

# SKFH Third Quarter 2015 Results Conference Call

*November 12, 2015, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial 2015 Third 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 third quarter results with us.
- Also in the room are Senior Vice President Sunny Hsu; Isabella and Amber, 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 Amber at 886 956 \*\*\* \*\* 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 third quarter 2015. Vice Chairman Hsu ...

## PRESENTATION

**Victor Hsu:**

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

SKFH recorded consolidated after-tax profit of NT\$4.47bn for the first nine months 2015; profit attributable to SKFH was NT\$4.04bn. EPS was NT\$0.40. Book value per share as of the end of October was NT\$10.98, NT\$0.97 higher than September.

Core business of each subsidiary remained solid.

For Shin Kong Life, driven by the focus on regular premium products, the ratio of FYPE over FYP continued to rise and was 34.8% of the first nine months

2015. Annualized cost of liability was 4.53%, 11 bps lower than 2014.

Due to properly-managed FX strategy, annualized hedging cost for the first nine months 2015 reduced to 0.48%, significantly lower than 1.23% for the first half 2015. Foreign currency volatility reserve increased to NT\$8.21bn.

Moreover, for the first nine months 2015, recurring yield before hedging increased 18 bps year-on-year to 3.82%, and recurring yield after hedging increased 4 bps year-on-year to 3.56%.

For Shin Kong Bank, its consolidated after-tax profit decreased 4.2% year-on-year to NT\$3.80bn, mainly due to a higher base of the third quarter 2014 resulting from one-off property disposal gain of NT\$424mn. Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from the first quarter, net interest spread and net interest margin for the first nine months 2015 were 1.92% and 1.46%, respectively, 7 bps and 3 bps higher than 2014. On the asset quality side, NPL ratio remained low at 0.19%, and coverage ratio increased to 712.03%. These ratios are better than industry average.

In addition, Shin Kong Life acquired a piece of land in October for NT\$1.76bn in Shilin District, Taipei City to flexibly adjust real estate portfolio. Rental apartments will be built to generate rental income.

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\$4.04bn for the first nine months 2015. At the subsidiary level, Shin King Life's after-tax loss was \$31mn, and Shin Kong Bank's after-tax profit came to NT\$3.80bn.

Page 10 Page 10 – FYP declined 9.0% year-on-year to NT\$61.75bn, and promotion was focused on regular premium products. The ratio of FYPE over FYP increased from 31.8% of the first half to 34.8% of the first nine months 2015.

Forex traditional products remained the marketing focus. Sales grew to NT\$18.35bn, accounting for 29.7% of total FYP. Such products brought Shin Kong Life stable interest spread with proper asset-liability match and no hedging cost.

Shin Kong Life has been cultivating operations in the long-term care market for years. The number of long-term care and disability health policies sold in the first nine months was more than 208,000 with FYP of NT\$2.75bn, 103.3%

higher year-on-year.

In order to lower cost of liability and enhance recurring profit, Shin Kong Life will continue to focus on promoting whole life products and health insurance. Annualized cost of liability declined 11 bps to 4.53% compared to 2014.

Page 11 Page 11 – SKL supports the government’s measure on life insurance conversion and helps policyholders to switch to suitable health and long-term care insurance policies. At present, 2,427 policies have been converted with original policy value reserve of around NT\$750mn. In the third quarter alone, 1,297 policies were converted, as there was a rising demand. Savings policies and life insurance with only death benefits were switched to long-term care and health insurance, indicating growing awareness of health and long-term care coverage across demographics.

Page 13 Page 13 gives an overall view of our investment portfolio. Total investment return for the first nine months 2015 was 3.37%. Breakdown of investment returns for different asset classes were: real estate 3.9%, mortgage and corporate loans 2.3%, policy loans 5.8%, overseas investment 4.4%, domestic securities 1.1%, and cash 0.8%.

Page 14 Page 14 shows our portfolio of overseas fixed incomes. At the end of the first nine months, corporate bonds accounted for the largest portion, representing 58% of the total, followed by international bonds at 19%.

Shin Kong Life invested NT\$197.5bn in international bonds with average yield before hedging of 4.5%, which after hedging is still higher than domestic bonds. The position is expected to reach NT\$230bn by the year end. Portfolio reallocation enhanced interest income, which grew 20 % year-on-year.

Page 16 Page 16 – Annualized hedging cost for the first nine months was 0.48%. Hedging ratio was 80.7%, including CS, NDF, and 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 73% and 27%, respectively, of traditional hedges.

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

**Isabella Wang:**

Page 20 Thank you, Stan. Please turn to Page 20.

Shin Kong Bank generated an after-tax profit of NT\$3.80bn for the first nine months 2015, down 4.2% year-on-year. The decline was mainly due to a higher base in the third quarter 2014 coming from one-off property disposal gain of NT\$424mn.

Page 21 Page 21 – Total loan size grew 2.5% year-to-date to NT\$494.67bn. However, unsecured and other consumer loans still rose 7.1% and 9.4%, respectively.

In the corporate banking sector, Shin Kong Bank has been targeting SME clients and focusing on loans with collaterals or those backed by Credit Guarantee Fund. Despite the decline in corporate loans, SME loans still grew 1.5% year-to-date.

Page 22 Page 22 – Driven by adjustment in deposit and loan structure, as well as enhancement in fund utilization starting from the first quarter, net interest margin rose 2 bps to 1.47% in the third quarter, and net interest income for the first nine months increased 7.5% year-on-year.

Going forward, Shin Kong Bank will flexibly adjust deposit and loan structure to enhance fund utilization. Shin Kong Bank will also expand foreign deposits to further facilitate international business.

Page 24 Page 24 – Wealth management income for the third quarter 2015 was NT\$418mn, 3.6% lower compared to the previous quarter. However, fee income from bancassurance increased 16.5% quarter-on-quarter. In order to promote wealth management business, Shin Kong Bank will continue to recruit financial consultants to better serve clients with AUM above NT\$3mn. On the product side, mutual funds by unit-cost-averaging method and fixed income products remain marketing focus to bring more fee income.

Page 25 Page 25 – New NPL generated in the third quarter was only NT\$-93mn, which benefited from recovery of bad debt. NPL ratio remained low at 0.19% and coverage ratio increased to 712.03%.

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

## **Q&A SESSION**

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## Conference Call Script – SKFH Q3 2015 Earnings Update

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