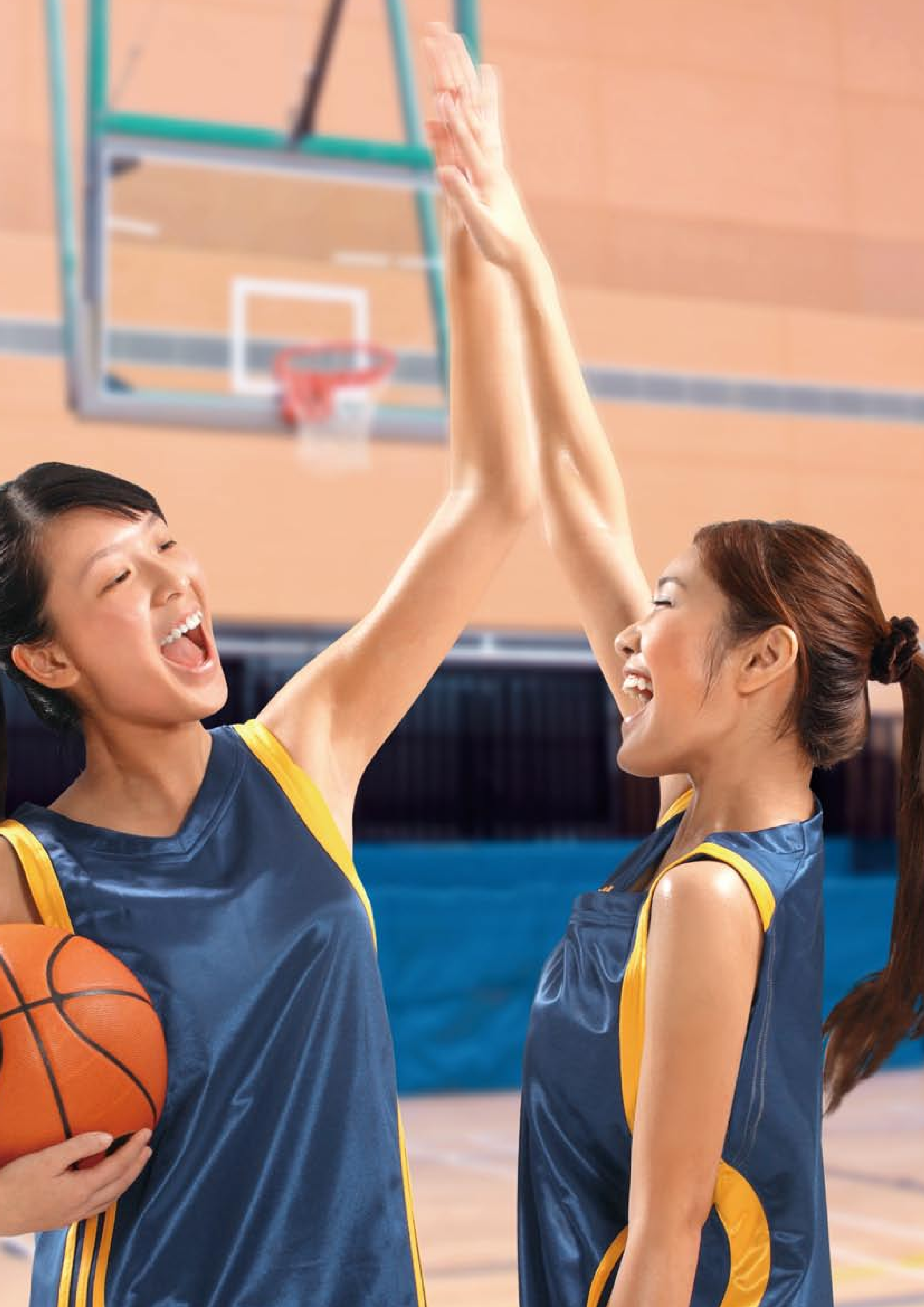
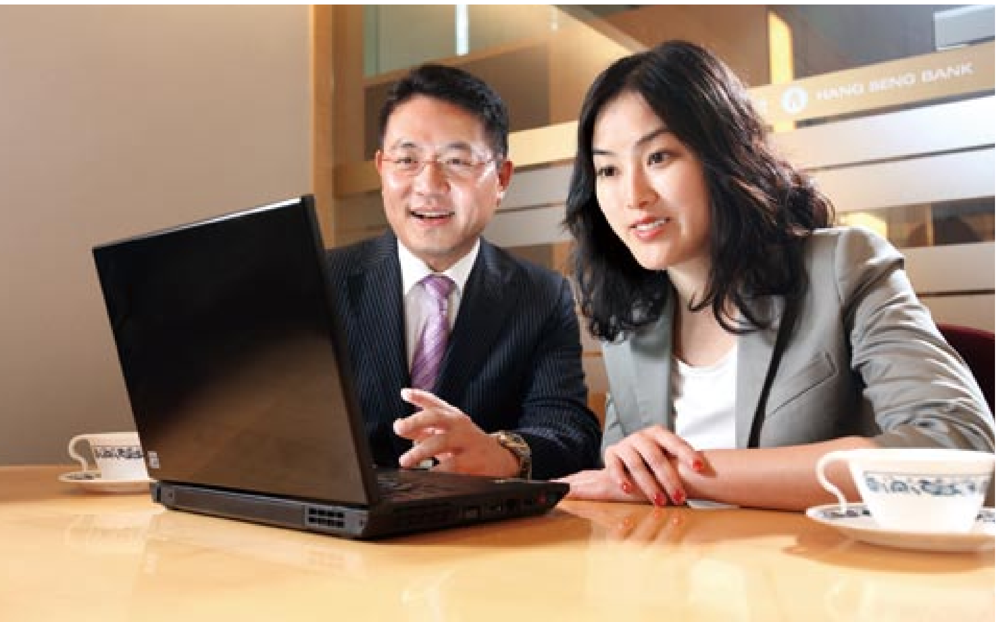
In rapidly
changing markets,
we Think Ahead
to anticipate
customer needs



