



# A Wealth Management CHAMPION

Whatever a customer's financial goals, our award-winning services can help them achieve their objectives at their preferred pace.



**In a competitive operating environment, Hang Seng differentiated itself through customer service excellence, driven by a progressive and pragmatic approach to business as well as product and service innovations.**

Private Banking pre-tax profit

**+46.3%**

Commercial Banking and wealth management business both achieved significant increases in income as we stepped up efforts to refine our relationship management strategy and further personalise financial solutions. The strong labour market supported good growth in consumer finance, particularly personal loans and card receivables.

Our comprehensive brand strengthening programme helped us deepen existing customer relationships and broaden our appeal in key market segments such as young people, affluent individuals and small and medium-sized enterprises (SMEs).

Customer deposits, including certificates of deposit and other debt securities in issue, grew by 12.8 per cent to HK\$540.3 billion, largely reflecting increases in savings and structured deposits, which rose by 18.2 per cent and 31.2 per cent respectively.

We further expanded and diversified our loan portfolio. This resulted in an HK\$18.6 billion, or 7.1 per cent, increase in gross advances to customers.

We continued with our property portfolio rationalisation strategy, realising HK\$3.1 billion through the sale of several properties.

To support business expansion, we hired more staff in key areas such as Commercial Banking, wealth management and IT. We also continued to place strong emphasis on employee development through various training, coaching and mentoring programmes and talent management initiatives. In a buoyant employment market, we focused on staff retention through a combination of competitive compensation packages, incentive schemes and career development programmes.

### **Personal Financial Services**

Personal Financial Services recorded pre-tax profit of HK\$7,730 million, representing 52.9 per cent of total pre-tax profit.

Net interest income rose 4.7 per cent, benefiting from the improvement of spreads on best lending rate-based loans and growth in customer advances.

Wealth management income grew by 22.7 per cent. The strong stock market and the introduction of new investment products helped investment services income increase by HK\$576 million to HK\$2,519 million. Private Banking achieved a 51.1 per cent rise in total operating income to HK\$731 million. Life insurance income was up 17.5 per cent at HK\$1,476 million.

## Investment Services

We worked to capitalise on the positive investment climate by expanding our product range to meet changing market demands and grow fee income. We used increased marketing and competitive pricing strategies to acquire new customers and boost turnover. Investment services income rose by 29.6 per cent.

We grew our securities services customer base by 20.1 per cent through special promotions and enhancing delivery channels for faster and easier completion of transactions. Securities services income increased 63.3 per cent, with growth of 86.6 per cent in stockbroking turnover.

A 40.6 per cent increase in retail investment fund sales was achieved by offering a wide range of funds to suit different needs, the timely provision of supporting services such as market and fund performance

commentaries, and taking action to strengthen our fund management business. The number of investment fund accounts rose by 7.8 per cent.

We received number one rankings from Morningstar Asia, S&P's Fund Services and Lipper for the 2006 performance of five Hang Seng funds, with one-year returns in Hong Kong dollars ranging from 52.3 per cent for the Hang Seng Hong Kong Property Equity Fund to 161.1 per cent for the Hang Seng China H-Share Index Leveraged 150 Fund.

In January 2006, we launched the Hang Seng China Equity Fund to increase choice for retail customers looking to benefit from the high growth potential of the mainland China market.

We continued to enjoy an excellent customer response to funds offered under our Qualified Foreign Institutional Investor licence. We have

applied to the Mainland authorities to increase our current quota of US\$100 million, which is now fully utilised.

The introduction of more structured deposits and instruments, particularly those with shorter tenors and callable features, helped structured products issue volume and income grow by 93 per cent and 48.1 per cent respectively.

Private Banking's 10th anniversary year proved a successful one. Assets under management grew by 39.6 per cent and investment services income rose by 83.5 per cent, driven by increases in the number of relationship managers, cross-referrals and product offerings. Pre-tax profit was up 46.3 per cent at HK\$556 million.

Total funds under management, including discretionary and advisory, increased by 10.3 per cent to HK\$106.4 billion.





## Residential mortgage lending grew by 5.9 per cent.

### Insurance

Our life insurance income grew with the launch of products targeting expanding market segments. The Monthly Income Retirement Plan helped strengthen our retirement planning portfolio and the MediCash Lifetime Insurance Plan extended our retirement offerings to include health protection.

