

Chairman's Statement



Amid continuing uncertainty in the global economic environment, Hang Seng remained focused on its long-term strategy for enhancing its position as the leading domestic bank in Hong Kong and achieved good results in 2012.

Our excellent time-to-market capabilities, extensive distribution network and solid financial fundamentals were effective in supporting customers facing challenging market conditions while strengthening our platform for growth.

Assisted by our trusted brand, we increased our penetration of market segments with good long-term business potential and won more clients among target groups with the timely launch of new wealth management and trade-related products. The resulting increase in the customer base helped drive solid growth in deposits.

Innovative services and our tightly interconnected network across Hong Kong and mainland China enhanced our position as a preferred bank in the rapidly developing cross-border trade and renminbi-related sectors.

We continued to expand Hang Seng Bank (China) Limited's service proposition by adding outlets and leveraging our strong Hong Kong franchise – leading to increases in the number of customers and deposits.

Profit attributable to shareholders rose by 15% to HK\$19,426m. Earnings per share were up 15% at HK\$10.16.

Return on average shareholders' funds was 22.9%, compared with 22.7% in 2011.

The Directors have declared a fourth interim dividend of HK\$2.00 per share. This brings the total distribution for 2012 to HK\$5.30 per share – up from HK\$5.20 in 2011. We remain committed to a dividend policy that strikes a good balance between annual distributions and investment in future growth.

Economic Outlook

Concerns over the continuing financial difficulties in the eurozone and the US fiscal cliff in the second half of 2012 put significant downward pressure on international economic activity.

Weak global export demand constrained Hong Kong's externally oriented economy, resulting in total GDP growth of just 1% for the first three quarters of the year – the lowest level since 2009. Buoyed by investment in large-scale public projects, the favourable employment market and vibrant property sector, robust consumer and investment spending cushioned the impact of subdued international trade, driving a solid rebound in economic expansion during the fourth quarter, resulting in overall growth of 1.4% in 2012.


GDP growth on the Mainland was 7.8% in 2012 – the slowest rate since 1999. External conditions remain a significant obstacle, but Central Government investment in infrastructure and other stimulus measures are driving domestic sector activity. Recent signs indicate that the economy may have bottomed out. GDP growth in the fourth quarter was 7.9% – up from 7.4% in the preceding quarter. We expect further recovery to 8% in 2013, given the moderating effects of global economic headwinds and government concerns over speculation in the property sector.

With the eurozone debt crisis still unresolved and the fragile state of economic recovery in the US, challenging operating conditions will persist in 2013. However, the Mainland is likely to maintain a steady pace of growth. Increasing economic integration in the Greater China region and Hong Kong's continuing development as a leading centre for offshore renminbi financial services will boost business expansion.

We will take full advantage of these opportunities by further leveraging our competitive strengths – including our well-respected brand, diverse range of service channels and excellent cross-border capabilities – to enhance our strong position in key areas of business and acquire new customers to support sustainable growth.

On behalf of the Board, I would like to thank staff at all levels for their hard work, commitment and contribution. I also wish to express the Bank's sincere appreciation to our customers and shareholders for their long-standing support.

This year sees Hang Seng reach its 80th anniversary. As we celebrate this major milestone, we are more determined than ever to uphold our core principles and build on the good progress we have made in our dedicated efforts to provide increasing value for shareholders.



Raymond Ch'ien

Chairman

Hong Kong, 4 March 2013