Developments in Hang Seng's Hong Kong business in 2009 reflect our commitment to promoting the long-term growth of our core revenue drivers against a backdrop of difficult operating conditions.

We used our strong relationship management capabilities and comprehensive credit risk assessment system to identify good opportunities to expand our personal and commercial lending portfolios, resulting in a 4.7 per cent increase in gross advances to customers to HK$346.6 billion.

At 31 December 2009, customer deposits, including certificates of deposit and other debt securities, were up 9.8 per cent compared with a year earlier at HK$663.7 billion. Time deposits fell by 35.8 per cent while savings and current account deposits recorded growth of 48.4 per cent. Reduced customer appetite for investment-related products resulted in a 25.4 per cent decline in structured deposits and a 59.4 per cent drop in certificates of deposit and other debt securities.



PERSONAL FINANCIAL SERVICES

Personal Financial Services recorded a 13.7 per cent drop in profit before tax to HK$7,258 million. Operating profit excluding loan impairment charges was down 11.9 per cent at HK$7,457 million.

Personal Financial Services' profit before tax and operating profit excluding loan impairment charges for the second half of 2009 rose by 9.3 per cent and 8.4 per cent respectively compared with the first half.

Net interest income declined by 5.8 per cent compared with a year earlier to HK$8,195 million. Customer deposits grew by 7.4 per cent, but narrowing interest margins saw related net interest income drop by 34.7 per cent. To offset the effects of the downward pressure on deposit spreads, we deployed the commercial surplus into the prudent expansion of lending, resulting in a 7.1 per cent increase in advances to customers and a 13.7 per cent rise in related net interest income. Net interest income in the second half of the year was up 4.1 per cent compared with the first half.

Our diverse portfolio of product and service offerings and fast response to emerging market trends helped sustain wealth management business to record income for the year of HK$4,672 million – down 2.4 per cent compared with 2008. Revenue from wealth management in the second half of 2009 was up 14.7 per cent compared with the first half, despite the implementation of new regulations requiring the physical segregation of investment and banking services.

