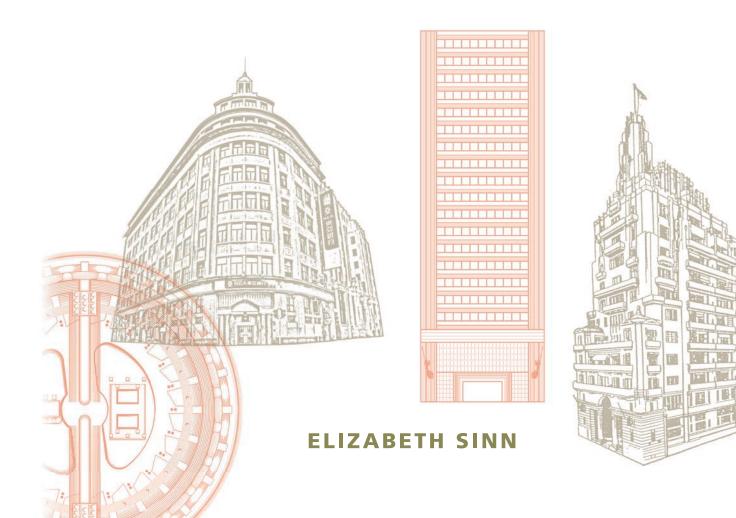




The Bank of East Asia: A Century of Innovation, Progress and Commitment 1919-2019





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ELIZABETH SINN

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FOREWORD

The Bank of East Asia, one of our oldest and largest independent Chinese banks, has grown alongside Hong Kong, contributing significantly to our city's success as one of the world's leading financial centres.

The rise, and flourishing, of the Bank and Hong Kong are well chronicled in *The Bank of East Asia: A Century of Innovation, Progress and Commitment, 1919–2019.* From pioneering safe deposit box services here in the 1920s, to issuing the first international credit card in Hong Kong, fully computerising its branches in the 1970s, and actively developing financial technology today, the Bank has long been at the forefront of our financial sector.

The Bank has also been active in the mainland, opening its first mainland branch, in Shanghai, in 1920. In 2007, it became one of the first foreign banks to establish a locally incorporated bank in the mainland. The following year, it became the first foreign bank to launch renminbi debit cards and credit cards in the mainland. Today, the Bank has branches in some 44 mainland cities, operating one of the most extensive foreign bank networks in China.

The 100-year history of the Bank of East Asia has not all been smooth sailing. From World War II and bank runs to stock market crashes, the Bank has smartly navigated through challenging times. That is thanks to strong and sure leadership, a remarkable can-do attitude and the enduring resiliency that is the hallmark of Hong Kong.

Today, more than quality service, it is continuing innovation that sets the standards in the highly competitive banking industry. With the launch of the Belt and Road Initiative, the Guangdong-Hong Kong-Macao Bay Area development and other national policies, the opportunities are boundless for Hong Kong's financial services sector. Knowing the Bank of East Asia as well as I do – and knowing it now a good deal better because of this fine centennial history – I am confident that the Bank of East Asia will capitalise on the opportunities and, in doing so, contribute both to Hong Kong and to our nation.

I am very pleased to congratulate the Bank of East Asia on its centennial. And I wish the Bank the best of business in its second proud century.

(Mrs Carrie Lam) Chief Executive

Hong Kong Special Administrative Region

Camplan

MAJOR MILESTONES OF THE PAST CENTURY

1918	The Bank of East Asia, Limited is incorporated in Hong Kong.
1919	BEA formally opens for business, with its Head Office at 2 Queen's Road Central, Hong Kong.
1920	Shanghai Branch is opened.
1921	The Head Office is moved to 10 Des Voeux Road Central, Hong Kong – its present location.
	First bank in Hong Kong to introduce safe deposit box service
	BEA opens its Saigon Branch in Vietnam. The Branch was forced to close after the outbreak of World War II.
1920s	In the early 1920s, BEA shares are traded in Hong Kong.
1935	The new Head Office Building is completed.
1939	BEA contributes to the war against foreign invasion by promoting Chinese National Salvation bonds to Hong Kong residents, raising millions of dollars in support of China's war effort.
1949	On the occasion of its 30 th Anniversary, BEA reaffirms its commitment to the community by donating HK\$100,000 to local charities.
1950s – 1970s	BEA helps finance Hong Kong's industrial boom, spreading "Made in Hong Kong" products around the world.
1952	Singapore Branch is opened.

1969	In celebration of its 50 th Anniversary, the Bank establishes a HK\$500,000 Educational Foundation Fund to benefit higher education in Hong Kong.
1970s	BEA is the first local financial institution in Hong Kong to link branches by computer.
1973	A joint-venture merchant bank, Sumitomo and East Asia Limited, is formed with The Sumitomo Bank Limited of Japan.
1975	Joins hands with Bank of America to launch the first Hong Kong dollar credit card, the East Asia BankAmericard.
1980	BEA and Bank of China join forces to launch foreign currency credit card settlement service on the Mainland.
	Joins hands with foreign and Mainland companies to form the first Sino- Foreign joint-venture company, Beijing Air Catering Limited
1982	A joint-venture merchant bank, East Asia Warburg Limited, is formed with S.G. Warburg & Company Limited of London.
	BEA is a founding member of JETCO, a consortium of local banks that launches Hong Kong's first interbank network of automatic teller machines.
1983	Redevelops its Head Office on Des Voeux Road Central, heralding a new era of growth for the Bank
	Enters the insurance field by forming East Asia AEtna Insurance (Bermuda) Co. with AEtna International Corporation
1984	Opens its first US branch in New York. BEA sold 80% of its US retail operation to the Industrial and Commercial Bank of China ("ICBC") in 2011, maintaining a fully-owned wholesale operation in New York and Los Angeles
	A joint-venture leasing company, Trilease International Limited, is formed with Bank of China and Société Générale of France.
	The Bank is among the founders of Electronic Payment Services Company (Hong Kong) Limited, a joint-venture among banks to cater for the electronic transfer of funds at point of sale.
1985	The wholly-owned securities arm of the Bank, Tung Shing Securities Company Limited, is established. Tung Shing Securities was later renamed East Asia Securities Company Limited.

1986 A joint-venture and the first merchant bank in China, China International Finance Company Limited (Shenzhen), is formed with Bank of China, Shenzhen Branch; Nomura International (Hong Kong) Limited; The Sumitomo Bank Limited and Security Pacific National Bank. 1987 Commences its own independent credit card operations 1987 Through the Bank's associate company, Trilease International Limited, a Guangzhou-based joint-venture leasing company, China United International Leasing Company Limited is formed with Guangdong International Trust and Investment Corporation, Guangdong International Leasing Corporation, Guangdong Finance Development Company, and China National Machinery & Equipment I/E Corporation and The Sakura Bank Limited. Through its associate company, Trilease International Limited, BEA forms Siam Sanwa Trilease Company Limited, a joint-venture leasing company with The Siam Commercial Bank Limited and The Sanwa Bank Limited in Thailand. 1988 Pioneers the property mortgage business in China, establishing standards that are widely followed on building quality, developers' credibility, documentation, and legal compliance A joint-venture, China Resources-Sime Darby Limited, is set up to handle trade between Malaysia and China in partnership with China Resources (Holdings) Company Limited and Sime Darby Berhad of Malaysia. 1989 East Asia Property Agency Company Limited and East Asia Property Agency (China) Company Limited are set up as agencies for the sale and purchase of properties in Hong Kong and China respectively. Tung Shing Futures Limited is set up to handle futures trading. Tung Shing Futures was later renamed East Asia Futures Limited. East Asia Asset Management Company Limited is set up to provide fund management services. The Bank is one of the six founders of Hong Kong Securities Clearing Company Limited. The Bank, together with China Resources (Holdings) Company Limited, Siam Cement Trading Company Limited and Onwel Strategic Holdings Limited, forms a trading joint-venture, China Resources Siam Trading Limited.

1990 London Branch is opened.

East Asia Corporate Services (BVI) Limited is established to provide incorporation and management services for British Virgin Islands' companies.

Establishes Shanghai International Finance Company Limited, the first merchant bank formed in Shanghai and outside the Special Economic Zones of China. The other partners are Bank of China, Shanghai Branch; Bank of Communications, Shanghai Branch; and The Sanwa Bank Limited.

Acquires full control of Blue Cross (Asia-Pacific) Insurance Limited.

Los Angeles Branch is opened.

International Software Development (Shenzhen) Company Limited is formed with IBM China / Hong Kong Corporation and Shenzhen University Software Development Corporation.

The Bank of East Asia (Canada), a subsidiary bank, is incorporated in Toronto. In 2009, BEA sold an 80% interest in its Canadian operation to ICBC.

Taipei Representative Office opens and is upgraded to a full branch in 1997. BEA is the first Hong Kong-based bank to operate a branch in Taiwan.

A property development company is set up in China, Shanghai Pudong International Finance Building Company Limited. The joint-venture is a partnership with Bank of China Trust and Consultancy Company, Bank of China Shanghai Trust and Consultancy Company, China Development Investment (Hong Kong) Limited, and Shanghai Lujiazui Finance and Trade Zone Development Company.

A joint-venture, East Asia Heller Limited, is set up by the Bank and Heller International Group of the United States. The Company provides comprehensive factoring services to satisfy various trades' working capital needs. BEA sold its shares to Heller in 2008.

The Bank of East Asia (BVI) Limited, a subsidiary bank, is established in the British Virgin Islands.

BEA expands its support for Hong Kong students, celebrating its 75th Anniversary by establishing a HK\$2 million scholarship fund for study at local universities.

Hainan International Finance Company Limited is set up. It is the Group's third joint-venture finance company in China.

Shanghai Branch is relocated to the Lujiazui Finance and Trade Zone of Pudong. The original Puxi Branch becomes a sub-branch. Lubuan Branch and Kuala Lumpur Representative Office are opened.
Lubuan Branch and Kuala Lumpur Representative Office are opened.
Obtains approval to operate renminbi ("RMB") business in Shenzhen and Shanghai
BEA's Shanghai and Shenzhen branches gain People's Bank of China approval to provide RMB services to foreigners and foreign-invested companies. BEA is one of the first foreign banks to earn this accreditation.
Acquires full ownership of Blue Cross (Asia-Pacific) Insurance Limited
Launches Cyberbanking, the first comprehensive internet banking service, and Cybertrading, the first online stock trading service in Hong Kong
BEA Trustees enters the pension fund management business, offering the BEA (MPF) Master Trust Scheme and the BEA (MPF) Industry Scheme. BEA Trustees is one of only two Mandatory Provident Fund ("MPF") service providers in Hong Kong that provides MPF services under both schemes to local employers and employees.
United Chinese Bank (acquired in 1995) formally merges with BEA.
With the opening of its Xi'an Branch, BEA is the first foreign bank to open a branch in the north-western part of China.
BEA opens its Macau Branch.
BEA completes merger with First Pacific Bank Limited (acquired in 2001).
Grand National Bank (acquired in 2001) is renamed The Bank of East Asia (U.S.A.) N.A.
SupremeGold, the Bank's wealth management service, is launched to serve the fast-growing number of affluent customers.
BEA obtains official approval from the People's Bank of China to offer online banking services to local customers – the first foreign bank allowed to do so.

2003	Share registration, corporate secretarial, and business support services are consolidated under Tricor Group, a majority-owned subsidiary of the BEA Group (over 70%). BEA sold its interest in Tricor in 2017. BEA opens its Beijing Branch, thus becoming the first foreign bank to open a branch in China's capital since its accession to the World Trade Organization.
	BEA donates HK\$2 million to the Faculty of Medicine of The University of Hong Kong in support of medical teaching and research and HK\$500,000 to The Chinese University of Hong Kong to establish a rehabilitation programme for SARS patients.
2004	Becomes the first bank in Hong Kong to provide mobile banking services through all local mobile networks
2005	Opens state-of-art operation centre in BEA Tower, Millennium City 5, Kwun Tong, Kowloon
	BEA and The University of Hong Kong establish the Blue Care Medical Centre.
2006	The BEA Group completes its acquisition of National American Bancorp, the holding company of National American Bank, and enters the San Francisco market.
	BEA becomes one of the first foreign banks in China to be granted Qualified Domestic Institutional Investor ("QDII") status by the China Banking Regulatory Commission and the first to obtain a foreign exchange quota for QDII business.
2007	The Bank of East Asia (China) Limited, a wholly-owned banking subsidiary of BEA, becomes one of the first locally incorporated foreign banks in China.
	BEA forms BEA Union Investment Management Limited together with Union Asset Management Holding AG, one of Europe's leading asset managers.
2008	BEA Life Limited, a wholly-owned subsidiary of BEA, officially commences business.
	BEA China becomes the first foreign bank to launch RMB debit cards and RMB credit cards on the Mainland.
	BEA launches an online donation platform for non-governmental organizations to help them raise funds via their websites.

2009 BEA China becomes the first Mainland-incorporated foreign bank to issue RMB retail bonds in Hong Kong, raising RMB4 billion in its debut issue.

To commemorate its 90th Anniversary, BEA establishes The Bank of East Asia Charitable Foundation ("BEA Foundation") with a mandate to expand the Bank's support for education and establish a poverty relief programme for the underprivileged.

The Shanghai Soong Ching Ling Foundation – BEA Charity Fund establishes the Firefly Project to provide students of rural schools on the Mainland with access to computers and other educational tools.

BEA further strengthens its core capital by issuing new shares to key strategic partners, Criteria CaixaCorp, S.A. and Sumitomo Mitsui Banking Corporation.

2010 BEA China opens its new flagship centre, BEA Finance Tower, in Lujiazui, Shanghai.

The BEA Foundation and 'la Caixa' Banking Foundation join hands to contribute a total of HK\$11 million in support of a palliative care programme for the elderly operated by The Salvation Army Hong Kong and Macau Command.

- BEA issues its first standalone Corporate Social Responsibility report.
- The BEA Foundation establishes the BEA Parent-Child Reading Programme with Hong Kong Sheng Kung Hui's Religious Education Resource Centre to strengthen parent-child bonds and foster an interest in reading among children.

BEA funds an endowed chair at The Hong Kong University of Science and Technology's Institute for Advanced Study to recruit world-renowned scholars and global leaders in science to build Hong Kong's reputation as a centre of innovation.

BEA introduces its digital branch concept to the general public by opening a pop-up digital branch at ifc mall in Central. In 2017, the Bank completes the digitalization of its entire branch network in Hong Kong.

The Bank launches the BEA University Scholarship Programme for Staff Members' Dependents to recognize the academic, extra-curricular, and community service excellence of university-level children of staff members.

The BEA Foundation announces the launch of the BEA "High Five" Club, an after-school learning and support programme for children from disadvantaged families, in co-operation with St. James' Settlement.

BEA China becomes one of the first foreign banks to qualify as a direct participating bank in the cross-border Interbank Payment System.

BEA establishes an auto-finance joint venture in China, Brilliance-BEA Auto Finance Co. Ltd.

2016 BEA donates HK\$5 million to help the Hong Kong Red Cross open Hong Kong's largest blood collection centre.

2017 East Asia Qianhai Securities Company Limited commences operations.

BEA acquires a 21% stake in Cambodia-based PRASAC Microfinance Institution Limited to tap opportunities arising from the Belt and Road initiative.

To tap the consumer finance business in China, BEA China launches innovative credit card and consumer finance products in partnership with leading internet platform companies, including Ctrip and WeBank.

BEA China upgrades its Qianhai Sub-branch, becoming the first foreign bank to open a full branch in Qianhai.

Launches iPayment Hub, the first consolidated payment platform for merchants in Hong Kong.

BEA is one of the initiating banks of the first trade finance platform leveraging blockchain technology in Hong Kong – eTradeConnect.

The BEA Foundation launches the BEA Inspiring Student Scholarship Programme for university students in Hong Kong with special educational needs.

The BEA Foundation teams up with The Warehouse Teenage Club to launch the BEA Youth Makerspace Programme to help youngsters develop their skills in the visual arts, craft-making, and digital technology in the 'makerspace'.

PARTI

EARLY 2018

CHAPTER ONE

BEA TODAY AND TOMORROW

Incorporated in 1918, The Bank of East Asia, Limited ("BEA" or "the Bank") is about to celebrate its hundredth birthday.

The Bank was a pioneering enterprise, started at a time when Western-style banks owned and managed by Chinese were still a novelty. Driven by a sense of mission to demonstrate that Chinese too could succeed in modern banking, the founders of BEA set out to build a solid and "truly efficient bank".

Its initial authorized capital was HK\$2 million, divided into 20,000 shares at HK\$100 each. BEA's shares have been traded on the local stock exchanges ever since, making them one of Hong Kong's longest-running publicly traded stocks.

Today, BEA is a leading Hong Kong financial services group, with total consolidated assets of HK\$826.8 billion (as of 30th June, 2018). It enjoys an international reputation buttressed by strong, lasting relationships with leading institutions around the world. Among them are Sumitomo Mitsui Banking Corporation ("SMBC") and Criteria Caixa Group, strategic partners that bolster the Bank with their expertise and partnership.



Decorative lighting marking the 100^{th} Anniversary of BEA's founding adorns the Bank's Head Office Building in Central.



BEA was named the 'Most Innovative Bank of the Year' in the BAI-Infosys Finacle Global Banking Innovation Awards Programme in 2015.

Locally, BEA operates one of the largest and most technologically advanced branch networks in the city with seventy branches.¹ By the end of 2017, it had successfully converted all its branches in Hong Kong into digital branches to achieve cost-effectiveness, enhance customer experience and move closer toward a paperless operation. Additionally, it serves customers through a range of internet and mobile channels. The 'Most Innovative Bank of the Year' title, received at the prestigious BAI-Infosys Finacle Global Banking Innovation Awards 2015, is only one of the many awards that recognize the Bank as a leader in the field.

In Mainland China, BEA's operation dates back to the opening of the Shanghai Branch in 1920. Today, the BEA Group operates one of the most extensive networks of any foreign bank on the Mainland, with outlets in forty-four cities nationwide. In 2007, its wholly-

owned subsidiary, The Bank of East Asia (China) Limited ("BEA China"), became the first foreign bank incorporated in China to open for service. Besides pioneering in banking operations and introducing many state-of-the-art products and services, BEA China was also the first foreign bank to establish a charity fund on the Mainland, and one that is constantly exploring fresh ways to give back to society. It moreover invests in the local community by nurturing local staff through creative training programmes and by showing deep concern for their wellbeing. As 'the most local foreign bank' in China, BEA China occupies a very special position.

Overseas, BEA has established a presence in Southeast Asia, the United Kingdom and the United States. Worldwide, including Hong Kong and the rest of Greater China, BEA operates close to 200 outlets and employs approximately 9,600 people. It offers a comprehensive

range of banking and financial solutions and its customer base continually grows and diversifies. Subsidiaries further broaden the range of products and services available to individual and corporate customers, including insurance and investment products.

Despite the large geographic expanse they cover and the range of functional divisions, the different parts of the Bank form a tightly knit whole. Perfectly in sync, all parts are ready to pull their weight and support one another to achieve a common goal. Whether it is BEA China providing the Singapore Branch with information about a Mainland client or the London Branch helping a Chinese customer buy real estate in England, or Head Office advising Mainland corporations on investment opportunities in the United States, the different parts work together seamlessly and effectively. Like an organism that has evolved through the ages, the Bank has sharpened its propensity to adjust and adapt, to innovate and be flexible.

Not many large corporations can demonstrate so well that the whole is greater than the sum of its parts.

Corporate identity is key. Technology no doubt facilitates real-time communications within the Bank, as do the frequent visits of officers to subsidiaries and branches. There is also the legendary daily early morning meeting when the Chairman meets the senior management to discuss matters at hand and make sure that everyone is informed of goings-on in different parts of the organization. Beyond that, a tradition of teamwork provides the catalyst to vitalize long-distance working relationships. In particular, when overseas managers congregate every year at Head Office for the Overseas Branch Managers' Meeting, views are openly shared, friendships are renewed and the feeling of being family rekindled. During that week, it is as if the whole Bank is immersed in a spirit of common purpose and undergoes a thorough regeneration.





Dr. David Li, Chairman & Chief Executive

Looking forward to the next century, Dr. David Li Kwok-po, the Bank's Chief Executive since 1981 and Chairman since 1997. foresees that the Bank will focus on China. where the markets are expanding continually, much encouraged by the central government's ambitious policies, and where the Bank's special position always makes a difference. Hong Kong's bridging role may no longer be as vital as before, given that the Mainland and the rest of the world are engaging each other more directly. However, he believes that the Hong Kong Special Administrative Region ("HKSAR") will continue to thrive as an international financial centre because of its legal system and regulatory regime, and BEA will take full advantage of it.

Dr. Li recognizes that the road ahead will not be easy, with enormous and unpredictable changes presenting risks as well as opportunities. Yet, he is undaunted. With the characteristic boldness and optimism he has displayed since he joined the Bank in 1969, he sees the challenges as most "exciting".

His confidence is well founded. On many occasions, as this book will show, the Bank has revealed a profound inner strength: when faced with adversity, it fights back and rises again – stronger than before. Its darkest hour is often followed by its finest hour. It has used many different strategies to stay ahead of the game.

To operate in such a dynamic market, Dr. Li explains, BEA will further leverage strategic partnerships. BEA has long used this strategy to punch above its weight.

In recent years, for instance, BEA has teamed up with WeBank, a privately owned bank in Qianhai, Shenzhen founded by tech giant Tencent, so as to leverage WeBank's big data while, in turn, BEA brings to the table its rich experience in doing global business, expertise in risk management and compliance, and strong bank culture. Another exceptionally successful partnership is with a leading German asset management company - Union Asset Management Holding AG ("Union Investment"). Together they formed BEA Union Investment Management Limited ("BEA Union Investment") in 2007; it has grown into a significant Asian investment specialist.

One of the Bank's newest partners is Shenzhen Qianhai Financial Holdings Co., Ltd., a wholly-owned subsidiary of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone Management Authority, and the Authority's sole platform for financial They formed East Asia Qianhai holdings. Securities Company Limited, ("East Asia Qianhai Securities") which, having received its licence from the China Securities Regulatory Commission ("CSRC") on 4th December, 2017, provides a full range of investment banking and securities businesses in China. It is expected to become another active force in deepening financial cooperation between Shenzhen and Hong Kong,2 just in time to capitalize on



East Asia Qianhai Securities Company Limited commenced operations in 2017.

the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

Wherever it goes, the Bank may be seen as operating - rather like an eco-system - in a network of multi-level relationships with shareholders, customers, staff, strategic partners, business associates, and community as a whole. Forming and valuing relationships is in the Bank's DNA. Relationships, built on trust and respect, are carefully cultivated over time. The Bank knows that relationships are long-term investments: in some cases, they might not immediately make a profit, or may even require short-term sacrifices, but further down the road, the benefits will come.

Over the years, the Bank has continually adjusted its strategies in response to changing circumstances. Likewise, it has also revised its mission statement from time to time to guide the Bank's action. This year (2018), after intense deliberation, a new mission statement has been announced.

Staff are reminded that to achieve the mission, they must integrate these values into everything they do. The Bank has rolled out a bank-wide programme under the banner "Our Goal Our Road" (同心同行) to promote understanding and engagement among all staff in collectively building and identifying with the Bank's culture.



On the eve of its Centenary, BEA launched a Bank-wide campaign to promote its vision, mission and core values.

It is appropriate for the Bank on the cusp of a new century to ensure that its culture will grow stronger by issuing a forceful and inspiring mission statement accompanied by an intensive programme for action. The core values – excellence, commitment, integrity, customer focus, teamwork and innovation – are not new. They have formed the keystone of the Bank's operations since its inception, even though they might have been called by different names and expressed less explicitly, less methodically. They are intrinsic elements of the Bank's legacy.

It has not been easy for the Bank to arrive at its present size, breadth of functions and internationally respected status. Just staying independent as a local bank has been hard enough. Over the century, it has faced many challenges in Hong Kong and beyond: wars, civil wars, revolutions and military occupations; many changes of political regimes; financial crises, booms and busts; unimaginable transformations in banking practice, market and social structure, regulatory systems, and technological development. Amid all the upheaval and paradigm shifts, BEA continues marching forward.

This book is the story of that unyielding hundred-year march and the making of a remarkable legacy.

- 1 Information as at 30 June, 2018.
- BEA News Release, 30 June, 7 December, 2017.

PART II

FIRST 75 YEARS

CHAPTER TWO

NO HUMBLE BEGINNINGS (1919–1945)

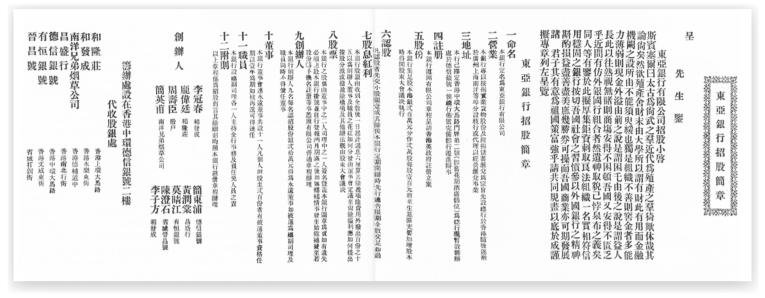
BEA opened for business on 4th January, 1919 with great fanfare. From day one, the Bank aimed high. Its lofty ideals were clearly presented in the 'Prospectus': What China needed were genuine (名副其實) and trustworthy modern banks with solid capital and strong organization, banks that would accommodate Chinese social customs as well as the spirit of foreign banking. The Bank was founded with the ambition to help 'the fatherland' (祖國) achieve wealth and power.

For a century, BEA worked hard to fulfill that ideal, pursuing excellence through innovation, prudence and goodwill: to be a 'truly efficient bank', a leader in the field – not a follower – that would inspire and provide a role model for others.

The Bank was incorporated on 14th November, 1918, just three days after the signing of the armistice that ended World War I. During the war, while European powers were distracted by troubles at home, Japanese, American and Chinese capital seized the opportunity to expand in Asia. In Hong Kong, this further stimulated the entrepreneurial activities fueled by wealthy merchants



BEA joined other businesses along Hong Kong's main thoroughfares in celebrating the end of World War I.



BEA's prospectus set out the Bank's commitment to China's economic modernization.

who had fled with their families and capital from the post-1911 revolution chaos in China. Growth in the 1910s in commerce and trade, real estate and construction, shipping and manufacturing industries resulted in a demand for a level of financial service that neither the foreign modern banks nor the traditional native Chinese banks could satisfy. The Bank would fill this gap.

Of the Bank's nine original Founders, Mr. Kan Tong-po, Mr. Li Koon-chun and his brother Tse-fong, were most instrumental in pushing BEA ahead.

Mr. Kan Tong-po, Chief Manager (later renamed Permanent Chief Manager) until his death in 1963, had a strong banking background. He was trained in banking in Kobe, first at the Yokohama Specie Bank^a and then the Kobe Branch of the International

Banking Corporation^b. After returning to Hong Kong, he founded the Tak Shun Yinhao (native Chinese bank) in 1916. As the basic function of the financial market in Hong Kong was to interface between modern banks and Chinese *yinhao* (銀號), the ability to navigate between these two worlds was essential.

In the 1920s and 1930s, Mr. Kan, Mr. Pei Tsu-yee of the Bank of China and Mr. Li Ming of the Chekiang Industrial Bank, were regarded as the three giants in banking in China. Mr. Kan's cautiousness, astuteness, and caring for staff set the style of BEA in its formative years.

The Permanent Assistant Manager was Mr. Li Tse-fong, one of the earliest graduates of the newly established University of Hong Kong (class of 1916). His father, Mr. Li Shek-pang, who owned huge businesses including rice,

a. Now Bank of Tokyo-Mitsubishi UFJ. Mr. Kan Tong-po's father was compradore of the Yokohama Specie Bank.

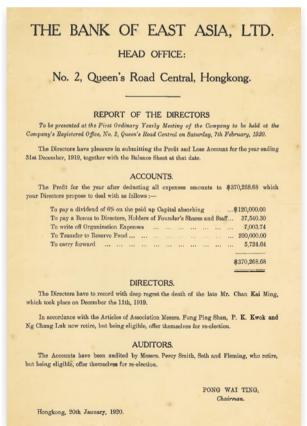
b. Now Citigroup.

shipping, native banking and real estate, some of which were based in Saigon, Vietnam, ("Saigon" is nowadays "Ho Chi Minh City") was keen on forming a modern bank, but unfortunately he died in 1916 before fulfilling his dream. Tse-fong gave up his plans to study law in England to realize his father's dream and worked at the Bank until his death in 1953.

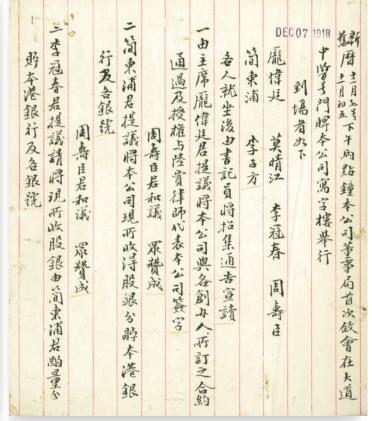
Sitting on the board of many of Hong Kong's leading *hongs* (trading houses), still largely dominated by British interests before World War II, Mr. Li Tse-fong observed Hong Kong's financial world from a unique vantage point. With his excellent English and easy charm he moved in many circles, especially the 'Western' circles which were still out of bounds to most Chinese at the time. The breadth of his

public life, ranging from the Anglican Church to the Legislative Council ("LegCo"), accentuated BEA's deep commitment to the local community.

Though Mr. Li Tse-fong's eldest brother, Koon-chun, never assumed any administrative position at the Bank, he contributed hugely to the Bank's success as a Founding Director until his death in 1966. As the eldest son groomed from an early age to succeed his father, Mr Li Koon-chun had extensive business contacts, experience and insights, qualities that made him one of Hong Kong's most formidable businessmen. Most notably, his expertise in real estate led to the Bank's large property holdings and his personal wealth and reputation helped the Bank survive many crises.



The Bank's first Annual Report issued for the 1919 financial year



Minutes from the Board's first meeting on 7th December, 1918

Brought up and educated in Hong Kong, these three young men – Mr. Kan Tong-po and Mr. Li Koon-chun were thirty-one, and Mr. Li Tse-fong only twenty-seven – symbolized the intrepidity of a young community striding forward to take on the world.

Premises

The Bank first opened at 2 Queen's Road Central, between Ice House Street and Duddell Street, at premises owned by the Hong Kong Telephone Co., but as soon as a suitable property for purchase was found, the Bank bought it, revamped the interior completely and relocated its offices there. And there, at 10 Des Voeux Road Central, in the very heart of Hong Kong's banking district, the Bank still stands today.

In 1933, to accommodate an expanded staff and increased business, the Directors decided



In 1921, the Head Office was relocated to 10 Des Voeux Road Central, Hong Kong. Garlands adorn the building's columns in this picture, taken during the Bank's 10th Anniversary celebrations in 1929.



The bank hall of BEA's Main Branch in 1935

to redevelop the building. The decision was an expensive one, yet in making it, the Directors showed their faith in the future of the colony, a faith unshaken by the economic depression then in progress. In July 1935, the new fourteen-storey building was officially opened and recognized as one of the finest buildings in Hong Kong. The *Hong Kong Daily Press* wrote:

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The tallest of all completed structures, its well-balanced proportions and refined details show an example of how everything that is sound and dignified in what can be termed 'streamlined architecture' may be distinct from eccentricity or crude novelty.



BEA shares were first traded on the Hong Kong share market in the early 1920s.



The Head Office of The Bank of East Asia in 1935

The building became a landmark instantly. It was in line with a BEA tradition that was started in 1927 with the completion of the Shanghai Branch building. In the century that followed, all the Bank's buildings would stress modernity, good taste, and functionality while state-of-the-art technology and architectural design further projected confidence, the spirit of innovation, and the willingness to invest in the future.

Capital and Shareholding

BEA was a pioneer: it was among the very first Chinese-capitalized modern banks incorporated under the Companies Ordinance of Hong Kong. Its shares were, moreover, traded on the local stock exchanges at a time when only a handful of companies were publicly traded.

Its initial capital was HK\$2 million – 20,000 shares at HK\$100 per share. Within three years, capital was raised to HK\$10 million. Each of

the original nine founders held one Founder's share that gave them special benefits including the status of Permanent Director. In 1921, five more Permanent Directors were added, each receiving one Founder's share. The division of the two classes of shares ended in 1932 when the Founder's shares were converted to ordinary shares.² Mr. Wong Yun-tong, the last Permanent Director to remain on the board, died in 1978, having served the Board for almost sixty years.

Business Operations

The Bank's operations were focused on deposits and loans, real estate investment, export/import bills and foreign exchange transactions. It kept close connections with the native Chinese banks, which were a vital source of deposits, loans and foreign exchange business. Among the many trades it financed was the rice trade, which dominated Hong Kong's economy. In addition, it was the first

The nine original Permanent Directors:

Mr. Chen Ching-shek, Mr. Chow Shou-son (2nd row, centre),
Mr. Kan Tong-po (2nd row, fifth from the left), Mr. Kan Ying-po,
Mr. Li Koon-chun (2nd row, seventh from the left), Mr. Li Tse-fong (2nd row, fourth from the right),
Mr. Mok Ching-kong, Mr. Pong Wai-ting, Mr. Wong Yun-tong (2nd row, sixth from the right)

The additional five Permanent Directors:

Mr. Fung Ping-shan (2nd row, seventh from the right), Mr. Kan Chiu-nam, Mr. Peter Kingston Kwok, Mr. Ng Chang-luk, Mr. Wong Chu-son (Huynh Tai)



The Bank's staff and directors pose for a photo on the occasion of the Bank's 10th Anniversary in 1929.

bank in Hong Kong to offer safe deposit boxes, which are still extremely popular today. Through the two decades after 1919, the Bank grew in size and stature despite upheavals caused by strikes, boycotts, the Great Depression, currency reform and war. At the end of 1940, current and other deposits, which had been HK\$3.9 million in 1920, stood at HK\$25 million and profits, which had been HK\$370,268 in 1920, were over HK\$900,000.³

BEA became the leading Chinese bank on many levels. It was one of the first members of the Hong Kong Chinese Bankers' Association, which was formed to safeguard the interests of Chinese banks against discrimination by the colonial government and foreign banks. It was the first Chinese bank to join the Clearing House (established in 1923 and controlled by HSBC); since many of the Chinese banks were not members, they cleared their cheques through BEA. In addition, it was a member of the prestigious Exchange Banks' Association (later, Hong Kong Association of Banks).

From the start, BEA's forward-looking attitude was exceptional. Its management constantly kept abreast of the latest developments in the banking world. In 1924, Mr. Kan Tong-po, accompanied by Mr. Fung Ping-shan, took a round-the-world inspection tour that turned out to be an invaluable learning experience. They were amazed by the high standard of foreign exchange operations in London and New York, the enormous amount of overseas Chinese remittances from San Francisco and the sophisticated structure of American banks. They also took the opportunity to get to know BEA's overseas agents and correspondents and to project a high profile of the Bank on the world stage. Senior management continued to undertake such tours thereafter, bringing home new ideas and new practices in international banking.

BANKIN + INNOVATION.

SAFE DEPOSIT BOXES INTRODUCED.

The Bank of East Asia has introduced Safe Deposit Boxes which will be allotted to the use of its clients on payment of an annual fee of \$7 for one. The boxes are about two feet long and nearly a foot wide and deep, and were specially designed to contain jewellery and valuables. Every box has two keyholes, and two keys are required to open it. The Bank retains the "master" key which fits all boxes, while every boxholder will be supplied with a different key without which it will be impossible to extract the contents of the box Therefore whenever a boxholder desires to open his box to be accompanied a clerk of the bank who is in charge of the "master" key to the strongroom where all the boxes are kept. The Bank keeps a book for each boxholder, on which every person has to sign his name when a sale deposit box is issued to him. Boxholders who lose their keys need have no anxiety regard to their deposits for the Bank will not allow any person to open his or her box unless his signature is identical with that of the bone fide box' holder. Moreover the Bank will any strangers certain ask questions whenever any doubt, is entertained, and unless the person is the bona fide boxholder, who has been previously instructed how to answer, it will be very difficult to give a reply.

The of East Bank Asia will be the first bank in Hongkong which has innovated these boxes and at present there are 150 available. The boxes may be seen on Monday when the bank transfer their offices to their new premises in Des Vouex Road Central. There will be no formal opening reception, but friends and clients are cordially invited. The present premises of the Bank in Queen's Road will be occupied by the Bank of Canton pending the construction by them of a modern and more substantial building on its present site.

BEA was the first bank in Hong Kong to introduce safe deposit box service, in 1921.



Built in 1927, The Bank of East Asia Building in Shanghai is now listed on the city's register of historically significant buildings.

Operations outside Hong Kong

BEA's vision has never been confined to Hong Kong: Shanghai, Guangzhou and Saigon were early target locations for opening branches.

Since Shanghai was regarded as crucial for the foreign exchange business and an entry point into Mainland China, the Bank opened a branch there as early as March 1920, initially housed in rented premises. Then it bought property at the junction of Kiukiang Road and Sichuan Road, a site considered to be 'ten times better than the old premises'. The new building, designed by a Hungarian architect, was completed in 1927, a stunning monument with design features that included a large banking hall free of columns, a marble counter measuring twenty-four meters in length, and an Otis elevator, a novelty at the time. These features became part of Shanghai's banking legend. This building has remained the Bank's home ever since.

The Shanghai Branch thrived, adapting itself to the strange environment by employing a compradore to mediate with the local business community and establishing a department that operated like a native bank. International operations were centred on trade bills and foreign currency dealings, mainly US dollars and sterling. To build up a strong telegraphic transfer fund with overseas agents, Midland in London and American Express in New York, the Shanghai Branch shipped out large quantities of gold coins bought over the exchange counter. Not surprisingly, the Shanghai Branch was patronized by the many Hong Kong companies operating in that city, including the Wing On and Sincere department stores and the cosmetics manufacturer, Kwong Sang Hong. Given the vital importance of the Shanghai operation, Mr. Kan and Mr. Li Tse-fong took turns to oversee operations there.

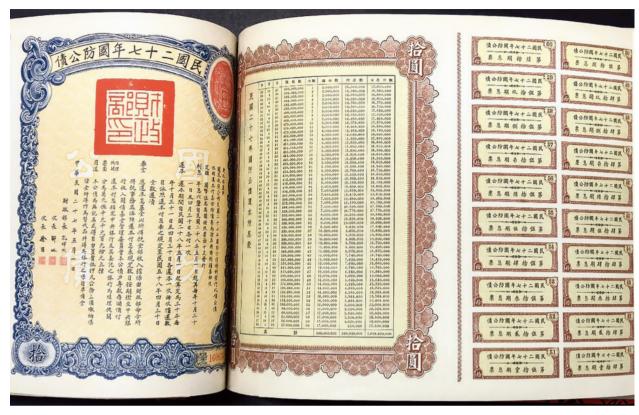
A branch was opened in April 1921 in Saigon, a centre for the rice business, much of which was in the hands of Cantonese merchants with close ties to Hong Kong. The Guangzhou Branch was opened in 1922.

Closer to home, BEA opened a branch on Canton Road in November 1924 to meet the demands of the growing population and expansion in commercial and industrial activities in Kowloon.

Surviving Challenges

The 1920s and 1930s were full of turmoil. Several banking crises, including the collapse of the Chinese Merchants Bank and the run on banks caused by the Guangzhou-Hong Kong strike and boycott in 1925, and then the Great Depression put immense pressure on all banks. BEA weathered the storm mainly because it was prudent; in particular, it did not indulge in speculation as other Chinese banks did. It





The Bank promoted Chinese National Salvation bonds in Hong Kong.

was also widely known that Mr. Li Koon-chun would use his personal wealth to pull the Bank through in the event of a catastrophe. In a way, these crises only confirmed BEA's reputation as a solid bank.

The Japanese invasion of China in 1937 had far-reaching consequences. There was a huge influx of population and many Mainland banks and industries relocated to Hong Kong. In 1939, it was admitted by bankers in China that 'Hong Kong had replaced Shanghai as the country's financial centre.'⁵ Indeed, Hong Kong experienced temporary prosperity: rents rose as wealthy refugees bought up properties and BEA's deposits experienced a boost. Poor migrants provided cheap labour for factories, producing among other things military necessities such as gas masks. One way BEA contributed to the war effort was by promoting

Chinese National Salvation bonds among Hong Kong residents. Mr. Kan, who personally led local bankers in raising millions of dollars to assist China, was hailed for his patriotism.⁶

The Guangzhou Branch ceased operation when Japan occupied the city in 1938. The Shanghai Branch, however, stayed open despite the change of regimes.

Japanese Occupation of Hong Kong

Japan attacked Hong Kong on 8th December, 1941. A few days later, the Chinese Nationalist government sent a plane to Hong Kong to pick up certain prominent Chinese bankers, including Mr. Kan Tong-po, for relocation to Chongqing. But Mr. Kan declined, believing his responsibility was first and foremost to the

shareholders and depositors of BEA, and opted to stay behind to manage the Bank.⁷

After the British surrendered on 25th December, 1941, Japanese military authorities took over Hong Kong, and occupied it till August 1945. BEA was allowed to continue operations but banks owned by enemy nationals, including HSBC, were liquidated.

There was in fact little business to be done as economic activities ground to a halt. The occupation authorities announced that the Japanese military yen (totally unbacked) would replace the Hong Kong dollar as legal tender – first at two yen to a dollar and then four yen

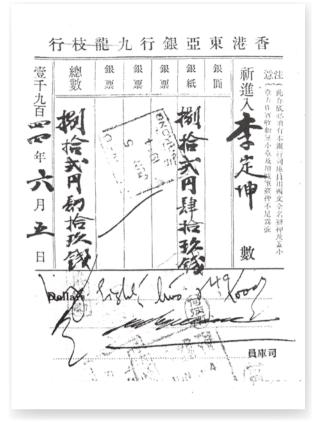
to a dollar - and all the Bank's accounts were denominated in military ven. The authorities summoned renters of deposit boxes to open their boxes for examination, and confiscated gold, silver and 'enemy currencies'. Where renters did not show up, bank officials were forced to open the boxes for examination. They wrapped up whatever was not taken away, then sealed and marked the envelopes with the name of the holder and number of the box. These were notarized by a lawyer and re-deposited in the vault. At the time, Mr. Li Fook-wo recalls, it was not clear what good the notarizing would do, but they felt it was the right thing to do, and did it anyway. The contents were returned to the owners after the war.



BEA opened its bank vault for residents to take shelter when Hong Kong came under aerial bombardment during World War II.

The city faced great hardship as time passed; food and everything else was scarce amid galloping inflation. The Bank initially raised salaries to help staff cope with the situation, but when rice had become no longer affordable even on an increased salary, the management decided to sell some of the Bank's properties to buy rice and pay it as salary instead of cash. Times were tough and everyone was in the same boat.

Japan surrendered on 15th August, 1945, not a day too soon. On 14th September, the Bank re-opened its doors to a new era.



BEA deposit slip for military yen, 1944

- 1 Hong Kong Daily Press, 17 February, 1936.
- 2 China Mail, 25 April, 1932.
- 3 'Bank of East Asia Annual General Meeting Held on Saturday', SCMP, 10 March, 1941.
- 4 BEA, Minutes of the Board Meeting, 18 May, 11 October, 1923.
- Yao Songling (姚崧齡), Zhonghang fuwu ji (中行服務記)(My Service with the Bank of China) (Taipei: Zhuanji wenxue chubanshe (傳記文學出版社), 1968), p.31; Shanghai jinrong shihua (上海金融史話)(A History of Finance in Shanghai) (Shanghai: Shanghai renmin chubanshe (上海人民出版社), 1978), p. 145; 'Xu'序 (Preface) by Zhu Sihuang (朱斯煌), in Yao Qixun (姚啟勳), Xianggang jinrong (香港金融)(Hong Kong Finance) (Hong Kong: N.p., 1939), no pagination.
- 6 Huazi ribao (華字日報), 12 January, 1939; Woo Sing Lim (吳醒濂), Prominent Chinese in Hong Kong (Hong Kong: Five Continents, 1937), p. 21.
- 7 Yao Songling, Zhonghang fuwu ji, p. 64.

CHAPTER THREE

CHALLENGES AND RESPONSES (1946–1978)

BEA reopened for business on 14th September, 1945, just two weeks after the British resumed rule over Hong Kong. Among other things, the colonial government reinstated the Hong Kong dollar as legal tender. It might appear a miracle that BEA could restart operations so soon after all the financial and social disruption of the war. How was it possible?

"Before the war broke out in Hong Kong, the Bank took precautions to avoid losses. Therefore, we transferred our liquid assets to our US and British agents. The amounts are intact and we suffered no losses at all," explained the Chairman, Sir Chow Shou-son, at the first post-war Annual General Meeting in March 1946. Luckily too, he pointed out, losses in the Bank's real estate portfolio were negligible, and with its strong cash position, it was ready to contribute to the reconstruction and rehabilitation of the colony besides expanding the usual business."

There was no miracle, just foresight.

These words exuded optimism. But this did not mean that BEA – and Hong Kong in general – could avoid the many challenges of the times.

Post-war Recovery and Beyond

In every way, recovery was difficult. On the one hand, civil war in China, currency collapse and then revolution resulted in major upheavals. The establishment of the People's Republic of China in 1949 reshaped the political order of the region and the impact on Hong Kong was profound. The economic restrictions imposed by the new Chinese government on the one hand, and the United Nations embargo and American sanctions against China after the Korean War broke out on the other, strangled the entrepôt trade that had long been the colony's lifeline.

As always, the influx of refugees created endless problems. The colonial government, with help from different sectors of the community, did a reasonably good job in the 1950s and 1960s at providing housing, education and medical services to the burgeoning population and, though the solutions were far from perfect, a modicum of social stability was achieved. Even the riots in 1967 and the ensuing chaos, which appeared at the time to threaten the very foundation of British rule, were soon contained. Indeed, the government, having learnt a lesson from the unmistakable signs of



The Bank's staff in 1950

political and social discontent, became wiser and improved its policy and practices – to such an extent that some people later looked back on the 1970s and 1980s as the 'golden age' in Hong Kong's history.

