

# SKFH Announces Results for Q2 2015

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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 2015.

## HIGHLIGHTS

- SKFH’s consolidated after-tax profit reached NT\$6.59bn; profit attributable to SKFH was NT\$6.26bn. EPS was NT\$0.61. Total group asset reached NT\$2.8 trillion, up 1.1% quarter-on-quarter. Shareholders’ equity was NT\$113.91bn, and book value per share was NT\$11.69.
- SKL’s FYP for 1H 2015 amounted to NT\$47.94bn, up 32.3% year-on-year. Annualized cost of liability decreased 6 bps to 4.58% compared to 2014. Recurring yield before hedging increased 21 bps year-on-year to 3.49%, with investment in international bonds listed in domestic OTC reaching NT\$176.34bn.
- SKB’s profit momentum remained solid, with net interest income up 6.8% year-on-year. Consolidated after-tax profit amounted to NT\$2.59bn, 8.4% higher year-on-year. NPL and coverage ratios were 0.24% and 565.86%, respectively, better than industry average.
- SKL and SKB recently obtained approval from Myanmar’s authorities to establish representative offices in Yangon and planned to hold an opening ceremony in September. Both subsidiaries will continue to develop overseas business opportunities and provide high-quality financial service.

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

FYP for 1H 2015 rose 32.3% year-on-year to NT\$47.94bn. The strategy to decrease cost of liability by promoting whole life products continues, allowing annualized cost of liability to decline 6 bps to 4.58% compared to 2014. Consolidated after-tax profit was NT\$3.52bn; shareholders’ equity was NT\$71.68bn, up 2.9% year-to-date.

FX traditional products remained marketing focus in 2015. Sales reached NT\$13.75bn in 1H 2015, accounting for 28.7% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost. SKL has vigorously cultivated operations in the long-term care market with more than 126,000 long-term care and disability policies sold in 1H 2015. FYP was NT\$1.76bn, 80.4% higher year-on-year.

Annualized investment return was 3.84% for 1H 2015. With the increased interest income derived from portfolio reallocation, investments in international bonds amounted to NT\$176.34bn as of the end of 1H 2015 and recurring yield before hedging increased 21 bps year-on-year to 3.49%. International bonds offer average yield before hedging of 4.4%, and the position is expected to grow and enhance interest income.

SKL has been actively supporting the government's new measure on life insurance conversion, allowing eligible policyholders with accumulated cash values to convert into suitable health and long-term care insurance policies. At present, 1,793 policies have been converted with original policy value reserve of NT\$530mn. Savings and policies with only death benefits were switched to long-term care and health insurance, indicating well-aware and growing demand for health and long-term care products across demographics. The number of policies converted is expected to increase.

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

Consolidated after-tax profit for 1H 2015 grew 8.4% year-on-year to NT\$2.59bn, driven by net interest income up 6.8% year-on-year.

Deposit balance increased 3.7% year-to-date to NT\$667.39bn, with foreign deposit increasing 13.0% and facilitating international business. Loan balance grew only 1.0% year-to-date to NT\$487.27bn due to structural adjustments. NIS increased 2 bps to 1.93%, and NIM was 1.45%. SME loans are expected to grow in the second half, with focus on loans with collaterals or backed by Credit Guarantee Fund. However, due to low funding demand resulting from slow economic growth, loan growth target for 2015 has been adjusted to 4%.

Wealth management income for Q2 2015 climbed 12.8% quarter-on-quarter to NT\$433mn, with bancassurance accounting for 51.8%. In order to develop clients with AUM above NT\$3mn, SKB will continue to recruit sales heads and financial consultants, and the total number is expected to reach 480 at year end. Fixed income products and mutual funds remain marketing focus in the second half, expected to enhance wealth management income.

New NPL generation in Q2 2015 was only NT\$133mn, and NPL ratio remain at 0.24%. Due to superior asset quality, one-off provisions on real estate and Mainland exposures have been fully recognized, driving coverage ratio from 529.76% to 565.86% in Q2.

Overseas profit for 1H 2015 grew 43.0% year-on-year and reached NT\$1.17bn, representing 38.5% of earnings before tax.

## OUTLOOK

SKFH will closely monitor global economy and continue to realize the following strategic objectives:

- Pursue growth in core business, emphasize asset quality and stabilize capital adequacy ratios
- Focus on sales of whole life products and FX policies, investing acquired funds in international bonds listed in domestic OTC and FX separate assets 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
- Deepen business cooperation with MasterLink Securities Corp.

*Disclaimer:*

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