

# **Investor/Analyst Briefing**

## **3Q / 2016 (V.1)**



**Mega Holdings**

# DISCLAIMER

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**THE FINANCIAL INFORMATION IN THIS PRESENTATION AS OF AND FOR THE NINE MONTHS ENDED SEP 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 NOV 15, 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**

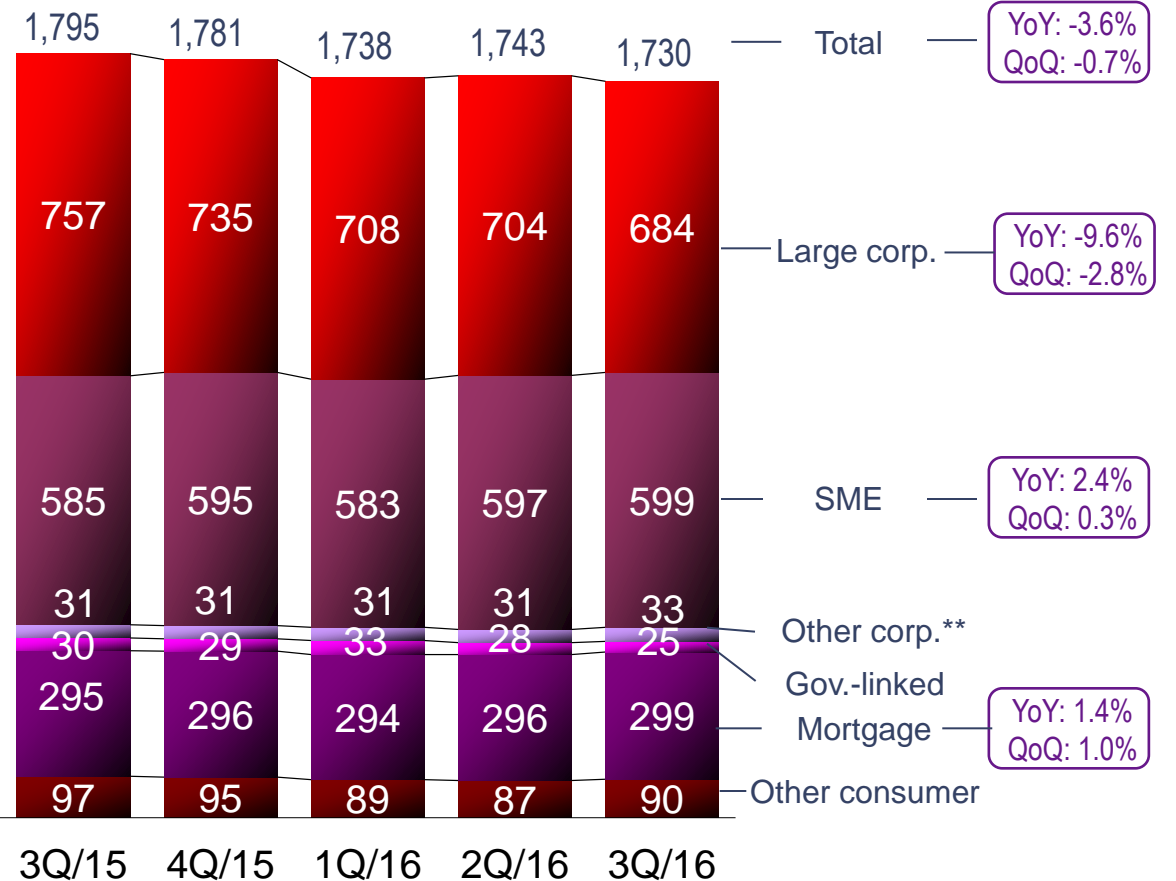


**Appendix**

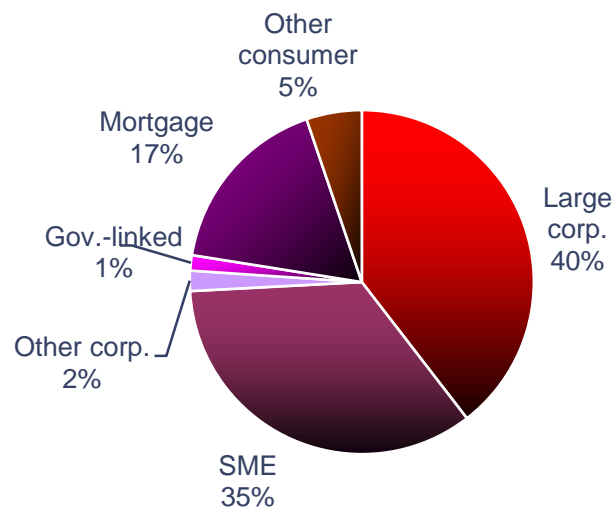
# Loan demand remained sluggish

Mega Bank quarterly loan balance\*

Unit: NT\$bn



Mega Bank 3Q/16 loan breakdown by customer

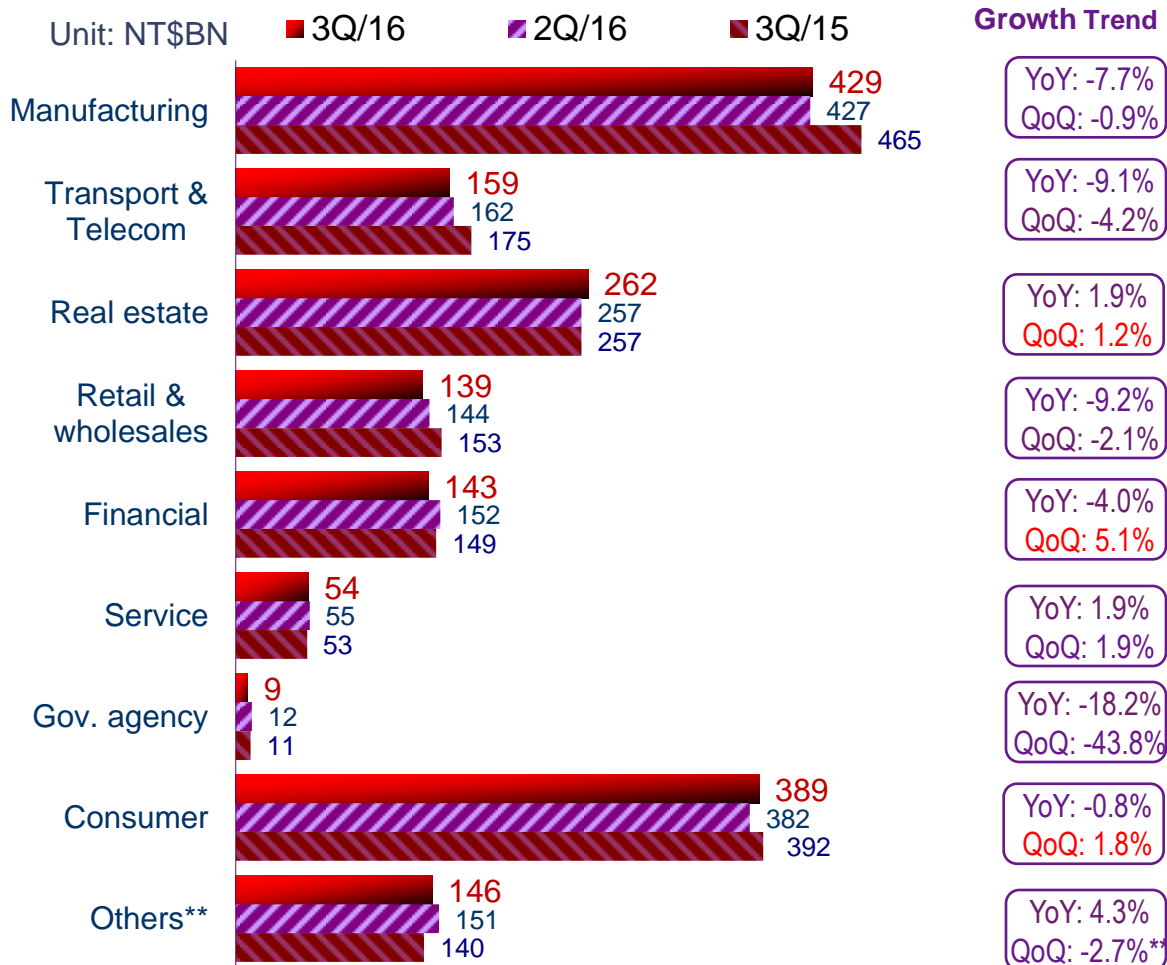


\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

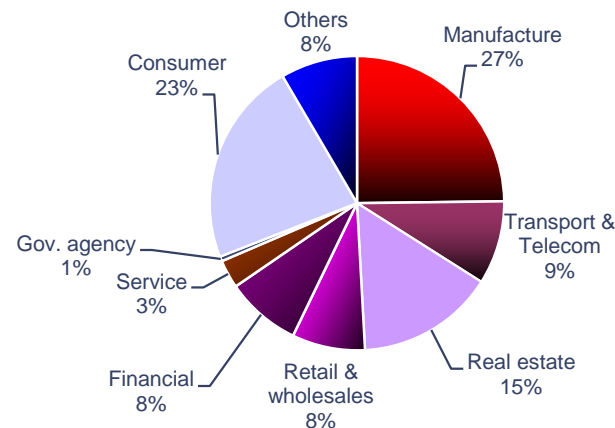
\*\* Includes Gov-linked Non-Profit Organization and etc.

