



| Customer-centric |

OPERATIONS REVIEW

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2002 was a year characterised by reform and growth for the Group. We became the second largest banking group in Hong Kong, consolidating our customer base, distribution network and operations following the Restructuring and Merger. Operating in a tough environment, we strove to explore new business opportunities. To realise potential synergies and enhance shareholder value, we continued to improve our business models, operational strategies, and technological development.

Retail Banking

Branch Rationalisation

Our branch rationalisation plan has been implemented with a view to optimising customer service and cost efficiency. In 2002, we reduced the number of branches in Hong Kong to 319, compared with 350 branches of a year ago. The fostering of a new marketing culture is expected to drive future business growth. According to our Model Branches Pilot Programme, all branches will be reorganised into five groupings, namely Full Service Branches, Investment Centres, Personal Financial Service Centres, Self Service Banking Centres and VIP Branches, within a hub-and-spoke framework. The design of this programme was scheduled to complete in early 2003 with operations to be commenced by the end of the same year.

Our self service banking network was expanded to convenient locations in Hong Kong, providing more quality services to our customers. The number of ATMs in Hong Kong increased to 435 as at 31 December 2002. In addition, our customers can access to Renminbi withdrawal service at more than 1,600 conveniently located ATMs across nine provinces, covering over fifty cities in the Mainland of China. Hong Kong dollar withdrawal service is also available at designated ATMs in Guangdong Province.

Residential Mortgage

The Group remained one of the leading residential mortgage lenders in the local market, accounting for approximately 17%¹ of gross new loans made in 2002. During the year, we pioneered a number of new mortgage products and expanded the scope of services offered to our customers, with the inclusion of Servicing of Second Mortgage Loan, Mortgage with Deferred Repayment and Mortgage with Fixed Rates. At the end of this year, our residential mortgage loans² in Hong Kong rose by 4.0% as compared with last year.

Wealth Management

We capitalised on the growth potential in wealth management throughout the year. Emphasis was placed on product development, with the addition of guaranteed funds, retail bonds, Equity

Linked Deposit and Monthly Stocks Savings Plan to our range of financial products.

The sale of retail bonds and guaranteed funds amounted to over HK\$8,000 million in 2002, a reflection of our strong franchise and extensive distribution network. The launch of the BOCHK BOCI-Prudential AUD Australia Growth Guaranteed Fund, the first non-US dollar denominated guaranteed fund in Hong Kong and for which we were the sole authorised agent, was well received by the market.

In June 2002, we introduced the Equity Linked Deposits, providing customers with an alternative to pure fixed deposits by linking deposit returns to the performance of a specific stock listed in

Hong Kong. Since its inception, the product has received positive response in a low interest environment.

Our Currency Option Deposits entered the spotlight again in 2002, doubling its transaction volume as compared with the previous year.

During the year, we established a team of professional financial consultants to capitalise on potential growth in the wealth management business and provide dedicated service to privileged customers. Our Call Centre has started to offer 24-hour customer service since October 2002.

Credit Card

Our credit card business continued to grow in 2002. As at 31 December 2002, both the number of cards issued and cardholder spending recorded double-digit growth compared with the previous year. Total card receivables grew by 3.8% in 2002, exceeding the negative market average.



¹ The Group's market share of gross new loans made for 2002 is computed as the percentage of total gross new loans made by the Group to total gross new loans made by authorised institutions in Hong Kong (in accordance with the HKMA's Residential Mortgage Survey) for the year ended 31 December 2002.

² For loans used in Hong Kong, residential mortgage loans excluded the mortgage loans under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme.

In a fast-changing market environment, our commitment to exploring new areas of service remained. This was illustrated by the launch of our “y not” credit card in 2002, which has been tailored to the needs of today’s women and won popular support from this important segment.

Great Wall International Card, one of our core products, registered a 104.7% and a 107.2% growth, respectively, in the number of cards issued and cardholder spending compared with the previous year. This card is particularly well suited for the Mainland of China customers who frequently travel and conduct transactions outside the country. Another growing customer segment is frequent travellers between Hong Kong and the Mainland. Our Great Wall Renminbi Card appeals to these customers and has been popular since its introduction in Hong Kong in 2000. It was the first Renminbi credit card for transactions and settlement in the market, and the number of cards issued grew by more than 3 times during the year.

