

SKFH



傳承 創新 新光五十

2013

ANNUAL REPORT

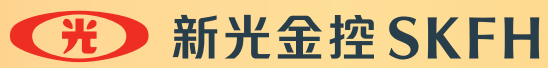
# SKFH



# 2013

# ANNUAL REPORT

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# Words from the Chairman

In 2013, the global economy gradually stabilized and yields rose, helped by a moderate recovery in the United States and Europe's emergence from the debt crisis. Nevertheless, the tapering of quantitative easing in the U.S. caused fluctuations in emerging market currencies, while, in China, weaker growth and concerns over non-performing loans continued to pose uncertainties for economic development. In this context, Shin Kong Financial Holding (SKFH) and its subsidiaries achieved outstanding results over the year through continuous focus on core businesses and momentum provided from the opening of cross-strait financial markets.

Looking ahead in 2014, SKFH will energize and rejuvenate its operations, pursue solid business growth and enhance its market competitiveness in the spirit of "Invigorating Shin Kong, Pioneering the Future." The company will also provide a full spectrum of financial services to ensure that Shin Kong has appropriate products to meet every customer's need. SKFH and its subsidiaries have also formulated clear strategic objectives to guide future development and steadily create shareholder value.

## Growing Core Businesses for Solid Growth

In 2013, SKFH continued a strategy to steadily grow its core businesses. Consolidated total assets reached NT\$2.54 trillion, up 7.8% from 2012; shareholders' equity increased to NT\$100.95 billion, up 22.2% from the previous year; and net worth per share reached NT\$10.82. After-tax profits for the year reached at NT\$9.99 billion, or NT\$1.11 per share, indicating the company's success in maintaining high level of profitability.

Driven by FX hedging cost at only 0.62% and domestic cash dividend of NT\$6.62 billion, the investment return rate of Shin Kong Life Insurance (SKL) in 2013 reached 4.43% and consolidated after-tax profit climbed to NT\$6.53 billion, a 13.3% increase over 2012 and the company's fifth consecutive year of profit growth. In January 2013, SKL was approved by the competent authority to increase its overseas investment ceiling to 43%. The foreign exchange reserve scheme effectively reduced hedging costs and improved yields after hedge on foreign bonds, and therefore SKL continued to increase foreign fixed income investments. The ratio of foreign fixed



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income investments to total investments increased from 37.4% in 2012 to 40.7% in 2013. Although domestic and foreign benchmark interest rates rose significantly since the second quarter, SKL's fixed-income investments were mainly classified as held to maturity or no active market positions. Only 10.4% of fixed income investments were classified as available for sale, and therefore impact caused by steeping yield curve was limited. SKL closed 2013 with other comprehensive income at NT\$2.49 billion and comprehensive income at NT\$9.02 billion. Shareholders' equity rose by 20.4% over 2012 to NT\$64.99 billion; and consolidated total assets topped NT\$1.8 trillion, up 7.6% over the previous year. SKL's business operations remained steady in 2013, with total premium amounting to NT\$170.43 billion. The company's product strategy emphasized on matching assets and liabilities and down-weighted promotion of short-term savings policies. Helped by improvements to product mix, first year premium (FYP) of regular premium traditional products, which generated higher new business value, accounted for 72.7% of total FYP from traditional policies. The product strategy also continued to focus on sales of regular premium policies, boosting renewal premium income by 6.5% for the year to NT\$114.04 billion, improving accumulation of steady mortality and expense gains. In order to diversify risk and increase protection, SKL promoted variable universal life (VUL) policies by unit-cost-averaging method and raised average sum-insured to NT\$1.9 million. The company increased the number of policies sold over the year by 97.6% to 21,579. Moreover, in response to changes in Taiwan's social structure and the trend of declining birthrates and aging population, SKL introduced the "Chang-Chao-Jiu-Jiu" account-type long-term care policy. SKL has sold 11,765 such policies since debuting it in the fourth quarter of 2013, generating premium income of NT\$470 million. The company aims to sell 60,000 of the policies in 2014.

Shin Kong Bank (SKB) has also continued to maintain strong momentum and solid profits across business sectors in recent years. In 2013, the bank posted an after-tax profit of NT\$4.06 billion and a return on equity of 11.9%. Pre-provision profit amounted to NT\$5.92 billion, representing a 22.5% increase after deducting one-off REITs gains of NT\$728 million in 2012. SKB's business strategy focused on adjustments to its deposit and loan structure to increase overall customer contribution. Loan balances (including credit card revolving balances but excluding overdue receivables) increased by 5.5% over 2012 to

NT\$450.82 billion and deposit balances (excluding interbank deposits) reached NT\$614.93 billion, up 10.5% over 2012. SKB also aggressively grew fee income to optimize its revenue structure. Net fee income in 2013 increased by 11.4% compared to 2012. Helped by strong sales of overseas securities and mutual funds, wealth management income reached NT\$1.69 billion, up 13.4% compared to 2012. In 2014, the bank will pursue balanced development of sales of overseas securities, mutual funds and insurance policies to achieve an income growth target of 15%. In the area of corporate finance, income from SKB's treasury marketing unit (TMU) reached NT\$451 million, a 288.8% increase over 2012. In 2014, the bank expects to maintain high growth in TMU revenues with a well-established corporate client base. SKB also continued to improve asset quality. The bank's NPL ratio decreased to 0.42% and the coverage ratio increased to 265.57%. In 2014, SKB will continue to focus on adjusting its loan structure, developing consumer banking operations and growing fee income, with consideration to both profitability and capital adequacy. Meanwhile, the bank will also continue to optimize its deposit structure and strictly control the funding cost.

Other SKFH subsidiaries also performed well in 2013. Shin Kong Investment Trust (SKIT) closed the year with total assets of public funds amounting to NT\$29.92 billion, up 24.5% from 2012. Shin Kong Insurance Brokers (SKIB) increased its number of property and casualty insurance policies sold to 684,000. Shin Kong Venture Capital posted an after-tax profit of about NT\$12.05 million, up 387.0% from 2012.

### **Strengthening Integrated Marketing, Building on Group Resources**

SKFH places high importance on cross-selling operations. Cross-selling provides a channel to increase customer penetration and profit contribution, as well as to integrate affiliate resources to create more unique service value for customers.

As for cross-selling in life insurance, SKB achieved bancassurance cross-sales of NT\$15.28 billion in 2013, representing 58.8% of SKL's total bancassurance FYP and underscoring the outstanding synergy achieved from cross-selling. In 2014, SKB will shift its strategy for promoting SKL insurance products from its original joint promotion model to a joint marketing model. Bank employees will directly register as life insurance agents and share information on life insurance products, business opportunity systems, education and

training and other resources to enhance service quality and increase insurance sales. In addition, premium income through joint promotions by MasterLink Securities and SKL amounted to NT\$759 million. In 2013, SKL helped SKB to issue 55,350 new credit cards with a total consumption amount of NT\$13.2 billion, representing 28% of all consumption on SKB credit cards and generating fee income of NT\$134 million. At the start of 2013, SKB and Shin Kong Mitsukoshi introduced a co-branded card and issued 150,000 cards in less than a year through creative integrated marketing among group affiliates. As for the cooperation between banking and securities segments, SKB served as MasterLink Securities' main settlement bank for 33 branches, representing about 70% of the total. Additionally, customers recommended by MasterLink Securities have opened SKB demand deposit accounts for securities settlement with a total deposit amount of NT\$7.5 billion, up 30% over the year, helping to reduce the bank's funding cost.

### Enhancing Capital Structure and Risk Management

SKFH is committed to enhancing financial structure, improving return on capital and stabilizing capital adequacy ratios. In 2013, capital adequacy ratios (CARs) of SKFH and its subsidiaries all exceeded regulatory requirements. SKFH's CAR improved to 123.6%, SKL's RBC was in the range from 250% to 300%, and SKB's BIS reached 10.6%, attesting to the group's financial strength. Furthermore, in July of 2013, SKFH completed a public placement capital raising amounted to NT\$6.5 billion for business development and financial structure enhancement. NT\$2 billion of the raised funds were injected into SKB in the third quarter to strengthen the bank's Tier 1 capital, and NT\$2 billion was invested in SKL in the fourth quarter to redeem preferred shares and optimize the company's capital structure.

Business diversification has increased the complexity of SKFH's aggregate risk and made risk management a key element of the group's corporate governance. SKFH has therefore steadily carried out substantive risk management rooted in the four guiding pillars of: "enhancing risk management culture, strengthening risk management mechanisms, establishing risk assessment tools and progressively implementing risk performance systems." In recent years, the company has also made some important changes in content in response to the evolving external regulatory environments. These include

bolstering overall risk management reporting, enhancing classification controls on domestic equity positions, instituting controls on foreign exchange risk limits and enhancing value at risk (VaR) calculation modules under the ALGO system to strengthen market risk controls, enhance financial assets evaluation techniques and comply with International Financial Reporting Standards (IFRSs). SKFH also formulated measures of investment performance incentives that balance management risk and reward.

### Developing Niches, Expanding in the Asia-Pacific Market

Shin Kong-HNA Life Insurance (SKHNA Life), a joint venture formed by SKL and HNA Group in 2009, has opened three branches in Beijing, Hainan and Shaanxi respectively. In 2013, the company's total premium income totaled RMB348 million, representing a 11.0% gain for the year. Going forward, the company's channel strategy will be to "increase sales volume by internal strengths through telemarketing channels, structurally adjust and steadily grow bancassurance channels, improve quality by trial marketing in individual insurance channels, realize efficiencies and pioneer new ground in group insurance channels, and establish and vigorously promote online channels." This strategy will be supplemented by "balanced attention to earnings and stability in investment operations, expansion and deepening of institutional development" and other operating principles aimed at achieving steady operations in the life insurance business.

SKB's overseas operations include a representative office in Ho Chi Minh City, Vietnam and a branch in Hong Kong. SKB's Hong Kong branch has begun to generate steady profits since 2012 and received regulatory approval to offer Global E-banking services. In May 2014, the branch will also introduce wealth management services as a new profit source. In 2014, SKB's overseas strategy will focus on accelerating applications to establish bases of operations, including branches in Binh Duong, Vietnam and Phnom Penh, Cambodia, giving priority to developing a presence in Vietnam. Over the next three years, the bank's overseas expansion will target Asia-Pacific countries with a strong Taiwanese business presence, including China, Vietnam, Cambodia and Myanmar. SKB has also been closely cooperating with Shin Kong Leasing (Suzhou) Corp., a subsidiary of Shin Kong Venture Capital (SKVC), to jointly serve Taiwanese corporate customers with operations on both sides of the Taiwan Strait. In 2013, Shin Kong



Leasing posted an after-tax profit of RMB1.93 million. In March 2014, SKFH resolved to increase the paid-in capital of SKVC by NT\$1 billion. SKVC is also planning to invest in Shin Kong Leasing by US\$20 million through a third place to enhance capital and support the company's expansion and steady profitability.

## Serving Society with Sustainable Care

SKFH is committed to corporate social responsibility, formulating planned and strategic philanthropic programs to more effectively use resources and tangibly act on its passion for public service and dedication to giving back to the community. SKFH's subsidiaries set up Shin Kong Life Scholarship Foundation, Shin Kong Life Foundation (SKLF), SKB Education Foundation and other Shin Kong-affiliated foundations to frequently arrange public service activities to encourage a social atmosphere of altruism and good deeds. In response to the aging society in Taiwan, Shin Kong has drawn on its extensive group resources in the life insurance, health, medical treatment and security sectors to deliver care services for seniors. The group is also innovating new approaches to public service and philanthropy to fulfill its corporate social responsibility.

### Saving Energy and Promoting Green Lifestyles:

- For eight consecutive years, SKFH and its subsidiaries have supported the "Lights Out on Summer Solstice," "Earth Hour" and Mid-Autumn Festival "Light Free Moonlight" activities to promote carbon emission reduction and care for the planet. For example, the Shin Kong Life Tower reduced total electricity usage from over 35.1 megawatts in 2007 to less than 27.77 megawatts in 2013. Total energy savings during this period exceeded 22.9 megawatts, reducing carbon emissions by over 16,297 metric tons.
- Shin Kong encouraged customers and employees to recycle batteries to support the "Protecting the Public Welfare and Protecting the Earth" and "Recycling Used Batteries, Giving the Handicapped a Home" battery recycling drives. In 2013, a total of 1,600 kg of batteries were recovered, bringing the four-year total to 11,278 kg, representing a reduction in landfill area equal to 20 football pitches.

### Care without Borders, Donating Blood:

- SKFH mobilized relief assistance and quickly provided humanitarian care and donations following the South Asian tsunami, Sichuan earthquake, Tohoku earthquake in Japan and

other natural disasters. After Typhoon Morakot in Taiwan, SKFH's employees donated NT\$15.22 million to fund the construction of the Liugui Shin Kong Knowledge Center. For three straight years it has also been arranging a series of care activities, providing educational resources and care to disadvantaged rural areas.

- Since 2003, SKL has allowed free parking of blood donation trucks at the plaza area of Shin Kong Life Tower for years. SKL and SKB have jointly held blood donation drives across the country before the Chinese New Year annually since 2009. In 2013, the donation trucks collected 18,484 bags of blood from 13,390 donors. From 2003 to 2012, the drive has collected 265,424 bags of blood from 137,924 donors.
- The Shin Kong LOHAS Volunteer Club was established in August 2009 to promote volunteerism. The club has earned a 90% level of satisfaction among organizations served. As of 2013, the club had arranged a total of 46 volunteer service sessions involving 593 volunteers and 3,991 service hours.

### Climbing High for the Public Good, Pitching in for Ecological Preservation:

- The SKL-funded Shin Kong Special Exhibit House opened in 2009 as the new home for the giant pandas "Tuan Tuan" and "Yuan Yuan." On July 6, 2013, the panda mother gave birth to an adorable cub named "Yuan Zai," further deepening the public image of Shin Kong Group for its long-term involvement in ecological preservation.
- SKFH adopted the gorilla "Baobao" to help protect this highly endangered species. Each year, SKLF sponsors a birthday celebration for Baobao and invites organizations for disadvantaged children to participate in this event. The activity has helped to draw attention to the importance of gorilla conservation and eco-environmental education.
- As of 2013, a total of 31 Shin Kong Life Tower Run Up activities have been held under various themes to encourage people across the country to "climb high for charity." Since 1994, the activity has raised over NT\$120 million for donation to public welfare causes.

### Strategic and Innovative Philanthropy:

- SKLF arranges supplementary classes in the indigenous communities of the villages of Xinguang and Zhenxibao in Hsinchu County and Zhudong Township. In 2010, the foundation launched the

"Big Hands Holding Small Hands – Aboriginal Pen Pal Volunteer" activity. Under the program, Shin Kong employees volunteer to maintain correspondences with indigenous students and take part in their growth. In 2013, SKLF Executive Director Cynthia Wu introduced the "Town & Country Pen Pal Program," calling on the general public and companies to join forces to promote educational development in remote townships. The program currently has 12 corporate supporters.

- Since 2007, SKLF and Shin Kong Wu Ho-Su Memorial Hospital have partnered to provide free ultrasound breast checkups aimed at helping people detect and treat breast cancer early. As of the end of October 2013, the program has provided free examinations to 17,633 women, identified 2,041 cases of abnormalities and diagnosed 17 cases of cancer. Shin Kong Wu Ho-Su Memorial Hospital also provided follow-up treatment for the women diagnosed with the disease.
- SKFH has long placed a high importance on issues of aging society. In 2003, SKLF Executive Director Cynthia Wu introduced the Legacy Art Works and History Alive senior service programs from New York. In 2013, the Legacy Art Works program was carried out at 17 organizations and served over 1,500 seniors. The History Alive program has served nearly 1,700 seniors and 5,000 children over the years.

#### **Supporting Scholarship, Promoting Financial Education:**

- The Shin Kong Life Scholarship Foundation was established to provide scholarships to gifted young students. As of 2013, the foundation had provided grants totaling more than NT\$234.32 million to 106,375 students.
- SKFH has long been active in establishing industry-academic collaboration with colleges and tertiary institutions. Since 2013, the group has partnered with 28 institutions. It also arranges the "Insurance Star Career Planning and Development Camp" and "Shin Kong College Youth Financial Growth Camp" to build the insurance and money management knowledge of young students.
- SKFH and its subsidiaries regularly hold the Shin Kong "Life is Beautiful" Seminar Series. The seminars feature talks by well-known professionals on money management, leisure and health related topics. From 2006 to 2013, a total of 223 seminars were held, attracting 45,572 participants. Since

2013, these seminars have moved to be held at the headquarter of the group, Shin Kong Life Tower, for the first time, also receiving favorable evaluation from all sectors of community.

#### **Caring for Employees, Creating Healthy Workplaces:**

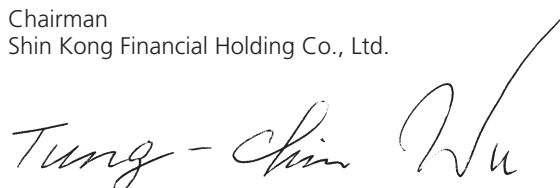
- Each year, Shin Kong arranges regular employee health checks. Professional health managers track and provide guidance to employees based on the results of their health checks. The company also annually inspects office spaces for carbon dioxide concentration, lighting, and Legionella pneumophila in air conditioning equipment and cooling towers to create a safe, comfortable, high-quality and healthy workplace. In 2013, health centers at five Shin Kong buildings were outfitted with AED equipment to provide prompt emergency care and protect the life of employees.
- Workplace safety and building environmental health are high priorities at Shin Kong. Each year the company sends personnel to undergo certification training for fire-fighting management and first-aid personnel. It also regularly conducts building disaster prevention drills, as well as offers extensive employee benefit measures, complete education and training, and retirement systems. In addition, Shin Kong provides extensive support for the welfare of female employees, including nursing room, breast-feeding breaks, preferential children care, maternity leave, parental leave, welfare committee fertility subsidies, and labor insurance and maternity benefits.

#### **Future Outlook**

In 2014, SKFH will continue to build on its strong foundation, rooted in SKL's half-century corporate philosophy of "tradition and innovation," through realization of the following strategic objectives:

- Optimizing revenue structure and strengthening financial structure.
- Emphasizing capital efficiency and enhancing capital adequacy.
- Diversifying services and becoming a benchmark industry leader.

Chairman  
Shin Kong Financial Holding Co., Ltd.



