

Stock number: 5876 http://www.scsb.com.tw

THE SHANGHAI COMMERCIAL & SAVINGS BANK PRE-LISTING PERFORMANCE PREPARATION

2018.9.17



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### OUTLINE OF BRIEFING

Company Profile

• Industry Development

• Financial Performance

Potential Risks

• Corporate Governance

• Corporate Social Responsibility

• Business Strategy and Future Development



Company Characteristics

Private commercial bank with 103 years of history

The only bank to relocate to Taiwan from China

Focus on Corporate Banking as the core business, emphasize Personal Banking, Wealth Management, Trust, Treasury Marketing, Depository, and Digital Banking



### Milestones (1)



Founded in Shanghai by Mr. K. P. Chen, a well-known Chinese banker

Established Headquarters in Shanghai Ningbo Road

Hong Kong Branch rebranded as the "Shanghai Commercial Bank" (SCB)

Incorporated and set up Head Office in Taipei to pave the way for re-starting operation in Taiwan

Business resumed at Taipei Kuan Chien Road

First new branch established in Kaohsiung since relocation

Mr. Yung Hung-Ching was appointed as the Vice Chairman to lead the Bank to develop business



# Milestones (2)



Launched the first 24-hour ATM

Donated and established SCSB Cultural and Educational Foundation

Relocated Headquarters to Minchuan East Road of Taipei City; Mr. Yung Hung-Ching was promoted to Chairman; and established Offshore Banking Unit(OBU)

Awarded #1 in emerging markets by Euromoney

Three "Shanghai Banks" set up Strategic Alliance

Ranked as the strongest bank in Taiwan by Asian Banker

Established the first overseas branch in Hong Kong



# Milestones (3)



Registered as a public company

Awarded Best Managed Bank in Taiwan by the Asian Banker

Registered on the Emerging Stock Board (ESB)

Independent directors appointed and Auditing Committee established

First smart branch - North Kaohsiung Branch established in South Taiwan

The first private bank to offer Taiwan Pay

Approved for IPO by the Board of Directors of the Taiwan Stock Exchange



Mission and Vision

#### Mission

- Talent development
- Utilize information technology
- Provide the best products and service to customers in the Asia-Pacific
- Prioritize shareholder rights and pursue best market value

#### Vision

• Be the best Chinese Bank in the Asia-Pacific



### Executive Management Team



#### Chairman Yung Hung-Ching

- Graduated from University of Shanghai
- •Chairman of the Board of Directors of the Company and Director of Shanghai Commercial Bank
- •Served as Director and Vice Chairman of the Company



# Managing Director Lee Ching-Yen • Masters in Business Administration from

- Masters in Business Administration from Northwestern University
- Managing Director of the Company and Chairman of the Board of Directors of Shanghai Commercial Bank
- •Served as Chairman of the Board of Director of Singapore Airlines



#### Managing Director Chen Yih-Ping

- •Masters from University of Denver
- •Managing Director of the Company and Director of Shanghai Commercial Bank
- •Served as Senior Executive VP and President of the Company



#### Independent Managing Director Lee Yung-San

- •PhD Economics from University of Wisconsin
- •Independent Managing Director of the Company
- Served as Minister of Finance, Chairman of Changhua Bank, Chairman of The International Commercial Bank of China



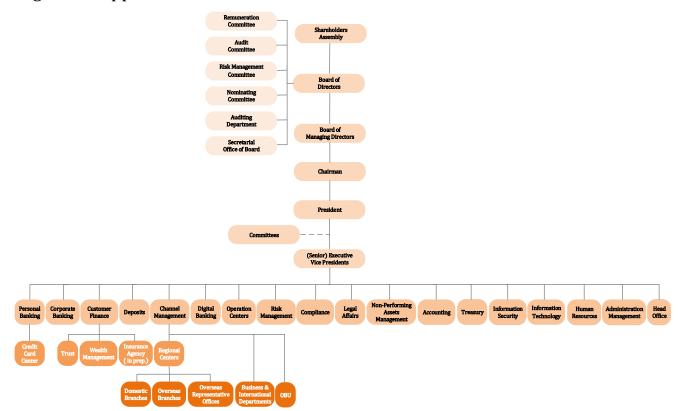
#### President Chen Shan-Chung

- Graduated from Soochow University
- •Director and President of the company
- Served as Branch Manager, Deputy Executive VP, Senior Executive VP of the Company

