

# Review of Operations

## RETAIL BANKING DIVISION

The Retail Banking Division has a network of 24 branches, including four Superbranches, supplemented by the Call Center and Internet banking. Superbranches have extended frontage and floor area averaging 4,560 square feet to provide additional banking services compared with traditional branches.

All IBA customers have access to other delivery channels, including approximately 1,650 ATMs of the JETCO network. Customers can also make use of a voice activated automated phone banking system, or speak directly to a service officer in the newly established Call Center. The Call Center provides a centralized service for a more effective means of communicating with customers on their banking needs. Additionally, all deposit customers can have instant access to their accounts without the need to enter bank premises, or while traveling overseas through the use of an IBA Internet Banking account.



*Call Center at Fortress Tower*

The branches are the primary source of low-cost customer deposits that contributes to IBA's attractive net interest margin. They also offer a wide range of loan products and banking services. The largest asset category for the branches is residential mortgage loans, since retail banks provide the overwhelming majority of home financing in Hong Kong. In addition to residential mortgage loans, branches offer a range of personal loans, property mortgage overdrafts, share margin overdrafts, automobile loans, home decoration loans, tax loans and education loans. Other banking services include remittances, foreign exchange sales, safe custody and gift checks. In line with meeting customer demands and the focus on increasing fee income and higher yielding assets, Retail Banking Division works closely with other divisions to cross-sell selected banking products and services. In cooperation with Treasury and Investment Banking Divisions, the branches also make available to customers investment products such as callable certificates of deposit (CD) currency-linked deposits, unit trusts, equity-linked notes, corporate bonds and insurance-linked products.

Retail banking products in Hong Kong tend to be generic. IBA has differentiated itself by introducing products with greater value for the consumer. The flagship product of Retail Banking Division is the Magic Money Manager account (3M account), introduced when interest-rate deregulation was implemented on July 1, 2001. In the months prior to July 1, 2001, IBA designed the 3M product, the first interest-bearing current account in Hong Kong, and structured a tiered-rate based on the level of balances in the account to provide appropriate rewards to customers who maintain high balances in the account. The 3M product was expanded in 2002 to include corporate customers, increasing the

*Range of loan products  
and emphasis on service  
quality*



*IBA flagship deposit product –  
Magic Money Manager account*

### *Callable CDs add medium term funding*

### *Serving middle income families*

amount of operating accounts with IBA, and strengthening the overall relationship with these companies. As at December 31, 2002, over 35,000 3M accounts were opened and the volume of new deposits gathered by these accounts were instrumental in improving the level of low cost deposits of the Bank to almost 20% of total deposits. Additional features are being added to the 3M to offer a package with greater value for customers.

IBA also offers Upfront Interest deposit, a unique fixed deposit product which was first introduced in 1992. Interest is credited to the account from the first day of deposit rather than in arrears. This produces a slightly higher yield to depositors because of net present value and is particularly attractive to retirees who rely on interest income to meet daily living costs.

IBA was one of the first Banks to offer callable CD, introduced in 2002 by IBA Treasury. These CDs normally offer a step-up interest rate in the event the Bank does not exercise the call. The callable CDs provide customers with higher-yielding deposits, while allowing IBA to obtain medium-term funding with a lower cost than the floating-rate certificates of deposits (FRCDs) which banks, including IBA, traditionally rely on for long-term funding. The majority of the subscribers to the callable CDs were retail-banking customers and a substantial volume, HK\$810 million, was raised during the year.

IBA seeks to differentiate itself through being innovative, market-oriented, progressive, and focusing on service that includes convenience and personal relationships with customers. IBA's progressiveness is evidenced not only in its pioneering new concepts and products, but also in recruitment and training philosophy. To increase productivity of the front-line staff of the branches, a sale culture is implemented with a combination of training and performance rewards. Training sessions are conducted both by the in-house training department and by external consultants. Topics include selling and customer service skills, product and regulatory knowledge, and office operations. In 2002, each of the Bank staff received an average of two weeks of training.

