

# Review of Operations



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## Operating Results

For the year ended 31st December, 2003, Wing Hang Bank Group recorded a profit of HK\$863.9 million, compared to HK\$669.5 million in 2002. Earnings per share increased by 29.0 percent to HK\$2.94. Cash earnings per share increased by 30.7 percent to HK\$2.99.

## Financial Review

Total advances to customers increased 35.4 percent to HK\$46.61 billion. Excluding CFB, total loan outstanding eased 1.4 percent to HK\$33.92 billion as the outbreak of SARS in the first half of the year dampened demand for loans. The decrease was mainly due to the decrease in domestic loans to individuals and corporates. Credit card receivables also declined due to the tightening of lending policies and weaker consumer spending. This was compensated by a marked increase in loans for use in China as well as in the Bank's Macau operation. Residential mortgages showed an increase of 1.8 percent despite intense competition and a slow property market in the first half.

Total deposits increased 54.6 percent to HK\$77.48 billion. Excluding CFB, total deposits increased by 9.9 percent to HK\$55.04 billion, resulting from the issuance of HK\$1.23 billion in retail Certificates of Deposit during the year and growth in foreign currency deposits. Successful promotions of current and savings deposits also brought about growth of 52.4 percent and 63.9 percent respectively for these lower cost accounts.

Net interest income increased 7.2 percent to HK\$1,578.0 million. Excluding CFB, net interest income increased 1.3 percent to HK\$1,491.6 million due to an increase in treasury operations. Partially offsetting this increase was a reduction in margin in mortgages.

Net interest margins decreased to 2.31 percent from 2.62 percent last year due to a weak loan demand and after taking into account the lower margin at CFB.

In view of the weak demand for loans, the Bank has focused its efforts on broadening fee and commission income, which now accounts for 22.3 percent

# STREAMLINING

## our operations to enhance productivity

of the Group's operating income and increased by 24.1 percent from 2002. Continued growth in wealth management services was helped by cross-selling of our diversified investment products to CFB customers. Increases in foreign exchange trading income, insurance commissions and share brokerage have been partly offset by decreases in credit card commissions.

The Bank has continued to pursue cost-containment efforts. Operating expenses, however, increased 19.6 percent to HK\$712.2 million, primarily due to the acquisition of CFB and goodwill expenses. As a result, the cost-to-income ratio rose from 32.4 percent in 2002 to 35.1 percent in 2003.

The level of non-performing loans stood at 2.98 percent of total loans at year end compared to 2.68 percent last year and 3.35 percent at 30th June, 2003. Charges for bad and doubtful debts decreased by 30.5 percent to HK\$325.3 million, primarily due to an improvement in consumer lending. For the year ended 31st December, 2003, charge-offs for credit cards stood at 7.96 percent, partly reflecting the precautionary measures taken by the Bank. In the fourth quarter of 2003, the annualized charge-offs ratio dropped to 5.20 percent.

### **Business Review**

#### ***Integration and Merger Exercise***

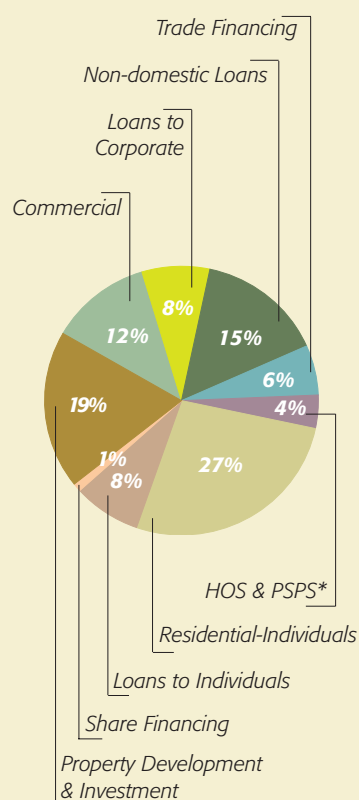
In September 2003, the Bank acquired CFB as a wholly owned subsidiary. The Bank engaged Management Consultants A.T. Kearney to facilitate the integration. A proven integration infrastructure was formed consisting of a central integration office and over 20 teams to address all business, support and control aspects of integration planning and execution.

Integration progress has been smooth and swift. The bank has completed the majority of the planning and alignment and established an interim Management Committee to ensure the convergence of strategies and operations. Managers of CFB are being retained and incorporated into the new management structure. Staffs are appropriately updated on integration activities as communication is of vital importance. To assist staff released from branch rationalization, the Human Resource Department is conducting training need analysis and will help the affected staff to acquire skills required for their new responsibilities within the Bank.

