

SKFH Announces Results for Q3 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 third quarter 2011.

HIGHLIGHTS

- Although global markets remained volatile in the third quarter due to continuous concerns in European sovereign debt crisis and global economies growth slowing down, SKFH’s cumulative after-tax profit was NT\$6.13bn for 9M. EPS was NT\$0.73.
- Total group asset reached NT\$2.1 trillion, up 3.6% year-on-year.
- Shin Kong Life’s (SKL) total investment income for 9M 2011 increased 6.2% year-on-year driven by lower annualized cumulative FX hedging cost of 0.96% and higher domestic cash dividend income of NT\$5.84bn. The cumulative after-tax gain was NT\$3.24bn. Sales of traditional products were 73.0% higher than 9M 2010, with FYP from regular premium products 62.7% higher year-on-year, indicating an improving product mix.
- Shin Kong Bank’s (SKB) loan balance grew 19.6% year-on-year, and NIM for 9M 2011 was 1.59%, slightly higher than 1H’s 1.58%. SKB recorded an after-tax profit of NT\$2.96bn for 9M 2011, up 108.6% year-on-year.
- The financial leasing subsidiary established in Suzhou, China will start operating in late November. SKL obtained the OFII (Qualified Foreign Institutional Investor) Status in China granted by the China Securities Regulatory Commission in November, and Shaanxi branch of SKHNA Life is expected to commence operation in Xi’an City before the end of 2011.
- SKFH increased shareholding in MasterLink Securities Corp. to 31.69%.

SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID

Despite volatile global FX and equity markets, 9M 2011 after tax profit from SKL was NT\$3.24bn driven by properly managed hedging strategies (FX gain of NT\$0.53bn recognized in Q3 lowered the annualized cumulative hedging cost to only 0.96% in 9M 2011) and higher domestic cash dividend income of NT\$5.84bn. ROA and ROE were 0.21% and 5.80% respectively.

Highlights of Q3 2011 Earnings

FYP of 9M2011 was NT\$57.94bn, down 10.9% year-on-year (The industry total decreased 17.0%). Market share was 7.7%. Total premium was NT\$131.22bn. Traditional and investment-linked products contributed most significant shares, accounting for 43.0% and 27.1% of FYP respectively. Long-term profit generation is the main consideration in product sales. Marketing focus remains on the traditional protection products and health insurance policies. Sales of traditional product were 73.0% higher than 9M 2010 with FYP from regular premium products 62.7% higher year-on-year, indicating an improving product mix. Market demand on interest-sensitive products fell due to regulation changes.

In cross-selling, SKB contributed NT\$11.26bn in 9M FYP (46.8% 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 improved to 86.6%, and 25-month persistency increased to 86.7%.

Annualized investment return for 9M was 4.23%. Total investment income increased 6.2% year-on-year. Tun Nan REAT was auctioned in September with a gain of NT\$7.34bn expected to be recognized in Q2 2012. Additionally, disposal gains from the Ling Yun Commercial Building and Kaohsiung San Duo Building, in amount of NT\$0.62bn and NT\$1.74bn respectively, will be recognized in Q4 2011.

SHIN KONG BANK: ASSET QUALITY REMAINED SOLID. PROFITS GROW STORNGLY

After-tax profit for 9M 2011 was NT\$2.96bn (up 108.6% year-on-year); net interest income for 9M was NT\$5.36bn, up 19.6% year-on-year; pre-provision profit increased 16.8% quarter-on-quarter to NT\$1.18bn.

Loan balance increased 19.6% year-on-year to NT\$372.08bn; deposit balance increased 17.7% year-on-year to NT\$451.66bn. L/D ratio was maintained at a high level of 81.9%.

Net interest margin was 1.59% and net interest spread was 1.90% for Q3 2011. Going forward, SKB will continue to expand scale of deposits and loans and deploy funds efficiently to maintain NIM level.

Affected by continuous volatilities in global markets, wealth management income for 9M 2011 was NT\$615mn, slightly declined by 0.5% year-on-year. Sales focuses were on mutual funds, insurance, and foreign securities. Foreign securities designed for high net worth clients have been launched in 2H, contributing to fee income growth

Highlights of Q3 2011 Earnings

NPL ratio increased to 0.81%, and coverage ratio decreased to 100.98% due to Prince Motors' default. However, the NT\$1.70bn loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.35% and 234.69% respectively, indicating solid asset quality.

OUTLOOK

Guided by the strategic priorities to create shareholders' value, SKFH is actively deploying in overseas market. The financial leasing subsidiary established in Suzhou, China is expected to start operating in late November, and Shaanxi branch of SKHNA Life is expected to commence operation in Xi'an City before the end of 2011 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
- Diversify market risks by investing in equities and fixed-incomes in China and Hong Kong to enhance investment performance and 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 Q4 2011 results.

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Highlights of Q3 2011 Earnings

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