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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Directors of Industrial and Commercial Bank of China (Asia) Limited ("the Bank" or "ICBC (Asia)") are pleased to present the interim report and condensed accounts of the Bank and its subsidiaries ("the Group") for the six months ended 30 June 2003. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June 2003, and the consolidated balance sheet as at 30 June 2003 of the Group, all of which are unaudited and condensed, along with notes to the condensed interim accounts, are set out on pages 11 to 28 of this report.

Interim Accounts

The Directors of ICBC (Asia) are pleased to announce that the unaudited consolidated profit attributable to shareholders of the Group for the six months ended 30 June 2003 was HKD232 million. This represented a 6% growth over the same period last year (First half of 2002: HKD218 million). Basic earnings per share for the six months ended 30 June 2003 was HKD0.33 (First half of 2002: HKD0.36). Return on average ordinary equity slightly declined to 9.7% (First half of 2002: 10.9%).

Interim Dividend

The Directors are pleased to declare an interim dividend of HKD0.12 per ordinary and convertible preference share for the six months ended 30 June 2003 (First half of 2002: HKD0.10). The interim dividend will be payable in cash on or about Friday, 19 September 2003 to shareholders whose names appear on the Register of Members of the Bank at the close of business on Thursday, 11 September 2003.

Closure of Register of Members

The Register of Members of the Bank will be closed from Monday, 8 September 2003 to Thursday, 11 September 2003, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates must be lodged for registration with the Bank's Share Registrar, Tengis Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on Friday, 5 September 2003.

Financial Review

In this report of the 2003 interim financial results, prior period adjustments have been made in 2002 following the adoption of the revised SSAP 12 "Income Taxes" in order to allow comparison with the 2002 financial results.

For the first six months of 2003, the Group has continued to achieve satisfactory results, notwithstanding a generally challenging industry environment, the impact of the Iraq war and the outbreak of SARS.

For the first half of 2003, the Group achieved a consolidated profit before taxation of HKD281 million, representing an increase of 21% over that of HKD231 million for first half of 2002, primarily attributable to stronger revenue contribution and the risk levels remained stable. The tax shield from the days of net losses in Union Bank (the former name of ICBC (Asia)) was fully utilized in 2002, higher effective tax rate trimmed the growth of our consolidated profit after taxation to 6%.



Consolidated net interest income for the first half of 2003 increased by 16% to HKD379 million (First half of 2002: HKD327 million). The growth of HKD15 billion in average interest-bearing assets had largely compensated the drop in net interest margin. Net interest margin for the period dropped 18 basis points to 1.31% (First half of 2002: 1.49%). Albeit the lower net interest margin, which was largely explained by the growing portfolio of syndicated loans, the profit margin of the Group was enhanced by the associated fee income and low provision charge of the syndicated loans to top blue-chip corporations.

Other operating income was only up by 0.5% to HKD138 million (First half of 2002: HKD137 million). The flat fees and commission income performance reflect the increased contribution from our syndication loans business, which were offset by a drop in securities underwriting fees due to poor market conditions. The proportion of non-interest income to total operating income was 27% (First half of 2002: 30%).

In the first six months of 2003, the Bank crystallized gains on the securities investment in a low interest rate environment. The disposal of bonds produced HKD16.4 million in profit, compared to HKD9.3 million in the same period of 2002.

Operating expenses in the first half of 2003 amounted to HKD152 million, representing an increase of 3% as compared with the same period in 2002 (First half of 2002: HKD148 million). The moderate increase in operating expenses was primarily attributable to staff costs and information technology expenses. As a result, our cost to income ratio dropped from 32% in the first half of 2002 to 29% in the period, with growth in operating income far outpacing costs growth.

Net charge for bad and doubtful debts for the first half of 2003 was only HKD77 million, HKD18 million of which related to building up of the general provisions as the loan book expanded and HKD59 million related to net specific charge (i.e. after netting of provisions writeback). Compared with the corresponding period of last year, net specific provisions edged up slightly by HKD14 million due to reduced level of provisions writeback. New charges were in fact decreased by HKD24 million despite the enlarged loan book.

Balance Sheet

Total assets were HKD66,247 million as at 30 June 2003, a 28% rise when compared with 30 June 2002 or 6% rise when compared with 31 December 2002.

Amid the lacklustre lending environment in Hong Kong, the total loans reached HKD38,561 million, an increase of HKD6,639 million by 21% since 30 June 2002 or HKD5,686 million by 17% since 31 December 2002. Major loan growth lie in syndicated loans to large cap blue-chip corporations and other China or China affiliated blue-chip companies, resulting in a much improved risk profile of the loan book. Other growth was recorded in residential mortgage, trade finance and hire purchase loans.

Additional investment in quality debt securities was also made in an effort to increase interest-earning assets. As at 30 June 2003, total investment in debt securities amounted to HKD13,526 million, or 20% of total assets (30 June 2002: HKD10,352 million; 31 December 2002: HKD10,212 million). Most of the investments were investment grade corporate bonds with mid-term maturities.

On the funding side, the Group was still able to maintain a stable customer deposit base. Customers' deposits amounted to HKD37,993 million or 67% of total liabilities as at 30 June 2003, marginally decreased by 2% from 31 December 2002. In the first half of 2003, the Group also issued the callable Certificates of Deposit totaling USD30 million and HKD851 million respectively to provide customers with higher deposit interest rates, while allowing the Bank to obtain medium-term funding at a lower cost. The loans to deposits (i.e. customers' deposits + certificates of deposit issued) ratio stood at an efficient level of 93% (31 December 2002: 80%).



Capital Adequacy and Liquidity

The Bank's consolidated capital adequacy ratio decreased from 17.8% as at 31 December 2002 to 16.0% as at 30 June 2003, reflecting rapid growth in advances to customers. The liquidity position remained strong throughout the first half of 2003 with an average liquidity ratio of 41.9% (Average for the first half of 2002: 36.5%).

Provisions for Bad and Doubtful Debts

Non-performing loan ratio dropped from 2.3% as at 31 December 2002 to 2.0% as at 30 June 2003. This improvement stemmed from our focus on loan recoveries, of which HKD124 million during the first six months of 2003 and remarkable loan growth was another factor. The exposure to unsecured personal credits remained insignificant.

As at 30 June 2003, the cumulative provisions for bad and doubtful debts were HKD597 million, comprising specific provisions of HKD304 million and general provisions of HKD293 million.

Compared with 31 December 2002, overdue loans increased by HKD127 million to HKD581 million as at 30 June 2003. The debt coverage ratio (i.e. specific provisions + collateral) for overdue loans was 92.2% as of 30 June 2003 (31 December 2002: 97.0%).

Connected Transactions

During the period, the Group entered into a number of transactions which in the opinion of the Directors constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The details of these transactions have been set out in Notes 24 and 25 to the accounts.

Business Review

The already quiet corporate loan market in the first half of the year was over-shadowed by the outbreak of SARS. Despite this, the Bank reported a significant growth in its Corporate Banking business. Our un-reserved commitment to quality top-tier corporations, and our strong execution capability have enabled us to win significant transactions, when many market participants were in perplexity.

