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Securities and Exchange Commission
Office of International Corporate Finance
450 5th Street, NW
Washington, DC 20549
U S A

4 August 2003

Attention: Ms Janette M Aalbregtse



SUPPL

Dear Sirs

AMERICAN DEPOSITARY RECEIPTS

We are pleased to enclose for your reference and records a copy of the 2003 Interim Results Announcement of the Bank which was released today.

Yours faithfully

K W Ma
Assistant General Manager
and Company Secretary

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HANG SENG BANK LIMITED 2003 INTERIM RESULTS - HIGHLIGHTS

- Operating profit before provisions up 3.8 per cent to HK\$6,073 million (HK\$5,849 million for the first half of 2002)
- Operating profit up 0.9 per cent to HK\$5,617 million (HK\$5,568 million for the first half of 2002)
- Pre-tax profit down 0.8 per cent to HK\$5,928 million (HK\$5,978 million for the first half of 2002)
- Attributable profit down 3.8 per cent to HK\$5,022 million (HK\$5,223 million for the first half of 2002)
- Return on average shareholders' funds of 24.4 per cent (24.1 per cent for the first half of 2002)
- Total assets up 1.6 per cent to HK\$482.3 billion (HK\$474.7 billion at 31 December 2002)
- Earnings per share down 3.7 per cent to HK\$2.63 (HK\$2.73 per share for the first half of 2002)
- First interim dividend per share maintained at HK\$2.10 (HK\$2.10 per share for the first half of 2002)
- Total capital ratio of 14.0 per cent (14.2 per cent at 31 December 2002); tier 1 capital ratio of 12.3 per cent (11.9 per cent at 31 December 2002)
- Cost:income ratio of 23.1 per cent (23.7 per cent for the first half of 2002)

Note: Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

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HANG SENG BANK ATTRIBUTABLE PROFIT DOWN 3.8 PER CENT TO HK\$5,022 MILLION

Hang Seng Bank Limited (the Bank) and its subsidiary and associated companies (Hang Seng) reported an unaudited **profit attributable to shareholders** of HK\$5,022 million for the first half of 2003, a decrease of 3.8 per cent compared with the first half of 2002 but an increase of 6.9 per cent compared with the second half of 2002. **Earnings per share** of HK\$2.63 were 3.7 per cent lower than the first half of 2002.

Operating profit before provisions rose by HK\$224 million, or 3.8 per cent, to HK\$6,073 million, attributable to the encouraging 20.9 per cent growth in other operating income, which outweighed the fall of 4.3 per cent in net interest income. **Operating profit** grew by 0.9 per cent to HK\$5,617 million, after taking into account the net charge for bad and doubtful debts which rose by 62.3 per cent to HK\$456 million. **Profit before tax** amounted to HK\$5,928 million, which was HK\$50 million, or 0.8 per cent, lower than the first half of 2002. This was affected by the deficit on property revaluation following an interim property revaluation exercise and lower profits from associated companies. The taxation charge was HK\$91 million, or 12.1 per cent, higher, mainly due to the increase in the Hong Kong profits tax rate from 16.0 per cent to 17.5 per cent. Compared with the second half of 2002, **operating profit before provisions** and **profit before tax** increased by 12.3 per cent and 12.6 per cent respectively.

Total assets were HK\$7.6 billion, or 1.6 per cent, higher at HK\$482.3 billion, compared with HK\$474.7 billion at 31 December 2002. Advances to customers recorded a modest growth of 0.7 per cent during the first half of 2003, mainly in corporate lending and trade advances, while mortgages under the Government Home Ownership Scheme (GHOS) continued to fall. Customer deposits increased by 1.3 per cent from the end of 2002, with a further shift of time deposits to savings reflecting customers' preference for liquidity in the low interest rate environment. Investment in debt securities also rose, with funds re-deployed from lower yielding interbank placings.

Shareholders' funds (excluding proposed dividends) declined by HK\$61 million, or 0.2 per cent, to HK\$36,715 million at 30 June 2003. This was the net result of the increase in retained profits, and the reductions in the long-term equity investment revaluation reserve due to the disposal of long-term equities and property revaluation reserves following the interim property revaluation exercise.

The **return on average total assets** was 2.1 per cent (2.2 per cent for the first half of 2002). The **return on average shareholders' funds** was 24.4 per cent, compared with 24.1 per cent in the first half of 2002 and 21.9 per cent in the second half of 2002.

The **advances to deposits ratio** fell to 54.0 per cent at 30 June 2003 compared with 54.3 per cent at 31 December 2002, the effect of a faster pace of growth in customer deposits than customer advances during the first half of 2003. Hang Seng continued to maintain a strong liquidity position, with the **average liquidity ratio** for the first half of 2003 (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) at 45.0 per cent (43.4 per cent for the first half of 2002).

The **total capital ratio** at 30 June 2003 was 14.0 per cent (14.2 per cent at 31 December 2002) and the tier 1 capital ratio was 12.3 per cent (11.9 per cent at 31 December 2002).

The **cost:income ratio** fell by 60 basis points to 23.1 per cent, compared with 23.7 per cent for the first half of 2002.

Note: Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

The Directors have declared a **first interim dividend** of HK\$2.10 per share (HK\$2.10 per share for the first half of 2002), which will be payable on Thursday, 4 September 2003 to shareholders on the Register of Shareholders as of Wednesday, 27 August 2003. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

Acknowledging the increasing importance of dividend flows to our shareholders, the Board has decided to move to a programme of quarterly dividends, starting in January 2004. Further details will be announced in due course.

Comment by David Eldon, Chairman

“Despite the effects of the SARS outbreak and sluggish economy in the first half of 2003, Hang Seng achieved a creditable growth in operating profit of 0.9 per cent to HK\$5,617 million, reflecting the resilience of the Bank’s core business. Attributable profit, however, fell by 3.8 per cent to HK\$5,022 million due to a higher rate of profits tax and a further decline in the value of properties held.

“The Hong Kong economy will remain difficult in the second half of 2003. Growth in major export markets continues to slacken, while domestically demand remains sluggish, unemployment high and asset prices weak. The banking sector will continue to face the challenges of subdued loan demand and narrowing margins.

“Hang Seng will continue to build on its financial strength, clear customer focus and operating efficiency to create value for shareholders and customers. In particular, we will strengthen support to commercial customers in the Pearl River Delta.”

The financial information in this press release is based on the unaudited consolidated accounts of Hang Seng Bank Limited and its subsidiary and associated companies for the six months ended 30 June 2003.

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	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002 restated[†]</i>	<i>Half-year ended 31 December 2002 restated[†]</i>
<i>Figures in HK\$m</i>			
Interest income	6,662	7,617	7,343
Interest expense	<u>(1,442)</u>	<u>(2,164)</u>	<u>(1,991)</u>
Net interest income	5,220	5,453	5,352
Other operating income	<u>2,674</u>	<u>2,212</u>	<u>2,070</u>
Operating income	7,894	7,665	7,422
Operating expenses	<u>(1,821)</u>	<u>(1,816)</u>	<u>(2,016)</u>
Operating profit before provisions	6,073	5,849	5,406
Provisions for bad and doubtful debts	<u>(456)</u>	<u>(281)</u>	<u>(290)</u>
Operating profit	5,617	5,568	5,116
Profit on tangible fixed assets and long-term investments	341	343	118
Net deficit on property revaluation	(48)	—	(36)
Share of profits of associated companies	18	67	66
Profit on ordinary activities before tax	<u>5,928</u>	<u>5,978</u>	<u>5,264</u>
Tax on profit on ordinary activities	<u>(846)</u>	<u>(755)</u>	<u>(552)</u>
Profit on ordinary activities after tax	5,082	5,223	4,712
Minority interests	<u>(60)</u>	<u>—</u>	<u>(15)</u>
Profit attributable to shareholders	5,022	5,223	4,697
Retained profits at beginning of period			
- as previously reported	19,440	19,499	20,756
- arising on change in accounting policies	—	254	249
- as restated	19,440	19,753	21,005
Transfer of depreciation to premises revaluation reserve	35	40	39
Realisation on disposal of premises and investment properties	23	2	7
Exchange adjustments	(1)	2	1
Proposed dividends	<u>(4,015)</u>	<u>(4,015)</u>	<u>(6,309)</u>
Retained profits at end of period	<u>20,504</u>	<u>21,005</u>	<u>19,440</u>

Figures in HK\$

Earnings per share	2.63	2.73	2.46
Dividends per share	2.10	2.10	3.30

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

	At 30 June 2003	At 30 June 2002 <i>restated</i> [†]	At 31 December 2002 <i>restated</i> [†]
<i>Figures in HK\$m</i>			
Assets			
Cash and short-term funds	67,309	88,438	77,784
Placings with banks maturing after one month	27,738	42,192	30,919
Certificates of deposit	29,625	26,822	30,120
Securities held for dealing purposes	1,047	1,209	1,198
Advances to customers	226,171	225,746	224,562
Amounts due from immediate holding company and fellow subsidiary companies	7,596	10,425	7,471
Long-term investments	99,077	54,918	79,169
Investments in associated companies	675	1,051	672
Tangible fixed assets	9,555	11,237	10,439
Other assets	13,515	8,640	12,320
	<u>482,308</u>	<u>470,678</u>	<u>474,654</u>
Liabilities			
Current, savings and other deposit accounts	419,083	408,295	413,693
Deposits from banks	2,359	2,287	1,072
Amounts due to immediate holding company and fellow subsidiary companies	757	1,896	1,615
Other liabilities	18,850	14,584	14,745
	<u>441,049</u>	<u>427,062</u>	<u>431,125</u>
Capital resources			
Minority interests	529	—	444
Share capital	9,559	9,559	9,559
Reserves	27,156	30,042	27,217
Proposed dividends	4,015	4,015	6,309
Shareholders' funds	40,730	43,616	43,085
	<u>41,259</u>	<u>43,616</u>	<u>43,529</u>
	<u>482,308</u>	<u>470,678</u>	<u>474,654</u>

