

# **Investor/Analyst Briefing**

## **2Q / 2016 (V.1)**



**Mega Holdings**

# DISCLAIMER

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**THE FINANCIAL INFORMATION IN THIS PRESENTATION AS OF AND FOR THE SIX MONTHS ENDED JUN 30, 2016 ARE UN-AUDITED NUMBERS UNLESS SPECIFIED OTHERWISE. MEGA FHC WILL FILE ITS AUDITED FINANCIAL STATEMENTS THROUGH TAIWAN STOCK EXCHANGE MARKET OBSERVATION POST SYSTEM ON AUG 31, 2016.**

These materials are not an offer for sale of securities in the United States. Securities may not be sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended.

# Agenda

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**Operation Highlights**



**Financial Performance**



**Appendix**

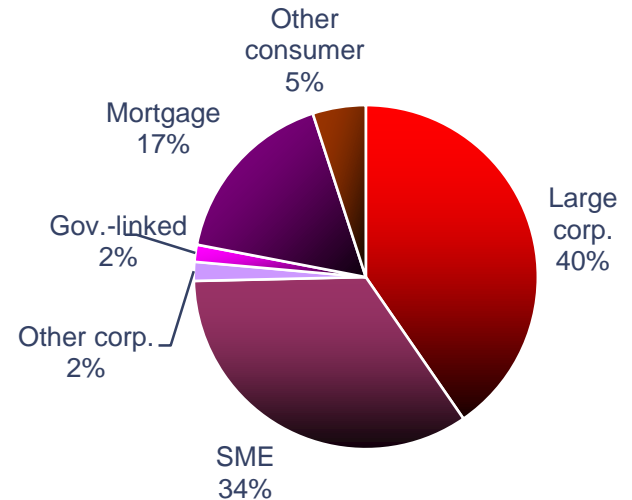
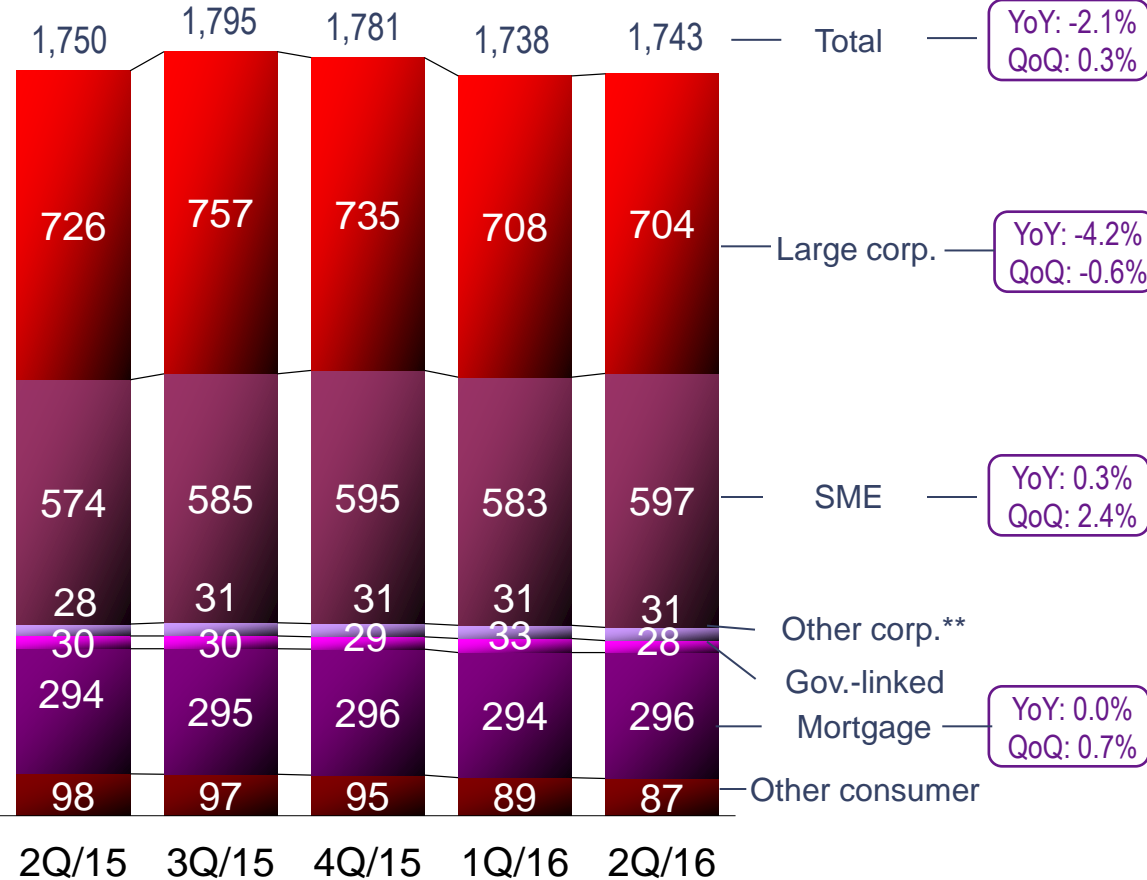
# SME loan was up 2.4% QoQ

Mega Bank quarterly loan balance\*

Mega Bank 2Q/16 loan breakdown by customer

Unit: NT\$bn

Growth Trend

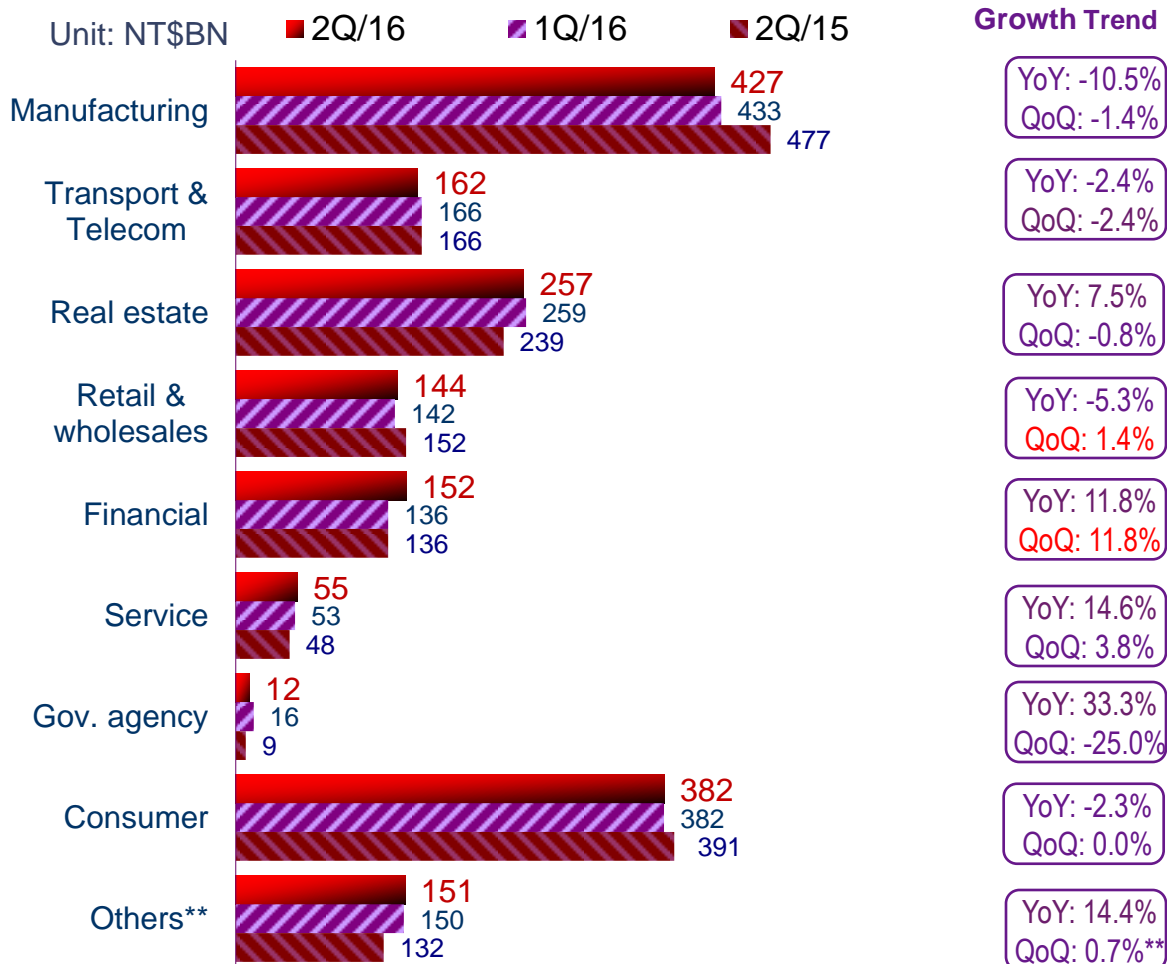


\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

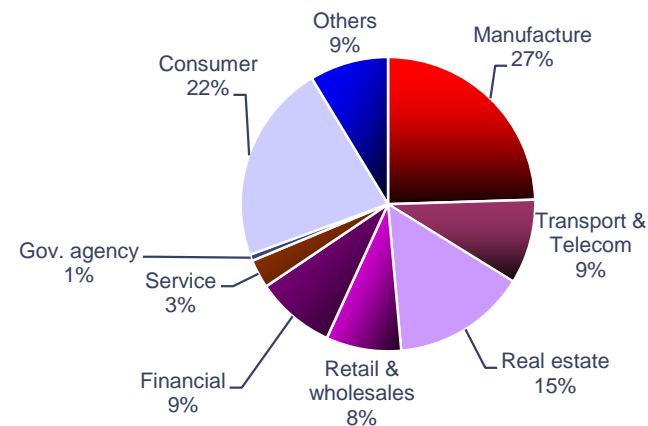
\*\* Includes Gov-linked Non-Profit Organization and etc.

