



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 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 2008. ^(Note1)

Consolidated Income Statement

	Note	2008 HK\$'000	2007 HK\$'000	Variance
Interest income	4	2,245,770	2,826,055	-20.5%
Interest expense	4	(1,256,930)	(1,972,382)	-36.3%
Net interest income		988,840	853,673	+15.8%
Fee and commission income	5	259,681	362,777	-28.4%
Fee and commission expense	5	(60,487)	(77,009)	-21.5%
Net fee and commission income		199,194	285,768	-30.3%
Revaluation loss on collateralised debt obligations	15	(128,462)	(90,401)	+42.1%
Other operating income	6	395,094	372,437	+6.1%
Operating income		1,454,666	1,421,477	+2.3%
Operating expenses	7	(965,276)	(834,773)	+15.6%
Operating profit before gains and impairment losses		489,390	586,704	-16.6%
Impairment losses on loans and advances	8	(309,297)	(37,613)	+722.3%
Impairment losses on available-for-sale securities	15	(197,482)	(162,433)	+21.6%
Write back of / (charge for) impairment losses on investment in an associate		3,797	(8,255)	-146.0%
(Charge for) / write back of impairment losses on assets acquired under lending agreements		(3,832)	3,301	-216.1%
Impairment losses		(506,814)	(205,000)	+147.2%
Net gains on disposals of available-for-sale securities	9	86,257	132,476	-34.9%
Net gains on disposals of fixed assets		29,123	2,887	+908.8%
Profit before taxation		97,956	517,067	-81.1%
Taxation	10	2,382	(56,179)	-104.2%
Profit for the year		100,338	460,888	-78.2%
Attributable to:				
- Equity holders of the Bank		100,896	460,998	-78.1%
- Minority interests		(558)	(110)	+407.3%
Profit for the year		100,338	460,888	-78.2%
Interim dividend declared during the year	3	(70,330)	(70,330)	0.0%
Final dividend proposed after the balance sheet date	3	(17,582)	(152,381)	-88.5%
		(87,912)	(222,711)	-60.5%
Earnings per share (Hong Kong cents)	11	8.43	39.33	-78.6%

FUBON BANK (HONG KONG) LIMITED

Consolidated Balance Sheet

	Note	2008 HK\$'000	2007 HK\$'000	Variance
ASSETS				
Cash and short-term funds		8,014,953	7,024,601	+14.1%
Placements with banks maturing between one and twelve months		1,827,521	740,990	+146.6%
Trading securities	12	150,250	32,544	+361.7%
Financial assets designated at fair value through profit or loss	13	700,281	878,955	-20.3%
Derivative financial instruments	20	2,618,073	955,904	+173.9%
Advances to customers less impairment	14	33,033,818	31,478,804	+4.9%
Accrued interest and other accounts		1,078,414	1,115,597	-3.3%
Available-for-sale securities	15	12,089,334	17,230,441	-29.8%
Other loans and receivables	16	3,745,286	-	+100.0%
Held-to-maturity investments	17	895,590	-	+100.0%
Interests in associates	18	293,746	-	+100.0%
Fixed assets		1,112,279	1,142,320	-2.6%
Deferred tax assets		82,367	22,723	+262.5%
		65,641,912	60,622,879	+8.3%
LIABILITIES				
Deposits and balances of banks		1,987,014	1,457,845	+36.3%
Deposits from customers		47,997,587	41,473,991	+15.7%
Trading liabilities		116,145	11,673	+895.0%
Financial liabilities designated at fair value through profit or loss		173,405	220,446	-21.3%
Certificates of deposit issued		960,181	2,161,650	-55.6%
Debt securities issued		1,898,982	1,593,177	+19.2%
Derivative financial instruments	20	2,506,345	804,740	+211.4%
Other accounts and liabilities		3,596,673	7,155,151	-49.7%
Deferred tax liabilities		97	90	+7.8%
Subordinated notes issued	19	1,684,386	1,622,652	+3.8%
		60,920,815	56,501,415	+7.8%
EQUITY				
Share capital		2,097,519	1,172,160	+78.9%
Share premium		749,778	749,778	-
Reserves		1,870,648	2,195,816	-14.8%
Shareholders' funds		4,717,945	4,117,754	+14.6%
Minority interests		3,152	3,710	-15.0%
		4,721,097	4,121,464	+14.5%
		65,641,912	60,622,879	+8.3%

FUBON BANK (HONG KONG) LIMITED**Consolidated Statement of Changes in Equity**

	2008	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	20,763	(23,951)
Net change in fair value of available-for-sale securities	(283,372)	(282,845)
Transfer to income statement on impairment of available-for-sale securities	14,694	162,433
Deferred taxation	31,593	33,078
Capital reserve on share based transactions	12,969	-
Net loss recognised directly in equity	<u>(203,353)</u>	<u>(111,285)</u>
Net profit for the year		
Attributable to:		
- Equity holders of the Bank	100,896	460,998
- Minority interests	(558)	(110)
	<u>100,338</u>	<u>460,888</u>
Dividend paid during the year	<u>(222,711)</u>	<u>(210,989)</u>
	<u>(122,373)</u>	<u>249,899</u>
Movement in minority interests:		
- Purchase of interests in businesses	-	3,820
Movement in equity arising from capital transactions :		
- Preference shares issued	<u>925,359</u>	<u>-</u>
Total equity as at 31 December	<u>4,721,097</u>	<u>4,121,464</u>

