

Risk Management

Risk management forms an integral part of our business. During the year, we have further strengthened the control and monitoring of the various types of risks to which our business is exposed.

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CREDIT RISK MANAGEMENT

Credit risk assessment is one of the most important disciplines in the Bank's operations. Over the past year, we have implemented new policies and procedures to support the Bank's new business initiatives in the areas of hire-purchase finance, share margin finance and consumer loans. In so doing we have continued to strengthen the Bank's credit culture. Procedures to review and monitor the quality of the Group's loan portfolio, particularly in areas that are perceived to be of high risk or of an exceptional nature, have been enhanced.

The Credit Committee, which is the Bank's highest credit authority, is chaired by the Chief Executive Officer and has a membership drawn from the Credit Department and other executives. This Committee approves all major transactions and supervises the credit policies of all entities within the Group.

Besides serving as the Secretary General of the Credit Committee, the Credit Department ensures compliance is achieved with all credit policies and guidelines, as well as internal and statutory lending limits. All credit applications are subjected to tight scrutiny and are rated according to a standard risk-rating system. In line with centralizing and re-engineering the credit process, a new credit manual has been put in place as a result of the Bank's expansion over the past two years. Two credit training programs were conducted during the year to improve the skills and efficiency of marketing and credit staff.

As a result of our ongoing reforms, the classification rate for new corporate accounts booked since 1998 continues to be very low, which can be largely covered by the related general provisions and collateral. The Bank will continue to adopt a prudent credit policy and strengthen its credit risk management functions to further improve the quality of its loan assets.

ASSET AND LIABILITY MANAGEMENT

The Bank's Asset and Liability Management Committee, comprising senior management personnel, regularly makes assessments and recommendations on issues that are likely to impact the Bank's financial conditions; these include market risk,

liquidity risk, capital management, asset and liability mix, and key strategic investments. Processes have been defined for measuring, monitoring and controlling various types of risk, and mechanisms are being put in place to control cost of funds and to improve interest margins. The Committee also formulates strategic plans and policies to optimize the Bank's overall performance on a proactive basis, including the use of hedging instruments to enhance asset and liability management.

LIQUIDITY MANAGEMENT

The Bank manages the liquidity structure derived from its assets, liabilities, and contingent commitments so as to ensure that all operations can meet their funding requirements and that they comply with the statutory liquidity ratio and regulatory requirements on maturity mismatch profile. The liquidity risk is managed by holding sufficient liquid assets, such as cash, short-term funds and securities of appropriate quality, to ensure that short-term funding requirements are covered within prudent limits. In addition, liquidity was enhanced through the issuance of long-term certificates of deposit. Our average liquidity ratio of 42.1% for the year 2000 is well above the statutory minimum ratio of 25%.

MARKET RISK MANAGEMENT

The Bank continues to exercise discipline in managing its trading portfolios with the objective of averting excessive exposures resulting from any potentially adverse market development. While scrupulously enforcing the internal guidelines on exposures, we regularly review policies pertinent to market risk management. Besides timely analyses, reporting and control of exposures, we adopt a forward looking strategy of performing proactive simulation of various possible scenarios and recommend feasible hedging measures accordingly.

OPERATIONAL RISK MANAGEMENT

Over the past year, heightened focus on operational risk and rigorous enhancement of control management have allowed the Bank to cope smoothly with its progressive business development strategies.

To ensure proper internal control, ongoing audits are conducted in accordance with our audit manual; and recommendations of auditors and regulators are tracked for timely and quality resolution through our audit tracking system. An Audit Committee at the Board level has been established in line with the Guideline on Corporate Governance of Locally Incorporated Authorized Institutions issued on May 19, 2000.

Reviews of policies and procedures are conducted on a regular basis to ensure they are up-to-date, adequate, complete and correctly implemented so as to effect the smooth operations of the Bank. Transactional and processing control, as well as the Bank's capability and capacity in this area, will be enhanced in 2001 with the new integrated financial and service delivery architecture initiated in July 2000. This new IT system, which includes a core retail banking system, a corporate and trade finance system, a treasury dealing and operating system, and a data warehouse, is scheduled to replace our existing operating system by the second half of 2001. As part of this new system, a 'hot site' back-up IT center will be operational to offer processing capacity and business continuity in the event of external disruptions caused by fire, power failures, etc.

LEGAL, STRATEGIC AND REPUTATION RISKS MANAGEMENT

In light of our steady business growth, significant emphasis on containing legal, strategic and reputation risks has been our foremost concern. This is evidenced by the strengthening of the overall management capability of the Bank at all levels, especially at the top. Seeking further improvement upon the Bank's corporate governance is definitely a key element in enhancing risk management ability, and is under constant review by management.

The Audit & Risk Management Department has the mandate to make overall assessment of the Bank's risk profile and control procedures ahead of new product launch and new investment initiatives. Two policies established during the year – New Product Evaluation and Approval Policy and Investment Transaction Evaluation and Approval Policy – govern these assessments and controls.