Merchant acquiring business is another important part of our strategy. In Hong Kong, the business achieved a 3.4% growth by transaction value in 2002. We remained the leader in the merchant acquiring market in the Mainland of China, where we experienced a 19.8% growth by transaction value in the year.

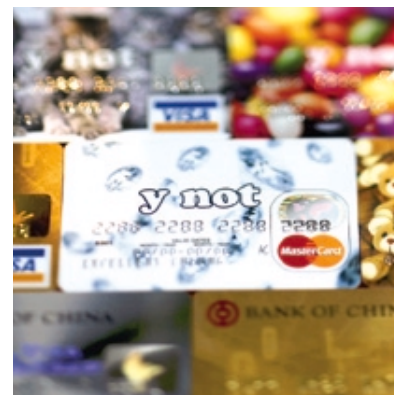
Our achievement in the credit card business was widely recognised by our industry peers amidst fierce market competition. BOC-CC won a number of awards presented by the VISA International, including the Gold Prize of “2001-2002 Largest Card Sales Volume Growth in Hong Kong”, Bronze Prize of “The Highest Merchant Sales Volume in Hong Kong”, “Best Issuer Fraud Control in Hong Kong” and “Verified By VISA Achievement Award – Hong Kong/ Macau”. We also received “The Highest Market Share in 2002 for Commercial Card Spending in Hong Kong” by the MasterCard International.

In 2002, a stagnant economic environment and soaring personal bankruptcy cases in Hong Kong continued to affect the charge-off performance of the card industry. Our credit card charge-off ratio stood at 12.33% as at 31 December 2002, which was lower than the industry average. We will closely review and adjust our credit policies to ensure asset quality.

Corporate Banking

Syndicated Lending

Leveraging our strong customer base, we have been acting as lead arrangers in loan syndications, an important step up from the participant roles which we held previously. This has led to the growth in our syndicated loans and an improved



non-interest income. In 2002, we were ranked by *Basis Point* as one of the top lead arrangers of syndicated loans in Hong Kong, in terms of the number of deals made and the funds raised.

SME Lending and Trade Finance

We provide specialised services to small and medium-sized enterprises. For example, we participated in the SME Business Installations and Equipment Loan Guarantee Scheme, which is partially guaranteed by the HKSAR Government.

We strengthened our trade finance service with the introduction of a new factoring service to corporate customers.

Cash Management

We introduced bond trading services to corporate customers in August 2002. As a result of our focused efforts in developing corporate bond underwriting business, we successfully underwrote several large debt issuances for large corporations and financial institutions this year.



Financial Institution Services

During the year, the Group strengthened its relationships with local and international financial institutions in many aspects. A dedicated team was set up to serve the needs of non-banking financial institutions. We organised a series of seminars in Hong Kong and the Mainland of China to encourage interaction, which led to the establishment of new business connections with a number of our Mainland counterparts.

Treasury Operations

With consolidated customer base and distribution network after the merger, we took a new strategic direction in our treasury operations. A dedicated team was set up to serve key customers, who

require more sophisticated products and services. On the technology front, a customer-driven treasury platform was developed. The result of our new strategy was a notable increase in the number of treasury customers. Our efforts to expand products and services for customers in the Mainland of China bore fruit in the form of increasing deposits from Mainland financial institutions.

In anticipation of increased demand for funds by large corporations, we participated actively in the primary market. We also assumed the role of market maker for debts issued by Hong Kong Mortgage Corporation Limited, Hong Kong Airport Authority and Mass Transit Railway Corporation Limited.

Mainland Branches and China Related Business

Mainland China-related business is one of the driving forces behind our future growth.

Mainland Branches

Our branch network in the Mainland of China consists of fourteen branches and sub-branches in major cities, including Beijing, Shanghai, Dalian, Qingdao, Fuzhou, Xiamen, Guangzhou, Shantou, Shenzhen and Haikou.

Twelve branches and sub-branches have obtained official permission to offer foreign currency banking services to all categories of customers, comprising local individuals and domestically funded enterprises, throughout the Mainland. Five branches are eligible to conduct Renminbi business on a limited scope, to foreign individuals and foreign funded enterprises.

Anticipating an increase in business from the Mainland, we restructured our “Mainland Branches Department” into “China Business Head Office” in November 2002. In so doing, we believe we can better serve our customers on both sides of the border and fully take advantage of business opportunities in the Mainland.

