



King's Town Bank

“A Different Kind of Bank”

Investor Presentation



Stock Code : 2809.TW

April 2021



Operating Highlights

- 2020 EPS Hit a New Record High**

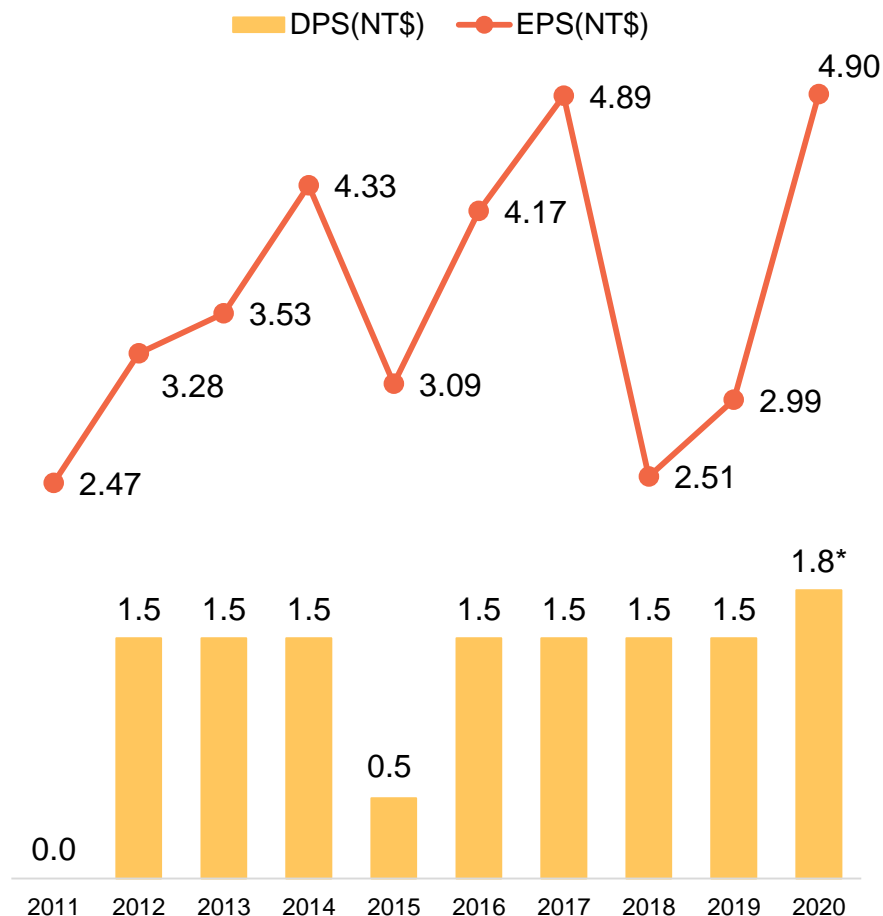
EPS in 2020 reached NT\$4.9.

Achieved double-digit growth in deposits, loans and interest income in 2020.

- Maintained Outstanding Asset Quality and Capital Adequacy Ratios**

- We value ESG Highly and are Dedicated to Further Improvement:** KTB was added to Bloomberg's Gender-Equality Index this year, one of only 5 companies in Taiwan to achieve this designation.

- The Board of Directors proposed a cash dividend per share of NT\$1.8 for FY2020**



*BOD proposed DPS for FY2020, subject to approval at the upcoming AGM.



Strategic Focus

Pursuing Growth While Maintaining Outstanding Asset Quality

Asset Quality is the First Priority

Always asking “at what cost” each growth opportunity will come

Extra Care in Risk Management

Systematic cooperation between branch sales managers and the risk management team at KTB headquarters

Building Long-Term, Win-Win Partnerships with Clients

Helping clients to grow their business



1Q21 Unaudited Results – Key Highlights

- Total Loans at the end of 1Q21 were NT\$191bn, 20% higher than the 1Q20 period-end level, and 1.5% higher than year-end 2020.
- 1Q21 Net Interest Income grew 12% YoY, maintaining the strong growth momentum of recent months.
- Recovered NT\$768m of the NT\$2.9bn Green Energy bad loan provision via the sale of collateral in March and have recovered a total of NT\$918m since provisioning for the loan. We hope to recover another NT\$300-400m of the loan via further sales of collateral over the next 12-24 months.
- Loan-loss provision ratio was 1.57% at the end of March 2021 versus the median value of 1.32% for the Taiwan banking industry.*

*Median value is from January 2021, the latest date that industry-wide data is available for.



1Q21 Preliminary Income Statement (Unaudited)

NT\$ million

Items	1Q21	% Revenue	1Q20	% Revenue	YoY
Net Interest Income	1,380	50%	1,236	79%	12%
Net Fee Income	514	19%	509	33%	1%
Other Income	842	31%	(185)	-12%	NA
Revenue	2,736	100%	1,560	100%	75%
Operating Expenses	(593)	-22%	(422)	-27%	40%
PPOP	2,144	78%	1,138	73%	88%
Provision for Loan Loss	613	22%	(110)	-7%	NA
Earnings Before Tax	2,757	101%	1,028	66%	168%



King's Town Bank 2021 Outlook

- **We expect continued healthy loan growth on the back of a positive economic outlook in Taiwan:** The Directorate General of Budget, Accounting & Statistics forecasts that Taiwan's real GDP will grow 4.64% in 2021 and GDP per Capita will exceed US\$30k.

We are cautiously optimistic on the prospects for continued healthy growth in our lending business this year.

We are in a liquidity-rich environment and our deposit-to-loan ratio is low enough to support further loan growth

The external environment is favorable to maintaining our current high level of asset quality.

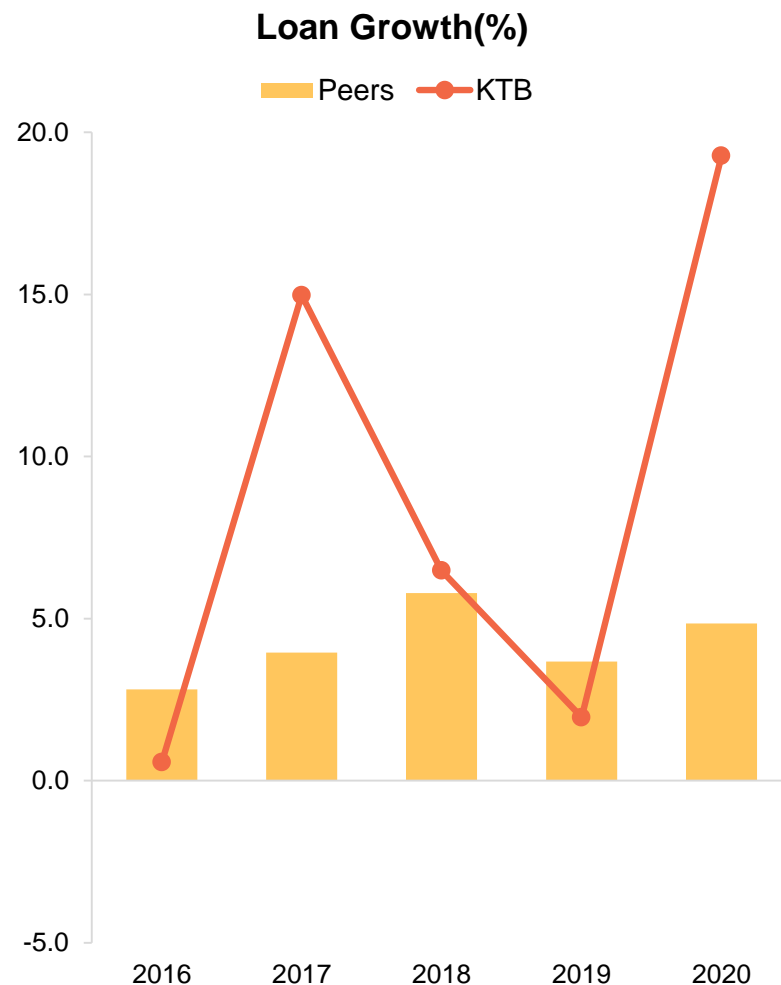
- **We aim to maintain NIM at or close to the level of 2H20**

Funding costs are not likely to fall much further, so we expect NIM to remain relatively stable in 2021.

- **Investment in Digital Banking Capabilities:**

We will continue to increase investment in IT and to expand the size of our IT department.

Our focus is on enhancing the digital offering we provide to existing long-term customers.





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2020 Financial Review



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'?

We take less risk and have a more focused business model.

Growing loans faster than industry peers, while being much choosier about whom we lend to.

Growing book 4-5x faster than peers, with far superior returns.

