

Confidential



**Shin Kong Financial Holding**

Q4 2008 Results Update

February 26, 2009

# Disclaimer

This presentation and the presentation materials distributed herewith include forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Shin Kong Financial Holding Company (“Shin Kong FHC”) expect or anticipate will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Shin Kong FHC’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, market shares, competition, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, cost estimates and other risks and factors beyond our control. In addition, Shin Kong FHC makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.

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
- Dai-ichi Life Transaction Summary

## SKFH – 2008 Overview

- SKFH recorded after-tax loss of NT\$21.02bn in 2008 driven by NT\$1.37bn impairment loss from CBO investment, NT\$5.47bn loss from CDO investment, and foreign exchange hedging cost of NT\$12.55bn. EPS was -NT\$3.80.
- Losses came mainly from SKL while performance of SKB has been stable
  - SKL: after-tax loss was NT\$19.74bn, with NT\$6.84bn loss from CBO/CDO investments and NT\$12.55bn from foreign exchange hedging cost
  - SKB: pre-provision operating income remained stable; after-tax profit was NT\$0.23bn
  - SKSC and SKIT: after-tax losses were NT\$0.38bn and NT\$2mn respectively
  - SKIB: achieved after-tax profit of NT\$51mn
  - Results of Masterlink Securities were consolidated since SKFH's investment in the company already exceeded 25%
- Q4 after-tax loss was NT\$9.70bn. Major items include: NT\$2.32bn FX hedging cost, NT\$1.40bn corporate CDO impairment, NT\$3.39bn loss from equity investment, and NT\$0.55bn goodwill impairment loss from SKIT.

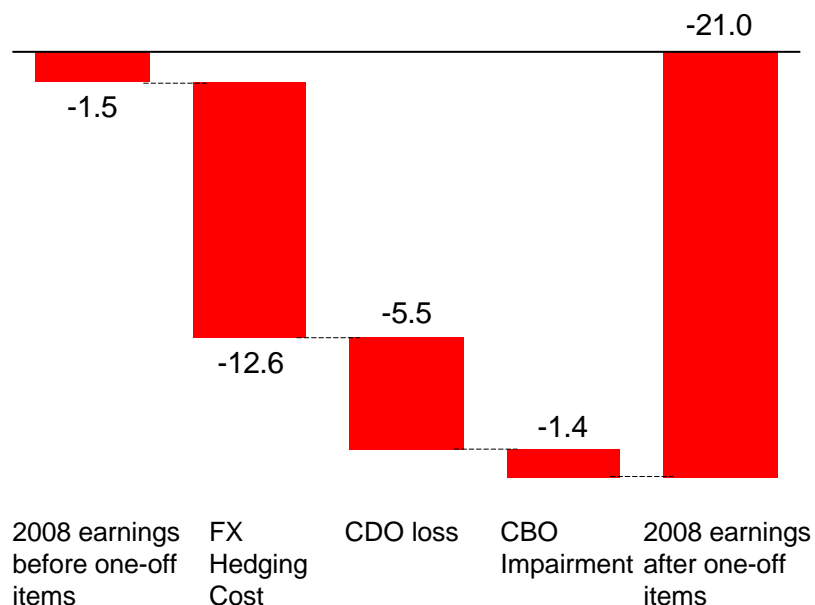
# Financial Highlights – 2008

	2007	2008	YoY Growth
NT\$m (except per share data), %			
Group net income	5,008	-21,022	-
First year premium (Insurance)	98,764	89,794	-9%
Loans (Bank)	280,339	283,990	1%
Total assets	1,687,996	1,776,362	5%
Total shareholders' equity	100,113	58,320	-42%
ROA	0.34%	-1.25%	-
ROE	5.33%	-27.88%	-
Earnings per share	1.02	-3.80	-

# Net Income – 2008

## Group net income

NT\$bn



## Net income contribution

NT\$bn

Subsidiaries	2008	2007
Shin Kong Life	-19.84	2.17
Shin Kong Bank	0.22	1.42
Shin Kong Securities	-0.38	0.19
Shin Kong Investment Trust	0.00	0.11
Shin Kong Insurance Brokers	0.05	0.05
Others <sup>(1)</sup>	-1.07	1.07
<b>Net income</b>	<b>-21.02</b>	<b>5.01</b>

Note:

(1) Include other income of SKFH, income taxes, and loss from Masterlink Securities

# Agenda

I. SKFH

**II. Life Insurance Business**

III. Banking Business

IV. Appendix

- Life Premium Summary
- Dai-ichi Life Transaction Summary

## SKL – 2008 Overview

- SKL recorded after-tax loss of NT\$19.74bn in 2008 driven by NT\$1.37bn impairment loss from CBO investment, NT\$5.47bn loss from CDO investment, and foreign exchange hedging cost of NT\$12.55bn. ROE was -48.6%.
- Affected by volatile global markets, demand for investment-linked products slowed in the second half. FYP was NT\$89.79bn, 9% lower than the high basis achieved in 2007. To maintain reasonable overall profit margin, growth rate was lower than market growth of 14%. Market share was 11%.
- Investment-linked policies contributed 50% (VUL: 2%) of FYP. FYP from traditional products was NT\$11.6bn (13% of total FYP), up by 47% YoY. Premium from PA, health and group products also grew by 71% to NT\$5bn, driven by strong sales of health products.
- 13-month persistency improved to 89%. 25-month persistency was 78%.
- 2008 investment return was 1.96%
- Q4 after-tax loss was NT\$8.79bn. Major items include: NT\$2.32bn FX hedging cost, NT\$1.40bn corporate CDO impairment, and NT\$3.39bn loss from equity investment.



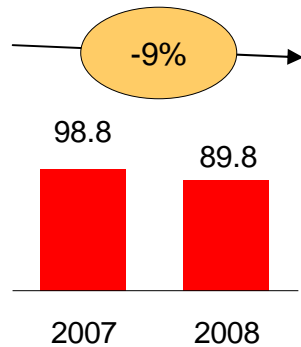
# Financial Highlights – 2008

	2007	2008	YoY Growth
NT\$mn, %			
First year premium	98,764	89,794	-9%
Total premium	215,902	201,906	-6%
Investment income	41,905	21,632	-48%
Net income	2,417	-19,738	-
Total assets	1,229,222	1,301,251	6%
Total shareholders' equity	59,996	24,779	-59%
ROE	3.68%	-48.59%	-
ROA	0.21%	-1.56%	-

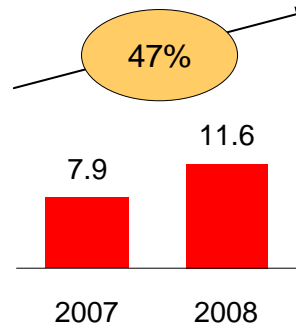
# First Year Premium – 2008

NT\$bn

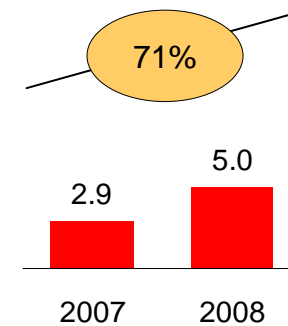
## Market share 10.5%



## Traditional



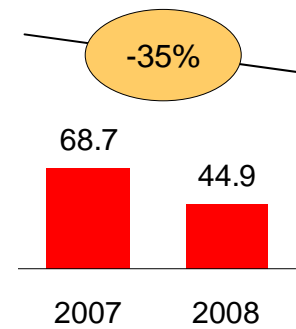
## PA, Health and Group



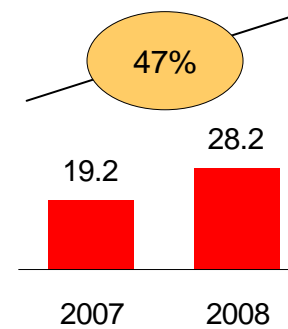
## Comments

- To maintain reasonable overall profit margin, FYP was controlled at level lower than last year.
- Investment-linked products contributed significant share (50%) of FYP.
- Affected by global market situation, sales from investment-linked products slowed.
- In Q4, traditional products and high value health and long-term care products continued to be the focus of sales. FYP growth of traditional products was 47%. PA, health and group also grew by 71%.

