



Mega Holdings

**2Q / 2012** (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, 2012 ARE UN-AUDITED RESULT. MEGA FHC HAS FILED ITS AUDITED INTERIM FINANCIAL STATEMENTS THROUGH THE TAIWAN STOCK EXCHANGE MARKET OBSERVATION POST SYSTEM ON AUGUST 31, 2012.**

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# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

# 2Q/2012 performance summary\*

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- ❖ Total loan was up 1.6% QoQ and 8.8% YoY, driven by SME loan demand.
- ❖ ... in real estate, retail/wholesales and financial industries.
- ❖ Domestic loan were flat; while OBU and overseas branches loans were up 5.8% QoQ and 3.5% QoQ respectively.
- ❖ Similarly NTD loan was little changed; while FCY loan was up 4.5% QoQ and 10.8% YoY.
- ❖ LLR / total loan ratio stood at 1.02%; NPL ratio reached 0.38% with 273% coverage ratio, after Promos was included.
- ❖ ...as annualized new NPL formation was only 0.10%, if Promos was excluded.
- ❖ Total deposit growth picked up 8.1% YoY, which yielded 94% LDR.
- ❖ Bank 2Q/12 NIM was up 1bps to 1.23% vs. 1Q/12, improved for 6 consecutive quarters.
- ❖ Bank fee was up 7% YoY, driven by strong syndication loan fee and bancassurance fee.
- ❖ FHC fee was down as bank fee growth were off-set by the brokerage and bills finance fee decline.
- ❖ FHC net revenue was up 9% YoY, driven by strong NII and trading gain.
- ❖ FHC cost-to-income ratio was down to 38%.
- ❖ Bank 1H/12 net provision expense was only NT\$225mn, due to superior asset quality.
- ❖ 1H/12 yielded respectable ROE (12.4%) and ROA (1.0%) numbers.
- ❖ Bank tier-one capital ratio maintained at 8.97%.
- ❖ 2011 dividend distribution: \$0.85 in cash and \$0.15 in stock.
- ❖ Suzhou branch opened in June/2012.

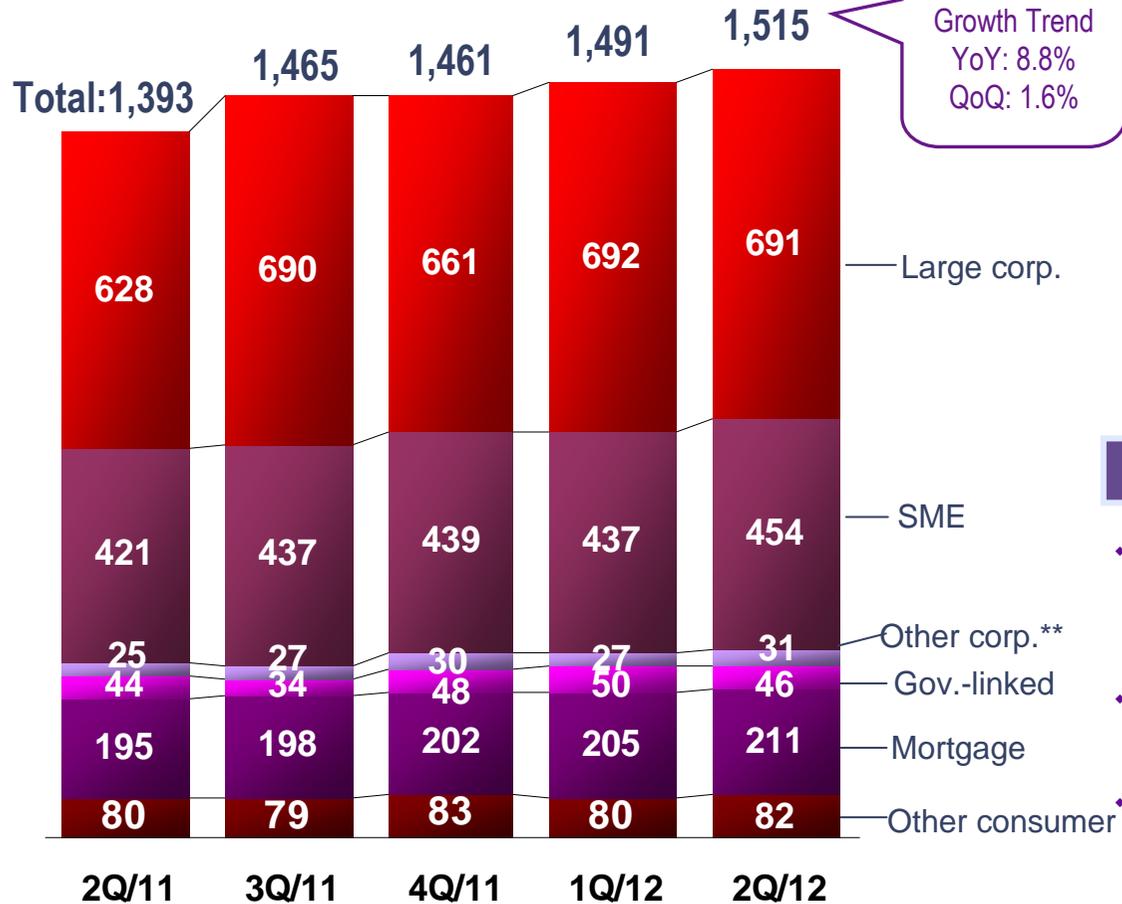
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\* 2Q/2012 un-audited internal numbers, unless specified otherwise.

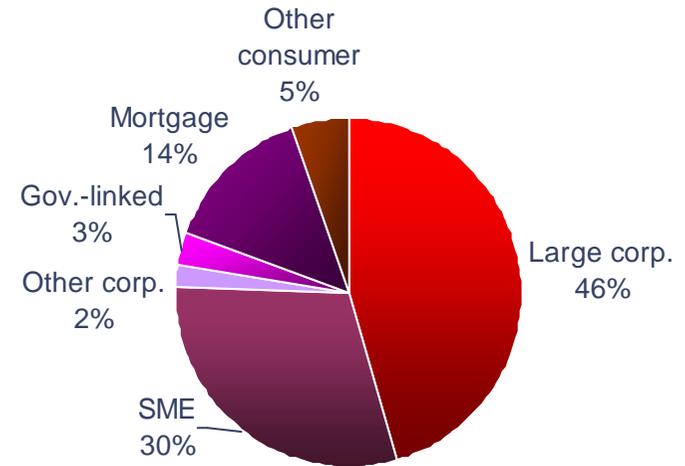
# SME loan growth picked up.

Mega Bank quarterly loan balance\*

Unit: NT\$bn



Mega Bank 2Q/12 loan breakdown by customer



## Highlights

- ❖ Large corp. loan was up 10.0% YoY but flat QoQ, SME loan was up 7.8% YoY and 3.9% QoQ.
- ❖ Mortgage loan was up 8.2% YoY and 2.9% QoQ.
- ❖ Total loan was up 8.8% YoY and 1.6% QoQ.

\* 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.

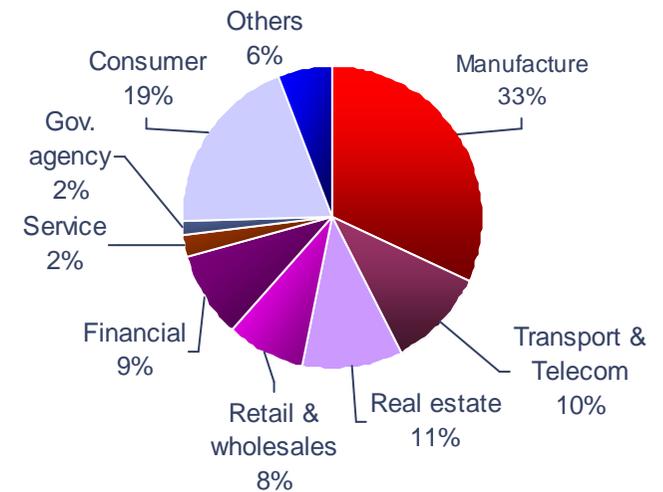
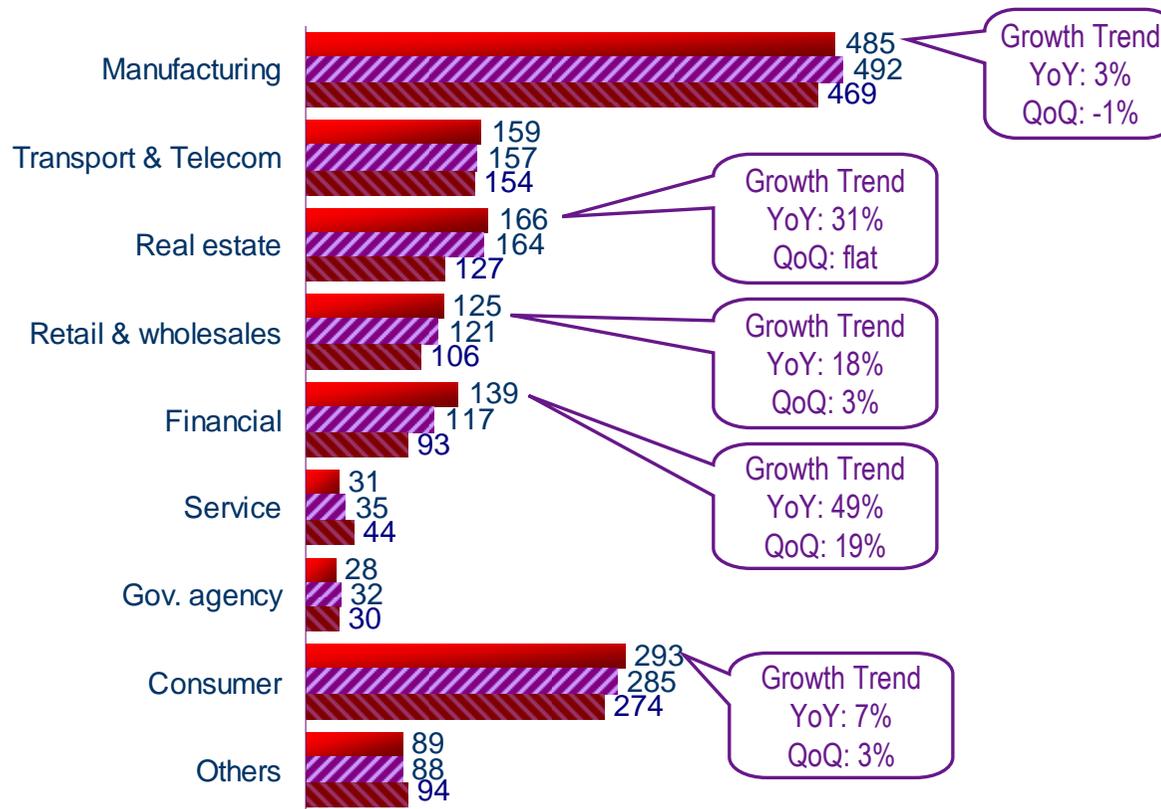
# Retail/wholesales, financial & consumer loans grew the most.

