

Securities Brokerage doubled



achieve optimum efficiency either from the point of view of clients or the branch staff. In 1999 we opened our first Investment Center to provide specialized securities trading services, with access to multiple monitors and a dedicated staff. The success of the first two centers encouraged expansion of the network which has now reached 4 centers covering all three regions of Hong Kong. Almost 60% of trades are now handled through the four centers, and the increased capacity and efficiency have increased IBA's market share by almost 50%. This contributed to the 100% increase in brokerage turnover in 2000. Additional investment centers will be opened in 2001. We will also be introducing internet stock trading as part of the range of services being developed by Net Alliance (please refer to the Technology and E-Commerce Section).

International Banking

The International Business Department provides specialized services to foreign-owned companies operating in Hong Kong. These companies are engaged in regional trading, and require sophisticated trade and cash management facilities. The quality of IBA's services has led to an increase in both deposits and fee income, as well as generating attractive interest income on the associated loan facilities.

Unit trust

IBA offers more than 200 unit trust products from Dresdner RCM Global Investors, Fidelity Investment Management, Templeton Franklin Investment Services, Invesco Asset Management, JF Funds, Principal Capital Management and Schroder Investment Management. These products are offered through IBA branches and Investment Centers.

Insurance products

In 1999 IBA entered into a strategic partnership with Winterthur, the insurance arm of the Credit Suisse Group. Taking over the general insurance services previously provided by IBA Insurance and adding the ability to provide life insurance products, especially long-term savings products, Winterthur assumed the underwriting risk while raising the level of expertise available to our customers. Marketed under the brand name *IBA Swiss Privilege*, Winterthur's marketing efforts have made strong inroads in the IBA customer base, providing a more comprehensive range of personal asset management services to our valued clients. A savings product specially designed for IBA, *IBA Swiss Link*, was launched in the fourth quarter, and demonstrates the appetite among the Hong Kong population for long term savings.

Bank consortium expands services

IBA joined with 9 other banks to form the Bank Consortium Trust in 1999 to offer Mandatory Provident Fund Services. Under the MPF Ordinance, all companies and individuals in Hong Kong must offer a qualifying

pension fund to employees. While the individual banks could not economically justify the creation of trust, fund management and administration services themselves, as an alliance it permitted the ten banks to participate in an industry which will gather billions of dollars of pension funds. All companies were to sign agreements by the end of 2000, and IBA recruited a large number of companies for the consortium, particularly in the restaurant and catering industry. The consortium has extended its operations beyond the original scope to include club lending to large corporations, collaboration on supplies purchasing, and the incorporation of joint ventures including Net Alliance, the effort by four banks to share internet banking development cost. The club lending has enabled the consortium to underwrite loans of much greater size than possible on a single bank basis, and has provided loans to the Mass Transit Railway Corporation, Henderson Land, Kowloon Motor Bus and Miramar Hotels.

TECHNOLOGY, E-COMMERCE AND BANK PRODUCT MARKETING

The Year 2000 issue received considerable attention as the new millennium approached. IBA was thoroughly prepared for the Y2K changeover, and midnight of 31 December 1999 passed without incident. This permitted the bank to devote its resources to the introduction of new technology. In March the Virtual ATM was launched, giving IBA customers their initial access to Internet banking. Broader applications of internet banking are proceeding under the umbrella of Net Alliance. Growing out of the Bank Consortium, Net Alliance brings together IBA, Asia Commercial Bank, Chekiang First Bank and Liu Chong Hing along with iMerchants, a specialist in e-commerce systems, to develop a common hardware and security system to serve as the internet platform for the four banks. The system will encompass both consumer and corporate banking services, including balance inquiries, deposit placements, loan applications, funds transfers, payments, stock trading, foreign exchange transactions, letter of credit issuance and investment products.

IBA has signed a contract to outsource its data processing to Computer Sciences Corporation (CSC), one of the world's leading consulting and IT services firms, in further developing data and processing facilities. This architecture is regarded as essential to the task of increasing the number of products patronized by each customer and hence increasing both productivity and profitability. One of the first elements of the e-commerce structure will be a call center designed to both handle customer inquiries and to provide direct sales to consumers.

Move into Internet Banking



E-commerce initiative

The bank is also collaborating with companies outside the traditional banking sector to provide financial services. IBA joined Bankingstreet.net, part of the Sunevision network, providing on-line mortgage information and applications. IBA also signed an agreement with First Ecomm to provide merchant clearing services for credit card transactions over the internet. The bank is progressing toward a virtual shopping mall, allowing IBA customers and potential new clients to access an entire range of commercial services from the comfort of their own home.

"Banking made simple" branding program



The Bank Product Marketing Department, working in conjunction with business divisions, the Strategic Planning and Control Department and Corporate Communications, coordinated the implementation of branding program covering branch signage, marketing materials and all printed material. Both internally and externally, we are delivering the message that IBA will provide customers with personalized financial products and services that they want, when they want and which can be accessed through the channel of their choice. A customer satisfaction survey of both corporate and consumer clients was completed by A C Nielsen during the first quarter. This information helped to shape the marketing campaigns and the overall branding exercise. From this research, IBA developed the slogan "Banking made simple". Bank Product Marketing is responsible for devising the promotional campaigns of bank products, and works with Corporate Communications on product related press releases.

Key financial data

STRATEGIC PLANNING AND CONTROL

The Managing Director and the Chief Financial Control oversee the Strategic Planning and Control unit that develops the financial information used to make key business decisions. In addition to the monthly financial performance review which permits management to evaluate the performance of both products and business units, SPC generates daily reports on interest rate movements, mid-month forecasts of both balance sheet and income statement for the month alone and year-to-date, and ad-hoc analyses of any bank segment.