# Honors and Achievements



## 2014

- SKB won the Best Wealth Management Innovation Award in the "2013 Taiwan's Best Banking Service and Wealth Management Ranking" by Excellence magazine

## 2013

- The Securities & Futures Institute rates SKFH A++, the highest ranking in the Corporate Information Disclosure and Transparency Survey. SKFH won the recognition for the eighth consecutive year (2006-2013)
- SKL won the Excellence Award in the A-Group of Commercial Industry category of the Taipei City Government's "Sixth Gold Energy Saving Award"
- SKL won the silver awards for "Information Technology Excellence," "Risk Management Excellence" and "Personnel Training Excellence" in the Fifth Taiwan Insurance Excellence Award
- SKL won the "Best Contribution in Insurance Education Award," "Best Channel Strategy Award" and "Best Branch Award" in the 15th Insurance Faith, Hope, and Love Award
- SKL won for the fifteenth consecutive year in the "Best Social Responsibility Award (1999-2013) of the Insurance Faith, Hope, and Love Award"
- SKL's "2012 Corporate Social Responsibility Report" was certified by SGS
- SKL was picked as the life insurance company with the "best reputation," "best agents," "best claims services" and "most recommendable" in a nationwide survey of Taiwan's best life insurance companies conducted by Risk Management, Insurance and Finance magazine
- SKL won the Excellence Award in the financial industry category of the "2013 Taiwan Corporate Sustainability Awards" by the Taiwan Institute for Sustainable Energy
- SKB won the Third Place of "Outstanding Banks in SME Financing" awarded by the Financial Supervisory Commission
- SKB won the prize as the "Top VISA Infinite Card Issuing bank in the Taiwan Area"
- SKB won the prize from VISA International for issuance of the first 100,000 Shin Kong Mitsukoshi co-branded cards
- SKB won second place in the financial category of Global Views Monthly's "Best Service Awards"

## 2012

- The Securities & Futures Institute rated SKFH A+ in the Corporate Information Disclosure and Transparency Survey
- SKFH awarded the "Best Investor Relations Website in Taiwan and Asia & Pacific" by IR Global Rankings for the fourth consecutive year (2009-2012)

- SKL's "2011 Corporate Social Responsibility Report" was certified by SGS
- SKL was the winner of the Excellence Award in the Taipei City Energy Saving Award
- SKL awarded the Second Place in the "A-Group Commercial Industry" group of the Fifth Taipei City Gold Energy Saving Award
- SKL won the "Best Product Creativity Award," "Best Contribution in Insurance Education Award," and "Best Communication Department Award" in the Fourteenth Insurance Faith, Hope, and Love Award
- SKL won the Silver Award in the Financial Group of the "2012 Taiwan Corporate Sustainability Report Awards"
- SKL was the only insurer among the "CommonWealth Magazine Corporate Citizenship Awards Top-50"
- SKB was the first private bank to win Third Place in the Ministry of Finance's "Outstanding Financial Institution in Referral Export Insurance" assessment
- SKB was the second Place winner in the Financial Supervisory Commission's "Outstanding Banks in SME Financing" assessment
- SKB was the winner of the top award for achieving "VISA Infinite Card Consumption Exceeding NT\$10 Billion"

## 2011

- SKFH won the "Best Investor Relations Website in Taiwan" awarded by IR Global Rankings
- The Securities & Futures Institute rates SKFH A and above in the Corporate Information Disclosure and Transparency Survey for the sixth consecutive year
- SKL won the "Product Innovation Excellence Award" in the Fourth Taiwan Insurance Excellence Award
- SKL won the Silver Award under Taiwan Training Quality System (TTQS) Evaluation
- SKL won the "Best Insurance Professionalism Award," "Best Product Creativity Award," "Best Contribution in Insurance Education Award," and "Best Communication Department Award" in the Thirteenth Insurance Faith, Hope, and Love Award
- SKL was the first life insurer to win honorable mention in the "National Training Quality Award"
- SKL won the First Place in the "A-Group Commercial Industry" group of the Fourth Taipei City Gold Energy Saving Award
- Former Vice Chairman Chia-Lu Wu won the "Lifetime Achievement Award" in the Fourth Taiwan Insurance Excellence Award
- SKB received the Second Place in the Fifth "Outstanding Growth Award in the Wealth Management Bank Evaluation" from Business Today Magazine



- SKB recognized for "Excellence in Financial Fraud Prevention" awarded by the Financial Supervisory Commission
- Shin Kong-HNA Life Insurance (SKHNA Life) recognized as the "Best Service Innovation Award" and "Most Popular Phone Marketing Product" in the Third Capital Financial Industry Service Innovation Competition in mainland China

## 2010

- SKFH won the "Best Investor Relations Website in Taiwan" awarded by IR Global Rankings
- The Securities & Futures Institute rated SKFH A+, the highest ranking in the Corporate Information Disclosure and Transparency Survey
- SKL won the "Best Social Responsibility Award," "Best Insurance Professionalism Award," "Best Contribution in Insurance Education Award," and "Best Channel Strategy Award" in the Twelfth Insurance Faith, Hope, and Love Award
- SKL won the Tenth Executive Yuan Arts and Business Awards
- SKB won the "2010 Gold Award" presented by the Joint Credit Information Center
- SKHNA Life recognized as the "Most Innovative Insurance Company" and "Insurance Company with Greatest Market Potential" in the Second Insurance Service Innovation Competition in mainland China

## 2009

- SKFH won the "Top-five Investor Relations Websites in Greater China" awarded by IR Global Rankings
- The Securities & Futures Institute rated SKFH A+, the highest ranking in the Corporate Information Disclosure and Transparency Survey
- SKL won the "Best Social Responsibility Award," "Best Insurance Professionalism Award" and "Best Contribution in Insurance Education Award" in the Eleventh Insurance Faith, Hope, and Love Award
- SKL won the "Public Welfare Excellence Award" and "Public Welfare Special Award" in the Third Taiwan Insurance Excellence Award
- SKB won top award for "Most Visa Unlimited Cards Issued in the Asia-Pacific Region"

## 2008

- The Securities & Futures Institute rated SKFH A+, the highest ranking in the Corporate Information Disclosure and Transparency Survey
- SKL won the "Best Social Responsibility Award," "Best Insurance Professionalism Award," "Best Channel Strategy Award" and "Best

Advertising Image Award for Websites" in the Tenth Insurance Faith, Hope, and Love Award

- SKL won the Ninth Executive Yuan Arts and Business Awards
- SKB received the First Place in the Sixth "Outstanding Service Award for Banking" from Global Views Magazine

## 2007

- The Securities & Futures Institute rated SKFH A+, the highest ranking in the Corporate Information Disclosure and Transparency Survey
- SKL won the "Best Social Responsibility Award" and "Best Channel Strategy Award" in the Ninth Insurance Faith, Hope, and Love Award
- SKL won the Seventh National Public Service Award and the Executive Yuan National HRD InnoPrize
- Shin Kong Investment Trust (SKIT) won the Ninth ROC "Outstanding Financial Innovation Award" under the "Republic of China Securities and Futures Golden Goblet Award"

## 2006

- The Securities & Futures Institute rated SKFH A+, the highest ranking in the Corporate Information Disclosure and Transparency Survey
- SKL won the "Best Social Responsibility Award," "Best Insurance Professionalism Award" and "Best Channel Strategy Award" in the Eighth Insurance Faith, Hope, and Love Award
- SKL awarded "Institutional Investor of the Year" by the Asian Investor Magazine
- SKL named a "2006 Taiwan Superbrand"
- SKL won the Eighth Executive Yuan Arts and Business Award

## 2005

- SKL won the "Best Social Responsibility Award," "Best Product Creativity Award" and "Best Advertising Image Award for TV Commercials" in the Seventh Insurance Faith, Hope, and Love Award
- SKL won the First Taiwan Insurance Excellence Award in the categories of "Employee Training" and "Public Service Image"

## 2004

- SKL won the "Best Social Responsibility Award" and "Best Insurance Professionalism Award" in the Sixth Insurance Faith, Hope, and Love Award
- SKL won the Fifteenth National Quality Award
- SKL won the Seventh Executive Yuan Arts and Business Award

# Invigorating Shin Kong, Pioneering the Future

Relentless innovation is the key to a solid market position and the creation of enterprise value. Facing a challenging and competitive environment, Shin Kong Financial Holding (SKFH) continues to innovate and develop a spectrum of products and services to hone its competitive edge in the market. In 2013, global economic growth stabilized but uncertainties persisted. SKFH nevertheless ended the year with an outstanding performance thanks to appropriate strategic adjustments and the concerted efforts of the entire Shin Kong team. Looking forward in 2014, SKFH will embrace the spirit of "Invigorating Shin Kong, Pioneering the Future" in its pursuit of steady growth. Focus will be placed on invigorating and rejuvenating the company, making more effective use of internal resources and integrating the resources of Shin Kong affiliates to firmly implement business strategies and continue to create higher profits and value for the company and its shareholders.





# SKFH Overview

## SKFH Highlights

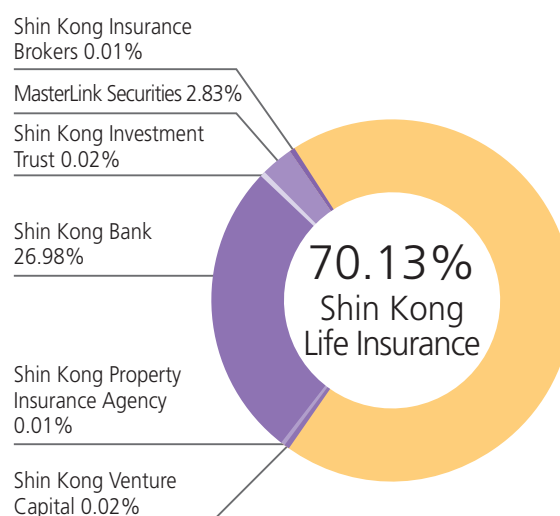
Unit: NT\$ Thousands

Year	2013	2012
Capital	93,288,169	84,363,876
Consolidated assets	2,535,233,401	2,351,243,100
Consolidated shareholders' equity	114,801,868	95,715,287
Consolidated net income	10,568,064	10,685,094
EPS (NT\$)	1.11	1.16
Return on equity (%)	10.04%	11.81%
Return on assets (%)	0.43%	0.47%

## 2013 Asset Mix by Subsidiary

(Subsidiary's Share in Percentage) Unit: NT\$ Thousands

Subsidiary	Share of Total	Share of Total (%)
Shin Kong Life Insurance	1,802,449,402	70.13%
Shin Kong Bank	693,541,174	26.98%
Shin Kong Investment Trust	646,777	0.02%
Shin Kong Insurance Brokers	103,490	0.01%
Shin Kong Venture Capital	571,001	0.02%
Shin Kong Property Insurance Agency	10,249	0.01%
MasterLink Securities	72,783,642	2.83%
Total Assets	2,570,105,735	100.00%
<b>SKFH Total Consolidated Assets: 2,535,233,401</b>		





Unit: NT\$ Thousands

Year	Total assets	Shareholders' equity	Operating income	Net Income
<b>Shin Kong Life Insurance</b>				
2013	1,802,449,402	64,902,983	243,868,086	6,517,720
2012	1,676,142,319	53,887,983	253,838,511	5,751,668
<b>Shin Kong Bank</b>				
2013	693,541,174	36,629,704	12,302,692 (1)	4,061,766
2012	634,138,036	31,560,949	11,482,138 (1)	4,281,233
<b>Shin Kong Investment Trust</b>				
2013	646,777	582,952	200,646	28,525
2012	631,064	574,979	220,195	34,638
<b>Shin Kong Insurance Brokers</b>				
2013	103,490	44,645	255,370	(3,265)
2012	132,180	92,910	251,133	43,082
<b>Shin Kong Venture Capital</b>				
2013	571,001	570,147	14,972	12,051
2012	532,503	531,686	5,732	2,475
<b>Shin Kong Property Insurance Agency</b>				
2013	10,249	7,970	9,854	1,970
2012	9,825	8,965	7,746	3,107
<b>MasterLink Securities</b>				
2013	72,783,642	20,169,890	4,154,778 (2)	840,761
2012	75,481,349	19,299,253	3,983,190 (2)	878,592

(1) Since there is no operating income item for the banking industry under the Regulations Governing the Preparation of Financial Reports by Public Banks, these figures are net revenues.

(2) Since there is no operating income item for the securities industry under the Regulations Governing the Preparation of Financial Reports by Securities Firms, these figures are gross incomes.



# Management Team



## Victor Hsu

Vice Chairman  
& President

- Vice Chairman & President, Shin Kong Financial Holding
- Spokesperson, Shin Kong Financial Holding
- Director, Shin Kong Venture Capital International

## Jason Tsai

President

- President, Shin Kong Life
- Managing Director, the Life Insurance Association of the Republic of China

## Tseng-Chang Lee

Chairman

- Chairman, Shin Kong Bank
- Chairman, Shin Kong Insurance Agency

## Chin-Yuan Lai

President

- President, Shin Kong Bank
- Director, Shin Kong Insurance Agency



**Joel Lin**

Chairman

- Chairman, Shin Kong Investment Trust



**Ding-Yi Lee**

Vice Chairman

- Vice Chairman, Shin Kong Investment Trust



**Eric Su**

President

- President, Shin Kong Investment Trust
- Director, Shin Kong Investment Trust



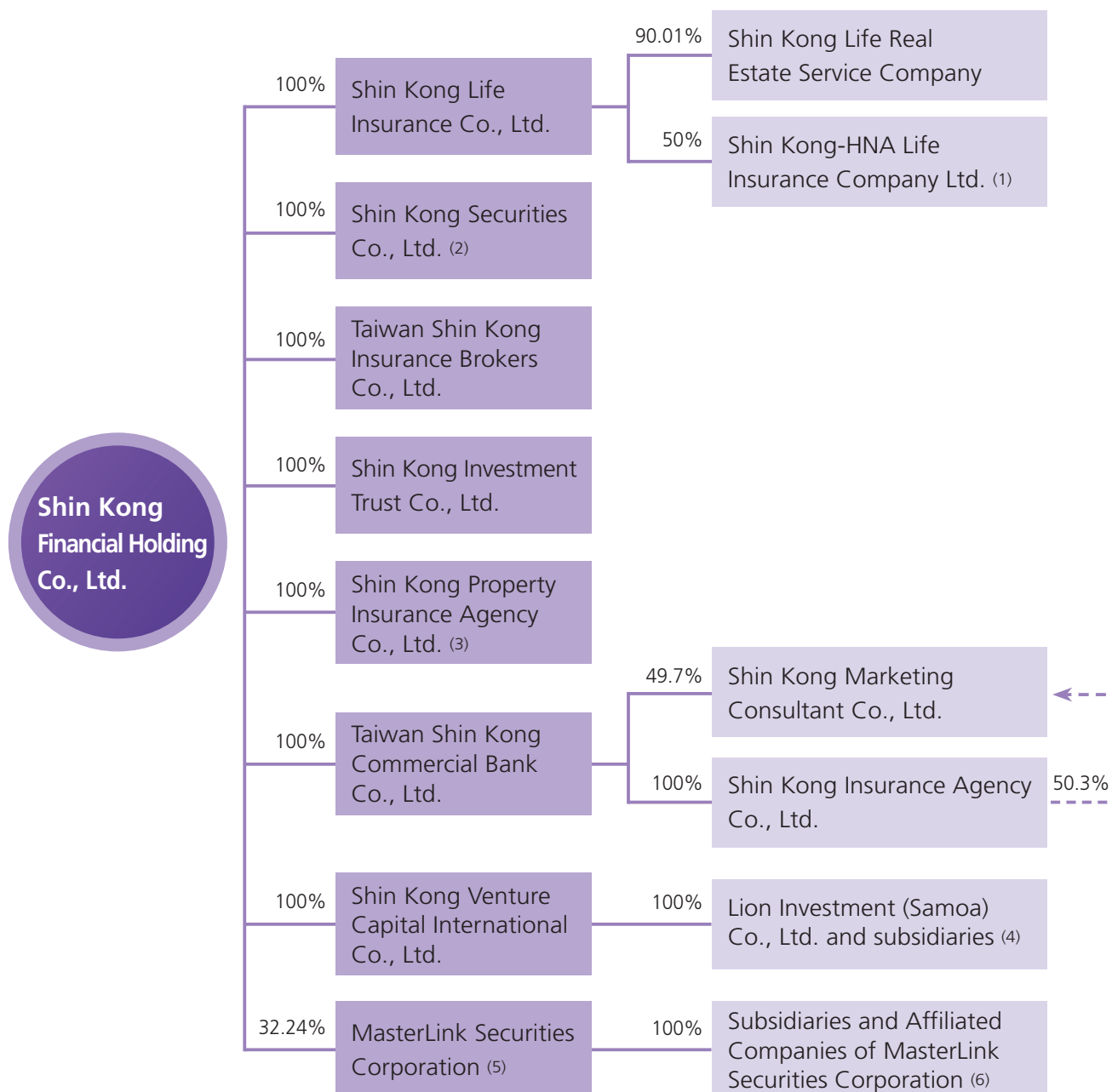
**Simon Chien**

Chairman  
& President

- Chairman & President, Shin Kong Property Insurance Agency
- Director, the Insurance Agency Association of the Republic of China

# Shin Kong Financial Holding

Information as of December 31, 2013



## Organization Chart Notes:

- (1) Shin Kong-HNA Life Insurance Company Ltd. is a life insurance company established as a joint venture between Shin Kong Life Insurance Co., Ltd. and HNA Group Company Ltd.
- (2) The Board of Directors of SKSC assumed the authority of the shareholders' meeting on September 24, 2009 and resolved that the record date to dissolve SKSC should be January 5, 2010; however, the liquidation process had not been completed as of the end of 2013.
- (3) According to the board resolution passed on October 8, 2013, Shin Kong Property Insurance Agency Co., Ltd. (SKPIA) changed its Chinese name and retained its English name.
- (4) Shin Kong Leasing Corp. (Suzhou) is a wholly owned subsidiary of Lion Investment (Samoa) Co., Ltd.
- (5) "Subsidiary" is defined according to Article 4 of the Financial Holding Company Act, not according to the definition of the Company Act.
- (6) Included companies and holding ratios: MasterLink Futures Co., Ltd. (100%), MasterLink Securities Investment Advisory Corporation (100%), MasterLink British Virgin Islands Corporation (100%), MasterLink Insurance Agency Co., Ltd. (100%), MasterLink Venture Management Corp., Ltd. (100%), MasterLink Venture Capital Corp., Ltd. (100%), MasterLink Securities (HK) Co., Ltd. (100%), Shanghai MasterLink Investment Advisory Corporation (100%), MasterLink Nominees (HK) Ltd. (99.99%).

