

Extending our Horizons

Fubon Bank (Hong Kong) Limited
FY2009 Interim Results
11 August 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".



1H 2009 Operating Environment

- Hong Kong economy remained fragile in 1H 2009:
 - 1Q 2009 GDP registered a sharp year-on-year decline of 7.8%
 - Total value of exports of goods plummeted by 21.9% over 1Q 2008
 - Unemployment rate reached 3-year high at 5.4% in June 2009

- Unconventional and aggressive fiscal stimulus packages in many economies largely reduced systemic risk to global financial markets and restored investors' confidence

- Central Bank of developed economies cut repeatedly the interest rates since 4Q 2008. HK\$ HIBOR rates reacted to U.S. interest rate cuts to a very low level in 1H 2009.

- Early signs of stabilization witnessed in 2Q 2009, notably the strong rebound of global equity markets, relatively stable assets prices, tightening of credit spreads rationalized bond prices and improved corporate results



FBHK 1H 2009 Operating Results

- Weakening loan demand under severe economic recession
- Revenue from fee-based transactions declined substantially year-on-year
- Concrete cost streamlining plan to alleviate the negative impact of slowing revenues
- Asset quality under pressure particularly the SME portfolio
- Despite the above factors, the Bank achieved substantial earnings improvement when compared to a loss of HK\$150 million recorded for 2H 2008



Performance Highlights

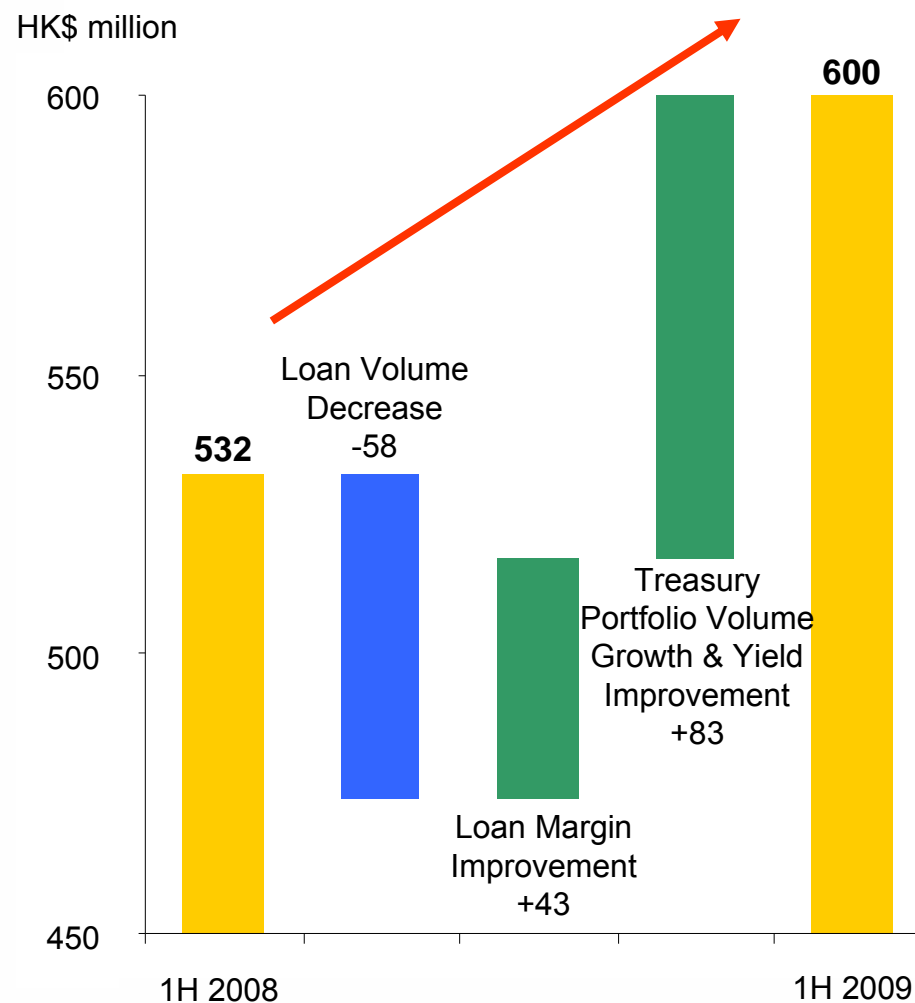
(1H 2009 vs. 1H 2008)

