



Q3 2015 Results Update

2015/11/12

Disclaimer

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

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- Life Premium Summary
- Capital Adequacy

SKFH – 9M 2015 Overview

- SKFH recorded consolidated after-tax profit of NT\$4.47bn for 9M 2015; profit attributable to SKFH was NT\$4.04bn. EPS was NT\$0.40. Book value per share as of end of October was NT\$10.98, NT\$0.97 higher than September.
- Subsidiaries' core business remained solid.
 - SKL:
 - ◆ Driven by focus on regular premium products, FYPE/FYP ratio increased from 31.8% of 1H 2015 to 34.8% of 9M 2015. Annualized cost of liability was 4.53% for 9M 2015, 11 bps lower than 2014.
 - ◆ Due to properly-managed FX strategy, annualized hedging cost for 9M 2015 declined to 0.48%, significantly lower than 1.23% for 1H 2015. FX volatility reserve increased to NT\$8.21bn.
 - ◆ Recurring yield before hedging was 3.82%, up 18 bps YoY; recurring yield after hedging was 3.56%, up 4 bps YoY.
 - SKB:
 - ◆ Consolidated after-tax profit was NT\$3.80bn, down 4.2% YoY, mainly due to higher base of Q3 2014 resulting from one-off property disposal gain of NT\$424mn.
 - ◆ Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from Q1, NIS and NIM for 9M 2015 were 1.92% and 1.46% respectively, 7 bps and 3 bps higher than 2014.
 - ◆ NPL ratio and coverage ratio were 0.19% and 712.03% respectively, better than industry average.
- SKL acquired land in October for NT\$1.76bn in Shilin District, Taipei City to flexibly adjust real estate portfolio. Rental apartments to be developed for rental income.

Financial Highlights – 9M 2015

	9M 2014	9M 2015	YoY Growth
NT\$m (except per share data), %			
Consolidated net income	7,596	4,472	-41.1%
Net income attributable to SKFH	6,889	4,035	-41.4%
First year premium (Insurance)	67,819	61,749	-9.0%
Loans (Bank)	472,838	494,665	4.6%
Total assets (Consolidated)	2,693,088	2,919,605	8.4%
Shareholders' equity ⁽¹⁾	101,985	100,382	-1.6%
ROA (unannualized)	5.51%	3.14%	
ROE (unannualized)	6.79%	3.82%	
Earnings per share	0.67	0.40	

Note:

(1) Consolidated shareholders' equity for 9M 2014 and 9M 2015 were NT116,282mn and NT\$114,728mn, respectively

Net Income – 9M 2015

Net income contribution

NT\$bn

Subsidiaries	9M 2014	9M 2015	YoY Growth
Shin Kong Life	2.94	-0.04	-101.2%
Shin Kong Bank	3.96	3.80	-4.2%
Shin Kong Investment Trust	0.02	0.01	-55.9%
Shin Kong Venture Capital Int'l	-0.01	0.02	-
Shin Kong Property Insurance Agency	0.03	0.04	33.6%
Others ⁽¹⁾	-0.05	0.21	-
Net income	6.89	4.04	-41.4%

Note:

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

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SKL – 9M 2015 Overview

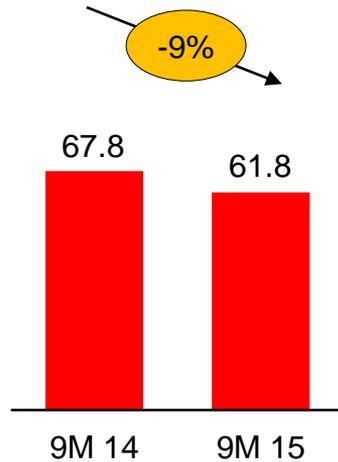
- Due to properly-managed FX strategy, annualized hedging cost for 9M 2015 was 0.48%. Consolidated after-tax loss was NT\$31mn, resulting from implementing strategies to reduce unrealized loss on AFS financial assets.
- Annualized investment return was 3.37% for 9M 2015. Recurring yield before hedging increased 18 bps YoY to 3.82% and recurring yield after hedging increased 4 bps YoY to 3.56%.
- Driven by focus on regular premium products, FYPE/FYP ratio increased from 31.8% of 1H 2015 to 34.8% of 9M 2015. Annualized cost of liability was 4.53% for 9M 2015, 11 bps lower than 2014.
- FX traditional products remained marketing focus. Sales in 9M 2015 reached NT\$18.35bn, representing 29.7% of total FYP.
- FYP of long-term care/disability health insurance sold in 9M 2015 amounted to NT\$2.75bn, 103.3% higher YoY.
- In response to government's measure allowing life insurance conversion since 2015 and growing demand from policyholders, 2,427 policies have been converted, among which 1,297 policies were converted in Q3 2015. Original policy value reserve was around NT\$750mn.

Financial Highlights – 9M 2015

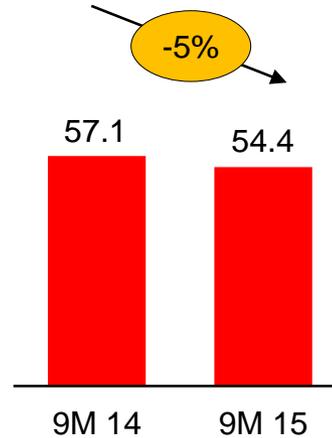
	9M 2014	9M 2015	YoY Growth
NT\$mn, %			
First year premium	67,819	61,749	-9.0%
Total premium	151,033	170,227	12.7%
Investment income	58,038	50,386	-13.2%
Consolidated net income	2,950	-31	-101.1%
Consolidated total assets	1,903,999	2,083,450	9.4%
Consolidated total shareholders' equity	62,309	57,755	-7.3%
ROE (unannualized)	4.63%	-0.05%	
ROA (unannualized)	0.16%	-0.002%	

First Year Premium – 9M 2015

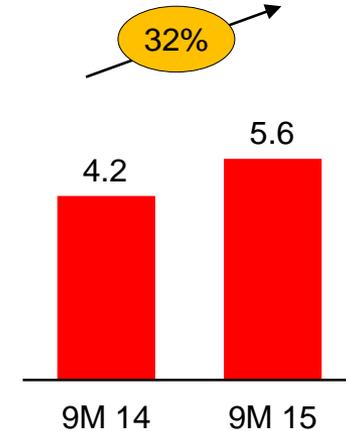
NT\$bn



Traditional



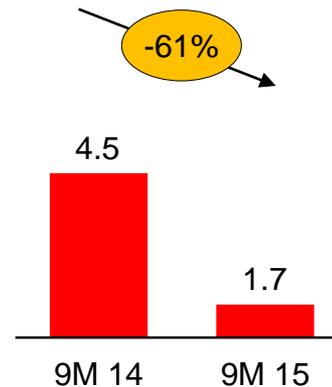
PA, Health and Group ⁽¹⁾



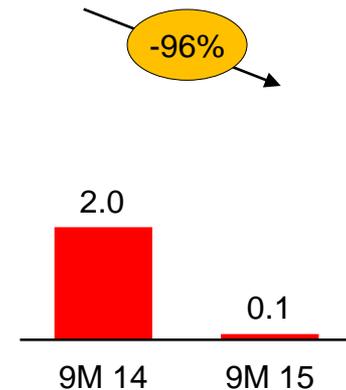
Comments

- Total FYP declined 9% YoY, and promotion was focused on regular premium products. FYPE/FYP ratio increased from 31.8% of 1H 2015 to 34.8% of 9M 2015
- FX traditional products remained marketing focus. Sales in 9M reached NT\$18.4bn, representing 30% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost
- FYP of long-term care/disability health insurance sold in 9M reached NT\$2.75bn, 103% higher YoY
- Whole life products and health insurance continuously promoted to lower cost of liability and enhance recurring profit. Annualized cost of liability declined 11 bps to 4.53% compared to 2014