# Credit Ratings

The list below shows credit ratings of SKFH and its major subsidiaries in year 2014:

## Shin Kong Financial Holding

Agency	National Long-term	National Short-term	Outlook
Taiwan Ratings	twA+	twA-1	Stable

## Shin Kong Life

Agency	Global Long-term	Global Short-term	National Long-term	National Short-term	Outlook
Taiwan Ratings	--	--	twAA-	--	Stable
Standard & Poor's	BBB	--	--	--	Stable

## Shin Kong Bank

Agency	Global Long-term	Global Short-term	National Long-term	National Short-term	Outlook
Taiwan Ratings	--	--	twAA-	twA-1+	Stable
Standard & Poor's	BBB	A-2	--	--	Stable

# Milestones

- Shin Kong Property Insurance Agency Co., Ltd. is incorporated directly under SKFH and upgraded to subsidiary status, changing its Chinese name but retaining the original English name.
- SKB's Hong Kong Branch officially opened for operations
- Shin Kong-HNA Life Insurance Company Ltd. (SKHNA Life) officially established, marking Shin Kong's entry to the mainland Chinese market
- SKL celebrated its 50th anniversary of establishment
- Shin Kong Venture Capital International Co., Ltd. (SKVC) officially established
- NT\$13.1 billion raised in a successful GDR issue
- SKFH completed a domestic cash capital raising of NT\$6.5 billion through the issue of 650 million common shares.
- Sub-subsidiary Shin Kong Leasing Corp. (Suzhou) (Shin Kong Leasing) established
- GDR awarded Taiwan Capital Markets Deal of the Year by International Financing Review Asia magazine
- Shaanxi Branch of SKHNA Life permissibly operated
- Shin Kong Securities merged with MasterLink Securities Corp.

2013

2011

2009

2012

2010

2008

- SKFH successfully raised NT\$5 billion through a new issue of domestic unsecured convertible corporate bond (CB)
- SKL successfully raised NT\$5 billion through issuance of perpetual cumulative subordinated corporate bonds.

- SKHNA Life officially opened a branch in Chaoyang District, Beijing
- SKHNA Life officially opened a Hainan Branch
- SKIT became the master agent for Robeco Offshore Funds

- Dai-ichi Mutual Life Insurance Company of Japan acquired private placement common shares of SKFH in the amount of NT\$6.3 billion and acquired preferred shares in Shin Kong Life Insurance (SKL) in the amount of NT\$1.7 billion
- SKIT became the master agent for DWS Invest Offshore Funds

- Macoto Bank incorporated into SKFH and merged with Shin Kong Bank to become Taiwan Shin Kong Commercial Bank Co., Ltd.
- SKFH issued US\$250 million Euro Convertible Bond

- Shin Kong Financial Holding Co., Ltd. (SKFH) was established and went public

2005

- Shin Kong Insurance Brokerage established as a subsidiary of SKFH

2002

2006

- SKFH signed cooperation agreement with Dai-ichi Mutual Life Insurance Company of Japan; Dai-ichi paid NT\$7 billion in subscription for SKFH common shares through private placement
- Shin Kong Investment Trust incorporated into SKFH and merged with New Light Asset Management to form Shin Kong Investment Trust Co., Ltd. (SKIT)
- Shin Kong Insurance Brokerage Co., Ltd. and Taiwan Shin Kong Insurance Brokers Co., Ltd. merged to form Taiwan Shin Kong Insurance Brokers Co., Ltd. (SKIB)

2004

- United-Credit Commercial Bank merged under SKFH and renamed Taiwan Shin Kong Commercial Bank Co., Ltd. (SKB)
- New Light Asset Management Company established as a subsidiary of SKFH
- SKFH issued US\$260 million Euro Convertible Bond

2003

2001

- Shin Kong Life (SKL) and Powerworld Securities (renamed Shin Kong Securities and merged with MasterLink Securities Corp. in 2009) merged to form Shin Kong Financial Holding Co., Ltd.

# Implementing a Strategy for Profit Growth

In 2013, SKFH maintained strong profit performance with net income posting at NT\$9.99 billion. Shin Kong Life Insurance (SKL) implemented a product strategy focused on accumulating mortality and expense gains, with a particular emphasis on marketing protection and regular premium products. Properly-controlled hedging cost and flexible investment strategies helped the company achieve a fund utilization rate of return of 4.43% and generate an after-tax profit of NT\$6.53 billion. Shin Kong Bank (SKB) continued to adjust its deposit and loan structure, increase customer contribution to revenue, widen interest spreads and value growth of fee income to post an after-tax profit of NT\$4.06 billion. Other subsidiaries of SKFH also enjoyed sound performance in 2013: Shin Kong Investment Trust (SKIT) strengthened investment performance management and grew its public funds by 24.5%. Shin Kong Insurance Brokers (SKIB) boosted property and casualty insurance policy renewal rates and sold 684,000 policies. Shin Kong Venture Capital continued to support the development of Shin Kong Leasing in China and increase profits through stakes in high growth potential investment targets in Taiwan.







# 2013 Operations Review

## Shin Kong Life Insurance

In the second half of 2013, the U.S. unemployment rate fell steadily, fiscal headwinds eased, and the economy recovered modestly. Europe's economy gradually emerged from the debt crisis and stabilized. Global yields have steadily risen. Shin Kong Life Insurance (SKL) grasped the market trend and actively reallocated assets in conjunction with the increase in the ceiling on overseas investment to 43%, helping the company to meet its targeted rate of return on investment with a 4.43% for the year.

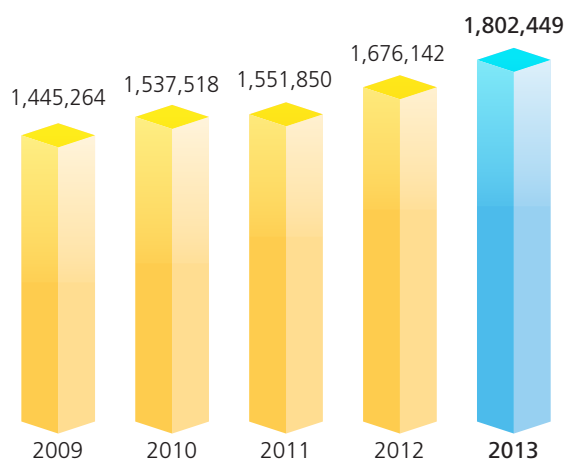
Despite intensified fluctuations in emerging market currencies due to the tapering of quantitative easing (QE) by the U.S. Federal Reserve, SKL succeeded through modular hedging operations to trim its FX hedging costs for the year to only 0.62%, 0.68% lower than that in the previous year. Moreover, SKL received domestic cash dividend of NT\$6.62 billion.

As the result, the company reached an after-tax profit of NT\$6.53 billion, representing an earnings growth of 13.3% over 2012. Consolidated total assets also gained to NT\$1.8 trillion and shareholders' equity gained 20.4% to NT\$64.99 billion.

SKL generated first year premium (FYP) of NT\$56.38 billion in 2013, supported mainly by a product strategy focused on asset-liability matching and less active promotion of short-term savings products. Driven by improvements to product mix, FYP from regular premium traditional products with high value of new business (VNB) accounted for 72.7% of total traditional FYP. The company's product strategy also continued to focus on sales of regular premium policies, lifting renewal premium income by 6.5% for the year to NT\$114.04 billion and bolstering accumulation of steady mortality and expense gains.

### Last 5 Years- Total Assets

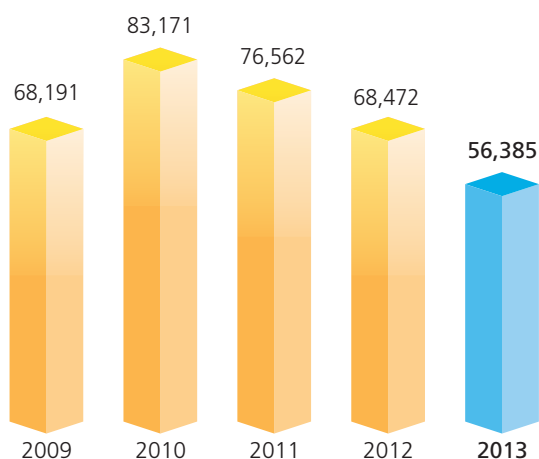
Unit: NT\$ Millions



Note: IFRSs were adopted in 2012 and 2013, while the ROC GAAP was adopted in 2009~2011.

### Last 5 Years- First Year Premium

Unit: NT\$ Millions





To diversify risk and increase protection, variable universal life (VUL) policies was promoted by unit-cost-averaging method with average sum-insured increased to NT\$1.9 million. The company sold 21,579 such policies over the year, up 97.6% year-on-year. Structured note products were linked to Australian government bonds and principal-protected funds, contributing FYP by NT\$9.9 billion.

In January 2013, SKL was approved by the competent authority to increase its overseas investment ceiling to 43%. The foreign exchange reserve scheme has effectively reduced hedging costs and improved yields on foreign bonds after hedge, and therefore SKL continued to increase investments in foreign fixed-income. The ratio of foreign fixed-income investments to total investments increased from 37.4% in 2012 to 40.7% in 2013.

Although domestic and foreign benchmark interest rates have notably risen since the second quarter of 2013, SKL's fixed-income investments were mainly classified as held to maturity or no active market. Only 10.4% of total classified as available for sale required to be marked to market, and therefore the impact caused by steepening yield curve was limited. SKL ended 2013 with other comprehensive income at NT\$2.49 billion and comprehensive income at NT\$9.02 billion.

### Accumulating Long-term Profit

SKL's product strategy in 2013 continued to emphasize on accumulation of long-term profit, with a particular focus on stable growth of long-term regular premium products and risk premiums. The company introduced the "You-Huo-Li Term Life Insurance"

## Business Mix

Unit: NT\$ Millions

Category	2013 Premium Income	Share of Total(%)
Individual life insurance	110,849	65.04%
Individual health insurance	27,753	16.29%
Individual accident insurance	7,629	4.48%
Annuity insurance	22,962	13.47%
Group insurance	1,233	0.72%
<b>Total premium</b>	<b>170,426</b>	<b>100.00%</b>

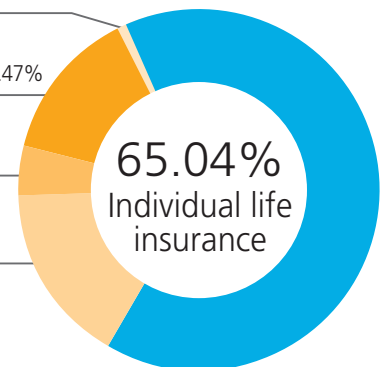
Note: Due to rounding, figures may not add up to the total.

Group insurance 0.72%

Annuity insurance 13.47%

Individual accident insurance 4.48%

Individual health insurance 16.29%



preferred risk policy with premium assessments that consider whether or not the policyholder is a non-smoker. In response to changes in social structure, declining birthrates and aging population in Taiwan, SKL launched the "Chang-Zhao Jiu-Jiu Long-term Care Whole-life Insurance," an account-type long-term care policy covering the cost of care and related hospice expenses. The company sold 11,765 such policies in 2013, generating FYP of NT\$470 million. The "Hao-An-Xin Term Health Insurance Rider" covers claims for 1,499 medical operations, including both outpatient and in-patient surgery. Also joining the company's product line were the "Huo-Mian Duo-Duo Premium Waiver Health Insurance Rider," an investment-type premium waiver policy providing exemption from premium payments in cases involving death, grade one to six disabilities, major diseases or severe burns; and the "Huo-Li Bone Injury Insurance," a policy offering coverage for both accidental death and disabilities. SKL also rolled out a range of foreign currency denominated traditional policies, such as the U.S.-dollar-denominated "Zeng-Mei-Fu Foreign Currency Whole Life Insurance" and "Hao-Mei-Li Foreign Currency Whole Life Principal Repayment Insurance," as well as the Australian-dollar-denominated "Zeng-Ao-Fu Foreign Currency Whole Life Insurance" and "Ao-Le Foreign Currency Whole Life Insurance." Other new policies included the "Wei-Li Chang-Shun," "Yue-Yue-Xin-Wang" and "Wei-Li Mei-Fu Foreign Currency" interest-sensitive policies in anticipation of rising interest rates resulting from QE tapering in the U.S. Holders of these interest-sensitive life policies receive rebates that increase with rises in declared interest rates. They also help SKL to avoid negative spreads on high guaranteed interest rate policies. In the area of investment-linked products, in 2013, SKL strategically launched the "Fu-Wan-Li Variable Life Insurance" policy linked to a principal-protected funds meeting investment and life insurance protection needs and providing policyholders with an asset allocation tool for stable income. SKL vigorously promoted investment-linked policies with discretionary utilization of the underlying assets by the investment trust companies as well, including the "Fu-Hua Duo-Duo Variable Life Insurance," "Lian-Xin Duo-Duo Variable Life Insurance" and RMB-denominated "Xin-Wang Duo-Duo RMB Variable Life Insurance" and "Xin-Wang Nian-Nian RMB Variable Annuity Insurance," providing customers with a broad range

of choices. The company also continued to actively market investment products by unit-cost-averaging method that provide customers with stable income and increase protection, as well as contribute to VNB. In 2013, SKL sold 21,579 such policies, up 97.6% from the previous year.

### Strengthening and Diversifying Marketing Channels

SKL has developed multiple distribution channels over the years to provide convenient and comprehensive service meeting the diverse insurance needs of its customers, including both internal (agents and direct marketing) and third-party (bancassurance, traditional insurance brokers and cross-industry strategic alliances) channels.

Internal channels: Tied agents are SKL's main sales channel. SKL is strengthening development of its agent team at the "recruitment, employment, training and retention" levels. It also screens new recruits through an Agent Basic Training (ABT) course that also serves as a benchmark for formal employment of recruits. At the same time, the company arranges incentives and special activities, such as the "Young Project" and "Soar Project," to recruit dynamic, high-caliber team members, accelerate organizational rejuvenation and better position to develop younger customer segments. Now in its tenth session, the "Young Project" focuses on cultivating youthful management talent at the grassroots level. Over the years, several members from the project have been promoted to basic management positions. In 2013, SKL launched the "Soar Project" supervisor training program. The two-year program develops handpicked





young sales management, with an emphasis on strict selection and rigorous management principles. With an eye to both the quantity and quality of its sales team, SKL also provides sequential and interlinked training curricula through education centers and regional group training courses, complemented by e-learning systems, a nationally syndicated morning broadcast program and other real-time e-learning platforms. These resources provide veteran and new sales personnel access to the latest, most accurate and most practical and pertinent educational content to boost professional ability, marketing capabilities and retention rates, as well as strengthen the company's sales organization.

SKL actively promoted a "service area" based service development model across its national agent system. The different service areas help agents to closely interact with customers on their own "turf." The model also further enables localized service and deeper activity management aimed at building long-term customer sources and seizing opportunities as they emerge. Realizing that good tools are needed to do a good job, SKL also helped agents to develop services by further strengthening the functions of its "Business Lead Management System," a secondary marketing platform, as well as bolstering digital standard operating procedures along with verification and tracking mechanisms. The company also expanded utilization of mobile devices (such as tablet PCs and smartphones) and sales support software (such as the e mobile secretary app) to foster a mobile

agent work environment. This has helped agents to respond to the ever-changing high-tech era, leverage mobile sales support tools, provide real-time service and first seize market opportunities. Additionally, SKL continued to promote a range of convenient direct channels, including direct mailing, internet, television, telemarketing, fax, and airport counters, as well as introduce new products to meet the needs of different customer groups.

Third-party channels: Bancassurance has become the most important sales channel after agents in today's insurance market. SKL further developed cooperative relationships with banks and securities companies. It also ramped up external and internal cross-selling of products in partnership with other members in the group, including Shin Kong Bank (SKB), Shin Kong Investment Trust (SKIT) and Shinkong Insurance Co., providing customers with the convenience of one-stop shopping for financial products and services. In addition to meeting customers' savings needs, SKB sold long-term regular premium traditional policies in conjunction with SKL's product strategy to steadily grow VNB and fee income in a win-win situation. Steady growth of SKFH subsidiaries and a rapid escalation of cooperation and business support among group affiliates pushed up SKB's bancassurance sales to NT\$15.28 billion, or 58.8% of SKL's FYP from bancassurance channels, underscoring the outstanding synergy effect from cross-selling.

### Enhancing Customer Service



SKL provides customized insurance products and services meeting the diverse needs of current policyholders and potential customers. The company is committed to putting customers first and providing sincere, high-quality services to enhance customer satisfaction, focusing on service convenience, service development, and service improvement. The company continued to promote the following policyholder services in 2013:

1. SKL launched a mobile insurance application service to help policyholders quickly complete insurance applications and support business expansion. With this service, policyholders can sign electronic insurance application forms on a tablet PC. Underwriting personnel then use a core system to e-verify the basic, informational and declarative content in the insurance contract, reducing processing time and boosting administrative efficiency.
2. SKL established a "Complaint Risk Assessment Analysis and Reporting" system to effectively manage policyholder complaints and improve the quality of policyholder services. The system collects and organizes statistics on the types and content of policyholder complaints and analyzes key reasons for the complaints. The reports of deficiency are used for follow-up review and improvement by the involved departments to provide policyholders with a higher quality of service and achieve customer satisfaction goals.
3. SKL established a sentiment reporting system to collect internal opinions and suggestions related to improving the efficiency of administrative

services and improve the quality and efficiency of policyholder services. The department in charge reviews and responds to the input submitted through the system.

4. A survey was conducted to assess customer satisfaction with roadside rescue services and overseas emergency assistance services to ensure service quality. The overseas emergency assistance services received a satisfaction level of 100%, while the satisfaction level with the roadside rescue service approached 90%. Policyholders needing roadside rescue can text message to their sales agents by phone and receive prompt and attentive service.

### Establishing Risk Management Mechanisms

In 2013, SKL continued to improve market, credit, concentration limits, and operation risk management mechanisms. The company also promoted the following risk management measures at the risk culture, system strengthening, control mechanisms and performance measurement levels:

1. Risk culture: Since the second quarter of 2013, SKL has enhanced the content of its overall risk management reports to effectively promote a risk management culture. After review and approval by the Risk Management Committee, the report is presented to the Board of Directors to give directors and supervisors a clearer overview of the company's overall risk. SKL also continued to strengthen the content of professional risk management training and regular guidance to Board members and high-level executives to implement a culture of accountability and create an environment of top-down risk management.
2. System strengthening: SKL continued to implement its ALGO system of risk management, including value-at-risk (VaR), country/area exposures, and concentration limits. It also improved the ALGO system's Monte Carlo simulation VaR calculation module to strengthen market risk controls. Refinements were made as well to the evaluation module technology for complex financial products and products lacking open market pricing, in line with International Financial Reporting Standards.
3. Control mechanisms: In the area of equity risk management, SKL continued to monitor and control overall daily losses and gains, as well as refine

qualitative and quantitative controls to achieve sound long-term life insurance operations. Risk management for foreign currency positions includes monitoring and control of daily losses and gains, as well as regular reviews of hedging ratios to ensure conformance with established standards. SKL also regularly controls foreign currency risk limits and FX reserve balances in line with provisions of the Insurance Risk Management Code of Practice, as well as conducts stress testing and sensitivity analysis and reporting.

