



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 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 2009. ^(Note1)

Consolidated Statement of Comprehensive Income

	Note	2009 HK\$'000	2008 HK\$'000 (Restated)	Variance
Interest income	4(a)	1,558,500	2,245,770	-30.6%
Interest expense	4(b)	(415,996)	(1,256,930)	-66.9%
Net interest income		1,142,504	988,840	+15.5%
Fee and commission income	5(a)	281,164	325,247	-13.6%
Fee and commission expense	5(b)	(70,796)	(60,487)	+17.0%
Net fee and commission income		210,368	264,760	-20.5%
Revaluation loss on collateralised debt obligations	16	(681)	(128,462)	-99.5%
Other operating income	6	68,476	329,528	-79.2%
Operating income		1,420,667	1,454,666	-2.3%
Operating expenses	7	(954,296)	(965,276)	-1.1%
Operating profit before gains and impairment losses		466,371	489,390	-4.7%
Impairment losses on advances to customers	8	(484,917)	(309,297)	+56.8%
Impairment losses on available-for-sale securities	16	(67,124)	(197,482)	-66.0%
Write back of impairment losses on advances to an associate		346	3,797	-90.9%
Write back of / (charge for) impairment losses on assets acquired under lending agreements		4,737	(3,832)	+223.6%
Impairment losses		(546,958)	(506,814)	+7.9%
Net gains on disposals of available-for-sale securities	9	92,945	86,257	+7.8%
Net (losses) / gains on disposals of fixed assets		(16)	29,123	-100.1%
Share of profits of an associate		14,309	-	+100.0%
Profit before taxation		26,651	97,956	-72.8%
Taxation	10	(4,117)	2,382	-272.8%
Profit for the year		22,534	100,338	-77.5%
Other comprehensive income / (expense) for the year (after tax and reclassification adjustments):				
Available-for-sale securities: net movement in investment revaluation reserve		305,197	(217,708)	+240.2%
Available-for-sale securities: initial recognition of an investment		-	1,386	-100.0%
Exchange differences on translation of an associate		67	-	+100.0%
Total comprehensive income / (expense) for the year		327,798	(115,984)	+382.6%

FUBON BANK (HONG KONG) LIMITED**Consolidated Statement of Comprehensive Income (continued)**

	Note	2009 HK\$'000	2008 HK\$'000 (Restated)	Variance
Profit attributable to:				
- Equity holders of the Bank		22,995	100,896	-77.2%
- Minority interests		(461)	(558)	-17.4%
Profit for the year		22,534	100,338	-77.5%
Total comprehensive income / (expense) attributable to:				
- Equity holders of the Bank		328,259	(115,426)	+384.4%
- Minority interests		(461)	(558)	-17.4%
Total comprehensive income / (expense) for the year		327,798	(115,984)	+382.6%
Earnings per share (Hong Kong cents)	11	(5.16)	8.43	-161.2%

FUBON BANK (HONG KONG) LIMITED

Consolidated Balance Sheet

	Note	2009 HK\$'000	2008 HK\$'000	Variance
ASSETS				
Cash and short-term funds		5,414,889	8,014,953	-32.4%
Placements with and advances to banks and other financial institutions		367,677	1,827,521	-79.9%
Trading securities	12	105,522	150,250	-29.8%
Financial assets designated at fair value through profit or loss	13	641,737	700,281	-8.4%
Derivative financial instruments	19(b)	632,010	2,618,073	-75.9%
Advances to customers less impairment allowances	14	28,571,967	33,033,818	-13.5%
Other loans and receivables	15	3,392,218	3,745,286	-9.4%
Accrued interest and other accounts		1,511,237	1,078,414	+40.1%
Available-for-sale securities	16	17,939,073	12,089,334	+48.4%
Held-to-maturity investments	17	902,222	895,590	+0.7%
Interests in associates		386,510	293,746	+31.6%
Fixed assets		1,079,094	1,112,279	-3.0%
Deferred tax assets		35,144	82,367	-57.3%
		60,979,300	65,641,912	-7.1%
LIABILITIES				
Deposits and balances of banks		2,424,903	1,987,014	+22.0%
Deposits from customers		46,602,175	47,997,587	-2.9%
Trading liabilities		14,275	116,145	-87.7%
Financial liabilities designated at fair value through profit or loss		201,096	173,405	+16.0%
Certificates of deposit issued		322,100	960,181	-66.5%
Debt securities issued		268,791	1,898,982	-85.8%
Derivative financial instruments	19(b)	651,896	2,506,345	-74.0%
Other accounts and liabilities		3,919,179	3,596,673	+9.0%
Deferred tax liabilities		68	97	-29.9%
Subordinated notes issued	18	1,640,257	1,684,386	-2.6%
		56,044,740	60,920,815	-8.0%
EQUITY				
Share capital		2,097,519	2,097,519	+0.0%
Share premium		749,778	749,778	+0.0%
Reserves		2,084,572	1,870,648	+11.4%
Shareholders' funds		4,931,869	4,717,945	+4.5%
Minority interests		2,691	3,152	-14.6%
		4,934,560	4,721,097	+4.5%
		60,979,300	65,641,912	-7.1%

FUBON BANK (HONG KONG) LIMITED

Consolidated Statement of Changes in Equity

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 / (expense) for the year	-	-	-	-	-	(217,708)	-	102,282	(115,426)	(558)	(115,984)
Preference shares issued	925,359	-	-	-	-	-	-	-	925,359	-	925,359
Dividends paid in respect of the previous financial year	-	-	-	-	-	-	-	(152,381)	(152,381)	-	(152,381)
Interim dividend paid	-	-	-	-	-	-	-	(70,330)	(70,330)	-	(70,330)
Equity settled share-based transactions	-	-	-	12,969	-	-	-	-	12,969	-	12,969
Transfer to/from regulatory reserve	-	-	-	-	(38,236)	-	-	38,236	-	-	-
At 31 December 2008	2,097,519	749,778	372,000	12,969	175,211	(276,620)	-	1,587,088	4,717,945	3,152	4,721,097
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 / (expense) for the year	-	-	-	-	-	305,197	67	22,995	328,259	(461)	327,798
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Interim dividend paid	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the year	-	-	-	-	-	-	-	(81,886)	(81,886)	-	(81,886)
Equity settled share-based transactions	-	-	-	2,715	-	-	-	-	2,715	-	2,715
At 31 December 2009	2,097,519	749,778	372,000	15,684	175,211	28,577	67	1,493,033	4,931,869	2,691	4,934,560

