

## CHAIRMAN'S STATEMENT

In the light of the slowing Hong Kong economy, Hang Seng Bank's performance in the first half of 2001 was respectable. Our prudent banking practices and strong customer focus served us well.

Attributable profit increased by 3.5 per cent to HK\$5,375 million compared with the first half of 2000. The return on average shareholders' funds was 24.4 per cent, compared with 24.2 per cent for the same period in 2000.

Given the Bank's strong fundamentals, the Directors have declared a first interim dividend of HK\$2.10 per share, compared with HK\$2.00 for the first half of 2000.

These results were achieved despite difficult market conditions. The slowing of the world's major economies was a setback for Hong Kong's economic growth. In the banking sector, loan demand remained weak, the money markets were highly liquid and margins were under pressure.

Between January 1999, when our Managing for Value strategy was implemented, and 30 June 2001, the Bank's total return for shareholders was 39 per cent. This was in line with the average return recorded by Hang Seng Index constituents. In absolute terms, total shareholder value increased by HK\$51.6 billion.

Economic profit – the difference between post-tax profit and the cost of invested capital – increased by HK\$128 million, or 4.2 per cent, compared with the first half of 2000.

Hang Seng's fundamental strengths of financial prudence, a strong customer franchise and efficient operations have won recognition. In March, the Bank was named the Strongest Bank in Asia by *Asiamoney* magazine, topping the rankings for Asian banks for the second successive year. In May, Fitch reaffirmed the Bank's Individual rating of A/B, the highest for banks in Hong Kong. In January, Standard & Poor's reaffirmed the Bank's Api credit rating.

### Operational Review

We are developing our large franchise and strengthening customer relationships by encouraging customers to look to us for all their banking needs. By offering good value one-stop solutions, we aim to gain a large share of their financial spending.

In anticipation of the final phase of interest rate deregulation in Hong Kong on 3 July, we put in place measures offering customers choice about the nature of their banking relationship with us while rewarding them for their total banking relationship with Hang Seng.

This accords with our role as a community bank serving more than one-third of the people of Hong Kong, while operating on commercial principles that recognise our responsibilities to shareholders.

In the first half of 2001, we made good progress in developing our major focus on wealth management and commercial banking. Our e-Banking services, which continued to grow quickly, have become a major channel for reaching out and cross-selling to our target customers. We also expanded further our operations in mainland China.

I am grateful to our hard-working staff for their contributions to the Bank's success. In addition to a pay increase in January 2001, which has raised salary expenses by 2 per cent, a performance-based variable bonus was paid in April.

Under another incentive programme, the total number of staff participating in the HSBC Group's two employee share plans increased by 1,539 to 6,636 in the first half of 2001.

The uncertain outlook for the US economy affects prospects for the second half of 2001. The business environment for banks remains difficult, marked by intense competition, high liquidity, subdued loan demand and narrowing margins.

As a financially strong bank, Hang Seng's continued focus on value-creating businesses and total customer relationships positions it well to meet the challenges ahead.

**David Eldon**

*Chairman*

Hong Kong, 6 August 2001