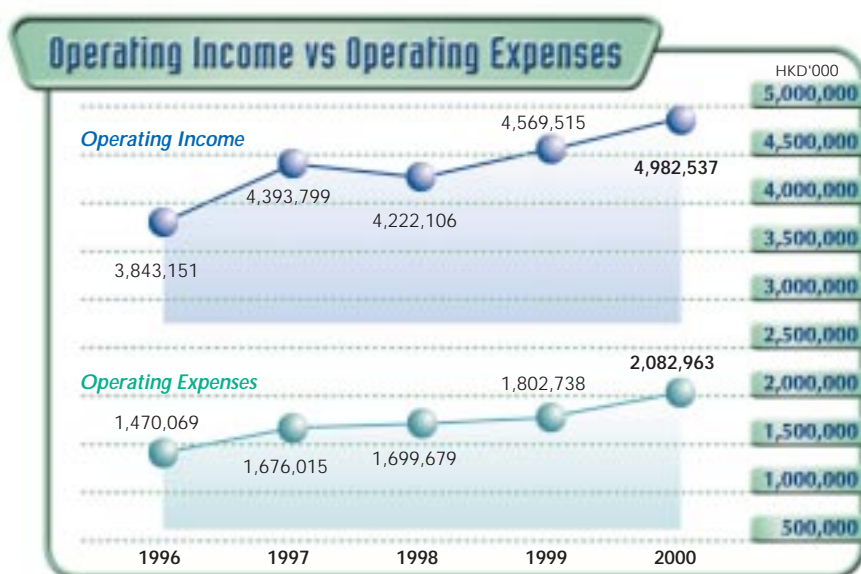


# Executive Directors' Report



## Financial Review

### Financial Performance

Operating profit after provisions for The Bank of East Asia Group recorded significant growth of 302.3% from HK\$552 million for 1999 to HK\$2,219 million in 2000. Operating profit before provisions grew by 4.8% to HK\$2,899 million. Profit attributable to shareholders grew by 25.7% to HK\$1,871 million.

Fierce competition in the Hong Kong mortgage market continually exerted severe pressure on net interest spread which was partially offset by the Bank's prudent control of funding costs. The 5.4% growth in net interest income from HK\$3,505 million to HK\$3,695 million was mainly attributable to the increase in loan business and other interest earning assets. Net interest margins were maintained at 2.7%.

Non-interest income also exhibited substantial growth of 20.9% as a result of increases in net fees and commission due to expansion of business volume, surplus of retirement fund recognised, and insurance business following the acquisition of Blue Cross Insurance in the previous year. Total operating income grew 9.0% to HK\$4,982 million from HK\$4,570 million in 1999. The proportion of non-interest income to total operating income increased from 23.3% in 1999 to 25.8% in 2000.

Operating expenses increased by 15.5% to HK\$2,083 million, with the cost-to-income ratio rising from 39.5% in 1999 to 41.8% in 2000. As control of costs remained a major priority for us during the year, the rise in operating expenses was mainly attributable to increased business and promotional activities, and the acquisition of Blue Cross Insurance.

Operating profit before provisions recorded healthy growth of 4.8% from HK\$2,767 million in 1999 to HK\$2,899 million.

As a result of the improvement in the overall asset quality in the Hong Kong banking industry during 2000, the charge for bad and doubtful debts decreased by HK\$1,535 million, or 69.3% to HK\$680 million. At The Bank of East Asia, non-performing loans dropped from 8.0% of total loans at the end of 1999 and 7.0% at June 2000, to 3.6% at December 2000, signifying that the asset quality problem was over. Accordingly, operating profit after provisions jumped significantly by 302.3% to HK\$2,219 million.

In 1999, the Bank disposed of its investment in an associate company realizing a profit of HK\$1.1 billion, which was non-recurrent in 2000. In the year, the Bank acquired some non-wholly owned subsidiaries, resulting in HK\$4 million minority interests. Net profit attributable to shareholders was HK\$1,871 million, a 25.7% increase over the previous year's HK\$1,489 million.

