



# King's Town Bank

## “A Different Kind of Bank”

**Investor Presentation - QIC Taiwan CEO Week On Air**



Stock Code : 2809.TW

August 31, 2020



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# How are we 'Different'?

## A Few Examples of King's Town Bank Management Philosophy vs Peers

### King's Town Bank

vs

### Traditional Banking

Owner-operated, Tsai Family and Chairman Terence Tai control 40% of outstanding shares.



Controlled by multi-generational, large family conglomerates and/or the government, frequently with less than 20% shareholding.

Branches play to the strengths of their team and their client base. We allow the market to dictate the pace and focus of revenue/fee growth.



Each Branch provides a similar portfolio of services. Budget established by bank HQ, and all departments and branches work to budget.

Lending process focused on KYC, flexibility and communication. A team of 'lending supervisors' communicates daily with branch loan officers to provide on-the-spot guidance, helping to streamline loan approval. Loan Committee rarely rejects loan applications outright, instead making counter proposals or creative solutions.



Loan approval process is binary (yes or no answer) with decision-making centered at bank HQ & in the Loan Committee. Process has several layers and can take up to two months.

We work with our compliance department at every stage of the business development process, embedding compliance in our business conduct and product structure.



Compliance is primarily seen as a supervisory function and is brought into projects at a later stage or only as necessary.

Professionalism defined by accountability, timeliness in providing solutions to clients and communication with others.



Professionalism defined by cumulative experience in a given function and the ability to navigate the corporate hierarchy.

Investment Policy: Hold long-term (equity) and to maturity (bonds), follow underlying companies closely, never invest in something you don't understand.



Trading culture, emphasis on yearly budget and realized profits.

Sees loan growth as closely related to GDP growth, goal is to 'do a little better than' GDP growth over the long run, while managing the challenges each year brings.



Loan growth target communicated to sales, followed by a team-wide effort to hit the number.



## How are we 'Different'?

Key Ratios (%)	10 Year Loan CAGR	10 Year BV/Share CAGR	10 Year Average ROE (pretax)	10 Year Average ROA (pretax)	2019 BIS Ratio
<b>King's Town Bank</b>	<b>5.1</b>	<b>11.3</b>	<b>18.15</b>	<b>1.93</b>	<b>14.52</b>
The Shanghai Commercial & Savings Bank	7.6	1.7	12.35	1.35	13.45
CTBC	8.1	2.3	14.38	1.16	13.79
Taishin Bank	8.7	4.2	14.15	0.91	13.15
Cathay United Bank	6.4	2.1	13.61	0.86	14.15
E.SUN Bank	9.9	1.9	11.81	0.76	13.34
Far Eastern International Bank	6.1	2.2	10.91	0.70	13.07
Taichung Commercial Bank	7.2	2.1	10.19	0.67	11.45
Yuanta Bank	12.1	3.8	9.18	0.66	13.36

Note: Peers were selected on the basis of 10-year loan growth CAGR.

Data Source: Central Bank, year-end 2019.



# Dispelling a Common Myth

## KTB is not a 'Bond Trading House', and Our Asset Allocation is Conservative

Bank	Financial Assets / Total Assets (%)
<b>King's Town Bank</b>	<b>36.6</b>
Cathay United Bank	36.0
Yuanta Bank	33.7
E.SUN Bank	30.2
Far Eastern International Bank	29.8
The Shanghai Commercial & Savings Bank	29.4
CTBC	28.5
Taishin Bank	27.4
Taichung Commercial Bank	24.1

Data Source: TEJ, y/e 2019

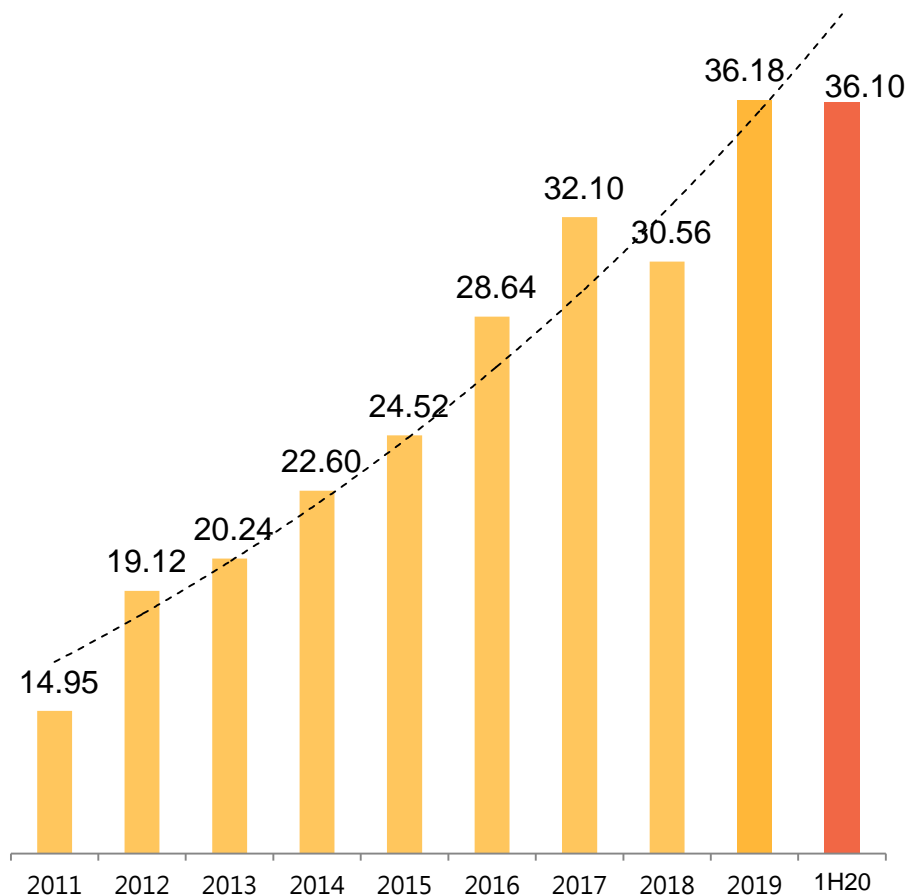
1. KTB has the highest ratio of financial assets to total assets in this sample of local peers, but we are not an outlier.
2. Domestic Treasuries, basically a risk-free asset, accounted for 35.8% of our financial assets at y/e 2019. We hold these primarily for liquidity purposes.
3. Foreign currency denominated bonds accounted for 35.1% of financial assets at y/e 2019. We use these as a proxy for overseas lending and mostly hold to maturity.
4. In our equity portfolio, we have a buy-and-hold mentality, which differentiates us from our peers.



## High Growth in BV/share + High ROE = Attractive Investor Returns

- BV/share has grown at a CAGR of 12% since 2011, while ROE has remained high.
- Enabling factors are:
  - High asset quality
  - Low loan default rates and a preference for collateral when dictated by borrower risk profile
  - Stable returns on our investment portfolio
  - Cash dividend of NT\$1.5 per share for 5 straight years
  - Treasury share buyback and cancelation – reduced shares O/S by 6% since 2013

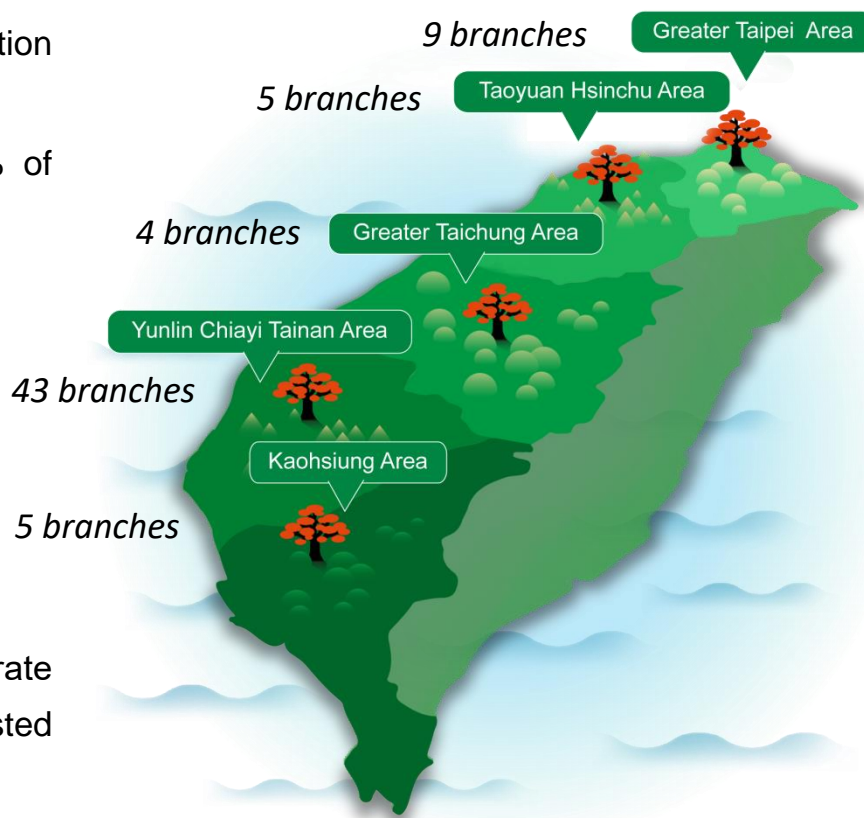
### Book Value per share (NT\$)





# King's Town Bank at a Glance

- Established in 1948, formerly known as the Tainan Business Bank.
- Headquartered in Tainan City, a city with a population of 1.9 million.
- A total of 66 branches, with approximately 73% of branches located in Southern Taiwan.
- 23 Metro branches, contributing
  - 16% of deposits
  - 85% of loans
- 43 Non-metro branches, contributing
  - 84% of deposits
  - 15% of loans
- Ranked in the Top 5% in terms of “Corporate Governance Best-Practice for TWSE Listed Companies” for three consecutive years.
- Credit rating affirmed by Fitch at BBB with stable outlook · local rating at A+(twn) · F1(twn) for 7 consecutive years. Outlook negative in 2020.



