



**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 2007 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 2007. <sup>(Note1)</sup>

**Consolidated Income Statement**

	Note	2007 HK\$'000	2006 HK\$'000	Variance
Interest income	4	<b>2,826,055</b>	2,523,124	+12.0%
Interest expense	4	<b>(1,972,382)</b>	(1,826,345)	+8.0%
<b>Net interest income</b>		<b>853,673</b>	696,779	+22.5%
Fee and commission income	5	<b>362,777</b>	194,244	+86.8%
Fee and commission expense	5	<b>(77,009)</b>	(51,385)	+49.9%
<b>Net fees and commission income</b>		<b>285,768</b>	142,859	+100.0%
Revaluation loss on collateralised debt obligations	17	<b>(90,401)</b>	-	+100.0%
Other operating income	6	<b>372,437</b>	287,717	+29.4%
Operating income		<b>1,421,477</b>	1,127,355	+26.1%
Operating expenses	7	<b>(834,773)</b>	(716,709)	+16.5%
<b>Operating profit before gains and impairment losses</b>		<b>586,704</b>	410,646	+42.9%
Impairment losses on advances to customers	8	<b>(37,613)</b>	(65,537)	-42.6%
Impairment losses on available-for-sale securities	17	<b>(162,433)</b>	-	+100.0%
Impairment losses on investment in associated company		<b>(8,255)</b>	(26)	+31,650.0%
Write back of / (charge for) impairment losses on assets acquired under lending agreements		<b>3,301</b>	(490)	
<b>Impairment losses</b>		<b>(205,000)</b>	(66,053)	+210.4%
Net gains on disposals of available-for-sale securities	9	<b>132,476</b>	46,882	+182.6%
Net gains on disposals of fixed assets		<b>2,887</b>	22	+13,022.7%
<b>Profit before taxation</b>		<b>517,067</b>	391,497	+32.1%
Taxation	10	<b>(56,179)</b>	(64,329)	-12.7%
<b>Profit for the year</b>		<b>460,888</b>	327,168	+40.9%
Attributable to:				
- Equity holders of the Bank		<b>460,998</b>	327,168	+40.9%
- Minority interests		<b>(110)</b>	-	+100.0%
<b>Profit for the year</b>		<b>460,888</b>	327,168	+40.9%
Interim dividend declared during the year	3	<b>(70,330)</b>	(70,330)	-
Final dividend proposed after the balance sheet date	3	<b>(152,381)</b>	(140,659)	+8.3%
		<b>(222,711)</b>	(210,989)	+5.6%
Earnings per share (Hong Kong cents)	11	<b>39.33</b>	27.91	+40.9%

# FUBON BANK (HONG KONG) LIMITED

## Consolidated Balance Sheet

	Note	2007 HK\$'000	2006 HK\$'000	Variance
<b>ASSETS</b>				
Cash and short-term funds		<b>7,024,601</b>	7,818,671	-10.2%
Placements with banks maturing between one and twelve months		<b>740,990</b>	1,684,201	-56.0%
Trading securities	13	<b>32,544</b>	469,030	-93.1%
Financial assets designated as at fair value through profit or loss	14	<b>878,955</b>	558,791	+57.3%
Derivative financial instruments	18	<b>955,904</b>	537,855	+77.7%
Advances to customers less impairment	15	<b>31,478,804</b>	25,751,160	+22.2%
Accrued interest and other accounts		<b>1,115,597</b>	1,141,748	-2.3%
Available-for-sale securities	17	<b>17,230,441</b>	14,257,154	+20.9%
Investments in associated company		-	6,547	-100.0%
Fixed assets		<b>1,142,320</b>	1,119,256	+2.1%
Deferred tax assets		<b>22,723</b>	2,463	+822.6%
		<b>60,622,879</b>	<b>53,346,876</b>	+13.6%
<b>LIABILITIES</b>				
Deposits and balances of banks		<b>1,457,845</b>	961,515	+51.6%
Deposits from customers		<b>41,473,991</b>	33,810,833	+22.7%
Trading liabilities		<b>11,673</b>	445,695	-97.4%
Financial liabilities designated as at fair value through profit or loss		<b>220,446</b>	-	+100.0%
Certificates of deposit issued		<b>2,161,650</b>	3,523,347	-38.6%
Debt securities issued		<b>1,593,177</b>	1,414,162	+12.7%
Derivative financial instruments	18	<b>804,740</b>	425,047	+89.3%
Other accounts and liabilities		<b>7,155,151</b>	7,208,234	-0.7%
Deferred tax liabilities		<b>90</b>	8,858	-99.0%
Subordinated notes issued	12	<b>1,622,652</b>	1,570,155	+3.3%
		<b>56,501,415</b>	<b>49,367,846</b>	+14.4%
<b>EQUITY</b>				
Share capital		<b>1,172,160</b>	1,172,160	-
Share premium		<b>749,778</b>	749,778	-
Reserves		<b>2,195,816</b>	2,057,092	+6.7%
Equity attributable to equity holders of the Bank		<b>4,117,754</b>	3,979,030	+3.5%
Minority interests		<b>3,710</b>	-	+100.0%
		<b>4,121,464</b>	<b>3,979,030</b>	+3.6%
		<b>60,622,879</b>	<b>53,346,876</b>	+13.6%

**FUBON BANK (HONG KONG) LIMITED**

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**Consolidated Summary Statement of Changes in Equity**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Total equity as at 1 January	<u>3,979,030</u>	<u>3,748,916</u>
Realisation of revaluation (surplus) / deficit of available-for-sale securities on disposal	<b>(36,104)</b>	36,250
Net change in fair value of available-for-sale securities	<b>(270,692)</b>	80,871
Transfer to income statement on impairment of available-for-sale securities	<b>162,433</b>	-
Deferred taxation	<u>33,078</u>	<u>(14,907)</u>
Net (loss) / income recognised directly in equity	<u><b>(111,285)</b></u>	<u>102,214</u>
Net profit for the year		
Attributable to:		
- Equity holders of the Bank	<b>460,998</b>	327,168
- Minority interests	<b>(110)</b>	-
	<u>460,888</u>	<u>327,168</u>
Dividend paid during the year	<u><b>(210,989)</b></u>	<u>(199,268)</u>
	<u>249,899</u>	<u>127,900</u>
Movement in minority interests:		
- Purchase of interests in businesses	<u>3,820</u>	<u>-</u>
Total equity as at 31 December	<u><b>4,121,464</b></u>	<u>3,979,030</u>

