Management Discussion & Analysis
管理層討論及分析

HONG KONG AND CHINA ECONOMIC OVERVIEW AND FORECAST

Review of Hong Kong's Economy in 2010

Hong Kong's GDP grew by 6.8% in real terms during 2010, which was higher than market expectations and reflected Hong Kong's continuing recovery from the financial crisis of 2008.

Other indicators of economic activities in Hong Kong also improved. In December 2010, retail sales (year-on-year) were up 18.6% in terms of value and 16% in terms of volume. The employment environment is also getting better. At the end of August 2009, the unemployment rate reached 5.5%. As of the end of December 2010, it was down to 4%, the lowest level since the financial crisis.

Low interest rates and plenty of liquidity helped the rising trend of Hong Kong's property market in 2010. The HIBOR rate during 2010 ranged from around 0.06% to 0.52%. The low HIBOR rate reduced the interest payment of mortgages, which encouraged rising property price. Although the Hong Kong Government implemented new measures to curb short-term speculative activities, the property market only experienced a short-term correction in terms of price and volume.

As of the end of December 2010, the value of export growth was 12.5% year-on-year and the value of import growth was 14.8% year-on-year. This was mainly due to the economic recovery of global markets.

During 2010, the European debt crisis and the tightening economic policy of China caused volatility in Hong Kong's equity market. As with other Asian countries, Hong Kong faced inflation pressure in 2010. The Composite Consumer Price Index ("CPI") rose 3.1% year-on-year as of the end of December 2010. Inflation was also higher than market expectations.

Outlook for Hong Kong's Economy in 2011

It is expected that the economic recovery in Hong Kong will continue in 2011, assuming that no key economic shocks occur. Real GDP growth in 2011 is expected to be 4.6% to 5%.

The employment environment will continue to improve. Consumption spending will benefit from rising incomes and the improved employment environment. The strong economic growth in China will continue to encourage tourism from the Mainland in Hong Kong. According to the Hong Kong Tourism Board, the monthly average visitor arrivals to Hong Kong were around

香港與中國經濟概覽及預測

2010年香港經濟回顧

香港本地生產總值於2010年實質增長了6.8%，高於市場預期，反映香港已走出2008年金融危機的陰霾及本地經濟持續復甦。

其他反映本港經濟活動的指數亦有所改善。2010年12月，零售業銷貨額按年上升18.6%，銷貨量則按年上升16%。就業情況亦持續改善，失業率由2009年8月底的5.5%降至2010年12月底的4%，為金融危機以來的最低水平。

低利率及充裕的流動資金，帶動香港樓市於2010年上升。香港銀行同業拆息於2010年內介乎約0.06%至0.52%的低水平，令按揭利息支出減少，刺激物業價格上升。儘管香港政府實施新措施遏抑短期炒賣活動，但樓價及成交量只出現短暫調整。

截至2010年12月底，主要由於全球經濟復甦，本港出口貨值按年增長12.5%，進口貨值則按年增長14.8%。

2010年，歐洲債務危機及中國收緊經濟政策，令香港股市顯著波動。與其他亞洲國家一樣，香港於2010年面對通脹壓力。截至2010年12月底，綜合消費物價指數按年上升3.1%，通脹率亦高於市場預期。

2011年香港經濟展望

假設並無出現重大的經濟衝擊，預料香港經濟將於2011年持續復甦，2011年的實質本地生產總值增長亦預期將會介乎4.6%至5%。

就業情況將持續改善。消費開支將受惠於收入上升及就業情況改善。中國經濟的強勁增長，將繼續推動內地人民來港旅遊。根據香港旅遊發展局統計，2010年每月平均訪港旅客人數約為300萬人次。2010年12月的酒店客房入住率達93%。預料這趨勢於2011年將會持續。

3 million during 2010. The hotel room occupancy rate reached 93% in December 2010. The trend is expected to continue in 2011. The figures from the Hong Kong Trade Development Council showed that shopping by Mainland tourists made up 17.8% of local retail sales. With the expectation of RMB appreciation in 2011, the demand for Hong Kong services will increase further.

