Fubon Bank 富邦銀行

FUBON BANK (HONG KONG) LIMITED

富邦銀行（香港）有限公司

(incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

ANNOUNCEMENT OF 2006 UNAUDITED CONSOLIDATED INTERIM RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the unaudited interim results of Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries (collectively "the Group") for the six months ended 30 June 2006.

Consolidated Income Statement (Unaudited)

	Note	**For the six months ended 30 June 2006 HK$'000**	30 June 2005 *HK$'000 (restated)*	Variance
Interest income	3	**1,179,433**	624,885	
Interest expense	3	**(860,071)**	(359,620)	
Net interest income		**319,362**	265,265	20%
Other operating income	4	**207,837**	151,172	37%
Operating income		**527,199**	416,437	27%
Operating expenses	5	**(315,031)**	(284,188)	-11%
Operating profit before gains and impairment losses		**212,168**	132,249	60%
Gains/(losses) from disposals of available-for-sale securities		**19,878**	(7,638)	360%
(Charge)/write back of impairment losses on advances to customers and provisions	6	**(79,339)**	3,001	-2744%
(Charge)/reversal of impairment losses on investments and assets acquired under lending agreements		**(105)**	5,319	-102%
Profit before taxation		**152,602**	132,931	15%
Taxation	7	**(27,202)**	(19,109)	-42%
Profit attributable to shareholders		**125,400**	113,822	10%

Interim dividend of 6.00 Hong Kong cents per share proposed after the balance sheet date (2005: 6.00 Hong Kong cents)		**(70,330)**	(70,330)	0%
Earnings per share (Hong Kong cents)	8	**10.70**	9.71	10%

Extracts from Consolidated Balance Sheet (Unaudited)

	Note	**As at 30 June 2006** *HK$'000*	As at 31 December 2005 *HK$'000*
ASSETS			
Cash and short term funds		**5,658,234**	10,157,048
Placements with banks maturing between one and twelve months		**1,833,739**	1,573,939
Trading securities		**454,226**	395,081
Other financial instruments designated as at fair value through profit or loss		**624,605**	646,707
Derivative financial instruments		**426,799**	330,364
Advances to customers less impairment		**23,776,150**	21,375,566
Accrued interest and other accounts		**865,412**	643,764
Available-for-sale securities		**16,584,461**	13,523,761
Investment in associated company		**6,026**	6,470
Fixed assets		**1,139,123**	1,150,838
		51,368,775	49,803,538
LIABILITIES			
Deposits and balances of banks and other financial institutions		**909,647**	1,195,791
Deposits from customers		**30,491,998**	32,543,110
Certificates of deposit issued		**3,283,038**	3,805,341
Derivative financial instruments		**353,442**	355,114
Trading liabilities		**1,559,503**	1,125,534
Other financial liabilities and accounts payable		**8,337,205**	7,029,732
Floating rate notes issued	9	**1,165,080**	0
Subordinated notes issued	10	**1,533,385**	0
		47,633,298	46,054,622
CAPITAL RESOURCES			
Share capital		**1,172,160**	1,172,160
Share premium		**749,778**	749,778
Reserves		**1,813,539**	1,826,978
Shareholders' funds		**3,735,477**	3,748,916
		51,368,775	49,803,538

Notes:

1. The interim announcement has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for the accounting policy changes and the adoption of new accounting policies that are expected to be reflected in the 2006 annual financial statements. Details of these changes are set out in note 2.

2. Changes in accounting policies and new accounting policies adopted

The changes in the Group's accounting policies resulting from the adoption of a number of amendments of the Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes Hong Kong Accounting Standards "HKASs" and Interpretations), including the adoption of the amendments to HKAS 39, "Financial instruments: Recognition and measurement", amendments to HKAS 19, "Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures" and various amendments to HKAS 1 "Presentation of financial statements" and HKAS 27 "Consolidated and separate financial statements" as a result of the amendments of the Hong Kong Companies (Amendment) Ordinance 2005. The adoptions of these amendments have no material effect on this interim announcement.

In addition, the Group has adopted fair value hedge accounting to account for the subordinated notes issued (the hedged items) and the interest rate swap (the hedging instrument) entered into during this accounting period to hedge the designated interest rate risk arising from the subordinated notes. The Group has not applied hedge accounting to the financial instruments held or issued in previous year.

