

SKFH Second Quarter 2015 Results Conference Call

August 26, 2015, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2015 Second 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 second quarter results with us.
- Also in the room are Senior Vice President Sunny Hsu; 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 second 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 after-tax profit of NT\$6.59bn for the first half 2015; profit attributable to SKFH was NT\$6.26bn. EPS was NT\$0.61, and book value per share reached NT\$11.69.

Core business of each subsidiary remained solid.

For Shin Kong Life, FYP for the first half 2015 amounted to NT\$47.94bn, up 32.3% year-on-year, and annualized cost of liability was 4.58%, 6 bps lower than 2014.

With investment in international bonds listed in domestic OTC reaching NT\$176.34bn, recurring yield before hedging increased 21 bps year-on-year to 3.49%.

Moreover, annualized hedging cost for the first half 2015 gradually reduced to 1.23%, lower than 1.58% for the first quarter 2015.

For Shin Kong Bank, through structural adjustments on deposits and loans, net interest spread climbed 2 bps to 1.93% quarter-on-quarter, and net interest margin was 1.45%. Net interest income grew 6.8% year-on-year. Overseas profit for the first half 2015 reached NT\$1.17bn, up 43.0% year-on-year, representing 38.5% of earnings before tax. On the asset quality side, NPL ratio remained at 0.24%, and coverage ratio increased to 565.86%. These ratios are better than industry average.

In addition, Shin Kong Life and Shin Kong Bank recently received approval from Myanmar's authorities to establish representative offices in Yangon and planned to hold an opening ceremony in September. Both subsidiaries will continue to develop overseas business opportunities and offer high-quality financial service.

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\$6.26bn for the first half 2015. At the subsidiary level, Shin King Life's after-tax profit rose to NT\$3.51bn, and Shin Kong Bank's after-tax profit came to NT\$2.59bn.

Page 10 Page 10 – FYP grew 32.3% year-on-year to NT\$47.94bn, driven by strong sales of whole life products.

Forex traditional products remained the marketing focus in 2015. Sales grew to NT\$13.8bn, accounting for 29% of total FYP. Such products brought Shin Kong Life stable interest spread with proper asset-liability match and no hedging cost.

Shin Kong Life has been cultivating operations in the long-term care market over the past years. The number of long-term care and disability health insurance sold in the first half was more than 126,000 with FYP of NT\$1.76bn, 80% higher year-on-year.

For sustainable VNB growth and decrease in cost of liability, Shin Kong Life will continue to focus on promoting whole life products and health insurance.

Annualized cost of liability declined 6 bps to 4.58% compared to 2014.

Page 11 Page 11 – SKL supports the government’s new measure on life insurance conversion and helps policyholders to switch to suitable health and long-term care insurance policies. At present, 1,793 policies have been converted with original policy value reserve of NT\$530mn. Savings and policies with only death benefits were switched to long-term care and health insurance, indicating well-aware and growing demand for health and long-term care products across demographics. The number of policies converted is expected to increase.

Page 13 Page 13 gives an overall view of our investment portfolio. Total investment return for the first half 2015 was 3.84%. 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 4.7%, domestic securities 2.4%, and cash 0.8%.

Page 14 Page 14 shows our portfolio of overseas fixed incomes. At the end of the first half, corporate bonds accounted for the largest portion, representing 57% of the total, followed by international bonds at 18%.

Shin Kong Life invested NT\$176.34bn in international bonds with average yield before hedging of 4.4%, which after hedging is still higher than domestic bonds. The position is expected to continuously grow and reach NT\$200bn by the year end. Portfolio reallocation enhanced recurring yield before hedging by 21 bps year-on-year.

Page 16 Page 16 – Annualized hedging cost for the first half was 1.23%. Hedging ratio was 73.6%, 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 80% and 20%, 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 19 Thank you, Stan. Please turn to Page 19.

Shin Kong Bank generated an after-tax profit of NT\$2.59bn for the first half 2015, up 8.4% year-on-year. Net interest income grew 6.8% year-on-year to NT\$5.05bn. Pre-provision profit increased 2.9% year-on-year to NT\$3.73bn.

Page 21 Page 21 – Due to structural adjustments, total loan size grew only 1.0% year-to-date to NT\$487.27bn. However, unsecured and other consumer loans still rose 4.2% and 5.9%, respectively.

SME loans are expected to grow gradually in the second half. In addition, Shin Kong Bank will focus on loans with collaterals or those backed by Credit Guarantee Fund. In light of slow economic growth, loan growth target for 2015 has been adjusted to 4%.

Page 22 Page 22 – Net interest spread climbed 2 bps to 1.93% compared to the previous quarter. Net interest margin was 1.45% in the second quarter and expected to remain at the 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. Shin Kong Bank will also expand foreign deposits to further facilitate international business.

Page 24 Page 24 – Wealth management income for the second quarter 2015 was NT\$433mn, with fee income from bancassurance accounting for 51.8%. In order to develop clients with AUM above NT\$3mn, Shin Kong Bank will recruit more sales heads and financial consultants. Sales force is expected to reach 480 at year end. On the product side, fixed income products and mutual funds by unit-cost-averaging method remain marketing focus in the second half.

Page 25 Page 25 – New NPL generated in the second quarter was only NT\$133mn, which was better than expected. NPL ratio remained low at 0.24% and coverage ratio increased to 565.86%.

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

Q&A SESSION

Disclaimer:

This document and the attachments distributed herewith include forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Shin Kong Financial Holding Company expect or anticipate will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Shin Kong FHC's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, market shares, competition, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, cost estimates and other risks and factors beyond our control. In addition, Shin Kong FHC makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.