

**12th August 1999**

**FIRST PACIFIC BANK'S FIRST HALF PROFIT DECLINES TO HK\$31 MILLION**

FPB Bank Holding Company Limited, which wholly owns First Pacific Bank Limited (the Bank), and its subsidiaries (the Group) today announced that it recorded a profit attributable to shareholders of HK\$31 million for the first six months ended June 30, 1999, a decline of 79.5 per cent over the same period of 1998.

No interim dividend was recommended by the Board of Directors.

Net interest income decreased 11.4 per cent, mainly due to lower gross advances arising from intense competition for business with acceptable credit risk. However, this impact was partially improved by the widening of interest spread resulting from the drop in the interbank rate. Net interest margin of the Group rose to 2.35 per cent in the first half of 1999, compared to 1.81 per cent in the second half of 1998.

Non interest income totalled HK\$57 million, down by 15.6 per cent. The reduction was attributable to the slowdown in commercial and mortgage lending activities. Operating expenses fell to HK\$190 million, or a decrease of 2.3 per cent.

Mr James C. Ng, Managing Director of the Group, said: "Provisions for bad and doubtful debts grew to HK\$102 million in the first half of 1999, reflecting that we continued to make substantial provisions against advances to commercial business."

Non-performing loans rose from HK\$1,273 million or 7.72 per cent of gross advances at year-end 1998 to HK\$1,326 million or 8.57 per cent at June 30, 1999. Some 94.2 per cent of these non-performing loans were covered by collateral and specific provisions. "It should be noted that in calculating the collateral value of HK\$1,101 million, the lower of the collateral value or the outstanding amount of each loan was taken into account," said Mr Ng.

He added, "We have set up a Special Asset Team to better manage such non-performing loans. The amount has stabilised and is expected to decrease through orderly liquidation of the collateral." Exposure to PRC companies as at June 30, 1999 amounted to 0.9% of gross advances, 29.0% of which have been specifically provided for.

Total deposits reached HK\$20,127 million, whereas total assets stood at HK\$23,235 million. As of June 30, 1999, the Group's gross advances to customers shrank by HK\$1,017 million in the past six months to HK\$15,476 million.

"Our credit card business saw a major development with the successful launch of the Bank's first MasterCard, which reflected our ongoing commitment to niche marketing strategy. We have also introduced instalment programs to target young segments and to increase usage of the Bank's credit cards," Mr Ng said.

At June 30, 1999, shareholders' equity stood at HK\$2,877 million, equivalent to a net asset value of HK\$2.31 per share. The capital adequacy ratio moved up to 21.2 per cent as of June 30, from 18.7 per cent at year-end 1998. Average liquidity ratio for the first half of 1999 was 47.0 per cent compared with 41.6 per cent in 1998.

Financial data

## FPB BANK HOLDING COMPANY LIMITED

*(Incorporated in Bermuda with limited liability)*

### 1999 INTERIM RESULTS -- UNAUDITED

The Directors of FPB Bank Holding Company Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 1999. First Pacific Bank Limited (the "Bank") is a 100% subsidiary of the Company and is the sole material asset and operating company of the Group.

