

1. 資本充足比率

		2006	2005
資本充足比率	Capital adequacy ratio	19.52%	20.12%
經調整之資本充足比率	Adjusted capital adequacy ratio	19.42%	20.01%

資本充足比率乃根據銀行業條例附表三及按金管局就監管規定要求以綜合基準計算本銀行及其指定之附屬公司財務狀況的比率。

經調整資本充足比率乃根據金管局頒佈的監管手冊內之《就市場風險維持充足資本》指引，計入在資產負債表日期之市場風險，按照未經調整之資本充足比率之相同基準計算。

1. CAPITAL ADEQUACY RATIO

The CAR is computed on the consolidated basis that comprises the positions of the Bank and a subsidiary specified by the HKMA for its regulatory purposes and in accordance with the Third Schedule of the Banking Ordinance.

The adjusted CAR taking into account market risk exposure as at the balance sheet date is computed in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manual issued by the HKMA and on the same basis as for the unadjusted CAR.

2. 扣減後的資本基礎成份

用於計算以上2006年12月31日及2005年12月31日之資本充足比率及已匯報金管局之扣減後的綜合資本基礎分析如下：

2. COMPONENTS OF CAPITAL BASE AFTER DEDUCTIONS

The consolidated capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December 2006 and 31 December 2005 and reported to the HKMA is analysed as follows:

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
核心資本：	Core capital:		
繳足股款的 普通股股本	Paid up ordinary share capital	600,000	600,000
儲備	Reserves	9,163,488	8,671,553
收益賬	Income statement	566,079	428,719
		10,329,567	9,700,272
附加資本：	Supplementary capital:		
非交易性證券 重估儲備	Reserves on revaluation of holding of securities not held for trading purposes	12,965	(33,048)
按組合評估之 客戶貸款減值準備	Collective loan impairment allowances	109,018	112,664
法定儲備	Regulatory reserve	452,982	437,069
資本基礎總額	Total capital base	10,904,532	10,216,957
資本基礎總額 的扣減項目：	Deduction from total capital base:		
持有附屬公司或 控股公司的股份	Shareholdings in subsidiaries or holding company	(20,050)	(20,050)
對有連繫公司的 風險承擔	Exposures to connected companies	(250)	(250)
		(20,300)	(20,300)
扣減後的資本 基礎總額	Total capital base after deductions	10,884,232	10,196,657

3. 流動資金比率

3. LIQUIDITY RATIO

		2006	2005
平均流動資金比率	Average liquidity ratio	46.68%	48.47%

平均流動資金比率是以本銀行年內每月平均流動資金比率的簡單平均值計算。

The average liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Bank for the year.

流動資金比率是根據銀行業條例附表四及以單獨基準(即只包括香港辦事處)計算。

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the Fourth Schedule of the Banking Ordinance.

4. 貨幣風險

4. CURRENCY CONCENTRATIONS

下表列出因外匯自營交易、非自營交易及結構性倉盤而產生之主要外幣風險額。

The following is a summary of the major foreign currency exposures arising from trading, non-trading and structural positions.

		2006 港幣千元等值 Equivalent in thousand of HK\$			
		美元 US Dollars	人民幣 Renminbi Yuan	其他貨幣 Others	總計 Total
現貨資產	Spot assets	26,399,220	2,728,467	5,400,095	34,527,782
現貨負債	Spot liabilities	(24,294,079)	(2,456,101)	(5,900,168)	(32,650,348)
遠期買入	Forward purchases	2,807,130	5,976	2,587,986	5,401,092
遠期賣出	Forward sales	(4,052,379)	-	(2,087,187)	(6,139,566)
長／(短)盤淨額	Net long/(short) position	859,892	278,342	726	1,138,960
結構倉盤淨額	Net structural position	-	158,691	-	158,691

		2005 港幣千元等值 Equivalent in thousand of HK\$			
		美元 US Dollars	人民幣 Renminbi Yuan	其他貨幣 Others	總計 Total
現貨資產	Spot assets	23,790,196	1,910,288	7,688,145	33,388,629
現貨負債	Spot liabilities	(23,698,308)	(1,651,933)	(6,735,103)	(32,085,344)
遠期買入	Forward purchases	2,833,092	189	1,917,682	4,750,963
遠期賣出	Forward sales	(2,826,998)	(189)	(2,871,941)	(5,699,128)
長／(短)盤淨額	Net long/(short) position	97,982	258,355	(1,217)	355,120
結構倉盤淨額	Net structural position	27,352	117,880	-	145,232

5. 分類資料

(a) 按行業分類之客戶貸款總額

根據在香港境內或境外以及借貨人從事之業務作出分類之客戶貸款總額資料分析如下：

5. SEGMENTAL INFORMATION

(a) Sectoral analysis of gross advances to customers

The information concerning gross advances to customers has been analysed into loans used inside or outside Hong Kong by industry sectors of the borrowers as follows:

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
在香港使用之貸款	Loans for use in Hong Kong		
工商金融業	Industrial, commercial and financial		
– 物業發展	– Property development	2,088,741	1,927,291
– 物業投資	– Property investment	6,177,439	5,795,899
– 金融業	– Financial concerns	1,220,855	679,605
– 股票經紀	– Stockbrokers	241	258
– 批發及零售業	– Wholesale and retail trade	1,116,607	915,648
– 製造業	– Manufacturing	1,613,788	1,369,501
– 運輸及運輸設備	– Transport and transport equipment	2,036,026	1,622,450
– 其他	– Others	3,817,635	4,500,427
個人	Individuals		
– 購買居者有其屋計劃、 私人機構參建居屋計劃 及租者置其屋計劃樓宇 之貸款	– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,841,452	2,130,622
– 購買其他住宅物業之貸款	– Loans for purchase of other residential properties	10,316,164	11,841,049
– 信用卡貸款	– Credit card advances	–	174
– 其他	– Others	738,291	770,641
在香港使用之貸款總額	Total loans for use in Hong Kong	30,967,239	31,553,565
貿易融資	Trade finance	2,192,221	2,114,012
在香港以外使用之貸款	Loans for use outside Hong Kong	11,773,180	8,731,072
客戶貸款總額	Gross advances to customers	44,932,640	42,398,649

5. 分類資料 (續)

