

Confidential



Q2 2012 Results Update

August 23, 2012

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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 2012 Overview

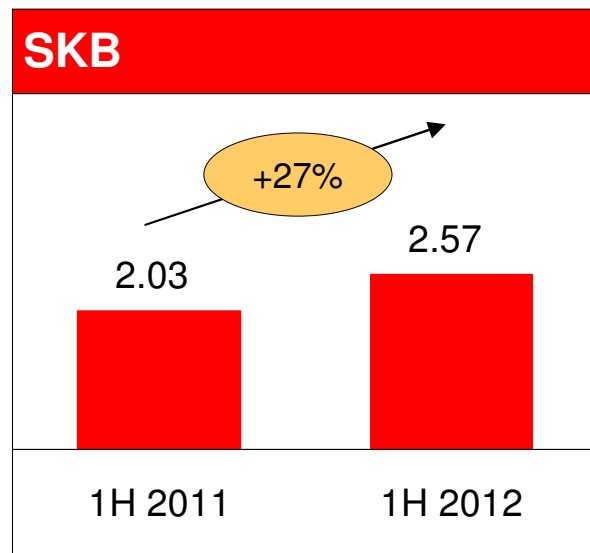
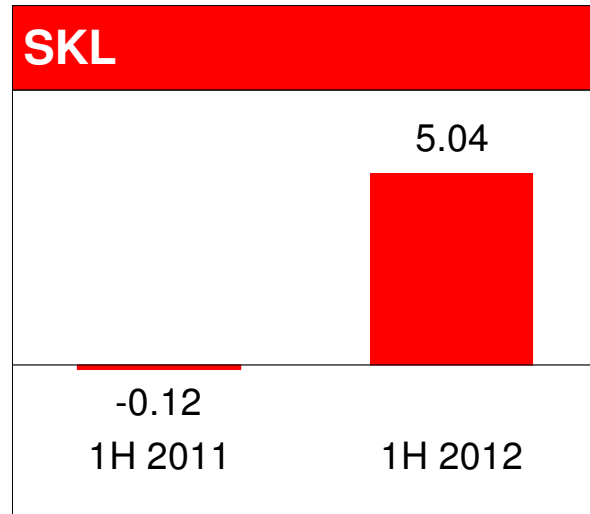
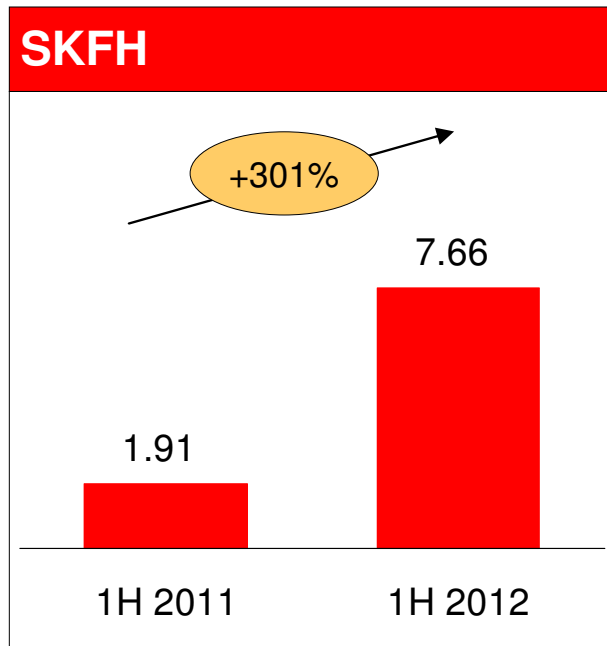
- SKFH recorded an after-tax profit of NT\$7.66bn in 1H, up 300.9% YoY. EPS was NT\$0.91.
- Subsidiaries' core business remained solid
  - SKL:
    - ◆ FYP of traditional products was 131.9% higher YoY, with FYP from regular premium products 62.9% higher YoY.
    - ◆ Driven by properly controlled hedging cost in Q2 and disposal gains from REATs, total investment income increased 28.0% YoY.
    - ◆ Annualized hedging cost for 1H 2012 was 1.74%, significantly lower than 2.50% in Q1 2012.
  - SKB:
    - ◆ After-tax profit was NT\$2.57bn, up 26.6% YoY.
    - ◆ Loan balance grew 14.3% YoY. L/D ratio (incl. credit cards balance) increased from 75.2% in Q1 to 80.2%.
    - ◆ Fee income increased 22.5% YoY. Fee income from wealth management was 26.6% higher YoY.
- Domestic cash dividend income is estimated to reach NT\$5.5bn for 2012, which will mainly be recognized in Q3 and contribute to profit.

# Financial Highlights – 1H 2012

	1H 2011	1H 2012	YoY Growth
NT\$m (except per share data), %			
Group net income	1,910	7,658	300.9%
First year premium (Insurance)	38,652	39,378	1.9%
Loans (Bank)	354,254	404,812	14.3%
Total assets	2,081,575	2,215,894	6.5%
Total shareholders' equity	97,025	83,038	-14.4%
ROA (unannualized)	0.11%	0.37%	
ROE (unannualized)	2.25%	9.60%	
Earnings per share	0.23	0.91	295.7%

# Net Income – 1H 2012

NT\$bn



### Comments

- SKFH recorded an after-tax profit of NT\$7.66bn in 1H, NT\$5.75bn higher YoY
- SKL's cumulative after-tax profit was NT\$5.04bn, NT\$5.16bn higher YoY
- Fueled by strong growth of loans and fee incomes, SKB's 1H after-tax profit was 26.6% higher YoY

# Net Income – 1H 2012

## Net income contribution

NT\$bn

Subsidiaries	1H 2011	1H 2012	YoY Growth
Shin Kong Life	-0.12	5.04	-
Shin Kong Bank	2.03	2.57	26.6%
Shin Kong Investment Trust	0.01	0.01	27.3%
Shin Kong Insurance Brokers	0.04	0.03	-25.0%
Shin Kong Capital Venture Int'l	-	0.00	-
Others <sup>(1)</sup>	-0.05	0.01	-
<b>Net income</b>	<b>1.91</b>	<b>7.66</b>	<b>300.9%</b>

Note:

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

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## SKL – 1H 2012 Overview

- 1H 2012 after-tax profit reached NT\$5.04bn, driven by properly controlled hedging cost in Q2 and disposal gains from REATs. ROE was 11.30%.
- FYP was NT\$39.38bn, up 1.9% YoY. Market share was 6.2%.
- Long-term profit generation remains the main consideration in product strategies, while sales of savings policies are limited by quotas. FYP of traditional products was 131.9% higher YoY, with FYP from regular premium products 62.9% higher YoY.
- 13-month persistency was 88.4% and 25-month persistency was 78.0%.
- Annualized investment return was 4.24% in 1H 2012.
- Domestic cash dividend income is estimated to reach NT\$5.5bn for 2012, mainly recognized in Q3.
- Protection products remain sales focus. Product strategy for the second half concentrates on VUL by unit-cost-averaging method, as well as MTR, MTL, health, personal accident, long-term care and foreign currency whole life protection products.

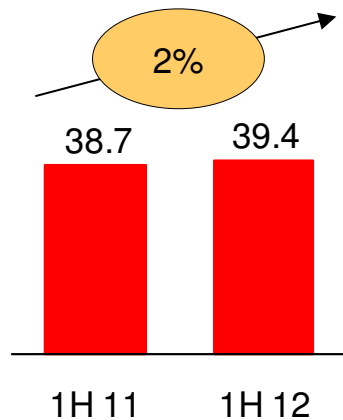
# Financial Highlights – 1H 2012

	1H 2011	1H 2012	YoY Growth
NT\$mn, %			
First year premium	38,652	39,378	1.9%
Total premium	88,715	91,113	2.7%
Investment income	27,851	35,658	28.0%
Net income	-120	5,038	-
Total assets	1,542,319	1,599,098	3.7%
Total shareholders' equity	60,634	43,447	-28.3%
ROE (unannualized)	-0.19%	11.30%	
ROA (unannualized)	-0.01%	0.32%	