Faced with the new economic circumstances, Hong Kong reinvented itself as a manufacturing centre; meanwhile the stock and real estate markets expanded at a fantastic rate, creating booms and busts. Banks played an indispensable part in these developments and the financial sector grew bigger, more sophisticated and increasingly international. At the same time, banking was no longer reserved for the elite. Not only did the population grow by leaps and bounds, but people became more 'bank conscious' as banks reached out to the mass market. Even children were encouraged to open savings accounts with as little as one dollar. Rapid growth in the presence of foreign

banks, the increasing participation of Hong Kong banks in cross-border activities, and the rising amount of offshore loans emanating from Hong Kong – it rose from US\$34 million in 1969 to US\$13,600 million by the end of 1982 – boosted Hong Kong's status as an international financial centre.

New World, New Game

Banking became a whole new ball game in the three decades after the war, with new contents, new rules, many more players and much higher stakes. To master the new game, BEA proceeded cautiously but also creatively. It developed important relationships with different parties, adding new dimensions to the concept of relationships, which had long been highly prized. With Mr. Kan Tong-po at the helm, BEA 'played host' to the many Mainland

bankers arriving in Hong Kong, showing them the ropes in the local banking world. Among Chinese banks, BEA was revered as a 'big brother' and role model. By being friendly to all sides, BEA was the perfect intermediary during the Cold War years, when American and Mainland banks were forbidden to deal directly with each other. When American banks wanted to sell foreign currencies and the Bank of China wanted to buy them, BEA would help to pull the deals through, sometimes with just a few telephone calls, as Mr. Li Fook-wo remembers with pride. The world needed matchmakers and that was a role BEA played skillfully and strategically. It still does.

Serving New Markets

In response to expanding demands from industry, trade, real estate and the stock market, BEA diversified into new fields and raised the scale of operations. Its capital was raised to HK\$50 million in 1947, and then to HK\$100 million in 1973 'in pursuance of the Bank's expansion and diversification'. Notably the latter increase was made amid a spate of foreign currency policy changes throughout 1972 culminating in the abolition of the Hong Kong dollar's peg to the British pound (at HK\$16 to £1). Fortunately, the Bank's sterling assets were fully guaranteed under the Hong Kong



On the occasion of its 30th Anniversary in 1949, BEA donated HK\$100,000 to local charities, a considerable sum at the time. (Courtesy of the Robert H. N. Ho Family)

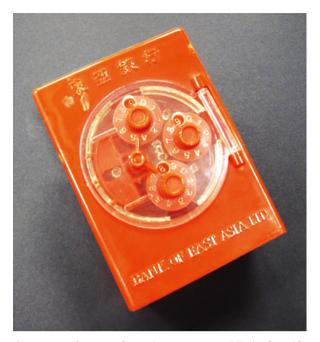
government's Pound Exchange Guarantee Scheme.² Even better for BEA was that banks were no longer categorized as 'authorized' or 'unauthorized'; BEA, which had been an 'authorized' bank and subject to tight foreign exchange restrictions, could now engage in all kinds of foreign exchange transactions freely. Leaving the sterling area certainly gave Hong Kong the freedom to develop into an international financial centre.

Industrial lending

As Hong Kong underwent its own industrial revolution in the 1950s to 1970s and 'Made in Hong Kong' products went global, BEA supported industrial development in many ways. Mr. Kan remained ever cautious when approving industrial loans. One industrialist who successfully borrowed from BEA was Mr. K. S. Lo, whose Hong Kong Soya Bean Products Co., Limited produced Vitasoy milk. He remembers gratefully how he was able in 1949 to get a HK\$400,000 loan to build a factory building in Wong Chuk Hang and buy machinery although the collateral he could offer was worth only HK\$200,000 - grateful because he knew that BEA's normal practice was to advance only thirty per cent of the collateral's value. Mr. Kan's decision to lend to a man he knew he could trust despite the shortfall in security was traditional Chinese business policy but it might also have been an important way to nurture Hong Kong's budding industries. Mr. Kan's decision was vindicated when Hong Kong Soya Bean Products became enormously successful while Mr. Lo, who joined BEA's Board in 1968, boasts that he only ever had one personal bank account, and that was with BEA.

Merchant banking and investment banking

BEA set up several wholly-owned subsidiaries to focus on diverse operations, including East Asia (Nominees) Ltd. (1955), East Asia



Customers who opened a savings account at BEA in the mid-1960s would receive a money safe as a welcome gift.

(Trustees) Ltd. (1975) and East Asia Finance Company Limited, a deposit-taking company ("DTC") in 1969 to specialize in longer-term deposits and loans. In addition, it ventured into merchant banking - taking part in syndicated loans, underwriting new share issues, offshore financing and factoring, for instance. One of its first underwriting portfolios was the Hang Lung Development's public issue in 1972, when a total of 7.2 million shares were offered to raise HK\$61 million; two much larger institutions, Wardley Ltd. and Jardine Fleming, also underwrote the issue. Ambitious to play at a higher level, BEA joined with partners who were leaders in the field, e.g. Sumitomo Bank, with which it formed Sumitomo and East Asia Ltd. in 1973, a company aimed at providing medium- and long-term financial facilities in European and Asian currencies and other foreign currencies.3 This gave BEA international exposure and experience in offshore banking, which prepared it well for Asian Currency Unit operations later.



In 1975, BEA launched the first Hong Kong dollar credit card, the East Asia BankAmericard, together with Bank of America.

Credit card - East Asia BankAmericard

Another example of moving up the league by partnering with world-class players was the Bank's participation in Bank of America's credit card operations. In 1974, when Bank of America was looking for a collaborator to issue a credit card in Hong Kong, BEA, with its wide branch network, computer capability and, above all, its brand name, fitted the bill. The East Asia BankAmericard played a big role in popularizing 'plastic money' - still a novelty in Hong Kong at the time - and exerted a profound impact on the life-styles, consumer habits and money-management attitudes of local people. By becoming a credit card authority, BEA was able to introduce the first-ever credit card to China, and became a market leader when it issued its own credit cards in Hong Kong in the late 1980s.

Branching and Computerization

The large number of bank branches spreading beyond Hong Kong Island to all parts of the Kowloon Peninsula and into the New Territories was one of the most spectacular developments in this period. BEA, after some hesitation, opened its first post-war branch in Kowloon in 1962, and true to its branching tradition, this was done in style. It

bought land on the corner of Nathan Road and Nelson Street, one of the busiest locations in Kowloon, and built a twelve-storey building. Its many state-of-the-art features included central air-conditioning and an aluminium curtain wall made of panels of a special alloy anodized by a new American process used for the first time in Hong Kong.



With the dramatic growth of manufacturing in Kowloon, BEA established a strong presence in the heart of Mongkok with the opening of its Mongkok Building in 1962.



Mr. Chan Kay-cheung

Reflection by Chan Kay-cheung

Now Vice Chairman of BEA China, Mr. Chan Kay-cheung was one of the first four young men selected to set up the new computer system for the Bank in 1968. Having only joined the Bank in 1965 and knowing very little about banking - and nothing about computers - his banking knowledge at that time was largely limited to the Current Accounts Department where he had been posted. He recalls, "I had to go from department to department to understand how they operated and how the computer could serve their needs. At the same time, I attended courses at NCR to learn computer principles and applications from scratch - from site preparation, key punching and programming to system design." It was hard work but with their enthusiasm and energy the four young men got the project up and running. He further recalls:

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We worked as a team and had a common goal. We worked overtime and through the night and at one point, we worked in shifts... we had a 'dormitory' in the bank building as we sometimes did not go home. We worked and rested together. Even on Saturdays we went out in a group. We treated the office as our home. There were only camp beds in the 'dormitory' and conditions were rough, but life together was fun.

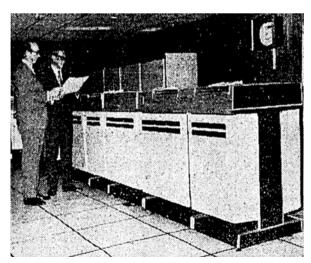
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They believed they had a mission and could not fail. They were horrified that things might go wrong. Whenever there was a breakdown, they scrambled around to trace the cause in order to solve the problem. There were countless possible causes for a breakdown – including rats gnawing at the cables.

BEA's branching movement sped up after 1968 as the management became increasingly aware of branches as the foundation for business development. More than a base to gather funds or provide safe deposit boxes, they were now seen as points to market the Bank's services and beachheads for reaching out proactively to build social as well as business connections in the community. Visiting factories, property development sites and offices within their 'jurisdiction' became routine work for branch staff.



Despite its size, the comptometer mechanical calculator was considered an advance over the abacus. BEA's frontline and back office personnel relied on comptometers until the advent of the electronic calculator in the 1970s.



The first NCR Century 200 computer in Hong Kong was installed at the Bank in September 1970.

To support the branching movement, computerization was introduced. In 1968, Mr. Michael Kan Yuet-loong successfully persuaded the Board that without computerization, it would be impossible to enlarge the branch network effectively. The Bank decided on the NCR Century 200 system as it was powerful enough to support a total of twenty-one branches and, though it was expensive, the Bank would be able to start saving money from the fifth year, and the more branches it served, the higher the savings. Soon after installing the system in September 1970, all the Head Office's savings accounts were successfully converted to it, and a month later, other branches as well. According to NCR, BEA was the first Century 200 user in the world to offer online savings services. Subsequently, time deposits, current accounts, hire purchase, installment loans and other operations were computerized as well. The system was soon upgraded to Century 201, and an NCR Criterion 8550, which could halve the processing time for the existing system and had multiprogramming capability, was added.

The installation of the NCR system consolidated BEA's position as a leader in technological innovation in the banking sector. It made possible in the short term many new services such as the automatic teller machine ("ATM") and point of sale operations which came soon after, and in the long term it laid the foundation for all the enormous changes to come in the twenty-first century.

Stock Market Development

Hong Kong in the early 1960s was in the grips of both real estate and stock mania. Increasingly, companies raised capital through a stock market invigorated by investors – small and large, newcomers and old hands. Speculation was rife. Initial public offerings were often oversubscribed and the simultaneous clearing of millions of dollars

of cheques exerted unprecedented stress on the banking system and created liquidity problems for smaller banks. One banking crisis followed another, forcing a number of small Chinese banks to collapse. Concerned with such financial volatility, the Hong Kong government invited Mr. H. T. Tomkins of the Bank of England to advise on legislation to improve on the prevailing Banking Ordinance (1948), which imposed no liquidity requirement. A new ordinance was drawn up in 1964 to address this issue, but it was not enforced in time to save Hang Seng Bank from a series of runs that only stopped when HSBC stepped in in April 1965 and bought 51 per cent of Hang Seng Bank, valued at HK\$100 million. For many local people, the takeover of one of the most successful and popular Chinese banks by HSBC, which was both a competitor and the de facto central bank expected by the public to rescue banks in distress, left a bad taste in the mouth. It sent shudders down the spine of many Chinese bankers, including those at BEA. The crisis showed that not only banks that were badly managed and under-capitalized could fail but even those that were soundly managed and solvent could fall prey to malicious rumours. In view of this, the Chinese banks clamoured even more fiercely for a genuine central bank.

Luckily, there was no run on BEA. Everyone knew it had no liquidity problem: in 1965, its loan-to-deposit ratio was 51.7 per cent, compared to 54.8 per cent of HSBC and 74.7 per cent of Hang Seng Bank.⁴ The cautious policy extended beyond loans. Even with depositors, BEA was discerning. As Mr. Li Fook-wo points out, "In dollar and cent terms, we had large accounts, but we didn't have the man in the street"; as shown again and again, it was usually the small depositors who panicked and were most anxious to demand their hard-earned savings.

In time, the new Banking Ordinance (1964) succeeded in bringing about some order in the banking system so that when the international financial crisis of 1974 led to the failure of many banks in Europe and America, not one single Hong Kong bank got into trouble.⁵

Internal Improvements

There were internal reforms at BEA, some very innovative. After an inspection tour to the United States in 1948, Mr. Kan brought home new ideas that encompassed administration, customer service and staff matters. One was the senior officers' meeting. At the first such meeting in 1949, he admitted he admired the spirit with which American banks carried on their business and wanted to model BEA after them. To compete with other banks, he argued, the cooperation of senior staff was essential, and each officer must take up the responsibility of leading his subordinates 'in combat'.6 Officers were encouraged to put forward criticisms and constructive suggestions for change. Even junior employees were invited to attend from time to time to ensure effective communication between the management and staff. It was a radically



With the rapid growth of the banking industry in Hong Kong, the Bank launched an in-house training programme in the latter half of the 1960s.

new management style, a departure from the highly centralized and top-down structure that characterized Chinese enterprises at the time. Many issues were put on the table at these meetings, including matters that were of deep concern to staff, such as the restructuring of the pension fund and staff provident fund, and medical benefits.

To cope with the growing diversity of operations, new departments were created including the Audit and Personnel departments. The latter was a feature of American banks that Mr. Kan especially admired. Since 1919, all staff matters had been handled personally by Mr. Kan, who kept a tab on every employee's work performance, personality and family situation in his head – 'like a computer', as one staff member recalls. But as Mr. Kan grew older and more new faces appeared, he realized such matters had to be managed professionally.

The Bank had always given priority to staff improvement. While staff at all levels were encouraged to study for higher qualifications, junior staff also learned on the job from their seniors and an informal 'shifu (master) and apprentice' system evolved. The shifu not only taught the mechanical aspects of work but transmitted the virtues of hard work, discipline, caring and the pursuit of excellence. Deep friendships were forged among colleagues through this learning process that built esprit de corps across ranks and departments. From 1970, in-house and formal staff training began and was thereafter constantly upgraded; in time, the high quality of staff training at BEA became legendary, as will be shown in later chapters.

Outside Hong Kong

After 1949, most foreign banks in China ceased operations altogether. BEA's



Opened in April 1921, BEA's Saigon Branch was closed following the nationalization of all private enterprise in the former South Vietnam in 1975.

Guangzhou Branch, which had not resumed operations after the war, had all its properties, including the bank premises, taken over by the government in 1958. The Shanghai Branch was allowed to continue as a private enterprise but its activities were so diminished that by the 1970s, it was merely operating as an agent for the People's Bank of China ("PBoC"), taking deposits and collecting various utility payments on its behalf. The Head Office sent money to Shanghai to sustain the branch as a private bank, a status that was to prove immensely valuable one day. It was a small price to pay for maintaining a toehold in China.

In the late 1940s, BEA looked again at Singapore – where it had a long-standing joint venture with the Lee Wah Bank – and decided to launch its own branch there. In 1952, the Singapore Branch opened on South Canal Road in a brand-new building put up by the Bank. The bulk of its business was Hong Kong-



Staff members at the opening of the Singapore Branch in 1952

Singapore remittances, foreign exchange, and bills and letters of credit for the triangular Hong Kong-Singapore-Saigon trade. From the mid-1960s, the branch grew as the Singaporean economy took off and extended its operations to financing factories, mostly owned by Japanese and Hong Kong industrialists. The Bank, seeing huge opportunities with the establishment of the Asian Currency Unit in 1968, obtained a licence from the Monetary Authority of Singapore to operate it, a line of business that would be enormously profitable. In 1974, the branch moved into a new bank building on

Market Street where the larger premises could accommodate more staff and more customers. As Singapore developed into a financial centre in Southeast Asia, BEA was able to explore emerging markets from this vantage point.

Saigon was a different story. The Saigon Branch, reopened in 1946, saw many political changes before ceasing operations in 1975, after the fall of the South Vietnamese government. Unfortunately, it only managed to officially wind up after long and difficult negotiations with the new Vietnamese government.

Changes at the Top

A number of changes at the top occurred. The loss of Mr. Li Tse-fong in 1953 and of Mr. Kan Tong-po, Chairman and Chief Manager, in 1963 was profound. Mr. Kan's son, Yuet-keung, a solicitor, replaced him as Chairman till 1984. The post of Chief Manager was filled in quick succession by Mr. Kenneth Fung Ping-fan (1963–1970), Mr. Kan Yuet-hing (1970–1972), Mr. Li Fook-wo (1972-1977) and Mr. Michael Kan Yuet-loong (1977-1981). Though each was a totally different personality, they all abided by the Bank's principles of prudence and innovation. Under them, BEA continued to sustain the image of a solid bank. The fate of Hang Seng Bank had taught them to stay prudent and vigilant. Yet, the Bank kept moving forward. As Li Tse-fong's son, Dr. Henry Li Fook-kuen, a director (1973–1993) and the Bank's doctor, observed insightfully, "Looking back, we can see great changes but at the time, the changes took place one step at a time."

Then in 1978 the Bank came upon a huge crossroads and took a giant step forward.

New Light in China

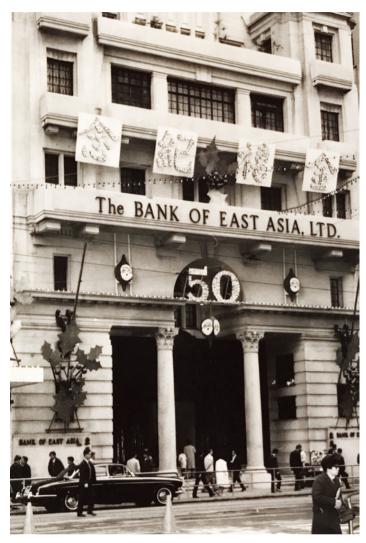
The biggest game-changer of all was China's new open economic policy introduced in 1976 and 1977. In December 1978, the Bank of China informed Mr. Michael Kan that the central government hoped BEA would reactivate the international operations of its Shanghai Branch and invited him to Beijing to meet senior Bank of China officers and government officials to discuss the matter. Enthusiastic and happy about China's opening up, Mr. Kan accepted without hesitation. This turned out to be a historic decision.

The meeting in Beijing was very fruitful and paved the way for BEA to reactivate its

operations on the Mainland the following year. After Beijing, Mr. Kan flew to Shanghai to visit the branch. When he came through the door, it was the first time since 1943 that anyone had been sent from Hong Kong. It was a 'very emotional' moment for him and for the staff members who had gone through so much during all these years.



On the occasion of its 50^{th} Anniversary, BEA established a scholarship fund for students pursuing degree courses in Hong Kong.



The Bank celebrated its 50th Anniversary in 1969.

- Wah Kiu Yat Po (華僑日報), 31 March, 1946; 'Bank of East Asia Annual General Meeting Held on Saturday', SCMP, 31 March, 1946, p. 1.
- In 1972, the US dollar was devalued and six months later, the British government announced the float of the pound sterling on 23 June. Subsequently, on 6 July, the Hong Kong government fixed the parity of the Hong Kong dollar to the US dollar as a temporary measure. On 1 January, 1973, Hong Kong was no longer included in the Scheduled Territories and became an External Account Territory. (BEA, Annual Report, 1972, p. 8).
- 3 BEA sold its shares in the company to Sumitomo in 1978 at a fair and mutually agreed price, and parted on friendly terms. This formed the basis for future cooperation.
- 4 Y. C. Jao, Banking and Currency in Hong Kong: A Study of Postwar Financial Development (London: MacMillan Press, 1974), p. 197.
- 5 Dr. David Li Kwok-po, 'Chinese Banks Play Major Role in Hong Kong's Growth', Hong Kong Trader, 5 (1982), p. 18.
- 6 BEA, Minutes of Officers' Meeting, 14 March, 1949.

SPREADING WINGS (1979–1993)

High drama filled the next fifteen years. China loomed large. Political shocks arising from the tortuous negotiations between China and Great Britain over Hong Kong's future undermined confidence in many sectors of society. In 1983, the currency crisis culminated on a Black Saturday, 24th September, when the Hong Kong dollar went into freefall against the US dollar, dropping nine per cent in one single day, and the situation only stabilized after the government took the drastic step of pegging the Hong Kong dollar to the US dollar at 7.8. Yet this could not prevent the collapse of the stock and real estate markets, and many banks and DTCs got into difficulty. In 1991, the Bank of Credit and Commerce (HK) collapsed. Even the Hong Kong government suffered three consecutive years of fiscal deficit.

People were pushed and pulled in different directions. On the one hand, uncertainty led to a huge exodus from Hong Kong. On the other hand, China was a magnet for many – from factory owners attracted by the cheap labour and cheap land across the border to bankers, local and foreign, eager to explore the immense developing market.

Amid the contradictions and crises, Hong Kong's economy, based on international trade, manufacturing, shipping and financial activities, remained robust and went into overdrive in the late 1980s and 1990s, with Gross Domestic Product ("GDP") and income per capita climbing steeply. Hong Kong contributed greatly to the 'Asian economic miracle', and by 1992 it ranked fourth among the world's largest financial centres and became one of the largest in the Asia Pacific region. The cross-border and cross-currency transactions of local banks expanded. Since 1980, the number of foreignincorporated financial institutions in Hong Kong has been larger than locally incorporated ones, offering competition as well as new ideas and chances of collaboration.

BEA went from strength to strength and spread its wings in different directions.

New Chief Executive

In July 1981, Dr. David Li Kwok-po became Chief Manager (later renamed Chief Executive). He initiated breathtaking developments, unprecedented in scale, direction and scope. The Bank's capital doubled in



On 15th October, 1983, the government announced that the Hong Kong dollar and the US dollar would be linked at a fixed rate of HK\$7.80 to US\$1.00, halting the sharp fall in the value of the currency sparked by negotiations between China and Britain over Hong Kong's future.

1981 to HK\$200 million; by the end of 1992, it was HK\$1,500 million. Capital was raised on different occasions. The most eye-catching was in August 1987, when a placement issue of new shares was subscribed to by the French bank Société Générale and China Development Investment, a Bank of China-related company; the former ended up with 5.99 per cent of the Bank's shares and the latter, 4 per cent.¹

Dr. Li's philosophy, that "banking is a matter of relationships", shaped the Bank's actions. Internally, it meant maintaining a good working relationship with his senior colleagues as he realized that running a bank could no longer be a one-man show. Teamwork was key. Accordingly, he nurtured a very tightly knit workforce through meeting senior officers every morning at 8:30 a.m. (later moved up to 8:15 a.m.) without fail. There they discussed strategies and bounced ideas off each other, and were kept informed of all the goings-on in the Bank. Such a daily early morning meeting is apparently unique to BEA.

Relationships also applied to clients: Dr. Li emphasized that the Bank should add value to its relationship with them and not just lend them money. As BEA diversified into new areas of operations such as property agency, property management, advertising, stock and futures management, and insurance, it could give them information and advice and allow them to enjoy its experience and wide network of business contacts in these areas. This was all-round service. When the Bank opened branches in North America and Britain to follow those clients who had emigrated, this network of client relationships was widened and reinforced. The network was also extended to the Mainland.

"We are not the biggest bank in Hong Kong, so we look for strategic partners", Dr. Li explains and accordingly, the Bank collaborated with institutions locally and around the world. He was eminently able to create relationships far and wide partly because of his high standing locally and internationally. His contacts around the world were phenomenal, and sitting on the board of many large companies, he had ample opportunities to hear new ideas and make new friends. His forte being match-making, he was happy to help bring parties together even when the Bank itself would not benefit, at least not immediately. "We take a long view" was



Mr. Leung Siu-hon (left) and his son, Mr. Alexander Leung (right)

Reflection by Leung Siu-hon and Alexander Leung

Relationships with The Bank of East Asia run deep in Mr. Leung Siu-hon's family. Even as a child he knew that the Kwong Sang Hong, a public listed company of which his great-grandfather was one of the founders, had accounts with BEA – as did his grandfather and father.

Later, Mr. Leung formed his own relationship with the Bank. He recalls, "When I left a large law firm in 1973 to strike out on my own, BEA gave me the break I needed by putting my firm, S.H. Leung & Co., on its panel of solicitors; only a very few solicitors were on that panel in those days. This meant that we could represent BEA in mortgage cases. This recognition

boosted the firm's business; when people saw that BEA trusted S.H. Leung & Co., they trusted S.H. Leung & Co. In turn, we refer our customers to BEA and they trust BEA because we trust it. Many people want a prudent and solid bank. They like The Bank of East Asia for its stability."

Mr. Alexander H. S. Leung, Mr. Leung's son and senior partner of the firm, chimes in, "It isn't only about stability. The Bank of East Asia is special because it is also innovative and projects a youthful image. It is rare that a bank can be stable and innovative and progressive at the same time. It has the best of both worlds."



Dr. David Li served as the representative of the Finance Functional Constituency at Hong Kong's Legislative Council for 27 years.

his mantra. Even though the match-making activities were often unprofitable in the short run, they could be extremely rewarding in the long term by laying a solid framework of inter-relationships that could come in handy in moments of need.

Empowered with a range of relationships that were strategically chosen and carefully cultivated, and emphasizing the long view, BEA was able to punch above its weight.

Equally noteworthy were Dr. Li's rising status in the community at this critical historical juncture and the impact of his public commitments. He was appointed as Vice-Chairman of the Basic Law Drafting Committee formed in 1985, whose work was to have enormous consequences for Hong Kong politics after 1997. Besides giving him special access to senior Mainland officials and insights into different aspects of the country's development, the appointment enabled him to really understand the concept of 'One Country, Two Systems' and develop a vision of its possibilities for the Bank, Hong Kong and China for the coming decades.

He served as Chairman of the Chinese Banks' Association and, after LegCo was reformed, was returned unopposed as the representative of the Finance Functional Constituency in 1985; he

continued to hold the seat at every subsequent election until he retired in 2012. As the voice of local banks, he tirelessly pushed for change. Three imperatives underlined the demand for reform: the need to reduce the risk of bank failures and protect the public purse; to establish Hong Kong's position as a financial centre as China opened up; and to reduce colonial influence over the banking system. There were longstanding systemic problems that needed radical and comprehensive solutions; otherwise, disasters such as the collapse of the Bank of Credit and Commerce (HK) - or going even further back, HSBC's takeover of Hang Seng Bank in 1965, an event that continued to haunt Hong Kong's collective memory - would recur to disrupt the territory's markets and rob it of the advantages that the many exciting opportunities could offer. Dr. Li pressed hard for the establishment of a central bank in Hong Kong that could function as an independent bank regulator, a discount window and a lender

Opening of New Head Office Building



By the 1970s, the Bank needed more space for its growing operational demands. In its brief to the architects, Palmer and Turner, the Bank requested a new building that had a 'bold, solid, and durable look'. For a third time, the Bank's Head Office site was redeveloped. The Bank's current, 23-storey building was opened in 1983 with Hong Kong Governor Sir Edward Youde presiding as Guest of Honour at the grand opening ceremony.

of last resort, in addition to an independent clearing house and other reforms that would create a safer, more robust banking system and, as crucially, a level playing field.

In 1993, the *de facto* central bank, the Hong Kong Monetary Authority ("HKMA"), was established with the power of lender of last resort. Then followed a slew of major reforms, long advocated by Dr. Li, that would radically transform the whole banking system, as will be shown.

Clearly, Dr. Li not only invigorated BEA but also, more broadly, helped make the banking system stronger to cope with – and take full advantage of – all the big changes that were to come.

New Operations

The Bank entered new fields of operations including leasing, unit trusts, property agency and insurance.

BEA first entered the insurance field by forming East Asia AEtna Insurance (Bermuda)

Co. ("East Asia AEtna") with AEtna International Incorporation ("AEtna International" a subsidiary of AEtna Life and Casualty, the largest publicly-traded insurance company in the United States), each owning 50 per cent. East Asia AEtna, though incorporated in Bermuda, was located in Hong Kong where it did well in the newly blooming insurance market, specializing in life, disability, group life and pension products. In 1987, to expand marketing opportunities and product offerings, East Asia AEtna and AEtna International acquired a 55 per cent interest in Blue Cross (Asia-Pacific) Insurance Ltd. ("Blue Cross"), which held a composite insurance licence offering health and general insurance products and was, moreover, the leading travel insurer in Hong Kong. Through this acquisition, BEA and AEtna International each held 10 per cent of Blue Cross through East Asia AEtna; AEtna International held 35 per cent directly. In 1991, the three companies took over Blue Cross completely by buying the remaining shares. BEA now held 50 per cent of Blue Cross (including 15 per cent through East Asia AEtna) as did AEtna International. In 1999, the Bank sold its stakes in East Asia AEtna to AEtna International while it bought the other 50 per cent of Blue Cross from AEtna International.²



BEA established East Asia AEtna Insurance (Bermuda) Co. with AEtna International Incorporation, marking its entry to the insurance industry.



Dr. K. S. Lo

Reflection by Winston Lo

In 1949, Dr. K. S. Lo, the founder of Vitasoy (Hong Kong Soya Bean Products Co., Ltd.), received a HK\$400,000 loan from The Bank of East Asia to build and equip a modern factory. He was lucky to get it because he didn't have the normally required collateral. The loan was nevertheless approved by Mr. Kan Tong-po, who had watched Dr. Lo grow from a university student to an aspiring industrialist and had confidence in him. "My father's trustworthiness was the highest-quality collateral", remarks Dr. Lo's son, Mr. Winston Lo, almost seventy years later. "The best security is not a material asset but a bank's understanding of its customers. Mutual trust matters above all else." The loan set Vitasoy on the path of expansion: three more factories were built in the following decades, all with BEA's support. Like BEA, Vitasoy became one of Hong Kong's biggest success stories.

In 1979, Vitasoy considered investing in a dairy farm in newly-opened China. "My father was passionate about saving the country by industry (實業救國) but he knew nothing about the Mainland. BEA provided information and advice and told us what the risks were. When we decided to go ahead, it gave us a huge loan, over HK\$20 million, based on its trust in us and China."

With capital and technological and management support from Vitasoy – and 1,200 head of pedigree cattle from New Zealand – the Shenzhen Guangming Farm developed from a small village into a major modern community. Mr. Lo talks about the venture with great satisfaction. "If not for BEA's support, we would not have been as successful."

BEA's engagement in the stock, futures and trust fund markets also expanded. At first, BEA handled clients' stocks and shares through its nominee companies and helped clients buy and sell shares through its Securities Department. As the business volume swelled, BEA streamlined the operations by forming three companies: Tung Shing Securities Co. Ltd. ("Tung Shing Securities"), Tung Shing Futures Co. Ltd. (later changing its name to East Asia Securities Co. Ltd. and East Asia Futures Ltd.) and East Asia Asset Management Co. Ltd. ("EAAM"). In 1992, Tung Shing Securities was granted dealer status in the stock exchanges of Shenzhen and Shanghai for 'B' shares.

In 1989, BEA formed EAAM to launch its own unit trusts and give institutional, corporate and private clients an innovative investment-driven service. Among the funds it managed was the Great Dragon Fund, a close-ended China investment fund which invested in listed securities and unlisted businesses in China, Hong Kong and Macau.

Its computer system, among other things, enabled BEA to offer ATM services as early as December 1981. Soon afterwards, BEA initiated the establishment of the Joint Electronic Teller Services Limited ("JETCO"), Hong Kong's first interbank network of ATMs shared among BEA, Shanghai Commercial Bank, Wing Lung Bank and Chekiang First Bank. JETCO was conceived as a win-win strategy. Dr. Li was elected the first chairman for two years. The network was greatly reinforced when the Bank of China Group with its many outlets was admitted as a Founding Member.

Technology: From NCR to IBM

The Bank finally switched over from the NCR to the IBM system in 1985³ to cope with other facets of operations such as online bills, foreign exchange/money markets, SWIFT

(Society for Worldwide Interbank Financial Telecommunications) interface and general ledger systems. The move was also needed in order to integrate the existing applications into a total database management system. In short, the Bank had to leap into the future and Dr. Li pushed passionately for change.

Outside Networks

BEA began spreading its wings as banking became more global and BEA's own operations more international.

The Bank broke into the North American market first by opening a branch in New York in 1984 with a federal licence. Two years later, it opened a branch in Chinatown to offer retail



Opened in 1990, London Branch serves an important role in the Chinese community in the United Kingdom.



BEA extended its operations to the US West Coast with the opening of Los Angeles Branch in 1991.

banking services to the Chinese community, which was growing in wealth and sophistication. In 1991, Los Angeles Branch was opened. BEA's adventure in the United States is discussed more fully in a later chapter.

The London Branch opened in 1990 on Shaftesbury Avenue near Chinatown. With London being the world's financial centre, the Bank could enhance its international standing with a branch there, and practically, the London and New York branches enabled the Bank to cover the foreign exchange markets around the clock. London Branch became very popular with customers who had come from Hong Kong, Southeast Asia and, later, China.

In Canada, BEA established a wholly-owned subsidiary, The Bank of East Asia (Canada) ("BEA Canada"), and opened the first branch in Toronto in 1992.

An offshore branch opened in the Cayman Islands in 1986 and was managed by the Cayman National Bank.

China Opening

Even as the Bank was expanding overseas, it was busy in China.

In early 1979 the Bank reopened operations on the Mainland, in the selfsame Shanghai Branch building in Puxi that had maintained an unbroken presence in that city since 1927. Mr. J. Y. Woo, a long-time member of the Shanghai staff, was named Branch Manager, while Head Office sent senior staff on a three to six months' rotation basis to help develop business, beginning with bills operations, and familiarize themselves with China. When Mr. Woo retired in 1984, Mr. Yu Hok-keung, who had been on several rotations in Shanghai, succeeded him as Manager.

BEA brought new ideas and practices to China at a time when the country was undergoing fundamental changes and reconnecting with the outside world after many years of isolation. This included introducing the first

China to honour US credit cards

The Bank of East Asia and the Bank of China have reached agreement that, effective from January 1, both East Asia BankAmericard/ VISA and East Asia Bank of America Master Charge credit cards will be honoured at the Bank of China's Shanghai Branch.

The cards will also be honoured, at the Friendship Store, Jing Jiang Hotel and the Overseas Chinese Hotel in Shanghai.

In view of the pricing poli-

In view of the pricing policy prevailing in China, a spokesman for the Bank of America and Bank of East Asia yesterday said there will be no mark-up on the price of the goods to allow for the acceptance of the cards, but card-holders will have to pay a small commission when using their cards.



BEA paved the way for foreign credit cards to be used for payments on the Mainland.



Opened in 1985, Shenzhen Representative Office was upgraded to a full service branch two years later.

credit card in China. This was such a novel device that the authorities gave permission for its operation despite reservations only because they trusted BEA's effectiveness and looked upon it as a friend that had China's interests at heart. BEA was moreover instrumental in enabling China's first joint-venture when it formed Beijing Air Catering Limited together with the Civil Aviation Administration of China, Hong Kong's Dairy Farm and Jamestown Investment (an associated company of Hong Kong's Maxim's).

The operation in China was still small in 1979 but Dr. Li was extremely upbeat about the country's economic potential. Indeed, during the next few years, great progress was made. From 1984, the Bank adopted an aggressive strategy in China, intent on taking quick advantage of every opportunity offered by a policy change and staying ahead of other foreign banks. A China Division was created at Head Office. Mr. Yu strengthened

the Shanghai Branch by streamlining the management to boost efficiency. Staff training was rigorous; it became legend that Mr. Tang Sing-yu, Shanghai Branch Manager from 1991, 'trained the staff like an army'. Since working for a foreign bank was the aspiration of many young people at the time, BEA was able to recruit bright and motivated talents. Many of the local recruits rose to senior positions and formed the vanguard for the Bank's rapid growth in China in the coming decades.

With this new, dynamic and visionary approach, BEA did big things. When the private property market emerged, BEA became the first foreign bank to engage in property financing, offering property mortgage loans on Shanghai flats sold to Hong Kong and foreign buyers. Its overseas branches supported the operation by enabling customers living abroad to buy property in China in hard currency. BEA also invested directly in the property market: the Bank of China Tower in the Pudong New

Area, Shanghai, built in collaboration with the Bank of China and others, was one of its iconic projects. In property agency and property management too, BEA took the lead.

From 1991, BEA provided loan facilities to state import/export corporations. Marketing activities were expanded to sell the Bank's loan services beyond Shanghai itself to places such as Hangzhou and Nanjing, and even as far afield as Qingdao and Dalian.

Other branches followed. In the Shenzhen Special Economic Zone ("SEZ") BEA opened a representative office in 1985; this was a prerequisite step toward a full branch, which opened in 1987. In Guangzhou, a representative office was opened in 1987 and was upgraded to a branch in 1992. With Guangdong being the fastest-growing province in terms of foreign investment, these branches, which had first focused on trade finance, soon turned their attention to the flourishing property mortgage, management and agency businesses. BEA contributed greatly to real estate development on the Mainland by setting high standards in terms of building quality, developers' credibility, complete documentation and legal compliance.

The Xiamen Branch opened in 1991; remarkably, it was not first required to go through the representative office stage. BEA captured the Taiwan-to-Xiamen remittance business and facilitated Taiwanese industrialists in many ways. In April 1993, BEA finally opened a representative office in Taipei to strengthen the Hong Kong-Mainland-Taiwan triangular connection.

The representative offices and branches were useful bases for building relationships with local banking authorities and monitoring local markets. When the Shenzhen stock market was forecast to open, BEA led the field by forming the first joint-venture finance company in China, namely China International Finance Company Limited (Shenzhen), with four foreign partners. In Shanghai, BEA formed the first joint-venture finance company with the Bank of China, Bank of Communications and Sanwa Bank in 1990.

To boost China's technology development, BEA brought together Shenzhen University and IBM to form the International Software Development (Shenzhen) Company. This may be seen as the start of Shenzhen's development as China's tech hub.

Bank of East Asia to open Taiwan office

BY PATRICIA KUO

IN TAIPEI

TAIWAN'S Mainland Affairs Council (MAC) and the Finance Ministry have approved the Bank of East try have application to set up a representative office in Taipei.

Finance officials said the office is expected to be established by the end of February.

It is the first time that the Taiwanese government has allowed a foreign bank with mainland Chinese funds to operate in Taiwan.

The Finance Ministry said it had approved the application because, according to official documents on the mainland, the Bank of East Asia is not included in Beijing's government control list.

"As far as we know, a representative office can only collect relevant materials and work as a liaison for its headquarters," Ma Ying-jeou, vice-chairman of the MAC, said.

"We think it is all right for us, after all, it is only a representative office and it cannot operate retail banking business here," he said. Ma added that if the Bank of East Asia wanted to upgrade its presence in Taiwan to branch status, its background and investments would be subject to careful scrutiny.

According to Article 73 of the Taiwan-mainland Relations Act, a foreign institution which is more than 20 per cent owned by the mainland will not be allowed to open a business in Taiwan.

"Most of this bank's stock is actually managed by a holding company, whose background and investors are still unknown to us. "If they want to have a branch of Bank of East Asia here, we would have to take this into account," said Ma.

 The MAC said it approved the bank's application as it expects to receive reciprocal approval for Taiwanese banks by the Hongkong Government.

Many banks from Taiwan have met with discouraging responses when attempting to gain access to Hongkong either as a representative or branch bank.

Taipei Representative Office opened for business in 1993.



The Bank celebrated its 70th Anniversary in 1989.

By late 1980s, BEA was already an 'old China hand', capable not only of running its own business but also eminently able to provide investment consultancy service to others – offering introductions to prospective partners for joint-venture businesses, giving advice on suitable locations, compiling project feasibility reports and assisting in negotiations with business partners and government bodies. Many clients entered the China market with BEA's advice; some, such as Avon Products, an American cosmetics company, became amazingly successful.

BEA's match-making functions took new directions when China was ready to go out

to the world. Matching China Resources (Holdings) Co. Ltd. with Siam Cement of Thailand and Onwel Strategic Holdings Limited to form China Resources Siam Trading Ltd. was an early example. It also facilitated Chinese enterprises buying into foreign companies, e.g. China Merchants Group's buying into Modern Terminals and CITIC's purchase of Ka Wah Bank.

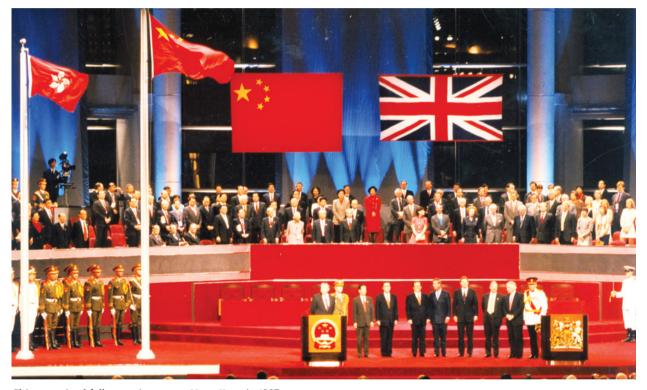
By restarting operations in a new China, BEA ushered in a new era. Yet, it was also reviving something old – its founding mission to help China become strong in the modern world.

- 1 Christopher Marchand, 'BEA New Issue Signals Growth', SCMP, 15 August, 1987.
- BEA, Staff Newsletter, November 1991, p. 4; Eva To, 'Aetna to Buy 50pc Stake in Blue Cross', SCMP, 28 January, 1987; Peter Moreira, 'Bank of East Asia, Aetna Buy Blue Cross', SCMP, 28 September, 1991; 'Bank of E. Asia Details Aetna JV Deals', Reuters News, 22 December, 1999; Enoch Yiu, 'Insurance Bank of East Asia Begins Plan of Expansion on Services Range', SCMP, 28 August, 2000.
- 3 BEA, Minutes of the Board Meeting, 1 April, 1985.

PART III

1994-2000

PROLOGUE



 $China\ regained\ full\ sovereignty\ over\ Hong\ Kong\ in\ 1997.$

BEA entered its seventy-sixth year in 1994. It was a good year. Still riding on the wave of the 'Asian economic miracle', it announced an increase in profit of 38.6 per cent compared to the previous year. But during the seven years that followed, it was to face unprecedented challenges and risks and many ups and downs, including a big drop in profits in 1998 to 1999, partly as a result of the Asian

financial crisis that swept through Hong Kong and the region.

The fluctuation of profits aside, more fundamental developments marked this period. The Bank grew in capital size through old and new sources of funding, and became the biggest local bank in Hong Kong as measured by assets, capital and profitability

in 1996 and the following years. It acquired two whole banks, United Chinese Bank and First Pacific Bank.

On the technology front, it shot ahead of the pack. It rolled out Cybertrading, the first internet trading service in Hong Kong, in June 1999 when the securities market was growing exponentially. It launched Cyberbanking in September of that year, the city's first comprehensive internet banking service. While reinforcing BEA's reputation as an innovative enterprise, these developments also enabled it to win market share and to serve customers better.

China, where the Bank had a special edge, continued to offer endless possibilities and unpredicted risks. While always looking to maximize profits there, the Bank was also mindful of the need to help develop China's market. In Hong Kong, the branch network expanded to cover the territory more comprehensively; toward the latter part of this period, rethinking the role of branches began, and a roadmap, in the form of the performance improvement diagnostic review by A. T. Kearney, guided the process. In the long run, the review was to change the organizational structure, fundamental mindset and culture of BEA. Paradigm shifts in management and operations also occurred under new regulations and supervision with the founding of the HKMA in 1993.

Flexibility, diversification and innovation became buzzwords as the Bank learnt to play in a financial market that was not just growing in scale and sophistication but also was undergoing profound structural change.

CHAPTER FIVE

OVERVIEW: HONG KONG AND THE WIDER WORLD (1994–2000)

66

The date 1997 to us is not a barrier. It is an opportunity.

- Dr. David Li Kwok-po¹

Conditions in Hong Kong and around the world formed the backdrop to BEA's many vicissitudes in the final decade of the second millennium. The world was globalizing quickly on every level. The amazing growth and restructuring of Hong Kong's financial market, the proliferation of new financial products, rapid progress in information technology and new regulatory regimes all made for a more complex banking environment. More than ever, Hong Kong was becoming an international financial hub, and, always in the background, was China's ever-broadening influence.

In 1994, like other countries in the region, Hong Kong was enjoying the 'feast of prosperity' which had begun a decade earlier. The so-called 'Asian economic miracle' in Hong Kong, Singapore, Malaysia, Thailand, Indonesia and South Korea was in full swing as liberalization measures such as falling barriers to international trade drove the economies

New wealth fueled an investment boom in commercial and residential property, industrial assets, and infrastructure in many cities, particularly in Hong Kong and Bangkok, as well as the stock market. Hot money poured into the region from everywhere, much of it coming through Hong Kong, further raising its status as an international financial hub. Foreign banks rushed in too. The number of overseas-incorporated banks operating in Hong Kong rose from 134 in 1994 to a peak of 151 in 1996 before falling to 138 in 2000. Of the world's top 100 banks, 79 had operations in Hong Kong.³ With one bank branch for every 4,000 people in Hong Kong at the end of 1998 as compared to one for every 6,000 to 7,000 in Britain, it was no wonder that Dr. Li described the territory as 'over-banked'.4

With the feel-good factor all around and lenders happy to keep lending as long as property prices and stock prices kept going up, the market was buoyant even with the Handover approaching. On 30th June, 1997, in an emotional ceremony, the Union Jack was lowered at midnight and the Chinese flag raised, marking the end of over 150 years of colonial rule in Hong Kong. Ordinary citizens glued themselves to the television to witness this momentous event, many, no doubt, with mixed feelings.

Curiously, the change of sovereignty did not create as much anxiety in the market as had been feared; much of the Handover-related uncertainty had been digested or discounted in the preceding few years. Many who had migrated in the 1980s to escape that unknown future had returned before 1997 to resettle in Hong Kong. Rather, it was a much less expected event - the Asian financial crisis that wreaked havoc in the markets around the region. Property and stock prices, which had rocketed to record highs, started to tumble and stayed low for much of 1998. Unfortunately, much of the boom had been financed with borrowed money, and most unfortunate of all, borrowed in US dollars.⁵ As foreign funds fled, Hong Kong in particular came under intense speculative attacks against its stock market and currency, necessitating unprecedented market interventions by the Hong Kong government. Late 1997 and 1998 were very difficult times for all sectors and in 1998 Hong Kong slipped into recession for the first time in thirteen years. The GDP contracted by 5.7 per cent in the first three quarters and unemployment rose.

Growth of Hong Kong's Financial Market

Booms and busts aside, Hong Kong's financial markets were growing more sophisticated and internationalized. Important reforms had been taking place since the late 1980s. The closing of the Hong Kong stock market in the wake of the October 1987 global

market crash was a wake-up call to the fact that the concept of self-regulation and market discipline had failed in Hong Kong and intervention was sorely needed. This prompted the establishment in 1989 of the Securities and Futures Commission ("SFC"), which imposed regulations to correct defects and introduce reforms, the most significant and comprehensive being the merging of the Stock Exchange of Hong Kong Limited ("SEHK"), the Hong Kong Futures Exchange Limited ("HKFE") and the Hong Kong Securities Clearing Company Limited ("HKSCC") to form a new company, the Hong Kong Exchange and Clearing Limited ("HKEX") in March 2000. The subsidiary companies were demutualized and the HKEX became a conventional joint-stock company and one of the first exchanges in the world to go public. The modernizing reforms enhanced Hong Kong's competitiveness in an increasingly global financial market, opening up an arena that was vibrant yet safe and strong enough to attract big players from China and overseas.

