

RETAIL BANKING DIVISION

The branch network serves as the heart of IBA, providing our primary delivery channel to all customers. While primary focus of the Retail Banking Division is deposit gathering, mortgage lending and consumer loans, the branches serve as a showroom for all the bank's products, and also function as the main location for servicing both consumer and corporate customers. Reflecting the fact that the bulk of the customer base subscribes to retail services, 40% of revenues is generated by retail.

IBA is justifiably proud of the accomplishments of the 27 branches. Indeed, four branches have attracted combined deposits which exceed the entire bank's deposit base only a decade ago. At the same time this impressive growth testifies to the fact that in several locations we are outgrowing the physical capacity of the branches. We therefore identified a site in Causeway Bay to serve as a prototype of the Superbranch. With larger floorspace and an extended frontage, the Superbranch serves both to convey the desired image of financial strength and to permit the delivery of a wider range of services. The Causeway Bay Superbranch, merging the operations of Percival Street and the original Causeway Bay branches, provides all the traditional services as well as incorporating an Investment Center on the second floor, enabling customers to trade Hong Kong stocks, subscribe for unit trusts and buy both general and life insurance. The success of this formula became immediately apparent as deposits from both existing and new customers soared after opening in July 2000. This has encouraged IBA to seek other Superbranch locations. The first of these will be in Tsuen Wan where we have purchased a 9,800 square foot building adjacent to our existing Tsuen Wan Branch, and in which we will also merge the Tai Ho Road branch. This building will serve as Superbranch, Investment Center and New Territories Headquarters.

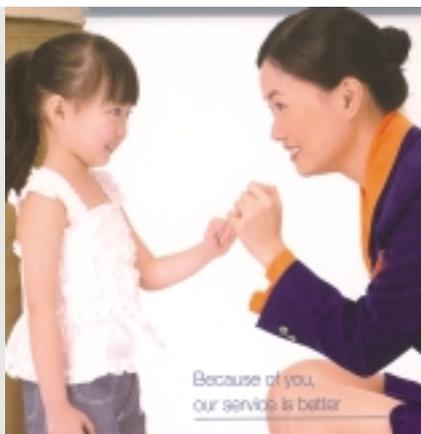
In addition to the new physical concept of branches, the Retail Banking Division also developed two new products. Further deregulation of interest rates presented an opportunity to offer a new deposit product to customers, and the Magicdeposit was the first of a string of similar products to be introduced in line with further deregulation. The Magicdeposit, building off the Magiccard launched by the Credit Card Division in anticipation of the forthcoming arrival of Disneyland, offers customers more convenient access to call accounts both through branches and the ATM network. On the asset side, Retail Banking introduced the Flexiplus personal loan which allows customers to consolidate their various personal loans and credit card outstandings in a

Branches are the heart of IBA

Superbranch introduced



Service pledge



single convenient package, reducing the time required to monitor multiple accounts and the cost involved.

Recognizing that IBA's competitive advantage must be service quality, IBA branches issued a service pledge to customers in six deliverables, including queuing time, telephone services and receipt of statements. In addition to customer satisfaction surveys, IBA has engaged "mystery shoppers" to test actual performance in the branches. We are pleased to report that we are meeting the service pledge while continuing to strive for even greater customer satisfaction. In order to fully exploit the infrastructure of the branch network, an in-branch development program was launched to nurture the sales culture of branch staff.

IBA has implemented a training and career planning system for branch staff under the title of the Star Program. Job requirements for each grade within the branches are clearly laid out, enabling staff to understand what is required for promotion. A series of practical and theoretical tests devised in conjunction with the Hong Kong Institute of Bankers is administered whenever an individual feels prepared to sit for the exams. This allows hardworking staff to accelerate their advancement, ultimately leading to a position as branch manager.

Strong operational controls

Operational risk management is essential to ensure profitability. The examination of branch operations conducted by IBA's Internal Control Department and outside auditors KPMG has verified the strong controls in place. This monitoring procedure has been supplemented by a new program of branch self-audit, which further internalizes sound operational practices, and helps branch staff focus on operational efficiency and service quality.

Leading position in cards and personal loans

CREDIT CARD DIVISION

IBA has established a leading position in the credit card industry by offering a very competitive package of benefits to cardholders, and issuing co-branded cards with leading retailers and hospitality industry companies. Exploiting the expertise gained in credit card operations, the division has expanded into consumer revolving loan products. Both of these product lines are high yielding. While the Credit Card Division generates only 5% of loans, it generates 26% of operating revenues. The Credit Card Division is also a major source of fee income from cardholder services as well as merchant charge processing.

IBA introduced its hallmark female card, myCard, more than a decade ago. In line with the new millennium, the card was redesigned and relaunched in the spring to reflect its unique brand personality. The response from women was very favorable, enhancing the bank's position with females in general. New packages of special women's benefits were also introduced. The division also introduced a new upbeat card, the Magiccard, aimed at trend conscious youth. The card provides free membership at Netfun, a popular website featuring the latest cyber games for the internet savvy generation. To our surprise, the card attracted more mature people as well, drawn by its image of cutting edge technology. IBA also introduced the e-go Visa Debit Card to offer an alternative payment product for our customers.

IBA's co-branded programs include the Toyota Card, Cathay Flight Attendants Union, World Vision, Emperor Group, and Banana Leaf restaurants.

Merchants welcome credit card purchases as a means of increasing sales. However, they must rely on a bank to process these purchases and expedite the collection of the sales proceeds from the card issuers. IBA offers efficient merchant processing services. The quality of our services and the gradual rebound in retail sales resulted in a 20% increase in merchant processing turnover in 2000.

