

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2000

The unaudited supplementary financial information regarding risk management and other financial information disclosed pursuant to the Guideline “Financial Disclosure By Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority in December 2000 is as follows:

1. RISK MANAGEMENT

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees and major departments of the Group and are regularly reviewed by the Board of Directors. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic, compliance audits.

(i) Credit risk

Credit risk arises primarily from advances to customers and interbank transactions.

The Group's lending policy sets out in detail the credit approval and monitoring mechanism, the loan classification system and provisioning policy, which is established in accordance with the requirements and provisions of the Banking Ordinance and the guidelines issued by the Hong Kong Monetary Authority.

Day-to-day credit management is performed by the Loans Committee with reference to the creditworthiness, and concentration risk of and the collateral pledged by the counterparties. Decisions made by the Loans Committee are reviewed regularly by the Executive Loans Committee comprising executive directors. Members of both the Executive Loans Committee and the Loans Committee are appointed by the Board of Directors.

(ii) Liquidity risk

The Group has laid down liquidity policy which is reviewed regularly by the Board of Directors. It monitors the liquidity position through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and interbank transactions undertaken by the Group.

The management comprising executive directors and senior managers monitors the liquidity position of the Group on a daily basis so as to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement.

(iii) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio has remained at over 20% for the past five financial years, well above the statutory minimum ratio of 8%.

(iv) Market risk

Market risk arising from the trading book is considered immaterial, as the Group does not maintain significant positions of financial instruments leading to foreign exchange, interest rate, commodity and equity exposures. Structural foreign exchange exposure is explained further under (v) foreign exchange risk.

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1. RISK MANAGEMENT - continued

(v) Foreign exchange risk

The Group does not have any significant foreign exchange risk as foreign exchange dealing is minimal. Structural foreign exchange exposure arising from investments in foreign branches, subsidiaries and associate is accounted for in the reserves account. Day-to-day foreign exchange management is performed by the Treasury Department within limits approved by the management.

(vi) Interest rate risk

The Group does not carry interest rate positions on its trading book. Interest rate risk arises primarily from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, and from positions of non-interest bearing balances. Interest rate risk is monitored by regular sensitivity analyses of the net repricing gap of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

2. SEGMENTAL INFORMATION

The information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets.

	2000				
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000
Hong Kong	1,051,668	502,056	37,005,943	31,613,079	5,643,090
Asia Pacific (excluding Hong Kong)	18,036	9,952	703,926	702,499	42,884
America	13,291	8,448	737,418	581,181	34,831
Europe	34,254	34,373	544,513	518,987	—
Total	<u>1,117,249</u>	<u>554,829</u>	<u>38,991,800</u>	<u>33,415,746</u>	<u>5,720,805</u>

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2. SEGMENTAL INFORMATION - continued

	1999				Total contingent liabilities and commitments HK\$'000
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	
Hong Kong	910,274	384,720	33,684,891	29,180,528	4,773,317
Asia Pacific (excluding Hong Kong)	10,817	9,401	682,252	355,702	137
America	18,200	2,489	904,989	761,976	878
Europe	34,491	34,051	542,643	244,021	–
Total	973,782	430,661	35,814,775	30,542,227	4,774,332

3. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are also analysed and reported by industry sectors according to the usage of the loans and/or the business activities of the borrowers as follows:

	2000 HK\$'000	1999 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	782,009	1,247,787
- Property investment	2,986,053	2,664,097
- Financial concerns	1,095,849	1,456,302
- Stockbrokers	687,542	1,291,384
- Wholesale and retail trade	591,737	593,885
- Manufacturing	744,877	816,212
- Transport and transport equipment	243,506	190,884
- Others	3,954,668	3,615,390
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme and Private Sector Participation Scheme	708,515	379,096
- Loans for the purchase of other residential properties	3,426,491	3,532,630
- Credit card advances	51,840	42,366
- Others	883,495	636,832
	16,156,582	16,466,865
Trade finance	1,203,946	1,275,771
Loans for use outside Hong Kong	1,212,543	1,514,106
	18,573,071	19,256,742

The loan borrowers are predominantly located in Hong Kong.