Mega Bank loan balance trend by industry\*

Mega Bank 2Q/12 loan breakdown by industry\*

■ 2Q/12    ▨ 1Q/12    ▩ 2Q/11

Unit: NT\$BN

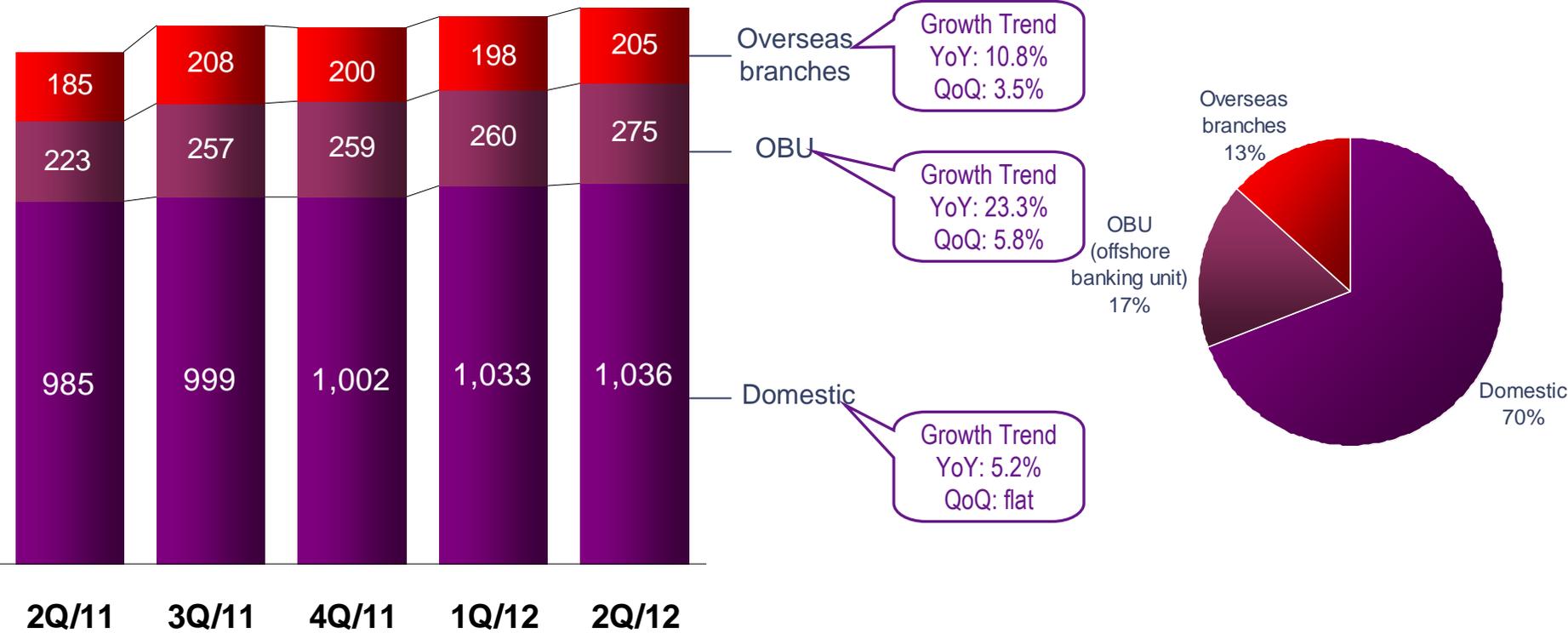


\* Mega Bank un-audited numbers, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

# Overseas loans dominated the growth in 2Q/12.

Mega Bank 2Q/12 loan breakdown by regions \*

Unit: NT\$bn

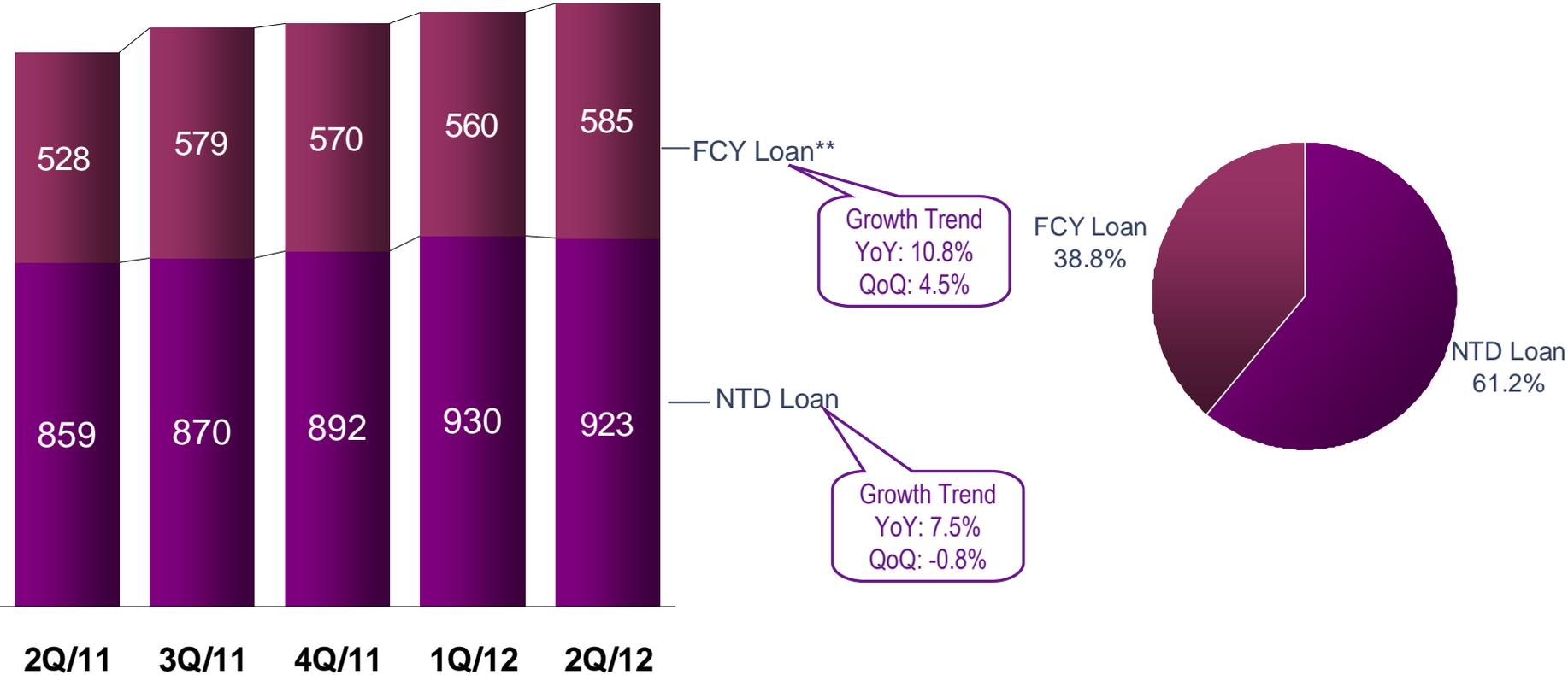


\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.  
 \*\* OBU stands for Off-shore Banking Unit