Investment-linked



Interest-sensitive

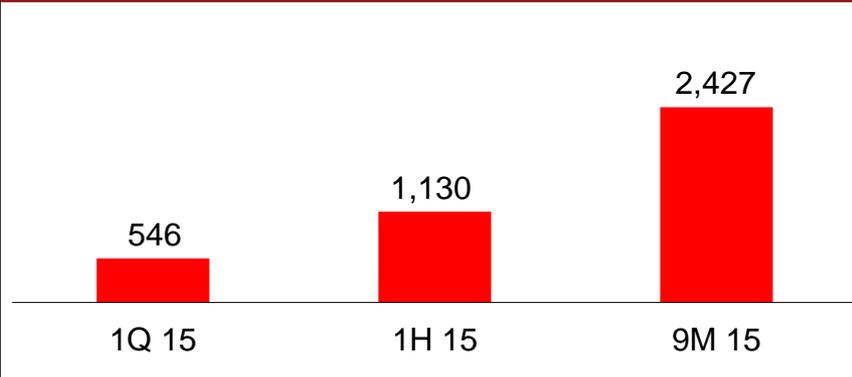


Note :

(1) Long-term disability Type A policies are classified as health insurance

Policy Conversion

Number of Policies Converted



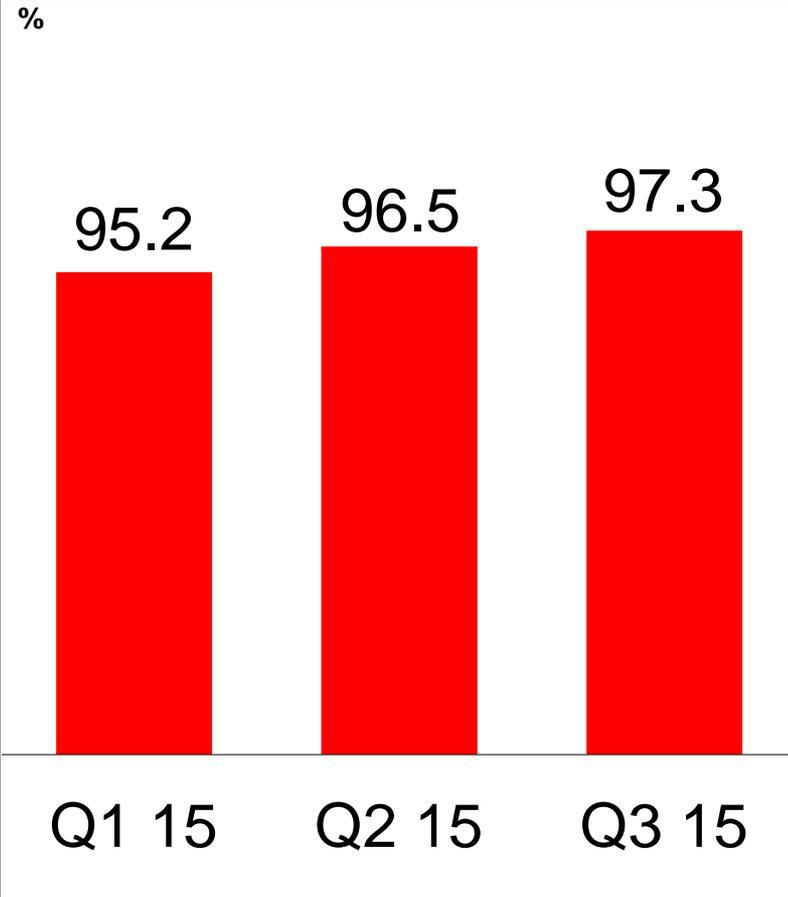
Policy after Conversion by Type	Percentage
Long-term care insurance	25%
Health insurance	75%

Comment

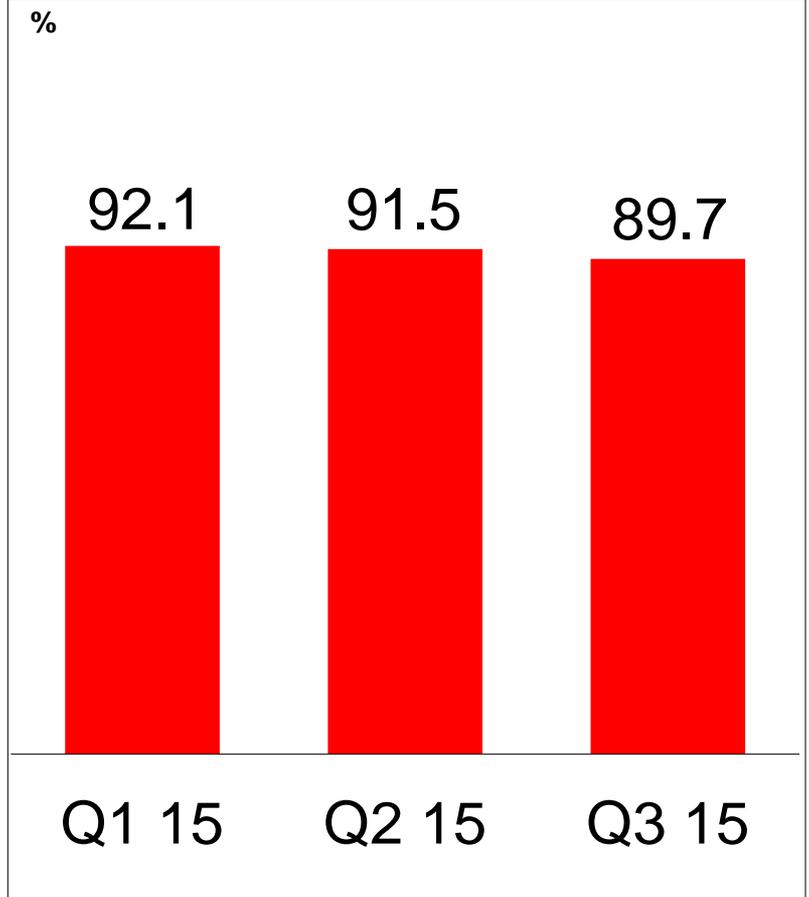
- In response to government's measure allowing life insurance conversion, 1,297 policies were converted in Q3, showing growing demand from policyholders
- 2,427 policies have been converted cumulatively with original policy value reserve of around NT\$750mn
- Savings policies and life insurance with only death benefits were switched to long-term care and health insurance, indicating growing awareness of health and long-term care coverage across demographics

