

SKFH Fourth Quarter 2019 Results Conference Call

March 26, 2020, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

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

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$16.63bn for 2019. Consolidated total comprehensive income reached NT\$46.88bn, NT\$82.18bn higher year-on-year, compared with a loss of NT\$35.30bn a year earlier. Earnings per share was NT\$1.34, and book value per share at the end of the fourth quarter was NT\$15.42.

Core business of each subsidiary remained robust in 2019, which will be covered in the subsequent slides.

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 2019. Group CAR was 111.1%, RBC of Shin Kong Life was 220.8%, BIS of Shin Kong Bank

was 14.4%, and BIS of MasterLink Securities was 371.9%.

Page 10 Page 10 – FYP for 2019 reached NT\$116.86bn, securing a market share of 9.2%. As Shin Kong Life has been actively promoting foreign currency policies, FYP of such policies grew 12.6% year-on-year to NT\$80.53bn, accounting for 68.9% of total FYP. The improved product mix led to a year-on-year increase of 2.0% in VNB.

In addition, cost of liabilities decreased another 3 basis points in the fourth quarter to 3.97%, better than our yearly target.

In 2020, Shin Kong Life will continuously lay its focus on foreign currency policies, protection products and regular-paid policies to control hedging cost and accumulate fundamental incomes. The share of foreign currency policies over total reserve is targeted at 20%, and cost of liabilities is expected to be 5 to 10 basis points lower than 2019.

Page 13 Page 13 presents the overall view of Shin Kong Life’s investment portfolio. Investment return for 2019 increased 21 basis points year-on-year to 4.20%, 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 4.4%, policy loans 5.5%, overseas investment 3.5%, domestic securities 8.3%, and cash 0.8%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the year, overseas fixed incomes amounted to NT\$1.77 trillion. Corporate bonds accounted for the largest share, representing 47.3% of the total, followed by international bonds at 28.9%. Emerging market government bonds accounted for 22.9%.

You may see the chart of the overseas fixed income portfolio by region in the upper-right corner. North America and Europe accounted for the majority of overseas fixed incomes, with a combined share of 59.3%.

Page 16 Page 16 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the fourth quarter, hedging ratio was 71.8%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 69% and 31%, respectively, of traditional hedges.

Hedging cost for 2019 was 1.73%, similar to the level of 2018. Foreign currency volatility reserve, serving as a buffer for fluctuations in foreign exchange, was NT\$2.1bn.

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

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

Shin Kong Bank delivered a stable performance for 2019. Its net fee income grew 10.3% year-on-year to NT\$3.54bn on the back of strong growth in wealth management business. Investment income increased 22.1% year-on-year, while provision expense decreased 11.4% year-on-year. Consolidated after-tax profit reached NT\$5.52bn, up 5.9% from a year earlier.

Page 22 Page 22 – The bank’s loan balance rose 6.8% year-on-year to NT\$605.85bn. Consumer lending continued an upward trend with mortgage and unsecured loans increasing 6.4% and 5.7% year-on-year, respectively. As for corporate lending, the momentum mainly came from domestic large corporate and overseas syndicated loans. Going forward, the bank will grow loans with an emphasis on quality.

Page 23 Page 23 – Due to fierce competition in the market and Fed’s rate cuts, both net interest margin and net interest spread for the whole year came down to 1.44% and 1.82%, respectively. Given the ongoing low-yield environment and competitive pressure from peers, the bank expects the full-year figures to fall below the level of 2019.

Page 25 Page 25 – Wealth management income for 2019 increased 17.7% year-on-year to NT2.54bn with strong sales momentum in mutual funds and overseas securities. The fee income from these two categories accounted for 46.6% of the total.

This year, Shin Kong Bank will actively attract new funds and expand its client base. On the product side, mutual funds and overseas securities are expected to be sales focus; meanwhile the bank will promote foreign currency policies and regular-paid products to drive up wealth management income.

Page 26 Page 26 – Asset quality was stable with NPL ratio at 0.20% and coverage ratio at 636.00%. Both ratios were better than the level of 2018.

Page 29 Page 29 – MasterLink Securities recorded an after-tax profit of NT\$1.54bn, up 85.7% year-on-year. Proprietary trading income grew 84.0% year-on-year to NT\$2.59bn, driven by the increased disposal gains from equities and fixed incomes. Brokerage market share was 3.70%, with a ranking of top 6 in the industry.

In 2020, in order to sustain growth in brokerage and wealth management business, MasterLink plans to strengthen its trading platform and roll out robo-advisor services. The company will also introduce featured products to partner channels. As for underwriting business, MasterLink will leverage group resources to earn decent deals.

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

Q&A SESSION

Disclaimer:

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