The Retail Banking Division's customer base is wide-ranging but is dominated by middle-income families. Given the leading role of many housewives in the management of family assets, IBA has established a strong connection with the female population, and many programs, including the specially designed MyCard credit card, are geared toward the needs of the female customer segment. Over the years, the branches have developed a strong tie to the local community, and support the business needs of the small and medium size enterprises, or SMEs, located within the vicinity of each branch. The Commercial Lending Team was expanded and strengthened in 2002 to assist branch managers in

## Review of Operations (continued)

offering a comprehensive package of banking services and credit facilities to support this important customer base.

IBA has also pioneered the concept of the Regional Advisory Council (RAC). The RAC comprises a cross-section of the Hong Kong community and consists of professionals and community leaders. One advisor is attached to each branch. The Council meets formally four times every year to discuss developments in the banking sector, to receive an update on IBA, and to provide comments and advice on IBA's products and services. Advisors are also regularly tapped for their views and provide IBA with feedback from their respective community on IBA's new product launches and marketing activities. The RAC members also periodically conduct informal customer satisfaction surveys. As IBA has a relatively short operating history, the RAC serves to strengthen IBA's roots in the local community.



*Regional Advisory Council members met with IBA Board of Directors at the Annual Dinner*

### **CREDIT CARD AND CONSUMER FINANCE**

IBA commenced its credit card business in 1985, but established itself as a significant player in the market in 1990 as it established a niche in co-branded and affinity cards. Today, IBA offers its cardholders 24-hour customer and credit authorization service support. IBA's credit cards are honored and accepted by over 20 million international establishments through its association with VISA and MasterCard International. In 2000 IBA expanded its personal loan business by applying its credit card experience to consumer lending. Investment in specialized systems to process loans and handle collections has increased IBA's capabilities. IBA recognizes that utilization and rollover ratio along with credit quality are more important sources of profitability than a high number of cardholders but a low revolving ratio.

Personal loan business has been solicited through various channels. Special loan programs, such as education, home decoration and marriage loans, are promoted through retail branches. The Credit Card Division offers 12 to 24 month revolving credit loans to the credit card base. IBA has collaborated with consumer retailers and manufacturers such as Sony and Samsung to offer asset based financing for small appliances and consumer durables. IBA has five Consumer Finance Centers to provide convenient access for individual borrowers.

Pricing and product offerings are tailored for each customer segment. Although personal finance is available via the different channels, the infrastructure and resources for credit approval, marketing, transaction processing and collections process is centralized in the Credit Card Center to benefit from greater efficiencies and control.

*Key factors in credit card profitability*

*Developing personal loan business*



*Leadership in equipment  
and vehicle financing*

*Serving SME customers*

IBA offers generic VISA and MasterCard classic, gold and platinum cards. The bank has a strong position in co-branded and affinity credit cards, targeting different customer segments with each product. IBA is well recognized for launching segmented credit card products such as “MyCard” for females and “Magi©card” for youth. “MyCard” is IBA’s anchor credit card and it features special benefits for females. “MyCard” comprises the single largest card program at IBA. “MyCard” was the first ladies card introduced in the Hong Kong banking industry which won the 1989 Gold Coin Award by the Bank Marketing Association of the USA. IBA is also one of the first banks to launch co-branded credit cards in Hong Kong, for example, the Toyota Card. Launching co-branded and affinity cards represents a much more cost-effective way for IBA to increase its cardholder base and allows it to develop targeted marketing more effectively. IBA also provides merchant services for fee income. IBA services over 2,000 merchants and handles over HK\$2.5 billion of sales processing.

### **HIRE PURCHASE AND LEASING DIVISION**

The Hire Purchase and Leasing Division provides vehicle and equipment financing, operating as a wholly owned subsidiary, IBA Credit Limited. IBA Credit has achieved a leadership position in the industry, with a reputation for business expertise, rapid turnaround time on applications, high profitability and solid credit quality. Lease contracts range from 2 years upwards, with an average 36 to 48 month in duration, depending on the type of equipment involved. The majority of the leases are fixed rate contracts, with the balance being floating rate agreements. The hire purchase portfolio is the second highest yielding loan portfolio after credit card and personal loans, and now exceeds HK\$2 billion.

