

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. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the recommendations in the Guideline "Financial Disclosures by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of premises in 1989, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investments in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Bank has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated accounts, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(j)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Bank, in which case, it is stated at fair value with changes in fair value recognised in the investment revaluation reserve as they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associated companies

An associated company is a company in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The investment in the associated company is not equity accounted for in the consolidated accounts as it is considered by the directors to be immaterial to the Group. It is stated at cost less impairment losses (see note 2(j)) in the Group's and the Bank's balance sheets. The results of the associated company are included in the Group's and the Bank's profit and loss accounts to the extent of dividends received and receivable (see note 2(k)).

(e) Advances to customers

Advances are carried at amounts advanced less payments collected and reserves for credit losses.

Sales of accounts receivable on mortgage loans without recourse to the Bank or its subsidiaries are recognised when control over the receivables has been irrevocably transferred to a third party and the receivables are then no longer included in the balance sheet.

Assets acquired in exchange for advances in order to achieve an orderly realisation are reclassified to other accounts. The assets acquired are recorded at the carrying value of the advance disposed of at the date of the exchange. Provisions, if necessary, are made to allow for net declines in the estimated fair value of the assets acquired.

Interest suspended on doubtful debts is netted in the balance sheet against "Advances to customers" and accrued interest receivable in "Accrued interest and other accounts".

(f) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are made promptly and on a prudent and consistent basis. Specific provisions are determined by the directors at a level deemed appropriate to absorb known risks in the loan portfolio after taking into account the actual and expected losses from individual accounts and the value of collateral held. General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. Both specific and general provisions are charged to the profit and loss account and are deducted from trade bills, other assets and advances to customers in the balance sheet. When there is no realistic prospect of recovery, the outstanding debt is written off.

(g) Finance leases

Leases under which substantially all the risks and benefits of ownership are transferred to lessees are classified as finance leases.

Where assets are leased out under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Finance income implicit in the lease payments is credited to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(h) Investments in securities

The Group's and the Bank's policies for investments in securities other than investments in subsidiaries and associated companies are as follows:

- i. Dated debt securities that the Group and/or the Bank have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value which is considered other than temporary. Provisions are recognised in the profit and loss account.

Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

- ii. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- iii. Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is recognised in the profit and loss account.
- iv. Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- v. Profits or losses on disposal of investments in securities are accounted for in the profit and loss account as they arise. In the case of non-trading securities, the profit and loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(i) Fixed assets

Fixed assets are stated at cost or valuation less impairment losses (see note 2(j)) and less accumulated depreciation calculated to write off the assets over their estimated useful lives on a straight line basis at the following annual rates:

Leasehold land	over the remaining lease period
Long-term leasehold properties	2% on value of building
Computer equipments and software	14% to 25%
Motor vehicles	25%
Furniture and equipments	20%
Fixtures in long-term leasehold properties	10%
Fixtures in rented properties	over the lease period

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets (Continued)

Certain of the Group's leasehold land and long-term leasehold properties have been included at Directors' valuation made having regard to independent professional valuations carried out in November 1989. The surplus arising on revaluation was credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of revaluation are included at cost. The revaluation reserve arising from the November 1989 revaluation was transferred to capital redemption reserve when the Bank redeemed its "A" and "B" preference shares in June 1991. On disposal of premises, the profit and loss is determined as the difference between the net sales proceeds and the carrying amount.

In preparing these accounts, advantage has been taken of the transitional provisions in paragraph 80 of Statement of Standard Accounting Practice 17 'Property, Plant and Equipment' issued by the Hong Kong Society of Accountants with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of other fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the profit and loss accounts on the date of retirement or disposal.

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets and investments in subsidiaries and associated companies may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit.)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(k) Revenue recognition

Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable except in the case of doubtful debts where interest is credited to a suspense account which is netted in the balance sheet against the relevant balances. Fee income and expenses are recognised when earned or incurred.

Interest income from dated debt securities is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

Dividend income is recognised as follows:

- dividends from listed investments are recognised when the share price of such investments is quoted ex-dividend; and
- Interim dividends from unlisted investments are recognised when the directors of the investee companies declare such dividends; final dividends from unlisted investments are recognised when the shareholders of the investee companies approve the dividends proposed by the directors at the general meeting.

(l) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

(m) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realization is assured beyond reasonable doubt.

(n) Foreign currency

Transactions in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are included in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from future, forward, swap and option transactions undertaken in the foreign exchange and interest rate markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes, hedging purposes or as part of the management of asset and liability portfolios. Trading transactions are valued at the relevant rates ruling at the balance sheet date and the net unrealised gains or losses arising therefrom are dealt with in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions. Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and interest income or expense arising therefrom is netted-off against the related income or expense on the on-balance sheet items that these transactions are hedging.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote.

(q) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example segment assets may include loans and advances to customers, investment securities, interbank placements, premises and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

3. INTEREST INCOME

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Interest income on listed investments	90,186	85,445
Interest income on unlisted investments	63,830	90,519
Other interest income	1,554,107	1,809,440
	<u>1,708,123</u>	<u>1,985,404</u>

4. OTHER OPERATING INCOME

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Fee and commission income	103,561	120,018
Less: Fee and commission expense	(25,399)	(12,046)
Net fee and commission income	78,162	107,972
Dividend income from listed investments	955	621
Dividend income from unlisted investments	1,808	1,300
Gain on foreign exchange trading	12,154	9,997
(Loss)/Profit on disposal of fixed assets	(1,406)	2,275
Others	50,180	39,087
	<u>141,853</u>	<u>161,252</u>

5. OPERATING EXPENSES

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

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Staff costs		
– Salaries and other costs	225,800	213,146
– Pension costs	11,859	12,277
Premises and other fixed assets		
– Rental of premises	20,424	18,068
– Depreciation	47,354	41,841
– Others	14,416	12,362
Auditors' remuneration	1,673	1,560
Other operating expenses	165,700	140,003
	<u>487,226</u>	<u>439,257</u>

