



King's Town Bank

“A Different Kind of Bank”

Investor Presentation



Stock Code : 2809.TW

October 2021



AGENDA

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OPERATING HIGHLIGHTS

“We stick to what we do best.”

- John Tsai, Vice Chairman -





Operating Highlights

- **1-3Q21 preliminary EPS reached NT\$5.28**

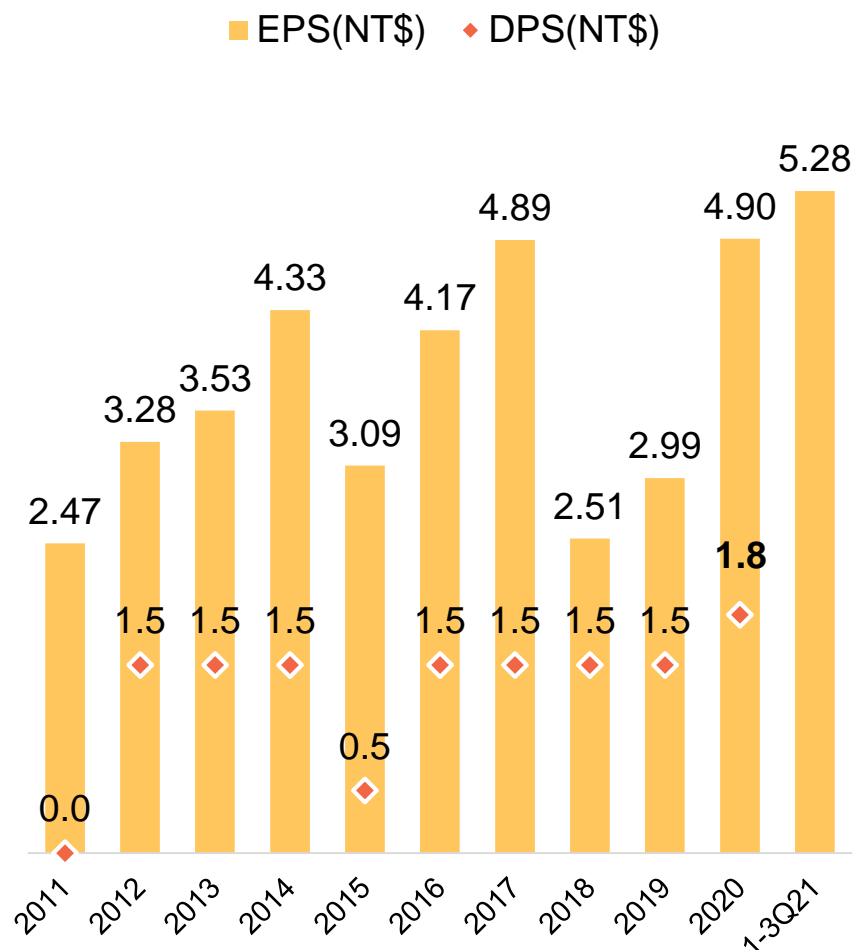
➤ 2020 EPS hit a new record high

- **A cash dividend per share of NT\$1.8 for FY2020, surpass NT\$1.5**

➤ Aiming to provide stable and growing annual cash dividend-per-share

- **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.





1-3Q21 Unaudited Results – Key Highlights

- 1-3Q21 net revenue increased by 21% compared with the same period last year, with net interest income rising by 8% YoY, and net fee income increasing by 13%. The increase in net interest income was mainly due to the 19% growth in our loan book in 2020 and another 8% growth at the end of 3Q21 versus year-end 2020. Total Loans at the end of 3Q21 were NT\$203 bn.
- 1-3Q21 Other income increased by 82% compared to 1-3Q20 due to strong performance in the capital markets and mark-to-market reversals of expected credit losses under IFRS accounting rules.
- 1-3Q21 Provisions for Loan Loss also contributed a positive NT\$713mn, due to a recovery of NT\$768mn Green Energy bad loan provision via the sale of collateral.
- Loan-loss provision ratio was 1.54% at the end of September 2021 versus the median value of 1.30% for the Taiwan banking industry.*

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



3Q21 Preliminary Income Statement (Unaudited)

NT\$ million

Items	3Q21	% Revenue	3Q20	% Revenue	YoY
Net Interest Income	1,391	71%	1,358	48%	2%
Net Fee Income	586	30%	411	14%	43%
Other Income	(8)	0%	1,082	38%	-101%
Revenue	1,969	100%	2,851	100%	-31%
Operating Expenses	(431)	-22%	(595)	-21%	-28%
PPOP	1,538	78%	2,256	79%	-32%
Provision for Loan Loss	249	13%	(445)	-16%	-
Earnings Before Tax	1,788	91%	1,812	64%	-1%



1-3Q21 Preliminary Income Statement (Unaudited)

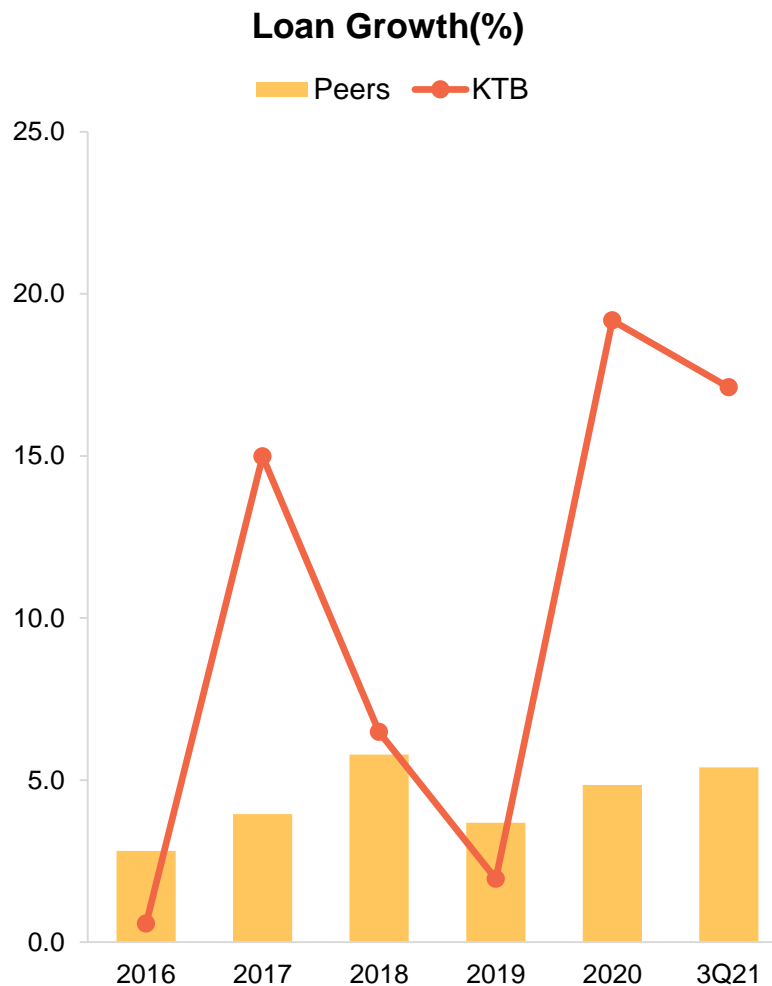
NT\$ million

Items	1-3Q21	% Revenue	1-3Q20	% Revenue	YoY
Net Interest Income	4,148	55%	3,853	61%	8%
Net Fee Income	1,607	21%	1,422	23%	13%
Other Income	1,839	24%	1,012	16%	82%
Revenue	7,594	100%	6,287	100%	21%
Operating Expenses	(1,478)	-19%	(1,418)	-23%	4%
PPOP	6,116	81%	4,869	77%	26%
Provision for Loan Loss	713	9%	(655)	-10%	-
Earnings Before Tax	6,830	90%	4,214	67%	62%



King's Town Bank 2H21 Outlook

- **We expect continued healthy loan growth on the back of a positive economic outlook in Taiwan:** On August 13th, DGBAS upgraded its 2021 Taiwan GDP forecast to 5.88% from 5.46%. The IMF is projecting Taiwan's GDP per capita will rise to US\$32k in 2021, up from US\$28k in 2020.
 - We are cautiously optimistic on the prospects for continued healthy growth in our lending business in 2H21.
 - Business activity in Southern Taiwan, where our branches are mainly located, has been robust. 78% of our deposit growth was from Tainan City in 1H21.
 - The impact of COVID-19 on Taiwan's economy has been limited thus far. We expect to maintain our current high level of asset quality.
- **Expecting slightly lower NIM in 2H21 versus 1H21**
 - We expect our lending rates to be stable, and funding costs are not likely to fall much further. We also see limited opportunity for asset mix changes to drive expansion in spreads in the near term.
- **Investment in Digital Banking Capabilities:**
 - Our focus is on enhancing the digital offering we provide to existing long-term customers.



Note: Peer data updated to 1H21.