(b) 按地理區域分類之客戶貸款總額及逾期貸款

下列關於客戶貸款總額及逾期超過三個月之貸款之地理區域分析是根據交易對手之所在地，並已顧及有關貸款之風險轉移因素。

(i) 客戶貸款總額

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
香港	Hong Kong	36,008,003	35,091,532
中國內地	Mainland China	6,557,152	4,691,168
其他	Others	2,367,485	2,615,949
		44,932,640	42,398,649

(ii) 逾期超過三個月之貸款

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
香港	Hong Kong	31,939	32,246
中國內地	Mainland China	6,838	28,808
其他	Others	24,224	27,437
		63,001	88,491

5. SEGMENTAL INFORMATION (Continued)

(b) Geographical analysis of gross advances to customers and overdue advances

The following geographical analysis of gross advances to customers and advances overdue for over three months is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

(i) Gross advances to customers

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
Hong Kong	香港	36,008,003	35,091,532
Mainland China	中國內地	6,557,152	4,691,168
Others	其他	2,367,485	2,615,949
		44,932,640	42,398,649

(ii) Advances overdue for over three months

		2006 港幣千元 HK\$'000	2005 港幣千元 HK\$'000
Hong Kong	香港	31,939	32,246
Mainland China	中國內地	6,838	28,808
Others	其他	24,224	27,437
		63,001	88,491

6. 跨國債權

跨國債權資料顯示對海外交易對手之最終風險之地區分佈，並會按照交易對手所在地計入任何風險轉移。一般而言，假如債務之擔保人所處國家與借貸人不同，或債務由某銀行之海外分行作出而其總公司位處另一國家，則會確認跨國債權風險之轉移。佔總跨國債權10%或以上之地區方作分析及披露如下：

6. CROSS-BORDER CLAIMS

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country, which is different from that of the counterparty, or if the claims are on an overseas branch of a bank whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are analysed by geographical areas and disclosed as follows:

		銀行及其他 金融機構 Banks and other financial institutions 港幣千元 HK\$'000	公共機構 Public sector entities 港幣千元 HK\$'000	其他 Others 港幣千元 HK\$'000	總計 Total 港幣千元 HK\$'000
於2006年12月31日	At 31 December 2006				
亞洲，不包括香港	Asia, other than Hong Kong				
– 中國內地	– Mainland China	11,261,013	371,983	5,675,554	17,308,550
– 其他	– Others	8,016,267	–	847,343	8,863,610
		19,277,280	371,983	6,522,897	26,172,160
西歐	Western Europe				
– 德國	– Germany	6,683,083	–	2,647	6,685,730
– 其他	– Others	17,188,498	54,001	264,981	17,507,480
		23,871,581	54,001	267,628	24,193,210
於2005年12月31日	At 31 December 2005				
亞洲，不包括香港	Asia, other than Hong Kong				
– 中國內地	– Mainland China	4,053,453	1,166,072	4,639,711	9,859,236
– 其他	– Others	6,907,693	28,982	670,774	7,607,449
		10,961,146	1,195,054	5,310,485	17,466,685
西歐	Western Europe				
– 德國	– Germany	5,713,208	–	41,141	5,754,349
– 其他	– Others	19,184,674	33,407	307,910	19,525,991
		24,897,882	33,407	349,051	25,280,340

7. 逾期及經重組資產

(a) 逾期貸款

客戶貸款總額， 已逾期：	Gross advances to customers which have been overdue for:
– 超過3個月但不 超過6個月	– six months or less but over three months
– 超過6個月但 不超過1年	– one year or less but over six months
– 超過1年	– over one year
逾期超過3個月 之貸款	Advances overdue for over three months

於2006年12月31日及2005年12月31日，沒有逾期超過3個月之銀行及其他金融機構貸款。

有明確到期日之貸款，若其本金或利息已逾期及仍未償還，則列作逾期貸款。須定期分期償還之貸款，若其中一次分期還款已逾期及仍未償還，則列作逾期處理。須即期償還之貸款若已向借款人送達還款通知，但借款人未按指示還款，或貸款一直超出借款人獲通知之批准貸款限額，亦列作逾期處理。

7. OVERDUE AND RESCHEDULED ASSETS

(a) Gross amount of overdue loans

2006		2005	
金額 Amount 港幣千元 HK\$'000	佔客戶貸款總額百分比 % of gross advances to customers	金額 Amount 港幣千元 HK\$'000	佔客戶貸款總額百分比 % of gross advances to customers
12,991	0.03%	22,275	0.05%
15,310	0.03%	16,538	0.04%
34,700	0.08%	49,678	0.11%
63,001	0.14%	88,491	0.20%

As at 31 December 2006 and 31 December 2005, there were no advances to banks and other financial institutions that were overdue for over three months.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is overdue and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

7. 逾期及經重組資產(續)

(b) 經重組客戶貸款

		2006		2005	
		金額	佔客戶貸款總額百分比	金額	佔客戶貸款總額百分比
		Amount	% of gross advances to customers	Amount	% of gross advances to customers
		港幣千元		港幣千元	
		HK\$'000		HK\$'000	
經重組客戶貸款	Rescheduled advances to customers	72,332	0.16%	108,507	0.26%

於2006年12月31日及2005年12月31日，沒有經重組之銀行及其他金融機構貸款。

經重組貸款乃指客戶因為財政困難或無能力如期還款而經雙方同意達成重整還款計劃之貸款，而經修訂之還款條款(例如利率或還款期)並非一般商業條款。修訂還款計劃後之經重組貸款如仍逾期超過3個月，則包括在逾期貸款內。列示之經重組貸款並未扣除減值準備。

7. OVERDUE AND RESCHEDULED ASSETS (Continued)

(b) Rescheduled advances to customers

		2006		2005	
		Amount	% of gross advances to customers	Amount	% of gross advances to customers
		港幣千元		港幣千元	
		HK\$'000		HK\$'000	
經重組客戶貸款	Rescheduled advances to customers	72,332	0.16%	108,507	0.26%

As at 31 December 2006 and 31 December 2005, there were no rescheduled advances to banks and other financial institutions.

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms, either of interest or of repayment period, are non-commercial. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in overdue advances. Rescheduled advances are stated before deduction of loan impairment allowances.

