



FUBON BANK (HONG KONG) LIMITED

富邦銀行(香港)有限公司

(incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

ANNOUNCEMENT OF 2010 FINAL RESULTS

SUMMARY OF RESULTS

The Directors have pleasure in presenting the audited results of Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (collectively “the Group”) for the year ended 31 December 2010. ^(Note 1)

**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010**

	Note	2010 HK\$'000	2009 HK\$'000	Variance
Interest income	3(a)	1,196,169	1,558,500	-23.2%
Interest expense	3(b)	(343,649)	(415,996)	-17.4%
Net interest income		852,520	1,142,504	-25.4%
Fee and commission income	4(a)	330,766	281,164	+17.6%
Fee and commission expense	4(b)	(73,574)	(70,796)	+3.9%
Net fee and commission income		257,192	210,368	+22.3%
Revaluation loss on collateralised debt obligations	15	(13,673)	(681)	+1,907.8%
Other operating income	5	42,074	68,476	-38.6%
Operating income		1,138,113	1,420,667	-19.9%
Operating expenses	6	(856,152)	(954,296)	-10.3%
Operating profit before gains and impairment losses		281,961	466,371	-39.5%
Impairment losses on advances to customers	7	(9,713)	(484,917)	-98.0%
Impairment losses on available-for-sale securities	15	(19,472)	(67,124)	-71.0%
Impairment losses on other assets		(17,270)	-	N/A
(Charge for) / write back of impairment losses on advances to an associate		(681)	346	N/A
Write back of impairment losses on assets acquired under lending agreements		417	4,737	-91.2%
Impairment losses		(46,719)	(546,958)	-91.5%
Net gains on disposals of available-for-sale securities	8	50,992	92,945	-45.1%
Net losses on disposals of fixed assets		(5,045)	(16)	+31,431.3%
Share of profits of an associate		31,352	14,309	+119.1%
Profit before taxation		312,541	26,651	+1,072.7%
Taxation	9	(46,248)	(4,117)	+1,023.3%
Profit for the year		266,293	22,534	+1,081.7%
Other comprehensive income for the year, net of tax:				
Available-for-sale securities: net movement in investment revaluation reserve		(6,766)	305,197	N/A
Exchange differences on translation of an associate		14,434	67	+21,443.3%
Total comprehensive income for the year		273,961	327,798	-16.4%

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**Consolidated Statement of Comprehensive Income (continued)
For the year ended 31 December 2010**

	Note	2010 HK\$'000	2009 HK\$'000	Variance
Profit attributable to:				
- Equity holders of the Bank		266,966	22,995	+1,061.0%
- Non-controlling interests		(673)	(461)	+46.0%
Profit for the year		<u>266,293</u>	<u>22,534</u>	+1,081.7%
Total comprehensive income attributable to:				
- Equity holders of the Bank		274,634	328,259	-16.3%
- Non-controlling interests		(673)	(461)	+46.0%
Total comprehensive income for the year		<u>273,961</u>	<u>327,798</u>	-16.4%
Earnings per share (Hong Kong cents)	10	15.62	(5.16)	N/A

FUBON BANK (HONG KONG) LIMITED

Consolidated Balance Sheet As at 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000	Variance
ASSETS				
Cash and short-term funds		2,777,351	5,414,889	-48.7%
Balances with banks and other financial institutions		2,135,669	367,677	+480.9%
Trading securities	11	966,773	105,522	+816.2%
Financial assets designated at fair value through profit or loss	12	406,268	641,737	-36.7%
Derivative financial instruments	18(b)	491,633	632,010	-22.2%
Advances to customers less impairment allowances	13	28,860,971	28,571,967	+1.0%
Other loans and receivables	14	2,802,314	3,392,218	-17.4%
Accrued interest and other assets		750,435	1,511,237	-50.3%
Available-for-sale securities	15	18,555,834	17,939,073	+3.4%
Held-to-maturity investments	16	2,462,681	902,222	+173.0%
Interests in associates		532,353	386,510	+37.7%
Fixed assets		1,035,542	1,079,094	-4.0%
Deferred tax assets		1,811	35,144	-94.8%
		61,779,635	60,979,300	+1.3%
LIABILITIES				
Deposits and balances of banks		3,382,793	2,424,903	+39.5%
Deposits from customers		46,038,161	46,602,175	-1.2%
Trading liabilities		920,695	14,275	+6,349.7%
Financial liabilities designated at fair value through profit or loss		263,986	201,096	+31.3%
Certificates of deposit issued		797,951	322,100	+147.7%
Debt securities issued		41,401	268,791	-84.6%
Derivative financial instruments	18(b)	577,314	651,896	-11.4%
Other liabilities		1,525,734	3,919,179	-61.1%
Deferred tax liabilities		46	68	-32.4%
Subordinated notes issued	17	3,137,286	1,640,257	+91.3%
		56,685,367	56,044,740	+1.1%
EQUITY				
Share capital		2,097,519	2,097,519	-%
Share premium		749,778	749,778	-%
Reserves		2,245,049	2,084,572	+7.7%
Shareholders' funds		5,092,346	4,931,869	+3.3%
Non-controlling interests		1,922	2,691	-28.6%
		5,094,268	4,934,560	+3.2%
		61,779,635	60,979,300	+1.3%

FUBON BANK (HONG KONG) LIMITED

Consolidated Statement of Changes in Equity For the year ended 31 December 2010

Attributable to equity holders of the Bank

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Investment revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2009	2,097,519	749,778	372,000	12,969	175,211	(276,620)	-	1,587,088	4,717,945	3,152	4,721,097
Total comprehensive income for the year	-	-	-	-	-	305,197	67	22,995	328,259	(461)	327,798
- Profit for the year	-	-	-	-	-	-	-	22,995	22,995	(461)	22,534
- Other comprehensive income, of which:											
- Available-for-sale securities: net movement in investment revaluation reserve	-	-	-	-	-	305,197	-	-	305,197	-	305,197
- Exchange differences on translation of an associate	-	-	-	-	-	-	67	-	67	-	67
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Interim dividend paid	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the year	-	-	-	-	-	-	-	(81,886)	(81,886)	-	(81,886)
Equity settled share-based transactions	-	-	-	2,715	-	-	-	-	2,715	-	2,715
At 31 December 2009	2,097,519	749,778	372,000	15,684	175,211	28,577	67	1,493,033	4,931,869	2,691	4,934,560

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Consolidated Statement of Changes in Equity (continued) For the year ended 31 December 2010

	Attributable to equity holders of the Bank										
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Investment revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2010	2,097,519	749,778	372,000	15,684	175,211	28,577	67	1,493,033	4,931,869	2,691	4,934,560
Total comprehensive income for the year	-	-	-	-	-	(6,766)	14,434	266,966	274,634	(673)	273,961
- Profit for the year	-	-	-	-	-	-	-	266,966	266,966	(673)	266,293
- Other comprehensive income, of which:											
- Available-for-sale securities: net movement in investment revaluation reserve	-	-	-	-	-	(6,766)	-	-	(6,766)	-	(6,766)
- Exchange differences on translation of an associate	-	-	-	-	-	-	14,434	-	14,434	-	14,434
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Interim dividend paid	-	-	-	-	-	-	-	(23,443)	(23,443)	-	(23,443)
Preference share dividend paid during the year	-	-	-	-	-	-	-	(83,887)	(83,887)	-	(83,887)
Equity settled share-based transactions	-	-	-	10,755	-	-	-	-	10,755	-	10,755
Return of capital on deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	(96)	(96)
At 31 December 2010	2,097,519	749,778	372,000	26,439	175,211	21,811	14,501	1,635,087	5,092,346	1,922	5,094,268

