



兆豐金控  
Mega Holdings

**2Q / 2009** (v.2)

**Investor/Analyst Briefing**



# Agenda

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**Operation Highlights**



**Financial Performance**

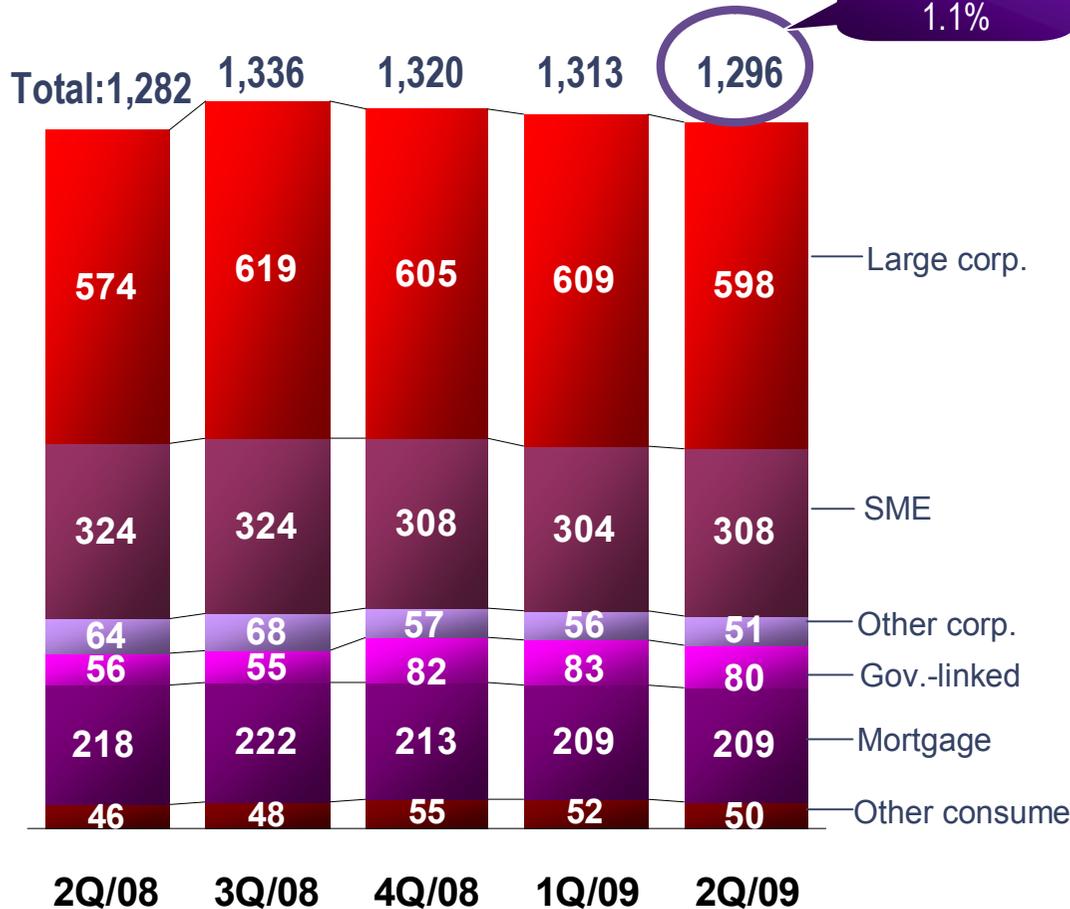


**Appendix**

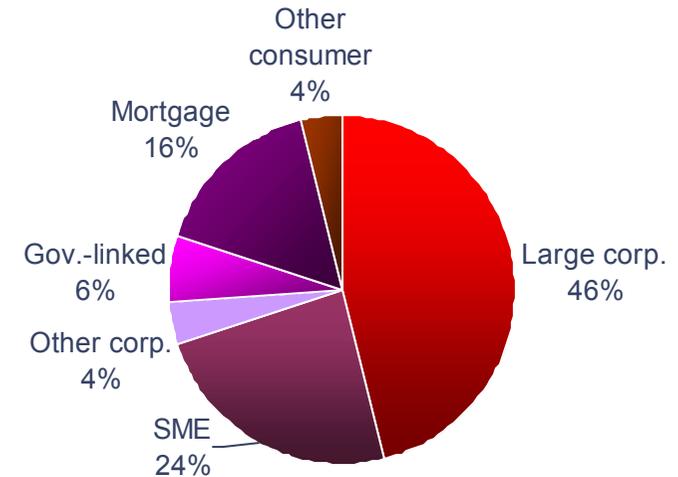
# Expect mild loan growth to ensure credit quality

Mega Bank loan balance\*

Unit: NT\$bn



Mega Bank 2Q/09 loan breakdown by customer



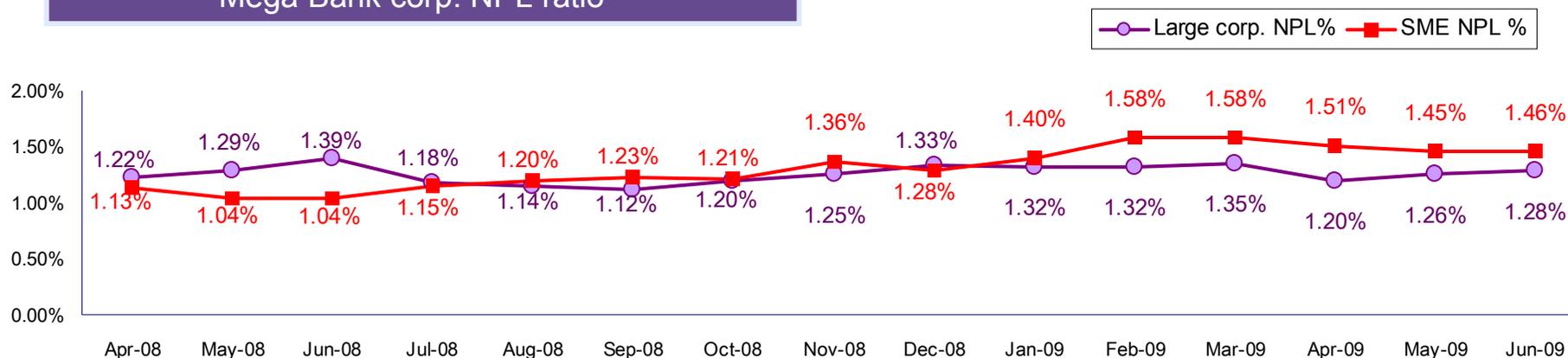
## Highlights

- ❖ Expect mild loan growth in 2H/09, in large corps to reach 1-2% full year loan growth target in 2009.
- ❖ Targeting quality large corps in petro, logistic, food, EMS & notebook industries.
- ❖ Expect flat loan growth in mortgage loan.

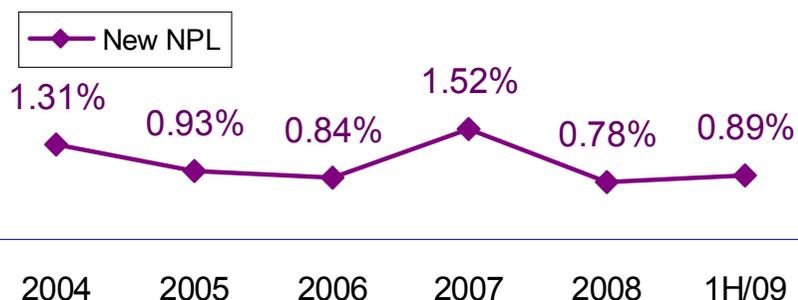
\* Mega Bank quarterly end balance, includes loan, factoring, A/R financing, L/C but excludes guarantee

# Corp. NPL ratio showed signs of improvement vs. 1Q/09

Mega Bank corp. NPL ratio\*



Mega Bank new NPL as % of total loan \*\*



Highlights

- ❖ Large corp. NPL ratio remained stable.
- ❖ SME NPL ratio trended down in 2Q/09.
- ❖ New NPL ratio is below last 5 yrs average.
- ❖ Industry/sector to watch out for on potential deterioration: DRAM, domestic construction & property developer and retail / wholesales.

