

SKFH First Quarter 2018 Results Conference Call

May 24, 2018, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2018 First 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 first quarter results with us.
- Also in the room are James Yuan, Chief Investment Officer of Shin Kong Life; Han-Wei Lin, Chief Actuary of Shin Kong Life; Isabella, member of the IR team.
- We are also joined by Ophelia Au Young, Principal of Deloitte Actuarial and Insurance Solutions. Ophelia has been working closely with us over the past few months in reviewing our EV work, and she is here to help us answer any question you may have.

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 Isabella at 886 921 *** ** for assistance.

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$16.27bn for the first quarter 2018; earnings per share was NT\$1.54. Net worth continued to grow at the financial holdings level, and book value per share reached NT\$14.75, 6.3% higher than the end of last year. Life insurance EV per share of SKFH was NT\$24.9 as of the end of 2017.

Core business of each subsidiary remained strong in the first quarter, which will be discussed later in the presentation.

Page 10 Page 10 – Compared to the high base of the first quarter 2017, FYP for the first quarter 2018 declined 5.3% year-on-year to NT\$26.73bn, representing a market share of 7.3%. Not simply aiming for sales volume, Shin Long Life chose to promote foreign currency policies and protection products to contain the hedging cost, facilitate ALM matching, and grow value of new business. FYP of foreign currency policies for the first quarter grew 80.1% year-on-year to NT\$15.26bn, and sales of protection products increased 29.3% year-on-year to NT\$1.37bn.

With sufficient inflows of savings policies, cost of liabilities improved another 3 basis points to 4.20%, in line with our guidance.

Page 14 Page 14 presents an overall view of Shin Kong Life's investment portfolio. Annualized investment return for the first quarter 2018 reached 5.82%, thanks to one-off disposal gains of equities and bonds before rate hikes. Breakdown of investment returns for different asset classes were: real estate 3.3%, mortgage and corporate loans 1.8%, policy loans 5.9%, overseas investment 5.2%, domestic securities 10.8%, and cash 0.4%.

Page 15 Page 15 shows the portfolio of overseas fixed incomes. At the end of the first quarter, corporate bonds accounted for the largest share, representing 45.5% of the total, followed by international bonds at 31.8%. Emerging market government bonds slightly declined from 22.6% to 21.2% at quarter end.

The chart on the upper-right displays the overseas fixed income portfolio by region. Shin Kong Life invested more funds in North America during the first quarter with eyes on the rising bond yields and superior credit quality. Thus, the share of North America increased to 34.7%. The share of Europe edged up to 27.2%, while that of Asia & other came down to 38.1%.

Page 17 Page 17 – Annualized hedging cost for the first quarter was 1.97%, and foreign currency volatility reserve was NT\$2.12bn at quarter end. However, as of the end of April, foreign currency volatility reserve went up to NT\$3.49bn as the NT dollar lost some ground against the US dollar.

Hedging ratio was 83.9%, including CS, NDF, and the naturally-hedged forex policies position. CS and NDF accounted for 60% and 40%, respectively, of traditional hedges.

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

Isabella Wang:

Page 21 Thank you, Stan. Please turn to page 21.

Shin Kong Bank delivered a stable performance for the first quarter 2018. Consolidated net income increased 29.3% year-on-year to NT\$1.25bn, with net interest income up 6.0% year-on-year, and net fee income up 10.4% year-on-year. As the TRF losses were fully provisioned last year, the provision expense for the first quarter decreased 30.7% year-on-year.

Page 22 Page 22 – Total loan balance remained flat quarter-on-quarter at NT\$534.27bn. Shin Kong Bank has been focusing on overseas lending operations over the past quarters. As of the end of March, the overseas syndicated loan balance grew 5.8% year-to-date to NT\$18.38bn. This year, the Bank will continue to expand its overseas client base and build up closer relationships with key partners to increase its offshore earnings.

Page 23 Page 23 – As more deposits were retained to facilitate business growth, loan-to-deposit ratio for the first quarter decreased to 72.9%. Net interest margin edged down 3 basis points quarter-on-quarter to 1.55%, while net interest spread was similar to the previous quarter at 1.97%.

Page 25 Page 25 – Wealth management income for the first quarter grew 17.5% year-on-year to NT\$544mn with strong sales momentum in mutual funds and overseas securities. The fee income from these two categories accounted for 48.2% of the total.

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

Page 26 Page 26 – Asset quality remained stable with NPL ratio at 0.24% and coverage ratio at 555.25%. New NPL generated in the first quarter was NT\$334mn, and this only accounted for 0.06% of total loans.

I will now turn over to Han Wei to talk about the updates on EV/AV.

Han Wei Lin:

Page 28 Thank you, Isabella. Please turn to page 28.

For 2017 Embedded Value, the earning rate of VIF goes from 3.83% to 5.10% in 30 years for TWD products and 4.45% to 5.62% for USD products. The Equivalent investment yield is 4.42%. For VNB, it goes from 3.50% to 5.10% and 4.43% to 5.62% in 30 years for TWD and USD products, respectively. The Adjusted NAV increased 5%, VIF increased 16%, and COC increased 6%. As a result, Our EV, at the end of 2017, increased 11% to NT\$253.6bn. In 2017,

there is a significant growth of USD products, and VNB increased 3% to NT\$23.0 bn. VNB margin was 20.7%. AV's for 5 years of NB and 20 years of NB were NT\$343.9bn and NT\$452.2bn accordingly.

- Page 29 Page 29 – Under the base case scenario, risk discount rate is 10.5%. We also provide the sensitivity tests of investment return and risk discount rate for your reference.
- Page 30 Page 30 – Statutory Net Worth increased from NT\$73.7bn to NT\$90.5bn in 2017. The main contributor came from Profit and Unrealized Gains on Available-for-Sale Financial Assets, which added NT\$11.1bn to Statutory Net Worth.
- Page 31 Page 31 – For adjusted NAV, the shareholder value at the end of 2017 was NT\$90.5bn. Unrealized gains on property added NT\$68.2bn. We also added NT\$7.2bn of special reserves of unrealized gains on property, and NT\$1.3bn of other items, including foreign exchange volatility reserve (and unrealized gains on financial instruments).
- Page 32 Page 32 – VIF grew from NT\$138.7bn to NT\$160.5bn in 2017. The biggest impact came from the new business issued, which added NT\$27.7bn to VIF. Assumption changes were minus NT\$18.4bn.
- Page 33 Page 33 – VNB increased from NT\$22.2bn to NT\$23.0bn in 2017. The change of product-mix was the major contributor, which added NT\$1.7bn to VNB.

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

Q&A SESSION

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