

Financial sector

Life insurance-focused FHC earnings beat peers in April on forex & investment income

Key message

1. April earnings of Taiwan's 14 FHCs rose 60% YoY, but fell 9% MoM, with life insurance-focused FHCs outperforming their peers on forex and investment income.
2. Consensus for a Fed rate cut has now been delayed to 3Q24, but the market is positive on 2Q-3Q24F bank NIM and FX swap income. US Dollar Index strength and new forex volatility reserve rules will affect hedge costs for life insurers.
3. We like CTBC FHC (2891 TT, NT\$37.5, OP), E.Sun FHC (2884 TT, NT\$28.5, OP), Fubon FHC (2881 TT, NT\$71.8, OP), and Cathay FHC (2882 TT, NT\$55.5, OP).

Event

In April, the aggregate earnings of Taiwan's 14 FHCs grew at a slower YoY pace of 60% and fell 9% MoM. Life insurance-focused FHC earnings soared 106% YoY, higher than those of banking- and securities-focused FHCs, which rose a respective 18% and 34% YoY, due to lower hedge costs on NT-dollar depreciation of 1.7%.

Analysis

Banking- & securities-focused FHCs – Fee & net interest income up. In April, CTBC FHC (2891 TT, NT\$37.5, OP) posted net profit of NT\$5.1bn, up 50.6% YoY, but down 43% MoM, as CTBC Bank earnings dropped 43% MoM (higher general provisions on robust loan growth in April), and Taiwan Life earnings declined 19% MoM (lower hedging costs on NT-dollar depreciation, offsetting lower capital gains). In January-April, CTBC FHC grew net profit by 59% YoY, achieving 41% of our 2024F earnings, on CTBC Bank earnings growth of 4.6% YoY (higher investment and fee income) and Taiwan Life earnings of NT\$9.88bn (capital gains on stocks and bonds up, with hedging costs down). E.Sun FHC (2884 TT, NT\$28.5, OP) grew net profit by 13% YoY in April, driven by net interest and fee income growth of a respective 16% and 47%, despite lower investment income. However, net profit declined 18% MoM in April due to lower investment income and higher general provisions. In January-April, E.Sun FHC earnings achieved 34% of our full-year forecast with YoY growth accelerating to 5.4%, as bank and securities earnings rose 4.3% and 79%, respectively. Taishin FHC (2887 TT, NT\$18.8, N) saw earnings grow a respective 91% and 13% YoY in April and January-April, boosted by bank earnings growth of 20%, as well as higher earnings YoY across the securities, and life insurance. First FHC (2892 TT, NT\$27.9, N) garnered NT\$2.63bn in net profit in April, up 8% YoY, but down 10% MoM on lower investment income. In April, Mega FHC (2886 TT, NT\$40.95, N) generated net profit of NT\$2.63bn, down 18% YoY and 31% MoM, as investment gains from stocks and FX swaps slipped, offsetting rebounds in bank net interest and fee incomes. BVPS decreased NT\$0.03 MoM in April to NT\$25.08, suggesting FVOCI unrealized gains on financial assets dropped by about NT\$3.0bn a month. Yuanta FHC (2885 TT, NT\$32.1, OP) garnered net profit of NT\$3.05bn in April, up 59% YoY, but down 21% MoM, with securities and futures earnings up 36% YoY, boosted by brokerage fee income growth of 92% YoY and investment income growth of 125% on an 80% spike in daily average Taiex turnover to NT\$554.2bn.

Life insurance-focused FHCs – Hedge costs improving. Fubon FHC (2881 TT, NT\$71.8, OP) posted net profit of NT\$13.03bn in April, up 65% YoY and 63% MoM, with life insurance earnings up 122% MoM, as NT-dollar depreciation lowered hedging costs to NT\$0.3bn (increasing forex volatility reserves by NT\$5.6bn to NT\$23.9bn) offset capital gains of NT\$8.8bn, down NT\$3.4bn MoM. Fubon P&C booked claims of NT\$380mn in April, for the Hualian earthquake on April 3. In January-April, earnings growth YoY accelerated to 99%, achieving 46% of our 2024F earnings. Cathay FHC (2882 TT, NT\$55.5, OP) posted net profit of NT\$13.7bn in April, up 131% YoY, but down 18% MoM, with life insurance hedging costs (forex volatility reserves up by NT\$7.6bn) and capital gains both down, and bank earnings down 7.6% MoM on lower investment income. In January-April, Cathay FHC earnings growth slipped to 297% YoY, achieving 64% of our 2024F earnings.

Stocks for Action

NT-dollar depreciation prompted life insurance-focused FHC earnings to outperform securities- and banking-focused FHC earnings in April. However, whether the US Dollar Index will continue to strengthen from May depends on whether the Fed will cut interest rates in 3Q24F. So far in 2Q24, CS recurring hedge costs have remained at 4.0-4.2%. The Financial Supervisory Commission (FSC) could announce new rules for forex volatility reserves in May, which would affect forex gains on unhedged positions at life insurers who apply for the new rules. We predict banks will maintain NIM and FX swap income in 2Q-3Q24F. A high interest rate environment will help banks sell overseas bonds, funds, and structured bonds, lifting fee income growth to double-digits. For 2024, we are currently positive, in descending order, on banking, securities, life insurance, and leasing, and are upbeat on CTBC FHC, E.Sun FHC, Fubon FHC, and Cathay FHC.

Risks

Weakening global financial markets, high credit costs for banks.

Figure 1: April aggregate net profit of Taiwan's 14 FHCs rose 60% YoY, but fell 9% MoM, with life insurance-focused FHCs up 106% (lower hedging costs), securities-focused FHCs up 34% YoY (higher Taix prices & turnover), & banking-focused FHCs up 18% (core earnings rebound)

