

## **SKFH Announces Results for Third Quarter 2009**

*October 29, 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 nine months ended September 30, 2009.

### **HIGHLIGHTS**

- SKFH recorded a profit of NT\$0.46bn in Q3, 2,973.3% higher compared to Q2 2009. After-tax loss in the first nine months decreased to NT\$0.16bn. EPS was -NT\$0.02.
- Excluding one-off items such as CDO/CBO losses (NT\$3.52bn) and DTA adjustment (NT\$1.00bn), profit would have been NT\$4.36bn.
- Total group asset reached NT\$1,879bn, up 7.5% year-on-year.
- Shin Kong Life returned to profitability in Q3 and recorded a profit of NT\$0.28bn. After-tax loss for the first nine months shrank to NT\$1.04bn.
- Driven by strong FYP growth of traditional and health products (up 246.6% and 421.1% respectively), VNB grew significantly. FYP was NT\$52.46bn.
- Shin Kong Bank recorded after-tax profit of NT\$449 million.
- Shin Kong Securities contributed NT\$266 million to group profit.
- Results of MasterLink Securities were also consolidated since SKFH’s investment in the company already exceeds 25%.

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

Driven by improving investment income and lower expenses, SKL returned to profitability in Q3 and recorded a profit of NT\$0.28bn. After-tax loss in the first nine months decreased to NT\$1.04bn. ROA and ROE were -0.1% and -3.4% respectively. If one-off losses had been excluded, the company would have recorded an after-tax profit of NT\$3.48bn.

## *Highlights of Q3 2009 Earnings*

FYP for the first nine months was NT\$52.46bn which translates into a market share of 8.2%. Total premium was NT\$133.39bn.

Traditional and interest-sensitive products continued to record strong sales and accounted for 36.4% and 44.9% of overall FYP respectively. Traditional products contributed NT\$19.11bn, up 246.6% year-on-year. Health premium also grew 421.1%. Due to robust demand for whole-life health coverage, cumulative FYP from 'Health 99' (whole life health insurance) and 'Comfort 99' (whole life surgery insurance) reached NT\$3.35bn and NT\$0.51bn as of the end of the first nine months. Contribution to VNB was significant given the products' high VNB margin. Sales of investment-linked products also started to recover, generating FYP of 4.72bn in Q3.

Cross-selling remained strong with Shin Kong Bank contributing NT\$14.59bn of FYP (42.2% of bancassurance premium). Going forward, more emphasis will be put on higher margin products and products that generate higher fee income.

On the quality front, 13-month persistency was 83.6%. 25-month persistency slightly improved to 81.6%.

As global markets recover, annualized investment return for the first nine months significantly improved to 4.12% from 1.96% in 2008. In addition, Shin Kong Life successfully auctioned a piece of land in Taichung which will generate a capital gain of NT\$1.00bn for Q4. Going forward, SKL will continue to dynamically manage its real estate portfolio to capture stable rental income and capital gains.

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

After-tax profit for the first nine months was NT\$449 million (up 119.4% year-on-year); after tax profit for Q3 2009 was NT\$218 million, up 271.4% from Q2 2009.

In order to strike a better balance between risk and return in this low interest environment, risk management has been strengthened and high risk loans recovered. Loan balance increased 0.5% quarter-on-quarter to NT\$284.44bn. L/D ratio increased to 81.8% (incl. credit cards balance).

As one of the first banks to record a recovery in margin, Shin Kong Bank continued to increase NIM to 1.28% (from 1.19%) in Q3 2009. Management expects this trend to sustain as the impact of Central Bank rate cuts on loan yield is fully reflected and high-rate deposits continue to re-price.

Fee income from wealth management has recovered since Q2 2009. While high sales and strong fees were generated from insurance (e.g., Traditional, Health and PA) and structured notes products in the first nine months, management expects strong growth in mutual funds in Q4 as global markets stabilize.

Operating expenses for the first nine months came down 12.1%.

## Highlights of Q3 2009 Earnings

Asset quality improved with overall NPL decreasing from 1.85% in Q2 to 1.79% and coverage increasing from 68.22% in Q2 to 70.55%.

## OUTLOOK

SKFH successfully issued Global Depositary Receipts (GDRs) of NT\$13.13bn in July, and will complete its NT\$5.3bn rights issue before the end of 2009. When all these plans are executed, overall capital raised will reach NT\$18bn, significantly enhancing capital adequacy ratios of SKFH and SKL. As of the end of September, consolidated shareholders' equity of SKFH was NT\$85.29bn, 51.8% higher compared to the end of 2008.

In addition to closely monitoring developments in the global economy, 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

Despite uncertainties, markets have recovered strongly and fundamentals of the Company have steadily improved. We remain cautious in our outlook but expect continued improvement in our overall results driven by normalized investment income and lower costs.

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