The Division’s target customer base is small and medium size enterprises (“SME”) with annual turnover of HK\$50 to 500 million, individual goods vehicle operators, taxis and personal vehicles. Equipment financed includes printing presses, machine tools, garment production machines, plastic injection and metal working equipment. Vehicles include light goods vehicles, tractors and trailers, private cars, passenger vans and a limited number of taxis. Extending from the financing of automobiles, the Division provides car park financing to the owners of vehicles.

IBA Credit’s customers are Hong Kong individuals and corporations. As Hong Kong’s manufacturing base has relocated to Guangdong Province in China, an increasing amount of equipment financed is operated in factories in China. Currently, approximately 34% of the portfolio is utilized in Hong Kong-owned factories in China.

## Review of Operations (continued)

IBA Credit's high yields, consistent record of profitability, expertise and quality of collateral make it a key growth area for the Bank. IBA Credit's success in the vehicle and equipment hire purchase and leasing business is due to a number of factors including (1) having intimate knowledge of the industries and companies which IBA Credit lends to, including their demand and supply patterns, cashflows and business risk; (2) understanding the value of the collateral and knowledge of the resale market for this equipment; (3) excellent relationships with leading dealers and their networks, most of which hold agencies for leading brands of equipment and vehicles; (4) responsiveness to customers, with speedy approval of applications.



Over time, IBA Credit has developed the in-house expertise, experience and "know-how" to value the collateral in the target industries it lends to. IBA is a participant in Government Schemes for SMEs, including Special Financial Scheme for SMEs and SME Business Installations and Equipment Loan Guarantee Scheme.

### **INVESTMENT BANKING DIVISION**

The Investment Banking Division plays an important role in IBA's strategy to boost its cross-selling efforts to increase share of wallet, secure new customers, increase fee income and promote the Bank's image as being innovative and a provider of a comprehensive range of services. The Investment Banking Division is well-regarded for structuring and offering to retail investors investment products that are normally only accessible to institutional or high net-worth individuals. The Division's strength is also in its ability to offer a full range of investment products, including equity, fixed income, currency, and even insurance products under one roof.

The Division's success in marketing and distributing various investment products is a testament to its keen market orientation. The Investment Banking Division is a major contributor to fee income and the growing revenue stream from fees has allowed IBA to reduce its reliance on interest income and lending activities in an environment of declining loan growth. While stock brokerage volume declined by 18% in line with the Hong Kong stock market turnover during 2002, the volume of sales of other investment products offered by the Investment Banking Division, including unit trusts, bonds, equity-linked notes, and insurance-linked products, increased several-fold, resulting in an increase in total fees as compared to 2001.

The Investment Banking Division also selectively participates in debt capital market corporate transactions. For example, in 2002 it participated

*Major source of fee income*

*Wealth management services*

in the retail bond offerings by MTR Corporation and the Hong Kong Mortgage Corporation.

### **Wealth Management Centers**

The Investment Banking Division has become one of the fastest growing divisions in IBA with its growing network of wealth management centers. The seventh Wealth Management Center was opened in July 2002, with the eighth Center scheduled to be opened in April 2003.



*Hunghom Wealth Management Center  
opened in July 2002*

The Wealth Management Centers, first opened in 1999, are a new concept in marketing investment services to retail customers in Hong Kong, and the continued expansion of the product range and service improvement give the Bank an edge over its competitors. The Centers are able to provide IBA customers with a comprehensive range of investment products and services, including stock brokerage, a full range of unit trust funds, corporate and retail bonds in various currencies, equity-linked notes and equity-linked deposits, currency-linked deposits and options, structured notes and bonds and the full range of insurance products, including the unit-linked, or savings-linked life insurance products. The investment officers stationed at these Centers are all qualified professionals, who are able to advise customers on their investments, based on the customer requirements and risk profile.