# LENDING STRATEGY

**“We stick to what we do best.”**  
- John Tsai, Vice Chairman -







# Key Principles of our Lending Strategy

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- We are very focused on the customer who can help ROA. A lot of banks in Taiwan want to look good in terms of size. We evaluate ourselves in terms of asset quality, capital position, ROA and ROE.
- Client size is not our consideration, and it doesn't affect how we pick our customer and market segments.
- The market for SME loans is an underserved area. We target bigger SMEs or small big corporates, many of whom already have a banking relationship with us.



# The KTB Formula for Profitable Lending

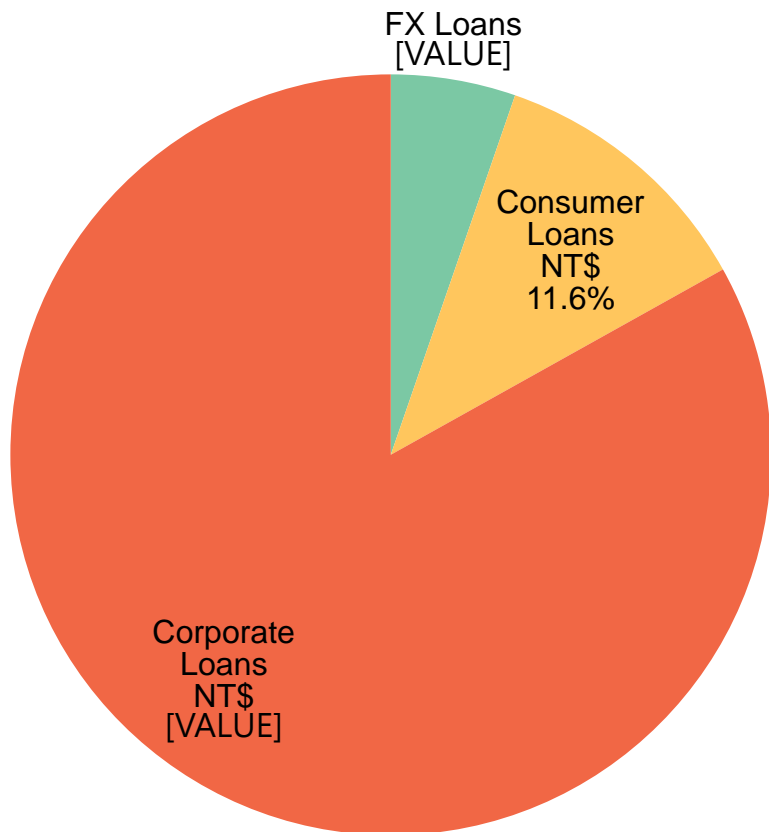
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- Stick to the industries and clients that we know best.
- Frequent communication between the branch level and KTB headquarters to shorten the decision cycle and maximize flexibility.
- Find out client needs and goals and provide them with custom-made financing solutions that other banks don't provide.
- Charge fees and interest rates that reflect the risk profile of that solution.
- Watch credit costs closely.

