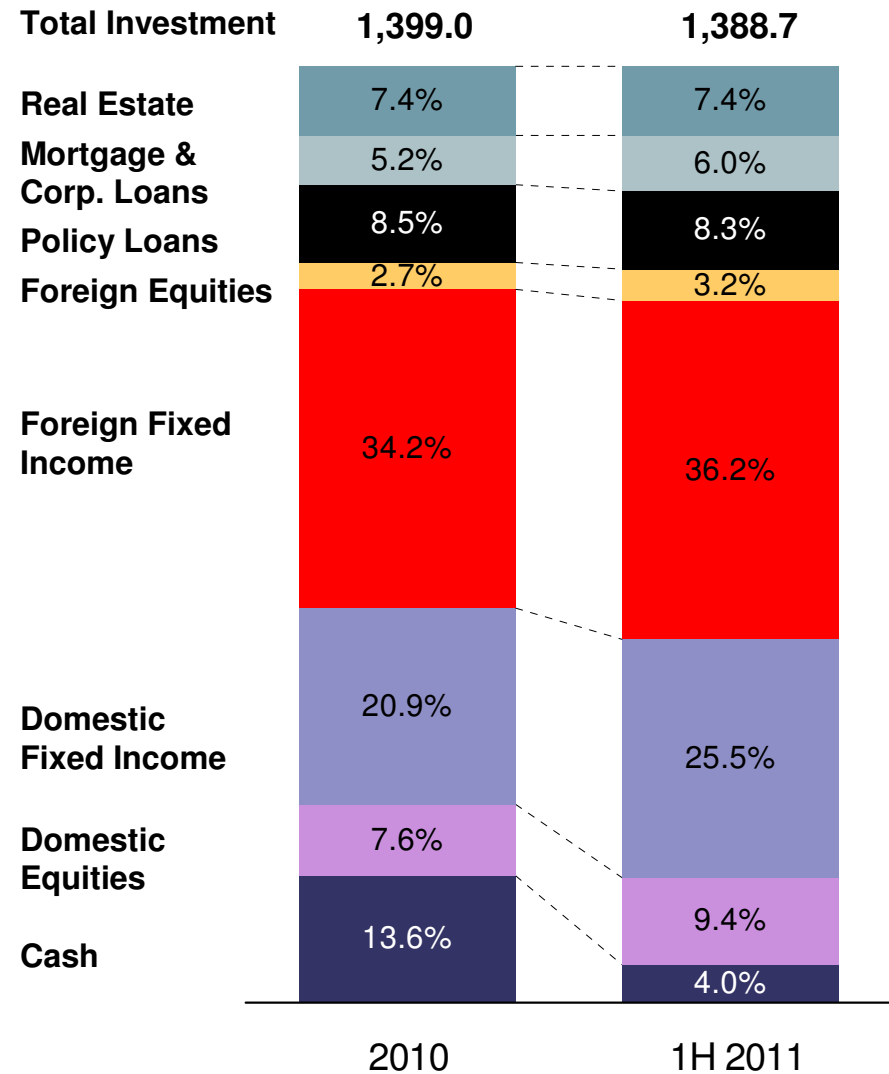
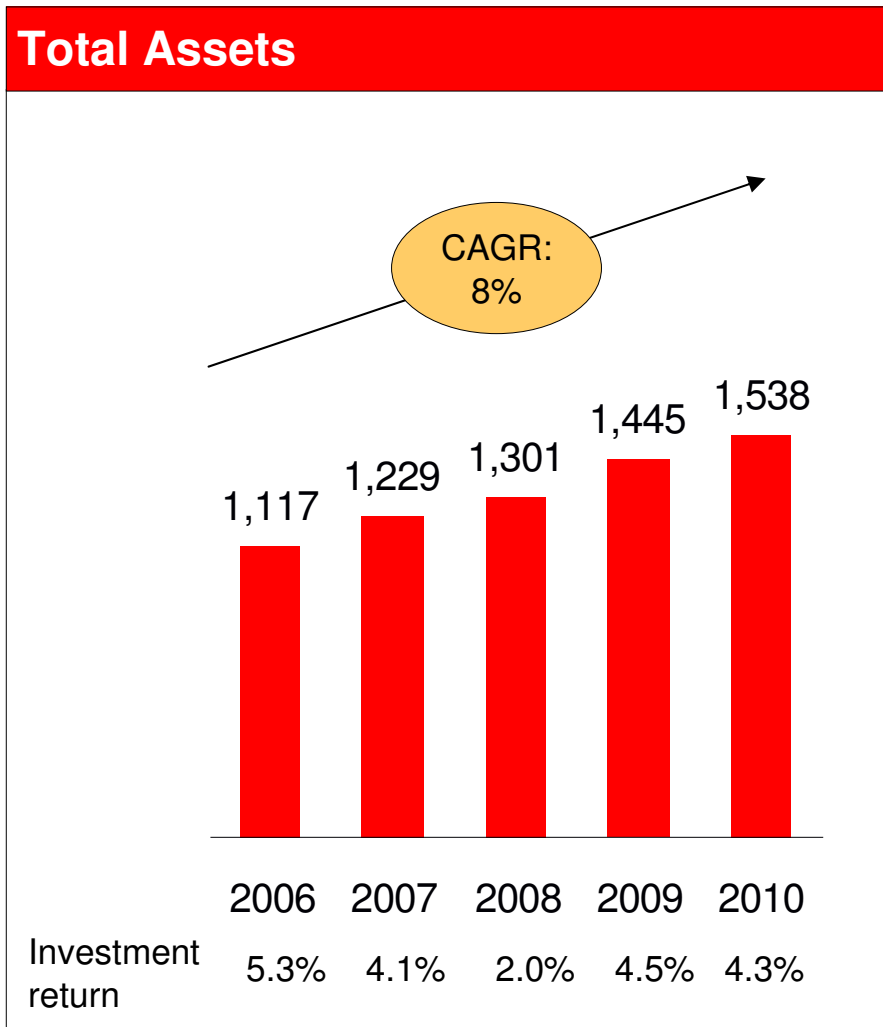
- FYP increased 2% YoY
- Traditional and investment-linked products contributed most significant shares (34% and 40% respectively) of FYP
- Long-term profit generation is the main consideration in product sales. For example, SKL launched a long-term care whole-life product and a foreign currency whole-life protection product to drive mortality/expense gains.
- Sales of traditional products were 37% higher than 1H 2010, with FYP from regular premium products 40% higher YoY. Market demand on interest-sensitive products fell due to regulation changes

