Fubon Bank 富邦銀行

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PRESS RELEASE

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Fubon Bank raised 2008 Interim Earnings by 15% to HK$250 million

Profit attributable to shareholders grew 15% or HK$33 million to HK$250 million.

(Hong Kong: 12 August, 2008) Fubon Bank (Hong Kong) Limited and its subsidiaries ("the Bank") reported a net profit of HK$250 million for the first six months ended 30 June 2008, representing an increase of 15% over the same period in 2007 despite the more difficult operating environment. The improved earnings were driven by sustained business growth, margin expansion, better asset and liability management and tighter integration with its parent company, Fubon Financial Holding Co., Ltd. ("Fubon Financial"). Earnings per share rose to 21.36 Hong Kong cents, compared with the corresponding figure of 18.54 Hong Kong cents per share for the first half of 2007.

Net interest income up 30% to HK$532 million.

Gross interest income decreased 15% to HK$1,158 million for the first half of 2008 whereas gross interest expense decreased at a faster pace of 34% to HK$626 million over the corresponding period. As a result, net interest income grew by HK$123 million or 30% to HK$532 million. The increase was attributed to both loan growth and improvement in loan spreads and investment yields. As a result of the Bank's effective management of its balance sheet and lower funding cost due to falling interest rates, effective net interest margin ("NIM") improved by 26 bps from 1.64% for the first half of 2007 to 1.90% for the first half of 2008.

Other operating income increased 22% to HK$332 million before including the mark-to-market losses of HK$78 million for CDOs held on the investment books.

Other operating income including net fees and commission income reached HK$332 million, increased by 22% or HK$60 million compared to the first half of 2007. The Bank continued to adopt a conservative approach towards accounting for its CDO investments and recognised a HK$78 million revaluation loss during the six months ended 30 June 2008 when the credit market further deteriorated. The carrying value of the Bank's CDO portfolio stood at HK$66 million, representing approximately 0.1% of its consolidated total assets. After accounting for the mark-to-market losses for CDOs held on the investment books, other operating income was recorded at HK$254 million, representing a 7% or HK$18 million decrease compared to the first half of 2007. Within the Bank, significant enhancements have been made in product innovation and investment advisory capacity over the past years. Customer segmentation strategies were refined to cater for the unique wealth management needs of different customer segments. The successful implementation of the above initiatives, and backed by the strong ties from and tighter integration with Fubon Financial, helped sustain fee income growth despite changing market conditions. Commission income from the sales of wealth management products, encompassing financial markets investment and structured products, unit trusts and insurance, increased HK$18 million or 11% to HK$190 million. During the first half of 2008, cross-selling efforts between various business divisions were stepped up, which helped boost fee income. The marketing fee income of the Financial Markets Group derived from corporate and SME customers recorded a year-on-year increase of over 165%.

Operating profits before gains and impairment losses rose 15% to HK$317 million.

Operating expenses rose 16% from HK$405 million to HK$469 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 for supporting business growth. The cost-to-income ratio was maintained at around 59%. Excluding the HK$78 million revaluation losses on the CDO portfolio, the cost-to-income ratio was lowered by 5% to 54%. The Bank will continue to take a dynamic approach to managing expense growth and enhancing its operating leverage. Operating profits before gains and impairment losses rose 15% or HK$40 million to HK$317 million compared with the corresponding period of HK$277 million.

Return on average equity improved further to 12.3% from 11.3%.

