



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 2008 UNAUDITED CONSOLIDATED INTERIM RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the unaudited results of Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (collectively “the Group”) for the six months ended 30 June 2008. ^(Note 1)

Consolidated Income Statement (Unaudited)

	Note	For the six months ended	
		30 June 2008 HK\$'000	30 June 2007 HK\$'000
Interest income	2	1,158,428	1,359,951
Interest expense	2	(626,015)	(950,307)
Net interest income		532,413	409,644
Fee and commission income	3	180,099	169,991
Fee and commission expense	3	(42,962)	(42,849)
Net fees and commission income		137,137	127,142
Revaluation loss on collateralised debt obligations		(78,115)	-
Other operating income	4	194,574	144,443
Operating income		786,009	681,229
Operating expenses	5	(468,752)	(404,518)
Operating profit before gains and impairment losses		317,257	276,711
Impairment losses on advances to customers	6	(18,081)	(31,005)
Impairment losses on available-for-sale securities		(96,194)	-
Reversal / (charge) of impairment losses on investment in associated company		2,807	(33)
Reversal of impairment losses on assets acquired under lending agreements		3,108	1,093
Impairment losses		(108,360)	(29,945)
Net gains from disposals of available-for-sale securities	7	43,832	7,541
Net gains / (losses) on disposals of fixed assets		29,552	(120)
Profit before taxation		282,281	254,187
Taxation	8	(32,226)	(36,849)
Profit for the period		250,055	217,338
Attributable to:			
- Equity holders of the Bank		250,359	217,338
- Minority interests		(304)	-
Profit for the period		250,055	217,338
Interim dividend of 6.00 Hong Kong cents per share proposed after the balance sheet date (2007: 6.00 Hong Kong cents)		(70,330)	(70,330)
Earnings per share (Hong Kong cents)	9	21.36	18.54

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Extracts from Consolidated Balance Sheet (Unaudited)

	Note	30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
ASSETS			
Cash and short-term funds		7,832,290	7,024,601
Placements with banks maturing between one and twelve months		-	740,990
Trading securities		552,044	32,544
Financial assets designated at fair value through profit or loss		714,075	878,955
Derivative financial instruments		1,353,250	955,904
Advances to customers less impairment allowances		33,741,507	31,478,804
Accrued interest and other accounts		1,871,697	1,115,597
Available-for-sale securities		15,423,091	17,230,441
Investments in associated company		1,945	-
Fixed assets		1,116,940	1,142,320
Deferred tax assets		49,276	22,723
		62,656,115	60,622,879
LIABILITIES			
Deposits and balances from banks		2,626,768	1,457,845
Deposits from customers		42,338,759	41,473,991
Trading liabilities		508,278	11,673
Financial liabilities designated at fair value through profit or loss		155,152	220,446
Certificates of deposit issued		1,337,323	2,161,650
Debt securities issued		2,154,381	1,593,177
Derivative financial instruments		1,253,326	804,740
Other accounts and liabilities		6,462,352	7,155,151
Deferred tax liabilities		113	90
Subordinated notes issued	10	1,622,484	1,622,652
		58,458,936	56,501,415
EQUITY			
Share capital		1,172,160	1,172,160
Share premium		749,778	749,778
Reserves		2,271,835	2,195,816
Equity attributable to equity holders of the Bank		4,193,773	4,117,754
Minority interests		3,406	3,710
		4,197,179	4,121,464
		62,656,115	60,622,879

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Consolidated Statement of Changes in Equity (Unaudited)

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Total equity as at 1 January	<u>4,121,464</u>	<u>3,979,030</u>
Realisation of revaluation deficit / (surplus) of available-for-sale securities on disposal	36,354	(27,241)
Net change in fair value of available-for-sale securities	(99,173)	(21,851)
Transfer to income statement on impairment of available-for-sale securities	3,103	-
Deferred taxation	30,915	11,839
Capital reserve on share-based transactions	<u>6,842</u>	<u>-</u>
Net loss recognised directly in equity	<u>(21,959)</u>	<u>(37,253)</u>
Net profit for the period		
Attributable to:		
- Equity holders of the Bank	250,359	217,338
- Minority interests	<u>(304)</u>	<u>-</u>
	<u>250,055</u>	<u>217,338</u>
Dividend paid during the period	<u>(152,381)</u>	<u>(140,659)</u>
	<u>97,674</u>	<u>76,679</u>
Total equity as at 30 June	<u>4,197,179</u>	<u>4,018,456</u>

