

SKFH Third Quarter 2012 Results Conference Call

November 1, 2012, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2012 Third 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 third 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 third quarter 2012. Vice Chairman Hsu ...

PRESENTATION

Victor Hsu:

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

SKFH recorded an after-tax profit of NT\$10.29bn in the first nine months of 2012, up 67.9% year-on-year. EPS was NT\$1.22.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by the domestic cash dividend income of NT\$5.31bn recognized in the third quarter, annualized investment return reached 4.49% for the first nine months of 2012. The cumulative after-tax profit was NT\$6.69bn.

For Shin Kong Bank, after-tax profit was NT\$3.57bn, up 20.5% year-on-year. Fee incomes increased 20.6% year-on-year, and the fee income

from wealth management was 31.9% higher year-on-year.

Net worth recovered at the financial holdings level in the third quarter. As of the end of the third quarter, consolidated shareholders' equity of SKFH was NT\$93.37bn, 12.4% higher quarter-on-quarter, driven by NT\$8.59bn recovery of SKL's shareholders' equity. To further enhance financial structure, SKL Board resolved on September 28 to issue perpetual cumulative subordinated corporate bonds in maximum amount of NT\$5bn.

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\$10.29bn in the first nine months, NT\$4.16bn higher year-on-year.

At the subsidiary level, Shin Kong Life's cumulative after-tax profit was NT\$6.69bn, NT\$3.45bn higher year-on-year, and Shin Kong Bank's cumulative profit increased 21% year-on-year fueled by the strong growth of loans and fee incomes.

Page 9 Page 9 – First year premium was NT\$56.15bn, down 3.1% year-on-year. Market share was 6.0%.

Long-term profit generation remains the main consideration in product strategies focused on growth of regular premium products and risk premium. First year premium of traditional products was 60.5% higher year-on-year, with first year premium from regular premium products 36.5% higher year-on-year.

Protection products remain the sales focus. Product strategies concentrate 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 nine months of 2012 was 4.49%. Breakdown of investment returns for different asset classes were: real

estate 3.9%, mortgage and corporate loans 2.5%, policy loans 6.0%, overseas investment 4.6%, domestic securities 5.2%, and cash 0.8%.

In order to enhance investment yield and diversify regional risks, SKL increased fixed income investments in emerging markets, including corporate and government bonds, as well as dim-sum bonds.

The annualized hedging cost for the first nine months of 2012 was 1.57%, further lower than 1.74% in the first half.

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\$3.57bn in the first nine months of 2012, up 20.5% year-on-year. Net interest income and net fee income increased 5.0% and 23.3% year-on-year respectively. The pre-provision profit increased 41.7% year-on-year to NT\$4.29bn.

Page 20 Page 20 – Loans grew by 11.4% year-on-year. All segments achieved positive growth except credit cards and car loans. L/D ratio was 78.6%, indicating efficient use of funds.

Page 21 Page 21 – Net interest margin was at 1.38% in the third 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 incomes and lowering funding costs.

Page 22 Page 22 – Net fee income as a percentage of the total income was 17.6%. The 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 nine months of 2012 was NT\$795mn, up 29.2% year-on-year. Sales focuses 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 0.92% and 112.63% respectively in the third quarter. The foreclosed collateral of the NT\$1.72bn non-performing loan to Prince Motors was auctioned off for NT\$9.14bn in September; the principal and interests will be fully recovered with no loss. Excluding the loan, NPL and coverage ratios would improve to 0.51% and 204.15% respectively, indicating solid asset quality.

New NPL generated were NT\$89.8mn, significantly lower than NT\$735mn in the second quarter.

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

Q&A SESSION

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