Key Ratios (%)	Loan CAGR (2016-2020)	BV/Share CAGR (2016-2020)	Average ROE (pretax) (2016-2020)	Average ROA (pretax) (2016-2020)	2020 BIS Ratio
King's Town Bank	8.4	11.2	14.24	1.91	16.23
Local Peer Average	4.2	2.8	8.99	0.66	14.85

*Note: These averages are calculated from the publicly reported data of Taiwan local banks.

Data Source: Central Bank, year-end 2020.



Dispelling a Common Myth

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

Bank	Financial Assets / Total Assets (%)
King's Town Bank	34.6
Local Peers*	31.4

*Note: These averages are calculated from the publicly reported data of a collection of KTB's most important local peers.

Data Source: TEJ, y/e 2020

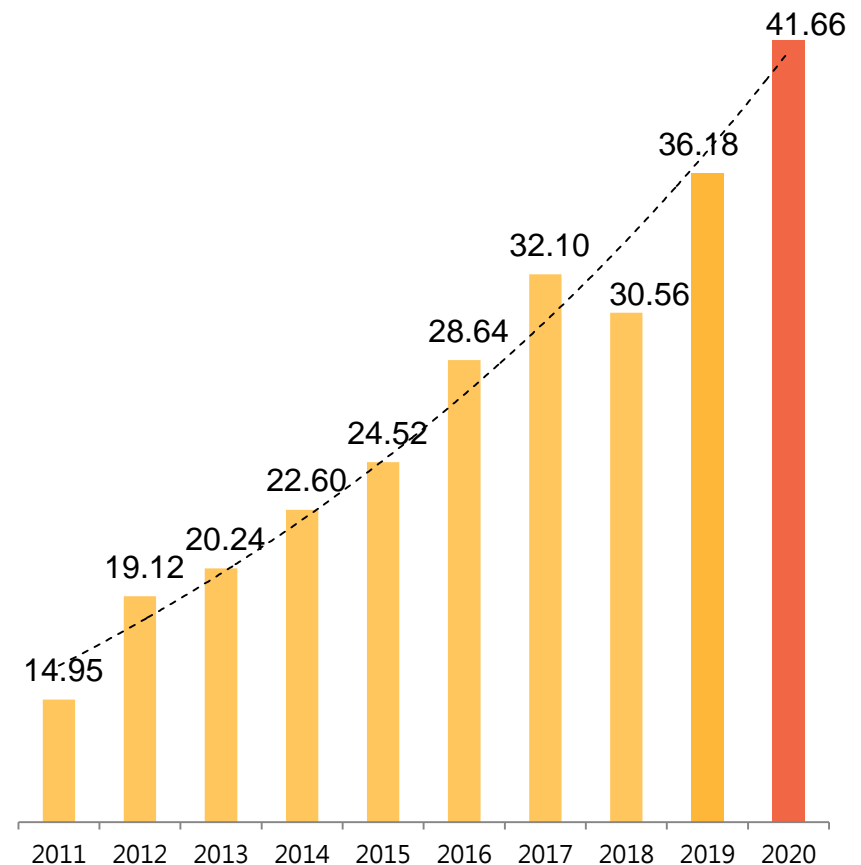
1. KTB has the highest ratio of financial assets to total assets in this sample of local peers, but we are not an outlier.
2. Domestic Treasuries, basically a risk-free asset, accounted for 36% of our financial assets at y/e 2020. We hold these primarily for liquidity purposes.
3. Foreign currency denominated bonds accounted for 31% of financial assets at y/e 2020. 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

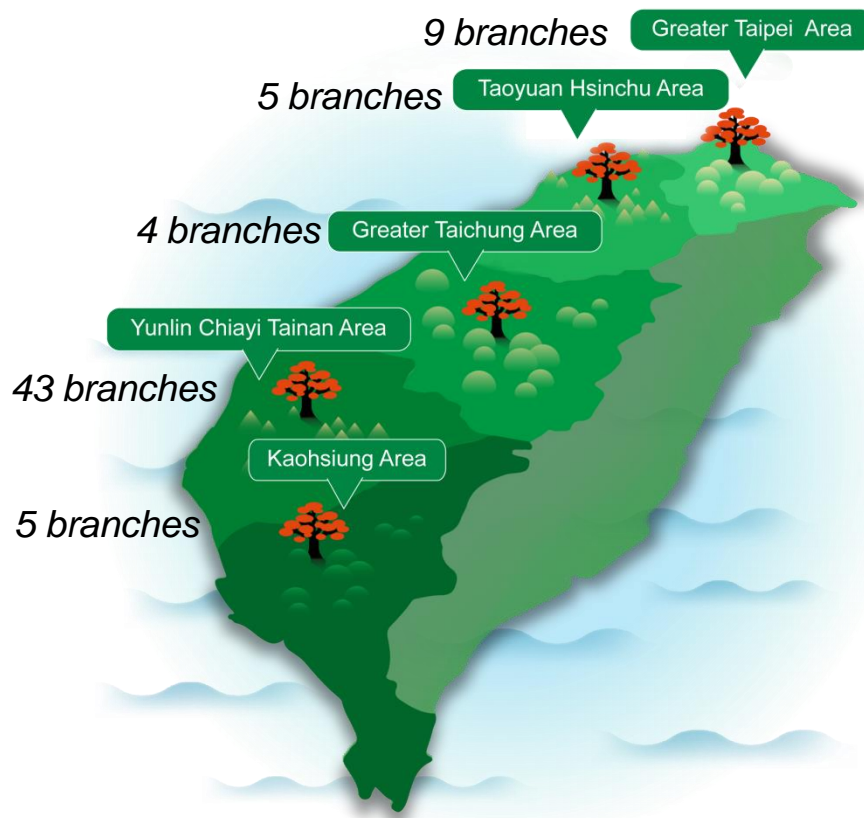
- BV/share grew at a CAGR of 12% from 2011 to 2020, while ROE has remained high.
- Enabling factors are:
 - High asset quality
 - Low loan default rates and a preference for collateral when dictated by borrower risk profile
 - Stable returns on our investment portfolio
 - Cash dividend of NT\$1.5 per share for 5 straight years
 - Treasury share buyback and cancelation – reduced shares O/S by 6% since 2013

Book Value per share



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.
- Paid-in capital of NT\$ 11.2 billion.
- 23 Metro branches, contributing
 - 17% of deposits
 - 86% of loans
- 43 Non-metro branches, contributing
 - 83% of deposits
 - 14% 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 · local rating at A+(tw) 、F1(twn) for 7 consecutive years. Outlook negative in 2020.



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

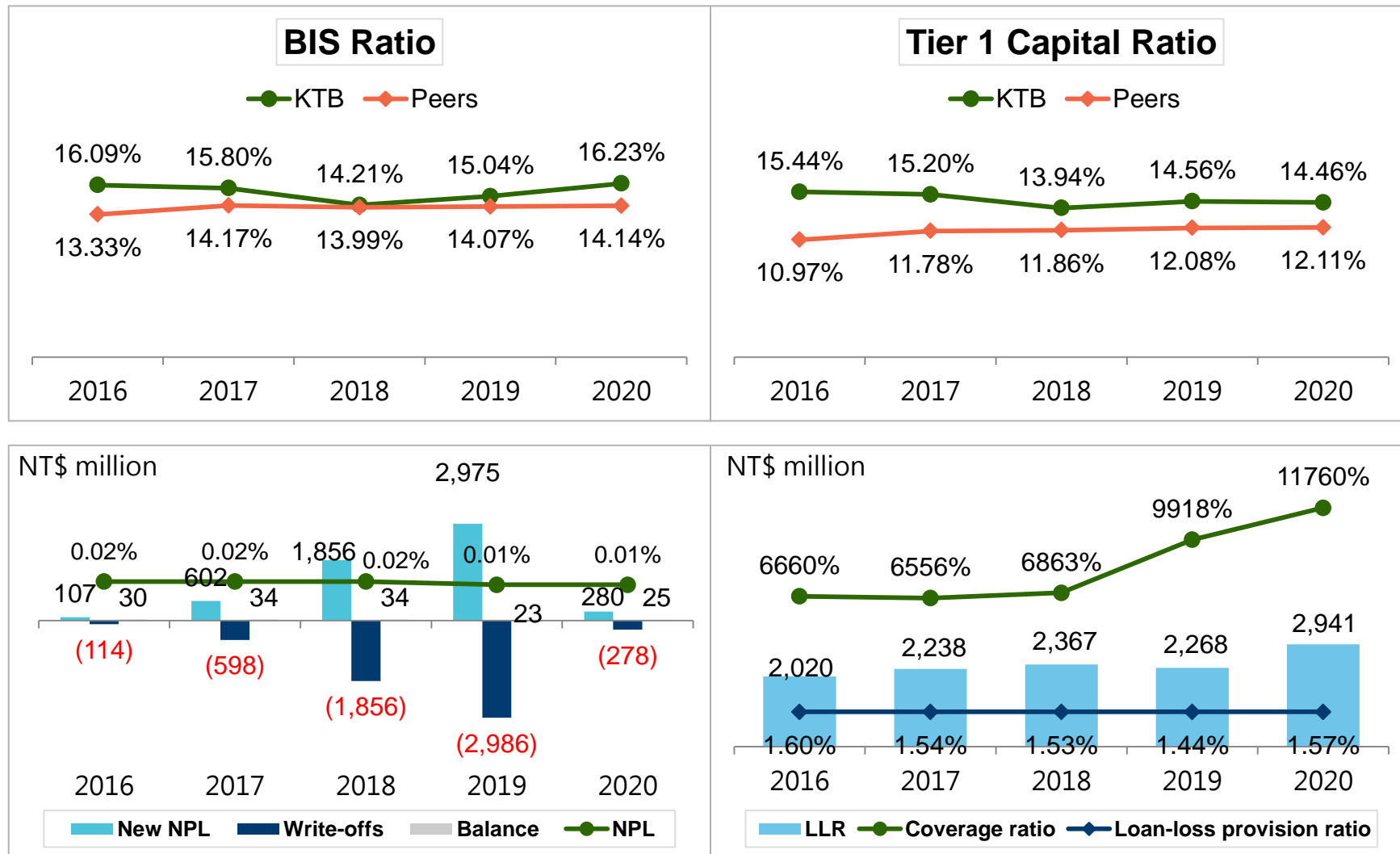
Maintain double-digit ROE over the long term.