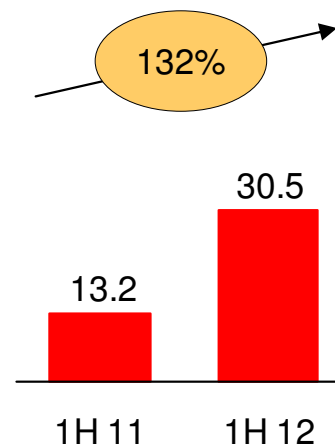
# First Year Premium – 1H 2012

NT\$bn

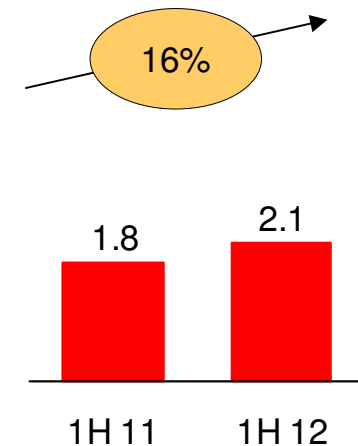
## Market share 6.2%



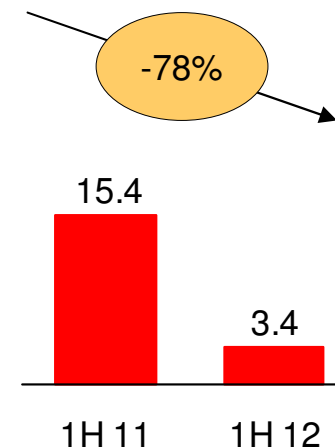
## Traditional



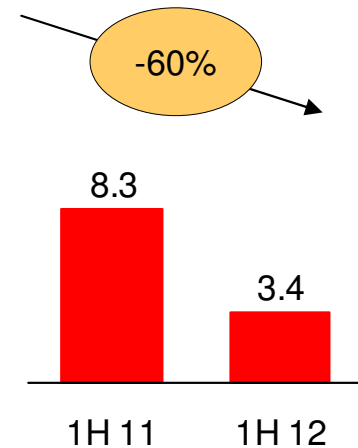
## PA, Health and Group



## Investment-linked



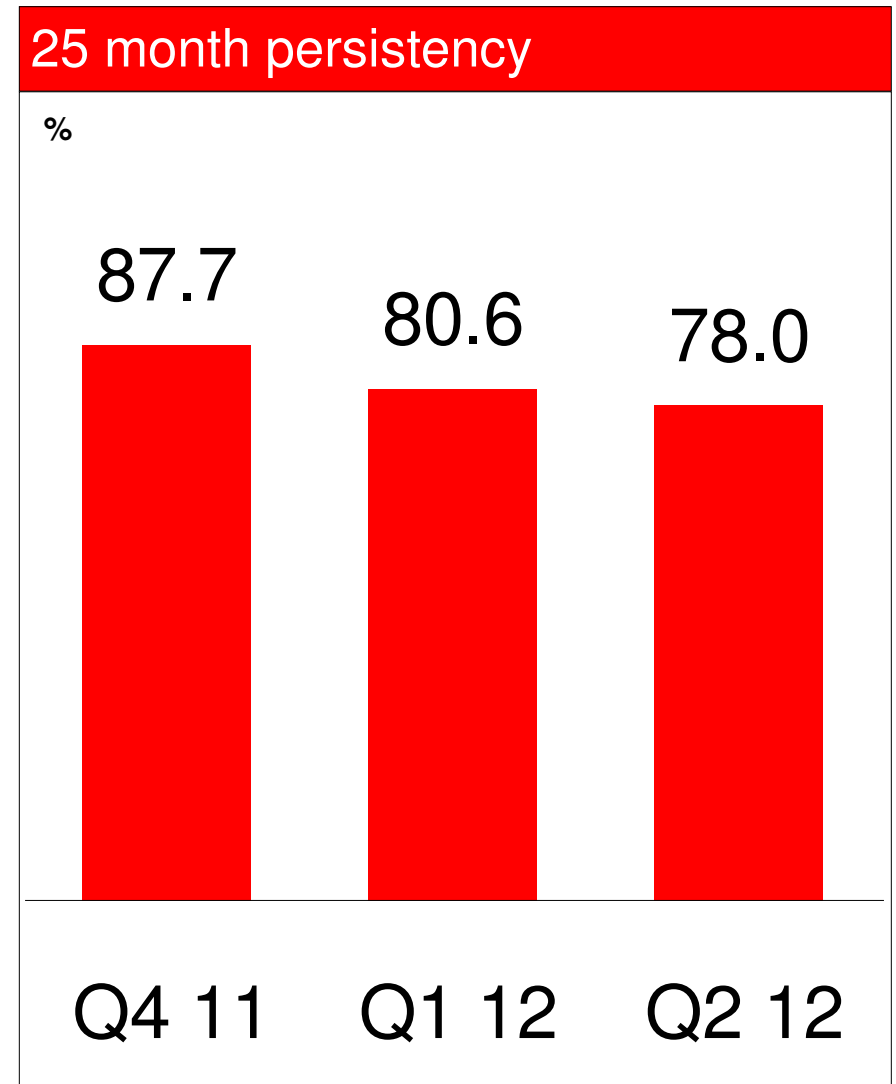
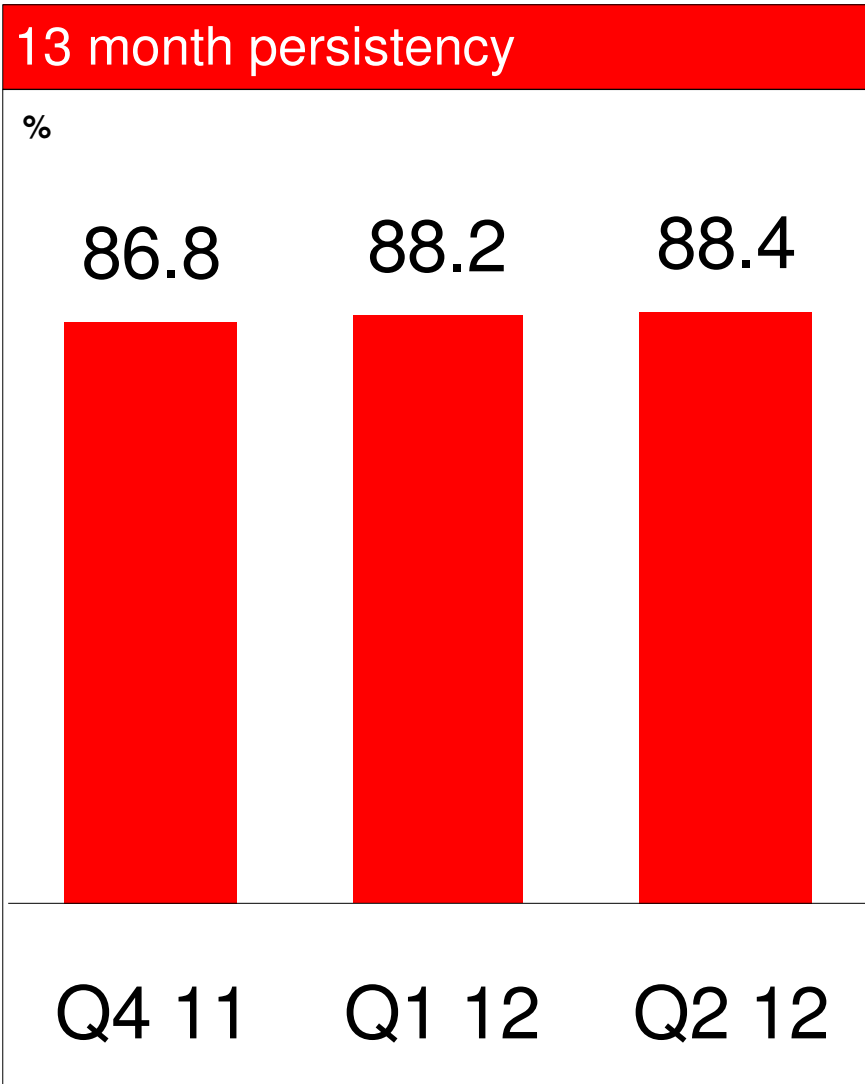
## Interest-sensitive



