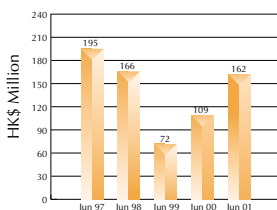


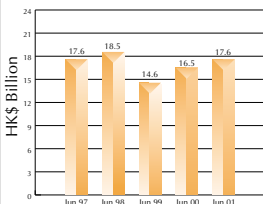
FINANCIAL HIGHLIGHTS (UNAUDITED)

(HK\$ Million)	For the 6 months ended	
	30 June 2001	30 June 2000
Profit attributable to Shareholders	162	109
Interim dividend (per share)	4.00 cents	3.00 cents
Return on average equity	9.43%	6.55%
Return on average assets	1.12%	0.88%
	As at	As at
	30 June 2001	30 June 2000
Total assets (including liabilities of customers for engagements)	30,263	26,673
Advances to customers less reserves	17,633	15,958
Customer deposits and medium term funding	25,014	22,247
Liabilities of customers for engagements	480	393
Shareholders' funds	3,575	3,404
Capital adequacy ratio	18.21%	19.17%
Liquidity ratio (average for the month)	44.49%	40.47%

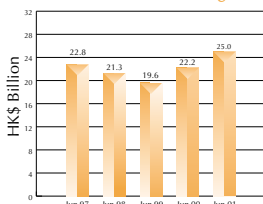
Profit Attributable to Shareholders



Gross Advances to Customers



Customers Deposits and Medium Term Funding



CORPORATE INFORMATION

SHAREHOLDERS

- 55% – Arab Banking Corporation (B.S.C.)
- 20% – China Everbright Limited
- 25% – Public

SOLICITORS

Clifford Chance

AUDITORS

KPMG

COMPANY SECRETARY

Ivan Young

REGISTERED OFFICE

International Bank of Asia Building
38 Des Voeux Road Central
Hong Kong

BOARD OF DIRECTORS

Anwar Ali AL-MUDHAF

Chairman – International Bank of Asia Limited
General Manager – Kuwait Health Insurance Company
Director – Arab Banking Corporation (B.S.C.)
Director – The Public Institution for Social Security (PIFSS)
Vice-Chairman – Al-Mal Kuwaiti Company
Assistant Professor – Department of Finance and Financial
Institutions, Kuwait University

Mike M. MURAD

Vice Chairman, Managing Director and Chief Executive
Officer – International Bank of Asia Limited
Chairman – Net Alliance Co. Limited
Director – Arab Banking Corporation – Egypt (S.A.E.)

Steven Kwok Lim POON

Managing Director – Bright World Enterprise Limited

Robert James KENRICK

James SO Yiu Cho

Executive Director – Hong Kong Experts Consultancy
Company Limited
Independent Non-Executive Director – China Motor Bus
Company Limited

Eissa Mohamed AL SUWAIDI

Executive Director – Abu Dhabi Investment Authority, United Arab Emirates

Director – Arab Banking Corporation (B.S.C.)

Director – Abu Dhabi National Oil Co. For Distribution

Chairman – Arab Banking Corporation – Egypt (S.A.E.)

GUO You

Executive Director and Chief Executive Officer – China Everbright Limited

Bachar SAMRA

Executive Vice President – International Bank of Asia Limited

Chairman – IBA Credit Limited

Khalifa Mohamed AL KINDI

Chairman – Arab Banking Corporation (B.S.C.)

Deputy Managing Director – Abu Dhabi Investment Authority, United Arab Emirates

ZHOU Liqun

Executive Director and Deputy General Manager – China Everbright Limited

SENIOR MANAGEMENT

Mike M. MURAD	Vice Chairman, Managing Director and Chief Executive Officer
Michael K. IPSON	Executive Vice President – Corporate and Investment Banking Group
Bachar SAMRA	Executive Vice President – Consumer Banking Group
David CHAN	Executive Vice President – Financial Control and Support Group

ECONOMIC REVIEW AND IBA PERFORMANCE

The Hong Kong economy has slowed significantly in 2001 in tandem with the slowdown in the global economy. The 2000 recovery was driven by the external economy, with exports of goods growing last year by 17% and exports of services by 15%. The domestic economy remained weak in 2000, reflected in falling property and consumer prices and persistently high unemployment. Unfortunately, exports are not able to offset domestic weakness this year. In April total exports fell by 2.4% year-on-year, and the decline worsened to 3.5% in May. Orders on hand declined by 4% in March, indicating that export weakness will persist. GDP grew by only 2.5% in the first quarter, prompting a reduction in full year forecasts from 4.5-5% to 2.5-3.5%, with some forecasts as low as 1%.