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Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Net cash generated from / (used in) operating activities	385,050	(2,649,854)
Net cash generated from / (used in) investing activities	22,994	(46,381)
Net cash generated from financing activities	799,203	701,911
Net increase / (decrease) in cash and cash equivalents	1,207,247	(1,994,324)
Cash and cash equivalents as at 1 January	7,238,749	9,784,375
Cash and cash equivalents as at 30 June	8,445,996	7,790,051

Analysis of cash and cash equivalents:

Cash on hand and at banks	705,614	1,428,199
Money at call and short notice	7,126,676	4,951,163
Treasury bills with original maturity within three months	613,706	1,332,511
Placements with banks with original maturity within three months	-	78,178
	8,445,996	7,790,051

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Notes:

1. The financial information set out in this preliminary announcement does not constitute the Group's interim financial report for the six months ended 30 June 2008. Certain financial information in this preliminary announcement is extracted from the Group's interim financial report for the six months ended 30 June 2008, which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Bank.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, and other relevant HKASs, Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority ("HKMA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA.

2. Interest income and expense

(a) Interest income

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Listed investments	137,720	88,410
Others	992,634	1,227,874
Interest income on financial assets that are not designated at fair value through profit or loss	1,130,354	1,316,284
Interest income on trading assets		
- listed investments	125	63
- unlisted investments	3,148	23,973
Interest income on financial assets designated at fair value through profit or loss	24,801	19,631
	1,158,428	1,359,951

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2. Interest income and expense (continued)

(b) Interest expense

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	610,933	839,454
Other financial liabilities	2,031	84,961
Interest expense on financial liabilities that are not designated at fair value through profit or loss	612,964	924,415
Interest expense on trading liabilities	6,673	23,202
Interest expense on financial liabilities designated at fair value through profit or loss	6,378	2,690
	626,015	950,307

3. Fee and commission income and expense

(a) Fee and commission income

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Credit related fees and commissions	17,533	12,164
Trade finance	12,924	10,775
Credit card	34,533	31,247
Securities brokerage and investment services	32,517	44,691
Insurance	20,700	13,867
Unit trust commission	49,084	47,725
Other fees	12,808	9,522
	180,099	169,991

of which:

Fee and commission income arising from:

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

69,519	56,082
746	729

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3. Fee and commission income and expense (continued)

(b) Fee and commission expense

	For the six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Handling fees and commission	29,069	31,270
Other fees paid	13,893	11,579
	<u>42,962</u>	<u>42,849</u>
Of which:		
Fee and commission expense arising from:		
- Financial assets or financial liabilities which are not designated at fair value through profit or loss	21,895	14,538

4. Other operating income

	For the six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Gains less losses from dealing		
Gains less losses from dealing in foreign currencies	20,520	5,957
Gains less losses from dealing in trading securities	(2,083)	2,301
Gains less losses from other dealing activities *	119,628	110,208
Gains less losses from short selling activities	(907)	737
	<u>137,158</u>	<u>119,203</u>
Net hedging income from fair value hedges		
Net gain on hedged items attributable to the hedged risk	1,779	39,058
Net loss on hedging instruments	(1,779)	(39,058)
	<u>-</u>	<u>-</u>
Net gain / (loss) on other financial instruments designated at fair value through profit or loss		
Net gain on sale of other financial instruments designated at fair value through profit or loss	5,412	-
Revaluation gain / (loss) on other financial instruments designated at fair value through profit or loss	60,346	(5,880)
	<u>65,758</u>	<u>(5,880)</u>
Gains less losses from other financial liabilities measured at amortised cost	629	1,400
Revaluation (loss) / gain on derivative financial instruments	(35,736)	2,519
Dividend income from listed available-for-sale securities	3,194	3,019
Dividend income from unlisted available-for-sale securities	3,711	13,071
Rental income on properties	933	174
Others	18,927	10,937
	<u>194,574</u>	<u>144,443</u>

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

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5. Operating expenses

	For the six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Salaries and other staff costs	<u>286,025</u>	<u>222,553</u>
Premises and other fixed assets		
Rental of premises	22,684	21,435
Depreciation	31,938	29,374
Others	10,532	10,044
Auditors' remuneration	1,187	1,020
Other operating expenses		
Business promotion	15,820	31,904
Legal and professional fees	11,222	10,706
Communication	16,040	13,310
Electronic data processing and computer systems	39,920	34,303
Others	33,384	29,869
	<u>468,752</u>	<u>404,518</u>

6. Impairment losses on advances to customers

	For the six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Impairment losses (charged) / released on advances to customers		
- Additions	(53,635)	(45,816)
- Releases	35,554	14,811
	<u>(18,081)</u>	<u>(31,005)</u>

7. Net gains from disposals of available-for-sale securities

	For the six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Realisation of revaluation (deficit) / surplus previously recognised in revaluation reserve	(36,354)	27,241
Net gains / (losses) arising in current period	<u>80,186</u>	<u>(19,700)</u>
	<u>43,832</u>	<u>7,541</u>

8. Taxation

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 June 2008.