4. Performance measurement: SKL has formulated performance measurements and reward systems for various products to balance risk and return, consistent with provisions of the "Guidelines for the Formulation of Risk-Adjusted Performance Management and Reward System for Investment Departments."

### Steadily Advancing in the Mainland Life Insurance Market

SKL launched Shin Kong-HNA Life Insurance, a joint venture with HNA Group, in Beijing in April 2009 to tap China's life insurance market. Drawing on 50 years of experience in Taiwan's life insurance market, SKL established information systems, product design, policy administration, recruitment and training systems for the joint venture, laying a solid foundation for the company's growth. In 2013, SKHNA Life's total premium income increased by 13.7% from the previous year to reach RMB348 million. The company has five channels – telemarketing, bancassurance, individual insurance, group insurance and online sales. It also has developed 76 insurance products, including 27 life insurance policies, 15 accident insurance policies, and 34 health insurance policies to meet a broad spectrum of insurance needs across channel types.

In addition to its head office in Beijing, Shin Kong-HNA Life Insurance has opened provincial-level branches in Hainan and Shaanxi. The company received permission in October 2013 to establish a branch in Jiangsu Province. In the future, the company will continue to add branches based on consideration of regional development potential, shareholder resources, policy support and the investment environment. With the successive expansion of its branch network, the company expects to steadily develop in the mainland's life insurance market.



### Winner of the Award of Excellence in the "2013 Taiwan Corporate Sustainability Report Awards – Taiwan's Top 50 Corporate Sustainability Report Award" for the Financial Industry

Over the past 50 years, SKL has deeply cultivated its operations in Taiwan. The company has also long been dedicated to corporate social responsibility (CSR) and the creation of sustainable business value. The company established an interdepartmental CSR Committee responsible for medium-to long-term strategic planning in CSR. It also annually prepares and publishes a CSR Report to present its CSR achievements over the year to internal and external stakeholders. The 2013 CSR Report was recognized with the Award of Excellence in the financial industry of the Taiwan Institute for Sustainable Energy's "2013 Taiwan Corporate Sustainability Report Awards – Taiwan's Top 50 Corporate Sustainability Report Award," improving on the 2012 report's Silver Award showing and highlighting SKL's dedication to promoting CSR.

Looking ahead in 2014, SKL will continue, under a guiding corporate philosophy of "innovation, service, integrity and giving back to society," to provide the most attentive services. It will also continue to deeply instill sustainability concepts in its business decisions and actions through integrity-based corporate governance, attention to employee care and training, green initiatives such as energy management and e-business, community involvement, concern for public welfare and other specific actions. The company will also arrange special projects to deeply

cultivate the five areas of corporate governance, policyholder care, employee relations, environmental protection, and community involvement, as well as foster an organizational culture in which its employees regard CSR fulfillment as a duty. Embracing the spirit of public good, SKL will continue, as a socially responsible enterprise, to work with stakeholders to fulfill its CSR duties and create an even brighter long-term future.

## Shin Kong Bank

Shin Kong Bank (SKB) enjoyed outstanding performance on both profitability and business growth in 2013 despite weaker-than-expected economic growth in Taiwan. Pre-provision profit reached NT\$5.92 billion, representing a 22.5% increase year-on-year after deducting one-off disposal gain of NT\$728 million from REITs in 2012. After-tax profit for the year reached NT\$4.06 billion, return on equity (ROE) posted at 11.9%, and consolidated total assets increased by 9.4% to NT\$693.24 billion.

SKB's deposit and loan business growth exceeded the industry average in 2013, with deposit balances (excluding interbank deposits) gaining 10.5% to NT\$614.93 billion, up from NT\$556.65 billion in 2012, contributing to the company's asset scale and business momentum. Loan balances (including credit card revolving balance but excluding overdue receivables) increased by 5.5% to NT\$450.82

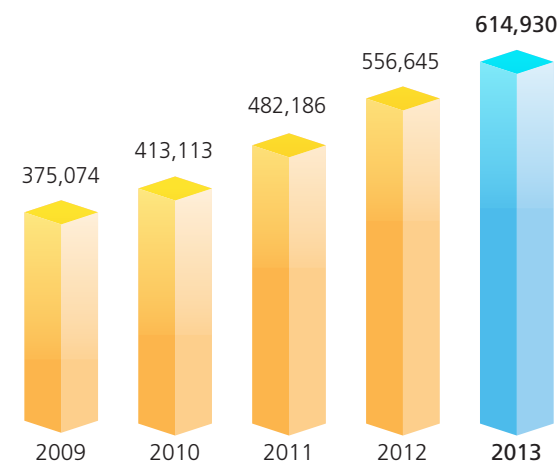
billion, compared to NT\$427.21 billion in the previous year, helped mainly by a 9.4% increase in consumer banking loans. Apart from loan operations, efforts to increase non-interest income boosted the bank's net fee income by 11.4% in 2013. Wealth management businesses benefited from strong sales of overseas securities and mutual funds, driving income in the segment 13.4% higher. Asset quality continued to improve, with the non-performing loan (NPL) ratio falling to 0.42%, down from 0.46% in 2012 and the coverage ratio increasing to 265.57%, up from 232.65% in 2012.

### Corporate Banking: Adjusting Operation Structure, Focusing on Overall Contribution

In the corporate banking sector, SKB continued to coordinate with the government's SME support policies to expand its customer base, strengthen risk management mechanism to improve credit quality, and actively adjust its loan structure to widen interest spreads. The bank further honed its market competitiveness by more closely integrating its business platforms of Global e-banking (GEB) and foreign exchange system, as well as through expanded cash management, syndicated loans and other services aimed at increasing the stickiness of corporate customers, growing fee income and demand deposits, and thereby improving operating efficiency and customer satisfaction. Overall corporate banking business in 2013 edged up by 1.9% in 2012 amidst loan structure adjustments aimed at increasing

### Last 5 Years- Deposit Balance

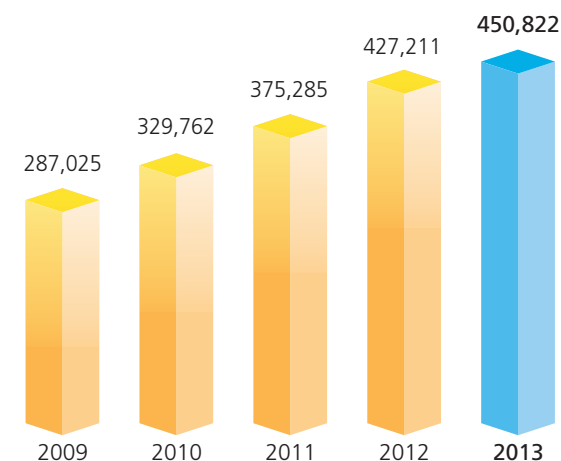
Unit: NT\$ Millions



Note: Figures exclude interbank deposits.

### Last 5 Years- Loan Balance

Unit: NT\$ Millions



Note: Figures include credit card revolving balance but exclude overdue receivables.



revenue contribution from clients. Looking ahead in 2014, SKB will continue to adjust its deposit and loan structure to maintain reasonable lending interest rates, reduce cost of funding and improve overall profitability.

Faced with a highly competitive domestic banking industry and margin compression resulting from thinner spreads in a low interest rate environment, SKB's strategy for raising profitability in the corporate banking segment involved deeply cultivating existing customers and providing a range of financial products. The bank also actively promoted treasury marketing unit (TMU) operations to provide customers with optimum hedging planning and financial operations, a wide range of financial investment instruments, real-time market information

and professional consulting services. Since launching its TMU business in 2011, SKB has intensively arranged training programs to strengthen professional ability in this sector among its corporate finance sales personnel in order to better serve existing corporate customers and attract new customers. By working closely with corporate customers, the annual amount of TMU business underwrote by SKB has grown exponentially from NT\$53.03 billion in 2011 to NT\$485.77 billion in 2013, generating income of NT\$451 million, up 288.8% from 2012. With the international economic situation expected to remain unsteady in 2014, SKB will actively expand its product offering and strengthen market operations to respond to changes in the markets and customer needs, as well as provide a full range of products meeting customers' investment and hedging needs.

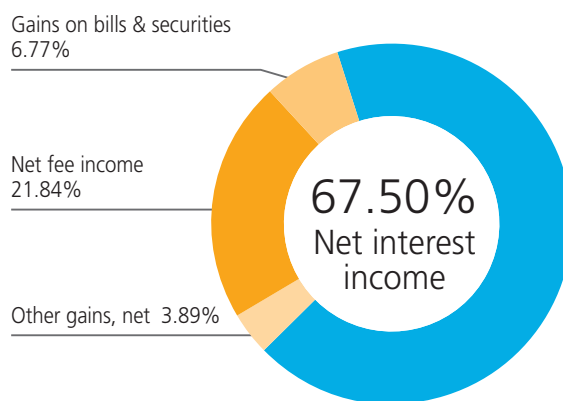
In terms of overseas expansion, SKB opened its Hong Kong branch in May 2011. In addition to collaboration with its offshore banking unit (OBU) operations, the bank is cooperating with Shin Kong Leasing, established in Suzhou in November 2011, to actively develop business with China-based Taiwanese companies and SME customers and position as a finance platform to assist expansion of production capacity. SKB's applications to establish a branch in Binh Duong, Vietnam and a representative office in Yangon, Myanmar were approved by the Financial Supervisory Commission in June and December 2013, respectively, paving the way for the bank to apply in the host countries for business establishment. Looking

## Business Mix

Unit: NT\$ Millions

Category	2013 Revenue Share of Total(%)	
Net interest income	8,397,773	67.50%
Net fee income	2,716,489	21.84%
Gains on bills & securities	842,523	6.77%
Other gains, net	483,927	3.89%
<b>Total</b>	<b>12,440,712</b>	<b>100.00%</b>

Note: Due to rounding, figures may not add up to the total.





ahead, SKB will deeply cultivate high growth potential markets in the Asia-Pacific region under a strategic blueprint of "standing firmly in Taiwan, branching out into Hong Kong, deeply cultivating China, and expanding in the Asia-Pacific."

### Consumer Banking: Steady Profitability and Improving Asset Quality

SKB continued to coordinate with Central Bank restrictions on mortgages in designated areas and high-priced houses, as well as internally control loan-to-value ratios in other areas with relatively high real estate prices and transaction volumes. The bank's online scorecard system for mortgage business was deployed to help responsible units identify risk. SKB also built up database information to help dedicated units perform post-lending reassessments and field surveys aimed at controlling overall risk. SKB maintained steady growth in its mortgage business in 2013, with new loans totaling NT\$53.34 billion; total loan balance increased by 8.6% to NT\$169.06 billion. In conjunction with government policies to stabilize housing prices, SKB offered favorable interest rates for mortgages in the more stable segment of owner-occupied-home clients to maintain good asset quality and steadily grow its mortgage business. SKB slightly reduced its NPL ratio to 0.25%, compared to 0.26% in 2012 in the mortgage segment, realizing gains in both lending scale and asset quality.

SKB grew its new unsecured consumer loan by 11.5% to NT\$19.08 billion in 2013. The bank also increased its interest-bearing loan balance past the NT\$30 billion threshold with a 10.3% gain over the year to NT\$30.57 billion, contributing NT\$1.92 billion

to operating income. SKB's NPL ratio in the segment fell to 0.53% at the end of 2013, down from 0.76% in the beginning of the year, highlighting the bank's success in growing its unsecured loan business while continuously optimizing asset quality.

In 2013, SKB had 899,000 credit cards in circulation, up 8.7% from 2012, and annual consumption of NT\$43.70 billion, up 6.9% year-on-year. In line with policies to return credit cards to their primary function as a payment tool, SKB introduced a number of promotions aimed at daily consumption to provide customers with card incentives and meet the needs of different consumer segments. Promotions included special offers for online shopping, dining discounts, in-store shopping and movie tickets. It also promoted gift offers linked to purchase amounts in conjunction with well-known department store events. These programs aimed to encourage customers spending on SKB credit cards and increase fee income. SKB also sought to grow its credit card business through the issuance of co-branded cards with major department store Shin Kong Mitsukoshi, drawing on the resources of SKFH and its affiliates to attract customers in northern, central and southern Taiwan. At the end of 2013, more than 150,000 Shin Kong Mitsukoshi co-branded cards had been issued. In the future, SKB will continue to roll out card promotions to deeply cultivate existing customers and develop new customer segments. At the end of 2013, SKB's credit card NPL ratio was 0.16%, beating the industry average of 0.29% and indicating continued stability in asset quality.

In 2013, SKB's merchant business reached 2,390 contracted stores and annual retail sales volume



of acquisition amounted to NT\$13.77 billion, an increase of 3.8% over 2012. The bank also promoted integrated marketing activities to boost merchant use of SKB credit card processors (e.g., E-DA World, Le Méridien, and Miramar Department Store), increasing retail sales volume of acquisition and fee income.

### Wealth Management Business: Steady Growth

SKB increased its wealth management income to NT\$1.69 billion in 2013, up 13.4% from 2012, helped mainly by the innovation and currency diversification in overseas securities, strong sales of mutual funds and regular premium insurance products favored by customers. In 2013, SKB's non-discretionary money trust balance reached NT\$138.0 billion, representing a market share of 4.0%. The Hong Kong branch plans to launch wealth management operations in May 2014, further contributing to earnings momentum. In conjunction with the loosening of rules over the types of products offered to OBU, SKB will continue to plan diverse and innovative financial products, and balance development of overseas securities, mutual funds and insurance products to provide customers with greater choice and maintain its existing advantages. The bank will also strengthen customer relations management to develop new customer sources and hone its competitive edge.

### Hong Kong Branch: Outstanding Profit Performance

SKB opened its first overseas branch in Hong Kong on May 6, 2011, primarily to serve Taiwanese companies with operations on both sides of the Taiwan Strait. The branch aims to become the first-choice funding management platform for its customers. It also actively visits factories in China to provide customers with high-quality financial services and seize opportunities to serve Taiwanese enterprises, as well as deepen and broaden financial product dealings between customers and SKB. In July 2013, the Hong Kong Monetary Authority (HKMA) authorized the Hong Kong branch to engage in internet banking operations. The branch subsequently launched its corporate e-banking platform to help customers conveniently and quickly allocate funds, attract foreign currency working capital business and diversify services. Moreover, in June 2013, the branch applied to the HKMA and the Securities and

Futures Commission (SFC) for permission to provide wealth management services. The branch gained its approval of operation in October of the same year and expects to officially launch such services at the end of May 2014 to strengthen investment management relationships with clients. The Hong Kong branch ended 2013 with a deposit balance of US\$350 million, up 75.1% over 2012 and increased loan balances (including export L/C negotiation) by 68.4% to US\$213 million, Cumulated after-tax profit reached NT\$42.44 million, including NT\$41.12 million from TMU operations. All of these figures exceeded expectations.

### Accolades for Service Quality

Since winning the first prize in *Global Views Monthly's* survey of "best service quality" in the financial sector in 2008, SKB has steadily advanced its service quality and established a Consumer Protection Committee. The Customer Satisfaction Evaluation Team was placed under the committee as the "Service Quality Improvement Team" with the same mission to reduce customer complaint rates and increase customer satisfaction. Through the concerted efforts of all company employees, SKB was again recognized with a second-place showing in *Global Views Monthly's* poll of "best service quality" in the financial sector. This award highlights the bank's dedication, in a highly competitive financial environment, to putting the customer first and providing attentive, careful, sincere, dedicated, committed and steadfast services that have earned customers' support and trust.

### Shin Kong Investment Trust

At the end of 2013, Shin Kong Investment Trust (SKIT) had NT\$29.92 billion in public funds under management, up 24.5% from 2012. This figure covers equity funds (including fund of funds), balanced funds and money market funds. Of this total, equity and balanced funds accounted for NT\$7.83 billion, and the balance of money market funds was NT\$22.1 billion.

### Tapping Group Resources, Integrating with Life Insurance Channels

In 2013, SKIT developed new funds suitable for life insurance customers to meet market trends and customer needs. Among them was an Australian Dollar principal-protected fund suited for

investment-linked policies to realize synergies from integrated marketing with SKL. In December 2013, SKL introduced a second version of its "Fu-Wan-Li Variable Life Insurance" investment-linked policy tied to this principal-protected fund, generating monthly sales of NT\$1.57 billion. SKIT also enjoyed solid short-term and long-term performance on the discretionary investment management accounts it manages for SKL's "Fu-Yun Nian-Nian," "Xin-Wang," "Xin-Fu-Yun" and "Fu-Xin" investment-linked policies. The "Xin-Wang" product series is the first RMB-denominated investment-linked policy to be introduced since the launch of cross-strait currency settlement mechanism and the opening up of RMB business in February 2013 in Taiwan. The policies meet customers' financial needs and protection planning. SKIT also used its money management health check service to help SKL promote unit-cost-averaging discretionary account type investment-linked policies. In addition, the company continued to seize emerging market opportunities through win-win cooperation and resource sharing with SKFH subsidiaries.

### Stellar Fund Performance

SKIT continued to emphasize stability in its fund performance to build customer confidence. In 2013, money market, domestic equity and overseas equity funds outperformed levels in 2012. The Shin Kong OTC Market Fund, a domestic OTC equity fund, returned 26.3% in 2013, ranking it second among its five domestic peers. The Shin Kong Conventional Industries Fund, another domestic equity fund, posted a 24.82% return, placing it among the top half of all equity funds in Taiwan. In addition, the Shin Kong Chi-Shin Money-market Fund made significant gains in both scale and performance, ending 2013 with NT\$21.69 billion, up 72.8% year-on-year. The fund's investment performance ranked among the industry's top half. SKIT will continue to seek steady fund returns rooted in rigorous risk management.

### Steady Agency Growth

In the agency offshore fund segment, SKIT has served as an agent for funds managed by Robeco Luxembourg S.A. since 2010. Through agency relations, the company provides investors with a broad range of investment options. In 2013, SKIT expanded domestic sales channels, strengthened education and training in life insurance and banking channels, and



arranged tailored supplemental sales training aimed at different customer segments to give offshore funds a larger role in client asset allocation. The company also continued to carry out project cooperation and marketing activities to strengthen fund growth.

## Shin Kong Insurance Brokers

In 2013, SKIB posted operating income of NT \$255.4 million, an after-tax loss of NT \$3.26 million. Total premium income increased by 1.2% from 2012 to NT\$1.16 billion. Auto insurance (including compulsory) policies contributed the highest share (81.6%) of total premium income, followed by accident insurance (10.2%) and fire insurance (7.5%). A total of 684,000 policies were sold in 2013.

