



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 2009 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 2009. ^(Note 1)

Consolidated Statement of Comprehensive Income (Unaudited)

	Note	For the six months ended	
		30 June 2009 HK\$'000	30 June 2008 HK\$'000
Interest income	3	861,572	1,158,428
Interest expense	3	(261,659)	(626,015)
Net interest income		599,913	532,413
Fee and commission income	4	118,714	180,099
Fee and commission expense	4	(34,572)	(42,962)
Net fees and commission income		84,142	137,137
Revaluation loss on collateralised debt obligations		(78)	(78,115)
Other operating income	5	67,191	194,574
Operating income		751,168	786,009
Operating expenses	6	(463,372)	(468,752)
Operating profit before gains and impairment losses		287,796	317,257
Impairment losses on advances to customers	7	(206,247)	(18,081)
Impairment losses on available-for-sale securities		(26,416)	(96,194)
Write back of impairment losses on investment in an associate		95	2,807
Write back of impairment losses on assets acquired under lending agreements		3,900	3,108
Impairment losses		(228,668)	(108,360)
Net gains on disposals of available-for-sale securities	8	47,909	43,832
Net (losses) / gains on disposals of fixed assets		(8)	29,552
Share of profits of an associate		7,512	-
Profit before taxation		114,541	282,281
Taxation	9	(13,893)	(32,226)
Profit for the period		100,648	250,055
Other comprehensive income for the period (after tax and reclassification adjustments):			
Available-for-sale securities: net movement in investment revaluation reserve		146,732	(30,192)
Available-for-sale securities: initial recognition of an investment		-	1,391
Exchange differences on translation of an associate		(256)	-
Total comprehensive income for the period		247,124	221,254

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Consolidated Statement of Comprehensive Income (Unaudited) (continued)

	Note	For the six months ended	
		30 June 2009	30 June 2008
		HK\$'000	HK\$'000
Profit attributable to:			
- Equity holders of the Bank		100,842	250,359
- Minority interests		(194)	(304)
Profit for the period		100,648	250,055
Total comprehensive income attributable to:			
- Equity holders of the Bank		247,318	221,558
- Minority interests		(194)	(304)
Total comprehensive income for the period		247,124	221,254
Earnings per share (Hong Kong cents)	10	5.03	21.36

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Extracts from Consolidated Balance Sheet (Unaudited)

	Note	30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
ASSETS			
Cash and short-term funds		4,308,672	8,014,953
Placements with banks maturing between one and twelve months		2,655,261	1,827,521
Trading securities		465,956	150,250
Financial assets designated at fair value through profit or loss		324,428	700,281
Derivative financial instruments	12	1,159,485	2,618,073
Advances to customers less impairment allowances	13	30,322,560	33,033,818
Other loans and receivables		3,430,094	3,745,286
Accrued interest and other accounts		1,456,251	1,078,414
Available-for-sale securities		18,400,910	12,089,334
Held-to-maturity investments		898,596	895,590
Interests in associates		291,654	293,746
Fixed assets		1,090,885	1,112,279
Deferred tax assets		46,069	82,367
		64,850,821	65,641,912
LIABILITIES			
Deposits and balances of banks		1,770,432	1,987,014
Deposits from customers		48,577,785	47,997,587
Trading liabilities		430,774	116,145
Financial liabilities designated at fair value through profit or loss		165,730	173,405
Certificates of deposit issued		356,686	960,181
Debt securities issued		498,410	1,898,982
Derivative financial instruments	12	980,070	2,506,345
Other accounts and liabilities		5,498,293	3,596,673
Deferred tax liabilities		83	97
Subordinated notes issued	14	1,659,883	1,684,386
		59,938,146	60,920,815
EQUITY			
Share capital		2,097,519	2,097,519
Share premium		749,778	749,778
Reserves		2,062,420	1,870,648
Shareholders' funds		4,909,717	4,717,945
Minority interests		2,958	3,152
		4,912,675	4,721,097
		64,850,821	65,641,912

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Consolidated Statement of Changes in Equity (Unaudited)

Attributable to equity holders of the Bank

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Investment revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	1,172,160	749,778	372,000	-	213,447	(58,912)	-	1,669,281	4,117,754	3,710	4,121,464
Total comprehensive income for the period	-	-	-	-	-	(30,192)	-	251,750	221,558	(304)	221,254
Dividends paid in respect of the previous financial year	-	-	-	-	-	-	-	(152,381)	(152,381)	-	(152,381)
Equity settled share-based transactions	-	-	-	6,842	-	-	-	-	6,842	-	6,842
Transfer to/from regulatory reserve	-	-	-	-	(38,237)	-	-	38,237	-	-	-
At 30 June 2008	1,172,160	749,778	372,000	6,842	175,210	(89,104)	-	1,806,887	4,193,773	3,406	4,197,179
At 1 January 2009	2,097,519	749,778	372,000	12,969	175,211	(276,620)	-	1,587,088	4,717,945	3,152	4,721,097
Total comprehensive income for the period	-	-	-	-	-	146,732	(256)	100,842	247,318	(194)	247,124
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the period	-	-	-	-	-	-	-	(39,991)	(39,991)	-	(39,991)
Equity settled share-based transactions	-	-	-	2,027	-	-	-	-	2,027	-	2,027
At 30 June 2009	2,097,519	749,778	372,000	14,996	175,211	(129,888)	(256)	1,630,357	4,909,717	2,958	4,912,675

