

# SKFH Second Quarter 2017 Results Conference Call

*August 31, 2017, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

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

- We are happy to have Sunny Hsu, Executive Senior Vice President of the Financial Holding Company to review the second quarter results with us.
- Also in the room are Han-Wei Lin, Chief Actuary of Shin Kong Life; Isabella and Zeke, members of the IR team.

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.

## PRESENTATION

**Stan Lee:**

Page 4    Now please turn to page 4.

SKFH returned to profitability in the first half 2017 with a consolidated after-tax profit of NT\$1.81bn. Consolidated comprehensive income reached NT\$13.87bn. Net worth continued to grow at the financial holdings level. Book value per share as of the end of June was NT\$13.27, 7.0% higher than the end of the previous quarter.

SKFH successfully issued domestic convertible bonds of NT\$4bn on August 22<sup>nd</sup>. Conversion premium ratio was set at 110%. After conversion, the group's capital will be strengthened.

Core business of each subsidiary remained robust in the second quarter, which will be shown later in the presentation.

Page 10 Page 10 – FYP for the first half 2017 reached NT\$57.84bn, driving up market share to 9.1%. Despite the decline in FYPE, VNB marked double-digit growth compared to the same period of 2016.

Driven by strong NT dollar and market demand, FYP of foreign currency policies reached NT\$25.70bn, accounting for 44.4% of the total. The momentum for health insurance sustained over the past quarter, with sales of NT\$1.47bn in the first half, up 6.2% year-on-year.

Annualized cost of liabilities decreased 6 basis points to 4.31% in the first half, in line with our expectation.

Page 13 Page 13 presents an overall view of Shin Kong Life's investment portfolio. Annualized investment return for the first half 2017 was 3.39%, 2 basis points higher compared to the same period last year. Breakdown of investment returns for different asset classes were: real estate 3.1%, mortgage and corporate loans 2.2%, policy loans 5.8%, overseas investment 3.8%, domestic securities 2.3%, and cash 0.4%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the first half, corporate bonds accounted for the largest share, representing 48.0% of the total, followed by international bonds at 29.6% and government bonds at 20.2%. The average yield before hedging of overseas fixed incomes was 4.76%.

The chart on the upper-right displays the overseas fixed income portfolio by region. Shin Kong Life invested 35.2% in North America and 29.1% in Europe. The share of Asia & other fell to 35.7%, in line with risk management perspective. We believe our portfolio is adequately diversified.

Page 16 Page 16 – Unannualized hedging cost for the first half 2017 was 1.01%, and foreign currency volatility reserve was NT\$1.69bn at the end of June. Hedging ratio was 83.7%, including CS, NDF, and naturally-hedged forex policies position. CS and NDF accounted for 62% and 38%, respectively, of traditional hedges. In order to better control hedging cost, Shin Kong Life will actively increase the share of foreign currency policy sales.

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 posted an after-tax profit of NT\$1.97bn for the first half 2017, with net interest income up 5.5% and investment income up 42.4% compared to the same period last year. Pre-provision operating income was NT\$3.46bn, which was 9.5% higher year-on-year.

Page 22 Page 22 – Total loan balance went up 2.0% year-to-date to NT\$518.65bn. Loan growth was driven by consumer lending, which grew 3.8% year-to-date. In order to maintain a stable interest spread, Shin Kong Bank has been cultivating overseas markets and expanding overseas lending operations. As of the end of the first half, the overseas syndicated loan balance reached NT\$12.9bn, up 42.8% year-to-date. Loan growth for this year is targeted at 6%.

Page 23 Page 23 – Driven by the growth of higher-yielding personal consumer and overseas syndicated loans, net interest margin and net interest spread were properly maintained at 1.57% and 1.96%, respectively. Full-year figures are expected to be similar to the levels delivered in the second quarter.

Page 25 Page 25 – The investment research team and financial consultants have helped to create sales momentum, driving up fee income from mutual funds and overseas securities by 85.5% and 78.9% year-on-year, respectively. Wealth management income for the first half was NT\$0.98bn.

Going forward, Shin Kong Bank will introduce more marketing projects, including backflows of foreign currency policy maturity payment, to expand its client base and enhance cross-selling performance.

Page 26 Page 26 – Asset quality remained stable with NPL ratio at 0.26% and coverage ratio at 478.26%. Both figures are better than the industry average.

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

**Q&A SESSION***Disclaimer:*

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## Conference Call Script – SKFH Q2 2017 Earnings Update

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