

SKFH Announces Results for Q3 2013

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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 of 2013.

HIGHLIGHTS

- SKFH recorded an after-tax profit of NT\$10.97bn for 9M 2013. EPS was NT\$1.24.
- Shareholders’ equity increased to NT\$98.20bn, up 5.7% quarter-on-quarter.
- Total group asset reached NT\$2.5 trillion, up 7.4% year-on-year.
- Driven by cash dividend income of NT\$6.45bn and annualized hedging cost controlled at 0.72% for 9M 2013, consolidated net income reached NT\$8.41bn. Total investment income reached NT\$56.66bn, 6.0% higher year-on-year, and annualized investment return was 4.35% in 9M 2013.
- SKB achieved stable financial results, with net interest income 10.5% higher year-on-year. In addition, net fee income grew 18.3% year-on-year; wealth management income increased 21.7% year-on-year; TMU income surged 295.5% year-on-year.

SHIN KONG LIFE: FOCUS ON PRODUCT PROFITABILITY AND RECURRING INVESTMENT RETURN

Although global yields have significantly risen since Q2, only 11.3% of SKL’s fixed income investments were classified as available for sale, while held to maturity and no active market, which are not marked to market, accounted for 29.8% and 58.6%, respectively; therefore, impact caused by the steepening yield curve was limited. Total comprehensive income was NT\$7.22bn in 9M 2013, indicating less marked-to-market loss compared to peers. Shareholders’ equity was NT\$61.20bn, NT\$7.23bn higher year-to-date.

FYP was NT\$35.63bn, down 36.6% year-on-year, mainly due to market demand decline driven by reduced reserve rates of traditional products and a strategy focusing on selling regular premium protection products. However, renewal

Highlights of Q3 2013 Earnings

premium grew 6.4% year-on-year driven by strong sales of regular premium products, which is crucial to cumulate fundamental incomes of mortality and expense gains. In the fourth quarter, aiming at taking the advantage of rising yields to better match asset-liability durations, SKL will promote foreign currency savings, long-term care health insurance and cost-averaging-cost VUL products.

Total investment income reached NT\$56.66bn, and annualized investment return was 4.35% in 9M 2013. Amid rising global yields, SKL will gradually invest in long-term fixed incomes with funds from first year and renewal premiums, as well as principals and interests from existing bond portfolios, mainly classifying them as held to maturity and no active market to enhance recurring investment return and avoid volatility in net worth. As for real estate investment, SKL acquired a dormitory complex near Tamkang University on Oct. 31 with expected rental yield as high as 3.88%, which also help enhance recurring yield.

SHIN KONG BANK: CORE BUSINESSES REMAIN SOLID TO SUPPORT EARNING GROWTH

After-tax profit of SKB for 9M 2013 was NT\$3.20bn. Net interest income was NT\$6.18bn, up 10.5% year-on-year; net fee income was NT\$2.07bn, up 18.3% year-on-year. Pre-provision profit was NT\$4.46bn, up 22.6% year-on-year, excluding one-off REITs gains of NT\$728mn in 2012.

Loan balance increased 2.2% quarter-on-quarter to NT\$445.16bn, while deposit balance increased 3.1% quarter-on-quarter to NT\$584.77bn. In order to achieve yearly loan growth target in Q4, deposits outgrew loans in Q3. L/D ratio (incl. credit cards balance) was 75.5%.

Net interest margin and net interest spread for Q3 2013 were 1.39% and 1.80%, respectively. SKB will continue to provide loans with reasonable interest rates and lower funding costs to maintain NIM level.

Boosted by strong sales of overseas securities and mutual funds, wealth management income for 9M 2013 was NT\$1.31bn, up 21.7% year-on-year. Sales focus for the fourth quarter of 2013 will be insurance policies, which is expected to increase fee income. As for corporate wealth management, revenues from TMU for 9M 2013 reached NT\$348mn, up 295.5% year-on-year.

NPL and coverage ratios for Q3 2013 were 0.46% and 244.84% respectively. Going forward, SKB will continue its stringent credit policies and maintain strict control on asset quality.

OUTLOOK

With proceeds from the rights issuance, SKFH injected NT\$2.0bn into SKB to raise its Tier 1 ratio above 8% in September. With the infusion of NT\$20bn from SKFH in Q4, SKL plans to buy back preferred shares to optimize capital structure.

Looking forward, guided by strategic priorities to create shareholders' value, SKFH will actively expand overseas presence and develop new products to facilitate business growth.

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
- Take advantage of rising yields and diversify market risks by investing in USD-denominated fixed-incomes in emerging markets to enhance recurring investment return and improve shareholders' equity
- Acquire high-quality real estate to augment rental income
- Control costs
- Drive synergies among subsidiaries
- Tighten risk management
- Enhance customer service
- Steadily expand in the Mainland, Hong Kong, Southeast Asia 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 improvements in business performance.

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