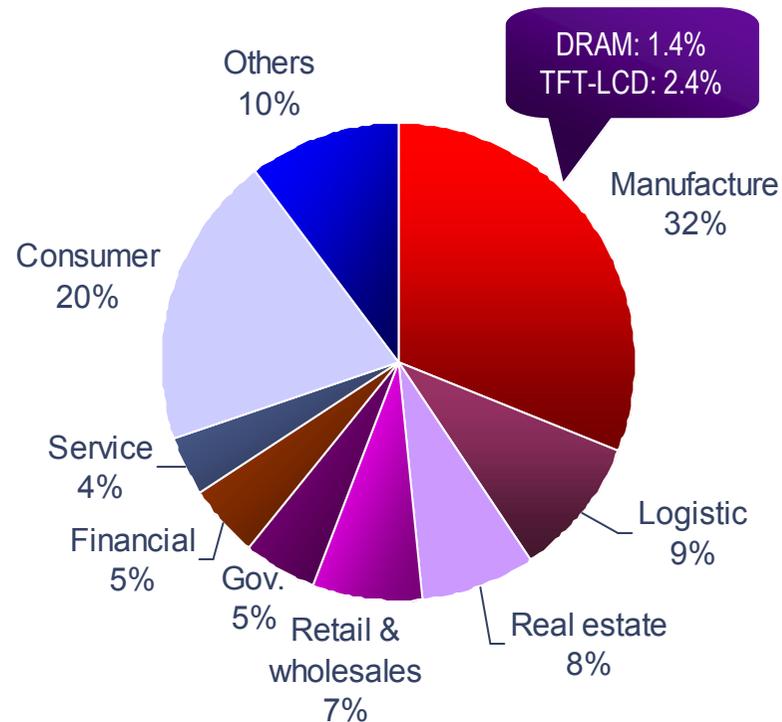
\* Exclude gov. loan, gov-linked corp. loan and other corp. loan

\*\* Mega Bank Internal number, does not include credit card revolving balance, 1H/2009 number is annualized

# Well diversified loan book provides cushion for uncertainty ahead

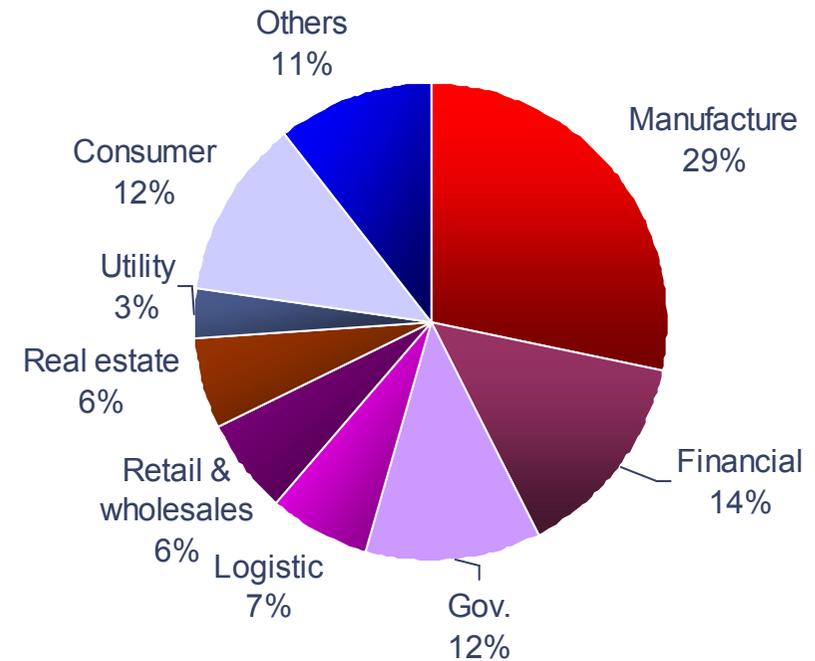
2Q/09 Mega Bank loan breakdown by industry\*

Total: NT\$1,296BN



2Q/09 group credit exposure breakdown by industry\*\*

Total: NT\$2,097BN



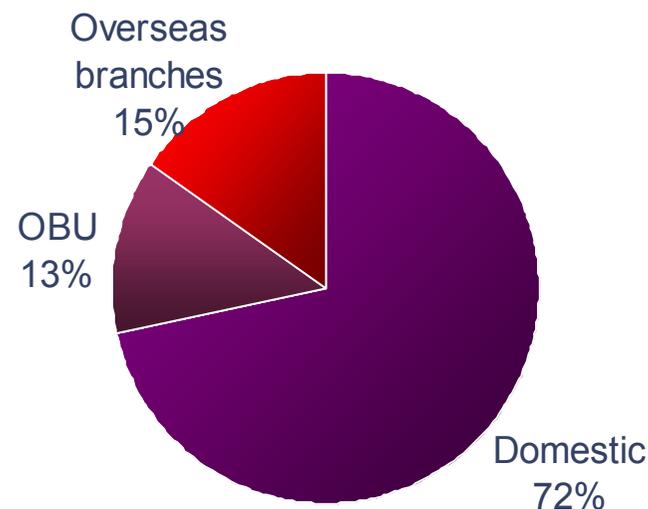
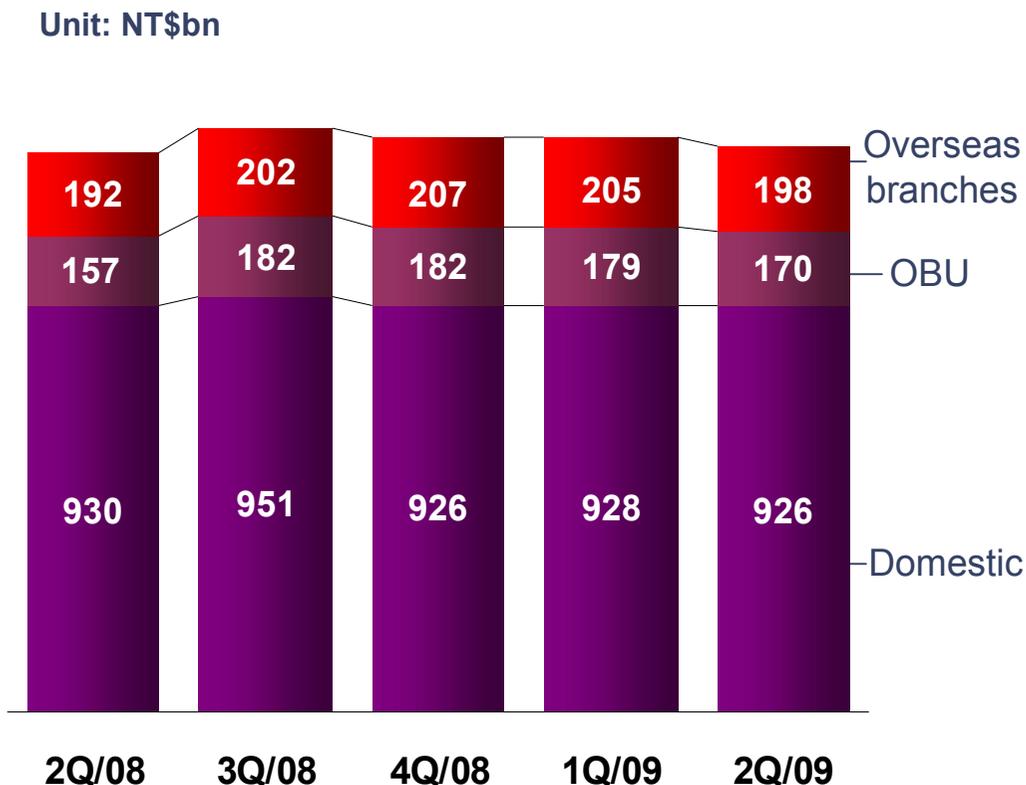
\* Mega Bank only includes loan, factoring, A/R financing, L/C but excludes guarantee

\*\* Includes bank, bills, securities & insurance subsidiaries; includes loan, guarantee, CP/bond exposure and inter-banking assets.

# Slower loan growth in both domestic and overseas business

Mega Bank loan breakdown by regions \*

Unit: NT\$bn



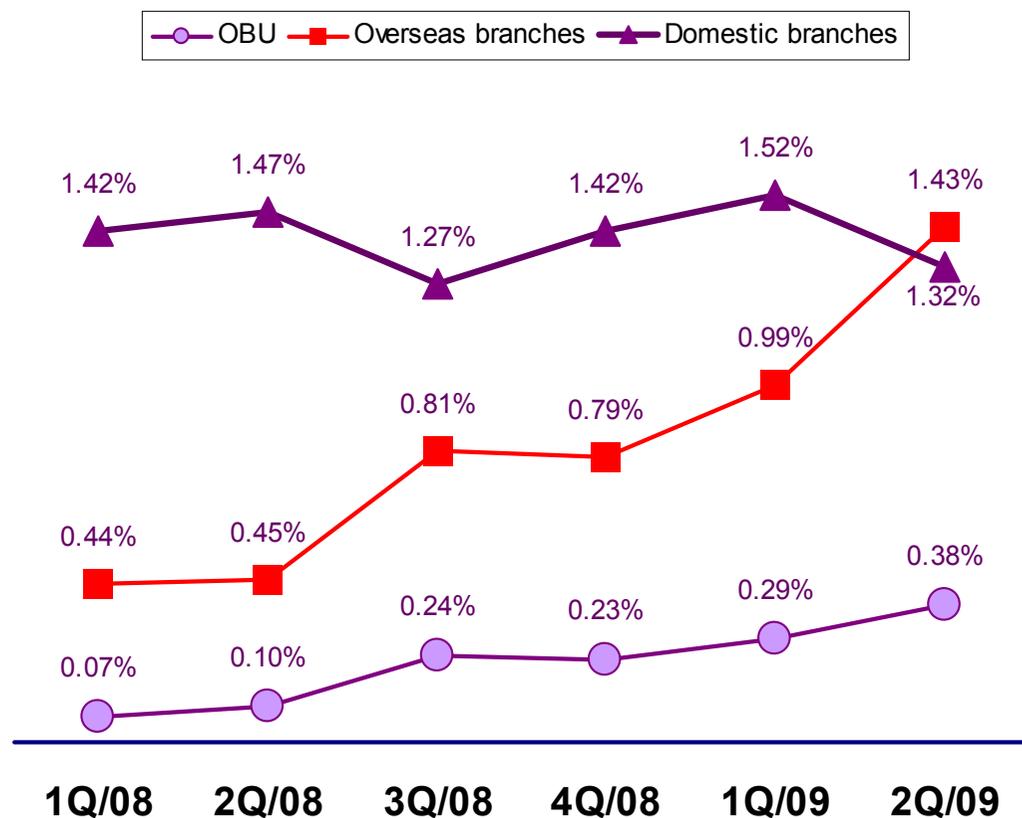
- ❖ All overseas / OBU loans are corp loans, mainly Taiwanese corps.
- ❖ No US consumer / mortgage loans.
- ❖ Most OBU customers have large parent companies in TW, which often acted as guarantor.

