

SKFH Second Quarter 2014 Results Conference Call

August 28, 2014, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2014 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 ***** for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for the second quarter 2014. Vice Chairman Hsu ...

PRESENTATION

Victor Hsu:

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

SKFH recorded consolidated comprehensive income of NT\$6.29bn and consolidated after-tax profit of NT\$3.36bn for the first half 2014; profit attributable to SKFH was NT\$2.72bn. EPS was NT\$0.28. Shareholders' equity increased 14.1% year-on-year to NT\$105.95bn, and book value per share was NT\$11.36.

Core business of each subsidiary remains solid.

For Shin Kong Life, FYP for the first half 2014 reached NT\$36.24bn, up 63.0% year-on-year, increasing new policy acquisition costs.

Conference Call Script – SKFH Q2 2014 Earnings Update

Consolidated after-tax profit and comprehensive income were NT\$416mn and NT\$3.26bn, respectively. Shareholders' equity increased by 11.0% year-on-year to NT\$68.11bn.

Annualized investment return was 4.2% in the first half. Recurring yield before hedging increased 11 bps year-on-year. Domestic cash dividend income is expected to reach NT\$7.2bn for 2014, up 8.8% year-on-year.

For Shin Kong Bank, net interest income and net fee income grew 16.5% and 9.3% year-on-year, respectively. Cost-income ratio further declined to 48.5%. Pre-provision profit was NT\$3.63bn, up 22.1% year-on-year. Amid effort to enhance profitability per client, net interest spread rose 4 bps to 1.84%.

SKFH successfully issued domestic convertible bonds of NT\$5bn on August 27. Conversion price was set at NT\$10.5 with no coupon and put yield. After conversion, the group's capital will be strengthened.

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\$2.72bn in the first half 2014. At the subsidiary level, Shin King Life's after-tax profit was NT\$416mn, and Shin Kong Bank's after-tax profit reached NT\$2.39bn.

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FYP reached NT\$36.24bn, up 63.0% year-on-year, with strong sales of FX traditional whole life products. SKL sustained value of new business growth by emphasizing sales of long duration products.

FX policy remained marketing focus in 2014. Sales in first half grew 190.4% to NT\$13.4bn, accounting for 37% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost.

The number of long-term care health policies sold in the first half was 23,530 with FYP of NT\$977mn, increasing SKL's market share in health insurance to 13.4%. The targeted number of such policies sold for 2014 is 60,000.

In future, SKL will continue to focus on VNB growth and 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 the first half 2014 was 4.2%. Breakdown of investment returns for different asset classes were: real estate 3.2%, mortgage and corporate loans 2.3%, policy loans 5.6%, overseas investment 5.5%, domestic securities 3.0%, and cash 0.8%.
- Page 13 Page 13 shows our portfolio of overseas fixed incomes. At the end of the first half 2014, corporate bonds accounted for the largest portion, representing 62.6% of the total, and were mainly classified as no active market. Diversification is achieved by investing in energy, telecom, consumer, utilities, and financial industries.

Since June, 2014, holdings in foreign currencies denominated bonds listed in domestic OTC market has been exempted from foreign investment quota. SKL has currently purchased NT\$42.8bn of such bonds with an average yield before hedging of 4.36%. The exposure is expected to continuously increase and enhance overall return. Portfolio reallocation enhanced recurring yield before hedging by 11 bps year-on-year.

- Page 15 Annualized hedging cost for the first half was 0.86%. Hedging ratio was 69.2%, including CS, NDF, and the naturally-hedged foreign currency policies position. The mid- to long-term target of hedging ratio ranges from 65% to 90% under stringent risk management. CS and NDF accounted for 83% and 17%, respectively, of traditional hedges.

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 consolidated after-tax profit of NT\$2.39bn in the first half 2014, up 9.8% year-on-year. Net interest income and net fee income grew 16.5% and 9.3% year-on-year, respectively; pre-provision profit was NT\$3.63bn, up 22.1% year-on-year.

- Page 20 Page 20 – Amid effort to enhance profitability of corporate loans, loan balance was NT\$469.91bn, and net interest spread rose 4 bps to 1.84%. “Steady growth and structural adjustment” is the strategic focus this year, and yearly loan growth target remains at 6%-7%.

Page 21 Page 21 – Pricing is based on customers’ overall contribution. The average loan yield rose 4 bps quarter-on-quarter.

With adjustment of loan structure, the loan-to-deposit ratio (including credit cards balance) decreased to comparatively low level of 71.0%, and net interest margin dropped 4 bps to 1.40% in the second quarter. However, loan-to-deposit ratio has gradually increased in the third quarter.

SKB will continue to strengthen cash management business and act as the main settlement bank for MasterLink Securities to increase demand deposits and lower cost of funds. SME and consumer loans will also be developed with stringent risk control to enhance interest income.

Page 23 Page 23 – Wealth management income for the first half 2014 was NT\$970mn. Since April, wealth management consultants have directly registered as the agents of Shin Kong Life, sharing access to its training resources and marketing tools including the core system. Shin Kong Bank will continue to focus on insurance products in the second half, promoting sales of overseas securities and mutual funds to boost fee income.

Page 24 Page 24 – In the second quarter, NPL ratio decreased to 0.36% and coverage ratio increased to 324.27%. Both ratios are expected to continuously improve. New NPL generation in the second quarter was NT\$231mn, similar to the previous quarter.

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

Q&A SESSION

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