



SKFH

Q2 2017 Results Update

2017/8/31

Disclaimer

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

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- Capital Adequacy

SKFH – 1H 2017 Overview

- SKFH recorded consolidated after-tax profit of NT\$1.81bn for 1H 2017; consolidated comprehensive income reached NT\$13.87bn. Consolidated shareholders' equity increased 8.8% YTD to NT\$147.44bn, and book value per share was NT\$13.27.
- Subsidiaries' core business remained robust.
 - SKL:
 - ◆ Other comprehensive income for 1H 2017 amounted to NT\$11.92bn. Shareholders' equity reached NT\$85.59bn, 16.0% higher YTD.
 - ◆ FYP was NT\$57.84bn, driving market share to 9.1%. Annualized cost of liabilities declined from 4.37% for 2016 to 4.31%.
 - SKB:
 - ◆ Net interest income and investment income for 1H 2017 grew 5.5% and 42.4% YoY, respectively. Consolidated after-tax profit was NT\$1.97bn.
 - ◆ NPL ratio and coverage ratio were 0.26% and 478.26%, respectively, better than industry average.
- SKFH successfully issued domestic convertible bonds of NT\$4bn on August 22. Conversion premium ratio was set at 110%. After conversion, the group's capital will be strengthened.

Financial Highlights – 1H 2017

	1H 2016	1H 2017	YoY Growth
NT\$m (except per share data), %			
Consolidated comprehensive income	482	13,874	2780.2%
Consolidated net income	-695	1,813	-361.0%
First year premium (Insurance)	58,043	57,842	-0.3%
Loans (Bank)	490,335	518,648	5.8%
Total assets (Consolidated)	3,052,964	3,262,830	6.9%
Shareholders' equity ⁽¹⁾	108,638	133,075	22.5%
ROA (unannualized)	-0.80%	1.00%	
ROE (unannualized)	-0.96%	1.24%	
Earnings per share	-0.10	0.15	-250.0%

Note:

(1) Consolidated shareholders' equity for 1H 2016 and 1H 2017 were NT\$123,190mn and NT\$147,444mn, respectively

Net Income – 1H 2017

Net income contribution

NT\$bn

Subsidiaries	1H 2016	1H 2017	YoY Growth
Shin Kong Life	-3.32	-0.39	-88.3%
Shin Kong Bank	2.22	1.97	-11.2%
Shin Kong Investment Trust	0.01	0.02	52.1%
Shin Kong Venture Capital International	0.01	0.03	212.8%
Shin Kong Property Insurance Agency	0.03	0.03	6.5%
Others ⁽¹⁾	0.01	-0.15	-1600.0%
Net income ⁽²⁾	-1.04	1.51	-244.4%

Note:

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

(2) Net income attributable to SKFH

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SKL – 1H 2017 Overview

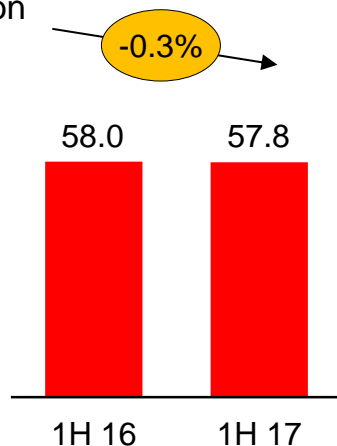
- SKL posted consolidated after-tax profit of NT\$3.56bn for Q2 2017; consolidated after-tax loss for 1H 2017 improved to NT\$0.37bn.
- Due to continued improvement in unrealized losses on available-for-sale financial assets, other comprehensive income reached NT\$11.92bn. Shareholders' equity was NT\$85.59bn, up 16.0% YTD.
- FYP for 1H 2017 was NT\$57.84bn, securing market share of 9.1%. VNB marked double-digit growth compared to 1H 2016.
- Fueled by strong NT dollar and market demand, FYP of FX policies reached NT\$25.70bn, representing 44.4% of total.
- Annualized cost of liabilities decreased from 4.37% for 2016 to 4.31%.
- Annualized investment return was 3.4% in 1H 2017. Positions in high-dividend yield stocks continued to increase, expected to drive domestic and foreign cash dividend income to around NT\$10.0bn for 2017, NT\$2.2bn higher YoY.

Financial Highlights – 1H 2017

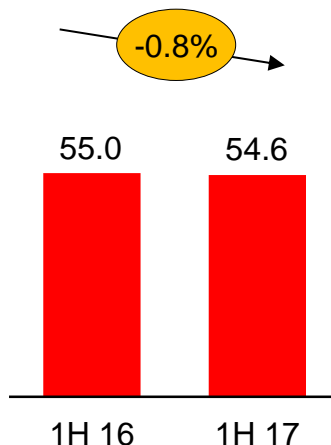
	1H 2016	1H 2017	YoY Growth
NT\$mn, %			
First year premium	58,043	57,842	-0.3%
Total premium	127,595	142,850	12.0%
Investment income	35,673	37,970	6.4%
Consolidated net income	-3,315	-368	-88.9%
Consolidated total assets	2,211,075	2,414,077	9.2%
Consolidated total shareholders' equity	62,360	85,586	37.2%
ROE (unannualized)	-5.23%	-0.46%	
ROA (unannualized)	-0.15%	-0.02%	

First Year Premium – 1H 2017

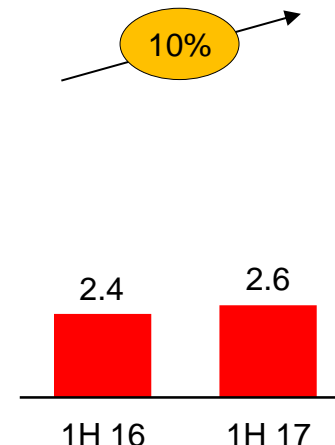
NT\$bn



Traditional



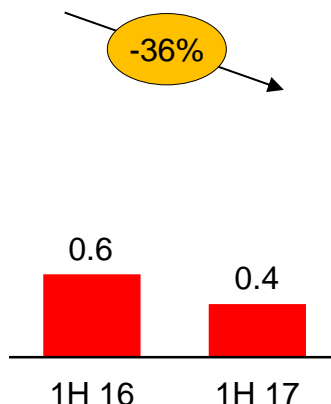
PA, Health and Group ⁽¹⁾



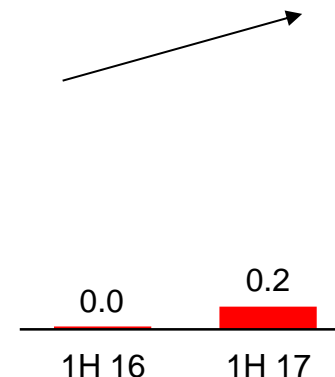
Comments

- FYP was NT\$57.84bn, down 0.3% YoY. FYPE decreased 24.1% YoY (industry average fell 32.9% YoY) to NT\$20.96bn; however, VNB reached double-digit growth driven by strong sales of FX savings products
- Boosted by strong NT dollar and market demand, FYP of FX policies amounted to NT\$25.70bn, representing 44.4% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost
- Protection products remained strategic focus in 2017. FYP of health insurance was NT\$1.47bn, 6.2% higher YoY
- Annualized cost of liabilities declined to 4.31%, 6 bps lower compared to 2016

Investment-linked



Interest-sensitive

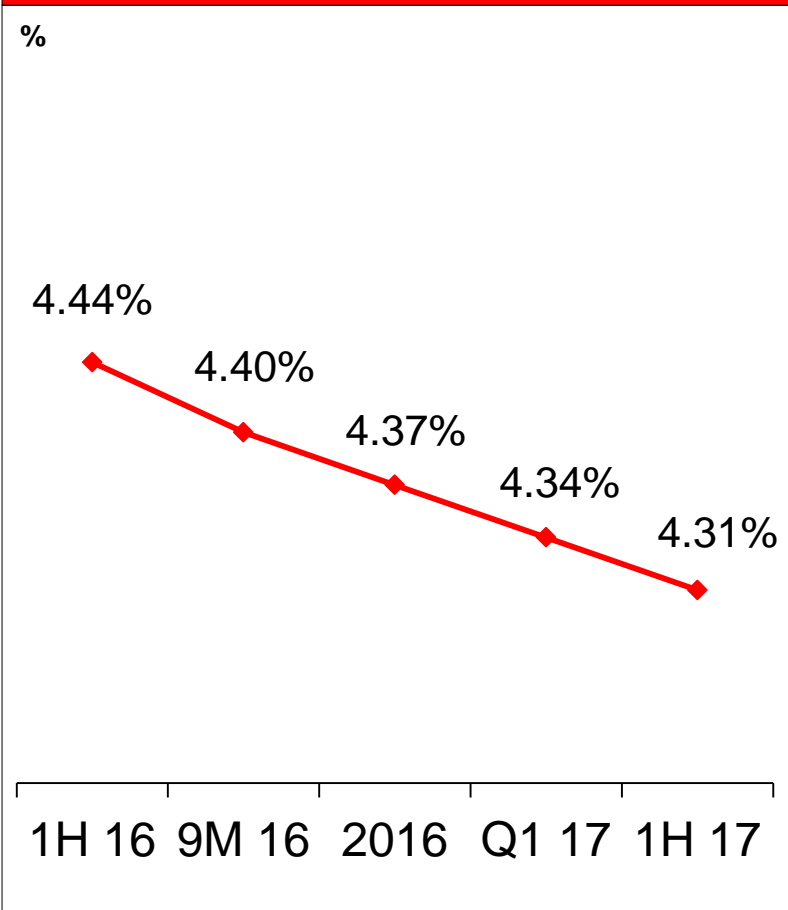


Note:

