

# SKFH First Quarter 2017 Results Conference Call

May 18, 2017, 4:30 p.m. (Taipei)

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2017 First Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- We are happy to have President Jih-Chu Lee of the Financial Holding Company, Jason Tsai, President of Shin Kong Life, and Charles Hsieh, President of Shin Kong Bank, to review the first quarter results with us.
- Also in the room are James Yuan, Chief Investment Officer of Shin Kong Life, Sunny Hsu, Executive Senior Vice President; Han-Wei Lin, Chief Actuary of Shin Kong Life; Isabella and Zeke, members of the IR team.
- We are also joined by Eric Lu, Principal of Deloitte Actuarial and Insurance Solutions. Eric has been working closely with us over the past few months in reviewing our EV work, and he is here to help us answer any question you may have.

The presentation we are about to go through was 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 Zeke at 886 975 \*\*\* \*\* for assistance.

If you have no question, we will start by asking President Jih-Chu Lee to give us a group level update for the first quarter 2017. President Lee...

## PRESENTATION

**Jih-Chu Lee:**

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

Due to sharp exchange rate fluctuations, SKFH recorded a consolidated after-tax loss of NT\$2.83bn for the first quarter 2017. Consolidated comprehensive income was NT\$3.05bn. Net worth continued to rise at the

financial holdings level. Book value per share as of the end of March was NT\$12.40, 2.5% higher than the end of last year.

Core business of each subsidiary has remained solid during the first quarter.

For Shin Kong Life, FYP increased 34.5% year-on-year to NT\$28.23bn, driven by strong demand for interest-sensitive whole life products. Annualized cost of liabilities decreased steadily from 4.37% for 2016 to 4.34%. Due to improvement in losses on AFS financial assets, other comprehensive income was NT\$5.88bn, driving up shareholders' equity by 2.7% year-to-date to NT\$75.73bn.

For Shin Kong Bank, net interest income and net fee income for the first quarter 2017 grew 4.3% and 4.5% year-on-year, respectively. Consolidated after-tax profit was NT\$0.97bn. On asset quality front, NPL ratio remained the same as the previous quarter at 0.26%, and coverage ratio was 476.01%.

Life insurance EV per share of SKFH was NT\$22.8. EV of Shin Kong Life was NT\$228.6bn. Total FYP for 2016 increased 46.9% year-on-year, allowing V1NB to grow 33% to NT\$22.2bn.

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, President Lee. Please turn to Page 6.

Affected by exchange rate fluctuations, SKFH posted an after-tax loss of NT\$2.93bn for the first quarter 2017. At the subsidiary level, Shin King Life's after-tax loss was NT\$3.93bn, and Shin Kong Bank's after-tax profit was NT\$0.97bn.

Page 10 Page 10 – Driven by strong demand for interest sensitive whole life products, FYP surged 34.5% year-on-year to NT\$28.23bn, achieving a market share of 8.1%. Foreign currency policies remained Shin Kong Life's strategic focus in 2017. Sales reached NT\$8.48bn, accounting for 30.0% of total FYP. We have also seen momentum build up for health insurance, sold NT\$0.83bn in the first quarter, up 26.9% year-on-year.

For sustainable VNB growth and decrease in cost of liabilities, Shin Kong Life will continue to promote protection products, as well as NT dollar and foreign currency whole life policies. Annualized cost of liabilities further declined 3 bps to 4.34% in the first quarter, compared to 2016.

Page 13 Page 13 presents an overall view of Shin Kong Life's investment portfolio. Annualized investment return for the first quarter 2017 was 2.55%, which was

adversely affected by sharp fluctuations in foreign exchange rates. Breakdown of investment returns for different asset classes were: real estate 3.1%, mortgage and corporate loans 2.3%, policy loans 5.7%, overseas investment 2.6%, domestic securities 1.7%, and cash 0.4%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the first quarter, corporate bonds accounted for the largest share, representing 48.2% of the total, followed by international bonds at 29.5% and government bonds at 19.6%.