### **Ambassador Privileged Banking**



*Ambassador Privileged Banking Center at  
IBA Building*

Through Ambassador Privileged Banking, IBA addresses the needs of higher net-worth individuals in a convenient one-stop shop setting. The entire range of consumer and corporate products is offered to large depositors, wealthy investors, professionals, and the directors and owners of corporate customers by a team of specially trained Ambassadors who provide personalized services, including investment advisory and portfolio management services. The Ambassador Privileged Banking Center on the second floor of the IBA Building allows customers to handle their financial transactions in comfortable and luxurious surroundings. Ambassadors also offer convenience to their customers by handling their customers' banking and investment needs at the customers' own offices or during non-banking hours as necessary. This service accommodates the busy schedules of practicing professionals such as dentists, doctors, lawyers, architects and accountants, who have been attracted to this convenient service.

### **Unit Trusts Investment Services**

The Unit Trusts team provides IBA customers with access to over 400 unit trusts, which are available through all outlets of the Bank. Third party fund managers include well-known international fund houses such as Allianz Dresdner, Credit Agricole, Franklin Templeton, Fidelity, Invesco, Investec, JF, Lyxor, Principal and Schroders. The Unit trusts team provides regular updates to the IBA investment advisors on fund performance, investment analyses and recommendations on fund choices for portfolio asset allocations.

### **Insurance and Mandatory Provident Fund Services**

Sales volume of a wide range of insurance products, both life and non-life, including specially-packaged unit-linked insurance savings plans, are made available to the Bank customers. Over 120 of IBA staff are qualified insurance representatives for life insurance. Cross-selling of insurance products is a standard feature of all outlets of the Bank. The Bank recently signed an agreement with Standard Life (Asia) Ltd. to offer its insurance products to IBA clients.

IBA is a shareholder, together with eight other local banks, in Bank Consortium Holding Limited, which offers pension schemes under the Mandatory Provident Fund program (Hong Kong's public pension fund scheme) through a wholly-owned subsidiary, Bank Consortium Trust Limited. In addition to close cooperation on the Mandatory Provident Fund, the nine banks in the consortium also jointly work on other business and activities. These include the joint venture among four banks, including IBA, in Net Alliance, and cooperation on other banking-related business.

The Investment Banking Division aims to expand its range of products and services to meet investor demand for increasingly sophisticated products. By working closely with other business divisions of the IBA Group and third party product providers, IBA's Investment Banking Division identifies customers needs and tailors products to meet these needs.

IBA aims to increase competitiveness and customer loyalty by providing a professional, high quality service. All marketing staff of the Investment Banking Division are required to take and pass the requisite examinations designated by the SFC and the Insurance Authority under the Securities Foundation and Insurance Intermediaries Quality Assurance Scheme. All staff of the Division are also required to undergo over 100 hours of continuous professional training and seminars throughout the year, covering topics in securities, investment products, and insurance.

*Insurance products  
available in all 36 outlets*

*Well-trained staff give  
sound advice*

*Diversifying the customer base*

*Structuring financial packages to meet corporate customers' needs*

## **CORPORATE BANKING DIVISION**

The Corporate Banking Division complements the business activities of the Retail Banking and Hire Purchase and Leasing Division, extending the range of clients from small enterprises to medium size companies and selected major corporations. As contrasted to Retail Banking, which primarily provides working capital lines to small retail and trading operations, and Hire Purchase, which provides asset based financing, the Corporate Banking Division is staffed with officers having extensive experience in trade finance, term lending and real estate lending. Corporate Banking works closely with Retail, Hire Purchase and Leasing, Treasury, Investment Banking, Credit Card and the Operations Division to deliver a full range of services to its customers. This cooperation generates cross selling opportunities that produce additional revenues for the Bank.

The rise of new entrepreneurs and the transition to a new generation in family-owned companies in Hong Kong is opening up new opportunities for corporate banking. Whereas the older generation of company managers have had established relationships with banks for decades, the new managers are looking for a higher level of service and innovative approaches to addressing their financing needs. At the same time, new managers value the personal touch in the relationship, seeking to have a banker who is cognizant of their needs. IBA has blended the personal strengths of local account officers with training in new techniques and a flat organization so that the Bank can meet the expectations of their clients, and attract new, good quality customers.