FUBON BANK (HONG KONG) LIMITED

Consolidated Cash Flow Statement For the year ended 31 December 2010

	2010		2009	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities				
Profit before taxation	312,541		26,651	
Adjustments for non-cash items:				
Charge for / (write back) of impairment losses for advances to an associate	681		(346)	
Depreciation	61,657		66,598	
Net losses on disposals of fixed assets	5,045		16	
Impairment losses on advances to customers	9,713		484,917	
Impairment losses on available-for-sale securities	19,472		67,124	
Write back of impairment losses on assets acquired under lending agreements	(417)		(4,737)	
Revaluation loss on collateralised debt obligations	13,673		681	
Equity-settled share-based payment expenses	10,755		2,715	
Share of profits of an associate	(31,352)		(14,309)	
Impairment losses on other assets	17,270		-	
Exchange difference and other non-cash items	21,733		(16,005)	
		440,771		613,305
Decrease / (increase) in operating assets:				
Treasury bills with original maturity of over three months	(918,007)		239,605	
Balances with banks and other financial institutions	(440,589)		561,609	
Trading securities	915		2,257	
Financial instruments designated at fair value through profit or loss	235,469		58,544	
Derivative financial instruments	140,377		1,986,063	
Gross advances to customers	(298,717)		3,976,934	
Other loans and receivables	589,904		353,068	
Accrued interest and other assets	739,944		(423,454)	
Certificates of deposit held	-		472,897	
Available-for-sale securities	(616,088)		(6,179,396)	
Held-to-maturity investments	(1,560,459)		(6,632)	
		(2,127,251)		1,041,495
(Decrease) / increase in operating liabilities:				
Deposits and balances of banks	1,312,423		1,014,879	
Deposits from customers	(564,014)		(1,395,412)	
Trading liabilities	906,420		(101,870)	
Derivative financial instruments	(88,255)		(1,855,130)	
Certificates of deposit issued	475,851		(638,081)	
Other liabilities	(2,392,550)		228,286	
		(350,125)		(2,747,328)
Net cash used in operations		(2,036,605)		(1,092,528)
Hong Kong Profits Tax paid		(21,072)		(12,611)
Overseas Tax paid		(232)		(2)
Net cash used in operating activities		(2,057,909)		(1,105,141)

FUBON BANK (HONG KONG) LIMITED**Consolidated Cash Flow Statement (continued)
For the year ended 31 December 2010**

	2010		2009	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investing activities				
Payments for purchases of fixed assets	(23,174)		(33,921)	
Proceeds from disposals of fixed assets	24		492	
Dividend received from associate	28,928		-	
Payment for return of capital from de-registration of a subsidiary to a non-controlling shareholder	(96)		-	
Payment for further investment in an associate	(125,711)		-	
Net cash used in investing activities		(120,029)		(33,429)
Financing activities				
Ordinary share dividends paid	(41,025)		(35,164)	
Preference share dividends paid	(83,887)		(81,886)	
Redemption of debt securities in issue	(227,390)		(1,630,191)	
Subordinated notes issued	1,539,117		-	
Deposits accepted from fellow subsidiaries	4,655,778		10,583,832	
Deposits repaid to fellow subsidiaries	(5,010,311)		(11,160,822)	
Net cash generated from / (used in) financing activities		832,282		(2,324,231)
Net decrease in cash and cash equivalents		(1,345,656)		(3,462,801)
Cash and cash equivalents as at 1 January		5,592,160		9,054,961
Cash and cash equivalents as at 31 December		4,246,504		5,592,160
Cash flows from operating activities include:				
Interest received	1,234,325		1,787,933	
Interest paid	(343,588)		(665,921)	
Dividends received	15,265		11,401	

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Notes:

1. The financial information set out in this preliminary announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2010. Certain financial information in this preliminary announcement is extracted from the statutory financial statements for the year ended 31 December 2010, which will be available from the websites of The Stock Exchange of Hong Kong Limited and the Bank. The Bank's Audit Committee has reviewed the accounting policies and practices adopted by the Group and reviewed this preliminary announcement of results.

In preparing the statutory financial statements and the Unaudited Supplementary Financial Information for the year ended 31 December 2010, the Bank has fully complied with the Banking (Disclosure) Rules made by the Hong Kong Monetary Authority ("HKMA") under section 60A of the Banking Ordinance.

2. Dividends declared and proposed

	2010	2009
	HK\$'000	HK\$'000
Interim dividend declared and paid of 2.0 cents (2009: 1.5 cents) per share	23,443	17,582
Final dividend of 3.0 cents (2009: 1.5 cents) per share proposed after the balance sheet date	<u>35,165</u>	<u>17,582</u>
	<u>58,608</u>	<u>35,164</u>

The final dividend has not been recognised as a liability at the balance sheet date.

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3. Interest income and expense

(a) Interest income

	2010 HK\$'000	2009 HK\$'000
Listed investments	403,060	370,942
Other	768,491	1,162,423
Interest income on financial assets that are not at fair value through profit or loss	1,171,551	1,533,365
Interest income on trading assets		
- listed investments	139	468
- unlisted investments	3,943	766
Interest income on financial assets designated at fair value through profit or loss	20,536	23,901
	1,196,169	1,558,500

(b) Interest expense

	2010 HK\$'000	2009 HK\$'000
Deposits from customers, banks and other financial institutions and certificates of deposit issued	316,237	382,631
Debt securities issued which are wholly repayable within 5 years	2,646	6,245
Other borrowings	5,248	11,378
Interest expense on financial liabilities that are not at fair value through profit or loss	324,131	400,254
Interest expense on trading liabilities	5,240	2,144
Interest expense on financial liabilities designated at fair value through profit or loss	14,278	13,598
	343,649	415,996

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4. Fee and commission income and expense

(a) Fee and commission income

	2010 HK\$'000	2009 HK\$'000
Fee and commission income arising from:		
Credit related services	52,185	27,598
Trade finance services	8,581	11,221
Credit card services	97,063	85,894
Securities brokerage and investment services	51,508	60,112
Insurance services	58,875	40,518
Unit trust services	41,713	34,960
Other fees	20,841	20,861
	<u>330,766</u>	<u>281,164</u>

of which:

Fee and commission income arising from:

- Financial assets or financial liabilities which are not measured at fair value through profit or loss	101,592	83,305
- Trust or other fiduciary activities	1,399	2,237

Fee and commission income arising from trust and other fiduciary activities relate to fees from asset management activities where the Group will hold assets or invest on behalf of customers.