# Persistence Ratio



# Investment Portfolio

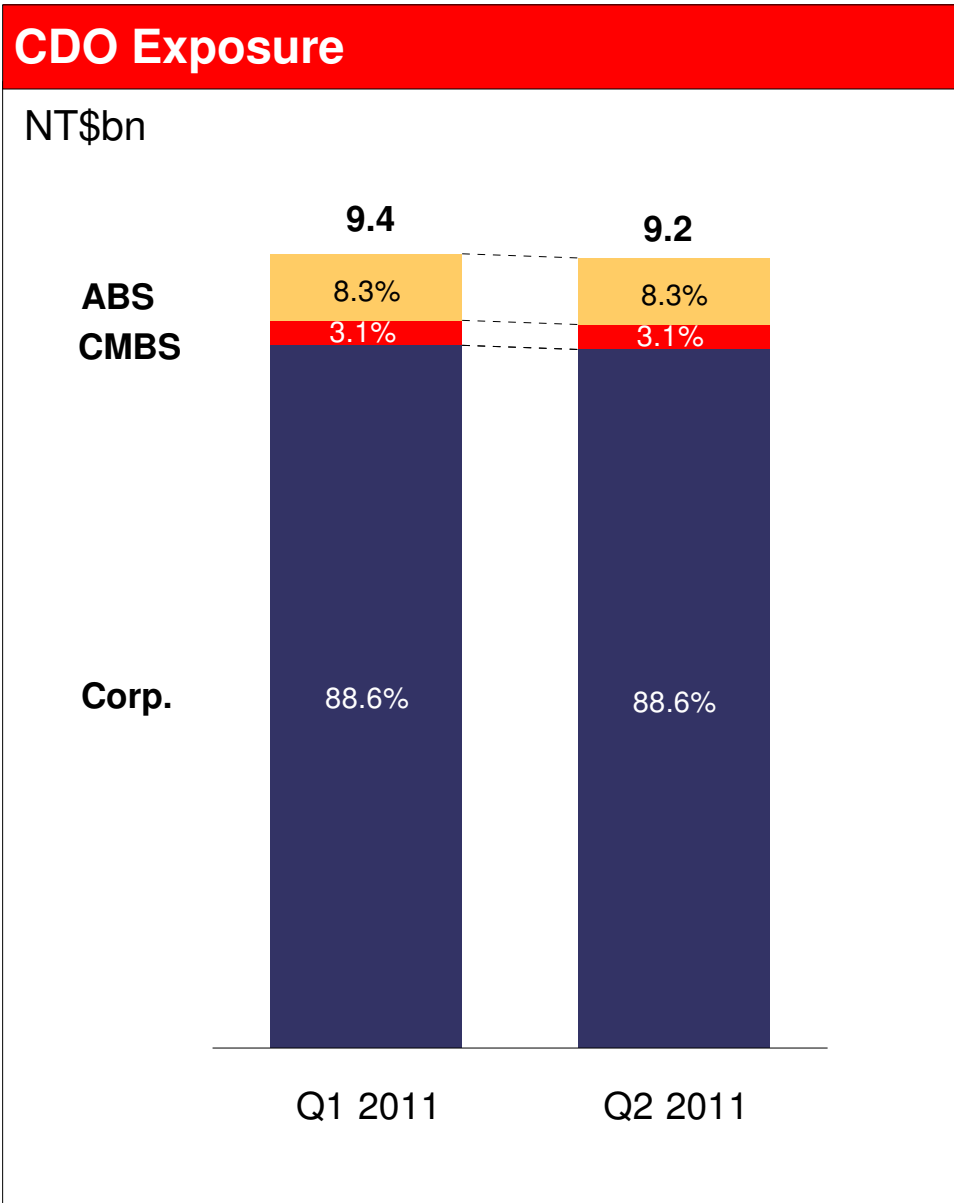
NT\$bn



Note:

- (1) Due to rounding, asset allocation figures may not add up to 100%
- (2) Includes capital gains and FX hedging cost

# CDO Exposure

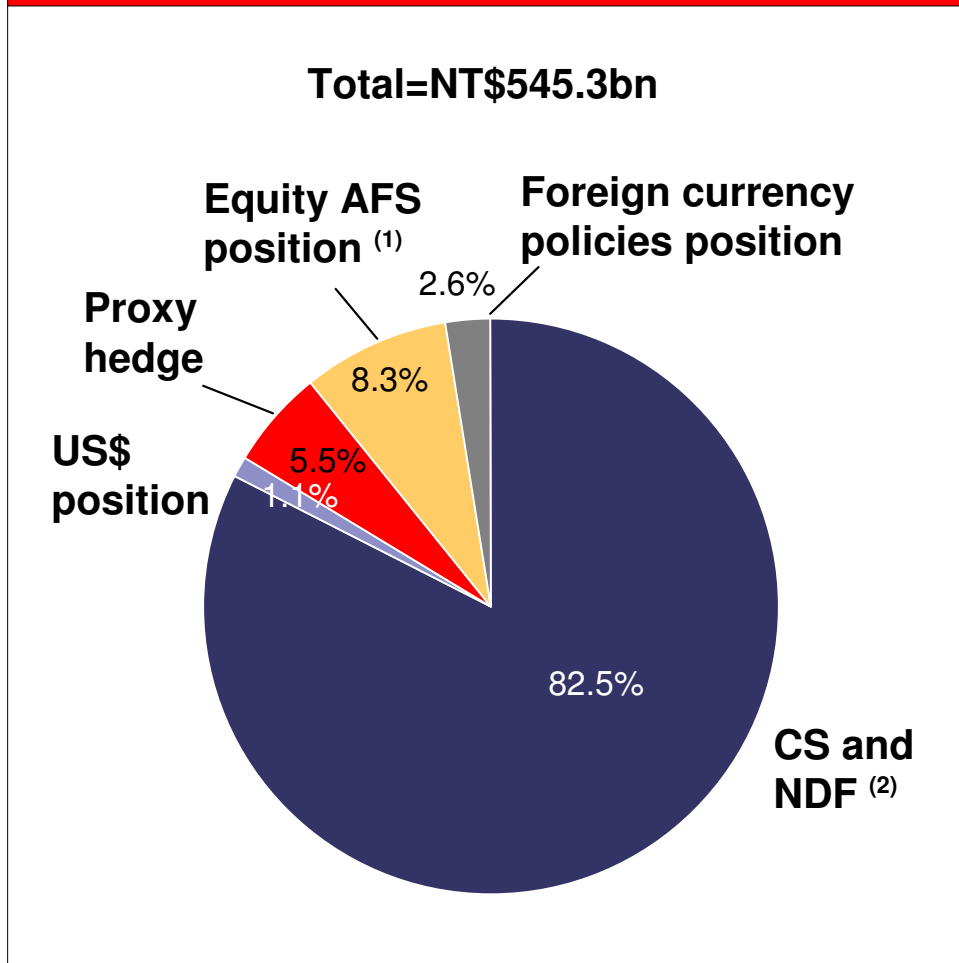


## Comments

- Overall exposure was NT\$9.23bn
- Accounting treatment is 'no active market'
- Policy is to conduct impairment test when there is significant deterioration in credit quality (downgrade by more than 5 notches or to non-investment grade). In 1H 2011, no loss was recognized
- A NT\$0.1bn disposal gain from a Corporate CDO was recognized in 1H 2011.