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instruments and the hedged items. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items attributable to the hedged risks both at the hedge inception and on an ongoing basis.

A fair value hedge seeks to offset risks of changes in the fair value of the recognised assets and liabilities that will give rise to a gain or loss being recognised in the income statement. The hedging instruments are measured at fair value, with fair value changes recognised in the income statement. The carrying amounts of the hedged items are adjusted by the amount of the changes in fair value of the hedging instruments attributable to the risk being hedged. These adjustments are recognised in the income statement to offset the effect of gain or loss in the hedging instruments.

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. For fair value hedge relationship, the Group utilises the cumulative dollar offset method as effectiveness testing methodology. For prospective effectiveness, the hedging instruments must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value must offset each other in the range of 80 per cent to 125 percent for the hedge to be deemed effective.

The adoption of fair value hedge accounting has resulted in a revaluation gain of HK$20,055,000 from the subordinated notes attributable to the designated interest rate risk being offset against the revaluation loss from the interest rate swap of HK$19,853,000 recognised in the income statement as required under HKAS 39.

In addition, an amount of HK$20,055,000 was adjusted to the carrying amount of the subordinated notes as of 30 June 2006 as a result of the fair value hedge accounting.

3. Interest income and expenses

(a) Interest income

	Six months ended	
	30 June 2006	30 June 2005
	HK$'000	*HK$'000*
Listed investments	**52,297**	35,457
Other	**1,082,491**	568,772
Interest income on financial assets that are not at fair value through profit or loss	**1,134,788**	604,229
Interest income on trading assets		
– listed investments	**44**	1,247
– unlisted investments	**28,361**	8,413
Interest income on financial assets designated at fair value through profit or loss	**16,240**	10,996
	1,179,433	624,885

(b) Interest expense

	Six months ended	
	30 June 2006	30 June 2005
	HK$'000	*HK$'000*
Deposits from customers, banks and other financial institutions and certificates of deposit issued	**674,983**	299,410
Other financial liabilities	**133,535**	44,409
Interest expense on financial liabilities that are not at fair value through profit or loss	**808,518**	343,819
Interest expense on trading liabilities	**51,553**	15,801
	860,071	359,620

4. Other operating income

	Six months ended	
	30 June 2006	30 June 2005
	HK$'000	*HK$'000*
		(restated)
Fees and commission income	**109,572**	69,358
Less: Fees and commission expense	**(20,305)**	(10,246)
Net fees and commission income	**89,267**	59,112
Dividend income from listed available-for-sale securities	**2,534**	50
Dividend income from unlisted available-for-sale securities	**8,992**	6,565
Gains less losses from dealing in foreign currencies	**15,225**	10,667
Gains less losses from dealing in trading securities	**(2,003)**	(10,447)
Gains less losses from other dealing activities	**87,358**	28,927
Gains less losses from short selling activities	**896**	9,887
Gains less losses from other financial liabilities	**(4,752)**	36,669
Revaluation loss on other financial instruments designated at fair value through profit or loss	**(22,102)**	(2,877)
Revaluation gain on derivative financial instruments	**21,796**	2,218
Revaluation gain on hedged items attributable to hedged risk	**20,055**	0
Revaluation loss on hedging instrument	**(19,853)**	0
Rental income	**679**	1,929
Others	**9,745**	8,472
	207,837	151,172

5. Operating expenses

	Six months ended	
	30 June 2006	30 June 2005
	HK$'000	*HK$'000*
Salaries and other staff costs	**168,833**	129,268
Premises and other fixed assets		
Rental of premises	**12,940**	13,161
Depreciation	**32,327**	31,778
Others	**7,742**	7,383
Auditors' remuneration	**770**	641
Other operating expenses		
Business promotion	**16,796**	28,972
Legal and professional fees	**10,965**	9,961
Communication	**10,918**	9,874
Electronic data processing and computer systems	**32,669**	31,187
Others	**21,071**	21,963
	315,031	284,188

6. **(Charge)/write back of impairment losses on advances to customers and provisions**

	Six months ended	
	30 June 2006	30 June 2005
	HK$'000	*HK$'000*
Impairment losses (charged)/released on advances to customers		
– Additions	**(81,714)**	(33,461)
– Releases	**18,030**	36,462
Provision for loss from obligation under standby credit facility	**(15,655)**	0
	(79,339)	3,001

The provision represents the estimated amount of the loss attributable to the Group's obligation arising under a standby credit facility extended.

