

# Management Discussion & Analysis

## 管理層討論及分析



### HONG KONG AND CHINA ECONOMIC OVERVIEW AND FORECAST

#### Hong Kong's Economy

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

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

#### 香港與中國經濟概覽及預測

#### 香港經濟

香港經濟屬於開放型且高度依賴貿易活動，因此面對當前先進國家經濟衰退的衝擊，香港亦難以獨善其身。2008年8月，美國爆發次按危機，觸發金融風暴，繼而蔓延至實體經濟，導致全球經濟活動急劇萎縮。香港第四季的實質本地生產總值自2003年第二季以來首次下跌。全年本地生產總值增長為2.5%，但自2008年下半年開始的經濟逆轉預期將會持續至2009年。

隨着中國出口貨品需求急跌及經香港轉口的貨物量大減，香港的貿易表現備受嚴重打擊。儘管2008年整體出口貨值較2007年同期上升5.1%，但年內最後兩個月的出口貨值卻下跌10%。面對前所未有的金融動盪，市場需求漸失，其中以歐盟及美國的情況最為顯著，有些出口商更因為全球各地銀行體系收緊信貸而難以取得貿易融資。全年計算，轉口貨值增加6.0%，但本地出口貨值則下跌16.8%。同期，進口貨

increased by 5.5%. Although invisible trade still recorded positive increases in 2008, there was a corresponding sharp slowdown during the latter part of the year as exports of services, particularly financial services, were curtailed by the financial disruption.

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

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

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

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

值上升5.5%。儘管無形貿易於2008年仍然錄得正增長，但踏入2008年下半年，由於服務出口，特別是金融服務的出口因金融市場動盪而下降，令無形貿易於下半年大幅放緩。

受金融危機影響，全球股市大幅下調。香港經過多年的全民就業後，失業率開始攀升，使私人消費受到衝擊。由於零售商減價促銷清貨，零售業銷貨量於11月及12月下跌。跟貿易活動及私人消費一樣，整體投資開支亦因地產發展商暫緩項目的推出而於年底急跌，物業價格亦因買家取態趨於審慎而下降。

香港失業率於年底攀升至4.1%，最影響的行業為建造、零售及金融業。香港特區政府已着手製造就業機會，包括透過十大基建及投資逾290億港元於公共建設工程，創造45,300個職位，此外，政府亦計劃招聘公務員及開創臨時職位，聘請11,000人。

經濟疲弱帶來兩個副作用，分別是消費物價通脹逐漸降溫，以及借貸成本大減。於年內較早時，中國內地供港食品中斷導致香港消費物價指數上升。然而，其後食品價格轉趨穩定，商品價格大幅下跌以及整體需求下降，令對通脹上升的預期心理減弱。面對消費疲弱及通脹放緩，各地政府正採用財政及貨幣工具，力圖刺激全球經濟復甦。隨着經濟轉弱，香港利率得以下調，紓緩了企業及家庭的現金周轉壓力。

影響2009年香港經濟表現的預測有幾個關鍵因素，包括財政及貨幣刺激措施對扭轉經濟下滑的成效，尤其要注意近期針對環球銀行體系的措施所帶來的影響。在現階段，新措施的影響仍未浮現，因此不宜對香港經濟的未來表現作出預測。然而，由於基數效應，香港在上半年的經濟表現將會疲弱，全年本地生產總值亦可能錄得2%至3%的負增長。

## China's Economy

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

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

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

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

## 中國經濟

中國實質本地生產總值於2008年增長9%，其中上半年表現強勁，與下半年受外圍環境影響的疲弱走勢呈鮮明對比。穩定的私人消費抵銷了疲弱的外需。展望2009年，中國實質本地生產總值增長可能急速倒退，然後於年內稍後回升。

中國作為世界製造業中心的地位完全暴露於金融海嘯的衝擊之中，信貸危機導致環球需求大跌，令中國出口錄得自2001年年初以來首次的每月負增長。雖然亞洲鄰近地區對中國出口貨的需求有助紓緩歐盟及美國需求放緩的影響，但隨着金融海嘯席捲中國各主要出口市場，這方面的支持於2008年年底大大減弱。預期這種弱勢將於2009年內的大部分時間持續不斷。

儘管私人消費於2008年全年保持穩定，但疲弱的出口已開始帶動失業數字上升，特別是受僱於廣東省廠商的外省民工。國內整體消費信心已開始受到影響，銷貨值增長由2008年較早時錄得的15%至20%下調至12月份的12%。中國政府亦已認識到私人消費的重要，現正落實以基建為主的4萬億元人民幣刺激經濟方案，力保就業情況及創造新職位。

2008年年初，由於發生嚴重雪災及商品價格高企，中國必須努力對抗通脹上升。2008年的消費物價指數錄得5.9%的整體增幅，價格於上半年飆升，但於12月則掉頭回落。由於基數效應，中國於2009年上半年可能出現通縮，然後於下半年錄得價格正增長。