SKIB continued to cooperate closely with SKFH subsidiaries and non-life insurers to provide professional services and assist channel customers in choosing the suitable high-quality products to comprehensively meet their non-life insurance needs. In addition to ongoing attention to the professional caliber and enthusiasm of its service personnel, the company is committed to providing customers with the best insurance services. SKIB also partners with SKL service centers throughout Taiwan to provide customers with high-quality non-life and life insurance services. The company upgraded its computer system and established a user-friendly insurance broker website. It also requires partner non-life insurers to maintain a high level of efficiency in their policy underwriting to ensure the accuracy of policy content and provide customer with a high standard

of administrative service, as well as to promptly pay claims for insured losses after liability is determined to maintain customers' rights and benefits. In addition, SKIB and non-life insurance partners work together to deeply infuse service principles among agents, as well as conduct periodic reviews, improve administrative procedures and shorten claims processing time to enhance service performance, build customer satisfaction and thereby boost the company's overall performance.

## Shin Kong Venture Capital

Shin Kong Venture Capital (SKVC) carried out a business plan focused on growth of business scale, steady profitability and tapping group resources to expand leasing operations in 2013. The company optimized its portfolio with support from SKFH's resources and professional investment team. It also steadily expanded its operations in line with government policy and regulatory loosening, while maintaining asset quality. The success of this approach has been evident in the company's continued strong performance since its launch in 2011, with profits climbing to NT\$12.05 million in 2013, up 387.0% from the previous year.

SKVC currently has two major business focuses: investment in domestic industries and high-potential enterprises; development of the machinery and equipment leasing market in China. The company's strategy in the former area involves in-depth study and site visits to companies, as well as active integration with resources of other SKFH subsidiaries to carefully identify targets with development potential. The company also has made investments in both emerging and traditional industries. In China's machinery and equipment leasing market, SKVC established, through a third location, the wholly-owned Shin Kong Leasing in Suzhou to provide professional financial services aimed at helping SMEs expand production capacity. The company is currently focusing development on enterprises in the Jiangsu and greater Shanghai areas. The company is also strengthening risk management and closely understanding their customers to avoid over-concentration of financing to any one single customer and ensure asset quality. Furthermore, SKVC is tapping SKFH resources and cooperating with SKB's Hong Kong branch and OBU operations to better serve Taiwanese companies with operations on both sides of the Taiwan Strait, as well as provide a learning platform for SKB to deepen management expertise for the China market and pave the way for the bank to tap the China market in the future. SKVC will continue to deeply cultivate the market and serve the best interests of customers and shareholders.

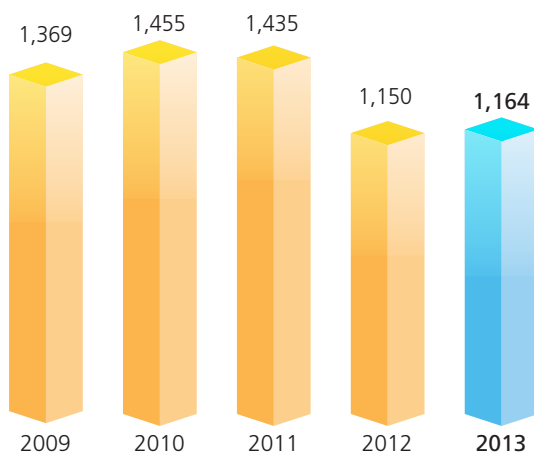
SKVC's overall profitability is as follows:

Unit: NT\$10,000

Year	2011	2012	2013
Net Profit or Loss	-812.2	247.5	1,205.1

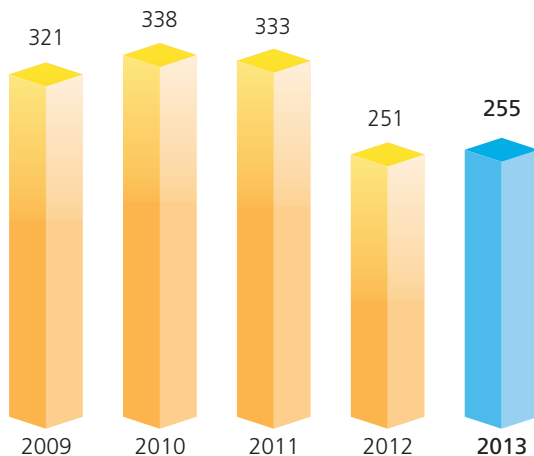
### Last 5 Years- Premium Income

Unit: NT\$ Millions



### Last 5 Years- Operating Revenue

Unit: NT\$ Millions



# Enhancing Efficiency, Laying a Solid Foundation

Facing a competitive market, SKFH remains committed to accumulating fundamental interests, adjusting core earnings and enhancing capital efficiency to achieve the strategic goal of stable growth. The company will also continue to promote financial product innovation and deepen marketing synergies through integration of group resources in order to meet the diverse needs of its customers and achieve its vision of becoming a first-choice provider of financial services.

Focal areas in 2014 include: 1. Adjusting revenue structure to build growth momentum; 2. Emphasizing risk return and achieving capital adequacy; 3. Integrating group resources to deepen integrated marketing; and 4. Developing business channels to increase profit contribution.





# 2014 Business Plan

## Shin Kong Life Insurance

Shin Kong Life Insurance (SKL) will pursue a business strategy focused on the following areas in 2014: actively recruiting and cultivating outstanding young talent to strengthen organizational power; in response to structural changes in society, vigorously promoting long-term care products with an aim to become the leading brand and expand senior insurance market share; optimizing administrative processes to enhance service quality; and closely grasping interest trends and matching liability duration to increase investment income. In the spirit of "Invigorating Shin Kong, Pioneering the Future," the company will also build on Shin Kong's 50-year enterprise tradition through ongoing cultivation of localized services for policyholders. SKL's business plan for 2014 is as follows:

### Accelerating Organizational Growth

SKL has designated 2014 as a year of active

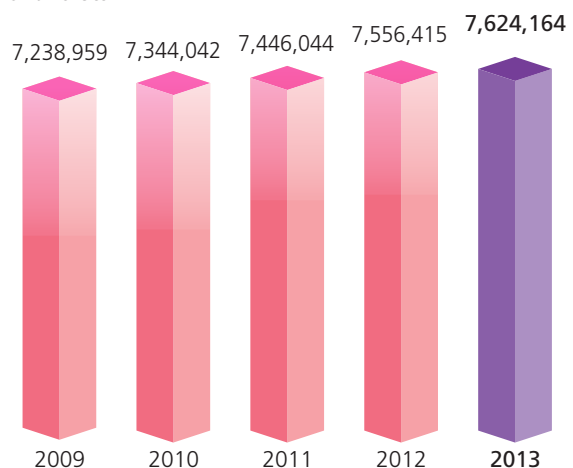
recruitment to accelerate organizational growth, mobilizing company units at all levels to achieve 5% growth for the year. This quantitative expansion will go hand-in-hand with efforts to improve personnel quality. Comprehensive basic training courses and development assistance will be offered for new recruits to rapidly enhance their sales skills at the critical inceptive stage, as well as improve retention rates. The company has also formulated a comprehensive learning roadmap and career planning programs for existing employees to enhance the quality of education and training and strengthen organizational power.

In its commitment to innovation and change, SKL will also cultivate talented young leaders able to advance with the times to accelerate human-resource generation change and strengthen business vitality and momentum. To this end, the company



### Last 5 Years- In-force Policies

Unit: Policies





will continue to carry out its "Young" and "Soar" programs, along with leadership development programs for sales management at all levels (e.g. the R1, U1 and S1 from 2012 and the D1 program launched in 2013). In 2014, SKL will launch "YES" (Young Electronic Sales)" and "Policyholder Service Personnel" programs to recruit outstanding young people. The "YES" project intends to build a young and tech-savvy e-sales team equipped with cutting edge iPad-Air tablet PCs. The "Policyholder Service Personnel" program is designed for full-time service personnel, with a focus on policyholder services and a mission to enhance service quality and win new business. Both programs aim to help SKL cultivate new blood, rejuvenate its sales team, foster professional leaders, and optimize organization. They also will help the company to tap young customer sources and win customer acceptance, as well as promote investment-

linked products by unit-cost-averaging method and protection products to strengthen its overall product mix. In 2014, SKL also launched the TR2 (for administrative/sales system section supervisors), U2 (for branch managers), and Y (comprehensive training for assistant project managers) programs. These programs involve two years of intensive training using innovative techniques, group learning, project studies, coaching and mentoring, capacity evaluations and other methods of development and review to quickly and systematically cultivate leadership teams at all levels, integrate talent management and thereby create competitive advantages.

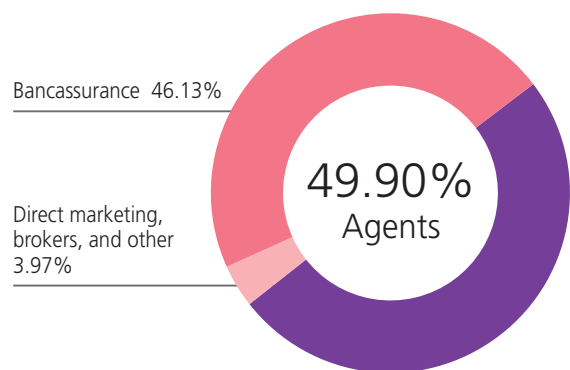
High quality and comprehensive service is the key to winning and retaining customers and further increasing customer contribution. SKL will therefore continue to implement service development systems encompassing phased customer service tasks and

## Channel Mix

Unit: NT\$ Millions

Category	2013 First-year Premium Share of Total(%)	
Agents	28,135	49.90%
Bancassurance	26,010	46.13%
Direct marketing, brokers, and other	2,240	3.97%
<b>Total</b>	<b>56,385</b>	<b>100.00%</b>

Note: Due to rounding, figures may not add up to the total.





make broader use of service points to encourage agents to be more active and diligent in making customer calls, forming close links with customers, and boosting business activity and productivity. The company will also promote an "All-Out Customer Visit" project to increase the breadth and depth of agents' customer visits and highlight core service value. Other initiatives include integrating App suites, such as "Mobile Secretary," with other mobile sales support tools to provide real-time and full-spectrum services, increase service quality and satisfaction, and expand opportunities for customer visits and service to strengthen business competitiveness and consolidate SKL's pioneering position in the market.

In the area of bancassurance, SKL's product strategy will seek to bolster sales of long-term regular premium policies to increase value of new business (VNB) contribution. As for internal bancassurance channels, the company will continue to assist Shin Kong Bank (SKB) in promoting training courses and strengthening sales of foreign currency regular premium savings products and interest-sensitive whole life policies through instruction in product introduction and marketing skills, aiming to generate more value than NT dollar denominated savings products hot sold before. SKB's model for marketing SKL insurance products will shift from joint promotion to joint marketing with SKL. Bank employees will directly register as life insurance agents to reduce policy administrative workflow and simultaneously share information on life insurance products, business opportunity systems, training and other resources to enhance service quality and sales of insurance products. SKL will also grow its external bancassurance network with new cooperative channels and customer sources. Teaming mainly with bank-centered financial holding companies and financial institutions in non-metropolitan areas, the company will provide channel partners with training on sales of regular premium policies to deepen cooperative ties with win-win results.

### Developing as the Leading Brand of Long-Term Care Insurance

SKL is committed to meeting the diverse demands of the public for premium insurance products. The company's product strategy will continue to focus on policies with high VNB and long-term fundamental profit accumulation, including



protection, VUL by unit-cost-averaging, foreign currency regular premium savings and interest-sensitive whole life policies. In addition, SKL will fully promote long-term care policies in response to structural social changes in Taiwan, aiming to become the leading brand in this segment.

Taiwan's population is steadily aging and birthrates are trending unmistakably down. The Council for Economic Planning and Development forecasts that by 2031, there will be 1.21 million people in Taiwan with long-term care needs. In line with its commitment to providing better protection for the people of Taiwan and supporting the domestic Ten-year Plan for Long-term Care, SKL will develop the senior insurance market through vigorous promotion of long-term care insurance products to help policyholders cover future hospice care expenses and enjoy higher quality of care. In 2014, the company aims to sell 60,000 such policies, representing an approximately fourfold increase over 2013. Furthermore, in late December of 2013, the competent authority announced actuarial formulas for the liability reserves of RMB-denominated traditional policies. SKL has applied to regulators for permission to sell products that can be matched with asset in terms of durations and expects to introduce such policies in the first half of 2014. The Central Bank announced that, as of the end of February 2014, RMB deposit balances in Taiwan had reached an all-time high of RMB247.05 billion since the opening of such business. Despite short-term fluctuations in exchange rate, the market demand for RMB-denominated financial instruments remains strong, raising expectations that RMB-denominated policies will be a bright spot in driving premium momentum in 2014.



Backed by a youthful sales team, SKL will market investment-linked products by unit-cost-averaging method to younger customer groups. These products enable customers to stagger investments over time to reduce market volatility risk. They also have higher sum-insured of protection and can provide stable VNB contribution. SKL will also develop interest-sensitive life policies denominated in various currencies, with an eye to anticipated interest rate increases resulting from the tapering of the quantitative easing (QE) policy in the U.S. Such policies pay policyholders more rebates when the declared interest rate rises along with increases in the market interest rate. They also will help SKL to control lapse rates and avoid negative spreads, while meeting policyholders' protection and career planning needs.

### Optimizing Administrative Processes, Enhancing Service Quality

SKL has provided policyholders with high-quality services over the past 50 years. It has also steadily strengthened personnel training to improve service quality and efficiency. The company places great importance on policyholder questions and comments and actively follows up to find solutions, increase the brand loyalty and trust of policyholders, and create a win-win situation. In 2014, SKL will continue to advance in these areas through the following initiatives:

1. SKL will establish an innovative complaints warning system, with different warning lights based on complaint volume. The system will be coordinated with the guidance and management operations of key units to improve the efficiency and quality

of complaint handling and increase customer satisfaction.

2. The company will adopt electronic audit forms and cross comparison of error causes to reduce error incidence, lighten database loads and reduce paper use.
3. SKL will rapidly analyze services and provide different service channels based on customers' diverse demand. The company will also conduct tracking management and continuous customer care to avoid orphan policies.
4. The company will roll out a comprehensive "service point" system for various service phases to encourage agents to more actively and diligently visit customers, aiming thereby to increase customer stickiness and boost business productivity. Agents will be equipped with e-devices and mobile software to provide policyholders with up-to-the-minute service information and media, access e-data on customers to plan high-quality services, and encourage policyholders to use financial institution transfers as a convenient and safe way to pay premiums.
5. SKL will continue to promote policy loan ATM card operations to meet the financing needs of policyholders through more convenient and flexible loans. The company will also occasionally carry out policy loan promotions for different target customer groups to reward customers and improve fund utilization efficiency.

### Grasping Interest Rate Trends, Optimizing Asset-Liability Match, and Boosting Investment Income

Since 2013, the U.S. unemployment rate has been steadily falling as the economy recovers strength. Europe has also gradually emerged from its sovereign debt problems and returned to stability. Global yields have trended higher, pushing up yields of U.S. Dollar and other currencies denominated bond.

In this context, SKL will closely grasp market interest rate trends and establish investment portfolios coordinated with promotion of foreign currency policies and liability duration match to reduce hedging costs and achieve stable interest spreads. The company will also flexibly adjust its strategic asset allocation (SAA) supported by tactical asset allocation (TAA) according to demands on return of liability and risk

tolerance on shareholders' equity. Consideration will be given to both stable fixed income and generating capital gains from market volatility to use fund more efficiently.

As for FX hedging, SKL will effectively use forecasting modules and flexibly adjust hedge positions under strict risk control mechanisms. As the U.S. dollar strengthens with America's economic turnaround and FX reserve scheme, which can reduce the hedging cost, has implemented, the company's medium-to long-term target of hedges ranges between 60% and 90% in 2014 and the target for hedging cost is reduced to 1%. With lower hedging cost, hedged yields on overseas bonds are expected to far outstrip yields on domestic bonds. Overseas fixed-income assets will also account for a growing share of total investment in line with continuous growth in foreign currency policies. Allocation mix will be adjusted in view of rising interest rates to balance industry risk and strengthen credit quality. The company will progressively invest in emerging market U.S. dollar-denominated bonds and high-quality corporate bonds with accounting classifications mainly on held to maturity or no active market to enhance recurring return and avoid net worth fluctuations. Additionally, the competent authority plans to allow the insurance industry to invest in domestically listed and OTC equity or debt denominated in foreign currencies to develop the domestic bond market and expand channels for fund utilization in the insurance industry. Moreover, such investments will not be included in the ceiling for overseas investment. SKL expects its domestic investment income to benefit from the new rule.



Real estate investment is one of the focal utilization targets for life insurance funds. SKL is an industry leader in real estate investment with a reputation for accurate and unique foresight. The company will continue to activate assets and raise return under an investment strategy focusing on "mobilizing real estate investments" and buying property on the market with good investment value and locations to generate stable rental income. The company will also assess appropriate times to sell mature properties with low profitability, measured by prevailing market price, to earn capital gains.

### Expanding Overseas

SKL's mainland joint venture subsidiary, Shin Kong-HNA Life Insurance, currently has five business channels, including telemarketing, bancassurance, individual life insurance, group insurance, and online sales. Looking ahead in 2014, the company's channel strategy will be to "increase sales volume by internal strengths through telemarketing channels, structurally adjust and steadily grow bancassurance channels, improve quality by trial marketing in individual insurance channels, realize efficiencies and pioneer new ground in group insurance channels, and establish and vigorously promote online channels." This strategy will be supplemented by "balanced attention to earnings and stability in investment operations, expansion and deepening of institutional development" and other operating principles aimed at achieving steady operations in the life insurance business.

SKL will also carefully assess expansion in Vietnam and other Southeast Asian countries based on its 50 years of experience in Taiwan and successful development model in the mainland life insurance market. The company aims to become the best life insurance provider in these markets and progressively develop as an industry-leading financial institution in the region.

### Shin Kong Bank

Shin Kong Bank's business strategy in 2014 will emphasize "strengthening loan structure, reducing cost of funding and increasing non-interest income," paying attention to profitability and capital adequacy and diversifying financial services to drive steady profit growth under the following business plan:



### Attention to Capital Adequacy Ratio and High-Quality Loans

SKB will implement the following measures to optimize its loan business:

1. Adjusting loan structure: SKB will strictly adjust and control the direction of lending and continue a strategy centered on steady growth and structural adjustment. The bank will reallocate to optimize the ratios of various types of lending (i.e. large enterprises, SMEs and corporate and consumer banking), taking into account profitability and asset quality.
2. Increasing return on risk-weighted assets: SKB will strengthen spreads in interest earning business with loan customers and actively adjust the ratio of its non-interest income. (1) Call loan positions will be adjusted with emphasis on increasing overall customer contribution to revenue. (2) Differentiated management of business costs and interest rates will be used to direct business units into operations with better interest spreads. (3) Cash management operations will be bolstered to increase the ratio of customer demand deposits and reduce cost of funding. (4) Real estate loans will be integrated with trust services to control construction risk and increase fee income. Moreover, SKB will help customers to effectively plan asset allocations, as well as interest and exchange rate hedging through wealth management and foreign exchange services to strengthen non-interest income.
3. Integrating and upgrading business platforms: SKB

will strengthen its global e-banking (GEB), foreign exchange, cash management and syndicated loan systems to increase the stickiness of corporate banking customers, grow fee income and demand deposits, and thereby reduce cost of funding and increase internal operating efficiency and customer satisfaction.