## Investment-linked

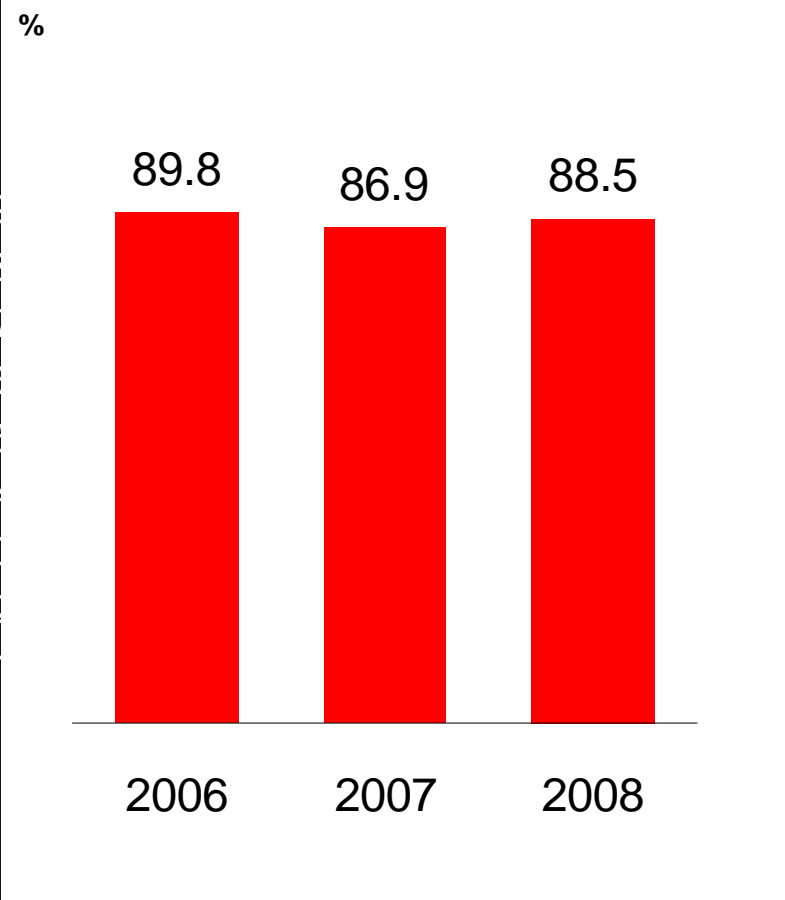


## Interest-sensitive

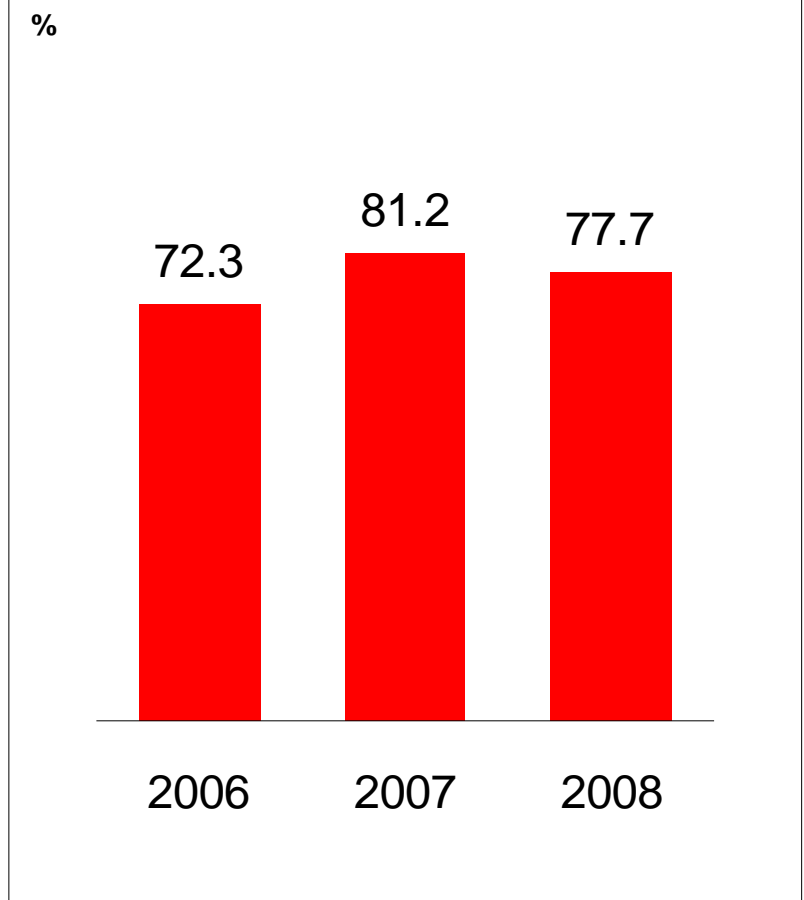


# Persistency Ratio

**13 month persistency**



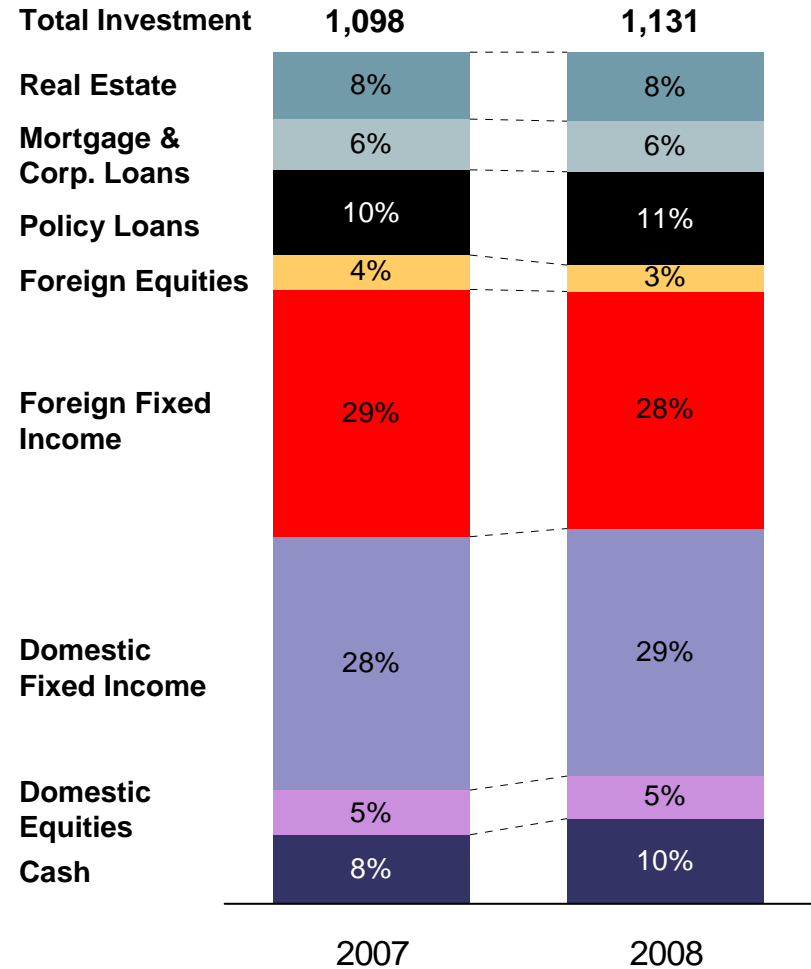
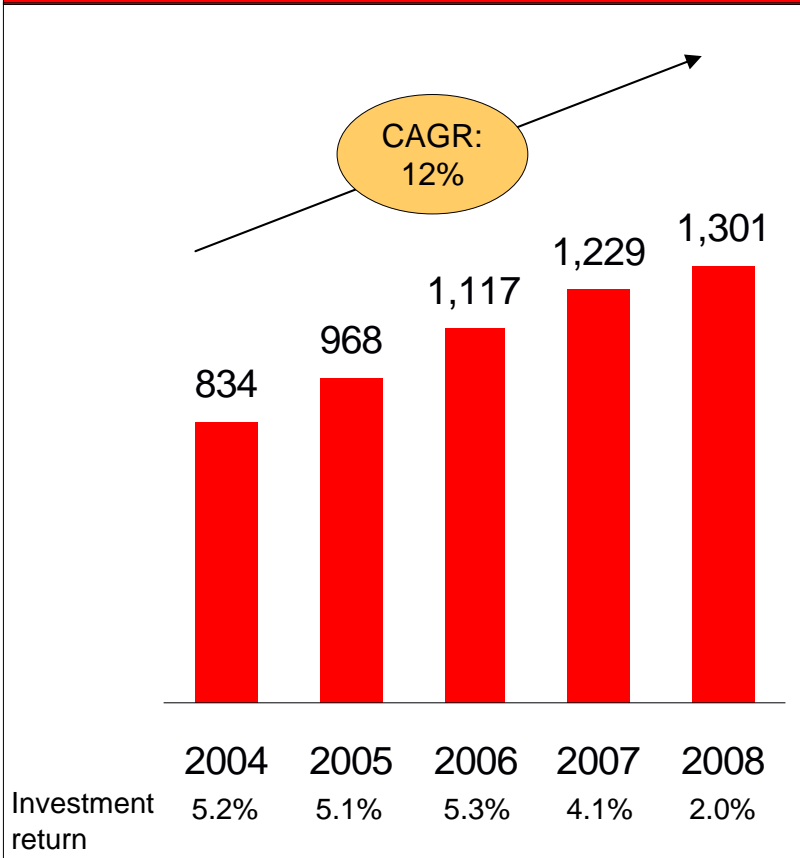
**25 month persistency**



