



星展銀行（香港）有限公司
DBS BANK (HONG KONG) LIMITED

(FORMERLY KNOWN AS
道亨銀行有限公司
DAO HENG BANK LIMITED)

INTERIM FINANCIAL DISCLOSURE STATEMENT
FOR THE SIX MONTHS ENDED
30 JUNE 2003

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UNAUDITED INTERIM FINANCIAL DISCLOSURE STATEMENT

The Directors of DBS Bank (Hong Kong) Limited (the “Bank”, formerly known as Dao Heng Bank Limited), are pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2003 as follows:

Unaudited consolidated profit and loss account

		For the six months ended		
	<i>Note</i>	30 June 2003	30 June 2002	Change
		HK\$'000	HK\$'000	%
Interest income		2,083,979	2,468,416	-15.6
Interest expense		(778,356)	(1,104,112)	-29.5
Net interest income		1,305,623	1,364,304	-4.3
Other operating income	<i>1</i>	597,239	441,783	35.2
Operating income		1,902,862	1,806,087	5.4
Operating expenses		(805,843)	(808,610)	-0.3
Impairment of fixed assets	<i>2</i>	(12,258)	(197,404)	-93.8
Operating profit before provisions		1,084,761	800,073	35.6
Charge for bad and doubtful debts	<i>3</i>	(350,893)	(167,108)	110.0
Operating profit		733,868	632,965	15.9
Net (loss)/gain on disposal of fixed assets		(3,267)	479	
Net gain on disposal of non-trading securities and held-to-maturity securities		3,169	19,721	-83.9
Share of profit of a jointly controlled entity		733,770	653,165	12.3
		2,836	15,857	-82.1
Profit before taxation		736,606	669,022	10.1
Taxation	<i>4</i>	(132,288)	(133,522)	-0.9
Profit attributable to shareholders		604,318	535,500	12.9
Dividends	<i>5</i>	3,603,523	240,611	

Unaudited consolidated balance sheet

	As at 30 June 2003	As at 31 December 2002	Change %
Note	<i>HK\$'000</i>	<i>HK\$'000</i>	
Assets			
Cash and short-term funds	18,112,260	19,112,211	-5.2
Placements with banks and other financial institutions maturing between one and twelve months	9,100,926	8,523,654	6.8
Certificates of deposit held	459,756	837,797	-45.1
Trading securities	1,109,809	2,078,229	-46.6
Held-to-maturity securities	20,140,642	18,300,704	10.1
Advances less provisions	6 70,187,061	69,740,474	0.6
Non-trading securities	4,937,115	2,190,166	125.4
Interest in a jointly controlled entity	74,849	72,471	3.3
Fixed assets	4,047,698	4,184,842	-3.3
Other assets	3,631,636	3,693,970	-1.7
Total assets	<u>131,801,752</u>	<u>128,734,518</u>	2.4
Liabilities			
Deposits and balances of banks and other financial institutions	4,849,446	1,387,039	249.6
Deposits from customers	7 92,965,361	92,242,833	0.8
Certificates of deposit issued	5,838,175	5,718,942	2.1
Other liabilities	14,008,279	12,234,315	14.5
Amount due to a jointly controlled entity	1,117,919	1,103,780	1.3
7.75% fixed rate subordinated notes	2,040,178	2,040,278	-
Deferred tax liabilities	4 19,839	17,383	14.1
Total liabilities	<u>120,839,197</u>	<u>114,744,570</u>	5.3
Shareholders' funds			
Share capital	5,200,000	5,200,000	-
Reserves	8 5,762,555	8,789,948	-34.4
Shareholders' funds	<u>10,962,555</u>	<u>13,989,948</u>	-21.6
Total liabilities and shareholders' funds	<u>131,801,752</u>	<u>128,734,518</u>	2.4

Review of activities

The Hong Kong economy was sluggish in the first half of the year with the unemployment rate escalating to a historic high of over 8%. The number of bankruptcy cases, while no longer rising, remained at persistently high levels. The banking sector experienced a very challenging operating environment during the period with weak loan demand. The outbreak of SARS triggered banks to adopt contingency measures and affected productivity. On a more positive note, the Closer Economic Partnership Arrangement (CEPA) signed on 29 June 2003, is expected to bring more business opportunities and benefits to the services sector including banking, legal, accounting, transport and logistics, where Hong Kong has a comparative advantage.