# Growth from real estate, financial industries and consumer loan were offset by decline from others

Mega Bank loan balance trend by industry\*



Mega Bank 3Q/16 loan breakdown by industry\*

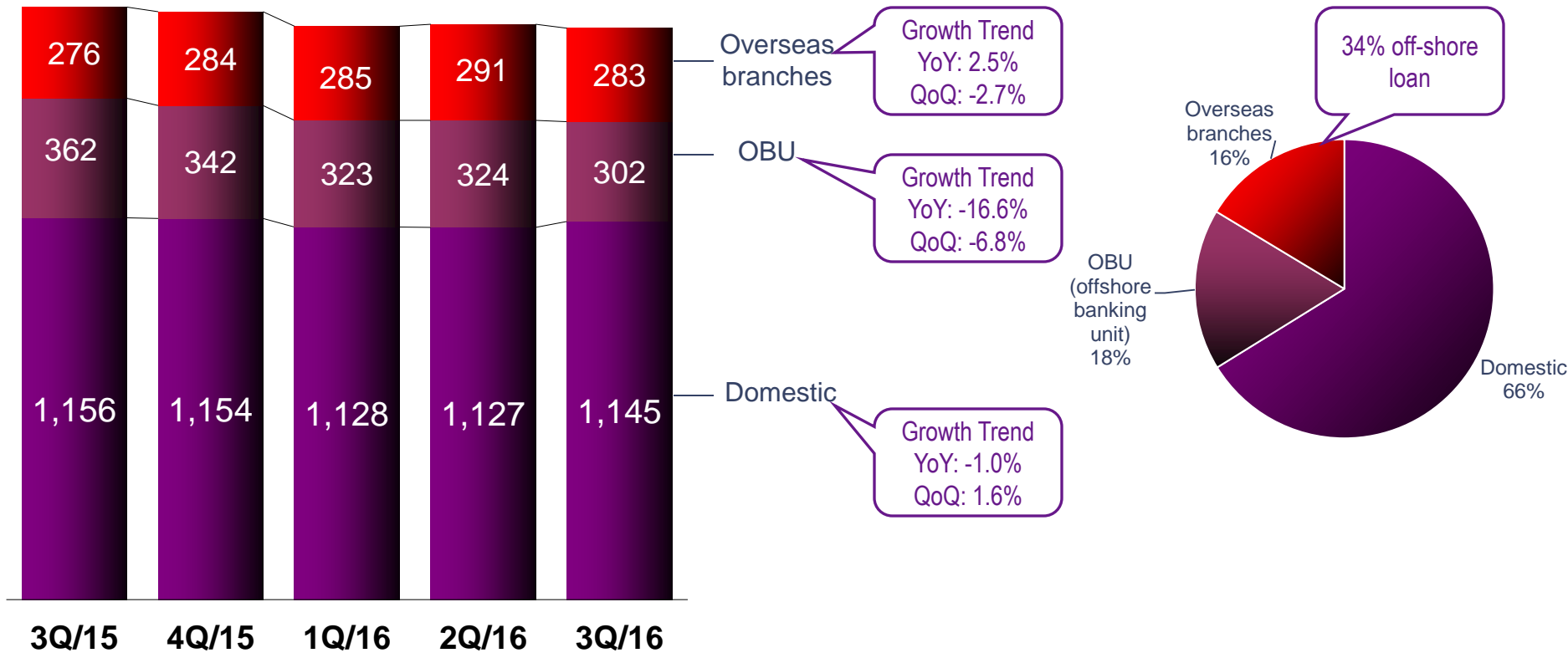


- \* Mega Bank un-audited numbers, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.
- \*\* Main growth driver for "Other Industry": leisure (hotel & restaurant) industry

# Overseas branches & OBU loan were down while domestic loan was up

Mega Bank 3Q/16 loan breakdown by regions \*

Unit: NT\$bn



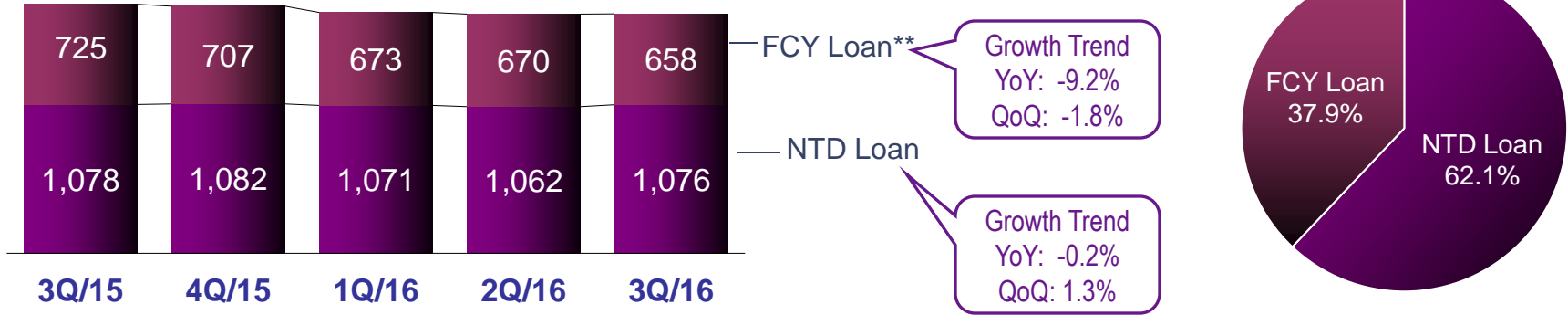
\* Mega Bank quarterly un-audited end balance, includes loan, factoring, A/R financing, L/C, credit card revolving and non-accrual loan but excludes guarantee.

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

# USD loan demand was soft

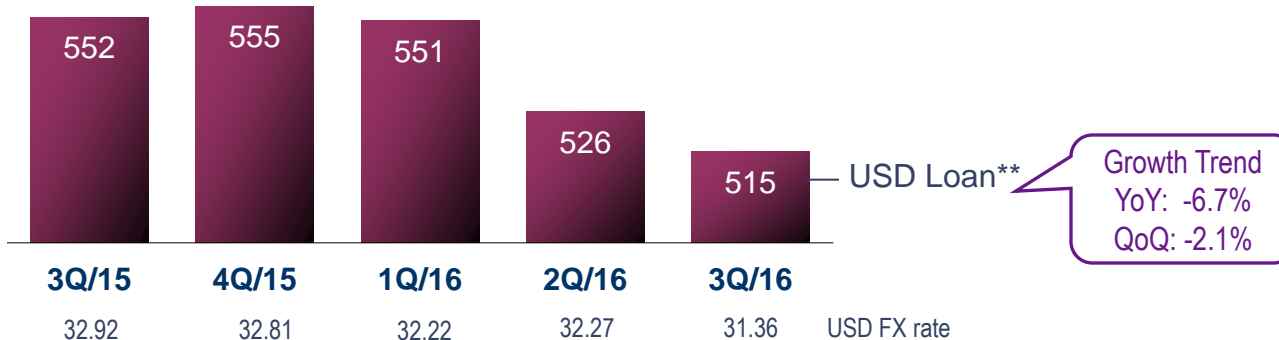
Mega Bank 3Q/16 loan breakdown by currency: NTD vs. foreign currency loan \*

Unit: NT\$bn



Mega Bank USD Loan balance \*

Unit: NT\$ billion

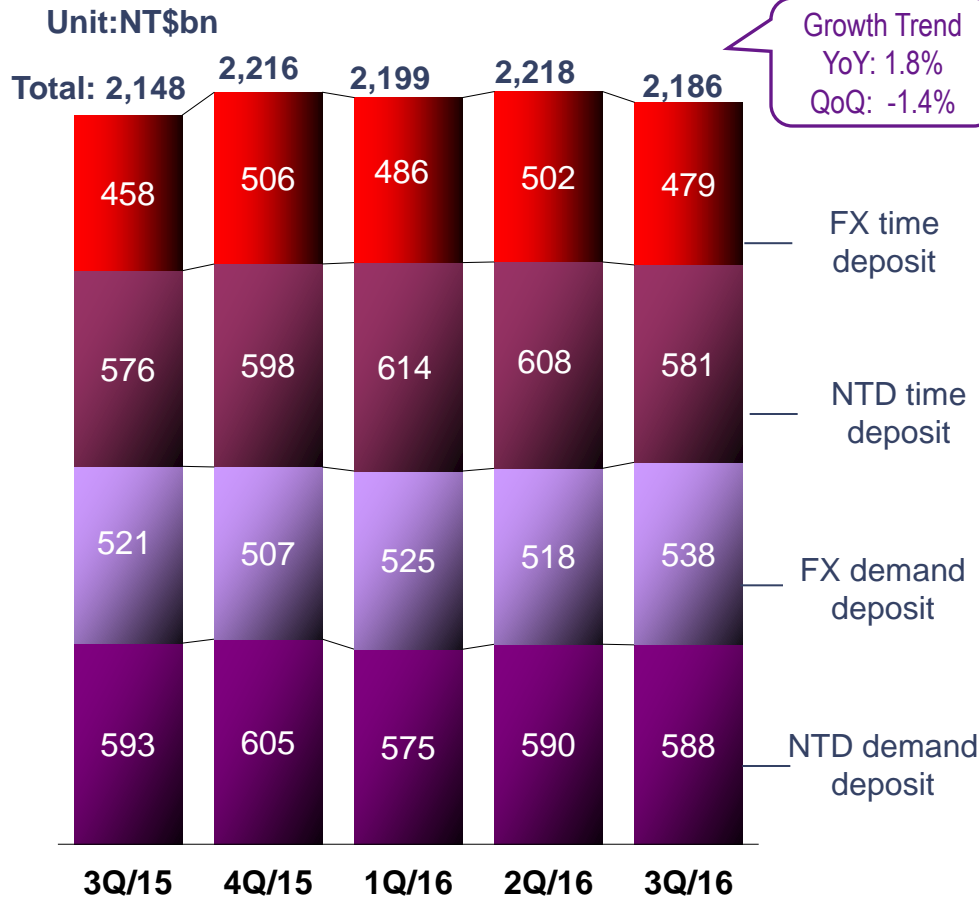


\* Mega Bank quarterly un-audited average balance, includes loan, factoring, A/R financing, L/C, and non-accrual loan but excludes credit card & guarantee.