(b) Fee and commission expense

	2010 HK\$'000	2009 HK\$'000
Handling fees and commission	54,790	44,580
Other fees paid	18,784	26,216
	<u>73,574</u>	<u>70,796</u>

of which:

Fee and commission expense arising from:

- Financial assets or financial liabilities which are not measured at fair value through profit or loss	49,191	44,299
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5. Other operating income

	2010 HK\$'000	2009 HK\$'000
Gains less losses from dealing		
- Foreign exchange	(63,614)	87,841
- Trading securities	8,258	16,389
- Other dealing activities*	44,600	40,971
- Short selling activities	(413)	718
	<u>(11,169)</u>	<u>145,919</u>
Net hedging income from fair value hedges		
Net gain on hedged items attributable to the hedged risk	111,442	10,278
Net loss on hedging instruments	(111,442)	(10,278)
	<u>-</u>	<u>-</u>
Net (loss) / gain on other financial instruments designated at fair value through profit or loss		
Net gain on sale of other financial instruments designated at fair value through profit or loss	1,918	5,251
Revaluation loss on other financial instruments designated at fair value through profit or loss	(57,931)	(2,794)
	<u>(56,013)</u>	<u>2,457</u>
Gains less losses from other financial liabilities measured at amortised cost	1,097	(5)
Revaluation gain / (loss) on derivative financial instruments	80,675	(102,734)
Dividend income from listed available-for-sale securities	-	785
Dividend income from unlisted available-for-sale securities	15,265	10,616
Rental income	1,659	986
Others	10,560	10,452
	<u>42,074</u>	<u>68,476</u>

* Other dealing activities includes customer-driven dealing in derivative financial instruments including equity linked notes, options and structured deposit products.

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6. Operating expenses

	2010 HK\$'000	2009 HK\$'000
Staff costs		
Contributions to defined contribution scheme	6,133	6,939
Defined benefit scheme expenses	17,661	31,988
Retirement scheme costs	23,794	38,927
Equity-settled share-based payment expenses	10,755	2,715
Salaries and other staff costs	435,381	447,374
	469,930	489,016
Premises and other fixed assets		
Rental of premises	44,647	47,685
Depreciation	61,657	66,598
Others	18,541	20,662
Auditors' remuneration	2,445	2,345
Other operating expenses		
Business promotion	68,673	55,986
Legal and professional fees	24,322	25,913
Communication	23,688	17,718
Electronic data processing and computer systems	79,085	80,521
Others	63,164	147,852
	856,152	954,296

7. Impairment losses on advances to customers

	2010 HK\$'000	2009 HK\$'000
Impairment losses (charged to) / released on advances to customers		
- Additions	(119,195)	(532,415)
- Releases	109,482	47,498
	(9,713)	(484,917)

8. Net gains on disposals of available-for-sale securities

	2010 HK\$'000	2009 HK\$'000
Realisation of revaluation surplus previously recognised in the investment revaluation reserve	26,192	40,118
Net gains arising in the current year	24,800	52,827
	50,992	92,945

9. Taxation

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be appropriate in the relevant countries.

FUBON BANK (HONG KONG) LIMITED

10. Earnings per share

The earnings per share is calculated on profit attributable to shareholders of HK\$266,966,000 (2009: HK\$22,995,000) net of preference share dividend of HK\$83,896,000 (2009: HK\$83,517,000) and 1,172,160,000 (2009: 1,172,160,000) ordinary shares in issue during the year. There are no convertible loan capital, options or warrants outstanding which would cause a dilution of the earnings per share.

11. Trading securities

	2010 HK\$'000	2009 HK\$'000
<i>Trading securities at fair value</i>		
Treasury bills (including Exchange Fund Bills) - unlisted	962,662	100,496
Debt securities		
- Listed in Hong Kong	947	956
- Unlisted	3,049	3,968
Equity securities		
- Listed in Hong Kong	115	102
Total	<u>966,773</u>	<u>105,522</u>
<i>Trading securities are issued by:</i>		
- Governments and central banks	962,662	100,496
- Public sector entities	3,996	4,924
- Banks	6	39
- Corporate entities	109	63
	<u>966,773</u>	<u>105,522</u>

12. Financial assets designated at fair value through profit or loss

	2010 HK\$'000	2009 HK\$'000
<i>Debt securities at fair value</i>		
- Listed in Hong Kong	84,724	84,515
- Listed outside Hong Kong	-	247,109
- Unlisted	321,544	310,113
Total	<u>406,268</u>	<u>641,737</u>
<i>Financial assets designated at fair value through profit or loss are issued by:</i>		
- Public sector entities	-	81,853
- Banks	-	165,256
- Corporate entities	406,268	394,628
	<u>406,268</u>	<u>641,737</u>

Debt securities have been designated at fair value through profit or loss upon initial recognition when either the Group holds related derivatives at fair value through profit or loss and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise; or the debt securities are managed and evaluated on a fair value basis.

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13. Advances to customers less impairment allowances

	2010 HK\$'000	2009 HK\$'000
Gross advances to customers	29,144,794	29,112,658
Less: Impairment allowances		
- Individual impairment allowances	(163,920)	(364,647)
- Collective impairment allowance	(119,903)	(176,044)
	<u>28,860,971</u>	<u>28,571,967</u>

14. Other loans and receivables

	2010 HK\$'000	2009 HK\$'000
Debt securities at amortised cost	<u>2,802,314</u>	<u>3,392,218</u>
Of which:		
- Listed outside Hong Kong	2,572,133	3,010,919
- Unlisted	<u>230,181</u>	<u>381,299</u>
	<u>2,802,314</u>	<u>3,392,218</u>
<i>Other loans and receivables are issued by:</i>		
- Banks	2,779,452	3,369,760
- Corporate entities	<u>22,862</u>	<u>22,458</u>
	<u>2,802,314</u>	<u>3,392,218</u>

During 2008, the Group reclassified certain available-for-sale investment securities which met the definition of loans and receivables (if they had not been designated as available-for-sale) and for which there was no longer an active market to loans and receivables. The fair value and carrying value of these securities on the date of reclassification was HK\$3,723.9 million. As at 31st December 2010, the carrying amount and fair value of these reclassified debt securities were HK\$2,802.3 million (2009: HK\$3,392.2 million) and HK\$2,482.3 million (2009: HK\$3,146.1 million) respectively.

The interest income recognised in profit or loss in respect of these debt securities during 2010 was HK\$71.1 million (2009: HK\$107.0 million). The fair value change that would have been recognised in the investment revaluation reserve if those debt securities had not been reclassified would be a loss of HK\$46.5 million (2009: gain of HK\$181.7 million).

The above debt securities are neither past due nor impaired as at 31 December 2010 and 2009.

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15. Available-for sale securities

	2010 HK\$'000	2009 HK\$'000
Listed debt securities at fair value		
- Listed in Hong Kong	3,828,265	3,498,794
- Listed outside Hong Kong	<u>5,351,014</u>	<u>4,708,120</u>
	<u>9,179,279</u>	<u>8,206,914</u>
Unlisted debt securities at fair value		
- Treasury bills (including Exchange Fund Bills)	2,009,956	1,989,636
- Other debt securities	<u>7,155,697</u>	<u>7,532,438</u>
	<u>9,165,653</u>	<u>9,522,074</u>
Total debt securities	<u>18,344,932</u>	<u>17,728,988</u>
Equity shares at fair value		
- Unlisted	<u>210,902</u>	<u>210,085</u>
Total available-for-sale securities	<u>18,555,834</u>	<u>17,939,073</u>
<i>Available-for-sale securities are issued by:</i>		
- Governments and central banks	4,963,395	4,635,124
- Public sector entities	1,410,319	1,437,646
- Banks	9,799,914	8,601,322
- Corporate entities	<u>2,382,206</u>	<u>3,264,981</u>
	<u>18,555,834</u>	<u>17,939,073</u>

As at 31 December 2010, debt securities issued by banks include debt securities of fair value of HK\$350.8 million (2009: HK\$768.1 million) issued by multilateral development banks and debt securities of fair value of HK\$2.5 billion (2009: HK\$2.5 billion) guaranteed by governments.