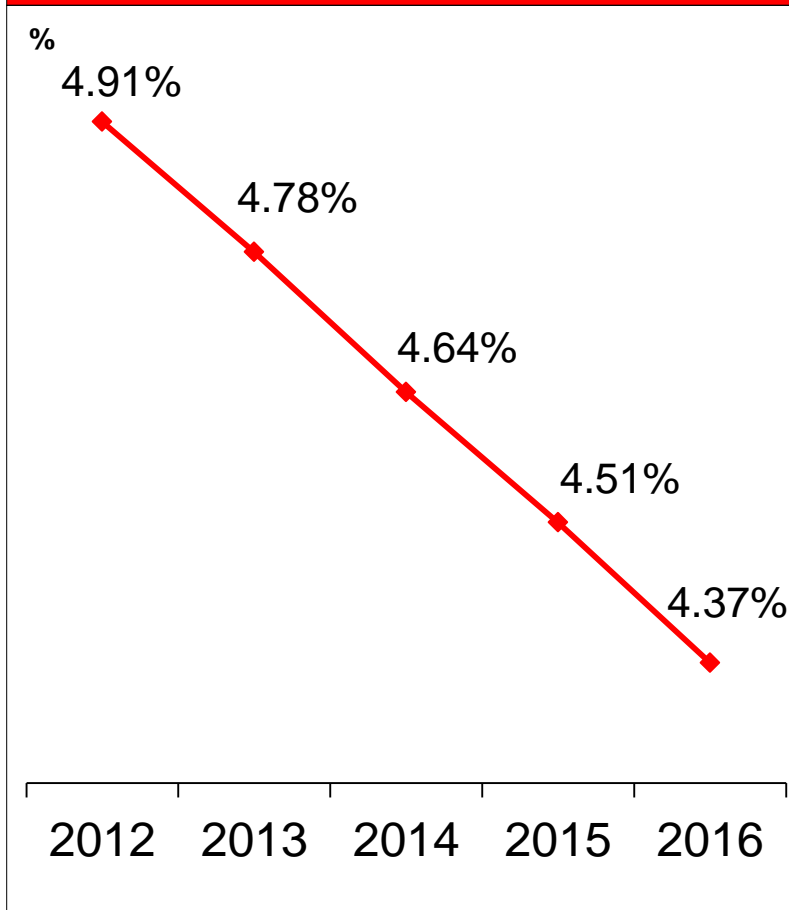
(1) Long-term disability Type A policies are classified as health insurance

Cost of Liabilities

Cost of Liabilities (quarterly)



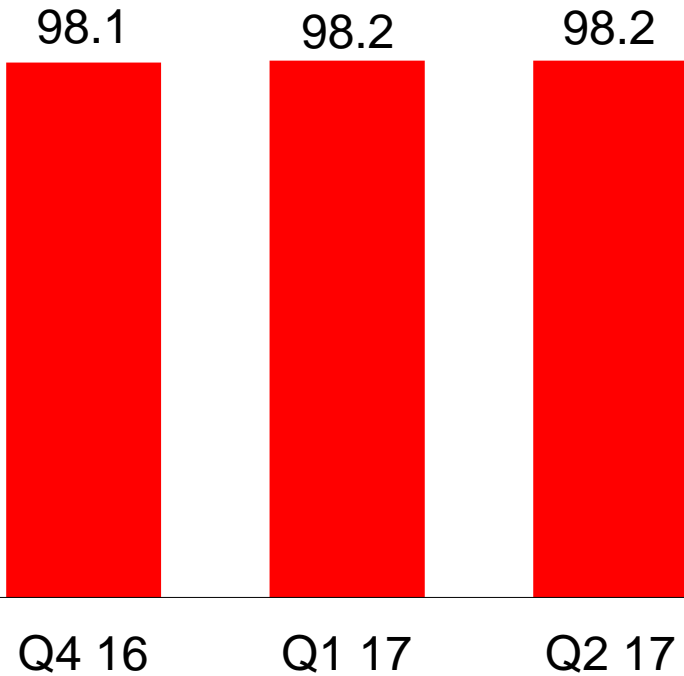
Cost of Liabilities (annual)



