

HANG SENG BANK

Results for 2001 (continued)

(e) The amounts of rescheduled advances and their expression as a percentage of gross advances to customers are as follows:

	31.12.2001		31.12.2000	
	HK\$m	%	HK\$m	%
Rescheduled advances to customers*	512	0.2	2,756	1.2

* Stated after deduction of interest in suspense.

(f) Segmental analysis of advances to customers by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty. At 31 December 2001, over 90% of Hang Seng's advances to customers and the related non-performing advances and overdue advances were classified under the area of Hong Kong (unchanged from the position at 31 December 2000).

(g) Gross advances to customers by industry sector

The analysis of gross advances to customers (after deduction of interest in suspense) by industry sector based on categories and definitions used by the Hong Kong Monetary Authority is as follows:

	31.12.2001	31.12.2000
	HK\$m	HK\$m
Gross advances to customers for use in Hong Kong Industrial, commercial and financial sectors		
Property development	20,237	19,079
Property investment	29,403	29,579
Financial concerns	1,991	2,979
Stockbrokers	115	97
Wholesale and retail trade	3,737	4,066
Manufacturing	1,683	1,825
Transport and transport equipment	9,687	8,471
Other	17,109	19,073
	83,962	85,169
Individuals		
Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	39,295	35,971
Advances for the purchase of other residential properties	77,537	78,005
Credit card advances	5,262	4,745
Other	6,050	4,875
	128,144	123,596
Total gross advances for use in Hong Kong	212,106	208,765
Trade finance	9,434	9,013
Gross advances for use outside Hong Kong	4,386	4,195
Gross advances to customers	225,926	221,973

8 Long-term investments

(a) Carrying value of long-term investments

	Carrying value	
	31.12.2001	31.12.2000
	HK\$m	HK\$m
Held-to-maturity debt securities		
Issued by public bodies		
- Central governments and central banks	3,324	3,459
- Other public sector entities	6,510	7,381
	9,834	10,840
Issued by other bodies		
- Banks and other financial institutions	15,234	15,480
- Corporate entities	14,537	8,517
	29,771	23,997
Equity investments	39,605	34,837
Issued by corporate entities	3,657	4,433
	43,262	39,270
Held-to-maturity debt securities		
- Listed in Hong Kong	311	419
- Listed outside Hong Kong	9,762	4,881
	10,073	5,300
- Unlisted	29,532	29,537
	39,605	34,837
Equity investments		
- Listed in Hong Kong	2,848	4,139
- Listed outside Hong Kong	95	114
	2,943	4,253
- Unlisted	714	180
	3,657	4,433
	43,262	39,270

(b) Fair value of held-to-maturity debt securities

	Fair value	
	31.12.2001	31.12.2000
	HK\$m	HK\$m
Held-to-maturity debt securities		
Issued by public bodies		
- Central governments and central banks	3,401	3,471
- Other public sector entities	6,741	7,537
	10,142	11,008
Issued by other bodies		
- Banks and other financial institutions	15,265	15,510
- Corporate entities	14,663	8,595
	29,928	24,105
Held-to-maturity debt securities	40,070	35,113
- Listed in Hong Kong	315	425
- Listed outside Hong Kong	9,856	4,940
	10,171	5,365
- Unlisted	29,899	29,748
	40,070	35,113

(c) Maturity analysis of held-to-maturity debt securities

	Carrying value	
	31.12.2001	31.12.2000
	HK\$m	HK\$m
Remaining maturity:		
- Three months or less but not repayable on demand	7,892	10,057
- One year or less but over three months	5,087	7,003
- Five years or less but over one year	22,930	15,478
- Over five years	2,696	2,299
	39,605	34,837
9 Other assets		
Unrealised gains on off-balance sheet interest rate, exchange rate and other derivative contracts which are marked to market	570	1,800
Deferred taxation	34	13
Items in the course of collection from other banks	2,881	4,472
Prepayments and accrued income	2,294	3,849
Other accounts	2,781	1,193
	8,560	11,327
Remaining maturity:		
- Three months or less	6,467	9,296
- One year or less but over three months	1,048	1,779
- Five years or less but over one year	913	134
- Over five years	98	79
	8,526	11,288
- Overdue*		
- Six months or less but over three months	5	5
- One year or less but over six months	7	7
- Over one year	22	27
	34	39
	8,560	11,327

* Represented mainly by overdue interest receivable included under "Prepayments and accrued income".

