

PRESS RELEASE

FOR IMMEDIATE RELEASE

16 MARCH 2021

Fubon Bank Posted HK\$75 Million Net Profit for Year 2020

(Hong Kong: 16 March 2021) Fubon Bank (Hong Kong) Limited (“the Bank”) and its subsidiaries (“the Group”) reported a net profit of HK\$75 million for the year ended 31 December 2020, representing a year-on-year decrease of 87% as compared with 2019. Return on average equity and return on average assets were 0.51% and 0.07%, respectively, compared with 4.19% and 0.56% in 2019. The decline in net profit was mainly attributable to a substantial increase in impairment allowances. Stages 1 & 2 impairment allowances for loans and other financial assets increased by 74% compared to 2019, and stage 3 increased to a sizeable loss provision for loans in 2020. The Group’s operating profit was also significantly affected by the economic impact of the low interest rate environment in Hong Kong along with the COVID-19 pandemic. Operating profit before impairment losses for the year declined by 33%.

Net interest income decreased by 16% to HK\$1,183 million and net interest margin narrowed by 28 basis points to 1.21%. Market interest rates decreased at an accelerated pace since January 2020 and remained at a very low level throughout the second half of the year, resulting in a significant decrease in overall asset yield which was not offset by the slower decline in the cost of funds. Average interest-earning assets grew by 3%, contributed by the expanding loan and debt securities investment portfolios.

Net fee and commission income decreased by 16% to HK\$249 million. The drop was mainly attributable by the decrease in insurance services, credit card services and trade finance services income by 32%, 24% and 22%, respectively. Credit related services income also decreased by 21%. On the other hand, securities brokerage and investment services income rose by 72%, benefiting from the increase in stock market turnover. Total non-interest income of HK\$347 million was at about the same level as 2019 while non-interest income-to-total operating income ratio increased to 22.7%.

Operating expenses increased by 6% to HK\$951 million. The cost-to-income ratio increased to 62.2% when compared with 51.0% in 2019. Excluding the one-off recovery of legal expenses resulting from a successful appeal of a litigation that was ruled against the Bank by a lower court, operating expenses would have registered a 4% year-on-year decrease. Amid the challenging operating environment, the Group continued to introduce measures on cost control

while remaining committed to allocating resources and investing in various Fintech initiatives in support of medium to long-term business growth.

The Group made a total stages 1 and 2 provision of HK\$220 million for loans and other financial assets compared to HK\$127 million in 2019. The big increase in this impairment allowance was caused by the worsening of the economic factors in the expected credit loss model under the HKFRS9 accounting standards. Loan impairment losses for stage 3 (net of bad debt recovery) were HK\$253 million, a substantial increase over 2019. As a result, total impairment losses amounted to HK\$473 million as compared to HK\$142 million in 2019. The impaired loan ratio was 0.87% and the coverage ratio for the Group's non-performing loans was 82.4% as at 31 December 2020.

The Group's total assets rose by HK\$1 billion, or 1%, to HK\$112 billion as at 31 December 2020. Gross advances to customers increased by 6% to HK\$56 billion, mainly contributed by the growth in loans to corporate customers. Customer deposits increased by 2% to HK\$77 billion, maintaining a stable deposit base during market uncertainty. With the inclusion of trade bills and certificates of deposit issued by the Bank, the loan-to-deposit ratio increased from 65.9% at 31 December 2019 to 68.7% at 31 December 2020.

The Group's capital and liquidity position still remained strong and healthy. As at 31 December 2020, the Group's common equity tier 1 capital ratio and tier 1 capital ratio were both 16.86%, and its total capital ratio was 18.93%, which were well above the statutory requirements. The average liquidity maintenance ratio also stood at a comfortable level of 68.53%.

The spread of COVID-19 increased the volatility in the financial markets, and continuing uncertainties over the U.S.-China disputes have severely impacted global economic activities and daily lives of people around the world. While the economy seemed to rebound in the second half of 2020, the new wave of COVID-19 in Europe and the United States, compounded by the mutation of the virus, slowed down the recovery again. Inevitably, Hong Kong has been affected by the volatile market conditions. The outbreak of COVID-19 has also changed the ways people manage their financial activities and as a result, accelerated digitalization in the financial sector. In recent years, Hong Kong has swiftly moved towards Fintech and the government has also launched multiple initiatives to promote easy, all-inclusive electronic banking, including the introduction of Faster Payment System, Open API and the licensing of virtual banks. We have taken note of the Fintech trend over the last decade and have developed a strategic plan that will transform the Bank from a traditional physical bank to a financial institution that can provide customers with virtual banking services at the same time. In January 2021, the Bank established