### Comments

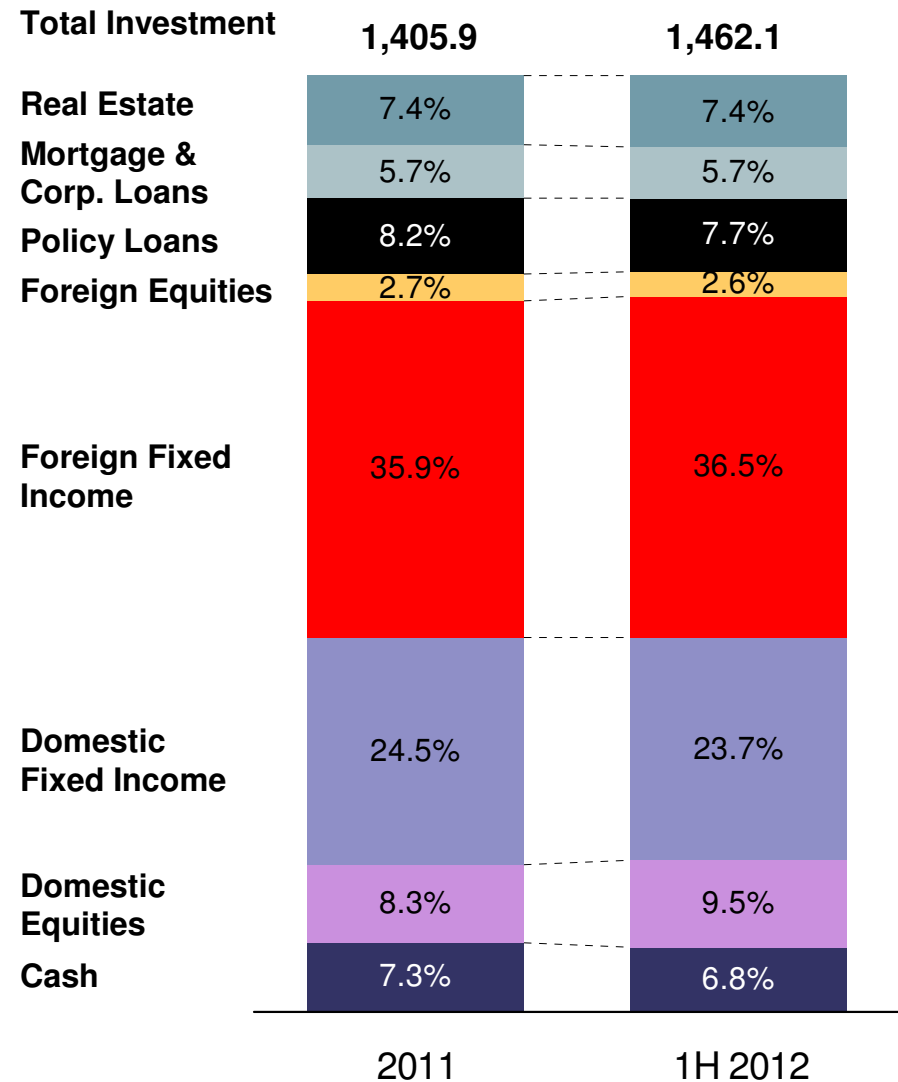
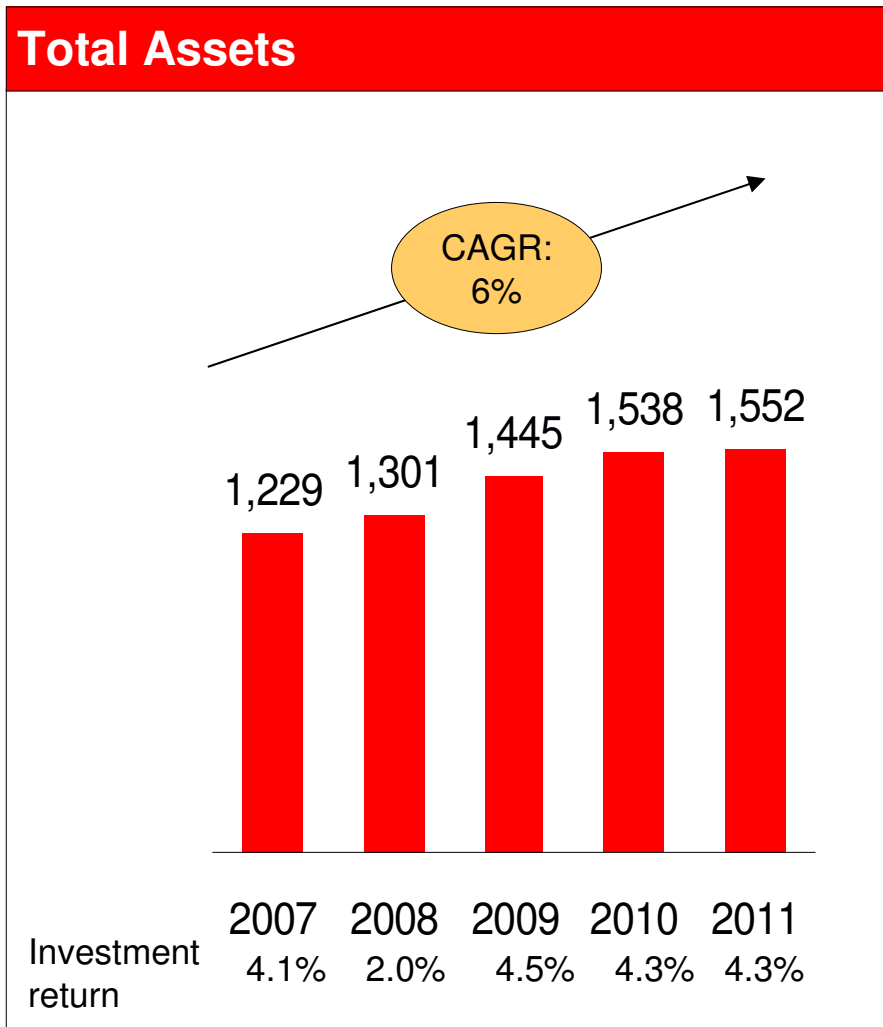
- FYP increased 2% YoY
- Traditional products contributed most significant shares (78%) of FYP
- Long-term profit generation remains the main consideration in product strategies, while sales of savings policies are limited by quotas. FYP of traditional products was 132% higher YoY, with FYP from regular premium products 63% higher YoY
- To lower policyholders' investment risk and increase protection, VUL products are promoted by unit-cost-averaging method. Structured note products are linked to government bonds
- In coordination with reduction of policy reserve interest rates and implementation of the 2012 Taiwan Standard Ordinary Experience Mortality Table, protection products remain the sales focus