10 Current, savings and other deposit accounts

	31.12.2001	31.12.2000
	HK\$m	HK\$m
Current, savings, time and other deposits		
Repayable on demand	186,557	175,336
With agreed maturity dates or periods of notice, by remaining maturity:		
- Three months or less but not repayable on demand	198,405	224,985
- One year or less but over three months	10,664	14,458
- Five years or less but over one year	138	96
	395,764	414,875
Certificates of deposit in issue		
Remaining maturity:		
- Three months or less but not repayable on demand	3,888	5,358
- One year or less but over three months	6,667	2,771
- Five years or less but over one year	7,644	6,276
- Over five years	365	325
	18,564	14,730
	414,328	429,605

11 Analysis of capital base and risk-weighted assets

	31.12.2001	31.12.2000
	HK\$m	HK\$m
Capital base		
Tier 1 capital		
- Share capital	9,559	9,559
- Retained profits	19,342	18,455
- Capital redemption reserve	99	99
- Total	29,000	28,113
Tier 2 capital		
- Premises and investment properties revaluation reserves	5,708	5,860
- Long-term equity investment revaluation reserve	1,418	2,043
- General provisions	1,437	1,437
- Total	8,563	9,340
Unconsolidated investments and other deductions	(1,331)	(1,346)
Total capital base after deductions	36,232	36,107
Risk-weighted assets		
On-balance sheet	221,565	220,037
Off-balance sheet	14,726	13,982
Total risk-weighted assets	236,291	234,019
Total risk-weighted assets adjusted for market risk	236,588	235,453
Capital adequacy ratios		
After adjusting for market risk		
- Tier 1*	12.3%	11.9%
- Total*	15.3%	15.3%
Before adjusting for market risk		
- Tier 1	12.3%	12.0%
- Total	15.3%	15.4%

* The capital ratios take into account market risks in accordance with the relevant Hong Kong Monetary Authority guideline.

12 The aggregate contract amount and risk-weighted amount of contingent liabilities, commitments and derivatives are as follows:

	31.12.2001		31.12.2000	
	Contract amount	Risk-weighted amount	Contract amount	Risk-weighted amount
	HK\$m	HK\$m	HK\$m	HK\$m
Contingent liabilities:				
Guarantees	11,802	3,761	3,829	2,963
Commitments:				
Documentary credits and short-term trade-related transactions	5,768	1,151	5,801	1,160
Undrawn formal standby facilities, credit lines and other commitments to lend:				
- Under one year	64,317	—	59,665	—
- One year and over	19,367	9,257	18,438	8,975
- Other	47	47	—	—
	89,499	10,455	83,904	10,135
Exchange rate contracts:				
Spot and forward foreign exchange	98,143	249	169,896	647
Other exchange rate contracts	7,917	21	6,504	37
	106,060	270	176,400	684
Interest rate contracts:				
Interest rate swaps	44,446	240	46,951	201
Other interest rate contracts	6,842	—	6,229	—
	51,288	240	53,180	201

13 The aggregate replacement cost of exchange rate contracts and interest rate contracts are as follows:

	31.12.2001	31.12.2000
	HK\$m	HK\$m
Replacement cost		
Exchange rate contracts	310	1,491
Interest rate contracts	859	722
	1,169	2,213

The replacement cost of contracts represents the mark-to-market assets on all contracts (including non-trading contracts) with a positive value and which have not been subject to any bilateral netting arrangement.

14 Segmental analysis

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business or geographical segments by way of internal capital allocation and funds transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the respective segments and apportionment of management overheads. Rental charges at market rate for usage of premises are reflected as inter-segment income for the "Other" segment and inter-segment expenses for the respective business segments.