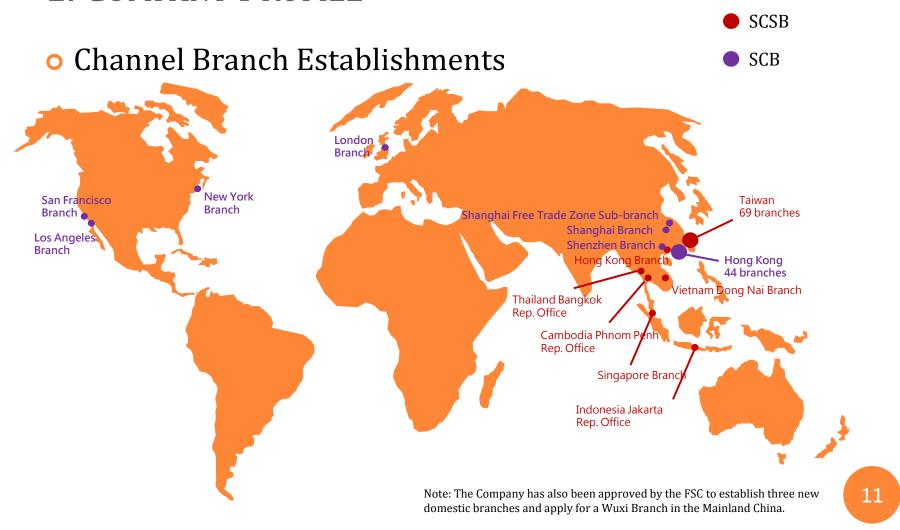


### Organization

• Five major Strategic Business Units team up with Channel Management to develop business; implement corporate governance, enhance in internal control, compliance and logistical support.









### Market Evaluation

Banker"

Ranked as 263th of top 1000 world banks by the UK "The Banker"

Ranked as 134th of top 500 Asian banks by "The Asian

Taiwan Rating domestic long-term credit rating twAA

S&P International long-term credit rating BBB+

Fitch domestic long-term credit rating AA (twn) International long-term credit rating A-



### Industry Status

Additionally, banking industry is a highly regulated with strict threshold of getting license.

37 indigenous banks with 3,408 domestic, and 146 foreign bank branches in Taiwan, resulting a long-standing issue on over banking.

FSC will plan 2 internet-only banks to be established.



# Industry Scale

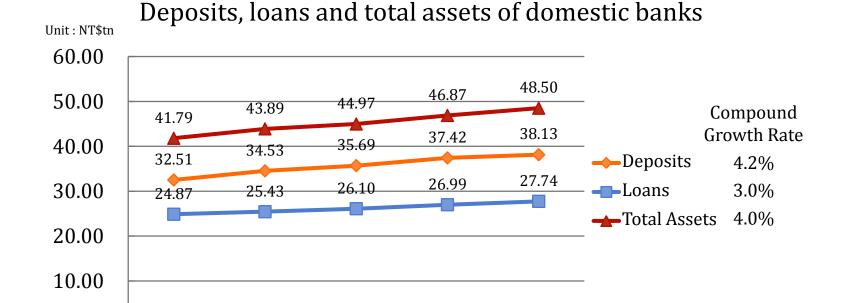
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2014

2015

2016

Deposits, loans and assets under management show steady growth



2017

2018H1



## Industry Competition

Excessive liquidity, declining LDR, narrowing interest spread

### LDR and interest spread of domestic banks

Unit:	NT\$tn

	2014Q4	2015Q4	2016Q4	2017Q4	2018Q2
Average LDR	78.2%	74.7%	73.4%	73.1%	73.0%
Excessive Deposits	6.9	8.6	9.4	9.9	10.2
Interest Spread (NT)	1.44%	1.44%	1.37%	1.36%	1.34%