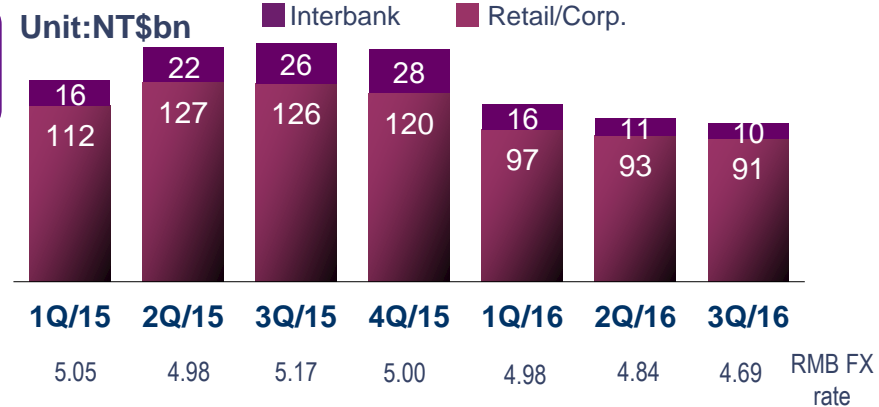
\*\* Foreign currency and USD loans include OBU, overseas branched and some domestic branched loans.

# Deposit growth stabilized

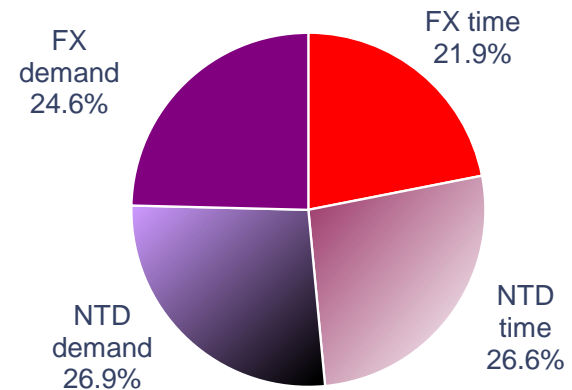
Mega Bank's deposit balance \*



Mega Bank's RMB deposit\*\*



Mega Bank's 3Q/16 deposit breakdown



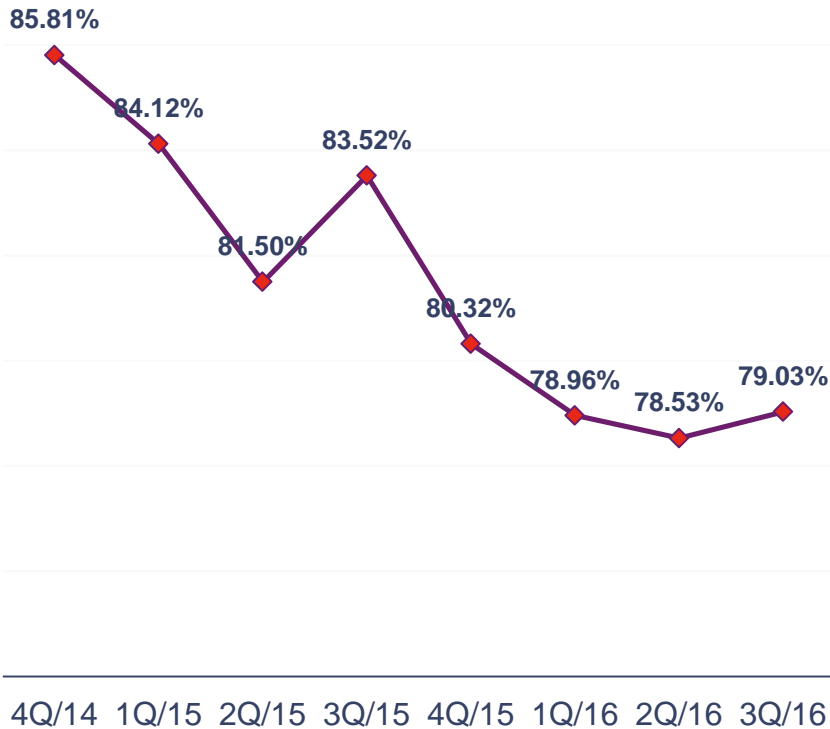
\* Excludes interbank deposit, Central Bank deposit & Chunghwa Post re-deposit ; un-audited numbers.

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

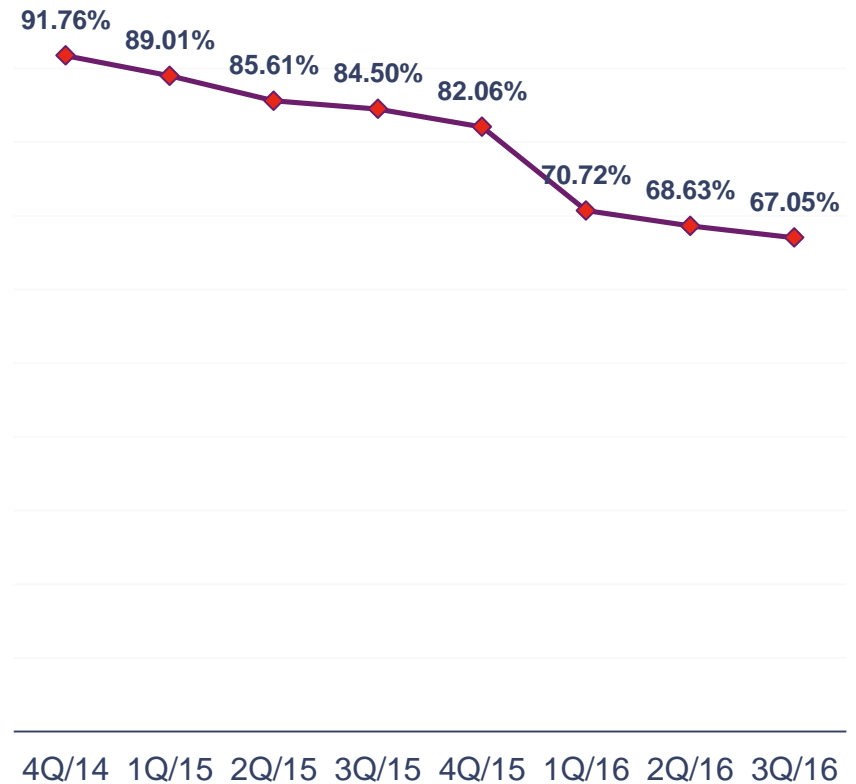


# Pushed LDR slightly higher

Mega Bank's total LDR\*



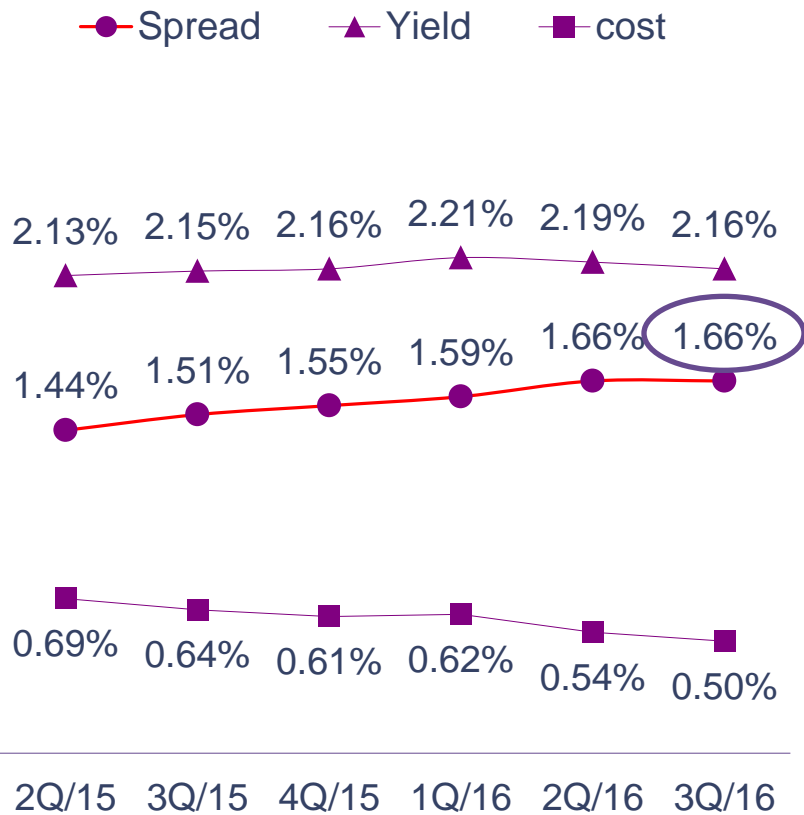
Mega Bank's USD LDR\*



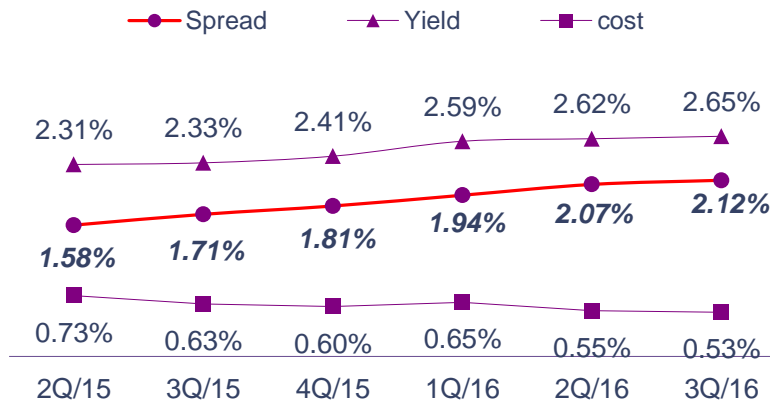
\* LDR calculation is based on loan/deposit end balance

# Onshore/offshore spread divergence continued

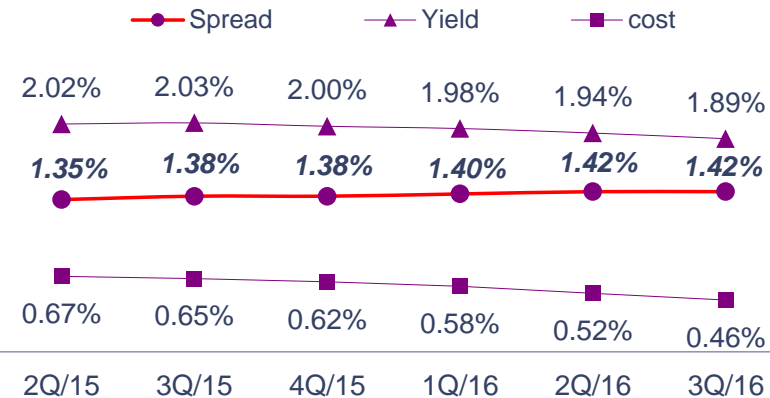
Mega Bank total loan interest spread\*



Mega Bank overseas loan interest spread\*



Mega Bank domestic loan interest spread\*

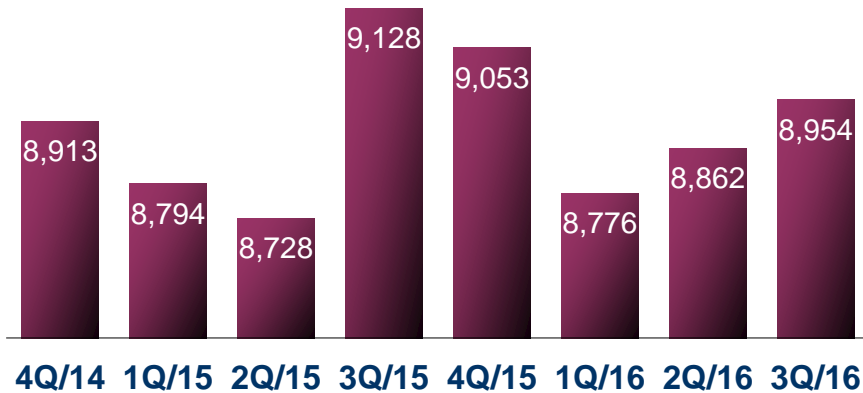


\* Overseas loan includes overseas branches and OBU loan; un-audited internal numbers..