FUBON BANK (HONG KONG) LIMITED

Consolidated Cash Flow Statement

	2008		2007	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities				
Profit before taxation	97,956		517,067	
Adjustments for non-cash items:				
(Write back of) / charge for impairment allowance for advances to an associate	(3,797)		8,255	
Depreciation	64,918		59,114	
Gains on disposals of fixed assets	(29,123)		(2,887)	
Charge for impairment losses on loans and advances	309,297		37,613	
Charge for impairment losses on available-for-sale securities	197,482		162,433	
Charge for / (write back of) impairment losses on assets acquired under lending agreements	3,832		(3,301)	
Revaluation loss on collateralised debt obligations	128,462		90,401	
Equity-settled share-based payment expense	12,969		-	
Exchange difference and other non-cash items	16,791		21,817	
		798,787		890,512
(Increase) / decrease in operating assets:				
Treasury bills with original maturity of over three months	2,476,225		(873,194)	
Placements maturing between one and twelve months with original maturity of over three months	(111,521)		231,323	
Trading securities	10,280		193,141	
Financial instruments designated at fair value through profit or loss	178,674		(320,164)	
Derivative financial instruments	(1,662,169)		(418,049)	
Gross advances to customers	(1,864,311)		(5,765,257)	
Accrued interest and other accounts	45,006		36,259	
Certificates of deposit held	(203,996)		(182,161)	
Available-for-sale securities	2,146,345		(3,111,452)	
Other loans and receivable	(3,745,286)		-	
Held-to-maturity investments	(895,590)		-	
		(3,626,343)		(10,209,554)
Increase / (decrease) in operating liabilities:				
Deposits and balances of banks	(635,571)		496,330	
Deposits from customers	6,523,596		7,987,158	
Trading liabilities	104,472		(434,022)	
Derivative financial instruments	1,573,143		379,693	
Certificates of deposit issued	(1,201,469)		(1,361,697)	
Other accounts and liabilities	(3,576,292)		(23,682)	
		2,787,879		7,043,780
Net cash used in operations		(39,677)		(2,275,262)
Hong Kong Profits Tax paid		(49,663)		(88,043)
Overseas Profits Tax paid		(507)		-
Net cash used in operating activities		(89,847)		(2,363,305)

FUBON BANK (HONG KONG) LIMITED**Consolidated Cash Flow Statement (continued)**

	2008		2007	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing activities				
Payments for purchases of fixed assets	(58,290)		(94,724)	
Proceeds from disposals of fixed assets	52,536		15,433	
Payments for acquisition of a subsidiary	-		2,946	
Payments for acquisition of an associate	(261,380)		-	
Net cash used in investing activities		(267,134)		(76,345)
Financing activities				
Dividends paid	(222,711)		(210,989)	
Debt securities issued	305,805		179,015	
Preference shares issued	925,359		-	
Zero coupon bond issued	-		249,998	
Deposits accepted from fellow subsidiaries	8,917,978		8,300,195	
Deposits repaid to fellow subsidiaries	(7,753,238)		(8,624,195)	
Net cash generated from / (used in) financing activities		2,173,193		(105,976)
Net increase / (decrease) in cash and cash equivalents		1,816,212		(2,545,626)
Cash and cash equivalents as at 1 January		7,238,749		9,784,375
Cash and cash equivalents as at 31 December		9,054,961		7,238,749
Cash flows from operating activities include:				
Interest received		2,093,025		2,759,597
Interest paid		(1,144,263)		(1,896,721)
Dividends received		11,564		26,114

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 2008. Certain financial information in this preliminary announcement is extracted from the statutory financial statements for the year ended 31 December 2008, 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 2008, 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

In 2008, the Group adopted HKAS 39 (Amendment) Financial Instruments: Recognition and Measurement – Reclassification of Financial Assets and HKFRS 7 (Amendment) Financial Instruments: Disclosures – Reclassification of Financial Assets.

The adoption of the above standards and interpretation did not result in substantial changes to the Group's accounting policies, which are consistent with those used in the previous financial year except that, in accordance with the HKAS 39 (Amendment), the Group has reviewed those available-for-sale assets that meet the definition of loans and receivables and where the Group has the intention and ability to hold such assets for the foreseeable future and there is no longer an active market in them, it has reclassified these to the loans and receivables category. In accordance with the transitional provisions of HKAS 39 (Amendment) and HKFRS 7 (Amendment), the reclassifications have been applied from the date that the available-for-sale asset met the definition of loans and receivable within the period from 1st July 2008 to 1st November 2008.

The Group has not applied any new / revised standards or interpretation that is not yet effective for the current accounting period.

3. Dividends declared and proposed

	2008	2007
	HK\$'000	HK\$'000
Interim dividend declared and paid of 6 cents (2007: 6 cents) per share	70,330	70,330
Final dividend of 1.5 cents (2007: 13 cents) per share proposed after the balance sheet date	<u>17,582</u>	<u>152,381</u>
	<u>87,912</u>	<u>222,711</u>

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

FUBON BANK (HONG KONG) LIMITED

4. Interest income and expense

(a) Interest income

	2008 HK\$'000	2007 HK\$'000
Listed investments	295,237	175,531
Other	1,916,338	2,573,271
Interest income on financial assets that are not at fair value through profit or loss	2,211,575	2,748,802
Interest income on trading assets		
- listed investments	125	394
- unlisted investments	3,149	36,664
Interest income on financial assets designated at fair value through profit or loss	30,921	40,195
	2,245,770	2,826,055

(b) Interest expense

	2008 HK\$'000	2007 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	1,192,630	1,773,097
Debt securities issued and subordinated liabilities wholly repayable within 5 years	27,075	27,212
Other borrowings	12,078	129,973
Interest expense on financial liabilities that are not at fair value through profit or loss	1,231,783	1,930,282
Interest expense on trading liabilities	12,163	35,909
Interest expense on financial liabilities designated at fair value through profit or loss	12,984	6,191
	1,256,930	1,972,382

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5. Fee and commission income and expense

(a) Fee and commission income

	2008 HK\$'000	2007 HK\$'000
Credit related fees and commissions	15,998	14,201
Trade finance	23,033	23,472
Credit card	49,372	42,153
Securities brokerage and investment services	55,801	107,172
Insurance	34,183	33,367
Unit trust commission	59,837	122,059
Other fees	21,457	20,353
	<u>259,681</u>	<u>362,777</u>

of which:

Fee and commission income arising from:

- Financial assets or financial liabilities which are not measured at fair value through profit or loss	80,700	72,921
- Trust or other fiduciary activities	4,653	1,496

Fee and commission income arising from trust and other fiduciary activities relate to fees from asset management activities where the Group will hold assets or invest on behalf of customers.

