

# SKFH First Quarter 2020 Results Conference Call

May 28, 2020, 4:30 p.m. (Taipei)

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2020 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, Partner 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 \*\*\* \*\*\* \*\*\* for assistance.

## PRESENTATION

**Stan Lee:**

Page 4    Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$6.67bn for the first quarter 2020. Earnings per share was NT\$0.53. Consolidated shareholders' equity was NT\$149.72bn, and book value per share at the end of the first quarter was NT\$11.81.

Life insurance EV per share of SKFH was NT\$23.3. EV of Shin Kong Life increased 19% year-on-year to NT\$292.7bn in 2019. Driven by an optimized

product mix, V1NB grew 3% to NT\$24.9bn.

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

I'd also like to highlight that the Company completed a capital raising of around NT\$3.3bn through issuance of common shares in May. The funds will be injected to Shin Kong Life in June to strengthen its capital position. The Company plans to issue preferred shares B in the second half of the year to invest in Shin Kong Life and Shin Kong Bank and support their business development.

Page 10 Page 10 – FYP decreased 32.2% year-on-year to NT\$20.52bn, primarily due to adjustment in product mix. As the share of regular premium increased to 65.5% for the first quarter, FYPE over FYP was 35.8%. Also, foreign currency policies remained the sales focus this year, FYP of such policies amounted to NT\$14.36bn, accounting for 70.0% of total FYP.

With new business and lowered declared rate, cost of liabilities declined 2 basis points year-to-date to 3.95%, 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 quarter 2020 was 4.41%. Breakdown of investment returns for different asset classes were: real estate 3.3%, mortgage and corporate loans 1.9%, policy loans 5.5%, overseas investment 4.6%, domestic securities 4.7%, and cash 0.5%.

Page 14 Page 14 shows 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 47.6% of the total, followed by international bonds at 29.8%. Emerging market government bonds accounted for 21.8%. About 90% of the overseas fixed income position was deployed in US dollar denominated bonds.

As for the overseas fixed income portfolio by region, North America and Europe accounted for the majority of overseas fixed incomes, with a combined share of 59.7%.

Page 16 Page 16 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the first quarter, hedging ratio was 75.2%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 63% and 37%, respectively, of traditional hedges.

Annualized hedging cost was 1.54%, slightly lower than the level of the first quarter 2019. Foreign currency volatility reserve was NT\$1.5bn.

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 quarter. Driven by the substantial growth in wealth management income and investment income, pre-provision operating profit reached NT\$1.91bn, which was 5.1% higher from a year earlier. Consolidated net income increased 12.0% year-on-year to NT\$1.33bn.

Page 21 Page 21 – The bank’s loan balance rose 1.5% year-to-date to around NT\$615bn. Consumer lending continued an upward trend with mortgage and unsecured loans increasing 1.6% and 2.1% year-to-date, respectively. As for corporate lending, the momentum mainly came from domestic large corporate and SME loans. The loan growth target for 2020 is 6%.

Page 22 Page 22 – Due to fierce competition in the market and rate cuts, net interest margin and net interest spread for the first quarter came down to 1.38% and 1.75%, respectively. Given the ongoing low-yield environment and competitive pressure from peers, the full-year figures will fall below the level of 2019.

Page 24 Page 24 – Wealth management income for the first quarter increased 9.3% year-on-year to NT\$612mn, thanks to strong sales momentum in mutual funds and overseas securities. The fee income from these two categories accounted for 61.4% of the total.

In the second half of the year, Shin Kong Bank will actively attract new funds and expand its client base by promoting online marketing campaigns.

Page 25 Page 25 – Asset quality was stable with NPL ratio at 0.19% and coverage ratio at 663.43%. Both ratios were better than the level of 2019.

Page 27 Page 27 – MasterLink Securities generated a brokerage income of NT\$920mn for the first quarter, which was 45.9% higher year-on-year. Brokerage market share was 3.54%, remaining top six in the industry. However, due to sharp volatility in the financial market, MasterLink Securities suffered unrealized mark-to-market losses in its proprietary trading business, and posted a consolidated after-tax loss of NT\$350mn.

I will now turn over to Han Wei to talk about the update on EV/AV.

**Han Wei Lin:**

Page 29 Thank you, Isabella. Please turn to page 29.

For 2019 Embedded Value, the earning rate of VIF goes from 3.30% to 4.62% in 30 years for TWD products and 4.59% to 5.09% for USD products. The equivalent investment yield is 4.19%. For VNB, it goes from 3.12% to 4.47% and 4.13% to 5.00% in 30 years for TWD and USD products, respectively. The Adjusted NAV increased 30%, VIF increased 6%, and COC increased 11%. As a result, at the end of 2019, EV of Shin Kong Life increased 19% year-on-year to NT\$292.7bn. In 2019, there was still a significant growth of USD products. We also promoted products with higher margin, such as regular premium products and health insurance products. VNB increased 3% to NT\$24.9bn, and VNB margin was 21.3%. AV's for 5 years of NB and 20 years of NB were NT\$390.7bn and NT\$508.2bn, respectively.

Page 30 Page 30 – Under the base case scenario, risk discount rate remains unchanged at 10.5%. We also provide the sensitivity tests of investment return and risk discount rate for your reference.

Page 31 Page 31 – Statutory Net Worth increased from NT\$69.8bn to NT\$114.4bn in 2019. The main impact came from Unrealized Gains on Financial Assets, which added NT\$29.0bn to Statutory Net Worth.

Page 32 Page 32 shows the detailed items of adjusted NAV. Shin Kong Life's net worth at the end of 2019 amounted to NT\$114.4bn. Unrealized gains on property contributed to an increase of NT\$74.8bn in the adjusted NAV. We also added special reserves of unrealized gains on property of NT\$5.6bn, and foreign exchange volatility reserve of NT\$2.1bn.

Page 33 Page 33 – VIF grew from NT\$176.2bn to NT\$186.4bn in 2019. The main impact came from the new business issued, which added NT\$31.0bn to VIF. Assumption changes caused a decrease of NT\$40bn, and the decrease was mainly from the changes in economic assumption.

Page 34 Page 34 – VNB increased 3% year-on-year from NT\$24.1bn to NT\$24.9bn in 2019. As the proportion of regular-paid products increased over the year, the improved product mix was the most important factor that helped add NT\$5.6bn to VNB.

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

**Q&A SESSION**

*Disclaimer:*



## Conference Call Script – SKFH Q1 2020 Earnings Update

*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 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.*