

SKFH First Quarter 2015 Results Conference Call

May 14, 2015, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2015 First Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- First, we are happy to have Vice Chairman Victor Hsu of the Financial Holding Company to review the first quarter results with us.
- We are also joined by Simon Dai, Director of Deloitte Actuarial and Insurance Solutions. Simon has been working with us closely over the past few months in reviewing our EV work and is here to help us answer any question you may have.
- Also in the room are Senior Vice President Sunny Hsu; Han-Wei Lin, the appointed actuary of Shin Kong Life and leader of our EV work; Isabella and Amber, members of the IR team.

The presentation we are about to go through has been sent out 2 hours ago. You may also download it from our website or participate through webcast. If you do not have the presentation, please let us know now.

Your lines will be muted when we are presenting. If you are cut off, please dial back in or call Amber at 886 956 *** ** for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for the first quarter 2015. Vice Chairman Hsu ...

PRESENTATION

Victor Hsu:

Page 4 Thank you, Stan. Good afternoon, ladies and gentlemen. Please turn to page 4.

SKFH recorded consolidated comprehensive income of NT\$7.52bn and consolidated after-tax profit of NT\$3.60bn for the first quarter 2015; profit attributable to SKFH was NT\$3.36bn. EPS was NT\$0.34. Shareholders' equity increased 6.7% quarter-on-quarter to NT\$118.27bn. Book value per share

was NT\$12.03.

Core business of each subsidiary remained solid.

For Shin Kong Life, FYP for the first quarter 2015 amounted to NT\$28.51bn, up 76.8% year-on-year, and annualized cost of liability decreased 3 bps to 4.61% compared to 2014.

With the investments in international bonds listed in domestic OTC reaching NT\$161.7bn, recurring yield before hedging increased 20 bps year-on-year to 3.37%.

Moreover, Shin Kong Life obtained approval from competent authorities in March for recovering special reserve on property unrealized gains of NT\$7bn in order to boost sales momentum and lower cost of liability, as well as increase shareholders' equity.

For Shin Kong Bank, net interest spread climbed 3 bps to 1.91% quarter-on-quarter, and net interest margin was 1.46%. Net interest income grew 6.4% year-on-year. Overseas profit for the first quarter 2015 reached NT\$501mn, up 13.6% year-on-year, representing 34.9% of earnings before tax.

The second issue of domestic unsecured convertible bonds of NT\$5bn was listed in 2012. Bondholders may exercise put option 3 years after issuance (April 23, 2015). As investment value emerged, only NT\$864mn were put back, accounting for 17.3% of the total principal raised.

Life insurance EV per share of SKFH was NT\$24.3. EV of Shin Kong Life was NT\$238.4bn, up 11.2% year-on-year, including property unrealized gains of NT\$78.0bn re-appraised at the end of 2014, which was NT\$14.5bn higher year-on-year. V1NB grew 21.9% year-on-year to NT\$17.8bn, driven by rising business momentum.

I will now hand it back to Stan who will take you through the results of the financial holding company and Shin Kong Life.

Stan Lee:

Page 6 Thank you, Vice Chairman Hsu. Please turn to Page 6.

SKFH recorded an after-tax profit of NT\$3.36bn in the first quarter 2015. At the subsidiary level, Shin King Life's after-tax profit amounted to NT\$2.05bn, and Shin Kong Bank's after-tax profit was NT\$1.22bn.

Page 10 Page 10 – FYP reached NT\$28.51bn, up 76.8% year-on-year, driven by

strong sales of NT Dollar and forex whole life products.

Forex traditional products remained the marketing focus in 2015. Sales grew to NT\$7.2bn, up 36% year-on-year. Such products brought Shin Kong Life stable interest spread with proper asset-liability match and no hedging cost.

Shin Kong Life has been actively supporting the government's new measure on life insurance conversion. As of the end of April, 854 policies were converted into medical and long-term care insurance with original policy value reserve of NT\$245mn.

For sustainable VNB growth and decrease in cost of liability, Shin Kong Life will continue to focus on promoting NT Dollar and forex whole life products and health insurance. Annualized cost of liability declined 3 bps to 4.61% compared to 2014.

Page 12 Page 12 gives an overall view of our investment portfolio. Total investment return for the first quarter 2015 was 3.76%. Breakdown of investment returns for different asset classes were: real estate 3.9%, mortgage and corporate loans 2.3%, policy loans 5.7%, overseas investment 4.5%, domestic securities 2.6%, and cash 1.0%.

