

SKFH Third Quarter 2013 Results Conference Call

November 7, 2013, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2013 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; 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 xxxxxxx 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 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\$10.97bn for the first nine months of 2013. EPS was NT\$1.24. Shareholders' equity increased to NT\$98.20bn, and book value per share was NT\$10.53.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by cash dividend income of NT\$6.45bn and annualized hedging cost controlled at 0.72% for the first nine months, consolidated net income reached NT\$8.41bn.

As only 11.3% of Shin Kong Life's fixed income investments were classified as available for sale, impact caused by the steepening yield curve was limited. Shareholders' equity was NT\$61.20bn.

For Shin Kong Bank, net fee income, wealth management income and TMU income grew 18.3%, 21.7% and 295.5% year-on-year respectively.

Loan balance amounted to NT\$445.16bn, up 4.2% year-to-date; deposit balance increased to NT\$584.77bn, up 5.1% year-to-date. Net interest spread and net interest margin were 1.80% and 1.39% respectively.

SKFH successfully completed a rights issuance amounted to NT\$6.5 billion through public offering in July. NT\$2.0bn was injected into Shin Kong Bank in the third quarter to raise Tier 1 ratio above 8%. Shin Kong Life maintained RBC ratio at a high level of 250-300%, reflecting sufficient capital adequacy. With NT\$2.0bn infusion from Shin Kong Financial Holding in the fourth quarter, Shin Kong Life plans to buy back preferred shares and optimize capital structure.

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\$10.97bn in the first nine months. At the subsidiary level, Shin King Life's after-tax profit was NT\$8.41bn, 22.7% higher year-on-year, and Shin Kong Bank's after-tax profit was NT\$3.20bn.

Page 9 Page 9 – First year premium was NT\$35.63bn, down 36.6% year-on-year, mainly due to decline of market demand driven by reduced reserve rates of traditional products. However, renewal premium grew 6.4% year-on-year driven by continuous focus on sales of regular premium products, which is crucial to cumulate fundamental incomes of mortality and expense gains.

Long-term profit remains the focus of product strategy. First year premium of regular premium traditional products accounted for 76.5% of overall traditional sales. In future, SKL will continue to promote long-term regular premium products, including foreign currency savings, long-term care 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 nine months of 2013 was 4.35%. Breakdown of investment returns for different asset classes were: real estate 8.8%, mortgage and corporate loans 2.4%, policy loans 6.0%, overseas investment 4.4%, domestic securities 3.6%, and cash 0.8%.
- Page 14 Page 14 shows our accounting categories of fixed income investments. Held to maturity and no active market, which are not marked to market, accounted for 29.8% and 58.6% respectively. Only 11.3% of Shin Kong Life's fixed income investments were classified as available for sale, and therefore impact caused by the steepening yield curve was 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 to enhance recurring investment return and avoid net worth fluctuation. Currently, US Dollar denominated emerging market bonds are preferred.
- Page 15 Although hedging cost in the third quarter is relatively high due to New Taiwan Dollar appreciation, annualized hedging cost for the first nine months was 0.72%, lower than our target of 130 bps. Hedging cost in the fourth quarter is expected to be under control given a stabilizing Dollar/NT exchange rate.
- 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\$3.20bn in the first nine months of 2013; annualized ROE was 12.7%. Net interest income and net fee income grew 10.5% and 18.3% year-on-year respectively. Pre-provision profit was NT\$4.46bn, up 22.6% year-on-year, excluding NT\$728mn one-off REITs gains in 2012.
- Page 20 Page 20 – Adjusting deposit and loan structures is the strategic objective for 2013. Loan balance was NT\$445.16bn, up 4.2% year-to-date. In order to achieve yearly loan growth target of 6-7%, deposits outgrew loans in the third quarter. Loan to deposit ratio, including credit cards balance, was 75.5%.
- Page 21 Page 21 – Net interest spread and net interest margin for the third quarter were 1.80% and 1.39% respectively. Management will continue to maintain 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 22.2%. 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 nine months of 2013 was NT\$1.31bn, up 21.7% year-on-year. In order to facilitate fee income growth, the bank will focus on insurance sales in the fourth quarter.

Page 24 Page 24 – New NPL generation in the third quarter was NT\$162mn, NT\$259mn lower quarter-on-quarter.

NPL and coverage ratios were 0.46% and 244.84% respectively in the third 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 6 bps to 0.53%.

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

Q&A SESSION

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