8. 收回資產

		2006	2005
		港幣千元	港幣千元
		HK\$'000	HK\$'000
收回資產之估計市值	Estimated market value of repossessed assets held	25,574	11,420

收回資產是指本集團為解除貸款人部分或全部債務而得以存取或控制的資產，包括物業及證券(例如透過法庭程序或有關貸款人的自願行動)。

8. REPOSSESSED ASSETS HELD

Repossessed assets are properties or securities in respect of which the Group has acquired access or control (e.g. through court proceedings or voluntary actions by the borrowers concerned) for release in full or in part of the obligations of the borrowers.

9. 資本管理

本集團的政策是維持雄厚的資本基礎，以支持本集團長遠業務發展，並達到法定的資本充足比率要求。如上述附註(1)所披露，本集團於2006年12月31日已計入市場風險的經調整資本充足比率為19.42%，而未經調整資本充足比率則為19.52%，兩者均遠超過法定的最低要求。

10. 風險管理

總覽

本集團業務之潛在風險包括信貸風險、流動資金風險、市場風險、利率風險、外匯風險及操作風險。本集團的風險管理目標是將風險設定在可接受的水平內，同時提高風險調整後的回報率。

風險管理架構

本銀行董事會對集團的整體風險管理負最終責任，並負責訂定風險管理的策略性目標及風險管理架構。

為達至本集團風險管理目標，董事會下設風險管理委員會，並有獨立董事擔任成員，負責審訂檢討風險管理政策。

由行政總裁擔任主席的多個管理委員會及有關部門，根據董事會訂立的風險管理策略，負責制定及定期檢討風險管理政策及監控程序。

風險管理部負責制定識別、量度、監察及控制信貸風險、市場風險、外匯風險、操作風險、信譽風險、法律及合規風險和策略風險的政策及程序，設定適當的風險限額，持續監察有關風險。財務部負責制定全行利率風險及流動資金風險管理政策及程序以量度、監察及控制有關風險。風險管理部定期向風險管理委員會及直接控股公司匯報本集團的風險水平。

稽核部獨立查核此等政策和監控是否足夠及有效，以確保本集團依據該等既定政策、程序及限額營運。

9. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business over a long time horizon and to meet the statutory capital adequacy ratio requirement. As disclosed in Note 1 above, both the Group's adjusted capital adequacy ratio incorporating market risk of 19.42% and the unadjusted ratio of 19.52% as at 31 December 2006 were well above the statutory minimum requirement.

10. MANAGEMENT OF RISKS

The Overview

The principal types of risk inherent in the business of the Group include credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk and operational risk. The Group's risk management goal is to raise its risk-adjusted return on capital while maintaining risk exposure within acceptable parameters.

Risk Management Structure

The Bank's Board of Directors (the "Board") holds the ultimate responsibility for the Group's overall risk management. It determines the risk management strategies and the risk management structure.

To achieve the Group's goals in risk management, the Board sets up the Risk Management Committee, which comprises of independent directors, to determine the risk management policies.

According to the risk management strategies established by the Board, risk management policies and controls are devised and reviewed regularly by relevant departments and respective management committees chaired by the Chief Executive (the "CE").

The Risk Management Department develops policies and procedures for identifying, measuring, monitoring and controlling credit risk, market risk, foreign exchange risk, operational risk, reputation risk, legal and compliance risk, and strategic risk; to set appropriate risk limits; and to continually monitor risks. The Finance Department is responsible for developing policies and procedures for measuring, monitoring and controlling bank-wide interest rate risk and liquidity risk. The Risk Management Department reports the risk levels to the Risk Management Committee and the immediate holding company on a regular basis.

The Auditing Department conducts independent reviews on the adequacy and effectiveness of these policies and controls to ensure that the Group is operating according to the established policies, procedures and limits.

10. 風險管理 (續)

風險管理架構 (續)

獨立性是施行有效風險管理的關鍵。為保證風險管理部及稽核部的獨立性，風險管理部及稽核部分別直接向風險管理委員會及稽核委員會匯報，該兩個委員會均為董事會下設的專責委員會，全部委員由本銀行董事擔任。

(i) 信貸風險管理

信貸風險指客戶或交易對手將不能或不願意履行合約責任的風險。信貸風險主要來自集團之借貸、貿易融資及財資業務。

由行政總裁擔任主席的信貸管理委員會負責落實信貸風險管理策略，制定信貸批核準則、信貸審批機制、貸後檢討和監察制度、減值準備的信貸政策及對大額信貸客戶和不同行業設置風險承擔限額，並從本集團信貸組合不同方面如資產質素、風險集中程度及各組合部分等進行監察。

零售銀行部、企業銀行部及港外業務部及其轄下授信單位為風險控制前台，須對每筆貸款申請進行詳盡的評估分析，及對貸後監控、按期還款及催收負有全部責任，同時須按照信貸政策及程序進行業務活動。

風險管理部負責識別、量度、監察及控制信貸風險，向風險管理委員會及行政總裁報告，且獨立於業務單位。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

Independence is crucial to effective risk management. To ensure the independence of the Risk Management Department and the Auditing Department, they report directly to the Risk Management Committee and the Audit Committee respectively. Both committees are specialized committees set up by the Board and all members are directors of the Bank.

(i) Credit risk management

Credit risk is the risk that customers or counterparties may be unable or unwilling to meet the commitment that it has entered into. Credit risk arises principally from the Group's lending, trade finance and treasury operations.

The Credit & Loans Management Committee, another management committee chaired by the CE, is responsible for the implementation of the credit risk management strategies as well as the formulation of credit policies that define the credit extension criteria, the credit approval mechanism, the reviewing and monitoring guidelines, the loan impairment policy and the limits on exposures to large customer groups and different industry sectors. It also monitors various aspects of the Group's loan portfolio such as asset quality, risk concentration and specific segments of the portfolio etc.

Retail Banking Department, Corporate Banking Department and Offshore Banking Department and their credit initiation units, act as the frontier of the risk control. They are obliged to make thorough assessment on every credit application and are fully responsible for monitoring credit performance, punctual repayments and collecting payments from overdue accounts. The business activities conducted should also be complied with the credit policies and procedures.

The Risk Management Department is responsible for identifying, measuring, monitoring and controlling credit risk. It reports directly to the Risk Management Committee and the CE and operates independently from the business units.