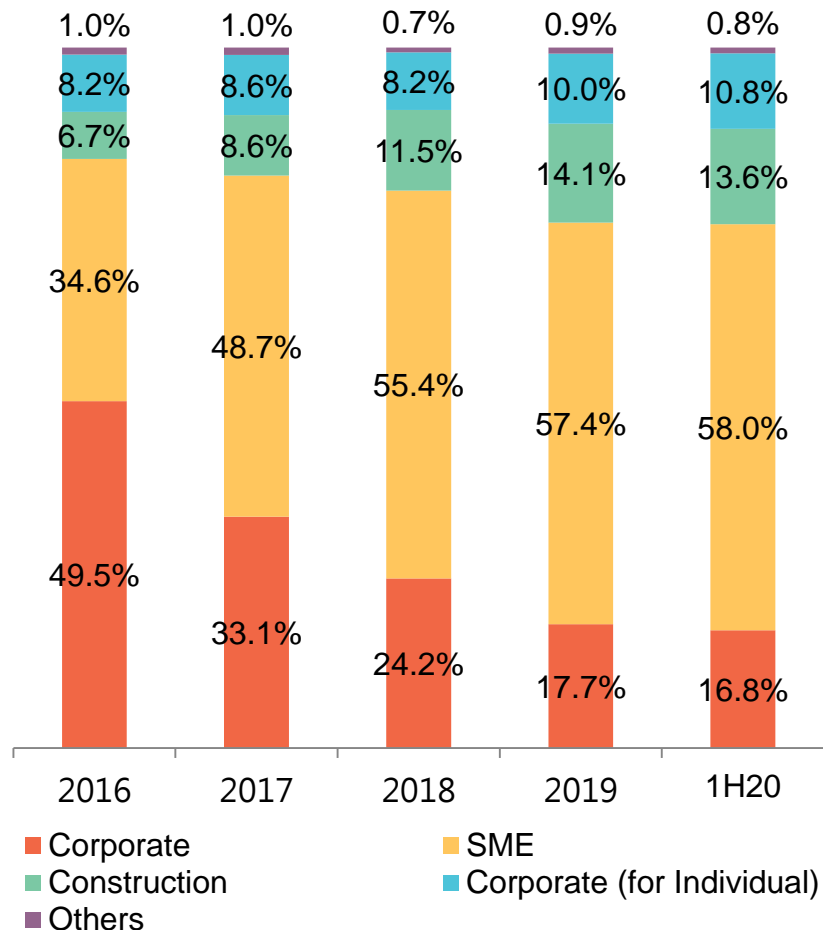


# Focused on Loans to SMEs and Construction

**Loan Composition (1H20)**

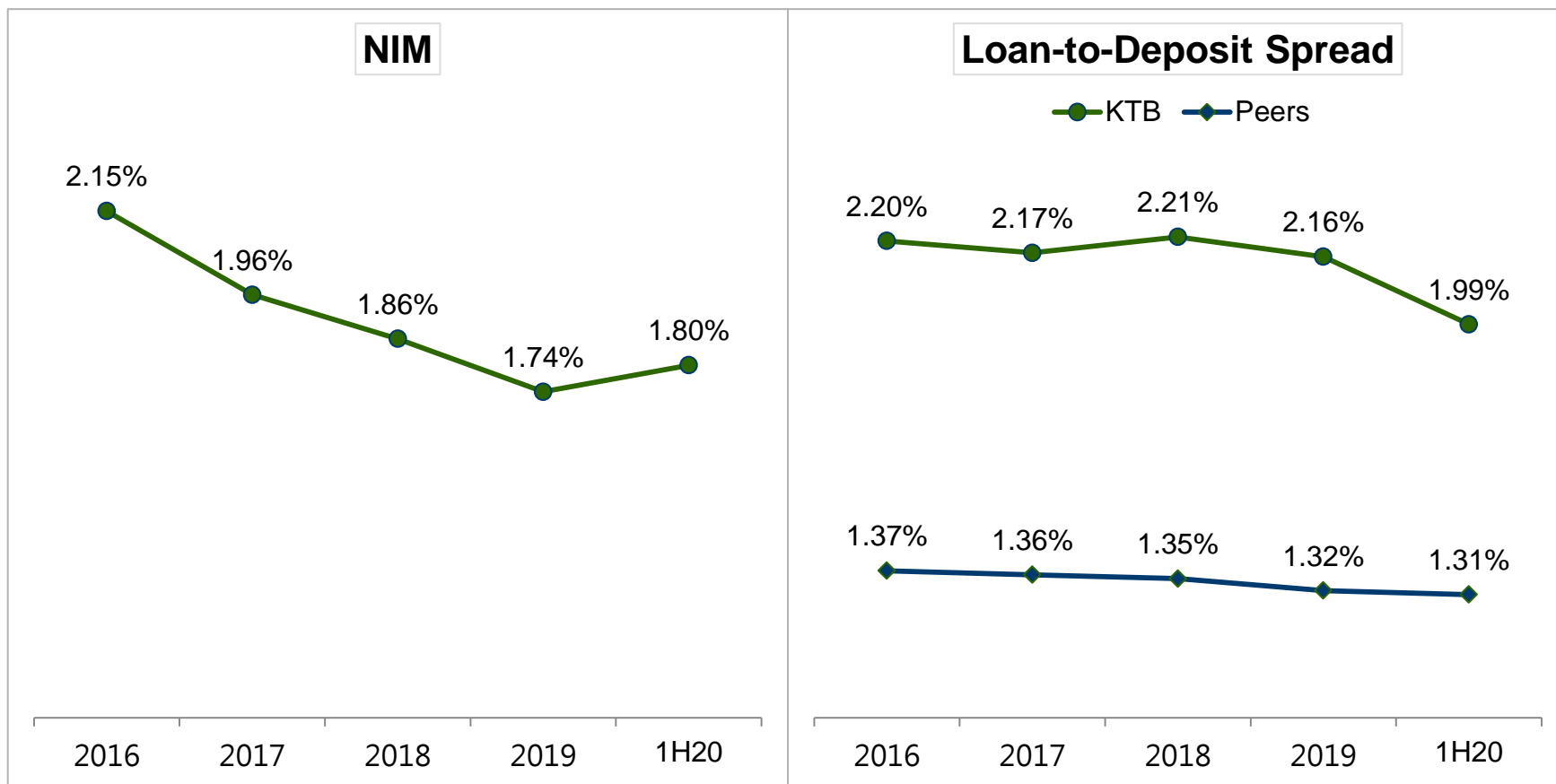


**Corporate Loan by Type**





# Industry-Leading Loan-to-Deposit Spread



Note: Peers data updated to 1Q/2020.

# MANAGEMENT PHILOSOPHY

“Not many bank Chairpersons will tell you they feel it is critical for their employees to develop a sense of compassion for colleagues and clients.”

- Terence Tai, Chairman -





## A True 'One Bank' Culture

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- KTB is sales driven & focused on providing client solutions
- To achieve this goal, we have built a culture of cooperation and frequent communication between departments.
- Fiefdoms are discouraged. The goal is for the entire company to maximize profits, not for individual departments to do so.
- Close, long-term client relationships are maintained at the local level, and a premium is placed on KYC.
- Flexibility in decision-making is prioritized. This is accomplished with a flat management structure, and an emphasis on collaboration.
- The Board of Directors sets broad targets – senior management and senior branch personnel are empowered with the autonomy to achieve them.



# Creating Collaboration Across Business Functions

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- Managers are rotated between roles and locations
- With the help of experienced staff within each department, managers are able to quickly grasp the key KPI of each new role.
- As a result, senior managers can be rapidly trained in areas outside of their core expertise.
- This contributes to KTB's flat management structure and flexibility. Managers understand the operations and needs of other departments, making collaboration across business functions a more likely outcome.



# Who are My Stakeholders & What Do They Want?

## STAFF



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Rewarding work  
Go home happy  
Equity ownership

## CLIENTS



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Funding to complete  
projects, expand their  
business scope and earn  
greater profits

## SHAREHOLDERS



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Attractive & Sustainable  
Returns



# DISCIPLINED INVESTMENT STRATEGY

**“If a bank does not have strong asset quality, then its ROA is just a mirage.”**

- Terence Tai, Chairman -





# The Basic Principles of KTB's Investment Strategy

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- KTB's Treasury Department seeks to achieve attractive and sustainable long-term investment returns while meeting the bank's funding and liquidity needs.
- We do not set 'hard-coded' budgets for single year, realized returns.
- We mostly hold our bonds to maturity and hold a concentrated portfolio of equities long-term.
- We will not invest in any financial security that we do not understand.
- Therefore, we tend to invest in simple senior company bonds, avoiding structured products.
- We follow our holdings in bonds as if we own the company.
- We follow the companies in our equity portfolio closely – making company visits, reviewing financial reports and following quarterly earnings.
- Our investment department will thoroughly review the prospectus of any existing bond or new bond issue we invest in.



## Other Key Specifics of our Investment Strategy

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- For each asset class, we maintain a core portfolio, then adjust size based on market valuations.
- For Bonds, we pay close attention to re-investment risk.
- At the outset of each year, we identify the bonds set to reach maturity within 12 months. We then look for market mispricing opportunities within that year to replace them.
- We seek attractive relative value in bonds, considering the YTM and duration of target investments relative to similar bonds of the same rating.



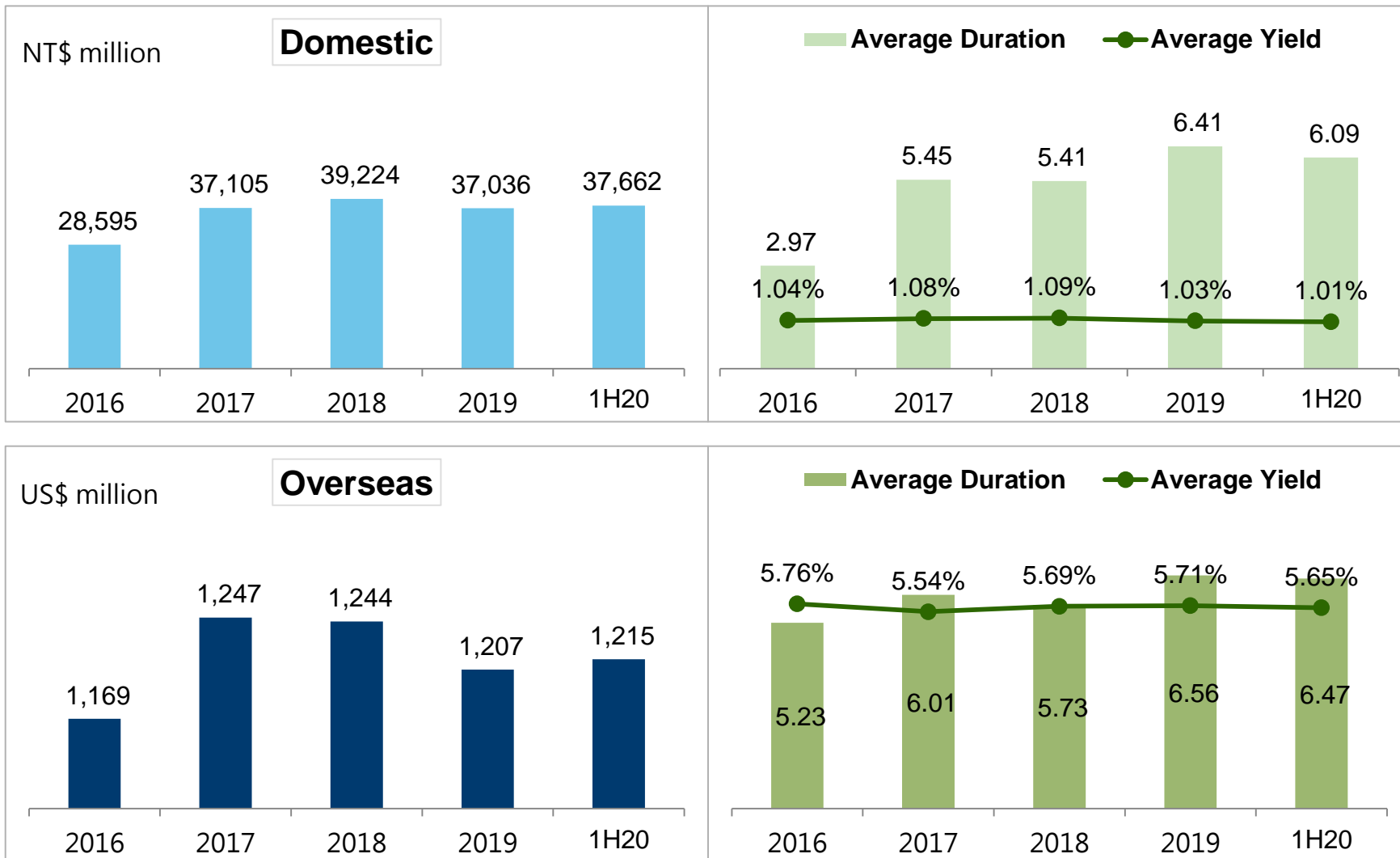
## KTB Holdings in Foreign Bonds are a Proxy for FX Loans

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- We consider foreign bond investments to be a type of loan, as we follow the underlying company closely – monitoring credit risk.
- When evaluating a prospective bond, we consider the expected yield versus our FX funding costs and the potential credit cost.
- Given the choice between syndicated loans and bonds, we choose bonds:
  - We trust our research and aren't looking for others to do it for us
  - Bonds are liquid, but syndicated loans are not