The corporate client base of the Bank has continuously been expanded in many facets, leveraging the strong customer base of our parent, The Industrial and Commercial Bank of China, and the reputation we built over the last couple of years. Mergers and acquisitions finance, transportation equipment finance and project finance are among the expanding product range of the Bank, complementing our traditional strength in property and conglomerate finance and syndication. Our business has also been extended beyond Hong Kong, on a selective and careful basis.

Within our Retail Banking business, our initiatives in 2003 are not only realizing the volume and revenue growth, but also to developing our product varieties and improving services. To cope with the subdued mortgage environment, we have lined up with couples of large construction firms to offer special mortgage plans to their potential buyers. We also participated in "One-stop 90% Mortgages Service" offered by Hong Kong Mortgage Corporation and "Home Assistance Loan Scheme" offered by the Hong Kong Housing Authority.

With the expansion of Wealth Management business, our Wealth Management Centre has been relocated to Tsim Sha Tsui. All staff engaging in this business line have already registered as Securities & Futures Intermediaries. In response to the keen demand of high yield products in the low interest environment, the Wealth Management Centre will continue to offer investors a wide range of instruments, including guaranteed funds, credit-linked notes, certificates of deposit and bond investments. Moreover, a new-tiered interest rate scheme has been introduced to the 349 Super Account- HKD Savings Account, in which our customers can enjoy extra interest rate benefit.



Within our Commercial Banking business, we continue to extend our strengths in financing local SMEs. Compared with the preceding year-end, the loan volume has achieved over 20% growth. The remarkable result was attributed to improved services, proactively exploring lending opportunities and strong PRC support from our parent.

Within our Treasury operation, it remains an active player in the capital market despite the challenging market conditions. In terms of the deal amount, it earned a 10th ranking in both the HKD capital markets and HKD fixed-rate issues league table in the first half of 2003.

In Taiwan Market, our Financial Institutions Department is continuously positioned to act as the bridge linking the financial activities between the Mainland China and Taiwan. In the first half of 2003, the Bank has extended co-operations from 7 to 9 Taiwanese banks. Meanwhile, we have signed Risk Participation Agreements with several financial institutions. The agreements allow the Bank engaging Risk Participation services, i.e. buy/sell the risk of transactions of documentary letter of credit and forfaiting etc., which will strengthen the capability of our trade finance services. The issues are well received by the market since the full launch in March 2003. We anticipate that the related business will be continuously improved through our comprehensive marketing promotion and professional teams.

Our distinctive strategy was presented with the 2002 results announcement in March of this year. It is pleasing to see that our actions to deliver that strategy are on track overall and ICBC (Asia)'s focus on syndicated loans business spared the Bank from soaring bad debts in consumer lending, particularly in the outbreak of SARS during mid-March. ICBC (Asia) is bullish on delivering superior performance for shareholders, staff and customers; notwithstanding we are clear that huge challenges remain. There are no short cuts to this work and 2003 is ironically a pivotal year about putting in place the foundations. Despite this, it is strongly believed the signing of CEPA on 29 June 2003 will open up new business opportunities for the Bank in Mainland. Nevertheless, work is continuing apace and the impact of changes will be become more visible by the time the 2003 full year results are presented.

Directors' Interests in Equity or Debt Securities

As at 30 June 2003, the interests of the Directors and Chief Executive in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) ("Associated Corporations"), as recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO or as otherwise notified to the Bank and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary Shares of HK\$2 each in the Bank

Name of Director	Number of shares	
	Personal interests	Total
Mr. Zhu Qi	50,000	50,000

All the interests stated above represent long positions. As at 30 June 2003, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Save as disclosed above, as at 30 June 2003, none of the Directors or Chief Executive of the Bank nor their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Bank or any of its Associated Corporations.



Substantial Shareholders' Interests

As at 30 June 2003, so far as the Directors were aware, the following person (other than a Director or Chief Executive of the Bank) was interested in 5% or more of the issued share capital of the Bank as recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of Part XV of the SFO.

Name of Shareholder	Number of shares
The Industrial and Commercial Bank of China	398,489,478 Ordinary Shares 202,219,218 Convertible Preference Shares

All the interests stated above represent long positions. As at 30 June 2003, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

Save as disclosed above, apart from the aforesaid, as at 30 June 2003, the Bank had not been notified of any interest accounting to 5% or more of the issued share capital of the Bank which is required to be disclosed pursuant to the SFO.

Risk Management

The Group has established policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, foreign exchange, interest rate and market risks. The policies and procedures are reviewed on a regular basis by senior management and the relevant functional committees. The internal auditors also perform regular checks to ensure compliance with policies and procedures.

(a) Credit risk management

Credit risk is the risk that a borrower or counterparty of the Group will be unable or unwilling to honour a repayment obligation. The Group has standards, policies and procedures and designated functional departments in place to control and monitor these risks.

The Group recognizes that sound credit risk management is essential to business growth and maximization of the return on the Group's resources employed. The management has laid down credit policies in forms of Credit Manual and other policy papers, which formulate the necessary credit risk management process to identify, measure, monitor and control risks inherent in the operation of various lending business. This process ensures prudence in lending and enables potential problems to be detected and tackled as early as practicable, thereby minimizing business loss.

High-level credit policies of the Group are set, reviewed and constantly updated by the Credit Committee, the General Management Committee, and the Board to take balanced accounts of the dynamic market situation, regulatory development, the Group's usual prudent lending practices and the latest business strategies. They also review the efficiency of credit approval processes and delegate credit approval authorities.

Contained in the Credit Manual is also the credit approval matrix for sanctioning lending propositions. To uphold a high degree of professionalism in the exercise of credit approval authorities, credit approvers are selected by Credit Committee with level of authority commensurate with the individual credit officer's area of responsibilities, exposure and experience. To maintain objectivity and balance, the Group adopts a "dual approval" system whereby credit proposition generally requires joint-approval by at least two credit approvers or otherwise requires approval by Credit Committee.



Credit Risk Management Department is the centralized department in the Group mandated to carry out credit policies. The department, amongst other functions, provides independent credit assessment, post-approval credit administration and other credit control functions, to ensure that the credit process complies with the Group's credit policies and guidelines laid down by the Management. Apart from the independent credit assessment and matrix approval process, regular credit audits are conducted on specific loan portfolio or operating units in the credit process. To maintain its independence, Credit Risk Management Department has a direct reporting line to Risk Management Department, which in turn reports to a Deputy General Manager independent of business.

The management spares no efforts in monitoring the quality and behavior of the loan portfolio. The Group's internal credit risks grading system was first introduced since the last quarter of 2000 to track the health of the Group's loan portfolio. The grading system expands beyond the Hong Kong Monetary Authority's standard 5-grade system and incorporates a 15-tier classification system by weighing borrowers' financial, management, ownership, industrial and other characteristics. With internal data being constantly enriched through years of experience, it is expected that the Group could make further use of statistics in the internal credit risk grading system to profile and track down credit risk migration and to measure loan default probabilities etc.