10. 風險管理 (續)

風險管理架構 (續)

(i) 信貸風險管理 (續)

本集團的信貸風險管理架構通過下列方法達成其目標：

- 建設合適的信貸風險環境；
- 採用穩健的信貸審批程序；
- 維持適當的信貸管理、量度及監察程序；及
- 對信貸風險作充分而獨立的監控。

為符合總體風險管理目標，本集團在信貸風險管理策略的主要原則包括：

- 平衡集團的風險容忍度與預期回報率；
- 透過地區、行業、產品、客戶、到期日及幣種安排，將集團的貸款組合風險分散；
- 維持獨立的信貸檢討程序，確保風險評估及監察以公平、全面和客觀的方式進行；
- 依循法例及監管規則的規定要求；
- 為每個營運單位及負責人清楚界定他們在信貸管理方面的職責和問責制；
- 準確量度並全面披露信貸風險；及
- 貫徹執行信貸政策，維持一致性。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(i) Credit risk management (Continued)

The credit risk management structure facilitates the Group to meet its primary objectives of the credit risk management by:

- establishing an appropriate credit risk environment;
- enforcing prudent lending principles in approving credits;
- maintaining effective credit administration, measurement and monitoring processes; and
- ensuring adequate independent review and monitor on credit risk.

Being consistent with the overall risk management objectives, the key principles that ensure effective implementation of the Group's credit risk management strategies are:

- balancing the Group's tolerance for risk with the level of expected returns;
- diversifying the Group's loan portfolio by geographic regions, industries, products, customers, maturities and currencies;
- maintaining the independence of the credit review process to ensure risk assessment and monitoring are conducted in an objective, fair and comprehensive manner;
- complying with legal and regulatory requirements;
- assigning clearly defined credit risk management responsibilities and accountability to each relevant operating unit and people involved in the risk management process;
- measuring credit risk exposures accurately and disclosing them fully; and
- maintaining consistent credit policies.

10. 風險管理 (續)

風險管理架構 (續)

(i) 信貸風險管理 (續)

此外，本集團已建立一套全面風險管理報告體系，定期向信貸管理委員會及風險管理委員會匯報有關信貸組合、信貸資產質素及信貸風險集中程度情況。

信貸批核程序

所有貸款審批權源自董事會授權，並按照各信貸審批人員的職責、專業經驗、能力而賦予不同貸款審批權限。

本集團對貸款申請採用多層次審批程序，每筆貸款申請根據其性質及金額由適當審批人員進行批核。

信貸風險評估

良好信貸決定關鍵在於客觀、公平及全面的信貸風險評估。每筆貸款申請目的、貸款結構、借款人的財政狀況、還款能力、公司管理人員的能力及作風、與借款人相關的行業風險及貸款附帶的押品等均被進行詳細評估及分析，同時本集團會按貸款組合情況考慮整體信貸風險，以避免風險過份集中。

信貸風險監控

本集團制定了信貸風險管理及信貸監控政策及程序，利用健全及有效的管理信息系統，持續及一致地監察本集團的信貸風險水平。風險管理部轄下獨立專責單位負責執行全面及深入的監控，以識別及控制個別及整體貸款組合的信貸風險。

此外，信貸管理委員會緊密地監察及控制全行資產質素、有問題貸款情況變化、各授信單位資產質素、呆賬收回策略及大額催理戶的催理進展。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(i) Credit risk management (Continued)

Moreover, the Group has established a comprehensive reporting system. Regular reports on the performance of loan portfolio, loan asset quality, and credit risk concentration are reviewed by the Credit & Loans Management Committee and the Risk Management Committee.

Credit approval procedures

All credit approval authorities are delegated from the Board. Credit approval limits are assigned to credit officers depending on their responsibilities, professional expertise and skill.

The Group adopts multi-level credit approval procedures. Each credit application will be assessed by appropriate level of management according to its amount and nature.

Credit risk assessment

Good lending decision is based on an objective, fair and comprehensive credit risk assessment. The purpose and structure of the loan, the customer's financial status, repayment ability, management ability and style, risk of the industry associated with the customer and collaterals available etc. will be thoroughly assessed and evaluated in each credit application. The overall credit risk of the loan portfolio of the Group will also be considered to avoid any over-concentration of risk.

Credit risk monitoring

The Group has well-established policies and procedures on credit risk management and credit monitoring. The Group has monitored credit risk consistently and continuously by means of robust and efficient administrative information systems. An independent dedicated division in the Risk Management Department conducts thorough and comprehensive monitoring to identify and control individual and overall credit risks of the Group's loan portfolio.

Furthermore, the Credit & Loans Management Committee closely reviews and controls the asset quality, movement in criticized loan level, asset quality of the credit initiation units, debt recovery strategies and collection progress of those loans with significant exposures.

10. 風險管理 (續)

風險管理架構 (續)

(ii) 流動資金風險管理

流動資金風險指本集團可能承受不欲接受的損失，否則便無法提供資金以應付資產增加或履行到期義務的風險。流動資金風險包括未能預見的資金外流，和未能及時及／或按合理價格變現某一持倉以符合流動性需要的風險。

本集團流動資金風險的管理目標，是透過管理資產、負債和承諾之流動性結構，從而確保能夠按時支付所有到期債務（即使在惡劣的市況下）、及時為投資機會提供資金及符合法定比率要求。為確保本集團具備足夠的能力達到流動資金管理目標，本集團制定了流動資金風險管理政策，該政策經風險管理委員會審核通過執行。風險管理委員會及資產負債管理委員會從不同角度監察及控制流動資金風險；財務部負責制定政策、量度風險及定期向風險管理委員會及資產負債管理委員會匯報風險程度。

本集團按以下程序監察及控制流動資金風險：

- 維持穩健的流動資金比率；
- 持有高流動性及高質素的債務證券組合，這些債務證券一般可按市場價格套現，以配合流動性需要；
- 維持一分散而穩定的存款基礎；
- 維持緊急應變計劃，以應付流動性衝擊；

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(ii) Liquidity risk management

Liquidity risk is the risk of not able to fund increases in assets or meet obligations as they fall due without incurring unacceptable loss. It includes both the risk of unexpected cash outflow and the risk of being unable to liquidate a position in a timely manner and/or at a reasonable price to meet liquidity needs.

