

SKFH Fourth Quarter 2016 Results Conference Call

March 16, 2017, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2016 Fourth 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 fourth 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 886 975 *** ** 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 2016. 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\$5.10bn for 2016, and profit attributable to SKFH was NT\$4.81bn. EPS was NT\$0.48. Net worth continued to rise at the financial holdings level. Book value per share as of the end of December was NT\$12.11, NT\$0.37 higher than September.

Core business of each subsidiary has remained solid during the past year.

For Shin Kong Life, FYP reached NT\$114.89bn, 46.9% higher year-on-year, driving VNB growth. Cost of liabilities was 4.37%, 14 bps lower than 2015,

beating the full-year target of 10 bps. Interest income grew 12.5% year-on-year to NT\$70.23bn, boosted by allocation to overseas fixed incomes. Recurring yield before hedging increased to 3.90%.

For Shin Kong Bank, net interest income and net fee income for 2016 grew 3.1% and 3.7% year-on-year, respectively. Consolidated after-tax profit was NT\$4.63bn. On asset quality front, NPL ratio remained the same as the previous quarter at 0.26%, and coverage ratio was 492.04%.

At the end of 2016, capital adequacy ratios of the group and subsidiaries were all well above regulatory requirements. Group CAR was 124.4%, RBC of Shin Kong Life was 279.3%, and BIS of Shin Kong Bank was 12.7%.

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 posted an after-tax profit of NT\$4.81bn for 2016. At the subsidiary level, Shin King Life returned to the black with after-tax profit of NT\$130mn, and Shin Kong Bank's after-tax profit came to NT\$4.63bn.

Page 10 Page 10 – Driven by strong demand for interest sensitive whole life products, FYP surged 46.9% year-on-year to NT\$114.89bn, achieving a market share of 9.0%. FYPE grew even more substantially to NT\$53.72bn, up 80.4% year-on-year, driving up VNB.

As for cost of liabilities, it has declined steadily over the past few quarters and reached 4.37%, which was 14 bps lower than 2015.

Going forward, Shin Kong Life will actively promote foreign currency policies and protection products to support sales momentum and accumulate VNB.

Page 13 Page 13 presents an overall view of Shin Kong Life's investment portfolio. Although sharp fluctuations in foreign exchange rates drove hedging cost higher to 0.87%, investment return for 2016 was 3.80%, up 12 bps year-on-year. 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 4.7%, domestic securities 1.9%, and cash 0.4%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of 2016, corporate bonds accounted for the largest share, representing 50.0% of the total, followed by international bonds at 26.1%. Government bonds became an investment focus during the year and grew from 12.7% in 2015 to 20.3% in 2016.

Increasing fixed income allocation drove interest income higher. We have also noticed that the new money yield for the fourth quarter was 50 bps higher than that for the third quarter. With the upward trend in long-term interest rates, Shin Kong Life will continue to invest in emerging market USD government bonds and overseas corporate bonds to enhance recurring income.

Page 16 Page 16 – Hedging cost for 2016 was 0.87% due to sharp fluctuations in foreign exchange rates. Hedging ratio increased to 86.7%, including CS, NDF, and naturally-hedged forex policies position. The mid- to long-term target of hedging ratio ranges from 70% to 95% under stringent risk management. CS and NDF accounted for 64% and 36%, respectively, of traditional hedges.

Looking into 2017, Shin Kong Life will focus on foreign currency policies and protection products to control hedging cost and accumulate VNB. Total FYP is targeted at over NT\$100bn, and cost of liabilities is expected to decline at least 10 bps. Also, Agent+ project was initiated in 2016 and will be carried out by the end of March throughout all branches in Taiwan. Mobile apps are widely used to elevate agents' productivity. On service efficiency side, Shin Kong Life will introduce digital services to policyholders and upgrade the self service platform to strengthen customer stickiness and satisfaction. In order to enhance recurring income, cash will be deployed in fixed incomes and high-dividend yield stocks classified as FVOCI. Moreover, there are 12 domestic construction projects to be completed within 4 years and will generate rental income of NT\$600mn per year after completion. As the previous year, Shin Kong Life has obtained approval from competent authorities for recovering property special reserves of NT\$7bn to boost VNB 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 recorded an after-tax profit of NT\$4.63bn for 2016, with net interest income up 3.1% and net fee income up 3.7% compared to 2015. The increase in net interest income reflected enhanced fund utilization and optimized deposit structure. The rise in net fee income was mainly from growth in wealth management fee income.

Page 23 Page 23 – Total loan balance went up 4.3% year-on-year to NT\$508.52bn. Loan growth was driven by consumer lending, with mortgage loans and unsecured consumer loans growing over 8.0% year-on-year. Shin Kong Bank is seeking to break into more overseas markets to grow its syndicated lending business, and we have seen an increase of NT\$7.52bn in overseas syndicated loans for 2016.

Going forward, Shin Kong Bank will promote corporate and consumer loans to increase profitability and asset size. The Bank will also actively participate in overseas syndicated loans to maintain a stable interest spread and increase overseas profits.

Page 24 Page 24 – Thanks to enhancement in fund utilization, net interest margin rose 5 bps quarter-on-quarter to 1.55% in the fourth quarter, and the full-year net interest margin was 1.50%. The full-year net interest spread also went up 4 bps year-on-year to 1.97%.

Looking ahead, Shin Kong Bank will pay attention to both funding cost and fund utilization to keep interest spread stable.

Page 26 Page 26 – Wealth management income for 2016 was NT\$1.98bn, up 16.5% year-on-year. The increase mainly came from growth in bancassurance fee income, which accounted for about 69% of the total wealth management income.

In 2017, investment products will be further promoted, as a dedicated team has been set up to publish advisory research reports for sales of mutual funds. Plus, Shin Kong Bank will develop both consumer and corporate clients to maintain a double-digit growth in wealth management business.

Page 27 Page 27 – New NPL generated in the fourth quarter was NT\$187mn, NT\$664mn less than the previous quarter.

Asset quality remained stable with NPL ratio at 0.26% and coverage ratio at 492.04%.

In 2017, Shin Kong Bank is dedicated to upgrading its risk management platform. KYP, KYC and ALM will be reinforced to better control default and

market risks. Meanwhile, the Bank looks to innovate its digital finance business to boost online trades and achieve a double-digit growth in accounts.

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

Q&A SESSION

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