Persistency Ratio

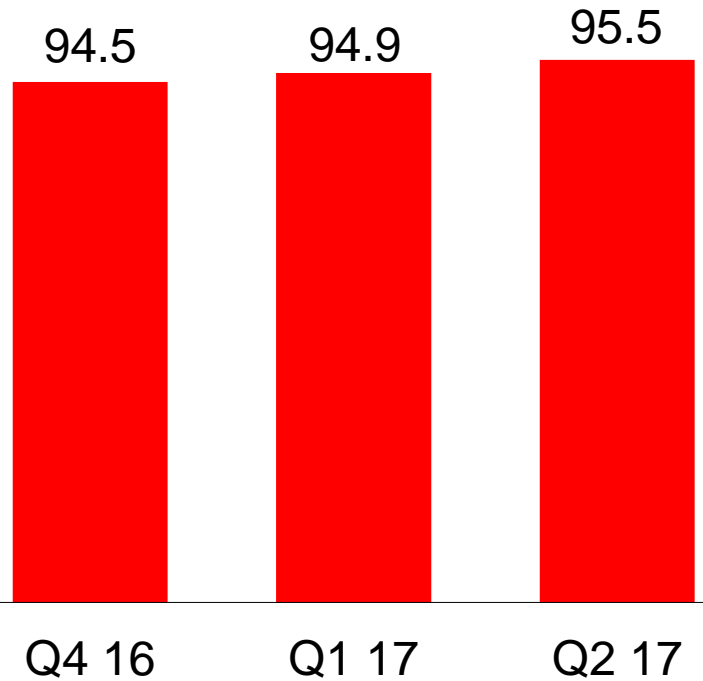
13 Month Persistency

%



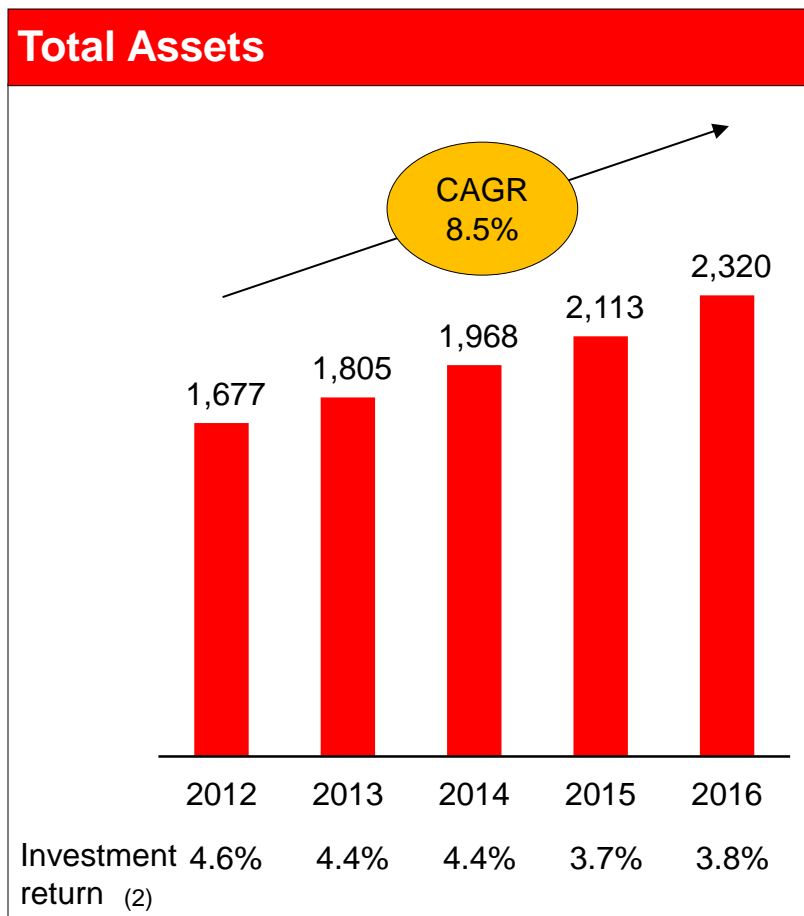
25 Month Persistency

%



Investment Portfolio

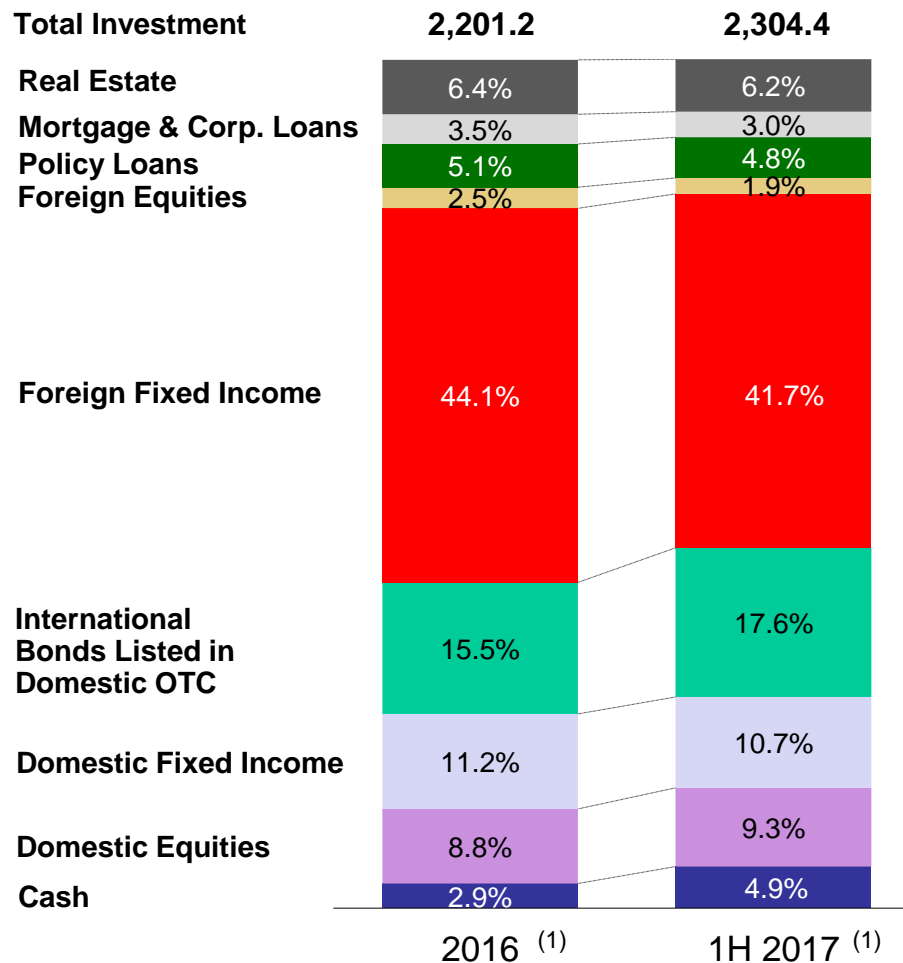
NT\$bn



Note:

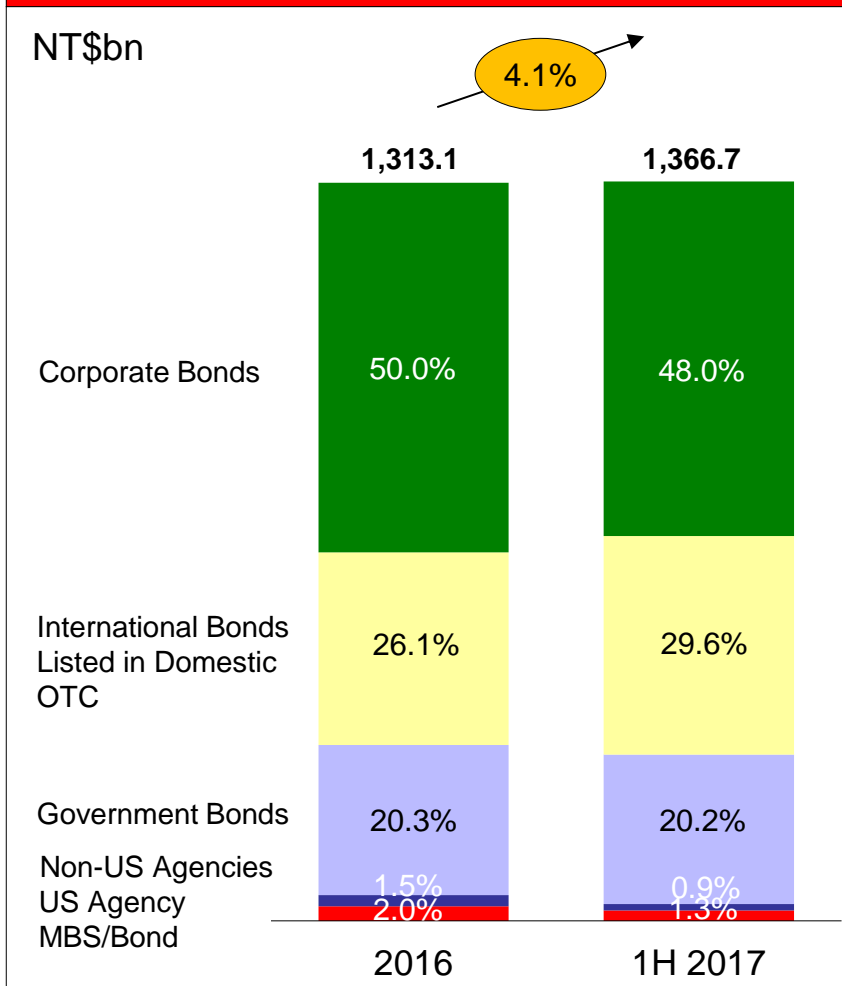
(1) Due to rounding, asset allocation figures may not add up to 100%

(2) Includes capital gains and FX hedging cost

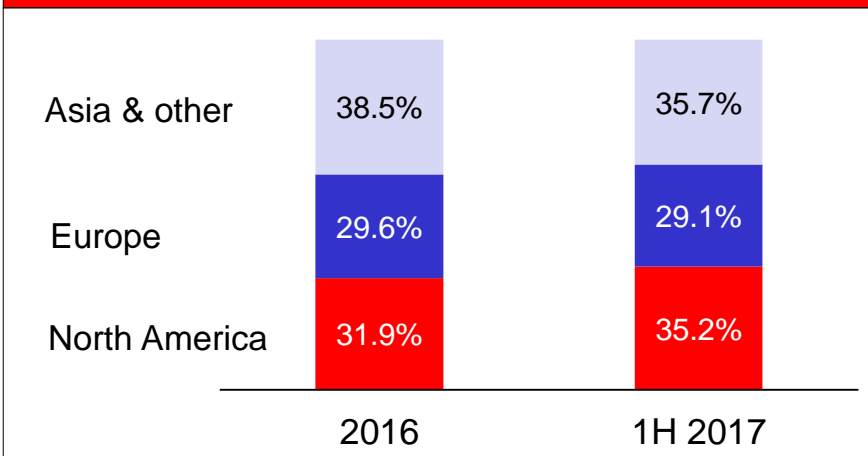


Overseas Fixed Income

Overseas Fixed Income Portfolio



Overseas Fixed Income by Region



Comments

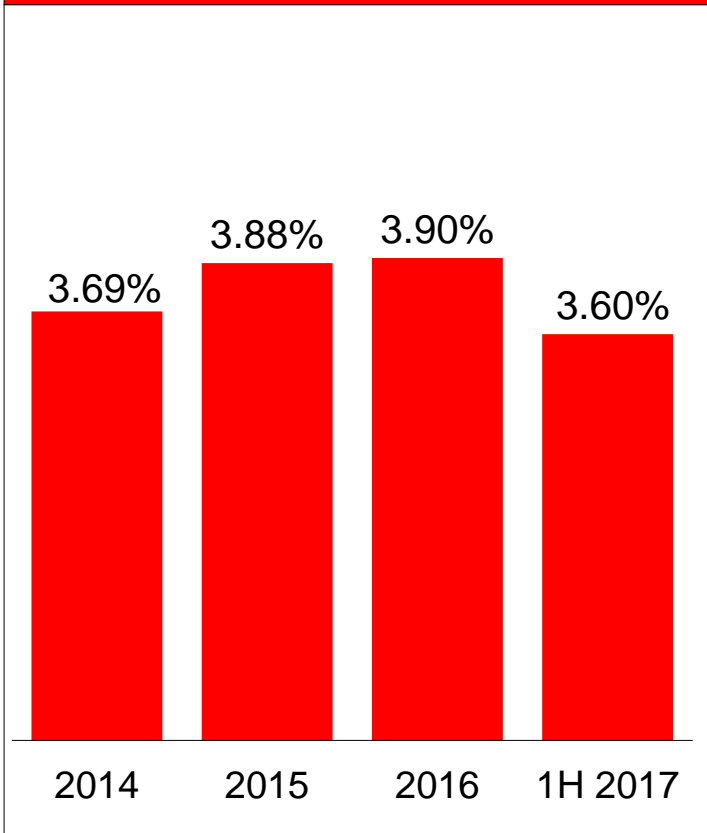
- Overseas fixed income grew 4.1% YTD, mainly deployed in emerging market USD government bonds and international bonds listed in domestic OTC
- As of end of 1H 2017, average yield before hedging of overseas fixed incomes was 4.76%
- SKL holds corporate bonds with stable credit quality, diversifying across sectors, including communication, consumer, utilities and financials

Note:

