

2006 was a breakthrough year. In order to prepare ourselves for new challenges, the Bank continued with transformation and reform by introducing new initiatives that tie in with our Value Banking proposition. Our breakthrough was realised by a team of dedicated professionals who helped deliver our promises to customers, business partners and stakeholders.

management discussion & analysis

管理層討論及分析

二零零六年，本行表現有所突破。我們積極尋求轉變和改革，朝著讓客戶「所享 超出所想」的經營理念，推出多項創新的產品、服務和措施，為迎接新挑戰作好準備。我們的專業服務人員，同心協力滿足客戶、業務夥伴及相關人士的期望，令我們的表現取得突破。

STRONG ECONOMIC GROWTH AND CONFIDENCE IN HONG KONG

Hong Kong's economy generated strong momentum in 2006, with real Gross Domestic Product growing by 6.5% compared to 2005. This performance was distinctly above the medium term growth trend of the economy, and the pace of growth accelerated through the year. Economic growth was broad-based, and marked by a pick-up in exports, a surge in investment and strong local consumption.

Exports regained strength in the latter part of the year, after some moderation in the second quarter, and were supported by a pick-up in China's already strong trade flows and surging intra-regional trade flows. Total exports of goods were up by 9%, while imports rose 11% for the year. China continued to be the key driver of growth, with its rapidly growing economy and its vibrant trade flows. Exports to many other Asian markets such as Taiwan, Singapore and Korea also recorded strong growth in tandem with their generally strong import demand and buoyant intra-regional trade. Exports to the United States showed signs of slowing towards the end of the year, partly due to its slowing economy, and also due to the drag from the on-going shift to offshore trade. Exports of services maintained strong momentum during the year. Exports of trade-related services were bolstered by buoyant China trade flows, while exports of transport services sustained strong growth in tandem with the faster trade growth. Financial and insurance services exports also attained double-digit growth. However, the momentum in exports of travel services slowed due to a less rapid growth in the numbers of incoming visitors.

Domestic demand in Hong Kong held up very well throughout the year. Local consumer spending rose solidly amidst improving income, expanding job opportunities and a buoyant stock market. A more

香港經濟增長強勁信心高企

二零零六年，香港經濟發展勢頭強勁，實質本地生產總值較二零零五年增長 6.5%，表現明顯超出中期的經濟增長趨勢，而發展步伐更於年內加速。本港經濟全面增長，反映於出口上升、投資增加及本地強勁的消費市道。

本港出口於第二季放緩，但於下半年重拾強勢。此乃得到中國貿易強勁上升及區內貿易增加的支持。年內出口貨運總值上升 9%，進口則錄得 11% 升幅。中國經濟增長迅速、貿易暢旺，繼續成為經濟增長的主要動力。受進口需求普遍強勁及區內貿易暢旺的帶動，本港對台灣、新加坡及韓國等其他亞洲市場的出口，錄得強勁升幅。本港對美國的出口在年底放緩，部分原因是當地經濟減慢，加上離岸貿易增加所致。年內服務出口維持強勁增長，其中貿易相關服務出口受惠於中國蓬勃的貿易流量，而運輸服務出口因貿易加速增長而維持強勁增幅。金融與保險服務出口亦維持雙位數的增長。然而，由於訪港旅客數目增幅減慢，旅遊服務出口表現放緩。

年內本港內部需求保持堅穩。在薪酬改善、就業增加及股市暢旺的帶動下，本地消費開支穩定上揚。物業市場趨穩，加息潮告一段落，皆有助提升消費信心。整體投資開支錄得超過 10% 的增幅。機器設備投資成為推動整體投資增長的主要來源，反映營商信心強勁。公營部門工程持續急跌，建築業整體

stable property market, together with the pause in interest rate hikes boosted consumer confidence. Overall investment spending accelerated markedly by more than 10%. Machinery and equipment investment was the key driver of overall investment growth, reflecting strong business confidence. Activity in the construction sector remained weak in overall terms, as public sector output continued to fall sharply. The labour market continued to improve in a broad-based manner. Strong expansion in labour demand pushed total employment to successive new highs during the year, shaving the unemployment rate down to 4.4% at year end. Along with the sustained economic expansion, inflation edged slightly higher to a moderate 2% for the year. On the domestic front, upward pressures on local business costs remained largely in check, with unit labour cost kept down by rising productivity. External cost pressures were likewise modest.