The Group has recognised a HK\$15.1 million (2009: HK\$30.3 million) impairment loss on investments in structured investment vehicles ("SIVs") in profit or loss during the year. HK\$13.1 million of the HK\$15.1 million impairment loss was realized from the investment revaluation deficit previously recognised. As of 31 December 2010, the fair value and carrying value of investments in SIVs was HK\$Nil (2009: HK\$1.0 million, included in "Other debt securities").

In addition, the Group had investments in collateralised debt obligations ("CDOs") with a nominal value of US\$30 million (2009: US\$30 million). Embedded derivatives in the CDOs are bifurcated and marked to market. A revaluation loss of HK\$13.7 million (2009: HK\$0.7 million) on the embedded derivatives has been charged to profit or loss during the year. The carrying value of the investments in CDOs, inclusive of the revaluation loss on the embedded derivatives, as at 31 December 2010 was HK\$Nil (2009: HK\$13.1 million).

As at 31 December 2010, certain of the Group's available-for-sale equity securities with a fair value of HK\$37.9 million (2009: HK\$15.3 million) were individually determined to be impaired on the basis of a significant or prolonged decline in fair value below cost. Impairment losses on these investments of HK\$4.4 million (2009: HK\$36.8 million) were recognised in profit or loss during the year.

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16. Held-to-maturity investments

	2010 HK\$'000	2009 HK\$'000
Listed debt securities at amortised cost		
- Listed in Hong Kong	74,826	-
- Listed outside Hong Kong	<u>761,649</u>	<u>639,669</u>
	<u>836,475</u>	<u>639,669</u>
Unlisted debt securities at amortised cost		
- Certificate of deposit held	155,478	-
- Other debt securities	<u>1,470,728</u>	<u>262,553</u>
	<u>1,626,206</u>	<u>262,553</u>
	<u>2,462,681</u>	<u>902,222</u>
<i>Held-to-maturity investments are issued by:</i>		
- Banks	2,231,211	745,123
- Corporate entities	<u>231,470</u>	<u>157,099</u>
	<u>2,462,681</u>	<u>902,222</u>
<i>Fair value of held-to-maturity investments:</i>		
- Listed securities	886,970	693,363
- Unlisted securities	<u>1,558,641</u>	<u>291,793</u>
	<u>2,445,611</u>	<u>985,156</u>

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17. Subordinated notes issued

	2010 HK\$'000	2009 HK\$'000
US\$200 million 6.125% subordinated notes issued in 2006 *	1,596,605	1,640,257
US\$200 million 6.125% subordinated notes issued in 2010 **	1,540,681	-
	<u>3,137,286</u>	<u>1,640,257</u>

- * Subordinated notes with face value of US\$200 million (equivalent to HK\$1,554.8 million) and carrying amount of HK\$1,596.6 million (2009: HK\$1,640.3 million) which qualify as supplementary capital were issued by the Bank on 25 April 2006. The notes bear interest at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The notes carry a one-time call option exercisable by the Bank on 26 April 2011. If the call option is not exercised, the interest rate for the subordinated notes will be reset at the United States treasury rate plus 1.93875% for the period from 27 April 2011 to the final maturity date on 26 April 2016, payable semi-annually.

The carrying amount of these subordinated notes includes an adjustment of HK\$41.8 million (2009: HK\$89.3 million) due to the application of fair value hedge accounting.

- ** Subordinated notes with face value of US\$200 million (equivalent to HK\$1,554.8 million) and carrying amount of HK\$1,540.7 million which qualify as supplementary capital were issued by the Bank on 30 November 2010 and mature on 30 November 2020.

If at any time the HKMA decides (having regard to the applicable regulatory framework) that these subordinated notes no longer qualify as supplementary capital, the Bank may, on or after 1 January 2013 at its option and subject to the prior written approval of the HKMA, provide notice to such effect to Noteholders, such notice being a "Change in Status Notice". Upon a Change in Status Notice becoming effective, these subordinated notes shall cease to constitute subordinated obligations of the Bank and shall thereafter constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and shall at all times thereafter rank pari passu and without any preference among themselves. The payment obligations of the Bank under these subordinated notes shall, save for such exceptions as may be provided by applicable legislation, at all times thereafter rank at least equally with all its other present and future unsecured and unsubordinated obligations including liabilities in respect of deposits.

These subordinated notes bear interest at 6.125% per annum, payable semi-annually. Upon a Change in Status Notice becoming effective, the interest rate for these subordinated notes will become 5.625% per annum, payable semi-annually. These subordinated notes are stated at amortised cost.

18. Off-balance sheet exposures
(a) Credit related commitments and contingencies

Credit related commitments and contingencies include forward deposits placed, acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the credit default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The following is a summary of the contractual and credit risk-weighted amounts of each significant class of credit related commitments and contingencies:

	2010		2009	
	Contractual	Credit	Contractual	Credit
	amounts	risk	amounts	risk
	HK\$'000	weighted	HK\$'000	weighted
		amounts	HK\$'000	amounts
		HK\$'000		HK\$'000
Direct credit substitutes	71,606	71,606	236,073	126,073
Transaction-related contingencies	21,408	10,704	29,193	14,597
Trade-related contingencies	385,469	77,094	158,264	31,653
Undrawn loan facilities				
- which are unconditionally cancellable	13,348,722	-	11,301,472	-
- with an original maturity of up to 1 year	32,276	6,455	-	-
- with an original maturity of 1 year or over	441,253	220,627	296,321	148,161
	<u>14,300,734</u>	<u>386,486</u>	<u>12,021,323</u>	<u>320,484</u>

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

18. Off-balance sheet exposures (continued)
(b) Derivatives financial instruments
(i) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date and do not represent amounts at risk. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	2010			
	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Held for trading HK\$'000	Total HK\$'000
Exchange rate derivatives	-	-	42,482,779	42,482,779
Interest rate derivatives	4,367,377	374,348	5,779,100	10,520,825
Equity derivatives	-	-	616,286	616,286
Total	4,367,377	374,348	48,878,165	53,619,890

	2009			
	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Held for trading HK\$'000	Total HK\$'000
Exchange rate derivatives	-	-	14,681,918	14,681,918
Interest rate derivatives	3,941,867	592,685	11,152,808	15,687,360
Equity derivatives	-	-	1,053,964	1,053,964
Total	3,941,867	592,685	26,888,690	31,423,242

The above amounts are shown on a gross basis without taking into account the effect of any bilateral netting arrangements. Derivatives reported as qualifying for hedge accounting represent hedging instruments designated as hedges under HKAS 39.

