

SKFH Fourth Quarter 2018 Results Conference Call

March 28, 2019, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2018 Fourth 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 fourth 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 recorded a consolidated after-tax profit of NT\$10.48bn for 2018. Earnings per share was NT\$0.89, and book value per share at the end of the fourth quarter was NT\$11.80.

Core business of each subsidiary remained solid in 2018, which will be discussed later in the presentation.

I'd also like to add that the capital adequacy ratios of the group and subsidiaries were all above regulatory requirements at the end of 2018. Group CAR was 113.7%, RBC of Shin Kong Life was 227.4%, BIS of Shin Kong Bank was 14.4%, and BIS of MasterLink Securities was 392.0%.

Page 10 Page 10 – Driven by the strong demand in the fourth quarter, FYP for the whole year reached NT\$126.66bn, securing a market share of 9.2%. Shin Kong Life has been actively promoting 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 2018 increased 37.5% year-on-year to NT\$71.55bn, accounting for 56.5% of total FYP.

With sufficient inflows of policy premium, cost of liabilities decreased another 5 basis points in the fourth quarter to 4.08%, better than our yearly target. VNB also grew more than 6% year-on-year.

In 2019, Shin Kong Life will continuously place its focus on foreign currency policies and protection products to control hedging cost and enhance VNB. FYP for foreign currency policies is targeted to increase 10%. Total FYP will be over NT\$100bn, and cost of liabilities will be 5 to 9 basis points lower than 2018.

Page 14 Page 14 presents the overall view of Shin Kong Life's investment portfolio. With higher capital gains and recurring income in 2018, investment return increased 7 basis points to 3.99%. Breakdown of investment returns for each asset class were: real estate 1.7%, mortgage and corporate loans 1.8%, policy loans 5.8%, overseas investment 3.6%, domestic securities 7.0%, and cash 0.7%.

Page 15 Page 15 presents the portfolio of overseas fixed incomes. At the end of 2018, overseas fixed incomes amounted to NT\$1.72 trillion. Corporate bonds accounted for the largest share, representing 45.5% of the total, followed by international bonds at 31.7% and government bonds at 21.5%. Overall distribution was similar to the previous quarter, and the average yield before hedging of overseas fixed incomes was around 4.7%.

The chart on the upper-right corner displays the overseas fixed income portfolio by region. Shin Kong Life remained focused on North America and Europe as its key investment areas. The share of Asia & other was 39.4% and the funds were deployed in higher-yielding government and corporate bonds denominated in US dollar with superior credit quality.

Page 17 Page 17 – Due to sharp fluctuations in foreign exchange and higher cost for traditional hedging instruments, hedging cost for 2018 was 1.72%. Foreign currency volatility reserve was NT\$4.73bn at year end. Hedging ratio was 82.7%, 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 this year, and the share is expected to exceed 70% of total FYP. Shin Kong Life will look to increase the balance of foreign volatility

reserve according to regulation changes. At the end of February this year, the balance of foreign volatility reserve already reached NT\$7.29bn.

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

Isabella Wang:

Page 22 Thank you, Stan. Please turn to page 22.

Shin Kong Bank sustained its growth momentum with net interest income increasing 5.7% year-on-year to NT\$11.82bn. As the TRF losses were fully provisioned in 2017, the provision expense for 2018 decreased 36.2% year-on-year. Consolidated after-tax profit reached NT\$5.22bn, up 28.5% from a year earlier.

Page 23 Page 23 – Total loan balance grew 6.0% year-on-year to NT\$567.07bn, which was in line with the company's guidance. Consumer lending maintained an upward trend with mortgage and unsecured loans increasing 8.3% and 6.7% year-on-year, respectively. As for corporate lending, Shin Kong Bank has concentrated its efforts on overseas syndicated loans with an existing loan book totalling NT\$24.92bn, which was up 43.4% year-on-year. Loan growth target for 2019 will be 6%.

Page 24 Page 24 – Due to higher US dollar funding costs, both net interest margin and net interest spread for the whole year came down to 1.54% and 1.94%, respectively. Given the fierce competition in the loan market and the limited room for further rate hikes, it will be challenging for the bank to maintain net interest margin and net interest spread at the level of 2018.

Page 26 Page 26 – Wealth management income for 2018 grew 5.4% year-on-year to NT\$2.16bn, with strong sales momentum in bancassurance, which accounted for 50.6% of total wealth management income.

This year, Shin Kong Bank will offer deposits with preferential interest rates to attract new funds and cultivate clients with AUM over NT\$3 million. On the product side, foreign currency policies and regular-paid products will be the sales focus. The growth target for wealth management income in 2019 is double-digit.

Page 27 Page 27 – Asset quality was stable with NPL ratio at 0.23% and coverage ratio at 570.15%. New NPL generated in the fourth quarter was NT\$672mn, and this mainly came from an individual case which accounted for NT\$464mn. However, this case was fully provisioned at the beginning of 2018 and was written off at year end.

Page 30 Page 30 – MasterLink Securities recorded an after-tax profit of NT\$0.83bn for 2018. The revenue from brokerage business grew 10.0% year-on-year to NT\$3.37bn, accounting for 66.2% of the total revenue. Brokerage market share was 3.78%, with a ranking of top 6 in the industry.

In 2019, in order to sustain growth in the brokerage and wealth management business, MasterLink plans to upgrade its intelligent stock picking system and launch robo-advisor services. The company will also recruit brokers with financial planner certificates to enhance overall productivity. As for underwriting business, MasterLink will leverage the group’s resources to build up pre-IPO position and earn SPO deals.

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

Q&A SESSION

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