(a) By business segment

	Personal Financial Services	Commercial Banking	Corporate & Institutional Banking	Treasury	Other	Inter-segment Elimination	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Year ended 31 December 2001							
Income and expenses							
Net interest income	6,700	1,108	732	1,667	1,453	—	11,660
Operating income	2,073	907	288	278	401	—	3,947
Inter-segment income	—	—	—	—	415	(415)	—
Total operating income	8,773	2,015	1,020	1,945	2,269	(415)	15,607
Operating expenses	(2,691)	(825)	(104)	(119)	(365)	—	(4,004)
Inter-segment expenses	(524)	(75)	(8)	(7)	—	415	—
Operating profit before provisions	5,758	1,115	907	1,819	1,904	—	11,503
Provisions for bad and doubtful debts	(573)	38	81	—	30	—	(424)
Operating profit	5,185	1,153	988	1,819	1,934	—	11,079
Profit on tangible fixed assets and long-term investments	17	39	—	113	224	—	393
Net deficit on property revaluation	—	—	—	—	(14)	—	(14)
Share of profits of associated companies	7	—	—	—	49	—	56
Profit on ordinary activities before tax	5,209	1,192	988	1,932	2,193	—	11,514
Operating profit excluding inter-segment transactions	5,509	1,228	997	1,826	1,519	—	11,079
* Including depreciation	(136)	(33)	(3)	(2)	(212)	—	(386)
At 31 December 2001							
Total assets	136,233	22,692	63,108	226,656	26,098	—	474,787
Total liabilities	308,404	69,101	16,412	10,022	25,777	—	429,716
Investments in associated companies	89	—	—	—	685	—	774
Capital expenditure incurred during the year	114	20	1	3	55	—	193
Year ended 31 December 2000							
Income and expenses							
Net interest income	6,617	1,197	841	1,062	1,974	—	11,691
Operating income	1,907	780	275	268	344	—	3,574
Inter-segment income	—	—	—	—	389	(389)	—
Total operating income	8,524	1,977	1,116	1,330	2,707	(389)	15,265
Operating expenses	(2,339)	(832)	(97)	(124)	(333)	—	(3,725)
Inter-segment expenses	(293)	(84)	(7)	(5)	—	389	—
Operating profit before provisions	5,892	1,061	1,012	1,201	2,374	—	11,540
Provisions for bad and doubtful debts	(346)	76	(52)	—	126	—	(196)
Operating profit	5,546	1,137	960	1,201	2,500	—	11,344
Profit on tangible fixed assets and long-term investments	65	78	—	2	103	—	248
Net surplus on property revaluation	—	—	—	—	28	—	28
Share of profits of associated companies	7	—	—	—	48	—	55
Profit on ordinary activities before tax	5,618	1,215	960	1,203	2,679	—	11,675
Operating profit excluding inter-segment transactions	5,839	1,221	967	1,206	2,111	—	11,344
* Including depreciation	(131)	(40)	(2)	(3)	(212)	—	(388)
At 31 December 2000							
Total assets	132,675	20,380	64,829	254,829	28,071	—	500,784
Total liabilities	298,208	88,641	26,375	16,077			

HANG SENG BANK

Results for 2001 (continued)

(b) By geographical segment

The geographical segments in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds.

	Hong Kong HK\$ million	Americas HK\$ million	Other HK\$ million	Total HK\$ million
Year ended 31 December 2001				
Income and expenses				
Total operating income	14,227	1,307	73	15,607
Profit on ordinary activities before tax	10,097	1,261	156	11,514
At 31 December 2001				
Total assets	370,489	98,145	6,153	474,787
Total liabilities	415,739	10,068	3,909	429,716
Capital expenditure incurred during the year	190	1	2	193
Contingent liabilities and commitments	100,704	—	597	101,301
Year ended 31 December 2000				
Income and expenses				
Total operating income	14,482	741	42	15,265
Profit on ordinary activities before tax	10,937	720	18	11,675
At 31 December 2000				
Total assets	431,574	63,055	6,155	500,784
Total liabilities	439,705	10,630	4,512	454,847
Capital expenditure incurred during the year	133	—	3	136
Contingent liabilities and commitments	84,939	414	2,380	87,733

15 Cross border claims

Cross border claims include receivables and loans and advances, balances due from banks and holdings of certificates of deposit, bills, promissory notes, commercial paper and other negotiable debt instruments and also include accrued interest and overdue interest on these assets. Claims are classified according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

	Banks & Other Financial Institutions HK\$ million	Public Sector Entities HK\$ million	Other HK\$ million	Total HK\$ million
At 31 December 2001				
Asia-Pacific excluding Hong Kong				
- Australia	17,850	1,260	1,691	20,801
- Other	33,442	2,283	2,707	38,432
	51,292	3,543	4,398	59,233
The Americas				
- Canada	15,982	3,752	349	20,083
- Other	6,737	1,343	7,538	15,618
	22,719	5,095	7,887	35,701
Western Europe				
- Germany	25,136	954	2	26,092
- United Kingdom	20,465	—	1,903	22,368
- Other	54,393	1,617	2,298	58,308
	99,994	2,571	4,203	106,768
At 31 December 2000				
Asia-Pacific excluding Hong Kong				
- Australia	20,826	696	509	22,031
- Other	35,746	1,901	2,742	40,389
	56,572	2,597	3,251	62,420
The Americas				
- Canada	21,329	9,632	248	31,209
- Other	11,907	3,794	4,851	20,552
	33,236	13,426	5,099	51,761
Western Europe				
- Germany	26,911	527	1	27,439
- United Kingdom	20,330	—	511	20,841
- Other	61,571	790	1,615	63,976
	108,812	1,317	2,127	112,256