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 June 2020.



Top 1,000 World Banks 2020 - The Banker

Strength				Size			
Rank		Tier 1 Capital (US\$ million)	%ch.	Assets (US\$ million)	%ch.	Rank	
World	Taiwan					World	Taiwan
692	26	1,186	+8.00%	9,390	+2.66%	799	29

Soundness			Performance					
Capital Assets Ratio	Rank		Profits on Capital	Rank		ROA (After-Tax)	Rank	
	World	Taiwan		World	Taiwan		World	Taiwan
12.63%	129	2	9.52%	527	8	1.20%	287	2

LENDING STRATEGY

“We stick to what we do best.”

- John Tsai, Vice Chairman -





Key Principles of our Lending Strategy

- 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.



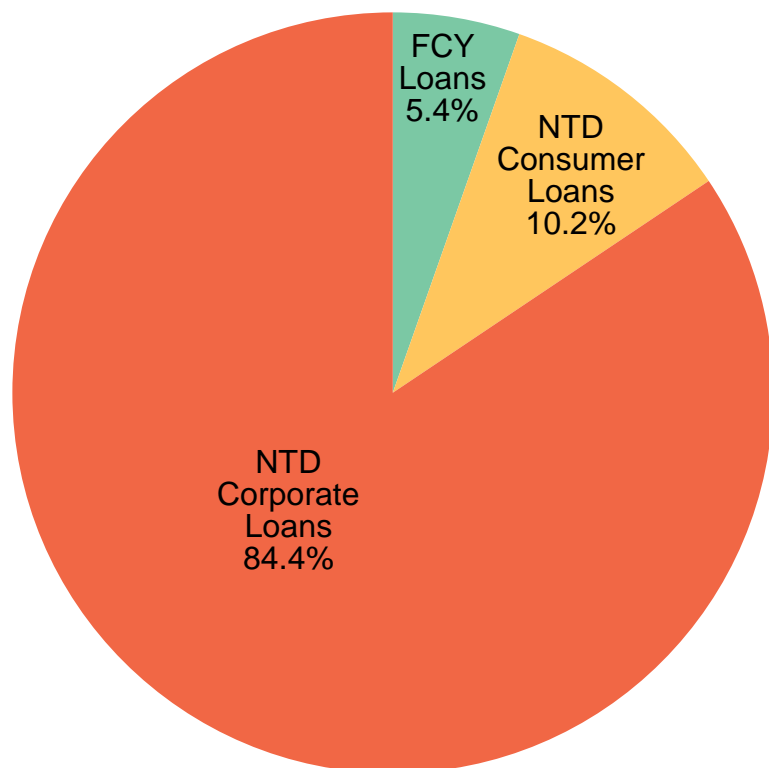
The KTB Formula for Profitable Lending

- 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.

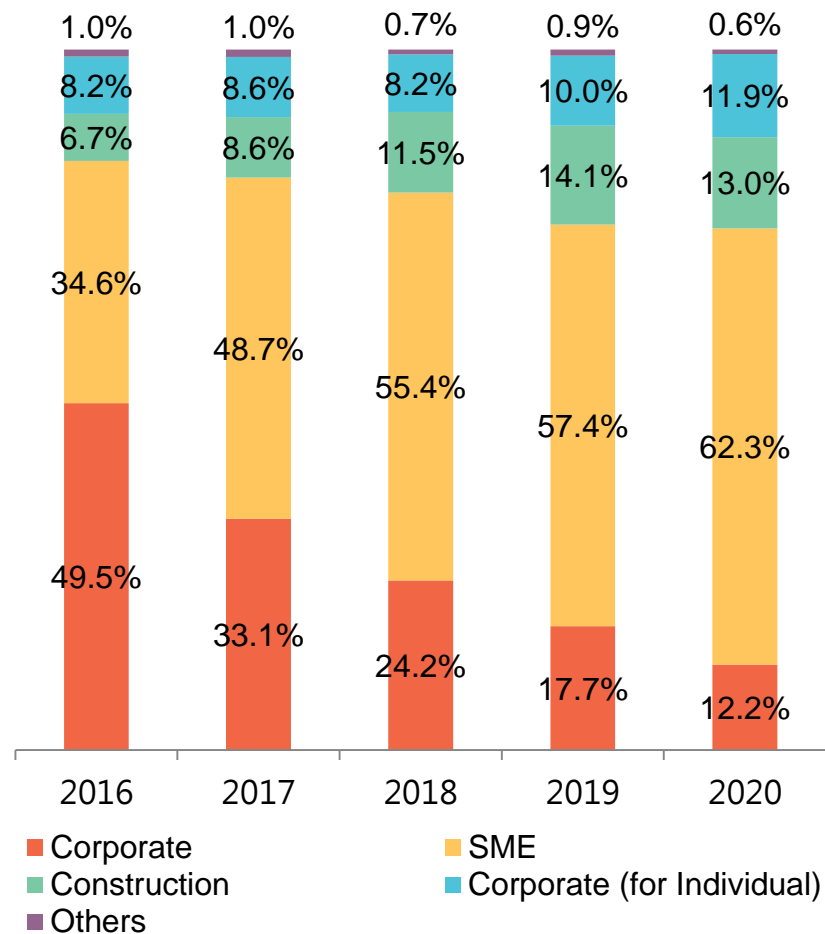


Loan Breakdown

Loan Composition (FY20)