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002 restated[†]</i>	<i>At 31 December 2002 restated[†]</i>
Shareholders' funds at beginning of period	43,085	44,391	43,616
Unrealised deficit on revaluation of premises	(432)	—	(409)
Deferred tax adjustment on revaluation of premises arising from adoption of HKSSAP 12	17	8	86
Unrealised deficit on revaluation of investment properties			
- Bank and subsidiary companies	(288)	—	(270)
- associated company	—	—	(13)
Long-term equity investment revaluation reserve			
- unrealised deficit on revaluation	(48)	(395)	(474)
- realisation on disposal	(320)	(277)	(146)
Deferred tax adjustment on revaluation of long-term equity investment arising from adoption of HKSSAP 12	4	17	12
Exchange adjustments	(1)	2	1
Net losses recognised in shareholders' funds for the period	(1,068)	(645)	(1,213)
Profit attributable to shareholders for the period	5,022	5,223	4,697
Dividends paid	(6,309)	(5,353)	(4,015)
Shareholders' funds at end of period	<u>40,730</u>	<u>43,616</u>	<u>43,085</u>

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

Economic profit is calculated from profit after tax, adjusted for non-cash items, and takes into account the cost of capital invested by Hang Seng's shareholders. For the first half of 2003, the return on invested capital was HK\$5,110 million, or 33.2 per cent. The economic profit of HK\$2,802 million represented a return of 18.2 per cent to shareholders in excess of the 15.0 per cent benchmark cost of capital invested by shareholders. The benchmark cost of capital was, in management's view, above the true cost of capital under the current low interest rate environment and was applied to ensure consistency with earlier periods. The trend of economic profits in the analysis indicates that Hang Seng continues to create value for its shareholders.

	<i>Half-year ended</i> 30 June 2003		<i>Half-year ended</i> 30 June 2002 <i>restated</i> [†]		<i>Half-year ended</i> 31 December 2002 <i>restated</i> [†]	
	<i>HK\$m</i>	%	<i>HK\$m</i>	%	<i>HK\$m</i>	%
Average invested capital	<u>31,067</u>		<u>31,513</u>		<u>32,372</u>	
Return on invested capital ^{††}	<u>5,110</u>	<u>33.2</u>	<u>5,268</u>	<u>33.7</u>	<u>4,775</u>	<u>29.3</u>
Cost of capital	<u>(2,308)</u>	<u>(15.0)</u>	<u>(2,341)</u>	<u>(15.0)</u>	<u>(2,444)</u>	<u>(15.0)</u>
Economic profit	<u>2,802</u>	<u>18.2</u>	<u>2,927</u>	<u>18.7</u>	<u>2,331</u>	<u>14.3</u>

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

^{††} Return on invested capital represents profit after tax adjusted for non-cash items.

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002 restated[†]</i>
Net cash inflow/(outflow) from operating activities	10,113	(8,896)
Cash flows from investing activities		
Net cash outflow from investment in an associated company	—	(35)
Purchase of long-term investments	(58,294)	(38,148)
Proceeds from sale or redemption of long-term investments	41,874	27,324
Purchase of tangible fixed assets	(84)	(92)
Proceeds from sale of tangible fixed assets	36	2
Dividends received from an associated company	12	21
Interest received from long-term investments	1,249	937
Dividend received from long-term investments	37	46
Net cash outflow from investing activities	(15,170)	(9,945)
Cash flows from financing activities		
Dividends paid	(6,309)	(5,353)
Cash outflow from financing activities	(6,309)	(5,353)
Decrease in cash and cash equivalents	(11,366)	(24,194)
Cash and cash equivalents at beginning of period	76,817	111,206
Effect of foreign exchange rate changes	1,729	2,500
Cash and cash equivalents at end of period	<u>67,180</u>	<u>89,512</u>

Note: The presentation of the consolidated cash flow statements has been regrouped to comply with the Hong Kong Statement of Standard Accounting Practice 15 (HKSSAP 15) on 'Cash Flow Statement'. The comparative figures have been reclassified to conform with the current period's presentation. For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with banks maturing within one month, and treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition.

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

Net interest income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Net interest income	5,220	5,453	5,352
Average interest-earning assets	437,045	442,284	437,229
Net interest spread	2.33%	2.38%	2.33%
Net interest margin	2.41%	2.49%	2.43%

Net interest income decreased by HK\$233 million, or 4.3 per cent, compared with the first half of 2002. Average interest-earning assets fell by HK\$5.2 billion, or 1.2 per cent. Net interest margin narrowed by 8 basis points to 2.41 per cent with a reduction in net interest spread of 5 basis points to 2.33 per cent and a fall in contribution from net free funds of 3 basis points to 0.08 per cent.

Net interest income was affected by the fall in the average mortgage portfolio yield, contraction in the GHOS mortgages portfolio together with the narrowing of time deposit spread. The above factors resulted in a reduction of 9 basis points in the net interest spread. This was partly offset by the growth in savings and current accounts and the expansion of the fixed rate debt securities portfolio which continued to benefit from lower interest rates. The favourable impact on net interest spread was about 4 basis points. The contribution from net free funds was affected by further decline in market rates and fell by 3 basis points.

Compared with the second half of 2002, net interest income reduced by HK\$132 million, or 2.5 per cent, with a 2 basis point fall in net interest margin to 2.41 per cent. Net interest spread was maintained at the same level of 2.33 per cent. The contribution from net free funds decreased by 2 basis points to 0.08 per cent.

The average yield on the residential mortgage portfolio, excluding GHOS mortgages and staff loans, fell to 170 basis points below BLR for the first half of 2003, before accounting for the effect of cash incentive payments. This compared with 138 basis points and 160 basis points below BLR in the first and second halves of 2002 respectively. Cash incentive payments on new mortgage loans of HK\$45 million have been written off against interest income in the first half of 2003 compared with HK\$44 million and HK\$61 million in the first and second halves of 2002 respectively.

Other operating income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Dividend income			
- listed investments	35	44	38
- unlisted investments	2	9	8
	37	53	46
Fees and commissions			
- securities/stockbroking	124	130	114
- retail investment funds	685	472	228
- insurance	45	185	158
- account services	111	129	126
- remittance	63	62	66
- cards	258	292	306
- credit facilities	113	146	124
- import/export	105	99	118
- other	96	75	72
Fees and commissions receivable	1,600	1,590	1,312
Fees and commissions payable	(159)	(156)	(141)
	1,441	1,434	1,171
Dealing profits			
- foreign exchange	352	280	324
- securities and other trading activities	9	10	6
	361	290	330
Insurance underwriting	538	125	208
Rental income from investment properties	104	113	112
Other	193	197	203
	<u>2,674</u>	<u>2,212</u>	<u>2,070</u>

Other operating income recorded strong growth of HK\$462 million, or 20.9 per cent, and contributed 33.9 per cent of total operating income, compared with 28.9 per cent for the first half of 2002.

With a 48.8 per cent growth in sales of retail investment funds to HK\$22.6 billion, total income from the distribution and management of retail investment funds, including the popular Hang Seng Investment Series of capital guaranteed funds and index funds, rose by 45.1 per cent to HK\$685 million for the first half of 2003. Insurance fees and underwriting profit together grew by 88.1 per cent compared with the first half of 2002, reflecting rapid growth in individual life insurance premiums and the embedded value of the long-term insurance business. (The decrease in insurance fees and commissions and a corresponding increase in insurance underwriting profit was mainly due to the regrouping of commissions received from Hang Seng Life Limited (HSL) to underwriting profit after HSL became a subsidiary of the Bank in November 2002.)

Other operating income (continued)

Card services income decreased by 11.6 per cent, affected by the outbreak of SARS in the second quarter of 2003. At the end of June 2003, total cards in issue under the Hang Seng brand was maintained at 940,000.

Fee income from credit facilities fell while trade services income improved, benefiting from the improvement in external trade. Dealing profits recorded strong growth of 24.5 per cent, mainly in foreign exchange income.

Compared with the second half of 2002, other operating income grew by 29.2 per cent, benefiting from the substantial growth of 200.4 per cent in income from retail investment funds and the 59.3 per cent increase in income from insurance including fees and underwriting profit.

Analysis of income from wealth management business included in other operating income

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Investment income			
- retail investment funds	685	472	228
- securities/stockbroking	124	130	114
- margin trading/private banking	65	36	32
	<u>874</u>	<u>638</u>	<u>374</u>
Insurance income			
- life (Including embedded value) [†]	365	263	299
- general and others	158	117	140
	<u>523</u>	<u>380</u>	<u>439</u>
Total	<u>1,397</u>	<u>1,018</u>	<u>813</u>

[†] The embedded value and underwriting profit of HSSL for the first and second halves of 2002 which were reported as share of profits of associated companies instead of other operating income were re-grouped under this heading to conform with the current period presentation for the purpose of comparison in this analysis.

Income from wealth management comprising income from investment and insurance grew strongly by 37.2 per cent to HK\$1,397 million for the first half of 2003, representing 52.2 per cent of total other operating income.

Operating expenses

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Staff costs			
- salaries and other costs	908	915	952
- retirement benefit costs	91	98	94
	999	1,013	1,046
Depreciation	171	174	178
Premises and equipment			
- rental expenses	88	84	87
- other	280	282	359
	368	366	446
Other operating expenses	283	263	346
	<u>1,821</u>	<u>1,816</u>	<u>2,016</u>
Cost:income ratio	23.1%	23.7%	27.2%
Staff numbers (full-time equivalent)	7,174	7,321	7,279

Operating expenses increased marginally by HK\$5 million, or 0.3 per cent, to HK\$1,821 million compared with the same period last year. Staff costs decreased by HK\$14 million, or 1.4 per cent, attributable to the reduction of 147 staff members on a full-time equivalent basis. Premises and equipment expenses were maintained at the same level. Other operating expenses increased by HK\$20 million, or 7.6 per cent, mainly due to the increase in processing charges.