# Growth from retail & wholesales and financial industries helped offset decline from others

Mega Bank loan balance trend by industry\*



Mega Bank 2Q/16 loan breakdown by industry\*

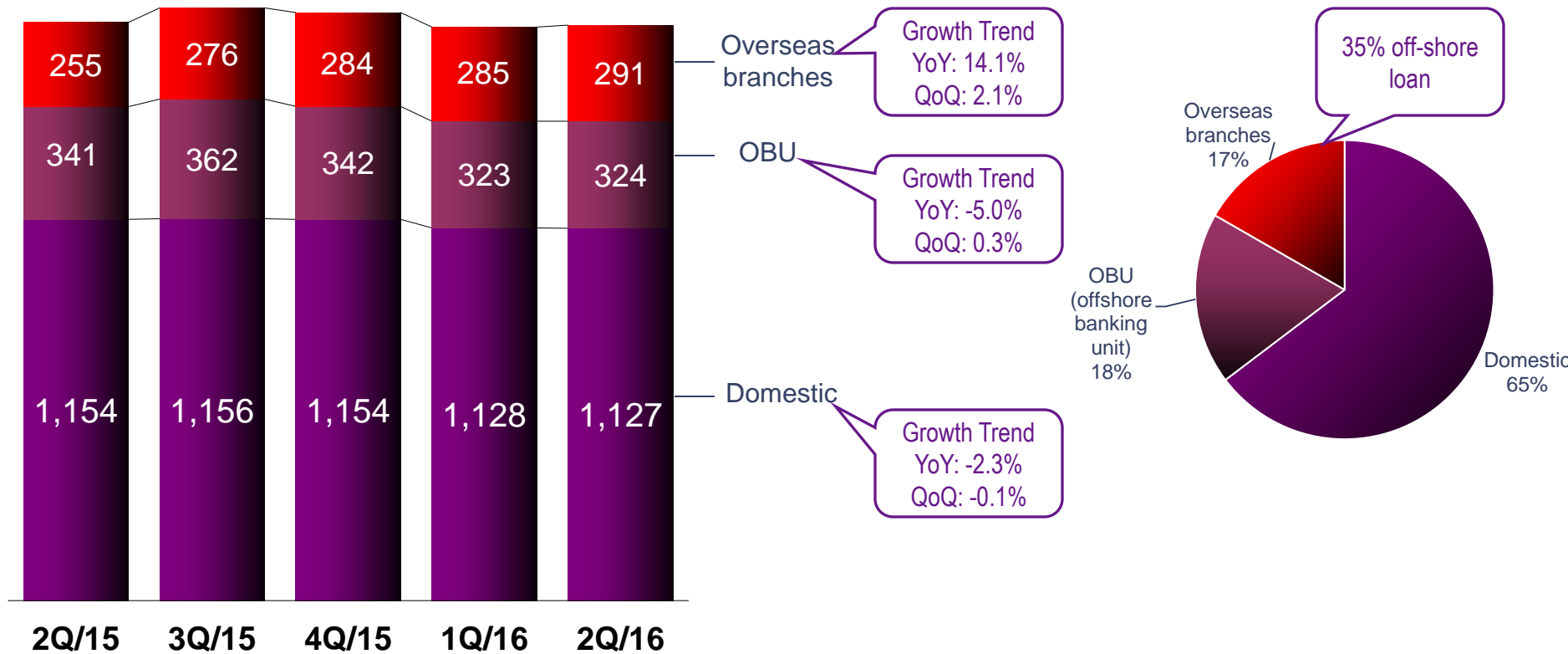


- \* Mega Bank un-audited numbers, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.
- \*\* Main growth driver for "Other Industry": leisure (hotel & restaurant) industry

# Overseas branches loan growth outperformed consistently

Mega Bank 2Q/16 loan breakdown by regions \*

Unit: NT\$bn



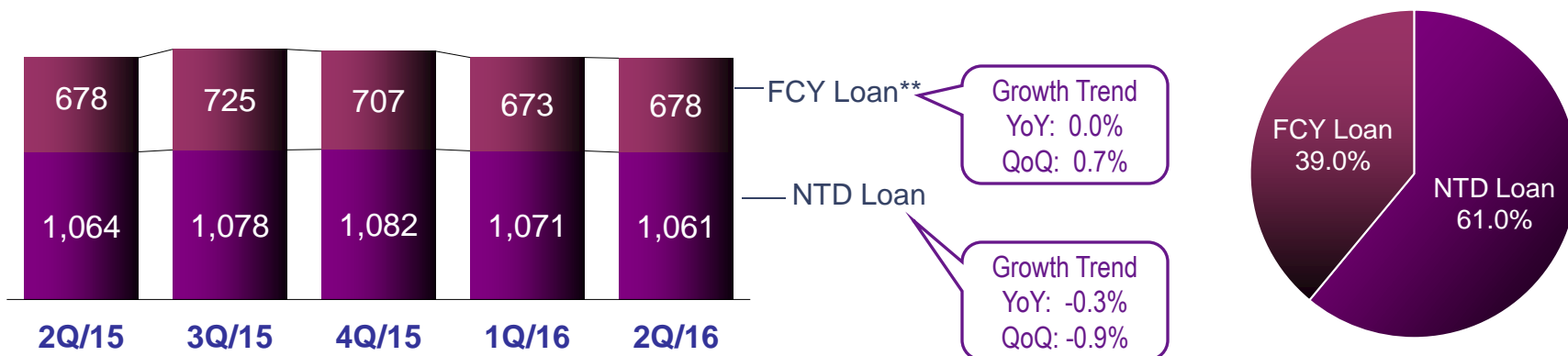
\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

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

# FCY loan was up; NTD loan was down

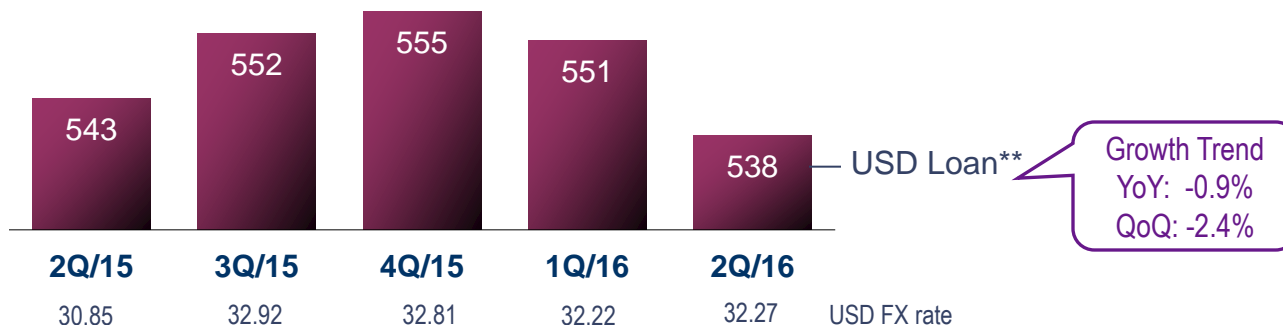
Mega Bank 2Q/16 loan breakdown by currency: NTD vs. foreign currency loan \*

Unit: NT\$bn



Mega Bank USD Loan balance\*

Unit: NT\$ billion

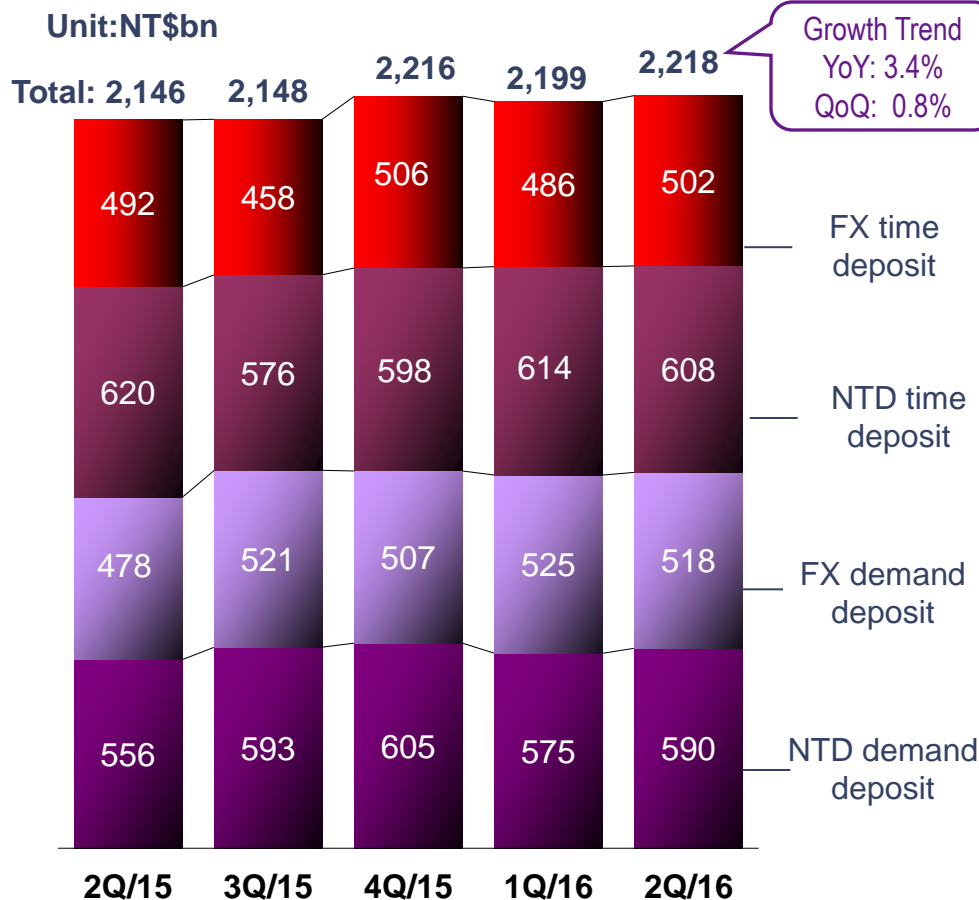


\* Mega Bank quarterly un-audited average balance, includes loan, factoring, A/R financing, L/C, and non-accrual loan but excludes credit card & guarantee.

