

## *Message to Shareholders*

The Hong Kong economy remained weak in 2002. Although there was a pick-up in the external trade performance, the domestic economy remained sluggish throughout the year. The unemployment rate soared to a high of 7.8 per cent in mid-2002, while local asset prices depreciated further during the year. The deflationary environment persisted for the fourth consecutive year, with the Composite Consumer Price Index falling by an average of 3 per cent in 2002.

The operating environment of the local banking sector in 2002 continued to be very difficult. Record low interest rates failed to stimulate domestic loan demand, resulting in a further squeeze on lending margins under the situation of excess liquidity. The high unemployment rate and rising personal bankruptcies led to a sharp rise in credit card and consumer loan defaults.

As for your Bank, the consolidated profit attributable to shareholders fell by 12.8 per cent in the year of 2002. The decrease in profit was principally attributable to the fall in the net interest income caused by a further contraction in the net interest margin. Apart from working hard to control its operating expenses, the Bank continued its efforts to solicit new business and enlarge its customer base to increase its non-interest income during the year under review. For the insurance business, in addition to the active distribution of life insurance products offered by Hong Kong Life Insurance Limited, the Bank started to market general insurance products offered by Pafoong Insurance Co. (Hong Kong) Ltd. using the Bank's own brand name. The first product, named SCB "Travelplus" Travel Insurance Plan, was launched to the market in May 2002. Subsequently, SCB "PA PLUS" Personal Accident Insurance Plan and SCB "MediExpress" China Medical Card were also launched to the market in July 2002 and September 2002 respectively. Besides, the Bank reached an agreement with Assicurazioni Generali S.p.A., the third largest insurance group in Europe, to become its agent in Hong Kong in the general insurance business. To meet the growing needs and desire of the parents in nurturing their children to have a promising future, the Bank launched the "Grow Our Sprouts" Plan in August 2002, which consists of a well-structured package of services aiming at providing cover for both the present and future well-being of the children of its personal customers. During the year under review, the Bank also broadened the range of wealth management products offered to its customers. Meanwhile, the Bank is in the process of issuing SCB VISA Platinum Card to its valued customers.

On the other hand, the Bank continued to work hard on maintaining its special niche in trade financing by offering a comprehensive range of financing services for the small and medium-sized enterprises. Apart from registering a growth in its trade finance business during 2002, the Bank achieved satisfactory results in its own Corporate Tax Loan scheme as well as the SME Business Installations and Equipment Loan Guarantee Scheme sponsored and launched by the Hong Kong SAR Government in December 2001. As to the Bank's Corporate Internet Banking service, its functions in the areas of trade finance, money transfer and cash management have been constantly upgraded to better serve the needs of the Bank's corporate customers in conducting banking transactions via the Internet. Because of its advanced features and functions which incorporate in-depth know-how of business logic, the Bank's Corporate Internet Banking System was a winner of the IT Excellence Awards 2002 organized by the Hong Kong Computer Society.

Nob Hill Banking Centre was established by the Bank at a shopping arcade near Mei Foo Sun Chuen in October 2002. The renovation project of the Head Office Building was completed in September 2002 as scheduled. The redevelopment project of the Tsuen Wan Building was completed in the fourth quarter of 2002. The building is currently undergoing interior fitting-out works, and the Tsuen Wan Branch is expected to move back into the building in the third quarter of 2003.

We are pleased that Mr. Robert Law Joss, a veteran banker who is presently Dean of the Graduate School of Business at Stanford University, has rejoined the Board of the Bank.

We record with deep sorrow the passing away of Professor Chang-Lin Tien, who served as a Director of the Bank during January 1999 to March 2002, on 29th October 2002.

Looking ahead, it is expected that the geopolitical tension and the prospects of war would result in an even greater volatility in the world financial markets in 2003, and that the Hong Kong economy would continue to suffer from deflation and weak domestic demand in the coming year. As a result, the local banking sector will most likely go through another difficult year. The Bank will continue to focus its efforts on controlling expenses and increasing revenue especially the non-interest income, while maintaining its vigilance in the area of credit control. The Bank will also continue to upgrade its staff quality and implement the re-engineering process on the deployment of human resources such that suitable staff are designated to concentrate on a particular functional area to optimize their output. We are confident that with the support of the shareholders, the counsel of the Directors, the trust of the customers and the devotion of the staff members, the Bank will be able to surmount the challenges ahead.

John Kam-pak Yan  
Chairman & Managing Director

Frank Kai-shu Lau  
General Manager

Hong Kong, 26th February 2003