# FCY loan growth was back.

Mega Bank 2Q/12 loan breakdown by currency: NTD vs. foreign currency loan \*

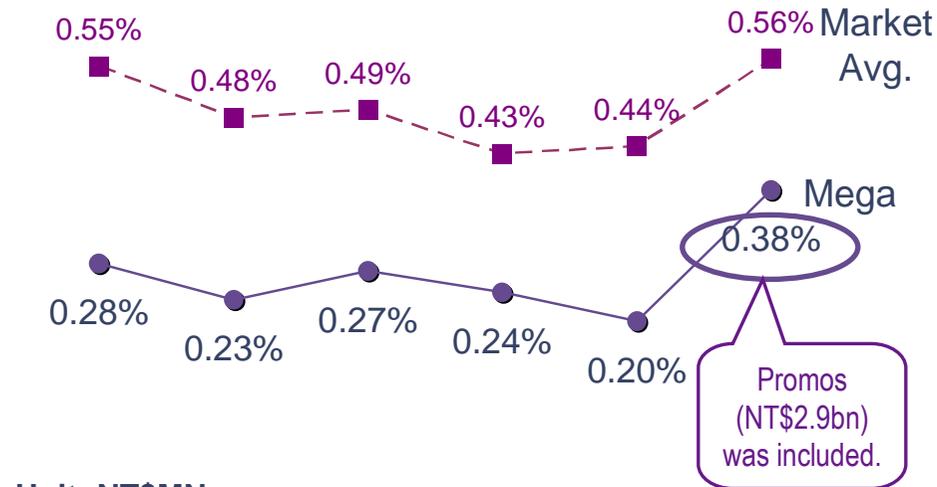
Unit: NT\$bn



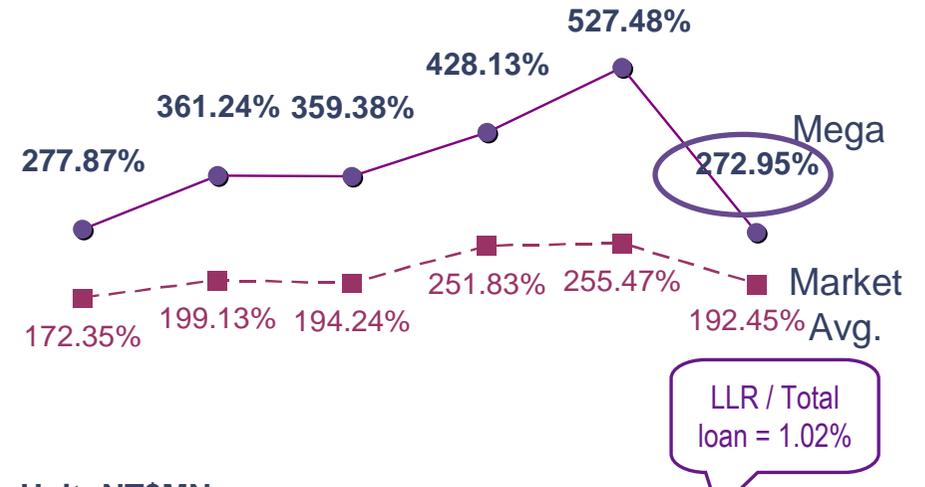
\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, and non-accrual loan but excludes credit card & guarantee. Foreign currency loan includes OBU, overseas branch and some domestic branch loan.

# Promos was included to reflect actual asset quality.

**Mega Bank NPL balance & NPL ratio\***



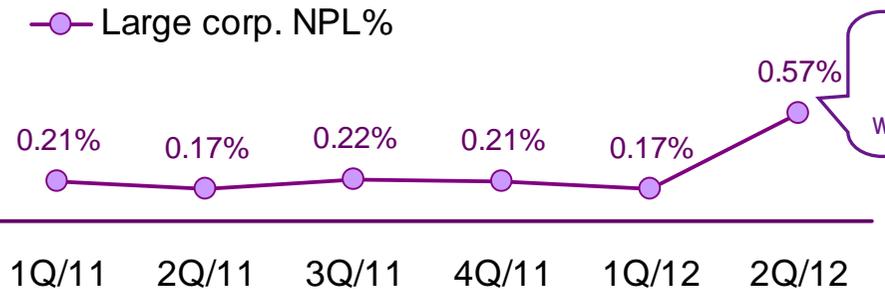
**Mega Bank loan loss reserved and coverage ratio**



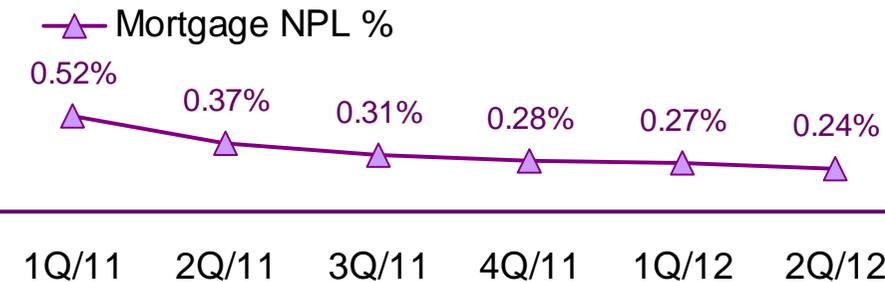
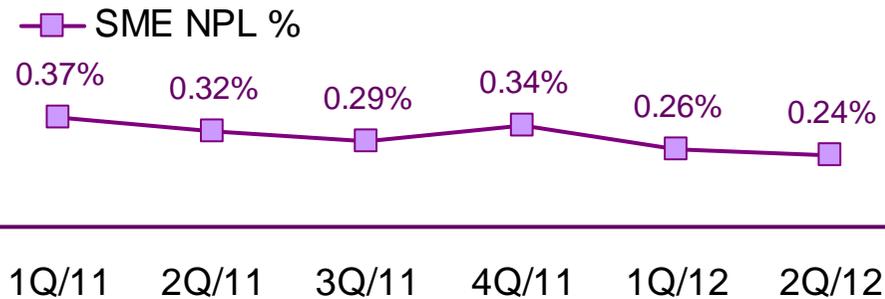
\* 90 days standard

# New NPL influx was very little change if Promos excluded.

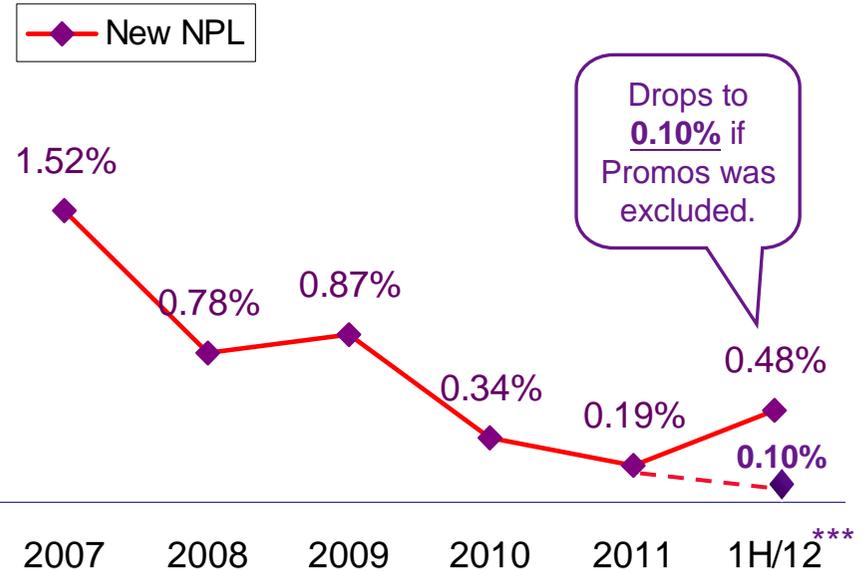
Mega Bank NPL ratio by customer \*



Promos (NT\$2.9bn) was included.



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



Drops to 0.10% if Promos was excluded.

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

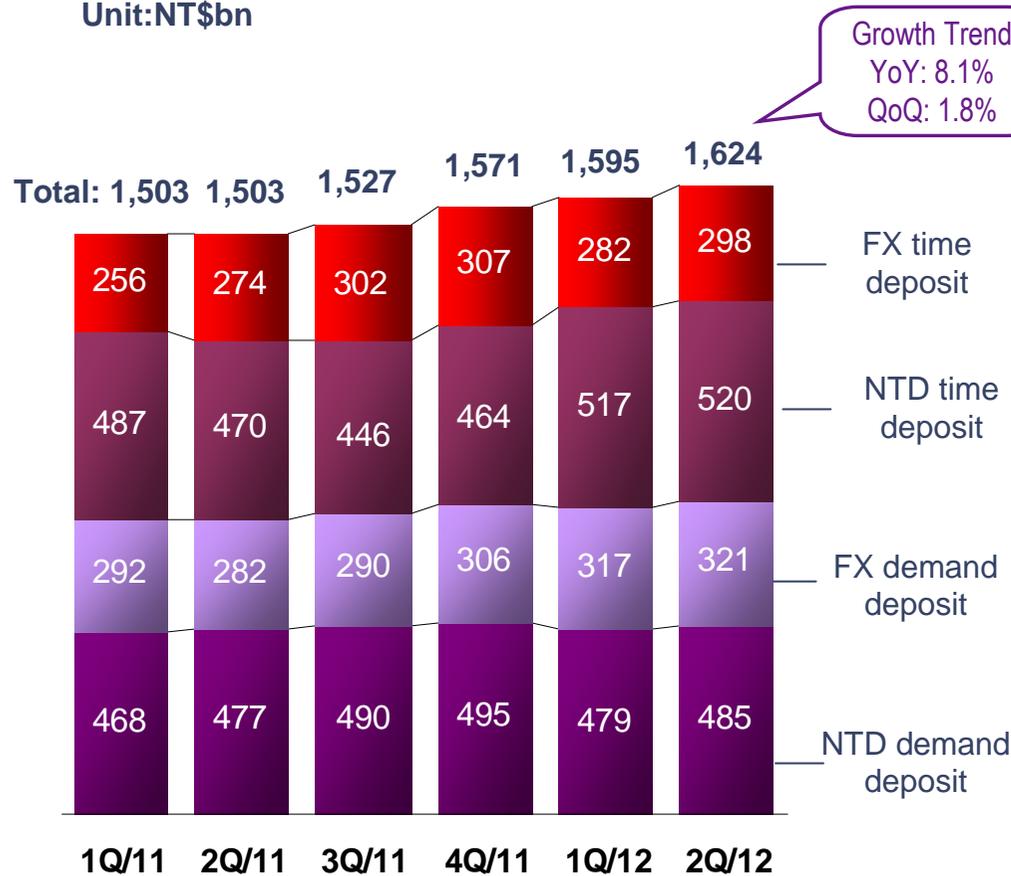
\*\* Annualized new NPL balance / total loan. Mega Bank Internal number.

\*\*\* Promos exposure(NT\$2.9bn) was officially classified as NPL this quarter.