FUBON BANK (HONG KONG) LIMITED

Consolidated Cash Flow Statement

	2009		2008	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities				
Profit before taxation	26,651		97,956	
Adjustments for non-cash items:				
Write back of impairment allowance for advances to an associate	(346)		(3,797)	
Depreciation	66,598		64,918	
Net losses / (gains) on disposals of fixed assets	16		(29,123)	
Charge for impairment losses on advances to customers	484,917		309,297	
Charge for impairment losses on available-for-sale securities	67,124		197,482	
(Write back of) / charge for impairment losses on assets acquired under lending agreements	(4,737)		3,832	
Revaluation loss on collateralised debt obligations	681		128,462	
Equity-settled share-based payment expense	2,715		12,969	
Share of profits of an associate	(14,309)		-	
Exchange difference and other non-cash items	(16,005)		16,791	
		613,305		798,787
Decrease / (increase) in operating assets:				
Treasury bills with original maturity of over three months	239,605		2,476,225	
Placements with and advances to banks and other financial institutions	561,609		(111,521)	
Trading securities	2,257		10,280	
Financial instruments designated at fair value through profit or loss	58,544		178,674	
Derivative financial instruments	1,986,063		(1,662,169)	
Gross advances to customers	3,976,934		(1,864,311)	
Other loans and receivable	353,068		(3,745,286)	
Accrued interest and other accounts	(423,454)		45,006	
Certificates of deposit held	472,897		(203,996)	
Available-for-sale securities	(6,179,396)		2,146,345	
Held-to-maturity investments	(6,632)		(895,590)	
		1,041,495		(3,626,343)
(Decrease) / increase in operating liabilities:				
Deposits and balances of banks	1,014,879		(635,571)	
Deposits from customers	(1,395,412)		6,523,596	
Trading liabilities	(101,870)		104,472	
Derivative financial instruments	(1,855,130)		1,573,143	
Certificates of deposit issued	(638,081)		(1,201,469)	
Other accounts and liabilities	228,286		(3,576,292)	
		(2,747,328)		2,787,879
Net cash used in operations		(1,092,528)		(39,677)
Hong Kong Profits Tax paid		(12,611)		(49,663)
Overseas Tax paid		(2)		(507)
Net cash used in operating activities		(1,105,141)		(89,847)

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

	2009		2008	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing activities				
Payments for purchases of fixed assets	(33,921)		(58,290)	
Proceeds from disposals of fixed assets	492		52,536	
Payments for acquisition of an associate	-		(261,380)	
Net cash used in investing activities		(33,429)		(267,134)
Financing activities				
Ordinary share dividends paid	(35,164)		(222,711)	
Preference share dividends paid	(81,886)		-	
(Redemption of) / origination of debt securities in issue	(1,630,191)		305,805	
Preference shares issued	-		925,359	
Deposits accepted from fellow subsidiaries	10,583,832		8,917,978	
Deposits repaid to fellow subsidiaries	(11,160,822)		(7,753,238)	
Net cash (used in) / generated from financing activities		(2,324,231)		2,173,193
Net (decrease) / increase in cash and cash equivalents		(3,462,801)		1,816,212
Cash and cash equivalents as at 1 January		9,054,961		7,238,749
Cash and cash equivalents as at 31 December		5,592,160		9,054,961
Cash flows from operating activities include:				
Interest received	1,787,933		2,093,025	
Interest paid	(665,921)		(1,144,263)	
Dividends received	11,401		11,564	

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 2009. Certain financial information in this preliminary announcement is extracted from the statutory financial statements for the year ended 31 December 2009, 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 and the Unaudited Supplementary Financial Information for the year ended 31 December 2009, the Bank has fully complied with the Banking (Disclosure) Rules made by the HKMA under section 60A of the Banking Ordinance.

2. Changes in accounting policies and new accounting policies adopted

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"
- 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. The impact of these amendments is not considered to be material to the Group and have not resulted in changes to the Group's accounting policies. The amendments to HKFRS 2 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- 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 Group's financial statements which explain the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

2. Changes in accounting policies and new accounting policies adopted (continued)

- 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 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.
- As a result of the adoption of the amendments to HKFRS 7, the Group's financial statements include expanded disclosures about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- 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 Group's financial statements.

3. Dividends declared and proposed

	2009	2008
	HK\$'000	HK\$'000
Interim dividend declared and paid of 1.5 cents (2008: 6.0 cents) per share	17,582	70,330
Final dividend of 1.5 cents (2008: 1.5 cents) per share proposed after the balance sheet date	17,582	17,582
	<u>35,164</u>	<u>87,912</u>

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

FUBON BANK (HONG KONG) LIMITED

4. Interest income and expense

(a) Interest income

	2009 HK\$'000	2008 HK\$'000
Listed investments	370,942	295,237
Other	1,162,423	1,916,338
Interest income on financial assets that are not at fair value through profit or loss	1,533,365	2,211,575
Interest income on trading assets		
- listed investments	468	125
- unlisted investments	766	3,149
Interest income on financial assets designated at fair value through profit or loss	23,901	30,921
	1,558,500	2,245,770

(b) Interest expense

	2009 HK\$'000	2008 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	382,631	1,192,630
Debt securities issued which are wholly repayable within 5 years	6,245	27,075
Other borrowings	11,378	12,078
Interest expense on financial liabilities that are not at fair value through profit or loss	400,254	1,231,783
Interest expense on trading liabilities	2,144	12,163
Interest expense on financial liabilities designated at fair value through profit or loss	13,598	12,984
	415,996	1,256,930

FUBON BANK (HONG KONG) LIMITED

5. Fee and commission income and expense

(a) Fee and commission income

	2009 HK\$'000	2008 HK\$'000 (Restated)
Fee and commission income arising from:		
Credit related services	27,598	39,126
Trade finance services	11,221	23,033
Credit card services	85,894	75,055
Securities brokerage and investment services	60,112	61,208
Insurance services	40,518	34,183
Unit trust services	34,960	60,855
Other fees	20,861	31,787
	<u>281,164</u>	<u>325,247</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	83,305	80,700
- Trust or other fiduciary activities	2,237	4,653

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.