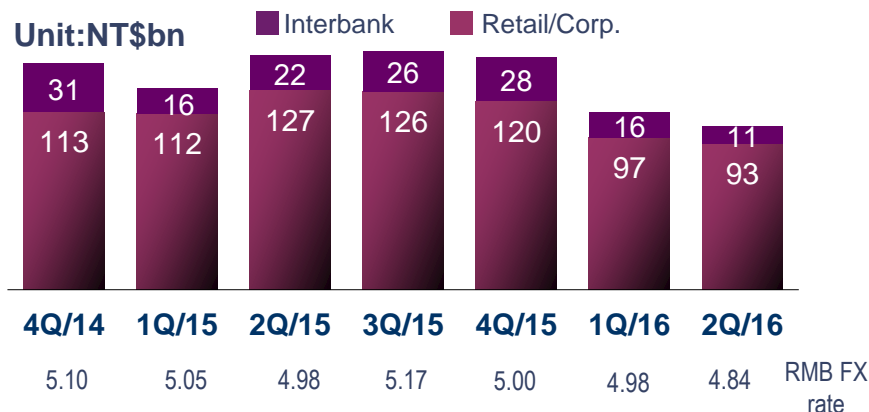
\*\* Foreign currency and USD loans include OBU, overseas branched and some domestic branched loans.

# Stable deposit growth

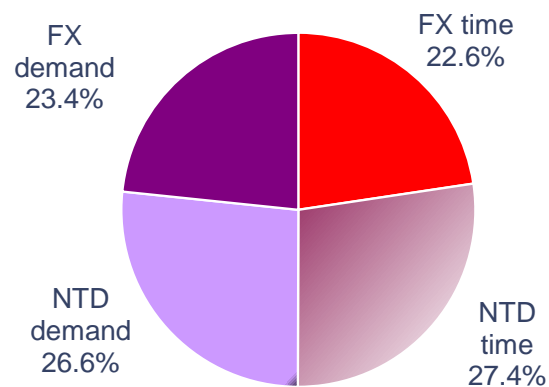
Mega Bank's deposit balance \*



Mega Bank's RMB deposit\*\*



Mega Bank's 2Q/16 deposit breakdown



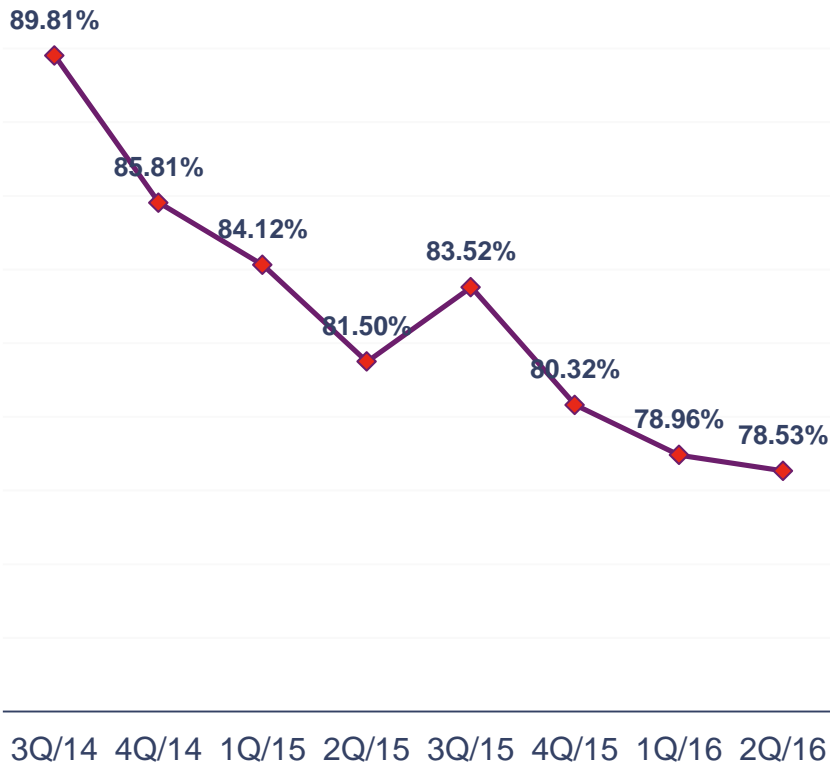
\* Excludes interbank deposit, Central Bank deposit & Chunghwa Post re-deposit ; un-audited numbers.

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

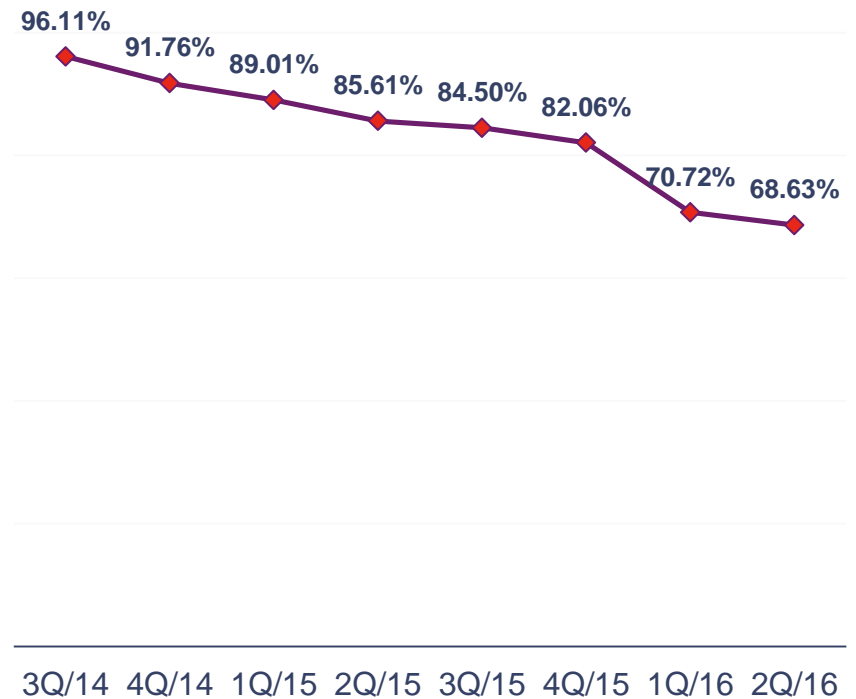


# LDR slid down a bit

Mega Bank's total LDR\*



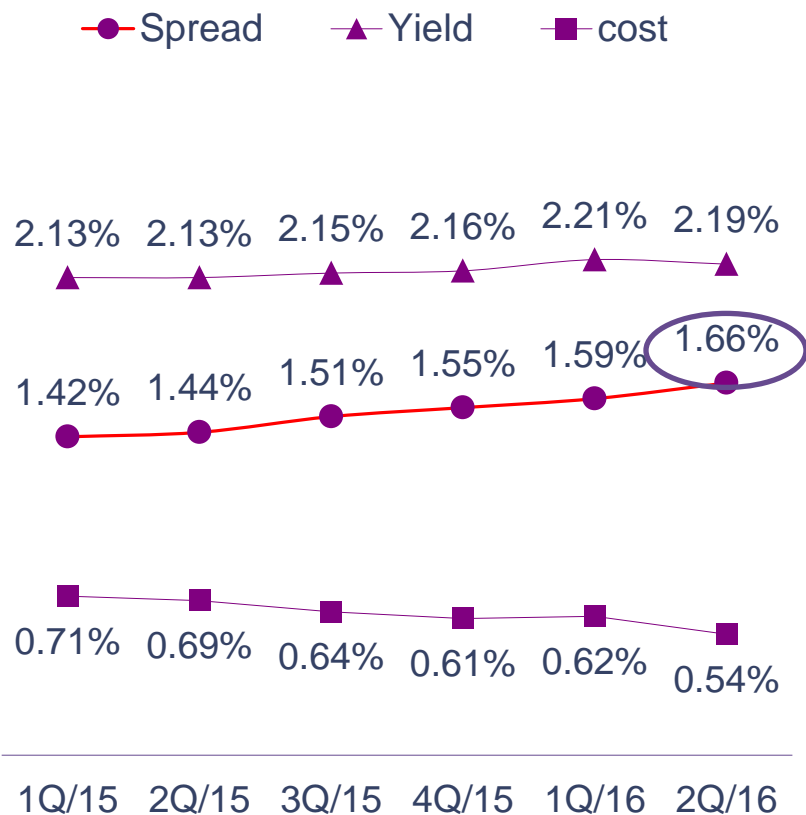
Mega Bank's USD LDR\*



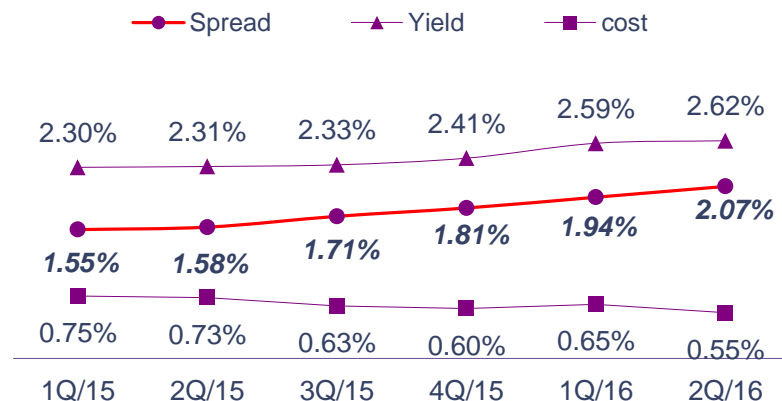
\* LDR calculation is based on loan/deposit end balance

