



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 FINAL RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the audited results of Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (collectively “the Group”) for the year ended 31 December 2006. This financial report, which has been reviewed by the Bank’s Audit Committee, is prepared on a basis consistent with the accounting policies adopted in the 2005 annual report.

Consolidated Income Statement

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	Variance
Interest income	2,523,124	1,571,878	60.52%
Interest expense	(1,826,345)	(1,068,107)	70.99%
Net interest income	696,779	503,771	38.31%
Other operating income	430,576	326,790	31.76%
Operating income	1,127,355	830,561	35.73%
Operating expenses	(716,709)	(602,766)	18.90%
Operating profit before gains and impairment losses	410,646	227,795	80.27%
Gains/(losses) from disposals of available-for-sale securities	46,882	(17,799)	363.4%
(Charge)/write back of impairment losses on advances to customers	(65,537)	20,247	-423.69%

(Charge)/reversal of impairment losses on investments and assets acquired under lending agreements	(516)	4,616	-111.18%
Gains on disposals of fixed assets	22	38,956	-99.94%
Profit before taxation	391,497	273,815	42.98%
Taxation	(64,329)	(32,374)	98.71%
Profit attributable to shareholders	327,168	241,441	35.51%
Interim dividend declared during the year	(70,330)	(70,330)	—
Final dividend proposed after the balance sheet date	(140,659)	(128,938)	9.09%
	(210,989)	(199,268)	5.88%
Earnings per share (Hong Kong cents)	27.91	20.60	35.49%

Consolidated Balance Sheet

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	Variance
ASSETS			
Cash and short term funds	7,818,671	10,157,048	-23.02%
Placements with banks maturing between one and twelve months	1,684,201	1,573,939	7.01%
Trading securities	469,030	395,081	18.72%
Other financial instruments designated as at fair value through profit or loss	558,791	646,707	-13.59%
Derivative financial instruments	537,855	330,364	62.81%
Advances to customers less impairment	25,751,160	21,375,566	20.47%
Accrued interest and other accounts	1,144,211	643,764	77.74%
Available-for-sale securities	14,257,154	13,523,761	5.42%
Investments in associated company	6,547	6,470	1.19%
Fixed assets	1,119,256	1,150,838	-2.74%
	53,346,876	49,803,538	7.11%

LIABILITIES

Deposits and balances of banks and other financial institutions	961,515	1,195,791	-19.59%
Deposits from customers	33,810,833	32,543,110	3.90%
Certificates of deposit issued	3,523,347	3,805,341	-7.41%
Debt securities issued	1,414,162	–	N/A
Derivative financial instruments	425,047	355,114	19.69%
Trading liabilities	445,695	1,125,534	-60.40%
Other accounts and liabilities	7,217,092	7,029,732	2.67%
Subordinated notes issued	1,570,155	–	N/A
	<u>49,367,846</u>	<u>46,054,622</u>	7.19%

CAPITAL RESOURCES

Share capital	1,172,160	1,172,160	–
Share premium	749,778	749,778	–
Reserves	2,057,092	1,826,978	12.60%
Shareholders' funds	<u>3,979,030</u>	<u>3,748,916</u>	6.14%
	<u>53,346,876</u>	<u>49,803,538</u>	7.11%

Consolidated Summary Statement of Changes in Equity

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shareholders' equity as at 1 January	3,748,916	3,752,234
Realisation of revaluation surplus of available-for-sale securities on disposal	36,250	(4,234)
Net change in fair value of available-for-sale securities	80,871	(50,904)
Deferred taxation	(14,907)	9,647
Net gains/(losses) not recognised in the income statement	<u>102,214</u>	<u>(45,491)</u>
Net profit for the year	327,168	241,441
Dividend paid during the year	(199,268)	(199,268)
Shareholders' equity as at 31 December	<u>3,979,030</u>	<u>3,748,916</u>

