

SKFH Second Quarter 2019 Results Conference Call

August 29, 2019, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2019 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 886 968 *** *** for assistance.

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH sustained its positive momentum in the first half 2019, reporting a consolidated after-tax profit of NT\$10.72bn. Consolidated total comprehensive income reached NT\$44.37bn, NT\$53.09bn higher year-on-year, compared with a loss of NT\$8.72bn a year earlier. Earnings per share was NT\$0.87. Consolidated shareholders' equity increased 28.9% year-to-date to NT\$186.47bn, and book value per share at the end of the first half was NT\$15.22.

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

Page 10 Page 10 – FYP for the first half 2019 increased 16.5% year-on-year to NT\$64.38bn, driving up market share to 9.1%. Shin Kong 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 half grew 35.5% year-on-year to NT\$43.38bn. Strong sales momentum and an improved product mix led to a year-on-year increase of 17.1% in VNB.

In addition, annualized cost of liabilities declined 2 basis points quarter-on-quarter to 4.04%, in line with our guidance.

Page 13 Page 13 presents the overall view of Shin Kong Life’s investment portfolio. Annualized investment return for the first half 2019 reached 4.10%, 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 3.6%, policy loans 5.6%, overseas investment 4.3%, domestic securities 3.9%, and cash 0.8%.

Page 14 Page 14 presents the portfolio of overseas fixed incomes. At the end of the first half, overseas fixed incomes amounted to NT\$1.82 trillion. Corporate bonds accounted for the largest share, representing 44.8% of the total, followed by international bonds at 30.3%. Emerging market government bonds accounted for 24.1% at quarter end.

You may see the chart of the overseas fixed income portfolio by region on the upper-right corner. Shin Kong Life invested more funds in North America during the second quarter with eyes on the superior credit quality, and the share of North America increased to 34.7%. However, Shin Kong Life remained focused on North America and Europe as its key investment areas.

Page 16 Page 16 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the first half, hedging ratio was 84.9%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 60% and 40%, respectively, of traditional hedges.

Annualized hedging cost for the first half came down to 1.39%, and foreign currency volatility reserve increased about NT\$2.7bn quarter-on-quarter to NT\$9.8bn.

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

Isabella Wang:

Page 20 Thank you, Stan. Please turn to page 20.

Shin Kong Bank delivered a stable performance for the first half 2019. Its net fee income grew 6.2% year-on-year to NT\$1.70bn on the back of growth in wealth management business. Pre-provision profit grew 0.9% year-on-year to NT\$3.76bn, and consolidated after-tax profit was NT\$2.49bn.

Page 21 Page 21 – Corporate lending remained in an upward trend with a year-to-date growth rate of 3.7%. Domestic large corporate loans and overseas syndicated loans were the fastest growing segments, rising by 9.7% and 14.7%, respectively. The bank's total lending rose 2.6% year-to-date to NT\$582.02bn, and the loan growth target for 2019 remains at 6%.

Page 22 Page 22 – Due to competition in the loan market and decrease in market yield, net interest margin and net interest spread for the second quarter came down to 1.43% and 1.82%, respectively. Given the ongoing competition in the loan market and US rate cut expectation, the bank expected its net interest margin and net interest spread to fall below the level of 2018.

Page 24 Page 24 – Wealth management income grew 11.9% year-on-year to NT\$1.18bn, thanks to strong sales momentum in bancassurance, which accounted for 51.7% of total wealth management income.

For the second half of the year, Shin Kong Bank plans to offer deposits with preferential interest rates to attract new funds and expand its client base. On the product side, mutual funds and overseas securities will be the sales focus, along with stable performance of foreign currency policies and regular-paid products. The growth target for wealth management income in 2019 is 5-10%.

Page 27 Page 27 – Asset quality was stable with NPL ratio at 0.21% and coverage ratio at 600.29%. New NPL generated in the second quarter totaled NT\$550mn, of which one debtor accounted for NT\$170mn. However, the case was fully collateralized with no material loss expected.

Page 29 Page 29 – MasterLink Securities recorded an after-tax profit of NT\$0.90bn, up 17.9% year-on-year. Brokerage market share was 3.62%, with a ranking of top 6 in the industry. Proprietary trading income grew 33.4% year-on-year to NT\$1.55bn, driven by the increased disposal gains from equities and fixed incomes.

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

Q&A SESSION*Disclaimer:*

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