| | <u>1H 2009</u> <u>(HK\$ million)</u> | <u>vs. 1H 2008</u> |
|---|---|--------------------|
| Net Interest Income | 600 | 13% ↑ |
| Non-Interest Operating Income <i>(Decreased 40% if including MTM losses on CDOs – 1H 2009: HK\$0.1 million; 1H 2008: HK\$78.1 million)</i> | 151 | 54% ↓ |
| Operating Expenses | 463 | 1% ↓ |
| Operating Profit Before Gains and Impairment Losses | 288 | 9% ↓ |
| Profit for the Period | 101 | 60% ↓ |
| Profit attributable to Ordinary Shareholders | 59 | 77% ↓ |
| Interim Dividend of 1.5 Hong Kong cents per Ordinary Share | | |



Net Interest Income Rose 13%

- Net interest income increased HK\$68 million or 13% to HK\$600 million for 1H 2009
- Widening in HK\$ Prime-HIBOR gap, higher debt securities average balance and spread, and lower funding costs contributed to higher net interest income and net interest margin
 - HK\$58 million decrease due to lower average loan balance as a result of weakening loan demand and cautious lending
 - HK\$43 million growth was attributed to loan margin improvement as loans were re-priced with higher spread
 - HK\$83 million growth was attributed to Treasury portfolio volume growth and yield improvement due to improved credit spread
- Net interest margin improved 15 bps to 2.05% in 1H 2009 as compared to 1H 2008's 1.90%





Non-Interest Operating Income Decreased 54%

Non-Interest Operating Income decreased by HK\$181 million or 54% to HK\$151 million

FMG Marketing Fee Income (↓ HK\$110 million or 63%)

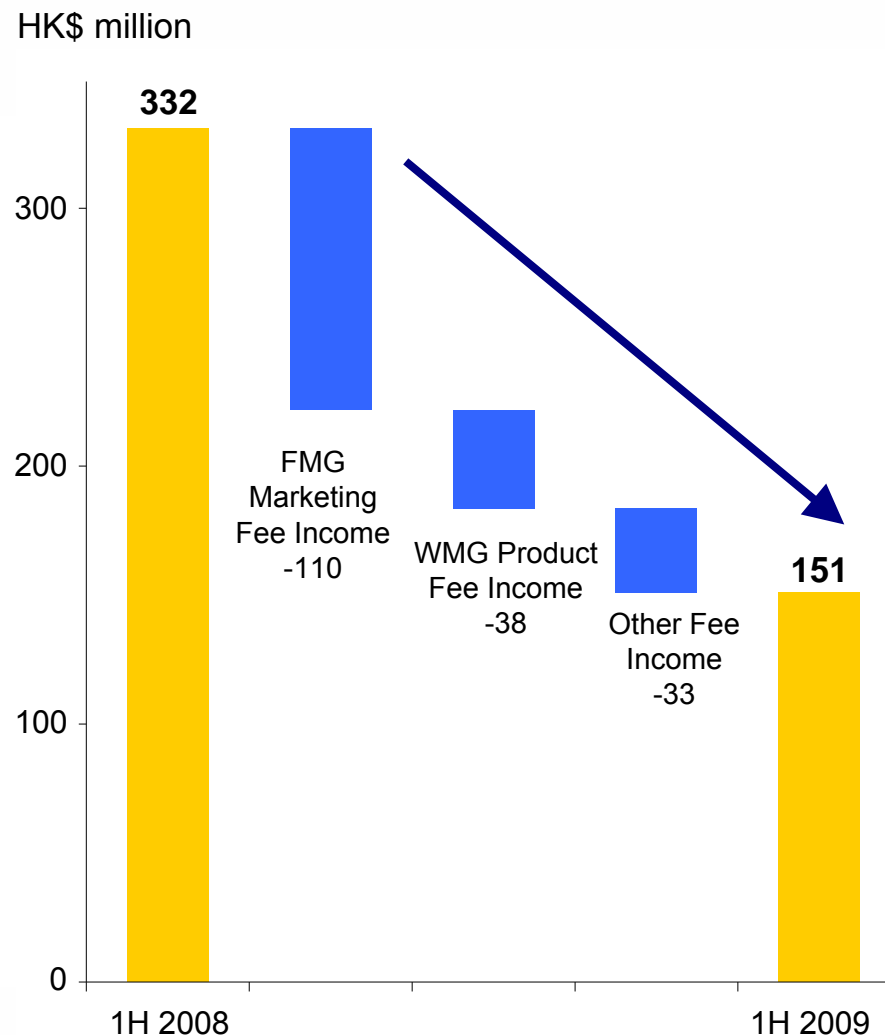
Depressed market sentiment and investors' risk aversion appetite for investment products led to reduction in FMG marketing fee income (↓ HK\$101M or 71%) and stock brokerage income (↓ HK\$9M or 26%)