In January the Credit Card Division launched the Fin. Easy Revolving Personal Loan offering an introductory rate as low as 5.5% for the first three months. This was followed by a series of revolving loan products including CreditPlus Facility for myCard customers and the CashPlus revolving loan, designed to meet increased demand for personal loans. The division also offers a range of fixed installment personal loans including tax loans and the Privileged Loan.

HIRE PURCHASE AND LEASING DIVISION

IBA Credit is the wholly owned subsidiary of IBA that provides hire purchase and leasing services. IBA Credit has achieved a leading position in the equipment leasing and vehicle financing industry, with high profitability, solid credit quality and rapid turnaround time on applications. The division provides mostly fixed rate financing, for a term of 36 months on average. Total assets exceeded HK\$1.9 billion as of 31 December 2000, representing 6.6% of IBA's total assets, while generating 11% of operating revenue.

MyCard and Magiccard



20% increase in merchant processing

High yield fixed rate loans

Equipment financing

Consumer finance

Equipment financed includes printing presses, machine tools, garment production machines, plastics injection and metal working equipment. IBA also finances goods vehicles, private cars and a limited number of taxi licenses. The success of the division has been based on responsiveness to customers, careful analysis of the cashflow status of borrowers, and close monitoring of the portfolio and tight collection controls. Clients are all Hong Kong corporations or individuals, with some of the equipment being employed in the Chinese factories of the Hong Kong companies. Extending from the financing of automobiles, IBA Credit also provides carpark financing.

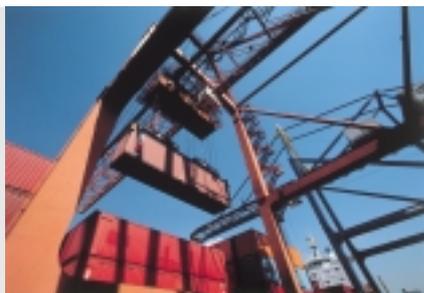
Aiming to expand the range of hire purchase services and add personal lending to the portfolio, IBA Credit added a new consumer finance team at the end of 2000. This team will provide in addition to personal loans on-site financing at selected retail outlets for personal computers, audio and video products, household appliances and furnishings, and has commenced operations with a number of reputable merchants. This promises to be an area of steady growth in higher yielding loans, further enhancing the capabilities of the division.

Focus on medium size companies

CORPORATE BANKING DIVISION

IBA has traditionally emphasized lending to medium size companies, promising the flexibility and personal attention that is not available from other lending institutions. This segment has now recovered from the effects of the Asian financial crisis, having strengthened their balance sheets and prepared themselves for economic recovery. IBA has been able to support these valuable customers through the difficult times and was able to increase facilities in line with the economic rebound. At the same time IBA expanded the scope of its customer base, adding large corporations to our customer list, both on a bilateral basis and in multibank loans through the combined efforts of the Bank Consortium as well as in general loan syndications. During 2000 Corporate Banking generated 12% of operating revenue.

Trade finance, treasury and MPF services



One major initiative in 2000 was a collaborative effort between the Corporate Banking Division and the Bills Department to streamline trade finance transactions, expediting the processing of import applications and export bills collection services. Close cooperation with the Treasury Department also ensured that corporate customers received high quality service in cash management and foreign exchange services. With the advent of the Mandatory Provident Fund, IBA pursued new opportunities in payroll management, attracting a significant number of new corporate operating accounts to supplement the strong base of fixed deposits from these customers.

IBA is perhaps the only bank in Hong Kong that provides Islamic financing through the auspices of our parent bank, Arab Banking Corporation. ABC provides IBA with the capability of delivering both trade finance and equipment leasing under Islamic agreements, opening up new credit sources for valuable customers.

Islamic financing

The Corporate Banking Division also works closely with the Credit Card Division to solicit merchant accounts, with the Hire Purchase and Leasing Division to provide comprehensive packages for manufacturers, and with the Ambassador Privileged Banking Department to ensure that senior management of corporate clients receive personalized banking services for their private needs.

INVESTMENT BANKING DIVISION

The Investment Banking Division encompasses Ambassador Privileged Banking, IBA's unique private banking operations; IBA Securities, the wholly-owned brokerage subsidiary; the International Business Department which provides services to foreign owned companies operating in Hong Kong; the Unit Trust Department which markets the products of 7 fund management companies; and the Insurance Department which oversees the strategic partnership with Winterthur Insurance, as well as coordinating IBA's participation in the Bank Consortium which was initially conceived as a collaborative effort on MPF services but has now expanded the scope of its operations. The division is a major source of both deposits and fee income, generating 12% of operating revenues.

Wealth management services

Ambassador Privileged Banking was introduced 3 years ago to provide a highly personalized package of services for designated clients. A special team of individuals with experience in the finance and hospitality industry was recruited and trained in private banking services. This team has now matured, and with the arrival of the new millennium the decision was made to launch a new logo for Ambassador services, featuring a stylized horse, representing strength and grace. IBA did not simply rely on a new logo to attract customers, but added new investment products such as equity linked notes to ensure that we could really meet the demanding needs of these higher networth individuals. The success of these products has enabled us to offer similar versions through the investment centers to a wider range of customers.

Ambassador Privileged Banking



IBA Securities has previously handled its trading activities either through direct telephone contact with our trading room in the IBA Building or by over the counter services in our branches. The latter services did not