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

	For the six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Cash (used in) / generated from operations	(1,273,272)	399,387
Tax paid	(6,197)	(14,337)
Net cash (used in) / generated from operating activities	(1,279,469)	385,050
Net cash (used in) / generated from investing activities	(12,116)	22,994
Net cash (used in) / generated from financing activities	(2,061,232)	799,203
Net (decrease) / increase in cash and cash equivalents	(3,352,817)	1,207,247
Cash and cash equivalents as at 1 January	9,054,961	7,238,749
Cash and cash equivalents as at 30 June	5,702,144	8,445,996
<i>Analysis of cash and cash equivalents:</i>		
Cash on hand and at banks	909,098	705,614
Money at call and short notice	3,209,574	7,126,676
Treasury bills with original maturity within three months	1,160,969	613,706
Placements with banks and other financial institutions with original maturity within three months	422,503	-
	5,702,144	8,445,996

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 2009. Certain financial information in this preliminary announcement is extracted from the Group's interim financial report for the six months ended 30 June 2009 ("interim financial report"), 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 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 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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. Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 8 "Operating segments"
- HKAS 1 (revised 2007) "Presentation of financial statements"
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27 "Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate"
- Amendments to HKFRS 7 "Financial instruments: Disclosures – improving disclosures about financial instruments"
- HKAS 23 (revised 2007) "Borrowing costs"
- Amendments to HKFRS 2 "Share-based payment- vesting conditions and cancellations"

The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. These amendments have not resulted in changes to the Group's accounting policies. The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

2. Changes in accounting policies (continued)

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. As this is the first period in which the Group has presented segment information in accordance with HKFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity holders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense recognised in profit or loss and other comprehensive income during the period are presented in a new primary statement, the consolidated statement of comprehensive income, which replaced the consolidated income statement. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in the interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Bank's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Bank would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated. Adoption of the amendments to HKAS 27 has no effect on the interim financial report.

3. Interest income and expense

(a) Interest income

	For the six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Listed investments	185,255	137,720
Others	663,384	992,634
Interest income on financial assets that are not designated at fair value through profit or loss	848,639	1,130,354
Interest income on trading assets		
- listed investments	365	125
- unlisted investments	440	3,148
Interest income on financial assets designated at fair value through profit or loss	12,128	24,801
	861,572	1,158,428

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3. Interest income and expense (continued)

(b) Interest expense

	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	243,942	599,608
Debt securities issued which are wholly repayable within 5 years	4,345	11,325
Other borrowings	5,375	2,031
Interest expense on financial liabilities that are not designated at fair value through profit or loss	253,662	612,964
Interest expense on trading liabilities	1,336	6,673
Interest expense on financial liabilities designated at fair value through profit or loss	6,661	6,378
	261,659	626,015

4. Fee and commission income and expense

(a) Fee and commission income

	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Credit related fees and commissions	10,244	17,533
Trade finance	6,090	12,924
Credit card	40,432	34,533
Securities brokerage and investment services	23,938	32,517
Insurance	16,927	20,700
Unit trust commission	14,689	49,084
Other fees	6,394	12,808
	118,714	180,099

of which:

Fee and commission income arising from:

- Financial assets or financial liabilities which are not designated at fair value through profit or loss	56,562	69,519
- Trust or other fiduciary activities	692	746

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.

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4. Fee and commission income and expense (continued)

(b) Fee and commission expense

	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Handling fees and commission	19,465	29,069
Other fees paid	15,107	13,893
	<u>34,572</u>	<u>42,962</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	26,874	21,895

5. Other operating income

	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Gains less losses from dealing		
- Foreign currencies	79,495	20,520
- Trading securities	13,562	(2,083)
- Other dealing activities *	23,735	119,628
- Short selling activities	1,114	(907)
	<u>117,906</u>	<u>137,158</u>
Net hedging income from fair value hedges		
Net (loss) / gain on hedged items attributable to the hedged risk	(35,580)	1,779
Net gain / (loss) on hedging instruments	<u>35,580</u>	<u>(1,779)</u>
	-	-
Net gain on other financial instruments designated at fair value through profit or loss		
Net (loss) / gain on sale of other financial instruments designated at fair value through profit or loss	(1,533)	5,412
Revaluation gain on other financial instruments designated at fair value through profit or loss	<u>29,148</u>	<u>60,346</u>
	<u>27,615</u>	<u>65,758</u>
Gains less losses from other financial liabilities measured at amortised cost	(10)	629
Revaluation loss on derivative financial instruments	(99,031)	(35,736)
Dividend income from listed available-for-sale securities	501	3,194
Dividend income from unlisted available-for-sale securities	7,154	3,711
Rental income	371	933
Others	12,685	18,927
	<u>67,191</u>	<u>194,574</u>

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

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6. Operating expenses

	For the six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Salaries and other staff costs	<u>254,047</u>	<u>286,025</u>
Premises and other fixed assets		
Rental of premises	24,299	22,684
Depreciation	33,502	31,938
Others	9,992	10,532
Auditors' remuneration	1,191	1,187
Other operating expenses		
Business promotion	30,495	15,820
Legal and professional fees	15,454	11,222
Communication	14,288	16,040
Electronic data processing and computer systems	36,076	39,920
Others	44,028	33,384
	<u>463,372</u>	<u>468,752</u>

7. Impairment losses on advances to customers

	For the six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Impairment losses (charged) / released on advances to customers		
- Additions	(245,382)	(53,635)
- Releases	39,135	35,554
	<u>(206,247)</u>	<u>(18,081)</u>

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

	For the six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Realisation of revaluation surplus / (deficit) previously recognised in the investment revaluation reserve	22,762	(36,354)
Net gains arising in the current period	<u>25,147</u>	<u>80,186</u>
	<u>47,909</u>	<u>43,832</u>

9. Taxation

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the six months ended 30 June 2009. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be appropriate in the relevant countries.

