The following information does not form part of the financial statements on which the auditors' opinion is issued.

Segment information

(a) By geographical area

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

For the years ended 31st December 2002 and 2001, over 90% of the Group's total operating income, profit before tax, total assets, total liabilities, contingent liabilities and commitments were derived from its operations in Hong Kong.

In addition, over 90% of the Group's gross advances to customers and other types of credit exposures, including those arising from off-balance sheet transactions as at 31st December, 2002 and 2001, were located in Hong Kong.

(b) By major class of business

An analysis of the results of the Group by major class of business for the years ended 31st December, 2002 and 2001 is set out in note 4 to the financial statements.

(c) By industry sector

An analysis of the gross amount of advances to customers by industry sector based on the usage of the advances is as follows:

	2002	2001
	HK$'000	HK$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	**164,865**	170,745
Property investment	**871,989**	1,068,852
Financial concerns	**211,320**	139,660
Stockbrokers	**26,344**	89,102
Wholesale and retail trade	**12,260**	14,196
Manufacturing	**246,059**	200,699
Transport and transport equipment	**428,727**	280,037
Others	**991,081**	893,620
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**561,532**	642,956
Loans for the purchase of other residential properties	**2,759,301**	3,157,031
Credit card advances	**33,186**	44,727
Others	**437,398**	370,535
Trade finance	**834,138**	759,637
Loans for use outside Hong Kong	**345,465**	345,608
	7,923,665	8,177,405

Risk management

The Group has established policies and procedures for identifying, evaluating, monitoring and controlling the various types of risks pertaining to the Group's business. The key risks include credit risk, liquidity risk, capital management risk, market risk, interest rate risk, foreign exchange risk and operational risk.

The overall internal control environment and the management policies for major types of risks are as follows:

(1) Internal control environment

The internal control framework of the Group comprises comprehensive control policies and standards. The area of responsibility of each business and operational unit are clearly defined. Internal control procedures have been established based on the risk inherent in the individual business unit.

The internal audit department plays an important role in the Group's internal control framework. It monitors the effectiveness of the internal control procedures and ensures compliance with the policies and standards across the whole Group. A direct reporting line to the audit committee under the board of directors safeguards its independence. The audit committee meets periodically to review and discuss financial performance, internal control and compliance issues and matters raised by the external auditors to ensure that all audit recommendations are implemented.

(2) Credit risk management

Credit risk is the risk that a customer or counterparty in a transaction may default. It arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has a credit risk management process to measure, monitor and control credit risks. The Credit Policy Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and provisioning systems. The Group has a hierarchy of credit authority which approves credit in compliance with the Group's credit policy; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; and management and recovery of problem credits are handled by an independent work-out team.

Risk management (cont'd)

(2) Credit risk management (cont'd)

The Group manages its credit risk within a conservative framework. Its credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources.

Credit and compliance audits are periodically performed to evaluate the effectiveness of the credit process and to test the compliance of the established credit policies and procedures.

(3) Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its current obligations as they fall due. To manage liquidity risk, the Group has established liquidity management policies that are pertinent to the operations of the major business units. The policies are reviewed by the Asset and Liability Management Committee (the "ALCO") of the business unit and approved by its directors.

The Group measures and monitors its liquidity through the maintenance of prudent ratios and limits that are laid down in the liquidity policies. These include the liquidity structure of the Group's assets, liabilities and commitments, statutory liquidity ratios, loan-to-deposit ratios, interest rate gaps, maturity mismatch positions and net asset positions.

The Group also maintains a prudent level of high quality liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby facilities are established to provide contingency liquidity support.

(4) Capital management risk

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital or solvency margin requirements. Capital is allocated to the various activities of the Group depending on the risk reward criteria and regulatory capital requirements.

The banking subsidiary is required to maintain minimum capital subject to the Hong Kong Monetary Authority's capital requirements, regulations and supervision process. The securities and investment services subsidiaries are regulated by the Securities & Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the SFC rules.

Risk management (cont'd)

(5) Market risk management

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, foreign exchange rates, securities and equities as well as the volatilities of those prices. The Group's market risk arises from customer-related business, structural positions and investment portfolios.

The Group monitors market risk principally by establishing limits for transactions and open positions. These limits are approved by the ALCO and the directors and are monitored on a daily basis. The daily risk monitoring process measures the actual risk exposures against approved limits and triggers specific actions to ensure that the overall market risk is managed within an acceptable level.

(6) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from timing differences in the maturity and repricing of the Group's interest-bearing assets, liabilities and off-balance sheet commitments.

The Group manages interest rate risk by limiting the potentially adverse effects of interest rate movements on net interest income by closely monitoring the net repricing gap of its assets and liabilities. Interest rate sensitive positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and the directors.

(7) Foreign exchange risk management

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk primarily arises from foreign exchange dealing, commercial banking operations and structural foreign currency exposures.

Foreign exchange positions are managed by the Treasury Department of each business unit within the limits approved by the ALCO and directors. Limit excesses, if any, are reported to the ALCO for necessary action.

Risk management (cont'd)

(8) Operational risk management

Operational risk is the financial loss resulting from procedural errors, system failures, frauds and other event risks.

The Group manages operational risk by maintaining adequate documentation of its operating procedures to facilitate training and quality performance. A proper internal control system is incorporated in the operation workflow to minimise the risk of losses caused by human error. To reduce the interruptions to business activities caused by system failures or natural disasters, back-up systems and contingency business resumption plans are in place for critical business and back-office functions. Detailed recovery procedures are properly documented, with periodic drills conducted to ensure that the procedures are current and correct.