The range of products traded on the SEHK and the HKFE continued to expand, adding options, stock futures, rolling foreign currency futures, warrants, unit trusts and debt securities. Echnological advancements helped to manage – and even stimulated – growth in the volume of transactions. In 1999, a second Board – the Growth Enterprise Market ("GEM") – was introduced to the SEHK, and soon caught up with the global tech boom.

The growth was astounding. At the end of 1991, 310 companies were listed on the SEHK, with a combined market capitalization of around HK\$805 billion; in 2000, there were 790 public companies with total capitalization of HK\$4,862 billion.⁷ The daily turnover in the market increased 59 per cent to HK\$12.3 billion in 2000, compared to HK\$7.8 billion in 1999. The Hong Kong stock market ranked tenth in the world and second in Asia.



The founding of Hong Kong Exchanges and Clearing Limited in 2000 gave Hong Kong's securities industry a strong foundation to support future growth.

In the meantime, Hong Kong's debt market developed into one of the most liquid markets in the region. Besides the Exchange Fund Bills and Notes issued by the government, there were bonds issued by government-owned corporations such as the Mass Transit Railway Corporation ("MTRC") and Airport Authority; private sector Hong Kong dollar debt issues hit a record high of HK\$180.6 billion in 2000. At the end of 2000, a total of 240 debt securities were listed on the SEHK.

Hong Kong's foreign exchange market continued to mature and grow. In April 1998, a survey showed the daily average foreign exchange turnover in Hong Kong to be HK\$78.6 billion, representing four per cent

of the world's total transactions and making Hong Kong the world's seventh largest forex market.⁸ Though a small territory, Hong Kong had a foreign exchange reserve that ranked fourth in the world (or second in the world on a per capita basis).

The fund industry and insurance industry expanded too. In 2000, 150 intermediaries were registered to act as portfolio managers, most of whom were subsidiaries or affiliates of international groups; there were 205 authorized insurers at the end of 2000, with 105 of them coming from overseas and the Mainland. All this stimulated the Hong Kong market, presenting both challenges and opportunities for BEA.



Shenzhen Branch

Hong Kong in China and China in Hong Kong

China drove much of the growth in the Hong Kong economy. The demand for banking services on the Mainland grew with the implementation of infrastructure projects, expansion of the manufacturing sector, property development, and perhaps most unexpected of all, the appearance of stock markets and the new corporations that were listed on them. In 1990, stock markets, arguably the most capitalist of institutions, were opened, first in Shanghai in November – after a hiatus of forty-one years - and then in Shenzhen in December. Two types of shares were initially traded: A Shares, in renminbi ("RMB"), for domestic investors and B shares in foreign currencies (US dollars in Shanghai and Hong Kong dollars in Shenzhen) for foreign investors. By the end of 1998, the number of listed companies on the two stock exchanges had increased to 851. The market value of listed companies' shares amounted to almost RMB2 trillion, equal to 25 per cent of China's national output. The demand for foreign capital from these companies stimulated BEA's operations in China and Hong Kong.⁹

To serve the market economy, more banking reforms were introduced in China. In 1993, the PBoC, which had been designated the central bank, was given more autonomy, and the four specialized banks were transformed into commercial banks. New commercial banks emerged in the 1990s as corporations with shareholders and boards of directors. In the late 1990s, these banks accounted for about 15 to 20 per cent of loans and 8 to 10 per cent of deposits. In the meantime, the RMB's gradual devaluation to more realistic levels¹⁰ greatly helped international trade, foreign investment and tourism. In 1996, the Central Government issued licenses to the first batch of foreign banks to do RMB business, further liberalizing the use of the Chinese currency. In 1999, China was ranked third in the world in attracting foreign direct investment.

Foreign investors were impatient to enter the China market. Despite many setbacks, it was clear that the market would be opening further. In the late 1990s China announced its Western Development plans, allowing foreign businesses to move away from the coastal regions. The prospect of China joining the World Trade Organization in 2001 made the China market even more seductive.

BEA, HSBC, Standard Chartered and other Hong Kong banks expanded their operations in China, and banks from other countries including Japan and the United States followed, all seeking to be 'the first' to make the next big move there.

An estimated 25 per cent of Hong Kong's money basis was circulating in southern China, leading some writers to claim that the border between Hong Kong and Mainland China had disintegrated even before 1997. Within Hong Kong itself, the presence of the Mainland was felt on every level. Putonghua (Mandarin) was increasingly heard – so much so that BEA emphasized Putonghua training among its staff. Chinese banks were moving into Hong Kong, creating synergy as well as competition: in 1994, there were fifteen licensed banks whose country of beneficial ownership was China; in 2000, there were nineteen, including some heavyweights.

The rising profile of the Bank of China ("BOC") was particularly eye-catching. In 1994, the Bank of China (Hong Kong) joined HSBC and Standard Chartered to become Hong Kong's third note-issuing bank. As such, it became one of the continuing members of the Committee of The Hong Kong Association of Banks ("HKAB"), rotating with the other two banks as Chairman of the Committee. The BOC Group comprised thirteen member banks in Hong Kong, of which eight were 100 per cent owned by BOC and four were locally incorporated. The member banks were well networked, especially through JETCO, as we have seen, along with other banks, including BEA. Becoming the third note-issuing bank

had real and symbolic significance¹² and its role as a big player was certainly made very clear.

China's presence was felt in the Hong Kong stock market, where Chinese companies were listed in fast-growing numbers. In July 1992, the first Hong Kong-incorporated Mainland enterprise (or 'red chip') listed its shares through an initial public offering ("IPO") on the SEHK, and in the following year, the first H-share company (a Mainland-incorporated enterprise), Tsingtao Brewery, started trading in Hong Kong. This signaled a powerful trend in the border-crossing of financial resources, a boon for banks that profited from their securities services, as well as for the arranging of IPOs. In 2000, funds raised in H-shares and red-chips markets amounted to HK\$334 billion, accounting for 74 per cent of the total funds raised in Hong Kong during the year.¹³

Structural and Institutional Banking Reforms

Major and fundamental structural and institutional reforms were introduced throughout the 1990s; indeed, the magnitude of the reforms cannot be emphasized enough.

Hong Kong banking, up to 1993, had been very free, though not completely unregulated. Banks that were listed companies followed the rules and regulations of the SEHK; as banks, they came under the Commissioner of Banking, and restrictions were relatively few and relatively lightly enforced. Longstanding systemic weakness and the financial turmoil in the 1980s, largely related to the uncertainty of Hong Kong's future, had prompted the colonial government to strengthen the existing central banking functions as a means to ensure the exchange rate and banking stability in the run-up to 1997, and to provide a tighter framework for banking operations. The HKMA,

a *de facto* central bank, was established in 1993 by combining the Office of the Exchange Fund and the Office of the Commissioner of Banking.¹⁴ Dr. Li, who held the seat for the Finance Functional Constituency in LegCo from 1985 to 2012, was instrumental in shaping many of the reforms during these two decades.

The HKMA performed a wide range of traditional central bank functions, such as the conduct of monetary policy, maintenance of exchange rate stability, prudential supervision of banks, custody and management of foreign exchange reserves, and so on.¹⁵ Just as notably, it functioned as a lender of last resort, a facility that local banks, which had from time to time faced liquidity crises, had long demanded. Local bankers, remembering in particular the 1965 bank run that forced the hugely successful Chinese-owned Hang Seng Bank to become a subsidiary of HSBC, were convinced that with a lender of last resort such crises might have

been avoided. In 1995, the HKMA gained the authority to take control of a problem bank. A discount window to provide overnight liquidity to facilitate interbank payments was introduced in 1998. Another example of reducing the dominance of colonial banks was the founding of Hong Kong Interbank Clearing Limited ("HKICL"), a private company jointly owned by the HKMA and HKAB, in May 1995, to take over in phases the clearing functions provided by the former Management Bank of the Clearing House, HSBC, the process being completed in April 1997. Dismantling the special position held by large colonial banks and transferring authority to the HKMA mirrored the transfer of political sovereignty in the Handover. These reforms provided a strong safety net for all stakeholders while creating a more level playing field: a level playing field was the dream of every local banker, and Dr. Li, as their representative, had clamoured tirelessly for it. The strength of the reforms was tested and proved itself in the



The Hong Kong Monetary Authority was established in 1993.



Dr. David Li was instrumental in shaping many of the reforms in Hong Kong's financial sector during his service in the Legislative Council from 1985 to 2012.

aftermath of the Asian financial crisis. No Hong Kong bank ran into trouble and the industry rebounded strongly after an initial sharp decline. The collapse of the Bank of Credit and Commerce (HK) in 1991 was, thankfully, the last bank collapse in Hong Kong.

Besides keeping the system safe, the HKMA liberalized the market by deregulating interest rates in a series of steps between 1994 and 2001, when interest rate rules were abandoned completely. (The interest rate on bank deposits in Hong Kong had been regulated since 1964 by a set of interest rate rules ("IRRs") issued by the HKAB.) This liberalizing measure left individual banks to determine interest rates for retail time deposits with far-reaching consequences, as banks competed for deposits by offering ever-higher interest rates. The HKMA also

opened up the money market by extending the services of the Central Moneymarkets Unit ("CMU") to private sector debt instruments, so that instruments of acceptable credit quality were given eligibility for tapping funds under the liquidity adjustment facility ("LAF") it operated. It introduced real-time gross settlement ("RTGS") for interbank payment in order to eliminate settlement risks. In addition, it formed the Hong Kong Mortgage Corporation ("HKMC") in 1997 by accepting mortgage-backed securities.

The HKMA continued to expand as a regulator and supervisor of banks on the macro and micro levels. In particular, it made rigorous efforts to stay abreast of changing international standards and requirements in order to consolidate Hong Kong's position as an international financial centre. Inevitably,

the HKMA had a huge impact on Hong Kong's banking system as a whole and on individual banks – BEA was no exception.

In these times of phenomenal changes, the Bank changed too. In the following chapters we will see how it grew and profited and changed – structurally, operationally, technologically, even culturally – to make the most of opportunities and always, to seek ways to do better.

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- 2 Alison Warner, 'A Harsh Awakening', The Banker, 145.829 (March, 1995), p. 51.
- 3 'Hong Kong as an International Financial Centre', Hong Kong Yearbook, 2000 (http://www.yearbook.gov. hk/2000/eng/05/c05-01.htm).
- 4 David Saunders, 'SAR Bad Loans Could Double Warns BEA Chief', SCMP, 2 December, 1998.
- 5 Charles W. L. Hill, University of Washington 'The Asian Financial Crisis' (http://www.wright.edu/~tdung/asiancrisis-hill.htm).
- 6 Hong Kong Stock Exchange, Glimpses of the Past, May, 2011; 'Financial Services': Hong Kong Fact Sheet, 2000/01.
- 7 'Hong Kong as an International Financial Centre'.
- 8 'Hong Kong as an International Financial Centre'.
- 9 Gregory Chow, China's Economic Transformation (Malden, MA: Blackwell Publishers, 2002), pp. 231-232.
- 10 Gregory Chow, China's Economic Transformation, pp. 200, 297.
- 11 Alison Warner, 'Border Meltdown', The Banker, September, 1994.
- 12 Alison Warner, 'Border Meltdown'.
- 13 'Hong Kong as an International Financial Centre'.
- 14 The remaining part of the former Monetary Affairs Branch was re-organized into a new Financial Services Bureau, which was mainly responsible for the supervision of non-bank financial institutions and securities markets. See Y. C. Jao, 'Financial Reform in Hong Kong', in Maximilian J. B. Hall, ed., *The International Handbook on Financial Reform* (Northampton, MA: Edward Elgar Publishing, 2003), pp. 113-133, p. 114.
- And yet, the HKMA was not a full-fledged central bank in that it did not issue legal tender notes (except for HK\$10) and did not require commercial banks and other depository institutions to keep with it non-interest bearing reserves, other than a positive balance in their clearing accountings. Moreover, under the linked exchange rate system, the HKMA could not conduct monetary policy independently of the Federal Reserve System of the United States.

CHAPTER SIX

PROFIT AND GROWTH

In 1996, *The Banker* ranked BEA as the top bank in Hong Kong in terms of capital, assets and profitability, a position it maintained until 2002. Its world ranking rose from 313th in 1995 to 190th in 2000.¹

As Hong Kong, China, the region and the wider world experienced unprecedented changes in the 1990s, BEA also experienced unprecedented growth and transformation. It moved ahead, honing new skills, seeking new niches, and carving out a place for itself in the world banking arena.

For a number of years, the Bank was making very good profits – so much so that by 1998, everyone, including shareholders and analysts, seemed to take such high profits for granted. (see table on profits). However, the 1998 results were a big disappointment – there was no loss, just a smaller profit – quite remarkable for a really devastating year.

Table 3.1: BEA's Profits 1994-2000

	Operating profits before provisions (in HK\$ millions)	Operating profits after provisions (in HK\$ millions)	Profits after taxation (in HK\$ millions)
1994	1,565	1,415	1,542
1995	1,899	1,758	1,641
1996	2,373	2,116	1,880
1997	2,710	2,418	2,075
1998	2,514	1,049	812
1999	2,759	544	1,481
2000	2,871	2,190	1,891

Buoyant property and stock markets and active retail and construction sectors contributed to profits in the earlier years.2 However, as mortgage loans formed the basis of the Bank's income, any hiccup in that area could affect earnings critically, and the property market crash that started in late 1997 did a lot of damage. Other bad loans, including those for trade financing in Southeast Asia and project financing in China, necessitated rising provisions. In 1999, the provisions reached a staggering HK\$2,215 million. The Bank was able to return a healthy profit again in 2000 - with provisions being a mere HK\$681 million. In the meantime, many important lessons were learnt.

Indeed, behind the story of rising and falling profits is a more exciting story of innovation and adaptation, challenge and solution, risk-taking and prudent management. There was also the recognition that though the Bank was doing well, it could do even better, and appointing a consultancy firm to do a 'full check-up' of the Bank's operations was a bold step to seek improvement.

These themes are constant themes in the history of the Bank. In constantly asking how it can do better, it never stands still.

Capitalization and Assets: How to Become Bigger?

Perhaps it is the natural instinct of businesses to grow as long as the conditions are right. But in the 1990s, one may say, it was imperative for BEA to grow. Dr. David Li Kwok-po, recognizing this as a period of takeovers and mergers - "a period of consolidation in the banking sector in the run-up to 1997" - admitted feeling a constant need to guard against big bank groups, as he told the South China Morning Post.3 Thus, growth was a survival mechanism. As always, Dr. Li was mindful of the 'unlevel playing field' in Hong Kong with the existing banking practices favouring certain banks.4 This view had been held by BEA since its inception and the sense of mission to redress the situation remained strong. Faced with such threats, short-term and long-term strategic planning for growth was vital.

It was necessary to expand the capital base in order to exploit opportunities emerging on the horizon, especially in China. Capital was needed too to catch up and lead in technological developments to enhance the Bank's many services. There was pressure from the HKMA, which, among other things, expected all banks to build an effective management information

Table 3.2: Growth in shareholders' funds, consolidated assets and staff number

	1994	2000
Shareholders' funds (in HK\$ millions)	9,099	17,307
Consolidated assets (in HK\$ millions)	79,667	179,168
Staff number	3,047	5,095

Bank of East Asia ready to reap success of expansion

DURING the approach to the new year, numerous banks expressed anxiety that 1994 might not be as comfortable as 1993 due

comfortable as 1993 due to soaring operating costs and growing competition.

But the chief executive of Bank of East Asia (BEA), the territory's third-largest listed bank, believes the bank will outperform last year. In the chief of the confidence on BEA's growing business in China. He expects a pear in which seeds previously sown will begin to bear fruit.

The bank's expansion strategy in China has drawn as much applause for foresight as it has criticism from

sight as it has criticism from brokerages for being to agpressive.

With six branches and two representative offices in
China, BEA's mortiaggelending business in various
cities has prompted much
anxiety since China announced in 16-point austernative offices
to be a constructed to the
two related economy, particularly the property
market, in July last year.

"Our total lending to
China is less than five per
cent of our bean portfolio
and our bad-debt ratio is almost zero. Furthermore, our
loans are citier guaranteed
by prominent local Chinese
banks, or well-established
corporations, "Mr Li said,
adding that the low bad-debt
rate was due to a prodent,
Particular caution is excrised when financing oversens end-users, who must be
in places with proper
mortgag laws and where the procreds from pre-selling propocry are channelled into the
construction cests of the
projects.

But mortgage lending is

seas end-users, who must be in places with proper more in places with proper more cockeds from pre-selling property are channelic into the construction costs of the gronierts.

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But mortgage lending is disable the territory of the construction of the construction

Amid the doubts of several banks as the new year begins, Bank of East Asia maintains a positive outlook. NOEL FUNG reports on how the bank, which has gained a more aggressive image through its expansive mainland strategy, aims to fulfil its bold objectives.

not the only area of expected speedy growth this year. BEA general manager Chan Kay-cheung said: "Our consultancy work, such as advising companies on their strategy to invest in China and lining them up with appropriate patterns." It will continue to generate income and good businessy opportunities."

"It will continue to generate income and good business opportunities." He believes that as more the believes that as more the believes that as more than the believes that as more than the believes that as the believes the believes that the believes that the believes that the believes the be

Mr Li disputed the "ag-gressive" label as an appro-priate description of the bank.
"We are conservative in

scores the management's style.

BEA has always been upfront about its appetite for absorbing up-for-sale banking operations, such as Overseas Trust Bank and United Chinese Bank (UCB).

White the leader certile

(UCB).

While the tender result for United Chinese Bank is not yet known, the blueprint for merging the two entities has already been mapped

and antectory octor inapper out. "We successfully take over UCB, we will retain its identity, making it a segu-rate profit centre for BEA, but we will link up the two banks' computer systems, achieving economics of scale through sharing the same pool of resources with a sister bank, "Mr Li said, Above all, BEA aspires to

"We are conservative in outlook but progressive in thinking. We won't base our decisions on speculative calculations," he said. In its home market, ex-pansion through acquisi-tions and mergers under-scores the management's style.

er banks have to find a way of surviving.

The concept — one umbrella bank encompassing several smaller banks — would create a strong rival to the formidable banking blocks already in existence.

"To defend ourselves against Hongkong Bank, the Hang Seng group and the Bank of China group, small banks have to form alliances. Lexpect there will be a period of consolidation in the banking sector in the run-up to 1997," Mr Li said.

Positive attitude . . . Bank of East Asia chief executive David Li Kwok-pc the bank in China will begin to pay dividends in 1994, He describes BEA

materialise because Wing Hang decided to go public, Bank of America wanted to keep Security Pacific Bank, and we were too conserva-tive in our bidding for Over-

Oakreed Financial Services, formed in 1991 with the Long-Term Credit Bank of Japan, has capitalized on the Hong Keep and the Capital Rank of Japan, has capitalized on the Hong Keep and the Long dollar capital market.

To offer insurance products, BEA, tagether with East Asia Actina and Actina International, has acquired full control of Blue Cross (Asia-Pacific) Insurance.

tured into the factoring busi-ness by taking a 50 per cent stake in Heller Commercial Finance, adding a new di-mension to its trade finance

Kong will have improved, and our bank can benefit from it," he said. Mr Li believes existing banking practices favour certain banks and he expects

Dr. David Li told the press that there would be "a period of consolidation in the banking sector in the run-up to 1997".

system for operational control purposes and that required extra funding. It also required banks to maintain a high capital adequacy ratio ("CAR") and liquidity ratio, and new capital enabled the Bank to maintain a comfortable CAR, well above the eight per cent imposed by the HKMA.

Sources of Capital and Funding

As in the past, the Bank issued bonus shares to broaden its capital. In 1994 and

1995, it issued bonus shares to shareholders and transferred HK\$362 million and HK\$368 million, respectively, from the share premium account to share capital.5 At the same time, it looked around for alternative sources of capital and funding. It made use of the emerging debt market to increase liquidity - a development much encouraged by the HKMA - resorting to various debt instruments including step-up coupons, convertible bonds and floating rate certificates of deposit ("FRCD"). There was no lack of 'arrangers' aggressively proposing deals and offering their services. For instance, in December 1996, BEA issued HK\$2.3 billion in FRCD arranged with Société Générale (as book runner) and six other banks.

Mortgage-backed Securities ("MBS")

While property mortgages - arguably the safest business in Hong Kong, where housing was always in short supply and defaults were rare - had long been BEA's bread and butter, by the mid-1990s, it had a 'full-book dilemma'. In 1993, BEA's mortgage lending formed 43.94 per cent of its loan portfolio.⁶ Apart from the high interest rates, another factor impeding the expansion of mortgage loan business was the HKMA's expectation for banks to keep these loans at around 40 per cent of their loan book. This was one reason for acquiring United Chinese Bank ("UCB"): there was still room in UCB's loan book for more mortgages while BEA's own was full. For some time, Dr. Li had urged the establishment of some mechanism for asset securitization, believing that the only way to expand mortgage lending was to sell down existing portfolio and take on more new business. He wanted to set up an institution with other banks and property developers that resembled the function of the Government National Mortgage Association ("GNMA") or Fannie Mae (Federal National Mortgage Association) in the United States, government agencies that approved the issue of mortgage-backed securities with repayment of principal and interest fully guaranteed by the US Treasury.7

Someone, it seems, heard Dr. Li's prayer. The HKMA, keen on developing a debt market in Hong Kong, established the HKMC to provide a mechanism for MBS, a step in the same direction after accepting certificates of deposits that met its LAF criteria. BEA was among the first batch of banks to sign the Master Mortgage Sale and Purchase Agreement and Master Mortgage Servicing Agreement with the HKMC by which the Bank would be able to sell mortgage loans

to it as and when necessary. This served the Bank's purpose to be flexible. In late 1997, the Bank successfully launched its first mortgage securitization issue by disposing of HK\$2,011 million in principal amount of mortgage loans from its loan portfolio. The net proceeds were used primarily to support the expansion of the banking business of BEA Group ("the Group") as well as for general corporate purposes.⁸

The Bank participated in the Government Home Ownership Scheme, Tenants Purchase Scheme and various other subsidized schemes by providing mortgage financing to home purchasers. With big fluctuations in the property market during this period - rising prices up to mid-1997 followed by severe drops and stagnation in the following years - the Bank had to adjust its strategies accordingly. During 1998, for instance, the Group sold a total of HK\$1,774 million property mortgage loans to the HKMC. The question of loan quality became very prominent. In 1999, as a home mortgage 'war' broke out, BEA promoted its services by offering flexible mortgage plans to cater to different types of customers, aiming to build up business volume and thus bolster market share. Many banks besides BEA were arranging MBS deals. They were able to sell these MBS because there was a big appetite for them, especially from European and US buyers, but BEA papers were particularly attractive because the Bank was known internationally for being well run. Foreign banks rushed in to sell MBS and other debts in Hong Kong too.

Acquiring Two Whole Banks

Another way to grow was through acquiring small local banks. Remarkably, BEA acquired two *whole* banks during this period. This was made possible by the enlarged capital base and the acquisitions in turn made BEA even bigger.

In early 1995, BEA announced its successful acquisition of UCB at HK\$1,287 million, ending a long bidding process that had begun in January 1993. But UCB was not the only bank BEA was trying to acquire: it made no secret of its intention to absorb others. This was an essential part of its survival strategy based on the vision to protect itself and other smaller local banks against increasingly fierce competition from the strong banks in the territory. As mentioned, Dr. Li explained that to defend local banks against the big bank groups, small banks had to form alliances, and he expected that there would be a period of consolidation in the banking sector in the run-up to 1997. His original thinking was to form one umbrella bank encompassing several smaller ones to fend off predators. With that



United Chinese Bank Building

in mind, BEA approached other local banks, but either because they were not ready to give up ownership or because bigger banks were on the prowl, these attempts failed. This explains why, when BEA first bought UCB, it left the new acquisition as a *separate* profit center within the Group.

Established in 1947, UCB was a local bank with seventeen branches engaged principally in retail banking. One of BEA's motives behind the acquisition was to enlarge the Group's geographical reach, while another was to use UCB to capture more mortgage loan business to resolve BEA's 'full-book dilemma', as mentioned earlier. However, as internal reorganization took place, the two banks were unavoidably brought closer together, and eventually to complete integration. The reorganization aimed at enhancing operational efficiency and expanding product range. To achieve economy of scale, it was decided to have just one computer system between the two banks instead of one for each. The reorganization was not easy. For one thing, the high bar set by the HKMA made it difficult for smaller banks to meet all the standards. For another, any 'marriage' between two institutions with different cultures is never simple, and in this case, success was only achieved with tact, patience and understanding by the management and staff on both sides.9 Technological integration, one might say, even though very tough, was the least of the problems.

After much intense preparation, the operating system of UCB duly migrated to the Bank's computer mainframe in December 1996, the Group's inter-branch services were available to customers of UCB as well. Most retail banking transactions were possible through access to the combined branch network. In its second year as part of the Group, UCB's profit rose by 110.9 per cent.¹⁰ New products were introduced, including

off-shore deposit services in the British Virgin Islands, FlexiLink accounts, and phone banking, while its loans and deposits business continued to grow steadily. In 2000, UCB's net profit recorded a record high of HK\$67.3 million after provisions and taxation, representing an increase of 82.1 per cent over the previous year.¹¹

Our Newly Integrated Computer System Offers More Convenient Banking Services **Bank of East Asia** United Chinese Bank

Once UCB's operating system was integrated into BEA's mainframe system, BEA was able to provide more convenient banking services to customers of both banks.

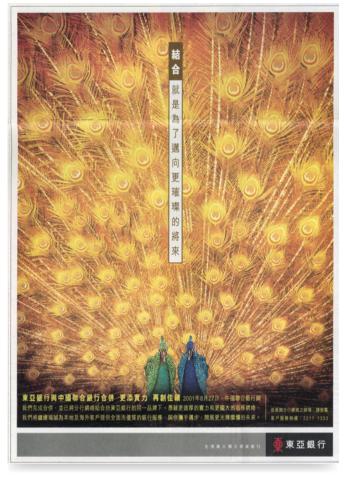
In December 2000, BEA acquired a 75 per cent share interest in FPB Bank Holding Co., Ltd. ("FPB Holdings") at the price of around HK\$3.28 billion in cash.¹² FPB Holdings was incorporated in Bermuda and its shares were listed on the SEHK. Its sole investment was a 100 per cent interest in First Pacific Bank ("FPB"), which operated twenty-four branches in Hong Kong. After proceeding with compulsory acquisition procedures for the outstanding issued shares of FPB Holdings, BEA completed the merger with FPB in April 2002.¹³

The acquisition of FPB was highly strategic. In Hong Kong, it gave BEA a competitive edge by allowing it to expand its business capacity, particularly in the areas of consumer lending and credit cards; otherwise, given the low-growth environment of the time, such expansion would have taken much longer. The exercise also provided a new customer base to cross-sell BEA products as cross-selling became a new focus.

As significantly, the acquisition coincided with the Bank's ambitious plans for China. The PBoC had set the benchmark for foreign banks wishing to open new branches in China at US\$20 billion (assets); with the merging of UCB in 2001 and FPB in 2002, the Bank's total assets exceeded US\$20 billion. The acquisition, therefore, put BEA in a new league.

Local Branches

The Bank expanded the number of local branches in order to cover the territory as comprehensively as possible. Toward the end of the 1990s, however, it began to rethink the function of branches, and the review report submitted by the international management consultancy company A. T. Kearney crystallized these ideas. (The review will be discussed



UCB merged with BEA in 2001.

more fully in the following chapter.) Thus, while the number of branches grew from 69 in 1994 to 133 outlets (including 24 from FPB and 17 from UCB) in 2002, the expansion was no longer simply a process of adding numbers. Rather, it was one of streamlining and re-tooling. In line with the new thinking, some of the branches, such as the Kowloon City and Jordan Road branches, were moved to more strategic locations, and new key locations like the Chek Lap Kok Airport and Festival Walk shopping mall were earnestly sought.

More importantly, innovation took place within the framework of the old branch

system as new features were added to enhance service. In 1997, branches operated after normal business hours were proved to be highly popular, bringing in more mortgage loan and consumer loan business. By 2000, such services were made available at forty branches.

More re-tooling was to come. As recommended by A. T. Kearney, branches were to be transformed into sales centres with a stronger and more direct revenue-raising role. Using branches as Personal Financial Services Centres proved to be a successful strategy for sales. In 2000, twenty Personal Financial Service Centres provided convenient one-stop comprehensive services selling and cross-selling of a great variety of products including loans, mutual funds, insurance and Mandatory Provident Fund ("MPF") options. The restructuring of branches was to proceed rapidly after 2000.

Greater China and Overseas Operations

BEA's overseas strategy was to follow the footsteps of Hong Kong residents as they moved abroad and to facilitate their multi-level and multi-directional connections with Hong Kong and Mainland China. Having started overseas branches earlier than its local competitors, by 1999 the Bank had penetrated "deeply into the overseas Chinese community",14 Dr. Li pointed out. As the China market grew more vibrant and international trade and investment proliferated, the connecting role played by the Bank became even more vital. Whether to remit money to family and friends, to trade, to invest in manufacturing or property, or to buy a home in China, Chinese residing overseas found BEA a helpful facilitator.

Throughout the 1980s and 1990s, migration of Hong Kong people to North America,



BEA completed its merger with First Pacific Bank Limited in 2002.

especially to hubs like Toronto and Vancouver in Canada and San Francisco, Los Angeles and New York in the United States made these cities targets of BEA for expansion, to serve the local as well as international needs of old customers and to capture new business. BEA Canada was incorporated in Toronto in 1991. In the Toronto area, several branches were opened in rapid succession - Scarborough in 1996, Markham in 1997 and Missisauga in 1998 - as the Chinese population spilled over from the greater Toronto area and poured into these cities. On the west coast, the Vancouver Branch started business in April 1994, following much the same trend. In the United States where the Bank had three branches two in New York and one in Los Angeles - a loan production office was created in the New York Branch in 1999. In the United Kingdom, a new branch was opened in Birmingham in 1997, in addition to the London Branch, which had been operating since 1990.

When BEA received permission from the Taiwan Ministry of Finance in 1997 to upgrade its Taipei Representative Office to a full branch, it became the first indigenous Chinese bank in Hong Kong to open a branch on the island.¹⁵ BEA further obtained approval to establish an offshore banking unit to open in early 2000.

The vibrant economic development in Southeast Asia up till 1997 made the region extremely alluring. BEA's branch in Singapore, founded early in 1952, acted as an important node of communication, and the Bank had formed joint-ventures in Thailand in the 1980s. In early 1994, Dr. Li indicated, "We are in active discussion with financial institutions in the Philippines, Malaysia and Indonesia. We have not decided whether to form joint-ventures or acquire interests in these institutions. Details being discussed include pricing, methods of cooperation and legal procedures." ¹⁶

In May 1994, BEA, together with ECICS Holdings Ltd. and PrimePartners Holdings



BEA operated several branches in Toronto, providing a familiar link for the growing number of Hong Kong people emigrating to Canada.

Pte. Ltd. established PrimeEast Capital Group Pte. Ltd., a regional merchant and investment-banking group specializing in stockbroking and corporate finance with twin hubs in Hong Kong and Singapore. The Bank owned a 35 per cent interest in this company and further strengthened its presence in the area of investment banking in Southeast Asia.¹⁷ In 1997, the Labuan offshore branch opened for business – mainly to benefit from the offshore deposits in the region; in the same year, a representative office in Manila was opened, and another in Kuala Lumpur.

People

Overall, the staff grew in size from 3,047 in 1994 to 5,095 in 2000. The Bank had long upheld the principle that people were its greatest

asset. In a very competitive market, apart from attractive remuneration, staff training became more professional and meticulously designed to attract good people, retain quality staff and help them realize their career potential. Making the grading system more transparent and offering various sponsorships and incentive awards were other means to this end. In 2000. in line with the Bank's corporate strategy to improve the quality and productivity of staff, a new organization structure was put in place, and new enhancement programmes were further added. A new staff grading system was introduced to reorganize the remuneration arrangements. As importantly, customized training programmes placed greater emphasis on product knowledge, selling techniques and team-building to enable staff to perform more efficiently as a team and be more responsive to changing customer needs. Highly professional



BEA opened a Representative Office in Taipei in 1993, and upgraded the Office to a full-service branch in 1997.



Mr. Li Fook-wo served as the Bank's Chairman from 1984 to 1997.

areas such as strategic planning, risk management and new product development functions became important parts of the training. Yet, as the Bank's customer service strategies changed, it was not enough to just upgrade technological or management competencies – even courtesy became part of the training programme.

There was one particularly prominent change in personnel during this period. Mr. Li Fook-wo retired as Chairman of the Board in 1997. Mr. Li joined the Bank in 1940 and served as Chief Manager from 1972 to 1976; he became Chairman in 1984. After 1997, he continued to sit on the Board as a non-executive Director till 2008. He passed away in 2014. Dr. David Li, Chief Executive, succeeded him as Chairman in 1997.

- 1 BEA, Annual Report, 1996, p. 24; 2001, p. 23.
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- 6 Noel Fung 'BEA Eyes Mortgage Market', SCMP, 13 February, 1995.
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- 9 Mr. Tong Hon-shing, interview and Ms. Mimi Kam, conversation.
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- 14 Peter Chan, 'BEA Plans Strong Expansion of Assets', SCMP, 24 December, 1999.
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CHAPTER SEVEN

NEW DIRECTIONS: DIVERSIFYING, INNOVATING AND SOUL-SEARCHING

During this period of growth and profit, the Bank never stopped assessing the situation to see how it could do better. Faced with structural changes in Hong Kong's economy, incessant competition, technological advancement, new market demands and new regulations, the pressure to innovate and adapt was enormous. While it diversified its operations, including further capturing and creating opportunities in the China market, deep soul-searching led the Bank to re-orientate its operations and rethink its overall operating philosophy.¹

Diversification in Hong Kong Operations

A dramatic reform took place in the Hong Kong banking system beginning in October 1994 with the gradual removal of the cap on interest rates. The abolition of regulations on the interest rate of term deposits led to fierce competition for deposits and jacked up funding costs for banks. At the same time, interest rates went up in line with US trends² and just kept rising.

The solution, Dr. David Li Kwok-po pointed out, was to expand non-interest income

such as fees and commissions from loans, securities, insurance and credit cards. Later, the Bank would also focus on private banking, fund management, MPF-related businesses, corporate services, rental income, and nominee, trustee and custodian services. This change of focus was reflected in its income statement. In 1999, non-interest income rose to 23.3 per cent of total operating income, and in 2000, it reached 25.8 per cent.³

The Bank expanded its insurance operations. This coincided with the general growth of the insurance business in Hong Kong. With the industry's gross premium income in 2000 at HK\$64.4 billion, representing about 5.1 per cent of Hong Kong's GDP (from 4.7 per cent in 1999), insurance played a large part in Hong Kong's financial market.⁴

BEA had earlier joined US-based AEtna Group to form two ventures – life insurer East Asia AEtna and Blue Cross, a general insurer. In December 1999, BEA took a big step, acquiring full ownership of the latter while selling its 50 per cent interest in the former. Operations were restructured to accommodate the new situation. BEA's Insurance Department was incorporated into Blue Cross, which operated a





In 1999, the Bank acquired full ownership of Blue Cross (Asia-Pacific) Insurance Limited.

wide range of products from medical insurance to children's education plans. The strength of Blue Cross was its ability to leverage its composite insurance licence and develop multi-line business by diversifying into life insurance (2000). It also capitalized on the Group's technology: the Blue Cross website was launched with online insurance applications in July 2000. Indeed the Bank had invested about HK\$10 million in a computer system to administer its insurance business.⁵ Synergy was created with Blue Cross underwriting the risks of BEA's insurance products while continuing to sell its own products via its own distribution channels.6 In 2000, in the course of rebuilding its infrastructure, Blue Cross achieved a growth of seven per cent in terms of gross written premiums, which outperformed the market, which had a growth rate of about four per cent.7

The Bank also developed its Bancassurance business, and its branches, in the process

of being re-tooled as sales centres, were ideal venues for selling insurance products. Facilities for instant policy issuance were first set up at thirty bank branches, and then extended through the whole network. The first East Asia Bancassurance Service Centre opened in December 2000.

The diversification strategy also put new emphasis on trust service and wealth management. Dating back to 1975, Bank of East Asia (Trustees) Limited ("BEA Trustees") already had a strong reputation in the field; it offered a wide range of services, including acting as executor or trustee of wills, and as trustee of family trusts, investment funds, unit trusts, charities and public funds. In response to the rapidly growing wealth of individuals, families and corporations in Hong Kong, the Bank added new services - including, notably, its subsidiary, East Asia International Trustees Limited ("EAIT"), based in the British Virgin Islands - that vastly expanded the scale of operations. Observers were quick to see that BEA's sensitivity to Chinese culture gave it an advantage with local Chinese people in Hong Kong. In the run-up to 1997, concern over the Handover might have prompted growth of trust services in Hong Kong. Interestingly, the Bank also expected business coming from a 'first-generation market in China' where some individuals were becoming extremely affluent and would require trustee arrangements for their families, and in China, BEA's reputation as a well-run and trustworthy foreign bank with global connections was spreading quickly.8

BEA Trustees' corporate trust services met the needs of the emerging MPF, which the government had set up to protect an increasingly aging population after retirement. A mandatory, privately managed, fully funded contribution scheme, the MPF began operation on 1st December, 2000 and was to become an important funding pool in the market. The Bank trained around 800 people to handle MPF sales.⁹

The Bank sought non-interest income by venturing into the corporate services area. It started when the Bank formed an alliance with Deloitte Touche Tohmatsu in September 2000 through the acquisition of an 80.1 per cent share interest in Secretaries Ltd., a market leader in the provision of corporate services, including company secretarial services, share registration and other business services. The vision – to provide services in Hong Kong, China and overseas – was soon realized, and what might have seemed like a small step at the time was to balloon into a huge incomegenerating machinery in the years to come.

Leaping into Cyberspace

In 1999, BEA set two landmarks in financial technology in Hong Kong. In June, it became the first bank to offer an internet securities trading service via its Cybertrading platform, and in September, the first bank to offer a comprehensive internet banking service via Cyberbanking. A powerful tool, Cyberbanking allowed customers to manage up to twelve bank accounts online via one account number anytime, anywhere, anyhow – the concept of 'all-in-one' and 'one-for-all'. It enabled many services, including fund transfers, placements, withdrawals and renewals of fixed deposits, bill payment, credit card transactions, stock trading, and account and rate



BEA Trustees is one of only two MPF service providers in Hong Kong that provides services under both the Master Trust Scheme and Industry Scheme.





In 1999, BEA launched Cyberbanking, Hong Kong's first Internet banking system.

enquiries; in addition to its range of applications, the service was accessible through different channels, including the internet, mobile phone, telephone, kiosks, iCare Internet-on-TV, personal digital assistant ("PDA") and PowerPhoneTM. This revolutionized customers' banking experience and set a new direction in banking service provision. Continually upgraded, with mortgage, consumer loan and MPF enquiry services added in March 2000, the system was extended to serve corporate customers as well. MyCyberWorld, a complete solution for integrated banking services, was introduced in 2000; it included, among other features, 'BEA My Yahoo', which enabled customers to create personalized web pages,10 thus moving the operation into a new stage of development toward personalization. By 2002, over 40 per cent of the Bank's basic banking services were made available through the internet.¹¹

For these innovations, BEA won one international award after another, which reconfirmed its pioneering spirit and enhanced its reputation as a small bank (by world standards) that could do amazing things. Skeptics might wonder why BEA was rushing into electronic banking at the time, 12 but soon, everyone could see that going electronic was the way of the future – there was no going back for the banking world and BEA was the undaunted pioneer.

BEA, the first bank in Hong Kong to computerize in 1970s,13 was known for its propensity to experiment with new ideas and for developing new products. Just a few years before rolling out Cybertrading and Cyberbanking, it had created the East Asia InterLink,¹⁴ a financial services software product that customers could load onto their hardware to facilitate transaction processes, transfers, letters of credit and monitoring of financial and other service requests. It was similar to other products in the market, but the difference was that BEA did not stop there. It took almost another year after Cyberbanking was launched for any other Hong Kong bank to come anywhere close in function and potency.

One reason BEA was able to make this 'ambitious leap into Cyberspace'¹⁵ at this particular moment was the release of the encryption module 128-bit Secure Sockets Layer ("SSL") that enabled a safe environment for Cyberbanking.¹⁶ But what gave BEA the enormous lead was the year 2000 - "Y2K". With the millennium coming to an end, people all over the world wondered anxiously whether the 'Millennium Bug' might lead to a total breakdown of all systems. Like regulatory authorities in other jurisdictions, the HKMA

pressed all banks to ensure that their systems would be able to avoid any catastrophe; and to prevent the bug from entering, banks were instructed to 'freeze' their systems for five quarters – from the fourth quarter of 1999 to the last quarter of 2000. This meant that any bank that could rush out a new system before September 1999 would automatically lead the field for at least a year – and that was exactly what BEA managed to do.¹⁷

Staff at BEA began making 'Y2K preparations' as early as 1997; among other measures, the Bank obtained assurances of compliance from major vendors and counterparties and performed tests with external parties that exchanged electronic data with BEA. Working closely with the HKMA at all times, it made the system totally 'Y2K compliant' early. Inevitably, the achievement came with a price - around HK\$40 million - but it was money well spent. Everyone was thrilled when the system made the transition to year 2000 without a hitch. In the meantime, the BEA team developed the Cyberbanking platform and managed to roll it out in September 1999, just in time to beat the moratorium.



BEA was the first bank in Hong Kong to launch an online stock trading service – Cybertrading.

It was a real triumph.

With these internet customer services, BEA became a magnet, winning tens of thousands of new customers, including many from its competitors. By June 2000, more than 100,000 customers had opened online accounts. While younger users were drawn to it, as expected, it quickly became obvious that customers of all ages found internet banking appealing. Hong Kong's highly educated population showed they were ready for change.

Advances continued to be made. East Asia Securities Company Limited ("EAS") became among the first batch of brokers to implement the Broker Supplied System ("BSS") in November 2000 and with that, BEA's daily average volume of online dealing increased from 10 per cent in 1999 to 30 per cent in 2000. Other services added soon afterwards included interactive voice recognition service – another 'first' in Hong Kong for BEA – which enabled customers to get real-time stock quotes through voice commands on the telephone, and after December 2000, this service allowed customers to conduct automated trading via telephone.

New internet functions were added that helped promote different lines of business and facilitate a wide range of customers. CyberFund provided a comprehensive fund investment portal. CyberPayment helped corporations to collect bills. CyberValuation provided real-time property valuations, CyberInsurance provided six kinds of insurance products under Bancassurance and customers could use MyPortfolio to manage their financial profiles.20 In 2004, BEA was the first bank in Hong Kong to launch a totally telecom-independent mobile phone and PDA banking services. These features made the system even more irresistible to users.

Analysts noted that 'first mover advantage' would strengthen BEA in the competitive environment.²¹ Besides attracting more customers and increasing fees from securities and other transactions, the cost of transacting on the internet was only about 6 to 10 per cent of that in branches, Dr. Li pointed out. With greater use of cyber channels, BEA would be able to "transform our branches into financial services supermarkets",²² and achieve greater cost effectiveness.

The long-term investment in technology, which reflected the Bank's vision for the future, won recognition locally and around the world. In 2000, its Cyberbanking and Cybertrading services were winners of *Asian Banking* Awards in the 'New Business Venture' category, and East Asia Cyberbanking Service was elected one of the winners of the 2000 Hong Kong Coalition of Service Industries Innovative Service Award. That year, BEA also received the *Euromoney Award* for Excellence as "Best Domestic Bank in Hong Kong".²³

The trailblazing continued in China when in August 2002, BEA became the first foreign bank to introduce internet banking services there.

Living with Regulators

A new reality BEA lived with after 1993 was the HKMA which, as supervisor and regulator of the banking system, had an incalculable impact on banking in general and on every individual bank.

An illustration: one of the big issues on the HKMA's agenda at the time was 'disclosure'; like the SEHK, it emphasized greater transparency. In the HKMA's view, since the banking system in Hong Kong was well-capitalized and profitable and the supervision regime strengthened, it would be counterproductive to maintain a limited level of disclosure; a high level of disclosure would in fact consolidate the international profile of Hong Kong banks





BEA has received numerous awards over the years in recognition of its innovative banking service.

and enhance their ability to raise capital globally.

BEA complied. In January 1995, when announcing its annual results for 1994, it listed its different funding sources by moving the Bank's property revaluation reserves – which used to be included under 'current, deposit and other accounts' – to the shareholders' fund. In this way, the Bank showed that the portion of customer deposits, previously undisclosed, had increased to HK\$61.5 billion.²⁴ Likewise, it provided detailed directors' remuneration for the year.²⁵ The pressure for ever-greater disclosure continued.

Like other banks, BEA was subject to annual examinations, on-site and off-site, by the HKMA. These examinations were both intensive and extensive. In 1997, the HKMA even made an on-site visit to the Bank's Dalian Branch to check on how the branch manager was transferred and how Mainland staff could familiarize themselves with regulations laid down by the HKMA.²⁶

Each year, HKMA officials made a presentation to the Bank's Board of Directors to give their comments on the Bank's performance – including a rating – and recommendations for improvement. In addition, the Bank's officers and HKMA officials met formally as well as informally to exchange views. During these encounters, there were frank, and sometimes intense, exchanges of opinion.

BEA took action to address the HKMA's concerns regarding operations and internal control. The Group Chief Auditor undertook extremely thorough examinations within the Group, including Hong Kong, Mainland and overseas operations at all levels and submitted a detailed internal audit report. New measures were introduced to boost internal control in China and overseas by maintaining a proper check and balance function. This

Report, becoming increasingly comprehensive and in-depth over the years, led to some radical restructuring that resulted in a shift to central control within the Group.²⁷

In the 2000 on-site visit, the HKMA focused on risk management processes. As the business historian Peter L. Bernstein indicates, although risk is a fundamental element in everyday life, for much of human history it had been managed by instinct rather than scientifically, and all business operators managed risk in one way or another.28 International risk regulations began in the 1980s, and financial firms in the West developed internal risk management models and capital calculation formulas to hedge against unanticipated risks and increase the regulatory capital required to withstand their risk. In Hong Kong, professional risk management with formal structures to control risk came relatively late, but by 2000, it was clear that the HKMA was keen to professionalize risk management in the city.