Compared with the second half of 2002, operating expenses fell by 9.7 per cent, with reductions in staff costs, IT expenditure under premises and equipment costs and marketing expenditure under other operating expenses.

The cost:income ratio for the first half of 2003 was 23.1 per cent, 60 basis points lower than the same period last year and 4.1 percentage points lower than the second half of 2002.

Provisions for bad and doubtful debts

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Net charge/(release) for bad and doubtful debts			
Advances to customers			
Specific provisions			
- new provisions	666	528	703
- releases	(182)	(222)	(63)
- recoveries	(22)	(25)	(20)
	<u>462</u>	<u>281</u>	<u>620</u>
General provisions	(6)	—	(330)
Net charge to profit and loss account	<u>456</u>	<u>281</u>	<u>290</u>

The net charge for bad and doubtful debts amounted to HK\$456 million, an increase of HK\$175 million, or 62.3 per cent, over the same period last year. New and additional specific provisions rose by HK\$138 million, or 26.1 per cent, to HK\$666 million, reflecting higher provisions on residential mortgages and credit card advances due to the rise in unemployment and personal bankruptcies and the fall in value of property collateral. Releases and recoveries were reduced by HK\$43 million, or 17.4 per cent, to HK\$204 million, reflecting the decrease in recoveries from residential mortgages and taxi loans. Following the semi-annual review of the general provisioning level at 30 June 2003, a small release of HK\$6 million was made.

Compared with the second half of 2002, the net charge for bad and doubtful debts rose by HK\$166 million, affected by the release of HK\$330 million in general provisions at the end of 2002. Specific provisions, however, decreased by HK\$158 million, or 25.5 per cent, to HK\$462 million. New and additional specific provisions decreased slightly, with the increase in provisions on residential mortgages more than offset by the reduction in credit card and corporate advances. Higher releases and recoveries were recorded, mainly from commercial banking customers.

Profit on tangible fixed assets and long-term investments

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2003</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Profit on disposal of long-term equity investments			
- realisation of amounts previously recognised in revaluation reserves at beginning of period	358	316	212
- loss arising in current period	<u>(38)</u>	<u>(39)</u>	<u>(66)</u>
	320	277	146
Profit less loss on disposal of held-to-maturity debt securities	40	75	(29)
Profit less loss on disposal of tangible fixed assets	7	—	1
Provision for impairment of long-term investments	<u>(26)</u>	<u>(9)</u>	<u>—</u>
	<u>341</u>	<u>343</u>	<u>118</u>

Profit on disposal of tangible fixed assets and long-term investments was maintained at the same level as the corresponding period last year. The increase in profits on disposal of listed equities was partly offset by the reduction in profits on the disposal of debt securities and the impairment loss provision made for listed equity investments.

Taxation

Taxation in the consolidated profit and loss account represents:

	<i>Half-year ended</i> 30 June 2003	<i>Half-year ended</i> 30 June 2002 <i>restated</i> [†]	<i>Half-year ended</i> 31 December 2002 <i>restated</i> [†]
<i>Figures in HK\$m</i>			
Current tax - provision for Hong Kong profits tax			
Tax for the period	839	777	524
Benefit of previously unrecognised tax losses	(3)	(7)	(7)
Over-provision in respect of prior years	—	(25)	(34)
	836	745	483
Current tax- taxation outside Hong Kong			
Tax for the period	<u>2</u>	<u>3</u>	<u>3</u>
	2	3	3
Deferred tax			
Origination and reversal of temporary differences	31	(3)	56
Effect of increase in tax rate on deferred tax balances	(9)	—	—
Benefit of previously unrecognised tax losses now recognised	(17)	—	—
	5	(3)	56
Share of associated companies' taxation	<u>3</u>	<u>10</u>	<u>10</u>
Total charge for taxation	<u>846</u>	<u>755</u>	<u>552</u>
Effective tax rate	<u>14.3%</u>	<u>12.6%</u>	<u>10.5%</u>

The current tax was provided for based on the estimated assessable profit for the first half of 2003 and, for the Bank and subsidiaries operating in the Hong Kong SAR, using the Hong Kong profits tax rate of 17.5 per cent (16.0 per cent for 2002). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the countries in which they operate are used. The effective tax rate for the first half of 2003 increased to 14.3 per cent from 12.6 per cent for the first half of 2002, mainly reflecting the 1.5 percentage points increase in the Hong Kong profits tax rate.

Following the adoption of the HKSSAP 12 which became effective on 1 January 2003, deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

Taxation (continued)

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. The carrying amount of deferred tax is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised.

The impact of the change in accounting policy on deferred tax following the adoption of the HKSSAP 12 in the current period profit and loss account and reserves and the related prior year adjustment are set out in Note 1 of additional information on page 49.

Earnings per share

The calculation of earnings per share for the first half of 2003 is based on earnings of HK\$5,022 million (HK\$5,223 million in the first half of 2002) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first half of 2002).

Dividends per share

	<i>Half-year ended 30 June 2003</i>		<i>Half-year ended 30 June 2002</i>		<i>Half-year ended 31 December 2002</i>	
	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>	<i>HK\$ per share</i>	<i>HK\$m</i>
First interim	2.10	4,015	2.10	4,015	—	—
Second interim	—	—	—	—	2.80	5,353
Special interim	—	—	—	—	0.50	956
	<u>2.10</u>	<u>4,015</u>	<u>2.10</u>	<u>4,015</u>	<u>3.30</u>	<u>6,309</u>

Cash and short-term funds

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Cash in hand and balances with banks and other financial institutions	3,544	3,873	3,518
Money at call and placings with banks maturing within one month	58,726	79,846	67,170
Treasury bills	5,039	4,719	7,096
	<u>67,309</u>	<u>88,438</u>	<u>77,784</u>
Remaining maturity of treasury bills:			
- within three months	3,720	3,520	5,777
- one year or less but over three months	1,319	1,199	1,319
	<u>5,039</u>	<u>4,719</u>	<u>7,096</u>

Placings with banks maturing after one month

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Remaining maturity:			
- three months or less but over one month	19,638	32,375	27,996
- one year or less but over three months	8,100	9,817	2,923
	<u>27,738</u>	<u>42,192</u>	<u>30,919</u>

Certificates of deposit

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Remaining maturity:			
- three months or less but not repayable on demand	2,952	3,242	1,772
- one year or less but over three months	5,915	5,542	7,312
- five years or less but over one year	20,758	17,937	21,036
- over five years	—	101	—
	<u>29,625</u>	<u>26,822</u>	<u>30,120</u>

Securities held for dealing purposes

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
Debt securities by remaining maturity:			
- three months or less but not repayable on demand	40	579	97
- one year or less but over three months	71	214	90
- five years or less but over one year	814	416	890
- over five years	119	—	121
	<u>1,044</u>	<u>1,209</u>	<u>1,198</u>
Equity shares	3	—	—
	<u>1,047</u>	<u>1,209</u>	<u>1,198</u>

Advances to customers

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
Gross advances to customers	228,840	228,893	227,475
Specific provisions	(1,568)	(1,710)	(1,805)
General provisions	(1,101)	(1,437)	(1,108)
	<u>226,171</u>	<u>225,746</u>	<u>224,562</u>
Remaining maturity:			
- repayable on demand	12,162	12,128	11,983
- three months or less but not repayable on demand	17,263	15,441	18,128
- one year or less but over three months	22,512	26,036	21,243
- five years or less but over one year	85,981	83,242	84,466
- over five years	82,189	84,628	84,273
- overdue for more than one month	3,062	1,452	1,301
- non-performing advances	5,671	5,966	6,081
Gross advances to customers	228,840	228,893	227,475
Provisions for bad and doubtful debts	(2,669)	(3,147)	(2,913)
	<u>226,171</u>	<u>225,746</u>	<u>224,562</u>
Included in advances to customers are:			
- trade bills	2,309	2,222	2,180
- provisions for bad and doubtful debts	(23)	(66)	(78)
	<u>2,286</u>	<u>2,156</u>	<u>2,102</u>

Advances to customers (after deduction of interest in suspense and provisions) recorded a modest growth of HK\$1,609 million, or 0.7 per cent, to HK\$226.2 billion at 30 June 2003, with loan demand remaining weak during the period.

Provisions against advances to customers

<i>Figures in HK\$m</i>	<u>Specific</u>	<u>General</u>	<u>Total</u>	<u>Suspended interest</u>
At 1 January 2003	1,805	1,108	2,913	404
Amounts written off	(721)	—	(721)	(93)
Recoveries of advances				
written off in previous years	22	—	22	—
Net charge/(release) to profit and loss account	462	(6)	456	—
Interest suspended during the period	—	—	—	77
Suspended interest recovered	—	—	—	(29)
Exchange adjustment	—	(1)	(1)	—
At 30 June 2003	<u>1,568</u>	<u>1,101</u>	<u>2,669</u>	<u>359</u>

Suspended interest comprises both suspended interest netted against 'Advances to customers' and suspended interest netted against accrued interest receivable in 'Prepayments and accrued income'.

Total provisions as a percentage of gross advances to customers are as follows:

	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
	%	%	%
Specific provisions	0.69	0.75	0.79
General provisions	0.48	0.63	0.49
Total provisions	<u>1.17</u>	<u>1.38</u>	<u>1.28</u>

Total provisions as a percentage of gross advances to customers fell to 1.17 per cent at 30 June 2003, compared with 1.28 per cent at the end of 2002. Specific provisions as a percentage of gross advances decreased by 10 basis points to 0.69 per cent. The reduction mainly reflected the writing-off of irrecoverable balances and the repayment and upgrading of rescheduled advances and doubtful accounts to performing status. General provisions stood at 0.48 per cent of gross advances to customers, compared with 0.49 per cent at the end of 2002.