# Onshore/offshore spread divergence continued

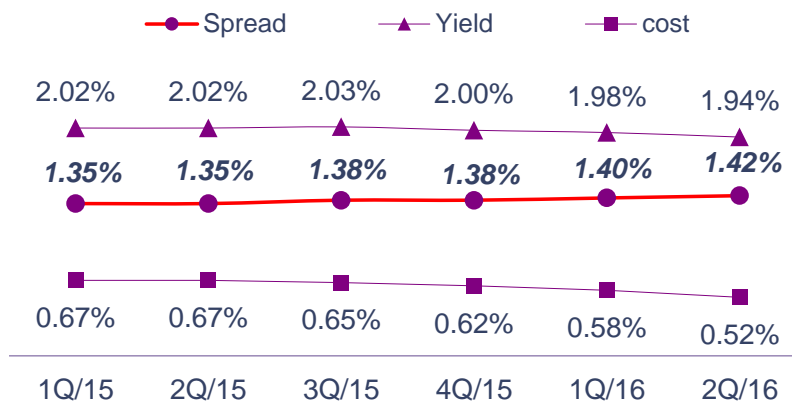
Mega Bank total loan interest spread\*



Mega Bank overseas loan interest spread\*



Mega Bank domestic loan interest spread\*

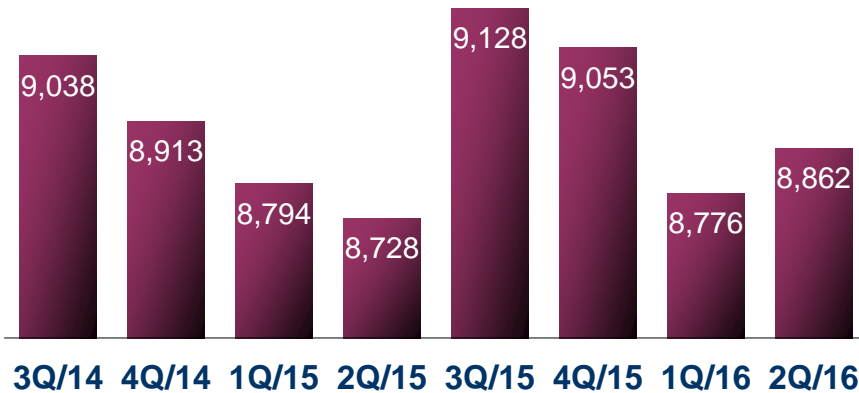


\* Overseas loan includes overseas branches and OBU loan; un-audited internal numbers..

# Net interest income recovered

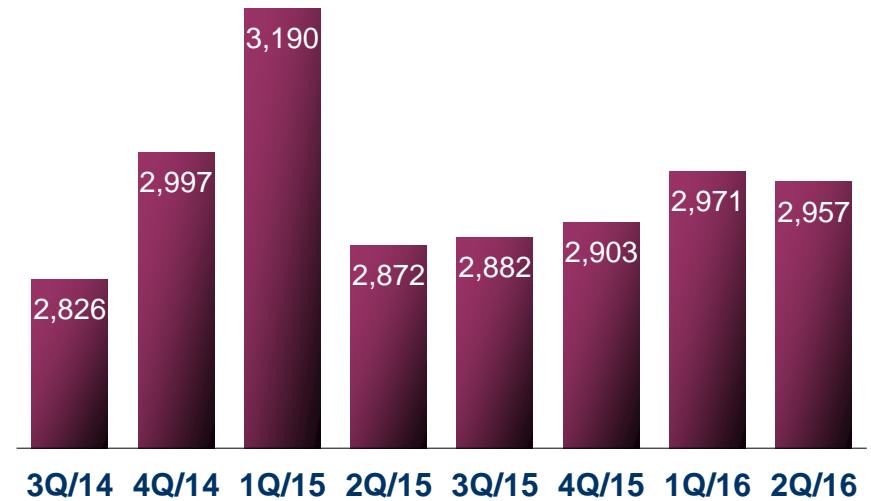
## Mega Bank quarterly NII\*

Unit: NT\$ million



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

Unit: NT\$ billion



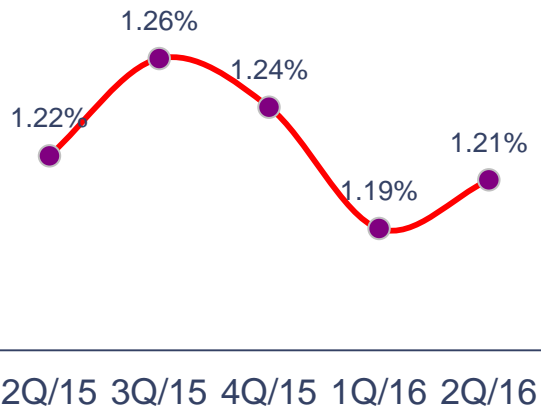
❖ NII was up due to widen loan spread and improved loan growth.

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

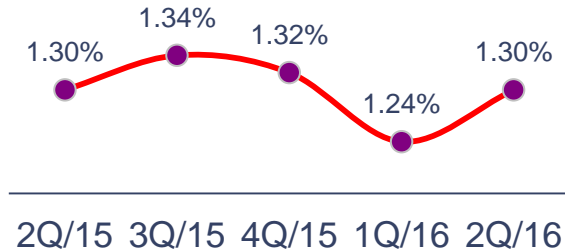
\*\* Quarterly average interest earning assets

# NIM was up on the back of FCY NIM improvement

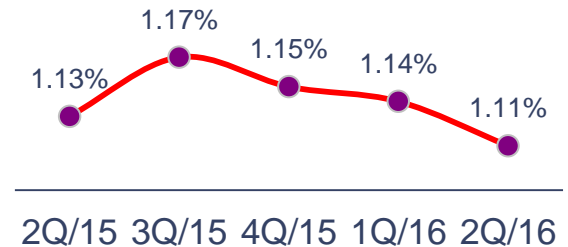
Mega Bank quarterly **Total NIM\***



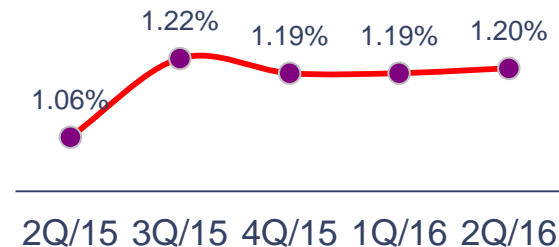
Mega Bank quarterly **FCY NIM\***



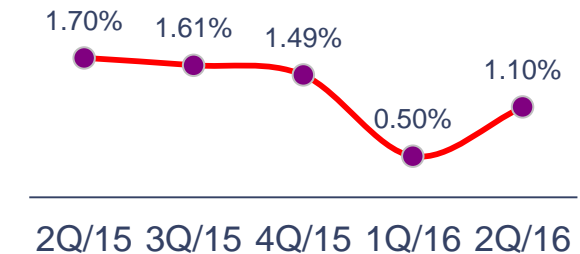
Mega Bank quarterly **NTD NIM\***



Mega Bank monthly **USD NIM\***



Mega Bank monthly **RMB NIM\***

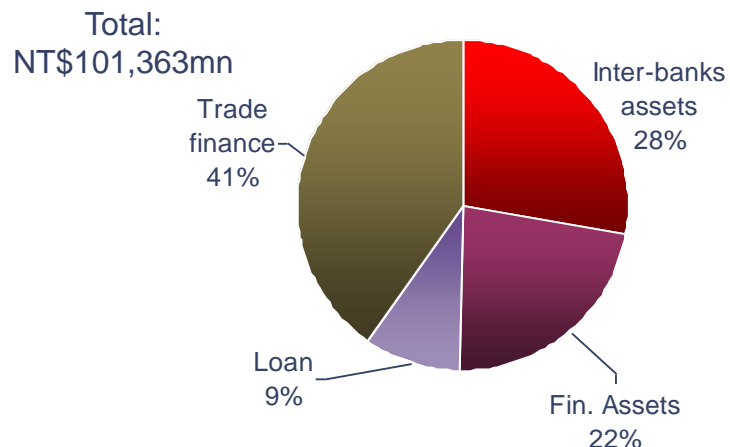


❖ NTD NIM slid further; FCY NIM bounced back up

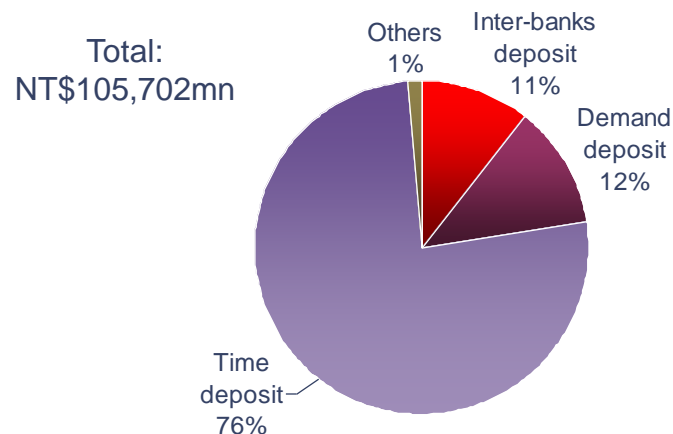
\* NIM = annualized net interest income / average interest earning assets of that quarter.