Consolidated Cash Flow Statement

	2006		2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities				
Profit before taxation	391,497		273,815	
Adjustments for non-cash items:				
Impairment allowance for advances to an associated company	26		(22)	
Exchange difference in translation of advance to an associated company	(103)		(525)	
Depreciation	72,026		60,688	
Gains on disposals of fixed assets	(22)		(38,956)	
Charge/(write back) of impairment losses on loans and advances	65,537		(20,247)	
Charge/(reversal) of impairment losses on investments and assets acquired under lending agreements	490		(4,616)	
		529,451		270,137
(Increase)/decrease in operating assets:				
Short-term funds with original maturity of over three months	538,294		(141,789)	
Treasury bills with original maturity of over three months	2,775,439		(2,346,511)	
Placements maturing between one and twelve months with original maturity of over three months	601,626		3,773,360	
Certificates of deposit held	286,434		105,451	
Gross advances to customers	(4,425,476)		(3,328,243)	
Accrued interest and other accounts	(690,706)		(15,700)	
Trading securities	13,254		100,210	
Other financial instruments designated as at fair value through profit or loss	87,916		(646,707)	
Available-for-sale securities	(3,014,603)		(647,342)	
		(3,827,822)		(3,147,271)

	2006		2005	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase/(decrease) in operating liabilities:				
Deposits and balances of banks and other financial institutions	(234,276)		(2,903,194)	
Deposits from customers	943,723		6,344,680	
Certificates of deposit (redeemed)/issued	(281,994)		1,437,429	
Trading liabilities	(679,839)		(1,111,738)	
Other accounts and liabilities	203,795		4,137,072	
		<u>(48,591)</u>		<u>7,904,249</u>
Net cash (used in)/generated from operations		(3,346,962)		5,027,115
Hong Kong Profits Tax paid		(27,241)		(61,281)
Hong Kong Profits Tax refunded		755		8,572
		<u> </u>		<u> </u>
Net cash (used in)/generated from operating activities		(3,373,448)		4,974,406
Investing activities				
Payments for purchases of fixed assets	(40,502)		(42,445)	
Net proceeds from disposals of fixed assets	80		74,586	
Repayment from investment in associated company	–		611	
		<u> </u>	<u> </u>	
Net cash (used in)/generated from investing activities		(40,422)		32,752
Financing activities				
Dividends paid	(199,268)		(199,268)	
Debt securities issued	1,414,162		–	
Subordinated notes issued	1,552,433		–	
Deposits accepted from fellow subsidiaries	3,052,610		8,220,004	
Deposits repaid to fellow subsidiaries	(2,728,610)		(12,107,304)	
		<u> </u>	<u> </u>	

Net cash generated from/(used in) financing activities	3,091,327	(4,086,568)
Net (decrease)/increase in cash and cash equivalents	(322,543)	920,590
Cash and cash equivalents as at 1 January	10,106,918	9,186,328
Cash and cash equivalents as at 31 December	9,784,375	10,106,918
Cash flows from operating activities include:		
	2006	2005
	HK\$'000	HK\$'000
Interest received	2,374,255	1,547,689
Interest paid	(1,727,438)	(1,138,628)
Dividends received	35,606	10,270

Notes:

1. The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements. Certain financial information in this preliminary announcement is extracted from the statutory financial statements for the year ended 31 December 2006, which will be available from the website of The Stock Exchange of Hong Kong Limited. The Bank's Audit Committee has reviewed the accounting principles and practices adopted by the Group and reviewed this preliminary announcement of results.

2. Dividends declared and proposed

	2006	2005
	HK\$'000	HK\$'000
Interim dividend declared and paid of 6 cents (2005: 6 cents) per share	70,330	70,330
Final dividend of 12 cents (2005: 11 cents) per share proposed on 6 March 2007	140,659	128,938
	210,989	199,268

3. The earnings per share is calculated on profit attributable to shareholders of HK\$327,168,000 (2005: HK\$241,441,000) and 1,172,160,000 (2005: 1,172,160,000) ordinary shares in issue during the year. There are no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

4. Interest income and expense and other operating income include the following income and expense in respect of trading securities:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Included in interest income disclosed in the consolidated income statement is		
Interest income on trading securities	<u>53,349</u>	<u>34,246</u>
Included in other operating income disclosed in the consolidated income statement is		
Gains less losses from dealing in trading securities	<u>(370)</u>	<u>(9,571)</u>

5. The provision for Hong Kong profits tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

Supplementary financial information

1. Cash and short term funds

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cash in hand	87,444	77,657
Balances with banks and other financial institutions	207,841	264,564
Money at call and short notice *	<u>7,523,386</u>	<u>9,814,827</u>
	<u>7,818,671</u>	<u>10,157,048</u>

* Money at call and short notice represents deposits of up to a maximum of one month maturity from the balance sheet date.