10. Earnings per share

The earnings per share is calculated on profit attributable to equity holders of HK\$100,842,000 (2008: HK\$250,359,000) net of preference share dividend of HK\$41,850,000 (2008: Nil) and 1,172,160,000 (2008: 1,172,160,000) ordinary shares in issue during the period. There is no convertible loan capital, options or warrants outstanding which would cause a dilution on the earnings per share.

11. Segment reporting

Segment information is presented in respect of the Group's operating segments which are the components of the Group about which separate financial information is available and evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Operating segments

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. The operating segments of the Bank are set out below. Operating segments have not been aggregated.

Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, mortgage lending, other consumer lending, and provision of banking services to the Mass Market segment, defined as those with a lower value of assets under administration.

Wealth Management comprises the sales and distribution of wealth management products to wealth management clients, defined as those with a higher value of assets under administration, and provision of insurance and unit trust wealth management services.

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

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

Segment results, assets and liabilities

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the operating segments by way of internal capital allocation and fund transfer-pricing mechanisms. To reflect the benefit of joint efforts of two or more operating segments on a third-party transaction, operating income (and the related funding costs) derived from the transaction is recorded in all relevant operating segments and the additional operating income recorded from this treatment is eliminated on consolidation.

Cost allocation is based on the direct costs incurred by the respective operating segments and apportionment of certain centralised management overheads. Rental charges at market rates for usage of premises are reflected in "Operating Expense" and "Inter-segment Expense" for the respective operating segments.

Segment assets mainly include advances to customers less impairment, investment in securities and financial instruments, inter-bank placements, current assets and premises attributable to the operating segments. The assets attributable to a transaction with joint efforts of two or more operating segments are recorded in all relevant operating segments and the additional assets recorded from this treatment are eliminated on consolidation.

Segment liabilities mainly include deposits from customers, certificate of deposit and debt securities issued, inter-bank borrowings, and accruals attributable to the operating segments.

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11. Segment reporting (continued)

Operating segments (continued)

	For the six months ended 30 June 2009				Reportable Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Investment and Banking HK\$'000	Financial Markets HK\$'000	
Net interest income	88,384	41,003	198,657	282,338	610,382
Other operating income from external customers	68,900	116,061	31,749	81,878	298,588
Fee and commission expense	(15,972)	(4,765)	(6,562)	(7,609)	(34,908)
Other operating income	52,928	111,296	25,187	74,269	263,680
Operating income	141,312	152,299	223,844	356,607	874,062
Operating expenses	(104,137)	(134,109)	(117,998)	(89,539)	(445,783)
Inter-segment expenses	(946)	(15,400)	(2,681)	-	(19,027)
Operating profit before gains and impairment losses	36,229	2,790	103,165	267,068	409,252
Impairment losses on advances to customers	(16,824)	(1,418)	(188,142)	(867)	(207,251)
Impairment losses on available-for-sale securities	-	-	-	(26,416)	(26,416)
Write back of impairment losses on assets acquired under lending agreements	-	-	(500)	-	(500)
Net gains on disposal of available-for-sale assets	-	-	-	35,222	35,222
Profit/(loss) before taxation	19,405	1,372	(85,477)	275,007	210,307
Operating expenses – depreciation	(189)	(3,008)	(1,579)	(3,144)	(7,920)
Segment assets	15,845,129	2,633,477	17,842,993	32,072,383	68,393,982
Segment liabilities	2,401,862	29,713,751	14,329,784	12,761,651	59,207,048

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11. Segment reporting (continued)

Operating segments (continued)

	For the six months ended 30 June 2008				Reportable Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Investment and Banking HK\$'000	Financial Markets HK\$'000	
Net interest income	79,057	77,134	240,582	161,693	558,466
Other operating income from external customers	73,565	218,065	111,334	137,669	540,633
Fee and commission expense	(19,524)	(7,856)	(2,301)	(10,754)	(40,435)
Other operating income	54,041	210,209	109,033	126,915	500,198
Operating income	133,098	287,343	349,615	288,608	1,058,664
Operating expenses	(97,253)	(150,602)	(120,567)	(111,296)	(479,718)
Inter-segment expenses	(902)	(14,738)	(3,184)	-	(18,824)
Operating profit before gains and impairment losses	34,943	122,003	225,864	177,312	560,122
Impairment losses on advances to customers	(3,610)	1,036	(16,014)	130	(18,458)
Impairment losses on available-for-sale securities	-	-	-	(96,194)	(96,194)
Net gains on disposal of available-for-sale assets	-	-	-	28,358	28,358
Profit before taxation	31,333	123,039	209,850	109,606	473,828
Operating expenses – depreciation	(204)	(2,742)	(1,023)	(3,443)	(7,412)
Segment assets	15,995,720	3,075,507	20,495,112	30,342,685	69,909,024
Segment liabilities	2,783,008	28,759,443	15,407,548	12,876,533	59,826,532