# Investment Portfolio

NT\$bn

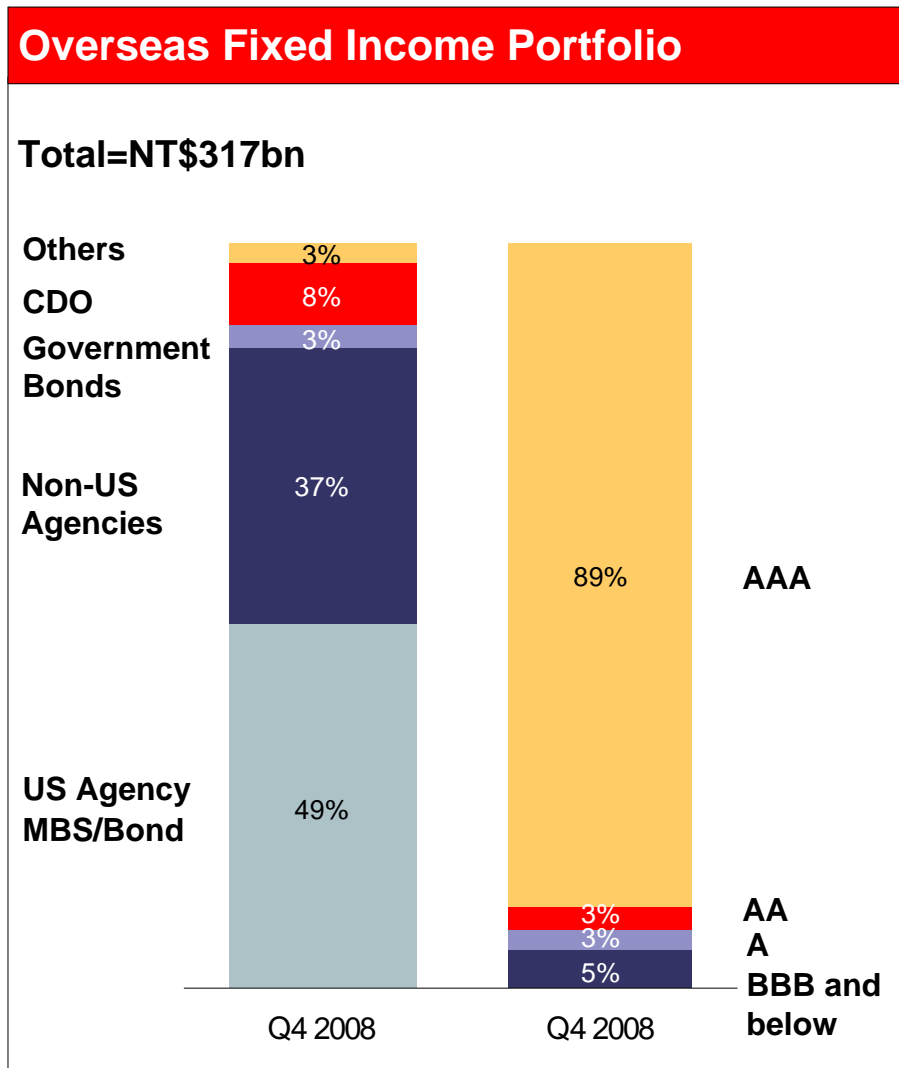
## Total Assets



Note:

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

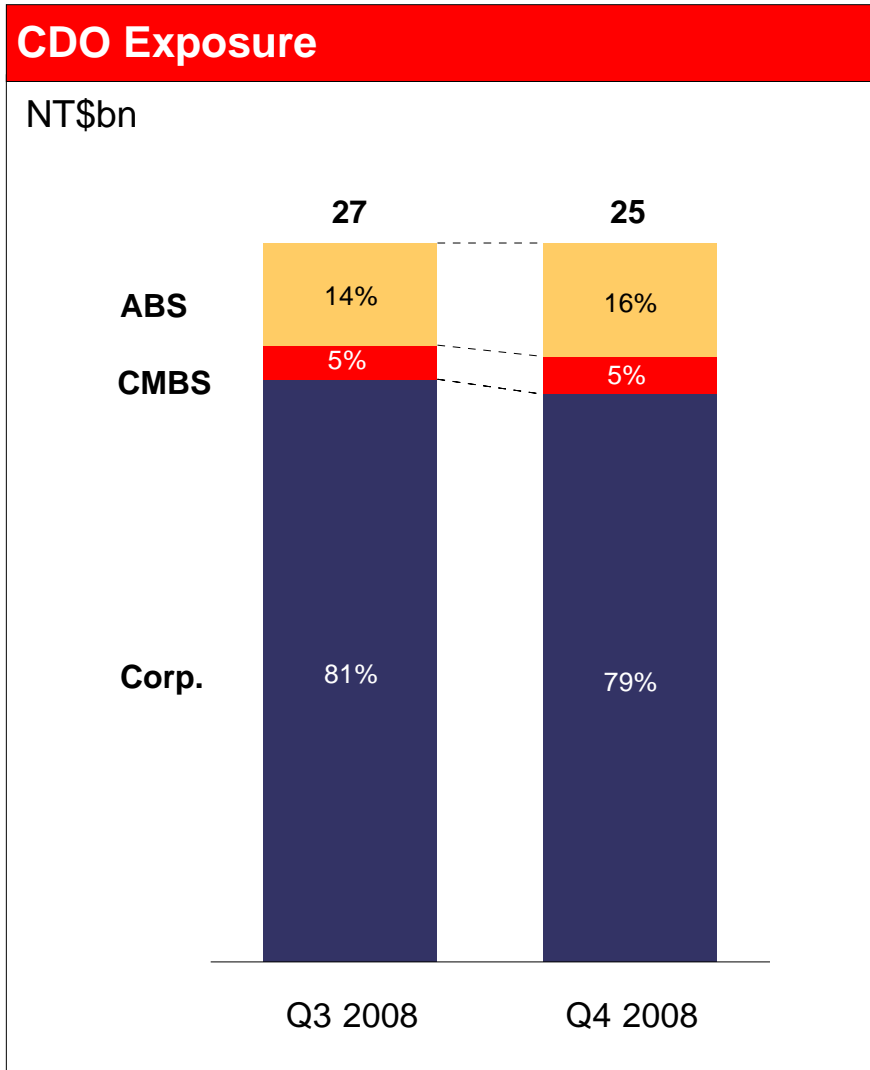
# Overseas Fixed Income – Prudent Credit Risk



## Comments

- Portfolio mainly comprises low risk investments such as government bonds, US Agency MBS/Bonds, and Non-US Agency Bonds
- AAA rated investments accounted for 89% of the portfolio. 95% of the portfolio is rated A and above. Overall credit risk exposure is very limited
- “Others” includes corporate bonds, financial debentures, hedge funds, and money market funds

# CDO Exposure



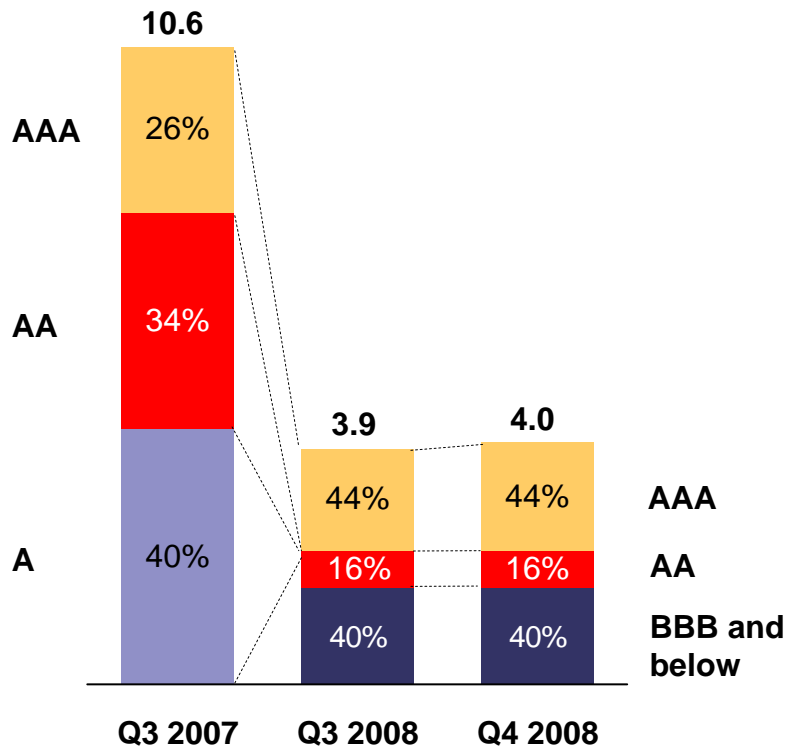
## Comments

- 16% of CDOs were referenced to Asset Backed Securities which consist of RMBS, CMBS, auto loans, etc.
- 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)
- Total CDO exposure were NT\$25bn. Exposure decreased due to impairment
- Due to deterioration in credit quality among financial companies since Q3, rating migration was observed. The company will proactively manage Corporate CDOs and deploy necessary hedging strategies. Overall credit risk is expected to be manageable

