

PRESS RELEASE

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9 AUGUST 2011

Fubon Bank Posted 12% Increase in First Half Earnings

Net profits increased 12% or HK\$18 million year-on-year to HK\$171 million.

(Hong Kong: 9 August 2011) Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (“the Group”) reported a net profit of HK\$171 million for the first six months ended 30 June 2011, an increase of 12% or HK\$18 million over the corresponding period in 2010.

Net interest income decreased 29% to HK\$323 million, attributed to increasing proportion of lower yield loans and rising deposit costs.

Net interest income declined 29% to HK\$323 million for the first half of 2011 while net interest margin decreased by 59 bps to 1.12%. The principal reasons for the decline were the continuous depletion of the high-yield hire purchase portfolio, the increasing proportion of lower yield HIBOR-based mortgage loans following the switch of customers’ demand from prime-based loans to HIBOR-based loans under the low interest rate environment during 2010 and rising deposit costs during the first six months of 2011.

Non-interest income increased 15% to HK\$170 million on the back of continued growth in wealth management and financial markets fee income.

Non-interest income increased 108% to HK\$307 million. Normalized non-interest income expanded 15% with better fee and commission income from sales of insurance, unit trust and structured products on the back of improved investor sentiments as well as higher dividend income. The normalized ratio of non-interest income to total operating income was 34.5%, an improvement over the level of 24.5% in the first half of 2010.

Operating expenses rose 7% to HK\$420 million, driven by rising staff costs, higher business promotion expenses and legal costs incurred for the privatization.

Operating expenses rose 28% or HK\$115 million to HK\$525 million for the first half of 2011. Normalized operating expenses registered a year-on-year increase of 7% on the back of rising staff costs of 7% due to higher salary costs and increase in average headcount. Non-staff costs rose 6%, driven by higher business promotion costs and legal costs incurred for the privatization. The normalized cost to income ratio increased from 65.4% to 85.2%.

Asset quality improvements resulted in further lowering of the impaired loans ratio to 0.50%.

With improvement in the credit environment, there was a write back of impairment losses of HK\$13 million in the first half of 2011 compared with total impairment losses of HK\$66 million over the corresponding period of 2010. The impaired loans ratio continued to decline to 0.50% as of 30 June 2011 (0.66% as of 31 December 2010 and 1.72% as of 30 June 2010). The coverage of impaired loans improved from 95% at 30 June 2010 to 96% at 31 December 2010 and further to 98% at 30 June 2011.

Return on average equity increased from 6.22% to 6.74% due to increase in profits after taxation.

The share of profits of Xiamen Bank, in which the Group owns a 19.99% stake, amounted to HK\$41 million, representing an increase of 203% as compared to HK\$13 million recognized for the first half of 2010. After accounting for impairment charges, other gains and tax charge, profits after taxation stood at HK\$171 million. Return on average assets of 0.58% and return on average equity of 6.74% exhibited a steady improvement over their respective levels of 0.50% and 6.22% for the corresponding period of 2010.

Gross loans registered a 10% increase while customer deposits fell 2%. The Bank remained well capitalized, with capital adequacy ratio of 16.94%.

Total assets were maintained at HK\$61 billion as of 30 June 2011. Gross advances to customers increased 10% from December 2010 to HK\$32 billion. Customer deposits decreased 2% from December 2010 to HK\$45 billion. As a result, the loan-to-deposit ratio increased to 68.4% from 61.2% in December 2010. The Group's capital and liquidity positions remained strong. The capital adequacy ratio stood at 16.94% as of 30 June 2011 (18.23% at 2010 year-end) and average liquidity ratio was 50.60% for the first half of 2011 compared to 49.89% for the first half of 2010.

Leveraging on the financial strengths and vast resources of parent company to build out and strengthen local franchise.