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

## OPERATING PERFORMANCE

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

展望2009年，中國實質本地生產總值料會增長5%至6%，為十年來最緩慢的增長步伐，並對國家的決策者帶來重大的挑戰。中國政府正積極紓緩環球經濟下滑所帶來的影響，宣布大刀闊斧的財政刺激方案及貨幣措施，例如調低利率及銀行準備金要求。然而，由於滯後效應，中國經濟將會進一步放緩，於今年稍後才好轉。

## 經營表現

本行及其附屬公司（「本集團」）截至2008年12月底止的全年淨溢利為1億港元，較2007年的淨溢利4.61億港元下跌78%。本集團在2008年上半年錄得的可觀收入增長，卻於下半年因全球金融市場的危機加劇以及本港經濟進一步惡化而被削弱。雖然淨利息收入在本行持續優化資產負債組合之下創出新高，但市場相關活動減少及信貸環境轉差令淨費用及佣金收入下降以及借貸成本上升。面對特殊的市場情況，本集團2008年第四季的溢利顯著下跌。2008年年度每股盈利下降至8.43港仙，2007年為39.33港仙。



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

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

2008年的利息收入總額較去年同期減少21%，至22.46億港元，利息支出總額則下跌36%，至12.57億港元，因此期內淨利息收入增加1.35億港元或16%，至9.89億港元。淨利息收入上升是受惠於平均貸款額增加，投資收益改善以及優化資產負債組合抵銷了2008年9月及10月時港元最優惠利率與銀行同業拆息息差急劇收窄的不利影響。實際淨息差由2007年的1.65%擴闊11個基點至2008年的1.76%，反映本行更有效地管理資產收益及存款成本所帶來的成果。

其他營運收入（包括淨費用及佣金收入）較2007年下跌10%或6,400萬港元，至5.94億港元。2008年市場活動放緩、投資者信心疲弱、股票市場交投淡靜及證券價格下跌。此等不利因素受雷曼兄弟事件影響而進一步惡化，令投資者信心大跌，導致市場對零售投資產品的需求顯著減少，本集團財富管理及股票經紀相關費用收入亦隨大趨勢而下跌。為應付現有的市場環境，本行增強了不同部門之間的交叉銷售力度，以開拓新的客戶群及分散費用收入的來源。與2007年比較，金融市場部來自向企業及中小企客戶交叉銷售而獲得的營銷費用收入大幅上升80%。

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

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

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

本行繼續採取保守的原則來處理持有的債務抵押證券，在2008年信貸市場情況進一步惡化時，為此作出1.28億港元的重估虧損。截至2008年12月31日止，本行的債務抵押證券組合的帳面價值為1,360萬港元，約佔本集團綜合總資產值約0.02%。計及投資組合於2007年及2008年年度所持之債務抵押證券按市值計算錄得的重估虧損後，其他營運收入為4.66億港元，較2007年錄得的5.68億港元下跌18%或1.02億港元。

營運支出由8.35億港元上升至9.65億港元，升幅為16%，主要是由於本行在2007年增聘了員工，有關全年效應引致僱員成本及其他僱員支出增加。非員工相關的成本上升24%，主要是由於為配合業務的增長而增加了宣傳推廣的費用、電腦系統及設備的支出，以及法律和專業顧問費用。成本對收入比率由2007年的59%上升至66%。若不計及債務抵押證券在2007年及2008年年度錄得的重估虧損，2008年的成本對收入比率則下降至61%，較2007年的55%增加了6%。本行將繼續以採取靈活的方式管理支出的增長，並同時加強營運效能以減低收入放緩對成本對收入比率造成的負面影響。未計收益及減值虧損前經營溢利下跌17%或9,800萬港元，至4.89億港元，2007年為5.87億港元。

鑑於經濟下滑及信貸環境惡化，本行錄得的客戶貸款減值虧損為3.09億港元，較2007年的3,800萬港元上升了2.71億港元，主要原因是由於企業及中小企客戶的貸款個別減值虧損有所上升。本行亦增加了綜合減值撥備，以強化資產負債表，令本行能更有效地抵禦當前的資產質素風險。在疲弱的經濟情況下，減值貸款比率由2007年12月31日的0.55%上升至2008年12月31日的1.22%。