Owing to the decrease in bad debts charges for the year 2000, the net profit of United Chinese Bank (the Bank's wholly owned subsidiary) registered a record high of HK\$67.3 million after provisions and taxation, representing a considerable increase of 82.1% over last year.

The Bank acquired 75% of FPB Bank Holding Company Limited ("FPB Holding") on 22nd December, 2000. The results of FPB Holding for the period from 22nd to 31st December, 2000 were not included in the consolidated profit and loss account as they were considered by the Directors to be immaterial to the Group.

## Financial Position

The total assets of The Bank of East Asia Group were HK\$177,348 million at the end of 2000, 22.0% up from HK\$145,341 million a year before. The Bank also achieved an increase of 23.7% of its advances to customers, which totalled HK\$103,994 million at the end of the year, following the acquisition of FPB Holding.

In 2000, our total deposits increased by 21.4%, with customer deposits growing by 23.6%.

During the year, the Bank issued certificates of deposit totalling US\$500 million. We redeemed certificates of deposit amounting to US\$33 million and HK\$3,500 million upon maturity, and repurchased our own certificates of deposit and convertible bonds, amounting to US\$3 million and US\$45 million respectively, in the open market. In December 2000, the Bank issued US\$300 million subordinated floating rate notes qualifying as Tier 2 capital which will be redeemed in February 2001 after the issue of US\$550 million subordinated notes in January 2001.

At the end of 2000, the face value of the outstanding debt portfolio was HK\$10,496 million, including floating rate certificates of deposit of US\$13 million which were issued by the Bank's subsidiary, First Pacific Bank.

After taking into account all debt instruments issued, the ratio of loans to deposits was 69.7%. This is 1.3% higher than the 68.4% reported at the end of 1999.

# Executive Directors' Report

(continued)

## Maturity Profile of Debts Issued

(All expressed in millions of dollars)

	Currency	Total - Face Value	2001	Year of Maturity 2002	2004
<b>Issued by First Pacific Bank</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1997	USD	5	5		
issued in 2000	USD	8		8	
Total	USD	13	5	8	0
<b>Issued by Bank of East Asia</b>					
<b>Floating Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	HKD	1,950	1,950		
issued in 1999	USD	297		297	
issued in 2000	USD	497	497		
Total	HKD	1,950	1,950	0	0
Total	USD	794	497	297	0
<b>Fixed Rate</b>					
<b>Certificates of Deposit</b>					
issued in 1999	HKD	300	200		100
<b>Convertible Bonds</b>					
issued in 1996	USD	250	250		
<b>Total Debts issued in HKD equivalent</b>		10,496	8,017	2,379	100

## Subordinated Notes

In January 2001, the Bank launched a US\$550 million Subordinated Notes issue due 2011, under the structure of 10-year maturity with non-calling in the first 5 years. The interest coupon for the first 5 years has been fixed at 7.5% per annum. The Notes carry credit ratings of Baa2 and BBB from Moody's and Standard and Poor's respectively. The proceeds of this issue are used to refinance the US\$300 million Floating Rate Notes due 2005 issued by the Bank and for working capital and general corporate purposes to support the Bank's businesses. The Notes have been approved for listing on the Luxembourg Stock Exchange.

## Risk Management

The Bank of East Asia has established comprehensive risk management procedures which enables the Bank to identify, measure, monitor and control the various types of risks which the Bank faces and, where appropriate, to allocate capital against those risks. Risk management mechanisms have been established at different levels throughout the Group. This is supplemented by active Management involvement, effective internal controls and comprehensive audits in the best interests of the Bank.

