

Hang Seng's customer-led business strategy continued to serve us well in a competitive operating environment. With our operational strengths, we deepened existing relationships and established new ones, combining innovation with integrity to deliver service excellence.

This reinforced our leading position for traditional banking services and enhanced our foothold in areas with significant potential for long-term growth.

Our comprehensive range of trade-related services and new renminbi-denominated products proved effective in growing the customer base, particularly among affluent clients and mainland China personal and business customers with cross-border financial needs. Customer deposits, including certificates of deposit and other debt securities in issue, increased by 10.2% to HK\$818.8bn.

Leveraging our balance sheet strength, we used our in-depth market and customer knowledge to identify good opportunities to expand lending, resulting in an 8.4% rise in customer advances to HK\$423.8bn.

In July, we sold our wholly owned general insurance subsidiary, Hang Seng General Insurance (Hong Kong) Company Limited, allowing us to focus on enhancing the franchise for Hang Seng-branded life insurance solutions while continuing to offer customers a wide array of general insurance products through an exclusive distribution agreement.

Retail Banking and Wealth Management

Retail Banking and Wealth Management achieved a 22.0% increase in profit before tax to HK\$7,939m. Excluding the effects of the general insurance disposal gain, profit before tax was up 19.1%. Operating profit excluding loan impairment charges rose by 16.2% to HK\$7,836m.

Net interest income rose by 10.6% to HK\$8,761m, reflecting increases in deposits, unsecured lending and insurance business. Good growth in wealth management revenue helped drive an 8.8% rise in non-interest income to HK\$3,822m.

Continued expansion of the deposits base remained key to our strategy for sustainable growth. Backed by our strong brand, diverse wealth management product portfolio and comprehensive network of service delivery channels, we stepped up efforts to attract new customers and tap new sources of funds. Our broad-ranging actions generated good results, with a 9.1% increase in deposits. The larger deposits base provided additional support for the expansion of lending, which grew by 11.5%.

With our continuing initiatives to acquire quality customers, the numbers of Prestige Banking and Preferred Banking clients increased by 10.7% and 8.3% respectively compared with a year earlier. We developed more mechanisms for strengthening customer relationships, including the implementation of a new wealth management cross-selling structure targeting residential mortgage clients. To enhance the customer experience and attract affluent clients, we developed a new Prestige and Preferred Banking Centre design concept and completed its implementation at a number of our outlets in 2012. We will open more Prestige and Preferred Banking Centres at strategic locations in the years ahead.

We used technology to improve efficiency while providing customers with greater choice and convenience as to where, when and how they manage their financial needs. At 31 December 2012, the number of Personal e-Banking clients had increased by 9.5% compared with the end of 2011.

Best Domestic Bank in
Hong Kong
(for 13th consecutive year)
The Asset

Hong Kong Domestic
Cash Management Bank
of the Year
*Asian Banking and
Finance*

Hong Kong Domestic
Trade Finance Bank of
the Year
*Asian Banking and
Finance*

SME's Best Partner
Award
*Hong Kong General
Chamber of Small and
Medium Business*





MILESTONES

Helping customers achieve home ownership with higher returns

As part of our initiatives to help more people achieve their home ownership dreams, in March we launched the Hang Seng RMB/HKD Mortgage-Link Account – Hong Kong's first such dual-currency mortgage plan. RMB/HKD Mortgage-Link Account customers enjoy a preferential interest rate on renminbi and Hong Kong dollar savings that is equal to their mortgage loan interest rate, helping them to more easily offset their mortgage interest expenses. Offering instant access to savings for greater financial flexibility, the account also addresses the growing demand for renminbi-denominated wealth management solutions and further enriches our value-added residential mortgage service.

New mobile device-based services increased our appeal among younger and tech-savvy customer segments. In November, we announced plans to develop an innovative contactless payment channel to provide customers with a fast and secure way to make retail payments using their mobile phones.

Our strong capabilities across multiple high-tech platforms were recognised with a 'Best Business (Application)' Gold Award at the Hong Kong Computer Society's Hong Kong ICT Awards 2012.

