Fubon Bank 富邦銀行

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PRESS RELEASE

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Fubon Bank raised Earnings by More than Tenfold to HK$266 million

Net profits increased more than tenfold year-on-year to HK$266 million.

(Hong Kong: 8 March 2011) 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.

Net interest income decreased 25% or HK$290 million to HK$852 million. Effective net interest margin narrowed 38 bps to 1.56%.

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.

Net fee and commission income increased 22% or HK$47 million to HK$257 million but was partially offset by

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

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HK$26 million decrease in other operating income.

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.

Operating expenses were down 10% or HK$98 million year-on-year to HK$856 million.

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.

Net charge for impairment losses on advances to customers dropped 98% or HK$475 million to HK$10 million.

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.

Share of profits from Xiamen Bank recorded an increase of 119% to HK$31 million.

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.

Return on average equity increased from 0.48% to 5.31% due to increase in profits after taxation.

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 increased to HK$61.8 billion. Customer deposits grew by HK$2.8 billion or 6% in the second half of 2010 to HK$46.0 billion while net loans registered a year-on-year increase of 1% to HK$28.9 billion.

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.

The Group's capital and liquidity positions remained strong.

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%.

Focusing on the strategic priorities of establishing the local franchise and reducing the overall risk profile.

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.

Well positioned to capitalize on business opportunities in the fast-growing Greater China region.

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.

Proposed 2010 Final Dividend at 3.0 Hong Kong cents per ordinary share.

The Board of Directors proposes the payment of a final dividend of 3.0 Hong Kong Cents per ordinary share in respect of year ended 31 December 2010, subject to approval at the forthcoming Annual General Meeting to be held on 29 April 2011.

<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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