# Hedging Strategy

## Mix of Hedging Strategies Used



## Comments

- Share of traditional hedges controlled within the target range of 70~90%
- Proxy hedging reduced to 5.5%
- Available for sale position in foreign equities accounted for 8.3% of the portfolio and was not marked to market in income statement

Note:

(1) Available for sale position

(2) Currency swaps and non-delivery forwards

# Investment Strategy

## Strong ALM Discipline

- Develop Strategic Asset Allocation based on liability profile and capital budget
- Build core portfolio of recurring income
- Achieve diversification and yield pick-up through overseas investments; share of overseas investment maintained between 35~40%

## Well-diversified Portfolio

- Diversification by asset class (equity, credit, currency, commodity, real estate)
- Diversification by strategy for uncorrelated sources of alpha (high dividend yield, value, etc.)

## Cost-effective Currency Hedging

- Target share of traditional hedges at 70~90% in the medium/long term
- Target hedging cost at 200 bps or below in the medium/long term

## Enhance Investment Risk Management

- Manage/control investment risk by prudent SAA and TAA ranges
- Utilize the Algo system for real-time investment risk management



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  - Life Premium Summary

## SKB – 1H 2011 Overview

- After-tax profit for 1H 2011 was NT\$2.03bn (up 121.5% YoY); net interest income for Q2 was NT\$1.76bn, up 16.5% YoY; pre-provision profit increased 19.2% QoQ to NT\$1.01bn.
- Loan balance increased to NT\$354.25bn (up 19.3% YoY); deposit balance increased to NT\$429.12bn (up 17.9% YoY). L/D ratio was 82.1% (incl. credit cards balance).
- NIM for Q2 2011 was 1.57%, higher than 1.56% for Q1 2011.
- Despite volatilities in global markets, wealth management income for 1H 2011 was NT\$404mn, up 7.0% YoY. SKB achieved bancassurance cross-sales of NT\$6.44bn in 1H 2011, accounting for 51.1% of SKL bancassurance premium.
- Credit card NPL ratio decreased to 0.20% and coverage ratio was 398.85%.
- Asset quality improved with overall NPL and coverage at 0.38% (Q1 2011: 0.46%) and 208.93% (Q1 2011: 168.84%) respectively. NPL ratio for mortgages remained low at 0.24% (Q1 2011: 0.29%).

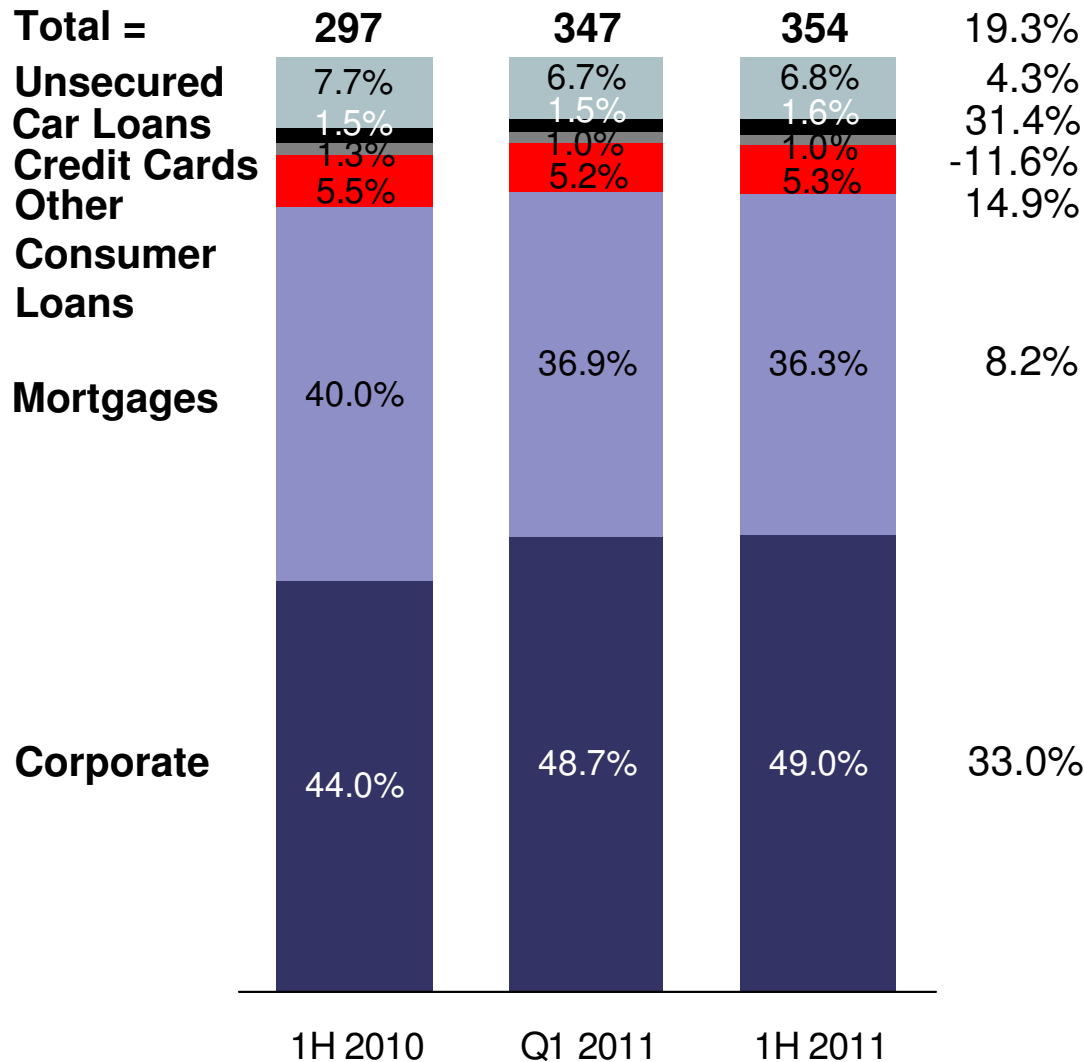
# Net Income – 1H 2011

	1H 2010	1H 2011	YoY Growth
NT\$m, %			
Net interest income	2,972	3,466	16.6%
Net fee income	903	797	-11.7%
Other income	502	325	-35.3%
Operating expense	-2,459	-2,733	11.1%
Pre-provision operating income	1,918	1,853	-3.4%
Provision expense	-958	227	-
Income tax benefit (expense)	-45	-53	18.8%
<b>Net Income</b>	<b>916</b>	<b>2,028</b>	<b>121.5%</b>