# RMB NIM bounced back up

Mega Bank 1-2Q/16 RMB interest earning assets\*

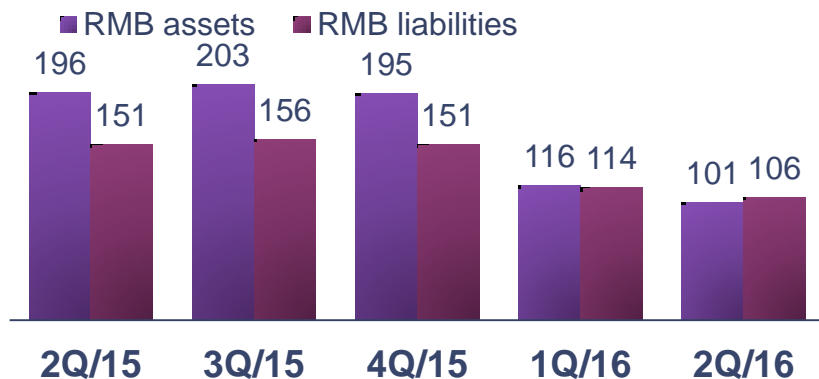


Mega Bank 1-2Q/16 RMB interest bearing liabilities\*



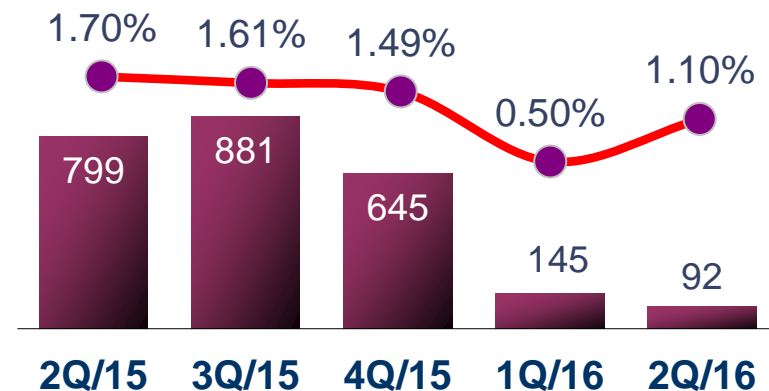
Mega Bank RMB assets & liabilities\*

Unit: NT\$bn



Mega Bank RMB NIM & NII\*\*

Unit: NT\$bn

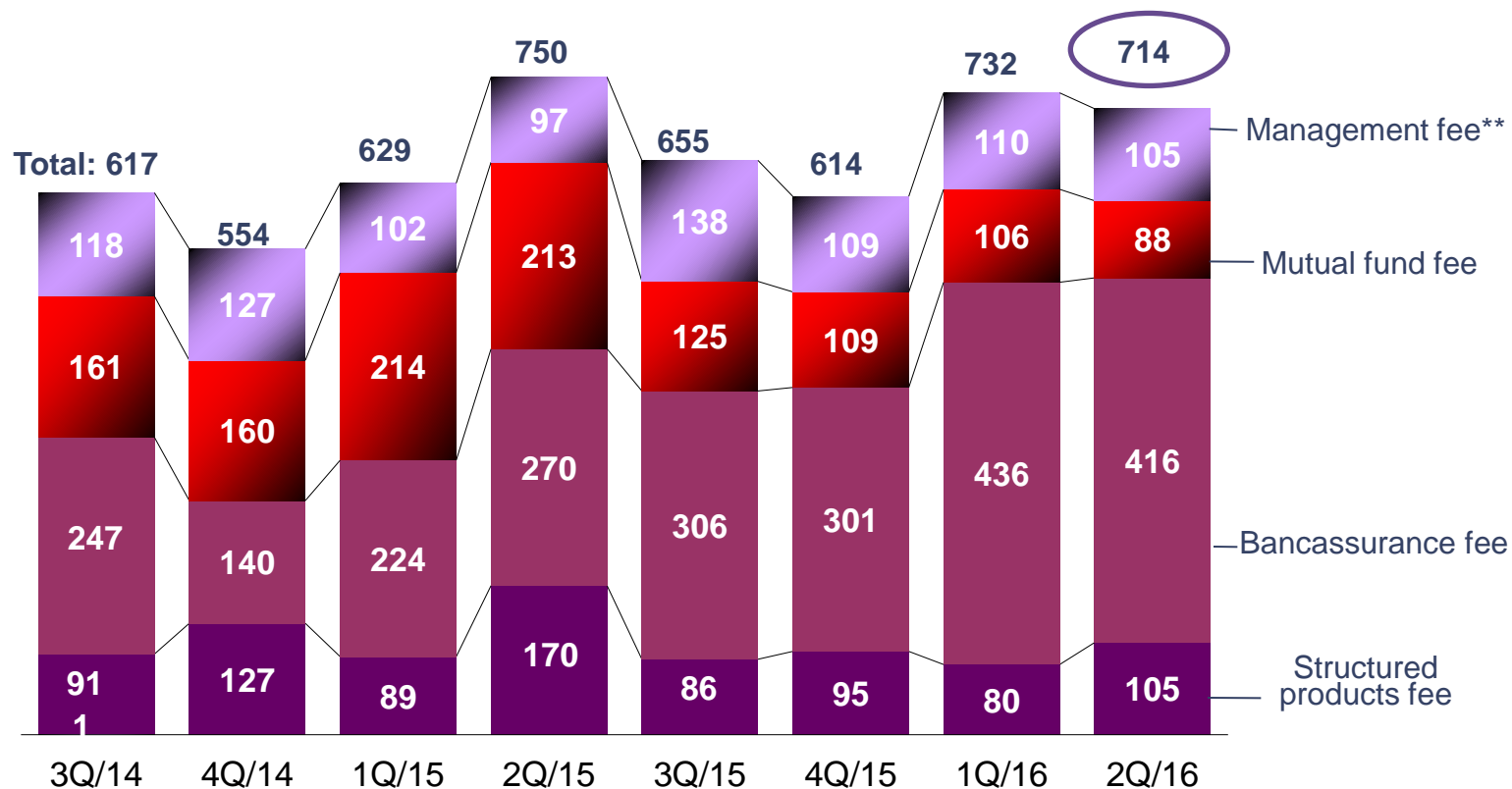


- \* Daily average balance of that period
- \*\* NII: net interest income; NIM: net interest margin

# Bacassurance fee remained solid; while overall WM fee stayed strong

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.

# Group fee remained stable, helped by WM fee.

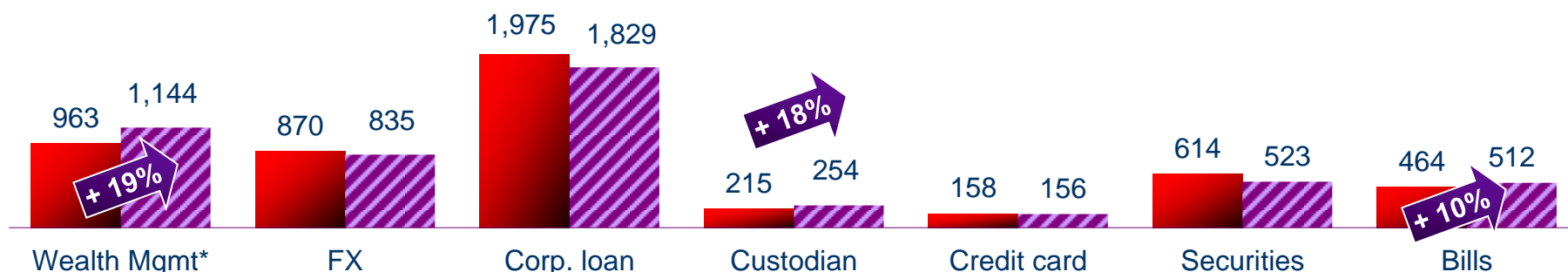
Mega Bank net fee breakdown

Mega Securities net fee

Mega Bills net fee

■ 1H/15 ■ 1H/16

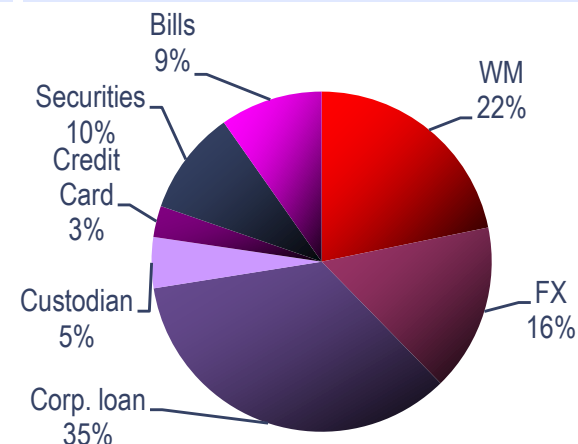
Unit: NT\$MN



Highlights

- ❖ Group fee was flat YoY.
- ❖ Bank WM net fee was up 19% YoY due to strong bancassurance sales fee.
- ❖ Custodian fee was up 18% YoY, driven by strong institutional account demand.
- ❖ Bills sub. fee was up 10% YoY due to better CP issuance fee.