7. **Taxation**

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months ended 30 June 2006.

8. **Earnings per share**

Earnings per share is calculated on profit attributable to shareholders of HK$125,400,000 (2005: HK$113,822,000) and on 1,172,160,000 (2005: 1,172,160,000) ordinary shares in issue during the period. There are no convertible loan capital, options or warrants outstanding which would cause a dilution effect on earnings per share.

9. **Floating rate notes issued**

The floating rate notes of face values and carrying amounts of HK$1,165 million (USD 150 million) were issued by the Bank on 4 April 2006 bearing interest at the rate of three-month USD LIBOR plus 0.22% per annum, payable quarterly. The maturity date for the notes is 6 April 2009.

10. **Subordinated notes issued**

The subordinated notes of face value of HK$1,553 million (USD 200 million) and carrying amount of HK$1,533 million qualifying as tier two capital were issued by the Bank on 25 April 2006. The subordinated notes bear interests at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The subordinated notes carry a one-time call option exerciseable by the Bank on 26 April 2011. If the call option is not exercised, the interest rate for the subordinated notes will be reset at the United States treasury rate plus 1.93875% for the period from 27 April 2011 to the final maturity date on 26 April 2016, payable semi-annually. The carrying amount of the subordinated notes included an adjustment of HK$20 million due to application of fair value hedge accounting.

11. **Comparative figures**

In order to conform with the current period presentation, an amount of HK$36,669,000 representing the gains less losses from other financial liabilities for the period ended 30 June 2005 included in the non-operating gains has been reclassified to other operating income on the face of the income statement and in note 4. In addition, gains less losses from dealing in trading securities and from other dealing activities have been reclassified to conform with the attributable trading activities in note 4. Revaluation loss on financial instruments shown in note 4 has also been separated into revaluation gain on derivative financial instruments and revaluation loss on other financial instruments designated at fair value through profit or loss.

Unaudited Supplementary Financial Information

1. **Advances to customers less impairment allowances**

	As at	
	30 June 2006	31 December 2005
	HK$'000	*HK$'000*
Gross advances to customers	**23,998,482**	21,544,382
Impairment allowances		
– Collective impairment allowance	**(99,239)**	(76,115)
– Individual impairment allowance	**(123,093)**	(92,701)
	23,776,150	21,375,566

2. Advances to customers analysed by industry sector

The information concerning advances to customers by industry sectors has been classified in accordance with the industry categories contained in the banking returns on "Quarterly Analysis of Loans and Advances and Provisions" (MA(BS)2A) and "Assets and Liabilities of an Authorised Institution" (MA(BS)1) submitted to the Hong Kong Monetary Authority ("HKMA").

	As at	
	30 June 2006	31 December 2005
	HK$'000	*HK$'000*
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	**29,074**	28,135
– Property investment	**3,868,418**	3,963,801
– Financial concerns	**427,367**	313,227
– Stockbrokers	**131,692**	159,616
– Wholesale and retail trade	**149,772**	101,064
– Manufacturing	**3,710,867**	4,174,292
– Transport and transport equipment	**795,030**	684,127
– Others	**2,539,098**	2,047,464
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	**3,341**	1,461
– Loans for the purchase of other residential properties	**7,221,588**	7,503,104
– Credit card advances	**474,918**	478,553
– Others	**1,017,612**	952,404
	20,368,777	20,407,248
Trade finance	**821,338**	614,629
Gross advances for use outside Hong Kong	**2,808,367**	522,505
Gross advances to customers	**23,998,482**	21,544,382

3. Repossessed assets and assets acquired under lending agreements

The total repossessed assets and assets acquired under lending agreements of the Group as at 30 June 2006 amounted to HK$65,590,000 (2005: HK$71,880,000).