5. OPERATING EXPENSES (Continued)

- (b) Among the five individuals whose emoluments were the highest in the Group, two (2000: two) were directors of the Bank. The aggregate emoluments of the remaining three (2000: three) highest paid individuals were as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Basic salaries and other allowances	7,444	6,171
Contributions to pension scheme	587	491
Bonuses	978	787
	<u>9,009</u>	<u>7,449</u>

- (c) The number of the three (2000: three) highest paid non-director employees of the Group whose total emoluments fell within the following defined bands are as follows:

	The Group	
	2001	2000
HK\$2,000,001 – HK\$2,500,000	1	2
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$3,500,001 – HK\$4,000,000	1	0

6. DIRECTORS' REMUNERATION

- (a) The aggregate remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance was as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Directors' fees	564	612
Basic salaries and other allowances	15,219	13,054
Contributions to pension scheme	934	845
Discretionary bonuses	6,118	6,037
	<u>22,835</u>	<u>20,548</u>

Included in directors' remuneration were emoluments of HK\$2,030,067 (2000: HK\$1,861,350) paid to the independent non-executive directors during the year:

6. DIRECTORS' REMUNERATION (Continued)

(b) The number of directors of the Group whose total remuneration fell within the following defined bands are as follows:

	The Group	
	2001	2000
HK\$nil – HK\$1,000,000	10	8
HK\$1,000,001 – HK\$1,500,000	1	0
HK\$1,500,001 – HK\$2,000,000	0	1
HK\$3,000,001 – HK\$3,500,000	0	1
HK\$5,000,001 – HK\$5,500,000	1	0
HK\$11,000,001 – HK\$12,000,000	1	1

7. CHARGE FOR BAD AND DOUBTFUL DEBTS

	The Group	
	2001	2000
	HK\$'000	HK\$'000
General Provision		
– trade bills (Note 16)	19	(34)
– advances to customers (Note 17)	63,127	10,501
	63,146	10,467
Net specific provision on advances to customers	174,789	165,468
	237,935	175,935

8. GAINS LESS LOSSES FROM DISPOSAL, REDEMPTION OR TRANSFER OF INVESTMENT SECURITIES

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Net unrealised gain on transfer of held-to-maturity securities to non-trading securities	28,628	0
Net realised gain on disposal of non-trading securities	64,338	38,287
Net realised gain on disposal of held-to-maturity securities	39,211	5,513
	132,177	43,800

During the year 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.

8. GAINS LESS LOSSES FROM DISPOSAL, REDEMPTION OR TRANSFER OF INVESTMENT SECURITIES (Continued)

Held-to-maturity securities with amortised cost of HK\$1,218 million (2000: HK\$380 million) were disposed of with a profit of HK\$39 million (2000: HK\$6 million) 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\$3,440 million (2000: Nil) was inappropriate and these were transferred to the Bank's non-trading portfolio of investment securities. The attributable unrealised gain of HK\$29 million (2000: Nil) was recognised in the profit and loss account at the date of transfer in accordance with Hong Kong Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities". Of this amount, HK\$26 million has subsequently been realised on disposal.

9. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	37,087	31,138
Over provision in respect of prior years	<u>(25,402)</u>	<u>0</u>
	<u>11,685</u>	<u>31,138</u>

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

(b) Taxation in the balance sheets, which is included in "Accrued interest and other accounts" and "Other accounts and provisions", represents:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Provision for Hong Kong Profits Tax for the year	37,087	31,138
Provisional profits tax paid	<u>(17,318)</u>	<u>(2,031)</u>
	19,769	29,107
Balance of profits tax provision relating to prior years	<u>300</u>	<u>(65,905)</u>
	<u>20,069</u>	<u>(36,798)</u>
Hong Kong Profits Tax recoverable	(877)	(39,218)
Provision for Hong Kong Profits Tax	<u>20,946</u>	<u>2,420</u>
	<u>20,069</u>	<u>(36,798)</u>

9. TAXATION (Continued)

	The Bank	
	2001	2000
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year	24,315	18,561
Provisional profits tax paid	(7,658)	0
	16,657	18,561
Balance of profits tax provision relating to prior years	0	(55,368)
Hong Kong Profits Tax provision/(recoverable)	16,657	(36,807)

10. DIVIDENDS

Dividends attributable to the year:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Interim dividend declared and paid of 4.00 Cents (2000: 3.00 Cents) per share	46,886	35,165
Final dividend, proposed on 7 February 2002, of 7.00 Cents (2000: proposed on 24 February 2001, of 5.00 Cents) per share	82,051	58,608
	128,937	93,773

Dividends attributable to the previous financial year, approved and paid during the year:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 5.00 Cents (2000: 3.00 Cents) per share	58,608	35,165

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1 January 2001, in order to comply with Statement of Standard Accounting Practice 9 (revised) issued by the Hong Kong Society of Accountants, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends). Consequently, dividend income from subsidiaries and the associated company is recognised as income in the Bank's profit and loss account in the accounting period in which they are declared.

10. DIVIDENDS (Continued)

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods. As a result, the Group's net assets as at the year end have been increased by HK\$58,608,000 (2000: HK\$35,165,000). There is no impact on the Group's profit attributable to shareholders for the periods presented.

11. EARNINGS PER SHARE

The earnings per share are calculated on earnings of HK\$295,338,000 (2000: HK\$244,388,000) and on the weighted average of 1,172,160,000 (2000: 1,172,160,000) shares in issue during the year. There were no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earnings per share.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$220,709,226 (2000: HK\$134,372,800) which has been dealt with in the accounts of the Bank.

13. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Bank and its subsidiaries are principally engaged in the provision of banking and related financial services. Retail banking business mainly comprises of deposit account services, residential mortgage and other consumer lending. 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 includes both personal and corporate equipment, auto and other consumer leasing contracts. Investment banking activities mainly comprise of our private banking activities, securities brokerage, unit trusts and insurance services. China division provides financial services to PRC corporate customers. Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and leading, management of investment securities and trading activities and the overall funding of the Group.

13. SEGMENT REPORTING (Continued)

2001	The Group									
	Retail Banking HK\$'000	Credit Card Products HK\$'000	Hire & Leasing HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	China HK\$'000	Treasury HK\$'000	**Un- allocated HK\$'000	Inter-segment Elimination HK\$'000	Consolidated HK\$'000
Interest income from external customers	456,673	241,592	223,871	265,188	42,257	15,460	454,733	8,349	0	1,708,123
Interest expense to external customers	(686,923)	(367)	(576)	(76,170)	(37,231)	(20,862)	(105,375)	(22,465)	0	(949,969)
Inter-segment income*	478,501	0	0	0	12,929	3,854	0	98,408	(593,692)	0
Inter-segment expense*	0	(39,533)	(81,198)	(123,603)	0	0	(349,358)	0	593,692	0
Net interest income/(expense)	248,251	201,692	142,097	65,415	17,955	(1,548)	0	84,292	0	758,154
Other operating revenue from external customers	32,955	45,658	9,762	21,169	40,574	1,453	13,478	2,203		167,252
Operating revenue/(expense)	281,206	247,350	151,859	86,584	58,529	(95)	13,478	86,495		925,406
Fees and commission expenses										(25,399)
Operating income										<u>900,007</u>
Segment result before provisions	92,068	130,573	108,158	39,647	19,408	(9,988)	8,369	24,546		412,781
Inter-segment transactions*	11,460	3,231	2,995	1,012	5,597	590	703	(25,588)		0
Profit/(loss) from operations before provisions	103,528	133,804	111,153	40,659	25,005	(9,398)	9,072	(1,042)		412,781
Provision for bad & doubtful debts										
- specific	(29,583)	(49,641)	(12,572)	(106,912)	(1,369)	25,288	0	0		(174,789)
- general	(31,747)	(1,279)	(12,139)	(10,408)	(3,449)	(2,786)	(45)	(1,293)		(63,146)
Gains less losses from disposal, redemption or transfer of investment securities	0	0	0	0	0	0	0	132,177		132,177
Profit/(loss) before taxation	<u>42,198</u>	<u>82,884</u>	<u>86,442</u>	<u>(76,661)</u>	<u>20,187</u>	<u>13,104</u>	<u>9,027</u>	<u>129,842</u>		<u>307,023</u>

13. SEGMENT REPORTING (Continued)

2001	The Group								Consolidated HK\$'000
	Retail Banking HK\$'000	Credit Card Products HK\$'000	Hire & Leasing HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	China HK\$'000	Treasury HK\$'000	**Un- allocated HK\$'000	
Segment assets	7,943,186	1,173,719	2,393,589	4,621,692	977,873	322,556	9,506,755		26,939,370
Unallocated assets**									<u>1,222,476</u>
Total assets (excluding liabilities of customers for engagements)									<u><u>28,161,846</u></u>
Segment liabilities	18,194,329	24,916	38,201	1,318,737	1,070,967	744,288	2,421,579		23,813,017
Unallocated liabilities**									<u>693,563</u>
Total liabilities									<u><u>24,506,580</u></u>
Capital expenditure incurred during the year	110,198	3,382	40,288	13,317	2,784	929	27,392		<u><u>198,290</u></u>

13. SEGMENT REPORTING (Continued)

2000	The Group									
	Retail Banking HK\$'000	Credit Card Products HK\$'000	Hire Purchase & Leasing HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	China HK\$'000	Treasury HK\$'000	**Un- allocated HK\$'000	Inter-segment Elimination HK\$'000	Consolidated HK\$'000
Interest income from external customers	617,056	208,374	177,154	378,343	53,906	40,940	489,303	20,328	0	1,985,404
Interest expense to external customers	(948,120)	(453)	(794)	(167,668)	(57,087)	(27,107)	(87,352)	(11,157)	0	(1,299,738)
Inter-segment income*	626,140	0	0	0	22,541	0	0	85,812	(734,493)	0
Inter-segment expense*	0	(61,656)	(97,798)	(141,348)	0	(31,740)	(401,951)	0	734,493	0
Net interest income/(expense)	295,076	146,265	78,562	69,327	19,360	(17,907)	0	94,983	0	685,666
Other operating revenue from external customers	20,213	51,147	5,685	33,276	44,055	2,771	13,767	2,384		173,298
Operating revenue/(expense)	315,289	197,412	84,247	102,603	63,415	(15,136)	13,767	97,367		858,964
Fees and commission expenses										(12,046)
Operating income										846,918
Segment result before provisions	124,162	79,836	50,177	48,609	27,377	(30,931)	9,978	98,453		407,661
Inter-segment transactions*	32,357	5,680	2,423	1,408	2,612	751	888	(46,119)		0
Profit/(loss) from operations before provisions	156,519	85,516	52,600	50,017	29,989	(30,180)	10,866	52,334		407,661
Provision for bad & doubtful debts										
– specific	(18,378)	(31,386)	(7,224)	5,612	1,164	(115,256)	0	0		(165,468)
– general	(10,223)	(2,241)	(527)	(3,320)	(959)	3,122	0	3,681		(10,467)
Gains less losses from disposal, redemption or transfer of investment securities	0	0	0	0	0	0	0	43,800		43,800
Profit/(loss) before taxation	127,918	51,889	44,849	52,309	30,194	(142,314)	10,866	99,815		275,526