Investment Services

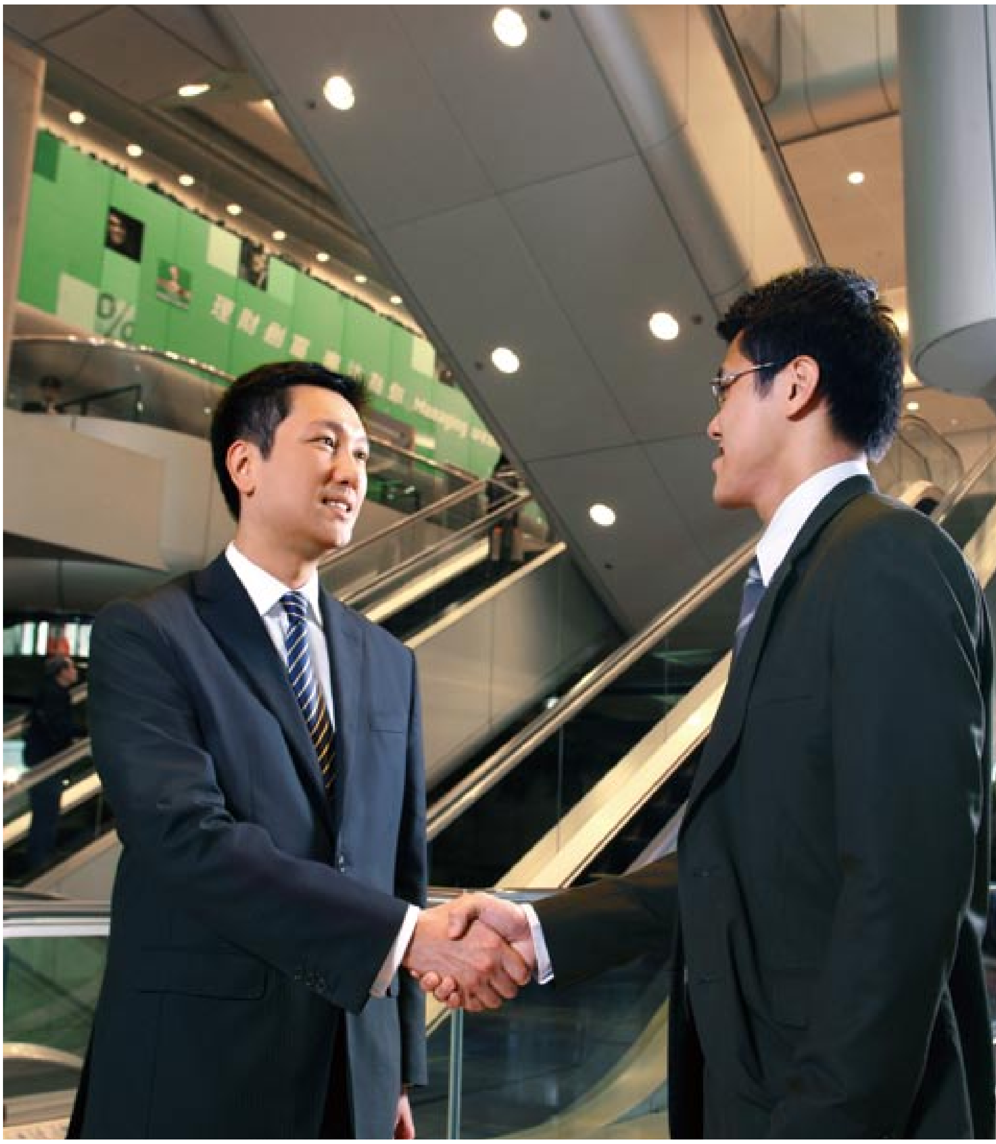
The effects of the global financial crisis dampened customer appetite for investment services in 2009.

Against the backdrop of continuing economic uncertainty in the first half, we assisted customers by focusing on capital-protected and other defensive investment products with relatively short tenors. Investor education initiatives and additional value-added services helped customers with their investment decisions and reinforced our reputation for Hong Kong and mainland China investment services expertise.