<b>CONSOLIDATED PROFIT AND LOSS STATEMENT for the six months ended 30 June</b>	<b>1999 HK\$'000</b>	<b>1998 HK\$'000</b>
Interest income	882,629	1,327,596
Interest expense	<u>(614,503)</u>	<u>(1,024,849)</u>
Net interest income	268,126	302,747
Non interest income	<u>56,916</u>	<u>67,444</u>
Operating income	325,042	370,191
Operating expenses	<u>(190,436)</u>	<u>(194,852)</u>
Operating profit before provisions	134,606	175,339
Provisions for bad and doubtful debts <i>(Note 2)</i>	<u>(101,766)</u>	<u>(11,287)</u>
Operating profit after provisions	32,840	164,052
Interest on subordinated loan note	<u>0</u>	<u>(154)</u>
Profit before taxation	32,840	163,898
Taxation <i>(Note 3)</i>	<u>(2,000)</u>	<u>(13,790)</u>
Profit attributable to shareholders	30,840	150,108
Dividends	<u>0</u>	<u>(31,200)</u>
Retained profit for the period	<u><u>30,840</u></u>	<u><u>118,908</u></u>
Earnings per share (Hong Kong cents) <i>(Note 4)</i>	2.5	12.0
Interim dividend per share (Hong Kong cents)	-	2.5
<b>CONSOLIDATED BALANCE SHEET EXTRACTS as at 30 June</b>	<b>1999 HK\$'000</b>	<b>1998 HK\$'000</b>
Total assets	23,234,572	27,868,176
Gross advances to customers	15,476,344	18,395,601
Total deposits	20,127,247	24,529,922
Shareholders' equity	2,876,789	2,987,081

*Notes :*

- The Group adopted the new Statement of Standard Accounting Practice no. 24 "Accounting for investments in securities" commencing from 1 January 1999. Dated debt securities intended to be held to maturity are accounted for as held-to-maturity securities, and are stated in the balance sheet at amortised cost less any provision for diminution in value. Investments in other than held-to-maturity securities are accounted for using the benchmark treatment. Long-term securities investments are accounted for as investment securities and are stated at cost less any provision for diminution in value. Provisions for diminution in value in relation to held-to-maturity securities and investment securities are included in the profit and loss statement. Other securities investments are accounted for as other investments and are stated at their fair values in the balance sheet with the gains or losses included in the profit and loss statement. The opening retained earnings for 1999 were not restated as the effect of this new statement is not considered to be material.

2. Provisions for bad and doubtful debts

	1999 HK\$'000	1998 HK\$'000
Specific provision charge	118,766	55,287
General provision write-back	<u>(17,000)</u>	<u>(44,000)</u>
	101,766	11,287
	=====	=====

3. Hong Kong profits tax has been provided at the rate of 16% (1998: 16%) on the estimated assessable profit for the period. There is no material potential liability for deferred taxation as at 30 June 1999 (1998: Nil).

4. The calculation of earnings per share for the period is based on the profit attributable to shareholders of HK\$30,840,000 (1998: HK\$150,108,000) and the weighted average number of 1,248,000,000 shares (1998: 1,248,000,000 shares) in issue during the period.

## SUPPLEMENTARY FINANCIAL INFORMATION

### (1) Advances and other accounts

	As at 30 June 1999	As at 31 December 1998
	HK\$ million	HK\$ million
Advances to customers	15,476	16,493
Accrued interest and other accounts	304	412
Provisions for bad and doubtful debts		
- Specific	(158)	(228)
- General	<u>(156)</u>	<u>(173)</u>
Advances to customers and other accounts less provisions for bad and doubtful debts	<u>15,466</u>	<u>16,504</u>
	=====	=====

### (2) Advances to customers by industry sectors

	As at 30 June 1999	As at 31 December 1998
	HK\$ million	HK\$ million
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	513	615
- Property investment	1,192	1,013
- Financial concerns	64	79
- Stockbrokers	-	7
- Wholesale and retail trade	625	599
- Manufacturing	337	558
- Transport and transport equipment	1,811	1,940
- Others	487	871
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	506	535
- Loans for the purchase of other residential properties	7,948	7,981
- Credit card advances	444	429
- Others	1,137	1,315
Trade finance	376	480
Loans for use outside Hong Kong	<u>36</u>	<u>71</u>
Total advances to customers	<u>15,476</u>	<u>16,493</u>
	=====	=====

