



Mega Holdings

**4Q / 2015** (v.1)

**Investor/Analyst Briefing**

# DISCLAIMER

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**THE FINANCIAL INFORMATION IN THIS PRESENTATION AS OF AND FOR THE TWELVE MONTHS ENDED DEC 31, 2015 ARE UN-AUDITED NUMBERS UNLESS SPECIFIED OTHERWISE. MEGA FHC HAS FILED ITS AUDITED FINANCIAL STATEMENTS THROUGH TAIWAN STOCK EXCHANGE MARKET OBSERVATION POST SYSTEM ON MAR 31, 2016.**

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# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

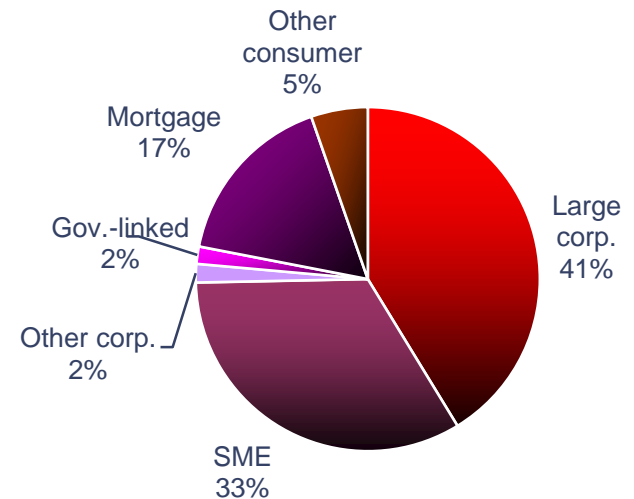
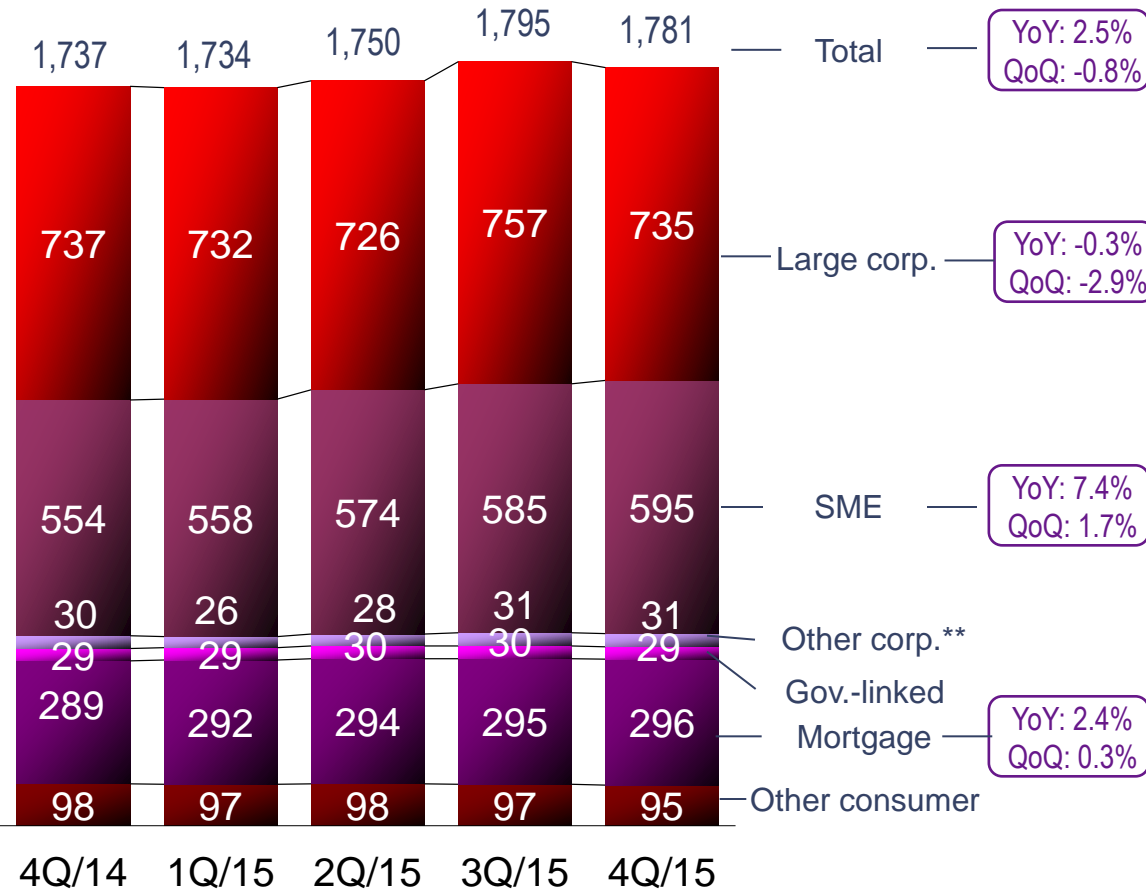
# SME loan growth was offset by decline in large corporate loan

Mega Bank quarterly loan balance\*

Mega Bank 4Q/15 loan breakdown by customer

Unit: NT\$bn

Growth Trend

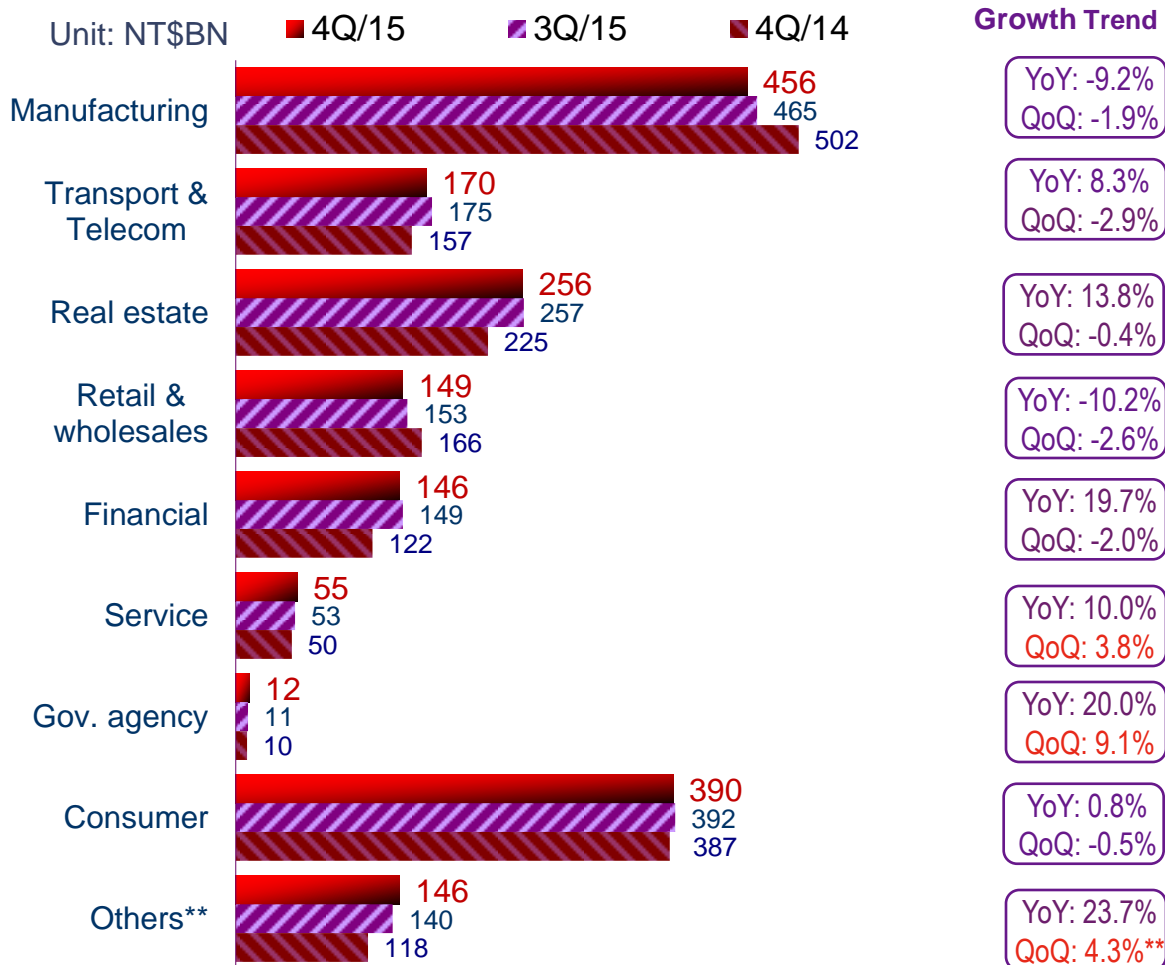


\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

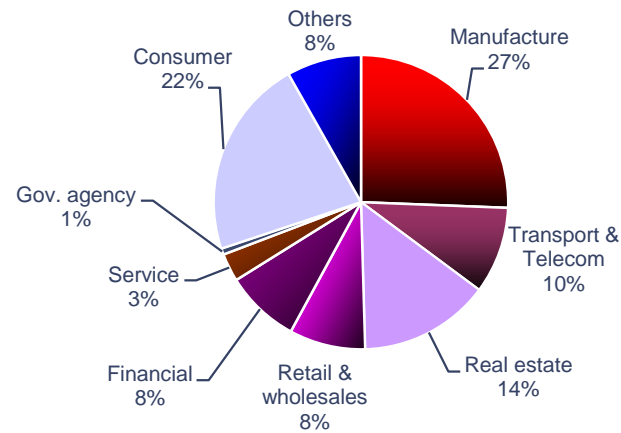
\*\* Includes Gov-linked Non-Profit Organization and etc.