Persistence Ratio

13 Month Persistence

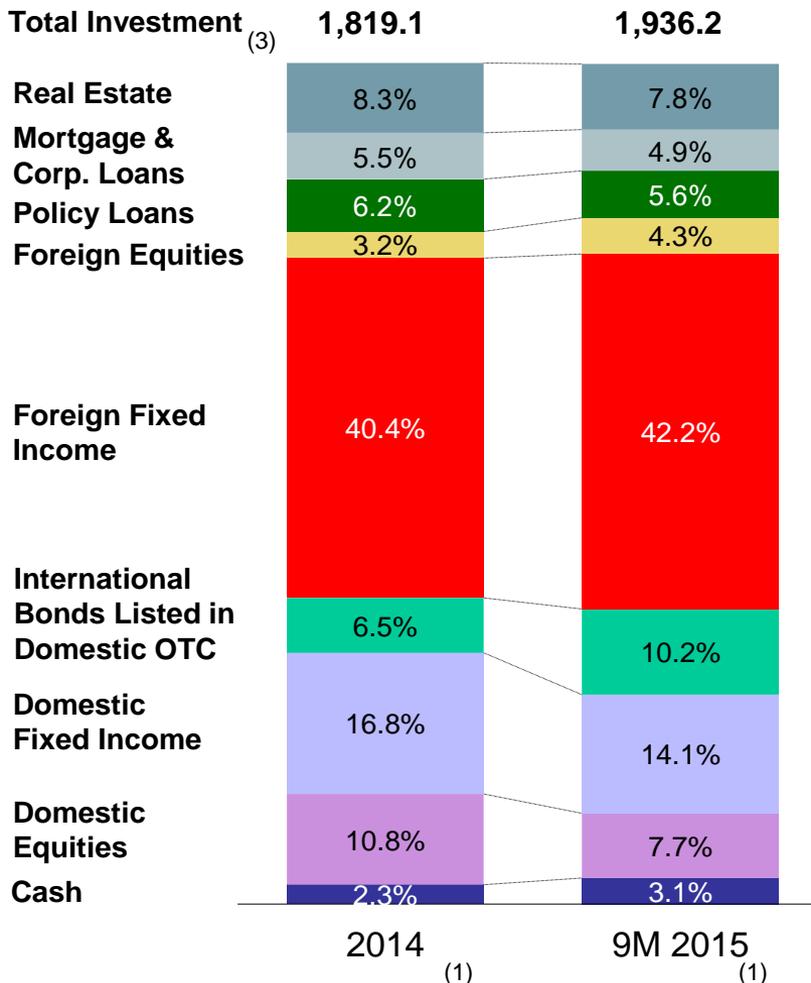
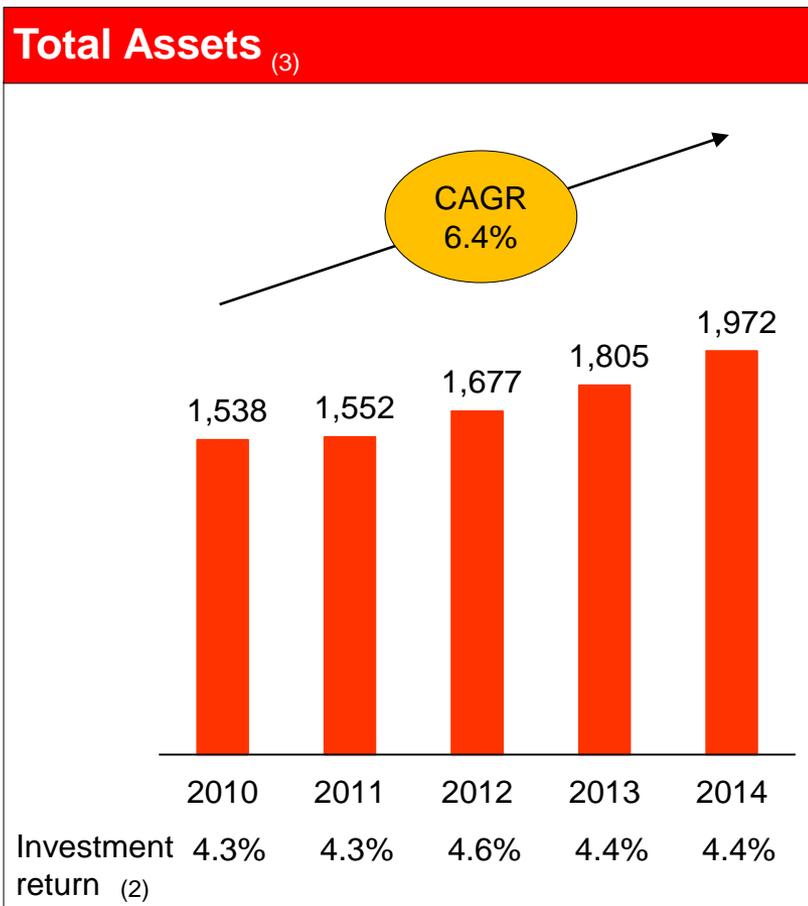


25 Month Persistence



Investment Portfolio

NT\$bn



Note:

(1) Due to rounding, asset allocation figures may not add up to 100%

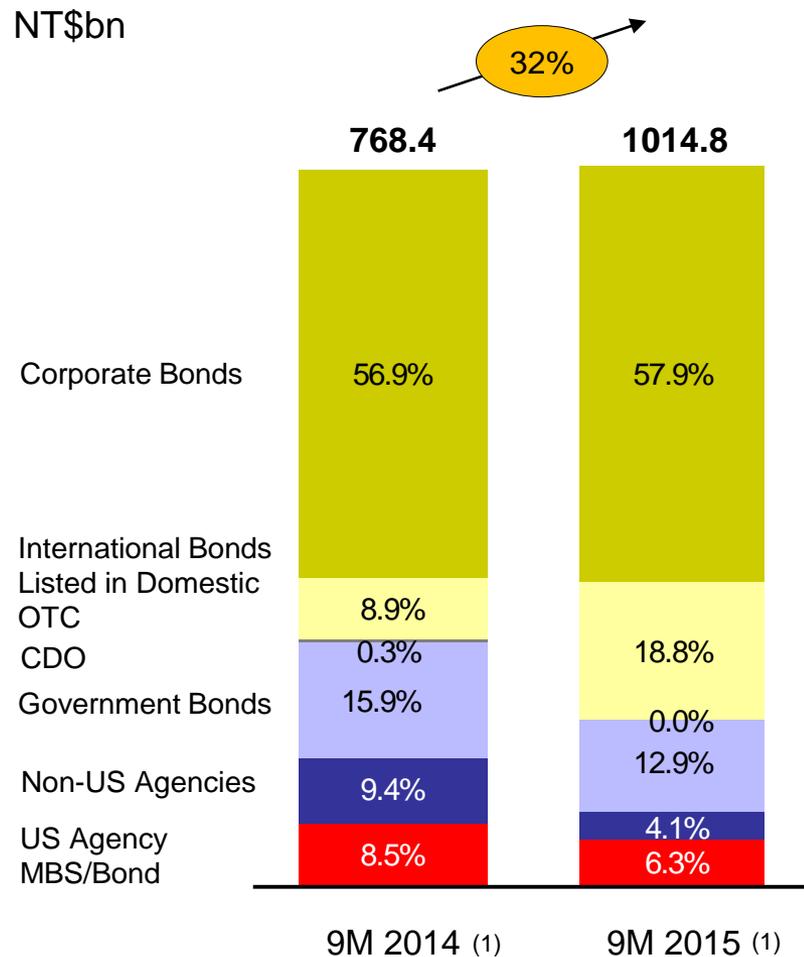
(2) Includes capital gains and FX hedging cost

(3) Since 2012, total assets and total investment include impact on investment real estate from first time adoption of IFRSs

