

2. 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 Management Department within approved limits.

(vi) Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by the change in market interest rate.

The Group does not carry interest rate positions on its trading book. Interest rate risk arises primarily from the timing differences in the re-pricing of, and the different bases of pricing 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 re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

(vii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Executive directors, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(viii) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on our behalf do not jeopardise our reputation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

3. SEGMENTAL INFORMATION

The Group's 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.

	2003				
	Total	Profit	Total	Total	Total
	operating	before			
income	taxation	HK\$'000	HK\$'000	HK\$'000	liabilities and
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	commitments
					HK\$'000
Hong Kong	853,941	351,813	38,339,206	32,750,582	7,918,952
Asia Pacific (excluding Hong Kong)	19,630	11,771	1,092,882	802,696	42,318
America	10,447	4,196	508,828	443,230	126,734
Total	884,018	367,780	39,940,916	33,996,508	8,088,004

	2002				
	Total	Profit	Total	Total	Total
	operating	(Loss)			
income	taxation	HK\$'000	HK\$'000	HK\$'000	liabilities and
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	commitments
				(restated)	HK\$'000
Hong Kong	920,219	382,614	37,564,597	32,112,241	7,005,256
Asia Pacific (excluding Hong Kong)	11,317	(16,413)	1,084,086	803,639	54,496
America	18,681	5,987	540,313	474,722	103,890
Total	950,217	372,188	39,188,996	33,390,602	7,163,642

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2003

4. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

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

	2003 HK\$'000	2002 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	1,612,317	1,087,255
- Property investment	3,897,463	3,624,922
- Financial concerns	1,598,067	1,400,129
- Stockbrokers	338,695	575,441
- Wholesale and retail trade	640,383	619,996
- Manufacturing	930,717	701,188
- Transport and transport equipment	388,258	265,599
- Others	3,302,408	3,983,937
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,034,119	1,085,369
- Loans for the purchase of other residential properties	2,848,979	3,013,330
- Credit card advances	83,110	96,188
- Others	1,027,973	979,153
	17,702,489	17,432,507
Trade finance	702,168	757,350
Loans for use outside Hong Kong	1,780,608	1,460,678
	<u>20,185,265</u>	<u>19,650,535</u>

5. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	Total advances		Non-performing loans		Advances overdue for over three months	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	18,645,551	18,718,166	905,297	995,629	1,724,435	1,300,959
People's Republic of China	359,023	149,641	67,543	79,940	69,662	82,123
Macau	241,712	312,374	–	–	–	–
America	304,683	186,358	–	–	–	–
Others	634,296	283,996	–	–	–	–
Total	<u>20,185,265</u>	<u>19,650,535</u>	<u>972,840</u>	<u>1,075,569</u>	<u>1,794,097</u>	<u>1,383,082</u>