2. Trading securities

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trading securities at fair value		
Debt securities		
– Listed in Hong Kong	2,548	3,482
– Unlisted	10,914	23,234
Treasury bills (including Exchange Fund Bills) – Unlisted	<u>455,568</u>	<u>368,365</u>
Total	<u>469,030</u>	<u>395,081</u>

3. Other financial instruments designated as at fair value through profit or loss

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Debt securities at fair value		
– Listed in Hong Kong	484,068	571,392
– Listed outside Hong Kong	74,723	75,315
Total	<u>558,791</u>	<u>646,707</u>

The prior year comparative figures have been restated for more appropriate presentation.

4. Available-for-sale securities

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Listed debt securities at fair value		
– Listed in Hong Kong	3,536,368	1,541,072
– Listed outside Hong Kong	477,808	1,688,178
	<u>4,014,176</u>	<u>3,229,250</u>
Unlisted debt securities at fair value		
– Treasury bills (including Exchange Fund Bills)	4,827,763	6,924,752
– Certificates of deposit	86,741	373,175
– Debt securities	5,134,353	2,898,895
	<u>10,048,857</u>	<u>10,196,822</u>
	<u>14,063,033</u>	<u>13,426,072</u>
Equity shares at fair value		
– Listed in Hong Kong	68,173	88,098
– Unlisted	125,948	9,591
	<u>194,121</u>	<u>97,689</u>
Total available-for-sale securities	<u>14,257,154</u>	<u>13,523,761</u>

5. Advances to customers less impairment

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Gross advances to customers	25,914,351	21,544,382
Impairment allowances		
– Collective impairment allowance	(81,404)	(76,115)
– Individual impairment allowance	(81,787)	(92,701)
	<u>25,751,160</u>	<u>21,375,566</u>

The following economic sector analysis is based on the categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Gross advances for use in Hong Kong		
Industrial, commercial and financial		
– Property development	29,392	28,135
– Property investment	4,900,296	3,923,769
– Financial concerns	484,250	313,227
– Stockbrokers	157,371	159,616
– Wholesale and retail trade	202,404	99,242
– Manufacturing	1,059,535	1,710,819
– Transport and transport equipment	756,247	683,299
– Others	3,247,433	2,017,055
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	3,275	1,461
– Loans for the purchase of other residential properties	6,946,882	7,503,104
– Credit card advances	504,157	478,553
– Others	1,299,707	952,404
	<u>19,590,949</u>	<u>17,870,684</u>
Trade finance	943,406	601,902
Gross advances for use outside Hong Kong	5,379,996	3,071,796
	<u>25,914,351</u>	<u>21,544,382</u>

The prior year comparative figures have been restated for more appropriate presentation.

6. Included in accrued interest and other accounts of the consolidated balance sheet are trade bills net of allowances of HK\$70,971,000 (2005: HK\$36,691,000).

7. Repossessed assets and assets acquired under lending agreements

The total repossessed assets and assets acquired under lending agreements of the Group as at 31 December 2006 amounted to HK\$65,280,000 (2005: HK\$71,880,000).

8. Overdue advances to customers

	<u>2006</u>		<u>2005</u>	
	<i>HK\$'000</i>	<i>% of total advances</i>	<i>HK\$'000</i>	<i>% of total advances</i>
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	22,120	0.09%	38,953	0.18%
– 1 year or less but over 6 months	24,958	0.10%	17,514	0.08%
– Over 1 year	108,084	0.42%	105,754	0.49%
	<u>155,162</u>	0.60%	<u>162,221</u>	0.75%
Overdue advances to customers which are				
– secured	95,015		77,392	
– unsecured	60,147		84,829	
	<u>155,162</u>		<u>162,221</u>	
Amount of collateral held against the overdue advances	<u>22,811</u>		<u>71,070</u>	
Amount of expected recoveries from companies in liquidation in respect of the overdue advances	<u>73,459</u>		<u>11,299</u>	
Individually assessed impairment allowance in respect of advances overdue for more than three months	<u>63,612</u>		<u>85,400</u>	

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

9. Rescheduled advances to customers

	<u>2006</u>		<u>2005</u>	
	<i>HK\$'000</i>	<i>% of total advances</i>	<i>HK\$'000</i>	<i>% of total advances</i>
Rescheduled advances to customers	<u>52,792</u>	0.20%	<u>108,227</u>	0.50%