BEA of course had had its own risk management strategies but from 2000, it too began to highlight the efforts it made in establishing comprehensive risk management procedures throughout the Group and at different levels; these enabled the Bank to identify, measure, monitor and control the various types of risks which it faced, and, where appropriate, to allocate capital against those risks. Risk management was an area that was to grow, absorbing more resources and senior management attention in the coming decades.

Soul-searching

Even as the HKMA scrutinized the Bank from the outside, the Bank itself went through a process of soul-searching. Despite the success it had been enjoying for some years now – becoming the largest independent bank

in Hong Kong, growing in profit, assets, and capitalization, rising in international standing and winning prizes and awards for different achievements – the management felt it was doing well, but not well enough.

For one thing, the Bank was offering the lowest returns among Hong Kong's larger banks while being the most expensive bank stock: for this a critic called it 'a bank with problems'.²⁹ Its cost-income ratio being consistently high was certainly one problem area. At 42 per cent in 1998, its cost-income ratio was even higher than that of Dao Heng Bank, which used to trail behind it. For BEA's return on equity, the gap even widened in 1998 to 6.8 per cent, compared to 12.9 per cent of its peers.

Toward the end of 1998, the management decided to fundamentally and methodically review the Bank's performance. It was time for a thorough 'check up', especially in the face of fierce competition from foreign banks and Mainland banks muscling their way into the market.



In 2001, branches were re-modelled to provide more opportunity for customers to discuss their banking needs with knowledgeable staff, enhancing service to customers and generating more fee income for the Bank.

BEA appointed A. T. Kearney to conduct an initial diagnostic review focused on retail banking and management practice. A project team, consisting of consultants from the firm and managers and officers from the Bank, conducted the review and, after data-driven analysis, designed an integrated programme that balanced revenue enhancements, cost reductions and improvements in management practices.

The Review Report focused on organization and performance culture, resource allocation, and customer and channel management, and was underlined by new ideals such as professionalism and efficiency based on streamlining, standardization, centralization and automation. It also held up 'best practice' banks as models. It brought about short-term and long-term changes on every level of the Bank. It transformed not only overall policies, planning strategies, operational structures and resource reallocation, but also, on a more human level, basic mindset, everyday practices, and personal relationships within the Bank. As Ms. Mimi Kam, currently the Bank's General Manager and Head of Human Resources & Corporate Communications Division, said in 2016, "The impact of the Kearney Report is still felt today."30

The Bank was not earning as much retail revenue as it should and the Kearney Report found that not allocating resources to its most profitable businesses was one of the causes. Best-practice banks allocated funds and scarce resources to the most lucrative products and the first step that should be taken was to collect data over a number of years to ascertain the relative attractiveness of products, customers and channels and emphasize or de-emphasize them according to *fact-based* analysis – 'fact-based' being a guiding principle for action.

Another reason for low retail revenue was

that customers were not segmented. 'All customers are not equal', the Kearney Report declared, adding that since customers were of different value to the Bank, they should be given different treatment accordingly. With some of the Bank's competitors aggressively going after 'upscale' customers by emphasizing preferential treatment for them, it was urgent for the Bank to take action. It also had to boost its sales culture: staff should be spending more time selling products than processing transactions. More customer data should be made available to upgrade service to customers and support sales.

On the management level, the Kearney Report suggested further professionalization, with emphasis on accountability and delegation. There should also be disciplined planning and execution: to build consensus among the management team in deciding specific goals, plans, milestones, targets and performance measures necessary to enforce the execution of the strategy of the Bank. The organization structure should be fundamentally re-set, based on 'lines of business'. To optimize overall returns, the strategic decisions the team made should be informed by rigorous, fact-based analyses of customer needs, competitor position, market economics, the Bank's own strengths and weaknesses, and so forth.

Other important actions recommended in the Kearney Report included creating performance measures and a reward system at branches to induce the best performance from their staff and beefing up the management information system to make it more comprehensive and focused. Building an efficient management information system was in fact a task that the HKMA had emphasized for all banks.

The Kearney Report led to fundamental rethinking at BEA to emphasize productivity, profitability and professional management.

The keywords were centralization, streamlining, standardization and automation. In practice, domestic branches were physically and functionally re-modelled into sales centres with a stronger and more direct revenue-raising role. Less visibly and in the longer term, the Kearney Report led to the introduction of a new organization structure and the grouping of business units in accordance with major market segments and lines of business. Strategic planning and risk management functions were upgraded, and measures to improve resources allocation were implemented. There was to be ongoing re-engineering of internal operations and processes to yield continued cost efficiencies and other streamlining steps were taken.

The late 1990s was a period of transformation, of diversifying operations to adapt to new business environments and regulations, innovating to enhance service, and soulsearching to seek a new direction forward. In addition to the scrutiny of outside supervisors, regulators and consultants, inside the Bank itself management and staff began to cultivate a new spirit of self-reflection and self-criticism. New standards and new aspirations – international best practice, professionalization, control, compliance and efficiency among them – would be internalized and would, to a large extent, guide the Bank in the new millennium

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CHAPTER EIGHT

CHINA: RISKS AND OPPORTUNITIES

66

The Best Foreign Bank in China

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- Euromoney, 1995

In 1995, *Euromoney* named the Bank "Best Foreign Bank in China". Sixteen years after reactivating its operations in China, BEA had become an 'old China hand' once more.

To the Bank, China in the mid-1990s continued to be the brave new world. Obviously there were opportunities for profit, yet there were also opportunities to contribute to China's economic reforms. At a time when the so-called 'na lai zhuyi' (拿來主義, adopt new things as they come) attitude was prevalent and China was eager to learn from the outside world, the Bank ushered in many ideas and practices that proved invaluable.

China's transition from a planned economy to a market economy was full of political and economic hazards. While there was no doubt about overall growth or about the market maturing, the process of liberalization in foreign trade, foreign investment and foreign exchange was unavoidably incremental and uneven.¹ From time to time, foreign investors

were frustrated by the government's stop-go, stop-go approach in reaction to booms and busts. In July 1992, when Mr. Zhu Rongji, Governor of the PBoC, and Vice Premier and Head of the State Council Economic and Trade Office, announced a sixteen-point austerity programme to cool the overheated economy, especially in relation to property and securities speculation, numerous foreign banks had second thoughts about the China market amid soaring operating costs and growing competition.

BEA was undeterred. In early 1994, Dr. David Li Kwok-po reaffirmed his confidence in the Bank's growing business in China, and claimed that instead of shrinking, the Bank was set for more expansion. In response to critics who believed that the Bank was too 'aggressive' there, he explained that the concern was unjustified. "Our total lending to China is less than five per cent of our loan portfolio and our bad debt ratio is almost zero. Furthermore, our loans are either guaranteed by prominent



BEA has established a strong presence in southern China. Pictured here is the Guangzhou Branch in the first half of the 20^{th} century.

local Chinese banks or well-established corporations."² Later in the year, he stated that he wanted total exposure to China to expand from 15 per cent of the Bank's assets to 25 per cent in the next three or four years.³

A year later, net profits contributed by China operations reached HK\$229 million, representing 14 per cent of the Group's net profit. Austerity in China notwithstanding, the Bank achieved substantial growth in both business turnover and profit in the China market, particularly from trade finance.⁴

With China, one had to be patient. In the face of unprecedented changes, the authorities

had to balance the interests of many parties and conflicts could not be avoided. One has to remember that even into the 1990s, there was still fierce disagreement within the leadership on the role of a market economy. In addition, the level of development of different regions was extremely diverse, making it imperative to introduce reforms one locality at a time. Up to the mid-1990s, development was concentrated along the coast. These factors both restrained and facilitated the Bank's operations, especially in terms of geographical scope and the lines of business it could engage in.

BEA maintained a positive attitude and leveraged its special historical relationship

with China, which was widely recognized. Being one of the first foreign banks to reactivate its operations on the Mainland in 1979, it had built strong connections with the government, especially with officials dealing with financial policy. The Bank had proved its willingness and ability to assist China's economic growth and shown that its profit motive would not be pursued at the expense of China's national interest. It could be trusted as an ally and strategic partner. Being a Hong Kong Chinese bank, BEA had the advantage of not being entirely 'foreign'. In many Chinese eyes, BEA was 'zijiren' (自己人, one of us) - while making money it also had China's best interests at heart. Keeping a close eye on changes in central and local policies, it built a strong line of communication with officials, and, besides being on the receiving end, Dr. Li and other bank staff often took active steps to give their views, making suggestions for improvement and generally being a positive source of advice, sharing new ideas and new practices.

Linguistic and cultural affinity with Mainland officials, businesspeople, and even ordinary customers helped. The Chinese expression 'tongsheng tongqi' (同聲同氣, speaking the same language and having the same understanding) is constantly referred to when explaining BEA's success in China, and, as cultural capital, its value cannot be emphasized enough. Speaking the same language – including its many dialects – meant that it was easier to understand each other's meanings behind mere words, and even to understand what was left unsaid. The devil is in the nuances as much as in the details.

The truth was that many people in Hong Kong and elsewhere continued to judge China harshly, focusing on its backwardness. The Bank's officers from Hong Kong – some having started working there in the early 1980s – knew better and appreciated how much progress had been made. They remembered how inadequate everything was in the early days, slow and

bogged down by poverty and bureaucracy. Up to 1988,5 foreigners (including Hong Kong residents) were confined to shopping in special stores, where only waihuiquan (Foreign Exchange Certificates) were accepted for purchases. In Shanghai, only foreigners could stay in the (relatively) posh Jinjiang Hotel. Mr. Kwan Tat-cheong first went to China in the early 1980s and worked for two- to three-month stints before taking up a China post permanently in 1987; he recalls that he needed a reference letter from the Bank to check into the Jinjiang Hotel and had to show his huixiangzheng (Home Return Permit) every time he went through the main entrance. Every night, the dining room closed at 8 p.m. and there was no food to be had afterwards. He also remembers what it was like working in the un-air-conditioned old Puxi Branch building. In summer, when he was still obliged to wear a suit, his back was always drenched, and in winter, the marble floor was freezing, especially for those from Hong Kong who did not know to wear cotton shoes or layers of underwear under their trousers to keep warm.6

Yes, those were hard times, but they gave BEA's staff a historical perspective that those in other foreign banks often lacked. Though proud of their achievements at BEA, these officers from Hong Kong also expressed humility when talking about the immense progress China had made and how changes must be gradual and piecemeal. A number of Hong Kong staff, including Mr. Yu Hok-keung, Mr. Tang Sing-yu, and Mr. Kwan (who stayed on from the 1980s and became Chief Executive of BEA's subsidiary on the Mainland - BEA China from 2009 to 2016), became role models to their juniors by providing strong leadership for the China team.⁷

When BEA's senior officers in China were transferred, the transfers were only from one China branch to another. Unlike managers in large international banks who could be in



BEA China's headquarters is located in the Lujiazui Finance and Trade Zone, Pudong, Shanghai.

Shanghai one day and London or India on another, those at BEA tended to make their careers on the Mainland. Staff localization developed steadily at first and very quickly in the 2000s as more outlets were established. But as Mr. Sun Minjie, a Shanghai recruit who rose to become Deputy Chief Executive of BEA China in 2009, points out, localization did not necessarily mean hiring local hands.

It could also mean Hong Kong staff becoming localized, gaining real insights into the local situation and seeing things from a China perspective. This strong, committed China team was and is a powerful engine driving the Bank's success.

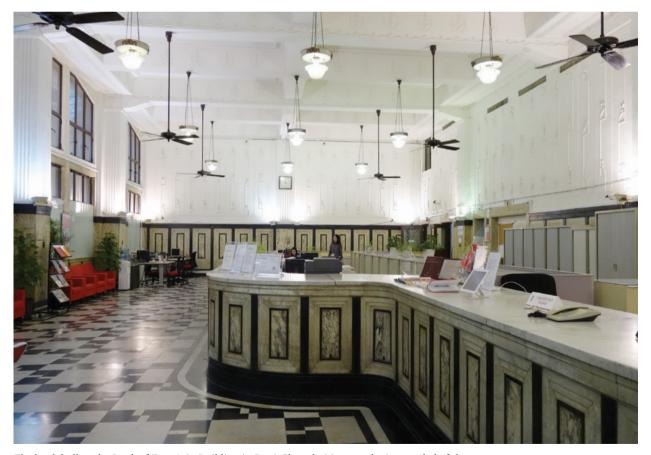
Putting roots down in China meant that these officers from Hong Kong could become members of the Chinese People's Political Consultative Conference ("CPPCC"), National People's Congress ("NPC") and People's Congress at other levels, where they had access to authorities to express their views as well as understand policy matters. The Hong Kong Chamber of Commerce of China was another useful venue for such exchange of views. On the whole, strong communication channels – some very public, others less so – built over the decades were buttressed with trust and goodwill.

With no precedents for economic reforms to follow, the Chinese government was constantly experimenting with new policies. Through a process of learning by doing, trial and error, or as Mr. Deng Xiaoping put it, "Crossing the river while feeling the rocks", policy changes which would have been unthinkable just a few years before were implemented one after another. New ideas were tried first on a small scale and, if proven to work, implemented more widely. In this experimental atmosphere, BEA - so small compared to its counterparts in China and other parts of the world - was the forerunner of many things. On many occasions, it was asked to test out a new measure; or when it applied to do something really innovative, it would receive permission. As a result, it achieved many 'firsts'. Early on, it brokered - and was a partner to - the first joint-venture in China; it introduced the credit card to the country and in the 1990s overhauled the method of credit card settlement; it formed the first joint-venture finance company, to name just a few. Many more were to follow.

No doubt it was an honour to be the 'first' as it implied the Chinese government's confidence in the Bank's ability and trustworthiness. It meant having the opportunity to profit from a new situation before anyone else - having first dibs, so to speak. However, being a shidian (試點, test station), or a guinea pig, also came at a cost. Apart from everything else, being a guinea pig put great pressure on the staff. The Bank could not fail, for if it did, it would be spoiling it for other foreign banks too. Moreover, the staff firmly believed that helping the banking industry in China was very important. As a trailblazer, the Bank bore the heavy burden of having no choice but to succeed.

Branch Network on the Mainland

In early 1994, BEA had six branches on the Mainland – Shanghai, Shenzhen, Xiamen, Guangzhou, Zhuhai and Dalian – and two representative offices in Fuzhou and Beijing. That December, a third was added in Qingdao, making a total of nine outlets. They were concentrated along the coast, the region to be developed first according to the state policy. However, the Bank looked forward to expanding into major cities in central China, and representative offices were opened in Chongqing (1998) and Chengdu (1999) in anticipation of the announcement of the 'Western Development Policy'. In 2001, it was



The bank hall at the Bank of East Asia Building in Puxi, Shanghai is an enduring symbol of the Bank's longstanding presence in Mainland China.



Beijing Branch

the first foreign bank to set up a branch in Xi'an, with support from the government.

In 1998, the Bank relocated the Shanghai Branch from Puxi to the new Lujiazui Financial and Trade Zone in Pudong so that it could offer RMB services. The move was momentous. The old building in Puxi had been the symbol of BEA's presence in Shanghai since 1927. Soon after 1949, most foreign banks left China; only four staved on. The magnificent buildings of HSBC and Standard Chartered on the Bund were confiscated by the government and the banks were given much humbler premises, where, in any case, there was not much business to do. Perhaps because it was then categorized as a qiaowaizi (overseas Chinese-owned) bank and not a waizi (foreign) bank, BEA was allowed to remain in its old building and use the first floor and mezzanine. The 'right to use' of the second to eighth floors was taken away and allocated to other work units. The ownership of the whole property, however, remained with the Bank. This made it possible for the Bank to reactivate its operations very quickly in 1979 once it received permission to do so. 9

The question was, after the move to Pudong, what should be done with the old building in Puxi, which was still extremely fine and sturdy. When BEA raised the question, the PBoC answered: why not make it into a sub-branch? This was a wonderful turn of affairs as it enabled sub-branching on the Mainland for BEA, a way of enlarging its catchment areas without having to apply for approval for opening branches, a process which was much more complicated and time-consuming.

The usual practice was for a foreign bank to first open a representative office for at least two years before it could be upgraded to a branch; in the meantime, the representative office would not be allowed to make any income. BEA was able to sidestep this route on a number of occasions. The Xiamen Branch, which opened in 1991, skipped the representative office phase.

While BEA was keen to expand its branch network, it was keenest to upgrade its Beijing representative office to a branch. But it had to wait. The PBoC had imposed a new criterion for foreign banks to open branches: a minimum total assets of US\$20 billion. For a small bank like BEA, that wasn't easy and it only managed to cross that bar with the



Xiamen Branch

acquisition and merger with FPB in 2002, as we have seen, and the Beijing Branch was finally opened in 2003.

Lines of Business

International trade

The Bank's main line of business in China continued at first to be international trade with bills, letters of credit and inward remittance. It was hard work with a lot of competition from other foreign banks, even when there were expanding trade opportunities with export manufacturing growing rapidly. Staff members were sent out to market the bills business and other products away from the cities, e.g. from Shanghai. They went up the Yangzi River to cities like Nanjing, targeting state-owned foreign trade companies dealing in silk fabric, garments, stationery items and others. The Xiamen Branch covered Fuzhou, Shantou and Zhangzhou, and even Nanchang in Jiangxi. Mr. Cartier Lam Chi-man, Xiamen Branch manager from 1993 to 1995 (appointed Chief Executive of BEA China in 2016), remembers having to visit Fuzhou once every two weeks: with no trains along the coast and no highways at the time, travelling from Xiamen to Fuzhou by car along first-class roads took a whole day because of the constant traffic jams and general chaos. (The same trip took only an hour in 2016.) But Fuzhou was the provincial capital with a lot of business opportunities, so there was no question of not taking that trip.¹⁰ Taiwanese joint-ventures thrived in Fujian. Mostly small and medium enterprises ("SMEs"), they concentrated on manufacturing household electrical appliances and food processors targeted at the Taiwan market.

At first, handling fees for bills was the main income from international trade. The enterprises were not allowed to have accounts with the Bank, and foreign exchange

payments that came in for the exports were immediately transferred to the BOC, which was the only Mainland bank allowed to deal with international trade and foreign exchange. Foreign-owned companies could open foreign currency accounts, mostly in US dollars; Japanese firms usually kept their accounts in Japanese yen.¹¹

The growth of the non-state sector, especially of Sino-foreign joint-ventures, boosted the export-oriented manufacturing industry. BEA introduced a new trade finance product, dabao daikuan (打包貸款, 'packing loan').12 Evolved from the old idea of letters of credit, this product provided financing to export-manufacturers against documents to pay for upstream production, from the buying of raw materials to the packing of finished goods. This was an efficient way to inject cash flow into the non-state industrial sector. It revolutionized the old methods of foreign investment in industry such as the sanlai yibu¹³ (三來一補) by which raw materials, design and samples all came from outside and finished products were exported back to the investor's country with China's only input being cheap labour and cheap land. For BEA and other foreign banks, being able to extend credit on export manufacturing was a real boon.

Property mortgage: Home mortgage loans for overseas Chinese

In 1988, BEA pioneered property mortgage lending in China and profited enormously from the rapidly expanding property market. Initially, it only provided mortgages for foreigners, mainly Hong Kong residents buying Chinese properties designated for 'overseas Chinese' using foreign currency. The majority were end users in Shanghai, Beijing, Guangzhou and other big cities.

Foreign banks, including BEA, were hopeful that when China opened its RMB business





BEA contributed to the development of the Mainland's real estate market by setting high standards in terms of building quality, developers' credibility, due diligence, and legal compliance.

to them, they would be able to engage in the expanding domestic property mortgage market too. Mr. Tong Chin-pang, Head of the Bank's China Property section, said in 1996 that the Bank was preparing for the day when foreign banks would be allowed to take a slice of China's growing mortgage market, predicting that when the market and Chinese laws became more comprehensive, annual growth in the mortgage market could exceed 50 per cent.¹⁴

Even when mortgage loans were confined to foreigners, BEA had an edge. Apart from serving Hong Kong residents, it took advantage of its overseas branches, which were strategically located in cities with a high concentration of Chinese residents - New York, Los Angeles, London, Toronto and later San Francisco and Vancouver - who had an appetite for property on the Mainland. A client in New York wishing to buy property in Shanghai could do so through the Bank's New York Branch without going to Shanghai, and pay instalments in New York in hard currency. The business grew as more and more cities in China were opened to foreign property buyers. At the same time, the number of BEA overseas branches grew.

There was a great demand for high quality, well-managed, well-located properties for offices and residences as foreign companies and individual businesspeople rushed to China's cities. BEA's long-established expertise in property was applied to property management and real estate consultancy. East Asia Property Management (China) Limited was formed in 1995, targeting Grade A office buildings in major cities. The following year, two joint-venture companies, East Asia Property Agency (Guangzhou) Limited and East Asia Property Management (Guangzhou) Limited, were formed to provide property agency and management services to meet the needs of the thriving property market, mainly commercial buildings in Guangzhou.15 East Asia Marlin Land was formed in 1996 with Marlin Land, an established international real estate consultancy firm that concentrated on providing property services to corporate clients in China covering all property categories, including office, industrial, retail and residential.16

Besides trade and property mortgages, demand for financing also grew, driven by the government's eagerness to develop infrastructure projects. The Bank actively participated in extending project financing and syndicated loans to selected projects.¹⁷

Financial services

The opening of the Shanghai and Shenzhen stock markets led to a scramble for capital and financial services. Having formed the first joint-venture finance companies in both Shenzhen and Shanghai, BEA was a pioneer in the field. In 1995, it formed a third jointventure finance company, the Hainan International Finance Co. Ltd., with Agricultural Bank of China and Kumagai Gumi, with BEA owning 35 per cent.¹⁸ This was the first Sino-foreign joint-venture finance company in Hainan Province. The new finance firm was involved in lending as well as playing the role of a merchant bank, arranging financing for Mainland infrastructure projects as well as organizing syndicated loans in the fast-maturing market in China; it would also be a channel for introducing overseas capital and international financial management skills into China.19

In 1998, BEA deepened its engagement in investment banking on the Mainland by purchasing NatWest Markets' Greater China securities and corporate finance business in partnership with Industrial and Commercial Bank of China Ltd. ("ICBC").²⁰ This benefited both parties; it enabled ICBC to make its first foray into the investment banking industry in the region and gave BEA access to the fastgrowing agency broking and corporate finance market on the Mainland, especially for listing mandates. The new company, ICEA Finance Holdings Limited ("ICEA"), was 60 per cent owned by ICBC, 25 per cent by BEA and the remainder taken up by the former senior staff of NatWest Asia.21 In particular, the deal reinforced the relationship between BEA and ICBC.

Credit cards

Introducing the credit card was one of BEA's big contributions to China's modernization; the facility slowly found traction and visitors to China, whose numbers increased from year to year, welcomed it. The settlement method, however, was cumbersome: when a foreign cardholder paid with his credit card in China, the settlement had to go through at least four banks, a time-consuming and costly process. In 1992, BEA was made the 'pilot bank' to test out a more efficient, streamlined credit card settlement process. The new process worked, and the Bank profited as the fees from settlement services proved a good source of income. ²²

Consultancy work

Like Hong Kong itself, BEA successfully played a bridging role between China and the world, and effectively demonstrated how foreign banks could help in China's economic development.²³ One area where the Bank excelled was providing investment consultancy services to customers interested in setting up businesses in China. For this purpose, it established two economic research centers, one each in Shenzhen and Shanghai, and a third was added in Beijing. These centers gathered and analyzed current data relating to the economic climate and investment opportunities in China and provided up-to-date information to the Bank and its customers.

Consultancy work grew in tandem with China's economic growth. Whether advising companies on their strategies to invest in China, or matching them with appropriate partners, it generated income and good business opportunities for the Bank itself. In September 1994, Dr. Li pointed out that the Bank was doing advisory work for forty-eight of the world's biggest companies (as ranked by Forbes 500); it was bringing deals to China to





BEA was among the first foreign banks to issue credit cards in Mainland China.

help restructure its industry by financing infrastructural works such as roads, waterworks, bridges and housing estates.²⁴

RMB business

A big moment came when the Bank's Shanghai and Shenzhen Branches received permission to conduct RMB business, and in 1998 BEA became one of the first foreign banks to conduct RMB business in China. These branches were now able to offer deposit, loan, settlement and guarantee services, treasury bonds, and investment in corporate bonds to foreign customers. In August 1999 the licence was extended to five provinces adjacent to Shanghai and Shenzhen, greatly extending the geographical coverage of this valuable service.

Not All Sweetness and Light

Doing business in China was, of course, not all sweetness and light. In the overheated market of the late 1990s, bad loan problems, which had been festering for some time, came to a head with the Asian financial crisis. BEA suffered badly. In the south, the bankruptcy of the Guangdong International Trust and Investment Corporation ("GITIC") was devastating.

In 1981, the China International Trust and Investment Co. ("CITIC") was formed to attract foreign capital; other 'ITICs' followed. Foreign investors were largely attracted to put money in these corporations in the belief that they were backed by different levels of the Chinese government.²⁶ In 1998, when GITIC went bankrupt because loans had been channeled to unproductive uses or into speculative investments, many investors woke up to the fact that the Chinese government would not bail these companies out. The same happened to other ITICs across the country. Mr. Zhu Rongji's decision to allow GITIC to go bankrupt and not try to save it with Central Government's resources was a warning to provincial and other government organizations that they should be responsible for their own losses. This was a wake-up call for foreign investors too.

With GITIC owing as much as US\$20 billion to foreign banks, lenders had a rough time. BEA, whose involvement included floating rate note and bond issues, was badly bitten and ended up making full provisions of HK\$354 million in 1998.²⁷ Data appeared to indicate that in 1999 foreign banks together suffered a collective net loss of US\$156 million.²⁸

GITIC'S collapse put BEA in the spotlight. In February 1999, the Bank announced that it had fully provided for loans to GITIC and had made across-the-board provisions for five per cent of its China loan book and 20 per cent of

its loans to other ITICs. Dr. Li was confident that this was sufficient. "If you don't consider that conservative, I don't know what is," he told the press, while admitting that the Bank was confronting an unpredictable environment.²⁹ Non-performing loans remained worrying. The Bank's non-performing loan ratio rose to 4.1 per cent in 1998, compared to 1.2 per cent in 1997. Its China-related loans, including those to ITICs and red chips, amounted to 14.9 per cent of its total loan book.³⁰

BEA was one of eight banks on a steering committee that represented creditor banks of the Guangdong Enterprise group, an ailing investment vehicle of the province. Dr. Li urged the Hong Kong government to take a part in helping with the Guangdong debt situation, specifically by informing the Guangdong provincial government of the repercussions in Hong Kong and Guangdong itself. Notwithstanding all the depressing news, BEA was not about to pull out of China. "Our China loans are

actually more profitable than our Hong Kong ones," Dr. Li said at the end of 1998, reiterating that "our China strategy is historically long term."³¹

In the meantime, the Bank corrected its position in China. By July 1999, its China's related loans had gone down 11.7 per cent from the year before. Inevitably, the proportion of profits from China-related lending dropped sharply. Yet, business in China, for all its market flaws, was profitable and things soon started to turn around. In 2000, profits before taxation from China jumped back from HK\$91 million to HK\$145 million.³² Standing at the brink of a new millennium, the Bank could see many new opportunities on the Mainland: China's entry to the World Trade Organization; approval for it to launch Cyberbanking Services (China); China's Western Development Policy, and much more. And the Bank was revving to go.

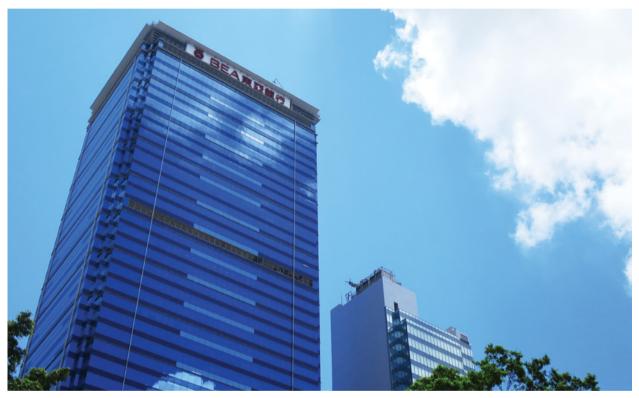
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PART IV

2001-2006

PROLOGUE



BEA Tower in Kowloon, Hong Kong, houses the main operations centre of the Bank.

BEA entered the new millennium in grand style.

In 2001, it was the biggest local bank (by capital) in Hong Kong.

Efficiency, rationalization and centralization were the buzzwords during these years. Re-engineering the Bank's organizational structure, transforming branches into sales

centres, and completely merging with the two acquired banks – United Chinese Bank and First Pacific Bank – raised efficiency and projected a new image.

New emphasis was placed on investment banking, wealth management and corporate banking and the beginning of corporate services which was to grow exponentially. Technological advancement supported the Bank's growth on every front.

The Bank expanded overseas operations with spectacular development in the United States. Strategic alliances, especially with foreign banks eager to enter China, raised BEA's international profile. Its traditional bridging role became even more prominent and helping overseas and Hong Kong businesses capture opportunities in China was honed into a fine art.

Doing business in and with China took many new forms as the China market continued growing beyond anyone's expectations. The Bank injected capital into China, expanded the branch network to new regions, including Xi'an in the western region, trained local staff intensively and introduced new banking products. Being a pioneer in internet banking, the Bank continued to invest in IT innovation and cybersecurity.

Business with China was no longer one-way and BEA was ready when the RMB gained currency in Hong Kong, first for savings accounts, then followed by the sale of RMB bonds; a slew of other RMB services further blurred the boundaries between Hong Kong and the Mainland. Helping Mainland investors make overseas investments and corporations raise funds in Hong Kong and expand their operations abroad soon became commonplace. All these changes were guided by a new mission statement that emphasized quality service, integrity and progress.

The opening of BEA Tower (September 2005) in Kwun Tong to provide more space for operations, staff welfare and training, research and innovation was the embodiment of these aspirations. Notwithstanding setbacks such as the outbreak of Severe Acute Respiratory Syndrome ("SARS") in 2003, BEA courageously invested in its people and in the future.

CHAPTER NINE

OVERVIEW: HONG KONG AND THE WIDER WORLD (2001–2006)

Most people remember 2001 as the year of the 9/11 attack with its catastrophic political, social and economic impact around the world. It was a blow especially to those looking forward to a bright millennium. What conditions – challenges and opportunities – did BEA face in the next few years?

It had been a mixed year financially for Hong Kong even before that fateful day. The deterioration of the American market after September and the deepening malaise in Japan prevented any full-scale market recovery from the Asian financial crisis. The stock market was volatile, property values declined and local consumption was dampened by rising unemployment. Negative equity became a frightening reality, affecting, as the HKMA stated, some 16 per cent of domestic mortgage borrowers in 2001. With high liquidity in the banking system, it was not surprising that when the final phase of interest rate deregulation took place in Hong Kong on 3rd July, 2001, there was no competition for deposits as had happened in the past.

The year 2003 proved to be even more of a nightmare when SARS broke out in March and lasted till June, infecting 1,755 people in Hong

Kong and killing 299. The anxiety created by an unknown and virulent disease disrupted daily life and economic activities and shook general confidence in the future. Fear pervaded the city as people desperately avoided contact with others. On 26th March, 2003, BEA suspended its Lei Tung Estate Branch because a member of staff was suspected of being infected.¹ This and the uncertainty surrounding the American invasion of Iraq in the same month brought further gloom.



In 2003, the previously unknown disease SARS spread to Hong Kong.



通告

預防呼吸道感染的健康指引(二)

基於香港近日持續出現嚴重急性呼吸道症候群,而本行利東邨分行亦不幸有同事感染非典型肺炎,該名受感染的同事是於三月二十三日(星期日) 開始發病。經調查後,顯示有關同事極有可能是較早前自其家庭其中一名成員中感染非典型肺炎。因此,該分行已於昨日下午關閉進行徹底清洗和消毒,並將於二零零三年三月二十八日(星期五)恢復營業。屆時本行會安排借調其他分行之同事,繼續為客戶提供服務。雖然利東邨分行之其他同事並無出現非典型肺炎的徵狀,但該行之同事將會放假七天以作休息及觀察健康狀況,並會獲得一切必要協助。

爲進一步顧及客户和同事的健康著想,本行將採取以下措施:

- 呼籲各同事應切實執行本行所發出的健康指引,現再附上三月二十四日之有關通告(附件)以供參考;
- 將盡快爲全行同事提供口罩及額外爲分行前線同事提供火酒抹手紙 小包,一經運抵即送交各部門/分行,各同事可因應情況而使 用。在口罩送抵各部門/分行前,各同事可在有需要下採用 自備之口罩;
- 3. 在各部門/分行進行徹底清洗和消毒;
- 若同事有家人懷疑感染非典型肺炎,要將個案即時經部門主管/分行經理通知人力資源處。

現再重申如同事有呼吸道感染病徵,應立即找醫生診治,遵從醫生吩咐在家休息。同事對上述事項有任何疑問,歡迎致電員工關係組黃詠儀小姐(2835-3047)或周玉琼小姐(2835-3048)聯絡。

此 致

各處主管/部門主管/分行經理 (請轉各同事傳閱)



李國寶 謹 啓

二零零三年三月二十七日

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In March 2003, the Bank suspended operations at its Lei Tung Estate Branch following the discovery of a suspected case of SARS among its staff.

Tourist arrivals plunged by 58 per cent from a year before, while local private consumption continued to fall. The unemployment rate rose to a record high of 8.7 per cent in the middle of the year. Deflation worsened. Residential property prices continued to drop and by July they were worth a third of their value in 1997 when the property market peaked. The number of residential mortgages in negative equity rose to around 106,000 in June, about 22 per cent of all residential mortgages. The only thing going up, it seemed, was the number of bankruptcies.

Fortunately, the worst effects of SARS were shortlived, and a rebound set in later that year, partly as a result of vibrant offshore trade and general economic improvements across East Asia, the European Union and the United States, and partly of different modes of closer ties with China - notably the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") with China and the Individual Visit Scheme ("IVS").2 Both helped Hong Kong enormously. The effect of IVS was immediate and highly visible. In 2004, over 12 million Mainland visitors arrived in Hong Kong, 4.25 million of them under the new scheme. Chinese tourists boosted local retail trade, hotels and catering services and their remarkable purchasing power led to a huge expansion in the luxury goods market and a total transformation of shopping areas across the territory. No less transformed was the social and cultural landscape of Hong Kong.

By the end of 2004, the tide had definitely turned. Hong Kong's GDP rose 8.7 per cent in real terms that year. An improving economy, greatly increased IPO activities – especially by Mainland companies – and continued market expectations of a possible revaluation of the RMB attracted large inflows of funds into Hong Kong. These inflows supported strong liquidity in the banking system.

Hong Kong's rise as a financial centre continued unabated. Notwithstanding the ups and downs in the market, the infrastructure of the financial market matured and grew stronger. During this period, notably after 2004, the expansion in the scale of business operations across the board was mind-boggling.

In 2006, the city became the world's fifteenth-largest banking centre in terms of external assets and the sixth-largest center for foreign exchange trading. Market capitalization of the securities market rose from HK\$3,946 billion in 2001 to HK\$13,338 billion in 2006, pushing Hong Kong's stock market into sixth place worldwide, ahead of Toronto, and second in Asia. In 2005 and 2006, the world watched with envy and amazement as three of China's 'Big Four' banks went public in Hong Kong. Even more striking was ICBC, which in 2006 became the first Mainland enterprise to

simultaneously list its H shares in Hong Kong and A shares in Shanghai. The combined offering marked the biggest IPO ever in the world, raising US\$19.1 billion in all, of which HK\$124.9 billion (approximately US\$16.1 billion) was raised in Hong Kong.³

At the end of 2006, 1,173 public companies were listed on the SEHK. With sixty-two newly listed companies raising HK\$333.9 billion from IPOs, Hong Kong ranked second worldwide in terms of IPO funds raised, overtaking New York. Besides new share issues, an extra HK\$190.7 billion was raised on the secondary market.

The securities market flourished as more investment options emerged. For instance, the number of stock option classes for trading more than doubled between the beginning of 2001 and the end of 2006. Developing equally vibrantly was the fund management sector.



Former trading floor of the Hong Kong Exchanges and Clearing Limited

Asset management business, characterized by the many expatriate participants, topped HK\$6,154 billion in 2006, over four times the figure for 2001. The abolition in 2005 of the Estate Duty, a reform long championed by Dr. David Li Kwok-po, raised Hong Kong's status as an asset management centre. The MPF scheme boosted fund investment too and by end of 2006, the total assets of MPF schemes had reached HK\$202.4 billion.

The debt market, nurtured by the HKMA, made great strides, particularly the secondary mortgage market promoted by the HKMC. The bond market grew as well: higher-yielding Negotiable Debt Instruments ("NDIs"), including Negotiable Certificates of Deposit ("NCDs"), were a main conduit for banks' surplus funds. The total outstanding Hong Kong dollar debt securities reached HK\$748 billion at the end of 2006, compared to HK\$494 billion in 2001.

There was rapid growth in the insurance market as well, with gross premium income increasing annually by around 16 per cent from 2001 to 2006. The insurance market, extremely open and international, was like a magnet attracting big operators from around the world. In 2006, thirteen of the world's top twenty insurers were authorized to carry on insurance business in Hong Kong.

New clearing systems, such as the US dollar RTGS and the Euro RTGS, smoothed the flow of funds into and through Hong Kong's banking system.

Regulation

On the regulatory front, the Basel Committee issued its revised framework on capital adequacy standards for banks in June 2004. Aimed at making capital requirements more risk-sensitive and compelling banks to

improve their own risk management, 'Basel II', as it came to be known, was to be adopted in Hong Kong in January 2007. In preparation, the HKMA developed risk-based supervision and completed its Banking (Capital) Rules and Banking (Disclosure) Rules. Hong Kong became one of the first jurisdictions in the world to implement Basel II and this no doubt enhanced the territory's status as an international financial centre. For individual banks, it meant greater investment in professional risk management and a scramble for staff with such expertise.

China

China continued as the engine of growth for Hong Kong. Driven by strong exports and capital investments, China's persistent trade surplus and enormous foreign currency reserves made it appealing to financial institutions and other investors. Its entry into the World Trade Organization allowed foreign banks to expand gradually but steadily on the Mainland in terms of geographical scope, types of business operations, and categories of customers they could serve.



In 2004, the Chinese government announced an official channel for opening of RMB bank accounts in Hong Kong.



BEA unveiled a series of financing packages and other services for Hong Kong investors under the Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA"), following the signing of the agreement in June 2003.

The China and Hong Kong markets became even more tightly intertwined and interdependent post-CEPA. In the securities market, the effect was quite spectacular. In 2006, 141 of the 143 Mainland-incorporated enterprises listed outside China were listed in Hong Kong. There were in total 367 Mainland enterprises listed in Hong Kong that year. Equity funds raised by Mainland enterprises amounted to HK\$384.9 billion, about 73 per cent of total equity funds raised through Hong Kong during the year.

Hong Kong responded enthusiastically to the Chinese government's policy to internationalize the RMB. In 2004, thirty-eight banks in Hong Kong offered personal RMB deposit, remittance and exchange services. By the end of December 2004, outstanding RMB deposits in banks in Hong Kong stood at more than RMB12 billion and they kept growing. Given that the RMB was not a fully convertible currency, it was all the more remarkable. Limits on the

use of the RMB account and other restrictions were later lifted – Hong Kong residents could even use RMB cheques in Guangdong – and the sense of barriers soon disappeared in people's minds.

The flow of money across the border, now much freer and easier, became increasingly two-way. The substantial amount of funds in Hong Kong dollar accumulated over the years on the Mainland from trading activities and inward investment placed was subsequently channeled back to Hong Kong through the inter-bank market. The Qualified Domestic Institutional Investor ("QDII") scheme introduced in 2006 was one example of the Central Government's policy to release the pressure of the immense foreign currency holdings built up on the Mainland. further accelerated the outflow of funds to and through Hong Kong. BEA was one of the first foreign banks granted QDII status by the China Banking Regulatory Commission

("CBRC") and among the first to obtain a foreign exchange quota to conduct QDII business.⁴

Great excitement was created by the announcement in 2006 that foreign banks could apply to be incorporated in China in the following year. In the months running up to April 2007, major international banks frantically pushed through the necessary preparatory work, each eager to become the first foreign bank to establish a locally-incorporated bank in China. It was an honour that BEA was to achieve, demonstrating again the edge of the early-comer and showing that long-term commitment to China would bear rich fruit.

While the Mainland market was catching world attention, little Macau also made a splash when its gaming licensing policy was liberalized to attract international investment. Some of the world's largest gaming and hospitality businesses rushed in, resulting in an incredible boom. This too became an opportunity for BEA.

The fat years lasted through 2005 and 2006: in these two years, BEA was riding high with spectacular profits and there was every reason to believe that things could only get better.

- 1 BEA, News Release, 26 March, 2003.
- 2 CEPA is a free trade agreement concluded by the Mainland and Hong Kong. It covers three areas: trade in goods, trade in services, and trade and investment facilitation. It was designed to accelerate the economic integration between the two places. The Individual Visit Scheme began on 28 July, 2003. It allowed travellers from Mainland China to visit Hong Kong and Macau on an individual basis. Prior to the Scheme, Mainland residents could only visit Hong Kong and Macau on business visas or in group tours. The Scheme was introduced to help Hong Kong recover from the ruinous effects of SARS.
- 3 Hong Kong Exchanges and Clearing Limited, Fact Book 2006, The Year 2006 in Review, p. 2.
- 4 BEA, Annual Report, 2006, p. 28

CHAPTER TEN

NEW MISSION, NEW IMAGE, NEW STRENGTHS

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We at BEA strive to provide best-in-class financial services, always demanding the highest standard of professionalism and integrity of ourselves. With a commitment to quality and service we focus on satisfying customer needs. We aim to grow, together with our customers, our shareholders and our colleagues.

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- New BEA Mission Statement, 20021

New Mission

In 2002, the Bank had reached a new stage of its development: its total assets had reached HK\$180 billion. It was the biggest local bank (by capital) in Hong Kong and 181st in the world (ranked by *The Banker* in 2001). Its staff was almost 5,000 strong. It was expanding its operations and re-tooling its branches. Its presence in China and overseas was widening. How to proceed to the next stage? It was time for a new mission statement to guide the Bank forward.

Underlying the new Mission were six core values:

Professional Service, Best in Class, Customer Focus, Focus on Quality, Growth-Oriented, Integrity/ Honesty²

This set a high bar: the Bank would have to mobilize all its resources to achieve it. We may call it a 'self-strengthening movement' and it proved very effective. The new mission statement was partly based on the principles for reform recommended by A. T. Kearney whom the Bank had consulted during its soulsearching - that emphasized efficiency, rationalization and centralization. We see them applied in re-branding, branch transformation, human resources management, organizational restructuring and operations. But there were other sources of inspiration that emphasized caring for individuals and fostering relationship with customers and among staff. It was this priority given to 'caring' - caring for staff, customers and the community - that set BEA apart from the rest, long before Corporate Social Responsibility became a buzz phrase.

The evolution of BEA's identity:

BEA's corporate identity took various forms during the Bank's early years. However, as competition in the banking industry began to intensify in the second half of the 20th century, BEA saw the need to create a stronger brand identity. The result was the development of its current logo in 1972, which incorporates the Chinese characters for "East" and "Asia" as well as a globe symbolizing the Bank's growing business beyond Hong Kong. Over the years, this logo has been further refined.





BEA's identity was refreshed in 2001. The former logo is on the left and the current logo is on the right.

New Brand

Brand-building was an old task but special efforts were now made to project a fresh image to reflect the new mission and new corporate identity. A task force had been formed in 2000 by different departments to consider how to brand and position the Bank, as a way to help customers identify it more easily and also to understand its work better. In January 2001, Landor, a leader in brand consulting and design, was invited to conduct a strategic study to rebrand and redesign the Bank's corporate and retail products to make the Bank appear modern, dynamic, innovative and user-friendly. A new logotype and a catchier moniker - 'BEA'- were introduced. logo, modified from the old 'type', an artistic representation of the Chinese characters 'East' and 'Asia', was amended to highlight the image of the globe in the middle, so that the concept of 'A World of Experience' would be more prominent. It would also accentuate the Bank's global reach and its worldwide network of branches.³ In the years to come, the Bank was to modify its corporate design themes/motifs from time to time to show a spirit of constant renewal.

Transforming Branches

A. T. Kearney was hired in 2001 as the consultant for the 'Branch Transformation Project' to rationalize the branch network and to change branches into sales centres. Accordingly, new branches were opened only in strategic locations and old branches with low potentials, or which were obvious duplications, were closed; some were relocated to more desirable sites. The number of branches fell from 124 to 88 between 2001 and 2006, 26 of which were fitted with SupremeGold Centres.⁴ Alternative channels such as ATMs





The clean and open design of the Bank's newly refurbished SupremeGold Centres creates a tranquil and sophisticated space for clients.



BEA was named 'Top Service Brand' in Hong Kong for 2005 by the Hong Kong Brand Development Council and the Chinese Manufacturers' Association of Hong Kong.

and the internet, and later, i-Tellers and mobile phones, arose to meet customer needs.

In September 2001, eleven branches were selected as 'Pilot Branches' to operate according to the Kearney model. Frontline staff were trained to sell and cross-sell a wide range of products including investment and insurance products. In 2002, the non-interest income of some branches grew more than 100 per cent over 2001, with total sales at almost HK\$1.6 billion, showing the effectiveness of this approach. With branch staff playing a more proactive role in promoting business development, referrals from branches to the Corporate Banking Division also rose to HK\$0.4 billion.⁵ The rest of the branches were all remodelled in the course of time.

Branches were redesigned to implement the segmentation of customers, one of the most important new business strategies. SupremeGold was introduced in 2003 to offer greater convenience and personalized services to the growing number of upper and middleclass families and individuals. At the smartly designed SupremeGold Centres, specially trained Relationship Managers sold the full range of products, such as stock trading, unit trusts/mutual funds, bonds and linked deposits to exclusive customers. WealthPlus, a sophisticated wealth management tool that offered branch staff a powerful interactive online system, was installed in October 2004 to help them perform investment and financial analysis to identify bank products that matched customers' investment strategies.



Dr. David Li and the Bank's Senior Management presided over the grand opening of BEA Tower in 2005.

Millennium City 5

In September 2005, BEA officially unveiled its new operations centre at Millennium City 5 ("MC5") in Kwun Tong at a grand ceremony with over 700 guests. The building was named BEA Tower: the Bank, owning fifteen floors of the forty-two-storey office building, had naming rights. As the acquisition included an option to purchase a shop space in the commercial podium, a shop of 3,254 square feet was subsequently acquired at HK\$50,508,900 for the Millennium City 5 Branch. Regarded as the Bank's 'most important investment in recent years',6 MC5, as it came to be known affectionately, quickly became an icon of the Bank's forward-looking spirit and the priority it placed on staff welfare.