The lack of momentum in the domestic economy is a legacy of the Asian financial crisis. Property prices have declined by at least 60% since the crisis, and despite the fall in both prices and lending rates, there has been no sustained buying in the last 3 years. Consumer prices have declined for 31 consecutive months, and the decline deepened in May against expectations with a fall of 1.5%. Retail sales in April fell 0.1% in value terms. The Hang Seng Index declined significantly since the beginning of the year. Unemployment remains high by Hong Kong standards, remaining at 4.6% for the three-month period ending in May, compared to 4.5% at the end of 2000. There is a lack of confidence, with people concerned about job security and the equity value of their homes. Amid the sluggish economic environment the Bank's specific provision charge for the first six months of 2001 declined by 55% to HK\$39 million compared to the same period last year, reflecting management's success in its determined effort to reduce the level of non-performing loans which stemmed from the Asian financial crisis. However, in view of the market outlook of the Hong Kong and global economies and the lack of recovery in the property market, the Board decided to increase its general provision in the first half of 2001 by HK\$51 million and this now represents 0.9% of the performing loan portfolio.

Against this less than hospitable background, IBA achieved respectable growth, reporting HK\$162 million in profits for the six months ended 30 June 2001. Net interest income increased by 13% to HK\$369 million as compared to the

same period last year, attributable both to growth in the loan portfolio and the ability to preserve the net interest margin. Other operating income, including significant contributions from credit card operations, securities brokerage and insurance commissions, totalled HK\$72 million. IBA did not introduce any new handling fees in 2001, and reduced certain charges, reflecting our commitment to provide quality service at a reasonable price. During the first half of 2001 management, having regard to likely future movements in interest rates, decided to modify the profile of the Bank's investment portfolio and sold HK\$1,218 million of investments from the long term held-to-maturity portfolio. The remainder of the held-to-maturity investment portfolio was then transferred to non-trading securities at fair value in accordance with Statement of Standard Accounting Practice 24 "*Accounting for Investments in Securities*" issued by the Hong Kong Society of Accountants. As a result of the sales and transfer of securities during the period, the Bank recorded realised and unrealised gains of HK\$50 million and HK\$19 million respectively. Operating income rose to HK\$511 million, a 24% increase over the same period in 2000, a creditable performance in a period where the banking industry experienced flat loan growth and squeezed margins.

Operating expenses increased by 13% as IBA continued to implement its growth strategy. The Bank supplemented its traditional branch network with the opening of consumer finance centers and investment centers. These three parallel networks provide greater market penetration, and are contributing to the increase in higher yielding loans and fee income which has successfully offset the impact of pricing competition in residential mortgage and corporate lending. Productivity increased as evidenced by the decline in the cost income ratio from 48.3% in the six months ended June 2000 to 44.0% in the six months ended June 2001. Profit before tax increased by 56% to HK\$195 million. Taxes doubled to HK\$33 million, with profit attributable to shareholders rising to HK\$162 million.

Return on average assets increased 27% to 1.12%, while return on average equity increased 44% to 9.42%. The improved net interest margin, lower cost-to-income ratio and higher non-interest income component of operating income combined to increase average earnings per share to 13.85 Hong Kong cents.

Net loans increased 10.5% to HK\$17.6 billion as compared to the same period-end last year, while total assets increased 13.5% to HK\$30.3 billion. Liquidity remained high with an average liquidity ratio of 43% for the six months ended 30 June 2001. IBA was a net placer of approximately HK\$4 billion daily in the interbank market during the period.

Customer deposits rose 5% to HK\$23 billion as of 30 June 2001 compared to the year earlier period. Certificates of deposit grew by more than 4 times to reach HK\$2 billion period-on-period following two successful issues of HK\$800 million each in October 2000 and May 2001, respectively, lengthening the maturity of funding. The loan to deposit ratio stood at 70.49% at the end of June 2001.

Capital resources increased by 5% between June 2000 and June 2001 to reach HK\$3.5 billion. The capital adequacy ratio at 30 June 2001 was 18.21%.

The slowing of the Hong Kong economy, and in particular the decline in exports, suggests that the banking industry will have more subdued prospects in the second half of 2001. IBA expects to enjoy continued satisfactory operating performance, but does not anticipate that interest rates will result in a similar increase in value of the investment portfolio, and therefore expects second half operating profit to reflect pure recurring income.

With the removal of interest rate controls, IBA introduced the new Magic Money Manager account which combines current and savings account functions, providing new benefits and flexibility to our customers. The Magic Money Manager account has attracted new customers to IBA. IBA has also created a network of investment centers and consumer finance centers to supplement the branch network, increasing the range of services and locations available to customers. The Superbranch model which has proven so successful in Causeway Bay is also being expanded, with the opening of the Mei Foo Superbranch in June and the forthcoming Tsuen Wan Regional Headquarters and Superbranch in August.

An interim dividend of 4.00 Hong Kong cents per share has been declared, compared to the 3.00 Hong Kong cent per share interim dividend in 2000, representing an increase of 33%.

Mike M. MURAD

Vice Chairman, Managing Director and Chief Executive Officer

1 August 2001

The Directors have pleasure in presenting the interim consolidated financial report of International Bank of Asia Limited (“the Bank”) and its subsidiaries (collectively “the Group”) for the six months ended 30 June 2001.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors of the Bank is aware of information which would reasonably indicate that the Bank is not or was not in compliance with the Code of Best Practice, as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules at any time during the six months ended 30 June 2001.