# FUBON BANK (HONG KONG) LIMITED

## Consolidated Cash Flow Statement

	2007		2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Operating activities</b>				
Profit before taxation	517,067		391,497	
Adjustments for non-cash items:				
Impairment allowance for advances to associated company	8,255		26	
Depreciation	59,114		72,026	
Gains on disposals of fixed assets	(2,887)		(22)	
Charge for impairment losses on loans and advances	37,613		65,537	
Charge for impairment losses on available-for-sale investments	162,433		-	
(Reversal) / charge of impairment losses on assets acquired under lending agreements	(3,301)		490	
Revaluation loss on collateralised debt obligations	90,401		-	
Exchange difference and other non-cash items	21,817		(103)	
		<b>890,512</b>		<b>529,451</b>
(Increase) / decrease in operating assets:				
Short-term funds with original maturity of over three months	-		538,294	
Treasury bills with original maturity of over three months	(873,194)		2,775,439	
Placements maturing between one and twelve months with original maturity of over three months	231,323		601,626	
Certificates of deposit held	(182,161)		286,434	
Gross advances to customers	(5,765,257)		(4,425,476)	
Accrued interest and other accounts	(381,790)		(690,706)	
Trading securities	193,141		13,254	
Other financial instruments designated as at fair value through profit or loss	(320,164)		87,916	
Available-for-sale securities	(3,111,452)		(3,014,603)	
		<b>(10,209,554)</b>		<b>(3,827,822)</b>
Increase / (decrease) in operating liabilities:				
Deposits and balances of banks	496,330		(234,276)	
Deposits from customers	7,987,158		943,723	
Certificates of deposit redeemed	(1,361,697)		(281,994)	
Trading liabilities	(434,022)		(679,839)	
Other accounts and liabilities	356,011		203,795	
		<b>7,043,780</b>		<b>(48,591)</b>
<b>Net cash used in operations</b>		<b>(2,275,262)</b>		<b>(3,346,962)</b>
Hong Kong Profits Tax paid		(88,043)		(27,241)
Hong Kong Profits Tax refunded		-		755
<b>Net cash used in operating activities</b>		<b>(2,363,305)</b>		<b>(3,373,448)</b>

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### Consolidated Cash Flow Statement (Continued)

	2007		2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Investing activities</b>				
Payments for purchases of fixed assets	(94,724)		(40,502)	
Net proceeds from disposals of fixed assets	15,433		80	
Cash inflow from acquisition of subsidiary	2,946		-	
<b>Net cash used in investing activities</b>		(76,345)		(40,422)
<b>Financing activities</b>				
Dividends paid	(210,989)		(199,268)	
Debt securities issued	179,015		1,414,162	
Subordinated notes issued	-		1,552,433	
Zero coupon bond issued	249,998		-	
Deposits accepted from fellow subsidiaries	8,300,195		3,052,610	
Deposits repaid to fellow subsidiaries	(8,624,195)		(2,728,610)	
<b>Net cash (used in) / generated from financing activities</b>		(105,976)		3,091,327
<b>Net decrease in cash and cash equivalents</b>		(2,545,626)		(322,543)
<b>Cash and cash equivalents as at 1 January</b>		9,784,375		10,106,918
<b>Cash and cash equivalents as at 31 December</b>		7,238,749		9,784,375
<b>Cash flows from operating activities include:</b>				
Interest received		2,759,597		2,374,255
Interest paid		(1,896,721)		(1,727,438)
Dividends received		26,114		35,606

## FUBON BANK (HONG KONG) LIMITED

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### Notes:

1. The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2007. Certain financial information in this preliminary announcement is extracted from the statutory financial statements for the year ended 31 December 2007, which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Bank. The Bank's Audit Committee has reviewed the accounting policies and practices adopted by the Group and reviewed this preliminary announcement of results.

In preparing the statutory financial statements for the year ended 31 December 2007, the Bank has fully complied with the Banking (Disclosure) Rule made by the Hong Kong Monetary Authority under section 60A of the Banking Ordinance.

### 2. Changes in accounting policies and new accounting policies adopted

The HKICPA has issued a number of new and revised HKFRSs, HKASs and Interpretations that are first effective or available for early adoption for the current accounting period of the Bank and the Group.

There have been no significant changes to the accounting policies applied in the statutory financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, "Financial instruments: Disclosures" and the amendment to HKAS 1, "Presentation of financial statements: Capital disclosures", there have been some additional disclosures provided in the Group's statutory financial statements.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

### 3. Dividends declared and proposed

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interim dividend declared and paid of 6 cents (2006: 6 cents) per share	<b>70,330</b>	70,330
Final dividend of 13 cents (2006: 12 cents) per share proposed after the balance sheet date	<b>152,381</b>	140,659
	<b><u>222,711</u></b>	<u>210,989</u>

The final dividend proposed after the balance sheet has not been recognised as a liability at the balance sheet date.