### Stabilizing Credit Quality, Strengthening Risk Management

SKB will closely watch the progress of QE tapering in the U.S., monetary policy adjustments, and the recovery of the European job market and high-debt countries. The bank will carefully assess the impact of these trends on Taiwan's economy and task relevant departments to promptly propose response plans. With China's economic hard or soft landing and the local debt risk expected to pressure Taiwanese businesses, the bank will also focus on risk management for cross-strait operations in future.

In the area of credit checking, SKB will strengthen factory visits and post-loan management. Staff from the head office and local branches will make inspection visits to regional factories. Overseas branches will also bolster factory visits and monitoring to control credit risk. Moreover, the bank will thoroughly study industrial business cycle and changes in macro- and micro-economic policy and industry trends and policy. Industrial investigation teams will prepare related reports to serve as a reference in loan examination. When making loans, examination and business units will also be required to deeply

understand the use of funds and repayment sources to ensure asset quality. Mortgage loans will continue to focus on customers with owner-occupied properties. The bank will also closely watch market changes and appropriately adjust credit policy.

In addition, SKB will use score cards and internal and external credit rating tools to strengthen early warning mechanisms in lending operations. It will also strengthen training for loan personnel, enhance risk management functions and establish a high-quality and disciplined team to reduce operational risk.

### **Increasing the Ratio of Demand Deposits, Controlling Time Deposit Interest Rates**

In order to reduce the cost of funding, SKB will continue to develop demand deposits and control time deposit interest rates, aiming to increase demand deposits by at least NT\$20 billion in each of the next three years, through the following specific measures:

1. Continue to provide a full range of cash flow management services through cash management products (GEB, ACH, FCS, comprehensive collection, etc.) to become customers' main bank for fund allocation.
2. Promote corporate banking and deepen customer relations, and expand employee payroll transfer operations to expand its demand deposit customer base.
3. Continue to develop settlement/transfer collection and payment services, NT dollar and foreign currency sub-brokerage, dividend payout, future fund deposits and other businesses in conjunction with securities firms.
4. Task business units to develop new customers to increase the number of new demand deposits accounts, as well as promote personal e-banking, payment of insurance premiums and utility fees, and other operations to increase customer stickiness.

As for controlling time deposit interest rates, corporate customers have the advantages of short-term deposits and high cash flow business, while personal customers create opportunities for wealth management and credit card business. SKB will therefore assess customer contributions and integrate management of various business lines to support reasonable pricing, reduce deposit interest rates, and develop insurance and wealth management operations.

### **Increasing Fee and Non-interest Income**

SKB will continue to increase non-interest income to optimize its financial structure, focusing especially on growth of wealth management, foreign exchange and TMU operations.

In the area of wealth management, the bank will continue to recruit wealth management consultants and improve their productivity, as well as balance development of overseas securities, mutual funds and insurance products. Moreover, in response to regulatory loosening, the bank will further develop in the OBU market. The launch of wealth management services by the Hong Kong branch will further inject business momentum. SKB aims to increase fee income by 15% in 2014. In the foreign exchange segment, the bank will add full-function foreign exchange designated branches to expand foreign exchange service volume, aiming for 15% growth in 2014. In the TMU segment, SKB has well established corporate banking customer sources. The bank will hone the professional competence of sales personnel and develop diversified products to provide optimal financial plans meeting market changes and customer needs. These measures aim to deepen customers' trust and business dealings to grow income in this segment by over 30% in 2014.

### **Developing E-banking, Diversifying Services**

With an eye to the rapidly growing demand for e-commerce in Taiwan, SKB plans to launch a third-party payment service to provide fund custody and stored-value payment account services that protect rights and benefits of buy-side and sell-side in online shopping transactions. In response to cross-strait





market demand, the bank is also planning new cross-border network collection and payment cash flow services to help consumers in the mainland area to purchase Taiwan specialty products over the internet. These businesses will help the bank to attract low-cost demand deposits and increase fee income.

In addition, SKB will continue to improve its mobile-banking service platform in step with the growing ubiquity of smartphones and handheld devices, aiming thereby to provide customers with greater user convenience. The bank will also jointly promote mobile payment applications with corporate customers to increase customer stickiness through online financial services.

### **Cultivating the Asia-Pacific Market, Expanding Overseas**

SKB has continued to actively expand its overseas operations since opening its Hong Kong branch in May 2011. In June 2013, the Financial Supervisory Commission (FSC) gave the bank the greenlight to apply to the Bank of Vietnam for permission to establish a branch in Binh Duong. In December 2013, the FSC also granted permission for SKB to establish a representative office in Yangon, Myanmar, clearing the way for the bank to apply to the local government for branch establishment. Cambodia and other ASEAN countries with concentrations of Taiwanese businesspeople are other markets with immense potential.

SKB will also continue to cooperate with Suzhou-

based Shin Kong Leasing. The bank will learn from the affiliate's management experience in the China leasing market, including credit checking and lending processes, post-loan management and collection procedures, and site visits, to deeply understand industry types and regulatory restrictions. The bank will also roll out an industry peer exchange network as a forward post for SKB's future advance in the mainland market. With the Hong Kong branch as its operating base, SKB will link OBU operations with Shin Kong Leasing to serve Taiwanese companies with operations on both sides of the Taiwan Strait. The bank also plans to accelerate its presence in China's financial market after the Cross-Strait Trade and Services Agreement comes into force.

### **Shin Kong Investment Trust**

Performance, scale, products and human resources will be the four major business focuses of Shin Kong Investment Trust (SKIT) in 2014. The company will formulate a three-year strategic guideline and action plan calling for a series of strategic adjustments, planning overhauls, real-time tracking of monthly operations, and organizational adjustments aimed at making the company investors' first-choice fund brand. The company's three major business objectives and plans are as follows:

#### **Industry-leading Performance**

1. SKIT will strengthen non-money market fund

performance through the following specific action plans:

(1) The company aims to achieve performance in the top 50% on relative return funds. It will also develop one flagship fund meeting scale thresholds and aiming for performance in the top quartile among peer funds. Furthermore, from 2014, scale will be included in the weighted indicators for performance assessment to encourage growth in the scale of non-money market fund assets under management.

(2) The company will seek steady fund return performance with an aim to control fluctuations and provide stable positive returns.

2. In addition to its public funds, SKIT has in recent

years established stability-focused discretionarily managed accounts coordinated with SKL's investment-linked policies. The company will also seek to boost performance in 2014 by promoting the Shin Kong Innovative Technology, OTC Market, Taiwan Fu-Kuei, Great China, Asia Equity, and China Growth public funds as the preferred choices of fund for customers of SKL's investment-linked policies.

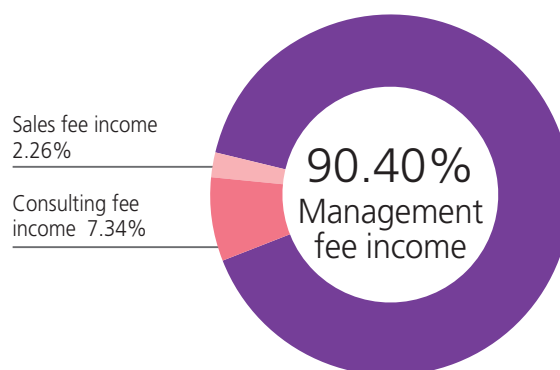
SKIT will establish an Investment Management Committee and regularly convene to review fund investment performance and discuss fund manager assessment and elimination mechanisms. It will also use salary and other incentive systems linking fund performance to remuneration and establish an internal culture of healthy competition. Through

## Revenue Mix

Unit: NT\$ Thousands

Category	2013 Amount	Share of Total (%)
Management fee income	181,385	90.40%
Sales fee income	4,526	2.26%
Consulting fee income	14,736	7.34%
<b>Total</b>	<b>200,647</b>	<b>100.00%</b>

Note: Due to rounding, figures may not add up to the total.

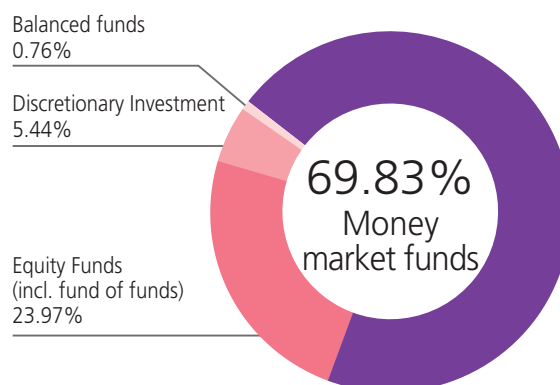


## Assets Managed

Unit: NT\$ Millions

Category	2013 Amount	Share of Total (%)
Equity Funds (incl. fund of funds)	7,587	23.97%
Money market funds	22,095	69.83%
Balanced funds	240	0.76%
Discretionary Investment	1,721	5.44%
<b>Total</b>	<b>31,643</b>	<b>100.00%</b>

Note: Due to rounding, figures may not add up to the total.





these improvements, SKIT aims to launch at least one flagship fund in the next three years. It will also develop discretionary investment operations for the four major government funds to increase the scale of assets under management.

### Asset Scale Breakthrough

From 2014, SKIT will regularly hold product strategy meetings to discuss ways to accelerate the pace, breadth and scope of new fund development, collect market information and closely follow political, economic and monetary policy trends in Taiwan and abroad. The company will formulate a roadmap aimed at developing a new fund within a period of six months to a year and, in tandem with related departments, complete the planning and flotation of new funds and rapidly upgrade the company's (non-money market fund) assets under management.

SKIT will also build on results through group channel synergies and create a "Product + Channel" integrated marketing mechanism to increase the scale of investment trust assets under management. The company will develop products that are suitable for SKL's customers, as well as jointly plan with SKL products for such policies. For example, in January 2014, the company issued the Shin Kong AUD Principal Protected Fund for linkage to SKL's Fu-Wan-Li Variable Life (second phase) policy. In a departure from the traditional fund placement methods of investment trust companies, SKIT packaged and simultaneously listed products from the same investment target to broaden the fund's sales reach and improve the results of channel operations. The company will also develop investment-linked VUL discretionary Investment. In the future, SKIT

will continue to build on its cross-selling model for life insurance and investment trust products and increase the scale of assets under management by tightly integrating with channel resources within the group.

In addition, SKIT will strengthen cooperation with external channels, including promotion of discretionary investment-linked policies to external life insurance channels. The company will also form strategic cooperation ties with bank channels, including new fund custody, filing and sales. Through the two-pronged life insurance and bank channels, the company aims to consolidate the size of existing funds and continue to vigorously grow the scale of new funds to achieve a win-win outcome.

### Setting the Trend in Product Diversification

There has been a strong demand for interest distribution funds in recent years, highlighting the preference in Taiwan for money management instruments generating stable income. In 2014, SKIT will strengthen its brand position and tap opportunities in the income fund market. Related fund placements completed to date include the Shin Kong AUD Principal Protected Fund launched in early 2014, the Shin Kong Global ETF Fund of Funds debuted in the first quarter, and the Shin Kong 10-Year AUD Principal Protected Fund issued in the second quarter. All of these funds emphasize investments generating stable income.

Product innovation is the key to standing out in the intensely competitive investment trust industry. The low birth rate and aging of society in Taiwan have brightened the outlook for biotech and healthcare industries. SKIT therefore plans to issue a biotech and healthcare fund in the second half of 2014. In addition, with RMB financial products becoming the next battleground in the financial industry, SKIT plans to respond to the RMB wealth management trend with the launch of RMB funds, insurance policies and other new products, drawing on group resources to seize opportunities in the RMB market.

In 2014, SKIT's business strategy will focus on "pioneering a new future with big strides." The company will seek to tap blue ocean opportunities on both the product and channel ends, as well as work with various channel partners to build on mutual benefits and reach its operational targets for the year.



## Shin Kong Property Insurance Agency

To more effectively integrate group resources and improve operational synergies, SKFH acquired a SKB's wholly-owned subsidiary, Shin Kong Property Insurance Agency Co., Ltd. (SKPIA), in late 2013 and incorporated the company as a direct subsidiary, retaining the same English name. SKPIA will closely integrate with group business and marketing channels through SKFH's cross-selling platform to provide customers with more complete non-life insurance protection and full ranges of service.

SKPIA will jointly develop new high-quality products with non-life insurers and serve as an effective medium for promotion of various financial products. The company will also strengthen product training and leverage cross-selling services to upgrade the professional ability and mobility of its staff. Additionally, the company will enhance the quality of logistical administrative services to boost customer satisfaction and expand business niches. The company's specific business plans in 2014 are as follows:

### Developing High-quality Products to Meet Customer Needs

The guiding principle of SKPIA's marketing and promotion efforts is to suggest and provide products meeting customers' needs for non-life insurance protection. The company will develop a broad range of products for packaged marketing. Car insurance is one major product category. The company launched the

"Jin-Shun-Feng" policy package combining compulsory and voluntary insurance for promotion by its sales team. It will also actively coordinate with SKL and SKB for selling fire insurance of mortgage business with the roll out of the "Zhai-Ping-An" package, providing mortgage customers with high-quality and comprehensive homeowner's protection. Other planned liability policies include the "An-Shin-Hao-Tian-Jia" package joining public accident and money insurance providing high-quality coverage for owner-operated stores. The company will also offer construction engineering, marine and liability policies to meet the needs of different channel customers and build sales momentum.

### Leveraging Business Channels to Enhance Service Quality

By selling non-life policies, life insurance agents can generate additional income, build closer contacts and services to increase client stickiness, and boost sales volume across non-life, life and related financial product segments. SKPIA will therefore formulate marketing and service projects tailored to the channels of SKL, SKB and MasterLink Securities, strengthen operational support, and heighten the importance placed by agents on non-life insurance to raise policy renewal rates. The company will also encourage the use of "business opportunity text messaging," "policy views" and other means to develop new customer sources and expand business opportunities. In 2014, the company will provide incentives for the average number of policies sold through each of its major channels and units, as well as introduce incentives





for raising per-policy premiums for each channel. At the same time, the company will expand training and guidance mechanisms for less productive channels, establish allowances based on number of policies sold per agent, and arrange total policy ranking contests to stimulate service performance and seize opportunities to provide customers with more comprehensive protections.

### Strengthening Training to Upgrade Professional Services

SKPIA has introduced a systematic non-life insurance licensing guidance program to enhance professional services and strengthen training in licensing, solicitation and service skills. The company also encourages agents of SKL to take non-life insurance exams and become licensed to upgrade the professional knowledge and image in the non-life sector. Through training courses for new recruits, the company will strengthen basic education on non-life insurance products. It will also arrange professional seminars and claims-related training during channel meetings to constantly improve non-life insurance abilities. The company also invites outstanding lecturers from Shinkong Insurance and the insurance industry to speak at seminars held at different business locations to help employees learn, grow and provide customers with the most professional support.

## Shin Kong Venture Capital

In March of 2014, SKFH resolved to inject capital of NT\$1 billion into Shin Kong Venture Capital (SKVC) to strengthen its capital structure, prepare for future

operations and provide funding for reinvestment in Shin Kong Leasing. SKVC also increased the capitalization of Shin Kong Leasing by US\$20 million through a third overseas site to help the leasing company expand operations and generate steady profits. The company's business strategy in 2014 will focus on the following areas:

### Leveraging Group Resources to Boost Profitability

SKVC will continue to carry out intensive industry research and on-site inspection visits, fully utilize group resources, and carefully assess and carry out investments in Taiwan. The company will identify potential and high-growth investment targets, as well as dispose of investment assets at appropriate times to enhance overall rates of return, paying attention to both safety and liquidity in fund utilization.

### Deeply Cultivating China's Leasing Market

In 2014, SKVC will continue to help reinvested enterprise Shin Kong Leasing to expand operations and enhance profits. With an eye to asset quality, the company will steadily develop lease financing operations among high-quality Taiwan-funded or local small businesses, aiming to increase leasing assets to RMB570 million by 2016. The company will also further diversify risk and run local market operations with strict quota controls to prevent excessive risk exposure on any individual customer. Reserves for non-performing loans will be further provisioned to gradually increase coverage ratios of various loans and improve financial soundness. Over the short-term, Shin Kong Leasing will focus operations in the areas of Shanghai, Jiangsu and Zhejiang. In the mid-term, the company expects to establish a foothold in the Yangtze River Delta area to take advantages on transportation and location and extend its operations to other major cities in China. The company will also capitalize on policy support aimed at fostering the region's financial industry, the high concentration of domestic and foreign enterprises and other market advantages to increase scale and profits. In addition, Shin Kong Leasing has been working closely with SKB since its inception and has integrated with the bank's Hong Kong branch and OBU channels to serve Taiwanese companies in China. The company's local operations in China will also lay a foundation for SKB's future development of branches and subsidiaries in China.

# Diverse Public Welfare Everlasting Love

Shin Kong founder Mr. Wu Ho-Su had been committed to the business mission of "giving back to society" long before the concept of the "social enterprise" became widely accepted in the industry. "Contributing to the community" is also a mission embraced by every Shin Kong employee as a central enterprise value.

Under the leadership of Chairman Eugene T. C. Wu, SKFH has in recent years brought together company resources and the resources of various sectors to arrange activities and engage deeply and broadly in philanthropic and public services. The company has also specifically developed planned and strategic charitable programs in order to achieve more innovative and sustainable social welfare.





# 十轉動全台



# Giving Back to Society

SKFH has a long tradition of involvement in various social welfare works rooted in the corporate mission of "giving back to society" established by its founder, Mr. Wu Ho-Su. For over 40 years, the Shin Kong Life Scholarship Foundation has provided substantive economic support that has helped countless students. Shin Kong Life Foundation (SKLF), which has carried out "strategic philanthropy programs" for many years, recently launched the "Town & Country Pen Pal Program" to inspire excellence among young people in indigenous communities. SKFH has also made significant and widely lauded contributions through its promotion of energy conservation, carbon emission reduction and advocacy of environmental protection and life education. The birth of giant panda baby "Yuan Zai" at the Taipei Zoo in July of 2013 further heightened the visibility and popularity of the Shin Kong-donated Shin Kong Special Exhibit House, highlighting Shin Kong's long-term commitment to ecological protection in the public mind.

