

# FY2009 Annual Results Announcement

Fubon Bank (Hong Kong) Limited  
9 March 2010



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".



# 2009 Operating Environment

- Hong Kong economy recovered in 2H 2009:
  - GDP contracted 2.7% year-on-year with 4Q 2009 recording 2.6% growth
  - Exports plummeted by 12.6% over 2008
  - Unemployment rate declined to 4.9% in December 2009
  
- Abundant market liquidity and low level of interest rates
  
- The Hang Seng Index bottoming at 11,345 on 9 March and closed at 21,872 at 2009 year-end
  
- Residential property prices and transaction volume returning to pre-crisis levels







# FBHK 2009 Operating Results

- Total assets size decreased 7% to HK\$61 billion at 2009 year-end.
  - Advances to Customers less impairment allowances dropped 14% year-on-year as the Bank adopted a more conservative strategy in credit underwriting and new loans acquisition in light of uncertain credit environment.
- Revenue from fee-based transactions declined in 2009.
- Concrete cost streamlining plan to alleviate the negative impact of slowing revenues.
- Level of impaired loans stabilized since 2Q 2009.
  - Further individual impairment losses were provided in 2H 2009 which increased impaired loans coverage ratio from 64% at 30 June 2009 to 87% at 31 December 2009.
- Provisions incurred from the sales of structured investment products included charges for Lehman Minibonds.
- 2009 full year earnings dropped 77% year-on-year to HK\$23 million.



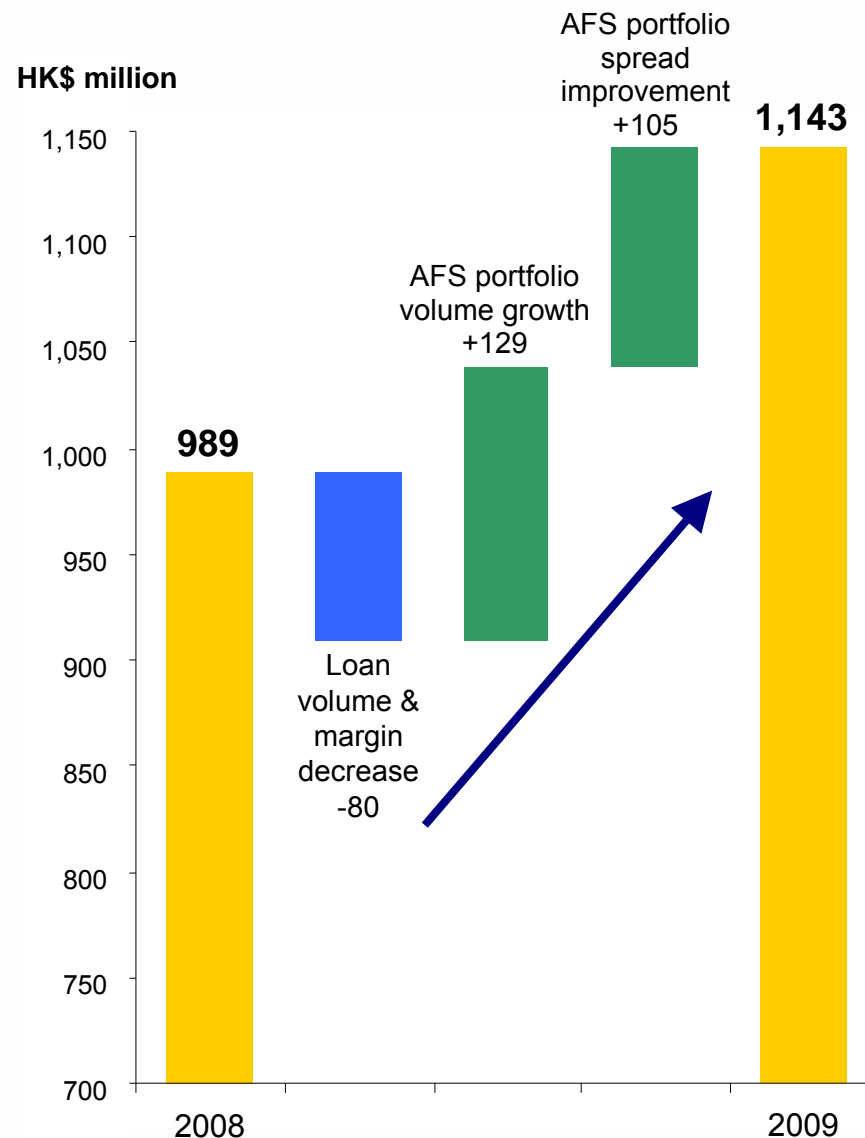
## Performance Highlights – 2009 vs. 2008