BEA had acquired the property off-plan for HK\$1.3 billion three years earlier to provide space for the centralization of back-office work. The Kwun Tong site was chosen, after many months of searching, for considerations of cost, usable space, ease of access and facilities in the neighbourhood. The project was attractive because the new building was to

be an 'intelligent' building, but as importantly, buying it off-plan, the Bank was able to have its many specific requirements included during the construction process and made it, to a large extent, 'purpose-built'. Many of the Bank's departments were involved in the planning to ensure that the new space would be as efficient and user-friendly as possible; the effect of inter-departmental cooperation and cross-fertilization produced wonderful results.

When completed in May 2005, BEA Tower provided over 400,000 square feet of floor area for use and the much-needed office centralization project could now go ahead: almost 2,000 BEA employees moved into the building and operations started right away. This finally solved the long-standing problem of lack of space for back-office work,7 in particular for developing new technology and work methods. Colleagues working on IT-related projects, previously scattered in seven different localities across the territory, were finally brought together under one roof for better coordination and greater efficiency. It was especially timely as, apart from the many other ongoing IT projects, the Bank had just embarked on the first phase of its core banking system that was to become the backbone of all future developments. With a new mainframe purchased, the immediate task was to design the system architecture; at the same time, Customer Relations Management ("CRM") was urgently developed in order to gather and process data to boost the Bank's marketing strategy. A second phase to cover deposit and payment modules was already planned.8

The 10,000-square foot Data Centre – later to include the Innovation Centre with its Silicon-Valley-esque décor to inspire creative thinking⁹ – reflected the Bank's legendary commitment to technological excellence. The Centre was managed around the clock by a professional team to ensure smooth, continuous operation.





Innovation Centre



Exterior view of BEA Tower

Auditorium





Data Centre Staff Canteen





Rooftop Garden Fitness Centre

Its design, created in-house, was awarded the BS7799 information security management standard, making BEA the first bank in Hong Kong to achieve this high security standard. With this as an incubator, many amazing IT products would be generated to support the fast-growing array of the Bank's business and management operations, confirming BEA's leading position in the field.

The state-of-the-art design and technology and the air of simple elegance and energy that characterized the Data Centre likewise pervaded the many sophisticated facilities for training, conferencing and presentations. The 368-seat auditorium on the seventh floor of BEA Tower was a particular showpiece.

BEA Tower, moreover, provided the space for building team spirit and friendship. Just as impressive as the high-tech facilities were the superb staff recreational facilities on the top (forty-second) floor, a floor that, in most other organizations, would have been reserved for senior people, or rented out for revenue. Instead, the top floor here, with a fabulous full view of the Hong Kong harbour, was occupied by a gymnasium, staff canteen and common room, lactation room and two lecture rooms for the caring and enjoyment of staff of all ranks. Another area for staff use was the rooftop garden, where the view was even more stunning. It was equipped with facilities for parties and barbecuing – one of Hong Kong people's favourite recreational activities – for staff as well as their family members and friends. Visitors were inevitably full of admiration for what they saw, especially staff from other banks. As one BEA colleague proudly muses, "What bank would give the best floor of its building, with a magnificent sea view, to the use of its staff?" That said a lot about how much BEA cherished its people and how graciously it showed its appreciation.

BEA Tower, besides raising productivity and enhancing inter-departmental synergy, was a valuable piece of real estate. Its property value kept rising as the former factory area evolved into a vibrant commercial hub in the 2000s, with popular shopping malls, high-end restaurants and trendy shops opening. The Bank's branch on the ground floor and SupremeGold Centre on the twenty-sixth floor benefited from the gentrification of the whole neighbourhood.

This was a period of growth, especially after 2004.

Merging with Two Banks

The merging with UCB in August 2001 and FPB in April 2002 consumed an enormous amount of energy. Until the merger, UCB was a subsidiary and its staff was very conscious of their separate identity. Despite sharing

Table 4.1 The Growth of Profits

	2001	2004	2006
(HK\$ in millions)			
Total consolidated assets	181,765	210,370	294,202
Total capital resources/equity	22,538	26,164	27,645
Profits	1,600	2,424	3,435

many things on an operational level, such as the computer system, and using BEA training programmes, UCB staff ran their own staff sports teams and organized their own leisure, social and community activities quite distinct from those of BEA. The difference in corporate culture was keenly felt on both sides. Only on 27th August, 2001 when the merger was completed and UCB's local assets and liabilities absorbed by BEA did UCB staff finally and formally become BEA staff.

In March 2001, after the compulsory acquisition of all outstanding shares of FPB Holdings, the company became a wholly-owned subsidiary of BEA and was delisted from the SEHK. Preparations were soon made to merge it with BEA.

Absorbing the two banks into BEA meant an overwhelming workload for the planning team. The restructuring of the Bank's organization and the reposting of staff affected almost all departments and at all levels. The mergers certainly had important human resources It entailed salary alignment, implications. a new grading structure, enhancement of performance appraisal of staff benefits with the market and, not least, new employee care and support systems, which had been a hallmark of BEA's staff relations management.¹³ These were major operations, not only in financial and technological terms, but, perhaps most crucially, in human terms.

Interestingly, in October 2001, Mr. Li Cheuk-yan, the then Legislative Councillor representing labour interests, called on the Bank's management to express his concern that some staff members had received warning letters and that some branches would close after the mergers. Dr. David Li Kwok-po explained that human resources were the Bank's most



The Bank highlighted its strengthened network and services following the rebranding of the former UCB and FPB branches.

Table 4.2 The number of the Bank's employees grew

	Hong Kong	Overseas	Other Greater China	Total
2001	3,886	368	666	4,920
2006	4,803	761	2,161	7,725

valuable asset, which it would use wisely and in accordance with the Bank's development policy in China and the world. As BEA had a clear guideline on performance appraisal and code of conduct, warning letters were issued from time to time when performance was not up to scratch with the hope for improvement. It was also inevitable, Dr. Li admitted, that some branches would be closed but the Bank was in the process of streamlining its retail service, and when good sites were located, new branches would be opened too. Employees could reflect their views to the Staff Relations Team if they had concerns. This seems to have convinced Mr. Li Cheuk-yan that BEA had a fair staff relations system; he even suggested that such clarification from the management itself would do much to dispel discomfort among staff and boost their morale.14

Strengthening Human Resources

BEA did lay off 200 people during 2001, following a review that took into account changes in BEA's organizational structure and market focus. But the exercise made the staff a stronger team from another perspective. It did not contradict Dr. Li's pronouncement that people were the Bank's most valuable assets. To attract and keep good people, the Bank continued improving employment conditions: providing and encouraging training and professional development and improving staff benefits that included rewarding performance and creating a caring and harmonious environment. These measures benefited the Bank by creating a more productive staff force while enriching the lives of staff as individuals.

Training

To keep abreast of the Group's rapidly growing financial services and changing business environment, an e-Learning platform was created to give staff access to different



The Bank offers a wide range of training programmes to staff, focussing on both career and personal development.

types of learning programmes so that they could study at a time and place most convenient to them. Continuing Professional Training Programmes were provided to staff working as licensed intermediaries in related financial business to upgrade their professional competency and integrity.¹⁵ Customized training courses were created with the collaboration of university professors and external training consultants.16 Once BEA Tower went into operation, the state-of-the-art training facilities and the energy-filled environment contributed greatly to the effectiveness of training activities - and certainly to the enjoyment of trainers and trainees alike. In the area of staff training, the Bank had much to offer the banking industry in Hong Kong.

Rewarding merit

Rewarding top performers is one effective way to motivate staff. The Sales Performance Management and Incentive Scheme, for instance, was implemented to align with the Branch Transformation Project which turned branches into sales centres and branch staff into sales agents. More than new knowledge, the transformation required a new mindset. Some employees quickly met the new standards

of efficiency and productivity, increasing sales and referrals.¹⁷ But, it was not about revenue. The Bank awarded staff who served customers – even those who were not high-end customers – sincerely, attentively and politely, thus demonstrating the Bank's core value of putting customers first,¹⁸ and highlighting the importance of building relations.

For decades, the Bank had given recognition to staff who studied for further professional qualifications. Those who did particularly well in the qualifying examinations were given special awards. In 2001, for instance, awards were given to three staff members who had obtained the highest score in the subjects they took in the Hong Kong Institute of Bankers examination, including one member who had originally come from FPB.¹⁹

In April 2004, as economic conditions improved, a salary increment was awarded to top performers and other selected positions. The Bank introduced a new grading structure to benchmark job positions and also to benchmark its staff benefit offerings against the market. A New Senior Executive Bonus Plan was introduced in 2004.

Team spirit and leadership-building were emphasized and activities such as management retreats and Outward Bound courses were organized to such ends.²⁰

Care and support

Genuine caring for staff was highlighted. The Staff Relations Team started work in September 2001 with the goal of strengthening ties between the management and staff and among colleagues through a wide range of activities and caring programmes.²¹ It was hoped that through interaction at different levels and direct counseling, the management would get a better understanding of the difficulties faced by colleagues in their daily work

and be able to offer them the most appropriate help and resources. Such help was invaluable at a time when work stress was exacerbated by new demands – new services to offer, new products to sell, new regulations to observe, and new standards of compliance to meet. The team also helped staff with stress that was not work-related. Gradually becoming more systematic and comprehensive, the caring programme included hospital visits, channels for complaints, referrals to the counseling service, and even sending flowers to funerals when a colleague's immediate family member passed away.

In cooperation with the Staff Sports and Recreation Club, the team organized activities to emphasize the importance of family and health, and friendship among colleagues. The care and support system proved to be very effective during the stressful time of the SARS outbreak, but it worked equally well during times of personal crisis. A volunteer team was set up in 2012; carrying out their activities in different sectors of the Hong Kong community, the volunteers extended the BEA spirit beyond its walls.

Staff Sports and Recreation Club

Unlike the recently formed Staff Relations Team, the Staff Sports and Recreation Club had a long history, facilitating various sports teams that played games with other institutions. Outings, banquets and other activities for the enjoyment of staff and their families were regularly arranged. By 2001, the Club already had a strong track record, aided by a wellestablished executive committee and working committee, whose members were volunteers. It even had several fulltime paid employees. In 2000, Mr. Ho Yiu-keung, Senior Manager of the Cash Department (now Main Branch), became chairman of the executive committee. He had joined BEA in 1969 and was called 'shifu' (master) by many colleagues for his mentoring



Grand opening of BEA's Taipei Branch in 1997

work. With him at the helm, the Club became more energetic and more widely appealing. Many more colleagues took part in the Community Chest's annual 'Walk for a Million' (later renamed 'Walk for Millions') under the BEA banner, for instance, and the amount raised also grew year by year. "I go, you go, we all go" was his rallying cry for mobilizing colleagues across the Bank to take part in Club activities.²²

Mr. Ho, with the support of senior management, expanded the variety of sports and leisure activities and encouraged the participation of staff from different departments and different ranks. The expenses were partially subsidized by the Bank, sometimes to as much as 50 per cent, and the Bank provided space for the Club office on the top floor of BEA Tower. Family members were welcome to join activities to highlight inclusiveness and the sense of community. Participation boosted team spirit and provided opportunities for colleagues to get to know one another better.²³ This was a very timely move especially after the acquisition and merger of the two banks.

Growing Overseas

Besides being stronger in Hong Kong, the Bank also expanded beyond the city. Overseas, BEA operated a total of nineteen outlets in the United States, Canada, United Kingdom, the British Virgin Islands and Southeast Asia during this period. Its strength continued to be a combination of local know-how and a deep knowledge of East Asia to serve the special needs of the overseas Chinese business community. In 2002, there was a 32 per cent increase in overseas loan business and 13 per cent rise in after-tax profits: overseas lending comprised 12 per cent of BEA Group business. In 2006, overseas business grew 23 per cent in the loan portfolio, achieving 8 per cent growth in operating profits. The Bank's activities in China, the United States and Canada are described in separate chapters.

BEA made the most of Singapore as a hub to explore the reviving Southeast Asia market. Business was growing so quickly that in 2009, it bought a commercial building located on the prestigious Robinson Road to double the existing office space for the Branch's operations, ²⁴ as we will see.

In 2002, a second BEA Branch was opened in Taiwan, in the city of Kaohsiung, making BEA the first Hong Kong-based bank to open a branch in that city. Kaohsiung was a prosperous business and industrial centre, the largest port as well as a core centre for heavy industries in Taiwan. It was surrounded by a number of renowned industrial zones. BEA's aim was to provide corporate and personal clients in southern Taiwan with first-class banking services including foreign currencies and NTD (New Taiwan Dollar) deposits, loans and advances, negotiable instruments, remittances, commercial bills, documentary credit and buying and selling of foreign exchange. In a very competitive banking environment, BEA exercised its advantage by providing cross-strait banking services to meet growing banking needs resulting from closer business ties between Taiwan and the Mainland, which we have noted previously.

The Bank's entry into Macau was also notable. Macau, which had become a Special Administrative Region of the People's Republic of China in 1999, was experiencing dramatic economic growth, especially after 2001 when its government announced the opening of the previously monopolized gaming sector to competitors, and some of the biggest names among gaming interests around the world arrived to build casinos and hotels. Other kinds of foreign investments followed. Seeing the opportunities, BEA opened its first Macau branch in 2001 on Avenida da Praia Grande, in Macau's chief commercial district. Offering a comprehensive range of banking and financial services, the branch acted as a toehold in that territory for cultivating relationships with individual and business clients.²⁵ Like Hong Kong, the number of individual travellers from the Mainland rose with CEPA arrangements,

and tourism and gambling, twin pillars of the Macau economy, combined to boost its GDP. BEA took advantage of Macau's thriving economy by capturing emerging lending opportunities as local and international investors sought financing in Hong Kong for new investments in Macau. It became actively involved in large conglomerates, including property development projects in Macau, working capital financing and IPO pre-financing. A US\$729 million syndicated loan to Wynn Resorts (Macau), which won the Macau gaming concession in 2005, was a high-profile example.²⁶ A sub-branch was added in 2006.

Growing through Strategic Alliances

A global network is composed not only of overseas branches; strategic international partnerships are also vital links. While this had been principal policy thinking of BEA for some



Macau Branch



In 2005, BEA established a strategic alliance with DZ Bank. Later, the two partnered to establish BEA Union Investment Management Limited in Hong Kong.

years, forming strategic alliances intensified in the new millennium as the China factor was foregrounded. Attracted by BEA's well-established branch network and deep understanding of the China market, many major banks from Canada, the United States, Asia and especially Europe sought opportunities to work with BEA to gain access for themselves and their corporate clients.²⁷

One such alliance was formed with Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main ("DZ Bank") and signed in August 2005. According to Dr. David Li, "Our agreement with DZ Bank is in line with our focus on establishing business ties with strategic banking partners around the world. With DZ Bank, BEA's customers will gain access to an extensive network of cooperative banks in Germany and their client support desks in Europe." The business cooperation agreement also had clear benefits for DZ Bank's corporate Within the cooperative financial clients. services network of the local cooperative banks, DZ Bank acted as central bank for some 1,100 cooperative banks with their 12,000 bank offices. Furthermore, as Germany's fifth largest credit institution, DZ Bank was an internationally-focused corporate bank that provided services primarily to German small and medium enterprises as well as to multinational companies. Two years later, BEA and DZ Bank's majority-owned Union Asset Management Holding AG formed BEA Union Investment, a joint-venture that significantly upgraded BEA's asset management business, as we will see.

Through such collaborative arrangements, BEA broadened its horizons to the rapidly globalizing markets, while helping others benefit from the dynamic China market.

Besides the ability to underwrite credit in China, BEA was also able to provide financing in the local currency and offer access to legal, accounting, and other banking-related services on the Mainland. Secretaries Limited, the Bank's newly acquired corporate service arm, further helped overseas clients establish and manage corporate structures for operations in China.²⁸ No wonder BEA was a

much sought-after partner by other foreign banks eager to enter the China market. By the time BEA concluded a business cooperation agreement with the Industrial Bank of Taiwan in November 2006, it was the fourteenth business cooperation agreement it had signed with overseas banks in recent years.²⁹ Such strategic partnerships were a win-win situation for all parties. For BEA, it was one more way to grow stronger.

- BEA, Annual Report, 2002, p. 2; BEA, Staff Newsletter, December, 2002, p. 2.
- 2 BEA, Staff Newsletter, December, 2002, p. 2.
- 3 BEA, Staff Newsletter, July, 2002, p. 2.
- 4 These figures are taken from the 'List of Branches' in the respective Annual Reports.
- 5 BEA, Staff Newsletter, April, 2003, p. 2.
- 6 BEA, News Release, 12 September, 2005.
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- 8 BEA, Annual Report, 2005, p. 20; Mr. Vincent Hui, interview.
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CHAPTER ELEVEN

ORGANIZATIONAL RESTRUCTURING AND BUSINESS OPERATIONS

The same principles of efficiency, rationalization and centralization that led the Bank to transform its branches also led it to redraw its organization chart. Faced with enormous changes in the market, it was imperative to restructure and innovate in order to capture opportunities and provide the best possible service to customers.

Organizational Restructuring

A major redrawing of the Bank's organization chart took place in 2001. Operations were now divided into two main groups: the Business Units and the Administration and Control Units. There were four divisions under the former – International, Investment Banking, Corporate Banking and Personal Banking – and four under the latter – China, Operation Support, Strategic Planning and Legal. A separate Human Resources Division reported to the Chief Executive while the Internal Auditor reported directly to the Board of Directors.

Subsequently, the most notable changes to this structure were the creation in 2004 of the Wealth Management Division – with units transferred from the Investment Banking

Division – and the substantial enlargement of the Corporate Banking Division.

Investment Business

The Bank's investment business grew remarkably during this period, especially after the market made a general recovery in 2003. A sustained boom followed. The number of companies listed on the SEHK rose, as did turnover and capital, while the amounts of capital raised in IPOs and secondary markets broke one record after another.

Technological innovations, which gave BEA an edge in all respects of its operations, played a very prominent role in boosting investment services. Cybertrading for securities, introduced with such a splash in 1999, continued to do its magic so that even during the slow years of 2001 to 2003 investment operations in BEA did remarkably well. Apart from the convenience, Cybertrading account holders were fascinated by what they could do with a click of the mouse, whether in managing their accounts or in buying and selling stocks. In 2001, Cybertrading accounts increased 80 per cent over the year before and more than 30



Listings by the Mainland's major banks and other flagship companies in the early 2000s spurred securities trading in Hong Kong.

per cent of securities clients had subscribed to internet trading – and the percentage kept going up. In April, EAS launched an enhanced Interactive Voice Recognition Phone Trading System, a fully automated online electronic trading channel that complemented BEA's existing electronic dealing channels such as the internet and mobile phones. The volume of transactions executed via the Cybertrading system accounted for some 50 per cent of trading volume and 37 per cent of transaction turnover.¹

IT staff kept adding new features to the Cybertrading system, including an Internet Margin Trading Service that allowed margin clients to perform online stock trading through the internet or the voice recognition system. The real time stock price quotes service was enhanced to let customers control their orders more flexibly. It was a happy situation where customers benefited from the user-friendly trading platform, lower commission rates and various special incentive schemes, and the Bank profited from reduced transaction costs and higher volumes of trade. East Asia Futures Cybertrading was launched in 2005.

The Emergence of Wealth Management

"Sound wealth management has become one of the focuses of investors recently", Dr. David Li Kwok-po pointed out in late 2002. As the low interest-rate trend persisted and growth remained slow (in 2001 and 2002), the Bank made enormous efforts to expand the range of products and choices for its customers who were hungry for alternative means to seek returns for their principal.²

One area of investment where the Bank expanded aggressively was unit trusts. Unit trust management was the charge of EAAM, a wholly-owned subsidiary of BEA formed in 1989. Up to the early 21st century, Hong Kong investors were still comparatively indifferent to mutual funds. Despite the growing number of unit trusts registered – 1,860 at the end of



East Asia Futures Cybertrading was launched in 2005.

2000 compared to 1,583 a year earlier3 - and occasional surges of interest, the percentage of Hong Kong people who invested in mutual funds was still only around 8 per cent compared with the 50 per cent level in the United States. It was a huge market waiting to be tapped and BEA found the key to it. Realizing that Hong Kong residents, generally frugal and pragmatic, were resisting mutual funds because fund houses were charging high subscription fees, mostly at 5 per cent, BEA gained market share by knocking 2 percentage points off fees charged on every fund it distributed. In addition, by leveraging its technological capabilities, the Bank further enhanced its service to customers by creating an online fund database, the Cyberfund Centre. It was with good reason that a Wall Street Journal article recognized BEA as 'pushing a new attitude for Hong Kong' with regard to selling trust funds.4

Backed by a team of experts, BEA started to launch its own funds besides distributing them. In January 2002, it offered a 104 per cent capital guaranteed fund, the first sub-fund under the umbrella unit trust BEA Investment Series. Mr. Samson Li, General Manager of BEA's Investment Banking Division (now Deputy Chief Executive), explained that the 4 per cent locked-in profit was seen as an attractive investment option given the then-current low interest-rate environment.⁵ In April 2003, the BEA Asia Strategic Growth Fund for retail investors was launched: this was one of the investment funds of the BEA Capital Growth Fund managed by EAAM. This provided investors a good opportunity to capitalize on the strong recovery potential of the Asian economies. With the minimum subscription amount set at US\$2,000, the threshold was low enough for many Hong Kong residents.6

By 2004, after all aspects of the market had rebounded, it was clear that the Bank's Investment Banking Division was overloaded. Its task was burgeoning not only because of large volumes but also because customers were becoming more sophisticated and demanding as investors. A new Wealth Management Division was created in July 2004.

This was a timely change. According to an industry report, 2004 was a year when the number of high net worth individuals grew by nearly 19 per cent and the GDP of Hong Kong rose by 8.1 per cent, providing ample basis for expanding the investor customer base. BEA acquired the whole of Asia Strategic Investment Management Limited ("ASIM"), a former joint-venture, in February 2004, to further strengthen its operations in fund management.⁷

The new Wealth Management Division made an immediate impact by streamlining and diversifying the Bank's offerings in structured deposit-based investment products and in unit trusts. These measures contributed to an above 70 per cent increase in investment product-related commission income in 2004 compared to the previous year. In 2005, the investment fund business of the Bank grew by more than 15 per cent in terms of net assets under management.⁸

In November 2004, BEA joined hands with one of the world's premier asset consultant companies, the Russell Investments Group, and introduced BEA Signature Portfolio Funds. The multi-manager institutional investment, 'fund of funds' approach was adopted to spread risk and offer a sound investment strategy for those seeking to accumulate wealth over the long term. Designed to meet the needs of a range of investors according to taste, appetite, time horizon, risk tolerance and overall investment objectives, the BEA Signature Portfolio Funds offered four globally diversified sub-funds, namely Stable, Balanced, Growth and Aggressive, and the categorization

did a lot to help customers find the sweet spot in their investment choices.

In 2005, the Bank revamped the online Cyberfund Centre and joined forces with ET-Wealth (a subsidiary of the listed Hong Kong Economic Times Group) in order to get timely information and enhance its financial news and information on investment funds. Due to the strong performance of several BEA investment funds and a 23 per cent increase in assets under management from MPF business, the Bank's investment management subsidiary, EAAM, recorded a significant increase in profit of over 39 per cent.⁹

New funds continued to come online. With growth of over 300 per cent in gross sales in 2006, and 20 per cent in net fund assets under management, the results were very gratifying indeed. In 2006, a total of 110 structured products were launched in Hong Kong and on the Mainland, three times the number of the previous year. Among them were exotic equity-linked deposits and BEA-branded mutual funds. In

Investment in structured products had in the past been the preserve of private banking catering to affluent individuals; now, these products were offered to a much wider customer base - the 'mass affluent group" - a reflection of the shift in Hong Kong's wealth structure. Though customers were growing sophisticated, BEA was duty-bound to educate them on the finer - and riskier - points of investment. This meant that Bank employees had to be trained professionally to carry out these duties. In a knowledge-based society, greater professionalization was unavoidable. In the fourth quarter of 2005, the Bank re-launched Private Banking for its most exclusive customers - key, high net worth clients with liquid assets of US\$1 million and above.13

BEA took an even bigger step in 2007 by partnering with the leading German investment company, Union Asset Management Holding AG, to form BEA Union Investment, which would prove a powerhouse, as we will see.

Mandatory Provident Fund

Performance in MPF activities demonstrated BEA's strengths. BEA became one of two approved trustees under the MPF Schemes Ordinance to offer both the Master Trust Scheme and Industry Scheme in Hong Kong in 2000, and in the following years, membership, assets in MPF and the number of investment funds developed specifically for these schemes continued to grow. In 2005, BEA was ranked second in the MPF Index compiled by Mercer Human Resources Consulting in recognition of its excellent investment team. More awards were to come. Acting as the trustees for all the above investment operations and services was BEA Trustees, while it continued to engage in more 'traditional' business such as acting as trustees of personal estates and other private foundations.



BEA Trustees offers a variety of investment funds for MPF clients.

Corporate Banking

The Corporate Banking Division, formed in 2001, covered business development, trade finance, corporate lending and syndication, share finance and trust.

Corporate Lending and Syndication

BEA took advantage of the market fallout after 9/11 to reposition itself to play a more active role in corporate lending. It arranged and underwrote syndicated deals, collaborating energetically with large local and international corporations by offering structured facilities on a bilateral as well as multilateral basis. This included securing deals to finance overseas acquisitions made by large Mainland corporations via their Hong Kong subsidiaries, such as the HK\$5,200 million loan to CITIC Pacific in 2005.

The year 2006 was a hectic one when many large projects were launched in Hong Kong: thirteen IPO projects were completed with BEA as Receiving Bank, including the ICBC IPO, which broke the world record as the largest IPO to date. The IPO market was hot, chased by Hong Kong investors intoxicated with the idea of getting rich overnight. Offerings were often dramatically oversubscribed. BEA's system was under a lot of stress but it came through. It offered forty-seven IPO issues through its retail channels that year and extended a total of HK\$171.8 billion in stagging loans.

These activities allowed the Bank to maintain growth in clientele and income base when the market was weak.



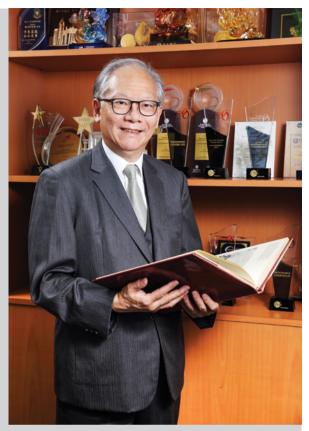
ICBC's initial public offering in Hong Kong

Reflection by Alexander Law

"My parents never tire of telling us about their first visit to BEA in the late 1960s. My father needed a loan to redevelop one of his family's old properties in Wanchai. The new building, when completed, became his head office; from there, he branched out from the family's pawnshop business to launch his career as a property developer", said Mr. Alexander Law Sau-wang, Chairman of Culture Technology Ltd., explaining how his family's relationship with BEA began. "Though my father never liked the idea of borrowing from banks, he is still grateful to BEA for that first loan."

Mr. Alexander Law established his own relationship with BEA in 2003, when he bought several properties (including three whole blocks) very cheaply during SARS and mortgaged them to the Bank. As the value of the properties rose continuously afterwards, he was able to refinance the mortgages several times, always with BEA, to expand his own real estate portfolio, pay for redevelopment projects and venture into new enterprises.

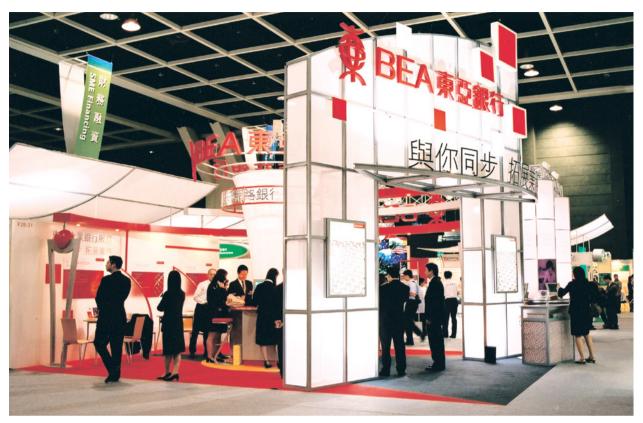
"BEA is the only bank I borrow from. The Bank is like a father figure that stands behind me, quietly watching my interests and giving me good advice. Being able to communicate is very important – even fathers and sons do not always communicate well, and sometimes, it takes some misunderstanding or conflict to bring about negotiations that end up deepening the relationship... A few months ago the Bank wanted to raise interests on my mortgages; I said I



Mr. Alexander Law

wasn't happy with it. Soon afterwards, the senior management invited us to lunch. Not only did they not raise the interest, but they offered to increase the mortgage amount for one of the properties. I didn't really need the remortgage but the Bank took the initiative to offer it as an expression of goodwill, a gesture to show it values our relationship."

With Mr. Law ready to hand over the reins to his children, the family's relationship with BEA is set to extend to the third generation. "Just as my father took me to The Bank [many years ago] so I could get to know the people there", Mr. Law remarks, "I too took my three children to the Bank... I know old relationships mean a lot to them."



BEA actively participated in the SME Expos organized by the Hong Kong Trade Development Council.

Business Development

On another front, the Bank found a comfortable niche lending to SMEs. Times had been hard for Hong Kong's SMEs since the 1997 Asian financial crisis.¹⁴ Globalization, China's entry into the World Trade Organization, and the emergence of a knowledge-based economy all posed hurdles to a quick recovery for them. Recognizing that SMEs, which employed almost 50 per cent of Hong Kong's labour force, were an important pillar of the economy, the Hong Kong government started in 2000 to introduce a series of measures to help them - the SME Loan Guarantee Scheme being one example. BEA participated actively in these schemes and activities, making a contribution to their recovery while capitalizing on the business opportunities. Among these was a Hong Kong Trade Development Council ("HKTDC")-sponsored forum in May 2001 to inform SMEs about the wide range of banking services available to them; the BEA team, comprising representatives from the China Division and Corporate Banking Division, spoke about the Bank's financial services in Mainland China and in Hong Kong. There were also exhibitions at which the Bank showcased its products and answered queries from interested visitors. While many SME operators found the information valuable, through such exchanges the Bank also got to understand better their concerns and appetites.

In September 2001, BEA established the Community Lending Department to focus on lending to SMEs, with offerings including overdrafts, short-term loans and instalment

loans.¹⁵ A proactive marketing effort was directed at specific industries, including IT, logistics and electronics, which were up and coming in Hong Kong. When SARS devastated Hong Kong, the Bank helped many SME customers tide over hard times by offering more flexible credit facilities such as the Export Loan Financing scheme.

BEA's unique contribution, of course, was in IT. In August 2002, BEA and the Hong Kong Productivity Council ("HKPC") signed a collaboration agreement to provide a one-stop e-commerce solution for SMEs. In November 2001, the HKPC had introduced a user-friendly web design service, WebEC, which provided a wide range of internet store-front services that included domain registration, website design, web hosting, membership, e-marketing, web statistics, shopping carts, online forms and a search engine function. This was fine but what was still needed was a secure payment gateway service, and here was where BEA came in. Employing 128-bit SSL, 1024-bit Public Key Cryptography and Java technology for data encryption, BEA's payment gateway service ensured the transmission of credit card information in a highly secure environment. The service enabled SMEs to obtain real-time credit card payment authorization for Hong Kong dollar and US dollar transactions. With the integration of WebEC and payment gateway service, SMEs quickly and at low cost set up a complete and reliable e-commerce platform to develop their business.

"BEA is proud to complement the HKPC package with a secure payment gateway service, providing Hong Kong SMEs a complete e-commerce solution from a single-source vendor," said Dr. Li. "Our partnership means that Hong Kong SMEs no longer have to worry about the technical details of launching an e-commerce presence. They can concentrate on what they know and do best – building their own business."

In time, BEA fostered close relationships with their SME clients, designing flexible, tailor-made packages based on their individual requirements and financial objectives. By offering comprehensive commercial banking services that included trade finance, machinery finance, electronic banking, MPF, general insurance, and company secretarial services, BEA was a great partner for such enterprises. No wonder it won the Best Partner Award given by The Hong Kong General Chamber of Small and Medium Business Limited year after year from 2008. Many locally owned companies could look back and attribute their success to their partnership with BEA.¹⁷

To help SMEs beyond Hong Kong, BEA formed strategic alliances with The Chinese Manufacturers' Association of Hong Kong and The Hong Kong General Chamber of Commerce to enable local enterprises to expand their business on the Mainland as well. With the signing of CEPA and the growing immediacy of China opportunities, such support proved even more valuable.



The Bank offers loans under the government-guaranteed SME Business Installations and Equipment Loan Guarantee Scheme.

As with other units in the Bank, the Corporate Banking Division was greatly helped by advanced technology. In August 2001, BEA launched Corporate Cyberbanking, equipped with sophisticated security features to ensure complete control over account access; it improved management's ability to manage company cash flow, and in the following years, many more features were added to enhance security and expand the scope of services. The number of accounts jumped. At the end of 2003, over 9,300 corporate customers had registered for this service, representing a net increase of 156 per cent over the previous year.

tricor Services Limited Tricor Services Limited

Through a series of acquisitions, Tricor has grown to become a leading corporate services provider in Hong Kong and worldwide.

Corporate Services: TRICOR

Perhaps no one anticipated that corporate services would become such a significant part of the Bank's operations when it first entered the field in 2000 with the aim of diversifying into non-interest income business. It started by acquiring from Deloitte Touche



Tricor helps clients build their businesses by offering outsourced expertise in integrated business, corporate, and investor services. BEA sold its interest in Tricor in 2017.

Tohmatsu an 80.1 per cent share in Secretaries Limited, which in turn acquired from PricewaterhouseCoopers ("PwC") a 100 per cent share interest in Abacus Share Limited. In the meantime, BEA founded Tricor Holdings Limited ("Tricor") with the New World Group (23 per cent) and Deloitte Touche Tohmatsu (5.69 per cent), BEA itself holding 71.31 per cent. In rapid succession, Tricor acquired Tengis Limited – a major provider of corporate services in Hong Kong for almost thirty years - from Ernst & Young and then a 100 per cent shareholding in PwC's company secretarial and client accounting business in Hong Kong. Secretaries Ltd. and a number of other companies were consolidated under the Tricor name.¹⁸ Through a series of acquisitions of the accounting, company secretarial, share registration and related services from major international accounting firms and other leading professional firms, Tricor Holdings grew into a leader in the corporate service field in Hong Kong and far beyond.

From all quarters came demand for quality company service. In September 2004, the company opened its second China office in Shanghai, and the third office in China was opened in Shenzhen two years later. In Singapore, it acquired PwC's company secretarial, client accounting, payroll outsourcing and share registration businesses there, thus establishing a foothold in Southeast Asia. In the following year, it moved into Thailand and Malaysia. By the end of 2006, Tricor had operations in ten cities in the region with 1,000 professional staff - including highly experienced accountants, chartered secretaries and lawyers and support staff. Its fee revenue in 2006 exceeded HK\$600 million, an important contribution to the Group's fee and commission income. In addition, by playing an active role in supporting IPO activities, Tricor reinforced the Bank's investor services.

The organization restructuring undertaken in the early 2000s empowered the Bank in the face of rapid market changes and other challenges. Innovations in products and services were backed by ever-advancing IT capability and timely re-deployment of resources. It was a pattern of constant renewal and rejuvenation that provided sustainability in the new millennium.

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CHAPTER TWELVE

THE BIG CHINA FACTOR

As uncertainty shrouded most of the world's markets in the early 2000s, all eyes were on China, whose GDP continued to soar between 2001 and 2006 – more than doubling from US\$1,332 billion to US\$2,730 billion, at an annual average of 10.25 per cent. The China market was not only getting bigger but its impact was spreading globally and, just as foreign capital poured into China, Chinese investors reached out as well, further energizing Hong Kong, the main conduit. Doing business in and with China took numerous new forms.

The borders between Hong Kong and the Mainland grew even fuzzier as China's financial sector was further liberalized. More categories of Mainland customers were allowed to hold foreign currency accounts while Hong Kong customers could hold RMB deposits, and Hong Kong quickly took off as the offshore RMB hub. Hong Kong was 'the market of choice' – as Dr. David Li Kwok-po described it¹ – for the public listing of China's largest companies. With amazement, the world watched as Chinese companies, one after another, raised enormous amounts of capital in Hong Kong. Hong Kong and overseas banks, in the meantime, were eager to tap into China's enormous wealth:

US\$82 billion in personal foreign currency savings and US\$1.5 trillion equivalent in RMB savings.²

BEA had big plans for China. Earnings from the Mainland contributed about 11 per cent of its 2001 profits while accounting for only six per cent of all its assets.3 During 2002, BEA Head Office injected RMB560 million in additional capital into its China operations in anticipation of great things to come. According to the World Trade Organization accord, BEA would be able to provide RMB services to local enterprises by end of 2003 and to local residents by end of 2006, and with its ear to the ground as always, the Bank was all set to apply for RMB business licences for the China branches. Though the capital injection was made for long-term purposes, it nevertheless showed quick results. At the end of December 2002, operating profit surged 26.6 per cent to RMB 216.5 million.4 By 2005, while about two-thirds of BEA's profit came from Hong Kong, much of this was China-related, such as fees from Chinese companies' IPOs in Hong Kong or loans to Chinese companies with operations in Hong Kong.5 Of the Bank's loans, 18.3 per cent were made to the Mainland.



BEA opened its Beijing Branch in 2003, becoming the first foreign bank to open a branch in the country's capital following China's accession to the World Trade Organization.

The CEPA gave Hong Kong banks huge advantages in China; Dr. Li appreciated the initiatives made by the Hong Kong government. BEA was well placed to make the most of the new situation: its aggressive push into China was so successful that by 2006 one analyst suggested that buying BEA shares was an effective alternative to investing directly in the booming yet risk-laden China market.⁶

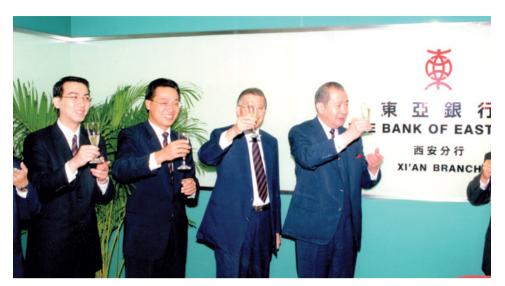
Doing Business in China: Branch Network

One simple way of measuring BEA's growth in China is by counting its points of access. In early 2001, BEA had six branches in China; by the end of 2006, there were thirty-one outlets

– twelve branches, fourteen sub-branches and five representative offices. In addition there were a growing number of ATMs.⁷

The opening of the Xi'an Branch in 2001 and the opening of the Beijing Branch in 2003 were two milestones in the process of branch development.

The symbolic meaning of having a branch in the country's capital cannot be exaggerated, and, as the Bank had waited so long for this to happen, the moment was especially cherished when it came. Though four other foreign banks received such permission at the same time, BEA became the first foreign bank to open a branch in Beijing since China's accession to the World Trade Organization.⁸ The grand



The opening ceremony for BEA's Xi'an Branch

opening ceremony was held at the Great Hall of the People and attended by over 400 distinguished guests from Beijing, Hong Kong and overseas – including very senior people in the government and the banking world – highlighting the historical significance of the occasion.⁹

Strategic Branching: Xi'an

More crucial than mere numbers was the strategic location of the branches. With the opening of the Dalian Branch in 1993, the Bank reached far into the northeast, completing a long arc stretching along the coast from the Pearl River Delta. The opening of the Xi'an Branch in 2001 signified the beginnings of inland penetration in the northwest. BEA was the first foreign bank to open a branch in that city.

In fact, the Xi'an Branch was opened at the suggestion of the Chinese authorities to help implement the Western Development policy announced in 2000, which made developing the vast western hinterland a top priority. The then

Premier Zhu Rongji described the move west as a 'major policy decision' and called for huge infrastructure projects such as railways, roads, airports and power grids. ¹⁰ Clearly, a trusted and efficient foreign bank could play an invaluable part in building the financial infrastructure.

For BEA, it was a monumental task. Opening the first foreign branch in Xi'an was doubtless a privilege and an opportunity; nevertheless, Xi'an was comparatively remote and the northwestern region was unknown territory with a very different social, economic and, not to mention, cultural environment. However, the Bank agreed to take on the role of pioneer despite the challenges. Again, it showed its willingness to take the lead as a pilot bank in a new experiment and contribute to China's historical enterprise.

Mr. Sun Minjie, who was then the Deputy General Manager of Shanghai Branch, was sent from Shanghai to Xi'an to plan and lay the groundwork for the new branch. He still remembers how, when he first arrived alone in Xi'an in January 2001, it was a mass of grey everywhere he looked. The place was very undeveloped. Not knowing a soul there, the first thing he did was to find a bookshop and buy a map of the city so he could get around. Besides finding suitable premises for the branch, he also had to recruit and organize people to staffit – perhaps the most challenging of his tasks. After several months of intense preparatory work, the Branch officially opened in August in premises that the Bank bought for the purpose. This Branch was not preceded by a representative office, as was the normal procedure.

The opening was a major event, as much for Xi'an as for BEA. Dr. Li and other members of the Hong Kong Head Office delegation were met on the tarmac when they arrived at the Xi'an Airport by Mr. Wang Zhongmin, Secretary-General of the Shaanxi Provincial Government, and Mr. Hu Huaibang, President of the PBoC, Xi'an Branch. Subsequently, other senior officials attended related gatherings, showing how highly they prized the occasion. Besides Mr. Wang and Mr. Hu, there were the Party Secretary of Shaanxi Province, Governor of Shaanxi Province, Executive Vice-Governor, Vice Governor, and the Mayor of Xi'an City. Senior officials also appeared along with Dr. Li at a press conference, where reporters from major television stations, radio stations and newspapers were present to cover the event.

It was revealed that, in Xi'an, such high-level reception protocol was unprecedented. One senior official jokingly commented that the reception for Dr. Li's visit was even more high-level than that for the US President Bill Clinton; when President Clinton visited Xi'an, he was only met by the Provincial Governor and the Executive Vice-Governor, as per instructions from higher authorities.¹¹

The Xi'an Branch was an achievement for several reasons. Mr. Sun Minjie, now appointed as Branch Manager, stayed on for five and a half years, joined by four members of staff from Hong Kong and eighteen local recruits. With no handbook or standard procedures to follow, starting a new bank branch is never easy, but opening the Xi'an Branch was extraordinarily difficult. For one thing, it had been seven years since BEA last opened a branch in China, during which time a lot had changed, including The difficulty was banking regulations. compounded by Xi'an's remote location and primitive transportation. Yet, the Branch soon got going and did very well. For several years, it ranked first in assets, profits and loan quality among foreign banks in the whole western region (which covered Chengdu and Kunming), and when this happened, Mr. Sun felt that all the hard work had been worthwhile.

In July 2006 when the Xi'an Branch celebrated its fifth anniversary, Mr. Chan Kay-cheung, the Bank's Executive Director and Deputy Chief Executive, spoke of BEA's 'great pride' in its achievement as the first foreign bank to open a branch in the northwest. During the five years, the Xi'an Branch had achieved significant business growth and had contributed to the development of the wider region as its services extended to Lanzhou (Gansu), Yinchuan (Ningxia) and Zhengzhou (Henan). The occasion also marked the opening of the Xi'an South Gate Sub-branch, the first sub-branch of a foreign bank in China's northwest. ¹²

In other ways too, the Xi'an Branch was special. Mr. Sun Minjie was the first local staff to be promoted as branch manager in BEA's Mainland operations. Up to this point, all the managers of China branches had come from Hong Kong. It was not a decision that Dr. Li and Mr. Yu Hok-keung made lightly when they appointed a local man to head a branch, and their confidence in him made him feel he could not fail. He had to prove to Dr. Li and Mr. Yu, who had taken such a big risk with him, that they had made the right decision. Thus, making the Branch a success was a personal burden for

Mr. Sun. Moreover, it was, in a broader sense, a critical test case with a bearing on the future of other locally recruited staff and, indeed, the Bank's overall human resources strategy.

As it turned out, the Xi'an Branch proved to be ideal for grooming local recruits for senior positions as the Bank was expanding rapidly on the Mainland. After the opening in 2007 of BEA China, the Bank's locally incorporated subsidiary, branches began mushrooming, and this pool of local talent became a great resource. Many of the local recruits trained at the Xi'an Branch became managers and senior officers of other branches. The Xi'an Branch, we may say, was a kind of Shaolin Monastery, legendary in the world of kungfu learning, where pupils underwent rigorous and solid training to become *kunqfu* masters themselves. With both institutions emphasizing endurance, flexibility and strength, BEA and the Shaolin Monastery may indeed have much in common.

This process of staff localization was valuable and timely. In the past, Mr. Sun points out, when there was little expertise in China, it was natural for the Bank to send staff from Hong Kong to provide leadership for Mainland colleagues. However, with China's rapidly-growing economy driving the development of the banking industry, the pool of local financial expertise has deepened to serve as the bulwark of the banking sector. The localization of talent has become a key aspect of the localization strategy of foreign banks.¹³

In a broader sense, BEA was the Shaolin Monastery training professionals for other Mainland banks. Since the late 1970s, many local bank workers had received their training at BEA, starting with international bills, credit cards¹⁴ and then other operations over time. Some of them left to become senior officers in other banks. One of BEA's most valuable contributions to China's banking industry could be supplying staff who not only have

professional and technical skills but also a sense of integrity and responsibility, and appreciation for team-playing.

It is one of the amazing things that this relatively small bank does.

Innovations in Products and Operations

In the meantime, the range of products and services offered by the Bank widened. Mature core areas such as property mortgages, project finance, trade finance, securities finance and credit card operations continued to grow but many innovative features/ventures were introduced to sharpen the Bank's edge.

Technological innovations

Riding on its powerful IT capability, BEA became the *first* foreign bank to receive official sanction to offer internet banking on the Mainland. After long and arduous preparation, Cyberbanking was officially launched on 30th December, 2002 through all of the Bank's seven branches and one sub-branch in China.¹⁵ This exciting development in effect created



BEA was the first foreign bank to offer internet banking service on the Mainland.

a virtual branch network throughout the country beyond brick and mortar, broadening business horizons and improving customer access. It provided a new banking experience for Mainland customers and a taste of the power of the internet, while further confirming the Bank's leading position in the industry and enhancing its image as a modern, pioneering enterprise.

