



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2005 FINAL RESULTS

The Directors of Asia Commercial Bank Limited (the “Bank”) are pleased to announce the audited results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2005.

### **Consolidated Income Statement**

For the year ended 31 December

	Notes	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000 (Restated)	<u>Variance</u> %
Interest income		<b>614,912</b>	371,013	65.7
Interest expense		<b>(375,060)</b>	(125,080)	199.9
Net interest income		<b>239,852</b>	245,933	-2.5
Other operating income	<b>4</b>	<b>75,143</b>	67,607	11.1
Operating expenses	<b>5</b>	<b>(159,211)</b>	(171,871)	-7.4
Impairment losses and allowances		<b>(54,852)</b>	-	
Charge for bad and doubtful debts		-	(26,221)	
Provision against a loan to jointly-controlled entity		-	(2,500)	
Write-back of impairment allowance against a loan to a jointly-controlled entity		<b>3,500</b>	4,433	-21.0
Gain on disposal of a jointly-controlled entity		-	2,990	
Gains less losses from disposal of property, plant and equipment		-	2,980	
Share of profits and losses of a jointly-controlled entity		<b>1,900</b>	2,400	-20.8
Profit before tax		<b>106,332</b>	125,751	-15.4
Tax	<b>6</b>	<b>(19,740)</b>	(20,887)	-5.5
Profit for the year		<b>86,592</b>	104,864	-17.4
<b>Dividends:</b>				
Interim		<b>15,390</b>	24,300	
Proposed final		<b>31,995</b>	38,070	
		<b>47,385</b>	62,370	



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2005 FINAL RESULTS

### Consolidated Balance Sheet

	Notes	<u>31-Dec-2005</u> HK\$'000	<u>31-Dec-2004</u> HK\$'000 (Restated)
<b>ASSETS</b>			
Cash and short-term funds		2,366,638	2,104,039
Placements with banks and other financial institutions maturing between one and twelve months		361,675	830,333
Trade bills		34,969	53,684
Securities measured at fair value through profit or loss		66,020	-
Other investment in securities		-	56,523
Derivative receivables		47,855	-
Loans and advances and other accounts	7	9,233,938	7,948,934
Investment securities		-	8,879
Available-for-sale securities		6,804	-
Held-to-maturity securities		3,579,051	2,930,292
Loan to a jointly-controlled entity		30,000	26,500
Interests in jointly-controlled entities		21,100	19,200
Intangible assets		599	743
Property, plant and equipment		386,468	353,015
Investment properties		21,660	15,640
Total assets		<u>16,156,777</u>	<u>14,347,782</u>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		966,379	592,678
Derivative payables		54,524	-
Deposits from customers	8	11,524,909	10,776,743
Certificates of deposit issued		1,423,451	1,025,000
Other liabilities		270,896	152,020
Tax payable		-	11,306
Deferred tax liabilities		43,931	25,833
Total liabilities		<u>14,284,090</u>	<u>12,583,580</u>
<b>EQUITY</b>			
Issued capital		810,000	810,000
Reserves		509,037	473,039
Retained profits	9	521,655	443,093
Proposed final dividend		31,995	38,070
Total equity		<u>1,872,687</u>	<u>1,764,202</u>
Total equity and liabilities		<u>16,156,777</u>	<u>14,347,782</u>



ANNOUNCEMENT OF 2005 FINAL RESULTS

**Consolidated summary statement of changes in equity**

	<u>2005</u>	<u>2004</u>
	HK\$'000	HK\$'000
Total equity at 1 January		
As previously reported	1,764,202	1,659,613
Opening adjustments	39,355	-
As restated	<u>1,803,557</u>	<u>1,659,613</u>
Surplus on revaluation of leasehold buildings	43,424	68,785
Deferred tax debited to equity	<u>(7,426)</u>	<u>(10,740)</u>
Net gains not recognised in the income statement	<u>35,998</u>	<u>58,045</u>
Profit for the year	86,592	104,864
Dividends:		
Final 2003 dividend declared	-	(34,020)
Interim 2004 dividend	-	(24,300)
Final 2004 dividend declared	(38,070)	-
Interim 2005 dividend	<u>(15,390)</u>	-
Total equity at 31 December	<u><u>1,872,687</u></u>	<u><u>1,764,202</u></u>



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes**

1. The financial information relating to the financial periods included in this final results announcement does not constitute the Group's statutory accounts. The financial information relating to the financial year ended 31 December 2005 is derived from the statutory accounts for that financial year which are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 27 March 2006.