# ABS CDO Rating Distribution

## ABS CDO Rating Distribution

NT\$bn

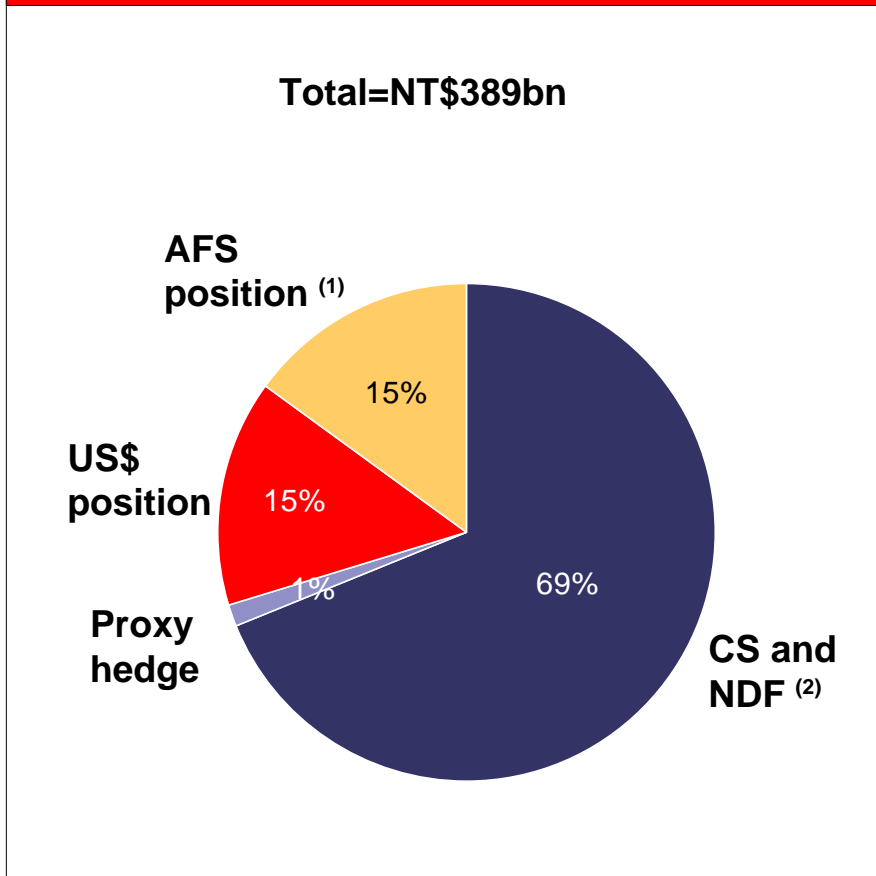


## Comments

- 26% of ABS CDO assets are referenced to U.S. sub-prime mortgages
- No impairment loss was recognized in Q4; cumulative loss was NT\$5.8bn
- 55% of ABS CDO has been impaired
- No impairment loss was recognized in Q4. Ratings of ABS CDOs expected to stabilize

# Hedging Strategy

## Mix of Hedging Strategies Used



## Comments

- Maintain share of traditional hedges at 60~80% in the medium-long term
- Proxy hedging reduced to 1%
- Target hedging cost is 2%
- Hedging costs for 2008 was 3.2%, higher than annual target of 2%
- Available for sale position accounted for 15% 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; obtained approval to increase overseas investment to 40%; currently operating between 35~40%

## Well-diversified Portfolio

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

## Cost-effective Currency Hedging

- Maintain share of traditional hedges at 60~80% in the medium-long term
- Target hedging cost at 200 bps or below

## Enhance Investment Risk Management

- Manage/ control investment risk by prudent SAA and TAA ranges
- Cooperated with leading consulting company to enhance investment decision making process and investment risk management
- Plan to complete phase I of the Algo system (a cross-subsidiary market risk management platform) implementation in April

## SKL – 2009 Outlook

- Focus on high value traditional and health products to maintain overall profit margin. Underlying demand for protection is expected to remain strong since overall sum insured in Taiwan is low and protection needs are less affected by economic downturn.
- Maintain 5% long-term investment return target. Although investment environment may be challenging in the short-run given volatile global equity/ credit markets, opportunities exist in individual asset classes (e.g., real-estate). Will maintain the share of traditional hedges at 60~80% and continue to closely monitor developments in global markets.
- Continue to enhance risk management. Plan to complete phase I of the Algo risk management system in April.
- Obtained approval to increase overseas investment to 40%; currently operating between 35% and 40%.
- Develop both agency and bancassurance channels (FYP share 66% and 33% respectively). Will continue to use SKB as the main bancassurance channel and migrate towards higher margin products.
- Preparatory office for China JV established subsequent to receiving CIRC approval. Preparation team deployed and will start operation once negotiation with Hainan Airlines on operational details is completed.
- Target ~10% growth in value of new business (VNB) in the medium/long term

# Agenda

I. SKFH

II. Life Insurance Business

**III. Banking Business**

IV. Appendix

- Life Premium Summary
- Dai-ichi Life Transaction Summary

## SKB – 2008 Overview

- After-tax profit decreased to NT\$227 million (down 84% from 2007) due to decrease in pre-provision profit to NT\$2.16bn (down 32% from 2007) and increase in provision expense to NT\$1.93bn (up by 12% from 2007)
- Loan balance remained flat quarter-on-quarter but grew 1.3% year-on-year. Most growth came from mortgage loans. L/D ratio was 80% (incl. credit cards balance).
- NIM remained stable at 1.69%. With renewed focus on risk and yield considerations, corporate risk reviews have been strengthened, high risk loans recovered, and low-yield corporate loans reduced.
- WM AUM increased 0.8% from last year; fee income decreased 43% year-on-year due to pullback in global equities markets. Achieved bancassurance cross-sales of NT\$14.8bn in 2008, accounting for 51% of SKL bancassurance premium.
- Credit card NPL and coverage ratios remained stable at 1.94% and 130% respectively.
- As of December 31 2008, there were 4,389 cases (NT\$367 million) in pre-court restructuring. Of 1,989 rehabilitation cases received, only 4 were sustained. 162 liquidation cases were filed and still in court process. Numbers increased due to economic downturn but overall situation expected to be manageable. Monthly repayment rate of restructured loans remained stable; cumulative repayment rate was 55.23%.
- Asset quality was maintained with overall NPL and coverage at 1.87% and 66.42% respectively. NPL ratio for mortgages remained good at 0.90%.

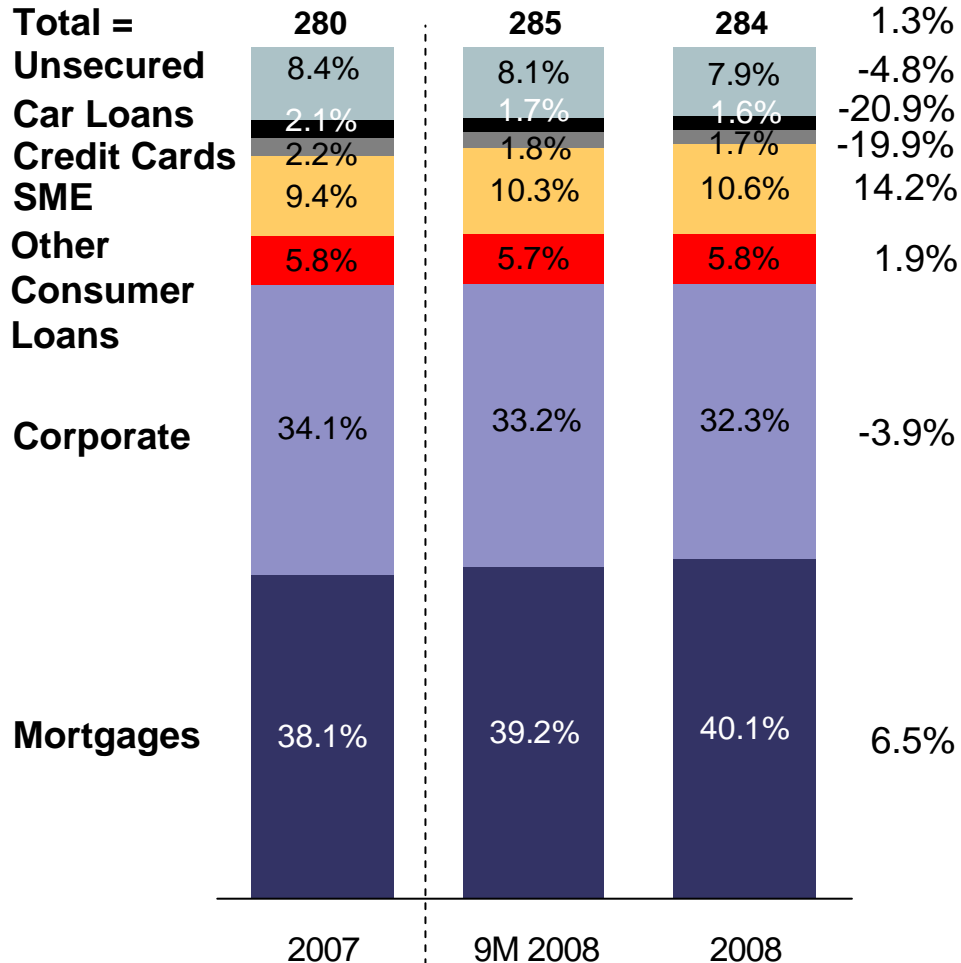
# Net Income – 2008

	2007	2008	YoY Growth
NT\$mn, %			
Net interest income	6,341	6,219	-2%
Net fee income	1,742	1,393	-20%
Other income	882	(195)	-122%
Operating expense	(5,776)	(5,262)	-9%
Pre-provision operating income	3,189	2,155	-32%
Provision expense	(1,728)	(1,933)	12%
Income tax benefit (expense)	(38)	5	-113%
<b>Net Income</b>	<b>1,423</b>	<b>227</b>	<b>-84%</b>