DIRECTORS’ INTERESTS IN SHARES

None of the directors has any interest in, or rights to subscribe for the share capital of the Bank or any associated corporation.

At no time during the six months was the Bank or its subsidiaries or its holding company or any of its fellow subsidiaries a party to any arrangements to enable the Directors or chief executive of the Bank, or any of their spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in, or debentures of the Bank, or any corporation.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the register of substantial shareholders showed that the Bank had been notified of the following interests, being 10% or more of the Bank’s issued capital.

	Ordinary shares of HK\$1 each	Percentage of total shareholding
Arab Banking Corporation (B.S.C.)	644,688,000	55
Tendai Limited (wholly owned subsidiary of China Everbright Limited)	234,432,000	20

DIRECTORS

The Directors in office during the six months ended 30 June 2001 were:

Mohammad M. Murad

Poon Kwok Lim, Steven

Robert J. Kenrick

So Yiu Cho, James

Eissa M. Al Suwaidi

Guo You

Bachar Samra

Anwar Ali Al-Mudhaf (Appointed on 25 April 2001)

Khalifa M. Al Kindi (Appointed on 19 June 2001)

Taher D. Makkiyah (Resigned on 24 May 2001)

Sheikh Ali Jarrah Al-Sabah (Retired on 04 April 2001)

Shao Zhengkang (Retired on 04 April 2001)

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SHARES

The Bank has not redeemed any of its listed shares during the six months ended 30 June 2001. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

CORPORATE GOVERNANCE

The Bank is a long-time practitioner of sound corporate governance. Priority is given to investor relations and transparency. Independent directors were elected to the Board prior to listing on the stock exchange, and have since increased to three. An independent director chairs the Audit Committee, which is comprised solely of independent directors along with the participation of a partner of the external auditors. The Audit Committee reviews the reports of both the external and internal auditors, and reports to the full board on credit quality, provisions, charge-offs and key balance sheet and income statement figures. The Remuneration Committee reviews and approves the remuneration of the senior officers of the Bank.

The full board meets a minimum of four times per year. These meetings are supplemented by meetings of the Executive Committee of the Board, as well as frequent communication between management and non-executive directors. The Board plays a supervisory role, delegating executive authority to professional managers. The Board approves Bank policies recommended by management. The Board approves the Asset and Liability Policy and the Investment Policy of the Bank, and amendments to these policies. Two directors sit on the Asset and Liability Committee and the Investment Committee, and all directors are provided with periodic reports on asset and liability management and investment performance both at board meetings and through direct communication between board meetings.

Directors are provided with a copy of the *“Guideline on Corporate Governance of Locally Incorporated Authorised Institutions”* issued by the Hong Kong Monetary Authority under section 7(3) of the Hong Kong Banking Ordinance.

In addition to the Audit Committee and the reports of both external and internal auditors, the Board has access to the reports of the Compliance Unit, an independent body established to verify the Bank’s adherence to the Hong Kong Banking Ordinance, regulations and directives of the Hong Kong Monetary Authority and the Securities and Futures Commission, as well as the regulations of Hong Kong Exchanges and Clearing Company, Limited. Senior staff of the Hong Kong Monetary Authority meet with the full Board on an annual basis to provide a comprehensive report on their assessment of the Bank. This supplements the annual Capital, Asset Quality, Management Quality, Earnings and Liquidity (“CAMEL”) rating by the Hong Kong Monetary Authority which is also reported to the Board.

The Bank is an equal opportunity employer and is environmentally aware and has issued policies on both of these issues. Service to the community is one of the cardinal principles of the Bank.

INDEPENDENT REVIEW REPORT

To the Board of Directors of
International Bank of Asia Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Bank to review the interim financial report set out on pages 11 to 32.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "*Interim Financial Reporting*" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "*Engagements to review interim financial reports*" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

KPMG

Certified Public Accountants

Hong Kong, 1 August 2001

UNAUDITED INTERIM FINANCIAL REPORT

Consolidated Profit and Loss Account

for the six months ended 30 June 2001

	Note	Six months ended	
		30 June 2001 HK\$'000	30 June 2000 HK\$'000
Interest income		960,380	925,770
Interest expense		(591,029)	(599,211)
Net interest income		369,351	326,559
Other operating income	3	72,341	83,678
Gains less losses from disposal, redemption or transfer of investment securities	4	68,985	0
Operating income	5	510,677	410,237
Operating expenses	6	(224,806)	(198,169)
Operating profit before provisions		285,871	212,068
Charge for bad and doubtful debts			
– Specific		(39,462)	(87,074)
– General		(51,082)	161
Profit before tax		195,327	125,155
Taxation	7	(32,939)	(16,317)
Profit for the period attributable to shareholders		162,388	108,838
Interim dividend of 4.00 Hong Kong Cents per share (2000: 3.00 Hong Kong Cents per share)	19	46,886	35,165
Earnings per share (Hong Kong Cents)	8	13.85	9.29

The notes on pages 16 to 32 form part of this interim financial report.