**2. Changes in accounting policies**

The significant changes to the Group's accounting policies and the effects of adopting these new HKFRSs are set out below:-

HKAS 17 : Leases

- (a) In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and any impairment losses.
- (b) Upon the adoption of HKAS 17, the leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The leasehold land is classified as an operating lease, because the title of the land is not expected to pass to an enterprise by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The directors consider that no reliable source of such allocation of lease payments could be obtained, and accordingly, the land and building elements have not been separated. The adoption of HKAS 17 has no material effect on the consolidated income statement and retained profits of the Group.



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**2. Changes in accounting policies (continued)**

HKAS 32 : Financial Instruments - Disclosure and Presentation and HKAS 39 : Financial Instruments - Recognition and Measurement

(a) In prior years, the accounting policies for certain financial instruments were as follows:-

- Dated debt securities that the Bank has the ability and intention to hold to maturity were classified as held-to-maturity securities; securities which are intended to be held on a continuing basis or for an identified long-term purpose were classified as investment securities; and other investments in securities which are not classified as held-to-maturity securities or investment securities.
- Interest income on loans and advances and debt securities and interest expense on deposits and debt instruments were recognised on an accrual basis using the relative contract or coupon interest rates. The interest accrued on non-performing loans were not taken as income but credited to a suspense account, which was offset against the appropriate items in the balance sheet.
- General provisions on loans and advances were determined at a level deemed appropriate to absorb expected losses for loans in the future. Specific provisions on loans and advances were determined to absorb expected losses from individual borrowers after taking into account the value of the collateral held.

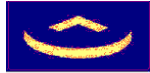


**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**2. Changes in accounting policies (continued)**

- Fees on loan origination are recognised except when such fees are interest in nature. In such case, the fees are recognised on an appropriate basis over the relevant period. Costs associated with loan origination or acquisition are charged as operating expenses or offset against interest income when incurred. Premiums or discounts of debt securities held, or debt securities in issue, are amortised over the period from the date of purchase or issue to the date of maturity, as part of interest income or interest expense.
  
- (b) From 1 January 2005, the Group has adopted HKAS 32 and HKAS 39 and classified financial instruments under the following categories:
  - Securities measured at fair value through profit or loss  
This category comprises financial assets held for trading and those that are designated as fair value through profit or loss at inception. Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.
  
  - Held-to-maturity securities  
This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Held-to-maturity securities are carried at amortised cost using the effective interest method less provision for impairment, if any.



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**2. Changes in accounting policies (continued)**

- Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortised cost using the effective interest method, less provision for impairment, if any. The related interest and impairment are accounted for in the income statement.

- Available-for-sale securities

This category comprises non-derivative financial assets that are designated as available-for-sale securities or are not classified as loans and advances, securities measured at fair value through profit or loss or held-to-maturity securities. Unrealised gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the investment revaluation reserve. In the case where the available-for-sale securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are carried at cost.

(c) Revenue recognition

Interest income and expense are recognised using the effective interest method. The effective interest method is a method to allocate the interest over the expected life of the relevant financial assets and liabilities using the effective interest rate that exactly discounts estimated future cash payments and receipts through the expected life of the relevant financial assets and liabilities. The calculation of effective interest rates includes all fees, commissions and costs on loans and advances and premium and discounts on held-to-maturity securities. Interest will continue to be recognised on impaired financial assets using the effective rate to discount the future cash flows for the purpose of measuring the impairment loss.



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**2. Changes in accounting policies (continued)**

(d) Impairment allowances for advances

Impairment allowances can be made on an individual assessed basis and a collective portfolio basis.

- Individual impairment allowance applies to loans and advances that are individually significant and have objective evidence of impairment. In assessing for impairment the management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation, the net realisable value of the underlying collateral or guarantees in favour of the Bank. Each impaired asset is assessed on its merits and impairment allowance is measured as the difference between the loan's carrying value and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.
- Collective impairment allowances cover credit losses inherent in portfolios of loans and advances and other accounts with similar economic and risk characteristics where objective evidence for individual impaired items cannot yet be identified. In assessing the collective impairment allowance, management makes assumptions both to define the way the Bank assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions.

The effects of the above changes are summarized in note 3. In accordance with the transitional provisions of HKAS 39, a comparative amounts have not been restated.



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**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**2. Changes in accounting policies (continued)**

HKAS 40 : Investment Property

- (a) In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged. On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement. Moreover, the Group classified its property, plant and equipment, which were let to and occupied by its holding company as fixed assets, which were stated at cost or valuation less accumulated depreciation and any impairment losses.
  
