Fubon Bank 富邦銀行

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# PRESS RELEASE

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## Fubon Bank posted HK$23 million Net Profits for 2009

*Net profits dropped 77% or HK$77 million year-on-year to HK$23 million.*

(Hong Kong: 9 March 2010) Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported full-year 2009 net profits of HK$23 million which was 77% or HK$77 million lower than the HK$100 million reported in 2008. The global financial crisis and the ensuing recession that emerged from the fourth quarter of 2008 continued to weigh heavily on Hong Kong's economy and have negatively impacted on the Group's 2009 earnings. Despite net interest income recording strong growth in 2009 and fee-based revenues showing improvement in the fourth quarter, these were offset by provisions incurred from the sales of structured investment products including those charges for the impairment of Lehman Minibonds repurchased from eligible customers under the Repurchase Scheme, lower net fee and commission income and heightened credit costs due to dampened investor sentiments and weak credit conditions.

*Net interest income up 16% or HK$154 million to HK$1,143 million.*

Gross interest income decreased 31% to HK$1,559 million for 2009 whereas gross interest expense decreased 67% to HK$416 million over the corresponding period. As a result, net interest income grew by HK$154 million or 16% to HK$1,143 million. The increase in net interest income was mainly attributed to widening of Hong Kong dollar Prime-HIBOR spread and increase in average interest-earnings assets. Benefiting from lower funding costs in the near-zero interest rate environment and improved credit spreads, effective net interest margin ("NIM") improved by 18 bps to 1.94% from 1.76% for 2008.

*Other operating income (including net fees and commission income) decreased 40% to HK$278 million.*

Other operating income (net of revaluation results on the CDO portfolio) decreased by 53% year-on-year to HK$279 million in 2009, a decrease of HK$315 million from 2008, attributable to a reduction in commission income derived from the sale of financial markets investment and structured products due to impaired customers' confidence in purchasing such products. Coupled with the decline in unit trust sales and wealth management fee income, net fees and commission income reduced by HK$193 million to HK$158 million in 2009. Credit spread tightening affected the fair value of financial instruments designated at fair value through profit and loss and its hedging derivatives, also resulted in a decrease in other operating income. Including the revaluation loss of HK$0.7 million on CDO portfolio in 2009 (HK$128.5 million in 2008), other operating income in 2009 recorded a 40% decrease to HK$278 million.

In view of the tightened regulatory requirements on the sale of investment products, the Bank has enhanced its systems and control processes during the year to ensure that it continues adhering to the highest standard of conduct in its business. In order to enhance competitiveness and accelerate market expansion in the realm of insurance business, the Bank formed a strategic partnership with China Life Insurance (Overseas) Company Limited in November 2009 with a view to offering integrated wealth management services to its customers.

*Operating profits before gains and impairment losses decreased 5% to HK$466 million.*

Operating expenses, including costs from the Lehman Minibonds Repurchase Scheme, decreased 1% or HK$11 million to HK$954 million in 2009. The cost-to-income ratio increased to 67.2% for 2009 from 66.4% for 2008 due to the decrease in other operating income and charges for the impairment of Lehman Minibonds repurchased from eligible customers under the Repurchase Agreement. The Bank has taken measures to rationalize its operating expenses level and enhance its operating leverage in order to alleviate the negative impact of slowing revenues on the cost-to-income ratio in 2009. Operating profits before gains and impairment losses decreased 5% or HK$23 million to HK$466 million compared with HK$489 million in 2008.

*Despite level of impaired loans stabilized since the second quarter of 2009, further charges for impaired loans were required in the second half of 2009.*

Due to the economic downturn and deteriorating credit conditions, the net charge for impairment losses on advances to customers registered a year-on-year increase of HK$176 million to HK$485 million. Most of the increase was due to higher individual impairment losses on SME loans. Despite the level of impaired loans having stabilized since the second quarter of 2009, further individual impairment losses for impaired loans were required in the second half of 2009. Collective impairment allowances were increased reflecting the unsatisfactory credit experience in the last two years. The increase in impaired loan ratio in 2009 was also affected by the 13% drop in advances to customers balances, as a result, the impaired loans ratio increased to 1.78% as of 31 December 2009 from 1.22% as of 31 December 2008. The coverage ratio for impaired loans improved from 75% at 31 December 2008 and from 64% at 30 June 2009 to 87% at 31 December 2009, resulting from the increase in individual impairment losses on advances to customers.