10. Impaired advances to customers

	<u>2006</u>		<u>2005</u>	
	<i>HK\$'000</i>	<i>% of total advances</i>	<i>HK\$'000</i>	<i>% of total advances</i>
Gross impaired advances	239,884	0.93%	213,133	0.99%
Individual impairment allowances made against impaired loans	<u>(81,787)</u>		<u>(92,701)</u>	
	<u>158,097</u>		<u>120,432</u>	

11. 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:

	<u>2006</u>		<u>2005</u>	
	Contractual amounts	Credit risk weighted amounts	Contractual amounts	Credit risk weighted amounts
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	452,051	452,051	470,557	470,557
Transaction-related contingencies	122,334	61,167	109,724	54,862
Trade-related contingencies	599,497	119,899	332,256	66,451
Undrawn loan facilities				
– with an original maturity of under 1 year or which are unconditionally cancellable	10,008,753	–	9,135,831	–
– with an original maturity of 1 year or over	784,352	392,176	587,635	293,818

Forward forward deposits placed	<u>1,288,015</u>	<u>257,603</u>	<u>1,155,067</u>	<u>231,013</u>
	<u>13,255,002</u>	<u>1,282,896</u>	<u>11,791,070</u>	<u>1,116,701</u>

(b) Derivatives

The contractual amounts of these instruments disclosed in this note indicate the volume of transactions outstanding as at 31 December 2005 and 2006; they do not represent amounts at risk.

(i) Notional amounts of derivatives

	2006			2005		
	Trading <i>HK\$'000</i>	Hedging <i>HK\$'000</i>	Total <i>HK\$'000</i>	Trading <i>HK\$'000</i>	Hedging <i>HK\$'000</i>	Total <i>HK\$'000</i>
Exchange rate derivatives	37,905,763	–	37,905,763	6,969,741	–	6,969,741
Interest rate derivatives	13,449,521	1,866,840	15,316,361	7,812,314	–	7,812,314
Equity derivatives	717,720	–	717,720	298,206	–	298,206
Commodity derivatives	78,346	–	78,346	–	–	–
Total	<u>52,151,350</u>	<u>1,866,840</u>	<u>54,018,190</u>	<u>15,080,261</u>	<u>–</u>	<u>15,080,261</u>

The above amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements and include all embedded derivatives. The trading transactions include positions arising from the execution of trade orders from customers and transactions taken to hedge these positions. Derivatives used for hedging purposes are hedging instruments that qualified for hedge accounting under HKAS 39.

(ii) Credit risk weighted amounts and replacement cost of derivatives

	2006			2005		
	Contractual amounts <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Contractual amounts <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>
Exchange rate derivatives	37,555,279	140,391	261,139	6,550,815	15,131	89,247
Interest rate derivatives	12,045,503	59,970	183,607	5,554,846	32,989	121,242
Equity derivatives	397,772	3,535	172	298,206	559	1,414
Commodity derivatives	78,346	783	–	–	–	–
Total	<u>50,076,900</u>	<u>204,679</u>	<u>444,918</u>	<u>12,403,867</u>	<u>48,679</u>	<u>211,903</u>

The replacement costs and credit risk-weighted amounts of the off-balance sheet exposures do not take into account the effects of bilateral netting arrangements and do not include embedded derivatives. They are assessed in accordance with the HKMA's guidelines which implement the Basel agreement on capital adequacy. Replacement cost represents 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 50% for exchange rate, interest rate and other derivative contracts, and from 0% to 100% for contingent liabilities and commitments.

12. Foreign exchange exposures

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

As at 31 December 2006							
<i>Equivalent in HK\$'Million</i>	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Chinese Renminbi	Others	Total
Spot assets	15,199	622	826	651	139	1,365	18,802
Spot liabilities	(14,739)	(636)	(899)	(1,139)	(139)	(1,289)	(18,841)
Forward purchase	9,627	4,269	156	663	200	800	15,715
Forward sales	(10,073)	(4,255)	(83)	(171)	(1)	(869)	(15,452)
Net option position	(4)	–	–	–	–	–	(4)
Net long/(short) position	<u>10</u>	<u>–</u>	<u>–</u>	<u>4</u>	<u>199</u>	<u>7</u>	<u>220</u>
As at 31 December 2005							
<i>Equivalent in HK\$'Million</i>	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Chinese Renminbi	Others	Total
Net structural position	<u>31</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>31</u>
As at 31 December 2005							
<i>Equivalent in HK\$'Million</i>	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 purchase	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	–	–	–	1
Net long/(short) position	<u>671</u>	<u>(5)</u>	<u>12</u>	<u>(4)</u>	<u>2</u>	<u>(24)</u>	<u>652</u>