# Persistence Ratio



# Investment Portfolio

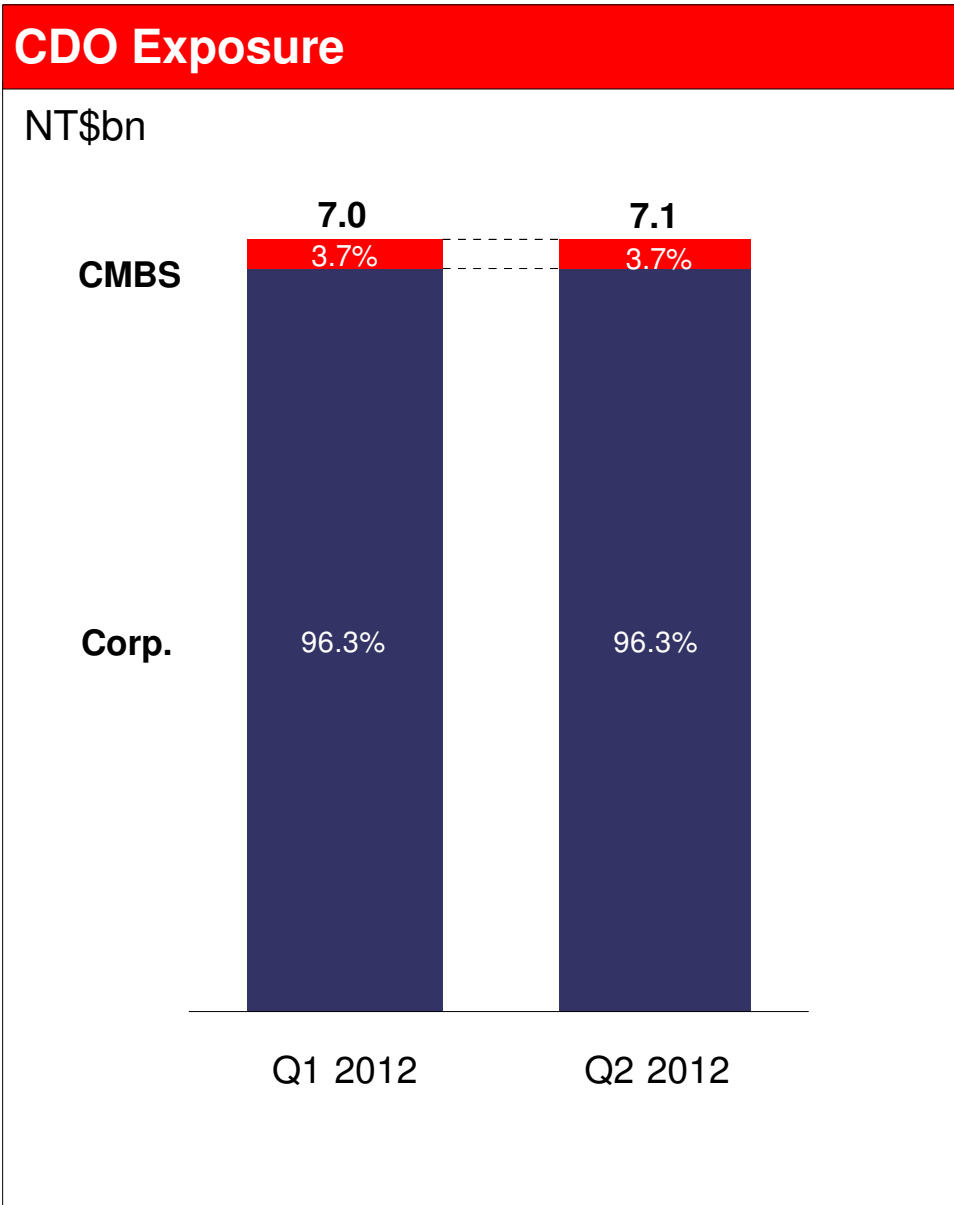
NT\$bn



Note:

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

# CDO Exposure

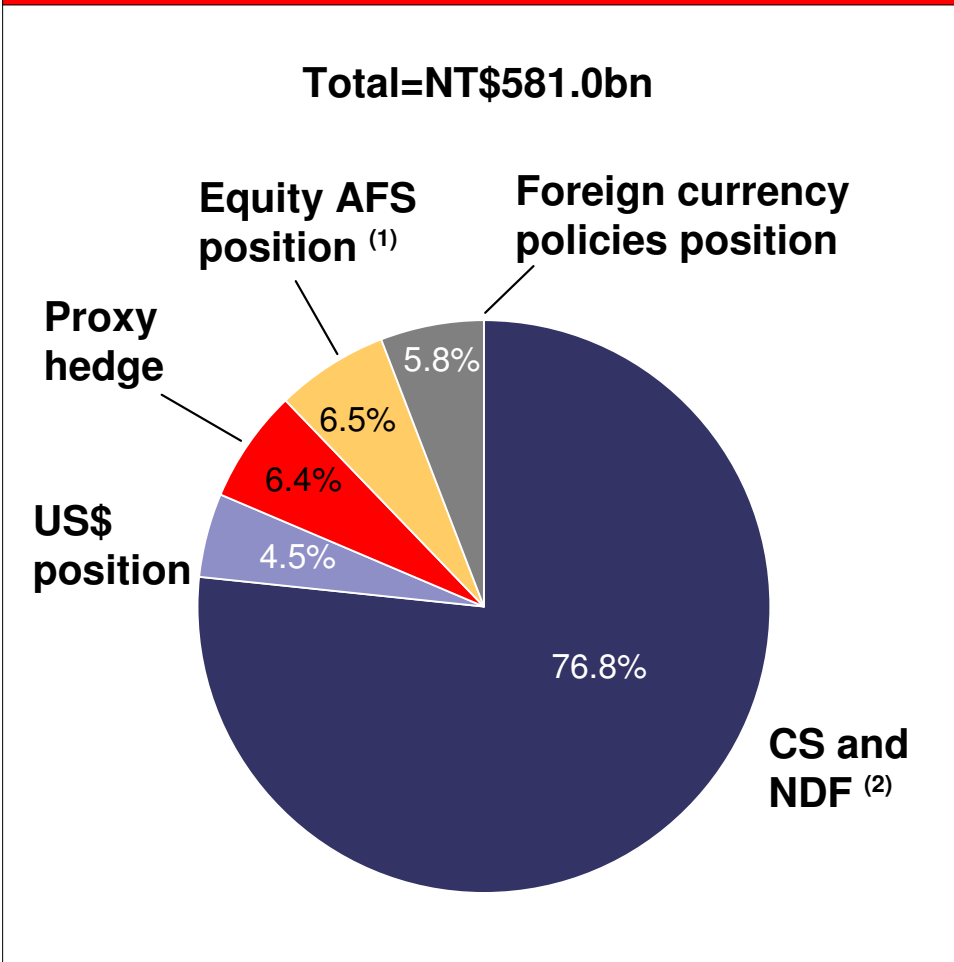


## Comments

- Overall exposure was NT\$7.13bn
- 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)
- SKL has no ABS CDO exposure

# Hedging Strategy

## Mix of Hedging Strategies Used



## Comments

- Annualized hedging cost for 1H 2012 was 1.74%, significantly lower than 2.50% in Q1 2012
- Share of traditional hedges controlled within the original target range of 70%~90%. After implementation of FX reserve on March 1, 2012, medium/long term target range is 65%~90% under stringent risk management mechanism
- Proxy hedging accounted for 6.4%
- Available for sale position in foreign equities accounted for 6.5% 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%. Apply for raising the upper limit of overseas investment to 45%

## Well-diversified Portfolio

- Diversification by asset class (equity, credit, currency, commodity, real estate)
- Diversification by strategy for uncorrelated sources of alpha

## Cost-effective Currency Hedging

- The original target share of traditional hedges was at 70%~90%. After implementation of FX reserve on March 1, 2012, medium/long term target range is 65%~90% under stringent risk management mechanism
- Target hedging cost at 150 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 risk management system to control VaR limit, country and region risks, and concentration risks, as well as implement sensitivity analysis and stress testing



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## SKB – 1H 2012 Overview

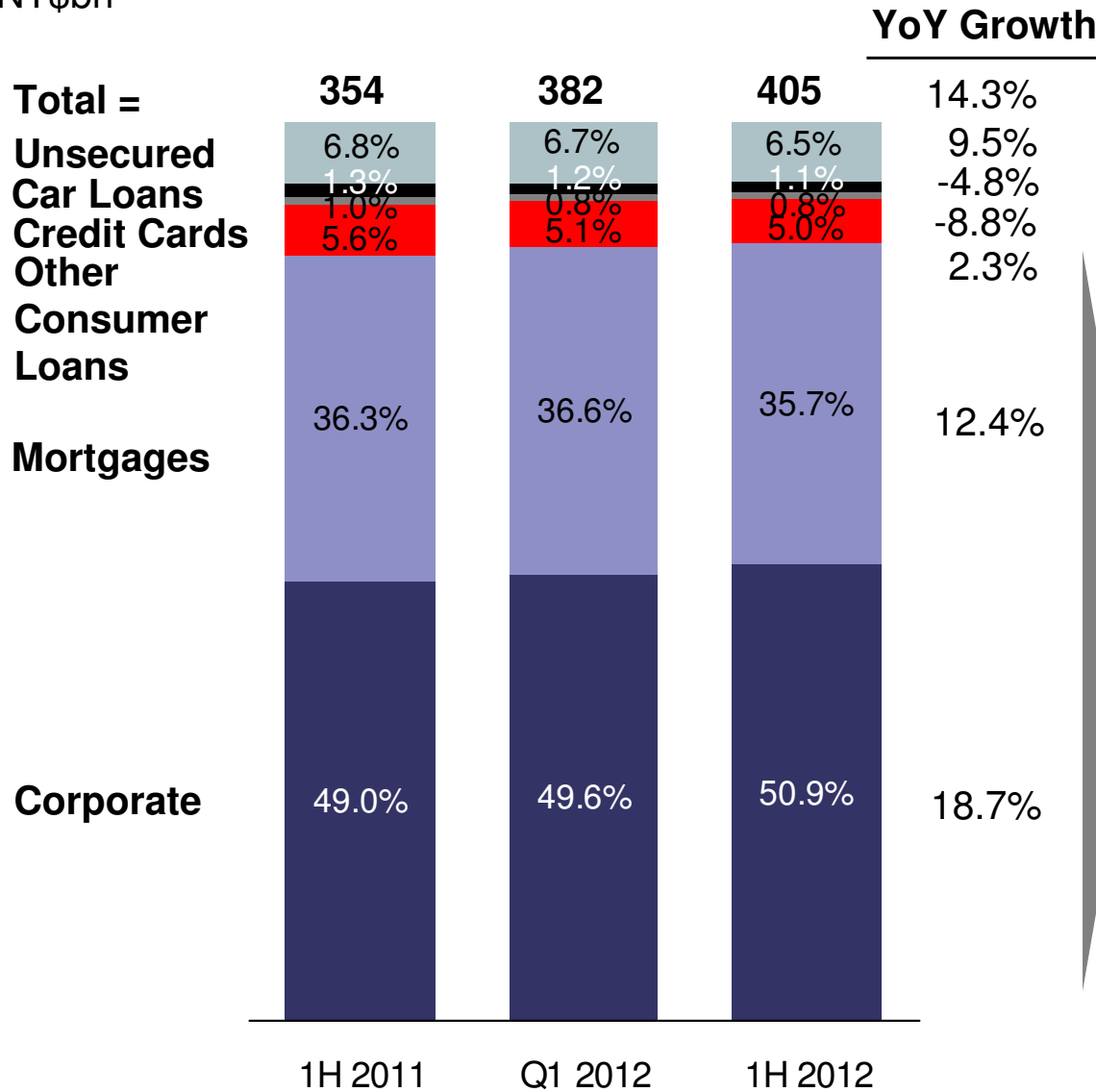
- After-tax profit for 1H 2012 was NT\$2.57bn (up 26.6% YoY); net interest income was NT\$3.71bn, up 7.2% YoY; pre-provision profit was NT\$3.05bn, up 64.8% YoY.
- Loan balance increased to NT\$404.81bn (up 14.3% YoY); deposit balance increased to NT\$503.03bn (up 17.2% YoY). L/D ratio (incl. credit cards balance) increased from 75.2% in Q1 to 80.2%.
- NIM for Q2 2012 was 1.40%.
- Driven by sales growth of insurance and bond products, wealth management income for 1H 2012 was NT\$500mn, up 24.0% YoY. SKB achieved bancassurance cross-sales of NT\$11.43bn in 1H 2012, accounting for 55.3% of SKL's bancassurance premium.
- Credit card NPL ratio declined to 0.19% and coverage ratio was 351.99%.
- NPL and coverage ratios were 0.93% and 109.69% respectively. Due to NT\$639mn loan to ProMos categorized as non-performing, new NPL generation reached NT\$735mn in Q2 2012. However, NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected; excluding the loan, NPL and coverage ratios would be 0.51% and 201.49% respectively. NPL ratio for mortgages remained low at 0.23%.