In line with continued growth of the domestic economy which supported corporate profitability and household income, the Bank recorded a net charge for impairment losses on advances to customers of HK$18 million, a decrease of HK$13 million when compared to HK$31 million in the first half of 2007. Asset quality remained benign as evidenced by the impaired loans ratio of 0.60% as of 30 June 2008. Impairment losses on available-for-sale securities of HK$96 million were provided for income notes issued by SIVs and for certain equity securities. As of 30 June 2008, the total cumulative impairment losses recognized on SIV investments amounted to 88.1% of the Bank's gross SIV investments exposure, with the resulting net exposure at HK$34 million. Net gains from the disposal of available-for-sale securities of HK$44 million were realized in the first half of 2008 as conditions were conducive for profit-taking. 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 attributable to shareholders amounted to HK$250 million, representing a 15% or HK$33 million increase from HK$217 million for the first half of 2007. Return on average assets and return on average equity improved from 0.83% to 0.86% and from 11.30% to 12.25% respectively when compared with the corresponding period in 2007.

Total assets up 3% to HK$62.7 billion. Loan growth was at 7%.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 3% or HK$2 billion to HK$62.7 billion as at 30 June 2008. Customer deposits grew 2%, totalling HK$42.3 billion as at 30 June 2008. The Bank was cautious in growing its loan book in the first half in view of a more volatile and challenging operating environment. As a result, the net loans portfolio reached HK$33.7 billion, an increase of 7% or HK$2.3 billion over 2007 year-end balances. The Group's capital and liquidity positions remained strong. Consolidated Capital Adequacy Ratio was at 13.45% at the end of June 2008 and average liquidity ratio for the first half of 2008 was at 40.41%.

Taiwan-related business contributed 29% of operating profits before gains and impairment losses.

For the first half of 2008, Taiwan-related business contributed 29% (the first half of 2007: 24%) of the Bank's operating profits before gains and impairment losses. As at 30 June 2008, the loan and customer deposit balances of Taiwan-related business represented 15% (2007 year-end: 18%) and 19% (2007 year-end: 21%) of the total loan and deposit balances of the Bank respectively. The small decreases were due to the Bank being more cautious in growing its Taiwan-related loan business in order to safeguard asset quality.

The breakthrough transaction with XCCB creates a first-mover advantage for the Bank's future Mainland-Taiwan business developments.

On 10 June 2008, the Bank entered into a Share Subscription Agreement to subscribe to newly issued shares, representing 19.99% of the enlarged issued share capital of Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230 million (approximately HK$260 million). This transaction is an important breakthrough for a Taiwanese owned bank to obtain a substantial ownership and assume an active management role in a Mainland commercial banking institution. The signing of the agreement underscores Fubon Financial's commitment to making China a key market for growth and reinforces the Bank's vision in becoming the regional financial platform for Fubon Financial. The strategic partnership with XCCB will provide the Bank with an established banking franchise and knowledge of the PRC market, instant RMB access and a distribution network to better serve the banking and wealth management needs of Taiwanese and Hong Kong businessmen and their families on the Mainland.

The operating environment in the second half of 2008 remains challenging. The Bank will continue to harness the collective strength within the Fubon Group through tighter integration, expand its customer franchise and capitalise on its strength in serving the financial needs of China-based Taiwanese businesses and individuals.

2008 Interim Dividend at 6 Hong Kong cents per ordinary share

The Board of Directors declared an interim dividend of 6 Hong Kong cents per ordinary share in respect of the six months period ended 30 June 2008.

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<u>Fubon Bank (Hong Kong) Limited</u>

Fubon Bank (Hong Kong) Limited ("Fubon Bank") is a subsidiary of Fubon Financial Holding Co., Ltd., a leading financial services group in Taiwan which is engaged in corporate and investment banking, financial markets, consumer finance, wealth management, investment management and insurance. Fubon Bank operates 25 retail outlets in Hong Kong including 22 branches and 3 Securities Services Centres, and provides a wide range of financial services encompassing consumer and wholesale banking, wealth management, financial markets, hire purchase, securities brokerage and investment services. Fubon Bank is listed on the Stock Exchange of Hong Kong (stock code: 636) and holds an A-2 short-term, BBB+ long-term rating from Standard & Poor's. The rating reflects Fubon Bank's strong capitalization, good liquidity and sound asset quality.

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