

CONFIDENTIAL

## Merger between Shinkong FHC and Macoto Bank



**MACOTO BANK**  
誠泰銀行

Synergy analysis  
September 2005, Taipei

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# AGENDA

- **Transaction Summary**

- Overall Project Structure and Workplan

- Synergy Calculation

- Other Improvement Opportunities

- Appendix

## TRANSACTION OVERVIEW

<b>Price</b>	NT\$20.00Bn NT\$28.20 per Macoto Bank share (“Macoto”)
<b>Consideration Paid</b>	662MM Shin Kong FHC common shares
<b>Price / 2004 Book Value</b>	1.83x
<b>Transaction Structure</b>	Share exchange between Shin Kong FHC and Macoto
<b>Original Exchange Ratio</b>	1.0713 Macoto share per Shin Kong FHC share
<b>Anticipated Closing</b>	3 October, 2005

# TRANSACTION RATIONALE

- **Significantly strengthens Shin Kong FHC's scale overall and in the banking business**
  - 11<sup>th</sup> largest non-government banking operation and 7<sup>th</sup> largest FHC
- **Enhances Shin Kong consumer orientation and expands distribution footprint**
  - 108 domestic branches - 50 in the greater Taipei area (limited overlap in branch coverage)
  - Additional 1.43MM bank customers and 1.15MM credit cards in-force
  - Creates the 7<sup>th</sup> largest credit card business in Taiwan
- **Creates substantial opportunities to enhance revenue potential at Macoto**
  - Cross-selling of Shin Kong products and services
  - Combination of two complementary core businesses (insurance business of Shin Kong and banking of Macoto)
- **Realizes cost savings through back-office integration and leverage substantial IT investment at Macoto**
- **Generates attractive financial returns**
  - Accretive to earnings in 2006 after one-time charges

# SYNERGY POTENTIAL

**Sale of insurance / wealth management products through bank channels**

**Sale of credit cards / consumer finance products to Shin Kong Life customers**

**Cost savings from bank consolidation**

**Less Tangible Synergies**

- Currently approximately 60% of Shin Kong Life new premiums are sold through third party banks
- Expect Macoto to capture reasonable share going forward although third parties will remain important
- Combined customer base of approximately 8MM to market products to
- Reduced marketing costs from consolidating credit card efforts
- Elimination of duplicative functions
- Consolidation of back-office
- Leverage Macoto's state-of-art client server based IT system
- Improved branding / franchise perception of Macoto as part of larger Shin Kong Group
- Improved ability to retain high quality management and employees
- Reduced funding costs / strengthened credit rating
- Valuation realization from undervalued property holdings at Macoto

