

SKFH Announces Results for Q2 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 second quarter 2016.

HIGHLIGHTS

- SKFH recorded a consolidated after-tax profit of NT\$1.87bn for Q2 2016; for 1H 2016, consolidated after-tax loss was NT\$0.69bn, and consolidated comprehensive profit was NT\$0.48bn. Shareholders’ equity increased 1.5% quarter-on-quarter to NT\$108.64bn, and book value per share was NT\$10.83.
- Total group assets topped NT\$3.0 trillion, up 7.5% year-on-year.
- Shin Kong Life’s FYP for 1H 2016 reached NT\$58.04bn, 21.1% higher YoY, boosting market share to 8.9%. Annualized cost of liabilities decreased to 4.44%, 7 bps lower compared to 2015. Shin Kong Life continued to allocate funds to international bonds and emerging market USD-denominated government bonds to enhance recurring yield. Interest income for 1H 2016 increased to NT\$34.49bn, up 16.6% year-on-year. Recurring yield before hedging advanced 20 bps year-on-year to 3.69%.
- Shin Kong Bank’s net interest income was NT\$5.21bn, up 3.2% year-on-year, reflecting prudently controlled funding cost. Driven by growth in wealth management fee income, net fee income increased 8.1% year-on-year to NT\$ NT\$1.63bn. Consolidated after-tax profit reached NT\$2.22bn. BIS and Tier 1 ratio were 12.5% and 9.6% respectively, higher than 2015.

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

FYP momentum has picked up, driven by policyholders’ demand for whole life savings products triggered by persisting low interest rates. FYP for 1H 2016 reached NT\$58.04bn, up 21.1% year-on-year, boosting market share to 8.9%. Traditional products remained marketing focus and contributed 94.8% of total FYP, allowing annualized cost of liabilities to decline to 4.44%, 7 bps

lower compared to 2015, in line with expectation. Furthermore, FYPE for 1H 2016 amounted to NT\$27.62bn, up 81.3% YoY.

In cross-selling business, Shin Kong Bank contributed NT\$10.99bn of FYP for 1H 2016 (33.8% of bancassurance premium). In August and September, insurance will again be sales focus of wealth management to fulfil clients' demand.

Owing to customers' demand for savings products triggered by persisting low interest rates, in August and September, more emphasis will be put on higher margin products which generate higher fee income for the bank.

Shin Kong Life has actively adjusted domestic asset allocation, deploying funds primarily in international bonds listed in domestic OTC and emerging market USD-denominated government bonds to enhance recurring revenue. Interest income was boosted by portfolio reallocation: interest income for 1H 2016 increased NT\$4.90bn to NT\$34.49bn, up 16.6% year-on-year; recurring yield before hedging advanced 20 bps year-on-year to 3.69%. As of the end of 1H 2016, investments in international bonds listed in domestic OTC amounted to NT\$3,187bn with average yield before hedging of 4.5%. As low interest rates persist, Shin Kong Life will invest in emerging market government bonds and overseas corporate bonds to stabilize recurring income.

With an eye to enhance core business, including tied agent management, customer resources, and product marketing, Shin Kong Life has partnered with international consulting firms to execute agents and marketing transformation projects. On agent management front, Shin Kong Life and BCG has teamed up on the Agent+ project to transform Shin Kong Life's tied agent team, aiming at elevating productivity and optimizing organization structure. The pilot program started in July 2016. Formal implementation throughout nationwide branches is expected to be rolled out sequentially from Q4 2016. As for customer resources and product marketing, Shin Kong Life has also worked with Oliver Wyman to strengthen customer management strategy and big data analysis. In addition, Shin Kong Life will integrate and strengthen its customer resource management and optimize marketing effectiveness through systematic, transparent agent activity management.

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

Due to prudently controlled funding cost, net interest income increased 3.2% year-on-year to NT\$5.21bn. Driven by growth in wealth management fee income, net fee income grew 8.1% year-on-year to NT\$1.63bn. Consolidated after-tax profit for 1H 2016 was NT\$2.22bn.

Shin Kong Bank focuses on clients with superior credit quality and higher spread, Corporate and consumer loans grew 3.7% and 2.0% quarter-on-quarter respectively, indicating recovery of loan growth momentum. Total loan balance grew 2.8% quarter-on-quarter to NT\$490.20bn. Deposit balance was NT\$644.24bn, and demand deposit ratio increased from 38.90% to 41.14%. NIM and NIS was 1.46% and 1.96%, respectively as of the end of Q2 2016. Shin Kong Bank will continue to optimize deposit and loan structure, as well as actively participate in overseas syndicated loan to increase loan-to-deposit ratio and keep interest spread stable.

Bancassurance fee income for Q2 2016 grew 50.5% quarter-on-quarter to NT\$429mn, driving wealth management income for 1H 2016 to NT\$992mn, up 21.4% year-on-year. Bancassurance sales are expected to again drive the momentum of wealth management in August and September.

NPL ratio and coverage ratio were 0.19% and 647.29%, respectively, better than industry average. Shin Kong Bank will continue its stringent credit policies and exert strict control on asset quality.

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.

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