	US Dollars	Euros	New Zealand Dollars	Australian Dollars	Chinese Renminbi	Others	Total
Net structural position	<u>31</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>31</u>

13. Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

As at 31 December 2006

Figures in HK\$'Million

	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	5,061	4	865	5,930
of which South Korea	1,885	–	–	1,885
North America	281	1	317	599
Caribbean	–	–	2,526	2,526
Western Europe	8,009	–	435	8,444
of which Germany	3,223	–	–	3,223

As at 31 December 2005

Figures in HK\$'Million

	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	1,991	5	529	2,525
North America	1,184	1,169	57	2,410
Caribbean	–	–	1,214	1,214
Western Europe	9,963	156	664	10,783
of which France	1,850	–	–	1,850
of which Germany	2,797	–	–	2,797

14. Capital adequacy and liquidity ratios

	2006	2005
	%	%
Unadjusted capital adequacy ratio at year end	16.81	14.96
Adjusted capital adequacy ratio incorporating market risk	16.60	14.94
Average liquidity ratio for December	46.43	47.49
Average liquidity ratio for the year ended 31 December	44.51	44.71

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 year 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.

15. 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.

	2006	2005
	<i>HK\$’000</i>	<i>HK\$’000</i>
Core capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,651,057	1,550,802
Share premium	749,778	749,778
Eligible supplementary capital		
Reserves on revaluation of land and interest in land	36,868	36,868
Reserves on revaluation of holdings of securities not held for trading purposes	3,118	(72,476)
Collective impairment allowance for impaired loans	81,404	76,115
Term subordinated notes	1,555,700	–
Regulatory reserve	129,572	107,722
Total capital base before deductions	5,379,657	3,620,969
Deductions from total capital base	(701,967)	(65,036)
Total capital base after deductions	4,677,690	3,555,933

16. Regulatory reserve

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
At 1 January	107,722	–
Transfer from retained earnings	21,850	107,722
	<hr/>	<hr/>
At 31 December	129,572	107,722
	<hr/> <hr/>	<hr/> <hr/>

The regulatory reserve is maintained to satisfy the provisions of the Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

17. 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.

2006	Retail Banking HK\$'000	Wholesale Banking HK\$'000	Financial Markets HK\$'000	Real Estate HK\$'000	Unallo- cated HK\$'000	Inter- segment elimination HK\$'000	Consoli- dated HK\$'000
Interest income from external customers	635,407	774,454	1,106,061	–	7,202	–	2,523,124
Interest expense to external customers	(952,143)	(220,801)	(645,631)	–	(7,770)	–	(1,826,345)
Inter-segment income	559,653	–	–	–	3,486	(563,139)	–
Inter-segment expenses	–	(274,861)	(285,256)	(3,022)	–	563,139	–
Net interest income	242,917	278,792	175,174	(3,022)	2,918	–	696,779
Other operating income from external customers	238,211	62,046	177,782	(149)	4,071	–	481,961
Inter-segment revenue	–	–	–	–	39,971	(39,971)	–
Fee and commission expense	(28,818)	(2,925)	(19,038)	–	(604)	–	(51,385)
Other operating income	209,393	59,121	158,744	(149)	43,438	–	430,576
Operating income	452,310	337,913	333,918	(3,171)	46,356	–	1,127,355
Operating expenses	(336,141)	(121,394)	(105,127)	(1,740)	(152,307)	–	(716,709)
Inter-segment expenses	(33,501)	(3,970)	(2,342)	(158)	–	39,971	–
Operating profit/(loss) before provisions and gains	82,668	212,549	226,449	(5,069)	(105,951)	–	410,646
Charges less releases for individual impairment losses	(23,001)	(59,566)	–	–	–	–	(82,567)
Recovery of loans previously written off	14,989	7,191	–	139	–	–	22,319
Write back / (charge) for collective impairment allowance	13,297	(18,610)	–	–	24	–	(5,289)
Charge of impairment loss on investments and acquired assets	–	–	–	(490)	(26)	–	(516)
Gains from disposal of available-for-sale securities	–	–	46,882	–	–	–	46,882
Gains less losses from disposal of fixed assets	–	–	–	–	22	–	22
Profit / (loss) before taxation	87,953	141,564	273,331	(5,420)	(105,931)	–	391,497
Income tax	–	–	–	–	(64,329)	–	(64,329)
Profit / (loss) attributable to shareholders	<u>87,953</u>	<u>141,564</u>	<u>273,331</u>	<u>(5,420)</u>	<u>(170,260)</u>	–	<u>327,168</u>
Operating expenses - depreciation	(19,028)	(1,937)	(6,247)	–	(44,814)	–	(72,026)
Segment assets	12,472,653	14,308,670	25,593,804	65,280	906,469	–	<u>53,346,876</u>
Segment liabilities	27,003,438	8,028,698	13,938,314	–	397,396	–	<u>49,367,846</u>
Capital expenditure incurred during the year	9,645	11,065	19,792	–	–	–	<u>40,502</u>