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### Loan Composition



Customer response has been positive with no apparent impact on accounts and deposits. The Management is confident that by July 2004, pending the approval of the Merger Bill, the two banks will be merged operationally and legally.

As at the end of December 2003, the Group had a total of 2,263 employees including CFB 647 persons, Wing Hang Bank 1,328 persons, Banco Weng Hang 288 persons. The Group currently has 27 WHB branches and 14 CFB branches in Hong Kong, 11 branches in Macau and 1 branch in Shenzhen.

### Retail Banking

The Retail Banking operation recorded a 43.3 percent increase in profit before taxation over 2002, mainly brought about by decrease in charge for bad and doubtful debts and increased business from wealth management services.

### Loans

The outbreak of SARS in the first half of 2003 further depressed the already sluggish property market. Responding to this situation, Wing Hang widened its market share by launching "One-stop 90% Mortgage Plans".

Property market sentiment improved markedly in the fourth quarter as strong pick-up of sale activities in both the primary and secondary markets helped to stabilize property prices. As a result, new residential mortgage lending increased towards the end of the year.

For the Group, residential mortgages, which accounted for 26.8 percent of the loan portfolio, increased by 30.8 percent. Excluding CFB, the residential mortgages showed an increase of 1.8 percent despite intense competition and a slow property market in the first half.

The slow growth in residential mortgages in Hong Kong continued to be compensated by increased activities in Mainland China, which saw residential mortgage financing grow 67.9 percent during the year. We provide tailor-made mortgage services and competitive pricing for Hong Kong residents in the Pearl Delta Region and other major cities in China and became a leader in this niche market.

# SYNERGIZING

our business

to increase profitability

## Consumer Finance

On consumer finance, the Bank has continued to expand its personal loan activities through Wing Hang Credit Limited with a series of tax and revolving credit products including the "Wing Hang Tax Money" tax loan program with lowest interest rate guarantee. Other innovative programme included a "Half Interest Rate" refinancing scheme. The company has also offered special initiatives to assist SARS affected businesses as well as individuals who have contributed to the fight against the disease. During the year, Wing Hang Credit's loan portfolio grew 24.0 percent.

The Bank has also extended credit facilities to small and medium enterprises (SMEs), both in Hong Kong and those with operations in China, through Wing Hang Finance Company Limited. The company has been developing its vehicle and equipment financing business by taking advantage of the significant growth of the manufacturing sector in the Pearl Delta region. During the year, the company recorded a 5.0 percent growth in these loan assets.

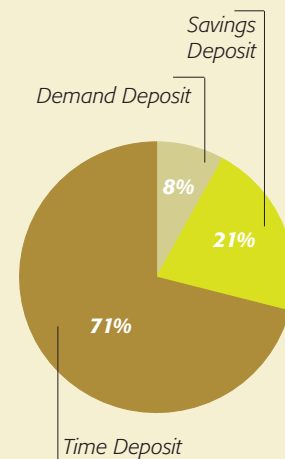
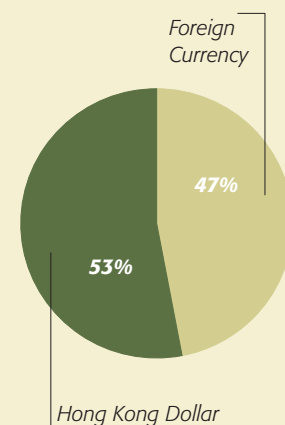
Although the Bank has slowed down the growth of its credit card business in view of rising personal bankruptcies and default rates in Hong Kong, it has continued to offer innovative programmes to attract customers with strong credit standing. These include "The One Visa" card service in which customers can enjoy cash rebates on retail purchases and transfer the whole or part of any new retail purchases in their latest credit card statement to an installment basis over a period of five months.

Due to the tightening of our credit approval criteria and a reduction in the number of cardholders, receivables declined by 7.1 percent to HK\$288.6 million if CFB was excluded. For the year ended 31st December, 2003, charge-offs for credit cards stood at 7.96 percent, partly reflecting the precautionary measures taken by the Bank. In the fourth quarter of 2003, the annualized charge-off ratio dropped to 5.20 percent.