**(3) Advances on which interest is being placed in suspense or on which interest accrual has ceased**

December 1998	As at 30 June 1999		As at 31 December 1998	
	HK\$ million	% of gross advances to customers	HK\$ million	% of gross advances to customers
Gross advances overdue for				
Three months or less	195		79	
More than three months	<u>1,131</u>		<u>1,194</u>	
	1,326	8.57	1,273	7.72
Specific provisions <u>(148)</u>		<u>(196)</u>		
	1,178		1,077	
	===		===	
Amount of collateral held	1,101		992	
Suspended interest	219	144		

**(4) Overdue advances to customers**

	As at 30 June 1999		As at 31 December 1998	
	HK\$ million	% of gross advances to customers	HK\$ million	% of gross advances to customers
Six months or less but over three months	217	1.40	240	1.46
One year or less but over six months	294	1.90	749	4.54
Over one year	<u>656</u>	<u>4.24</u>	<u>235</u>	<u>1.42</u>
Total	1,167	7.54	1,224	7.42
	===	===	===	===
The amount on which interest is still being accrued	36		30	
Specific provisions	130	192		
Market value of security held against the secured overdue advances	1,034		1,026	
Secured overdue advances	994		947	
Unsecured overdue advances	173		277	

**(5) Rescheduled advances**

	As at 30 June 1999		As at 31 December 1998	
	HK\$ million	% of gross advances to customers	HK\$ million	% of gross advances to customers
Rescheduled advances	341	2.20	250	1.52
	==	==	==	==

## (6) Off-balance sheet exposure

### - Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	As at 30 June 1999	As at 31 December 1998
	HK\$ million	HK\$ million
Direct credit substitutes	42	36
Transaction-related contingencies	5	6
Trade-related contingencies	63	61
Other commitments		
With an original maturity of under one year or which are unconditionally cancellable	3,552	3,610
Others	<u>4</u>	<u>7</u>
Total	3,666 <u>3,720</u>	<u>      </u>

### - Derivatives

The following is a summary of the notional amounts of each significant type of derivatives:

	As at 30 June 1999	As at 31 December 1998
	HK\$ million	HK\$ million
Exchange rate contracts		
Forwards and futures	23	11
Swaps	880	290
Options purchased	53	23
Options written	53	23
Interest rate contracts		
Swaps	538	537
Equity contracts		
Options purchased	95	182
Options written	<u>95</u>	<u>182</u>
Total	1,737 <u>1,248</u>	<u>      </u>

## (7) Capital adequacy and liquidity ratios of the Bank

	30 June 1999	31 December 1998
	%	%
Capital adequacy ratio as at	21.15	18.72
Average liquidity ratio for the period ended	47.01	41.59

## REVIEW AND PROSPECTS

In the first half of 1999, the Hong Kong economy in general was still consolidating. GDP growth improved slightly from -5.1% (in real terms) in the fourth quarter of 1998 to -3.1% in the first quarter of 1999. Unemployment rate fell to 6.1% in the three months to June 1999, from 6.3% in the three months to May 1999. The latest figures indicate that the worst is probably behind us and the economy is stabilising.

Despite the difficult business environment, the Group made a profit attributable to shareholders amounting to HK\$31 million in the first half of 1999, a decline of 79.5% when compared with the same period of last year.

Net interest income decreased by 11.4%, mainly attributable to the decrease in gross advances resulting from the fierce market competition for business with acceptable credit risk. This impact was partially improved by the increase in interest spread resulting from the decrease in the interbank rate. The Group's net interest margin improved from 1.81% in the second half of 1998 to 2.35% in the first half of 1999. Non interest income was reported at HK\$57 million, a decrease of 15.6% when compared with the same period of last year. This was attributable to the slowdown in commercial and mortgage lending activities. Operating expenses decreased by 2.3% to HK\$ 190 million.