| NT\$m | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | | 2024F | |
|------------------------------|------------------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|--------------|------|
| | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) | Achieved (%) | |
| 2880 TT | Hua Nan FHC* | 21,618 | 24.9 | 1.59 | 5,634 | 12.7 | 19.2 | 1,855 | 20.7 | (10.7) | 7,489 | 14.5 | 0.55 | 33.4 |
| 2881 TT | Fubon FHC | 66,017 | 40.7 | 4.81 | 30,390 | 117.3 | N.A. | 13,030 | 65.1 | 62.7 | 43,410 | 98.5 | 3.34 | 46.3 |
| 2882 TT | Cathay FHC | 50,929 | 36.3 | 3.24 | 37,200 | 430.7 | N.A. | 13,740 | 130.5 | (18.2) | 50,940 | 296.7 | 3.53 | 63.6 |
| 2883 TT | CDF FHC* | 18,943 | 15.7 | 1.13 | 8,214 | 134.5 | 474.3 | 2,425 | 242.0 | (6.7) | 10,639 | 152.6 | 0.64 | N.A. |
| 2884 TT | E. Sun FHC | 21,726 | 37.9 | 1.41 | 6,250 | 3.4 | 6.9 | 1,752 | 12.7 | (17.9) | 8,002 | 5.4 | 0.51 | 33.7 |
| 2885 TT | Yuanta FHC | 26,566 | 23.8 | 2.09 | 9,234 | 60.0 | 204.3 | 3,053 | 38.1 | (20.7) | 12,288 | 53.9 | 0.97 | 39.5 |
| 2886 TT | Mega FHC | 33,247 | 81.3 | 2.37 | 11,491 | 6.6 | 84.8 | 2,630 | (18.2) | (31.4) | 14,120 | 0.9 | 0.99 | 42.8 |
| 2887 TT | Taishin FHC | 14,602 | (1.8) | 1.01 | 5,010 | (1.1) | 100.4 | 1,700 | 91.0 | 24.1 | 6,710 | 12.6 | 0.49 | 39.8 |
| 2888 TT | Shin Kong FHC* | (7,409) | N.A. | (0.48) | 3,048 | N.A. | N.A. | 3,447 | 168.9 | (13.4) | 6,494 | N.A. | 0.42 | N.A. |
| 2889 TT | Waterland FHC* | 2,000 | 55.3 | 0.58 | 628 | 3.7 | 54.8 | 105 | (24.5) | (52.5) | 733 | (1.5) | 0.21 | N.A. |
| 2890 TT | SinoPac FHC* | 19,764 | 23.8 | 1.62 | 6,878 | 44.8 | 69.7 | 1,626 | (0.2) | (34.4) | 8,504 | 33.8 | 0.69 | 41.8 |
| 2891 TT | CTBC FHC | 56,081 | 79.3 | 2.82 | 20,920 | 61.4 | 179.1 | 5,107 | 50.6 | (32.6) | 26,027 | 59.2 | 1.33 | 41.0 |
| 2892 TT | First FHC | 22,461 | 9.1 | 1.65 | 7,015 | 5.8 | 104.3 | 2,108 | 8.1 | (10.0) | 9,123 | 6.3 | 0.67 | 39.9 |
| 5880 TT | Cooperative FHC* | 17,264 | (14.7) | 1.17 | 5,380 | 10.1 | 95.7 | 1,346 | 7.3 | (25.7) | 6,726 | 7.0 | 0.45 | N.A. |
| Total of 14 FHCs | | 363,809 | 30.0 | | 157,292 | 101.8 | 525.8 | 53,924 | 60.4 | (8.7) | 211,205 | 89.4 | | |
| Life insurance-centered FHCs | | 128,479 | 25.1 | | 78,852 | 410.6 | N.A. | 32,642 | 106.1 | 4.0 | 111,483 | 258.2 | | |
| Banking-centered FHCs | | 206,764 | 34.0 | | 68,578 | 22.2 | 85.2 | 18,124 | 17.5 | (23.3) | 86,701 | 21.0 | | |
| Brokerage-centered FHCs | | 28,566 | 25.6 | | 9,862 | 54.6 | 186.7 | 3,158 | 34.4 | (22.4) | 13,021 | 49.2 | | |

Note 1: * Indicates FHCs not within our coverage universe; forecasts for these FHCs are based on Bloomberg consensus

Note 2: Insurance-centric FHCs are Cathay, Fubon, China Development (2883 TT, NT\$14, NR), and Shin Kong; bank-centric FHCs are Hua Nan (2880 TT, NT\$23.15, NR), E. Sun, Mega, SinoPac (2890 TT, NT\$21.7, NR), CTBC (2891 TT, NT\$31.85, OP), First (2892 TT, NT\$27.5, N), and Taiwan Cooperative (5880 TT, NT\$26.2, NR); securities-centric FHCs are Yuanta, and IBF (2889 TT, NT\$13.95, NR)

Source: Bloomberg, Company data, KGI Research

Figure 2: In April, life insurance earnings rose 4% MoM on lower hedging costs due to NT-dollar depreciation of 1.7% in April offsetting lower capital gains on stocks/funds

| NT\$m | FHC ticker | Subsidiary name | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | |
|-------|--------------------------|-------------------------|----------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|
| | | | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) |
| | 2881 TT | Fubon Life | 36,091 | (44.9) | 3.27 | 17,450 | 140.7 | N.A. | 9,090 | 76.2 | 122.2 | 26,520 | 113.7 | 2.39 |
| | 2882 TT | Cathay Life | 16,343 | (51.5) | 2.56 | 24,740 | N.A. | N.A. | 10,400 | 263.6 | (16.8) | 35,140 | 6,657.7 | 5.68 |
| | 2885 TT | Yuanta Life | 2,019 | 46.7 | 0.85 | 994 | 2,212.2 | N.A. | 689 | 56.6 | 45.1 | 1,683 | 248.4 | 0.71 |
| | 2887 TT | Taishin Life | 251 | (82.0) | 0.27 | 810 | 4,049.6 | N.A. | 150 | 114.3 | (21.1) | 970 | 977.8 | 0.97 |
| | 2888 TT | Shin Kong Life | (17,193) | N.A. | (2.33) | 413 | N.A. | N.A. | 2,787 | 283.9 | (3.9) | 3,200 | N.A. | 0.42 |
| | 2891 TT | Taiwan Life | 12,383 | N.A. | 1.99 | 7,655 | N.A. | N.A. | 2,224 | 250.2 | (19.4) | 9,879 | N.A. | 1.59 |
| | 5880 TT | Taiwan Cooperative Life | 1,254 | 8.4 | 1.82 | 297 | (1.0) | 8.0 | 63 | (22.2) | 1.6 | 361 | (5.2) | 0.52 |
| | 2883 TT | KGI Life | 10,178 | (22.7) | 2.06 | 5,150 | 1,503.9 | N.A. | 1,896 | 1,100.0 | (11.2) | 7,045 | 1,370.8 | 1.43 |
| | 5874 TT | Nan Shan Life | 22,110 | (29.9) | 1.60 | 13,480 | 2,688.5 | N.A. | 6,072 | 67.8 | (14.5) | 19,552 | 376.6 | 1.41 |
| | Total of 9 life insurers | | 83,436 | (40.2) | | 70,989 | N.A. | N.A. | 33,371 | 142.7 | 3.6 | 104,350 | 1,264.4 | |

Source: Company data, KGI Research

Figure 3: April P&C earnings down 48% MoM on lower investment income; Fubon P&C booked claims of NT\$380mn for the Hualian earthquake on April 3

| NT\$m | FHC ticker | Subsidiary name | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | |
|-------|----------------|-----------------|----------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|
| | | | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) |
| | 2880 TT | Hua Nan P&C | 916 | 100.1 | 4.58 | 399 | 123.5 | 56.4 | 182 | 193.5 | (15.7) | 581 | 141.1 | 2.90 |
| | 2881 TT | Fubon P&C | -2,230 | N.A. | (2.17) | 1,340 | N.A. | 644.2 | 260 | (31.6) | (43.5) | 1,600 | N.A. | 1.09 |
| | 2882 TT | Cathay P&C | 1,246 | N.A. | 6.64 | 870 | N.A. | 216.6 | 90 | (57.1) | (71.9) | 960 | N.A. | 4.81 |
| | 2886 TT | Mega P&C | -1,467 | N.A. | (2.90) | 166 | N.A. | 113.2 | 16 | (66.7) | (76.1) | 182 | N.A. | 0.34 |
| | Total of 4 P&C | | -1,536 | N.A. | | 2,775 | N.A. | 252.2 | 548 | (21.7) | (48.4) | 3,323 | 2,893.7 | |

