

## SKFH Fourth Quarter 2012 Results Conference Call

March 7, 2013, 4:30 p.m. (Taipei)

### INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2012 Fourth Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- First, we are happy to have Vice Chairman Victor Hsu of the Financial Holding Company to review the fourth quarter results with us.
- Also in the room are Senior Vice President Sunny Hsu, as well as Chuck and Isabella, 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 Isabella at 886 921 xxxxxx for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for fourth quarter 2012. Vice Chairman Hsu ...

### PRESENTATION

**Victor Hsu:**

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

SKFH recorded an after-tax profit of NT\$9.82bn for 2012, up 78.7% year-on-year. EPS was NT\$1.16.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by properly controlled hedging cost and investment gains from REATs, investment return reached 4.56% for 2012. Cumulative after-tax profit was NT\$5.53bn.

For Shin Kong Bank, after-tax profit was NT\$4.26bn, up 35.9% year-on-year. Net fee income increased 31.0% year-on-year, and wealth management income was 48.3% higher year-on-year.

At the end of 2012, capital adequacy ratios of the group and subsidiaries were all above regulatory requirements. Group preliminary CAR was 107.8%, RBC of Shin Kong Life was in the range of 200%~300%, and BIS of Shin Kong Bank was 11.1%

Shin Kong Life obtained approval to increase upper limit of overseas investment to 43% in January, 2013. The newly-added quota will be mainly deployed in fixed incomes to enhance recurrent yield. Moreover, Shin Kong Life successfully disposed of partial floors of the Tun Nan Building on February 25, 2013. Disposal gain of NT\$7.63bn is expected to be recognized in Q1 2013.

All in all, we are making steady progress against our strategy to strengthen core business and drive profitability.

I will now hand it back to Stan who will take you through the results of the financial holding company and Shin Kong Life.

**Stan Lee:**

Page 6 Thank you, Vice Chairman Hsu. Please turn to Page 6.

SKFH recorded an after-tax profit of NT\$9.82bn in 2012, NT\$4.33bn higher year-on-year.

At the subsidiary level, Shin Kong Life's cumulative after-tax profit was NT\$5.53bn, 124% higher year-on-year, and Shin Kong Bank's cumulative profit increased 36% year-on-year fueled by the strong growth of loans and fee incomes.

Page 9 Page 9 – First year premium was NT\$68.47bn, down 10.6% year-on-year. Market share was 5.8%.

Long-term profit generation remains the main consideration in product strategies focused on growth of regular premium products and risk premium. FYP of traditional products was 21.3% higher YoY, with FYP from regular premium products 27.8% higher YoY. Featured products included VUL by unit-cost-averaging method, as well as health, personal accident, long-term care and foreign currency whole life protection products.

To further increase qualified capital and enhance financial structure, Shin Kong Life successfully issued perpetual cumulative subordinated bonds in amount of NT\$5bn in Q4 2012

Page 13 Page 13 gives an overall view of our investment portfolio. The overall investment return for 2012 was 4.56%. Breakdown of investment returns for different asset classes were: real estate 3.9%, mortgage and corporate loans 2.5%, policy loans 6.0%, overseas investment 5.1%, domestic

securities 4.9%, and cash 0.8%.

In order to enhance investment yield and diversify regional risks, SKL increased fixed income investments in emerging markets, including dim-sum bonds.

The hedging cost in 2012 was 1.30%, further lower than 1.57% in the first nine months. The target hedging cost is decreased to 130 bps or below in the medium- to long-term, given that implementation of FX reserve helps to stabilize hedging cost. Lower hedging cost together with the lifted overseas investment quota are expected to improve recurrent investment yield.

I will now hand over to Chuck who will take you through the results of Shin Kong Bank.

**Chuck Chiu:**

Page 18 Thank you, Stan. Please turn to Page 18.

Shin Kong Bank generated a profit of NT\$4.26bn in 2012, up 35.9% year-on-year. Net interest income and net fee income increased 6.7% and 31.0% year-on-year respectively. The pre-provision profit increased 42.0% year-on-year to NT\$5.52bn.

Page 21 Page 21 – Loans grew by 13.8% year-on-year. All segments achieved positive growth except credit cards and car loans. L/D ratio was 76.2%, indicating efficient use of funds.

Page 22 Page 22 – Net interest margin improved to 1.41% in the fourth quarter. Shin Kong Bank will adjust structure of deposits and loans, given that asset size has exceeded targeted US\$20 billion. In 2013, NIM is expected to be further enhanced through raising yield on corporate loan, increasing demand deposits and strictly controlling interest rates on time deposits. Efforts on strengthening corporate banking business including cash management, TMU, syndicated loans, and factoring are also enhancing fee incomes and lowering funding costs.

Page 23 Page 23 – Net fee income as a percentage of the total income was 18.8%. Fee income from wealth management, in particular, has experienced significant growth.

Page 24 Page 24 – With offering a complete suite of wealth management products, wealth management income for 2012 was NT\$1.17bn, up 48.3% year-on-year. Sales focuses will be placed on mutual funds, insurance policies and overseas securities, expected to contribute to fee income growth

Page 25 Page 25 – NPL ratio declined to 0.46%, and coverage ratio increased to 232.65% in the fourth quarter. The principal and interests of NT\$1.72bn

non-performing loan to Prince Motors were fully recovered with no loss.

New NPL generated were NT\$-586.3mn in 2012, indicating stable asset quality.

In 2013, Shin Kong Bank will dedicate to strengthening business operation of TMU, expecting revenues from TMU to double this year. The bank also targets to issue 100,000 Shin Kong Mitsukoshi Department Store co-branded cards during the first promotional campaign. As for overseas expansion, offshore units are planned to be established in ASEAN markets, such as Vietnam.

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

## **Q&A SESSION**

### *Disclaimer:*

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