25th February 1999

FPB BANK HOLDING REPORTS HK$107 MILLION NET PROFIT FOR 1998

FPB Bank Holding Company Limited (the Company), the holding company of First Pacific Bank Limited (the Bank), announced today that the profit attributable to shareholders for the year ended December 31, 1998 was HK$107 million, representing a decline of 72.6 per cent over 1997's performance.

The Board of Directors resolved not to recommend payment of any final dividend for the year ended December 31, 1998. The total cash dividend for the year was HK2.5 cents per share which was declared as the interim dividend. As a result, the dividend payout ratio for the year 1998 was 29 per cent, which was in line with 1997's ratio at 32 per cent.

The Company's net interest income totalled HK$530 million for 1998, a decrease of 32 per cent over the previous year's comparative figure, mainly attributable to higher funding costs. As a result, the Bank's net interest margin narrowed to 1.99 per cent in 1998 from 2.81 per cent in 1997.

The slowdown in commercial and mortgage lending activities resulted in the reduction of non-interest income to HK$129 million, a decrease of 38.3 per cent compared to 1997. However, due to successful cost control measures implemented during the year, operating expenses decreased by 16.4 per cent to HK$374 million.

Mr James Ng, Managing Director of the Company, said: "Due to the impact of the economic recession and a decline in the value of collateral, we have substantially increased the specific loan loss provisions during the year to HK$240 million, compared with HK$30 million provided for in 1997. The Bank also reversed HK$63 million of general loan loss provision during the year due to the reduction in the loan portfolio, whilst the general loan loss provision to total loans and advances has been maintained at 1.05 per cent which is above the requirement set out by the Hong Kong Monetary Authority."

Total deposits and total assets stood at HK$21,380 million and HK$24,470 million respectively. Advances to customers declined by 26.8 per cent, resulting from the sale of mortgage loans and slowdown in lending activities, reached HK$16,493 million as of December 31, 1998. Exposures to PRC companies were 1.2 per cent of total advances, over 20 per cent of which was specifically provided.

Shareholders' equity of the Company stood at HK$2,846 million as of December 31, 1998, equivalent to the value of HK$2.3 per share.

Mr Ng added: "In addition to our prudent efforts to control costs, we took advantage of the opportunity early in the year to sell some of the mortgage loans. As a result, we recorded a healthy level of average liquidity ratio at 41.6 per cent for 1998, and capital adequacy ratio rose to 18.7 per cent as at year-end, the highest in the Bank's history."

In response to the recent market speculation that First Pacific Company Limited (First Pacific), the major shareholder of the Company, is negotiating with other third parties for the possible sale of its interests in the Company, Mr Ng said: "As stated by First Pacific previously, it has received expressions of interest from several parties. However, no agreement relating to the sale of the Company has been reached at this stage. First Pacific and the Company will disclose full information should such an agreement be concluded."

Mr Ng said: "The on-going development of new products remains to be an important business direction for generating fee income. In 1998 we saw encouraging growth in this income from our equity- and currency-linked deposits alongside with the sale of mortgages. We expect there will be further increases in such fee income with the steady expansion of our customer base.

"In addition, our credit card business enjoyed another year of strong growth. By 1998 year-end, the number of cards issued rose substantially by 44 per cent to more than 80,000, and accounts receivables posted a healthy 35 per cent increase. In the meantime, we will continue to strengthen risk management to ensure the healthy quality of our credit card portfolio," Mr Ng remarked.

During 1998, the Bank has merged its High Net Worth Centre in Central with Queen's Road Central Branch. Through the redeployment of resources, service quality at the branch has been significantly enhanced. In addition, Shun Tak Centre Branch was merged with the Des Voeux Road Branch during the year for further improvement in branch network. Coupled with the TeleBanking Centre which operates 24 hours and complements the branch network, the Bank currently maintains a 25-branch network to deliver a full range of products to customers.

A project team has been formed to work on the Year 2000 Compliance. Detailed plans including the upgrade of hardware and software, enhancement and internal testing of the application systems, procurement of Year 2000 warranties from vendors, risk assessments of major counterparties and full integration testing and drills have been implemented to address and reduce the exposure to the Year 2000 issue. Before the end of 1998, full compliance has been achieved for all core and critical systems. Non-critical systems will achieve the compliance in the first quarter of 1999.

Looking ahead, Mr Ng said: "The effects of the Asian economic crisis will continue to affect our performance in the coming year, but we are optimistic that the new business climate will create fresh opportunities. We expect local entrepreneurs to seize the initiative and establish new commercial enterprises that will thrive in the changing economic environment.

"In the meantime, we will continue to concentrate on enhancing credit management, controlling costs and designing new products to suit customers' various needs while maintaining the quality service to them," Mr Ng concluded.