

**RETAIL BANKING**

**Core infrastructure**

Retail banking forms the core of IBA's business. The branch network serves as the infrastructure for delivering the complete range of the Bank's products and services, deposits generated in the Retail Banking Division provide the bulk of the Bank's funding, and its systems support the majority of business activities. With 24 branches, including 4 Superbranches, this network is a key part of IBA's community presence and image.

Recognizing the potential of this structure, divisional management took a number of steps to exploit these strengths, launching new products, upgrading branches and expanding the customer base.

**Magic Money Manager attracts new accounts**



Launch of Magic Money Manager Account

For almost four decades of interest rate regulation, the final removal of restrictions on deposits in July enabled IBA to come out with one of the most exciting banking products in Hong Kong in decades. Launched on 3 July 2001, the Magic Money Manager, commonly referred to as the 3M Account, provides the convenience of a checking account with the yield of a savings account. Paying a tiered interest rate based on the level of balances in the account, the 3M relieves customers of the necessity of managing two accounts, ending the time consuming task of avoiding overdrafts and idle balances. The response from customers has been gratifying, showing that the 3M fills an important gap in consumer products. In less than six months low cost deposits increased by HK\$1 billion, and 20,000 new accounts were opened. The increase in current/savings accounts was a major contributor to the decline in cost of funds during 2001. 3M is IBA's flagship deposit product for the new millennium, with other innovative products forthcoming in 2002.

**Superbranch network**

The success of the Causeway Bay Superbranch served as the model for three additional superbranches in 2001. Stimulated by survey results which concluded that bigger premises, and in particular wide frontage, provided clients and potential new customers with a better impression of product offerings and a clearer picture of IBA's financial strength, the superbranch concept is based on premises twice the size of our average branch space of 1,000 square feet. The challenge is to locate strategic sites of the proper size. Where possible, Wealth Management Centers (see Investment Banking section) are integrated into the Superbranch.

In May the Mei Foo Branch was upgraded to a Superbranch by doubling its size through the purchase of the adjoining premises. In August the Tsuen Wan Superbranch, with 10,000 square feet of self-owned space on 3 floors, was inaugurated, merging our Tsuen Wan and Tai Ho Road branches. This site also serves as the regional headquarters for the New Territories, our most rapidly expanding retail operation. The Tsuen Wan Superbranch also incorporates a Wealth Management Center and Consumer Finance Center, as well as an office for credit card services. In November the Whampoa Gardens and Hunghom branches were merged with the acquisition of the site adjacent to the original Hunghom Branch.



Mei Foo Superbranch (top);  
Hung Hom Superbranch (bottom)

In a highly competitive environment, operating efficiency is a must. The creation of the superbranches through mergers, and the merger of our Wanchai and Hennessy Road branches in the existing Wanchai Branch premises, helps to achieve economies of scale. Other measures to streamline operations, including the centralization of processing while continuing to provide customers with the convenience of dealing with their local branches, is described in the Operations and Support section of this report.

Retail Banking's primary customer base is comprised of the individuals who live and work in the neighborhoods served by our branches. Branches also support businesses in their local community, often with relatively simple transaction processing. In recognition of the large number of small and medium size enterprises, or SMEs, that are the lifeblood of Hong Kong and the special needs they have, a commercial lending team staffed by experienced officers was established within retail. Exploiting their special expertise, they are able to assist branch managers and business development officers in identifying new customers and formulating the appropriate credit facilities to support these corporate customers. This new team further diversifies the revenues of the Retail Banking Division, and increases IBA's penetration of this important business segment.

**SME Lending**



*Net Alliance Launch*

The superbranches and traditional branches have provided an effective delivery channel, now supplemented by the commercial lending team. While internet banking has been slow to win acceptance in Hong Kong given the widespread presence of bank branches and the preference for face-to-face contact, the trend toward growing volume in electronic banking is clear. IBA initiated the Virtual ATM in March 2000, enabling customers to conduct simple transfers from their home. Through the Internet platform of Net Alliance, IBA's joint venture with three other banks

and a leading ISP, an expanded range of Internet banking services was introduced in 2001. This collaborative effort not only enables IBA to enjoy the cost savings on product development and constant update of security measures through common investment, but also to deliver a branded electronic banking service to our customers' homes. Future linkage with the data warehouse and CRM software, referred to later in this report, will increase the effectiveness of Internet banking.

**Customer focus**

The retail network and the customer base provide a wealth of opportunities to sell the full range of IBA products. Retail Banking, Credit Card and Consumer Finance, Investment Banking and Hire Purchase have pursued a "wrap around" approach, exchanging customer lists and conducting joint calls with product specialists to provide our clients with comprehensive services. This effort has increased commission income significantly and is strengthening our relationship with customers, encouraging them to direct more of their financial transactions to IBA.

**Wrap around services**

**Star Program**

The network, the systems, the products and the image are no better than the service that our retail staff provides to our customers. The 158 members of the division take pride in their service pledge. Each member is able to determine his or her career path through the Star Program. This combination of written and oral examinations which combine the syllabus of the Hong Kong Institute of Bankers and IBA's service standards offers retail staff the opportunity to gain promotion at any time they can meet the requirements of the next Star level. This program, along with the new performance evaluation, encourages staff to achieve excellence.

