

SKFH Announces Results for Q4 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 fourth quarter 2010.

HIGHLIGHTS

- SKFH recorded after-tax profit of NT\$0.92bn in Q4 2010 despite higher than expected FX hedging costs of NT\$5.54bn recognized in Q4. Cumulative after-tax profit continued to improve to NT\$2.54bn for 2010, up 125.1% year-on-year. EPS was NT\$0.32.
- Total group asset reached NT\$2.06 trillion, up 8.5% year-on-year.
- SKFH’s shareholders’ equity increased 10.1% year-on-year to NT\$102.06bn. Excluding MasterLink’s minority interest, SKFH’s shareholders’ equity would have been NT\$87.26bn; book value per share was NT\$10.3.
- Shin Kong Life (SKL) made an after-tax profit of NT\$0.29bn in Q4 2010; cumulative after-tax profit was NT\$0.39bn.
- FYP was NT\$83.17bn, up 22.0% year-on-year. Market share was 7.2%.
- Shin Kong Bank (SKB) recorded a cumulative after-tax profit of NT\$2.01bn, up 257.9% year-on-year.

SHIN KONG LIFE: CORE BUSINESS REMAINED STABLE. NET WORTH RECOVERED.

SKL recorded after-tax profit of NT\$0.29bn in Q4 2010 with higher than expected FX hedging cost of NT\$5.54bn recognized in Q4. Cumulative after-tax profit was NT\$0.39bn. ROA and ROE were 0.03% and 0.64% respectively.

FYP was NT\$83.17bn, up 22.0% year-on-year. Market share was 7.2%. Total premium was NT\$190.93bn.

Protection products were the focus of traditional sales. Lower share of single premium savings products was observed in 2010. Due to stabilization in global markets, sales of investment-linked products increased to NT\$5.60bn in Q4. FYP increased 98% year-on-year. Sales of interest-sensitive products slowed due to

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regulation changes. Margin is the main consideration in new product development. For example, SKL launched a protection product, co-developed with Dai-ichi Life, which is expected to drive mortality gains, expense gains, and VNB (Value of New Business). Going forward, SKL will continue to focus on high VNB margin, long-term profit generating, and protection-oriented traditional and health products.

Cross-selling remained strong with SKB contributing NT\$19.12bn of FYP in 2010 (41.2% of bancassurance premium). In future, more emphasis will be put on high margin products and products that generate high fee income for the bank.

On the quality front, 13-month persistency improved to 93.0%. 25-month persistency was 73.0%.

Investment return for 2010 reached 4.3%. Interest income increased 9.9% year-on-year.

On the overseas front, SKL will steadily expand SKHNA's business by establishing other operating sites in Beijing and Hainan Island and setting up branches in other provinces/cities in 2011.

SHIN KONG BANK: PROFITS CONTINUED TO GROW

After-tax profit for SKB in 2010 was NT\$2,005mn (up 257.9% year-on-year). Pre-provision profit increased 59.3% to NT\$3,865mn while provision expense decreased 1.8% to NT\$1,727mn.

Loan balance increased 14.9% year-on-year to NT\$329.76bn; deposit balance increased 10.1% to NT\$413.11bn. L/D ratio was maintained at a high level of 79.5%.

NIM was 1.58% in 2010; net interest spread improved to 1.95%. Going forward, SKB will continue to expand scale of deposits and loans and deploy funds efficiently to maintain NIM at a high level.

Fee income from wealth management was NT\$873 million, up 29.8% year-on-year. Growth was mainly driven by sales of mutual funds, insurance, and foreign securities. As for product innovation, SKB is the first domestic bank to launch preferred shares products, and a leader in terms of market share and technology of trading platform, providing our customers with diversified choices of wealth management products.

Asset quality improved with overall NPL decreased from 0.74% in Q3 2010 to 0.59%; coverage increased from 130.34% in Q3 2010 to 150.68%.

In 2011, SKB will continue to expand scale of operations, increase number of full-function branches and evenly develop businesses both in consumer banking and in corporate banking. The bank also established dedicated teams focused on Global e-Banking (GEB), factoring, syndicated loan, TMU and cash management, expecting to increase fee income and demand deposits. In addition, SKB will enhance the services to Taiwanese enterprises operating in China through the opening of Hong Kong branch and gradually expand its size to the target of US\$20bn.

OUTLOOK

SKFH completed a rights issue of NT\$6.0bn in Q4 2010 and subsequently injected NT\$5.0bn of the proceeds into SKL in December 2010. After successful capital enhancements, all capital adequacy ratios of SKFH and subsidiaries were above regulatory requirements. As of the end of 2010, consolidated shareholders' equity of SKFH was NT\$102.06bn, 10.1% higher compared to the end of 2009. Shareholders' equity of SKL was NT\$66.77bn, 17.1% higher than 2009.

In addition, to increase profits recognized from MasterLink and deepen cooperation with the securities subsidiary, SKFH's Board had resolved to purchase common shares of MasterLink Securities not exceeding 8% of the total issued common shares in the centralized securities trading market. Current shareholding ratio announced on MOPS (Market Observation Post System) is 26.5%.

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., utilize the Algo system for real-time investment risk management)
- 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

Driven by recovery in the capital markets and global economy, operating metrics of the Company have sequentially continued improvement. Management remains cautious in our outlook but expects improvement in 2011 results.

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