# Net interest income recovered

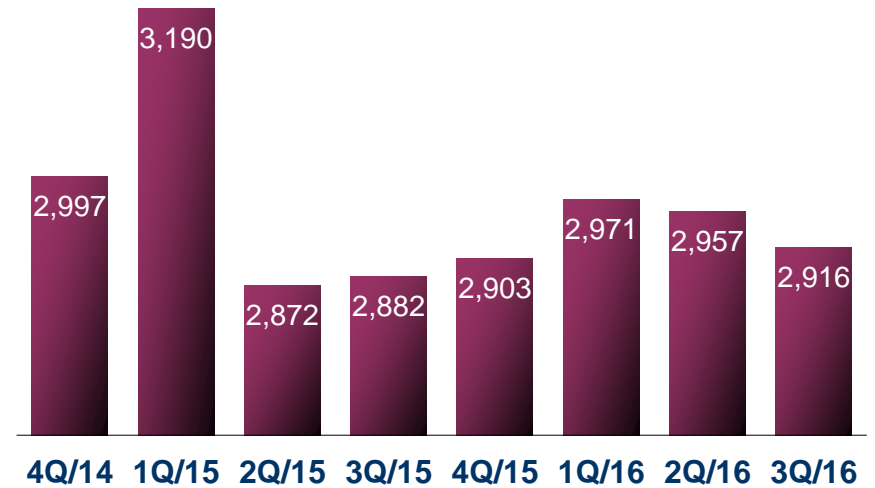
Mega Bank quarterly NII\*

Unit: NT\$ million



Mega Bank quarterly interest earning assets\*\*

Unit: NT\$ billion

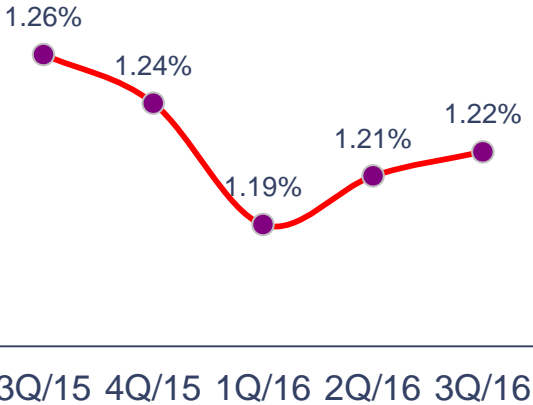


\* Stand-alone un-audited P&L net interest income

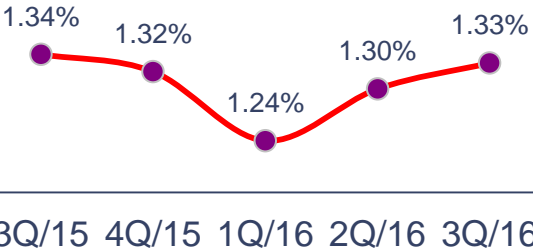
\*\* Quarterly average interest earning assets

# NIM inched up due to USD NIM improvement

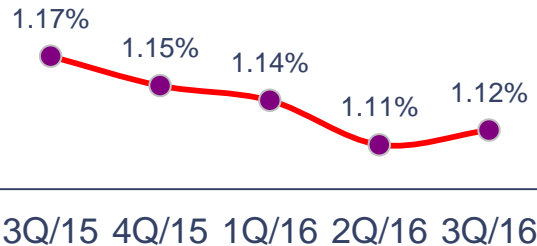
**Mega Bank quarterly Total NIM\***



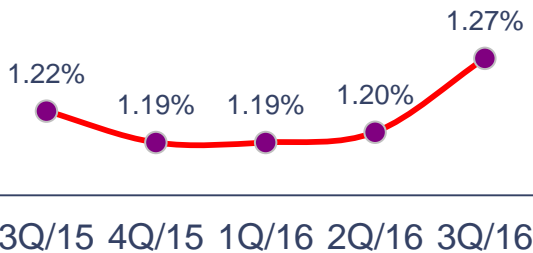
**Mega Bank quarterly FCY NIM\***



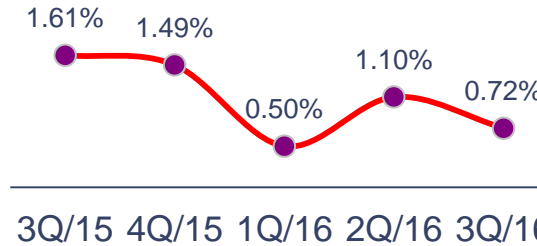
**Mega Bank quarterly NTD NIM\***



**Mega Bank monthly USD NIM\***



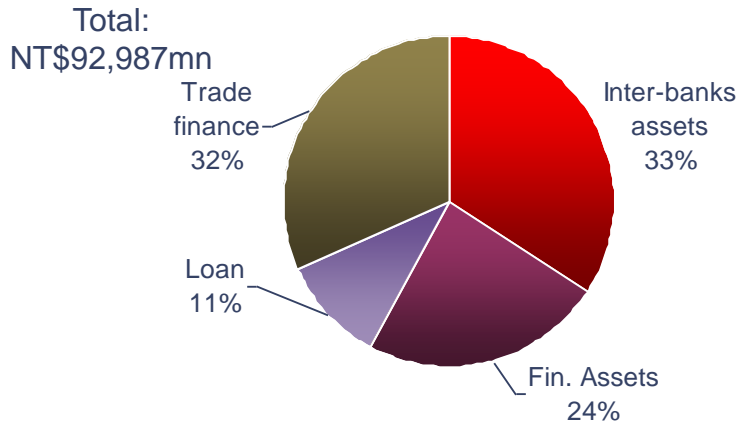
**Mega Bank monthly RMB NIM\***



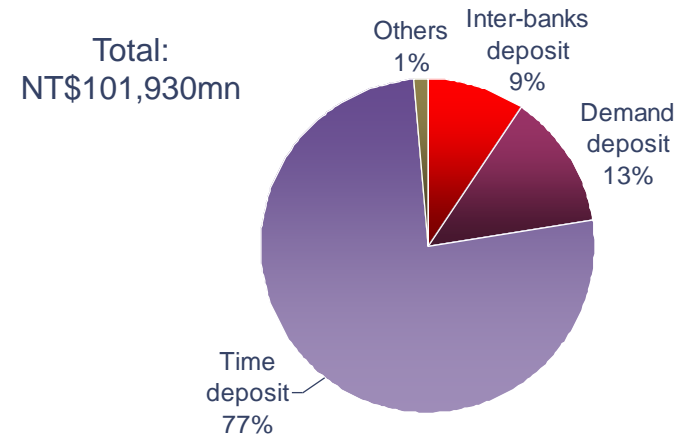
\* NIM = annualized net interest income / average interest earning assets of that quarter.

