Fubon Bank 富邦銀行

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PRESS RELEASE

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Fubon Bank posted HK$100 million Net Profits for Year 2008

Net profits dropped 78% or HK$361 million to HK$100 million.

(Hong Kong: 10 March 2009) Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported full-year 2008 net profits of HK$100 million which was 78% lower than the HK$461 million reported in 2007. Revenues strengthened in the first half of the year before weakening in the second half as dislocations in global financial markets intensified and the domestic economy further deteriorated. Although net interest income reached a record high as a result of the Bank's continuous efforts to enhance its balance sheet mix, the fall in market-related activities and the weakening of credit conditions led to lower net fee and commission income and rising credit costs. Profits decreased significantly in the fourth quarter of 2008 due to exceptional market circumstances. As a result, earnings per share decreased to 8.43 Hong Kong cents, compared to 39.33 Hong Kong cents per share in 2007.

Net interest income up 16% or HK$135 million to its record high of HK$989 million.

Gross interest income decreased 21% to HK$2,246 million for 2008, whereas gross interest expense decreased 36% to HK$1,257 million over the corresponding period. As a result, net interest income grew by HK$135 million or 16% to HK$989 million. The increase in net interest income was bolstered by an increase in average loan volumes, improvement in investment yield and enhanced balance sheet mix, which outweighed the unfavourable impact of the sharp narrowing of Prime-HIBOR spreads in the months of September and October of 2008. Effective net interest margin ("NIM") improved by 11 bps to 1.76% from 1.65% for 2007, reflecting better management of asset yields and deposit costs.

Other operating income decreased 10% to HK$594 million before including the mark-to-market losses of HK$128 million for CDOs held on the investment books.

Other operating income including net fees and commission income reached HK$594 million, which decreased by 10% or HK$64 million compared to 2007. The year was characterized by lower market activities, dampened investor sentiments, weak stock market turnover and falling securities prices. These unfavourable conditions were further aggravated by the Lehman Brothers incident, which was a further blow to investors' confidence and has resulted in a significant drop in demand for retail investment products. As a result, wealth management and stock broking related fee income declined in line with the general trend. Responding to the market environment, the Bank stepped up its cross-selling efforts between various business divisions to reach out to new segments of clients and to diversify its fee income sources. The marketing fee income of the Financial Markets Group derived from cross-selling to corporate and SME clients increased significantly by 80% compared to 2007.

The Bank continued to adopt a conservative approach towards accounting for its CDO investments and recognized a HK$128 million revaluation loss in 2008 when the credit market further deteriorated. The carrying value of the Bank's CDO portfolio stood at HK$13.6 million at 31 December 2008, representing approximately 0.02% of its consolidated total assets. After accounting for the mark-to-market losses for CDOs held on the investment books for both years, other operating income was recorded at HK$466 million, representing a 18% or HK$102 million decrease compared to HK$568 million for 2007.

Operating profits before gains and impairment losses decreased 17% to HK$489 million.

Operating expenses rose 16% from HK$835 million to HK$965 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. Non-staff cost increased by 24%, mainly due to increases in business promotion costs, computer system and equipment expenses, and legal and professional fees for supporting business growth. The cost-to-income ratio increased to 66% from 59% for 2007. Excluding the revaluation losses on the CDO portfolio for both years, the cost-to-income ratio for 2008 was 61%, an increase of 6% from 55% in 2007. The Bank will continue to take a dynamic approach to managing expense growth and enhancing its operating leverage in order to alleviate the negative impact of slowing revenues on the cost-to-income ratio. Operating profits before gains and impairment losses decreased 17% or HK$98 million to HK$489 million compared with HK$587 million in 2007.

Return on average equity decreased from 11.43% to 2.54% mainly due to higher provisioning on loans and available-for-sale investments.

Due to the economic downturn and deteriorating credit conditions, net charge of impairment losses on advances to customers registered an increase of HK$271 million to HK$309 million, compared to HK$38 million in 2007. Most of the increase was due to higher individual impairment losses on corporate and SME loans. Collective impairment allowances were increased to strengthen the Bank's balance sheet and to put the Bank in a stronger position to weather asset quality risks ahead. Due to weakening economic conditions, the impaired loans ratio increased to 1.22% as of 31 December 2008 from 0.55% as of 31 December 2007.