IBA places a priority on credit quality. Account officers develop a sound knowledge of their clients and maintain very close contact. IBA is often a primary bank for its clients, occasionally having a secondary position with larger companies. The knowledge of the company's operations not only provides the basis for sound credit decisions, but also enables IBA to structure the proper credit facilities and to be responsive in meeting special requests. IBA account officers are recognized for their professionalism, and operations staff are regarded as particularly accurate in processing customer transactions. These are important factors to small and medium size companies who have to carefully manage costs and have to be quick to market with new products and in fulfilling orders of overseas buyers.

The Corporate Banking Division has a broad range of customers who are engaged in retailing, trading, manufacturing of garments, toys, consumer electronics, suppliers of building materials, restaurant operators, stock brokers, investors in retail property and owners of commercial and



## Review of Operations (continued)

residential real estate. Given the fact that most Hong Kong manufacturers have shifted their factories to China, IBA provides financing for the import of raw materials from other parts of Asia to China, where finished products are produced.

Typically, annual turnover of the SMEs targeted is between HK\$50 and 500 million and medium size private and second tier Hong Kong listed companies with annual turnover in excess of HK\$500 million but less than HK\$1.5 billion. IBA believes this segment of the market needs banking services, and through its speed of delivery and customized approach, it is able to extract a higher yield compared to the other corporate segments.

The division is organized into three teams, each headed by a First Vice President, reporting to the Head of Corporate Banking. The teams identify prospects through in-bank referrals, introductions by existing customers, participation in trade associations or research into publications. In June 2002 IBA engaged Mr. John Hung, retired Managing Director of Wheelock, to be an advisor and introduce the Bank's services to potential clients. The account officer is responsible for developing information on new prospects, determining their needs for banking services, and obtaining financial statements.

The account officer will also pursue additional opportunities, working in conjunction with other divisions. Over the last 18 months, IBA has embarked on worksite marketing. IBA works closely together with the human resource departments of its corporate customers to devise staff benefit packages for the employees of these corporate customers. These include offering credit cards, share margin financing, insurance savings programs, deposit accounts at special promotional rates, mortgages and MPF services. This benefits IBA as it secures new customers, increases fee income and low cost deposits at relatively lower acquisition costs whilst also allowing the company to strengthen loyalty with its employees by providing benefits at no cost. The account officer will also introduce Ambassador Privileged Banking to senior managers and owners. Treasury officers are brought in to explain foreign exchange and investment products. Customers occasionally have a requirement for more complex capital markets transactions. The Corporate Banking Division has drawn on the expertise of the Investment Banking Division to deliver these products, including a commercial paper issuance facility with a bidding panel, and acquisition financing.

The Corporate Banking division offers a full range of banking products and services to its corporate customers and their employees including trade financing (including receivables and invoice financing), share margin and IPO subscription financing, working capital loans, property

*Speed of delivery and customized approach*

*Providing a full range of banking services in association with other divisions*

*Treasury is one of the pillars of profitability*



*New Treasury dealing room*



*Treasury launches new products*

mortgage loans, term loans, foreign exchange, investment products, deposits, employee benefit packages and directors' personal finance packages.

## **TREASURY**

During 2002 Treasury solidified its position as one of the pillars of IBA profitability. With the recruitment of a full marketing team, the introduction of new products, the installation of new systems and expanded cooperation with Retail, Corporate and Investment Banking divisions, Treasury integrated itself into the basic fabric of the Bank. Treasury also executed the directives of the Asset and Liability Committee and the Investment Committee to crystallize capital gains on the bond portfolio, which contributed HK\$170 million to net profits.

Prior to expanding the range of Treasury activities, a Treasury Risk Management and Control Unit was established, reporting to the Executive Vice President-Support Group to ensure independent oversight on all activities. A Reuters Kondor+ front and middle office system was installed to provide on-line monitoring. This was supplemented by a RTP back office system in early 2003.

