

2. RISK MANAGEMENT - continued

(iv) Market risk

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

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.

(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 and subsidiaries 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.

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for the year ended 31 December 2004

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.

	2004				
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	883,083	402,898	40,142,921	34,304,242	8,328,022
Asia Pacific (excluding Hong Kong)	13,103	11,080	1,353,772	1,055,994	43,712
America	21,364	5,195	614,492	547,523	160,106
Total	917,550	419,173	42,111,185	35,907,759	8,531,840

	2003				
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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

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for the year ended 31 December 2004

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:

	2004 HK\$'000	2003 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	1,908,862	1,612,317
– Property investment	4,535,567	3,897,463
– Financial concerns	1,710,024	1,598,067
– Stockbrokers	332,380	338,695
– Wholesale and retail trade	703,129	640,383
– Manufacturing	1,028,883	930,717
– Transport and transport equipment	188,054	388,258
– Others	2,901,625	3,302,408
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	902,046	1,034,119
– Loans for the purchase of other residential properties	2,547,051	2,848,979
– Credit card advances	75,928	83,110
– Others	1,039,947	1,027,973
	17,873,496	17,702,489
Trade finance	521,789	702,168
Loans for use outside Hong Kong	1,894,934	1,780,608
	20,290,219	20,185,265

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	18,770,951	18,645,551	773,681	905,297	795,319	1,724,435
People's Republic of China	299,049	359,023	17,299	67,543	17,299	69,662
Macau	256,263	241,712	–	–	–	–
America	469,864	304,683	–	–	–	–
Others	494,092	634,296	–	–	–	–
Total	20,290,219	20,185,265	790,980	972,840	812,618	1,794,097

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2004

6. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitutes 10% or more of the relevant disclosure item after taking into account any risk transfers are as follows:

	2004			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	6,337,848	93,933	627,242	7,059,023
North and South America	1,193,244	35,455	834,073	2,062,772
Europe	8,847,098	3,989	200,370	9,051,457
- of which - United Kingdom	<u>2,107,986</u>	<u>1,585</u>	<u>184,909</u>	<u>2,294,480</u>

	2003			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	4,452,886	92,751	754,787	5,300,424
North and South America	1,502,657	3,149	810,817	2,316,623
Europe	8,214,313	-	38,878	8,253,191
- of which - Germany	1,930,690	-	-	1,930,690
- United Kingdom	<u>2,384,124</u>	<u>-</u>	<u>38,878</u>	<u>2,423,002</u>