2005	Retail Banking HK\$'000	Wholesale Banking HK\$'000	Financial Markets HK\$'000	Real Estate HK\$'000	Unallo- cated HK\$'000	Inter- segment elimination HK\$'000	Consoli- dated HK\$'000
Interest income from external customers	465,053	453,516	646,375	–	6,934	–	1,571,878
Interest expense to external customers	(640,989)	(110,072)	(312,966)	–	(4,080)	–	(1,068,107)
Inter-segment income	530,042	–	–	–	–	(530,042)	–
Inter-segment expenses	–	(126,326)	(399,865)	(3,511)	(340)	530,042	–
Net interest income	354,106	217,118	(66,456)	(3,511)	2,514	–	503,771
Other operating income from external customers	150,867	28,059	160,282	499	15,466	–	355,173
Inter-segment revenue	–	–	–	–	35,682	(35,682)	–
Fee and commission expense	(15,816)	(2,811)	(8,942)	–	(814)	–	(28,383)
Other operating income	135,051	25,248	151,340	499	50,334	–	326,790
Operating income	489,157	242,366	84,884	(3,012)	52,848	–	830,561
Operating expenses	(304,469)	(95,712)	(74,270)	(1,615)	(126,700)	–	(602,766)
Inter-segment expenses	(30,596)	(3,098)	(1,812)	(176)	–	35,682	–
Operating profit/(loss) before provisions and gains	154,092	143,556	8,802	(4,803)	(73,852)	–	227,795
Charges less releases for individual impairment losses	(26,644)	(26,013)	–	–	–	–	(52,657)
Recovery of loans previously written off	15,913	14,845	–	12,205	–	–	42,963
Write back/(charge) for collective impairment allowance	30,374	(795)	–	–	362	–	29,941
Reversal of impairment loss on investments and acquired assets	–	–	–	3,686	930	–	4,616
Losses from disposal of available-for-sale securities	–	–	(17,799)	–	–	–	(17,799)
Gains less losses from disposal of fixed assets	–	–	–	–	38,956	–	38,956
Profit/(loss) before taxation	173,735	131,593	(8,997)	11,088	(33,604)	–	273,815
Income tax	–	–	–	–	(32,374)	–	(32,374)
Profit/(loss) attributable to shareholders	<u>173,735</u>	<u>131,593</u>	<u>(8,997)</u>	<u>11,088</u>	<u>(65,978)</u>	–	<u>241,441</u>
Operating expenses – depreciation	(16,988)	(1,905)	(5,393)	–	(36,402)	–	(60,688)
Segment assets	11,031,605	11,146,462	26,603,382	71,880	–	–	48,853,329
Unallocated assets	–	–	–	–	–	–	950,209
							<u>49,803,538</u>

Segment liabilities	28,712,172	4,819,298	12,241,172	-	-	45,772,642
Unallocated liabilities						<u>281,980</u>
						<u>46,054,622</u>
Capital expenditure incurred during the year	9,598	9,699	23,148	-	-	<u>42,445</u>

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 years ended 31 December 2005 and 2006, 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 ECONOMY AND BANKING INDUSTRY

Hong Kong Economy

Hong Kong's economy generated strong momentum in 2006, with real Gross Domestic Product growing by 6.5% compared to 2005. This performance was distinctly above the medium term growth trend of the economy, and the pace of growth accelerated through the year. Economic growth was broad-based, and marked by a pick-up in exports, a surge in investment and strong local consumption.