Wealth Management Product Fee Income (↓ HK\$38 million or 55%)

- Insurance Commission (↓ HK\$4M or 18%)
- Unit Trust Commission (↓ HK\$34M or 70%)

Other Fee Income (↓ HK\$33 million)

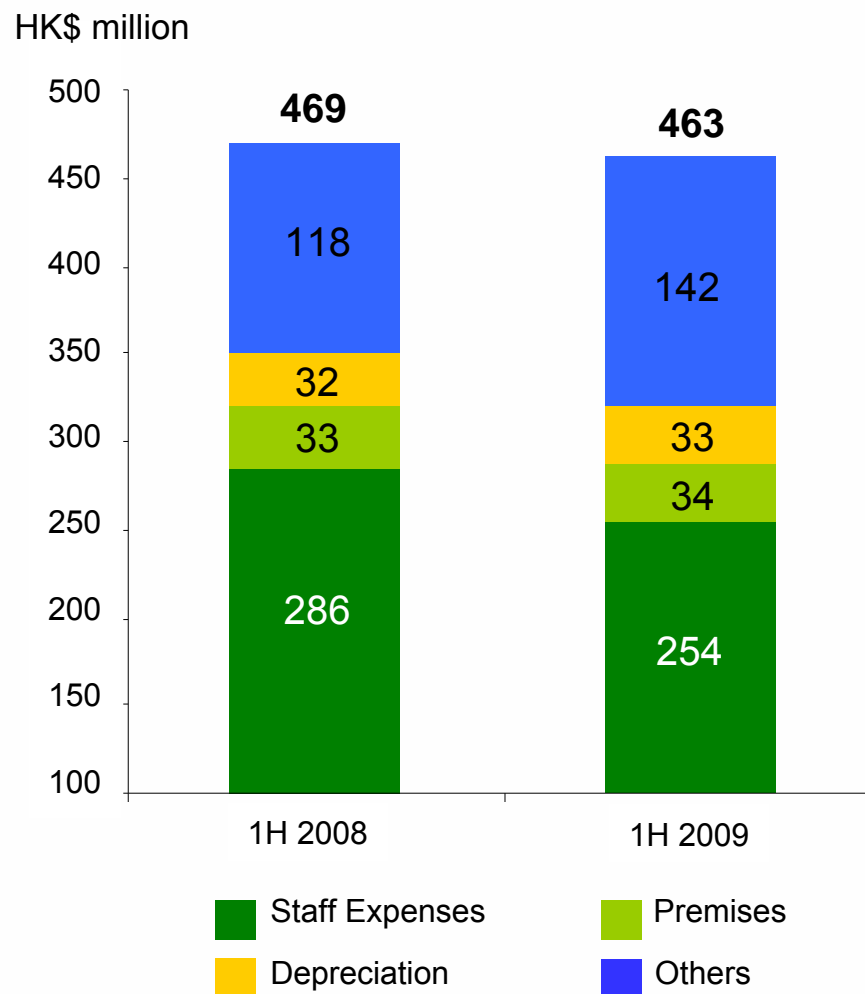
Weakening loan demand and decrease in transaction volume reduced trade-related commission (↓ HK\$7M), credit-related fees (↓ HK\$7M) & fee income from trade-related remittance transactions (↓ HK\$6M).





