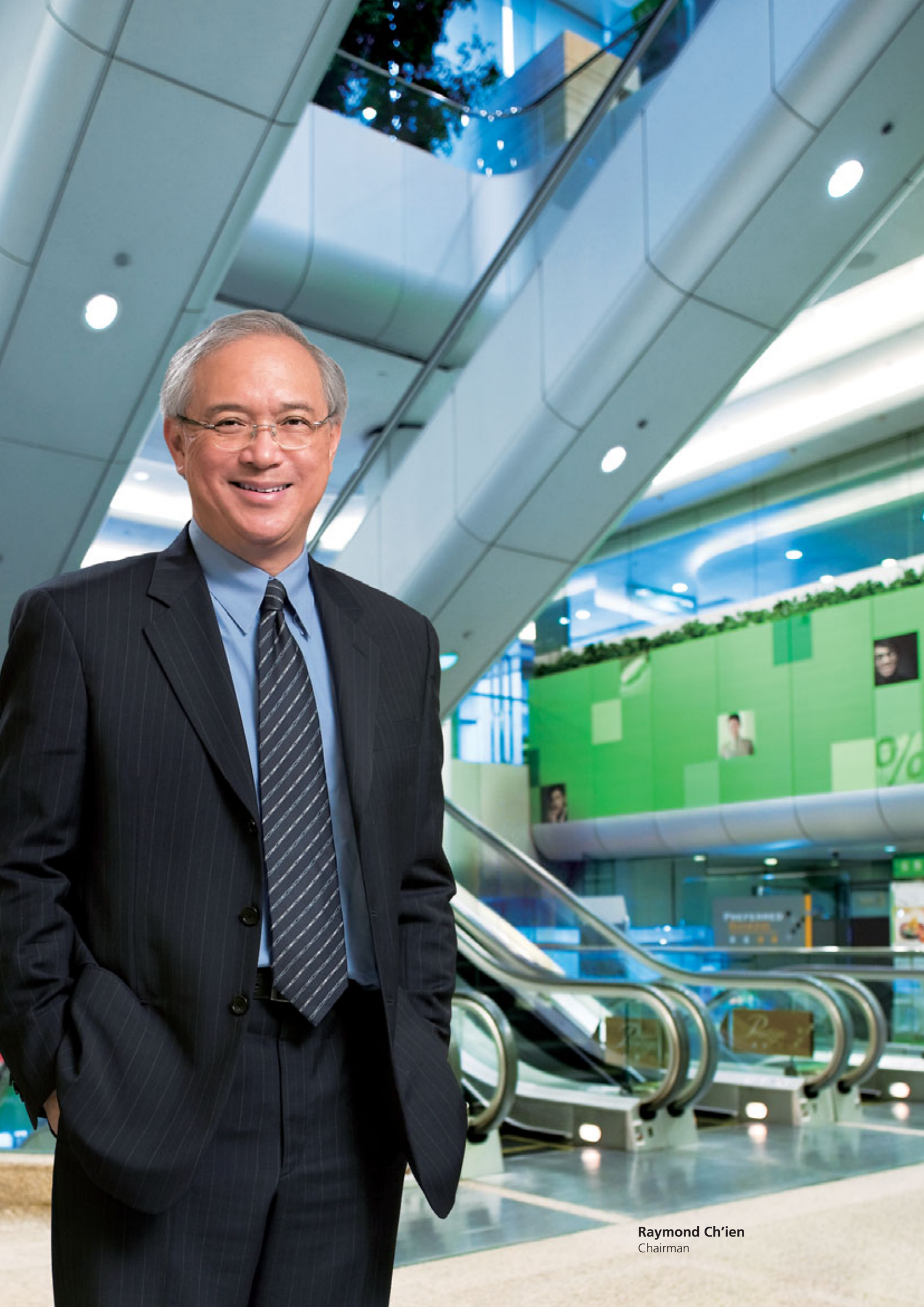


Bank On
Our Strength



Our sound financial fundamentals,
trusted brand and culture of
Service excellence
help drive our business forward



Raymond Ch'ien
Chairman

CHAIRMAN'S STATEMENT

Hang Seng recorded good results in the first half of 2008, but the deepening of the global financial crisis posed significant challenges during the second half, leading to a 16 per cent drop in attributable profit for the full year after excluding the dilution gain recorded in 2007 on our strategic investment in Industrial Bank.

Net interest income for the year rose by 10.3 per cent on the back of higher margins on Treasury's balance sheet management portfolio as well as steady growth in average customer advances and improved loan spreads. However, this was outweighed by the decline in non-interest income, particularly net fee income which fell by 27.8 per cent with reduced customer appetite for investments.