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11. Segment reporting (continued)

Reconciliation of Reportable Segment Revenue, Profit & Loss, Assets & Liabilities

	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Revenues		
Reportable segment operating income	874,062	1,058,664
Elimination of inter-segment operating income	(133,613)	(274,320)
Unallocated revenue	10,719	1,665
Consolidated operating income	<u>751,168</u>	<u>786,009</u>
	For the six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Profit before tax		
Reportable segment profit before tax	210,307	473,828
Unallocated operating income	10,719	1,665
Unallocated operating expenses	(39,093)	(10,966)
Write back of impairment losses on advances to customers	165	217
Write back of impairment losses on investment in an associate	95	2,807
Write back of impairment losses on assets acquired under lending agreements	4,400	3,108
Net gains on disposals of available-for-sale securities	12,687	15,474
Net (losses) / gains on disposals of fixed assets	(8)	29,552
Share of profits of an associate	7,512	-
Elimination of inter-segment profit before tax	(92,243)	(233,404)
Consolidated profit before tax	<u>114,541</u>	<u>282,281</u>
	As at	
	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Assets		
Reportable segment assets	68,393,982	69,909,024
Unallocated advances to customers	196,814	243,403
Unallocated fixed assets	620,625	654,378
Interests in associates	291,654	293,746
Unallocated other assets	931,297	686,029
Elimination of inter-segment loans	(5,583,551)	(6,144,668)
Consolidated total assets	<u>64,850,821</u>	<u>65,641,912</u>
	As at	
	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Liabilities		
Reportable segment liabilities	59,207,048	59,826,532
Unallocated other liabilities	731,098	1,094,283
Consolidated total liabilities	<u>59,938,146</u>	<u>60,920,815</u>

11. Segment reporting (continued)

Geographical information

The geographical information 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 2009 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.

Major Customers

For the periods ended 30 June 2009 and 2008, no single customer or a group of customers under common control contributes 10% or more of the Group's revenues.

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12. Derivative financial instruments

(a) Notional amounts of derivatives financial instruments

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 2009				As at				31 December 2008			
	Managed in conjunction with financial instruments designated at				Managed in conjunction with financial instruments designated at							
	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total	Qualifying for hedge accounting	fair value through profit or loss	Held for trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives												
- Forwards	-	-	5,856,926	5,856,926	-	-	12,529,473	12,529,473	-	-	12,529,473	12,529,473
- Swaps	-	-	28,102,799	28,102,799	-	-	31,679,858	31,679,858	-	-	31,679,858	31,679,858
- Options purchased	-	-	6,524,116	6,524,116	-	-	19,445,806	19,445,806	-	-	19,445,806	19,445,806
- Options written	-	-	6,522,205	6,522,205	-	-	19,443,518	19,443,518	-	-	19,443,518	19,443,518
- Other exchange rate derivatives	-	-	-	-	-	-	21,700	21,700	-	-	21,700	21,700
	-	-	47,006,046	47,006,046	-	-	83,120,355	83,120,355	-	-	83,120,355	83,120,355
Interest rate derivatives												
- Swaps	3,620,692	585,663	19,696,093	23,902,448	1,937,525	966,542	54,162,230	57,066,297	-	-	402,905	402,905
- Options purchased	-	-	577,934	577,934	-	-	402,905	402,905	-	-	402,905	402,905
	3,620,692	585,663	20,274,027	24,480,382	1,937,525	966,542	54,565,135	57,469,202	-	-	402,905	402,905
Equity derivatives												
- Swaps	-	-	1,411,317	1,411,317	-	-	1,633,600	1,633,600	-	-	83,350	83,350
- Options purchased	-	-	212,614	212,614	-	-	83,350	83,350	-	-	83,350	83,350
- Options written	-	-	212,614	212,614	-	-	83,350	83,350	-	-	83,350	83,350
- Other equity derivatives	-	-	17,932	17,932	-	-	233,396	233,396	-	-	233,396	233,396
	-	-	1,854,477	1,854,477	-	-	2,033,696	2,033,696	-	-	2,033,696	2,033,696
Total	3,620,692	585,663	69,134,550	73,340,905	1,937,525	966,542	139,719,186	142,623,253	-	-	402,905	402,905

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

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

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12. Derivative financial instruments (continued)

(b) Fair values and credit risk-weighted amounts of derivatives

	30 June 2009			As at 31 December 2008		
	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	648,350	216,667	282,412	1,582,844	1,336,788	941,623
Interest rate derivatives	305,492	313,559	111,100	623,917	522,800	246,902
Equity derivatives	205,643	205,643	41,958	411,312	411,312	112,468
Other derivatives	-	244,201	-	-	235,445	-
	1,159,485	980,070	435,470	2,618,073	2,506,345	1,300,993

