



Standard Chartered Bank (Hong Kong) Limited

2005 Interim Results

Press Release

## **STANDARD CHARTERED BANK (HONG KONG) LIMITED**

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The directors are pleased to announce the consolidated interim results of Standard Chartered Bank (Hong Kong) Limited (the “Bank”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2005.

### **Hong Kong Incorporation**

The Bank was incorporated with limited liability on 12 December 2003 under the Companies Ordinance (Cap. 32) as a non-private company (registered number 875305). On 4 March 2004, it obtained a banking license from the Hong Kong Monetary Authority. From the date of incorporation to 30 June 2004 it did not carry out any operations.

On 1 July 2004, the Bank acquired the businesses of Manhattan Card Company Limited (“MCCL”), Standard Chartered Finance Limited (“SCF”), Standard Chartered International Trade Products Limited (“SCITP”) and Chartered Capital Corporation Limited (“CCC”) for cash payments equal to their respective book values at that date. The business of the Hong Kong SAR branch of Standard Chartered Bank (“SCB”) was acquired by the Bank in exchange for the issuance of Ordinary B shares.

The mechanisms by which the Bank acquired these businesses were the Standard Chartered Bank (Hong Kong) Limited (Merger) Ordinance (a Hong Kong SAR private ordinance), an Order of the High Court of Justice in England and Wales (pursuant to a scheme under Part VII of the English Financial Services and Markets Act 2000), and through bilateral agreements.

In accordance with the provisions of the Standard Chartered Bank (Hong Kong) Limited (Merger) Ordinance, the businesses including their subsidiaries and the property, reserves and liabilities of the Hong Kong SAR branch of SCB and of MCCL, SCF, SCITP and CCC were transferred to the Bank on 1 July 2004 at their carrying values in their accounts immediately prior to the transfer.

### **Basis of Preparation**

These financial statements are prepared in accordance with Hong Kong Financial Reporting Standards. In accordance with the HKAS 27 “Consolidated and Separate Financial Statements”, the Group’s financial results were prepared on a consolidated basis. With a view to providing additional information, the 2004 comparative figures were presented on the same basis under Hong Kong Financial Reporting Standards with the exception of HKAS 39 “Financial Instruments: recognition and measurement” which were adopted prospectively commencing 2005 as permitted in the transitional rules.

The financial results and the information contained in this press release are for the period from 1 January 2005 to 30 June 2005. The consolidated income statement of the Group for the six months ended 30 June 2004 includes the combined results of operations of the companies comprising the Group which has been prepared as if the current group structure and operation had been in existence throughout the six months ended 30 June 2004, or since their respective dates of the incorporation or establishment, whichever is later.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (HKFRSs, which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Bank has determined the accounting policies expected to be adopted in the preparation of the Group’s annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

**STANDARD CHARTERED BANK (HONG KONG) LIMITED**
**Consolidated Income Statement**

<i>Figures in HK\$m</i>	<b>6 months ended 30 June 2005</b>	<i>(Restated)</i> <b>6 months ended 30 June 2004</b>
Interest income and similar income	5,053	4,248
Interest expense and similar charges	(1,628)	(755)
<b>Net interest income</b>	<b>3,425</b>	3,493
- Fee and commission income	1,670	1,618
- Fee and commission expense	(302)	(308)
Net fee and commission income	1,368	1,310
Net trading gains	499	287
Net gains from disposal of available-for-sale securities	220	-
Other operating (expense)/income	(71)	53
	<b>2,016</b>	1,650
<b>Total operating income</b>	<b>5,441</b>	5,143
- Staff costs	(1,167)	(1,125)
- Premises and equipment	(513)	(544)
- Others	(792)	(799)
<b>Operating expenses</b>	<b>(2,472)</b>	(2,468)
<b>Operating profit before impairment</b>	<b>2,969</b>	2,675
Charge for bad and doubtful debts	-	(738)
Impairment losses and impairment allowances for impaired assets	(483)	-
Impairment allowances on available for sale securities	(5)	-
<b>Profit before taxation</b>	<b>2,481</b>	1,937
Taxation	(405)	(309)
<b>Profit after taxation</b>	<b>2,076</b>	1,628
Minority interests	(8)	(2)
<b>Profit attributable to shareholders</b>	<b>2,068</b>	1,626

