

# Extending our Horizons

Fubon Bank (Hong Kong) Limited  
FY2008 Final Results  
10 March 2009



Fubon Bank  
富邦銀行

Value Banking



## Fubon Bank (HK) Limited – Disclaimer

This meeting may contain forward-looking statements with respect to the financial condition, results of operations and business of the Bank. These forward-looking statements represent the Bank's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed. Certain statements, such as those that include the words "potential", "estimated", and similar expressions or variations on such expressions may be considered "forward-looking statements".



# 2008 Operating Environment

1. Market environment was relatively stable during 1H 2008 but market sentiment began to turn weak starting 3Q 2008.
2. The financial turbulence erupted into a full-blown global crisis causing significant clogs to financial markets around the world after Lehman's collapse.
3. The credit market takes time to return to normal.
4. Liquidity tightening and general de-leveraging situation caused financial instruments reflecting distressed value.
5. Global financial markets gradually return to stable condition after a series of governments' & central banks' measures.



## 2H 2008 Results vs. 1H 2008 Results

- Delivered Record Interim Earnings of HK\$250 million.
- 2H 2008 Earnings significantly impacted by:
  - Higher funding costs after Lehman's collapse
  - Assets priced with higher spread due to increased credit costs.
  - Drop in fee income from the sale of Wealth Management, Investment & Structured Products and stock brokerage.
  - Asset quality deteriorates in particular Corporate & SME portfolios.
  - Mark-to-market losses on CDOs and impairment losses on AFS portfolio.



# Performance Highlights

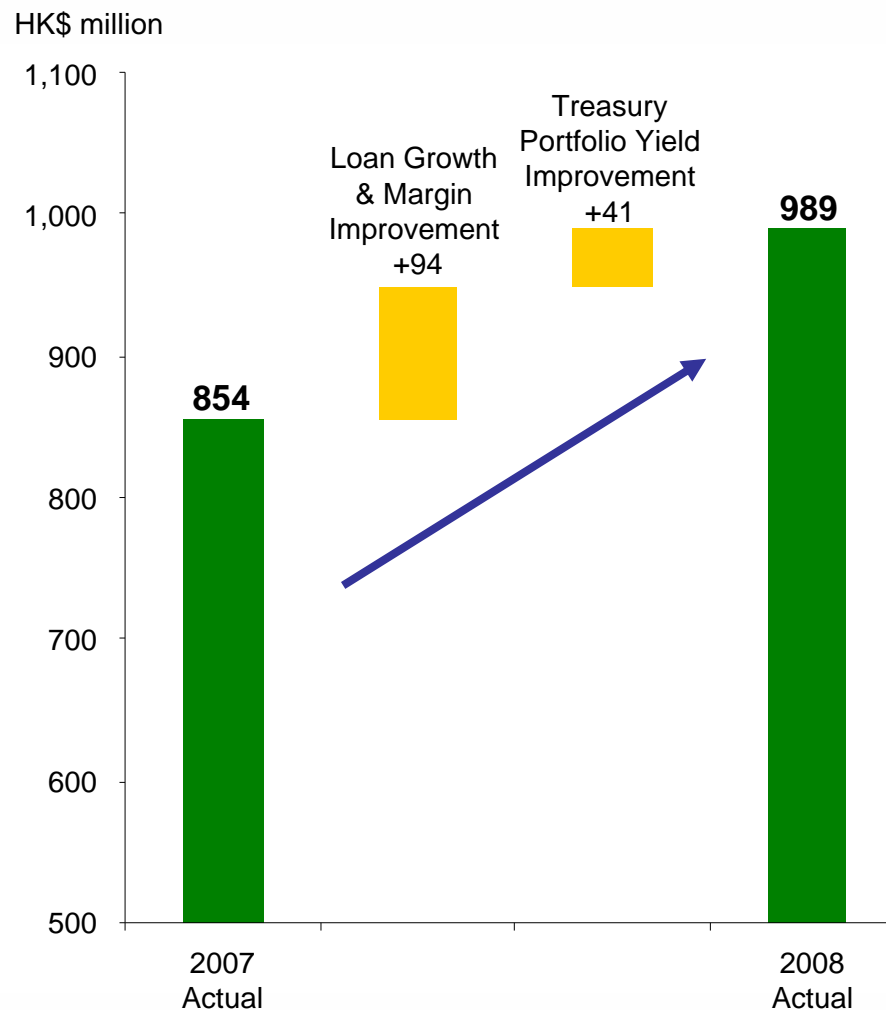
(2008 Actual vs. 2007 Actual)