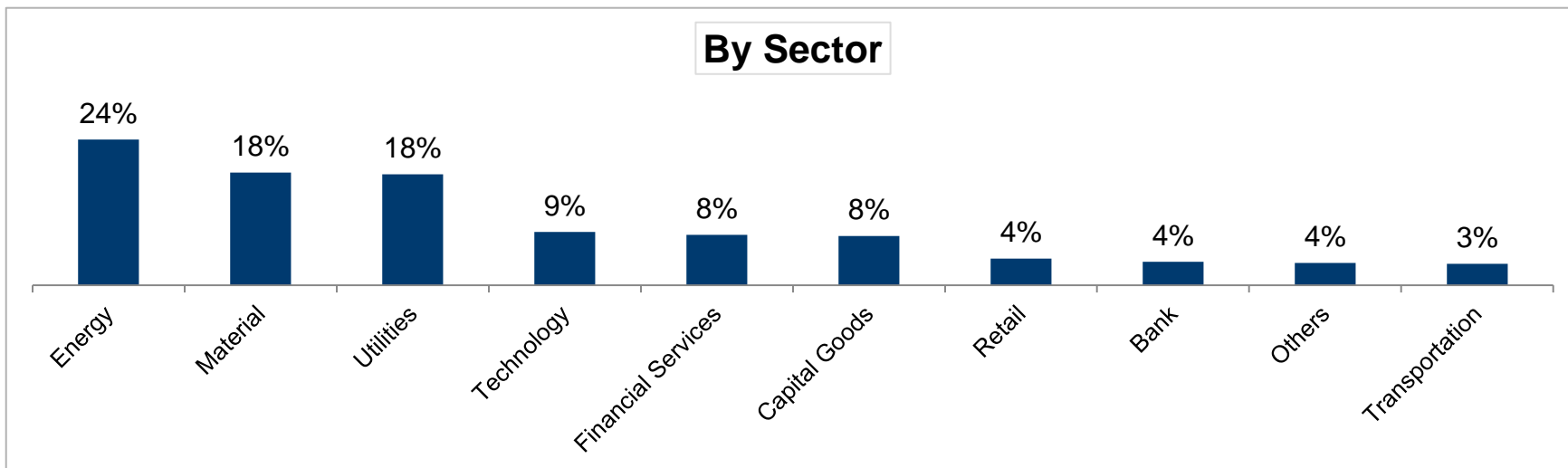
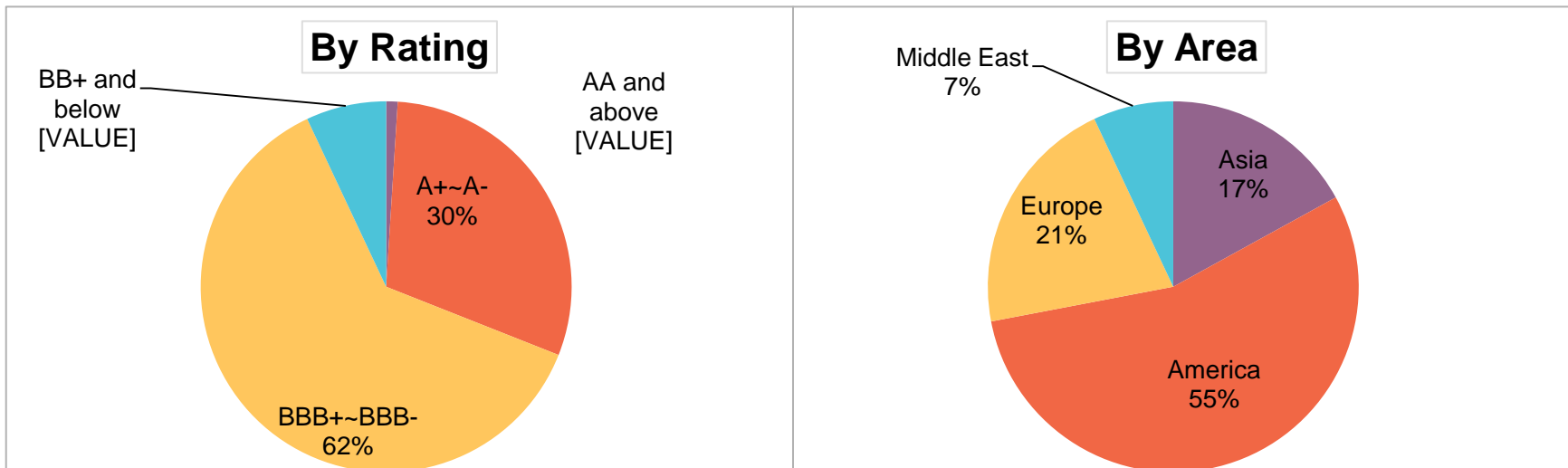


# Financial Assets - Fixed Income Investments





# Financial Assets – Overseas Fixed Income Portfolio (1H20)



# OUR COMMITMENT TO SHAREHOLDERS

“We evaluate ourselves in terms of asset quality, capital position, ROA and ROE.”

- John Tsai, Vice Chairman -





# Our Commitment to Shareholders

We view asset quality as the basis for all returns. As long as we manage this bank, we will ensure that its asset quality is amongst the best in the industry.

Maintain our BIS Ratio above 13% and our Tier 1 Capital Ratio above 11%

Aim to sustain healthy growth in BVPS

Maintain double-digit ROE over the long term.

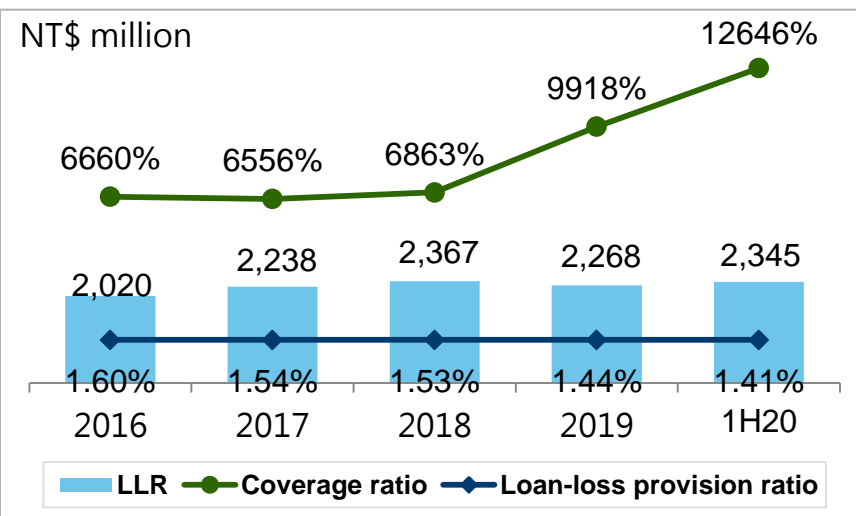
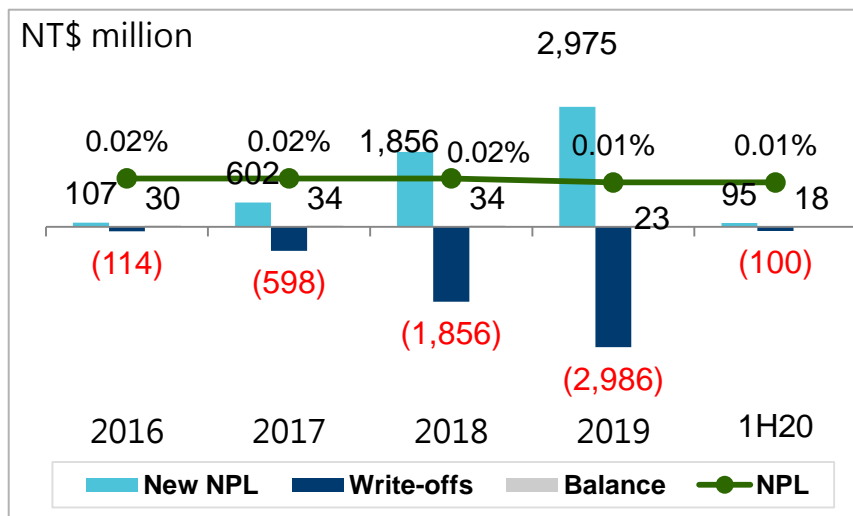
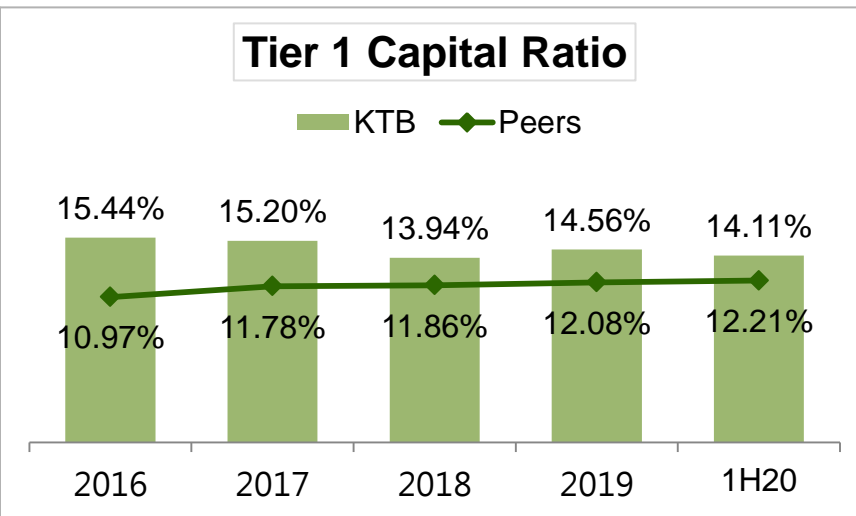
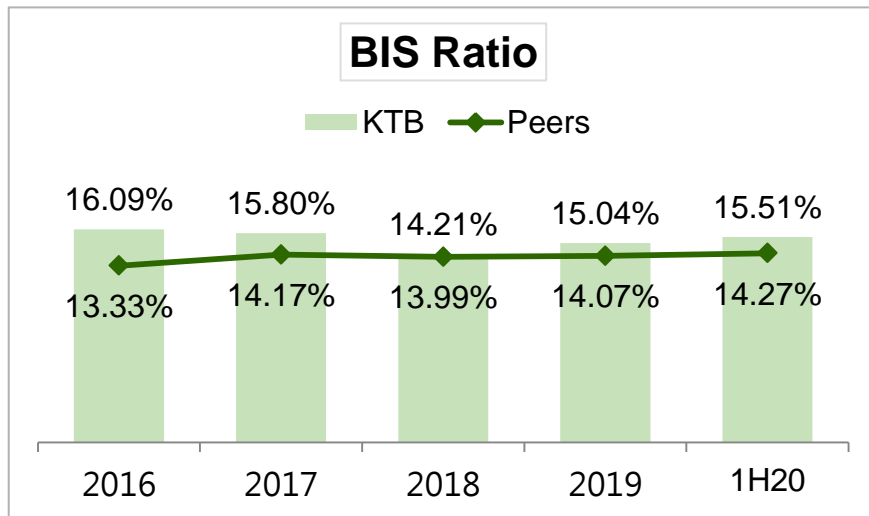
Provide stable and growing annual cash dividend-per-share