**STANDARD CHARTERED BANK (HONG KONG) LIMITED**

**Consolidated Balance Sheet**

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>(Restated) At 31 December 2004</i>
<b>Assets</b>		
Cash and short-term funds	54,177	40,912
Placements with banks and other financial institutions maturing between one and twelve months	2,375	7,739
Certificates of deposit held	2,948	1,474
Hong Kong SAR Government certificates of indebtedness	19,421	19,681
Trading securities	3,690	2,581
Advances to customers less allowances for impaired assets	173,213	169,592
Amounts due from immediate holding company	39,328	64,521
Amounts due from fellow subsidiaries	507	28
Available-for-sale securities	26,504	-
Non-trading securities	-	18,357
Deferred tax assets	74	137
Fixed assets	868	893
Intangible assets	866	1,024
Other assets	9,056	8,823
	<b>333,027</b>	<b>335,762</b>
<b>Liabilities</b>		
Hong Kong SAR currency notes in circulation	19,421	19,681
Deposits and balances of banks and other financial institutions	12,000	10,373
Deposits from customers	241,554	238,922
Certificates of deposit issued	6,264	10,525
Debt securities issued	904	931
Amounts due to immediate holding company	6,228	8,978
Amounts due to fellow subsidiaries	63	261
Current taxation	527	114
Deferred tax liabilities	26	24
Other liabilities	21,348	19,119
	<b>308,335</b>	<b>308,928</b>
<b>Capital resources</b>		
Dated capital notes	3,865	8,383
Minority interests	53	48
- Share capital	3,901	3,878
- Reserves	16,873	14,525
Shareholders' equity	<b>20,774</b>	<b>18,403</b>
	<b>24,692</b>	<b>26,834</b>
	<b>333,027</b>	<b>335,762</b>

**STANDARD CHARTERED BANK (HONG KONG) LIMITED**
**Consolidated Statement of Changes in Equity**

<i>Figures in HK\$m</i>	<b>6 months ended 30 June 2005</b>	<b>6 months ended 30 June 2004</b>
<b>Total equity at beginning of the period</b>		
Attributable to shareholders	18,403	1,475
Minority interests	48	48
	<u>18,451</u>	<u>1,523</u>
Opening balance adjustments arising from changes in accounting policies	358	-
<b>Restated total equity at beginning of the period</b>	<u>18,809</u>	<u>1,523</u>
Changes in fair value of cashflow hedges	(7)	-
Changes in fair value of available-for-sale securities	(51)	-
Changes in fair value of non-trading securities	-	(29)
<b>Net losses not recognised in the income statement</b>	<u>(58)</u>	<u>(29)</u>
Profit attributable to shareholders	2,068	1,626
Profit attributable to minority interests	8	2
<b>Net profit for the period</b>	<u>2,076</u>	<u>1,628</u>
<b>Dividends declared</b>	-	(1,180)
Issue of ordinary share capital	23	39
Issue of preference share capital	-	3,800
Premium received on shares issued	-	12,461
Capitalisation of share premium	(23)	-
<b>Movements in shareholders' equity arising from capital transactions with shareholders</b>	<u>-</u>	<u>16,300</u>
<b>Total equity at end of the period</b>	<u>20,827</u>	<u>18,242</u>

## Additional Information

## 1. Taxation

The charge for taxation in the consolidated income statement comprises:

<i>Figures in HK\$m</i>	<b>6 months ended 30 June 2005</b>	<b>6 months ended 30 June 2004</b>
Hong Kong profits tax	412	331
Deferred taxation	(7)	(22)
	<b>405</b>	<b>309</b>

## 2. Advances to customers less allowances for impaired assets

<i>Figures in HK\$m</i>	<b>At 30 June 2005</b>	<b>At 31 December 2004</b>
Gross advances to customers	169,990	167,334
Trade bills	6,000	5,310
	<b>175,990</b>	<b>172,644</b>
Individual impairment allowances (note 6)	(2,505)	-
Collective impairment allowances	(272)	-
Specific provisions for bad and doubtful debts	-	(2,267)
General provisions for bad and doubtful debts	-	(785)
	<b>173,213</b>	<b>169,592</b>

No impairment allowances are held against trade bills.

## Additional Information

## 3. Analysis of gross advances to customers by industry sector and geographical area

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
<b>Gross advances for use in Hong Kong</b>		
<i>Industrial, commercial and financial</i>		
Property development	3,649	3,181
Property investment	16,434	14,769
Financial concerns	8,065	9,192
Stockbrokers	1,026	719
Wholesale and retail trade	4,081	3,325
Manufacturing	7,544	6,217
Transport and transport equipment	3,082	3,601
Others	5,577	5,514
	<b>49,458</b>	<b>46,518</b>
<i>Individuals</i>		
Advances for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,347	2,525
Advances for the purchase of other residential properties	89,639	86,793
Credit card advances	9,072	9,875
Others	4,013	4,276
	<b>105,071</b>	<b>103,469</b>
<b>Total gross advances for use in Hong Kong</b>	<b>154,529</b>	<b>149,987</b>
<b>Trade finance</b>	<b>12,424</b>	<b>10,872</b>
<b>Gross advances for use outside Hong Kong</b>	<b>3,037</b>	<b>6,475</b>
<b>Gross advances to customers</b>	<b>169,990</b>	<b>167,334</b>

Geographical segments are identified based on the location of the branches of the Group responsible for reporting the results or booking the assets, the location of customers and the location of the assets. All of the Group's operations and branches were located in Hong Kong. At 30 June 2005 and 31 December 2004, more than 90% of assets were either located in Hong Kong or were extended to companies and individual domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong.