	2008 (HK\$ million)	vs. 2007
Net Interest Income	989	16% ↑
Non-interest Operating Income <i>(Decreased 18% if including MTM losses on CDOs of HK\$128 million)</i>	594	10% ↓
Operating Expenses	965	16% ↑
Operating Profit Before Gains and Impairment Losses	489	17% ↓
Profit for the Period	100	78% ↓
Proposed Final Dividend of 1.5 Hong Kong cents per share		



# Net Interest Income Rose 16%

- Net interest margin improved 11 bps to 1.76% in 2008.
- Net interest income increased HK\$135 million or 16% to HK\$989 million.
- Of which, HK\$94 million growth was attributed to higher average loan balance and margin improvement. Gross loan balance increased HK\$1.7 billion or 5% to HK\$33.3 billion as at 31 December 2008.
- HK\$41 million growth was attributed to Treasury portfolio yield improvement.





# Non-Interest Operating Income Decreased 10%

*(decreased 18% if including Mark-to-Market Losses on CDOs of HK\$128 million)*

Non-Interest Operating Income decreased by HK\$64 million or 10% to HK\$594 million (excluded mark-to-market losses on CDOs for both years 2008 and 2007).

## Financial Markets Related Fee Income (↓ HK\$28 million or 7%)

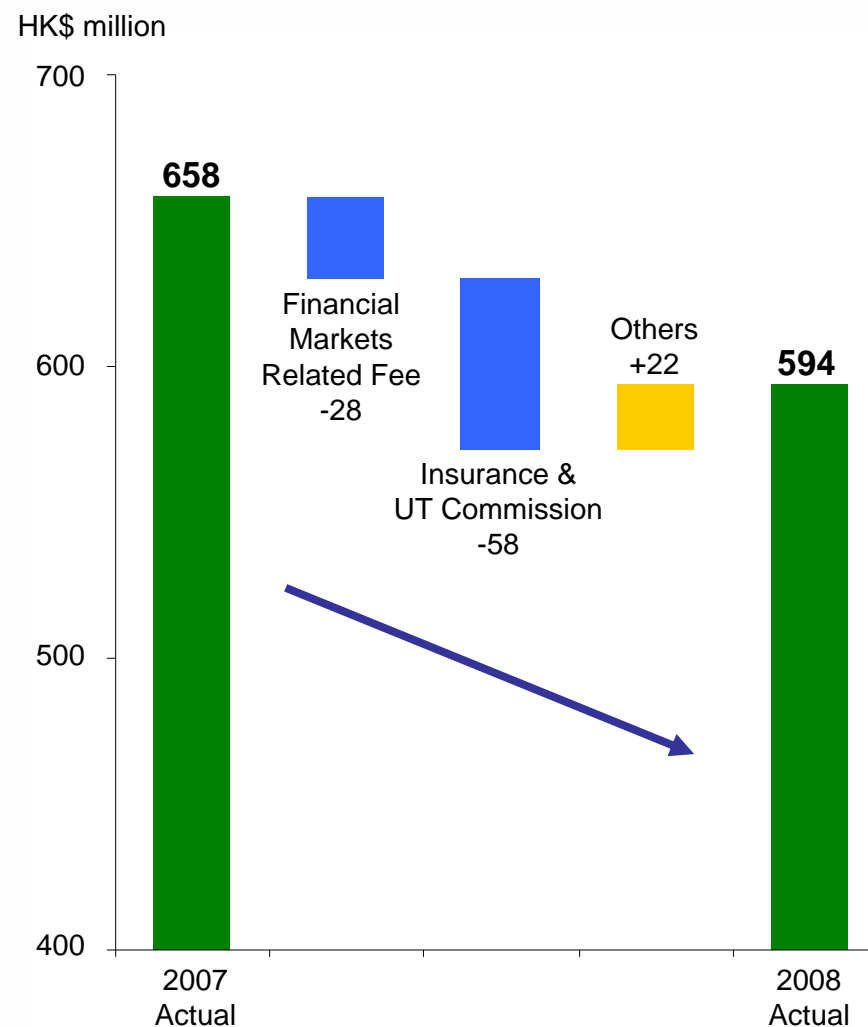
- Brokerage income decreased by HK\$51 million.
- FMG Marketing income decreased by HK\$76 million (Corporate Sales increased 80% whereas Retail Sales decreased 57%).
- Improved interest rate & FX trading environment helped increase profitability which partially offset the drop in Brokerage and FMG Marketing fee income.