Comparative figures have been revised to conform to current year's presentation.

(b) Fee and commission expense

	2009 HK\$'000	2008 HK\$'000
Handling fees and commission	44,580	40,564
Other fees paid	26,216	19,923
	<u>70,796</u>	<u>60,487</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	44,299	39,272
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FUBON BANK (HONG KONG) LIMITED

6. Other operating income

	2009 HK\$'000	2008 HK\$'000 (Restated)
Gains less losses from dealing		
- Foreign exchange	87,841	64,823
- Trading securities	16,389	9,791
- Other dealing activities*	40,971	173,331
- Short selling activities	718	(2,191)
	<u>145,919</u>	<u>245,754</u>
Net hedging income from fair value hedges		
Net gain / (loss) on hedged items attributable to the hedged risk	10,278	(27,301)
Net (loss) / gain on hedging instruments	<u>(10,278)</u>	<u>27,301</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	5,251	5,412
Revaluation (loss) / gain on other financial instruments designated at fair value through profit or loss	<u>(2,794)</u>	<u>34,910</u>
	<u>2,457</u>	<u>40,322</u>
Losses less gains from other financial liabilities measured at amortised cost	(5)	(2,545)
Revaluation (loss) / gain on derivative financial instruments	(102,734)	19,114
Dividend income from listed available-for-sale securities	785	6,192
Dividend income from unlisted available-for-sale securities	10,616	5,691
Rental income	986	1,277
Others	<u>10,452</u>	<u>13,723</u>
	<u>68,476</u>	<u>329,528</u>

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

Certain comparative figures have been revised to conform with current year's presentation.

FUBON BANK (HONG KONG) LIMITED

7. Operating expenses

	2009 HK\$'000	2008 HK\$'000
Staff costs		
Contributions to defined contribution scheme	6,939	6,962
Defined benefit scheme expenses	31,988	29,242
Retirement scheme costs	38,927	36,204
Equity-settled share-based payment expenses	2,715	12,969
Salaries and other staff costs	447,374	472,557
	489,016	521,730
Premises and other fixed assets		
Rental of premises	47,685	46,561
Depreciation	66,598	64,918
Others	20,662	22,377
Auditors' remuneration	2,345	2,522
Other operating expenses		
Business promotion	55,986	61,299
Legal and professional fees	25,913	24,802
Communication	17,718	22,156
Electronic data processing and computer systems	80,521	87,985
Others	147,852	110,926
	954,296	965,276

8. Impairment losses on advances to customers

	2009 HK\$'000	2008 HK\$'000
Impairment losses (charged to) / released on advances to customers		
- Additions	(532,415)	(341,848)
- Releases	47,498	32,551
	(484,917)	(309,297)

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

	2009 HK\$'000	2008 HK\$'000
Realisation of revaluation surplus/(deficit) previously recognised in the investment revaluation reserve	40,118	(20,763)
Net gains arising in the current year	52,827	107,020
	92,945	86,257

10. 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 year. 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.

FUBON BANK (HONG KONG) LIMITED

11. Earnings per share

The earnings per share is calculated on profit attributable to shareholders of HK\$22,995,000 (2008: HK\$100,896,000) less the preference share dividend of HK\$83,517,000 (2008: HK\$2,092,000) and 1,172,160,000 (2008: 1,172,160,000) ordinary shares in issue during the year. There are no convertible loan capital, options or warrants outstanding which would cause a dilution of the earnings per share.

12. Trading securities

	2009 HK\$'000	2008 HK\$'000
<i>Trading securities at fair value</i>		
Treasury bills (including Exchange Fund Bills) - unlisted	100,496	142,967
Debt securities		
- Listed in Hong Kong	956	3,190
- Unlisted	3,968	4,058
Equity securities		
- Listed in Hong Kong	102	35
Total	<u>105,522</u>	<u>150,250</u>
<i>Trading securities are issued by:</i>		
- Governments and central banks	100,496	142,967
- Public sector entities	4,924	7,248
- Banks	39	23
- Corporate entities	63	12
	<u>105,522</u>	<u>150,250</u>

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

	2009 HK\$'000	2008 HK\$'000
<i>Debt securities at fair value</i>		
- Listed in Hong Kong	84,515	469,195
- Listed outside Hong Kong	247,109	231,086
- Unlisted	310,113	-
Total	<u>641,737</u>	<u>700,281</u>
<i>Financial instruments designated at fair value through profit or loss are issued by:</i>		
- Public sector entities	81,853	474,235
- Banks	165,256	148,833
- Corporate entities	394,628	77,213
	<u>641,737</u>	<u>700,281</u>

Debt securities have been designated at fair value through profit or loss upon initial recognition when either the Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise; or the debt securities are managed and evaluated on a fair value basis.

