

The unaudited supplementary financial information regarding corporate governance, risk management and other financial information disclosed pursuant to the Supervisory Policy Manual FD-1 “Financial Disclosure By Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority in November 2002 is as follows :

1. CORPORATE GOVERNANCE

The Board of Directors of the Bank (the “Board”) is constituted in accordance with the Bank’s Articles of Association and is the ultimate governing body. In order to ensure that matters arising between meetings of the Board are handled properly and timely, the Board delegates the day-to-day supervision of major functional areas to the following specialised committees. These committees are established with clearly defined objectives, authorities, responsibilities and tenure. Written terms of reference are approved by the Board and are up-dated appropriately.

(i) Executive Committee

The Executive Committee comprises all executive directors of the Bank.

It is authorised by the Board to exercise all such powers and do all such acts as may be exercised, done or approved by Board, thus relieving the Board of detailed review of information and operational activities. The Executive Committee steers the Group’s policy and operational decisions on a day-to-day basis, and attends to matters that require the review and supervision of the Board between regular board meetings. Moreover, it also coordinates the work of other committees as it sees fit.

(ii) Executive Loans Committee

The Executive Loans Committee comprises all executive directors of the Bank.

The Executive Loans Committee is established to guide and review the operations of, and to delegate proper authorities as it deems appropriate from time to time to the Loans Committee. It also approves large and certain specific new loan applications and applications for renewal and amendment of existing loans, having due regard to the Group’s Lending Policy and the relevant laws and regulations.

(iii) Loans Committee

Members of the Loans Committee are appointed by the Board. It comprises the director in charge of the Credit Control Division, the director in charge of the Corporate & Commercial Banking Development Division, and several other senior staff members of the Bank.

The Loans Committee ensures that the Group’s Lending Policy is adequate, and issues guidelines from time to time to guide lending activities of the Group. It also directs the Credit Risk Management Department to monitor loans portfolio quality through identifying problems early and taking timely corrective actions such as implementing debt-restructuring schemes and maintaining adequate provisions for loan losses. The Loans Committee members meet regularly to evaluate loan applications and make credit decisions. The monitoring of compliance with statutory lending limits, the assessment and approval of new loan products, the attending to instructions of the Executive Loans Committee are other key functions of the Loans Committee.

1. CORPORATE GOVERNANCE - continued

(iv) The Asset and Liability Management Committee (the “ALCO”)

Members of the ALCO are appointed by the Board. It comprises the director in charge of the Finance Management Division, the director in charge of the Credit Control Division, the director in charge of the Operations Division, the manager in charge of the Treasury Management Department, and several other senior staff members of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets and liabilities of the Group from the perspective of containing the pertinent liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group’s balance sheet, the formulation of the corresponding strategies and plans, and the evaluation of non-credit related products also come under other key functions of the ALCO.

(v) Audit Committee

The Audit Committee members are appointed by the Board from amongst the independent non-executive directors of the Bank and should consist of not less than 2 members. The Head of the Internal Audit Department is the secretary to the Audit Committee.

The Audit Committee is established to monitor compliance with the policies approved by the Board and other internal and statutory regulations. It provides oversight of the Group’s internal and external auditors and thereby assists the Board in the independent review of the effectiveness of the financial reporting process and the internal control system of the Group.

In the opinion of the directors, the Bank has fully complied with the Supervisory Policy Manual CG-1 “Corporate Governance of Locally Incorporated Authorised Institutions” which was issued by the Hong Kong Monetary Authority in September 2001.

2. 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 departments of the Group and are regularly reviewed by the Board. The internal auditors also play an important role in the risk management process by performing regular, as well as sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under the guidance of the ALCO. The ALCO comprises executive directors and senior managers representing major operations of the Group. It holds weekly meetings, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity risk, foreign exchange, interest rate and other market risks, and the compliance with the ALCO policies are monitored by the Treasury Management and the Finance Departments with the assistance of various qualitative and quantitative analyses.

2. RISK MANAGEMENT - continued

(i) 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 around 20% for the past five financial years, well above the statutory minimum ratio of 8%.

(ii) Credit risk

Credit risk is the risk that a customer or counter-party may fail to meet a commitment when it falls due.

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.

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group has laid down liquidity policy which is reviewed regularly by the Board, and the ALCO. This policy requires the Group to maintain a conservative level of liquid funds on a daily basis to ensure the availability of adequate liquid funds to meet all obligations, and the compliance with the statutory liquidity ratio requirement. The liquidity position is monitored through statutory liquidity ratio, loan-to-deposit ratio, maturity profile of assets and liabilities, and inter-bank transactions undertaken by the Group.

(iv) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movement in market rates and price.

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.