

# SKFH Third Quarter 2018 Results Conference Call

*November 29, 2018, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2018 Third 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 third 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 growth momentum in the first nine months 2018 with consolidated after-tax profit reaching NT\$19.46bn. Earnings per share was NT\$1.76, and book value per share as of the end of September was NT\$14.56.

On October 1, SKFH formally completed the acquisition of MasterLink Securities. Following the deal, SKFH will keep leveraging on platforms across insurance, bank and securities businesses to bolster synergy.

Core business of each subsidiary remained stable in the third quarter, which will be covered in the presentation.

Page 10 Page 10 – FYP for the first nine months 2018 reached NT\$83.87bn, securing a market share of 8.1%. Not simply aiming for sales volume, Shin Kong Life actively promoted 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 nine months increased 20.9% year-on-year to NT\$46.14bn, accounting for 55.0% of total FYP.

With sufficient inflows of savings policies, cost of liabilities decreased another 3 basis points in the third quarter to 4.13%, in line with our guidance.

Page 14 Page 14 shows the overall view of Shin Kong Life’s investment portfolio. Annualized investment return for the first nine months 2018 reached 4.40%, with capital gains and recurring income both higher than the same period last year. Breakdown of investment returns for each asset class were: real estate 3.2%, mortgage and corporate loans 1.8%, policy loans 5.8%, overseas investment 3.8%, domestic securities 8.4%, and cash 0.6%.

Page 15 Page 15 presents the portfolio of overseas fixed incomes. At the end of the third quarter, overseas fixed incomes reached NT\$1.68 trillion. Corporate bonds accounted for the largest share, representing 45.0% of the total, followed by international bonds at 32.0% and government bonds at 21.6%. Overall distribution was similar to the first half, and the average yield before hedging of overseas fixed incomes was around 4.7%.

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 areas. The share of Asia & other edged up to 39.6%, deployed in higher-yielding government and corporate bonds denominated in US dollar with superior credit quality.

Page 17 Page 17 – Annualized hedging cost for the first nine months was 1.76%, and foreign currency volatility reserve was NT\$3.14bn at quarter end. Hedging ratio was 79.3%, including CS, NDF, and the naturally-hedged forex policies position. In order to contain hedging cost, Shin Kong Life will ramp up sales of foreign currency policies, and the share is expected to exceed 50% of total FYP.

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

**Isabella Wang:**

Page 21 Thank you, Stan. Please turn to page 21.

Shin Kong Bank sustained its growth momentum in the first nine months with net interest income increasing 6.5% year-on-year to NT\$8.85bn. As the TRF losses were fully provisioned in 2017, the provision expense for the first nine months decreased 36.5% year-on-year. Consolidated after-tax profit amounted to NT\$3.90bn, up 25.9% from a year earlier.

Page 22 Page 22 – Total loan balance grew 4.4% year-to-date to NT\$558.49bn. Consumer lending maintained an upward trend with mortgage and unsecured loans increasing 5.4% and 5.0% year-to-date, respectively. As for corporate lending, Shin Kong Bank has centered its efforts on overseas syndicated loans with an existing loan balance totaling NT\$23.17bn, which was up 33.4% year-to-date. Loan growth target for 2018 remains unchanged at 6%.

Page 23 Page 23 – Due to higher US dollar funding costs, both net interest margin and net interest spread came down 4 basis points quarter-on-quarter to 1.53% and 1.94%, respectively. Given the increase in funding costs, the full-year figures are expected to be lower than the levels delivered in 2017.

Page 25 Page 25 – Wealth management income for the first nine months 2018 grew 6.5% year-on-year to NT\$1.58bn. As market volatility has increased in recent months, the bank looks to grow the contribution from bancassurance by promoting foreign currency policies and regular-premium products. The growth target for wealth management income in 2018 is 5-10%.

Page 26 Page 26 – Asset quality was stable with NPL ratio at 0.24% and coverage ratio at 565.75%. New NPL generated in the third quarter was NT\$297mn, and this only accounted for 0.05% of total loans.

Page 28 Page 28 – MasterLink Securities recorded an after-tax profit of NT\$0.99bn for the first nine months 2018, up 39.5% year-on-year. The revenue from brokerage business grew 24.0% year-on-year to NT\$2.64bn, accounting for 60.3% of the total revenue. Brokerage market share was 3.85% and ranked the 6th place in the industry.

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

## **Q&A SESSION**

### *Disclaimer:*

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