

SKFH Announces Results for Q4 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 fourth quarter 2016.

HIGHLIGHTS

- SKFH recorded a consolidated comprehensive income of NT\$12.98bn and consolidated after-tax profit of NT\$5.10bn for 2016; profit attributable to SKFH was NT\$4.81bn. EPS was NT\$0.48. Total group assets amounted to NT\$3.2 trillion, up 6.6% year-on-year. Consolidated shareholders’ equity was NT\$135.57bn, NT\$12.44bn higher compared to 2015, and book value per share increased 12.1% year-on-year to NT\$12.11, mainly driven by Shin Kong Life’s other comprehensive income for 2016 reaching NT\$9.21bn.
- Capital adequacy ratios of the group and subsidiaries were all comfortably above regulatory requirements. Group CAR was 124.4%, RBC of Shin Kong Life was 279.3%, BIS of Shin Kong Bank was 12.7%, and Tier 1 ratio was 9.9%.
- Shin Kong Life recorded a consolidated after-tax profit of NT\$140mn. Funds were continuously allocated to emerging market USD government bonds and international bonds, enabling interest income for 2016 to increase NT\$7.81bn to NT\$70.23bn, up 12.5% year-on-year. Recurring yield before hedging rose to 3.90%. Cost of liabilities declined 14 bps year-on-year to 4.37%, exceeding the yearly target.
- Shin Kong Bank posted a consolidated after-tax profit of NT\$4.63bn for 2016. Driven by enhanced fund utilization and optimized deposit structure, NIS for 2016 increased 4 bps year-on-year to 1.97%, while NIM rose 4 bps year-on-year to 1.50%. Asset quality remained stable with NPL ratio of 0.26% and coverage ratio of 492.04%.

SHIN KONG LIFE: COST OF LIABILITIES DIMINISHED AND NET WORTH ENHANCED

Shin Kong Life recorded a consolidated after-tax profit of NT\$2.14bn for Q4 2016, up 63.3% quarter-on-quarter. The cumulative consolidated after-tax profit for 2016 was NT\$140mn. Consolidated shareholders’ equity was NT\$73.77bn, up 14.5% year-on-year, driven by a

decrease of NT\$9.83bn in unrealized losses on available-for-sale financial assets.

Boosted by strong demand for interest sensitive whole life products, FYP surged 46.9% year-on-year to NT\$114.89bn, securing a market share of 9.0%. Traditional products remained marketing focus and contributed 94.6% of the total FYP, and FYPE totaled NT\$53.72bn, up 80.4% year-on-year. Cost of liabilities declined to 4.37%, 14 bps lower than 2015, better than expected.

Shin Kong Life continued to invest in overseas fixed income over the past quarters, deploying funds in emerging market USD government bonds and international bonds to enhance recurring revenue. Portfolio reallocation was a positive contributor to interest income, which increased NT\$7.81bn to NT\$70.23bn, up 12.5% year-on-year; recurring yield before hedging rose to 3.90%. As of the end of December 2016, investments in international bonds amounted to NT\$341.5bn with average yield before hedging of over 4.4%. In view of the upward trend in long-term interest rates, Shin Kong Life will seize the opportunity to deploy funds acquired from foreign currency policies in emerging market USD government bonds and overseas corporate bonds to increase recurring income.

Looking ahead, Shin Kong Life aims to refine its stock trading strategies in order to increase high cash dividend equities position and dividend income. On real estate investment side, Shin Kong Life is now constructing buildings at 12 sites across the country. These construction projects will be completed within 4 years and generate rental income of NT\$600 million per year afterward. With implementation of the aforementioned schemes, Shin Kong Life is expected to gradually enhance recurring yield before hedging, solve the negative spread issue and achieve stable profits.

SHIN KONG BANK: CORE BUSINESSES REMAINED SOLID AND INCOME FROM WEALTH MANAGEMENT STRENGTHENED

Consolidated after-tax profit for 2016 was NT\$4.63bn. Benefited from adjustment in deposit structure, net interest income grew 3.1% year-on-year to NT\$10.69bn. Net fee income increased 3.7% year-on-year to NT\$3.23bn.

Loan balance was NT\$508.52bn as of the end of 2016, up 4.3% year-on-year. Momentum mainly came from consumer loans, up 7.4% year-on-year. Deposit balance amounted to NT\$686.88bn. The time deposit ratio increased from 38.9% in Q1 to 41.5% in Q4. Driven by enhanced fund utilization, both NIM and NIS for 2016 improved 4 bps year-on-year to 1.50% and 1.97%, respectively. Shin Kong Bank will continuously promote consumer and global corporate loans for profitability and asset size.

Income from wealth management remained strong. Wealth management income for 2016 grew 16.5% year-on-year to NT\$1.98bn. Momentum mainly came from bancassurance sales. Fee income from bancassurance was NT\$1.36bn, up 40.8% year-on-year. In response to cuts in bancassurance commission rate, promotion on regular-paid insurance policies and investment products will expand. Shin Kong Bank will also provide investment research reports to boost mutual fund sales.

NPL and coverage ratios were 0.26% and 492.04%, respectively. Shin Kong Bank will upgrade risk management platform to strictly control default and market risks. BIS and tier 1 ratio were 12.7% and 9.9%, respectively, better than 2015.

Along with the digital finance trends, SKFH and its subsidiaries will continue to innovate digital finance business to boost online trades and achieve double-digit growth in accounts.

OUTLOOK

SKFH will closely monitor global economy and continue to realize the 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 continually and improve employees' productivity
- 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 overseas markets, and
- Deepen business cooperation with MasterLink Securities Corp.

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