	<b>2009</b> <b>(HK\$ million)</b>	<b>2008</b> <b>(HK\$ million)</b>	<b>vs.</b> <b>2008</b>
Net Interest Income	1,143	989	16% 
Non-interest Operating Income <i>(Decreased 40% if including MTM losses on CDOs (2009: -HK\$0.7 million; 2008: -HK\$128.5 million))</i>	279	594	53% 
Operating Profit Before Gains and Impairment Losses	466	489	5% 
Net Profit for the Period	23	100	77% 
Proposed Final Dividend of 1.5 Hong Kong cents per Ordinary Share			



# Net Interest Income Rose 16%

- Net interest income increased HK\$154 million or 16% to HK\$1,143 million for 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 when compared YOY.
- HK\$80 million decrease mainly due to lower average loan balance as a result of cautious lending.
- Offset by:
  - HK\$129 million increase due to higher AFS portfolio balance (mainly securities issued by government or supranational entities)
  - HK\$105 million increase due to higher AFS portfolio spread, a result of credit spread improvement and lower funding costs
- Net Interest Margin improved 18 bps to 1.94% in 2009 as compared to 2008 of 1.76%





# Non-Interest Operating Income decreased 53%

Non-Interest Operating Income decreased HK\$315 million or 53% to HK\$279 million.

## FMG Marketing Fee Income (↓ HK\$166 million or 72%)

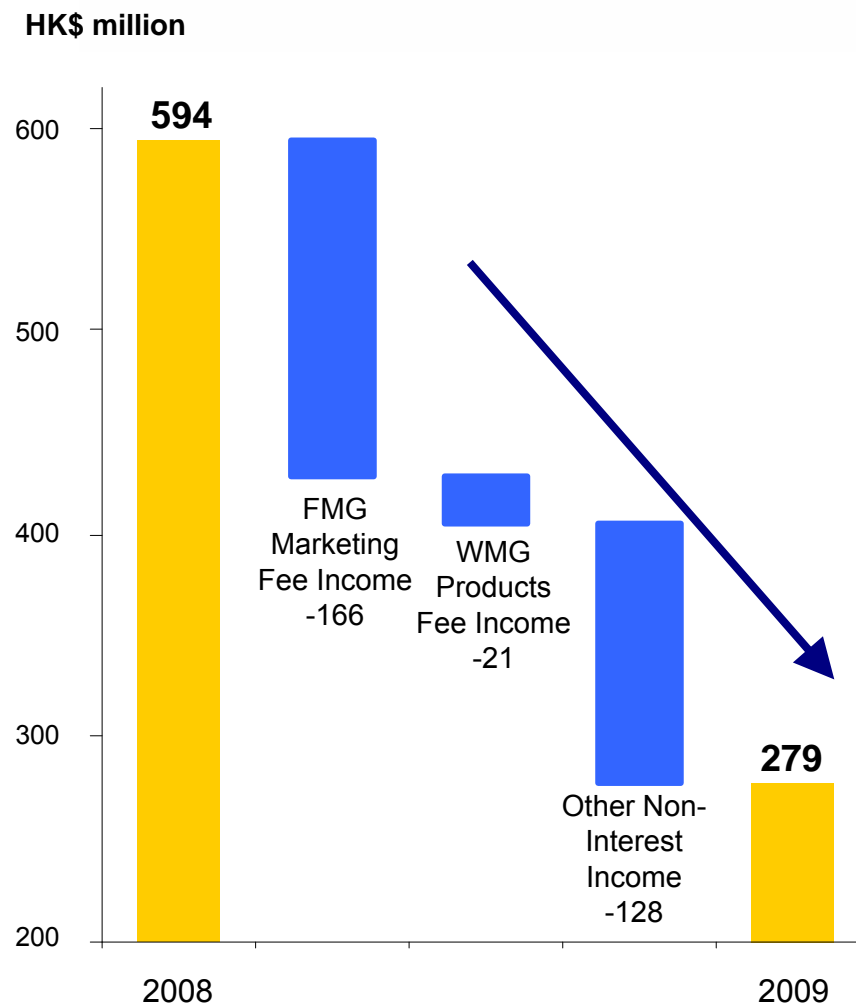
Depressed market sentiment, investors' risk aversion appetite for investment products, and implementation of HKMA new selling processes for investment products led to reduction in FMG marketing fee income.