Movements in retained earnings

		Six months ended 30 June 2001	Year ended 31 December 2000 <i>(restated)</i>
	Note	HK\$'000	HK\$'000
Profit for the period/year attributable to shareholders		162,388	244,388
Retained earnings brought forward		1,131,101	980,486
		1,293,489	1,224,874
Dividends – Interim	19	(46,886)	(35,165)
– Final	19	0	(58,608)
Retained earnings carried forward		1,246,603	1,131,101

Consolidated Statement of Recognised Gains and Losses for the six months ended 30 June 2001

	Six months ended 30 June 2001	30 June 2000
	HK\$'000	HK\$'000
(Deficit)/Surplus on revaluation of investment securities	(7,760)	20,930
Profit for the period attributable to shareholders	162,388	108,838
Total recognised gains and losses	154,628	129,768

The notes on pages 16 to 32 form part of this interim financial report.

Extracts from Consolidated Balance Sheet

as at 30 June 2001

	Note	As at 30 June 2001 HK\$'000	As at 31 December 2000 (restated) HK\$'000
ASSETS			
Cash on hand		108,203	111,413
Short term funds	9	4,632,592	4,551,299
Placements with banks maturing between one and twelve months	10	1,721,718	1,031,296
Trade bills less reserves and certificates of deposit	11	741,235	736,627
Advances to customers less reserves	12	17,633,404	17,426,381
Accrued interest and other accounts		843,542	1,119,238
Investments	13	2,851,648	2,586,329
Investments in associated company	14	11,563	12,879
Premises and equipment		1,239,078	1,130,858
Liabilities of customers for engagements	15	479,798	535,267
		30,262,781	29,241,587

The notes on pages 16 to 32 form part of this interim financial report.

		As at 30 June 2001	As at 31 December 2000 <i>(restated)</i>
	Note	HK\$'000	HK\$'000
LIABILITIES			
Deposits and balances of other banks	16	838,408	314,406
Current, fixed and other deposits of customers	17	22,934,072	23,395,610
Certificates of deposit issued	18	2,080,000	1,161,699
Other accounts and provisions	2	355,116	355,238
Engagements on behalf of customers		479,798	535,267
		26,687,394	25,762,220
CAPITAL RESOURCES			
Share capital		1,172,160	1,172,160
Share premium		749,778	749,778
Reserves	19	1,606,563	1,498,821
		3,528,501	3,420,759
Dividends declared/proposed	19	46,886	58,608
		3,575,387	3,479,367
		30,262,781	29,241,587

The notes on pages 16 to 32 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2001

	Six months ended	
	30 June 2001 HK\$'000	30 June 2000 HK\$'000
Net cash inflow from operating activities	168,127	858,763
Net cash outflow from returns on investments and servicing of finance	(92,572)	(68,092)
Profits tax refunded/(paid)	60,112	(3,988)
Net cash outflow from investing activities	(350,404)	(278,032)
Net cash (outflow)/inflow before financing activities	(214,737)	508,651
Net cash inflow/(outflow) from financing activities	918,301	(544,851)
Increase/(Decrease) in cash and cash equivalents	703,564	(36,200)
Cash and cash equivalents at 1 January	4,855,254	4,920,210
Cash and cash equivalents at 30 June	5,558,818	4,884,010

Analysis of cash and cash equivalents

	As at 30 June 2001 HK\$'000	As at 30 June 2001 HK\$'000
Cash on hand	108,203	103,910
Short term funds	4,632,592	4,316,788
Placements with banks maturing between one and twelve months, which were originally repayable within three months	1,656,431	736,927
Deposits and balances of other banks	(838,408)	(273,615)
	5,558,818	4,884,010

1. Activities and corporate affiliation

The Bank, through its branches and subsidiaries, provides a range of banking, financial and related services.

The ultimate holding company of the Bank is Arab Banking Corporation (B.S.C.) which is incorporated in the State of Bahrain and operates as an offshore bank.

2. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 *“Engagements to Review Interim Financial Reports”*, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 10.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 *“Interim Financial Reporting”* issued by the HKSA. In addition, the interim financial report complies with the Guideline *“Recommendations on Interim Financial Disclosure by Authorised Institutions Incorporated in Hong Kong”* issued by the Hong Kong Monetary Authority (“HKMA”).

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Bank’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Bank’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 24 February 2001.

The same accounting policies, except for the recognition of proposed dividends, adopted in the 2000 annual accounts have been applied in the preparation of the interim financial report.

Following the adoption of the revised Statement of Standard Accounting Practice 9 “*Events After the Balance Sheet Date*” issued by the Hong Kong Society of Accountants on 1 January 2001, dividends proposed, approved or declared after the balance sheet date are no longer recognised as part of liabilities of the Bank, but treated as part of its equity. The accounting policy has been applied retrospectively in accordance with the revised Statement of Standard Accounting Practice 2 “*Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*” issued by the HKSA. As a result, liabilities as of 31 December 2000 have been reduced by HK\$58,608,000.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

3. Other operating income

	Six months ended	
	30 June 2001 HK\$'000	30 June 2000 HK\$'000
Fees and commission income	54,359	63,457
Less: Fees and commission expenses	(12,529)	(3,798)
Net fees and commission income	41,830	59,659
Dividend income from listed investments	522	0
Dividend income from unlisted investments	1,045	1,006
Rental income less outgoings	5,560	2,834
Gain on foreign exchange trading	5,692	6,294
Others	17,692	13,885
	72,341	83,678

4. Gains less losses from disposal, redemption or transfer of investment securities

	Six months ended	
	30 June 2001 HK\$'000	30 June 2000 HK\$'000
Net realised gains on disposal or redemption of investment securities	49,552	0
Net unrealised gains from transfers of held-to-maturity securities to non-trading securities	19,433	0
	<u>68,985</u>	<u>0</u>

During the period management, having regard to the likely future movements in interest rates, decided to modify the maturity and risk profile of the Bank's investment portfolio.