## Operations Review

### Acquisition of First Pacific Bank

In December 2000, the Bank successfully acquired a 75% share interest in FPB Holding at a price of around HK\$3.28 billion in cash. FPB Holding was incorporated in Bermuda with its shares listed on the Stock Exchange of Hong Kong. FPB Holding's sole investment is a 100% interest in First Pacific Bank which operates 24 branches in Hong Kong. The Bank has proceeded with the compulsory acquisition procedures for the outstanding issued shares of FPB Holding. It is expected that the compulsory acquisition will be completed in March and its shares will be delisted subsequently. We intend to maintain First Pacific Bank as a separate operating unit at the present stage but to fully integrate its operations with the Bank in the longer term.

The acquisition of First Pacific Bank gives the Bank a competitive advantage in the Hong Kong market. It allows us to expand our business, particularly in the areas of consumer lending and credit card business. This will take place more rapidly than would otherwise be possible in the current low-growth environment. It will also provide an expanded customer base in which to cross-sell our products.

The acquisition of First Pacific Bank also allows the Bank to take advantage of our leading position in China. The acquisition brings our total assets comfortably above the minimum set by the People's Bank of China for foreign banks to expand their branch network in China. This paves the way for the Bank to realize its expansion strategy and maximize the benefits of our long-standing history in China.

### Acquisition of Secretaries Limited

The Bank formed an alliance with Deloitte Touche Tohmatsu in September 2000 through the acquisition of a 80.1% share interest in Secretaries Limited, a market leader in the provision of corporate services including company secretarial services, share registration and other business services. Through this alliance, the Bank aims to enhance its capacity in providing value-added corporate services to the business communities in Hong Kong, Mainland China and abroad.



*The Bank of East Asia Group expanded its strong local network to 133 branches, following the acquisition of First Pacific Bank.*



*The Bank enhanced its fee-based income by offering value-added corporate services through the acquisition of Secretaries Limited.*

## Organisation Restructuring

The Bank began the organisation restructuring project in 1999. The project aims to identify ways to improve the overall strategic response, competitiveness, profitability, customer service and efficiency of the Bank.

The project has achieved the following to date:

- The introduction of a new organisation structure since January 2000 to rationalize the organisational layers and to regroup business units according to the Bank's major market segments, thus improving the service delivery, customer satisfaction and thereby generating better business results
- The enhancement of the strategic planning, risk management and new product development functions
- The introduction of a new remuneration system in July 2000 to strengthen the human resources utilization
- In January 2001, the Bank engaged A.T. Kearney as its management consultant to assist the Bank in transforming its domestic branches into sales centres

In 2001, the Bank plans to achieve the following:

- Conduct ongoing reengineering on its internal operations and processes
- Further strengthen the performance management system

## Personal Banking

### *Branch Operations*

In order to maintain the best service and convenience for our customers, we have continued to make improvements in respect of domestic branches:

- As mentioned in a prior paragraph, all domestic branches will be transformed into sales centres. By this transformation, it is expected that branch revenue can be increased through better operational efficiency and customer services
- Two new branches were opened during 2000: Chung Fu Shopping Centre Branch at Tin Shui Wai was opened in May, and Dragonair House Branch at Chek Lap Kok was opened in August
- In addition, Hong Kong Baptist University Branch was opened in January 2001
- The Kowloon City Branch was relocated in January 2000 and renamed Kowloon City Plaza Branch, and the Jordan Road Branch was relocated in May 2000 and renamed as Jordan Branch
- After-office-hours services have been introduced at 40 selected branches
- 20 Personal Banking Centres in our branch network continue to provide convenient one-stop comprehensive service for our customers
- The Group has enlarged its branch network to 133 outlets, including 24 outlets from First Pacific Bank and 19 outlets from United Chinese Bank