Internet security had been a matter of concern to Mainland authorities before the system was implemented, but this was overcome when BEA proved that with the highest standards of international data encryption, it could provide a secure transaction environment. Employing 128-bit SSL encryption technology, the most advanced then available, all information transmitted between customers and BEA through the internet was protected at all times.¹⁶

In January 2004, Corporate Cyberbanking was launched. It succeeded in providing another kind of security. To ensure the highest levels of security for transactions, in September 2005 BEA became the *first* foreign bank in China designated as a registration authority to offer digital certificates to customers, a procedure that enhanced the value of Corporate Cyberbanking for enterprises.¹⁷

Segmentation of customers and RMB services

The SupremeGold account was introduced on the Mainland to capture the fast-growing number of affluent individuals; the threshold was set at an aggregate relationship balance of HK\$500,000 or its equivalent in banking and investment accounts with the Bank. Among other perks, these customers could enjoy the pleasure of being served by designated Relationship Managers in Personalized Banking Centres, which were established at all BEA branches in China. Another offering to growing middle-class families was the Kid

Master account, exclusively for children below the age of sixteen.

Step by step, foreign banks were authorized to offer RMB services and often, BEA was among the first to receive such authorization. Its Shanghai and Shenzhen branches were the first to receive such permission back in 1998, and other branches followed. Step by step too, the scope of RMB service customers grew to include local residents and enterprises. In late 2006, BEA received permission to offer RMB fixed deposits to selected local residents in China, the minimum amount set at RMB1 million, a milestone on the long road to offering a full range of services on the Mainland.

QDII and Overseas Wealth Management

After becoming one of the first foreign banks to receive a licence to participate in the QDII scheme, BEA inaugurated overseas wealth management services for customers in China.¹⁹ The scheme, which allowed private and institutional investors for invest in securities overseas, was principally introduced to release the pressure created by the rapid growth in foreign exchange reserves on the Mainland and the continual appreciation of the RMB. For these investors, who had been confined to only several hundred local stocks listed on the Shanghai and Shenzhen exchanges and low interest returns from bank deposits, the scheme opened up new channels of investment. At the same time, it opened up one of the largest pools of savings in the world. For the qualified banks, QDII was an opportunity for increasing fee income and improving income structures, as well as to enhance their risk management and asset structures.20 after receiving QDII status, BEA introduced its first-ever product to local investors on the Mainland, a linked deposit which was 100 per cent USD principal protected at maturity.21

QDII status highlighted the unique position BEA enjoyed. It certainly knew how to make the most of the situation. As the smallest of the six banks to receive the licence, it had its own niche. "We are more flexible," explained Mr. Chan Kay-cheung, as the Bank could provide 'tailor-made products' to the special needs of target customers – the 'mass affluent' group, which had great potential.²²

Insurance Operations

In late 2005, BEA's deep experience in insurance operations was put to good use when it became the first foreign bank to act as agent for China Life Insurance Company Limited ("China Life"), the largest life insurance company on the Mainland. In accordance with the Supplement II to CEPA, Mainland branches of Hong Kong banks were allowed to provide insurance agency services. Under the China Life-BEA agreement, BEA branches would act as China Life's agent, selling insurance products, collecting premiums and paying insurance In addition, it would provide proceeds. financing, capital settlement, and e-commerce services in connection with insurance on the Mainland. The synergy that would result from such collaboration was obvious: both sides could see that together they would win a larger market share, and do so more cost-effectively.²³ By the end of 2005, nine of BEA's eleven China branches had obtained agency licences for marketing both life and general insurance products. Amid burgeoning demand for comprehensive financial products in the China market, BEA's insurance business grew remarkably.

Opening Doors

The 'China factor' had numerous dimensions. BEA's own operations in China were only one part of the China story. Since the

1980s, the Bank had played a big role in helping outside investors enter China; after 2001 there was a greater sense of urgency. As shown earlier, many banks from Europe, Canada and Asia - notably DZ Bank, Germany's fifth-largest credit institution²⁴ - signed business cooperation agreements with BEA as an ideal way to access the China market. An equally notable collaborator was JCB International Co., Ltd. ("JCB"), with which the Bank's agreement was mostly focused on credit card operations. BEA, the first bank to introduce the credit card to China, was a leader in the field. No wonder JCB, the third-largest credit card organization in the world and largest credit card issuance organization in Japan, was eager to leverage BEA's strength to develop its own credit card business.²⁵ As a result of the agreement, JCB credit card holders could pay for goods and services at BEA's extensive merchant network in China, which included designated shops and hotels.26

Many seminars were organized to enlighten local SMEs on how to do business in China. One of them, entitled 'Capturing Business Opportunities in China: New Directions and Developments in the Expanding Mainland Market', held in October 2005, is a good example of



In 2004, BEA became a full member of China UnionPay and began issuing CUP-branded RMB credit cards in Hong Kong.



Each year, the Bank organizes an informative seminar for its corporate customers.

how leading experts shared their insights. Among the speakers was Mr. Yu Hok-keung, General Manager and Head of China Division, who spoke on 'Updated Foreign Exchange Regulations Enacted by the State Administration of Foreign Exchange ("SAFE")'. He explained the regulations promulgated by SAFE, its new notice regarding the management of external debts and the effect of this notice on foreign financial institutions and foreign-invested enterprises.

As Dr. Li recognized, since China joined the World Trade Organization, the pace of change had quickened. Each new measure to promote greater market opening was eagerly anticipated, yet each new measure also increased the challenge of doing business.²⁷ Even when BEA itself had to learn to manage the new measures, it did yeoman duty in sharing its own – sometimes painful, never easy – learning experience with Hong Kong's enterprises.

RMB Service in Hong Kong

Hong Kong residents welcomed the introduction of RMB service. At first, customers were limited to depositing only RMB20,000 into their savings account each day, but the use of RMB spread quickly as limits were lifted. Soon, RMB service was extended to the provision of RMB credit cards. In April 2004, BEA became a full member of China UnionPay ("CUP"). It was first authorized to offer CUP-branded RMB credit card issuing and acceptance services to cardholders and merchants in Hong Kong.²⁸ The next stop was to roll out the China UnionPay brand RMB debit card in Hong Kong, with which card holders could conveniently withdraw RMB in cash and make RMB payments at more than 50,000 ATMs and over 400,000 merchant outlets on the Mainland. This was a boon to frequent travellers between Hong Kong and the Mainland who could obtain cash in Hong Kong dollars when in Hong Kong, and cash in RMB when on the Mainland. No wonder customers found this so attractive.²⁹

The Bank firmly believed that 'the financial pie in China is very big', and that there were many ways to grow.³⁰ Yes, BEA was small compared to the major banks in China, some of which had over 10,000 branches,³¹ but it was a small bank that did amazing things. By 2006, it was thriving on the Mainland.

To some analysts, BEA could deliver strong profit growth in China because of its excellent management and ability to understand where the opportunities lay.³² Others emphasized history, explaining that BEA's 'success comes from their commitment to China from a very early time.'³³ Dr. Li, who believed that relationship building was key, had learnt that operating in China meant making costly ventures off the beaten path from time to time for the longer-term interest.

In 2006, he recounted a case in point. Many years ago, he told Karina Robinson of the *International Herald Tribune*, he joined officials from the Civil Aviation Administration of China to see foreign airlines like PanAm and Lufthansa as the Chinese authorities were looking to sort out catering on their flights.³⁴

What resulted was a joint-venture air-catering company, the first ever Sino-foreign joint-venture. The partners in this historic enterprise were the Civil Aviation Administration of China, two major Hong Kong caterers – Dairy Farm Co. and Jamestown Investment Ltd (an associate company of Hong Kong Maxim's Group) – and BEA.

Dr. Li pointed out that the Bank became a partner (with a 18 per cent stake) only because the Chinese government insisted on its participation, and later, he was obliged to explain the holding to shareholders who were not pleased to find their funds being diversified into the food sector. "This is nothing to do with banking", Dr. Li added. "This is building a relationship."35 The joint-venture turned out to be a great business success and a landmark in cementing a lasting relationship with China. This 'single-minded focus' and extra effort on the part of BEA, Ms. Robinson concluded, were what allowed it to punch above its weight and come out on top - "As Goliath found out in the fight with David, size isn't everything."36

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PART V

2007-2017

PROLOGUE



The Inauguration Ceremony for the Shanghai Soong Ching Ling Foundation - BEA Charity Fund in 2009

This was a decade of remarkable growth. With capital almost doubling between 2007 and 2017, the Bank operated on a far larger scale and established many new milestones.

The Bank expanded operations in North America. After growing The Bank of East Asia (U.S.A.) N.A ("BEA USA"), BEA sold 80 per cent of its shares to ICBC with the result that ICBC was able to hold a full banking licence in

the United States, a highly prized asset. The deal made banking history by easing the way for future Chinese banks wishing to make a landing in America.

In April 2007, BEA China became one of the first Mainland-incorporated foreign banks to open its doors, heralding deeper penetration of the China market and continuing the Bank's pioneering role in introducing new technology

and products. It kept abreast of rapid technological progress on the Mainland by partnering with tech giants while offering its own rich banking experience and global insights to drive the synergy. It seized opportunities offered by the Central Government's plans for expansion, such as the opening of new free economic and trade zones, and positioned itself strategically for the anticipated benefits of the 'Belt and Road' and 'Greater Bay Area' initiatives.

'As the most local foreign bank', BEA China was deeply committed to the local community. The Shanghai Soong Ching Ling Foundation-BEA Charity Fund, the first charity fund established by a foreign bank in Mainland China, was the platform for showing new ways to contribute to society in China.

It was also a bold move forming a joint-venture asset management company – BEA Union Investment – with Union Investment of Germany, a move that meant playing in a new league in the asset management business.

Pioneering in technology continued to be the Bank's hallmark, demonstrated unequivocally by winning the 'Most Innovative Bank of the Year' Award at the BAI-Infosys Finacle Global Banking Innovation Awards (2015).

The run on BEA in September 2008 sent shock waves across Hong Kong and beyond. Yet, it was over in thirty-six hours. The crisis proved to be a stress test that the Bank passed with flying colours. Above all, the dedication and loyalty of its staff, the Bank's most valuable asset, helped turn the darkest moment in its 90-year history into its finest hour.

As 'Corporate Social Responsibility' ("CSR") entered a stage of systematic assessment and standardized reporting, BEA, with its century-long legacy of commitment to the community at all levels, measured well against any international CSR standard.

An expanded capital base notwithstanding, it was vision, innovation and the strategic use of relationships that enabled the Bank to punch above its weight while team spirit and a deep-rooted tradition of social responsibility made it shine.

CHAPTER THIRTEEN

OVERVIEW: HONG KONG AND THE WIDER WORLD (2007–2017)

Following on the momentum of the previous year, 2007 was a very good year for Hong Kong. With record activity in the stock market, high consumer demand, booming tourism and vigorous international trade, the GDP jumped 6.4 per cent. Unemployment was at its lowest level in about ten years. The financial sector continued to outperform other major economies.¹ BEA announced record-high profits of HK\$4,221 million, a rise of 21 per cent over the previous year.² The next ten years would see many ups and downs, booms and busts, and fundamental changes in the market.

For BEA, 2007 was a landmark year: in April, its wholly-owned subsidiary, BEA China, was opened; it was one of the first locally incorporated foreign banks on the Mainland. At the time, economic growth in China appeared unstoppable. The internationalization of the RMB, which had been appreciating steadily, was viewed widely as a harbinger for further growth. In that year too, BEA entered the world-class asset management business through forming a joint-venture with Germany's Union Investment. Its determination to reach out to the world and expand operations through enlarging its capital

base was also reflected in the eye-catching placement of 4.8 per cent of its stock to a Spanish bank, CaixaBank.³

For the rest of the world, the picture was less rosy. The year 2007 was marred by the subprime mortgage crisis in the United States.



BEA China serves as both a domestic settlement bank and a domestic agent bank for cross-border RMB trade services.

When the mortgage bubble burst in July, banks were stuck in the market with declining collateral. A downward spiral started – which by August 2008 had become uncontainable. Major financial institutions, including Lehman Brothers, Merrill Lynch and Wachovia, filed for bankruptcy. Stock markets around the world collapsed. It became horrifyingly clear that many institutions had been aggressively marketing investment products that were so complex that it was hard to fathom their actual worth, and many had been drastically overvalued. The major financial markets were shaken to their roots and governments had to rush in to save the day.

In Hong Kong, Lehman Brothers' bankruptcy brought to the fore the dubious nature of minibonds and the way they were sold. A direct result of the Lehman incident was that regulatory authorities around the world, including the HKMA, took measures to tighten control over the selling of investment products, and the regulatory environment in Hong Kong took a quick turn towards greater stringency on every front. The HKMA itself deployed a considerable amount of resources to handle investor complaints arising from the collapse of Lehman Brothers: by the end of 2008, it had received over 20,000 complaints and opened investigations into more than 4,500 of them.⁴

Amid the shouts and murmurs about the fragility of financial institutions, BEA itself suffered a thirty-six-hour run in September 2008.

The sudden, sharp plungve in the post-financial tsunami markets led to an unprecedented scale of decline that continued into 2009. Recession set in and wore on, with most economies suffering from high government debt and weak domestic demand. Modest recovery in world markets in 2009 and 2010 was undermined in 2011 by the sovereign debt crises in Europe, geopolitical events

and natural disasters around the world, and tight monetary policy in China. The financial sector exhibited particular weakness despite ultra-low interest rates. Concerns over sovereign debts and new capital rules under Basel III led many major international banks to curtail lending and downsize their balance sheets by divesting themselves of non-strategic assets.

That the world economy was shrinking became obvious in 2012. Overproduction, bad loans, prohibitions on lavish spending among officials in the anti-corruption drive, and other factors forced down China's GDP from 2012, and even though there was still growth, the slowdown alarmed many. The RMB - which had recently won international acceptance by being included in the IMF's Special Drawing Rights ("SDR"), a reserve asset whose value was previously determined by just the US dollar, Euro, yen and British pound - lost value, declining to an eight-year low against the US dollar in December 2016. To many people who had witnessed the RMB rising continuously for over ten years, this came as a shock - even though it was obvious that the RMB's inclusion in the SDR was an acknowledgement of the progress China had made in reforming the bases of its monetary and financial markets.5 Equally shocking was the fact that China's foreign reserves fell to about US\$3 trillion from the record high of nearly US\$4 trillion in 2014.6 Amid the rush by Mainlanders to buy assets overseas - from residential homes to vineyards to large corporations - the Central Government, which had been exhorting companies 'to go global', finally put the brakes on the outflow of RMB. Different measures were imposed, from tightening capital controls to lowering the limits on funds that China UnionPay bank cardholders could withdraw from Macau's ATMs.7



Financial security is a prerequisite for financial stability, and the Deposit Protection Scheme ensures that bank deposits are quaranteed up to HK\$500,000 per customer.

Structural Changes

Several fundamental changes in the financial markets affected BEA's operations.

Tightening supervision and regulations

Hong Kong regulators moved quickly to introduce a number of measures to stem the tide of the financial tsunami – from overhauling risk management mechanisms to extending investor education through different channels – in order to re-establish order in the market.⁸ In 2010, the Deposit Protection Scheme raised the protection limit from HK\$100,000 to HK\$500,000 per deposit per bank. The MPF scheme also underwent changes that aimed at investor protection.

Calls for stricter risk management were made worldwide. Risk management, which had taken many different forms in the past, had become more systematically discussed, regulated and implemented on an international level since the 1980s and 1990s. Capital requirements were adopted in Basel I and Basel

II to deal with various forms of risk but when they proved insufficient to prevent the financial crisis of 2007–08, more drastic measures were suggested. New liquidity requirements and more rigorous capital criteria were consequently introduced under Basel III. These ever-changing international standards, eagerly endorsed by the HKMA and followed studiously by BEA, led to the development of a strong risk management culture.

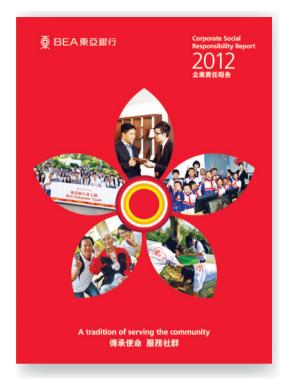
Globally, one reaction to the financial tsunami was the identification of systemically important financial institutions, including banks, which were so large and influential that if they failed, they might bring down the whole banking sector. To protect the sector, higher capital buffer requirements, total loss-absorbing capacity requirements, resolvability requirements and higher supervisory expectations were imposed on these banks. The Basel Committee on Banking Supervision introduced the category of 'Global Systemically Important Banks' ("G-SIBs"). In separate jurisdictions, such as Hong Kong, Domestic Systemically Important Banks ("D-SIBs") were

named; though not 'globally important', they were nevertheless required to adhere to higher capital requirements in order to absorb losses and reduce the likelihood of failure. In March 2015, the HKMA designated five authorized institutions as D-SIBs⁹: HSBC, Bank of China (Hong Kong), Hang Seng Bank, Standard Chartered Bank (Hong Kong) and BEA.¹⁰

Perhaps no function in the banking world was growing as fast as compliance throughout this period. This naturally had an impact on the cost of operations and was even named by some analysts, together with technological development, as factors forcing banks to get big or get out.¹¹

Also strongly promoted was the need to upgrade the quality of financial reporting. A bank's performance was no longer measured mainly by how much profit it made. In Europe, environment, governance and social issues had for many years been considered essential parts of corporate responsibility, and reporting on CSR, the content of which changed continuously, became standard practice for firms that valued their brand image. CSR reporting gained traction in Hong Kong in the 2000s. All aspects of a corporation's operations that could reflect its competence, its integrity and commitment to the community, shareholders and employees, and its risk management, were taken into consideration and duly reported. The goal was to show that it was, in every way, a 'good bank'.

BEA, which had been a good corporate citizen for decades, issued its first standalone CSR report in 2012. As guidelines were put forward by the HKMA, HKEX and other regulatory and professional institutions, CSR reporting became more and more important. In 2013, for example, the Private Wealth Management Association worked with regulators and professional institutes to develop a framework covering the requisite level of competence and



BEA issued its first standalone Corporate Social Responsibility Report in 2012.

ongoing professional development of Private Wealth Management practitioners. Regulation of the auditing profession was also enhanced by the Auditor Regulatory Reform to comply with international standards.¹²

Fintech

Huge leaps took place in technology during this decade and financial technology was no longer just a supporter but a powerful new driver in the financial world. The spectrum of development was extremely wide. At one end were minor but significant breakthroughs such as e-cheques and stored-value facilities, operating more or less within the existing frameworks but directly affecting the lives of ordinary citizens. At the other end were real game-changers such as big data, crowd sourcing, encrypted currency, online lending and robo-advisors. The new kid on the

block, robo-advisors, are wealth management services that use algorithms to provide investment advice without the need for human involvement. They were seen as challenges to conventional financial service providers. Online lending, like WeLend, leveraged the fact that having no branches and being much less encumbered by regulations kept costs low and so provided savings for customers; this seemed to strike at the very basis of traditional banking. Ironically, while the heavily regulated banking sectors were not untouched by the new Fintech world, one cannot but help think of the metaphor of a fortress with three walls that were solid and reinforced, but a fourth wall made of paper. The proliferation of tech innovations big and small made ensuring cybersecurity a Sisyphean task.

Balancing between the digital and the physical was a challenge. Even as more and more customers used the mobile phone and other online channels for their transactions, it was impossible to do away completely with brick and mortar. The secret was how to make a customer's visit to a bank branch, especially for high-value-added transactions, such an enjoyable and enriching experience that long-term relationships could be built and strengthened over time.¹³

The deepening of China-Hong Kong connections

The deepening structural interdependence of the China and Hong Kong markets was on full display in this decade. This was partly the achievement of the Focus Group on Financial Services for Hong Kong, one of the four



The Shanghai-Hong Kong Stock Connect deepens the cooperation between the Mainland China and Hong Kong markets.



Chaired by Dr. David Li, the Focus Group on Financial Services for Hong Kong was established to explore how Hong Kong could contribute to and benefit from the development goals set out in China's Eleventh Five-Year Plan.

groups set up by the Hong Kong government in September 2006 to develop a response to the challenges and opportunities arising from China's Eleventh Five-Year Plan.14 Chaired by Dr. David Li Kwok-po, the Focus Group's premise was that, within the framework of 'one country, two systems', the two financial systems should establish a complementary, cooperative and interactive relationship. While there were many ways the two systems could benefit each other, the Focus Group emphasized that the Mainland could make better use of Hong Kong's financial system: for example, by using Hong Kong as a platform for various pilot schemes. For instance, Hong Kong had the capacity to help the Mainland achieve its goal of RMB convertibility, and the Focus Group's specific recommendations, such as the introduction of RMB bonds and the use of RMB in trade settlement, were soon implemented.

Other recommendations resulted in better access to the Mainland markets by Hong Kong banks and other financial intermediaries. As a result too, Hong Kong's role both in facilitating the outward mobility of Mainland investors and in serving as a base for Mainland firms to expand overseas was much amplified. These changes opened up enormous opportunities for stakeholders in Hong Kong, the Mainland and the rest of the world.

In 2009, with the Mainland taking the lead in global economic recovery, Hong Kong was able to stage a notable rebound during and after the second quarter of the year. By facilitating the further internationalization of the RMB, the territory grew as the RMB offshore hub; this was obviously in line with the Central Government's policy. The Mainland was Hong Kong's largest source of foreign direct investment

("FDI"): by end of 2008, Mainland investment totaled US\$298 billion, or 37 per cent of the total FDIs here. A rising number of Mainland companies established registered regional offices and local offices in Hong Kong; ¹⁵ likewise, there was a rising number of Mainland-incorporated companies listed on Hong Kong's stock exchange. In 2016, Hong Kong led the world for fundraising, largely on the back of Mainland companies.

RMB bonds issued by Mainland companies, including bonds raised by Mainland subsidiaries of Hong Kong banks and qualified enterprises, were allowed to settle obligations in Hong Kong in RMB.¹⁶ Improvements to the HKEX clearing and settlement system and its ties to interbank clearing systems supported the listing and trading of RMB denominated products on the SEHK. There was huge growth in fund management business due to the demand for wealth and asset management

from Mainland investors.¹⁷ These and other liberalizing measures fueled the expansion of Hong Kong's financial market.¹⁸ The Central Government helped the process by raising investment quotas, adding product variety and relaxing the investment product restrictions in relation to the RMB Qualified Foreign Institutional Investor ("RQFII"). Later, these measures covered insurance products and real estate investment trusts, as well as RMB-denominated money market funds for investment by MPF schemes.¹⁹

At the same time, the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (launched in November 2014 and December 2016 respectively) were created to facilitate cross-border investment. The Mainland-Hong Kong Mutual Recognition Funds ("MRF") arrangement, launched in July 2015, further deepened Mainland-Hong Kong connections. Concomitant to this was that



In 2009, BEA China was the first Mainland-incorporated foreign bank to issue RMB retail bonds in Hong Kong, raising RMB4 billion in its debut RMB bond issue.

developments in the China market – every up and down – would have a profound impact on Hong Kong's market.

In 2013, China announced the 'Belt and Road Initiative', aimed at bringing prosperity to the world from East Asia to Europe. It was a grand, global ambition, much bolder and more visionary than anything that has been seen for a long time. The geographical coverage was immense and the level of investment required would be unprecedented. From Hong Kong's

point of view, this was an opportunity to firmly position itself as a major platform of capital raising and financing for Mainland and overseas enterprises.²⁰ It also compelled governments and corporations to reimagine the region by seeing new connectivities. BEA, as always, quickly positioned itself in anticipation of the possibilities in store.

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- 9 HKMA, Annual Report, 2015, p. 5.
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- Alun John, 'Private Banking: Edmond de Rothschild Mulls Closure of Hong Kong Branch', SCMP, 10 December, 2016, suggests that two factors driving turbulence were increasing costs related to compliance, and second, the rise of robo-advisors; so banks had to decide whether 'to get big or get out'.
- 12 Hong Kong Yearbook, 2013, p. 68.
- 13 Jane Cooper, 'Asia-Pacific: Hong Kong Retail banking Hong Kong Branches Out', The Banker, 1 June, 2013.
- 14 'Report of the Focus Group on Financial Services, January, 2007' (http://www.info.gov.hk/info/econ_summit/eng/pdf/fs.pdf).
- 15 Hong Kong Yearbook, 2009, p. 48.
- 16 Hong Kong Yearbook, 2009, p. 48.
- 17 Hong Kong Yearbook, 2009, pp. 70, 78.
- 18 For example, in 2012, other RMB products were launched in Hong Kong including a RMB gold exchange-traded fund ("ETF"), an offshore RQFII A-share ETF, RMB currency futures, shares traded in both RMB and HKD, and RQFII A-share ETF derivatives and warrants.
- 19 Hong Kong Yearbook, 2013, pp. 68-72.
- 20 Hong Kong Yearbook, 2015, p. 63.

CHAPTER FOURTEEN

BIGGER, BRIGHTER

Getting Bigger

During the decade after 2007, there was great pressure on banks to either get bigger or get out. In response, BEA initiated many changes, including raising capital; establishing two wholly-owned subsidiaries, one in China, the other in the United States; developing powerful wealth management/private banking capabilities; and producing trailblazing innovations. It would get bigger – and brighter too.

The most effective way to raise Common Equity Tier 1 capital was through private placements, and the Bank looked to trusted, strategic partners. In December 2007, in its first share sale in more than fifteen years,

the Bank issued HK\$3.95 billion worth of stock to Negocio de Finanzas e Inversiones, a wholly-owned subsidiary of the Criteria CaixaCorp., S.A. of Spain. The Spanish bank bought 78.7 million shares at HK\$50.24 per share, which represented 4.76 per cent of the enlarged share capital of the Bank. This made Criteria CaixaCorp, which already held about 4.15 per cent of BEA shares purchased on the market, the largest shareholder of BEA. As at 31st December, 2007, Criteria CaixaCorp held 9.33 per cent of BEA shares.

BEA and Criteria CaixaCorp, the thirdlargest financial institution in Spain in 2007, had been working together for many years in the remittance business and trade finance as part of their Memorandum of

Table 5.1 BEA's Assets, Deposits, and Equity

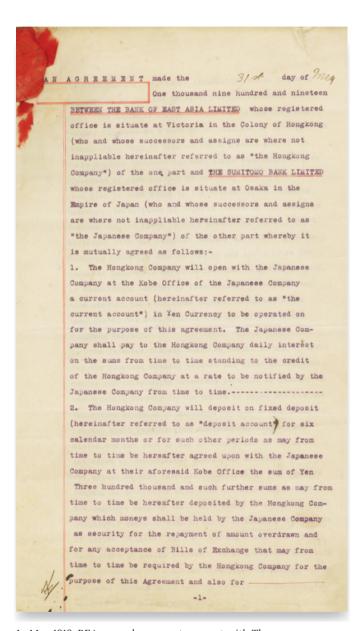
2007 (HK\$ million)	2017 (HK\$ million)	
393,979	808,942	
296,351	608,150	
8,814	15,953	
30,446	101,214	
	393,979 296,351 8,814	

Mutual Understanding Concerning Strategic Partnership.² Besides strengthening BEA's business activities in Europe, the move was also observed to be a way for it to further break out of the confines of a Hong Kong-only shareholder base.3 Sharing many common values and strategies, the two institutions were confident that synergy would increase with closer collaboration. Criteria CaixaCorp and its customers would benefit from BEA's prestige and strengths as the largest independent local bank in Hong Kong and one of the premier foreign banks in China in terms of branch coverage.4 The relationship was reinforced in December 2009 when BEA announced the issuance of additional shares to Criteria CaixaCorp, raising its holdings from 9.81 per cent to 14.99 per cent on an enlarged share capital basis.5

At the same time, BEA issued shares to another of its oldest strategic partners, SMBC, which bought 46.27 million new shares (approximately 2.29 per cent of the enlarged capital) bringing its total holding of BEA shares to 4.05 per cent.⁶ Their association went back to 1919 when BEA opened a Japanese yen current account with Sumitomo Bank's Kobe Office, one of the predecessors of SMBC. From the early 1970s, the two institutions enjoyed a close business relationship, and to meet demands for merchant banking services they set up Sumitomo and East Asia Ltd., which specialized in long and medium-term capital offshore financing. In 2008, they signed a Memorandum of Mutual Understanding Concerning Strategic Partnership,7 which enhanced their mutual interests through co-development of their business potential in Mainland China, Japan, and other countries where both banks operated. To the Japanese bank, BEA's experience and knowledge of the Chinese market and ability to creatively develop financial solutions for that market made partnership with it especially attractive.8

The total amount raised from these two placements in 2010 was HK\$5,113 million, enough to increase the Bank's total CAR to 16.0 per cent and Tier 1 CAR to 11.7 per cent.⁹

After two more placements to SMBC in 2012 and 2015, SMBC's holding in BEA rose to 17.5 per cent.



In May 1919, BEA opened a current account with The Sumitomo Bank, one of the predecessors of Sumitomo Mitsui Banking Corporation, at Sumitomo's Kobe office.



In 2008, BEA signed a Memorandum of Mutual Understanding Concerning Strategic Partnership together with Sumitomo Mitsui Banking Corporation.

As of 31st December 2017, the substantial shareholders of BEA were SMBC (19.5 per cent), Criteria Caixa (17.44 per cent), and Guoco Management Co. Ltd. (13.37 per cent).¹⁰

In addition to share placements, BEA also sought additional Tier 1 and Tier 2 capital through avenues such as hybrid instruments and subordinated notes.

Notably, BEA China became the first foreign bank to issue RMB retail bonds in Hong Kong in June 2009. Initially, BEA China aimed at not less than RMB 1 billion but the offer was so over-subscribed that it ended up issuing RMB 4 billion, the amount approved by the People's Bank of China and the National Development and Reform Commission.¹¹

Pressure to continue growing bigger came when the HKMA named BEA a D-SIB in 2015, as mentioned previously. In addition to raising capital buffers, the Bank faced more intensive supervisory measures designed to protect

depositors.¹² As Mr. Johnny Mao, the Group Chief Risk Officer concedes, it was a great honour to be named a D-SIB,¹³ but, like many good things, it came at a cost: the additional capital requirement compelled it to expand the capital base. For 2017, the higher loss absorbency ratio applicable to the Bank was 0.5 per cent.¹⁴

Beyond Hong Kong

This was a decade of strategic global expansion that, among other things, strengthened the Bank's bridging role of taking China to the world and the world into China. The Bank's activities in China and the United States are discussed in later chapters.

Singapore and Southeast Asia

The BEA Building in Singapore was inaugurated in November 2009. The striking architectural monument was located at 60



In 2012, the Bank celebrated the 60th Anniversary of its Singapore Branch.

Robinson Road, in the very heart of the financial centre; in turn, Singapore was the hub of the burgeoning Southeast Asian market. The opening ceremony, attended by senior officials of the Hong Kong and Singapore governments, and dignitaries from the business and financial sectors, underlined the significance of the occasion. Likewise, in May 2012, when the Bank celebrated its sixtieth anniversary in Singapore, 450 distinguished guests gathered to toast the achievement, with Mr. Tharman Shanmugaratnam, Deputy Prime Minister of Singapore, Minister for Finance, and Chairman of the Monetary Authority of Singapore, as the Guest-of-Honour.

The Singapore Branch was relocated to BEA Building where the floor area was double that of the old building on Market Street – exactly what the expanded operations required. The location was ideal. While the BEA Building had a commanding view of the Marina Bay waterfront, it was situated in front of the

iconic Old Market, which had been recently preserved and renovated into a trendy food court. Besides being a bustling part of town, the location was a highly visible nexus between the old Singapore, where BEA had deep roots, and the new.

The operations of the Singapore Branch, which had held a full banking licence since 1952, grew enormously in the new millennium, especially in a wide range of wholesale banking services. It took part in many syndicated loans and club deals, particularly in those related to property such as financing the construction of hotels and commercial buildings and arranging the acquisition of investment properties for foreign and local entities.

Ubiquitous was the China factor and BEA took full advantage of it. Leveraging BEA's longstanding presence and extensive networks in Hong Kong and Mainland China, the Singapore Branch served as a gateway to China

for customers in Singapore and the rest of Southeast Asia. Speaking at the sixtieth anniversary reception, Dr. David Li Kwok-po said, "From our Singapore Branch, we open over 100 doors to China."15 The truth was, of course, that Singapore, with 'its excellent business climate', allowed BEA to open many, many hundreds of doors for Chinese companies seeking to expand outside of China. Seeing how the economies of China and Southeast Asia complemented each other, Dr. Li foresaw great potential in the two-way flow of investment, an observation that proved to be extremely prescient. The number of Mainland companies in Singapore grew rapidly, including some that were listed on the Stock Exchange. By the middle of 2016, some 6,500 Chinese companies had set up in Singapore viewing Singapore as a launching pad to other parts of Southeast Asia.16 The demand on services from BEA Singapore grew as the regional networks thickened.

BEA's Singapore Branch and BEA China worked closely together, stresses Mr. Tang Peng-wah, who started his career with BEA in Singapore in 1975, worked in the New York Branch for twenty years and returned to head the Singapore Branch in 2014. The bulk of Chinese business in Singapore came through BEA China. In trade finance, the volume was boosted by special credit facilities that acted like a 'one-stop shop' for those clients in China wishing to do business with Singapore. At a time when the Chinese government was encouraging Chinese enterprises to go abroad, the volume of business exploded. Becoming an official offshore RMB settlement centre further strengthened Singapore's financial position. The Singapore Branch began offering RMB trade finance and deposit services to its corporate and retail clients, and successfully built a foundation for future growth.

The Singapore Branch's 'secret weapon' was its seamless channel of communication with BEA China. For one thing, such communication helped the Singapore Branch know its customers. When a Chinese company approached it for service, the Branch could obtain information about it quite easily if it were a listed company. However, if it were not listed, Mr. Tang explains, all he and his staff needed to do was to contact BEA China to check out the company's background.¹⁷ This was an invaluable



BEA's Singapore Branch



Grand opening of the Manchester Branch in 2013

way to reduce risk and, at the same time, avoid losing good business.

The Singapore Branch oversaw the Bank's operations in Southeast Asia, including Malaysia, which the Bank could not enter directly; the exception was Labuan, where the Bank had a thriving offshore foreign currency operation. Singapore was also a vantage point for exploring possible opportunities in Cambodia and Myanmar.

Indeed, in early 2017, the Bank acquired an interest in PRASAC Microfinance Institute Limited, which is now the largest microfinance company in Cambodia. Though a relatively small investment, this move was in line with the 'Belt and Road Initiative', and will give BEA a foothold in Cambodia and consolidate its presence in Southeast Asia.

United Kingdom

On the other side of the world, there were interesting developments too. Two branches in London and Birmingham continued to do well and in 2013, a new branch was opened in

Manchester. One of the key earners for the UK branches was mortgage business related to prime property in central London from Hong Kong and other Asian investors. Highnet-worth Mainland customers, who were emerging in growing numbers, became a significant customer base.

To meet the growing demands of customers that included students, tourists, investors and executives, the London Branch was doubled in size to 20,000 square feet. Mr. Joseph Chow, the Branch's General Manager, recognized that in this digital age, customers used computers and smartphones to conduct their banking services, but some still preferred to meet and talk to staff – especially those who could speak Cantonese or Putonghua (Mandarin) – to get advice on banking services and investments in Britain. The meeting area was expanded precisely to make customers feel more at ease and welcome.

Dr. Li was always mindful of the importance of the United Kingdom to BEA's global strategy. "Not only does the London Branch serve local people, it is also the gateway to BEA's extensive network in China, where we have helped many UK companies and individuals invest and do business." At the same time, the Bank was helping many clients from China explore investment opportunities in the UK.¹⁹ BEA's special niche was to facilitate these multidirectional flows.

China's 'Big Five' mainland banks had a presence in London and they led many of the big deals. Yet interestingly, Mr. Chow pointed out, many mainland company executives based in London liked to use the BEA London Branch for their personal banking services because BEA was well known on the Mainland. Asked at the end of 2016 whether Brexit had any major impact on its operations, Mr. Chow said no. In fact, it helped attract more Chinese tourists and investors to visit the United Kingdom due to the falling value of the pound.²⁰

Wealth Management: Investment and Private Banking

In 2007, BEA's global ambition was clearly reflected in its forming of BEA Union Investment with Germany's Union Investment, a European asset management powerhouse. Union Investment was majority-owned by DZ Bank AG, with whom BEA had had a comprehensive business cooperation agreement since 2005. Through this joint-venture BEA gained a world-class asset management business with the necessary scale and global expertise to explore other segments and markets in the region, especially China. It was anticipated that Union Investment's distribution capacity across Europe and BEA's strong presence in Hong Kong and China would complement each other perfectly. Seasoned portfolio managers were seconded from the German parent company to establish BEA Union Investment as the sole Asia competency center for both



The Bank joined hands with Germany's Union Asset Management Holding AG to form BEA Union Investment Management Limited.

holding groups.²¹ This was a huge boost for BEA's existing wealth management operations.

In 2008, BEA Union Investment expanded its business by developing new mutual funds and investment solutions for retail and MPF investors,22 including the innovative BEA Union Investment Four Seasons Fund in 2009. It explored opportunities in China too. After receiving a licence from the CSRC to act as a Qualified Foreign Institutional Investor ("QFII"), it rolled out the BEA Union Investment China A-share Equity Fund in 2010, which aimed at equity securities and RMB bonds using the QFII quotas.²³ During 2011, BEA Union Investment established its first foothold on the Mainland by acquiring an 11 per cent stake in Golden Eagle Fund Management Ltd., a China fund management company set up in Shenzhen in 2002.24 In response to the growing demand from retail



BEA Union Investment has introduced a range of innovative investment solutions, including the BEA Union Investment Four Seasons Fund.

investors for mixed asset funds with income features, BEA Union Investment introduced the BEA Union Investment Asia Pacific Flexi Allocation Fund in February 2015.

Anticipating greater demand for RMB-denominated investment products, BEA in 2010 offered a variety of products that aimed to provide higher returns than through RMB appreciation alone. This led to a 30 per cent rise in fee income from investment services and structured products, year on year. The first offshore structured RMB investment product – the RMB-denominated Linked Deposit series – was rolled out in July 2010, followed by eight series of RMB capital-protected deposits.

These big strides made in fund management bolstered BEA's private banking capabilities by providing a full spectrum of wealth management solutions to its clients whether they needed succession planning, investment services, family protection, emigration, education plans for their children, insurance or cross-border banking. The arrival of large numbers of affluent Mainland customers, including those investing in order to gain residence status in Hong Kong, transformed the investment landscape. Their rising investment power fuelled much of the Bank's wealth management development during this period. Private banking expanded beyond expectations in 2010 with assets under management growing by 22 per cent year on year.

Mainland China was, increasingly, a source of private banking business. In the first five months of 2015, assets managed by the Bank for Mainland private banking clients rose by 18 per cent; at the end of May, assets managed for Mainland clients represented 33 per cent of all private banking assets managed by BEA, up from 28.4 per cent at the start of the year. It was hoped that the Bank would have half of its private banking assets originating from China by 2017.²⁵



BEA was named 'Outstanding Regional Private Bank – North Asia 2015' by Private Banker International.

The Bank's reputation as an industry leader in wealth management continued to grow. The 'Outstanding Regional Private Bank – North Asia' award that it received in October 2015 was only one of the many recognitions of its achievements.

While the Bank grew over time, it constantly reviewed its portfolio. In 2016, it took steps to streamline its operations including closing the physical branches of its brokerage business, East Asia Securities Company Limited as majority of its customers tend to transact over the cybertrading platform.²⁶

That October it sold Tricor – the corporate services company it had successfully nurtured since 2000 – for HK\$6.47 billion, booking a profit of around HK\$3 billion.²⁷ The cash proceeds improved the Bank's capital position and allowed it to re-focus more effectively on its core banking business. According to Dr. Li, "As part of our regular review of our portfolio and after careful assessment, we believe that Tricor will be able to develop more effectively if it is not a subsidiary of a regulated bank." ²⁸ In 2017, the Bank was able to post a profit of HK\$9.35 billion, 151.1 per cent higher than

2016,²⁹ the Tricor sale contributing significantly to the astounding performance.

BAI Award: Achievement in Innovation

A crowning moment for BEA came in October 2015, when it became the first bank from the Asia-Pacific region to win the prestigious BAI-Infosys Finacle Global Banking Innovation Awards for 'Most Innovative Bank of the Year'. In addition, the Bank was the winner of the 'Channel Innovation' award, and it was also a finalist in two other categories, 'Internal Process Innovation' and 'Product and Service Innovation'. Mr. Adrian Li Man-kiu, Executive Director and Deputy Chief Executive, attended the BAI Bank Delivery Conference in Las Vegas, where the award was announced, with a team of colleagues to introduce and demonstrate the Bank's projects.

The judges appreciated the key features of BEA's IT engagement: its long legacy of innovation, in-house creativity, customerfocused service, and determination to be a



BEA received international recognition as the recipient of the 'Most Innovative Bank of the Year' and 'Channel Innovation' awards in the prestigious BAI-Infosys Finacle Global Banking Innovation Awards.



Tsim Sha Tsui i-Financial Centre

leader rather than a follower in the industry.

BEA's achievements did not come out of thin air. Decades of striving to innovate, seeking the best solutions through technological advancement, operational restructuring and process re-engineering - and much sweat and tears - had laid strong foundations for progress. Into the 2000s, the Bank focused its energy on breaking out of the old brickand-mortar mode. Among the strategies it adopted were segmenting customers and prioritizing relationship management, which led to the creation of the SupremeGold account. The Bank pursued new technology that could give customers an unprecedented level of convenience, establishing Cyberbanking, Cybertrading, CyberCash and other 'Cyber' platforms, and making full use of the latest mobile devices and internet capabilities. In the process, the Bank won numerous local and international awards for innovation. The year 2008 saw the implementation of a powerful next-generation core banking system which formed the backbone of future developments, including the revamped SupremeGold Centre and the all-new digital branch model. This new way to bank was especially cited by the BAI judges in presenting BEA with the 'Channel Innovation' and 'Most Innovative Bank' awards.

The first smart device to be introduced into BEA branches was the i-Teller. Launched in 2011,³¹ it was the first virtual teller in Hong Kong that could perform banking transactions through video-call and not merely answer queries. It was able to handle common banking transactions not involving cash or cheques, and service hours were extended from 9:00 a.m. to 7:00 p.m., Monday to Saturday.

Besides being a landmark in its own right, the i-Teller opened the way for another landmark – the i-Financial Centre. With an i-Teller, an ATM and a service desk manned by a staff member providing – in person – non-investment services related to consumer loans, mortgage loans and credit cards, the i-Financial Centre gave customers access to both virtual and physical services. The first three i-Financial Centres were opened in January 2011 in Sheung Wan, Tsim Sha Tsui and Fanling, where there was heavy traffic flow, and later, they were opened in remoter areas as well.

This development coincided with the Bank's quest for a new brand image. The question was, how could branches be redesigned with a more modern and contemporary feel to appeal to a younger clientele? To begin with, there was some consideration of simply using brighter colours or new design motifs in the décor of the branches, but such piecemeal, cosmetic measures were insufficient to achieve the desired effect. By the end of 2013, after much discussion concerning next-generation banking, BEA's top management decided to take a radical approach: the Bank would adopt a totally new retail identity by launching the

digital branch and completely revamping its SupremeGold centres.

A pilot digital branch was opened on 26th February, 2014 at ifc mall in Central, one of Hong Kong's highest profile shopping venues. At the opening cocktail reception, Dr. Li announced, "This branch is a model for the new way to bank: innovative, efficient, and environmentally-friendly."³² Other digital branches followed, with eight having opened across Hong Kong by the time of the BAI awards in October 2015.

State-of-the-art digital devices:

- 1. i-Counter: a manned service counter during regular business hours, after which it converts to an i-Teller (BEA's award-winning interactive service station), allowing customers to perform daily banking transactions and loan applications through video call.
- 2. i-Window: an interactive touchscreen device that provides details on investment products, and allows customers to apply for these products electronically with an electronic signature and real-time screen and audio recording.
- 3. i-Kit: a handy tablet with optical character recognition, electronic signature technology and straight-through processing, enabling fast electronic applications for regular banking products.
- **4. i-Panel:** an interactive touch-point with proximity sensors which welcomes customers and allows them to browse



i-panel

bank products with privacy and flexibility. They can also download brochures/ forms straight to their mobile device using NFC or QR codes. In addition, it also serves as a display of 360° model of BEA credit card's welcome gift, which replaces the physical displays used in the past to save physical space.

5. i-Zone: offers a full range of fast Cyberbanking and credit card self-services.

No customer left behind

The Bank constantly finds new solutions to ensure that in the course of branch transformation, customers who miss their old neighbourhood branches, who live in remote areas, or who cannot cope with all the new i-devices, will continue to receive the best possible service.

66

Despite fewer branches, the new network of branches and i-Financial Centres actually provides greater coverage. Branches and i-Financial Centres are mostly opened in prime locations or hubs such as busy shopping malls connected by the MTR or light rail. Branches used to be on the street level, but more people now live and work above shopping malls. Our digital branches and i-Financial Centres are so compact that they fit easily into these malls.

•

- Mr. Vincent Hui, General Manager & Head of Personal Banking Division



BEA unveiled its digital branch concept, and Hong Kong's first digital branch, at the ifc mall in 2014.

Highly flexible and mobile, the digital branch operates as a paperless, straight-through model. Its radically reduced floor space provides a solution to sky-rocketing rents. Another huge advantage is the way it has enhanced the experience of customers, who can open an account in fifteen minutes and receive approval for a mortgage loan in just thirty. With paperless electronic applications, the digital branch also has a reduced environmental impact, an important consideration for any socially responsible corporation.

Soon to follow was the first revitalized SupremeGold Centre, designed to make exclusive clients feel at home. It opened in June 2014 on the thirty-third floor of Tower 1 at Times Square in Causeway Bay, another high-end shopping area.33 Like the digital branches, the new Centre was excitingly futuristic in both appearance and function. It could also afford to be spacious, occupying an upper floor rather than a street-level shop. Mr. Adrian Li explained that the Centre's stylish new design was 'underpinned by [the] three core values of partnership, growth and happiness, which reflect our aim of helping our customers to attain financial success as well as personal fulfilment'.34

Besides its opulent look and feel, the new SupremeGold Centre was outfitted with state-of-the-art digital devices. The i-Window in particular was used to great advantage, enabling customers and advisors to review key documents simultaneously through its split-screen function, and streamlining the entire investment transaction process.³⁵ The combination of highly personalized customer service and advanced technology in a quiet, relaxing setting was a winning combination.