Following the successful privatization of the Bank by its parent company, Fubon Financial Holding Co., Ltd. ("Fubon Financial"), the Bank was officially delisted from the Stock Exchange of Hong Kong on 8 June 2011 and became a wholly owned subsidiary of Fubon Financial. It is expected that the privatization will facilitate closer business integration between the Bank and Fubon Financial, and provide Fubon Financial with greater flexibility to support the Bank's future business development. Such a move will allow the Bank to draw on the resources and expertise of its parent company more efficiently and effectively, enabling it to better serve its customers with enhanced product and service delivery and to build out and strengthen its banking franchise in Hong Kong.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2011

	For the six months ended	
	30 June 2011	30 June 2010
	HK\$'000	HK\$'000
Interest income	588,135	597,678
Interest expense	(264,922)	(142,630)
Net interest income	323,213	455,048
Fee and commission income	173,006	169,377
Fee and commission expense	(56,420)	(37,179)
Net fee and commission income	116,586	132,198
Revaluation loss on collateralised debt obligations	(264)	(5,595)
Other operating income	190,822	21,013
Operating income	630,357	602,664
Operating expenses	(525,362)	(410,750)
Operating profit before gains and impairment losses	104,995	191,914
Write back of / (charge for) impairment losses on advances to customers	18,601	(48,008)
Impairment losses on available-for-sale securities	(227)	(18,404)
Impairment losses on other assets	(878)	-
(Charge for) / write back of impairment losses on advances to an associate	(56)	12
(Charge for) / write back of impairment losses on assets acquired under lending agreements	(4,600)	433
Impairment losses	12,840	(65,967)
Net gains on disposals of available-for-sale securities	40,825	43,594
Net losses on disposals of fixed assets	(3,903)	(20)
Share of profits of an associate	40,504	13,376
Profit before taxation	195,261	182,897
Taxation	(24,299)	(29,602)
Profit for the period	170,962	153,295
Other comprehensive income for the period, net of tax:		
Available-for-sale securities: net movement in investment revaluation reserve	(1,505)	22,187
Exchange differences on translation of an associate	10,048	3,362
Total comprehensive income for the period	179,505	178,844
Profit attributable to:		
- Equity holders of the Bank	171,362	153,535
- Non-controlling interests	(400)	(240)
Profit for the period	170,962	153,295
Total comprehensive income attributable to:		
- Equity holders of the Bank	179,905	179,084
- Non-controlling interests	(400)	(240)
Total comprehensive income for the period	179,505	178,844

Note: The net positive financial impact to the profit for the first half of 2011 from the settlement of the final resolution proposal for certain series of Lehman Brothers Minibonds ("Minibonds") announced in March 2011 was around HK\$32 million, which partially relieved the losses incurred from the repurchase of Minibonds from customers in previous years. The gain from the collateral recovery from the Minibonds and expenses due to the collateral recovery payments and the ex gratia payments to the Minibonds investors are reflected in other operating income and operating expenses respectively.

CONSOLIDATED BALANCE SHEET (UNAUDITED)
As at 30 June 2011

	30 June 2011	As at
	HK\$'000	31 December 2010
		HK\$'000
ASSETS		
Cash and short-term funds	3,489,805	2,777,351
Balances with banks and other financial institutions	1,067,457	2,135,669
Trading securities	1,671,635	966,773
Financial assets designated at fair value through profit or loss	83,832	406,268
Derivative financial instruments	414,111	491,633
Advances to customers less impairment allowances	31,736,217	28,860,971
Other loans and receivables	2,345,437	2,802,314
Accrued interest and other assets	1,681,189	750,435
Available-for-sale securities	14,595,783	18,555,834
Held-to-maturity investments	2,468,618	2,462,681
Interests in associates	582,442	532,353
Fixed assets	1,076,607	1,035,542
Deferred tax assets	-	1,811
	61,213,133	61,779,635
LIABILITIES		
Deposits and balances of banks	4,322,908	3,382,793
Deposits from customers	45,076,609	46,038,161
Trading liabilities	1,739,391	920,695
Financial liabilities designated at fair value through profit or loss	300,764	263,986
Certificates of deposit issued	985,378	797,951
Debt securities issued	38,127	41,401
Derivative financial instruments	433,722	577,314
Other liabilities	1,572,976	1,525,734
Deferred tax liabilities	2,768	46
Subordinated notes issued	1,542,950	3,137,286
	56,015,593	56,685,367
EQUITY		
Share capital	2,097,519	2,097,519
Share premium	749,778	749,778
Reserves	2,348,721	2,245,049
Shareholders' funds	5,196,018	5,092,346
Non-controlling interests	1,522	1,922
	5,197,540	5,094,268
	61,213,133	61,779,635

Fubon Bank (Hong Kong) Limited

Fubon Bank (Hong Kong) Limited (“Fubon Bank”) is a wholly owned 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 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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