

## SKFH Announces Results for Q1 2010

*May 20, 2010, Taipei*

Shin Kong Financial Holding Company Limited (“Shin Kong”, “SKFH”, or the “Company”, TWSE: 2888) announces consolidated results of the Company and its subsidiaries for the first quarter of 2010.

### **HIGHLIGHTS**

- SKFH recorded an after-tax loss of NT\$2.93 billion in Q1 2010. Excluding one-off items such as CDO investment loss (NT\$0.93 billion), foreign exchange hedging cost (NT\$4.01 billion) and reserve for indemnity payments (NT\$0.50 billion), profit would have been NT\$2.51 billion.
- Total group asset reached NT\$1.93 trillion, up 9.6% year-on-year.
- Shin Kong Life (SKL) recorded an after-tax loss of NT\$3.4 billion.
- Shin Kong Bank (SKB) recorded an after-tax profit of NT\$0.35 billion.
- Embedded Value (EV) was NT\$110.1 billion, 36.4% higher than 2008; VNB grew 22.2% to NT\$13.1 billion despite lower FYP in 2009. 5-year New Business Appraisal Value (AV) was NT\$158.4 billion, 34.4% higher than 2008.
- Results of MasterLink Securities were also consolidated.

### **SHIN KONG LIFE: EMBEDDED VALUE (EV) SIGNIFICANTLY INCREASED**

SKL recorded an after-tax loss of NT\$3.36 billion in Q1 2010 driven by NT\$0.93 billion CDO investment loss, NT\$4.01 billion foreign exchange hedging cost, and NT\$0.50 billion reserve for indemnity payments. ROE was -6.22%.

FYP was NT\$15.47 billion, down 12.6% YoY. Total premium was NT\$40.35 billion.

Sales were mainly contributed by traditional and interest-sensitive products, accounting for 22.4% and 69.3% of FYP respectively. Protection products were the focus of traditional sales vs single premium savings products in Q1 2009 and hence FYP was lower. On investment-linked, a new product launched in the end of March has shown good sales momentum which hopefully indicates that demand for investment-linked products will recover in the second half of 2010. Going forward,

## *Highlights of Q1 2010 Earnings*

SKL will continue to focus on protection and investment-liked products as well as cooperate with strategic partner, Dai-ichi Life, to design and promote a series of innovative life products.

Cross-selling remained strong with Shin Kong Bank contributing FYP of NT\$4.90 billion (46.1% of bancassurance premium). In future, 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 improved to 89.7%. 25-month persistency was 77.7%.

Annualized investment return for Q1 2010 was 2.4%. Low investment return was mainly driven by one-off losses such as CDOs and hedging cost. Excluding capital losses, interest income for Shin Kong Life increased 17.1% year-on-year and 12.9% quarter-on-quarter. In real estate, SKL will continue its strategy to invest in high quality commercial properties to generate stable rental income and capital gains.

Embedded value for the life company was NT\$110.1 billion as of end of 2009. Adjusted net asset value (NAV) increased 39.2% due to recovery of unrealized losses on AFS Securities and capital injection from the Financial Holding Company. Value of in-force (VIF) business also increased (16.5% year-on-year) due to high value of new business written in 2009. This year, the Company has refined its assumptions on investment return by having different earning rates for the General Account and the Interest-Sensitive (IS) Account. Under the base case scenario, investment return for the General Account increases from 3.64% to 5.37% in 30 years; for IS products, it increases from 3.00% to 5.09%. These adjustments are made to more closely reflect our liability structure and market rates situation.

Value of new business (V1NB) was estimated at NT\$13.1 billion (22.2% higher than 2008) based on actual business written. The result was in-line with the Company's mid/long term target. All assumptions for EV and V1NB have been reviewed by independent actuarial consultant - Deloitte Actuarial and Insurance Solutions.

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: PROFITS CONTINUE TO GROW**

After-tax profit for SKB in Q1 2010 was NT\$347 million (up 101.6% year-on-year). Pre-provision profit increased 13.6% year-on-year to NT\$831 million while provision expense went down 17.1% year-on-year to NT\$448 million.

## *Highlights of Q1 2010 Earnings*

In order to strike a better balance between risk and return, risk management has been strengthened. Loan balance increased 4.5% year-on-year to NT\$291.6 billion. L/D ratio was maintained at 82.5% (incl. credit cards balance).

As high rate deposits matured, NIM continued to increase. NIM for Q1 2010 was 1.60%, 6bps higher than Q4 2009. NIM has fully re-priced in Q1 2010 and is expected to further increase when Central Bank raises rates.

Fee income from wealth management was NT\$180 million, up 50.0% year-on-year. Growth was mainly driven by sales of mutual funds, insurance, and foreign securities. As global markets stabilize, sales of mutual funds are expected to grow in 2010.

Operating expenses for Q1 2010 decreased 3.6% year-on-year.

Asset quality improved with overall NPL decreased from 1.42% in Q4 2009 to 1.27% and coverage increased significantly from 75.37% in Q4 2009 to 92.64%.

## **OUTLOOK**

Guided by the strategic priorities to strengthen capital and create shareholder value, SKFH successfully auctioned the Hannover Technology Building in NeiHu to generate a gain of NT\$1.98 billion, further strengthening SKL's RBC.

In future, the Company will not only closely monitor developments in the global economy but also 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

Fundamentals of the Company have continued to strengthen over the past quarters. We remain cautiously optimistic in our outlook and expect performance to improve in the second half of 2010.

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## *Highlights of Q1 2010 Earnings*

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