## Wealth Management Product Fee Income (↓ HK\$21 million or 13%)

- Unit Trust Commission ( ↓ HK\$25M or 43%)
- Insurance Commission ( ↑ HK\$6M or 19%)

## Other Non-Interest Income (↓ HK\$128 million)

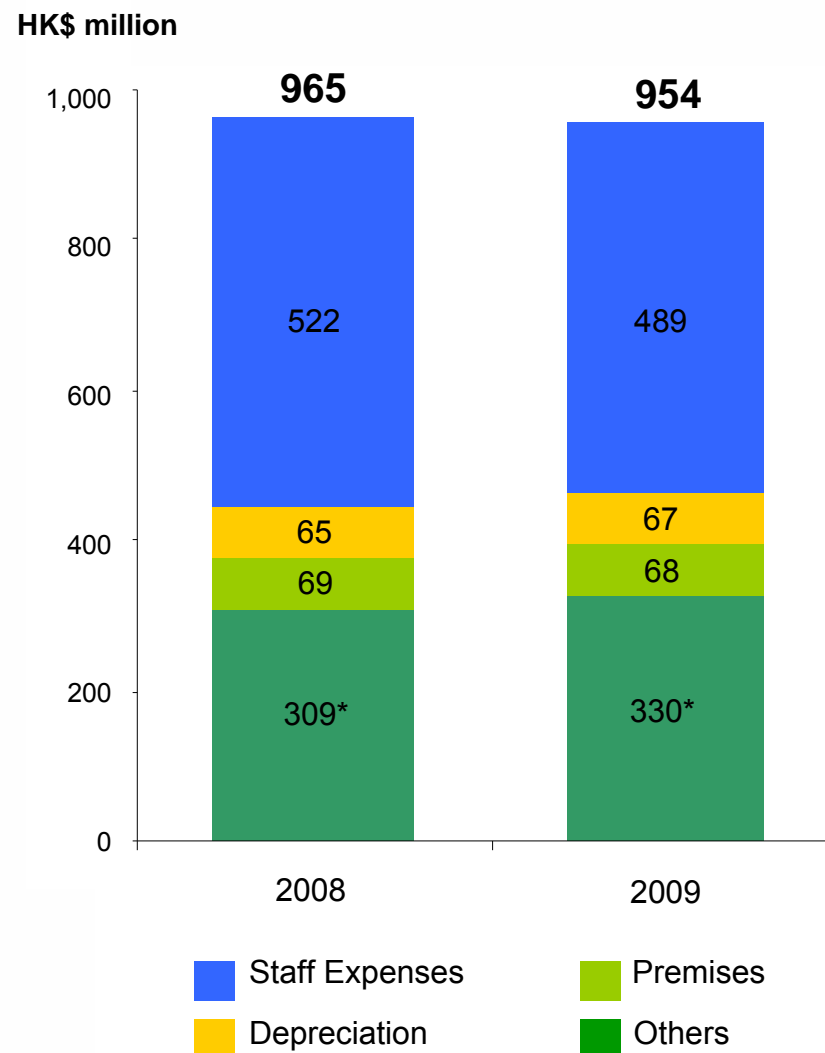
- Weakening loan demand and decrease in transaction volume of trade-related business led to a reduction of HK\$34 million.
- Credit spread tightening affected the fair value of financial instruments designated at fair value through profit and loss and its hedging derivatives resulted in a decrease of related income.