Strategic Focus & Competitive Advantage

Healthy loan growth

Targeting slightly above
GDP growth in the long run

Cost advantage

Favorable funding and cost
structure thanks to roots in
Southern Taiwan

Superior asset quality

Asset quality is our top
priority

Solid capital ratio

Maintaining a sound
capital base



Disciplined Investment Strategy

Adjustments to our asset mix
are made with a long-term view

Sustainability

Considering all stakeholders
and focusing on sustainable
profitability

A DIFFERENT KIND OF BANK

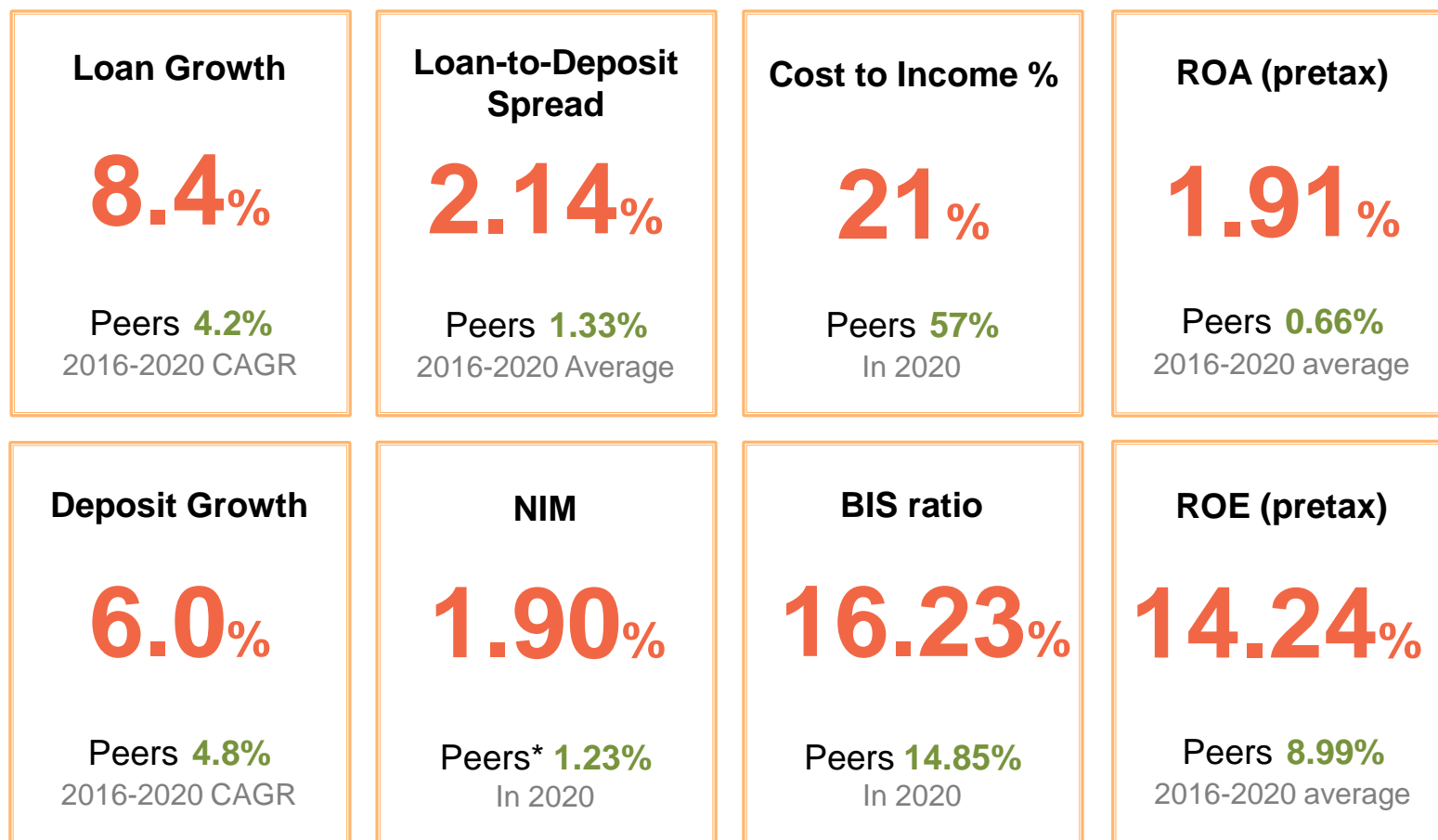
“Not many bank Chairpersons will tell you they feel it is critical for their employees to develop a sense of compassion for colleagues and clients.”

- Terence Tai, Chairman -





How we are 'Different'



Note: Except for NIM, peer data are the average of all local peers. Source is CBC database.

*Peers for NIM are the top 5 private banks by asset size, based on company presentation data.



Why we are 'Different'



Alignment of Interests

- Owner-operated – Management team owns a 40%+ stake.
- Most employees are owners via our ESOP plan.
- One bank culture, with strong collaboration across business units.



Roots in Southern Taiwan

- 73% of branches located in Southern Taiwan.
- Close relationship with the community.



Focus on Sustainable Profitability

- Minimizing risks through reducing internal conflicts of interest.
- Building long-term partnerships with customers.
- Viewing employees as assets and partners.



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
 - 18% of deposits
 - 87% of loans
- 43 Non-metro branches, contributing
 - 82% of deposits
 - 13% of loans
- Ranked in the Top 5% in terms of “Corporate Governance Best-Practice for TWSE Listed Companies” for four consecutive years.
- Credit rating affirmed by Fitch at BBB · local rating at A+(twn) · F1(twn) for 8 consecutive years. Outlook stable in 2021.



OUR STRATEGY AND PHILOSOPHY

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

- Terence Tai, Chairman -



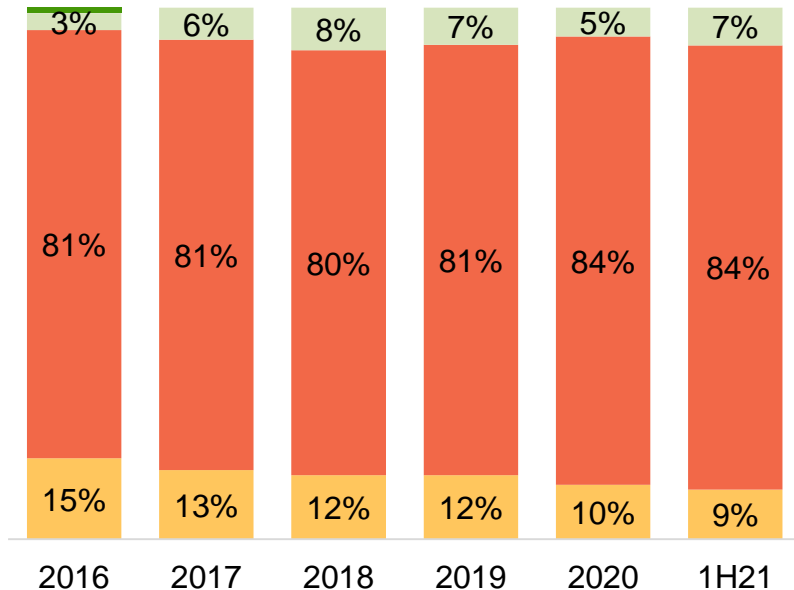


Growing Our Core Corporate Banking Business

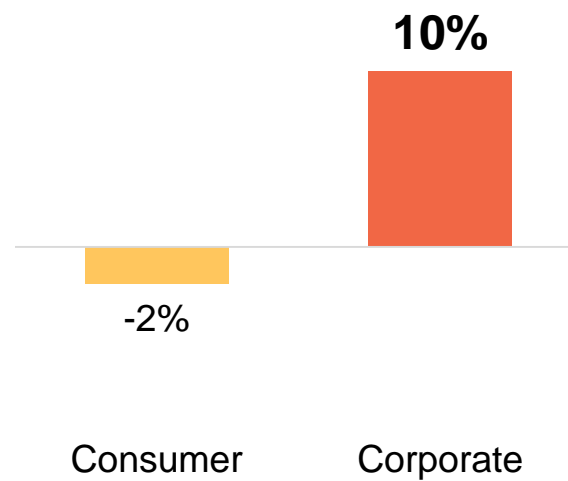
We focus on what we do best

Loan Breakdown

■ Others ■ FCY Loan
■ NT\$ Corporate Loan ■ NT\$ Consumer Loan



Growth in NT\$ Loans
(2016-2020 CAGR)





We Mostly Avoid Standardized Products

- The mortgage lending market is commoditized, with low lending rates and narrow spreads.
- Participating in this market segment would be detrimental to our ROA, so we mostly avoid it.

Mortgage loans as % of total loans (2020)



Source: CBC database



Outgrowing the Industry Through a Focused Approach

Focusing on niche markets

Targeting larger SMEs and smaller corporates, and also lending directly to SME owners for re-investment in their business.

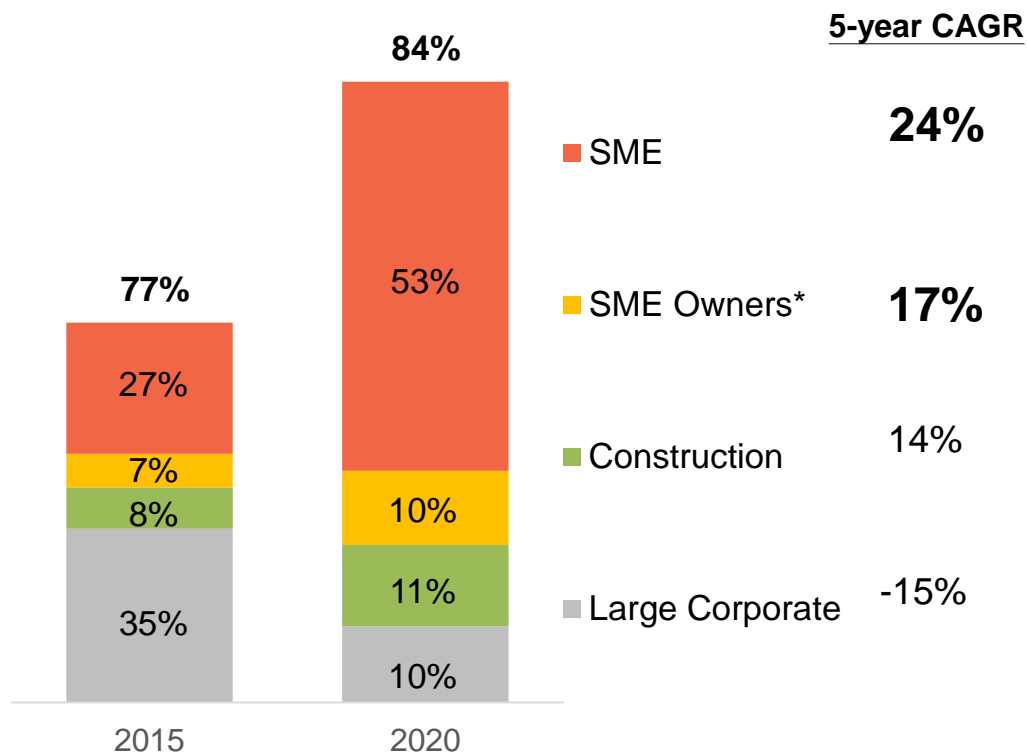
Building long-term relationships

Building long-term, win-win partnerships with customers and growing together with them.

Offering creative solutions

Our loan committee rarely rejects loan applications outright, instead offering counter proposals and creative solutions.

