

## SKFH First Quarter 2013 Results Conference Call

May 16, 2013, 4:30 p.m. (Taipei)

### INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2013 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 Vice Chairman Victor Hsu of the Financial Holding Company to review the first quarter results with us.
- We are also joined by Eric Lu, Principal of Deloitte Actuarial and Insurance Solutions. Eric 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 Senior Vice President Sunny Hsu; Han-Wei Lin, the appointed actuary of Shin Kong Life and leader of our EV work; 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 first quarter 2013. 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\$7.43bn for Q1 2013. EPS was NT\$0.88. Shareholders' equity increased to NT\$91.11bn, up 10.3% year-to-date. Book value per share reached NT\$10.8.

Core business of each subsidiary remains solid.

For Shin Kong Life, driven by the annualized hedging gain of 0.24% and

disposal gain from partial floors of Tun Nan Building, net income for Q1 2013 reached NT\$6.29bn. Moreover, due to recovery of global equity markets, other comprehensive income was NT\$0.97bn. Shareholders' equity increased to NT\$61.23bn, up 13.5% year-to-date.

For Shin Kong Bank, net fee income, wealth management income and TMU income grew 28.0%, 60.0% and 260.7% year-on-year respectively. Net interest spread improved to 1.79%, loan to deposit ratio increased to 78.6%, and demand deposit ratio rose to 39.69%, led by the strategic objective to adjust deposit and loan structures.

Despite conservative adjustments in actuarial assumptions for 2012 EV and AV to better reflect markets conditions, life insurance EV per share of SKFH remained high at NT\$23.0. EV was NT\$194.4bn, including unrealized gains on property of NT\$102.0bn re-appraised at the end of 2012. V1NB was NT\$14.0bn, 11.1% higher year-on-year, indicating that strategies aiming at sales of regular premium, value-oriented products have effectively enhanced VNB margin.

All in all, we are making steady progress against our strategy to strengthen capital 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\$7.43bn in the first quarter, NT\$4.39bn higher year-on-year. At the subsidiary level, Shin King Life's after-tax profit was NT\$6.29bn, 306.0% higher year-on-year, and Shin Kong Bank's after-tax profit was NT\$1.03bn.

Page 9 Page 9 –First Year Premium was NT\$8.40bn, down 49.7% year-on-year, mainly impacted by reduced reserve rates on traditional products resulting in less market demand. However, renewal premium grew 5.3% year-on-year driven by continuous focus on sales of regular premium products.

Long-term profit generation remains the main consideration in product strategies aiming at growing regular premium products and risk premium. FYP of regular premium traditional products accounted for 78.2% of total traditional FYP. Going forward, SKL will continue to promote foreign currencies policies, account-based long-term care products, health insurance and variable annuities.

Page 13 Page 13 gives an overall view of our investment portfolio. Annualized investment return for the first quarter of 2013 was 4.2%. Breakdown of

investment returns for different asset classes were: real estate 9.1%, mortgage and corporate loans 2.4%, policy loans 5.9%, overseas investment 5.6%, domestic securities 1.6%, and cash 0.8%.

Driven by properly operated hedging strategies, annualized hedging gain was 0.24% for the first quarter, significantly lower than our internal target of 130 bps. FX reserve increased from NT\$3.66bn in 2012 to NT\$5.11bn in the first quarter of 2013, providing a solid base to smoothen and reduce hedging cost in the future.

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

**Chuck Chiu:**

Page 17 Thank you, Stan. Please turn to Page 17.

Shin Kong Bank generated a profit of NT\$1.03bn in the first quarter of 2013. Net interest income and net fee income grew 10.5% and 28.0% year-on-year respectively. Pre-provision profit was NT\$1.50bn, up 26.7% year-on-year, excluding the NT\$470mn one-off REITs gains in Q1 2012.

Page 19 Page 19 –Adjusting deposit and loan structures is the strategic objective for 2013. Loan balance was NT\$427.08bn, remaining at the similar level as of the end of 2012.

Page 20 Page 20 – Net interest spread was 1.79% in the first quarter of 2013. Net interest margin for the first quarter remained at 1.41%. Further improvement in net interest margin is expected. Management will continue to work on remaining prudent loan growth in profitable segments, while increasing low cost demand deposits. Efforts on strengthening corporate banking business including cash management, TMU, syndicated loans, and factoring are also enhancing fee income and lowering funding cost.

Page 21 Page 21 – Net fee income as a percentage of total income was 23.3%. Fee income from wealth management, in particular, has experienced significant growth.

Page 22 –Driven by strong sales of overseas securities and mutual funds, wealth management income for first quarter of 2013 was NT\$500mn, up 60.0% year-on-year. Shin Kong Bank will continue to promote mutual funds, insurance policies and overseas securities to steadily increase fee income

Page 23 Page 23 – NPL and coverage ratios were 0.46% and 248.87% respectively in the first quarter. New NPL generated in Q1 2013 was only NT\$84mn,

down 45.9% year-on-year.

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

**Han-Wei Lin:**

Page 26 Thank you, Chuck. Please turn to page 26.

Our EV, at the end of 2012, was NT\$194.4bn. VNB of 2012 was \$14.0bn. AVs for 5 years of NB and 20 years of NB were NT\$246.4bn and NT\$322.9bn accordingly. Our new business margin increased to 21.0% in 2012, and VNB growth is 11.1%.

Page 27 Page 27 –This year we separated general accounts into TWD and USD products to calculate VIF and V1NB. Under the base case scenario, the earning rate of VIF goes from 3.83% to 5.27% in TWD products and 4.38% to 6.22% in USD products in 30 years; for V1NB, it goes from 3.53% to 5.18% and 4.30% to 6.05% in TWD and USD products respectively; for IS products, it goes from 3.19% to 4.90%. Risk discount rate is 10.5%. We also provide the sensitivity tests of these two factors for your reference.

Page 28 Page 28 – VIF grew from NT\$69.9bn to NT\$75.4bn in 2012. The biggest impact came from the new business issued, which added NT\$18.3bn to VIF.

Page 29 Page 29 – For adjusted NAV, the shareholders' value at the end of 2012 was NT\$51.0bn. Unrealized gains on property added NT\$102.0bn. Special reserves and others added another NT\$5.7bn.

Page 30 Page 30 – Adjusted NAV increased from NT\$139.5bn to NT\$158.8bn in 2012. During 2012, unrealized gains on property increased another NT\$16.6bn.

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

**Q&A SESSION**

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