# Net Income – 1H 2012

	1H 2011	1H 2012	YoY Growth
NT\$m, %			
Net interest income	3,466	3,714	7.2%
Net fee income	797	1,000	25.5%
Other income	325	1,244	282.8%
Operating expense	-2,733	-2,904	6.3%
Pre-provision operating income	1,853	3,054	64.8%
Provision expense	227	-220	-196.6%
Income tax benefit (expense)	-53	-266	400.7%
<b>Net Income</b>	<b>2,028</b>	<b>2,568</b>	<b>26.6%</b>

# Loan Mix

NT\$bn



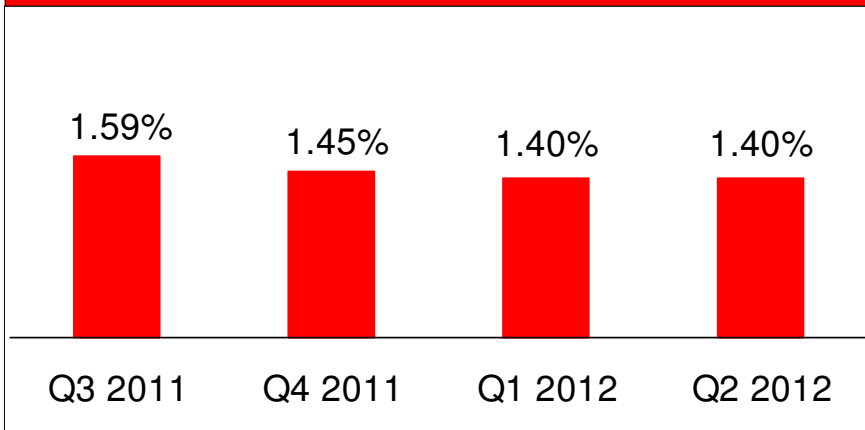
**Comments**

- Loan balance increased to NT\$404.81bn (up 14.3% YoY)
- Driven by growth of loans to medium-sized enterprises, corporate loans surged 18.7% YoY
- Mortgages achieved stable growth under stringent credit policies; NPL ratio for mortgages was low at 0.23%
- L/D ratio was 80.2% (incl. credit cards balance)

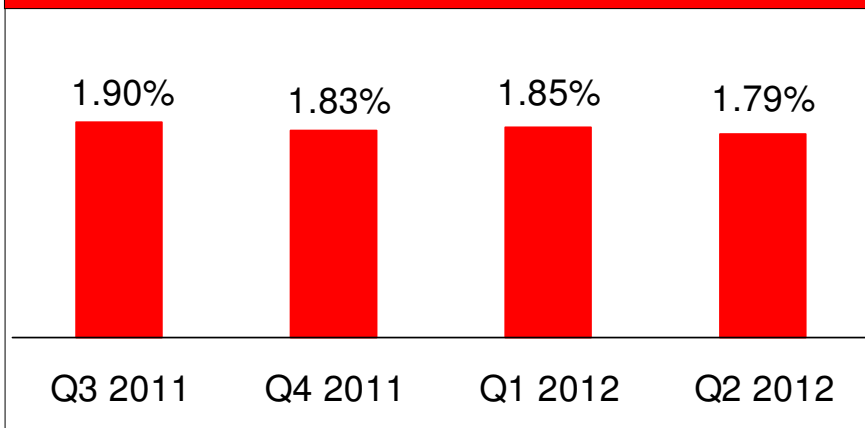
Note: Due to rounding, loan mix may not add up to 100%

# Interest Income

## Net Interest Margin



## Net Interest Spread

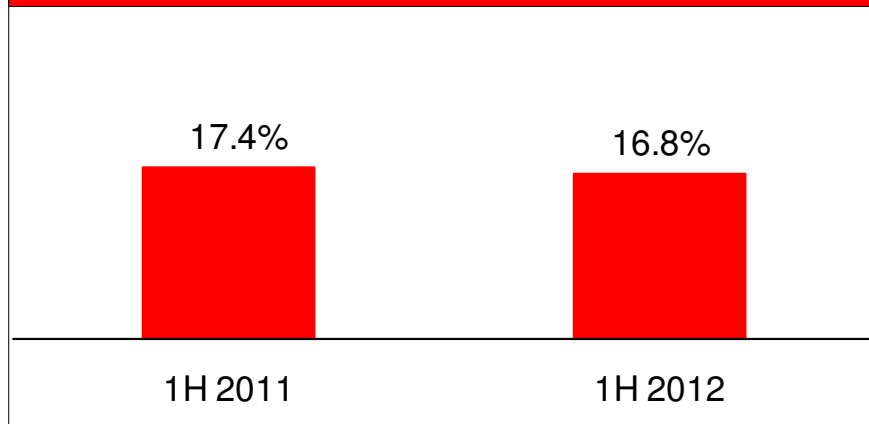


## Comments

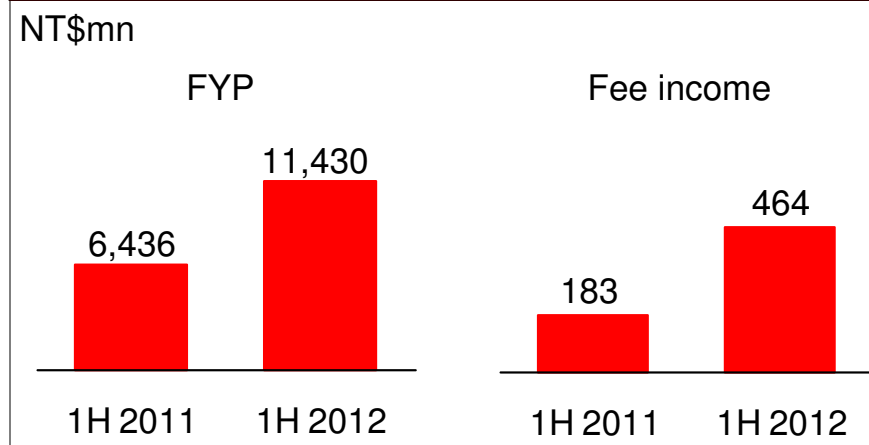
- NIM for Q2 2012 was 1.40%
- SKB will continue to :
  - Strengthen relations with corporate customers and increase fee income through GEB, TMU, syndicated loans and factoring business
  - Strengthen cash management business and act as the main settlement bank for MasterLink Securities to increase demand deposits and lower cost of funds , and
  - Develop SME and consumer loans with appropriate risk control to enhance interest income