(b) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its financial obligations as and when they fall due. Liquidity risk management is therefore to ensure that there is adequate cash flows to meet all financial obligations in both normal and contingency circumstances in a cost-effective manner whereas at the same time complies with all regulatory requirements. To manage liquidity risk, the Group has established the Asset and Liquidity Management Policy which is reviewed by the Group's Asset and Liability Management Committee (the "ALCO") and approved by the Board of Directors. Liquidity is also managed and forecasted on a daily basis to enable Treasury and Markets Department and ALCO to react proactively according to fluctuations in market conditions and implement contingency plans on a timely basis. The Group continues to explore and diversify funding channels to capitalize on opportunities for the Group's business expansion. The elevation of the Group's profile, being a member of The Industrial and Commercial Bank of China group, has created more rooms and capabilities in liquidity management.

The liquidity position remained strong throughout the first half of 2003 with an average liquidity ratio at 41.9% (Average for the first half of 2002: 36.5%), which was well above the statutory requirement of 25%.

(c) Market risk management

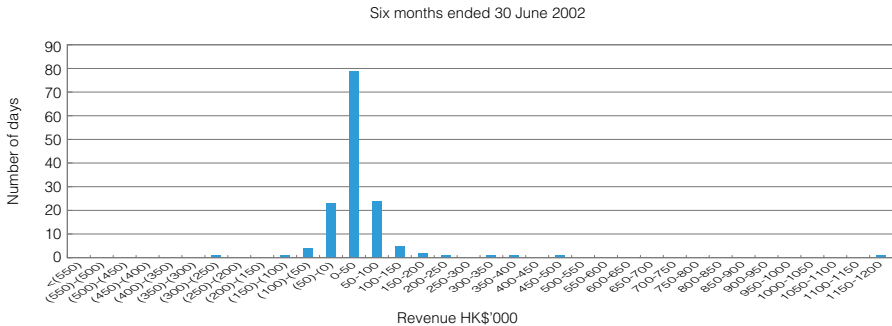
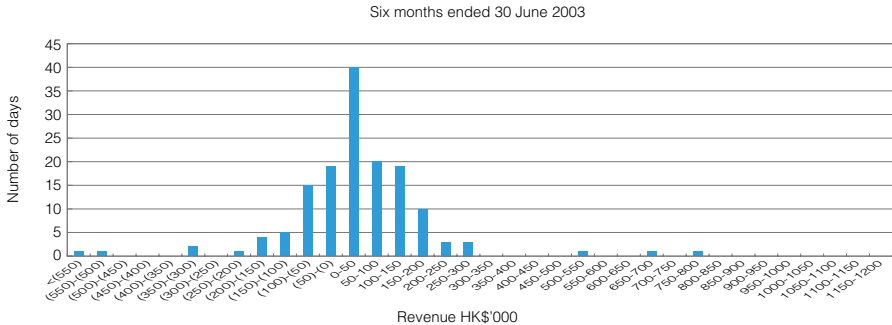
Market risk is the risk that market rates and prices on assets, liabilities and off-balance sheet positions change, thus causing profits or losses. Generally, the Group's market risk is associated with its positions in foreign exchange, debt securities, equity securities and derivatives in the trading book. Most off-balance sheet derivative positions arise from the execution of customer-related orders and positions taken to hedge other elements of the trading book.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by the ALCO. Exposures are measured and monitored on the basis of principal or notional amount, outstanding balances and stop-loss limits. Independent Middle Office monitors the risks exposure of trading activities against approved limits on a daily basis. The Group's market risks exposures are reviewed by the ALCO while exceptions to limits are reported when they occur. Internal Audit also performs regular review and testing to ensure compliance with the market risk limits and guidelines.



The average daily revenue earned from the Group's market risk related activities during the period was HKD34,689 (First half of 2002: HKD40,261) and the standard deviation for such daily revenue was HKD155,499 (First half of 2002: HKD120,718).

The following histograms show the frequency distribution of daily revenues related to market risk activities of the Group for the six months ended 30 June 2003 and 2002.



Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rates. The Group's interest rate risk arises mainly from the timing differences in the repricing of interest bearing assets and liabilities.

The Group manages its interest rate risk by way of entering into off-balance sheet interest rate hedging instruments to hedge a proportion of the Group's assets as determined by the ALCO upon consideration of market and interest rate conditions.



Foreign exchange risk management

Foreign exchange risk is the risk that the net exposure positions in foreign currencies will adversely affect the Group as a result of a change in exchange rates. The Group has very limited foreign exchange exposure as foreign exchange positions are normally hedged. The net foreign exchange positions are managed by Treasury and Markets Department on a daily basis within established limits approved by the ALCO.

Foreign currency funding used to fund Hong Kong dollar assets is normally hedged using currency swaps or forward exchange contracts to mitigate the foreign exchange risk.

(d) Operational risk management

Operational risks is the risk of unexpected financial losses attributable to human error, fraud, unauthorised activities, system failure and natural disaster. It is inherent to every business organisation and covers a wide spectrum of issues. Such risk is mitigated through the implementation of comprehensive internal control system, adequate insurance cover, offshore computer back-up sites and thorough contingency plans with periodic drills. Internal audit also plays an important role in detecting any deviations from operating procedures and identifying weaknesses at all operating levels independently and objectively.

(e) Legal, strategic and reputation risk management

To further enhance controls regarding legal, strategic and reputation risks, the Compliance Department was established in November 2001 to handle all relevant compliance issues concerning the Group. With the issuance of Compliance Policy and monthly Compliance Bulletin, together with the provision of regular compliance training, all staff are kept abreast of the latest legal and regulatory developments. The Compliance Department also performs compliance checking and provides advice on new products and corporate issues to ensure compliance in all aspects.

Statement of Compliance

The Bank has fully complied with the disclosure requirements set out in the guideline entitled "Interim Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 8 November 2002.

Compliance with the Code of Best Practice

The Bank has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2003, except that the Non-executive Directors of the Bank are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Articles of Association of the Bank.

Corporate Governance

The Bank has fully complied with the requirements set out in the Supervisory Policy Manual "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 21 September 2001. There are now six major Committees:

- General Management Committee
- Audit Committee
- Credit Committee
- Asset and Liability Management Committee
- Risk Management Committee
- New Product & Business Committee



Audit Committee

The Bank has an Audit Committee which comprises Mr. Chen Aiping, Non-executive Director and the three Independent Non-executive Directors, namely Professor Wong Yue Chim, Richard, S.B.S., JP, Mr. Tsui Yiu Wa, Alec and Mr. Yuen Kam Ho, George. The Committee meets regularly in order to review the completeness and effectiveness of both the external and internal audit as well as the accounting policies adopted by the Group and discussed internal controls, risk evaluation and financial report matters including a review of the unaudited interim accounts for the six months ended 30 June 2003 with the Directors.

Purchase, Sale or Redemption of the Bank's Listed Securities

During the period, neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities.

Statutory Accounts

The financial information in this interim report is unaudited and does not constitute statutory accounts.