The Bank's Consumer Banking Division achieved good results, particularly in the sale of structured investment products through the bank's extensive branch network supported by an advanced customer relationship management system. However, the credit card business continued to experience a very difficult period in view of depressed retail sales and the high unemployment rate.

The Bank's Treasury and Markets Division achieved impressive results from both trading activities and the strong momentum in the sale of investment products, which was sustained despite the SARS outbreak. The Enterprise Banking Division recorded moderate loan growth in spite of unfavorable market conditions, registering a particularly strong performance in trade finance and loans to the manufacturing sector. With the RMB license obtained by Shenzhen Branch, the Bank can further enhance its competitiveness and offer a wider product range to its customers in the Pearl River Delta area.

21 July 2003 marked the merger of the Bank with Overseas Trust Bank and DBS Kwong On Bank. The Bank's name was changed to DBS Bank (Hong Kong) Limited on the same date. The successful merger of the three banking entities within the DBS family brought about more effective cost management and extensive productivity benefits. As a member of the DBS Group, the Bank has the competitive advantage of sharing product knowledge and expertise with other members of the DBS family. The Bank can also access a wider customer base for further business opportunities both in Hong Kong and other parts of the region.

Notes to the accounts

1. Other Operating Income

	For the six months ended	
	30 June 2003	30 June 2002
	HK\$'000	HK\$'000
Fees and commission income	383,428	431,515
Less: fees and commission expenses	(55,182)	(62,623)
Net fees and commission income	328,246	368,892
Others (<i>Note</i>)	268,993	72,891
	<u>597,239</u>	<u>441,783</u>

Note: The increase in "Others" was mainly due to increase in income earned from trading activities and the sale of investment products.

2. Impairment of fixed assets

An impairment loss of HK\$12,258,000 (six months ended 30 June 2002: HK\$197,404,000) was recognised during the period as a result of the impairment of certain premises within fixed assets. The impairment loss was primarily a result of a reduction in property values and partly due to a reduction in the expected future cash inflows generated by those premises, including those branches scheduled for closure. The impairment loss was assessed in accordance with the requirements of SSAP31 "Impairment of assets" which the Group adopted in 2002.

3. Charge for bad and doubtful debts

	For the six months ended	
	30 June 2003	30 June 2002
	HK\$'000	HK\$'000
Specific provisions		
– New provisions	476,669	499,166
– Release	(120,186)	(275,915)
– Recoveries	(20,271)	(20,377)
General provisions	14,681	(35,766)
	<u>350,893</u>	<u>167,108</u>

4. Taxation

	For the six months ended	
	30 June 2003	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits taxation	138,292	126,584
Overseas taxation	1,115	2,073
	<hr/>	<hr/>
	139,407	128,657
Share of a jointly controlled entity's taxation	458	1,845
	<hr/>	<hr/>
Current year taxation	139,865	130,502
Deferred year taxation	(7,577)	3,020
	<hr/>	<hr/>
	132,288	133,522
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at 17.5% (2002: 16%) on the estimated assessable profits for the period. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

During the period, the Bank has adopted the revised Statement of Standard Accounting Practice 2.112 (SSAP 12) "Income taxes". In accordance with the revised SSAP12, deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation and revaluation of fixed assets and provision of loan losses.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

As the adoption of the revised SSAP 12 represents a change in the accounting policy, this change has been applied retrospectively so that the comparatives presented have been restated to conform to the new policy. The effect of the restatement is set out below.

The change has resulted in an increase of HK\$3,020,000 in the "Taxation" expense as recorded in the profit and loss account for the six months ended 30 June 2002. The comparative figures as of 31 December 2002 for the "Reserves" (Note 8) was reduced and the "Deferred tax liabilities" shown on the balance sheet was increased by the same amount of HK\$17,383,000.