Exports regained strength in the latter part of the year, after some moderation in the second quarter, and were supported by a pick-up in China's already strong trade flows and surging intra-regional trade flows. Total exports of goods were up by 9%, while imports rose 11% for the year. China continued to be the key driver of growth, with its rapidly growing economy and its vibrant trade flows. Exports to many other Asian markets such as Taiwan, Singapore and Korea also recorded strong growth in tandem with their generally strong import demand and buoyant intra-regional trade. Exports to the United States showed signs of slowing towards the end of the year, partly due to its slowing economy, and also due to the drag from the on-going shift to offshore trade. Exports of services maintained strong momentum during the year. Exports of trade-related services were bolstered by buoyant China trade flows, while exports of transport services sustained strong growth in tandem with the faster trade growth. Financial and insurance services exports also attained double-digit growth. However,

the momentum in exports of travel services slowed due to a less rapid growth in the numbers of incoming visitors.

Domestic demand in Hong Kong held up very well throughout the year. Local consumer spending rose solidly amidst improving income, expanding job opportunities and a buoyant stock market. A more stable property market, together with the pause in interest rate hikes boosted consumer confidence. Overall investment spending accelerated markedly by more than 10%. Machinery and equipment investment was the key driver of overall investment growth, reflecting strong business confidence. Activity in the construction sector remained weak in overall terms, as public sector output continued to fall sharply. The labour market continued to improve in a broad-based manner. Strong expansion in labour demand pushed total employment to successive new highs during the year, shaving the unemployment rate down to 4.4% at year end. Along with the sustained economic expansion, inflation edged slightly higher to a moderate 2% for the year. On the domestic front, upward pressures on local business costs remained largely in check, with unit labour costs kept down by rising productivity. External cost pressures were likewise modest.

Hong Kong's banking sector reported improved net interest margins in 2006 as the spread between Prime and HIBOR remained wide. Strong liquidity inflows related to a large pipeline of Chinese stock market listings kept HIBOR relatively low throughout the year. The Hong Kong dollar traded on the strong side of the peg for most of the year. Bank managers continued to focus on generating fee income, but this came at the expense of higher operating costs. Credit quality remained good, with some signs of stress in the personal loan market. Loan demand was mixed, with corporate lending continuing to dominate volumes, while mortgage demand was weak, and pricing was competitive. The Hong Kong Monetary Authority introduced a Deposit Insurance Scheme in 2006 and banks are currently making preparations for Basel II.

China Economy

China's real Gross Domestic Product for 2006 expanded by 10.7%, topping the 10.4% record of 2005 and thus registering the highest rate of economic growth since 1995, when the economy expanded by 10.9%. The country's total economic output hit US\$2,700 billion. The fast pace of growth was achieved despite a series of measures to cool the economy, including two interest rate increases, increases in bank reserve requirements and a tightening of land sale and project approvals in certain industries to slow investment.

Favourable conditions in the global economy continue to support rapid expansion of merchandise trade, and net exports again contributed positively to growth in 2006. Exports and imports both grew rapidly, by 27% and 20%, respectively, resulting in a US\$177.5 billion trade surplus – equal to nearly 7% of China's total economic output. Although the capital account remains in surplus, disbursed foreign direct investment fell slightly, perhaps as a result of a more restrictive policy on property.

Excess liquidity, due to the strong trade performance, was a key feature of China's economic performance last year. The People's Bank of China drained RMB770 billion of liquidity from the money markets via open market operations during the year. This was equal to about 56% of the year's trade surplus or 40% of the rise in foreign reserves (US\$247 billion). The remaining non-sterilized portion was US\$148 billion (or 5.5% of GDP). Although the 150bp increase in reserve requirements extracted another US\$58 billion from the banking system, M2 growth was 17% at the end of last year, down from the 19% growth seen in mid-year but still above the Chinese Government's target growth rate of 16%. Strong liquidity growth helped double the market capitalisation of China's stock markets in 2006.

Last year was a pivotal period for China's banking industry with the privatisation of three of the big four state-owned banks. Already in July, Standard & Poor's raised China's long-term sovereign credit rating to A from A-minus, citing among other reasons "persistent efforts to strengthen the banking sector." However, despite their public shareholders, credit growth remained above targets. Investment in real estate grew by 21.8%, while overall investment in assets increased by 24%. In April, the Chinese Government announced that the minimum down payment on apartments larger than 90 square meters would be increased from 20% to 30%, and a higher sales tax was applied on the sale of residential properties owned for less than five years. A 20% capital gains tax on residential property was extended nationwide and additional restrictions on foreign investment in real estate were also imposed.