*Hong Kong Baptist University Branch was opened in January 2001.*

## East Asia Cyberbanking Service

- Launched in September 1999
- Offers customers an "All-in-One" and "One-for-All" comprehensive electronic banking services
- Allows customers to manage up to 12 bank accounts via one account number through the Internet, telephones, kiosks, mobile phones, PowerPhones™ and iCare Internet-on-TV
- The first to offer instant on-line approval of mortgage loans, personal loans and travel insurance
- Introduces "MyCyberWorld", a complete solution for integrated banking services and products in both "Business-to-Customer" and "Business-to-Business" markets. MyCyberWorld includes CyberFund, CyberPayment, CyberValuation, MyPortfolio, BEA My Yahoo and MyERP@Cyberbanking
- Was recognised for its success in Hong Kong and internationally
  - Winner in the "New Business Venture" in the Asian Banking Awards 2000 (The Bank of East Asia was the only bank in Hong Kong to win a prize in the competition, which received 209 entries from 16 countries)
  - One of the winners of the "2000 Hong Kong Coalition of Service Industries Innovative Service Award"



*Dr. David LI Kwok-po (right 1), Chairman and Chief Executive of the Bank, celebrates the official launch of MyCyberWorld with our business partners.*



*The Bank actively promoted its Cyberbanking Service through various channels, including the Hong Kong Information Infrastructure Expo 2000.*

## Property Loans

There was slight growth in the territory's residential mortgage loan balance in year 2000. This indicates that the underlying mortgage demand is still weak amid a user driven residential property market. Striving against the all time keen competition for mortgage business, we have launched a series of promotions offering flexible mortgage plans for our customers.



With the full launching of Cyberbanking services, we provided an additional platform for customers to access, via Internet, a comprehensive range of mortgage loan services, including property valuation, pre-approval of loans, account information enquiries, prepayment instructions and confirmation requisitions, etc.

## Consumer Loans

The market demand for consumer loans has increased due to the ongoing economic recovery and improvement of consumer confidence. During the year, a series of promotional and aggressive programmes were launched to seize market share. In addition, to suit the diverse needs of our customers, new products were developed to complement the existing range. To provide customers with more convenience, a 24-hour on-line consumer loan instant approval service is available on our website. By the end of 2000, the Bank achieved an increase of 63% in consumer loans as compared with last year.

# Executive Directors' Report

(continued)

## **Credit Cards**

The credit card business of the Bank continued to chart significant growth. In year 2000, a new affinity card programme, St. Paul's Co-educational College Alumni Association Limited Credit Card, was rolled out. In addition, new products including Shine Card, targeting younger customers, BEA CyberCard, a virtual card enabling cardholders to make purchases over the Internet, The Bank of East Asia MPF Credit Card for MPF customers and the IEdSmart Card which has been jointly developed with the Hong Kong Institute of Education, were launched. To face the increasingly competitive market environment, we will continue to provide stronger value proposition in order to develop customer loyalty over a longer period of time.

## **Unit Trust**

Unit Trust services were further strengthened by the launch of our on-line unit trust information centre – CyberFund Centre. Some 250 funds from leading fund management companies are offered to our customers.

## **Corporate Banking**

### **Business Development Department**

After the organisation restructuring, the Bank has actively performed the following functions for corporate banking business:

- To maintain and cultivate better working relationships with existing sizable corporate customers, and to develop and nurture new customers
- To promote all types of existing banking products and new banking products such as East Asia Interlink, Magnetic Autopay Service as well as e-commerce products such as Payment Gateway and Cyberpayment Services, etc.

### **Corporate Lending & Syndication**

The corporate lending market revived and regained dynamics in 2000 with an overwhelming response from a number of major syndicated deals. At a generally lower interest spread, some prominent companies also grasped the opportunity to refinance their existing loans. The Bank will continue to enhance the composition of our loan portfolio by engaging in those high quality and return justified deals. We will ensure that we maintain our position as one of the key lenders in the community.



*The Bank continued to launch new card programmes: St. Paul's Co-educational College Alumni Association Limited Credit Card, Shine Card, The Bank of East Asia MPF Credit Card and the IEdSmart Card of The Hong Kong Institute of Education.*

## Trade Finance

The Bank strives to provide a full range of quality trade finance services for our customers in a highly professional manner. We will continue to target small to medium sized enterprises ("SMEs"). Some of our initiatives last year are summarized below:

- The Bank has joined forces with the Hong Kong Export Credit Insurance Corporation to provide export financing for SMEs
- We have also sponsored the SME Centre of the Hong Kong Productivity Council
- A new product, namely Unsecured Overdraft, has also been introduced for small business firms

## Share Finance

Our Share Finance services include the provision of various types of credit facilities against the pledge of quoted shares (both local and overseas). In addition, the Bank also offers Receiving Banker Services and issues Bank Guarantees for various customers. We strive to increase our market share in these fields.