A new dealing room was completed, and the staff was organized into two teams, including the Dealing Operations Team and the Marketing and Sales Team. New dealing platforms include BondinAsia, Deutsche Bank platform for US Treasuries transaction, two new FX systems and iMarkets. IBA was the first bank to launch iMarkets, providing customers with faster and more accurate pricing on currency options. Special emphasis was placed on streamlining operations to handle increased volumes, expedite processing and ensure the highest level of accuracy.

Existing products have been revamped and traditional services were upgraded. The foreign exchange margin product was repackaged to attract more customers. IBA also introduced a retail currency-linked deposit in October. Noting client desires for alternative investment instruments with higher yields than traditional fixed deposits, Treasury developed a retail callable CD product which ultimately drew HK\$810 million in subscriptions through a number of tranches spread over the second half of the year.

In June IBA was designated as one of a select group of Market Makers in Hong Kong Government Exchange Fund Bills and Notes, and other specified instruments, including Mass Transit Railway Corporation, Kowloon Canton Railway Corporation, Hong Kong Mortgage Corporation and Hong Kong Airport Authority paper. Given IBA's large portfolio of Hong Kong Exchange Fund paper, this is a natural progression which has already provided IBA with enhanced capabilities in meeting customer requirements.

**RISK MANAGEMENT**

The Bank is keen to maintain risk management as a core competence. During 2002 the Bank continued to elaborate a risk management structure designed to address specific business areas as well as to draw together an enterprise-wide risk management view to complement the various traditional risk management disciplines.

A new Consumer Finance Risk Management Unit was created in October 2002. Experienced recruits from international banks joined the team to strengthen this risk management function. Major effort has been undertaken since the formation of this unit under three major priorities. First, the entire underwriting platform of the consumer finance business is being revamped. This includes new credit policies for all consumer finance products, building a state-of-the-art workflow and imaging Application Processing System as well as development and fine-tuning application credit scoring and risk-adjusted pricing models.

Secondly, we are introducing a more comprehensive risk-adjusted portfolio management methodology. This comprises portfolio management analytics with risk-adjusted asset quality measures, behavior scoring models and risk-adjusted exposure management models and risk-adjusted re-pricing of existing portfolios. Thirdly, we are refining our preventive credit exposure control as well as collection and fraud detection strategies.

The Corporate and Retail Banking Risk Management Unit has also expanded its mandate. A new Corporate Risk Rating System with more refined differentiation of risks was introduced to meet increasing demand for more sophisticated loan classifications from the Bank's management and forthcoming regulatory requirements such as Basle II. Pilot tests were successfully conducted in the latter part of 2002 and implementation is underway.

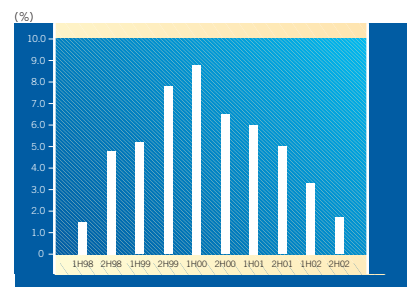
Bank-wide collection functions were revamped on the back of new integrated application software and an automated predictive dialing system. Extensive training sessions were conducted for collectors to enable a better sharing of workloads and attainment of higher levels of efficiency in the collection process.

A third risk management unit looks after Treasury related exposures reporting to the EVP Support Group to ensure independent oversight. This Treasury Risk Management Unit is entrusted with traditional treasury dealing and settlement limits but is additionally responsible for conducting risk-based performance evaluation and scenarios examination, including

*Consumer Finance Risk Management Unit established*

*Corporate and Retail Banking Risk Management Unit refines analysis*

**Non-performing Loan Ratio**



*Treasury Risk Management Unit provides independent oversight*

*Risk Management Committee combines overall framework*

the impact of introducing new products. The Unit also prepares regular reports for the purpose of asset/liability management.