On behalf of the Board
Industrial and Commercial Bank of China (Asia) Limited
Dr. Jiang Jianqing
Chairman

Hong Kong, 6 August 2003



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2003**

(Unaudited)

	Note	(Restated)		Change %
		Six Months Ended		
		30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000	
Interest income		784,026	703,298	
Interest expense		(404,873)	(376,323)	
Net interest income		379,153	326,975	16%
Other operating income	(6)	137,787	137,146	0%
Operating income		516,940	464,121	11%
Operating expenses	(7)	(151,961)	(147,868)	3%
Amortisation of goodwill		(19,424)	(17,749)	9%
Operating profit before provisions		345,555	298,504	16%
Charge for bad and doubtful debts — specific	(5)	(58,426)	(44,232)	32%
Charge for bad and doubtful debts — general		(18,249)	(28,243)	-35%
Operating profit after provisions	(3)	268,880	226,029	19%
Net loss on disposal of fixed assets		(13)	(2,691)	
Net profit on disposal and redemption of held-to-maturity securities		8,292	8,216	
Net profit on disposal of non-trading securities		8,108	1,059	
Provisions writeback on non-trading securities		—	43	
Share of net loss of associated companies		(4,386)	(1,305)	
Profit before taxation		280,881	231,351	21%
Taxation	(8)	(48,990)	(13,278)	
Profit attributable to shareholders		231,891	218,073	6%
Proposed interim dividends	(9)	99,191	82,659	
Per share:				
• Basic earnings	(10)			
— reported basis		HK\$0.33	HK\$0.36	-8%
— cash basis		HK\$0.36	HK\$0.39	-8%
• Diluted earnings	(10)			
— reported basis		HK\$0.28	HK\$0.29	-3%
— cash basis		HK\$0.30	HK\$0.31	-3%
• Proposed interim dividends		HK\$0.12	HK\$0.10	20%



CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2003

(Unaudited)

	Note	30 Jun 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000	Change %	(Restated) 30 Jun 2002 HK\$'000	Change %
Assets						
Cash and short-term funds	(11)	9,844,639	15,775,840	-38%	6,085,103	62%
Placements with banks and other financial institutions maturing between one and twelve months	(12)	2,129,478	1,033,844	106%	1,651,159	29%
Trade bills less provisions	(13)	309,460	108,280	186%	129,497	139%
Certificates of deposit held	(14)	7,223,476	1,931,179	274%	1,705,313	324%
Trading securities		—	38,525		38,879	
Held-to-maturity securities	(15)	5,519,240	6,519,256	-15%	6,766,103	-18%
Advances and other accounts less provisions	(13)	38,596,066	33,266,929	16%	31,700,271	22%
Non-trading securities	(16)	1,055,931	2,023,640	-48%	2,119,511	-50%
Deferred tax assets	(17)	35,950	29,103	24%	24,902	44%
Interests in associated companies		187,277	193,306	-3%	28,077	567%
Goodwill		638,961	656,710	-3%	674,459	-5%
Tangible fixed assets	(18)	706,395	714,480	-1%	728,300	-3%
		66,246,873	62,291,092	6%	51,651,574	28%
Liabilities						
Deposits and balances of banks and other financial institutions	(19)	15,976,583	12,334,120	30%	8,054,215	98%
Deposits from customers	(20)	37,993,437	38,751,030	-2%	34,532,121	10%
Certificates of deposit issued	(21)	2,509,613	1,429,002	76%	700,000	259%
Current taxation		114,833	61,123	88%	17,399	560%
Deferred tax liabilities	(17)	81,799	79,825	2%	114,295	-28%
Other accounts and provisions		422,403	474,348	-11%	821,955	-49%
		57,098,668	53,129,448	7%	44,239,985	29%
Capital Resources						
Loan capital	(22)	3,254,617	3,254,730	0%	1,755,000	85%
Ordinary share capital of HK\$2 each		1,248,749	1,248,749	0%	1,248,749	0%
Convertible non-cumulative preference share capital of HK\$5 each		1,011,096	1,011,096	0%	1,011,096	0%
Reserves	(23)	3,633,743	3,647,069	0%	3,396,744	7%
		9,148,205	9,161,644	0%	7,411,589	23%
		66,246,873	62,291,092	6%	51,651,574	28%



CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2003
(Unaudited)

	(Restated)	
	Six Months Ended	
	30 Jun 2003	30 Jun 2002
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(965,938)	(1,545,679)
Net cash inflow/(outflow) from investing activities	514	(1,433)
Net cash (outflow)/inflow from financing activities	(235,235)	1,116,318
Effect of foreign exchange differences	(133)	—
Decrease in cash and cash equivalents	(1,200,792)	(430,794)
Cash and cash equivalents at 1 January	4,522,100	(184,606)
Cash and cash equivalents at 30 June	3,321,308	(615,400)

Analysis of the balances of cash and cash equivalents:

	30 Jun 2003	30 Jun 2002
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	172,750	183,878
Money at call and short notice	9,460,558	5,694,571
Treasury bills with original maturity within three months	—	49,952
Placements with banks and other financial institutions with original maturity within three months	2,128,521	1,480,414
Deposits and balances of banks and other financial institutions with original maturity within three months	(8,440,521)	(8,024,215)
	3,321,308	(615,400)



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2003**

(Unaudited)

	(Restated)	
	Six Months Ended	
	30 Jun 2003	30 Jun 2002
	HK\$'000	HK\$'000
Total equity as at 1 January, as previously reported	5,951,347	5,070,691
Effect of adoption of SSAP 12	(44,433)	(108,669)
Total equity as at 1 January, as restated	5,906,914	4,962,022
Change in fair value of non-trading securities	(23,382)	(134,507)
Release of revaluation deficit of non-trading securities held by an associated company	—	1,992
Deferred tax liabilities released on bank premises and investment revaluation reserves	153	21,394
Exchange difference arising on translation of the financial statement of a foreign associated company	32	—
Net losses not recognised in the profit and loss account	(23,197)	(111,121)
Profit attributable to shareholders	231,891	218,073
Investment revaluation reserve realised on disposal of non-trading securities	(15,372)	781
Dividends	(206,648)	(161,379)
Issue of ordinary shares	—	759,329
Share issue expenses	—	(11,116)
Total equity as at 30 June	5,893,588	5,656,589



NOTES TO THE CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These unaudited condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies used in the preparation of these condensed accounts are consistent with those adopted in the Group's audited 2002 annual accounts except for the adoption of the revised SSAP 12 "Income Taxes" that prescribes the accounting treatment for income taxes to account for the current and future tax consequences of the future recovery and settlement of the carrying amount of assets and liabilities in the Group's balance sheet and transactions during the current period that should be recognised in the Group's financial statements. The principal impact of the revision of this SSAP on these condensed accounts is presented in notes 8 and 17, which are now more extensive than previously required and include a reconciliation between the accounting profit and the tax expense for the period.

2 Segment reporting

(a) By class of business

The Group comprises three business segments. Commercial and retail banking activities includes retail banking, commercial lending and trade finance. Treasury and markets activities include foreign exchange, money market and capital market activities. Corporate and investment banking activities mainly comprise corporate banking, the provision of debt capital markets and corporate finance and advisory services.