## Mandatory Provident Fund

The Bank provides one-stop mandatory provident fund ("MPF") services, covering trustee, scheme administration, investment management and custody services. With more than 20 years' experience in retirement scheme management, Bank of East Asia (Trustees) Limited is an approved trustee under the Mandatory Provident Fund Schemes Ordinance to operate both Master Trust Scheme and Industry Scheme. Through our extensive branch network and East Asia Cyberbanking Services, members of our MPF schemes can make contributions and manage their MPF accounts as they desire. The BEA Capital Growth Fund, an umbrella pooled investment fund approved by the Mandatory Provident Fund Schemes Authority and Securities and Futures Commission, accepts funds for management from other MPF Schemes and the general public.



Mr. Joseph PANG Yuk-wing, Executive Director and Deputy Chief Executive of the Bank, receives the 'Certificate of Registration of Scheme' from Mr. Alan WONG, Managing Director of the Mandatory Provident Fund Schemes Authority.



The Bank made great efforts to enhance public awareness and increase its market share in Mandatory Provident Fund services.



The Bank successfully established its leading position in the Mandatory Provident Fund market, signing agreements with well-established companies including Shun Hing Group, Maxim's Caterers Limited and Sun Hung Kai Properties Limited.



# Executive Directors' Report

(continued)

## **Trust Services**

Bank of East Asia (Trustees) Limited, a wholly-owned trust company of the Bank, offers wide ranging trustee services. They include acting as executor or trustee of wills as well as trustee of family trusts, investment funds, unit trusts, charities and public funds, etc. We also provide escrow agent services to facilitate various commercial transactions, such as mergers, sales and acquisitions.

## **Investment Banking**

### **Cybertrading Service**

- Following the successful launch of the Internet Trading Service in June 1999, East Asia Securities Company Limited, a wholly-owned subsidiary of the Bank, was among the first batch of brokers to implement the Broker Supplied System ("BSS"), which provides customers with straight-through direct order processing capability on the launch of the AMS/3 System by the Stock Exchange of Hong Kong in November 2000
- The daily average volume of on-line dealing increased substantially from 10% in 1999 to 30% in 2000
- In October 2000, the "Interactive Voice Recognition" stock price quote enquiry service was offered which is the pioneer by any bank in Hong Kong. This service allows customers to instantly obtain real-time stock quotes of Hong Kong listed stocks and indices by verbal instructions via telephone. Since December 2000, this service also allows customers to conduct on-line trading via telephone
- As a continued enhancement to the Cybertrading Service, further electronic channels will be developed, including personal digital assistants ("PDAs")

## **Bancassurance**

- The first series of six East Asia Bancassurance products was launched in September 2000 and the second series of another five Bancassurance products was launched in December 2000. All bancassurance products are underwritten by Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank
- Facilities for instant policy issuance were set up at 30 branches, to be extended to all branches of the Bank and United Chinese Bank in 2001. It is the first service of this kind providing the issuance of life insurance policies instantly at the distribution level
- The first East Asia Bancassurance Service Centre was opened in December 2000 to provide comprehensive insurance services for the Bank's customers
- The Children Education Sponsorship Programme is set up to award three Education Funds each of HK\$100,000 to newborn babies annually as from the Year of Snake in 2001. The fund will be granted in the form of the Bancassurance Education Insurance policy
- By deploying effective marketing strategies and corporate promotional activities, the Bank has successfully built up a public image of its commitment to develop bancassurance by leveraging on its customer base and strong branch network