## Operational Efficiency

Unit: NT\$100mn

**NPL Ratio** 

CAR

Domestic banks have stable profits, good asset quality and capital adequacy

Operational efficiency of domestic banks

	2014	2015	2016	2017	2018H1
Profit before income tax	3,201	3,196	3,001	3,059	1,765
Profit growth rate	24.2%	-0.2%	-6.1%	2.0%	*9.5%
ROE (before income tax)	11.7%	10.6%	9.2%	9.0%	#10.0%

0.23%

12.9%

0.27%

13.3%

0.28%

14.2%

0.25%

12.4%

0.28%

@14.2%

<sup>\*</sup>annual changes \*annualized figures @figure of Mar. 2018



# Market Position (2018.6) - Non-consolidated

Item	Amount	Growth rate	Market share	Unit: NT\$mn Market growth rate	
Total assets	NT\$1,144,836	7.13%	2.36%	6.48%	
Net worth	122,634	0.09%	3.45%	2.38%	
Deposits	869,243	6.00%	2.30%	4.39%	
Foreign currency deposits	278,658	3.31%	3.01%	8.55%	
Credit	715,479	8.63%	2.49%	4.94%	
Loans	668,616	8.35%	2.41%	5.06%	
Corporate loans	545,773	7.49%	2.76%	5.47%	
Consumer loans	122,843	12.36%	1.54%	4.06%	
Loans to SME	203,488	5.65%	3.24%	7.17%	
Guarantee	46,863	12.69%	5.00%	1.38%	
Loans at OBU & overseas units*	158,921	15.78%	3.99%	6.88%	
Advances on imp/exp balances	8,381	31.57%	16.16%	15.95%	
Import letters of credit accumulated	US\$1,053	10.98%	4.33%	9.38%	
Export negotiation accumulated	1,456	14.27%	6.02%	10.01%	

<sup>\*</sup>figure of Mar. 2018 Sources: FSC & CBC



### Outlook

The growing economy provides an optimal environment for the development of the banking industry.

The government encourages New Southbound policy to support overseas branches establishment.

Banks can apply for the establishment of domestic branches to promote financial inclusion.

Increasing operating cost resulting from the increasing requirements for corporate governance, internal control, antimoney laundry & combating the financing of terrorism, information security, and consumer protection as stipulated by regulations and laws.

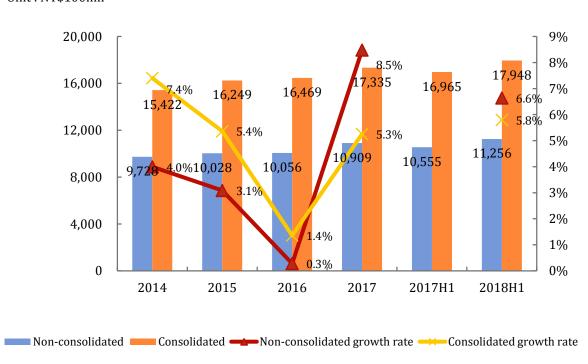
Continued Financial industry consolidation, 2 internet-only banks licenses are expected to be released by regulator in near future.

FinTech grows rapidly and widely utilized by financial industry.