*Return on average equity decreased from 2.54% to 0.48% mainly due to temporary setback in wealth management*

Impairment losses on available-for-sale securities of HK$67 million were provided in 2009. This represented a drop of HK$130 million when compared to HK$197 million recognized in 2008. The share of profits of Xiamen Bank (previously named Xiamen City Commercial Bank), in which the Bank owns a 19.99% stake, amounted to HK$14 *related fee revenues, costs incurred from the Lehman incident and higher loan provisioning.*

million. After accounting for impairment charges, other gains and tax charge, profit after taxation amounted to HK$23 million, representing a 77% decrease from HK$100 million for 2008. Return on average assets and return on average equity decreased from 0.16% to 0.04% and from 2.54% to 0.48% respectively when compared with 2008. After accounting for the dividend payment for preference shares, the loss per share for the year ended 31 December 2009 was 5.16 Hong Kong cents versus earnings per share of 8.43 Hong Kong cents in 2008.

*Total assets down 7% to HK$61.0 billion. Customer deposits registered a 3% decrease while net loans dropped 14%.*

Total assets as at 31 December 2009 were at HK$61.0 billion, a decrease of 7% or HK$4.6 billion from HK$65.6 billion as at 31 December 2008. Customer deposits registered a decrease of 3% to HK$46.6 billion as at 31 December 2009. During the year, the Bank adopted a more conservative strategy in credit underwriting and acquiring new loans in light of the uncertain credit environment. Therefore, the net loans portfolio decreased 14% or HK$4.4 billion to HK$28.6 billion as at 31 December 2009 from the 2008 year-end balance of HK$33.0 billion. The Group’s capital and liquidity positions remained strong. The consolidated capital adequacy ratio was 17.18% (14.04% at 2008 year-end) at the end of December 2009 and average liquidity ratio for 2009 was at 48.65%.

*Positioning the franchise for a market recovery*

Over the past year, the Bank devoted tremendous efforts in refining its business strategy, improving its risk-control systems, rationalizing its cost base and integrating the majority of its businesses and risk practices with those of its parent company. These series of initiatives have put the Bank in better shape to weather market uncertainty and volatility ahead. The Bank established its Dongguan representative office in December 2009 which marks an important step in its Mainland branch strategy and reinforces its position as the regional financial platform for Fubon Financial. On 22 December 2009, the Bank confirmed and undertook to Xiamen Bank to fully subscribe for its allocated 31,984,000 Rights Shares in Xiamen Bank, maintaining its 19.99% shareholding interest in Xiamen Bank. The consideration for the Rights Shares, which was RMB79,960,000 or RMB2.5 per share, was financed from the Bank’s own internal surplus funds.

In 2010, the Bank will adopt a growth-yet-prudent strategy to capture market potential while minimizing risks and costs. The Bank will continue to broaden its client base and deepen customer relationships, and increase revenues by devoting more efforts to cross-selling activities, by strengthening the internet banking platform and by enhancing product capabilities. With support from its parent company, the Bank will also expand its operations through Fubon Financial’s various business platforms to provide comprehensive financial services to Hong Kong and Taiwanese companies. Management believes that the strong foundations the Bank has systematically built over the past year will gear the Bank towards steady performance of its businesses in a sustainable manner.

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| *Proposed 2009 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 2009, subject to approval at the forthcoming Annual General Meeting to be held on 30 April 2010. |

<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 24 retail outlets in Hong Kong including 22 branches and 2 Securities Services Centres, and provides a wide range of financial services encompassing consumer and wholesale banking, wealth management, financial markets, 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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