

SKFH First Quarter 2012 Results Conference Call

May 17, 2012, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2012 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 Vice Chairman Victor Hsu of the Financial Holding Company to review the first quarter results with us.
- We are also joined by Eric Lu, Principal of Deloitte Actuarial and Insurance Solutions. Eric 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, 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 Vice Chairman Victor Hsu to give us a group level update for first quarter 2012. Vice Chairman Hsu ...

PRESENTATION

Victor Hsu:

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

Driven by global markets recovery and solid performance of Shin Kong Bank, SKFH recorded an after-tax profit of NT\$2.94bn in the first quarter. EPS was NT\$0.35 and shareholders' equity increased 13.8% quarter-on-quarter.

Solid core business at Shin Kong Life and strong performance at Shin

Kong Bank were the major contributors to anchor the group earning.

For Shin Kong Life, despite higher FX hedging cost of NT\$3.52bn, Shin Kong Life benefited from global markets recovery and recognition of NT\$2.46bn investment income from Song Jiang REAT. Total investment income increased 15.8% year-on-year.

For Shin Kong Bank, net interest income and loan balance increased 7.1% and 10.2% year-on-year respectively. Fee income increased 21.3% year-on-year, and fee income from wealth management was 36.1% higher year-on-year.

To support business development and enhance financial structure, SKFH successfully issued the second issue of domestic unsecured convertible bonds of NT\$5bn, with conversion price set at NT\$10.5. After conversion, the group's capital will be strengthened.

Despite conservative adjustments in assumptions for 2011 EV and AV to better reflect markets conditions, life insurance EV per share of SKFH remained high at NT\$20.3. V1NB was estimated at NT\$12.6bn, up 21.2% year-on-year, with 2010 V1NB recalculated under the new money earning rate assumption. The growth reflected Shin Kong Life's improving product mix driven by sales strategy concentrating on regular premium and protection policies.

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 the financial holding company and Shin Kong Life.

Stan Lee:

Page 6 Thank you, Vice Chairman Hsu. Please turn to Page 6.

SKFH recorded an after-tax profit of NT\$2.94bn in the first quarter, NT\$1.64bn higher 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\$1.35bn recorded in the first quarter.

At the subsidiary level, Shin Kong Life's cumulative after-tax profit was NT\$1.51bn, NT\$1.23bn higher year-on-year, and Shin Kong Bank's cumulative profit increased 33.2% year-on-year driven by strong loan and fee growth, as well as solid asset quality.

Page 9 Page 9 – First year premium was NT\$16.72bn, down 30.9% year-on-year. The decline was caused by a high base resulted from concentrated sales of a structured note product in the first quarter of 2011. Market share

was 5.4%.

Long-term profit generation remains the main strategy in product sales. Sales of savings policies are limited by quota. First year premium of traditional products was 106.7% higher year-on-year, with first year premium from regular premium products 61.8% higher year-on-year.

To maintain policyholders' interests, VUL products are promoted by unit-cost-averaging method, and structured note products are linked to government bonds.

Sales focus remains on high VNB margin, long-term profit generating, and protection-oriented traditional and health insurance policies. 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. Annualized investment return for the first quarter of 2012 was 3.9%. Breakdown of investment returns for different asset classes were: real estate 4.0%, mortgage and corporate loans 2.4%, policy loans 6.0%, overseas investment 4.6%, domestic securities 3.5%, and cash 0.7%.

Before ending the life section, I would like to point out that investment income of NT\$7.34bn from Tun Nan REAT is expected to be recognized in the second quarter which will support the earnings for 2012.

Moreover, Shaanxi branch of SKHNA Life commenced operation at the end of the first quarter, and application to establish Jiangsu branch has been filed to further facilitate business growth in the Mainland. On the investment front, equity and fixed income investments in China through QFII quota are expected to be deployed in the second quarter of 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\$1.35bn in the first quarter of 2012, up 33.2% year-on-year. Net interest income increased 7.1% year-on-year to NT\$1.83bn. Pre-provision profit increased 94.2% year-on-year to NT\$1.64bn.

Page 20 Page 20 – Loans grew by 10.2% year-on-year. All segments achieved positive growth except credit cards. In order to expand scale, Shin Kong Bank increased deposits in the first quarter which resulted in a moderate decline in L/D ratio to 75.2%.

Page 21 Page 21 – Net interest spread was 1.85% in the first quarter of 2012. NIM

for the first quarter came down to 1.40% 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 22 Page 22 – Net fee income as a percentage of total income was 15.8%. Fee income from corporate banking, in particular, has experienced significant growth.

Page 23 – Driven by strong sales of insurance and bond products, wealth management income for the first quarter of 2012 was NT\$247mn, up 31.1% year-on-year. As global markets gradually recover, sales of mutual funds and insurance are expected to grow.

Page 24 Page 24 – NPL and coverage ratios were 0.83% and 123.55% respectively in the first quarter. However, the NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.38% and 268.34% respectively, indicating solid asset quality. New NPL generated were only NT\$155mn in the first quarter of 2012, lower than NT\$185mn generated in the fourth quarter of 2011.

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

Han-Wei Lin:

Page 27 Thank you, Sandra. Please turn to page 27.

Our EV, at the end of 2011, was NT\$171.0bn. VNB of 2011 was NT\$12.6bn. AV's for 5 years of NB and 20 years of NB were NT\$217.3bn and NT\$285.2bn accordingly. Our new business margin increased to 16.5% in 2011, and VNB growth is 21.2% under the same new money earning rate assumption.

Page 28 Page 28 – This year we separate the earning rates for the General Account in calculating the VIF and V1NB while use the same earning rates for the Interest-Sensitive Account. Under the base case scenario, the earning rate of VIF goes from 3.92% to 5.43% in 30 years; for V1NB, it goes from 3.53% to 5.29%; for IS products, it goes from 3.64% to 4.98%. Risk discount rate has increased from 10.0% to 10.5%. We also provide the sensitivity tests of these two factors for your reference.

Page 29 Page 29 – VIF grew from NT\$62.3bn to NT\$69.9bn in 2011. The biggest impact came from the new business issued, which added NT\$18.0bn to VIF.

Page 30 Page 30 – For adjusted NAV, the shareholder value at the end of 2011

was NT\$45.7bn. Unrealized gains on property added NT\$85.4bn. Special reserves and others added another NT\$8.4bn.

Page 31 Page 31 – Adjusted NAV decreased from NT\$148.5bn to NT\$139.5bn in 2011. During 2011, unrealized gains on property increased another NT\$12.3bn.

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

Q&A SESSION

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