- (b) Upon the adoption of HKAS 40, leased properties are classified as investment properties if they are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes. Therefore, the properties leased to its holding company are now also classified as investment properties in accordance with HKAS 40.



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2005 FINAL RESULTS

#### Notes (continued)

#### 2. Changes in accounting policies (continued)

##### HKAS 40 : Investment Property (continued)

The gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. The comparative amounts for the prior year have been restated to reflect the reclassification of owner-used properties as investment properties. The revaluation gain of the said properties was credited to the consolidated income statement for the current year. The effects of the above changes are summarised in note 3.

##### HK(SIC) – Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

- (a) In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.
- (b) Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly, the profits tax rate has been applied to the calculation of deferred tax.

The effects of the above changes are summarised in note 3.



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**3. Summary of the effect of changes in the accounting policies**

- (a) Effects of adopting new accounting policies on the consolidated balance sheet as at 31 December 2004 and 1 January 2005

	<b>HK\$'000</b>
Group and Bank	
At 31 December 2004	
- HKAS 40	
Assets	
Decrease in property, plant and equipment	<b>(9,620)</b>
Increase in investment properties	<b>9,620</b>
Total effect	<b><u>-</u></b>
At 1 January 2005	<b>HK\$'000</b>
- HKAS 39	
Assets	
Increase in derivative receivables	<b>59,087</b>
Increase in loans and advances and other accounts	<b>44,562</b>
Increase in held-to-maturity securities	<b>1,647</b>
Liabilities	
Increase in derivative payables	<b>(57,669)</b>
Increase in certificates of deposit issued	<b>(28)</b>
Increase in deferred tax on collective impairment allowances	<b>(8,244)</b>
Total effect	<b><u>39,355</u></b>



ANNOUNCEMENT OF 2005 FINAL RESULTS

Notes (continued)

3. Summary of the effect of changes in the accounting policies (continued)

- (b) The estimated effects of adopting new accounting policies on the consolidated income statement for the year ended 31 December 2005

	HK\$'000
Year ended 31 December 2005	
- HKAS 1	
Decrease in share of profits and losses of a jointly-controlled entity	(332)
Decrease in tax	332
	<u>-</u>
- HKAS 39	
Increase in interest income	11,627
Increase in interest expenses	(371)
Decrease in fees and commission income	(1,881)
Decrease in operating expenses	7,852
Decrease in impairment losses and allowances	11,684
Increase in deferred tax charge	(3,261)
	<u>25,650</u>
- HKAS 40	
Increase in fair value gains on revaluation of investment properties	540
Increase in deferred tax charge	(1,054)
	<u>(514)</u>
Total increase in profit	<u><u>25,136</u></u>



ANNOUNCEMENT OF 2005 FINAL RESULTS

Notes (continued)

**3. Summary of the effect of changes in the accounting policies (continued)**

(c) The effects of adopting new accounting policies on the consolidated income statement for the year ended 31 December 2004

	<b>HK\$'000</b>
Year ended 31 December 2004	
- HKAS 1	
Decrease in share of profits and losses of a jointly-controlled entity	(295)
Decrease in tax	295
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- HKAS 40	
Decrease in fair value gains on revaluation of leasehold buildings	(513)
Increase in fair value gains on revaluation of investment properties	513
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**ANNOUNCEMENT OF 2005 FINAL RESULTS****Notes (continued)****3. Summary of the effect of changes in the accounting policies (continued)**

- (d) The estimated effects of adopting new accounting policies on the consolidated balance sheet as at 31 December 2005

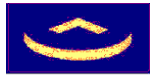
	<b>HK\$'000</b>
At 31 December 2005	
- HKAS 39	
Assets	
Increase in derivative receivables	<b>47,855</b>
Increase in loans and advances and other accounts	<b>70,957</b>
Increase in held-to-maturity securities	<b>5,952</b>
Liabilities	
Increase in derivative payables	<b>(54,524)</b>
Increase in certificates of deposit issued	<b>(399)</b>
Decrease in other liabilities	<b>6,669</b>
Increase in deferred tax liabilities on collective impairment allowances	<b>(11,505)</b>
- HKAS 40	
Liabilities	
Increase in deferred tax liabilities	<b>(1,054)</b>
Total estimated effect on consolidated balance sheet at 31 December 2005	<b><u>63,951</u></b>

- (e) An opening adjustment of HK\$39,355,000 has been credited to the Group's retained profits upon the adoption of new accounting policies as at 1 January, 2005.