## Deposits

The deposits increased 54.6 percent to HK\$77.48 billion. Excluding CFB, total deposit increased by 9.9 percent to HK\$55.04 billion, mainly due to increase in deposits in foreign currencies and the issuance of Certificates of Deposit. The Bank improved and widened its range of deposit services with "eDeposit" service and "Currency-linked Deposit" to give customers maximum flexibility

### Deposit Mix



## Review of Operations

**Responding to rising demand for wealth management services in a low interest rate environment, the Bank has introduced high-yield savings and investment alternatives for its customers.**

and returns. The Bank continued to see a gradual migration of more costly time deposits to savings and current accounts. Successful promotions of current and savings deposits also brought about growth of 52.4 percent and 63.9 percent respectively for these lower cost accounts. During the year, the Bank issued HK\$1.23 billion of retail Certificates of Deposit.

### **Wealth Management, Insurance and Share Brokerage**

Responding to rising demand for wealth management services in a low interest rate environment, the Bank has introduced high-yield savings and investment alternatives for its customers. During the year, we offered an array of unit trust funds, mini-bonds, retail callable CDs and equity-linked notes as well as other investment services. Total unit trust funds and bonds sold through the Bank exceeded HK\$773.1 million.

In keeping with our efforts to boost customer loyalty, we have taken active steps to continually improve the quality of our service. During the year, we increased the number of customer service staff in our branches. Continued on-the-job training has equipped employees to market new services and products created to suit prevailing investment conditions.

Our ongoing service commitment is to offer a multi-channel one-stop solution to meet the various financial needs of our growing customer base. There has been a positive response to the Elite Banking concept. This service targets customers with higher deposits and net assets, and offers them value-added services, such as waiver of certain transaction fees, discounts on handling charges for the subscription of bonds and tailor-made structured products.

Our retail structured certificates of deposit offering attractive interest rates received overwhelming response, with all HK\$1.23 billion issues fully subscribed shortly after launch.

### **Wing Hang Insurance**

The Wing Hang Insurance Agency, Brokers and the Wing Hang Zurich Insurance Co. Ltd continue to achieve satisfactory performance in 2003. The MPF and Life insurance products also achieved steady growth during the year. In Macau, we have invested in the Luen Fung Hang Life Insurance Ltd. with members of banks and insurance companies in order to further participate in the life and pension business.

### **Wing Hang Share Brokerage**

Wing Hang Share Brokerage, the Bank's share broking arm, recorded a significant increase of 100.4 percent in share brokerage fee. Excluding CFB, the share brokerage fee increased 81.0 percent due to successful share promotion program. The company's IVR (Interactive Voice Response) share trading system introduced during in 2002 was well received by customers.

### **Corporate Banking**

The Corporate Banking operation recorded a 11.3 percent increase in profit before taxation. During the year, the division recorded a 0.5 percent increase in trade finance business despite the strong trade performance as our customers continue to de-leverage their borrowings. The Bank continued to participate actively in the government SME Loan Guarantee Scheme. We introduced a variety of packages with preferential interest rates to assist SMEs in improving their financial resources and enhance their productivity and competitiveness.

There are increased lending opportunities in China where strong economic performance and the implementation of CEPA continue to attract Hong Kong investors. In May 2002, we received approval from the People's Bank of China to operate Renminbi business with foreign-funded enterprises and foreigners in China as well as to extend foreign currency services to domestic Chinese corporations operating in the Mainland. The ability to lend in Renminbi enables us to broaden the scope of our banking activities in China and to better serve its existing and potential customers.

The Bank intends to target its Hong Kong customers with new operations in the Mainland. The Bank's Corporate Banking Division in Hong Kong, in cooperation with our Shenzhen Branch, provides credit facilities to Hong Kong manufacturers who have shifted their operations to China. It also offers project financing for Hong Kong developers who are diversifying their investments across the border. The Bank plans to upgrade its Shanghai representative office to a branch in 2004 and open a representative office in Beijing to complement its branch office in Shenzhen and representative office in Guangzhou.

### **Treasury**

The Bank's Treasury operation recorded a 27.7 percent increase in profit before taxation as a result of the expansion of our treasury function to enhance yields from our surplus funds. The encouraging results have been partly achieved by investing excess liquidity of CFB in high grade investment bonds and debt securities. The Bank continues to enhance and expand Treasury capabilities to efficiently and prudently invest surplus funds.

### **Macau**

In Macau, Banco Weng Hang has continued to out-perform. Profits increased by 8.0 percent to 134.1 million Macau patacas, with steady growth in loans and deposits of 6.4 percent and 11.0 percent respectively. Net interest income increased slightly by 4.5 percent while fee income increased by 17.9 percent.

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