## FUBON BANK (HONG KONG) LIMITED

### 4. Interest income and expense

#### (a) Interest income

	2007 HK\$'000	2006 HK\$'000
Listed investments	175,531	174,286
Other	2,573,271	2,259,374
<b>Interest income on financial assets that are not at fair value through profit or loss</b>	<b>2,748,802</b>	<b>2,433,660</b>
Interest income on trading assets		
- listed investments	394	112
- unlisted investments	36,664	53,237
Interest income on financial assets designated at fair value through profit or loss	40,195	36,115
	<b>2,826,055</b>	<b>2,523,124</b>

#### (b) Interest expense

	2007 HK\$'000	2006 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	1,800,309	1,463,567
Other borrowings	129,973	267,589
<b>Interest expense on financial liabilities that are not at fair value through profit or loss</b>	<b>1,930,282</b>	<b>1,731,156</b>
Interest expense on trading liabilities	35,909	95,189
Interest expense on financial liabilities designated at fair value through profit or loss	6,191	-
	<b>1,972,382</b>	<b>1,826,345</b>

### 5. Fee and commission income and expense

#### (a) Fee and commission income

	2007 HK\$'000	2006 HK\$'000
Credit related fees and commissions	14,201	8,825
Trade finance	23,472	17,176
Credit card	42,153	37,250
Securities brokerage and investment services	107,172	56,553
Insurance	33,367	16,602
Unit trust commission	122,059	41,165
Other fees	20,353	16,673
	<b>362,777</b>	<b>194,244</b>

of which:

Fee and commission income arising from:

- Financial assets or financial liabilities which are not measured at fair value through profit or loss
- Trust or other fiduciary activities

72,921	57,911
1,496	1,521

## FUBON BANK (HONG KONG) LIMITED

### 5. Fee and commission income and expense (continued)

#### (b) Fee and commission expense

	2007 HK\$'000	2006 HK\$'000
Handling fees and commission	57,298	37,967
Other fees paid	<u>19,711</u>	<u>13,418</u>
	<u>77,009</u>	<u>51,385</u>
of which:		
Fee and commission expense arising from:		
- Financial assets or financial liabilities which are not measured at fair value through profit or loss	32,632	19,967

### 6. Other operating income

	2007 HK\$'000	2006 HK\$'000
<b>Gains less losses from dealing</b>		
- Foreign exchange	26,928	33,809
- Trading securities	2,900	(370)
- Other dealing activities*	249,429	170,057
- Short selling activities	<u>(1,952)</u>	<u>687</u>
	<u>277,305</u>	<u>204,183</u>
<b>Net hedging income from fair value hedges</b>		
Net loss on hedged items attributable to the hedged risk	(41,698)	(11,398)
Net gain on hedging instruments	<u>41,698</u>	<u>11,398</u>
	<u>-</u>	<u>-</u>
Revaluation gain/(loss) on other financial instruments designated at fair value through profit or loss	42,751	(10,907)
Gains less losses from other financial liabilities	(13,221)	(9,895)
Revaluation (loss)/gain on derivative financial instruments	(27,360)	16,326
Dividend income from listed available-for-sale securities	6,137	4,593
Dividend income from unlisted available-for-sale securities	19,977	31,013
Rental income	281	870
Others	<u>66,567</u>	<u>51,534</u>
	<u>372,437</u>	<u>287,717</u>

\* Other dealing activities refers to customer-driven dealing in derivative financial instruments including equity linked notes, options and structured deposit products.



## FUBON BANK (HONG KONG) LIMITED

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### 7. Operating expenses

	2007 HK\$'000	2006 HK\$'000
Staff costs		
Contributions to defined contribution scheme	2,951	1,183
Defined benefit scheme expenses	22,163	19,978
Retirement scheme costs	25,114	21,161
Salaries and other staff costs	451,322	359,672
	<u>476,436</u>	<u>380,833</u>
Premises and other fixed assets		
Rental of premises	45,556	26,655
Depreciation	59,114	72,026
Others	20,032	16,448
Auditors' remuneration	2,254	2,113
Other operating expenses		
Business promotion	55,056	56,759
Legal and professional fees	15,096	27,963
Communication	17,763	13,758
Electronic data processing and computer systems	75,203	67,731
Others	68,263	52,423
	<u>834,773</u>	<u>716,709</u>

### 8. Impairment losses on advances to customers

	2007 HK\$'000	2006 HK\$'000
Impairment losses (charged) / released on advances to customers		
- Additions	(79,793)	(107,186)
- Releases	42,180	57,304
Provision for loss from obligation under standby credit facility	-	(15,655)
	<u>(37,613)</u>	<u>(65,537)</u>

### 9. Net Gains on disposals of available-for-sale securities

	2007 HK\$'000	2006 HK\$'000
Realisation of revaluation surplus / (deficit) previously recognised in revaluation reserve	36,104	(36,250)
Net gains arising in current year	96,372	83,132
	<u>132,476</u>	<u>46,882</u>

### 10. Taxation

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

**11. Earnings per share**

The earnings per share is calculated on profit attributable to shareholders of HK\$460,998,000 (2006: HK\$327,168,000) and 1,172,160,000 (2006: 1,172,160,000) ordinary shares in issue during the year. There is no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

**12. Subordinated notes issued**

Subordinated notes of face value of USD 200 million (equivalent to HK\$1,560 million) and carrying amount of HK\$1,623 million qualifying as supplementary capital were issued by the Bank on 25 April 2006. The notes bear interest at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The notes carry a one-time call option exercisable 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 includes an adjustment of HK\$62.7 million (2006: HK\$14 million) due to application of fair value hedge accounting.

**13. Trading securities**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<i>Trading securities at fair value</i>		
Treasury bills (including Exchange Fund Bills), unlisted	<b>14,981</b>	455,568
Debt securities		
- Listed in Hong Kong	<b>5,266</b>	2,548
- Unlisted	<b>11,948</b>	10,914
Equity securities		
- Listed in Hong Kong	<b>349</b>	-
Total	<b>32,544</b>	469,030
<i>The trading securities are issued by:</i>		
- Central government and central banks	<b>17,378</b>	456,710
- Public sector entities	<b>14,817</b>	12,320
- Banks	<b>66</b>	-
- Corporate entities	<b>283</b>	-
	<b>32,544</b>	469,030

**FUBON BANK (HONG KONG) LIMITED****14. Financial assets designated as at fair value through profit or loss**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<i>Debt securities at fair value</i>		
- Listed in Hong Kong	<b>486,932</b>	484,068
- Listed outside Hong Kong	<b>392,023</b>	74,723
Total	<b>878,955</b>	558,791
<i>The other financial instruments designated as at fair value through profit or loss are issued by:</i>		
- Public sector entities	<b>481,735</b>	478,405
- Other financial institutions	<b>315,350</b>	-
- Corporate entities	<b>81,870</b>	80,386
	<b>878,955</b>	558,791