Reducing the unemployment rate will encourage the retail sales and property markets. On the other hand, it is also expected that the Chinese government will continue tightening its economic policy. This will put negative pressure on market sentiment in Hong Kong. However, under the USD-linked exchange rate system, Hong Kong will most likely maintain low interest rates in 2011, which will have a positive affect on the overall business environment.

The Quantitative Easing ("QE") policies of the United States in particular provided plenty of liquidity to the market. The launching of the second round of QE put downward pressure on the US dollar which is transferred from the USD to HKD by the peg mechanism. As a result, both property and equity markets will be inflated by the weak HKD. The CPI is expected to be around 4% for the whole year.

根據香港貿易發展局的數據顯示，內地旅客的購物消費佔本地零售業銷售額17.8%。在預期人民幣將於2011年持續升值的情況下，內地對香港服務業的需求將會進一步增長。

失業率下跌，將刺激零售業市道及房地產市場。另一方面，預期中國政府將繼續收緊經濟政策，這將對香港市場氣氛構成負面壓力。然而，在美元聯繫匯率制度下，香港的利率於2011年極有可能保持低企，因而對整體營商環境產生正面影響。

量化寬鬆政策（尤其是美國的量化寬鬆政策）為市場注入了大量流動資金。在第二輪量化寬鬆政策推出後，美元下降壓力透過聯繫匯率機制轉移到港元。因此，樓市及股市最終會因港元疲弱而上升，預期全年消費物價指數約為4%。

Review of China's Economy in 2010

Although the Chinese government imposed tightening economic policies, the GDP growth of China was 10.2% in 2010 and the CPI was up 3.3%. Inflationary pressure was getting stronger during 2010.

2010年中國經濟回顧

儘管中國政府採取緊縮經濟政策，但2010年中國的本地生產總值仍增長10.2%，消費物價指數上升3.3%。通脹壓力於2010年不斷升溫。

By the end of December 2010, export and import growth were 17.9% and 25.6% respectively. This was due in part to the global economic recovery, especially for the emerging market region. At the end of 2010, the FDI increased by 15.6%.

截至2010年12月底，出口及進口增長分別為17.9%及25.6%，部分原因是由於全球經濟復甦，尤其是在新興市場地區。於2010年年底，外來直接投資增長15.6%。

In order to prevent the economy from overheating, China raised the 12-month lending rate two times during 2010. The 12-month lending rate was raised from 5.31% to 5.81%. In addition, the People's Bank of China ("PBOC") raised the required reserve ratio six times during the year, from 15.5% to 18.5%. Although the Chinese government imposed various measures to cool down the economy, the property market did not experience a significant correction in 2010.

為防止經濟過熱，中國於2010年內兩次調高12個月貸款利率，由5.31%上調至5.81%。中國人民銀行更於年內六次調高存款準備金率，由15.5%上調至18.5%。雖然中國政府已採取多項措施冷卻經濟，但樓市於2010年並無出現明顯的調整。

Food inflation and a commodity price surge encouraged inflation in China. Together with the rising CPI, the PPI rose 5.9% in December 2010. China's economic growth improved with the surge of inflation throughout the year.

糧食及商品價格飆升，刺激中國通脹上升，再加上不斷上揚的消費物價指數，生產物價指數於2010年12月上升5.9%。在全年通脹持續升溫的情況下，中國經濟增長仍有所改善。

Outlook for China's Economy in 2011

With the tightening economic policies in China, we expect the GDP growth will slow down to 9% to 10% in 2011. China will also be under inflationary pressure in 2011. The CPI will be around 4.5% to 5.5%.