4. Overdue advances to customers

	As at 30 June 2006		As at 31 December 2005	
	HK$'000	**% of total advances**	*HK$'000*	% of total advances
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	**22,601**	**0.09%**	38,953	0.18%
– 1 year or less but over 6 months	**45,187**	**0.19%**	17,514	0.08%
– Over 1 year	**101,396**	**0.42%**	105,754	0.49%
	169,184	**0.70%**	162,221	0.75%

	HK$'000	*HK$'000*
Overdue advances to customers which are		
– secured	**84,079**	77,392
– unsecured	**85,105**	84,829
	169,184	162,221

	HK$'000	HK$'000
Amount of collateral held against the overdue advances	**80,662**	71,070

	HK$'000	*HK$'000*
Amount of expected recoveries from companies in liquidation in respect of the overdue advances	**11,138**	11,299

	HK$'000	*HK$'000*
Individually assessed impairment allowance in respect of advances overdue for more than three months	**86,377**	85,400

Overdue assets of the Group comprise advances to customers only as at 30 June 2006 and 31 December 2005.

5. Rescheduled advances to customers

	As at 30 June 2006	**% of total advances**	As at 31 December 2005	% of total advances
	HK$'000		*HK$'000*	
Rescheduled advances to customers	**23,939**	**0.10%**	108,227	0.50%

6. Included in accrued interest and other accounts are trade bills net of allowances of HK$56,020,000 (2005: HK$36,691,000).

7. **Off-balance sheet exposures**

(a) Contingent liabilities and commitments

The following is a summary of the contractual and credit risk-weighted amounts of each significant class of contingent liabilities and commitments:

	As at 30 June 2006		As at 31 December 2005	
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	Contractual amounts *HK$'000*	Credit risk weighted amounts *HK$'000*
Direct credit substitutes	**286,111**	**286,111**	470,557	470,557
Transaction-related contingencies	**124,909**	**62,455**	109,724	54,862
Trade-related contingencies	**514,985**	**102,997**	332,256	66,451
Undrawn loan facilities				
– with an original maturity of under 1 year or which are unconditionally cancellable	**9,792,143**	**0**	9,135,831	0
– with an original maturity of 1 year or over	**784,521**	**392,261**	587,635	293,818
Forward forward deposits placed	**1,913,709**	**382,742**	1,155,067	231,013
	13,416,378	**1,226,566**	11,791,070	1,116,701

(b) Derivatives

In accordance with HKAS 39, the aggregate fair value of favourable and unfavourable derivative financial instruments have been recognised as derivative financial assets and liabilities respectively, as disclosed on the consolidated balance sheet as at 30 June 2006. The following is a summary of the contractual amounts, credit risk-weighted amounts and replacement costs of these derivative financial instruments outstanding as of 30 June 2006.

	As at 30 June 2006		
	Contractual amounts *HK$'000*	**Credit risk weighted amounts** *HK$'000*	**Replacement costs** *HK$'000*
Exchange rate contracts			
– Forward exchange contracts	**3,519,866**	**9,545**	**99,274**
– Swaps	**3,815,901**	**8,700**	**17,453**
– Options purchased	**6,297,125**	**48,437**	**29,007**
– Options written	**6,319,438**	**N/A**	**N/A**
	19,952,330	**66,682**	**145,734**
Equity option contracts			
– Options purchased	**134,795**	**1,414**	**749**
– Options written	**134,795**	**N/A**	**N/A**
	269,590	**1,414**	**749**
Commodity option contracts			
– Options purchased	**54,370**	**1,799**	**2,472**
– Options written	**54,370**	**N/A**	**N/A**
	108,740	**1,799**	**2,472**
Interest rate contracts			
– Interest rate swaps	**10,640,436**	**41,864**	**131,149**
– Floating rate agreements	**2,000,000**	**21**	**104**
– Interest rate options purchased	**200,000**	**571**	**1,854**
– Interest rate options written	**200,000**	**N/A**	**N/A**
	13,040,436	**42,456**	**133,107**
Total	**33,371,096**	**112,351**	**282,062**