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

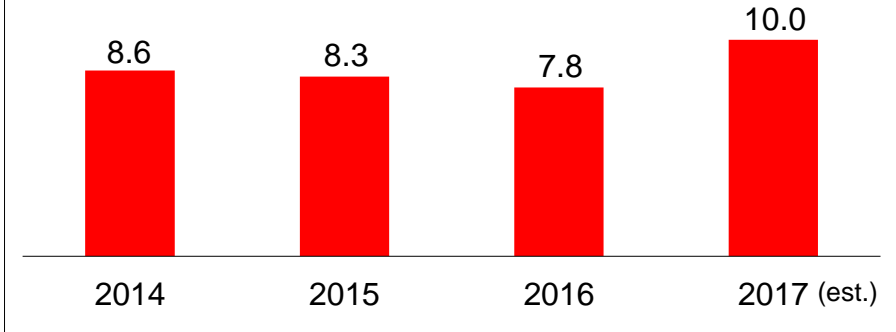
Recurring Income

Recurring Yield Before Hedging



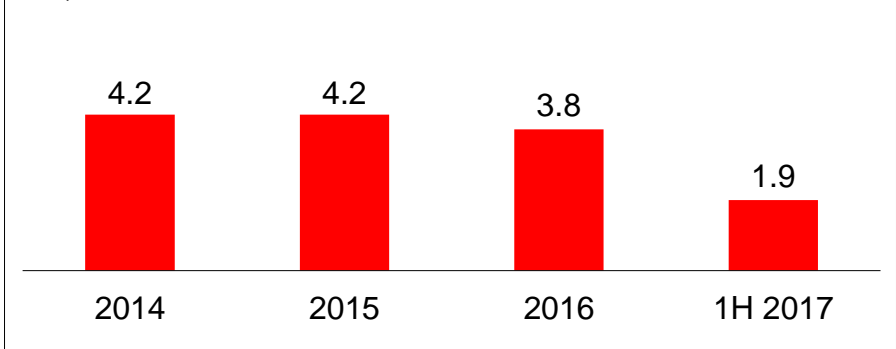
Domestic and Foreign Cash Dividend

NT\$bn



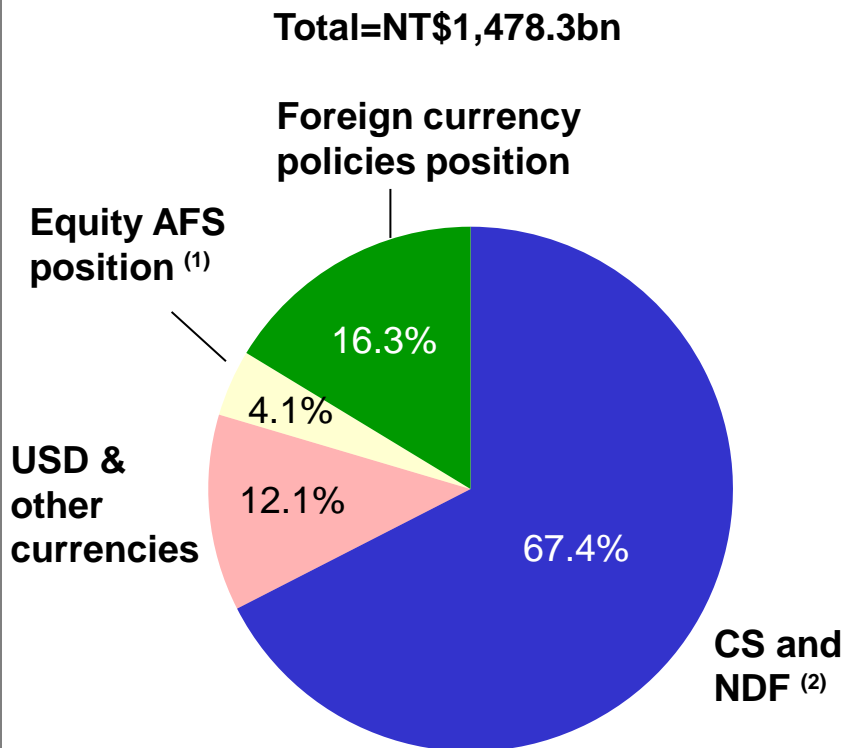
Real Estate Rental Income

NT\$bn



Hedging Strategy

Mix of Hedging Strategies Used



Comments

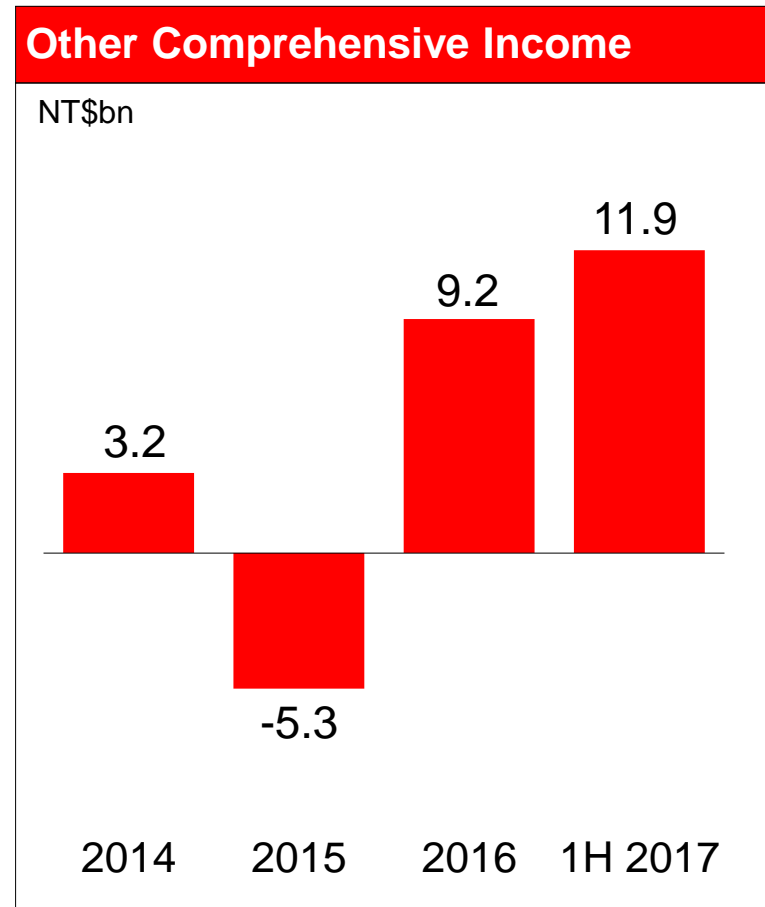
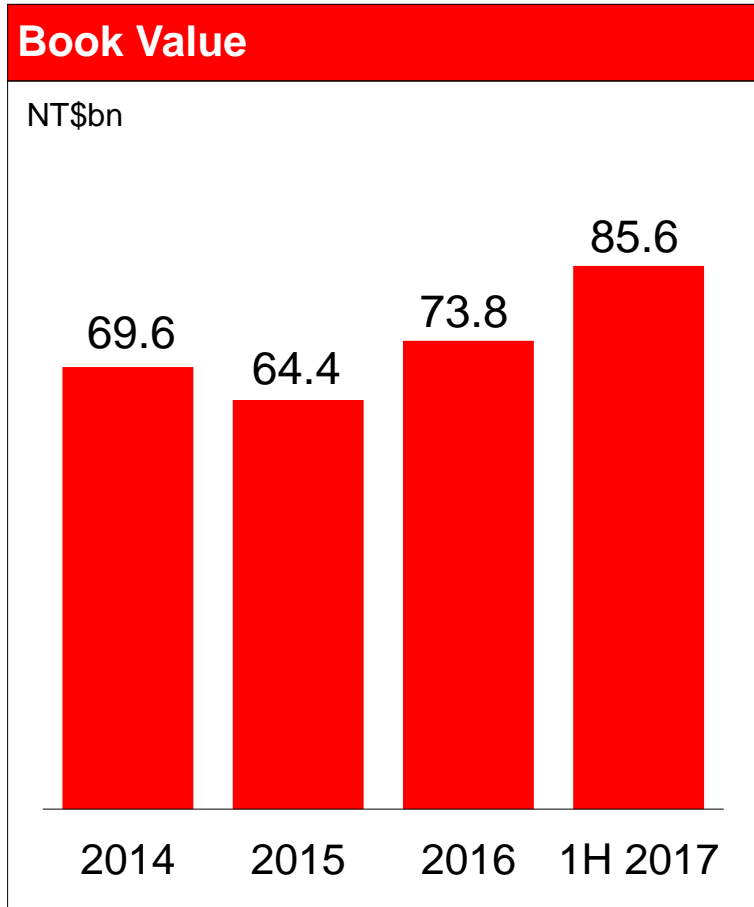
- Unannualized hedging cost for 1H 2017 was 1.01%; FX volatility reserve was NT\$1.69bn
- Hedging ratio was 83.7%, including CS, NDF, and naturally-hedged foreign currency policies position
- Among traditional hedges, CS and NDF accounted for 62% and 38%, respectively
- AFS⁽¹⁾ position in foreign equities accounted for 4.1% and was not marked to market in income statement

Note:

(1) Available for sale position

(2) Currency swaps and non-delivery forwards

Book Value and Other Comprehensive Income



Investment Strategy

Strong ALM Discipline

- Increase share of FX policy sales to control hedging cost and enhance recurring income
- Develop Strategic Asset Allocation based on liability profile and capital budget

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 investment grade bonds to increase interest income
- Increase exposure to assets with lower volatility

