



**SKFH**

# **Q4 2016 Results Update**

**2017/3/16**

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# Contents

## I. SKFH

II. Life Insurance Business

III. Banking Business

IV. Appendix

- Life Premium Summary
- Capital Adequacy

# SKFH – 2016 Overview

- SKFH recorded consolidated comprehensive income of NT\$12.98bn and consolidated after-tax profit of NT\$5.10bn; profit attributable to SKFH was NT\$4.81bn. EPS was NT\$0.48. Shareholders' equity increased 12.1% YoY to NT\$121.40bn, and book value per share was NT\$12.11.
- Subsidiaries' core business remained solid.
  - SKL:
    - ◆ FYP for 2016 reached NT\$114.89bn, 46.9% higher YoY, driving VNB growth. Cost of liabilities decreased to 4.37%, 14 bps lower YoY.
    - ◆ Interest income for 2016 increased 12.5% YoY to NT\$70.23bn, boosted by allocation to overseas fixed incomes.
    - ◆ Other comprehensive income was NT\$9.21bn. Shareholders' equity amounted to NT\$73.77bn, up 14.5% YoY.
  - SKB:
    - ◆ Net interest income and net fee income for 2016 grew 3.1% and 3.7% YoY respectively. Consolidated after-tax profit was NT\$4.63bn.
    - ◆ Driven by optimized fund utilization and deposit structure, NIS for 2016 increased 4 bps YoY to 1.97%, and NIM rose 4 bps YoY to 1.50%.
    - ◆ Asset quality remained stable with NPL ratio of 0.26% and coverage ratio of 492.04%.
- Capital adequacy ratios of the group and subsidiaries were all significantly above regulatory requirements. Group CAR was 124.4%, RBC of SKL was 279.3%, and BIS of SKB was 12.7%.

# Financial Highlights – 2016

	2015	2016	YoY Growth
NT\$m (except per share data), %			
Consolidated comprehensive income	1,337	12,976	870.2%
Consolidated net income	6,838	5,099	-25.4%
First year premium (Insurance)	78,207	114,892	46.9%
Loans (Bank)	487,733	508,522	4.3%
Total assets (Consolidated)	2,963,071	3,157,673	6.6%
Shareholders' equity <sup>(1)</sup>	108,330	121,397	12.1%
ROA	0.24%	0.17%	
ROE	5.50%	3.94%	
Earnings per share	0.57	0.48	-15.8%

Note:

(1) Consolidated shareholders' equity for 2015 and 2016 were NT\$123,133mn and NT\$135,568mn, respectively

# Net Income – 2016

## Net income contribution

NT\$bn

Subsidiaries	2015	2016	YoY Growth
Shin Kong Life	0.14	0.13	-12.1%
Shin Kong Bank	5.03	4.63	-8.0%
Shin Kong Investment Trust	0.02	0.09	454.0%
Shin Kong Venture Capital International	0.02	0.03	46.1%
Shin Kong Property Insurance Agency	0.05	0.05	14.6%
Others <sup>(1)</sup>	0.52	-0.12	-123.1%
<b>Net income <sup>(2)</sup></b>	<b>5.78</b>	<b>4.81</b>	<b>-16.8%</b>

Note:

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

(2) Net income attributable to SKFH

# Contents

I. SKFH

**II. Life Insurance Business**

III. Banking Business

IV. Appendix

- Life Premium Summary
- Capital Adequacy

## SKL – 2016 Overview

- Consolidated after-tax profit for 2016 was NT\$0.14bn; other comprehensive income reached NT\$9.21bn. Shareholders' equity was NT\$73.77bn, up 14.5% YoY.
- Fueled by strong demand for interest sensitive whole life products, FYP surged 46.9% YoY to NT\$114.89bn, securing market share of 9.0%.
- FYPE amounted to NT\$53.72bn, up 80.4% YoY. Cost of liabilities decreased 14 bps YoY to 4.37%, better than expected.
- Focused on recurring income, international bonds listed in domestic OTC and overseas USD government bonds increased continuously, enabling interest income to grow NT\$7.81bn YoY. Recurring yield before hedging reached 3.90%.
- Although sharp fluctuations in foreign exchange drove hedging cost higher to 0.87%, investment return for 2016 was 3.80%, up 12 bps YoY.

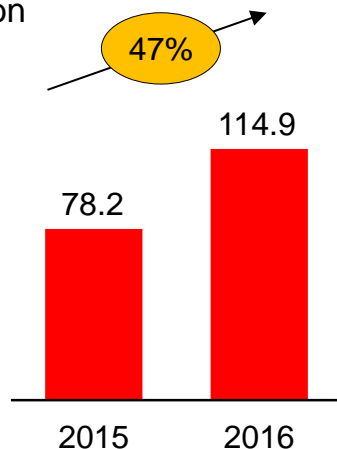


# Financial Highlights – 2016

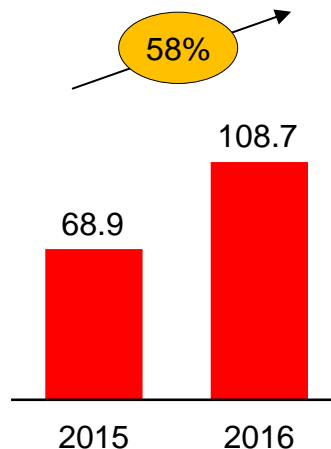
	2015	2016	YoY Growth
NT\$mn, %			
First year premium	78,207	114,892	46.9%
Total premium	227,786	264,381	16.1%
Investment income	70,815	79,496	12.3%
Consolidated net income	150	138	-7.6%
Consolidated total assets	2,113,486	2,319,734	9.8%
Consolidated total shareholders' equity	64,435	73,772	14.5%
ROE	0.22%	0.20%	
ROA	0.01%	0.01%	

# First Year Premium – 2016

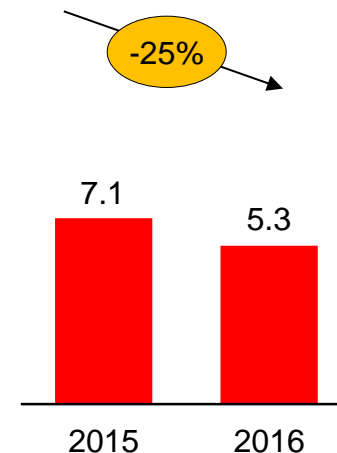
NT\$bn



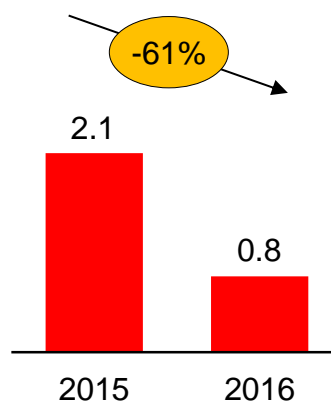
Traditional



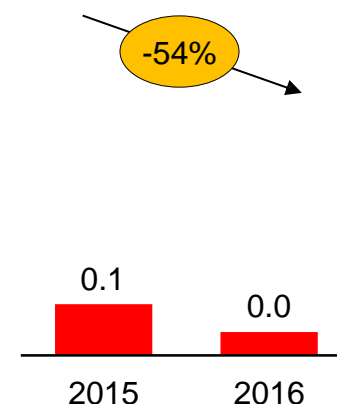
PA, Health and Group <sup>(1)</sup>



Investment-linked



Interest-sensitive



## Comments

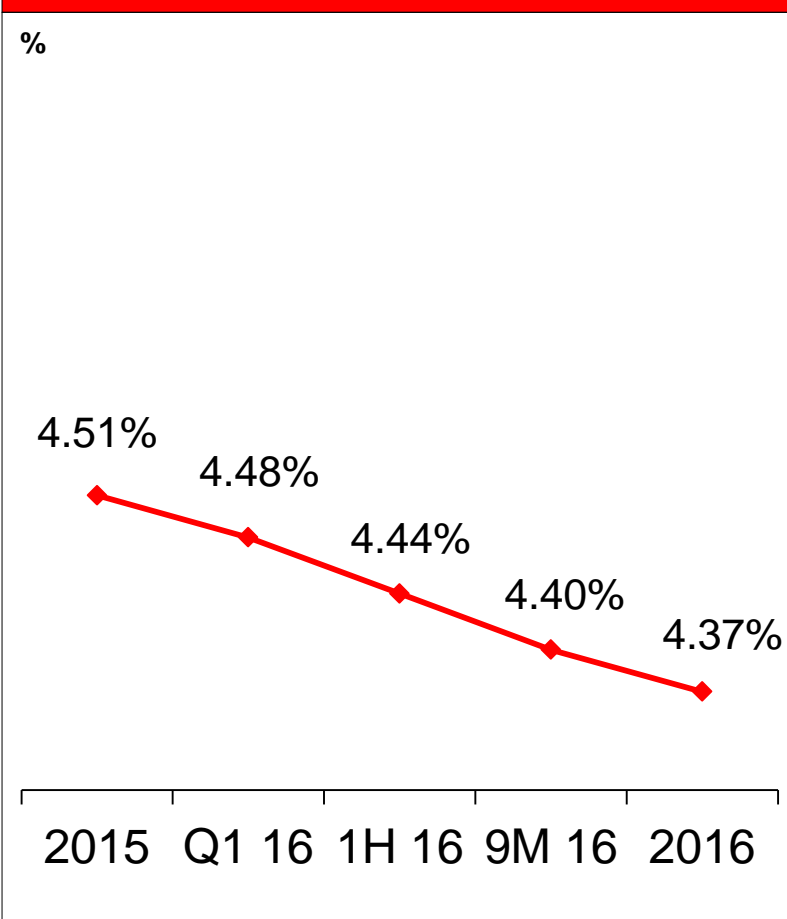
- Driven by strong demand for interest sensitive whole life products, FYP surged 46.9% YoY to NT\$114.89bn
- Traditional products remained marketing focus and contributed 94.6% of total FYP, decreasing cost of liabilities to 4.37%, 14 bps lower than 2015
- FYPE reached NT\$53.72bn, up 80.4% YoY, driving up VNB
- In view of cuts in policy reserve rate and commission, FX policies and protection products to be actively promoted in 2017 to support sales momentum and VNB

