

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(a) **Capital adequacy and liquidity ratios**

	2000	1999
	%	%
Unadjusted capital adequacy ratio as at 31 December	18.07	22.38
Average liquidity ratio for December	42.49	48.50
Average liquidity ratio for the year	42.99	48.20

The unadjusted capital adequacy ratio is computed on a consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The Bank meets all of the *de minimis* exemption criteria for reporting market risk as set out in the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and is not required to maintain capital against market risk. Hence, the Bank is exempted from disclosing the adjusted capital adequacy ratio computed in accordance with the mentioned Guideline.

The average liquidity ratio for the year is computed as the simple average of each calendar month's average ratio, as reported in Part I (2) of the "Return of Liquidity Position of an Authorized Institution" (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

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- (b) The components of the total capital base after deductions as reported under Part I of the Capital Adequacy Return (MA(BS)3) calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

Consolidated as at 31 December

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Core capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves and share premium	1,993,703	2,023,068
Others	86,623	(31,568)
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	36,868	38,410
Reserves on revaluation of holding of securities not held for trading purposes	(4,280)	0
General reserves for doubtful debts	104,216	93,749
Total capital base before deductions	3,389,290	3,295,819
Deductions from total capital base	(75,618)	(43,762)
Total capital base after deductions	<u>3,313,672</u>	<u>3,252,057</u>

(c) Segmental information

(i) *By geographical area*

The information by geographic areas is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets. For both years 1999 and 2000, all of the Group's profit before taxation was generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong, while more than 90% of assets were extended to companies and individuals domiciled in Hong Kong, the balance of the assets were extended to companies and individuals domiciled in China.

(ii) *By classes of business*

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. For qualitative details, please refer to the Review of Operations. Below is a breakdown of total operating income (net of interest expense) in percentage terms by classes of business:

By Classes of Business	Total operating income (net of interest expense)			
	2000		1999	
	HK\$'000	%	HK\$'000	%
Retail Banking	366,472	40.4	323,973	41.4
Credit Cards	236,723	26.0	195,636	25.0
Corporate Banking	106,936	11.8	99,383	12.7
China	(19,238)	(2.1)	(11,739)	(1.5)
Leasing	101,243	11.1	86,862	11.1
Investment Banking	104,967	11.5	74,342	9.5
Treasury and other subsidiaries	11,894	1.3	14,086	1.8
	<u>908,997</u>	<u>100.0</u>	<u>782,543</u>	100.0

Retail banking business mainly comprises of deposit account services, residential mortgage and other consumer lendings. Credit card business comprises of a full range of credit card services including merchant acquiring and credit card advances. Corporate banking business covers trade financing, syndicated loans and other corporate lendings. Hire purchase leasing contracts are included under leasing. Investment banking activities mainly comprise of our private banking activities, securities brokerage, unit trusts and insurance services. Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, management of investment securities and trading activities and the overall funding of the Group.

(d) **Major customers**

Total income attributable to the Group's five largest customers combined is less than 30% of the Group's total income for both years 1999 and 2000.

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(e) Overdue advances to customers

	The Group					
	As at 31 December 2000		As at 30 June 2000		As at 31 December 1999	
	% of gross <i>HK\$'000</i> advances		% of gross <i>HK\$'000</i> advances		% of gross <i>HK\$'000</i> advances	
Overdue gross advances to customers¹						
6 months or less but over 3 months	102,197	0.57	459,288	2.78	167,912	1.20
1 year or less but over 6 months	393,417	2.20	238,431	1.44	244,490	1.74
Over 1 year	678,011	3.78	807,344	4.89	686,374	4.89
	<u>1,173,625</u>	6.55	<u>1,505,063</u>	9.11	<u>1,098,776</u>	7.83
 Amount of collateral held in respect of overdue gross advances to customers ²						
	<u>496,862</u>		<u>617,725</u>		<u>571,666</u>	
 Secured overdue advances						
	466,336		575,889		475,275	
 Unsecured overdue advances						
	707,289		929,174		623,501	
	<u>1,173,625</u>		<u>1,505,063</u>		<u>1,098,776</u>	
 Amount of specific reserves made against overdue gross advances to customers						
	<u>372,314</u>		<u>387,901</u>		<u>214,382</u>	

¹ Net of suspended interest

² Including expected recovery of HK\$27.21 million (1999: HK\$35.67 million) from companies in liquidation.