# AGENDA

- Transaction Summary

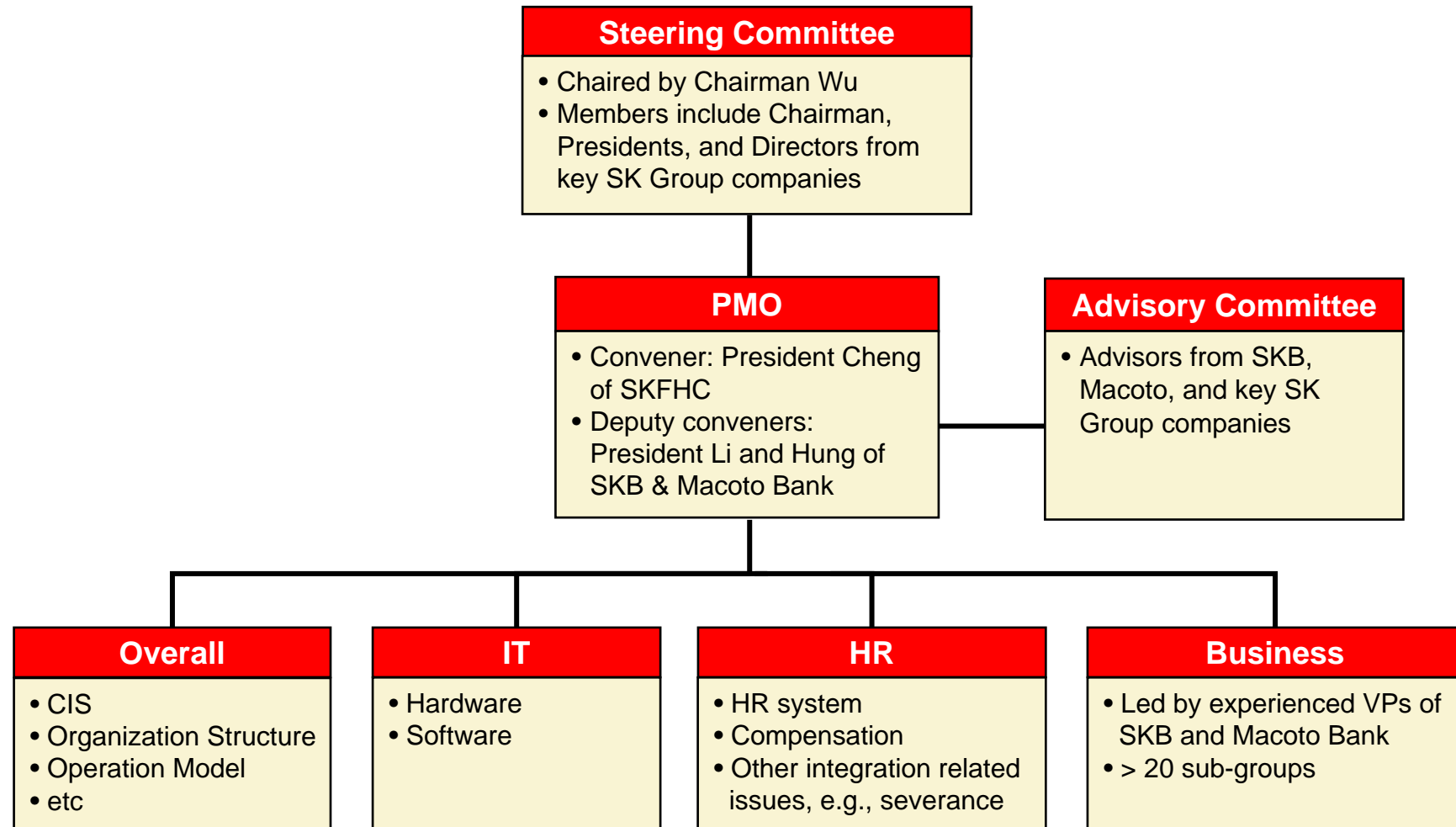
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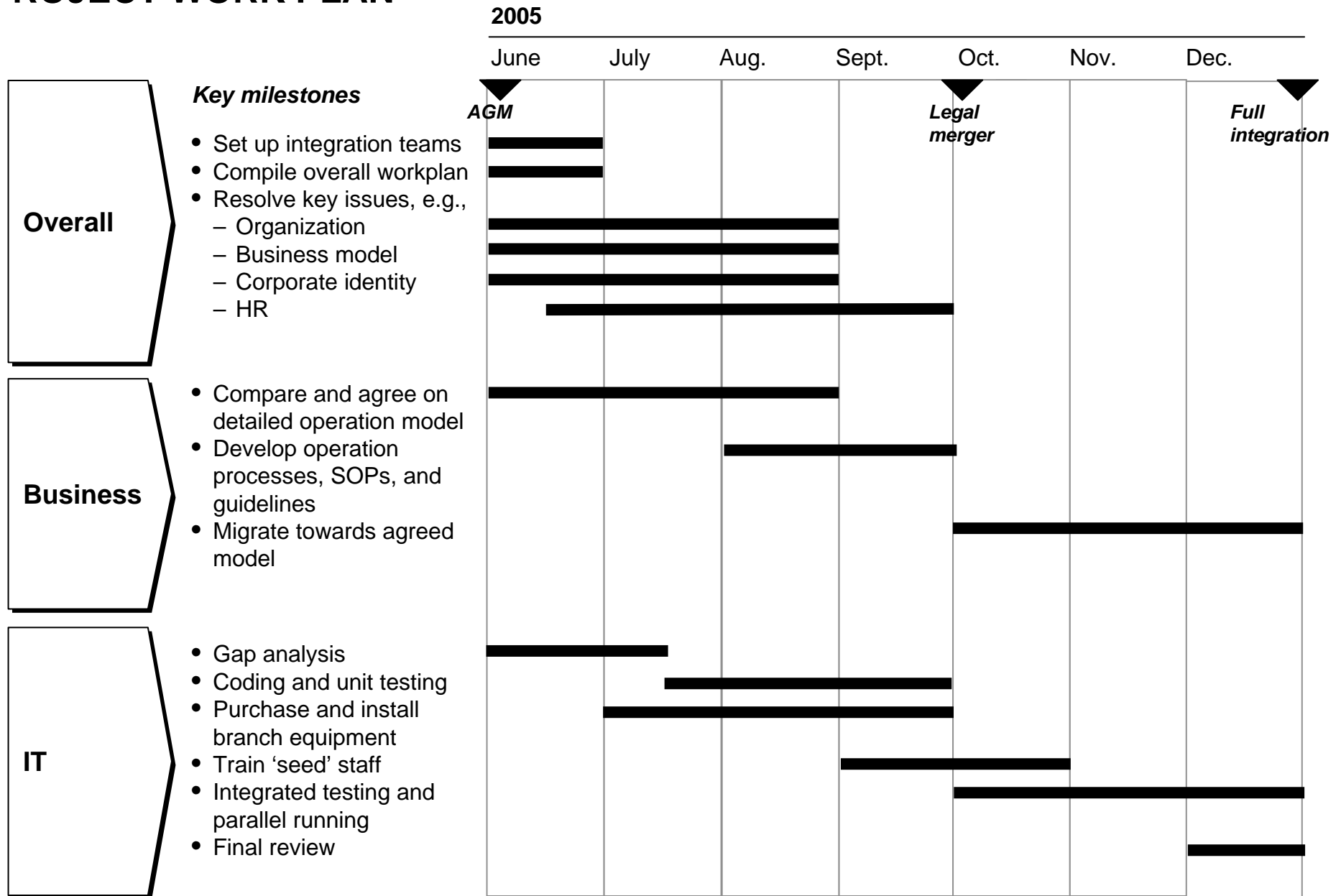
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# OVERALL INTEGRATION STRUCTURE