Note :

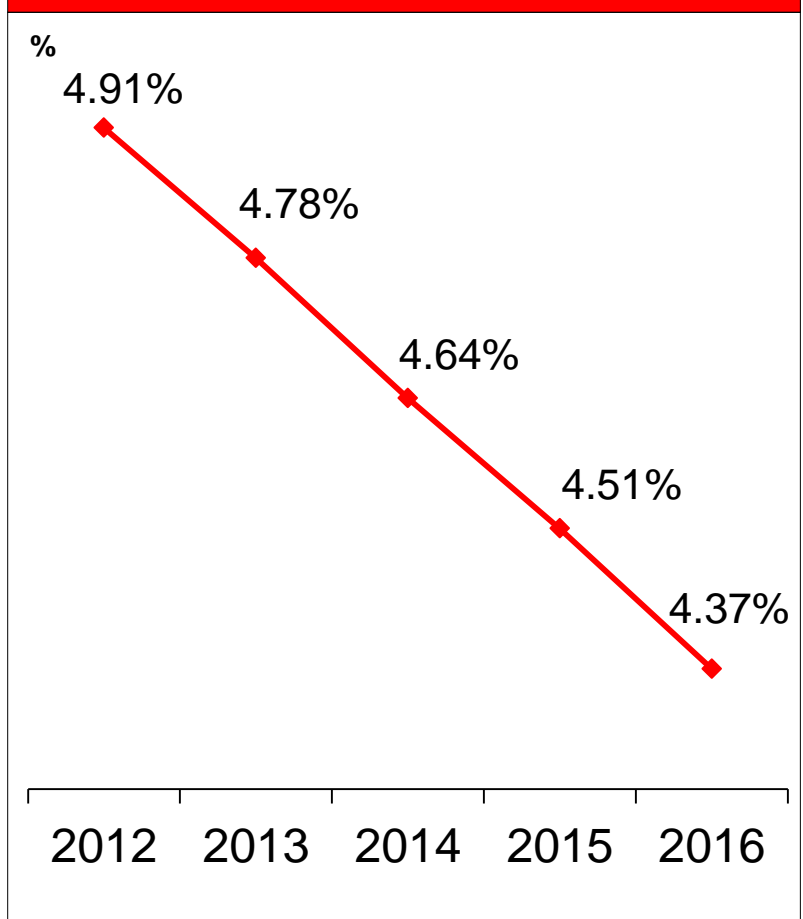
(1) Long-term disability Type A policies are classified as health insurance

# Cost of Liabilities

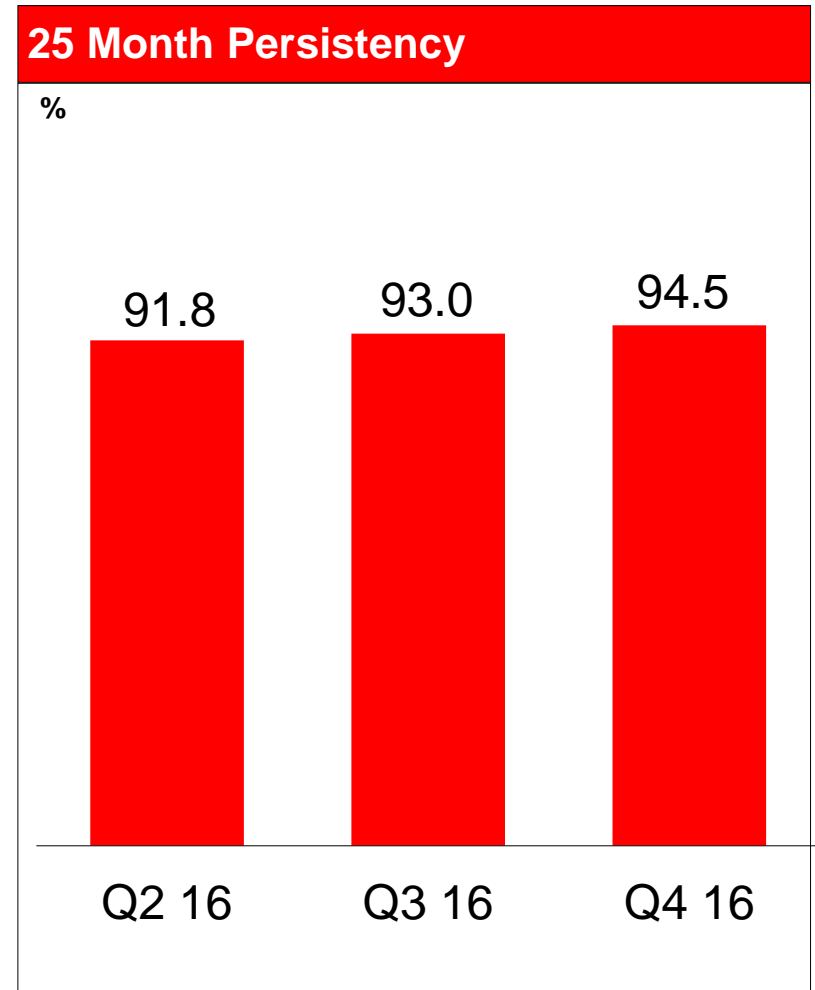
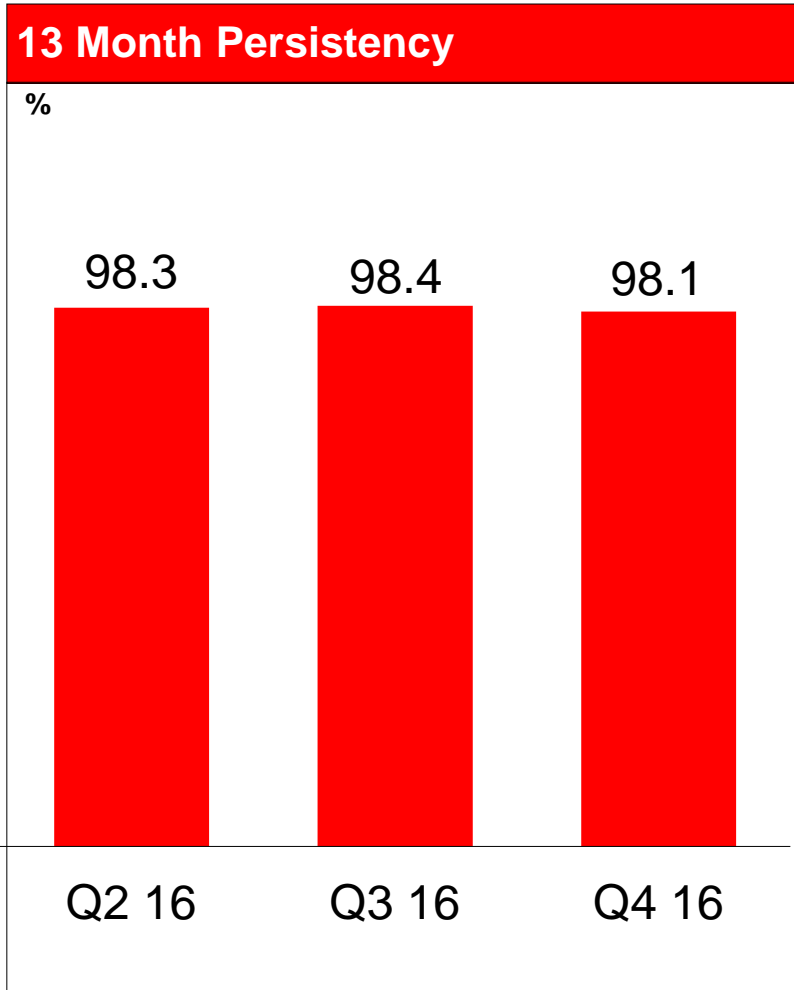
Cost of Liabilities (quarterly)



Cost of Liabilities (annual)