16 Foreign currency positions

Foreign currency exposures at 31 December 2001, including those arising from dealing, non-dealing and structural positions, and with an individual currency constituting 10% or more of the total net position in all foreign currencies being shown separately, are as follows:

	United States Dollar HK\$ million	Other Foreign Currencies HK\$ million	Total Foreign Currencies HK\$ million
At 31 December 2001			
Spot assets	237,778	91,998	329,776
Spot liabilities	(206,264)	(93,767)	(300,031)
Forward purchases	39,001	9,638	48,639
Forward sales	(61,725)	(7,742)	(69,467)
Net options positions	4	(4)	—
Net long non-structural position	8,794	127	8,921
Net structural position	508	51	559
At 31 December 2000			
Spot assets	209,969	88,563	298,532
Spot liabilities	(187,255)	(74,755)	(262,010)
Forward purchases	79,272	21,146	100,418
Forward sales	(95,630)	(34,920)	(130,550)
Net options positions	2	(2)	—
Net long non-structural position	6,358	32	6,390
Net structural position	508	127	635

17 Remuneration

The Board of Directors strives to ensure that total remuneration is fair and attractive to potential employees, whilst motivating and retaining existing high-calibre staff. The remuneration packages are structured to take due account of levels and composition of pay and the market positioning locally and in the territories outside Hong Kong in which the Bank operates.

Salaries are reviewed annually in the context of individual and business performance, market practice, internal relationships and competitive market pressures. In appropriate circumstances, performance-related payments and awards under the relevant HSBC Group share plans are provided as incentives to staff.

In 2001, based on merit and demonstrated performance, the Board approved a pay increase in January which raised salary expenses by an average of 2% and a variable bonus was paid in April. The number of staff subscribing to the HSBC Holdings Savings-Related Share Option Plan had increased to 4,165 by the year-end. The number of staff awarded options under the HSBC Holdings Group Share Option Plan had risen to 2,171.

In the prolonged economic downturn, the Board decided on a third salary freeze in four years for 2002. The Board appreciates staff understanding of the need to control costs and maintain business competitiveness.

The total number of staff of the Bank stood at 7,488 as of 31 December 2001, a slight increase over 2000. However, the total staff costs (excluding retirement benefit costs) remained stable.

18 Accounting policies

This results advertisement has been prepared on a basis consistent with the accounting policies adopted in the 2000 financial statements except for the recognition and the presentation of proposed dividends which have been amended in accordance with the revised Hong Kong Statement of Standard Accounting Practice 9 (HKSSAP 9) on "Events after the balance sheet date" issued by the Hong Kong Society of Accountants.

Dividends proposed or declared after the balance sheet date were previously recognised as a liability at the balance sheet date. Following the implementation of revised HKSSAP 9, dividends proposed after the balance sheet date were not recognised as a liability at the balance sheet date but are disclosed as a separate component of shareholders' funds.

The effect of the above change in accounting policy was an increase in shareholders' funds of HK\$5,353 million at 31 December 2000 and a decrease in liabilities by the same amount. The return on average shareholders' funds for the year ended 31 December 2000 has been restated to reflect the change.

19 Market Risk

Market risk is the risk that the movements in interest rates, foreign exchange rates or equity and commodity prices will result in profits or losses to Hang Seng. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accrual basis). Hang Seng's market risk arises from customer-related business and from position taking.

Market risk is managed within risk limits approved by the Board of Directors. Risk limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as value at risk (VAR) limits at a portfolio level.

Hang Seng adopts the risk management policies and risk measurement techniques developed by the HSBC Group. The daily risk monitoring process measures actual risk exposures against approved limits and triggers specific action to ensure the overall market risk is managed within an acceptable level. VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The model used by Hang Seng calculates VAR on a variance/covariance basis, using historical movements in market rates and prices, a 99% confidence level and a 10-day holding period, and generally takes account of correlations between different markets and rates. The movement in market prices is calculated by reference to market data for the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

Hang Seng has obtained approval from the Hong Kong Monetary Authority (HKMA) for the use of its VAR model to calculate market risk for capital adequacy reporting. The HKMA is also satisfied with Hang Seng's market risk management process.

