

SKFH Fourth Quarter 2013 Results Conference Call

March 6, 2014, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2013 Fourth 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 fourth 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 ***** for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for fourth 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\$9.99bn for 2013. EPS was NT\$1.11. Shareholders' equity increased to NT\$100.95bn, up 22.2% year-on-year, and book value per share was NT\$10.82.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by hedging cost at only 0.62% and cash dividend of NT\$6.62bn, consolidated net income reached NT\$6.53bn. With limited mark-to-market impact on bond portfolio caused by rising global yields, other comprehensive income was NT\$2.49bn, and

comprehensive income reached NT\$9.02bn. Shareholders' equity was NT\$64.99bn, up 20.4% year-on-year.

For Shin Kong Bank, net fee income, wealth management income and TMU income grew 11.4%, 13.4% and 288.8% year-on-year respectively. NIM rose to 1.40%, driven by structural adjustment of deposits and loans aiming at increasing profit contribution of customers.

Capital adequacy ratios of the group and subsidiaries were all above regulatory requirements. Group preliminary CAR was 125.0%, RBC of Shin Kong Life was in the range of 250%~300%, and BIS of Shin Kong Bank was 10.6%.

Shin Kong actively deploys its overseas arms through both life and banking subsidiaries. Jiangsu Branch of Shin Kong-HNA Life was approved to be established in October 2013 and expected to be opened for operation in first half 2014. Moreover, Shin Kong Bank submitted branch setup application to the State Bank of Vietnam in fourth quarter 2013 and plans to actively establish offshore units in Myanmar and Cambodia.

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\$9.99bn in 2013. At the subsidiary level, Shin King Life's after-tax profit was NT\$6.53bn, 13.3% higher year-on-year, and Shin Kong Bank's after-tax profit was NT\$4.06bn.

Page 8 Page 8 – First year premium for the fourth quarter was NT\$20.76bn, up 54.9% quarter-on-quarter. Sales momentum of regular premium savings, health insurance and investment-linked products significantly increased. Renewal premium grew 6.5% year-on-year due to strong sales of regular premium products, which is crucial to cumulate fundamental mortality and expense gains.

Long-term profit remains the focus of product strategy. VUL was promoted by unit-cost-averaging method, boosting sum-insured per policy to NT\$1.9mn and the number of policies sold to 21,579, 97.6%

higher year-on-year. The number of long-term care health policies sold in 2013 was 11,765. FYP reached NT\$0.47bn

In future, SKL will continue to promote long-term regular premium products, including foreign currency savings, interest sensitive life, long-term care health insurance and unit-cost-averaging VUL.

Page 12 Page 12 gives an overall view of our investment portfolio. Total investment return for 2013 was 4.43%. Breakdown of investment returns for different asset classes were: real estate 8.9%, mortgage and corporate loans 2.4%, policy loans 5.9%, overseas investment 4.6%, domestic securities 3.5%, and cash 0.8%.

Page 13 Page 13 shows our accounting categories of fixed income investments. Held to maturity and no active market positions, which are not marked to market, accounted for 30.4% and 58.9% respectively. Only 10.4% of overall 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 emerging market USD-denominated sovereign debts and high-quality corporate bonds will be gradually deployed and mainly classified as held to maturity and no active market to enhance recurring investment return and avoid net worth fluctuations.

Page 14 Hedging cost for 2013 was only 0.62% with properly managed hedging strategies, significantly lower than our target of 130 bps. In 2014, excluding foreign currency policies position, mid-to long-term target of traditional hedges ranges from 60% to 90% under stringent risk management, while hedging cost is targeted at 100 bps or below.

Looking into 2014, SKL will enhance sales force recruitment and actively nurse young talents to accelerate organizational rejuvenation. Product strategy remains focused on sales of protection, foreign currency regular premium savings, interest sensitive life products and unit-cost-averaging VUL to cumulate fundamental interests and create mid-to long-term value. With change in social structure, we also highlight marketing of long-term care health insurance and expand into senior citizens market. The target of VNB growth in 2014 is 5~10%.

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\$4.06bn in 2013; ROE was 11.9%. Net interest income and net fee income grew 10.7% and 11.4% year-on-year respectively. Pre-provision profit was NT\$5.92bn, up 22.5% year-on-year, excluding NT\$728mn one-off REITs gains in 2012.

Page 21 Page 21 – Loan balance was NT\$450.82bn, up 5.5% year-on-year. NIM rose from 1.39% to 1.40%, driven by structural adjustment of deposits and loans aiming at increasing profit contribution of customers.

Page 22 Page 22 – Net interest spread and net interest margin for the fourth quarter were 1.79% and 1.40% respectively. The management will continue to maintain prudent loan growth in profitable segments, while increasing low cost demand deposits. Since corporate client base has been solidified, corporate banking business including cash management, TMU, syndicated loans, and factoring are enhancing fee income and lowering funding cost.

Page 23 Page 23 – Net fee income as a percentage of total income was 21.8%. Fee income from wealth management, in particular, grew by 13.4%.

Page 24 – Driven by strong sales of overseas securities and mutual funds, wealth management income for 2013 was NT\$1.69bn, up 13.4% year-on-year. Hong Kong Branch will launch wealth management business in late May, 2014, adding new momentum to drive wealth management fee income. In 2014, SKB will continuously develop new products and boost sales of foreign currency regular premium policies.

Page 25 Page 25 – New NPL generation in the fourth quarter was NT\$362mn. Most of new NPL came from loans to Chi Mei Lighting Technology, 70% of which had been provisioned.

NPL and coverage ratios were 0.42% and 265.57% respectively in the fourth quarter. NPL ratio of corporate loans declined slightly to 0.58%, among which NPL ratio of SME loans dropped 5 bps to 0.48%.

In 2014, Shin Kong Bank will dedicate to continuously adjusting loan structure, expanding consumer lending and boosting fee income growth to enhance both profitability and capital adequacy. Meanwhile, with a well-established corporate client base, growth in TMU revenues is expected to remain high. As for overseas expansion, the Bank will cultivate the Asia-Pacific market by setting up offshore units in Vietnam, Myanmar and Cambodia.

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

Q&A SESSION

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