	As at 31 December 2005		
	Contractual amounts *HK$'000*	Credit risk weighted amounts *HK$'000*	Replacement costs *HK$'000*
Exchange rate contracts			
– Forward exchange contracts	1,832,083	4,022	70,741
– Swaps	1,686,468	1,890	1,052
– Options purchased	1,517,021	9,219	17,454
– Options written	1,515,243	N/A	N/A
	6,550,815	15,131	89,247
Equity option contracts			
– Options purchased	149,103	559	1,414
– Options written	149,103	N/A	N/A
	298,206	559	1,414
Interest rate contracts			
– Interest rate swaps	5,154,846	32,488	119,736
– Interest rate options purchased	200,000	501	1,506
– Interest rate options written	200,000	N/A	N/A
	5,554,846	32,989	121,242
Total	12,403,867	48,679	211,903

Derivatives arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate, commodity and equity markets. The contractual amounts of these instruments disclosed in this note indicate the volume of transactions outstanding as at 31 December 2005 and 30 June 2006; they do not represent amounts at risk.

The replacement costs and credit risk-weighted amounts of the off-balance sheet exposures disclosed in part (b) of this note do not take into account the effects of bilateral netting arrangements. They were assessed in accordance with the HKMA's guidelines which implement the Basle agreement on capital adequacy. Replacement cost represented the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The credit risk-weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate, interest rate, commodity and equity option contracts.

8. Foreign exchange exposures

The net positions or net structural positions in foreign currencies are disclosed as follows:

As at 30 June 2006

Equivalent in HK$'Million	**US Dollars**	**Euros**	**New Zealand Dollars**	**Australian Dollars**	**Chinese Renminbi**	**Others**	**Total**
Spot assets	**12,614**	**599**	**1,041**	**882**	**143**	**1,310**	**16,589**
Spot liabilities	**(13,046)**	**(821)**	**(948)**	**(1,243)**	**(142)**	**(1,259)**	**(17,459)**
Forward purchases	**5,279**	**1,651**	**15**	**444**	**146**	**660**	**8,195**
Forward sales	**(4,292)**	**(1,429)**	**(108)**	**(83)**	**(49)**	**(707)**	**(6,668)**
Net option position	**23**	**(5)**	**0**	**0**	**0**	**(7)**	**11**
Net long/(short) position	**578**	**(5)**	**0**	**0**	**98**	**(3)**	**668**

	US Dollars	**Euros**	**New Zealand Dollars**	**Australian Dollars**	**Chinese Renminbi**	**Others**	**Total**
Net structural position	**31**	**0**	**0**	**0**	**0**	**0**	**31**

As at 31 December 2005

Equivalent in HK$'Million	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Chinese Renminbi	Others	Total
Spot assets	10,194	668	903	1,536	151	1,170	14,622
Spot liabilities	(9,535)	(551)	(805)	(1,299)	(149)	(1,210)	(13,549)
Forward purchases	2,146	345	21	30	45	562	3,149
Forward sales	(2,138)	(463)	(108)	(271)	(45)	(546)	(3,571)
Net option position	4	(4)	1	0	0	0	1
Net long/(short) position	671	(5)	12	(4)	2	(24)	652

	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Chinese Renminbi	Others	Total
Net structural position	31	0	0	0	0	0	31

9. Capital adequacy and liquidity ratios

	2006 %	2005 %
Unadjusted capital adequacy ratio at period/year end	**19.85**	14.96
Adjusted capital adequacy ratio incorporating market risk	**19.70**	14.94
Average liquidity ratio for June	**41.84**	44.60
Average liquidity ratio for the six months ended 30 June	**42.91**	45.92

The unadjusted capital adequacy ratio is computed on a consolidated basis as required by the HKMA for its regulatory purposes, and is in accordance with the Third Schedule of the Hong Kong Banking Ordinance. The adjusted capital adequacy ratio incorporating market risk is computed on the same consolidated basis, and is in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA.