### Asset





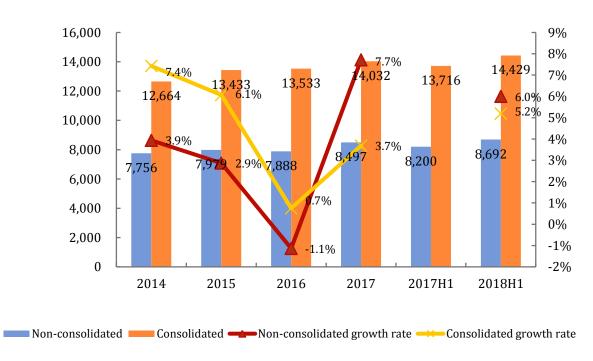


### Net Worth





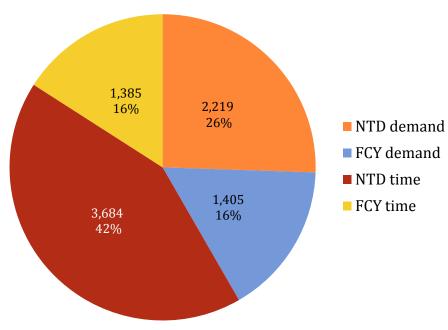
# Scale of Deposits





Structure of Deposits (2018.6) - Non-consolidated

Total: NT\$869.2bn





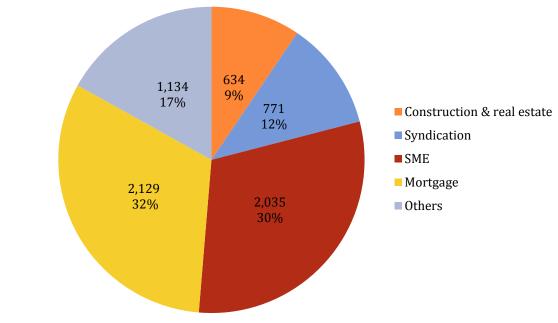
### Scale of Loans





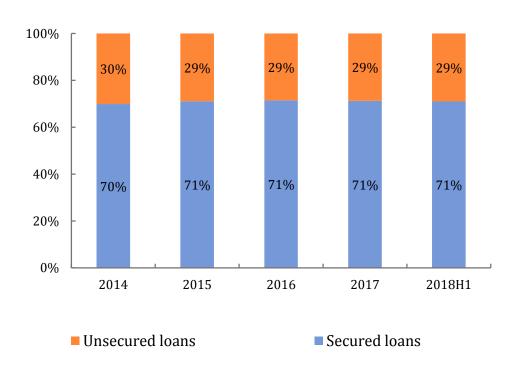
# Structure of Loans (2018.6) - Non-consolidated

