

SKFH Second Quarter 2011 Results Conference Call

August 24, 2011, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2011 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 President 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, as well as 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 second quarter 2011. President Hsu ...

PRESENTATION

Victor Hsu:

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

Global markets remain volatile in the second quarter due to concerns in European sovereign debt crisis and signs on emerging economies growth slowing down. Facing the uncertainty magnified by U.S. downgrade, we will closely monitor exposures in global markets, and our enhanced risk management mechanism will continuously take important part in investment decision making.

Despite volatilities in global markets, SKFH recorded an after-tax profit of NT\$1.91bn in 1H 2011. Higher investment income at Shin Kong Life and strong performance at Shin Kong Bank were the major contributors to the group earning.

Core business of each subsidiary remains solid.

For Shin Kong Life, foreign exchange hedging costs remained below mid-to long-term target of 2%, and total investment income increased 12.9% year-on-year. Sales of protection product remained solid. FYP from traditional products increased 37.2% year-on-year.

For Shin Kong Bank, asset quality continued to improve. New NPL generation was NT\$-61mn. Net interest income increased 16.6% year-on-year.

SKFH is actively deploying in Greater China. The plan to setup a China leasing company through the venture capital subsidiary is on track. On the other hand, SKHNA Life, the life insurance joint venture with Hainan Airline Group, has obtained approval from CIRC to establish its Shaanxi branch in Xi'an City to further facilitate the business growth in the Mainland.

All in all, we are making steady progress against our strategy to enhance core business 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\$1.91bn in 1H 2011. Improvement on profitability compared to the same period last year was driven mainly by higher investment income and absence of one-time losses at Shin Kong Life. Profit from Shin Kong Bank also continued to improve with after-tax earnings of NT\$2.03bn recorded in the first half.

At the subsidiary level, loss in the first six months from Shin Kong Life was NT\$0.12bn amid volatilities in global FX and equity markets, and Shin Kong Bank's cumulative profit increased 121.5% year-on-year driven by widened interest spread and significant improvement in asset quality.

Page 9 First year premium was NT\$38.65bn, 1.9% higher year-on-year. Traditional and investment-linked products are major contributors accounting for 34.1% and 39.8% of FYP respectively. Focus going forward remains on high VNB margin, long-term profit generating, and protection-oriented products. Strong sales of the long-term care product and whole life protection product denominated in US dollars were achieved starting from the second quarter. Sales of traditional products were 37.2% higher than 1H 2010, with FYP from regular premium products 40.4% higher year-on-year. In year 2011, we expect protection

products to contribute significantly to mortality/expense gains and VNB.

Page 13 Page 13 gives an overall view of our investment portfolio. Annualized investment return for 1H 2011 was 3.9%. Breakdown of investment returns for different asset classes were: real estate 4.1%, mortgage and corporate loans 2.4%, policy loans 5.9%, overseas investment 4.1%, domestic securities 4.2%, and cash 0.6%.

Page 14 Page 14 – CDOs

As of the end of second quarter, total CDO outstanding was NT\$9.23bn. No loss was recognized in 1H 2011.

Before ending the life section, I would like to point out that Song-Jiang REAT was auctioned in May. A gain of NT\$2.39bn is expected to be recognized no later than Q1 2012.

I will now hand over to Sandra who will take you through the results of Shin Kong Bank.

Sandra Wu:

Page 18 Thank you, Stan. Please turn to Page 18.

Shin Kong Bank generated a profit of NT\$2.03bn in 1H 2011, up 121.5% year-on-year.

Provision expense was NT\$59mn indicating good asset quality with provision against 67% of loan exposure to Promos reserved as of the end of Q2 and no systemic risk observed.

Page 20 Page 20 – Loans grew by 19.3% year-on-year. All segments achieved positive growth except credit cards. L/D ratio remained high at 82.1% indicating efficient use of funds.

Page 21 Page 21 – Net interest margin was 1.57% and net interest spread was 1.91% for Q2 2011. NIM is expected to further increase if 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.

Page 22 Page 22 – Net fee income as a percentage of total income was 17.4%. Fee income from corporate banking, in particular, has experienced significant growth.

Page 23 – Income from wealth management increased 7.0% year-on-year to NT\$404mn for 1H 2011. Sales continue to focus on mutual funds, insurance, and other overseas fixed income securities. As for new

product, started to offer structured deposits in Q1 2011, and structured notes offered to high net worth clients with comprehensive investment experience were also launched in July, providing customers with diversified choices of wealth management products.

Page 24 Page 24 – Asset quality improved significantly with overall NPL decreased from 0.46% in Q1 2011 to 0.38%. Coverage increased from 150.68% in Q4 to 168.84% in Q1 2011 and further improved to 208.93% in Q2. New NPL generation was NT\$-61mn, driven by continuous improvement in asset quality.

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

Q&A SESSION

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