Held-to-maturity securities with amortised cost of HK\$1,218 million (2000: Nil) were disposed of with a profit of HK\$39 million (2000: Nil) being recognised in the profit and loss account. As a result, it was decided that the existing classification of the remaining held-to-maturity portfolio of investment securities at an amortised cost of HK\$3,439 million (2000: Nil) was inappropriate and they were transferred to the Bank's non-trading portfolio of investment securities. The attributable unrealised gain of HK\$19 million (2000: Nil) was recognised in the profit and loss account at the date of transfer in accordance with Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKSA.

5. Segmental information

(a) By geographical area

The information by geographic areas is based on the locations of the principal operations of the subsidiaries and branches of the Bank responsible for reporting the results or booking the assets. For the period ended 30 June 2001, all of the Group's profit before taxation was generated by assets booked by the principal operations of the subsidiaries and branches of the Bank located in Hong Kong and with 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.

(b) *By classes of business*

The Group is principally engaged in the provision of banking and related financial services. 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) Six months ended			
	30 June 2001		30 June 2000	
	HK\$'000	%	HK\$'000	%
Retail banking	193,546	37.9	168,608	41.1
Credit cards	138,904	27.2	103,790	25.3
Corporate banking	47,493	9.3	42,254	10.3
China	(4,085)	(0.8)	(12,307)	(3.0)
Leasing	79,666	15.6	43,895	10.7
Investment banking	50,046	9.8	57,433	14.0
Treasury and other subsidiaries	5,107	1.0	6,564	1.6
	<u>510,677</u>	<u>100.0</u>	<u>410,237</u>	<u>100.0</u>

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 lending. 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.

6. Operating expenses

The major items making up the operating expenses are as follows:

	30 June 2001 HK\$'000	30 June 2000 HK\$'000
Staff costs		
– Salaries and other costs	108,939	93,827
– Pension costs	5,159	5,944
Premises and other fixed assets		
– Rental of premises	10,304	7,977
– Depreciation	22,231	20,023
– Others	6,329	5,928
Auditors' remuneration	761	612
Other operating expenses	71,083	63,858
	<u>224,806</u>	<u>198,169</u>

7. Taxation

Hong Kong Profits Tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the period. The amounts of unprovided deferred tax liability as at 30 June 2001 and 31 December 2000 were not material.

8. Earnings per share

The earnings per share are calculated on earnings of HK\$162,388,000 (2000: HK\$108,838,000) and on the weighted average of 1,172,160,000 (2000: 1,172,160,000) shares in issue during the period. There were no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

9. Short term funds

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Balances with banks and other financial institutions	149,478	36,442
Money at call and short notice*	4,483,114	4,514,857
	<u>4,632,592</u>	<u>4,551,299</u>

* Money at call and short notice represents deposits of up to a maximum of 1-month in maturity.

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Repayable on demand	149,376	36,548
Within 1 month	4,483,216	4,514,751
	<u>4,632,592</u>	<u>4,551,299</u>

10. Placements with banks maturing between one and twelve months

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
3 months or less but over 1 month	1,656,431	953,304
1 year or less but over 3 months	65,287	77,992
	<u>1,721,718</u>	<u>1,031,296</u>

11. Trade bills less reserves and certificates of deposit

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Trade bills	17,164	8,233
Less: General reserves	(111)	(42)
	<u>17,053</u>	<u>8,191</u>
Certificates of deposit		
– unlisted, held-to-maturity	0	728,436
– unlisted, non-trading	724,182	0
	<u>724,182</u>	<u>728,436</u>
	<u>741,235</u>	<u>736,627</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Repayable on demand	0	1,259
3 months or less but not repayable on demand	92,314	54,864
1 year or less but over 3 months	220,710	360,728
5 years or less but over 1 year	428,322	319,663
Undated	0	155
	<u>741,346</u>	<u>736,669</u>

12. Advances to customers less reserves

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Advances to customers	18,014,034	17,913,751
Reserves for doubtful debts		
– General	(155,187)	(104,174)
– Specific	(225,443)	(383,196)
	<u>17,633,404</u>	<u>17,426,381</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Repayable on demand	1,275,152	1,463,879
3 months or less but not repayable on demand	1,411,773	1,441,312
1 year or less but over 3 months	1,488,534	1,602,852
5 years or less but over 1 year	5,564,889	4,854,859
Over 5 years	7,116,153	7,329,047
Undated	1,157,533	1,221,802
	<u>18,014,034</u>	<u>17,913,751</u>

Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased (“Non-performing advances”):

The non-performing advances, together with the aggregate amount of specific reserves made and amount of collateral held in respect of such advances are as follows:

	As at 30 June 2001		As at 31 December 2000	
	HK\$'000	*%	HK\$'000	*%
Non-performing advances				
– Rescheduled	84,991	0.47	30,833	0.17
– Others	999,365	5.55	1,139,866	6.37
	1,084,356	6.02	1,170,699	6.54
Amount of specific reserves made against non-performing advances	211,062		361,325	
Amount of collateral held in respect of non-performing advances**	577,520		494,698	
	788,582		856,023	
Amount of interest suspended	115,603		88,122	

* As a percentage of gross advances to customers.