# Fee Income

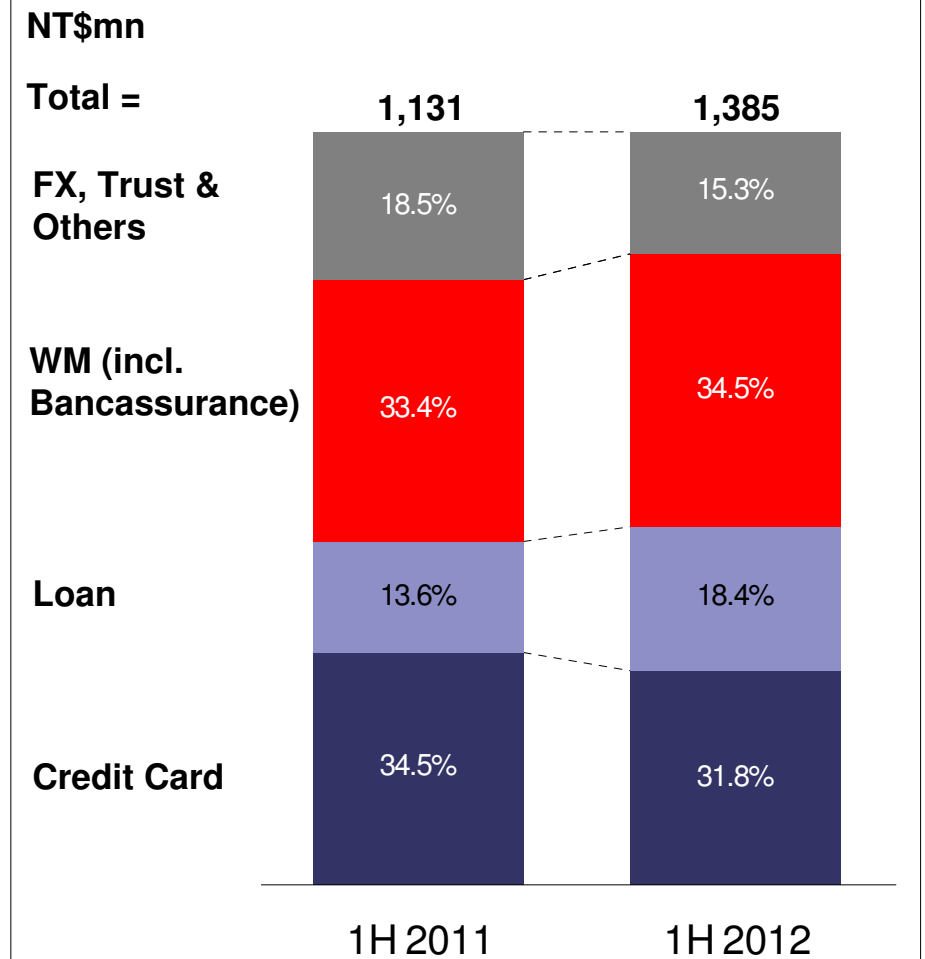
## Net Fee Income / Total Income



## Bancassurance (SKL)



## Fee Income Breakdown

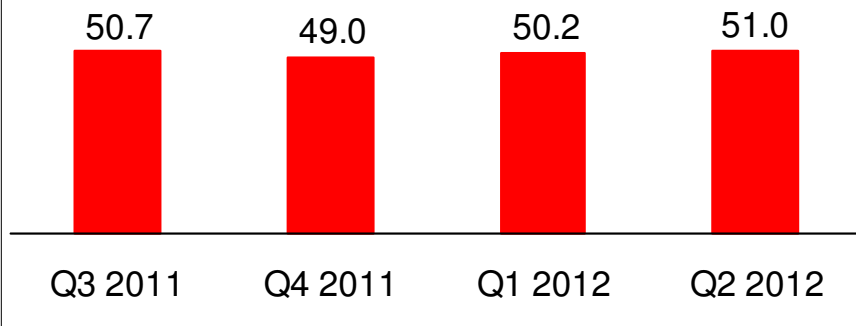


Note: Due to rounding, fee income breakdown may not add up to 100%

# Wealth Management

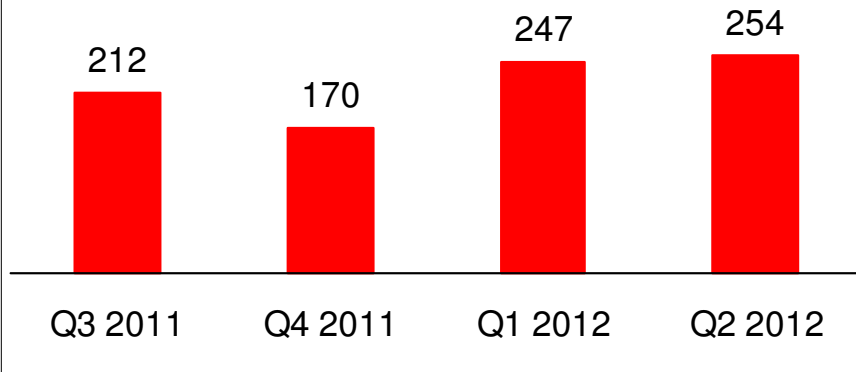
## AUM

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

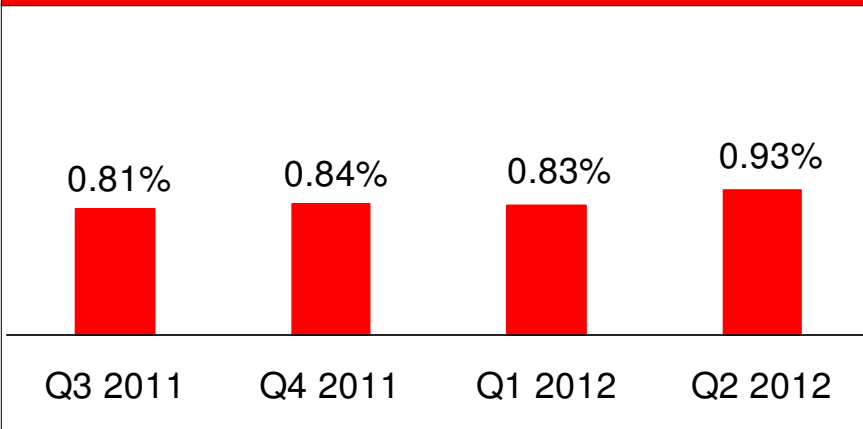
## Wealth Management Center



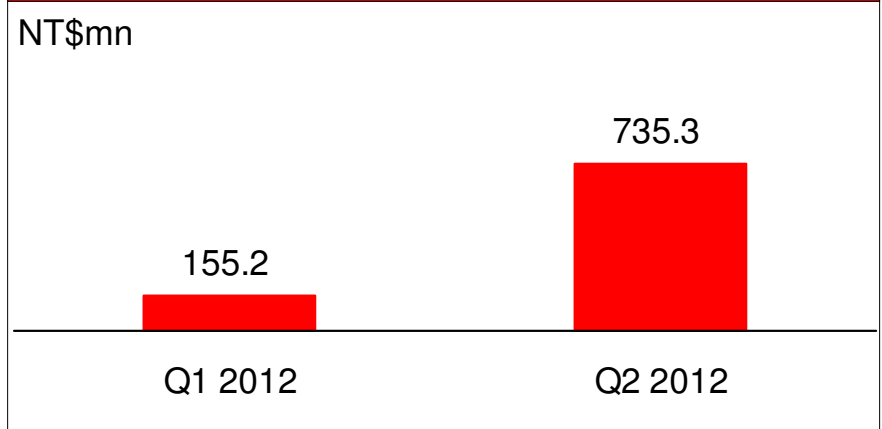
- Driven by strong sales of insurance and bond products, wealth management income for 1H 2012 was NT\$500mn, up 24.0% YoY
- Fee income from wealth management accounted for 34.5% of total fee income
- Sales focuses for the second half of 2012 will be on foreign securities and foreign currency insurance policies, expected to contribute to fee income growth