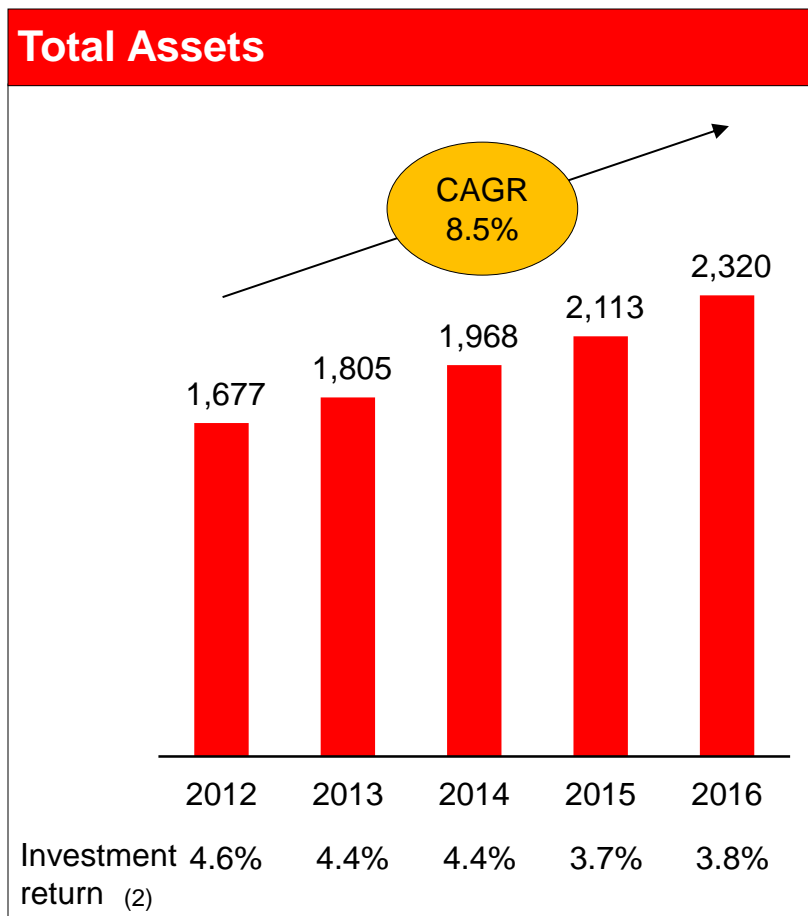


# Persistency Ratio



# Investment Portfolio

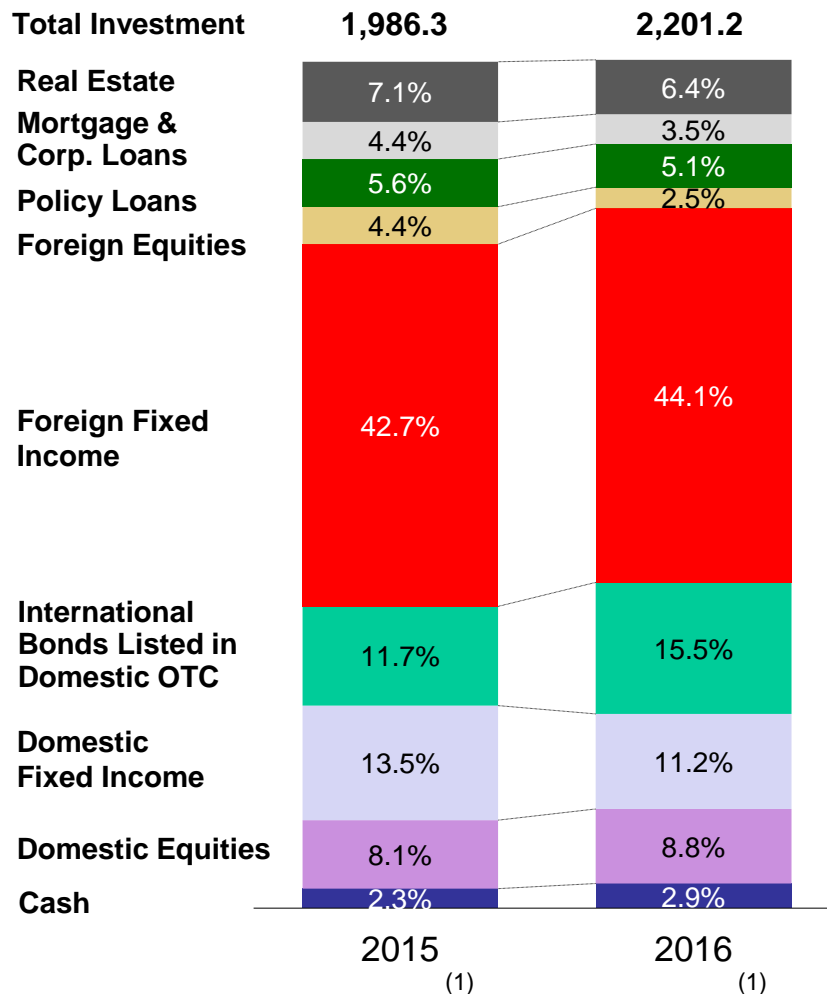
NT\$bn



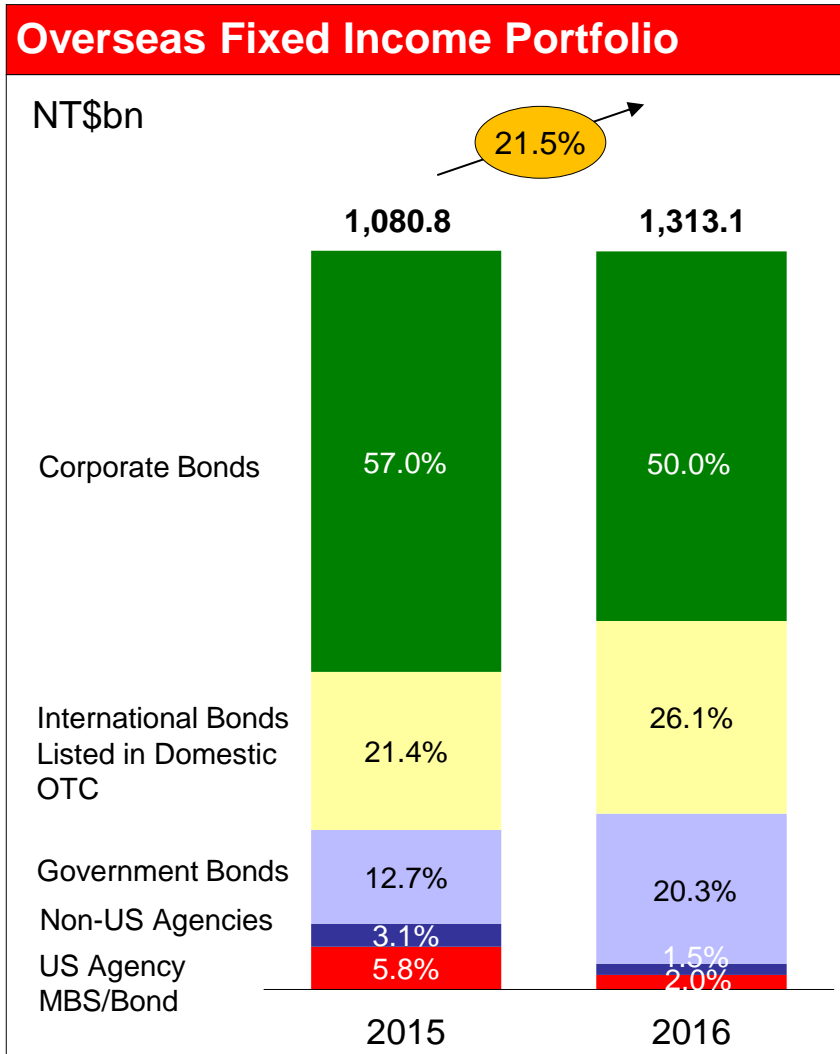
Note:

