

SKFH Third Quarter 2019 Results Conference Call

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

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2019 Third Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- We are happy to have Sunny Hsu, Executive Senior Vice President of the Financial Holding Company, to review the third quarter results with us.
- Also in the room are 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 positive momentum in the first nine months 2019, reporting a consolidated after-tax profit of NT\$19.06bn. Consolidated total comprehensive income reached NT\$43.74bn, NT\$45.11bn higher year-on-year, compared with a loss of NT\$1.37bn a year earlier. Earnings per share was NT\$1.55. Consolidated shareholders' equity increased 32.9% year-to-date to NT\$192.18bn, and book value per share at the end of September was NT\$15.17.

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

Page 10 Page 10 – FYP for the first nine months 2019 increased 0.4% year-on-year to NT\$84.22bn, securing a market share of 8.4%. Shin Kong Life has been

actively promoting foreign currency policies to contain the hedging cost, facilitate ALM matching, and grow value of new business. FYP of such policies for the first nine months grew 21.3% year-on-year to NT\$55.96bn. The improved product mix led to a year-on-year increase of 8.2% in VNB.

In addition, annualized cost of liabilities declined 4 basis points quarter-on-quarter to 4.00%, 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 nine months 2019 reached 4.33%, thanks to higher recurring income and properly controlled hedging cost. Breakdown of investment returns for different asset classes were: real estate 3.2%, mortgage and corporate loans 4.3%, policy loans 5.6%, overseas investment 3.9%, domestic securities 7.3%, and cash 0.8%.

Page 14 Page 14 presents the portfolio of overseas fixed incomes. At the end of the third quarter, overseas fixed incomes amounted to NT\$1.79 trillion. Corporate bonds accounted for the largest share, representing 46.2% of the total, followed by international bonds at 30.3%. Emerging market government bonds accounted for 22.7% at quarter end.

You may see the chart of the overseas fixed income portfolio by region on the upper-right corner. North America and Europe accounted for the majority of overseas fixed incomes, with a combined share of 59.8%.

Page 16 Page 16 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the third quarter, hedging ratio was 74.1%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 69% and 31%, respectively, of traditional hedges.

Among fluctuations in foreign exchange, annualized hedging cost for the first nine months was well controlled at 1.50%. Foreign currency volatility reserve reached NT\$8.4bn, up by NT\$3.6bn year-to-date.

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 nine months 2019. Its net fee income grew 10.0% year-on-year to NT\$2.62bn on the back of growth in wealth management business. Pre-provision profit grew 5.4% year-on-year to NT\$6.01bn, and consolidated after-tax profit was NT\$4.09bn, up 4.9% year-on-year.

- Page 21 Page 21 – The bank’s loan balance rose 3.3% year-to-date to NT\$585.71bn. Consumer lending maintained an upward trend with mortgage and unsecured loans increasing 3.8% and 4.3% year-to-date, respectively. As for corporate lending, the momentum mainly came from domestic large corporate and overseas syndicated loans. The loan growth target for 2019 remains unchanged at 6%.
- Page 22 Page 22 – Due to fierce competition in the loan market and Fed’s rate cuts, net interest spread for the third quarter came down by 2 basis points quarter-on-quarter to 1.80%. Net interest margin remained flat at 1.43%. Given the ongoing competition in the loan market, the bank expected the full-year figures to fall below the level of 2018.
- Page 24 Page 24 – Positive market sentiments have helped to create sales momentum, driving up fee income from mutual funds and overseas securities by 23.2% and 32.2% year-on-year, respectively. Wealth management income for the first nine months grew 18.5% year-on-year to NT\$1.88bn. As for product strategy, mutual funds and overseas securities are expected to draw more attention from clients in the fourth quarter; meanwhile Shin Kong Bank will promote foreign currency policies and regular-paid products. The growth target for wealth management income in 2019 is double digit.
- Page 25 Page 25 – Asset quality was stable with NPL ratio at 0.20% and coverage ratio at 635.07%. New NPL generated in the third quarter was NT\$385mn, down by NT\$165mn compared to the previous quarter.
- Page 27 Page 27 – MasterLink Securities recorded an after-tax profit of NT\$1.30bn, up 31.1% year-on-year. Brokerage market share was 3.69%, with a ranking of top 6 in the industry. Proprietary trading income grew 50.5% year-on-year to NT\$2.13bn, 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:

This document and the attachments distributed herewith include forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Shin Kong Financial Holding Company expect or anticipate will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Shin Kong FHC’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, market shares, competition, changes in legal, financial and regulatory frameworks, international economic and financial



Conference Call Script – SKFH Q3 2019 Earnings Update

market conditions, political risks, cost estimates and other risks and factors beyond our control. In addition, Shin Kong FHC makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.