Buy treasury shares, when appropriate, to enhance shareholder return.





# Capital Adequacy and Asset Quality



Note: Peers data updated to Mar. 2020.



# Top 1,000 World Banks 2019 - The Banker

Strength				Size			
Rank		Tier 1 Capital (US\$ million)	%ch.	Assets (US\$ million)	%ch.	Rank	
World	Taiwan					World	Taiwan
712	24	1,098	-5.08%	9,147	0.69%	828	28

Soundness			Performance					
Capital Assets Ratio	Rank		Profits on Capital	Rank		Return on Assets	Rank	
	World	Taiwan		World	Taiwan		World	Taiwan
12.01%	136	<b>2</b>	8.53%	628	<b>9</b>	1.02%	407	<b>1</b>

# FINANCIAL REVIEW

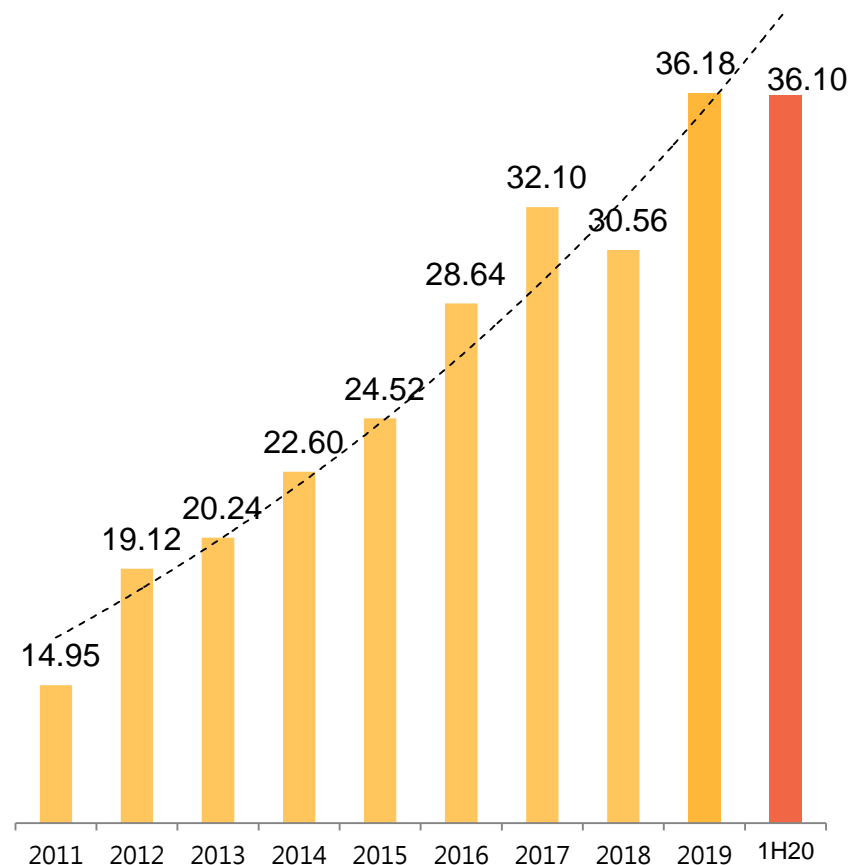




# 1H20 Financial Review

	2020.06	2019.06
Total Assets (NT\$ mm)	298,103	276,910
Book Value/share (NT\$)	36.10	32.63
ROE (pretax)	11.80%	4.98%
ROA (pretax)	1.65%	0.65%
BIS Ratio	15.51%	15.65%
NPL Ratio	0.01%	0.02%
Coverage Ratio	12646%	13364%
Loan-loss Provision Coverage Ratio	1.41%	3.31%
QFII Holdings	14.86%	20.41%
Fitch Rating	A+(tw) 、 F1(twn)	