# Growth from service and leisure industries were offset by contraction in other industries

Mega Bank loan balance trend by industry\*



Mega Bank 4Q/15 loan breakdown by industry\*

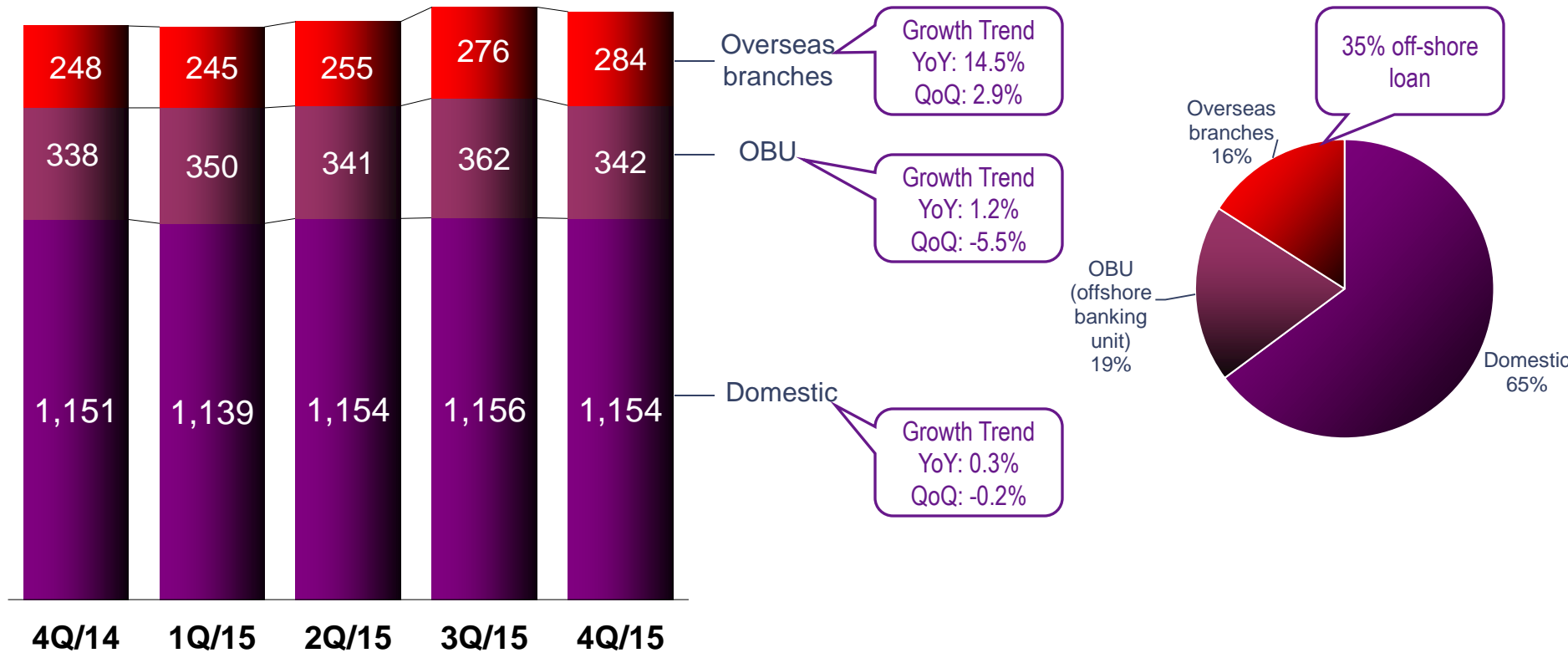


- \* Mega Bank un-audited numbers, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.
- \*\* Main growth driver for "Other Industry": leisure (hotel & restaurant) industry

# Overseas branches loan was up; while OBU loan retracted to 1H/15 level

Mega Bank 4Q/15 loan breakdown by regions \*

Unit: NT\$bn



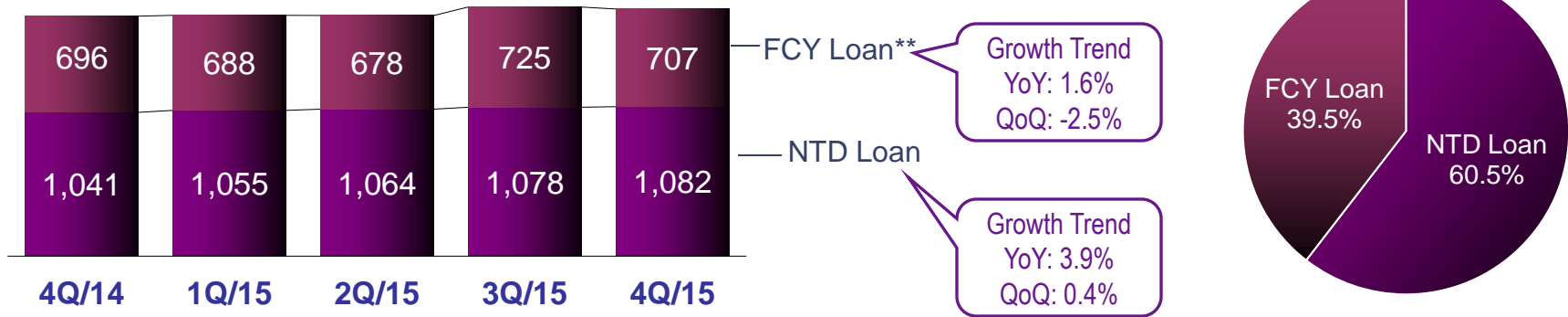
\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

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

# Foreign currency loan demand remained challenging

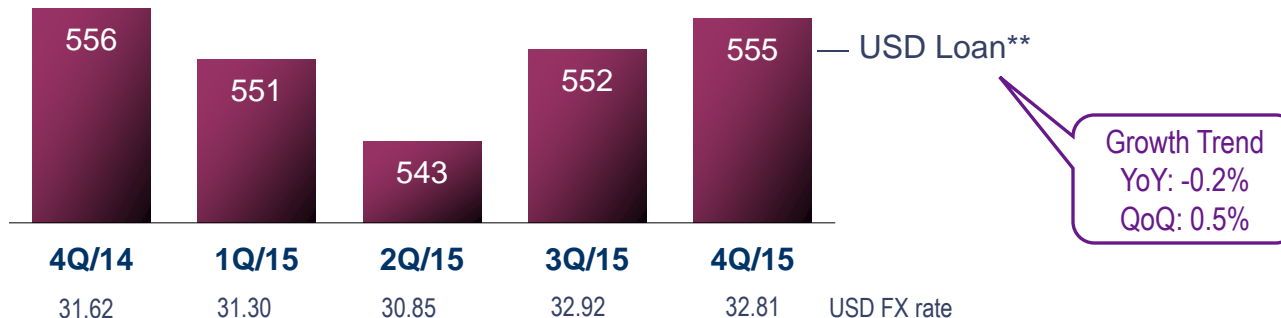
Mega Bank 4Q/15 loan breakdown by currency: NTD vs. foreign currency loan \*

Unit: NT\$bn



Mega Bank USD Loan balance\*

Unit: NT\$ billion



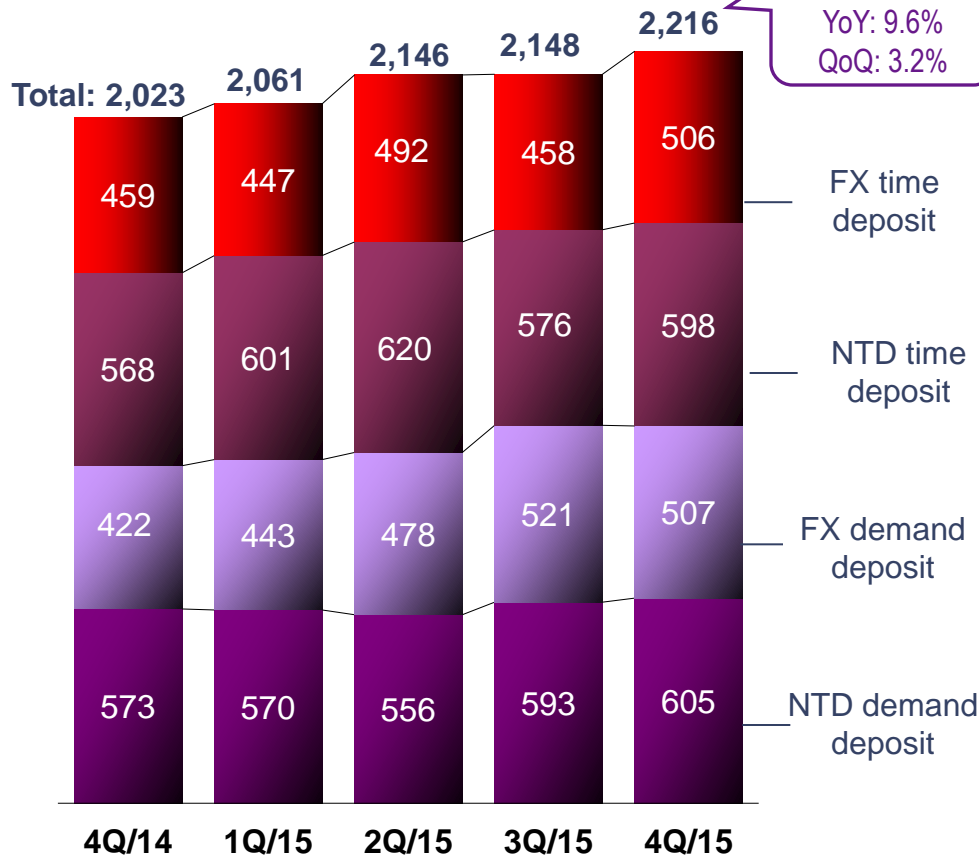
\* Mega Bank quarterly un-audited average balance, includes loan, factoring, A/R financing, L/C, and non-accrual loan but excludes credit card & guarantee.

\*\* Foreign currency and USD loans include OBU, overseas branched and some domestic branched loans.