	For The Six Months Ended 30 June 2003				
	Commercial and retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	143,988	134,695	81,596	18,874	379,153
Other operating income	29,711	10,610	88,371	9,095	137,787
Operating income	173,699	145,305	169,967	27,969	516,940
Operating expenses	(59,608)	(9,566)	(5,929)	(76,858)	(151,961)
Inter-segment (expenses)/income	(13,910)	(16,549)	(19,999)	50,458	—
Amortisation of goodwill	—	—	—	(19,424)	(19,424)
Operating profit/(loss) before provisions	100,181	119,190	144,039	(17,855)	345,555
Charge for bad and doubtful debts	(39,092)	(818)	(7,990)	(28,775)	(76,675)
Operating profit/(loss) after provisions	61,089	118,372	136,049	(46,630)	268,880
Net loss on disposal of fixed assets	(7)	—	—	(6)	(13)
Net profit on disposal and redemption of held-to-maturity & non-trading securities	—	16,400	—	—	16,400
Share of net loss of associated companies	—	—	—	(4,386)	(4,386)
Profit/(loss) before taxation	61,082	134,772	136,049	(51,022)	280,881
Total assets	16,144,560	25,515,196	22,088,136	2,498,981	66,246,873
Total liabilities	19,101,644	16,274,041	18,755,173	2,967,810	57,098,668
Interests in associated companies	—	—	—	187,277	187,277
Capital expenditure	1,059	50	13	2,152	3,274
Depreciation charge	5,566	147	37	5,573	11,323



2 Segment reporting (continued)

(a) By class of business (continued)

	(Restated) For The Six Months Ended 30 June 2002				Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury and markets HK\$'000	Corporate and investment banking HK\$'000	Unallocated HK\$'000	
Net interest income	127,442	99,714	67,695	32,124	326,975
Other operating income	23,963	24,383	73,344	15,456	137,146
Operating income	151,405	124,097	141,039	47,580	464,121
Operating expenses	(54,037)	(8,924)	(5,725)	(79,182)	(147,868)
Inter-segment (expenses)/income	(8,846)	(10,463)	(12,293)	31,602	—
Amortisation of goodwill	—	—	—	(17,749)	(17,749)
Operating profit/(loss) before provisions	88,522	104,710	123,021	(17,749)	298,504
Charge for bad and doubtful debts	(31,863)	(256)	(32,858)	(7,498)	(72,475)
Operating profit/(loss) after provisions	56,659	104,454	90,163	(25,247)	226,029
Net loss on disposal of fixed assets	(1,986)	—	—	(705)	(2,691)
Net profit on disposal and redemption of held-to-maturity & non-trading securities	—	7,574	130	1,571	9,275
Provisions writeback on non-trading securities	—	—	—	43	43
Share of net loss of an associated company	—	—	—	(1,305)	(1,305)
Profit/(loss) before taxation	54,673	112,028	90,293	(25,643)	231,351
Total assets	13,453,042	18,018,559	17,462,350	2,717,623	51,651,574
Total liabilities	18,687,005	8,684,051	15,791,786	1,077,143	44,239,985
Interests in an associated company	—	—	—	28,077	28,077
Capital expenditure	1,627	83	8	5,390	7,108
Depreciation charge	5,850	158	40	6,726	12,774

(b) By geographical areas

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments is attributable to the Group's overseas operations.

3 Analysis of operating profit/(loss)

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Consolidated except for UBCBM	288,560	216,583
UB China Business Management Co. Ltd. ("UBCBM") (note 4)	(19,680)	9,446
	268,880	226,029



4 Highlights of the operating results of UBCBM which have been consolidated above as follows:

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Interest income	5,871	6,563
Interest expense	—	—
Net interest income	5,871	6,563
Other operating income	830	561
Operating income	6,701	7,124
Operating expenses	(73)	(155)
Operating profit before provisions	6,628	6,969
Provisions (charge)/writeback for bad and doubtful debts — specific (note 5)	(27,740)	1,608
Provisions writeback for bad and doubtful debts — general	1,432	869
Operating (loss)/profit	(19,680)	9,446

UB China Business Management Co. Ltd (“UBCBM”) is a wholly-owned subsidiary established by the Bank as a special purpose asset management company for the purpose of maximising the level of recovery of certain classified loans of the Bank which were extended towards Mainland China related business over a five-year term.

5 Analysis of provisions (charge)/writeback for bad and doubtful debts — specific

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
UBCBM loans (note 4)	(27,740)	1,608
Non-UBCBM loans	(30,686)	(45,840)
	(58,426)	(44,232)
Additional provisions	(73,183)	(96,940)
Less: Provisions writeback	14,757	52,708
	(58,426)	(44,232)

6 Other operating income

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Fees and commission income	120,604	98,340
Less: fees and commission expense	(1,224)	(1,479)
Net fees and commission income	119,380	96,861
Net gain from foreign exchange activities	3,238	3,746
Net gain from trading securities	1,117	1,716
Dividend income from investments in securities:		
— Listed investments	1,889	4,874
— Unlisted investments	1,876	780
Others	10,287	29,169
	137,787	137,146



7 Operating expenses

Including depreciation on tangible fixed assets for the six months ended 30 June 2003 amounting to HK\$11,323,000 (30 June 2002: HK\$12,774,000).

8 Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the period.

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	30 Jun 2003 HK\$'000	(Restated) 30 Jun 2002 HK\$'000
Current taxation:		
— Hong Kong profits tax	(53,710)	(17,449)
Deferred taxation (<i>note 17</i>)	4,720	4,171
	(48,990)	(13,278)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Profit before taxation	280,881	231,351
Calculated at a taxation rate of 17.5% (2002: 16%)	49,154	37,016
Income not subject to taxation	(2,112)	(905)
Expenses not deductible for taxation purposes	1,948	3,188
Utilisation of previously unrecognised tax losses	—	(26,021)
Taxation charge	48,990	13,278

9 Proposed interim dividends

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Proposed interim dividends, HK\$0.12 per share (2002: HK\$0.10 per share), to be paid to:		
— Convertible preference shareholders	24,266	20,222
— Ordinary shareholders	74,925	62,437
	99,191	82,659

10 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders (net of dividends payable on convertible preference shares) for the period of HK\$207,625,000 (2002: HK\$197,851,000) and on 624,374,304 (2002: 552,398,061) shares, being the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$231,891,000 (2002: HK\$218,073,000) and on 826,593,522 (2002: 754,617,279) shares, being the weighted average number of ordinary shares and convertible preference shares in issue during the period.

The calculation of earnings per share on cash basis is based on the respective earnings per share adjusted for goodwill amortised for the period. This supplementary information is considered a useful additional indication of performance.