Source: Company data, KGI Research

Figure 4: April bank net profit fell 14% MoM on lower investment income, despite fee income and interest income rebound, up 13% YoY

| NT\$m | | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | |
|-------------------|-------------------------|----------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|
| FHC ticker | Subsidiary name | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) |
| 2880 TT | Hua Nan Bank | 20,051 | 19.9 | 2.05 | 5,046 | 8.2 | 14.3 | 1,592 | 2.3 | (9.6) | 6,638 | 1.8 | 0.68 |
| 2881 TT | Taipei Fubon Bank | 24,648 | 8.1 | 1.72 | 8,160 | 18.1 | 93.0 | 2,550 | 33.5 | 6.7 | 10,710 | 24.0 | 0.75 |
| 2882 TT | Cathay United Bank | 28,805 | 12.6 | 2.65 | 10,420 | 14.3 | 199.7 | 3,050 | 7.4 | (7.6) | 13,470 | 12.2 | 1.23 |
| 2883 TT | KGI Bank | 5,395 | (10.1) | 1.17 | 1,469 | (4.3) | 27.2 | 552 | 10.4 | 20.8 | 2,021 | (0.7) | 0.44 |
| 2884 TT | E. Sun Bank | 19,563 | 32.1 | 1.72 | 5,643 | 2.6 | 0.3 | 1,613 | 10.3 | (5.2) | 7,256 | 4.3 | 0.62 |
| 2885 TT | Yuanta Bank | 8,657 | 18.8 | 1.17 | 2,633 | 22.4 | 118.4 | 959 | 16.5 | 23.3 | 3,593 | 20.8 | 0.49 |
| 2886 TT | Mega Bank | 31,025 | 28.3 | 3.63 | 9,888 | (5.9) | 80.3 | 2,409 | (14.9) | (26.5) | 12,297 | (7.8) | 1.44 |
| 2887 TT | Taishin Bank | 14,908 | 22.4 | 1.61 | 4,420 | 3.1 | 57.3 | 1,370 | 20.2 | 3.0 | 5,790 | 6.6 | 0.61 |
| 2888 TT | Shin Kong Bank | 6,791 | (1.0) | 1.36 | 1,677 | 12.8 | 6.5 | 502 | (4.6) | (21.9) | 2,179 | 8.2 | 0.44 |
| 2890 TT | Sinopac Bank | 16,066 | 9.2 | 1.68 | 5,234 | 33.4 | 55.2 | 1,355 | (3.8) | (22.7) | 6,588 | 24.0 | 0.68 |
| 2891 TT | CTBC Bank | 41,333 | 11.3 | 2.79 | 12,113 | 6.6 | 25.9 | 2,637 | (3.5) | (42.9) | 14,750 | 4.6 | 1.00 |
| 2892 TT | First Bank | 21,526 | 5.9 | 2.11 | 6,493 | 2.7 | 85.0 | 2,038 | 12.7 | (2.1) | 8,531 | 5.0 | 0.84 |
| 5880 TT | Taiwan Cooperative Bank | 16,303 | (14.6) | 1.48 | 4,945 | 6.2 | 86.6 | 1,303 | 13.9 | (21.4) | 6,248 | 7.7 | 0.57 |
| 2801 TT | Chang Hwa Bank | 12,982 | 18.3 | 1.20 | 4,511 | 30.7 | 64.3 | 1,604 | 7.9 | (1.4) | 5,119 | 9.9 | 0.47 |
| 2809 TT | King's Town Bank | 6,207 | 180.8 | 5.59 | 2,019 | 140.2 | 18.1 | 360 | 1.1 | (46.6) | 2,379 | 98.8 | 2.14 |
| 5876 TT | SCSB | 14,660 | (1.9) | N.A. | 4,289 | 0.7 | N.A. | 1,443 | N.A. | (3.6) | 5,732 | N.A. | 1.18 |
| Total of 16 banks | | 288,921 | 12.2 | | 88,960 | 9.9 | 66.1 | 25,337 | 12.5 | (14.2) | 113,301 | 14.3 | |

Source: Company data, KGI Research

Figure 5: April securities net profit fell 38% MoM on lower brokerage fee income (average daily TaieX turnover down 8% MoM to NT\$554.2bn) & investment income (TaieX volatility)

| NT\$m | | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | |
|------------------------|-------------------------------|----------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|
| FHC ticker | Subsidiary name | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) |
| 2880 TT | Hua Nan Securities | 1,506 | 36.1 | 2.30 | 489 | 122.5 | 47.4 | 154 | 327.8 | (35.3) | 644 | 151.6 | 0.98 |
| 2881 TT | Fubon Securities | 6,960 | 153.7 | 4.33 | 2,350 | 53.2 | 50.2 | 770 | 102.6 | (17.2) | 3,110 | 54.0 | 1.91 |
| 2882 TT | Cathay Securities | 2,112 | 49.9 | 2.74 | 910 | 95.0 | 71.3 | 270 | 145.5 | (27.0) | 1,180 | 103.4 | 1.53 |
| 2883 TT | KGI Securities | 7,344 | 102.4 | 3.95 | 2,897 | 53.1 | 48.3 | 564 | 47.3 | (31.1) | 3,462 | 52.2 | 1.90 |
| 2884 TT | E. Sun Securities | 1,289 | 28.3 | 3.22 | 465 | 62.6 | (63.9) | 174 | 148.6 | (13.0) | 638 | 79.7 | 1.59 |
| 2885 TT | Yuanta Securities | 13,793 | 14.5 | 2.09 | 4,478 | 47.4 | 63.0 | 1,232 | 36.1 | (36.2) | 5,710 | 44.8 | 0.87 |
| 2886 TT | Mega Securities | 2,003 | 232.0 | 1.73 | 887 | 90.6 | 137.2 | 103 | (41.8) | (48.5) | 990 | 54.0 | 0.85 |
| 2887 TT | Taishin Securities | 1,545 | 196.4 | 2.23 | 650 | 51.2 | 49.8 | 310 | 7,650.0 | 3.3 | 950 | 120.9 | 1.38 |
| 2888 TT | MasterLink Securities | 2,499 | 589.8 | 1.55 | 1,003 | 30.3 | 96.7 | 130 | 170.8 | (69.9) | 1,132 | 38.4 | 0.70 |
| 2890 TT | SinoPac Securities | 3,836 | 142.4 | 2.36 | 1,528 | 89.8 | 96.1 | 274 | 16.6 | (55.9) | 1,802 | 73.6 | 1.11 |
| 2892 TT | First Securities | 978 | 142.5 | 1.59 | 313 | (5.4) | 113.4 | 72 | 10.8 | (54.7) | 385 | (2.5) | 0.63 |
| 2855 TT | President Securities | 2,879 | 294.7 | 1.98 | 1,726 | 277.2 | 302.9 | 170 | 146.9 | (74.3) | 1,896 | 260.1 | 1.30 |
| 5880 TT | Taiwan Cooperative Securities | 202 | (29.5) | 0.39 | 149 | 263.4 | (26.3) | 3 | (57.1) | (94.9) | 151 | 214.6 | 0.29 |
| 6005 TT | Capital Securities | 4,132 | 391.8 | 1.90 | 1,461 | 31.7 | 70.0 | 399 | 85.4 | (22.8) | 1,860 | 30.4 | 0.78 |
| Total of 15 brokerages | | 51,076 | 87.3 | | 19,306 | 63.0 | 58.9 | 4,625 | 71.0 | (37.8) | 23,910 | 62.1 | |

