

SKFH Third Quarter 2017 Results Conference Call

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

INTRODUCTION

Jih-Chu Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2017 Third Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- We are happy to have Charles Hsieh, President of Shin Kong Bank, to review the third quarter results with us.
- Also in the room are Sunny Hsu, Executive Vice President of the Financial Holding Company; James Yuan, Chief Investment Officer of Shin Kong Life; Han-Wei Lin, Chief Actuary of Shin Kong Life; Stan Lee, Senior Vice President and head of the IR team; 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 9** *** ** for assistance.

If you have no question, I will ask Stan to give you a briefing on the third quarter financial results. Stan...

PRESENTATION

Stan Lee:

Page 4 Thank you, Vice Chairperson Lee. Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$10.84bn for the first nine months 2017. Consolidated comprehensive income increased 81.4% year-on-year to NT\$17.72bn. Net worth kept growing at the financial holdings level. Book value per share as of the end of September reached NT\$13.66, 2.9% higher than the previous quarter.

Core business of each subsidiary remained solid in the third quarter, which will

be discussed later in the presentation.

Page 10 Page 10 – FYP for the first nine months 2017 declined 5.8% year-on-year to NT\$84.08bn, representing a market share of 8.9%. However, VNB remained similar to the same period of 2016, thanks to strong sales of foreign currency policies. FYP of such policies increased 138.9% year-on-year to NT\$38.16bn, accounting for 45.4% of the total.

Protection products remained sales focus this year. The momentum for health insurance sustained over the past quarter, with sales of NT\$2.26bn in the first nine months, up 5.6% year-on-year.

Annualized cost of liabilities has steadily decreased with inflows of savings policies. It improved another 3 basis points from the previous quarter to 4.28%, in line with our expectation.

Page 13 Page 13 presents an overall view of Shin Kong Life's investment portfolio. Annualized investment return for the first nine months 2017 was 3.89%, 31 basis points higher compared to the same period last year. Breakdown of investment returns for different asset classes were: real estate 3.1%, mortgage and corporate loans 2.1%, policy loans 5.8%, overseas investment 4.1%, domestic securities 3.7%, and cash 0.6%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the third quarter, corporate bonds accounted for the largest share, representing 47.9% of the total, followed by international bonds at 29.5% and government bonds at 20.5%. Overall distribution was similar to the first half, and the average yield before hedging of overseas fixed incomes was 4.85%.

The chart on the upper-right displays the overseas fixed income portfolio by region. Shin Kong Life invested 35.2% in North America and 27.8% in Europe. The share of Asia & other was 37.0%. The overall portfolio remains well distributed across the world, in line with internal target.

Page 16 Page 16 – Unannualized hedging cost for the first nine months 2017 was 1.21%, and foreign currency volatility reserve increased to NT\$2.87bn as of the end of September. Hedging ratio was 83.0%, including CS, NDF, and naturally-hedged forex policies position. CS and NDF accounted for 61% and 39%, respectively, of traditional hedges. In order to better control hedging cost, Shin Kong Life will actively promote sales of foreign currency policies.

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 posted a consolidated after-tax profit of NT\$3.10bn for the first nine months 2017, 7.8% lower compared to the same period last year. This decline was mainly attributed to the increased provision expense, which grew 99.1% year-on-year.

Page 22 Page 22 – Total loan balance went up 3.4% year-to-date to NT\$525.68bn. Loan growth was driven by consumer lending, which grew 7.1% year-to-date. Over the past quarters, Shin Kong Bank has been expanding overseas lending operations to maintain a stable interest spread. As of the end of September, the overseas syndicated loan balance reached NT\$15.49bn, up 71.5% year-to-date. The Bank has provided such loans in Southeast Asia to locally renowned companies with investment grade credit ratings.

Page 23 Page 23 – Net interest margin and net interest spread for the first nine months were properly maintained at 1.57% and 1.96%, respectively. Full-year figures are expected to be similar to the levels delivered in the first nine months.

Page 25 Page 25 – The positive market sentiments have helped to create sales momentum, driving up fee income from mutual funds and overseas securities by 81.9% and 89.0% year-on-year, respectively. Wealth management income for the first nine months was NT\$1.49bn.

In the fourth quarter, Shin Kong Bank will promote regular premium and foreign currency policies to enhance wealth management income.

Page 26 Page 26 – New NPL generated in the third quarter was NT\$451mn, which mainly came from one fully-collateralized case. No loss was expected from this case.

Asset quality remained stable with NPL ratio at 0.26% and coverage ratio at 478.27%. Both figures are better than the industry average.

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

Q&A SESSION*Disclaimer:*

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