11 Cash and short-term funds

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Cash and balances with banks and other financial institutions	172,750	161,525
Money at call and short notice	9,460,558	15,402,917
Treasury bills (including Exchange Fund Bills)	211,331	211,398
	9,844,639	15,775,840
Remaining maturity of treasury bills:		
— Three months or less	49,876	92,844
— One year or less, but over three months	102,611	39,724
— Five years or less, but over one year	58,844	78,830
	211,331	211,398

12 Placements with banks and other financial institutions maturing between one and twelve months

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Remaining maturity:		
— Three months or less	2,128,521	1,033,844
— One year or less, but over three months	957	—
	2,129,478	1,033,844

13 Total advances and other accounts less provisions

	30 Jun 2003		31 Dec 2002	
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Advances to customers	37,609,151	286,981	37,896,132	32,409,985
Advances to banks and other financial institutions	352,025	—	352,025	354,994
Trade bills	312,586	—	312,586	109,374
Provisions for bad and doubtful debts:				
— Specific	(154,942)	(149,421)	(304,363)	(270,127)
— General	(292,503)	(227)	(292,730)	(274,481)
	37,826,317	137,333	37,963,650	32,329,745
Accrued interest and other accounts	889,315	54,796	944,111	1,046,906
Provisions for accrued interest	(1,064)	(1,171)	(2,235)	(1,442)
	38,714,568	190,958	38,905,526	33,375,209



13 Total advances and other accounts less provisions (continued)

(a) Non-performing loans

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Specific provisions made HK\$'000	Interest suspended HK\$'000
As at 30 June 2003					
Consolidated except for UBCBM	502,654	1.3%	373,507	154,520	38,639
UBCBM	264,327	0.7%	108,089	149,248	110,729
Consolidated	766,981	2.0%	481,596	303,768	149,368
As at 31 December 2002					
Consolidated	738,932	2.3%	488,654	267,275	157,980

Non-performing loans are advances to customers on which interest is being placed in suspense or on which interest accrual has ceased.

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 30 June 2003 and 31 December 2002 nor where there any specific provisions made for them on these two dates.

(b) Remaining maturity of advances to customers

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Repayable on demand	1,130,125	1,385,880
Three months or less	5,052,966	3,574,822
One year or less, but over three months	2,790,261	2,403,406
Five years or less, but over one year	14,758,359	12,777,221
Over five years	13,395,062	11,520,941
Undated	769,359	747,715
	37,896,132	32,409,985

(c) Remaining maturity of advances to banks and other financial institutions

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Three months or less	168,346	82,458
One year or less, but over three months	82,500	122,536
Five years or less, but over one year	100,000	150,000
Undated	1,179	—
	352,025	354,994



14 Certificates of deposit held

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Remaining maturity:		
— Three months or less	—	89,985
— One year or less, but over three months	896,867	642,976
— Five years or less, but over one year	4,810,596	1,198,218
— Over five years	1,516,013	—
	7,223,476	1,931,179

15 Held-to-maturity securities

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Remaining maturity:		
— Three months or less	156,597	155,426
— One year or less, but over three months	543,539	1,258,716
— Five years or less, but over one year	3,363,810	3,561,674
— Over five years	1,455,294	1,543,440
	5,519,240	6,519,256

16 Non-trading securities

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Debt securities	572,299	1,516,274
Equity securities	483,632	507,366
	1,055,931	2,023,640
Remaining maturity of debt securities:		
— Three months or less	—	78,378
— One year or less, but over three months	—	680,695
— Five years or less, but over one year	524,963	522,081
— Over five years	47,336	230,513
— Undated	—	4,607
	572,299	1,516,274



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19 Deposits and balances of banks and other financial institutions

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Remaining maturity:		
— Repayable on demand	465,402	951,417
— Three months or less	8,109,110	11,291,703
— One year or less, but over three months	7,402,071	91,000
	15,976,583	12,334,120

20 Deposits from customers

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Demand deposits and current accounts	784,909	689,385
Savings deposits	2,682,687	2,150,712
Time, call and notice deposits	34,525,841	35,910,933
	37,993,437	38,751,030
Remaining maturity:		
— Repayable on demand	3,504,193	2,850,587
— Three months or less	33,326,397	33,020,686
— One year or less, but over three months	1,104,278	2,788,262
— Five years or less, but over one year	58,569	91,495
	37,993,437	38,751,030

21 Certificates of deposit issued

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Remaining maturity:		
— One year or less, but over three months	1,784,949	700,000
— Five years or less, but over one year	724,664	729,002
	2,509,613	1,429,002

22 Loan capital

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Subordinated floating rate notes:		
— with a final maturity on 2 July 2011 (callable on 3 July 2006)	584,820	584,820
— with a final maturity on 12 December 2011 (callable on 13 December 2006)	623,808	623,808
— with a final maturity on 26 March 2012 (callable on 27 March 2007)	545,916	545,916
— with a final maturity on 8 December 2012 (callable on 10 December 2007)	500,000	500,000
— perpetual (callable on 10 December 2012)	1,000,000	1,000,000
Exchange adjustment	73	186
	3,254,617	3,254,730

Loan capital were raised by the Bank for the development and expansion of business and have been fully subscribed by the ultimate holding company. These notes qualify for and have been included as the Bank's supplementary capital in accordance with the Third Schedule to the Banking Ordinance.



23 Reserves

	30 Jun 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000
Ordinary share premium	1,786,686	1,786,686
Convertible preference share premium	505,496	505,496
Bank premises revaluation reserve	337,022	343,149
Investment revaluation reserve	(5,168)	27,794
Exchange reserve	11	(21)
General reserve	219,200	219,200
Retained profits	790,496	764,765
	3,633,743	3,647,069
Proposed dividends not provided for	99,191	206,648

24 Balances with group companies

(a) Included in the following balance sheet captions are balances with the ultimate holding company:

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
On-balance sheet		
Cash and short-term funds	4,394,917	7,866,784
Placements with banks and other financial institutions maturing between one and twelve months	2,127,558	1,033,844
Advances and other accounts	70,730	85,049
	6,593,205	8,985,677
Deposits and balances of banks and other financial institutions (Note)	14,927,824	11,447,647
Certificates of deposit issued	700,000	700,000
Other accounts and provisions	114,369	120,764
	15,742,193	12,268,411
Loan capital	3,254,617	3,254,730
Off-balance sheet		
Foreign exchange contracts — contractual amount	12,508,569	8,046,200
Interest rate swaps — notional principal	6,174,423	7,366,960
Currency options — contractual amount		390,100
— options purchased	504,125	—
— options written	77,983	—
	582,108	390,100
Interest rate options — contractual amount		404,940
— options written	404,915	—
Other commitments with maturity within 1 year — overdraft facility	1,013,779	1,013,844



24 Balances with group companies (continued)

- (a) Included in the following balance sheet captions are balances with the ultimate holding company: (continued)

Note: Included in deposits and balances of banks and other financial institutions is an amount of HK\$7,946,468,000 (31 December 2002: HK\$2,105,676,000) representing utilization of a standby credit facility of HK\$12,000,000,000 (31 December 2002: HK\$6,000,000,000) granted by the ultimate holding company to the Bank for working capital purposes.

- (b) Included in the following balance sheet captions are balances with fellow subsidiaries:

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
On-balance sheet		
Advances and other accounts	3,344	3,020
Deposits and balances of banks and other financial institutions	20,376	60,000
Deposits from customers	306,528	639,791
Other accounts and provisions	1,413	1,308
	328,317	701,099
Off-balance sheet		
Foreign exchange contracts — contractual amount	437,250	107,800
Interest rate swaps — notional principal	327,529	265,159

- (c) Included in the following balance sheet captions are balances with associated companies:

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
On-balance sheet		
Deposits from customers	15,444	15,884



25 Related party transactions

During the period, the Group entered into various transactions in the normal course of business with related parties, including the ultimate holding company, fellow subsidiaries and associated companies.