# Deposit growth continued.

## Mega Bank's deposit balance \*

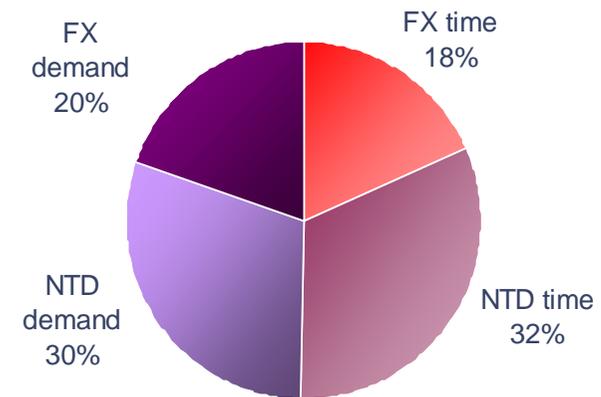
Unit:NT\$bn



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



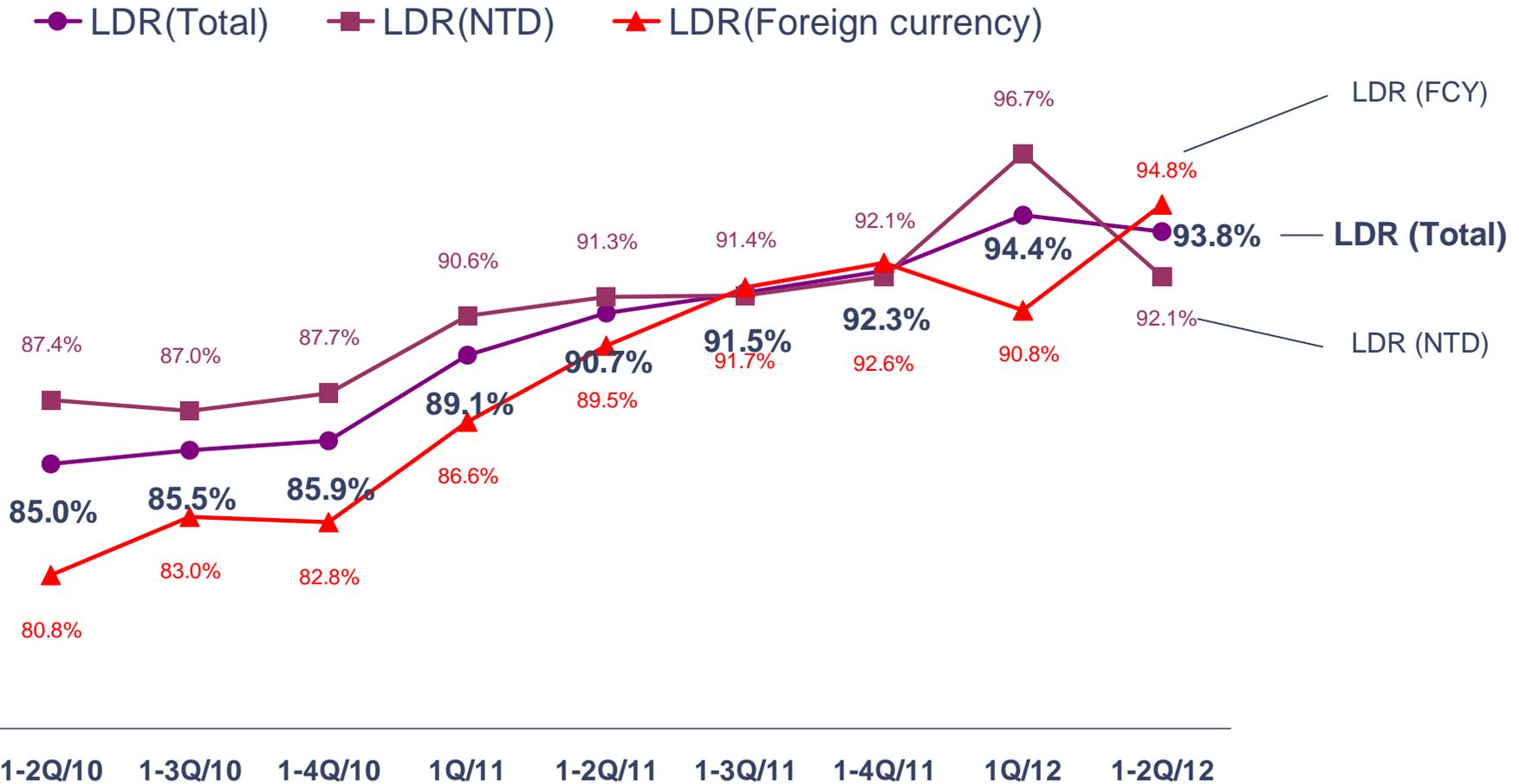
## Mega Bank's 2Q/12 deposit breakdown



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

# Total LDR stabilized.

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



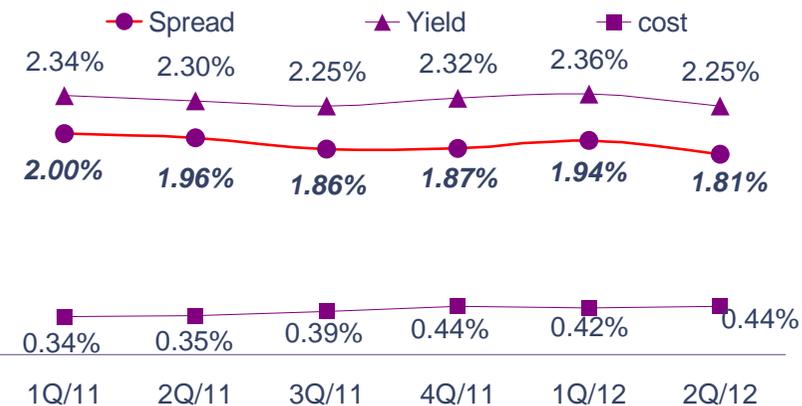
\* LDR calculation is based on average loan/deposit balance of that period; foreign currency loan includes OBU, overseas branches and some domestic loans.

# Overseas loan spread was down due to large repayment from higher yield products.

Mega Bank total loan interest spread



Mega Bank overseas loan interest spread\*



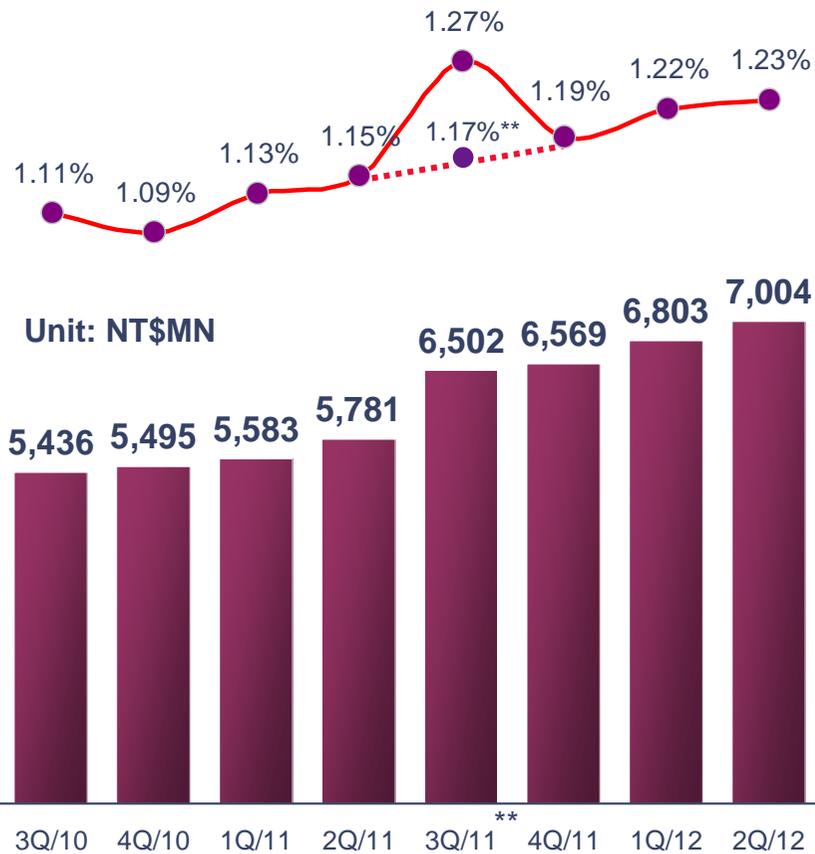
Mega Bank domestic loan interest spread



\* Includes overseas branches and OBU loan; un-audited internal numbers.

