

SKFH Announces Results for Q2 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 second quarter 2012.

HIGHLIGHTS

- SKFH recorded an after-tax profit of NT\$7.66bn in 1H, up 300.9% year-on-year. EPS was NT\$0.91.
- Total group asset reached NT\$2.2 trillion, up 6.5% year-on-year.
- Shin Kong Life’s (SKL) FYP of traditional products was 131.9% higher year-on-year, with FYP from regular premium products 62.9% higher year-on-year. Annualized hedging cost for 1H 2012 was 1.74%, significantly lower than 2.50% in Q1 2012. Driven by implementation of the FX reserve scheme and properly controlled hedging cost, as well as disposal gains from REATs, total investment income increased 28.0% year-on-year.
- Shin Kong Bank’s (SKB) net interest income was NT\$3.71bn, up 7.2% year-on-year. Loan balance grew 14.3% year-on-year. Fee income in 1H increased 22.5% year-on-year, and fee income from wealth management was 26.6% higher year-on-year. SKB recorded an after-tax profit of NT\$2.57bn in 1H, up 26.6% year-on-year.
- Domestic cash dividend income is estimated to reach NT\$5.5bn for 2012, which will mainly be recognized in Q3 and contribute to profit.

SHIN KONG LIFE: CORE BUSINESS REMAINED SOLID

1H 2012 after-tax profit reached NT\$5.04bn, driven by the properly controlled hedging cost in Q2 and disposal gains from REATs.

FYP was NT\$39.38bn, up 1.9% year-on-year. Market share was 6.2%. Long-term profit generation remains the main consideration in product strategies, while sales of savings policies are limited by quotas. FYP of traditional products was 131.9% higher year-on-year, with FYP from regular premium products 62.9% higher year-on-year. Since July 1 this year, in coordination with the reduction of policy reserve interest rates and implementation of the 2012 Taiwan Standard Ordinary

Highlights of Q2 2012 Earnings

Experience Mortality Table, protection products remain the sales focus. Those products include VUL by unit-cost-averaging method, as well as MTR, MTL, health, personal accident, long-term care and foreign currency whole life protection products.

In cross-selling, SKB contributed NT\$11.43bn in 1H FYP (55.3% of bancassurance premium). In future, more emphasis will be put on higher margin foreign currency products and products that generate higher fee income for the bank.

Annualized investment return was 4.24% in 1H 2012. Total investment income was NT\$35.66bn, up 28.0% year-on-year. Annualized hedging cost for 1H 2012 was 1.74%, significantly lower than 2.50% in Q1 2012, indicating that hedging costs have been lowered by implementation of the FX reserve scheme. In addition, domestic cash dividend income is estimated to reach NT\$5.5bn for 2012, which will mainly be recognized in Q3 and contribute to profit.

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

After-tax profit for SKB in 1H 2012 was NT\$2.57bn, up 26.6% year-on-year; net interest income was NT\$3.71bn, up 7.2% year-on-year; pre-provision profit was NT\$3.05bn, up 64.8% year-on-year.

Loan balance increased 14.3% year-on-year to NT\$404.81bn. Driven by the growth of loans to medium-sized enterprises, corporate loans surged 18.7% year-on-year. Deposit balance increased 17.2% year-on-year to NT\$503.03bn. L/D ratio (incl. credit cards balance) increased from 75.2% in Q1 to 80.2%.

Net interest margin and net interest spread for Q2 2012 were 1.40% and 1.79% respectively. Going forward, SKB will continue to provide loans with reasonable interest rates and deploy funds efficiently to maintain NIM level.

Driven by strong sales of insurance and bond products, wealth management income for 1H 2012 was NT\$500mn, up 24.0% year-on-year. Sales focuses for the second half of 2012 will be on foreign securities and foreign currency insurance policies, which are expected to contribute to fee income growth.

NPL and coverage ratios were 0.93% and 109.69% respectively. Due to NT\$639mn loan to ProMos categorized as non-performing, new NPL generation reached NT\$735mn in Q2 2012. However, NT\$1.72bn non-performing loan to Prince Motors is fully collateralized with no loss expected; excluding the loan, NPL and coverage ratios would be 0.51% and 201.49% respectively.

OUTLOOK

Guided by strategic priorities to create shareholders' value, SKFH is actively deploying in overseas market. SKHNA Life Insurance has already applied for establishing Jiangsu branch to further facilitate business growth in the Mainland. On the investment front, SKL has invested in the equity and fixed income markets in China since Q2 2012 with the QFII quota of US\$100mn.

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
- 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 2H 2012 results.

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