



兆豐金控  
Mega Holdings

**2Q / 2011** (v.1)

**Investor/Analyst Briefing**



# DISCLAIMER

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**THE FINANCIAL INFORMATION IN THIS PRESENTATION AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2011 ARE UN-AUDITED RESULT. MEGA FHC HAS FILED ITS HALF YEAR FINANCIAL STATEMENTS THROUGH THE TAIWAN STOCK EXCHANGE MARKET OBSERVATION POST SYSTEM ON AUGUST 31ST, 2011.**

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# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

# 1-2Q/11 performance summary\*

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- ❖ 2Q/11 loan balance was up 1.1% QoQ and 10.4%YoY, consistence with our prudent risk mgmt practice and cautiously optimistic view.
- ❖ Manufacturing, real estate, retail/whole industries and etc all demonstrated solid loan demand.
- ❖ OBU loan jumped up as USD loan demand remained strong.
- ❖ 16bps annualized new NPL influx, low provision expense, 0.23% NPL ratio and 361% coverage ratio on the bank level, suggesting asset quality remained sound.
- ❖ Bank LDR inched up to 91%, but funding in general remained loose .
- ❖ Bank loan spread moved sideways.
- ❖ Bank NIM was up 2bps to 1.15% vs. last quarter, due to improved NTD NIM.
- ❖ WM gross fee was up 11% QoQ and up 15% YoY due to strong bacassurance sales.
- ❖ Group net fee revenue was down 4% YoY due to slower syndication loan fee, but expect to improve in 2H/11.
- ❖ Group net revenue was up 20% YoY; cost-to-income ratio dropped to 44%.
- ❖ Bank provision expense was 18bps(NT\$1,239m), with 70% coverage on Promos.
- ❖ Still managed to achieve respectable ROE (9.5%) and ROA (0.8%) numbers.
- ❖ No capital raising plan due to strong bank tier-one capital ratio (9.13%).

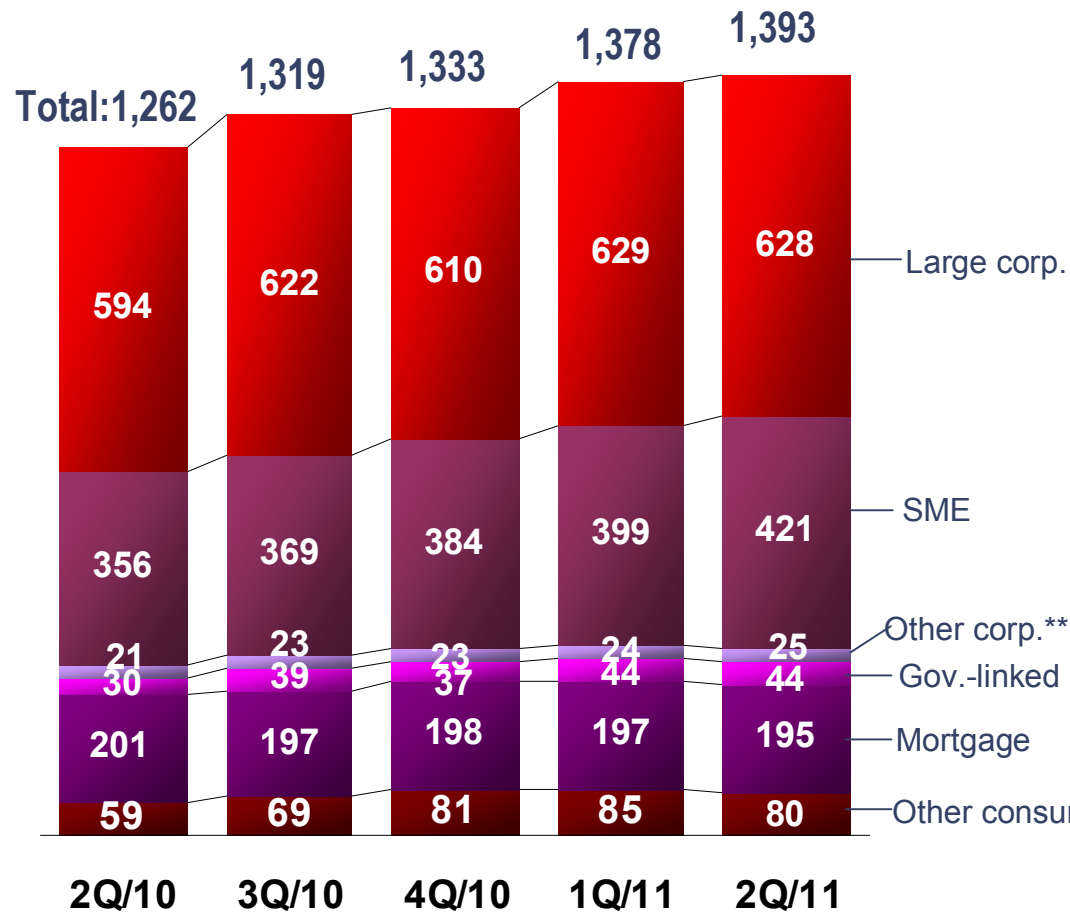
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\* 2Q/2011 un-audited internal numbers, unless specified otherwise.

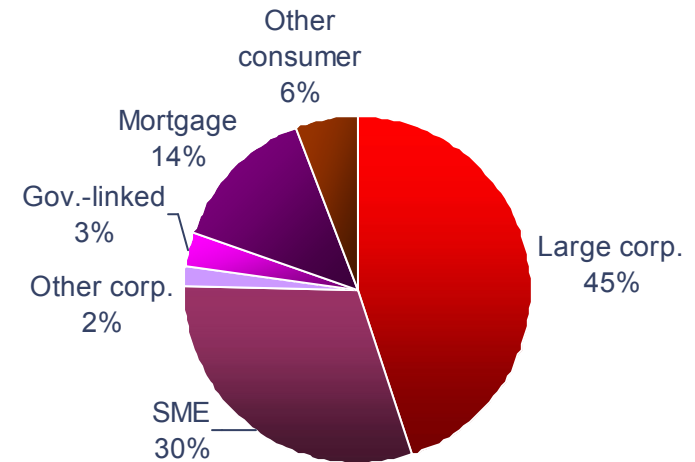
# SME loan continued to gain strength.

Mega Bank quarterly loan balance\*

Unit: NT\$bn



Mega Bank 2Q/11 loan breakdown by customer



## Highlights

- ❖ Large corp. loan was up 5.7% YoY and flat QoQ, SME loan was up 18.3% YoY and up 5.5% QoQ; current key focus is on SME loan and shy away from low-yield products, such as syndication loan.
- ❖ Mortgage loan balance is likely to remain flat.
- ❖ Total loan was up 10.4% YoY and 1.1% QoQ., in-line with expectation this year.

\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

\*\* Includes Gov-linked Non-Profit Organization and etc.

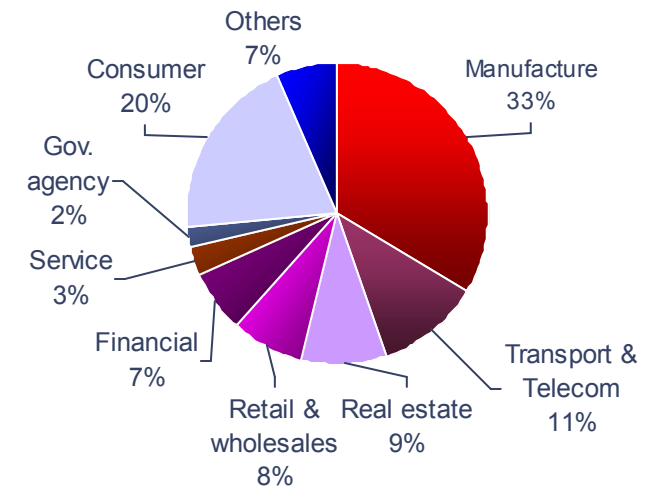
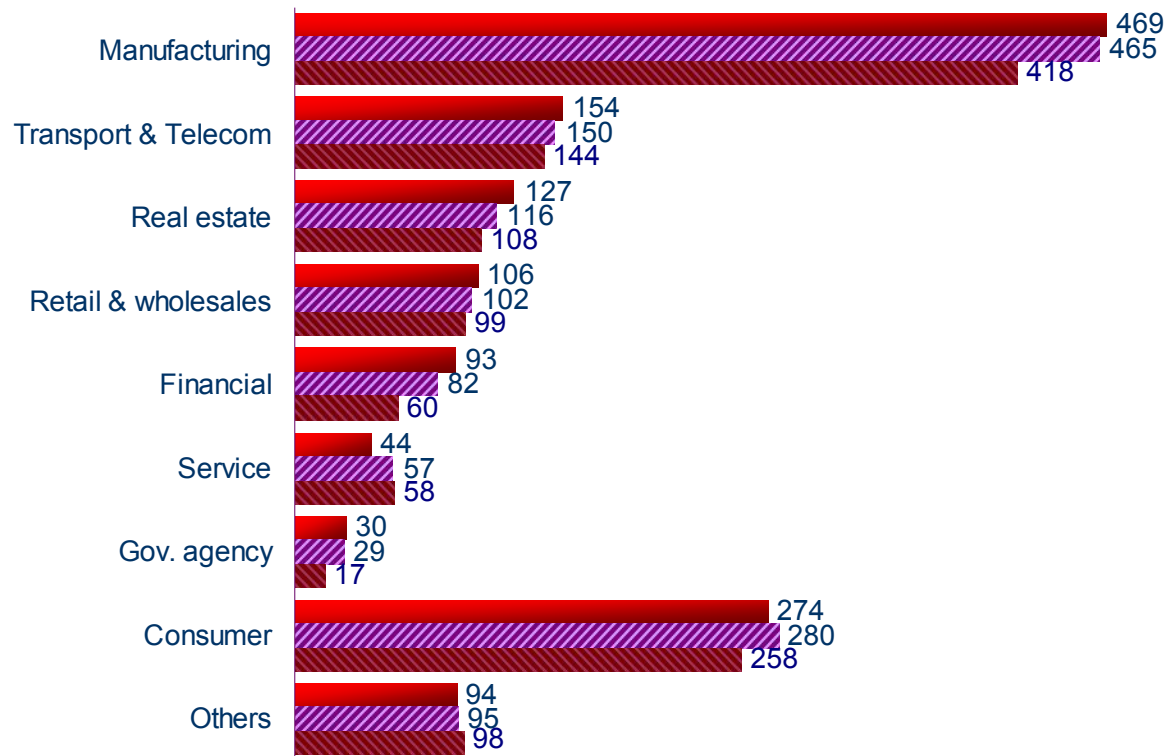
# Manufacturing and retail loan growth continued.

