

# SKFH Second Quarter 2018 Results Conference Call

*August 30, 2018, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2018 Second Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- We are happy to have Min-Yi Huang, President of the Financial Holding Company to review the second quarter results with us.
- Also in the room are Sunny Hsu, Executive Senior Vice President of the Financial Holding Company; James Yuan, Chief Investment Officer of Shin Kong Life; Han-Wei Lin, Chief Actuary of Shin Kong Life; Isabella and Christine, 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 Christine at 886 9\*\* \*\*\* \*\* for assistance.

## PRESENTATION

**Stan Lee:**

Page 4    Now please turn to page 4.

SKFH continued its profitable growth in the first half 2018, posting a consolidated after-tax profit of NT\$16.71bn; earnings per share was NT\$1.54. Consolidated shareholders' equity grew 8.7% year-to-date to NT\$169.56bn, and book value per share as of the end of June was NT\$13.98.

Recently in August, SKFH has been approved by competent authorities to acquire MasterLink Securities as a 100%-owned subsidiary through share swap. The share swap effective date is set as October 1, 2018.

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

Page 10 Page 10 – FYP for the first half 2018 declined 4.4% year-on-year to NT\$55.29bn, representing a market share of 7.8%. Not simply aiming for sales volume, Shin Kong Life managed to maintain its FYP/FYPE ratio at 30.3%, which was above industry average. Besides, Shin Long Life chose to promote foreign currency policies and protection products to contain the hedging cost, facilitate ALM matching, and grow value of new business. FYP of foreign currency policies for the first half increased 24.6% year-on-year to NT\$32.02bn, while sales momentum for protection products sustained through the second quarter with FYP reaching NT\$2.51bn, up 29.0% year-on-year.

With sufficient inflows of savings policies, cost of liabilities decreased another 4 basis points in the second quarter to 4.16%, in line with our guidance.

Page 14 Page 14 shows an overall view of Shin Kong Life’s investment portfolio. Annualized investment return for the first half 2018 reached 4.57%, thanks to a solid investment income of NT\$56.40bn. Breakdown of investment returns for each asset class were: real estate 3.2%, mortgage and corporate loans 1.8%, policy loans 5.9%, overseas investment 4.1%, domestic securities 8.0%, and cash 0.5%.

Page 15 Page 15 presents the portfolio of overseas fixed incomes. At the end of the first half 2018, corporate bonds accounted for the largest share, representing 44.8% of the total, followed by international bonds at 33.1%. Emerging market government bonds declined from 22.6% to 20.6% at the end of June.

The chart on the upper-right displays the overseas fixed income portfolio by region. Shin Kong Life focuses on North America and Europe as its key investment area. The share of Asia & other edged up to 39.1%, with increased investment in higher-yielding US Dollar government and corporate bonds with superior credit quality.

Page 17 Page 17 – Annualized hedging cost for the first half was 1.66%, and foreign currency volatility reserve was NT\$3.85bn at quarter end. Hedging ratio was 84.4%, including CS, NDF, and the 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 21 Thank you, Stan. Please turn to page 21.

Shin Kong Bank continued to deliver encouraging results for the first half 2018. Consolidated net income increased 29.4% year-on-year to NT\$2.55bn, with net interest income up 6.6% year-on-year, and investment income up 31.5% year-on-year. As the TRF losses were fully provisioned last year, the provision expense for the first half decreased 33.7% year-on-year.

Page 22 Page 22 – Thanks to the higher momentum in corporate loans in the second quarter, total loan balance increased 2.8% quarter-on-quarter to NT\$549.09bn. In order to maintain a stable interest spread, Shin Kong Bank has been cultivating overseas markets and expanding overseas lending operations over the past quarters. As of the end of June, the overseas syndicated loan balance reached NT\$20.06bn, up 15.5% year-to-date. Going forward, the bank will continue to grow its overseas client base and build up closer relationships with key partners to enhance its offshore earnings. Loan growth for 2018 is targeted at 6%.

Page 23 Page 23 – As bond yields inched higher, and the loan-to-deposit ratio rose from 72.9% to 74.5% in the second quarter, net interest margin increased 2 basis points quarter-on-quarter to 1.57%. Net interest spread edged up 1 basis point quarter-on-quarter to 1.98%, which was driven by the continued growth in overseas syndicated loans.

Page 25 Page 25 – Wealth management income for the first half 2018 grew 7.8% year-on-year to NT\$1.06bn, which was boosted by stronger sales momentum in investment products.

For the second half of the year, there will be online marketing campaigns conducted for specific younger clients. The bank will also offer preferential rates on time deposits to attract new funds for future business growth. On the product side, foreign currency and regular-paid policies will be the sales focus. The growth target for wealth management income in 2018 remains double-digit.

Page 26 Page 26 – Asset quality was stable with NPL ratio at 0.24% and coverage ratio at 562.33%. New NPL generated in the second quarter was NT\$382mn, and this only accounted for 0.07% of total loans.

That is the end of our results presentation. Moderator, please start the Q&A session.

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

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