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

13. Advances to customers less impairment allowances

(a) Advances to customers less impairment allowances

	As at	
	30 June 2009 HK\$'000	31 December 2008 HK\$'000
Gross advances to customers	30,690,908	33,329,796
Less: Impairment allowances		
- Individual impairment allowances	(239,177)	(181,872)
- Collective impairment allowances	(129,171)	(114,106)
	30,322,560	33,033,818

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13. 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 2009	% of gross loans covered by collateral	31 December 2008	% of gross loans covered by collateral
	Gross loans and advances HK\$'000	%	Gross loans and advances HK\$'000	%
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
- Property development	490,000	-	47,500	8.42
- Property investment	8,227,272	67.35	8,694,857	65.13
- Financial concerns	632,219	-	492,465	-
- Stockbrokers	20,428	80.77	5,413	27.71
- Wholesale and retail trade	76,533	30.97	96,448	28.80
- Manufacturing	2,210,358	11.33	2,204,099	10.08
- Transport and transport equipment	670,211	84.97	752,659	89.76
- Information technology	11,092	95.83	14,630	76.92
- Others	2,057,465	46.42	2,660,900	51.69
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	17,018	100.00	10,953	100.00
- Loans for the purchase of other residential properties	7,581,694	99.95	7,312,449	99.60
- Credit card advances	585,290	-	554,171	-
- Others	1,016,265	57.82	1,024,661	54.88
	<u>23,595,845</u>		<u>23,871,205</u>	
Trade finance	995,568	10.89	1,849,658	10.19
Gross advances for use outside Hong Kong	<u>6,099,495</u>	34.04	<u>7,608,933</u>	40.95
Gross advances to customers	<u>30,690,908</u>	57.78	<u>33,329,796</u>	57.43

14. Subordinated notes issued

Subordinated notes with a face value of US\$200 million (equivalent to HK\$1,550 million) and carrying amount of HK\$1,660 million (2008: HK\$1,684 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 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\$109.9 million (2008: HK\$134.4 million) due to application of fair value hedge accounting.

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15. Regulatory reserve

	As at	
	30 June 2009 HK\$'000	31 December 2008 HK\$'000
At 1 January	175,211	213,447
Transfer to retained earnings	-	(38,236)
	175,211	175,211

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.

16. 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.

	As at			
	30 June 2009		31 December 2008	
	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000	Contractual amounts HK\$'000	Credit risk- weighted amounts HK\$'000
Direct credit substitutes	271,265	161,265	271,285	161,285
Transaction-related contingencies	28,961	14,481	18,417	9,209
Trade-related contingencies	299,929	59,986	428,131	85,626
Undrawn loan facilities				
- which are unconditionally cancellable	11,881,888	-	12,518,056	-
- with an original maturity of 1 year or over	84,512	42,256	432,293	216,147
Forward forward deposits placed	642,037	128,407	216,254	43,251
	13,208,592	406,395	13,884,436	515,518

17. Post balance sheet event

On 22 July 2009, on a without liability basis, the Bank entered into an agreement with the Hong Kong Monetary Authority, the Securities and Futures Commission and 15 other distributing banks under which the Bank would offer to repurchase certain structured investments, known as Lehman Mini-bonds, from certain investors. The Bank has made an announcement on the same date setting out the details of the offer.

The maximum commitment of the Bank in the event that all eligible investors accept the offer is HK\$313 million (excluding any future recovery from the underlying collateral).

A provision has not been recognised as management is unable to estimate reliably the ultimate cost to the Bank of this agreement, which was entered into in order to preserve the goodwill of the Bank with its customers and regulators, since it will depend critically on the amount of collateral realised by the special purpose vehicles issuing the investments as well as the proportion of investors accepting the offer.

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. Capital adequacy ratio

	30 June 2009	As at 31 December 2008
	%	%
Capital adequacy ratio	16.18%	14.04%
Core capital ratio	9.01%	7.61%

The capital adequacy ratio and core capital ratio at 30 June 2009 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 calculation of risk-weighted assets for credit risk and market risk and the “basic indicator approach” for the calculation of operational risk.

The Group operates subsidiaries in Hong Kong and the PRC. Exchange controls are in place and there may be restrictions on the transfer of regulatory capital and funds from members of the Group’s consolidation group in the PRC to Hong Kong.

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 2009	31 December 2008
	HK\$’000	HK\$’000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,572,130	1,481,383
Share premium	749,778	749,778
Profit and loss account	(2,509)	(60,069)
Total deduction from core capital	<u>(209,853)</u>	<u>(265,509)</u>
Core capital after deduction	<u>3,281,706</u>	<u>3,077,743</u>
Eligible supplementary capital		
Reserves on revaluation of land and interest in land	23,701	23,701
Collective impairment allowances	129,171	114,106
Regulatory reserve	175,211	175,211
Term subordinated notes	1,550,020	1,550,020
Paid-up irredeemable cumulative preference shares	925,359	925,359
Total deduction from eligible supplementary capital	<u>(188,342)</u>	<u>(183,776)</u>
Supplementary capital after deduction	<u>2,615,120</u>	<u>2,604,621</u>
Total capital base after deductions	<u>5,896,826</u>	<u>5,682,364</u>
Total deductions from the core capital and supplementary capital	<u>(398,195)</u>	<u>(449,285)</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.