The Times Square SupremeGold Centre was so well received that another one was soon opened in Harbour City, Tsim Sha Tsui.³⁶ By the end of 2017, there were seventy-two

digital branches and fifty-four SupremeGold Centres.

Profits aside, the growing emphasis on automation and digitization, and efforts to streamline all processes led to a remarkable reduction in paper use. The Bank's aim was to have digitized all documents in branches by the end of 2017 so that they could go entirely paperless.³⁷ In the race to role-change branches from cash-handling points to outlets offering digitized financial services, BEA continues to hold the lead.

Time, as always, was of the essence, and not only in terms of cutting transaction times for customers' convenience. Whereas it initially took thirteen days to install a digital branch, the IT team managed to recalibrate procedures so effectively that it later took only thirty-six hours to complete the job. This record time was first achieved at the Olympian City Branch in June 2015. The process began on a Saturday afternoon; by Monday morning, a brand-new branch was open to customers, with all functions fully digitized! The staff members who achieved this breakthrough proudly called it the '36 golden hours' (黃金36小時) approach.³⁸

Since then, the goal was to implement the '36 golden hours' schedule at one branch every week. Team work was essential, according to Mr. Vincent Hui, General Manager and Head of Personal Banking Division, who was the architect of the digitization campaign. Confidence rose with each project, and some colleagues even talked about converting two to three branches in one weekend.

Mr. Hui is especially proud that all the solutions were built in-house, since there were none in the market that fitted BEA's specifications. Many departments worked together, including the Channel Management & Operations (later renamed Channel & Transaction Management), Branch Distribution &

The Times Square SupremeGold Centre

The elegant 3D paper cuttings decorating the walls were created by UK-based artist Yulia Brodskaya, providing a space that is both vibrant and relaxing that meets the needs of young, professional banking customers.





In 2014, BEA introduced a fresh new look for its SupremeGold Centres.

Services, Information Technology, Productivity & Service Quality, Marketing, Facility Management and Project & Innovation Management departments, among others. "Colleagues really worked together and backed each other up. They took the initiative to find their own solutions, like pioneers struggling to find a way out of uncharted and hostile territory (披荊斬棘)," he recalls.

Over the last ten years, customers have undoubtedly felt their lives upgraded by BEA's outpouring of innovations. Following the introduction of the digital branch and revamped SupremeGold Centre, 2015 saw the arrival of iP2P (the first and only personto-person payment system approved by Hong Kong's regulatory authorities at the time), cardless ATM withdrawals, Shop Smart (an online shopping platform on the BEA app), i-Spend (an all-in-one credit card management tool) and much more. What customers might not have seen was all the action behind the scenes to ensure that the Bank delivered the best possible service.

In late October 2015, BEA established an all-new Innovation Centre, reflecting the Bank's resolve to nurture a dedicated innovation culture in order to deliver the best possible omni-channel banking experience. Three specialized zones were created: the iCentre – a space for everyone to interact with BEA's latest digital innovations and services; the iHub – to facilitate close communication and idea development; and the iLab – a new home for the Research and Development team.³⁹

The Bank's IT achievements have been the result of many departments working together, with all involved keeping a close eye on the latest developments in financial technology such as cloud computing, big data, mobile technology, and blockchain. The Bank has carefully integrated these elements into its operations wherever they had the potential

to enhance speed and security. For many years, moreover, it has been developing and improving a large-scale management information system as part of its sophisticated internal operations.

The innovation impulse has been a key driving force behind BEA's achievements, but it was never a standalone principle. The Bank's core values – professionalism, customer focus, integrity, and progressiveness – have been a continual guide and inspiration to the management and staff, allowing the Bank to overcome challenges in an increasingly competitive world and to grow both bigger and brighter.



To encourage innovation, a core value of the Bank, BEA opened its Innovation Centre at BEA Tower in 2015.



The Innovation Centre's i-Lab serves as an incubator for new ideas.

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CHAPTER FIFTEEN

BEA IN CHINA AND BEA CHINA

BEA China Opens

The Bank of East Asia (China) Limited ("BEA China"), a wholly-owned subsidiary of BEA and locally incorporated on the Mainland, officially commenced business at 8:30 a.m. on 2nd April, 2007.¹ Celebrations were held soon after at the Pudong Shangri-la Shanghai Hotel attended by 500 dignitaries from the government, business and financial sectors.2 The celebrations, as importantly, marked eighty-seven years of unbroken presence on the Mainland and almost four decades of expansion since late 1970s, and pioneering work. In the next ten years, as it approached its 100th year in China, the Bank would consolidate its brand, garnering many high-level awards for different achievements in the process.

BEA closely monitored changes – big and small, gradual and sudden, in the market and in government policy – responding as creatively and constructively as possible, and all the time, deepening its commitment to China.

Branch Network

Headquartered in Shanghai, BEA China opened for business with twenty-eight outlets: thirteen branches, fourteen sub-branches and the headquarters. BEA, the holding company, operated a branch in Shanghai along with five representative offices. After a period of aggressive branch expansion, the movement slowed down to become more selective and strategic.

When the China (Shanghai) Pilot Free Trade Zone ("Shanghai FTZ") was established, BEA China was among the first foreign banks to obtain approval to open a sub-branch. The Shanghai FTZ, part of the Central Government's plan for financial reform, was expected to play a large role in China's global integration and was poised to become a financial hub for the enterprises there.³ BEA China became the first foreign bank allowed to provide cross-border electronic RMB payment services in the Shanghai FTZ, which was a boon to its individual as well as corporate customers.⁴



BEA China commenced business on 2nd April, 2007, one of the very first foreign-owned banks to be established on the Mainland.

The Nanning and Nanchang branches were opened in 2015 in response to the 'Belt and Road Initiative', which basically remapped large parts of China and the Euro-Asia world.

Nanning is the capital of Guangxi, an autonomous region situated in an agricultural centre and a rich source of natural resources with a strong manufacturing sector. Large parts of the province, moreover, stretch strategically along the northern edge of the Gulf of Tonkin, making it a potential regional hub for trade with members of ASEAN. China was a key member of the ASEAN Plus Three Cooperation. Since 2010, the idea of an economic corridor reaching out from Nanning had gained momentum; starting out as a small programme to help merchandise trading, it swelled within the framework of the Maritime Silk Road, which saw Nanning as a major regional hub for economic integration and connecting eight major cities. This was further confirmed in

September 2015 by the 'Nanning Consensus' to build the Nanning-Singapore Economic Corridor.⁵ Given these strategic shifts, BEA would be able to cater to the growing demand for banking services from Nanning and its vicinity.⁶



Nanning Branch, in Guangxi

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Grand opening of the Nanchang Branch in 2015

The branch in Nanchang, the capital of Jiangxi, was BEA China's thirtieth branch. Historically a commercial and transportation centre connecting north and south China, Nanchang was expected to play a major role within the Belt and Road framework in the technology, tourism and agricultural sectors.⁷ A BEA China branch there could help to fund the high potential for growth.

By the end of 2017, BEA China's branch network consisted of thirty branches and seventy-seven sub-branches distributed across forty-four cities, stretching from Urumqi in the west to Shanghai in the east, from Harbin in the north to Zhuhai in the south. Despite merging nine sub-branches with other outlets that year to cut costs, BEA China still has one of the most extensive networks operated by any foreign bank in Mainland China.⁸

Funding BEA China

Capital for BEA China came from direct injection from the parent bank and also through the emerging RMB bond market. BEA China became the first foreign bank subsidiary to issue RMB retail bonds in Hong Kong, in July 2009 and again in May 2012, and was remarkably successful, as we saw earlier. It was naturally very encouraging for BEA China to see both issues oversubscribed, with investors demonstrating their confidence in BEA China as an issuer, especially in view of the prevailing negative investment sentiment and the tighter regulatory requirements on the selling process of investment products.9 Additionally, BEA China issued bonds on the Mainland, raising RMB5 billion in 2011, the limit imposed by the PBoC.10

BEA also directly injected funds into BEA China: RMB2 billion in 2014, RMB1 billion in

2015 and RMB1 billion in March 2016, raising BEA China's total capital to RMB12.16 billion.¹¹ This ensured that BEA China continued to have one of the strongest capital bases of any foreign-owned subsidiary bank in China.¹²

BEA China: Business Operations

Immediately after incorporation, BEA China offered new products as allowed by its new status. It became in 2008 the first foreign bank to launch both RMB debit cards and credit cards. This was possible because BEA China was able to relocate the data centre that handled card transactions and related data into China faster than other foreign banks. The debit card, which gave customers easier access to their deposits, was seen as a way to attract retail banking customers as well as local deposits. The capacity to take local deposits had been one of the main goals of incorporating in China. In June 2009, BEA China



In 2008, BEA China was the first foreign-owned bank to launch RMB debit cards and RMB credit cards on the Mainland.

became the only foreign bank to be invited by CUP – together with thirteen local banks – to issue a special themed credit card celebrating the sixtieth Anniversary of the PRC.¹³

BEA China developed RMB wealth management products and won many prizes in this area,¹⁴ including structured products, RMB trust products, QDII and Bancassurance products. In 2009, it launched six investment series, incorporating a total of 217 investment products. In response to the global market environment and local customer demand, it shifted its focus to principal-protected investment products in 2009.

It continued providing traditional services such as mortgage loans and consumer finance for customers, including domestic residents. Corporate banking, long a mainstay of BEA's business in China, provided a high percentage of BEA China's income. It was expanded and diversified after a period of bad loans forced it to adopt a more prudent policy and raise the loan asset quality.15 One way to achieve this was to diversify the industry mix of loans, and for a while, this meant lending to new sectors such as manufacturing, hotels, wholesale and retail, but this was soon superseded by a new strategy. The Corporate Lending Team started to court large-scale state-owned enterprises, focusing on six priority industries: public utilities, health care and pharmaceuticals, logistics, environmental protection and clean energy, food, and education - priority industries that were supported by national policies. As at the end of 2016, aggregate loan balance to these industries doubled year-on-year.16

System Change

BEA China inherited the innovative spirit of the parent company. There was enormous investment in technology in terms of money, time and attention. After the data centre was moved to the Mainland, BEA China completed construction of the infrastructure and related facilities and strengthened its operational capabilities,¹⁷ and this enabled the centralized management of the bank's operations, internal control, risk control and emergency response. The data centre moreover provided a solid foundation for the bank's information security and its many developments in the future.

In December 2009, BEA China became the first locally-incorporated foreign bank to launch a next-generation Corporate Cyberbanking service. This gave corporate clients instant access to innovative online corporate wealth management tools such as Group Cash management, Investment and Finance Management and other services. Personal Cyberbanking services were also enhanced and many new channels were created to facilitate customers.

By being the first locally-incorporated foreign bank to complete the localization of its corporate internet banking system, BEA China was linked closely with other Mainland institutions and thus could make all kinds of transactions more efficient. For instance, it was able to link its payment and settlement system directly to the China National Advanced Payment System ("CNAPS"), and to the RMB cross-border Payment/Receipt Information Management System. To fully connect with the Electronic Commercial Draft System ("ECDS") of the PBoC, BEA China rolled out its ECDS that would increase operation efficiency and security control for draft transactions and enhance the bank's financial services as a whole.18

BEA China, as a locally-incorporated entity, had to adapt its information system to comply with Mainland standards and regulations and to sync with the operational systems of various Mainland institutions. Part of the system,

however, remained connected to Hong Kong in order to share data with the parent bank, and to facilitate channeling data to the HKMA when required. For business operations, the cross-border linkages enabled, among other services, the Global Access Account, which allowed a customer in Hong Kong to transfer funds to his own account on the Mainland. This was very popular with Hong Kong customers, who were now able to receive the higher interest rate offered on the Mainland. BEA China won the 2010 Shanghai Financial Innovation Award given by the Shanghai Municipal Financial Services.

Being tech-savvy gave BEA China the edge as IT development surged ahead in China. The game-changer was the entry of China's technology companies into the financial sector, offering micro loans, wealth management, third party payment and other services, a trend that caused unease as much among traditional banks as among regulatory authorities. These Fintech companies could, moreover, monetize big data to create new revenue sources.²⁰ Among BEA China's response to these developments was to seek partners among Fintech companies. In April 2015, it signed an agreement with WeBank, a privately owned bank in Qianhai, Shenzhen established by its founding shareholders (including Tencent) to explore respective competitive advantages for mutually beneficial business development in areas including customer referrals, credit card, micro and personal loans, wealth management, interbank lending and internet finance.

BEA was especially attracted to WeBank's big data analysis capabilities that would enable BEA China to reach out to its target customers much more effectively. A White List (白名單) was a tremendous tool for knowing one's customers; the list enabled BEA China to be more proactive by being equipped with the necessary information to seek out desirable

customers rather than wait for them to come knock on the door.21 WeBank could also offer a large-scale, low-cost business platform.²² In April 2015, BEA China went one step further and announced plans to launch microcredit personal unsecured loans on the Mainland in cooperation with WeBank. Mr. Brian Li Man-bun, BEA's Executive Director and Deputy Chief Executive, seeing that BEA China's loan strategy was still conservative, particularly with bad loans in the hotel, retail and manufacturing sectors, considered it a good time to try new sources of borrowers.23 Commentators regarded the BEA China-WeBank collaboration as an innovative and win-win cooperation for both sides: BEA would be able to make up for Tencent's lack of experience in finance and especially loan credit review and cross-border business, while the arrangement could help BEA develop the Mainland personal loan area.²⁴

In August 2015, BEA China announced its cooperation with Tencent on the e-commerce payment channel of WeChat, which would offer customers a faster, safer, more convenient service experience.²⁵

However, those being early days yet, it was impossible to tell just how the game would play out, especially with regulators bearing down on such new-generation arrangements. While regulators were generally unwilling to see disruptive changes that might lead to instability in the banking sector,²⁶ risk managers focused on the risks that these Fintech practices might affect individual banks.

Thus, innovative internet banking notwithstanding, traditional banks continued to enjoy advantages in serving high-net-worth individuals who needed face-to-face communication. Branches, therefore, would not be phased out any time soon.

Cross-border Operations

With strong cross-border capabilities and extensive networks in both Hong Kong and on the Mainland, as well as overseas, BEA was in a unique position to serve customers with business interests in both markets and around the globe. Business from the Hong Kong-China integrated platform accounted for about 28 per cent of the Bank's corporate and commercial loan and trade finance portfolio at the end of 2011.

By then, BEA had built a strong base of loyal Mainland customers in Hong Kong and was serving their onshore and offshore financing needs, including property development project financing, loans against RMB-denominated assets and cross-border trade finance. The growing range of products included treasury bonds and insurance.

BEA was right in stressing Hong Kong-China connections as a great asset and in developing its niche market aggressively. When enterprises wanted to 'go out', either for IPOs or to make investments, BEA could do a better



BEA China was the first foreign-owned bank on the Mainland to receive approval to establish a branch in Qianhai, Shenzhen.

job facilitating the process than other banks because it understood their needs better. It made sense for Mainland enterprises to first go to Hong Kong, an international city, where BEA could help them find accountants and lawyers; Hong Kong provided a comfortable spring-board before they reached out further to the United States or Europe, where the legal systems, for instance, could be completely unfamiliar. This was where BEA's international network played a decisive part. In Mr. Kwan Tat-cheong's view, Hong Kong was fundamentally a Chinese place with the same culture, same language and even same time zone: it was always this ability to interface effectively in different directions that made Hong Kong so dynamic. To say that Hong Kong was a comfort zone for many Chinese businessmen might be hard to verify scientifically, but the phenomenon was nevertheless very real. This was particularly evident in the growth in private banking business.

A number of structural measures facilitated the internationalization of the RMB, including the Cross-border Interbank Payment System ("CIPS") launched by the PBoC on 8th October, 2015, to enable real-time gross amount settlement of fund transfers for both individual customers and financial institutions. BEA China was among the first batch of foreign banks to qualify as a direct participating bank; such participation could help expand its business in RMB clearing significantly, allowing it to offer clients a convenient payment channel, with shorter remittance times and greater efficiency in transactions.²⁷

More Investment Opportunities

BEA benefited as China continued to liberalize the market and opened up its capital account for RMB foreign investment, allowing more offshore RMB to flow back to



Qianhai Development Zone

the Mainland. Under the RQFII programme launched in 2011, foreign investors who held the RQFII quota were given access to a new channel to use offshore RMB to invest in China's stock market²⁸ and buy RMB bonds, and in the process, transform RMB bonds into an emerging global asset class to facilitate diversification and financing demands on a global scale.²⁹ BEA received permission to invest in China's fixed income and A-share markets in August 2013.³⁰

Another RMB investment opportunity came with the establishment of the Qianhai Development Zone. BEA became one of the first Hong Kong banks to make a RMB loan directly to a Qianhai-incorporated Mainland enterprise in January 2013 as soon as such permission was given.³¹ Syndicated loans in RMB were also in demand in Qianhai and BEA was part of a syndication to raise a RMB500 million loan in 2015. Successful syndication indicated appetite among Hong Kong lenders rich in RMB to participate in cross-border trade that gave them a chance to put the currency to work.³²

In December 2015, moreover, BEA formed a joint-venture securities company with Shenzhen Qianhai Financial Holdings Co., Ltd. and two local corporate shareholders. BEA, with 49 per cent of the stakeholding, was the largest shareholder. The new company, namely East Asia Qianhai Securities, received approval from the CSRC for commencement of operation at the end of 2017.³³

BEA China: A China-incorporated bank

Once incorporated in China, BEA China, though a wholly-owned subsidiary of BEA, was an independent legal entity in China and had to behave as such. This applied not only to the IT system as noted but also to policy and governance as well. As Mr. Kwan

explains, it was important for BEA China to have policies that were in line with Central Government policies; otherwise, there would be a lot of tension. For instance, there had to be governance changes. At first, the bank's internal reporting system was very centralized, i.e. tied to Hong Kong Head Office, but Mainland regulators wanted BEA China to be more independent of Hong Kong. They thought that the power of the BEA Board, which mainly represented the interests of the Group's shareholders, should be restricted. Instead, the Board of Directors at BEA China, which was complete with all the necessary committees - risk, nomination, etc. - should be given more power to check and control the different lines of business on the Mainland. In this way, the Board of BEA China would become more relevant to China.

The senior staff members of BEA China also formed a more integral part of the Mainland community by entering different representative bodies in the political hierarchy. For example, Mr. Kwan Tat-cheong, who was a member of the CPPCC, encouraged his colleagues to seek such offices as well. Being a Hong Kong bank with a large group of Chinese staff helped put BEA in a special social position.³⁴ At the same time, the bank penetrated different levels of the market and community. It proactively explored business opportunities with new partners such as regional banks, branches of national banks and non-bank financial institutions, including insurance companies, finance companies and trust companies.35 In the process, it formed deep ties with local people. No wonder BEA China was considered 'the most local foreign bank'.

People and staff training

Long-term plans for development on the Mainland centred on staff training. How was the Bank to get the right people with the right skills, right mindset and right cultural values not just to staff the rapidly expanding branch networks but also to manage all the increasingly sophisticated areas of operations, and be able to tune into the unique social and political environment of the Mainland?

To support branch expansion, more staff were locally recruited and then given rigorous training in the bank. As demonstrated by Mr. Sun Minjie's case, local connections, linguistic skills (including the ability to speak local dialects), knowledge of local customs and political sensibilities made local staff invaluable to the bank.³⁶ When Mr. Sun was made Deputy Chief Executive in 2009, it was an encouraging sign to local staff that there was room for local staff to rise.³⁷

In-house training was rigorous, and with greater specialization on every level, younger employees were trained along special business lines. Outside specialists were invited to give training courses. The human resources system for learning and performance management was regularly reviewed. In February 2013, the existing human resources system, Platinum HRM, was integrated with the NetDimensions Talent Suite. Deploying an online learning management system for BEA China and shifting face-to-face compliance training programmes to e-learning were the first two targets.³⁸

An innovative elite training programme

BEA China made waves when it launched an innovative training programme in 2011. The new initiative, known as the '839 Talent Development Programme' (839人才培養工程), operated on three levels. At the lowest level, around eighty young officers from branches across the country were trained to become junior managers (第一線主管); these were called 'Young Eagles' (雛鷹). At the second level, around thirty junior managers were selected for training to become branch

deputy general managers (副行長); these were the 'Flying Eagles' (飛鷹). At the third level, about nine members were selected from among branch deputy general managers and assistant general managers (行長助理) to be trained as branch general managers; these were the 'Golden Eagles' (金鷹).³⁹ From classroom training and team projects to overseas assignments, staff members receive hands-on experience and the opportunity to practise their skills in real-life situations. The programme has helped created many frontline executives including general managers in charge of BEA China's branches.

Mr. Kwan found this training programme very effective for producing the necessary pool of experienced and skilled middle and senior personnel to align with BEA China's fast expansion: this meant that whenever a new branch opened, someone was ready to head it, someone who would have been nurtured all the way through BEA China's system.⁴⁰

There were collateral benefits. As part of the programme, trainees at different levels formed teams to perform specific tasks; with individuals coming from different departments, different ranks and different branches and regions across China, the programme forced them to collaborate and learn from each other. The result was the enhancement of communication within BEA China across departments, ranks, branches and regions, breaking down many barriers, creating esprit de corps and lifting morale.41 This strong, integrated corporate culture, very much focused on nurturing local talent, was in Dr. David Li Kwok-po's opinion another reason why BEA China stood out among foreign banks on the Mainland, 42 most of which brought their own people from outside. No other foreign bank was like the Shaolin Monastery.

It was hard to avoid turnover among staff; it was equally hard to avoid the need to employ



In 2011, BEA China launched its innovative training programme, 839 Talent Development.

senior staff from outside to fill specialized posts such as Chief Financial Officer, risk managers and internal auditors. Nevertheless, BEA China had a relatively stable management team compared to foreign banks, which often had major staff changes. A Chief Executive Officer working in a foreign bank in China could be transferred to London or India any day, but for BEA China there was a much smaller scope for transfers and rotations. Every three or five years, a branch general manager would be rotated but this would be within China itself. At the same time, when officers were recruited from other banks at certain levels, the new people brought new ideas, which Mr. Kwan believes could be a good thing for BEA China too.43

A Local Bank in the Community

BEA China's commitment to the community also distinguished it from other foreign banks.

To some extent, BEA China was freer to try out new ideas. One of its early initiatives was to set up the *guan'ai pingtai* (關愛平台, a warm and caring platform), to deliver help to colleagues who faced different kinds of problems. Colleagues could call up a special hotline and speak to someone who would listen to their problems and give counsel. This proved really effective in offering comfort and advice for those in anguish whether caused by work, family or personal issues. It was a valuable innovation and was soon adopted by Hong Kong Head Office.⁴⁴

In November 2009, BEA China launched the Shanghai Soong Ching Ling Foundation-BEA Charity Fund ("the BEA Charity Fund"), the first charity fund established by a foreign bank in Mainland China. Needless to say, this would not have been possible without the support of the government. Madame Soong Ching Ling, the wife of Dr. Sun Yat-sen, had dedicated her life to the welfare and education of children

and was widely admired and loved for it. The Shanghai Soong Ching Ling Foundation was a public welfare foundation established in 1986 by the China Welfare Institute founded by Madame Soong herself, and, adhering to her ideals, had implemented many projects and activities in education, culture, health and medicine, and other socially sustainable fields to the benefit of needy people. It was a highly respected public welfare organization known for its efficiency and transparency.

As its first initiative, the BEA Charity Fund selected the 'Firefly Project'; this aimed to upgrade the educational facilities of children in rural China. There were various activities including the construction of 'Firefly Centres' equipped with libraries, computer rooms and other advanced facilities; the donation of 'Firefly Backpacks' full of stationery and books to students in need; organizing volunteer

teachers to teach in rural areas; and providing additional training for teachers from rural areas.⁴⁵

BEA China staff were extremely hands-on in the operation of the charity project. Since 2009, BEA China has organized the 'Firefly Charity Night' to raise funds for the various projects supported by the BEA Charity Fund. Distinguished guests are invited to attend the event. An auction, always keenly supported by patrons, is held.46 More importantly, the atmosphere is always filled with a sense of hope as organizers recount their achievements and speak on future plans. The enthusiasm and voluntary spirit shown by BEA China staff themselves are touching, making it clear that their involvement as volunteers is an indispensable ingredient for the event's success. In 2017, a total of RMB11.06 million was raised at the Firefly Charity night.47



The Firefly Project aims to upgrade the educational facilities of rural schools in China.

By end of 2017, seventy-six Firefly Centres had been opened nationwide. Significantly, six of the twelve new centres opened in 2016 were supported by the 'la Caixa' Banking Foundation – one of the oldest philanthropic organizations in Europe and a major shareholder of BEA (through Criteria Caixa) – as the title sponsor.

Another demonstration of BEA's corporate social spirit was the donation raised among staff throughout the Group to establish a Firefly Centre in 2013. A total of RMB300,000 was raised in Mainland China, Hong Kong, Macau, Taiwan, Malaysia, the United Kingdom and the United States for building a new Centre in Zhuzhou, Hunan. A further RMB50,000 was provided by the BEA Charity Fund to complete the construction and cover ongoing operational costs. It was always gratifying for BEA and BEA China staff to see how the Firefly Centres could directly help children. As Ms. Mimi Kam, General Manager and Head of Human Resources & Corporate Communications Division, said, "We at BEA are delighted to have this opportunity to make a difference to the lives of so many children. By providing these students with access to computers and other educational tools, we hope we can instill in them a love for learning and a desire to

contribute in beneficial ways to our world."⁴⁸ Participation in Firefly activities not only gave staff volunteers a chance to touch the lives of the children; it is especially gratifying to see how their own lives were also touched by the children.

BEA has introduced many new ideas and practices to the Mainland in the last four decades, and proved to be an effective testing ground for many initiatives. Its pioneering work in the area of private philanthropy is yet another display of its deep engagement with the society on the Mainland. This is one big reason for the BEA Group's special place in China – China as a market and China as a community.

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CHAPTER SIXTEEN

AN AMERICAN ADVENTURE

BEA's sale of BEA USA to ICBC in 2012 grabbed local and international headlines. The transaction was a milestone for BEA, for China and for the United States. For BEA, it marked the highlight of several decades' operations in the United States, a strategic manoeuvre in its global ambitions. From a wider perspective, it made ICBC the first Chinacontrolled financial institution to acquire retail banking branches in the United States and opened the way for other Chinese banks to enter the American market through buying US banks.

The story began much earlier. To recap, BEA established its first North American presence in 1984 with a fully Federal Deposit Insurance Corporation ("FDIC")-insured branch in New York on Park Avenue in midtown Manhattan. In late 1988, a Chinatown Branch was opened on Canal Street to focus on Chinese retail customers while the Midtown Branch offered wholesale services to domestic and overseas clients. In Los Angeles, BEA opened a branch in April 1991 that operated as a limited federal bank – since BEA had opted for New York as its home state – engaging in wholesale business, doing especially well in trade finance.¹

The Birth of BEA USA

BEA was in expansion mode with the dawning of the new millennium. In the United States, it had big plans – to capture the growing Asian markets in New York and California through a nationwide network with an emphasis on retail banking as the platform for penetrating these markets.

To do so, the Bank needed multistate branches to conduct interstate operations, and this would require a locally incorporated subsidiary bank. There were two ways to establish a subsidiary bank – either by incorporating a new bank in the United States or buying an existing bank and restructuring it to meet BEA's needs. Either way, it would be a great leap forward.

BEA chose to buy an existing bank. The task of identifying a bank fell to Mr. Tang Peng-wah, General Manager of the New York Branch, and Mr. Victor Li, General Manager of the Los Angeles Branch, and after an intensive search, the Bank decided on the Grand National Bank.

The Grand National Bank, based in Alhambra, Greater Los Angeles, seemed to be just what the doctor ordered. It had started in 1984 as a community bank focused on a Chinese customer base, and during the 1990s developed into a full-service commercial bank specializing in import and export trade financing to individuals and SMEs while offering a comprehensive range of retail and wholesale banking services to individual and corporate customers. Since few small banks had the expertise or the contacts with foreign banks to arrange trade financing, the Grand National Bank found a niche in that market.² Though just a small bank with only two branches and assets of US\$139.9 million,³ it provided an ideal platform for BEA's expansion plans.

The purchase of the Grand National Bank was successfully completed on 14th August, 2001, with BEA acquiring 100 per cent interest in it. It was renamed The Bank of East Asia (U.S.A.) N.A.⁴ on 1st August, 2002.

The following year, 2003, BEA made another dramatic move. It relocated BEA USA's Head Office from California to New York City and opened its first branch there on 5th December. To prepare the ground for this move, BEA's New York Federal FDIC-Branch had spun out a *de novo* bank on paper between 2002 and 2003 and transferred some of its retail assets to it. The *de novo* bank merged with Grand National /BEA USA, and through this reverse merger it was possible for BEA USA to move to New York.⁵

The Big Move

These were all formidable tasks – the purchase of the Grand National Bank, the establishment of BEA USA and the relocation of BEA USA Headquarters to New York. The US banking was highly regulated and each bank was subject to the regulation, examination and investigation of many levels of authorities. The regulation of foreign banks became stricter



BEA completed its acquisition of Grand National Bank in 2001.

and even more complex after the passing in 1991 of the Foreign Bank Supervision Enhancement Act ("FBSEA") aimed at strengthening the Federal Reserve's oversight authority over foreign banks operating in the country.

Moreover, the US banking sector was geographically restrictive with each state regulating the establishment and location of bank branches within its borders. As there was no reciprocal interstate banking agreement between California and New York,⁶ the process was even more tortuous. Forming a bank with multistate branches was complicated enough, but when the bank was a foreign subsidiary, there were many more hoops to jump through. Mr. Tang remembers how he and his colleagues ran through the maze of banking laws and regulations of the various state and federal governing bodies. Fortunately, it would seem that BEA - being internationally recognized as a long-established, well-governed and prudent bank - was at an advantage in the screening process. The fact that the Bank was from Hong Kong also helped as US regulators held the Hong Kong's regulatory body, the HKMA, in high regard.



BEA USA's San Francisco Chinatown Branch

A Milestone. Cost and Investment

The launching of BEA USA was a major milestone in the Bank's history. Authorized to offer all the same services as other American domestic banks, the new subsidiary enabled BEA to enlarge its scope of operations, geographically and functionally and penetrate the American market more intensely than ever before.

In 2006, the Group acquired a second American bank, the National American Bank ("NAB"), through acquiring its holding company, the National American Bancorp, San Francisco, California. NAB was a commercial bank with three branches in the San Francisco area. This was a strategic move, Dr. David Li Kwok-po told the press, that would "enable the BEA Group to expand its network to the dynamic San Francisco market and provide it

with a platform for further growth in Northern California." He added that, "Our move is in line with our strategy to expand our catchment area to locations where our key target customer groups reside." As part of the acquisition, NAB merged with BEA USA, which operated in New York, Greater Los Angeles and San Francisco. By the end of 2006, BEA USA had ten branches in the United States, and by the end of 2008, it had thirteen: three in New York, five in the San Francisco area and five in the Los Angeles area. In that year, more branches were being planned.

BEA was now well positioned to cater to the growing overseas Chinese market and also accommodate new business opportunities brought about by the emerging Mainland Chinese demand. BEA in Hong Kong, as always, was building bridges to and from China; expanding its capabilities in North America to address Chinese customers' changing needs was reinforcing its 'traditional' goal.

Expanding American Presence

BEA's presence in America now took three different forms:

- 1. BEA New York Branch (est. 1984), federally licensed and FDIC-insured but focused on wholesale business.
- 2. BEA Los Angeles Branch (est. 1991) operating under a federal charter and not FDIC-insured. It was a limited wholesale branch.
- 3. The US-incorporated subsidiary bank, renamed BEA USA on 1st August, 2002, headquartered in New York and controlling a multistate branch network.

It was crucial to emphasize to the public the difference in legal status between BEA USA

and the BEA branches. In Los Angeles, for instance, where a BEA USA Branch and a BEA federal branch occupied the same building, clear signs were put up – 'FDIC-Insured' for one and 'NOT FDIC-Insured' for another – to make sure customers knew which bank they were entering. The clientele of the two was generally very different but it was still important to avoid confusion as far as possible.

BEA USA and the BEA branches complemented each other, with the former focused on retail banking and the latter on wholesale banking. Leveraging the capital of the Head Office, the BEA branches were able to enter larger deals, and take part in syndicated loans. Limited by capital, the subsidiary bank - a separate legal entity with a separate capital base and its own Board of Directors - was not able to handle big transactions. When big deals came along, BEA USA directed them to the BEA branches. In some cases, a deal would be split up between the two, with the branch taking a bigger piece of the pie but the subsidiary leading the transaction. With very few foreign banks targeting retail banking, BEA USA was quite unique. Different foreign banks had different strategies and BEA was one of the only two banks centred on Asian retail banking.

The BEA branches, on the other hand, focused on wholesale business and had a more culturally diverse clientele. For corporate lending, their customers could be companies owned by people of any ethnic background, Chinese and otherwise. The catchment was wide and became wider still through the 2000s as growing demand came from Mainland China, partly for loans to finance trade by borrowing US dollars, and for loans to buy properties, some of which could be sizeable. Borrowing could take the form of bilateral or syndicated loans; club deals, which involved only two or three banks, were also popular.⁸

Bridging the Pacific

The timing was perfect for the Bank's deepening presence in America. As China rose to become the world's fourth largest economy and its economic relationship with the United States grew sharply – developments which probably occurred much faster than expected – BEA was in a good position to capitalize on the situation both to further its own interest and the interest of others.

In Canada, BEA also expanded, though on a smaller scale. In 1991 BEA Canada was incorporated in Toronto as a chartered bank. By 2006, there were six branches, including two in Vancouver and four in the Toronto area. BEA Canada offered standard commercial banking, personal banking and trade finance services. Business was thriving. Not only did the increasing number of immigrants from Mainland China create huge demand for retail banking, but China's economic growth also provided business opportunities on both sides of the Pacific. As in the case of the United States, BEA played a bridging role. In June 2005, for instance, BEA Group and the Canadian Imperial Bank of Commerce ("CIBC") jointly announced the signing of a Business Cooperation Agreement. Among the many benefits of the agreement, CIBC's Canadian clients could gain access to China-based corporate deposit accounts in both local and foreign currencies as well as trade finance facilities.9

Joining Hands with ICBC

In late 2009, BEA agreed to sell a 70 per cent interest in BEA Canada to ICBC for CAD80.25 million (approximately HK\$562.38 million); the transaction closed in January 2010 with BEA recording a net profit of HK\$230 million.¹⁰ In 2011, it sold a further 10 per cent interest of this subsidiary to ICBC, netting a profit of HK\$71 million.¹¹ As part of the agreement, BEA



Grand Opening of BEA Canada's Richmond Hill Branch

acquired an additional 75 per cent in ICEA from ICBC, making ICEA the wholly-owned subsidiary of BEA.

With total assets of around US\$2.5 trillion, ICBC was the largest wholesale and retail bank in China by total assets, and the largest in the world by client deposits. It had been BEA's strategic partner for many years. Among their earlier collaborations was co-founding ICEA in 1998 through their joint acquisition of NatWest Securities Asia operations, with ICBC owning 75 per cent and BEA 25 per cent.¹²

Acquiring BEA Canada was only one of the many signs of ICBC's plan to take advantage of China's growing investment appetite around the world and the signs became very clear with the purchase of BEA USA two years later. ¹³

The American Deal

In January 2011, BEA's wholly owned subsidiary, East Asia Holding Company, Inc.

("EAHC") and ICBC signed an agreement by which BEA would sell 80 per cent of its interest in BEA USA to ICBC for approximately US\$140 million (approximately HK\$1.1 billion).¹⁴

The agreement was signed amid great fanfare. The occasion was the US-China Trade and Economic Cooperation Forum held in Chicago on the last day of President Hu Jintao's state visit to America. Organized by China's Commerce Ministry and its US counterpart, the occasion was one giant signing ceremony at which a slew of pacts by roughly sixty American and Chinese companies was announced. The event was hailed as 'the most important event' in conjunction with President Hu's visit, according to officials in the Chinese delegation.¹⁵

At this historical juncture, both Beijing and Washington were eager to showcase their willingness to strengthen the business ties between the two countries, with China prodding the United States to ease its export controls, especially those regarding high-technology products, and the United States asking China

to purchase more made-in-America goods and services for ordinary consumers. It was a special window of opportunity on a bumpy road to improving relations. For the United States, whose economy was still recovering from the financial crisis of 2008, an injection of fresh capital to the flagging banking industry was welcome.

The acquisition proposal was subject to approval by the relevant regulatory authorities in Hong Kong, China and the United States; in view of its far-reaching implications, it was expected to be a long and complicated process. The CBRC approved it on 8th March, 2011 but it took over a year before approval came from the US Federal Reserve (9th May, 2012) – on the heels of high-level meetings between senior US and Chinese government officials, and days after the conclusion of the US-China Strategic and Economic Dialogue in Beijing (3rd–4th May, 2012), with Secretary of State Hillary Clinton leading the American delegation.

ICBC and BEA concluded the acquisition of BEA USA on 6th July, 2012 in Beijing.¹⁶ BEA USA, renamed ICBC (USA) N.A., ceased to be a subsidiary of BEA. Though BEA had the option to sell its 20 per cent stake to ICBC after eighteen months of the Agreement, it still holds the shares.

A Timely Transaction

Selling BEA USA to ICBC was an 'insightful, strategic decision', according to Mr. Tang. It was a very good deal for BEA.

It was in fact a good time for BEA to sell. The 2008 financial crisis had hit everyone hard. Many banks in the United States, large and small, went bankrupt. Like many banks in America, BEA USA was faced with deteriorating asset quality.¹⁷ At the same time, the crisis changed the dynamics by re-engineering

all the regulations, making them much more stringent. New regulations, for example, 'Know Your Customer', were more rigorously enforced and non-compliance more heavily fined. Complying with them was very costly for a small retail bank like BEA USA.¹⁸

The difficulty was compounded by the 'mosaic' of banking regulators in the United States. As different categories of banks were subject to different supervisory authorities with varying degrees of stringency, a customer might find a bank across the street asking fewer questions and demanding fewer documents to prove this or that than a BEA USA branch. Often, not knowing that the other bank might belong to a different category of banks, a customer might simply conclude that BEA was just being fussy or unwelcoming, and never return. It was also difficult to compete, for instance, with non-bank institutions that could remit money with few questions asked.

As Mr. Tang describes it, in the old days if someone came into a bank with two suitcases of money, the bank would welcome him, and take him into a quiet room. Under new regulations, if the same man came in, the bank wouldn't open an account for him. Big deposits of cash were a compliance red flag. The new regulations required a lot of analysis for sound justification. Many service vendors had emerged providing online real time systems to screen different lists of names, e.g. of terrorists, which the bank staff had to check against when screening potential new customers. In what might be called the 'Age of Regulations', the churning out of these databases was a growing industry. In banking, increasingly, the biggest growth area was compliance.

"We were so heavily bogged down with all the compliance and rules", Mr. Tang recalls, that either the Bank had to pump in more capital and resources to comply or get out. When it was costly to comply and even more costly not to comply, one solution was to make a strategic retreat. The money-making part of a bank was shrinking compared to all the peripheral activities, and inevitably some parts of its operations had to be abandoned.

At one point, Mr. Victor Li reveals, 18 of the 200 members of staff at BEA USA worked in compliance. He feels that for the subsidiary bank to have made money, it would have had to expand its branch network, perhaps to a hundred branches, to achieve economy of scale. It was an investment that BEA was not ready to make, especially at this time when it very much focused on the Mainland market.¹⁹

BEA approached ICBC to buy the American subsidiary, and happily, ICBC was interested – for good reason. BEA USA was a national chartered bank, holding a much-coveted FDIC licence that entitled it to conduct full banking services including retail banking, corporate banking and trade financing. Holding such a licence would enable ICBC to jump-start its US retail banking operations – a springboard to penetrate the entire American market.²⁰

BEA's asking price was reasonable. Not only would acquiring a bigger bank cost ICBC more, but it would also make the approval process more complicated. BEA USA was also very well governed. After buying BEA Canada, ICBC had confidence that governance within the BEA Group as a whole was of a very high standard. There would be no 'hidden bombs' that might lead to liabilities after the handover.

It was therefore a good match for both sides. As Mr. Jiang Jianqing, the then Chairman of ICBC, pointed out, it was a 'win-win' situation. He was well aware of the significance of the transaction. "ICBC's acquisition of an 80 per cent interest in BEA USA will enable us to obtain a commercial bank licence and fill the gap of ICBC retail banking in the United

States." The "unprecedented acquisition", as he called it, was strategically important for ICBC "as a stepping stone" for its further expansion in America. But the strategic significance was bigger than that. When successfully concluded, the transaction, he pointed out, would lay a solid foundation for *Chinese banks* to improve their services in the United States. Even more importantly, it would enable "China and the United States to engage further opening of financial business on an equal basis, and have a positive impact on Sino-US trade relations".²¹

It was a nationally significant move. In light of the enormous foreign exchange reserve China was holding at the time, it was logical for Beijing to encourage its banks to invest overseas. Mr. Chen Deming, China's Commerce Minister, admitted as much at the Chicago event: "China was encouraging companies to go out so that the vast foreign-exchange reserve held by China could be turned into capital and assets. Otherwise, the reserves could decline in value because of inflation."²²

A BEA Triumph: Mission Accomplished

The Fed's approval came after long administrative processes and much diplomatic manoeuvring. To some observers, the key to the deal's approval was the Fed's decision that ICBC had passed the Comprehensive and Consolidated Supervision ("CCS") test. Though CCS approval was given on an institutionto-institution basis, it would be logical to suppose that other Chinese banks applying to become bank holding companies in the United States in future would be assumed to fulfil that criterion too, unless there were exceptional circumstances. In other words, future applications from Chinese banks would have fewer hurdles to cross. The Fed's approval of ICBC to acquire BEA USA not only opened the door for ICBC but also, in effect, opened the door for other Chinese banks to follow suit. Given



In 2012, BEA sold a majority interest in BEA USA to ICBC.

China's growing financial ambitions at the time, it was likely that many Chinese banks *would* do so and address the asymmetrical situation whereby American banks had a much larger presence in China. No wonder that while the CCS approval had been given to other jurisdictions in the past, never before had such approval aroused so much excitement in the international banking community.

The decision was naturally welcome at BEA and ICBC. Dr. Li was 'delighted' that ICBC and BEA could now go ahead with the partnership and further strengthen the already strong relationship between the two banks.²³

Many people had worked long and hard to bring this about. Mr. Tang is proud to have facilitated this historical transaction. He muses that his role as General Manager of New York Branch together with Mr. Victor Li, General Manager of Los Angeles Branch, had started with the acquisition of a bank (Grand National Bank in Los Angeles) which

became BEA USA, and ended with the selling of the 'baby'. As Mr. Tang and his colleagues like to joke, at BEA USA, he and his core team had experienced the whole life-cycle.²⁴ In particular, Mr. Tang is aware of the long-term historical significance of the transaction – that in helping to bring ICBC to the United States, he and his colleagues had helped pave the way for other Chinese banks to follow.

There are many ways to make a profit. "One of the most profitable deals was selling BEA USA to ICBC", reflects Mr. Victor Li. This was certainly true in a monetary sense. But in the larger historical context, BEA's sale of its subsidiary was beneficial for ICBC and any other Chinese banks that might wish to make a landing in America. This was part of its historical mission to build bridges and open doors and the good deed was reward in itself.

This was truly pioneering work.

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CHAPTER SEVENTEEN

A TEST OF STRENGTH



Customers waiting outside the BEA Harbour View Centre Branch in Wanchai to withdraw deposits.

In 2008, BEA, the oldest local Chinese bank in Hong Kong, reached the venerable age of ninety. That year, it encountered its first-ever bank run.

Hong Kong was not immune to bank runs either before or after World War II. For older local residents, the memory of the series of bank runs in the 1960s that claimed many

victims, including the successful Hang Seng Bank, was particularly poignant. Runs in the 1980s led to the demise of Hang Lung Bank, Sun Hung Kai Bank and Overseas Trust Bank, and in 1991, the Bank of Credit and Commerce Hong Kong collapsed in what was the city's biggest banking failure. BEA was never targeted – as if it lived a charmed life.

Then, on 24th September, 2008, that charmed life, if it had indeed existed, was shattered when thousands of customers gathered at its ninety-one branches demanding their money.

Start of Rumours

The run may be traced to malicious rumours sent via text messages stating that BEA was about to collapse and prompting people to withdraw their funds as quickly as possible. When informed that an unusual number of customers were visiting branches to withdraw funds, the Bank's management began responding to the situation. The management reported the case to the HKMA and police by late afternoon of 23rd September.

To add to the tension was Typhoon Hagupit, which arrived in the afternoon and at 6:00 p.m., Typhoon Signal No. 8 went up. Many people might have wondered through the night whether the typhoon would prevent the Bank from opening in the morning – and prevent them from retrieving their money. Mr. Tong Hon-shing, currently Deputy Chief Executive and Chief Operating Officer, too, shared the uncertainty as he walked out of Police Headquarters in Admiralty where he had gone to make a detailed report on the rumours. It was 3:00 a.m., dark, windy and raining hard, and he remembers wondering what might happen the next day.

At 6:30 a.m. on 24th September, the typhoon signal was taken down. This meant that it would be business as usual in Hong Kong and all BEA's branches would open their doors to customers. When the doors opened, anxious depositors had already gathered outside some of the branches.

Gathering Storm

Was the rumour about the Bank's demise a bad joke or something more sinister? If the perpetrator had intended this to be a vicious attack on the Bank, his timing could not have been better. Dr. David Li Kwok-po had left Hong Kong for the United States on a business trip, and for those who were inclined to believe the worst, it fed the rumour that the Bank was in serious trouble – even about to collapse – and that Dr. Li had skipped town.

It was hardly surprising that people should be unnerved by such rumours at this particular time. The year 2008 was a calamitous one worldwide, beginning with the debt crisis in America, the demise of Lehman Brothers on 15th September and the general chaos in the market. Customers of banks – any bank – felt that they were hearing nothing but bad news and everyone was feeling jittery.