IBA's Regional Advisory Council, established in 1998, provides each branch with a respected advisor from the community to critique service levels and product offerings. Quarterly updates for the Council members permits us to conduct focus groups on proposed new products, ensuring that they genuinely address customer requirements. The Council also serves as another channel to inform the public about our activities, and strengthen our roots in the community. The Council is chaired by Mr. James So, independent director of the Bank who was one of the founding members of the Council.



Regional Advisory Council

### CREDIT CARD AND CONSUMER FINANCE

IBA has developed solid expertise in consumer lending over the years, carving out a niche in the highly competitive credit card market and providing personal loans and asset-based financing for individuals. With changes in the economy and the slowing of the residential property market, these segments will increase in importance to IBA's earnings. During 2001 we mapped out a comprehensive strategy, introduced new products and delivery systems, upgraded technology and strengthened our human resources to widen the scope of our business. The credit card and consumer finance activities were combined in a single division based on their common business characteristics and the ability to achieve economies of scale.

#### **Building on consumer lending expertise**

IBA has become a leader in credit card business as the forerunner in market segmentation through launching of myCard for the female segment and Magiccard for the youth segment. In addition, IBA also delivers standard, co-branded and affinity cards, as well as providing merchant services, which has also been a major source of fee income. Benefit and retention programs are an important part of the card strategy, and these must be constantly enhanced to meet changing customer preferences. While credit card business produces high yields, it also represents higher risk, as evidenced by the impact of rising personal bankruptcies in Hong Kong. Risk management is an integral part of success in this business, from acquisition and approval to monitoring and collection. A profitable credit card operation requires a well-balanced mix of professional talent, expense management, financial analysis and risk control.





magiccard Website

IBA freshened its standard VISA and MasterCard programs with a new look and a dining reward program, as well as a dual product promotion with the CashPlus product. New customers were also attracted by a balance transfer program. magiccard, the product aimed at the 18 to 28 year old youth segment, offered special travel spending rewards. A unique website, [www.magiccard.com.hk](http://www.magiccard.com.hk) has been specially established with cybergames and entertainment information favored by this age group. myCard, IBA's high profile program for contemporary females, are now provided with an interactive forum, [www.mycard.com.hk](http://www.mycard.com.hk), with

information on topics ranging from health and fitness to investment and finance. This includes a chatroom with advice from professional consultants, a shopping corner with merchant privileges and a writing corner for customers to submit their own articles. myCard holders were also offered a special low interest CreditPlus facility.

**Credit card services for merchants**

Merchant acquisition and relationships are also an important part of the credit card business. Over the course of 2001 we added more than 1,100 new merchant accounts. We conducted a merchant satisfaction survey to identify additional requirements, in the process confirming the high level of satisfaction with our services. IBA also worked with merchants to combat fraud, providing training to their employees with a resulting sharp reduction in acquirer fraud, benefiting the merchant, the Bank and the credit card system.

Protecting the revenues generated by cardholders and merchants is a critical task that requires increasing sophistication. Monitoring and cross-checking systems were upgraded over the year to automate risk management to a higher level. The collection teams for credit card and consumer finance have been merged to achieve better behavioral analysis and efficiencies. A new credit-scoring program developed in conjunction with one of the world's leading companies was completed at the end of the year for implementation at the beginning of 2002. IBA has also been actively involved in the taskforce of banks, regulators, consumer rights and bankruptcy administrators formed to address the rise in personal bankruptcies.



During 2001 IBA built on its experience in credit card, personal loans and consumer hire purchase to expand its network of Consumer Finance Centers and its consumer hire purchase partnerships with leading merchants in Hong Kong. Four Consumer Finance Centers are now in operation in Central, Causeway Bay, Mongkok and Tsuen Wan. Thirty-five merchants, ranging from international giants such as Sony and Samsung, leading retail chains such as Broadway Photo Supply and Luk Fook Jewellery to providers of beauty products, water purification and car security, are all part of the IBA Credit consumer hire purchase business. Personal loans include phone cash, children's education and continuing education finance.



Central Consumer Finance Center

The risk management objectives described for credit card operations are matched in the personal loan segment. Working with Hong Kong Polytechnic University, a new consumer loan system has been developed which will expedite loan processing as well as provide the management information capabilities to enhance monitoring and collection of loans. The merging of the two collection teams referred to above, along with aggressive analysis of trends conducted by our business information specialists, are proactive measures to maintain our traditionally low levels of delinquency.

**New personal loan computer system**

Credit card and consumer loans grew by 25% during 2001. The interest income generated by these products more than offset the decline in residential mortgage loans, and were a major contributor to the 11% increase in net interest income during the year. IBA is pursuing a strategy of achieving higher returns, not asset growth for growth's sake alone. The success in expanding our existing consumer finance business is a priority in our five-year plan.