As market conditions began to stabilise, we made effective use of dedicated service channels and our time-to-market strength to achieve a 36.8 per cent rise in investment services revenue in the second half of the year compared with the first half, with broad-based improvement in investment-related income streams.

Our Securities Select Customer Trading Centre and IPO investment finance offers helped customers capitalise on the recovery in the stock market. We grew the number of securities accounts by 1.1 per cent and increased our securities trading market share. Securities turnover, which hit a 22-month high in November 2009, recorded a year-on-year rise of 25.7 per cent.

We enjoyed a good customer response to new Hang Seng-branded investment funds. Leveraging the relative resilience of the Mainland economy, we launched two new funds



We made effective use of dedicated service channels and our time-to-market strength

with China themes: the Hang Seng Mainland and Hong Kong Corporate Bond Fund in April and the Hang Seng China 50 Index Fund in September. A good customer response to the China 50 Index Fund helped support a 15-month high in monthly investment funds sales in September. Along with the Hang Seng Global Financial Sector Bond Fund launched in August, sales of the China 50 Index Fund also drove increases of 236.1 per cent and 74.7 per cent in investment fund sales turnover and revenue respectively in the second half compared to the first half.

We expanded the features of our online margin trading services and foreign exchange-linked products to meet customer demand for yield enhancement opportunities in the low interest rate environment. Turnover of foreign exchange-linked investment deposits more than tripled compared with 2008 to exceed HK$130 billion.

In August, we became the first Hong Kong financial institution to achieve a dual listing of exchange-traded funds (ETFs) – the Hang Seng Index ETF and the Hang Seng H-Share Index ETF – in Taiwan. This development allows Taiwanese investors to directly invest in Hang Seng ETFs available in the Hong Kong market, increasing our profile in Taiwan and opening up a new avenue of future business.

In August, we became the first Hong Kong financial institution to achieve a dual listing of exchange-traded funds in Taiwan

Other moves to expand our visibility in overseas markets include the distribution of the Hang Seng Islamic China Index Fund in several countries in the Middle East.

With subdued levels of investor activity, Private Banking focused on strengthening its relationship management team and enhancing investment services support with the aim of taking good advantage of medium and long-term business opportunities. These efforts were recognised with a Best Local Private Bank – Hong Kong award in the peer-determined 2010 Private Banking Awards organised by *Euromoney*.

Overall, investment income dropped by 23.2 per cent for 2009. The 15.2 per cent growth in revenue from stockbroking and related services was more than offset by reduced income from investment funds and structured investment products, which fell by 49.1 per cent and 57.1 per cent respectively. Private Banking service fee income dropped by 38.9 per cent.

PERSONAL FINANCIAL SERVICES STOCKBROKING AND RELATED SERVICES INCOME

+15.2%

Insurance Services

With customers shifting their focus to more traditional and protection-based life insurance, we enhanced existing products and launched new ones to offer coverage for a diverse range of situations at all life stages.

Competition in the life insurance sector increased during the second half of the year. We implemented a series of promotional campaigns, leveraged our expanded product portfolio and emphasised our good needs-based analysis capabilities that help customers attain highly personalised insurance solutions.

Medical coverage targeting younger customer segments included a Refundable Cancer Protection Plan, launched in July, that offers a 100 per cent premium refund at policy maturity.

With an increased proportion of new business coming from protection products, we achieved a more balanced insurance portfolio mix, providing a broader platform for future business growth.

Total policies in-force rose by 10.1 per cent in 2009 and annualised premiums increased by 14.7 per cent to HK$13.7 billion.

Life insurance income was up 46.8 per cent at HK$1,934 million, due mainly to our effective management of the life insurance funds investment portfolio, as well as the increase in net interest income arising from the growth in the portfolio and asset reallocation.