Book Value per share





# 1H20 Operating Highlights

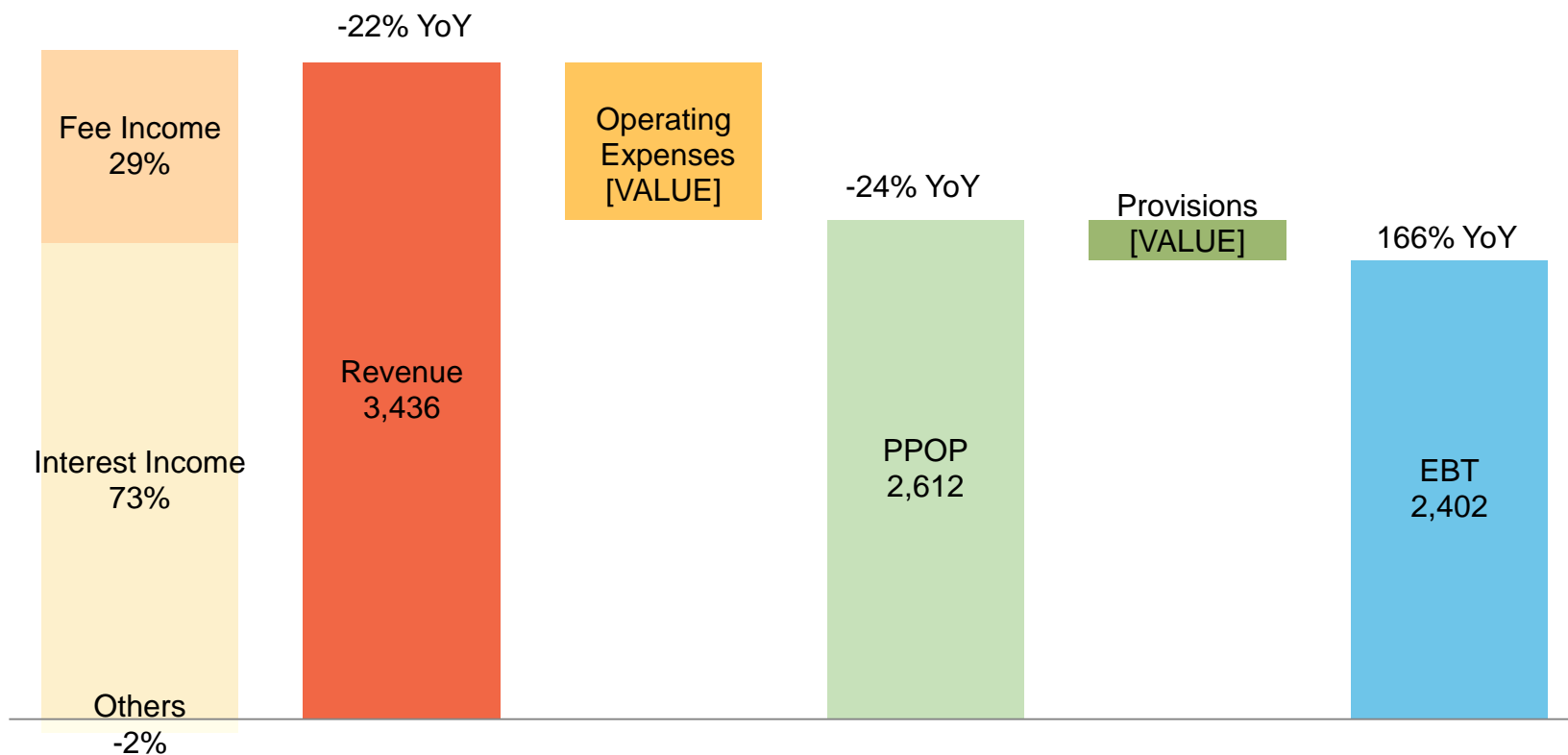
## Financial Performance

- 1H20 net revenue decreased by 22% from the same period last year. Breaking it down into parts, net interest income increased by 6%, net fee income decreased by 2%, and other income decreased by 107%. The increase in net interest income was mainly due to a widening in net interest margins on overseas bonds, which led to increased net interest income on foreign bonds. The decrease in other income was mainly due to impairment charges booked on financial assets.
- Loan-to-deposit spread in 1H20 reflected the continuing impact of the Taiwan Central Bank's interest rate cut, falling further to 1.99%.
- Launched the “Goyee” digital account platform in the second quarter of this year.
- 1H20 operating expenses were NT\$824 million, a decrease of 14% from the same period last year.
- Reported after-tax net income for 1H20 of NT\$1,986 million and EPS of NT\$1.77. ROE before tax was 11.80% and ROA before tax was 1.65%.
- Asset quality remains sound, with our NPL ratio at 0.01%, coverage ratio at 12,646% and loan-loss provision coverage ratio at 1.41%.



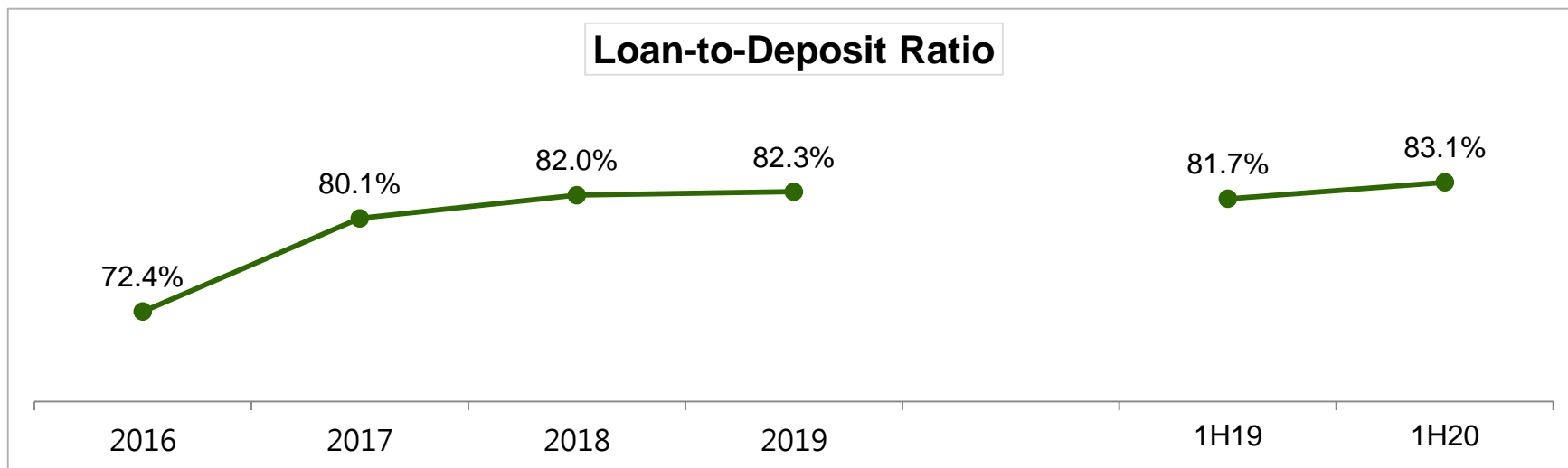
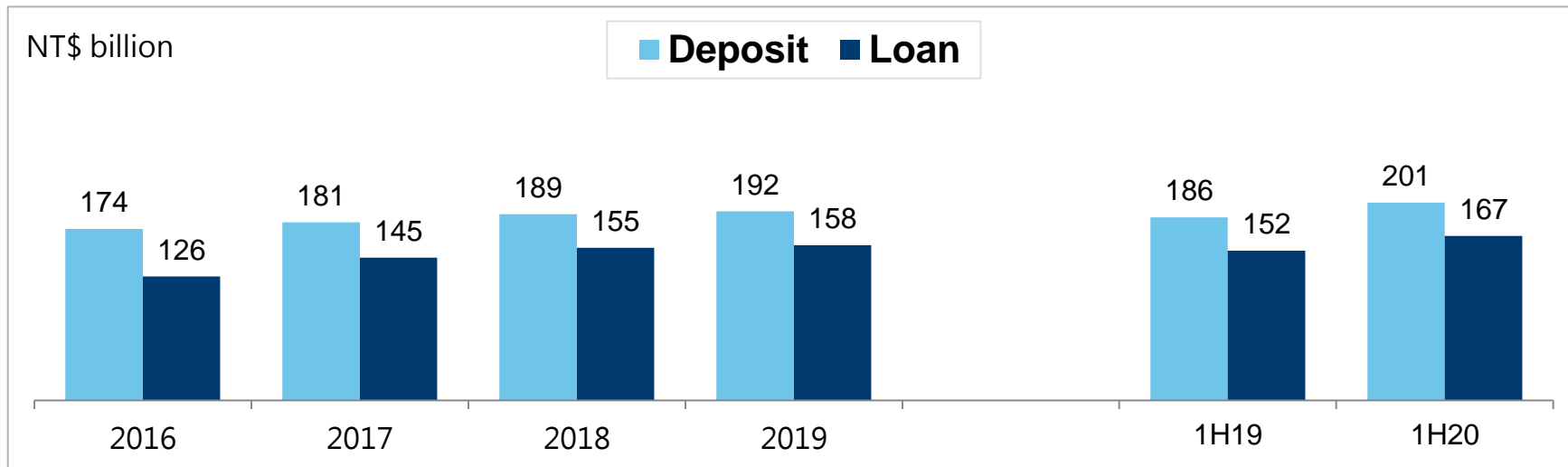
# 1H20 Revenue Breakdown

