



PRESS RELEASE

FOR IMMEDIATE RELEASE

20 MARCH 2018

Fubon Bank Posted HK\$583 Million Net Profit for Year 2017

(Hong Kong: 20 March 2018) Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (“the Group”) reported a net profit of HK\$583 million for the year ended 31 December 2017, representing a year-on-year decrease of 8%. The decline in profit was mainly due to a decrease in non-interest income and a dilution loss arising from the reduction of the Bank’s percentage interest in Xiamen Bank Co., Ltd (“Xiamen Bank”) in 2017, following third party placements by Xiamen Bank during the year. Return on average equity and return on average assets were 4.81% and 0.60% respectively, compared with 5.72% and 0.68% in 2016. However, the Group’s operating profit after impairment losses rose 20% to HK\$516 million.

Net interest income rose 4% to HK\$1,216 million, mainly through the expansion of loan portfolio and debt securities investment portfolio. Nevertheless, net interest margin for the year narrowed by 2 basis points to 1.43%, largely because of increased deposit costs. However, net interest margin began improving towards year end and reached 1.51% in December 2017 after HIBOR rose to a nine-year high in the fourth quarter of 2017 and, as a result, the Bank’s loan yield picked up at a faster pace.

Net fee and commission income declined by 13% to HK\$318 million. The decline was mainly attributable to a 32% decrease in insurance services income and a 7% decrease in credit card related fee income. On the other hand, securities brokerage and investment services income recorded an encouraging growth of 35%, underpinned by the more actively traded stock market. Unit trust services income also increased by 16% year-on-year.

The decrease in other operating income was mainly attributed to higher mark-to-market losses on foreign exchange swaps, which are required by accounting standards to be shown separately from related foreign currency deposits. Total non-interest income fell 24% to HK\$322 million and the percentage of non-interest income to total operating income also declined to 20.9%.

Operating expenses decreased by 1% to HK\$950 million. Cost-to-income ratio, however, slightly increased to 61.8% because of the lower operating income. During the year, the Bank extended its iBranch network to Kowloon and the New Territories by opening iBranches in Mongkok and Shatin.



Furthermore, the Bank launched its first Commercial Banking Centre at the Kowloon Main Branch to expand its SME banking activities. Locating the Commercial Banking Centre in one of our flagship branches will enhance our ability to provide comprehensive financial services to our SME customers. To strengthen our brand image and market position, the Bank launched a new branding campaign featuring the world snooker champion Miss Ng On Yee in December of last year.

Total impairment losses amounted to HK\$72 million, which included HK\$68 million on loans and advances and HK\$4 million on other assets. The amount decreased significantly by 65% when compared with 2016, reflecting the Bank's improvement in asset quality. The impaired loan ratio was reduced from 0.77% at 2016 year-end to 0.39% at 2017 year-end, with a coverage ratio of nearly 100%.

The Group's share of profits from Xiamen Bank rose 5% to HK\$237 million in 2017. The Bank's shareholding in Xiamen Bank was reduced from 19.99% to 15.78% after two private placements of additional share capital to new strategic investors by Xiamen Bank in June and September 2017 respectively. As a result of the shareholding dilution, the Bank recognized a deemed disposal loss of HK\$61 million with an after tax impact of HK\$55 million.

In November 2017, our parent company, Fubon Financial Holding Co. Ltd., ("Fubon Financial Holdings"), agreed to purchase from the Bank its entire shareholding in Xiamen Bank as part of the Fubon Group's investment realignment initiative. The transaction is now pending the necessary regulatory approvals.

The Group's total assets increased by 3% to HK\$98 billion as of 31 December 2017. Gross advances to customers attained a double-digit growth of 10% to HK\$48 billion, attributable mainly to the growth in loans to corporate customers. As liquidity remained ample in Hong Kong, the Bank raised its loan-to-deposit ratio to 73.2% at 31 December 2017 and reduced customer deposits by 2% to HK\$62 billion.

On 29 December 2017, the Bank issued US\$193 million undated non-cumulative subordinated Additional Tier 1 Capital Securities, which were fully subscribed by our parent company, Fubon Financial Holdings. This issuance strengthened the Group's capital position and allowed for further business growth. As at 31 December 2017, the Group's common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio were 13.08%, 15.42% and 19.42% respectively, which were well above the statutory requirements. The average liquidity maintenance ratio also stood at a comfortable level of 50.52%.