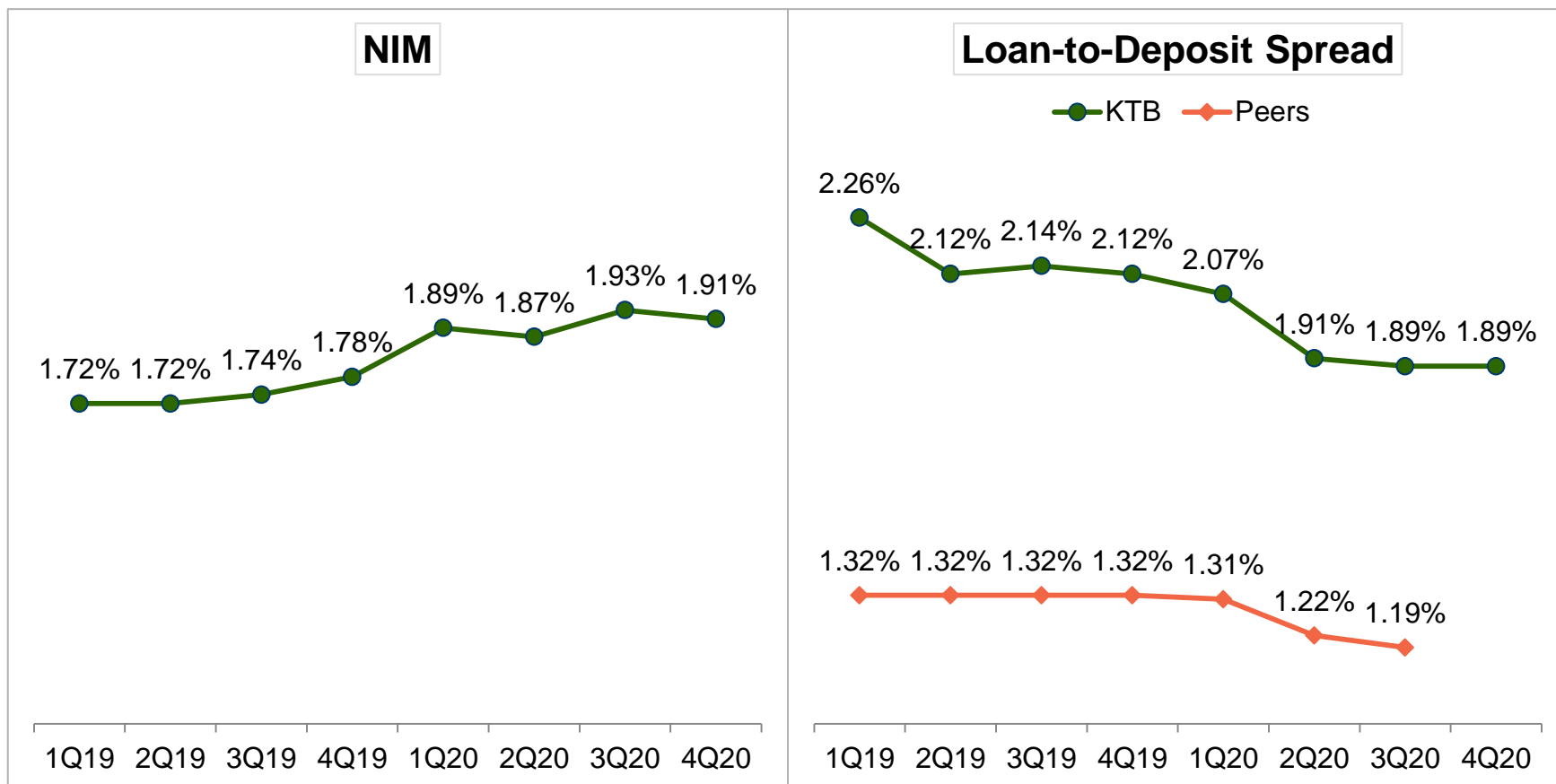


Corporate Loan by Type





NIM and Spreads



Note: Peers data updated to 3Q/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

- 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

- 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



Rewarding work
Go home happy
Equity ownership

CLIENTS



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

SHAREHOLDERS



Attractive & Sustainable
Returns

Commitment to ESG



TWSE Corporate Governance Evaluation

Ranked in the top 5% of all listed companies for three straight years and in the top 10 % in the Finance and Insurance category.



Employee Stock Ownership Trust Program

KTB's Employee Stock Ownership Trust Program was established in 2010. Staff are eligible to join after one year of employment, and participation rate is close to 100%.



Capital Adequacy

CAR was 15.04% and Tier 1 Capital Ratio 14.56% in 2019, better than the domestic banks mean of 14.07% and 12.08%, respectively. Long-term credit rating of A+ (twn) from Fitch Ratings for six consecutive years.



Solar Energy Lending and Advocacy

First mover in lending to both the Wind Farm (began in 2010) and Solar Farm (2011) Industries. Installed roof top solar panels at our headquarters to encourage use by local communities, clients and employees.



Fraud Detection

KTB collaborated with the police to help thwart 113 fraudulent transactions in 2019, an increase of 48 over the previous year, with a total value of about NT\$15 mn being intercepted.



Energy Consumption

In 2017, targeted a total 15% reduction in energy consumption and greenhouse gas emissions by 2022. Total KTB corporate annual energy consumption for 2019 was 4,599kWh, 10.3% lower than 2017.



Data Security

Established an Information Security Management Committee to enhance information security management, using ISO27001 as a guideline.



Commitment to ESG – Focus on Youth and Financial Education

Our southern Taiwan branches are a part of the local community, so a key focus of the Bank's philanthropy is nurturing Taiwan's young generation, using a wholistic approach. We support and host a broad range of activities.



Co-op and Internship Opportunities at KTB

We provide co-op work opportunities to earn course credits and summer internship programs at our branches in cooperation with local technical colleges.



Supporting Outstanding Education Charities

We support Teach for Taiwan's efforts in remote areas of the island both financially and with learning tools (such as tablet PCs). We also donated land for a Tainan learning center for vulnerable children to the Taiwan Fund for Children and Families, place fund-raising boxes for the charity in our bank branches and our employees participate in fund-raising events for the fund.



Get-to-know Finance Activities

KTB Bank staff conduct seminars about finance industry careers and run career counseling events in local high schools. We also organize trips to our bank branches for elementary school students from remote areas, familiarizing them with account opening procedures, ATM use and even fraud prevention.



Art & Art Therapy for Youth

We sponsor art appreciation classes, create and run art therapy programs for young students and conduct training programs in indigenous art forms.

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

- 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

- 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

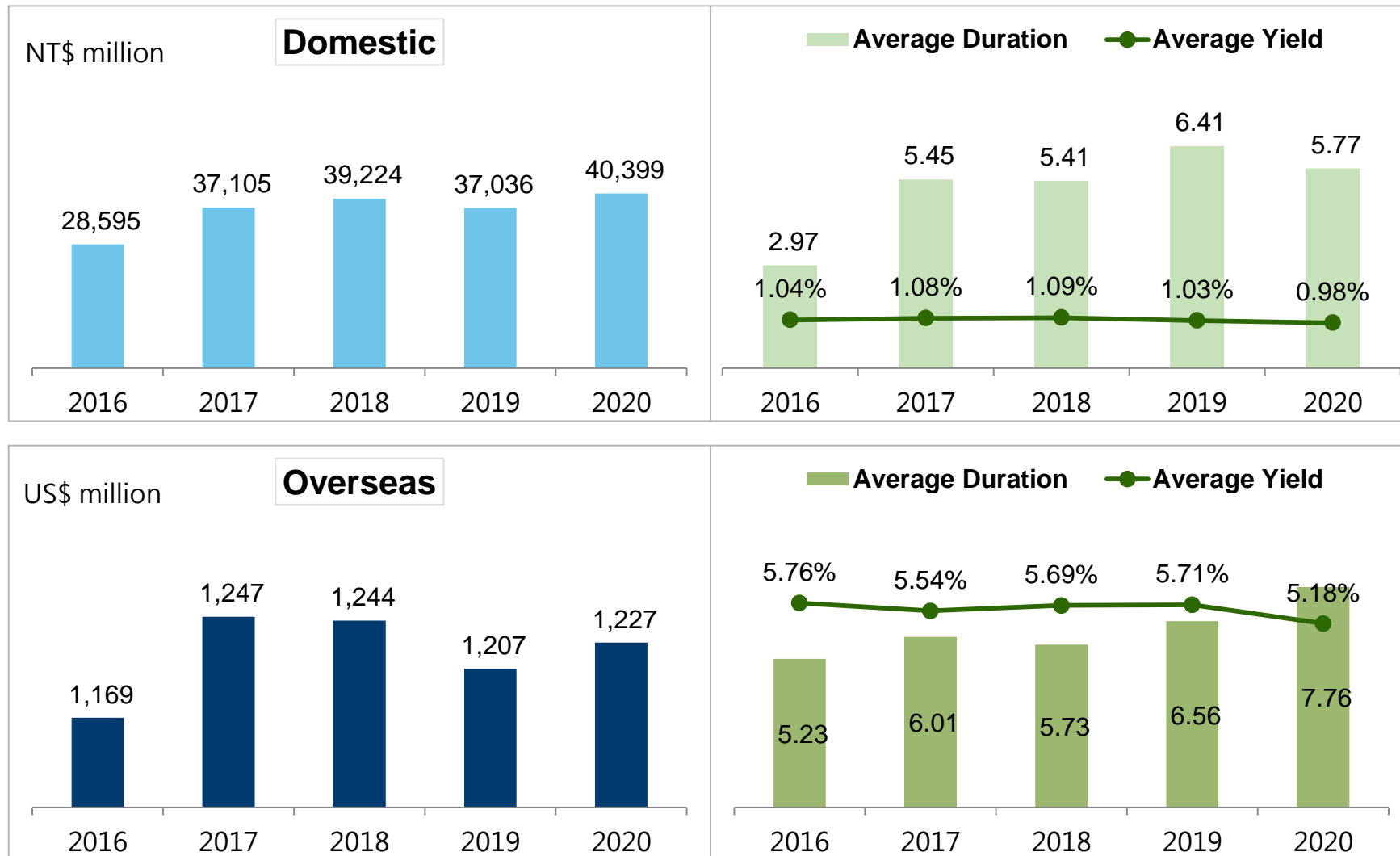
- We consider foreign bond investments to be a type of loan, as we follow the underlying company closely – monitoring credit risk.
- When evaluating a prospective bond, we consider the expected yield versus our FX funding costs and the potential credit cost.
- Given the choice between syndicated loans 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

