

## SKFH Announces Results for Q2 2011

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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 2011.

### **HIGHLIGHTS**

- Although global markets remain volatile in the second quarter due to concerns in European sovereign debt crisis and signs on emerging economies growth slowing down, SKFH recorded an after-tax profit of NT\$1.91bn in 1H. EPS was NT\$0.23. Dividend income about NT\$5.0bn will be recognized in 2H 2011.
- Total group asset reached NT\$2.1 trillion, up 5.9% year-on-year.
- Shin Kong Life’s (SKL) sales of traditional products were 37.2% higher than 1H 2010, with FYP from regular premium products 40.4% higher year-on-year.
- Shin Kong Bank’s (SKB) loan balance grew by 19.3% year-on-year, and NIM increased to 1.57%. Asset quality continued to improve with overall NPL and coverage at 0.38% and 208.93% respectively. SKB recorded an after-tax profit of NT\$2.03bn, up 121.5% year-on-year.
- Hong Kong branch of SKB commenced operation in May, and SKHNA Life obtained approval from the China Insurance Regulatory Commission (CIRC) to establish its Shaanxi branch in Xi’an City. SKFH increased shareholding in MasterLink Securities Corp. to 30.68%.

### **SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID**

1H 2011 pretax and after-tax profits from SKL were NT\$0.21bn and NT\$-0.12bn respectively amid volatilities in global FX and equity markets. ROA and ROE were -0.01% and -0.19% respectively.

FYP of 1H 2011 was NT\$38.65bn, up 1.9% year-on-year. Market share was 7.7%. Total premium was NT\$88.72bn. Traditional and investment-linked products contributed most significant shares, accounting for 34.1% and 39.8% of FYP respectively. Long-term profit generation is the main consideration in product sales. For example, SKL launched a long-term care whole-life product and a

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foreign currency whole-life protection product to drive mortality/expense gains. Sales of traditional product were 37.2% higher than 1H 2010, with FYP from regular premium products 40.4% higher year-on-year. Market demand on interest-sensitive products fell due to regulation changes.

In cross-selling, SKB contributed NT\$6.44bn in 1H FYP (51.1% of bancassurance premium). In future, more emphasis will be put on higher margin products and products that generate higher fee income for the bank.

On the quality front, 13-month persistency was 86.1% and 25-month persistency was 85.2%.

Annualized investment return for 1H was 3.88%. Total investment income increased 12.9% year-on-year. Song-Jiang REAT was auctioned in May. A gain of NT\$2.39bn is expected to be recognized no later than Q1 2012.

On the overseas front, with operating sites in Beijing and Hainan at present, SKHNA Life will steadily expand its business. In addition, SKHNA Life had obtained approval from the CIRC to establish its Shaanxi branch in Xi'an City.

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

After-tax profit for 1H 2011 was NT\$2.03bn (up 121.5% year-on-year); net interest income for Q2 was NT\$1.76bn, up 16.5% year-on-year; pre-provision profit increased 19.2% quarter-on-quarter to NT\$1.01bn.

Loan balance increased 19.3% year-on-year to NT\$354.25bn; deposit balance increased 17.9% year-on-year to NT\$429.12bn. L/D ratio was maintained at a high level of 82.1%.

Net interest margin was 1.57% and net interest spread was 1.91% for Q2 2011. Going forward, SKB will continue to expand scale of deposits and loans and deploy funds efficiently to maintain NIM level.

Despite volatilities in global markets, wealth management income for 1H 2011 was NT\$404mn, up 7.0% year-on-year. Sales focuses were on mutual funds, insurance and foreign securities. Structure notes designed for high net worth clients with comprehensive investment experience were launched in July and will contribute to fee income growth.

Asset quality improved with overall NPL decreased from 0.46% in Q1 2011 to 0.38%; coverage ratio increased from 168.84% in Q1 2011 to 208.93%.

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Hong Kong full function branch commenced operation in May to enhance services provided to Taiwanese enterprises operating in the Mainland and facilitate growth in the Greater China Region.

### **OUTLOOK**

Guided by the strategic priorities to create shareholders' value, SKFH is actively deploying in overseas market. SKFH expects to establish a financial leasing company in China through the venture capital subsidiary in Q4, and SKHNA Life obtained approval from the CIRC to establish its Shaanxi branch in Xi'an City to further facilitate the business growth in the Mainland.

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
- Enhance investment performance to improve shareholders' equity
- 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 Corp.

Fundamentals of the Company have continued to be solid. Moreover, we remain cautiously optimistic in our outlook and expect continuous improvement in 2H 2011 results.

#### *Disclaimer:*

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