## Blue Cross Insurance

- In the course of rebuilding its infrastructure, Blue Cross Insurance has achieved a growth of 7% in terms of gross written premium, which has outperformed the market with a growth rate of about 4%
- Blue Cross has leveraged on its composite insurance licence and developed multi-line business by diversifying into life insurance business
- The operation of the Insurance Department of the Bank was effectively integrated into Blue Cross Insurance as of November 2000. The operation efficiency of the Bank's insurance business has been improved
- The Blue Cross website was launched with on-line insurance application in July 2000



*Blue Cross (Asia-Pacific) Insurance Limited, a wholly-owned subsidiary of the Bank, moved to a 20,000 sq.ft. office in Cosco Tower, Central. Dr. David LI Kwok-po, Chairman and Chief Executive of the Bank, hosted the opening ceremony.*

## China Division

After acquiring First Pacific Bank, the Bank's total assets exceeded US\$20 billion, the benchmark set by the People's Bank of China for foreign banks to open branches in China. We are committed to setting up an extensive branch network in China. In December 2000, we obtained approval from the People's Bank of China to open a branch in Xian, a key city in China's western region. We are proud to be the first foreign bank to have a presence in this city. Meanwhile, we will strive to obtain approval to upgrade our Beijing Representative Office to a full branch in 2001.



*We will strive to obtain approval to upgrade our Beijing Representative Office to a full branch in 2001.*

In Taiwan, our Taipei Branch has been operating satisfactorily since its inception in 1997. To further expand our market presence in Taiwan, we have applied to establish a branch in Kaohsiung. Approval is expected to be obtained in 2001.

The reunification of Macau with China further strengthens the economic, financial and trade cooperation between Macau, Hong Kong and China. To capture the business opportunities in Macau, we made an application to the Monetary Authority of Macau to open a branch in the territory. Approval in this regard has been duly obtained and our Macau Branch will commence business in March 2001.

# Executive Directors' Report

(continued)

At present, our Shanghai and Shenzhen Branches are authorized to conduct Renminbi business and this business has been growing fast. In anticipation of China's accession to the World Trade Organisation, the Bank is well equipped to compete in this dynamic field. Intensive development programmes will be provided for local staff in China to enrich their knowledge. The pace of computerization will be further accelerated to improve operation efficiency. Our experience together with our extensive branch network can support our customers' business expansion in Greater China.

The Bank will launch the Cyberbanking Service (China) subject to approval from the People's Bank of China. We are the first foreign bank in China to offer such a comprehensive and innovative service. Cyberbanking Service (China) allows customers to manage up to 12 accounts via one "i-Account" number through the Internet. Customers can make fund transfers, placements, withdrawals and renewal of time deposits, send remittance instructions and make inquiries about account and interest rates information.

## Human Resources

Bank of East Asia Group employees, including those of the newly acquired FPB Holding at the end of 2000:

Hong Kong	4,128 persons
Other Greater China	649 persons
Overseas	318 persons
<b>Total</b>	<b>5,095 persons</b>



*We offer professional training to our staff to enhance our team spirit and corporate performance.*



In line with the Bank's corporate strategy, a series of restructuring and enhancement programmes on human resources management have taken place in year 2000. This will further improve the quality and productivity of our staff. In July, we introduced a new Staff Grading System and reorganised the staff remuneration arrangements. We also customised our training programmes with greater emphasis on product knowledge, selling techniques and team building to enable our staff to perform more effectively as a team and be more responsive to the changing customer needs.

## Dealings in Listed Securities of The Bank

During the year, the Bank repurchased and cancelled an amount of US\$44,645,000 of the Convertible Bonds due 2003 which were listed on the Luxembourg Stock Exchange. Save for this repurchase, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of listed securities of the Bank during the year ended 31st December, 2000.

**CHAN Kay-cheung**  
*Deputy Chief Executive*

**Joseph PANG Yuk-wing**  
*Deputy Chief Executive*

**David LI Kwok-po**  
*Chairman and Chief Executive*

Hong Kong  
8th February, 2001