

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### A. Capital adequacy and liquidity ratio

	2002 %	2001 %
Unadjusted capital adequacy ratio at period/year end	<b>20.78</b>	19.72
Average liquidity ratio for June	<b>53.98</b>	44.49
Average liquidity ratio for the six months ended 30 June	<b>45.95</b>	43.12

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 module on the “Maintenance of Adequate Capital Against Market Risks” under the Supervisory Policy Manual 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 2002 HK'000	As at 31 December 2001 HK'000
Core capital		
Paid up ordinary share capital	1,172,160	1,172,160
Reserves	1,478,837	1,330,549
Share premium	749,778	749,778
Others	179,787	148,287
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	(15,707)	(18,225)
General reserves for doubtful debts	144,467	167,362
<b>Total capital base before deductions</b>	<b>3,746,190</b>	<b>3,586,779</b>
Deductions from total capital base	(75,077)	(75,532)
<b>Total capital base after deductions</b>	<b>3,671,113</b>	<b>3,511,247</b>

### C. Overdue advances to customers

	As at 30 June 2002		As at 31 December 2001	
	HK\$'000	% of gross advances	HK\$'000	% of gross advances
<b>Overdue advances to customers<sup>1</sup></b>				
6 months or less but over 3 months	54,184	0.34	123,986	0.74
1 year or less but over 6 months	96,149	0.61	170,354	1.02
Over 1 year	358,125	2.27	550,184	3.29
	<u>508,458</u>	3.22	<u>844,524</u>	5.05
Amount of collateral held in respect of overdue advances <sup>2</sup>	<u>372,669</u>		<u>519,145</u>	
Secured overdue advances	356,817		504,170	
Unsecured overdue advances	<u>151,641</u>		<u>340,354</u>	
	<u>508,458</u>		<u>844,524</u>	
Amount of specific reserves made against overdue advances	<u>104,621</u>		<u>169,021</u>	

	As at 30 June 2002 HK'000	As at 31 December 2001 HK'000
Advances overdue for more than 3 months and on which interest is still being accrued ("Interest accrual overdue advances")	41,510	53,752
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")	51,593	46,996

<sup>1</sup> Net of suspended interest.

<sup>2</sup> Including expected recoveries of HK\$16.76 million (2001: HK\$16.76 million) from companies in liquidation.

**D. Reconciliation between overdue advances and non-performing advances**

	As at 30 June 2002 HK'000	As at 31 December 2001 HK'000
Overdue advances to customers	508,458	844,524
Less: Interest accrual overdue advances	(41,510)	(53,752)
Add: Interest non-accrual but not overdue advances	<u>51,593</u>	<u>46,996</u>
Non-performing advances	<u><u>518,541</u></u>	<u><u>837,768</u></u>

**E. Rescheduled advances to customers**

	As at 30 June 2002 HK\$'000	% of gross advances	As at 31 December 2001 HK\$'000	% of gross advances
<b>Rescheduled advances to customers<sup>1</sup></b>				
Interest accrual rescheduled advances	162,727	1.03	164,440	0.98
Interest non-accrual rescheduled advances	<u>21,408</u>	0.14	<u>33,550</u>	0.20
	<u><u>184,135</u></u>	1.17	<u><u>197,990</u></u>	1.18
Amount of collateral held in respect of rescheduled advances	<u><u>161,966</u></u>		<u><u>186,445</u></u>	
Secured rescheduled advances	156,421		172,445	
Unsecured rescheduled advances	<u>27,714</u>		<u>25,545</u>	
	<u><u>184,135</u></u>		<u><u>197,990</u></u>	
Amount of specific reserves made against rescheduled advances	<u><u>5,681</u></u>		<u><u>6,760</u></u>	

<sup>1</sup> Excluding rescheduled advances which have been overdue for over three months and were reported in Note (C) Overdue Advances to Customers.

*F. Overdue analysis of total assets*

<b>The Group</b>			
<b>As at 30 June 2002</b>			
	<b>Loans</b>	<b>Accrued</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>Interest</b>	<b>Overdue</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>assets</b>
			<b>HK\$'000</b>
Overdue for			
6 months or less but over 3 months	54,184	228	54,412
1 year or less but over 6 months	96,149	41	96,190
Over 1 year	358,125	1,462	359,587
	<u>508,458</u>	<u>1,731</u>	<u>510,189</u>

<b>The Group</b>			
<b>As at 31 December 200</b>			
	<b>Loans</b>	<b>Accrued</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>Interest</b>	<b>Overdue</b>
		<b>HK\$'000</b>	<b>assets</b>
			<b>HK\$'000</b>
Overdue for			
6 months or less but over 3 months	123,986	378	124,364
1 year or less but over 6 months	170,354	307	170,661
Over 1 year	550,184	0	550,184
	<u>844,524</u>	<u>685</u>	<u>845,209</u>