# PROJECT WORK PLAN



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# OVERVIEW

Unit: NTD million

		2006		2007		2008	
		Low	High	Low	High	Low	High
Cross-Selling	Bancassurance	29	36	75	94	129	162
	Credit Life to Credit Card	6	12	16	33	23	46
	Credit Life to unsecured p. loan	0	1	1	2	1	2
	Credit Life to Cash Card	0	0	0	1	1	1
	Mortgage Life	3	8	3	9	3	10
	Auto Life	0	1	0	1	0	1
	Travel Accident to Forex	1	2	1	2	1	2
	Credit Card	(18)	(29)	133	211	193	302
	Securities accounts to bank customers	3	6	7	14	9	18
	Asset Management to bank customers	11	11	11	12	12	13
Funding Cost	Saving in sub-debt	7	8	79	101	79	101
	Saving in deposit rate	93	93	93	93	93	93
Operating Cost	Marketing Expense	150	170	150	170	150	170
	Procurement	9	15	9	15	9	15
	Staff cost	40	60	40	60	40	60
	Office	5	10	10	20	10	20
Integration cost		(350)	(200)				

	2006	2007	2008	Three Year Total
<b>Low</b>	(11)	629	753	1,371
<b>High</b>	205	837	1,017	2,059

# 1 BANCASSURANCE

 FYP

Unit: NTD million

	2006		2007		2008	
	Low	High	Low	High	Low	High
Macoto active account number	208,469	208,469	229,316	229,316	252,247	252,247
Penetration Rate	1.15%	1.44%	1.73%	2.16%	1.92%	2.40%
FYP	1,921	2,401	3,170	3,962	3,874	4,843

Premium from policies originated in Year 1	1,921	2,401	1,825	2,281	1,734	2,167
Premium from policies originated in Year 2	-	-	3,170	3,962	3,012	3,764
Premium from policies originated in Year 3	-	-	-	-	3,874	4,843
Total	1,921	2,401	4,995	6,243	8,619	10,774
Total Profit (Product Profitability = 1.5%)	29	36	75	94	129	162

## 2 CREDIT LIFE TO CREDIT CARDS

### Assumptions

Customer Growth 10%

Ext. Cust.	New customers		
2005	2006	2007	2008
698,144	69,814	76,796	84,475

### Penetration Rate

	Low	High
Existing customers	2.0%	4.0%
New customers	2.0%	4.0%

### Timing of Penetration

2006	2007	2008
60%	30%	10%

### Unit product profit

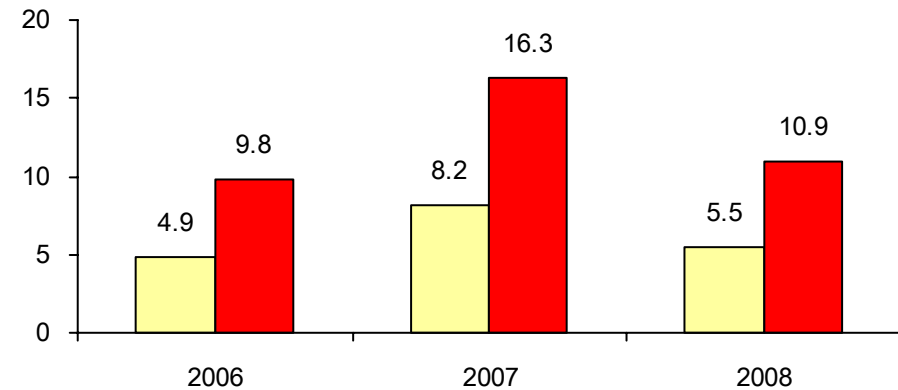
2005	2006	2007	2008
1,248	1,248	1,248	1,248

### Detailed assumptions

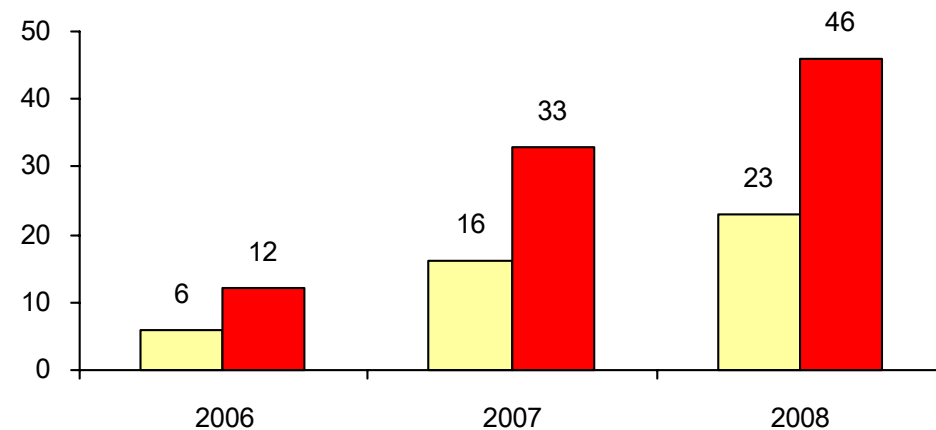
	Product A	Product B
- Monthly pymt	200	500
- Composition	80%	20%
- Average pymt per month		260
- Profit margin		40%
- Average monthly profit		104

