

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

as at 31 December 2000  
(Expressed in Hong Kong dollars)

## (A) CAPITAL ADEQUACY AND LIQUIDITY RATIOS

	2000	1999
Capital adequacy ratio as at 31 December	17.10%	19.16%
Average liquidity ratio for the year	42.08%	39.45%

The capital adequacy ratio and the average liquidity ratio are computed on the consolidated basis covering the Bank and certain of its financial subsidiaries as required by the Hong Kong Monetary Authority (the "HKMA") for its regulatory purposes, and are in accordance with the Third Schedule and the Fourth Schedule to the Hong Kong Banking Ordinance respectively.

## (B) CAPITAL BASE AFTER DEDUCTIONS AS AT 31 DECEMBER

	2000 HK\$'000	1999 HK\$'000
<b>Core capital</b>		
Paid up ordinary share capital	2,594,861	2,594,461
Reserves	3,015,839	2,630,655
Minority interests	78,710	127,342
<b>Total core capital</b>	<b>5,689,410</b>	5,352,458
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	11,945	11,945
General provisions for doubtful debts	354,271	309,817
<b>Total eligible supplementary capital</b>	<b>366,216</b>	321,762
<b>Total capital base before deductions</b>	<b>6,055,626</b>	5,674,220
<b>Deductions from total capital base</b>	<b>(264,018)</b>	(270,793)
<b>Total capital base after deductions</b>	<b>5,791,608</b>	5,403,427

(C) **SEGMENTAL INFORMATION**

(i) **By geographical area**

	The Group				
	2000				
	* Profit	Total assets	Total liabilities	Operating income	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	619,753	59,726,664	53,348,684	1,546,309	8,807,979
Mainland China	(2,318)	1,129	3,573	10	–
USA	26,972	3,555,128	3,365,180	72,424	579,014
Less: Intra-group items	(8,362)	(6,625,092)	(5,955,411)	(18,815)	(102,403)
	<b>636,045</b>	<b>56,657,829</b>	<b>50,762,026</b>	<b>1,599,928</b>	<b>9,284,590</b>

	The Group				
	1999				
	* Profit	Total assets	Total liabilities	Operating income	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	210,686	52,987,066	47,070,109	1,107,379	9,448,598
USA	20,816	3,443,109	3,280,647	59,083	64,112
Less: Intra-group items	(121,458)	(7,647,086)	(7,061,385)	(16,576)	(467,683)
	<b>110,044</b>	<b>48,783,089</b>	<b>43,289,371</b>	<b>1,149,886</b>	<b>9,045,027</b>

The above geographical analysis has been classified by the location of the principal operations of the subsidiaries or, in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets.

	The Group					
	2000			1999		
	Advances to customers	Overdue loan	Non-performing loan	Advances to customers	Overdue loan	Non-performing loan
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	23,012,873	698,788	534,644	18,326,067	385,423	307,193
USA	1,395,649	4,847	25,070	1,009,952	129	25,018
Mainland China	7,324,803	950,407	957,552	8,027,163	1,575,787	1,223,239
Others	192,511	–	–	240,379	–	–
	<b>31,925,836</b>	<b>1,654,042</b>	<b>1,517,266</b>	<b>27,603,561</b>	<b>1,961,339</b>	<b>1,555,450</b>

The above geographical analysis has been classified by the location of the counterparties.

**(C) SEGMENTAL INFORMATION** *(continued)***(ii) By class of business**

	The Group			
	2000		1999	
	* Profit HK\$'000	Total assets HK\$'000	* Profit HK\$'000	Total assets HK\$'000
Commercial banking	508,972	59,215,686	59,901	51,118,630
Investment banking	60,223	3,697,446	132,043	4,612,464
Securities business	68,635	117,363	32,048	288,971
Other business	6,577	252,426	7,510	410,110
Less: Intra-group items	(8,362)	(6,625,092)	(121,458)	(7,647,086)
	<b>636,045</b>	<b>56,657,829</b>	110,044	48,783,089

\* This refers to profit from ordinary activities before taxation.

Commercial banking activities during the year included acceptance of demand deposits, advance of commercial and industrial loans, supply of trust services, foreign exchange, trade financing and international banking.

Investment banking activities during the year included merchant banking, trading of equity securities and fund management.

Securities business activities during the year represented stockbroking.

Other business activities during the year included investment holding and property management.

**(D) ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS**

The analysis of advances to customers by industry sectors is based on categories and definitions used by the HKMA.