# Deposit growth accelerated

Mega Bank's deposit balance \*

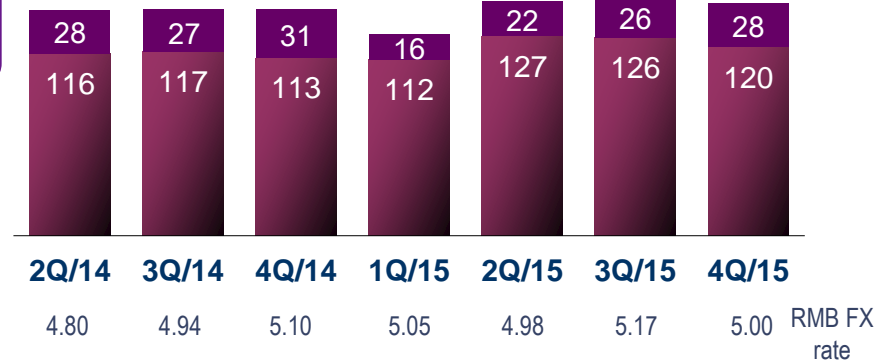
Unit:NT\$bn



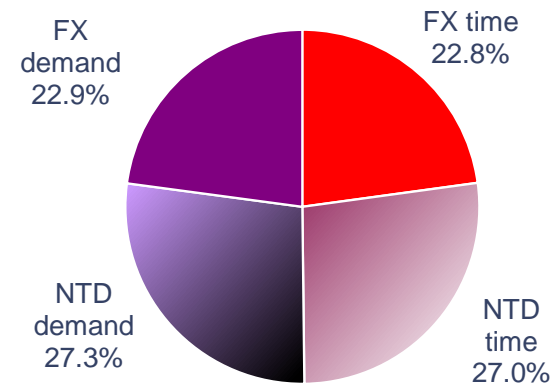
Mega Bank's RMB deposit\*\*

Unit:NT\$bn

Interbank Retail/Corp.



Mega Bank's 4Q/15 deposit breakdown



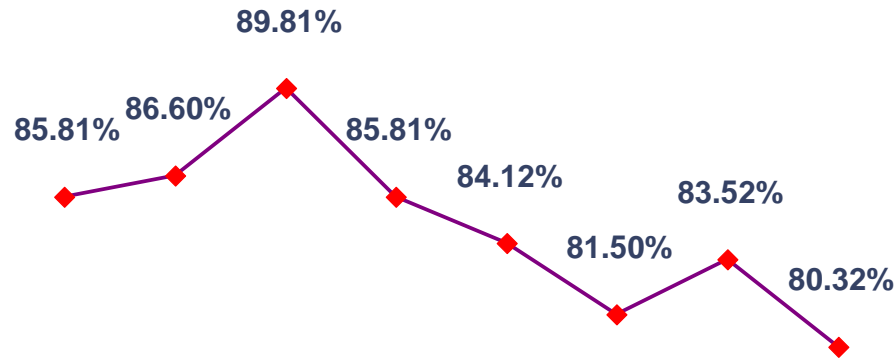
\* Excludes interbank deposit, Central Bank deposit & Chunghwa Post re-deposit ; un-audited numbers.

\*\* Includes retail and corporate deposit but excludes due from central banks and banks



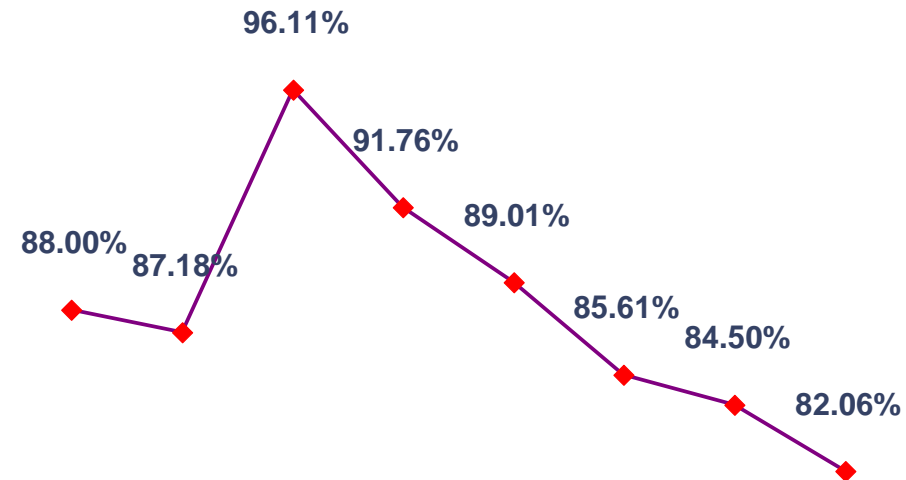
# Loan contraction plus deposit growth pushed the LDR lower

Mega Bank's total LDR\*



1Q/14 2Q/14 3Q/14 4Q/14 1Q/15 2Q/15 3Q/15 4Q/15

Mega Bank's USD LDR\*

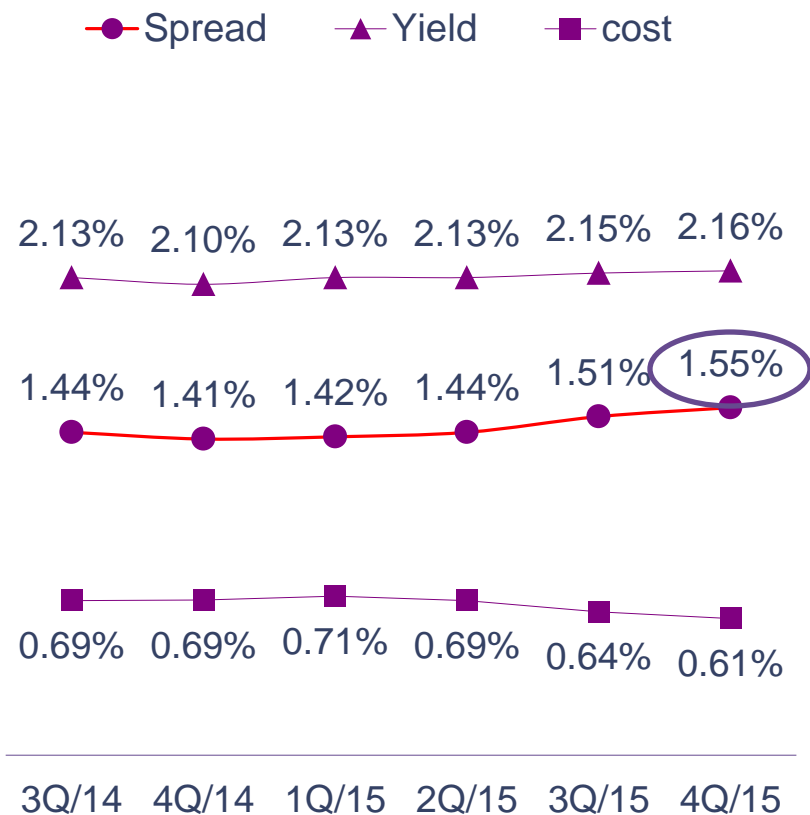


1Q/14 2Q/14 3Q/14 4Q/14 1Q/15 2Q/15 3Q/15 4Q/15

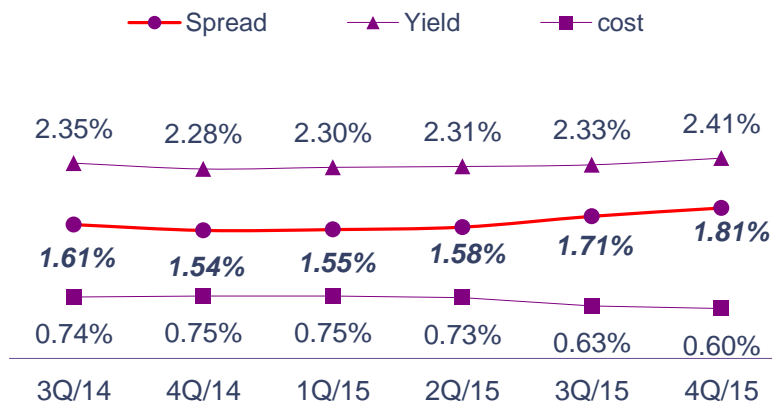
\* LDR calculation is based on loan/deposit end balance

# Overseas loan spread improvement continued

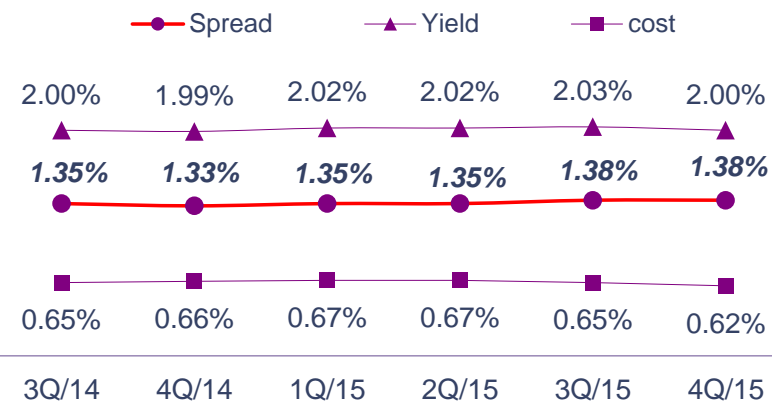
Mega Bank total loan interest spread\*



Mega Bank overseas loan interest spread\*



Mega Bank domestic loan interest spread\*

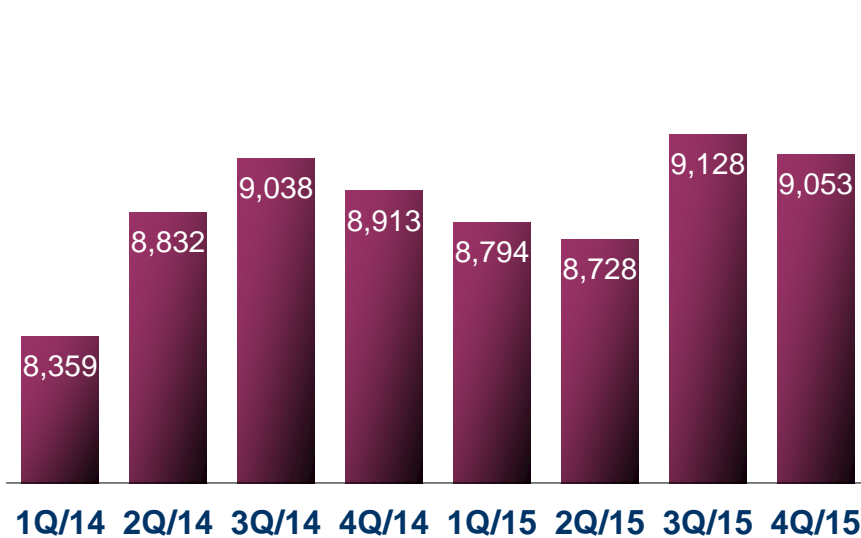


\* Overseas loan includes overseas branches and OBU loan; un-audited internal numbers..