The PBOC raised the required reserve ratio from 18.5% to 19% in January 2011 and further to 19.5% in February 2011. Before the Lunar New Year holiday, the Chinese government imposed several policies to cool down the property market. The key reason was to prevent overheating in the economy, especially in the property sector.

Inflationary pressure in China is not only due to property prices but also to surging commodity prices. During December 2010, the CRB Index reached a record high. This reflects that the surging prices of commodities are no longer limited to precious metals; prices of base metals and agricultural products are also growing.

The key reason for the rising trend of commodity prices is QE policies in the US, UK and Japan. The increase in money supply reduces the purchasing power of currencies. As a result, commodities appreciate against major currencies.

Rising commodity prices increase the risk of inflation in emerging countries. Inflation will continue to be one of the risk factors in Hong Kong and China during 2011.

2011年中國經濟展望

隨著中國收緊經濟政策，我們預期中國本地生產總值將於2011年放緩至9%至10%。中國亦將繼續於2011年面對通脹壓力。消費物價指數約為4.5%至5.5%。

中國人民銀行於2011年1月將存款準備金率由18.5%上調至19%，並於2011年2月進一步上調至19.5%。農曆新年假期之前，中國政府採取多項政策來冷卻樓市，主要原因是為了防止經濟過熱，尤其是地產行業。

中國的通脹壓力並非只由於樓價上升，還有不斷上升的商品價格。2010年12月，商品研究所指數創下新高紀錄，反映不斷上升的商品價格並不限於貴金屬，賤金屬及農產品價格也在上漲。

美國、英國及日本的量化寬鬆政策是令商品價格趨升的主要原因。貨幣供應增加將削弱貨幣的購買力，導致商品對主要貨幣升值。

商品價格不斷上升，增加了新興國家的通脹風險。通脹於2011年將繼續成為香港和中國的風險因素之一。

OPERATING PERFORMANCE

Benefiting from steady domestic and Mainland economic growth, the operating performance of the Bank and its subsidiaries ("the Group") improved significantly, with full-year 2010 net profits of HK$266 million, representing a more than tenfold increase from the HK$23 million reported in 2009. Amid more stable market conditions and the Bank's efforts to manage credit risk, impairment losses on advances to customers and available-for-sale securities reduced substantially year-on-year. The Bank also saw higher fee-based revenues, especially from credit-related services and the sale of unit trust and insurance products, on the back of an improved economy and more positive investor sentiment. Earnings per share were at 15.62 Hong Kong cents after accounting for the dividend payment for preference shares.

Gross interest income declined 23% to HK$1,196 million for 2010 whereas gross interest expense decreased only 17% to HK$344 million over the corresponding period. As a result, net interest income decreased by HK$290 million or 25% to HK$852 million. The decline in net interest income was attributed to lower average interest-earning assets, resulting from the gradual depletion of the high-yield hire purchase portfolio and the Bank taking a more cautious stance in loan underwriting during the first half of 2010. Fierce price competition among peers for lending (especially in the residential mortgage business) and the switch from higher yield prime-based loans to HIBOR-based loans under the low interest rate environment had adversely impacted the Bank's loan yield in 2010. Moreover, credit spread tightening since the fourth quarter of 2009 caused assets to be priced at lower spreads. At the same time competition for deposits drove up interest paid. As a result, effective net interest margin ("NIM") decreased by 38 bps to 1.56% from 1.94% for 2009.

