

SKFH Announces Results for Q4 2009

March 17, 2010, Taipei

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

HIGHLIGHTS

- SKFH recorded after-tax profit of NT\$1.41bn in Q4 2009, 319.6% higher than Q3. The Company returned to profitability with a profit of NT\$1.13bn for the full year. EPS was NT\$0.17.
- Excluding one-off items such as CDO/CBO losses (NT\$3.61bn) and deferred tax asset (DTA) adjustment (NT\$1.00bn), profit would have been NT\$5.74bn.
- Total group asset reached NT\$1,902bn, up 9.3% year-on-year.
- Shin Kong Life returned to profitability and recorded a profit of NT\$106 million.
- FYP for traditional and interest-sensitive products grew 121.7% and 56.4% respectively, enhancing VNB growth.
- Shin Kong Bank recorded after-tax profit of NT\$560 million.
- Shin Kong Securities contributed NT\$180 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 improved investment income and lower expenses, SKL returned to profitability and recorded a profit of NT\$106 million. ROA and ROE were 0.01% and 0.26% respectively. Excluding one-off items, after-tax profit would have been NT\$4.72bn.

FYP for 2009 was NT\$68.19bn which translates into a market share of 7.4%. Total premium was NT\$176.93bn.

Highlights of Q4 2009 Earnings

Traditional and interest-sensitive products accounted for 37.9% and 45.4% of overall FYP in 2009 respectively. FYP from traditional products was NT\$25.82bn, up 121.7% YoY; health premium grew by 56.4%. Due to robust demand for 'Health 99' (whole life health insurance) and 'Comfort 99' (whole life surgery insurance), 2009 FYP for health products was NT\$5.11bn with market share of 16.0%. Sales of investment-linked products showed signs of recovery and contributed NT\$4.97bn in 2H FYP as global markets stabilized. In 2010, SKL will continue to focus on protection and investment-linked products as well as cooperate with strategic partner, Dai-ichi Life, to design and promote a series of products with protection features.

Cross-selling remained strong with Shin Kong Bank contributing FYP of NT\$17.07bn (40.4% of bancassurance premium). Going forward, more emphasis will be put on high margin products and products that generate higher fee income for the bank.

On the quality front, 13-month persistency slightly improved to 83.9%. 25-month persistency was 80.9%.

As global markets recover, annualized investment return for 2009 significantly improved to 4.47% from 1.96% in 2008.

On the overseas front, SKL will steadily expand SKHNA Life business by establishing additional sales/servicing offices in Beijing and setting up branches in other provinces/cities in 2010.

SHIN KONG BANK: SIGNIFICANT ENHANCEMENT IN PERFORMANCE

After-tax profit for 2009 was NT\$560 million (up 146.4% year-on-year); pre-provision profit increased 9.3% to NT\$2.43bn while provision expense went down 11.9% to NT\$1.76bn.

In order to strike a better balance between risk and return, risk management has been strengthened. Loan balance increased 1.1% YoY to NT\$287.0bn. L/D ratio was maintained at 76.7% (incl. credit cards balance).

As high rate deposits matured, NIM continued to increase. NIM for Q4 was 1.54%, 24bps higher than Q3 2009. NIM is expected to fully reprice in Q1 2010 and will further increase when Central Bank raises rates.

Fee income from wealth management recovered to NT\$670 million, up 23.6% from 2008. Growth was mainly driven by sales of insurance and mutual funds products and the introduction of new products such as ETFs and corporate bonds.

Operating expenses for 2009 decreased 6.8% YoY.

Asset quality improved with overall NPL decreased from 1.79% in Q3 to 1.42% and coverage increased from 70.55% in Q3 to 75.37%.

Highlights of Q4 2009 Earnings

In 2010, Shin Kong Bank will focus on growing corporate loans and developing foreign exchange business to increase fee income from corporate customers. An overseas branch will also be set up in Hong Kong to serve Taiwanese businesses operating in China and Asia-Pacific.

OUTLOOK

SKFH successfully completed a rights issue of NT\$5.3bn in Q4 2009. The combined NT\$18bn raised from the GDR and rights issue was injected into SKL before year-end. Subsequent to the capital injection, all capital adequacy ratios of SKFH and subsidiaries were above regulatory requirements. As of the end of 2009, consolidated shareholders' equity of SKFH was NT\$92.68bn, 64.9% higher compared to the end of 2008. Shareholders' equity of SKL was NT\$57.05bn, 130.2% higher than 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
- Tighten risk management (e.g., The Algo risk management system will be completed in Q2 2010)
- 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

As global markets recover, fundamentals of the Company have continued to strengthen over the past quarters. We remain cautious in our outlook but expect improvement in 2010 results driven by normalized investment income and lower costs.

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