# Although spread widened, but loan contraction and lower LDR caused the NII to dip lower

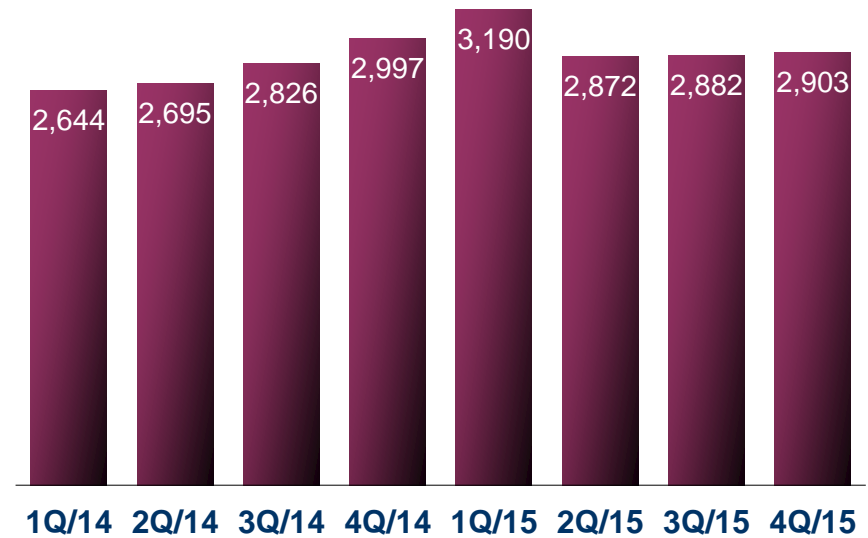
## Mega Bank quarterly NII\*

Unit: NT\$ million



## Mega Bank quarterly interest earning assets\*\*

Unit: NT\$ billion



- ❖ Although spread widened, but loans contraction and lower LDR caused the NII to dip a bit lower.
- ❖ Interest earning assets remained stable.

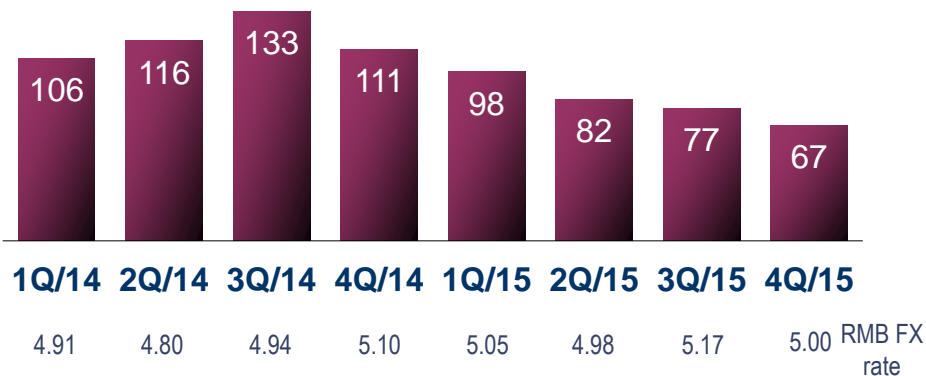
\* Stand-alone un-audited P&L net interest income

\*\* Quarterly average interest earning assets

# Inter-banks assets became less of swing factor

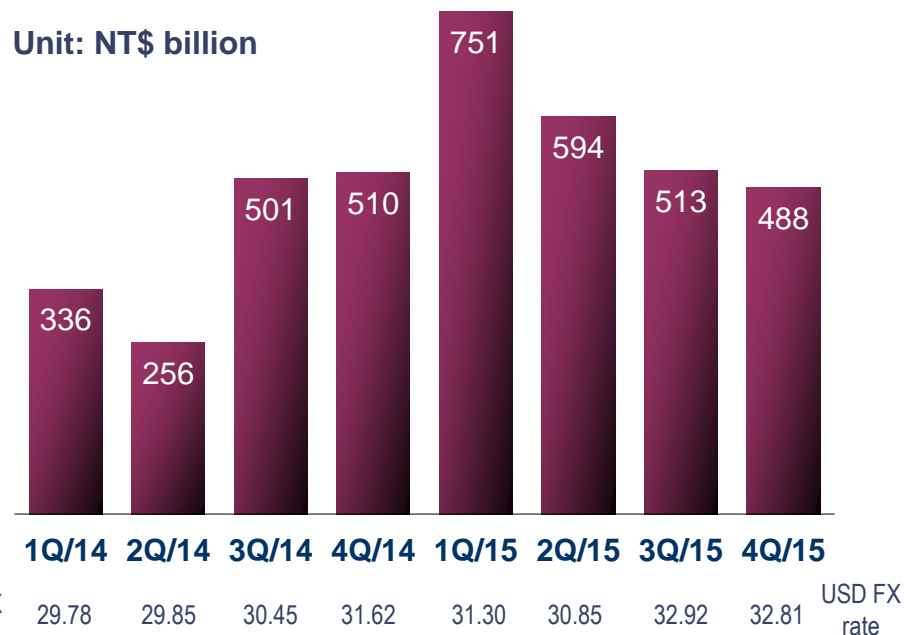
Mega Bank RMB inter-banks assets\*

Unit: NT\$ billion



Mega Bank USD inter-banks assets\*

Unit: NT\$ billion

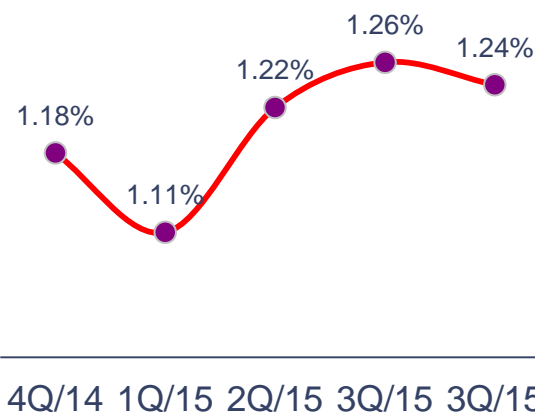


- ❖ Lower yield interbank assets continued to decline further and became less of swing factor for the NIM.

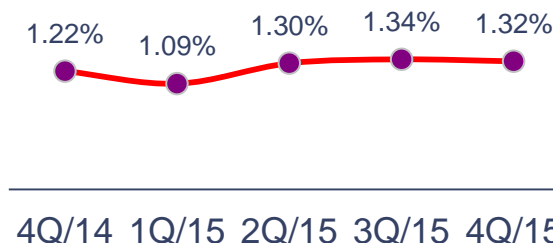
\* Average end balance of that quarter; includes due from central banks, due from banks, cash and cash equivalence

# NIM improvement stalled

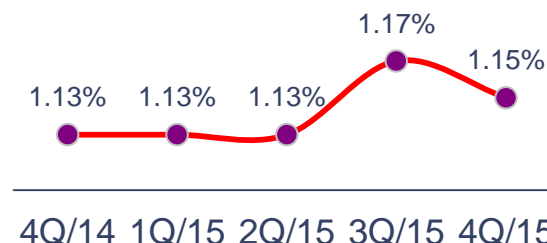
**Mega Bank quarterly Total NIM\***



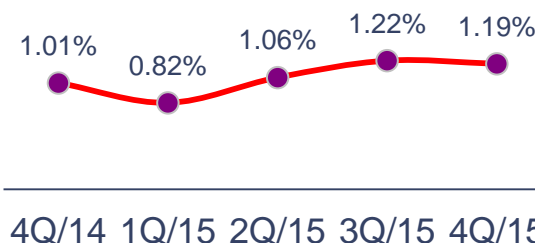
**Mega Bank quarterly FCY NIM\***



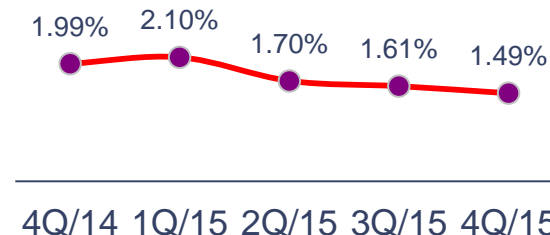
**Mega Bank quarterly NTD NIM\***



**Mega Bank monthly USD NIM**



**Mega Bank monthly RMB NIM**

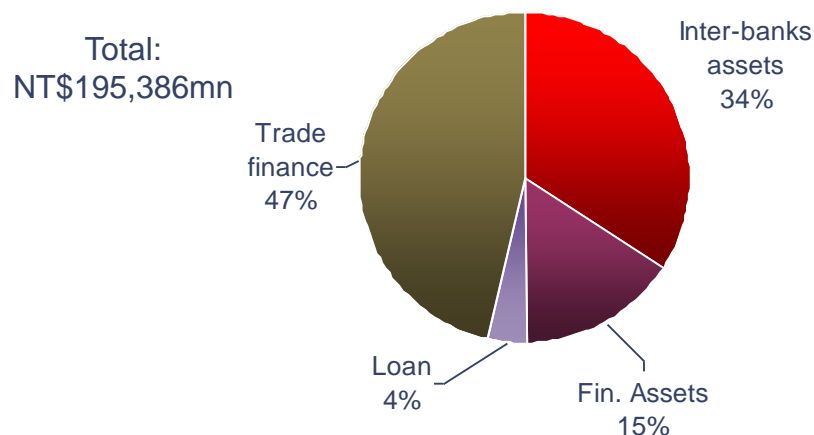


- ❖ Despite interest spread improvement, slower loan growth, higher deposit growth and lower LDR are putting pressure on overall NIM

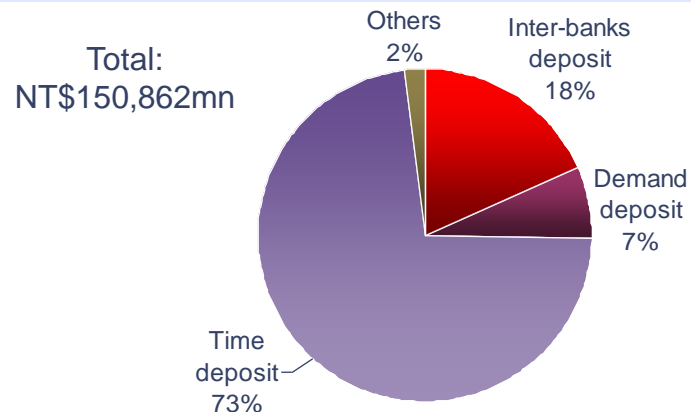
\* NIM = annualized net interest income / average interest earning assets of that quarter.