Non-performing advances to customers and provisions

Non-performing advances to customers on which interest has been placed in suspense or on which interest has ceased to accrue are as follows:

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
Gross non-performing advances on which interest:			
- has been placed in suspense	5,567	5,622	5,767
- accrual has ceased	<u>182</u>	<u>479</u>	<u>429</u>
	5,749	6,101	6,196
Suspended interest	<u>(78)</u>	<u>(135)</u>	<u>(115)</u>
Gross non-performing advances [†] (page 24)	5,671	5,966	6,081
Specific provisions	<u>(1,568)</u>	<u>(1,710)</u>	<u>(1,805)</u>
Net non-performing advances	<u>4,103</u>	<u>4,256</u>	<u>4,276</u>
Specific provisions as a percentage of gross non-performing advances [†]	<u>27.6%</u>	<u>28.7%</u>	<u>29.7%</u>
Gross non-performing advances [†] as a percentage of gross advances to customers	<u>2.5%</u>	<u>2.6%</u>	<u>2.7%</u>

[†] Stated after deduction of interest in suspense.

Non-performing advances to customers are those advances where full repayment of principal or interest is considered unlikely and are so classified as soon as such a situation becomes apparent. Non-performing advances may include advances that are not yet overdue for more than three months but are considered doubtful. Except in certain limited circumstances, all advances on which principal or interest is overdue for more than three months are classified as non-performing. Specific provisions are made after taking into account the value of collateral held in respect of such advances.

Gross non-performing advances (after deduction of interest in suspense) fell by HK\$410 million, or 6.7 per cent, to HK\$5,671 million, compared with the end of 2002. The ratio of gross non-performing advances to gross advances to customers further improved to 2.5 per cent from 2.7 per cent at the end of 2002.

Overdue advances to customers

The amounts of advances to customers which are overdue for more than three months and their expression as a percentage of gross advances to customers are as follows:

	At 30 June 2003		At 30 June 2002		At 31 December 2002	
	HK\$m	%	HK\$m	%	HK\$m	%
Gross advances to customers [†] which have been overdue with respect to either principal or interest for periods of:						
- six months or less but over three months	1,196	0.5	823	0.3	934	0.4
- one year or less but over six months	1,098	0.5	1,321	0.6	1,097	0.5
- over one year	2,460	1.1	2,910	1.3	2,734	1.2
	<u>4,754</u>	<u>2.1</u>	<u>5,054</u>	<u>2.2</u>	<u>4,765</u>	<u>2.1</u>
Overdue advances to customers (as above)	4,754	2.1	5,054	2.2	4,765	2.1
Less: overdue advances on which interest is still being accrued	(1,305)	(0.6)	(691)	(0.3)	(1,131)	(0.5)
Add: advances overdue for periods of three months or less, or which are not yet overdue, and on which interest has been placed in suspense						
- included in rescheduled advances	1,843	0.8	321	0.1	1,814	0.8
- other	379	0.2	1,282	0.6	633	0.3
Gross non-performing advances (page 23)	<u>5,671</u>	<u>2.5</u>	<u>5,966</u>	<u>2.6</u>	<u>6,081</u>	<u>2.7</u>

[†] Stated after deduction of interest in suspense.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period-end. Advances repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at the period-end. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, or when the advances have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Rescheduled advances to customers

The amount of rescheduled advances and its expression as a percentage of gross advances to customers are as follows:

	<i>At 30 June</i> <i>2003</i>		<i>At 30 June</i> <i>2002</i>		<i>At 31 December</i> <i>2002</i>	
	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>	<i>HK\$m</i>	<i>%</i>
Rescheduled advances to customers [†]	<u>2,958</u>	<u>1.3</u>	<u>391</u>	<u>0.2</u>	<u>1,831</u>	<u>0.8</u>

[†] *Stated after deduction of interest in suspense.*

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower leading to an inability to meet the original repayment schedule.

Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over three months and are included in overdue advances to customers (page 24).

Rescheduled advances to customers increased by HK\$1,127 million, or 61.6 per cent, to HK\$2,958 million at 30 June 2003, representing 1.3 per cent of gross advances to customers. The increase was due to the debt restructuring of certain corporate customers.

Repossessed assets

In the recovery of non-performing advances, Hang Seng may take repossession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. Specific provisions have been made in respect of such non-performing advances taking into account the net realisable value of the related collateral which is revalued periodically. Upon repossession of the collateral assets, the advances are adjusted to the net realisable value of the repossessed assets, usually resulting in a partial write-off of the advances against specific provisions. Advances with repossessed collateral assets will continue to be accounted for as 'Advances to customers' and classified as non-performing.

	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Repossessed collateral assets	<u>603</u>	<u>679</u>	<u>638</u>

Segmental analysis of advances to customers by geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party located in an area which is different from that of the counterparty. At 30 June 2003, over 90 per cent of Hang Seng's advances to customers and the related non-performing advances and overdue advances were classified under the area of Hong Kong (unchanged from the positions at 30 June 2002 and 31 December 2002).

Gross advances to customers by industry sector

The analysis of gross advances to customers (after deduction of interest in suspense) by industry sector based on categories and definitions used by the Hong Kong Monetary Authority is as follows:

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Gross advances to customers for use in Hong Kong			
Industrial, commercial and financial sectors			
Property development	17,910	19,775	19,300
Property investment	33,268	29,952	31,507
Financial concerns	3,681	2,121	2,071
Stockbrokers	154	199	219
Wholesale and retail trade	4,097	3,755	3,941
Manufacturing	2,096	2,032	2,037
Transport and transport equipment	8,885	9,671	9,238
Other	20,158	19,129	19,521
	<u>90,249</u>	<u>86,634</u>	<u>87,834</u>
Individuals			
Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	32,840	36,752	35,050
Advances for the purchase of other residential properties	77,972	78,937	78,518
Credit card advances	5,186	5,419	5,578
Other	6,283	6,944	6,251
	<u>122,281</u>	<u>128,052</u>	<u>125,397</u>
Total gross advances for use in Hong Kong	<u>212,530</u>	<u>214,686</u>	<u>213,231</u>
Trade finance	11,029	10,002	9,751
Gross advances for use outside Hong Kong	5,281	4,205	4,493
Gross advances to customers	<u>228,840</u>	<u>228,893</u>	<u>227,475</u>

Lending to the industrial, commercial and financial sectors grew by HK\$2,415 million, or 2.7 per cent, since the end of 2002. The increase was mainly in lending to financial concerns which included public sector entities engaged in financing activities. Lending to the property sector also rose slightly.

Trade finance rose by HK\$1,278 million, or 13.1 per cent, benefiting from the improvement in external trade.

Advances to individuals decreased by HK\$3,116 million, or 2.5 per cent. Lending under the GHOS continued to decline following the suspension of the sale of new flats under this scheme since the second half of 2002. Residential mortgages and credit card advances also fell marginally, in part due to the outbreak of SARS in the second quarter of 2003.

Long-term investments

Figures in HK\$m	Carrying value		
	At 30 June 2003	At 30 June 2002	At 31 December 2002
Held-to-maturity debt securities			
Issued by public bodies			
- central governments and central banks	10,413	6,940	10,664
- other public sector entities	12,874	8,375	9,219
	<u>23,287</u>	<u>15,315</u>	<u>19,883</u>
Issued by other bodies			
- banks and other financial institutions	58,608	21,229	40,011
- corporate entities	15,368	15,428	16,960
	<u>73,976</u>	<u>36,657</u>	<u>56,971</u>
	<u>97,263</u>	<u>51,972</u>	<u>76,854</u>
Equity investments			
Issued by corporate entities	1,814	2,946	2,315
	<u>99,077</u>	<u>54,918</u>	<u>79,169</u>
Held-to-maturity debt securities			
- listed in Hong Kong	2,436	1,167	2,340
- listed outside Hong Kong	22,513	15,368	19,551
	<u>24,949</u>	<u>16,535</u>	<u>21,891</u>
- unlisted	72,314	35,437	54,963
	<u>97,263</u>	<u>51,972</u>	<u>76,854</u>
Equity investments			
- listed in Hong Kong	1,085	2,189	1,603
- listed outside Hong Kong	64	82	70
	<u>1,149</u>	<u>2,271</u>	<u>1,673</u>
- unlisted	665	675	642
	<u>1,814</u>	<u>2,946</u>	<u>2,315</u>
	<u>99,077</u>	<u>54,918</u>	<u>79,169</u>

Held-to-maturity debt securities are stated at cost, adjusted for the amortisation of premiums and accretion of discounts over the period from the date of purchase to the date of redemption. Equity investments are stated at fair value, less provision for impairment.

Investment in held-to-maturity debt securities rose by HK\$20,409 million, or 26.6 per cent, to HK\$97,263 million, with funds re-deployed from interbank placings to enhance net interest yield. Over 95 per cent of the held-to-maturity debt securities will mature within five years. The fair value of the held-to-maturity debt securities amounted to HK\$98.8 billion, with an unrealised gain of HK\$1.6 billion.