FUBON BANK (HONG KONG) LIMITED

14. Advances to customers less impairment allowances

	2009 HK\$'000	2008 HK\$'000
Gross advances to customers	29,112,658	33,329,796
Less: Impairment allowances		
- Individual impairment allowances	(364,647)	(181,872)
- Collective impairment allowances	(176,044)	(114,106)
	<u>28,571,967</u>	<u>33,033,818</u>

15. Other loans and receivables

	2009 HK\$'000	2008 HK\$'000
Debt securities at amortised cost	<u>3,392,218</u>	<u>3,745,286</u>
Of which:		
- Listed outside Hong Kong	3,010,919	3,026,906
- Unlisted	<u>381,299</u>	<u>718,380</u>
	<u>3,392,218</u>	<u>3,745,286</u>
<i>Other loans and receivables are issued by:</i>		
- Banks	3,369,760	3,723,191
- Corporate entities	<u>22,458</u>	<u>22,095</u>
	<u>3,392,218</u>	<u>3,745,286</u>

During 2008, the Group 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. The fair value and carrying value of these securities on the date of reclassification was HK\$3,723.9 million. As at 31st December 2009, the carrying amount and fair value of these reclassified debt securities were HK\$3,392.2 million (2008: HK\$3,745.3 million) and HK\$3,146.1 million (2008: HK\$3,387.9 million) respectively.

The interest income recognised in the profit or loss in respect of these debt securities during 2009 was HK\$107.0 million (2008: HK\$188.3 million, of which HK\$114.3 million was recognised before classification and HK\$74.0 million was recognised after reclassification). The fair value change that would have been recognised in the investment revaluation reserve if those debt securities had not been reclassified would be a HK\$181.7 million gain (2008: HK\$342.4 million loss).

The above debt securities are neither past due nor impaired as at 31 December 2009 and 2008.

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16. Available-for sale securities

	2009 HK\$'000	2008 HK\$'000
Listed debt securities at fair value		
- Listed in Hong Kong	3,498,794	2,067,597
- Listed outside Hong Kong	4,708,120	2,869,603
	<u>8,206,914</u>	<u>4,937,200</u>
Unlisted debt securities at fair value		
- Treasury bills (including Exchange Fund Bills)	1,989,636	2,151,272
- Certificates of deposit	-	472,897
- Other debt securities	7,532,438	4,209,206
	<u>9,522,074</u>	<u>6,833,375</u>
Total debt securities	<u>17,728,988</u>	<u>11,770,575</u>
Equity shares at fair value		
- Listed in Hong Kong	-	74,589
- Unlisted	210,085	244,170
	<u>210,085</u>	<u>318,759</u>
Total available-for-sale securities	<u>17,939,073</u>	<u>12,089,334</u>
<i>Available-for-sale securities are issued by:</i>		
- Governments and central banks	4,635,124	3,743,984
- Public sector entities	1,437,646	280,419
- Banks	8,601,322	6,137,612
- Corporate entities	3,264,981	1,927,319
	<u>17,939,073</u>	<u>12,089,334</u>

As at 31 December 2009, debt securities issued by banks with a fair value of HK\$768.1 million (2008: Nil) and HK\$2.5 billion (2008: HK\$1.7 billion) are issued by multilateral development banks and guaranteed by governments respectively.

Included in "Other debt securities" as at 31 December 2009 were investments in structured investment vehicles ("SIVs") with a fair value of HK\$1.0 million (2008: HK\$16.6 million). Impairment losses on these investments of HK\$30.3 million (2008: HK\$79.5 million) have been recognised in profit or loss in accordance with the Group's accounting policy.

In addition, the Group had investments in collateralised debt obligations ("CDOs") with a nominal value of US\$30 million (2008: US\$30 million). Embedded derivatives in the CDOs are bifurcated and marked to market. A revaluation loss of HK\$0.7 million (2008: HK\$128.5 million) of the embedded derivatives has been charged to profit or loss during the year. The carrying value of the investments in CDOs, inclusive of the revaluation loss on the embedded derivatives, as at 31 December 2009 was HK\$13.1 million (2008: HK\$13.6 million).

As at 31 December 2009, certain of the Group's available-for-sale equity securities with a fair value of HK\$15.3 million (2008: HK\$74.6 million) were individually determined to be impaired on the basis of a significant or prolonged decline in fair value below cost. Impairment losses on these investments of HK\$36.8 million (2008: HK\$118.0 million) were recognised in profit or loss during the year.

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17. Held-to-maturity investments

	2009 HK\$'000	2008 HK\$'000
Debt securities at amortised cost		
- Listed outside Hong Kong	639,669	635,776
- Unlisted	262,553	259,814
	<u>902,222</u>	<u>895,590</u>
<i>Held-to-maturity investments are issued by:</i>		
- Banks	745,123	737,754
- Corporate entities	157,099	157,836
	<u>902,222</u>	<u>895,590</u>
<i>Fair value of held-to-maturity investments:</i>		
- Listed securities	693,363	659,453
- Unlisted securities	291,793	273,429
	<u>985,156</u>	<u>932,882</u>

18. Subordinated notes issued

Subordinated notes of face value of US\$200 million (equivalent to HK\$1,551.0 million) and carrying amount of HK\$1,640.3 million (2008: 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\$89.3 million (2008: HK\$134.4 million) due to the application of fair value hedge accounting.

