

SKFH Second Quarter 2016 Results Conference Call

August 24, 2016, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2016 Second Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- 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 Sunny Hsu, Executive Senior Vice President; 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 was 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 *** ** 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 2016. 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\$1.87bn for the second quarter 2016; for the first half, consolidated after-tax loss was NT\$0.69bn, and consolidated comprehensive profit was NT\$0.48bn. Shareholders' equity increased 1.5% quarter-on-quarter to NT\$108.64bn, and book value per share was NT\$10.83.

Core business of each subsidiary remained solid during this quarter.

For Shin Kong Life, FYP for the first half reached NT\$58.04bn, 21.1% higher

year-on-year, boosting market share to 8.9% for the first half, 2.3% higher than the first quarter. Annualized cost of liabilities decreased at a steady pace from 4.51% for 2015 to 4.44%, in line with our expectation. Interest income grew 16.6% year-on-year to NT\$34.49bn, boosted by allocation to overseas fixed incomes. Recurring yield before hedging increased 20 bps year-on-year to 3.69%.

For Shin Kong Bank, net interest income and net fee income for the first half grew 3.2% and 8.1% year-on-year, respectively. Consolidated after-tax profit was NT\$2.22bn. On the capital adequacy front, BIS ratio was 12.5%, and Tier 1 ratio was 9.6%. Both are higher than 2015.

Moreover, in order to enhance core business, including tied agent management, customer resources, and product marketing, Shin Kong Life has partnered with international consulting firms to execute the agents and marketing transformation projects. Stan will elaborate on the projects later.

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 loss of NT\$1.04bn for the first half 2016. At the subsidiary level, Shin Kong Life's after-tax loss was NT\$3.32bn, and Shin Kong Bank's after-tax profit came to NT\$2.22bn.

Page 10 Page 10 – With business momentum picking up during the second quarter, FYP for the first half reached NT\$58.04bn, up 21.1% year-on-year, securing a market share of 8.9%. FYPE grew even more substantially to NT\$27.62bn, up 81.3% year-on-year.

In order to improve cost of liabilities, Shin Kong Life has been actively promoting interest-sensitive whole life products. Annualized cost of liabilities declined to 4.44%, 7 bps lower compared to 2015.

In the second half, Shin Kong Life will continue to focus on VNB growth and promote foreign currency policies and health insurance.

Page 13 Page 13 represents an overall view of our investment portfolio. Annualized investment return for the first half 2016 was 3.4%. Breakdown of investment returns for different asset classes were: real estate 3.2%, mortgage and corporate loans 2.1%, policy loans 5.8%, overseas investment 4.2%, domestic securities 1.0%, and cash 0.5%.

Page 14 Page 14 shows our portfolio of overseas fixed incomes. At the end of the first half, corporate bonds accounted for the largest share, representing more than 50.0% of the total, followed by international bonds at 27.0% and government bonds at 15.5%.

Portfolio reallocation allowed interest income for the first half 2016 to increase NT\$4.90bn, 16.6% higher year-on-year. As low interest rates persist, Shin Kong Life will invest in emerging market government bonds and overseas corporate bonds to stabilize recurring income.

Page 16 Page 16 – Annualized hedging cost for the first half 2016 was 0.73%, and foreign currency volatility reserve was NT\$5.44bn. Hedging ratio was 80.1%, 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 71% and 29%, respectively, of traditional hedges.

Page 19 Page 19 – With an eye to enhance core business, including tied agent management, customer resources, and product marketing, Shin Kong Life has started to execute the agents and marketing transformation projects.

On the agent management front, Shin Kong Life and BCG has teamed up on the Agent+ project to transform Shin Kong Life's tied agent team, aiming at elevating productivity and optimizing organization structure. The pilot program started in July 2016 and is expected to be rolled out sequentially throughout branches nationwide from the fourth quarter.

As for customer resources and product marketing, Shin Kong Life has also worked with Oliver Wyman to reach the goal of “maintain, sustain and extend customer relation and business growth” by using big data. In addition, Shin Kong Life will integrate and strengthen its customer resource management and optimize marketing effectiveness through systematic, transparent agent activity management.

Page 20 Page 20 – The Agent+ project involves standardized activity management, tailored team-managing system, younger recruits, and practical training. Phase 1 began in mid 2016. Starting from 2017, Shin Kong Life will adjust role positioning and gradually cut low performers. After improving internal mechanisms, Shin Kong Life will actively hire young recruits and help them build careers.

Page 21 Page 21 shows the daily activities of our tied agents. The activity management platforms have mostly been completed. The project focuses on implementation with discipline throughout all branches. E-tools facilitate transparent, standardized and mobile activity management and enhance workflow tracking. After reviewing results, the headquarters will provide

necessary training to strengthen every agent's sales behavior and efficiency.

Page 22 Page 22 – Shin Kong Life has identified customer segments and helped tied agents to closely interact with customers on their own "turf". Furthermore, the marketing platform, Business Lead Management System, produces target customer lists, as well as facilitates precise marketing and customer repurchase. The bar chart on the right shows that repurchase rate of target customers is 7.4%, 2.2% higher than overall clients. Moreover, with better activity management, marketing effort will be more productive.

Page 23 Page 23 – The project aims at increasing productivity per agent and strengthening recruitment of young agents. A three-year strategy and goals have been determined.

With CAGR of FYPE per agent over 15%, Shin Kong Life is expected to catch up and lead peers in agent productivity within three years. The percentage of new recruits under age 30 is expected to reach 45%, building more youthful agent force.

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

Isabella Wang:

Page 25 Thank you, Stan. Please turn to Page 25.

Shin Kong Bank generated an after-tax profit of NT\$2.22bn for the first half 2016, with net interest income up 3.2% and net fee income up 8.1% compared to the same period last year. The increase in net interest income reflected effectively controlled funding cost, and the rise in net fee income came from growth in wealth management fee income.

Page 27 Page 27 – Total loan size went up 0.5% year-to-date to NT\$490.20bn. However, we saw positive loan growth in the second quarter, as corporate and consumer loans grew 3.7% and 2.0% quarter-on-quarter, respectively.

For the second half of the year, Shin Kong Bank will actively participate in overseas syndicated loans to enhance loan-to-deposit ratio and maintain a stable interest spread.

In addition, Shin Kong Bank will closely monitor credit quality of SME loans and require collateral or credit guarantee funds for SME lending.

Page 28 Page 28 – Net interest margin and net interest spread were 1.46% and 1.96%, respectively. Looking forward, Shin Kong Bank will pay attention to both

funding cost and loan yields to keep interest spread stable in the current low interest rate environment.

Page 30 Page 30 – Wealth management income for the first half 2016 was NT\$992mn, up 21.4% year-on-year. The increase mainly came from growth in bancassurance fee income in the second quarter. With sales focus remaining on insurance products, positive growth momentum is expected to extend into August and September.

On top of insurance products, Shin Kong Bank will actively promote mutual funds in the second half to boost wealth management business.

Page 31 Page 31 – New NPL generated in the second quarter was NT\$293mn. The amount has declined for 2 quarters in a row since the fourth quarter last year. NPL ratio remained low at 0.19%, and coverage ratio was 647.29%.

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

Q&A SESSION

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