Overseas Fixed Income

Overseas Fixed Income Portfolio

NT\$bn



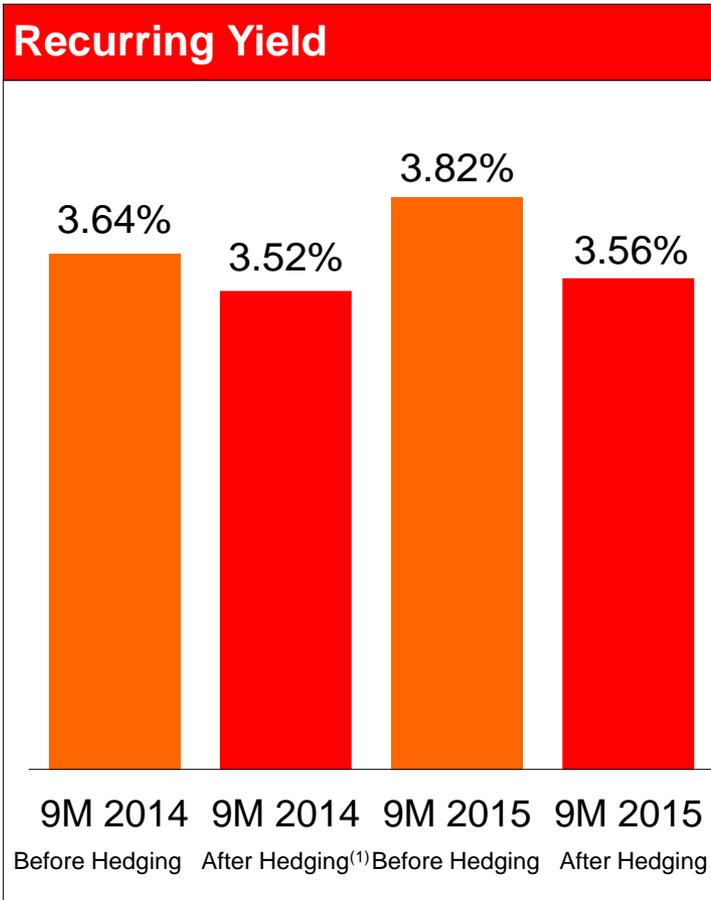
Comments

- Overseas fixed income increased 32% YoY, mainly deployed in international bonds listed in domestic OTC. As of end of 9M 2015, SKL invested NT\$197.5bn in international bonds
- International bonds listed in domestic OTC offer average yield before hedging of 4.5%, which after hedging is still significantly higher than domestic bonds. Position expected to reach NT\$230bn at end of 2015
- Portfolio reallocation enhanced interest income. Interest income for 9M 2015 grew 20% YoY

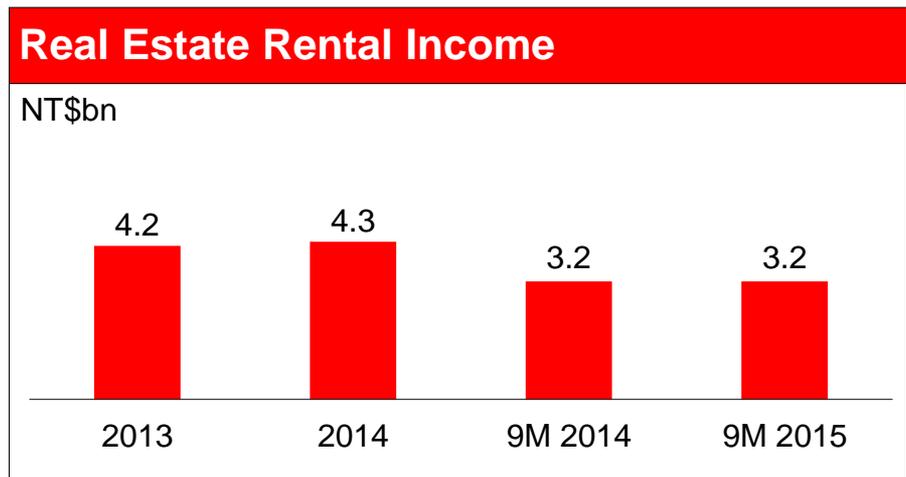
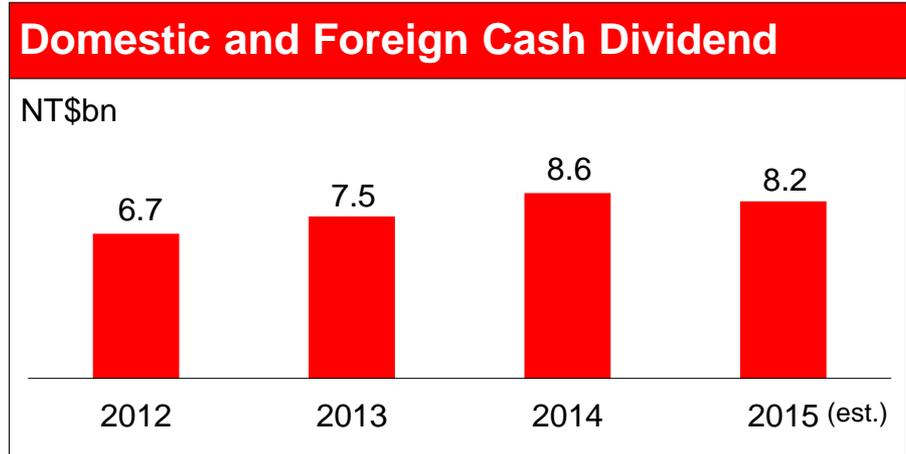
Note :

(1) Due to rounding, asset allocation figures may not add up to 100%

Recurring Yield

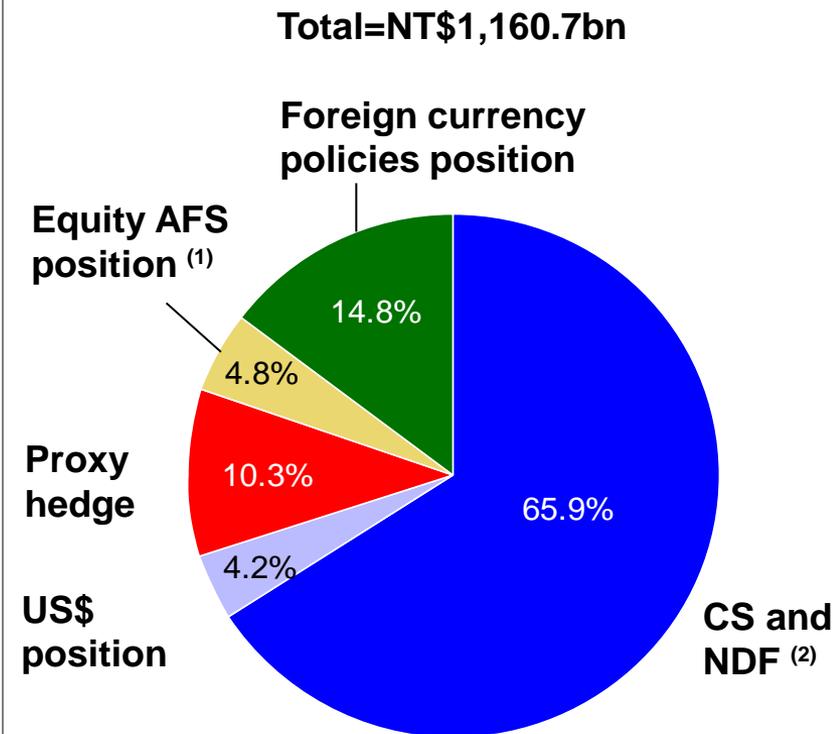


Note :
 (1) Recurring yield after hedging for 9M 2014 is calculated based on the annual hedging cost of 0.37%



Hedging Strategy

Mix of Hedging Strategies Used



Comments

- Annualized hedging cost for 9M 2015 was 0.48%
- Hedging ratio was 80.7%, including CS, NDF, and naturally-hedged foreign currency policies position. Mid- to long-term target of hedging ratio ranges from 65% to 90% under stringent risk management
- Among traditional hedges, CS and NDF accounted for 73% and 27%, respectively
- AFS⁽¹⁾ position in foreign equities accounted for 4.8% 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
- Deploy funds from NTD policies in international bonds listed in domestic OTC and funds from FX policies in foreign bonds to enhance recurring yield
- Achieve diversification and yield pick-up through overseas investments. Continue to deploy in corporate bonds with rating of A- and above to increase fixed interest income

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

- Dynamically adjust FX hedging ratio. Mid- to long-term target of CS, NDF, and naturally-hedged foreign currency policies position together ranges from 65% to 90%
- Target hedging cost at 100 bps or below in the mid- to long-term