NT\$ Corporate Loan as % of Loan Portfolio



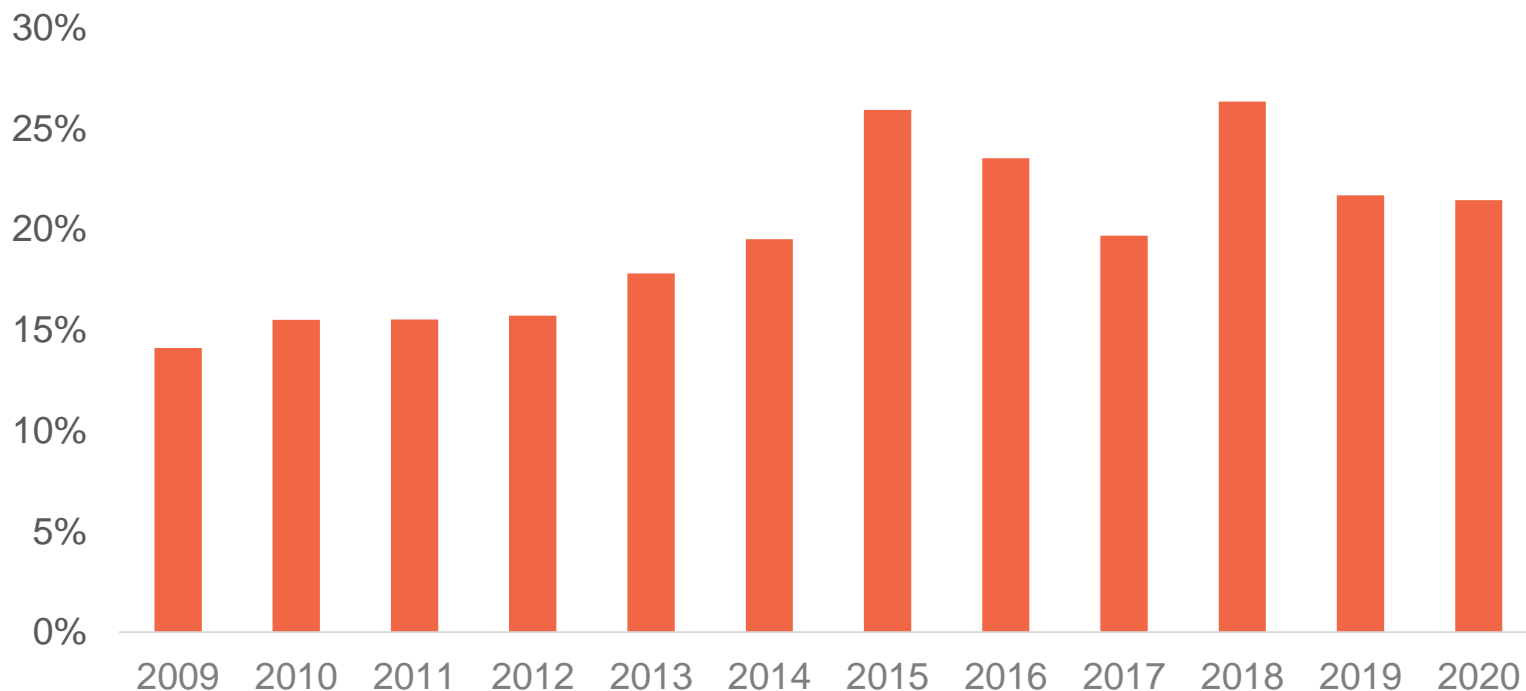
*Direct lending to SME owners for business-related purposes.



Significant Contribution from Fee Income

- Strong industry domain knowledge
- Offering custom-made solutions

Fee income as % of net revenue





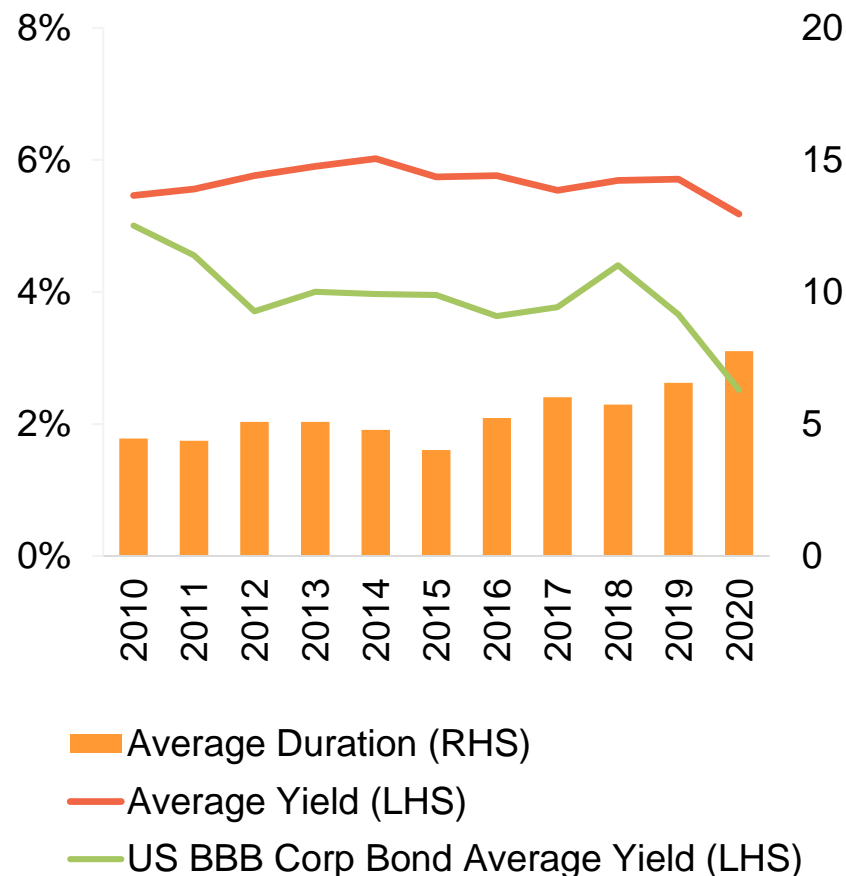
Investment Discipline Drives Our Long-Term Outperformance



Long-term, value investing

- ✓ We benchmark overseas bonds with loans in the same sector to compare valuation.
- ✓ We invest only in senior bonds, hold to maturity and follow them as we'd follow an equity holding.
- ✓ We hold a concentrated equity portfolio and follow the companies closely.
- ✓ Domestic treasuries are held for liquidity purposes.

KTB Overseas fixed income portfolio



Source: Bloomberg, company data



Overseas Bonds as a Proxy for FX Loans



Better liquidity and yield

- ✓ Intensive research is performed on each position, and the holdings are reviewed regularly as if they are loans/equity.
- ✓ Taiwan is the rare place where low-cost US\$ funding is available. We match our US\$ bond exposure with low-cost US\$ funding, avoiding currency exchange risks and resulting in favorable spreads.

US and Taiwan bond yield



Source: Bloomberg



Controlling Our Costs Carefully

Do only what we do best

We don't intend to do everything – we sold our credit card department in 2010.

Efficient Use of Human Resources

Collaboration between business units and the right-sizing of our investment, lending and corporate team.

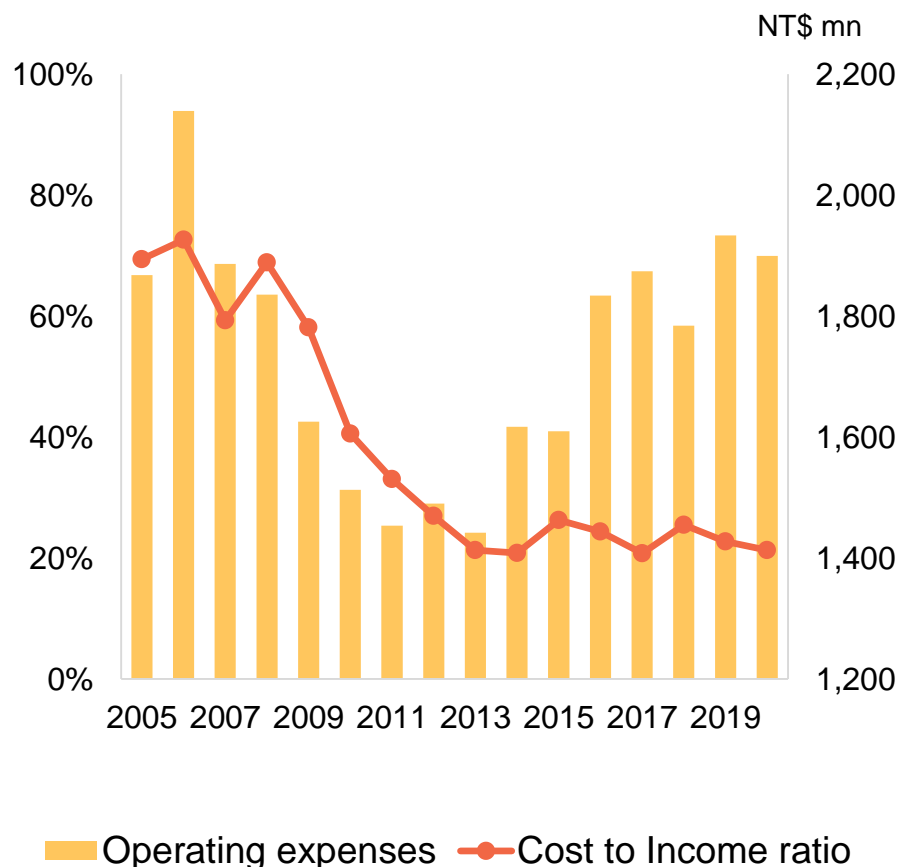
Based in Southern Taiwan

Costs are lower versus Northern Taiwan.

Disciplined investment in IT

Focusing on enhancing the digital offering for existing customers.

CI Ratio down to 20% from 70%





Management Philosophy on Risks

Eliminating conflict of interests

Preventing agency risk from taking root

Understanding the sources of risks

KYC enhanced by long-standing relationships with customers and intensive research into new clients.

Focusing on the long-term

Avoiding management policies that encourage risk-taking – we do not set annual hard-coded revenue budgets

Evaluating risk and reward carefully

Always asking at what cost growth will come



Strategies to Minimize Risk



Lending

- All credit line approvals go through headquarters.
- Knowing customers and their industries well.
- Protected by collateral and the deal structure.



Investment

- We don't invest in what we don't understand.
- We view foreign bond investments as a type of loan and perform regular reviews.



Wealth Management

- We don't sell customers financial products that we don't understand.
- When the capital markets get frothy, we market our products more conservatively.

Commitment to ESG



TWSE Corporate Governance Evaluation

Ranked in the top 5% of all listed companies for four straight years.



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 16.23% and Tier 1 Capital Ratio 14.46% in 2020, better than the domestic banks mean of 14.14% and 12.11%, respectively. Long-term credit rating of A+ (twn) from Fitch Ratings for eight 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. The green energy industry credit balance was NT\$13.83bn, accounting for 7.36% of total credit balance.



Bloomberg Gender-Equality Index

KTB was named to Bloomberg Gender-Equality Index for the first time this year, one of the five companies in Taiwan to achieve this designation.



Fraud Detection

KTB collaborated with the police to help thwart 139 fraudulent transactions in 2020, an increase of 26 over the previous year, with a total value of about NT\$11mn being intercepted.



Energy Consumption

Total KTB corporate greenhouse gas emissions for 2020 was 2,325 (t-CO₂e/year), 18.8% lower than 2017, which has already reached the 2022 target of a 15% reduction. Total KTB corporate annual energy consumption for 2020 was 4,510kWh, 12.05% 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.