(b) Fee and commission expense

	2008 HK\$'000	2007 HK\$'000
Handling fees and commission	40,564	57,298
Other fees paid	19,923	19,711
	<u>60,487</u>	<u>77,009</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	39,272	32,632
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6. Other operating income

	2008 HK\$'000	2007 HK\$'000
Gains less losses from dealing		
- Foreign exchange	64,823	26,928
- Trading securities	9,791	2,900
- Other dealing activities*	173,331	249,429
- Short selling activities	(2,191)	(1,952)
	<u>245,754</u>	<u>277,305</u>
Net hedging income from fair value hedges		
Net loss on hedged items attributable to the hedged risk	(27,301)	(41,698)
Net gain on hedging instruments	27,301	41,698
	<u>-</u>	<u>-</u>
Net gain 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 on other financial instruments designated at fair value through profit or loss	34,910	42,751
	<u>40,322</u>	<u>42,751</u>
Losses less gains from other financial liabilities measured at amortised cost	(2,545)	(13,221)
Revaluation gain / (loss) on derivative financial instruments	19,114	(27,360)
Dividend income from listed available-for-sale securities	6,192	6,137
Dividend income from unlisted available-for-sale securities	5,691	19,977
Rental income	1,277	281
Others	79,289	66,567
	<u>395,094</u>	<u>372,437</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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7. Operating expenses

	2008 HK\$'000	2007 HK\$'000
Staff costs		
Contributions to defined contribution scheme	6,962	2,951
Defined benefit scheme expenses	29,242	22,163
Retirement scheme costs	36,204	25,114
Equity-settled share-based payment expenses	12,969	-
Salaries and other staff costs	472,557	451,322
	<u>521,730</u>	<u>476,436</u>
Premises and other fixed assets		
Rental of premises	46,561	45,556
Depreciation	64,918	59,114
Others	22,377	20,032
Auditors' remuneration	2,522	2,254
Other operating expenses		
Business promotion	61,299	55,056
Legal and professional fees	24,802	15,096
Communication	22,156	17,763
Electronic data processing and computer systems	87,985	75,203
Others	110,926	68,263
	<u>965,276</u>	<u>834,773</u>

8. Impairment losses on loans and advances

	2008 HK\$'000	2007 HK\$'000
Impairment losses (charged) / released on advances to customers		
- Additions	(341,848)	(79,793)
- Releases	32,551	42,180
	<u>(309,297)</u>	<u>(37,613)</u>

There were no impairment losses recognised on loans and advances other than advances to customers as at 31 December 2008.

9. Net gains on disposals of available-for-sale securities

	2008 HK\$'000	2007 HK\$'000
Realisation of revaluation (deficit)/surplus previously recognised in revaluation reserve	(20,763)	23,951
Net gains arising in current year	107,020	108,525
	<u>86,257</u>	<u>132,476</u>

10. 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 year and the opening balance of deferred tax has been adjusted prospectively. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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11. Earnings per share

The earnings per share is calculated on profit attributable to shareholders of HK\$100,896,000 (2007: HK\$460,998,000) net of preference share dividend of HK\$2,092,000 (2007: Nil) and 1,172,160,000 (2007: 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 of the earnings per share.

12. Trading securities

	2008 HK\$'000	2007 HK\$'000
<i>Trading securities at fair value</i>		
Treasury bills (including Exchange Fund Bills), unlisted	142,967	14,981
Debt securities		
- Listed in Hong Kong	3,190	5,266
- Unlisted	4,058	11,948
Equity securities		
- Listed in Hong Kong	35	349
Total	<u>150,250</u>	<u>32,544</u>
<i>Trading securities are issued by:</i>		
- Central government and central banks	142,967	17,378
- Public sector entities	7,248	14,817
- Banks	23	66
- Corporate entities	12	283
	<u>150,250</u>	<u>32,544</u>

13. Financial assets designated as at fair value through profit or loss

	2008 HK\$'000	2007 HK\$'000
<i>Debt securities at fair value</i>		
- Listed in Hong Kong	469,195	486,932
- Listed outside Hong Kong	231,086	392,023
Total	<u>700,281</u>	<u>878,955</u>
<i>Financial instruments designated as at fair value through profit or loss are issued by:</i>		
- Public sector entities	474,235	481,735
- Other financial institutions	148,833	315,350
- Corporate entities	77,213	81,870
	<u>700,281</u>	<u>878,955</u>

FUBON BANK (HONG KONG) LIMITED

14. Advances to customers less impairment

(a) Advances to customers less impairment

	2008 HK\$'000	2007 HK\$'000
Gross advances to customers	33,329,796	31,633,012
Less: Impairment allowances		
- Individual impairment allowance	(181,872)	(72,082)
- Collective impairment allowance	(114,106)	(82,126)
	<u>33,033,818</u>	<u>31,478,804</u>

(b) Advances to customers analysed by industry sector

The following economic sector analysis of gross advances to customers is based on the categories and definitions used by the HKMA.

