

SKFH Fourth Quarter 2015 Results Conference Call

March 10, 2016, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

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

- First of all, we are happy to have Vice Chairman Victor Hsu of the Financial Holding Company to review the fourth quarter results with us.
- Also in the room are Executive Vice President Sunny Hsu; Han-Wei Lin, the appointed actuary of Shin Kong Life; 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 fourth 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 a consolidated after-tax profit of NT\$6.84bn for 2015; profit attributable to SKFH was NT\$5.78bn. EPS was NT\$0.57. Book value per share as of the end of December was NT\$10.80, NT\$0.79 higher than September.

Core business of each subsidiary remained solid.

For Shin Kong Life, with the marketing focus on regular premium products, the ratio of FYPE over FYP continued to improve and reached 38.1%. Cost of

liabilities was 4.51%, 13 bps lower than 2014, beating the yearly target of 10 bps.

Interest income grew by NT\$10.26bn compared to the previous year, due to incremental allocation to fixed incomes. Recurring yield before hedging increased 19 bps year-on-year to 3.88%.

Moreover, hedging cost for 2015 was 0.61% through properly-managed FX strategy. As Shin Kong Life disposed stocks without positive prospects amid market volatility, investment return for 2015 was 3.68%.

For Shin Kong Bank, consolidated after-tax profit decreased 2.4% year-on-year to NT\$5.03bn, mainly due to a higher base in 2014 resulting from the one-off property disposal gain of NT\$510mn. Driven by the adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from the first quarter, net interest spread and net interest margin for 2015 were 1.93% and 1.46%, respectively, 8 bps and 3 bps higher than 2014. On the asset quality side, NPL ratio remained low at 0.19%, and coverage ratio was 697.19%. Both are better than industry average.

At the end of 2015, capital adequacy ratios of the group and subsidiaries were all above regulatory requirements. Group CAR was 124.7%, RBC of Shin Kong Life was 267.8%, and BIS of Shin Kong Bank was 11.8%.

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\$5.78bn for 2015. At the subsidiary level, Shin King Life's after-tax profit was \$0.14bn, and Shin Kong Bank's after-tax profit came to NT\$5.03bn.

Page 10 Page 10 – FYP amounted to NT\$78.21bn, securing a market share of 6.6%. Promoting regular premium products helped improve the ratio of FYPE over FYP. It increased from 33.3% of 2014 to 38.1% of 2015.

Forex traditional products remained the marketing focus. Sales grew to NT\$23.08bn, accounting for 29.5% 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 for years. The number of long-term care and disability health policies sold in 2015

was more than 234,000 with FYP of NT\$3.18bn, 75.1% higher year-on-year.

In order to lower cost of liabilities and enhance recurring profit, Shin Kong Life will continue to promote NT Dollar and FX whole life products as well as health insurance. Cost of liabilities declined to 4.51%, 13 bps lower compared to 2014.

Page 13 Page 13 gives an overall view of our investment portfolio. Total investment return for 2015 was 3.68% as Shin Kong Life disposed stocks without positive prospects amid market volatility. Breakdown of investment returns for different asset classes were: real estate 10.0%, mortgage and corporate loans 2.3%, policy loans 5.8%, overseas investment 4.1%, domestic securities 1.1%, and cash 0.7%.

Page 14 Page 14 shows our portfolio of overseas fixed incomes. At the end of 2015, corporate bonds accounted for the largest portion, representing 57.0% of the total, followed by international bonds at 21.4%.

Shin Kong Life invested NT\$233.3bn in international bonds with average yield before hedging of 4.5%, which after hedging is still higher than domestic bonds. The position is expected to reach NT\$300bn by the end of the second quarter 2016. Incremental allocation to fixed incomes enhanced recurring yield before hedging, which grew 19 bps year-on-year. Last but not the least, CDO exposure no longer existed.

Page 16 Page 16 – Hedging cost for 2015 was 0.61%, and foreign currency volatility reserve was NT\$6.87bn. Hedging ratio was 82.1%, 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 72% and 28%, respectively, of traditional hedges.

Looking into 2016, Shin Kong Life has collaborated with an international consulting firm, aiming at optimizing the structure of tied agent sales force to recruit younger agents and elevate overall productivity. Our product strategy still focuses on whole life savings products, which will continuously lower cost of liabilities by 10 bps or above. In order to enhance clients' sum insured, we will also develop health insurance covering long-term care and critical illness. Moreover, Shin Kong Life has obtained approval from competent authorities for recovering property special reserves of NT\$7bn to boost sales momentum and shareholders' equity.

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

Isabella Wang:

Page 20 Thank you, Stan. Please turn to Page 20.

Shin Kong Bank generated an after-tax profit of NT\$5.03bn for 2015, down 2.4% year-on-year. The decline was mainly due to a higher base in 2014 coming from the one-off property disposal gain of NT\$510mn. Return on equity was 11.6%.

Page 23 Page 23 – Total loan size grew 1.1% year-on-year to NT\$487.73bn. However, mortgage, unsecured and other consumer loans still grew over 10%.

Shin Kong Bank paid attention to risk control and reduced the balance of construction loans. Despite an 8.2% decline in corporate loans, average loan yield increased 4 bps along with the adjustment in loan structure.

Page 24 Page 24 – Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from the first quarter, net interest margin and net interest spread showed a rising trend over the past quarters. For 2015, net interest margin and net interest spread were 1.46% and 1.93%, respectively.

Going forward, Shin Kong Bank will strengthen cash management business and lower the cost of funds. Deposit and loan structure will be flexibly adjusted to enhance fund utilization. Shin Kong Bank will also expand foreign deposits to further facilitate international business.

Page 26 Page 26 – Wealth management income for 2015 was NT\$1.70bn, 7.7% lower compared to the previous year. This year, Shin Kong Bank will increase wealth management sales force to 470, deepen client coverage and intensify cross-selling cooperation to better serve clients with AUM above NT\$3mn. To optimize clients' asset allocation and elevate productivity, more financial consultants will be recruited to assist the financial planners.

Page 27 Page 27 – Due to the slowdown of economic growth, new NPL generated in the fourth quarter was NT\$446mn, which mainly came from corporate loans. NPL ratio remained low at 0.19% and coverage ratio was 697.19%.

In 2016, Shin Kong Bank will promote SME and overseas loans and expand consumer banking. Loan balance will grow steadily with a focus on asset quality. Meanwhile, the Bank looks to upgrade its digital platform and promote cross-border payment services. Also, Shin Kong Bank will continuously cultivate the Asia-Pacific market by setting up branches in Vietnam and Myanmar.

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

Q&A SESSION

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