# Loan Mix

NT\$bn

## YoY Growth

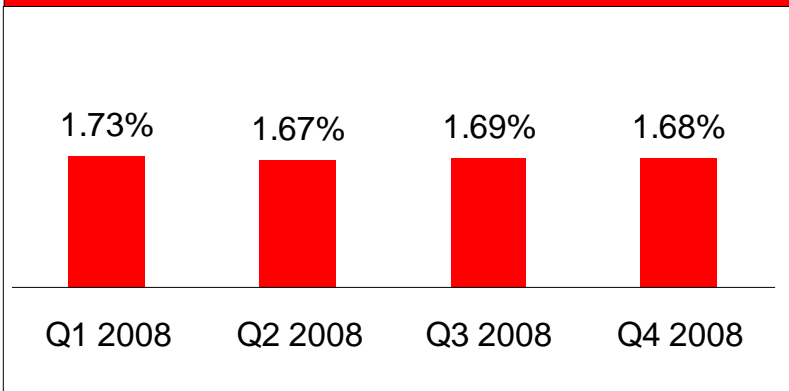


## Comments

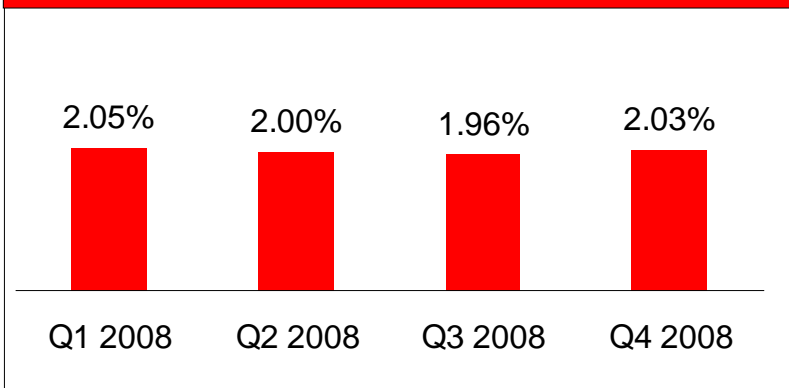
- Loan balance remained flat quarter-on-quarter but grew 1.3% year-on-year. Most growth came from mortgage loans.
- Mortgage achieved stable growth under stringent credit policies; LTV ratio for Taipei city remained at 80%; but for other cities and counties, LTV ratio was reduced from 80% to 70% for urban planning areas, and from 70% to 60% for non-urban planning areas.
- L/D ratio was 80% (incl. credit cards balance)

# Interest Yield

## Net Interest Margin



## Net Interest Spread

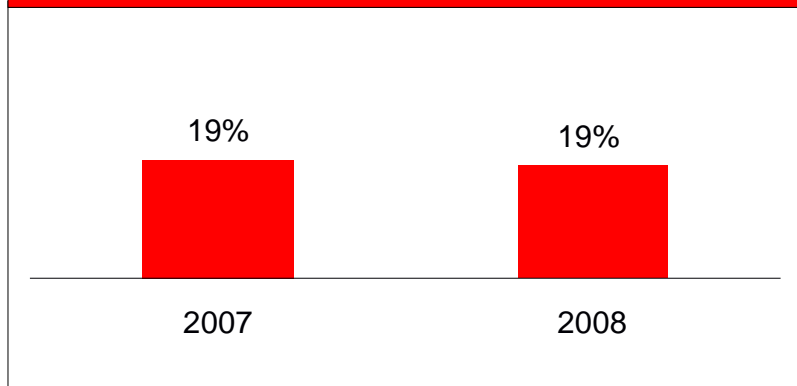


## Comments

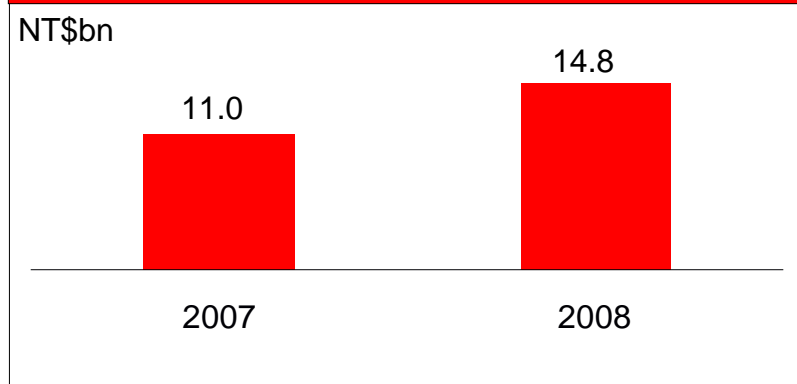
- NIM remained stable at 1.69%. With renewed focus on risk and yield considerations, corporate risk review has been strengthened, high risk loans recovered, and low-yield corporate loans reduced.
- New mortgage rate down 6bps in Q4 2008. Lending rates will gradually adjust in line with Central Bank rate cuts.
- Central Bank rate cuts since Q4 2008 likely to generate a temporary squeeze in NIM due to difference in asset and liability duration. NIM expected to be under pressure in Q1 2009 and gradually recover to the level of 2008 as higher rate fixed deposits mature.