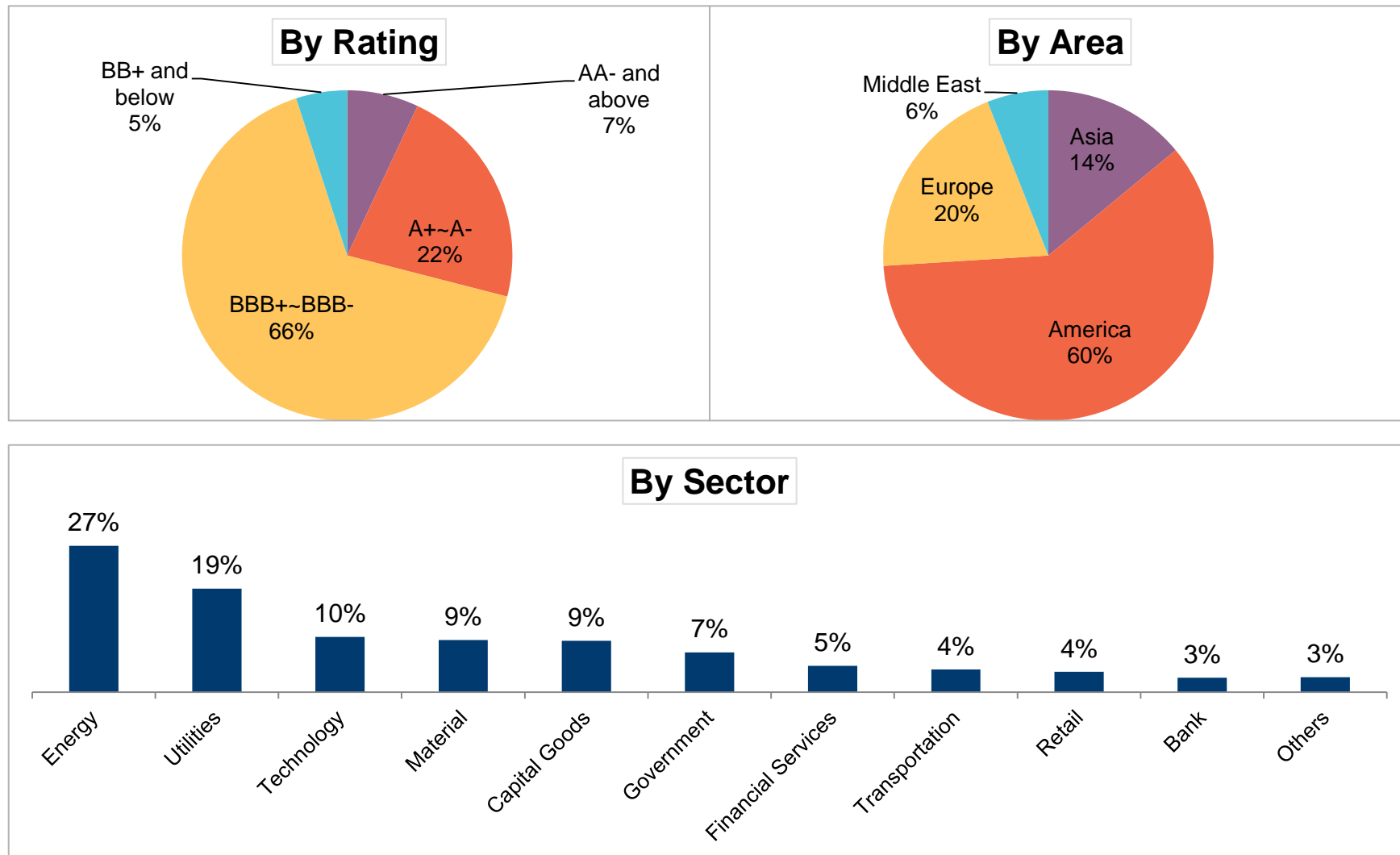


Financial Assets - Fixed Income Investments





Financial Assets – Overseas Fixed Income Portfolio(FY20)



2020 FINANCIAL REVIEW





FY20 Financial Review

	2020.12	2019.12
Total Assets (NT\$ mm)	325,458	282,743
Book Value/share (NT\$)	41.66	36.18
ROE (pretax)	14.31%	10.26%
ROA (pretax)	2.06%	1.38%
BIS Ratio	16.23%	15.04%
NPL Ratio	0.01%	0.01%
Coverage Ratio	11760.49%	9,917.55%
Loan-loss Provision Coverage Ratio	1.57%	1.44%
QFII Holdings	16.27%	17.42%
Fitch Rating	A+(tw) 、 F1(tw)	



2020 Operating Highlights

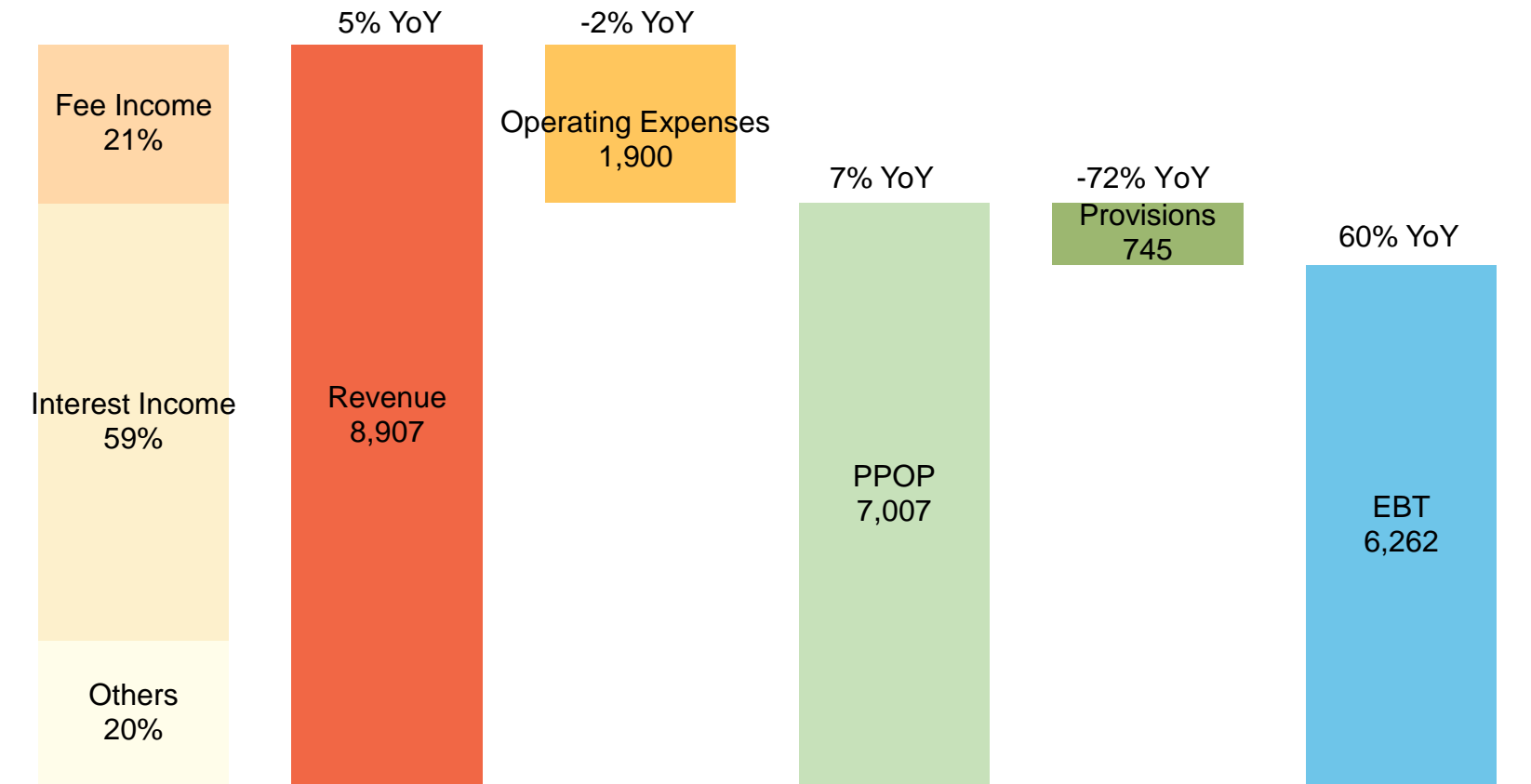
Financial Performance

- Revenue increased by 5% YoY, with net interest income increasing by 10%, net fee income increasing by 4%, and other income decreasing by 8%. The increase in net interest income was due mainly to strong loan growth. Widening net interest margins on overseas bonds holdings was also a contributing factor.
- The decrease in other income was mainly due to “expected credit losses” booked on financial assets under the requirement of IFRS 9 accounting. The COVID pandemic-influenced economic downturn has resulted in a downgrading of debt securities worldwide.
- Launched the “Goyee” digital account platform in the second quarter of this year. “King’s Pay” international transfer service was introduced in the third quarter.
- 2020 operating expenses were NT\$1.9 billion, a decrease of 2% from the same period last year.
- After-tax net income was NT\$5.5 billion while EPS reached a record high of NT\$4.90. ROE before tax was 14.31% and ROA before tax was 2.06%.
- Asset quality remains sound, with our NPL ratio at 0.01% and loan-loss provision coverage ratio at 1.57%.