# Bank NIM was up for 6 consecutive quarters.

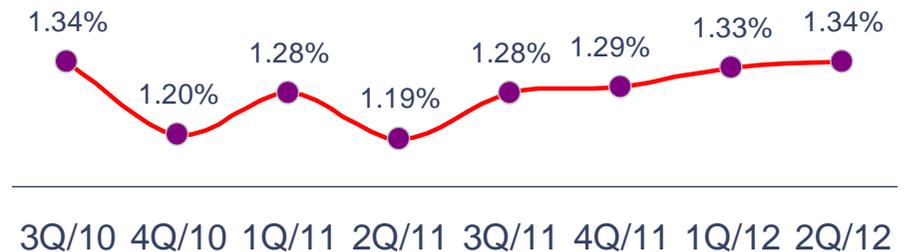
Mega Bank quarterly NIM & NII \*



Mega Bank quarterly NTD NIM\*



Mega Bank quarterly foreign currency NIM\*



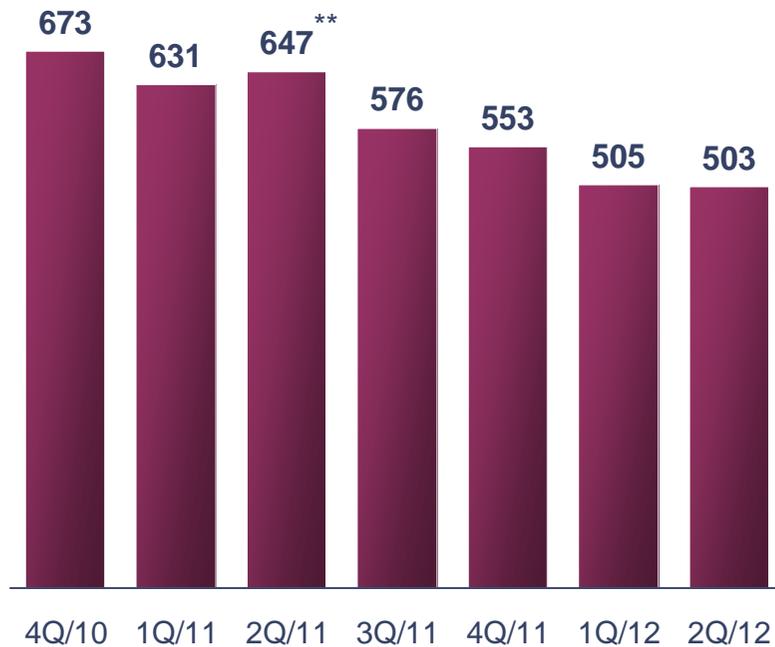
\* NIM = annualized net interest income / average interest earning assets of that quarter; NII is quarterly net interest income; un-audited internal numbers.

\*\* 3Q/11 number includes approximately NT\$0.5bn (10 bps) one-time interest income from NPLs recovery.

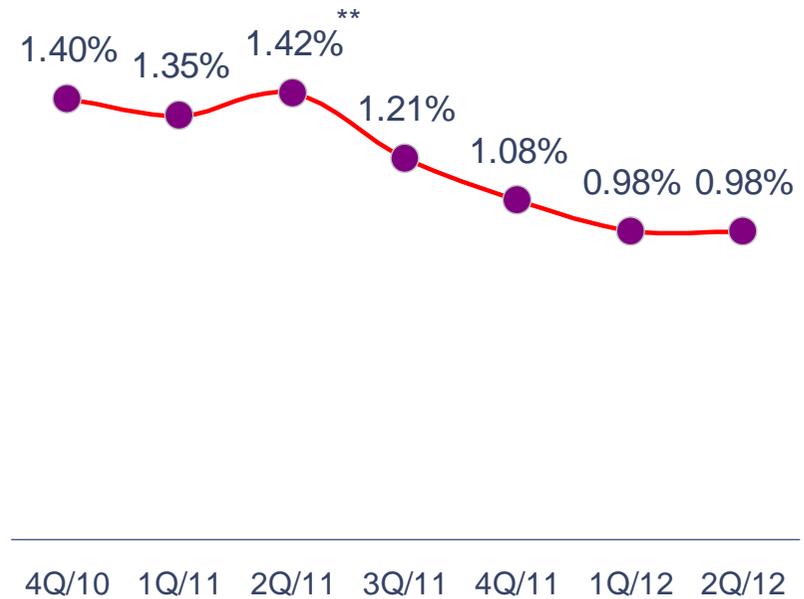
# Bills NIM stabilized.

Mega Bills NII \*

Unit: NT\$MN



Mega Bills NIM\*



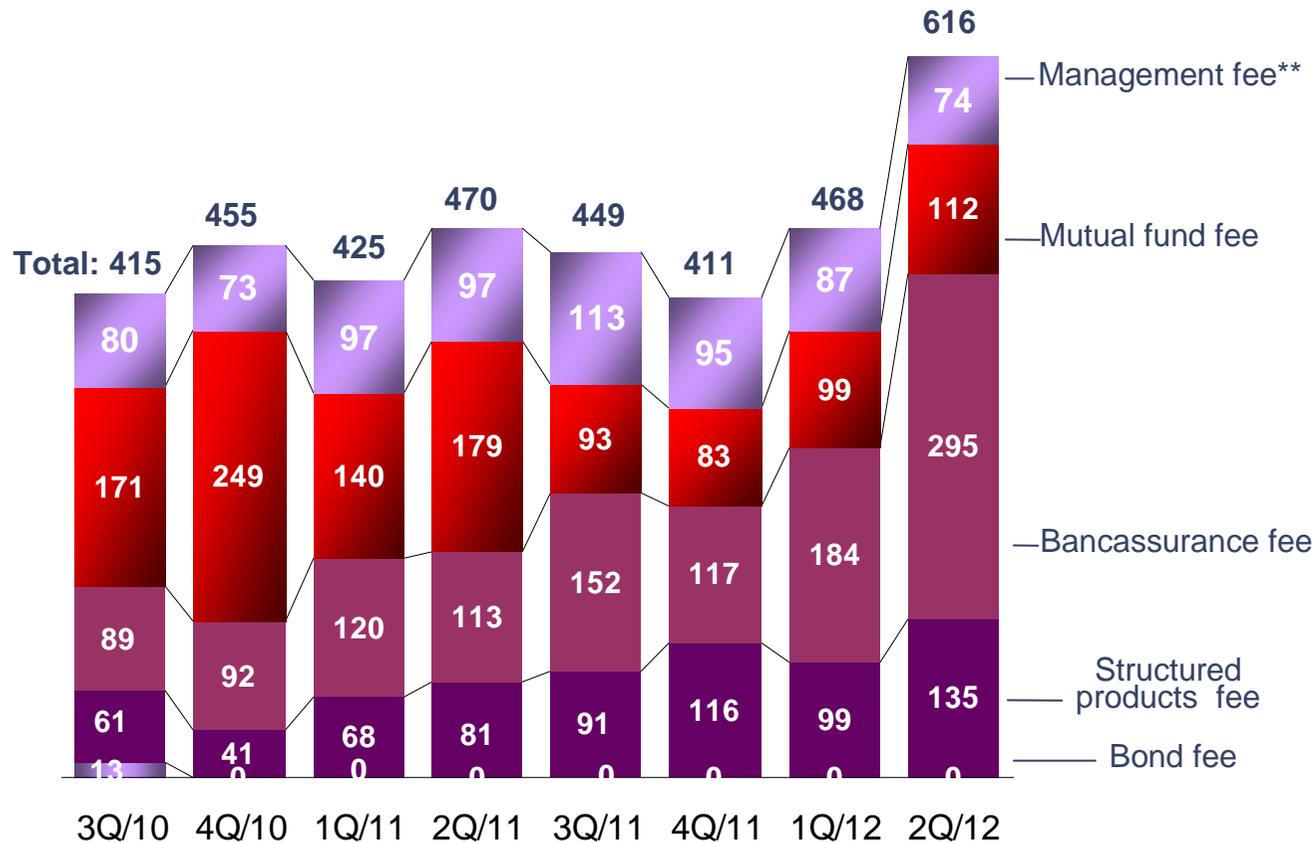
\* NIM = annualized net interest income / average interest earning assets of that quarter; NII is quarterly net interest income; un-audited internal numbers.

\*\* 2Q/11 number includes one-time interest income from NPLs recovery.

# Bancassurance fee growth continued.

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

Unit: NT\$MN

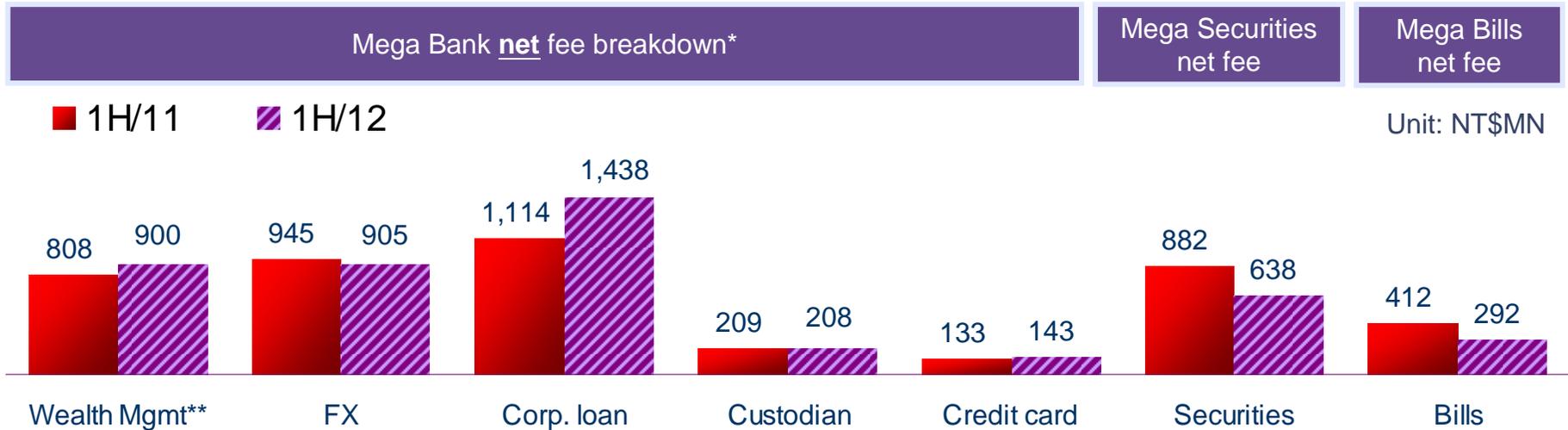


- ❖ Wealth mgmt gross fee was up 32% QoQ and 21% YoY, driven by strong bancassurance fee.
- ❖ Bancassurance fee was up 60% QoQ and 106% YoY.

\* 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.