## Insurance & Unit Trust Commission (↓ HK\$58 million or 38%)

- Insurance Commission (↑ HK\$1 million or 2%)
- Unit Trust Commission (↓ HK\$62 million or 51%)

## Others (↑ HK\$22 million or 22%)

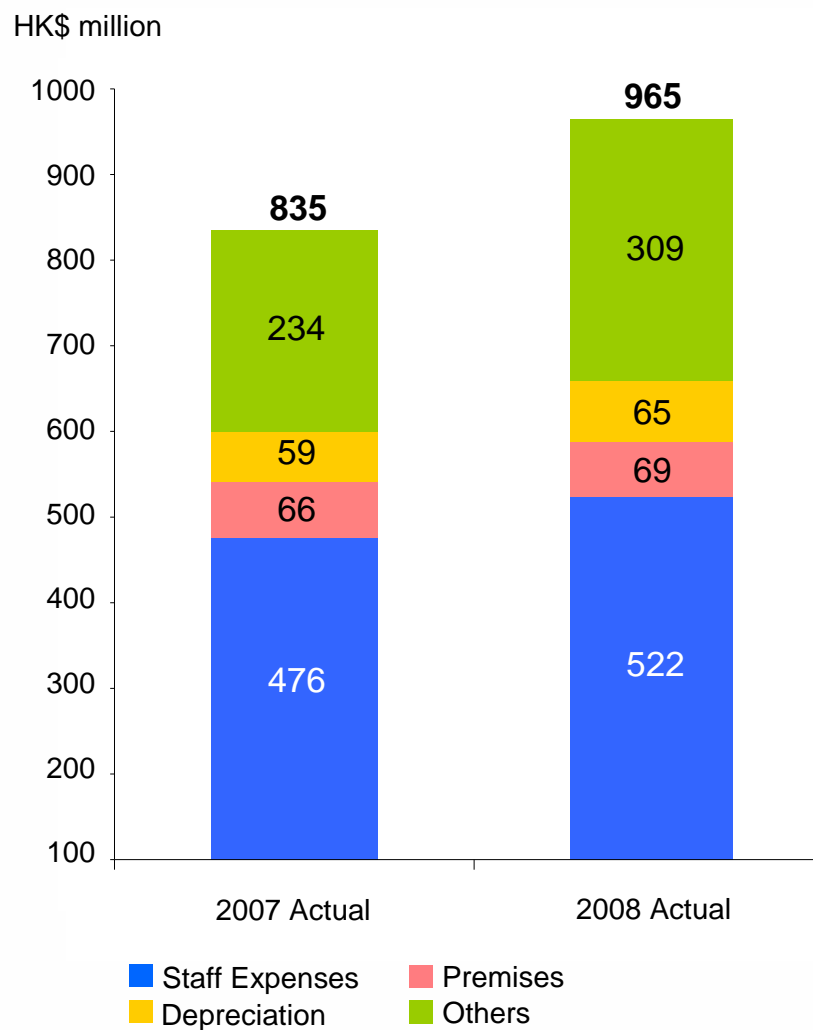
- Credit Card Fee (↑ HK\$7 million or 17%)
- Fee & Commission Expenses (↓ HK\$17 million, mainly due to lower transaction volume & amount)





# Increase in Operating Expenses by 16%

- Operating Expenses increased by HK\$130 million or 16% to HK\$965 million from HK\$835 million in 2007.
- Major increase was in staff expenses of HK\$46 million or 10%:
  - Surging wage pressure and full year salary effect of headcount recruited in 2007
  - Average headcount growth of 100 or 10% when compared YOY (2008: 1,106; 2007: 1,006)
  - Headcount as at 31 Dec 2008 was 1,066, decreased 35 from 1,101 as at Dec 2007







## Resulting Net Exposure on CDOs at HK\$14M & SIVs at HK\$17M

(In HK\$ million)	Nominal Value	Market Value			Book Value As at 31 Dec 08	Impairment Losses through 2008 P&L	MTM Gains/ (Losses) in 2008
		As at 31 Dec 07	As at 30 Jun 08	As at 31 Dec 08			
<b>CDOs</b>							
Fortuna Managed CDO III-A	78 (US\$10M)	58.50%	29.00%	2.00%	1.5		(44)
Titian CDO Plc	78 (US\$10M)	65.60%	31.80%	14.60%	11.3		(39)
Anderson Valley III CDO	78 (US\$10M)	60.00%	23.12%	1.00%	0.8		(45)
	233 (US\$30M)	61.37%	27.97%	5.87%	13.6		(128)
<b>SIVs</b>							
Centauri Corp	155 (US\$20M)	51.60%	7.30%	0.00%	0	(80)	-
Cullinan Finance Ltd.*:							(Through Equity)
Mazarin Funding	83.3 (US\$10.7M)	19.90%	19.30%	14.02%	11.7	-	(15.0)
Barion Funding	32.9 (US\$4.3M)	19.90%	19.56%	15.08%	4.9	-	(6.1)
	271.2 (US\$35M)				16.6	(80)	(21.1)