Formed in November 2002, the Risk Management Committee is the core strategic body to constantly update bank-wide risk management framework, comprising comprehensive risk management expertise from credit, operations, market, finance, control and compliance perspectives. This is a forum to proactively identify and assess risks to strike the right balance commensurate with the Bank's risk appetite. It also sponsors the design and implementation of risk management initiatives in accord with the regulatory environment and best market practices. In terms of ongoing risk management monitoring, it regularly reviews and continuously improves the existing risk management systems in order to channel significant trends and changes in the Bank's risk profile to the Board and to senior management of the Bank. Two executive vice presidents responsible for Financial Control & Reporting and Support Group jointly chair the committee.

#### **OTHER SUPPORT UNITS**

The focus of Operations, IT and General Administration is twofold. The first is to provide the required back-office infrastructure support to the business lines with an ability to respond to the introduction of new products and changed business volumes. The second is to focus on operational efficiencies in terms of exploitation of technology, establishing a climate for change and cost containment.



*IBA conducted Six Sigma training courses for staff*

2002 saw the introduction of the **Six Sigma** programme to foster a structured and bottom-line focused approach to improve processes including enhanced customer satisfaction. The methodology pioneered by Motorola and made famous by General Electric was introduced to all levels within the Bank through a specially designed awareness programme. Thirty four staff underwent intensive training by a qualified instructor, who is also a university professor, and earned the title of "green belt". Their role is to identify potential Six Sigma projects throughout the organization. Successful completion of three projects earns each individual a "black belt".

A Six Sigma coordinator ensures that the right projects are undertaken in terms of quick, tangible results that are designed to further embed the Six Sigma philosophy that promotes the three "C"s:

- **Challenge** the existing framework
- **Critique** the existing processes
- Culture for **Change**.

## Review of Operations (continued)

The first wave of projects dealt with the reduction of error rates and cycle time and was aimed at allowing the newly qualified green belts an opportunity to hone their recently acquired skills. A number of new projects have already been identified for subsequent process changes that will encompass the whole of 2003. Six Sigma is envisioned as a long-term sustainable business improvement strategy at IBA and employees are awarded additional points in their annual evaluation for their involvement in Six Sigma initiatives.

Other initiatives aimed at improving the overall level of operational support include the requirement that each unit implements at least one process improvement per month and the measurement of performance against a productivity index as well as by the business divisions in order to improve service level performance. Special efforts were also made to further emphasize the cost control and containment culture introduced in earlier years. A number of projects and initiatives started in 2001 and 2002 were delivered during the year with significant savings. A new computer based archive has delivered an 85% reduction in printed reports and further reductions in printing and mailing costs are accruing regularly following the introduction of a new Consolidated Statement combining retail banking and credit card account movements for the Bank's customers.

Major IT infrastructure changes were directed at helping bring new business initiatives to fruition and help with the Bank's drive for improved risk management. Sophisticated front-end and middle office support software was implemented for the newly revamped Treasury department and work is presently underway to upgrade and integrate the back-office systems to ensure straight through processing. The new Treasury application provides a wide range of tools and functions that provide real time information and analytics, enabling treasury staff to make better informed decisions while providing a better platform for managing risk.

The IT department worked closely with EDS, our IT strategic partners, to facilitate the introduction of application systems supporting FX Margin and Options Trading as well as Currency Linked Deposits. This was in response to a perceived business need that has been welcomed by the Bank's customers. These new applications further contribute to the Bank's efforts to seamlessly integrate the functions of product selling, recording, settlement and control.

2002 also saw the introduction of a new front end share dealing system for the Investment Banking division that services an increasingly number of retail based customers and high net worth individuals. This automation drive will be extended to the back office in order that the bank can adequately manage the higher business volumes that continue to be generated as a result of the Bank's success in delivering a continuous stream of innovative products.

### *Six Sigma projects*

### *Process improvements*

### *IT updates*

### *New share dealing system increases efficiency*

The Human Resources Division handles all of the administrative tasks related to recruitment, compensation and retention. Their major task is to develop and implement proper performance evaluation measures. The Bank introduced the Vitality Curve in 2001. The system focuses on both financial and non-financial goals, including the Four Es: Energy, Execution, Energizing Others and Edge, rating all staff on a standard bell curve. Outstanding performers are rewarded, and underperformers are counseled, identifying specific areas to improve. Human Resources matches performance ratings to demographic data on staff to assist in recruiting, specifying the qualities and background that are positive indicators of future performance.