The VAR for all interest rate risk and foreign exchange risk positions at 31 December 2001 was HK\$352 million compared with HK\$213 million at 31 December 2000. The average VAR for 2001 was HK\$248 million, with a maximum of HK\$562 million and a minimum of HK\$119 million for the year. On an individual portfolio basis, the values at risk at 31 December 2001 relating to the trading portfolio and accrual portfolio were HK\$5 million (HK\$7 million at 31 December 2000) and HK\$353 million (HK\$212 million at 31 December 2000) respectively.

The average daily revenue earned from market risk-related treasury activities in 2001, including accrual book net interest income and funding related to dealing positions, was HK\$7 million (HK\$5 million for 2000). The standard deviation of these daily revenues was HK\$3 million (HK\$3 million for 2000). No loss was recorded out of 244 trading days in 2001. The most frequent result was a daily revenue of between HK\$4 million and HK\$8 million, with 203 occurrences. The highest daily revenue was HK\$22 million.

Hang Seng's foreign exchange exposures mainly comprise foreign exchange dealing by Treasury and currency exposures originated by its banking business. The latter are transferred to Treasury where they are centrally managed within foreign exchange position limits approved by the Board of Directors.

The VAR relating to foreign exchange positions was HK\$4 million at 31 December 2001 (HK\$6 million at 31 December 2000) and the average amount for 2001 was HK\$1 million, with a maximum of HK\$8 million and a minimum of HK\$3 million in the year. The average one-day foreign exchange profit for 2001 was HK\$5 million (HK\$1 million for 2000).

Interest rate risk arises in both the treasury dealing portfolio and accruals books, which are managed by Treasury under limits approved by the Board of Directors. The VAR relating to interest rate exposures was HK\$352 million at 31 December 2001 (HK\$213 million at 31 December 2000) and the average amount for 2001 was HK\$248 million, with a maximum of HK\$562 million and a minimum of HK\$119 million for the year. The average daily revenue earned from treasury-related interest rate activities for 2001 was HK\$5 million (HK\$4 million for 2000).

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, such as shareholders' funds and some current accounts, as well as fixed rate loans and liabilities other than those generated by the treasury business. Structural interest rate risk is monitored by Hang Seng's Asset and Liability Management Committee.

REVIEW OF OPERATIONS

Net interest income was sustained at the level of the previous year, with a slight decrease of HK\$31 million, or 0.3%. Average interest-earning assets grew by HK\$19.2 billion, or 4.4%, to HK\$454.9 billion. Net interest spread improved by 9 basis points to 2.28%, but this was more than offset by a reduction of 21 basis points in the contribution from net free funds to 0.28%, leading to a 12 basis point compression in net interest margin to 2.56%.

The improvement in net interest spread was helped by the growth in low cost savings deposits and a wider gap between BLR and HIBOR. In addition, the positioning of the treasury portfolios and holding of fixed rate securities in a downward trending interest rate environment also contributed to the improvement in net interest spread. These were partly offset by a further decline in the average yield of the mortgage portfolio. The spreads earned on time deposits also narrowed. The contribution from net free funds declined significantly due to the fall in market interest rates.

Other operating income grew by HK\$373 million, or 10.4%, to HK\$3,947 million, and comprised 25.3% of total operating income against 23.4% for 2000. Net fees and commissions increased by HK\$336 million, or 16.2%, with a growth of 27.1% in wealth management income. This includes initiatives such as the successful launch of the Hang Seng Capital Guaranteed Fund Series. Life insurance products and the Mandatory Provident Fund service. Securities broking and related income fell due to the depressed stock market, but card services and credit facilities contributed to the growth in fee income. Dealing profits were flat while other income rose by HK\$43 million, or 6.8%, mainly due to higher loan redemption fees.