Our pioneering initiatives in the rapidly developing market for renminbi-related financial services helped us attract more business from affluent Mainland individuals with cross-border and offshore financial services needs.

We recorded a number of firsts – launching the first renminbi/Hong Kong dollar dual-currency-linked mortgage account and the first renminbi-denominated gold exchange-traded fund (ETF). In August, we became one of the first banks in Hong Kong to offer personal renminbi services to non-Hong Kong residents.

Our continuing efforts to exceed customer expectations through service excellence saw us crowned 'Best Domestic Bank' in Hong Kong for the 13th consecutive year in *The Asset's* Triple A Country Awards.

Wealth management

In uncertain economic conditions, customers continued to rely on our trusted brand and personalised service approach. We worked hard to reward their loyalty, using our expanding range of investment and insurance offerings to provide tailor-made wealth management solutions.

Wealth management income grew by 18.6% to HK\$5,328m.

Income from life insurance business increased by 51.4% to HK\$2,833m. Leveraging our extensive distribution network, we launched products with innovative features to increase our penetration rates in strategically important customer segments.

Annualised life insurance new premiums rose by 13.3% to HK\$2,765m. Total life insurance policies in force grew by 8.7% and proactive management of the life insurance funds investment portfolio resulted in an increased return. Successful new products – including a new retirement solution that aligns with Hong Kong's aging population trend and our first insurance policy to be denominated in renminbi – broadened our range of insurance offerings to keep pace with the changing needs of customers.

Compared with the unfavourable investment performance in 2011, the increase in property investment and favourable investment return on securities helped us improve investment income.

Investment services income was down 4.0% at HK\$2,339m. We grew the number of securities accounts, but reduced stock market activity led to a 26.2% decline in investment revenue from stock broking and related services. With subdued investor sentiment, our time-to-market advantage and more gold-related investment options helped maintain business flows. Innovative products contributed to rises in retail investment fund income and turnover of 35.7% and 73.7% respectively, and helped us increase our penetration rate for investment fund business among Prestige Banking clients.

In February, we were named 'Best Local Private Bank in Hong Kong' for the third consecutive year and the best local provider of 'Super Affluent, Net-worth-specific Services' by *Euromoney*.

Consumer finance

We maintained good momentum in the active residential mortgage sector, achieving a 16.4% rise in residential mortgage lending to individuals. We used our value-added service proposition, including the dual currency Hang Seng RMB/HKD Mortgage-Link Account that offers enhanced returns on renminbi savings, to attract target customers. Despite keen market competition, we retained our market share in terms of new mortgage registrations compared with a year earlier.

Total operating income from unsecured lending grew by 7.2% to HK\$3,478m.

Effective cross-selling strategies along with the growing customer base underpinned a 5.1% rise in the number of credit cards in issue. Card spending and receivables were up by 10.7% and 9.8% respectively, supporting an 8.0% increase in revenue from credit card business.

The personal loans balance rose by 11.2% compared with a year earlier.

Corporate and Commercial Banking

Corporate and Commercial Banking achieved good growth in asset portfolios and non-funds fee income streams to record a 27.3% increase in profit before tax to HK\$5,878m. Excluding the effects of the general insurance disposal gain, profit before tax was up by 23.7%. Operating profit excluding loan impairment charges rose by 17.4% to HK\$5,660m.

Net interest income rose by 15.6% to HK\$5,289m, underpinned largely by increases in deposits and lending, which both grew by 10.4%. Non-interest income was up 6.2% at HK\$2,101m.

We stepped up initiatives to acquire new customers, capitalising on the close connectivity of Hang Seng's Hong Kong and Mainland operations, particularly in southern China, and our network of Mainland strategic alliances. We strengthened the referral pipeline and leveraged our comprehensive suite of trade-related products and services to provide end-to-end financial solutions for customers engaged in cross-border business.

Two new Business Banking Centres, the launch of our Business Mobile Banking platform and a Mainland toll-free direct hotline facilitated access to our services for small and medium-sized enterprise (SME) customers. At the end of 2012, the number of Business e-Banking customers was up 21.1% compared with a year earlier.