# RMB NII contribution remained insignificant

Mega Bank 1-3Q/16 RMB interest earning assets\*

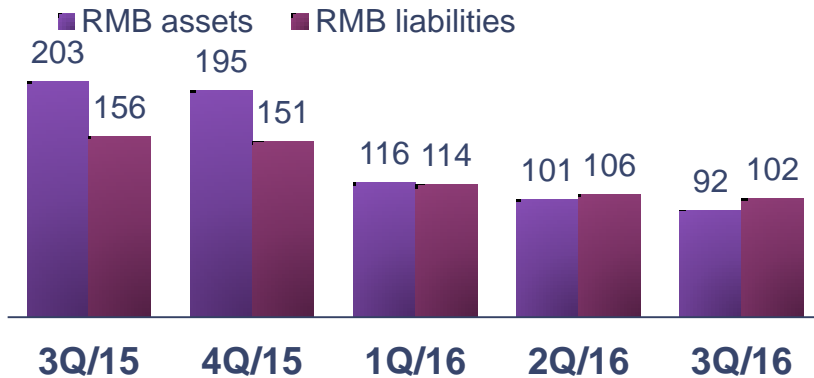


Mega Bank 1-3Q/16 RMB interest bearing liabilities\*



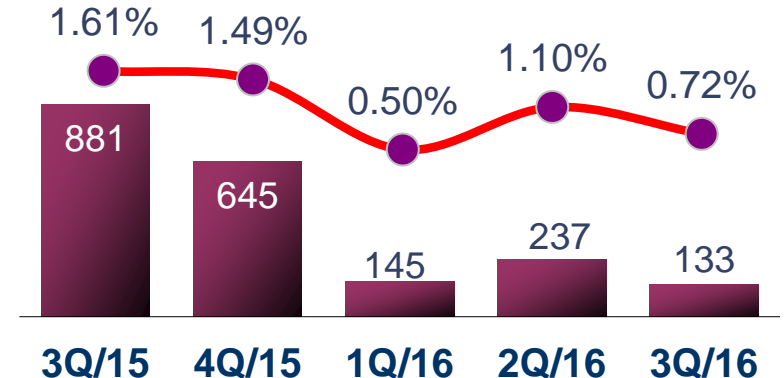
Mega Bank RMB assets & liabilities\*

Unit: NT\$bn



Mega Bank RMB NIM & NII\*\*

Unit: NT\$m

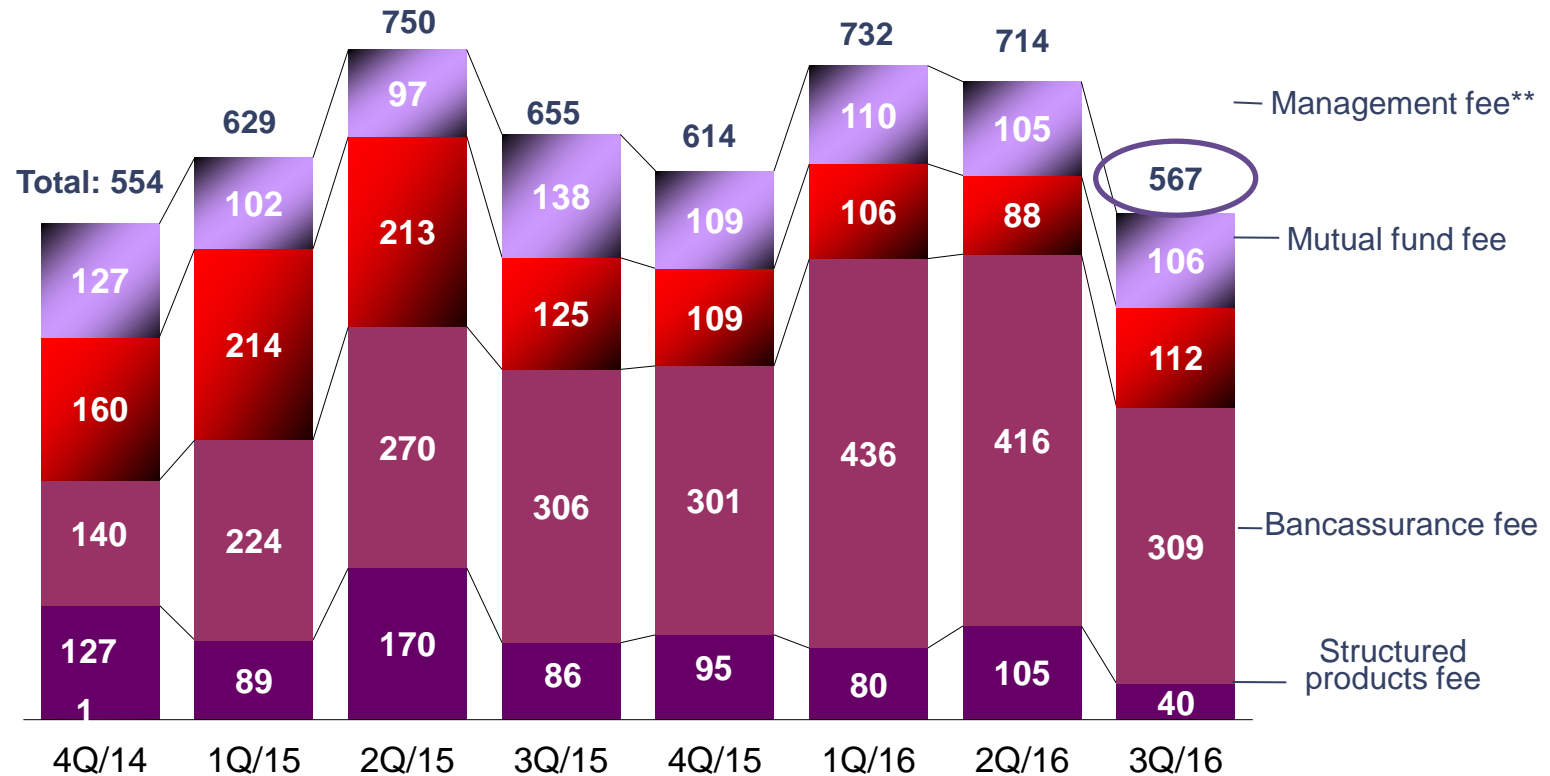


- \* Daily average balance of that period
- \*\* NII: net interest income; NIM: net interest margin

# WM fee was dragged by Bacassurance fee decline

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.

# Corp. loan & bills fee were offset by decline from WM & FX fee

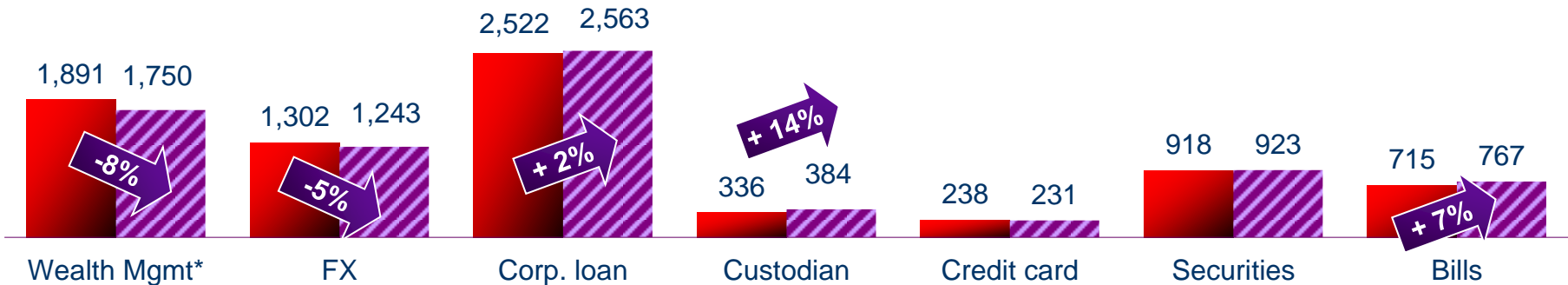
Mega Bank net fee breakdown

Mega Securities net fee

Mega Bills net fee

■ 1-3Q/15 ■ 1-3Q/16

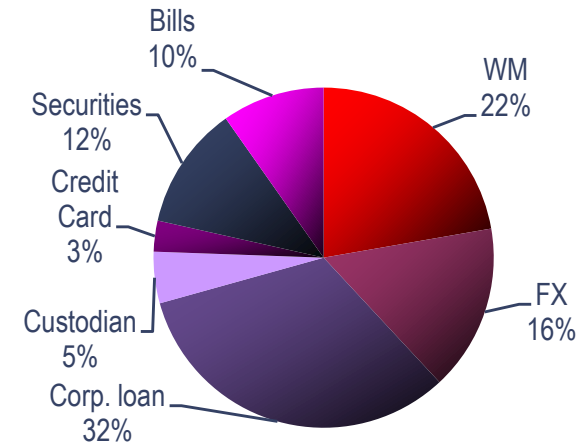
Unit: NT\$MN



Highlights

- ❖ Group fee was down 2% YoY.
- ❖ Bank WM net fee was down 8% YoY due to weakness in bancassurance sales fee.
- ❖ Bank corp. loan fee was up 2% YoY due to slight pick up in syndication loan demand.
- ❖ Bank custodian fee was up 14% YoY, driven by strong institutional account demand.
- ❖ Bills sub. fee was up 7% YoY due to better CP issuance fee.

Mega FHC 1-3Q/16 net fee breakdown



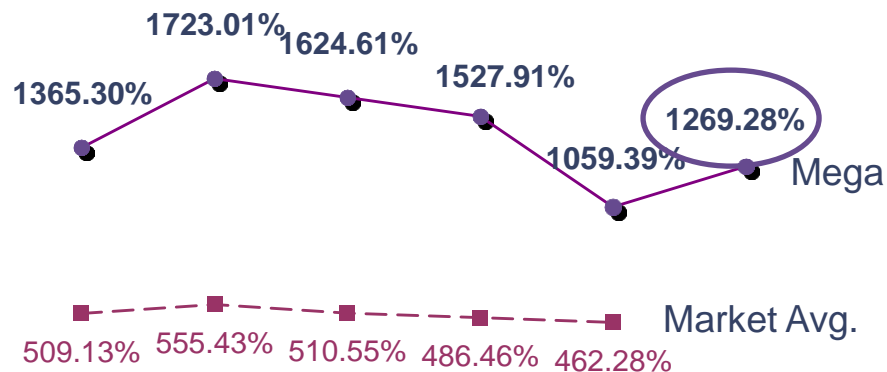
\* Net wealth mgmt fee, deducting all the cost associated with product sales, excluding fee allocated to Mega life insurance agent and Mega SITE.