The Group's objective of liquidity risk management is to manage the liquidity structure of its assets, liabilities and commitments so as to ensure that the Group is able, even under abnormal conditions, to meet its obligations on time, to fund its investment opportunities on a timely basis and to be in compliance with the statutory ratio. To ensure the Group has sufficient capacity to meet the objective, the Group has formulated the Liquidity Management Policy, which has been reviewed and approved by the Risk Management Committee. The Risk Management Committee and the Assets & Liabilities Management Committee ("ALCO") are responsible for monitoring and controlling the liquidity risk from different perspectives. The Finance Department is responsible for developing the policy, measuring the risk and reporting the risk level to the Risk Management Committee and the ALCO on a regular basis.

The Group monitors and controls the liquidity risk through the following processes:

- maintaining strong liquidity ratio;
- maintaining a portfolio of liquid, high quality debt securities that generally can be realized at market price to meet liquidity needs;
- maintaining a diversified and stable deposit base;
- maintaining contingency plans to handle liquidity crisis;

10. 風險管理 (續)

風險管理架構 (續)

(ii) 流動資金風險管理 (續)

- 採用模擬模型，評估在與集團或市場有關的壓力情景下的流動性狀況。

如以上附註(3)所披露，本集團於2006年度的平均流動資金比率為46.68%，遠高於法例規定的最低比率25%。

(iii) 市場風險管理

市場風險是指因市場利率及價格變化而引致損失的風險。

本集團的市場風險源自集團持有用作自營買賣用途的外匯及債券持倉。這些持倉均按市場價格劃價。

本集團的市場風險管理目標，是避免集團的資本基礎因持倉的市價的不利變動而受到侵蝕。為達到此目標，本集團已制定了風險限額及程序，以控制及監察集團的市場風險承擔。風險限額按每類產品及風險類別而設，包括持倉限額及止蝕限額。風險暴露情況，則由獨立的中、後台單位負責根據已設定的風險限額進行監察，並定期向管理層提交損益報告，但持倉如超越風險限額，需即時向管理層報告。

在評估整體市場風險對集團資本基礎的影響時，本集團綜合與市場風險有關之持倉，並定期計算調整市場風險後的資本充足比率。如以上附註(1)所披露，於2006年12月31日，本集團的調整市場風險後的資本充足比率為19.42%，對比未調整市場風險前的資本充足比率相距0.10%。本集團認為集團的市場風險並不重大。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(ii) Liquidity risk management (Continued)

- evaluating the Group's liquidity position by adopting simulation models with stressful Group specific and market related scenarios.

As disclosed in Note 3 above, the Group's average liquidity ratio was 46.68% for year 2006, which was well above the statutory minimum ratio of 25%.

(iii) Market risk management

Market risk is the risk of losses that results from movement in the market rates and prices

The Group's market risk originates from its holding of foreign exchange and debt securities in the trading books. Those positions are valued on a mark-to-market basis.

The Group's objective in market risk management is to protect its capital base from being deteriorated by the losses arising from unfavourable changes in the market prices of its positions held. To meet the objective, the Group has established risk limits and procedures to control and monitor the market risk exposure. Risk limits are set by products and risk types, which basically comprise position limits and cut-loss limits. Independent middle and back offices are then assigned to monitor the risk exposure against the risk limits, together with profit and loss reports submitted to the management on a regular basis, while exceptions to limits should be reported when they occur.

In evaluating the overall impact of the market risk exposure on the Group's capital base, the Group calculates the market risk adjusted capital adequacy ratio regularly, which consolidates the market risk related positions. As shown in Note 1 above, the market risk adjusted capital adequacy ratio was 19.42% as at 31 December 2006, which was 0.10% less than the capital adequacy ratio before incorporating market risk exposure. The Group considers that the market risk exposure is not material.

10. 風險管理 (續)

風險管理架構 (續)

(iii) 市場風險管理 (續)

在2006年，本集團與市場風險有關之財資業務交易每日平均收入為15,000港元(2005年：2,000港元)。每日收入之標準差為165,000港元(2005年：4,000港元)。

本集團與市場風險有關之財資業務交易收入分佈的分析見下圖。該圖顯示247個交易日中，有95日錄得虧損。最高的單日虧損為499,000港元(2005年：12,000港元)，次高的單日虧損則為164,000港元(2005年：8,000港元)。最普遍的單日收入是介乎0港元至2,500,000港元之間，共有152日；而最高的單日收入則是2,444,000港元(2005年：38,000港元)。本集團認為在交易賬項上的市場風險並不重大。

10. MANAGEMENT OF RISKS (Continued)

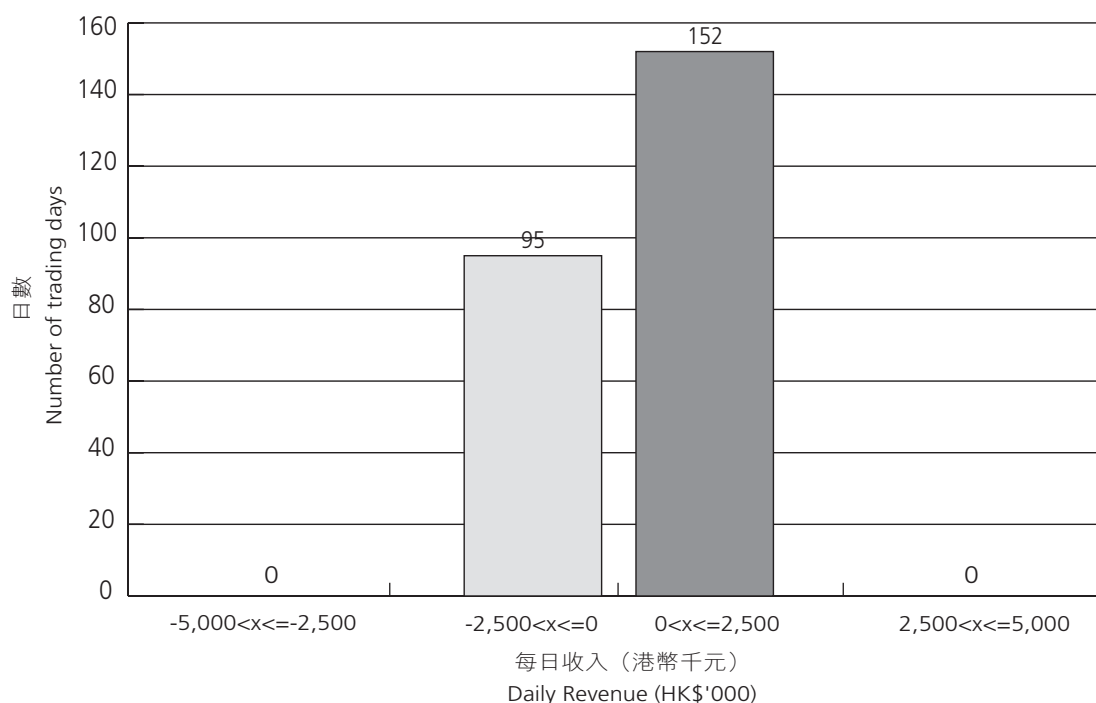
Risk Management Structure (Continued)