13. SEGMENT REPORTING (Continued)

2000	The Group							**Un-allocated HK\$'000	Intersegment Elimination HK\$'000	Consolidated HK\$'000
	Retail Banking HK\$'000	Credit Card Products HK\$'000	Hire & Leasing HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	China HK\$'000	Treasury HK\$'000			
Segment assets	8,179,798	1,088,655	1,936,556	5,723,575	1,053,739	548,010	8,815,820			27,346,153
Unallocated assets**										<u>1,360,167</u>
Total assets (excluding liabilities of customers for engagements)										<u>28,706,320</u>
Segment liabilities	18,241,659	28,012	30,906	2,821,051	1,147,492	493,822	1,810,004			24,572,946
Unallocated liabilities**										<u>654,007</u>
Total liabilities										<u>25,226,953</u>
Capital expenditure incurred during the year	6,387	850	1,512	4,469	813	428	6,884			<u>21,343</u>

* Inter-segment pricing is based on similar terms as those available to other external parties.

** Unallocated items mainly comprise of interest income derived from shareholders' funds not used by the business segments, staff housing loans and the related interest income and funding costs, staff deposits and the related interest expenses and the head office premises, furniture, fixtures and equipment and the related depreciation.

Geographical segments

The geographical segment is analysed 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, the location of customers and the location of the assets. For both years 2000 and 2001, all of the Group's revenue and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries of the Bank located in Hong Kong. More than 90% of assets were either located in Hong Kong or were extended to companies and individuals domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong, mainly in China.

14. SHORT TERM FUNDS

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balances with banks and other financial institutions	51,729	36,442	51,527	36,442
Money at call and short notice*	5,147,202	4,514,857	5,147,202	4,514,751
	<u>5,198,931</u>	<u>4,551,299</u>	<u>5,198,729</u>	<u>4,551,193</u>

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

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

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	51,729	36,548	51,527	36,442
Within 1 month	5,147,202	4,514,751	5,147,202	4,514,751
	<u>5,198,931</u>	<u>4,551,299</u>	<u>5,198,729</u>	<u>4,551,193</u>

15. 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:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
3 months or less but over 1 month	710,475	953,304	710,475	953,304
1 year or less but over 3 months	0	77,992	0	77,992
	<u>710,475</u>	<u>1,031,296</u>	<u>710,475</u>	<u>1,031,296</u>

16. TRADE BILLS LESS RESERVES AND CERTIFICATES OF DEPOSIT

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade bills	9,538	8,233	9,538	8,233
Less: General reserves	(61)	(42)	(61)	(42)
	<u>9,477</u>	<u>8,191</u>	<u>9,477</u>	<u>8,191</u>
Certificates of deposit				
– unlisted, held-to-maturity	0	728,436	0	728,436
– unlisted, non-trading	345,499	0	345,499	0
	<u>354,976</u>	<u>736,627</u>	<u>354,976</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:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Repayable on demand	910	1,259	910	1,259
3 months or less but not repayable				
on demand	28,859	54,864	28,859	54,864
1 year or less but over 3 months	19,980	360,728	19,980	360,728
5 years or less but over 1 year	305,288	319,663	305,288	319,663
Undated	0	155	0	155
	<u>355,037</u>	<u>736,669</u>	<u>355,037</u>	<u>736,669</u>

Movements in reserves for doubtful debts – General:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 January	42	76	42	76
Charged/(released) during the year (Note 7)	19	(34)	19	(34)
	<u>61</u>	<u>42</u>	<u>61</u>	<u>42</u>
At 31 December				

17. ADVANCES TO CUSTOMERS LESS RESERVES

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers	16,730,081	17,913,751	14,407,813	16,048,226
Reserves for doubtful debts				
– General	(167,301)	(104,174)	(167,301)	(104,174)
– Specific	(178,620)	(383,196)	(170,850)	(373,365)
	<u>16,384,160</u>	<u>17,426,381</u>	<u>14,069,662</u>	<u>15,570,687</u>

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

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	1,175,839	1,463,879	1,165,515	1,454,940
3 months or less but not repayable				
on demand	1,237,410	1,441,312	931,965	1,229,458
1 year or less but over 3 months	1,798,476	1,602,852	1,038,638	1,056,597
5 years or less but over 1 year	5,399,406	4,854,859	4,443,250	4,067,425
Over 5 years	6,225,127	7,329,047	6,003,734	7,063,307
Undated	893,823	1,221,802	824,711	1,176,499
	<u>16,730,081</u>	<u>17,913,751</u>	<u>14,407,813</u>	<u>16,048,226</u>

Movements in reserves for doubtful debts – General:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	104,174	93,673	104,174	93,673
Charge to profit and loss accounts (Note 7)	63,127	10,501	63,127	10,501
At 31 December	<u>167,301</u>	<u>104,174</u>	<u>167,301</u>	<u>104,174</u>

17. ADVANCES TO CUSTOMERS LESS RESERVES (Continued)

Movements in reserves for doubtful debts – Specific:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 January	383,196	420,548	373,365	413,063
Amounts written off	(379,365)	(202,820)	(364,732)	(196,468)
	3,831	217,728	8,633	216,595
Net charge to profit and loss accounts				
– New provisions raised	199,810	206,622	187,232	197,924
– Recoveries for advances written off in previous years	(25,021)	(41,154)	(25,015)	(41,154)
	174,789	165,468	162,217	156,770
At 31 December	178,620	383,196	170,850	373,365

The specific provisions were made after taking into account the value of collateral in respect of such doubtful debts totalling HK\$535,531,125 (2000: HK\$664,622,014).