# Loan Mix

NT\$bn

## YoY Growth

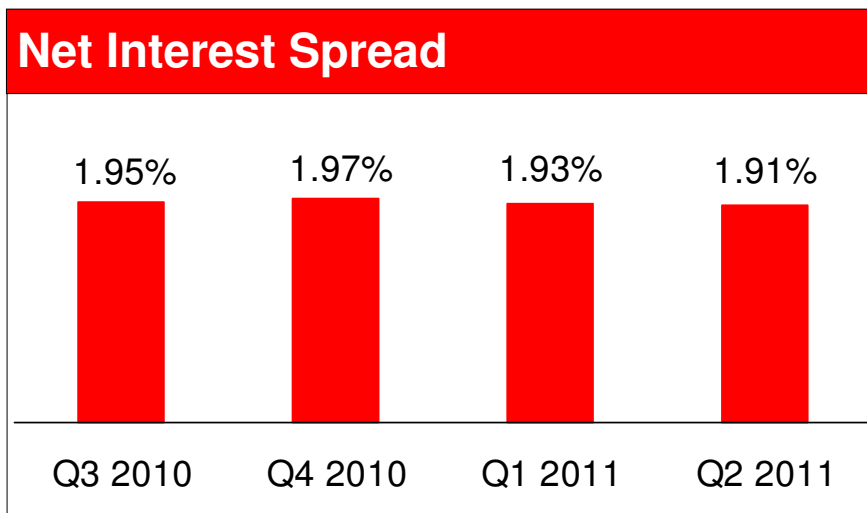
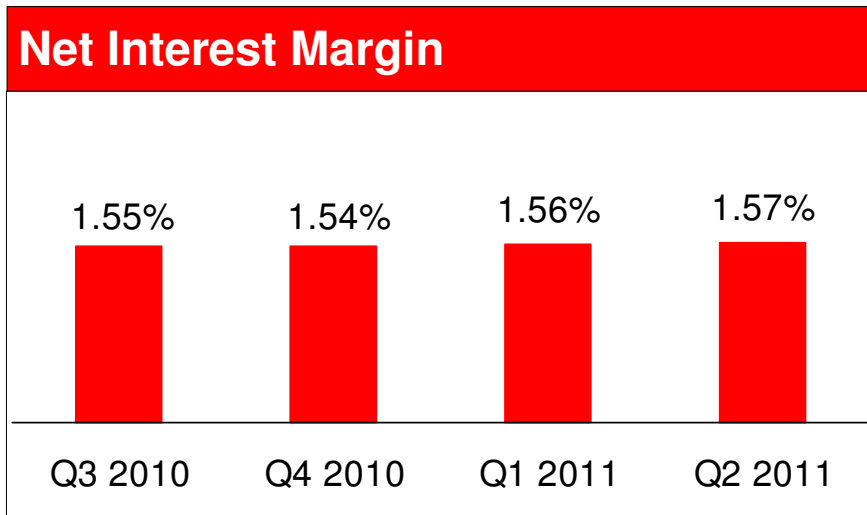


## Comments

- Loan balance increased to NT\$354.25bn (up 19.3% YoY)
- Mortgages achieved stable growth under stringent credit policies; NPL ratio for mortgages was low at 0.24%
- L/D ratio was 82.1% (incl. credit cards balance)

Note: Due to rounding, loan mix may not add up to 100%

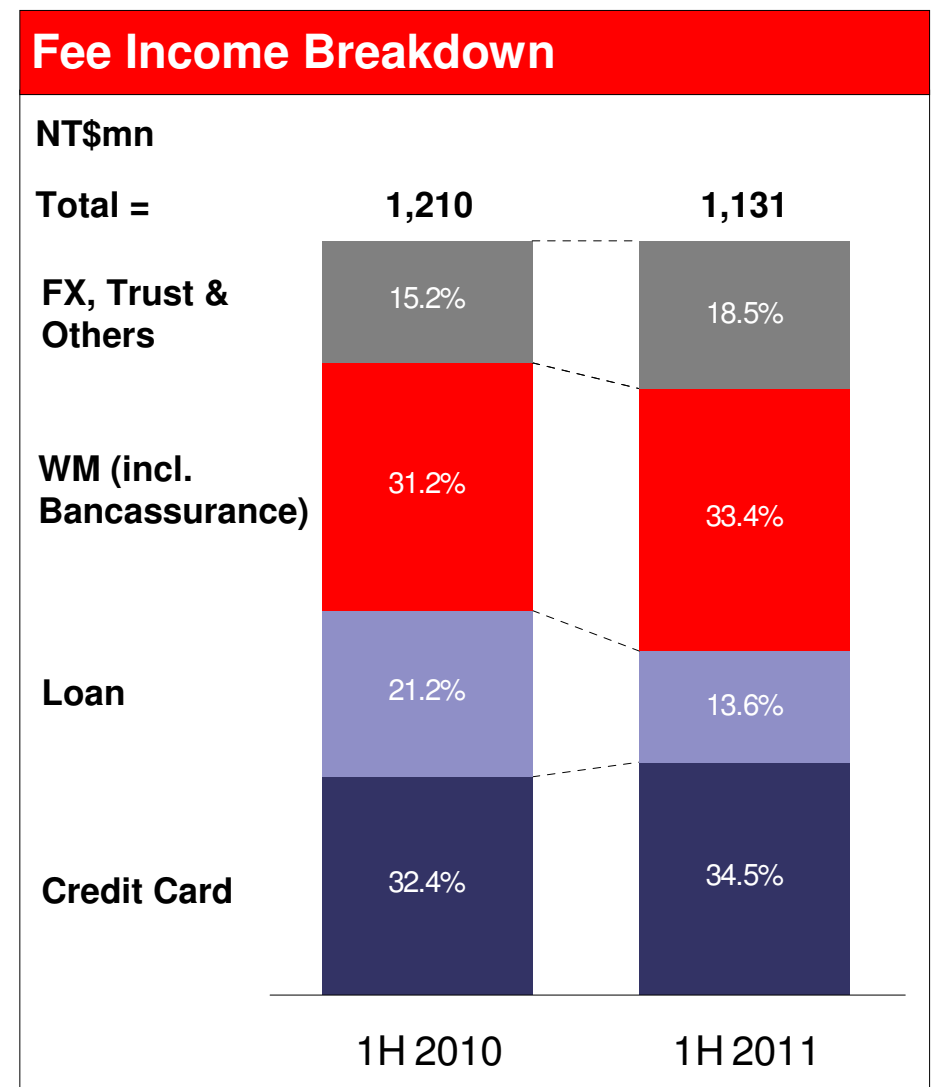
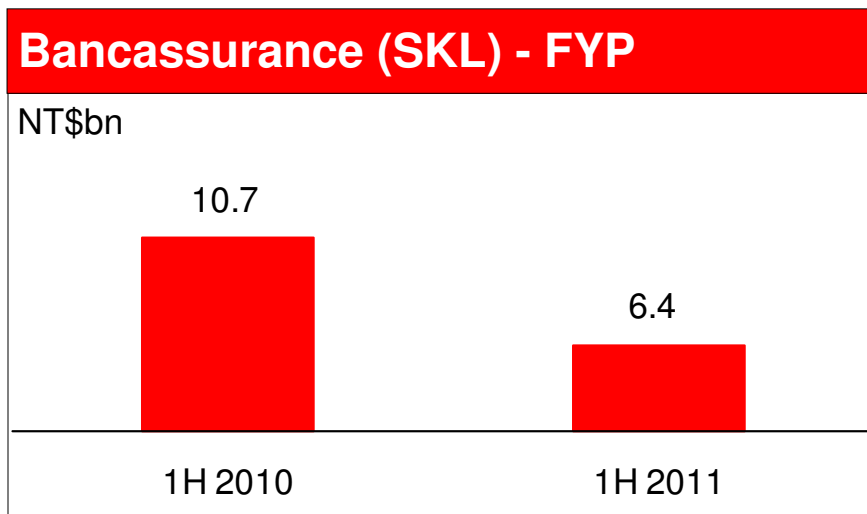
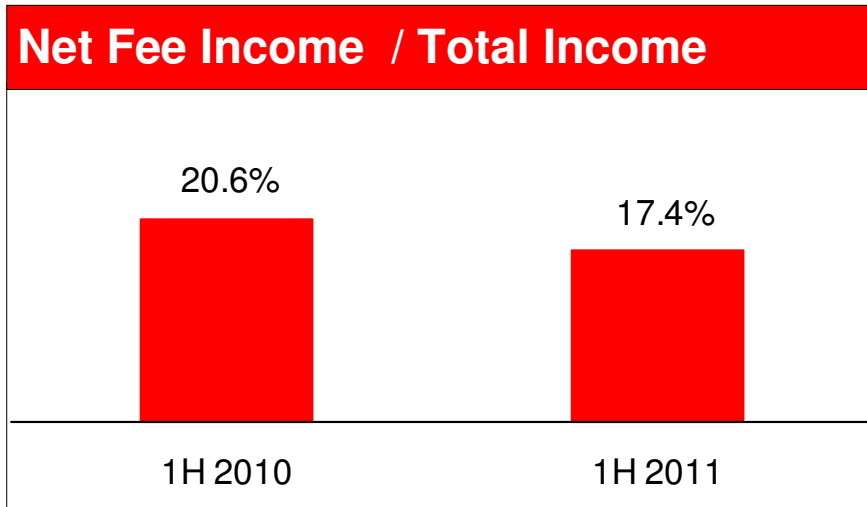
# Interest Income