**ANNOUNCEMENT OF 2005 FINAL RESULTS****Notes (continued)****4. Other operating income**

	<u>2005</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u> (Restated)
Fees and commission income:		
Retail and commercial banking	33,832	35,898
Securities	13,641	13,482
	<u>47,473</u>	<u>49,380</u>
Fees and commission expenses	<u>(1,595)</u>	<u>(1,434)</u>
Net fees and commission income	45,878	47,946
Gains less losses arising from dealing in foreign currencies	11,365	8,877
Dividend income from listed investments	361	189
Dividend income from unlisted investments	999	2,315
Gain on disposal of securities measured at fair value through profit or loss	9,280	2,933
Fair value gains on securities measured at fair value through profit or loss	2,438	159
Gross rental income	3,505	3,026
Less: Direct operating expenses	<u>(15)</u>	<u>(15)</u>
Net rental income	3,490	3,011
Others	1,332	2,177
	<u>75,143</u>	<u>67,607</u>

During the year ended 31 December 2005, certain fee income of HK\$1,881,000, which would have been classified under other operating income under the previous accounting policies, has now been included in the calculation of interest income under the effective interest method upon the prospective adoption of HKAS 39.

**ANNOUNCEMENT OF 2005 FINAL RESULTS****Notes (continued)****5. Operating expenses**

	<u>2005</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u> (Restated)
Staff costs	96,307	92,084
Buildings and equipment expenses	17,430	21,861
Depreciation charges	15,697	17,867
Fair value gains on revaluation of leasehold buildings	(1,499)	(4,771)
Fair value gains on revaluation of investment properties	(6,020)	(1,463)
Amortisation of intangible assets	56	56
Impairment loss of intangible assets	88	88
Others	37,152	46,149
	<u>159,211</u>	<u>171,871</u>

**6. Tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

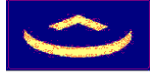
	<u>2005</u> <u>HK\$'000</u>	<u>2004</u> <u>HK\$'000</u> (Restated)
Current tax charge for the year:		
Hong Kong	17,334	20,815
Elsewhere	1,521	876
Deferred tax charge/(credit), net	2,428	(804)
Overprovision of current tax in respect of prior years	(1,543)	-
	<u>19,740</u>	<u>20,887</u>

**ANNOUNCEMENT OF 2005 FINAL RESULTS****Notes (continued)****7. Loans and advances and other accounts**

	<u>2005</u>	<u>2004</u>
	HK\$'000	HK\$'000 (Restated)
Loans and advances	9,075,903	7,871,709
Accrued interest and other accounts	248,732	200,949
Gross loans and advances and other accounts	<u>9,324,635</u>	<u>8,072,658</u>
Less : Impairment allowances for loans and advances		
- Individually assessed	(41,452)	-
- Collectively assessed	(24,887)	-
- Specific provision	-	(44,530)
- General provision	-	(78,346)
	<u>(66,339)</u>	<u>(122,876)</u>
Less: Impairment allowances for accrued interest and other accounts		
- Individually assessed	(27,187)	-
- Specific provision	-	(850)
Tax recoverable	2,829	2
Loans and advances and other accounts	<u>9,233,938</u>	<u>7,948,934</u>

The accrued interest and other accounts are current in nature as at 31 December 2005 and 2004.

The carrying amounts of the accrued interest and other accounts approximate their fair values.



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Notes (continued)**

**8. Deposits from customers**

	<u>2005</u>	<u>2004</u>
	HK\$'000	HK\$'000
Demand deposits and current accounts	588,805	883,523
Savings deposits	1,833,032	2,446,080
Time, call and notice deposits	<u>9,103,072</u>	<u>7,447,140</u>
	<u><u>11,524,909</u></u>	<u><u>10,776,743</u></u>

**9. Retained profits**

In accordance with the Hong Kong Monetary Authority's guideline "Impact of the new Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reserve", retained profits for an amount of HK\$66,136,000 is earmarked as a regulatory reserve which together with the Bank's collective impairment allowances after the adoption of HKAS 39 is included as supplementary capital in the Group's Capital Base at 31 December 2005.

