TAKING THE LEAD

DETERMINATION

2010 Asian Games –
Cycling, Silver Medal

Jamie Wong

Raymond Ch'ien
Chairman

Our focus on strengthening Hang Seng's platform for long-term growth produced solid results in 2010.

TAKING THE LEAD

DISTINCTIVE VISION

As the global economic recovery progressed, we took steps to maintain our leading position in traditional areas of banking and capitalise on new business opportunities, achieving increases in both net interest and non-interest revenue streams. The success of our approach saw income growth in the second half of the year outpace that in the first half despite increasingly competitive operating conditions.

As economic confidence returned, we used our time-to-market strength to capture the shift in investment sentiment, driving good growth in both personal and corporate wealth management business.

We leveraged our strong balance sheet, excellent market knowledge and effective credit risk management system to expand lending portfolios, underpinning the rise in net interest income.

We continued to support local industry through active participation in government-sponsored lending schemes as well as efforts to enhance service access and delivery for SME customers.

Assisted by our comprehensive cross-border capabilities, our rapid response to the further opening up of renminbi banking in Hong Kong strengthened our status as a preferred partner for trade-related financial services.

Hang Seng Bank (China) Limited purchased headquarters premises in Shanghai and achieved increases in its customer and deposit bases, further improving its springboard for long-term business growth. We continued to collaborate with our strategic mainland China partners – Industrial Bank and Yantai Bank – to good effect. In the first half of the year, we took up our full entitlement under a rights share issue by Industrial Bank.

FINANCIAL PERFORMANCE

Operating profit excluding loan impairment charges and other credit risk provisions rose by 3% to HK$14,475m. Operating profit grew by 7% to HK$14,085m, with the stabilisation in economic conditions and our good management of credit risk driving a 52% improvement in loan impairment charges and other credit risk provisions to HK$390m.

Profit before tax was up 13% at HK$17,345m. Profit attributable to shareholders rose by 14% to HK$14,917m. Earnings per share were up 13.5% at HK$7.80.

We built good business momentum during the year to record increases of 11% in operating profit excluding loan impairment charges and 14% in attributable profit in the second half of the year compared with the first half.

Higher performance-related pay as well as more investment in marketing to support future growth saw operating expenses rise by 8% to HK$7,355m. Our cost efficiency ratio for 2010 was 33.7%.

Return on average shareholders' funds was 22.8%, compared with 22.9% in 2009. Return on average total assets was 1.7% – the same as a year earlier.

At 31 December 2010, our capital adequacy ratio was 13.6%, compared with 15.8% at the end of 2009. The decline mainly reflects our participation in Industrial Bank's rights issue and the rise in risk-weighted assets. Our core capital ratio was down 2 percentage points at 10.8%.

The Directors have declared a fourth interim dividend of HK$1.90 per share, payable on 30 March 2011. This brings the total distribution for 2010 to HK$5.20 per share.

Our strong stakeholder relationships are a vital element in our success as we work to contribute to and share in the long-term prosperity of the markets in which we operate.

I wish to express sincere appreciation to our customers and shareholders for continuing to place great confidence in Hang Seng. Your support provides encouragement that we have an excellent strategy for business growth, and inspiration for the development of new products and services. While global markets have staged a recovery from the international financial crisis in the past year, its effects will continue to reverberate. In good economic times and bad, we will work hard to provide the service and value that have become synonymous with the Hang Seng brand.

Our close partnerships with customers – old and new – are built and maintained by our dedicated and professional team. I wish to thank staff at all levels for their enthusiasm and commitment in executing our vision for service excellence and long-term growth. Their invaluable efforts will ensure we continue to strengthen our position as a leading provider of financial services in Greater China.

OUTLOOK

Large-scale fiscal and monetary stimulus initiatives launched in the wake of the international financial crisis supported a rebound in the global economy in 2010. However, the recovery has occurred on two distinct tracks, with fast growth in emerging economies but slower progress in advanced economies.

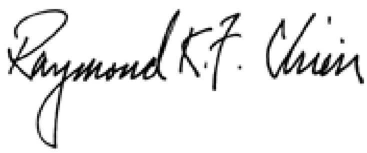
The resurgence in export activity and robust domestic consumption underpinned GDP growth in Hong Kong and on the Mainland, although the pace began to moderate in the second half of the year.

With many stimulus programmes now being phased out, challenges remain. The US Federal Reserve's announcement in November of another round of quantitative easing underlines the continuing fragility of the US economy, while many countries in Europe have instituted austerity measures as they attempt to restore fiscal discipline and address unprecedented levels of sovereign debt.

These developments may dampen export demand in 2011. In addition, the persistence of low interest rates and excess market liquidity in Hong Kong are fuelling concerns over inflation and asset price bubbles. However, unemployment remains low and overall market sentiment is upbeat. Along with the major boost to construction provided by several large government-led infrastructure projects, this should support domestic consumption, helping to cushion the effects of a slowdown in the external sector.

Despite recent measures to curb rising inflation and property prices on the Mainland, steady income growth and the government's efforts to promote private consumption through its 12th five-year plan should sustain strong domestic demand, which will be the primary driver of GDP growth in the short term.

In uncertain market conditions, our competitive strengths will ensure we maintain our leadership in areas such as mortgages, credit cards and commercial lending. We will use our trusted brand, time-to-market capabilities and extensive range of service delivery channels to capture new business opportunities. We will also continue to build on the good progress we have made in strongly positioning ourselves to achieve sustainable growth.



Raymond Ch'ien
Chairman
Hong Kong, 28 February 2011