We developed new marketing initiatives, including a television commercial campaign for our SME Business Loan. In February, we received the 'Excellent Brand of SME Loan Services' award in Metro Finance's HK Leaders Choice Brand Awards 2012. In May, the Hong Kong General Chamber of Small and Medium Business recognised us as an 'SME's Best Partner' for the seventh consecutive year.

Our efforts drove a 12.8% increase in the customer base. We gained further momentum among Mainland companies, which represented 45.7% of newly acquired customers in the second half of 2012, compared with 34.2% in the first half of the year. Year on year, the number of renminbi accounts was up 25.1%.

MILESTONES

Helping SMEs to flourish



Small and medium-sized enterprises embody the Hong Kong 'can-do' spirit and play an important part in our city's economic success. Two new Business Banking Centres and the launch of a Business Mobile Banking platform in 2012 are providing more convenient access to our services – just part of our ongoing efforts to ensure Hong Kong's home-grown businesses continue to flourish.

The seal, a traditional sign of authenticity, is echoed in modern-day Quick Response (QR) codes. In using the latest technology, our modes of service delivery may change, but our emphasis on providing strong customer assurance remains the same – represented here by the Chinese character for ‘trust’.



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MILESTONES

Using technology to enhance financial management choice

We employ new technology to provide customers with a growing range of choices for fast, convenient and secure financial management. With Hong Kong consumers each carrying an average of two mobile phones, in November we announced our plans to launch an innovative new mobile phone-based contactless payment channel. Utilising near-field communication (NFC) technology, the service will enable customers to make purchases through their credit card accounts using their NFC-enabled mobile phones at retail payment terminals equipped with contactless readers.





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*Customers down the generations
have relied on our trusted brand for wealth
management services. From individual clients to
large corporations, we provide financial peace
of mind with investment and insurance solutions
that are tailored to fit their needs.*



MILESTONES

Uniting tradition and innovation to serve wealth management needs

We continue to blend innovation and integrity in expanding our portfolio of wealth management products to meet customer needs. Uniting recent rising demand for renminbi-related investments with the long-established investor interest in gold, in February we launched the Hang Seng RMB Gold Exchange-traded Fund (ETF) – the first fund of its kind to be launched to the market and the first renminbi-denominated ETF of any kind in Hong Kong.

Leveraging the strength of our trusted brand, we introduced Dragon-themed 10oz and 100g Hang Seng Gold Bars in January to enhance choice for customers interested in physical gold. In early 2013, we further extended our offerings with God of Wealth-themed bars in the same weights.

Enhancements to our relationship management strategy and improved balance sheet strength supported the expansion of lending in a broad range of industry sectors. We maintained good credit quality.

We made solid progress with diversifying the lending portfolio in terms of loan type, increasing our participation in structured finance and syndicated lending. We ranked as the number two mandated arranger in Hong Kong and Macau in 2012 based on the number of transactions.

Over HK\$3.7bn in loan facilities were approved under the SME Financing Guarantee Scheme in the seven months following the Hong Kong Government's introduction of the 80% guarantee protection in June 2012.

At 31 December 2012, renminbi lending had increased by 213.9% compared with a year earlier.

The extended reach of our service delivery network generated new opportunities for client contact. Net fee income was up 18.5% at HK\$1,566m, reflecting successful efforts to boost fee revenue from non-funds business. Our strong cross-border capabilities helped drive a 5.4% increase in fee income from trade-related services and a 29.9% rise in revenue from remittance fees.

In August, we were named 'Hong Kong Domestic Cash Management Bank of the Year' and 'Hong Kong Domestic Trade Finance Bank of the Year' by *Asian Banking and Finance*.

Treasury

Treasury recorded a 5.9% decline in profit before tax to HK\$2,364m.

Net interest income decreased by 11.3% to HK\$1,676m. The low interest rate environment and flattened yield curves offered few opportunities for yield enhancement and constrained re-pricing levels as balance sheet management portfolios matured.

Non-interest income rose by 12.1% to HK\$960m.