	2008		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	47,500	8.42	59,453	66.36
- Property investment	8,694,857	65.13	5,874,005	69.51
- Financial concerns	492,465	-	678,349	6.44
- Stockbrokers	5,413	27.71	144,323	97.79
- Wholesale and retail trade	96,448	28.80	221,630	12.54
- Manufacturing	2,204,099	10.08	1,634,110	23.04
- Transport and transport equipment	752,659	89.76	699,036	88.01
- Information technology	14,630	76.92	14,395	94.45
- Others	2,660,900	51.69	2,649,604	40.32
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	10,953	100.00	7,300	100.00
- Loans for the purchase of other residential properties	7,312,449	99.60	7,272,919	95.36
- Credit card advances	554,171	-	533,187	-
- Others	1,024,661	54.88	894,852	52.53
	<u>23,871,205</u>		<u>20,683,163</u>	
Trade finance	1,849,658	10.19	2,169,800	13.69
Gross advances for use outside Hong Kong				
Kong	7,608,933	40.95	8,780,049	44.08
Gross advances to customers	<u>33,329,796</u>	<u>57.43</u>	<u>31,633,012</u>	<u>56.87</u>

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15. Available-for-sale securities

	2008 HK\$'000	2007 HK\$'000
Listed debt securities at fair value		
- Listed in Hong Kong	2,067,597	2,868,782
- Listed outside Hong Kong	2,869,603	3,626,868
	<u>4,937,200</u>	<u>6,495,650</u>
Unlisted debt securities at fair value		
- Treasury bills (including Exchange Fund Bills)	2,151,272	4,863,805
- Certificates of deposit	472,897	268,901
- Other debt securities	4,209,206	5,224,503
	<u>6,833,375</u>	<u>10,357,209</u>
Total debt securities	<u>11,770,575</u>	<u>16,852,859</u>
Equity shares at fair value		
- Listed in Hong Kong	74,589	138,442
- Unlisted	244,170	239,140
	<u>318,759</u>	<u>377,582</u>
Total available-for-sale securities	<u>12,089,334</u>	<u>17,230,441</u>
<i>Available-for-sale securities are issued by:</i>		
- Central governments and central banks	3,743,984	7,633,735
- Public sector entities	280,419	84,991
- Banks	6,137,612	7,866,010
- Other financial institutions	597,183	729,669
- Corporate entities	1,330,136	916,036
	<u>12,089,334</u>	<u>17,230,441</u>

Included in "Other debt securities" as at 31 December 2008 were investments in structured investment vehicles ("SIVs") with a fair value of HK\$16.6 million (2007: HK\$110.6 million). Impairment losses on these investments of HK\$79.5 million (2007: HK\$162.4 million) have been recognised in the income statement.

In addition, the Bank had investments in collateralised debt obligations ("CDOs") with a nominal value of US\$30 million (2007: US\$30 million) which are included in "Other debt securities" as at 31 December 2008. The embedded derivatives are bifurcated and marked to market with a revaluation loss of HK\$128.5 million (2007: HK\$90.4 million) charged to the income statement. The carrying value of the Bank's investments in CDOs, inclusive of the marked to market loss on the embedded derivatives, as at 31 December 2008 was HK\$13.6 million (2007: HK\$143.6 million).

As at 31 December 2008, certain of the Group's and the Bank's available-for-sale equity securities with a fair value of HK\$74.6 million (2007: Nil) were individually determined to be impaired on the basis of a significant or prolonged decline in their fair value below cost. Impairment losses on these investments of HK\$118.0 million (2007: Nil) were recognised in the income statement.

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16. Other loans and receivables

	2008 HK\$'000	2007 HK\$'000
Debt securities at amortised cost	<u>3,745,286</u>	<u>-</u>
Of which:		
- Listed outside Hong Kong	2,685,023	-
- Unlisted	<u>1,060,263</u>	<u>-</u>
	<u>3,745,286</u>	<u>-</u>
<i>Other loans and receivable securities are issued by:</i>		
- Banks	3,723,191	-
- Corporate entities	<u>22,095</u>	<u>-</u>
	<u>3,745,286</u>	<u>-</u>

Pursuant to the amendments to HKAS 39 and HKFRS 7, the Group and the Bank reclassified certain available-for-sale investment securities which met the definition of loans and receivables (if they had not been designated as available-for-sale) and for which there was no longer an active market to loans and receivables during the year.

The above reclassified debt securities are neither past due nor impaired as at 31 December 2008.

17. Held-to-maturity investments

	2008 HK\$'000	2007 HK\$'000
Debt securities at amortised cost		
- Listed outside Hong Kong	635,776	-
- Unlisted	<u>259,814</u>	<u>-</u>
	<u>895,590</u>	<u>-</u>
<i>Held-to-maturity investments are issued by:</i>		
- Banks	647,286	-
- Other financial institutions	90,468	-
- Corporate entities	<u>157,836</u>	<u>-</u>
	<u>895,590</u>	<u>-</u>
<i>Fair value of held-to-maturity investments:</i>		
- Listed securities	659,453	-
- Unlisted securities	<u>273,429</u>	<u>-</u>
	<u>932,882</u>	<u>-</u>

18. Interests in associates

On 5 December 2008, the Bank subscribed for shares of Xiamen City Commercial Bank ("XCCB"), representing 19.99% of the enlarged issued share capital of XCCB, for a consideration of approximately RMB 230 million. In addition, the Bank agreed to give up to RMB27 million of its share of future dividends from XCCB to the existing shareholders of XCCB as a deferred payment of consideration. The carrying amount of HK\$292.0 million for the Bank's interest in XCCB includes provisional goodwill of HK\$60.1 million.

