

SKFH Fourth Quarter 2017 Results Conference Call

March 29, 2018, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

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

- We are happy to have President Min-Yi Huang of the Financial Holding Company to review the fourth 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; 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.

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$11.22bn for 2017. Consolidated total comprehensive income increased 58.1% year-on-year to NT\$20.51bn. Net worth kept growing at the financial holdings level, with book value per share reaching NT\$13.87 at the year end.

At the end of 2017, capital adequacy ratios of the group and subsidiaries were all well above regulatory requirements. Group CAR was 117.7%, RBC of Shin Kong Life was 257.4%, and BIS of Shin Kong Bank was 13.1%.

Core business of each subsidiary remained solid in 2017, which will be discussed later in the presentation.

Page 10 Page 10 – Compared to the high base of 2016, FYP for 2017 declined 3.4% year-on-year to NT\$110.96bn, representing a market share of 8.8%; besides, Shin Kong Life chose not to promote investment-linked products. However, foreign currency policies remained marketing focus in 2017, and FYP of such policies increased 118.9% year-on-year to NT\$52.04bn, accounting for 46.9% of the total.

With sufficient inflows of savings policies, cost of liabilities improved 14 basis points to 4.23% in 2017, better than our expectation.

Going forward, Shin Kong Life will actively promote foreign currency policies and protection products to facilitate ALM matching and VNB growth.

Page 13 Page 13 presents an overall view of Shin Kong Life’s investment portfolio. Investment return for 2017 was 3.92%, 12 basis points higher compared to 2016. 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 4.2%, domestic securities 3.5%, and cash 0.5%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of 2017, corporate bonds accounted for the largest share, representing 46.6% of the total, followed by international bonds at 28.9%. Emerging market government bonds grew from 20.3% in 2016 to 22.6% in 2017.

The chart on the upper-right displays the overseas fixed income portfolio by region. Shin Kong Life invested more funds in North America during 2017 with eyes on the rising bond yields and superior credit quality. Thus, the share of North America increased to 34.2%, while that of Europe declined to 27.0%. The share of Asia & other slightly went up to 38.8%.

Page 16 Page 16 – Hedging cost for 2017 was 1.55%, and foreign currency volatility reserve increased to NT\$2.55bn at the year end. Hedging ratio was 83.2%, including CS, NDF, and naturally-hedged forex policies position. CS and NDF accounted for 60% and 40%, respectively, of traditional hedges. In order to better control hedging cost, Shin Kong Life will continue to promote sales of foreign currency policies in 2018.

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 posted a consolidated after-tax profit of NT\$4.06bn for 2017, 12.3% lower compared to 2017. This decline was mainly attributed to the increased provision expense, which grew 83.8% year-on-year. However, the provision expense is expected to normalize in 2018 as the remaining TRF positions were completely settled in August 2017.

Page 24 Page 24 – Total loan balance as of the end of 2017 went up 5.2% year-on-year to NT\$534.82bn. Loan growth was driven by consumer lending, which grew 9.8% year-on-year. Over the past quarters, Shin Kong Bank has been expanding its overseas lending operations to maintain a stable interest spread. As of the end of 2017, the overseas syndicated loan balance reached NT\$17.37bn, indicating an annual growth rate of 92.4%. Going forward, the Bank will continue to expand its overseas client base and build up close relationships with key partners to enlarge offshore earnings.

Page 25 Page 25 – The full-year net interest margin and net interest spread were 1.57% and 1.96%, respectively, which was in line with our guidance. As for 2018, given the higher loan growth target and likely no further decrease in the funding cost, net interest margin and net interest spread are expected to be slightly lower than the level in 2017.

Page 27 Page 27 – Wealth management income for 2017 grew 3.7% year-on-year to NT2.05bn with strong sale momentum in mutual fund and overseas securities. The fee income from these two categories accounted for 45.5% of the total.

This year, Shin Kong Bank will continue to recruit experienced financial consultants and enhance average productivity. On the product side, foreign currency policies will be the sales focus. The growth target for wealth management income in 2018 remains double-digit.

Page 28 Page 28 – Asset quality remained stable with NPL ratio at 0.24% and coverage ratio at 488.29%. New NPL generated in the fourth quarter was NT\$300mn, down by NT\$151mn compared to the previous quarter.

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

Q&A SESSION

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