

# SKFH Fourth Quarter 2014 Results Conference Call

March 10, 2015, 4:30 p.m. (Taipei)

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2014 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; 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 \*\*\* \*\* 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 fourth 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 consolidated comprehensive income of NT\$11.35bn and consolidated after-tax profit of NT\$7.92bn for 2014; profit attributable to SKFH was NT\$6.89bn. EPS was NT\$0.70. Shareholders' equity increased 9.8% year-on-year to NT\$110.85bn. Book value per share was NT\$11.27.

Core business of each subsidiary remains solid.

For Shin Kong Life, FYP for 2014 reached NT\$90.19bn, up 60.0% year-on-year, reducing yearly cost of liability by 14 bps to 4.64%.

Forex hedging was managed effectively, lowering cost to only 0.37%. By actively selling forex policies and investing acquired funds in international bonds listed in domestic OTC, Shin Kong Life obtained higher yield. Recurring yield after hedging increased 20 bps year-on-year.

For Shin Kong Bank, driven by structural adjustment of deposits and loans aiming at increasing profit contribution of customers, net interest margin for 2014 rose 3 bps to 1.43%, and net interest income grew 15.7% year-on-year. Net fee income and TMU income increased 11.8% and 130.8% year-on-year, respectively. Pre-provision profit was NT\$7.98bn, up 35.0% year-on-year.

At the end of 2014, capital adequacy ratios of the group and subsidiaries were all above regulatory requirements. Group CAR was 135.0%, RBC of Shin Kong Life was above 300%, and BIS of Shin Kong Bank was 10.9%. Moreover, Shin Kong Life successfully disposed of Reihu Technology Building at Neihu Technology Park on January 28, 2015. Disposal gain of NT\$0.88bn is expected to be recognized in the first quarter of 2015.

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\$6.89bn in 2014. At the subsidiary level, Shin King Life's after-tax profit was NT\$1.70bn, and Shin Kong Bank's after-tax profit amounted to NT\$5.16bn.

Page 10 Page 10 – FYP reached NT\$90.19bn, up 60.0% year-on-year, with strong sales of NT Dollar and forex whole life products. Based on actuarial assumptions for 2013 EV, value of new business in 2014 grew around 35% year-on-year driven by strong sales of long duration products.

Forex traditional products remained the marketing focus in 2014. Sales grew to NT\$29.2bn, accounting for 32% of total FYP. Such products brought Shin Kong Life stable interest spread with proper asset-liability match and no hedging cost.

FYP of long-term care and disability policies in Q4 were up 24.0% quarter-on-quarter, and annual sales reached NT\$1.82bn, driving health insurance FYP to NT\$3.5bn, 47.7% higher year-on-year. Shin Kong Life's market share in health insurance remained high at 12.5%.

For sustainable VNB growth, Shin Kong Life will continue to focus on

promoting NT Dollar and forex whole life products and health insurance.

Page 12 Page 12 gives an overall view of our investment portfolio. Total investment return for 2014 was 4.41%. Breakdown of investment returns for different asset classes were: real estate 3.1%, mortgage and corporate loans 2.3%, policy loans 5.6%, overseas investment 5.8%, domestic securities 3.2%, and cash 0.9%.

Page 13 Page 13 shows our portfolio of overseas fixed incomes. At the end of 2014, corporate bonds accounted for the largest portion, at 68.4% of the total, and were mainly classified as no active market. Diversification is accomplished by investing in energy, telecom, consumer, utilities, and financial industries.

Since June, 2014, holdings in international bonds listed in domestic OTC has been exempted from foreign investment quota. As of the end of 2014, Shin Kong Life has invested NT\$118.8bn in such bonds with average yield before hedging of 4.4%, which after hedging is still higher than domestic bond. The position is expected to continuously grow and reach NT\$200bn by year end. Portfolio reallocation enhanced recurring yield after hedging by 20 bps year-on-year.

Page 15 Page 15 – Hedging cost for 2014 was only 0.37%. Hedging ratio was 75.8%, including CS, NDF, and the naturally-hedged forex policies position. The mid-to long-term target of hedging ratio ranges from 65% to 90% under stringent risk management. CS and NDF accounted for 77% and 23%, respectively, of traditional hedges.

Looking into 2015, product strategy remains focused on whole life products and health insurance, which will continuously optimize product mix and lower cost of liabilities by 10 bps and above. In light of the change in demographic structure, we also promote long-term care and disability insurance, as well as forex cancer products. Moreover, Shin Kong Life will apply to competent authorities for partially recovering special reserves from property unrealized gain to increase shareholders' equity. The target of VNB growth in mid- to long-term is 5~10%.

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

**Isabella Wang:**

Page 19 Thank you, Stan. Please turn to Page 19.

Shin Kong Bank generated a consolidated after-tax profit of NT\$5.16bn for 2014, up 27.0% year-on-year. Net interest income, net fee income and TMU income grew 15.7%, 11.8% and 130.8% year-on-year, respectively; pre-provision profit was NT\$7.98bn, up 35.0% year-on-year.

Page 22 Page 22 – With efforts to adjust loan structure, total loan size reached NT\$482.54bn, up 7.0% year-on-year. In order to balance consumer and corporate lending, as well as raise loan yields, unsecured consumer loans and other consumer loans increased 11.0% and 6.4%, respectively.

Page 23 Page 23 – Driven by structural adjustment of deposits and loans aiming at increasing profit contribution of customers, net interest margin for 2014 increased 3 bps to 1.43%.

Shin Kong Bank will continue to strengthen cash management business and grow demand deposits to lower cost of funds. SME and consumer loans will also be developed under strict risk control to enhance interest income.

Page 25 Page 25 – Wealth management income for 2014 was NT\$1.84bn, up 8.8% year-on-year. Since April, 2014, wealth management consultants have directly registered as the agents of Shin Kong Life, sharing access to its training resources and marketing tools. Fee income from bancassurance reached NT\$0.95bn, up 85.4% year-on-year.

This year, Shin Kong Bank will promote long-dated and retirement annuity insurance products, as well as boost sales of mutual funds with the investment efficiency system, which employs profit taking and reinvestment mechanisms.

Page 26 Page 26 – New NPL generated in 2014 was only NT\$0.66bn, less than NT\$1.03bn in 2013. With prudent loan loss provision, NPL ratio decreased to 0.26% and coverage ratio increased to 486.14%, close to the industry level.

In 2015, Shin Kong Bank will promote SME loans and consumer banking with stringent risk control and enhance non-interest income. Meanwhile, the Bank looks to grow its TMU client base and expects TMU income to increase by 10% this year. Also, Shin Kong Bank will continuously cultivate the Asia-Pacific market by expanding overseas presence in Vietnam, Myanmar, Indonesia and Cambodia.

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

## Q&A SESSION

*Disclaimer:*

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