

SKFH Second Quarter 2013 Results Conference Call

August 29, 2013, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2013 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; 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 2013. 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\$7.01bn for the first half of 2013. EPS was NT\$0.81. Other comprehensive income was NT\$1.59bn, and comprehensive income amounted to NT\$8.61bn. Shareholders' equity increased to NT\$92.89bn, and book value per share reached NT\$10.47.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by annualized hedging cost as low as 0.37%,

net income for the first half of 2013 reached NT\$55.4bn. Amid rising domestic and foreign yields, only 13.2% of Shin Kong Life's fixed income investments were classified as available for sale position; therefore, impacts caused by rising yields were limited. Nonetheless, recurring yields will be gradually enhanced.

For Shin Kong Bank, net fee income, wealth management income and TMU income grew 23.9%, 33.0% and 296.7% year-on-year respectively. Loan balance was NT\$435.48bn, up 2.0% quarter-on-quarter. Demand deposit ratio rose to 40.74%, driving net interest spread and net interest margin to 1.80% and 1.42% respectively.

In order to support business development and enhance financial structure, SKFH successfully issued 650 million common shares through public offering in July. NT\$2.0bn of the proceeds will be injected into the bank subsidiary in the third quarter, and another NT\$2.0bn will be downstreamed to the life subsidiary in the fourth quarter.

Domestic cash dividend income is estimated to exceed NT\$6.5bn for 2013, which will mainly be recognized in the third quarter.

All in all, we are making steady progress against our strategy to strengthen capital 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\$7.01bn in the first half. At the subsidiary level, Shin King Life's after-tax profit was NT\$5.54bn, 6.6% higher year-on-year, and Shin Kong Bank's after-tax profit was NT\$2.17bn.

Page 9 Page 9 – First Year Premium was NT\$22.23bn, down 43.5% year-on-year, mainly impacted by reduced reserve rates on traditional products resulting in less market demand. However, renewal premium grew 5.7% year-on-year driven by continuous focus on sales of regular premium products, which was crucial to cumulate fundamental incomes of mortality and expense gains.

Long-term profit remains the main consideration in product strategies aiming at stably growing and cumulating fundamental incomes. FYP of regular premium traditional products accounted for 82.7% of total

traditional products. In future, SKL will continue to promote long-term regular premium products, health insurance and unit-cost-averaging VUL.

Page 13 Page 13 gives an overall view of our investment portfolio. Annualized investment return for the first half of 2013 was 4.14%. Breakdown of investment returns for different asset classes were: real estate 9.1%, mortgage and corporate loans 2.4%, policy loans 5.9%, overseas investment 4.9%, domestic securities 2.4%, and cash 0.8%.

Page 14 Page 14 shows our accounting categories of fixed income investments. Held to maturity and no active market positions, which are not marked to market, accounted for 28.4% and 57.8% respectively. Only 13.2% of SKL's fixed income investments were classified as available for sale position; therefore, impacts caused by rising yields were limited.

Amid rising yields, investments in long-term fixed incomes will be gradually deployed and mainly classified as held to maturity and no active market positions to enhance recurring investment return and avoid volatility in net worth.

Page 15 Driven by effective hedging strategies, annualized hedging cost was 0.37% for the first half, lower than our internal target of 130 bps.

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 an after-tax profit of NT\$2.17bn in the first half of 2013. Net interest income and net fee income grew 10.0% and 23.9% year-on-year respectively. Pre-provision profit was NT\$2.97bn, up 25.8% year-on-year, excluding NT\$728mn one-off REITs gains in the first half of 2012.

Page 20 Page 20 – Adjusting deposit and loan structures is the strategic objective for 2013. Loan balance was NT\$435.48bn, up 2.0% quarter-on-quarter.

Page 21 Page 21 – Net interest spread and net interest margin for the second quarter slightly improved to 1.80% and 1.42% respectively. Further improvement in net interest margin is expected. Management will continue to work on remaining prudent loan growth in profitable segments, while increasing low cost demand deposits. Efforts on strengthening corporate banking business including cash management,

TMU, syndicated loans, and factoring are also enhancing fee income and lowering funding cost.

Page 22 Page 22 – Net fee income as a percentage of total income was 23.2%. Fee income from wealth management, in particular, has experienced significant growth.

Page 23 – Driven by strong sales of overseas securities and mutual funds, wealth management income for the first half of 2013 was NT\$933mn, up 33.0% year-on-year. In order to facilitate fee income growth, the bank will focus on sales of insurance policies for the second half of 2013.

Page 24 Page 24 – NT\$172mn loan to TMT was categorized as non-performing in the second quarter of 2013; however, the loan size is limited and collateralized by vessels.

NPL and coverage ratios were 0.47% and 234.19% respectively in the second quarter. NPL ratio of corporate loans was 0.60%, remaining at the same level as the previous quarter, among which NPL ratio of SME loans dropped 16 bps to 0.59%.

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

Q&A SESSION

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