19. Off-balance sheet exposures

(a) Credit related commitments and contingencies

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 credit related commitments and contingencies:

	2009		2008	
	Contractual amounts HK\$'000	Credit risk weighted amounts HK\$'000	Contractual amounts HK\$'000	Credit risk weighted amounts HK\$'000
Direct credit substitutes	236,073	126,073	271,285	161,285
Transaction-related contingencies	29,193	14,597	18,417	9,209
Trade-related contingencies	158,264	31,653	428,131	85,626
Undrawn loan facilities				
- which are unconditionally cancellable	11,301,472	-	12,518,056	-
- with an original maturity of 1 year or over	296,321	148,161	432,293	216,147
Forward forward deposits placed	-	-	216,254	43,251
	<u>12,021,323</u>	<u>320,484</u>	<u>13,884,436</u>	<u>515,518</u>

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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19. 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:

	2009			
	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
Exchange rate derivatives	-	-	14,681,918	14,681,918
Interest rate derivatives	3,941,867	592,685	11,152,808	15,687,360
Equity derivatives	-	-	1,053,964	1,053,964
Total	3,941,867	592,685	26,888,690	31,423,242

	2008			
	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
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

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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19. Off-balance sheet exposures (continued)

(b) Derivatives (continued)

(ii) Fair values and credit risk weighted amounts of derivatives

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

These amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements and are as below:

	2009			2008		
	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	338,816	12,672	24,244	1,582,844	1,336,788	941,623
Interest rate derivatives	224,401	328,652	78,910	623,917	522,800	246,902
Equity derivatives	68,793	68,793	11,770	411,312	411,312	112,468
Other derivatives	-	241,779	-	-	235,445	-
Total	632,010	651,896	114,924	2,618,073	2,506,345	1,300,993

20. 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. Reportable segments of the Group are set out below.

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 securities brokerage, 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 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.

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment lending), interest expense, depreciation, amortisation, impairment losses and additions to non-current segment assets used by the segments in their operations.

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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20. Segment reporting (continued)

Operating segments (continued)

	2009				Reportable Segments Total
	Consumer Banking	Wealth Management	Corporate and Investment Banking	Financial Markets	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	186,202	75,034	358,202	568,556	1,187,994
Other operating income from external customers	149,474	303,277	71,276	70,124	594,151
Fee and commission expense	(34,954)	(7,091)	(7,762)	(13,246)	(63,053)
Other operating income	114,520	296,186	63,514	56,878	531,098
Operating income	300,722	371,220	421,716	625,434	1,719,092
Operating expenses	(216,827)	(319,903)	(215,564)	(123,300)	(875,594)
Inter-segment expenses	(1,901)	(28,391)	(5,351)	-	(35,643)
Operating profit before gains and impairment losses	81,994	22,926	200,801	502,134	807,855
Impairment losses on advances to customers	(25,296)	(8,649)	(452,590)	-	(486,535)
Impairment losses on available-for-sale securities	-	-	-	(67,124)	(67,124)
Charge for impairment losses on assets acquired under lending agreements	-	-	(324)	-	(324)
Net gains on disposal of available-for-sale assets	-	-	-	80,258	80,258
Profit / (loss) before taxation	56,698	14,277	(252,113)	515,268	334,130
Operating expenses – depreciation	(378)	(8,728)	(3,122)	(3,216)	(15,444)
Segment assets	16,218,370	2,942,095	15,616,374	29,669,699	64,446,538
Segment liabilities	2,258,594	26,945,091	15,293,344	10,608,577	55,105,606

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20. Segment reporting (continued)

Operating segments (continued)

	2008				Reportable Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Corporate and Investment Banking HK\$'000	Financial Markets HK\$'000	
Net interest income	162,224	152,690	486,179	233,978	1,035,071
Other operating income from external customers	139,122	388,581	203,044	174,632	905,379
Fee and commission expense	(32,757)	(7,078)	(4,451)	(17,657)	(61,943)
Other operating income	106,365	381,503	198,593	156,975	843,436
Operating income	268,589	534,193	684,772	390,953	1,878,507
Operating expenses	(209,790)	(352,547)	(235,205)	(151,446)	(948,988)
Inter-segment expenses	(1,808)	(31,157)	(6,296)	-	(39,261)
Operating profit before gains and impairment losses	56,991	150,489	443,271	239,507	890,258
Impairment losses on advances to customers	(7,780)	(212)	(301,274)	-	(309,266)
Impairment losses on available-for-sale securities	-	-	-	(197,482)	(197,482)
Charge for impairment losses on assets acquired under lending agreements	-	-	(891)	-	(891)
Net gains on disposal of available-for-sale assets	-	-	-	70,783	70,783
Profit before taxation	49,211	150,277	141,106	112,808	453,402
Operating expenses – depreciation	(402)	(8,096)	(2,399)	(4,113)	(15,010)
Segment assets	15,995,720	3,092,901	20,495,103	30,255,957	69,839,681
Segment liabilities	2,783,008	28,759,443	15,407,548	12,876,533	59,826,532

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20. Segment reporting (continued)

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

	2009 HK\$'000	2008 HK\$'000
Revenues		
Reportable segment operating income	1,719,092	1,878,507
Elimination of inter-segment operating income and operating income reported in more than one segment	(344,679)	(463,430)
Unallocated revenue	46,254	39,589
Consolidated operating income	<u>1,420,667</u>	<u>1,454,666</u>
	2009 HK\$'000	2008 HK\$'000
Profit before tax		
Reportable segment profit before tax	334,130	453,402
Unallocated operating income	46,254	39,589
Unallocated operating expenses	(101,611)	(36,250)
Write back of impairment losses on advances to customers	2,320	252
Write back of impairment losses on advances to an associate	346	3,797
Write back of /(charge for) impairment losses on assets acquired under lending agreements	5,061	(2,941)
Net gains on disposals of available-for-sale securities	12,687	15,474
Net (losses) / gains on disposals of fixed assets	(16)	29,123
Share of profits of an associate	14,309	-
Elimination of inter-segment profit before tax and profit before tax reported in more than one segment	(286,829)	(404,490)
Consolidated profit before tax	<u>26,651</u>	<u>97,956</u>
	2009 HK\$'000	2008 HK\$'000
Assets		
Reportable segment assets	64,446,538	69,839,681
Unallocated advances to customers	135,100	243,403
Unallocated fixed assets	612,627	654,378
Interests in associates	386,510	293,746
Unallocated other assets	995,813	686,027
Elimination of inter-segment loans	(5,597,288)	(6,075,323)
Consolidated total assets	<u>60,979,300</u>	<u>65,641,912</u>
	2009 HK\$'000	2008 HK\$'000
Liabilities		
Reportable segment liabilities	55,105,606	59,826,532
Unallocated other liabilities	939,134	1,094,283
Consolidated total liabilities	<u>56,044,740</u>	<u>60,920,815</u>

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 years ended 31 December 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.