5. Dividends

	For the six months ended	
	30 June 2003	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend proposed and paid for 2002 after the balance sheet date of HK\$0.039139 per share (six months ended 30 June 2002: HK\$0.04627 per share)	203,523	240,611
Special dividend paid of HK\$0.653846 per share (six months ended 30 June 2002: HK\$ nil)	3,400,000	–
	<u>3,603,523</u>	<u>240,611</u>

6. Advances less provisions

	As at	As at	Change
	30 June 2003	31 December 2002	%
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Advances to customers	71,372,764	70,931,406	0.6
General provisions	(707,231)	(696,226)	1.6
Specific provisions	(719,656)	(736,183)	-2.2
	<u>69,945,877</u>	<u>69,498,997</u>	0.6
Advances to banks and other financial institutions	241,184	241,477	-0.1
	<u>70,187,061</u>	<u>69,740,474</u>	0.6
Included in advances to customers are:			
Trade bills	807,468	602,986	33.9
General provisions	(8,075)	(6,030)	33.9
	<u>799,393</u>	<u>596,956</u>	33.9

7. Deposits from customers

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Demand deposits and current accounts	4,035,912	3,796,130	6.3
Savings deposits	17,613,420	14,295,442	23.2
Time, call and notice deposits	71,316,029	74,151,261	-3.8
	<u>92,965,361</u>	<u>92,242,833</u>	0.8

8. Reserves

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Share premium	31,351	31,351	–
Capital reserve	11,636	11,636	–
Premises revaluation reserve (<i>Note</i>)	381,746	437,358	-12.7
Investment revaluation reserve (<i>Note</i>)	17,460	(10,200)	–
General reserve	683,249	683,249	–
Retained earnings (<i>Note</i>)	4,637,113	7,636,554	-39.3
	<u>5,762,555</u>	<u>8,789,948</u>	-34.4

Note: Comparative figures have been restated to conform to the adoption of the revised SSAP 12 (*Note* 4).

9. Off-balance sheet exposures

(a) Contingent liabilities and commitments

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Direct credit substitutes	584,177	596,809
Transaction-related contingencies	378,865	321,484
Trade-related contingencies	2,671,674	2,582,329
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	39,534,123	40,147,396
	<u>43,168,839</u>	<u>43,648,018</u>
Aggregate credit risk-weighted amount	<u>1,174,785</u>	<u>1,273,971</u>

9. Off-balance sheet exposures (Continued)

(b) Derivatives

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Equity contracts	28,871,364	3,209,486
Exchange rates contracts	76,813,767	67,856,551
Interest rate contracts	176,428,748	166,431,458
	<u>282,113,879</u>	<u>237,497,495</u>
Aggregate credit risk-weighted amount	<u>1,391,318</u>	<u>626,998</u>
Aggregate replacement cost	<u>1,674,320</u>	<u>1,482,213</u>

The above amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risks.

The credit risk-weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked-to-market (should the counterparty default on its obligations) and is obtained by marking-to-market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

Unaudited consolidated supplementary financial information

1. Capital adequacy and liquidity ratios

	As at 30 June 2003	As at 31 December 2002
Capital adequacy ratio	<u>18.5%</u>	<u>24.5%</u>
Adjusted capital adequacy ratio	<u>17.8%</u>	<u>23.4%</u>
	For the six months ended	
	30 June 2003	30 June 2002
Average liquidity ratio for the period	<u>43.8%</u>	<u>35.1%</u>

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

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk at the balance sheet date computed in accordance with the guideline “Maintenance of Adequate Capital against Market Risks” issued by the Hong Kong Monetary Authority.

The average liquidity ratio is the simple average of each calendar month’s average liquidity ratio for the period calculated for the Bank’s Hong Kong offices, and is in accordance with the Fourth Schedule of the Banking Ordinance.

2. Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2003 and 31 December 2002 and reported to the Hong Kong Monetary Authority is analysed as follows:

	As at 30 June 2003 HK\$'000	As at 31 December 2002 HK\$'000
Core capital:		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	31,351	31,351
Reserves (eligible for inclusion in core capital)	5,211,732	8,149,464
	<u>10,443,083</u>	<u>13,380,815</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	267,516	358,301
Reserves on revaluation of holding of securities not held for trading purposes	12,222	(11,472)
General provisions for doubtful debts	707,188	696,227
Term subordinated debt	1,632,143	2,040,278
	<u>2,619,069</u>	<u>3,083,334</u>
Gross and eligible value of supplementary capital		
Total capital base before deductions	13,062,152	16,464,149
Deductions from total capital base	(418,623)	(445,941)
Total capital base after deductions	<u>12,643,529</u>	<u>16,018,208</u>

The capital base represents the consolidated capital base of the Bank as at period end computed in accordance with the Third Schedule of the Banking Ordinance.

3. Currency concentrations

<i>HK\$'million</i>	US\$	Others	Total
As at 30 June 2003			
Hong Kong dollar equivalents			
Spot assets	30,139	12,611	42,750
Spot liabilities	(31,262)	(11,701)	(42,963)
Forward purchases	37,950	3,020	40,970
Forward sales	(36,285)	(4,001)	(40,286)
Net option position	(26)	(187)	(213)
	<u>516</u>	<u>(258)</u>	<u>258</u>
Net long non-structural position	<u>516</u>	<u>(258)</u>	<u>258</u>
Net structural position	<u>–</u>	<u>337</u>	<u>337</u>
<i>HK\$'million</i>	US\$	Others	Total
As at 31 December 2002			
Hong Kong dollar equivalents			
Spot assets	34,188	11,366	45,554
Spot liabilities	(33,727)	(11,186)	(44,913)
Forward purchases	33,608	2,626	36,234
Forward sales	(33,743)	(2,737)	(36,480)
	<u>326</u>	<u>69</u>	<u>395</u>
Net long non-structural position	<u>326</u>	<u>69</u>	<u>395</u>
Net structural position	<u>–</u>	<u>235</u>	<u>235</u>

4. Gross advances to customers – by industry sectors

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Loans for use in Hong Kong			
Industrial, commercial and financial			
Property development	34,541	34,124	1.2
Property investment	6,227,117	6,324,483	-1.5
Financial concerns	920,520	1,023,613	-10.1
Stockbrokers	46,554	53,937	-13.7
Wholesale and retail trade	1,406,333	1,428,279	-1.5
Manufacturing	3,165,342	2,697,662	17.3
Transport and transport equipment	7,228,752	6,396,372	13.0
Others	2,607,778	2,631,777	-0.9
Individuals			
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,523,509	3,776,764	-6.7
Loans for the purchase of other residential properties	29,982,001	30,802,745	-2.7
Credit card advances	4,332,412	4,804,480	-9.8
Others	2,967,301	3,020,767	-1.8
Trade finance	8,115,468	6,782,632	19.7
Loans for use outside Hong Kong	815,136	1,153,771	-29.4
	<u>71,372,764</u>	<u>70,931,406</u>	0.6

5. Gross advances to customers – by geographical areas

Over 90% of the gross advances to customers and related non-performing loans and overdue advances are located in Hong Kong after taking into account the transfer of risks. In general, transfer of risks applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

6. Cross-border claims

<i>HK\$'million</i>	Banks and other financial institutions	Public sector entities	Others	Total
As at 30 June 2003				
Asia Pacific excluding Hong Kong	14,989	188	805	15,982
North and South America	2,306	488	1,036	3,830
Europe	11,095	–	200	11,295
Others	254	–	61	315
	<u>28,644</u>	<u>676</u>	<u>2,102</u>	<u>31,422</u>
As at 31 December 2002				
Asia Pacific excluding Hong Kong	6,795	222	1,013	8,030
North and South America	2,883	213	2,346	5,442
Europe	24,938	6	136	25,080
Others	236	–	424	660
	<u>34,852</u>	<u>441</u>	<u>3,919</u>	<u>39,212</u>

7. Non-performing loans

The gross amount of non-performing advances, net of suspended interest, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such advances are as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Gross non-performing loans	1,907,306	2.67	1,719,730	2.42
Specific provision	(662,049)		(631,939)	
	<u>1,245,257</u>		<u>1,087,791</u>	
Suspended interest	<u>213,945</u>		<u>273,450</u>	

The specific provisions were made after taking into account the value of collateral in respect of such advances.