9. Earnings per share

The earnings per share is calculated on profit attributable to shareholders of HK\$250,359,000 (2007: HK\$217,338,000) and 1,172,160,000 (2007: 1,172,160,000) ordinary shares in issue during the period. There are no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

10. Subordinated notes issued

Subordinated notes with face value of USD 200 million (equivalent to HK\$1,560 million) and carrying amount of HK\$1,622 million qualifying as tier two 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 to 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 (2007: HK\$62.7 million) due to application of fair value hedge accounting.

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SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	30 June 2008	As at
	%	31 December 2007
		%
Capital adequacy ratio	13.45	14.42
Core capital ratio	9.36	9.77

The capital adequacy ratio and core capital ratio at 30 June 2008 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, Fubon Hong Kong (Taiwan) Co., Ltd and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) as required by the Hong Kong Monetary Authority (“HKMA”) for its regulatory purposes, and are compiled in accordance with the Banking (Capital) Rules issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord.

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.

2. Capital base

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

	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,812,216	1,533,639
Share premium	749,778	749,778
Profit and loss account	92,877	229,145
Total deduction from core capital	(94,771)	(116,355)
Core capital after deduction	3,732,260	3,568,367
Eligible supplementary capital		
Reserves on revaluation of land and interest in land	23,701	23,701
Reserves on revaluation of holdings of available-for-sale securities	(148,761)	(87,656)
Collective impairment allowances	70,071	82,126
Regulatory reserve	175,210	213,447
Term subordinated notes	1,559,760	1,559,980
Total deduction from eligible supplementary capital	(45,496)	(93,633)
Supplementary capital after deduction	1,634,485	1,697,965
Total capital base after deductions	5,366,745	5,266,332
Total deductions from the core capital and supplementary capital	140,267	(209,988)

All of the Bank’s investments in subsidiaries except for Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Bank Vanuatu Limited, Fubon Hong Kong (Taiwan) Co., Ltd. and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) are deducted from the core capital and supplementary capital.

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3. Liquidity ratio

	For the six months ended	
	30 June 2008	30 June 2007
	%	%
Average liquidity ratio	40.41	45.53

The average liquidity ratio for the period is computed as the arithmetic mean 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.

The ratio for the period is computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Fubon Bank Vanuatu Limited and 富邦租賃(中國)有限公司 ("Fubon Leasing (China) Co., Ltd") as required by the HKMA for its regulatory purposes.

4. Regulatory reserve

	As at	
	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
At 1 January	213,447	129,572
Transfer (to) / from retained earnings	(38,237)	83,875
	<u>175,210</u>	<u>213,447</u>

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 HKMA.

5. Advances to customers less impairment allowances

(a) Advances to customers less impairment allowances

	As at	
	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
Gross advances to customers	33,903,142	31,633,012
Impairment allowances		
- Collective impairment allowances	(70,071)	(82,126)
- Individual impairment allowances	(91,564)	(72,082)
	<u>33,741,507</u>	<u>31,478,804</u>

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5. Advances to customers less impairment allowances (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.

	As at			
	30 June 2008		31 December 2007	
	Gross loans and advances HK\$'000	% of gross loans covered by collateral %	Gross loans and advances HK\$'000	% of gross loans covered by collateral %
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
- Property development	78,994	49.36	59,453	66.36
- Property investment	7,391,707	77.54	5,874,005	69.51
- Financial concerns	619,126	7.47	678,349	6.44
- Stockbrokers	78,963	94.77	144,323	97.79
- Wholesale and retail trade	162,252	13.25	221,630	12.54
- Manufacturing	1,841,554	19.57	1,634,110	23.04
- Transport and transport equipment	689,994	91.14	699,036	88.01
- Information technology	14,308	83.48	14,395	94.45
- Others	3,111,592	52.08	2,649,604	40.32
Individuals				
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	11,884	100.00	7,300	100.00
- Loans for the purchase of other residential properties	7,495,168	96.98	7,272,919	95.36
- Credit card advances	488,669	-	533,187	-
- Others	959,362	58.49	894,852	52.53
	<u>22,943,573</u>		<u>20,683,163</u>	
Trade finance	2,244,738	9.32	2,169,800	13.69
Gross advances for use outside Hong Kong	<u>8,714,831</u>	<u>46.13</u>	<u>8,780,049</u>	<u>44.08</u>
Gross advances to customers	<u>33,903,142</u>	<u>60.78</u>	<u>31,633,012</u>	<u>56.87</u>