(e) **Overdue advances to customers (continued)**

	The Group		
	As at 31 December 2000 HK\$'000	As at 30 June 2000 HK\$'000	As at 31 December 1999 HK\$'000
Overdue for more than 3 months on which interest is still being accrued because the advances are either fully collateralized or interest is still being received ("Interest accrual overdue gross advances")	73,324	214,454	358,565
Overdue for 3 months or less on which interest is being placed in suspense or on which interest accrued has ceased ("Interest non-accrual but not overdue gross advances")	70,398	160,750	348,375

 (f) **Reconciliation between overdue gross advances and advances to customers on which interest is placed in suspense**

	The Group		
	As at 31 December 2000 HK\$'000	As at 30 June 2000 HK\$'000	As at 31 December 1999 HK\$'000
Overdue gross advances to customers	1,173,625	1,505,063	1,098,776
<i>Less:</i> Interest accrual overdue gross advances	(73,324)	(214,454)	(358,565)
<i>Add:</i> Interest non-accrual but not overdue gross advances	70,398	160,750	348,375
Advances to customers on which interest is placed in suspense	<u>1,170,699</u>	<u>1,451,359</u>	<u>1,088,586</u>

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(g) Rescheduled advances to customers

	The Group					
	As at 31 December 2000		As at 30 June 2000		As at 31 December 1999	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Amount of rescheduled gross advances to customers ¹						
Interest accrual						
rescheduled advances	301,824	1.68	303,812	1.84	377,721	2.69
Interest non-accrual						
rescheduled advances	30,833	0.17	143,896	0.87	338,409	2.41
	<u>332,657</u>	<u>1.86</u>	<u>447,708</u>	<u>2.71</u>	<u>716,130</u>	<u>5.10</u>
Amount of collateral held in respect of gross advances	<u>256,688</u>		<u>283,115</u>		<u>226,989</u>	
Secured rescheduled advances	231,773		242,477		160,129	
Unsecured rescheduled advances	<u>100,884</u>		<u>205,231</u>		<u>556,001</u>	
	<u>332,657</u>		<u>447,708</u>		<u>716,130</u>	
Amount of specific reserves made against gross advances	<u>24,692</u>		<u>81,958</u>		<u>202,636</u>	

¹ Net of rescheduled advances which have been overdue for over three months and was reported in Note (e) Overdue Advances to Customers.

(h) Advances to customers – by industry sectors

The information concerning advances to customers by industry sectors has been classified in accordance with the industry categories contained in the banking returns on “Quarterly Analysis of Loans and Advances and Provisions (MA(BS)2A)” and “Assets and Liabilities of an Authorized Institution (MA(BS)1)” submitted to the Hong Kong Monetary Authority.

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	362,082	551,175
– Property investment	3,055,633	2,971,449
– Financial concerns	444,592	573,506
– Stockbrokers	18,893	23,922
– Wholesale and retail trade	120,749	143,308
– Manufacturing	1,122,447	688,030
– Transport and transport equipment	554,220	236,837
– Others	2,526,555	1,119,453
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	170,191	171,096
– Loans for the purchase of other residential properties	5,926,151	3,352,657
– Credit card advances	695,143	631,262
– Others	2,123,877	2,303,453
Trade finance	468,379	691,958
Loans for use outside Hong Kong	324,839	570,238
	17,913,751	14,028,344

Unaudited Supplementary Financial Information

(i) 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 Hong Kong Monetary Authority.