# RMB assets/liabilities growth remained difficult

Mega Bank 1-4Q/15 RMB interest earning assets\*

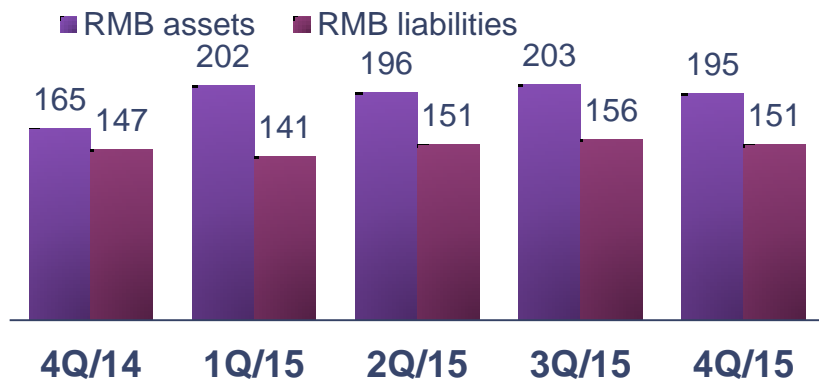


Mega Bank 1-4Q/15 RMB interest bearing liabilities\*



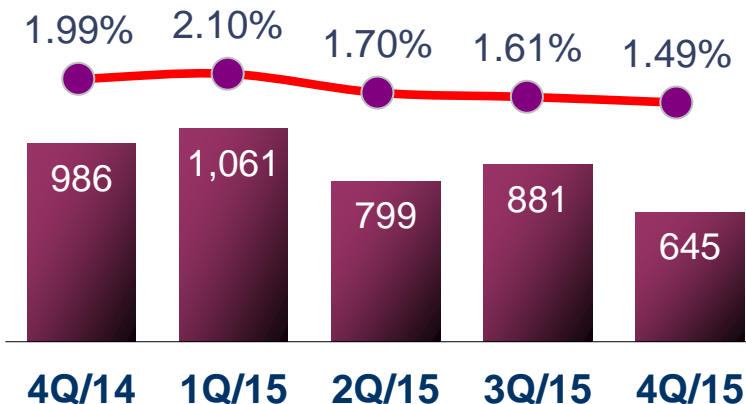
Mega Bank RMB assets & liabilities\*

Unit: NT\$bn



Mega Bank RMB NIM & NII\*\*

Unit: NT\$m

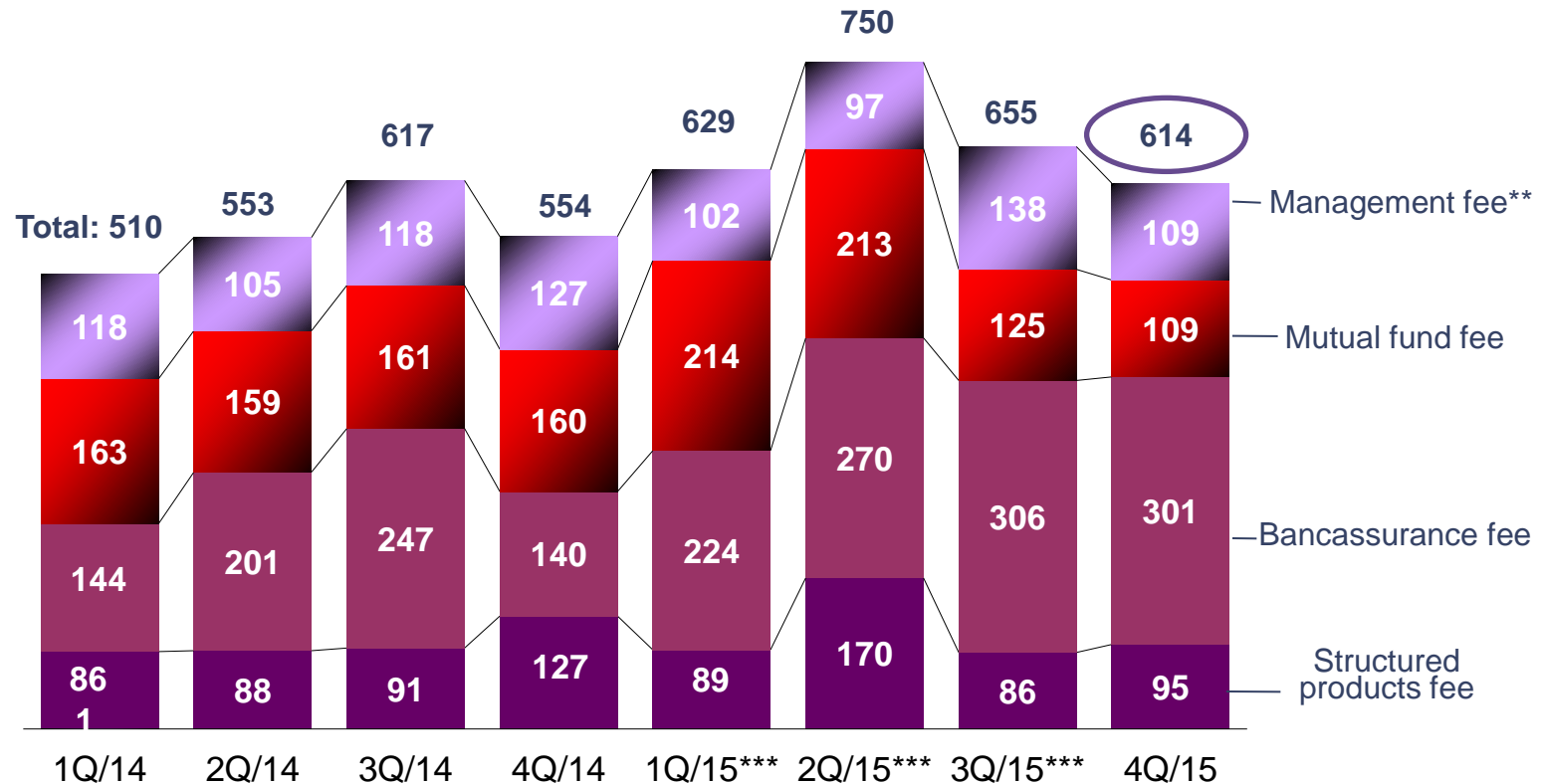


- \* Daily average balance of that period
- \*\* NII: net interest income; NIM: net interest margin

# Wealth management fee turned soft; while bancassurance fee was the only bright spot

Mega Bank wealth management gross fee breakdown\*

Unit: NT\$MN



\* 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.

\*\*\*1Q~3Q/2015 bancassurance fee were adjusted to reflect actual earning booked in Mega Insurance Agent subsidiary.

# Group fee was up 6% YoY, driven by WM, corp. loan, custodian and bills fee growth

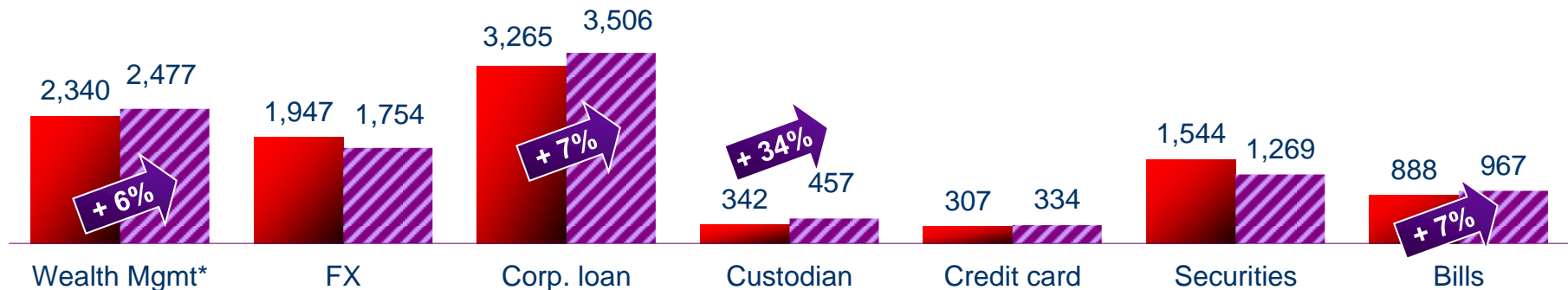
Mega Bank net fee breakdown

Mega Securities net fee

Mega Bills net fee

■ 1-4Q/14 ■ 1-4Q/15

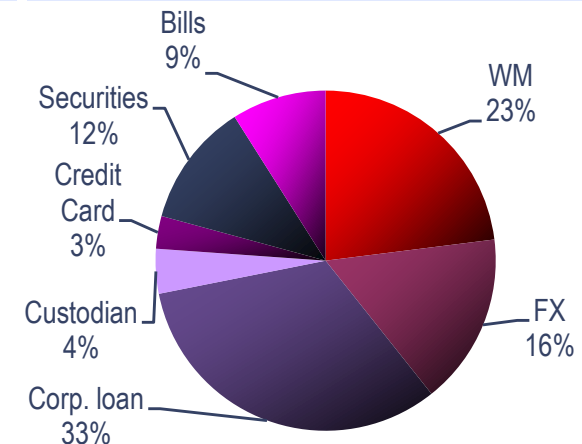
Unit: NT\$MN



Highlights

- ❖ Bank WM net fee was up 6% YoY due to strong bancassurance sales fee.
- ❖ Bank corp. loan fee was up 7% YoY, driven by syndication loan fee.
- ❖ Custodian fee was up 34% YoY, driven by strong institutional account demand.
- ❖ Bills sub. fee was up 7% YoY due to better CP issuance fee.