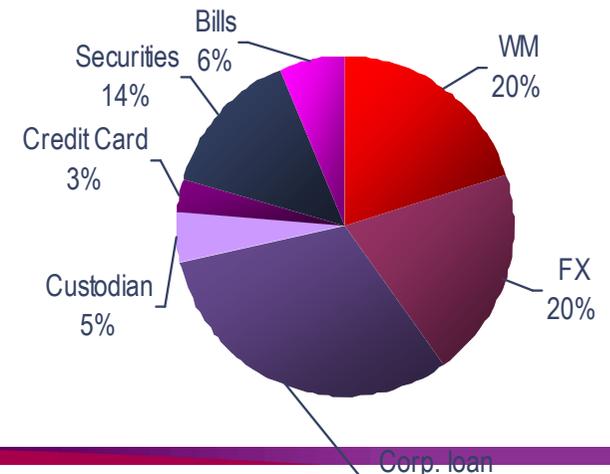
# Fee was boosted by WM and syndication loan fee.



Highlights

Mega FHC 1H/12 net fee breakdown

- ❖ Bank sub. WM net fee was up 11% YoY due to strong bancassurance sales.
- ❖ Bank sub. corp. loan fee was up 29% YoY due to robust syndication loan fee, partly contributed by the European bank deleveraging phenomenon in the region.
- ❖ Securities sub. fee was down 28% YoY due to poor domestic equity market trading volume.



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

\*\* Net wealth mgmt fee.

# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

# Group net revenue was up 9% YoY.

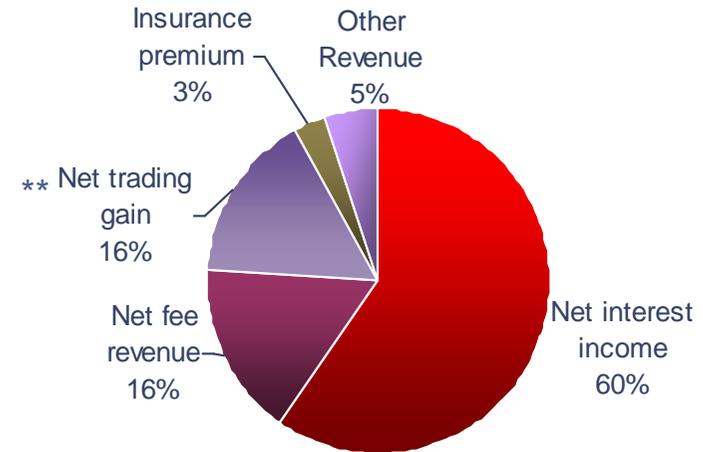
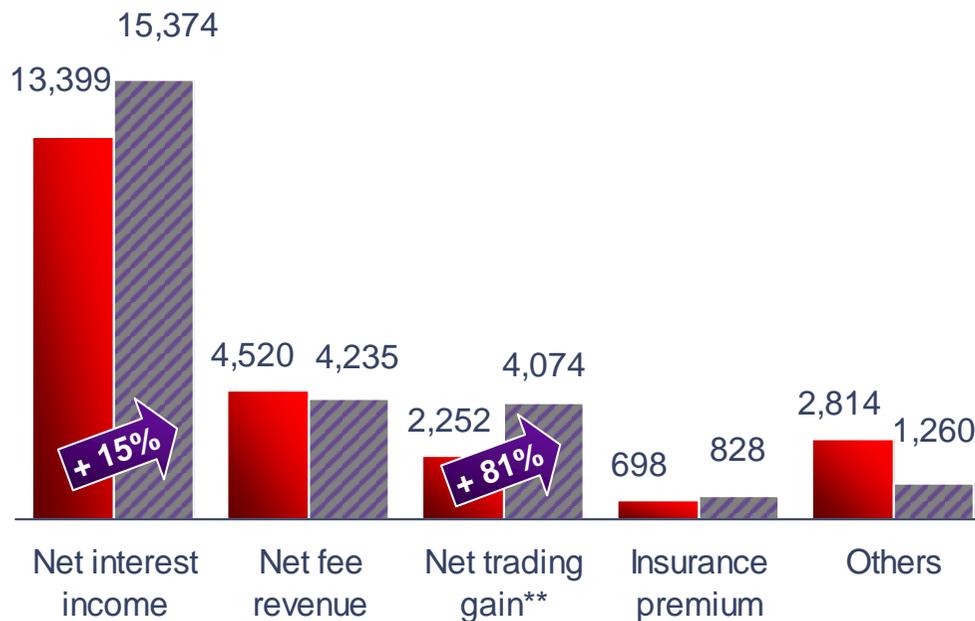
Mega Group consolidated net revenue \*

Mega Group 1H/2012 net revenue breakdown

■ 1H/11

■ 1H/12

Unit: NT\$MN



## Highlights

- ❖ Group net revenue was up 9% YoY due to strong NII and trading gain.
- ❖ NII was up 15% YoY due to improved NIM and stronger loan growth.
- ❖ Fee revenue was flat as bank fee growth was off-set by brokerage fee decline.
- ❖ Trading gain was up 81% YoY due to equity trading gain and FX spread gain.

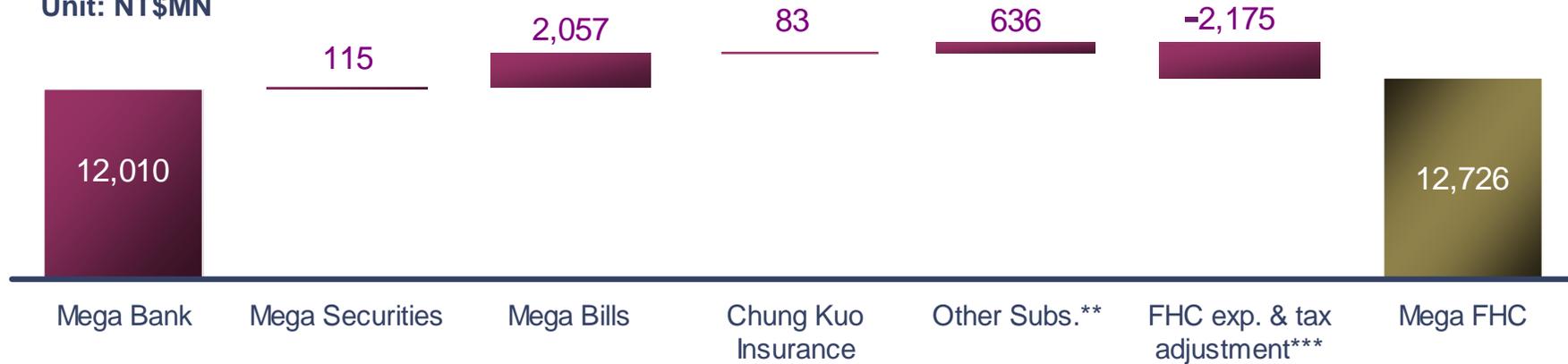
\* Un-audited figures.

\*\* 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).

# Quarterly earning stayed at relatively higher level.

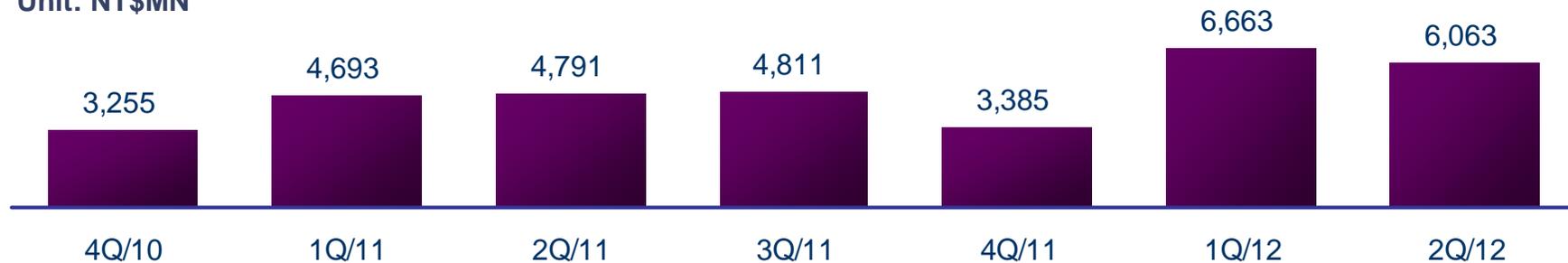
## 1H/12 earning contribution by subsidiary\*