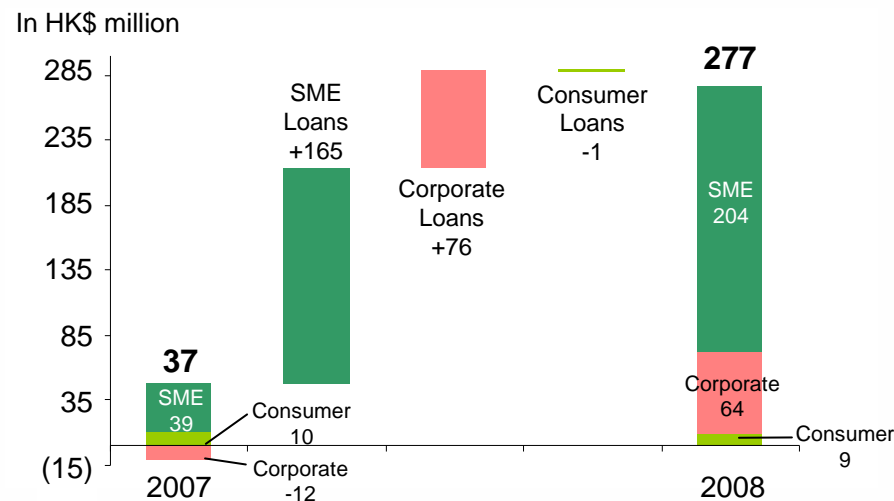
\* Exchanged into Mazarin and Barion in Feb 2008



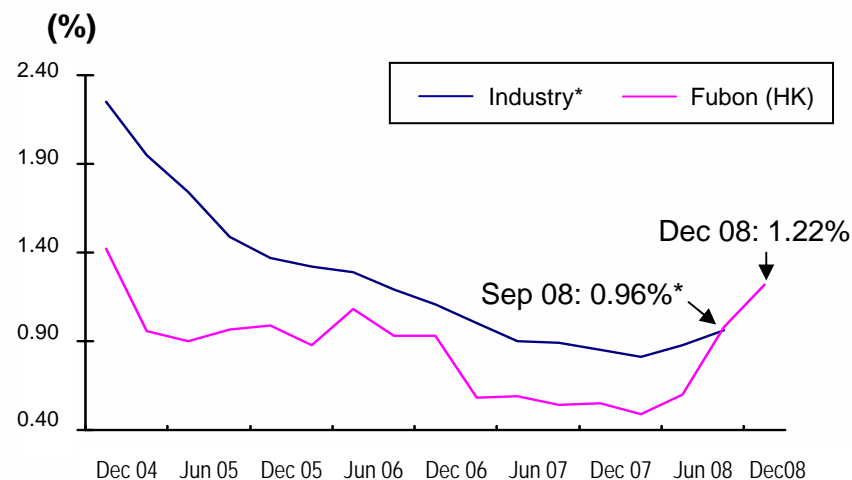
# Asset Quality

- Net charge of individual impairment losses for 2008 was HK\$277 million, increased by HK\$240 million when compared to HK\$37 million in 2007.
- Increase in Corporate Loan impairment losses of HK\$76 million was mainly due to a small number of corporate accounts which went into problem in 2H 2008.
- Increase in impairment losses on SME portfolio of HK\$165 million due to worsening business environment and economic downturn in 4th quarter 2008.
- Impaired loan ratio increased to 1.22% as at 31 December 2008.

## Charge for Individual Impairment Losses



## Impaired Loan Ratio



\* Source: the HKMA



# Advances to Customers by Industry Sector

(HK\$ million)	31 Dec 08 Actual	31 Dec 07 Actual	Variance	
			2008 vs 2007 Amount	%
Property Development & Investment	8,742	5,933	2,809	47.3
Financial Concerns	492	678	(186)	(27.4)
Stockbrokers	5	144	(139)	(96.2)
Wholesales & Retail Trade	96	222	(125)	(56.5)
Manufacturing	2,204	1,634	570	34.9
Transport & transport equipment	753	699	54	7.7
Others	2,676	2,664	12	0.4
Individuals	8,902	8,708	194	2.2
Gross advances for use in Hong Kong	23,871	20,683	3,188	15.4
Trade Finance	1,850	2,170	(320)	(14.8)
Gross advances for use outside Hong Kong	7,609	8,780	(1,171)	(13.3)
<b>Gross advances to Customers</b>	<b>33,330</b>	<b>31,633</b>	<b>1,697</b>	<b>5.4</b>