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UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital adequacy ratio

	2009	2008
	%	%
Capital adequacy ratio as at 31 December	17.18	14.04
Core capital adequacy ratio as at 31 December	9.47	7.61

The capital adequacy ratio and core capital ratio at 31 December 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 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.

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.

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.

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B. 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:

	2009 HK\$'000	2008 HK\$'000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,661,471	1,481,383
Share premium	749,778	749,778
Profit and loss account	(76,379)	(60,069)
Total deduction from core capital	<u>(269,327)</u>	<u>(265,509)</u>
Core capital after deductions	<u>3,237,703</u>	<u>3,077,743</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	15,771	-
Collective impairment allowance	176,044	114,106
Regulatory reserve	175,211	175,211
Term subordinated notes	1,551,000	1,550,020
Paid-up irredeemable cumulative preference shares	925,359	925,359
Total deduction from eligible supplementary capital	<u>(231,012)</u>	<u>(183,776)</u>
Supplementary capital after deductions	<u>2,636,074</u>	<u>2,604,621</u>
Total capital base after deductions	<u>5,873,777</u>	<u>5,682,364</u>
Total deductions from the core capital and supplementary capital	<u>(500,339)</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 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.

C. Liquidity ratio

	2009 %	2008 %
Average liquidity ratio for the year	48.65	40.29

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 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.

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D. Analysis on 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.

	2009		2008	
	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	1,190,968	-	47,500	8.42
- Property investment	8,201,715	73.96	8,694,857	65.13
- Financial concerns	416,802	9.27	492,465	-
- Stockbrokers	13,745	62.97	5,413	27.71
- Wholesale and retail trade	64,511	33.10	96,448	28.80
- Manufacturing	1,666,263	12.68	2,204,099	10.08
- Transport and transport equipment	465,987	85.27	752,659	89.76
- Information technology	14,434	66.75	14,630	76.92
- Others	2,321,393	60.24	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	52,370	100.00	10,953	100.00
- Loans for the purchase of other residential properties	7,448,480	99.90	7,312,449	99.60
- Credit card advances	618,106	-	554,171	-
- Others	1,039,499	53.49	1,024,661	54.88
	<u>23,514,273</u>		<u>23,871,205</u>	
Trade finance	809,641	7.68	1,849,658	10.19
Gross advances for use outside Hong Kong	4,788,744	19.28	7,608,933	40.95
Gross advances to customers	<u>29,112,658</u>	<u>59.03</u>	<u>33,329,796</u>	<u>57.43</u>

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E. Overdue advances to customers

	2009		2008	
	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	20,299	0.07	71,306	0.21
- 1 year or less but over 6 months	238,086	0.82	53,260	0.16
- Over 1 year	153,409	0.53	84,742	0.25
	<u>411,794</u>	<u>1.41</u>	<u>209,308</u>	<u>0.63</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>76,452</u>		<u>71,693</u>	
Covered portion of overdue loans and advances	84,613		94,564	
Uncovered portion of overdue loans and advances	<u>327,181</u>		<u>114,744</u>	
	<u>411,794</u>		<u>209,308</u>	
Amount of expected recoveries from companies in liquidation and government guarantee schemes in respect of the covered portion of overdue loans and advances	<u>11,913</u>		<u>24,075</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>302,735</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 against hire purchase and leasing loans.

F. Rescheduled advances to customers

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. 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:

	2009		2008	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Rescheduled advances to customers	<u>19,710</u>	<u>0.07</u>	<u>14,443</u>	<u>0.04</u>

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G. 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 2009

<i>Figures in HK\$ Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	6,346	279	2,899	9,524
- Of which Australia	3,675	-	2	3,677
North America	3,290	313	1,869	5,472
- Of which USA	1,936	313	1,847	4,096
Western Europe	5,571	-	56	5,627

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

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H. 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>		2009		
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi	Other foreign currencies	Total foreign currencies
Spot assets	21,272	359	5,091	26,722
Spot liabilities	(19,488)	(321)	(5,210)	(25,019)
Forward purchase	7,324	91	4,624	12,039
Forward sales	(9,234)	(91)	(4,509)	(13,834)
Net long/(short) position	<u>(126)</u>	<u>38</u>	<u>(4)</u>	<u>(92)</u>
Net structural position	<u>78</u>	<u>261</u>	<u>-</u>	<u>339</u>

<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>

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 31 December 2009 and 2008. Net structural position includes the Bank's investments in overseas subsidiaries and associates.

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Review of Hong Kong's Economy in 2009

Following a sharp contraction in GDP of 7.5% year-on-year in the first quarter of 2009, Hong Kong's economy resumed growth in the second quarter on a quarter-on-quarter basis, which technically marked an end to the year-long recession. As of the latest figures announced by the Hong Kong Government, the Gross Domestic Product ("GDP") increased by 2.6% in real terms in the fourth quarter of 2009 over a year earlier, in contrast to the 2.2% decrease in the third quarter. For 2009 as a whole, GDP contracted by 2.7% in real terms compared with 2008.

With retail sales growing for the first time in eight months in September and unemployment falling from a four-year high, fourth quarter GDP has seen a greater improvement than expected. As a result, for the whole of 2009, Hong Kong's GDP contraction has turned out to be less severe than the Government previously forecast. Domestic demand and pricing power for retailers have been both showing signs of return. These improvements could be related to the Hong Kong Government's stimulus spending of HK\$87.6 billion that included tax concessions, job creation and rent subsidies. The strategy of the Hong Kong Government to stabilize the financial system, support enterprises and preserve employment has yielded positive results. The Hong Kong jobless rate fell to an 11-month low to a seasonally adjusted rate of 4.9% in the three months ending 31 December 2009.