# NPL picked up slightly; followed by immediate write-off to maintain strong asset quality

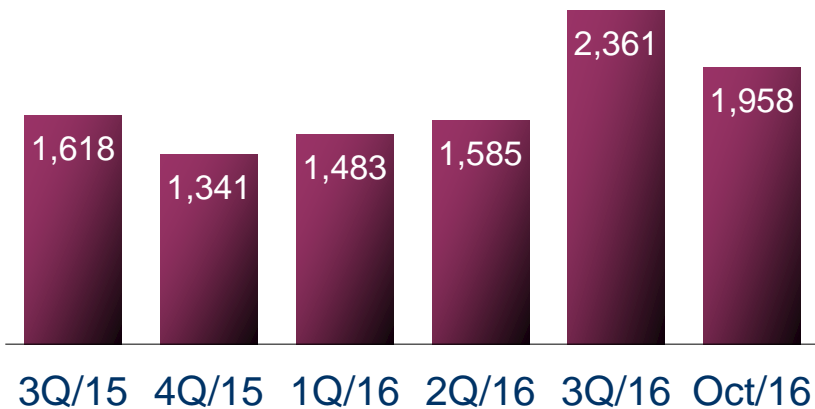
Mega Bank NPL balance & NPL ratio\*



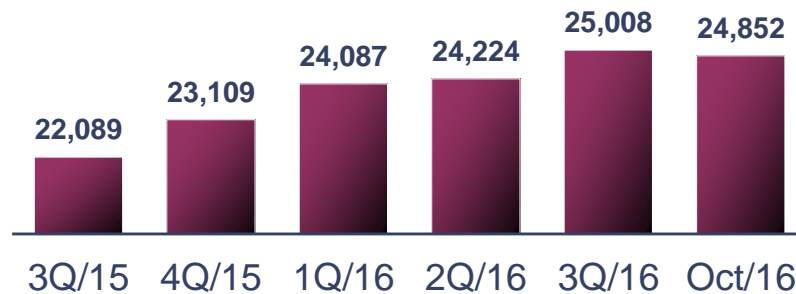
Mega Bank loan loss reserved and coverage ratio



Unit: NT\$MN



Unit: NT\$MN

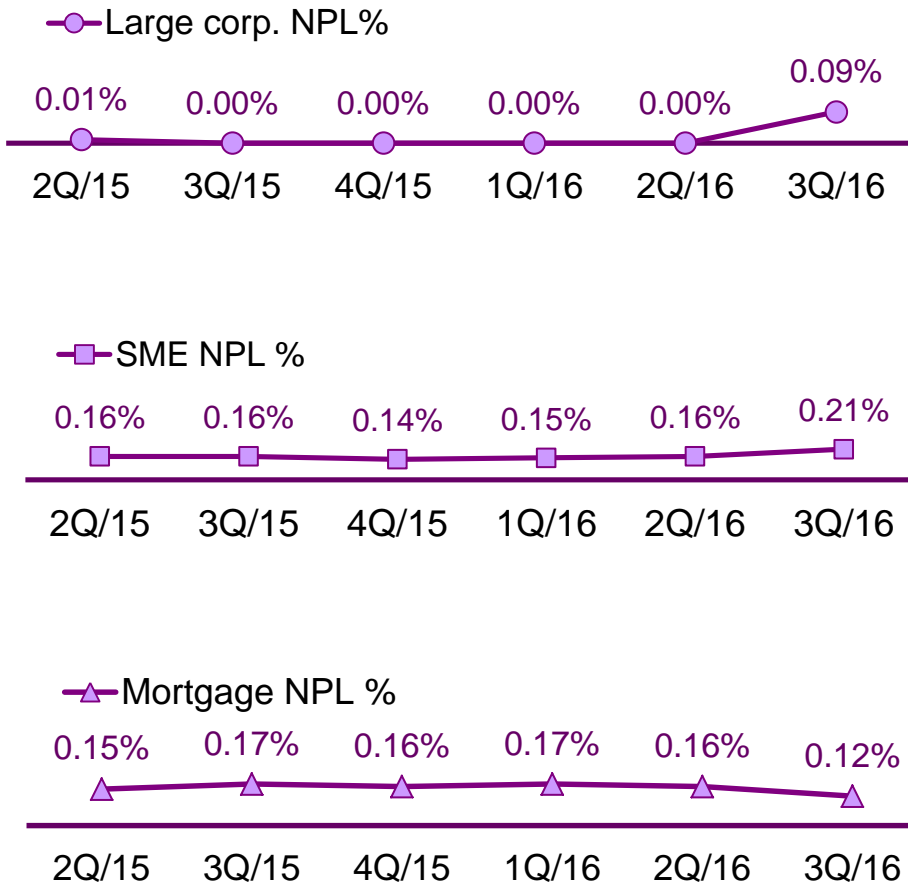


\* 90 days standard

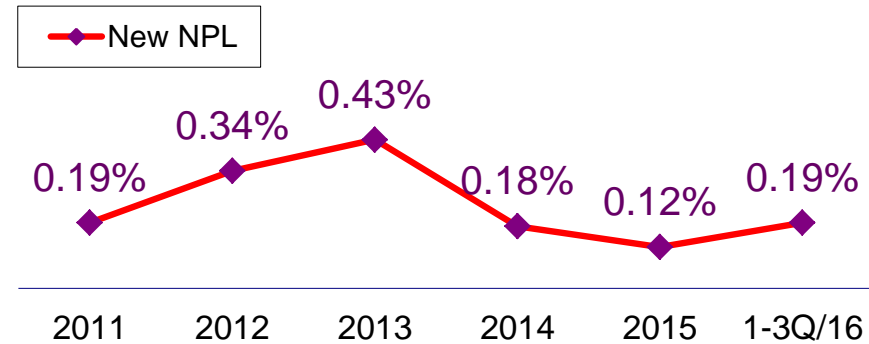


# NPL picked up slightly but still manageable

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**



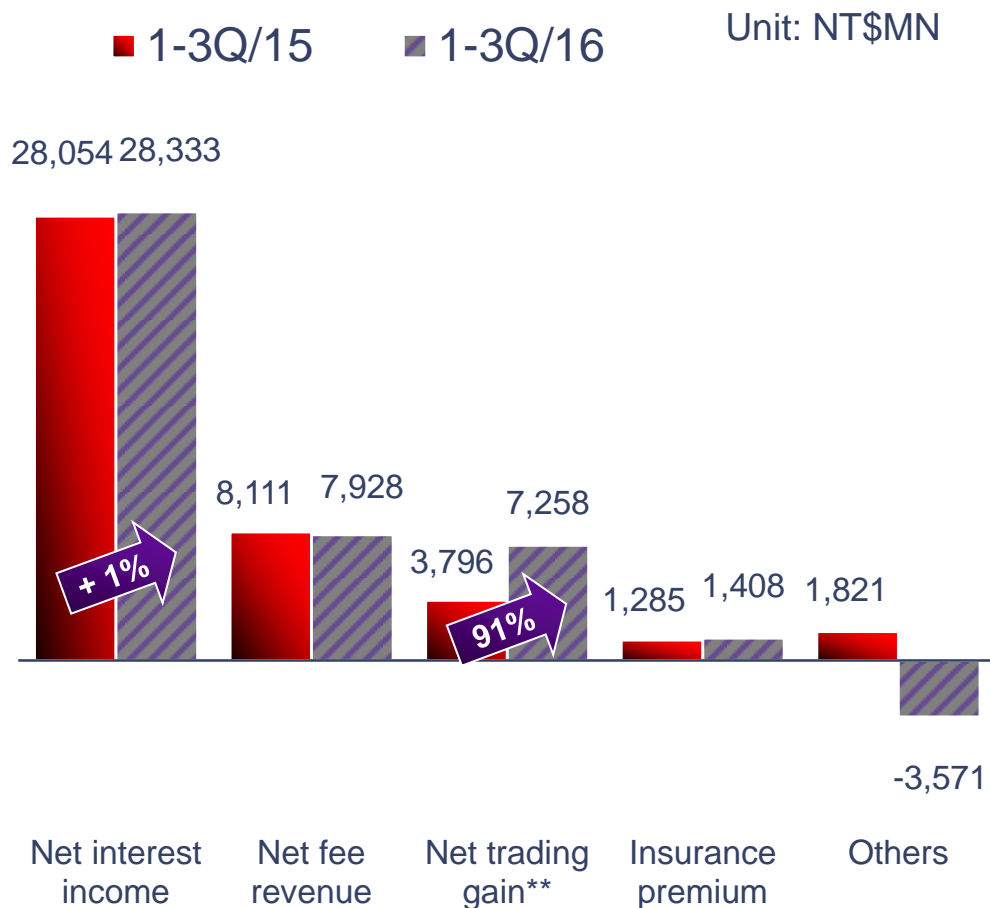
**Financial Performance**



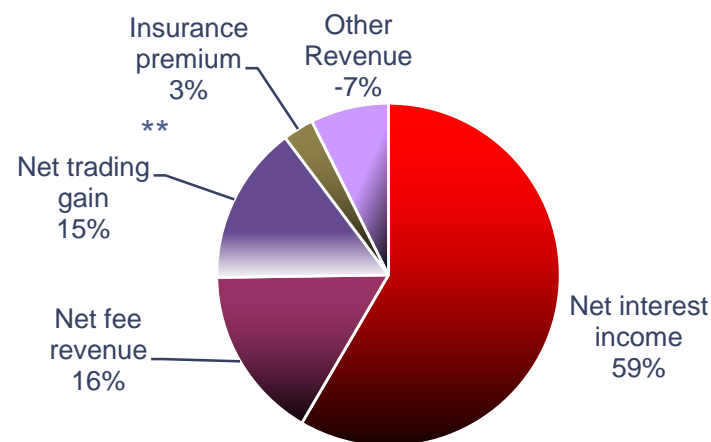
**Appendix**

# Group net revenue down 4% YoY, result of one-off fine; core earning remained intact

Mega Group consolidated net revenue \*



Mega Group 1-3Q/2016 net revenue breakdown



## Highlights

- ❖ Mega Group net revenue was down 4% driven by...
- ❖ NII was up 1% YoY due to NIM improvement, despite loan contraction .
- ❖ Trading gain was up 91% YoY due to trading gain from asset swap and FX hedging position.
- ❖ Others income in 1-3Q/16 includes one-off NT\$5.7bn fine to NY DFS, related to AML practice shortfall.

\* Un-audited figures.

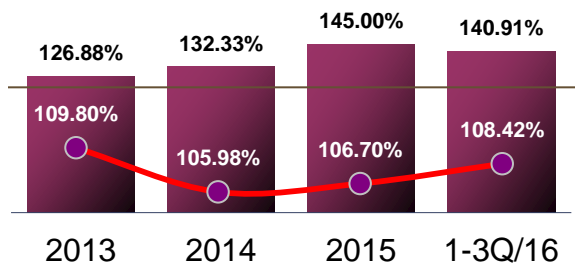
\*\* Net trading gain includes short-term assets, AFS assets, HTM assets, equity method assets, property and FX service derived trading gain, and minus (add) asset impairment loss (write back).