Long-term investments (continued)

The following table shows the fair value of held-to-maturity debt securities:

Figures in HK\$m	Fair value		
	At 30 June 2003	At 30 June 2002	At 31 December 2002
Held-to-maturity debt securities			
Issued by public bodies			
- central governments and central banks	10,673	7,055	10,924
- other public sector entities	13,465	8,649	9,645
	24,138	15,704	20,569
Issued by other bodies			
- banks and other financial institutions	59,018	21,278	40,213
- corporate entities	15,682	15,549	17,241
	74,700	36,827	57,454
	<u>98,838</u>	<u>52,531</u>	<u>78,023</u>
Held-to-maturity debt securities			
- listed in Hong Kong	2,515	1,182	2,403
- listed outside Hong Kong	22,800	15,494	19,777
	25,315	16,676	22,180
- unlisted	73,523	35,855	55,843
	<u>98,838</u>	<u>52,531</u>	<u>78,023</u>

Maturity analysis of held-to-maturity debt securities:

Figures in HK\$m	Carrying value		
	At 30 June 2003	At 30 June 2002	At 31 December 2002
Remaining maturity:			
- three months or less but not repayable on demand	7,959	7,532	14,875
- one year or less but over three months	12,580	10,667	8,911
- five years or less but over one year	72,966	31,481	50,807
- over five years	3,758	2,292	2,261
	<u>97,263</u>	<u>51,972</u>	<u>76,854</u>

Other assets

	At 30 June 2003	At 30 June 2002 <i>restated</i> [†]	At 31 December 2002 <i>restated</i> [†]
<i>Figures in HK\$m</i>			
Unrealised gains on off-balance sheet interest rate, exchange rate and other derivative contracts which are marked to market	1,117	876	981
Deferred taxation	55	106	73
Items in the course of collection from other banks	2,945	3,756	2,886
Prepayments and accrued income	2,403	2,040	2,143
Long-term assurance assets attributable to policy holders	3,763	—	2,897
Other accounts	3,232	1,862	3,340
	<u>13,515</u>	<u>8,640</u>	<u>12,320</u>
Remaining maturity:			
- three months or less	6,551	6,874	6,929
- one year or less but over three months	1,894	621	637
- five years or less but over one year	199	947	968
- over five years	4,826	162	3,745
	<u>13,470</u>	<u>8,604</u>	<u>12,279</u>
- overdue ^{††}			
-- six months or less but over three months	7	5	5
-- one year or less but over six months	9	7	9
-- over one year	29	24	27
	<u>45</u>	<u>36</u>	<u>41</u>
	<u>13,515</u>	<u>8,640</u>	<u>12,320</u>

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

^{††} Represented mainly by overdue interest receivable included under 'Prepayments and accrued income'.

Current, savings and other deposit accounts

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Customer deposit accounts			
- current accounts	38,854	32,548	36,242
- savings accounts	165,717	146,910	154,476
- time and other deposits	204,445	211,020	206,973
Certificates of deposit in issue	10,014	17,809	15,916
Other debt securities in issue	53	8	86
	<u>419,083</u>	<u>408,295</u>	<u>413,693</u>
Customer deposit accounts			
Repayable on demand	232,393	223,161	210,351
With agreed maturity dates or periods of notice, by remaining maturity:			
- three months or less but not repayable on demand	166,328	159,948	180,380
- one year or less but over three months	9,029	6,973	6,701
- five years or less but over one year	1,266	396	259
	<u>409,016</u>	<u>390,478</u>	<u>397,691</u>
Certificates of deposit in issue			
Remaining maturity:			
- three months or less but not repayable on demand	2,121	6,836	2,887
- one year or less but over three months	2,981	8,827	9,635
- five years or less but over one year	4,727	1,781	3,189
- over five years	185	365	205
	<u>10,014</u>	<u>17,809</u>	<u>15,916</u>
Other debt securities in issue			
Remaining maturity:			
- three months or less but not repayable on demand	—	8	48
- one year or less but over three months	53	—	38
	<u>53</u>	<u>8</u>	<u>86</u>
	<u>419,083</u>	<u>408,295</u>	<u>413,693</u>

Current, savings and other deposit accounts increased by HK\$5.4 billion, or 1.3 per cent, to HK\$419.1 billion, compared with HK\$413.7 billion at 31 December 2002. The growth was mainly in customer deposit accounts which grew by HK\$11.3 billion, or 2.8 per cent. During the period, customers continued to shift from time deposits to savings and current accounts, reflecting preference for liquidity in the prevailing low interest rate environment.

Certificates of deposit and other debt securities in issue fell by HK\$5.9 billion, or 37.1 per cent, to HK\$10.1 billion following the maturity of part of the certificates of deposit portfolio.

Deposits from banks

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
Repayable on demand	854	1,146	555
With agreed maturity dates or periods of notice, by remaining maturity:			
- three months or less but not repayable on demand	1,439	1,137	515
- one year or less but over three months	<u>66</u>	<u>4</u>	<u>2</u>
	<u>2,359</u>	<u>2,287</u>	<u>1,072</u>

Other liabilities

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u> <i>restated</i> [†]	<u>At 31 December 2002</u> <i>restated</i> [†]
Short positions in securities	5,604	5,267	2,916
Unrealised losses on off-balance sheet interest rate, exchange rate and other derivative contracts which are marked to market	1,072	726	832
Current taxation	921	998	249
Deferred taxation	601	605	635
Items in the course of transmission to other banks	4,030	4,253	4,629
Accruals and deferred income	1,531	1,303	1,668
Provisions for other liabilities and charges	384	329	313
Long-term liabilities attributable to policy holders	3,763	—	2,897
Other	<u>944</u>	<u>1,103</u>	<u>606</u>
	<u>18,850</u>	<u>14,584</u>	<u>14,745</u>

Other liabilities increased by HK\$4,105 million, or 27.8 per cent, to HK\$18,850 million, compared with HK\$14,745 million at 31 December 2002, reflecting the increase in short positions in securities, long-term liabilities attributable to policy holders and provision for current taxation. These were partly offset by a reduction in the items in the course of transmission to other banks.

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

Shareholders' funds

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002 restated[†]</i>	<i>At 31 December 2002 restated[†]</i>
Share capital	9,559	9,559	9,559
Retained profits	20,504	21,005	19,440
Premises and investment properties revaluation reserves	5,906	7,319	6,667
Long-term equity investment revaluation reserve	647	1,619	1,011
Capital redemption reserve	99	99	99
Total reserves	27,156	30,042	27,217
	<u>36,715</u>	<u>39,601</u>	<u>36,776</u>
Proposed dividends	4,015	4,015	6,309
Shareholders' funds	<u>40,730</u>	<u>43,616</u>	<u>43,085</u>
Return on average shareholders' funds	<u>24.4%</u>	<u>24.1%</u>	<u>21.9%</u>

There was no purchase, sale or redemption of the Bank's listed securities by the Bank or any of its subsidiaries during the first half of 2003.

Shareholders' funds (excluding proposed dividends) fell by HK\$61 million, or 0.2 per cent, to HK\$36,715 million at 30 June 2003. Retained profits rose by HK\$1,064 million. Premises and investment properties revaluation reserves fell by HK\$761 million as a result of the further decline in the property market and the provision for deferred tax on property revaluation surplus following the adoption of the HKSSAP 12. The disposal of long-term equities led to a reduction of HK\$364 million in the long-term equity investment revaluation reserve.

The return on average shareholders' funds was 24.4 per cent, compared with 24.1 per cent and 21.9 per cent for the first and second halves of 2002 respectively.

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes', details of which are set out in Note 1 of the additional information on page 49.

Capital resources management

Analysis of capital base and risk-weighted assets

Figures in HK\$m	At 30 June 2003	At 30 June 2002	At 31 December 2002
Capital base			
Tier 1 capital			
- share capital	9,559	9,559	9,559
- retained profits	19,919	20,533	18,795
- capital redemption reserve	99	99	99
- total	<u>29,577</u>	30,191	28,453
Tier 2 capital			
- premises and investment properties revaluation reserves	4,160	5,674	5,153
- long-term equity investment revaluation reserve	459	1,056	705
- general provisions	1,101	1,437	1,108
- total	<u>5,720</u>	8,167	6,966
Unconsolidated investments and other deductions	<u>(1,404)</u>	<u>(1,608)</u>	<u>(1,376)</u>
Total capital base after deductions	<u>33,893</u>	<u>36,750</u>	<u>34,043</u>
Risk-weighted assets			
On-balance sheet	226,484	224,802	222,758
Off-balance sheet	14,243	14,058	16,262
Total risk-weighted assets	<u>240,727</u>	<u>238,860</u>	<u>239,020</u>
Total risk-weighted assets adjusted for market risk	<u>241,300</u>	<u>239,200</u>	<u>239,426</u>
Capital adequacy ratios			
After adjusting for market risk			
- tier 1 [†]	12.3%	12.6%	11.9%
- total [†]	14.0%	15.4%	14.2%
Before adjusting for market risk			
- tier 1	12.3%	12.6%	11.9%
- total	14.1%	15.4%	14.2%

[†] The capital ratios take into account market risks in accordance with the relevant Hong Kong Monetary Authority guideline under the Supervisory Policy Manual.

The total capital ratio fell by 20 basis points to 14.0 per cent at 30 June 2003, compared with 14.2 per cent at 31 December 2002. The capital base recorded a reduction of 0.4 per cent while risk-weighted assets adjusted for market risk rose by 0.8 per cent.

The tier 1 capital ratio rose by 40 basis points to 12.3 per cent as a result of the 6.0 per cent growth in retained profits.

Liquidity ratio

The average liquidity ratio for the period, calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance, is as follows:

	<i>Half-year ended</i> 30 June 2003	<i>Half-year ended</i> 30 June 2002	<i>Half-year ended</i> 31 December 2002
The Bank and its major banking subsidiaries	<u>45.0%</u>	<u>43.4%</u>	<u>45.5%</u>

Reconciliation of cash flow statement

(a) Reconciliation of operating profit to net cash flow from operating activities

<i>Figures in HK\$m</i>	<i>Half-year ended</i> 30 June 2003	<i>Half-year ended</i> 30 June 2002
Operating profit	5,617	5,568
Net interest income	(5,220)	(5,453)
Dividend income	(37)	(53)
Provisions for bad and doubtful debts	456	281
Depreciation	171	174
Amortisation of long-term investments	17	(42)
Advances written off net of recoveries	(700)	(624)
Interest received	5,413	6,736
Interest paid	(1,462)	(2,294)
Operating profit before changes in working capital	4,255	4,293
Change in cash and short-term funds	889	1,499
Change in placings with banks repayable after one month	3,181	(976)
Change in certificates of deposit	676	(3,374)
Change in securities held for dealing purposes	151	958
Change in advances to customers	(1,365)	(2,967)
Change in amounts due from immediate holding company and fellow subsidiary companies	(357)	(455)
Change in other assets	(1,213)	(57)
Change in customer deposit accounts	11,325	(5,286)
Change in debt securities in issue	(5,935)	(747)
Change in deposits from banks	1,287	(335)
Change in amounts due to immediate holding company and fellow subsidiary companies	(858)	845
Change in other liabilities	3,487	1,759
Elimination of exchange differences and other non-cash items	(5,399)	(3,985)
Cash generated from operating activities	10,124	(8,828)
Taxation paid	(11)	(68)
Net cash inflow/(outflow) from operating activities	10,113	(8,896)

Reconciliation of cash flow statement (continued)

(b) Analysis of the balances of cash and cash equivalents

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>
Cash in hand and balances with banks and other financial institutions	4,014	4,244
Money at call and placings with banks maturing within one month	61,574	82,455
Treasury bills	1,363	2,415
Certificates of deposit	229	398
	<u>67,180</u>	<u>89,512</u>

Note: The presentation of the consolidated cash flow statements has been regrouped to comply with the Hong Kong Statement of Standard Accounting Practice 15 (HKSSAP 15) on 'Cash Flow Statement'. The comparative figures have been reclassified to conform with the current period's presentation. For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with banks maturing within one month, and treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition.

