

# SKFH Announces Results for Q3 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 third quarter of 2014.

## HIGHLIGHTS

- SKFH’s shareholders’ equity increased to NT\$102.05bn, up 3.9% year-on-year, and book value per share was NT\$10.38. Total group asset was approximately NT\$2.7 trillion, up 9.6% year-on-year.
- SKFH recorded consolidated after-tax profit of NT\$7.66bn; profit attributable to SKFH was NT\$6.95bn. EPS was NT\$0.71.
- SKL’s FYP for 9M 2014 reached NT\$67.82bn, 90.4% higher year-on-year, reducing cost of liability by 11 bps to 4.67% as of the end of Q3. Driven by properly-managed FX hedging, annualized hedging cost and investment return were 0.75% and 4.32% in 9M 2014, respectively.
- SKB achieved stable financial results, with net interest income up 16.1% year-on-year, net fee income up 13.4% year-on-year, and TMU income up 141.4% year-on-year. Consolidated after-tax profit for 9M 2014 amounted to NT\$3.97bn; annualized ROE was 13.8%.

## SHIN KONG LIFE: FOCUS ON WHOLE LIFE PRODUCTS AND ENHANCE RECURRING INVESTMENT RETURN

FYP for 9M 2014 reached NT\$67.82bn, up 90.4% year-on-year, enabling VNB to grow higher than 50% year-on-year (based on actuarial assumptions for 2013 EV) and reducing cost of liability by 11 bps to 4.67% as of end of the third quarter. Consolidated after-tax profit was NT\$3.01bn; shareholders’ equity increased by 1.9% year-on-year to NT\$62.37bn.

FX traditional whole life products remained marketing focus in 2014. Sales in 9M reached

NT\$21.87bn, accounting for 32.2% 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. FYP of such policies sold in 9M was NT\$1.35bn, resulting in health insurance FYP amounting to NT\$2.64bn, 81.3% higher year-on-year. SKL's market share in health insurance reached 12.9%.

Driven by properly-managed FX hedging, annualized hedging cost and investment return were 0.75% and 4.32% in 9M 2014, respectively. By actively selling FX policies and investing in international bonds listed in domestic OTC, SKL deployed funds in higher yield FX assets and enhance recurring yield before hedging by 10 bps year-on-year. As of the end of October, investments in international bonds listed in domestic OTC amounted to NT\$93.9bn with average yield before hedging of 4.36%. The position is expected to increase and strengthen overall return.

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

Consolidated after-tax profit of SKB for 9M 2014 amounted to NT\$3.97bn, up 23.9% year-on-year. Net interest income was NT\$7.18bn, up 16.1% year-on-year; net fee income was NT\$2.35bn, up 13.4% year-on-year. Pre-provision profit was NT\$6.10bn, up 36.9% year-on-year.

Amid the effort to adjust loan structure, loan balance was NT\$472.84bn, up 4.9% year-to-date, while deposit balance totalled NT\$646.54bn, up 5.2% year-to-date. L/D ratio (incl. credit cards balance) increased from 71.0% to 72.4%. Driven by pricing loans based on customers' overall contribution, NIS increased 4 bps to 1.88% and NIM rose 2 bps to 1.42% quarter-on-quarter.

Wealth management income for 9M 2014 was NT\$1.46bn, 11.8% higher year-on-year. With a view to strengthening bancassurance business, wealth management consultants have directly registered as the agents of SKL since April, sharing access to its training resources and marketing tools. Fee income from bancassurance reached NT\$0.76bn, up 150.9% year-on-year. To increase sales of mutual funds, SKB introduced an investment efficiency system in Q3, employing profit taking and reinvestment mechanisms to help clients automatically switch between bond and equity funds.

Asset quality remained solid in Q3 2014. NPL ratio decreased from 0.36% to 0.32%, and coverage ratio increased from 324.27% to 384.10%. SKB will continue to strictly control asset quality and boost loan loss provisioning. By year end, NPL ratio and coverage ratio are expected to improve to 0.26% and over 400%, respectively.

## OUTLOOK

SKFH will closely monitor global economy and continue to:

- Pursue growth in core business, emphasize asset quality and stabilize capital adequacy ratios
- Focus on sales of whole life products and FX policies, investing in international bonds listed in domestic OTC, high-quality corporate bonds and emerging-market USD sovereign debts to enhance recurring investment return
- Acquire high-quality real estate to augment rental income
- Control costs and develop business with proper cost-benefit balance
- Drive synergies among subsidiaries
- Tighten risk management
- Enhance service and fulfil the needs of customers to optimize their value growth
- 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.

SKFH has steadily grown its core businesses. We remain cautiously optimistic in our outlook and business performance.

*Disclaimer:*

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