HONG KONG BANKING OPPORTUNITIES OUTSTRIP RISING COSTS

Hong Kong's banking sector reported improved net interest margins in 2006 as the spread between Prime and HIBOR remained wide. Strong liquidity inflows related to a large pipeline of Chinese stock market listings kept HIBOR relatively low throughout the year. The Hong Kong dollar traded on the strong side of the peg for most of the year. Bank managers continued to focus on generating fee income, but this came at the expense of higher operating costs. Credit quality remained good, with some signs of stress in the personal loan market. Loan demand was mixed, with corporate lending continuing to dominate volumes, while mortgage demand was weak, and pricing was competitive. The Hong Kong Monetary Authority introduced a Deposit Insurance Scheme in 2006 and banks are currently making preparations for Basel II.

走勢疲弱。勞工市場的整體表現則持續改善。勞工需求急升，使整體就業人數於年內屢創新高，失業率於年底跌至 4.4%。隨著經濟持續擴張，年內通脹微升至 2% 的溫和水平。內部經濟方面，本地營商成本的上升壓力仍然受控，單位勞工成本因生產力上升而維持低企。外來成本壓力亦同樣溫和。

香港銀行業務成本上升但商機更大

由於最優惠利率和銀行同業拆息的息差仍大，香港銀行業於二零零六年的淨息差得以改善。隨著不少國企上市，香港市場游資充斥，使銀行同業拆息全年維持在較低水平。港元匯率於全年大部分時間維持強勢。銀行管理層繼續專注提升費用收入，但須承受營運成本上升的壓力。信貸質素維持理想，而個人貸款市場出現受壓跡象。各類信貸需求參差，其中企業借貸持續佔有重要比重，而按揭需求疲弱，價格競爭激烈。二零零六年，香港金融管理局推出「存款保險計劃」，現時銀行界正為履行《新巴塞爾資本充足標準》（《資本協定二》）作準備。

中國經濟保持增長

中國於二零零六年的實質本地生產總值增長 10.7%，高於二零零五年的 10.4%，並創下自一九九五年（錄得 10.9% 增幅）以來的經濟增長新高。全國經濟總產值達 2.70 萬億美

CHINA'S ECONOMIC GROWTH STORY CONTINUES APACE

China's real Gross Domestic Product for 2006 expanded by 10.7%, topping the 10.4% record of 2005 and thus registering the highest rate of economic growth since 1995, when the economy expanded by 10.9%. The country's total economic output hit US\$2,700 billion. The fast pace of growth was achieved despite a series of measures to cool the economy, including two interest rate increases, increases in bank reserve requirements and a tightening of land sale and project approvals in certain industries to slow investment.

Favourable conditions in the global economy continue to support rapid expansion of merchandise trade, and net exports again contributed positively to growth in 2006. Exports and imports both grew rapidly, by 27% and 20%, respectively, resulting in a US\$177.5 billion trade surplus – equal to nearly 7% of China's total economic output. Although the capital account remains in surplus, disbursed foreign direct investment fell slightly, perhaps as a result of a more restrictive policy on property.

Excess liquidity, due to the strong trade performance, was a key feature of China's economic performance last year. The People's Bank of China drained RMB770 billion of liquidity from the money markets via open market operations during the year. This was equal to about 56% of the year's trade surplus or 40% of the rise in foreign reserves (US\$247 billion). The remaining non-sterilised portion was US\$148 billion (or 5.5% of GDP). Although the 150bp increase in reserve requirements extracted another US\$58 billion from the banking system, M2 growth was 17% at the end of last year, down from the 19% growth seen in mid-year but still above the Chinese Government's target growth rate of 16%. Strong liquidity growth helped double the market capitalisation of China's stock markets in 2006.