Contingent liabilities, commitments and derivatives

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk- weighted amount</i>
<i>At 30 June 2003</i>			
Contingent liabilities:			
Guarantees	<u>10,974</u>	<u>10,795</u>	<u>3,650</u>
Commitments:			
Documentary credits and short-term trade-related transactions	7,142	1,429	1,422
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- under one year	64,708	—	—
- one year and over	19,539	9,770	8,444
Other	38	38	38
	<u>91,427</u>	<u>11,237</u>	<u>9,904</u>
Exchange rate contracts:			
Spot and forward foreign exchange	84,812	1,072	264
Other exchange rate contracts	42,140	379	86
	<u>126,952</u>	<u>1,451</u>	<u>350</u>
Interest rate contracts:			
Interest rate swaps	78,220	1,366	336
Other interest rate contracts	13,281	6	3
	<u>91,501</u>	<u>1,372</u>	<u>339</u>
Other derivative contracts	<u>108</u>	<u>4</u>	<u>1</u>

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk- weighted amount</i>
At 30 June 2002			
Contingent liabilities:			
Guarantees	<u>14,635</u>	<u>14,481</u>	<u>4,311</u>
Commitments:			
Documentary credits and short-term trade-related transactions	7,470	1,501	1,492
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- under one year	65,755	—	—
- one year and over	16,668	8,334	7,656
Other	<u>47</u>	<u>47</u>	<u>47</u>
	<u>89,940</u>	<u>9,882</u>	<u>9,195</u>
Exchange rate contracts:			
Spot and forward foreign exchange	106,446	1,016	248
Other exchange rate contracts	<u>11,855</u>	<u>168</u>	<u>42</u>
	<u>118,301</u>	<u>1,184</u>	<u>290</u>
Interest rate contracts:			
Interest rate swaps	52,200	1,077	261
Other interest rate contracts	<u>16,550</u>	<u>—</u>	<u>—</u>
	<u>68,750</u>	<u>1,077</u>	<u>261</u>
Other derivative contracts	<u>16</u>	<u>—</u>	<u>—</u>

Contingent liabilities, commitments and derivatives (continued)

<i>Figures in HK\$m</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk- weighted amount</i>
At 31 December 2002			
Contingent liabilities:			
Guarantees	<u>13,864</u>	<u>13,717</u>	<u>4,321</u>
Commitments:			
Documentary credits and short-term trade-related transactions	6,982	1,400	1,394
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- under one year	65,110	—	—
- one year and over	21,565	10,783	9,840
Other	41	41	41
	<u>93,698</u>	<u>12,224</u>	<u>11,275</u>
Exchange rate contracts:			
Spot and forward foreign exchange	73,607	894	251
Other exchange rate contracts	24,104	261	55
	<u>97,711</u>	<u>1,155</u>	<u>306</u>
Interest rate contracts:			
Interest rate swaps	64,443	1,454	357
Other interest rate contracts	7,969	8	2
	<u>72,412</u>	<u>1,462</u>	<u>359</u>
Other derivative contracts	<u>177</u>	<u>6</u>	<u>1</u>

The tables above give the nominal contract, credit equivalent and risk-weighted amounts of off-balance sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Third Schedule of the Hong Kong Banking Ordinance on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0 per cent to 100 per cent for contingent liabilities and commitments, and from 0 per cent to 50 per cent for exchange rate, interest rate and other derivative contracts.

Contingent liabilities, commitments and derivatives (continued)

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit origination, portfolio maintenance and collateral requirements as for customers applying for loans. As the facilities may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken in the foreign exchange, interest rate and equity markets.

The contract amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk. The credit equivalent amount of these instruments is measured as the sum of positive mark-to-market values and the potential future credit exposure in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

<i>Figures in HK\$m</i>	At 30 June 2003	At 30 June 2002	At 31 December 2002
Replacement cost			
Exchange rate contracts	738	501	485
Interest rate contracts	1,072	879	1,231
Other derivative contracts	1	—	1
	<u>1,811</u>	<u>1,380</u>	<u>1,717</u>

The replacement cost of contracts represents the mark-to-market assets on all contracts (including non-trading contracts) with a positive value and which have not been subject to any bilateral netting arrangement.

Segmental analysis

Segmental information is presented in respect of business and geographical segments. Business segment information, which is more relevant to Hang Seng in making operating and financial decisions, is chosen as the primary reporting format.

For the purpose of segmental analysis, the allocation of revenue reflects the benefits of capital and other funding resources allocated to the business or geographical segments by way of internal capital allocation and funds transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the respective segments and apportionment of management overheads. Rental charges at market rate for usage of premises are reflected as inter-segment income for the 'Other' segment and inter-segment expenses for the respective business segments.

Segmental analysis (continued)**(a) By business segment**

Hang Seng comprises five business segments. Personal financial services provides banking (including deposits, credit cards, mortgages and other retail lending) and wealth management services (including insurance and investment) to personal customers. Commercial banking manages middle market and smaller corporate relationships and provides trade-related financial services. Corporate and institutional banking handles relationships with large corporate and institutional customers. Treasury engages in interbank and capital market activities and proprietary trading. Treasury also manages the funding and liquidity positions of the Bank and other market risk positions arising from banking activities. Other mainly represents management of shareholders' funds and investments in premises, investment properties and long-term equities.

Personal financial services reported profit before tax of HK\$3,038 million, a growth of 2.2 per cent compared with the same period last year. Net interest income fell by 4.4 per cent, as average mortgage yields fell, and there was a contraction in the GHOS mortgage portfolio. This was partly offset by the growth in savings and current accounts. Other operating income rose by 30.9 per cent. Wealth management services remained a growth driver, with the contribution from investment services and insurance business rising by 37.0 per cent and 37.6 per cent respectively. Sales of retail investment funds, including the popular Hang Seng Investment Series, increased by 48.8 per cent. Total funds under management by Hang Seng's asset management and private banking business units grew by HK\$7.7 billion, or 18.8 per cent, to HK\$48.3 billion at 30 June 2003.

Commercial banking reported a growth of 13.0 per cent in profit before tax to HK\$652 million. The results benefited from the increase in fee income, mainly trade services related, and the substantial release in bad debt provisions. Although customer advances grew by 13.7 per cent, mainly due to improved external trade, net interest income was affected by the compression in lending and deposit spreads.

Corporate and institutional banking suffered a decline of 24.2 per cent in profit before tax to HK\$364 million as corporate lending spreads declined and credit facilities income fell, and was also affected by the reduction in release of provisions for bad and doubtful debts.

Treasury achieved profit before tax of HK\$1,100 million, a growth of 6.3 per cent over the same period last year. Net interest income rose by 4.4 per cent as more funds were re-deployed from interbank placings to capital market investments for enhancement of interest yield, while the fixed rate debt securities portfolio continued to benefit under a low interest rate environment. Other operating income increased by 41.6 per cent, mainly in foreign exchange income. Profit on disposal of debt securities from the investment portfolio, however, was lower.

Other showed a decline of 15.1 per cent in profit before tax, mainly attributable to the reduction in contribution from net free funds due to the further decline in market interest rates and the deficit on revaluation of properties. This was partly offset by an increase in profits on disposal of long-term equities.

Segmental analysis (continued)

(a) By business segment (continued)

Figures in HK\$m	Personal financial services	Commercial banking	Corporate & institutional banking	Treasury	Other	Inter- segment elimination	Total
Half-year ended 30 June 2003							
Income and expenses							
Net interest income	3,186	501	271	901	361	—	5,220
Other operating income	1,705	464	105	228	172	—	2,674
Inter-segment income	—	—	—	—	173	(173)	—
Total operating income	4,891	965	376	1,129	706	(173)	7,894
Operating expenses [†]	(1,157)	(383)	(52)	(66)	(163)	—	(1,821)
Inter-segment expenses	(138)	(29)	(3)	(3)	—	173	—
Operating profit before provisions	3,596	553	321	1,060	543	—	6,073
Provisions for bad and doubtful debts	(570)	71	43	—	—	—	(456)
Operating profit	3,026	624	364	1,060	543	—	5,617
Profit on tangible fixed assets and long-term investments	12	28	—	40	261	—	341
Net deficit on property revaluation	—	—	—	—	(48)	—	(48)
Share of profits of associated company	—	—	—	—	18	—	18
Profit on ordinary activities before tax	3,038	652	364	1,100	774	—	5,928
Operating profit excluding inter-segment transactions	3,164	653	367	1,063	370	—	5,617
*Including depreciation	(63)	(11)	(1)	(1)	(95)	—	(171)

At 30 June 2003

Total assets	134,547	28,246	67,731	229,219	22,565	—	482,308
Total liabilities	324,132	71,354	16,948	10,839	17,776	—	441,049
Investments in associated company	—	—	—	—	675	—	675
Capital expenditure incurred during the period	48	10	2	1	23	—	84

Segmental analysis (continued)

(a) By business segment (continued)