Source: Company data, KGI Research

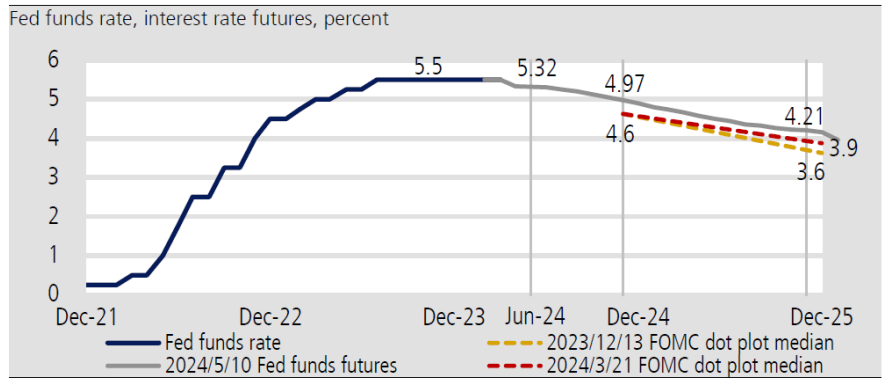
Figure 6: Yulon Finance's April earnings posted NT\$410mn, down 12% MoM and 24% YoY on lower revenue; Hotai Finance sales growth dropped 0.5% MoM in April, & earnings fell 6.6% YoY in 1Q24 on higher credit costs; Chailease's (5871 TT, NT\$153, OP) April earnings in April declined 1.1% MoM on lower credit cost

| NT\$m | | 2023 | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | 2024F |
|------------|-----------------|--------|---------|--------|---------|---------|--------|---------|---------|------------|---------|--------------|
| FHC ticker | Subsidiary name | Sales | YoY (%) | Sales | YoY (%) | QoQ (%) | Sales | YoY (%) | MoM (%) | Sales | YoY (%) | Achieved (%) |
| 5871 TT | Chailease | 97,526 | 12.6 | 25,011 | 8.1 | (0.2) | 8,533 | 8.5 | (2.5) | 33,544 | 8.2 | 30.4 |
| 9941 TT | Yulon Finance | 41,489 | 13.5 | 10,395 | 6.3 | (2.7) | 3,469 | 4.8 | (1.6) | 13,863 | 5.9 | 31.5 |
| 6592 TT | Hotai Finance | 28,660 | 25.8 | 7,784 | 18.6 | 1.5 | 2,592 | 15.8 | (0.5) | 10,376 | 17.9 | 31.7 |

| NT\$m | | 2023 | | | 1Q24 | | | Apr-24 | | | Jan-Apr 24 | | | 2024F |
|------------|-----------------|----------|---------|------------|----------|---------|---------|----------|---------|---------|------------|---------|------------|--------------|
| FHC ticker | Subsidiary name | Earnings | YoY (%) | EPS (NT\$) | Earnings | YoY (%) | QoQ (%) | Earnings | YoY (%) | MoM (%) | Earnings | YoY (%) | EPS (NT\$) | Achieved (%) |
| 5871 TT | Chailease | 25,034 | (8.0) | 15.15 | 5,815 | (15.6) | 1.4 | 1,973 | (10.8) | (1.1) | 7,789 | (14.4) | 4.8 | 27.1 |
| 9941 TT | Yulon Finance | 6,275 | 8.1 | 11.07 | 1,301 | (27.5) | 27.2 | 411 | (23.5) | (11.9) | 1,716 | (26.4) | 2.99 | 25.2 |
| 6592 TT | Hotai Finance | 3,690 | 13.0 | 6.41 | 840 | (6.6) | (6.5) | | | | | | | |

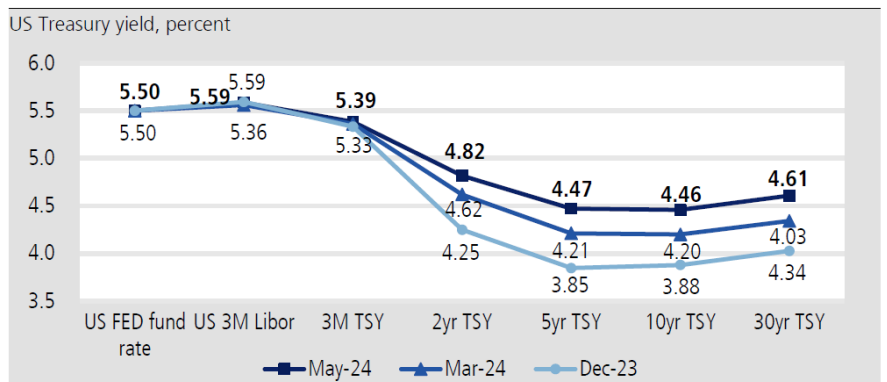
Source: Company data, KGI Research

Figure 7: Consensus total Fed rate cuts of 50bps in 2024, which should start in 3Q24F, versus rate cuts of 75bps implied by March dot plot



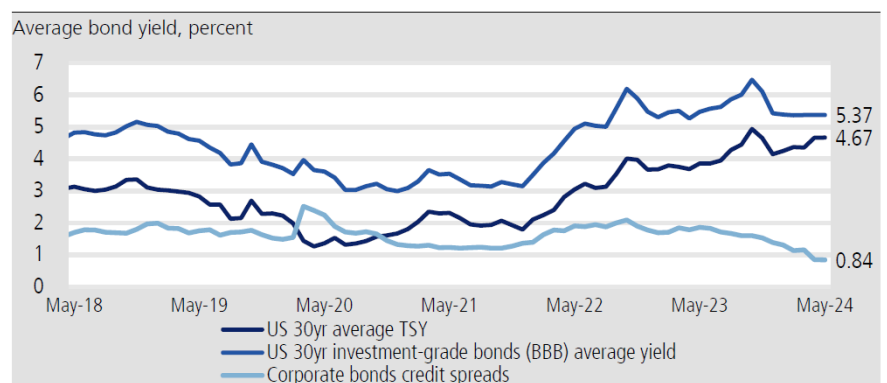
Source: Bloomberg, KGI Research

Figure 8: Consensus Fed cuts delayed, with higher rates for longer due to recent robust economic data; 10-year yield back to 4.4-4.6%