Enhance Investment Risk Management

- Consider current situations and characteristics of asset and liability to effectively manage overall investment risks through stringent SAA and TAA plans
- Enhance VAR models under risk management system to cope with changes in financial markets and strengthen risk control on equity and FX exposures

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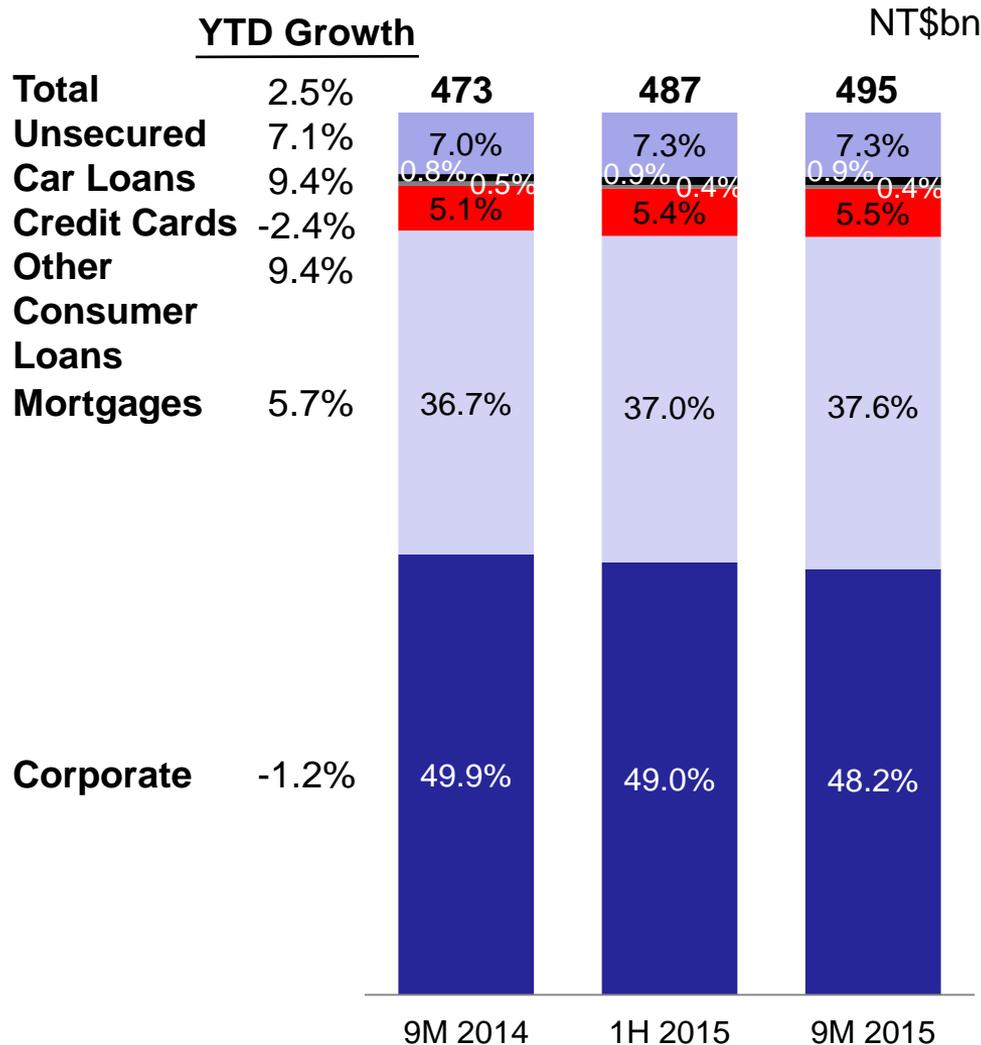
SKB – 9M 2015 Overview

- Consolidated after-tax profit for 9M 2015 was NT\$3.80bn, down 4.2% YoY, mainly due to higher base in Q3 2014 resulting from one-off property disposal gain of NT\$424mn.
- Loan balance and deposit balance for 9M 2015 were NT\$494.67bn and NT\$671.11bn, up 2.5% and 4.3% YTD respectively.
- Although loan growth slowed due to global economic concerns, NIS and NIM for 9M 2015 increased to 1.92% and 1.46% respectively, 7 bps and 3 bps higher than 2014, driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from Q1.
- Wealth management income for 9M 2015 was NT\$1.24bn, down 15.5% YoY; declines in fee income from mutual funds and fixed income products were relatively significant. SKB will continuously recruit financial consultants to develop clients with AUM above NT\$3mn and increase fee income from mutual funds by unit-cost-averaging method and fixed income products.
- Asset quality remained solid. Recovery of loans drove down NPL balance. NPL ratio lowered from 0.24% to 0.19%, and coverage ratio increased from 565.86% to 712.03% in Q3 2015, better than industry average.

Net Income – 9M 2015

	9M 2014	9M 2015	YoY Growth
NT\$mn, %			
Net interest income	7,176	7,711	7.5%
Net fee income	2,347	2,282	-2.8%
Investment income and other income	1,978	1,374	-30.5%
Operating expense	-5,400	-5,825	7.9%
Pre-provision operating income	6,101	5,542	-9.2%
Provision expense	-1,416	-1,055	-25.5%
Income tax benefit (expense)	-722	-689	-4.6%
Consolidated Net Income	3,963	3,798	-4.2%

Loan Mix



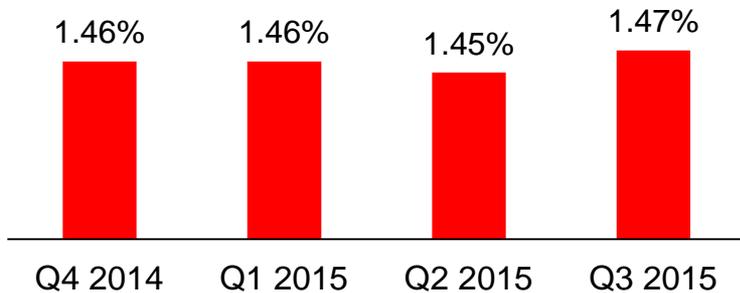
Note: Due to rounding, loan mix may not add up to 100%

Comments

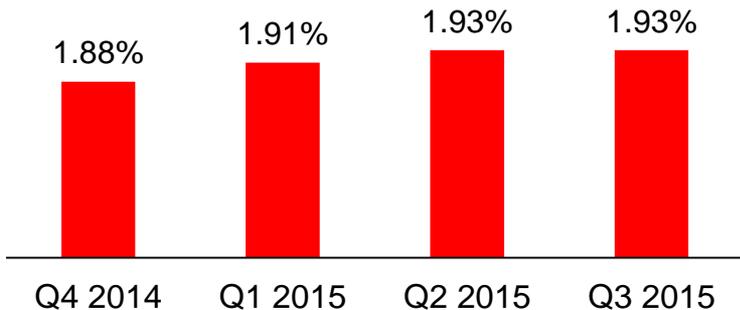
- Loan balance grew 2.5% YTD to NT\$494.67bn
- SME clients remain targets for corporate loans. SME loans grew 1.5% YTD and focusing on loans with collaterals or backed by Credit Guarantee Fund
- To raise loan yields, unsecured and other consumer loans rose 7.1% and 9.4% respectively