(iii) Market risk management (Continued)

The average daily revenue earned from the Group's market risk-related treasury trading activities in 2006 was HK\$15,000 (2005: HK\$2,000). The standard deviation of the daily revenues was HK\$165,000 (2005: HK\$4,000).

An analysis of the frequency distribution of the Group's market risk-related treasury trading revenues is shown below. This shows 95 out of 247 days are loss making. The maximum daily loss is HK\$499,000 (2005: HK\$12,000) and the next maximum daily loss of HK\$164,000 (2005: HK\$8,000). The most frequent result was a daily revenue of between HK\$0 and HK\$2,500,000 with 152 occurrences. The highest daily revenue during the year was HK\$2,444,000 (2005: HK\$38,000). The Group considers that the market risk arising from its trading activities is not material.

2006年市場風險收入頻率分佈情況
Frequency distribution of daily revenue from trading activities for the year of 2006



10. 風險管理 (續)

風險管理架構 (續)

(iii) 市場風險管理 (續)

利率風險管理

利率風險指銀行對不利的利率移動的風險承擔。本集團的利率風險源自自營買賣及非自營買賣組合。自營買賣組合的利率風險按第168頁所述的機制及方式管理。至於非自營買賣組合，其利率風險主要來自資產負債到期日或利率重訂價格期限的時差，及在同一利率重訂價格期限內，不同資產負債不同交易的不同定價基準的變動的不完全相關性。

為管理此利率風險，本集團已制定了利率風險管理政策，該政策經風險管理委員會審核通過執行。風險管理委員會及資產負債管理委員會從不同角度監察及控制利率風險。本集團的利率風險管理目標，是為了確保本集團在一個合適及可承受的風險程度下經營業務，及能限定對本集團淨利息收入及經濟價值的不利影響。

財務部負責制訂利率風險管理政策、量度風險、定立風險限額及定期向風險管理委員會及資產負債管理委員會匯報風險程度。缺口分析是本集團用以量度利率風險承擔的工具之一。缺口是指在每段到期日或利率必須重訂價格日內之計息資產與計息負債的差額，缺口程度顯示了本集團新訂或重訂價格的資產和負債息差的潛在變動風險程度。在量化風險程度時，本集團亦同時採用了模擬模型，分析及評估集團在壓力情景下的風險承擔能力，並定期按風險管理委員會定下的限額作監察。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(iii) Market risk management (Continued)

Interest rate risk management

Interest rate risk is the risk exposes the bank to adverse movement in interest rates. The Group's interest rate risk exposure arises both from trading and non-trading portfolios. Trading portfolios are managed under the mechanisms and methodologies described in page 168. For non-trading portfolios, the primary sources of interest rate risk arise from the timing difference in the maturities and re-pricing of assets and liabilities, and the imperfect correlation in the movement of different pricing bases of different transactions for different assets and liabilities within the same re-pricing period.

To manage the risk, the Group has formulated the Interest Rate Risk Management Policy, which has been reviewed and approved by the Risk Management Committee. The Risk Management Committee and the ALCO are responsible for monitoring and controlling the interest rate risk from different perspectives. The primary objective of the policy is to ensure the Group carries on its ordinary business in an appropriate and absorbent risk level and to limit the adverse impacts on the Group's net interest income and economic value.

The Finance Department is responsible for developing the policy, measuring the risk, setting the risk limits and reporting the risk level to the Risk Management Committee and the ALCO on a regular basis. Gap analysis is a typical tool the Group adopts to measure its exposure to interest rate risk. The gap is the difference between the amount of interest-bearing assets and interest-bearing liabilities that mature or must be re-priced within a specific time band. The magnitude of the gaps indicates the extent to which the Group is exposed to the risk of potential changes in the margins on new or re-priced assets and liabilities. In quantifying the risk level, the Group also adopts simulation models to carry out stressful scenarios so as to analyze and evaluate the Group's risk absorption capacity, which is regularly monitored against the limits approved by the Risk Management Committee.

10. 風險管理 (續)

風險管理架構 (續)

(iii) 市場風險管理 (續)

外匯風險管理

外匯風險是指本集團之資產、負債及承擔因為外幣匯率的變動而造成盈利或虧損的風險。

本集團之外匯風險主要來自商業銀行業務之匯兌風險。本集團之政策是外匯敞口必須在准許限額內。財務部負責確定所有外匯交易已遵從管理層所制定的指引執行。

(iv) 操作風險管理

操作風險涉及因操作流程不完善或失效、人為過失、電腦系統故障或外部突發事件等因素造成的經濟損失。董事會確認操作風險是一個獨特的風險並需要特別注意，並應採納市場上最佳做法進行管理。

本集團已制定及落實操作風險管理政策，該政策對操作風險進行分類，並制定識別、評估、匯報、監察及修復的各項要求。

為確保日常營運獲得適當控制及監督，本集團應用電腦系統及嚴緊程序，切實執行有效內部管控系統。此外，通過持續培訓和工作指導，使各業務領域和管理環節均具備豐富經驗及合適能力的同事執行及監察本集團的營運。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(iii) Market risk management (Continued)

Foreign exchange risk management

Foreign exchange risk is the risk arising from changes in foreign exchange rates on the Group's assets, liabilities and commitments, thus causing profits or losses.

The Group's exchange exposures mainly comprise of currency exposures originated by its commercial banking business. It is the Group's policy that foreign exchange exposures must be within approved limits. The Finance Department ensures that all foreign currency transactions are conducted in accordance with the guidelines established by management.