Source: Bloomberg, KGI Research

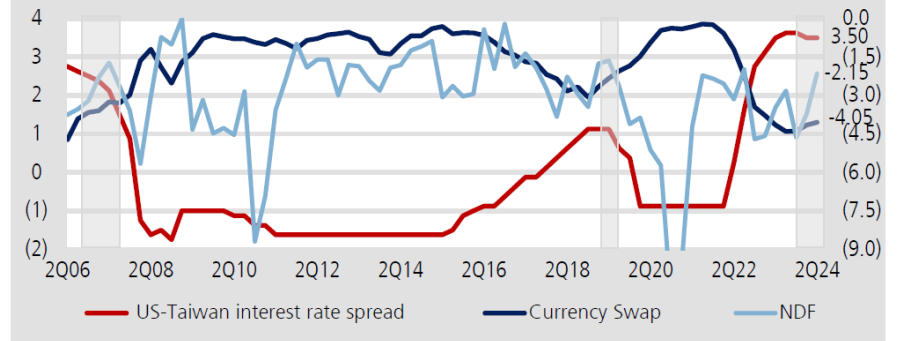
Figure 9: In May, BBB-grade US-dollar corporate bond yield at 5.4%; life insurers & banks can continue to buy higher-yield overseas bonds & awaiting rate cuts in 2H24



Source: Bloomberg, KGI Research

Figure 10: CS costs now down to 4.1%; first Fed cut delayed to 2H24F; 2Q24F CS costs will stay at 4%-4.2%

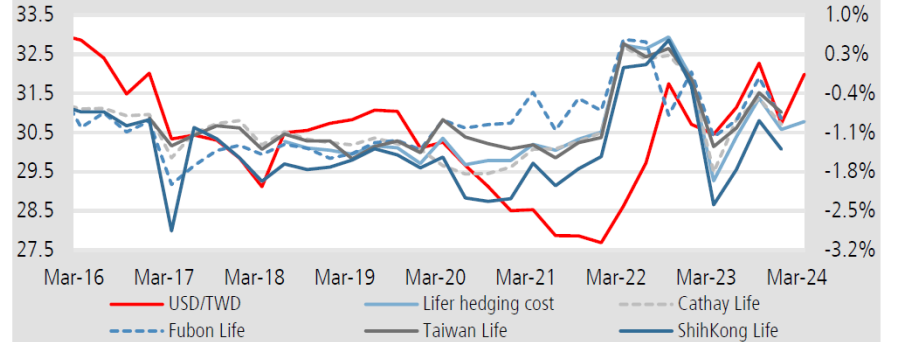
Spread of US Fed funds rate and Taiwan rediscount rate, percent (LHS); CS and NDF hedge costs, percent (RHS)



Source: Bloomberg, KGI Research

Figure 11: Despite lower hedging costs in 1Q24, most life insurers will maintain hedging costs of 1.0-1.5% in 2024F due to delays in US rate cuts, vs. 1.05% in 2023

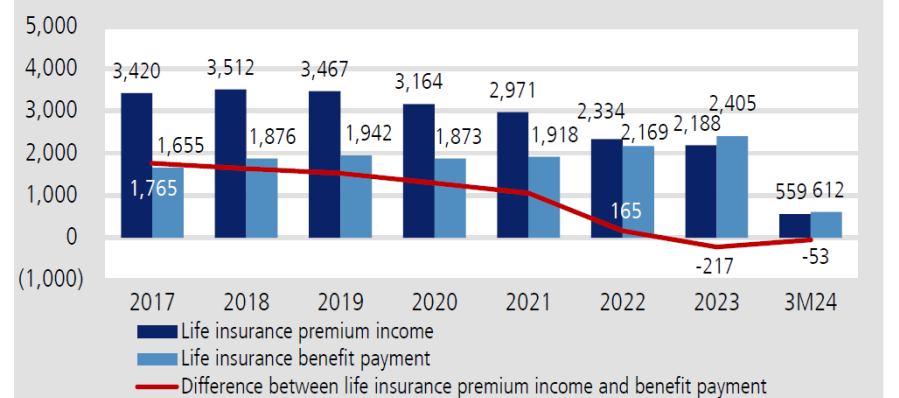
NT-dollar month-end closing, NT\$ (LHS); hedge costs of life insurers Cathay Life, Fubon Life, Taiwan Life, and Shin Kong Life, percent (RHS)



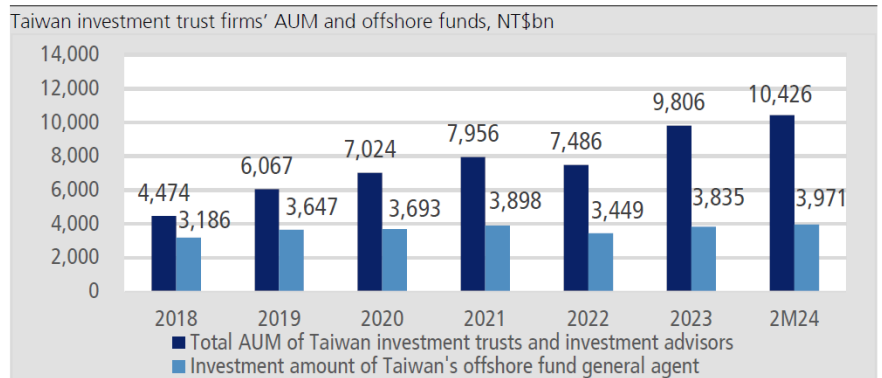
Source: FSC; Company data; KGI Research

Figure 12: In 1Q24, life insurance premiums up 3% YoY, but claim payments still higher than premium income, indicating continued policy cancellations amid high interest rates

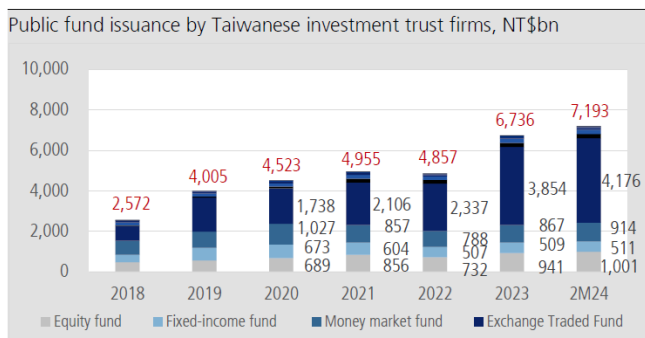
Premium income and claim payments, NT\$bn