Cost-effective Currency Hedging

- Dynamically adjust FX hedging ratio. Mid- to long-term target ranges from 80% to 100%
- Target hedging cost at 100~120 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

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SKB – 1H 2017 Overview

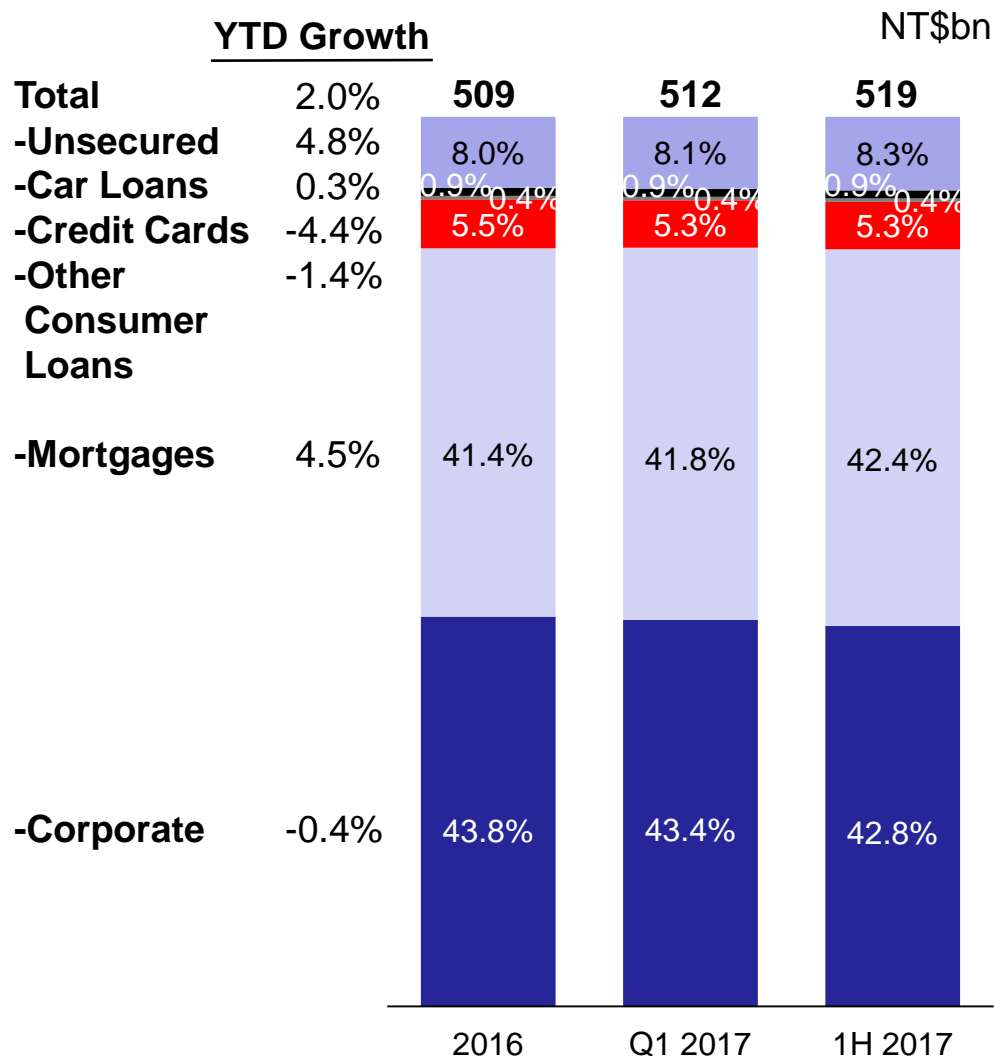
- Pre-provision operating income was NT\$3.46bn, up 9.5% YoY. Momentum mostly came from net interest income and investment income, up 5.5% and 42.4% YoY, respectively. Consolidated net income was NT\$1.97bn.
- Loan balance as of 1H 2017 was NT\$518.65bn, up 2.0% YTD. Consumer and overseas syndicated loans remained growth driver, increasing 3.8% and 42.8% YTD, respectively.
- Driven by growth of higher-yield personal consumer and overseas syndicated loans, NIM and NIS for Q2 2017 were 1.57% and 1.96%, respectively.
- Asset quality remained solid; NPL and coverage ratios were 0.26% and 478.26%, respectively, better than industry average.
- Investment research team and financial consultants start to show synergies, driving up mutual fund and overseas securities fee incomes by 85.5% and 78.9% YoY, respectively. Wealth management income for 1H 2017 was NT\$0.98bn.

Net Income – 1H 2017

	1H 2016	1H 2017	YoY Growth
NT\$m, %			
Net interest income	5,213	5,502	5.5%
Net fee income	1,628	1,577	-3.2%
Investment income and other income	349	458	31.2%
Operating expense	-4,029	-4,076	1.1%
Pre-provision operating income	3,161	3,461	9.5%
Provision expense	-521	-1,082	107.8%
Income tax benefit (expense)	-423	-410	-3.1%
Consolidated Net Income	2,216	1,968	-11.2%

Note: Total may not add up exactly due to rounding

Loan Mix

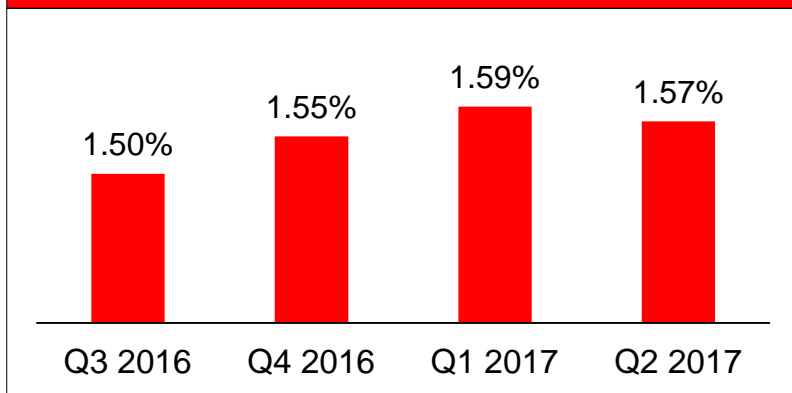


Comments

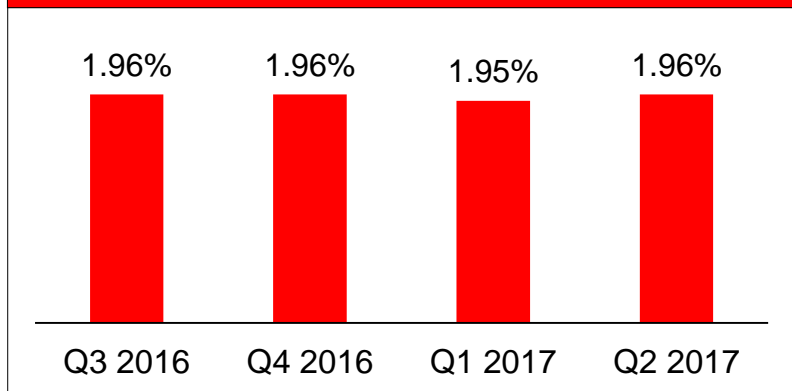
- Loan balance for 1H 2017 amounted to NT\$518.65bn, up 2.0% YTD. Growth mainly came from consumer loans, up 3.8% YTD
- Overseas syndicated loans grew continuously. Loan balance as of 1H 2017 was NT\$12.9bn, up 42.8% YTD
- Loans expected to grow 6% in 2017

Interest Income

Net Interest Margin



Net Interest Spread

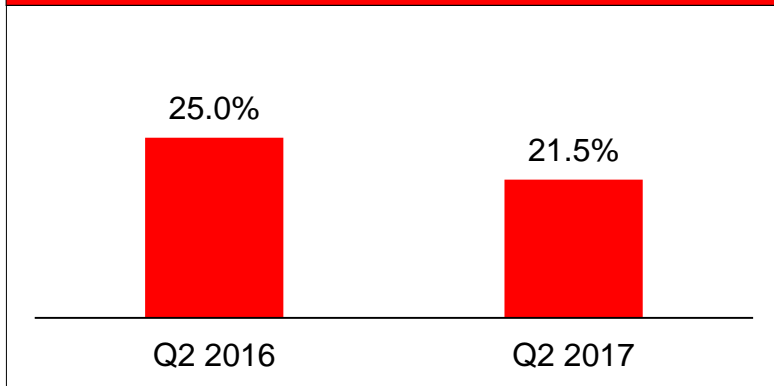


Comments

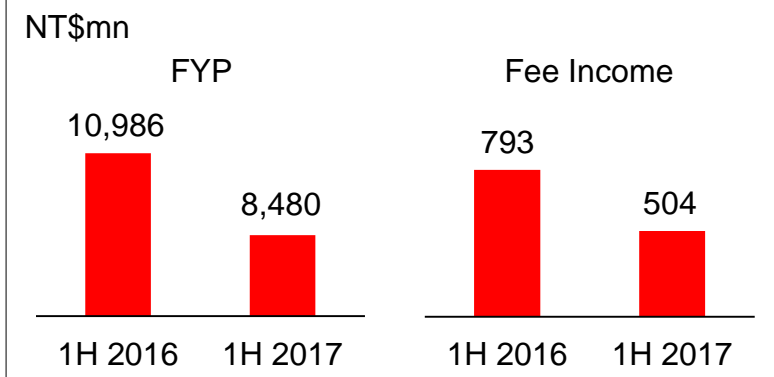
- NIM and NIS for Q2 2017 were 1.57% and 1.96%, respectively
- NIM and NIS for 2017 expected to remain at similar level to Q2
- SKB will continue to:
 - Increase demand deposit to lower cost of funds
 - Stably expand investments and domestic and overseas loans to sustain spread
 - Continuously promote foreign deposit to expand overseas business; Number of foreign deposit accounts increased over 17,000 YTD