Total: NT\$670.3bn



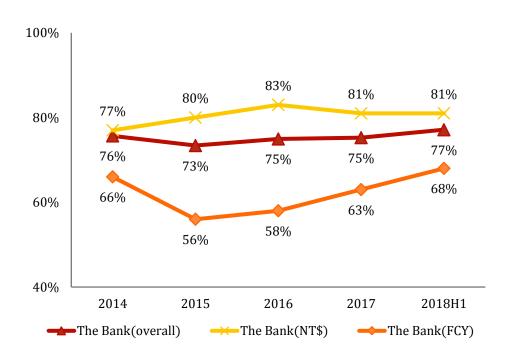


Structure of Loans - Non-consolidated



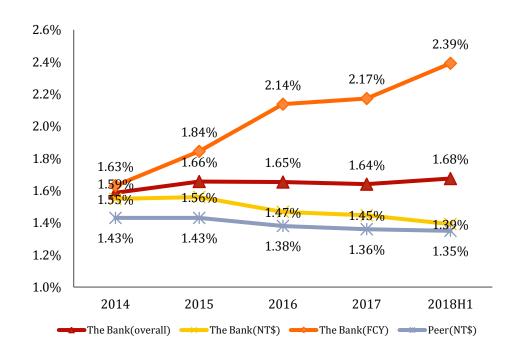


### LDR





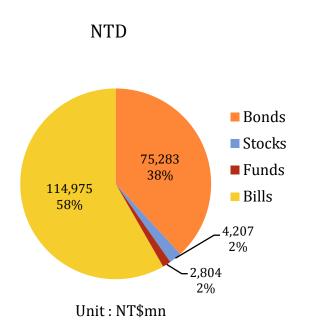
# Interest Spreads

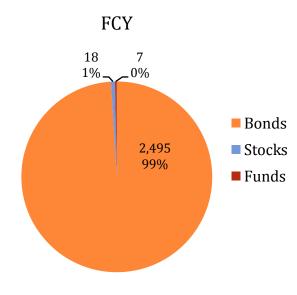




# Investment (2018.6) - Non-consolidated

Total: NT\$197,269mn Total: US\$2,520mn

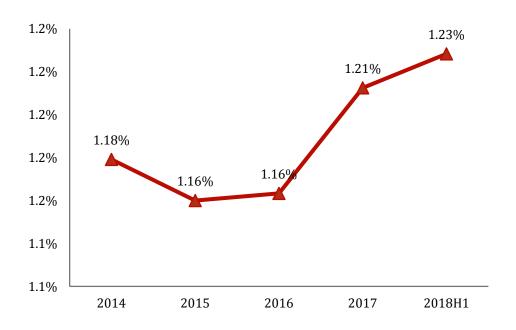




Unit: US\$mn



### NIM - Non-consolidated



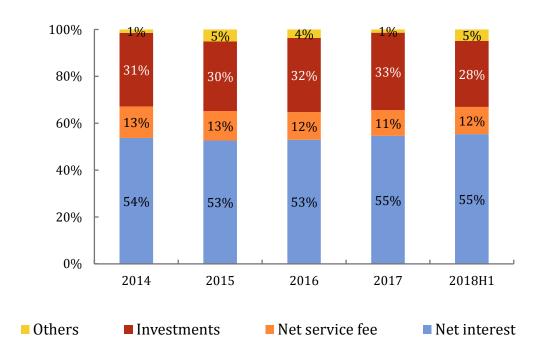


### Scale of Net Revenue



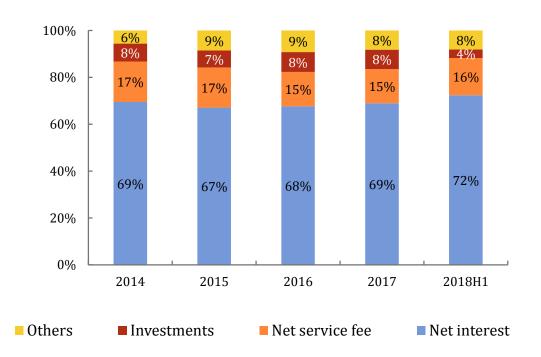


Structure of Net Revenue - Non-consolidated



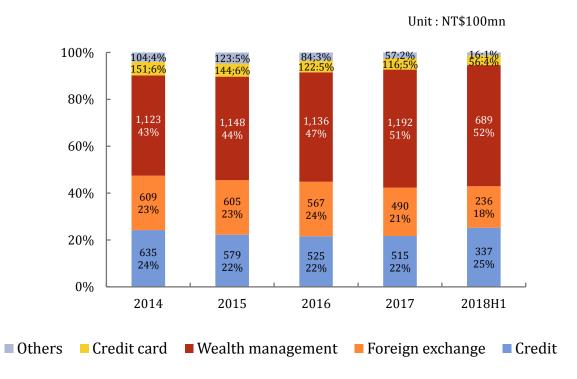


Structure of Net Revenue - Consolidated





Structure of Net Service Fee Incomes - Non-consolidated





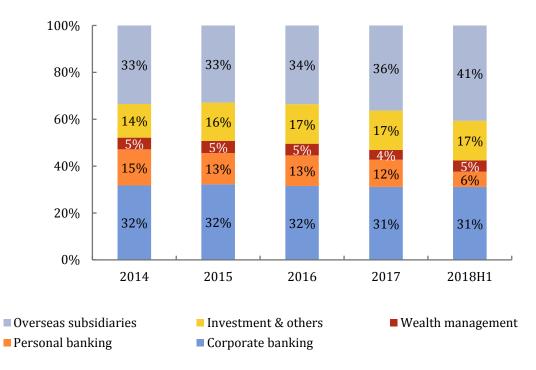
# o Profitability (2018H1) - Non-consolidated

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Item	2018H1	2017H1	17H1 YoY	
Net Revenue	11,528	10,800	727	6.7%
Provision	300	270	30	11.1%
Operating Expenses	3,411	3,259	152	4.7%
Profit before income tax	7,817	7,272	546	7.5%
Net Income	6,650	6,224	426	6.8%
Cost Income Ratio	32.2%	32.7%		-0.5%

