

## SKFH Announces Results for Q1 2014

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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 of 2014.

### **HIGHLIGHTS**

- SKFH recorded a consolidated after-tax profit of NT\$1.41bn for Q1 2014; profit attributable to SKFH was NT\$1.18bn. EPS was NT\$0.13.
- Total group asset reached NT\$2.6 trillion, up 3.0% quarter-on-quarter.
- With properly managed hedging strategies, SKL’s annualized hedging gain for Q1 2014 was 0.08% after provisioning NT\$2.01bn for FX reserves. Due to increase in new policy expenses driven by FYP growth reaching 91.9% year-on-year, consolidated after-tax loss was NT\$54mn.
- SKB sustained growth momentum over the past quarter. Net interest income and net fee income grew 16.3% and 5.0% year-on-year, respectively. Consolidated after-tax profit amounted to NT\$1.19bn, up 15.1% year-on-year.
- Life insurance Embedded Value (EV) per share of SKFH remained high at NT\$23.0. Although FYP declined over 2013, V1NB still grew 4.0% to NT\$14.6bn, indicating strategies aiming at sales of regular premium, value-oriented products have solidified VNB margin.

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

With properly managed hedging strategies, annualized hedging gain for the first quarter 2014 was 0.08% after provisioning NT\$2.01bn for FX reserves. Due to increase in new policy expenses driven by FYP growth reaching 91.9% year-on-year, consolidated after-tax loss was NT\$54mn.

FYP reached NT\$16.12bn with strong sales of regular premium FX traditional products. The FX policy remained marketing focus in 2014, driving its sales in Q1 to NT\$5.3bn and contributing 33.0% of total FYP. Such products brought SKL

## *Highlights of Q1 2014 Earnings*

stable interest spread with proper asset-liability match and no hedging cost. SKL sustained VNB growth by emphasizing sales of regular premium products. FYP of regular premium traditional products accounted for 60.4% of that of total traditional products, up NT\$4.93bn year-on-year. Marketing momentum of long-term care health policies has continued since their debut last year. The number of such policies sold in Q1 was 10,842, with FYP of NT\$446mn, increasing SKL's market share in health insurance to 13.5%. The targeted number of such policies sold for this year is 60,000.

As for overseas fixed income investments, high-quality corporate bonds and emerging market USD-denominated sovereign debts have been gradually deployed and mainly classified as no active market and held to maturity. Corporate bond portfolio comprises investment grade names with stable credit quality. Diversification is achieved by investing in energy, telecom, consumer, utilities, and financial industries. Annualized investment return was 4.1% in Q1 2014. Driven by increasing interest incomes with enhanced portfolio reallocation, recurring yield before hedging increased 13 bps year-on-year to 3.22%.

Life insurance EV per share of SKFH remained high at NT\$23.0. EV was NT\$214.3bn, up 10.2% year-on-year, including property unrealized gains of T\$63.4bn re-appraised at the end of 2013 and special reserve of property unrealized gains amounting to NT\$28.2bn. Although FYP declined over 2013, V1NB still grew 4.0% year-on-year to NT\$14.6bn, indicating strategies aiming at sales of regular premium, value-oriented products have solidified VNB margin.

### **SHIN KONG BANK: ASSET QUALITY REMAINED SOLID AND PROFITS CONTINUED TO GROW**

Consolidated after-tax profit of SKB for Q1 2014 reached NT\$1.19bn, up 15.1% year-on-year. Net interest income was NT\$2.34bn, up 16.3% year-on-year; net fee income was NT\$0.76bn, up 5.0% year-on-year. Pre-provision profit was NT\$1.81bn, up 20.6% year-on-year.

Loan balance increased 5.3% quarter-on-quarter to NT\$474.85bn, while deposit balance increased 4.6% quarter-on-quarter to NT\$642.77bn. Driven by the enhanced overall contribution of customers, NIS rose from 1.79% to 1.80% and NIM increased from 1.40% to 1.44% from the previous quarter. SKB will continue to offer loans with reasonable interest rates and reduce funding costs to stabilize NIM level.

Wealth management income for Q1 2014 was NT\$491mn, with fee income from bancassurance reached NT\$303mn, up 204.4% year-on-year. SKB will continue to develop new products in 2014, increasing sales of overseas securities and mutual funds to boost fee income.

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In Q1 2014, NPL ratio decreased to 0.37% and coverage ratio increased to 293.21%. NPL ratios for corporate loans and mortgages were 0.36% and 0.26%, respectively, indicating stable asset quality. Going forward, SKB will persist with its stringent credit policies and exert strict control over asset quality.

## **OUTLOOK**

SKFH will closely monitor global economy and continue to:

- Pursue growth and enhance profitability in its core life and banking businesses
- Deploy investments gradually in high-quality corporate bonds and emerging market USD-denominated sovereign debts 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, and 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 2014.

### *Disclaimer:*

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