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Although the Hong Kong economic growth is expected to maintain momentum in 2018, there are a number of uncertainties affecting the worldwide economy. The Brexit negotiation, North Korea crisis, and the anticipated Federal Reserve's interest rate hikes and the global trade protectionist sentiments will continue to add complications to the volatile global and domestic economies. In the face of a rapidly evolving market environment, the Bank will continue to enhance customer engagement and pursue a prudent growth strategy to strengthen our local franchise. We remain committed to upgrading our digital platforms and service delivery channels through investments in information technology and infrastructure. Our efforts to move toward a Fintech based business model started with the introduction of the full service iBranch in 2015. Our goal is to provide our customers with the "FUBON EXPERIENCE" that meets the needs of today's Hong Kong consumers and business communities. Together with a diverse range of products and services, we wish to establish ourselves as a quality, reliable and trusted banking partner.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Interest income	2,180,742	1,924,882
Interest expense	(964,563)	(756,322)
Net interest income	1,216,179	1,168,560
Fee and commission income	415,986	461,014
Fee and commission expense	(97,618)	(96,882)
Net fee and commission income	318,368	364,132
Other operating income	3,597	57,183
Operating income	1,538,144	1,589,875
Operating expenses	(950,493)	(956,908)
Operating profit before gains and impairment losses	587,651	632,967
Impairment losses on advances to customers	(67,829)	(224,291)
(Charge for) / write back of impairment losses on available-for-sale financial assets	(1,286)	24,149
Write back of / (charge for) impairment losses on assets held for sale	1,200	(2,600)
Impairment losses on other assets	(5,553)	(1,055)
Write back of impairment losses on assets acquired under lending agreements	1,700	300
Impairment losses	(71,768)	(203,497)
Share of profits of an associate	237,103	225,308
Dilution loss arising from investment in an associate	(60,883)	-
Net gains on disposal of available-for-sale financial assets	1,310	53,612
Net gain / (loss) on disposal of fixed assets	51	(20)
Profit before taxation	693,464	708,370
Taxation	(110,081)	(73,727)
Profit for the year	583,383	634,643
Other comprehensive income for the year, net of tax:		
Items that will not be reclassified to profit or loss:		
Premises: net movement in premises revaluation reserve	331,448	55,866
Remeasurement of net defined benefit liability	(6,607)	19,061
	324,841	74,927
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets: net movement in investment revaluation reserve	399,900	(7,902)
Exchange differences on translation of an associate	171,192	(134,916)
	571,092	(142,818)
Total comprehensive income for the year	1,479,316	566,752



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
ASSETS		
Cash and short-term funds	5,133,534	6,019,614
Balances with banks and other financial institutions	558,348	3,264,233
Trading assets	1,846,823	2,310,246
Financial assets designated at fair value through profit or loss	-	39,226
Derivative financial instruments	705,165	753,244
Advances to customers less impairment allowances	47,583,317	43,318,839
Trade bills	880,255	230,137
Accrued interest and other assets	1,436,269	1,095,107
Available-for-sale financial assets	32,243,660	31,124,545
Held-to-maturity investments	1,561,796	1,549,884
Interests in associates	2,390,809	2,129,493
Fixed assets	4,100,320	3,770,394
Assets held for sale	43,900	42,700
Deferred tax assets	6	6
Total assets	<u>98,484,202</u>	<u>95,647,668</u>
LIABILITIES		
Deposits and balances of banks and other financial institutions	11,207,295	10,976,404
Deposits from customers	62,067,793	63,563,861
Trading liabilities	1,846,819	2,010,295
Financial liabilities designated at fair value through profit or loss	-	406,185
Certificates of deposit issued	3,311,457	2,834,890
Debt securities issued	1,179,009	821,482
Derivative financial instruments	228,216	443,714
Other liabilities	2,074,503	1,177,114
Deferred tax liabilities	643,338	496,785
Subordinated notes issued	1,557,472	1,544,304
Total liabilities	<u>84,115,902</u>	<u>84,275,034</u>
EQUITY		
Share capital	4,830,448	4,830,448
Reserves	8,030,055	6,542,186
Total equity attributable to shareholders of the Bank	<u>12,860,503</u>	<u>11,372,634</u>
Additional equity instruments	1,507,797	-
Total equity	<u>14,368,300</u>	<u>11,372,634</u>
Total equity and liabilities	<u>98,484,202</u>	<u>95,647,668</u>



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Note: The financial information relating to the years ended 31 December 2017 and 2016 included in this press release do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

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

Fubon Bank (Hong Kong) Limited

Fubon Bank (Hong Kong) Limited ("Fubon Bank") is a wholly owned subsidiary of Fubon Financial Holding Co., Ltd. ("Fubon Financial Holdings"), one of the largest financial holding companies in Taiwan. Fubon Financial Holdings is now the only Taiwanese financial institution with banking subsidiaries in China, Taiwan and Hong Kong. Fubon Bank operates 23 branches and 2 Securities Services Centres in Hong Kong, providing a wide range of financial services encompassing consumer and wholesale banking, wealth management, financial markets, securities brokerage and investment services. Fubon Bank holds an A-2 short-term, BBB+ long-term rating from Standard & Poor's. The rating reflects Fubon Bank's strong capitalization, good liquidity and sound asset quality.

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