a strategic cooperation with HKT in Fintech innovation. We believe our cooperation with HKT will enable us to establish a solid foundation for the introduction of our virtualized services in the future. Also, our continued investment in digital innovations and technology will enable us to react swiftly and address our customers' increasing demand for banking services. Together with our professional and experienced staff, we are poised to capture opportunities when markets rebound. We will continue to deliver unparalleled customer experience and ensure that our customers can embark on a memorable Fintech journey to enjoy the unique "Fubon Experience".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
Interest income calculated using effective interest method	2,431,425	3,197,574
Other interest income	11,497	24,979
Interest income	<u>2,442,922</u>	<u>3,222,553</u>
Interest expense	<u>(1,260,345)</u>	<u>(1,806,862)</u>
Net interest income	<u>1,182,577</u>	<u>1,415,691</u>
Fee and commission income	328,025	394,919
Fee and commission expense	<u>(79,152)</u>	<u>(98,808)</u>
Net fee and commission income	<u>248,873</u>	<u>296,111</u>
Other operating income	97,846	50,408
Operating income	1,529,296	1,762,210
Operating expenses	<u>(951,218)</u>	<u>(898,826)</u>
Operating profit before other gains and impairment losses	<u>578,078</u>	<u>863,384</u>
Impairment losses on advances to customers	(402,706)	(105,187)
Impairment losses on other financial assets	(70,656)	(33,500)
Write back of impairment losses on other assets	290	449
Write back of impairment losses on assets acquired under lending agreements	300	-
Impairment losses on assets held for sale	-	(4,143)
Impairment losses	<u>(472,772)</u>	<u>(142,381)</u>
Gain on disposal of investment properties	8,010	-
Net losses on revaluation of investment properties	(4,600)	-
Net gains on disposal of financial assets at amortized cost	258	28
Net losses on disposal of fixed assets	(134)	(4,902)
Gain on disposal of a subsidiary	-	1,288
Profit before taxation	<u>108,840</u>	<u>717,417</u>
Taxation	<u>(33,500)</u>	<u>(116,298)</u>
Profit for the year	<u>75,340</u>	<u>601,119</u>
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	(151,318)	(191,419)
Equity securities designated at fair value through other comprehensive income: net movement in investment revaluation reserve (non-recycling)	203,256	222,910
Remeasurement of net defined benefit liability	<u>(47,222)</u>	<u>(4,366)</u>
	<u>4,716</u>	<u>27,125</u>
Total comprehensive income for the year	<u>80,056</u>	<u>628,244</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
ASSETS		
Cash and short-term funds	4,966,655	5,290,706
Balances with banks and other financial institutions	458,770	2,862,464
Trading assets	1,948,454	1,943,242
Derivative financial instruments	563,443	543,793
Advances to customers	54,913,063	52,308,452
Trade bills	915,668	724,425
Accrued interest and other assets	2,256,692	2,026,736
Debt securities measured at amortized cost	41,185,231	40,516,236
Equity securities designated at fair value through other comprehensive income	1,316,272	1,074,054
Fixed assets	3,749,930	4,075,218
Investment properties	49,500	-
Assets held for sale	-	41,300
Deferred tax assets	6	8
Total assets	112,323,684	111,406,634
LIABILITIES		
Deposits and balances of banks and other financial institutions	10,041,639	9,140,295
Deposits from customers	76,538,430	75,043,411
Trading liabilities	1,948,454	948,173
Certificates of deposit issued	4,167,874	4,730,098
Debt securities issued	1,544,626	1,165,268
Derivative financial instruments	1,080,890	385,348
Other liabilities	1,670,574	3,138,648
Deferred tax liabilities	603,967	652,443
Subordinated notes issued	-	1,555,776
Total liabilities	97,596,454	96,759,460
EQUITY		
Share capital	4,830,448	4,830,448
Reserves	9,896,782	9,816,726
Total equity	14,727,230	14,647,174
Total equity and liabilities	112,323,684	111,406,634

Note: The financial information relating to the financial years ended 31 December 2020 and 2019 that is included in this press release does not constitute the Bank's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

The Bank has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

Fubon Bank (Hong Kong) Limited

Fubon Bank (Hong Kong) Limited ("Fubon Bank") is a wholly owned subsidiary of Fubon Financial Holding Co., Ltd. ("Fubon Financial Holdings"), one of the largest financial holding companies in Taiwan. Fubon Financial Holdings is now the only Taiwanese financial institution with banking subsidiaries in China, Taiwan and Hong Kong. Fubon Bank operates 17 branches and 1 Securities Services Centre in Hong Kong, providing a wide range of financial services encompassing consumer and wholesale banking, wealth management, financial markets, securities brokerage and investment services. Fubon Bank holds an A-2 short-term, BBB+ long-term rating from Standard & Poor's. The rating reflects Fubon Bank's strong capitalization, good liquidity and sound asset quality.

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