### G. Advances to customers-by industry sectors

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

	<b>The Group</b>	
	As at <b>30 June 2002 HK'000</b>	As at 31 December 2001 HK'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	200,818	241,497
– Property investment	2,919,747	3,139,063
– Financial concerns	295,649	397,587
– Stockbrokers	16,534	7,046
– Wholesale and retail trade	125,467	129,840
– Manufacturing	1,295,408	1,289,023
– Transport and transport equipment	526,618	482,106
– Others	2,338,945	2,111,705
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	31,121	34,378
– Loans for the purchase of other residential properties	6,358,960	6,964,612
– Credit card advances	616,608	724,364
– Others	735,968	899,703
Trade finance	215,678	181,918
Loans for use outside Hong Kong	69,621	127,239
	<b>15,747,142</b>	<b>16,730,081</b>

**H. Cross-border claims**

The information concerning cross-border claims by countries according to locations of the counterparties and by types of counterparties is detailed below. The information has been classified in accordance with the categories contained in the banking returns “Cross-border Claims” (MA(BS)9) submitted to the HKMA.

<i>Figures in HK\$Million</i>	The Group			
	At at 30 June 2002			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong				
– Singapore	1,025	0	0	1,025
– Japan	976	0	0	976
– China	0	39	0	39
– Others	44	0	44	88
North America				
– Canada	100	0	3	103
– United States	3	336	119	458
Caribbean				
– Cayman Islands	0	0	127	127
Middle East – Bahrain	204	0	0	204
Western Europe				
– France	3	0	0	3
– Luxemburg	6	0	30	36
– Switzerland	25	0	0	25
– United Kingdom	85	0	4	89
– Others	1	0	0	1
	<b>2,472</b>	<b>375</b>	<b>327</b>	<b>3,174</b>

<i>Figures in HK\$Million</i>	The Group			
	As at 31 December 2001			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong				
– Australia	582	0	0	582
– China	0	75	76	151
– Others	44	0	63	107
North America				
– Canada	410	0	0	410
– United States	2	203	116	321
Caribbean				
– Bermuda	0	0	554	554
– Cayman Islands	0	0	438	438
– Others	0	0	363	363
Middle East – Bahrain	3	0	0	3
Western Europe				
– Belgium	538	0	0	538
– Germany	2,300	0	0	2,300
– France	596	0	0	596
– Netherlands	705	0	0	705
– United Kingdom	607	0	4	611
– Others	150	0	38	188
	<u>5,937</u>	<u>278</u>	<u>1,652</u>	<u>7,867</u>



## 1. 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 Position" (MA(BS)6) submitted to the HKMA.

<i>Equivalent in HK\$' Millions</i>	The Group					
	As at 30 June 2002					
	US Dollars	New Zealand Dollars	Japanese Yen	Swiss Francs	Australian Dollars	Total
Spot assets	2,823	487	390	24	804	4,528
Spot liabilities	(3,874)	(432)	(9)	(3)	(624)	(4,942)
Forward purchases	1,701	8	393	0	34	2,136
Forward sales	(648)	(64)	(778)	(24)	(213)	(1,727)
Net option position	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net long/(short) position	2	(1)	(4)	(3)	1	(5)
	US Dollars	New Zealand Dollars	Japanese Yen	Swiss Francs	Australian Dollars	Total
Net structural position	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

<i>Equivalent in HK\$' Millions</i>	The Group					
	As at 31 December 2001					
	US Dollars	New Euro	Japanese Yen	Pound Sterling	Australian Dollars	Total
Spot assets	3,315	280	291	190	624	4,700
Spot liabilities	(3,895)	(311)	(348)	(197)	(502)	(5,253)
Forward purchases	780	100	138	11	51	1,080
Forward sales	(215)	(69)	(81)	(4)	(174)	(543)
Net option position	<u>15</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>
Net long/(short) position	0	0	0	0	(1)	(1)
	US Dollars	New Euro	Japanese Yen	Pound Sterling	Australian Dollars	Total
Net structural position	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

## *J. Risk management*

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

### (i) Credit risk management

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

Credit approval is conducted in accordance with the Group's credit policy which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and provisioning policy. The credit policy also takes into account the requirements of the Banking Ordinance and the guidelines issued by the 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 Office as well as the Internal Control Group 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 53.98% for June 2002 and the average liquidity ratio of 45.95% for the first six months of 2002 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 20.78% as at 30 June 2002 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 adopts a prudent approach to managing its trading portfolios, and reduces any excessive market risk by executing offsetting transactions or hedging contracts with other market counterparties.

The Bank's maximum market risk exposures are set by the Management. 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 Group is responsible for monitoring compliance with the market risk management policies by the business units. In addition, the Bank is developing new risk management and control system, including the Value at risk ("VaR") system for monitoring the Group's risk exposures. The Bank believes that these systems and policies will enable it to monitor and control more effectively risks inherent in its banking operations.