(a) Summary of transactions entered into during the ordinary course of business with related parties

The aggregated income and expense arising from the related party transactions with the ultimate holding company, fellow subsidiaries and associated companies are summarised as follows:

	30 Jun 2003 HK\$'000	30 Jun 2002 HK\$'000
Interest income		
— Placement (Note (i))	24,090	16,708
— Interest rate swaps (Note (ii))	147,002	146,128
Interest expense		
— Deposits (Note (iii))	(66,257)	(74,640)
— Interest rate swaps (Note (ii))	(157,323)	(171,049)
— Certificates of deposit issued (Note (iv))	(8,600)	(3,353)
— Loan capital (Note (v))	(28,587)	(16,889)
Net option premium expense (Note (vi))	(865)	(289)
Management fee income (Note (vii))	2,400	2,250
Service fee income (Note (x))	600	—
Service fee expense (Note (ix))	(2,154)	(1,240)
Premises expense (Note (viii))	(3,056)	(2,870)

Notes :

- (i) Interest income was received on inter-bank deposits placed with the ultimate holding company and fellow subsidiaries at prevailing market rates.
- (ii) Interest income and expense were received from and paid to the ultimate holding company and fellow subsidiaries on interest rate swaps at prevailing market rates. These transactions included interest rate swaps entered on a back-to-back basis with the ultimate holding company and fellow subsidiaries.
- (iii) Interest expense was paid on the deposits taken from the ultimate holding company and fellow subsidiaries.
- (iv) Interest expense was paid to the ultimate holding company for fixed rate certificates of deposit issued by the Bank and subscribed by the ultimate holding company with nominal value of HK\$700,000,000.
- (v) Interest expense was paid to the ultimate holding company for subordinated floating rate notes issued by the Bank and fully subscribed by the ultimate holding company (Note 22).
- (vi) Net option premium expense was paid to the ultimate holding company on the various option contracts at prevailing market rates.
- (vii) In accordance with the Collaboration Agreement dated 3 July 2001, management fee income was received from the Hong Kong Branch of the ultimate holding company ("the Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing.
- (viii) In accordance with the Collaboration Agreement dated 3 July 2001 and the Licence Agreement dated 27 December 2001, premises expense was paid to the Branch for using a portion of floor area rented by the Branch.
- (ix) In accordance with the Service Levels Agreement dated 21 February 2002, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank.
- (x) In accordance with the Outsourcing Agreement dated 18 December 2002, service fee income was received from the Branch for the provision of management, administrative and marketing services in respect of credit card business of the Branch launched in Hong Kong commencing from 18 December 2002.



25 Related party transactions (continued)

(b) Buy and sale of certain assets from/to related parties

Sub-participation of syndicated loans

During the six months ended 30 June 2003, the Bank entered into various capital market transactions with the Branch, the ultimate holding company and fellow subsidiaries. These transactions included sub-participation in syndicated loans of the Bank by the Branch, the ultimate holding company and fellow subsidiaries for a total of HK\$1,851,085,000 (2002: HK\$2,633,300,000) and similar sub-participation in syndicated loans of the Branch, the ultimate holding company and fellow subsidiaries by the Bank for a total of HK\$2,806,278,000 (2002: HK\$1,295,000,000). These transactions were priced based on either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent syndicate members.

Buy and sale of debt securities

During the six months ended 30 June 2003, the Bank bought and sold debt securities with a carrying value of HK\$Nil (2002: HK\$522,576,000) and HK\$431,716,000 (2002: HK\$2,207,181,000) respectively from and to the ultimate holding company and fellow subsidiaries. These transactions were entered into on normal commercial terms with reference to prevailing market rates.

(c) Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was extended by the ultimate holding company, pursuant to which it would provide the Bank with such funding as might be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000 the payment obligations of certain customers whose "large exposures" were transferred to the Bank pursuant to the Business Transfer Agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. The amount of such on-balance sheet and off-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2003 was HK\$2,766,060,000 and HK\$1,946,048,000 respectively (31 December 2002: HK\$3,970,478,000 and HK\$1,705,566,000 respectively).

26 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Direct credit substitutes	2,286,077	2,491,814
Transaction-related contingencies	201,147	126,649
Trade-related contingencies	734,076	627,797
Other commitments		
— With an original maturity of under 1 year or which are unconditionally cancellable	4,733,203	4,161,036
— With an original maturity of 1 year and over	8,514,316	9,261,792
Forward deposits placed	327,928	49,438
	16,796,747	16,718,526



26 Off-balance sheet exposures (continued)

(b) Derivatives

The following is a summary of the notional amounts of each significant type of derivatives:

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Exchange rate contracts		
Forwards	2,420,051	6,574,033
Swaps	31,828,409	13,738,041
Currency options purchased	1,133,078	5,690,033
Currency options written	1,133,079	5,690,038
	36,514,617	31,692,145
Interest rate contracts		
Interest rate swaps	13,087,642	10,582,050
Interest rate options purchased	1,469,788	1,469,850
Interest rate options written	1,085,839	1,085,886
	15,643,269	13,137,786
Other contracts		
Equity options purchased	56,468	44,914
Equity options written	56,468	44,914
	112,936	89,828
	52,270,822	44,919,759

The contractual or notional amounts of off-balance sheet instruments provide only an indication of the volume of business outstanding at the balance sheet date and bear little relation to the underlying risks of the exposures.

The aggregate replacement cost and credit risk weighted amounts of the above off-balance sheet exposures are:

	30 Jun 2003		31 Dec 2002	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments		4,655,190		5,049,274
Exchange rate contracts	24,089	74,809	48,251	46,153
Interest rate contracts	113,477	39,565	405,508	98,022
Other contracts	141	—	238	—
	137,707	4,769,564	453,997	5,193,449

There was no bilateral netting arrangement on the above off-balance sheet instruments.



SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

1 Capital adequacy ratio and capital base

	30 Jun 2003		31 Dec 2002	
	Unadjusted ratio	Adjusted ratio	Unadjusted ratio	Adjusted ratio
Capital adequacy ratio	16.0%	16.0%	17.9%	17.8%

The unadjusted capital adequacy ratio is computed on the consolidated basis which comprises the positions of the Bank and its subsidiaries as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Third Schedule to the Banking Ordinance.

The adjusted capital adequacy ratio which takes into account market risks as at the balance sheet date is computed in accordance with the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority and on the same consolidated basis as for unadjusted capital adequacy ratio.