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

(2) Includes capital gains and FX hedging cost



# Overseas Fixed Income

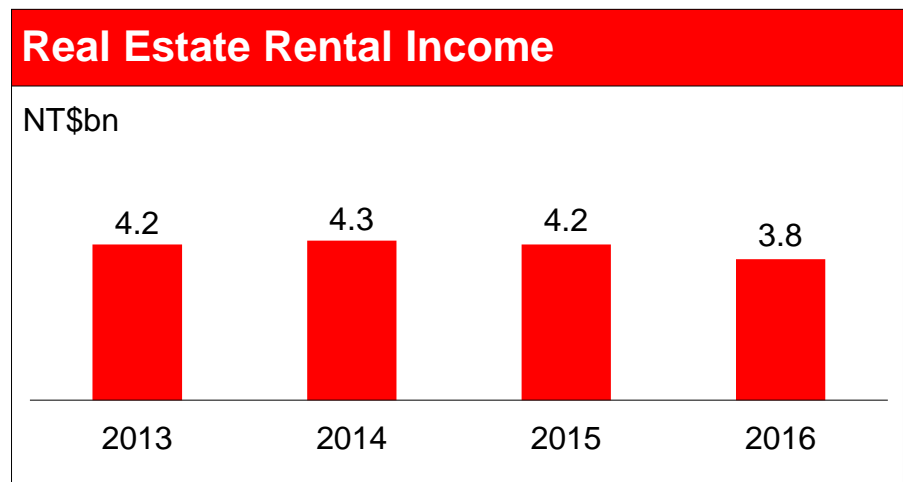
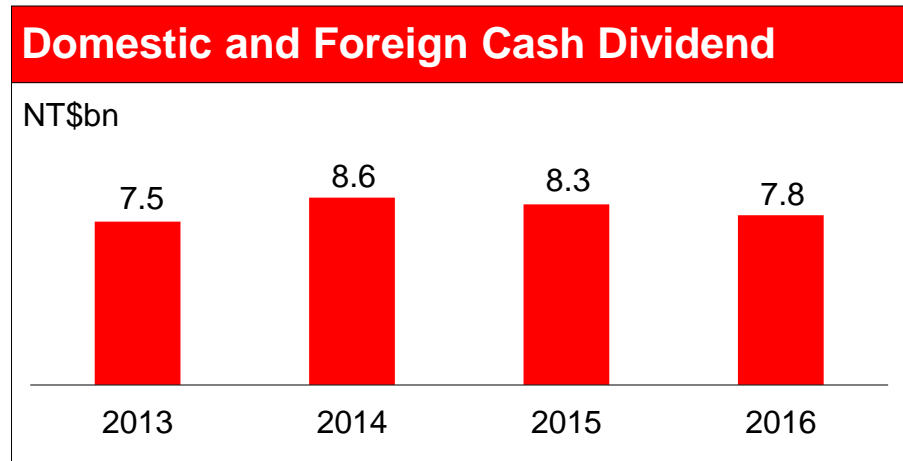
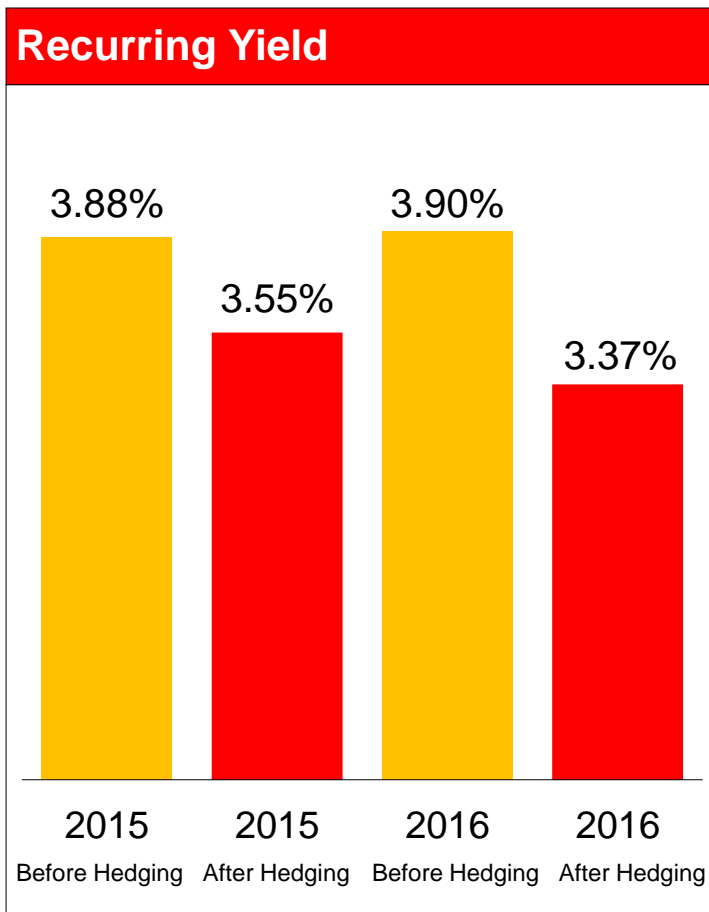


- Comments**
- Overseas fixed income grew 21.5% YoY, mainly deployed in emerging market USD government bonds and international bonds listed in domestic OTC
  - As of end of 2016, SKL held international bonds of NT\$341.5bn. These bonds offer average yield before hedging of over 4.4%, which after hedging is still significantly higher than domestic bonds
  - Increasing fixed income allocation drove interest income higher. New money yield for Q4 2016 was 50 bps higher QoQ
  - Considering upward trend in long-term interest rates, SKL continues to invest in emerging market USD government bonds and overseas corporate bonds to enhance recurring income

Note :

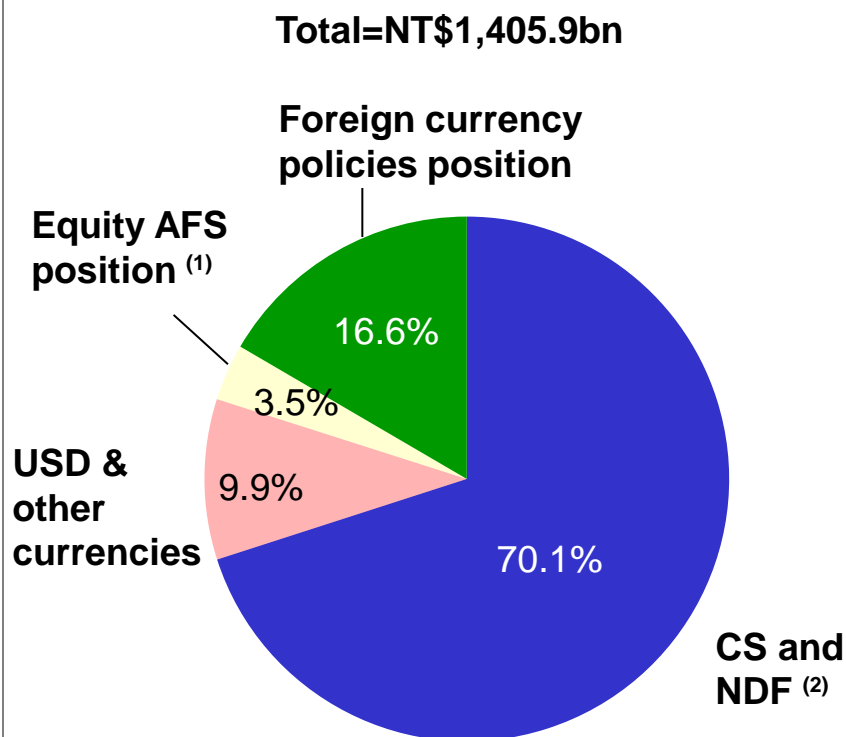
(1) Due to rounding, asset allocation figures may not add up to 100%

# Recurring Income



# Hedging Strategy

## Mix of Hedging Strategies Used



## Comments

- Hedging cost for 2016 was 0.87%
- Hedging ratio was 86.7%, including CS, NDF, and naturally-hedged foreign currency policies position. Mid- to long-term target of hedging ratio ranges from 70% to 95% under stringent risk management
- Among traditional hedges, CS and NDF accounted for 64% and 36%, respectively
- AFS<sup>(1)</sup> position in foreign equities accounted for 3.5% 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

## Well-diversified Portfolio

- Diversification by asset class (equity, credit, currency, commodity, real estate)
- Achieve diversification and yield pick-up through overseas investments. Continue to deploy in bonds with investment grade to increase fixed interest income
- Control exposure to assets with higher volatility

## 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 70% to 95%
- 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 strictly manage market, credit and business risks

# SKL – 2017 Outlook

- Focus on sales of FX policies and protection products, optimizing product mix to control hedging cost, gain stable interest spread and accumulate VNB. Target FYP over NT\$100bn and cost of liabilities at least 10 bps lower than 2016.
- Implement Agent+ project throughout countrywide branches and utilize mobile apps to elevate overall productivity. Compile and analyze policyholders' personal data and insurance transaction records to reinforce customer segmentation and precise marketing, as well as improve repurchase rate.
- Promote digital services, including e-policy application, e-visit, e-claims and e-policy adjustment to increase service efficiency. Upgrade self service platform to strengthen customer stickiness and satisfaction.
- Deploy cash in fixed incomes and high-dividend yield stocks classified as FVOCI to enhance recurring income as long-term rates rise.
- 12 domestic construction projects to be completed within 4 years, generating rental income of NT\$600mn per year afterward.
- Already obtained approval from competent authorities for recovering property special reserves of NT\$7bn to boost growth in VNB and shareholders' equity.

# Contents

I. SKFH

II. Life Insurance Business

**III. Banking Business**

IV. Appendix

- Life Premium Summary
- Capital Adequacy

## SKB – 2016 Overview

- Consolidated after-tax profit for 2016 was NT\$4.63bn. Benefited from adjustment in deposit structure, net interest income for 2016 reached NT\$10.69bn, up 3.1% YoY. Net fee income was NT\$3.23bn, up 3.7% YoY.
- Loan balance as of end of Q4 2016 was NT508.52bn, up 3.0% QoQ. Momentum mostly came from consumer and global corporate loans.
- Driven by enhanced fund utilization, NIM improved 5 bps QoQ to 1.55%. NIS remained same as last quarter at 1.96%.
- Wealth management income for 2016 grew 16.5% YoY to NT\$1.98bn. Fee income from bancassurance reached NT\$1.36bn, up 40.8% YoY.
- NPL ratio and coverage ratio were 0.26% and 492.04% respectively. SKB will strictly control credit risks to maintain asset quality.
- Risk-weighted assets decreased as a result of slowdown of TMU business. BIS and Tier 1 ratio were 12.7% and 9.9% respectively, better than 2015.

