

In 2000, Hang Seng Bank strengthened its value-creating franchise to achieve a record profit. Customer relationship management, new distribution channels and strong branding were critical elements in growing our business.

Guided by our new corporate tagline *Hang Seng Bank. Exceed. Excel.*, we have increased our focus on innovation and making technology work for the benefit of customers and the Bank.

Our successful e-Banking services, introduced in August to meet the online challenge, have become a vital channel for providing better service to existing customers and attracting new ones.

In our major focus areas of wealth management and commercial banking, we recorded significant progress. Expansion continued in mainland China, paving the way for future growth.

### financial highlights

Our encouraging performance in a difficult operating environment highlighted the achievements in our personal wealth management initiatives, strict cost discipline and improving asset quality. Operating profit before provisions rose by 4.3% to HK\$11,540 million compared with 1999.

Net interest income increased by 0.2% to HK\$11,691 million. Although average interest-earning assets rose by 7.3%, the net interest margin fell by 19 basis points to 2.68%. This was attributable to the 17 basis point reduction in the net interest spread to 2.19% and the two basis point fall to 0.49% in the contribution from net free funds.

The reduction in net interest spread was due to the adverse effect of the continued fall in the mortgage portfolio yield and the fall in the average advances to deposits ratio from 54.3% to 52.7%. These factors outweighed the benefits of the growth

in lower cost savings deposits, the improvement in the spreads earned from time deposits, and the widening of the BLR/HIBOR gap.

Other operating income increased by 13.8% to HK\$3.6 billion. Net fees and commissions rose substantially by 33.6%, reflecting the encouraging growth in income from our wealth management initiatives. In line with our efforts to increase non-interest income, the ratio of other operating income to total operating income increased by 2.2 percentage points to 23.4%.

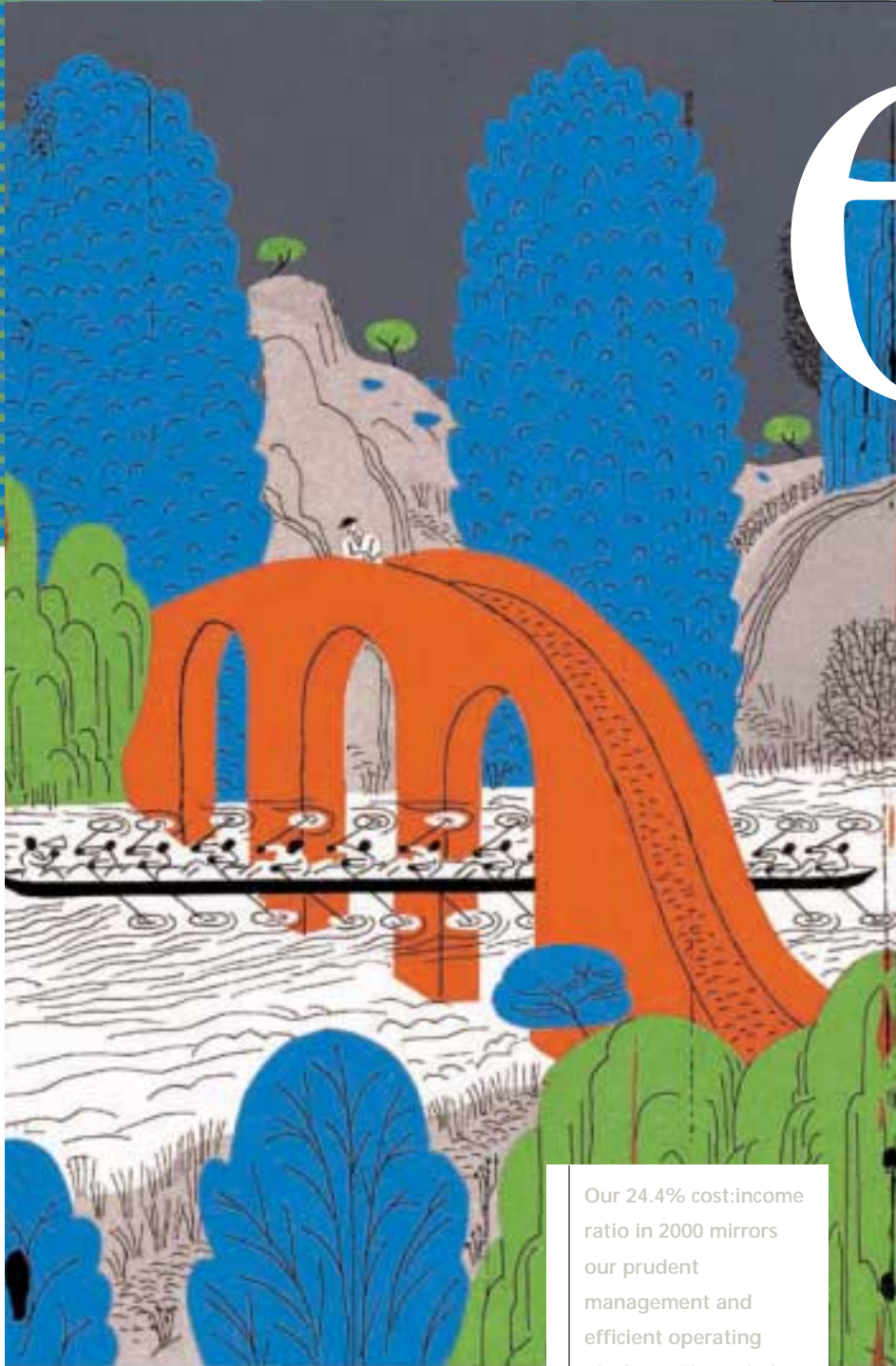
We continued to maintain a strong liquidity position. The average liquidity ratio for 2000 increased to 43.3% from 42.4% in 1999. Representing more efficient use of capital, the total capital ratio was 15.3% at 31 December 2000, compared with 17.3% a year earlier. The tier 1 capital ratio was 11.9%, compared with 13.3%.

### cost leadership

Our cost:income ratio was the lowest since it was first published in 1989, falling by 0.9 of a percentage point to 24.4% in 2000 without affecting the quality of our operations.

Our strict control of costs saw operating expenses fall by 0.5%, despite the Bank's significant investments in information technology and business development. Staff costs decreased by 6.7%, mainly due to careful headcount control as the total number of staff fell further to 7,449, giving a total reduction of 712 from its peak level in 1997.

A culture of constant innovation, which



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EFFICIENT

Our 24.4% cost:income ratio in 2000 mirrors our prudent management and efficient operating platform. The ratio has consistently been among the lowest in the banking world

**a market leader  
in operating efficiency**