**15. Advances to customers less impairment****(a) Advances to customers less impairment**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Gross advances to customers	<b>31,633,012</b>	25,914,351
Less: Impairment allowances		
- Collective impairment allowance	<b>(82,126)</b>	(81,404)
- Individual impairment allowance	<b>(72,082)</b>	(81,787)
	<b>31,478,804</b>	25,751,160

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### 15. Advances to customers less impairment (continued)

#### (b) Advances to customers analysed by industry sector

Advances to customers analysed by industry sector and the coverage of collateral is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2007	% of gross loans covered by collateral %	2006	% of gross loans covered by collateral %
	Gross loans and advances HK\$'000		Gross loans and advances HK\$'000	
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
- Property development	59,453	66.36	29,392	31.47
- Property investment	5,874,005	69.51	4,900,296	67.96
- Financial concerns	678,349	6.44	484,250	11.19
- Stockbrokers	144,323	97.79	157,371	100.00
- Wholesale and retail trade	221,630	12.54	202,404	19.68
- Manufacturing	1,634,110	23.04	1,059,535	32.94
- Transport and transport equipment	699,036	88.01	756,247	84.63
- Information technology	14,395	94.45	61,663	8.49
- Others	2,649,604	40.32	3,185,770	45.67
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	7,300	100.00	3,275	100.00
- Loans for the purchase of other residential properties	7,272,919	95.36	6,946,882	94.73
- Credit card advances	533,187	-	504,157	-
- Others	894,852	52.53	1,299,707	66.67
	<u>20,683,163</u>		<u>19,590,949</u>	
Trade finance	2,169,800	13.69	943,406	13.30
Gross advances for use outside Hong Kong	<u>8,780,049</u>	44.08	<u>5,379,996</u>	59.09
Gross advances to customers	<u>31,633,012</u>	56.87	<u>25,914,351</u>	64.81

### 16. 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 2007 amounted to HK\$34,002,000 (2006: HK\$65,280,000).

## FUBON BANK (HONG KONG) LIMITED

### 17. Available-for-sale securities

	2007 HK\$'000	2006 HK\$'000
Listed debt securities at fair value		
- Listed in Hong Kong	2,868,782	3,536,368
- Listed outside Hong Kong	<u>3,626,868</u>	<u>477,808</u>
	<u>6,495,650</u>	<u>4,014,176</u>
Unlisted debt securities at fair value		
- Treasury bills (including Exchange Fund Bills)	4,863,805	4,827,763
- Certificates of deposit	268,901	86,741
- Other debt securities	<u>5,224,503</u>	<u>5,134,353</u>
	<u>10,357,209</u>	<u>10,048,857</u>
Total debt securities	<u>16,852,859</u>	<u>14,063,033</u>
Equity shares at fair value		
- Listed in Hong Kong	138,442	68,173
- Unlisted	<u>239,140</u>	<u>125,948</u>
	<u>377,582</u>	<u>194,121</u>
Total available-for-sale securities	<u>17,230,441</u>	<u>14,257,154</u>
<i>The available-for-sale securities are issued by:</i>		
Central governments and central banks	7,633,735	8,001,169
Public sector entities	84,991	153,000
Banks	7,866,010	4,892,537
Other financial institutions	729,669	76,585
Corporate entities	<u>916,036</u>	<u>1,133,863</u>
	<u>17,230,441</u>	<u>14,257,154</u>

Included in "Other debt securities" as at 31 December 2007 were investments in structured investment vehicles ("SIVs") with a fair value of HK\$110.6 million which were individually determined to be impaired as a result of difficulties in raising senior funding. Impairment losses on these investments of HK\$162.4 million have been recognised in the income statement in accordance with the Group's accounting policy.

In addition, the Bank had investments in collateralised debt obligations ("CDOs") with a nominal value of USD30 million which is included in "Other debt securities" as at 31 December 2007. The embedded derivatives are bifurcated and marked to market with a revaluation loss of HK\$90.4 million charged to the income statement.

**18. Off-balance sheet exposures**
**(a) Contingent liabilities and commitments**

Credit related commitments and contingencies include forward deposit placed, acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the credit default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

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

	<b>2007</b>		<b>2006</b>	
	<b>Contractual amounts HK\$'000</b>	<b>Credit risk weighted amounts HK\$'000</b>	<b>Contractual amounts HK\$'000</b>	<b>Credit risk weighted amounts HK\$'000</b>
Direct credit substitutes	<b>514,567</b>	<b>514,567</b>	452,051	452,051
Transaction-related contingencies	<b>121,492</b>	<b>60,746</b>	122,334	61,167
Trade-related contingencies	<b>928,081</b>	<b>185,616</b>	599,497	119,899
Undrawn loan facilities				
- which are unconditionally cancellable	<b>10,900,414</b>	-	10,008,753	-
- with an original maturity of 1 year or over	<b>377,481</b>	<b>188,741</b>	784,352	392,176
Forward forward deposits placed	<b>309,549</b>	<b>61,910</b>	1,288,015	257,603
	<b><u>13,151,584</u></b>	<b><u>1,011,580</u></b>	<b><u>13,255,002</u></b>	<b><u>1,282,896</u></b>

**18. Off-balance sheet exposures (continued)**
**(b) Derivatives**
*i. Notional amounts of derivatives*

These derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date and do not represent amounts at risk. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Others, including held for trading HK\$'000	Total HK\$'000
<b>As at 31 December 2007</b>				
Exchange rate derivatives	-	-	96,818,623	96,818,623
Interest rate derivatives	1,793,977	857,989	17,825,452	20,477,418
Equity derivatives	-	-	4,291,643	4,291,643
Other derivatives	-	-	84,492	84,492
Total	<u>1,793,977</u>	<u>857,989</u>	<u>119,020,210</u>	<u>121,672,176</u>
<b>As at 31 December 2006</b>				
Exchange rate derivatives	-	-	37,905,763	37,905,763
Interest rate derivatives	1,866,840	544,495	12,905,026	15,316,361
Equity derivatives	-	-	678,808	678,808
Other derivatives	-	-	78,346	78,346
Total	<u>1,866,840</u>	<u>544,495</u>	<u>51,567,943</u>	<u>53,979,278</u>

The above amounts are shown on a gross basis as none of these contracts are subject to any bilateral netting arrangements, and include all embedded derivatives. Derivatives used for hedging represent hedging instruments designated as hedges under HKAS 39.