<i>Figures in HK\$m</i>	<i>Personal financial services</i>	<i>Commercial banking</i>	<i>Corporate & institutional banking</i>	<i>Treasury</i>	<i>Other</i>	<i>Inter- segment elimination</i>	<i>Total</i>
Half-year ended 30 June 2002							
Income and expenses							
Net interest income	3,334	507	324	863	425	—	5,453
Other operating income	1,303	426	132	161	190	—	2,212
Inter-segment income	—	—	—	—	207	(207)	—
Total operating income	4,637	933	456	1,024	822	(207)	7,665
Operating expenses*	(1,179)	(353)	(54)	(61)	(169)	—	(1,816)
Inter-segment expenses	(167)	(33)	(4)	(3)	—	207	—
Operating profit before provisions	3,291	547	398	960	653	—	5,849
Provisions for bad and doubtful debts	(383)	2	82	—	18	—	(281)
Operating profit	2,908	549	480	960	671	—	5,568
Profit on tangible fixed assets and long-term investments	21	28	—	75	219	—	343
Share of profits of associated companies	45	—	—	—	22	—	67
Profit on ordinary activities before tax	2,974	577	480	1,035	912	—	5,978
Operating profit excluding inter-segment transactions	3,075	582	484	963	464	—	5,568
*Including depreciation	(60)	(11)	(2)	(1)	(100)	—	(174)
At 30 June 2002							
Total assets	136,420	24,752	64,673	219,769	25,064	—	470,678
Total liabilities	309,819	66,064	12,772	11,935	26,472	—	427,062
Investments in associated companies	368	—	—	—	683	—	1,051
Capital expenditure incurred during the period	61	9	1	1	20	—	92

Segmental analysis (continued)

(a) By business segment (continued)

Figures in HK\$m	Personal financial services	Commercial banking	Corporate & institutional banking	Treasury	Other	Inter- segment elimination	Total
Half-year ended							
31 December 2002							
Income and expenses							
Net interest income	3,249	516	316	868	403	—	5,352
Other operating income	1,119	455	121	189	186	—	2,070
Inter-segment income	—	—	—	—	201	(201)	—
Total operating income	4,368	971	437	1,057	790	(201)	7,422
Operating expenses*	(1,271)	(450)	(57)	(71)	(167)	—	(2,016)
Inter-segment expenses	(160)	(34)	(4)	(3)	—	201	—
Operating profit before provisions	2,937	487	376	983	623	—	5,406
Provisions for bad and doubtful debts	(402)	46	84	—	(18)	—	(290)
Operating profit	2,535	533	460	983	605	—	5,116
Profit on tangible fixed assets and long-term investments	—	—	—	(30)	148	—	118
Net deficit on property revaluation	—	—	—	—	(36)	—	(36)
Share of profits of associated companies	43	—	—	—	23	—	66
Profit on ordinary activities before tax	2,578	533	460	953	740	—	5,264
Operating profit excluding inter-segment transactions	2,695	567	464	986	404	—	5,116
*Including depreciation	(65)	(11)	(1)	(1)	(100)	—	(178)

At 31 December 2002

Total assets	137,762	25,937	64,783	222,879	23,293	—	474,654
Total liabilities	317,076	70,538	11,746	8,360	23,405	—	431,125
Investments in associated companies	—	—	—	—	672	—	672
Capital expenditure incurred during the period	59	12	3	1	28	—	103

Segmental analysis (continued)

(b) By geographical region

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds.

Figures in HK\$m

	Hong Kong	Americas	Other	Total
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Half-year ended 30 June 2003

Income and expenses

Total operating income	7,196	661	37	7,894
Profit on ordinary activities before tax	<u>5,238</u>	<u>648</u>	<u>42</u>	<u>5,928</u>

At 30 June 2003

Total assets	<u>408,425</u>	<u>65,882</u>	<u>8,001</u>	<u>482,308</u>
Total liabilities	<u>426,991</u>	<u>9,718</u>	<u>4,340</u>	<u>441,049</u>
Capital expenditure incurred during the period	<u>78</u>	<u>—</u>	<u>6</u>	<u>84</u>
Contingent liabilities and commitments	<u>106,429</u>	<u>—</u>	<u>1,092</u>	<u>107,521</u>

Half-year ended 30 June 2002

Income and expenses

Total operating income	6,794	835	36	7,665
Profit on ordinary activities before tax	<u>5,105</u>	<u>833</u>	<u>40</u>	<u>5,978</u>

At 30 June 2002

Total assets	<u>360,773</u>	<u>103,615</u>	<u>6,290</u>	<u>470,678</u>
Total liabilities	<u>413,662</u>	<u>9,352</u>	<u>4,048</u>	<u>427,062</u>
Capital expenditure incurred during the period	<u>91</u>	<u>—</u>	<u>1</u>	<u>92</u>
Contingent liabilities and commitments	<u>103,923</u>	<u>—</u>	<u>652</u>	<u>104,575</u>

Segmental analysis (continued)

(b) By geographical region (continued)

Figures in HK\$m

	<u>Hong Kong</u>	<u>Americas</u>	<u>Other</u>	<u>Total</u>
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Half-year ended 31 December 2002**Income and expenses**

Total operating income	6,499	886	37	7,422
Profit on ordinary activities before tax	<u>4,369</u>	<u>866</u>	<u>29</u>	<u>5,264</u>

At 31 December 2002

Total assets	<u>394,165</u>	<u>72,359</u>	<u>8,130</u>	<u>474,654</u>
Total liabilities	<u>416,388</u>	<u>9,444</u>	<u>5,293</u>	<u>431,125</u>
Capital expenditure incurred during the period	<u>96</u>	<u>1</u>	<u>6</u>	<u>103</u>
Contingent liabilities and commitments	<u>106,470</u>	<u>—</u>	<u>1,092</u>	<u>107,562</u>

Cross border claims

Cross border claims include receivables and loans and advances, balances due from banks and holdings of certificates of deposit, bills, promissory notes, commercial paper and other negotiable debt instruments and also include accrued interest and overdue interest on these assets. Claims are classified according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10 per cent or more of the aggregate cross border claims are shown as follows:

<i>Figures in HK\$m</i>	<i>Banks & other financial institutions</i>	<i>Public sector entities</i>	<i>Other</i>	<i>Total</i>
At 30 June 2003				
Asia-Pacific excluding Hong Kong				
- Australia	19,793	151	1,304	21,248
- other	21,832	804	3,238	25,874
	41,625	955	4,542	47,122
The Americas				
- Canada	16,608	8,945	264	25,817
- other	8,873	6,524	8,169	23,566
	25,481	15,469	8,433	49,383
Western Europe				
- Germany	20,595	1,069	402	22,066
- United Kingdom	22,395	16	3,551	25,962
- other	46,022	2,071	3,531	51,624
	89,012	3,156	7,484	99,652
At 30 June 2002				
Asia-Pacific excluding Hong Kong				
- Australia	16,875	480	2,159	19,514
- other	28,714	954	3,269	32,937
	45,589	1,434	5,428	52,451
The Americas				
- Canada	14,311	5,590	150	20,051
- other	6,969	4,859	6,969	18,797
	21,280	10,449	7,119	38,848
Western Europe				
- Germany	26,277	1,209	120	27,606
- United Kingdom	21,595	83	2,624	24,302
- other	50,056	1,675	2,535	54,266
	97,928	2,967	5,279	106,174

Cross border claims (continued)

<i>Figures in HK\$m</i>	<i>Banks & other financial institutions</i>	<i>Public sector entities</i>	<i>Other</i>	<i>Total</i>
At 31 December 2002				
Asia-Pacific excluding Hong Kong				
- Australia	19,259	2,819	2,265	24,343
- other	24,228	841	3,175	28,244
	43,487	3,660	5,440	52,587
The Americas				
- Canada	11,105	7,699	440	19,244
- other	6,136	4,557	7,199	17,892
	17,241	12,256	7,639	37,136
Western Europe				
- Germany	21,349	1,312	548	23,209
- United Kingdom	22,623	—	4,051	26,674
- other	47,654	2,557	2,810	53,021
	91,626	3,869	7,409	102,904

Additional information

1. Accounting policies

This press release has been prepared on a basis consistent with the accounting policies adopted in the 2002 financial statements except for the following.

Income Tax

In prior years, deferred tax liabilities were provided for using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, Hang Seng has changed its policy for deferred tax in order to comply with Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income Taxes' issued by the Hong Kong Society of Accountants. Details of the new policy are set out in the note on Taxation on page 18.

The major components of deferred tax assets and liabilities recorded in the consolidated balance sheet, and the movements during the first half of 2003 showing the impact of the adoption of HKSSAP12, are as follows:

<i>Figures in HK\$m</i>	<i>Depreciation allowances in excess of related depreciation</i>	<i>Revaluation of properties and equities</i>	<i>General provisions</i>	<i>Other</i>	<i>Total</i>
At 1 January 2003	20	685	(177)	34	562
Charged/(credited) to profit and loss account					
- without adopting HKSSAP 12	—	—	—	37	37
- adopting HKSSAP 12	5	(10)	(16)	(11)	(32)
Credited to reserves	—	(21)	—	—	(21)
At 30 June 2003	<u>25</u>	<u>654</u>	<u>(193)</u>	<u>60</u>	<u>546</u>

The balances of deferred tax assets and deferred tax liabilities in the consolidated balance sheet at 30 June 2003 were HK\$55 million and HK\$601 million respectively (HK\$73 million and HK\$635 million respectively at 31 December 2002).

The adoption of HKSSAP 12 represents a change in accounting policy which has been applied retrospectively. The change in accounting policy has been reflected by way of a prior period adjustment and the comparative figures for 2002 have been restated to conform with the current period's presentation accordingly.