# SKB – 2017 Outlook

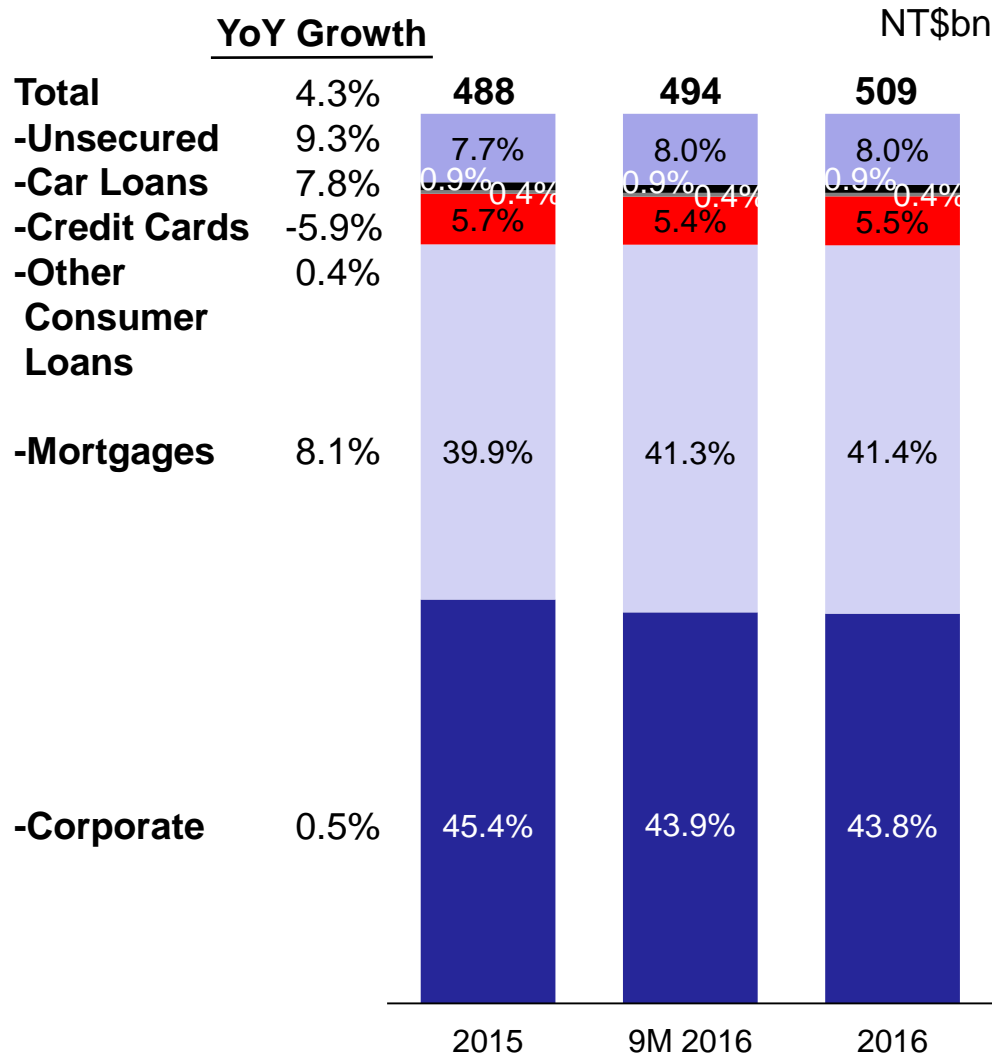
- Actively participate in overseas syndicated loans and strengthen incomes from both wealth management and TMU in Hong Kong branch aiming at overseas profits.
- Promote corporate and consumer loans for profitability and asset size.
- Increase demand deposit ratio to control cost of funds and sustain momentum on growth of net interest income.
- Upgrade risk management platform and continuously reinforce KYP/KYC and ALM to strictly control default and market risks.
- To maintain double-digit growth in wealth management , SKB will expand promotion on investment products and develop consumer and corporate clients.
- Continuously innovate digital finance business to boost online trades and achieve double-digit growth in accounts.

# Net Income – 2016

	2015	2016	YoY Growth
NT\$mn, %			
Net interest income	10,364	10,688	3.1%
Net fee income	3,117	3,233	3.7%
Investment income and other income	1,943	828	-57.4%
Operating expense	-7,775	-7,980	2.6%
Pre-provision operating income	7,648	6,769	-11.5%
Provision expense	-1,726	-1,263	-26.8%
Income tax benefit (expense)	-890	-876	-1.6%
<b>Consolidated Net Income</b>	<b>5,033</b>	<b>4,630</b>	<b>-8.0%</b>

Note: Total may not add up exactly due to rounding

# Loan Mix

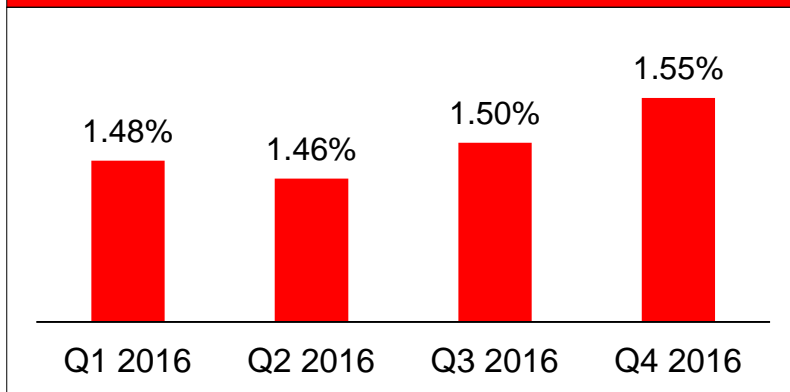


## Comments

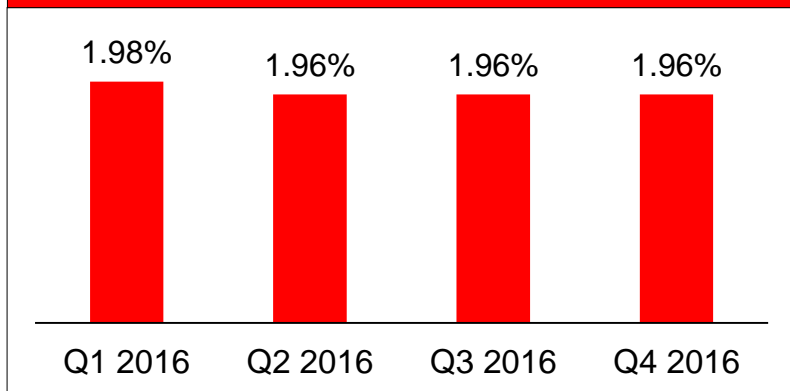
- Loan balance for 2016 amounted to NT\$508.52bn, up 4.3% YoY. Momentum mainly came from consumer loans, up 7.4% YoY
- To keep interest spread stable, SKB will continuously promote domestic and overseas corporate loans. Syndicated loan balance as of end of 2016 increased NT\$7.52bn YoY
- Mortgages grew with consideration to both profitability and asset quality. Loan balance for 2016 grew 8.1% YoY

# Interest Income

## Net Interest Margin



## Net Interest Spread



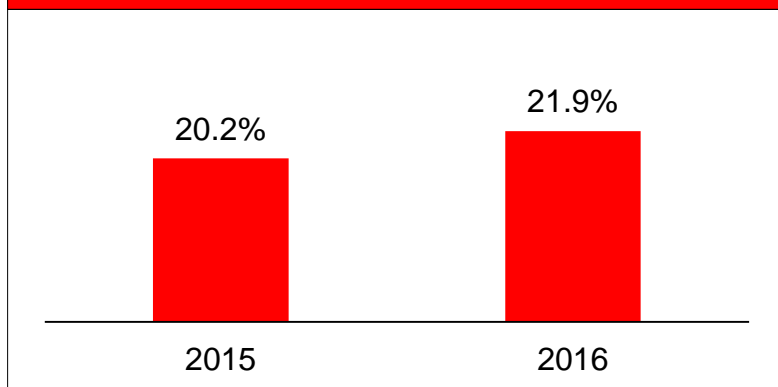
## Comments

- With enhancement in fund utilization, NIM increased 5 bps QoQ to 1.55% in Q4. NIM for 2016 was 1.50%
- NIS for 2016 was 1.97%, up 4 bps YoY
- SKB will continue to:
  - Improve fund utilization to keep interest spread stable
  - Increase demand deposit to lower cost of funds
  - Continuously promote foreign deposit to expand overseas syndicated loans and foreign fixed income investment

