

## Supplementary Financial Information – Unaudited

### (1) Summary of financial position

	The Group				
	As at	As at		As at	
	30 June	30 June	Variance	31 December	Variance
2001	2000		2000		
HK\$'000	HK\$'000	%	HK\$'000	%	
Loans and advances	33,114,992	30,978,169	6.90	32,798,146	0.97
Loans loss provision	925,989	1,141,276	(18.86)	854,247	8.40
Total assets	59,067,359	49,626,274	19.02	56,657,829	4.25
Total interest earning assets	56,099,341	47,225,096	18.79	53,932,408	4.02
Total deposits	50,198,612	41,860,740	19.92	48,676,445	3.13
Shareholders' funds	6,020,890	5,593,182	7.65	5,843,180	3.04
<b>Financial ratios</b>					
Capital adequacy – unadjusted*	15.12%	18.09%		17.10%	
Capital adequacy – adjusted**	14.69%	18.08%		16.70%	
Average liquidity*	52.21%	37.60%		42.08%	
Loans to deposits	65.97%	74.00%		67.38%	
Loans to total assets	56.06%	62.42%		57.89%	
General provision coverage	1.11%	1.08%		1.10%	
Property lending	47.72%	46.78%		48.28%	
Cost to income	39.67%	37.03%		40.51%	
Return on assets	1.14%	1.07%		1.11%	
Return on shareholders' funds	10.33%	8.42%		9.48%	

\* 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 HKMA for its regulatory purposes, and are in accordance with the Third Schedule and the Fourth Schedule to the Hong Kong Banking Ordinance respectively.

\*\* The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the Guideline 'Maintenance of Adequate Capital Against Market Risks' issued by the HKMA and on the same consolidated basis as for unadjusted capital adequacy ratio.

## Supplementary Financial Information – Unaudited (cont'd)

### (2) Capital base after deductions

	<b>The Group</b>	
	<b>As at 30 June 2001</b>	As at 31 December 2000
	<b>HK\$'000</b>	HK\$'000
<b>Core capital</b>		
Paid up ordinary share capital	<b>2,595,311</b>	2,594,861
Reserves	<b>3,231,563</b>	3,015,839
Minority interests	<b>90,422</b>	78,710
<b>Total core capital</b>	<b>5,917,296</b>	5,689,410
<b>Eligible supplementary capital</b>		
Reserves on revaluation of land and interests in land	<b>11,945</b>	11,945
General provisions for doubtful debts	<b>362,297</b>	354,271
Total eligible supplementary capital	<b>374,242</b>	366,216
<b>Total capital base before deductions</b>	<b>6,291,538</b>	6,055,626
<b>Deductions from total capital base</b>	<b>(268,224)</b>	(264,018)
<b>Total capital base after deductions</b>	<b>6,023,314</b>	5,791,608

## Supplementary Financial Information – Unaudited (cont'd)

### (3) Advances to customers – By industry sectors

	The Group				
	As at 30 June 2001		As at 31 December 2000		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– property development	547,729	1.67	635,940	1.99	(13.87)
– property investment	3,427,425	10.45	3,004,415	9.41	14.08
– financial concerns	2,213,683	6.75	1,970,085	6.17	12.36
– stockbrokers	88,850	0.27	384	0.00	
– wholesale and retail trade	2,128,936	6.49	2,367,404	7.42	(10.07)
– manufacturing	2,573,651	7.85	1,957,305	6.13	31.49
– transport and transport equipment	2,584,952	7.88	1,482,624	4.64	74.35
– others	2,526,549	7.70	3,677,965	11.52	(31.31)
<i>Individuals</i>					
– loans for the purchase of flats under the Home Ownership Scheme and Private Sector Participation Scheme	17,776	0.06	20,724	0.06	(14.23)
– loans for the purchase of other residential properties	11,048,228	33.68	11,099,557	34.77	(0.46)
– others	1,252,701	3.82	966,775	3.03	29.58
Trade finance	2,228,302	6.79	2,400,267	7.52	(7.16)
Loans for use outside Hong Kong	2,161,433	6.59	2,342,391	7.34	(7.73)
<b>TOTAL</b>	<b>32,800,215</b>	<b>100.00</b>	<b>31,925,836</b>	<b>100.00</b>	<b>2.74</b>

## Supplementary Financial Information – Unaudited (cont'd)

### (4) Segmental information

#### (a) By geographical area

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	Total assets	Total liabilities	Contingent liabilities	Total assets	Total liabilities	Contingent liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	60,438,985	53,735,696	8,217,410	59,726,664	53,218,941	8,807,979
Mainland China	1,267	4,120	0	1,129	3,573	0
United States of America	3,124,665	2,919,720	637,918	3,555,128	3,365,180	579,014
Less: Intra-group items	(4,497,558)	(3,817,791)	(40,000)	(6,625,092)	(5,955,411)	(102,403)
	<b>59,067,359</b>	<b>52,841,745</b>	<b>8,815,328</b>	<b>56,657,829</b>	<b>50,632,283</b>	<b>9,284,590</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 booking the assets or liabilities.