## FUBON BANK (HONG KONG) LIMITED

### 18. Off-balance sheet exposures (continued)

#### (b) Derivatives (continued)

##### ii. Fair values and credit risk weighted amounts of derivatives

Credit risk-weighted amount as at 31 December 2007 refers to the amount as computed in accordance with the Banking (Capital) Rules of the Banking Ordinance and credit risk-weighted amount as at 31 December 2006 refers to amount computed in accordance with the Third Schedule of the Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150%. Embedded derivatives are not included for calculation of credit risk-weighted amount.

The amounts below are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

	2007			2006		
	Fair value Assets HK\$'000	Fair value Liabilities HK\$'000	Credit risk weighted amount HK\$'000	Fair value Assets HK\$'000	Fair value Liabilities HK\$'000	Credit risk weighted amount HK\$'000
Exchange rate derivatives	532,832	311,243	460,675	261,368	152,915	140,391
Interest rate derivatives	245,319	219,284	165,384	260,069	255,714	59,970
Equity derivatives	175,426	175,427	271,942	16,418	16,418	3,535
Other derivatives	2,327	98,786	5,535	-	-	783
Total	<b>955,904</b>	<b>804,740</b>	<b>903,536</b>	<b>537,855</b>	<b>425,047</b>	<b>204,679</b>

### 19. Regulatory reserve

	2007 HK\$'000	2006 HK\$'000
At 1 January	129,572	107,722
Transfer from retained earnings	<b>83,875</b>	21,850
At 31 December	<b>213,447</b>	129,572

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.



### 20. 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.

#### (a) Business segments

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

Retail Banking comprises credit card merchant acquiring, provision of credit card advances, insurance and unit trust wealth management services, 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.

## FUBON BANK (HONG KONG) LIMITED

### 20. Segment reporting (continued)

#### (a) Business segments (continued)

2007	Retail Banking	Wholesale Banking	Financial Markets	Real Estate	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from external customers	629,446	1,059,327	1,127,351	-	9,931		2,826,055
Interest expense to external customers	(1,025,126)	(366,945)	(574,621)	-	(5,690)		(1,972,382)
Inter-segment income	692,567	-	-	-	-	(692,567)	-
Inter-segment expense	-	(308,756)	(377,976)	(2,157)	(3,678)	692,567	-
Net interest income	296,887	383,626	174,754	(2,157)	563		853,673
Other operating income from external customers	395,595	111,032	130,305	(468)	8,349		644,813
Inter-segment revenue	-	-	-	-	43,991	(43,991)	-
Fee and commission expense	(46,374)	(4,402)	(23,524)	-	(2,709)		(77,009)
Other operating income	349,221	106,630	106,781	(468)	49,631		567,804
Operating income	646,108	490,256	281,535	(2,625)	50,194		1,421,477
Operating expenses	(367,173)	(136,174)	(133,278)	(1,501)	(196,647)		(834,773)
Inter-segment expenses	(33,333)	(5,825)	(4,705)	(128)	-	43,991	-
Operating profit / (loss) before gains and provisions	245,602	348,257	143,552	(4,254)	(146,453)		586,704
Write back / (charge) for collective impairment allowance	3,233	(3,979)	19	-	5		(722)
Write back / (charge) for individual impairment allowance	(22,818)	(35,113)	-	-	-		(57,931)
Recovery of loans previously written off	12,443	6,871	-	1,726	-		21,040
Impairment loss on available-for-sale securities	-	-	(162,433)	-	-		(162,433)
Impairment loss on investments in associated company	-	-	-	-	(8,255)		(8,255)
Impairment loss on acquired assets	-	-	-	3,301	-		3,301
Gains less losses from disposal of available-for-sale assets	-	-	103,108	-	29,368		132,476
Gains less losses from disposal of fixed assets	-	-	-	-	2,887		2,887
Profit / (loss) before taxation	238,460	316,036	84,246	773	(122,448)		517,067
Income tax	-	-	-	-	(56,179)		(56,179)
Minority interest	-	-	-	-	110		110
Profit / (loss) attributable to shareholders	238,460	316,036	84,246	773	(178,517)		460,998
Operating expenses – depreciation	(15,300)	(1,428)	(6,534)	-	(35,852)		(59,114)
Segment assets	12,071,255	19,802,548	27,454,458	57,378	1,237,240		60,622,879
Segment liabilities	29,505,347	12,161,146	14,450,889	-	384,033		56,501,415
Capital expenditure incurred during the year	19,302	31,665	43,757	-	-		94,724

## FUBON BANK (HONG KONG) LIMITED

### 20. Segment reporting (continued)

#### (a) Business segments (continued)

2006	Retail Banking	Wholesale Banking	Financial Markets	Real Estate	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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 expense	-	(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 gains and provisions	82,668	212,549	226,449	(5,069)	(105,951)		410,646
Write back / (charge) for collective impairment allowance	13,297	(18,610)	-	-	24		(5,289)
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
Impairment loss on available-for-sale securities	-	-	-	-	-		-
Impairment loss on investments in associated company	-	-	-	-	-		-
Impairment loss on 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)
Minority interest	-	-	-	-	-		-
Profit / (loss) attributable to shareholders	87,953	141,564	273,331	(5,420)	(170,260)		327,168
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		53,346,876
Segment liabilities	27,003,438	8,028,698	13,938,314	-	397,396		49,367,846
Capital expenditure incurred during the year	9,645	11,065	19,792	-	-		40,502

**20. Segment reporting (continued)**

**(b) 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 2006 and 2007, 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. No single country or geographic segment other than Hong Kong contributes 10% or more of the Group's assets, liabilities, profit or loss before taxation, total operating income or contingent liabilities and commitments.