Consumer Lending

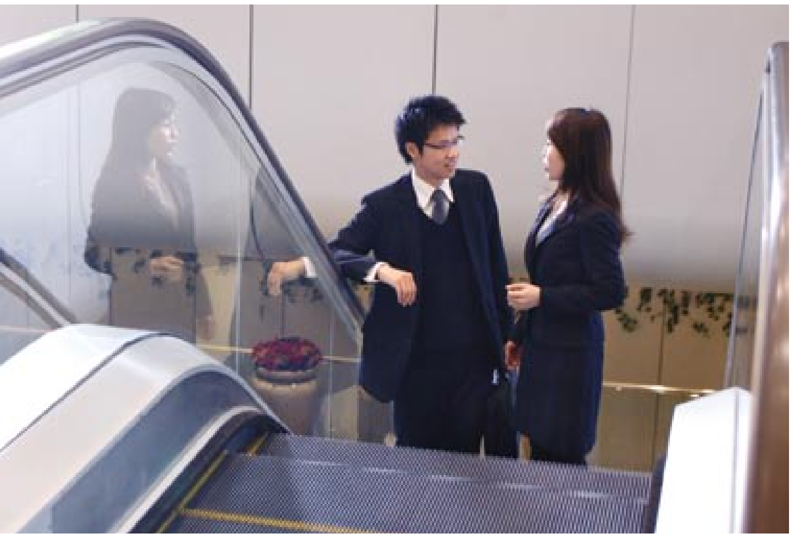
At 31 December 2009, lending to individuals was up 7.1 per cent compared with a year earlier, driven mainly by residential mortgage lending and good growth in our credit card business. Excluding the fall in Government Home Ownership Scheme (GHOS) mortgages, lending to individuals rose by 9.3 per cent.

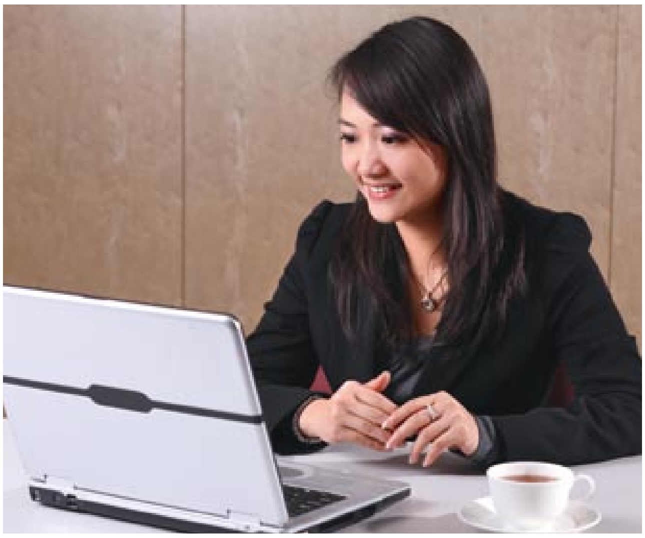
PERSONAL FINANCIAL SERVICES LIFE INSURANCE INCOME

+46.8%

Customer acquisition and card utilisation campaigns underpinned the 6.5 per cent expansion of our credit card base to 1.85 million cards in use and we increased our market share. Card receivables and spending rose by 7.6 per cent and 9.1 per cent respectively.

Personal loans grew by 9.3 per cent year-on-year, with the total loan balance reaching HK$3.6 billion.





With low interest rates, the property market was highly active during 2009, but competition for residential mortgage business remained keen. In August, we added to our stable of mortgage loan offerings with the launch of a switchable HIBOR mortgage. Along with our convenient e-Mortgage channel, our diverse range of mortgage loan products helped us retain a strong position in this competitive sector and achieve an impressive 11.7 per cent increase in residential mortgage lending to individuals (excluding GHOS mortgages). Our market share at 2009 year-end was 15.1 per cent.

Loan impairment charges rose by 30.8 per cent compared with 2008, but good management of customer relationships and improvements in unemployment and bankruptcy trends saw credit quality improve towards the end of the year, with loan impairment charges down by 34.3 per cent in the second half compared to the first half.

We continued to assist SMEs in Hong Kong through our participation in government-guaranteed lending schemes

COMMERCIAL BANKING

Operating profit excluding loan impairment charges fell by 15.5 per cent to HK$1,989 million, due mainly to a drop in net interest income. Profit before tax was up 6.8 per cent at HK$2,637 million, reflecting the 67.4 per cent reduction in loan impairment charges compared with 2008.