元。儘管政府採取一系列降溫措施，包括兩次加息、提高準備金要求，以及在若干行業收緊土地銷售及項目審批以減緩投資，但經濟仍然快速增長。

由於全球經濟環境向好，繼續支持商品貿易快速增長，二零零六年淨出口再度為經濟增長作出貢獻。中國的出口及進口均快速增長，分別達 27% 及 20%，令貿易順差達 1,775 億美元，約相當於中國經濟總產值的 7%。儘管資本賬仍保持盈餘，但可能由於降溫政策影響房地產市場，實付外商直接投資略為減少。

去年中國經濟表現的一大特點是貿易蓬勃發展，產生過剩的流動資金。年內，中國人民銀行透過公開市場運作，自貨幣市場抽離人民幣 7,700 億元的游資，相當於全年貿易順差約 56% 或外匯儲備(2,470 億美元)增幅的 40%。其餘非沖銷部分為 1,480 億美元(相當於本地生產總值 5.5%)。儘管將準備金率調高 150 個基點，進一步從銀行系統抽離 580 億美元資金，年終的廣義貨幣供應量仍增長 17%，低於年中所見的 19% 增幅，但仍高於中國政府的 16% 增長目標。流動資金強勁增長，使中國股市市值於二零零六年增長一倍。

中國銀行業進入新時代

去年是中國銀行業關鍵的一年，中國四大國有銀行的其中三間完成私有化。早在七月，

CHINA BANKING ENTERS A NEW ERA

Last year was a pivotal period for China's banking industry with the privatisation of three of the big four state-owned banks. Already in July, Standard & Poor's raised China's long-term sovereign credit rating to A from A-minus, citing among other reasons "persistent efforts to strengthen the banking sector." However, despite their public shareholders, credit growth remained above targets. Investment in real estate grew by 21.8%, while overall investment in assets increased by 24%. In April, the Chinese Government announced that the minimum down payment on apartments larger than 90 square meters would be increased from 20% to 30%, and a higher sales tax was applied on the sale of residential properties owned for less than five years. A 20% capital gains tax on residential property was extended nationwide and additional restrictions on foreign investment in real estate were also imposed.

Retail sales expanded by 13.7% in 2006, but overall consumer inflation averaged just 1.5% in 2006 – from 1.8% in 2005. This reflects the supply-side nature of the current upswing in the Chinese economy and a rapid expansion of capacity. Indeed, output prices have been falling in some sectors even with increases in input costs. A good grain harvest also helped keep consumer prices in check.

Recognising the strong growth potential of the Chinese banking market, and the fact that entry barriers are being lifted in line with China's WTO pledges – Fubon Bank (Hong Kong) continues to seek a suitable presence in the Mainland banking market while strengthening our business position in Hong Kong.

OPERATING PERFORMANCE

The Bank achieved a significant breakthrough in core performance during 2006. Combined with improved

標準普爾將中國的長期主權信貸評級從 A- 調高至 A，主要原因是「中國不斷強化銀行體系」。然而，儘管銀行部分股份由公眾持有，但信貸增長仍然超標。房地產投資增長 21.8%，整體資產投資增長 24%。於四月，中國政府將九十平方米以上住宅的最低首期付款由 20% 提高至 30%，並提高在購置後五年內出售住宅物業的銷售稅。中國已在全國實施徵收 20% 的住宅物業資本增益稅，並對外資進入房地產施加額外限制。

二零零六年的零售額增長 13.7%，但全年整體平均消費通脹率僅為 1.5%，而二零零五年為 1.8%。這點反映，目前中國經濟的高速增長是由供應面因素及生產能力迅速擴大所促動。事實上，部分行業在原料價格上升的情況下，產品價格一直在下降。農業豐收亦有助壓抑消費價格上升。

中國的銀行市場增長潛力優厚，加上中國入世後政府把進入中國市場的門檻降低，富邦銀行(香港)在繼續鞏固香港市場業務的同時，亦會尋找適當機會在內地市場發展。

經營表現

本行的核心業務表現，於二零零六年取得了重大突破。除了增強了本行的資產及債務結構外，本行亦建立了更廣闊的產品平台，為客戶提供跨境理財服務，更成功於內部灌輸「所享 超出所想」的經營理念，在推動本行成為富邦金控的區域金融服務平台的目標上邁進了一步。

balance sheet mix and the establishment of a product platform to better serve our customers with cross-border financial needs, the successful inculcation of the Value Banking mindset across all our businesses has effectively driven the Bank closer to realising its goal as a regional platform of Fubon Financial.