The Group did not recognise its share of post-acquisition, post-tax results of XCCB for 2008 as the amount is immaterial.

19. Subordinated notes issued

Subordinated notes of face value of USD 200 million (equivalent to HK\$1,550 million) and carrying amount of HK\$1,684.4 million which qualify 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\$134.4 million (2007: HK\$62.7 million) due to the application of fair value hedge accounting.

20. Off-balance sheet exposures

(a) Contingent liabilities and commitments

Credit related commitments and contingencies include forward deposits 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:

	2008		2007	
	Contractual amounts HK\$'000	Credit risk weighted amounts HK\$'000	Contractual amounts HK\$'000	Credit risk weighted amounts HK\$'000
Direct credit substitutes	271,285	161,285	514,567	514,567
Transaction-related contingencies	18,417	9,209	121,492	60,746
Trade-related contingencies	428,131	85,626	928,081	185,616
Undrawn loan facilities				
- which are unconditionally cancellable	12,518,056	-	10,900,414	-
- with an original maturity of 1 year or over	432,293	216,147	377,481	188,741
Forward deposits placed	216,254	43,251	309,549	61,910
	13,884,436	515,518	13,151,584	1,011,580

20. 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:

	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Held for trading HK\$'000	Total HK\$'000
As at 31 December 2008				
Exchange rate derivatives	-	-	83,120,355	83,120,355
Interest rate derivatives	1,937,525	966,542	54,565,135	57,469,202
Equity derivatives	-	-	2,033,696	2,033,696
Total	1,937,525	966,542	139,719,186	142,623,253
As at 31 December 2007				
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	1,793,977	857,989	119,020,210	121,672,176

The above amounts are shown on a gross basis without taking into account effect of bilateral netting arrangements, and include all embedded derivatives.

Derivatives reported as qualifying for hedge accounting represent hedging instruments designated as hedges under HKAS 39.

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20. 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 2008 refers to the amount as computed in accordance with the Banking (Capital) Rules 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%.

The following amounts do not take into account the effect of bilateral netting arrangement and are shown on a gross basis as below:

	2008			2007		
	Fair value	Fair value	Credit risk	Fair value	Fair value	Credit risk
	Assets	Liabilities	weighted	Assets	Liabilities	weighted
	HK\$'000	HK\$'000	amount	HK\$'000	HK\$'000	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives	1,582,844	1,336,788	941,623	532,832	311,243	460,675
Interest rate derivatives	623,917	522,800	246,902	245,319	219,284	165,384
Equity derivatives	411,312	411,312	112,468	175,426	175,427	271,942
Other derivatives	-	235,445	-	2,327	98,786	5,535
Total	2,618,073	2,506,345	1,300,993	955,904	804,740	903,536

21. Regulatory reserve

	2008	2007
	HK\$'000	HK\$'000
At 1 January	213,447	129,572
Transfer (to) / from retained earnings	(38,236)	83,875
At 31 December	175,211	213,447

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.

22. 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 and investment 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 strategic investments, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

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22. Segment reporting (continued)

(a) Business segments (continued)

2008	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	384,936	1,061,674	791,781	-	7,379		2,245,770
Interest expense to external customers	(628,370)	(280,201)	(344,118)	-	(4,241)		(1,256,930)
Inter-segment income	515,277	-	-	-	-	(515,277)	-
Inter-segment expense	-	(286,607)	(225,872)	(1,098)	(1,700)	515,277	-
Net interest income	271,843	494,866	221,791	(1,098)	1,438		988,840
Other operating income from external customers	276,658	126,953	110,093	(149)	12,758		526,313
Inter-segment revenue	-	-	-	-	37,984	(37,984)	-
Fee and commission expense	(38,318)	(4,451)	(19,174)	-	1,456		(60,487)
Other operating income	238,340	122,502	90,919	(149)	52,198		465,826
Operating income	510,183	617,368	312,710	(1,247)	53,636		1,454,666
Operating expenses	(424,673)	(173,229)	(156,704)	(1,374)	(209,296)		(965,276)
Inter-segment expenses	(31,528)	(6,296)	-	(160)	-	37,984	-
Operating profit / (loss) before gains and provisions	53,982	437,843	156,006	(2,781)	(155,660)		489,390
Write back / (charge) for collective impairment	859	(32,899)	(19)	-	79		(31,980)
Charge for individual impairment	(19,972)	(277,440)	-	-	-		(297,412)
Recovery of loans previously written off	10,830	9,083	-	182	-		20,095
Impairment loss on available-for-sale securities	-	-	(197,482)	-	-		(197,482)
Impairment loss on interests in an associate	-	-	-	-	3,797		3,797
Impairment loss on acquired assets	-	-	-	(3,832)	-		(3,832)
Gains less losses from disposal of available-for-sale assets	-	-	70,783	-	15,474		86,257
Gains less losses from disposal of fixed assets	-	-	-	-	29,123		29,123
Profit / (loss) before taxation	45,699	136,587	29,288	(6,431)	(107,187)		97,956
Income tax					2,382		2,382
Minority interest					558		558
Profit / (loss) attributable to shareholders	45,699	136,587	29,288	(6,431)	(104,247)		100,896
Operating expenses – depreciation	(5,973)	(2,370)	(6,639)	-	(49,936)		(64,918)
Segment assets	13,006,973	20,498,312	30,474,836	29,880	1,338,165		65,348,166
Interests in associate					293,746		293,746
Total assets	13,006,973	20,498,312	30,474,836	29,880	1,631,911		65,641,912
Segment liabilities	31,542,451	15,407,548	13,095,396	-	875,420		60,920,815
Capital expenditure incurred during the year	11,891	18,739	27,660	-	-		58,290

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22. 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	3,233	(3,979)	19	-	5		(722)
Charge for individual impairment	(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 interests in an associate	-	-	-	-	(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

22. 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 2007 and 2008, 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.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**1. Capital adequacy ratio**

	2008	2007
	%	%
Capital adequacy ratio as at 31 December	14.04%	14.42%
Core capital adequacy ratio as at 31 December	7.61%	9.77%

The capital adequacy ratio and core capital ratio at 31 December 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. 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) was only included in the computation of consolidated capital ratios since its establishment in 2008.