Trading income increased by 12.5% to HK\$988m. With rising customer demand for renminbi-denominated products, we reinforced our position as a market leader with the development and launch of new offerings – including the Hang Seng RMB Gold ETF – helping drive solid growth in option trading income from structured products. Along with faster growth in gross interest income from funding swaps, this more than offset the decline in income from securities and other trading.

Leveraging our trusted brand, we expanded our range of physical gold investment products with the launch of 10oz and 100g Hang Seng Gold Bars with a Chinese New Year Dragon motif. Building on the success of these new products, we introduced God of Wealth-themed bars in the same weights in February 2013.

Hang Seng Indexes

Widely recognised as the leading compiler of indexes covering Hong Kong and the Mainland, wholly owned subsidiary Hang Seng Indexes Company Limited continued to enhance its profile in 2012, expanding and enriching its service offerings with the launch of new indexes, the licensing of new index-linked funds and new derivatives products.

In June, Hang Seng Indexes launched the Hang Seng Equal Weighted Index and the Hang Seng China Enterprises Equal Weighted Index – which have the same constituents as the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (H-shares Index) respectively – to offer the market a broader range of investment strategy options. In contrast to the HSI and H-shares Index, which use a freefloat-adjusted market capitalisation weighted methodology, the new indexes use an equal-weighted methodology under which the weightings of individual stocks are all set to equal at market close on the rebalancing date. This approach results in a different industry sector exposure, providing investors with an alternative way to assess the overall performance and risk-return characteristics of companies included in the HSI and the H-shares Index.

In December, the Hang Seng High Dividend Yield Index was launched to track the performance of high-yield stocks and real estate investment trusts which have demonstrated a stable dividend payment record. The index provides a benchmark for investors interested in a less volatile investment portfolio.

New milestones were reached on the Mainland. In June, licences were issued for the first two Mainland ETFs tracking Hong Kong stocks to be linked to the HSI and the H-shares Index respectively. The ETF linked to the HSI was listed on the Shenzhen Stock Exchange and the ETF linked to the H-shares Index was listed on the Shanghai Stock Exchange. A month earlier, the first index fund linked to the Hang Seng China A Industry Top Index was launched on the Mainland – the first Mainland licensing of a fund linked to a Hang Seng Indexes A-share index.

Other developments in 2012 included the commencement of futures trading in Hong Kong based on the HSI Volatility Index and the listing of two ETFs linked to the HSCEI Short Index and the HSCEI Leveraged Index on the Tokyo Stock Exchange.



Hang Seng Indexes now compiles 323 publicly available indexes – 51 real-time and 272 daily indexes – under 62 different index series. This includes six cross-border series offering six real-time and 40 daily indexes. In addition to the Hang Seng Family of Indexes, the company also compiles customised indexes to serve the specific needs of various clients.

The total number of futures and options contracts traded on the HSI and the H-shares Index in 2012 was over 54 million. At 31 December 2012, the total assets of ETFs tracking all indexes in the Hang Seng Family of Indexes was over US\$16bn.

Best Local Private Bank
in Hong Kong
Euromoney

Best for Super Affluent,
Net-worth-specific
Services
Euromoney

Trusted Brands Gold
Award – Bank (Hong
Kong)
Reader's Digest

Trusted Brands Gold
Award – Credit Card
Issuing Bank (Hong
Kong)
Reader's Digest

The Best Corporate
Governance Bank of Asia
*21st Century Business
Herald*



Over the past eight decades, we have grown with Hong Kong – embracing change while always upholding our core principles. Just as our globally recognised Hang Seng Index tracks stock movements, we closely monitor market developments to anticipate customer needs as part of our strategy to continually exceed their expectations.

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MILESTONES

Supporting the development of Mainland financial markets

Providing support for the development of financial products in mainland China is one important way in which Hang Seng Indexes continues to break new ground in meeting the needs of the investment community. In June, Hang Seng Indexes licensed the first two Mainland exchange-traded funds tracking Hong Kong stocks to be linked to its indexes – the Hang Seng Index and Hang Seng China Enterprises Index respectively. The two funds were issued on the Mainland in August.