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18. Off-balance sheet exposures (continued)

(b) Derivatives financial instruments (continued)

(ii) Fair values and credit risk weighted amounts of derivatives

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

These amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements and are as below:

	2010			2009		
	Fair value	Fair value	Credit risk	Fair value	Fair value	Credit risk
	assets	liabilities	weighted	assets	liabilities	weighted
	HK\$'000	HK\$'000	amount	HK\$'000	HK\$'000	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate derivatives	379,167	62,994	125,693	338,816	12,672	24,244
Interest rate derivatives	95,882	248,676	62,284	224,401	328,652	78,910
Equity derivatives	16,584	16,584	13,912	68,793	68,793	11,770
Other derivatives	-	249,060	-	-	241,779	-
Total	491,633	577,314	201,889	632,010	651,896	114,924

19. Segment reporting

Segment information is presented in respect of the Group's operating segments which are the components of the Group about which separate financial information is available and evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

Several key changes in the 2010 internal management reporting methodology are set out below:

- The Mass Market business is grouped under Wealth Management in 2010 as opposed to Consumer Banking in 2009;
- A new department, Funding Centre, is established in 2010 to closely monitor the overall funding, liquidity and interest rate risk positions of the Group. This is considered to be an operating segment as its results are separately reported to the Chief Executive Officer.
- In 2010, where operating income is derived from the joint efforts of two operating segments on a third-party fee-related transaction, the operating income is split equally between the relevant operating segments. In 2009, operating income (and the related funding costs) derived from the joint-effort transaction was recorded in all relevant operating segments and the additional operating income recorded from this treatment was eliminated on consolidation;
- In 2010, the assets attributable to a transaction with joint efforts of two or more operating segments are no longer recorded in all relevant operating segments and there are no additional assets recorded and eliminated on consolidation. In 2009, the assets attributable to the transaction were recorded in all relevant operating segments and the additional assets recorded from this treatment were eliminated on consolidation; and
- In 2010, there is no apportionment of centralised management overheads and only wholly and directly attributable costs of support units are charged to the respective operating segments. In 2009, there was apportionment of certain centralised management overheads and all support units' costs were allocated to the respective operating segments.

Operating segments

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. Reportable segments of the Group are set out below.

Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, mortgage lending and other consumer lending.

Wealth Management comprises securities brokerage, the sales and distribution of wealth management products to wealth management clients, defined as those with a higher value of assets under administration, provision of banking services to the Mass Market segment and provision of insurance and unit trust wealth management services.

Corporate and Investment Banking comprises the Small and Medium Enterprise business and the Corporate Banking business. The Small and Medium Enterprise business include both personal and corporate equipment financing, commercial lending to small and medium enterprises. Corporate Banking covers trade financing, syndicated loans and other corporate lending.

Financial Markets mainly engages in foreign exchange and fixed income securities trading activities, the marketing of investment products and managing the Bank's investment portfolio.

Funding Centre manages the overall funding, liquidity and interest rate risk positions arising from the banking activities of the Group.

19. Segment reporting (continued)

Segment results, assets and liabilities

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the operating segments by way of internal capital allocation and fund transfer-pricing mechanisms. To reflect the benefit of joint efforts of two operating segments on a third-party fee-related transaction, operating income derived from the transaction is split equally and recorded in the relevant operating segments. This treatment has been changed for consistency with internal management reporting. Previously, operating income (and the related funding costs) derived from the joint-effort transaction was recorded in all relevant operating segments and the additional operating income recorded from this treatment was eliminated on consolidation.

Cost allocation is based on the direct costs incurred by the respective operating segments. For consistency with internal management reporting there is no apportionment of centralised management overheads and only wholly and directly attributable costs of support units are charged to the respective operating segments. Rental charges at market rates for usage of premises are reflected in “Operating Expense” and “Inter-segment Expense” for the respective operating segments.

Segment assets mainly include advances to customers less impairment, investment in securities and financial instruments, inter-bank placements, current assets and premises attributable to the operating segments. For consistency with internal management reporting, the assets attributable to a transaction with joint efforts of two or more operating segments are no longer recorded in all relevant operating segments and there are no additional assets recorded and eliminated on consolidation.

Segment liabilities mainly include deposits from customers, certificates of deposit and debt securities issued, inter-bank borrowings, and accruals attributable to the operating segments.

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment lending), interest expense, depreciation, amortisation, impairment losses and additions to non-current segment assets used by the segments in their operations.

Unallocated items mainly comprise the central management unit, management of strategic investments, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

2010 segment information is presented in two bases below, one based on 2010 internal management reporting methodology and the other one based on 2009 methodology for comparative purpose. No restatement has been made to 2009 segment information.

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19. Segment reporting (continued)

Operating segments (continued)

2010 segment information prepared on the 2010 internal management reporting methodology is set out below:

	2010					Report- able Segments Total HK\$'000
	Consumer Banking HK\$'000	Wealth Management HK\$'000	Corporate and Investment Banking HK\$'000	Financial Markets HK\$'000	Funding Centre HK\$'000	
Net interest income	171,413	53,804	234,796	216,612	172,175	848,800
Other operating income / (expense) from external customers	132,709	194,560	46,865	11,034	(40,559)	344,609
Fee and commission expense	(45,701)	(14,938)	(1,737)	(7,451)	-	(69,827)
Other operating income / (expense)	87,008	179,622	45,128	3,583	(40,559)	274,782
Operating income	258,421	233,426	279,924	220,195	131,616	1,123,582
Operating expenses	(137,301)	(213,172)	(87,133)	(50,689)	(4,559)	(492,854)
Inter-segment expenses	(2,905)	(33,001)	(2,982)	-	-	(38,888)
Operating profit / (loss) before gains and impairment losses	118,215	(12,747)	189,809	169,506	127,057	591,840
(Charge for) / write back of impairment losses on advances to customers	(14,127)	6,510	(4,177)	-	-	(11,794)
Impairment losses on other assets	-	(621)	(16,649)	-	-	(17,270)
Impairment losses on available-for-sale securities	-	-	-	(15,090)	-	(15,090)
Write back of impairment losses on assets acquired under lending agreements	-	-	17	-	-	17
Net gains on disposal of available-for-sale assets	-	-	-	30,512	6,845	37,357
Profit / (loss) before taxation	104,088	(6,858)	169,000	184,928	133,902	585,060
Operating expenses – depreciation	(2,093)	(7,994)	(2,937)	(1,145)	(39)	(14,208)
Segment assets	13,869,323	871,515	14,922,453	13,367,291	16,526,738	59,557,320
Segment liabilities	520,801	28,545,664	14,893,626	920,695	10,837,386	55,718,172

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19. Segment reporting (continued)

Operating segments (continued)

2010 segment information prepared on the 2009 internal management reporting methodology for comparative purpose is set out below:

	Consumer Banking	Wealth Management	2010 Corporate and Investment Banking	Financial Markets	Reportable Segments Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	208,397	51,616	234,796	388,788	883,597
Other operating income from external customers	164,735	195,874	54,236	19,799	434,644
Fee and commission expense	(54,610)	(6,029)	(1,737)	(7,451)	(69,827)
Other operating income	110,125	189,845	52,499	12,348	364,817
Operating income	318,522	241,461	287,295	401,136	1,248,414
Operating expenses	(246,732)	(307,217)	(193,830)	(126,360)	(874,139)
Inter-segment expenses	(2,905)	(33,001)	(2,982)	-	(38,888)
Operating profit / (loss) before gains and impairment losses	68,885	(98,757)	90,483	274,776	335,387
(Charge for) / write back of impairment losses on advances to customers	(14,067)	6,719	(4,163)	-	(11,511)
Impairment losses on other assets	-	(621)	(16,649)	-	(17,270)
Impairment losses on available-for-sale securities	-	-	-	(19,472)	(19,472)
Write back of impairment losses on assets acquired under lending agreements	-	-	17	-	17
Net gains on disposal of available-for-sale assets	-	-	-	37,357	37,357
Profit / (loss) before taxation	54,818	(92,659)	69,688	292,661	324,508
Operating expenses – depreciation	(2,093)	(7,994)	(2,937)	(1,184)	(14,208)
Segment assets	17,785,113	876,414	14,922,453	30,064,762	63,648,742
Segment liabilities	520,801	28,545,664	14,893,626	11,758,081	55,718,172

