

SKFH Announces Results for Q1 2011

May 19, 2011, 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 2011.

HIGHLIGHTS

- Despite volatilities in global FX and equity markets heightened by unrest in the Middle East/North Africa and Japan earthquake, SKFH recorded an after-tax profit of NT\$1.30bn in Q1. EPS was NT\$0.15.
- Total group asset reached NT\$2.10 trillion, up 8.5% year-on-year.
- SKFH’s shareholders’ equity increased 13.5% year-on-year to NT\$99.60bn in Q1. Excluding MasterLink’s minority interest, SKFH’s shareholders’ equity would have been NT\$85.15bn; book value per share was NT\$10.1.
- Shin Kong Life (SKL) made an after-tax profit of NT\$0.28bn in Q1. FYP was NT\$24.19bn, up 56.4% year-on-year. Market share went up to 9.1%.
- Shin Kong Bank (SKB) recorded an after-tax profit of NT\$1.02bn, up 192.1% year-on-year.
- Embedded Value (EV) was NT\$176.04bn, 59.9% higher than 2009. EV per share for SKFH and SKL were NT\$20.9 and NT\$32.3 respectively. 5-year New Business Appraisal Value (AV) was NT\$219.82bn, 38.8% higher than 2009.

SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID

With FX hedging costs properly controlled, quarterly profit from SKL were NT\$0.28bn amid volatilities in global FX and equity markets. ROA and ROE were 0.02% and 0.42% respectively.

FYP was NT\$24.19bn, up 56.4% year-on-year. Market share went up to 9.1%. Total premium was NT\$47.77bn.

Traditional and investment-linked products contributed most significant shares, accounting for 22.9% and 61.1% of FYP respectively. Sales of investment-linked products was strong in Q1, with FYP contribution NT\$14.63bn higher than Q1

Highlights of Q1 2011 Earnings

2010. Market demand on interest-sensitive products fell due to regulation changes. Long-term profit generation is the main consideration in new product development. For example, SKL launched high VNB (Value of New Business) contribution products, including a foreign currency whole-life protection product and protection products co-developed with Dai-ichi Life, which are expected to drive mortality/expense gains.

In Cross-selling, SKB contributed NT\$2.75bn of FYP in Q1 (61.8% 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 was 88.0%. 25-month persistency improved to 82.3%.

Annualized investment return for Q1 was 3.8%. Total investment income increased 35.4% year-on-year. In real estate, SKL will continue its strategy to invest in high quality commercial properties to generate stable rental income and capital gains.

EV for SKL was NT\$176.04bn as of the end of 2010. Adjusted net asset value (NAV) increased 52.0% year-on-year, driven by higher property unrealized gains of NT\$73.1bn and increase in statutory net worth. Value of in-force (VIF) business also increased (42.6% year-on-year) due to the value of new business written in 2010. In addition, under the base case scenario, investment return for the General Account increases from 3.90% to 5.43% in 30 years; for Interest-Sensitive (IS) products, it increases from 3.53% to 5.04% in 30 years. These investment return assumptions are close to the rates in 2010 and referred to Global Insight, a well-known economic and financial database to remain appropriate for EV and AV.

Value of new business (V1NB) was estimated at NT\$12.63bn (3.8% lower than 2009's high basis) based on actual business written. The Company's mid/long term VNB growth target remains. All assumptions for EV and V1NB have been reviewed by independent actuarial consultant - Deloitte Actuarial and Insurance Solutions.

SHIN KONG BANK: ASSET QUALITY CONTINUED TO IMPROVE. PROFITS GROW STORNGLY

After-tax profit for SKB in Q1 2011 was NT\$1,015mn (up 192.1% year-on-year). Pre-provision profit increased 1.8% to NT\$845mn. Driven by continuous improvement on asset quality and partial write-back from general provision set aside in accordance with Article 34, provision expense was NT\$-286mn.

Loan balance increased 19.0% year-on-year to NT\$346.94bn; deposit balance increased 19.3% year-on-year to NT\$421.65bn. L/D ratio was maintained at a high level of 82.0%.

Highlights of Q1 2011 Earnings

Net interest margin was 1.56% and net interest spread was 1.93% for Q1 2011. Going forward, SKB will continue to expand scale of deposits and loans and deploy funds efficiently to maintain NIM at a high level.

Amid volatilities in global markets, fee income from wealth management was NT\$170 million, down 5.1% year-on-year. Sales focuses were on mutual funds, insurance and foreign securities. As for product innovation, SKB was the first domestic bank to launch preferred shares products and started to offer structural deposits in Q1 2011, providing our customers with diversified choices of wealth management products.

Asset quality improved with overall NPL decreased from 0.59% in Q4 2010 to 0.46%; coverage ratio increased from 150.68% in Q4 2010 to 168.84%.

OUTLOOK

Guided by the strategic priorities to create shareholders' value, SKFH is actively deploying in overseas market. SKFH will establish a financial leasing company in China through the venture capital subsidiary, and SKB's Hong Kong full function branch commenced operation in May to seize business opportunities and resume strong performance.

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
- Steadily expand in the mainland, Hong Kong and other overseas markets, successfully manage SKL's insurance joint venture and SKB's Hong Kong branch, and
- Deepen business cooperation with Masterlink Securities Co.

Fundamentals of the Company have continued to be solid. Moreover, we remain cautiously optimistic in our outlook but expect improvement in 2011 results

Highlights of Q1 2011 Earnings

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