# Fee Income

## Net Fee Income / Total Income

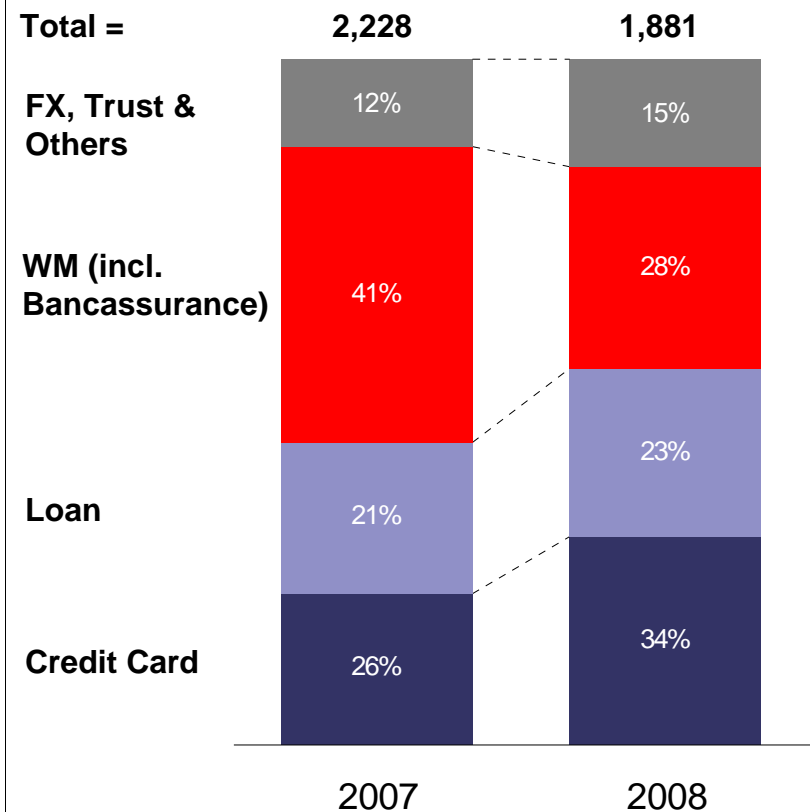


## Bancassurance (SKL) - FYP



## Fee Income Breakdown

NT\$m

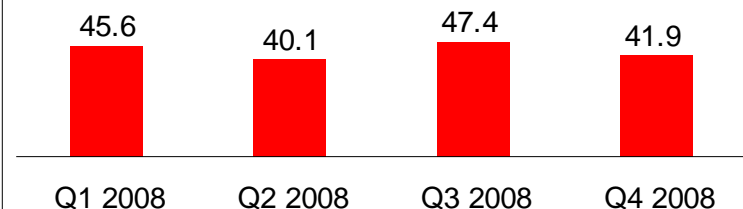




# Wealth Management

## AUM

NT\$bn

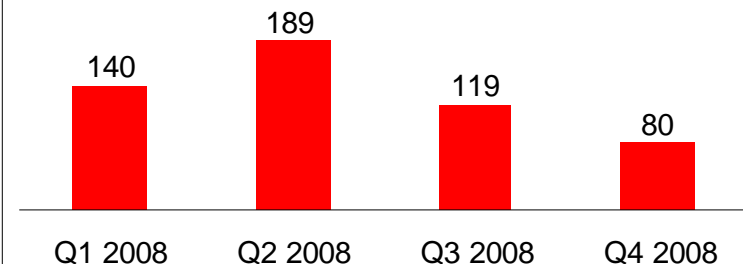


## Wealth Management Center



## WM Fee Income

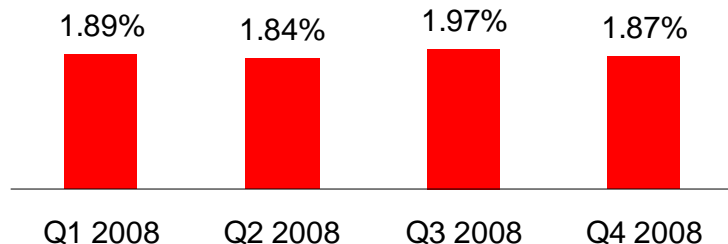
NT\$m



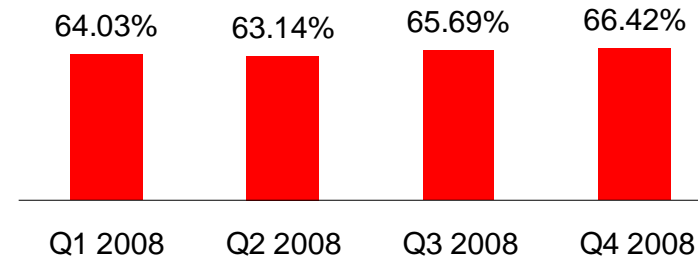
- WM AUM increased 0.8% YoY; fee income decreased 43% due to pullback in global equities markets
- WM accounted for 28% of total fee income
- Strengthened headcount planning and management of AOs, tightened risk management and operation standards, and established WM know-how website to cope with recent market turmoil
- Strengthened sales of insurance products (e.g., Traditional, Health and PA) and introduced ETF funds that meet customers' needs to increase fee income

# Asset Quality

## NPL Ratio



## Coverage Ratio



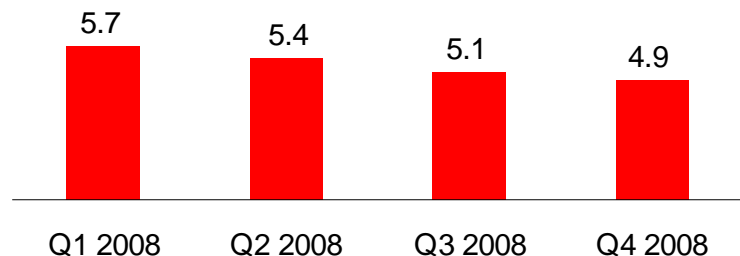
## Comments

- Asset quality was maintained with overall NPL at 1.87%
- NPL ratio for mortgages remained good at 0.90%.
- Coverage was 62.65% - above the Company's medium term target
- As of December 31 2008, there were 4,389 cases (NT\$367 million) in pre-court restructuring. Of 1,989 rehabilitation cases received, only 4 were sustained. 162 liquidation cases were filed and still in court process. Numbers increased due to economic downturn but overall situation expected to be manageable. Monthly repayment rate of restructured loans remained stable; cumulative repayment rate was 55.23%.

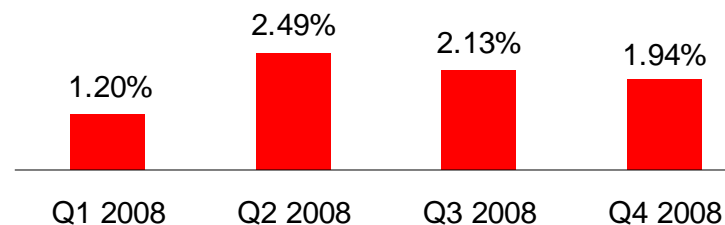
# Credit Cards Metrics

## Revolving Balance

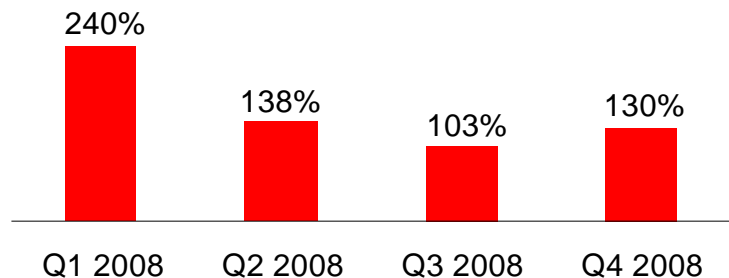
NT\$bn



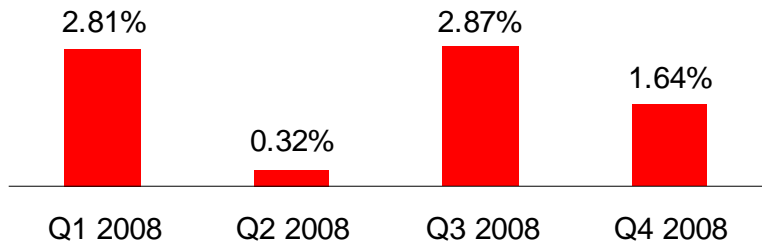
## 90-day NPL



## Coverage Ratio (1)



## Charge-off Ratio (2)



Note:

- (1) Actual reserves / NPL
- (2) Unannualized numbers

## SKB – 2009 Outlook

- Focus on NIM and credit risk management for lending business. Target conservative and prudent loan growth.
- Continue to develop cash management and payroll account business to increase the share of demand deposit
- Central Bank rate cuts since Q4 2008 likely to generate a temporary squeeze in NIM due to difference in asset and liability duration. NIM expected to be under pressure in Q1 2009 and gradually recover to the level of 2008 as higher rate fixed deposits mature.
- Strengthen headcount planning and management of AOs, enhance risk management and operation standards, establish WM know-how website, and launch attractive products (e.g., ETF funds) to cope with recent market turmoil
- Quality of credit cards has significantly improved since the consumer banking crisis. New NPL generation on newly issued consumer loans is significantly lower than old loans. Asset quality expected to be stable.
- For corporate banking, implemented higher standards for loan approval and higher requirement on collaterals. Quality of newly issued corporate loans remained solid.

# Agenda

- I. SKFH
- II. Life Insurance Business
- III. Banking Business

## **IV. Appendix**

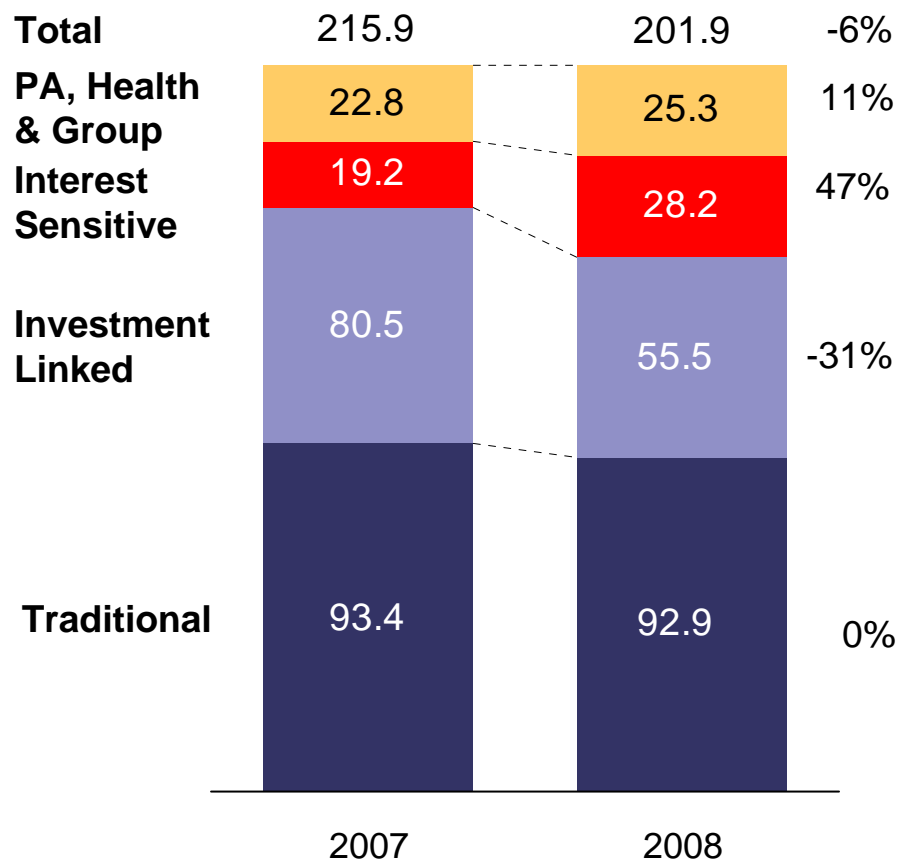
- Life Premium Summary
- Dai-ichi Life Transaction Summary