\* Mega Bank quarterly average balance, includes loan, factoring, A/R financing, L/C but excludes guarantee

\*\* OBU stands for Off Shore Banking unit

# Overseas branches NPL ratios were up due to a few non-performing global syndication loans

Mega Bank NPL ratio by regions

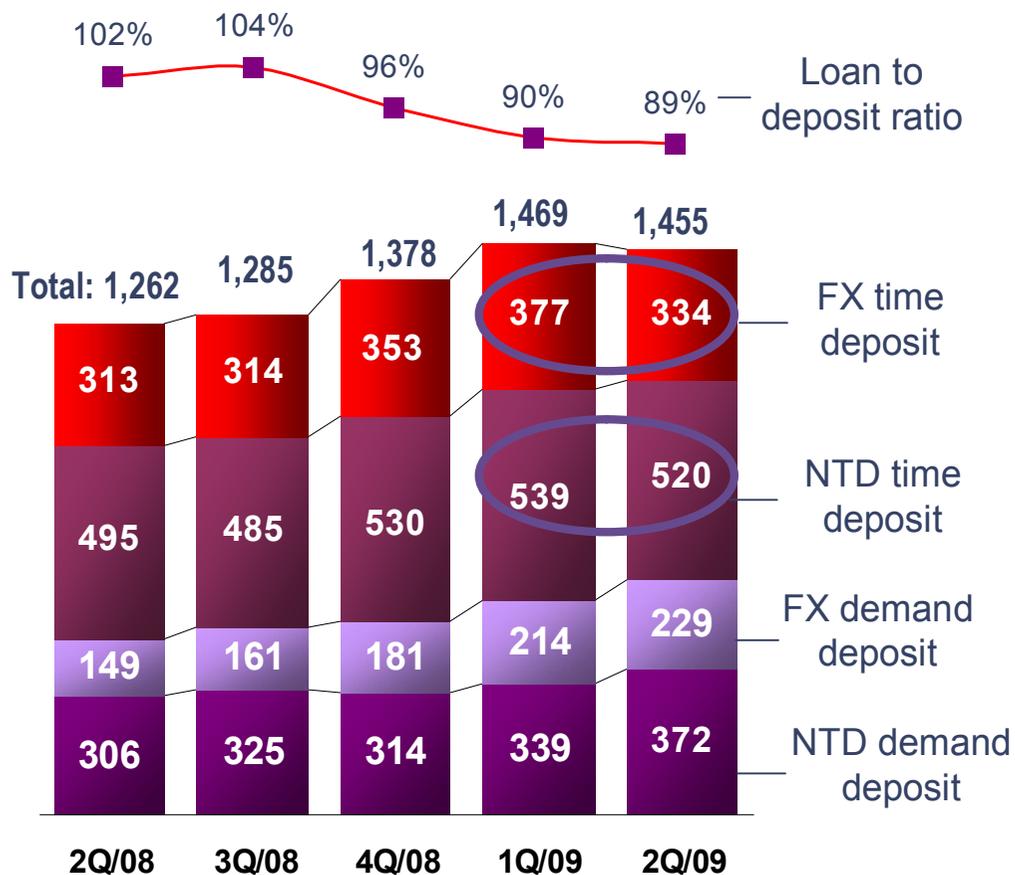


- ❖ Overseas branches NPL ratio trended higher due to non-performing Iceland syndication loan in 3Q/08 and Japan syndication loan in 2Q/09.
- ❖ Mega do NOT have consumer and property developer loan exposure in US market.
- ❖ Domestic NPL ratio trended lower in 2Q/09 mainly due to successful liquidation of Rebar NPL's collateral, cement manufacture plant in Yi-Lan.

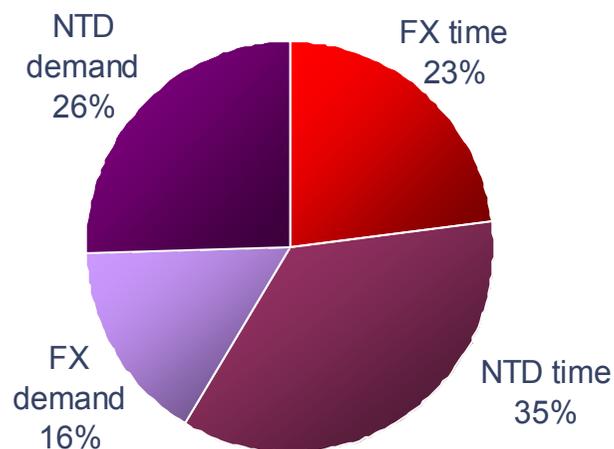
# Time deposit balance was down 6.8% QoQ in 2Q/09, which should be positive for NIM going forward

Mega Bank's LDR & deposit balance \*

Unit: %; NT\$bn



Mega Bank's 2Q/09 deposit breakdown



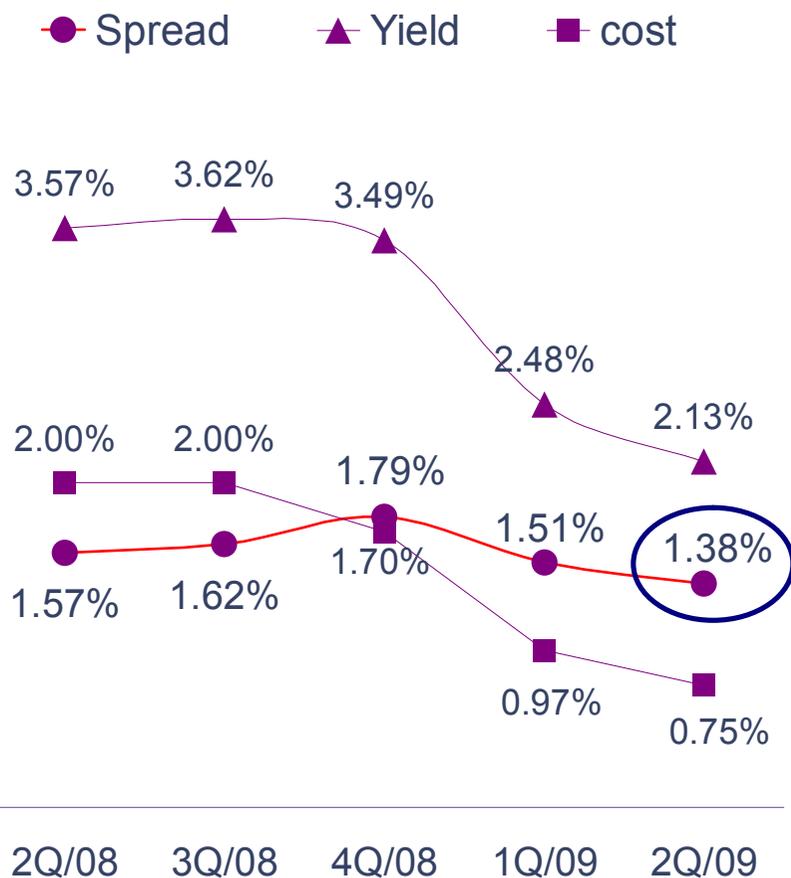
- ❖ Mega is generally operated with excess funding structure.
- ❖ Besides deposit, other funding sources include, Central Bank's FX deposit (NT\$418b), Chunghwa Post re-deposit (NT\$75b), bank debenture & CP (NT\$33b) and inter-bank funding when needed.\*\*

\* Excludes interbank deposit, Central Bank deposit & Chunghwa Post re-deposit

\*\* As of end of 1Q/09; Post re-deposit is mainly used for Gov. sponsored project finance, such as Taiwan High Speed Railway & etc.