(iv) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Board recognizes operational risk as a distinct risk category that should be managed with full attention and should be kept up with the best practice of the industry.

The Group has formulated and implemented the Operational Risk Management Policy which provides a bank-wide classification of operational risks and sets out the requirements on identification, assessment, reporting, monitoring and mitigation.

To ensure operational risks being under proper monitoring and supervision, effective internal control system has been enforced by means of computer systems and rigorous procedures. In addition, through coaching and frequent training, the Group has maintained teams of experienced and competent staff in all business and management areas to execute and monitor the operations of the Group.

10. 風險管理 (續)

風險管理架構 (續)

(iv) 操作風險管理 (續)

本集團會非常嚴謹地檢討各項業務政策及程序，並按最新公佈要求不時更新。此外，稽核部執行獨立稽核工作，以確保有關程序是正確地執行；若發現差異，直接向稽核委員會報告。

風險管理部轄下專責單位負責監察、收集、分析、匯報所有涉及操作風險所引致的損失及事件的資料和記錄，以符合監管機構的要求及落實實施操作風險管理政策。

本集團的操作風險管理政策要求持續對各項重要服務的緊急事故應變方案進行檢討和補充。為確保有關計劃是切實可行，本集團對一些重要服務項目每年均進行適當的演練，並取得滿意結果。

(v) 信譽風險管理

信譽風險是因經營手法產生的負面消息，不論是否屬實，可能引致客戶流失、支付高昂訴訟費用或令收入減少的風險。信譽風險潛藏於集團每項業務運作中，涵蓋層面廣泛。市場傳言或公眾印象都是決定這類風險水平的重要因素。

為減低信譽風險，本集團制訂及實施信譽風險管理政策。此政策訂立標準規範本集團信譽風險的管理方式，以盡早識別和積極防範信譽風險事故。為消除或減輕對本集團的負面影響，當發生信譽風險事故時，本集團會根據緊急應變機制及特殊情况快速通報制度予以盡速處理。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(iv) Operational risk management (Continued)

The Group's policies and procedures will be reviewed vigilantly and updated in accordance with the new promulgated requirements from time to time. Furthermore, the Auditing Department performs independent checking to ascertain that the procedures are properly followed and reports discrepancies found directly to the Audit Committee.

In order to meet regulatory bodies' requirements and to facilitate the implementation of operational risk management framework, a dedicated division in the Risk Management Department monitors, collects, analyzes, reports the records and details of the operational risk losses and incidents.

The Group has reviewed and enhanced the Business Continuity Plan of all critical banking services. To ensure practicality of the plan, drill on contingency plans on certain critical business functions has been duly performed annually and the result was satisfactory.

(v) Reputation risk management

Reputation risk is the risk that negative publicity regarding the business practices, whether genuine or not, will cause a potential decline in the customer base or lead to costly litigation or revenue erosion.

Reputation risk is inherent in every aspect of the Group's business operation and covers a wide spectrum of issues. Market rumors or public perceptions are significant factors in determining the level of risk in this category. In order to mitigate reputation risk, the Group has formulated and implemented a Reputation Risk Management Policy, which establishes standards to prevent and to manage reputation risk proactively at an early stage. In order to eliminate or alleviate the negative impact on the Group's reputation, incidents related to reputation risk are handled promptly in accordance with the Emergency Contingency Plan and Special Reporting System for Special Incidents.

10. 風險管理 (續)

風險管理架構 (續)

(v) 信譽風險管理 (續)

此外，本集團對打擊洗黑錢及反恐怖活動一貫提高警覺並採取預防措施。除發出特定措施和合規自查清單外，亦安排全行性培訓活動使各同事均明白本集團的政策和立場，防止不法份子利用本集團服務進行非法活動。

(vi) 法律及合規風險管理

法律風險指因不可執行合約、訴訟或不利判決而可能使本集團的運作或財務狀況出現混亂或負面影響的風險。

合規風險指因未有遵守所有適用法例、規則、國際慣例、當地行業準則、行為守則及良好的實務準則，而可能導致銀行須承受遭法律或監管機構制裁、引致財務損失或信譽損失的風險。透過制訂與維護適當的政策及指引，確保本集團經營業務時遵守有關的法律法規要求。

(vii) 策略風險管理

策略風險是策略制訂、實施及調整過程中失當，或未能對市場變化作出及時的調整，從而使本集團的盈利、資本、信譽和市場地位受到影響的風險。本集團制定了策略風險管理政策，以明確董事會和管理層在執行此類風險管理時的責任。

10. MANAGEMENT OF RISKS (Continued)

Risk Management Structure (Continued)

(v) Reputation risk management (Continued)

In addition, precautionary measures have been taken and special attention has been drawn in the combat of the Anti-Money Laundering and Anti-Terrorist Financing activities. Specific procedure manuals and self-checking compliance list have been issued and trainings have been provided to all staff to stipulate the Group's policy and stance in order to prevent the Group's services being used by the villains for illegal activities.

(vi) Legal and compliance risk management

Legal risk is the risk that unenforceable contracts, lawsuits or adverse judgments may disrupt or otherwise negatively affect the operations or financial condition of the Group.

Compliance risk is the risk of legal and regulatory sanctions, financial loss, or loss on reputation that the Group may suffer as a result of its failure to comply with all applicable laws, regulations, international practices, local trade standards, codes of conduct and standards of good practice. By establishing and maintaining appropriate policies and guidelines, the Group ensures to conduct its business in compliance with the requirements of relevant laws and regulations.

(vii) Strategic risk management

Strategic risk generally refers to the risks that may induce some current or future negative impacts on the earnings, capital, reputation or market position of the Group because of poor strategic decisions, improper implementation of strategies and lack of response to the market. The Group has developed its Strategic Risk Management Policy that defines the responsibilities of the Board and the Management when implementing its desired strategies.