# Asset Quality

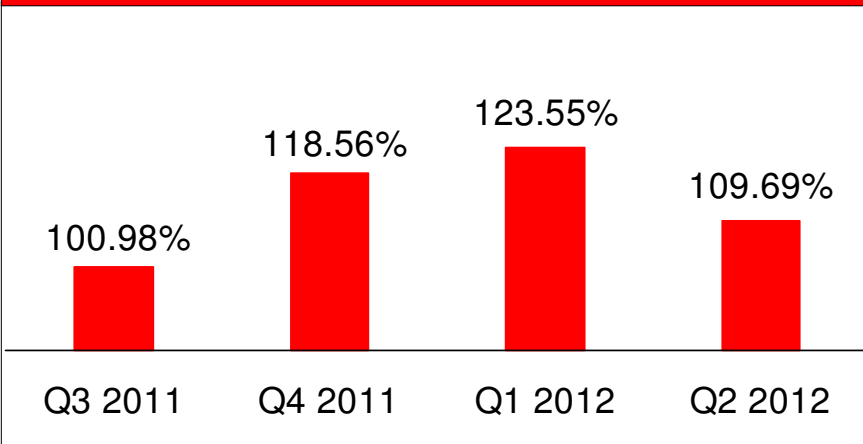
## NPL Ratio



## New NPL Generation



## Coverage Ratio

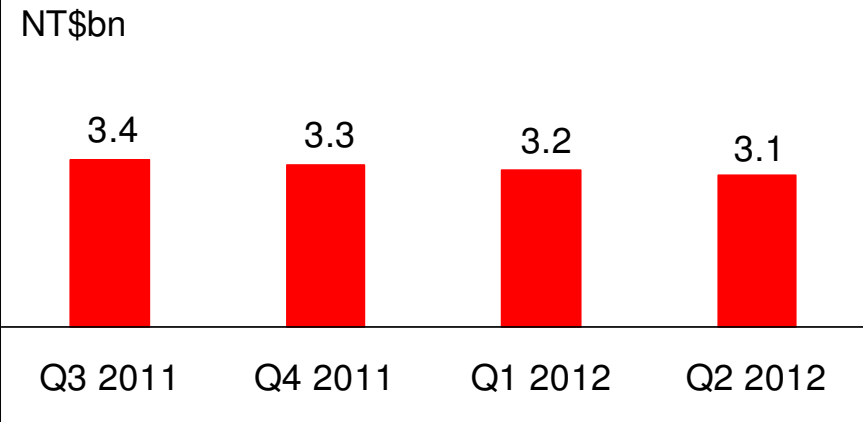


- NPL and coverage ratios were 0.93% and 109.69% respectively in Q2 2012
  - Due to NT\$639mn loan to ProMos categorized as non-performing, new NPL generation reached NT\$735mn
  - NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected; excluding the loan, NPL and coverage ratios would be 0.51% and 201.49% respectively
- NPL ratio for mortgages was low at 0.23%

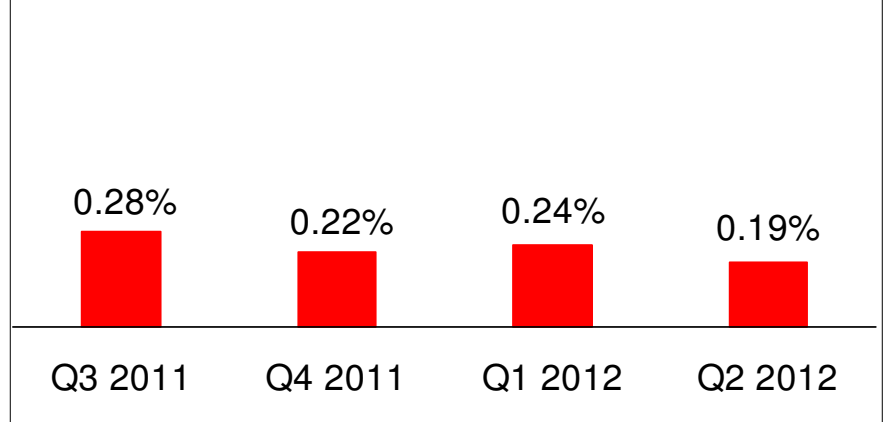


# Credit Cards Metrics

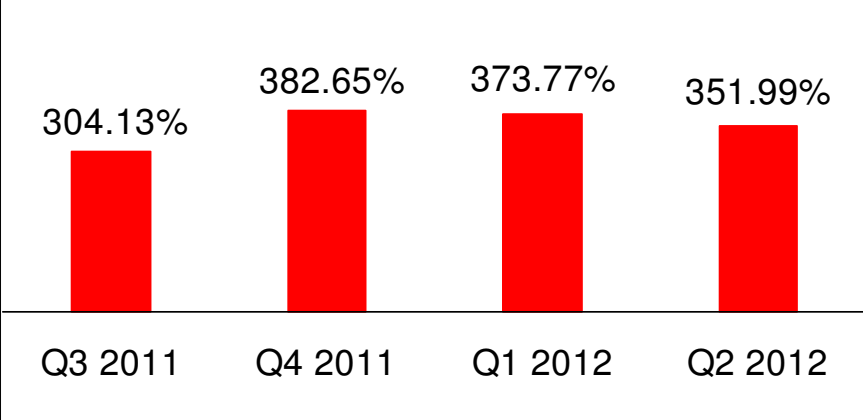
## Revolving Balance



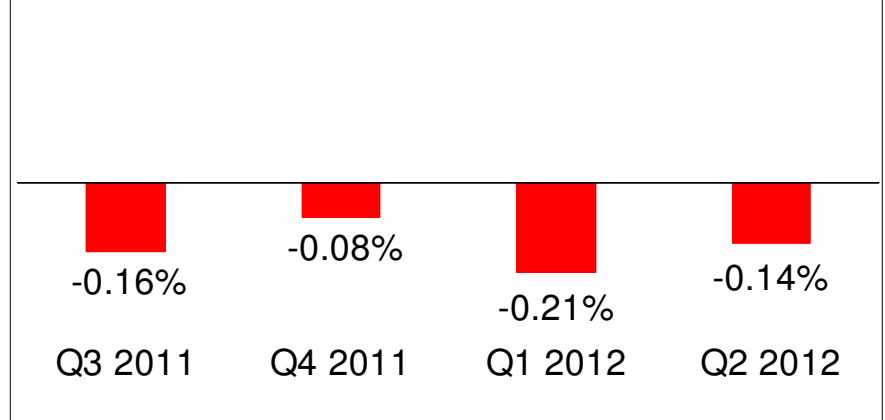
## 90-day NPL



## 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

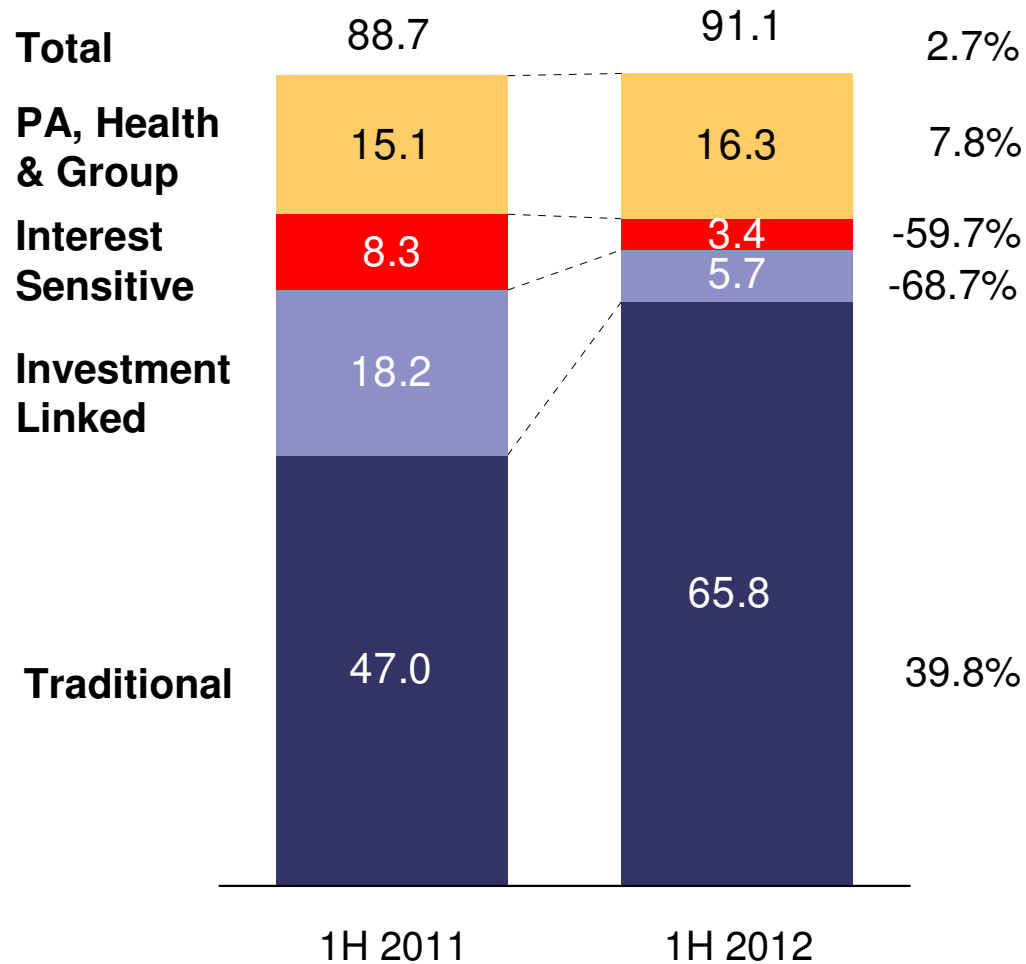
1H 2012 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	23.39	7.14		30.53
Investment-linked				
VUL		0.11	0.07	0.19
Structured note	3.24			3.24
Interest Sensitive				
Annuity	3.11		0.02	3.13
Life			0.22	0.22
PA, health and others		2.07		2.07
<b>Total</b>	<b>29.74</b>	<b>9.32</b>	<b>0.32</b>	<b>39.38</b>
<b>Share</b>	<b>75.5%</b>	<b>23.7%</b>	<b>0.8%</b>	<b>100%</b>