Mega FHC 1-4Q/15 net fee breakdown

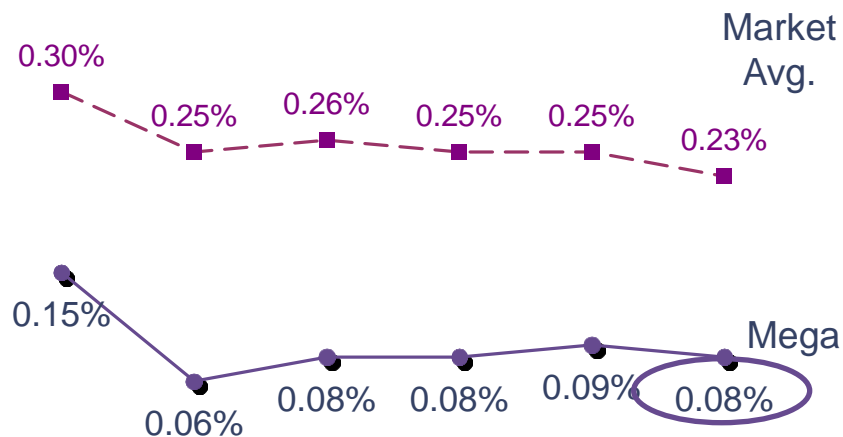


\* Net wealth mgmt fee, deducting all the cost associated with product sales, excluding fee allocated to Mega life insurance agent and Mega SITE.



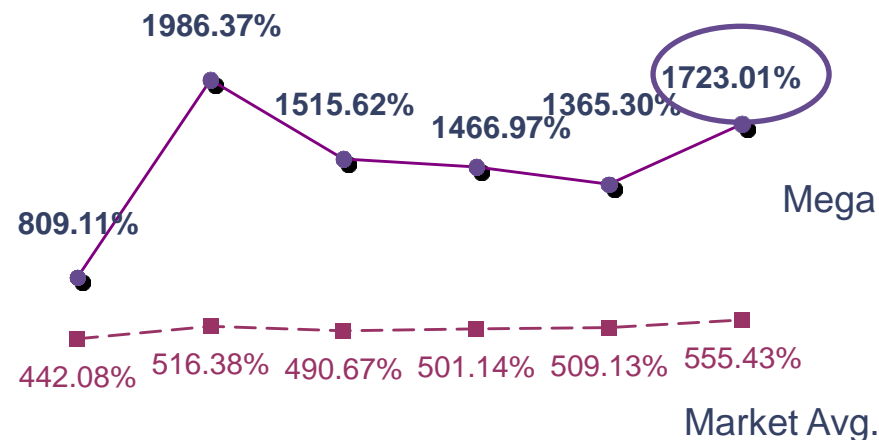
# Asset quality remained strong; reserve jumped higher

Mega Bank NPL balance & NPL ratio\*

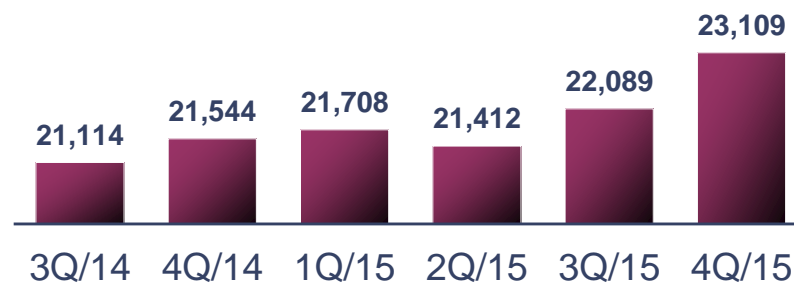
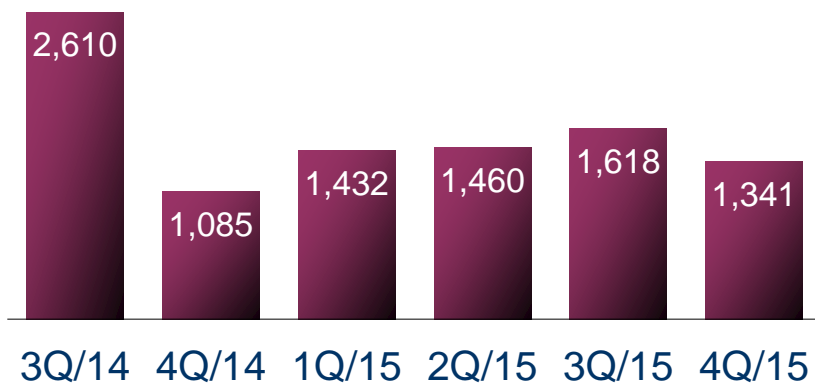


Unit: NT\$MN

Mega Bank loan loss reserved and coverage ratio



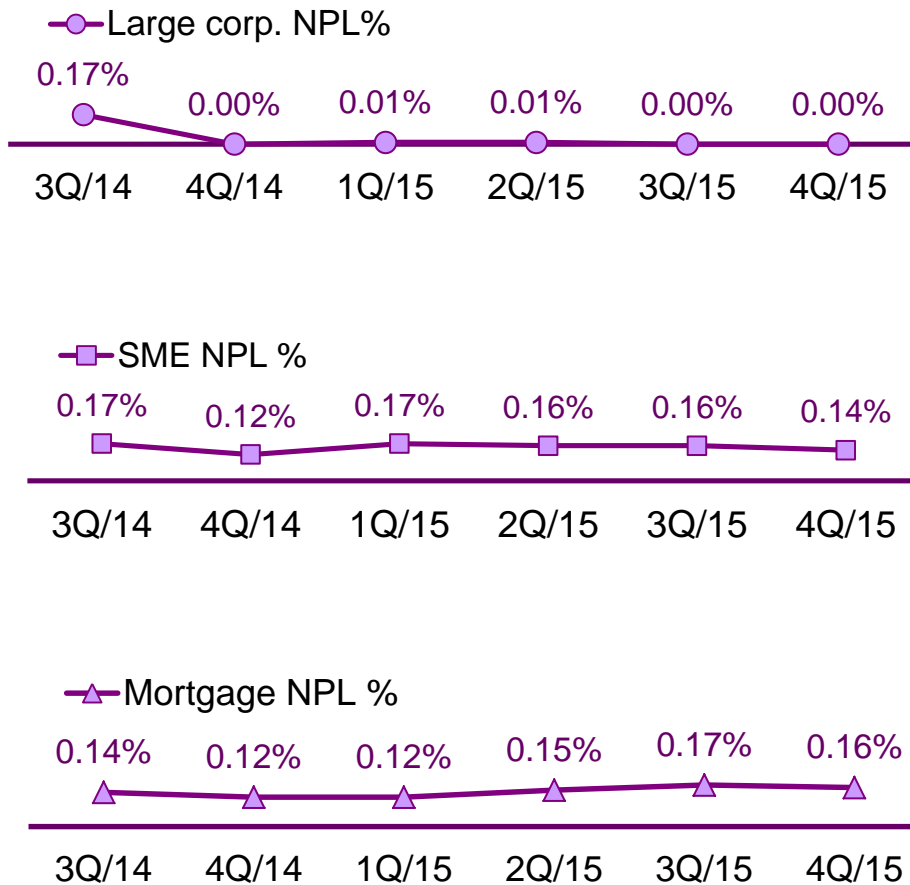
Unit: NT\$MN



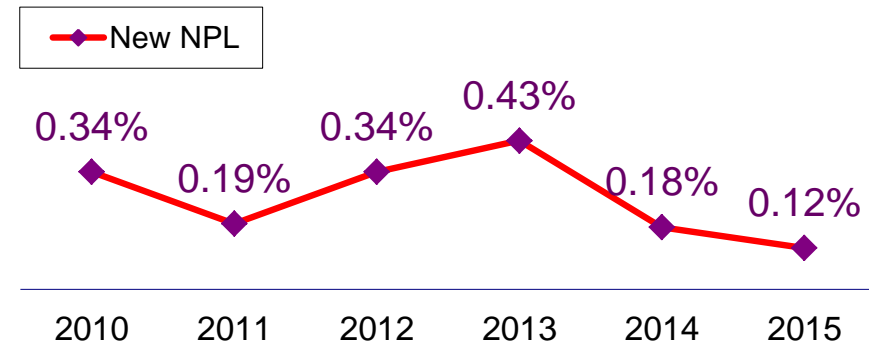
\* 90 days standard

# No sign of asset quality deterioration

Mega Bank NPL ratio by customer \*



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



\* 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.

