

SKFH Third Quarter 2016 Results Conference Call

November 17, 2016, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2016 Third 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 third 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 Zeke, 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 Zeke 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 third 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\$2.76bn for the third quarter 2016, up 47.5% quarter-on-quarter; for the first nine months, consolidated after-tax profit was NT\$2.06bn, and profit attributable to SKFH was NT\$1.50bn. EPS was NT\$0.15.

Core business of each subsidiary remained solid during this quarter.

For Shin Kong Life, FYP reached NT\$89.29bn, 44.6% higher year-on-year, enabling VNB to grow 9.8% year-on-year. Annualized cost of liabilities

declined steadily from 4.51% for 2015 to 4.40%, exceeding our expectation. Interest income grew 13.9% year-on-year to NT\$52.02bn, boosted by allocation to overseas fixed incomes. Recurring yield before hedging increased 7 bps year-on-year to 3.89%.

For Shin Kong Bank, net interest income and net fee income for the first nine months grew 2.4% and 7.4% year-on-year, respectively. Consolidated after-tax profit was NT\$3.36bn. On the capital adequacy front, BIS ratio was 12.8%, and Tier 1 ratio was 9.9%. Both ratios are higher than the first half of 2016.

Net worth continued to recover at the financial holdings level. As of the end of the third quarter, consolidated shareholders' equity of SKFH amounted to NT\$132.48bn, NT\$9.34bn higher than 2015, and book value per share was NT\$11.74. The increase in SKFH's shareholders' equity was driven by Shin Kong Life's other comprehensive income for the first nine months reaching NT\$7.90bn. To actively enhance financial structure, Shin Kong Life successfully issued perpetual cumulative subordinated corporate bonds in the amount of NT\$13bn on October 31.

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\$1.50bn for the first nine months 2016. At the subsidiary level, Shin King Life's after-tax loss was \$2.01bn, and Shin Kong Bank's after-tax profit came to NT\$3.36bn.

Page 10 Page 10 – Driven by strong demand for whole life savings, FYP for the first nine months reached NT\$89.29bn, up 44.6% year-on-year, securing a market share of 9.2%. FYPE grew even more substantially to NT\$41.15bn, up 91.7% year-on-year, and VNB also increased 9.8% year-on-year.

In order to reduce cost of liabilities, Shin Kong Life has been promoting interest-sensitive whole life products, which allowed annualized cost of liabilities to decline to 4.40%, 11 bps lower than 2015.

Going forward, Shin Kong Life will continue to focus on VNB growth by promoting foreign currency policies and protection products.

Page 13 Page 13 gives an overall view of our investment portfolio. Annualized investment return for the first nine months 2016 was 3.59%. 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 4.4%, domestic securities 1.6%, and cash 0.4%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the first nine months, corporate bonds accounted for the largest share, representing more than 50.0% of the total, followed by international bonds at 26.7% and government bonds at 15.3%.

Portfolio reallocation allowed interest income for the first nine months to increase NT\$6.36bn year-on-year to NT\$52.02bn. As interest rates start to gradually climb, Shin Kong Life will continue to invest in emerging market USD government bonds and overseas corporate bonds to stabilize recurring income.

Page 16 Page 16 – Annualized hedging cost for the first nine months 2016 was 0.98%. Hedging ratio was 80.5%, 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 70% and 30%, respectively, of traditional hedges.

Page 19 Page 19 – SKFH is actively promoting digital financial services with product innovation, process optimization and business model development to comprehensively enhance competitiveness. For example, Shin Kong Bank led peers in offering digital accounts, WeChat Pay and mobile payments, growing the number of active digital accounts and trading volume by 15% year-on-year. These achievements helped Shin Kong Bank win “Best Digital Bank” from Excellence Magazine. As for Shin Kong Life, the company also utilized big data and integrated channels to create an automated claims model, awarded “2016 FCA Best Customer Communication” by Business Next and “Award for Most Innovative Application of FinTech in the Life Insurance Industry” by Wealth Magazine.

Page 20 Page 20 shows more initiatives, such as digital platform, mobile finance, digital marketing, smart channel...etc., Shin Kong Life and Shin Kong Bank have taken. You may take a look at the table to find out what they have accomplished.

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

Isabella Wang:

Page 22 Thank you, Stan. Please turn to Page 22.

Shin Kong Bank generated an after-tax profit of NT\$3.36bn for the first nine months 2016, with net interest income up 2.4% and net fee income up 7.4% compared to the same period last year. The increase in net interest income reflected enhanced fund utilization as well as cost control. The rise in net fee income mainly came from growth in wealth management fee income.

Page 24 Page 24 – Total loan balance went up 1.3% year-to-date to NT\$493.92bn. The momentum was driven by consumer loans, and we have seen mortgages grow 4.8% year-to-date under stringent risk control.

Going forward, Shin Kong Bank will increase credit supply for large corporate borrowers and actively participate in overseas syndicated loans to enhance loan-to-deposit ratio and maintain a stable interest spread.

Page 25 Page 25 – Net interest margin grew 4 bps quarter-on-quarter to 1.50%, and net interest spread stayed the same as the previous quarter at 1.96%. Looking ahead, Shin Kong Bank will pay attention to both funding cost and loan yield to keep interest spread stable.

Page 27 Page 27 – Wealth management income for the first nine months 2016 was NT\$1.51bn, up 22.5% year-on-year. The increase was mainly driven by growth in bancassurance fee income, which accounted for 70.1% of total wealth management income.

On top of insurance products, Shin Kong Bank will promote mutual funds and bonds in the fourth quarter to boost wealth management business.

Page 28 Page 28 – New NPL generated in the third quarter was NT\$851mn, including two specified borrowers, Pacific Andes and Ting Sing Trading.

Shin Kong Bank already charged off loans to Pacific Andes in September. NPL ratio was 0.26%, and coverage ratio was 480.49%. Both figures are better than industry average.

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

Q&A SESSION*Disclaimer:*

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