

SKFH Fourth Quarter 2011 Results Conference Call

March 01, 2012, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

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

PRESENTATION

Victor Hsu:

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

During the year 2011, global markets remained volatile mainly due to European sovereign debt crisis. In the first quarter of 2012, global economies have shown signs of stabilization. We will continuously monitor exposures in global markets and seize opportunities to benefit from the recovery.

Despite volatilities in global markets, SKFH's 2011 cumulative after-tax profit improved to NT\$5.49bn, up 145.7% year-on-year. Solid insurance core business 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, investment return for 2011 was 4.28% driven by lower foreign exchange hedging cost of 1.21% and higher domestic cash dividend income of NT\$6.11bn. Sales of protection product remained solid. First year premium from traditional products increased 67.7% year-on-year.

For Shin Kong Bank, loan balance and net interest income increased 13.8% and 18.2% year-on-year respectively. Asset quality remained solid. New NPL generated in 2011 would be only NT\$1.62mn excluding the exposure to Prince Motors which will generate no credit loss.

As for overseas expansion, SKFH is actively deploying in Greater China. Financial leasing subsidiary established in Suzhou, China started to operate in late November. Shin Kong Life obtained China QFII Status in November, and Shaanxi branch of SKHNA Life is expected to commence operation in the late first quarter of 2012 to facilitate business growth in the Mainland.

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, President Hsu. Please turn to Page 6.

SKFH's 2011 cumulative after-tax profit improved to NT\$5.49bn, up 145.7% year-on-year. Improvement on profitability compared to the same period last year was driven mainly by solid insurance core business at Shin Kong Life, while profit from Shin Kong Bank continued to improve with after-tax earnings of NT\$3.14bn recorded in 2011.

At the subsidiary level, Shin Kong Life's cumulative after-tax profit was NT\$2.48bn, NT\$2.31bn higher than 2010, and Shin Kong Bank's cumulative profit increased 56.5% year-on-year driven by strong loan growth and solid asset quality.

Page 9 Page 9 - First year premium was NT\$76.56bn, down 8.0% year-on-year. Traditional and investment-linked products contributed most significant shares of 49.3% and 20.7% 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.

First year premium of traditional products and health insurance policies were 67.7% and 10.9% higher than 2010 respectively, with first year premium from traditional regular premium products 25.1% higher year-on-year. Going forward, we expect protection products to contribute significantly to mortality and expense gains, as well as VNB.

Page 13 Page 13 gives an overall view of our investment portfolio. Investment

return for 2011 was 4.28%. Breakdown of investment returns for different asset classes were: real estate 7.2%, mortgage and corporate loans 2.5%, policy loans 5.9%, overseas investment 4.5%, domestic securities 4.1%, and cash 0.6%.

Before ending the life section, I would like to point out that investment income of NT\$2.46bn and NT\$7.34bn from two maturing REATs are expected to be recognized in the first and second quarter respectively which will support the earnings for 2012.

Moreover, FX reserve has been implemented today. Shin Kong Life will conduct FX hedging with better flexibility and efficiency under stringent risk management mechanism going forward.

Finally, SKL has just obtained QFII Status from SAFE, China, and our quota is US\$100mn. To give you some color on capital adequacy ratios, our RBC ratio as of the end of 2011 was high enough to continuously invest in China and Hong Kong's financial markets.

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\$3.14bn in 2011, up 56.5% year-on-year. Net interest income increased 18.2% year-on-year to NT\$7.15bn.

Extra provision was reserved in the second half of 2011, and the provision ratio target of 1% suggested by the FSC has been met at year end.

Page 22 Page 22 – Loans grew by 13.8% year-on-year. All segments achieved positive growth except credit cards. L/D ratio was maintained at a level of 77.6% indicating efficient use of funds.

Page 23 Page 23 – Net interest spread was 1.83% in the fourth quarter of 2011. NIM for the fourth quarter came down to 1.45% due to a significant increase in deposits in order to expand scale. 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 24 Page 24 – Net fee income as a percentage of total income was 17.3%. Fee income from corporate banking, in particular, has experienced significant growth.

Page 25 – Affected by continuous volatilities in global markets, wealth

management income was declined by 10.0% year-on-year to NT\$785mn in 2011. As global markets gradually recover, sales of mutual funds and insurance are expected to grow in 2012.

Page 26 Page 26 – Due to Prince Motors' NPL recognized in the third quarter of 2011, NPL and coverage ratios were 0.84% and 118.56% respectively. However, the NT\$1.72bn loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.39% and 259.65% respectively, indicating solid asset quality. New NPL generated in 2011 were NT\$1.72bn but would be only NT\$1.62mn excluding exposure to Prince Motors.

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

Q&A SESSION

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