The components of the total capital base after deductions include the following items:

	30 Jun 2003 HK\$'000	(Restated) 31 Dec 2002 HK\$'000
Core capital:		
Paid up ordinary share capital	1,248,749	1,248,749
Paid up irredeemable non-cumulative convertible preference share capital	1,011,096	1,011,096
Ordinary share premium	1,786,686	1,786,686
Irredeemable non-cumulative convertible preference share premium	505,496	505,496
Reserves	882,666	743,975
Deduct: Goodwill	(638,961)	(656,710)
	4,795,732	4,639,292
Eligible supplementary capital:		
Reserves on revaluation of land and interests in land	112,602	114,649
Reserves on revaluation of holding of securities not held for trading purposes	(1,910)	4,456
General provisions for doubtful debts	292,730	274,481
Perpetual subordinated debts	1,000,000	1,000,000
Term subordinated debts	2,254,617	2,254,730
	3,658,039	3,648,316
Total capital base before deductions	8,453,771	8,287,608
Deductions from total capital base	(697,287)	(697,322)
Total capital base after deductions	7,756,484	7,590,286



2 Liquidity ratio

30 Jun 2003 30 Jun 2002

Average liquidity ratio for the six months ended **41.9%** 36.5%

The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is in accordance with the Fourth Schedule to the Banking Ordinance.

3 Currency concentration

The net position in foreign currencies are disclosed when each currency constitutes 10% or more of the total net position in all foreign currencies.

	US\$ HK\$'000	EUR HK\$'000	RMB HK\$'000	Total HK\$'000
As at 30 Jun 2003				
Spot assets	21,575,000	229,000	51,000	21,855,000
Spot liabilities	(33,213,000)	(154,000)	—	(33,367,000)
Forward purchases	23,700,000	141,000	329,000	24,170,000
Forward sales	(11,903,000)	(218,000)	(329,000)	(12,450,000)
Net long/(short) position	159,000	(2,000)	51,000	208,000
As at 31 Dec 2002				
Spot assets	18,360,000	199,000	51,000	18,610,000
Spot liabilities	(29,789,000)	(224,000)	(40,000)	(30,053,000)
Forward purchases	16,903,000	38,000	79,000	17,020,000
Forward sales	(5,415,000)	(29,000)	(79,000)	(5,523,000)
Net long/(short) position	59,000	(16,000)	11,000	54,000



4 Segmental information

(a) Gross advances to customers — by industry sectors

	30 Jun 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Loans for use in Hong Kong				
Industrial, commercial and financial				
— Property development	2,867,273	—	2,867,273	1,549,711
— Property investment	3,678,659	58,047	3,736,706	4,738,696
— Financial concerns	4,306,998	—	4,306,998	2,383,681
— Stockbrokers	26,853	—	26,853	30,636
— Wholesale and retail trade	1,323,970	160,129	1,484,099	1,539,200
— Civil engineering works	809,189	6,416	815,605	766,555
— Manufacturing	1,973,989	—	1,973,989	1,452,387
— Transport and transport equipment	4,969,320	—	4,969,320	4,832,851
— Electricity, gas and telecommunications	2,077,787	—	2,077,787	1,518,066
— Hotels, boarding house and catering	1,129,228	—	1,129,228	1,138,859
— Others	4,145,386	22,654	4,168,040	3,358,114
Individuals				
— Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	104,392	—	104,392	118,356
— Loans for the purchase of other residential properties	7,396,179	5,528	7,401,707	6,337,275
— Others	624,921	1,036	625,957	697,311
Trade finance	1,516,555	33,171	1,549,726	1,058,464
Loans for use outside Hong Kong	658,452	—	658,452	889,823
	37,609,151	286,981	37,896,132	32,409,985

(b) Advances to customers - by geographical areas

At 30 June 2003 and 31 December 2002, over 90% of the Group's advances to customers, non-performing loans and overdue loans were made to counterparties located in Hong Kong. In determining this analysis, no account has been taken of transfer of risk with respect to claims guaranteed by a party in a country which is different from that of the counterparty.



5 Overdue advances

	Gross advances to customers HK\$'000	% of advances	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Specific provisions made HK\$'000
As at 30 June 2003						
Consolidated except for UBCBM						
Three to six months overdue	60,602	0.2%	44,312	42,502	18,100	19,662
Six months to one year overdue	134,229	0.3%	36,778	32,862	101,367	84,348
Over one year overdue	158,692	0.4%	155,777	138,454	20,238	30,709
	353,523	0.9%	236,867	213,818	139,705	134,719
UBCBM						
Three to six months overdue	80,077	0.2%	—	—	80,077	48,352
Six months to one year overdue	—	—	—	—	—	—
Over one year overdue	147,810	0.4%	99,642	69,226	78,584	70,061
	227,887	0.6%	99,642	69,226	158,661	118,413
Consolidated						
Three to six months overdue	140,679	0.4%	44,312	42,502	98,177	68,014
Six months to one year overdue	134,229	0.3%	36,778	32,862	101,367	84,348
Over one year overdue	306,502	0.8%	255,419	207,680	98,822	100,770
	581,410	1.5%	336,509	283,044	298,366	253,132
As at 31 December 2002						
Consolidated						
Three to six months overdue	52,925	0.2%	47,905	41,562	11,363	9,570
Six months to one year overdue	22,505	0.1%	26,355	21,907	598	1,304
Over one year overdue	378,542	1.1%	305,299	251,956	126,586	113,971
	453,972	1.4%	379,559	315,425	138,547	124,845

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2003 and 31 December 2002.

6 Other overdue assets

	30 Jun 2003 HK\$'000	31 Dec 2002 HK\$'000
Accrued interest:		
— Three to six months overdue	488	473
— Six months to one year overdue	385	488
— Over one year overdue	4,383	4,422
	5,256	5,383
— Rescheduled assets	123	71
	5,379	5,454



7 Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provisions are 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\$100,415,000 (31 December 2002: HK\$107,113,000).

8 Rescheduled advances

	30 Jun 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Rescheduled advances (net of overdue loans over 3 months)	43,272	—	43,272	232,682
% of advances to customers	0.1%	—	0.1%	0.7%

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2003 and 31 December 2002.

9 Reconciliation

	30 Jun 2003			31 Dec 2002
	Consolidated except for UBCBM HK\$'000	UBCBM HK\$'000	Consolidated HK\$'000	Consolidated HK\$'000
Overdue loans (<i>Note 1</i>)	353,523	227,887	581,410	453,972
Rescheduled loans (<i>Note 2</i>)	43,272	—	43,272	232,682
	396,795	227,887	624,682	686,654
Less: Overdue loans on which interest is still being accrued	(4,535)	—	(4,535)	(3,475)
Less: Rescheduled loans on which interest is still being accrued	(17,269)	—	(17,269)	(20,796)
Add: Non-performing loans which are not overdue or rescheduled	127,663	36,440	164,103	76,549
Total non-performing loans	502,654	264,327	766,981	738,932

Notes:

- Overdue loans are advances which are overdue for over three months.
- Rescheduled loans which have been overdue for more than three months under the revised repayment terms are included under overdue advances and not rescheduled advances.



10 Cross-border claims

The Group analyses cross-border claims by geographical areas. In determining this analysis, it has been taken into account of transfer of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas which constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions <i>HK\$'000</i>	Public sector entities <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 Jun 2003				
Asia Pacific excluding Hong Kong	9,784	1,271	5,378	16,433
North and South America	193	89	3,129	3,411
Europe	6,485	—	722	7,207
As at 31 Dec 2002				
Asia Pacific excluding Hong Kong	11,634	332	5,984	17,950
North and South America	229	—	1,554	1,783
Europe	8,428	—	385	8,813