經營表現

受惠於本地及大陸穩定的經濟增長，本行及其附屬公司(「本集團」)的經營表現顯著改善，2010年全年的淨溢利為2.66億港元，較2009年的淨溢利2,300萬港元錄得超過10倍的升幅。在較穩定的市場狀況，以及本行致力管理信貸風險下，客戶貸款及可供出售證券之減值虧損按年大幅下降。經濟環境好轉及投資者信心逐漸恢復，令本行的費用及佣金收入亦有所增加，尤其是來自信貸業務、以及銷售單位信託基金及保險產品的收入。計及派發優先股股息，每股盈利為15.62港仙。

2010年的利息收入總額較去年同期減少23%至11.96億港元，利息支出總額則下跌17%至3.44億港元。因此，期內淨利息收入下跌2.90億港元或25%至8.52億港元。淨利息收入下跌，是由於本行逐步降低高回報的租賃貸款組合及於2010年上半年在核貸要求方面採取了更審慎的策略，導致生息資產均額下降。同業之間在貸款業務上的激烈競爭(尤其在住宅按揭業務方面)，以及在一個低息環境下，客戶把收益較高的最優惠利率按揭計劃，轉為以銀行同業拆息為基準的按揭計劃，均對本行2010年的貸款收益造成不利影響。此外，信用價差從2009年第四季開始收窄，令資產以較低息差定價。與此同時，市場競爭令本行支付的存款利息增加。結果，實際淨息差由2009年的1.94%下調38個基點至2010年的1.56%。

Net fee and commission income increased 22% or HK$47 million to HK$257 million in 2010, underpinned by higher business volumes across consumer finance, wealth management and corporate banking segments. Credit-related fees and commissions increased HK$25 million, credit card related fees & commission income increased HK$11 million, and commission income derived from sales of insurance products and unit trust products increased HK$25 million.

Credit spread tightening continued to affect the fair value of financial instruments designated at fair value through profit or loss, which resulted in decrease in other operating income. Including the revaluation loss of HK$13.7 million on the CDO portfolio in 2010 (HK$0.7 million in 2009), total non-interest income, included net fee and commission income and other operating income, recorded a 3% increase or HK$8 million to HK$286 million in 2010.

With proactive cost containment initiatives and less cost incurred for the repurchase of Lehman Minibonds from customers, operating expenses were down 10% or HK$98 million year-on-year to HK$856 million for 2010. Nevertheless, the cost-to-income ratio increased to 75.2% for 2010, compared with 67.2% for 2009 as a result of falling net interest income which dragged down operating income by 20%. The Bank will continue to build new revenue streams, rationalize its operating expenses level and enhance its operating leverage in order to improve its cost-to-income ratio. Operating profits before gains and impairment losses decreased 40% or HK$184 million to HK$282 million compared with HK$466 million in 2009.

With lower impairment losses on advances to customers and available-for-sale securities, total impairment losses registered a year-on-year decrease of 91% or HK$500 million to HK$47 million for 2010. Of which, net charge for impairment losses on advances to customers dropped 98% or HK$475 million to HK$10 million for 2010, mostly resulting from lower individual impairment losses charged on SME and hire purchase loans. In addition, improved credit quality in commercial lending led to the release of collective impairment loss in 2010 compared to a charge for collective impairment loss in 2009. With continual improvement in asset quality in 2010, the impaired loans ratio further decreased to 0.66% as of 31 December 2010 (1.72% as of 30 June 2010, 1.78% as of 31 December 2009). The coverage of impaired loans improved from 87% at 31 December 2009 to 95% at 30 June 2010 and further to 96% at 31 December 2010.

受消費金融、財富管理及企業金融部門的業務增長帶動，2010年的淨費用及佣金收入上升22%或4,700萬港元至2.57億港元。信貸業務相關費用及佣金收入增加2,500萬港元，信用卡相關費用及佣金收入增加1,100萬港元，銷售保險產品及單位信託基金的佣金收入共增加2,500萬港元。

信用價差收窄，持續影響了指定為通過損益以反映公平價值之金融工具的公平價值，令其他營運收入減少。計及債務抵押證券組合於2010年錄得的1,370萬港元重估虧損（2009年為70萬港元），2010年的總非利息收入，包括淨費用及佣金收入和其他營運收入，上升3%或800萬港元至2.86億港元。