Decrease in Operating Expenses by 1%

- Operating Expenses decreased by HK\$6 million or 1% to HK\$463 million from HK\$469 million in 1H 2008 and decreased 7% or HK\$34 million when compared to 2H 2008's HK\$497 million
- On-going concrete plans to rationalize staff and operating expenses levels while maintaining operating efficiency
- Major decrease in 1H 2009 was in staff expenses of HK\$32 million or 11%
- Business promotion expenses increased HK\$15 million for franchise acquisition and business development

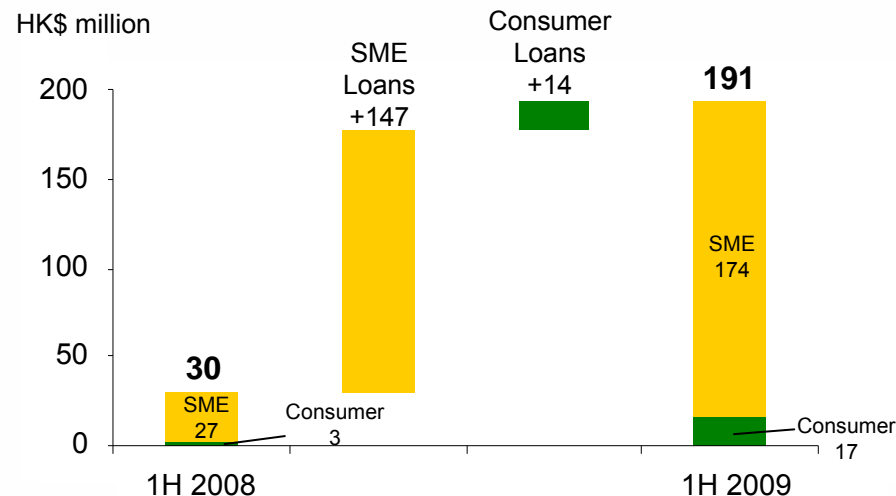




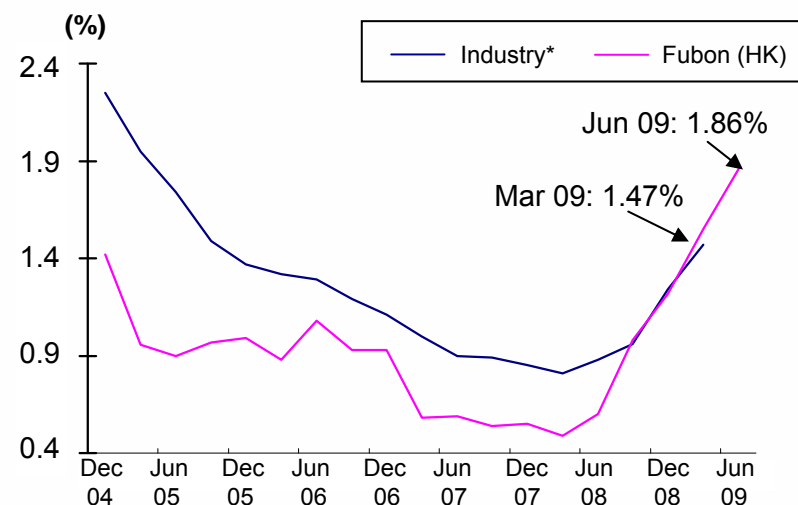
Asset Quality

- Net charge of individual impairment losses for 1H 2009 was HK\$191 million which increased by HK\$161 million when compared to HK\$30 million in 1H 2008, but
- Decreased 23% or HK\$56 million as compared to HK\$247 million in 2H 2008
- Major increase in impairment losses for SME Loans
- The increase in impaired loan balances was further aggravated by the 8% drop in loan balance in 1H 2009, as a result, impaired loan ratio increased from 1.22% as at 31 Dec 08 to 1.86% as at 30 June 09
- Stabilization on impaired loan and provisioning levels witnessed in 2Q 2009 and such levels may gradually reduce in 2H 2009 when global economy starts to recover

Charge for Individual Impairment Losses



Impaired Loan Ratio



* Source: the HKMA



Advances to Customers by Industry Sector