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.

1H21 FINANCIAL REVIEW

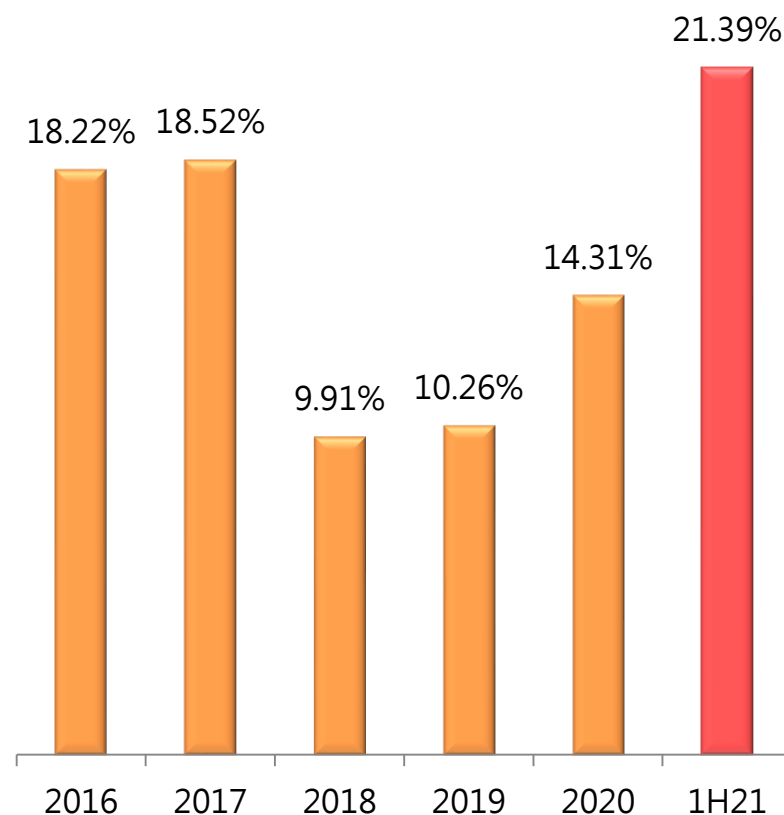




1H21 Financial Review

	1H21	1H20
Total Assets (NT\$ mm)	327,747	298,103
Book Value/share (NT\$)	42.55	36.10
ROE (pretax)	21.39 %	11.80 %
ROA (pretax)	3.09 %	1.65 %
BIS Ratio	16.92 %	15.51 %
NPL Ratio	0.02 %	0.01 %
Coverage Ratio	9652 %	12646 %
Loan-loss Provision Coverage Ratio	1.56 %	1.41 %
FINI Holdings	15.33 %	14.86 %
Fitch Rating	A+(tw) 、 F1(twn)	

ROE (pretax)





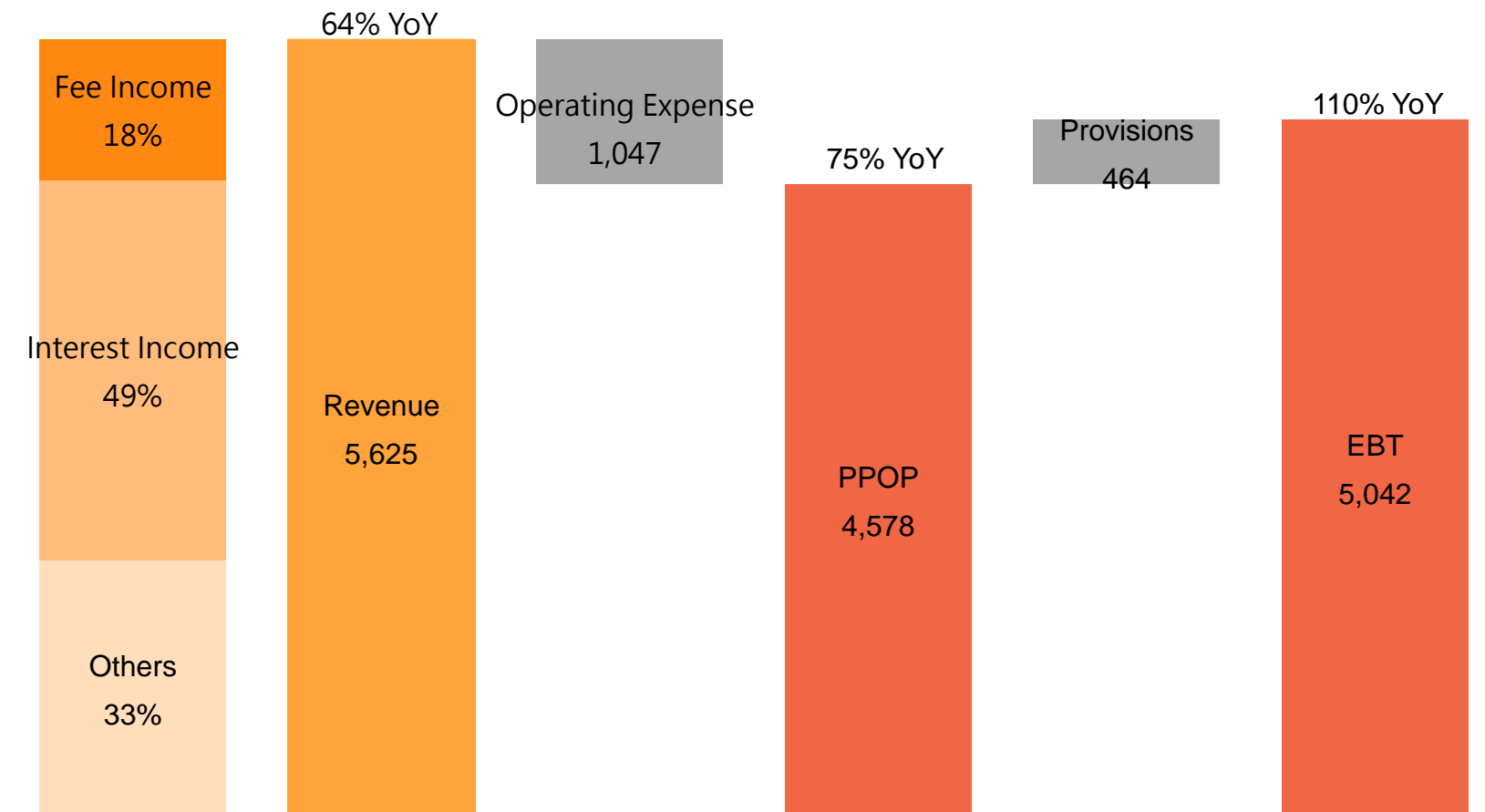
1H21 Results – Key Highlights

- 1H21 net income increased by 64% compared with the same period last year, with net interest income rising by 11% YoY, and net fee income increasing by 1%. The increase in net interest income was mainly due to the 19% growth in our loan book in 2020 and another 7% growth in 1H21 versus year-end 2020. Total Loans at the end of 1H21 were NT\$201bn.
- 1H21 Other income came in at NT\$1,847mn versus a loss of NT\$69mn in 1H20 was due strong performance in the capital markets and mark-to-market reversals of expected credit losses under IFRS accounting rules. In 1H20, a correction in the capital markets due to the onset of the Covid-19 pandemic and a steep decline in oil prices resulted in a negative contribution from other income.
- 1H21 Provisions for Loan Loss also contributed a positive NT\$464mn, due to a recovery of NT\$768mn Green Energy bad loan provision via the sale of collateral.
- Loan-loss provision ratio was 1.56% at the end of June 2021 versus the median value of 1.30% for the Taiwan banking industry.



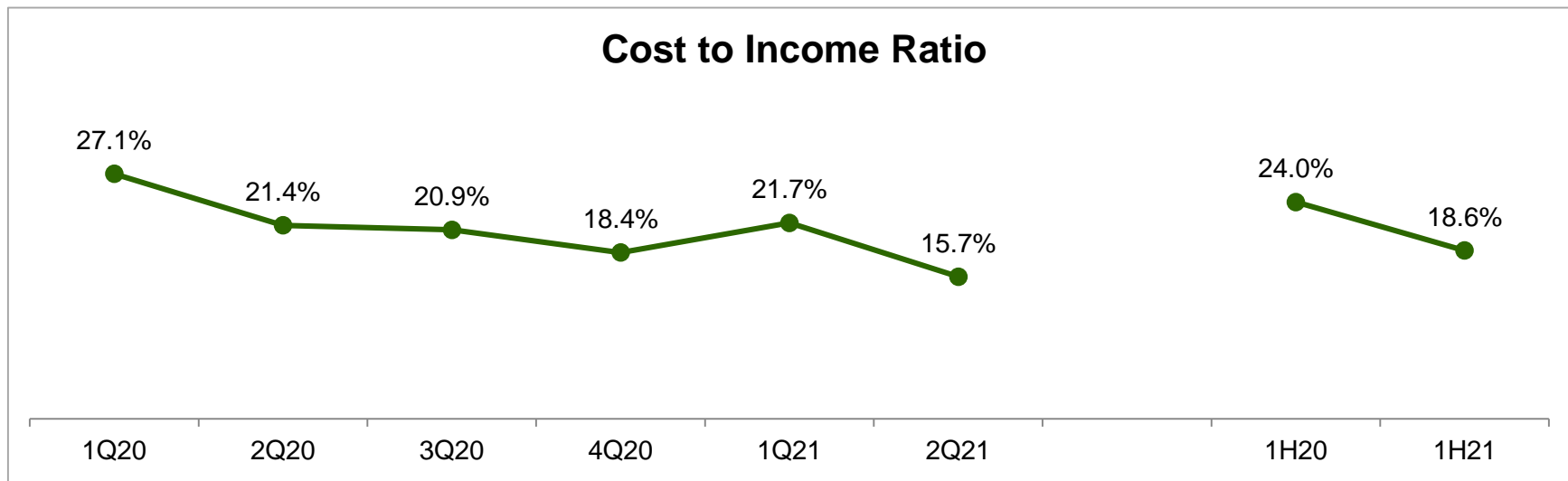
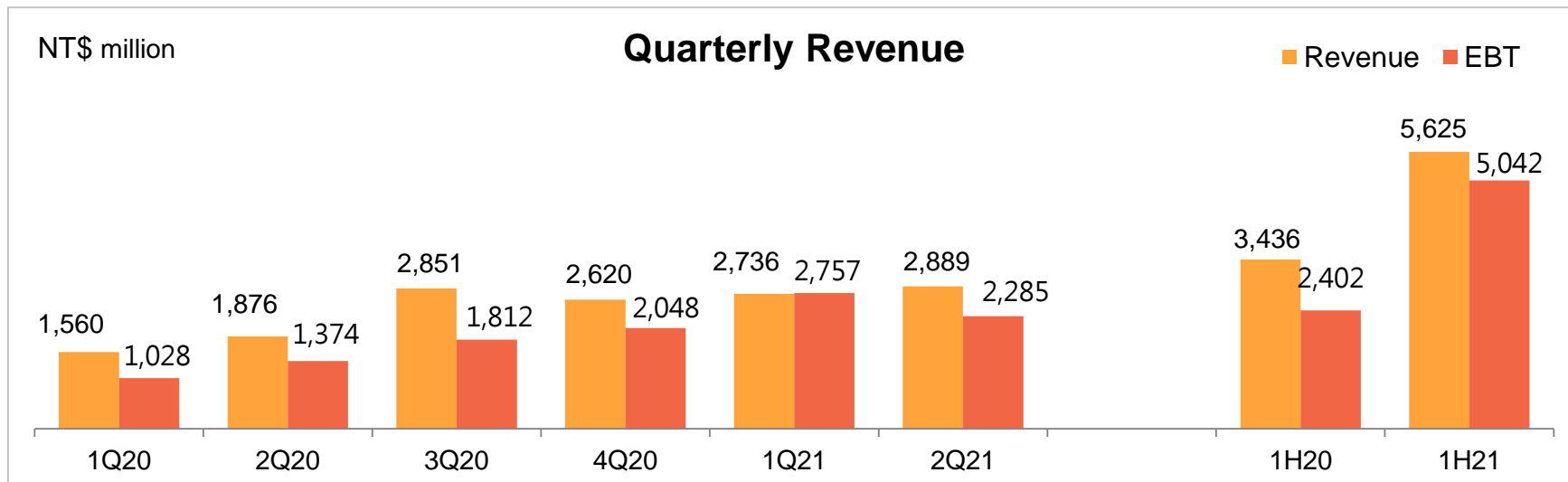
1H21 Revenue Breakdown