The average liquidity ratio for the period is computed as the simple average of each calendar month's average ratio, as reported in Part I(2) of the "Return of Liquidity Position of an Authorised Institution" (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

10. The components of the total capital base after deductions as reported under Part I of the banking return "Capital Adequacy Return" (MA(BS)3) calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance are as follows:

	As at 30 June 2006 ***HK$'000***	As at 31 December 2005 *HK$'000*
Core capital		
Paid up ordinary share capital	**1,172,160**	1,172,160
Reserves (including retained earnings)	**1,609,416**	1,550,802
Share premium	**749,778**	749,778
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	**36,868**	36,868
Reserves on revaluation of holdings of securities not held for trading purposes	**(81,844)**	(72,476)
Collective impairment allowance for impaired loans	**99,239**	76,115
Term subordinated notes	**1,533,385**	0
Regulatory reserve	**119,992**	107,722
Total capital base before deductions	**5,238,994**	3,620,969
Deductions from total capital base	**(95,854)**	(65,036)
Total capital base after deductions	**5,143,140**	3,555,933

11. An appropriation of an amount of retained earnings of HK$119,992,000 (2005: HK$107,722,000) has been made as a regulatory reserve for general banking risks, including future losses or other unforeseeable risks, in addition to impairment losses on loans recognised under HKAS 39.

12. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because substantially all of the Group's business is attributable to a single geographical segment, Hong Kong.

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services.

Retail Banking mainly comprises the Consumer Banking and the Retail Distribution Network businesses. Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, insurance and unit trust businesses. Retail Distribution Network business mainly comprises private banking, deposit account services, residential mortgage and other consumer lending.

Wholesale Banking comprises the Small and Medium Enterprise businesses and the Corporate Banking Business. Small and Medium Enterprise businesses include both personal and corporate equipment financing, commercial lending to small and medium enterprises, automobile and other consumer leasing contracts and lending activities. Corporate Banking business covers trade financing, syndicated loans and other corporate lending.

Financial Markets mainly provides securities brokerage, foreign exchange services and centralized cash management for deposit taking and lending, management of trading securities, execution of management's investment strategies in money market investment instruments and the overall funding of the Group.

Real Estate is responsible for the management and orderly realization of the Group's repossessed properties and properties acquired under lending agreements.

Unallocated items mainly comprise the central management unit, management of investments in securities, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

	Six months ended 30 June 2006 HK$'000	30 June 2005 HK$'000 (restated)
(a) Operating Income		
Retail Banking	**221,886**	248,467
Wholesale Banking	**157,897**	115,113
Financial Markets	**154,350**	46,334
Real Estate	**(1,534)**	(1,404)
Unallocated*	**(5,400)**	7,927
	527,199	416,437

	Six months ended 30 June 2006 HK$'000 HK$'000	30 June 2005 HK$'000 HK$'000
(b) Profit before taxation		
Retail Banking	**37,249**	89,244
Wholesale Banking	**19,121**	57,362
Financial Markets	**121,302**	4,131
Real Estate	**(2,589)**	12,918
Unallocated*	**(22,481)**	(30,724)
	152,602	132,931

* *Unallocated items mainly comprise interest income derived from shareholders' funds not used by the business segments, staff housing loans and the related interest income and funding costs, staff deposits and the related interest expenses and the head office premises, furniture, fixtures and equipment and the related depreciation.*

Geographical segments

The geographical segmental analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the periods ended 30 June 2006 and 2005, all of the Group's operating income and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong. More than 90% of assets were either located in Hong Kong or were extended to companies and individuals domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong, mainly in China.

HONG KONG AND CHINA ECONOMIC OVERVIEW

The Hong Kong economy sustained strength in the first quarter of 2006, with real GDP growing by a stronger-than-expected 8.2%. This followed an already robust 7.5% growth in the preceding quarter. GDP growth decelerated slightly in the second quarter, and may continue to slow for the rest of the year, but full year GDP may still produce a 6 – 7% increase, which is well above trend for Hong Kong. The economy expanded on a broad front in the first half of the year, driven by robust external trade, a distinct pickup in consumer spending, as well as a continued surge in investment in machinery and equipment. Importantly, domestic demand is currently playing an increasingly important role in the current economic upturn. Externally, exports continued to grow in the first half, rising 8.5%, thanks to surging regional trade, with China again the key growth driver. Exports of services were also robust, up 8.9% in the first quarter, with both offshore trade and inbound tourism, which record levels, growing distinctly further.