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6. Overdue advances to customers

	30 June 2008		As at 31 December 2007	
	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	59,266	0.17	32,948	0.10
- 1 year or less but over 6 months	42,669	0.13	32,926	0.10
- Over 1 year	61,269	0.18	47,703	0.15
	<u>163,204</u>	0.48	<u>113,577</u>	0.36
Current market value of collateral held against the covered portion of overdue loans and advances	<u>78,328</u>		<u>37,379</u>	
- Covered portion of overdue loans and advances	75,087		50,859	
- Uncovered portion of overdue loans and advances	<u>88,117</u>		<u>62,718</u>	
	<u>163,204</u>		<u>113,577</u>	
Amount of expected recoveries from companies in liquidation in respect of the covered portion of overdue loans and advances	<u>22,476</u>		<u>16,432</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>75,936</u>		<u>58,642</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 30 June 2008 and 31 December 2007.

7. Rescheduled advances to customers

Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	30 June 2008		As at 31 December 2007	
	HK\$'000	% of total advances %	HK\$'000	% of total advances %
Rescheduled advances to customers	<u>16,698</u>	0.05	<u>42,779</u>	0.14

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8. Additional disclosures on structured investments

Given the significance of the impact of structured investments to the Bank's financial results, the Bank has set out below additional information regarding its SIV and CDO portfolios.

Structured Investment Vehicles

The Bank has investment in SIVs of a nominal value of HK \$273.0 million and a written down value of HK\$34.1 million as at 30 June 2008. All of the Bank's SIV investments are sponsored by banks. The Bank has not made any additional investments in SIVs since 1st Quarter 2007. One of the bank-sponsored SIVs was restructured into 2 separate entities in February 2008 and the Bank exchanged the income note of the original vehicle into the restructured vehicles at 19.9%. The net asset value of these notes as at 30 June 2008 has remained at similar level to the exchange price. Since there is no restructuring in the other SIV investment, the Bank has been conservative in recognizing impairment loss amidst deteriorating market conditions from 4th quarter 2007 to 1st quarter 2008. During the financial year ended 31 December 2007, the Bank took impairment losses of HK\$162.4 million against its SIV investments and has taken an additional HK \$78.2 million of impairment losses in the six months ended 30 June 2008. At 30 June 2008, the total cumulative impairment loss recognized amounted to 88.1% of the Bank's gross SIV investments exposure, and the resulting net exposure is HK\$34.1 million, representing approximately 0.05% of the Bank's consolidated total assets.

Collateralised Debt Obligations

The nominal value of the Bank's CDO portfolio was HK\$234.0 million as at 30 June 2008.

Portfolio summary

Maturity	Current rating	Number of securities	Nominal amount (HK\$m)	Mark-to-market losses during 1H 2008 (HK\$m)	Accumulated MTM losses up to 30/6/2008 (HK\$m)	Carrying value as at 30/6/2008 (HK\$m)
3/2017	A2	1	78.0	27.6	60.0	18.0
12/2013	A	1	78.0	24.2	55.3	22.7
12/2013	A	1	78.0	26.3	53.2	24.8
Total		3	234.0	78.1	168.5	65.5

None of the Bank's CDO investments have underlying assets that include mortgage-backed securities or asset-backed securities. As of 30 June 2008, there were no defaults witnessed in any of the underlying reference entities of the Bank's CDO investments and there has been no downgrade on the Bank's CDO tranches.

The Bank continues to adopt a conservative approach towards valuing its CDO investments that takes into account a range of factors affecting valuation including current market conditions, liquidity, credit quality, maturity and other information. As a result, the Bank took a HK \$90.4 million mark-to-market loss against its CDO portfolio for the financial year ended 31 December 2007 and has followed this with an additional HK \$78.1 million loss recognized during the six months ended 30 June 2008 when the credit market further deteriorated. The net exposure of its CDO portfolio stood at HK \$65.5 million, representing 28% of the nominal value. As at 30 June 2008, the net exposure of the Bank's CDO portfolio is not considered to be significant, representing approximately 0.1% of the Bank's consolidated total assets.

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9. 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.