Low  
High

### Number of customers (Thousands)



### Profit (Millions)



### 3 CREDIT CARD

#### Assumptions

Customer Growth 5%

Ext. Cust.	New customers		
2005	2006	2007	2008
2,990,000	149,500	156,975	164,824

#### Penetration Rate\*

	Low	High
Existing customers	15.0%	20.0%
New customers	20.0%	30.0%

#### Timing of Penetration

2006	2007	2008
60%	30%	10%

#### Unit product profit

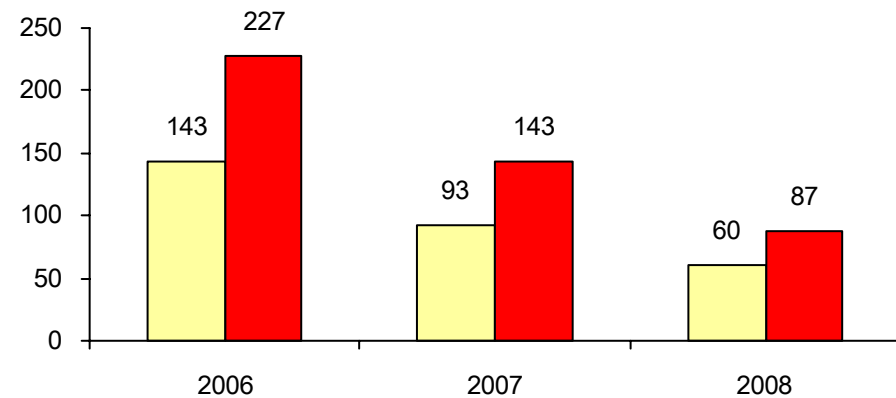
2006	2007	2008
(126)	1,008	743

#### Detailed assumptions

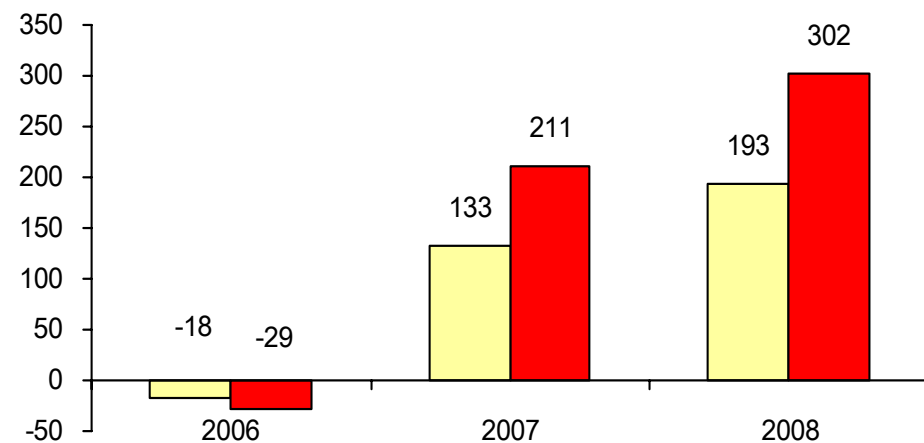
- Average revolving interest	19.71%
- Cost of fund	1.75%
- NPL	6%
- Average revolving balance target in 3 yrs	10,000
- Average transaction and cash adv. fee	290
- Acquisition cost	450

Low  
High

#### Number of cards (Thousands)



#### Profit (Millions)



## 4 FUNDING COST

Unit: NTD million

Deposit rate					
		Macoto balance	SKB rate	Macoto rate	Savings
Demand		57,770	0.40%	0.49%	52
Term		131,299	1.55%	1.58%	39
Interbank deposit		5,780	1.55%	1.57%	1
Total					<u>93</u>
Savings in sub-debt					
		Balance	SK rate	Macoto rate	Savings
Sub-debt	Low	4,500	2.75%	4.50%	79
	High	4,500	2.25%	4.50%	101