During the year, we targeted to offer Mainland mortgage services at any branches (of BOCHK or BOC), in any currency (RMB or HKD) so that customers can make payments anywhere (in Hong Kong or the Mainland). In 2002, we worked with BOC Shenzhen Branch to launch an Automated Fund Transfer Service for Hong Kong residents who have purchased properties in the Mainland. This service enables our customers to remit payments directly from their designated accounts with the Group in Hong Kong to our Mainland branches or BOC branches. This year, we were designated as the mortgage lending bank for several quality residential property developments located in Guangdong Province. Besides, we offered a new title document collection service to customers who have purchased properties in Guangdong Province, allowing them to collect title documents in Hong Kong upon full repayment of their mortgage loans.

In August 2002, we launched a new corporate finance product, Advance Against Export Tax Rebate, in compliance with China's Export Tax Rebate Policy. This helps our corporate customers alleviate short-term liquidity pressure caused by delays in the reimbursement of tax rebates from exports.

Clearing and Settlement Services

The cost control and efficiency of our clearing and settlement services were enhanced by several cross-border developments. We signed business agreements with the State Administration of Foreign Exchange Shenzhen Branch and Guangdong Province Branch in May and June 2002 respectively. We also entered service agreements with Shenzhen Financial Electronic Settlement Centre and Guangzhou Electronic Banking Settlement Centre. These agreements provided us with a mandate to act as a two-way clearing agent (previously being a one-way agent) for Hong Kong dollar cheques, covering Guangdong Province and Shenzhen, leading to the development of related business.

In June 2002, we were appointed as an agent bank in Hong Kong for the Shenzhen-Hong Kong Real Time Gross Settlement System. The successful launch of the RTGS in December 2002 was a new achievement in the provision of Hong Kong dollar settlement services between Hong Kong and the Mainland of China. It provides a real-time, secure and low cost electronic means for cross-border funds settlement between Shenzhen and Hong Kong.

Collaboration with BOC

We continued to pursue business growth in the Mainland in collaboration with BOC.

In 2002, we signed a business cooperation memorandum with BOC Shanghai Branch. It was expected that this would lead to an expansion of our wealth management business. Specific initiatives included a prestige customer referral programme that helped provide our wealth management services to the privileged customers in Shanghai.

We entered into a trade services agreement with BOC in October 2002 that would increase our cooperation in certain trade finance services. Also, the signing of a delivery and purchase of foreign bank notes agreement with BOC facilitated the rollout of related services to the market.

The Group derives a unique advantage from maintaining a close relationship with BOC, especially as the economies of Hong Kong and the Mainland become further intertwined. We are able to provide cross-border financial services that are comprehensive in both the depth and the breadth. We believe that our cooperation with BOC is complementary and mutually beneficial.



Information Technology

Information technology is the backbone of our business operations. An Information Technology Committee was thus established to oversee IT development plans. We also formulated an Information Technology Development Blueprint that will support our business development well into the future.

During the year, we initiated a number of key projects and made substantial progress in system enhancements, including:

- An advanced Customer Relationship Management System has been started

to facilitate cross-selling efficiency and strengthen our product development capabilities, and will be functional in stages over the next few years.

- An Enterprise Data Warehouse was in the course of being set up to improve the efficiency of related systems.
- Formulating IT Reform Blueprint for our Mainland branches.
- Accomplishment of internet banking development.

Back-office Operations

Back-office operations provide essential support to our business activities. Through the streamlining of workflow

and systems upgrades, we have enhanced operational efficiency as well.

During the year, we worked towards establishing a diversified financial product settlement platform. We strove to achieve optimal operation levels in our computer networks. An Electronic Reporting System was developed to minimise the expense of report printing.

To enhance the efficiency of credit approval and loan processing, a Credit Workflow Management System will be introduced in phases in 2003.

Plans are already underway to set up a platform for a Document Imaging System and implement the Information Processing Centralisation Project in order to enhance the automation of data collection and processing. This will help enhance the overall operation efficiency.

Staff Numbers

As at the end of December 2002, the total number of employees of the Group, including all the subsidiary companies, reached 13,439, a reduction of 284 staff over the same period of last year. The total number of employees of BOCHK, Nanyang, Chiyu and BOC-CC was 13,191, a decline of 237 staff year-on-year.