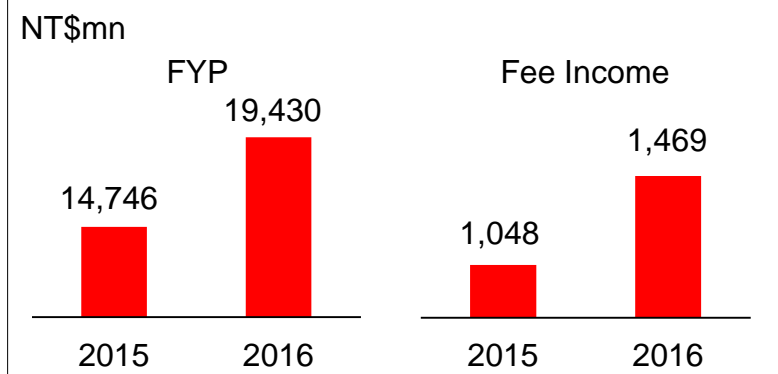


# Fee Income

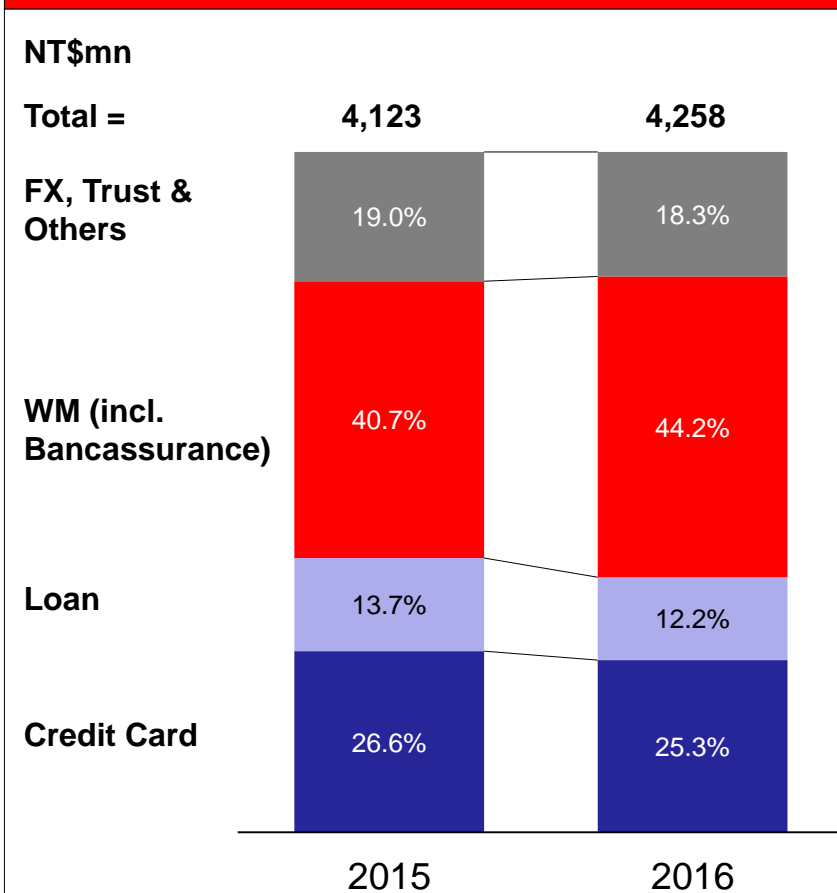
## Net Fee Income / Total Income



## Bancassurance



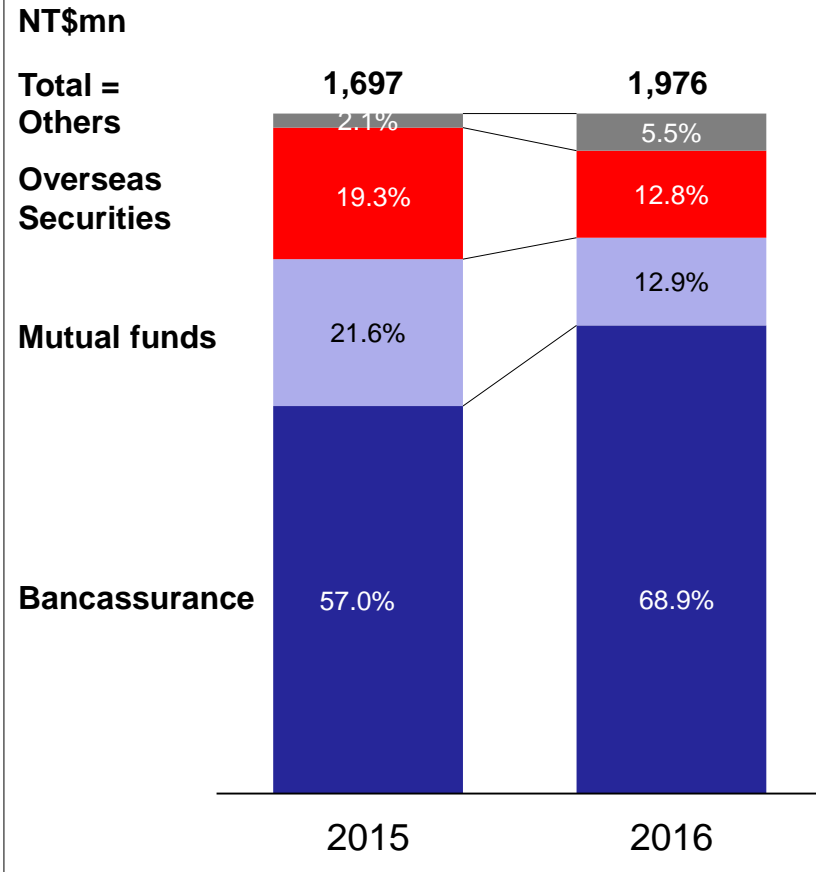
## Fee Income Breakdown



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

# Wealth Management

## Wealth Management Income Breakdown



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

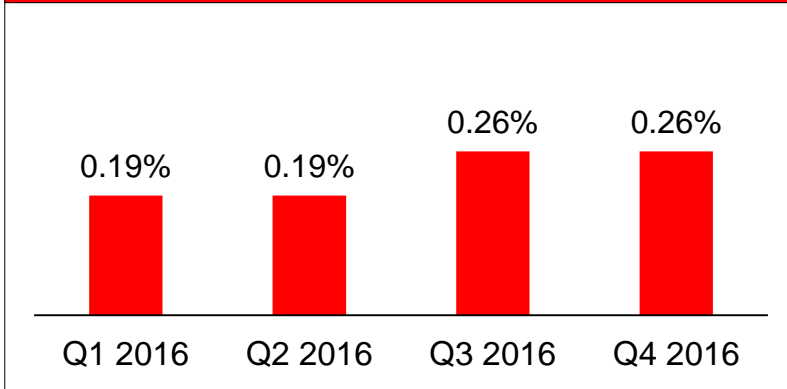
## Wealth Management Center



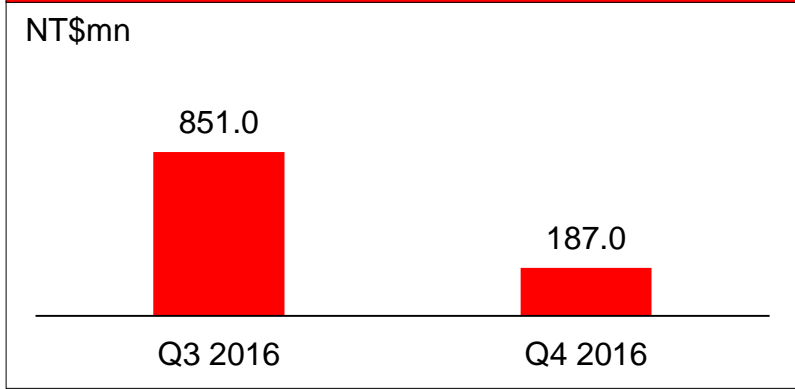
- Driven by strong sales in bancassurance, wealth management income for 2016 grew 16.5% YoY to NT\$1.98bn. Fee income from bancassurance reached NT\$1.36bn, up 40.8% YoY
- In response to cuts in bancassurance commission rate, promotion on investment products will expand, with a dedicated team to provide investment research reports to boost mutual fund sales
- Clients base to expand, driven by cooperation between consumer and corporate units, enhancing financial consultants' productivity

# Asset Quality

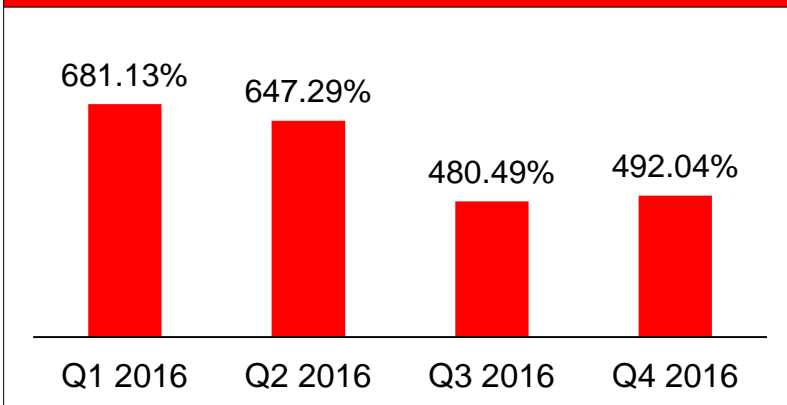
## NPL Ratio



## New NPL Generation



## Coverage Ratio



- New NPL generated in Q4 2016 was only NT\$187mn, NT\$664mn less than Q3
- NPL ratio and coverage ratio were 0.26% and 492.04% respectively. SKB will continue to monitor asset quality