*IBA/DePaul University MBA Program graduation ceremony in December 2002*

IBA supports continual staff skill development across all levels. The Human Resources Division works closely with the Training Department to formulate in-house programs and co-ordinates participation in external courses offered by the Hong Kong Institute of Bankers and the Vocational Training Council. IBA is the first bank in Hong Kong to partner with universities in offering degree programs to its staff. In December 2002 the third group of IBA/DePaul University MBA students graduated, bringing to more than 50 the number of IBA staff who have earned a fully recognized degree in finance and marketing.

DePaul's MBA program for individuals who continue to work while conducting their studies is ranked 4th in the United States. In addition, 20 staff are completing their BA degree through the School of New Learning of DePaul University.

The Accounting and Management Information Systems Department ("ACMIS") is responsible for handling the general ledger, preparing financial statements, completing regulatory reports and payment of invoices. ACMIS prepares financial reports for all divisions of the Bank, with accountants experienced in financial institution accounting.

The Legal Department is responsible for documentation, loan agreements, court cases, contract work and corporate secretarial services. The Bank conducts a regular review of documentation with the objective of making banking simple and transparent. In-house legal counsel ensures that documentation conforms to the law but is readily understandable to our customers. They are also responsible for developing documentation for new products which are introduced frequently over the course of the year.

General Administration and Security are responsible for premises and other fixed assets, as well as materials purchasing and vendor selection. Bank Product Marketing works with business divisions to monitor market developments and identify new products to attract additional customers. They liaise with advertising firms to formulate marketing programs.

Corporate Communications is responsible for media relations and public events, as well as general inquiries from the public. The department collaborates with business units to arrange Regional Advisory Council

*Making banking simple  
and transparent*

activities. "Banking Made Simple", the in-house newsletter, is published by Corporate Communications. IBA's internal analyst coordinates meetings with securities analysts and fund managers. The Employee Relations Officer also cooperates with Corporate Communications in ensuring staff are informed on policies and business issues.

## **CORPORATE GOVERNANCE**

The Bank is a pioneer in promoting the value of corporate governance having been the first to establish an independent Corporate Governance unit in October 2000. Under the direction of Senior Management, the Corporate Governance and Compliance Unit of the bank achieved major milestones in the year 2002 in the areas of promoting high-quality corporate governance, prevention of money laundering and terrorist financing and general compliance issues.

The Board of Directors and Senior Management aim at achieving an uncompromising high standard in corporate governance and compliance and are firmly of the opinion that they are crucial to adding value to the Bank in sustaining growth that in turn produces economic value to the Bank, the stakeholders and the industry as a whole.

Considerable effort was directed at further raising the general awareness and understanding of corporate governance within the Bank. A series of discussion sessions were held on corporate governance with all frontline marketing departments and support services. Such discussions provide an ideal forum to further emphasize that internal control, transparency, accountability, compliance, disclosures and adequate communications with stakeholders are elements of good corporate governance in addition to personal integrity and self-governance.

The Department will continue to closely monitor the development and requirements of the Securities and Futures Ordinance and subsidiary legislation, which are targeted to implement in April 2003. The new Code of Corporate Governance issued by the Hong Kong Stock Exchange and Clearing Limited and the new Code of Practice related to Personal Data (Privacy) Ordinance will also be implemented by the middle of the year. The Bank has completed all the continuous professional training programs required by the regulators and is in compliance with the Code of Banking Practice.

Looking ahead to 2003, the Bank intends to further promote corporate governance from within by emphasizing the principles stated in the newly revised Code of Conduct. The Bank has set itself the target of achieving best practice in terms of the new corporate governance standards established by the regulators and is committed to providing the required training to staff.

*High quality corporate governance and compliance*

*Communicating with stakeholders*