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19. Segment reporting (continued)

Operating segments (continued)

	Consumer Banking	Wealth Management	2009 Corporate and Investment Banking	Financial Markets	Reportable Segments Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	186,202	75,034	358,202	568,556	1,187,994
Other operating income from external customers	149,474	303,277	71,276	70,124	594,151
Fee and commission expense	(34,954)	(7,091)	(7,762)	(13,246)	(63,053)
Other operating income	114,520	296,186	63,514	56,878	531,098
Operating income	300,722	371,220	421,716	625,434	1,719,092
Operating expenses	(216,827)	(319,903)	(215,564)	(123,300)	(875,594)
Inter-segment expenses	(1,901)	(28,391)	(5,351)	-	(35,643)
Operating profit before gains and impairment losses	81,994	22,926	200,801	502,134	807,855
Impairment losses on advances to customers	(25,296)	(8,649)	(452,590)	-	(486,535)
Impairment losses on available-for-sale securities	-	-	-	(67,124)	(67,124)
Charge for impairment losses on assets acquired under lending agreements	-	-	(324)	-	(324)
Net gains on disposal of available-for-sale assets	-	-	-	80,258	80,258
Profit / (loss) before taxation	56,698	14,277	(252,113)	515,268	334,130
Operating expenses – depreciation	(378)	(8,728)	(3,122)	(3,216)	(15,444)
Segment assets	16,218,370	2,942,095	15,616,374	29,669,699	64,446,538
Segment liabilities	2,258,594	26,945,091	15,293,344	10,608,577	55,105,606

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19. Segment reporting (continued)

Reconciliation of Reportable Segment Revenue, Profit & Loss, Assets & Liabilities

	2010 HK\$'000 (2010 Methodology)
Revenues	
Reportable segment operating income	1,123,582
Elimination of inter-segment operating income	(57,732)
Unallocated revenue	72,263
Consolidated operating income	<u>1,138,113</u>
Profit before tax	
Reportable segment profit before tax	585,060
Unallocated operating income	72,263
Unallocated operating expenses	(382,142)
Write back of impairment losses on advances to customers	2,081
Impairment losses on available-for-sale securities	(4,382)
Impairment losses on advances to an associate	(681)
Write back of impairment losses on assets acquired under lending agreements	400
Net gains on disposals of available-for-sale securities	13,635
Net losses on disposals of fixed assets	(5,045)
Share of profits of an associate	31,352
Consolidated profit before tax	<u>312,541</u>
Assets	
Reportable segment assets	59,557,320
Unallocated fixed assets	553,982
Interests in associates	532,353
Unallocated other assets	1,135,980
Consolidated total assets	<u>61,779,635</u>
Liabilities	
Reportable segment liabilities	55,718,172
Unallocated other liabilities	967,195
Consolidated total liabilities	<u>56,685,367</u>

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19. Segment reporting (continued)

Reconciliation of Reportable Segment Revenue, Profit & Loss, Assets & Liabilities (continued)

	2010 HK\$'000 (2009 Methodology)	2009 HK\$'000
Revenues		
Reportable segment operating income	1,248,414	1,719,092
Elimination of inter-segment operating income	(173,999)	(344,679)
Unallocated revenue	63,698	46,254
Consolidated operating income	<u>1,138,113</u>	<u>1,420,667</u>
Profit before tax		
Reportable segment profit before tax	324,508	334,130
Unallocated operating income	63,698	46,254
Unallocated operating expenses	(857)	(101,611)
Write back of impairment losses on advances to customers	2,084	2,320
(Charge for) / write back of impairment losses on advances to an associate	(681)	346
Write back of impairment losses on assets acquired under lending agreements	400	5,061
Net gains on disposals of available-for-sale securities	13,635	12,687
Net losses on disposals of fixed assets	(5,045)	(16)
Share of profits of an associate	31,352	14,309
Elimination of inter-segment profit before tax	(116,553)	(286,829)
Consolidated profit before tax	<u>312,541</u>	<u>26,651</u>
Assets		
Reportable segment assets	63,648,742	64,446,538
Unallocated advances to customers	-	135,100
Unallocated fixed assets	553,982	612,627
Interests in associates	532,353	386,510
Unallocated other assets	965,247	995,813
Elimination of inter-segment loans	(3,920,689)	(5,597,288)
Consolidated total assets	<u>61,779,635</u>	<u>60,979,300</u>
Liabilities		
Reportable segment liabilities	55,718,172	55,105,606
Unallocated other liabilities	967,195	939,134
Consolidated total liabilities	<u>56,685,367</u>	<u>56,044,740</u>

Geographical information

Geographical information analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the years ended 31 December 2010 and 2009, all of the Group's operating income and profit before taxation were generated by assets booked by the branches and subsidiaries of the Bank located in Hong Kong.

Major Customers

For the years ended 31 December 2010 and 2009, no single customer or a group of customers under common control contributes 10% or more of the Group's revenues.

FUBON BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital adequacy ratio

	2010	2009
	%	%
Capital adequacy ratio as at 31 December	18.23	17.18
Core capital adequacy ratio as at 31 December	9.95	9.47

The capital adequacy ratio and core capital ratio at 31 December 2010 are computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Hong Kong (Taiwan) Co., Ltd and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) as required by the Hong Kong Monetary Authority (“HKMA”) for its regulatory purposes, and are compiled in accordance with the Banking (Capital) Rules issued by the HKMA under section 98A of the Hong Kong Banking Ordinance for the implementation of the “Basel II” capital accord.

In accordance with the Banking (Capital) Rules, the Group has adopted the “standardised approach” for the calculation of risk-weighted assets for credit risk and market risk and the “basic indicator approach” for the calculation of risk-weighted assets for operational risk.

The Group’s capital adequacy is managed by the Asset and Liability Management Committee. Key tools adopted by the Group to assess its capital adequacy include capital budgeting, monitoring and stress testing. An annual capital budget is prepared during the annual budgeting process to assess the adequacy of the Group’s capital to support current and future business activities taking into account projected business growth and any new business activities. The annual budget is approved by the Board of Directors. Actual capital adequacy and also return on capital of individual business units and on a bankwide basis is measured and compared against the approved budget on a regular basis. In addition, regular stress testing and scenario analysis of major sources of risk faced by the Group is performed to assess impact on capital adequacy ratios.

The Group operates subsidiaries in Hong Kong and the PRC. Exchange controls are in place and there may be restrictions on the transfer of regulatory capital and funds from members of the Group’s consolidation group in the PRC to Hong Kong.

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B. Capital base

The components of the total capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December and reported under Part II of the banking return “Capital Adequacy Return” (MA(BS)3) are analysed as follows:

	2010 HK\$'000	2009 HK\$'000
Core Capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves (including retained earnings)	1,544,356	1,661,471
Share premium	749,778	749,778
Profit and loss account	190,121	(76,379)
Total deduction from core capital	<u>(292,810)</u>	<u>(269,327)</u>
Core capital after deductions	<u>3,363,605</u>	<u>3,237,703</u>
Eligible supplementary capital		
Reserves on revaluation of land and interest in land	23,701	23,701
Reserves on revaluation of holdings of available-for-sale securities	15,692	15,771
Collective impairment allowance	119,903	176,044
Regulatory reserve	175,211	175,211
Term subordinated notes	1,824,514	1,551,000
Paid-up irredeemable cumulative preference shares	925,359	925,359
Total deduction from eligible supplementary capital	<u>(285,422)</u>	<u>(231,012)</u>
Supplementary capital after deductions	<u>2,798,958</u>	<u>2,636,074</u>
Total capital base after deductions	<u>6,162,563</u>	<u>5,873,777</u>
Total deductions from the core capital and supplementary capital	<u>(578,232)</u>	<u>(500,339)</u>

All of the Bank’s investments in subsidiaries except for Fubon Credit (Hong Kong) Limited, Fubon Factors (Hong Kong) Limited, Fubon Hong Kong (Taiwan) Co., Ltd. and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) are deducted from the core capital and supplementary capital.