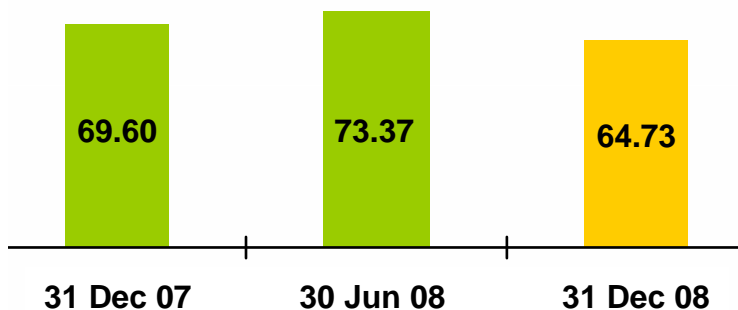
# Customer Deposits Increased by 16%

(HK\$ million)	31 Dec 08 Actual	31 Dec 07 Actual	Variance	
			2008 vs 2007 Amount	%
Demand Deposits	5,835	6,439	(604)	(9.4)
Saving Deposits	879	957	(78)	(8.2)
Call Deposits	3,256	2,882	374	13.0
Fixed Deposits	38,028	31,196	6,832	21.9
<b>Total Customer Deposits</b>	<b>47,998</b>	<b>41,474</b>	<b>6,524</b>	<b>15.7</b>

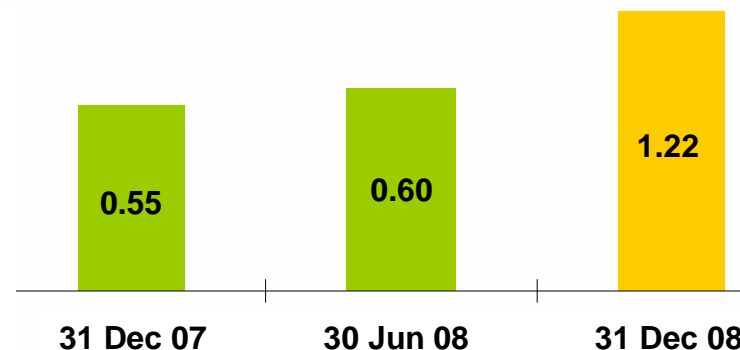


# Key Financial Ratios

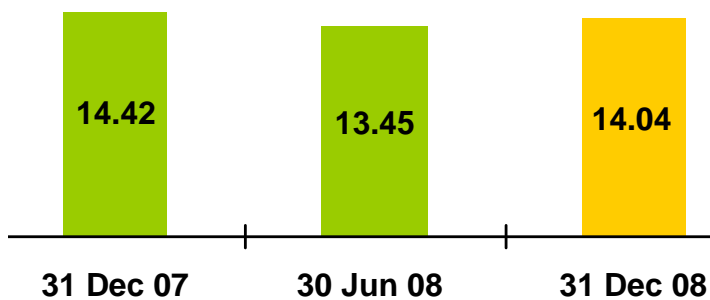
Loan to Deposit Ratio (%)



Impaired Loan Ratio (%)