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3. Liquidity ratio

	For the six months ended	
	30 June 2009 %	30 June 2008 %
Average liquidity ratio	47.74	40.41

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

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. Overdue advances to customers

	30 June 2009		As at 31 December 2008	
	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	115,349	0.38	71,306	0.21
- 1 year or less but over 6 months	152,519	0.50	53,260	0.16
- Over 1 year	107,095	0.35	84,742	0.25
	<u>374,963</u>	1.22	<u>209,308</u>	0.63
Current market value of collateral held against the covered portion of overdue loans and advances	<u>111,884</u>		<u>71,693</u>	
- Covered portion of overdue loans and advances	127,155		94,564	
- Uncovered portion of overdue loans and advances	<u>247,808</u>		<u>114,744</u>	
	<u>374,963</u>		<u>209,308</u>	
Amount of expected recoveries from companies in liquidation in respect of the covered portion of overdue loans and advances	<u>23,039</u>		<u>24,075</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>178,404</u>		<u>107,101</u>	

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

Overdue assets of the Group consist of advances to customers only as at 30 June 2009 and 31 December 2008.

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5. 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 2009		As at 31 December 2008	
	HK\$'000	% of gross advances %	HK\$'000	% of gross advances %
Rescheduled advances to customers	<u>129,183</u>	0.42	<u>14,443</u>	0.04

6. 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 2009			
	US dollars	Chinese Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	22,850	255	5,537	28,642
Spot liabilities	(20,870)	(226)	(5,359)	(26,455)
Forward purchases	25,252	1,308	17,107	43,667
Forward sales	<u>(26,784)</u>	<u>(1,308)</u>	<u>(17,300)</u>	<u>(45,392)</u>
Net long/(short) position	<u>448</u>	<u>29</u>	<u>(15)</u>	<u>462</u>
Net structural position	<u>78</u>	<u>261</u>	<u>-</u>	<u>339</u>

<i>Equivalent in HK\$ Million</i>	As at 31 December 2008			
	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 purchases	30,650	4,256	20,317	55,223
Forward sales	<u>(28,877)</u>	<u>(4,257)</u>	<u>(20,956)</u>	<u>(54,090)</u>
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>

The net option position is calculated on the basis of the delta-weighted position of options contracts and was less than HK\$1 million for all foreign currencies as at 30 June 2009 and 31 December 2008. Net structural position includes the Bank's investments in overseas subsidiaries and associates.

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7. 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 2009				
<i>Figures in HK\$'Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding				
Hong Kong	7,047	53	3,898	10,998
- Of which Australia	2,743	-	1	2,744
- Of which China	354	53	2,274	2,681
North America	2,604	545	1,851	5,000
- Of which USA	1,972	545	1,835	4,352
Western Europe	7,496	-	31	7,527

As at 31 December 2008				
<i>Figures in HK\$'Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding				
Hong Kong	7,330	28	4,627	11,985
North America	2,264	2	1,309	3,575
- Of which USA	1,447	2	1,291	2,740
Western Europe	9,501	-	34	9,535

8. 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 2009 amounted to HK\$43,161,000 (31 December 2008: HK\$29,880,000).

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Hong Kong's economy

In the past 20 years, Hong Kong has seen a steady rise in external trade, one of the major contributors to GDP. However, this area was deeply affected by the global financial crisis and the growth of Hong Kong's GDP unavoidably slowed down to 2.4% last year, which was the slowest annual pace of growth since 2003. The latest figures for Hong Kong's GDP in the first quarter showed a contraction of 7.8% year-on-year at constant prices, the second consecutive quarter of decline in GDP. Hong Kong's economy will continue to face challenges to its recovery in 2009 and 2010, as the economic recession currently gripping much of the developed world persists.

Among all the industries that contributed to the growth of Hong Kong's economy, the trade sector has been impacted most severely as exports declined by the largest amount since 1954. Compared on a year-on-year basis, import and export trade contracted by 18.6% and 17.2% respectively, measured in Hong Kong dollars, in the first half of 2009, although the second quarter saw an increase in both figures over those for the first quarter. The manufacturing sector also recorded a decline of 11.6% during the first quarter of 2009. There was a corresponding sharp slowdown during the latter part of last year as exports of services, particularly financial services, were curtailed by the global economic turmoil. This was still the case in the first quarter of 2009 as the gross domestic output by expenditures of the finance and insurance sector and real estate sector shrank by 9.1% and 4.9% respectively compared to the same period last year. Private consumption was impacted by the negative wealth effect from the financial crisis, which caused global stock markets and local property prices to fall from their highs last year. Prices started to rebound in the second quarter of 2009. However, unemployment has risen every month since September last year. It reached 5.4% in April to June. Hong Kong's retail sales by value fell 4.8% in June from a year earlier as higher unemployment dampened consumer sentiment and an outbreak of human swine flu hurt tourism. Overall investment spending followed the same pattern as trade and private consumption, with a sharp decline since late last year.

Hong Kong's Composite Consumer Price Index began a downward trend in the last quarter of 2008 as food price pressure eased. Steady decline in consumer prices and a drastic decline in the cost of borrowing are providing some cash flow relief for businesses and households.

Forecast

The contraction of GDP in the first quarter of 2009 has turned out worse than previously expected, but was exaggerated by a high base effect. The openness of Hong Kong's economy suggests that the volatility of quarter-on-quarter growth will still be high throughout 2009 to 2010. Overall, external and domestic demands remain weak.