Mega Bank loan balance trend by industry\*

Mega Bank 2Q/11 loan breakdown by industry\*

■ 2Q/11    ▨ 1Q/11    ▩ 2Q/10

Unit: NT\$BN

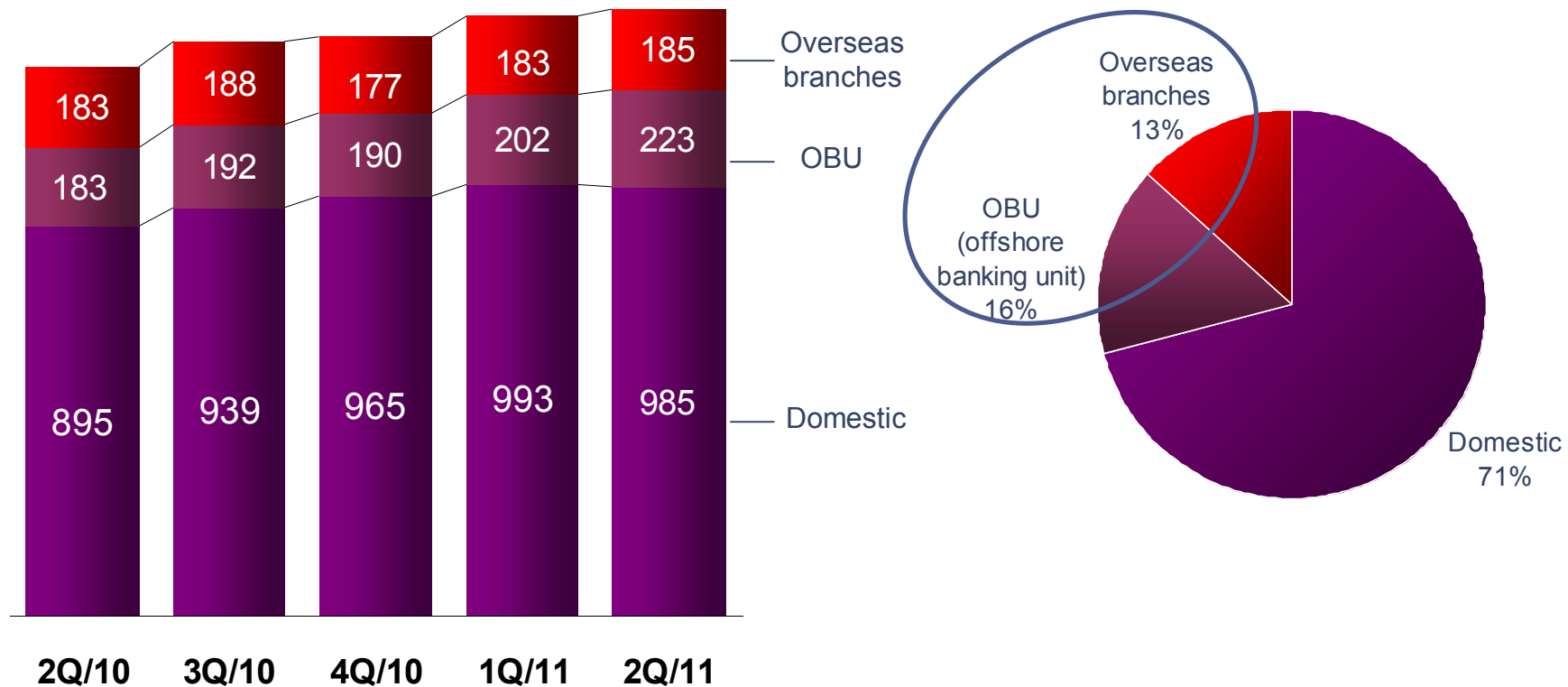


\* Mega Bank un-audited numbers, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

# OBU loan jumped up further.

Mega Bank 2Q/11 loan breakdown by regions \*

Unit: NT\$bn

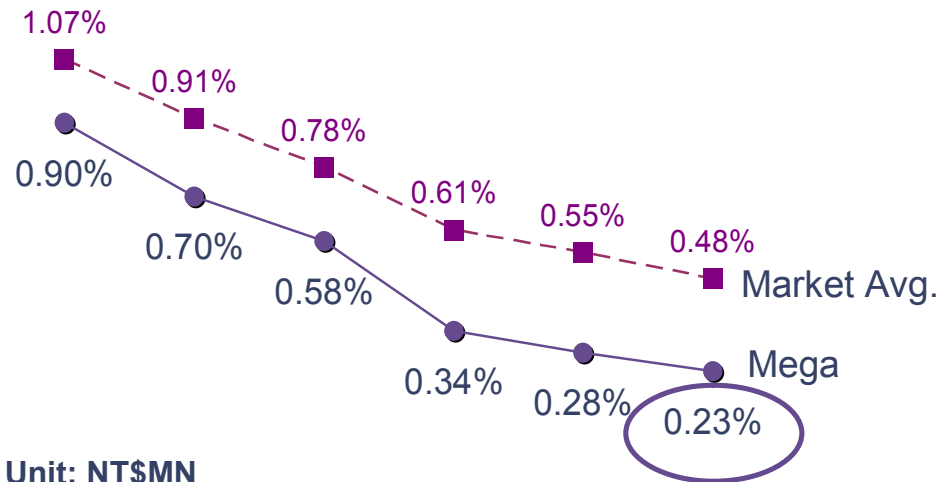


\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

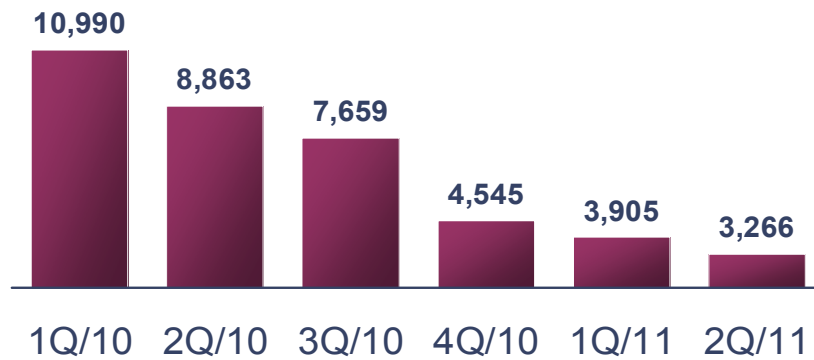
\*\* OBU stands for Off-shore Banking Unit