Fee Income

Net Fee Income / Total Income

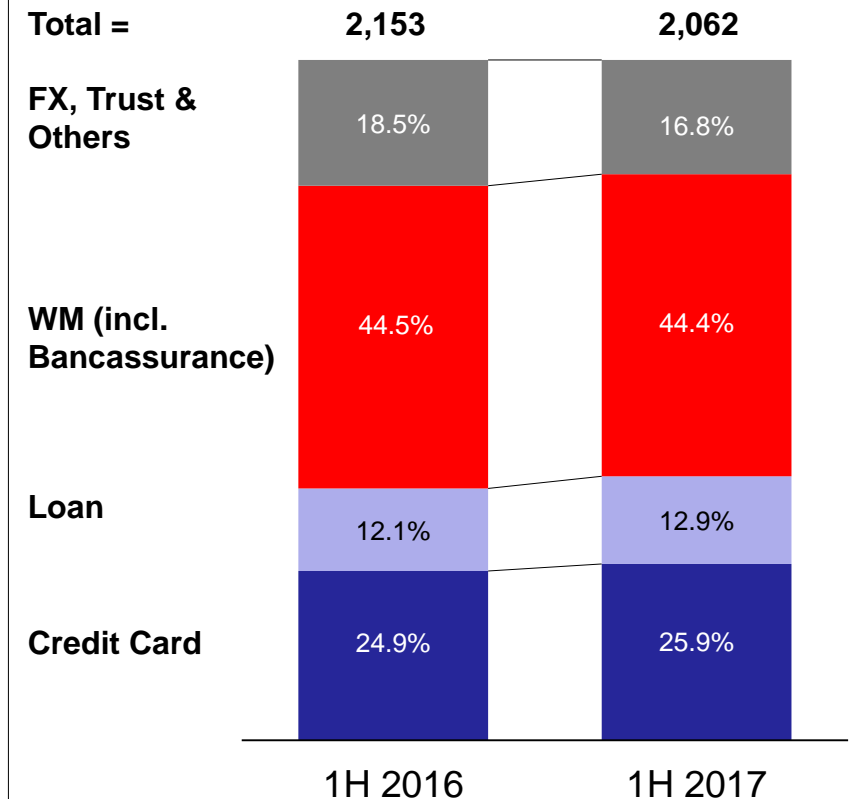


Bancassurance



Fee Income Breakdown

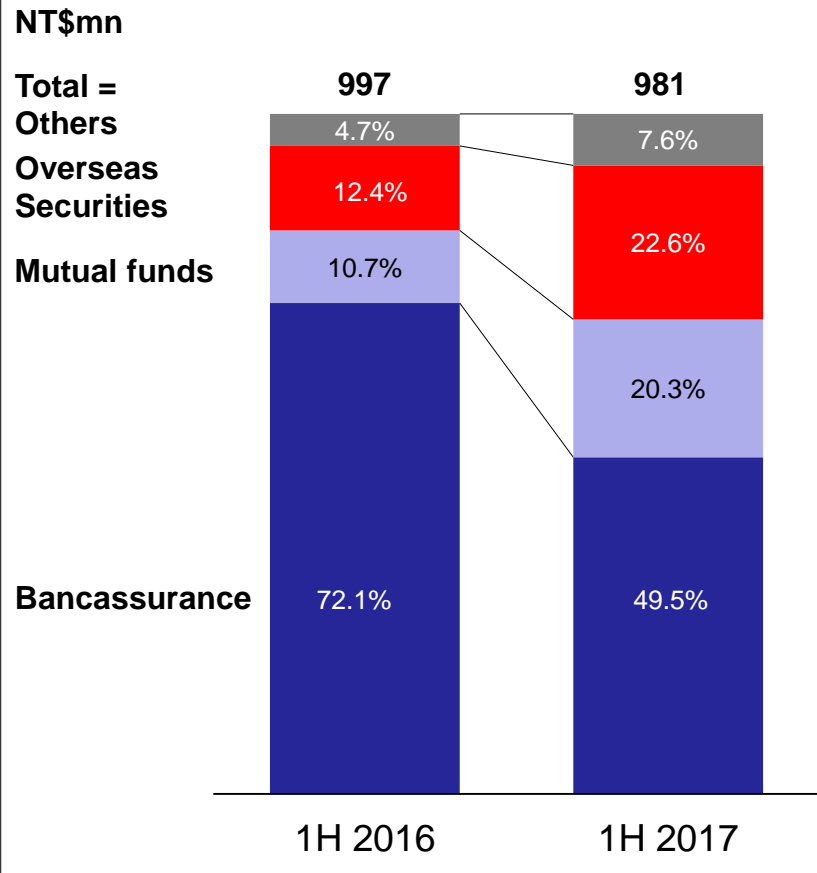
NT\$m



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

Wealth Management

Wealth Management Income Breakdown



Wealth Management Center

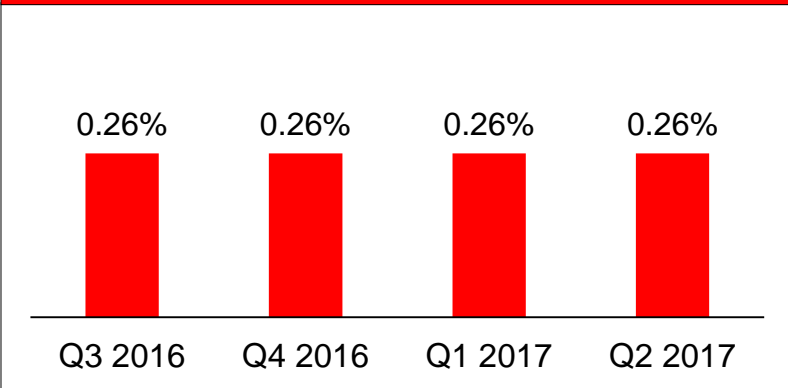


- Sales in mutual fund and overseas securities remained strong, with fee incomes up 85.5% and 78.9% YoY, respectively, amounting to 42.9% of total wealth management income
- Marketing projects including backflows of maturity payment in foreign currency policies facilitated clients base growth and improved cross-selling
- Investment consulting license acquired and online banking system renewed, aiming at strengthening clients' asset allocation and product sales

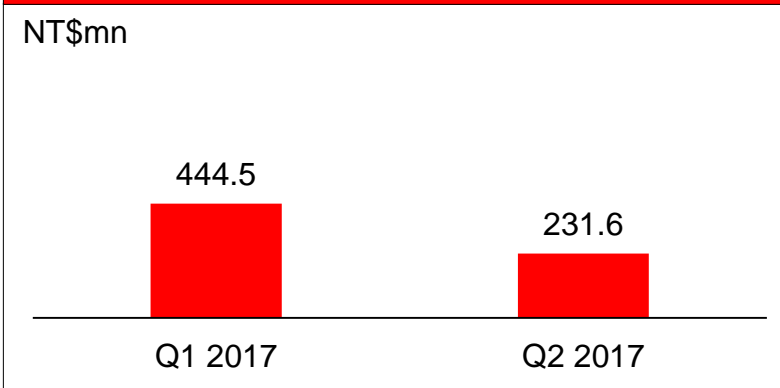
Note: Due to rounding, WM income breakdown may not add up to 100%

Asset Quality

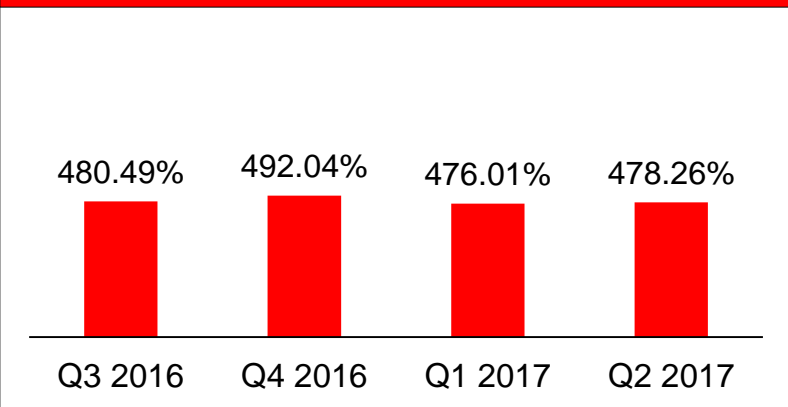
NPL Ratio



New NPL Generation



Coverage Ratio



- New NPL generated in Q2 2017 was NT\$232mn, NT\$213mn less than Q1
- NPL and coverage ratios for Q2 2017 were 0.26% and 478.26%, respectively, better than industry average