Movements in interest suspended:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1 January	88,122	56,743	88,122	56,743
Interest suspended during the year	5,375	31,379	5,375	31,379
At 31 December	93,497	88,122	93,497	88,122

17. ADVANCES TO CUSTOMERS LESS RESERVES (Continued)

Total advances 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:

	The Group			
	As at 31 December 2001		As at 31 December 2000	
	HK\$'000	*%	HK\$'000	*%
Non-performing advances				
– Rescheduled	33,550	0.20	30,833	0.17
– Others	804,218	4.81	1,139,866	6.37
	<u>837,768</u>	5.01	<u>1,170,699</u>	6.54
Amount of specific reserves made against non-performing advances	164,379		361,325	
Amount of collateral held in respect of non-performing advances**	529,647		494,698	
	<u>694,026</u>		<u>856,023</u>	
Amount of interest suspended	93,497		88,122	

* As a percentage of gross advances to customers.

** Including expected recoveries of HK\$16.76 million (2000: HK\$27.21 million) from companies in liquidation.

17. ADVANCES TO CUSTOMERS LESS RESERVES (Continued)

Finance leases:

Included in advances to customers are amounts due from lessees under finance lease contracts.

	2001	
	The Group HK\$'000	The Bank HK\$'000
Total minimum lease payments		
– Not later than one year	938,338	0
– Later than one year and not later than five years	936,999	0
– Later than five years	294,625	0
	<u>2,169,962</u>	<u>0</u>
Unearned finance income relating to future period	(303,608)	0
	<u>1,866,354</u>	<u>0</u>
Provision for doubtful debts	(7,770)	0
Unguaranteed residual value	(2)	0
	<u>1,858,582</u>	<u>0</u>
Present value of the minimum lease payments		
The maturity profile of the present value of the minimum lease payments before provision is as follows:		
– Not later than one year	812,796	0
– Later than one year and not later than five years	828,211	0
– Later than five years	225,347	0
	<u>1,866,354</u>	<u>0</u>

18. INVESTMENTS

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment in debt securities				
<i>Held-to-maturity debt securities at amortised cost less provisions</i>				
Listed in Hong Kong				
– maturing within 1 year	0	350,041	0	350,041
– maturing between 1 to 5 years	0	1,053,405	0	1,053,405
Unlisted				
– maturing within 1 year	0	10,024	0	10,024
– maturing between 1 to 5 years	0	891,755	0	891,755
– maturing over 5 years	0	204,642	0	204,642
Sub-total	0	2,509,867	0	2,509,867
Other securities				
<i>Non trading securities at fair value</i>				
Listed in Hong Kong				
– debt	2,544,670	0	2,544,670	0
– equity	44,091	30,093	43,305	30,093
Unlisted				
– debt	753,298	32,833	753,298	32,833
– equity	22,384	13,536	22,384	13,536
Sub-total	3,364,443	76,462	3,363,657	76,462
Total	3,364,443	2,586,329	3,363,657	2,586,329
Market Value				
Listed in Hong Kong				
– equity securities	44,091	30,093	43,305	30,093
– debt securities	2,544,670	1,419,625	2,544,670	1,419,625

18. INVESTMENTS (Continued)

The investments are issued by:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Central governments and central banks	2,739,620	1,403,445	2,739,620	1,403,445
Public sector entities	0	170,221	0	170,221
Banks and other financial institutions	155,459	406,732	154,673	406,732
Corporate entities	469,364	605,931	469,364	605,931
	<u>3,364,443</u>	<u>2,586,329</u>	<u>3,363,657</u>	<u>2,586,329</u>

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

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
3 months or less but not repayable on demand	50,185	275,084	50,185	275,084
1 year or less but over 3 months	404,775	84,981	404,775	84,981
5 years or less but over 1 year	2,808,181	1,945,160	2,808,181	1,945,160
Over 5 years	2,000	204,642	2,000	204,642
Undated	99,302	76,462	98,516	76,462
	<u>3,364,443</u>	<u>2,586,329</u>	<u>3,363,657</u>	<u>2,586,329</u>

19. INVESTMENTS IN ASSOCIATED COMPANY

	The Group and the Bank	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	5,761	5,761
Advances	11,749	12,879
Less: impairment loss	(5,761)	(5,761)
	<u>11,749</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 investment in the associated company in view of the immaterial amount involved.

20. INVESTMENTS IN SUBSIDIARIES

	The Bank	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	87,146	87,146

All principal subsidiaries are directly owned by the Bank. Details of principal subsidiaries, all of which are private companies (except for International Bank of Asia (Trustee) Limited, which is a public company) at 31 December 2001 are as follows:

	Issued and fully paid-up ordinary share capital	% of ownership interest held	Principal activities
Incorporated and operating in Hong Kong			
IBA Credit Limited	HK\$65,000,000	100%	Deposit-taking and finance
International Bank of Asia (Trustee) Limited	HK\$3,000,000	100%	Trustee services
IBA Securities Limited	HK\$8,000,000	100%	Securities broking
IBA Fund Management Limited	HK\$8,000,000	100%	Fund management
Mars (Nominees) Limited	HK\$200	100%	Nominees services
Incorporated and operating in Vanuatu			
IBA Bank Limited	US\$10,000	100%	Finance

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the Group's accounts.