# Excellent asset quality

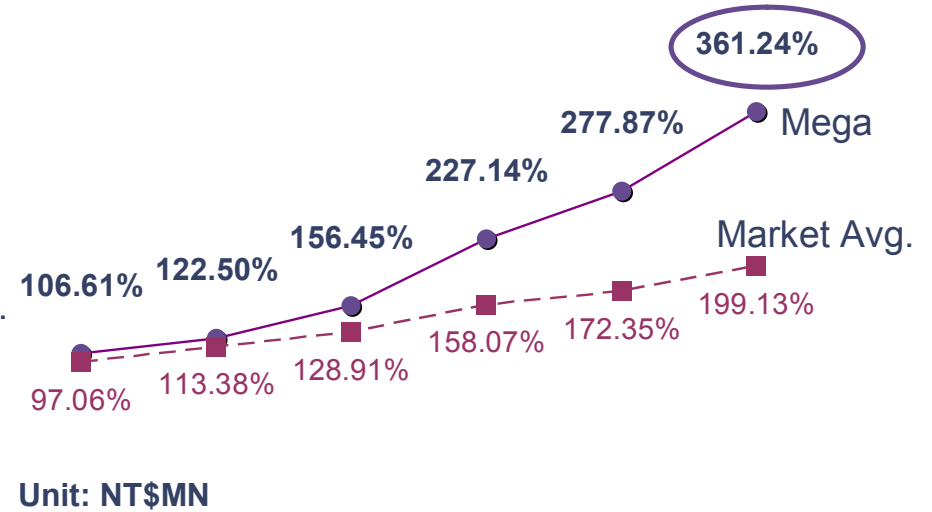
Mega Bank NPL balance & NPL ratio\*



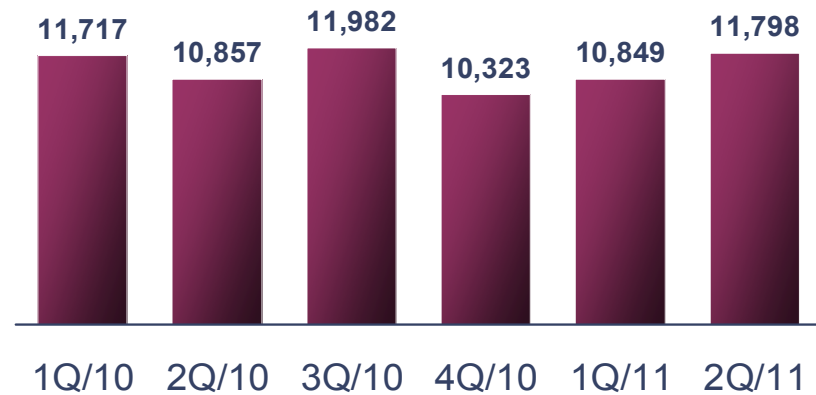
Unit: NT\$MN



Mega Bank loan loss reserved and coverage ratio\*



Unit: NT\$MN



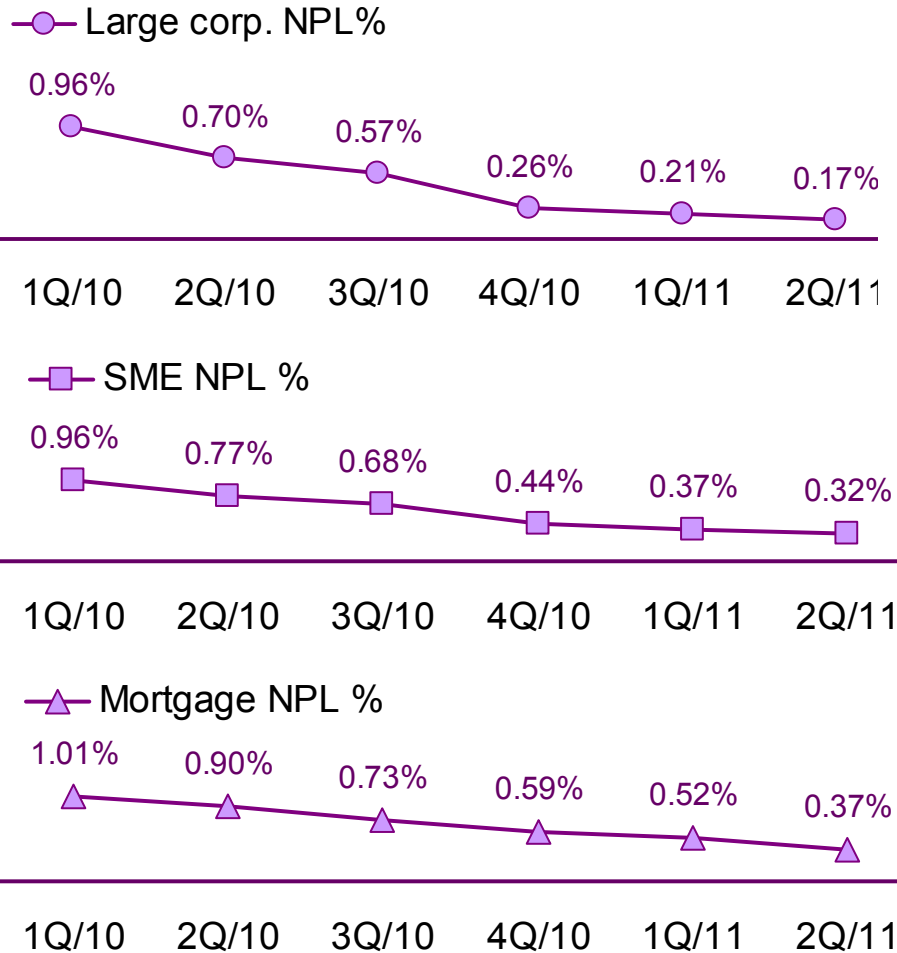
\* 90 days standard

\*\* market average source: Banking Bureau of Taiwan.

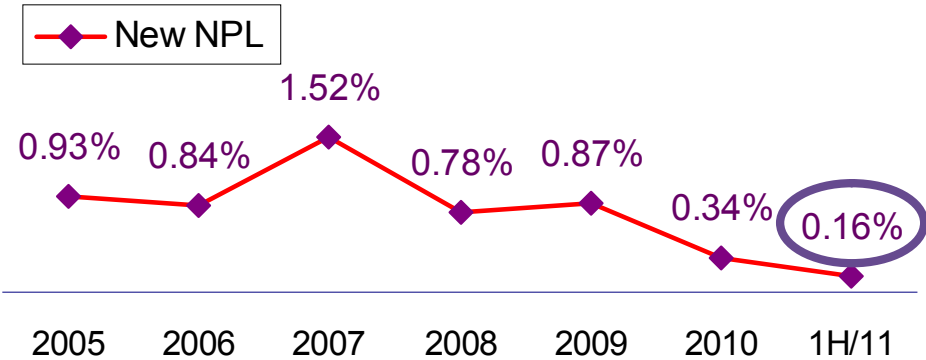


# New NPL influx remained low.

Mega Bank NPL ratio by customer \*



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



## Highlights

- ❖ Large corp., SME & Mortgage NPL ratios continued to trend down further.
- ❖ Annualized 1H/11 NPL influx was only 16bps, which contributed low credit cost and strong asset quality figures.

\* Excludes gov. loan, gov-linked corp. loan and other corp. loan, which all have 0% NPL.

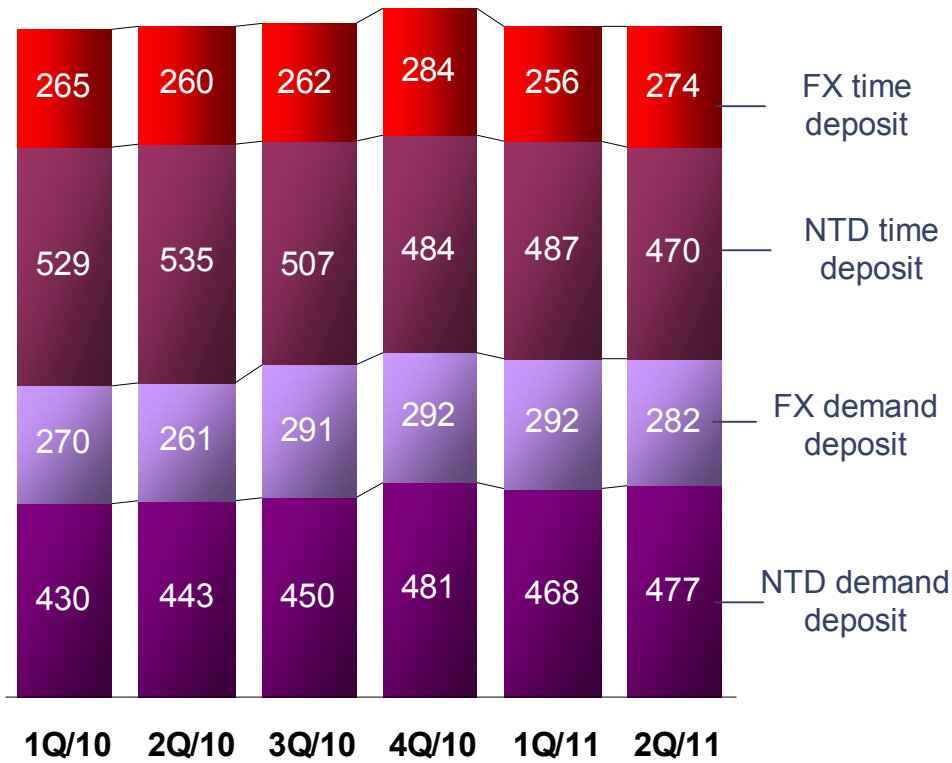
\*\* Annualized new NPL balance / total loan. Mega Bank Internal number.

# Demand deposit position improved significantly.

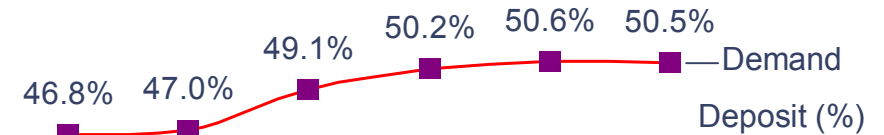
## Mega Bank's deposit balance \*

Unit:NT\$bn

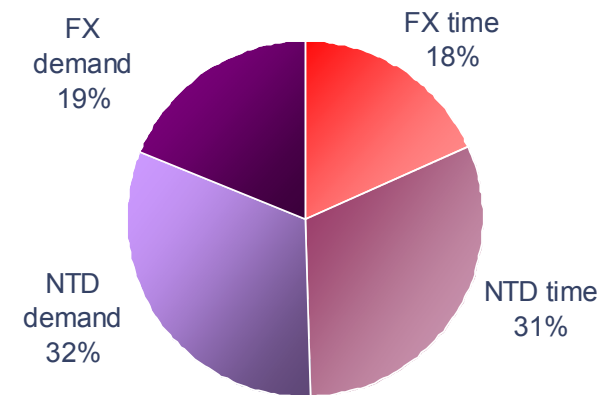
Total: 1,495 1,499 1,509 1,541 1,503 1,503



## Mega Bank's demand deposit trend (%)



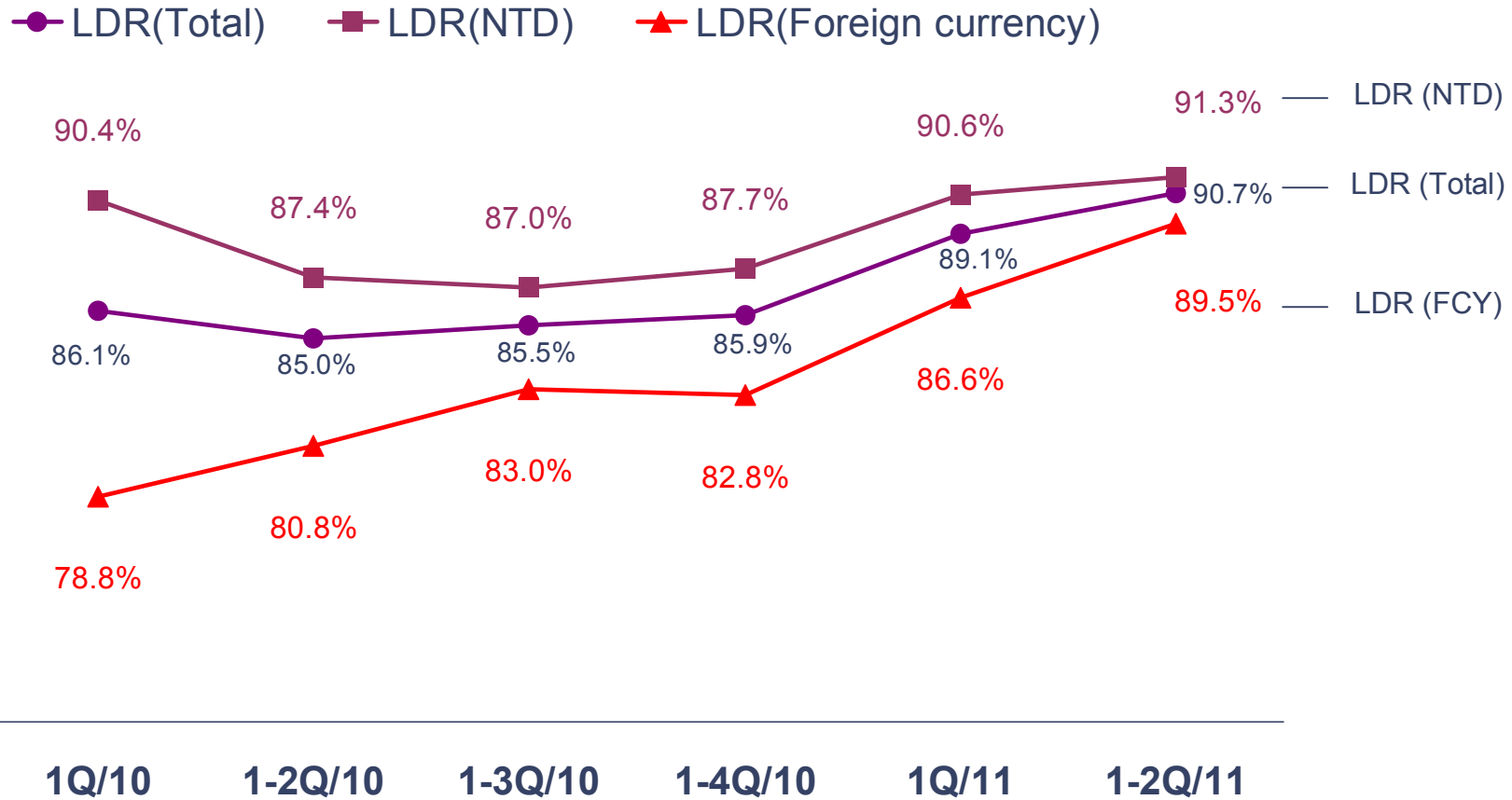
## Mega Bank's 1H/11 deposit breakdown



\* Excludes interbank deposit, Central Bank deposit & Chunghwa Post re-deposit ; un-audited numbers.