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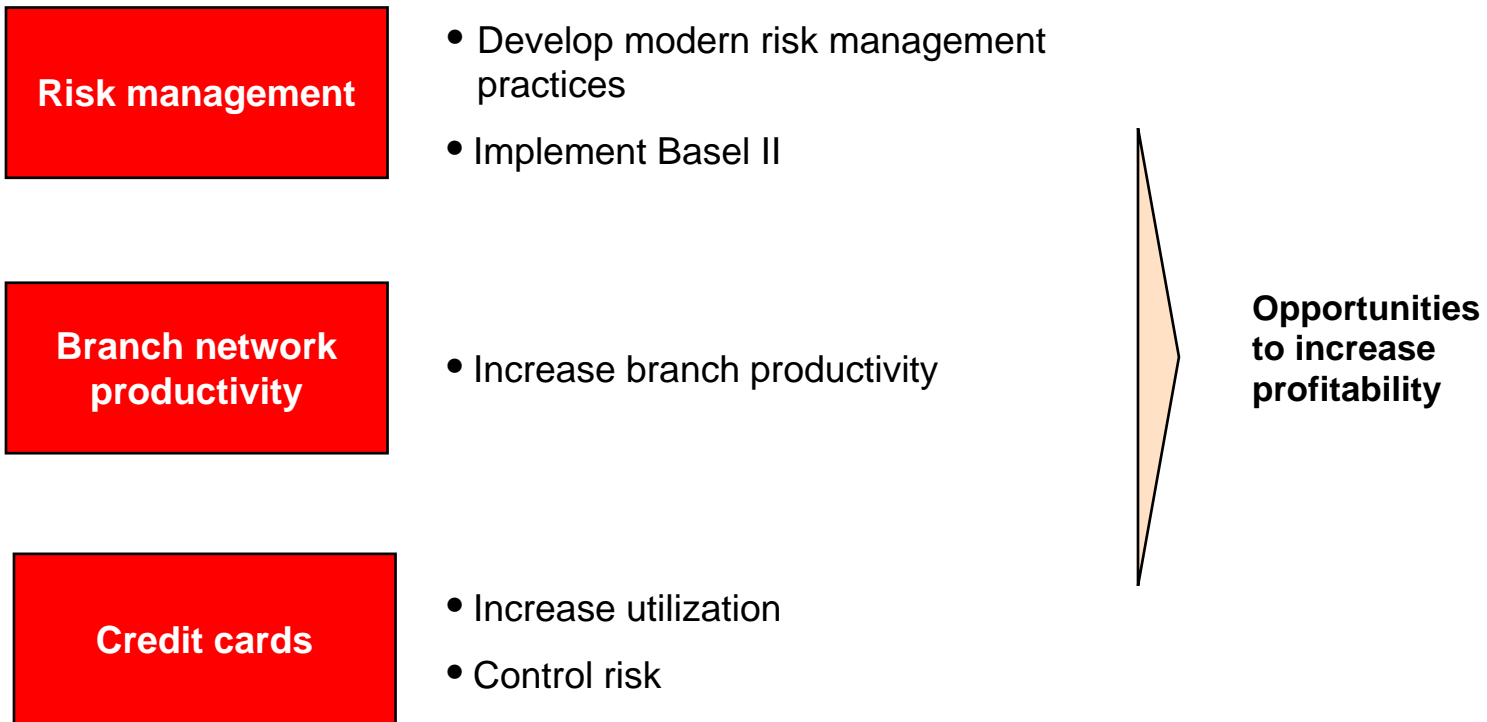
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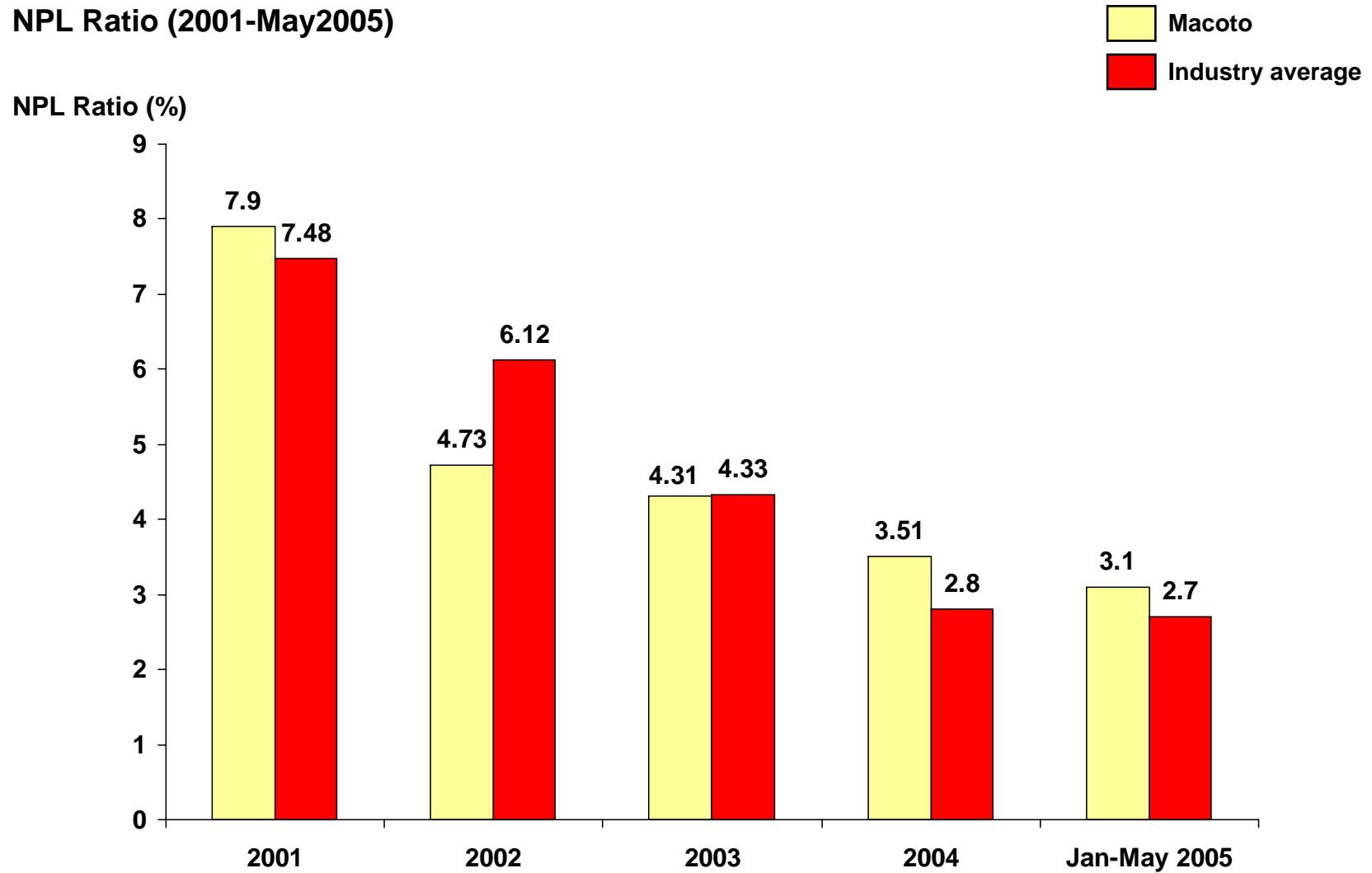
# ADDITIONAL BENEFITS FROM OPERATIONAL IMPROVEMENT