# FUBON BANK (HONG KONG) LIMITED

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 1. Foreign exchange exposures

The Group's net positions or net structural positions in foreign currencies are disclosed as follows when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies:

<i>As at 31 December</i>		2007			
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi	Euros	Other foreign currencies	Total foreign currencies
Spot assets	20,267	143	1,205	2,474	24,089
Spot liabilities	(17,461)	(146)	(1,906)	(3,965)	(23,478)
Forward purchase	36,956	1,566	4,363	8,290	51,175
Forward sales	(40,372)	(1,350)	(3,714)	(6,734)	(52,170)
Net option position	-	-	-	-	-
Net long/(short) position	<u>(610)</u>	<u>213</u>	<u>(52)</u>	<u>65</u>	<u>(384)</u>
Net structural position	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31</u>
<i>As at 31 December</i>		2006			
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi	Euros	Other foreign currencies	Total foreign currencies
Spot assets	15,199	139	622	2,842	18,802
Spot liabilities	(14,739)	(139)	(636)	(3,327)	(18,841)
Forward purchase	9,627	200	4,269	1,619	15,715
Forward sales	(10,073)	(1)	(4,255)	(1,123)	(15,452)
Net option position	(4)	-	-	-	(4)
Net long/(short) position	<u>10</u>	<u>199</u>	<u>-</u>	<u>11</u>	<u>220</u>
Net structural position	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31</u>

The net option position is calculated on the basis of the delta-weighted position of options contracts. Net structural position includes the structural positions of the Bank's overseas subsidiaries involved in foreign exchange.

## FUBON BANK (HONG KONG) LIMITED

### 2. Cross border claims

Cross border claims are on-balance sheet exposures of counterparties based on the location of counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

As at 31 December 2007

<i>Figures in HK\$ Million</i>	<b>Banks</b>	<b>Other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
Asia Pacific excluding					
Hong Kong	<b>4,078</b>	<b>78</b>	<b>7</b>	<b>4,700</b>	<b>8,863</b>
- Of which Taiwan	<b>628</b>	-	-	<b>1,833</b>	<b>2,461</b>
North America	<b>1,137</b>	<b>898</b>	<b>161</b>	<b>251</b>	<b>2,447</b>
Western Europe	<b>9,454</b>	<b>80</b>	-	<b>134</b>	<b>9,668</b>
- Of which Germany	<b>2,411</b>	-	-	-	<b>2,411</b>

As at 31 December 2006

<i>Figures in HK\$ Million</i>	<b>Banks</b>	<b>Other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
Asia Pacific excluding					
Hong Kong	5,061	-	4	1,668	6,733
- Of which South Korea	1,885	-	-	-	1,885
- Of which Taiwan	828	-	-	1,173	2,001
North America	281	-	1	317	599
Western Europe	7,685	324	-	435	8,444
- Of which Germany	3,223	-	-	-	3,223

The Group revised its cross border claims as at 31 December 2006 in accordance with an update of the place of operations for those claims.

## FUBON BANK (HONG KONG) LIMITED

### 3. Overdue advances to customers

	2007		2006	
	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	32,948	0.10	22,120	0.09
- 1 year or less but over 6 months	32,926	0.10	24,958	0.10
- Over 1 year	47,703	0.15	108,084	0.42
	<u>113,577</u>	<u>0.36</u>	<u>155,162</u>	<u>0.60</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>37,379</u>		<u>22,811</u>	
Covered portion of overdue loans and advances	50,859		95,015	
Uncovered portion of overdue loans and advances	<u>62,718</u>		<u>60,147</u>	
	<u>113,577</u>		<u>155,162</u>	
Amount of expected recoveries from companies in liquidation in respect of the covered portion of overdue loans and advances	<u>16,432</u>		<u>73,459</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>58,642</u>		<u>63,612</u>	

Collateral held with respect to overdue loans and advances are mainly residential properties, cash deposits with the Group, and equipments against hire purchase and leasing loans.

Overdue assets of the Group comprise advances to customers only as at 31 December 2007 and 2006.

### 4. Rescheduled advances to customers

	2007		2006	
	HK\$'000	% of total Advances	HK\$'000	% of total Advances
Rescheduled advances to customers	<u>42,779</u>	<u>0.14</u>	<u>52,792</u>	<u>0.20</u>

## FUBON BANK (HONG KONG) LIMITED

### 5. Capital adequacy ratio

	2007 %	2006 %
Capital adequacy ratio as at 31 December	14.42%	16.60
Core capital adequacy ratio as at 31 December	9.77%	12.84

New approaches are used in the calculation of the regulatory capital and capital charges following the adoption of the Banking (Capital) Rules effective from 1 January 2007. Accordingly, the capital adequacy ratios for the two years are not directly comparable. The comparative quantitative information concerned is also not required to be presented

The capital adequacy ratio and core capital adequacy ratio are computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Bank Vanuatu Limited and Fubon Hong Kong (Taiwan) Co., Ltd. as required by the HKMA for its regulatory purposes.

In accordance with the Banking (Capital) Rules, the Group has adopted the “standardised approach” for the risk-weighted assets for credit risk and market risk and the “basic indicator approach” for the calculation of operational risk.

### 6. Capital base

The components of the total capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December and reported under Part II of the banking return “Capital Adequacy Return” (MA(BS)3) are analysed as follows:

	2007 HK\$'000	2006 HK\$'000
<b>Core Capital</b>		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,533,639	1,528,953
Share premium	749,778	749,778
Profit and loss account	229,145	122,104
Total deduction from core capital	(116,355)	-
Core capital after deduction	<u>3,568,367</u>	<u>3,572,995</u>
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interest in land	23,701	36,868
Reserves on revaluation of holdings of available-for-sale securities	(87,656)	3,118
Collective impairment allowance	82,126	81,404
Regulatory reserve	213,447	129,572
Term subordinated notes	1,559,980	1,555,700
Total deduction from eligible supplementary capital	(93,633)	-
Supplementary capital after deduction	<u>1,697,965</u>	<u>1,806,662</u>
<b>Total deductions from the core capital and supplementary capital</b>		<u>(701,967)</u>
<b>Total capital base after deductions</b>	<u>5,266,332</u>	<u>4,677,690</u>
<b>Total deductions from the core capital and supplementary capital</b>	<u>(209,988)</u>	



**6. Capital base (continued)**

The comparatives of the components of the core capital and supplementary capital were not restated on the ground that different approaches were used to calculate its regulatory capital in years ended 31 December 2007 and 2006.