# Funding remained loose despite higher LDR.

Mega Bank's loan to deposit ratio (LDR) trend\*



\* LDR calculation is based on average loan/deposit balance of that period; foreign currency loan includes OBU, overseas branches and some domestic loans.

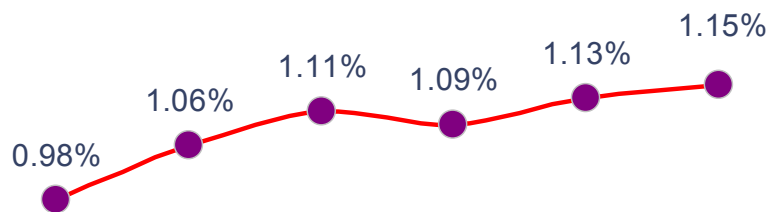
# Spread moved sideways due to competition.

Mega Bank total loan interest spread

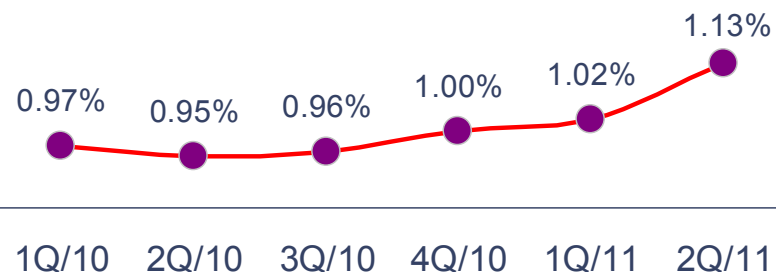


# Bank NIM improvement was intact.

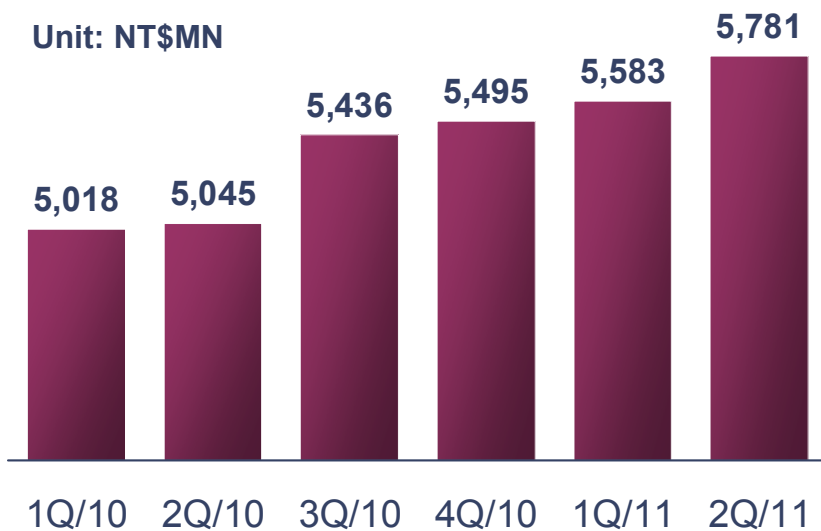
Mega Bank quarterly NIM & NII \*



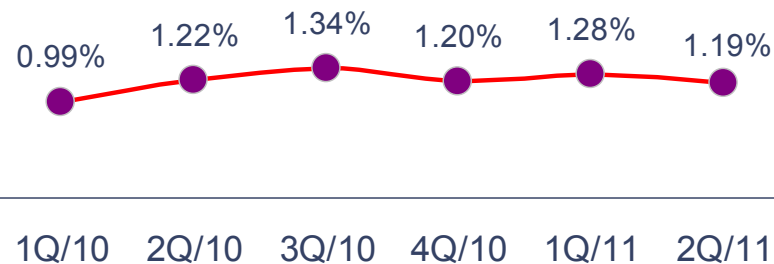
Mega Bank quarterly NTD NIM\*



Unit: NT\$MN



Mega Bank quarterly foreign currency NIM\*

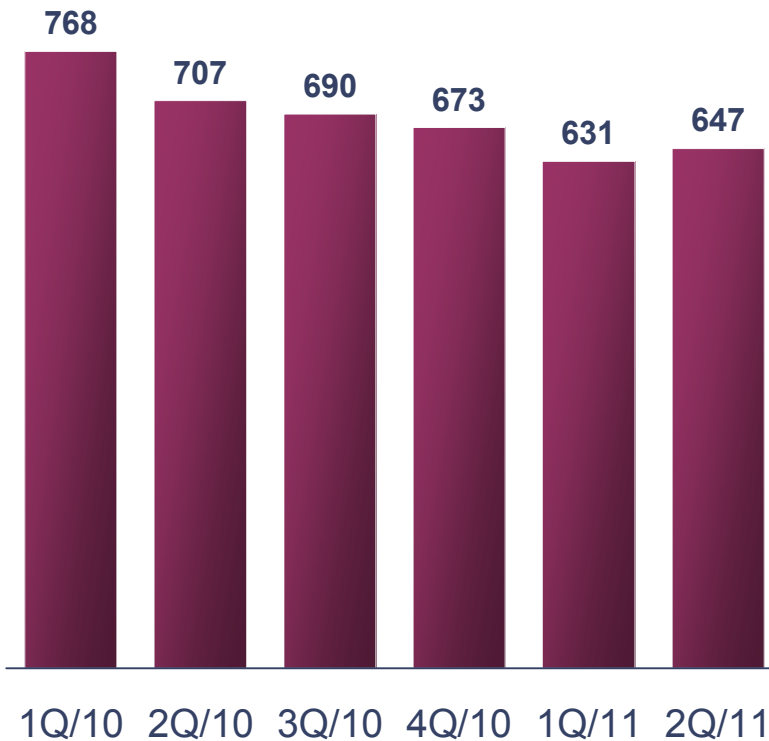


\* NIM = annualized net interest income / average interest earning assets of that quarter; NII is quarterly net interest income; un-audited internal numbers.

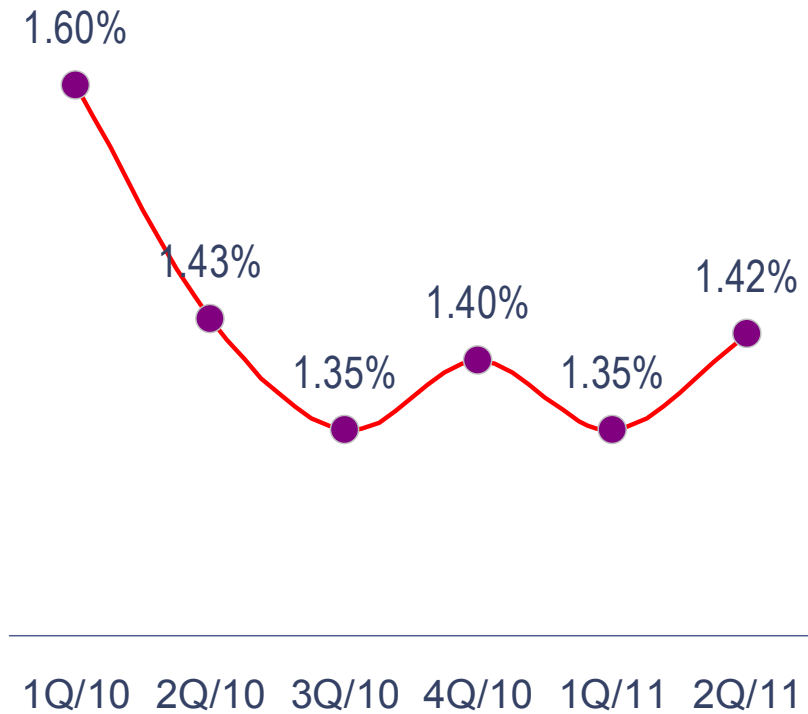
# Bills NIM stabilized.

Mega Bills NII \*

Unit: NT\$MN



Mega Bills NIM\*

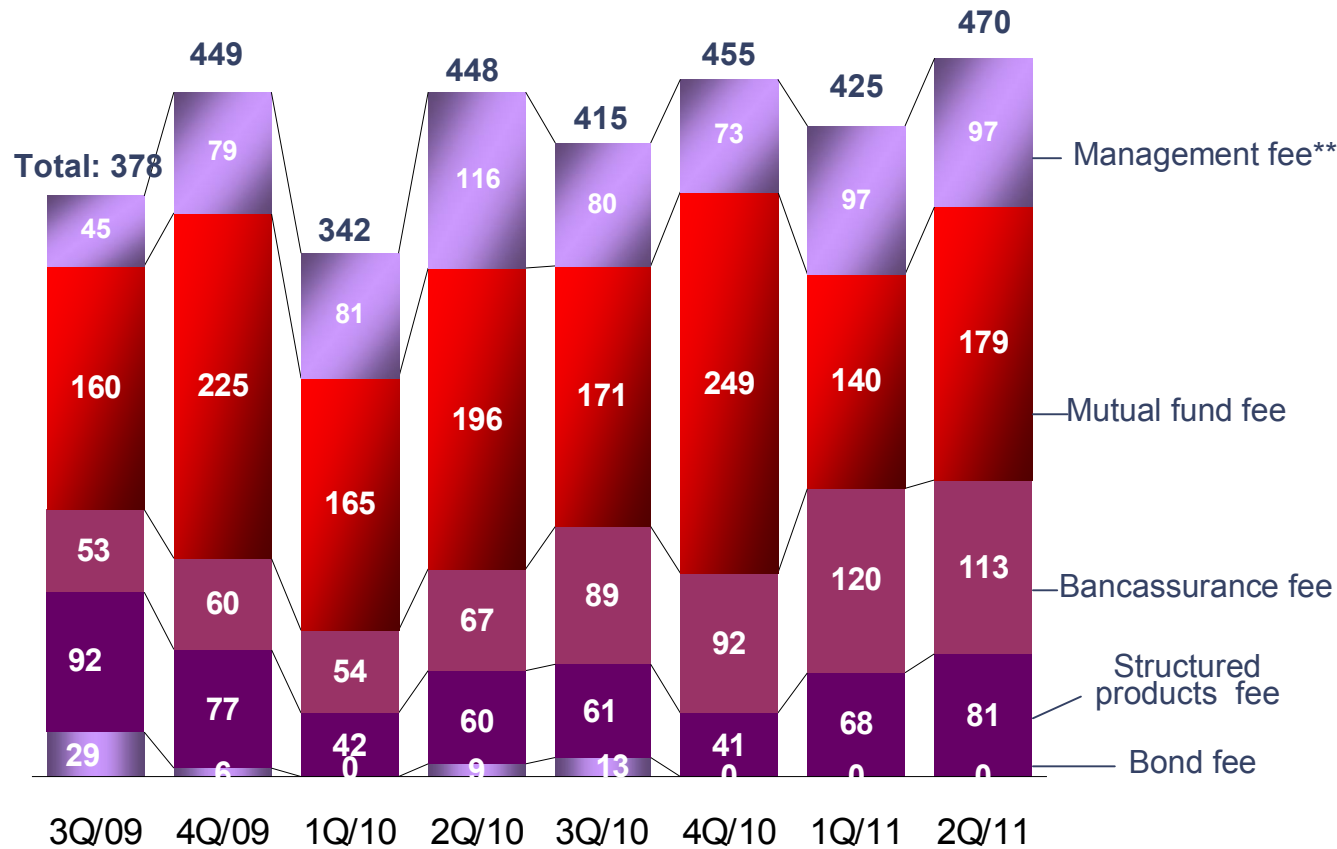


\* NIM = annualized net interest income / average interest earning assets of that quarter; NII is quarterly net interest income; un-audited internal numbers.