Exports remain the weakest link and will continue to drag on growth. Exports fell 12.6% in 2009 although declines moderated after the first quarter when shipments plunged by the most in half a century. While the exporting sector may still be suffering from a slow recovery, China's demand will help to put a floor under Hong Kong's exports. Shipments to China jumped 16.8% in December from a year earlier in contrast to US's sliding figure.

On the pricing front, the Composite Consumer Price Index ("CPI") rose 0.5% in 2009 from a year earlier. However, there has been an increasing trend since the end of last year. Consumer prices gained 1.3% in December compared to the previous year, which was an improvement over the 0.5% gain in November.

Outlook for Hong Kong's Economy in 2010

Benefiting from faster growth in the China economy and the waning of recessionary forces in advanced economies, Hong Kong's economy is expected to expand between 4% and 5% in 2010, recovering from the contraction in 2009.

Money spilling into Hong Kong from unprecedented lending under China's stimulus programme has flowed into property and stocks, which has boosted consumer sentiment and spending. This has helped Hong Kong's economy to recover at a faster pace than the Government previously forecast. However, asset-price bubbles pose one of the greatest risks for Hong Kong, as these gains have been mainly driven by extra liquidity in the financial system. Nevertheless, inflationary pressures should remain rather modest in 2010 with an expected rise of 1.5% this year.

While there is light at the end of the tunnel for Hong Kong, a sustained and solid recovery still hinges on a visible improvement in the external environment. The Hong Kong Government may have to continue the stimulus into 2010 to achieve the above forecast growth rate.

Review of China's Economy in 2009

Throughout the global crisis, China defied recessionary pressures and continued to grow, although the pace cooled from double-digit rates. In the past year, China adopted what it called a "moderately loose" monetary policy and embarked on an unprecedented four-trillion-yuan spending spree to keep the economy growing amid the global downturn. It also urged banks to pump up lending, resulting in new loans in China nearly doubling in 2009 over the previous year to reach 9.59 trillion yuan.

The stimulus measures have borne fruit. For 2009, China's GDP gained 8.7%, beating Premier Wen's 8% target. In fact, it exhibited a growing trend throughout the year, with GDP growing 6.2%, 7.9%, 9.1% and 10.7% in the respective four quarters from the previous year. One of the main contributors to growth was urban fixed asset

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investment, which jumped 30.5% in 2009.

While the rest of the world took even harder hits from the global slowdown, exports from China resumed growth in December after 13 months of declines, rising 18% over the previous year. Imports grew even more, surging 56% to reflect China's stimulus-fueled appetite for raw materials.

The effects of the global economic crisis have caused Chinese leaders to think about shifting the economy's drivers away from exports and towards domestic consumption. After the central government's effort to subsidize consumer purchases last year, retail sales rose 16.9% in 2009, which was the biggest gain since 1986.

Outlook for China's Economy in 2010

Following strong GDP growth in 4Q 2009 and the cumulative effects of fiscal and monetary easing in 2009, China's economy is expected to continue its strong growth into 2010 at a rate of about 9%.

In the annual "Central Economic Working Conference", in which the key policy tone and main goals were set for 2010, officials pledged to target balanced growth with a greater emphasis on consumption. The concluding statement highlighted that China would continue its "proactive fiscal policy and moderately easing monetary policy".

After almost a year-long bout of deflation, the CPI, a key gauge of inflation, rose in November. It also accelerated to a more-than-forecast 1.9% in December, after a 0.6% gain in the prior month, mainly driven by food and housing prices. The CPI is expected to be around 4% for the whole year, while the figure declined 0.7% in 2009.

The main challenges this year will be for Chinese policy-makers to ensure an economic rebound and at the same time prevent excessive liquidity in the financial system from creating bubbles in stocks and property. The Chinese Government may have to introduce stricter measures to rein in credit growth and to contain inflation expectations, as well as to step up guidance on property lending.

The People's Bank of China has already started to raise banks' reserve requirements to soak up excess liquidity. But they will tighten policy in a phased manner and do not want to threaten the sustainability of the recovery. They are more likely to wait until the second half of 2010 to hike lending rates. The Chinese yuan might appreciate by about 3% by the end of this year against the dollar, as the rate has been kept unchanged since July 2008 to aid exporters and now export conditions have been improving.

FUBON PERFORMANCE

Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported full-year 2009 net profits of HK\$23 million which was 77% or HK\$77 million lower than the HK\$100 million reported in 2008. 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 have negatively impacted on the Group's 2009 earnings. Despite net interest income recording strong growth in 2009 and fee-based revenues showing improvement in the fourth quarter, these were offset by provisions incurred from the sales of structured investment products including those charges for the impairment of Lehman Minibonds repurchased from eligible customers under the Repurchase Scheme, lower net fee and commission income and heightened credit costs due to dampened investor sentiments and weak credit conditions.

Gross interest income decreased 31% to HK\$1,559 million for 2009 whereas gross interest expense decreased 67% to HK\$416 million over the corresponding period. As a result, net interest income grew by HK\$154 million or 16% to HK\$1,143 million. The increase in net interest income was mainly attributed to widening of Hong Kong dollar Prime-HIBOR spread and increase in average interest-earnings assets. Benefiting from lower funding costs in the near-zero interest rate environment and improved credit spreads, effective net interest margin ("NIM") improved by 18 bps to 1.94% from 1.76% for 2008.

Other operating income (net of revaluation results on the CDO portfolio) decreased by 53% year-on-year to HK\$279 million in 2009, a decrease of HK\$315 million from 2008, attributable to a reduction in commission income derived from the sale of financial markets investment and structured products due to impaired customers' confidence in purchasing such products. Coupled with the decline in unit trust sales and wealth management

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fee income, net fees and commission income reduced by HK\$193 million to HK\$158 million in 2009. Credit spread tightening affected the fair value of financial instruments designated at fair value through profit and loss and its hedging derivatives, also resulted in a decrease in other operating income. Including the revaluation loss of HK\$0.7 million on CDO portfolio in 2009 (HK\$128.5 million in 2008), other operating income in 2009 recorded a 40% decrease to HK\$278 million.