<i>Equivalent in HK\$'Millions</i>	As at 31 December 2000					Total
	US Dollars	Euro	Japanese Yen	Pound Sterling	Australian Dollars	
Spot assets	4,536	233	281	322	388	5,760
Spot liabilities	(5,102)	(197)	(291)	(302)	(386)	(6,278)
Forward purchases	1,163	26	220	0	487	1,896
Forward sales	(746)	(45)	(208)	(20)	(490)	(1,509)
Net option position	0	0	0	0	0	0
Net long (short) position	(149)	17	2	0	(1)	(131)
	US Dollars	Euro	Japanese Yen	Pound Sterling	Australian Dollars	Total
Net structural position	0	0	0	0	0	0

The US dollar short position of HK\$149 million was the result of the charging-off of US dollar loans at the end of 2000. The open position has been hedged in January 2001.

(j) Risk management

The Group has established policies and procedures for risk management which are reviewed regularly by the Management and various management committees including the Asset and Liability Committee, Credit Committee, Credit Policy Committee, Classified Loan Committee and Audit Committee.

(i) Credit Risk Management

Credit risk arises from the potential that a borrower or counter-party will fail to perform on an obligation. It arises from the trade finance, lending, derivatives, treasury and other normal banking activities undertaken by the Group.

Credit approval is conducted in accordance with the Group's credit policy which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. The credit policy also takes into account the requirements of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority with respect to large exposures and provisioning requirements.

The Executive Committee of the Board has been delegated the power to approve credits on behalf of the Board. The Chief Executive Officer, who has been delegated by the Board a lower credit approval authority than the Executive Committee, has in turn delegated lower authorities to the Credit Committee. Approval takes into account the type of loans, the tenor of the loan, repayment ability of the prospective borrower and available security. Performance is monitored through reports submitted to the Chief Executive Officer to whom or as well as the Internal Control Department and the external auditors.

(ii) *Liquidity Risk Management*

Liquidity risk is the risk that not enough cash will be generated from either assets or liabilities to meet deposit withdrawals or contractual loan funding. To manage liquidity risk, the Group has established the liquidity management policy which is reviewed by the Management and approved by the Board of Directors as well as the Hong Kong Monetary Authority. The Group measures the liquidity of the Group through statutory liquidity ratio, loan-to-deposit ratio and the currency/maturity mismatch portfolio.

The Asset and Liability Committee closely monitors the liquidity position of the Group to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs and that the statutory liquidity is always complied with. As disclosed in Note (a) above, the Group's consolidated liquidity ratio of 42.49 for December and the average liquidity ratio of 42.99% for the year 2000 was well above the statutory minimum ratio of 25%.

(iii) *Capital Management*

The Group's intention is to maintain a strong capital base to support the development of the Group's operations prudently, with the aim of diversifying its business activities, including the future expansion of the branch network, increasing the customer base, introducing new financial products and meeting the statutory capital adequacy ratio. As disclosed in Note (a) above, the Group's unadjusted consolidated capital adequacy ratio of 18.07% as at 31 December 2000 was already well above the statutory minimum ratio of 8%.

(iv) *Market Risk*

Market risk is the risk arising from the net effect of changes in market rates and prices, such as interest rates and foreign exchange rates on the Bank's assets, liabilities and commitments, thus causing profits or losses.

Interest rate risk is the risk that changes in prevailing interest rates will adversely affect assets, liabilities, capital, income, and/or expense at different times or in different amounts. Interest rate risk can further decimate into repricing risk, basis risk, yield curve risk and option risk.

The Bank's market risk originates from its open position in foreign exchange. The Bank's trading activities on derivative instruments mainly arise from the execution of trade orders from customers and positions taken in order to hedge the Bank's opened position. The Bank does not engage in proprietary trading of foreign exchange, but merely executes customer orders.

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The Bank's maximum market risk exposures are set by the Management. The Bank has not used derivative instruments. Exposures are measured and monitored on the basis of principal (or notional) amount, outstanding position and stop-loss limit, and are controlled by the Bank's Asset and Liability Committee within the limits approved by the Management in aggregate. The Bank's Internal Control Department is responsible for monitoring compliance with the market risk management policies by the business units. The Bank considers that the market risk arising from its open position, if any, is *immaterial* as the Bank meets all of the *de minimis* exemption criteria for reporting market risk as set out in the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority.