

SKFH Announces Results for Q2 2010

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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 second quarter of 2010.

HIGHLIGHTS

- SKFH recorded after-tax loss of NT\$0.07 billion in Q2 2010, down 97.5% quarter-on-quarter. Excluding DTA adjustment (NT\$0.60 billion), after-tax profit would have been NT\$0.53 billion. Cumulative after-tax loss was NT\$3.00 billion for 1H 2010.
- Total group asset reached NT\$1.97 trillion, up 9.6% year-on-year.
- Shin Kong Life (SKL) made an after-tax loss of NT\$3.91 billion due to one-off items such as CDO investment loss (NT\$0.93 billion), reserve for indemnity payments (NT\$0.50 billion) and DTA adjustment (NT\$0.60 billion).
- FYP was NT\$37.93 billion in 1H, up 21.2% year-on-year. FYP for Q2 amounted to NT\$22.46 billion, up 45.2% quarter-on-quarter.
- Shin Kong Bank (SKB) recorded an after-tax profit of NT\$0.92 billion in 1H, up 297.3% year-on-year.

SHIN KONG LIFE: SOLID CORE PROTECTION BUSINESS

SKL recorded lower after-tax loss of NT\$0.55 billion in Q2 2010 driven by higher premium income and lower foreign exchange hedging cost. Excluding DTA adjustment (NT\$0.60 billion), after-tax profit would have been NT\$0.05 billion. Cumulative after-tax loss was NT\$3.91 billion in 1H. ROA was -0.27%. ROE was -7.40%.

FYP for the first half amounted to NT\$37.93 billion, up 21.2% year-on-year. Total premium was NT\$93.25 billion.

Sales were mainly contributed by traditional and interest-sensitive products, which accounted for 25.3% and 63.5% of FYP respectively. Protection products were the focus of traditional sales as opposed to high share of single premium savings

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products in 2009. Due to stabilization in global markets, sales of investment-linked products increased to NT\$1.84 billion in Q2 2010.

Margin will be the main consideration in new product development in the second half of 2010. Examples include a recently-launched regular premium investment-linked product and a protection product co-developed with Dai-ichi Life. These products are significant contributors to mortality/expense gains and VNB and are expected to drive profitability and VNB in the second half of the year.

Cross-selling remained strong with SKB contributing NT\$10.74 billion of FYP (45.2% 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 91.3%. 25-month persistency was 76.3%.

Annualized investment return for 1H 2010 increased to 3.2% driven by a significant reduction in foreign exchange hedging cost. Interest income also increased 16.2% year-on-year. In real estate, development of the A12 plot in Xinyi District has been completed and building usage license received in August 2010. The office-hotel complex comprises the Le Meridien hotel which will be managed by My Humble House and the Shin Kong Xinyi Financial Center which is currently being marketed to potential tenants. Given the improvement in cross-strait relations and the prime location of the building, SKL expects the development to generate stable rental income going forward.

On the overseas front, SKL will steadily expand SKHNA's business by establishing additional sales/servicing offices in Beijing and setting up the newly approved Hainan branch.

SHIN KONG BANK: PROFITS CONTINUE TO GROW

After-tax profit for SKB in 1H 2010 was NT\$916 million (up 297.3% year-on-year). Pre-provision profit increased 69.4% year-on-year to NT\$1,918 million while operating expense remained at the same level compared to 1H 2009.

Loan balance increased 5.0% year-on-year to NT\$297.1 billion. L/D ratio was maintained at a high level of 81.4% (incl. credit cards balance). In view of uncertainty of the economic recovery, SKB will adopt more stringent lending and pricing policies to ensure that asset quality does not deteriorate at the expense of loan growth.

As high rate deposits matured, NIM continued to increase. NIM for Q2 2010 increased to 1.64% from 1.60% in Q1. NIM is expected to further increase if the Central Bank continues to raise rates.

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Fee income from wealth management was NT\$377 million, up 31.7% 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 2H 2010.

Asset quality improved with overall NPL decreased from 1.27% in Q1 2010 to 0.85%; coverage increased significantly from 92.64% in Q1 2010 to 116.62%.

OUTLOOK

In order to further strengthen capital structure of SKL and create shareholder value, the Board of SKFH passed a resolution on August 13 to issue 600,000,000 common shares. The transaction will be completed by the end of the year.

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 was 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

Despite signs of the economic recovery slowing and uncertainty in equity/foreign exchange markets, central banks worldwide are closely monitoring the situation and a double-dip recession is not expected. Fundamentals of the Company have continued to strengthen over the past quarters and management believes that performance in 2H 2010 will improve driven by normalized investment income and lower costs.

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