

SKFH Announces Results for Q2 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 second quarter of 2014.

HIGHLIGHTS

- SKFH’s shareholders’ equity increased to NT\$105.95bn, up 14.1% year-on-year, and book value per share was NT\$11.36. Total group asset was approximately NT\$2.7 trillion, up 8.9% year-on-year.
- SKFH recorded consolidated comprehensive income of NT\$6.29bn and consolidated after-tax profit of NT\$3.36bn; profit attributable to SKFH was NT\$2.72bn. EPS was NT\$0.28.
- SKFH successfully issued domestic convertible bonds of NT\$5bn on August 27. Conversion price was set at NT\$10.5 with no coupon and put yield. After conversion, the group’s capital will be strengthened.
- SKL’s FYP for 1H 2014 reached NT\$36.24bn, up 63.0% year-on-year. In particular, FX policies grew 190.7% year-on-year to NT\$13.37bn, from which was invested in foreign fixed incomes with higher yields, resulting in an increase of 11 bps in recurring yield before hedging and 10.1% growth in total net interest income.
- SKB sustained growth momentum over the past quarter, with net revenues up 15.0% year-on-year. Net interest income and net fee income grew 16.5% and 9.3% year-on-year, respectively, while cost income ratio further declined to 48.5%. Consolidated after-tax profit amounted to NT\$2.39bn, up 9.8% year-on-year.
- In order to effectively execute sales strategies and hone brand image of the group, SKFH, together with SKL and SKB, employed dedicated marketing chiefs to propel business momentum and bolster profits through integrated marketing.

SHIN KONG LIFE: FOCUS ON VNB GROWTH AND RECURRING RETURN

FYP for 1H 2014 reached NT\$36.24bn, up 63.0% year-on-year, enabling VNB to grow 50% year-on-year (based on actuarial assumption for 2013 EV) and lowering cost of liability.

FX policy remained marketing focus in 2014. Sales in 1H grew 190.7% year-on-year to NT\$ 13.37bn, accounting for 36.9% of total FYP. The products brought SKL stable interest spread with proper asset-liability match and no hedging cost. Marketing momentum of long-term care health policies has continued since their debut last year. The number of such policies sold in 1H was 23,530 with FYP of NT\$977mn, increasing SKL's market share in health insurance to 13.4%. The targeted number of long-term care health policies sold for this year is 60,000.

Annualized investment return was 4.2% in 1H 2014. Driven by increasing interest incomes with enhanced portfolio reallocation, recurring yield before hedging increased 11 bps year-on-year. Since June, 2014, the holdings in foreign currencies denominated bonds listed in domestic OTC market has been exempted from foreign investment quota. SKL has currently purchased NT\$42.8bn of such bonds with average yield before hedge of 4.36%. SKL will continuously increase exposure of the bonds and enhance overall return. Domestic cash dividend income is expected to reach NT\$7.2bn for 2014, up 8.8% year-on-year.

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

Consolidated after-tax profit of SKB for 1H 2014 amounted to NT\$2.39bn, up 9.8% year-on-year. Net interest income was NT\$4.73bn, up 16.5% year-on-year; net fee income was NT\$1.56bn, up 9.3% year-on-year. Pre-provision profit was NT\$3.63bn, up 22.1% year-on-year.

Amid effort to enhance profitability per client, loan balance was NT\$469.91bn, NIS rose 4 bps from the previous quarter to 1.84%. With the adjustment of loan structure in Q2, L/D ratio (incl. credit cards balance) decreased to comparatively low level of 71.0%, and NIM dropped 4 bps to 1.40%. However, L/D ratio has gradually increased in Q3.

Wealth management income for 1H 2014 was NT\$970mn, up 4.0% year-on-year. In order to strengthen bancassurance business, wealth management consultants have directly registered as the agents of SKL since April, sharing access to its training resources and marketing tools, including the core system. Fee income from bancassurance reached NT\$501mn, up 153.3% year-on-year. SKB will continue to focus on insurance products in the second half of this year, promoting sales of overseas securities and mutual funds to boost fee income.

Highlights of Q2 2014 Earnings

NPL ratio decreased from 0.37% to 0.36% and coverage ratio increased from 293.21% to 324.27%, indicating stable asset quality. Both ratios are expected to continuously improve.

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 foreign currencies denominated bonds listed in domestic OTC market , 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 the second half of 2014.

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