

SKFH Fourth Quarter 2010 Results Conference Call

March 8, 2011, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2010 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 President 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, Sandra and Chuck, 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 Chuck at 886 939 179 940 for assistance.

If you have no questions, we will start by asking President Victor Hsu to give us a group level update for fourth quarter 2010. President Hsu ...

PRESENTATION

Victor Hsu:

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

During the fourth quarter, we have seen capital markets and global economy remain recovering. We continue to be cautiously optimistic about the economic situation, especially emerging markets like Taiwan where GDP growth has been strong.

SKFH recorded an after-tax profit of NT\$0.92bn in Q4 2010. Cumulative after-tax profit continued to improve to NT\$2.54bn. Despite higher than expected FX hedging costs of NT\$5.54bn recorded in Q4 2010, the positive earning was driven by higher investment income and much lower one-time losses at SKL and strong performance at SKB.

The group continued to work hard to enhance revenue and control costs.

On the revenue side, yearly premium and interest income for Shin Kong Life increased 6.1% and 9.9% year-on-year respectively. Pre-provision profit at the bank also increased driven by strong growth in NII and fees.

All major subsidiaries of Shin Kong Financial continued to cut costs. Operating expenses at Shin Kong Life decreased 18.0%, while cost/income ratio of Shin Kong Bank was further improved to 56.6% from 66.9% in 2009; and we expect the benefits to sustain as cost-saving measures continue.

To enhance capital situation, 600 million common shares was issued publicly in November and NT\$5bn was injected into Shin Kong Life in December. Consolidated shareholders' equity of the financial holding company and shareholders' equity of Shin Kong Life have achieved year-on-year growth of 10.1% and 17.1% respectively. Book value per share excluding MasterLink minority interest was NT\$10.3.

To increase profits recognized from MasterLink and deepen cooperation among the subsidiaries, the Board of SKFH resolved to increase shareholding in MasterLink Securities through the purchase of common shares not exceeding 8% of the shares outstanding. Current shareholding ratio announced on MOPS is 26.5%.

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 financial holding company and SKL.

Stan Lee:

Page 6 Thank you, President Hsu. Please turn to Page 6.

Despite NT\$5.54bn FX hedging costs recognized in Q4 2010, after-tax profits at the financial holding company remain positive at NT\$0.92bn. This is driven mainly by significantly higher income and lower one-time losses at SKL. Profit from SKB also continued to improve. Cumulative after-tax profit continued to improve to NT\$2.54bn.

Page 6 At the subsidiary level, yearly profit from SKL remained positive at NT\$0.39bn, and SKB's cumulative profit increased 257.9% year-on-year driven by widened interest spread, higher fee income, and improvement in asset quality.

Page 8 Page 8 – Shareholders' equity remained strong. Excluding minority interest from MasterLink Securities, shareholders' equity would be NT\$87.26bn, 10.2% higher year-on-year. Book value per share was NT\$10.3.

Page 13 First year premium was NT\$83.2bn. Traditional and interest sensitive products are major contributors accounting for 27.1% and 56.2% of FYP respectively. Investment-linked grew strongly by 98% year-on-year driven by recovery in global markets and the launch of new products. Focus going forward will be on high VNB margin, long-term profit generating, and protection-oriented traditional and health products. For example, the innovative protection product co-developed with our strategic partner, Dai-ichi Life, was launched in July. Additionally, over 151 thousand protection policies were underwritten in 2010, 33% higher year-on-year. In year 2011, we expect protection products to contribute significantly to mortality/expense gains and VNB.

Page 15 Page 15 gives an overall view of our investment portfolio. Investment return for 2010 was 4.3%. Despite higher than expected hedging costs, improvement in investment return was mainly driven by high dividend income, recovery of the equity and bond markets. Breakdown of investment returns for different asset classes were: real estate 9.6%, mortgage and corporate loans 2.4%, policy loans 6.0%, overseas investment 3.3%, domestic securities 5.2%, and cash 0.5%.

Page 16 Page 16 – CDOs

As of the end of fourth quarter, total CDO outstanding was NT\$10.1bn. No loss was recognized in Q4 2010.

This wraps up the Life section. I will now hand over to Sandra who will take you through the results of SKB.

Sandra Wu:

Page 20 Thank you, Stan. Please turn to Page 20.

Shin Kong Bank generated a profit of NT\$2.01bn in 2010, up 257.9% year-on-year. Pre-provision profit increased 59.3% year-on-year to NT\$3.87bn. Provision expense was NT\$1.73bn indicating good asset quality.

Page 23 Page 23 - Loans grew by 14.9% year-on-year. All segments achieved positive growth except credit cards. L/D ratio remained high at 79.5% indicating efficient use of funds.

Page 24 Page 24 – Net interest spread continued to rebound in Q4 2010 and was 2bps higher quarter-on-quarter. NIM came down to 1.54% temporarily due to a significant increase in deposits in the last quarter. Management will work on expanding loan scale to match deposit growth so the deployment of funds will remain efficient and NIM will remain high. NIM guidance for Q4 2011 is in a range between 1.65% to 1.70% – significantly higher than the average NIM of 1.58% in 2010.

Page 25 Page 25 – Net fee income grew 20.6% year-on-year. Net fee income as a percentage of total income was 21.4%. Foreign exchange and wealth management, in particular, have experienced significant growth.

Page 26 – Fees from wealth management increased 29.8% year-on-year. Sales continue to focus on mutual funds, insurance, and other overseas fixed income securities.

Page 27 Page 27 – Asset quality improved significantly with overall NPL decreased from 0.74% in Q3 to 0.59%. Coverage increased from 116.62% in Q2 to 130.34% in Q3 and further improved to 150.68% in Q4 this year. New NPL generation has significantly slowed and the impact of Article 34 on provision has been completely reflected in the financial statements for year 2010.

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

Q&A SESSION

Disclaimer:

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