# Contents

- I. SKFH
- II. Life Insurance Business
- III. Banking Business
- IV. Appendix
  - **Life Premium Summary**
  - Capital Adequacy

# SP / RP Breakdown

NT\$bn

2016 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	63.71	45.01		108.72
Investment-linked				
VUL		0.05	0.52	0.58
Structured note	0.23			0.23
Interest sensitive				
Annuity	0.00		0.04	0.04
PA, health and others <sup>(1)</sup>		5.32		5.32
<b>Total</b>	<b>63.95</b>	<b>50.38</b>	<b>0.56</b>	<b>114.89</b>
<b>Share</b>	<b>55.7%</b>	<b>43.9%</b>	<b>0.4%</b>	<b>100.0%</b>

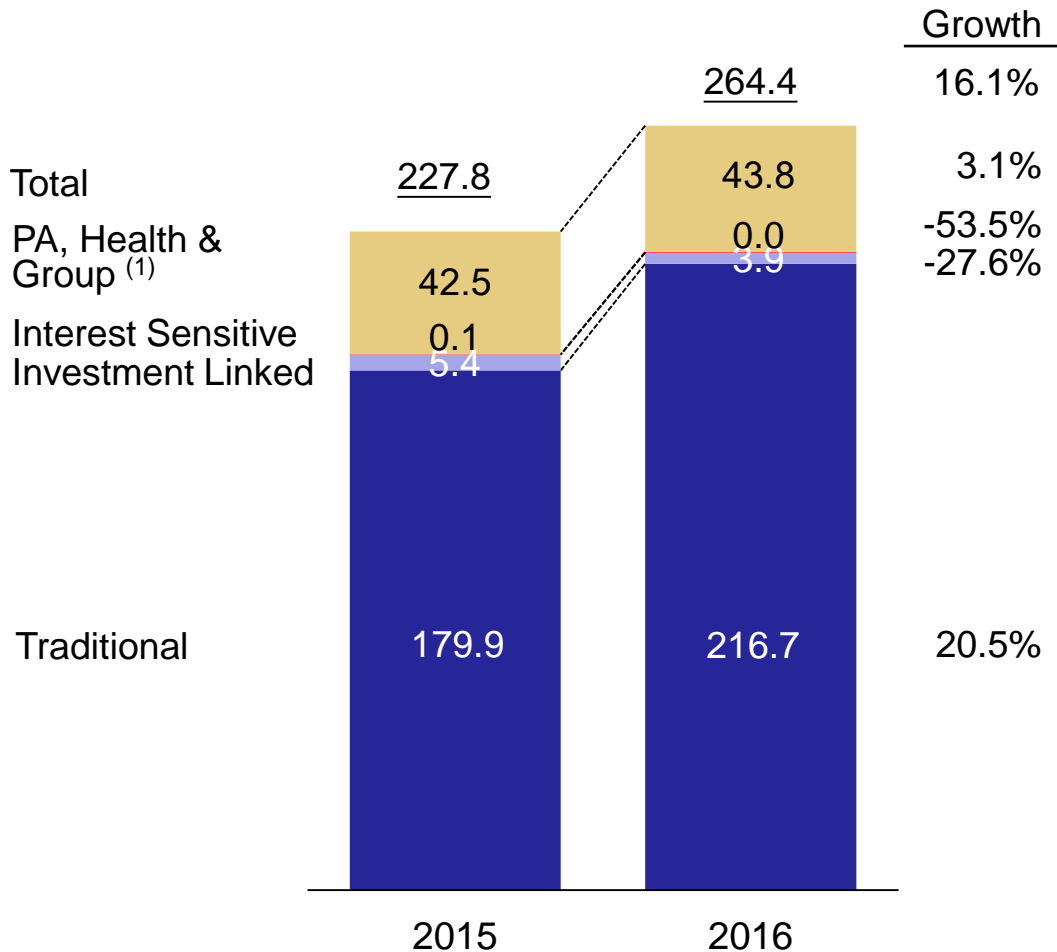
Note :

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

# Total Premium – 2016

NT\$bn

**Market Share = 8.4%**



## Comments

- Driven by FYP of traditional products up 57.7% YoY, total premium of traditional products grew 20.5% YoY and overall total premium increased 16.1% YoY
- Bancassurance channels focused primarily on sales of whole life savings products, rather than interest-sensitive annuities
- PA, Health & Group products grew steadily YoY

Note :

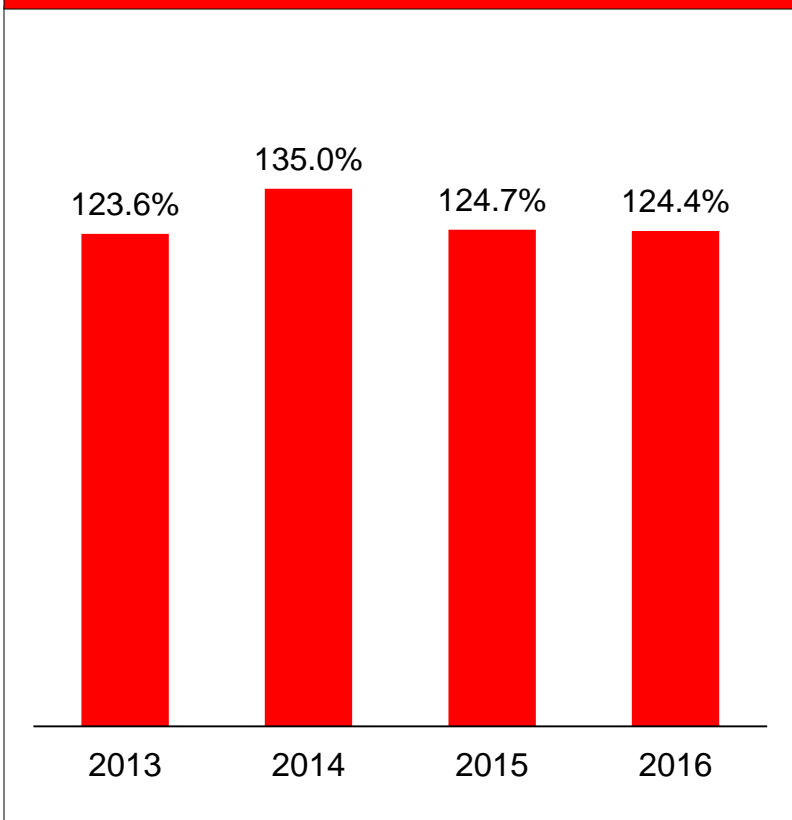
(1) Long-term disability Type A policies are classified as health insurance

# Contents

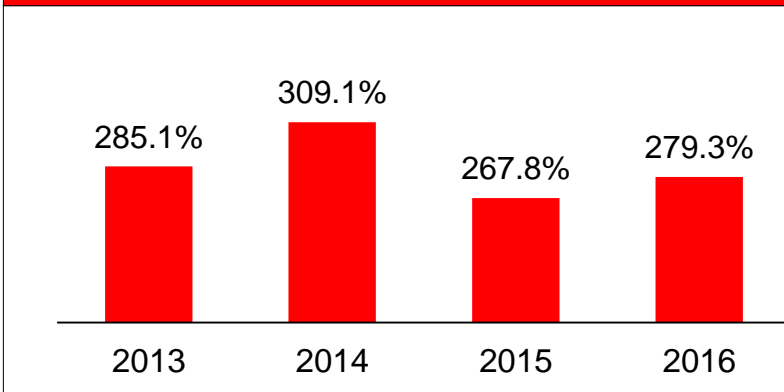
- I. SKFH
- II. Life Insurance Business
- III. Banking Business
- IV. Appendix
  - Life Premium Summary
  - **Capital Adequacy**