# Total Premium – 2008

NT\$bn

Market Share = 10.5%

**Growth**

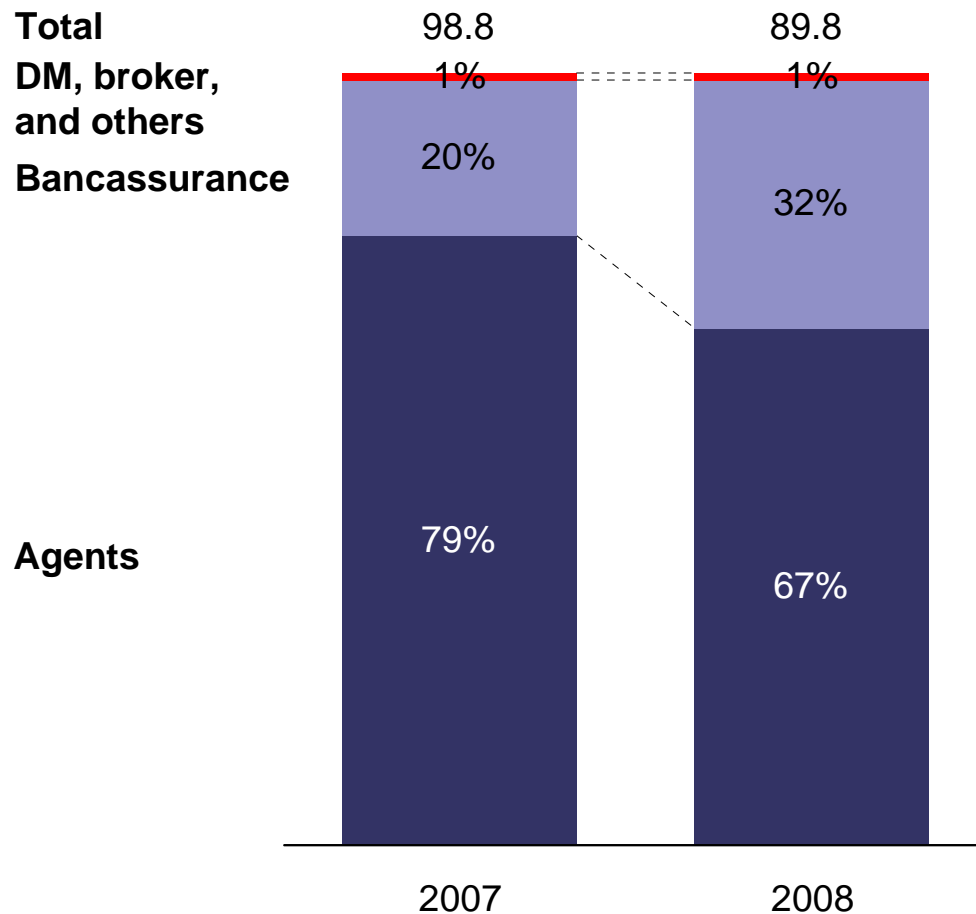


## Comments

- Total premium decreased by 6%, mainly due to slow sales of investment-linked products
- Share of variable rate products increased to 41%, driven by robust sales in investment-linked policies
- Traditional and related policies (mostly recurring premium) accounted for 46% of total premiums

# FYP by Channel

NT\$bn



## Comments

- Share of agency channel (preferred channel for sales of traditional and investment-linked products) remained high, reflecting SKFH's strength in the agency channel
- SKB accounted for 51% of bancassurance premium

# SP / RP Breakdown – 2008

NT\$bn

2008 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	5.12	6.53		11.65
Investment-linked				
VUL			1.99	1.99
Structured note	42.92			42.92
Interest Sensitive				
Annuity	27.41		0.05	27.46
Life			0.75	0.75
PA, health and others		5.02		5.02
<b>Total</b>	<b>75.45</b>	<b>11.55</b>	<b>2.79</b>	<b>89.79</b>



# Agenda

I. SKFH

II. Life Insurance Business

III. Banking Business

**IV. Appendix**

- Life Premium Summary
- Dai-ichi Life Transaction Summary

# Transaction Summary/Update

Strategic Investor	Dai-ichi Life Insurance Company	
Transaction	<ol style="list-style-type: none"> <li>1. Total capital raised was NT\$8bn (through private placements)</li> <li>2. NT\$6.3bn in SKFH common shares; NT\$1.7bn in SKL preferred shares</li> <li>3. Dai-ichi Life owns 14.9% of SKFH common shares outstanding after the transaction</li> </ol>	
Issuer	SKFH	SKL
Type of Capital	Common Shares	Preferred Shares
Purchase price	NT\$10.6 (3 month average prior to pricing day)	Face Value
Other Relevant Terms	N.A.	<ol style="list-style-type: none"> <li>1. 7 years tenure callable after 5</li> <li>2. 7.71% coupon cumulative</li> </ol>
Approvals	<ol style="list-style-type: none"> <li>1. Board of Directors</li> <li>2. Special General Shareholders Meeting (October 31, 2008)</li> <li>3. Other relevant authorities</li> </ol>	<ol style="list-style-type: none"> <li>1. Board/ Shareholders meetings at SKL level</li> <li>2. Other relevant authorities</li> </ol>

**Website : [www.skfh.com.tw](http://www.skfh.com.tw)**

**E-mail : [ir@skfh.com.tw](mailto:ir@skfh.com.tw)**

**Shin Kong Financial Holding**

## Financial Summary

(NT\$mn)

<b>Income Statement Data</b>	<b>2007</b>	<b>2008</b>	<b>2008/2007 % change</b>	<b>Q4 2007</b>	<b>Q4 2008</b>	<b>Q4 08/Q4 07 % change</b>
Net interest income	94	(54)	-157%	14	(61)	-536%
Income from subsidiaries						
Shin Kong Life	2,174	(19,844)	-1013%	(4,858)	(8,809)	81%
Shin Kong Bank	1,423	220	-85%	2,846	21	-99%
Shin Kong Securities	192	(383)	-299%	(271)	(123)	-55%
MasterLink Securities	(33)	(459)	1291%	(112)	(343)	206%
Shin Kong Insurance Brokers	46	50	9%	10	11	10%
Shin Kong Investment Trust	112	(2)	-102%	40	23	-43%
Total income from subsidiaries	3,914	(20,418)	-622%	(2,345)	(9,220)	293%
Other income	487	250	-49%	122	221	81%
Administrative and general expenses	(282)	(834)	196%	(76)	(607)	699%
Income tax benefit (expense)	795	34	-96%	(88)	(35)	-60%
Cumulative effect of changes in accounting principle	0	0		0	0	
Net income	5,008	(21,022)	-520%	(2,373)	(9,702)	309%

<b>Balance Sheet Data</b>	<b>2007</b>	<b>2008</b>	<b>2008/2007 % change</b>	<b>Q4 2007</b>	<b>Q4 2008</b>	<b>Q4 08/Q4 07 % change</b>
Long term investment	91,059	55,703	-39%	91,059	55,703	-39%
Total assets	1,687,996	1,776,362	5%	1,687,996	1,776,362	5%
Total shareholders' equity	100,113	58,320	-42%	100,113	58,320	-42%

Note:

(1) Preliminary numbers

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

<b>Income Statement Data</b>	<b>2007</b>	<b>2008</b>	<b>2008/2007</b>		<b>Q4 08/Q4 07</b>	
			<b>% Change</b>	<b>Q4 2007</b>	<b>Q4 2008</b>	<b>% Change</b>
Premium income	150,311	152,347	1%	37,818	45,407	20%
Investment income						
Interest income	38,195	38,668	1%	10,228	10,017	-2%
Gains on investments in securities	8,111	(4,780)	-159%	(3,359)	(4,675)	39%
Gains on real estate investments	3,234	6,098	89%	1,296	696	-46%
FX	(2,382)	(12,552)	427%	(1,992)	(2,322)	17%
FX gain or loss	609	(1,434)	-336%	(1,222)	4,229	-446%
Hedging	(2,991)	(11,118)	272%	(769)	(6,551)	751%
Impairment loss	(5,253)	(5,801)	10%	(1,837)	(1,401)	-24%
Total Investment income	41,905	21,632	-48%	4,337	2,315	-47%
Other operating income	3,883	5,733	48%	1,123	832	-26%
Provision for reserves						
Provisions	(155,147)	(170,844)	10%	(44,889)	(56,287)	25%
Recoveries	78,311	83,159	6%	21,085	33,468	59%
Total provisions for reserves, net	(76,836)	(87,685)	14%	(23,803)	(22,819)	-4%
Insurance payments	(90,528)	(94,758)	5%	(20,013)	(30,687)	53%
Commission expense	(8,183)	(5,542)	-32%	(1,904)	(1,314)	-31%
Separate account revenue	107,465	145,493	35%	31,233	36,691	17%
Separate account expenses	(107,465)	(145,493)	35%	(31,233)	(36,691)	17%
General and administrative expenses	(16,062)	(15,150)	-6%	(3,824)	(3,476)	-9%
Other operating costs and expenses	(3,014)	(2,944)	-2%	(746)	(829)	11%
Operating income	1,477	(26,367)	-1886%	(7,012)	(10,571)	51%
Non-operating income and expenses	1,293	737	-43%	753	166	-78%
Income taxes	(353)	5,892	-1768%	1,532	1,617	6%
Cumulative effect of changes in accounting principle	0	0				
Net income	2,417	(19,738)	-917%	(4,727)	(8,788)	86%

