Fubon Bank 富邦銀行
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PRESS RELEASE

FOR IMMEDIATE RELEASE **17 MARCH 2020**

Fubon Bank Posted HK$601 Million Net Profit for Year 2019

(Hong Kong: 17 March 2020) Amid an uncertain and challenging market environment, Fubon Bank (Hong Kong) Limited ("the Bank") and its subsidiaries ("the Group") reported a net profit of HK$601 million for the year ended 31 December 2019, representing a year-on-year decrease of 27% as compared with 2018. Return on average equity and return on average assets were 4.19% and 0.56%, respectively, compared with 5.61% and 0.82% in 2018. The decline in net profit was mainly attributable to the drop in share of profits from Xiamen Bank Co., Ltd ("Xiamen Bank") after the disposal of the Bank's entire shareholding in Xiamen Bank to its parent company, Fubon Financial Holding Co., Ltd. ("Fubon Financial Holdings"), in November 2018. This divestment was part of the Fubon Group's realignment initiative. Nevertheless, the Group's operating profit after impairment losses posted a gain of 3% to HK$721 million.

Benefiting from the growth in average interest-earning assets, net interest income rose by 4% to HK$1,416 million. Net interest margin for the year, however, narrowed by 4 basis points to 1.49%, primarily due to the increase in deposit costs which outweighed the overall asset yield improvement. Average interest-earning assets grew by 7%, mainly underpinned by the expanding loan and debt securities investment portfolios.

Net fee and commission income increased by 2% to HK$296 million. The increase was mainly contributed by the increase in credit related fees and insurance services income by 15% and 14%, respectively. On the other hand, securities brokerage and investment services income was lower due to the significant shrinkage in the stock market turnover, which declined by 30%. Unit trust services income also decreased by 24%.

The increase in other operating income was mainly the result of lower mark-to-market losses on foreign exchange swaps. Total non-interest income increased by 5% to HK$347 million. The percentage of non-interest income to total operating income remained stable at 19.7%.

Operating expenses decreased by 7% to HK$899 million. The cost-to-income ratio dropped to 51.0% compared with 57.2% in 2018. The Group continuously exercised effective cost control measures while remaining committed to allocating resources and investing in the development of Fintech. Major initiatives included the development of virtualization of our banking services and the successful completion of the replacement of our core banking system. During the year, the Bank also won an appeal against a High Court judgment against the Bank which resulted in the recovery of HK$96 million that was paid out under the High Court order. The litigation related to a dispute with a borrowing customer involving a transaction that dated back to 1998.

In view of the uncertain and unstable economic environment, the Bank chose to adopt a prudent approach in applying the expected credit loss model developed under HKFRS9. This resulted in a charge for the year of HK$93 million for loan impairment and HK$34 million for other financial asset impairment for stages 1 and 2. However, loan impairment losses for stage 3 (net of bad debt recovery) declined by HK$51 million to HK$12 million. As to the loan portfolio quality, the impaired loan ratio dropped to 0.33% at 2019 year-end, with a coverage ratio of 98.8%.

The Group’s total assets rose by HK$9 billion, or 8%, to HK$111 billion as at 31 December 2019. Gross advances to customers grew 10% to HK$53 billion, mainly attributed to growth in loans to corporate customers. Customer deposits increased at a fast and healthy pace of 10% to HK$75 billion, providing the Bank with a strong deposit base during this period of market uncertainty. Taking into account the trade bills and certificates of deposit issued by the Bank, the loan-to-deposit ratio decreased from 66.7% at 31 December 2018 to 65.9% at 31 December 2019.

The Group’s capital and liquidity position remained strong and healthy during the year. As at 31 December 2019, the Group’s common equity tier 1 capital ratio and tier 1 capital ratio were both 16.72%, and its total capital ratio was 19.66%, which was well above the statutory requirements. The average liquidity maintenance ratio also stood at a comfortable level of 67.09%.