8. Overdue and rescheduled advances

(a) Overdue advances

The Group's overdue advances (net of suspended interest) are analysed as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Gross advances overdue for				
Six months or less but over three months	418,645	0.59	518,957	0.73
One year or less but over six months	473,981	0.66	211,633	0.30
Over one year	446,814	0.63	551,442	0.78
	<u>1,339,440</u>	1.88	<u>1,282,032</u>	1.81

(b) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above) are analysed as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Rescheduled advances to customers				
Performing	204,315	0.29	154,449	0.22
Non-performing	139,255	0.19	139,203	0.19
	<u>343,570</u>	0.48	<u>293,652</u>	0.41

8. Overdue and rescheduled advances *(Continued)*

(c) Reconciliation of overdue advances to non-performing loans

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Overdue advances to customers as per (a) above	1,339,440	1,282,032
Less: advances which are overdue for more than three months and on which interest is still being accrued	(58,672)	(94,153)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
– included in rescheduled advances	139,255	139,203
– others	487,283	392,648
Non-performing loans	<u>1,907,306</u>	<u>1,719,730</u>

(d) Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances. At 30 June 2003, the repossessed assets of the Group amounted to HK\$228,080,000 (31 December 2002: HK\$214,626,000).

Statement of compliance

In preparing the interim results for the first half of 2003, the Bank has fully complied with the disclosure standards set out in the “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Monetary Authority.

Legal merger of Hong Kong operations and change of name

The Directors are also pleased to announce the merger of the Bank, DBS Kwong On Limited (formerly known as DBS Kwong On Bank Limited (“DKOB”)) and DBS Overseas Limited (formerly known as Overseas Trust Bank, Limited (“OTB”)) into a single entity on 21 July 2003 and the change of name of the Bank to DBS Bank (Hong Kong) Limited on the same day.

On 21 July 2003, the banking licenses of DKOB and OTB were voluntarily revoked and their names were changed to DBS Kwong On Limited and DBS Overseas Limited respectively.

Included in the following pages (16 to 28), is the financial disclosure statement of the unaudited consolidated interim results of DBS Kwong On Limited and its subsidiaries for the six months ended 30 June 2003.

Hong Kong, 1 August 2003

DBS Kwong On Limited
(formerly known as DBS Kwong On Bank Limited)

UNAUDITED INTERIM FINANCIAL DISCLOSURE STATEMENT

The Directors of DBS Kwong On Limited (formerly known as DBS Kwong On Bank Limited, hereinafter referred to as the “Bank”) are pleased to announce the unaudited consolidated interim results of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2003 as follows:

Unaudited consolidated profit and loss account

		For the six months ended		
	<i>Note</i>	30 June 2003	30 June 2002	Change
		HK\$'000	<i>HK\$'000</i>	%
Interest income		679,980	779,465	-12.8
Interest expense		(209,433)	(281,433)	-25.6
Net interest income		470,547	498,032	-5.5
Other operating income	<i>1</i>	159,053	128,673	23.6
Operating income		629,600	626,705	0.5
Operating expenses		(265,916)	(289,534)	-8.2
Operating profit before provisions		363,684	337,171	7.9
Charge for bad and doubtful debts		(119,333)	(106,978)	11.5
Operating profit		244,351	230,193	6.2
Net (loss)/gain on disposal of fixed assets		(5,340)	26	–
Net gain on disposal of non-trading securities		7,749	–	–
Profit before taxation		246,760	230,219	7.2
Taxation	<i>2</i>	(39,501)	(42,129)	-6.2
Profit attributable to shareholders		207,259	188,090	10.2

Increase in the profit attributable to shareholders as compared to the same period of last year was mainly due to higher income from sales of wealth management products. In addition, operating expenses were managed below last year’s level due to more disciplined cost management and savings from integration activities. This was partly offset by lower net interest income resulting from sluggish loan demand.