	30 June 2008		As at 31 December 2007	
	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000
Direct credit substitutes	528,217	418,217	514,567	514,567
Transaction-related contingencies	121,413	60,707	121,492	60,746
Trade-related contingencies	790,791	158,158	928,081	185,616
Undrawn loan facilities				
- which are unconditionally cancellable	12,033,356	-	10,900,414	-
- with an original maturity of 1 year or over	1,042,730	521,365	377,481	188,741
Forward forward deposits placed	1,719,907	343,981	309,549	61,910
	<u>16,236,414</u>	<u>1,502,428</u>	<u>13,151,584</u>	<u>1,011,580</u>

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9. Off-balance sheet exposures (continued)

(b) Derivatives

i. Notional amounts of derivatives

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:

	30 June 2008				As at 31 December 2007			
	Managed in conjunction with financial instruments designated at designated at Qualified for hedge accounting HK\$'000	fair value through profit or loss HK\$'000	Others, include held for trading HK\$'000	Total HK\$'000	Managed in conjunction with financial instruments designated at fair value Qualified for hedge accounting HK\$'000	through profit or loss HK\$'000	Others, include held for trading HK\$'000	Total HK\$'000
Exchange rate derivatives								
- Forwards	-	-	11,442,699	11,442,699	-	-	7,641,398	7,641,398
- Swaps	-	-	30,011,019	30,011,019	-	-	56,693,546	56,693,546
- Options purchased	-	-	32,077,740	32,077,740	-	-	16,242,010	16,242,010
- Options written	-	-	32,075,760	32,075,760	-	-	16,241,669	16,241,669
	-	-	105,607,218	105,607,218	-	-	96,818,623	96,818,623
Interest rate derivatives								
- Swaps	2,093,724	701,891	76,703,287	79,498,902	1,793,977	857,989	17,323,252	19,975,218
- Options purchased	-	-	-	-	-	-	302,200	302,200
- Options written	-	-	-	-	-	-	200,000	200,000
	2,093,724	701,891	76,703,287	79,498,902	1,793,977	857,989	17,825,452	20,477,418
Equity derivatives								
- Swaps	-	-	1,978,024	1,978,024	-	-	861,691	861,691
- Options purchased	-	-	137,639	137,639	-	-	125,099	125,099
- Options written	-	-	137,639	137,639	-	-	125,099	125,099
- Other equity derivatives	-	-	1,844,934	1,844,934	-	-	3,179,754	3,179,754
	-	-	4,098,236	4,098,236	-	-	4,291,643	4,291,643
Other derivatives	-	-	73,075	73,075	-	-	84,492	84,492
Total	2,093,724	701,891	186,481,816	189,277,431	1,793,977	857,989	119,020,210	121,672,176

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.

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9. Off-balance sheet exposures (continued)

(b) Derivatives (continued)

ii. Fair values and credit risk weighted amounts of derivatives

	30 June 2008			As at 31 December 2007		
	Fair value assets	Fair value liabilities	Credit risk- weighted amount	Fair value assets	Fair value liabilities	Credit risk- weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives	718,562	448,649	593,593	532,832	311,243	460,675
Interest rate derivatives	225,812	225,584	153,185	245,319	219,284	165,384
Equity derivatives	407,978	407,978	337,639	175,426	175,427	271,942
Other derivatives	898	171,115	5,283	2,327	98,786	5,535
	1,353,250	1,253,326	1,089,700	955,904	804,740	903,536

Amounts above are shown on a gross basis as none of these derivative contracts are subject to any bilateral netting arrangement. Embedded derivatives are not included for calculation of credit risk-weighted amount.

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10. Currency concentration

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>Equivalent in HK\$ Million</i>	As at 30 June 2008					Total foreign currencies
	US dollars	Chinese Renminbi	Pound Sterling	Australian dollars	Other foreign currencies	
Spot assets	18,397	332	317	1,664	3,922	24,632
Spot liabilities	(17,533)	(303)	(373)	(2,027)	(4,708)	(24,944)
Forward purchase	23,507	2,414	739	986	10,901	38,547
Forward sales	(24,657)	(2,412)	(657)	(602)	(10,115)	(38,443)
Net option position	(1)	-	-	-	1	-
Net long/(short) position	<u>(287)</u>	<u>31</u>	<u>26</u>	<u>21</u>	<u>1</u>	<u>(208)</u>
Net structural position	<u>31</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31</u>

<i>Equivalent in HK\$ Million</i>	As at 31 December 2007					Total foreign currencies
	US dollars	Chinese Renminbi	Pound Sterling	Australian dollars	Other foreign currencies	
Spot assets	20,267	143	321	916	2,442	24,089
Spot liabilities	(17,461)	(146)	(270)	(1,656)	(3,945)	(23,478)
Forward purchase	36,956	1,566	3,951	1,274	7,428	51,175
Forward sales	(40,372)	(1,350)	(3,990)	(515)	(5,943)	(52,170)
Net option position	-	-	-	-	-	-
Net long/(short) position	<u>(610)</u>	<u>213</u>	<u>12</u>	<u>19</u>	<u>(18)</u>	<u>(384)</u>
Net structural position	<u>31</u>	<u>-</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.