## Additional Information

## 4. Overdue advances to customers

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>		<i>At 31 December 2004</i>	
	<b>% of advances</b>		<b>% of advances</b>	
<b>Gross overdue advances to customers (excluding trade bills)</b>				
6 months or less but over 3 months	<b>90</b>	-	168	0.1%
1 year or less but over 6 months	<b>149</b>	<b>0.1%</b>	188	0.1%
Over 1 year	<b>2,184</b>	<b>1.3%</b>	2,140	1.3%
	<b>2,423</b>	<b>1.4%</b>	2,496	1.5%
<b><u>Breakdown by countries</u></b>				
Hong Kong	<b>1,682</b>		1,683	
People's Republic of China (excluding Hong Kong)	<b>728</b>		791	
Others	<b>13</b>		22	
	<b>2,423</b>		2,496	

As at 30 June 2005 and 31 December 2004, there were no advances to banks overdue for over 3 months.

## 5. Rescheduled advances to customers

	<i>At 30 June 2005</i>		<i>At 31 December 2004</i>	
	<b>HK\$m</b>	<b>% of customer advances</b>	<b>HK\$m</b>	<b>% of customer advances</b>
Rescheduled advances to customers (including trade bills )	<b>524</b>	<b>0.3%</b>	535	0.3%

The above rescheduled advances are net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note 4.

As at 30 June 2005 and 31 December 2004, there were no rescheduled advances to banks. Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group.



## Additional Information

## 6. Impaired advances

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>
Gross impaired advances to customers (including trade bills)	3,009
Individual impairment allowances made in respect of such advances (note 2)	(2,505)
	<u>504</u>
Gross impaired advances as a % of gross advances to customers	<u>1.7%</u>

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Impaired loans will now be measured at their estimated recoverable amount with additional allowance provided if the recoverable amount (present value of estimated cash flow discounted at original effective interest rate) is lower than the net book value of the loans. Individual impairment allowances are made after taking into account the value of collateral in respect of impaired advances.

As at 30 June 2005 and 31 December 2004, there were no advances to banks which are classified as impaired advances.

## 7. Repossessed assets

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
Repossessed assets	86	112

Equity shares acquired for release in full or in part the obligations of the borrowers due to restructuring or the inability of borrowers to repay are recorded as available-for-sale securities in the balance sheet. Other assets acquired similarly, continue to be recorded as "loans and advances" in the balance sheet until the assets are realised. If the estimated realisable value of the assets is less than the carrying value of the obligation, the carrying value is adjusted to reflect the loss in the income statement.

**8. Deposits from customers**

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
Demand deposits and current accounts	18,084	23,534
Saving deposits	99,486	118,787
Time, call and notice deposits	123,984	96,601
	<b>241,554</b>	<b>238,922</b>

**9. Reserves**

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
Share premium	12,477	12,500
Premises revaluation reserve	3	3
Available-for-sale securities revaluation reserve	(80)	-
Non-trading securities revaluation reserve	-	(29)
Cash flow hedge reserve	(7)	-
Retained earnings	4,480	2,051
	<b>16,873</b>	<b>14,525</b>

The HKMA requires the Bank to maintain a minimum level of impairment allowances which is in excess of the impairment allowances required under Hong Kong Financial Reporting Standards. Of the retained earnings as at 30 June 2005, an amount of HK\$534 million has been reserved for this purpose.

## 10. Off-balance sheet exposures

Figures in HK\$m

	At 30 June 2005	At 31 December 2004
<b>a) Contractual or notional amounts</b>		
<u>Contingent liabilities and commitments</u>		
Direct credit substitutes	6,419	7,724
Transaction-related contingencies	5,075	3,408
Trade-related contingencies	19,591	18,937
Other commitments	138,415	143,684
Others	290	16,364
	169,790	190,117
<u>Derivatives</u>		
Exchange rate contracts	592,155	569,309
Interest rate contracts	41,882	88,120
Others	27	26
	634,064	657,455
	803,854	847,572

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The above derivatives transactions are undertaken by the Group in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

## Additional Information

## 10. Off-balance sheet exposures (Cont'd)

b) Replacement costs and credit risk weighted amounts of contingent liabilities and commitments and contracts

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures, which do not take into account the effects of bilateral netting arrangements, are as follows.

