



We value customer relationships.

As their **banking partner**,  
we encourage customers to  
look to us for all their financial  
needs and offer **extra value** to those  
who use Hang Seng as their main banker.

*Although the operating environment of 2001 was unfavourable, Hang Seng Bank maintained the profitability of its core business. We increased our attributable profit by 1.0% to HK\$10,114 million, compared with 2000. Our return on average shareholders' funds improved to 23.0% from 22.7%.*

The banking industry experienced another difficult year in 2001. Despite 11 successive cuts in local interest rates, the Hong Kong economy continued its prolonged downturn.

Against this backdrop, net interest income remained flat. Other operating income grew by 10.4%, reflecting encouraging developments in our wealth management services. On the other hand, operating expenses increased, mainly due to a special contribution to the staff retirement benefit scheme and business investment in e-initiatives.

In view of the Bank's strong balance sheet, sound business fundamentals and commitment to shareholders, the Directors have declared a second interim dividend of HK\$2.80 per share, payable on 27 March 2002. This brings the total distribution for 2001 to HK\$4.90 per share, compared with HK\$4.80 per share for 2000. The total dividend payment for the year represents 93% of the attributable profit for 2001.

### Managing for Value

Our adoption of the Managing for Value strategy in January 1999 has sharpened our focus on higher-margin, value-creating businesses to provide attractive returns to shareholders. Our target is at least to double shareholder value in five years, as measured by the combination of share price appreciation and reinvested dividends.

From the start of 1999 until the end of 2001, the Bank achieved a total return of 52.4% for

shareholders, which was more than double the average return of 22.8% recorded by Hang Seng Index constituents.

Economic profit – the difference between post-tax profit and the cost of invested capital – increased marginally to HK\$5.56 billion. For the

### The Strongest in Asia

Hang Seng Bank topped *Asiamoney's* rankings for Asian banks for the second successive year when it was named **THE STRONGEST BANK IN ASIA**. The Bank's quality performance was also recognised when it was ranked No. 1 among Hong Kong companies in the Asia's Most Admired Companies Survey commissioned by *Asian Business*. In the REVIEW 200: Asia's Leading Companies survey by the *Far Eastern Economic Review*, the Bank was ranked the 3rd leading company in Hong Kong. The Bank also won a Customer Service Award from the Hong Kong Retail Management Association in the Hong Kong Awards for Services.

purposes of calculating economic profit, the cost of capital was estimated at 15.0%.

### Deepening Customer Relationships

In 2001, Hang Seng Bank made greater efforts to consolidate and expand relationships with its large pool of customers, who make up more than one-third of Hong Kong's population.

This Annual Report, which features the theme *Deepening Customer Relationships*, describes how the Bank is strengthening segmentation to serve customers better, gain additional customers and increase its share of their financial spending. New products and services are being launched to satisfy customer needs, to protect and grow their assets.

The final phase of interest rate deregulation in Hong Kong on 3 July 2001 had minimal impact on Hang Seng but provided instead an opportunity to reinforce our focus on deepening customer

relationships. We have put in place measures that encourage customers to consolidate their account relationships with us and reward customers who use Hang Seng as their main banker.

Our strong customer focus is also reflected by our comprehensive one-stop financial solutions, convenient multi-channel delivery network and superior service. It is key to building shareholder wealth and maintaining market leadership.

## The Year Ahead

The Hong Kong economy is expected to remain subdued in the first half of 2002, with climbing unemployment, persistent deflation and weak investment. The outlook for the second half largely depends on the prospect of a recovery in the United States.

In the banking sector, intense competition, high liquidity, sluggish credit demand and narrowing margins will remain challenges.

In meeting these challenges, Hang Seng will continue to build on its strong customer franchise by launching innovative financial services, thus diversifying income streams. We shall continue to focus on wealth management services, thus increasing relationship building and our share of wallet. We shall continue to expand e-Banking services, thus reaching out to more customers and facilitating product cross-selling.

In our commercial banking business, we shall further enhance services to small and medium-sized businesses, a cornerstone of Hong Kong's economy. In mainland China, we shall take advantage of the vast opportunities offered by the financial liberalisation following its World Trade Organization entry.

In all our businesses, we shall be guided by our core principles of prudent operations, strict cost discipline and service excellence.

## Acknowledgements

We take pride in what our staff at every level achieved in 2001 and thank them for their

dedication and team approach.

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

In 2001, based on merit and demonstrated performance, a pay increase in January 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.

On 5 December, a Bank security guard, Mr Khan Zafar Iqbal, aged 31, was killed during an armed robbery at the Belvedere Garden Branch in Tsuen Wan. The Bank has been deeply saddened by his death and will remember his selfless bravery.

The Bank owes much to its supportive Board of Directors and thanks them for their wise counsel. Dr H C Lee has given notice that he will resign as a Director as from the conclusion of the annual general meeting in April. Dr Lee has served on the Board since 1986 and rendered distinguished service as Chairman of the Audit Committee from 1992 to 2000. We wish him well and are most grateful for his valuable contributions.

As a premier financial services provider, Hang Seng is well-positioned to ride out the current economic downturn. Our strong focus on building long-term customer relationships and growing higher-margin businesses will increase our ability to compete successfully in the market and create value for shareholders.



**David Eldon**

*Chairman*

Hong Kong, 4 March 2002





With our extensive range of **wealth management** solutions, our customers can protect and grow their assets to fulfil their **financial aspirations.**