# Mega Bank loan interest spread trended down in 2Q/09, but not as severe as in 1Q/09.

### Mega Bank total loan interest spread



### Mega overseas loan interest spread\*



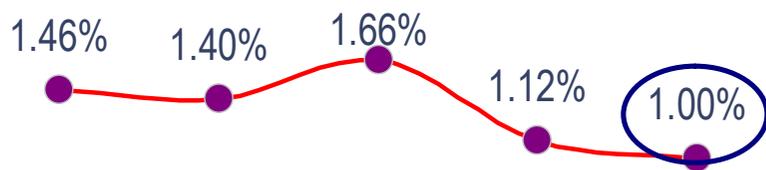
### Mega domestic loan interest spread



\* Includes overseas branches and OBU loan

# Mega Bank NIM is still under pressure; partly due to large interbank assets

Mega Bank NIM & NII \*



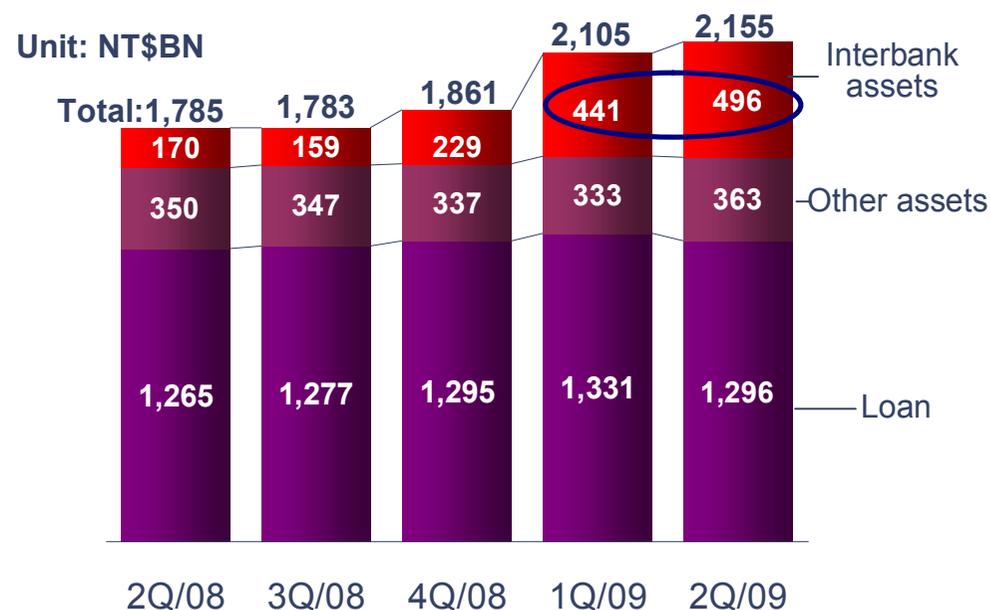
Mega Bank interest earning assets

- ❖ As one of CBC's major agents on managing its foreign reserve, CBC deposited NT\$400+BN in Mega Bank NY branch, which were mostly placed in interbank market, where yields were low.
- ❖ Interbank assets increased by NT\$267BN YTD, which put pressure on the NIM.

Unit: NT\$MN



Unit: NT\$BN

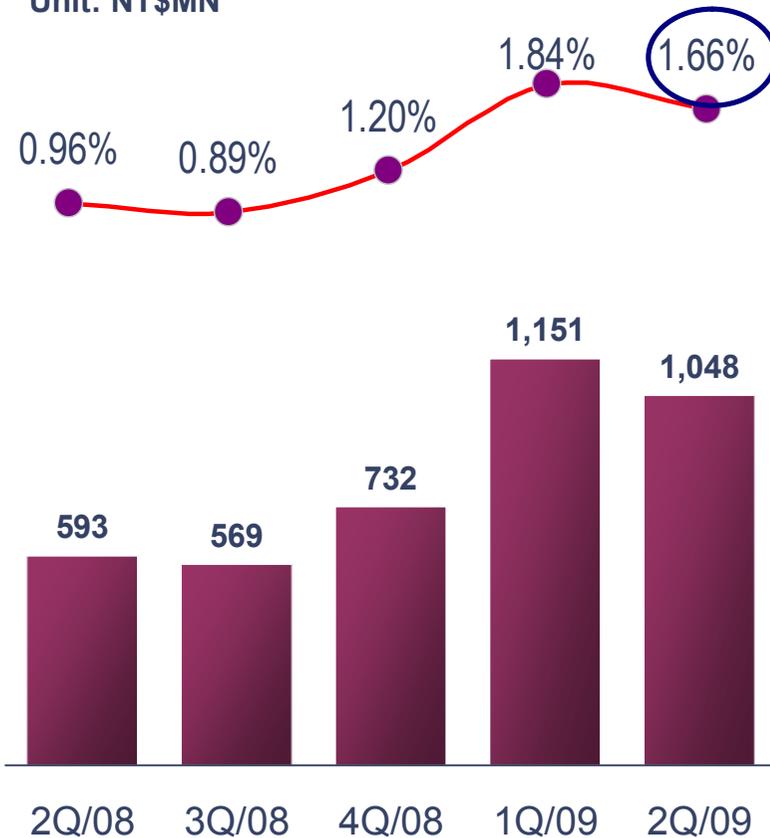


\* Mega Bank internal numbers; NIM (Net interest margin) = Net interest income / average interest earning assets; NII is net interest income

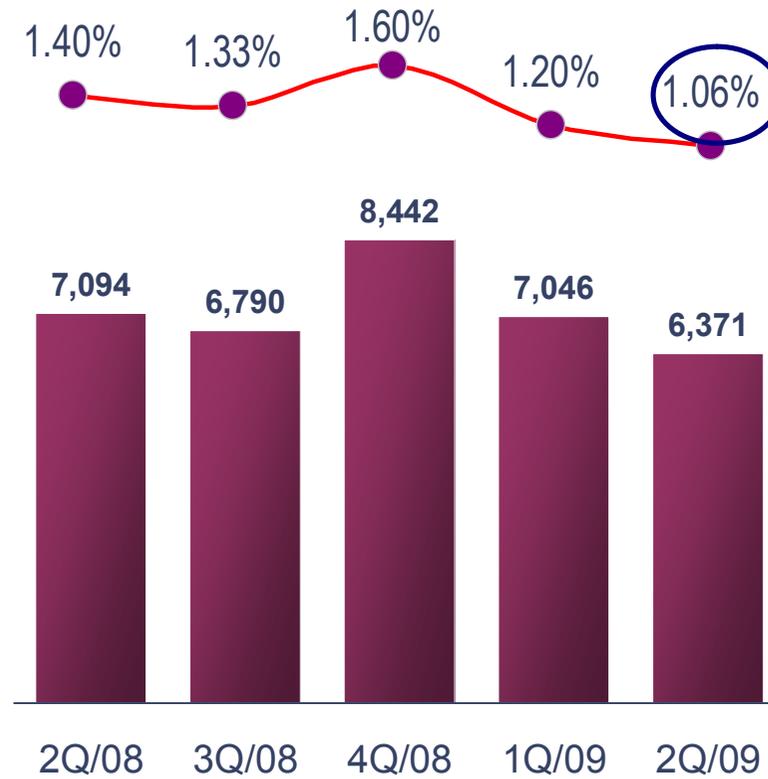
# Group NIM & NII declined not as severe, due to strong Mega Bills NIM & NII this year

**Mega Bills NIM & NII \***

Unit: NT\$MN



**Mega Bank + Mega Bills NIM & NII \***

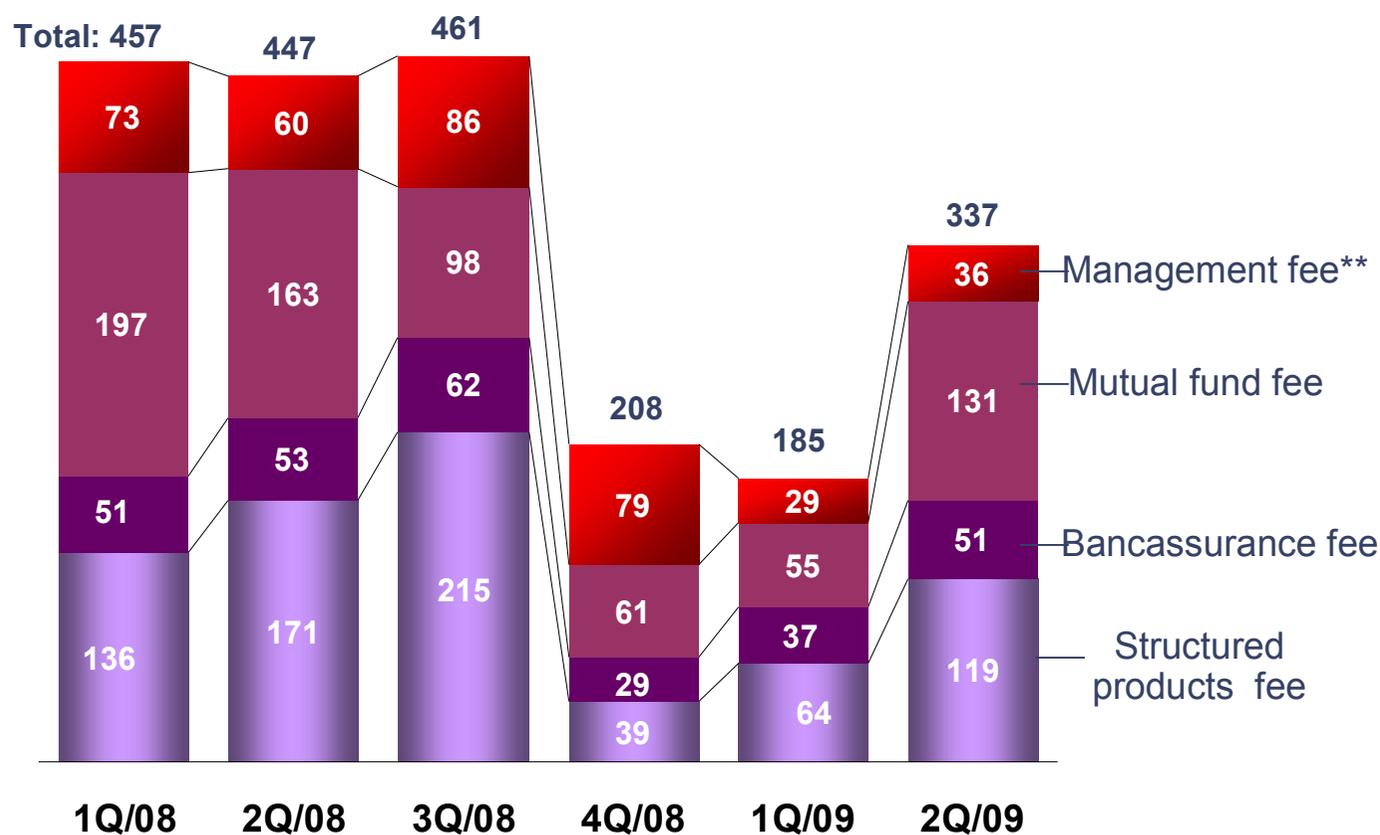


\* Mega Bank & Bills internal numbers; NIM (Net interest margin) = Net interest income / average interest earning assets; NII is net interest income