**Comments**

- NIM for Q2 2011 was 1.57%
- NIM is expected to further increase if Central Bank raises rates
- SKB will continue to :
  - Strengthen relations with corporate customers and increase fee income through GEB, TMU, syndicated loans and factoring business
  - Develop cash management to increase demand deposits and lower cost of funds , and
  - Develop SME and consumer loans with appropriate risk control to enhance interest income

# Fee Income

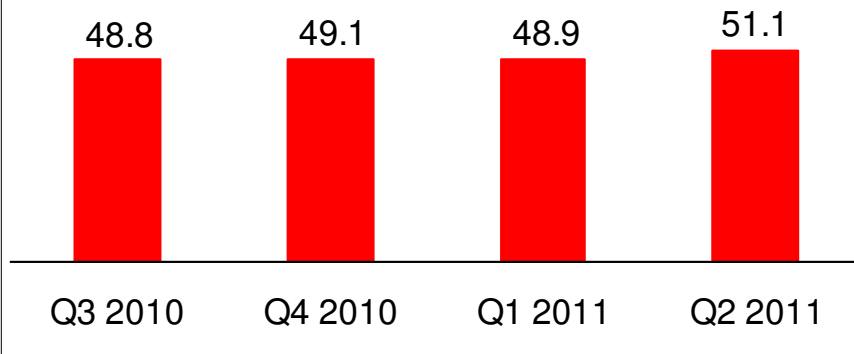


Note: Due to rounding, fee income breakdown may not add up to 100%

# Wealth Management

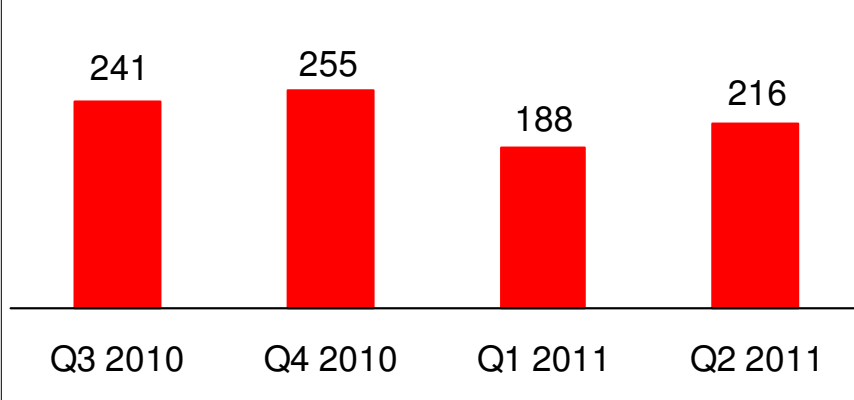
## AUM

NT\$bn



## WM Income

NT\$m



Note:

- (1) Wealth management income includes income from structured deposits
- (2) Income figure for each quarter is adjusted due to rounding