Unit: NT\$MN



## Mega FHC quarterly after-tax earning trend

Unit: NT\$MN

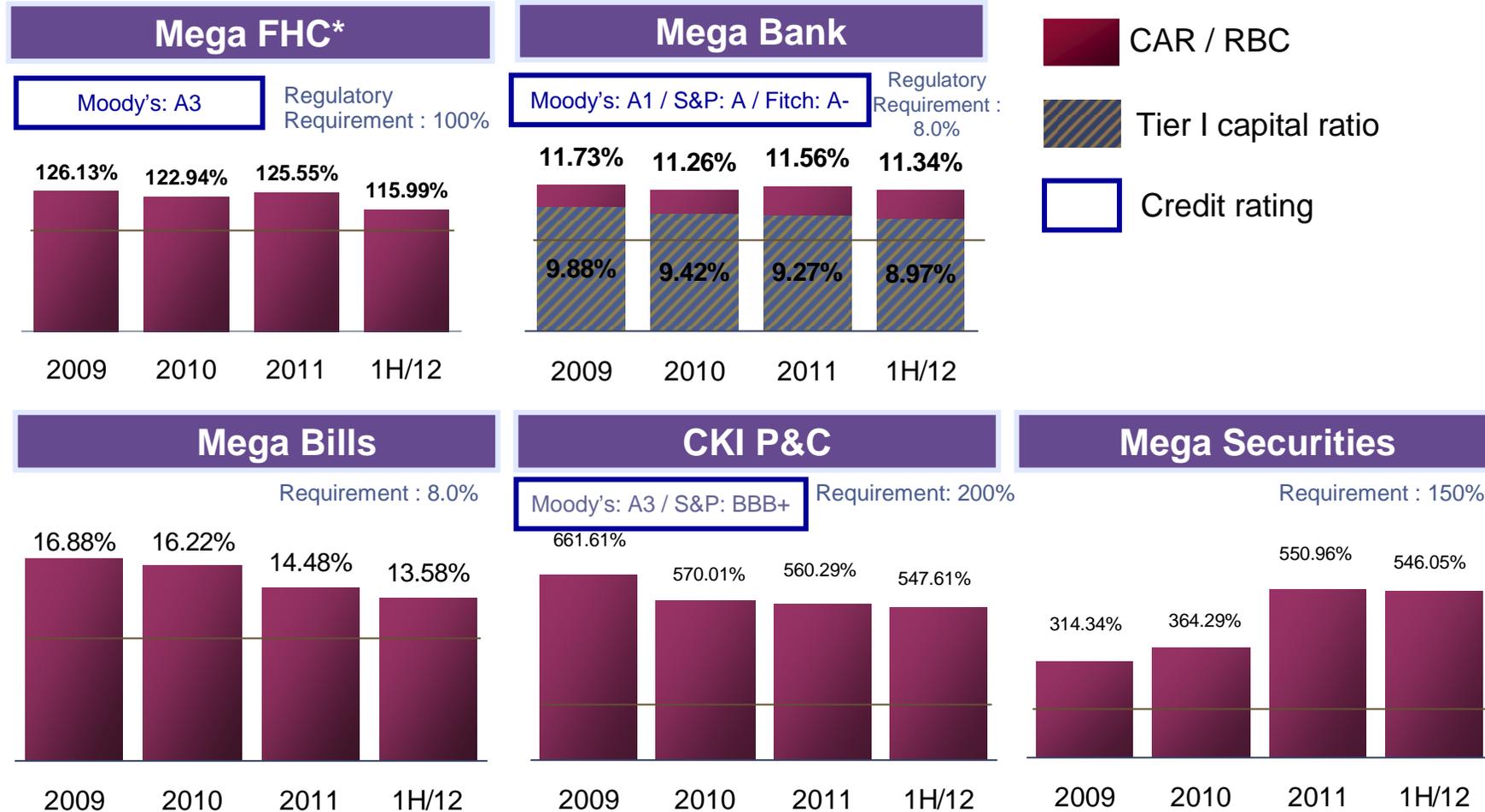


\* Un-audited earning

\*\* Include Mega Int'l Investment Trust, Mega AMC, Mega Life Insurance Agent, Mega VC

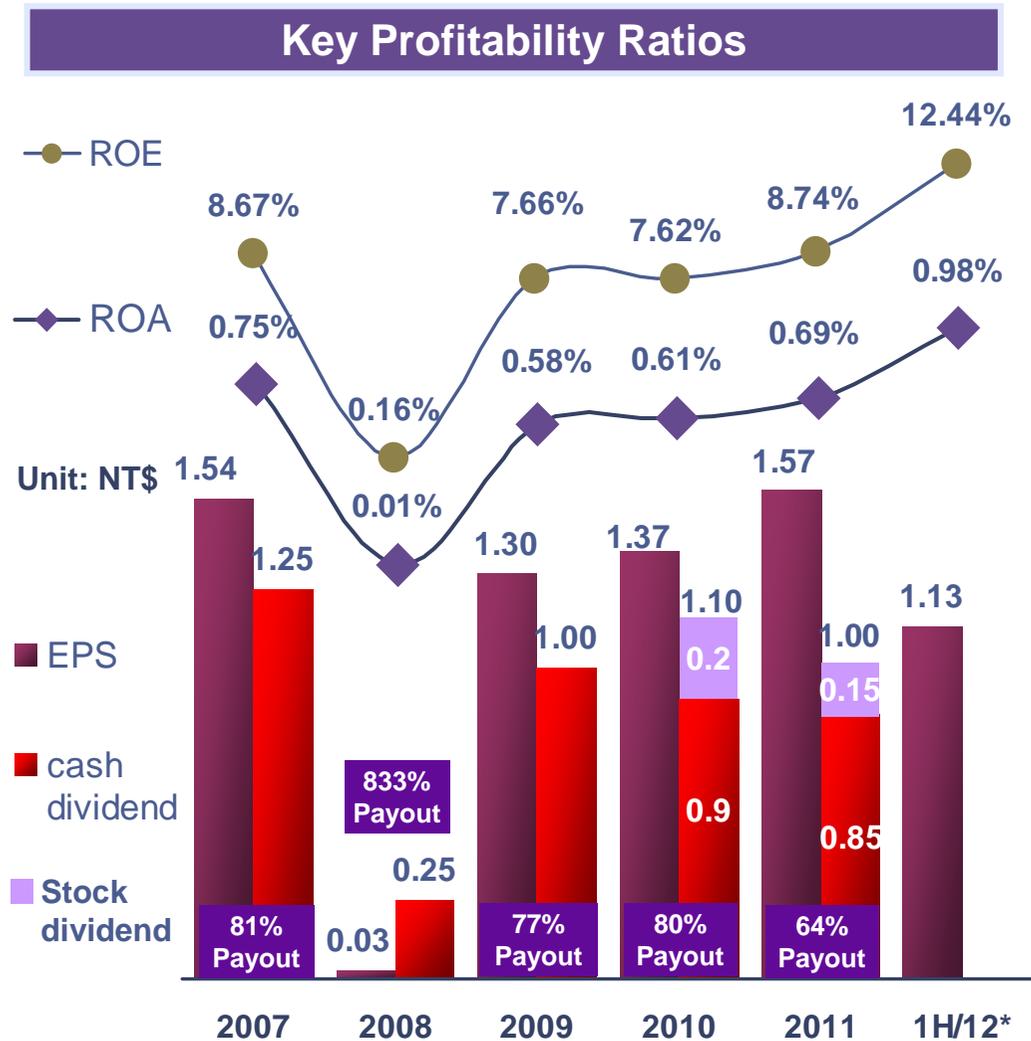
\*\*\* FHC expense, tax & adjustment; during 2Q/12, NT\$1.4bn (NT\$0.8bn from bank, NT\$0.6bn from bills) NPL recovery gain was taken out, due to inter-subs transaction with AMC sub., which expect to be realized until disposal of the properties.

# Well-capitalized for Basel III requirements



\* FHC CAR is calculated based on net investments in subsidiaries  
 \*\* 1H/12 numbers reflect dividend distribution for 2011 earning.

# Strong profitability and attractive dividend policy



- ❖ To prevent over-inflated capital base as well as to maintain sufficient capital for future growth, our dividend policy is:
  - ◆ Maintain high payout ratio
  - ◆ At least 50% of dividend payout in cash form.

\* 1H/12 ROE and ROA numbers are annualized.

# Recent strategic considerations

## Asia focus

- ❖ 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, 48,000 and counting, linking TW, HK, Singapore, Tokyo, NY, Amsterdam, Ho Chi Min City, Bangkok and Phnom Penh branches, expecting to add Suzhou and a few other overseas branches soon.

## China Initiatives

- ❖ Mega Bank Suzhou branch grand opened in June/2012; now Mega Bank has **29 overseas branches** in 16 diff. countries.
- ❖ 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, Agricultural Bank of China and Shanghai Pudong Development Bank recently 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.
- ❖ Both Mega Bank and Bank of Taiwan were awarded with exclusive RMB cash settlement licenses in TW.
- ❖ Pending on further cross-strait negotiations, Mega is expected to be benefited from further **RMB full settlement license.**

# 1H/2012 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	1H/2012*	1H/2011*	YoY	2011*
Net interest income	15,374	13,399	15%	28,279
Net fee revenue	4,235	4,520	-6%	8,797
Insurance premium	828	698	19%	1,313
Gain from fin. assets at fair value thru P&L	1,401	100	1301%	-653
Available for sales asset gain	1,290	937	38%	1,328
Hold to maturity asset gain	-	-	-	9
Equity method investment gain	80	80	0%	152
Property investment gain	-	-	-	2
FX spread gain	1,126	944	19%	1,515
Asset impairment loss (write-back)	-	-	-	-196
Cost method investment gain	177	192	-	734
NPL write-back (net)	107	294	-64%	2,486
NPL asset sales gain	608	1,112	-	-
Asset sales gain	2	635	-	1,002
Other non-interest revenue (net)	543	773	-30%	983
Operating net revenue	25,771	23,684	9%	45,751
Operating expense	-9,908	-10,424	-5%	-20,988
Pre-provision operating profit	15,863	13,260	20%	24,763
Provision expense on loan	-222	-1,286	-83%	-3,714
Reserved on insurance	-136	-69	-	67
Pretax profit	15,505	11,905	30%	21,116
Tax	-2,779	-2,409	15%	-3,430
Minority shareholder interest	-7	-13	-	-6
Net profit	12,719	9,483	34%	17,680
EPS (NT\$)	1.13	0.84	35%	1.57

Cost-to-income  
ratio: 38%

\* 1H/2012 are un-audited numbers.

