

SET OUT BELOW ARE FURTHER INFORMATION RELATED TO BANKING OPERATIONS OF THE GROUP.

(1) Management of risks

The Hongkong Chinese Bank, Limited (“HKCB”), a principal subsidiary of The HKCB Bank Holding Company Limited (“HKCB Holding” together with its subsidiaries, the “HKCB Holding Group”), has established policies and procedures for risk management which are reviewed regularly by management and various management committees including the Asset and Liability Committee, Operations Committee, Credit Committee and Audit Committee. The internal auditors and compliance officers of the HKCB Holding Group also perform regular reviews to supplement the various internal control measures adopted by management and different divisions to ensure compliance with these policies and procedures.

(a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, treasury, derivatives and other activities undertaken by the HKCB Holding Group.

The lending policy of HKCB and its subsidiaries sets out in detail the credit approval and monitoring mechanism, the loan classification criteria and provisioning policy, which is established in accordance with the requirements and provisions of the Banking Ordinance and the relevant guidelines issued by the Hong Kong Monetary Authority (“HKMA”).

Day-to-day credit management is performed by the Credit Committee with reference to the creditworthiness, the collateral pledged by, and risk concentration of the counterparties. Decisions made by the Credit Committee are reviewed regularly by the executive directors of the HKCB Holding Group and the HKCB Holding Group’s board of directors, which also consists of non-executive directors who are independent of the day-to-day operations of the HKCB Holding Group.

(b) Liquidity risk

HKCB manages the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs, as well as to ensure that its operations meet with the statutory requirement on minimum liquidity ratio.

Management comprising executive directors and senior managers monitors the liquidity position of HKCB on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the HKCB Holding Group’s financial resources.

(1) Management of risks *(continued)**(c) Capital*

The HKCB Holding Group maintains a strong capital base to support the development of its businesses and to comply with the statutory requirement on minimum capital adequacy ratio.

Capital is allocated to the various activities of the HKCB Holding Group depending on the degree of risks associated with each activity. Certain subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

(d) Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest bearing assets, liabilities and commitments. HKCB's interest rate positions arise mainly from treasury and commercial banking activities undertaken. HKCB has established policies and systems to monitor its interest-sensitive positions and net repricing gap. The interest rate risk is managed and monitored regularly by the Treasury Department (the "Treasury") under the guidelines and limits approved by the directors.

(e) Foreign exchange risk

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates.

HKCB's foreign exchange risk primarily arises from currency exposures originating from its commercial banking activities and foreign exchange dealings by the Treasury. Foreign exchange risk is managed and monitored on an ongoing basis by the Treasury under the guidelines and limits approved by the directors.

(1) Management of risks *(continued)**(f) Market risk*

Market risk is the risk that changes in interest rates, foreign exchange rates, equity or commodity prices will affect the prices of financial instruments taken or held by HKCB. Financial instruments include foreign exchange contracts, interest rate contracts, equity and fixed income securities.

Market risk limits are approved by the HKCB Holding Group's board of directors. Actual positions are compared with approved limits and monitored by the Assets and Liabilities Management Committee which is made up of executive directors, the treasurer and senior managers of HKCB. Exposures are measured and monitored on the basis of principal or notional amounts, outstanding balances and pre-determined stop-loss limits. All market risk trading positions are subject to periodic mark-to-market valuation, which is monitored and managed by Treasury. Independent monitoring, checking and confirmation of executed trades is undertaken by a separate department independent of the Treasury. The HKCB Holding Group's internal auditors also perform regular reviews and testing to ensure compliance with the market risk limits and guidelines adopted by the HKCB Holding Group.

(2) Segmental information

On the basis of the location of the principal operations of the HKCB Holding Group or, in the case of HKCB, on the location of the branches responsible for reporting the results or booking the assets, the HKCB Holding Group operates predominantly in Hong Kong.