# WM fee posted solid growth.

Mega Bank quarterly wealth management gross fee revenue breakdown by product \*

Unit: NT\$MN

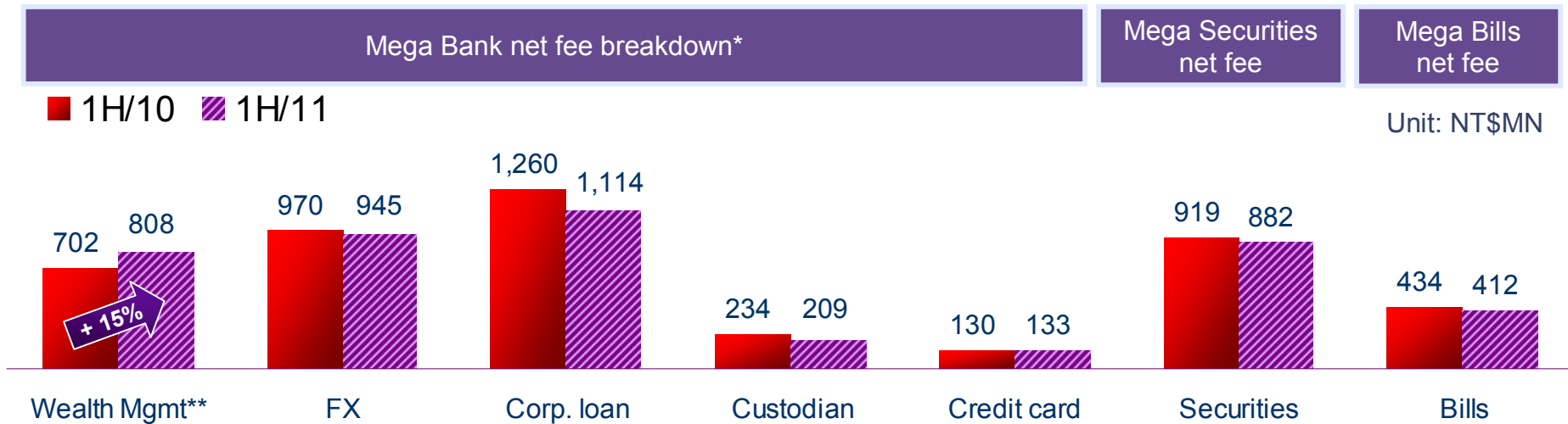


❖ Wealth mgmt fee was up 11% QoQ and up 15% YoY, driven by stronger bancassurance and structured products fees.

\* Mega Bank internal data; gross wealth mgmt fee, NOT net wealth mgmt fee.

\*\* Profit sharing scheme of fund mgmt fee and trust account mgmt fee.

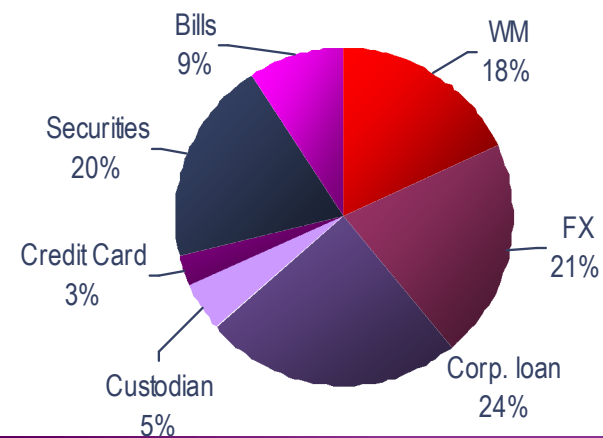
# Syndication loan fee is likely to improve in 2H/11.



Highlights

Mega FHC 1H/11 net fee breakdown

- ❖ Bank sub. WM fee was up 15% YoY due to stronger bancassurance sales.
- ❖ Bank sub. corp. loan fee declined 12% YoY due to slower syndication loan fee, a result of fewer syndication loan fee booked in 1H/2011, but expect to improve in 2H/2011.



\* Internal data; within WM fee, fee reimbursed by insurance agent Co. is booked as other revenue in P&L; as a result, total net fee combined here will be slightly more than the net fee figure shown in P&L.

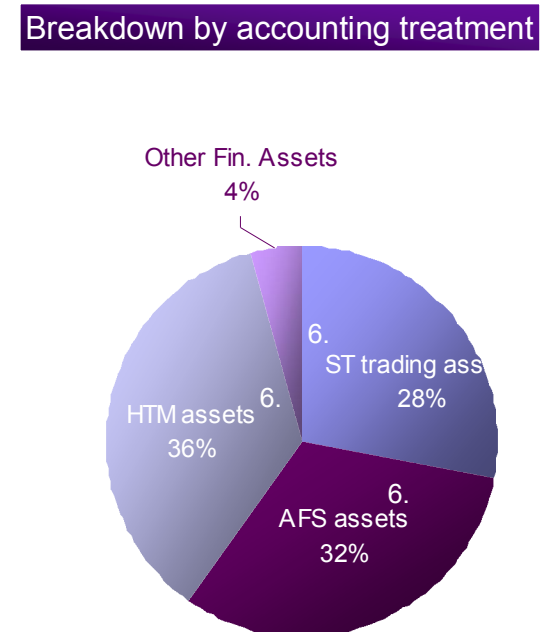
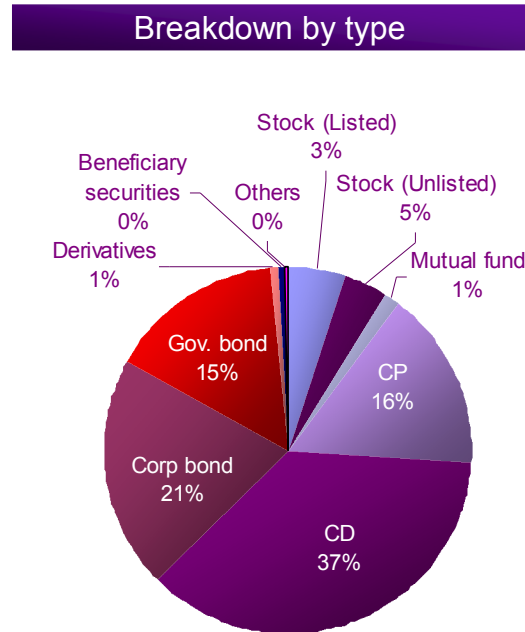
\*\* Net wealth mgmt fee.



# Conservative and diversified investment portfolio.

Mega Group 1Q/11 consolidated financial assets breakdown 1

Unit: NT\$BN	1Q/11	1Q/10	2010
Stock (Listed) 2	28	23	28
Stock (Un-listed) 3	22	21	21
Mutual fund	7	2	3
Commercial papers	89	103	94
Certificate of deposit	205	269	224
Corporate bond 4	115	119	111
Government bond 5	86	107	94
Derivatives	6	6	7
Beneficiary securities	2	8	5
Others	2	2	2
<b>Total</b>	<b>561</b>	<b>661</b>	<b>589</b>



1. Source: sum of Fin. asset at fair value thru P&L, available for sale, hold to maturity and other financial assets from 1Q/11 vs. 1Q/10 Mega FHC consolidated financial statement, which is reviewed by the CPA only. 2010 are audited numbers.
2. Mostly Taiwan listed equity investment.
3. Long term equity investment of Taiwanese un-listed companies, part of the unique VC investment from Mega Bank.
4. Domestic and global corps. bonds and bank debentures.
5. Mainly Taiwan Gov. bonds, part of RP business from Mega Bills.
6. ST trading assets: Fin. asset at fair value thru P&L; HTM assets: hold to maturity assets; AFS assets: available for sales assets.