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

The Group’s capital adequacy is managed by the Asset and Liability Management Committee. Key tools adopted by the Group to assess its capital adequacy include capital budgeting, monitoring and stress testing. An annual capital budget is prepared during the annual budgeting process to assess the adequacy of the Group’s capital to support current and future business activities taking into account projected business growth and any new business activities. The annual budget is approved by the Board of Directors. Actual capital adequacy and also return on capital of individual business units and on a bankwide basis is measured and compared against the approved budget on a regular basis. In addition, regular stress testing and scenario analysis of major sources of risk faced by the Group is performed to assess impact on capital adequacy ratios.

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2. 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:

	2008 HK\$'000	2007 HK\$'000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,481,383	1,533,639
Share premium	749,778	749,778
Profit and loss account	(60,069)	229,145
Total deduction from core capital	<u>(265,509)</u>	<u>(116,355)</u>
Core capital after deduction	<u>3,077,743</u>	<u>3,568,367</u>
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	-	(87,656)
Collective impairment allowance	114,106	82,126
Regulatory reserve	175,211	213,447
Term subordinated notes	1,550,020	1,559,980
Paid-up irredeemable cumulative preference shares	925,359	-
Total deduction from eligible supplementary capital	<u>(183,776)</u>	<u>(93,633)</u>
Supplementary capital after deduction	<u>2,604,621</u>	<u>1,697,965</u>
Total capital base after deductions	<u>5,682,364</u>	<u>5,266,332</u>
Total deductions from the core capital and supplementary capital	<u>(449,285)</u>	<u>(209,988)</u>

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.

3. Liquidity ratio

	2008	2007
	%	%
Average liquidity ratio for the year	40.29	44.35

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 Fourth 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, 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.

富邦租賃(中國)有限公司 ("Fubon Leasing (China) Co., Ltd") was only included in the computation of consolidated liquidity ratio since its establishment in 2008.

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4. 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>As at 31 December</i>		2008			
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi	Other foreign currencies	Total foreign currencies	
Spot assets	22,244	484	5,599	28,327	
Spot liabilities	(24,129)	(193)	(4,989)	(29,311)	
Forward purchase	30,650	4,256	20,317	55,223	
Forward sales	(28,877)	(4,257)	(20,956)	(54,090)	
Net long/(short) position	<u>(112)</u>	<u>290</u>	<u>(29)</u>	<u>149</u>	
Net structural position	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<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 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>

Net structural position includes the Bank's investments in overseas subsidiaries.

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5. 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 2008

<i>Figures in HK\$ Million</i>	Banks	Other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	7,330	71	28	4,556	11,985
North America	2,264	774	2	535	3,575
- Of which USA	1,447	774	2	517	2,740
Western Europe	9,501	-	-	34	9,535

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

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6. Overdue advances to customers

	2008		2007	
	HK\$'000	% of gross advances	HK\$'000	% of gross 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	71,306	0.21	32,948	0.10
- 1 year or less but over 6 months	53,260	0.16	32,926	0.10
- Over 1 year	84,742	0.25	47,703	0.15
	<u>209,308</u>	<u>0.63</u>	<u>113,577</u>	<u>0.36</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>71,693</u>		<u>37,379</u>	
Covered portion of overdue loans and advances	94,564		50,859	
Uncovered portion of overdue loans and advances	<u>114,744</u>		<u>62,718</u>	
	<u>209,308</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>24,075</u>		<u>16,432</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>107,101</u>		<u>58,642</u>	

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

7. Rescheduled advances to customers

	2008		2007	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Rescheduled advances to customers	<u>14,443</u>	<u>0.04</u>	<u>42,779</u>	<u>0.14</u>

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Hong Kong's Economy in 2008

Hong Kong's open, trade-dependent economy has been unable to avoid the impact of the economic recession currently gripping much of the developed world. The financial sector turmoil, triggered by the sub-prime crisis in the US in August 2008, has spilled over into the real economy, causing a sharp decline in global economic activity. As a result, Hong Kong's fourth quarter real GDP fell for the first time since the second quarter of 2003. Full year GDP growth was 2.5%, but the downturn experienced in the second half of 2008 is expected to continue in 2009.

Hong Kong's trade performance has been severely affected by a sharp drop in demand for exports manufactured in China and re-exported through Hong Kong. Although the value of total exports of goods in 2008 rose by 5.1% over the same period in 2007, exports of goods for the final two months of the year declined by 10%. Demand, especially in the EU and US, evaporated in the face of unprecedented financial turbulence, while some exporters found it difficult to secure trade financing as the global banking system seized up. For the full year, re-exports increased by 6.0%, while the value of domestic exports decreased by 16.8%. During the same period, the value of imports increased by 5.5%. Although invisible trade still recorded positive increases in 2008, there was a corresponding sharp slowdown during the latter part of the year as exports of services, particularly financial services, were curtailed by the financial disruption.

