

SKFH First Quarter 2011 Results Conference Call

May 19, 2011, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2011 First 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 first quarter results with us.
- We are also joined by Ophelia Au Young, the associate director of Deloitte Actuarial and Insurance Solutions. Ophelia has been working with us closely over the past months in reviewing our EV work and is here to help us answer any question you may have.
- Also in the room are Senior Vice President Sunny Hsu, Han-Wei Lin, the Appointed Actuary of Shin Kong Life and leader of our EV work, 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 question, we will start by asking President Victor Hsu to give us a group level update for first quarter 2011. President Hsu ...

PRESENTATION

Victor Hsu:

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

Facing unrest in the Middle East and North Africa and global supply chain rattled by Japan earthquake, capital markets and global economy remain recovering. We continue to be cautiously optimistic about the economic situation, especially emerging markets where GDP growth has been strong.

Despite volatilities in global foreign exchange and equity markets, SKFH recorded an after-tax profit of NT\$1.30bn in Q1 2011. Higher investment income at Shin Kong Life and strong performance at Shin Kong Bank were the major contributors to anchor the group earning.

Core business of each subsidiary remains solid.

For Shin Kong Life, first year premium increased 56.4%, and total investment income increased 35.4% year-on-year. Cost control remained tight. Operating expenses down 8.1% year-on-year.

For Shin Kong Bank, asset quality continued to improve. New NPL generation was NT\$-102mn. Net interest income increased 16.7% year-on-year.

As for overseas expansion, SKFH is actively deploying in Greater China. SKFH established SKVC, a venture capital subsidiary, in April and plan to further setup a China leasing company through the subsidiary. On the other hand, Shin Kong Bank opened its Hong Kong full function branch for business on May 6th. In the future, the China leasing company will cooperate with Shin Kong Bank and to provide comprehensive services to Taiwanese enterprises operating in China.

EV of Shin Kong Life increased 59.9% year-on-year to NT\$176.0bn as of the end of 2010. Adjusted net asset value increased 52.0% year-on-year, driven by higher property unrealized gains of NT\$73.1bn and increase in statutory net worth. VIF also increased 42.6% year-on-year due to the value of new business written in 2010.

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 Shin Kong Life.

Stan Lee:

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

SKFH recorded an after-tax profits of NT\$1.30bn in Q1 2011. Improvement on profitability compared to the same period last year was driven mainly by higher income and lower one-time losses at Shin Kong Life. Profit from Shin Kong Bank also continued to improve with an after-tax earnings of NT\$1.02bn recorded in the first quarter.

Page 6 At the subsidiary level, with FX hedging costs properly controlled, quarterly profit from Shin Kong Life were NT\$0.28bn amid volatilities in global FX and equity markets, and Shin Kong Bank's cumulative profit increased 192.1% year-on-year driven by widened interest spread and

significant improvement in asset quality.

- Page 8 Page 8 – Shareholders’ equity remained strong. Excluding minority interest from MasterLink Securities, shareholders’ equity would be NT\$85.15bn, 16.3% higher year-on-year. Book value per share was NT\$10.1.
- Page 12 First year premium was NT\$24.19bn, 56.4% higher year-on-year. Traditional and investment-linked products are major contributors accounting for 22.9% and 61.1% of FYP respectively. Investment-linked grew strongly driven by recovery in global markets and the launch of new products. Focus going forward remains on high VNB margin, long-term profit generating, and protection-oriented traditional and health products. An innovative protection product enhancing life quality of critical illness patients was launched in March. Strong sales of the whole life protection product denominated in US dollars were also observed starting from the second quarter. In year 2011, we expect protection products to contribute significantly to mortality/expense gains and VNB.
- Page 14 Page 14 gives an overall view of our investment portfolio. Annualized investment return for Q1 2011 was 3.8%. Breakdown of investment returns for different asset classes were: real estate 4.1%, mortgage and corporate loans 2.2%, policy loans 5.9%, overseas investment 4.6%, domestic securities 3.8%, and cash 0.6%.
- Page 15 Page 15 – CDOs
- As of the end of first quarter, total CDO outstanding was NT\$9.42bn. No loss was recognized in Q1 2011.
- This wraps up the Life section. I will now hand over to Sandra who will take you through the results of Shin Kong Bank.

Sandra Wu:

- Page 19 Thank you, Stan. Please turn to Page 19.
- Shin Kong Bank generated a profit of NT\$1.02bn in Q1 2011, up 192.1% year-on-year. Pre-provision profit increased 1.8% year-on-year to NT\$0.85bn. Provision expense was NT\$-0.29bn indicating good asset quality.
- Page 21 Page 21 – Loans grew by 19.0% year-on-year. All segments achieved positive growth except credit cards. L/D ratio remained high at 82.0% indicating efficient use of funds.
- Page 22 Page 22 – Net interest margin was 1.56% and net interest spread was 1.93% for Q1 2011. NIM is expected to further increase as Central Bank raises rates. Management will work on expanding loan scale to match

deposit growth so the deployment of funds will remain efficient. Efforts on strengthening corporate banking business including cash management, TMU, syndicated loans, and factoring are also enhancing fee income and lowering funding costs. NIM guidance for Q4 2011 is in a range between 1.60% to 1.65% – higher than the average NIM of 1.58% in 2010.

Page 23 Page 23 – Net fee income as a percentage of total income was 17.5%. Fee income from corporate banking, in particular, has experienced significant growth.

Page 24 – Fees from wealth management decreased 5.1% year-on-year to NT\$170mn due to volatilities in global markets. Sales continue to focus on mutual funds, insurance, and other overseas fixed income securities. As for product innovation, Shin Kong Bank was the first domestic bank to launch preferred shares products and started to offer structural deposits in Q1 2011, providing customers with diversified choices of wealth management products.

Page 25 Page 25 – Asset quality improved significantly with overall NPL decreased from 0.59% in Q4 2010 to 0.46%. Coverage increased from 130.34% in Q3 to 150.68% in Q4 2010 and further improved to 168.84% in Q1 2011. New NPL generation was NT\$-102mn, driven by continuous improvement in asset quality.

I would now turn over to Han-Wei for an update on EV/AV.

Han-Wei Lin:

Page 28 Thank you, Sandra. Please turn to page 28.

Our EV, at the end of 2010, was NT\$176.0bn. VNB of 2010 was NT\$12.6bn. AV's for 5 years of NB and 20 years of NB were NT\$219.8bn and NT\$281.6bn accordingly.

Page 29 Page 29 – Under the base case scenario, the investment return rate goes from 3.90% to 5.43% in 30 years; for IS products, it goes from 3.53% to 5.04% in 30 years. Risk discount rate is 10%. We also provide the sensitivity tests of these two factors for your reference.

Page 30 Page 30 – VIF grew from NT\$43.7bn to NT\$62.3bn in 2010. The biggest impact came from the new business issued, which added NT\$16.6bn to VIF.

Page 31 Page 31 – For adjusted NAV, the shareholder value at the end of 2010 was NT\$66.8bn. Special reserves added NT\$8.6bn. Unrealized gains on property added another NT\$73.1bn, based on the latest appraisal.

Page 32 Page 32 – Adjusted NAV grew from NT\$97.7bn to NT\$148.5bn in 2010. Unrealized gains on property increased another NT\$40.5bn. We also have NT\$10.6bn in other adjustment, including NT\$10bn capital raised in 2010.

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

Q&A SESSION

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