Going forward, Shin Kong is also pioneering new ground in senior-friendly care and services, combining the group's life insurance, health, medical treatment, security and other resources to meet the needs created by Taiwan's aging society and declining birthrates. The company will also continue to explore innovative ways to promote philanthropy and fulfill its mission of corporate social responsibility.

\* In 2012 and 2013, SKFH compiled a "Corporate Social Responsibility Report" and published it on the company's website. The reports disclose SKFH's corporate philosophy and involvement related to putting CSR principles into practice. They also lay out strategic management guidelines for thorough implementation of CSR.

## Caring for the Earth, Protecting the Environment

### ■ Saving Energy and Reducing Carbon Emissions to Build a Green Society

Conserving resources through e-operations: In 2012, Shin Kong Life Insurance (SKL) launched a paperless policy campaign. The initiative aimed to encourage policyholders to use online channels for insurance applications to expedite policy change applications and reduce the printing of physical documents. In 2013, the company rolled out an improved APP platform and stepped up promotion of e-commerce operations. In addition to its processing and support functions, the platform can be used by policyholders to search, browse and retrieve information online. It also provides a channel for customer reward programs and, by encouraging online policy applications, reduces paper use. Furthermore, SKL provides agents with a range of e-sales promotion





tools (such as tablet computers and smartphones). The company has also bolstered its Business Lead Management System and established an e-bookstore archive. The online platform can also be used for announcements and document transmission, further reducing paper usage.

Energy conservation and reduction of carbon emissions are other causes that SKFH has fully embraced. For example, at its corporate headquarters, Shin Kong Life Tower, total electricity usage trended down annually from 35.104 megawatts in 2007 to 27.768 megawatts in 2013. The energy savings during this period totaled over 22.903 megawatts, equal to a more than 16,297 metric ton reduction in carbon emissions. In 2013, SKL's Nanjing Building participated in the Taipei City Gold Energy Saving Award. The model building won the Excellence Award in the A-Group Commercial Industry category, representing the third year it has been recognized with this honor.

The "Shin Kong National Children's Drawing Contest" also continued in 2013 to further hone Shin Kong's public welfare image. The event was held simultaneously with the "Protecting the Public Welfare and Protecting the Earth" and "Recycling Used Batteries, Giving the Handicapped a Home" activities. These events mobilized enterprises and community resources to recover 1,600 kilograms of waste batteries. Over the past four years, a total of 11,278 kilograms of used batteries have been recycled, preventing the pollution of soil equal to the area of about 20 football pitches and contributing to the promotion of green living. All of the incentive payments earned from the battery recycling were donated to the Parents Association for Persons with Intellectual Disabilities, Taiwan, to support programs for disadvantaged children, combining environmental protection with the message of care.

### ■ Climbing High for Public Welfare and Ecological Protection

Shin Kong has held the hugely popular Shin Kong Life Tower Run Up annually since 1994. Each run up highlights a different theme aimed at encouraging the public to "climb high for public welfare." Over the years, the activity has raised more than NT\$120 million for charity. In 2013, the 31st Shin Kong Life Tower Run Up was held under the theme of "Running to the Rescue AED." A total of 5,279 people registered for the run. Shin Kong donated 50 automated external defibrillators (AEDs) to various county and city governments. The activity aimed to inspire enterprises and government to work together to protect the people's safety.



Shin Kong affiliates have also led their industries in their long-term involvement in ecological protection. On Children's Day in 2012, a ceremony was held to celebrate the opening of the Taipei Zoo's new home for the gorilla "Baobao," adding a happy new chapter to the more-than-20-year saga of Baobao's adoption and the ecological message it embodies.

SKL also donated NT\$300 million for the construction of the Shin Kong Special Exhibit House, which opened in 2009 as the home for the giant panda pair "Tuan Tuan" and "Yuan Yuan." Since July 6, 2013, when the adorable panda baby "Yuan Zai" was born, the Shin Kong Special Exhibit House has received a constant stream of visitors following the panda's growth and further highlighting Shin Kong's long-term contribution to ecological protection in the public mind. The pandas have also significantly raised Shin Kong's corporate image through the international media coverage attracted.



### Caring for the Community, Coming to the Rescue

Through the normal operations of SKLF, SKFH has continuously dedicated resources to caring for social development in Taiwan in areas ranging from disaster relief and support for police, fire and medical needs to care for disadvantaged groups. The group's involvement has been especially notable in the donation of fire and ambulance vehicles and equipment, as well as support for blood donation drives.

#### ■ Liugui Shin Kong Knowledge Center: Rebuilding Communities with a Cultural Touch

It is said that "disasters are ruthless, but the world is loving." When Typhoon Morakot hit southern Taiwan, SKFH and its subsidiaries launched a series of employee donation drives that raised NT\$15.22 million for the construction of the "Shin Kong Knowledge Center." Since its completion in 2011, the center has become a knowledge base for the students of Liugui Elementary School and a locus for social education among the residents of the Jiaxian, Liugui, Baolai and Taoyuan area.

In late 2013, SKFH invited the students of Liugui Elementary School to visit Kaohsiung's Shoushan Zoo and National Science and Technology Museum. This time, the activities were expanded to include the entire student body to broaden life and environmental learning opportunities and help the children develop their abilities for aesthetic appreciation and expression. SKFH has also arranged a series of activities in the Liugui area over the past three years, taking concrete action to bring resources and care to remote townships. In addition, Shin Kong Bank (SKB) arranged a special screening of the documentary "Bridge Over Troubled Water" on November 17 in Taipei. The movie recounted the efforts of the residents of Jiaxian Township to rebuild their lives after Typhoon Morakot, and also drew attention to the neglect of new residents by society. The showing was joined by director Yang Li-chou and recent immigrants invited through the Taiwan New Residents Development Association to show Shin Kong's support and care for this group of "New Taiwanese."

In the future, the "Liugui Shin Kong Medium- and Long-term Activities" program will copy the "Big Hands Holding Small Hands - Aboriginal Pen Pal Volunteer" success story carried out for many years in Xinguang community of Hsinchu County's Jianshi Township and extend it to the Liugui area. Shin Kong is also simultaneously planning "book club leader and parent storytelling training" and "reading education" programs. The book club training program aims to encourage the sharing and extension of knowledge by developing the storytelling skills of local parents and encouraging students' interest in reading. The program also enhances parent-child relationships and can deepen the children's emotional bonds to the community.

#### ■ Donating Blood, Helping People in Need



In order to encourage people to roll up their sleeves and donate blood, SKL and SKB partnered again to launch a national blood donation drive at eight locations across Taiwan after the 2013 Lunar New Year, taking concrete action to relieve severe blood shortages and save lives. In addition, Shin Kong has for years freely provided parking space for a bloodmobile at the Shin Kong Life Tower Plaza. In 2013, a total of 13,390 people donated 18,484 bags of much-needed blood. From 2003 to 2013, the drive has collected 265,424 bags of blood from 137,924 donors, reaffirming Shin Kong's dedication to public service on the company's 50th anniversary.

SKL also acts on its corporate philosophy of giving back to the community by regularly holding care activities for disadvantaged groups. Over the years, the company has been a major supporter of the Genesis Social Welfare Foundation and Huashan Social Welfare Foundation through the donation of funds and supplies. The company's various business units collect lottery invoices and second-hand supplies for donation, and some have donated shower cars and kitchen cars for the homeless. At the end of 2013, SKL also held the "Loving Dinner Reunion" second-hand charity bazaar at 15 locations throughout Taiwan. More than NT\$2.2 million raised by the charity sales and donated to the Huashan Social Welfare Foundation to provide year-end banquets, so seniors who live alone could enjoy the warmth of the Lunar New Year season.

#### ■ 50th Anniversary Island-Round Charity Relay



SKL celebrated its 50th anniversary in 2013 by holding the "Shin Kong at 50: Cycling Taiwan" activity highlighting the company's tradition of serving local communities and public-spirited business philosophy. At 9 a.m. on April 26, 2013, SKLF Executive Director Cynthia Wu and celebrity Janet Hsieh led a group of 50 cyclists on a tour from Shin Kong Life Tower in front of Taipei Main Station to Banqiao Railway Station. Over the next nine days, the group cycled a route through Banqiao, Taichung, Chiayi, Kaohsiung, Taitung and Yilan. At each stop, the group represented Shin Kong in donating automated external defibrillators (AEDs) to the local government agencies. A total of 50 AEDs were donated during the activity.

To ensure rider safety, the riders were accompanied by an ambulance with AED and other medical equipment. Policyholder get-togethers were arranged during the trip, combined with invoice and







blood donation drives and charity sales arranged by the SKL sales departments and offices and local public interest groups. On May 4, the day that the riders returned to Shin Kong Life Tower in Taipei, SKFH Chairman Eugene Wu led the group to participate in the 31st "Running to the Rescue AED" Shin Kong Life Tower Run Up, bringing the activity to a successful close.

### Branching Out in Strategic Philanthropy

In 2003, SKLF Executive Director Cynthia Wu introduced the concepts of "strategic philanthropy" from the U.S.-based Rockefeller Foundation in its planning of philanthropic work. The foundation has also focused its efforts in three major areas, including care for women's health, care for Taiwan's indigenous peoples, and the development of oral history, through public service programs across Taiwan.

#### ■ Raising Women's Health Awareness and Advancing Breast Cancer Prevention Work

Many women in Taiwan today juggle responsibilities at home and work, with the result that personal health often gets ignored. In support of women's health, SKLF has teamed up with women's welfare groups to jointly arrange promotional and training activities under the "Breast Cancer Awareness Campaign." Focusing on "women's self-care" and "heightening health awareness," these activities aim to encourage the habit of regular health screening and promote correct cancer prevention concepts.

The breast cancer screening rate is far lower in Taiwan than in advanced countries in Europe and the United States. Since 2007, SKLF has therefore

partnered with Shin Kong Wu Ho-Su Memorial Hospital to hold numerous activities promoting breast cancer prevention. Vouchers for free breast ultrasound checkups are also provided to encourage women to have breast examinations. As of the end of October 2013, a total of 17,633 women have benefited from the program. The examinations have identified 2,041 cases of abnormalities and follow-up examinations at Shin Kong Wu Ho-Su Memorial Hospital confirmed diagnoses of cancer in 17 women. SKLF also provides a stage to promote awareness of breast cancer. The foundation encourages women with breast cancer to volunteer and share their experience to help others with cancer and their families to weather this deadly disease.

#### ■ Town & Country Pen Pal Program: Inspiring Excellence among Indigenous Youth

Indigenous people face disadvantages both economically and in their education. In order to level the playing field and create a fair environment, SKLF and the Rainbow Project have collaborated over the years to arrange supplementary classes for young people in aboriginal areas of Hsinchu County's Zhudong Township and the villages of Xinguang and Zhenxibao in Jianshi Township. The classes are taught by locally-hired and full-time indigenous staff, providing job opportunities and cultivating new generations of teachers. In 2013, SKLF Executive Director Cynthia Wu extended the "Big Hands Holding Small Hands - Aboriginal Pen Pal" project with the launch of the "Town & Country Pen Pal Program" on the foundation's 30th anniversary. This program seeks to draw public and corporate attention to educational development in remote townships and lay a solid



foundation for the education of children in these areas.

Additionally, SKB has for several years arranged money management workshops for indigenous people. Taught by finance professionals, the workshops impart financial knowledge in layman's language, strengthening awareness of the modern financial environment and system among indigenous people. The courses aim to reduce financially-related family discord and social problems, thereby contributing subtly to social stability.

Through these initiatives, the Shin Kong group is committed to improving the competitiveness of indigenous people and, with love and care, inspiring indigenous children to aim high. It is hoped that these children will one day give back to their villages, transitioning from the role of a receiver to the role of a giver and becoming pillars of the community and invaluable assets to their tribes.

### ■ Foreseeing Social Development and Creating a Senior-friendly Society

Taiwan is a steadily aging society. It is forecasted that by 2018, people aged 65 and over will account for over 14% of the total population and that, by 2025, Taiwan will become a super-aged society. SKFH has long been concerned about senior issues. In 2003, SKLF Executive Director Cynthia Wu introduced the "History Alive" and "Legacy Art Works" senior programs from New York-based Elders Share the Arts (ESTA), inspiring a new trend in art-based services. In 2013, SKLF partnered with Godot Theatre to arrange the heart-touching drama "Dahe Laundry" on October 11 to 13. The play, the fourth in the "History Alive Life Theater" series, was performed by senior participants in the History Alive acting classes, along with students at Mingde Elementary School. The productions have introduced Taiwan to a new channel for intergenerational communication.

Looking ahead to the progressive aging of Taiwan's society, SKFH Chairman Eugene Wu made a public pledge on Shin Kong's 50th Anniversary to integrate the group's innovative financial services with the resources of its hospital and security affiliates to deliver services to help people in Taiwan live rich, active and beautiful senior lives. Shin Kong will closely watch elderly issues and government long-term care policy and call on society to prepare early for the advent of an aged society.



## Valuing Education across the Generations

### ■ Four-decade Tradition of Supporting Scholarship

Founder Mr. Wu Ho-Su believed that education is the most important part of personal growth. Born into poverty, he had limited educational opportunities growing up: an experience that fostered his ambition to help all students pursue a full education. With this goal in mind, Mr. Wu established the Shin Kong Life Scholarship Foundation in 1973, marking SKL's tenth anniversary and growing success, to award high school and college scholarships. In the 41 years since then, the foundation has grown its endowment to NT\$55 million and provided over NT\$234.32 million in scholarships to 106,375 students. The foundation accepts scholarship applications each March and has introduced a fast and convenient online registration system to provide students with universal and substantive assistance.

### ■ Cultivating Future Stars by Financial Education

SKFH has long been an active supporter of financial and insurance education at university campuses. Among the company's core CSR missions is to promote insurance concepts and deeply cultivate insurance education. In 2013, the company stepped up industry-academic with 28 partner colleges and universities to develop integral programs aimed at providing student's with more internship, growth, training and employment opportunities and helping them to broaden their vision.



SKL's trailblazing "Insurance Star Career Planning and Development Camp" entered its 12th year in 2013. Joined by students in insurance-related departments, the camp combined educational and group activities to build practical knowledge of the insurance industry. SKFH and the China Youth Corps also jointly hold the "Shin Kong Financial Development Camp for University Students" each year during summer vacation to serve students in academic fields not related to insurance. The camp has attracted enthusiastic participation among students with its lively and content-rich programs, helping to strengthen knowledge of insurance concepts and money management among a new generation of young people.

### ■ Helping Young People Shine through Pop Culture



SKFH hosts popular street dance and music composition contests to give young people a stage to express their abundant energy, creativity and talent, with eye-opening results. In 2013, the 10th "Shin Kong Street Dance Competition" was arranged in cooperation with Japanese street dance promotion group World Rhythm Dance Association (WRDA). Two Japanese teams were invited to take part in a performance contest judged by two Japanese dance masters to promote youth culture exchanges between Taiwan and Japan.

SKFH also continued to hold the free "Life is Beautiful" seminar series to promote cultural life and foster cultural literacy. Money management, leisure and health are the three major themes of the seminars, during which celebrities and experts in various fields present speeches and share professional knowledge, as well as engage with the audience in lively questions and answers sessions. Since 2006, a total of 223 seminars have been held, attracting over 45,572 participants and earning widespread accolades.

Moreover, SKL and SKB jointly hold the annual Shin Kong National Children's Drawing Contest to encourage children to give creative expression to their rich imaginations. The 2013 contest, adopting the theme of "My Creative Ideas," attracted over 15,000 drawings by children across Taiwan. For the fourth straight year, the contest also included a category for children with intellectual disabilities to give disadvantaged children more room to develop. Their

drawings moved both parents and the general public with their unique visual expressions and the inner world they reflected.

## Valuing Employees, Creating a Happy Workplace

### ■ Attention to Employee Benefits and Creating a Healthy Environment

Realizing that people are a company's most important assets and the keys to higher competitiveness and sustainable operations, SKFH provides its employees with a comprehensive benefit and retirement system. It also offers a high-quality work environment that has contributed to the health and vitality of its employees.

Each year, SKFH carries out periodic employee health examinations. The company's professional health managers provide follow-up tracking, guidance and consulting services to employees based on the results of their health examinations. A variety of club activities are also arranged to enrich employees' leisure life and foster close bonds among colleagues. In addition, SKL offers facilities to care for the welfare of female employees, such as the breast feeding rooms at Shin Kong Life Tower, which have won the Taipei City Department of Health's certification for "Outstanding Breast Feeding Rooms." Moreover, male and female employees both receive maternity leave, parental leave, preferential child care, welfare committee fertility subsidies, labor insurance maternity benefits and other benefits and assistance to help parents work with peace of mind.



### ■ Creating Safe Workplaces with AED-equipped Health Centers

SKFH attaches great importance to workplace safety and office environmental health. In line with the Regulations for Implementing Workplace Environmental Survey and Evaluation, the company regularly monitors carbon dioxide concentrations, lighting levels, workplace safety and cooling tower Legionella pneumophila to ensure a safe, comfortable, high-quality and healthy workplace. The company also annually designates staff to undergo certification training for firefighting management and first aid personnel, as well as regularly holds disaster escape drills at company buildings to build health and safety related knowledge and amply prepare for workplace risks. In 2010, SKL accomplished "self-certification of healthy workplace" and received the "Health Promotion Mark" in recognition of its commitment to employee health.

According to statistics compiled by the Ministry of Health and Welfare, heart disease has become the top three major cause of death in Taiwan. Many of the deaths related to heart disease result from sudden cardiac arrest. Mortality rates of patients before arriving hospitals can be reduced by using electric shock to help the heartbeat return to normal. In 2013, Shin Kong therefore equipped its health centers at five buildings nationwide with the cutting-edge automated external defibrillators (AEDs) that can immediately deployed for emergency first aid support and protect employee lives.