On the domestic front, private consumption picked up to a 4.5% growth in the first quarter, on the back of improving employment incomes, but also boosted in part by stronger household balance sheets, along with a rising stock market and a reviving property market. Consumer sentiment remained upbeat, even though interest rates rose - with the HK$ Prime rate rising in March and money market rates increasing broadly in line with USD rates. Overall investment expenditure maintained strong growth momentum, up 8.5% in the first quarter. Labor market conditions continue to improve, with the unemployment rate currently at a 4.5-year low of 5.0%. Inflation remained benign at 1.8% in the first half of the year. The successive rises in private housing rentals over the past two years have begun to impact to a greater extent. However, easing import prices have mitigated inflationary pressures somewhat.

Locally, consumption looks set to remain robust, along with better job prospects and rising incomes. Investment in plant and equipment seems likely to increase further in line with rising corporate profits and also to cater for the growth in business. But construction is likely to remain weak in the near term, thereby capping the upside of overall investment. Although the global economy has been strong recently, there are signs of a slowdown in key markets, while the external environment is still clouded by various downside risks such as: the recent rise in oil prices; the impact of past increases in US interest rates; global trade imbalances; and lately, the tightening measures in the Mainland. Some of these risks in fact have intensified recently. How these risks play out will be critical to Hong Kong's trade and economic performance for the rest of the year.

FUBON PERFORMANCE

Building on the business expansion in 2005, Fubon Bank (Hong Kong) Limited ("Fubon Bank") made a breakthrough in core performance for the first half of the year 2006 with operating profit before provisions and gains increasing by more than 60% to HK$212 million from HK$132 million for the corresponding period of 2005. Against a backdrop of intense market competition, Fubon Bank was able to capitalize on market growth opportunities. This led to an increase of total assets by 3% to HK$51.4 billion as at 30 June 2006 as compared to the 2005 year-end figure of HK$49.8 billion. There was also an overall yield improvement of 1.25% with an increase in the mix of higher yielding assets such as advances to customers and a reduction in surplus funds placed in cash and short term funds.

Net interest income increased HK$54 million or 20% to HK$319 million in the first half of 2006, mainly due to the widening of prime-HIBOR spreads. Effective net interest margin improved from 1.19% from the first half of 2005 to 1.29% for 2006. Other operating income reached HK$208 million for the first six months in 2006, representing a 37% increase compared to the same period of last year. Particularly worth mentioning was the strong growth in recurring sales of Financial Markets products throughout all segments, a 98% increase over the first half of 2005. The buoyant equity market drove a 61% increase in brokerage income. Fubon Bank also leveraged on its Fubon Financial's strength in expanding its insurance and unit trust businesses, resulting in a soaring growth of more than 100% in commission income. Consequently, non-interest income to operating income ratio improved from 36.3% as of 30 June 2005 to 39.4% as of 30 June 2006.

Operating expenses rose moderately to HK$315 million from HK$284 million compared with the same period in 2005. The increase was attributable primarily to higher compensation and other staff expenses resulting from the hiring of new staff for supporting business growth. The number of full-time equivalent employees grew by 135 to 831. Nevertheless, the cost to income ratio dropped from 68.2% to 59.8%, due to the robust growth of both net interest income and fee income.

The Group recorded a total charge of HK$79 million for impaired loans and advances as compared with a reversal of provisions of HK$3 million in the first half of last year. There was a gain on disposal of available-for-sale securities of HK$20 million against a disposal loss of HK$8 million which incurred during the same period in 2005. In view of the abovementioned factors, net profit for the first half of 2006 amounted to HK$125 million, representing an increase of 10% compared with the corresponding period of 2005.

The loan portfolio reached HK$24 billion, an increase of 11% from December 2005 with solid growth across most of the loan types. Strong growth was seen in project and syndicated loans, short term advances and hire purchase loans, the respective loan volume increased by 61%, 21% and 12% respectively.

To diversify its funding sources, the Bank successfully completed the issuance of USD 200 million lower tier II subordinated debts and USD 150 million senior floating rate notes in April 2006 through its Euro Medium Term Note Program. This has further strengthened the Bank's capital base and liability structure, and reduced the Bank's reliance on rate sensitive funding. As a result, customer deposits dropped by 6% as budgeted for the first half of 2006.