In the context of a vibrant period for the economies of HKSAR and the Mainland, we have expanded our business and invested in the systems and infrastructure that we need in order to sustain this organic growth.

Value Banking is a concept that runs seamlessly through our every interaction with customers as well as all the Bank's communications, branding and professional development initiatives. We believe fervently that by living this mindset, we will excel in terms of winning and retaining valuable customers. On that note, we launched a company-wide Culture Change Programme in 2006 to promote deeper understanding and support for the notion of Value Banking and the five core values that underpin it.

We have built on the business expansion achieved in 2005 and, combined with the strong momentum of the Hong Kong economy, this led to an operating profit increase before gains and impairment losses of more than 80% to HK\$411 million. Gross interest income rose 61% to HK\$2.5 billion over the last year, whereas gross interest expense rose to HK\$1.8 billion from HK\$1.1 billion for the year of 2005. As a result, net interest income grew by HK\$193 million or 38% to HK\$697 million, mostly due to the widening of Prime-HIBOR spreads, strong loan growth and improvement in investment yield. Effective net interest margin improved from 1.09% for 2005 to 1.35% for 2006.

Other operating income reached HK\$431 million, which represented a 32% increase compared to last year. Strong growth in recurring sales of Financial Markets products throughout all segments was recorded, with

在香港特區及中國經濟發展蓬勃的情況下，本行不斷擴展業務，並投資於系統及基礎設施，以維持現有業務的增長動力。

「所享 超出所想」的經營理念，現已融入本行與客戶接觸交流的每個層面，以至我們的傳訊、品牌推廣及專業發展活動中。我們深信，只要活出該理念，必能贏得寶貴客戶的支持，並與他們維繫密切關係。有鑑於此，本行於二零零六年推出「富邦企業文化革新計劃」，加深員工對「所享 超出所想」及五大核心價值的了解及支持。

承接二零零五年業務擴張的勢頭，加上香港經濟的強勁動力，本行未計收益及減值虧損前的經營溢利達 4.11 億港元，增長超過 80%。利息收入總額與去年比較錄得 61% 的升幅，達 25 億港元。利息支出總額則由二零零五年的 11 億港元上升至 18 億港元。由於最優惠利率與銀行同業拆息的息差擴大、貸款增長強勁及投資收益有所改善，二零零六年淨利息收入較二零零五年增加了 1.93 億港元，錄得 38% 的升幅至 6.97 億港元。實際淨息差由二零零五年的 1.09% 改善至二零零六年的 1.35%。

其他營運收入較去年增長 32%，達 4.31 億港元。各類型金融市場產品的經常性銷售錄得強勁增長，有關收入較二零零五年上升了一倍。股票市場暢旺令經紀佣金收入增長 37%。此外，個人銀行業務相關產品，包括

income doubling compared to 2005. Benefiting from the buoyant equity market, brokerage-related commission income surged 37%. We also saw a 44% year-on-year increase in commission income from Consumer Banking-related products, which include credit cards, unit trusts and insurance products.

On the expenses side, operating expenses rose 19% from HK\$603 million to HK\$717 million. This increase was primarily due to higher compensation and other staff expenses related to the hiring of new staff to support our business growth. Nevertheless, due to the strong growth in net interest income and other operating income, the Bank's cost to income ratio improved from 72.6% to 63.6%.

In 2006, the Group recorded a net charge of impairment losses of HK\$66 million for impaired loans and advances as compared with a reversal of impairment losses of HK\$20 million in 2005. Asset quality was sound as evidenced by an impaired loans ratio of 0.93%. There was a gain on the disposal of available-for-sale securities of HK\$47 million compared to a disposal loss of HK\$18 million in 2005. Once we factor in these impairment losses and gains, net profit for 2006 amounted to HK\$327 million, which represented an increase of 36% from 2005. Return on assets was 0.6%, while return on equity improved from 6.48% in 2005 to 8.5%.