# Agenda

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**Operation Highlights**



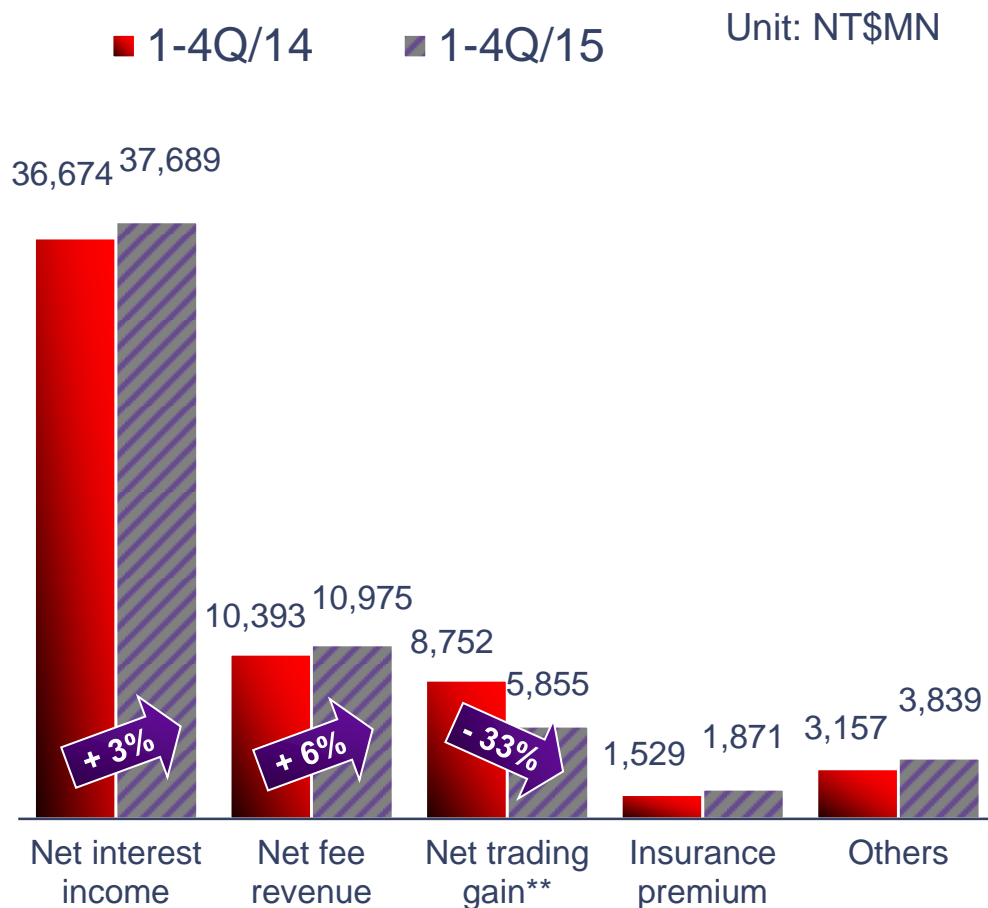
**Financial Performance**



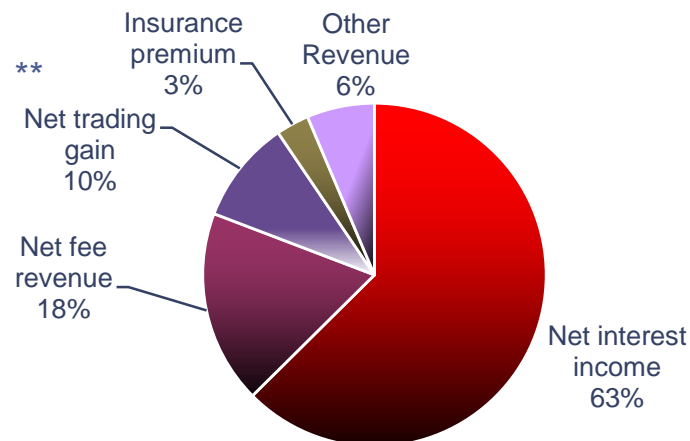
**Appendix**

# Core revenue growth remained solid

Mega Group consolidated net revenue \*



Mega Group 1-4Q/2015 net revenue breakdown



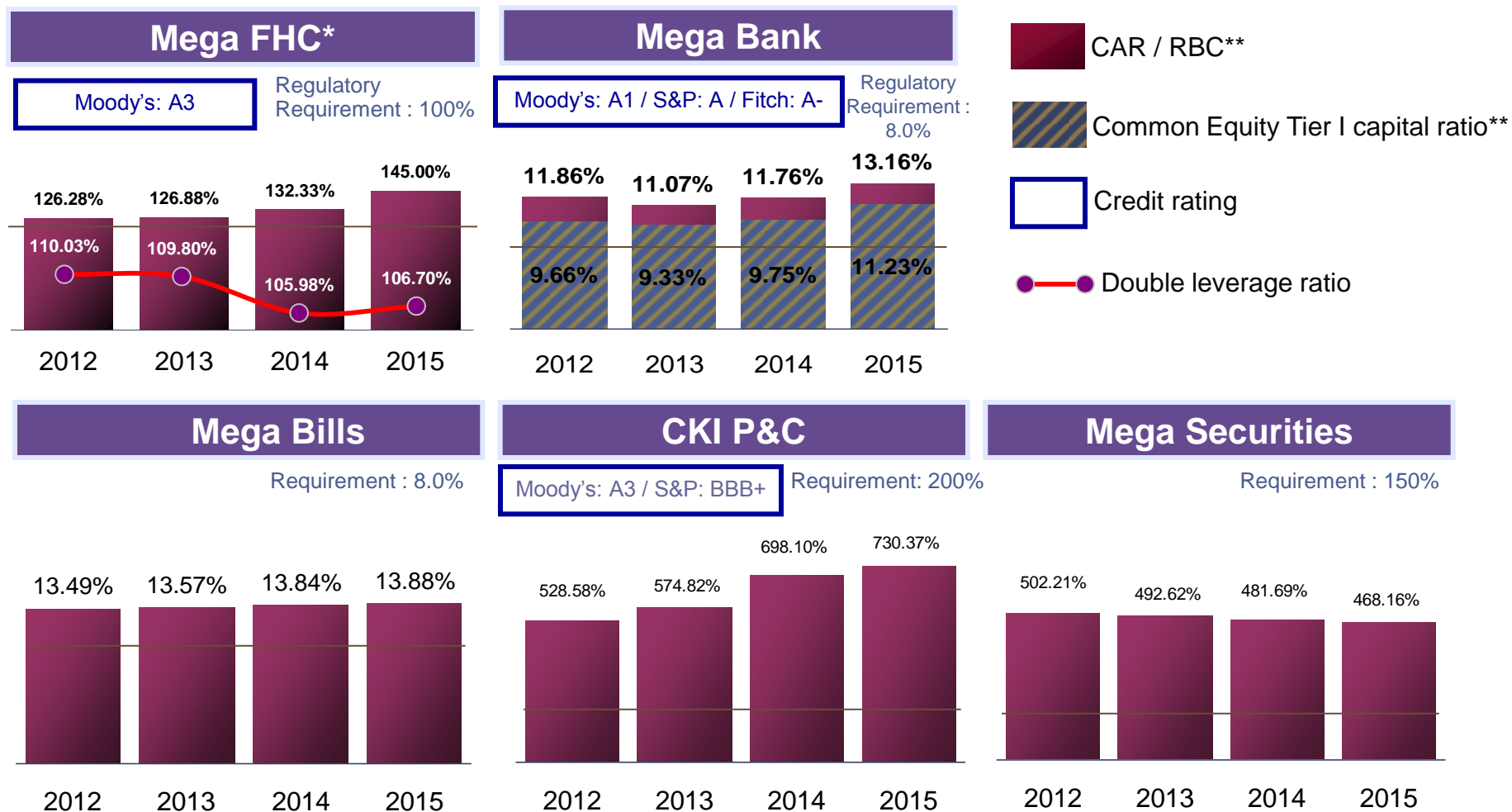
## Highlights

- ❖ NII was up 3% YoY due to loan growth and NIM improvement .
- ❖ Fee revenue was up 6% YoY due to strong WM, syndication loan, custodian & bills fee.
- ❖ Trading gain was down 33% YoY due to domestic equity and domestic convertible bond position mark-to-market losses.

\* 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).

# CET1 capital ratio reached 11.23%; highest among major peers



\* FHC CAR is calculated based on net investments in subsidiaries

\*\* 2015 are un-audited BASEL III numbers.

# Consistent profitability and attractive dividend policy

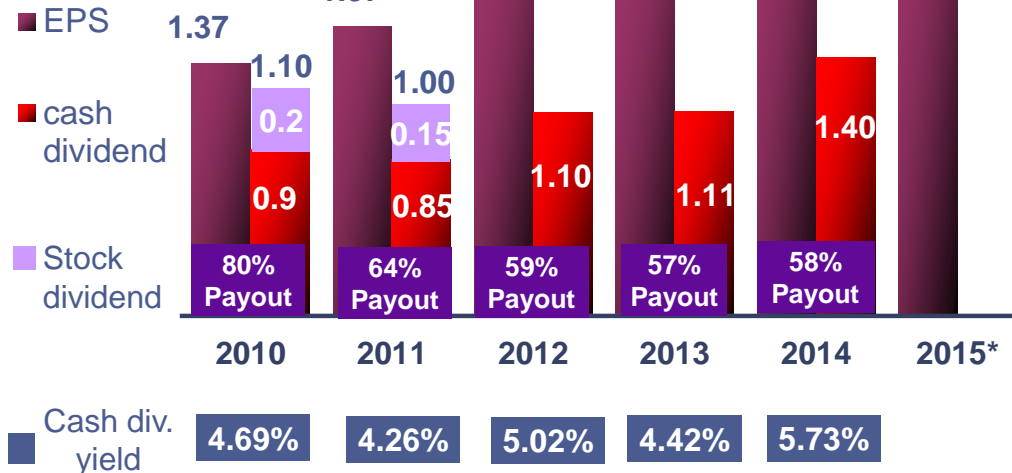
## Key Profitability Ratios



❖ 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.

Unit: NT\$



\* 1-4Q/15 are un-audited numbers; ROE & ROA are annualized numbers.