We continued to assist small and medium-sized enterprises in Hong Kong through our participation in government-guaranteed lending schemes, under which we have now approved over 5,000 applications with loans totalling more than HK$14.2 billion. Facilities granted under these schemes helped drive a 12.1 per cent rise in advances to customers.

Despite the slowdown in import-export trade, we maintained steady trade finance business, which grew by 3.3 per cent. We expanded our network of credit insurers – strengthening our factoring capabilities and creating a good foundation for business growth as market conditions improve.

With increasing competition amongst lenders towards the end of 2009, we emphasised customer support services and response times over price in competing for business. In April, our reputation as a preferred business partner for commercial customers was underlined with our fourth consecutive SME's Best Partner award from the Hong Kong Chamber of Small and Medium Business.

At 31 December 2009, advances to customers were up 12.1 per cent compared with the previous year-end. Along with improved loan spreads, this growth underpinned the 15.4 per cent increase in net interest income from lending.

The establishment of a dedicated deposit service team drove a 26 per cent increase in deposits, but this only partly offset the effects of narrowing deposit spreads, with related net interest income falling by 47.7 per cent.

Overall, net interest income was HK$2,011 million – down 16.6 per cent.

In the face of growing competition for lending business and shrinking deposit margins, we took further steps to diversify our revenue base and develop streams of non-interest income.

Strong customer relationships and an enhanced product portfolio sustained corporate wealth management business flows, with income down a modest 1.8 per cent despite weak investment sentiment.

We offered customers insurance coverage against potential disruptions to their business operations. Lower-risk investment products provided yield-enhancement opportunities against the backdrop of low deposit interest rates.

Our Executive Retention Insurance Plan launched in late 2009 helps companies retain high-value employees by enhancing their compensation and benefits packages.

We emphasised customer support services and response times over price in competing for business

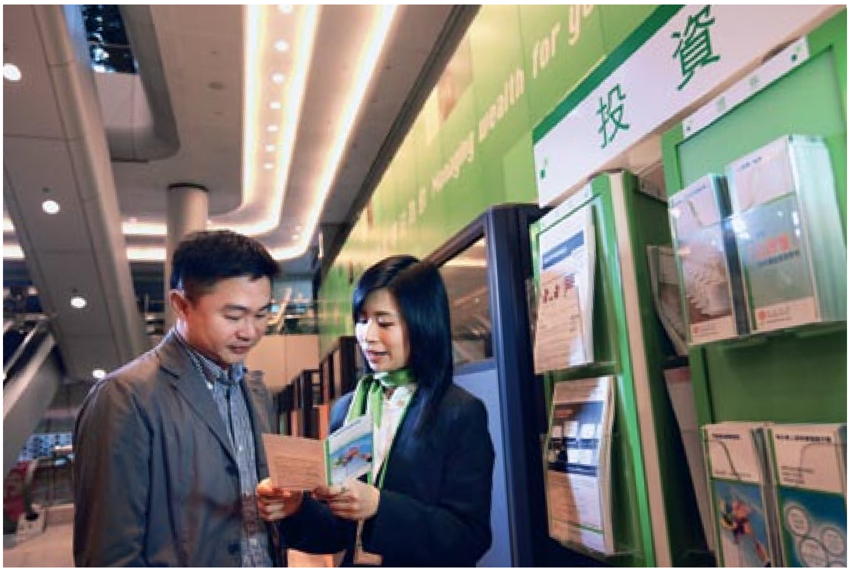
In July, we launched a number of cross-border renminbi services

Strong sales of a key-person insurance product underpinned the 103.1 per cent increase in corporate life insurance income and drove a significant improvement in the penetration rate for insurance among commercial customers. We will continue to expand key-person and other employee-related insurance and investment offerings for commercial and corporate customers.

We placed our investment sales focus on capital-protected and lower-risk enhanced-yield deposits, achieving record sales turnover in foreign exchange-linked deposits. Riding on the improving outlook of investors in the second half, we stepped up promotion of investment funds and securities trading services as well as treasury hedging solutions. Investment income for the year was down 23.9 per cent, but the second half showed a 47.4 per cent improvement compared with the first half.