# WM fee is up QoQ thanks to improved market condition

Mega wealth management net fee income breakdown by product \*

Unit: NT\$MN



\* Mega Bank internal data only

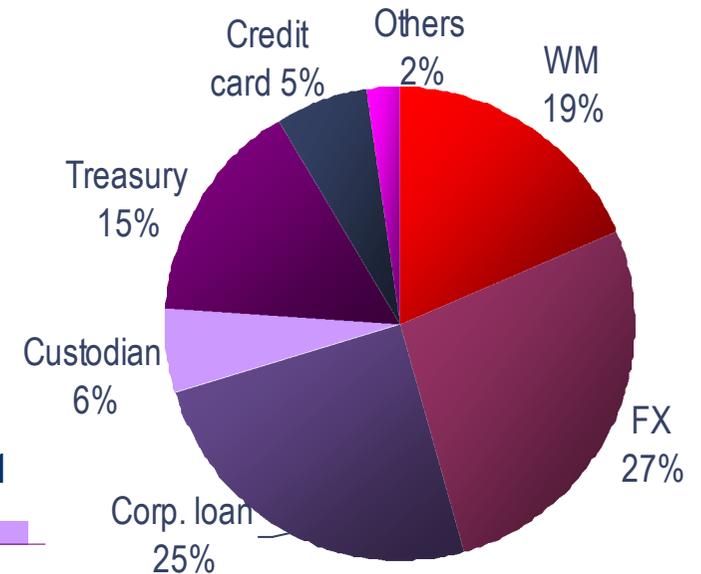
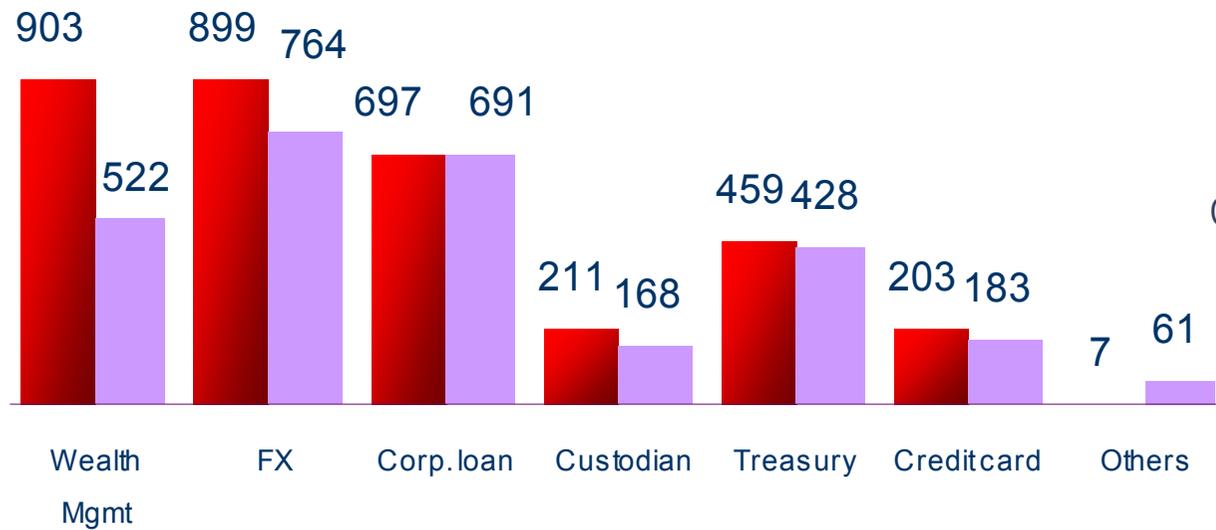
\*\* Management fee of trust account derived from wealth management product sales

## ... while other fee stayed relatively flat vs. last year

### Mega Bank 1H/2009 gross fee income breakdown

Unit: NT\$MN

■ 1H/08      ■ 1H/09

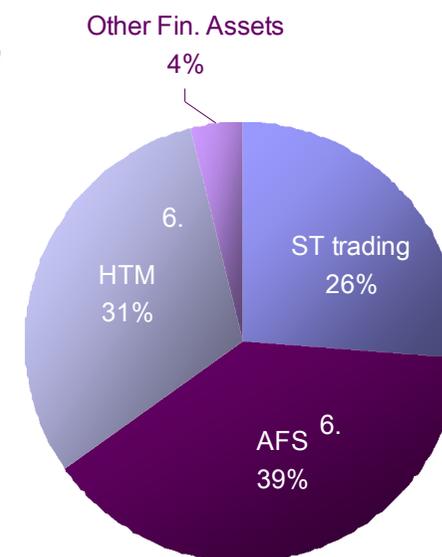
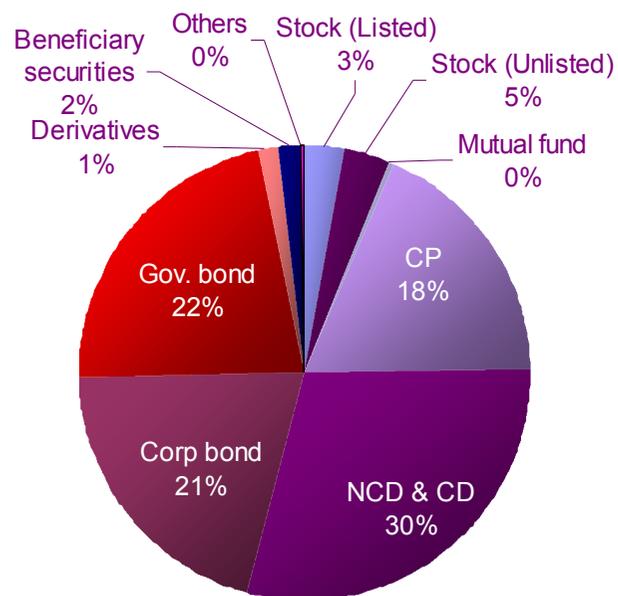


# Relatively conservative investment portfolio mix

Mega FHC consolidated financial assets breakdown 1

Unit: NT\$B

	1H/09	1H/08
Stock (Listed) 2	17	20
Stock (Un-listed) 3	22	23
Mutual fund	2	4
CP	116	82
NCD & CD	187	138
Corp bond 4	131	133
Gov. bond 5	139	140
Derivatives	8	2
Beneficiary securities	11	17
Others	2	3
<b>Total</b>	<b>635</b>	<b>562</b>



1. Source: sum of ST trading, available for sale, hold to maturity and other financial assets from 1H/09 audited financial statement.
2. Mostly Taiwan listed equity.
3. VC investment of Taiwan un-listed companies.
4. Mostly AAA & AA rating bonds of domestic and global corps.
5. Mainly Taiwan Gov. bonds, part of RP operation from Mega Bills.
6. HTM: hold to maturity; AFS: available for sales