# Decrease in Operating Expenses by 1%

- Operating Expenses (including provisions incurred from the sales of structured investment products) decreased HK\$11 million or 1% to HK\$954 million in 2009
- On-going concrete plans to rationalize staff and operating expenses levels while maintaining operating efficiency
- Major decrease was in staff expenses of HK\$33 million or 6% in 2009
- Others included provisions incurred from the sales of structured investment products (included charges for Lehman Minibonds)



\* Included provisions incurred from the sales of structured investment products

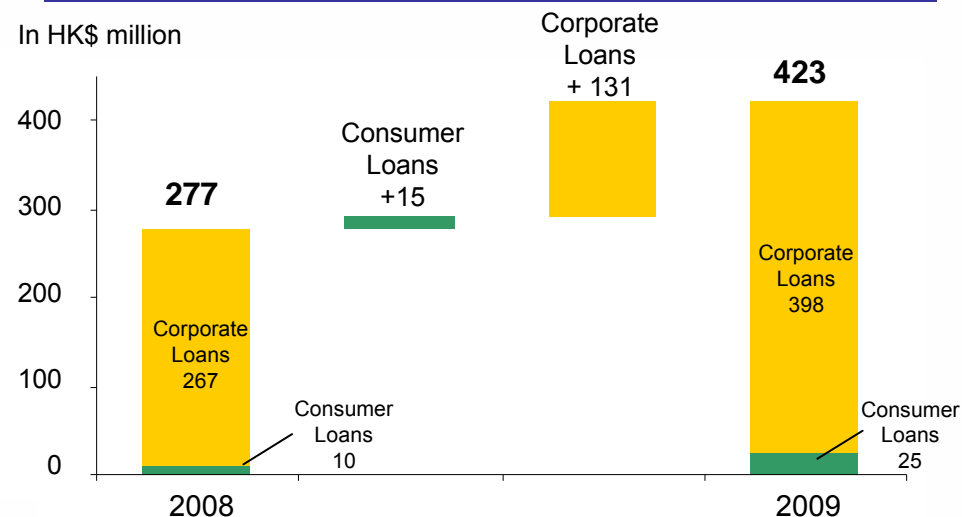




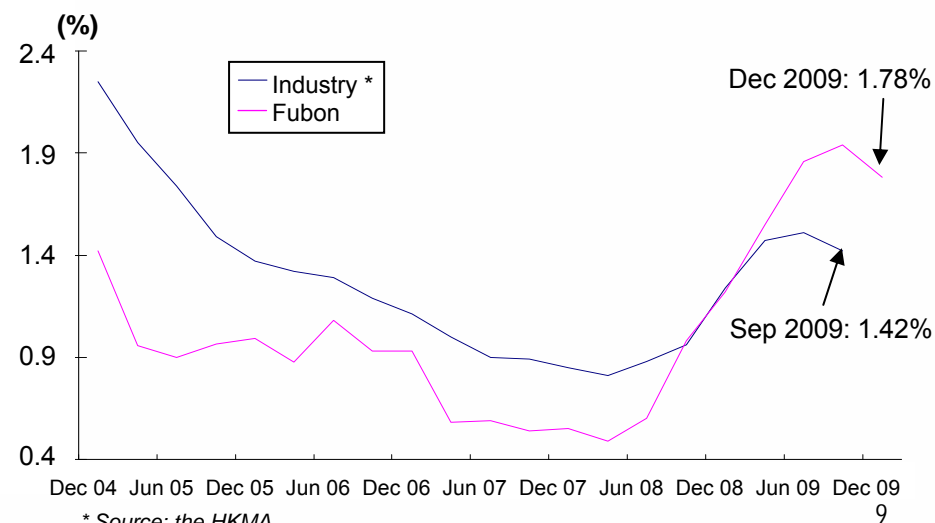
# Asset Quality

- Net charge for individual impairment losses for 2009 was HK\$423 million, increased HK\$146 million when compared to HK\$277 million in 2008.
- Major increase in impairment losses charges for Corporate Loans included SME Loans.
- Level of impaired loans stabilized since 2Q 2009. Further individual impairment losses were provided in 2H 2009 which increased impaired loans coverage ratio from 64% at 30 June 2009 to 87% at 31 December 2009.
- Impaired loan ratio increased from 1.22% in December 2008 to 1.78% in December 2009. The increase in impaired loan ratio in 2009 was also affected by the 13% drop in gross advances to customers.