** Including expected recoveries of HK\$24.75 million (2000: HK\$27.21 million) from companies in liquidation.

13. Investments

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Investments in debt securities		
<i>Held-to-maturity debt securities at amortised cost less provisions</i>		
Listed in Hong Kong	0	1,403,446
Unlisted	2,000	1,106,421
Sub-total	2,000	2,509,867
Other securities		
<i>Non-trading securities at fair value</i>		
Listed in Hong Kong		
– debt	1,581,518	0
– equity	40,814	30,093
Unlisted		
– debt	1,212,730	32,833
– equity	14,586	13,536
Sub-total	2,849,648	76,462
Total	2,851,648	2,586,329
Market value		
Listed in Hong Kong		
– debt	1,581,518	1,419,625
– equity	40,814	30,093
Total	1,622,332	1,449,718

The investments are issued by:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
HKSAR Exchange Fund	1,581,518	1,403,446
Public sector entities	79,190	170,221
Banks and other financial institutions	288,850	406,732
Corporate entities	902,090	605,930
Total	2,851,648	2,586,329

The maturity profile of debt securities analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
3 months or less but not repayable on demand	75,150	275,084
1 year or less but over 3 months	197,965	84,981
5 years or less but over 1 year	2,462,448	1,945,160
Over 5 years	27,851	204,642
Undated	32,834	32,833
	<u>2,796,248</u>	<u>2,542,700</u>

14. Investments in associated company

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Unlisted shares, at cost	5,761	5,761
Advances	11,563	12,879
Less: Provision for diminution in value	(5,761)	(5,761)
	<u>11,563</u>	<u>12,879</u>

The Bank owns 40% (2000: 40%) of the issued share capital of IBA Finance Corporation, which is incorporated in the Philippines. The principal activity of the associated company is the provision of financing and leasing services in the Philippines. The Bank has not equity accounted for the investments in the associated company in view of the immaterial amount involved.

15. Liabilities of customers for engagements

Liabilities of customers for engagements are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contracts be fully drawn upon and the clients default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements. Their contractual and risk weighted amounts are as follows:

	As at 30 June 2001		As at 31 December 2000	
	Contractual amounts HK\$'000	Risk Weighted amounts HK\$'000	Contractual amounts HK\$'000	Risk Weighted amounts HK\$'000
Direct credit substitutes	91,724	91,725	112,140	112,140
Transaction-related contingencies	21,856	10,929	12,471	6,236
Trade-related contingencies	109,238	21,746	203,451	40,690
Trade bills for collection and shipping guarantees	256,980	0	207,205	0
	479,798	124,400	535,267	159,066

16. Deposits and balances of other banks

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Repayable on demand	713,188	2,472
3 months or less but not repayable on demand	125,220	311,934
	838,408	314,406

17. Current, fixed and other deposits of customers

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Repayable on demand	2,862,580	2,426,818
3 months or less but not repayable on demand	18,343,925	19,722,593
1 year or less but over 3 months	1,686,031	1,199,735
5 years or less but over 1 year	41,536	46,464
	<u>22,934,072</u>	<u>23,395,610</u>

18. Certificates of deposit issued

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
3 months or less but not repayable on demand	100,000	100,000
1 year or less but over 3 months	1,180,000	506,699
5 years or less but over 1 year	800,000	555,000
	<u>2,080,000</u>	<u>1,161,699</u>

19. Reserves

	Capital Investment		Retained	Dividends	Total
	redemption	revaluation	earnings	declared/ proposed	
	reserve	reserve		(restated)	(restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2000					
– as previously reported	372,000	0	980,486	0	1,352,486
– prior period adjustment (Note 2)	0	0	0	35,165	35,165
– as restated	372,000	0	980,486	35,165	1,387,651
Profit after tax for the year	0	0	244,388	0	244,388
Investments revaluations	0	(4,280)	0	0	(4,280)
Interim dividend declared	0	0	(35,165)	35,165	0
Dividends paid	0	0	0	(70,330)	(70,330)
Final dividend proposed	0	0	(58,608)	58,608	0
At 31 December 2000	372,000	(4,280)	1,131,101	58,608	1,557,429
At 1 January 2001					
– as previously reported	372,000	(4,280)	1,131,101	0	1,498,821
– prior period adjustment (Note 2)	0	0	0	58,608	58,608
– as restated	372,000	(4,280)	1,131,101	58,608	1,557,429
Profit after tax for the six months	0	0	162,388	0	162,388
Investments revaluations	0	(7,760)	0	0	(7,760)
Dividends paid	0	0	0	(58,608)	(58,608)
Interim dividend declared	0	0	(46,886)	46,886	0
At 30 June 2001	372,000	(12,040)	1,246,603	46,886	1,653,449

