

SKFH Third Quarter 2011 Results Conference Call

November 9, 2011, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2011 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 President 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, 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 third quarter 2011. President Hsu ...

PRESENTATION

Victor Hsu:

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

Global markets remained volatile in the third quarter due to continuous concerns in European sovereign debt crisis and global economies growth slowing down. Facing the uncertainty, we will closely monitor exposures in global markets, and our 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\$6.13bn in the first nine months of 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 remained solid.

For Shin Kong Life, total investment income for the first nine months of 2011 increased 6.2% year-on-year driven by lower annualized cumulative foreign exchange hedging cost of 0.96% and higher domestic cash dividend income of NT\$5.84bn. Sales of protection product remained solid. First year premium from traditional products increased 73.0% year-on-year.

For Shin Kong Bank, loan balance and net interest income both increased 19.6% year-on-year driven by strong underlying credit demand and stable net interest margin. Asset quality remained solid. New NPL generated in the third quarter 2011 would be only NT\$0.94mn excluding the exposure to Prince Motors which will generate no credit loss.

On overseas expansion, the financial leasing subsidiary established in Suzhou, China is expected to start operating in late November. Shin Kong Life obtained the QFII Status in China granted by the China Securities Regulatory Commission in November, and SKHNA Life plans to open its Shaanxi branch before the end of 2011 to facilitate business growth in the Mainland.

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's cumulative after-tax profit was NT\$6.13bn in the first nine months of 2011. Improvement on profitability compared to the same period last year was driven mainly by higher investment income and improved insurance core business at Shin Kong Life. Profit from Shin Kong Bank also continued to improve with after-tax earnings of NT\$2.96bn recorded in the first nine months.

At the subsidiary level, Shin Kong Life's first nine months cumulative after-tax profit was NT\$3.24bn, and Shin Kong Bank's cumulative profit increased 108.6% year-on-year driven by strong loan growth and solid asset quality.

Page 9 First year premium was NT\$57.94bn, down 10.9% year-on-year. Traditional and investment-linked products contributed most significant shares of 43.0% and 27.1% of first year premium respectively. Sales focus remains on high VNB margin, long-term profit generating, and protection-oriented traditional products and health insurance policies. Sales of traditional products were 73.0% higher than the first nine months of 2010, with first year premium from regular premium products 62.7% higher year-on-year. Going forward, 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 the first nine months of 2011 was 4.2%. Breakdown of investment returns for different asset classes were: real estate 4.3%, mortgage and corporate loans 2.4%, policy loans 5.9%, overseas investment 4.6%, domestic securities 4.5%, and cash 0.6%.

Page 14 Page 14 – CDOs

As of the end of third quarter, total CDO outstanding was NT\$8.96bn. After disposing ABS CDOs in amount of NT\$0.81bn in the third quarter 2011, Shin Kong Life has no ABS CDO exposure.

Before ending the life section, I would like to point out that underlying buildings of two maturing REATs offered by Shin Kong Life were auctioned in the second and third quarter. Gains on the auctions will be recognized in the first half of 2012 in amounts of NT\$2.4bn and NT\$7.3bn respectively. Combined with disposal gains of NT\$0.62bn and NT\$1.74bn from Ling Yun Commercial Building and Kaohsiung San Duo Building separately in the fourth quarter, the real estate related gains will provide capital and profit buffer amid volatile global markets.

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\$2.96bn in the first nine months of 2011, up 108.6% year-on-year.

Provision expense was only NT\$98mn, indicating good asset quality. Extra provision was reserved in the third quarter to cope with decelerating global economy growth and would gradually meet the provision ratio target of 1% suggested by the FSC.

Page 20 Page 20 – Loans grew by 19.6% year-on-year. All segments achieved positive growth except credit cards. L/D ratio remained high at 81.9% indicating efficient use of funds.

Page 21 Page 21 – Net interest margin was 1.59% and net interest spread was 1.90% for the third quarter of 2011. Management will continue to work on remaining prudent loan growth and efficient fund deployment. 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 17.3%. Fee

income from corporate banking, in particular, has experienced significant growth.

Page 23 –Affected by continuous volatilities in global markets, wealth management income was slightly declined by 0.5% year-on-year to NT\$615mn for the first nine months of 2011. Sales continue to focus on mutual funds, insurance, and other overseas fixed income securities. As for new products, foreign securities designed for high net worth clients have been launched in the second half, contributing to fee income growth.

Page 24 Page 24 – Due to Prince Motors’ default, NPL ratio increased to 0.81%, and coverage ratio decreased to 100.98%; however, the NT\$1.70bn loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.35% and 234.69% respectively, indicating solid asset quality. New NPL generated in the third quarter of 2011 were NT\$1.70bn but would be only NT\$0.94mn excluding the exposure to Prince Motors.

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

Q&A SESSION

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