Unaudited consolidated balance sheet

	As at 30 June 2003	As at 31 December 2002	Change %
Note	<i>HK\$'000</i>	<i>HK\$'000</i>	
Assets			
Cash and short-term funds	7,628,333	7,839,008	-2.7
Certificates of deposit held	566,690	699,087	-18.9
Held-to-maturity securities	467,874	469,779	-0.4
Advances less provisions	3 21,403,199	21,876,761	-2.2
Non-trading securities	2,392	9,304	-74.3
Fixed assets	974,991	1,011,960	-3.7
Other assets	651,107	888,244	-26.7
Total assets	<u>31,694,586</u>	<u>32,794,143</u>	-3.4
Liabilities			
Deposits and balances of banks and other financial institutions	412,260	520,579	-20.8
Deposits from customers	4 26,418,401	27,490,067	-3.9
Certificates of deposit issued	300,000	300,000	—
Other liabilities	754,734	870,411	-13.3
Deferred tax liabilities	2 16,383	17,141	-4.4
Total liabilities	<u>27,901,778</u>	<u>29,198,198</u>	-4.4
Shareholders' funds			
Share capital	750,000	750,000	—
Reserves	5 3,042,808	2,845,945	6.9
Shareholders' funds	<u>3,792,808</u>	<u>3,595,945</u>	5.6
Total liabilities and shareholders' funds	<u>31,694,586</u>	<u>32,794,143</u>	-3.4

Notes to the accounts

1. Other Operating Income

	For the six months ended	
	30 June 2003	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees and commission income	87,759	92,495
Less: fees and commission expenses	(3,564)	(9,073)
Net fees and commission income	84,195	83,422
Others	74,858	45,251
	<u>159,053</u>	<u>128,673</u>

2. Taxation

	For the six months ended	
	30 June 2003	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current year taxation	44,103	40,465
Deferred year taxation	(4,602)	1,664
	<u>39,501</u>	<u>42,129</u>

Hong Kong profits tax has been provided at 17.5% (2002: 16.0%) on the estimated assessable profit for the period.

During the period, the Bank has adopted the revised Statement of Standard Accounting Practice 2.112 (SSAP 12) "Income taxes". In accordance with the revised SSAP12, deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation and revaluation of fixed assets and provision of loan losses.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. Taxation (Continued)

As the adoption of the revised SSAP 12 represents a change in the accounting policy, this change has been applied retrospectively so that the comparatives presented have been restated to conform to the new policy. The effect of the restatement is set out below.

The change has resulted in an increase of HK\$1,664,000 in the "Taxation" expenses as recorded in the profit and loss account for the six months ended 30 June 2002. The comparative figures as of 31 December 2002 for the "Reserves" (Note 5) was reduced and the "Deferred tax liabilities" shown on the balance sheet was increased by the same amount of HK\$17,141,000.

3. Advances less provisions

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Advances to customers	21,756,640	22,211,332	-2.0
General provisions	(212,191)	(217,465)	-2.4
Specific provisions	(187,595)	(163,453)	14.8
	<u>21,356,854</u>	<u>21,830,414</u>	
Advances to banks and financial institutions	46,345	46,347	-
	<u>21,403,199</u>	<u>21,876,761</u>	-2.2
Included in advances to customers are:			
Trade bills	548,513	462,127	18.7
Specific provision	(55)	(63)	-12.7
	<u>548,458</u>	<u>462,064</u>	18.7

4. Deposits from customers

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Demand deposits and current accounts	2,352,845	2,277,499	3.3
Savings deposits	3,682,169	3,581,384	2.8
Time, call and notice deposits	20,383,387	21,631,184	-5.8
	<u>26,418,401</u>	<u>27,490,067</u>	-3.9

5. Reserves

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Share premium	564,152	564,152
Premises revaluation reserves (<i>Note</i>)	205,658	215,336
Investment revaluation reserves	–	6,550
General reserve	1,636,028	1,636,028
Retained earnings (<i>Note</i>)	636,970	423,879
	<u>3,042,808</u>	<u>2,845,945</u>

Note: Comparative figures have been restated to conform to the adoption of the revised SSAP 12 (*Note* 2).