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11. 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 30 June 2008

<i>Figures in HK\$'Million</i>	Banks	Other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding					
Hong Kong	6,594	74	9	4,540	11,217
- Of which South Korea	2,179	74	-	256	2,509
- Of which Taiwan	1,316	-	-	1,598	2,914
North America	819	740	858	393	2,810
- Of which USA	680	740	858	364	2,642
Western Europe	5,868	-	-	184	6,052

As at 31 December 2007

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

12. Repossessed assets and assets acquired under lending agreements

The total repossessed assets and assets acquired under lending agreements of the Group as at 30 June 2008 amounted to HK\$33,270,000 (31 December 2007: HK\$34,002,000).

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13. 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.

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 centralised 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 realisation 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.

(a) Operating income

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Retail Banking	276,870	278,904
Wholesale Banking	311,245	210,185
Financial Markets	203,022	203,261
Real Estate	(610)	(1,489)
Unallocated	(4,518)	(9,632)
	<u>786,009</u>	<u>681,229</u>

(b) Profit before taxation

	For the six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Retail Banking	58,074	78,182
Wholesale Banking	206,780	116,053
Financial Markets	56,547	148,676
Real Estate	1,891	(1,110)
Unallocated	(41,011)	(87,614)
	<u>282,281</u>	<u>254,187</u>

13. Segment reporting (continued)

Geographical segments

The geographical segmental analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the periods ended 30 June 2008 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.

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Hong Kong's economy

Hong Kong's economic performance has shown signs of moderating in the first half of 2008. Much of this slowdown has been externally driven, with the weakening US economy reducing demand for Hong Kong's exports and depressing local consumer confidence, while rising commodity prices have lifted inflation to elevated levels. An offsetting influence has been the lowering of interest rates during the period.

The deceleration in economic activity had been largely anticipated, and has, to date, remained relatively well contained. Hong Kong's unemployment rate has remained low, with the latest reading of 3.3% slightly below the year-end rate of 2007 of 3.4%. Retail sales are showing signs of decelerating from the strong performance of 2007, as local consumers rein in discretionary spending and delay purchasing big ticket items. Sales have remained relatively robust at 17% in value terms, with tourist inflows supporting consumption. Trade is an area where performance has slackened, with total exports rising 11%, compared with mid-teens rates of growth for most of last year. Although intra-regional demand has been strong, exports to the US have dropped notably.

Local asset prices have been mixed. The most notable casualty of the weak external environment has been the local stock market, with various indices having declined by 20-30%. Stock market turnover has declined at an even faster pace, while IPO activity has almost ceased. However, residential property prices have held up well, with prices having risen 10-15%. Low new supply, negative real interest rates and stable employment markets have underpinned residential real estate values, allowing Hong Kong's banking industry to avoid the financial turmoil experienced in other developed economies. Commercial property prices have also risen, as supply has also been limited and as interest rates have fallen.

The greatest change in the economic landscape has been the rise in inflation, which has been running at a pace of 5-6%. Rising commodity and food prices and the weak US dollar have been the main contributors to the increase. Food prices have begun to plateau while labour productivity and Government measures to contain inflation should allow price inflation to decelerate later in the year.

Forecast

In spite of an expected further weakening of the US economy, Hong Kong's economy is still likely to register real GDP growth of 5% in 2008. Offsetting factors include China's still relatively strong economic growth, intra-regional trade, persistently low interest rates and a tight labour market.

However, there are risks to the forecast, with the year-old global credit market turbulence a constant threat to Hong Kong's already weak financial markets. The external trading environment has also turned more uncertain and is vulnerable to shocks in its relatively weakened state. The forecast is also predicated on a view that inflationary pressures will subside towards the end of the year, as weaker global economic activity reduces demand for commodities.

China's economy

China's economy recorded real GDP growth of 10.4% in the first half of the year, compared with the 11.9% increase in 2007. There has been a broad-based slowdown in economic activity in recent months, as the effect of a weakening global environment and rampant price inflation has tempered both external and internal demand. Administrative measures have also played a part, as the authorities attempt to engineer a soft landing for the economy.