NT\$ million



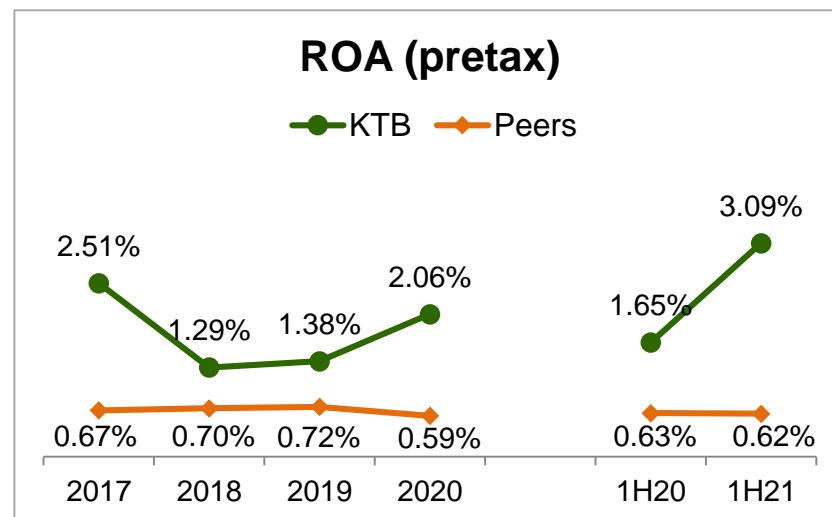
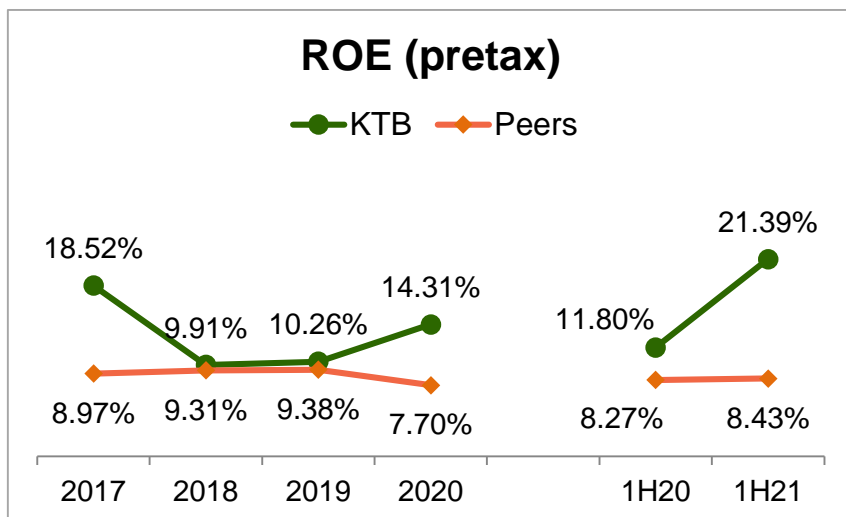
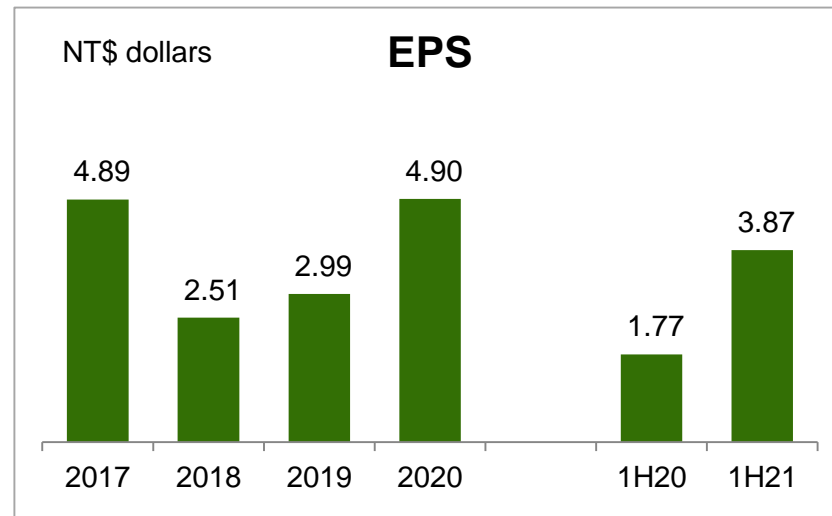
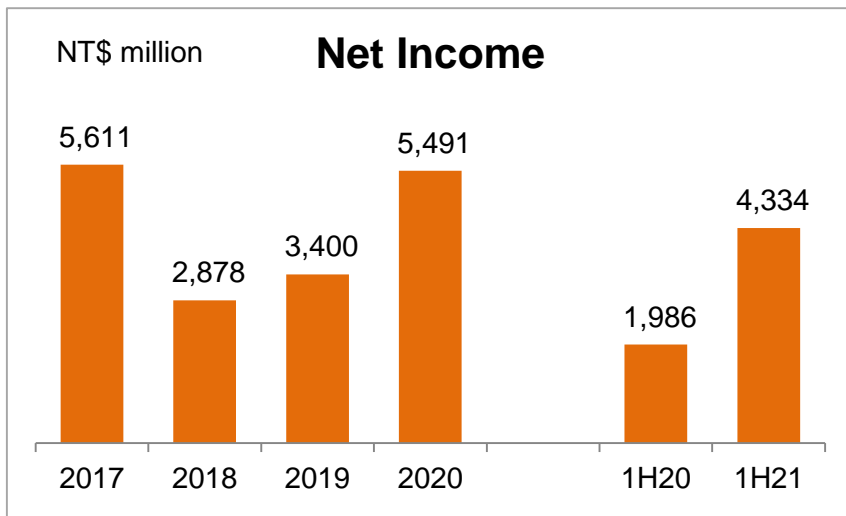


Quarterly Revenue and Expenses





Profitability

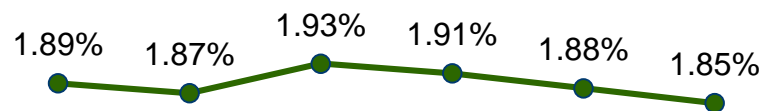


Note: Peers data updated to May 2021 (annualized).



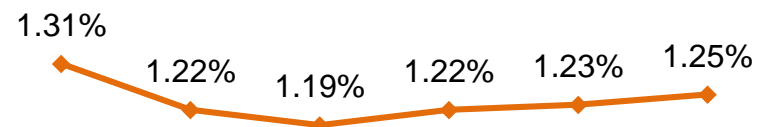
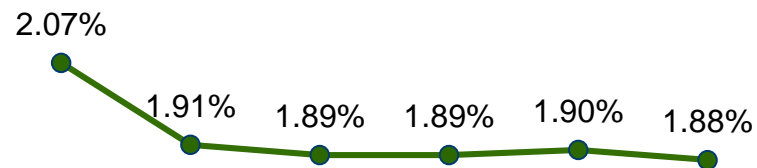
NIM and Spreads

