

SKFH Second Quarter 2012 Results Conference Call

August 23, 2012, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2012 Second Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- First, we are happy to have Vice Chairman Victor Hsu of the Financial Holding Company to review the second quarter results with us.
- Also in the room are Senior Vice President Sunny Hsu, as well as Chuck and Isabella, members of the IR team.

The presentation we are about to go through has been 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 835924 for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for second quarter 2012. Vice Chairman Hsu ...

PRESENTATION

Victor Hsu:

Page 4 Thank you, Stan. Good afternoon, ladies and gentlemen. Please turn to page 4.

Although global markets remained volatile, SKFH recorded an after-tax profit of NT\$7.66bn in the first half, up 300.9% year-on-year. EPS was NT\$0.91.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by the properly controlled hedging cost and disposal gains from REATs, Shin Kong Life's after-tax profit reached NT\$5.04bn. Annualized hedging cost for 1H 2012 was 1.74%, significantly lower than 2.50% in first quarter 2012.

For Shin Kong Bank, after-tax profit was NT\$2.57bn, up 26.6% year-on-year. Loan balance grew 14.3% year-on-year, and L/D ratio (including

credit cards balance) increased from 75.2% in the first quarter to 80.2%.

Shin Kong Life's domestic cash dividend income is estimated to reach NT\$5.5bn for 2012, which will mainly be recognized in the third quarter and contribute to profit.

All in all, we are making steady progress against our strategy to strengthen core business and drive profitability.

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\$7.66bn in the first half, NT\$5.75bn higher year-on-year.

At the subsidiary level, Shin Kong Life's cumulative after-tax profit was NT\$5.04bn, NT\$5.16bn higher year-on-year, and Shin Kong Bank's cumulative profit increased 26.6% year-on-year fueled by the strong growth of loans and fee incomes.

Page 9 Page 9 – First year premium was NT\$39.38bn, up 1.9% year-on-year. Market share was 6.2%.

Long-term profit generation remains the main consideration in product strategies. Sales of savings policies are limited by quotas. First year premium of traditional products was 131.9% higher year-on-year, with first year premium from regular premium products 62.9% higher year-on-year.

Protection products remain the sales focus. Product strategy for the second half concentrates on high VNB margin, long-term profit generating, and protection-oriented traditional and health insurance policies. Those products include VUL by unit-cost-averaging method, as well as MTR, MTL, health, personal accident, long-term care and foreign currency whole life protection products.

Page 13 Page 13 gives an overall view of our investment portfolio. Annualized investment return for the first half of 2012 was 4.24%. Breakdown of investment returns for different asset classes were: real estate 3.9%, mortgage and corporate loans 2.4%, policy loans 6.0%, overseas investment 4.5%, domestic securities 4.5%, and cash 0.7%. Moreover, equity and fixed income investments in China through the QFII quota of US\$100mn were deployed since second quarter 2012, which can further diversify the regional risk.

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

Chuck Chiu:

Page 18 Thank you, Stan. Please turn to Page 18.

Shin Kong Bank generated a profit of NT\$2.57bn in the first half of 2012, up 26.6% year-on-year. Net interest income increased 7.2% year-on-year to NT\$3.71bn. Pre-provision profit increased 64.8% year-on-year to NT\$3.05bn.

Page 20 Page 20 – Loans grew by 14.3% year-on-year. All segments achieved positive growth except credit cards and car loans. L/D ratio increased to 80.2% from 75.2% of first quarter, indicating efficient use of funds.

Page 21 Page 21 – Net interest margin remained at 1.40% in the second quarter. Management will continue to work on remaining prudent loan growth and efficient fund deployment. Efforts on strengthening corporate banking business including cash management, TMU, syndicated loans, and factoring are also enhancing fee income and lowering funding costs.

Page 22 Page 22 – Net fee income as a percentage of total income was 16.8%. Fee income from wealth management, in particular, has experienced significant growth.

Page 23 Page 23 – Driven by strong sales of insurance and bond products, wealth management income for the first half of 2012 was NT\$500mn, up 24.0% year-on-year. Sales focuses for the second half will be on foreign securities and foreign currency insurance policies, which are expected to contribute to fee income growth.

Page 24 Page 24 – NPL and coverage ratios were 0.93% and 109.69% respectively in the second quarter. New NPL generated were up to NT\$735mn in the second quarter due to the loan to ProMos of NT\$639mn categorized as NPL. However, the NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.51% and 201.49% respectively, indicating solid asset quality.

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

Q&A SESSION

Conference Call Script – SKFH Q2 2012 Earnings Update

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