# Capital Adequacy

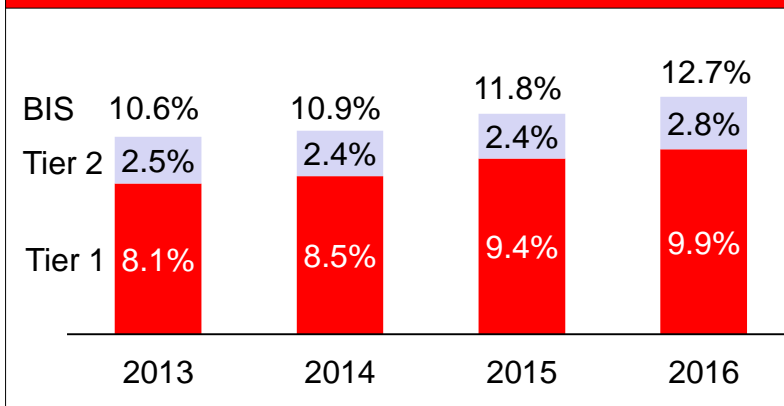
## CAR of SKFH



## RBC of SKL



## BIS of Shin Kong Bank







**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\$m)

<b>Income Statement Data</b>	<b>2016/2015</b>			<b>Q4 16/Q4 15</b>		
	<b>2015</b>	<b>2016</b>	<b>% change</b>	<b>Q4 2015</b>	<b>Q4 2016</b>	<b>% change</b>
Net interest income	(225)	(196)	-12.9%	(49)	(48)	-1.1%
Income from subsidiaries						
Shin Kong Life	143	126	-12.1%	179	2,136	1091.5%
Shin Kong Bank	5,033	4,630	-8.0%	1,235	1,269	2.8%
MasterLink Securities	513	135	-73.6%	309	(135)	-143.6%
Shin Kong Investment Trust	16	86	454.0%	7	68	920.1%
Shin Kong Venture Capital International	17	25	46.1%	(1)	11	-939.2%
Shin Kong Property Insurance Agency	46	53	14.6%	10	12	18.3%
Total income from subsidiaries	5,768	5,055	-12.4%	1,739	3,362	93.3%
Other income	114	53	-53.2%	9	12	26.2%
Administrative and general expenses	(243)	(224)	-7.5%	(38)	(55)	44.5%
Income tax benefit (expense)	366	122	-66.6%	84	42	-49.4%
Cumulative effect of changes in accounting principle	0	0		0	0	
Net income	5,780	4,810	-16.8%	1,745	3,312	89.8%
Other comprehensive income (loss), after tax	(5,455)	8,236	-251.0%	6,164	295	-95.2%
Total comprehensive income (loss)	325	13,046	3914.8%	7,909	3,607	-54.4%

<b>Balance Sheet Data</b>	<b>2016/2015</b>			<b>Q4 16/Q4 15</b>		
	<b>2015</b>	<b>2016</b>	<b>% change</b>	<b>Q4 2015</b>	<b>Q4 2016</b>	<b>% change</b>
Long term investment	120,614	133,173	10.4%	120,614	133,173	10.4%
Total assets	2,963,071	3,157,673	6.6%	2,963,071	3,157,673	6.6%
Shareholders' equity (excl. minority)	108,330	121,397	12.1%	108,330	121,397	12.1%

Note:

(1) Numbers have been audited by the auditors.

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

Income Statement Data	2016/2015			Q4 16/Q4 15		
	2015	2016	% change	Q4 2015	Q4 2016	% change
Premium income	222,780	260,759	17.0%	55,827	65,380	17.1%
Investment income						
Interest income	62,414	70,225	12.5%	16,759	18,208	8.6%
Gains on investments in securities	1,683	17,032	911.7%	(2,636)	4,759	-280.5%
Gains on real estate investments	12,927	3,811	-70.5%	9,072	944	-89.6%
FX	(7,595)	(14,850)	95.5%	(4,103)	(1,390)	-66.1%
FX gain or loss	29,799	(28,598)	-196.0%	(4,141)	27,075	-753.9%
Hedging	(37,394)	13,748	-136.8%	37	(28,465)	-76685.9%
FX Reserve	1,144	3,767	229.3%	1,338	(513)	-138.3%
Impairment loss	242	(489)	-302.7%	0	0	
Total Investment income	70,815	79,496	12.3%	20,429	22,009	7.7%
Other operating income	1,860	1,675	-10.0%	392	331	-15.5%
Provisions for reserves						
Provisions	(259,600)	(301,824)	16.3%	(66,150)	(77,604)	17.3%
Recoveries	88,707	97,467	9.9%	25,425	31,356	23.3%
Total provisions for reserves, net	(170,892)	(204,356)	19.6%	(40,725)	(46,247)	13.6%
Insurance payments	(100,779)	(109,538)	8.7%	(29,042)	(33,083)	13.9%
Commission expenses	(7,977)	(13,247)	66.1%	(1,949)	(3,167)	62.5%
Separate account revenues	1,096	5,773	426.7%	3,126	585	-81.3%
Separate account expenses	(1,096)	(5,773)	426.7%	(3,126)	(585)	-81.3%
General and administrative expenses	(13,898)	(13,984)	0.6%	(3,582)	(3,748)	4.6%
Other operating costs and expenses	(1,449)	(1,508)	4.1%	(344)	(137)	-60.0%
Operating income	460	(703)	-252.7%	1,006	1,337	32.9%
Non-operating income and expenses	175	114	-34.9%	33	(0)	-101.2%
Income taxes	(486)	727	-249.7%	(859)	805	-193.7%
Cumulative effect of changes in accounting principles	0	0		0	0	
Net income	150	138	-7.6%	181	2,142	1084.2%
Other comprehensive income (loss)						
Exchange differences on translation of foreign operations financial statements	(0)	(2)	375.0%	0	(11)	-2285.4%
Unrealized gains (losses) on available-for-sale financial assets	(5,238)	11,256	-314.9%	8,354	2,297	-72.5%
Gains (losses) on effective portion of cash flow hedges	0	0		0	0	
Actuarial gains (losses) on defined benefit plans	(639)	(620)	-3.0%	(639)	(620)	-3.0%
Share of other comprehensive income of associates and joint ventures accounted for using equity method	20	(12)	-161.4%	12	2	-83.8%
Income tax relating to components of other comprehensive income	519	(1,410)	-371.5%	(1,228)	(361)	-70.6%
Total comprehensive income (loss)	(5,188)	9,350	-280.2%	6,680	3,449	-48.4%

Balance Sheet Data	2016/2015			Q4 16/Q4 15		
	2015	2016	% change	Q4 2015	Q4 2016	% change
Total assets	2,113,486	2,319,734	9.8%	2,113,486	2,319,734	9.8%
Total shareholders' equity	64,435	73,772	14.5%	64,435	73,772	14.5%

Note:

(1) Numbers have been audited by the auditors.

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

Income Statement Data			2016/2015			Q4 16/Q4 15
	2015	2016	% change	Q4 2015	Q4 2016	% change
Interest income	16,068	15,279	-4.9%	4,023	3,841	-4.5%
Interest expense	(5,704)	(4,590)	-19.5%	(1,370)	(1,051)	-23.3%
Net interest income	10,364	10,688	3.1%	2,653	2,790	5.2%
Fee income	4,123	4,258	3.3%	1,100	1,038	-5.6%
Fee expense	(1,007)	(1,026)	-1.9%	(265)	(257)	-3.0%
Net fee income	3,117	3,233	3.7%	835	781	-6.4%
Gains on bill & securities	1,574	638	-59.5%	304	245	-19.2%
Gains on foreign exchange, net	97	96	-1.6%	94	54	-43.0%
Other gains or losses, net	272	95	-65.2%	171	(30)	-117.3%
Operating expense	(7,775)	(7,980)	2.6%	(1,950)	(1,902)	-2.5%
Pre-provision income or loss	7,648	6,769	-11.5%	2,107	1,939	-8.0%
Provision expense	(1,726)	(1,263)	-26.8%	(671)	(415)	-38.1%
Income tax (expense) benefit	(890)	(876)	-1.6%	(201)	(255)	26.8%
Net income	5,033	4,630	-8.0%	1,235	1,269	2.8%
Other comprehensive income (loss)						
Exchange differences on translation of foreign operations financial statements	82	(14)	-117.5%	(3)	14	-563.4%
Unrealized gains (losses) on available-for-sale financial assets	24	(539)	-2371.0%	(173)	(790)	355.4%
Actuarial gains and losses on defined benefit plans	(234)	(190)	-18.8%	(234)	(190)	-18.8%
Income tax relating to components of other comprehensive income	40	32	-18.7%	40	32	-18.7%
Other comprehensive income (loss), after tax	(89)	(712)	697.4%	(371)	(934)	151.8%
Total comprehensive income (loss)	4,944	3,919	-20.7%	864	335	-61.2%

Balance Sheet Data			2016/2015			Q4 16/Q4 15
	2015	2016	% change	Q4 2015	Q4 2016	% change
Total assets	788,387	782,380	-0.8%	788,387	782,380	-0.8%
Total shareholders' equity	45,779	49,197	7.5%	45,779	49,197	7.5%
Total loans, net <sup>(1)</sup>	479,668	501,315	4.5%	479,668	501,315	4.5%
Total deposits	679,593	686,883	1.1%	679,593	686,883	1.1%

Operating Metrics				
	2015	2016	Q4 2015	Q4 2016
Fee income ratio	20.2%	21.9%	20.6%	20.3%
Cost income ratio	50.0%	53.8%	47.6%	49.2%
Loan/deposit ratio (excl. credit card)	70.6%	73.0%	70.6%	73.0%
Loan/deposit ratio (incl. credit card)	70.9%	73.3%	70.9%	73.3%
Net interest margin	1.46%	1.50%	1.48%	1.55%
Net interest spread	1.93%	1.97%	1.94%	1.96%
Pre-provision earnings/assets	0.99%	0.86%	0.27%	0.25%
Pre-provision earnings/equity	17.56%	14.26%	4.84%	4.08%

Note:

(1) Excludes credit cards but include overdue receivables.

(2) Numbers have been audited by the auditors.