In July, we launched a number of cross-border renminbi services following the Central Government's announcement of a pilot cross-border renminbi trade settlement scheme in five Mainland cities. Towards the end of the year, we signed an agreement with China Export and Credit Insurance Corporation that strengthens our ability to offer one-stop buyer credit protection and accounts receivable finance solutions.

Along with good business synergy between Hang Seng Commercial Banking teams in Hong Kong and on the Mainland and new business relationships with strategic Mainland partners, our enhanced trade settlement capabilities put us in a better position to capture an increasing share of cross-border business flows.



CORPORATE BANKING

Corporate Banking achieved a 20.1 per cent increase in operating profit excluding loan impairment charges to HK$979 million.

Net operating income before loan impairment charges was up 15.3 per cent at HK$1,311 million – due mainly to the 17.2 per cent growth in net interest income.

Net interest income from advances grew by 41.5 per cent. At 31 December 2009, Corporate Banking's loan balance was down 5.6 per cent compared with a year earlier, reflecting weaker investment appetite and stronger financial discipline by corporate customers during the international financial crisis. We used our in-depth understanding of local markets and balance sheet strength to provide companies facing a challenging economic environment with loans at risk-adjusted rates of return. Our continuing support further enhanced customer loyalty – enabling us to maintain good loan asset portfolios during the second half of the year as conditions for lenders became more competitive.

Customer preference for liquidity saw current and savings account deposits grow by 56.1 per cent, but time deposits drop by 40.8 per cent, resulting in a 9.4 per cent decline in total deposits and a 36.4 per cent fall in related net interest income.

COMMERCIAL BANKING CORPORATE LIFE INSURANCE INCOME

+103.1%

We leveraged our strong customer relationships to open more customer investment accounts, providing a good springboard for the future growth of corporate wealth management business in support of greater income diversification.

The improved loan assets portfolio helped drive a 61.2 per cent reduction in loan impairment charges, underpinning a 46.7 per cent rise in operating profit to HK$901 million. Profit before tax was up 41.9 per cent at HK$915 million.

TREASURY

Treasury's operating profit excluding credit risk provisions declined by 3.9 per cent to HK$2,918 million.

Net interest income fell by 19.4 per cent to HK$2,162 million. Low interest rates and ample liquidity in the market kept the cost of funds down but also limited yields on new deployments of funds and balance sheet management portfolio investments.

We maintained a prudent approach to risk management, enhancing the portfolio mix by investing in high-quality debt securities – particularly government-guaranteed papers and corporate securities from quality issuers – that offer relatively low credit risk but reasonable yields. As market conditions changed, we took advantage of appropriate opportunities to dispose of certain negotiable instruments. While these disposals were in line with our risk management strategy, the resulting HK$152 million disposal loss partly offset growth in net operating income.

Net trading income grew by 64.4 per cent to HK$1,054 million, due mainly to a HK$462 million net increase in funding swap income.

We took further steps to enhance the infrastructure that supports Treasury's customer-driven business with the aim of strengthening product development capabilities, service delivery and sales synergy with other customer groups. With reduced investor appetite for equity and interest rate-linked products, we focused on enhancing and promoting foreign exchange-linked investments.

The improved credit quality of the balance sheet management portfolio resulted in a HK$1,373 million reduction in credit risk provisions compared with 2008. This underpinned the 66.8 per cent increase in net operating income after credit risk provisions to HK$3,184 million. Treasury's profit before tax increased by 48.9 per cent to HK$3,393 million.

TECHNOLOGY

We remain committed to investing in technology to provide customers with fast, convenient and secure access to financial services.

We moved forward with plans for expanding our network of self-service banking facilities in high-traffic locations. New touch-screen technology and streamlined transaction processes on our ATM terminals helped shorten waiting times for customers. Additions to our range of Internet and mobile phone-based services and a series of promotional campaigns and attractive pricing offers encouraged migration to online and automated channels.