## Charge for Individual Impairment Losses



## Impaired Loan Ratio





## Asset Quality (Cont'd)

As at	Impaired Loan Balances (HK\$ million)	Gross loans (HK\$ million)	Impaired loan ratio (%)	Individual Impairment Losses Charges (HK\$ million)	Coverage ratio (%)
31 Dec 2007	172	31,633	0.55%	37	84%
30 Jun 2008	202	33,903	0.60%	30	81%
31 Dec 2008	407	33,330	1.22%	247	75%
				<b>2008 P&amp;L Account</b>	<b>277</b>
30 Jun 2009	572	30,691	1.86%	191	64%
31 Dec 2009	519	29,113	1.78%	232	87%
				<b>2009 P&amp;L Account</b>	<b>423</b>

*The coverage ratio for impaired loans improved from 64% in Jun 09 to 87% in Dec 09 (vs. 75% in Dec 08) resulting from the increase in individual impairment losses charges for Advances to Customers.*



# Advances to Customers by Industry Sector

(HK\$ million)	31 Dec 09 Actual	31 Dec 08 Actual	Variance	
			Amount	%
Property Development & Investment	9,393	8,742	651	+7
Financial Concerns	417	493	(76)	-15
Stockbrokers	14	5	9	>+100
Wholesale & Retail Trade	64	96	(32)	-33
Manufacturing	1,666	2,204	(538)	-24
Transport & transport equipments	466	753	(287)	-38
Others	2,336	2,676	(340)	-13
Individuals	9,158	8,902	256	+3
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Gross Advances for use in Hong Kong	23,514	23,871	(357)	-1
Trade Finance	810	1,850	(1,040)	-56
Gross Advances for use outside Hong Kong	4,789	7,609	(2,820)	-37
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<b>Gross Advances to Customers</b>	<b>29,113</b>	<b>33,330</b>	<b>(4,217)</b>	<b>-13</b>



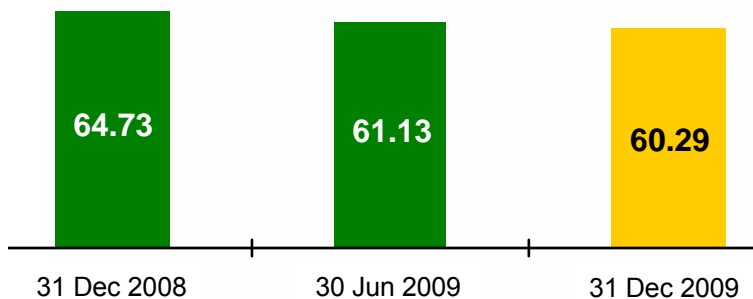
# Customer Deposits Decreased by 3%

(HK\$ million)	31 Dec 09 Actual	31 Dec 08 Actual	Variance	
			Amount	%
Demand Deposits	8,841	5,835	3,006	+52
Saving Deposits	1,299	879	420	+48
Call Deposits	5,143	3,256	1,887	+58
Fixed Deposits	31,319	38,028	(6,709)	-18
<b>Deposits from Customers</b>	<b>46,602</b>	<b>47,998</b>	<b>(1,395)</b>	<b>-3</b>