6. Off-balance sheet exposures

(a) Contingent liabilities and commitments

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Direct credit substitutes	95,583	93,582
Transaction-related contingencies	168,650	139,931
Trade-related contingencies	1,006,071	964,935
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	6,324,551	6,831,568
	<u>7,594,855</u>	<u>8,030,016</u>
Aggregate credit risk-weighted amount	<u>380,381</u>	<u>355,801</u>

6. Off-balance sheet exposures (Continued)

(b) Derivatives

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Equity contracts	7,410,918	1,140,516
Exchange rates contracts	2,994,062	342,517
Interest rate contracts	31,729,212	12,554,128
	<u>42,134,192</u>	<u>14,037,161</u>
Aggregate credit risk-weighted amount	<u>182,261</u>	<u>88,938</u>
Aggregate replacement cost	<u>227,741</u>	<u>299,564</u>

The above amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risks.

The credit risk-weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked-to-market (should the counterparty default on its obligations) and is obtained by marking-to-market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

Unaudited consolidated supplementary financial information

1. Capital adequacy and liquidity ratios

	As at 30 June 2003	As at 31 December 2002
Capital adequacy ratio	18.7%	17.6%
Adjusted capital adequacy ratio	18.2%	17.5%
	For the six months ended	
	30 June 2003	30 June 2002
Average liquidity ratio for the period	42.5%	42.9%

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

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk at the balance sheet date computed in accordance with the guideline ‘‘Maintenance of Adequate Capital against Market Risks’’ issued by the Hong Kong Monetary Authority.

The average liquidity ratio is the simple average of each calendar month’s average liquidity ratio for the period calculated for the Bank, and is in accordance with the Fourth Schedule of the Banking Ordinance.

2. Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 30 June 2003 and 31 December 2002 and reported to the Hong Kong Monetary Authority is analysed as follows:

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>
Core capital:		
Paid up ordinary share capital	525,000	525,000
Share premium	564,152	564,152
Reserves	2,034,563	1,510,028
Profit and loss account	229,102	524,536
	<u>3,352,817</u>	<u>3,123,716</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	301,460	336,946
General provisions for doubtful debts	212,191	217,465
	<u>513,651</u>	<u>554,411</u>
Gross and eligible value of supplementary capital	<u>513,651</u>	<u>554,411</u>
Total capital base before deductions	3,866,468	3,678,127
Deductions:		
Shareholdings in subsidiaries	(17,500)	(17,500)
Total capital base after deductions	<u>3,848,968</u>	<u>3,660,627</u>

The capital base represents the consolidated capital base of the Bank as at period end computed in accordance with the Third Schedule of the Banking Ordinance.

3. Currency concentrations

	US\$ <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2003			
Hong Kong dollar equivalents			
Spot assets	5,944,154	3,186,030	9,130,184
Spot liabilities	(6,360,034)	(3,330,659)	(9,690,693)
Forward purchases	1,391,528	270,231	1,661,759
Forward sales	(675,237)	(222,179)	(897,416)
Net option position	(321,360)	293,075	(28,285)
	<u>(20,949)</u>	<u>196,498</u>	<u>175,549</u>
Net long position	<u>(20,949)</u>	<u>196,498</u>	<u>175,549</u>
	US\$ <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2002			
Hong Kong dollar equivalents			
Spot assets	6,803,198	3,068,462	9,871,660
Spot liabilities	(6,454,203)	(3,098,561)	(9,552,764)
Forward purchases	247,458	52,971	300,429
Forward sales	(260,792)	(27,876)	(288,668)
Net option position	(38,645)	39,760	1,115
	<u>297,016</u>	<u>34,756</u>	<u>331,772</u>
Net long position	<u>297,016</u>	<u>34,756</u>	<u>331,772</u>