# 1-4Q/2015 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-4Q/2015*<sub>5</sub></b>	<b>1-4Q/2014</b>	<b>YoY</b>
Net interest income	37,689	36,674	3%
Net fee revenue	10,975	10,393	6%
Insurance premium	1,871	1,529	22%
Gain from fin. assets at fair value thru P&L* <sub>1</sub>	1,073	3,826	-72%
Available for sales asset gain	1,534	1,812	-15%
Equity method investment gain	245	152	61%
FX spread gain	2,974	3,283	-9%
Asset impairment loss (write-back)	-490	-374	31%
Property gain	519	53	879%
NPL recovery gain* <sub>2</sub>	214	1,298	-84%
Compensation gain* <sub>3</sub>	1,717	-	-
Other non-interest revenue (net)	1,908	1,859	3%
Operating net revenue	60,229	60,505	0%
Operating expense* <sub>4</sub>	-25,534	-23,772	7%
Pre-provision operating profit	34,695	36,733	-6%
Provision expense on loan	426	-1,588	-127%
Reserved on insurance	-12	208	-
Pretax profit	35,109	35,353	-1%
Tax	-5,836	-5,093	15%
Minority shareholder interest	144	19	-
Net profit	29,417	30,279	-3%
EPS (NT\$)	2.35	2.43	-3%

## Brief Gap Analysis

1. Gain from fin. assets was down mainly due to MTM loss from TW convertible bond position.
2. NPL recovery gain was down due to TMT NPL recovery gain of NT\$0.7bn recognized in 2014.
3. Compensation gain of NT\$1.7bn in 2015 came from accumulated unpaid dividend from THSR preferred shares.
4. 2015 OPEX was up due to one-off items of NT\$0.2bn donation to Hua-Long Textile employee (in order to recognize the NPL recovery), NT\$0.8bn biz tax increases vs. 2014, and NT\$0.8bn employee right issuance participation cost & bonus cost .
5. Un-audited consolidated P&L

# 1-4Q/2015 Mega FHC consolidated balance sheet\*

NT\$MN	1-4Q/2015*	1-4Q/2014	YoY
Assets:			
Cash and due from banks	652,169	634,546	3%
Bills and bonds under RP agreement	7,079	11,874	-40%
Fin. assets at fair value through P&L	182,037	181,367	0%
AFS financial assets	346,461	280,703	23%
HTM financial assets	201,234	163,708	23%
Other financial assets	17,190	20,627	-17%
A/R, net	175,747	201,540	-13%
Loan, net	1,773,269	1,733,994	2%
Equity method LT investments, net	2,976	2,762	8%
Land, premises and equipments, net	23,203	24,103	-4%
Others	17,153	15,414	11%
Total assets	3,398,518	3,270,638	4%
Liabilities			
Due to banks	473,865	528,530	-10%
Deposits	2,230,143	2,036,404	10%
CP & Bond payable	61,824	71,563	-14%
Bills & bonds sold under repurchase agreement	192,937	221,810	-13%
Other liabilities	146,294	151,432	-3%
Total liabilities	3,105,063	3,009,739	3%
Capital stock (common stock)	135,998	124,498	9%
Capital surplus	68,194	55,270	23%
Retain earning	88,373	77,607	14%
Equity adjustment items	839	3,362	-
Minority shareholder interest	51	162	-69%
Total stockholders' equity	293,455	260,899	12%
Total liabilities and stockholders' equity	3,398,518	3,270,638	4%
Book value per share (NT\$)	21.58	20.96	3%

\* Un-audited consolidated balance sheet.



# 1-4Q/2015 Mega Bank consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-4Q/2015*<sub>5</sub></b>	<b>1-4Q/2014</b>	<b>YoY</b>
Net interest income	36,046	35,297	2%
Net fee revenue	8,600	8,254	4%
Gain from fin. assets at fair value thru P&L * <sub>1</sub>	<b>-1,155</b>	1,369	-184%
Available for sales asset gain	1,191	1,277	-7%
Equity method investment gain	178	144	24%
FX spread gain	2,908	3,239	-10%
Asset impairment loss (write-back)	<b>-488</b>	<b>-217</b>	-
Compensation gain* <sub>2</sub>	1,717	0	-
Other non-interest revenue (net)* <sub>3</sub>	1,237	1,803	-31%
Operating net revenue	50,234	51,166	-2%
Operating expense* <sub>4</sub>	<b>-20,341</b>	<b>-18,673</b>	9%
Pre-provision operating profit	29,893	32,493	-8%
Provision expense on loan	548	<b>-2,249</b>	-
Pretax profit	30,441	30,244	1%
Tax	<b>-4,726</b>	<b>-4,271</b>	11%
Net profit	25,715	25,973	-1%
EPS (NT\$)	3.27	3.37	-3%

## Brief Gap Analysis

1. Gain from fin. assets was down mainly due to MTM loss from TW convertible bond position.
2. Compensation gain of NT\$1.7bn in 2015 came from accumulated unpaid dividend from THSR preferred shares.
3. Other non-interest revenue was down due to TMT NPL recovery gain of NT\$0.7bn recognized in 2014.
4. 2015 OPEX was up due to one-off items of NT\$0.2bn donation to Hua-Long Textile employee (in order to recognize the NPL recovery), NT\$0.8bn biz tax increases vs. 2014, and NT\$0.6bn employee right issuance participation cost & bonus cost .
5. Un-audited consolidated P&L

# 1-4Q/2015 Mega Bank balance sheet\*

NT\$MN	1-4Q/2015*	1-4Q/2014	YoY
<b>Assets:</b>			
Cash and due from banks	616,729	630,394	-2%
Bills and bonds under RP agreement	9,236	5,850	58%
Fin. assets at fair value through P&L	47,028	43,697	8%
AFS financial assets	231,507	187,345	24%
HTM financial assets	199,529	161,795	23%
Other financial assets	9,985	13,651	-27%
A/R, net	142,521	171,054	-17%
Loan, net	1,773,414	1,733,994	2%
Equity method LT investments, net	2,897	2,835	2%
Land, premises and equipments, net	15,147	15,174	0%
Others (net)	37,319	9,219	305%
<b>Total assets</b>	<b>3,085,312</b>	<b>2,975,008</b>	<b>4%</b>
<b>Liabilities</b>			
Due to banks	465,336	515,603	-10%
Deposits	2,230,646	2,038,662	9%
CP & Bond payable	36,200	50,200	-28%
Bills & bonds sold under repurchase agreement	548	50,190	-99%
Other liabilities	97,922	101,566	-4%
<b>Total liabilities</b>	<b>2,830,652</b>	<b>2,756,221</b>	<b>3%</b>
Capital stock (common stock)	85,362	77,000	11%
Capital surplus	62,219	46,498	34%
Retain earning	106,849	92,499	16%
Equity adjustment items	231	2,790	-92%
<b>Total stockholders' equity</b>	<b>254,661</b>	<b>218,787</b>	<b>16%</b>
<b>Total liabilities and stockholders' equity</b>	<b>3,085,313</b>	<b>2,975,008</b>	<b>4%</b>
<b>Book value per share (NT\$)</b>	<b>29.83</b>	<b>28.41</b>	<b>5%</b>

\* Un-audited consolidated balance sheet.

# Agenda

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**Operation Highlights**



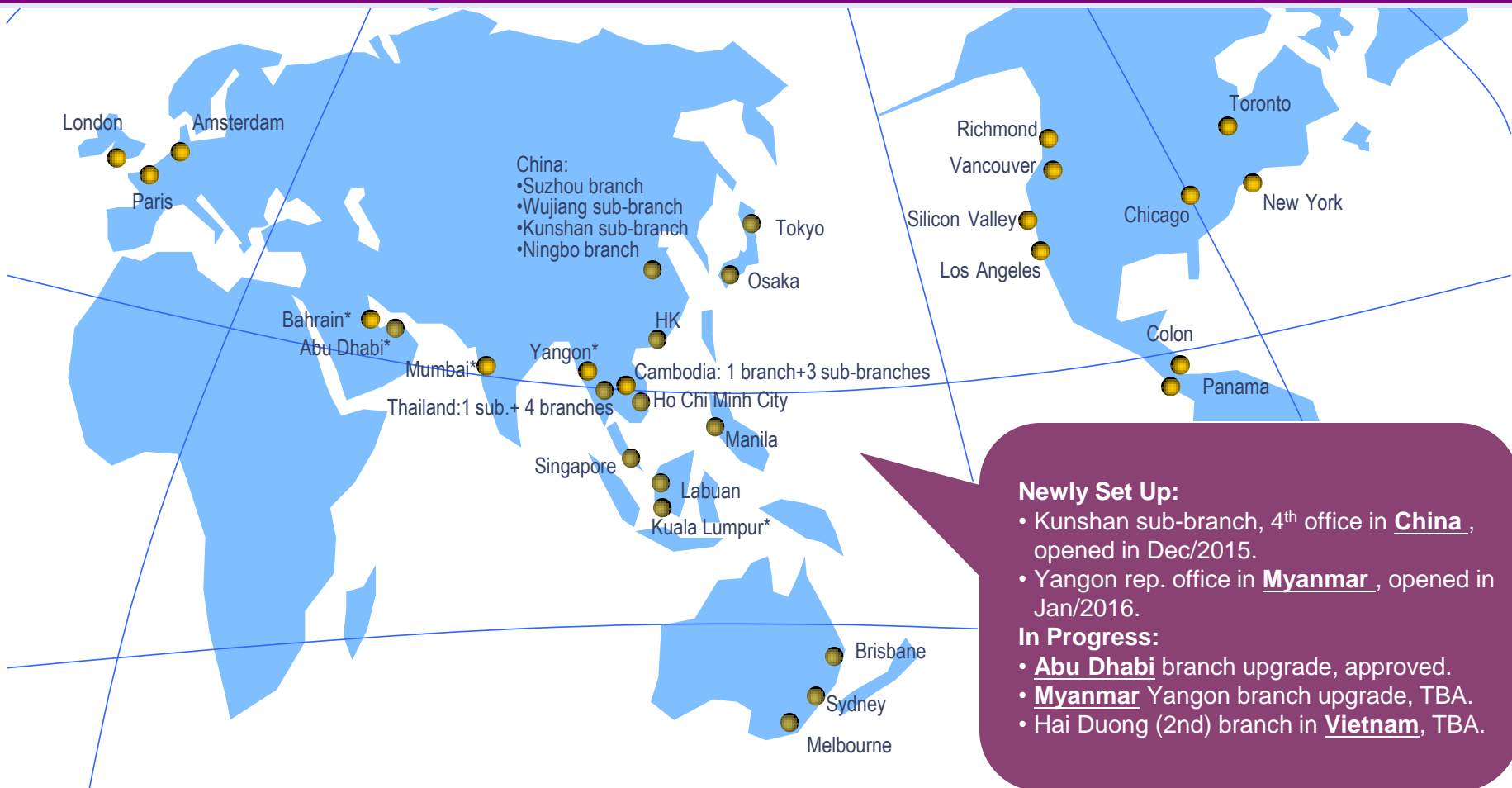
**Financial Performance**



**Appendix**

# 39 offices in 20 countries; 15 offices in SE Asia

## Mega Bank's Overseas Franchise



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