In the February budget, the Government announced it will roll out measures including increased infrastructure spending to support the growth of the economy. In May, another round of HK\$16.8 billion in spending, tax cuts and waivers of business fees, property rates and public-housing rentals were added as a fiscal stimulus. With Hong Kong's fiscal reserves currently standing at a 10-year high, the Government is capable of injecting more stimulus measures when needed. Although the fiscal stimulus introduced last year amounted to about 5.2% of gross domestic output and helped to mitigate the external impact of the financial crisis, it could not prevent the economy from going into contraction in 2009. Hong Kong's economy will likely face negative growth between 5.5% and 6.5% in 2009. It may start to return to positive growth in the second half of the year and recover to around 2% if the global environment continues to stabilize.

The unemployment rate, which usually lags behind the economic cycle, will likely rise to nearly 6% by the end of 2009 and towards 6.5% in 2010 as the private sector continues to trim costs in the wake of the global recession. The influx of hot money into the Hong Kong banking system starting this year is a warning sign of new risks that a speculative bubble will build up in the local stock and property markets.

China's economy

The rate of GDP growth in China slowed down from 9% last year to 7.9% for the second quarter of 2009. Nevertheless, the Chinese economy is showing stronger signs of recovery than observed anywhere else. The main support is a four trillion yuan economic stimulus package expected to be rolled out by the Chinese Government in the coming two years, while fixed asset investment growth and state-driven investment in new projects will be the main growth driver for the remainder of the year.

Although weakness in the export sector is not expected to reverse as external demand continues to be weak, private consumption will begin to take its role in contributing to growth. Favourable policies by the Chinese Government

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have supported sales growth in the auto and home appliances sectors. Recognizing the importance of private consumption, the Chinese Government is focusing on ensuring employment and creating new jobs, as well as enhancing the social welfare system.

At the beginning of 2008, China had to battle rising price inflation due to severe snowstorms and high commodity prices. The CPI and PPI have been on a downtrend since then and fell into negative territory at the end of last year. Due to the base effect, China experienced a bout of deflation through the first half of 2009, but is expected to see mild inflation returning in the second half of 2009.

Forecast

The fiscal stimulus measures being adopted by China will likely offset much of the slowdown triggered by the global financial turmoil. The Chinese economy will likely grow by nearly an 8% annual pace in both 2009 and 2010. As global demand (in particular from the US and Europe) remains largely weak, the challenge for China is to keep moving away from its over-reliance on exports and capital spending to raising the contribution of consumption to overall growth. For this reason, the recent growth boosting measures have been increasingly geared toward addressing various economic and social imbalances. Encouraging industrial consolidation, improving energy and resource efficiency, and promoting consumer demand have become critical policy targets. The very loose monetary policy adopted in the first half of the year might turn into a more neutral stance, coming at an appropriate time as economic conditions have shown signs of improvement.

FUBON PERFORMANCE

Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (“the Group”) reported a net profit of HK\$101 million for the first six months ended 30 June 2009. The global financial crisis and the ensuing recession that emerged from the fourth quarter of 2008 continued to weigh heavily on Hong Kong’s economy and had negatively impacted on the Bank’s earnings. Despite net interest income recording strong growth during the first half of 2009, this was offset by lower net fee and commission income and high credit costs due to the fall in market-related activities and weak credit conditions. As a result, the Bank’s financial performance for the first half of 2009 fell by 60% versus first half of 2008 when the Bank registered record interim earnings of HK\$250 million, but improved substantially against a net loss of HK\$150 million in the second half of 2008, on account of the favorable interest rate environment and lower impairment charges on loans and available-for-sale investment portfolios. Earnings per share decreased to 5.03 Hong Kong cents, compared to 21.36 Hong Kong cents per share for the first half of 2008.

Gross interest income decreased 26% to HK\$862 million for the first half of 2009 whereas gross interest expense decreased 58% to HK\$262 million over the corresponding period. As a result, net interest income grew by HK\$68 million or 13% to HK\$600 million. The increase in net interest income was bolstered by the increase in average interest-earning assets and widening of Hong Kong dollar Prime-HIBOR spread. Benefiting from lower funding cost in the near-zero interest rate environment and pricing of assets with higher spreads, effective net interest margin (“NIM”) improved by 15 bps to 2.05% from 1.90% for the first half of 2008.

Other operating income decreased 54% year-on-year to HK\$151 million from HK\$332 million (excluding revaluation loss on CDO portfolio for HK\$78 million) in the first half of 2008. During the first quarter, the volatility in equity markets and depressed market sentiments significantly reduced investors’ appetites for investment products. As a result, stock broking related fee income as well as commission income from the sale of wealth management products, encompassing financial markets investment and structured products, unit trusts and insurance were adversely affected and declined in line with the general trend. Following the stock market rebound in the second quarter and early signs of stabilization of global financial markets, the stock broking and wealth management business gained momentum, and related fee revenue started to pick up in the months of May and June. In view of the tightened regulatory requirements on the sale of investment products, the Bank has enhanced its systems and control processes to ensure it continues to ascribe to the highest standard of conduct in its business. The Bank has also made considerable efforts at further enhancing its wealth management product and service offerings and deepening existing customer relationship to capture business opportunities when market recovers.