Interest Income

Net Interest Margin



Net Interest Spread

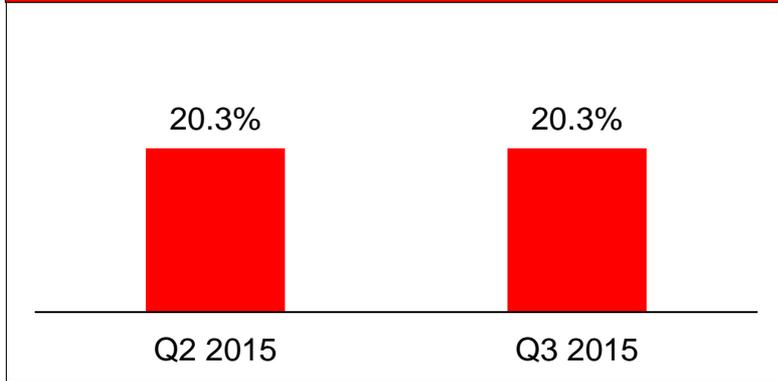


Comments

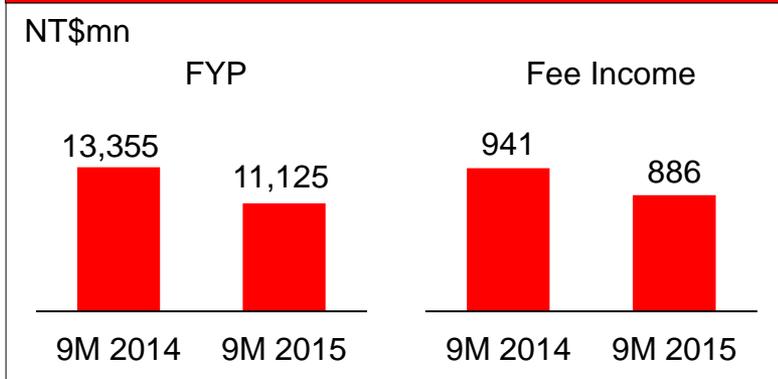
- Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from Q1, NIM increased 2 bps to 1.47% in Q3, and net interest income for 9M grew 7.5% YoY
- SKB will continue to:
 - Adjust deposit and loan structure as well as enhance fund utilization, and
 - Expand foreign deposit to facilitate international business

Fee Income

Net Fee Income / Total Income



Bancassurance



Fee Income Breakdown

NT\$m

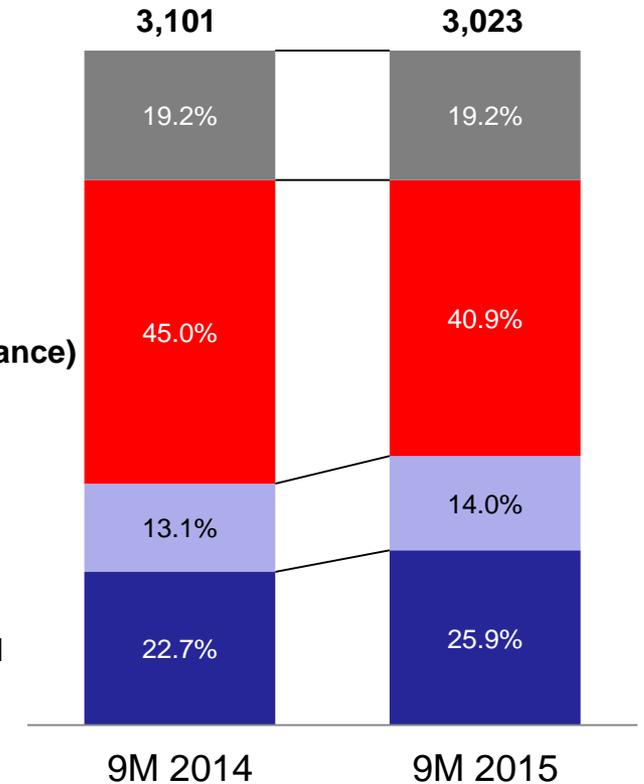
Total =

FX, Trust & Others

WM (incl. Bancassurance)

Loan

Credit Card

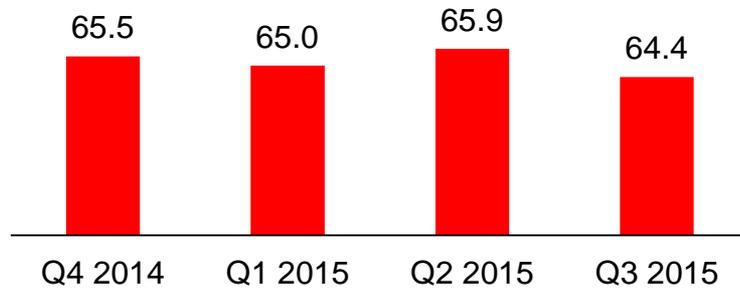


Note: Due to rounding, fee income breakdown may not add up to 100%

Wealth Management

AUM

NT\$bn

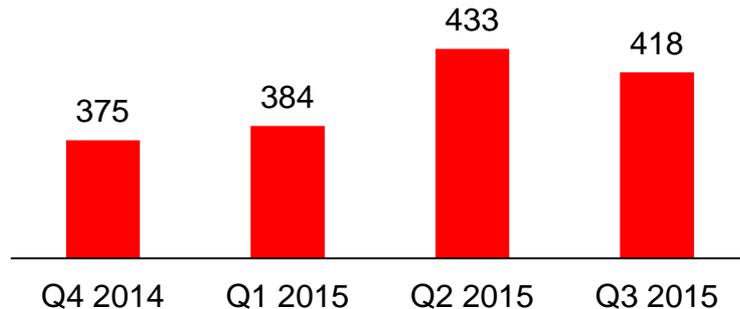


Wealth Management Center



WM Income

NT\$m



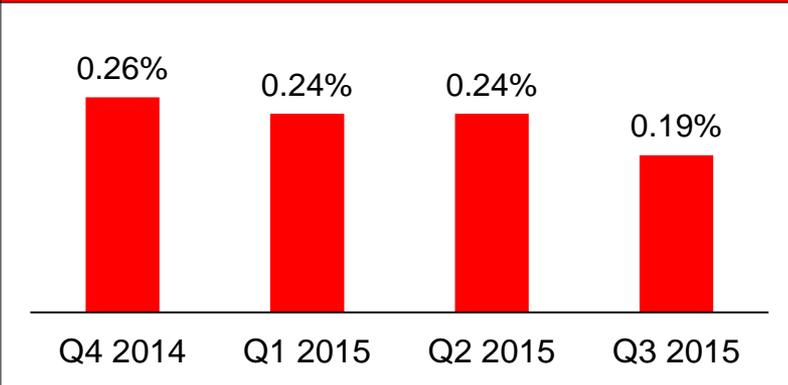
- Wealth management income for Q3 was NT\$418mn, down 3.6% QoQ, yet fee income from bancassurance grew 16.5% QoQ
- SKB will continuously recruit financial consultants to develop clients with AUM above NT\$3mn and increase fee income from mutual funds by unit-cost-averaging method and fixed income products

Note:

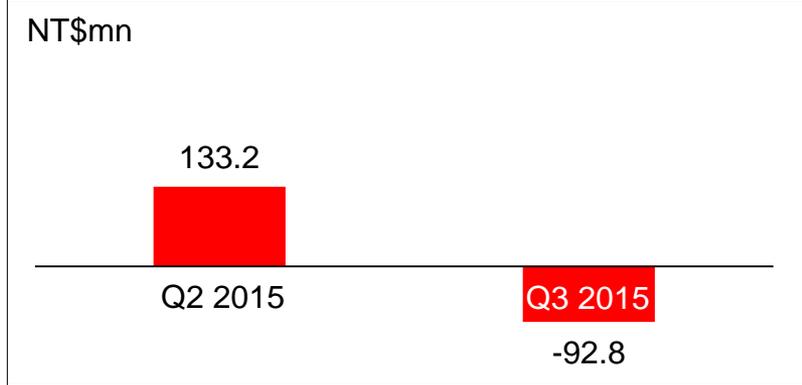
- (1) Wealth management income includes income from structured deposits
- (2) AUM does not include policy value reserve