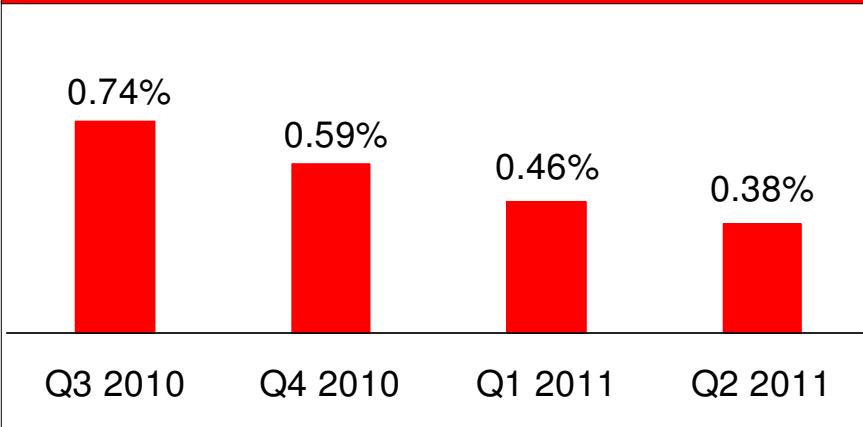
## Wealth Management Center



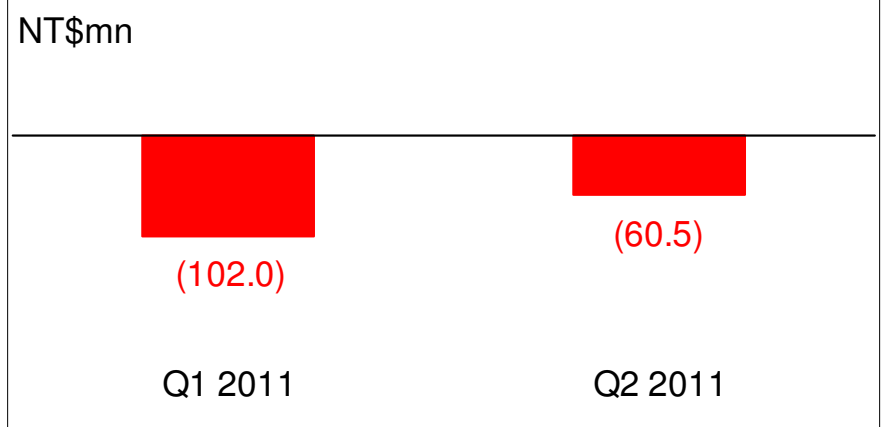
- Despite volatilities in global markets, wealth management income for 1H 2011 was NT\$404mn, up 7.0% YoY
- Fee income from wealth management accounted for 33.4% of total fee income
- Sales focuses were on mutual funds, insurance, and foreign securities. Sales of mutual funds and foreign securities are expected to grow
- Structure notes designed for high net worth clients with comprehensive investment experience were launched in July and will contribute to fee income growth

# Asset Quality

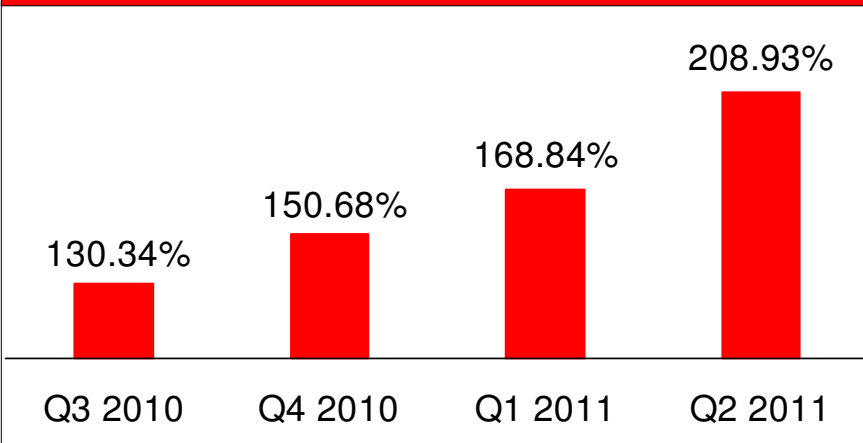
## NPL Ratio



## New NPL Generation



## Coverage Ratio

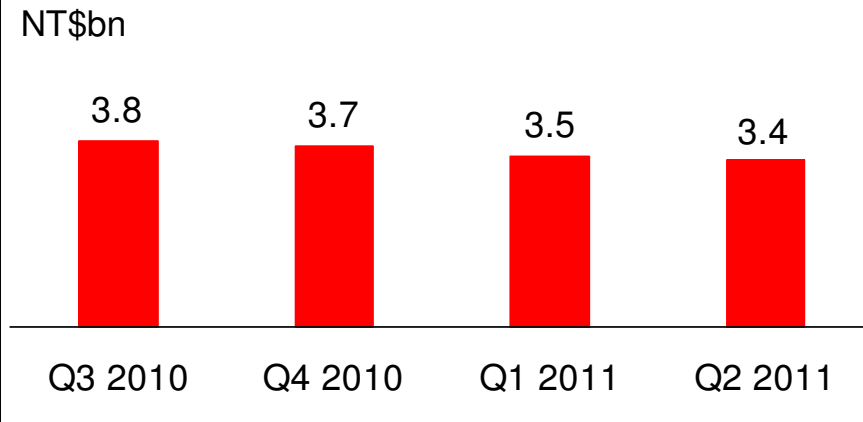


- Asset quality continued to improve with overall NPL at 0.38%
- NPL ratio for mortgages was low at 0.24%
- Coverage was 208.93% - further improved from 168.84% in Q1 2011
- New NPL generated in Q2 2011 were NT\$-61mn

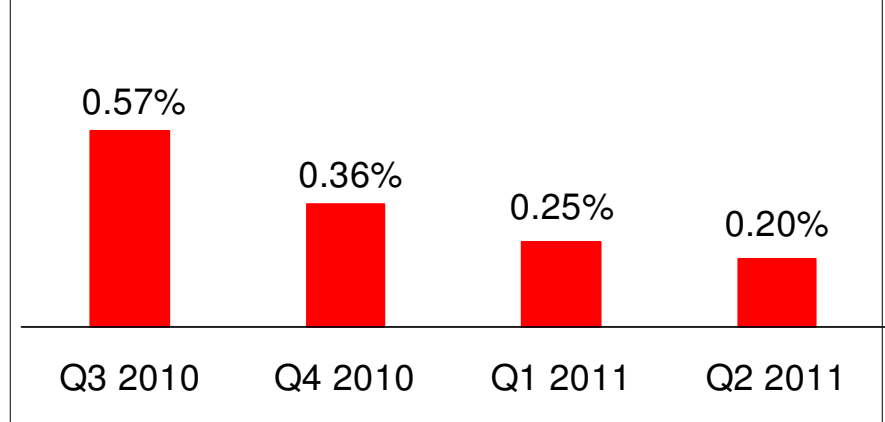


# Credit Cards Metrics

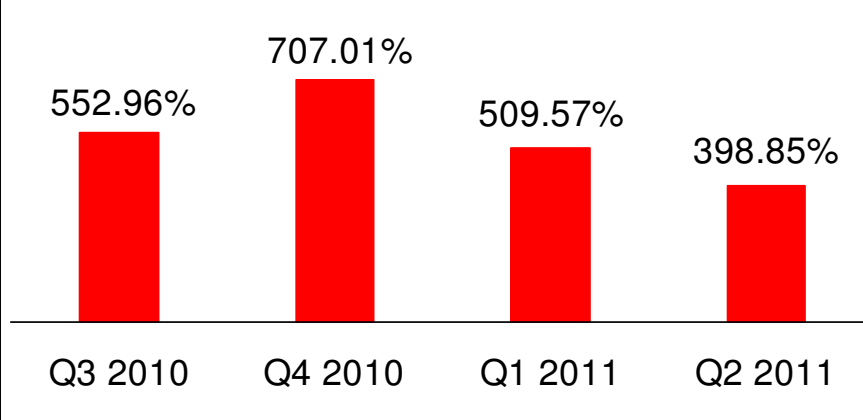
## Revolving Balance



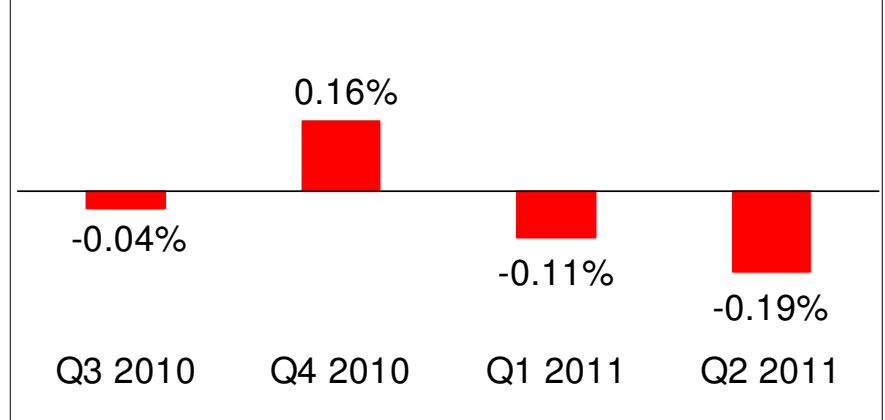
## 90-day NPL



## Coverage Ratio (1)



## Charge-off Ratio (2)



Note:

(1) Actual reserves / NPL

(2) Unannualized numbers

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- Life Premium Summary

# SP / RP Breakdown

NT\$bn

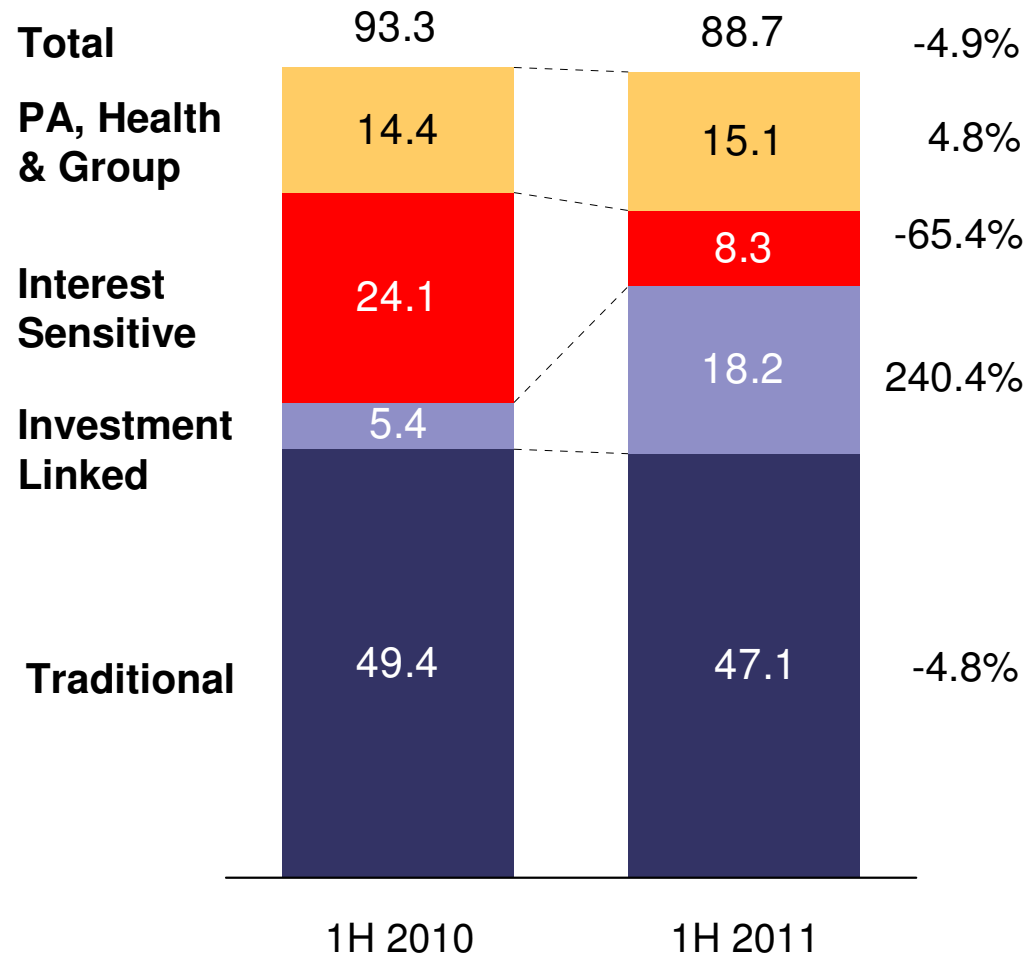
1H 2011 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	8.79	4.38		13.17
Investment-linked				
VUL			0.81	0.81
Structured note	14.58			14.58
Interest Sensitive				
Annuity	7.64		0.04	7.68
Life			0.64	0.64
PA, health and others		1.78		1.78
<b>Total</b>	<b>31.01</b>	<b>6.16</b>	<b>1.49</b>	<b>38.65</b>
<b>Share</b>	<b>80.2%</b>	<b>15.9%</b>	<b>3.9%</b>	<b>100.0%</b>

# Total Premium – 1H 2011

NT\$bn

Market Share = 8.1%

Growth



## Comments

- Total premium went down 4.9% YoY
- Total premium of interest-sensitive product declined due to regulation changes caused market demand fell
- PA, Health & Group and investment-linked products grew compared to 1H 2010

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**Shin Kong Financial Holding**Financial Summary  
(NT\$m)

<b>Income Statement Data</b>	<b>2010</b>	<b>1H 2010</b>	<b>1H 2011</b>	<b>1H 11/1H 10</b>	<b>Q2 2010</b>	<b>Q2 2011</b>	<b>Q2 11/Q2 10</b>
				<b>% change</b>			<b>% change</b>
Net interest income	(157)	(75)	(80)	6.7%	(38)	(39)	2.6%
Income from subsidiaries							
Shin Kong Life	393	(3,906)	(120)	-96.9%	(549)	(396)	-27.9%
Shin Kong Bank	2,005	916	2,028	121.4%	569	1,013	78.0%
Shin Kong Securities	68	67	0	-100.0%	6	0	-100.0%
MasterLink Securities	360	126	125	-0.8%	50	62	24.0%
Shin Kong Insurance Brokers	66	35	36	2.9%	16	15	-6.3%
Shin Kong Investment Trust	34	15	11	-26.7%	6	7	16.7%
Total income from subsidiaries	2,926	(2,747)	2,080	-175.7%	98	701	615.3%
Other income	21	11	10	-9.1%	12	10	-16.7%
Administrative and general expenses	(241)	(105)	(114)	8.6%	(56)	(69)	23.2%
Income tax benefit (expense)	(6)	(83)	14	-116.9%	(88)	6	-106.8%
Cumulative effect of changes in accounting principle	0	0	0		0	0	
Net income	2,543	(2,999)	1,910	-163.7%	(72)	609	-945.8%
<b>Balance Sheet Data</b>	<b>2010</b>	<b>1H 2010</b>	<b>1H 2011</b>	<b>1H 11/1H 10</b>	<b>Q2 2010</b>	<b>Q2 2011</b>	<b>Q2 11/Q2 10</b>
				<b>% change</b>			<b>% change</b>
Long term investment	97,842	77,507	94,602	22.1%	77,507	94,602	22.1%
Total assets	2,064,161	1,965,038	2,081,575	5.9%	1,965,038	2,081,575	5.9%
Total shareholders' equity	101,910	80,224	97,025	20.9%	80,224	97,025	20.9%