- (a) The capital redemption reserve arose from the redemption of the Bank's "A" and "B" preference shares in 1991 and 1992 out of its retained earnings. The capital redemption reserve is undistributable under the Hong Kong Companies Ordinance section 79 C(2) but may be applied by the Bank in paying up its unissued shares to be allotted to its members as fully paid bonus shares.
- (b) Total distributable reserves of the Group amounted to HK\$1,293,489,000 (2000 (restated): HK\$1,189,709,000).

20. Material related parties transactions

During the period the Group entered into a number of transactions with its ultimate holding company and another major shareholder, China Everbright Limited and its subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the Directors these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the period and balances outstanding as at the balance sheet date are set out below:

	Six months ended	
	30 June 2001	30 June 2000
	HK\$'000	HK\$'000
(a) Income/(expense)		
Interest income	6,154	7,140
Interest expenses	(16,296)	(17,152)
	<u>(10,142)</u>	<u>(10,012)</u>

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
(b) Assets		
<i>Ultimate holding company</i>		
Short term funds	242,930	212,380
Accrued interest and other accounts	1,139	3,875
	<hr/>	<hr/>
Due from ultimate holding company	244,069	216,255
	<hr/>	<hr/>
<i>Other related parties</i>		
Loans and advances to customers	38,000	23,000
Accrued interest and other accounts	25	16
	<hr/>	<hr/>
Due from other related parties	38,025	23,016
	<hr/>	<hr/>
Total receivable	282,094	239,271
	<hr/> <hr/>	<hr/> <hr/>
(c) Liabilities		
<i>Ultimate holding company</i>		
Deposits and balances with other banks	241,049	11,433
Other accounts and provisions	269	20
	<hr/>	<hr/>
Due to ultimate holding company	241,318	11,453
	<hr/>	<hr/>
<i>Other related parties</i>		
Current, fixed and other deposits of customers	151,527	147,753
Other accounts and provisions	34	113
	<hr/>	<hr/>
Due to other related parties	151,561	147,866
	<hr/>	<hr/>
Total payable	392,879	159,319
	<hr/> <hr/>	<hr/> <hr/>

21. Outstanding commitments

- (a) Capital commitments outstanding at the balance sheet date not provided for in the accounts are as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Contracted for	29,951	24,973
Authorised but not contracted for	0	54,871
	<u>29,951</u>	<u>79,844</u>

- (b) Total operating lease commitments in respect of land and buildings at the balance sheet date are as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Within one year	13,275	12,493
After one year but within five years	9,640	5,415
	<u>22,915</u>	<u>17,908</u>

22. Off-balance sheet exposures

	As at 30 June 2001		
	Contractual Amounts HK\$'000	Risk Weighted Amounts HK\$'000	Replacement Costs HK\$'000
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	6,082,562	0	N/A
– with an original maturity of 1 year or over	1,178,103	565,052	N/A
Forward deposits placed	940,869	188,174	N/A
Financial instruments			
– Forward exchange contracts	511,731	3,319	2,475
– Leverage deposits contracts	354,640	0	17,790
	<u>9,067,905</u>	<u>756,545</u>	<u>20,265</u>

As at 31 December 2000			
	Contractual Amounts HK\$'000	Risk Weighted Amounts HK\$'000	Replacement Costs HK\$'000
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	5,748,063	0	N/A
– with an original maturity of 1 year or over	1,153,887	552,944	N/A
Forward forward deposits placed	209,385	41,877	N/A
Financial instruments			
– Forward exchange contracts	1,478,148	21,760	36,098
– Leverage deposits contracts	318,277	0	21,013
	<u>8,907,760</u>	<u>616,581</u>	<u>57,111</u>

The replacement costs and credit risk-weighted amounts of the above off-balance sheet exposures do not take into account the effects of bilateral netting arrangements. The table above gives the contractual amounts, replacement cost and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the HKMA's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance. Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the Group in the foreign exchange and interest rate markets. The contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The above financial instruments represent transactions that are substantially all initiated in response to customer demands and no significant positions are maintained by the Group.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

A. Capital adequacy and liquidity ratio

	2001 %	2000 %
Unadjusted capital adequacy ratio at period/year end	18.21	18.07
Average liquidity ratio for June	44.49	40.47
Average liquidity ratio for the six months ended 30 June	43.12	45.17

The unadjusted capital adequacy ratio is computed on a consolidated basis as required by the HKMA 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 HKMA 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 above-mentioned Guideline.