Operating expenses increased by HK\$379 million, or 10.2%, to HK\$4,104 million. The increase of HK\$220 million, or 10.7%, in staff costs was mainly due to a special contribution of HK\$213 million to maintain the fully funded position of the staff retirement benefit scheme. Premises and equipment expenses rose by HK\$101 million, or 13.2%, reflecting the growth in IT expenditure to support the development of e-banking initiatives. Other operating expenses increased by HK\$60 million, or 11.5%, due to increased marketing and advertising expenditure and additional financial data service fees to support Hang Seng's on-line investment service. The cost-income ratio increased to 26.3%, compared with 24.4% in 2000. Excluding the special contribution mentioned above, the cost-income ratio would have been 24.9%.

The net charge for bad and doubtful debts amounted to HK\$424 million, an increase of HK\$228 million, or 116.3%, compared with the previous year. New specific provisions for doubtful accounts rose by 14.9% to HK\$1,135 million, mainly in residential mortgages and card advances. Recoveries and releases decreased by 9.9% to HK\$711 million, mainly in corporate accounts. As the balance of HK\$125 million of the additional general provision made in 1997 was transferred to augment general provisions at the end of 2000, no charge for general provisions was made against loan growth during 2001.

Profit on disposal of tangible fixed assets and long-term investments rose by HK\$145 million, or 58.5%, to HK\$393 million, reflecting increased profits on the disposal of debt securities from the accrual portfolio and of locally-listed equities.

Cash and short-term funds fell by HK\$18,213 million, or 14.1%, with a significant decrease in treasury bills, including Hong Kong Government Exchange Fund bills and other government bills.

Advances to customers (after deduction of interest in suspense and provisions) grew by HK\$4,918 million, or 2.3%, to HK\$222.4 billion at 31 December 2001. Growth in the portfolio was affected by continued intense competition in the mortgage and retail lending markets and by sluggish corporate loan demand in 2001.

Total provisions as a percentage of gross advances to customers fell to 1.55% at 31 December 2001, compared with 2.01% at the end of 2000. Specific provisions as a percentage of gross advances decreased by 0.45 percentage points to 0.91%, despite the increase in the net charge for specific provisions. The reduction reflected the writing-off of the balance of corporate accounts on final settlement and the estimated irrecoverable portion of residential mortgages with repossessed properties and the upgrading of rescheduled advances and doubtful accounts to performing status. General provisions, at 0.64% of gross advances to customers, were maintained at a level consistent with the underlying risk portfolio of the loan book and the stage in the credit cycle.

Gross non-performing advances (after deduction of interest in suspense) fell by HK\$1,260 million, or 16.9%, to HK\$6,174 million, compared with the end of 2000. There was an improvement in the ratio of gross non-performing advances to gross advances to customers to 2.7% from 3.3% at the end of the previous year. This was the result of repayments, the writing-off of the balance of corporate accounts on final settlement and the estimated irrecoverable portion of residential mortgages with repossessed properties and the upgrading of rescheduled advances and doubtful accounts to performing status.

Current, savings, time and other deposit accounts fell by HK\$19.1 billion, or 4.6%, to HK\$395.8 billion at 31 December 2001, compared with HK\$414.9 billion at the previous year-end. Time and other deposits showed a decline of 17.0%, mainly in Hong Kong dollars and US dollars, which was partly the result of the withdrawal of large deposits by certain corporate customers. Current and savings accounts, mainly in Hong Kong dollars, grew by 22.5% and 17.2% respectively, reflecting customers' preference for liquidity in the low interest rate environment. The final stage of interest rate deregulation which was brought into effect on 3 July 2001 had no material impact on savings account balances. In terms of currency, Hong Kong dollar deposits remained stable, US dollar deposits (mainly time deposits) fell, while deposits in other foreign currencies rose.

Shareholders' funds (excluding the proposed dividend) were HK\$866 million, or 2.1%, lower at HK\$39,718 million at 31 December 2001.

The return on average total assets was 2.1%, the same level as 2000, while the return on average shareholders' funds was 23.0% (22.7% for 2000).

The advances to deposits ratio was 53.7% at 31 December 2001, compared with 50.6% at 31 December 2000, resulting from the combined effect of the growth in advances to customers and the fall in customer deposits. Hang Seng continued to maintain a strong liquidity position, with the average liquidity ratio for 2001 rising to 45.6% from 43.3% for 2000 (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance).

Hang Seng Bank, whose business focus is Hong Kong and mainland China, leveraged on its large customer franchise and built on advanced technologies in 2001.

Personal financial services remained the major profit contributor, providing 45.2% of the profit before tax. Commercial banking contributed 10.4%, corporate and institutional banking 8.6% and treasury 16.8%. Other businesses, which mainly cover the management of shareholders' funds, investment properties and long-term equity investments, provided 19.0%.