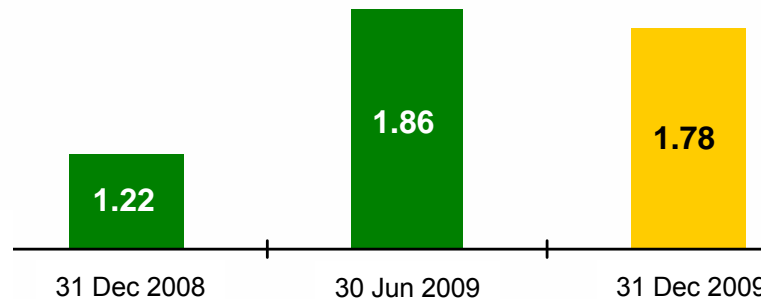


# Key Financial Ratios

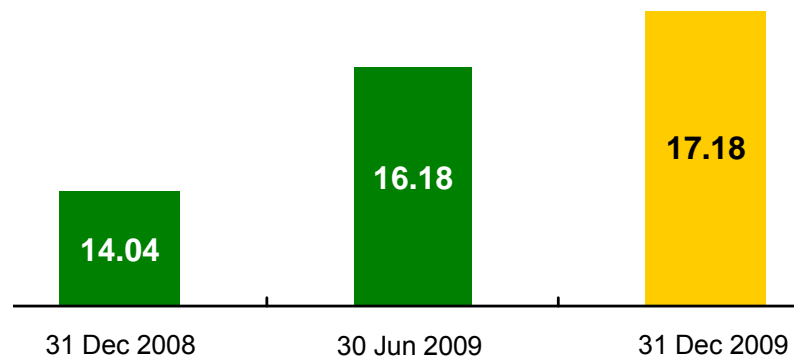
### Loan to Deposit Ratio (%)