21. PREMISES AND EQUIPMENT

THE GROUP

	Premises <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation				
At 1 January 2001	1,068,912	239,925	2,845	1,311,682
Additions	120,703	77,587	0	198,290
Disposals	0	(11,886)	0	(11,886)
	<u>1,189,615</u>	<u>305,626</u>	<u>2,845</u>	<u>1,498,086</u>
At 31 December 2001				
	<u>1,189,615</u>	<u>305,626</u>	<u>2,845</u>	<u>1,498,086</u>
Accumulated depreciation				
At 1 January 2001	55,190	122,789	2,845	180,824
Charge for the year	12,229	35,196	0	47,425
Released on disposal	0	(10,000)	0	(10,000)
	<u>67,419</u>	<u>147,985</u>	<u>2,845</u>	<u>218,249</u>
At 31 December 2001				
	<u>67,419</u>	<u>147,985</u>	<u>2,845</u>	<u>218,249</u>
Net book value				
At 31 December 2001	<u>1,122,196</u>	<u>157,641</u>	<u>0</u>	<u>1,279,837</u>
At 31 December 2000	<u>1,013,722</u>	<u>117,136</u>	<u>0</u>	<u>1,130,858</u>

THE BANK

	Premises <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation				
At 1 January 2001	1,032,163	238,853	2,845	1,273,861
Additions	120,703	77,024	0	197,727
Disposals	0	(11,767)	0	(11,767)
	<u>1,152,866</u>	<u>304,110</u>	<u>2,845</u>	<u>1,459,821</u>
At 31 December 2001				
	<u>1,152,866</u>	<u>304,110</u>	<u>2,845</u>	<u>1,459,821</u>
Accumulated depreciation				
At 1 January 2001	53,415	121,990	2,845	178,250
Charge for the year	11,903	35,094	0	46,997
Released on disposal	0	(9,901)	0	(9,901)
	<u>65,318</u>	<u>147,183</u>	<u>2,845</u>	<u>215,346</u>
At 31 December 2001				
	<u>65,318</u>	<u>147,183</u>	<u>2,845</u>	<u>215,346</u>
Net book value				
At 31 December 2001	<u>1,087,548</u>	<u>156,927</u>	<u>0</u>	<u>1,244,475</u>
At 31 December 2000	<u>978,748</u>	<u>116,863</u>	<u>0</u>	<u>1,095,611</u>

21. PREMISES AND EQUIPMENT (Continued)

The net book value of premises comprises:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Premises held in Hong Kong				
– Long term leases (over 50 years)	862,548	806,632	827,900	771,658
– Medium term leases (10 – 50 years)	259,648	207,090	259,648	207,090
	<u>1,122,196</u>	<u>1,013,722</u>	<u>1,087,548</u>	<u>978,748</u>

Certain of these premises of the Bank have been included in the accounts at their November 1989 valuation of HK\$77,100,000 (2000: HK\$77,100,000). In preparing these accounts, advantage has been taken of the transitional provisions in paragraph 80 of Statement of Standard Accounting Practice 17 "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

The net book value of all premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	The Group and the Bank	
	2001	2000
	HK\$'000	HK\$'000
Net book value at 31 December	<u>19,009</u>	<u>22,391</u>

22. 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:

	The Group		2000	
	2001	Risk	Contractual	Risk
	Contractual	Weighted	Amounts	Weighted
	Amounts	Amounts	Amounts	Amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	62,920	62,920	112,140	112,140
Transaction-related contingencies	17,260	8,630	12,471	6,236
Trade-related contingencies	74,232	14,804	203,451	40,690
Trade bills for collection and shipping guarantees	295,828	0	207,205	0
	<u>450,240</u>	<u>86,354</u>	<u>535,267</u>	<u>159,066</u>

	The Bank		2000	
	2001	Risk	Contractual	Risk
	Contractual	Weighted	Amounts	Weighted
	Amounts	Amounts	Amounts	Amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Direct credit substitutes	70,511	70,511	119,730	119,730
Transaction-related contingencies	17,260	8,630	12,471	6,236
Trade-related contingencies	96,786	15,706	230,894	41,788
Trade bills for collection and shipping guarantees	295,828	0	207,205	0
	<u>480,385</u>	<u>94,847</u>	<u>570,300</u>	<u>167,754</u>

23. 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:

	The Group		The Bank	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Repayable on demand	36,253	2,472	36,253	2,472
3 months or less but not repayable on demand	342,314	311,934	342,314	311,934
	<u>378,567</u>	<u>314,406</u>	<u>378,567</u>	<u>314,406</u>

24. 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:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Repayable on demand	2,383,895	2,426,818	2,383,895	2,426,416
3 months or less but not repayable on demand	18,341,969	19,722,593	18,130,405	19,355,660
1 year or less but over 3 months	1,495,350	1,199,735	1,495,350	1,199,735
5 years or less but over 1 year	24,703	46,464	24,703	46,464
	<u>22,245,917</u>	<u>23,395,610</u>	<u>22,034,353</u>	<u>23,028,275</u>

25. 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:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
3 months or less but not repayable on demand	310,000	100,000	310,000	100,000
1 year or less but over 3 months	505,000	506,699	505,000	506,699
5 years or less but over 1 year	800,000	555,000	800,000	555,000
	<u>1,615,000</u>	<u>1,161,699</u>	<u>1,615,000</u>	<u>1,161,699</u>

26. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised 1,406,592,000 (2000: 1,406,592,000) ordinary shares of HK\$1 each	<u>1,406,592</u>	<u>1,406,592</u>
Issued and fully paid 1,172,160,000 (2000: 1,172,160,000) ordinary shares of HK\$1 each	<u>1,172,160</u>	<u>1,172,160</u>