11. 企業管治

本集團致力達至優良之企業管治，並已遵循香港金融管理局於二零零一年九月頒佈之監管政策手冊《本地註冊認可機構的企業管治》指引。

董事會及管理層

董事會負責為集團整體業務確定目標、制定長遠策略及進行管理。董事會現時由十位具備不同經驗及專業之人士組成。當中三位為執行董事，其餘七位為非執行董事。在七位非執行董事中，三位為獨立非執行董事，發揮不可或缺的獨立監督作用。董事會定期召開會議並於年內召開了四次會議，平均出席率達92.5%。以行政總裁為首的管理層負責按已審定的策略及政策，制定及執行具體落實方案，並定期向董事會提交集團表現之詳細報告，以便董事會能夠有效地履行其職責。為了能專注在對集團財務及長遠發展有重大影響之策略性及重要事宜上，董事會成立了三個委員會負責監督集團各主要範疇。各委員會之詳情如下：

行政委員會

行政委員會在董事會直接授權下，處理在董事會休會期間需要董事會審議之事宜。其職責包括：

- 審議為實現董事會已審定之集團整體發展策略及業務計劃之政策、實施計劃和管理辦法；
- 檢討策略及業務計劃之實施進度；
- 提出策略性之議案供董事會審定；及
- 按監管當局及控股公司制定之政策，審議集團之制度及執行細則。

年內，行政委員會成員包括李繼文女士（主席）、何兆全先生及袁偉強先生。彼等均為銀行之執行董事。

11. CORPORATE GOVERNANCE

The Group strives to achieve high standards of corporate governance and has followed the module on “Corporate Governance of Locally Incorporated Authorized Institutions” under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in September 2001.

Board of Directors and the Management

The Board is responsible for setting objectives and formulating long-term strategies as well as managing the Group’s overall business. It currently comprises ten Directors with a variety of different experience and professionalism. Among them, three are Executive Directors, while the remaining seven are Non-executive Directors. Of the seven Non-executive Directors, three are Independent Non-executive Directors whose indispensable function is to provide independent scrutiny. The Board meets regularly and four board meetings were held in the year with an average attendance rate of 92.5%. The Management, led by the Chief Executive, is responsible for formulating and implementing detailed programmes to effect the approved strategies and policies, and to provide detailed reports on the Group’s performance to the Board on a regular basis to enable the Board to discharge its responsibilities effectively. In order to focus its attention on strategic and material issues that have significant impact on the Group’s finances and long-term development, the Board has set up three committees to oversee the major areas of the Group. The details of the committees are given below:

Executive Committee

The Executive Committee has been delegated with power directly from the Board to handle matters which require the Board’s review during the adjournment of the Board. Its responsibilities include:

- approving policies, implementing plans and management measures to effect the group-wide development strategies and business plans approved by the Board;
- reviewing the progress on implementation of the strategies and business plans;
- recommending strategic proposals to the Board for its consideration and approval; and
- approving the Group’s rules and regulations according to the policies imposed by the supervisory authorities and the holding company.

The members of Executive Committee during the year were Ms. Li Jiwen (Chairman), Mr. Ho Shiu Chuen and Mr. Yuen Wai Keung. All were Executive Directors of the Bank.

11. 企業管治(續)

稽核委員會

稽核委員會監督集團之稽核工作及監察集團符合已審定之政策及程序，以確保集團之財務報告流程及內部控制系統之有效性。其職責包括：

- 審查及監督內部控制體系之有效性，控制財務風險以及財務報告及稽核之程序；
- 獨立評估財務彙報及其控制框架之效力及效率，經營政策及制度之充份性；及
- 監控集團實際操作，以確保集團合法合規經營。

年內，稽核委員會成員包括劉漢銓先生(主席)、藍鴻震先生及羅文華先生。彼等均為銀行之非執行董事。其中劉漢銓先生及藍鴻震先生均為獨立非執行董事。

風險管理委員會

風險管理委員會監督集團之風險管理，制定集團風險管理策略、政策及程序，以及監控其執行之情況。其職責包括：

- 協助董事會掌握集團之風險承擔程度；
- 向董事會提交合適之風險管理策略建議；及
- 根據董事會之要求制定風險管理、授權和職責分工等有關風險管理之政策。

11. CORPORATE GOVERNANCE (Continued)

Audit Committee

The Audit Committee oversees the auditing activities of the Group and monitor compliance with approved policies and procedures, so that the effectiveness of financial reporting process and internal control systems of the Group can be assured. Its responsibilities include:

- reviewing and monitoring the effectiveness of the internal control systems, the controls over financial risks and the procedures of financial reporting and auditing;
- assessing independently the effectiveness and efficiency of financial reporting system and its controlling mechanism, and the sufficiency of operating policies and system; and
- monitoring the operation of the Group to ensure the Group is running in compliance with the relevant laws and regulations.

The members of Audit Committee during the year were Mr. Ambrose Lau Hon Chuen (Chairman), Mr. David Lan Hong Tsung and Mr. Law Man Wah. All were Non-executive Directors of the Bank. Among them, Mr. Ambrose Lau Hon Chuen and Mr. David Lan Hong Tsung were Independent Non-executive Directors.

Risk Management Committee

The Risk Management Committee oversees the risk management of the Group, to formulate the Group's risk management strategies, policies and procedures, and to monitor the implementation of those strategies, policies and procedures. Its responsibilities include:

- assisting the Board to measure and monitor the risk exposures of the Group;
- recommending appropriate risk management strategies to the Board; and
- formulating risk management related policies such as the risk management policies and the authorities and duties delegation policy in accordance with the requirements set by the Board.

11. 企業管治 (續)

風險管理委員會 (續)

年內，風險管理委員會成員包括毛小威先生(主席)、羅文華先生、饒餘慶先生*、劉漢銓先生、李繼文女士及何兆全先生。彼等均為銀行之董事。其中饒餘慶先生及劉漢銓先生均為獨立非執行董事。

- * 饒餘慶先生於2006年6月17日起辭任銀行獨立非執行董事並於同日起不再為風險管理委員會成員。

11. CORPORATE GOVERNANCE (Continued)

Risk Management Committee (Continued)

The members of the Risk Management Committee during the year were Mr. Mao Xiaowei (Chairman), Mr. Law Man Wah, Mr. Jao Yu Ching*, Mr. Ambrose Lau Hon Chuen, Ms. Li Jiwen and Mr. Ho Shiu Chuen. All were Directors of the Bank. Among them, Mr. Jao Yu Ching and Mr. Ambrose Lau Hon Chuen were Independent Non-executive Directors.

- * Mr. Jao Yu Ching resigned as an Independent Non-executive Director of the Bank with effect from 17 June 2006 and ceased to be a member of Risk Management Committee with effect from 17 June 2006.