

# SKFH Announces Results for Q1 2016

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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 2016.

## HIGHLIGHTS

- Due to continuously strengthening and limiting exposure to equity portfolio, SKFH recorded a consolidated after-tax loss of NT\$2.56bn for Q1 2016; consolidated comprehensive loss was NT\$1.42bn. Book value per share was NT\$10.68.
- Total group assets topped NT\$2.97 trillion, up 5.8% year-on-year.
- Shin Kong Life continued to allocate funds to international bonds and overseas fixed incomes to enhance recurring yield. Interest income for Q1 2016 grew NT\$2.54bn, up 17.4% year-on-year. Recurring yield before hedging advanced 22 bps year-on-year to 3.59%. Annualized cost of liabilities declined to 4.48%, 3 bps lower compared to 2015.
- Shin Kong Bank’s net interest income was NT\$2.62bn, up 5.4% year-on-year, due to prudently controlled funding cost. Consolidated after-tax profit was NT\$1.07bn. Driven by optimization of deposit and loan structure, NIS increased 4 bps quarter-on-quarter to 1.98%, and NIM remained stable at 1.48%. NPL and coverage ratios were 0.19% and 681.13%, respectively, better than industry average.
- Life insurance Embedded Value (EV) per share of SKFH was NT\$21.1 (not including net worth of the bank and other subsidiaries). V1NB was NT\$16.8bn, and VNB margin rose to 22.1%.

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

FYP for Q1 2016 was NT\$20.98bn, securing a market share of 6.6%. Traditional products remained marketing focus and contributed 92.2% of total FYP. In addition, Shin Kong Life has been actively promoting interest-sensitive whole life products, and FYPE increased 21.6%

year-on-year to NT\$9.39bn. Annualized cost of liabilities decline to 4.48%, 3 bps lower compared to 2015, in line with expectation.

In cross-selling business, Shin Kong Bank contributed NT\$4.81bn of FYP for Q1 2016 (44.9% of bancassurance premium). Amid market demand for savings products triggered by low interest rate sentiment, Shin Kong Life has been actively promoting sales together with bank and security subsidiaries. FYP momentum is expected to pick up and further improve cost of liabilities.

Shin Kong Life has actively adjusted domestic asset allocation, deploying funds primarily in international bonds listed in domestic OTC and overseas bonds to enhance recurring revenue. Interest income was boosted by portfolio reallocation: interest income for Q1 2016 increased NT\$2.54bn to NT\$17.14bn, up 17.4% year-on-year; recurring yield before hedging advanced 22 bps year-on-year to 3.59%. As of the end of Q1 2016, investments in international bonds listed in domestic OTC amounted to NT\$265.3bn 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.

Life insurance EV per share of SKFH was NT\$21.1. EV was NT\$215.7bn, including property unrealized gains of NT\$72.6bn re-appraised at the end of 2015. V1NB was NT\$16.8bn, and VNB margin remained stable at 22.1%.

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

Due to prudently controlled funding cost, net interest income for Q1 2016 reached NT\$2.62bn, up 5.4% year-on-year. Consolidated after-tax profit was NT\$1.07bn.

Deposit balance was NT\$684.49bn, and foreign deposit increased 4.8% year-to-date, facilitating international business. Shin Kong Bank focuses on clients with superior credit quality and higher spread, loan balance down 2.2% year-to-date to NT\$477.06bn. However, growth of corporate and consumer loans is expected to rise gradually from Q2 2016. Driven by optimized deposit and loan structure, NIS increased 4 bps quarter-on-quarter to 1.98%, and NIM remained stable at 1.48%. Shin Kong Bank will continuously focus on both funding cost and loan yields, as well as actively participate in overseas syndicated loan to increase loan-to-deposit ratio and keep NIM stable.

Wealth management income for Q1 2016 was NT\$408mn, with fee income from bancassurance of NT\$285mn, up 29.0% year-on-year. From May, continuous promotion of bancassurance is expected to further propel momentum. In addition, in order to optimize clients' asset allocation, Shin Kong Bank has established internal research team to provide clients with market updates and investment suggestions together with financial planners.

NPL ratio was 0.19% and coverage ratio was 681.13%, better than industry average. Shin Kong Bank will continue its stringent credit policies and exert strict control on asset quality.

BIS was 12.9% and Tier one ratio was 9.8%, higher than 2015.

## 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, 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.

*Disclaimer:*

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