

OTHER FINANCIAL INFORMATION

Set out below are further information related to banking operations of the Group.

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 regularly reviewed by senior management and various management committees including the Assets and Liabilities Management Committee, Operations Committee, Credit Committee and Audit Committee. The internal auditors and compliance officers of HKCB also perform periodic reviews to supplement the various internal control measures adopted by management and different divisions, and to ensure compliance with the established policies and procedures.

The following is an overview of the major risks to which the HKCB Holding Group is exposed and the approaches in managing such risks:

(i) *Credit risk*

Credit risk primarily arises from lending and other related activities undertaken by the HKCB Holding Group.

The credit policies of the HKCB Holding Group set out in detail the credit approval and monitoring mechanism, loan classification criteria, and provisioning approach. The credit standards adopted by the HKCB Holding Group was determined with reference to market practices as well as the risk appetite of the HKCB Holding Group, and in consideration of the requirements and provisions of the Hong Kong Banking Ordinance and the relevant guidelines issued by the Hong Kong Monetary Authority.

Day-to-day credit management is performed primarily by the Credit Administration Division of HKCB under the supervision of the Credit Committee. The creditworthiness, repayment ability, collateral pledged by, and the risk concentration of counterparties are assessed periodically during the process. Decisions made by the Credit Committee are reviewed regularly by the executive directors and the board of directors of the HKCB Holding Group.

(ii) *Liquidity risk*

The HKCB Holding Group 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.

The liquidity positions of HKCB is being monitored on an ongoing basis to ensure that sufficient liquid funds are available to meet all financial obligations as they fall due and to make the most efficient use of the HKCB Holding Group’s financial resources.

OTHER FINANCIAL INFORMATION *(continued)***Management of risks** *(continued)**(iii) Interest rate risk*

Interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and commitments. HKCB has established policies and systems to monitor its interest rate sensitive positions and net repricing gap. Interest rate risk is being monitored continuously by the Treasury Department of HKCB (the "Treasury") under the guidelines and limits approved by the directors.

(iv) Foreign exchange risk

The HKCB Holding Group's exposures to foreign exchange risk primarily arise from currency positions originating from the commercial banking activities and foreign exchange dealings conducted by the Treasury of HKCB. Similar to the case of interest rate risk as mentioned above, foreign exchange risk is managed and monitored on an ongoing basis by the Treasury under the guidelines and limits approved by the directors.

(v) 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 the HKCB Holding Group, particularly HKCB. The financial instruments concerned 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 involving market risk are compared with the 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 the Treasury. Independent monitoring, checking and confirmation of executed trades are undertaken by a separate department independent of the Treasury. HKCB'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.

Segmental information

On the basis of the location of the principal operations of the HKCB Holding Group, or, in the case of HKCB, the location of the branches responsible for reporting the results or booking the assets, the HKCB Holding Group operates predominantly in Hong Kong. Less than 10 per cent. of the HKCB Holding Group's operating income or profit before taxation are attributable to locations outside of Hong Kong.