China's trade performance has decelerated as demand from the US slowed sharply. Intra-regional trade and exports to the Eurozone have somewhat counter-balanced the weakness in the US. China's trade surplus narrowed on significantly higher oil import prices. The trade picture is likely to remain mixed as long as current external conditions persist. As the trade performance softens, the appreciation of the RMB has also slowed in recent months.

While the external environment has been challenging, local consumption has held up well, with retail sales apparently unaffected by elevated price inflation, the policy induced slowdown in the real estate market and the sharp downturn in equity prices in the first half of the year. Real retail sales growth has been tracking at 14% in recent months.

Price inflation has continued the upward trend of 2007, but has accelerated. Food prices were the main culprit, with supply impaired by severe snowstorms earlier in the year, while surging international commodity prices have added to the pressure.

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Surprisingly, after repeated movements in 2007, China has yet to raise interest rates in 2008 despite the surge in price inflation. Instead, the authorities have attempted to control liquidity by raising banks' reserve requirements. The effect of slowing loan demand and higher reserve requirements has begun to have a dampening effect on the loan creation and money supply growth, both of which have started to decelerate with RMB loans at +14% in June and M3 at +17% year-on-year.

Forecast

China is expected to achieve real GDP growth of 10% for the year. Inflation is forecast to moderate from its current elevated levels to 6% for the full year. Government policy will remain focused on maintaining economic growth, while carefully managing price inflation. This should ensure a soft landing scenario for China's economy, an outcome that would be favourable both for the Greater China region, and for the health of the global economy as a whole.

FUBON PERFORMANCE

Fubon Bank (Hong Kong) Limited and its subsidiaries ("the Bank") reported a net profit of HK\$250 million for the first six months ended 30 June 2008, representing an increase of 15% over the same period in 2007 despite the more difficult operating environment. The improved earnings were driven by sustained business growth, margin expansion, better asset and liability management and tighter integration with its parent company, Fubon Financial Holding Co., Ltd. ("Fubon Financial"). Earnings per share rose to 21.36 Hong Kong cents, compared with the corresponding figure of 18.54 Hong Kong cents per share for the first half of 2007.

Gross interest income decreased 15% to HK\$1,158 million for the first half of 2008 whereas gross interest expense decreased at a faster pace of 34% to HK\$626 million over the corresponding period. As a result, net interest income grew by HK\$123 million or 30% to HK\$532 million. The increase was attributed to both loan growth and improvement in loan spreads and investment yields. As a result of the Bank's effective management of its balance sheet and lower funding cost due to falling interest rates, effective net interest margin ("NIM") improved by 26 bps from 1.64% for the first half of 2007 to 1.90% for the first half of 2008.

Other operating income including net fees and commission income reached HK\$332 million, increased by 22% or HK\$60 million compared to the first half of 2007. The Bank continued to adopt a conservative approach towards accounting for its CDO investments and recognised a HK\$78 million revaluation loss during the six months ended 30 June 2008 when the credit market further deteriorated. The carrying value of the Bank's CDO portfolio stood at HK\$66 million, representing approximately 0.1% of its consolidated total assets. After accounting for the mark-to-market losses for CDOs held on the investment books, other operating income was recorded at HK\$254 million, representing a 7% or HK\$18 million decrease compared to the first half of 2007. Within the Bank, significant enhancements have been made in product innovation and investment advisory capacity over the past years. Customer segmentation strategies were refined to cater for the unique wealth management needs of different customer segments. The successful implementation of the above initiatives, and backed by the strong ties from and tighter integration with Fubon Financial, helped sustain fee income growth despite changing market conditions. Commission income from the sales of wealth management products, encompassing financial markets investment and structured products, unit trusts and insurance, increased HK\$18 million or 11% to HK\$190 million. During the first half of 2008, cross-selling efforts between various business divisions were stepped up, which helped boost fee income. The marketing fee income of the Financial Markets Group derived from corporate and SME customers recorded a year-on-year increase of over 165%.

Operating expenses rose 16% from HK\$405 million to HK\$469 million. The increase was primarily due to higher compensation and staff-related expenses resulting from the full year effect of additional headcount recruited in 2007 for supporting business growth. The cost-to-income ratio was maintained at around 59%. Excluding the HK\$78 million revaluation losses on the CDO portfolio, the cost-to-income ratio was lowered by 5% to 54%. The Bank will continue to take a dynamic approach to managing expense growth and enhancing its operating leverage. Operating profits before gains and impairment losses rose 15% or HK\$40 million to HK\$317 million compared with the corresponding period of HK\$277 million.