Impairment losses on available-for-sale securities of HK$197 million were provided for income notes issued by SIVs and for certain equity securities. Further impairment losses totaling HK$79 million were recognized on SIV investments in 2008, with the resulting net exposure at HK$16.6 million as of 31 December 2008. Net gains from the disposal of available-for-sale securities fell HK$46 million to HK$86 million due to reduced profit-taking opportunities. 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 after taxation amounted to HK$100 million, representing a 78% decrease from HK$461 million for 2007. Return on average assets and return on average equity decreased from 0.81% to 0.16% and from 11.43% to 2.54% respectively when compared with 2007.

Total assets up 8% to HK$65.6 billion. Customer deposits registered strong growth of 16%. Loan growth was at 5%.

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 8% or HK$5 billion to HK$65.6 billion as at 31 December 2008. Customer deposits registered satisfactory growth of 16%, reaching HK$48 billion as at 31 December 2008. The Bank was cautious in growing its loan book in 2008 in light of the deterioration in the credit environment. Net loans portfolio reached HK$33 billion, an increase of 5% or HK$1.6 billion over 2007 year-end balances. In order to strengthen the capital base and to provide sufficient surplus funds for supporting future business growth, the Bank issued approximately USD120 million preference shares with 9% coupon in December 2008. The successful issuance of preference shares has placed the Bank in a strongly capitalized and liquid position. The consolidated capital adequacy ratio was 14.04% at the end of December 2008 and average liquidity ratio for 2008 was at 40.29%.

Taiwan-related business contributed 27% of operating profits before gains and impairment losses.

Taiwan-related business contributed 27% (2007: 34%) of the Group’s operating profits before gains and impairment losses. The decrease in contribution was due to the Bank being more cautious in growing its Taiwan-related loan business in order to safeguard asset quality and the drop in wealth management fee income as a result of weak investor sentiments. As at 31 December 2008, the loan and customer deposit balances of Taiwan-related business represented 11% (2007 year-end: 18%) and 22% (2007 year-end: 21%) of the total loan and deposit balances of the Group respectively.

Reinforcing the Bank as the regional financial platform of Fubon Financial with the successful acquisition of a 19.99% stake in Xiamen City Commercial Bank.

In December 2008, the Bank completed the transaction to purchase a 19.99% stake in Xiamen City Commercial Bank (“XCCB”) for a cash consideration of approximately RMB230 million. In addition, the Bank has further agreed to give up to RMB27 million of its share of future dividends from XCCB to the existing shareholders of XCCB as deferred payment of part of the consideration. The strategic partnership with XCCB will provide the Bank with instant RMB access and enable it to better serve the banking needs of Taiwanese and Hong Kong businessmen on the Mainland. The Bank and XCCB will cooperate in various business areas, with a major focus on building out the Taiwan-related business and the consumer finance and deposit franchise at the initial stage.

In 2009, the unsettled operating environment and the uncertain global economic outlook will continue to impact banks' earnings. It is expected that banks will face growing challenges arising from the external shocks and the slowdown in both the Hong Kong economy and in global growth. Risk management is especially important during these uncertain times. The Bank has taken a series of significant steps to improve risk management, enhance internal controls and strengthen the balance sheet which will put the Bank on the path of future growth driven by its core deposit and lending businesses. The Bank will also make the best use of the opportunity to nurture existing client relationships, to prospect good quality clients to grow its customer franchise, and to secure greater cross-business collaboration. Other priorities will be to further integrate with Fubon Financial to enhance revenue and operating synergies, manage costs and make the best use of capital to enhance returns. This is an ongoing process to ensure that the Bank's businesses are well positioned to weather the continuing challenging market conditions, capture opportunities that arise amid the continuing disruption, and prosper when markets improve.

Proposed 2008 Final Dividend at 1.5 Hong Kong cents per ordinary share

The Board of Directors proposes the payment of a final dividend of 1.5 Hong Kong cents per ordinary share in respect of year ended 31 December 2008, subject to approval at the forthcoming Annual General Meeting to be held on 29 April 2009.

<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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