The average liquidity ratio for the period is computed as the simple average of each calendar month’s average ratio, as reported in Part I (2) of the banking return “Return of Liquidity Position of an Authorised Institution” (MA(BS)1E) calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

- B. The components of the total capital base after deductions as reported under Part I of the banking return “*Capital Adequacy Return*” (MA(BS)3) calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance are as follows:

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Core capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves and share premium	2,080,327	1,993,703
Others	152,316	86,623
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	36,868	36,868
Reserves on revaluation of holding of securities not held for trading purposes	(12,512)	(4,280)
General reserves for doubtful debts	155,298	104,216
	<hr/>	<hr/>
Total capital base before deductions	3,584,457	3,389,290
Deductions from total capital base	(75,353)	(75,618)
	<hr/>	<hr/>
Total capital base after deductions	<u>3,509,104</u>	<u>3,313,672</u>

C. Overdue advances to customers

	As at 30 June 2001		As at 31 December 2000	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Overdue advances to customers¹				
6 months or less but over 3 months	88,233	0.49	102,197	0.57
1 year or less but over 6 months	190,560	1.06	393,417	2.20
Over 1 year	758,617	4.21	678,011	3.78
	<u>1,037,410</u>	<u>5.76</u>	<u>1,173,625</u>	<u>6.55</u>
Amount of collateral held in respect of overdue advances ²	<u>546,154</u>		<u>496,862</u>	
Secured overdue advances	531,139		466,336	
Unsecured overdue advances	506,271		707,289	
	<u>1,037,410</u>		<u>1,173,625</u>	
Amount of specific reserves made against overdue advances	<u>200,342</u>		<u>372,314</u>	

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Advances overdue for more than 3 months and on which interest is still being accrued ("Interest accrual overdue advances")	79,876	73,324
Advances overdue for 3 months or less and on which interest is being placed in suspense or on which interest accrual has ceased ("Interest non-accrual but not overdue advances")	126,822	70,398

¹ Net of suspended interest

² Including expected recoveries of HK\$24.75 million (2000: HK\$27.21 million) from companies in liquidation.

D. Reconciliation between overdue advances and non-performing advances

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Overdue advances to customers	1,037,410	1,173,625
Less: Interest accrual overdue advances	(79,876)	(73,324)
Add: Interest non-accrual but not overdue advances	126,822	70,398
Non-performing advances	<u>1,084,356</u>	<u>1,170,699</u>

E. Rescheduled advances to customers

	As at 30 June 2001		As at 31 December 2000	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
Rescheduled advances to customers¹				
Interest accrual rescheduled advances	207,545	1.15	301,824	1.68
Interest non-accrual rescheduled advances	84,991	0.47	30,833	0.18
	<u>292,536</u>	<u>1.62</u>	<u>332,657</u>	<u>1.86</u>
Amount of collateral held in respect of rescheduled advances	<u>245,444</u>		<u>256,688</u>	
Secured rescheduled advances	209,136		231,773	
Unsecured rescheduled advances	83,400		100,884	
	<u>292,536</u>		<u>332,657</u>	
Amount of specific reserves made against rescheduled advances	<u>24,015</u>		<u>24,692</u>	

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

F. 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 “Quarterly Analysis of Loans and Advances and Provisions” (MA(BS)2A) and “Assets and Liabilities of an Authorised Institution” (MA(BS)1) submitted to the HKMA.

	As at 30 June 2001 HK\$'000	As at 31 December 2000 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	326,531	362,082
– Property investment	3,130,170	3,055,633
– Financial concerns	484,637	444,592
– Stockbrokers	38,470	18,893
– Wholesale and retail trade	148,632	120,749
– Manufacturing	1,287,666	1,122,447
– Transport and transport equipment	601,119	554,220
– Others	2,728,027	2,526,555
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	165,854	170,191
– Loans for the purchase of other residential properties	6,767,688	5,926,151
– Credit card advances	705,268	695,143
– Others	1,124,698	2,123,877
Trade finance	336,994	468,379
Loans for use outside Hong Kong	168,280	324,839
	18,014,034	17,913,751

G. Currency risk

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is discussed as follows. The net options position reported is calculated in accordance with the methods set out in the banking return "Foreign Currency Positions" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$' Millions	As at 30 June 2001					Total
	US Dollars	Euro	Japanese Yen	Pound Sterling	Australian Dollars	
Spot assets	4,300	314	390	291	381	5,676
Spot liabilities	(4,727)	(255)	(540)	(287)	(375)	(6,184)
Forward purchases	601	73	217	6	58	955
Forward sales	(343)	(132)	(67)	(10)	(65)	(617)
Net option position	0	0	0	0	0	0
Net long/(short) position	(169)	0	0	0	(1)	(170)
	US Dollars	Euro	Japanese Yen	Pound Sterling	Australian Dollars	Total
Net structural position	0	0	0	0	0	0

Equivalent in HK\$' Millions	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 positions of HK\$169 million and HK\$149 million as at 30 June 2001 and 31 December 2000 respectively were the result of charging-off of US dollar loans at the end of June 2001 and December 2000 respectively. The open positions have been hedged in July 2001 and January 2001 respectively.

H. 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 HKMA 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 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 HKMA. 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 44.49% for June 2001 and the average liquidity ratio of 43.12% for the first six months of 2001 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 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 18.21% as at 30 June 2001 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.

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 HKMA.