# Shin Kong Financial Holding Co., Ltd. and Subsidiaries

## Consolidated Balance Sheets

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 43,625,253	2	\$ 65,485,403	3	\$ 69,192,191	3
DUE FROM CENTRAL BANK AND OTHER BANKS	120,850,612	5	129,336,837	6	110,495,816	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	91,899,916	4	57,949,551	2	36,128,260	2
AVAILABLE - FOR - SALE FINANCIAL ASSETS	357,586,019	14	345,802,515	15	321,179,643	15
BONDS PURCHASED UNDER RESALE AGREEMENTS	3,329,957	-	4,481,719	-	20,367,689	1
ACCOUNTS RECEIVABLE	65,175,198	2	62,848,702	3	56,457,150	3
CURRENT TAX ASSETS	3,920,628	-	4,470,656	-	3,182,393	-
ASSETS HELD FOR SALE	3,594,919	-	77,428	-	200,964	-
LOANS, NET	656,347,501	26	621,476,783	26	565,302,302	26
HELD - TO - MATURITY FINANCIAL ASSETS	306,547,795	12	248,171,328	11	201,316,589	9
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	95,083	-	139,546	-	140,207	-
FINANCIAL ASSETS MEASURED AT COST	4,409,620	-	4,420,042	-	4,875,771	-
DEBT SECURITIES WITHOUT AN ACTIVE MARKET	599,104,992	24	520,758,875	22	501,427,434	23
ASSET ON INSURANCE PRODUCTS - SEPARATE ACCOUNT	88,546,762	3	94,526,174	4	98,990,995	5
MISCELLANEOUS FINANCIAL ASSETS	1,706,303	-	1,564,198	-	1,434,675	-
INVESTMENT PROPERTIES	122,990,613	5	126,479,120	5	117,395,503	5
PROPERTY AND EQUIPMENT	24,687,516	1	25,004,743	1	24,341,805	1
INTANGIBLE ASSETS, NET	3,166,948	-	3,092,023	-	3,100,914	-
DEFERRED TAX ASSETS	15,097,729	1	16,551,747	1	16,877,051	1
OTHER ASSETS	22,550,037	1	18,605,710	1	20,941,635	1
<b>TOTAL</b>	<b>\$ 2,535,233,401</b>	<b>100</b>	<b>\$ 2,351,243,100</b>	<b>100</b>	<b>\$ 2,173,348,987</b>	<b>100</b>

December 31, 2013 and December 31, 2012 and January 1, 2012

(In Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
DUE TO CENTRAL BANK AND OTHER BANKS	\$ 4,152,993	-	\$ 3,221,695	-	\$ 7,842,865	-
FINANCIAL LIABILITIES AT FAIR VALUE						
THROUGH PROFIT OR LOSS	9,932,689	1	2,455,022	-	14,262,161	1
BONDS ISSUED UNDER REPURCHASE						
AGREEMENTS	21,850,128	1	31,630,846	2	24,538,375	1
COMMERCIAL PAPER PAYABLE	7,597,049	-	4,548,869	-	3,349,413	-
ACCRUED EXPENSES	4,478,013	-	4,414,448	-	4,122,560	-
BONDS PAYABLE - CURRENT PORTION	-	-	10,639,559	1	-	-
OTHER PAYABLES	28,489,093	1	30,496,427	1	26,579,793	1
CURRENT TAX LIABILITIES	160,365	-	471,426	-	685,978	-
DEPOSITS AND REMITTANCES	573,445,108	23	517,220,850	22	447,344,628	21
BONDS PAYABLE	32,902,418	1	32,865,243	2	29,277,164	1
OTHER LOANS	8,279,012	-	3,764,998	-	8,113,462	1
PREFERRED STOCK LIABILITIES	1,654,000	-	1,654,000	-	1,654,000	-
PROVISIONS						
Insurance liability	1,611,173,214	64	1,497,655,576	64	1,399,614,249	65
Reserve for employee benefits	2,215,285	-	1,978,058	-	1,783,402	-
Other reserves	14,232	-	14,232	-	14,232	-
LIABILITIES ON INSURANCE PRODUCTS -						
SEPARATE ACCOUNT	88,546,762	4	94,526,174	4	98,990,995	5
MISCELLANEOUS FINANCIAL LIABILITIES	7,055,690	-	4,377,228	-	4,513,575	-
DEFERRED TAX LIABILITIES	3,890,087	-	4,781,553	-	4,756,468	-
OTHER ADVANCE RECEIPTS	5,618,498	-	3,022,645	-	4,533,208	-
OTHER LIABILITIES	8,976,897	-	5,788,964	-	6,073,954	-
Total liabilities	<u>2,420,431,533</u>	<u>95</u>	<u>2,255,527,813</u>	<u>96</u>	<u>2,088,050,482</u>	<u>96</u>
EQUITY ATTRIBUTABLE TO OWNER OF THE						
COMPANY						
Share capital						
Common stock	93,288,169	4	84,363,876	4	84,363,876	4
Capital surplus	9,180,681	-	9,160,484	-	8,838,484	-
Retained earnings						
Legal reserve	1,717,963	-	736,756	-	218,234	-
Special reserve	14,952,466	1	10,164,665	-	5,497,968	-
Unappropriated earnings	14,364,201	-	13,783,100	1	9,768,375	1
Other equity						
Exchange differences on translating						
foreign operations	11,914	-	( 43,261 )	-	-	-
Unrealized losses on available - for -						
sale financial assets	( 32,567,544 )	( 1 )	( 35,579,767 )	( 2 )	( 36,084,256 )	( 2 )
Total equity attributable to owner						
of the Company	<u>100,947,850</u>	<u>4</u>	<u>82,585,853</u>	<u>3</u>	<u>72,602,681</u>	<u>3</u>
NON-CONTROLLING INTERESTS	13,854,018	1	13,129,434	1	12,695,824	1
Total equity	<u>114,801,868</u>	<u>5</u>	<u>95,715,287</u>	<u>4</u>	<u>85,298,505</u>	<u>4</u>
<b>TOTAL</b>	<u>\$ 2,535,233,401</u>	<u>100</u>	<u>\$ 2,351,243,100</u>	<u>100</u>	<u>\$ 2,173,348,987</u>	<u>100</u>

# Shin Kong Financial Holding Co., Ltd. and Subsidiaries

## Consolidated Statements of Comprehensive Income

	For the Year Ended December 31				Percentage Increase (Decrease) %
	2013		2012		
	Amount	%	Amount	%	
<b>INTEREST INCOME</b>	\$ 61,274,675	42	\$ 57,445,873	43	7
<b>INTEREST EXPENSE</b>	( 5,605,778 )	( 4 )	( 5,172,385 )	( 4 )	8
<b>NET INTEREST INCOME</b>	55,668,897	38	52,273,488	39	6
<b>NET INCOME AND GAINS OTHER THAN INTEREST INCOME</b>					
Net processing fee and commission income (loss)	651,139	-	( 28,023 )	-	2,424
Net income on life insurance operation	63,267,521	43	56,034,530	42	13
(Loss) gain on financial assets and liabilities at fair value through profit or loss	( 12,364,511 )	( 8 )	14,301,109	11	( 186 )
Realized gain on available-for-sale financial assets	10,549,651	7	21,753,108	16	( 52 )
(Loss) gain of associates accounted for using equity method	( 5,969 )	-	2,383	-	( 350 )
Gain on investment properties	11,531,745	8	3,469,583	3	232
Realized gain on held-to-maturity financial assets	-	-	932	-	( 100 )
Exchange gains (losses)	13,685,953	9	( 20,889,111 )	( 16 )	166
Gain on reversal of impairment (impairment loss recognized) on investment assets	6,416	-	( 149,405 )	-	104
Gain on financial assets measured at cost	61,632	-	52,882	-	17
Realized gain on debt securities without an active market	4,549,399	3	6,831,648	5	( 33 )
Gain on reversal of decline in market value of collaterals assumed	37,301	-	228,026	-	( 84 )
Other income, net	357,569	-	178,643	-	100
<b>PROFIT FROM OPERATIONS</b>	147,996,743	100	134,059,793	100	10
<b>NET PROVIDED LIFE INSURANCE PRESERVE</b>	( 111,848,763 )	( 76 )	( 99,428,528 )	( 74 )	12
<b>PROVIDED BAD DEBT EXPENSES</b>	( 773,357 )	-	( 1,428,721 )	( 1 )	( 46 )

For the Years Ended December 31, 2013 and 2012  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31				Percentage Increase (Decrease) %
	2013		2012		
	Amount	%	Amount	%	
<b>OPERATING EXPENSES</b>					
Employee benefit expenses	\$ ( 13,617,229 )	( 9 )	\$ ( 13,059,689 )	( 10 )	4
Depreciation and amortization expenses	( 1,873,668 )	( 1 )	( 1,862,769 )	( 1 )	1
Other selling and administrative expenses	( 7,199,124 )	( 5 )	( 6,589,122 )	( 5 )	9
Total operating expenses	( 22,690,021 )	( 15 )	( 21,511,580 )	( 16 )	5
<b>CONSOLIDATED INCOME BEFORE INCOME TAX</b>	12,684,602	9	11,690,964	9	8
<b>INCOME TAX EXPENSE</b>	( 2,116,538 )	( 2 )	( 1,005,870 )	( 1 )	110
<b>CONSOLIDATED NET INCOME</b>	10,568,064	7	10,685,094	8	( 1 )
<b>OTHER COMPREHENSIVE INCOME</b>					
Exchange differences on translating foreign operations	61,751	-	( 52,776 )	-	217
Unrealized gain on available-for-sale financial assets	2,983,784	2	1,025,241	1	191
Actuarial gain and loss arising from defined benefit plans	( 1,175,295 )	( 1 )	( 1,043,381 )	( 1 )	13
Share of other comprehensive income of associates	4,447	-	12,123	-	( 63 )
Income tax relating to the components of other comprehensive income	353,699	1	( 231,544 )	-	253
Total other comprehensive income, net of income tax	2,228,386	2	( 290,337 )	-	868
<b>TOTAL COMPREHENSIVE INCOME</b>	\$ 12,796,450	9	\$ 10,394,757	8	23
<b>PROFIT ATTRIBUTABLE TO:</b>					
Owner of the Company	\$ 9,986,345	7	\$ 10,081,917	8	( 1 )
Non-controlling interest	581,719	-	603,177	-	( 4 )
	\$ 10,568,064	7	\$ 10,685,094	8	( 1 )
<b>TOTAL COMPREHENSIVE INCOME</b>					
Owner of the Company	\$ 12,066,766	8	\$ 9,661,172	7	25
Non-controlling interest	729,684	1	733,585	1	( 1 )
	\$ 12,796,450	9	\$ 10,394,757	8	23
<b>EARNINGS PER SHARE</b>					
Basic	\$ 1.11		\$ 1.16		
Diluted	\$ 1.05		\$ 1.12		



# Shin Kong Financial Holding Co., Ltd. and Subsidiaries

## Consolidated Statements of Changes in Equity

Equity Attributable to

	Share Capital		Retained Earnings		
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings
<b>BALANCE, JANUARY 1, 2012</b>	\$ 84,363,876	\$ 8,838,484	\$ 218,234	\$ 5,497,968	\$ 9,768,375
Conversion option of convertible bonds	-	322,000	-	-	-
Appropriation of 2011 net earnings					
Legal reserve	-	-	518,522	-	( 518,522 )
Special reserve	-	-	-	4,666,697	( 4,666,697 )
Cash dividends distributed by subsidiaries	-	-	-	-	-
Others	-	-	-	-	-
Net income for the year ended December 31, 2012	-	-	-	-	10,081,917
Other comprehensive income, net of tax for the year ended December 31, 2012	-	-	-	-	( 881,973 )
Total comprehensive income for the year ended December 31, 2012	-	-	-	-	9,199,944
<b>BALANCE AT DECEMBER 31, 2012</b>	84,363,876	9,160,484	736,756	10,164,665	13,783,100
Special reserve under Rule No. 1010012863 issued by the Financial Supervisory Commission	-	-	-	4,936,299	( 4,936,299 )
Special reserve under Rule No. 10202508140 issued by the Insurance Bureau	-	-	-	20,398	( 20,398 )
Reversal of special reserve on elimination of the original need to appropriate	-	-	-	( 168,896 )	168,896
Appropriation of 2012 earnings					
Legal reserve	-	-	981,207	-	( 981,207 )
Stock dividends	2,384,333	-	-	-	( 2,384,333 )
Cash dividends distributed by the Company	-	-	-	-	( 264,926 )
Cash dividends distributed by subsidiaries	-	-	-	-	-
Issue of ordinary shares for cash	6,500,000	-	-	-	-
Others	-	-	-	-	-
Share-based payment transactions	-	21,723	-	-	-
Convertible bonds converted to ordinary shares	39,960	( 1,526 )	-	-	-
Net income for the year ended December 31, 2013	-	-	-	-	9,986,345
Other comprehensive income, net of tax for the year ended December 31, 2013	-	-	-	-	( 986,977 )
Total comprehensive income for the year ended December 31, 2013	-	-	-	-	8,999,368
<b>BALANCE AT DECEMBER 31, 2013</b>	\$ 93,288,169	\$ 9,180,681	\$ 1,717,963	\$ 14,952,466	\$ 14,364,201

For the Years Ended December 31, 2013 and 2012  
(In Thousands of New Taiwan Dollars)

Owner of the Company

	Other Equity		Non-controlling Interests	Total
	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available -for-sale Financial Assets		
	\$ -	\$ ( 36,084,256 )	\$ 12,695,824	\$ 85,298,505
	-	-	-	322,000
	-	-	-	-
	-	-	-	-
	-	-	( 310,682 )	( 310,682 )
	-	-	10,707	10,707
	-	-	603,177	10,685,094
	( 43,261 )	504,489	130,408	( 290,337 )
	( 43,261 )	504,489	733,585	10,394,757
	( 43,261 )	( 35,579,767 )	13,129,434	95,715,287
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	( 264,926 )
	-	-	( 344,125 )	( 344,125 )
	-	-	-	6,500,000
	-	-	339,025	339,025
	-	-	-	21,723
	-	-	-	38,434
	-	-	581,719	10,568,064
	55,175	3,012,223	147,965	2,228,386
	55,175	3,012,223	729,684	12,796,450
	\$ 11,914	\$ ( 32,567,544 )	\$ 13,854,018	\$ 114,801,868

# Shin Kong Financial Holding Co., Ltd. and Subsidiaries

## Consolidated Statements of Cash Flows

	For the Year Ended December 31	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated income before income tax	\$ 12,684,602	\$ 11,690,964
Adjustments for:		
Depreciation expenses	1,571,212	1,550,902
Amortization expenses	302,456	311,867
Provision for doubtful accounts	773,357	1,428,721
Loss (gain) on financial assets and liabilities at fair value through profit or loss	12,364,511	( 14,301,109 )
Interest expense	5,605,778	5,172,385
Interest income	( 61,274,675 )	( 57,445,873 )
Dividend income	( 7,378,728 )	( 7,381,913 )
Changes in insurance liabilities	113,523,468	98,041,327
Share of loss (gain) of associates	5,969	( 2,383 )
Gain on reversal of decline in market value of collaterals assumed	( 37,301 )	( 228,026 )
Loss on disposal of collaterals assumed	11,719	135,132
Loss (gain) on disposal of property and equipment	31,953	( 475 )
Gain on disposal of investment property	( 7,679,112 )	( 11,039 )
Gains on sale of investments	( 7,781,954 )	( 21,256,657 )
Impairment loss recognized on financial assets	-	315,164
Gain on reversal of impairment on financial assets	( 89,929 )	( 162,979 )
Impairment loss recognized (gain on reversal of impairment) on non-financial assets	83,513	( 2,779 )
Compensation cost of share-based payments	21,723	-
Net changes in operating assets and liabilities		
Decrease (increase) in due from Central Bank and other banks	8,486,225	( 18,841,021 )
Increase in financial assets at fair value through profit or loss	( 39,197,541 )	( 21,281,701 )
Decrease in bonds purchased under resale agreements	1,151,762	15,885,970
Increase in receivables	( 197,113 )	( 4,721,264 )
Increase in loans	( 35,652,093 )	( 57,588,332 )
Increase in other financial assets	( 142,105 )	( 129,523 )
Increase in other assets	( 1,838,515 )	( 356,209 )
Increase (decrease) in due to Central Bank and other banks	931,298	( 4,621,170 )
(Decrease) increase in accounts payable	( 1,423,672 )	6,157,597
Increase (decrease) in other financial liabilities	2,678,462	( 136,347 )
Increase (decrease) in other liabilities	5,854,516	( 1,764,622 )
Increase in deposits and remittances	56,224,258	69,876,222
Decrease in reserve for employee benefits	( 938,067 )	( 848,725 )
Cash provided by (used in) operations	58,675,977	( 515,896 )
Interests received	51,482,412	46,484,800
Dividends received	7,699,217	7,473,769
Interests paid	( 6,040,119 )	( 5,249,425 )
Income tax paid	( 949,548 )	( 2,389,754 )
Net cash provided by operating activities	110,867,939	45,803,494
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of available-for-sale financial assets	248,576,273	262,493,327

For the Years Ended December 31, 2013 and 2012  
(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2013	2012
Acquisition of available-for-sale financial assets	\$ ( 253,318,015 )	\$ ( 271,160,960 )
Capital return received from available-for-sale financial assets	-	117,698
Acquisition of debt securities without an active market	( 246,659,293 )	( 234,735,516 )
Proceeds from disposal of debt securities without an active market	167,217,379	222,271,353
Principal of matured debt securities without an active market	13,374,900	9,754,763
Acquisition of held-to-maturity financial assets	( 58,883,051 )	( 47,516,180 )
Principal of matured held-to-maturity financial assets	-	23,427
Acquisition of financial assets measured at cost	( 260,671 )	( 51,026 )
Proceeds from disposal of financial assets measured at cost	10,762	1,368
Capital return received from financial assets measured at costs	143,721	163,561
Capital return received from investments accounted for using equity method	40,950	15,167
Acquisition of property and equipment	( 784,990 )	( 1,035,571 )
Proceeds from disposal of property and equipment	35,966	12,984
(Increase) decrease in guarantee deposits paid	( 797,327 )	814,932
Acquisition of intangible assets	( 195,665 )	( 157,517 )
Proceeds from disposal of collaterals assumed	25,582	95,400
Payment for acquisition of collateral assumed	-	( 3 )
Acquisition of investments properties	( 2,006,282 )	( 9,926,943 )
Proceeds from disposal of investments properties	8,916,343	106,069
(Increase) decrease in other assets	( 1,723,133 )	1,376,250
Net cash used in investing activities	( 126,286,551 )	( 67,337,417 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in commercial paper payable	3,048,180	1,199,456
Proceeds from issue of corporate bonds	-	10,000,000
Repayments of corporate bonds	( 5,000,000 )	-
Repayments of bank debentures	( 5,300,000 )	-
Proceeds from the issue of bank debentures	-	4,000,000
Increase (decrease) in other loans	4,514,014	( 4,348,464 )
(Decrease) increase in bonds issued under repurchase agreements	( 9,780,718 )	7,092,471
Decrease in guarantee deposits received	( 39,578 )	( 30,931 )
Proceeds from issue of ordinary shares	6,500,000	-
Dividends paid to owners of the Company	( 264,926 )	-
Dividends paid to non-trolling interests	( 344,125 )	( 310,682 )
Net cash (used in) provided by financing activities	( 6,667,153 )	17,601,850
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	225,615	225,285
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	( 21,860,150 )	( 3,706,788 )
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	65,485,403	69,192,191
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 43,625,253</u>	<u>\$ 65,485,403</u>

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