Wealth management income grew during the first six months of the year, but declined sharply in the volatile market conditions of the second half. Encouraging broad-based growth in Commercial Banking income and a strong rise in Treasury earnings were offset by higher loan impairment charges and other credit risk provisions.

We continued to expand the capabilities and reach of our mainland China operations, leading to rises in customer base and total operating income, but investment in business development, currency revaluation losses and increased loan impairment charges resulted in a drop in profit before tax. We recorded increased returns on our investment in Mainland associate Industrial Bank.

Operating profit excluding loan impairment charges and other credit risk provisions fell by 10.1 per cent to HK\$16,501 million. Operating profit was down 22.8 per cent at HK\$13,725 million, reflecting the 381.9 per cent increase in loan impairment charges and other credit risk provisions to HK\$2,776 million.

Attributable profit for 2008 was HK\$14,099 million, a drop of 22.7 per cent. Earnings per share were down 22.7 per cent at HK\$7.37.

Net operating income before loan impairment charges and other credit risk provisions fell by HK\$1,719 million, or 6.9 per cent. Operating expenses rose by 2.2 per cent, due to investment in our Mainland business. Excluding Mainland operations, tighter cost control and lower performance-related payments saw operating expenses fall by 2.7 per cent. Our cost efficiency ratio was 29.2 per cent.

Profit before tax fell by 26 per cent to HK\$15,878 million. Excluding the 2007 dilution gain, profit before tax was down 20.6 per cent.

As at 31 December 2008, our capital adequacy ratio and core capital ratio were 12.5 per cent and 9.5 per cent respectively, as calculated in accordance with the 'foundation internal ratings-based approach' under Basel II.

Return on average shareholders' funds was 26 per cent, compared with 35.4 per cent (32.6 per cent excluding the dilution gain) a year earlier. Return on average total assets was 1.9 per cent, down 0.7 percentage points.

The Directors have declared a fourth interim dividend of HK\$3 per share, payable on 31 March 2009. This brings the total distribution for 2008 to HK\$6.30 per share, the same as in 2007.

OUTLOOK

In the worsening global financial crisis, many major economies are experiencing sharp downturns.

Declining exports and a slowdown in consumer spending has led to quarter-on-quarter economic contraction in Hong Kong since the second quarter of 2008 and unemployment is on an upward trend.

With major markets in recession, export demand will continue to fall over the short to medium term. Domestic demand is also likely to further weaken, although this should be moderated by government-led fiscal stimulus initiatives such as investment in infrastructure and other supportive measures.

Hang Seng is a well-capitalised bank with solid fundamentals and a thoughtful approach to business that provides a strong anchor in the current financial storm.

We will focus on leveraging our competitive advantages, including our well-respected brand, strong customer relationships and comprehensive portfolio of products and services.

We have established a Risk Management Committee to oversee all of the Bank's risks.

Our leading market position relies in large part on the professionalism and dedication of our people. I wish to

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thank staff at all levels for their continuing commitment to providing world-class service. Our long-standing emphasis on working together – both internally and in trusted relationships with customers and business partners – will remain a key element of our strength.

Mr Raymond Or will retire from his position as Vice-Chairman and Chief Executive of Hang Seng following the Bank's Annual General Meeting (AGM) on 6 May 2009. On behalf of the Board, I would like to thank him for his outstanding contributions. His strong leadership has been instrumental in enhancing Hang Seng's status as a world-class bank. We also owe him our gratitude for strengthening the Bank's position in the industry in terms of customer service, branding and corporate responsibility. We wish him all the best for his retirement.

Mr Or's position will be taken up by Mrs Margaret Leung, who is currently Group General Manager and Global Co-Head Commercial Banking for the HSBC Group.

Mrs Leung will be appointed a non-executive Director of the Bank with effect from 1 April 2009. The Board extends a warm welcome to Mrs Leung, who will benefit Hang Seng with her broad range of valuable banking experience and great leadership skills.

Independent non-executive Directors Dr Cheng Yu Tung and Dr David Wai Kin Sin have stated that they will step down

from the Hang Seng Board following the AGM in May to devote more time to their own businesses. We thank them for their valuable counsel, which has helped support the long-term growth of the Bank.

The year ahead will bring new tests. We will continue to focus on the business values that have been central to Hang Seng's success since its establishment in 1933 – including financial prudence, service excellence and lasting partnerships. Such values have helped us build a trusted brand and grow from a local money changer to one of the 30 largest listed banks in the world in terms of market capitalisation.

In facing the challenges that lie ahead, our stakeholders can bank on us to uphold our core principles and stay focused on our objectives. We will work with determination, integrity and diligence to attain long-term growth.



Raymond Ch'ien

Chairman

Hong Kong, 2 March 2009