

## SKFH First Quarter 2010 Results Conference Call

*May 20, 2010, 4:30 p.m. (Taipei)*

### **INTRODUCTION**

**Winston Yung:**

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2010 First Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- First, we are happy to have President Victor Hsu of the Financial Holding Company to review the first quarter results with us.
- We are also joined by Terry Mezger, Asia Pacific Leader of Deloitte's Actuarial. Terry has been working with us closely over the past months in reviewing our EV work and is here to help us answer any question you may have.
- Also in the room are Vice President Sunny Hsu, our Chief Accountant, Han-Wei Lin, Head of Shin Kong Life's Planning Department and leader of our EV work, Sandra and Chuck, members of the IR team.

The presentation we are about to go through has been sent out 2 hours ago. You may also download it from our website or participate through webcast. If you do not have the presentation, please let us know now.

Your lines will be muted when we are presenting. If you are cut off, please dial back in or call Chuck at 886 939 179 940 for assistance.

If you have no questions, we will start by asking President Victor Hsu to give us a group level update for first quarter 2010. President Hsu ...

### **PRESENTATION**

**Victor Hsu:**

Page 4 Thank you, Winston. Good afternoon, ladies and gentlemen. Please turn to page 4.

During the first quarter, we have seen further signs that fundamentals of the global economy are improving. However,

market volatility increased and we remain cautious in the way we conduct our business.

SKFH recorded an after-tax loss of NT\$2.93bn in Q1 2010 driven by CDO investment loss, high foreign exchange hedging cost, and a change in the calculation of reserve for health products. Excluding these items, profit would have been NT\$2.51bn.

The group continued to work hard to enhance revenue and control expenses.

On the revenue side, interest income for Shin Kong Life increased 17.1% year-on-year and 12.9% quarter-on-quarter. Pre-provision income at the bank increased 13.6% year-on-year driven by strong growth in interest income and fees.

All major subsidiaries of Shin Kong Financial continued to cut costs. Operating expenses at Shin Kong Life and Shin Kong Bank decreased 12.4% and 3.6% year-on-year; and we expect the benefits to sustain as cost-saving measures continue.

Capital situation is much stronger compared to the same period last year. Consolidated shareholders' equity of the financial holding company and shareholders' equity of Shin Kong Life have achieved year-on-year growth of 56.6% and 111.9% respectively. Despite the improvement, the group continues to work on strengthening capital and have announced plans to issue hybrid tier-1 securities in the amount of NT\$3-6bn. The Hannover Technology Building has also been successfully auctioned to generate a gain of NT\$1.98bn, further strengthening Shin Kong Life's RBC.

EV of Shin Kong Life increased 36.4% despite more conservative assumptions used. Value of New Business went up 22.2% to NT\$13.1bn in 2009. New business margin increased from 11.9% to 19.2%. These are very good results in light of the relatively low FYP written and prove that our strategy to increase margin by focusing on protection products is effective.

All in all, we are making steady progress against our plan to strengthen capital and create value for shareholders.

I will now hand it back to Winston who will take you through the results of Shin Kong Life.

**Winston Yung:**

Page 10 Thank you, President Hsu. Please turn to Pages 10.

First year premium was NT\$15.5bn. Traditional and interest sensitive products are major contributors accounting for 22.4% and 69.3% of FYP respectively. Premium from high margin health products was NT\$0.8bn. Market share in the health segment was 12.6%. Shin Kong Life will continue to focus on protection products and is working with our strategic partner, Dai-ichi Life, to design and promote a series of new, innovative products for the second half of this year.

On investment-linked, a new product was launched on March 24 and it is encouraging that NT\$0.5 billion premium was achieved in the first month of sale. Partly because of this, overall FYP went back on a growth path in April and increased 13.2% year-on-year January to April. Management continue to believe that demand for investment-linked products will recover bringing higher premium volume and expense gains in the second half of this year.