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SP / RP Breakdown

NT\$bn

1H 2017 FYP	Single Premium	Regular Premium	Flexible Payment	Total
Traditional	39.34	15.25		54.59
Investment-linked				
VUL / VA		0.03	0.35	0.37
Structured note	0.00			0.00
Interest sensitive				
Annuity / UL	0.00		0.24	0.24
PA, health and others ⁽¹⁾		2.64		2.64
Total	39.34	17.92	0.59	57.84
Share	68.0%	31.0%	1.0%	100.0%

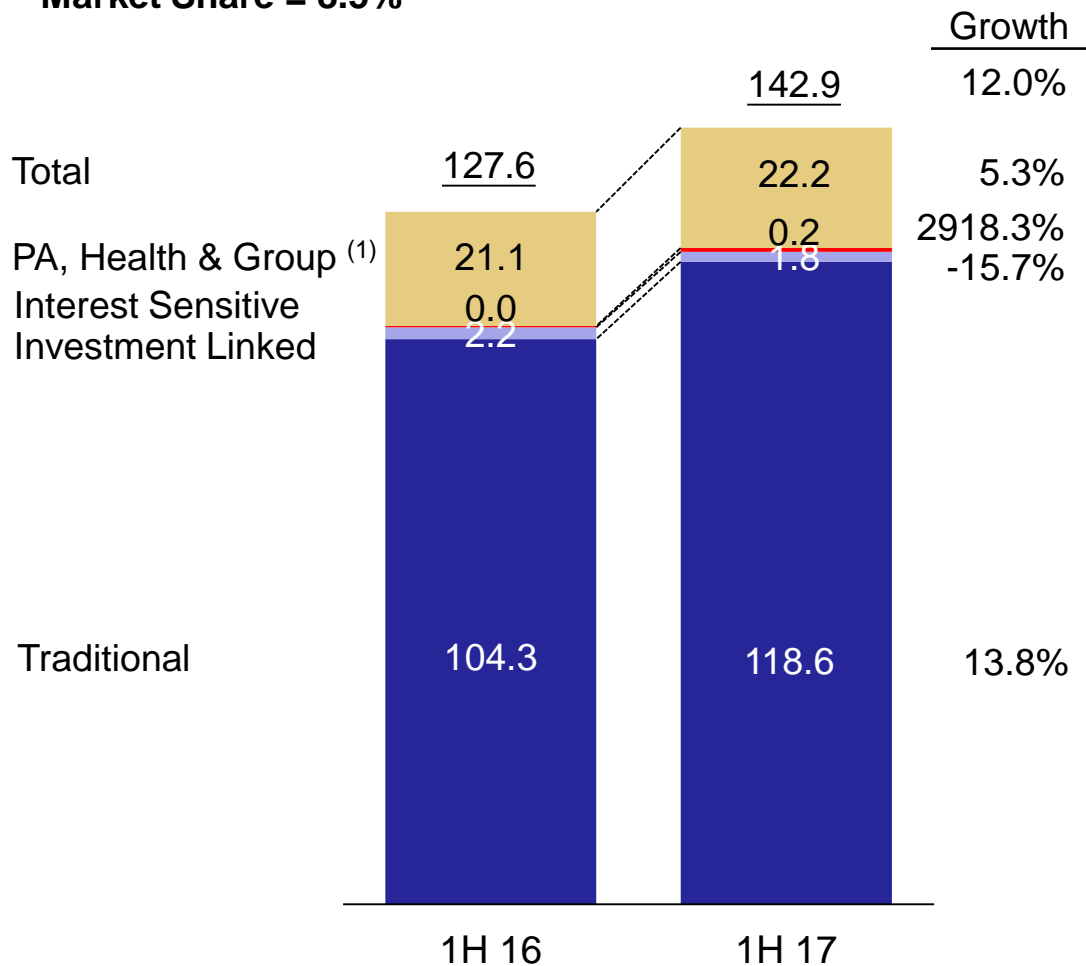
Note :

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

Total Premium – 1H 2017

NT\$bn

Market Share = 8.5%



Comments

- Driven by renewal premium of traditional products up 29.8% YoY, total premium of traditional products grew 13.8% YoY. Overall total premium increased 12.0% YoY
- Total investment-linked premium declined 15.7% YoY, as sales focus remained on NTD/FX savings policies and protection products
- PA, Health & Group products grew steadily YoY

Note :

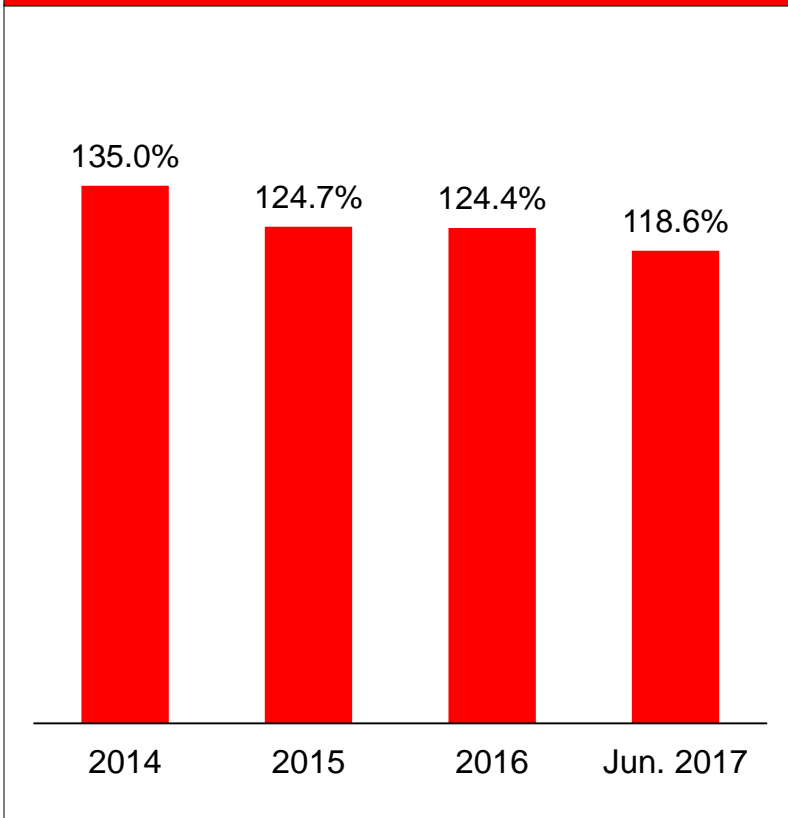
(1) Long-term disability Type A policies are classified as health insurance

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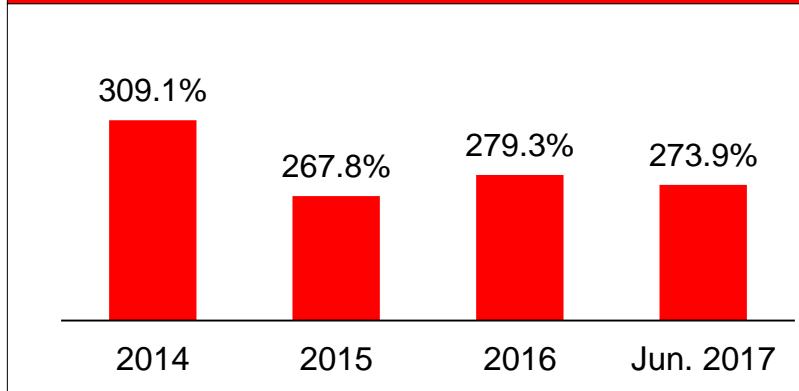
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Capital Adequacy

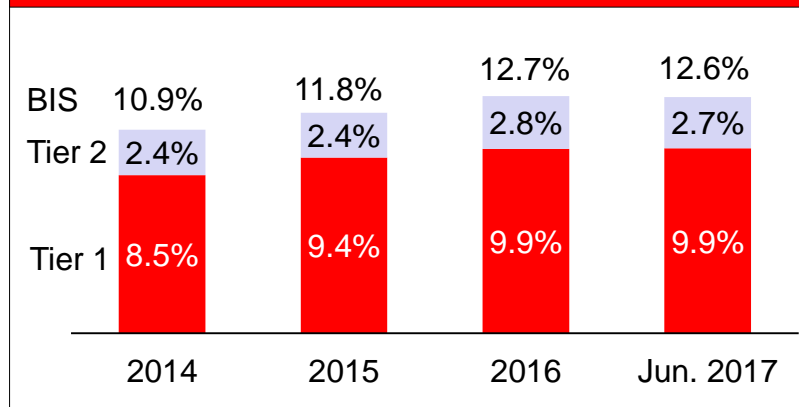
CAR of SKFH



RBC of SKL



BIS of SKB





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Shin Kong Financial Holding

Financial Summary

(NT\$m)