The chart on the upper-right hand side shows the overseas fixed income portfolio by region. Shin Kong Life invested 34.3% in North America and 29.0% in Europe. The overall portfolio remains widely distributed across the world. We believe that such diversification is appropriate from a risk management perspective.

Page 16 Page 16 – Annualized hedging cost for the first quarter 2017 was 2.86%, and foreign currency volatility reserve was NT\$2.0bn at the end of the first quarter. Hedging ratio was 83.1%, including CS, NDF, and naturally-hedged forex policies position. CS and NDF accounted for 63% and 37%, 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 19 Thank you, Stan. Please turn to page 19.

Shin Kong Bank recorded an after-tax profit of NT\$0.97bn for the first quarter 2017, with net interest income up 4.3% and net fee income up 4.5% compared to the same period last year. Pre-provision operating income was NT\$1.68bn, which was 7.5% higher year-on-year.

Page 21 Page 21 – Total loan balance went up 0.6% year-to-date to NT\$511.63bn. Loan growth was driven by consumer lending, which grew 1.2% year-to-date. In order to maintain a stable interest spread, Shin Kong Bank is seeking to promote both domestic and overseas corporate loans. Loan growth for this year is targeted at 6%.

Page 22 Page 22 – Thanks to the increase in loan-to-deposit ratio, net interest margin rose 4 bps quarter-on-quarter to 1.59%, while net interest spread remained similar to the previous quarter at 1.95%. Full-year net interest margin is expected to be above the level of 2016.

Page 24 Page 24 – Wealth management income for the first quarter was NT\$463mn, up 13.1% year-on-year. The increase mainly came from sales of mutual funds and overseas securities.

Marketing activities will be launched in the second quarter in order to spur sales of bancassurance products. Apart from that, Shin Kong Bank will introduce specific projects, such as multi-currency preferential time deposits and backflows of policy maturity payment to expand its client base.

Page 25 Page 25 – Asset quality remained stable with NPL ratio at 0.26% and coverage ratio at 476.01%. Both figures are better than industry average.

I will now turn over to Han Wei to talk about the update on EV/AV.

### **Han Wei Lin:**

Page 27 Thank you, Isabella. Please turn to page 27.

For 2016 Embedded Value, the earning rate of VIF goes from 3.91% to 5.10% in 30 years for TWD products and 4.45% to 5.62% for USD products. The Equivalent investment yield is 4.42%. For VNB, it goes from 3.52% to 5.10% and 4.44% to 5.62% in 30 years for TWD and USD products, respectively. The Adjusted NAV decreased 3%, VIF increased 14%, and by lowering our risk position, CoC decreased 1%. As a result, Our EV, at the end of 2016, increased 6% to NT\$228.6bn. VNB increased 33% to NT\$22.2bn due to strong FYP growth in 2016. VNB margin was 19.7%. AV's for 5 years of NB and 20 years of NB were NT\$316.1bn and NT\$421.0bn accordingly.

Page 28 Page 28 – Under the base case scenario, risk discount rate is 10.5%. We also provide the sensitivity tests of investment return and risk discount rate for your reference.

Page 29 Page 29 – Statutory Net Worth increased from NT\$64.3bn to NT\$73.7bn in 2016. The main contributor came from Unrealized Gains on Available-for-Sale Financial Assets, which added NT\$9.8bn to Statutory Net Worth.

Page 30 Page 30 – For adjusted NAV, the shareholder value at the end of 2016 was NT\$73.7bn. Unrealized gains on property added NT\$67.8bn. We also added NT\$14.2bn of special reserves of unrealized gains on property, and NT\$3.8bn of other items, including foreign exchange volatility reserve (and unrealized gains on financial instruments).

Page 31 Page 31 – VIF grew from NT\$121.4bn to NT\$138.7bn in 2016. The biggest impact came from the new business issued, which added NT\$26.7bn to VIF. Assumption changes were minus NT\$18.7bn.

Page 32 Page 32 – VNB increased from NT\$16.8bn to NT\$22.2bn in 2016. The

increase of sales volume was the major contributor, which added NT\$7.9bn to VNB.

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

## Q&A SESSION

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