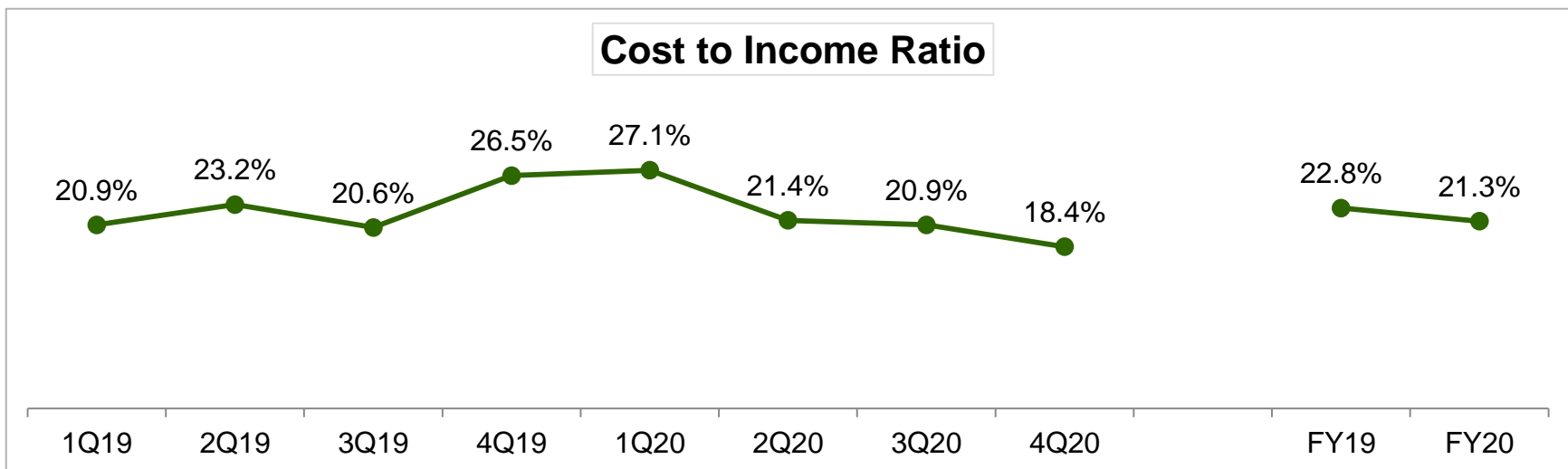
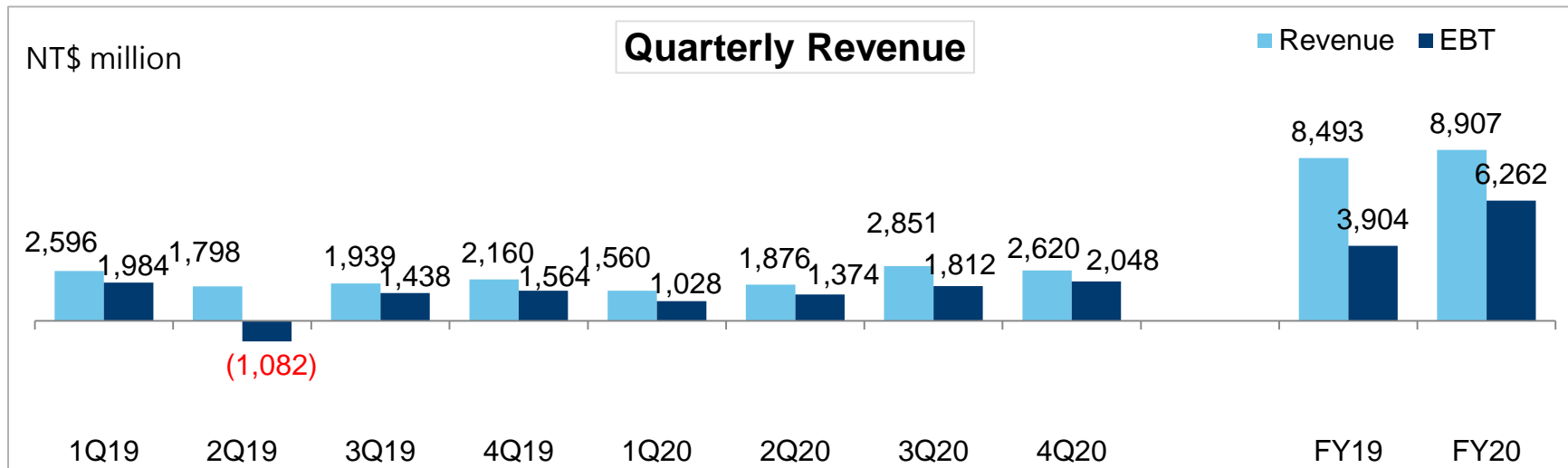
FY20 Revenue Breakdown

NT\$ million



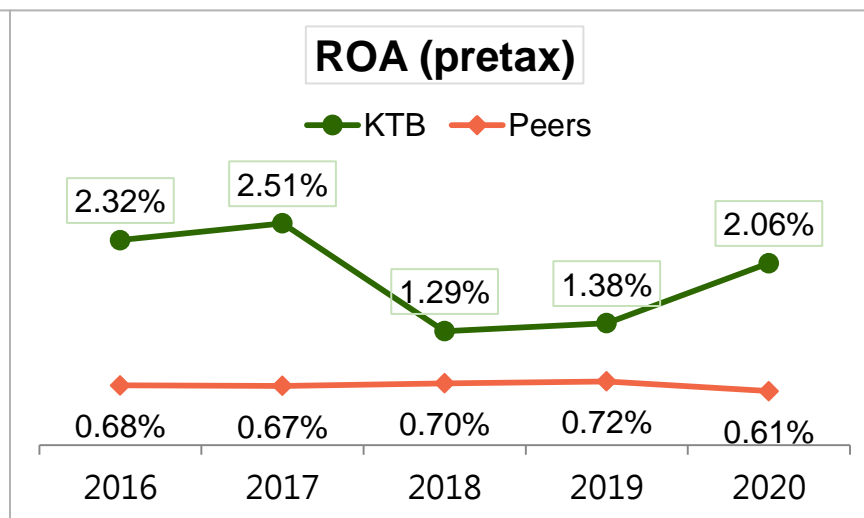
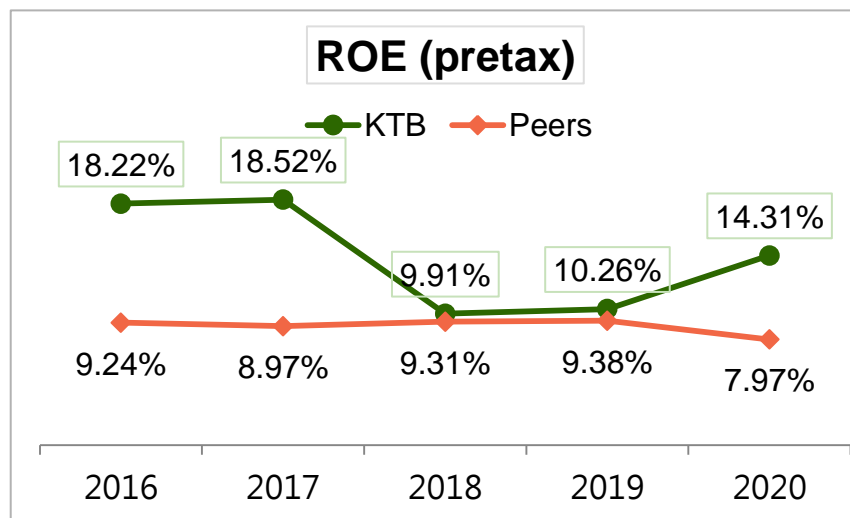
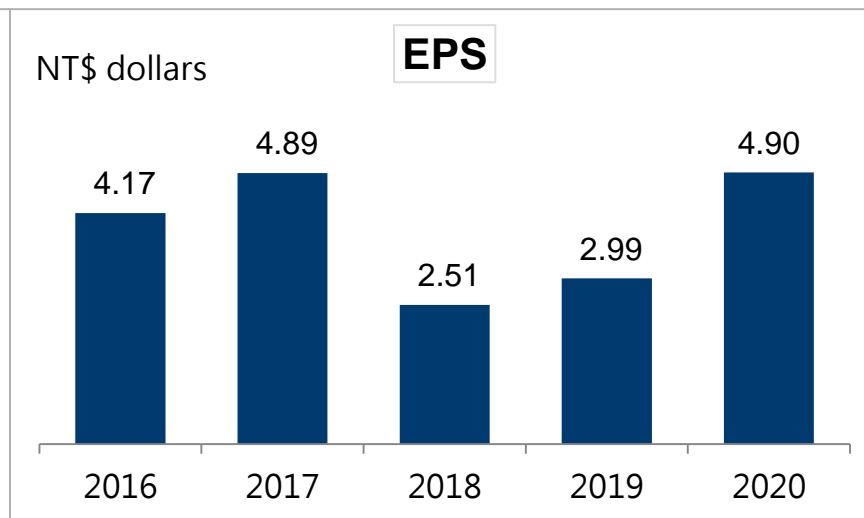
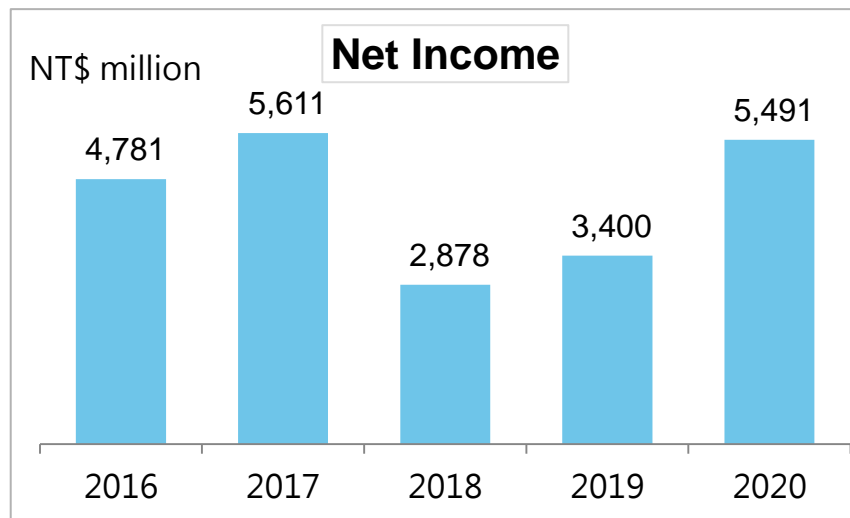