Consolidated Profit and Loss Account

<i>Figures in HK\$m</i>	<i>Half-year ended 30 June 2002</i>	<i>Half-year ended 31 December 2002</i>
Tax on profit on ordinary activities		
- as previously reported	(758)	(508)
- adoption of HKSSAP 12	3	(44)
- as restated	<u>(755)</u>	<u>(552)</u>

Additional information (continued)

Consolidated Balance Sheet

<i>Figures in HK\$m</i>	<i>Retained profits</i>	<i>Premises and investment properties revaluation reserves</i>	<i>Long-term equity investment revaluation reserve</i>	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>
31 December 2002					
As previously reported	19,242	7,324	1,031	21	104
Adoption of HKSSAP 12	198	(657)	(20)	52	531
As restated	<u>19,440</u>	<u>6,667</u>	<u>1,011</u>	<u>73</u>	<u>635</u>
30 June 2002					
As previously reported	20,756	8,069	1,651	34	—
Adoption of HKSSAP 12	249	(750)	(32)	72	605
As restated	<u>21,005</u>	<u>7,319</u>	<u>1,619</u>	<u>106</u>	<u>605</u>
31 December 2001					
As previously reported	19,499	8,119	2,323	34	—
Adoption of HKSSAP 12	254	(766)	(49)	77	638
As restated	<u>19,753</u>	<u>7,353</u>	<u>2,274</u>	<u>111</u>	<u>638</u>

2. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

3. Property revaluation

A revaluation of Hang Seng's premises and investment properties in the Hong Kong SAR was performed in June 2003 to reflect property market movements in the first half of 2003. The valuation was conducted by Chesterton Petty Limited, an independent professional valuer, and carried out by qualified valuers who are members of the Hong Kong Institute of Surveyors. The basis of valuation of premises was open market value for existing use. The basis of the valuation for investment properties was open market value. Of the total revaluation deficit of HK\$768 million arising from the June revaluation, HK\$720 million was accounted for as a reduction in property revaluation reserves while the balance of HK\$48 million, representing the reduction in value below the original acquisition cost (less depreciation) of bank premises was charged to the profit and loss account for the first half of 2003.

Additional information (continued)**4. Market risk**

Market risk is the risk that the movements in interest rates, foreign exchange rates or equity and commodity prices will result in profits or losses to Hang Seng. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accrual basis). Hang Seng's market risk arises from customer-related business and from position taking.

Market risk is managed within risk limits approved by the Board of Directors. Risk limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as value at risk (VAR) limits at a portfolio level.

Hang Seng adopts the risk management policies and risk measurement techniques developed by the HSBC Group. The daily risk monitoring process measures actual risk exposures against approved limits and triggers specific action to ensure the overall market risk is managed within an acceptable level.

VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The model used by Hang Seng calculates VAR on a variance/covariance basis, using historical movements in market rates and prices, a 99 per cent confidence level and a 10-day holding period, and generally takes account of correlations between different markets and rates. The movement in market prices is calculated by reference to market data for the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

Hang Seng has obtained approval from the Hong Kong Monetary Authority (HKMA) for the use of its VAR model to calculate market risk for capital adequacy reporting. The HKMA is also satisfied with Hang Seng's market risk management process.

Additional information (continued)

4. Market risk (continued)

Hang Seng's VAR for all interest rate risk and foreign exchange risk positions and on individual risk portfolios during the first halves of 2003 and 2002 are shown in the tables below.

VAR

<i>Figures in HK\$m</i>	<i>At 30 June 2003</i>	<i>Minimum during the period</i>	<i>Maximum during the period</i>	<i>Average for the period</i>
VAR for all interest rate risk and foreign exchange risk	409	187	409	276
VAR for foreign exchange risk (trading)	3	2	4	3
VAR for interest rate risk				
- trading	8	1	11	4
- accrual	402	187	402	275

VAR

<i>Figures in HK\$m</i>	<i>At 30 June 2002</i>	<i>Minimum during the period</i>	<i>Maximum during the period</i>	<i>Average for the period</i>
VAR for all interest rate risk and foreign exchange risk	285	194	442	297
VAR for foreign exchange risk (trading)	4	3	5	4
VAR for interest rate risk				
- trading	2	—	8	2
- accrual	284	192	441	296

The average daily revenue earned from market risk-related treasury activities for the first half of 2003, including accrual book net interest income and funding related to dealing positions, was HK\$8 million (HK\$8 million for the first half of 2002). The standard deviation of these daily revenues was HK\$4 million (HK\$4 million for the first half of 2002). No loss was recorded out of 121 trading days in the first half of 2003. The most frequent result was a daily revenue of between HK\$6 million and HK\$10 million, with 103 occurrences. The highest daily revenue was HK\$29 million.

Hang Seng's foreign exchange exposures mainly comprise foreign exchange dealing by Treasury and currency exposures originated by its banking business. The latter are transferred to Treasury where they are centrally managed within foreign exchange position limits approved by the Board of Directors. The average one-day foreign exchange profit for the first half of 2003 was HK\$2 million (HK\$2 million for the first half of 2002).

Interest rate risk arises in both the treasury dealing portfolio and accruals books, which are managed by Treasury under limits approved by the Board of Directors. The average daily revenue earned from treasury-related interest rate activities for the first half of 2003 was HK\$6 million (HK\$6 million for the first half of 2002).

Additional information (continued)

5. Foreign currency positions

Foreign currency exposures include those arising from dealing, non-dealing and structural positions. At 30 June 2003, the US dollar was the only currency in which Hang Seng had a non-structural foreign currency position which exceeded 10 per cent of the total net position in all foreign currencies.

<i>Figures in HK\$m</i>	<u>At 30 June 2003</u>	<u>At 30 June 2002</u>	<u>At 31 December 2002</u>
US dollar non-structural position			
Spot assets	158,081	238,064	173,129
Spot liabilities	(149,899)	(210,627)	(156,175)
Forward purchases	44,594	44,644	35,222
Forward sales	(41,066)	(63,634)	(39,974)
Net options positions	—	—	—
Net long non-structural position	<u>11,710</u>	<u>8,447</u>	<u>12,202</u>

At 30 June 2003, Hang Seng's major structural foreign currency positions were US dollar and Renminbi.

	<u>At 30 June 2003</u>		<u>At 30 June 2002</u>		<u>At 31 December 2002</u>	
	<i>HK\$m</i>	<i>% of total net structural position</i>	<i>HK\$m</i>	<i>% of total net structural position</i>	<i>HK\$m</i>	<i>% of total net structural position</i>
Structural position						
US dollar	887	85.7	792	84.3	792	84.2
Renminbi	95	9.2	95	10.1	95	10.1

Additional information (continued)**6. Material related-party transactions****(a) Immediate holding company and fellow subsidiary companies**

During the first half of 2003, Hang Seng entered into transactions with its immediate holding company and fellow subsidiary companies in the ordinary course of its interbank activities including the acceptance and placement of interbank deposits, correspondent banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of the transactions. Hang Seng participated, in its ordinary course of business, in certain structured finance deals arranged by its immediate holding company.

Hang Seng used the IT and shared an automated teller machine network with its immediate holding company and used certain processing services of a fellow subsidiary on a cost recovery basis. Hang Seng also maintained a staff retirement benefit scheme for which a fellow subsidiary company acts as insurer and administrator, and acted as agent for the marketing of Mandatory Provident Fund products for a fellow subsidiary company.

The aggregate amount of income and expenses arising from these transactions during the period, the balances of amounts due to and from the relevant related parties, and the total contract sum of off-balance sheet transactions at the period-end are as follows:

Income and expenses for the period

<i>Figures in HK\$m</i>	Half-year ended 30 June 2003	Half-year ended 30 June 2002	Half-year ended 31 December 2002
Interest income	96	126	137
Interest expense	5	9	6
Other operating income	39	38	40
Operating expenses	296	276	294

Balances at period-end

<i>Figures in HK\$m</i>	At 30 June 2003	At 30 June 2002	At 31 December 2002
Total amount due from	7,596	10,425	7,471
Total amount due to	757	1,896	1,615
Total contract sum of off-balance sheet transactions	33,172	28,664	25,558

(b) Associated companies

Hang Seng maintained an interest-free shareholders' loan to an associated company. The balance at 30 June 2003 was HK\$217 million (HK\$208 million at 30 June 2002 and 31 December 2002). Prior to Hang Seng Life Limited (HSL) becoming a subsidiary (formerly an associated company) of the Bank in November 2002, the agency commission for the marketing of life insurance products paid by HSL to the Bank amounted to HK\$142 million and HK\$113 million for the first and second halves of 2002 respectively.

Additional information (continued)**6. Material related-party transactions (continued)****(c) Ultimate holding company**

During the first half of 2003, no transaction was conducted with the Bank's ultimate holding company (same as 2002).

(d) Key management personnel

During the first half of 2003, no material transaction was conducted with key management personnel of Hang Seng and its holding companies and parties related to them (same as 2002).

7. Statutory accounts

The information in this press release is unaudited and does not constitute statutory accounts.

The statutory accounts for the year ended 31 December 2002 have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority. The auditors expressed an unqualified opinion on those statutory accounts in their report dated 3 March 2003. The Annual Report and Accounts for the year ended 31 December 2002, which includes the statutory accounts, can be obtained on request from the Company Secretary Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng Bank's website <http://www.hangseng.com>.

8. Ultimate holding company

Hang Seng Bank is an indirectly-held, 62.14 per cent-owned subsidiary of HSBC Holdings plc.

9. Statement of compliance

This press release has been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 'Interim Financial Reporting'. It also complies with the module on 'Interim Financial Disclosure by Locally Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2002.

10. Register of shareholders

The Register of Shareholders of Hang Seng Bank will be closed on Tuesday, 26 August 2003 and Wednesday, 27 August 2003, during which no transfer of shares can be registered. In order to qualify for the first interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Monday, 25 August 2003. The first interim dividend will be payable on Thursday, 4 September 2003 to shareholders on the Register of Shareholders of the Bank on Wednesday, 27 August 2003.

Additional information (continued)**11. Press release**

Copies of this press release may be obtained from the Company Secretary Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng's website <http://www.hangseng.com>.

The 2003 Interim Report will be available from the same website on Monday, 4 August 2003 and will also be published on the website of The Stock Exchange of Hong Kong Limited in due course. Printed copies of the 2003 Interim Report will be sent to shareholders in late August 2003.

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