| (HK\$ million) | 30 Jun 09 Actual | 31 Dec 08 Actual | Variance | |
|--|---------------------|---------------------|----------------|------------|
| | | | Amount | % |
| Property Development & Investment | 8,717 | 8,742 | (25) | (0) |
| Financial Concerns | 632 | 492 | 140 | 28 |
| Stockbrokers | 20 | 5 | 15 | >100 |
| Wholesale & Retail Trade | 77 | 96 | (20) | (21) |
| Manufacturing | 2,210 | 2,204 | 6 | 0 |
| Transport & transport equipments | 670 | 753 | (82) | (11) |
| Others | 2,069 | 2,676 | (607) | (23) |
| Individuals | 9,200 | 8,902 | 298 | 3 |
| <hr/> | | | | |
| Gross advances for use in Hong Kong | 23,596 | 23,871 | (275) | (1) |
| Trade Finance | 996 | 1,850 | (854) | (46) |
| Gross advances for use outside Hong Kong | 6,099 | 7,609 | (1,509) | (20) |
| <hr/> | | | | |
| Gross advances to Customers | 30,691 | 33,330 | (2,639) | (8) |



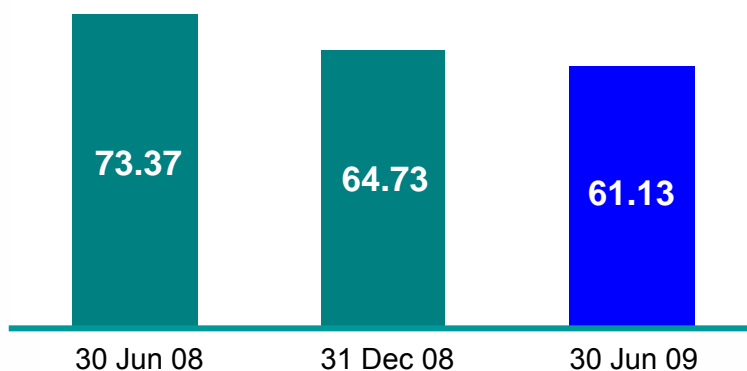
Customer Deposits Increased by 1%

| (HK\$ million) | 30 Jun 09 Actual | 31 Dec 08 Actual | Variance | |
|--------------------------------|---------------------|---------------------|------------|------------|
| | | | Amount | % |
| Demand Deposits | 8,000 | 5,835 | 2,165 | 37.1 |
| Saving Deposits | 1,307 | 879 | 428 | 48.7 |
| Call Deposits | 4,494 | 3,256 | 1,238 | 38.0 |
| Fixed Deposits | 34,777 | 38,028 | (3,251) | (8.5) |
| Deposits from Customers | 48,578 | 47,998 | 580 | 1.2 |