NT\$ million



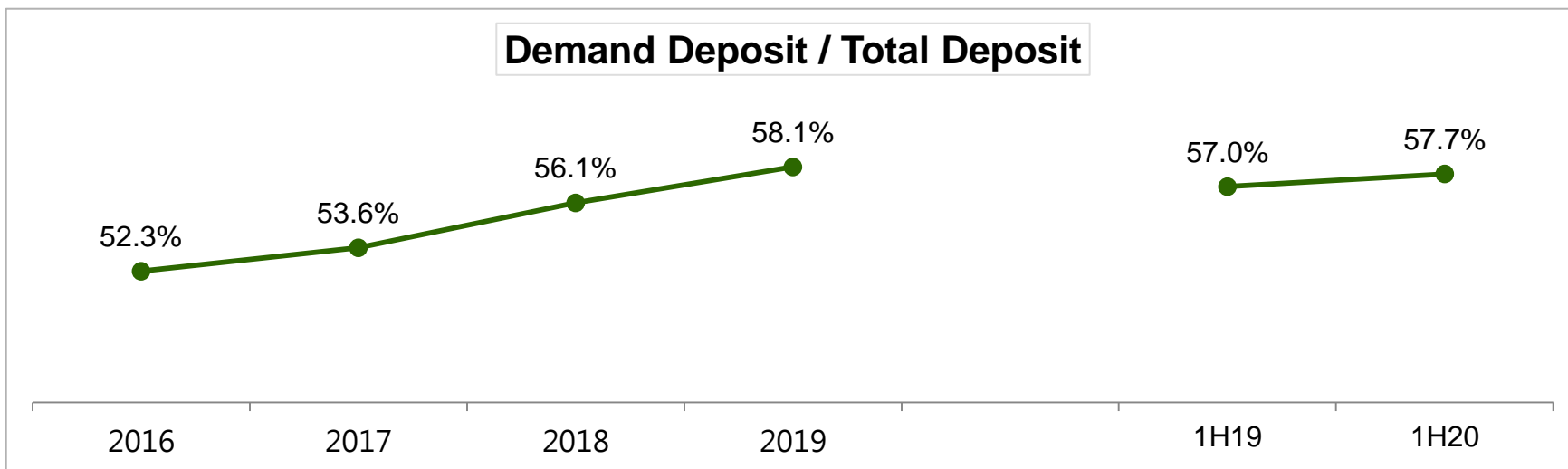
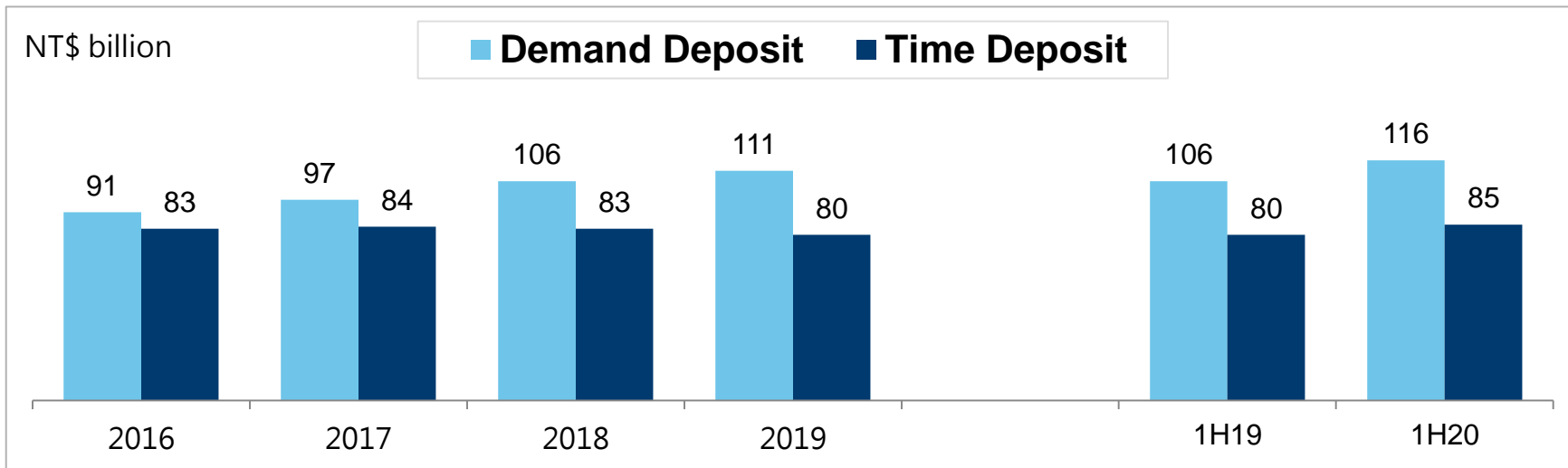


# Loans and Deposits





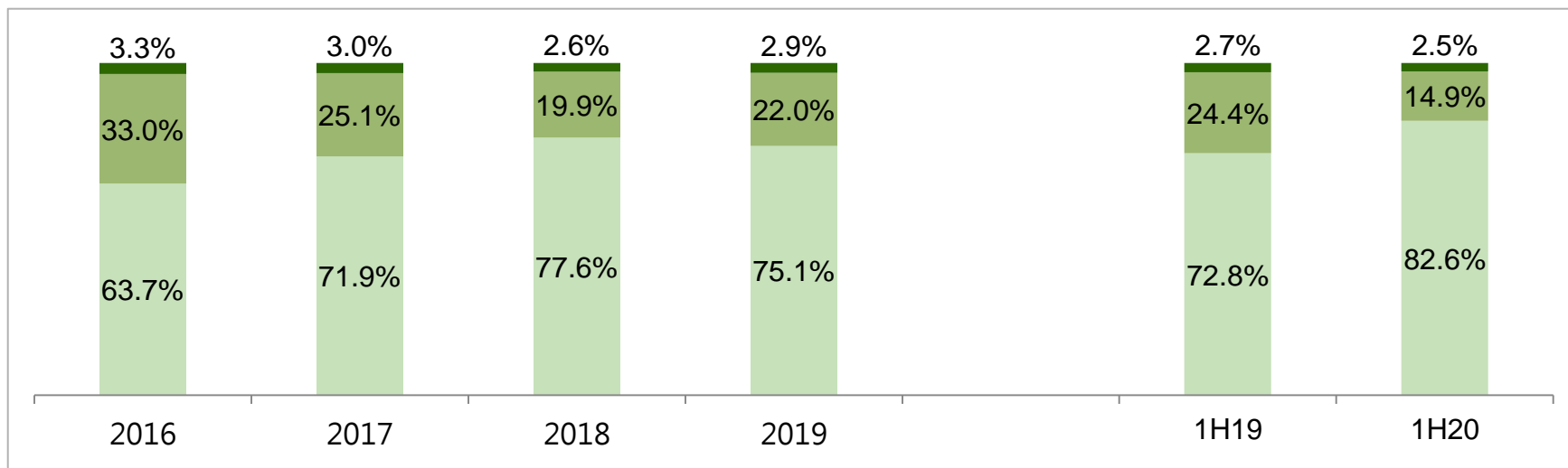
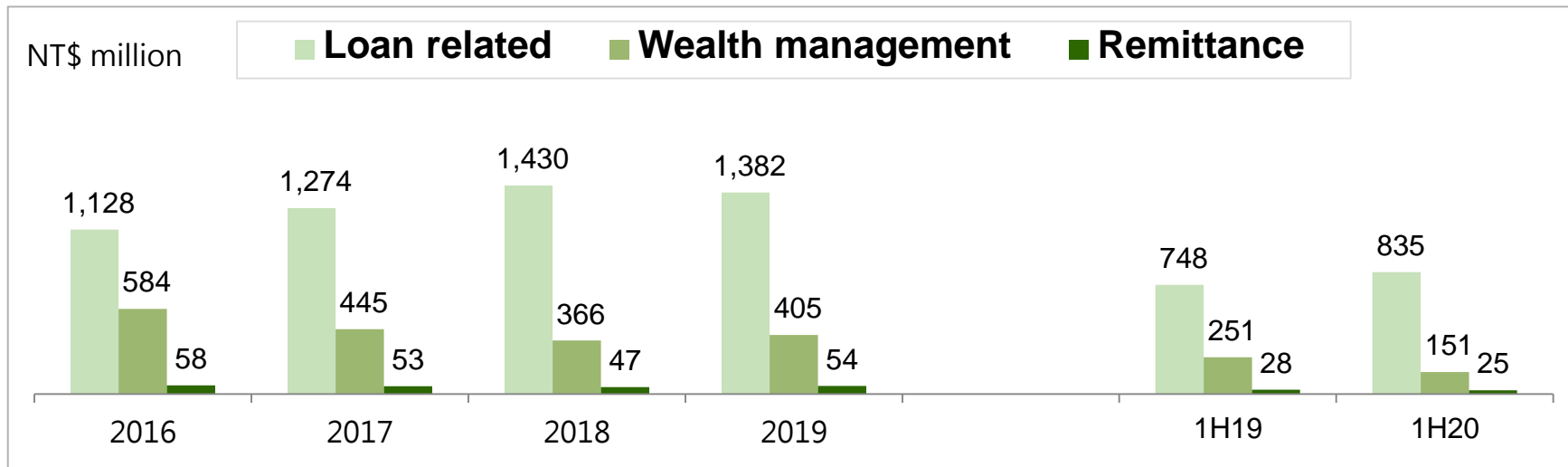
# Deposit Breakdown