# Strong CET1 ratio to ensure consistent dividend policy

## Mega FHC\*

Moody's: A3

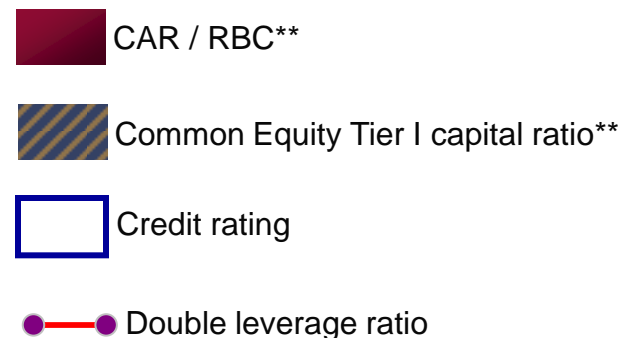
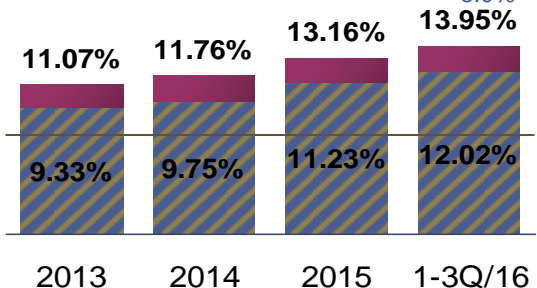
Regulatory Requirement : 100%



## Mega Bank

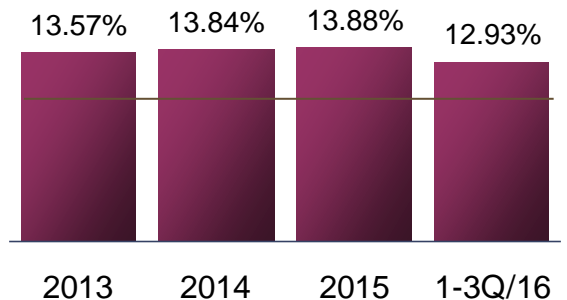
Moody's: A1 / S&P: A / Fitch: A-

Regulatory Requirement : 8.0%



## Mega Bills

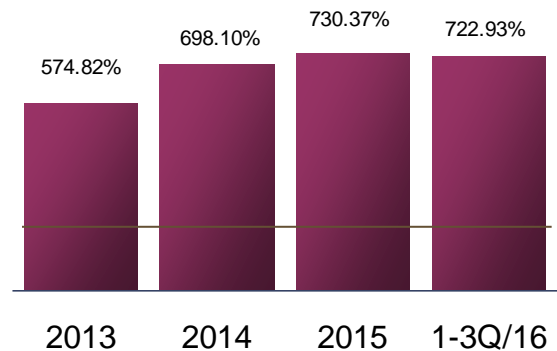
Requirement : 8.0%



## CKI P&C

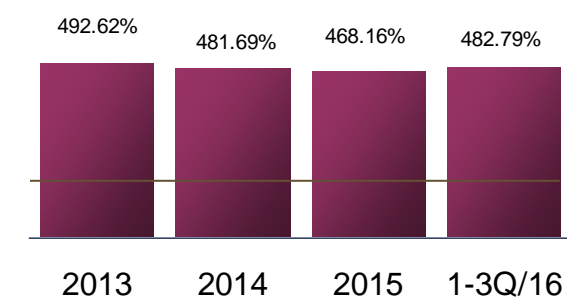
Moody's: A3 / S&P: BBB+

Requirement: 200%



## Mega Securities

Requirement : 150%

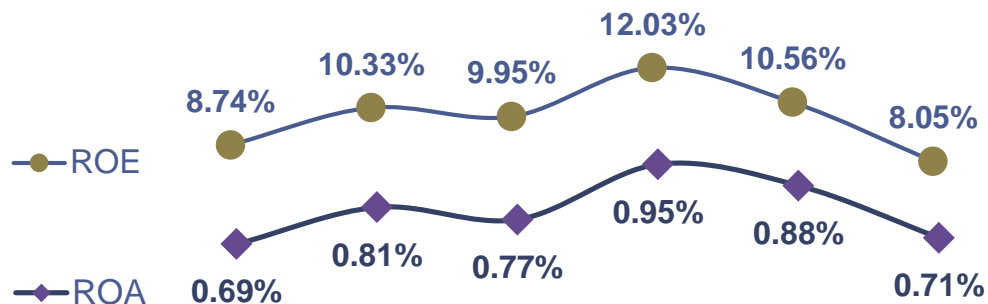


\* FHC CAR is calculated based on net investments in subsidiaries

\*\* 1-3Q/16 are un-audited BASEL III numbers.

# Strong dividend policy

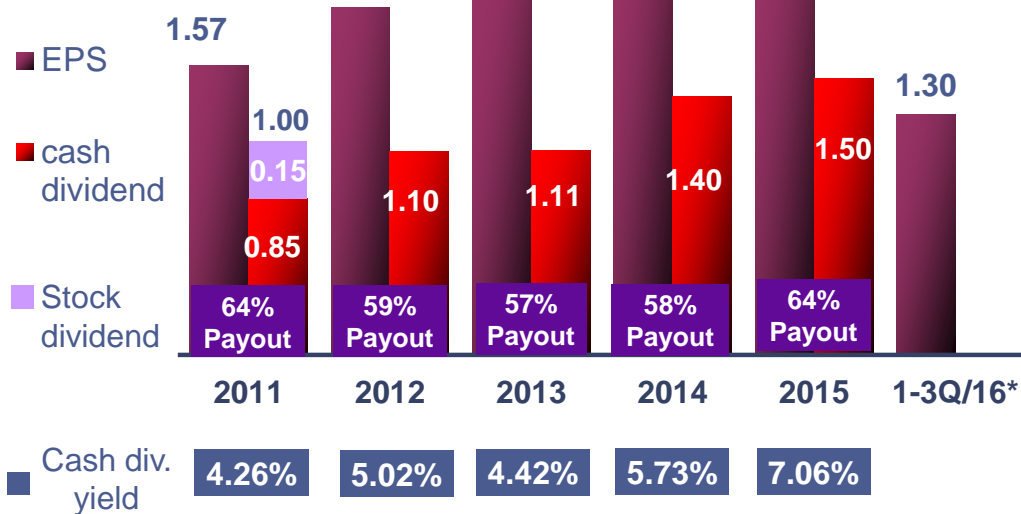
Key Profitability Ratios



❖ 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\$



\* 1-3Q/16 are un-audited numbers; ROE & ROA are annualized numbers.

# 1-3Q/2016 Mega FHC consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-3Q/2016*6</b>	<b>1-3Q/2015</b>	<b>YoY</b>
Net interest income*1	28,333	28,054	1%
Net fee revenue	7,928	8,111	-2%
Insurance premium	1,408	1,285	10%
Gain from fin. assets at fair value thru P&L*2	4,572	-379	-
Available for sales asset gain	1,537	1,393	10%
Equity method investment gain	212	204	4%
FX spread gain*3	1,246	2,478	-50%
Asset impairment loss (write-back)	-321	-416	-23%
Property gain	12	516	-98%
Other non-interest revenue (net)*4	-3,571	1,821	-296%
Operating net revenue	41,356	43,067	-4%
Operating expense	-17,328	-17,843	-3%
Pre-provision operating profit	24,028	25,224	-5%
Provision expense on loan*5	-1,558	1,265	-223%
Reserved on insurance	-133	8	-
Pretax profit	22,337	26,497	-16%
Tax	-4,685	-4,870	-4%
Minority shareholder interest	7	123	-
Net profit	17,659	21,750	-19%
EPS (NT\$)	1.30	1.75	-26%

## 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 and FX hedging position; same period last year, significant equity and CB trading loss was recognized.
3. If FX hedging position gain were included, FX related gain was only down 6% YoY.
4. It includes NT\$5.7bn fine to NY DFS, related to AML practice shortfall.
5. Provision expense was up due to one-off write back of Powerchip (\$0.6bn) and Hua-Long (\$1.0bn) took place in 1-3Q/15
6. Un-audited consolidated P&L

# 1-3Q/2016 Mega FHC consolidated balance sheet\*

<i>NT\$MN</i>	1-3Q/2016*	1-3Q/2015*	YoY
<b>Assets:</b>			
Cash and due from banks	588,509	528,642	11%
Bills and bonds under RP agreement	299	8,324	-96%
Fin. assets at fair value through P&L	209,052	182,103	15%
AFS financial assets	369,598	321,487	15%
HTM financial assets	273,034	190,421	43%
Other financial assets	15,217	17,241	-12%
A/R, net	87,599	221,612	-60%
Loan, net	1,718,729	1,789,937	-4%
Equity method LT investments, net	3,137	2,917	8%
Land, premises and equipments, net	23,293	23,343	0%
Others	17,104	16,029	7%
<b>Total assets</b>	<b>3,305,571</b>	<b>3,302,056</b>	<b>0%</b>
<b>Liabilities</b>			
Due to banks	359,804	464,155	-22%
Deposits	2,200,720	2,166,326	2%
CP & Bond payable	61,446	66,834	-8%
Bills & bonds sold under repurchase agreement	234,659	173,821	35%
Other liabilities	157,208	169,181	-7%
<b>Total liabilities</b>	<b>3,013,837</b>	<b>3,040,317</b>	<b>-1%</b>
Capital stock (common stock)	135,998	124,498	9%
Capital surplus	68,194	55,269	23%
Retain earning	85,633	81,927	5%
Equity adjustment items	1,856	-96	-
Minority shareholder interest	53	141	-62%
<b>Total stockholders' equity</b>	<b>291,734</b>	<b>261,739</b>	<b>11%</b>
<b>Total liabilities and stockholders' equity</b>	<b>3,305,571</b>	<b>3,302,056</b>	<b>0%</b>
Book value per share (NT\$)	21.45	21.02	2%

\* Un-audited consolidated balance sheet.