### Impaired Loan Ratio (%)

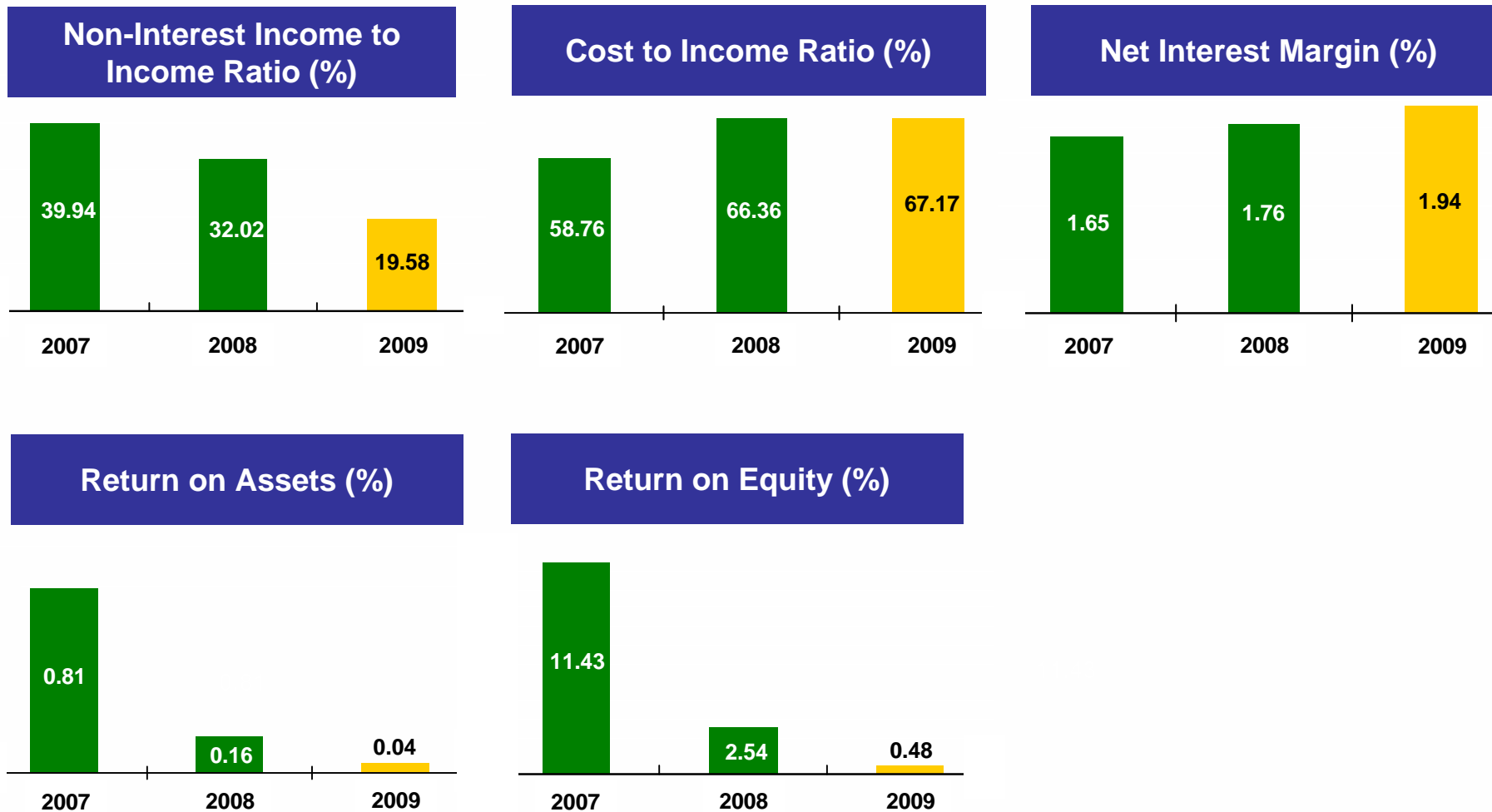


### Capital Adequacy Ratio (%)





# Key Financial Ratios (Cont'd)





# 2010 Outlook

- Positive economic outlook for 2010
- Latest government releases forecast:
  - Hong Kong 2010 GDP to grow between 4% to 5% versus a contraction of 2.7% in 2009
  - Underlying inflation expected at 1.5%
- However the economy is still affected by:
  - Strength and sustainability of recovery in advanced economies
  - Pressure of international capital flows on asset markets
- Continued signs of recovery in Mainland China (2010 real GDP forecasts about 8% growth year-on-year) will continuously provide support to the Hong Kong economy



## 2010 Key Initiatives

- A growth-yet-prudent strategy to capture market potential while minimizing risks and costs.
- Grow the loan books, mainly lending to Mid-Cap and Blue Chips companies, and continue to be vigilant in identifying and managing credit risks.
- Further broaden our client base, strengthen the internet banking platform and enhance product capabilities to achieve earnings growth.
- Leverage on Fubon Financial's various business platforms to provide comprehensive financial services to Hong Kong and Taiwanese companies.





# 2009 Income Statement

(HK\$ million)	2009 Actual	2008 Actual	Variance	
			vs 2008 Amount	%
Interest income	1,559	2,246	(687)	-31
Interest expense	(416)	(1,257)	( 841)	-67
Net interest income	1,143	989	154	+16
Non-interest operating income	279	594	(315)	-53
Mark-to-market loss for CDOs	(1)	(128)	(127)	-99
Operating income	1,421	1,455	(34)	-2
Operating expense	(954)	(965)	(11)	-1
Operating profit before gains & impairment losses	466	489	(23)	-5
Impairment losses on advances to customers	(485)	(309)	176	+57
Impairment losses on available-for-sale securities	(67)	(197)	(130)	-66
Write-back of other impairment losses	5	-	5	n.a.
Operating losses after impairment losses	(81)	(17)	(64)	>-100
Net gain on disposal of available-for-sale securities	93	86	7	8
Net gain on disposal of fixed assets	(0)	29	(29)	n.a.
Share of profits less losses of associates	14	-	14	n.a.
Profit before taxation	27	98	(71)	-72
Tax (Charge)/write-back	(4)	2	6	n.a.
<b>Profit for the period</b>	<b>23</b>	<b>100</b>	<b>(77)</b>	<b>-77</b>



# Balance Sheet as at 31 December 2009

(HK\$ million)	31 Dec 2009	31 Dec 2008	Variance	
	Actual	Actual	Amount	%
Cash, short term funds & placements	5,783	9,842	(4,060)	-41
Investments in securities	19,589	13,836	5,754	+42
Advances to customers less impairment	28,572	33,034	(4,462)	-14
Other loans and receivables	3,392	3,745	(353)	-9
Accrued interest and other accounts	1,546	1,161	385	+33
Derivative financial instruments	632	2,618	(1,986)	-76
Investments in associates	387	294	93	+32
Fixed assets	1,079	1,112	(33)	-3
	<b>60,979</b>	<b>65,642</b>	<b>(4,663)</b>	<b>-7</b>
Deposits and balances of banks & FIs	2,425	1,987	438	+22
Deposits from customers	46,602	47,998	(1,395)	-3
CD and Debt Securities issued	792	3,033	(2,241)	-74
Other accounts and liabilities	3,933	3,713	221	+6
Derivative financial instruments	652	2,506	(1,854)	-74
Subordinated debts	1,640	1,684	(44)	-3
Total Equity	4,935	4,721	213	+5
	<b>60,979</b>	<b>65,642</b>	<b>(4,663)</b>	<b>-7</b>

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