

SKFH Announces Results for Q1 2012

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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 first quarter 2012.

HIGHLIGHTS

- Driven by global markets recovery and solid performance of Shin Kong Bank (SKB), SKFH recorded an after-tax profit of NT\$2.94bn in Q1. EPS was NT\$0.35. Shareholders’ equity increased 13.8% quarter-on-quarter.
- Total group asset reached NT\$2.2 trillion, up 4.8% year-on-year.
- To support business development and enhance financial structure, SKFH successfully issued the second issue of domestic unsecured convertible bonds of NT\$5bn, with conversion price set at NT\$10.5. After conversion, the group’s capital will be strengthened.
- Shin Kong Life’s (SKL) FYP of traditional products was 106.7% higher year-on-year, with FYP from regular premium products 61.8% higher year-on-year, indicating an improving product mix. Despite higher FX hedging cost of NT\$3.52bn, SKL benefited from global markets recovery and recognition of NT\$2.46bn investment income from Song Jiang REAT. Total investment income increased 15.8% year-on-year.
- SKB net interest income increased 7.1% year-on-year, and loan balance grew 10.2% year-on-year. Fee income in Q1 increased 21.3% year-on-year, and fee income from wealth management was 36.1% higher year-on-year. SKB recorded an after-tax profit of NT\$1.35bn for 2011, up 33.2% year-on-year.
- Despite conservative adjustments in assumptions for 2011 Embedded Value (EV) and Appraisal Value (AV) to better reflect markets conditions, life insurance EV per share of SKFH remained high at NT\$20.3. If both calculated by new money earning rate for 2010 and 2011, V1NB was NT\$12.6bn, up 21.2% year-on-year, indicating improvement in product mix.

SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID

Despite higher FX hedging cost of NT\$3.52bn, SKL benefited from global markets recovery and recognition of NT\$2.46bn investment income from Song Jiang REAT. Q1 2012 after tax profit from SKL was NT\$1.51bn. Shareholders' equity increased 20.6% from the end of 2011, reaching NT\$55.1bn.

FYP of Q1 2011 was NT\$16.72bn, down 30.9% year-on-year. The decline was caused by a high base resulted from concentrated sales of a structured note product in Q1 2011 (the company stopped selling the specific product due to regulation change). Product sales focused on long-term profit generation, while sales of savings policies were limited by quota. FYP of traditional products was 106.7% higher than Q1 2011, with FYP from regular premium products 61.8% higher year-on-year. To maintain policyholders' interests by diversifying risks, VUL products are promoted by unit-cost-averaging method, and structured note products are linked to government bonds

Annualized investment return for Q1 2012 was 3.91%. Total investment income was NT\$15.90bn, up 15.8% year-on-year. Investment income of NT\$7.34bn from Tun Nan REAT is expected to be recognized in Q2 2012. Domestic cash dividend income for this year is estimated at NT\$5.2bn.

On the overseas front, SKL continues to steadily expand SKHNA's business. Shaanxi branch commenced operation at the end of Q1 2012, and application to establish Jiangsu branch has been filed. Equity and fixed income investments in China through QFII quota will be deployed in Q2 2012, enhancing investment income and diversifying regional risks.

Assumptions for 2011 EV and AV are conservatively adjusted to better reflect markets conditions. Adjustments included 0.5% increase in risk discount rate to 10.5% and a new money earning rate assumption (from 3.53% to 5.29% in 30 years) for Value of New Business (V1NB) calculation. Investment return for the General Account increases from 3.92% to 5.43% in 30 years; for Interest-Sensitive (IS) products, it increases from 3.64% to 4.98% in 30 years.

2011 EV for SKL was NT\$171.0bn, which includes Adjusted Net Asset Value (NAV) of NT\$139.5bn. Property unrealized gains increased to NT\$85.4bn. Value of in Force (VIF) business also increased 12.2% year-on-year due to the value of new business of NT\$18.0bn written in 2011. V1NB was estimated at NT\$12.6bn, up 21.2% year-on-year, with 2010 V1NB recalculated under the new money earning rate assumption. The growth reflected SKL's improving product mix driven by sales strategy concentrating on regular premium and protection policies.

All assumptions for EV and V1NB have been reviewed by independent actuarial consultant - Deloitte Actuarial and Insurance Solutions.

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

After-tax profit for SKB in Q1 2012 was NT\$1.35bn, up 33.2% year-on-year; net interest income was NT\$1.83bn, up 7.1% year-on-year; pre-provision profit was NT\$1.64bn, up 94.2% year-on-year.

Loan balance increased 10.2% year-on-year to NT\$382.41bn; deposit balance increased 20.2% year-on-year to NT\$506.81bn. In order to expand scale, SKB increased deposits in Q1 which resulted in a moderate decline in L/D ratio to 75.2%.

Net interest margin was 1.40% and net interest spread was 1.85% for Q1 2012. Going forward, SKB will continue to expand scale of deposits and loans and deploy funds efficiently to maintain NIM level.

Driven by strong sales of insurance and bond products, wealth management income for Q1 2012 was NT\$247mn, up 31.1% year-on-year. As global markets gradually recover, sales of mutual funds and insurance are expected to grow.

NPL and coverage ratios were 0.83% and 123.55% respectively in Q1 2012. However, the NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected. Excluding the loan, NPL and coverage ratios would improve to 0.38% and 268.34% respectively, indicating solid asset quality.

OUTLOOK

Guided by the strategic priorities to create shareholders' value, SKFH is actively deploying in overseas market. Shaanxi branch of SKHINA Life commenced operation at the end of Q1 2012, and application to establish Jiangsu branch has been filed to further facilitate the business growth in the Mainland. On the investment front, equity and fixed income investments in China through QFII quota are expected to be deployed in Q2 2012.

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

- Pursue growth and enhance profitability in its core life and banking businesses
- Diversify market risk, enhance investment performance, and improve shareholders' equity through deployment of stock, bond and other RMB-denominated financial instruments in China
- Control costs
- Drive synergies among subsidiaries

Highlights of Q1 2012 Earnings

- Tighten risk management
- Enhance customer service
- Steadily expand in the mainland, Hong Kong and other overseas markets and successfully manage SKHNA Life Insurance, Shin Kong Leasing, SKB's Hong Kong branch, and
- Deepen business cooperation with MasterLink Securities Corp.

Fundamentals of SKFH have continued to be solid. We remain cautiously optimistic in our outlook and expect further improvement in 2012 results.

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