# Agenda

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**Operation Highlights**



**Financial Performance**

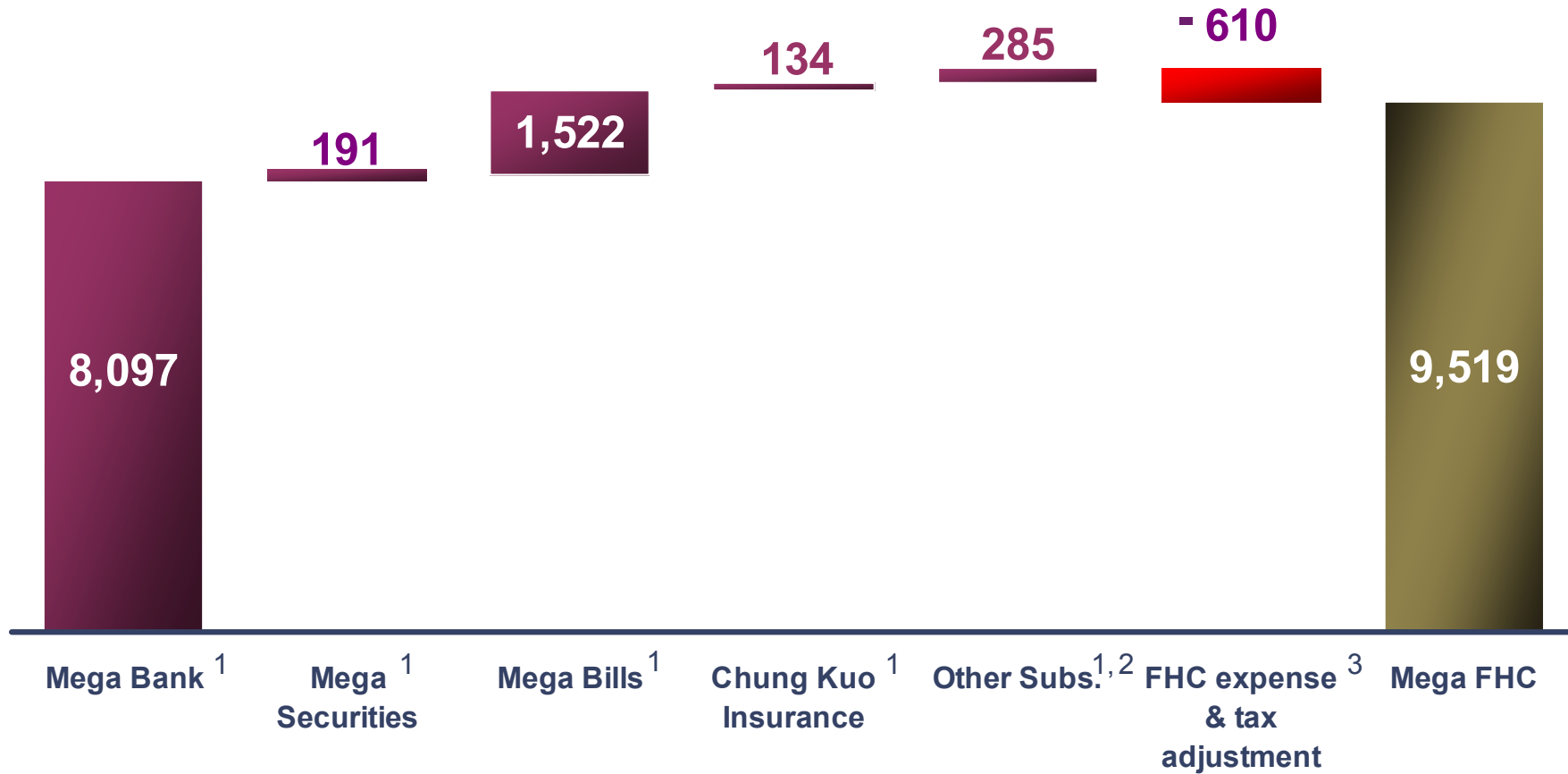


**Appendix**

# Most subs posted strong earnings in 1H/11.

## 1H/11 earning contribution by subsidiary

Unit: NT\$MN



1. Un-audited subsidiary earning

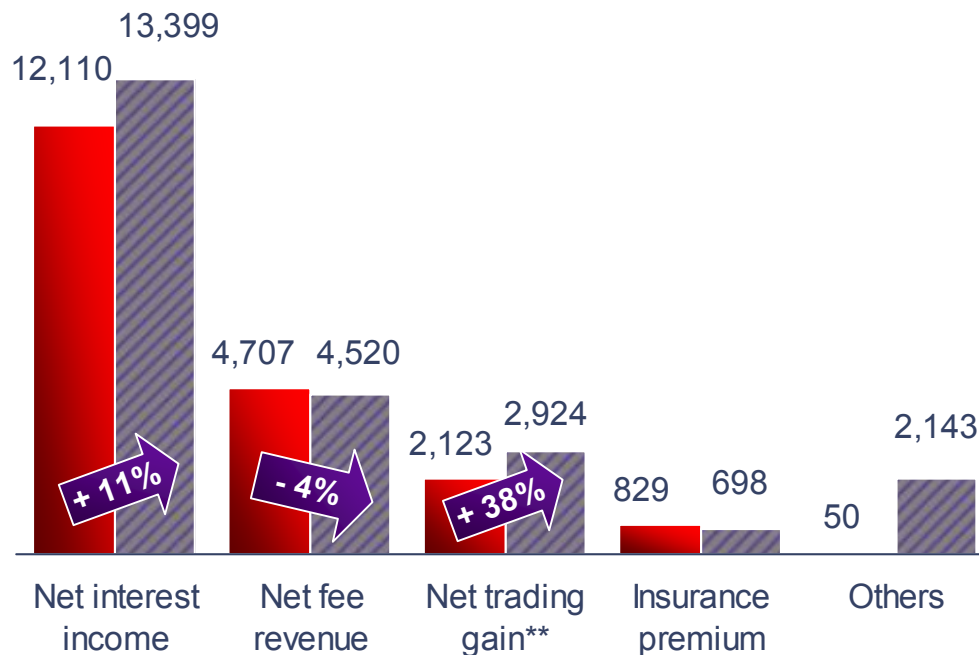
2. Include Mega Int'l Investment Trust, Mega AMC, Mega Life Insurance Agent, Mega VC

3. FHC expense plus tax & other adjustments of compiling FHC consolidated statement

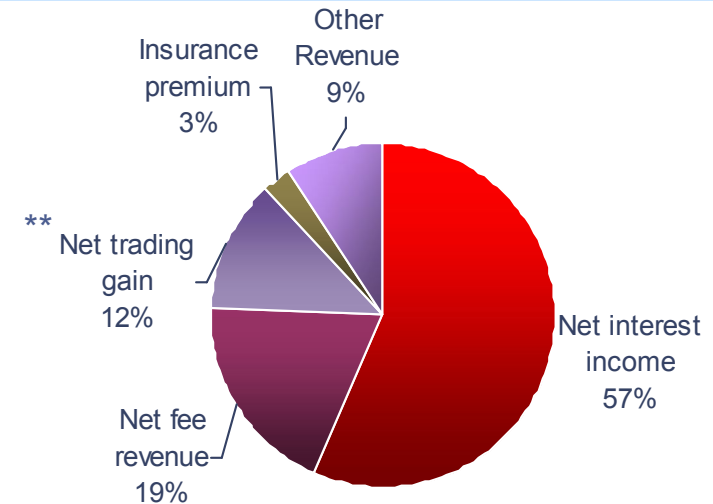
# Group net revenue was up 20% YoY.

## Mega Group consolidated net revenue \*

■ 1H/10    ■ 1H/11    Unit: NT\$MN



## Mega Group 1H/2011 net revenue breakdown



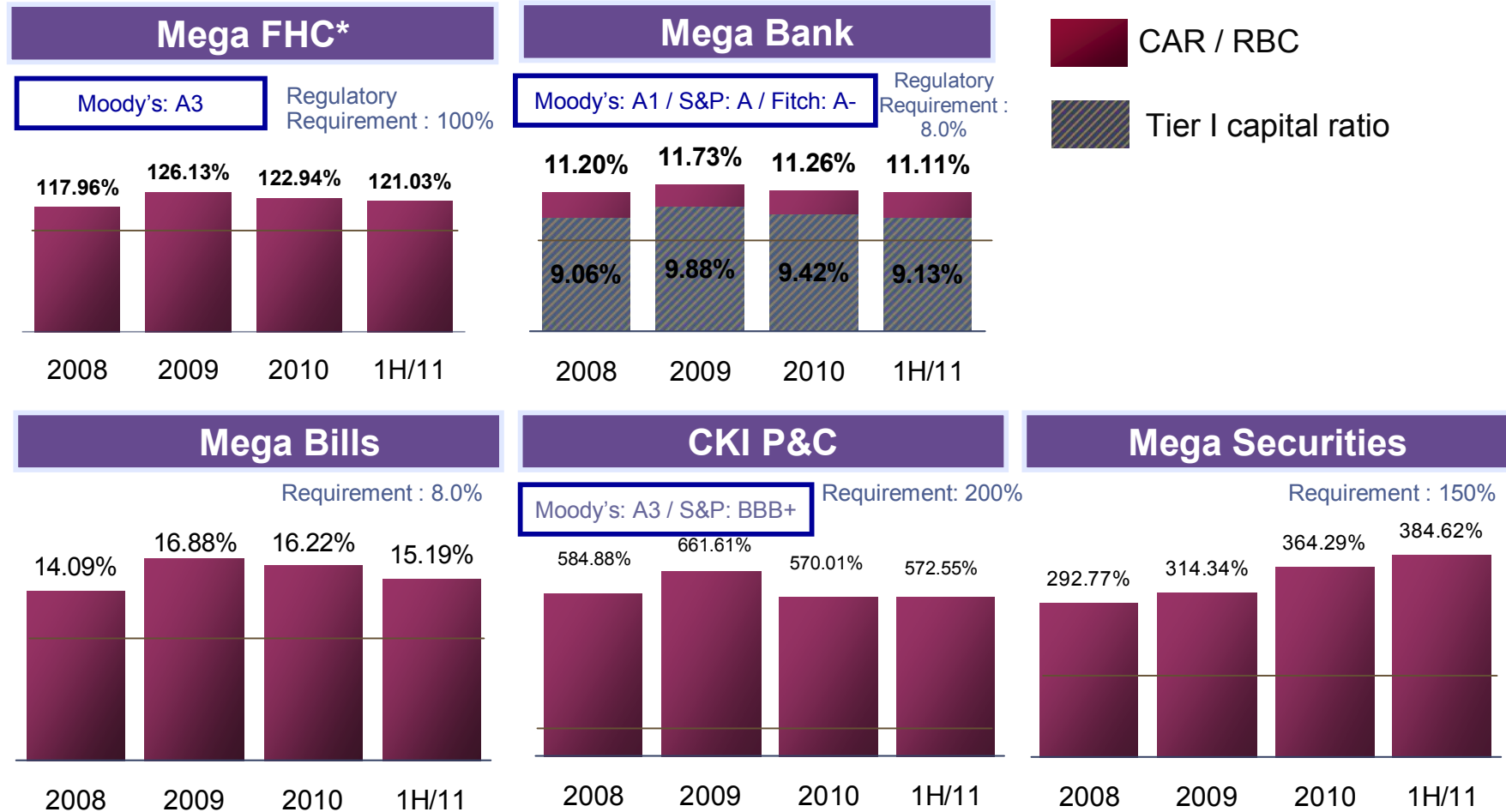
## Highlights

- ❖ Group net revenue was up 20% YoY due to strong NII performance.
- ❖ NII was up due to improved NIM and stronger loan growth.
- ❖ Fee revenue was down 4% due to slower syndication loan fees, but expect to improve in 2H/11.

\* Un-audited figures.

\*\* Net trading gain includes short-term assets, AFS assets, HTM assets, equity method assets, property and FX service derived trading gain, and minus (add) asset impairment loss (write back).