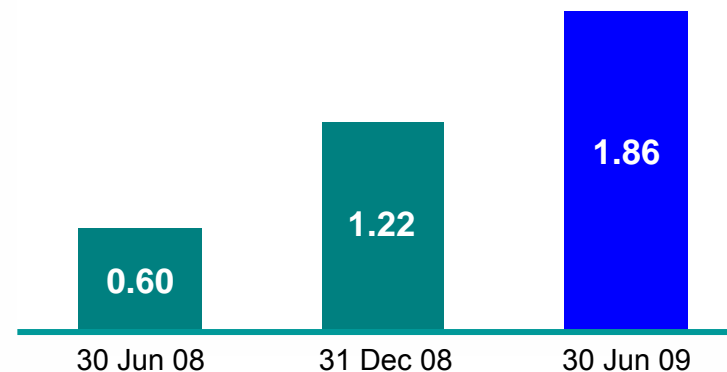


Key Financial Ratios

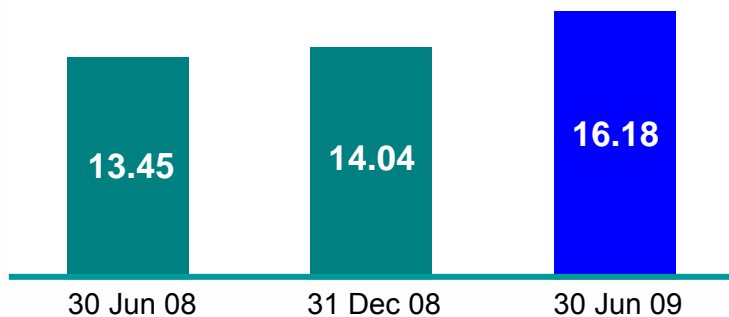
Loan to Deposit Ratio (%)



Impaired Loan Ratio (%)



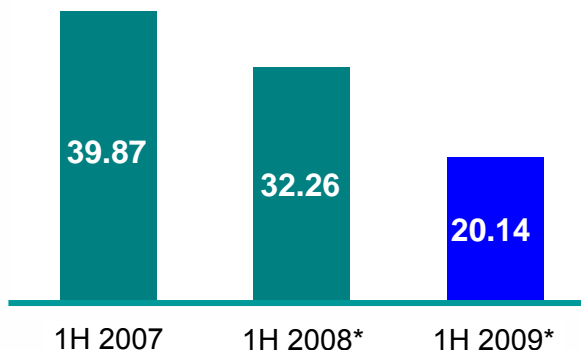
Capital Adequacy Ratio (%)



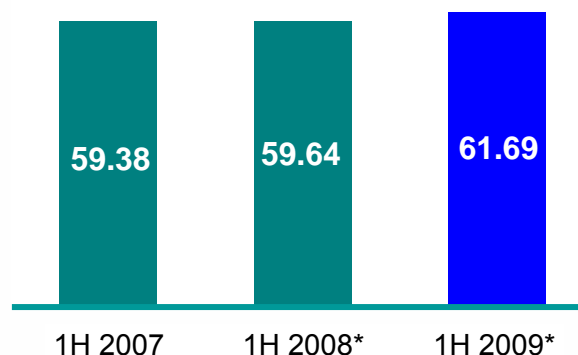


Key Financial Ratios (Cont'd)

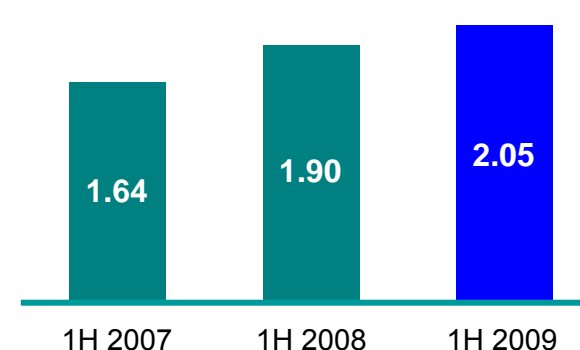
**Non-Interest Income to
Income Ratio (%)**