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>		<i>At 31 December 2004</i>	
	<i>Replacement cost</i>	<i>Credit risk weighted amount</i>	<i>Replacement cost</i>	<i>Credit risk weighted amount</i>
Contingent liabilities and commitments	-	14,806	-	19,329
Exchange rate contracts	3,995	1,740	6,464	2,267
Interest rate contracts	143	96	298	110
	<b>4,138</b>	<b>16,642</b>	<b>6,762</b>	<b>21,706</b>

The replacement cost represents the cost of replacing all contracts which have a positive value when marked to market and which have not been subject to any bilateral netting arrangements.

The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and maturity characteristics.

## Additional Information

## 11. Cross-border claims

Cross border claims are on-balance sheet exposures to counterparties based on the location of those counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or area, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

<i>Figures in HK\$m</i>	<b>Banks and Other Financial Institutions</b>	<b>Public Sector Entities</b>	<b>Others</b>	<b>Total</b>
<b><u>As at 30 June 2005</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>13,880</b>	<b>-</b>	<b>4,027</b>	<b>17,907</b>
<b>North America</b>	<b>5,864</b>	<b>12,438</b>	<b>4,173</b>	<b>22,475</b>
<b>Western Europe</b>				
<b>- United Kingdom</b>	<b>43,790</b>	<b>-</b>	<b>102</b>	<b>43,892</b>
<b>- Others</b>	<b>21,982</b>	<b>1,220</b>	<b>370</b>	<b>23,572</b>
<b><u>As at 31 December 2004</u></b>				
Asia Pacific excluding Hong Kong	8,711	-	7,595	16,306
North America	198	7,062	4,453	11,713
Western Europe				
- United Kingdom	65,163	-	322	65,485
- Others	12,809	1,114	885	14,808

## Additional Information

**12. Currency risk**

Foreign exchange exposures arising from trading, non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
<b>USD</b>		
Spot assets	<b>92,766</b>	94,579
Spot liabilities	<b>(78,325)</b>	(84,707)
Forward purchases	<b>282,695</b>	272,370
Forward sales	<b>(296,279)</b>	(281,566)
Net long position	<b>857</b>	676

The Group had the following structural foreign currency exposures which exceeded 10 per cent of the net structural foreign currency exposure in all currencies.

Vietnamese Dong	<b>171</b>	-
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**13. Capital adequacy ratios**

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004</i>
Capital adequacy ratio	<b>14.5 %</b>	15.9 %
Adjusted capital adequacy ratio	<b>14.2 %</b>	14.9 %

The capital adequacy ratio is computed on the consolidated basis of the Bank and certain of its financial subsidiaries as specified by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance. The adjusted capital adequacy ratio incorporating market risk is computed on an unconsolidated basis as agreed with the HKMA, and is in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risk" under the Supervisory Policy Manual issued by the HKMA.

## Additional Information

**14. Components of capital base after deductions**

The capital base after deductions used in the calculation of the above capital adequacy ratio on the consolidated basis of the Bank and reported to the HKMA is analysed as follows:

<i>Figures in HK\$m</i>	<i>At 30 June 2005</i>	<i>At 31 December 2004*</i>
<b>Core capital:</b>		
Paid up ordinary share capital	101	78
Irredeemable non-cumulative preference shares	3,800	3,800
Share premium	12,477	12,500
Reserves (including retained earnings)	3,983	2,821
Minority interests	53	48
Deduct: Goodwill	(611)	(667)
	19,803	18,580
<b>Eligible supplementary capital:</b>		
Premises and investment properties revaluation reserve (at 70%)	2	2
Available-for-sale securities revaluation reserve	(80)	-
Non-trading securities revaluation reserve	-	(29)
Collective impairment allowances for impaired assets and Regulatory Reserve	806	-
General provisions for bad and doubtful debts	-	785
Dated capital notes	3,865	8,383
	4,593	9,141
<b>Total capital base before deductions</b>	<b>24,396</b>	27,721
Deductions from total capital base	(194)	(23)
<b>Total capital base after deductions</b>	<b>24,202</b>	27,698

\* Comparative amounts for 31 December 2004 are as previously reported.

Additional Information

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15. Liquidity ratio

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	<i>6 months ended 30 June 2005</i>	<i>6 months ended 30 June 2004</i>
Average liquidity ratio for the period	<u>33.7%</u>	<u>33.9%</u>

The average liquidity ratio is computed as the simple average of each calendar month's average liquidity ratio of the Bank for the period.

The liquidity ratio is computed on an unconsolidated basis and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

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16. Statement of compliance

In preparing the interim results for the first half of 2005, the Bank has fully complied with the disclosure standards set out in the "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

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By order of the Board  
Nereid Lai  
Company Secretary

Hong Kong  
8 August 2005