Taiwan related business continued to grow during the first half of the year. With a full team of experienced professionals providing corporate banking services to Taiwanese customers in Hong Kong and the mainland, the Taiwan Team's corporate loans portfolio increased by 70% and its deposits portfolio grew 67% as compared to the 2005 year-end balances. Furthermore, the number of wealth management accounts increased by 44% with assets under management expanding by 36%. In addition, since the launch of a full-scale SME Division in 2005, the Division's performance has already won wide recognition from the industry as evidenced by the winning of the 2006 SME's Best Partner Award — Best Trade and Equipment Finance Bank Award organised by The Hong Kong Chamber of Small to Medium Business Limited.

INTERIM DIVIDEND

The Directors have approved at the Board Meeting held on Tuesday, 8 August 2006 the payment of an interim dividend of 6 Hong Kong cents per share for the six months ended 30 June 2006. The interim dividend will be paid on or about Tuesday, 24 October 2006, in cash to shareholders whose names are on the Register of Members as at the close of business on Friday, 13 October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Tuesday, 10 October 2006 to Friday, 13 October 2006, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Share Registrars, Computershare Hong Kong Investor Services Limited, Shop 1712 - 1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 9 October 2006.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SHARES

The Bank has not redeemed any of its listed shares during the six months ended 30 June 2006. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2006, no Director of the Bank is aware of information which would reasonably indicate that the Bank is not or was not in compliance with the Code on Corporate Governance Practices (the "Code") issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except for the three exceptions mentioned in the Corporate Governance Report included in the Bank's 2005 annual report. The Bank has taken the following steps thereafter to address these exceptions:

(1) The Articles of Association ("Articles") of the Bank provide that the Managing Director is excluded from retirement by rotation. In compliance with the Code provision that every Director should be subject to retirement by rotation, the Bank thereafter proposed to its shareholders at the 2006 Annual General Meeting to amend the Articles accordingly. The proposed amendment was passed at the Annual General Meeting on 28 April 2006.

(2) The Code provision requires that Directors must comply with the obligations set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Appendix 10 of the Listing Rules. Upon appointment, a Director was not aware that his spouse had, before his appointment, purchased 100,000 issued shares of the Bank in March 2004 and therefore failed to make the required notification to the Bank under the Model Code in respect of said issued shares. The Director only became aware of his spouse's ownership of the shares in January 2006 and he then notified the Bank accordingly.

    After the Director's spouse disposed of the 100,000 issued shares of the Bank in the market, the Bank's public float of 25% of its issued share capital was restored on 2 March 2006.

(3) The Code provides that a majority of the members of the Remuneration Committee should be Independent Non-Executive Directors. The Remuneration Committee of the Bank during 2005 did not comply with the Code as it comprised a total of four members, two Non-Executive Directors and two Independent Non-Executive Directors.

    In compliance with the Code, the Board approved the appointment of the remaining Independent Non-Executive Director to the Remuneration Committee in January 2006.

Save the abovementioned exceptions, the Bank has applied the principles and complied with the Code provisions throughout the period ended 30 June 2006 and to the fullest extent of the recommended best practices of the Code.

STATUTORY FINANCIAL STATEMENTS

The financial information in this interim announcement is unaudited and does not constitute statutory financial statements.

The financial information relating to the financial year ended 31 December 2005 included in this interim announcement does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 1 March 2006.

The same accounting policies adopted in the 2005 annual financial statements have been applied in the preparation of the interim financial report, except for the changes in accounting policies as set out in note 2. The interim results have been reviewed by the audit committee. The interim financial report for the six months ended 30 June 2006 has been reviewed in accordance with the

Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants, by KPMG, whose unmodified review report is included in the interim financial report to be sent to shareholders.

By Order of the Board
Ivan Young
Company Secretary

As at the date of this announcement, the Board comprises of Jin-Yi Lee (Managing Director and Chief Executive Officer), Chang Ming-Yuen, Michael, James Yip as Executive Directors; Ming-Hsing (Richard) Tsai (Chairman), Ming-Chung (Daniel) Tsai (Vice Chairman), Victor Kung, Jesse Ding as Non-Executive Directors; and Robert James Kenrick, Moses Tsang, Hung Shih as Independent Non-Executive Directors.

Hong Kong, 8 August 2006

Please also refer to the published version of this announcement in South China Morning Post.