In view of the tightened regulatory requirements on the sale of investment products, the Bank has enhanced its systems and control processes during the year to ensure that it continues adhering to the highest standard of conduct in its business. In order to enhance competitiveness and accelerate market expansion in the realm of insurance business, the Bank formed a strategic partnership with China Life Insurance (Overseas) Company Limited in November 2009 with a view to offering integrated wealth management services to its customers.

Operating expenses, including costs from the Lehman Minibonds Repurchase Scheme, decreased 1% or HK\$11 million to HK\$954 million in 2009. The cost-to-income ratio increased to 67.2% for 2009 from 66.4% for 2008 due to the decrease in other operating income and charges for the impairment of Lehman Minibonds repurchased from eligible customers under the Repurchase Agreement. The Bank has taken measures 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 in 2009. Operating profits before gains and impairment losses decreased 5% or HK\$23 million to HK\$466 million compared with HK\$489 million in 2008.

Due to the economic downturn and deteriorating credit conditions, the net charge for impairment losses on advances to customers registered a year-on-year increase of HK\$176 million to HK\$485 million. Most of the increase was due to higher individual impairment losses on SME loans. Despite the level of impaired loans having stabilized since the second quarter of 2009, further individual impairment losses for impaired loans were required in the second half of 2009. Collective impairment allowances were increased reflecting the unsatisfactory credit experience in the last two years. The increase in impaired loan ratio in 2009 was also affected by the 13% drop in advances to customers balances, as a result, the impaired loans ratio increased to 1.78% as of 31 December 2009 from 1.22% as of 31 December 2008. The coverage ratio for impaired loans improved from 75% at 31 December 2008 and from 64% at 30 June 2009 to 87% at 31 December 2009, resulting from the increase in individual impairment losses on advances to customers.

Impairment losses on available-for-sale securities of HK\$67 million were provided in 2009. This represented a drop of HK\$130 million when compared to HK\$197 million recognized in 2008. The share of profits of Xiamen Bank (previously named Xiamen City Commercial Bank), in which the Bank owns a 19.99% stake, amounted to HK\$14 million. After accounting for impairment charges, other gains and tax charge, profit after taxation amounted to HK\$23 million, representing a 77% decrease from HK\$100 million for 2008. Return on average assets and return on average equity decreased from 0.16% to 0.04% and from 2.54% to 0.48% respectively when compared with 2008. After accounting for the dividend payment for preference shares, the loss per share for the year ended 31 December 2009 was 5.16 Hong Kong cents versus earnings per share of 8.43 Hong Kong cents in 2008.

Total assets as at 31 December 2009 were at HK\$61.0 billion, a decrease of 7% or HK\$4.6 billion from HK\$65.6 billion as at 31 December 2008. Customer deposits registered a decrease of 3% to HK\$46.6 billion as at 31 December 2009. During the year, the Bank adopted a more conservative strategy in credit underwriting and acquiring new loans in light of the uncertain credit environment. Therefore, the net loans portfolio decreased 14% or HK\$4.4 billion to HK\$28.6 billion as at 31 December 2009 from the 2008 year-end balance of HK\$33.0 billion. The Group's capital and liquidity positions remained strong. The consolidated capital adequacy ratio was 17.18% (14.04% at 2008 year-end) at the end of December 2009 and average liquidity ratio for 2009 was at 48.65%.

Over the past year, the Bank devoted tremendous efforts in refining its business strategy, improving its risk-control systems, rationalizing its cost base and integrating the majority of its businesses and risk practices with those of its parent company. These series of initiatives have put the Bank in better shape to weather market uncertainty and volatility ahead. The Bank established its Dongguan representative office in December 2009 which marks an important step in its Mainland branch strategy and reinforces its position as the regional financial platform for Fubon Financial. On 22 December 2009, the Bank confirmed and undertook to Xiamen Bank to fully subscribe for its allocated 31,984,000 Rights Shares in Xiamen Bank, maintaining its 19.99% shareholding interest in Xiamen Bank. The consideration for the Rights Shares, which was RMB79,960,000 or RMB2.5 per share, was financed from the Bank's own internal surplus funds.

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In 2010, the Bank will adopt a growth-yet-prudent strategy to capture market potential while minimizing risks and costs. The Bank will continue to broaden its client base and deepen customer relationships, and increase revenues by devoting more efforts to cross-selling activities, by strengthening the internet banking platform and by enhancing product capabilities. With support from its parent company, the Bank will also expand its operations through Fubon Financial's various business platforms to provide comprehensive financial services to Hong Kong and Taiwanese companies. Management believes that the strong foundations the Bank has systematically built over the past year will gear the Bank towards steady performance of its businesses in a sustainable manner.

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 2009 totalling HK\$17,582,000, subject to approval at the forthcoming Annual General Meeting to be held on Friday, 30 April 2010. The final dividend, if approved, will be paid on or about Friday, 14 May 2010 to the shareholders whose names are on the Register of Members on Friday, 30 April 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Tuesday, 27 April 2010 to Friday, 30 April 2010, 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 Monday, 26 April 2010.

PREFERENCE DIVIDEND

The Directors have approved at the Board Meeting the payment of the dividend for the period from (and including) 15 December 2009 to (but excluding) 15 June 2010 ("Preference Dividend") on the Irredeemable Cumulative Non-Voting Preference Shares ("Preference Shares"). The Preference Dividend will be paid on Tuesday, 15 June 2010 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 May 2010.

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 2009. 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 2009.

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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 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
Pei-Hwa Thomas Liang
*Managing Director and
Chief Executive Officer*

As at the date of this Announcement, the Board of Directors of the Bank comprises Pei-Hwa Thomas LIANG (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, 9 March 2010