27. SHARE PREMIUM

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

28. RESERVES

THE GROUP

	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000				
– as previously reported	372,000	0	980,486	1,352,486
– prior period adjustment in respect of dividends (<i>Note 10</i>)	0	0	35,165	35,165
	<u>372,000</u>	<u>0</u>	<u>1,015,651</u>	<u>1,387,651</u>
– as restated	372,000	0	1,015,651	1,387,651
Profit after tax for the year	0	0	244,388	244,388
Net change in fair value of non-trading securities	0	(4,280)	0	(4,280)
Dividends approved in respect of the previous financial year	0	0	(35,165)	(35,165)
Interim dividend declared	0	0	(35,165)	(35,165)
	<u>372,000</u>	<u>(4,280)</u>	<u>1,189,709</u>	<u>1,557,429</u>
At 31 December 2000	<u>372,000</u>	<u>(4,280)</u>	<u>1,189,709</u>	<u>1,557,429</u>
At 1 January 2001				
– as previously reported	372,000	(4,280)	1,131,101	1,498,821
– prior period adjustment (<i>Note 10</i>)	0	0	58,608	58,608
	<u>372,000</u>	<u>(4,280)</u>	<u>1,189,709</u>	<u>1,557,429</u>
– as restated	372,000	(4,280)	1,189,709	1,557,429
Profit after tax for the year	0	0	295,338	295,338
Net change in fair value of non-trading securities	0	(13,945)	0	(13,945)
Dividends approved in respect of the previous financial year	0	0	(58,608)	(58,608)
Interim dividend declared	0	0	(46,886)	(46,886)
	<u>372,000</u>	<u>(18,225)</u>	<u>1,379,553</u>	<u>1,733,328</u>
At 31 December 2001	<u>372,000</u>	<u>(18,225)</u>	<u>1,379,553</u>	<u>1,733,328</u>

28. RESERVES (Continued)
THE BANK

	Capital redemption reserve	Investment revaluation reserve	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2000				
– as previously reported	372,000	0	792,414	1,164,414
– prior period adjustment in respect of dividends (<i>Note 10</i>)	0	0	35,165	35,165
– as restated	372,000	0	827,579	1,199,579
Profit after tax for the year	0	0	134,373	134,373
Net change in fair value of non-trading securities	0	(4,280)	0	(4,280)
Dividends approved in respect of the previous financial year	0	0	(35,165)	(35,165)
Interim dividend declared	0	0	(35,165)	(35,165)
At 31 December 2000	<u>372,000</u>	<u>(4,280)</u>	<u>891,622</u>	<u>1,259,342</u>
At 1 January 2001				
– as previously reported	372,000	(4,280)	833,014	1,200,734
– prior period adjustment in respect of dividends (<i>Note 10</i>)	0	0	58,608	58,608
– as restated	372,000	(4,280)	891,622	1,259,342
Profit after tax for the year	0	0	220,709	220,709
Net change in fair value of non-trading securities	0	(13,945)	0	(13,945)
Dividends approved in respect of the previous financial year	0	0	(58,608)	(58,608)
Interim dividend declared	0	0	(46,886)	(46,886)
At 31 December 2001	<u>372,000</u>	<u>(18,225)</u>	<u>1,006,837</u>	<u>1,360,612</u>

- (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 and the Bank amounted to HK\$1,379,553,000 (2000: HK\$1,189,709,000) and HK\$1,006,837,000 (2000: HK\$891,622,000) respectively.

At the balance sheet date the directors proposed a final dividend of 7 Hong Kong cents per share (2000: 5 Hong Kong cents per share) amounting to HK\$82,051,200 (2000: HK\$58,608,000). This dividend has not been recognised as a liability at the balance sheet date.

29. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the year 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 year and balances outstanding as at the balance sheet date is set out below:

	2001 HK\$'000	2000 HK\$'000
(i) Income/(expense)		
Interest income	10,838	14,926
Interest expense	(31,292)	(47,109)
Net expense	(20,454)	(32,183)
(ii) Assets		
<i>Ultimate holding company</i>		
Short term funds	0	212,380
Accrued interest and other accounts	1,163	3,875
Due from ultimate holding company	1,163	216,255
<i>Other related parties</i>		
Loans and advances to customers	38,000	23,000
Accrued interest and other accounts	5	16
Due from other related parties	38,005	23,016
Total receivable	39,168	239,271
(iii) Liabilities		
<i>Ultimate holding company</i>		
Deposits and balances with other banks	118,970	11,433
Other accounts and provisions	22	20
Due to ultimate holding company	118,992	11,453
<i>Other related parties</i>		
Current, fixed and other deposits of customers	103,215	147,753
Other accounts and provisions	60	113
Due to other related parties	103,275	147,866
Total payable	222,267	159,319

30. LOANS TO OFFICERS

The aggregate amount of loans made by the Group and the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	2001 HK\$'000	2000 HK\$'000
At 31 December	<u>16,333</u>	<u>9,497</u>
Maximum during the year	<u>24,141</u>	<u>50,496</u>

31. RETIREMENT SCHEME

The Group operates a retirement scheme ("Retirement Scheme"), which incorporates a defined benefits plan, for all its full-time employees. Calculation of contributions is based on Scheme Salary of a Member of the Retirement Scheme which is defined as the basic monthly salary excluding commission and bonuses. Contributions by the Group include a "Basic Contribution" equal to 5% of Scheme Salary for Non-contributory Members and 10% for Contributory Members plus a "Supplementary Normal Contribution" to the Retirement Scheme at a rate recommended by the Trustee on the advice of an independent actuary taking into consideration contributions in respect of employees who have left the Retirement Scheme prior to full vesting.

The latest actuarial valuation was undertaken on 30 June 2000 ("Valuation Date") by Victor Wong, Fellow of the Society of Actuaries of the United States of America, of William M. Mercer Limited. The actuarial method used in the valuation to determine the required contribution rate is the "Projected Unit Credit Cost Method". The major assumptions affecting the actuarial cost is the difference between:

- (a) the rate of investment return; and
- (b) the rate of future salary increases (rather than the absolute level of either).

For the purpose of this valuation, the actuarial value of the scheme assets is set to equal to the market value of the scheme asset. Based on the latest actuarial valuation, the market value of the scheme assets was taken as HK\$145,162,576. At the Valuation Date, the Retirement Scheme is solvent, with scheme assets exceeding vested liabilities by some 14%.