# 1H/2012 Mega FHC consolidated balance sheet\*

NT\$MN	1H/2012*	1H/2011*	YoY	2011*	YTD
<b>Assets:</b>					
Cash and due from banks	359,412	198,831	81%	498,313	-28%
Bills and bonds under RP agreement	1,068	3,317	-68%	1,011	6%
Fin. assets at fair value through P&L	179,753	152,477	18%	190,766	-6%
AFS financial assets	163,683	170,383	-4%	161,831	1%
HTM financial assets	161,389	180,764	-11%	131,459	23%
Other financial assets	22,996	24,196	-5%	19,831	16%
A/R, net	120,361	135,629	-11%	107,392	12%
Loan, net	1,516,004	1,395,461	9%	1,462,450	4%
Equity method LT investments, net	2,533	2,603	-3%	2,465	3%
Land, premises and equipments, net	23,054	21,524	7%	21,811	6%
Others	12,291	13,012	-6%	21,579	-43%
<b>Total assets</b>	<b>2,562,545</b>	<b>2,298,198</b>	<b>12%</b>	<b>2,618,908</b>	<b>-2%</b>
<b>Liabilities</b>					
Due to banks	332,417	210,227	58%	439,139	-24%
Deposits	1,641,547	1,521,142	8%	1,579,727	4%
CP & Bond payable	64,934	55,346	17%	63,250	3%
Bills & bonds sold under repurchase agreement	185,312	169,131	10%	199,581	-7%
Other liabilities	132,223	144,453	-8%	133,978	-1%
<b>Total liabilities</b>	<b>2,356,435</b>	<b>2,100,299</b>	<b>12%</b>	<b>2,415,675</b>	<b>-2%</b>
Capital stock (common stock)	114,498	112,806	1%	112,806	1%
Capital surplus	43,425	43,426	0%	43,426	0%
Retain earning	43,398	33,764	29%	42,014	3%
Equity adjustment items	4,488	7,579	-41%	4,688	-4%
Minority shareholder interest	301	324	-7%	299	1%
<b>Total stockholders' equity</b>	<b>206,111</b>	<b>197,900</b>	<b>4%</b>	<b>203,233</b>	<b>1%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,562,545</b>	<b>2,298,198</b>	<b>12%</b>	<b>2,618,908</b>	<b>-2%</b>
Book value per share (NT\$)	17.97	17.54	2%	17.99	0%

\* 1H/2012 are un-audited numbers.

# 1H/2012 Mega Bank P&L statement\*

<i>NT\$MN, except per share data</i>	1H/2012*	1H/2011	YoY	2011*
Net interest income	13,807	11,509	20%	24,662
Net fee revenue	3,245	3,025	7%	6,106
Gain from fin. assets at fair value thru P&L	1,242	204	509%	-179
Available for sales asset gain	912	715	28%	896
Hold to maturity asset gain	-	-	-	9
Equity method investment gain	184	167	10%	214
FX spread gain	1,078	935	15%	1,509
Asset impairment loss (write-back)	-	-	-	-89
Cost method investment gain	178	191	-	734
NPL write-back (net)**	827	1,202	-	1,404
Asset sales gain	1	635	-	1,006
Other non-interest revenue (net)	396	387	2%	740
Operating net revenue	21,870	18,970	15%	37,011
Operating expense	-7,582	-7,999	-5%	-16,143
Pre-provision operating profit	14,288	10,971	30%	20,868
Provision expense on loan	-225	-1,455	-85%	-3,398
Pretax profit	14,063	9,516	48%	17,470
Tax	-2,054	-1,420	45%	-2,462
Net profit	12,010	8,097	48%	15,008
EPS (NT\$)	1.77	1.19	49%	2.21

Cost-to-income  
ratio is 35%

\* 1H/2012 are un-audited numbers.

\*\* NT\$800mn of NPL write back was taken out from the FHC consolidated report as this was inter-sub. transaction.



# 1H/2012 Mega Bank balance sheet\*

NT\$MN	1H/2012*	1H/2011	YoY	2011	YTD
<b>Assets:</b>					
Cash and due from banks	354,979	186,462	90%	490,415	-28%
Bills and bonds under RP agreement	250	445	-	-	-
Fin. assets at fair value through P&L	41,547	38,030	9%	41,810	-1%
AFS financial assets	77,533	76,836	1%	71,270	9%
HTM financial assets	159,423	179,620	-11%	130,949	22%
Other financial assets	17,674	18,578	-5%	17,770	-1%
A/R, net	92,181	101,097	-9%	81,767	13%
Loan, net	1,497,627	1,378,222	9%	1,462,450	2%
Equity method LT investments, net	9,242	9,175	1%	2,493	271%
Land, premises and equipments, net	14,676	13,030	13%	14,177	4%
Others (net)	5,131	4,732	8%	8,986	-43%
<b>Total assets</b>	<b>2,270,263</b>	<b>2,006,227</b>	<b>13%</b>	<b>2,322,087</b>	<b>-2%</b>
<b>Liabilities</b>					
Due to banks	325,246	203,891	60%	436,723	-26%
Deposits	1,631,757	1,510,238	8%	1,580,708	3%
CP & Bond payable	43,900	34,700	27%	42,600	3%
Bills & bonds sold under repurchase agreement	14,139	11,485	23%	7,339	93%
Other liabilities	88,618	88,003	1%	91,678	-3%
<b>Total liabilities</b>	<b>2,103,660</b>	<b>1,848,317</b>	<b>14%</b>	<b>2,159,048</b>	<b>-3%</b>
Capital stock (common stock)	68,000	68,000	0%	68,000	0%
Capital surplus	33,070	33,070	0%	33,070	0%
Retain earning	61,913	52,310	18%	59,260	4%
Equity adjustment items	3,618	4,531	-20%	2,706	34%
<b>Total stockholders' equity</b>	<b>166,601</b>	<b>157,911</b>	<b>6%</b>	<b>163,036</b>	<b>2%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,270,261</b>	<b>2,006,227</b>	<b>13%</b>	<b>2,322,087</b>	<b>-2%</b>
Book value per share (NT\$)	24.50	23.22	6%	23.98	2%

\* 1H/2012 are un-audited numbers.

# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

# Well established size and scale

1-2Q/2012\*  
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	2,563	2,270	34	212	15	0.8	12	0.2	0.7
Equity	206	167	14	32	5	0.8	2.8	0.1	0.7
After-tax earning	12.7	12.0	0.1	2.1	0.08	0.05	0.5	0.07	0.01
Domestic Offices	194	108	46	9	27	1	1	1	1
Overseas Offices**	40	33	4	0	3	0	0	0	0

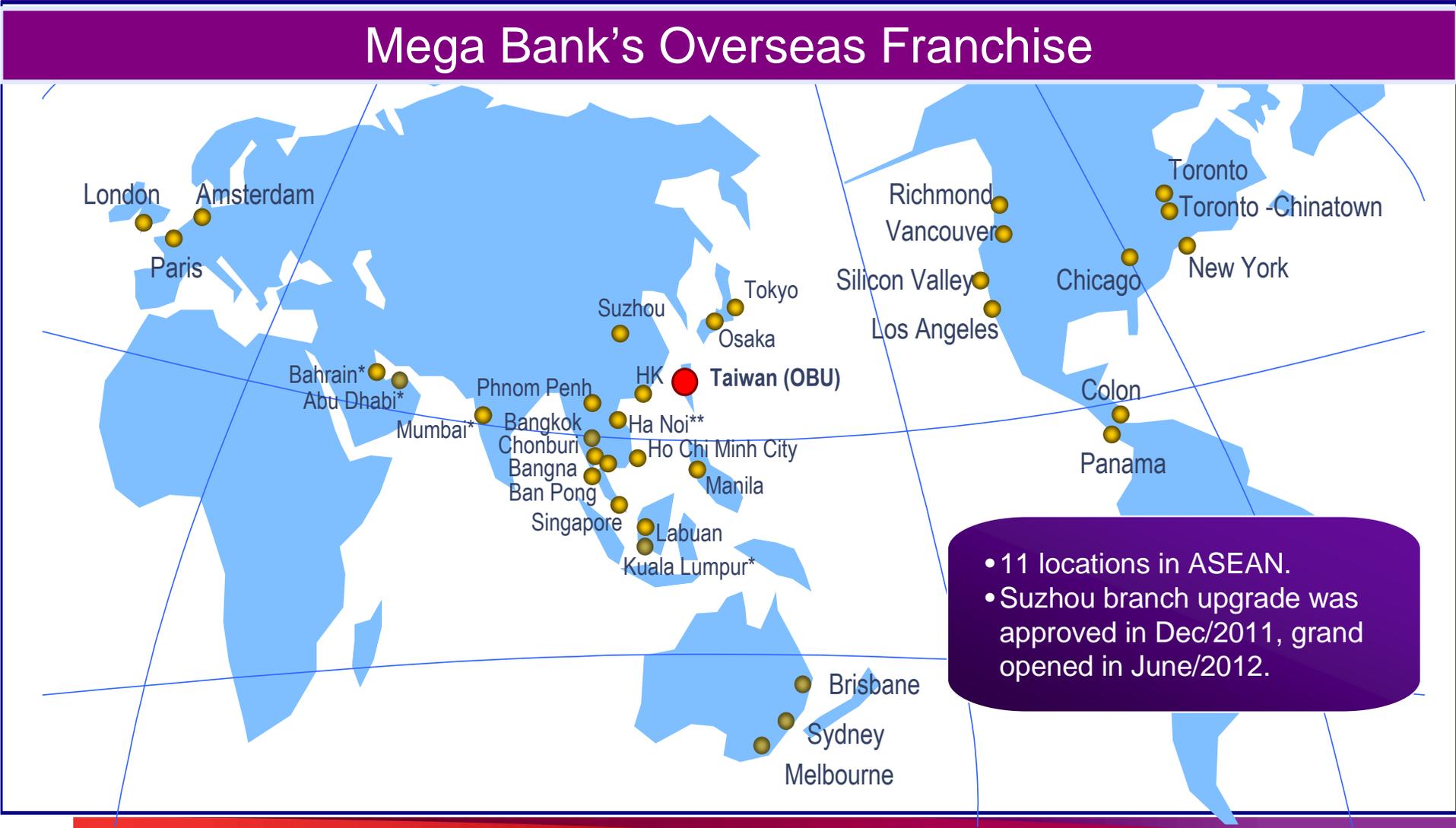
\* Un-audited numbers

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

# Our corporate strategy



# Most internationalized local bank.



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

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