

SKFH Announces Results for Q4 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 fourth quarter 2011.

HIGHLIGHTS

- Despite volatile global markets in 2011 driven by continuous concerns in European sovereign debt crisis and global economies growth slowing down, SKFH’s cumulative after-tax profit was NT\$5.49bn, up 145.7% year-on-year. EPS was NT\$0.65.
- Total group asset reached NT\$2.1 trillion, up 3.6% year-on-year.
- Shin Kong Life’s (SKL) investment return for 2011 was 4.28% driven by lower FX hedging cost of 1.21% and higher domestic cash dividend income of NT\$6.11bn. The cumulative after-tax gain was NT\$2.48bn. Sales of traditional products were 67.7% higher than 2010, with FYP from regular premium products 25.1% higher year-on-year, indicating an improving product mix.
- Shin Kong Bank’s (SKB) loan balance grew 13.8% year-on-year, and net interest income increased 18.2% year-on-year. SKB recorded an after-tax profit of NT\$3.14bn for 2011, up 56.5% year-on-year.
- Financial leasing subsidiary established in Suzhou, China started to operate 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 late Q1 2012.
- SKFH increased shareholding in MasterLink Securities Corp. to 32.09%.

SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID

Despite volatile global FX and equity markets, SKL’s recurring investment incomes remained solid driven by properly managed hedging strategies (hedging costs were only 1.21% in 2011) and higher domestic cash dividend income of NT\$6.11bn. After tax profit was NT\$2.48bn in 2011. FX reserve has been

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implemented today. SKL will conduct FX hedging with better flexibility and efficiency utilizing forecasting model under stringent risk management mechanism. The relatively low USD/TWD exchange rate of 29.42 yesterday is supportive for SKL to cumulate FX reserve, which will smooth fluctuation caused by FX valuations.

FYP of 2011 was NT\$76.56bn, down 8.0% year-on-year. Market share was 7.7%. Traditional and investment-linked products contributed most significant shares, accounting for 49.3% and 20.7% of FYP respectively. Long-term profit generation is the main strategy in product sales. FYP of traditional products and health insurance policies were 67.7% and 10.9% higher than 2010 respectively, with FYP from traditional regular premium products 25.1% higher year-on-year, indicating an improving product mix.

Investment return for 2011 was 4.28%. Due to change in regulations, investments for foreign currency polices will be excluded in compliance with overseas investment limit. Therefore, SKL plans to apply for raising the upper limit of overseas investment to 45% to increase recurring investment incomes. Investment incomes of NT\$2.46bn from Song Jiang REAT and NT\$7.34bn from Tun Nan REAT are expected to be recognized in Q1 and Q2 2012 respectively.

On the overseas front, SKL will steadily expand SKHNA's business by establishing other operating sites in Beijing, Hainan and Shaanxi and setting up branches in other provinces in 2012.

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

After-tax profit for 2011 was NT\$3.14bn (up 56.5% year-on-year); net interest income was NT\$7.15bn, up 18.2% year-on-year; pre-provision profit was NT\$3.89bn, up 0.5% year-on-year.

Loan balance increased 13.8% year-on-year to NT\$375.29bn; deposit balance increased 16.7% year-on-year to NT\$482.19bn. L/D ratio was maintained at a level of 77.6%.

Net interest margin was 1.55% and net interest spread was 1.89% for 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 2011 was NT\$785mn, declined by 10.0% year-on-year. Sales focuses were on mutual funds, insurance, and foreign securities in 2011. As global markets gradually recover, sales of mutual funds and insurance are expected to grow in 2012.

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NPL and coverage ratios were 0.84% and 118.56% respectively due to Prince Motors' NPL recognized in Q3 2011. However, the NT\$1.72bn loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.39% and 259.65% respectively, indicating solid asset quality.

In 2011, SKB will continue to expand scale of operations, increase number of full-function branches, and evenly develop businesses both in consumer and corporate banking to gradually expand its asset size to the target of US\$20bn (total assets were NT\$561.59bn at the end of 2011). The bank will leverage on dedicated teams focused on Global e-Banking (GEB), factoring, syndicated loan, TMU and cash management, to promote SKB as the major cash management bank for corporate customers and increase fee incomes and demand deposits. In addition, SKB will enhance the services to Taiwanese enterprises operating in China through the Hong Kong branch coordinating with OBU and Shin Kong Leasing in Suzhou China.

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 started to operate in late November, and the Shaanxi branch of SKHNA Life is expected to commence operation in late Q1 2012 to further facilitate the business growth in the Mainland. On the investment front, SKL has been granted QFII Status and will start to invest in China equity and fixed-income markets after acquiring quota from SAFE (State Administration of Foreign Exchange).

In future, the Company will not only closely monitor recovery in the global economy but also continue to:

- Pursue growth and enhance profitability in its core life and banking businesses
- Diversify market risks. China's State Administration of Foreign Exchange has announced the approval of SKL's QFII quota of US\$100mn today. SKL will invest in China equity and fixed-income markets and will continue to deploy RMB-denominated financial instruments in Hong Kong, to enhance investment performance and improve shareholders' equity
- Control costs
- Drive synergies among subsidiaries
- Tighten risk management

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- 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 SKFH have continued to be solid. Moreover, we remain cautiously optimistic in our outlook and expect continuous improvement in 2012 results.

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