

Business on the Mainland

We expanded the scope and reach of our mainland China business in 2012, capitalising on the close integration of our Hong Kong and Mainland operations and an increasing awareness of our unique brand strengths. We strategically deployed resources to increase our presence in regions with good long-term growth potential and further enrich our premium service proposition.

The slower pace of economic activity led to greater competition in the operating environment as foreign banks stepped up efforts to maintain revenue flows and market share. We differentiated ourselves from our peers through quality service delivery – providing tailor-made wealth management and trade-related financial solutions to meet the diverse needs of customers.

We progressed with our plan for organic growth through our wholly owned Mainland subsidiary bank, Hang Seng Bank (China) Limited, balancing prudent risk and

cost management with investment in our network and human resources. Along with additional staff training and an enhanced product portfolio, the opening of seven new outlets and a 6.3% increase in headcount have strengthened our ability to capitalise on future business opportunities and reach more customers.

We further leveraged our network of strategic alliances and established new ones to offer a wider range of wealth management products and more convenient access to services. Improvements to cross-border customer referral mechanisms provided a valuable source of new business, particularly among corporate and commercial customers.

These efforts drove a 12.6% increase in Hang Seng China's customer base, strengthening our deposits acquisition pipeline and balance sheet.

Net interest income grew by 9%.

Deposits rose by 12.7% and lending increased by 15.5%. We continued to emphasise credit quality over loan portfolio size, focusing on clients offering good potential for generating additional income streams through wealth management and trade services.

We made solid progress with expanding and diversifying non-interest income.

Hang Seng China's total operating income increased by 8.5%, underpinned by the rise in net interest income. Operating expenses increased by 15.3%, due largely to investments in long-term business growth. Together with a net loan impairment charge compared with a net release in 2011, this led to a 28.8% decline in operating profit.

MILESTONES



Hang Seng China opened a new branch in Xiamen in March

Establishing authority as investment advisory services leader

In March, wholly owned subsidiary Hang Seng Securities received approval to establish an investment advisory services joint venture in partnership with Guangzhou Securities Company in Guangdong province under CEPA. In July, Guangzhou GuangZheng Hang Seng Securities Investment Advisory Company became the first such company to commence operations. Compiling analysis reports on securities and securities-related products and conducting market research, the company contributes to the development of the Mainland investment market while building our reputation as a trusted provider of investment-related advice.

Sharing a common cultural heritage, Hong Kong and the Mainland have developed strong economic ties.

Backed by our integrated network of outlets and strategic alliances, we provide a premium service that is playing a valuable role in helping customers meet their financial management needs while enhancing the links between Hong Kong and other parts of China.



中港聯動

Centre: Mrs Dorothy K Y P Sit,
Vice-Chairman and Chief
Executive of Hang Seng Bank
(China) Limited, with members
of the Hang Seng China
management team



Including the share of profit from Mainland strategic partners, profit before tax from our Mainland business grew by 29.6%, contributing 24.5% of Hang Seng's total profit before tax compared with 21.7% in 2011.

Services

Our expanding network of outlets and strategic alliances provided new opportunities to reach customers in key segments. Targeted brand-building initiatives led to wider recognition of our Greater China experience and expertise, reinforcing our position as a leading provider of wealth management, trade and renminbi-related financial solutions among foreign banks.

In November, our commitment to exceeding the expectations of customers was independently recognised by *Money Weekly*, which awarded us the accolade of 'Most Respected Foreign Bank'.

With a particular focus on affluent individuals, Retail Banking and Wealth Management enhanced its diverse range of investment and insurance offerings, leveraging in part on the product development and time-to-market strengths of our Hong Kong operations and closer collaboration with domestic and foreign insurance companies.

Our personalised and professional approach in assisting customers at different life stages with managing their financial needs in uncertain economic conditions helped drive a 13.3% increase in the customer base, with a 15.5% rise in Prestige Banking clients.

Our series of 'Easy Touch' investment products – which offer enhanced yield investment opportunities with partial capital protection – was recognised as a 'China Top Ten Wealth Management Product' by *Money Weekly*.

In challenging operating conditions for many companies, our cross-border strength and trade-related services helped customers maintain business flows.



We launched new trade and supply chain-related products and services, including renminbi-denominated domestic documentary credits and a new type of renminbi bank-accepted draft offering enhanced terms. More key-person insurance products facilitated better continuity planning for customers while strengthening our reputation for providing one-stop financial solutions.

Leveraging the strong connectivity between our Mainland and Hong Kong operations, we built new momentum in cross-border referrals and collaborations. Facilitated by



our document verification arrangement and innovative video-conferencing channel, we recorded good year-on-year growth in new account openings by Hong Kong-based commercial customers. Overall, the number of Corporate and Commercial Banking clients rose by 2.9%.

In October, we received an award for 'Best Cross Border Trade Settlement' from *China CFO*.

Network

At the end of 2012, Hang Seng China had 46 outlets – 12 branches and 34 sub-branches – in 17 Mainland cities.

In addition to a new branch in Xiamen and sub-branch openings in Beijing Kerry Centre, Tianjin Binhai and Tianjin Jinmen, we established three more cross-city sub-branches in Guangdong – one each in Shunde, Zhuhai and Jiangmen – bringing Hang Seng China's network in the province to 21 outlets in eight cities.

Hang Seng China now operates 63 ATMs and our customers can also access their accounts through HSBC China's Mainland ATM network. Hang Seng China debit cards can be used on the China UnionPay (CUP) network at home and overseas. CUP cardholders can use their cards at Hang Seng China ATMs, providing another important opportunity to expose potential new customers to our brand.

Other steps to enhance service delivery and support increased sales via self-directed channels included new investment in our online platform.

We continued to benefit from the extended reach provided by our relationships with strategic partners. With our complementary sets of strengths and expertise,

our close collaboration with Industrial Bank – particularly in the areas of customer referrals and branch-level initiatives – generated win-win outcomes.

Hang Seng's wholly owned subsidiary, Hang Seng Securities Limited, partnered with Guangzhou Securities Company Limited to open the first joint venture securities investment advisory company to be established in Guangdong under Supplement VI to the Closer Economic Partnership Arrangement (CEPA). Guangzhou HangZheng Hang Seng Securities Investment Advisory Company Limited, which commenced operations in July 2012, enhances our Mainland service scope and will promote our position as a key Greater China financial services provider.

Future Growth

We will continue with our focused strategy for sustainable growth, targeting regions and market segments that enable us to take advantage of our competitive strengths and actively pursue new business opportunities.

We will make more investments in our infrastructure, systems and people, reinforce internal and external cross-referral channels, and use our premium services and brand-building activities to acquire more customers and further penetrate our existing client base while achieving greater operational efficiency.

The acquisition of deposits will remain central to our strategy for strengthening our platform for long-term business expansion.

A growing number of Mainland businesses and affluent clients are looking for new investment opportunities domestically and in Hong Kong. Leveraging our time-to-market advantage, we will launch more wealth management products and services to meet the needs of these customers.

Backed by the interconnectedness of our Hong Kong and Mainland operations and comprehensive range of trade-related services, our growing market coverage in Guangdong sees us well placed to capture an increasing share of cross-border business. We will capitalise on the rapidly expanding opportunities provided by CEPA and other Central Government initiatives while playing our part in promoting closer economic ties in the southern China region.

2012 Most Respected Foreign Bank in China
Money Week

Best Cross Border Trade Settlement Award
CFO World

Most Popular Foreign Bank of the Year
Hexun

Best Foreign Wealth Management Service of the Year
National Business Daily

Most Competitive Award for Financial Innovation of the Year - International Category
Nanfang Daily