鑑於本行積極控制成本，及向客戶回購雷曼迷你債券所涉及的開支減少，令2010年的營運支出按年下跌10%或9,800萬港元至8.56億港元。然而，淨利息收入下跌導致營運收入下降20%，令成本對收入比率由2009年的67.2%上升至2010年的75.2%。本行將繼續開拓新的收入來源，降低營運支出，並同時加強營運效能以改善成本對收入比率。未計收益及減值虧損前經營溢利較2009年的4.66億港元下跌40% 或1.84億港元，至2.82億港元。

由於客戶貸款及可供出售證券的減值虧損減少，2010年錄得的總減值虧損按年下跌91%或5億港元至4,700萬港元。其中，2010年的客戶貸款淨減值虧損下跌98%或4.75億港元至1,000萬港元，這主要是由於中小企及租賃貸款之個別減值虧損下降所致。此外，商業貸款信貸質素的改善令2009年的綜合減值虧損於2010年錄得回撥。隨著資產質素於2010年持續改善，截至2010年12月31日止減值貸款比率進一步降低至0.66%（截至2010年6月30日止為1.72%；截至2009年12月31日止為1.78%）。減值貸款覆蓋率由2009年12月31日的87%改善至2010年6月30日的95%，進而改善至2010年12月31日的96%。

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Benefiting from the strong performance of Xiamen Bank, the Bank's share of profits recorded an increase of 119% to HK$31 million, as compared with HK$14 million recognized for 2009. In December 2010, the Bank fully subscribed for its allocated 39,580,200 Rights Shares in Xiamen Bank, maintaining its 19.99% shareholding interest. The consideration for the Rights Shares, which was RMB107,262,342 or RMB2.71 per share, was financed from the Bank's own internal surplus funds.

After accounting for impairment charges, other gains and tax charge, profits after taxation amounted to HK$266 million, representing a more than tenfold increase from HK$23 million for 2009. Return on average assets and return on average equity increased from 0.04% to 0.43% and from 0.48% to 5.31% respectively when compared with 2009.

Total assets as at 31 December 2010 were at HK$61.8 billion, an increase of HK$0.8 billion from HK$61.0 billion as at 31 December 2009. Customer deposits grew by HK$2.8 billion or 6% in the second half of 2010 to HK$46.0 billion as at 31 December 2010. In terms of loan growth, during the first half of 2010, the Bank maintained a prudent approach to credit underwriting and acquiring new loans in light of uncertainties in external markets. The Bank saw a contraction in the first half, followed by a moderate growth of 3.5% in the second half as the economy gradually showed signs of stable recovery. Gross loans were maintained at HK$29.1 billion, a similar level to that at the end of 2009 whereas net loans increased 1% or HK$0.3 billion to HK$28.9 billion as at 31 December 2010 from the 2009 year-end balance of HK$28.6 billion.

受惠於廈門銀行的强勁業績表現，本行應佔廈門銀行溢利由2009年的1,400萬港元上升119%至3,100萬港元。2010年12月，本行向廈門銀行全數認購獲分配之供股股份共39,580,200股，以維持本行於該行19.99%的股份權益，而供股之價款為107,262,342元人民幣或每股2.71元人民幣，則從本行的內部盈餘資金撥付。

計及減值虧損、其他收益及税項後，除税後溢利由2009年的2,300萬港元上升至2.66億港元，升幅超過10倍。平均資產回報率及平均股本回報率分別從2009年的0.04%及0.48%上升至0.43%及5.31%。

截至2010年12月31日止，總資產由截至2009年12月31日止的610億港元增加8億港元至618億港元。客戶存款於2010年下半年增加28億港元或6%至2010年12月31日之460億港元。貸款增長方面，由於2010年上半年外圍市場不明朗，故本行在核貸要求及吸納新貸款方面繼續採取審慎的策略，令本行的貸款於2010年上半年出現負增長。但隨著經濟穩步復甦，貸款於下半年錄得3.5%的温和升幅，貸款總額於2010年12月31日跟2009年年底的水平相若，維持在291億。淨貸款組合則由2009年年底的286億港元上升1%或3億港元，至289億港元。