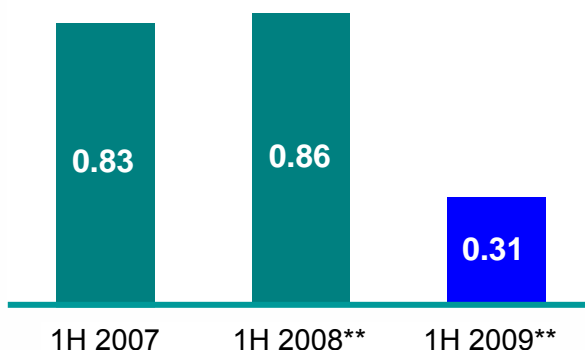
Cost to Income Ratio (%)



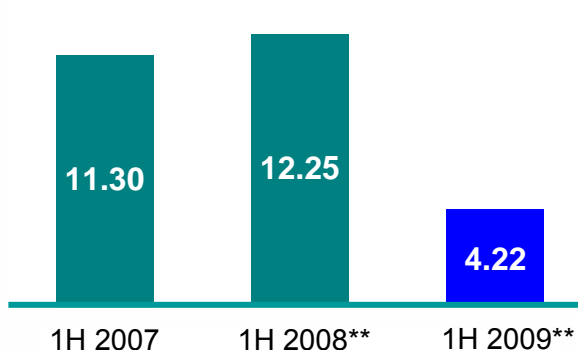
Net Interest Margin (%)



Return on Assets (%)



Return on Equity (%)



* 1H 2008 Non-interest Income to Income Ratio and Cost to Income Ratio were at 38.39% and 54.25% respectively when excluding HK\$78 million mark-to-market losses on CDOs

** 1H 2009 ROA, ROE will be at 0.35% & 4.69% respectively when excluding HK\$26 million impairment loss on available for sale equity securities (vs. 1H 2008 ROA and ROE were at 1.35% and 19.03% respectively when excluding HK\$78 million mark-to-market loss on CDOs, HK\$78 million impairment loss on two SIVs and HK\$18 million impairment loss on available-for-sale equity securities)



Repurchase Scheme of Lehman Brothers Minibonds

Entered into an agreement with the SFC, the HKMA and Distributing Banks to repurchase all outstanding Minibonds from Eligible Customers.

| | |
|---|-----------------|
| Estimated Nominal Value of the outstanding Minibonds proposed to be repurchased: | HK\$509 million |
| Maximum commitment in the event that all Eligible Customers accept the offer: (excluding any future payments following recovery from collaterals) | HK\$313 million |
| ex gratia payment to settled Eligible Customers: (excluding any future payments following recovery from collaterals) | HK\$8 million |
| Amount to be made available to Trustee to fund collateral recoveries: | HK\$12 million |

A provision has not been recognized in 1H 2009 unaudited financial statements as management is unable to estimate reliably the ultimate costs to the Bank of this agreement since it will depend critically on the amount of collaterals realized by the special purpose vehicles issuing the investments as well as the proportion of investors accepting the offer.



2H 2009 Outlook

- Whether the massive and unconventional government policy responses taken by the major economies are effective in reviving the global economy in a sustainable manner is still highly uncertain
- Hong Kong real economy remains weak and is still contracting, albeit at a slower pace. Market consensus had repeatedly cut Hong Kong's 2009 GDP forecasts to between -5.5% and -6.5%
- Signs of recovery in Mainland China (2Q 2009 real GDP growth of 7.9% year-on-year), which if sustainable, will provide some support to the Hong Kong economy



2H 2009 Key Initiatives

- Continue to enhance systems and control processes to comply with the changes in regulatory requirements
- Grow the loan books, mainly lending to Mid-Cap and Blue Chips companies, and continue to be vigilant in identifying and managing credit risks
- Focus on expanding the business franchise and positioning the Bank to benefit from the economic recovery
- Further expansions into Mainland China through opening the Dongguan Representative Office and leasing subsidiary in 2H 2009