**ANNOUNCEMENT OF 2005 FINAL RESULTS****Unaudited Supplementary Information****1. Gross advances to customers by industry sectors**

An analysis of the gross amount of advances to customers by industry sectors classified in accordance with the industry categories contained in the “Quarterly Analysis of Loans and Advances and Provisions” (MA(BS)2A) issued by the Hong Kong Monetary Authority is as follows:

	<u>2005</u> HK\$'000	<u>2004</u> HK\$'000 (Restated)
Loans for use in Hong Kong		
Industrial, commercial and financial :		
Property development	204,435	149,293
Property investment	1,468,818	1,133,008
Financial concerns	171,008	138,788
Stockbrokers	59,564	13,238
Wholesale and retail trade	29,446	19,574
Manufacturing	675,978	513,814
Transport and transport equipment	521,219	499,675
Others	1,312,841	1,167,192
Individuals :		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and the Tenants Purchase Scheme	287,042	342,564
Loans for the purchase of other residential properties	2,653,803	2,049,628
Credit card advances	14,399	16,172
Others	300,660	343,176
Trade finance	859,754	1,019,526
Loans for use outside Hong Kong	516,936	466,061
	<u>9,075,903</u>	<u>7,871,709</u>



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**2. Impaired advances / Non-performing advances**

Upon adoption of HKAS 39, the concept of suspended interest and non-performing advances are no longer relevant as interest is recognised on the recoverable element of impaired advances. Impaired advances are advances of which there are objective evidence of impairment resulting from loss event and the loss event has an impact on the estimated future cash flows of the advances that can be reliably estimated. Impaired advances to customers are advances which have been classified as “substandard”, “doubtful” and “loss” under the Bank’s classification of loan quality.

**(a) Impaired loans**

	<b>As at 31-Dec-2005 HK\$'000</b>	<b>As % of Total advances</b>
Impaired loans	<b>138,194</b>	1.52%
Impairment allowances made in respect of such loans	<b>(41,452)</b>	
	<b><u>96,742</u></b>	



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**Impaired advances / Non-performing advances (continued)**

**(b) Non-performing advances**

The gross amount of non-performing advances, net of suspended interest, which represented advances on which interest was being placed in suspense or on which interest accrual had ceased, and specific provisions attributable to such advances were as follows:

	As at 31-Dec-2004 HK\$'000 (restated)	As % of Total advances
Non-performing loans	163,046	2.07%
Specific provisions made in respect of such advances	<u>(44,530)</u>	
	<u>118,516</u>	
Amount of interest in suspense	<u>21,914</u>	

Individual impairment allowances and specific provisions were made after taking into account the value of collateral in respect of such advances.

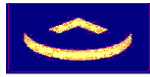


**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**3. Overdue and rescheduled advances**

	<b>As at 31-Dec-2005 HK\$'000</b>	<b>As % of Total loans and advances</b>	<b>As at 31-Dec-2004 HK\$'000</b>	<b>As % of Total loans and advances</b>
Loans overdue for:				
Six months or less but over three months	37,999	0.42%	2,227	0.03%
One year or less but over six months	2,557	0.03%	13,619	0.17%
Over one year	<u>69,101</u>	<u>0.76%</u>	<u>94,026</u>	<u>1.19%</u>
	<b>109,657</b>	<b>1.21%</b>	109,872	1.39%
 Rescheduled loans	 <u>12,691</u>	 <u>0.14%</u>	 <u>10,422</u>	 <u>0.13%</u>
	<b>122,348</b>	<b>1.35%</b>	<u>120,294</u>	<u>1.52%</u>
 Individual impairment allowance	 35,569		 38,629	
Collateral held	78,578		92,618	
Secured overdue advances	71,934		68,646	
Unsecured overdue advances	37,723		41,226	



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**4. Repossessed assets**

Collateral assets for loans and advances and other accounts are repossessed by the Group when the borrowers are unable to service their repayments, and would be realised in satisfaction of outstanding debts. Advances with repossessed collateral assets will continue to be accounted for as customer advances and impairment allowance is measured as the difference between the carrying value of the outstanding advance and the net present value of estimated future cash flows including the sales proceeds from the realisation of the repossessed asset.

As at 31 December 2005, the total value of repossessed assets of the Group amounted to HK\$40 million (31 December 2004: HK\$79 million).