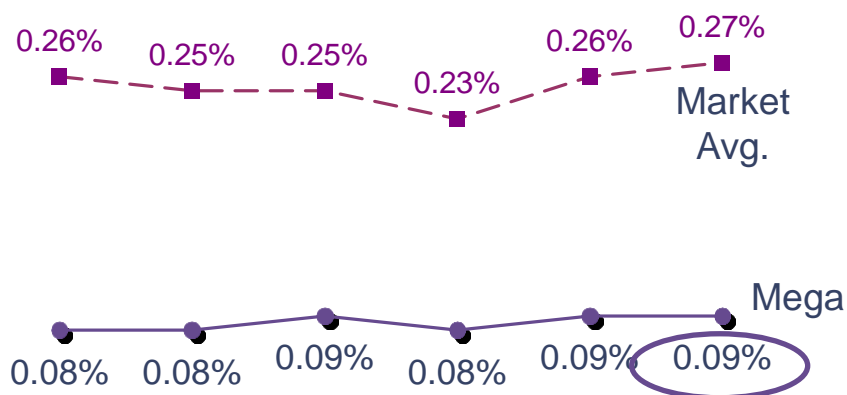
Mega FHC 1H/16 net fee breakdown



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

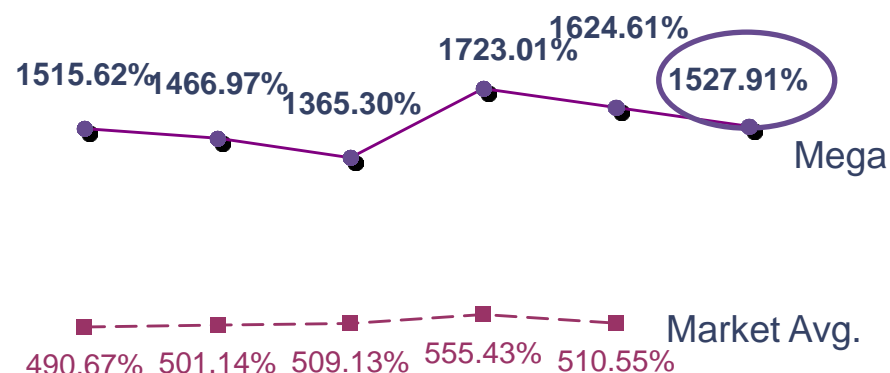
# Low NPL ratio; high coverage

Mega Bank NPL balance & NPL ratio\*



Unit: NT\$MN

Mega Bank loan loss reserved and coverage ratio



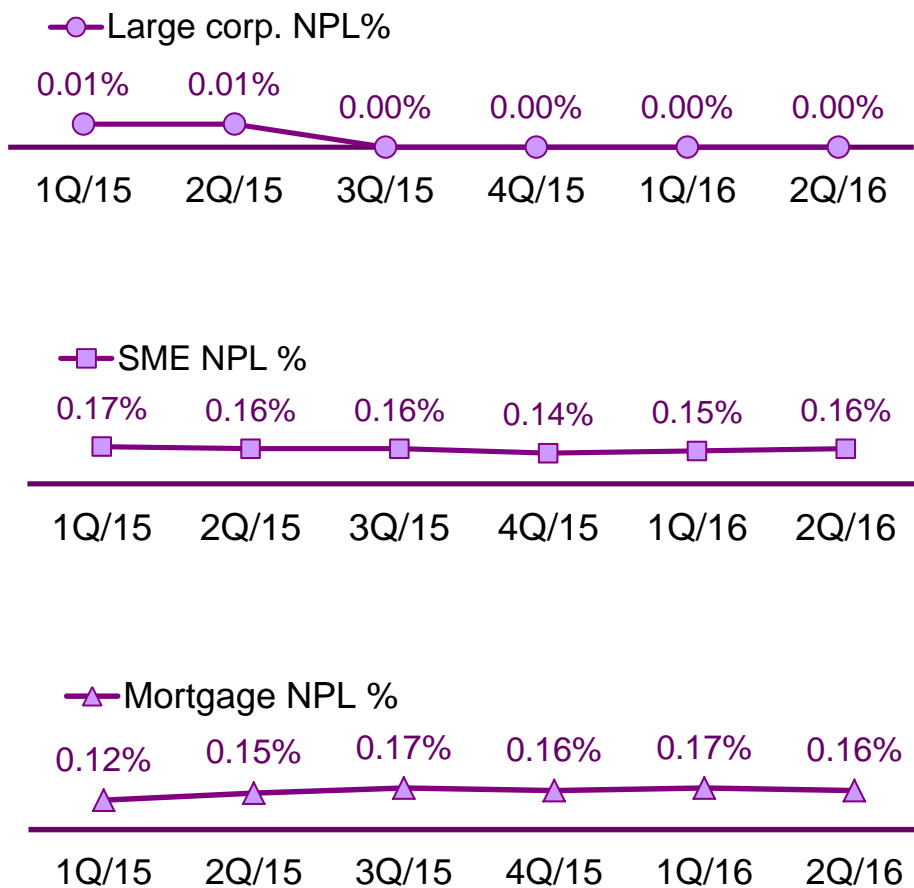
Unit: NT\$MN

\* 90 days standard

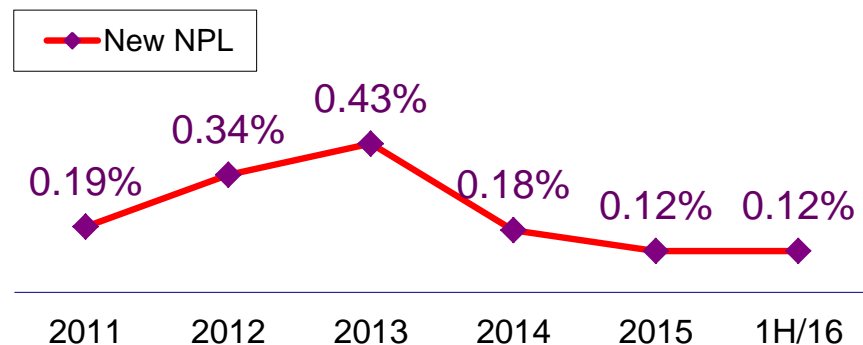


# No sign of asset quality deterioration

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**

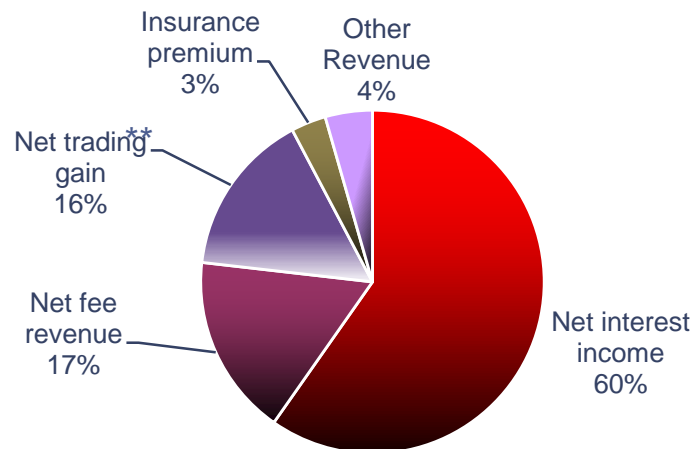
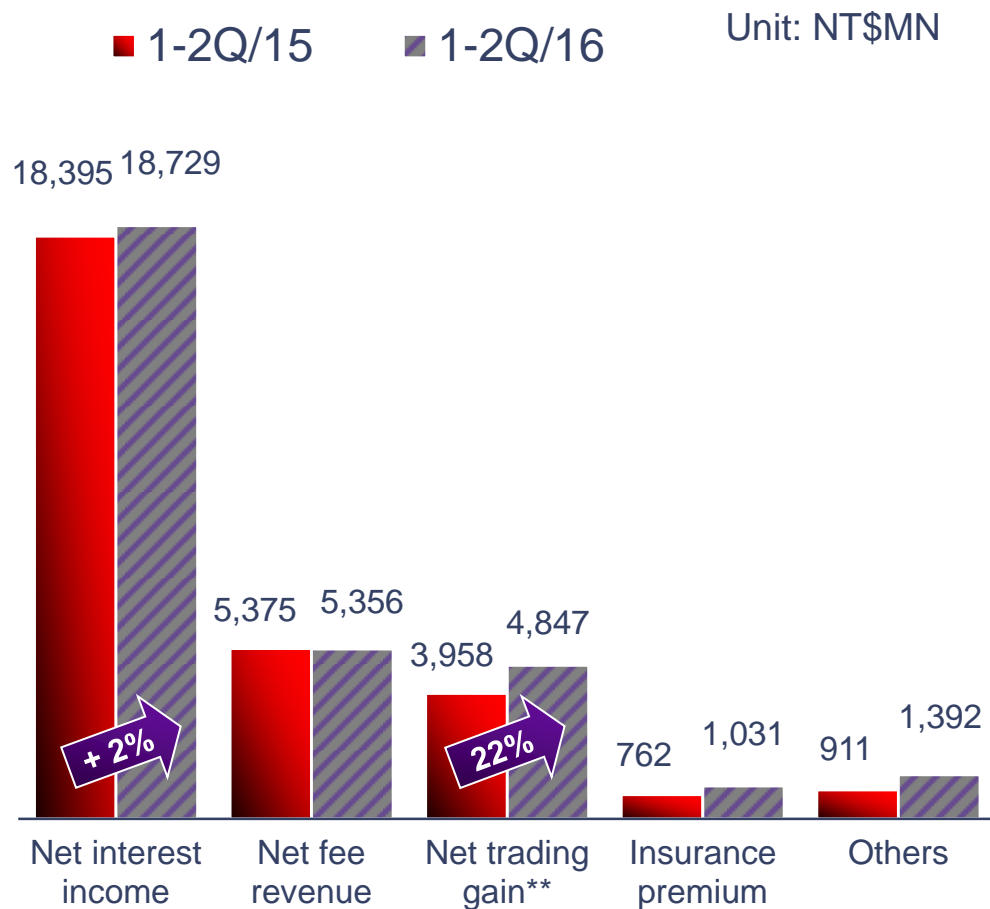


**Appendix**

# Group net revenue was up 7% YoY

Mega Group consolidated net revenue \*

Mega Group 1-2Q/2016 net revenue breakdown



## Highlights

- ❖ Mega Group net revenue was up 7% driven by...
- ❖ NII was up 2% YoY due to NIM improvement, despite loan contraction .
- ❖ Trading gain was up 22% YoY due to trading gain from asset swap position.