C. Liquidity ratio

	2010 %	2009 %
Average liquidity ratio for the year	51.42	48.65

The average liquidity ratio is computed as the simple average of each calendar month’s average ratio, as reported in Part I(2) of the “Return of Liquidity Position of an Authorised Institution” (MA(BS)1E) calculated in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

The ratio for the year is computed on a consolidated basis which comprises the positions of Fubon Bank (Hong Kong) Limited, Fubon Credit (Hong Kong) Limited and 富邦租賃(中國)有限公司 (“Fubon Leasing (China) Co., Ltd”) as required by the HKMA for its regulatory purposes.

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D. Analysis on advances to customers analysed by industry sector

Advances to customers analysed by industry sector and the coverage of collateral is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2010		2009	
	Gross loans and advances HK\$'000	% of gross loans covered by collateral %	Gross loans and advances HK\$'000	% of gross loans covered by collateral %
Gross advances for use in Hong Kong				
Industrial, commercial and financial				
- Property development	1,609,496	17.59	1,190,968	-
- Property investment	8,364,456	84.17	8,201,715	73.96
- Financial concerns	384,679	1.81	416,802	9.27
- Stockbrokers	-	-	13,745	62.97
- Wholesale and retail trade	415,608	13.06	64,511	33.10
- Manufacturing	1,496,567	12.82	1,666,263	12.68
- Transport and transport equipment	221,316	62.41	465,987	85.27
- Recreational activities	9,406	100.00	-	-
- Information technology	1,562	100.00	14,434	66.75
- Electricity and gas	234,000	-	-	-
- Others	1,946,682	44.37	2,321,393	60.24
Individuals				
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	13,531	100.00	52,370	100.00
- Loans for the purchase of other residential properties	8,212,100	99.92	7,448,480	99.90
- Credit card advances	704,970	-	618,106	-
- Others	1,145,433	47.43	1,039,499	53.49
	24,759,806		23,514,273	
Trade finance	1,047,909	10.34	809,641	7.68
Gross advances for use outside Hong Kong	3,337,079	3.86	4,788,744	19.28
Gross advances to customers	29,144,794	60.32	29,112,658	59.03

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E. Overdue advances to customers

	2010		2009	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
- 6 months or less but over 3 months	5,359	0.02	20,299	0.07
- 1 year or less but over 6 months	12,107	0.04	238,086	0.82
- Over 1 year	97,196	0.33	153,409	0.53
	<u>114,662</u>	<u>0.39</u>	<u>411,794</u>	<u>1.41</u>
Current market value of collateral held against the covered portion of overdue loans and advances	<u>25,332</u>		<u>76,452</u>	
Covered portion of overdue loans and advances	32,803		84,613	
Uncovered portion of overdue loans and advances	<u>81,859</u>		<u>327,181</u>	
	<u>114,662</u>		<u>411,794</u>	
Amount of expected recoveries from companies in liquidation and government guarantee schemes in respect of the covered portion of overdue loans and advances	<u>12,123</u>		<u>11,913</u>	
Individually assessed impairment allowances in respect of advances overdue for more than three months	<u>91,902</u>		<u>302,735</u>	

Collateral held with respect to overdue loans and advances are mainly residential properties, cash deposits with the Group, and equipment against hire purchase and leasing loans.

F. Rescheduled advances to customers

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2010		2009	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Rescheduled advances to customers	<u>9,175</u>	<u>0.03</u>	<u>19,710</u>	<u>0.07</u>

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G. Cross border claims

Cross border claims are on-balance sheet exposures of counterparties based on the location of counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

As at 31 December 2010				
<i>Figures in HK\$'Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	8,697	228	2,818	11,743
- Of which Australia	4,455	-	10	4,465
- Of which China	1,189	12	1,937	3,138
North America	2,611	807	1,018	4,436
- Of which USA	2,009	807	1,001	3,817
Western Europe	6,126	-	47	6,173

As at 31 December 2009				
<i>Figures in HK\$'Million</i>	Banks	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	6,346	279	2,899	9,524
- Of which Australia	3,675	-	2	3,677
North America	3,290	313	1,869	5,472
- Of which USA	1,936	313	1,847	4,096
Western Europe	5,571	-	56	5,627

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H. Currency concentration

The Group's net positions or net structural positions in foreign currencies are disclosed as follows when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies:

<i>As at 31 December</i>		2010				
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi	Australian dollars	Philippines pesos	Other foreign currencies	Total foreign currencies
Spot assets	21,788	1,139	2,729	7	2,511	28,174
Spot liabilities	(20,659)	(908)	(2,370)	-	(2,346)	(26,283)
Forward purchase	17,496	213	300	-	1,318	19,327
Forward sales	(18,726)	(289)	(674)	-	(1,488)	(21,177)
Net option position	(1)	-	1	-	-	-
Net long/(short) position	<u>(102)</u>	<u>155</u>	<u>(14)</u>	<u>7</u>	<u>(5)</u>	<u>41</u>
Net structural position	<u>78</u>	<u>383</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>461</u>
<i>As at 31 December</i>		2009				
<i>Equivalent in HK\$ Million</i>	US dollars	Chinese Renminbi		Other foreign currencies	Total foreign currencies	
Spot assets	21,272	359		5,091	26,722	
Spot liabilities	(19,488)	(321)		(5,210)	(25,019)	
Forward purchase	7,324	91		4,624	12,039	
Forward sales	(9,234)	(91)		(4,509)	(13,834)	
Net long/(short) position	<u>(126)</u>	<u>38</u>		<u>(4)</u>	<u>(92)</u>	
Net structural position	<u>78</u>	<u>261</u>		<u>-</u>	<u>339</u>	

The net option position is calculated on the basis of the delta-weighted position of options contracts and was less than HK\$1 million for all foreign currencies as at 31 December 2009. Net structural position includes the Bank's investments in overseas subsidiaries and associates. The amount shown for Renminbi does not include HK\$126 million in investment in Xiamen Bank which was recognised as a structural position with consent of HKMA in January 2011.

HONG KONG AND CHINA ECONOMIC OVERVIEW AND ECONOMIC FORECAST

Review of Hong Kong's Economy in 2010

Hong Kong's GDP grew by 6.8% in real terms during 2010, which was higher than market expectations and reflected Hong Kong's continuing recovery from the financial crisis of 2008.

Other indicators of economic activities in Hong Kong also improved. In December 2010, retail sales (year-on-year) were up 18.6% in terms of value and 16% in terms of volume. The employment environment is also getting better. At the end of August 2009, the unemployment rate reached 5.5%. As of the end of December 2010, it was down to 4%, the lowest level since the financial crisis.

Low interest rates and plenty of liquidity helped the rising trend of Hong Kong's property market in 2010. The HIBOR rate during 2010 ranged from around 0.06% to 0.52%. The low HIBOR rate reduced the interest payment of mortgages, which encouraged rising property price. Although the Hong Kong Government implemented new measures to curb short-term speculative activities, the property market only experienced a short-term correction in terms of price and volume.

