

SKFH First Quarter 2021 Results Conference Call

May 27, 2021, 4:30 p.m. (Taipei)

INTRODUCTION

Stan Lee:

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2021 First Quarter analyst call. Before we start, I would like to introduce my colleagues who are with me today.

- Here in the meeting 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.
- 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 886 968 *** ** for assistance.

PRESENTATION

Stan Lee:

Page 4 Now please turn to page 4.

SKFH recorded a consolidated after-tax profit of NT\$9.44bn for the first quarter 2021, up 23.7% year-on-year. Earnings per share was NT\$0.72. Consolidated shareholders' equity was NT\$231.38bn, and book value per share at the end of the first quarter was NT\$17.34.

Life insurance EV per share of SKFH was NT\$23.2. EV of Shin Kong Life increased 6% year-on-year to NT\$309.4bn in 2020. VNB was NT\$20.1bn, and VNB margin increased to 27.8%, 6.5% higher than the year before.

The subsidiaries also posted strong results for the first quarter, which will be

covered later in the presentation.

Page 10 Page 10 – Not simply aiming for sales volume or market share, Shin Kong Life chose to promote foreign currency policies and value-focused products for stable interest spreads, better asset liability matching, and CSM.

As a result, FYP of foreign currency policies for the first quarter amounted to NT\$8.50bn, accounting for 77.3% of the total. FYPE reached NT\$4.20bn, and FYPE over FYP increased from 35.8% in the first quarter 2020 to 38.2% in the first quarter 2021.

Cost of liabilities decreased 3 basis points year-to-date to 3.80%, 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 was 4.31%. Breakdown of investment returns for different asset classes were: real estate 4.7%, mortgage and corporate loans 1.7%, policy loans 5.6%, overseas investment 4.2%, domestic securities 5.9%, and cash 0.2%.

Page 14 Page 14 shows the portfolio of overseas fixed incomes. At the end of the first quarter, overseas fixed incomes topped NT\$1.9 trillion. Corporate bonds accounted for the largest share, representing 47.7% of the total, followed by international bonds at 27.2%. Emerging market government bonds accounted for 24.6%. 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 62.3%.

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 74.0%, including CS, NDF, and the naturally-hedged foreign currency policies. CS and NDF accounted for 58% and 42%, respectively, of traditional hedges.

Annualized hedging cost was 1.65% for the first quarter 2021, and foreign currency volatility reserve was NT\$4.0bn. In order to better contain hedging cost, Shin Kong Life will flexibly adjust hedging ratio through the proxy basket and continue to build up the 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 20 Thank you, Stan. Please turn to page 20.

Shin Kong Bank delivered a strong quarter on many fronts: net interest income grew 3.0% year-on-year with improved deposit structure and steady loan growth. Net fee income and investment income increased 9.2% and 19.0% year-on-year, respectively. Pre-provision operating profit reached NT\$2.07bn, which was 8.3% higher from a year earlier. Consolidated net income increased 13.7% year-on-year to NT\$1.52bn.

- Page 21 Page 21 – The bank’s loan balance rose 1.9% year-to-date to around NT\$666bn. Consumer lending grew 3.3% year-to-date and represented the largest segment of the loan portfolio, as mortgage and other consumer loans increased 3.6% and 3.1% year-to-date, respectively. The full-year target for loan growth remains 8%.
- Page 22 Page 22 – As the deposit rates steadily repriced downward and the ratio of demand deposits increased, net interest margin and net interest spread went up 1 basis point quarter-on-quarter to 1.25% and 1.65%, respectively. The trend is in line with our guidance given at the full-year 2020 analyst call.
- Page 24 Page 24 – Wealth management income for the first quarter increased 10.3% year-on-year to NT\$675mn, thanks to strong sales momentum in mutual funds. The fee income from mutual funds accounted for 41% of the total.
- In the second half of the year, Shin Kong Bank will actively attract new funds and expand its client base through online marketing campaigns.
- Page 25 Page 25 – Asset quality was stable with NPL ratio at 0.19% and coverage ratio at 712.77%. Both ratios were better than the level of 2020.
- Page 27 Page 27 – MasterLink Securities generated a brokerage fee income of NT\$1.19bn for the first quarter, which was 62.1% higher year-on-year. Proprietary trading income amounted to NT\$0.77bn, driven by disposal gains from equities and related securities, which was NT\$0.47bn higher year-on-year. Operating revenue grew 206.7% year-on-year to NT\$2.28bn, and consolidated net income reached NT\$0.90bn.
- In April, MasterLink Securities was approved for high-net-worth business and US QI license, and the company will look to expand business opportunities.

I will now turn the conference 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 2020 Embedded Value, the earning rate of VIF goes from 3.00% to 4.47% in 30 years for NTD products and 4.10% to 4.93% for USD products. The equivalent investment yield is 3.91%. For VNB, it goes from 2.57% to 4.32% and 3.79% to 4.82% in 30 years for NTD and USD products, respectively. The Adjusted NAV increased 6%, VIF increased 3%, and COC increased 1%. As a result, at the end of 2020, EV of Shin Kong Life increased 6% year-on-year to NT\$309.4bn. VNB only decreased 19% to NT\$20.1bn. AV's for 5 years of NB and 20 years of NB were NT\$392.0bn and NT\$508.8bn, respectively.

Page 30 Page 30 – Under the base case scenario, risk discount rate was 9.5%. We also provide the sensitivity tests of investment return and risk discount rate for your reference.

Page 31 Page 31 shows the breakdown of adjusted NAV. Shin Kong Life's adjusted NAV at the end of 2019 amounted to NT\$196.9bn. Profits in 2020 contributed an increase of NT\$7.2bn, while Unrealized Gains on Financial Assets caused a decrease of NT\$8.1bn in the adjusted NAV. As for Other Adjustments, which represented an increase of NT\$12.0bn, mainly included the capital injection from the financial holding company and the increase of FX reserve. Therefore, Shin Kong Life's adjusted NAV at the end of 2020 was NT\$208.1bn.

Page 32 Page 32 – VIF grew from NT\$186.4bn to NT\$192.5bn in 2020. The main impact came from the change in economic assumptions, which caused a decrease of NT\$68.3bn. However, the change in risk discount rate boosted an increase of NT\$22.2bn, and the new business issued added NT\$25.8bn to VIF.

Page 33 Page 33 – The decline in the premium from new business deducted NT\$9.5bn from VNB. However, Shin Kong Life adopted a value-driven strategy and focused on products with high margin, such as regular premium products and health insurance policies. The improved product mix was the biggest positive impact that added NT\$5.6bn to VNB. VNB margin increased from 21.3% to 27.8%, and VNB only decreased 19% year-on-year from NT\$24.9bn to NT\$20.1bn in 2020.

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

Q&A SESSION

Disclaimer:



Conference Call Script – SKFH Q1 2021 Earnings Update

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