

# SKFH Fourth Quarter 2020 Results Conference Call

March 18, 2021, 4:30 p.m. (Taipei)

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2020 Fourth 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 fourth quarter results with us.
- Also in the room are Han-Wei Lin, Chief Actuary of Shin Kong Life; En-Fon Liao, Head of the investment team in 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\$14.46bn for 2020. Earnings per share was NT\$1.12. Consolidated shareholders' equity reached NT\$241.58bn, and book value per share at year-end was NT\$18.12.

Core business of each subsidiary remained robust in 2020, which will be covered later in the presentation.

Page 10 Page 10 – FYP was NT\$72.39bn, representing a market share of 7.9%. As Shin Kong Life's product strategy was value-driven, FYPE reached NT\$27.44bn and secured the fourth position in the industry. FYPE over FYP increased from 29.3% in 2019 to 37.9%.

Foreign currency policies remained marketing focus in 2020. FYP of such

policies amounted to NT\$54.39bn, accounting for 75.1% of total FYP.

In addition, cost of liabilities declined 14 basis points year-on-year from 3.97% to 3.83%, which was better than our yearly target.

Going forward in 2021, foreign currency policies and value-focused products will be prioritized as key strategic products. The share of foreign currency policies over total FYP is targeted at 70%, and cost of liabilities is expected to fall by 10 basis points.

Page 13 Page 13 gives an overall view of Shin Kong Life's investment portfolio. Investment return for 2020 was 3.69% due to higher hedging cost. Breakdown of investment returns for different asset classes were: real estate 3.5%, mortgage and corporate loans 1.7%, policy loans 5.5%, overseas investment 3.3%, domestic securities 6.1%, and cash 0.3%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the year, overseas fixed incomes topped NT\$1.9 trillion. Corporate bonds accounted for the largest share, representing 47.3% of the total, followed by international bonds at 27.2%, and government bonds at 25.0%. About 90% of the overseas fixed income position was deployed in US dollar denominated bonds.

You may also find 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, showing a combined share of 62.4%.

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 75.7%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 57% and 43%, respectively, of traditional hedges.

Appreciation of NT dollar and higher cost of NDF drove up hedging cost to 2.28% for the past year. The balance of foreign currency volatility reserve was NT\$5.2bn at year-end. In order to better control hedging cost, Shin Kong Life will flexibly adjust hedging ratio through the proxy basket and continue to build up its foreign currency volatility reserve.

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

**Isabella Wang:**

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

Shin Kong Bank delivered continued growth in 2020. Investment income increased 81.8% year-on-year, while provision expense decreased 11.8%

year-on-year. Consolidated after-tax profit reached NT\$5.94bn, up 7.5% from a year earlier.

Page 22 Page 22 – The bank’s loan balance rose 7.9% year-on-year to NT\$654bn. Consumer lending grew 10.3% in 2020 and represented the largest segment of the loan portfolio, as mortgage and unsecured loans increased 8.4% and 9.6% year-on-year, respectively. On corporate lending front, the momentum mainly came from SME loans, which went up by 15.3% year-on-year.

Going forward in 2021, the bank will pursue a balanced growth in both corporate lending and consumer lending with an eye to risk control. The full-year target for loan growth is 8%.

Page 23 Page 23 – As the deposit rates steadily repriced downward, net interest margin and net interest spread rebounded 3 basis points quarter-on-quarter to 1.24% and 1.64%, respectively. The upward trend in net interest margin and net interest spread is expected to continue in the first quarter of 2021.

Page 25 Page 25 – Wealth management income for 2020 was NT\$2.42bn. Strong growth in mutual funds offset the decline in bancassurance.

In 2021, the bank will actively attract new funds and expand its client base to achieve an annual growth target of 8% for AUM. In the meantime, the intelligent robo-advisory will be launched to enhance customer experience, and a mobile-device sales-force management system will be built to digitize sales process and improve productivity.

Page 26 Page 26 – Asset quality was stable with NPL ratio at 0.19% and coverage ratio at 672.48%. Both ratios were better than the industry average.

Page 29 Page 29 – MasterLink Securities recorded an after-tax profit of NT\$1.90bn for 2020, which was up by 22.9% year-on-year. The revenue from brokerage business grew 41.2% year-on-year to NT\$4.32bn, accounting for 62% of the total operating revenue. Brokerage market share was 3.65% and ranked the 6th place in the industry.

Looking into 2021, more featured services and marketing activities will be launched to secure different target clients. MasterLink Securities will promote the newly launched intelligent wealth management platform and strengthen its digital promotion models. The company will also utilize group resources to satisfy clients’ needs and capture business opportunities.

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

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