\* Un-audited figures.

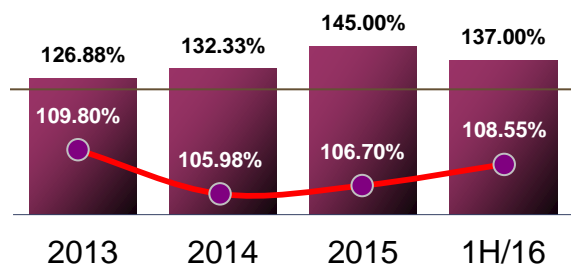
\*\* Net trading gain includes short-term assets, AFS assets, HTM assets, equity method assets, property and FX service derived trading gain, and minus (add) asset impairment loss (write back).

# Strong CET1 ratio to ensure consistent dividend policy

## Mega FHC\*

Moody's: A3

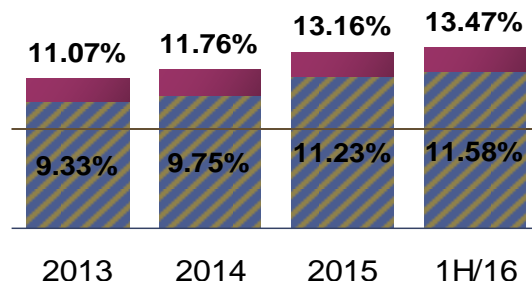
Regulatory Requirement : 100%



## Mega Bank

Moody's: A1 / S&P: A / Fitch: A-

Regulatory Requirement : 8.0%



CAR / RBC\*\*

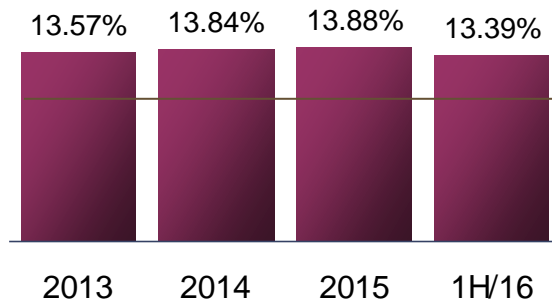
Common Equity Tier I capital ratio\*\*

Credit rating

Double leverage ratio

## Mega Bills

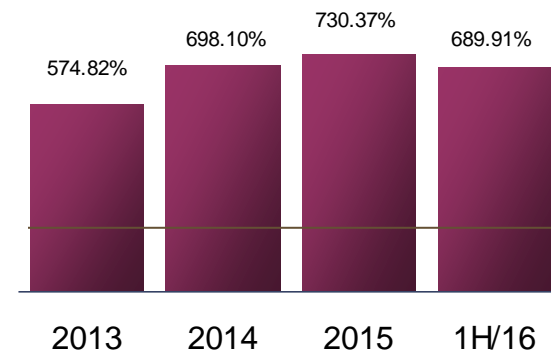
Requirement : 8.0%



## CKI P&C

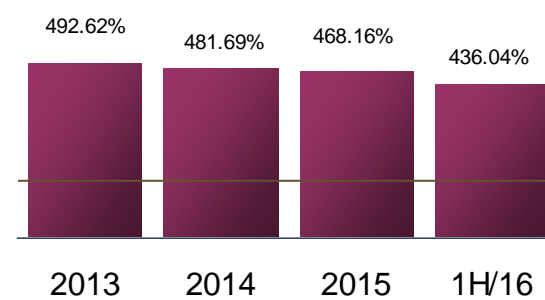
Moody's: A3 / S&P: BBB+

Requirement: 200%



## Mega Securities

Requirement : 150%

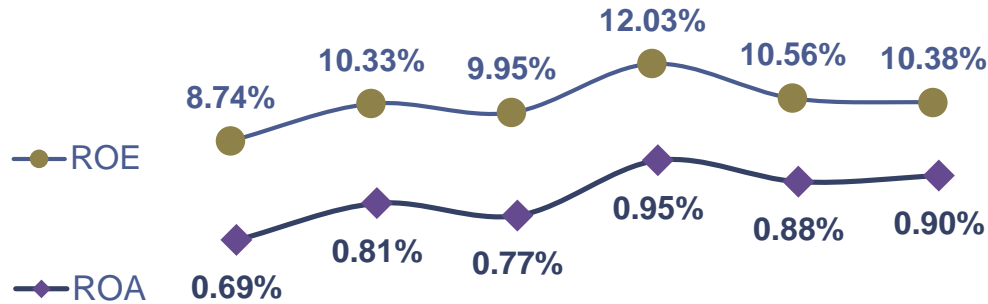


\* FHC CAR is calculated based on net investments in subsidiaries

\*\* 1H/16 are un-audited BASEL III numbers; dividend already deducted.

# Strong dividend policy with 6~7% cash yield

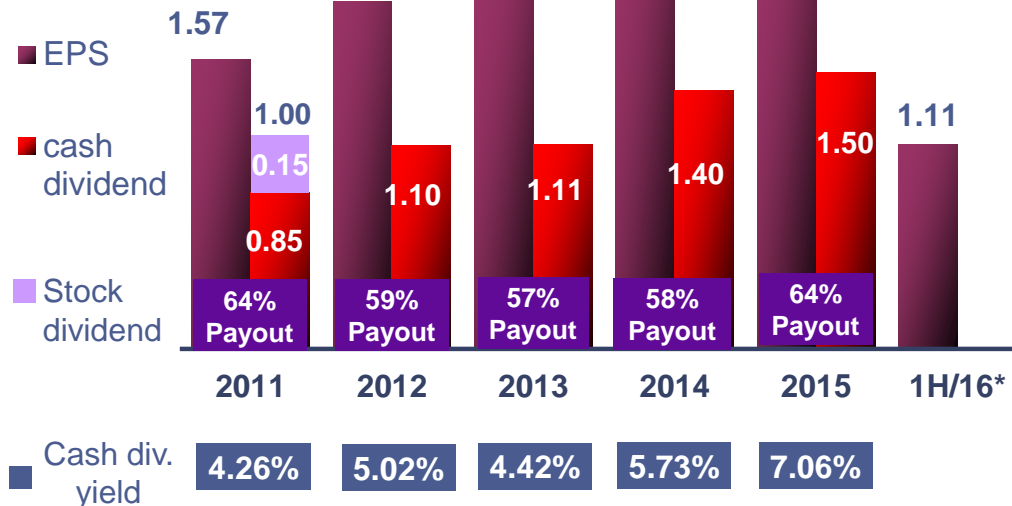
Key Profitability Ratios



❖ 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\$



\* 1H/16 are un-audited numbers; ROE & ROA are annualized numbers.

# 1-2Q/2016 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-2Q/2016*<sub>5</sub></b>	<b>1-2Q/2015</b>	<b>YoY</b>
Net interest income* <sup>1</sup>	18,729	18,395	2%
Net fee revenue	5,356	5,375	0%
Insurance premium	1,031	762	35%
Gain from fin. assets at fair value thru P&L* <sup>2</sup>	2,535	1,481	71%
Available for sales asset gain	1,101	1,093	1%
Equity method investment gain	133	154	-14%
FX spread gain* <sup>3</sup>	1,301	984	32%
Asset impairment loss (write-back)	-230	-265	-13%
Property gain	7	511	-99%
Other non-interest revenue (net)	1,392	911	53%
Operating net revenue	31,355	29,401	7%
Operating expense	-11,686	-11,952	-2%
Pre-provision operating profit	19,669	17,449	13%
Provision expense on loan* <sup>4</sup>	-968	1,924	-150%
Reserved on insurance	-220	113	-
Pretax profit	18,481	19,486	-5%
Tax	-3,376	-4,025	-16%
Minority shareholder interest	1	0	-
Net profit	15,106	15,461	-2%
EPS (NT\$)	1.11	1.25	-11%

## Brief Gap Analysis

1. NII was up due to improved NIM
2. Gain from fin. assets was up due to trading gain from asset swap position.
3. FX spread gain was up due to increased FX market volatility.
4. Provision expense was up due to one-off write back of Powerchip (\$0.6bn) and Hua-Long (\$1.0bn) took place in 1-2Q/15
5. Un-audited consolidated P&L

# 1-2Q/2016 Mega FHC consolidated balance sheet\*

NT\$MN	1-2Q/2016*	1-2Q/2015	YoY
Assets:			
Cash and due from banks	628,227	478,613	31%
Bills and bonds under RP agreement	9,372	5,157	82%
Fin. assets at fair value through P&L	195,694	173,345	13%
AFS financial assets	353,280	312,596	13%
HTM financial assets	248,402	174,098	43%
Other financial assets	16,365	20,815	-21%
A/R, net	113,142	221,799	-49%
Loan, net	1,732,561	1,751,864	-1%
Equity method LT investments, net	3,195	2,948	8%
Land, premises and equipments, net	23,323	23,339	0%
Others	16,088	12,269	31%
Total assets	3,339,649	3,176,843	5%
Liabilities			
Due to banks	386,382	362,222	7%
Deposits	2,219,786	2,157,860	3%
CP & Bond payable	53,104	62,102	-14%
Bills & bonds sold under repurchase agreement	221,619	180,551	23%
Other liabilities	169,730	158,122	7%
Total liabilities	3,050,621	2,920,857	4%
Capital stock (common stock)	135,998	124,498	9%
Capital surplus	68,194	55,270	23%
Retain earning	83,086	75,696	10%
Equity adjustment items	1,697	364	-
Minority shareholder interest	53	158	-66%
Total stockholders' equity	289,028	255,986	13%
Total liabilities and stockholders' equity	3,339,649	3,176,843	5%
Book value per share (NT\$)	21.25	20.56	3%

\* Un-audited consolidated balance sheet.