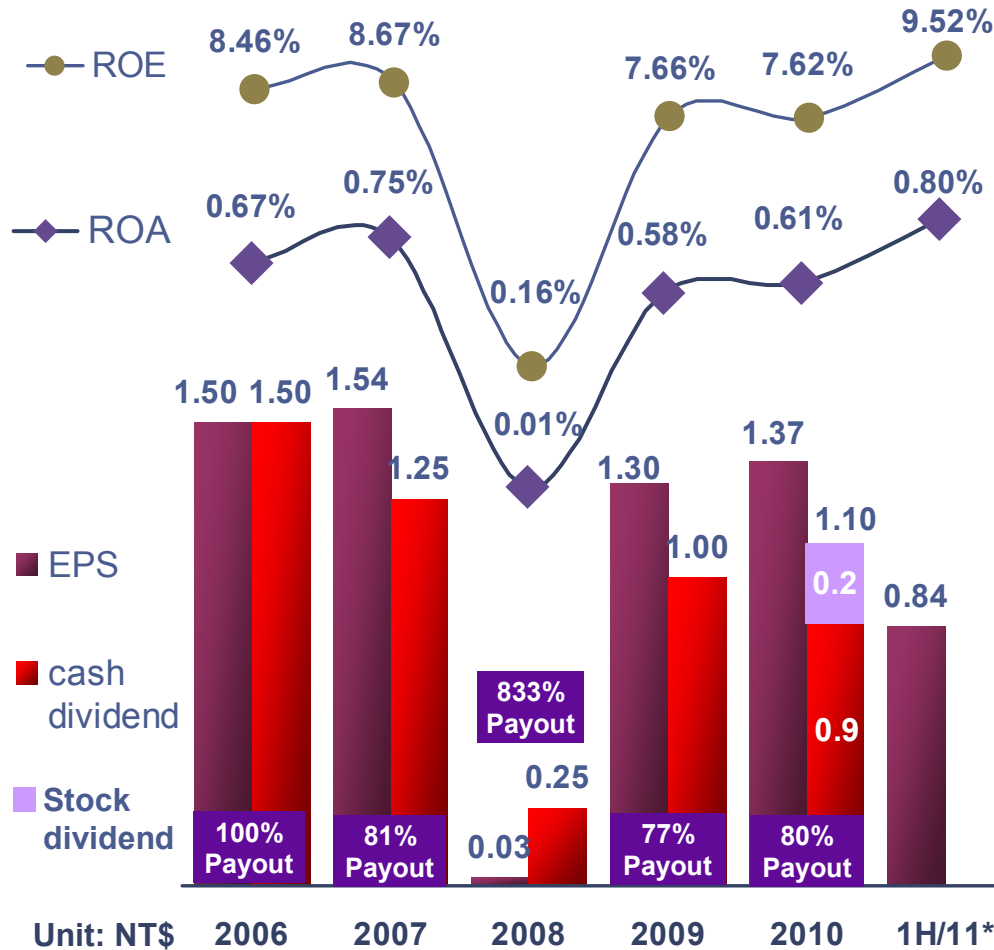
# Well-capitalized for Basel III requirements



\* Net of investments in subsidiaries  
 \*\* 1H/11 numbers are un-audited.

# Strong profitability and attractive dividend policy

## Key Profitability Ratios



- ❖ Mid-term ROE target of 10~12%
- ❖ Mid-term ROA target of >1%
- ❖ To prevent over-inflated capital base as well as to maintain sufficient capital for future growth, our dividend policy is:
  - ◆ pay-out ratio >70%
  - ◆ pay >50% in cash.
  - ◆ paid mostly in cash in last 5 years.

\* Un-audited number.

# Recent strategic considerations

## Asia focus

- ❖ Mega Bank has **27 overseas branches** in 16 diff. countries, enjoying leading position among local peers.
- ❖ Mega Bank will continue to explore growth opportunities in Thailand, Vietnam, Cambodia, Indonesia and other ASEAN countries.
- ❖ **Global E-Banking:** online banking platform for corp. clients, linking TW, HK, Singapore, Tokyo, NY, Amsterdam, Ho Chi Min City branches, expecting to add Bangkok and Suzhou branches soon.

## China Initiatives

- ❖ Mega Bank Suzhou rep. office is applying for **branch upgrade**, which is pending approval from CBRC of China.
- ❖ Mega Bank's long term strategy is to operate a wholly owned subsidiary in China.
- ❖ Mega Bank has signed MOU with **Bank of China, Bank of Communication and Agricultural Bank of China**, to cooperate on syndication loan, A/R finance, HR training and risk mgmt.
- ❖ Mega Securities has signed MOU with **Nan Jing Securities**.

## FX settlement

- ❖ An exclusive USD domestic settlement license in Taiwan market for 5 years, which began in Dec/2010.
- ❖ Both Mega Bank and Bank of Taiwan were awarded with exclusive **RMB cash settlement licenses** in Taiwan market.
- ❖ Pending on further cross-strait negotiations, Mega is expected to be benefited from further RMB full settlement license and RMB deposit/direct remittance businesses.

# 1H/11 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	1H/2011*	1H/2010*	YoY	2010*
Net interest income	13,399	12,110	11%	25,064
Net fee revenue	4,520	4,707	-4%	9,544
Insurance premium	698	829	-16%	1,137
Gain from fin. assets at fair value thru P&L	100	894	-89%	1,998
Available for sales asset gain	937	349	168%	1,248
Hold to maturity asset gain	33	22	50%	22
Equity method investment gain	80	72	11%	183
Property investment gain	635	279	128%	2
FX spread gain	944	634	49%	2,021
Asset impairment loss (write-back)	3	-249	-	-1,081
Cost method investment gain	192	122	57%	580
NPL write-back (net)	1,406	124	1034%	201
Other non-interest revenue (net)	737	-74	-	1,059
Operating net revenue	23,684	19,819	20%	41,977
Operating expense	-10,424	-10,191	2%	-20,993
Pre-provision operating profit	13,260	9,628	38%	20,984
Provision expense on loan	-1,286	12	-	-2,234
Reserved on insurance	-69	-80	-	-110
Pretax profit	11,906	9,559	25%	18,640
Tax	-2,409	-1,829	32%	-3,490
Minority shareholder interest	-13	-36	-	-39
Net profit	9,484	7,694	23%	15,111
EPS (NT\$)	0.84	0.69	22%	1.37

Cost-to-income  
ratio: 44%

\* 1H/11 are un-audited numbers.



# 1H/11 Mega FHC consolidated balance sheet\*

NT\$MN	1H/2011*	1H/2010*	YoY	2010*	YTD
<b>Assets:</b>					
Cash and due from banks	198,831	218,891	-9%	398,186	-50%
Bills and bonds under RP agreement	3,317	808	311%	1,784	86%
Fin. assets at fair value through P&L	152,477	161,109	-5%	162,320	-6%
AFS financial assets	170,383	187,520	-9%	185,898	-8%
HTM financial assets	180,764	259,258	-30%	217,840	-17%
Other financial assets	24,196	24,197	0%	23,460	3%
A/R, net	135,629	139,882	-3%	147,486	-8%
Loan, net	1,395,461	1,265,297	10%	1,336,835	4%
Equity method LT investments, net	2,603	2,684	-3%	2,575	1%
Land, premises and equipments, net	21,524	22,107	-3%	21,608	0%
Others	13,012	11,697	11%	11,715	11%
<b>Total assets</b>	<b>2,298,198</b>	<b>2,293,449</b>	<b>0%</b>	<b>2,509,708</b>	<b>-8%</b>
<b>Liabilities</b>					
Due to banks	210,227	241,550	-13%	361,273	-42%
Deposits	1,521,142	1,488,661	2%	1,558,573	-2%
CP & Bond payable	55,346	55,372	0%	61,912	-11%
Bills & bonds sold under repurchase agreement	169,131	176,647	-4%	181,817	-7%
Other liabilities	144,453	140,910	3%	144,892	0%
<b>Total liabilities</b>	<b>2,100,299</b>	<b>2,103,140</b>	<b>0%</b>	<b>2,308,467</b>	<b>-9%</b>
Capital stock (common stock)	112,806	110,594	2%	110,594	2%
Capital surplus	43,426	43,426	0%	43,426	0%
Retain earning	33,764	28,551	18%	35,967	-6%
Equity adjustment items	7,579	7,118	6%	10,883	-30%
Minority shareholder interest	324	620	-48%	370	-12%
<b>Total stockholders' equity</b>	<b>197,900</b>	<b>190,309</b>	<b>4%</b>	<b>201,241</b>	<b>-2%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,298,198</b>	<b>2,293,449</b>	<b>0%</b>	<b>2,509,708</b>	<b>-8%</b>
Book value per share (NT\$)	17.54	17.21	2%	18.20	-4%

\* 1H/11 are un-audited numbers; dividend deduction is reflected.

# 1H/11 Mega Bank consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	1H/2011*	1H/2010*	YoY	2010*
Net interest income	11,509	10,145	13%	21,133
Net fee revenue	3,025	3,188	-5%	6,516
Gain from fin. assets at fair value thru P&L	204	734	-72%	910
Available for sales asset gain	715	37	1832%	659
Hold to maturity asset gain	33	22	50%	22
Equity method investment gain	167	189	-12%	353
FX spread gain	935	715	31%	2,077
Property divestment gain	635	-5	-	-
Asset impairment loss	-	-856	-	-836
Cost method investment gain	191	122	57%	580
NPL write-back (net)	1,112	-	-	-
Other non-interest revenue (net)	228	306	-	-186
Operating net revenue	18,754	14,596	28%	31,227
Operating expense	-7,998	-7,756	3%	-15,848
Pre-provision operating profit	10,756	6,840	57%	15,379
Provision expense on loan	-1,239	140	-985%	-1,928
Pretax profit	9,517	6,980	36%	13,451
Tax	-1,420	-1,103	29%	-2,280
Net profit	8,097	5,877	38%	11,172
EPS (NT\$)	1.26	0.92	37%	1.74

Cost-to-income ratio is 43%

\* 1H/11 are un-audited numbers.