In line with continued growth of the domestic economy which supported corporate profitability and household income, the Bank recorded a net charge for impairment losses on advances to customers of HK\$18 million, a decrease of HK\$13 million when compared to HK\$31 million in the first half of 2007. Asset quality remained benign as evidenced by the impaired loans ratio of 0.60% as of 30 June 2008. Impairment losses on available-for-sale securities of HK\$96 million were provided for income notes issued by SIVs and for certain equity securities. As of 30 June 2008, the total cumulative impairment losses recognized on SIV investments amounted to 88.1% of the Bank's gross

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SIV investments exposure, with the resulting net exposure at HK\$34 million. Net gains from the disposal of available-for-sale securities of HK\$44 million were realized in the first half of 2008 as conditions were conducive for profit-taking. The Bank recorded a disposal gain on ex-branch premises of HK\$30 million in the first half of 2008. After accounting for impairment charges, other gains and tax charge, profit attributable to shareholders amounted to HK\$250 million, representing a 15% or HK\$33 million increase from HK\$217 million for the first half of 2007. Return on average assets and return on average equity improved from 0.83% to 0.86% and from 11.30% to 12.25% respectively when compared with the corresponding period in 2007.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 3% or HK\$2 billion to HK\$62.7 billion as at 30 June 2008. Customer deposits grew 2%, totalling HK\$42.3 billion as at 30 June 2008. The Bank was cautious in growing its loan book in the first half in view of a more volatile and challenging operating environment. As a result, the net loans portfolio reached HK\$33.7 billion, an increase of 7% or HK\$2.3 billion over 2007 year-end balances. The Group's capital and liquidity positions remained strong. Consolidated Capital Adequacy Ratio was at 13.45% at the end of June 2008 and average liquidity ratio for the first half of 2008 was at 40.41%.

For the first half of 2008, Taiwan-related business contributed 29% (the first half of 2007: 24%) of the Bank's operating profits before gains and impairment losses. As at 30 June 2008, the loan and customer deposit balances of Taiwan-related business represented 15% (2007 year-end: 18%) and 19% (2007 year-end: 21%) of the total loan and deposit balances of the Bank respectively. The small decreases were due to the Bank being more cautious in growing its Taiwan-related loan business in order to safeguard asset quality.

On 10 June 2008, the Bank entered into a Share Subscription Agreement to subscribe to newly issued shares, representing 19.99% of the enlarged issued share capital of Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230 million (approximately HK\$260 million). In addition, the Bank has further agreed to give its share of future dividends from XCCB to the existing shareholders of XCCB up to RMB 20 million as deferred payment of part of the consideration. This transaction is an important breakthrough for a Taiwanese owned bank to obtain a substantial ownership and assume an active management role in a Mainland commercial banking institution. The signing of the agreement underscores Fubon Financial's commitment to making China a key market for growth and reinforces the Bank's vision in becoming the regional financial platform for Fubon Financial. The strategic partnership with XCCB will provide the Bank with an established banking franchise and knowledge of the PRC market, instant RMB access and a distribution network to better serve the banking and wealth management needs of Taiwanese and Hong Kong businessmen and their families on the Mainland.

The operating environment in the second half of 2008 remains challenging. The Bank will continue to harness the collective strength within the Fubon Group through tighter integration, expand its customer franchise and capitalise on its strength in serving the financial needs of China-based Taiwanese businesses and individuals.

INTERIM DIVIDEND

The Directors have approved at the Board Meeting held on Tuesday, 12 August 2008 the payment of an interim dividend of 6 Hong Kong cents per ordinary share for the six months ended 30 June 2008, totalling HK\$70.3 million. The interim dividend will be paid on or about Thursday, 23 October 2008 to the shareholders whose names are on the Register of Members as at the close of business on Friday, 10 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 8 October 2008 to Friday, 10 October 2008, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Share Registrars, Computershare Hong Kong Investor Services Limited, Shop 1712 - 1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 6 October 2008.

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

The Bank has not redeemed any of its listed shares during the six months ended 30 June 2008. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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 in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period for the six months ended 30 June 2008.

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 Listing Rules 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 accounting period for the six months ended 30 June 2008, 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 of the date of this announcement, the Bank’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, David Chang Kuo-Chun as Non-Executive Directors; and Robert James Kenrick, Moses K. Tsang, Hung Shih as Independent Non-Executive Directors.

Hong Kong, 12 August 2008