RAYMOND CH'IEN
Chairman

Chairman's Statement

> " The effects of the global financial crisis continued to dominate operating conditions in 2009. "

In the unstable economic environment, we remained focused on our long-term growth objectives, taking steps to support both personal and commercial customers while better aligning our business for future expansion.

We promoted economic recovery through active involvement in Hong Kong Government-led lending schemes for small and medium-sized enterprises and by facilitating trade with a wide range of cross-border renminbi services.

Capitalising on our strong wealth management capabilities, we developed investment and insurance solutions that provided greater financial peace of mind in uncertain markets.

We leveraged our trusted brand and time-to-market advantage to maintain momentum in core areas of business, serve the diverse needs and interests of investors, and lay the groundwork for future development in new markets.

Our efforts have earned us the continuing loyalty of existing customers and are helping us build bridges to new ones, which will prove important business drivers as the economy returns to a firmer footing.

We remain committed to enhancing shareholder value through careful risk management and cost control while investing in our operations to promote sustainable growth over the long term.

FINANCIAL PERFORMANCE

Operating profit excluding loan impairment charges and other credit risk provisions was down 14.3 per cent at HK$14,136 million. Operating profit declined by 2.9 per cent to HK$13,324 million, with good credit risk management and improving economic conditions in the second half leading to a significant drop in loan impairment charges and other credit risk provisions.

Profit before tax fell by 2.5 per cent to HK$15,477 million.

Profit attributable to shareholders was down 6.2 per cent at HK$13,221 million. Earnings per share were HK$6.92 – a drop of 6.1 per cent compared with a year earlier.

Lower staff-related expenses and further emphasis on cost containment resulted in a 1.8 per cent reduction in operating expenses to HK$6,676 million. However, net operating income before loan impairment charges and other credit risk provisions was down 10.7 per cent at

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HK$20,812 million, due mainly to the adverse impact of low interest rates on deposit spreads and mortgage portfolio pricing. With the reduction in operating expenses outpaced by the drop in income, our cost efficiency ratio rose to 32.1 per cent.

Return on average shareholders' funds was 24.6 per cent, compared with 26 per cent in 2008. Return on average total assets was down 0.2 percentage points at 1.7 per cent.

On 31 December 2009, our capital adequacy and core capital ratios were 15.8 per cent and 12.8 per cent respectively, as calculated using the 'advanced internal ratings-based approach' under Basel II, compared with 12.5 per cent and 9.5 per cent respectively as calculated using the 'foundation internal ratings-based approach' under Basel II at the end of 2008. The strengthening of these ratios in 2009 largely reflects profit growth after accounting for dividends during the year, the improvement in the available-for-sale debt securities reserve due to the narrowing of credit spreads, and the change in calculation methodology.

After careful consideration of our capital needs for future business opportunities, particularly in mainland China, as well as additional capital requirements under potential changes in the regulatory environment, the Directors have declared a fourth interim dividend of HK$1.90 per share, payable on 31 March 2010. This brings the total distribution for 2009 to HK$5.20 per share.

In the second half of last year, we appointed three new Directors to the Board. In August, Mrs Dorothy Sit, Vice-Chairman and Chief Executive of Hang Seng Bank (China) Limited, was appointed as a Non-executive Director, and Mr William Leung – formerly General Manager, Personal Financial Services and Wealth Management – was appointed as an Executive Director and Head of Personal Banking. In September, Mr Iain Mackay, Chief Financial Officer of The Hongkong and Shanghai Banking Corporation Limited, was appointed as a Non-executive Director.

I would like to take this opportunity to thank our stakeholders for their continued faith in Hang Seng during a period of financial market turmoil that has affected economies, businesses and individuals across the world.

To our customers and local communities: Your loyalty and support in the challenging economic conditions have energised and inspired us in our efforts to achieve ever-higher standards of service excellence. We are proud to be a trusted partner in meeting your financial goals and wealth management needs.

To our staff: Your dedication and professionalism have been crucial in reinforcing the integrity of the Hang Seng brand, which has proved a vital source of strength in an increasingly competitive operating environment.

To our shareholders: Your strong support of Hang Seng underlines our confidence that we have a good strategy for moving our business forward and offering increasing value over the long term.

OUTLOOK

Following the implementation of unprecedented monetary and fiscal stimulus programmes by many of the world's leading economies, we are starting to see tentative signs of broad-based recovery.

Hong Kong's key economic indicators have begun to improve, with the domestic sector taking the lead. Exports registered a year-on-year increase in November 2009 after 12 consecutive months of contraction. However, the pace of expansion in many major economies will be modest at best in 2010 with external demand remaining subdued. A sustained upturn in external sector activity will be crucial in getting Hong Kong's outward-facing economy back on a solid growth track.

Supported by the Central Government's RMB4 trillion package of economic stimulus initiatives, domestic demand has driven continued growth on the Mainland – albeit at a more moderate pace than pre-crisis levels. The relatively loose monetary and fiscal policies in place during 2009 have led to surging asset prices and concerns about overheating. But with economic recovery still in its infancy, the government will likely continue to fine-tune current policies rather than make dramatic changes that may undermine growth.

Against this backdrop, we are cautiously optimistic for 2010. The global recovery will bring new and renewed business opportunities. At the same time, challenges remain. The low interest rates that are likely to persist until at least the second half of this year and keen competition in the financial sector will continue to put pressure on margins.

We will use our competitive strengths – including our widely respected brand, customer service excellence and efficient business model – to deepen relationships, reinforce our strong market position and take good advantage of new avenues of business development in support of our core income drivers.

Backed by our sound strategy and solid financial fundamentals, we will move ahead with our vision for long-term growth to the benefit of our shareholders, customers and staff.

Raymond K.F. Ch'ien

Raymond Ch'ien
Chairman
Hong Kong, 1 March 2010