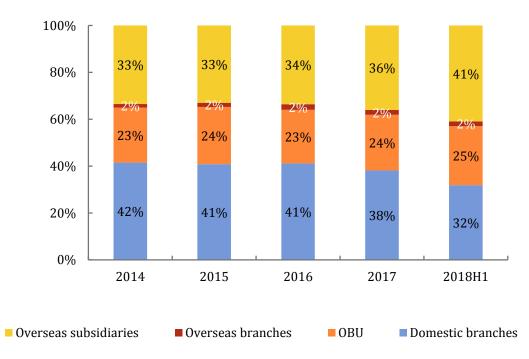


- Structure of Profit before income tax Non-consolidated
  - by Business





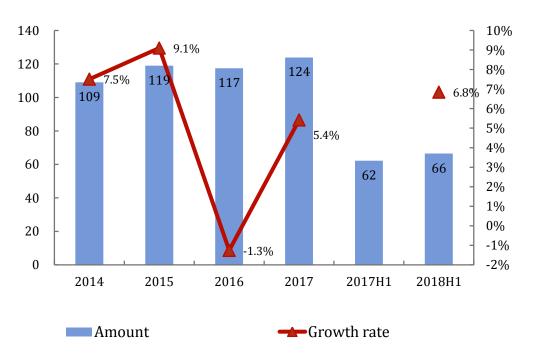
- Structure of Profit before income tax Non-consolidated
  - by Region