All of the Bank's investments in subsidiaries except for Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Bank Vanuatu Limited and Fubon Hong Kong (Taiwan) Co., Ltd. are deducted from the core capital and supplementary capital.

**7. Liquidity ratio**

	<b>2007</b>	2006
	%	%
Average liquidity ratio for the year	<b>44.35</b>	44.51

The average liquidity ratio 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 Forth Schedule to the Hong Kong Banking Ordinance.

The ratio for the year is computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited and Fubon Bank Vanuatu Limited as required by the HKMA for its regulatory purposes.

## **HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST**

### *Hong Kong's Economy*

Hong Kong's economy stayed vibrant in 2007, with real GDP growing by 6.3%. This represented an acceleration from the 6.1% growth in the first half of the year and was distinctly above-trend growth.

Merchandise exports grew notably during the year. Merchandise exports to Mainland China and many other emerging markets performed well, while those to the EU grew further, but exports to the US and Japan were lackluster. Meanwhile, the growth of exports of services accelerated further, reflecting strong inbound tourism, active financial market activities and a continued surge in offshore trade.

Domestic demand played a key role in driving the economy during the year. Private consumption spending grew strongly, supported by an improving job market and rising household income. Overall investment spending expanded further, albeit at a slower pace. Yet business sentiment in almost all sectors remained buoyant.

With the economy sustaining strong growth momentum, the unemployment rate edged down to 3.4% at the end of the year. As labour market conditions tightened, wages and earnings picked up somewhat. Job vacancies continued to surge.

With the full-fledged economic upturn over the year, inflation has been climbing up gradually. The headline CPI inflation averaged 2.0% in 2007, and the underlying inflation at 2.8% after netting out the effects of the rates concession and the waiver of public rentals in February. Higher food prices, the weakness of the US dollar and, along with it, Renminbi appreciation, as well as the recent resurgence in oil prices should also lead to a slight pick-up in inflation in the near term. The fact that the rise in imported inflation is more readily passed through to consumers actually reflects the current strength of local consumption. Yet sustained rapid increase in labour productivity and continued expansion in productive capacity on the supply side would continue to provide an alleviating effect.

Barring any abrupt adverse changes in the external environment, the economy looks set for further good growth in 2008. Domestic demand is likely to remain as a key driving force in overall economic activity. Consumer spending will continue to hold up well in tandem with upbeat consumption sentiment, rising incomes and strong household financial positions. With activity expansion continuing apace, business investment is poised for further expansion in the months ahead.

The global credit market turbulence, which began in August last year, while causing greater volatility, has begun to affect local financial markets. While the Hong Kong economy was relatively unscathed, the external trading environment has turned more uncertain, and the repercussions of the credit market turbulence have yet to play out fully.

Many external factors will continue to weigh on Hong Kong's future economic performance which will likely result in real GDP growth of 4 - 5% in 2008, with good local demand offsetting in part the negative impact of a weaker US economy.

### *China's Economy*

China's economy was remarkably robust in 2007, with real GDP expanding by 11.4% compared with 11.1% in 2006. Although growth moderated during the year, due to monetary tightening and the introduction of administrative measures, the economy performed well in the face of many challenges both internally and externally.

Growth contributed by domestic demand trended up steadily throughout 2007, with real retail sales peaking at 13.8% in December while nominal urban incomes rose sharply – partially aided by strong investment

## **FUBON BANK (HONG KONG) LIMITED**

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income. The surge in domestic demand helped offset the diminishing contribution from net exports from the middle of the year. A moderation in industrial production appeared to have reflected a significant deceleration in export demand, while import growth held up well as domestic demand remained strong. Reflecting this trend, the growth rate of industrial sales for exports continued to trend down during the year, widening the gap with that of industrial sales for domestic use. Despite the deceleration in exports, the trade surplus still reached US\$260 billion for the year as a whole. As export growth will likely slow significantly in 2008, as a US-led global downturn affects demand, the trade surplus could narrow during 2008.

Fixed asset investment slowed markedly throughout 2007 as the authorities prioritised projects and heightened administrative controls. These controls were extended to loan accumulation, which slowed to a 16% pace in December from the peak growth in October of 17.7%. Interest rates were raised six times during the year in an effort to rein in bank lending.

China's inflation rate peaked at an alarming 6.9% in November with food prices accounting for most of the spike. Although inflation may moderate in 2008, due to slower export demand and administrative measures, China's core underlying price inflation will likely remain elevated as the country continues to forge ahead with its economic development.

China will be looking to extend its administrative efforts to engineer a soft landing of the economy in 2008. At the same time, there is a need for caution as the expected slowdown in global economic activity, led by the US, could act as an imported, natural brake on China's vibrant economy in this the year of the Beijing Olympics.

The US economy, overshadowed by the housing market slump, sub-prime mortgage problem and also tightening credit, is likely to slow in the coming months. The economic outlook for EU and Japan is likewise clouded by the uncertainties stemming from the US economy and the evolving global financial market situation, although their economies have continued to expand at a rather solid pace recently. The continuing surge in commodity prices has also added uncertainty to the global trading environment. China's exports are likely to be affected by the external environment. However, good domestic demand should help offset any trade-related weakness and allow real GDP to grow at a 10% pace in 2008.

## **FUBON PERFORMANCE**

Fubon Bank (Hong Kong) Limited and its subsidiaries ("the Bank") recorded 41% growth in its full-year 2007 net profit to a record of HK\$461 million. The strong financial performance in 2007 was underpinned by broad-based business growth and improved asset mix which brought net interest income and fee income to new highs. The encouraging results also reflected effective execution of the Bank's business strategies and the tighter integration with its parent company, Fubon Financial Holding Co., Ltd. ("Fubon Financial"). Earnings per share rose to 39.33 Hong Kong cents, compared to 27.91 Hong Kong cents per share in 2006.