Page 12 Page 12 gives an overall view of our investment portfolio. Investment return for Q1 2010 was 2.4%. Low investment return was mainly driven by one-off losses such as CDOs and hedging cost. Excluding capital losses, recurring income for the first quarter was higher than last year. Breakdown of investment returns for different asset classes were: real estate 5.2%, mortgage and corporate loans 2.4%, policy loans 6.0%, overseas investment 1.6%, domestic securities 3.6%, and cash 0.5%.

Page 14 Page 14 – CDOs

As of the end of first quarter, total CDO outstanding was NT\$11.2bn, 24.3% lower than the end of last year. As we reported, an NT\$0.93bn loss was recognized over the first three months.

I'll hand over to Sandra to talk about the bank.

**Sandra Wu:**

Page 18 Thank you, Winston

Please turn to P.18

Shin Kong Bank generated a profit of NT\$347 million in the first quarter this year. Pre-provision profit increased to NT\$831 million, up 13.6% year-on-year. Provision expense decreased to NT\$448 million due to improvement in credit quality.

*Conference Call Script – SKFH Q1 2010 Earnings Update*

- Page 20 Page 20 - Loans grew by 4.5% year-on-year. Main areas of growth were corporate and mortgages. L/D ratio increased to 82.5% indicating more efficient use of funds.
- Page 21 Page 21 - NIM continued to rebound in Q1 2010 and was 6bps higher quarter-on-quarter. We continue to expect NIM to recover to around 1.60-1.65% for 2010. This is a significant improvement from 1.28% in 2009.
- Page 23 Page 23 – Fees from wealth management decreased quarter-on-quarter due to Chinese New Year holidays but increased 50.0% year-on-year. Sales continue to focus on mutual funds, insurance, and other overseas fixed income securities.
- Page 24 Page 24 – Overall NPL and coverage were at 1.27% and 92.64% as of Q1 2010. The numbers further improved to 1.21% and over 98.36% in April this year indicating even better asset quality. Repayment rate of IDR loans has stabilized and impact of the Consumer Debt Clearance Regulations is expected to be manageable.

I would now turn over to Han-Wei for an update on EV/AV.

**Han-Wei Lin:**

- Page 27 Thank you, Sandra. Please turn to page 27.
- Our EV, at the end of 2009, was NT\$110.1bn. VNB for 2009 was NT\$13.1bn. AV's for 5 years of NB and 20 years of NB were NT\$158.4bn and NT\$220.7bn accordingly. New business margin increased from 11.9% in 2008 to 19.2% in 2009.
- Page 28 Page 28 – This year we have further refined our assumptions on investment return by having different earning rates for the General Account and the Interest-Sensitive Account. Under the base case scenario, the investment return rate goes from 3.64% to 5.37%; for IS products, it goes from 3.00% to 5.09%. We have also lowered the assumptions on Taiwan risk fee rate from 1.61% to 1.55% in year 1 and from 4.30% to 4.10% in year 10 to more closely reflect current rates situation. Risk discount rate remains at 9.5%. We also provide the sensitivity tests of these two factors for your reference.
- Page 29 Page 29 – VIF grew from NT\$37.5bn to NT\$43.7bn in 2009. The biggest impact came from new business issued, which added NT\$17.6bn to VIF.
- Page 30 Page 30 – For adjusted NAV, shareholder value at the end of 2009 was NT\$57.0bn. Special reserves added \$8.1bn. Unrealized gains on

property added another \$32.6bn.

Page 31 Page 31 – Adjusted NAV grew from NT\$70.2bn to NT\$97.7bn in 2009. Unrealized gains on property decreased NT\$7.3bn. Unrealized gains on AFS securities increased NT\$15.2bn during 2009. We also have NT\$19.5bn in other adjustment, including NT\$18.0bn capital increase in 2009.

That wraps up our results presentation. Moderator, please start the Q&A session.

## **Q&A SESSION**

### *Disclaimer:*

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