Operating expenses decreased 1% year-on-year to HK\$463 million and decreased 7% when compared with HK\$497 million in the second half of 2008, reflecting the Bank’s efforts in managing its cost base effectively during the difficult operating environment. The cost-to-income ratio increased to 61.7% for the first half of 2009, compared with 59.6% for the first half of 2008 due to the decrease in fee-based revenues. The Bank will continue to rationalize its operating expenses level and enhance 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 9% or HK\$29 million to HK\$288 million compared with HK\$317 million in the first half of 2008.

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Due to the economic downturn and deteriorating credit conditions, net charge of impairment losses on advances to customers registered a year-on-year increase of HK\$188 million to HK\$206 million. Most of the increase was due to higher individual impairment losses on SME loans. As compared to the second half of 2008 when the global economic recession began, Total impairment losses decreased significantly by HK\$85 million, or 29%, as credit charges started to stabilize in the second quarter. 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. The increase in impaired loan balances in the first half of 2009 was further aggravated by the 8% drop in loan balances, as a result, the impaired loans ratio increased to 1.86% as of 30 June 2009 from 1.22% as of 31 December 2008.

Impairment losses on available-for-sale equity securities of HK\$26 million were provided in the first half of 2009. This represented a drop of HK\$70 million and HK\$75 million respectively when compared to HK\$96 million recognized in the first half of 2008 and HK\$101 million recognized in the second half of 2008 for income notes issued by structured investment vehicles and for certain equity securities. Share of profits of Xiamen City Commercial Bank, which the Bank owned 19.99% stake, amounted to HK\$8 million. After accounting for impairment charges, other gains and tax charge, profit after taxation amounted to HK\$101 million, representing a 60% decrease from HK\$250 million for the first half of 2008. Return on average assets and return on average equity decreased from 0.86% to 0.31% and from 12.25% to 4.22% respectively when compared with the first half of 2008.

Total assets as at 30 June 2009 were at HK\$64.9 billion, a decrease of 1% or HK\$0.7 billion from HK\$65.6 billion as at 31 December 2008. Customer deposits registered a moderate growth of 1%, reaching HK\$48.6 billion as at 30 June 2009. Net loans portfolio decreased 8% or HK\$2.7 billion to HK\$30.3 billion as at 30 June 2009 from 2008 year-end balances of HK\$33.0 billion. The Bank was cautious in growing its loan book in the first half of 2009 in light of the uncertain credit environment. The successful issuance of approximately USD120 million preference shares in December 2008 has placed the Bank in a strongly capitalized and liquid position. The consolidated capital adequacy ratio was 16.18% (14.04% at 2008 year-end) at the end of June 2009 and average liquidity ratio for the first half of 2009 was at 47.74%.

On 22 July 2009, on a without liability basis, the Bank entered into an agreement with the Hong Kong Monetary Authority ("HKMA"), the Securities and Futures Commission ("SFC") and 15 other distributing banks under which the Bank would offer to repurchase certain structured investments, known as Lehman Minibonds, from certain investors. The Bank has made an announcement on the same date setting out the details of the offer. The maximum commitment of the Bank in the event that all eligible investors accept the offer is HK\$313 million (excluding any future recovery from the underlying collateral). A provision has not been recognized as management is unable to estimate reliably the ultimate cost to the Bank of this agreement, which was entered into in order to preserve the goodwill of the Bank with its customers and regulators, since it will depend critically on the amount of collateral realized by the special purpose vehicles issuing the investments as well as the proportion of investors accepting the offer.

In the second half of 2009, the unsettled operating environment and the uncertain global economic outlook will continue to impact banks' earnings. Management believed it appropriate to stay prudent as economic recovery will be gradual. The Bank has taken a series of significant steps to improve risk management, enhance internal controls and strengthen its balance sheet which will put the Bank on the path of long-term growth driven by its core deposit and lending businesses. The Bank will also make the best use of the opportunity to deepen client relationships and to prospect good quality clients for building its customer franchise. The integration with Fubon Financial will be implemented in full force, which will help improve management efficiency and maximize revenue and operating synergies for the Bank. Through these initiatives, the Bank strives to better serve its customers in the Greater China region and to increase value for shareholders.

INTERIM DIVIDEND

The Directors have approved at the Board Meeting held on Tuesday, 11 August 2009 ("Board Meeting") the payment of an interim dividend of 1.5 Hong Kong cents per ordinary share for the six months ended 30 June 2009, totalling HK\$17.6 million. The interim dividend will be paid on or about Friday, 23 October 2009 to the shareholders whose names are on the Register of Members as at the close of business on Friday, 9 October 2009.

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CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Wednesday, 7 October 2009 to Friday, 9 October 2009, 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 Tuesday, 6 October 2009.

PREFERENCE DIVIDEND

The Directors have approved at the Board Meeting the payment of dividend for the period from (and including) 15 June 2009 to (but excluding) 15 December 2009 ("Preference Dividend") on the Irredeemable Cumulative Non-Voting Preference Shares ("Preference Shares"). The Preference Dividend will be paid on Tuesday, 15 December 2009 to the shareholders whose names are on the Register of Members of Preference Shares. Closure of the Register of Members of Preference Shares for the purpose of determining shareholders' entitlement to the Preference Dividend will be announced in November 2009.

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 2009. 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 2009.

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 2009, 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, 11 August 2009