Gross interest income rose 12% to HK\$2,826 million for 2007, whereas gross interest expense increased 8% to HK\$1,972 million over the corresponding period. As a result, net interest income grew by HK\$157 million or 23% to HK\$854 million. The increase in net interest income was bolstered by strong demand for advances with better interest margin such as trade finance and SME loans, improvement in investment yield and enhanced balance sheet mix, which outweighed the unfavourable impact of narrowing Prime-HIBOR spreads. Effective net interest margin ("NIM") improved by 21 bps to 1.65% from 1.44% for 2006, which aptly reflected the Bank's relentless efforts in enhancing its assets and deposits mix, controlling funding costs and improving assets yield.

Other operating income including net fees and commission income reached HK\$658 million, which soared by 53% or HK\$227 million compared to 2006. After taking into account the mark-to-market losses of HK\$90 million for CDOs held on the investment books, other operating income was recorded at HK\$568

## **FUBON BANK (HONG KONG) LIMITED**

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million, representing a 32% or HK\$137 million increase compared to 2006. In the past two years, the Bank invested in building out its wealth management platform, enhancing its product capabilities and strengthening its customer franchise. The above initiatives have proven to be successful. A robust growth of 78% or HK\$177 million in wealth management-related fee income to HK\$405 million was recorded from the sales of wealth management products, encompassing financial markets investment and structured products, unit trusts and insurance. Benefiting from the buoyant Hong Kong equity market and strong initial public offering (“IPO”) activities, brokerage-related commission income surged 90% or HK\$51 million.

Operating expenses rose 17% from HK\$717 million to HK\$835 million. This increase was primarily due to higher compensation and other staff expenses related to hiring of new staff for supporting business growth and surging wage pressure, higher IT expenses and increased premises costs for renting new office space at Central Tower to support business expansion. Nevertheless, the strong growth in net interest income and other operating income outpaced the increase in operating expenses. The Bank managed to lower its cost to income ratio by 5% to 59% for 2007. Operating profits before gains and impairment losses rose 43% or HK\$176 million to HK\$587 million compared with HK\$411 million in 2006.

In line with continued growth of the domestic economy which supported corporate profitability and household income, the Bank recorded a net charge of impairment losses on advances to customers of HK\$38 million, a decrease of HK\$28 million when compared to HK\$66 million in 2006. Asset quality remained benign as evidenced by the impaired loans ratio declining to 0.55% as of 31 December 2007 from 0.93% as of 31 December 2006. Impairment losses on available-for-sale securities of HK\$162 million were provided for income notes issued by SIVs. The HK\$162 million impairment losses on SIVs represented approximately 60% of our US\$35 million SIVs holdings as at 31 December 2007. Net gains from the disposal of available-for-sale securities rose to HK\$132 million from HK\$47 million in 2006 as conditions were conducive for profit-taking on some equity investments. After accounting for impairment charges, other gains and tax charge, profit attributable to shareholders amounted to HK\$461 million, representing a 41% increase from HK\$327 million for 2006. Return on average assets and return on average equity improved significantly from 0.63% to 0.81% and from 8.47% to 11.43% respectively when compared with 2006.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 14% or HK\$7.3 billion to HK\$60.6 billion as at 31 December 2007. Customer deposits grew 23%, reaching HK\$41.5 billion as at 31 December 2007. Net loans portfolio reached HK\$31.5 billion, an increase of 22% or HK\$5.7 billion over 2006 year-end balances. Trade finance increased 130% or HK\$1.2 billion on the back of robust merchandise exports and strong domestic demands. Loans for use outside Hong Kong grew by 63% or HK\$3.4 billion, mainly arising from the strong momentum of Taiwan-related corporate lending and hire purchase loans for use in Mainland China. The Group’s capital and liquidity positions remained strong. Consolidated Capital Adequacy Ratio was 14.42% at the end of December 2007 and average liquidity ratio for 2007 was at 44.35%.

Taiwan-related business continued to demonstrate impressive growth during 2007. As at 31 December 2007, the loan and customer deposit balances of Taiwan-related business represented 18% (2006 year-end: 10%) and 21% (2006 year-end: 16%) of the total loan and deposit balances of the Bank respectively. For 2007, Taiwan-related business contributed 34% (2006: 12%) of the Bank’s operating profits before gains and impairment losses.

The Bank will vigorously pursue its expansion into the Mainland. Backed by strong ties from Fubon Financial, the Bank is well positioned to capture growing trade and investment flows between Taiwan, Hong Kong and Mainland China. The Bank will continue to harness the collective strength within the Fubon Group, strengthen its customer franchise, and extend and deepen its product range and expertise. All these initiatives will enable the Bank to serve its clients more effectively and create the fundamentals for sustainable growth.

**FINAL DIVIDEND**

The Directors will propose the payment of a final dividend of 13 Hong Kong cents per ordinary share in respect of the year ended 31 December 2007, totalling HK\$152,381,000 at the forthcoming Annual General Meeting to be held on Tuesday, 29 April 2008. The final dividend, if approved, will be paid on or after Thursday, 8 May 2008 to the shareholders whose names are on the Register of Members on Tuesday, 29 April 2008.

**CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Thursday, 24 April 2008 to Tuesday, 29 April 2008, 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 4:30 p.m. on Wednesday, 23 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 2007. 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**

The Group is committed to the highest standards of corporate governance including but not limited to strict adherence to the principles and all Code provisions set forth in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2007.

**COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set forth in Appendix 10 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited as its own code of conduct regarding securities transactions by the Directors.

The Group has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2007, and received confirmations from all Directors that they have fully complied with the required standards set out in the Model Code.

By Order of the Board  
**Fubon Bank (Hong Kong) Limited**  
**Juliana Chiu Yuk Ching**  
*Company Secretary*

*As at the date of this announcement, the Board of Directors of the Bank comprises 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, Chang Kuo-Chun, David as Non-Executive Directors; and Robert James Kenrick, Moses Tsang, Hung Shih as Independent Non-Executive Directors.*

Hong Kong, 11 March 2008