Income Statement Data	2016	1H 2016	1H 2017	1H 17/1H		Q2 17/Q2 16	
				16	Q2 2016	Q2 2017	% change
Net interest income	(196)	(98)	(93)	-5.7%	(50)	(46)	-7.5%
Income from subsidiaries							
Shin Kong Life	126	(3,320)	(389)	-88.3%	342	3,541	935.3%
Shin Kong Bank	4,630	2,216	1,968	-11.2%	1,148	1,000	-13.0%
MasterLink Securities	135	167	141	-15.4%	145	92	-36.8%
Shin Kong Investment Trust	86	11	17	52.1%	6	12	95.4%
Shin Kong Venture Capital International	25	9	29	212.8%	5	20	300.2%
Shin Kong Property Insurance Agency	53	28	29	6.5%	12	13	1.3%
Total income from subsidiaries	5,055	(889)	1,796	-302.2%	1,659	4,677	181.9%
Other income	53	9	210	2230.3%	5	12	145.4%
Administrative and general expenses	(224)	(110)	(120)	9.6%	(55)	(64)	16.2%
Income tax benefit (expense)	122	43	(286)	-760.0%	8	(144)	-1794.9%
Cumulative effect of changes in accounting principle	0	0	0		0	0	
Net income	4,810	(1,044)	1,507	-244.4%	1,567	4,435	183.0%
Other comprehensive income (loss), after tax	8,236	1,352	12,112	795.7%	18	6,214	33718.0%
Total comprehensive income (loss)	13,046	308	13,620	4322.2%	1,586	10,649	571.6%

Balance Sheet Data	2016	1H 2016	1H 2017	1H 17/1H		Q2 17/Q2 16	
				16	Q2 2016	Q2 2017	% change
Long term investment	133,173	120,324	146,524	21.8%	120,324	146,524	21.8%
Total assets	3,157,673	3,052,964	3,262,830	6.9%	3,052,964	3,262,830	6.9%
Shareholders' equity (excl. minority)	121,397	108,638	133,075	22.5%	108,638	133,075	22.5%

Note:

(1) Numbers have been audited by the auditors.

Shin Kong LifeFinancial Summary
(NT\$mn)

Income Statement Data	1H 17/1H 16				Q2 17/Q2 16		
	2016	1H 2016	1H 2017	% change	Q2 2016	Q2 2017	% change
Premium income	260,759	126,086	141,312	12.1%	73,440	77,231	5.2%
Investment income							
Interest income	70,225	34,491	37,652	9.2%	17,352	19,127	10.2%
Gains on investments in securities	17,032	3,895	12,812	228.9%	5,650	7,856	39.0%
Gains on real estate investments	3,811	1,939	1,891	-2.5%	944	946	0.2%
FX	(14,850)	(5,926)	(15,779)	166.3%	(2,992)	(4,626)	54.6%
FX gain or loss	(28,598)	(24,980)	(65,282)	161.3%	(2,810)	4,107	-246.2%
Hedging	13,748	19,054	49,503	159.8%	(183)	(8,732)	4683.9%
FX Reserve	3,767	1,433	1,415	-1.2%	753	309	-59.0%
Impairment loss	(489)	(159)	(21)	-87.1%	(159)	(21)	-87.1%
Total Investment income	79,496	35,673	37,970	6.4%	21,548	23,592	9.5%
Other operating income	1,675	791	1,035	30.9%	429	681	58.8%
Provisions for reserves							
Provisions	(301,824)	(145,664)	(161,114)	10.6%	(83,322)	(87,366)	4.9%
Recoveries	97,467	44,535	49,945	12.1%	25,556	28,314	10.8%
Total provisions for reserves, net	(204,356)	(101,129)	(111,169)	9.9%	(57,766)	(59,052)	2.2%
Insurance payments	(109,538)	(51,285)	(57,484)	12.1%	(29,013)	(32,156)	10.8%
Commission expenses	(13,247)	(6,360)	(6,120)	-3.8%	(4,653)	(2,708)	-41.8%
Separate account revenues	5,773	3,640	3,007	-17.4%	1,185	2,117	78.6%
Separate account expenses	(5,773)	(3,640)	(3,007)	-17.4%	(1,185)	(2,117)	78.6%
General and administrative expenses	(13,984)	(6,745)	(6,533)	-3.2%	(3,429)	(3,585)	4.6%
Other operating costs and expenses	(1,508)	(830)	(1,056)	27.2%	(434)	(501)	15.4%
Operating income	(703)	(3,799)	(2,044)	-46.2%	122	3,500	2765.4%
Non-operating income and expenses	114	207	95	-54.2%	92	53	-42.0%
Income taxes	727	277	1,581	469.9%	131	6	-95.3%
Cumulative effect of changes in accounting principles	0	0	0		0	0	
Net income	138	(3,315)	(368)	-88.9%	346	3,560	929.6%
Other comprehensive income (loss)							
Exchange differences on translation of foreign operations financial statements	(2)	5	(4)	-174.4%	4	0	-95.1%
Unrealized gains (losses) on available-for-sale financial assets	11,256	1,272	13,608	969.8%	(147)	6,926	-4812.5%
Gains (losses) on effective portion of cash flow hedges	0	0	0		0	0	
Actuarial gains (losses) on defined benefit plans	(620)	0	0		0	0	
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(12)	(21)	0	-100.0%	(8)	0	-100.0%
Income tax relating to components of other comprehensive income	(1,410)	(4)	(1,681)	40504.8%	42	(886)	-2218.1%
Total comprehensive income (loss)	9,350	(2,063)	11,556	-660.2%	236	9,600	3960.6%

Balance Sheet Data	1H 17/1H 16				Q2 17/Q2 16		
	2016	1H 2016	1H 2017	% change	Q2 2016	Q2 2017	% change
Total assets	2,319,734	2,211,075	2,414,077	9.2%	2,211,075	2,414,077	9.2%
Total shareholders' equity	73,772	62,360	85,586	37.2%	62,360	85,586	37.2%

Note:

(1) Numbers have been audited by the auditors.

Shin Kong Bank
Financial Summary
(NT\$m)

Income Statement Data	2016	1H 2016	1H 2017	1H 17/1H 16		Q2 17/Q2 16	
				% change	Q2 2016	Q2 2017	% change
Interest income	15,279	7,668	7,615	-0.7%	3,775	3,838	1.7%
Interest expense	(4,590)	(2,455)	(2,113)	-13.9%	(1,181)	(1,068)	-9.6%
Net interest income	10,688	5,213	5,502	5.5%	2,594	2,771	6.8%
Fee income	4,258	2,153	2,062	-4.2%	1,171	1,072	-8.5%
Fee expense	(1,026)	(524)	(485)	-7.4%	(261)	(245)	-6.0%
Net fee income	3,233	1,628	1,577	-3.2%	911	827	-9.2%
Gains on bill & securities	638	109	478	339.6%	145	244	68.6%
Gains on foreign exchange, net	96	169	(83)	-149.1%	(24)	(28)	19.5%
Other gains or losses, net	95	72	63	-12.1%	18	30	72.5%
Operating expense	(7,980)	(4,029)	(4,076)	1.1%	(2,043)	(2,060)	0.8%
Pre-provision income or loss	6,769	3,161	3,461	9.5%	1,601	1,784	11.4%
Provision expense	(1,263)	(521)	(1,082)	107.8%	(231)	(568)	146.0%
Income tax (expense) benefit	(876)	(423)	(410)	-3.1%	(222)	(217)	-2.2%
Net income	4,630	2,216	1,968	-11.2%	1,148	1,000	-13.0%
Other comprehensive income (loss)							
Exchange differences on translation of foreign operations financial statements	(14)	(12)	(7)	-39.6%	(1)	0	-109.6%
Unrealized gains (losses) on available-for-sale financial assets	(539)	246	244	-0.7%	154	169	9.9%
Actuarial gains and losses on defined benefit plans	(190)						
Income tax relating to components of other comprehensive income	32						
Other comprehensive income (loss), after tax	(712)	234	237	1.3%	153	169	10.5%
Total comprehensive income (loss)	3,919	2,451	2,205	-10.0%	1,301	1,169	-10.2%

Balance Sheet Data	2016	1H 2016	1H 2017	1H 17/1H 16		Q2 17/Q2 16	
				% change	Q2 2016	Q2 2017	% change
Total assets	782,380	759,028	783,454	3.2%	759,028	783,454	3.2%
Total shareholders' equity	49,197	47,729	50,903	6.6%	47,729	50,903	6.6%
Total loans, net ⁽¹⁾	501,315	482,934	511,475	5.9%	482,934	511,475	5.9%
Total deposits	686,883	644,243	686,359	6.5%	644,243	686,359	6.5%

Operating Metrics	2016	1H 2016	1H 2017	Q2 2016		Q2 2017	
Fee income ratio	21.9%	22.6%	20.9%	25.0%	21.5%		
Cost income ratio	53.8%	55.8%	53.8%	55.8%	53.3%		
Loan/deposit ratio (excl. credit card)	73.0%	74.9%	74.5%	74.9%	74.5%		
Loan/deposit ratio (incl. credit card)	73.3%	75.3%	74.8%	75.3%	74.8%		
Net interest margin	1.50%	1.47%	1.58%	1.46%	1.57%		
Net interest spread	1.97%	1.97%	1.96%	1.96%	1.96%		
Pre-provision earnings/assets	0.86%	0.41%	0.44%	0.21%	0.23%		
Pre-provision earnings/equity	14.26%	6.76%	6.91%	3.42%	3.56%		

Note:

(1) Excludes credit cards but include overdue receivables.

(2) Numbers have been audited by the auditors.