We continued to take a lead in leveraging the Internet to provide convenient and environmentally friendly services – including e-Priority booking for Bank-sponsored concerts and a secure e-Token top-up service under our Green Banking account – to increase our appeal among young people.

We remain committed to investing in technology to provide customers with fast, convenient and secure access to financial services

At the end of 2009, the number of Personal e-Banking customers had reached over 980,000

In December 2009, 79.9 per cent of customer transactions were completed using self-service and automated channels.

Our growing range of Personal e-Banking investment services helped customers take advantage of opportunities for yield enhancement in rapidly changing market conditions. We expanded the types of commodities accounts and investment deposit services available online. In October, we launched an Internet-based renminbi bond IPO service to capitalise on a growing area of investor interest.

With increasing emphasis on timely access to financial information and services, we rolled out an improved version of our website designed specifically for the strategically important mobile phone platform. The popularity of our new mobile phone-based travel insurance application service Mobile Travelsure – the first such service in Hong Kong – helped drive a 23 per cent increase in the value of gross written insurance premiums generated through e-channels compared with 2008. Personal e-Banking's total online transaction revenue rose by 21 per cent.

At the end of 2009, the number of Personal e-Banking customers had reached over 980,000 – up 12.8 per cent compared with a year earlier. Customers continued to support our environmental efforts, with a 54.5 per cent increase in the number of accounts enrolled in the e-Statement service to reach over 330,000 by year-end.

Hang Seng Indexes' experience and expertise was recognised with a Best Local Provider of Indexes in Asia award

We continued to enhance our Business e-Banking proposition, including the launch of online investment fund trading services towards the end of the year. At 31 December 2009, the number of Business e-Banking customers was up 19 per cent compared with a year earlier at more than 77,000. The number of transactions completed via Business e-Banking increased by 13.3 per cent compared with 2008.

HANG SENG INDEXES

Wholly owned subsidiary Hang Seng Indexes Company Limited (Hang Seng Indexes) expanded its services in 2009 with the launch of new indexes to support continuing strong interest in China and further assist investors in monitoring the performance of various market sectors.

Hang Seng Indexes now compiles 96 publicly available indexes – 47 real-time price indexes and 49 daily indexes – of which 40 track the Mainland segment of the market. In addition to its publicly available indexes, Hang Seng Indexes also compiles customised indexes to serve the specific indexing needs of various clients.

A new data licensing agreement signed with the Shenzhen Stock Exchange in September complemented a similar arrangement made with the Shanghai Stock Exchange in 2007 to expand Hang Seng Indexes' coverage to include all listed companies in mainland China. The launch of the Hang Seng China A Industry Top Index – Hang Seng Indexes' first index to focus solely on A share companies – followed this development. The Hang Seng China A Industry Top Index reflects the performances of Mainland-listed industry leaders in each of the 11 industries under the Hang Seng Industry Classification System, selecting a maximum of five companies from each industry based on market capitalisation and fundamental factors including revenues and net profits.

In October, Hang Seng Indexes' experience and expertise in Hong Kong and Mainland markets was recognised with a Best Local Provider of Indexes in Asia award at *AsianInvestor's* 2009 Service Providers Awards.

In November, Hang Seng Indexes marked the 40th anniversary of the public launch of the Hang Seng Index (HSI) and unveiled plans to revamp the Hang Seng Family of Indexes. Effective 8 March 2010, overlapping indexes in the index family will be discontinued and new indexes will be introduced to meet investor needs. The indexes will be re-grouped into four categories – Flagship Indexes, Benchmark Indexes, Thematic Indexes and Strategy Indexes – and also by the geography of their constituents – Hong Kong, cross-market and Mainland. Index methodologies of the Benchmark and Thematic Indexes will be enhanced to better reflect market trends.

In 2009, the Hang Seng Mainland 25 Index and the HSI Short Index were used as the underlying indexes for ETFs for the first time. Including ETFs that track the HSI and the Hang Seng China Enterprises Index, the total assets under management of the eight ETFs listed in different regions that track indexes compiled by Hang Seng Indexes was more than HK$93 billion in 2009 – up 55 per cent compared with the previous year.

E-STATEMENT SERVICE USERS

+54.5%