NIM



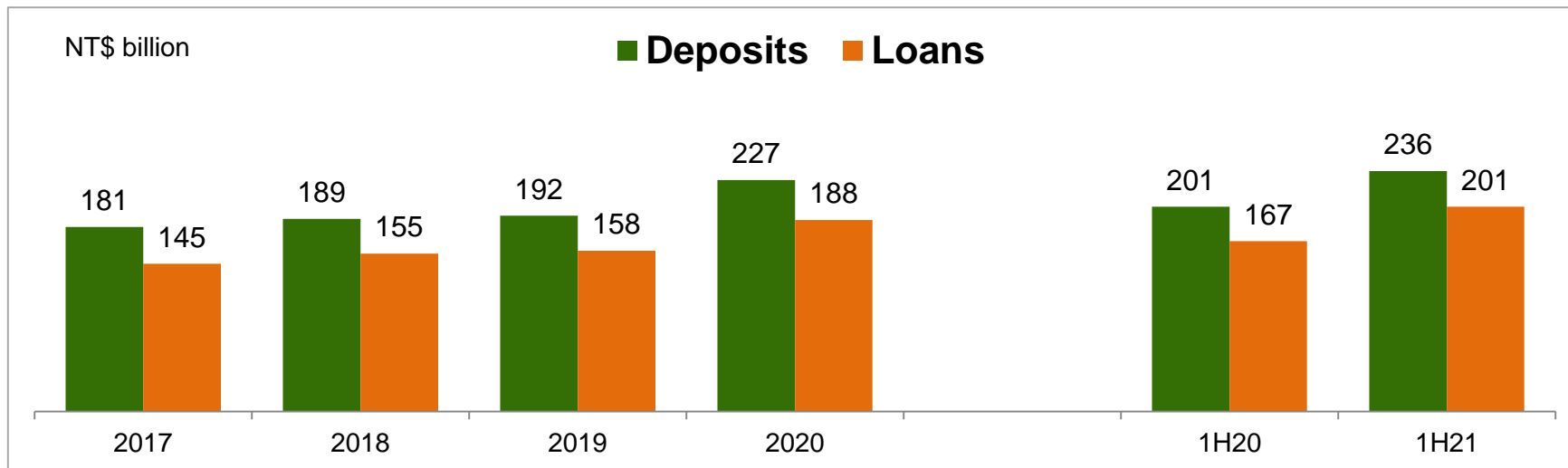
Loan-to-Deposit Spread

● KTB ● Peers

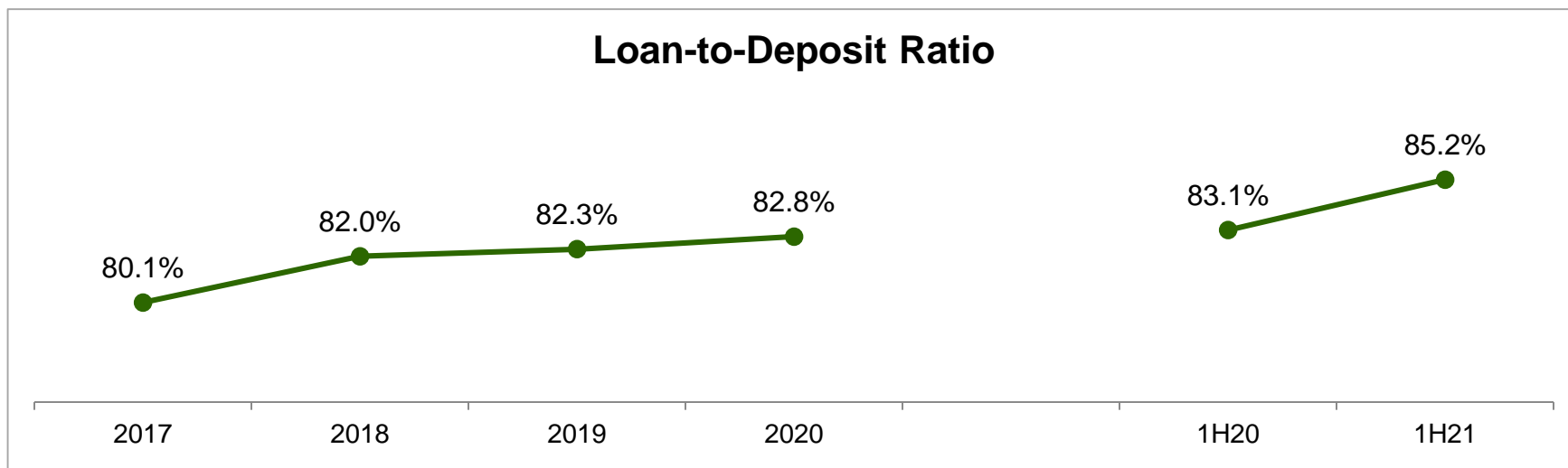




Loans and Deposits

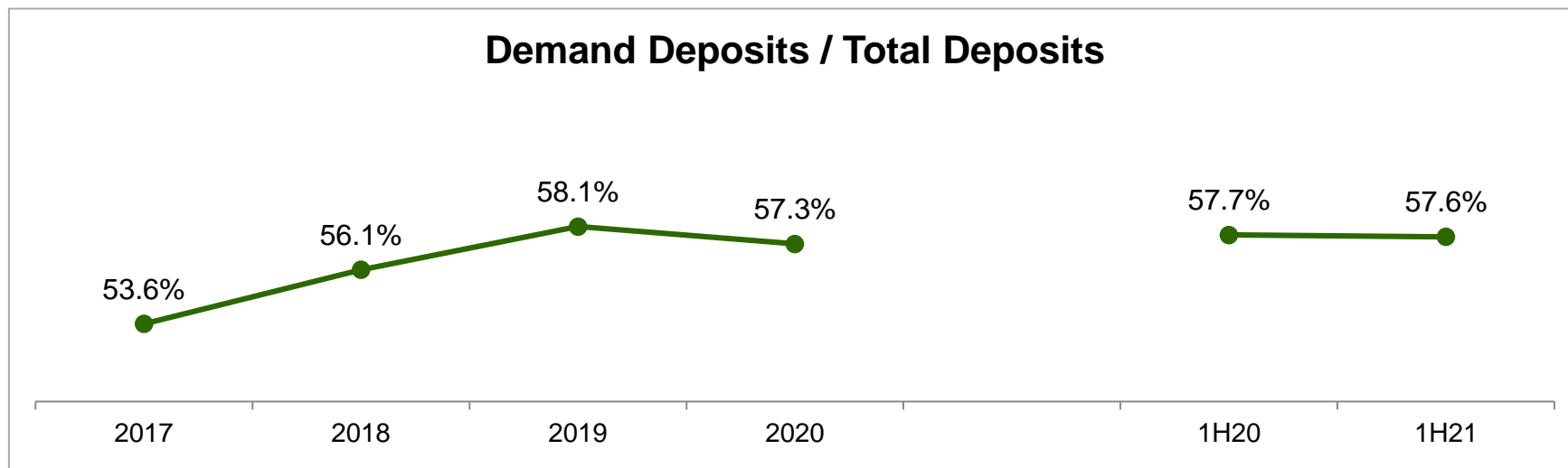
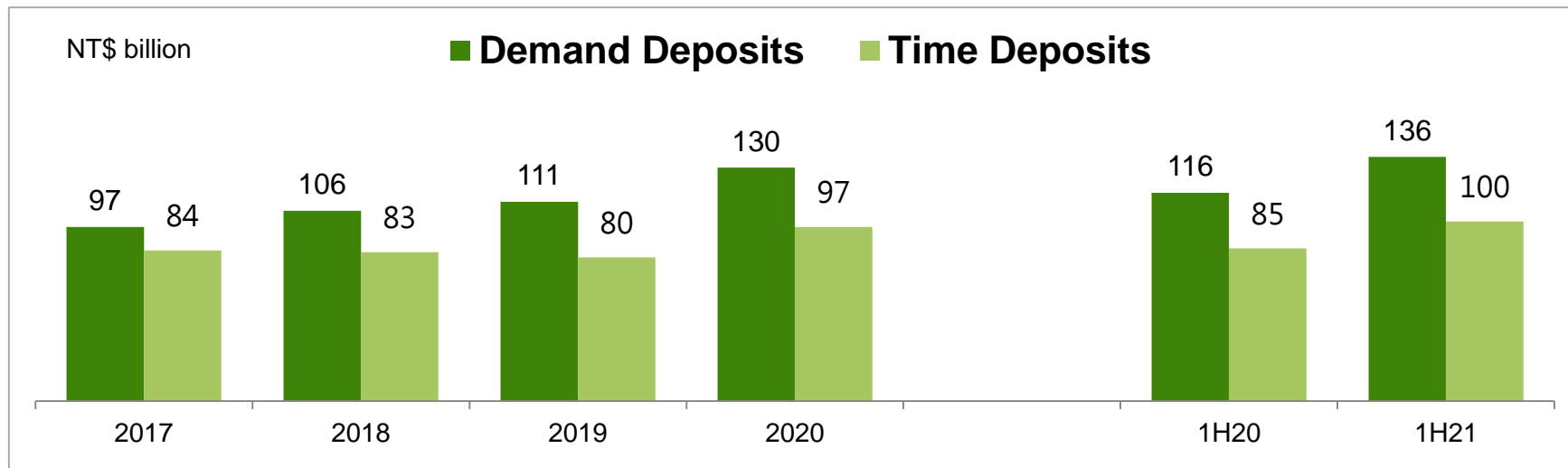


Loan-to-Deposit Ratio





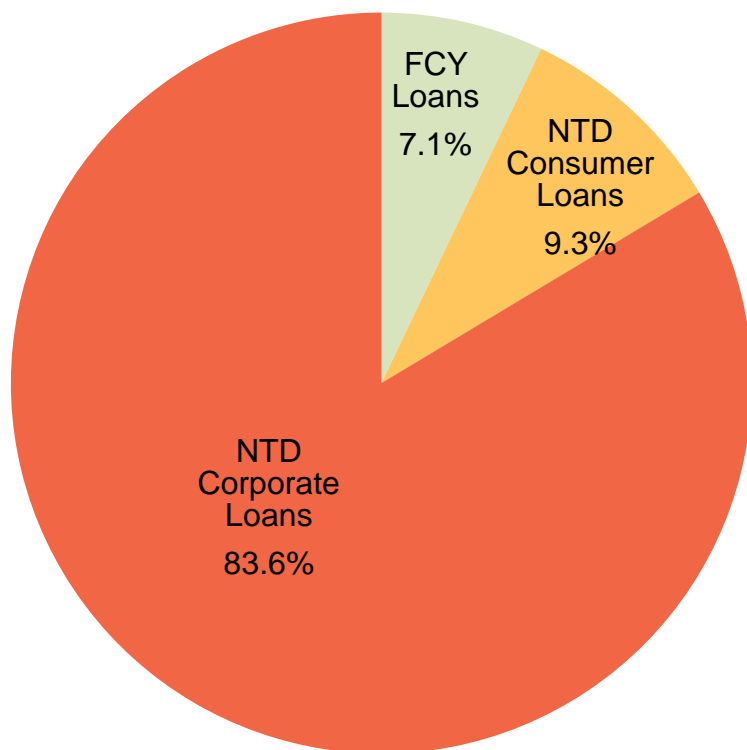
Deposit Breakdown



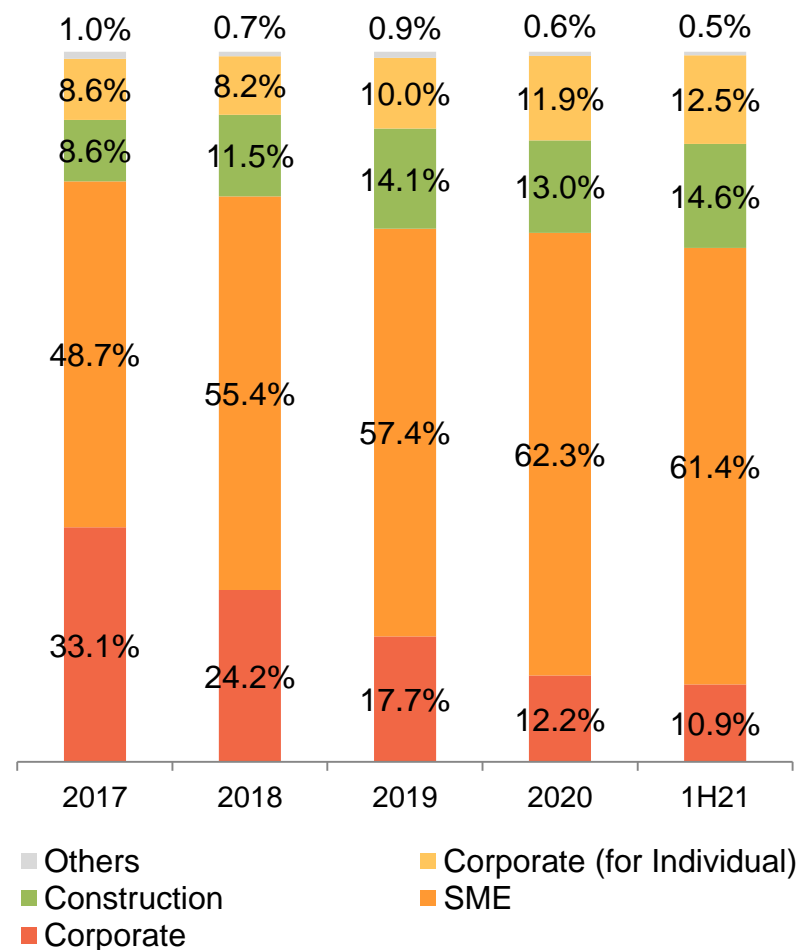


Loan Breakdown

Loan Composition (1H21)