<b>Balance Sheet Data</b>	<b>2007</b>	<b>2008</b>	<b>2008/2007</b>		<b>Q4 08/Q4 07</b>	
			<b>% Change</b>	<b>Q4 2007</b>	<b>Q4 2008</b>	<b>% Change</b>
Total assets	1,229,222	1,301,251	6%	1,229,222	1,301,251	6%
Total shareholders' equity	59,996	24,779	-59%	59,996	24,779	-59%

Note:  
(1) Preliminary numbers

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

Income Statement Data	2007	2008	2008/2007		Q4 08/Q4 07	
			% Change	Q4 2007	Q4 2008	% change
Interest income	12,266	13,220	8%	3,179	3,300	4%
Interest expense	(5,925)	(7,001)	18%	(1,629)	(1,735)	6%
Net interest income	6,341	6,219	-2%	1,550	1,565	1%
Fee income	2,228	1,881	-16%	631	397	-37%
Fee expense	(486)	(488)	0%	(116)	(112)	-4%
Net fee income	1,742	1,393	-20%	515	286	-45%
Gains on bill & securities	(392)	(160)	-59%	(370)	22	-106%
Gains recognized under equity method, net	170	(195)	-215%	27	(77)	-388%
Gains on foreign exchange, net	64	106	65%	23	(23)	-199%
Other gains or losses, net	1,040	54	-95%	2,661	64	-98%
Operating expense	(5,776)	(5,262)	-9%	(1,534)	(1,117)	-27%
Pre-provision income or loss	3,189	2,155	-32%	2,872	719	-75%
Provision expense	(1,728)	(1,933)	12%	(23)	(843)	3638%
Income tax (expense) benefit	(38)	5	-113%	(3)	146	-5047%
Net income	1,423	227	-84%	2,847	22	-99%

Balance Sheet Data	2007	2008	2008/2007		Q4 08/Q4 07	
			% Change	Q4 2007	Q4 2008	% change
Total assets	385,663	402,856	4.5%	385,663	402,856	4.5%
Total shareholders' equity	21,225	20,605	-2.9%	21,225	20,605	-2.9%
Total loans, net <sup>(2)</sup>	275,867	280,063	1.5%	275,867	280,063	1.5%
Total deposits	326,012	356,193	9.3%	326,012	356,193	9.3%

Operating Metrics (cumulative)	2007	2008	Q4 2007	Q4 2008
Fee income ratio	19%	19%	12%	14%
Cost income ratio	64%	71%	54%	57%
Loan/deposit ratio (excl. credit card)	85%	79%	85%	79%
Loan/deposit ratio (incl. credit card)	86%	80%	86%	80%
Net interest margin	1.92%	1.69%	1.88%	1.68%
Net interest spread	2.38%	2.02%	2.16%	2.03%
Pre-provision earnings/assets	0.87%	0.55%	0.78%	0.18%
Pre-provision earnings/equity	15.51%	10.31%	13.97%	3.44%

Note:

(1) Preliminary numbers

(2) Exclude credit cards but include overdue receivables

Confidential



**Shin Kong Financial Holding**

Risk Management Update

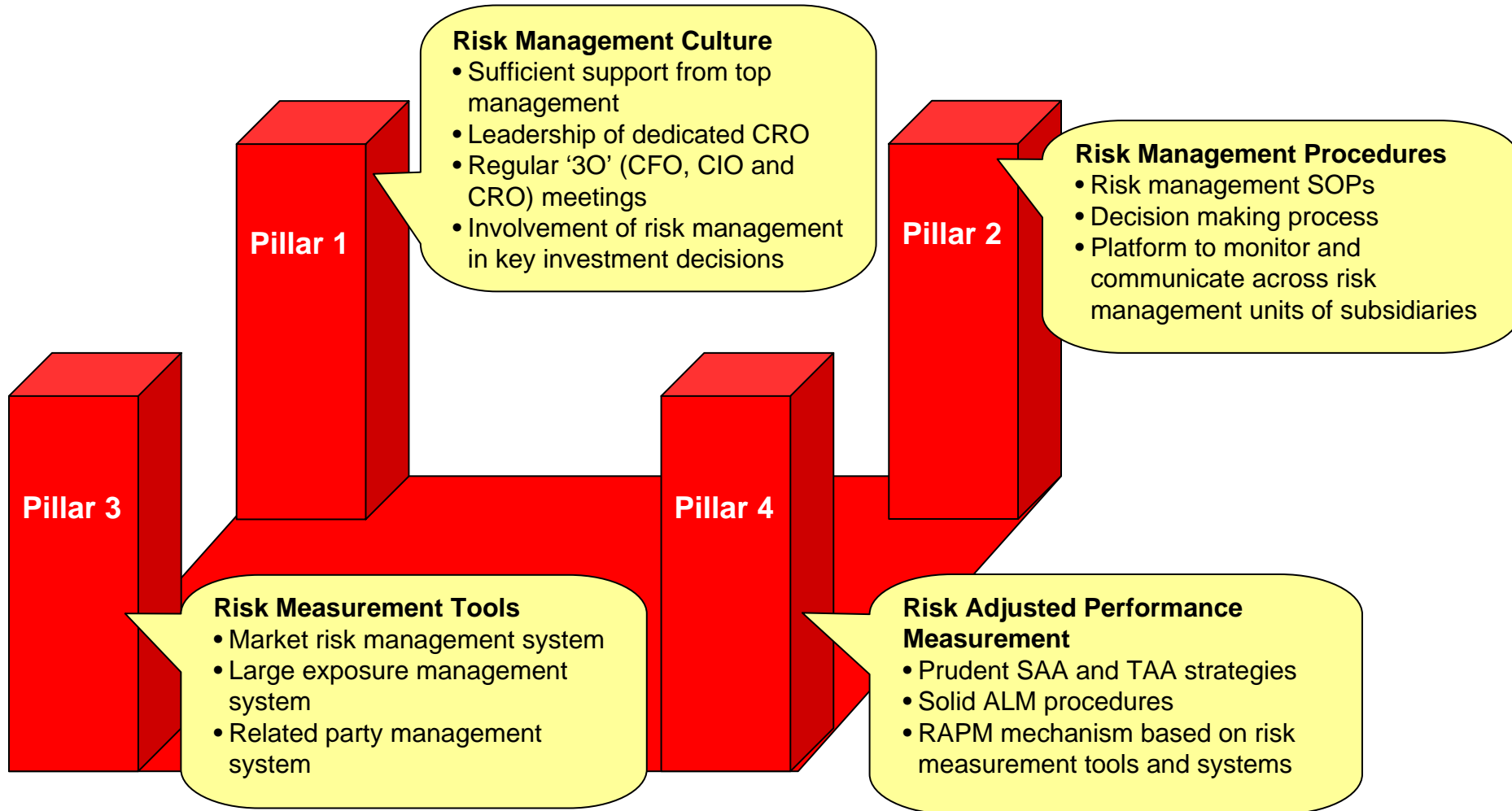
February 26, 2009

# Risk Management Policy Highlight

- Position risk management on a **strategic** level
- Pursue solid and prudent **asset allocation** policy
- Establish a comprehensive **risk management mechanism**
- Integrate risk measurement **IT systems**
- Emphasize consistent and thorough **implementation**



# The Four Pillars of Risk Management



# Key Changes and Initiatives

## Key Changes

## Operational Implications

### Culture/ Strategy

- Adjusted SAA/TAA ranges

- Tightened TAA range for stock investments
- Strengthened duration management for MBS and callable bonds
- Increased overseas corporate bond allocation

- Besides investment committee and ALCO, arrange 30<sup>(1)</sup> meeting weekly to react to rapid changes in global markets

- Adjust stock and FX hedging strategies dynamically
- Discuss CDO hedging strategy

### Procedures

- Amended investment SOPs
- Involved risk management function in key investment decision making process

- Amended investment SOPs for all 12 asset classes
- Reviewed and tightened stop loss points for both stock and fixed-income investments (e.g., 15% for trading purpose stock, 20% for bonds)

### Measurement Tools

- Kicked off Algo system implementation
- Enhanced VaR risk control
- Established stochastic ALM system

- Phase I of Algo implementation to be completed in April 2009
- VaR limit amended and to be submitted to the Board
- Adopted stochastic ALM system, capable of simulating 1,000 scenarios

### RAPM

- Segregate performance monitoring function from investment units
- Will monitor investment performance on risk adjusted basis

- Performance reports produced by CFO organization and reviewed monthly against benchmarks
- Will introduce RAPM supported by Algo system

Note:

(1) Attended by CFO, CIO, and CRO

# Market Risk Management System



## Project Kick-off:

- Cooperate with world renowned provider - **Algorithmics**
- Project executed in 2 phases:  
 Phase 1 - focus on exchange-traded products  
 Phase 2 - include tailored products and set relative VaR benchmarks

## – Phase I:

Functions include limit control, absolute VaR, stress testing, back testing. Mainly cover exchange-traded products, which include domestic and international listed equities, government bonds, corporate bonds, futures and options

## – Phase II:

Cover complicated products including CDOs, and structured products

Extend functions to relative VaR and performance benchmarking

## System goes live:

- Monitor market risk across subsidiaries
- Optimize asset allocation and risk appetite
- Enhance concentration risk management
- Strengthen linkage between RAROC and performance evaluation