# 1-3Q/2016 Mega Bank consolidated P&L statement\*

<i>NT\$MN, except per share data</i>	<b>1-3Q/2016*5</b>	<b>1-3Q/2015</b>	<b>YoY</b>
Net interest income	26,731	26,914	-1%
Net fee revenue	6,156	6,375	-3%
Gain from fin. assets at fair value thru P&L*1	3,040	-1,949	-256%
Available for sales asset gain	1,172	1,129	4%
Equity method investment gain	194	154	26%
FX spread gain*2	1,312	2,392	-45%
Asset impairment loss (write-back)	-324	-416	-22%
Other non-interest revenue (net)*3	-4,665	1,147	-507%
Operating net revenue	33,616	35,746	-6%
Operating expense	-13,890	-14,225	-2%
Pre-provision operating profit	19,726	21,521	-8%
Provision expense on loan*4	-1,609	1,464	-210%
Pretax profit	18,117	22,985	-21%
Tax	-3,548	-3,865	-8%
Net profit	14,569	19,120	-24%
EPS (NT\$)	1.71	2.44	-30%

## Brief Gap Analysis

1. Gain from fin. assets was up due to trading gain from asset swap and FX hedging position; same period last year, significant equity and CB trading loss was recognized.
2. If FX hedging position gain were included, FX related gain was only down 6% YoY.
3. It includes NT\$5.7bn fine to NY DFS, related to AML practice shortfall.
4. Provision expense was up due to one-off write back of Powerchip (\$0.6bn) and Hua-Long (\$1.0bn) took place in 1-3Q/15
5. Un-audited consolidated P&L



# 1-3Q/2016 Mega Bank balance sheet\*

NT\$MN	1-3Q/2016*	1-3Q/2015	YoY
<b>Assets:</b>			
Cash and due from banks	580,357	516,365	12%
Bills and bonds under RP agreement	1,000	11,744	-91%
Fin. assets at fair value through P&L	45,024	44,132	2%
AFS financial assets	217,856	216,784	0%
HTM financial assets	271,326	188,667	44%
Other financial assets	9,882	10,159	-3%
A/R, net	54,366	194,679	-72%
Loan, net	1,718,298	1,795,689	-4%
Equity method LT investments, net	3,061	2,877	6%
Land, premises and equipments, net	15,079	15,100	0%
Others (net)	8,759	5,934	48%
<b>Total assets</b>	<b>2,925,008</b>	<b>3,002,130</b>	<b>-3%</b>
<b>Liabilities</b>			
Due to banks	323,358	434,107	-26%
Deposits	2,207,107	2,172,256	2%
CP & Bond payable	36,200	42,600	-15%
Bills & bonds sold under repurchase agreement	879	7,884	-89%
Other liabilities	100,818	113,137	-11%
<b>Total liabilities</b>	<b>2,668,362</b>	<b>2,769,984</b>	<b>-4%</b>
Capital stock (common stock)	85,362	80,000	7%
Capital surplus	62,220	52,019	20%
Retain earning	107,447	100,255	7%
Equity adjustment items	(382)	(129)	196%
<b>Total stockholders' equity</b>	<b>254,647</b>	<b>232,145</b>	<b>10%</b>
<b>Total liabilities and stockholders' equity</b>	<b>2,923,009</b>	<b>3,002,129</b>	<b>-3%</b>
<b>Book value per share (NT\$)</b>	<b>29.83</b>	<b>29.02</b>	<b>3%</b>

\* Un-audited consolidated balance sheet.

# Agenda

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**Operation Highlights**



**Financial Performance**

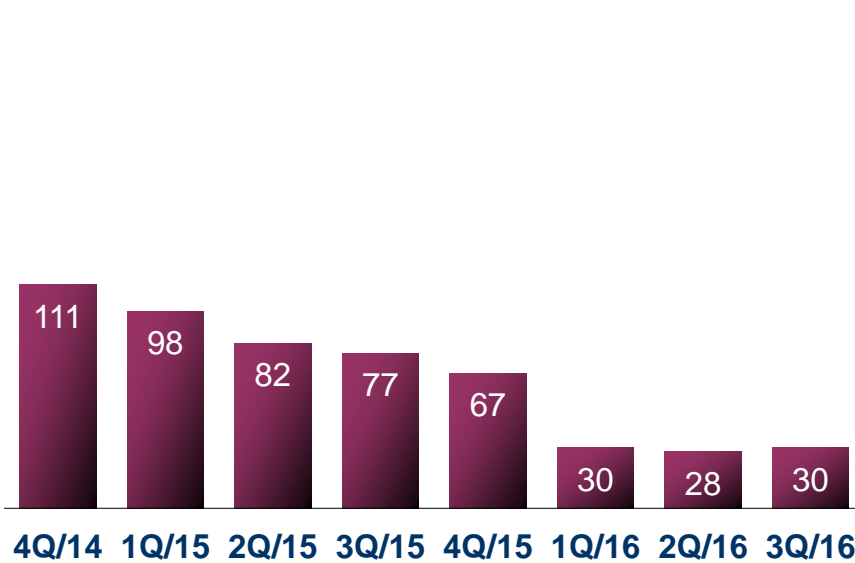


**Appendix**

# Mega Bank's interbank assets trend

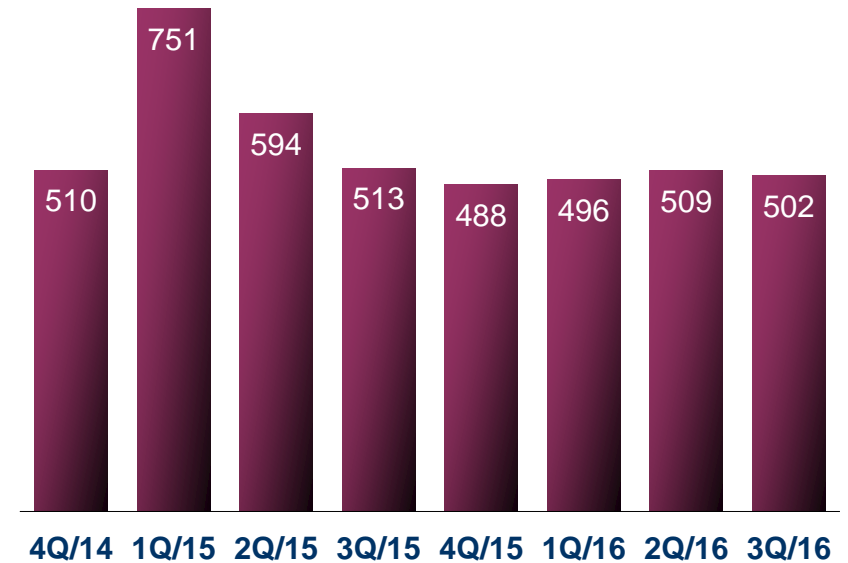
Mega Bank RMB inter-banks assets\*

Unit: NT\$ billion



Mega Bank USD inter-banks assets\*

Unit: NT\$ billion

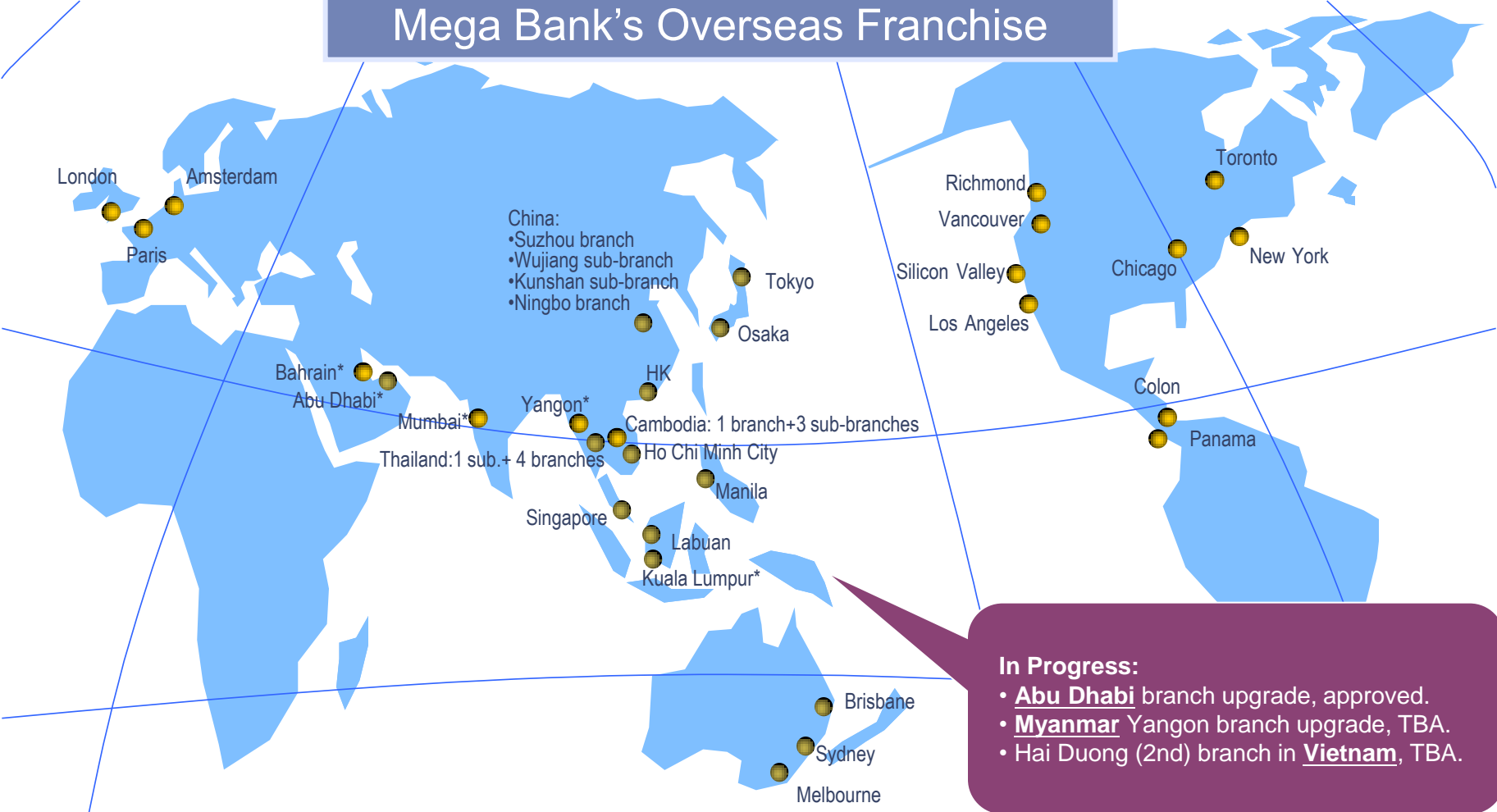


- ❖ Lower yield USD interbank assets stabilized and became less of swing factor for the NIM.

\* 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