Quarterly Revenue and Expenses





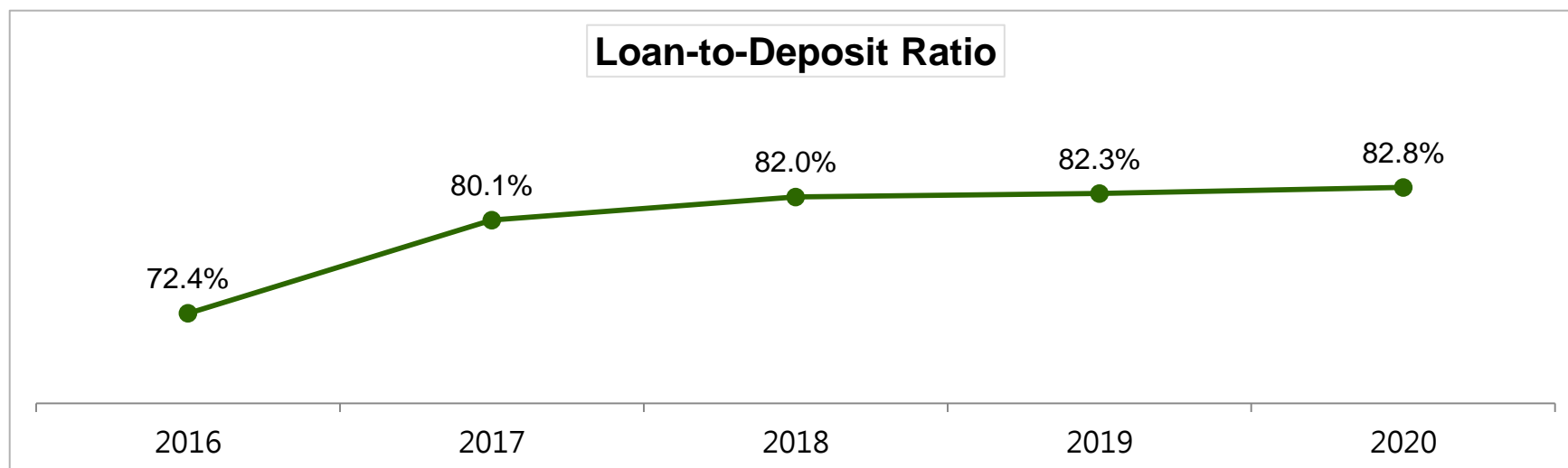
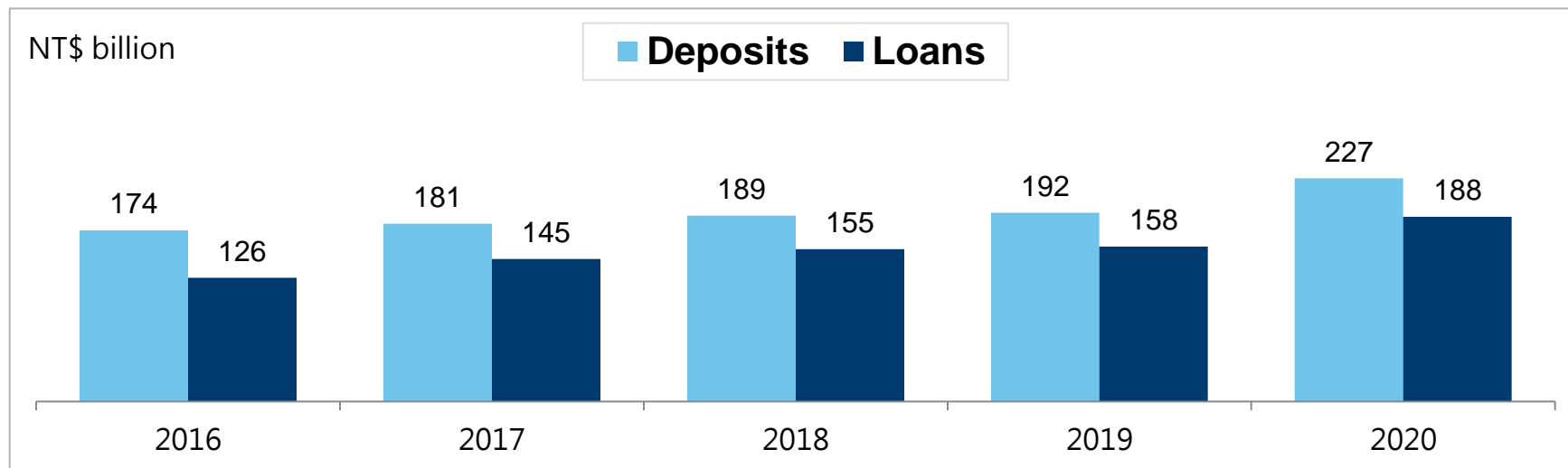
Profitability



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

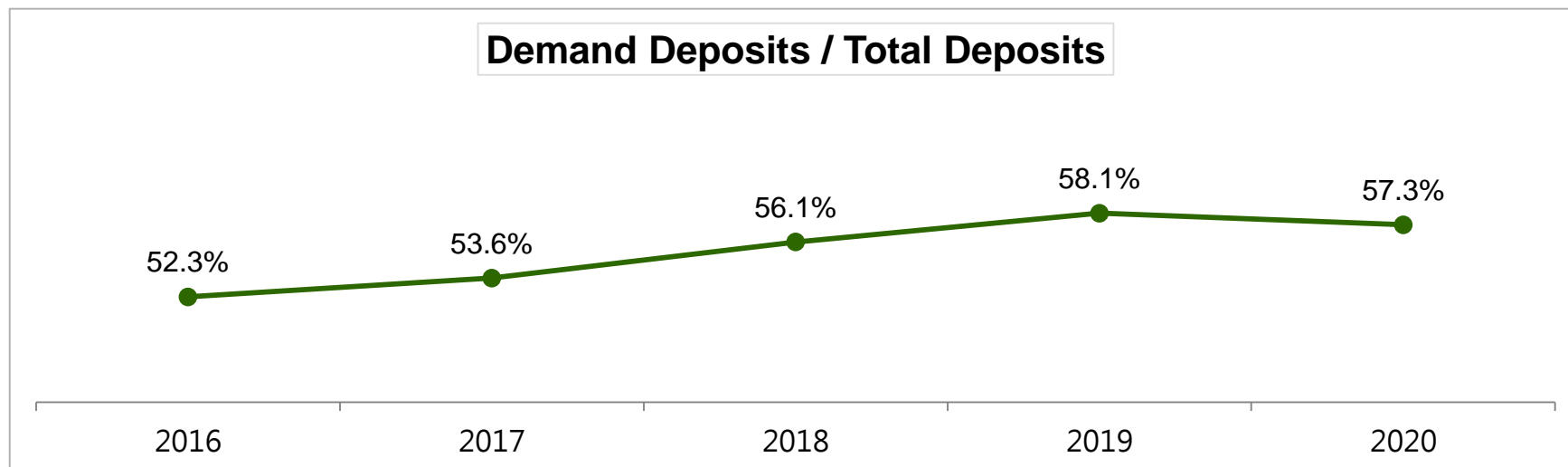
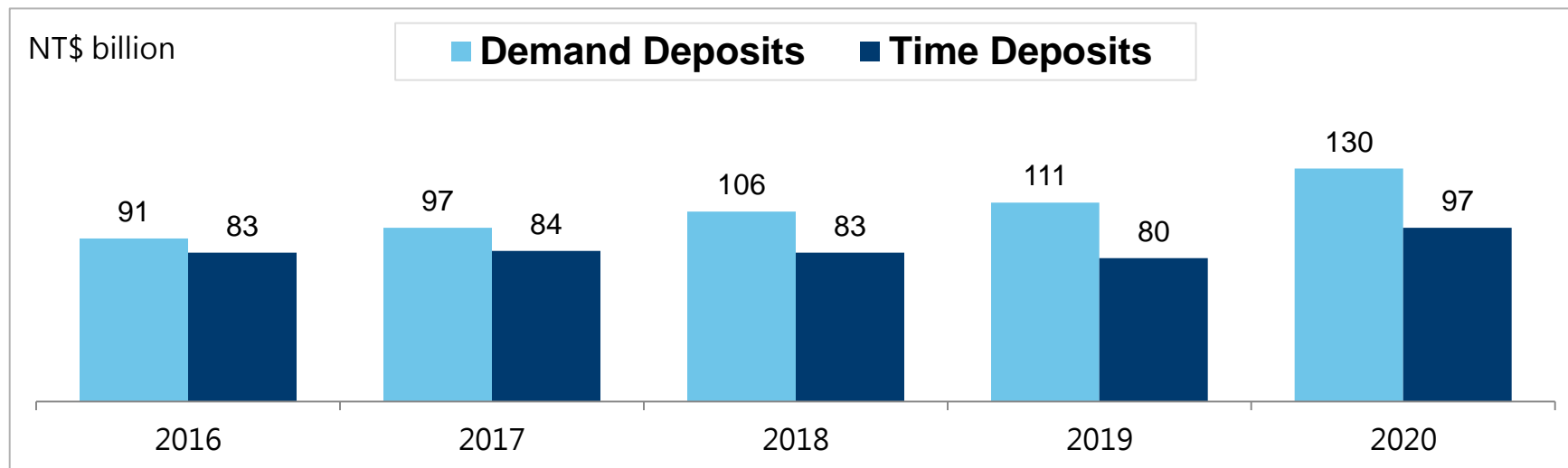


Loans and Deposits



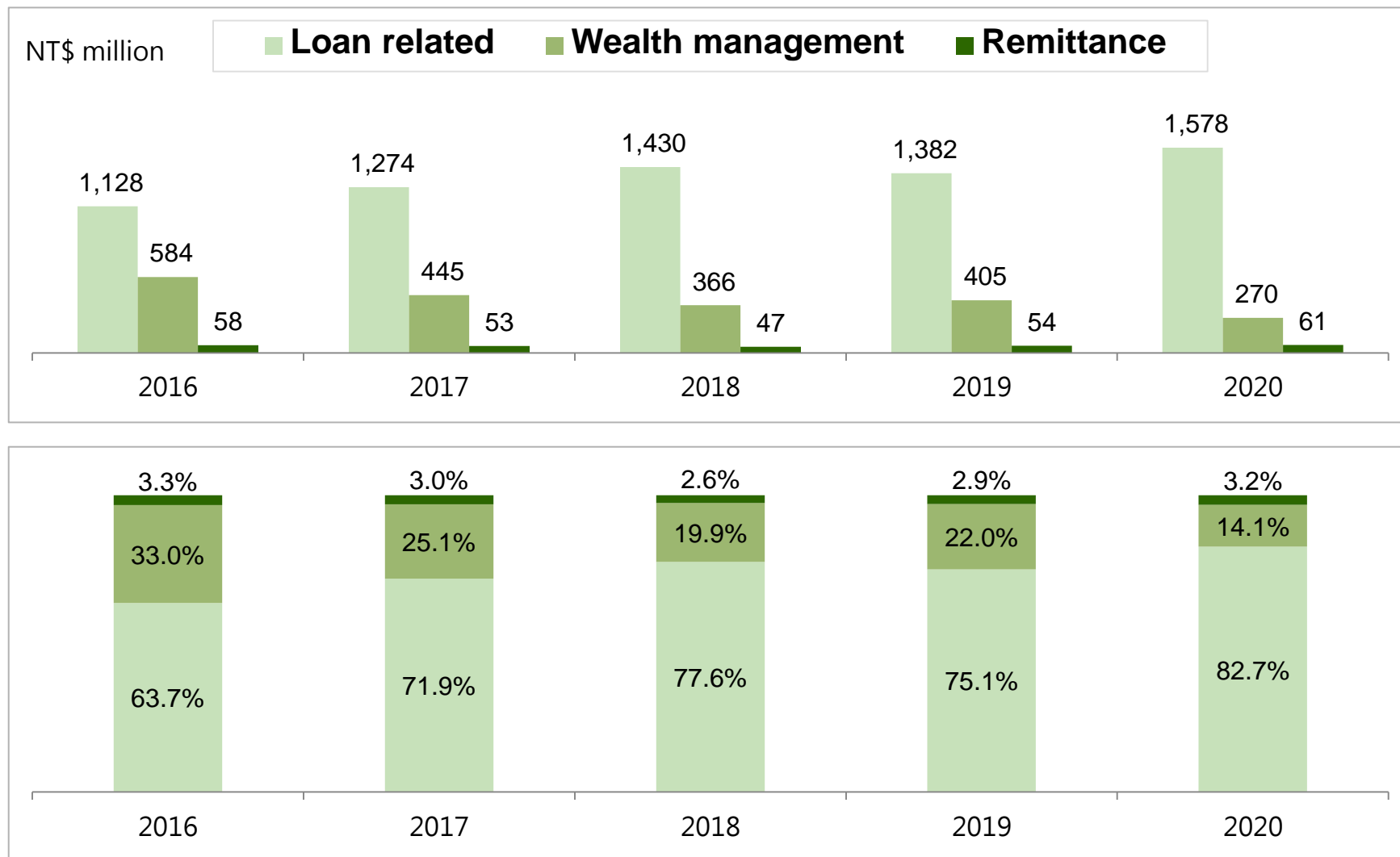


Deposit Breakdown





Fee Income





Income Statement

NT\$ million

Items	2020	2019	YoY
Net Interest Income	5,246	4,755	10%
Net Fee Income	1,909	1,841	4%
Other Income	1,752	1,897	-8%
Revenue	8,907	8,493	5%
Operating Expenses	(1,900)	(1,934)	-2%
PPOP	7,007	6,559	7%
Provision for Loan Loss	(745)	(2,655)	-72%
Earnings Before Tax	6,262	3,904	60%
Net Income	5,491	3,400	62%
EPS(Cumulative)(NT\$)	4.90	2.99	64%



Balance Sheet

NT\$ billion

Items	2020.12	2019.12	YoY	Items	2020.12	2019.12	YoY
Cash, CDs, Interbank Deposits, and R/S	16.7	14.9	12%	Interbank Deposits , Interbank Borrowings	25.7	18.9	36%
Securities	112.7	103.6	9%	Deposits	226.9	191.8	18%
Loans	184.9	155.4	19%	R/P	22.0	28.2	-22%
Property and Equipment	3.4	2.7	26%	Other Liabilities	4.2	2.9	45%
Other Assets	7.7	6.1	26%	Total Liabilities	278.8	241.8	15%
Total Assets	325.4	282.7	15%	Shareholder's Equity	46.6	40.9	14%



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! 

Our Website: www.ktb.com.tw