On 30 November 2010, the Bank successfully completed the issuance of US$200 million 10-year subordinated debt for replenishing the outstanding US$200 million subordinated debt callable in April 2011. The notes, rated BBB by Standard & Poor's, bear a fixed coupon rate of 6.125% per annum payable semi-annually and qualify as the Bank's Tier 2 capital. The Group's capital and liquidity positions remained strong. The consolidated capital adequacy ratio was 18.23% (17.18% at 2009 year-end) at the end of December 2010 and average liquidity ratio for 2010 was at 51.42%.

In 2010, the Bank adopted a growth-yet-prudent strategy to capture market opportunities while minimizing risks and costs. The Bank remained focused on its strategic priorities of establishing the local franchise and reducing the overall risk profile. In September 2010, the Bank launched a new branding campaign to re-position the brand and to increase awareness and knowledge of the Bank in the local market. Risk and control functions were strengthened to enhance asset quality and build business resilience. While adhering to strict cost discipline, the Bank continued to invest in IT infrastructure and expand its product capabilities and solutions to support its focus on building deep relationships with customers. The marked improvement in the Group's earnings in 2010, mainly driven by substantially lower credit impairment losses as a result of prudent risk management, was testimony to the Bank delivering on its strategy.

In 2011, the Bank will continue to build its local franchise, broaden its customer base and expand its product and service offering to bring in additional revenues. To strengthen its foothold in a very competitive environment in Hong Kong, the Bank will focus on attracting deposits while steadily growing its loan book, and continue to invest in IT infrastructure to improve customer service and product innovation while enhancing operational efficiency. By building a solid platform in Hong Kong and benefiting from the integration with its parent company, Fubon Financial Holding Co., Ltd., the Bank is well positioned to capitalize on business opportunities in the fast-growing Greater China region brought about by the signing of the Economic Cooperation Framework Agreement ("ECFA") between Taiwan and Mainland China and further liberalization of the Renminbi.

2010年11月30日，本行成功發行2億美元10年期後償票據，為將於2011年4月到期之2億美元未償付之後償票據進行再融資。該票據獲標準普爾評級為BBB，固定年利率為6.125%，利息每半年支付1次，並列作本行的次級資本。本集團繼續保持充裕的資本及流動資金。截至2010年12月底，資本充足比率為18.23%（2009年年底為17.18%），而2010年全年的平均流動資金比率為51.42%。

本行於2010年採取了穩中求進的策略，務求在將風險及成本減至最低的情況下，掌握市場的發展商機。本行積極實現擴展本地業務，及減低整體貸款組合風險的策略性目標。2010年9月，本行推出全新的品牌推廣計劃，為品牌重新定位及提高本地市場對本行的認識和認同。此外，本行亦加強風險管理及監控措施，以強化資產質素及抗逆能力。在嚴謹控制成本的同時，本行繼續在資訊科技的基礎建設上作出投資，加強產品開發及為客戶推行合適的方案，致力與客戶建立深厚的關係。本集團2010年純利錄得顯著的改善，主要是由於在審慎的風險控管下，信貸減值虧損大幅下降，印證本行正穩步將其策略付諸實行。

2011年，本行將繼續拓展在地化的業務版圖，擴闊客戶基礎，擴展產品及服務系列，以增加收入來源。在穩步增長貸款組合的同時，本行亦將銳意吸納存款，並繼續在資訊科技的基礎建設上作出投資，以加強客戶服務的水平、產品的創新能力，及提升營運效率。憑藉本行在香港厚植的成長根基，及受惠於母公司富邦金融控股股份有限公司的整合，令本行處於有利位置，掌握發展迅速的大中華地區因兩岸金融監理合作備忘錄的簽訂以及人民幣業務的進一步開放而帶來的商機。