

SKFH Third Quarter 2014 Results Conference Call

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

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2014 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 ***** 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 third 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 after-tax profit of NT\$7.66bn for the first nine months 2014; profit attributable to SKFH was NT\$6.95bn. EPS was NT\$0.71. Shareholders' equity increased 3.9% year-on-year to NT\$102.05bn. Book value per share was NT\$10.38.

Core business of each subsidiary remains solid.

For Shin Kong Life, FYP for the first nine months 2014 reached NT\$67.82bn, up 90.4% year-on-year, reducing cost of liability by 11 bps to 4.67% as of the

end of the third quarter.

Driven by properly-managed forex hedging, annualized hedging cost and investment return were 0.75% and 4.32% in the first nine months 2014, respectively.

For Shin Kong Bank, net interest income, net fee income and TMU income grew 16.1%, 13.4% and 141.4% year-on-year, respectively. Pre-provision profit was NT\$6.10bn, up 36.9% year-on-year. Amid effort to adjust loan structure and enhance customers' overall contribution, net interest spread and net interest margin rose to 1.88% and 1.42%, respectively.

SKFH has employed a Chief Marketing Officer to integrate marketing efforts across subsidiaries and further strengthen Shin Kong Bank's wealth management and credit card business.

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\$6.95bn in the first nine months 2014. At the subsidiary level, Shin King Life's after-tax profit was NT\$3.00bn, and Shin Kong Bank's after-tax profit reached NT\$3.97bn.

Page 10 Page 10 – FYP reached NT\$67.82bn, up 90.4% year-on-year, with strong sales of forex traditional whole life and NT Dollar interest sensitive life products in the third quarter. SKL sustained value of new business growth by emphasizing sales of long duration products.

Forex traditional whole life products remained the marketing focus in 2014. Sales in the first nine months grew to NT\$21.9bn, accounting for 32% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost.

FYP of long-term care health policies sold in the first nine months was NT\$1.35bn, resulting in health insurance FYP amounting to NT\$2.64bn, 81.3% higher year-on-year. SKL's market share in health insurance reached 12.9%.

For sustainable VNB growth, SKL will continue to focus on promoting whole life products, including foreign currency savings, 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 nine months 2014 was 4.32%. 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 3.4%, and cash 0.8%.

Page 13 Page 13 shows our portfolio of overseas fixed incomes. At end of the third quarter 2014, corporate bonds accounted for the largest portion, representing 65.9% 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 international bonds listed in domestic OTC has been exempted from foreign investment quota. As of the end of October, SKL has invested NT\$93.9bn in such bonds with average yield before hedging of 4.46%, which after hedging is still higher than domestic bond. The position is expected to continuously increase and enhance overall return. Portfolio reallocation enhanced recurring yield before hedging by 10 bps year-on-year.

Page 15 Annualized hedging cost for the first nine months was 0.75%. Hedging ratio was 71.1%, 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\$3.97bn in the first nine months 2014, up 23.9% year-on-year. Net interest income, net fee income and TMU income grew 16.1%, 13.4% and 141.4% year-on-year, respectively; pre-provision profit was NT\$6.10bn, up 36.9% year-on-year.

Page 20 Page 20 – Amid effort to adjust loan structure, loan balance was NT\$472.84bn, up 4.9% year-to-date. “Steady growth and structural adjustment” is the strategic focus this year, and yearly loan growth target remains at 6%-7%.

Page 21 Page 21 – Net interest spread increased 4 bps to 1.88% quarter-on-quarter with average loan yield rising 3 bps driven by pricing loans based on customers’ overall contribution and lowering deposit rate by 1 bp

quarter-on-quarter.

As net interest spread improved and loan-to-deposit ratio (including credit cards balance) increased to 72.4%, net interest margin rose 2 bps to 1.42% quarter-on-quarter.

SKB will continue to strengthen cash management business and increase demand deposits to 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 nine months 2014 was NT\$1.46bn, up 11.8% year-on-year. Since April, wealth management consultants have directly registered as the agents of Shin Kong Life, sharing access to its training resources and marketing tools. Fee income from bancassurance reached NT\$0.76bn, up 150.9% year-on-year.

In order to increase sales of mutual funds, Shin Kong Bank introduced an investment efficiency system, employing profit taking and reinvestment mechanisms to help clients automatically switch between bond and equity funds.

Page 24 Page 24 – In the third quarter, NPL ratio decreased to 0.32% and coverage ratio increased to 384.10%. Both ratios are expected to continuously improve with NPL ratio down to 0.26% and coverage ratio up to over 400% by year end. The bank met the 1% general provision requirement in the third quarter.

New NPL generated in the third quarter 2014 was NT\$93mn, down 59.6% quarter-on-quarter, mainly came from NT\$50mn loans to Taiwan Polysilicon. Shin Kong Bank has no exposure to Wintek.

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

Q&A SESSION

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