

balance sheet

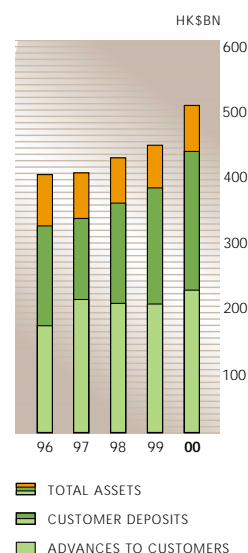
total assets

Total assets grew by HK\$58.7 billion, or 13.3 per cent, to HK\$500.8 billion at 31 December 2000. Advances to customers recorded encouraging growth of 10.3 per cent compared with last year, mainly in corporate lending and residential mortgages. Interbank assets and debt securities also increased. The increase in total assets was largely driven by the 14.3 per cent growth in customer deposits during the year.

shareholders' funds

AT 31 DECEMBER (HK\$M)	2000	1999
Share capital	9,559	9,559
Retained profits	18,732	17,729
Premises and investment properties revaluation reserves	8,742	8,228
Long-term equity investment revaluation reserve	3,452	3,959
Capital redemption reserve	99	99
Total shareholders' funds	40,584	39,574
Return on average shareholders' funds (% p.a.)	23.6	17.6

TOTAL ASSETS, CUSTOMER DEPOSITS AND ADVANCES TO CUSTOMERS



Shareholders' funds grew by HK\$1,010 million to HK\$40,584 million at 31 December 2000, mainly from profit after appropriation for the year. The long-term equity investment revaluation reserve decreased by HK\$507 million, due to realisation on disposals and the fall in fair value of locally-listed equities at 31 December 2000. The premises and investment properties revaluation reserves increased by HK\$514 million, reflecting a recovery in the commercial property market.

The return on average shareholders' funds for 2000 improved substantially to a record high of 23.6 per cent, compared with 17.6 per cent for 1999, benefiting from the growth in attributable profit for the year and lower average shareholders' funds following the distribution of the special interim dividend in November 1999.

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

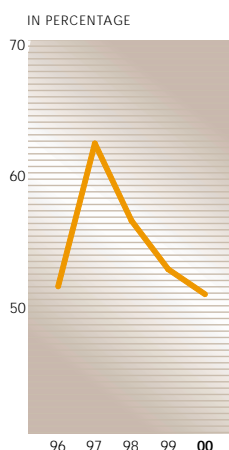
customer deposits

Current, savings and other deposit accounts rose by HK\$53.9 billion, or 14.3 per cent, to HK\$429.6 billion, compared with HK\$375.7 billion at 31 December 1999. The growth was mainly in US dollar time deposits and HK dollar time deposits and savings accounts.

Certificates of deposit in issue increased by HK\$3.1 billion, or 26.2 per cent, to HK\$14.7 billion at 31 December 2000.

advances to customers

Advances to customers (after deduction of interest in suspense and provisions) showed encouraging growth of HK\$20.2 billion, or 10.3 per cent, and reached HK\$217.5 billion at 31 December 2000. This reflected

ADVANCES TO DEPOSITS RATIO

the Bank's efforts to expand the loan portfolios, both personal and corporate, in the face of strong competition and sluggish loan demand in Hong Kong during the year.

advances to deposits ratio

The advances to deposits ratio was 50.6 per cent at 31 December 2000, compared with 52.5 per cent at 31 December 1999, reflecting higher growth in customer deposits than in advances to customers.

performance by line of business

Hang Seng's major business lines, organised to serve the respective customer segments, are Personal banking, Corporate and institutional banking, Commercial banking and Treasury. The operating results of the business lines and their contribution to Hang Seng's operating profit in 2000 are as follows.

ANALYSIS OF OPERATING PROFIT (HK\$M)	2000					TOTAL
	PERSONAL BANKING	CORPORATE & INSTITUTIONAL BANKING	COMMERCIAL BANKING	TREASURY	OTHERS	
Operating profit before provisions	5,914	1,012	1,039	1,201	2,374	11,540
Provisions for bad and doubtful debts						
Specific	(292)	3	90	-	-	(199)
General	(54)	(56)	(13)	-	126	3
Operating profit for 2000	5,568	959	1,116	1,201	2,500	11,344
Contribution to total operating profit	49.1%	8.5%	9.8%	10.6%	22.0%	100.0%
Operating profit for 1999	5,105	578	133	1,537	2,293	9,646
Contribution to total operating profit	52.9%	6.0%	1.4%	15.9%	23.8%	100.0%

Personal banking contributed 49.1 per cent of Hang Seng's operating profit and recorded a growth of 9.1 per cent over 1999. Despite intense price competition in mortgage loan pricing which resulted in a further decline in the net interest margin, the operating results of personal banking benefited from strong growth in other operating income due to successful wealth management initiatives.

Corporate and institutional banking recorded a growth of 65.9 per cent in operating profits and contributed 8.5 per cent of Hang Seng's total for 2000. Corporate and institutional banking expanded its loan portfolio significantly and was active in the loan syndication market. Its satisfactory operating results benefited from the growth in both net interest income and other operating income, together with a net release of provisions for bad and doubtful debts.

Commercial banking achieved a growth of 739 per cent in operating profit and contributed 9.8 per cent of Hang Seng's total for 2000. The business continued to expand its customer base of small and medium-sized enterprises and improve asset quality. The performance for the year was attributable to the

growth in net interest and other operating income together with a substantial release of bad and doubtful debt provisions.

Treasury's operating profit for the year fell by 21.9 per cent and contributed 10.6 per cent of Hang Seng's total. Its performance was affected by the reduction in market volatility.

Others mainly comprised income from shareholders' funds, premises and investment properties, long-term equity investments and the partial release of the additional general provision set up in 1997. This line contributed 22.0 per cent of the total operating profit in 2000, an increase of 9.0 per cent over 1999.

CAPITAL AND LIQUIDITY MANAGEMENT

capital resources management

ANALYSIS OF CAPITAL BASE AND RISK-WEIGHTED ASSETS (HK\$M)	2000	1999
Capital base		
Tier 1 capital		
Share capital	9,559	9,559
Retained profits	18,455	17,489
Capital redemption reserve	99	99
Total	28,113	27,147
Tier 2 capital		
Premises and investment properties revaluation reserves	5,860	5,786
Long-term equity investment revaluation reserve	2,043	2,266
General loan provisions	1,437	1,440
Total	9,340	9,492
Unconsolidated investments and other deductions	(1,346)	(1,350)
Total capital base after deductions	36,107	35,289
Risk-weighted assets		
On-balance sheet	220,037	193,541
Off-balance sheet	13,982	9,783
Total risk-weighted assets	234,019	203,324
Total risk-weighted assets adjusted for market risk	235,453	204,141
Capital adequacy ratios		
After adjusting for market risk		
Tier 1	11.9%	13.3%
Total	15.3%	17.3%
Before adjusting for market risk		
Tier 1	12.0%	13.4%
Total	15.4%	17.4%

Capital adequacy is measured by the ratio of capital base to risk-weighted assets. The total capital ratio was 15.3 per cent at 31 December 2000, compared with 17.3 per cent at 31 December 1999. The tier 1 capital ratio was 11.9 per cent (13.3 per cent at 31 December 1999). The capital base recorded a moderate growth of 2.3 per cent. Risk-weighted assets adjusted for market risk, on the other hand, grew by 15.3 per cent, mainly attributable to the growth in advances to customers, interbank assets and debt securities.