Page 13 Page 13 shows our portfolio of overseas fixed incomes. At the end of the first quarter, corporate bonds accounted for the largest portion, representing 73.4% of the total. Investments in corporate bonds increased 55% year-on-year and were mainly deployed in international bonds listed in domestic OTC.

As of the end of the first quarter this year, Shin Kong Life invested NT\$161.7bn in international bonds with average yield before hedging of 4.4%, which after hedging is still higher than domestic bond. The position is expected to continuously grow and reach NT\$200bn by year end. Portfolio reallocation enhanced recurring yield before hedging by 20 bps year-on-year.

Page 15 Page 15 – Annualized hedging cost for the first quarter was 1.58%. Hedging ratio was 72.5%, including CS, NDF, and naturally-hedged forex policies position. The mid- to long-term target of hedging ratio ranges from 65% to 90% under stringent risk management. CS and NDF accounted for 81% and 19%, respectively, of traditional hedges.

I will now hand over to Isabella who will take you through the results of Shin Kong Bank.

Isabella Wang:

Page 18 Thank you, Stan. Please turn to Page 18.

Shin Kong Bank generated a consolidated after-tax profit of NT\$1.22bn for the first quarter 2015, with net interest income increasing 6.4% year-on-year. TMU income for the first quarter surged to NT\$316mn, up 57.2% quarter-on-quarter, which was fuelled by strong hedging demand and increase of number of clients.

Page 20 Page 20 – Loan balance in the first quarter 2015 remained flat at NT\$483.60bn. From the second quarter onwards, growth of consumer and SME loans are expected to rise gradually. In addition, credit quality of SME loans was closely monitored and mainly collateralized by credit guarantee funds, as well as movable and immovable properties.

Page 21 Page 21 – Net interest spread climbed 3 bps to 1.91% compared to the fourth quarter 2014. Net interest margin was 1.46% in the first quarter and expected to remain at similar level to 2014.

Going forward, Shin Kong Bank will continue to strengthen cash management business and grow demand deposits to lower cost of funds. SME and consumer loans will also be developed under strict risk control to enhance interest income.

Page 23 Page 23 – Wealth management income for the first quarter 2015 was NT\$384mn, with fee income from bancassurance of NT\$221mn. The number and quality of financial consultants are expected to be elevated by recruiting more sales heads, and more personalized services will be provided to clients with AUM above NT\$3mn.

Page 24 Page 24 – New NPL generated in the first quarter was only NT\$202mn, which was in line with expectation. NPL ratio decreased to 0.24% and coverage ratio increased to 529.76%.

I would now turn over to Han-Wei to talk about the update on EV/AV.

Han-Wei Lin:

Page 26 Thank you, Isabella. Please turn to page 26.

In 2014 embedded value, the earning rate of VIF goes from 4.08% to 5.10% in 30 years for TWD products, and 4.64% to 6.09% for USD products. The equivalent investment yield is 4.46%. For V1NB, it goes from 4.13% to 5.10% and 4.63% to 6.02% in TWD and USD products, respectively. Our EV, at the end of 2014, was NT\$238.4bn, grew 11.2%. VNB of 2014 was NT\$17.8bn. AV's for 5 years of NB and 20 years of NB were NT\$297.1bn and NT\$383.1bn accordingly. Our new business margin was 20.2% in 2014, and VNB growth is 21.9%.

Page 27 Page 27 – Under the base case scenario, risk discount rate is 10.5%. We also

provide the sensitivity tests of these two factors for your reference.

- Page 28 Page 28 – For adjusted NAV, the shareholder value at the end of 2014 was NT\$69.5bn. Unrealized gains on property added NT\$78.0bn. We also added NT\$28.2bn of special reserves of unrealized gains on property, and NT\$9.7bn of others including foreign exchange volatility reserve.
- Page 29 Page 29 – Comparing to 2013, adjusted NAV increased from NT\$163.5bn to NT\$185.4bn in 2014. During 2014, unrealized gains on property increased another NT\$14.5bn.
- Page 30 Page 30 – VIF grew from NT\$102.1bn to NT\$111.7bn in 2014. The biggest impact came from the new business issued, which added NT\$26.7bn to VIF. Assumption changes were minus NT\$24.5bn.
- Page 31 Page 31 – VNB grew from NT\$14.6bn to NT\$17.8bn in 2014. The increase of sales volume was the major contributor, added NT\$6.4bn to VNB.
- Page 32 Page 32 – Focusing on products, the growth of VNB coming from foreign currency products and health products were NT\$1.0bn and NT\$1.1bn, respectively. Other NTD products also increased NT\$1.1bn to VNB.

That wraps up our results presentation. Moderator, please start the Q&A session.

Q&A SESSION

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