

# SKFH First Quarter 2019 Results Conference Call

*May 30, 2019, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2019 First 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 first 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.
- We are also joined by Ophelia Au Young, Principal of Deloitte Actuarial and Insurance Solutions. Ophelia has been working closely with us over the past few months in reviewing our EV work, and she 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 Christine at 886 968 \*\*\* \*\* for assistance.

## PRESENTATION

**Stan Lee:**

Page 4    Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$5.54bn for the first quarter 2019. Earnings per share was NT\$0.45. Consolidated shareholders' equity increased 20.9% year-to-date, and book value per share at the end of the first quarter was NT\$14.27.

Life insurance EV per share of SKFH was NT\$20.1. EV of Shin Kong Life reached NT\$246.3bn. Total FYP for 2018 increased 14.1% year-on-year,

allowing V1NB to grow 5% to NT\$24.1bn.

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

Page 10 Page 10 – Due to the adjustment in product mix, FYP for the first quarter grew 13.2% year-on-year to NT\$30.27bn, securing a market share of 7.8%. Shin Long Life has adopted a value-oriented product strategy and 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 quarter grew 6.5% year-on-year to NT\$16.26bn, and sales of protection products increased 24.6% year-on-year to NT\$1.67bn.

With sufficient inflows of policy premium, annualized cost of liabilities declined 2 basis points to 4.06%, in line with our guidance.

Page 14 Page 14 presents the overall view of Shin Kong Life’s investment portfolio. Annualized investment return for the first quarter 2019 reached 3.68%, thanks to one-off disposal gains of equities and bonds and higher recurring income. Breakdown of investment returns for different asset classes were: real estate 3.2%, mortgage and corporate loans 1.8%, policy loans 5.6%, overseas investment 4.3%, domestic securities 2.6%, and cash 0.6%.

Page 15 Page 15 presents the portfolio of overseas fixed incomes. At the end of the first quarter, overseas fixed incomes amounted to NT\$1.74 trillion. Corporate bonds accounted for the largest share, representing 45.9% of the total, followed by international bonds at 31.5%. Emerging market government bonds accounted for 21.6% at quarter end.

You may see the chart of the overseas fixed income portfolio by region on the upper-right corner. There was no significant change in the first quarter. Shin Kong Life remained focused on North America and Europe as its key investment areas.

Page 17 Page 17 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the first quarter, hedging ratio was 74.9%, including CS, NDF, and the naturally-hedged foreign currency policies.

Annualized hedging cost for the first quarter was 1.59%, and foreign currency volatility reserve increased NT\$2.3bn quarter-on-quarter to NT\$7.0bn. Also, as of the latest update, the reserve exceeded NT\$10.0bn as NT dollar continued to lose ground against US dollar.

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

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

Shin Kong Bank generated a pre-provision profit of NT\$1.81bn for the first quarter, up 1.1% year-on-year. Consolidated after-tax profit was NT\$1.19bn, at the similar level of the same period last year, excluding the one-off deferred tax benefits related to Taiwan tax reform in 2018.

Page 23 Page 23 – Corporate lending remained in an upward trend with a year-to-date growth rate of 3.1%. Domestic large corporate loans and overseas syndicated loans were the fastest growing segments, rising by 7.0% and 8.6%, respectively. Total loan balance rose 1.5% year-to-date to NT\$575.43bn, and the loan growth target for 2019 remains at 6%.

Page 24 Page 24 – As more deposits were retained to facilitate business growth, loan-to-deposit ratio for the first quarter decreased from 75.6% to 74.5%. Both net interest margin and net interest spread for the first quarter came down to 1.49% and 1.86%, respectively. Given the fierce competition in the loan market, it will be challenging for the bank to maintain its net interest margin and net interest spread at the level of 2018.

Page 26 Page 26 – Wealth management income grew 2.9% year-on-year to NT\$560mn, thanks to strong sales momentum in bancassurance, which accounted for 55.9% of total wealth management income.

For the second half of the year, Shin Kong Bank will offer deposits with preferential interest rates to attract new funds and expand its client base. On the product side, foreign currency policies and regular-paid products will remain 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 0.22% and coverage ratio at 599.73%. New NPL generated in the first quarter was NT\$370mn, 44.9% lower quarter-on-quarter.

Page 29 Page 29 – Boosted by strong growth in proprietary trading business, MasterLink Securities recorded an after-tax profit of NT\$0.48bn, up 28.0% year-on-year. Brokerage market share was 3.56%, with a ranking of top 6 in the industry.

Now our Chief Actuary Han Wei will talk about the updates on EV/AV.

**Han Wei Lin:**

Page 31 Thank you, Isabella. Please turn to page 31.

For 2018 Embedded Value, the earning rate of VIF goes from 3.47% to 5.00% in 30 years for TWD products and 4.70% to 5.60% for USD products. The

Equivalent investment yield is 4.30%. For VNB, it goes from 3.34% to 5.00% and 4.43% to 5.60% in 30 years for TWD and USD products, respectively. The Adjusted NAV decreased 9%, VIF increased 10%, and COC increased 10%. As a result, Our EV, at the end of 2018, decreased 3% to NT\$246.3bn. In 2018, there was still a significant growth of USD products, and VNB increased 5% to NT\$24.1 bn. VNB margin was 19.0%. AV's for 5 years of NB and 20 years of NB were NT\$341.0bn and NT\$454.7bn accordingly.

Page 32 Page 32 – 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 33 Page 33 – Statutory Net Worth decreased from NT\$90.5bn to NT\$69.8bn in 2018. The main impact came from Unrealized Gains, which reduced NT\$25.9bn in Statutory Net Worth.

Page 34 Page 34 – For adjusted NAV, the shareholder value at the end of 2018 was NT\$69.8bn. Unrealized gains on property added NT\$71.4bn. We also added NT\$5.6bn of special reserves of unrealized gains on property, and NT\$4.7bn of other items, including foreign exchange volatility reserve.

Page 35 Page 35 – VIF grew from NT\$160.5bn to NT\$176.2bn in 2018. The biggest impact came from the new business issued, which added NT\$32.1bn to VIF. Assumption changes were minus NT\$33.1bn.

Page 36 Page 36 – VNB increased from NT\$23.0bn to NT\$24.1bn in 2018. The growth of USD products was the most significant factor, which increased NT\$1.6bn to VNB.

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

## Q&A SESSION

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