Asset Quality

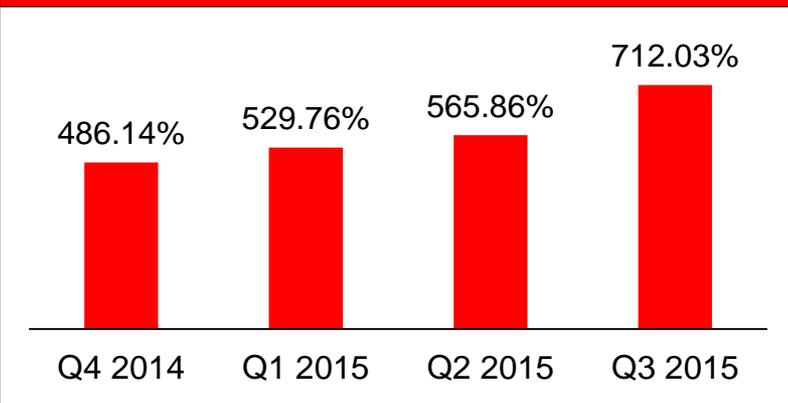
NPL Ratio



New NPL Generation



Coverage Ratio



- Asset quality remained solid. New NPL generated in Q3 2015 was NT\$-93mn, driven by recovery of loans
- NPL ratio decreased from 0.24% to 0.19%, and coverage ratio increased from 565.86% to 712.03% in Q3 2015

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SP / RP Breakdown

NT\$bn

9M 2015 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	38.22	16.16		54.38
Investment-linked				
VUL / VA		0.17	1.56	1.73
Structured note				
Interest Sensitive				
Annuity	0.06		0.01	0.07
Life				
PA, health and others ⁽¹⁾		5.57		5.57
Total	38.28	21.90	1.57	61.75
Share	62.0%	35.5%	2.5%	100.0%

Note :

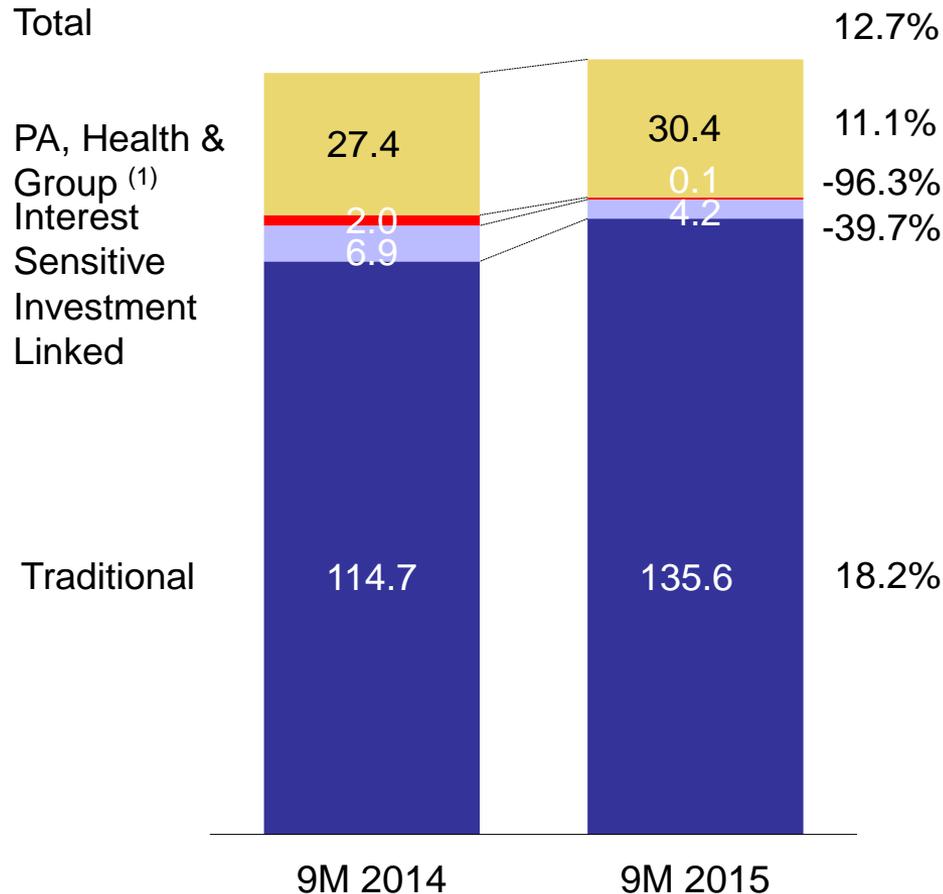
(1) Long-term disability Type A policies are classified as health insurance

Total Premium – 9M 2015

NT\$bn

Market Share = 7.9%

Growth



Comments

- Driven by renewal premium up 30.4% YoY, overall total premium increased 12.7% YoY
- Total investment-linked premium declined 39.7% YoY without promotion of single premium structured note products
- PA, Health & Group products grew steadily YoY due to strong sales of long-term care health insurance

Note :

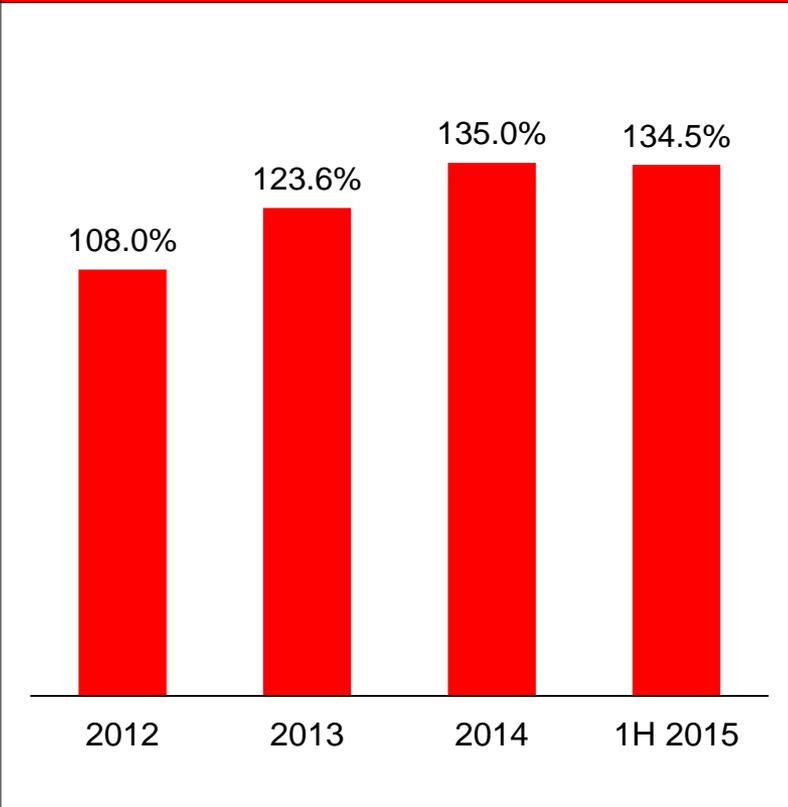
(1) Long-term disability Type A policies are classified as health insurance