	The Group	
	Gross advances to customers	
	2000 HK\$'000	1999 HK\$'000
<b>Loans for use in Hong Kong</b>		
Industrial, commercial and financial		
– Property development	635,940	1,393,313
– Property investment	3,004,415	1,801,952
– Financial concerns	1,970,085	1,177,542
– Stockbrokers	384	192,440
– Wholesale and retail trade	2,367,404	1,137,820
– Manufacturing	1,957,305	885,096
– Transport and transport equipment	1,482,624	1,271,654
– Others	3,677,965	6,045,662
Individuals		
– Loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	20,724	24,108
– Loans for the purchase of other residential properties	11,099,557	8,798,674
– Others	966,775	675,206
<b>Trade finance</b>	2,400,267	1,852,329
<b>Loans for use outside Hong Kong</b>	2,342,391	2,347,765
	<b>31,925,836</b>	27,603,561

Approximately HK\$20,781 million (1999: HK\$19,321 million) of the above advances are backed by collateral.

(E) **CURRENCY RISK**

The information concerning the foreign currency exposures of the Bank and its subsidiaries arising from trading, non-trading and structural positions are disclosed as follows. The net options position reported are calculated in accordance with the methods set out in the return "Foreign Currency Position" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	2000			1999		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	25,898,004	184,954	26,082,958	20,691,681	44,629	20,736,310
Spot liabilities	(22,033,592)	(27,386)	(22,060,978)	(15,984,951)	(46,170)	(16,031,121)
Forward purchases	25,200,257	–	25,200,257	10,847,856	–	10,847,856
Forward sales	(28,730,228)	–	(28,730,228)	(15,691,305)	–	(15,691,305)
Net long/(short) position	334,441	157,568	492,009	(136,719)	(1,541)	(138,260)

(F) **OVERDUE AND RESCHEDULED ADVANCES TO CUSTOMERS**

**Overdue advances to customers**

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for periods of:

	The Group			
	2000		1999	
	HK\$'000	% of total loans and advances	HK\$'000	% of total loans and advances
Six months or less but over three months	301,442	0.92	409,613	1.45
One year or less but over six months	232,717	0.71	447,459	1.58
Over one year	1,119,883	3.41	1,104,267	3.90
	1,654,042	5.04	1,961,339	6.93
Rescheduled advances (net of any that have been overdue for over three months)	238,068	0.73	738,981	2.61
Total overdue and rescheduled advances	1,892,110	5.77	2,700,320	9.54

**(F) OVERDUE AND RESCHEDULED ADVANCES TO CUSTOMERS** *(continued)***Reconciliation**

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Advances to customers overdue for more than 3 months	<b>1,654,042</b>	1,961,339
Less: Amount overdue for more than 3 months and on which interest is still being accrued	<b>(250,418)</b>	(892,161)
Add: Amount overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<b>4,926</b>	37,839
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<b>91,469</b>	413,852
Add: Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	<b>17,247</b>	34,581
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b>1,517,266</b>	1,555,450

**(G) MANAGEMENT OF RISKS**

The Group has established policies and procedures for the control and monitoring of credit risk, liquidity, capital and market risk, which are reviewed regularly by the Board of Directors. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

**(i) Credit risk management**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group.

The Group's credit policy defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. It also takes into account the requirements of the Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures and provisioning requirements.

The Group manages its credit risk within a conservative framework by evaluating the creditworthiness of counterparties, setting credit limits for counterparties and industry sectors, and obtaining collateral where appropriate. Actual credit exposures and limits and asset quality are regularly monitored and controlled by management. The Group's policy is not to have significant unwarranted concentrations of exposure to individual counterparties.

An analysis of advances to customers by industry sectors is disclosed in note (D) above.

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value, the credit risk for derivatives is the positive replacement cost. The credit risk exposure for derivatives is disclosed in Note 29.

**(G) MANAGEMENT OF RISKS** *(continued)*

**(ii) Liquidity management**

The Group manages the liquidity structure of its assets, liabilities and commitments so as to ensure that all Group operations can meet their funding needs and that the statutory liquidity ratio is complied with. As disclosed in note (A) above, the Group's average liquidity ratio of 42.08% for 2000 is well above the statutory minimum ratio of 25%.

The board of directors reviews the current and prospective funding requirements for all operations through daily monitoring of the liquidity ratio and the maturity mismatch profile. The liquidity risk is managed by holding sufficient liquid assets (eg cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits.

Current, fixed, savings and other customer deposits form a significant part of the Group's overall funding. Its composition has remained relatively diversified and stable. In order to lengthen the duration of the funding, the Bank periodically issues certificates of deposits with maturities of between one to six years. Short-term funds are also borrowed from the interbank market.

**(iii) Capital management**

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. As disclosed in note (A) above, the Group's capital adequacy ratio of 17.10% as at 31 December 2000 is well above the statutory minimum ratio.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

**(iv) Market risk management**

The Group adopts a prudent approach to managing its trading portfolios, and reduces any excessive market risk by executing offsetting transactions or hedging contracts with other market counterparties. The Group has also met all of the de minimis exemption criteria for reporting market risk as set out in the HKMA's Guideline Maintenance of Adequate Capital Against Market Risks.

The Group considers that any market risk arising from its trading book is not material.