

# SKFH First Quarter 2014 Results Conference Call

May 14, 2014, 4:30 p.m. (Taipei)

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen,

Welcome again for joining the Shin Kong Financial 2014 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 xxxxxxx for assistance.

If you have no question, we will start by asking Vice Chairman Victor Hsu to give us a group level update for the first quarter 2014. Vice Chairman Hsu ...

## PRESENTATION

**Victor Hsu:**

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

SKFH recorded a consolidated after-tax profit of NT\$1.41bn for the first quarter 2014; profit attributable to SKFH was NT\$1.18bn. EPS was NT\$0.13. Shareholders' equity was NT\$100.56bn, and book value per share was NT\$10.78.

Core business of each subsidiary remains solid.

For Shin Kong Life, with properly managed hedging strategies, annualized hedging gain for the first quarter 2014 was 0.08% after provisioning NT\$2.01bn for FX reserves. Due to increase in new policy expenses driven by FYP growth reaching 91.9% year-on-year, consolidated after-tax loss was NT\$54mn. Annualized investment return was 4.1% in the first quarter 2014. Recurring yield before hedging increased 13 bps year-on-year.

For Shin Kong Bank, net interest income and net fee income grew 16.3%, and 5.0% year-on-year, respectively. Driven by enhanced overall contribution of customers, NIS rose 1 bp to 1.80% and NIM increased 4 bps to 1.44% from the previous quarter.

Life insurance EV per share of SKFH remained high at NT\$23.0. EV was NT\$214.3bn, up 10.2% year-on-year, including property unrealized gains of NT\$63.4bn re-appraised at the end of 2013 and special reserve of property unrealized gains amounting to NT\$28.2bn. Although FYP declined over 2013, V1NB still grew 4.0% year-on-year to NT\$14.6bn, indicating strategies aiming at sales of regular premium, value-oriented products have solidified 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\$1.18bn in the first quarter 2014. At the subsidiary level, Shin King Life's after-tax loss was NT\$54mn, and Shin Kong Bank's after-tax profit reached NT\$1.19bn.

Page 8 Page 8 – The FX policy remained marketing focus in 2014, driving its sales in the first quarter to NT\$5.3bn and contributing 33.0% of total first year premium.

FYP for the first quarter was NT\$16.12bn, helped by strong sales of regular premium FX traditional products. Such products brought SKL stable interest spread with proper asset-liability match and no hedging cost. Shin Kong Life sustained value of new business growth by

emphasizing sales of regular premium products. FYP of regular premium traditional products accounted for 60.4% of that of total traditional products, up NT\$4.93bn year-on-year.

The number of long-term care health policies sold in the first quarter was 10,842, with FYP of NT\$446mn, increasing SKL's market share in health insurance to 13.5%. The targeted number of such policies sold for this year is 60,000.

In future, SKL will continue to promote long-term regular premium products, including foreign currency savings, interest sensitive life, long-term care health insurance and unit-cost-averaging VUL.

Page 12 Page 12 gives an overall view of our investment portfolio. Total investment return for the first quarter 2014 was 4.1%. Breakdown of investment returns for different asset classes were: real estate 3.2%, mortgage and corporate loans 2.3%, policy loans 5.6%, overseas investment 6.0%, domestic securities 2.1%, and cash 0.7%.

Page 13 Page 13 shows our portfolio of overseas fixed income. At the end of the first quarter 2014, corporate bonds accounted for the largest portion, representing 62.2% of the total. Diversification is achieved by investing in energy, telecom, consumer, utilities, and financial industries.

Investments in high-quality corporate bonds and emerging market US dollar-denominated sovereign debts have been gradually deployed and mainly classified as no active market and held to maturity.

Page 15 Hedging strategies were properly managed, and annualized hedging gain for the first quarter was 0.08%. Traditional hedges, excluding foreign currency policies position, accounted for 67.7% of total. CS and NDF accounted for 82% and 18%, respectively, of traditional hedges.

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 consolidated after-tax profit of NT\$1.19bn in the first quarter 2014, up 15.1% year-on-year. Net interest income and net fee income grew 16.3% and 5.0% year-on-year, respectively; pre-provision profit was NT\$1.81bn, up 20.6% year-on-year.

Page 20 Page 20 – Despite an increase of 3 bps in average loan yield, loan balance increased 5.3% to NT\$474.85bn, driven by strong demand from corporate clients. “Steady growth and structural adjustment” is the

strategic focus this year, and yearly loan growth target remains at 6%-7%.

Page 21 Page 21 – Driven by enhanced overall contribution of customers, NIS rose 1 bp to 1.80% and NIM increased 4 bps to 1.44% from the previous quarter.

The management will continue to strengthen cash management business and act as the main settlement bank for MasterLink Securities to increase demand deposits and lower cost of funds and develop SME and consumer loans with stringent risk control to enhance interest income.

Page 23 Page 23 – Wealth management income for the first quarter 2014 was NT\$491mn, with fee income from bancassurance reached NT\$303mn, up 204.4% year-on-year. Insurance was the marketing focus in the first quarter 2014. SKB will continue to develop new products in 2014, increasing sales of overseas securities and mutual funds to boost fee income.

Page 24 Page 24 – In the first quarter, NPL ratio decreased to 0.37% and coverage ratio increased to 293.21%, similar to the industry level. New NPL generation in the first quarter was NT\$219mn, down by NT\$143mn quarter-on-quarter. NPL ratio of corporate loans declined to 0.36% due to disposal of loans to TMT and charge-off of loans to Chi Mei Lighting.

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 2013, was NT\$214.3bn. VNB of 2013 was NT\$14.6bn. AVs for 5 and 20 years of NB were NT\$268.2bn and NT\$345.4bn accordingly. Our new business margin increased to 26.8% in 2013, and VNB growth was 4.0%.

Page 27 Page 27 – Under the base case scenario, the earning rate of VIF goes from 4.21% to 5.10% in TWD products and 4.81% to 6.09% in USD products in 30 years; for V1NB, it goes from 4.29% to 5.10% and 5.14% to 6.09% in TWD and USD products respectively; for IS products, it goes from 2.95% to 5.23%. 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\$75.4bn to NT\$102.1bn in 2013. The biggest impact came from the new business issued, which added NT\$17.6bn to VIF.

## Conference Call Script – SKFH Q1 2014 Earnings Update

Page 29 Page 29 – For adjusted NAV, the shareholder value at the end of 2013 was NT\$64.9bn. Unrealized gains on property added NT\$63.4bn. Special reserves of unrealized gains on property, foreign exchange volatility reserve and others added another NT\$35.2bn.

Page 30 Page 30 – Adjusted NAV increased from NT\$158.8bn to NT\$163.5bn in 2013. During 2013, profit contribute NT\$6.5bn to NAV.

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

## Q&A SESSION

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