## Preliminary Hypotheses on Key Improvement Areas



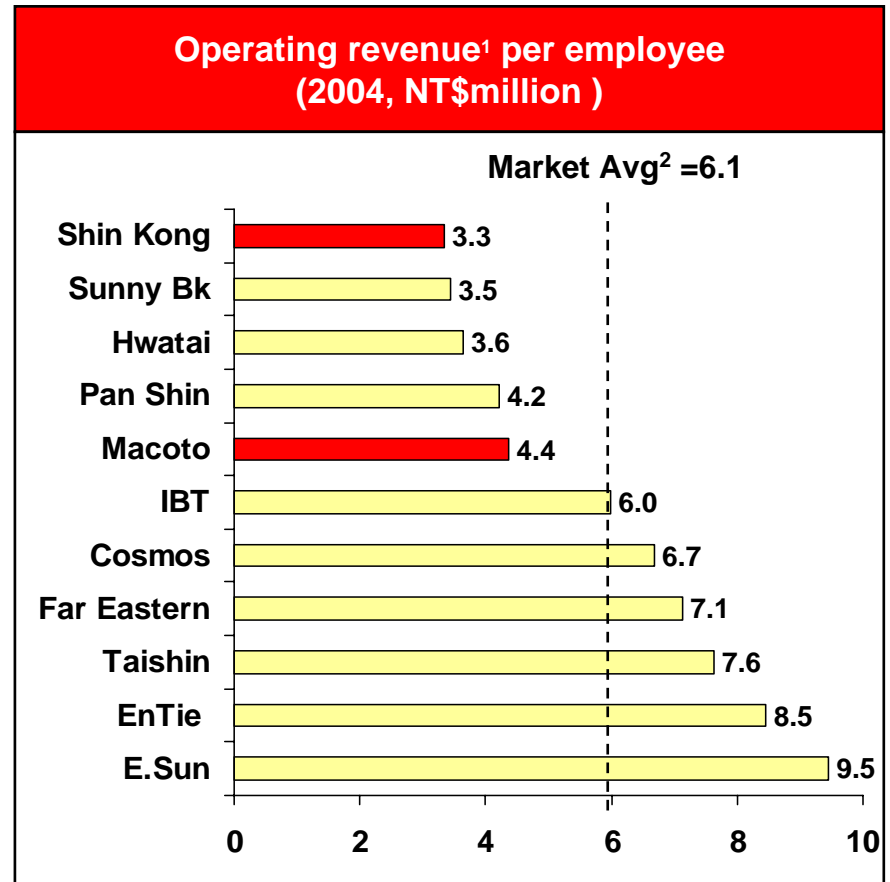
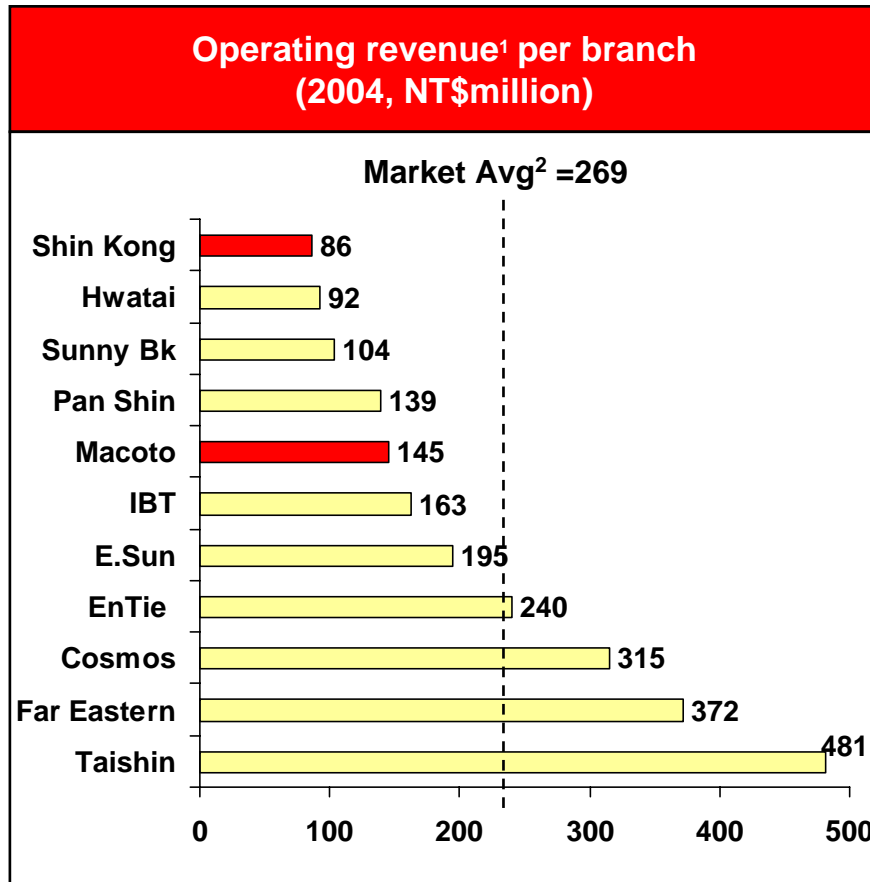
# MACOTO'S NPL RATIO HAS BEEN HIGHER THAN INDUSTRY AVERAGE