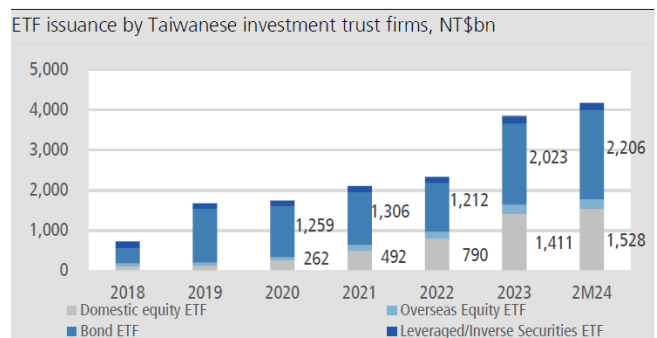
Source: Financial Supervisory Commission; Company data; KGI Research

Figure 13: YTD, Taiwan investment firms' AUM rose NT\$0.6tn to NT\$10.4tn, & offshore funds edged up NT\$0.14tn


Source: SITCA; KGI Research

Figure 14: Since February, ETF & stock fund growth has been highest among public equities, up a respective NT\$320bn & NT\$61bn


Source: SITCA; KGI Research

Figure 15: February ETF growth mainly from bond ETF & domestic stock ETF, up a respective NT\$180bn & NT\$120bn, with stock ETF in uptrend, reflecting popularity of high monthly & quarterly dividend fund


Source: SITCA; KGI Research

Figure 16: 1Q24 bank NIM mixed bag so far, but E.Sun FHC & Taishin FHC expect 2024 NIM to flatten or rebound slightly

| Percent (%) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 4Q23 inc. FX | QoQ | YoY | 1Q24 | 1Q24 inc. FX | QoQ | YoY | 2024F Forecast |
|-----------------|------|------|------|------|------|------|------|------|------|------|--------------|--------|--------|--------|--------------|--------|--------|-------------------------------|
| 2809 TT KTB | 1.96 | 1.86 | 1.72 | 1.91 | 1.83 | 1.60 | 1.53 | 1.58 | 1.59 | 1.59 | - | (0.01) | | | | | | NIM rebounds |
| 2891 TT CTBC | 1.49 | 1.54 | 1.50 | 1.40 | 1.43 | 1.63 | 1.55 | 1.48 | 1.47 | 1.47 | 1.71 | - | (0.16) | | | | | 1.63-1.66 (inc. FX) |
| 2882 TT Cathay | 1.22 | 1.22 | 1.22 | 1.17 | 1.22 | 1.46 | 1.40 | 1.37 | 1.36 | 1.40 | 1.56 | 0.04 | (0.06) | | | | | 1.38 |
| 5876 TT SCSB | 1.15 | 1.17 | 1.13 | 0.93 | 0.92 | 1.23 | 1.36 | 1.40 | 1.41 | 1.37 | | (0.04) | 0.14 | 1.32 | | (0.05) | (0.04) | Flat |
| 2884 TT E.Sun | 1.34 | 1.36 | 1.36 | 1.22 | 1.18 | 1.26 | 1.30 | 1.30 | 1.30 | 1.31 | | 0.01 | 0.05 | 1.30 | | (0.01) | - | 1.31-1.33 |
| 2887 TT Taishin | 1.35 | 1.30 | 1.23 | 1.12 | 1.14 | 1.30 | 1.21 | 1.20 | 1.24 | 1.20 | 1.26 | (0.04) | (0.10) | 1.24 | | 0.04 | 0.03 | 1.22-1.23 |
| 2881 TT Fubon | 1.00 | 1.02 | 1.10 | 1.08 | 1.04 | 1.04 | 1.05 | 1.13 | 1.19 | 1.17 | 1.34 | (0.02) | 0.13 | | | | | Increases 5bps |
| 2890 TT Sinopac | 1.09 | 1.07 | 0.96 | 1.03 | 1.06 | 1.20 | 1.02 | 1.00 | 0.98 | 1.18 | 1.24 | 0.20 | (0.02) | | | | | Flat or slightly up (inc. FX) |
| 2886 TT Meqa | 1.12 | 1.15 | 1.10 | 0.85 | 0.81 | 1.03 | 1.03 | 1.02 | 0.94 | 0.95 | | 0.01 | (0.08) | 0.95-1 | | | | NIM rebounds |
| 2885 TT Yuanta | 1.22 | 1.25 | 1.23 | 1.03 | 0.94 | 0.90 | 0.88 | 0.89 | 0.92 | 0.86 | | (0.06) | (0.04) | | | | | Flat or slightly down |
| 2892 TT First | 1.26 | 1.18 | 1.06 | 1.00 | 1.01 | 0.99 | 0.77 | 0.76 | 0.76 | 0.76 | 1.15 | - | (0.23) | | | | | 1.10 (inc. FX) |
| 2880 TT Hua Nan | 1.01 | 0.93 | 0.92 | 0.83 | 0.83 | 0.89 | 0.85 | 0.74 | 0.71 | 0.71 | | - | (0.18) | | | | | Steady |
| Avg. | 1.27 | 1.24 | 1.21 | 1.13 | 1.12 | 1.20 | 1.24 | 1.20 | 1.16 | 1.16 | | | | | | | | |

Source: Company data; KGI Research

Figure 17: March average non-performing loan (NPL) ratio still at 0.16%; Mega Bank & SCSB's NPL ratios relatively high, despite write-offs, with provisions increased