Some people suffered directly. Hundreds of investors in Hong Kong discovered they faced substantial losses on minibonds, bought locally but guaranteed by Lehman Brothers. Then, after Lehman Brothers had gone bankrupt the week before, crowds of angry policyholders besieged the offices of AIG, the local subsidiary of American International Group, the giant insurance company which had to be rescued by the US Federal Reserve from near-collapse. Amid the general hysteria, people began to question the financial health of BEA, which, they assumed, had significant exposure to subprime-related debt instruments and to Lehman Brothers, though in fact this was not so.

Aggravating the situation was the discovery of a rogue trader in the Bank in mid-September. The incident was immediately reported to the HKMA, the SEHK and the police.¹ This 'unauthorized manipulation of the valuation' caused a trading loss in its equity derivatives investment of HK\$93 million. Unfortunately,

as the Bank had already announced on 5th August a profit after tax of HK\$930 million, this discovery meant the profit had to be revised downwards.

The market reacted quickly to the shocking news. The Bank's shares fell 6.6 per cent in the morning trading session before trading was suspended on 18th September. Though trading resumed the next day, the damage had been done. With the market already shaky, people were easily spooked. Despite the Bank announcing that there was no material effect on its balance sheet or capital, which remained significantly in excess of regulatory requirements, the city was abuzz with rumours.

In the meantime, the HKMA announced that it had required the Bank's auditors, KPMG, to conduct a review and recommend measures to prevent similar fraud from happening again.³ Analysts and rating agencies started revising their forecasts of the Bank's outlook downwards.

Could such alarmist reference to a bank run have prompted the phantom perpetrator to start sending text messages about the imminent collapse of BEA?

24th September, 2008

In the early morning, people were already outside some of the branches before opening time. From lunchtime onwards, the crowds became noticeably larger. At the Main Branch in Central, which had been quiet by comparison, more people appeared in the early afternoon too. At 3:00 p.m., reporters from *Caihua (HK)* saw about 200 people outside the Queen's Road Central Branch; the queue was about fifty metres long and about ten people were waiting at the ATM. Despite the fact that the Bank had posted a statement at the entrance that everything was fine with the Bank, and members of staff were

explaining this personally to customers, people continued arriving. Inevitably some ATMs ran out of cash, and it became difficult to log on to the Bank's website from lunchtime onwards due to the unusually heavy traffic.⁴ Thankfully, the computer mainframe was powerful enough to withstand all that pressure; a system breakdown at that moment would have been disastrous.⁵

Faced with mounting pressure, the management under Mr. Joseph Pang, Deputy Chief Executive and Executive Director, led the team into action. While keeping the HKMA informed of developments, he also called a press conference at 3:30 p.m. to reassure the public of the Bank's sound financial position.

He told reporters that malicious rumours had been circulating about the Bank's stability. In the strongest possible terms, he stated that the Bank had no financial problems and the rumours had no basis in fact. The amount customers had withdrawn in the previous two days was not large and no major client had pulled his money out. To make his point, he revealed vital statistics to demonstrate the Bank's healthy finances: as of 30th June, 2008, the total consolidated assets of BEA stood at HK\$396.6 billion and its capital adequacy ratio was 14.6 per cent, well above the international required level. He also took the opportunity to allay the market's speculations about the Bank's involvement with Lehman Brothers and AIG by confirming that its total outstanding exposures to these troubled lenders were only HK\$422.8 million and HK\$49.9 million, respectively.6

He reassured customers that the Bank would allow them to take their fixed deposits before maturity without fine and there was to be no limit on the amount withdrawn.⁷ It was as if Mr. Pang had heard the wise words of his predecessors who had warned during the 1965 bank runs that the worst strategy in such a situation was to set a limit on withdrawals.



At a press conference held on 24th September, 2008, the Bank confirmed that its financial position was sound and stable.

The rumours, Mr. Pang stressed, were malicious; they were not just 'pranks' but also aimed at disrupting the city's financial system. This was why he had reported the matter to the police for investigation.⁸

Following the Bank's press conference, Mr. Joseph Yam, the then Chief Executive of the HKMA, spoke at a press conference; he declared that BEA was in good condition and reiterated that rumours questioning BEA's stability were unfounded: "The banking system of Hong Kong is safe and sound. Local banks are well capitalized and highly liquid. Their asset quality is good and their operations have been strong; BEA's capital adequacy and liquidity ratios are well above regulatory requirements". In addition, he assured the Hong Kong public and the international market of the well-established mechanisms such as the discount window and the lender of last resort arrangement that could meet any requests for liquidity and were ready to assist banks if they needed liquidity support. However, he pointed out, none of them had asked for help so far. Mr. Yam called on depositors to stay calm and consider carefully before taking any action, reminding them of the Deposit Protection Scheme that protected depositors of licensed banks, which covered deposits up to HK\$100,000.9

The press conference chaired by Mr. Pang and various government statements were played over and over again on the city's television screens, yet responses to them varied widely. Some customers were satisfied that it was all a hoax and at some of the branches, the crowds started to thin out. Others, however, remained unmoved and were determined to get their cash back even if they had to wait for a few more hours, fearing that the Bank would soon run out of money. Ironically some were torn between taking out large amounts of banknotes, which could be physically

problematic and hazardous, and taking a bank draft from BEA, which they feared might turn out to be uncashable. In one instance, a lady who had withdrawn a large amount from the Main Branch even demanded that the Bank's security guard provide protection for her and her cash.¹⁰

The local newspapers gave blow-by-blow accounts of the situation. At 6:30 p.m., one and a half hours after the Kwun Tong Branch should have closed, 200 people were still waiting inside while 'a line of 1,500 anxious faces' stretched down Hong Ning Road. On the other side of the harbor, 1,500 depositors swarmed into the Shau Kei Wan Branch. according to The Standard. A degree of confusion inevitably occurred, with customers arguing with staff members. Some brought chairs with them and sat outside the branch playing cards while waiting in line.11 To ease the situation, staff members offered to give out tickets so that customers could go home but still keep their places in the line when they returned the following day.12

It was equally hectic behind the scenes. Mr. Tong Hon-shing was busy keeping an eye on cash flow and IT colleagues made sure that the system continued to run. For Mr. Ho Yiu-keung, Head of the Main Branch, the chief problem was to deliver banknotes to branches without delay. With ninety-one branches, some quite remote, it was a logistical nightmare. It was his task to find out how much cash was required at each branch and to write cheques to withdraw banknotes from HSBC. He, Mr. Joseph Pang and others speak gratefully of Mr. Peter Wong, Group General Manager and Executive Director, Hong Kong and Mainland China of HSBC, who agreed to open the bank's Cash Centre at 7:30 a.m., seventy-five minutes earlier than usual so that no time would be lost. After many years, Mr. George Leung, Advisor, Asia-Pacific (Strategy and Economics) of HSBC, disclosed to Mr. Pang that HSBC had

made a lot of special arrangements in order to accommodate BEA's needs.

The banknotes came in boxes of HK\$10 million but since each branch had different requirements in amounts and denominations – some even asked for Renminbi – the notes were repacked accordingly into cartons. The cartons were then sealed and sent out in vans and cars – any vehicle that the Bank owned. Cars belonging to staff were also sequestered, including Dr. Li's. Male staff members from various departments were mobilized to ride along to supervise the delivery.¹³



Reporters interviewed customers outside the Bank's Main Branch.

At Head Office, the boxes of banknotes were stacked high and crammed into the Cash Ward. Some were parked in the corridor, leaving just enough room for people to squeeze past. The Cash Ward must have felt like a war bunker and an ammunition depot sending supplies to the front.

Across the territory, customers waited in line long after closing time. At the Tai O Branch, the confusion was aggravated by the flooding caused by the previous night's typhoon.¹⁴ As late as 11:00 p.m., about twenty depositors were lining up outside a branch in Mount Sterling Mall in Mei Foo. At the Chai

∯ BEA東亞銀行

Announcement

It has come to the notice of The Bank of East Asia, Limited ("BEA") that malicious rumours have been circulated questioning the stability of the Bank. The Management of BEA understands that these rumours were first disseminated via electronic devices late in the afternoon on 23rd September.

The Management of BEA hereby states in the strongest possible terms that such rumours have no basis in fact. The Management further confirms that the Bank's financial position is sound and stable. As of 30th June, 2008, the total consolidated assets of BEA stood at HKD396.6 billion. The Bank's capital adequacy ratio is 14.6%, well above the international required level.

The Management of BEA takes this incident very seriously. Upon learning of the malicious rumours, the Management of BEA immediately reported the matter to the Police and the Hong Kong Monetary Authority ("HKMA"). The Police are taking expedient and appropriate measures in response.

Mr. Joseph Yam, Chief Executive of the HKMA, stated that BEA is a very sound bank with ample liquidity. The rumours questioning the stability of the Bank were unfounded. He added that the banking system of Hong Kong is very robust, and that the depositors should stay calm. The HKMA will give its full support to BEA.

The business of the Bank remains normal, and all BEA branches continue to operate as usual.

Hong Kong, 25th September, 2008

The Bank stated that it was financially sound in an announcement published in local papers on 25^{th} September, 2008.

Wan Branch, despite the staff's efforts to convince the customers that the Bank must shut down its computer by 10:00 p.m., they refused to leave. There was much anger and policemen arrived to keep order.¹⁵

For the Bank's staff, this was an intensely testing time - years later, many of them still speak of it as the most unforgettable episode in their years at the Bank. Some of their experience was shared in a special edition of the Staff Newsletter that was published to express management's appreciation of the staff's remarkable efforts. This included an interview with Ms. Cheung Wai-chu, the Assistant Branch Manager at the Chuk Yuen Estate Branch, one of the worst-hit branches. Ms. Cheung, who had by then been with the Bank for twenty years, recalled the dire situation with customers clamouring for their money when banknotes kept running out and the limit on issuing drafts was reached. Cut-off time was delayed from 8:00 p.m. to 10:00 p.m., but when 10 o'clock came some customers refused to leave the premises. She and another colleague had no choice but to stay behind to keep watch and spend the night there. The next morning, the Branch Manager brought her breakfast. After going home to refresh herself, Ms. Cheung was back at work three hours later. In her opinion, it was this unrelenting spirit that enabled everyone in the Bank to rise to the occasion.

Like Ms. Cheung, many others were called upon to carry out unexpected duties, and like her, they did so without complaint. Almost 200 staff members were mobilized from Head Office to help out at the branches – around two to each branch to handle frontline work. Besides maintaining order and pacifying customers, they made hourly reports to Head Office and it was on the strength of these reports that senior management understood what was happening at the branches and what kind of assistance or amount of cash were

required. As importantly, these hourly reports enabled the Bank to keep the HKMA posted so that it too could take the necessary measures.¹⁷ Everyone was playing an indispensable role.

The Tide Turns

Dr. Li arrived back in Hong Kong late on the evening of 24th September, surrounded by reporters at the airport. Fielding a barrage of questions, he reassured them that the Bank was not in any trouble and that he was planning to buy BEA shares, which had gone down 6.85 per cent.

It was good to have Dr. Li back. The psychological impact of his return might have been even greater than the media asserted. It allayed reports that he had skipped town, and for some customers, just seeing him back was enough to feel that everything was all right.¹⁸

The public might not have been aware that since the crisis started, Mr. Pang had been in contact with Dr. Li at all times to receive instructions from him on the handling of the situation.¹⁹ Thus, though not physically in Hong Kong, he was in constant remote control.

When the Board of Directors met on 26th September, they reconfirmed their full support for the Bank. Not only would Directors increase their shareholding, but they would also make substantial deposits. With personally wealthy Directors such promises made a real difference. Dr. Li himself made available HK\$250 million as personal support to resolve the situation.²⁰ Many friends also offered their full support.21 This was reassuring to the public. As one commentator wrote, BEA would surely survive because it would get all the help it needed from 'friends with deep pockets'.22 One should not, however, forget that this was dividend from long years of investment in building and maintaining relationships at all levels.

The Bank's own resources were ample. According to *The Standard*, it had prepared up to HK\$3 billion in cash to cover withdrawals, with branches more than tripling their cash on hand to HK\$10 million from the usual HK\$3 million.²³

Reassurance came from Beijing as well. On 25th September, as the situation was easing, Mr. Zhou Junming, Deputy Director of the Liaison Office of the Central People's Government in the Hong Kong SAR, urged the public to remain calm and trust the Hong Kong government, and stated that the Central Government "will guarantee no problem will arise in all aspects concerning Hong Kong."²⁴

Fortunately, on the Mainland, things were quiet in BEA China's seventeen branches and thirty-nine sub-branches during the two days when its parent bank in Hong Kong was under siege. Mr. Sun Minjie, the Executive Vice-President of the newly established subsidiary bank, stated unequivocally that the Bank's business on the Mainland was stable and not affected by 'malicious rumours' as in Hong Kong. Yet, even without clients lining up for their cash, he had a busy time rushing around Shanghai getting this message across to different government and regulatory officials and to the media. Armed with statistics, he emphasized BEA China's healthy finances at a media briefing: BEA China's unaudited profit had jumped more than 50 per cent in the first half of the year, and deposits had swelled almost 200 per cent, while lending grew about 30 per cent in the first eight months.²⁵

End of the Bank Run

On 25th September, a number of customers reversed the rush to withdraw funds by lining up to deposit money in the Bank. This was partly a response to the Bank's offer of extra interest to those who would re-open fixed

deposits that had been closed the day before. But more fundamentally, it was a sign of returning confidence.

After the frenzy, while the general consensus was that the banking system was in good health, the community took the opportunity to urge the authorities to raise the deposit protection amount from HK\$100,000 to HK\$200,000. In 2011, it was raised to HK\$500,000 per depositor per bank.

One theory was that the rumour had started in order to force down the stocks of the Bank in a spate of short selling. On Monday, 22nd September, BEA shares had closed at HK\$27, and re-opened at HK\$26 on Tuesday, 23rd September; their price then fell 6.85 per cent to HK\$25.15 on Wednesday, 24th September, the lowest close since February 2006. Its lowest of the day was HK\$23.95. More than 21 million of the Bank's shares changed hands in the first half of the afternoon trading session.²⁶

On 25th September, the Bank's shares rebounded 3.38 per cent, bucking the general trend, to close to HK\$26, prompting a commentator to write, "It is not often that a bank stock can still walk, let alone climb, after a bank run."²⁷

Looking back, the run was not as calamitous as it had seemed at the time, as is often the case in such crises. As the Bank's *Annual Report* stated, it was over in thirty-six hours. In the short term, it showed the Bank's inner strengths, including its powerful computer mainframe. As Mr. Vincent Hui, currently General Manager and Head of Personal Banking Division, proudly recalls, the pressure exerted on the new computer system, which had just been installed, acted as a kind of stress test and, thankfully, it passed the test – with flying colours.²⁸

There was much work to be done once the crisis was over. The Bank acted quickly to mend things, with Dr. Li himself closely supervising and coordinating the management to restore the balance sheet. A series of measures were drawn up and target dates for completion set. A campaign was launched to attract customer deposits. New small- and medium-sized accounts grew quickly, and by 24th November, 2008 deposits had recovered gradually to HK\$206 billion compared to HK\$220 billion before the bank run. In other words, notwithstanding all the panic and drama, the net outflow was less than 10 per cent.

Indeed, the Bank recovered so quickly and so well that it won the 'House of the Year, Hong Kong' award from *AsiaRisk* in 2009.

The run, among other things, prompted the Bank to bolster its position by increasing its core capital. This included completing a landmark US\$500 million Hybrid Tier 1 Capital



BEA won the 'House of the Year, Hong Kong' Award from AsiaRisk.

◆ BEA東亞銀行

Announcement

My colleagues and I at The Bank of East Asia ("BEA") are pleased to announce that our branch operations are quickly returning to normal following a brief period of unusual activity resulting from rumours regarding the stability of our Bank.

The Hong Kong Monetary Authority ("HKMA") has joined us in unequivocally rejecting these rumours as false and unfounded. The HKMA has furthermore reaffirmed that BEA is in good financial health.

We sincerely regret any inconvenience that recent events may have caused to you, our customers. We would like to take this opportunity to thank you all for your loyal support and continued confidence in our Bank, and we remain dedicated to delivering services and products of the highest quality and value for you all.

David K.P. Li

Chairman & Chief Executive

Hong Kong, 26th September, 2008

Dr. David Li thanked customers for their support in an announcement published in local papers one day after the bank run.

Instrument issue, the first of its kind by a local bank in Hong Kong, and the issuing of new shares to key strategic partners, Criteria CaixaCorp, S.A. and Sumitomo Mitsui Banking Corporation, as shown. These moves went a long way to strengthen the capital base.

People and Teamwork

The Bank's most powerful weapon was arguably its people. The run revealed strengths as well as weaknesses and shone a light on its employees cooperating as a team in an extreme situation – behaving almost like an army under siege. The management took quick action to show its appreciation.

Dr. Li acknowledged the Bank's gratitude to staff at all levels and in all departments, to those working the frontline and those

providing support behind the scenes. He told them that the management team "is fully aware of the immense effort and their commitment to their duties, their professional spirit, which make it possible for everyone to stand together and successfully overcome the difficulty." The episode brought challenges but it also demonstrated the esprit de corps and dedication among them.29

He was especially pleased with the messages that customers sent to express their appreciation for the staff, noting especially their patience and professionalism, sincerity and caring attitude, and ability to stay calm in the face of sometimes unreasonable and unruly customers.30

Mr. Tong Hon-shing believed that the run ended so quickly because staff worked as a team, regardless of rank, department and





Customers expressed their support in messages, which appeared in a special staff newsletter printed soon after the incident. seniority. He was particularly pleased to discover how proactive colleagues were – even those who were due for leave came back on their own initiative to help out. "We did not require this of them," he said, "but each colleague did so out of his/her own volition." Whether from the perspective of the Bank or the clientele, this was a wonderful thing.³¹

More amazing was how alert and flexible the staff were when faced with stressful and fast-changing situations. No amount of 'guidelines' from the management could have helped people think on their feet and to take such swift and effective actions. It was this ability to improvise (執生) that had saved the day.³²

As Mr. Joseph Pang observed, there were gains and losses. When confidence was lost, it could be won back; that was not a fundamental problem. What the Bank gained was the reinforcement of team spirit among staff, something very precious, something money could not buy. Naturally the Bank could not rely only on crises to cultivate team spirit, but it did show that knowing how to inculcate team spirit among colleagues was the management's biggest challenge for the future.³³

Although staff members would naturally say, out of courtesy, that this was 'the right thing' (應該的) for them to do, Mr. Pang pointed out, what they did was actually far beyond what they were obliged to do. Mr. Pang's appreciation reflects a special quality of the Bank's management: to be aware and be thankful when it was getting more than it was entitled to - that the Bank's entitlement as an employer was not unlimited. In making these comments, he was speaking in a language that was deeply rooted in a code of belief in a relationship based more on obligation, commitment, responsibility and mutual respect - even honour - than on entitlement, more on what one could give than on what one could take. This was perhaps a language and a code that many staff members

at BEA naturally shared and understood and an essential element of BEA's legacy.

The run on the Bank fully displayed the fortitude of its staff, the resilience of its IT system, the quality of its assets, the trust of large portions of its customers and shareholders, and the loyal support of friends around the world. A casual observer may dismiss the episode as a mere blip in the greater scheme of things; in fact, it has become an indelible part of the Bank's collective memory. Many staff members, regardless of rank, still consider it the most unforgettable event in their years at BEA, and can still vividly recount, blow by blow, their experience of those dark, poignant hours. The pride of having overcome the crisis - of having withstood the siege - underpinned the Bank's solid foundation and rich legacy as it marched into its tenth decade, to grow ever bigger and ever brighter.



Mr. T. L. Yang

Reflection by T. L. Yang

"Five generations of my family have been using The Bank of East Asia", says Mr. T. L. Yang. "My father-in-law, my wife and I, my children, grandchildren and even my great-grandchild had or have accounts with it. When I returned from my studies in England about sixty years ago I used a big bank patronized by many people, but I was unhappy with the staff's haughty attitude. So I switched to BEA where I received courteous and respectful service. Today, everything is faster and more efficient, of course, but I still like the personal way the staff continue to help me. They always explain things patiently when I have a

query. They are also very dependable. When they are supposed to do something for me, they never fail to deliver. I never have to worry. I don't feel I am entitled to such excellent service. A customer should not think in terms of entitlement. To me, the staff-customer relationship must be based on mutual respect.

I only have one bank account and it's with The Bank of East Asia. No, I didn't try to withdraw my money from the Bank during the bank run some years ago. I didn't even think about it."

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CHAPTER EIGHTEEN

A CENTURY OF CORPORATE SOCIAL RESPONSIBILITY: PIONEER AND ROLE MODEL

To pursue a higher goal beyond profit-making has been BEA's mission for a century. As Dr. David Li Kwok-po emphasizes,

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Our founders had a vision when they established The Bank of East Asia in 1918: to serve the local business community by providing modern, professional banking services.... We touch the lives of many people, and we are aware of the responsibility – and opportunity – this brings.

At the heart of our business lie strong traditional values...[that] guide the relationship between management and staff; they drive our prudent business practices and they inspire us to serve the communities in which we operate.¹

"

The Bank's ambition to be a good corporate citizen, a positive force in society, has remained steadfast even as its CSR activities have expanded with the times.

Since the beginning, a sense of social responsibility has guided the Bank's actions – long before the term 'Corporate Social Responsibility' became widely used, and long, long before people codified CSR behavior and designed standard formats for CSR reporting with boxes to check.²

In this area, the Bank is truly a pioneer and role model.

Its mission to serve a greater good has always been multilevel. Its founders were intent on contributing to China's wealth and power at a time when the nation was struggling to develop a modern economy. It strove to be a solid and trustworthy bank and, by being consistently prudent and staying abreast of international banking developments, it proved to largely skeptical contemporaries that a Chinese bank could indeed be efficient and trustworthy. Before World War II, it gave generously to local charities, including, not surprisingly, the Tung Wah Hospital (later, Tung Wah Group of Hospitals), one of Hong Kong's oldest and most influential charitable organizations.



A donation by the Bank in the 1930s is recognized in Tung Wah Hospital's Great Hall

BEA was probably the first local Chinese company to set up a staff provident fund - it has been in operation since at least 1934.3 After Japan invaded China in 1937, BEA vigorously promoted the sale of National Salvation Bonds. It showed how deeply it cared for its people during the darkest days of the Japanese occupation, when rice had become so scarce and expensive that it paid salaries in rice instead of cash to save staff and their families from starvation. It had to sell some of its properties in order to buy the rice, certainly an act of sacrifice in desperate times. BEA was a 'caring company' before the term was invented.

When the war ended, one of the Bank's first considerations was 'to contribute to the reconstruction and rehabilitation of the colony' which had suffered unimaginable devastation.4 The wellbeing of others mattered.

Giving to the community continued. Notably, in 1969, the Bank made front-page news for setting aside HK\$700,000 for charity to celebrate its fiftieth anniversary,5

Bank sets aside large sum to aid commun

The Bank of East Asia Ltd yesterday announced it had set aside \$700,000 to be used for community purposes as a gesture to mark the bank's 50th anniversary.

Of this sum, \$500,000 is for the establishment of a Bank of East Asia Education Foundation.

The remaining \$200,000 is to be distributed among various charities, in gifts ranging from \$50,000 to \$1,000.

The Hon Fung Ping-fan, thief Manager, said the Edu-ation Foundation would be sed to promote "the edu-

36 to share

Thirty - six organisations are the \$200,000 allocated or charities.

The list is headed by the ornunuity Chest and Tung fah Group of Hospitals, hich are each to receive 50.000.

\$50,000.

Three institutions, the Po Leung Kuk, Pok Oi Hospital and Adventist Sanatorium Hospital Building Fund, will receive \$20,000 each.

Two newspaper charities, the Wah Kiu Yat Po Fund for Relief of Underprivileged Children and Hongkong Standard-Sing Tao Fat Choy Drive, will each get \$5,000.

Two thousand dollars is earmarked for the Hong-kong Anti-Tuberculosis and Thoracic Diseases Association.

Beneficiaries

Twenty-eight other chari-es are named for \$1,000

The Alice Ho Miu Ling Nethersole Hospital, St John Ambulance Brigade, Society Fremier, in a statement of the Relief of Disabled Children, Aberdeen Technical School, Boys and Girls Clubs' Chinese relations" in Soviet-School, Boys and Girls Clubs' Chinese rolations, Russia Association, Boy Scouts' Association, the Canossian Girls ment of these relations Home, Canossian School for "optimistically."

The Bank of East Asla is one of the biggest all-Chinese banks in the Colony and is locally owned.

Its capital today is \$50m compared with \$2m when it was founded. Currently, deposits amount to \$381m and loans \$189m. The Bank has seven branches in the Colony and two overseas—one in Singapore, the other in Saigon.

(See also Pages 9-20)

Kosygin optimistic on China

Bonus shares announced

The Directors of the Bank of East Asia last night announced a move to issue 400,000 fully paid-up \$25 ordinary shares as a bonus distri-

The issue will be made by capitalising \$10m of the general reserve ac-counts.

The shares, which will rank pari pasu for all dividends declared this year, will be issued one for two held on February 21.

The Directors announced the Bank's profit for the year ended December 31 was a record \$11m (subject to audit) and that, at the annual meeting, they would recommend a dividend of \$3.50, name of \$3.50, name of \$3.50 and \$3.50 an mend a dividend of \$3.50, plus a Golden Jubilee Anniversary bonus of \$1. They added that they anticipated the \$3.50 dividend to be maintained this year on the increased capital of 1.2m shares.

Mini-vans

BEA donated HK\$700,000 to charity on the occasion of its 50th Anniversary.

HK\$500,000 for establishing a Bank of East Asia Education Foundation 'to promote the education of the deserving young people of Hong Kong in both academic and technical studies', and HK\$200,000 to be distributed among thirty-six charities. The Education Foundation was merged into The Bank of East Asia Charitable Foundation in 2009. All the money from the Education Foundation is now set aside for scholarship purposes.



The Bank is a regular supporter of the Community Chest of Hong Kong's 'Walk for Millions'.

BEA's support for education has spread to all levels. Starting with two scholarships at the University of Hong Kong in 1972, it has grown to include, among other items, an endowed chair at Hong Kong University of Science and Technology's Institute of Advanced Study and support for The Chinese University of Hong Kong's Institute of Global Economics and Finance. Donations through collaboration with the various universities' affinity card promotions rose from HK\$3.4 million in 2007 to HK\$7.3 million in 2017, in line with the rapid expansion of tertiary education in Hong Kong. Over these ten years, such donations totaled over HK\$60 million.

The Tung Wah Group of Hospitals and the newly established Community Chest of Hong Kong ("the Chest") each received HK\$50,000 in 1969. Quickly evolving into an annual ritual for the local community was the Chest's 'Walk for a Million' (later renamed "Walk for Millions"), which became a bank-wide event at BEA too. Year after year, the Bank has sent a contingent to the Walk, and has drummed up support for it by presenting an award to the staff member

who could rally the largest number of walkers and another for raising the most funds. The Walk, and many other bank-wide activities that followed, are particularly meaningful as an opportunity for developing an *esprit de corps* when colleagues from different departments and different ranks turn out in force and do good as a BEA team.

Young children have benefited too. Among the activities most loved by children, parents and teachers is the iconic Storytelling Competition of the Boys' and Girls' Club Association of Hong Kong, which the Bank has supported since 1992.⁷

People Are Our Greatest Asset

The Staff Sports & Recreation Club ("SSRC"), created in 1983, has strengthened ties between the management and staff and among colleagues through a wide range of activities. In turn, the management has supported the SSRC – a wonderful symbiotic relationship. Through the years, the Bank's belief that people are its greatest asset has played out in many ways, and ensuring the staff's general wellbeing is one of them.

The SSRC organizes sports events, outings, and all kinds of social events for colleagues and their families. Several sports teams have a long history of playing in inter-departmental and inter-institutional competitions. The Bank helps by providing venues and subsidies – sometimes to as much as 50 per cent of costs⁸ – thus enabling the SSRC to enlarge the variety of activities and boost participation rates. Senior management's participation goes a long way too to foster the sense of community.

People have long marveled at the staff canteen in the Bank of East Asia Building in Central as a luxury; not many banks would use this piece of prime real estate for the enjoyment of their staff, regardless of rank. With the completion of BEA Tower in MC5, Kwun Tong, where the top floor and rooftop were set aside for staff use, the meaning of 'luxury' was taken to a whole new level. The barbecue and party facilities and fabulous view of the harbor on the rooftop, and the gymnasium, canteen and multifunction common room one floor below have become the envy of visitors, including staff members of other banks.

Staff training and development

BEA Tower, with its energy-filled environment and futuristic designs to prompt innovative thinking, also enabled the Bank to take giant steps forward in staff training, an area of highest priority.

Its eagerness to add value to its people, whether in terms of formal or informal training, professional qualifications or life-enrichment, is legend. Up to the 1960s, staff training was basically learning on the job. The tradition of senior staff taking new employees - often teenagers just out of school - under their wings and teaching them all the tricks of the trade was strong. This resembled the master-disciple system of old China that pervaded many sectors, including, of course, the martial arts. Today, many officers at the Bank still speak fondly and gratefully of their *shifu* (master) and the system has clearly nurtured a special corporate culture in the Bank that values lineage and continuity, legacy and friendship, loyalty and mutual obligation.

In the absence of any formal training programme within the Bank in the early days – and Hong Kong generally – the management urged staff to study for qualifications granted by institutions such the London Institute of Bankers' Certificate of Associateship (now known as Certified Banker and organized by The Hong Kong Institute of Bankers). By way of encouragement, the Bank provided a cash

award to those who managed to obtain the credentials and offered interest-free loans to those who could not afford to pay for the courses.

It was common for junior staff to continue their studies at night school taking various courses including English, book-keeping, accounting and even Putonghua (Mandarin). Everyone, it seemed, was keen on improving himself or herself, and the Bank was prepared to help those who helped themselves, even in the lowest ranks. Mr. Michael Kan proudly announced to the senior management in 1966 that "Recently we have promoted five office boys to clerical posts and they will be trained as counter staff. Although they have failed the English subject at the Hong Kong Certificate of Education Examination, they have passed our



BEA develops specialist professional training programmes to ensure that BEA staff are fully aware of the latest regulatory and business requirements.



Team building programmes



On the occasion of its 90^{th} Anniversary, BEA established the BEA Foundation in order to centralize and lead the Bank's community programmes.

own English test, and so should be given a chance to be promoted to 'special grade' staff."9

This was based on the philosophy of equal opportunities: let the hardworking, motivated and bright rise to their own levels. But this philosophy would only work if the management was willing to monitor employees' performance and assess their potential. Under the watchful eye of Mr. Kan Tong-po, the grand master of them all, staff not only learned the technicalities of the job but also to live up to his high standards of integrity and prudence, and this paternalistic attitude emphasizing all-round personal development, to a large extent, persisted after his death. Some might find this old-fashioned; others might consider this a timeless and fundamental spirit of corporate social responsibility.

Staff training was formalized and systematized from 1970 when the Bank set up its own training centre; training was continually strengthened. Fast-forward to the highly digitized age of the early 2000s, and the Bank developed an e-learning platform. In response to new regulatory requirements, BEA developed Continuing Professional Training Programmes to upgrade the professional competence of staff and help them qualify as licensed intermediaries in different financial areas.¹⁰

The Bank also organized caring programmes¹¹ to bring comfort and hope in times of crises or just to address everyday difficulties. The care and support system has proved to be highly effective, notably during the stressful time of the SARS outbreak.

The Bank organizes volunteers as well. It is believed that besides offering attractive salaries, benefits and professional training, the most constructive way for a company to develop its people is to empower them through volunteering, thus giving them a sense of purpose in life. In this respect, the Bank has done remarkably well, not only by encouraging volunteer work but also by coordinating

projects that help colleagues engage with the community and take the BEA spirit of good works beyond its walls. Amazingly, corporate volunteers clocked over 26,000 hours of service in 2016 and over 25,000 hours in 2017.¹²

Shining New Lights: Some Recent Initiatives

Significantly, BEA was able to extend its charitable mission to a community-wide level through creative use of technology. In 2008, it launched the Online Donation Services, which facilitated donors making donations and the non-government organizations ("NGOs") collecting payments. The many new channels developed in the e-donation platform since then have further promoted the work of NGOs, bringing them closer to actual and potential donors. Naturally, BEA's contribution is greatly appreciated by the social services sector and the number of participating NGOs – serving diverse need areas – has risen steadily over the course of the decade.¹³

In charity work as in business, finding worthy partners is essential. The 'la Caixa' Banking Foundation ("la Caixa"), one of the world's largest foundations, which owns 17.44 per cent (as of 31st December, 2017) of BEA shares through Criteria Caixa, has a wealth of expertise in the area. With many core values in common, BEA finds 'la Caixa' an ideal partner in CSR endeavours. Another of their joint projects is the groundbreaking Palliative Care in Residential Care Homes for the Elderly Programme in Hong Kong. Managed by The Salvation Army Hong Kong and Macau Command and assisted by many different medical and welfare groups, the Programme team renders invaluable palliative and holistic care to terminally ill elderly patients and their family members.¹⁴ In October 2015, The Salvation Army announced the publication of the Palliative Care and End-of-life Care in Residential Care Homes Practice Manual, the first handbook in Hong Kong to incorporate the long-term practical and clinical experience of residential homes in Hong Kong.



Since 2010, the BEA Foundation has supported the Palliative Care in Residential Care Homes for the Elderly Programme together with 'la Caixa' Banking Foundation and The Salvation Army Hong Kong and Macau Command.



BEA donated HK\$5 million from 2011 to 2013 in support of the Hong Kong Red Cross' building programme to establish the largest blood collection centre in the city.¹⁵



The University Scholarship for Staff Member Dependents was launched in 2014 to recognize the achievements of staff members' children.

The Bank's charitable tradition was extended to China when the BEA Charity Fund was jointly established by BEA China and the Shanghai Soong Ching Ling Foundation in 2009 to promote children's education in rural areas. Its flagship programme is the 'Firefly Project' whose main function is to provide educational resources and facilities to children in rural areas. Firefly Centres were launched, equipped with computers, internet access, desks, chairs, and a library. From the beginning, the BEA Charity Fund has made special efforts to ensure the sustainability of the Firefly Project: it provides the staff of the rural schools with practical training to upgrade their teaching

and management capabilities, and, for the children, focus is placed on enhancing their learning experience. Armed with carefully prepared teaching plans, BEA staff volunteers from Hong Kong and across China gather at designated villages to teach a wide range of subjects including art, English, mathematics and basic finance in lively and inspiring ways. In 2016, volunteers provided teaching programmes for twenty-five schoolmasters and more than 170 teachers in ten Mainland cities, and twenty-nine volunteers from BEA China conducted two teaching programmes in May and October, providing ninety hours of teaching.¹⁶

The BEA Charity Fund's work is highly acclaimed and funding support from BEA China customers and different sectors of the society has also been very strong. In 2015, 'la Caixa' signed an agreement to join forces with the BEA Charity Fund to set up Firefly Centres in China in three years' time and the project has been so successful that the collaboration continues to date.

BEA China's charitable work gives staff volunteers an opportunity to play their part. They have contributed greatly to the running of its annual fundraising event, to Firefly Charity Night events and to the training programmes for teachers of rural schools.

The historical significance of the BEA Charity Fund cannot be exaggerated. The first charity foundation set up by a foreign bank in China, the BEA Charity Fund has become a vehicle for BEA to share its vision of corporate philanthropy on the Mainland and show how things can be done. Doing what the Bank does best,

BEA China demonstrates its bridging ability by helping to develop a platform to match NGOs with corporate enterprises that would fund them.¹⁷

Transparent reporting

In response to the growing trend among listed companies to issue CSR reports, the Bank published its first CSR report as a section of its 2007 annual report. The report also provided the Bank with an opportunity to share its efforts and achievements with its stakeholders in the community. These early CSR reports were rather qualitative in nature and tended to focus on community investment. However, as stakeholders demanded greater transparency across environmental, social, and governance performance, and in anticipation of strengthened regulatory requirements with regard to CSR reporting, BEA issued its first standalone CSR report for the year 2012. BEA's second annual standalone report, for 2013, was the first issued by a bank in Hong



In 2013, the BEA Foundation began sponsoring the BEA Parent-Child Reading Programme to strengthen parent-child bonds and foster an interest in reading among children.

Kong that adhered to the G4 standard of the Global Reporting Initiative. BEA's standalone CSR reports are more quantitative and comprehensive, reporting on resource consumption, waste, and other issues deemed material by BEA's stakeholders.

The scale and scope of the Bank's CSR activities have grown from year to year to meet the society's many expectations – and, sometimes, even to anticipate their expectations.

The range of commitments is now amazingly wide: from providing educational resources to children in rural China to providing end-of-life care to old people in Hong Kong; from using less paper to save forests to

fighting money-laundering; from sponsoring the Hong Kong Arts Festival to deepening the mechanisms of risk management and compliance; from delivering better customer experience with the latest technology to delivering scarves and warm leggings knitted by staff volunteers to the elderly, new immigrants and ethnic minorities.

This is a daunting CSR list. Many of the items would naturally have been unimaginable to the Bank's founders. And yet, underlying all these diverse and sometimes seemingly unrelated activities is the constant vision of a better society. That precisely was the founders' vision, and the Bank has been passionately and purposefully turning it into reality ever since.

- 1 Dr. David Li Kwok-po, 'Chairman's Message' in BEA, CSR Report, 2012.
- The idea of 'Corporate Social Responsibility' was first formally extrapolated by Howard R. Bowen in his book, Social Responsibility of the Businessman (New York: Harper) in 1953 and has been widely discussed, critiqued and expanded since. See also, Archie B. Carroll review, 'Carroll's Pyramid of CSR: Taking Another Look', International Journal of Corporate Social Responsibility, 1:3 (2016) (http://jcsr.springeropen.com/articles/10.1186/s40991-016-0004-6).
- 3 [Report on the Bank's AGM], Hong Kong Telegraph, 12 February, 1934, p. 2.
- 4 'Dividend by East Asia for Past Year. Small Property Losses During the War', SCMP, 31 March, 1946, p. 1; Wah Kiu Yat Po (華僑日報), 31 March, 1946.
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- 6 BEA, CSR Report, 2012, p. 34.
- 7 BEA, CSR Report, 2012, p. 36.
- 8 BEA, Staff Newsletter, September 2000, p. 10.
- 9 BEA, Minutes of Officers' Meetings, 21 September, 1966.
- 10 BEA, Annual Report, 2002, p. 28.
- 11 BEA, Staff Newsletter, April 2003, p. 38.
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- 13 BEA, Annual Report, 2008, p. 84; BEA, CSR Report, 2012, p. 16; BEA, CSR Report, 2016, p. 29.
- 14 BEA, CSR Report, 2016, p. 24.
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APPENDICES

LIST OF DIRECTORS

Directors		Directors
Chan Ching-shek ^P	1919-1941	Lo Man-kam
Chan Kai-ming	1919	Wong Chung-man
Chow Shou-son ^p	1919-1959	George Ho
Fung Ping-shan ^p	1919-1931	Richard Charles Lee
Kan Tong-po ^p *	1919-1963	Lo Kwee-seong
Kan Ying-po ^p	1919-1940	Henry Li Fook-kuen
Li Koon-chun ^p	1919-1966	Michael Kan Yuet-loong*
Li Tse-fong ^p *	1919-1953	Kan Yuet-fai*
Peter Kingston Kwok ^P	1919-1953	David Li Kwok-po*
Mok Ching-kong ^p	1919-1934	Wong Chung-hin
lg Chang-luk ^p	1919-1934	Alan Li Fook-sum
Pong Wai-ting ^p	1919-1934	Fung Man-yet*
Vong Yun-tong ^p	1919-1978	Lee Shau-kee
an Chiu-nam ^p	1921-1923	Simon Li Fook-sean
Vong Chu-son (Huynh Tai) P	1921-1959	Arthur Li Kwok-cheung
i Lan-sang	1933-1969	
un Hiu-cho	1933	Allan Wong Chi-yun
ung Ping-wah	1937-1946	Aubrey Li Kwok-sing
enneth Fung Ping-fan*	1947-1997	William Mong Man-wai
an Yuet-keung	1951-1984	Joseph Pang Yuk-wing*
an Yuet-hing*	1958-1994	Chan Kay-cheung*
i Fook-shu	1958-1995	Winston Lo Yau-lai
i Fook-wo*	1958-2008	Khoo Kay-peng

Directors		Chairmen	
Thomas Kwok Ping-kwong	2001-2014	Pong Wai-ting	1919-1925
Richard Li Tzar-kai	2001-2017	Chow Shou-son	1925-1959
Tan Man-kou	2004-2008	Kan Tong-po	1959-1963
Kenneth Lo Chin-ming	2005-2016	Kan Yuet-keung	1963-1984
Eric Li Fook-chuen	2006-2016	Li Fook-wo	1984-1997
Stephen Charles Li Kwok-sze	2006-	David Li Kwok-po	1997-
Valiant Cheung Kin-piu	2008-2016		
William Doo Wai-hoi	2008-2017	Deputy Chairmen	
Kuok Khoon-ean	2008-2017	David Li Kwok-po	1995-1997
Isidro Fainé Casas	2009-	Arthur Li Kwok-cheung	2009-
Peter Lee Ka-kit	2013-	Allan Wong Chi-yun	
Adrian David Li Man-kiu*	2014-	imaii wong om yan	
Brian David Li Man-bun*	2014-		
Daryl Ng Win-kong	2015-	Chief Managers (renamed Chief Executive in 198	86)
Masayuki Oku	2015-	Kan Tong-po	1919-1963
Rita Fan Hsu Lai-tai	2016-	Kenneth Fung Ping-fan	1964-1969
Meocre Li Kwok-wing	2016-	Kan Yuet-hing	1970-1972
Henry Tang Ying-yen	2017-	Li Fook-wo	1972-1976
Chan Kin-por	2017-	Michael Kan Yuet-loong	1977-1981
Delman Lee	2017-	David Li Kwok-po	1981-
		P Permanent Director	
		* Executive Director	

APPENDICES GLOSSARY

Full term	Abbreviation/ Acronym
'la Caixa' Banking Foundation	la Caixa
AEtna International Incorporation	AEtna International
Automatic teller machine	ATM
Bank of China	ВОС
The Bank of East Asia (Canada)	BEA Canada
The Bank of East Asia (China) Limited	BEA China
Bank of East Asia (Trustees) Limited	BEA Trustees
The Bank of East Asia (U.S.A.) N.A.	BEA USA
The Bank of East Asia, Limited	BEA; the Bank
BEA Group	the Group
BEA Union Investment Management Limited	BEA Union Investment
Blue Cross (Asia-Pacific) Insurance Ltd	Blue Cross
Canadian Imperial Bank of Commerce	CIBC
Capital adequacy ratio	CAR
China (Shanghai) Pilot Free Trade Zone	Shanghai FTZ
China Banking Regulatory Commission	CBRC

Full term	Abbreviation/ Acronym
China International Trust and Investment Co.	CITIC
China Life Insurance Company Limited	China Life
China Securities Regulatory Commission	CSRC
China UnionPay	CUP
Chinese People's Political Consultative Conference	CPPCC
The Community Chest of Hong Kong	the Chest
Comprehensive and Consolidated Supervision	CCS
Corporate Social Responsibility	CSR
Deposit-taking company	DTC
Deutsche Zentral- Genossenschaftsbank, Frankfurt am Main	DZ Bank
Domestic Systemically Important Banks	D-SIBs
East Asia AEtna Insurance (Bermuda) Co.	East Asia AEtna
East Asia Asset Management Co. Ltd	EAAM
East Asia Securities Company Limited	EAS

	ALL
Full term	Abbreviation/ Acronym
Electronic Commercial Draft System	ECDS
Exchange-traded Fund	ETF
Federal Deposit Insurance Corporation	FDIC
First Pacific Bank	FPB
Floating Rate Certificates of Deposit	FRCD
Foreign direct investment	FDI
FPB Bank Holding Co. Ltd.	FPB Holdings
Gross Domestic Product	GDP
Guangdong International Trust and Investment Corporation	GITIC
Hong Kong Association of Banks	НКАВ
Hong Kong Exchange and Clearing Ltd	HKEX
Hong Kong Futures Exchange Limited	HKFE
Hong Kong Monetary Authority	HKMA
Hong Kong Mortgage Corporation	НКМС
Hong Kong Productivity Council	НКРС
ICEA Finance Holdings Ltd.	ICEA
Individual Visit Scheme	IVS
Industrial and Commercial Bank of China Ltd.	ICBC
Initial public offering	IPO
JCB International Co., Ltd.	JCB
Joint Electronic Teller Services Ltd.	JETCO
Legislative Council	LegCo
Liquidity Adjustment Facility	LAF
Mainland and Hong Kong Closer Economic Partnership Arrangement	СЕРА
Mandatory Provident Fund	MPF
Mortgage-backed Securities	MBS
Negotiable Debt Instruments	NDIs

Full term	Abbreviation/ Acronym
Non-government organizations	NGOs
People's Bank of China	РВоС
Personal Digital Assistant	PDA
PricewaterhouseCoopers	PwC
Qualified Domestic Institutional Investor	QDII
Qualified Foreign Institutional Investor	QFII
Real-time Gross Settlement	RTGS
Renminbi	RMB
Renminbi Qualified Foreign Institutional Investor	RQFII
Secure Sockets Layer	SSL
Securities and Futures Ordinance	SFO
Severe Acute Respiratory Syndrome	SARS
Shanghai Soong Ching Ling Foundation-BEA Charity Fund	BEA Charity Fund
Small and medium enterprises	SMEs
Special Drawing Rights	SDR
Staff Sports & Recreation Club	SSRC
State Administration of Foreign Exchange	SAFE
Stock Exchange of Hong Kong Limited	SEHK
Sumitomo Mitsui Banking Corporation	SMBC
Tricor Holdings Limited	Tricor
Tung Shing Securities Co. Ltd	Tung Shing Securities
Union Asset Management Holding AG	Union Investment
United Chinese Bank	UCB

APPENDICES

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APPENDICES

ACKNOWLEDGEMENTS

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Mr. Alexander Law Sau-wang

Mr. Leung Siu-hon

Mr. Alexander Leung Hong-shun

Mr. Adrian Li

Mr. Brian Li

Dr. David Li Kwok-po

Mr. Li Fook-wo (1990)

Mr. Victor Li

Mr. Samson Li

Mr. Winston Lo Yau-lai

Ms. Lu Hong

Mr. Johnny Mao

Mr. Joseph Pang

Mr. Sun Minjie

Mr. Tang Peng-wah

Mr. Tang Sing-yu

Mr. Tong Hon-shing

Ms. Jenny Wan

Mr. Thomas Wong

Mr. Eric Wong

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