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**5. Off-balance sheet exposures**

**(a) Contingent liabilities and commitments**

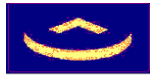
The following is a summary of the contractual amount of each significant class of contingent liabilities and commitments:

	<b>As at 31-Dec-2005 HK\$'000</b>	<b>As at 31-Dec-2004 HK\$'000</b>
Direct credit substitutes	62,226	91,523
Transaction-related contingencies	1,629	3,094
Trade-related contingencies	210,134	167,587
Forward forward deposits placed	123,948	70,893
Forward asset purchases	13,029	37,839
Other commitments with an original maturity of:		
Under one year or which are unconditionally cancellable	3,195,382	3,620,359
One year and over	223,496	201,277
	<b><u>3,829,844</u></b>	<b><u>4,192,572</u></b>

**(b) Derivatives**

The following is a summary of the contractual amount of each significant class of derivatives entered into by the Group and the Bank and remained outstanding at the balance sheet date:

	<b>As at 31-Dec-2005 HK\$'000</b>	<b>As at 31-Dec-2004 HK\$'000</b>
Foreign exchange rate contracts	8,672,575	4,352,316
Interest rate swap	150,000	-
	<b><u>8,822,575</u></b>	<b><u>4,352,316</u></b>



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

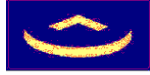
**5. Off-balance sheet exposures (continued)**

**(c) Credit risk weighted amounts and replacement costs**

The following is a summary of the credit risk weighted amounts and replacement costs of each significant type of off-balance sheet exposures:

	As at 31-Dec-2005		As at 31-Dec-2004	
	Replacement Cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement Cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	-	224,318	-	241,528
Foreign exchange rate contracts	4,775	17,557	9,622	8,976
Interest rate swap	-	150	-	-
	<u>4,775</u>	<u>242,025</u>	<u>9,622</u>	<u>250,504</u>

The Group had not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are 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. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2005 FINAL RESULTS

#### Unaudited Supplementary Information (continued)

#### 6. Capital adequacy ratio

	<u>As at 31-Dec-2005</u>	<u>As at 31-Dec-2004</u>
Adjusted capital adequacy ratio	<b>16.70%</b>	17.92%
Unadjusted capital adequacy ratio	<b>17.15%</b>	18.11%

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

The adjusted capital adequacy ratio which takes into account market risk was 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 the unadjusted capital adequacy ratio.



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2005 FINAL RESULTS

### Unaudited Supplementary Information (continued)

7. The components of the total capital base as at the balance sheet date after deductions as reported under Part I of the “Capital Adequacy Return” (MA(BS)3) calculated in accordance with the Third Schedule of the Banking Ordinance are as follows:

	As at 31-Dec-2005 <u>HK\$'000</u>	As at 31-Dec-2004 <u>HK\$'000</u>
Core capital		
Paid-up ordinary share capital	810,000	810,000
Share premium	43,935	43,935
Reserves (eligible for inclusion in core capital)	706,217	609,064
	<u>1,560,152</u>	<u>1,462,999</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	134,967	123,016
Collective impairment allowances for impaired assets and regulatory reserve	91,110	-
General provisions for doubtful debts	-	78,864
	<u>226,077</u>	<u>201,880</u>
Total capital base before deductions	1,786,229	1,664,879
Deductions from total capital base	(111,757)	(114,540)
Total capital base after deductions	<u>1,674,472</u>	<u>1,550,339</u>



# ASIA COMMERCIAL BANK LIMITED

## ANNOUNCEMENT OF 2005 FINAL RESULTS

### Unaudited Supplementary Information (continued)

#### 8. Average liquidity ratio

	<u>2005</u>	<u>2004</u>
Average liquidity ratio for the year ended 31 December	<b>47.12%</b>	45.42%

The average liquidity ratio was computed in accordance with the Fourth Schedule of the Banking Ordinance.

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio and, which was computed on a non-consolidated basis and includes only the Head Office and branches of the Bank operating in Hong Kong.

#### 9. Other ratios

	<u>2005</u>	<u>2004</u>
Net Interest Margin for the year	<b>1.71%</b>	1.98%
Cost Income Ratio for the year	<b>50.54%</b>	54.82%
Loan to Deposit Ratio (as at 31 December)	<b>70.09%</b>	66.70%



## ASIA COMMERCIAL BANK LIMITED

### ANNOUNCEMENT OF 2005 FINAL RESULTS

#### Unaudited Supplementary Information (continued)

#### 10. Currency risk

The information concerning the foreign currency exposures of the Group are prepared in accordance with the completion instructions contained in the “Return of Foreign Currency Position” (MA(BS)6) issued by the Hong Kong Monetary Authority. Foreign currency exposures with net position (regardless of sign) which constitutes 10% or more of the total net position in all foreign currencies are as follows:

<u>As at 31-Dec-2005</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
Spot assets	3,396	1,690	5,086
Spot liabilities	(4,131)	(1,959)	(6,090)
Forward purchases	4,699	977	5,676
Forward sales	(3,863)	(518)	(4,381)
Net long position	<u>101</u>	<u>190</u>	<u>291</u>
		<u>Renminbi</u>	<u>192</u>
Net structural long position (in millions of HK\$)			
<u>As at 31-Dec-2004</u> (Equivalents in millions of HK\$)	<u>US Dollars</u>	<u>Others</u>	<u>Total</u>
Spot assets	3,409	1,143	4,552
Spot liabilities	(3,521)	(1,394)	(4,915)
Forward purchases	2,173	1,578	3,751
Forward sales	(1,990)	(1,230)	(3,220)
Net long position	<u>71</u>	<u>97</u>	<u>168</u>
		<u>Renminbi</u>	<u>94</u>
Net structural long position (in millions of HK\$)			



## ASIA COMMERCIAL BANK LIMITED

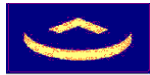
### ANNOUNCEMENT OF 2005 FINAL RESULTS

#### Unaudited Supplementary Information (continued)

#### 11. Cross-border claims

Cross-border claims are classified according to the location of foreign counterparties on which the ultimate risk lies after taking into account the transfer of risk. The following information is prepared in accordance with the completion instructions on “Return of External Position” (MA(BS)9A) issued by the Hong Kong Monetary Authority. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

	Banks & other financial institutions	Public sector entities	Others	Total
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
<b><u>As at 31-Dec-2005</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>1,701</b>	<b>-</b>	<b>109</b>	<b>1,810</b>
of which :				
<b>Australia</b>	<b>841</b>	<b>-</b>	<b>45</b>	<b>886</b>
<b>Western Europe</b>	<b>3,277</b>	<b>-</b>	<b>333</b>	<b>3,610</b>
of which :				
<b>Germany</b>	<b>741</b>	<b>-</b>	<b>4</b>	<b>745</b>
<b>United Kingdom</b>	<b>828</b>	<b>-</b>	<b>15</b>	<b>843</b>
 <b><u>As at 31-Dec-2004</u></b>				
<b>Asia Pacific excluding Hong Kong</b>	<b>2,190</b>	<b>2</b>	<b>197</b>	<b>2,389</b>
of which :				
<b>Australia</b>	<b>727</b>	<b>-</b>	<b>47</b>	<b>774</b>
<b>Western Europe</b>	<b>2,363</b>	<b>-</b>	<b>176</b>	<b>2,539</b>
of which :				
<b>Germany</b>	<b>539</b>	<b>-</b>	<b>1</b>	<b>540</b>
<b>United Kingdom</b>	<b>522</b>	<b>-</b>	<b>53</b>	<b>575</b>



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**12. Segment information**

**a. By geographic area**

The Group operates predominantly in Hong Kong. The geographical analysis is based on the location of the principal operations of the Bank, its subsidiaries and branches responsible for reporting the results or booking of assets.

For the years 2005 and 2004, over 90% of the Group's total operating income (net of interest expense), profit before tax, total assets, total liabilities, contingent liabilities and commitments were derived from the operation of the Group's banking business in Hong Kong.

In addition, over 90% of the Group's gross advance to customers, overdue and other types of credit exposures, including those arising from off-balance sheet transactions, as at 31 December 2005 and 31 December 2004 were located in Hong Kong, after taking into account the transfer of risk in respect of such advances, where appropriate.

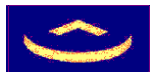
**b. By class of business**

The Group has the following main business segments:

The retail and commercial banking segment comprises the provision of deposit account services, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of services and financing activities for customers in trading, manufacturing and various business sectors.

The treasury and other activities segment comprises treasury business, securities trading and stockbroking. Treasury business includes foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding management of the Group.

The corporate segment items mainly comprise the central management unit, bank buildings and any items which cannot be reasonably allocated to specific business segments.