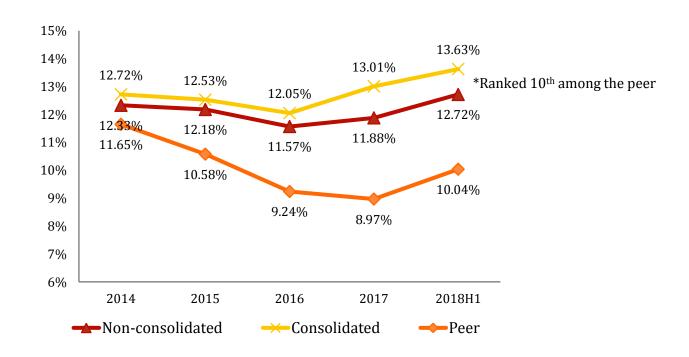
### Net Income - Non-consolidated

Unit: NT\$100mn



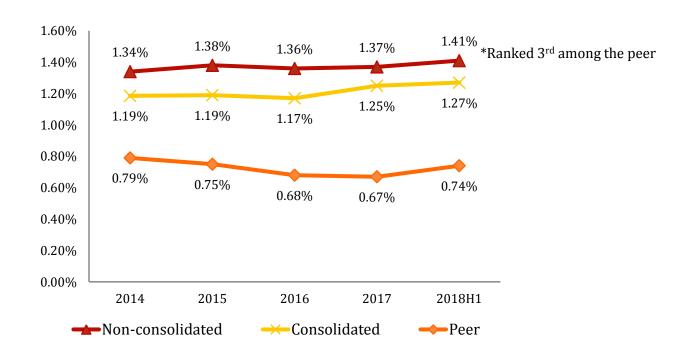


### • ROE (before income tax)



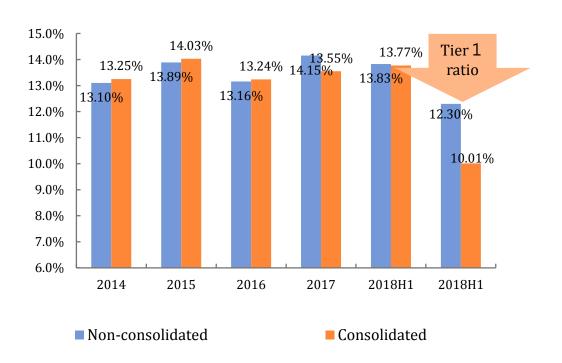


### • ROA (before income tax)



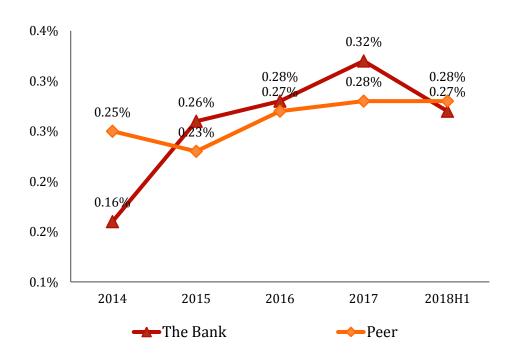


### CAR



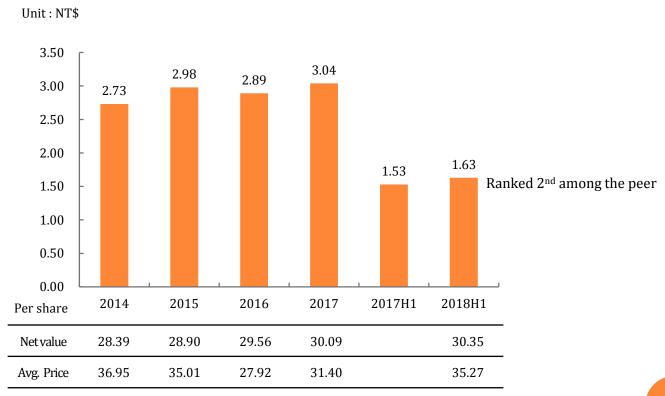


### NPL Ratio





### • EPS





### Dividend Distribution

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U	וווע	•	NT\$	

	2013	2014	2015	2016	2017
Cash dividend	1.50	1.50	1.50	1.50	1.80
Stock dividend	0.25	0.50	0.20	0.00	0.00
Total	1.75	2.00	1.70	1.50	1.80
Cash dividend yield	n.a.	4.06%	4.28%	5.37%	5.73%



### • Financial Highlights (2018H1)

Unit: NT\$mn

	2017	2018H1	2017H1	YoY
Total assets	1,090,880	1,125,582	1,055,514	70,068 (6.6%)
Net worth	122,410	123,440	119,762	3,678 (3.1%)
Net income	12,385	6,650	6,224	426 (6.8%)
EPS (NT\$)	3.04	1.63	1.53	0.10
ROE (before income tax)	11.88%	12.72%	12.12%	0.60%
ROA (before income tax)	1.37%	1.41%	1.41%	0.00%
CAR	14.15%	13.83%	13.08%	0.75%
NPL ratio	0.32%	0.27%	0.34%	-0.07%
Coverage ratio	451.22%	506.17%	428.14%	78.03%
Provision-to-loan ratio	1.46%	1.36%	1.47%	-0.11%

#### 1. Year ended of 2017:

Consolidated total assets NT\$1,733.4bn, ranked  $12^{th}$  compared with financial holding companies Consolidated net worth NT\$163bn, ranked  $10^{th}$  compared with financial holding companies EPS NT\$3.04, ranked  $3^{rd}$  compared with financial holding companies

<sup>2.</sup>As of December 31, 2017: NVPS NT\$30.09, Avg. price per share NT\$31.40 As of June 30, 2018: NVPS NT\$30.35, Avg. price per share NT\$35.27



### 4. POTENTIAL RISKS



Credit Risk

Market Risk

Operational Risk

Liquidity Risk

### Sources

Volatility in the economy and industry, causing borrowers or issuers to default on debt

Interest rate, exchange rate, stock price, and commodity price fluctuations, resulting in loss of financial assets

Loss caused by improper operations and errors in internal operations, personnel and systems

Improper allocation of funds or liquidity funding gaps; can not cope with customer withdrawals

### Measures

Establish risk limits, carefully select customers and investment targets, and strengthen early warning mechanisms and loan management

Formulate investment transaction limits, establish a transaction monitoring system, and set a stop loss mechanism

Establish compliance, implement internal control and three lines of defense, centralize operations and strengthen information security

Maintain a strong loan-todeposit ratio, strengthen the management of fund gap, establish an emergency response mechanism



### 5. CORPORATE GOVERNANCE

#### Sound and Prudent Compliance Program & Internal Control

- Implement three lines of defense for internal control
- Establish internal audit, compliance, and risk management and self-assessment measures
- Strengthen anti-money laundering and anti-terrorism procedures

#### Strengthen Board functions

- The qualifications of Board members are: experienced, well educated and professional
- Establish independent directors system
- Set up audit, remuneration, nomination, and risk management committees
- Board members continue to receive on-the-job learning
- Establish a whistleblower system

#### Protect Shareholders' equity

- Formulate rules of procedure for shareholders' meetings
- Establish an electronic voting system
- Equal treatment of shareholders
- Commission a professional stock agent to act on behalf

#### Respect Stakeholder interests

- Develop a consumer protection policy
- Establish employee communication channels
- Demonstrate corporate socia responsibility

#### Corporate Governance

- Formulate corporate governance, code of practice, ethical code of conduct and code of good faith as a guide for directors, managers, and employees
- Establish a corporate culture of integrity and sustainable development

