

SKFH Second Quarter 2020 Results Conference Call

September 3, 2020, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2020 Second 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 Vice President of the Financial Holding Company to review the second 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 886 968 *** ** for assistance.

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$7.83bn for the first half 2020. Earnings per share was NT\$0.61. Consolidated shareholders' equity reached NT\$233.87bn, and book value per share at the end of the second quarter was NT\$17.88.

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

I'd also like to highlight that the Company completed a capital raising of NT\$10bn through issuance of preferred shares B this week. The fund will be injected to Shin Kong Life by the end of September to strengthen its capital position and increase RBC ratio by 13%.

Page 10 Page 10 – FYP decreased 32.2% year-on-year to NT\$43.64bn, primarily due to adjustment in product mix. As the share of regular premium increased to 67.3% for the first half, FYPE over FYP was 36.7%. Also, foreign currency policies remained the sales focus this year, FYP of such policies amounted to NT\$32.24bn, accounting for 73.9% of total FYP.

With new business inflows and lower declared rate, cost of liabilities declined 6 basis points year-to-date to 3.91%. For the full-year 2020, cost of liabilities is expected to fall by 12 basis points.

Page 13 Page 13 shows the overall view of Shin Kong Life's investment portfolio. Annualized investment return for the first half 2020 was 3.77%. Breakdown of investment returns for different asset classes were: real estate 4.2%, mortgage and corporate loans 1.8%, policy loans 5.5%, overseas investment 3.5%, domestic securities 5.3%, and cash 0.4%.

Page 14 Page 14 presents the portfolio of overseas fixed incomes. At the end of the first half, overseas fixed incomes topped NT\$1.8 trillion. Corporate bonds accounted for the largest share, representing 47.2% of the total, followed by international bonds at 28.4%, and government bonds at 23.6%. 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 remain Shin Kong Life's key investment areas, accounting for a combined share of 60.9%.

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 84.4%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 54% and 46%, respectively, of traditional hedges.

Appreciation of NT dollar drove up annualized hedging cost to 2.27% for the first half. In order to better control hedging cost, Shin Kong Life voluntarily added NT\$4bn to foreign currency volatility reserve. The balance reached NT\$4.9bn at the end of July.

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. Driven by growth in wealth management income and investment income, pre-provision operating profit reached NT\$3.96bn, which was 5.4% higher from a year

earlier. Consolidated net income increased 18.8% year-on-year to NT\$2.96bn.

- Page 21 Page 21 – The bank’s loan balance rose 3.0% year-to-date to NT\$624bn. Consumer lending continued an upward trend with mortgage and unsecured loans increasing 3.1% and 5.0% year-to-date, respectively. As for corporate lending, the momentum mainly came from SME loans. The full-year target for loan growth remains at 6%.
- Page 22 Page 22 – Due to market competition and rate cuts, net interest margin and net interest spread for the second quarter came down to 1.21% and 1.63%, respectively. Given the ongoing low-yield environment and competitive pressure from peers, the full-year figures are expected to fall below the level of 2019.
- Page 24 Page 24 – Wealth management income for the first half increased 3.1% year-on-year to NT\$1.22bn, boosted by strong sales momentum in mutual funds and overseas securities. The fee income from these two categories accounted for 51.7% of the total.

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

- Page 25 Page 25 – Asset quality was stable with NPL ratio at 0.19% and coverage ratio at 666.08%. Both ratios were better than the industry average.
- Page 27 Page 27 – MasterLink Securities generated a brokerage income of NT\$1.91bn for the first half 2020, which was 37.0% higher year-on-year. Brokerage market share was 3.72%, remaining top six in the industry. As the market stabilized, MasterLink Securities improved its prop trading performance and posted a consolidated net income of NT\$574mn for the first half.

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

Q&A SESSION

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