Customer deposits grew by 4%, reaching HK\$33.8 billion as at 31 December 2006. To diversify its funding sources, the Bank successfully completed the issuance of US\$200 million lower tier II subordinated debt and US\$150 million senior floating rate notes in April 2006 under its US\$1 billion Euro Medium Term Note Programme launched in March 2006. This has further strengthened the Bank's capital base and liquidity structure, and reduced our reliance on rate sensitive funding.

信用卡、單位基金及保險產品的佣金收入亦較去年增長 44%。

開支方面，營運支出由 6.03 億港元上升 19% 至 7.17 億港元。該支出增長主要是為了配合業務發展而增聘員工，以致僱員成本及其他僱員開支增加。儘管如此，由於淨利息收入及其他營運收入大幅增長，本行的成本對收入比率由去年底的 72.6% 改善至 63.6%。

本集團於二零零六年錄得客戶貸款的減值虧損為 6,600 萬港元，而二零零五年則錄得撥回為 2,000 萬港元。減值貸款比率為 0.93%，反映了資產質素良好。出售可供出售證券的收益為 4,700 萬港元，相對二零零五年出售錄得虧損 1,800 萬港元。鑒於上述因素，二零零六年淨溢利為 3.27 億港元，較二零零五年增長 36%。資產回報率為 0.6%，股本回報率則由二零零五年的 6.48% 上升至 8.5%。

截至二零零六年十二月三十一日，客戶存款增長 4% 達 338 億港元。為分散資金來源，本行於二零零六年三月推出了 10 億美元「歐元中期票據計劃」，成功於二零零六年四月發行 2 億美元後償債券及 1.5 億美元優先浮息票據。此舉進一步增強了本行的資本基礎及債務結構，並降低本行對利率敏感資金之依賴。

With diversified sources of funding and growth in customer deposits, the Bank was able to support asset growth of 7% to HK\$53.3 billion in 2006. Our loan portfolio reached HK\$25.9 billion, an increase of 20% from December 2005. Growth was seen in most loan types, but especially in short term advances, project and syndicated / term loans and hire purchase loans.

Taiwan-related business continued to demonstrate impressive growth during the year. With a full team of experienced professionals providing corporate banking services to Taiwanese customers in Hong Kong and the Mainland, the corporate loans portfolio increased by 152% and the deposits portfolio grew more than 210% as compared to the 2005 year-end balances. Furthermore, the number of wealth management accounts expanded significantly by 119%, with assets under management growing by more than 110%.

As a niche player with a proven record for creating tailor-made products and services to Taiwanese enterprises and customers working or doing businesses in Hong Kong and the Mainland, we will continue to tap this source of business and to maximise these opportunities by integrating further with Fubon Financial. Recognising the strong growth potential of the Mainland banking market, the Bank will continue to seek a suitable presence in the Mainland while strengthening our business position in Hong Kong.

分散的資金來源及客戶存款增長令本行在二零零六年的總資產錄得 7% 升幅至 533 億港元。貸款組合較二零零五年十二月上升 20%，達 259 億港元。大部分貸款類別均錄得增長，當中短期貸款、項目及銀團 / 有期貸款，及租購融資增長尤其強勁。

台灣相關業務於二零零六年持續錄得增長。憑著由經驗豐富的專才組成的強大團隊，為身在香港及內地的台灣客戶提供企業銀行服務，與二零零五年的數字相比，台灣團隊的企業貸款組合及存款組合分別增長了 152% 及超過 210%。此外，財富管理的賬戶數目亦增加了 119%，所託管的資產攀升超過 110%。

本行善於為香港及內地的台資企業以及在兩地工作和營商的個人客戶提供度身設計的產品和服務，在這個服務領域佔有獨特地位且成績顯著。我們將會以此為發展目標，把握優勢，結合富邦金控的力量共同發展。中國的銀行市場增長潛力優厚，本行將繼續鞏固在香港市場的地位，同時尋求適當機會在內地市場開拓業務。