As at the Valuation Date, the assets of the scheme were sufficient to cover 100% of the past service liabilities with a surplus of some HK\$678,000. Projections of the funded status of the Retirement Scheme were carried out and these indicated that the Retirement Scheme should remain in a sound financial position over the short term provided that the valuation assumptions and funding assumptions are met. The actuary recommended the employers to contribute at 6.5% and 9% of annual scheme salary for non-contributory members and contributory members respectively, thus ensuring some buffer for the Retirement Scheme. Based on the recommendation of the actuary, the Group has contributed at 6.5% and 9% of annual total scheme salary for non-contributory members and contributory members respectively from the Valuation Date.

During the year ended 31 December 2001, the Group contributed HK\$10,521,593 (2000: HK\$12,107,119) to the Retirement Scheme.

31. RETIREMENT SCHEME (Continued)

In light of the introduction of the Mandatory Provident Fund ("MPF") Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the Retirement Scheme and participated in an approved MPF scheme with the Bank Consortium Trust Company Limited effective 1 December 2000 to provide scheme choice to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme. During the year ended 31 December 2001, the Group contributed HK\$380,125 (2000: Nil) to the MPF Scheme.

32. OUTSTANDING COMMITMENTS

(a) Capital commitments outstanding at 31 December 2001 not provided for in the accounts are as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Contract for	54,863	24,973	54,863	24,973
Authorised but not contracted for	0	54,871	0	54,871
	<u>54,863</u>	<u>79,844</u>	<u>54,863</u>	<u>79,844</u>

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	13,834	12,493	13,834	12,493
Between one and five years	10,667	5,928	10,667	5,928
	<u>24,501</u>	<u>18,421</u>	<u>24,501</u>	<u>18,421</u>

33. OFF-BALANCE SHEET EXPOSURES

Off-balance sheet exposures are made up as follows:

The Group	Contractual Amounts HK\$'000	2001 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	6,029,268	0	N/A
– with an original maturity of 1 year and over	957,662	478,831	N/A
Forward forward deposits placed	263,884	52,777	N/A
Financial instruments			
– Forward exchange contracts	754,078	2,398	997
– Leverage deposits contracts	359,128	0	13,720
	8,364,020	534,006	14,717

The Group	Contractual Amounts HK\$'000	2000 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 and 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
	8,907,760	616,581	57,111

33. OFF-BALANCE SHEET EXPOSURES (Continued)

The Bank	Contractual	2001 Risk Weighted	Replacement
	Amounts HK\$'000	Amounts HK\$'000	Costs HK\$'000
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	6,023,127	0	N/A
– with an original maturity of 1 year and over	935,201	467,601	N/A
Forward forward deposits placed	263,884	52,777	N/A
Financial instruments			
– Forward exchange contracts	775,884	2,654	2,060
– Leverage deposits contracts	359,128	0	13,720
	8,357,224	523,032	15,780

The Bank	Contractual	2000 Risk Weighted	Replacement
	Amounts HK\$'000	Amounts HK\$'000	Costs HK\$'000
Undrawn loan facilities			
– with an original maturity of under 1 year or which are unconditionally cancellable	5,742,963	0	N/A
– with an original maturity of 1 year and over	1,126,036	539,019	N/A
Forward forward deposits placed	209,385	41,877	N/A
Financial instruments			
– Forward exchange contracts	1,497,290	21,809	36,150
– Leverage deposits contracts	318,277	0	21,013
	8,893,951	602,705	57,163

The table above gives the contractual amounts, replacement costs and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the Hong Kong Monetary Authority'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 and the Bank 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.

33. OFF-BALANCE SHEET EXPOSURES (Continued)

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

34. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Profit before taxation	307,023	275,526
Interest expense on floating rate certificates of deposit	72,950	55,577
Depreciation	47,425	41,841
Loss/(Profit) on disposal of fixed assets	1,406	(2,275)
Net unrealised gain on transfer of held-to-maturity debt securities to non-trading debt securities	(25,598)	0
Net realised gain on disposal of non-trading debt securities	(60,814)	(38,287)
Net realised gain on disposal of held-to-maturity debt securities	(30,960)	(5,513)
Dividends received from listed investments	(955)	(621)
Dividends received from unlisted investments	(1,808)	(1,300)
Amortisation of discount of held-to-maturity securities	(97)	(13,140)
Amortisation of premium of held-to-maturity securities	2,116	6,357
Amortisation of discount of non-trading securities	(308)	0
Amortisation of premium of non-trading securities	6,936	0
Charge for bad and doubtful debts	237,935	175,935
Specific provision written off during the year	(379,365)	(202,820)
(Increase)/Decrease in short-term funds with original maturity of over three months	(248,602)	145,040
Decrease/(Increase) in placements maturing between one and twelve months	506,528	(261,043)
Decrease/(Increase) in trade bills and certificates of deposit	383,679	(262,035)
Decrease/(Increase) in advances to customers	1,183,670	(3,885,407)
Decrease/(Increase) in accrued interest and other accounts	297,153	(73,077)
(Decrease)/Increase in customer deposits	(1,149,693)	4,460,607
Decrease in other accounts and provisions	(79,136)	(129,107)
	1,069,485	286,258
Net cash inflow from operating activities	1,069,485	286,258

35. NET CASH OUTFLOW FROM FINANCING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Floating rate certificates of deposits in issue at 1 January	1,161,699	900,085
Floating rate certificates of deposits issued during the year	1,060,000	1,150,000
Floating rate certificates of deposits redeemed during the year	(606,699)	(888,386)
	<u>1,615,000</u>	<u>1,161,699</u>

36. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 10.

37. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in the accounting policy for dividends, details of which are set out in Note 10.

Interest income of HK\$18,279,000, which represents recovery of charged-off advances to customers, has been reclassified as a recovery of bad and doubtful debts in the profit and loss account for 2000.

In view of the significant contributions from the disposal and reclassification of the Bank's investment portfolio in this year's net income, gains less losses from disposal, redemption or transfer of investment securities are disclosed separately in the profit and loss account. Comparative figures for 2000 are restated accordingly.