NPL Ratio (2001-May2005)



Source: Banking Bureau

# BRANCH PRODUCTIVITY IS LOW



<sup>1</sup> Includes interest revenue, gain on sales of bills, gain on sales of securities, commission and service fees, exchange gain, and others

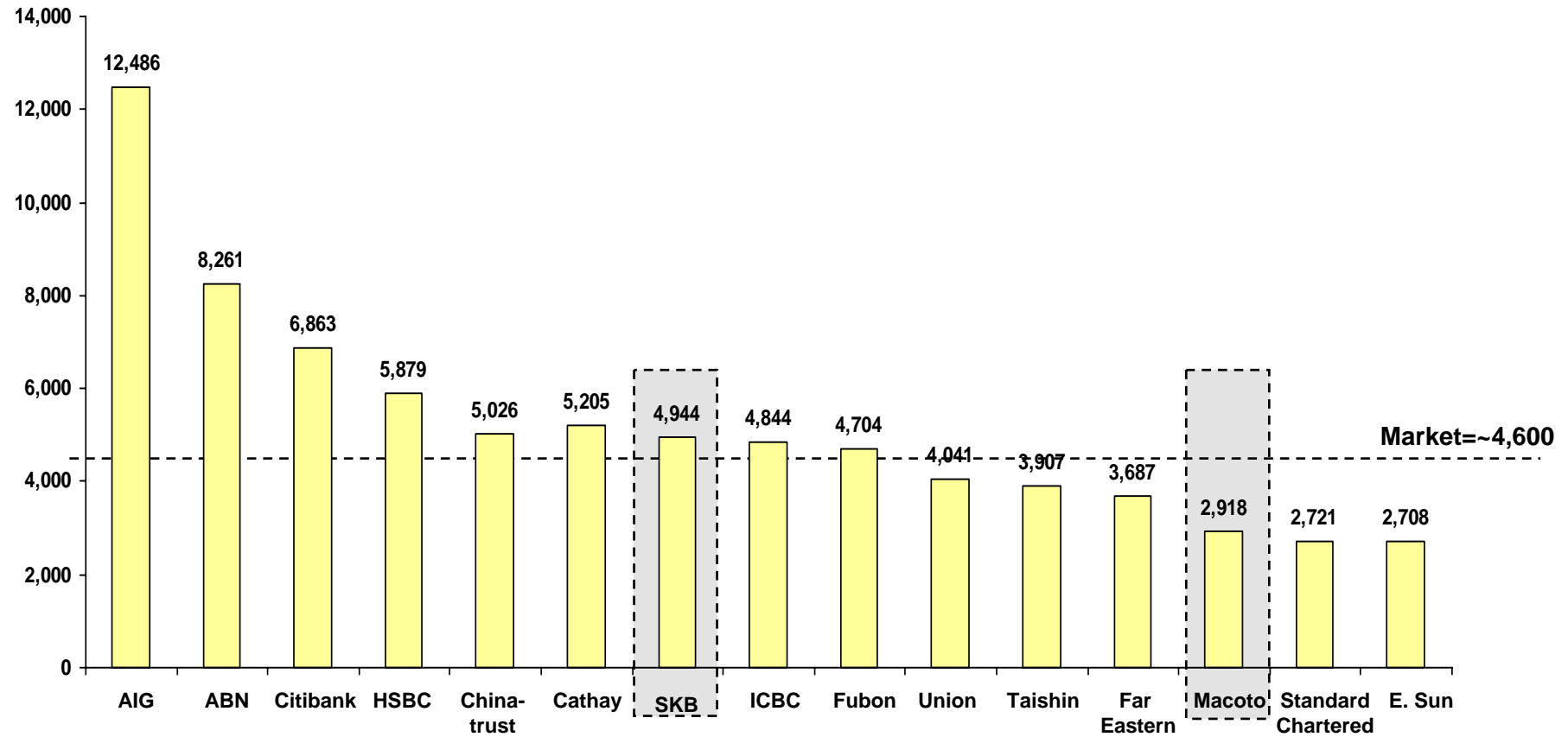
<sup>2</sup> Total banking operating income/total number of branches in Taiwan

Total banking operating income/total number of banking staff in Taiwan

Source: Banking Bureau, Central Bank

# TRANSACTION PER CARD LAGS BEHIND MARKET

Average monthly transaction volume per card<sup>1</sup>  
(Jan-May 2005, NTD)



<sup>1</sup> Total transaction amount/number of active cards, average Jan-May 2005