# Agenda

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**Operation Highlights**



**Financial Performance**

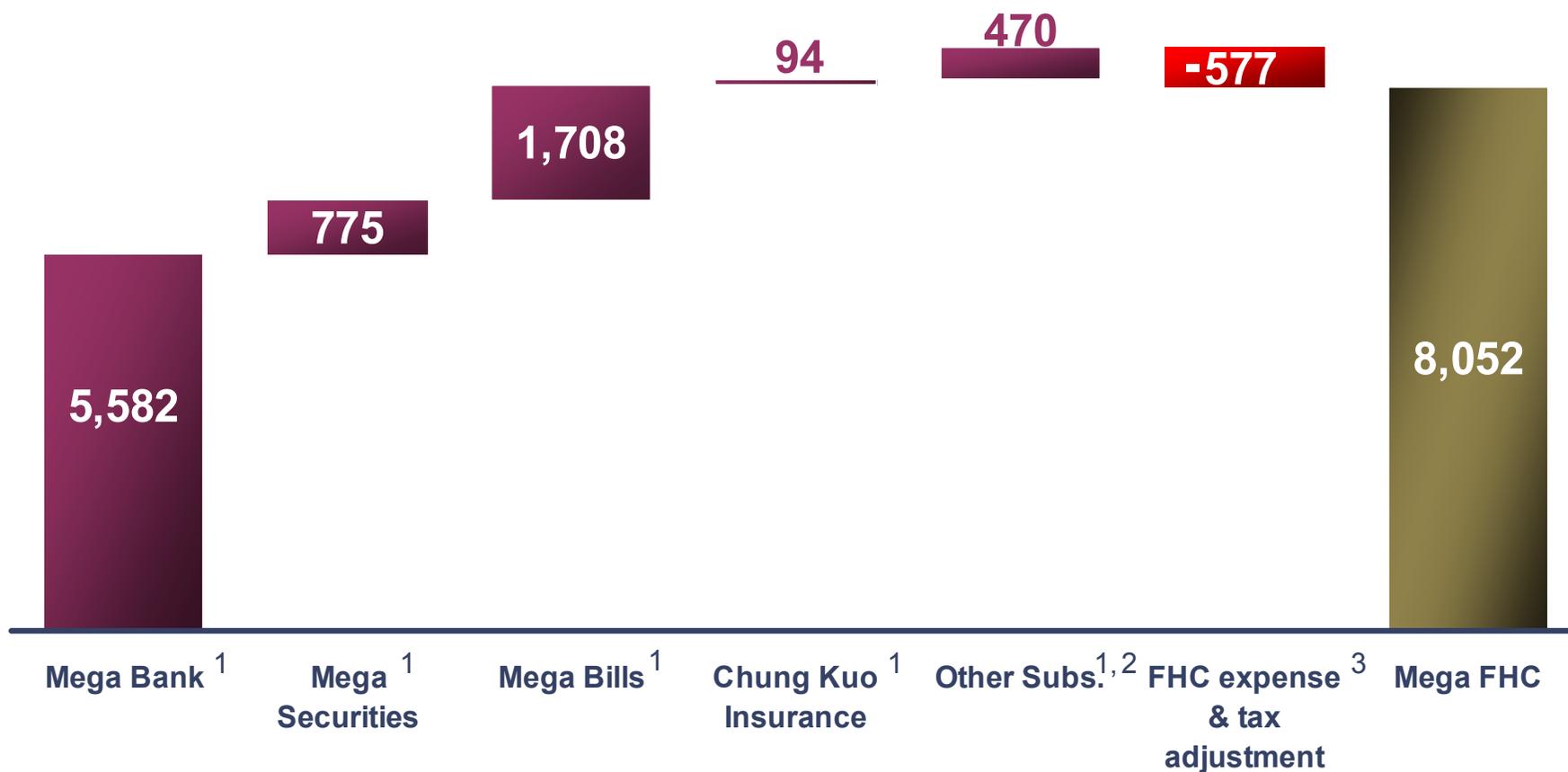


**Appendix**

# Bills sub. has outperformed this year due to rate cut

## 1H/09 earning contribution by sub.

Unit: NT\$MN



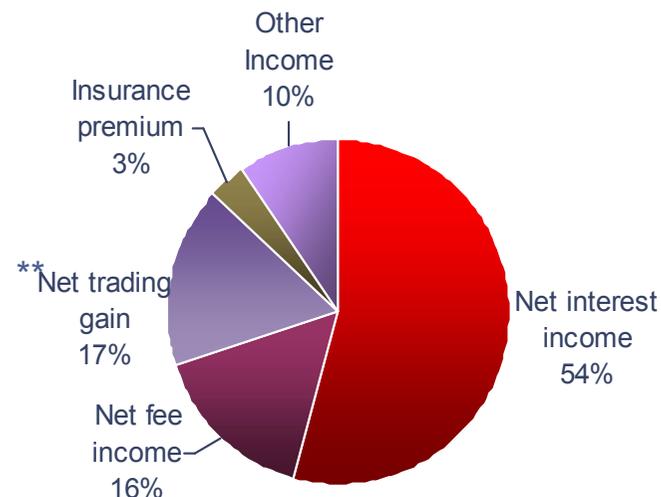
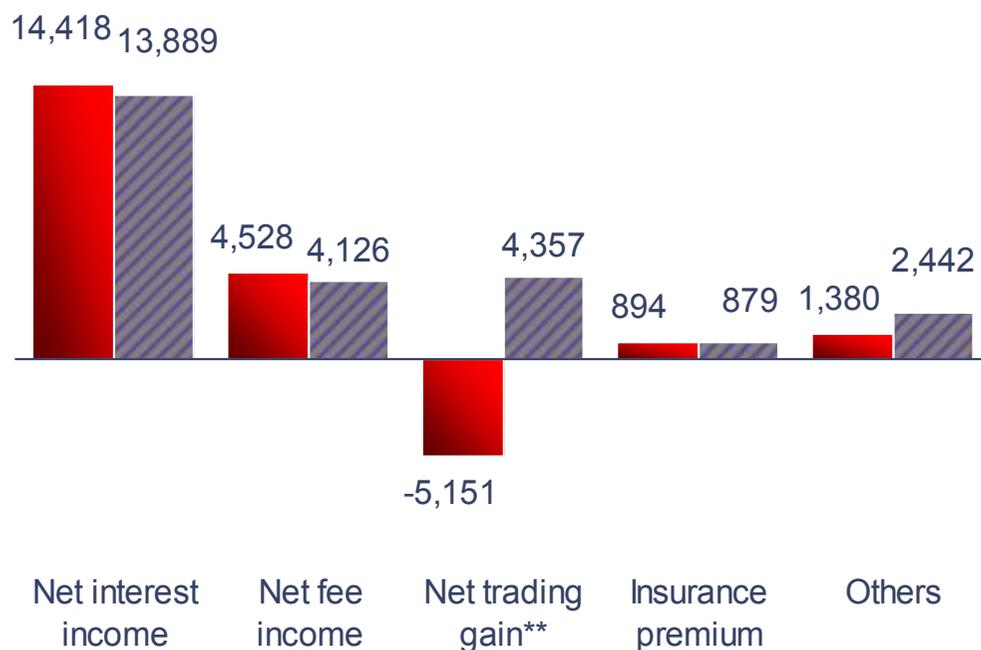
1. Audited subsidiary earning deducts employee bonus and inter-subsidiaries adjustments
2. Include Mega Int'l Investment Trust, Mega AMC, Mega Life Insurance Agent, Mega VC
3. FHC expense plus tax & other adjustments of compiling FHC consolidated statement

# Interest income held up due to strong bills finance operation

Mega FHC consolidated net revenue \*

Mega FHC 1H/09 net revenue breakdown

■ 1H/08 ■ 1H/09 Unit: NT\$MN



## Highlights

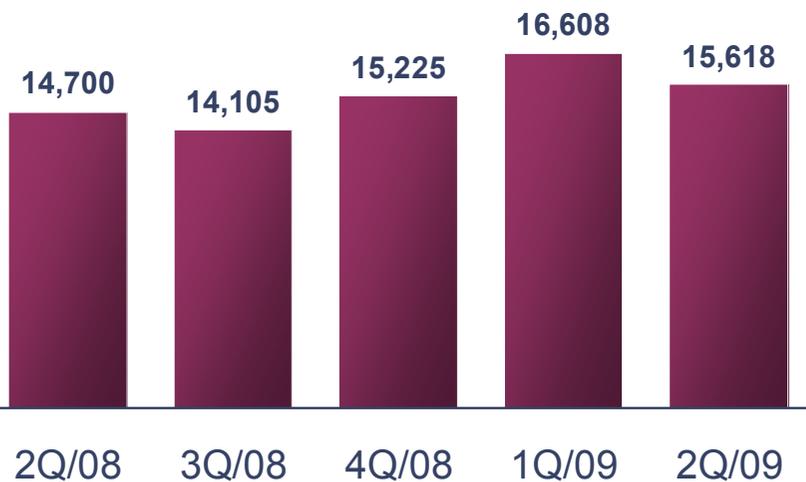
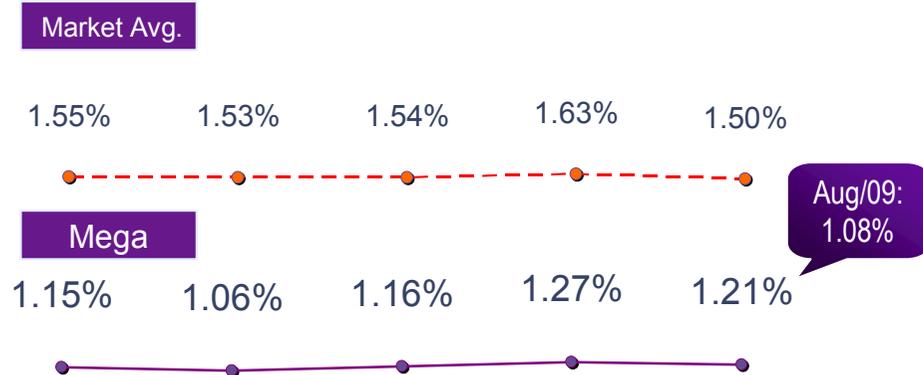
- ❖ Group net interest income declined only by 3.7% thanks to Mega Bills' higher interest income from RP business.
- ❖ Group net fee income declined only by 8.9%; while WM fee remained weak, FX fee and corp. loan fee were flat YoY.
- ❖ Group trading gains were back to normalized level, after last year's one-off write off.