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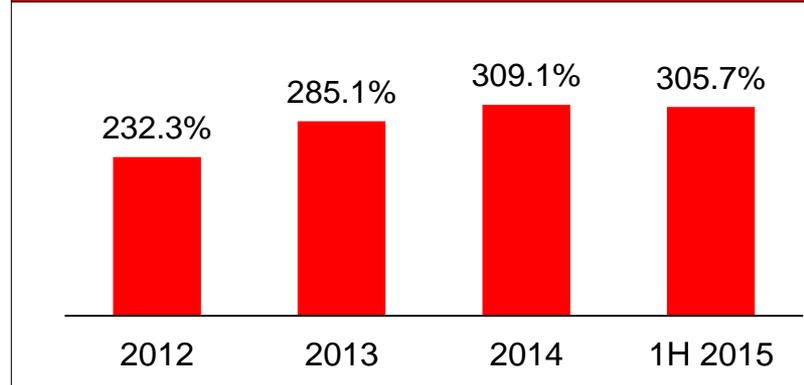
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Capital Adequacy

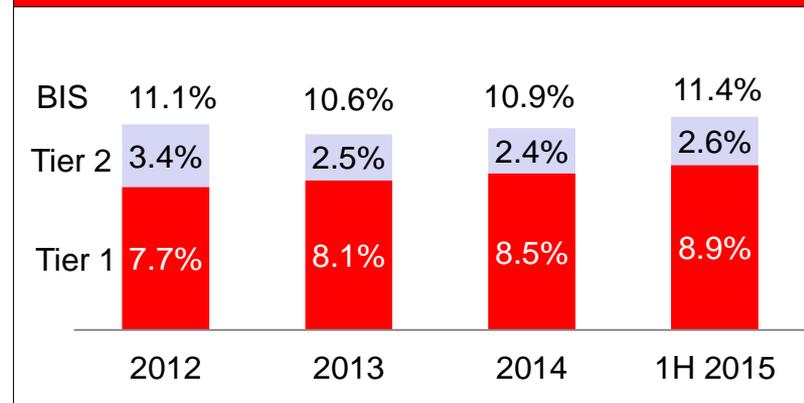
CAR of SKFH



RBC of SKL



BIS of SKB





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Shin Kong Financial Holding

Financial Summary

(NT\$mn)

Income Statement Data	2014	9M 2014	9M 2015	9M 15/9M 14		Q3 15/Q3 14	
				% change	Q3 2014	Q3 2015	% change
Net interest income	(185)	(134)	(176)	30.9%	(45)	(53)	17.8%
Income from subsidiaries							
Shin Kong Life	1,695	2,942	(36)	-101.2%	2,571	(3,548)	-238.0%
Shin Kong Bank	5,159	3,963	3,798	-4.2%	1,578	1,212	-23.1%
MasterLink Securities	483	330	204	-38.2%	33	47	43.6%
Shin Kong Investment Trust	21	20	9	-55.9%	7	1	-79.5%
Shin Kong Venture Capital International	(82)	(12)	19	-258.6%	(13)	4	-131.1%
Shin Kong Property Insurance Agency	40	27	36	33.6%	8	12	58.7%
Total income from subsidiaries	7,316	7,266	4,029	-44.6%	4,182	(2,271)	-154.3%
Other income	28	9	105	1055.5%	72	115	59.6%
Administrative and general expenses	(268)	(191)	(205)	7.0%	(72)	(81)	11.6%
Income tax benefit (expense)	(0)	(61)	283	-566.6%	68	70	3.0%
Cumulative effect of changes in accounting principle	0	0	0		0	0	
Net income	6,890	6,889	4,035	-41.4%	4,205	(2,219)	-152.8%
Other comprehensive income (loss), after tax	3,241	(5,623)	(11,620)	106.6%	(8,460)	(10,251)	21.2%
Total comprehensive income (loss)	10,132	1,266	(7,584)	-699.0%	(4,254)	(12,470)	193.1%

Balance Sheet Data	2014	9M 2014	9M 2015	9M 15/9M 14		Q3 15/Q3 14	
				% change	Q3 2014	Q3 2015	% change
Long term investment	121,034	112,118	112,671	0.5%	112,118	112,671	0.5%
Total assets	2,797,837	2,693,088	2,919,605	8.4%	2,693,088	2,919,605	8.4%
Shareholders' equity (excl. minority)	110,852	101,985	100,382	-1.6%	101,985	100,382	-1.6%

Note:

(1) Numbers have not been reviewed by the auditors.

Shin Kong Bank
Financial Summary
(NT\$m)

Income Statement Data	2014	9M 2014	9M 2015	9M 15/9M 14		Q3 15/Q3 14	
				% change	Q3 2014	Q3 2015	% change
Interest income	15,410	11,439	12,045	5.3%	3,891	4,124	6.0%
Interest expense	(5,692)	(4,264)	(4,334)	1.6%	(1,441)	(1,462)	1.4%
Net interest income	9,717	7,176	7,711	7.5%	2,449	2,662	8.7%
Fee income	4,051	3,101	3,023	-2.5%	1,027	1,016	-1.1%
Fee expense	(1,013)	(754)	(742)	-1.6%	(244)	(240)	-1.6%
Net fee income	3,038	2,347	2,282	-2.8%	783	776	-0.9%
Gains on bill & securities	1,379	1,225	1,270	3.7%	491	258	-47.5%
Gains on foreign exchange, net	443	231	3	-98.7%	167	101	-39.7%
Other gains or losses, net	638	522	101	-80.7%	510	33	-93.5%
Operating expense	(7,236)	(5,400)	(5,825)	7.9%	(1,926)	(2,020)	4.9%
Pre-provision income or loss	7,980	6,101	5,542	-9.2%	2,474	1,809	-26.9%
Provision expense	(1,892)	(1,416)	(1,055)	-25.5%	(612)	(375)	-38.8%
Income tax (expense) benefit	(931)	(722)	(689)	-4.6%	(284)	(222)	-21.8%
Net income	5,157	3,963	3,798	-4.2%	1,578	1,212	-23.1%
Other comprehensive income (loss)							
Exchange differences on translation of foreign operations financial statement	89	17	85	387.8%	19	82	319.3%
Unrealized gains (losses) on available-for-sale financial assets	84	(232)	197	-184.9%	(191)	(18)	-90.7%
Actuarial gains and losses on defined benefit plans	(150)						
Income tax relating to components of other comprehensive income	26						
Other comprehensive income (loss), after tax	48	(215)	282	-231.0%	(171)	64	-137.2%
Total comprehensive income (loss)	5,205	3,748	4,080	8.8%	1,406	1,276	-9.3%

Balance Sheet Data	2014	9M 2014	9M 2015	9M 15/9M 14		Q3 15/Q3 14	
				% change	Q3 2014	Q3 2015	% change
Total assets	759,912	740,394	796,215	7.5%	740,394	796,215	7.5%
Total shareholders' equity	41,335	39,878	44,914	12.6%	39,878	44,914	12.6%
Total loans, net ⁽¹⁾	475,282	465,970	486,592	4.4%	465,970	486,592	4.4%
Total deposits	643,680	646,541	671,114	3.8%	646,541	671,114	3.8%

Operating Metrics	2014	9M 2014	9M 2015	Q3 2014	Q3 2015
Fee income ratio	20.0%	20.4%	20.1%	17.8%	20.3%
Cost income ratio	47.1%	46.5%	50.9%	43.4%	52.4%
Loan/deposit ratio (excl. credit card)	73.8%	72.0%	72.5%	72.0%	72.5%
Loan/deposit ratio (incl. credit card)	74.2%	72.4%	72.8%	72.4%	72.8%
Net interest margin	1.43%	1.42%	1.46%	1.42%	1.47%
Net interest spread	1.85%	1.84%	1.92%	1.88%	1.93%
Pre-provision earnings/assets	1.10%	0.85%	0.71%	0.35%	0.23%
Pre-provision earnings/equity	20.47%	15.95%	12.85%	6.47%	4.20%

Note:

(1) Excludes credit cards but include overdue receivables.

(2) Numbers have not been reviewed by the auditors.