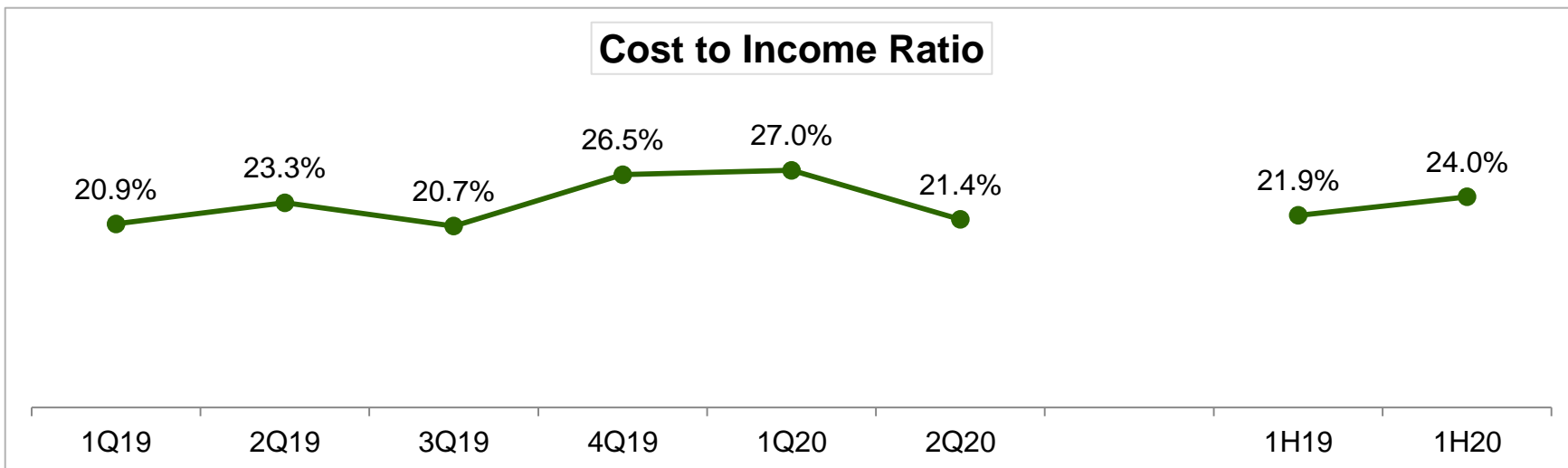
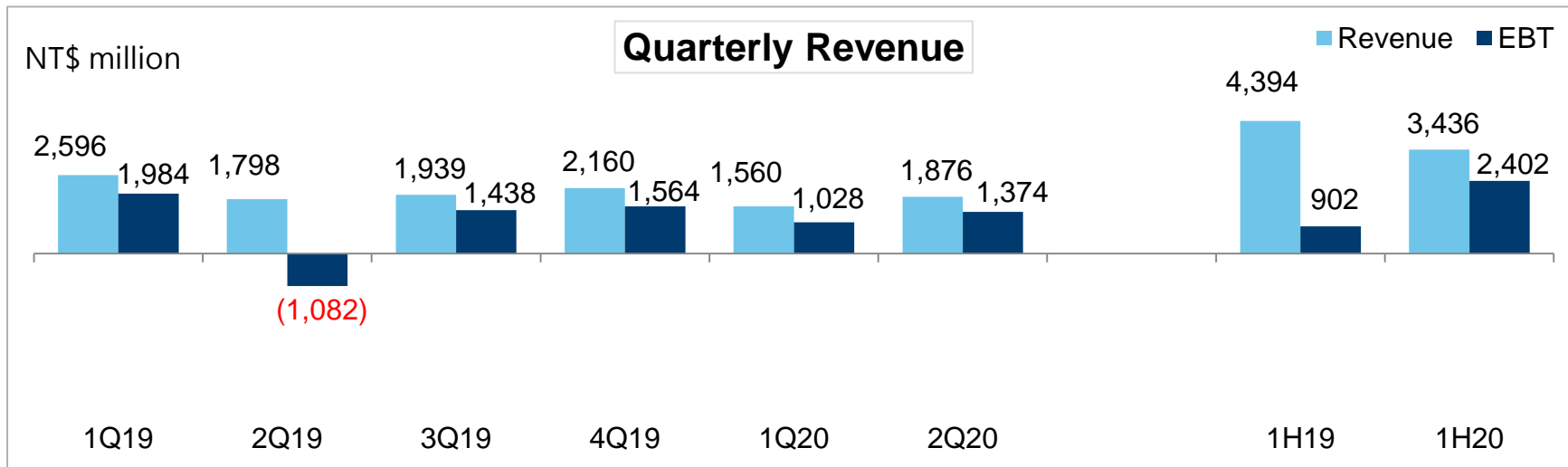


# Fee Income



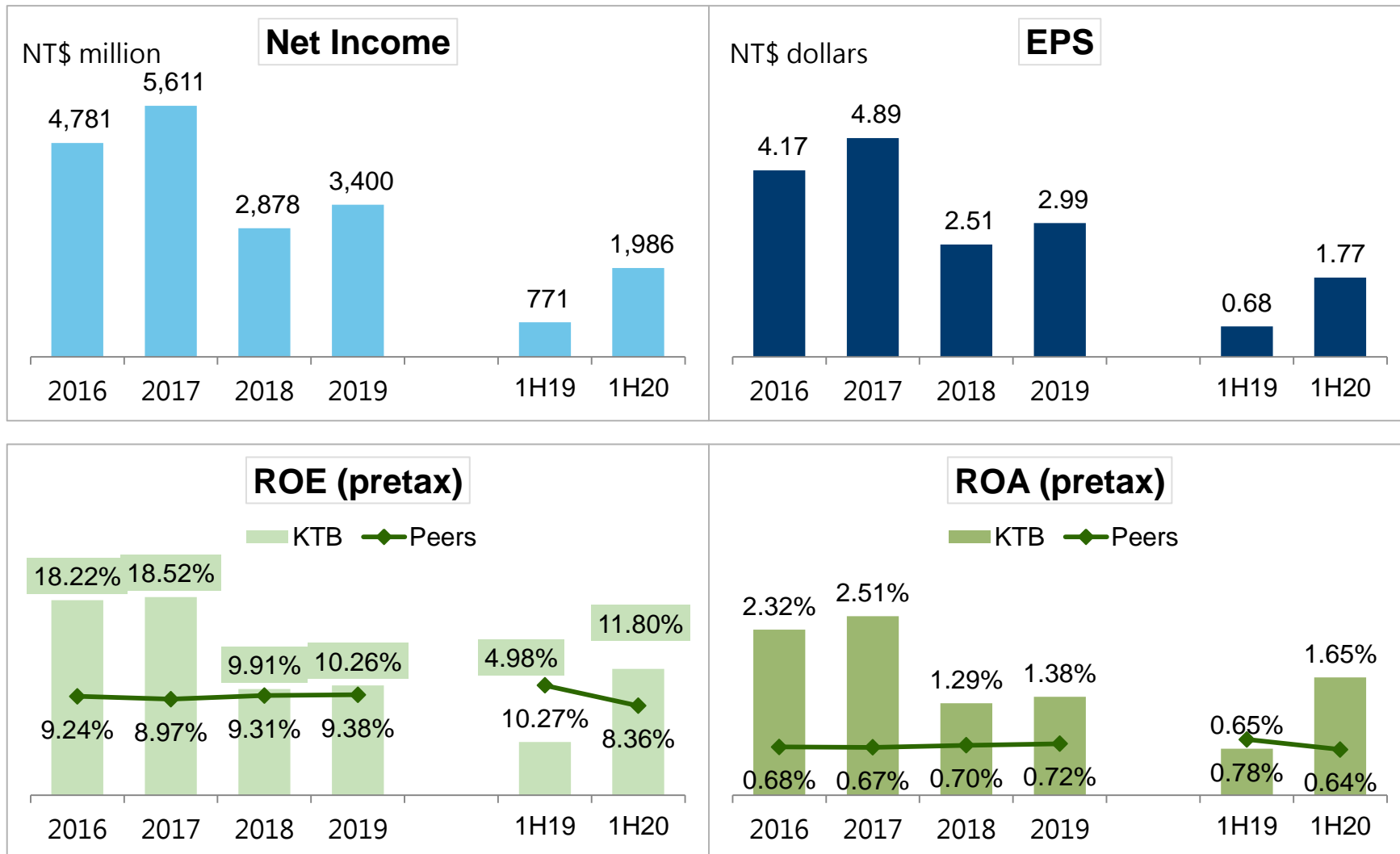


# Quarterly Revenue and Expenses





# Profitability



Note: Peers data updated to April 2020 (annualized).



# Income Statement

NT\$ million

Items	1H/20	1H/19	YoY
Net Interest Income	2,494	2,360	6%
Net Fee Income	1,011	1,027	-2%
Other Income	(69)	1,007	-107%
Revenue	3,436	4,394	-22%
Operating Expenses	(824)	(961)	-14%
PPOP	2,612	3,433	-24%
Provision for Loan Loss	(210)	(2,531)	-92%
Earnings Before Tax	2,402	902	166%
Net Income	1,986	771	158%
EPS(Cumulative)(NT\$)	1.77	0.68	160%



# Balance Sheet

NT\$ billion

Items	2020.06	2019.06	YoY	Items	2020.06	2019.06	YoY
<b>Cash, CDs, Interbank Deposits, and R/S</b>	17.9	14.5	23%	<b>Interbank Deposits , Interbank Borrowings</b>	27.8	19.6	42%
<b>Securities</b>	105.9	107.2	-1%	<b>Deposits</b>	200.8	185.9	8%
<b>Loans</b>	164.5	146.9	12%	<b>R/P</b>	24.8	27.6	-10%
<b>Property and Equipment</b>	2.7	2.6	4%	<b>Other Liabilities</b>	4.2	6.6	-36%
<b>Other Assets</b>	7.1	5.7	25%	<b>Total Liabilities</b>	257.6	239.7	7%
<b>Total Assets</b>	298.1	276.9	8%	<b>Shareholder's Equity</b>	40.5	37.2	9%



## Disclaimer

- This presentation may include forward looking statements. All statements, other than statements of historical facts, that address activities, events or developments that King's Town Bank expects or anticipates will or may occur in the future are forward-looking statements. King's Town Bank's actual results or developments may differ from those indicated by these forward-looking statements as a result of various factors and uncertainties which are beyond our control. In addition, King's Town Bank makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.
- The preliminary results announced today are unaudited and are therefore subject to change.



**Thank You!** 

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