Impairment losses on available-for-sale securities of HK\$197 million were provided for income notes issued by SIVs and for certain equity securities. Further impairment losses totaling HK\$79 million were recognized on SIV investments in 2008, with the resulting net exposure at HK\$16.6 million as of 31 December 2008. Net gains from the disposal of available-for-sale securities fell HK\$46 million to HK\$86 million due to reduced profit-taking opportunities. The Bank recorded a disposal gain on ex-branch premises of HK\$30 million in the first half of 2008. After accounting for impairment charges, other gains and tax charge, profit after taxation amounted to HK\$100 million, representing a 78% decrease from HK\$461 million for 2007. Return on average assets and return on average equity decreased from 0.81% to 0.16% and from 11.43% to 2.54% respectively when compared with 2007.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 8% or HK\$5 billion to HK\$65.6 billion as at 31 December 2008. Customer deposits registered satisfactory growth of 16%, reaching HK\$48.0 billion as at 31 December 2008. The Bank was cautious in growing its loan book in 2008 in light of the deterioration in the credit environment. Net loans portfolio reached HK\$33.0 billion, an increase of 5% or HK\$1.6 billion over 2007 year-end balances. In order to strengthen the capital base and to provide sufficient surplus funds for supporting future business growth, the Bank issued approximately US\$120 million preference shares with 9% coupon in December 2008. The successful issuance of preference shares has placed the Bank in a strongly capitalized and liquid position. The consolidated capital adequacy ratio was 14.04% at the end of December 2008 and average liquidity ratio for 2008 was at 40.29%.

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

In December 2008, the Bank completed the transaction to purchase a 19.99% stake in Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230

期內為結構性投資工具公司所發行的收入票據及某些股本證券提撥了1.97億港元的可供出售證券減值虧損。2008年為投資結構投資工具的減值虧損總額為7,900萬港元，而有關組合截至2008年12月31日止的淨值為1,660萬港元。鑑於投資可獲利套現的機會減少，來自出售可供出售證券的淨額收益下跌4,600萬港元，至8,600萬港元。本行於2008年上半年出售一間前分行的物業獲利3,000萬港元。計及減值虧損、其他收益及稅項後，除稅後溢利為1億港元，較2007年的4.61億港元下跌78%。平均資產回報率及平均股本回報率分別從2007年的0.81%及11.43%下降至0.16%及2.54%。

分散資金來源及客戶存款增加，令本行能支持資產增長，截至2008年12月31日止，總資產上升8%或50億港元，至656億港元。截至2008年12月31日止，客戶存款錄得令人滿意的增長，上升16%至480億港元。鑑於信貸環境日漸惡化，本行於2008年在增長貸款組合方面態度審慎，期內貸款組合上升5%或16億港元，至330億港元。為了增強資本基礎及提供充足的資金以支持未來的業務發展，本行於2008年12月發行約1.2億美元、票面息率9%的優先股。成功發行優先股令本行的資本及流動資金狀況充裕。截至2008年12月底的資本充足比率為14.04%，而2008年全年平均流動資金比率為40.29%。

本集團27% (2007年: 34%)之未計收益及減值虧損前經營溢利是來自台灣相關業務。有關比例下降是由於本行對發展台灣相關貸款業務轉趨審慎以保障資產質素，以及投資者信心薄弱，令財富管理費用收入下跌所致。截至2008年12月31日，台灣相關業務的貸款及客戶存款結餘分別佔本集團總貸款及總存款結餘11% (2007年年底: 18%)及22% (2007年年底: 21%)。



million. In addition, the Bank has further agreed to give up to RMB27 million of its share of future dividends from XCCB to the existing shareholders of XCCB as deferred payment of part of the consideration. The strategic partnership with XCCB will provide the Bank with instant RMB access and enable it to better serve the banking needs of Taiwanese and Hong Kong businessmen on the Mainland. The Bank and XCCB will cooperate in various business areas, with a major focus on building out the Taiwan-related business and the consumer finance and deposit franchise at the initial stage.

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

2008 年 12 月，本行成功購入廈門市商業銀行（「廈商行」）19.99% 的股權，涉及現金總額約 2.3 億元人民幣。此外，本行亦進一步同意給予廈商行原有股東總額不超過 2,700 萬元人民幣其於廈商行將收到的未來股息作為部分認購價款的遞延付款。透過與廈商行的策略性夥伴關係，本行將可開展人民幣業務，為聚居大陸的台商和港商提供更優質的銀行服務。本行亦將會與廈商行在多個業務範疇上作出合作，初期會重點合作發展台灣相關業務、消費金融及存款業務。

於 2009 年，動盪的經營環境及不明朗的環球經濟前景將繼續影響銀行的收益。預計銀行業將面臨更多由於外圍衝擊以及香港和全球經濟增長放緩所帶來的挑戰。在這不穩定的時候，風險管理便尤其重要。本行已採取了連串的重要措施，以改善風險管理、加強內部監控和增強資產負債表，這些將驅使本行未來的增長由其核心的存款和貸款業務所帶動。本行亦將利用此機會增進與現有客戶的關係，吸納優質客戶以擴大客戶基礎，以及爭取更多的跨業務合作。其他的發展重點包括進一步與富邦金控整合，以增加收入及營運上的協同效應，控制成本及善用資本金以提高回報。這將是一個持續的過程，以確保本行的業務能抵禦未來具挑戰性的市場環境，於市況持續動盪時捕捉商機，並待市況好轉時能提升獲利。