# 1H/11 Mega Bank consolidated balance sheet\*

NT\$MN	1H/2011*	1H/2010*	YoY	2010*	YTD
<b>Assets:</b>					
Cash and due from banks	186,462	206,618	-10%	386,481	-52%
Bills and bonds under RP agreement	445	140	-	895	-50%
Fin. assets at fair value through P&L	38,030	27,565	38%	34,961	9%
AFS financial assets	76,836	83,229	-8%	83,200	-8%
HTM financial assets	179,620	258,177	-30%	216,526	-17%
Other financial assets	18,578	18,219	2%	17,971	3%
A/R, net	101,097	105,347	-4%	109,404	-8%
Loan, net	1,378,222	1,248,386	10%	1,319,720	4%
Equity method LT investments, net	9,175	9,475	-3%	9,303	-1%
Land, premises and equipments, net	13,030	13,660	-5%	13,166	-1%
Others (net)	4,732	4,302	10%	5,646	-16%
<b>Total assets</b>	<b>2,006,227</b>	<b>1,975,118</b>	<b>2%</b>	<b>2,197,272</b>	<b>-9%</b>
<b>Liabilities</b>					
Due to banks	203,891	233,084	-13%	354,790	-43%
Deposits	1,510,238	1,477,325	2%	1,547,309	-2%
CP & Bond payable	34,700	25,000	39%	34,800	0%
Bills & bonds sold under repurchase agreement	11,485	2,629	337%	4,286	168%
Other liabilities	88,003	85,903	2%	98,339	-11%
<b>Total liabilities</b>	<b>1,848,317</b>	<b>1,823,941</b>	<b>1%</b>	<b>2,039,524</b>	<b>-9%</b>
Capital stock (common stock)	68,000	64,110	6%	64,110	6%
Capital surplus	33,070	33,070	0%	33,070	0%
Retain earning	52,310	49,416	6%	54,711	-4%
Equity adjustment items	4,531	4,581	-1%	5,857	-23%
<b>Total stockholders' equity</b>	<b>157,911</b>	<b>151,177</b>	<b>4%</b>	<b>157,748</b>	<b>0%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,006,227</b>	<b>1,975,118</b>	<b>2%</b>	<b>2,197,272</b>	<b>-9%</b>
Book value per share (NT\$)	23.22	23.58	-2%	24.61	-6%

\* 1H/11 are un-audited numbers; dividend deduction is reflected.

# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

# Well established size and scale

1H/2011\*  
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	2,297	2,019	49	193	16	0.8	11	0.1	0.9
Equity	198	158	14	32	5	0.8	2.4	0.07	0.9
After-tax earning	9.5	8.1	0.2	1.5	0.1	0.06	0.17	0.04	0.02
Domestic Offices	194	108	46	9	27	1	1	1	1
Overseas Offices**	38	31	4	0	3	0	0	0	0

\* Un-audited numbers

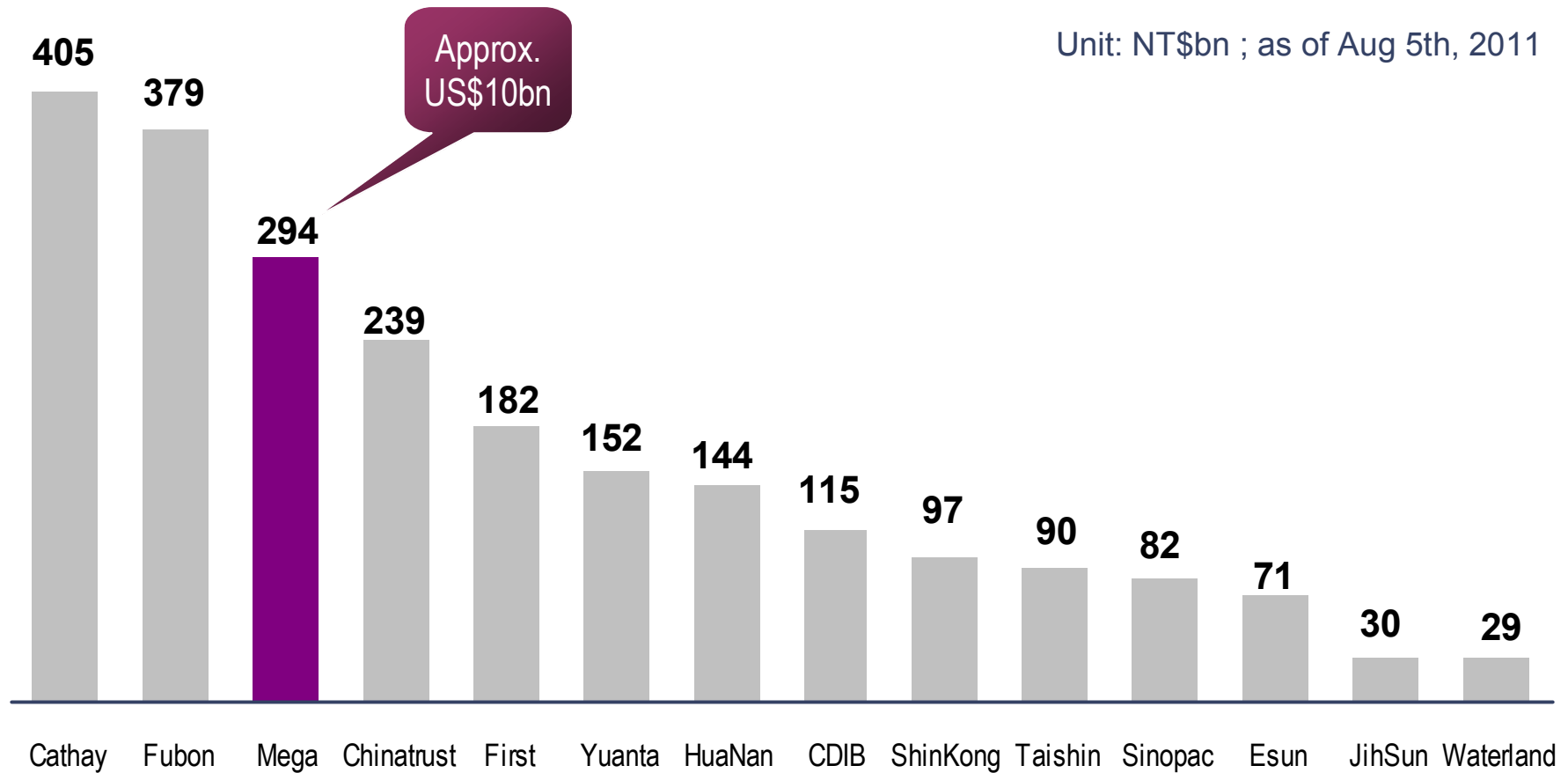
\*\* Overseas offices include rep. offices. and branches



# 3<sup>rd</sup> Largest FHC in Taiwan

Market Capital Comparison of 14 Listed FHCs in Taiwan

Unit: NT\$bn ; as of Aug 5th, 2011



# Our corporate strategy

## Revenue Enhancement

Eye on the world with a focus in the Asia Pacific region, and potentially China market

Reinforcing the advantage of corporate banking and foreign exchange business

Expanding consumer banking and wealth management business

Reinforcing cross selling to enhance the group's synergy

## Cost Savings

Lowering costs and enhancing operating performance

Enhancing capital utilization with effective capital allocation

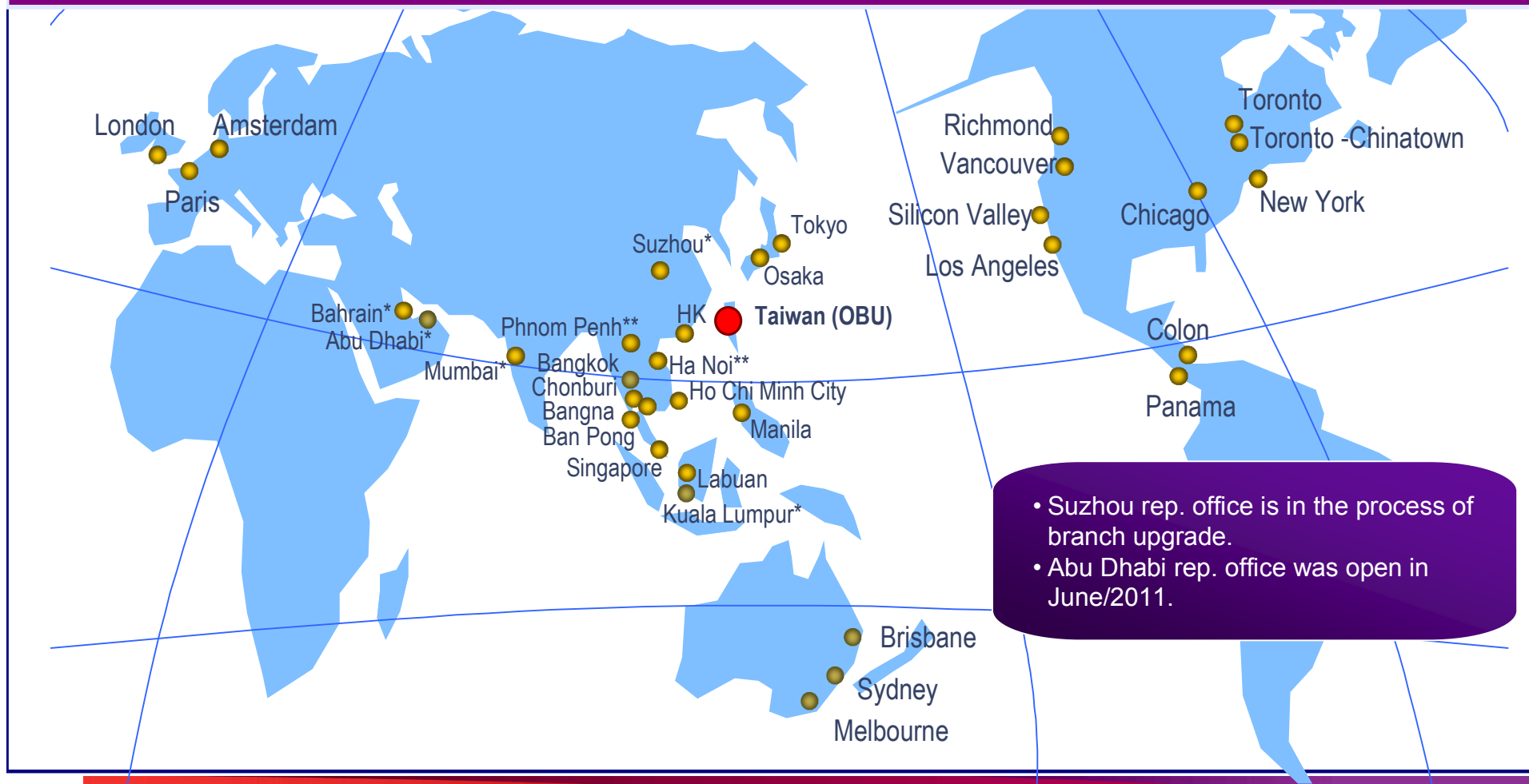
## Sys. integration

Integrating information systems and information sharing services

Strengthening risk management system

# Most internationalized local bank.

## Mega Bank's Overseas Franchise



- Suzhou rep. office is in the process of branch upgrade.
- Abu Dhabi rep. office was open in June/2011.

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

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