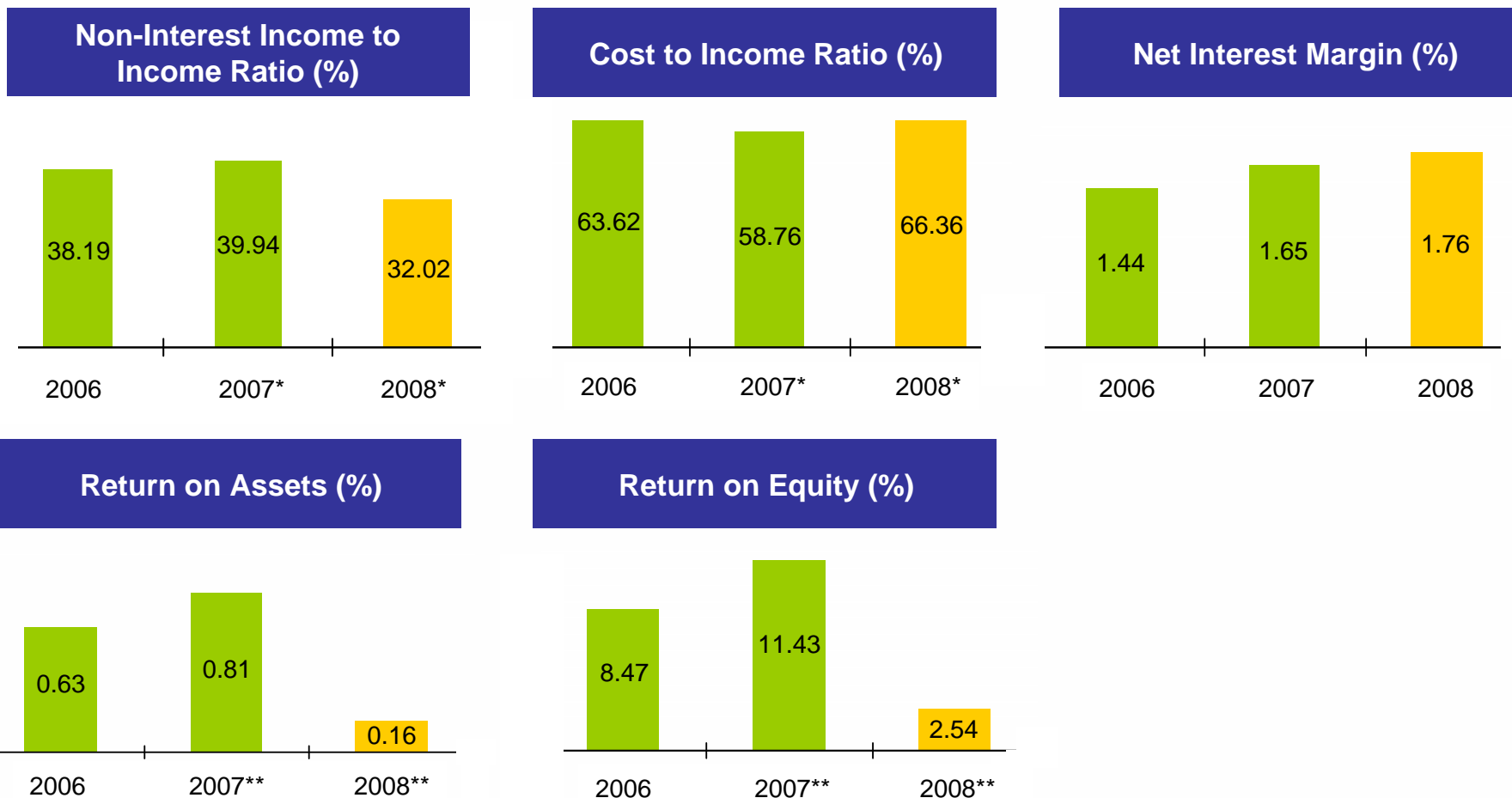


Capital Adequacy Ratio (%)





# Key Financial Ratios (Cont'd)



\* 2008 Non-interest Income to Income Ratio and Cost to Income Ratio will be at 37.54% and 60.97% respectively when excluding HK\$128 million mark-to-market losses on CDOs (vs. 2007 Non-interest Income to Income Ratio and Cost to Income Ratio at 43.54% and 55.21% respectively when excluding HK\$90 million mark-to-market losses on CDOs)

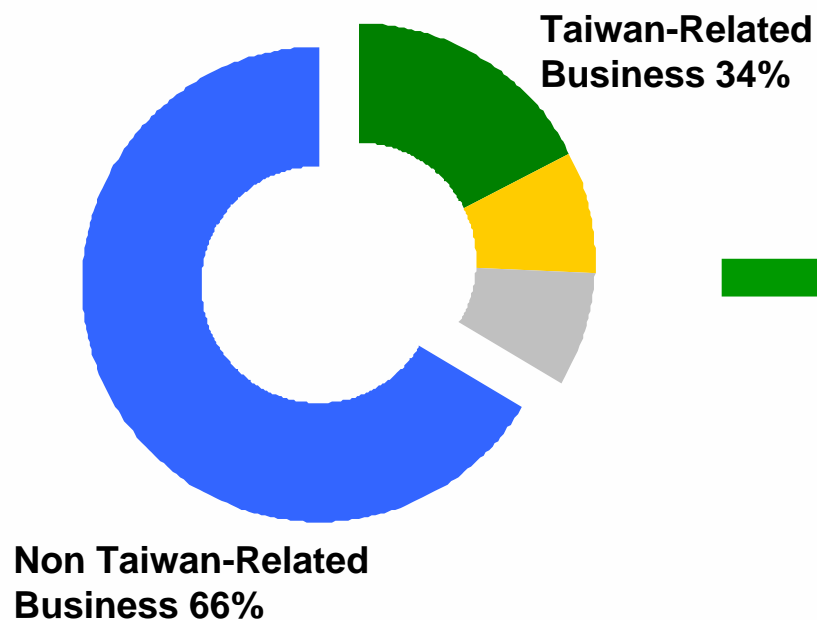
\*\* 2008 ROA and ROE will be at 0.59% & 8.87% respectively when excluding HK\$128 million mark-to-market losses on CDOs, HK\$197 million impairment losses on AFS portfolio (vs. 2007 ROA & ROE at 1.17% & 16.12% respectively when excluding HK\$90 million mark-to-market losses on CDOs & HK\$162 million impairment losses on AFS portfolio)