\* audited figures

\*\* Net trading gain includes short-term, AFS, HTM, equity method assets, property, FX trading gain & asset impairment loss

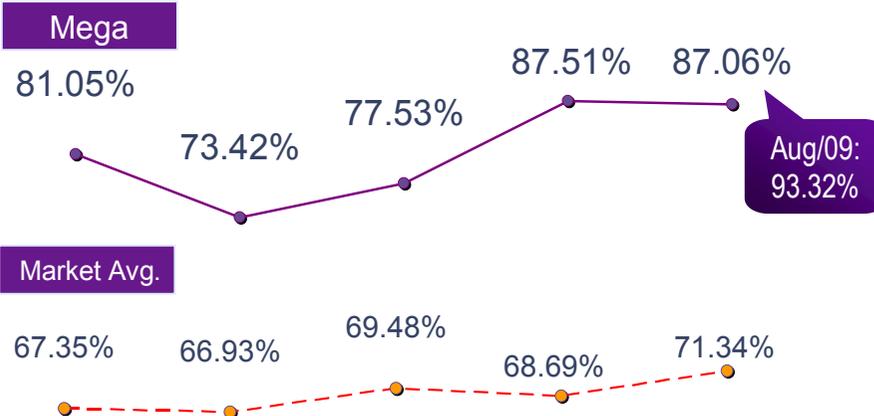
# Overall asset quality remained stable

### Mega NPL balance & NPL ratio\*



Unit: NT\$MN

### Mega Loan loss reserved and coverage ratio\*

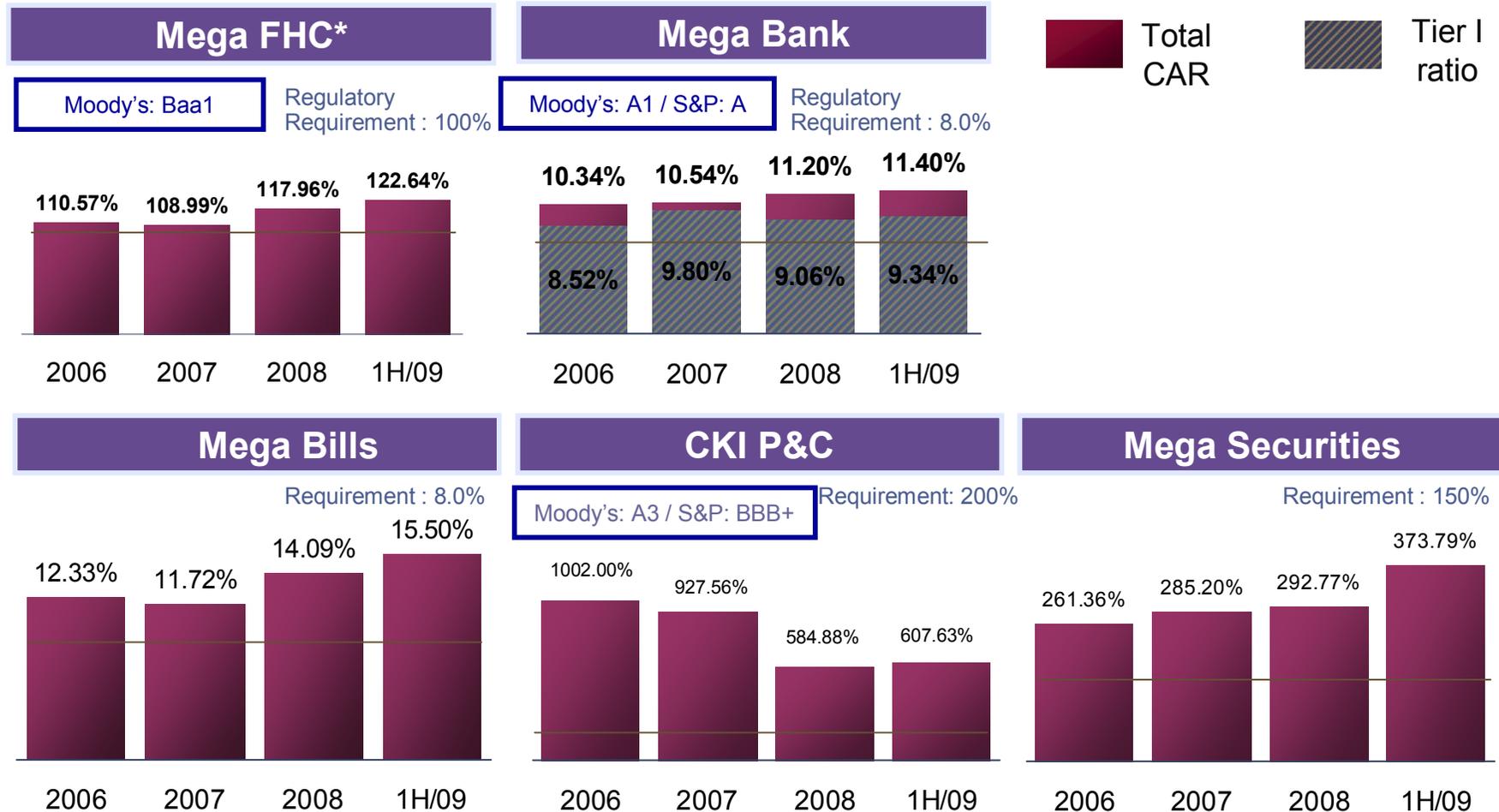


Unit: NT\$MN

\* 90 days standard

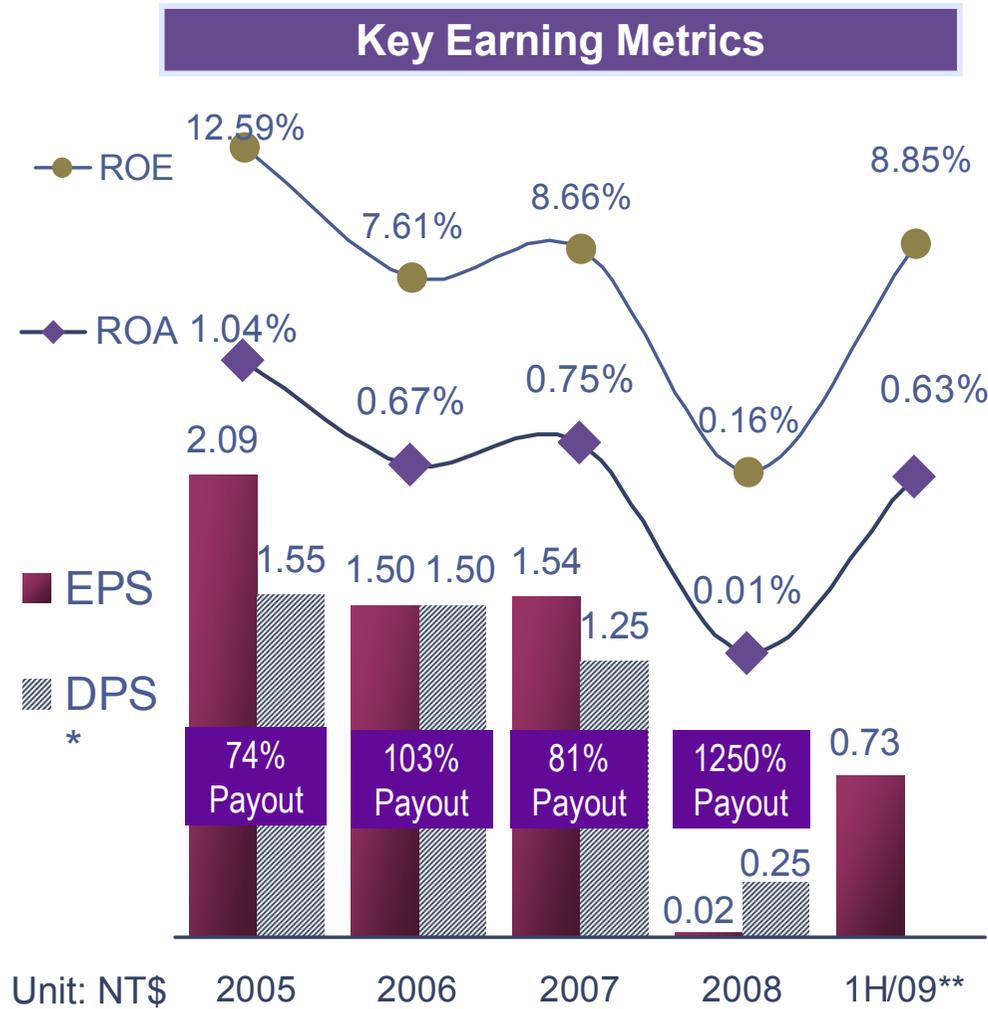
\*\* market average: Banking Bureau of Taiwan

# Sub-debt issuance & regulation changes have significantly increased the FHC and bank CAR



\* Net of investments in subsidiaries

# ROE & ROA rebounded to normalized level



- ❖ 2008 numbers fell due to one-off provision from investment book.
- ❖ Mid-term ROE target of 10~12%
- ❖ Mid-term ROA target of >1%
- ❖ To increase our ROE and prevent over-inflated capital base, we are...
  - ◆ Committed to pay out >70%
  - ◆ and pay >50% in cash. However, we've paid 100% cash dividend in the past years.

\* DPS are all distributed in cash form

\*\* 1H/09 numbers are audited; 1H/09 ROE & ROA are annualized.

# Recent development & strategic considerations

## Taiwan Business Bank stake

- ❖ Mega owns 13.44% shares of Taiwan Business Bank.
- ❖ Booked at cost of NT\$6.08BN as AFS assets.
- ❖ Integration/M&A is no longer a consideration.
- ❖ Mega board has approved the divestment plan on Apr/09.
- ❖ Will divest all by the end of June/2012 through placement, open market and/or after market block trade.

## Capital re-allocation practice

- ❖ Mega Bills has completed NT\$2BN capital reduction in July/09 and up-streamed to FHC.
- ❖ Proceed will be used for repayment of debt and/or investment in China market in the future.

## Eye on China market

- ❖ Mega Bank Suzhou rep. office re-applied in Dec/08 and is still pending approval.
- ❖ Mega Securities has rep. offices in Beijing, Shanghai & Shenzhen.
- ❖ Chuang Kuo Insurance (CKI) has rep. office in Shanghai.
- ❖ Set up "Greater China Financial Market Expansion Team" at holding level.
- ❖ ... to study our best model to expand financial domain in China, including set up branches, subsidiaries, or invest in local financial institutions.