Personal financial services recorded a marked growth in income from the wealth management business. However, profit before tax fell by 7.3% compared with the previous year, because of the decline in the mortgage portfolio yield and higher bad debt charges for residential mortgages and card advances.

The Bank continued to widen its investment and insurance product range to enhance its wealth management services. Funds managed under the Hang Seng Investment Series had grown by 204% to HK\$12.1 billion at the year-end. Since 2001, 17 investment funds have been launched under the Investment Series, bringing the total to 34. This includes 15 highly popular capital guaranteed funds - the largest series of similar funds in Hong Kong. To reach different customer segments, Prestige Banking targeting affluent customers; the M. I. Kid Account targeting parents with young children; and Femina Banking, an integrated account targeting women, were launched.

The Bank continued to enhance its e-Banking services, which have become a convenient and cost-efficient channel to deliver wealth management services. At the end of 2001, the number of customers registered for e-Banking had increased to more than 173,000. Internet transactions had grown to account for about 9% of total transactions and online share trading for about 50% of total securities transactions.

Despite the growth in trade finance and commercial lending, commercial banking showed a decrease of 1.9% in profit before tax. Its result was affected by a lower level of bad debt recoveries.

Corporate and institutional banking achieved a growth of 2.9% in profit before tax, benefiting mainly from the substantial recovery of bad and doubtful debts.

Treasury recorded an encouraging growth of 60.6% in profit before tax, as the fixed rate debt securities portfolio and the assets and liabilities re-pricing gap benefited significantly under the falling interest rate environment in 2001. Increased profit on disposal of debt securities from the accrual portfolio also contributed to the growth. Other showed a decrease of 18.1% in profit before tax, with a lower contribution from shareholders' funds due to the fall in market interest rates. This was despite the increase in profit on disposal of long-term equities.

In the Mainland, Fuzhou Branch opened in February. Hang Seng Insurance Company Limited opened a representative office in Shenzhen in April. Applications have been submitted for a renminbi licence in Shanghai, to open a branch in Nanjing and to upgrade the Beijing representative office to a branch. Hang Seng Securities Limited has submitted applications for the purpose of obtaining B shares trading seats on both the Shanghai and Shenzhen stock exchanges and setting up a representative office in Shanghai.

In Taiwan, the Bank opened its first representative office in Taipei in January 2002.

COMMENT BY DAVID ELDON, CHAIRMAN

"The banking industry experienced an exceptionally difficult year in 2001. Despite successive cuts in local interest rates, the Hong Kong economy continued its prolonged downturn. However, Hang Seng maintained the profitability of its core business with attributable profit increasing marginally to HK\$1,114 million.

"The economic outlook for 2002 largely depends on the prospect of a recovery in the United States. The challenges for the banking sector continue to be intense competition, high liquidity, sluggish credit demand and narrowing margins.

"In meeting these challenges Hang Seng will continue to build on its strong customer franchise by launching innovative financial services, thus diversifying its income streams. While investing prudently for future growth we will maintain our policy of strict financial discipline."

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities.

CODE OF BEST PRACTICE

The Bank has complied throughout the year ended 31 December 2001 with the Code of Best Practice adopted by the Bank, which includes all the guidelines set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Exchange).

PUBLICATION OF ANNUAL REPORT ON THE EXCHANGE'S WEBSITE

The 2001 Annual Report of the Bank containing all the information required by the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website in due course.

REGISTER OF SHAREHOLDERS

The Register of Shareholders of the Bank will be closed on Wednesday, 20 March 2002 and Thursday, 21 March 2002, during which no transfer of shares can be registered. In order to qualify for the second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrars, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Tuesday, 19 March 2002. The Annual General Meeting of the Bank will be held on Tuesday, 23 April 2002.

By Order of the Board

K W Ma
Secretary

Hong Kong, 4 March 2002

The information in this results advertisement does not constitute statutory accounts. Certain financial information in this results advertisement is extracted from the statutory accounts for the year ended 31 December 2001, which will be delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The statutory accounts comply with the module on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2001. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 4 March 2002.

Copies of the full results announcement may be obtained from the Company Secretary Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng's website <http://www.hangseng.com>.

The 2001 Annual Report and Accounts will be available from the same website on 4 March 2002. Printed copies of the 2001 Annual Report and Accounts will be sent to shareholders in late March 2002.