Private consumption was also impacted by the financial crisis as global stock markets adjusted sharply lower and unemployment started to rise after years of relatively full employment in Hong Kong. Retail sales in volume terms fell in November and December as retailers encouraged spending by cutting prices to clear inventory. Overall investment spending followed the same pattern as trade and private consumption, with a sharp decline late in the year, particularly as real estate developers put projects on hold. Property prices fell as buyers became cautious.

Hong Kong's unemployment rate rose to 4.1% at the end of the year, with the construction, retail and financial sectors impacted most severely. The Government has introduced measures to create jobs through 10 major infrastructure projects and spending on more than HK\$29 billion in public works projects, creating some 45,300 jobs. The Government also plans to recruit civil servants and create temporary jobs totaling 11,000.

Two side effects of the weakening in economic activity have been a steady decline in consumer price inflation and a drastic decline in the cost of borrowing. Hong Kong's CPI was elevated earlier in the year following food supply disruptions in China. However, stable food prices, a sharp decline in commodity prices and lower overall aggregate demand, have pared back inflationary expectations. In an environment of weak consumption and lower price inflation, governments around the world are using fiscal and monetary tools to restart the global economy. This trend has allowed interest rates in Hong Kong to fall, providing some cashflow relief for businesses and households.

Forecast

The key issues likely to influence forecasts for the performance of Hong Kong's economy in 2009 include the extent to which fiscal and monetary stimulus help to reverse the current downturn in economic activity – with a particular emphasis on the impact of recently introduced measures on the global banking system. At this stage, the effects of new measures are uncertain, and, as a result, forecasting the future economic performance of Hong Kong is problematic. However, due to the base effect, the first half performance of Hong Kong's economy will be weak, with the economy likely to record negative real GDP growth of 2-3% for the year.

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China's Economy in 2008

China's economy recorded real GDP growth of 9% in 2008, with the relatively strong performance of the first half of the year contrasting with the externally-driven decline in economic activity in the latter part of the year. Weak external demand was offset by stable private consumption. As 2009 progresses, China's real GDP growth may decelerate sharply, before recovering later in the year.

China's status as the manufacturing centre for the world was openly exposed, as the slump in global demand following the credit crisis left China's exports recording negative monthly growth rates for the first time since early 2001. Although demand from Asian neighbours helped to soften the impact of weakening demand for China's exports from its key markets in the EU and US, this support fell sharply in late 2008 as the financial tsunami took hold across all of China's main exports markets. This weakness is expected to persist for most of 2009.

Although private consumption continued to hold up through all of 2008, the weakness in the export sector has started to lift the number of unemployed, particularly amongst migrant workers dependent on factory jobs in Guangdong. This in turn is beginning to affect overall consumer confidence in the country with retail sales slowing to 12% in December, from the 15-20% growth rates seen earlier in 2008. The Government has recognized the importance of private consumption and is focusing on ensuring employment and creating new jobs through an RMB4,000 billion infrastructure-based stimulus plan.

China had to battle rising price inflation in the beginning of 2008 due to severe snowstorms and high commodity prices. Overall CPI in 2008 was 5.9%, with spikes in prices earlier in the year contrasting with price deflation in December. Due to the base effect, China may experience a bout of deflation through the first half of 2009 before registering positive price increases later in the year.

Forecast

China is expected to achieve real GDP growth of 5-6% for 2009. This will be the slowest economic growth in a decade and will bring major challenges for the country's policymakers. Efforts are underway to soften the impact of the decline in global economic activity, with the Government announcing substantial fiscal stimulus packages as well as monetary measures, such as lowering interest rates and bank reserve requirements. However, due to the lag effect, China's economy will slow further before getting better later in the year.

FUBON PERFORMANCE

Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported full-year 2008 net profits of HK\$100 million which was 78% lower than the HK\$461 million reported in 2007. Revenues strengthened in the first half of the year before weakening in the second half as dislocations in global financial markets intensified and the domestic economy further deteriorated. Although net interest income reached a record high as a result of the Bank's continuous efforts to enhance its balance sheet mix, the fall in market-related activities and the weakening of credit conditions led to lower net fee and commission income and rising credit costs. Profits decreased significantly in the fourth quarter of 2008 due to exceptional market circumstances. As a result, earnings per share decreased to 8.43 Hong Kong cents, compared to 39.33 Hong Kong cents per share in 2007.

Gross interest income decreased 21% to HK\$2,246 million for 2008, whereas gross interest expense decreased 36% to HK\$1,257 million over the corresponding period. As a result, net interest income grew by HK\$135 million or 16% to HK\$989 million. The increase in net interest income was bolstered by an increase in average loan volumes, improvement in investment yield and enhanced balance sheet mix, which outweighed the unfavourable impact of the sharp narrowing of Prime-HIBOR spreads in the months of September and October of 2008. Effective net interest margin ("NIM") improved by 11 bps to 1.76% from 1.65% for 2007, reflecting better management of asset yields and deposit costs.

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Other operating income including net fees and commission income reached HK\$594 million, which decreased by 10% or HK\$64 million compared to 2007. The year was characterized by lower market activities, dampened investor sentiments, weak stock market turnover and falling securities prices. These unfavourable conditions were further aggravated by the Lehman Brothers incident, which was a further blow to investors' confidence and has resulted in a significant drop in demand for retail investment products. As a result, wealth management and stock broking related fee income declined in line with the general trend. Responding to the market environment, the Bank stepped up its cross-selling efforts between various business divisions to reach out to new segments of clients and to diversify its fee income sources. The marketing fee income of the Financial Markets Group derived from cross-selling to corporate and SME clients increased significantly by 80% compared to 2007.