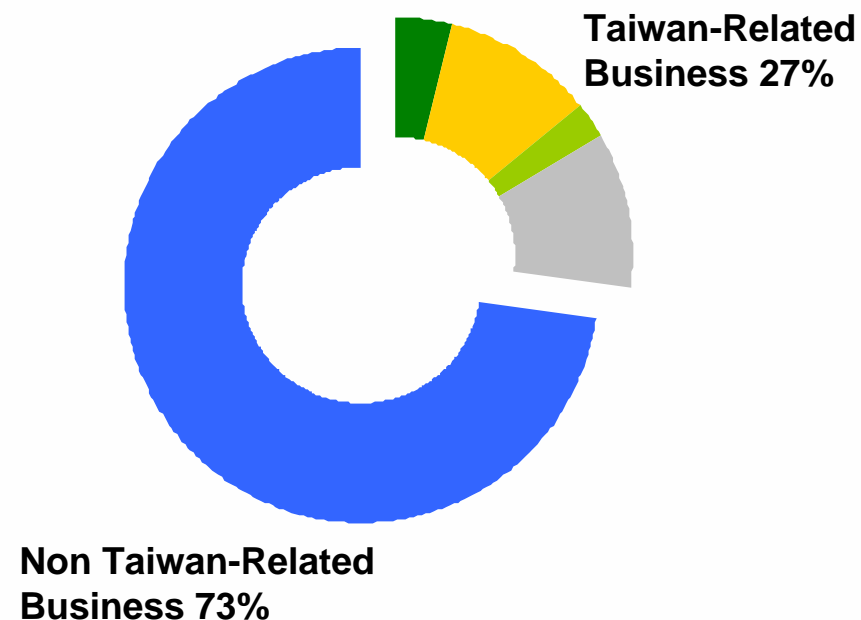
# Taiwan-Related Business

## – Operating Profits before Gains & Impairment Losses

**2007**



**2008**



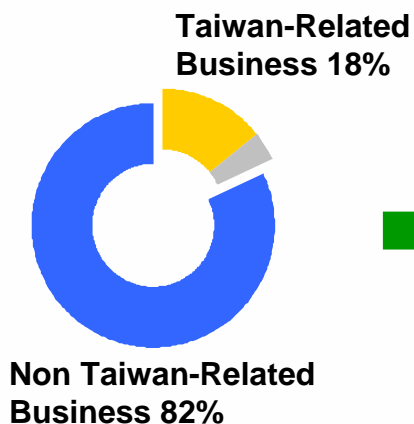
- Taiwan-related: Wealth Management
- Taiwan-related: Corporate Banking
- Taiwan-related: Global Commercial Banking
- Taiwan-related: Hire Purchase
- Non-Taiwan related business



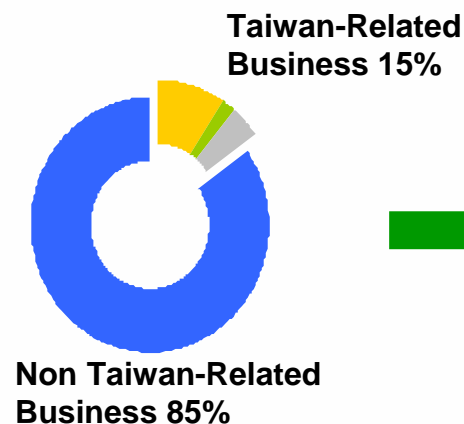
# Taiwan-Related Business – Loans and Deposits