Provisions for bad and doubtful debts increased to HK\$102 million in the first six months of 1999, reflecting that the Group continued to make substantial provisions against advances to commercial business. Non-performing loans rose slightly from HK\$1,273 million or 7.72% of gross advances as at 31 December 1998 to HK\$1,326 million or 8.57% as at 30 June 1999. 94.2% of these non-performing loans were covered by collateral and specific provisions. It should be noted that in calculating the collateral value of HK\$1,101 million, the lower of the collateral value or the outstanding amount of each loan was taken into account. A Special Asset Team has been set up to work out the non-performing loans, the amount of which has stabilised and is expected to decrease through orderly liquidation of the collateral. Exposure to PRC companies as at 30 June 1999 amounted to 0.9% of gross advances, 29.0% of which have been specifically provided for.

Total deposits and total assets stood at HK\$20,127 million and HK\$23,235 million respectively. Gross advances to customers declined by HK\$1,017 million in the past 6 months to HK\$15,476 million as at 30 June 1999. The Bank successfully launched its first MasterCard "Pl@y Smart MasterCard" in May 1999. Instalment programs were promoted actively to target young market segments and to increase usage of the Bank's credit cards.

As of 30 June 1999, shareholders' equity stood at HK\$2,877 million, equivalent to a net asset value of HK\$2.31 per share.

The capital adequacy ratio of the Bank increased from 18.7% as at 31 December 1998 to 21.2% as at 30 June 1999. The average liquidity ratio for the first half of 1999 was 47.0% compared with 41.6% for the year 1998.

Looking ahead, the Group will continue to strengthen its risk management, expand the customer base and increase the number of products to better serve the needs of the customers.

## **YEAR 2000 COMPLIANCE**

Year 2000 compliance means neither performance nor functionality of all systems and devices is affected by dates prior to, during and after the Year 2000. The Year 2000 problem refers to the inability to properly recognise the year change from 1999 to 2000. The Group has made an assessment of the risks and uncertainties associated with the Year 2000 issues and does not expect its operations or services to customers to be disrupted by the turn of the millennium.

An internal compliance standard has been adopted for application. This standard, known as "DISC PD2000-1: A Definition of Year 2000 Conformity Requirements", is published by the British Standards Institution and provides an internationally recognised set of definitions and rules regarding the Year 2000 problem.

A project team has been formed to work on this issue since 1995. A member from the management team reports the progress of the project at management meetings on a weekly basis. Detailed plans are made to address and to prevent the Year 2000 problem from disrupting services to customers or damaging its records. These plans include upgrade of hardware and software, enhancement of application systems, internal testing of application systems, Year 2000 warranties from vendors, risk assessments of major counterparties, integrated testing and contingency drills. The Group has obtained warranties from all of its service providers and information technology vendors on Year 2000 compliance.

In the first quarter of 1999, all the critical and non-critical systems in the Group were fully Year 2000 compliant in meeting the guidelines from the Hong Kong Monetary Authority.

In addition to the completion of the credit risk assessment on the Year 2000 compliance of its major counterparties, the Group has developed a Year 2000 contingency plan to deal with potential failures caused by the Year 2000 problem. The objective of the Year 2000 contingency plan is to identify and understand the risks posed by the Year 2000 problem and devise measures to cope with the major risks so as to minimise material disruptions and other problems due to the century date change. Testings of critical systems failure scenario were completed in June 1999. Meanwhile, the Group is working on the "Customer Awareness Program on Year 2000 Issue" for all of its customers as recommended by the Hong Kong Monetary Authority.

Other than the utilisation of internal resources, the incremental external costs, mainly on software and hardware, for this project are approximately HK\$2 million which have already been incurred and accounted for as at 30 June 1999. Costs relating to major systems changes that are not directly related to the Year 2000 but which address some Year 2000 issues are not included in these costs. No further major expenditure related to Year 2000 compliance is committed or expected.

## **INTERIM DIVIDEND**

The Directors have resolved not to declare any payment of interim dividend for the six months ended 30 June 1999.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the first half of 1999, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board

**Jessica K. M. Tse**  
*Corporate Secretary*

Hong Kong, 12 August 1999