## Opportunities in FX settlement business

- ❖ Obtained the only US settlement license among local peers.
- ❖ US settlement business expects to launch in late Sept/2009.
- ❖ Will co-operate with NCCC\* as RMB/USD/NTD settlement bank for Union Pay Card business in Taiwan.
- ❖ Become RMB settlement bank among local peers?

\* National Credit Card Center

# 1H/09 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	1H/09*	1H/08*	YoY	2008*
Net interest income	13,889	14,418	-4%	30,524
Net fee income	4,126	4,528	-9%	8,375
Insurance premium	880	894	-2%	1,090
ST Trading gain	2,894	-7,711	-	-548
Available for sales asset gain	1,391	616	126%	283
Hold to maturity asset gain	0	0	0%	0
Equity method investment gain	39	55	-29%	121
Property investment gain	12	12	0%	22
FX gain (spread)	746	8,603	-91%	1,053
Asset impairment	-722	-4,892	-85%	-4,934
Cost method investment gain	0	0	-	564
Bad debt write-back	42	95	-56%	365
Other loss	0	0	0%	-5,475
Other provision	-3	-1,834	-	-352
Other non-interest income	2,400	1,286	87%	249
Operating income	25,695	16,070	60%	31,337
Operating expense	-9,856	-10,228	-4%	-19,603
Pre-provision operating profit	15,839	5,842	171%	11,734
Provision expense on loan	-5,094	-2,265	125%	-8,362
Reserved on insurance	-148	-323	-54%	-287
Pretax profit	10,597	3,255	226%	3,085
Tax	-2,546	-1,572	62%	-2,823
Minority shareholder interest	-6	-11	-45%	-32
Net profit	8,046	1,671	382%	295
EPS (NT\$)	0.73	0.15	387%	0.02

\* audited numbers

# 1H/09 Mega FHC consolidated balance sheet\*

NT\$MN	1H/09*	1H/08*	YoY	2008*	YTD
<b>Assets:</b>					
Cash and due from banks	602,393	137,108	339%	374,953	61%
Bills and bonds under RP agreement	986	10,279	-90%	1,729	-43%
Fin. assets at fair value through P&L	166,402	181,060	-8%	198,444	-16%
AFS financial assets	249,823	226,541	10%	232,070	8%
HTM financial assets	194,539	125,820	55%	96,098	102%
Other financial assets	25,299	28,425	-11%	26,612	-5%
A/R, net	91,430	114,930	-20%	120,774	-24%
Loan, net	1,297,234	1,281,609	1%	1,321,438	-2%
Equity method LT investments, net	2,582	2,475	4%	2,546	1%
Land, premises and equipments, net	23,934	25,556	-6%	25,422	-6%
Others	11,730	10,461	12%	9,529	23%
<b>Total assets</b>	<b>2,666,352</b>	<b>2,144,264</b>	<b>24%</b>	<b>2,409,613</b>	<b>11%</b>
<b>Liabilities</b>					
Due to banks	656,487	279,514	135%	449,688	46%
Deposits	1,418,408	1,203,910	18%	1,316,770	8%
CP & Bond payable	57,644	62,769	-8%	56,006	3%
Bills & bonds sold under repurchase agreement	207,714	239,480	-13%	248,492	-16%
Other liabilities	140,404	178,251	-21%	160,622	-13%
<b>Total liabilities</b>	<b>2,480,657</b>	<b>1,963,924</b>	<b>26%</b>	<b>2,231,578</b>	<b>11%</b>
<b>Total stockholders' equity</b>	<b>185,695</b>	<b>180,340</b>	<b>3%</b>	<b>178,034</b>	<b>4%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,666,352</b>	<b>2,144,264</b>	<b>24%</b>	<b>2,409,613</b>	<b>11%</b>

\* audited numbers

# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

## Well established size and scale to win

1H/2009\*  
NT\$ Billion

**Mega Financial Holding Co. (TAIEX.2886)**

	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Mega FHC	Mega Bank	Mega Securities	Mega Bills	Chung Kuo Insurance (P&C)	Mega Int'l Investment Trust	Mega AMC	Mega Life Insurance Agency	Mega Venture Capital
Assets	2,666	2,339	40	237	15	0.8	12	0.05	0.8
Equity	186	147	14	34	5	0.6	3	0.04	0.8
Net Profit	8.1	5.6	0.8	1.7	0.09	0.02	0.4	0.01	0.01
Domestic Offices	194	106	46	9	27	3	1	1	1
Overseas Offices**	36	29	4	0	3	0	0	0	0

\* Audited numbers

\*\* Overseas offices include rep. offices. and branches



# Our Corporate Strategy



# Mega Bank's global franchise

*Bridge the gap, reach the world*



• All overseas loan are corp. loan, mostly Taiwanese corps; no consumer banking / mortgage business.

\* Bahrain, Kuala Lumpur and Mumbai are rep. offices

\*\* Pending approval for bank branch / rep. office

# 1-4Q/08 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	2008*	2007*	YoY	2007*
Net interest income	30,524	26,296	16%	26,296
Net fee income	8,375	9,344	-10%	9,344
Insurance premium	1,090	1,167	-7%	1,167
ST Trading gain	-548	4,679	-112%	4,679
Available for sales asset gain	283	2,508	-89%	2,508
Hold to maturity asset gain	0	0	0%	0
Equity method investment gain	121	190	-36%	190
Property investment gain	22	22	0%	22
FX gain (spread)	1,053	2,753	-62%	2,753
Asset impairment	-4,934	-2,123	132%	-2,123
Cost method investment gain	564	760	-26%	760
Bad debt write-back	365	205	78%	205
Other loss	-5,475	0	0%	0
Other provision	-352	-808	-56%	-808
Other non-interest income	249	2,156	-88%	2,156
Operating income	31,337	47,149	-34%	47,149
Operating expense	-19,603	-20,378	-4%	-20,378
Pre-provision operating profit	11,734	26,771	-56%	26,771
Provision expense on loan	-8,362	-6,672	25%	-6,672
Reserved on insurance	-287	-67	328%	-67
Pretax profit	3,085	20,032	-85%	20,032
Tax	-2,823	-2,918	-3%	-2,918
Minority shareholder interest	-32	44	-173%	44
Net profit	295	17,070	-98%	17,070
EPS (NT\$)	0.02	1.54	-99%	1.54

\* All are audited numbers

# 1-4Q/08 Mega FHC consolidated balance sheet\*

NT\$MN	2008*	2007*	YoY	2007*	YTD
<b>Assets:</b>					
Cash and due from banks	374,953	349,727	7%	349,727	7%
Bills and bonds under RP agreement	1,729	4,766	-64%	4,766	-64%
Fin. assets at fair value through P&L	198,444	210,393	-6%	210,393	-6%
AFS financial assets	232,070	255,518	-9%	255,518	-9%
HTM financial assets	96,098	90,448	6%	90,448	6%
Other financial assets	26,612	29,114	-9%	29,114	-9%
A/R, net	120,774	125,215	-4%	125,215	-4%
Loan, net	1,321,438	1,210,580	9%	1,210,580	9%
Equity method LT investments, net	2,546	2,583	-1%	2,583	-1%
Land, premises and equipments, net	25,422	24,128	5%	24,128	5%
Others	9,529	11,289	-16%	11,289	-16%
<b>Total assets</b>	<b>2,409,613</b>	<b>2,313,761</b>	<b>4%</b>	<b>2,313,761</b>	<b>4%</b>
<b>Liabilities</b>					
Due to banks	449,688	412,969	9%	412,969	9%
Deposits	1,316,770	1,232,608	7%	1,232,608	7%
CP & Bond payable	56,006	56,951	-2%	56,951	-2%
Bills & bonds sold under repurchase agreement	248,492	246,996	1%	246,996	1%
Other liabilities	160,622	169,585	-5%	169,585	-5%
<b>Total liabilities</b>	<b>2,231,578</b>	<b>2,119,109</b>	<b>5%</b>	<b>2,119,109</b>	<b>5%</b>
<b>Total stockholders' equity</b>	<b>178,034</b>	<b>194,651</b>	<b>-9%</b>	<b>194,651</b>	<b>-9%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,409,613</b>	<b>2,313,761</b>	<b>4%</b>	<b>2,313,761</b>	<b>4%</b>

\* All are audited numbers

# Mega Bank HK Branch Performance Overview

Unit: NT\$MN

	1H/2009	2008*	2007	2006	2005	2004	2003
Loan	11,259	11,966	8,984	7,347	5,187	2,669	1,437
After-tax Earning	174	574	824	400	164	60	18

\* 2008 earning number includes NT\$242M of provision on bond investment, which was associated with global financial crisis.

# Provision realized on U.S. sub-prime RMBS

As of end of 1H/2009 Unit:  
 NT\$MN  
 USD:NTD=1:32.878

Mega Group						
Securities Type	Original Gross Balance	Provision Realized				
		On 1H/09 balance sheet	On 07 & 08 income statement	On 1H/09 income statement	Total	As % of total gross balance
US sub-prime RMBS <sup>1</sup>	11,781	436	8,142	410	8,988	76%

1. which are either directly held or within structured CBO/ABCP. This is total sub-prime asset balance.