Focused decision making

This information is crucial for controlling funding costs, and has been a major contributing factor to IBA's low cost of funds. Independent research shows that IBA enjoys one of the lowest deposit costs of its peer group. SPC's reports are also used to assist in risk management, with an emphasis on diversification in terms of revenue sources, funding sources, industry exposure and individual borrower exposure.

SPC has played a leading role in IBA's planning for the multi-stage interest rate deregulation being implemented by the Hong Kong Monetary Authority. As noted previously, IBA perceives deregulation to be an opportunity to expand business because we have a thorough understanding of our cost structure and customer base. Two additional cost accountants are being added to the staff of SPC in order to enable more sophisticated product profitability analysis. When combined with the customer relationship management software and the data warehouse, the analysis of the balance sheet and income statement will be expedited, speeding time-to-market on new products.

Exploiting deregulation

SPC and the Credit Administration Division are also responsible for preparing statutory reports for regulators.

OPERATIONS AND SUPPORT

"Banking made simple" is our governing slogan, and this is only possible when the operations and support departments are capable of delivering this promise. With the assistance of the Technology Department, further upgrades of our retail system, designed by Kindle, one of the leading financial software companies in the world, have been implemented, giving branches, accounting and operations departments the ability to process a growing number of transactions.

Key operational support

The Accounting and Management Information Systems Department provides the raw data for Strategic Planning and Control to produce their analytical reports, as well as maintaining the general ledger which serves as the basis for all accounting. Loan Administration, Bills, and Cash, Clearing and Communications actually execute the transactions. These staff carry an important burden, and ensure that all customer requirements are fulfilled before they depart each day. During 2000 Hong Kong introduced the first US Dollar Real Time Gross Settlement system in Asia, eliminating much of the settlement risk which previously existed for dollar-based foreign exchange transactions. Cash, Clearing and Communications was involved in the testing of the system and now handles these transactions on a daily basis.

New US Dollar Clearing

The Credit Administration Division operates as an independent monitor and assessment department for loans. All non-formula lending is reviewed by CAD as part of the submission process to the Credit Committee. This involves assessment of business risk, the financial standing of the borrower, and the value of collateral. CAD also provides analytical reports of the loan portfolio that are reviewed by the Classified Loans Committee.

Managing credit risk

Legal Affairs

Legal Affairs is the Bank's in-house legal counsel, handling loan documentation, purchase contracts, court matters as well as serving as corporate secretary and submitting reports to the Stock Exchange. They play a major role in the acquisition of properties and major supplier contracts.

Real Estate

The Real Estate Department works hand-in-hand with the General Administration Department to manage the bank's real estate portfolio, which includes the Head Office, 27 branches, 4 Investment Centers, the Operations Center and the Offices of IBA Credit. General Administration also has responsibility for purchasing of supplies and the operation of the various information monitors distributed over the branch network.

Human Resources

HUMAN RESOURCES, TRAINING AND DEVELOPMENT

Banking is a service industry, and staff are the key to our success. IBA devotes considerable resources to the recruitment, retention and training of talented staff. The Human Resources Department has responsibility for recruiting and compensation. The department is developing a new range of tests to measure the capabilities of job applicants and to assist in career planning. A major task during 2000 was the implementation of the Mandatory Provident Scheme program. IBA had previously established an attractive provident fund which met the requirements of the MPF Ordinance, but the bank was also required to offer provident fund with lower benefits that exactly match the MPF guidelines and which is portable in the event the employee seeks new employment.

Enhanced staff training to produce excellence



The Training and Development Department delivers generic training and advanced technical training, as well as coordinating external training programs. The department designed the Star Program syllabus and administers the program. During 2000 staff attended 228 training courses totaling 4,757 man-days, with average man-days per employee reaching 8.2 days. Major programs included the BankExec Simulation Program which groups staff into teams to compete in the management of a bank, striking a balance among profit, growth and regulatory requirements; the MPF Intermediaries qualification exam, the Insurance Intermediaries qualification exam, and regulatory compliance training.

IBA has continued its unique partnership with DePaul University of Chicago. DePaul professors come to Hong Kong for 4-5 week periods to conduct classes in an MBA and a BA program. The second group of MBAs completed their classes in December 2000. This group of 20 brings the total number of DePaul MBA graduates to 38. Another 24 staff are enrolled in the BA program and will complete their degree in the spring of 2001.

CORPORATE COMMUNICATIONS AND PUBLIC RELATIONS

The Corporate Communications Department is engaged in both internal and external communication. It is essential that the strategy and business objectives of the bank are disseminated in an effective manner to all staff. The department publishes a regular newsletter, IBA Ambassador, which covers financial performance, product introductions and market trends. The department also works with the in-house fitness center to produce a healthcare newsletter. The Employee Relations Officer within the department has arranged vaccinations, parenting workshops and children's programs.

Corporate Communications also has responsibility for media and analyst relations. In addition to the normal public relations staff, the bank employs an internal analyst who conducts ongoing studies of the market and our competition so that we can enhance performance.

Corporate Communications also coordinates the Regional Advisory Council. The Council was established in 1998, and consists of community leaders who serve as advisors to every branch. The 27 members of the Council meet on a quarterly basis to receive briefings on the bank's activities and introduction of new products. They also serve as a focus group for the pre-testing of any new product. In addition, the advisors offer constructive guidance on improving service. This unique channel for disseminating information to the community and gathering views of the public at large has served IBA well. James So, an Independent Executive Director of the Board and former Regional Advisor, serves as chairman of the Council.



Communicating effectively inside and outside