## Loans

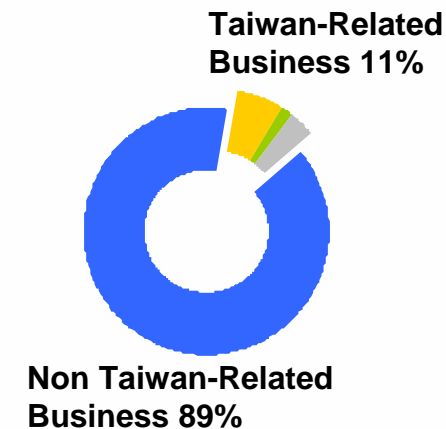
As at 31 Dec 2007



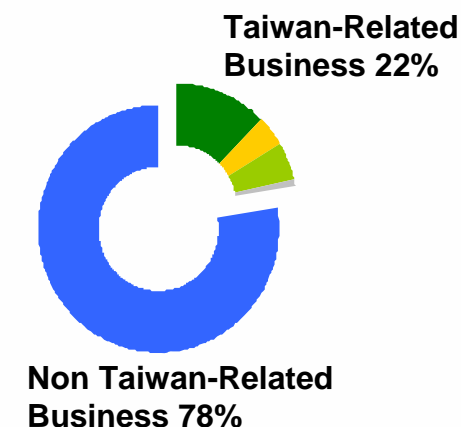
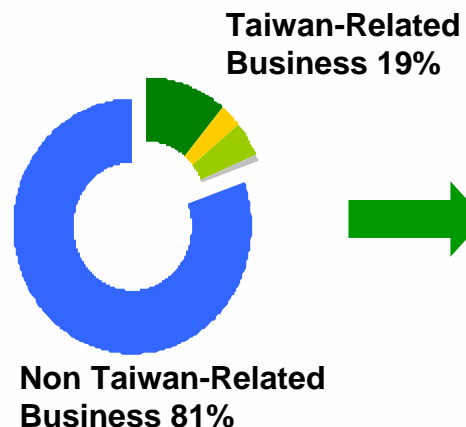
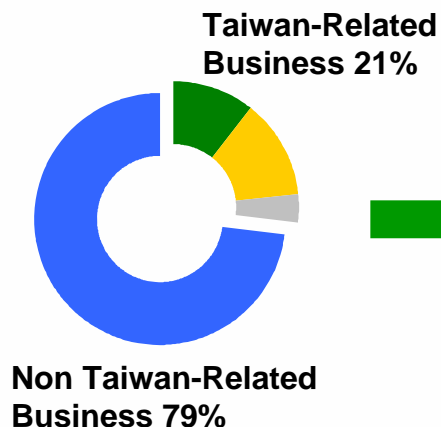
As at 30 Jun 2008



As at 31 Dec 2008



## Deposits



- Taiwan-related: Wealth Management
- Taiwan-related: Corporate Banking
- Taiwan-related: Global Commercial Banking
- Taiwan-related: Hire Purchase
- Non-Taiwan related business





# Extending Our Horizons

- Strengthening our business against economic uncertainty / challenges
  - Proactively manage our cost base & effectively align our resources to improve operating leverage
  - Strengthen our balance sheet, enhance our internal control & risk management capabilities
- Driving the performance of our core deposit and lending businesses
- Growing our customer franchise
  - nurture existing client relationships and acquire good quality clients
- Integrating further with parent company
  - leverage on Fubon FHC's platform to enhance revenue and operating synergies
- Establishing our footprints in Mainland China
  - Provide Xiamen City Commercial Bank with necessary assistance and support to enhance its existing business and operations
  - Set up Fubon Leasing (China) Company Limited for launching leasing business in Shenzhen in 2H 2009

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# Income Statement

(HK\$ million)	2008	2007	Variance	
	Actual	Actual	Amount	%
Interest income	2,246	2,826	(580)	(21)
Interest expense	(1,257)	(1,972)	715	(36)
Net interest income	989	854	135	16
Other operating income	594	658	(64)	(10)
Mark-to-market losses for CDOs	(128)	(90)	(38)	42
Operating income	1,455	1,421	33	2
Operating expense	(965)	(835)	(130)	16
Operating profit before gains & impairment losses	489	587	(97)	(17)
Impairment losses on advances to customers	(309)	(38)	(272)	>100
Impairment losses on available-for-sale securities	(197)	(162)	(35)	22
Other impairment losses	(0)	(5)	5	(99)
Operating profit after impairment losses	(17)	382	(399)	N/A
Net gain on disposal of available-for-sale securities	86	132	(46)	(35)
Net gain on disposal of fixed assets	29	3	26	>100
Profit before taxation	98	517	(419)	(81)
Taxation	2	(56)	58	N/A
<b>Profit for the period</b>	<b>100</b>	<b>461</b>	<b>(361)</b>	<b>(78)</b>



# Consolidated Balance Sheet

(HK\$ million)	As at	As at	Variance	
	31 Dec 08	31 Dec 07	Amount	%
Cash, short term funds & placements	9,842	7,766	2,076	26.7
Investment in securities	13,836	18,142	(4,306)	(23.7)
Advances to customers less impairment	33,034	31,479	1,555	4.9
Other loans and receivables	3,745	-	3,745	N/A
Accrued interest and other accounts	3,779	2,094	1,685	80.5
Investments in associates	294	-	294	N/A
Fixed assets	1,112	1,142	(30)	(2.6)
	<b>65,642</b>	<b>60,623</b>	<b>5,019</b>	<b>8.3</b>
Deposits and balances of banks & FIs	1,987	1,458	529	36.3
Deposits from customers	47,998	41,474	6,524	15.7
CD and Debt securities issued	3,033	3,975	(942)	(23.7)
Other accounts and liabilities	6,219	7,972	(1,753)	(22.0)
Subordinated debts	1,684	1,623	61	3.8
Total shareholders' equity	4,721	4,121	600	14.5
	<b>65,642</b>	<b>60,623</b>	<b>5,019</b>	<b>8.3</b>

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