

# SKFH Third Quarter 2021 Results Conference Call

*November 30, 2021, 4:30 p.m. (Taipei)*

## INTRODUCTION

**Stan Lee:**

Good afternoon, ladies and gentlemen.

Welcome again for joining the Shin Kong Financial Holding 2021 Third 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 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 consolidated after-tax profit of NT\$21.66bn for the first nine months 2021, up 22.3% year-on-year. Earnings per share was NT\$1.62. Consolidated shareholders' equity reached NT\$249.76bn, and book value per share at the end of September was NT\$17.39.

The subsidiaries also delivered strong results for the first nine months, which will be covered later in the presentation.

We'd like to highlight that the Company's efforts on ESG matters were recognized by being included in the DJSI World Index earlier in this month. As ESG ratings methodologies continue to evolve, we know there is still work to do, and we will work hard to meet expectations.

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.

Despite the decline in FYP, the sales of foreign currency policies for the first nine months amounted to NT\$27.91bn, accounting for 78.8% of the total. FYP of health insurance for the third quarter also grew 76.3% quarter-on-quarter as the COVID-19 pandemic came under control and sales activities picked up pace.

FYPE reached NT\$12.50bn, and FYPE over FYP was 35.3%, higher than the industry average. As for cost of liabilities, it decreased 6 basis points year-to-date to 3.77%.

**Page 13** Page 13 presents the overall view of Shin Kong Life’s investment portfolio. Annualized investment return for the first nine months was 3.86%, as investment income grew 1.6% year-on-year. Breakdown of investment returns for different asset classes were: real estate 4.2%, mortgage and corporate loans 1.7%, policy loans 5.4%, overseas investment 3.7%, domestic securities 5.3%, and cash 0.2%.

**Page 14** Page 14 shows the portfolio of overseas fixed incomes. At the end of September, overseas fixed incomes topped NT\$2 trillion. In the third quarter, the funds were predominantly deployed in investment grade corporate bonds. As a result, corporate bonds accounted for the largest share, representing 48.3% of the total, followed by international bonds at 26.6%. Emerging market government bonds accounted for 24.7%. 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 61.2%.

**Page 16** Page 16 – The pie chart on the left-hand side shows the mix of hedging instruments. At the end of the first nine months, hedging ratio was 79.7%, including CS, NDF, and naturally-hedged foreign currency policies. CS and NDF accounted for 53% and 47%, respectively, of traditional hedges.

Annualized hedging cost was 1.75%, and foreign currency volatility reserve was NT\$2.0bn. As the cost of traditional hedging tools continued to decrease and Taiwan dollar remained largely stable versus US dollar, the Company is confident to keep the full-year hedging cost below 2% as expected.

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 achieved a strong quarter on many fronts: cumulatively, net interest income grew 11.9% year-on-year with stable loan growth. Net fee income increased 2.5% year-on-year to NT\$2.56bn. Pre-provision operating profit reached NT\$6.77bn, which was 9.7% higher from a year earlier. Consolidated net income grew 9.3% year-on-year to NT\$5.16bn.

Page 21 Page 21 – The bank’s loan balance rose 7.2% year-to-date to around NT\$700bn. Consumer lending grew 11.0% year-to-date and represented the largest segment of the loan portfolio, as mortgage and other consumer loans increased 11.4% and 15.7% year-to-date, respectively. The full-year loan growth is expected to exceed 8%, which is higher than the original target.

Page 22 Page 22 – Fierce competition and abundant liquidity in the market put downward pressure on the Bank’s average lending rates. As a result, net interest spread for the third quarter decreased 2 basis points quarter-on-quarter to 1.65%. Net interest margin decreased 1 basis point quarter-on-quarter to 1.23%.

Page 24 Page 24 – Wealth management income for the first nine months increased 6.8% year-on-year to NT\$1.94bn, which was boosted by stronger sales momentum in investment products.

As for product strategy, investment products are expected to draw more demand from clients in the fourth quarter; in the meantime, Shin Kong Bank will promote foreign currency policies and regular-paid products. The growth target for wealth management income for 2021 is 5-10%.

Page 25 Page 25 – Asset quality was benign with NPL ratio at 0.17% and coverage ratio at 764.82%. Both ratios were better than the industry average.

Page 27 Page 27 – MasterLink Securities generated a brokerage fee income of NT\$4.39bn for the first nine months, which was 66.7% higher year-on-year. Proprietary trading income amounted to NT\$2.52bn, driven by the disposal gain from equities, which was NT\$900mn higher year-on-year. Consolidated net income increased more than 150% year-on-year to NT\$3.03bn.

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

## **Q&A SESSION**

*Disclaimer:*



## Conference Call Script – SKFH Q3 2021 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.*