4. Gross advances to customers – by industry sectors

	As at 30 June 2003 <i>HK\$'000</i>	As at 31 December 2002 <i>HK\$'000</i>	Change %
Loans for use in Hong Kong			
Industrial, commercial and financial			
Property development	123,198	115,489	6.7
Property investment	4,138,583	4,206,014	-1.6
Financial concerns	185,517	147,451	25.8
Stockbrokers	74,672	95,872	-22.1
Wholesale and retail trade	937,980	911,568	2.9
Manufacturing	1,947,005	1,905,724	2.2
Transport and transport equipment	846,141	1,135,648	-25.5
Others	709,597	711,851	-0.3
Individuals			
Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	242,872	266,489	-8.7
Loans for the purchase of other residential properties	5,882,904	6,248,505	-5.9
Credit card advances	416,159	517,327	-19.6
Others	1,054,558	1,255,518	-16.0
Trade finance	5,129,960	4,625,709	10.9
Loans for use outside Hong Kong	67,494	68,167	-1.0
	<u>21,756,640</u>	<u>22,211,332</u>	-2.0

5. Gross advances to customers – by geographical areas

Over 90% of the gross advances to customers and related non-performing loans and overdue advances are located in Hong Kong after taking into account the transfer of risks. In general, transfer of risks applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

6. Cross-border claims

	Banks and other financial institutions	
	As at 30 June 2003 <i>HK\$' million</i>	As at 31 December 2002 <i>HK\$' million</i>
Asia Pacific excluding Hong Kong	2,169	1,961
North and South America	820	909
Middle East and Africa	3	1
Europe	4,209	5,229
	<u>7,201</u>	<u>8,100</u>

Other than the above, the Group does not have any claims from public sector entities nor other counterparties outside Hong Kong.

7. Non-performing loans

The gross amount of non-performing advances, net of suspended interest, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such advances are as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Gross non-performing loans	524,688	2.41	448,677	2.02
Specific provision	(165,770)		(132,613)	
	<u>358,918</u>		<u>316,064</u>	
Suspended interest	<u>9,339</u>		<u>10,463</u>	

The specific provisions were made after taking into account the value of collateral in respect of such advances.

8. Overdue and rescheduled advances

(a) Overdue advances

The Group's overdue advances (net of suspended interest) are analysed as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Gross advances overdue for				
Six months or less but				
over three months	136,536	0.63	106,964	0.48
One year or less but				
over six months	147,170	0.68	83,721	0.38
Over one year	165,852	0.76	184,132	0.83
	<u>449,558</u>	2.07	<u>374,817</u>	1.69

(b) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above) are analysed as follows:

	As at 30 June 2003 <i>HK\$'000</i>	% of total advances to customers	As at 31 December 2002 <i>HK\$'000</i>	% of total advances to customers
Rescheduled advances				
to customers				
Performing	17,273	0.08	3,278	0.02
Non-performing	32,546	0.15	17,889	0.08
	<u>49,819</u>	0.23	<u>21,167</u>	0.10

8. **Overdue and rescheduled advances** *(Continued)*

(c) **Reconciliation of overdue advances to non-performing loans**

	As at 30 June 2003 HK\$'000	As at 31 December 2002 HK\$'000
Overdue advances to customers as per above (a)	449,558	374,817
Less: advances which are overdue for more than three months and on which interest is still being accrued	(48,174)	(64,091)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
– included in rescheduled advances	32,546	17,889
– others	90,758	120,062
Non-performing loans	<u>524,688</u>	<u>448,677</u>

(d) **Reposessed assets**

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the reposessed assets and the outstanding advances. At 30 June 2003, the reposessed assets of the Group amounted to HK\$6,214,000 (31 December 2002: HK\$3,410,000).

Statement of compliance

In preparing the interim results for the first half of 2003, the Bank has fully complied with the disclosure standards set out in the “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Monetary Authority.