The Bank continued to adopt a conservative approach towards accounting for its CDO investments and recognised a HK\$128 million revaluation loss in 2008 when the credit market further deteriorated. The carrying value of the Bank's CDO portfolio stood at HK\$13.6 million at 31 December 2008, representing approximately 0.02% of its consolidated total assets. After accounting for the mark-to-market losses for CDOs held on the investment books for both years, other operating income was recorded at HK\$466 million, representing a 18% or HK\$102 million decrease compared to HK\$568 million for 2007.

Operating expenses rose 16% from HK\$835 million to HK\$965 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. Non-staff cost increased by 24%, mainly due to increases in business promotion costs, computer system and equipment expenses, and legal and professional fees for supporting business growth. The cost-to-income ratio increased to 66% from 59% for 2007. Excluding the revaluation losses on the CDO portfolio for both years, the cost-to-income ratio for 2008 was 61%, an increase of 6% from 55% in 2007. The Bank will continue to take a dynamic approach to managing expense growth and enhancing its operating leverage in order to alleviate the negative impact of slowing revenues on the cost-to-income ratio. Operating profits before gains and impairment losses decreased 17% or HK\$98 million to HK\$489 million compared with HK\$587 million in 2007.

Due to the economic downturn and deteriorating credit conditions, net charge of impairment losses on advances to customers registered an increase of HK\$271 million to HK\$309 million, compared to HK\$38 million in 2007. Most of the increase was due to higher individual impairment losses on corporate and SME loans. Collective impairment allowances were increased to strengthen the Bank's balance sheet and to put the Bank in a stronger position to weather asset quality risks ahead. Due to weakening economic conditions, the impaired loans ratio increased to 1.22% as of 31 December 2008 from 0.55% as of 31 December 2007.

Impairment losses on available-for-sale securities of HK\$197 million were provided for income notes issued by SIVs and for certain equity securities. Further impairment losses totaling HK\$79 million were recognized on SIV investments in 2008, with the resulting net exposure at HK\$16.6 million as of 31 December 2008. Net gains from the disposal of available-for-sale securities fell HK\$46 million to HK\$86 million due to reduced profit-taking opportunities. 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 after taxation amounted to HK\$100 million, representing a 78% decrease from HK\$461 million for 2007. Return on average assets and return on average equity decreased from 0.81% to 0.16% and from 11.43% to 2.54% respectively when compared with 2007.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 8% or HK\$5 billion to HK\$65.6 billion as at 31 December 2008. Customer deposits registered satisfactory growth of 16%, reaching HK\$48 billion as at 31 December 2008. The Bank was cautious in growing its loan book in 2008 in light of the deterioration in the credit environment. Net loans portfolio reached HK\$33 billion, an increase of 5% or HK\$1.6 billion over 2007 year-end balances. In order to strengthen the capital base and to provide sufficient surplus funds for supporting future business growth, the Bank issued approximately USD120 million preference shares with 9% coupon in December 2008. The successful issuance of preference shares has placed the Bank in a strongly capitalized and liquid position. The consolidated capital adequacy ratio was 14.04% at the end of December 2008 and average liquidity

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ratio for 2008 was at 40.29%.

Taiwan-related business contributed 27% (2007: 34%) of the Group's operating profits before gains and impairment losses. The decrease in contribution was due to the Bank being more cautious in growing its Taiwan-related loan business in order to safeguard asset quality and the drop in wealth management fee income as a result of weak investor sentiments. As at 31 December 2008, the loan and customer deposit balances of Taiwan-related business represented 11% (2007 year-end: 18%) and 22% (2007 year-end: 21%) of the total loan and deposit balances of the Group respectively.

In December 2008, the Bank completed the transaction to purchase a 19.99% stake in Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230 million. In addition, the Bank has further agreed to give up to RMB27 million of its share of future dividends from XCCB to the existing shareholders of XCCB as deferred payment of part of the consideration. The strategic partnership with XCCB will provide the Bank with instant RMB access and enable it to better serve the banking needs of Taiwanese and Hong Kong businessmen on the Mainland. The Bank and XCCB will cooperate in various business areas, with a major focus on building out the Taiwan-related business and the consumer finance and deposit franchise at the initial stage.

In 2009, the unsettled operating environment and the uncertain global economic outlook will continue to impact banks' earnings. It is expected that banks will face growing challenges arising from the external shocks and the slowdown in both the Hong Kong economy and in global growth. Risk management is especially important during these uncertain times. The Bank has taken a series of significant steps to improve risk management, enhance internal controls and strengthen the balance sheet which will put the Bank on the path of future growth driven by its core deposit and lending businesses. The Bank will also make the best use of the opportunity to nurture existing client relationships, to prospect good quality clients to grow its customer franchise, and to secure greater cross-business collaboration. Other priorities will be to further integrate with Fubon Financial to enhance revenue and operating synergies, manage costs and make the best use of capital to enhance returns. This is an ongoing process to ensure that the Bank's businesses are well positioned to weather the continuing challenging market conditions, capture opportunities that arise amid the continuing disruption, and prosper when markets improve.

FINAL DIVIDEND

The Board of Directors will propose the payment of a final dividend of 1.5 Hong Kong cents per ordinary share in respect of year ended 31 December 2008 totalling HK\$17,582,000, subject to approval at the forthcoming Annual General Meeting to be held on Wednesday, 29 April 2009. The final dividend, if approved, will be paid on or about Friday, 8 May 2009 to the shareholders whose names are on the Register of Members on Wednesday, 29 April 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Friday, 24 April 2009 to Wednesday, 29 April 2009, 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, Shops 1712 - 1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23 April 2009.

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 2008. 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 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 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 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 at the date of this Announcement, the Board of Directors of the Bank comprises 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 TSANG, Hung SHIH as Independent Non-Executive Directors.

Hong Kong, 10 March 2009