As of the end of December 2010, the value of export growth was 12.5% year-on-year and the value of import growth was 14.8% year-on-year. This was mainly due to the economic recovery of global markets.

During 2010, the European debt crisis and the tightening economic policy of China caused volatility in Hong Kong's equity market. As with other Asian countries, Hong Kong faced inflation pressure in 2010. The Composite Consumer Price Index ("CPI") rose 3.1% year-on-year as of the end of December 2010. Inflation was also higher than market expectations.

Outlook for Hong Kong's Economy in 2011

It is expected that the economic recovery in Hong Kong will continue in 2011, assuming that no key economic shocks occur. Real GDP growth in 2011 is expected to be 4.6% to 5%.

The employment environment will continue to improve. Consumption spending will benefit from rising incomes and the improved employment environment. The strong economic growth in China will continue to encourage tourism from the Mainland in Hong Kong. According to the Hong Kong Tourism Board, the monthly average visitor arrivals to Hong Kong were around 3 million during 2010. The hotel room occupancy rate reached 93% in December 2010. The trend is expected to continue in 2011. The figures from the Hong Kong Trade Development Council showed that shopping by Mainland tourists made up 17.8% of local retail sales. With the expectation of RMB appreciation in 2011, the demand for Hong Kong services will increase further.

Reducing the unemployment rate will encourage the retail sales and property markets. On the other hand, it is also expected that the Chinese government will continue tightening its economic policy. This will put negative pressure on market sentiment in Hong Kong. However, under the USD-linked exchange rate system, Hong Kong will most likely maintain low interest rates in 2011, which will have a positive affect on the overall business environment.

The Quantitative Easing ("QE") policies of the United States in particular provided plenty of liquidity to the market. The launching of the second round of QE put downward pressure on the US dollar which is transferred from the USD to HKD by the peg mechanism. As a result, both property and equity markets will be inflated by the weak HKD. The CPI is expected to be around 4% for the whole year.

Review of China's Economy in 2010

Although the Chinese government imposed tightening economic policies, the GDP growth of China was 10.2% in 2010 and the CPI was up 3.3%. Inflationary pressure was getting stronger during 2010.

By the end of December 2010, export and import growth were 17.9% and 25.6% respectively. This was due in part to the global economic recovery, especially for the emerging market region. At the end of 2010, the FDI increased by 15.6%.

In order to prevent the economy from overheating, China raised the 12-month lending rate two times during 2010.

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The 12-month lending rate was raised from 5.31% to 5.81%. In addition, the People's Bank of China ("PBOC") raised the required reserve ratio six times during the year, from 15.5% to 18.5%. Although the Chinese government imposed various measures to cool down the economy, the property market did not experience a significant correction in 2010.

Food inflation and a commodity price surge encouraged inflation in China. Together with the rising CPI, the PPI rose 5.9% in December 2010. China's economic growth improved with the surge of inflation throughout the year.

Outlook for China's Economy in 2011

With the tightening economic policies in China, we expect the GDP growth will slow down to 9% to 10% in 2011. China will also be under inflationary pressure in 2011. The CPI will be around 4.5% to 5.5%.

The PBOC raised the required reserve ratio from 18.5% to 19% in January 2011 and further to 19.5% in February 2011. Before the Lunar New Year holiday, the Chinese government imposed several policies to cool down the property market. The key reason was to prevent overheating in the economy, especially in the property sector.

Inflationary pressure in China is not only due to property prices but also to surging commodity prices. During December 2010, the CRB Index reached a record high. This reflects that the surging prices of commodities are no longer limited to precious metals; prices of base metals and agricultural products are also growing.

The key reason for the rising trend of commodities prices is QE policies in the US, UK and Japan. The increase in money supply reduces the purchasing power of currencies. As a result, commodities appreciate against major currencies.

Rising commodities prices increase the risk of inflation in emerging countries. Inflation will continue to be one of the risk factors in Hong Kong and China during 2011.

FUBON PERFORMANCE

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.

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 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 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

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million in 2010.

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.

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.

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.

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 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.

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%.

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.

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

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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.

FINAL DIVIDEND

The Board of Directors will propose the payment of a final dividend of 3.0 Hong Kong cents per ordinary share in respect of year ended 31 December 2010 totalling HK\$35,165,000, subject to approval at the forthcoming Annual General Meeting to be held on Friday, 29 April 2011. The final dividend, if approved, will be paid on or about Friday, 13 May 2011 to the shareholders whose names are on the Register of Members on Friday, 29 April 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Tuesday, 26 April 2011 to Friday, 29 April 2011, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank’s Share Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712 - 1716, 17th Floor, Hopewell Center, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 21 April 2011.

PREFERENCE DIVIDEND

The Directors have approved at the Board Meeting the payment of the dividend for the period from (and including) 15 December 2010 to (but excluding) 15 June 2011 (“Preference Dividend”) on the Irredeemable Cumulative Non-Voting Preference Shares (“Preference Shares”). The Preference Dividend will be paid on Wednesday, 15 June 2011 to the shareholders whose names are on the Register of Members of Preference Shares. Closure of the Register of Members of Preference Shares for the purpose of determining shareholders’ entitlement to the Preference Dividend will be announced in May 2011.

SCHEME PROPOSAL AND PREFERENCE SHARE OFFER

Ordinary Shareholders and Preference Shareholders of the Bank should make reference to a Joint Announcement dated 19 January 2011 (“Announcement”) made by Fubon Financial Holding Co., Ltd. (“Fubon Financial”) and the Bank. As indicated in the Announcement, (i) Fubon Financial requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatization of the ordinary share capital of the Bank which, if approved and implemented, would result in the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange; and (ii) Fubon Financial will make a voluntary conditional cash offer to acquire all the issued Preference Shares (“Preference Share Offer”). A scheme document including, among other things, further details of the Scheme Proposal, the terms of the Preference Share Offer and the expected timetable relating to the Scheme Proposal and the Preference Share Offer will be dispatched to the Shareholders on or before 4 April 2011.

PURCHASE, SALE OR REDEMPTION OF THE BANK’S LISTED SHARES

The Bank has not redeemed any of its listed shares during the year ended 31 December 2010. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank’s shares during the year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to the highest standards of corporate governance including but not limited to strict adherence to the principles and all Code provisions set forth in the Code on Corporate Governance Practices (the “Code”) in Appendix 14 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2010.

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COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set forth in Appendix 10 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited as its own code of conduct regarding securities transactions by the Directors.

The Group has made specific enquiries with all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2010, and received confirmations from all Directors that they have fully complied with the required standards set out in the Model Code.

By Order of the Board
Fubon Bank (Hong Kong) Limited
Pei-Hwa Thomas Liang
*Managing Director and
Chief Executive Officer*

As at the date of this Announcement, the Board of Directors of the Bank comprises Pei-Hwa Thomas LIANG (Managing Director), James YIP as Executive Directors; Ming-Hsing (Richard) TSAI (Chairman), Ming-Chung (Daniel) TSAI (Vice Chairman), Victor KUNG, David CHANG Kuo-Chun, Michael CHANG Ming-Yuen as Non-Executive Directors; and Robert James KENRICK, Moses TSANG, Hung SHIH as Independent Non-Executive Directors.

Hong Kong, 8 March 2011