# 1-2Q/2016 Mega Bank consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-2Q/2016*4</b>	<b>1-2Q/2015</b>	<b>YoY</b>
Net interest income	17,702	17,645	0%
Net fee revenue	4,221	4,255	-1%
Gain from fin. assets at fair value thru P&L*1	1,652	243	580%
Available for sales asset gain	805	766	5%
Equity method investment gain	130	134	-3%
FX spread gain*2	1,318	1,017	30%
Asset impairment loss (write-back)	-233	-265	-12%
Other non-interest revenue (net)	666	496	34%
Operating net revenue	26,261	24,291	8%
Operating expense	-9,403	-9,531	-1%
Pre-provision operating profit	16,858	14,760	14%
Provision expense on loan*3	-1,020	2,059	-150%
Pretax profit	15,838	16,819	-6%
Tax	-2,483	-3,017	-18%
Net profit	13,355	13,802	-3%
EPS (NT\$)	1.56	1.78	-12%

## Brief Gap Analysis

1. Gain from fin. assets was up due trading gain from asset swap position.
2. FX spread gain was up due to increased FX market volatility.
3. Provision expense was up due to one-off write back of Powerchip (\$0.6bn) and Hua-Long (\$1.0bn) took place in 1-2Q/15
4. Un-audited consolidated P&L



# 1-2Q/2016 Mega Bank balance sheet\*

NT\$MN	1-2Q/2016*	1-2Q/2015	YoY
Assets:			
Cash and due from banks	620,853	469,604	32%
Bills and bonds under RP agreement	9,971	7,811	28%
Fin. assets at fair value through P&L	48,866	39,937	22%
AFS financial assets	214,405	209,309	2%
HTM financial assets	246,594	163,501	51%
Other financial assets	9,901	13,493	-27%
A/R, net	79,087	189,602	-58%
Loan, net	1,732,561	1,751,864	-1%
Equity method LT investments, net	3,120	2,887	8%
Land, premises and equipments, net	15,069	15,127	0%
Others (net)	9,270	15,847	-42%
Total assets	2,989,697	2,878,982	4%
Liabilities			
Due to banks	367,652	342,819	7%
Deposits	2,232,437	2,160,717	3%
CP & Bond payable	36,200	44,200	-18%
Bills & bonds sold under repurchase agreement	584	12,293	-95%
Other liabilities	99,086	91,891	8%
Total liabilities	2,735,959	2,651,920	3%
Capital stock (common stock)	85,362	80,000	7%
Capital surplus	62,220	52,019	20%
Retain earning	106,232	94,937	12%
Equity adjustment items	(76)	106	-172%
Total stockholders' equity	253,738	227,062	12%
Total liabilities and stockholders' equity	2,989,697	2,878,982	4%
Book value per share (NT\$)	29.72	28.38	5%

\* Un-audited consolidated balance sheet.

# Agenda

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**Operation Highlights**



**Financial Performance**

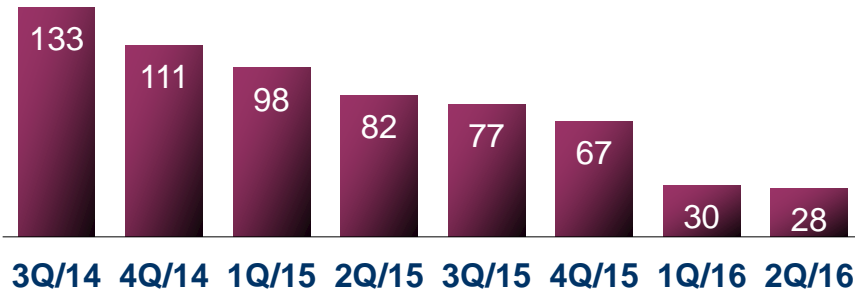


**Appendix**

# Mega Bank's interbank assets trend

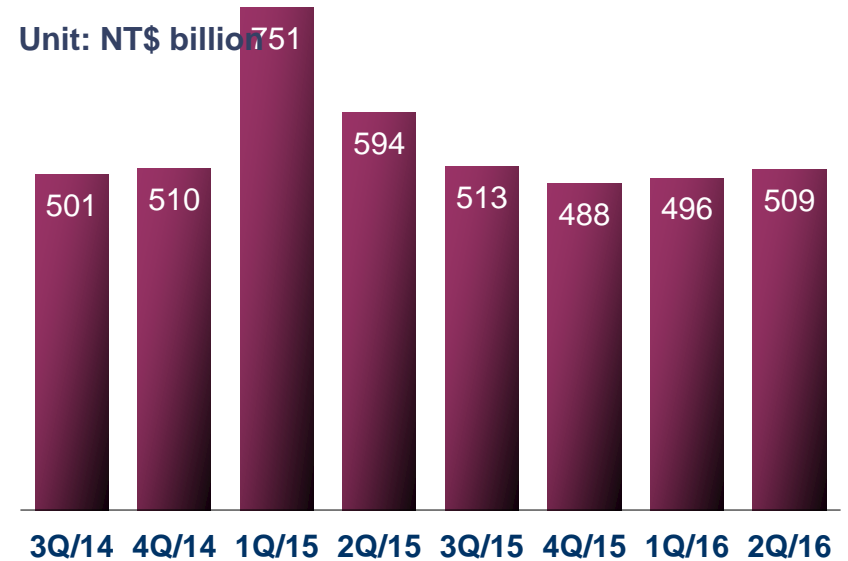
Mega Bank RMB inter-banks assets\*

Unit: NT\$ billion



Mega Bank USD inter-banks assets\*

Unit: NT\$ billion

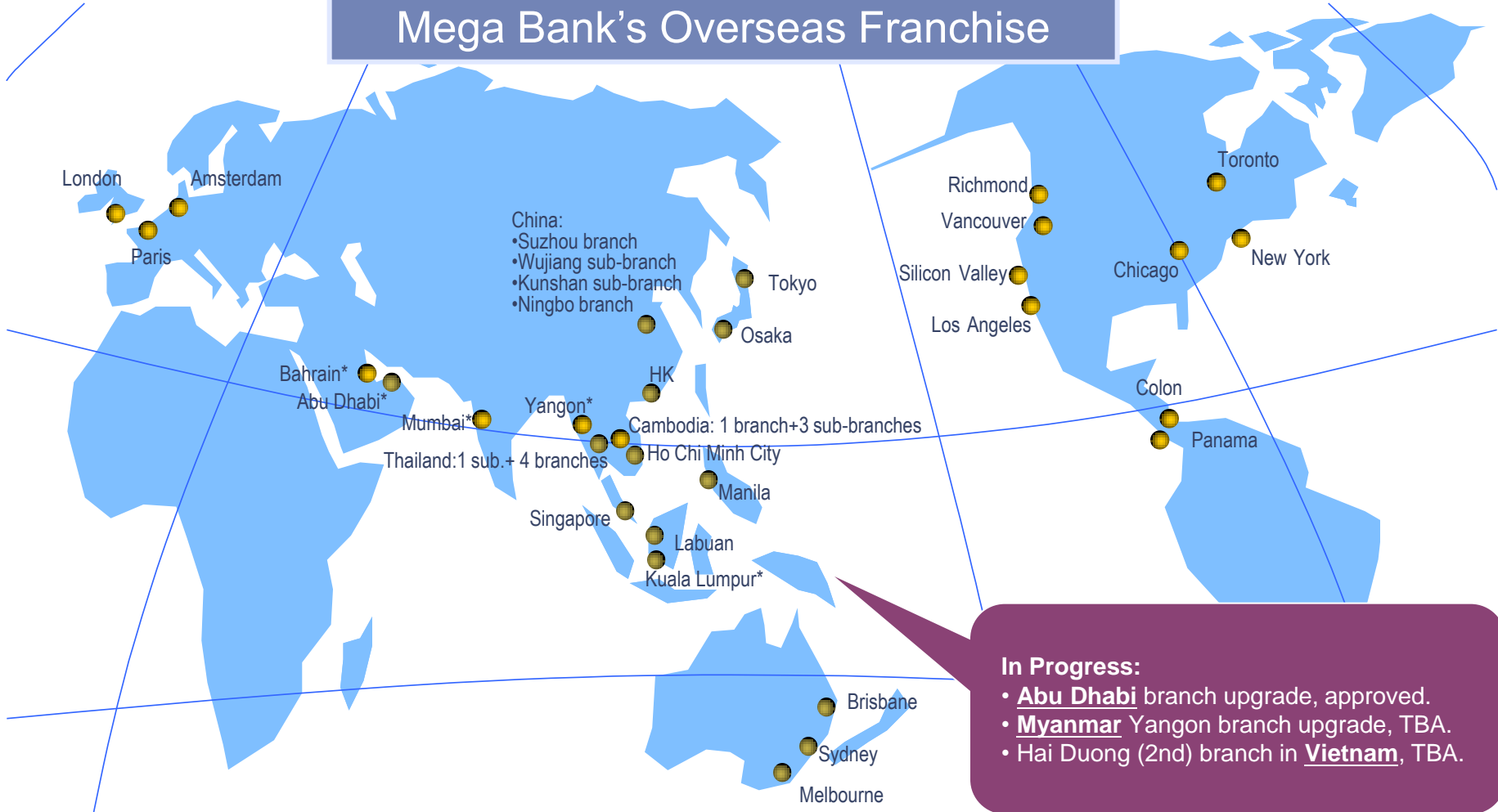


- ❖ Lower yield USD interbank assets stabilized and became less of swing factor for the NIM.

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

# 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