Note: Numbers have not been audited by the auditors

**Shin Kong Life**  
Financial Summary  
(NT\$mmm)

<b>Income Statement Data</b>	<b>2010</b>	<b>1H 2010</b>	<b>1H 2011</b>	<b>1H 11/1H 10</b>		<b>Q2 2010</b>	<b>Q2 2011</b>	<b>Q2 11/Q2 10</b>	
				<b>% change</b>				<b>% change</b>	
Premium income	177,451	89,123	72,238	-18.9%		50,089	39,524	-21.1%	
Investment income									
Interest income	42,952	22,073	20,981	-4.9%		10,583	10,725	1.3%	
Gains on investments in securities	20,536	1,097	9,501	766.4%		278	5,657	1933.9%	
Gains on real estate investments	8,692	6,218	1,877	-69.8%		4,411	919	-79.2%	
FX	(13,568)	(4,707)	(4,505)	-4.3%		(724)	(3,182)	339.6%	
FX gain or loss	(42,413)	2,508	(6,971)	-377.9%		6,012	(9,866)	-264.1%	
Hedging	28,845	(7,215)	2,466	-134.2%		(6,736)	6,684	-199.2%	
Impairment loss	(100)	(22)	(15)	-32.0%		(22)	0	-100.0%	
Total Investment income	58,511	24,659	27,840	12.9%		14,527	14,118	-2.8%	
Other operating income	1,318	702	787	12.1%		453	484	6.9%	
Provision for reserves									
Provisions	(209,781)	(101,665)	(84,756)	-16.6%		(56,515)	(46,231)	-18.2%	
Recoveries	115,814	45,261	87,306	92.9%		28,167	45,747	62.4%	
Total provisions for reserves, net	(93,967)	(56,403)	2,550	-104.5%		(28,347)	(484)	-98.3%	
Insurance payments	(124,802)	(53,058)	(94,862)	78.8%		(32,208)	(49,741)	54.4%	
Commission expenses	(4,468)	(2,120)	(2,227)	5.0%		(1,258)	(1,179)	-6.3%	
Separate account revenue	63,536	20,241	33,141	63.7%		10,496	8,584	-18.2%	
Separate account expenses	(63,536)	(20,241)	(33,141)	63.7%		(10,496)	(8,584)	-18.2%	
General and administrative expenses	(12,426)	(5,957)	(6,072)	1.9%		(2,883)	(3,257)	13.0%	
Other operating costs and expenses	(966)	(473)	(484)	2.4%		(247)	(266)	7.7%	
Operating income	651	(3,527)	(230)	-93.5%		125	(801)	-740.9%	
Non-operating income and expenses	288	265	436	64.8%		(35)	504	-1524.8%	
Income taxes	(546)	(644)	(326)	-49.3%		(639)	(100)	-84.4%	
Cumulative effect of changes in accounting principles	0	0	0			0	0		
Net income	393	(3,906)	(120)	-96.9%		(549)	(396)	-27.8%	

<b>Balance Sheet Data</b>	<b>2010</b>	<b>1H 2010</b>	<b>1H 2011</b>	<b>1H 11/1H 10</b>		<b>Q2 2010</b>	<b>Q2 2011</b>	<b>Q2 11/Q2 10</b>	
				<b>% change</b>				<b>% change</b>	
Total assets	1,537,518	1,487,279	1,542,319	3.7%		1,487,279	1,542,319	3.7%	
Total shareholders' equity	66,773	48,581	60,634	24.8%		48,581	60,634	24.8%	

Note: Numbers have not been audited by the auditors

**Shin Kong Bank**  
Financial Summary  
(NT\$mn)

Income Statement Data	2010	1H 2010	1H 11/1H 10		Q2 2010	Q2 11/Q2 10	
			1H 2011	% change		Q2 2011	% change
Interest income	8,626	4,111	5,163	25.6%	2,090	2,647	26.6%
Interest expense	(2,573)	(1,139)	(1,697)	49.0%	(580)	(887)	53.0%
Net interest income	6,054	2,972	3,466	16.6%	1,510	1,759	16.5%
Fee income	2,563	1,210	1,131	-6.6%	631	572	-9.4%
Fee expense	(658)	(308)	(334)	8.6%	(155)	(161)	3.8%
Net fee income	1,905	903	797	-11.7%	476	411	-13.7%
Gains on bill & securities	727	189	287	51.5%	11	235	2088.5%
Gains recognized under equity method, net	137	53	53	0.1%	28	29	5.6%
Gains on foreign exchange, net	(213)	153	(64)	-141.9%	232	(103)	-144.2%
Other gains or losses, net	291	107	49	-54.5%	83	53	-35.7%
Operating expense	(5,035)	(2,459)	(2,733)	11.1%	(1,252)	(1,377)	10.0%
Pre-provision income or loss	3,865	1,918	1,853	-3.4%	1,088	1,008	-7.3%
Provision expense	(1,727)	(958)	227	-123.7%	(510)	(59)	-88.5%
Income tax (expense) benefit	(133)	(45)	(53)	18.8%	(10)	64	-736.0%
Net income	2,005	916	2,028	121.5%	568	1,013	78.3%

Balance Sheet Data	2010	1H 2010	1H 11/1H 10		Q2 2010	Q2 11/Q2 10	
			1H 2011	% change		Q2 2011	% change
Total assets	470,046	414,053	487,384	17.7%	414,053	487,384	17.7%
Total shareholders' equity	24,514	22,876	26,060	13.9%	22,876	26,060	13.9%
Total loans, net <sup>(1)</sup>	324,780	292,588	349,073	19.3%	292,588	349,073	19.3%
Total deposits	413,113	364,026	429,115	17.9%	364,026	429,115	17.9%

Operating Metrics	2010	1H 2010	1H 2011	Q2 2010	Q2 2011
Fee income ratio	21.4%	20.6%	17.4%	20.3%	17.2%
Cost income ratio	56.6%	56.2%	59.6%	53.5%	57.7%
Loan/deposit ratio (excl. credit card)	78.6%	80.4%	81.3%	80.4%	81.3%
Loan/deposit ratio (incl. credit card)	79.5%	81.4%	82.1%	81.4%	82.1%
Net interest margin	1.58%	1.62%	1.58%	1.64%	1.57%
Net interest spread	1.95%	1.94%	1.92%	1.93%	1.91%
Pre-provision earnings/assets	0.87%	0.46%	0.39%	0.26%	0.21%
Pre-provision earnings/equity	16.53%	8.50%	7.33%	4.82%	3.99%

Note:

(1) Exclude credit cards but include overdue receivables

(2) Numbers have not been audited by the auditors