### Improve information transparency

- Appoint a spokespersor
- Filing, reporting and making public announcement over Market Observation Post System as stipulated by regulations
- Set up a website
- According to regulation, establish a filing system for financial business statistics and data



### 6. CORPORATE SOCIAL RESPONSIBILITY

Fulfilling Corporate Social Responsibility

#### Implementing Corporate Governance

- Establish an effective corporate governance structure
- Establish a communication mechanism with stakeholders
- Appoint specialized dedicated staff

### Encouraging Sustainable Development

- Implement paperless operations
- Promote digital services
- Engage in efforts to save energy and reduce carbon footprint

### Corporate Social Responsibility

- Implement sustainable operation
- Comply social development
- Promote economic growth

#### **Promoting Public Welfare**

- Improve employee benefits and training
- Fair protection of client rights
- Participation & caring community



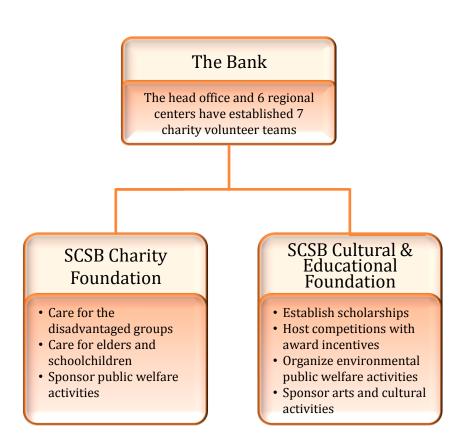
#### Disclosure

- Disclose the CSR report to Bank website, Market Observation Post System, and OTC Industry Value Chain information platform
- Disclose information related to CSR in annual report



### 6. CORPORATE SOCIAL RESPONSIBILITY

Community Participation - Public Welfare



#### Awards:

- □ The Bank
  - The Best Corporate Social Responsibility Award (Honorable Mention) of the 7<sup>th</sup> Best Practice Award by Taiwan Academy of Banking and Finance
  - Awarded in the "School and Community Financial Literacy Campaign" for the 8<sup>th</sup> year consecutively, winning 1<sup>st</sup> place in 2013 and 2014.
- Cultural & Educational Foundation
  - Silver Medal of the 10<sup>th</sup> Wenxin Award of the Ministry of Culture
  - Social Education Charity Award of Ministry of Education
  - The 11<sup>th</sup> Wenxin Award of the Ministry of Culture
  - Excellence Group Award of Tourism Bureau



### 7. Business Strategy and Future Development

### Continue Expanding Channels

- Set up 3 new branches by end of June 2019
- Apply to set up a new branch at WuXi of Jiangsu Province of China
- In line with Government's new Southbound Strategy, we continue to look for opportunities for M&A, Joint-stock or set up new branch

### Strengthen Digital Banking

- Strengthen the application of financial technology and the scope of digital financial services
- Promote e-payments and cross-border payments
- Provide intelligent financial services using artificial intelligence and blockchain

### Increase Scale and Scope of Business

- Strengthen foreign exchange, cross-strait finance, and competitive advantage in SME clients
- Cooperate with government policies to promote the "5+2" product line
- Strengthen consumer banking including mortgages
- Increase the scale and proportion of demand deposits



### 7. Business Strategy and Future Development

Increase fee income from retail banking

- Diversification of wealth management products, and enlarge scale of wealth management
- Consolidate two insurance subsidiaries
- Improve financial investment and strengthen treasury marketing

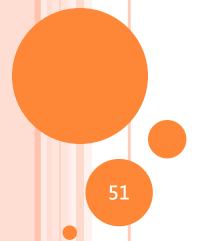
Deepen & broaden relationship with core customers

- Encourage all Business Units to share customer resources and offer integrated banking services and products to core customers
- Streamline cross-selling and customers' contribution to the Bank
- Aggressively develop potential customers, and expand customer base of valued clients

Internal control, compliance and risk management

- Continue to strengthen policies on internal control, compliance, anti-money laundering and combating the financing of terrorism (AML/CFT)
- Optimize risk management and utilize the early warning system
- Strengthen information security and client protection





# THANK YOU FOR LISTENING QUESTIONS AND SUGGESTIONS