| FHC/Bank ticker | Bank | Mar-24 | | | | Mar-24 | | | | Mar-24 | | | |
|-----------------|-------------------------|---------------|------------|------------|------------|-------------|-------|--------|-------|--------------------|------------|------------|------------|
| | | NPL ratio (%) | YoY (ppts) | YTD (ppts) | MoM (ppts) | NPL (NT\$m) | YoY | YTD | MoM | Coverage ratio (%) | YoY (ppts) | YTD (ppts) | MoM (ppts) |
| 2834 TT | Taiwan Business Bank | 0.16 | 0.02 | (0.02) | 0.00 | 2,385 | 429 | (334) | (74) | 829.9 | (46.4) | 109.0 | 35.1 |
| 2801 TT | Chang Hwa Bank | 0.17 | (0.01) | (0.01) | 0.00 | 3,164 | 63 | (25) | (8) | 724.1 | 30.2 | 30.7 | 8.3 |
| 2886 TT | Mega Bank | 0.30 | 0.07 | 0.13 | 0.03 | 6,683 | 2,022 | 3,047 | 901 | 538.7 | (139.2) | (446.3) | (99.2) |
| 5880 TT | Taiwan Cooperative Bank | 0.19 | (0.01) | 0.01 | 0.00 | 5,319 | (224) | 194 | (57) | 614.0 | 56.3 | (23.1) | 4.0 |
| 2892 TT | First Bank | 0.18 | 0.00 | 0.01 | 0.00 | 4,426 | 249 | 327 | 5 | 742.1 | 11.0 | (84.8) | (12.7) |
| 2881 TT | Taipei Fubon Bank | 0.11 | (0.03) | (0.01) | (0.01) | 2,425 | 63 | (67) | (97) | 1,143.7 | 212.2 | 72.7 | 60.6 |
| 2888 TT | Shin Kong Bank | 0.12 | 0.00 | 0.00 | 0.00 | 982 | 74 | 40 | 11 | 1,096.2 | (18.9) | (10.9) | (6.3) |
| 2884 TT | E.Sun Bank | 0.16 | (0.01) | 0.00 | 0.00 | 3,276 | (22) | (41) | (76) | 771.0 | 75.1 | 17.6 | 17.8 |
| 2880 TT | Hua Nan Bank | 0.16 | 0.01 | 0.01 | 0.01 | 3,588 | 414 | 178 | 169 | 825.3 | (45.3) | (21.0) | (30.1) |
| 5876 TT | SCSB | 0.56 | 0.39 | 0.39 | 0.01 | 4,896 | 3,457 | 3,436 | 90 | 238.0 | (634.9) | (703.9) | (3.1) |
| 2891 TT | CTBC Bank | 0.18 | 0.03 | 0.02 | 0.01 | 5,077 | 1,240 | 735 | 124 | 682.8 | (140.7) | (100.1) | (19.4) |
| 2885 TT | Yuanta Bank | 0.04 | 0.01 | 0.01 | 0.00 | 428 | 164 | 96 | (46) | 3,320.2 | (1,819.3) | (909.2) | 349.7 |
| 2890 TT | Bank Sinopac | 0.15 | 0.05 | 0.06 | 0.06 | 2,216 | 800 | 902 | 828 | 870.5 | (354.4) | (549.0) | (503.6) |
| 2887 TT | Taishin Bank | 0.10 | (0.01) | (0.02) | 0.00 | 1,726 | 82 | (48) | 75 | 1,247.8 | 64.3 | 88.0 | (31.6) |
| 2882 TT | Cathay United Bank | 0.11 | 0.04 | 0.00 | (0.01) | 2,629 | 1,097 | 110 | (120) | 1,457.1 | (719.4) | 4.0 | 86.8 |
| 2809 TT | King's Town Bank | 0.02 | 0.00 | 0.00 | 0.00 | 51 | 6 | 3 | 3 | 6,516.7 | (1,702.8) | (1,054.6) | (398.9) |
| | Bank industry | 0.16 | 0.01 | 0.02 | 0.00 | 65,062 | 8,187 | 10,120 | 1,896 | 825.6 | (54.1) | (143.2) | (22.4) |

Source: TEJ; KGI Research

Figure 18: 2023F cash dividend yield of 3.9% for our coverage universe

| Cash dividend yield (%) | 2023 | 2Q18-2Q23 Average | 2024/5/10 Share price (NT\$) | 2023 Cash DPS (NT\$) | 2023F Cash dividends yield | 2023 Stock DPS (NT\$) |
|---|-------------|-------------------|------------------------------|----------------------|----------------------------|-----------------------|
| 2891 CTBC FHC | 4.2% | 4.7% | 37.45 | 1.80 | 4.8% | 0.00 |
| 2884 E.Sun FHC | 0.7% | 2.3% | 28.50 | 1.20 | 4.2% | 0.20 |
| 2882 Cathay FHC | 2.1% | 4.3% | 55.50 | 2.00 | 3.6% | 0.00 |
| 2886 Mega FHC | 3.4% | 4.8% | 40.95 | 1.50 | 3.7% | 0.30 |
| 2881 Fubon FHC | 2.5% | 4.3% | 71.80 | 2.50 | 3.5% | 0.50 |
| 2885 Yuanta FHC | 3.5% | 4.5% | 32.10 | 1.10 | 3.4% | 0.20 |
| 2892 First FHC | 2.9% | 4.0% | 27.90 | 0.85 | 3.0% | 0.30 |
| 2887 Taishin FHC* | 2.8% | 3.6% | 18.80 | 0.60 | 3.2% | 0.40 |
| 2809 King's Town Bank | 3.1% | 4.4% | 59.80 | 3.00 | 5.0% | 0.00 |
| 5876 Shanghai Commercial & Saving Bank | 3.9% | 3.9% | 46.90 | 1.80 | 3.8% | 0.00 |
| Average FHCs under KGI coverage stocks | 2.8% | 4.1% | | | 3.7% | |
| Average financials under KGI coverage stocks | 2.9% | 4.1% | | | 3.8% | |
| 2880 HuaNan FHC | 2.7% | 2.6% | 26.25 | 1.20 | 4.6% | 0.10 |
| 2883 China Development FHC | 0.0% | 4.3% | 14.15 | 0.50 | 3.5% | 0.00 |
| 2888 Shin Kong FHC | 0.0% | 3.0% | 9.07 | 0.00 | 0.0% | 0.00 |
| 2889 IBF FHC | 0.0% | 4.0% | 15.60 | 0.73 | 4.7% | 0.25 |
| 2890 SinoPac FHC | 3.5% | 4.8% | 22.95 | 0.75 | 3.3% | 0.25 |
| 5880 Taiwan Cooperative FHC | 1.8% | 3.6% | 26.60 | 0.65 | 2.4% | 0.35 |
| Average other FHCs | 1.3% | 3.7% | | | 3.1% | |
| 2812 Taichung Commercial Bank | 2.0% | 2.5% | 18.05 | 0.40 | 2.2% | 0.56 |
| 2834 Taiwan Business Bank | 0.7% | 1.6% | 17.10 | 0.20 | 1.2% | 1.15 |
| 2836 Bank of Kaohsiung | 0.0% | 1.6% | 11.75 | 0.30 | 2.6% | 0.30 |
| 2838 Union Bank Of Taiwan | 0.6% | 1.1% | 15.65 | 0.20 | 1.3% | 0.70 |
| 2845 Far Eastern International Bank | 3.6% | 3.8% | 15.60 | 0.51 | 3.3% | 0.51 |
| 2849 Entie Commercial Bank | 2.6% | 4.7% | 14.30 | 0.38 | 2.7% | 0.00 |
| 2897 O-Bank | 3.7% | 3.2% | 10.15 | 0.45 | 4.4% | 0.00 |
| Average other banks stocks | 1.9% | 2.6% | | | 2.5% | |
| 2855 President Securities | 2.3% | 6.3% | 26.55 | 1.32 | 5.0% | 0.00 |
| 6005 Capital Securities | 2.8% | 5.7% | 24.80 | 1.33 | 5.4% | 0.00 |
| Average securities stocks | 2.5% | 6.0% | | | 5.2% | |