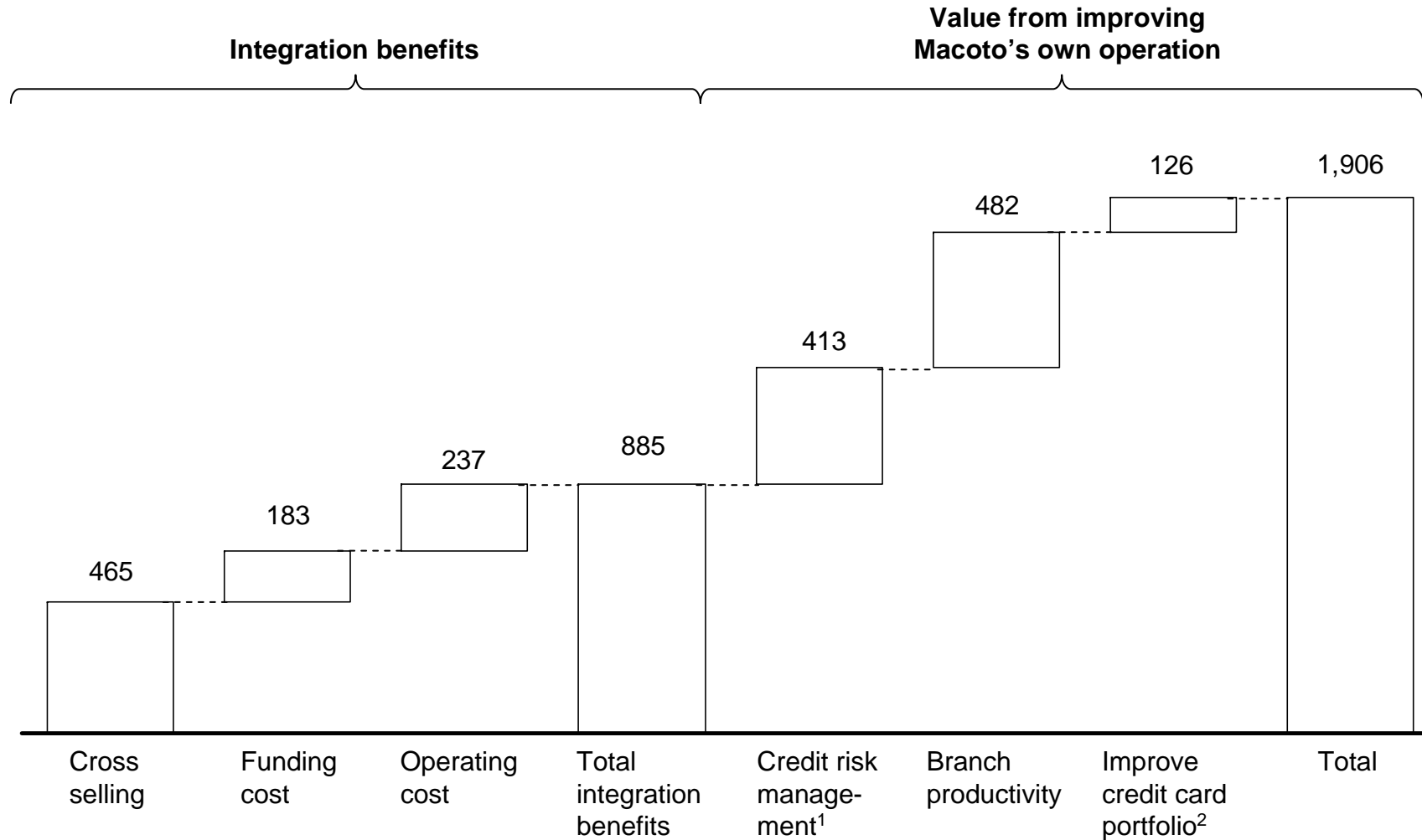
Source: Central Bank

# SUMMARY OF FINANCIAL IMPACT

ASSUME STEADY  
STATE IN 3 YEARS

PRELIMINARY

Potential value capture  
NTD millions



<sup>1</sup> Decrease NPL% by 40bps in line with industry average

<sup>2</sup> Increase utilization (i.e., transaction fee per card) to market average (Jan – May 05 data)

Source: Banking Bureau, Central Bank, Boston Consulting Group

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## APPENDIX: MACOTO BANK SUMMARY FINANCIALS (I)

NT\$MM	2003	2004	1H2005
Net Interest Income	5,811	6,674	3,538
Net Non-Interest Income	1,636	1,918	1,212
Operating Expenses	(4,083)	(4,740)	(2,358)
<b>Pre-Provision Income</b>	<b>3,779</b>	<b>4,244</b>	<b>2,575</b>
Provisions <sup>(1)</sup>	(2,550)	(3,011)	(1,371)
Amortization of NPL Losses	(1,000)	(1,000)	(500)
Pre-tax Income	229	233	1,203
Tax	(46)	(27)	(3)
<b>Reported Net Income</b>	<b>183</b>	<b>206</b>	<b>700</b>
NIM	3.57%	3.67%	3.71%
Non-Interest Income / Total Income	21.97%	22.33%	25.52%
Cost / Income	54.82%	55.16%	49.64%
Broad-Based NPL Ratio	6.36%	4.26%	3.35%
Broad-Based Coverage Ratio	20.62%	24.39%	22.67%
Pre-Provision RoA	1.75%	1.87%	2.15%
Pre-Provision RoE	35.87%	38.86%	42.49%

<sup>1</sup> 2004 provisions include provision for price decreases in notes and shares investment and collateral value of approximately NT\$300MM and provision of other receivables of NT\$600MM

## APPENDIX: MACOTO BANK SUMMARY FINANCIALS (II)

<b>NT\$MM</b>	<b>2003</b>	<b>2004</b>	<b>1H2005</b>
Cash and Cash Equivalents	3,382	2,922	3,352
Total Loans	123,889	134,326	139,641
Total Assets	215,886	227,503	239,280
Total Deposits	170,025	190,769	196,473
Shareholders' Equity	10,719	10,921	12,121
Loans / Deposits	72.87%	70.41%	71.07%
Equity / Assets	4.97%	4.80%	5.07%
Gross Tier I Ratio	6.32%	6.39%	6.92%
BIS	9.33%	9.69%	9.69%