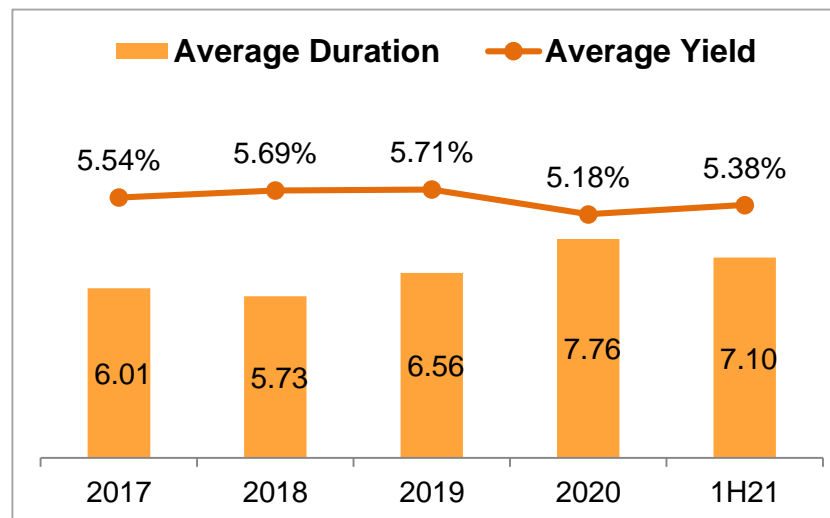
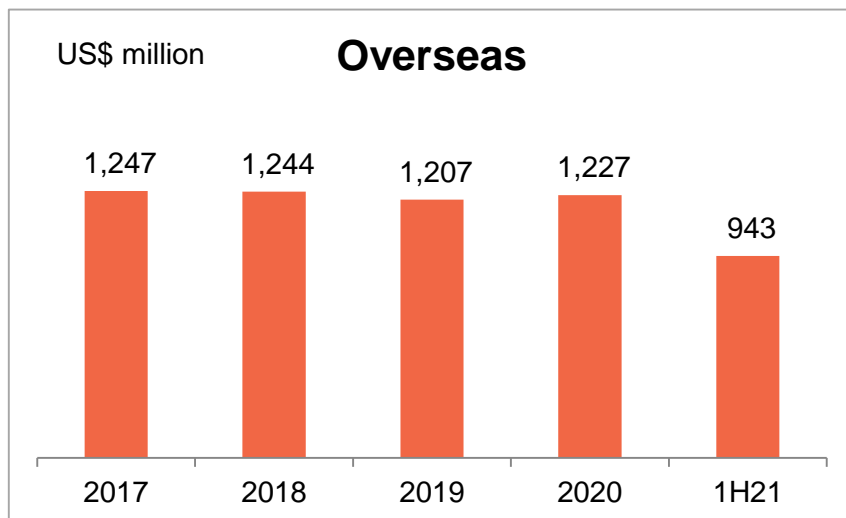
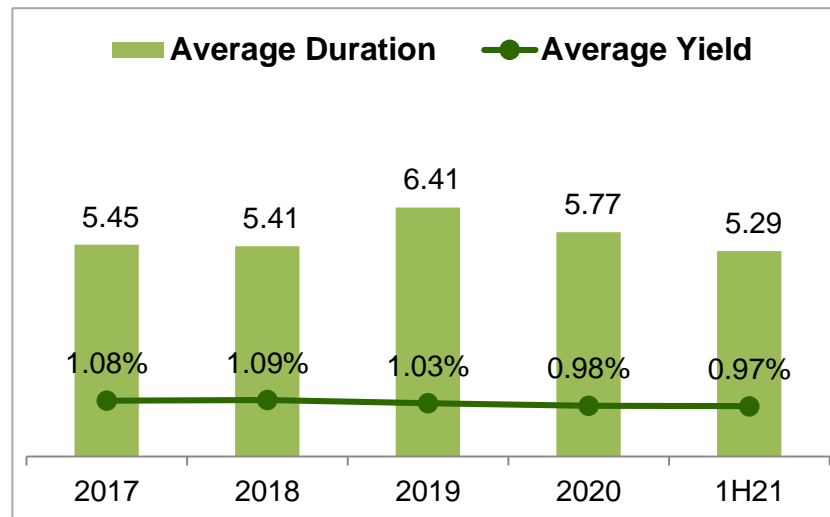
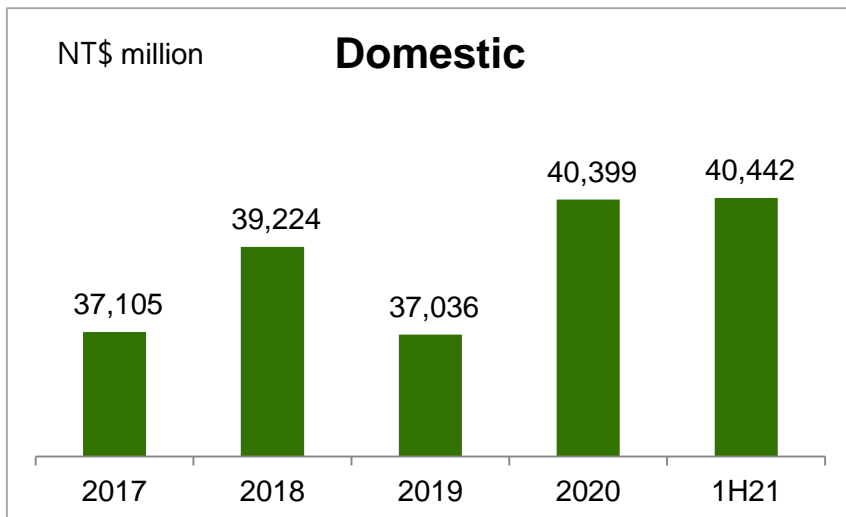


Corporate Loan by Type



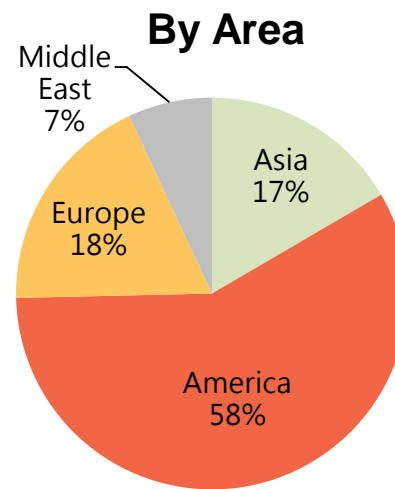
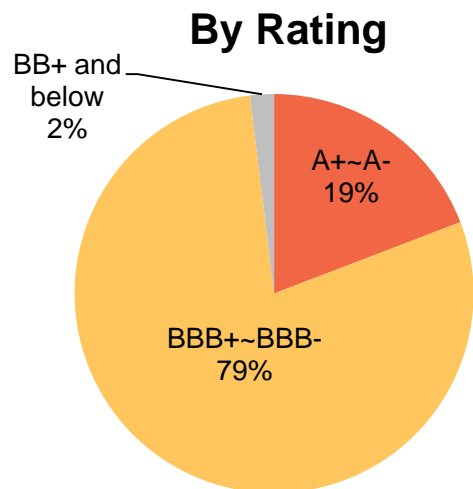


Financial Assets - Fixed Income Investments

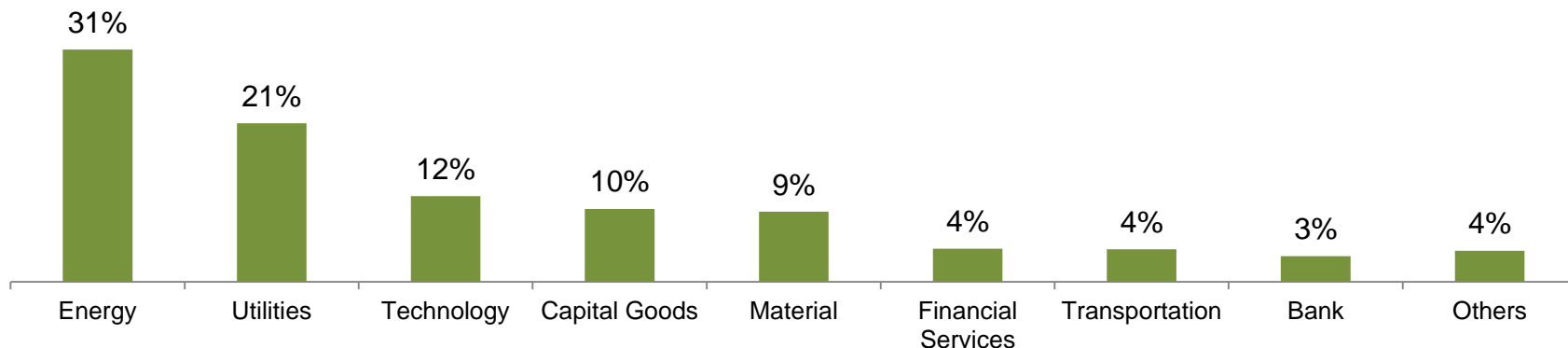




Financial Assets – Overseas Fixed Income Portfolio(1H21)