Source: Company data, KGI Research

Figure 19: Breakdown of FHC & bank share valuations

| Company | Code | Rating | Market cap (US\$ mn) | Share price (LCY) | PB (x) | | PE (x) | | ROE (%) | | Net profit (NT\$ mn) | | Net profit growth (%) | | EPS (NT\$) | | EPS growth (%) | | BVPS (NT\$) | | Cash yield (%) | | Cash dividend (NT\$) | | Cash dividend growth (%) | |
|---------------------------------------|---------|------------|----------------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|---------------|-----------------------|-------------|------------|-------|----------------|-------------|-------------|--------|----------------|------------|----------------------|-------|--------------------------|--------------|
| | | | | | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F | 2023A | 2024F |
| CTBC FHC | 2891 TT | Outperform | 23,053 | 37.45 | 1.71 | 1.50 | 13.3 | 11.6 | 14.9 | 14.1 | 56,081 | 63,405 | 79.3 | 13.1 | 2.82 | 3.24 | 76.6 | 14.8 | 21.95 | 25.02 | 4.8 | 3.7 | 1.80 | 1.40 | 80.0 | (22.2) |
| E.Sun FHC | 2884 TT | Outperform | 14,005 | 28.50 | 1.89 | 1.70 | 20.2 | 18.8 | 10.0 | 9.5 | 21,726 | 23,751 | 37.9 | 9.3 | 1.41 | 1.52 | 27.7 | 7.5 | 15.08 | 16.81 | 4.2 | 3.9 | 1.20 | 1.10 | 500.0 | (8.3) |
| First FHC | 2892 TT | Neutral | 11,921 | 27.90 | 1.53 | 1.39 | 16.9 | 16.6 | 9.5 | 8.8 | 22,461 | 22,887 | 9.1 | 1.9 | 1.65 | 1.68 | 5.9 | 1.9 | 18.24 | 20.08 | 3.0 | 3.2 | 0.85 | 0.90 | 6.2 | 5.9 |
| Mega FHC | 2886 TT | Neutral | 18,501 | 40.95 | 1.71 | 1.58 | 17.3 | 17.6 | 10.5 | 9.4 | 33,247 | 32,953 | 81.3 | (0.9) | 2.37 | 2.32 | 80.2 | (2.0) | 23.90 | 25.99 | 3.7 | 4.2 | 1.50 | 1.70 | 21.0 | 13.3 |
| Taichin FHC | 2887 TT | Neutral | 7,359 | 18.80 | 1.37 | 1.25 | 18.6 | 13.9 | 8.9 | 9.4 | 14,602 | 16,844 | (1.8) | 15.4 | 1.01 | 1.35 | (18.6) | 33.7 | 13.72 | 15.07 | 3.2 | 3.2 | 0.60 | 0.60 | 17.6 | 0.1 |
| Bank FHC peer average | | | | | 1.64 | 1.48 | 17.3 | 15.7 | 10.8 | 10.2 | 29,624 | 31,968 | 46.9 | 7.9 | | | 34.3 | 11.2 | | | 3.8 | 3.6 | | | 125.0 | (2.2) |
| Fubon FHC | 2881 TT | Outperform | 29,316 | 71.80 | 1.31 | 1.07 | 15.0 | 10.0 | 11.2 | 11.9 | 66,017 | 93,812 | 40.7 | 42.1 | 4.80 | 7.21 | 26.8 | 50.2 | 54.91 | 67.08 | 3.5 | 3.5 | 2.50 | 2.50 | 66.7 | 0.0 |
| Cathay FHC | 2882 TT | Outperform | 25,541 | 55.50 | 1.14 | 1.02 | 17.1 | 10.2 | 13.2 | 11.5 | 50,929 | 80,058 | 36.3 | 57.2 | 3.24 | 5.46 | 27.2 | 68.4 | 48.64 | 54.23 | 3.6 | 3.6 | 2.00 | 2.00 | 122.2 | 0.0 |
| Insurance FHC peer average | | | | | 1.22 | 1.05 | 16.0 | 10.1 | 12.2 | 11.7 | 58,473 | 86,935 | 38.8 | 48.7 | | | 27.0 | 59.3 | | | 3.5 | 3.5 | | | 94.4 | 0.0 |
| Yuanta FHC | 2885 TT | Outperform | 12,778 | 32.10 | 1.42 | 1.26 | 15.3 | 13.1 | 9.8 | 10.2 | 26,566 | 31,135 | 23.8 | 17.2 | 2.09 | 2.45 | 22.0 | 17.2 | 22.62 | 25.57 | 3.4 | 3.9 | 1.10 | 1.25 | 37.5 | 13.6 |
| Securities FHC peer average | | | | | 1.42 | 1.26 | 15.3 | 13.1 | 9.8 | 10.2 | 26,566 | 31,135 | 23.8 | 17.2 | | | 22.0 | 17.2 | | | 3.4 | 3.9 | | | 37.5 | 13.6 |
| SCSB | 5876 TT | Neutral | 7,153 | 46.90 | 1.24 | 1.11 | 15.5 | 11.9 | 10.6 | 9.8 | 14,660 | 19,143 | (1.9) | 30.6 | 3.02 | 3.94 | (1.7) | 30.4 | 37.80 | 42.27 | 3.8 | 4.5 | 1.80 | 2.10 | (0.0) | 16.4 |
| King's Town Bank | 2809 TT | Outperform | 2,085 | 59.80 | 1.33 | 1.19 | 10.7 | 10.6 | 13.4 | 11.8 | 6,207 | 6,243 | 180.8 | 0.6 | 5.59 | 5.62 | 180.8 | 0.6 | 45.10 | 50.07 | 5.0 | 5.0 | 3.00 | 3.00 | 172.7 | 0.0 |
| Taiwan financials peer average | | | | | 1.46 | 1.31 | 16.0 | 13.4 | 11.2 | 10.6 | 31,250 | 39,023 | 39.7 | 24.9 | | | 42.7 | 22.3 | | | 3.8 | 3.9 | | | 125.0 | (2.2) |
| Yulon Finance | 9941 TT | Neutral | 2,494 | 145.00 | 2.58 | 2.08 | 13.1 | 12.1 | 21.1 | 19.6 | 6,275 | 6,810 | 8.1 | 8.5 | 11.07 | 12.00 | (8.2) | 8.4 | 56.13 | 69.67 | 4.2 | 4.5 | 6.10 | 6.50 | 8.9 | 6.6 |
| Hotai Finance | 6592 TT | Neutral | 2,017 | 113.50 | 2.10 | 2.13 | 17.7 | 17.4 | 14.6 | 14.6 | 3,690 | 4,124 | 1.8 | 11.8 | 6.41 | 6.51 | (8.9) | 1.6 | 54.16 | 53.35 | 2.6 | 3.1 | 3.00 | 3.50 | (14.3) | 16.7 |
| Chaliese | 5871 TT | Outperform | 7,750 | 153.00 | 1.75 | 1.47 | 10.1 | 8.4 | 18.9 | 18.7 | 25,034 | 28,723 | (8.0) | 14.7 | 15.15 | 18.14 | (13.7) | 19.8 | 87.25 | 103.85 | 4.2 | 4.7 | 6.50 | 7.20 | 1.6 | 10.8 |
| Taiwan leasing peer average | | | | | 2.14 | 1.89 | 13.6 | 12.7 | 18.2 | 17.7 | 11,666 | 13,219 | 0.6 | 11.7 | | | (10.3) | 9.9 | | | 3.7 | 4.1 | | | (1.3) | 11.3 |

Source: Bloomberg; KGI Research

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