**ANNOUNCEMENT OF 2005 FINAL RESULTS**

## Unaudited Supplementary Information (continued)

## 12. Segment information (continued)

b. By class of business (continued)

Year 2005	Retail and Commercial Banking HK\$'000	Treasury and other activities HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Interest income from				
- external customers	370,889	244,023	-	614,912
- other segments	261,680	27,078	463,988	752,746
	<u>632,569</u>	<u>271,101</u>	<u>463,988</u>	<u>1,367,658</u>
Interest expense to				
- external customers	(264,073)	(75,048)	(35,939)	(375,060)
- other segments	(274,007)	(189,981)	(288,758)	(752,746)
	<u>(538,080)</u>	<u>(265,029)</u>	<u>(324,697)</u>	<u>(1,127,806)</u>
Net interest income	94,489	6,072	139,291	239,852
Other operating income	31,248	40,405	3,490	75,143
Operating expenses	(72,352)	(9,408)	(77,451)	(159,211)
Impairment losses and allowances	(62,156)	522	6,782	(54,852)
Write-back of impairment allowance against a loan to a jointly-controlled entity	-	-	3,500	3,500
Share of profits and losses of a jointly-controlled entity	-	-	1,900	1,900
Profit/(loss) before tax	<u>(8,771)</u>	<u>37,591</u>	<u>77,512</u>	<u>106,332</u>

**ANNOUNCEMENT OF 2005 FINAL RESULTS****Unaudited Supplementary Information (continued)****12. Segment information (continued)****b. By class of business (continued)**

Year 2004	Retail and Commercial Banking HK\$'000	Treasury and other activities HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Interest income from				
- external customers	240,355	130,658	-	371,013
- other segments	103,094	8,083	135,349	246,526
	<u>343,449</u>	<u>138,741</u>	<u>135,349</u>	<u>617,539</u>
Interest expense to				
- external customers	(98,994)	(16,281)	(9,805)	(125,080)
- other segments	(54,123)	(81,226)	(111,177)	(246,526)
	<u>(153,117)</u>	<u>(97,507)</u>	<u>(120,982)</u>	<u>(371,606)</u>
Net interest income	190,332	41,234	14,367	245,933
Other operating income	34,464	30,132	3,011	67,607
Operating expenses	(81,988)	(9,932)	(79,951)	(171,871)
Credit / (charge) for bad and doubtful debts	(20,700)	142	(5,663)	(26,221)
Provision against loans to jointly-controlled entities	-	-	(2,500)	(2,500)
Write-back of impairment allowance against a loan to a jointly-controlled entity	-	-	4,433	4,433
Gain on disposal of a jointly-controlled entity	-	-	2,990	2,990
Gains less losses from disposal of property, plant and equipment	-	-	2,980	2,980
Share of profits and losses of a jointly-controlled entity	-	-	2,400	2,400
Profit/(loss) before tax	<u>122,108</u>	<u>61,576</u>	<u>(57,933)</u>	<u>125,751</u>



**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

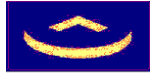
**13. Business review**

Profit attributable to shareholders:	HK\$86.6m	-17.4%
Total operating income:	HK\$315.0m	+0.5%
Net interest income:	HK\$239.9m	-2.5%
Other operating income:	HK\$75.1m	+11.1%
Operating expenses:	HK\$159.2m	-7.4%
Impairment Losses and allowances:	HK\$54.9m	+109.2%
Loans and advances:	HK\$9,076m	+15.3%
Customer deposits:	HK\$11,525m	+6.9%
Net interest margin:	1.71% (27 basis points lower than 2004)	
Cost-to-income ratio:	50.5% (4.3 percentage points lower than 2004)	
Average liquidity ratio:	47.1% (Average 2004: 45.4%)	
Adjusted capital adequacy ratio:	16.7% (end-2004: 17.9%)	

Asia Commercial Bank saw profit decrease by 17.4% to \$86.6 million in 2005. There are two main reasons for this result. The first is higher individual impairment allowances. Although collective impairments fell, two particular bad loans, which also affected other banks in Hong Kong, were recorded during the year. The second was a decline in net interest income. Although interest income benefited from an increase in overall market interest rates during 2005, overall funding costs rose faster, reducing our net interest margin from 1.98% in 2004 to 1.71% in 2005.

The Hong Kong banking sector remained extremely competitive during 2005, with below-prime rates remaining common for many consumer loans. Asia Commercial Bank felt competitive pressures especially in trade-related loans and other very price-sensitive markets. However, the Bank saw more positive performance in other loans sectors such as hire purchase and tax loans, and benefited from stronger fee income, following a stronger focus on the sale of insurance and investment products. Profits from joint ventures HK Life and Bank Consortium Trust also made a positive contribution.

Total operating expenses for the Bank fell, thanks partly to savings in rentals due to branch relocation.



**ASIA COMMERCIAL BANK LIMITED**

**ANNOUNCEMENT OF 2005 FINAL RESULTS**

**Unaudited Supplementary Information (continued)**

**14. Statement of compliance**

In preparing the statutory accounts for the year ended 31 December 2005, the Group has fully complied with the guideline set out in the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.