

SKFH Announces Results for Q4 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 fourth quarter 2015.

HIGHLIGHTS

- SKFH’s consolidated after-tax profit was NT\$6.84bn; profit attributable to SKFH was NT\$5.78bn. EPS was NT\$0.57. Total group assets topped NT\$2.96 trillion, up 6.1% year-on-year.
- Capital adequacy ratios of the group and subsidiaries were all above regulatory requirements. Group CAR was 124.7%, RBC of SKL was 267.8%, BIS of SKB was 11.8%, and Tier 1 ratio was 9.4%.
- SKL recorded a consolidated after-tax profit of NT\$150mn, resulting from underweighting stocks without positive prospects amid market volatility. With the focus on risk control and recurring yield, overseas fixed incomes increased continuously, allowing interest income to increase NT\$10.26bn to NT\$62.41bn, up 19.7% year-on-year. Recurring yield before hedging advanced 19 bps year-on-year to 3.88%. Cost of liabilities declined 13 bps to 4.51%, exceeding the yearly target.
- SKB posted a consolidated after-tax profit of NT\$5.03bn and return on equity of 11.6%. Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization, NIS increased 8 bps year-on-year to 1.93% while NIM rose 3 bps year-on-year to 1.46%. NPL and coverage ratios were 0.19% and 697.19%, respectively, better than industry average.
- To actively manage real estate portfolio: for long-term property value and stable rental income, 10 domestic sites are currently under construction and an office building located on Gracechurch Street, London was acquired. SKL also sold A8 commercial complex in Xinyi District to realize capital gains and deployed the proceeds in higher-yielding assets to enhance recurring yield.

SHIN KONG LIFE: LOWER COST OF LIABILITIES AND ENHANCE RECURRING INVESTMENT RETURN

FYP for 2015 amounted to NT\$78.21bn, securing a market share of 6.6%. The strategy to lower cost of liabilities by promoting NTD and FX whole life products persists, enabling cost of liabilities to decline 13 bps to 4.51% compared to 2014, exceeding the yearly target. FX traditional products remained marketing focus, with sales reaching NT\$23.08bn in 2015, accounting for 29.5% of total FYP. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost. SKL has been vigorously cultivating operations in the long-term care market with more than 234,000 long-term care and disability policies sold in 2015. FYP was NT\$3.18bn, propelling health insurance FYP to NT\$4.88bn, 39.5% higher year-on-year.

Due to properly-managed FX strategy, hedging cost for 2015 was 0.61%. Foreign currency volatility reserve reached NT\$6.87bn. Investment income decreased due to disposal of stocks without positive prospects amid market volatility, and investment return was 3.68% for 2015.

SKL has actively adjusted domestic asset allocation, investing funds from NT dollar policies in international bonds listed in domestic OTC, and deploying funds from foreign currency policies in overseas bonds to enhance recurring revenue. Interest income was boosted by portfolio reallocation: interest income for 2015 increased NT\$10.26bn to NT\$62.41bn, up 19.7% year-on-year; recurring yield before hedging advanced 19 bps year-on-year to 3.88%. As of the end of 2015, investments in international bonds listed in domestic OTC amounted to NT\$233.3bn with average yield before hedging of 4.5%. To increase interest income, the position is expected to reach NT\$300bn by the end of Q2 2016.

SHIN KONG BANK: ADJUST LOAN AND DEPOSIT STRUCTURE AND FOCUS ON ASSET QUALITY

Consolidated after-tax profit for 2015 was NT\$5.03bn, down 2.4% year-on-year, compared to the higher base in 2014 resulting from the one-off property disposal gain of NT\$0.51bn; net interest income and net fee income grew 6.7% and 2.6% year-on-year respectively. ROE was 11.6%.

Deposit balance amounted to NT\$679.59bn, up 5.6% year-on-year, and demand deposit ratio increased from 40.0% to 42.3%. Focusing on clients with superior credit quality and higher spread, loan balance grew 1.1% year-on-year to NT\$487.73bn. Driven by optimization of deposit and loan structure, NIS increased to 1.93%, up 8 bps year-on-year. SKB will elevate demand deposit ratio and fund utilization to stabilize NIM, as well as promote SME, overseas loans and consumer banking.

Wealth management income for 2015 was NT\$1.70bn. To propel productivity, SKB will increase wealth management sales force to 470 and deepen client coverage. Besides, SKB will also intensify cross-selling cooperation to develop OBU customers and clients with AUM above NT\$3mn.

NPL ratio was 0.19% and coverage ratio was 697.19%, better than industry average. SKB will continue its stringent credit policies and exert strict control on asset quality.

SKB will actively cultivate Asia-Pacific market by striving for permission to establish Binh Duong branch in Vietnam and Yangon branch in Myanmar.

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 NTD and FX whole life products, investing acquired funds in international bonds listed in domestic OTC and FX separate assets respectively to enhance recurring investment return
- Acquire domestic and overseas high-quality real estate, as well as actively manage real estate portfolio to augment investment return on property
- Control costs and develop business with proper cost-benefit balance
- Drive synergies among subsidiaries
- Tighten risk management
- Develop a full range of digital financial services, enhance service quality 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.

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