	The Group					
	As at 30 June 2001			As at 31 December 2000		
	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	24,147,025	1,206,664	813,097	23,012,873	698,788	534,644
Mainland China	7,146,581	918,110	951,725	7,324,803	950,407	957,552
United States of America	1,330,267	12,986	37,736	1,395,649	4,847	25,070
Others	176,342	0	0	192,511	0	0
	<b>32,800,215</b>	<b>2,137,760</b>	<b>1,802,558</b>	<b>31,925,836</b>	<b>1,654,042</b>	<b>1,517,266</b>

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

## Supplementary Financial Information – Unaudited (cont'd)

### (4) Segmental information (cont'd)

#### (b) By class of business

	The Group	
	As at 30 June 2001	As at 31 December 2000
	<b>Total assets</b>	Total assets
	<b>HK\$'000</b>	HK\$'000
Commercial banking	<b>61,390,072</b>	59,215,686
Investment banking	<b>1,767,725</b>	3,697,446
Securities business	<b>286,548</b>	117,363
Other business	<b>120,572</b>	252,426
Less: Intra-group items	<b>(4,497,558)</b>	(6,625,092)
	<b>59,067,359</b>	56,657,829

### (5) Overdue loans and advances

The Group						
As at 30 June 2001						
			Amount of collateral held in respect of overdue advances to customers	Amount of secured balance	Amount of unsecured balance	Amount of specific provisions made against overdue advances to customer
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Three to six months overdue	349,971	1.07	508,076	286,308	63,662	20,181
Six months to one year overdue	599,812	1.83	438,490	343,732	256,080	52,593
Over one year overdue	1,187,977	3.62	725,959	634,655	553,322	395,502
<b>TOTAL</b>	<b>2,137,760</b>	<b>6.52</b>	<b>1,672,525</b>	<b>1,264,695</b>	<b>873,064</b>	<b>468,276</b>

## Supplementary Financial Information – Unaudited (cont'd)

### (5) Overdue loans and advances (cont'd)

The Group						
As at 31 December 2000						
Overdue gross advances to customers (net of suspended interest)		Amount of collateral held in respect of overdue advances to customers	Amount of secured balance	Amount of unsecured balance	Amount of specific provisions made against overdue advances to customers	
HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Three to six months overdue	301,442	0.94	327,792	268,061	33,381	9,196
Six months to one year overdue	232,717	0.73	364,339	177,243	55,474	33,260
Over one year overdue	1,119,883	3.51	642,211	556,677	563,206	365,576
<b>TOTAL</b>	<b>1,654,042</b>	<b>5.18</b>	<b>1,334,342</b>	<b>1,001,981</b>	<b>652,061</b>	<b>408,032</b>

\* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2001 and 31 December 2000.

## Supplementary Financial Information – Unaudited (cont'd)

### (6) Reconciliation of overdue loans and advances to loans on which interest is placed in suspense

	The Group	
	As at 30 June 2001	As at 31 December 2000
	HK\$'000	HK\$'000
Advances to customers overdue for more than 3 months	2,137,760	1,654,042
<i>Less:</i> Amount overdue for more than 3 months and on which interest is still being accrued	(494,445)	(250,418)
<i>Add:</i> Amount overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased	40,174	4,926
<i>Add:</i> Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	101,343	91,469
<i>Add:</i> Amount not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	17,726	17,247
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	<b>1,802,558</b>	1,517,266

### (7) Rescheduled loans

	The Group			
	As at 30 June 2001		As at 31 December 2000	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	154,912	0.47	238,068	0.75

\* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2001 and 31 December 2000.

## Supplementary Financial Information – Unaudited (cont'd)

### (8) Foreign currency exposures

The information concerning the foreign currency exposures of the Group 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	The Group					
	As at 30 June 2001			As at 31 December 2000		
	US dollars	Renminbi	Total	US dollars	Renminbi	Total
Spot assets	40,313,604	336,492	40,650,096	25,898,004	184,954	26,082,958
Spot liabilities	(42,601,449)	(44,676)	(42,646,125)	(22,033,592)	(27,386)	(22,060,978)
Forward purchases	127,749,282	0	127,749,282	25,200,257	0	25,200,257
Forward sales	(124,715,464)	0	(124,715,464)	(28,730,228)	0	(28,730,228)
Net long position	745,973	291,816	1,037,789	334,441	157,568	492,009

### (9) 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.

#### (a) 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 Hong Kong 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.



## **Supplementary Financial Information – Unaudited (cont'd)**

### **(9) Management of risks (cont'd)**

#### **(a) Credit risk management (cont'd)**

An analysis of advances to customers by industry sectors is disclosed in note 3 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 18.

#### **(b) 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 1 above, the Group's average liquidity ratio of 52.21% for the six months ended 30 June 2001 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 (e.g. 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 deposit with maturities of between one to six years. Short-term funds are also borrowed from the interbank market.

#### **(c) 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 1 above, the Group's adjusted capital adequacy ratio incorporating market risk of 14.69% and unadjusted capital adequacy ratio of 15.12% as at 30 June 2001 are 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.

## **Supplementary Financial Information – Unaudited (cont'd)**

### **(9) Management of risks (cont'd)**

#### **(d) Market risk management**

The Group continues to exercise discipline in managing its trading portfolios with the objective of averting excessive exposures resulting from any potentially adverse market development. While scrupulously enforcing the internal guidelines on exposures, we regularly review policies pertinent to market risk management. Besides time analyses, reporting and control of exposures, we adopt a forward looking strategy of performing proactive simulation of various possible scenarios and recommend feasible hedging measures accordingly.

In addition, the Group is developing new risk management and control systems, including the Value at Risk ('VaR') system for monitoring the Group's risk exposures. The Group believes that these systems and policies will enable it to monitor and control more effectively risks inherent in its banking operations.