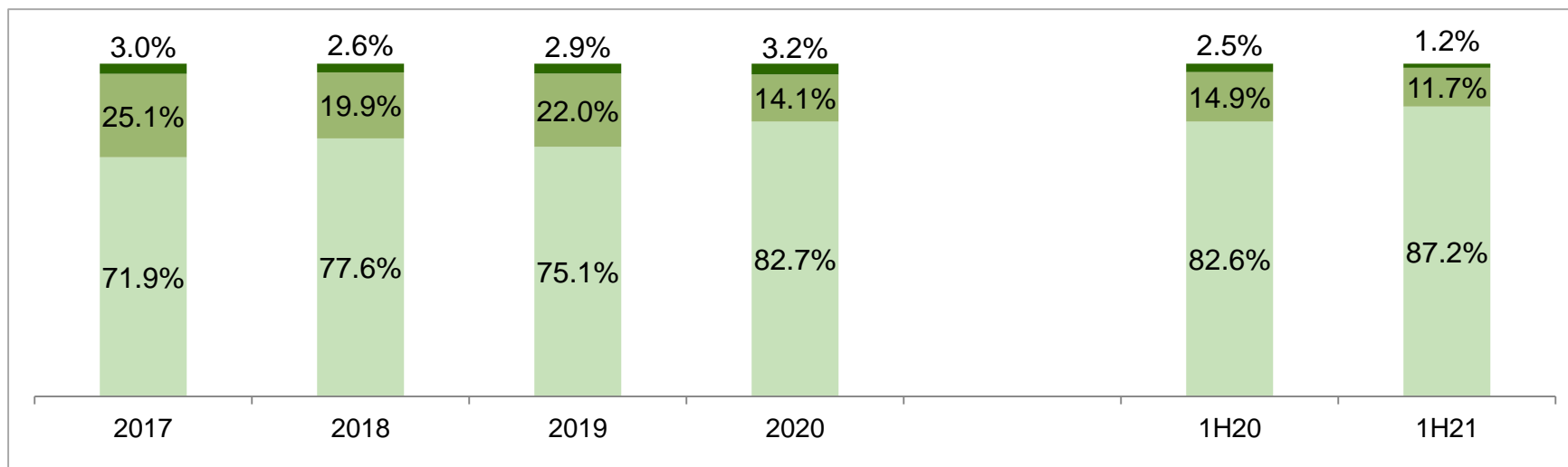
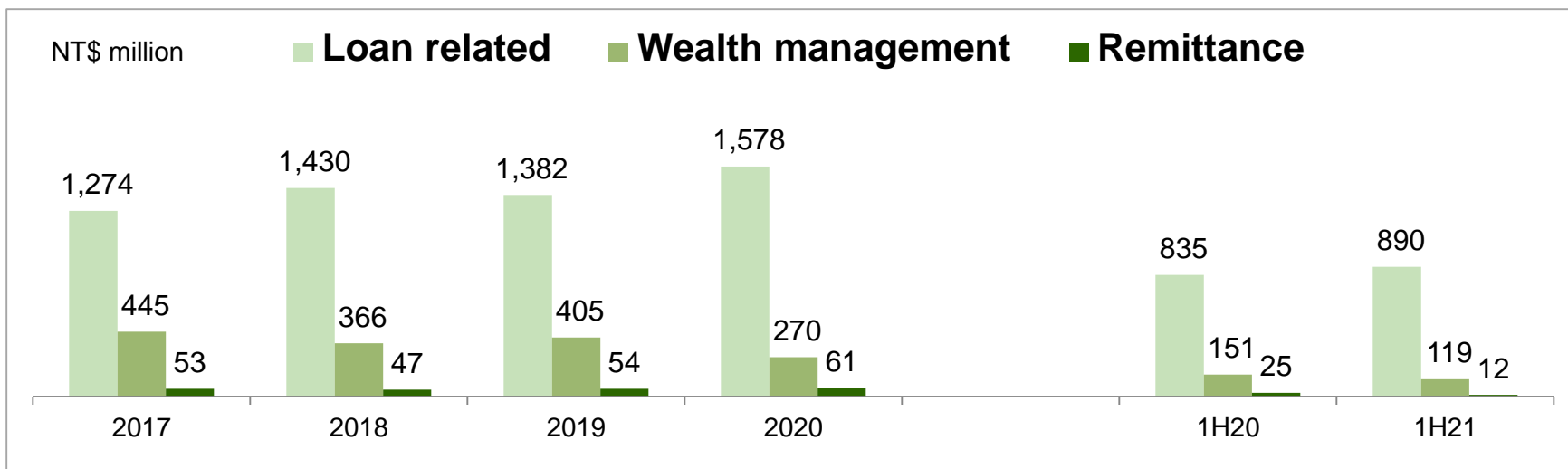


By Sector





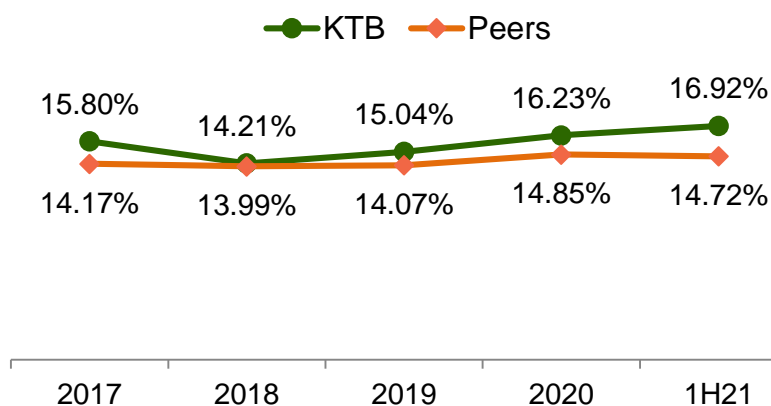
Fee Income



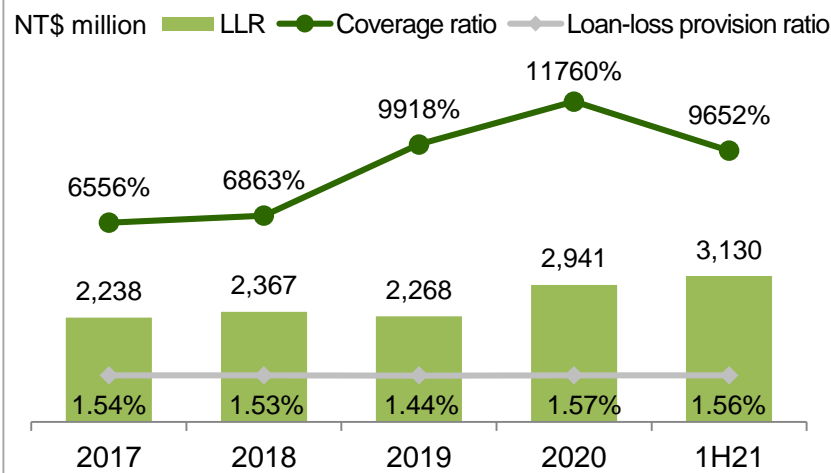
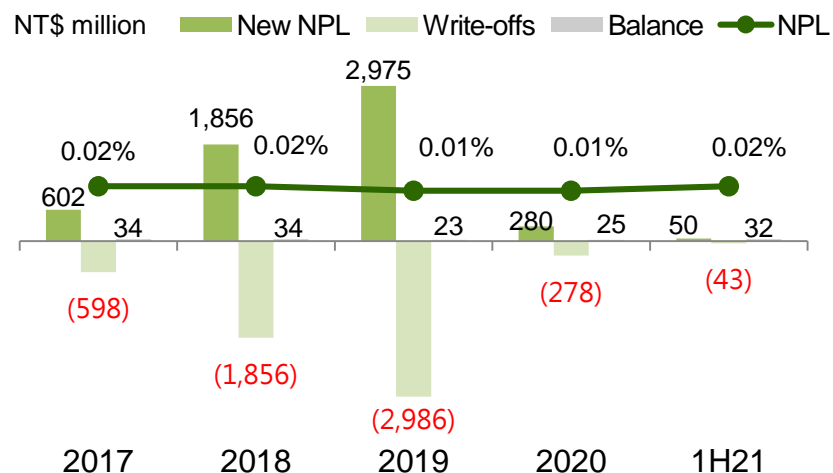
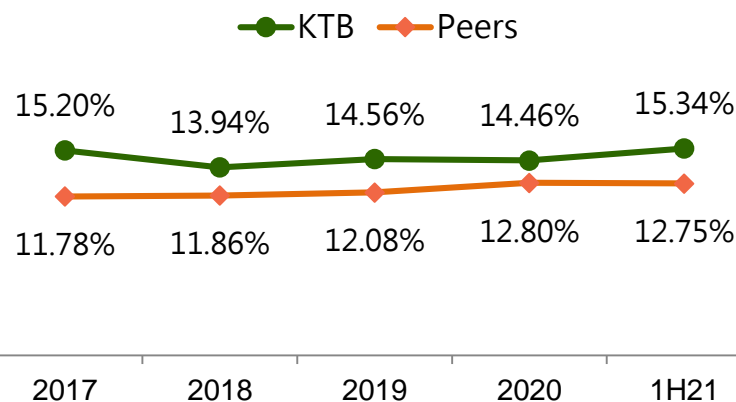


Capital Adequacy and Asset Quality

BIS Ratio



Tier 1 Capital Ratio



Note: Peer data updated to Mar. 2021.



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



Income Statement

NT\$ million

Items	1H21	1H20	YoY
Net Interest Income	2,757	2,494	11%
Net Fee Income	1,021	1,011	1%
Other Income	1,847	(69)	2,777%
Revenue	5,625	3,436	64%
Operating Expense	(1,047)	(824)	27%
PPOP	4,578	2,612	75%
Provision for Loan Loss	464	(210)	321%
Earnings Before Tax	5,042	2,402	110%
Net Income	4,334	1,986	118%
EPS (Cumulative) (NT\$)	3.87	1.77	119%



Balance Sheet

NT\$ billion

Items	1H21	1H20	YoY	Items	1H21	1H20	YoY
Cash, CDs, Interbank Deposits, and R/S	15.8	17.9	-12%	Interbank Deposits , Interbank Borrowings	25.9	27.8	-7%
Securities	102.4	105.9	-3%	Deposits	235.3	200.8	17%
Loans	197.4	164.5	20%	R/P	12.3	24.8	-50%
Property and Equipment	3.5	2.7	30%	Other Liabilities	6.5	4.2	55%
Other Assets	8.6	7.1	21%	Total Liabilities	280.0	257.6	9%
Total Assets	327.7	298.1	10%	Shareholder's Equity	47.7	40.5	18%



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: esg.ktb.com.tw