YTD June 2009 – Income Statement

| (HK\$ million) | 1H2009 Actual | 1H2008 Actual | 2H2008 Actual | Variance | | | |
|---|------------------|------------------|------------------|---------------------|---------------|---------------------|------------|
| | | | | vs 1H2008 Amount | % | vs 2H2008 Amount | % |
| Interest income | 862 | 1,158 | 1,088 | (296) | (25.6) | (226) | (20.8) |
| Interest expense | (262) | (626) | (631) | 364 | (58.2) | 369 | (58.5) |
| Net interest income | 600 | 532 | 457 | 68 | 12.7 | 143 | 31.4 |
| Non-interest operating income | 151 | 332 | 262 | (181) | (54.4) | (111) | (42.3) |
| Mark-to-market loss for CDOs | (0) | (78) | (50) | 78 | (99.9) | 50 | (99.8) |
| Operating income | 751 | 786 | 669 | (35) | (4.4) | 82 | 12.4 |
| Operating expense | (463) | (469) | (497) | 6 | (1.1) | 34 | (6.7) |
| Operating profit before gains & impairment losses | 288 | 317 | 172 | (29) | (9.3) | 116 | 67.3 |
| Impairment losses on advances to customers | (206) | (18) | (291) | (188) | >100 | 85 | (29.2) |
| Impairment losses on available-for-sale securities | (26) | (96) | (101) | 70 | (72.5) | 75 | (74.3) |
| Other impairment losses | 4 | 6 | (6) | (2) | (32.5) | 10 | (N/A) |
| Operating profit after impairment loss | 59 | 209 | (226) | (150) | (71.7) | 285 | (N/A) |
| Net gain on disposal of available-for-sale securities | 48 | 44 | 42 | 4 | 9.3 | 6 | 12.9 |
| Net gain on disposal of fixed assets | (0) | 30 | (0) | (30) | N/A | (0) | (98.1) |
| Share of profits less losses of associates | 8 | - | - | 8 | N/A | 8 | N/A |
| Profit before taxation | 115 | 282 | (184) | (168) | (59.4) | 299 | N/A |
| Taxation | (14) | (32) | 34 | 18 | (56.9) | (48) | N/A |
| Profit for the period | 101 | 250 | (150) | (149) | (59.8) | 251 | N/A |



Balance Sheet as at 30 June 2009

| (HK\$ million) | 30 Jun 09 Actual | 31 Dec 08 Actual | Variance | |
|---------------------------------------|---------------------|---------------------|--------------|--------------|
| | | | Amount | % |
| Cash, short term funds & placements | 6,964 | 9,842 | (2,878) | (29.2) |
| Investments in securities | 20,090 | 13,836 | 6,254 | 45.2 |
| Advances to customers less impairment | 30,323 | 33,034 | (2,711) | (8.2) |
| Other loans and receivables | 3,430 | 3,745 | (315) | (8.4) |
| Accrued interest and other accounts | 2,662 | 3,779 | (1,117) | (29.6) |
| Investments in associates | 292 | 294 | (2) | (0.8) |
| Fixed assets | 1,091 | 1,112 | (21) | (1.9) |
| | 64,851 | 65,642 | (791) | (1.2) |
| Deposits and balances of banks & FIs | 1,770 | 1,987 | (217) | (10.9) |
| Deposits from customers | 48,578 | 47,998 | 580 | 1.2 |
| CD and Debt Securities issued | 1,021 | 3,033 | (2,012) | (66.3) |
| Other accounts and liabilities | 6,909 | 6,219 | 690 | 11.1 |
| Subordinated debts | 1,660 | 1,684 | (25) | (1.5) |
| Total Equity | 4,913 | 4,721 | 192 | 4.1 |
| | 64,851 | 65,642 | (791) | (1.2) |

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