

## SKFH Announces Results for First Half 2009

*August 20, 2009, Taipei*

Shin Kong Financial Holding Company Limited (“Shin Kong” or the “Company”, TWSE: 2888) announces consolidated results of the Company and its subsidiaries for the six months ended June 30, 2009.

### **HIGHLIGHTS**

- Driven by stabilizing investment income and reduction in expenses, loss in 1H was 95.0% lower compared to the same period last year. SKFH recorded after-tax loss of NT\$0.62bn in 1H 2009. EPS was -NT\$0.10.
- Excluding one-off items such as CDO losses (NT\$2.81bn) and DTA adjustment (NT\$1.00bn), profit would have been NT\$3.19bn
- Total group asset reached NT\$1,813bn, up 2.4% year-on-year.
- Shin Kong Life recorded after-tax loss of NT\$1.32bn in 1H.
- Driven by strong FYP growth of traditional and health products (up 342.6% and 556.2% respectively), VNB grew significantly. FYP was NT\$31.30bn.
- Shin Kong Bank recorded after-tax profit of NT\$230 million.
- Shin Kong Securities recorded after-tax profit of NT\$270 million.
- Results of MasterLink Securities were also consolidated since SKFH’s investment in the company already exceeds 25%.

### **SHIN KONG LIFE: SOLID CORE PROTECTION BUSINESS**

SKL recorded after-tax loss of NT\$1.32bn in 1H 2009 driven by NT\$2.81bn loss from CDO investments and NT\$1.00bn loss from deferred tax assets adjustment. ROA and ROE were -0.1% and -5.0% respectively. Excluding one-off items, profit would have been NT\$2.49bn.

FYP of 1H 2009 was NT\$31.30bn which translates into a market share of 7.8%. Total premium was NT\$87.13bn. To maintain reasonable overall profit margin, Shin Kong Life focused on high value health products. As a result, VNB grew strongly YoY.

## *Highlights of 1H 2009 Earnings*

Traditional products contributed NT\$16.62bn, or 53.1%, of FYP, up 342.6% YoY. Premium from health products also grew 556.2%; market share was 17.0%. Due to robust demand for whole-life health coverage, cumulative FYP from 'Health 99' has already reached NT\$4.56bn (of which NT\$2.24bn was sold in 1H 2009) since the product was launched in October 2008. Contribution to VNB was significant given the product's high VNB margin. Sales of investment-linked products have also started to recover; FYP from investment-linked products was 1.56bn in July 2009.

Cross-selling remained strong with Shin Kong Bank contributing FYP of NT\$8.70bn (39.1% of bancassurance premium). Focus of cross-selling will shift to higher margin products and products that generate higher fee income for the bank.

On the quality front, 13-month persistency improved to 86.5%. 25-month persistency was 81.1%.

As global markets stabilize, annualized investment return for 1H 2009 improved to 3.64%, significantly higher than 1.96% in 2008. Shareholders' equity went up 17.5% (from NT\$23.98bn to NT\$28.17bn) over the quarter, which further improved to NT\$32.41bn as of the end of July.

On overseas expansion, SKHNA Life signed a bancassurance distribution agreement with SPD Bank and started selling policies through their Beijing branch and 10 other sub-branches in August 2009.

### **SHIN KONG BANK: REVENUES STARTED TO REBOUND WHILE EXPENSES CONTINUED TO COME DOWN**

After-tax profit was NT\$230 million (down 66.2% from 1H 2008); provision expense decreased to NT\$872 million (down 2.2% from 1H 2008).

Due to uncertain economic conditions, corporate risk reviews have been strengthened, high risk loans recovered, and low-yield corporate loans reduced. Loan balance increased 1.4% quarter-on-quarter to NT\$282.90bn. Net interest income was NT\$2.10bn in 1H 2009. L/D ratio increased to 79.9% (incl. credit cards balance).

NIM rebounded 7bps to 1.19% in Q2 2009. Management believes NIM will further recover in 2H as high rate deposits mature.

Fee income from wealth management increased 39.2% quarter-on-quarter due to recovery in global markets. Sales focuses were on insurance products (e.g., Traditional, Health and PA) and structured notes in 1H 2009. As global markets stabilize, sales of mutual funds are expected to recover.

Asset quality improved with overall NPL decreasing from 1.91% in Q1 to 1.85% and coverage increasing from 63.70% to 68.22%.

## OUTLOOK

SKFH successfully issued Global Depositary Receipts (GDRs) of NT\$13.13bn at NT\$11.71 per common share. The issuance will enhance capital adequacy ratios of SKFH and SKL and put the Company in a much stronger position to cope with volatility in global markets. The GDR issuance was the largest equity offering among Taiwanese financials after the global financial crisis and was met with strong demand from investors in Asia, Europe, and the US with a number of high-quality, long-only investors. The transaction was multiple times covered and upsized 25%.

In addition to developing its core insurance business and optimizing its investment portfolio, the Company will continue to:

- Pursue growth and enhance profitability in its core life and banking businesses
- Control costs
- Drive synergies among subsidiaries (e.g., merger of SKSC and MasterLink)
- Tighten risk management (e.g., establishment of the Algo risk management system)
- Enhance customer service (e.g., continue to optimize SKL's New Core System), and
- Cooperate with our partner to successfully manage our joint venture in China

Markets have shown signs of recovery although operation environment is likely to remain difficult in 2H 2009. Despite headwinds in the market, fundamentals of the Company remain strong and management expects performance to improve as global market situation recovers.

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