Retail sales expanded by 13.7% in 2006, but overall consumer inflation averaged just 1.5% in 2006 – from 1.8% in 2005. This reflects the supply-side nature of the current upswing in the Chinese economy and a rapid expansion of capacity. Indeed, output prices have been falling in some sectors even with increases in input costs. A good grain harvest also helped keep consumer prices in check.

Recognising the strong growth potential of the Chinese banking market, and the fact that entry barriers are being lifted in line with China's WTO pledges – Fubon Bank (Hong Kong) continues to seek a suitable presence in the Mainland banking market while strengthening our business position in Hong Kong.

FUBON PERFORMANCE

Building on the business expansion achieved in 2005 and combined with the strong momentum of the Hong Kong economy, Fubon Bank (Hong Kong) Limited (“the Bank”) achieved a significant improvement in performance for the year 2006 with operating profit before gains and impairment losses increasing by more than 80% to HK\$411 million.

Gross interest income rose 61% to HK\$2.5 billion over the last year, whereas gross interest expense rose to HK\$1.8 billion from HK\$1.1 billion for the year of 2005. As a result, net interest income grew by HK\$193 million or 38% to HK\$697 million, mostly due to the widening of Prime-HIBOR spreads, strong loan growth and improvement in investment yield. Effective net interest margin improved from 1.09% for 2005 to 1.35% for 2006.

Other operating income reached HK\$431 million, which represented a 32% increase compared to last year. Strong growth in recurring sales of Financial Markets products throughout all segments was recorded, with income doubling compared to 2005. Benefiting from the buoyant equity market, brokerage-related commission income surged 37%. Furthermore, there was a 44% year-on-year growth in commission income from Consumer Banking-related products, which includes credit cards, unit trust and insurance products.

Operating expenses rose 19% from HK\$603 million to HK\$717 million. This increase was primarily due to higher compensation and other staff expenses related to the hiring of new staff to support business growth. Nevertheless, due to the strong growth in net interest income and other operating income, the Bank's cost to income ratio improved from 72.6% to 63.6%.

The Group recorded a net charge of impairment losses of HK\$66 million for impaired loans and advances as compared with a reversal of impairment losses of HK\$20 million in 2005. Asset quality was sound as evidenced by an impaired loans ratio of 0.93%. There was a gain on the disposal of available-for-sale securities of HK\$47 million compared to a disposal loss of HK\$18 million in 2005. Factoring in these impairment losses and gains, net profit for 2006 amounted to HK\$327 million, which

represented an increase of 36% from 2005. Return on assets was 0.6%, while return on equity improved from 6.48% in 2005 to 8.5%.

Customer deposits grew by 4%, reaching HK\$33.8 billion as at 31 December 2006. To diversify its funding sources, the Bank successfully completed the issuance of US\$200 million in lower tier II subordinated debt and US\$150 million senior floating rate notes in April 2006 under its US\$1 billion Euro Medium Term Note Program launched in March 2006. This has further strengthened the Bank's capital base and liability structure, and reduced the Bank's reliance on rate sensitive funding.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 7% to HK\$53.3 billion in 2006. The loan portfolio reached HK\$25.9 billion, an increase of 20% from December 2005. Growth was seen in most loan types, but especially in short term advances, project & syndicated / term loans and hire purchase loans.

Taiwan-related business continued to demonstrate impressive growth during the year. With a full team of experienced professionals providing corporate banking services to Taiwanese customers in Hong Kong and the mainland, the corporate loans portfolio increased by 152% and the deposits portfolio grew more than 210% as compared to the 2005 year-end balances. Furthermore, the number of wealth management accounts expanded by 119% and assets under management growing by more than 110%.

FINAL DIVIDEND

The Directors will propose the payment of a final dividend of 12 Hong Kong cents per ordinary share in respect of the year ended 31 December 2006, totalling HK\$140,659,000 at the forthcoming Annual General Meeting to be held on Friday, 27 April 2007. The final dividend, if approved, will be paid on or after Thursday, 3 May 2007 to the shareholders whose names are on the Register of Members on Friday, 13 April 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 11 April 2007 to Friday, 13 April 2007, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final 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 Tuesday, 10 April 2007.

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

The Bank has not redeemed any of its listed shares during the year ended 31 December 2006. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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, as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 of the Listing Rules at any time during the year ended 31 December 2006.

By Order of the Board
Ivan Young
Company Secretary

Hong Kong, 6 March 2007

As of the date of this announcement, the Company's Directors are Jin-Yi Lee (Managing Director and Chief Executive Officer), Michael Chang Ming Yuen, 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.

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