We believe that global economic conditions and the market environment in Hong Kong will remain volatile in 2020. The outbreak of the novel coronavirus (COVID-19) has posed additional challenges to the weakened market conditions in Hong Kong. Continued uncertainty over the China-U.S. trade dispute, heightened geopolitical tensions and the social unrest in Hong Kong will further dampen economic growth. Against a backdrop of a rapidly-changing operating environment, the Bank will continue to pursue a customer-centric and prudent growth strategy to strengthen our franchise. Our goal is to deepen our relationships with customers and enhance customer engagement by providing products and services that best suit their financial needs. We remain focused on enhancing our efficiency and service delivery capabilities by making investments in technology and operational infrastructure to develop innovative Fintech solutions for both retail and corporate customers. With the seamless integration of our virtual banking services and our physical branch network, we will ensure that our customers can embark on a memorable journey to better manage their financial needs and enjoy the unique “Fubon Experience”.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Interest income calculated using effective interest method	**3,197,574**	2,692,504
Other interest income	**24,979**	15,736
Interest income	**3,222,553**	2,708,240
Interest expense	**(1,806,862)**	(1,351,788)
Net interest income	**1,415,691**	1,356,452
Fee and commission income	**394,919**	396,600
Fee and commission expense	**(98,808)**	(107,287)
Net fee and commission income	**296,111**	289,313
Other operating income	**50,408**	42,007
Operating income	**1,762,210**	1,687,772
Operating expenses	**(898,826)**	(964,707)
Operating profit before gains and impairment losses	**863,384**	723,065
Impairment losses on advances to customers	**(105,187)**	(48,953)
(Charge for) / write back of impairment losses on other financial assets	**(33,500)**	20,010
Write back of impairment losses on other assets	**449**	5,492
(Charge for) / write back of impairment losses on assets held for sale	**(4,143)**	1,543
Write back of impairment losses on assets acquired under lending agreements	**-**	1,100
Impairment losses	**(142,381)**	(20,808)
Gain on disposal of a subsidiary	**1,288**	-
Net gains on disposal of financial assets at amortized cost	**28**	399
Net (losses) / gains on disposal of fixed assets	**(4,902)**	16
Share of profits of an associate	**-**	269,921
Gain on bargain purchase of an associate	**-**	70,255
Loss on disposal of an associate	**-**	(118,768)
Profit before taxation	**717,417**	924,080
Taxation	**(116,298)**	(101,252)
Profit for the year	**601,119**	822,828
Other comprehensive income for the year, net of tax:		
Items that will not be reclassified to profit or loss:		
Premises: net movement in premises revaluation reserve	**(191,419)**	262,501
Equity securities designated at fair value through other comprehensive income: net movement in investment revaluation reserve (non-recycling)	**222,910**	225,939
Remeasurement of net defined benefit liability	**(4,366)**	1,199
	27,125	489,639
Items that may be reclassified subsequently to profit or loss:		
Debt securities designated at fair value through other comprehensive income: net movement in investment revaluation reserve (recycling)	**-**	68,501
Net movement in foreign exchange reserve	**-**	9,637
	-	78,138
Total comprehensive income for the year	**628,244**	1,390,605

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	31 December 2019 HK$'000	31 December 2018 HK$'000
ASSETS		
Cash and short-term funds	**5,290,706**	5,981,567
Balances with banks and other financial institutions	**2,862,464**	2,060,262
Trading assets	**1,943,242**	1,898,372
Derivative financial instruments	**543,793**	796,595
Advances to customers	**52,308,452**	47,699,240
Trade bills	**724,425**	907,964
Accrued interest and other assets	**2,026,736**	1,385,311
Debt securities measured at amortized cost	**40,516,236**	36,889,767
Equity securities designated at fair value through other comprehensive income	**1,074,054**	809,330
Fixed assets	**4,075,218**	4,312,504
Assets held for sale	**41,300**	45,827
Deferred tax assets	**8**	7
Total assets	**111,406,634**	102,786,746
LIABILITIES		
Deposits and balances of banks and other financial institutions	**9,140,295**	9,467,425
Deposits from customers	**75,043,411**	68,247,798
Trading liabilities	**948,173**	1,898,372
Certificates of deposit issued	**4,730,098**	4,551,273
Debt securities issued	**1,165,268**	388,774
Derivative financial instruments	**385,348**	133,347
Other liabilities	**3,138,648**	1,836,703
Liabilities associated with assets held for sale	**-**	25
Deferred tax liabilities	**652,443**	676,552
Subordinated notes issued	**1,555,776**	1,562,870
Total liabilities	**96,759,460**	88,763,139
EQUITY		
Share capital	**4,830,448**	4,830,448
Reserves	**9,816,726**	9,193,159
Total equity	**14,647,174**	14,023,607
Total equity and liabilities	**111,406,634**	102,786,746

Note: Balances as at 1 January 2019 have incorporated opening adjustments on balances as at 31 December 2018 in accordance with new accounting standard – Hong Kong Financial Reporting Standard 16, Leases. The balances as at 31 December 2018 have not been represented. The financial information relating to the financial years ended 31 December 2019 and 2018 that is included in this press release does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

The Bank has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Bank's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

Fubon Bank (Hong Kong) Limited

Fubon Bank (Hong Kong) Limited ("Fubon Bank") is a wholly owned subsidiary of Fubon Financial Holding Co., Ltd. ("Fubon Financial Holdings"), one of the largest financial holding companies in Taiwan. Fubon Financial Holdings is now the only Taiwanese financial institution with banking subsidiaries in China, Taiwan and Hong Kong. Fubon Bank operates 20 branches and 1 Securities Services Centre in Hong Kong, providing 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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