# Total Premium –1H 2012

NT\$bn

Market Share = 7.2%

Growth



## Comments

- Total premium went up 2.7% YoY
- To lower policyholders' investment risk and increase protection, VUL products are promoted by unit-cost-averaging method. Structured note products are linked to government bonds. Total premium of investment-linked products declined
- PA, Health & Group and traditional products grew YoY

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

Income Statement Data	1H 12/1H 11				Q2 12/Q2 11		
	2011	1H 2011	1H 2012	% change	Q2 2011	Q2 2012	% change
Premium income	159,030	71,697	86,017	20.0%	39,290	48,008	22.2%
Investment income							
Interest income	43,113	20,988	21,935	4.5%	10,727	11,074	3.2%
Gains on investments in securities <sup>(1)</sup>	17,981	9,506	16,928	78.1%	5,663	9,297	64.2%
Gains on real estate investments	6,212	1,877	1,816	-3.2%	919	892	-2.9%
FX	(6,717)	(4,505)	(5,307)	17.8%	(3,182)	(1,545)	-51.4%
FX gain or loss	15,197	(6,971)	(7,876)	13.0%	(9,866)	4,234	-142.9%
Hedging	(21,914)	2,466	2,569	4.2%	6,684	(5,779)	-186.5%
FX Reserve	-	-	286	-	-	43	-
Impairment loss	(283)	(15)	0	-100.0%	0	0	-99.8%
Total Investment income	60,305	27,851	35,658	28.0%	14,127	19,760	39.9%
Other operating income	1,093	665	779	17.2%	400	616	53.9%
Provisions for reserves							
Provisions	(192,649)	(84,599)	(99,284)	17.4%	(46,206)	(54,570)	18.1%
Recoveries	164,694	87,306	43,214	-50.5%	45,747	24,322	-46.8%
Total provisions for reserves, net	(27,956)	2,707	(56,069)	-2171.4%	(459)	(30,248)	6492.8%
Insurance payments	(172,232)	(94,749)	(51,464)	-45.7%	(49,679)	(28,650)	-42.3%
Commission expenses	(5,053)	(2,227)	(2,847)	27.9%	(1,179)	(1,666)	41.3%
Separate account revenues	65,912	33,141	27,772	-16.2%	8,584	11,375	32.5%
Separate account expenses	(65,912)	(33,141)	(27,772)	-16.2%	(8,584)	(11,375)	32.5%
General and administrative expenses	(12,416)	(6,065)	(6,186)	2.0%	(3,257)	(3,447)	5.8%
Other operating costs and expenses	(501)	(109)	(145)	33.0%	(43)	(79)	82.1%
Operating income	2,271	(230)	5,742	-2600.6%	(801)	4,293	-636.2%
Non-operating income and expenses	574	436	(107)	-124.5%	504	(86)	-117.1%
Income taxes	(370)	(326)	(597)	83.1%	(100)	(678)	580.1%
Cumulative effect of changes in accounting principles	0	0	0		0	0	
Net income	2,475	(120)	5,038	-4293.4%	(396)	3,529	-990.6%

Balance Sheet Data	1H 12/1H 11				Q2 12/Q2 11		
	2011	1H 2011	1H 2012	% change	Q2 2011	Q2 2012	% change
Total assets	1,551,850	1,542,319	1,599,098	3.7%	1,542,319	1,599,098	3.7%
Total shareholders' equity	45,696	60,634	43,447	-28.3%	60,634	43,447	-28.3%

Note:

(1) Gains from Song Jiang REAT of NT\$2.47bn and Tun Nan REAT of NT\$7.46bn were recognized as "gains on investments in securities".

(2) Numbers have not been audited by the auditors

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

<b>Income Statement Data</b>	<b>2011</b>	<b>1H 2011</b>	<b>1H 2012</b>	<b>1H 12/1H 11</b>		<b>Q2 12/Q2 11</b>	
				<b>% change</b>	<b>Q2 2011</b>	<b>Q2 2012</b>	<b>% change</b>
Interest income	10,937	5,163	6,076	17.7%	2,647	3,081	16.4%
Interest expense	(3,783)	(1,697)	(2,362)	39.2%	(887)	(1,194)	34.5%
Net interest income	7,153	3,466	3,714	7.2%	1,759	1,887	7.3%
Fee income	2,331	1,131	1,385	22.5%	572	706	23.6%
Fee expense	(683)	(334)	(385)	15.3%	(161)	(195)	21.3%
Net fee income	1,648	797	1,000	25.5%	411	511	24.5%
Gains on bill & securities	27	287	1,129	293.3%	235	183	-22.2%
Gains recognized under equity method, net	112	53	84	58.8%	29	43	48.1%
Gains on foreign exchange, net	507	(64)	(91)	41.9%	(103)	209	-304.1%
Other gains or losses, net	86	49	123	152.9%	53	30	-43.4%
Operating expense	(5,648)	(2,733)	(2,904)	6.3%	(1,377)	(1,453)	5.5%
Pre-provision income or loss	3,885	1,853	3,054	64.8%	1,008	1,412	40.0%
Provision expense	(523)	227	(220)	-196.6%	(59)	(114)	94.5%
Income tax (expense) benefit	(224)	(53)	(266)	400.7%	64	(82)	-228.2%
Net income	3,138	2,028	2,568	26.6%	1,013	1,216	20.1%

<b>Balance Sheet Data</b>	<b>2011</b>	<b>1H 2011</b>	<b>1H 2012</b>	<b>1H 12/1H 11</b>		<b>Q2 12/Q2 11</b>	
				<b>% change</b>	<b>Q2 2011</b>	<b>Q2 2012</b>	<b>% change</b>
Total assets	561,593	487,384	580,566	19.1%	487,384	580,566	19.1%
Total shareholders' equity	27,564	26,060	29,489	13.2%	26,060	29,489	13.2%
Total loans, net <sup>(1)</sup>	371,035	349,073	400,409	14.7%	349,073	400,409	14.7%
Total deposits	482,186	429,115	503,030	17.2%	429,115	503,030	17.2%

<b>Operating Metrics</b>	<b>2011</b>	<b>1H 2011</b>	<b>1H 2012</b>	<b>Q2 2011</b>		<b>Q2 2012</b>	
Fee income ratio	17.3%	17.4%	16.8%	17.2%	17.9%		
Cost income ratio	59.2%	59.6%	48.7%	57.7%	50.7%		
Loan/deposit ratio (excl. credit card)	76.9%	81.3%	79.6%	81.3%	79.6%		
Loan/deposit ratio (incl. credit card)	77.6%	82.1%	80.2%	82.1%	80.2%		
Net interest margin	1.55%	1.58%	1.40%	1.57%	1.40%		
Net interest spread	1.89%	1.92%	1.82%	1.91%	1.79%		
Pre-provision earnings/assets	0.75%	0.39%	0.53%	0.21%	0.25%		
Pre-provision earnings/equity	14.92%	7.33%	10.70%	3.99%	4.95%		

Note:

(1) Exclude credit cards but include overdue receivables

(2) Numbers have not been audited by the auditors