Operating income rose by 17.5 per cent to HK\$1,476 million. The number of policies in force increased 18.5 per cent.

### Consumer Lending

Excluding the fall in Government Home Ownership Scheme mortgages, lending to individuals rose by 5.4 per cent. Personal loans rose significantly by 46.4 per cent and we gained market share.

Enhancements to 'Mortgage-Link' accounts as well as the expansion of our online mortgage services enabled us to grow residential mortgage lending by 5.9 per cent.

New credit cards such as VISA Infinite, an invitation-only card for affluent customers, and increased collaboration with merchants contributed to an 11.7 per cent increase in card spending. Card services income grew by 22 per cent to HK\$860 million.

The launch of alpha card, a debit card for 15 to 18 year olds, helped us capture new business among young people.

## Commercial Banking

A 22.2 per cent increase in customer advances, encouraging progress with corporate wealth management services and closer relationships with commercial customers all contributed to a 21.5 per cent rise in Commercial Banking's operating profit excluding loan impairment charges and other credit risk provisions.

Net interest income increased by 28.3 per cent. Trade finance jumped 24 per cent, gaining market share. Lending to the manufacturing industry and the wholesale and retail sector exceeded average market growth, rising by 18.4 per cent and 14.3 per cent respectively.

We strengthened our position as the preferred bank for SMEs. We rolled out more services, including a 24-hour manned hotline and the introduction of SME ambassadors at all branches. We became the first bank in Hong Kong to offer Octopus merchant services to retailers.

The expansion of our network of Business Banking Centres brought us closer to customers, facilitating our proactive approach to meeting their needs. With the addition of more marketing officers during the year, new SME accounts acquired in the second half of 2006 outpaced the first half by 34.7 per cent.

Refined customer group segmentation and deeper customer relationships generated greater

cross-selling opportunities. Increases in corporate wealth management and card acquiring business helped net trading income and net fees and commissions grow by 11.9 per cent and 13.5 per cent respectively.

In May, we won the 'Best Banking Service Award' at the SME's Best Partner Awards organised by the Hong Kong Chamber of Small and Medium Business.

We invested additional resources in our Macau branch, which moved to new premises in September to accommodate its expansion. The broader service scope and product range saw encouraging growth in loans and deposits.

Including a significant reduction in loan impairment allowances, Commercial Banking's pre-tax profit increased 109.8 per cent to HK\$2,262 million, contributing 16.4 per cent to total pre-tax profit.

Commercial Banking  
operating profit excluding  
loan impairment charges

**+21.5%**



# PARTNERING for Success

Our commercial banking services offer customised financial solutions that evolve as a business changes and grows. Through these lasting partnerships we focus on supporting our customers, enabling them to focus on giving a stellar performance.









### Corporate Banking

With market liquidity and keen competition among lenders continuing to exert downward pressure on corporate lending margins, Corporate Banking looked to asset yield. We took steps to further diversify and extend our customer base and better identify cross-selling opportunities.

Strong growth in liability-side business, particularly deposits which increased by 32.5 per cent, helped offset the drop in operating profit before loan impairment charges from lending to large corporates. Efforts to further develop corporate treasury services in cooperation with Treasury led to rises in fees and commissions and trading income.

Net operating income excluding loan impairment charges increased by 2.3 per cent. Benefiting from a net

### We strengthened our position as the preferred bank for SMEs.

release in loan impairment allowances, compared with a net charge in 2005, pre-tax profit grew by 9.9 per cent to HK\$557 million, representing 3.8 per cent of total pre-tax profit.

### Treasury

Rising funding costs and flattened yield curves continued to challenge our Treasury business in 2006, particularly during the first half of the year. Net interest income was down 51.7 per cent.

To offset the decline in income from the balance sheet management portfolio, we continued to pursue a strategy of income diversification, growing trading capabilities and

developing new products for personal and corporate customers. This led to a 66.1 per cent increase in trading income to HK\$628 million.

We capitalised on rising demand for structured products, growing income from product development. We also took steps to promote the increased use of our online treasury services through marketing and pricing initiatives.

Pre-tax profit was down 2 per cent at HK\$1,051 million, contributing 7.6 per cent to total pre-tax profit.

## E-Banking

Technology is a central part of our commitment to offering customers a fast, safe and convenient banking experience as well as enhancing cost and branch use efficiency.

In 2006, we redesigned our corporate website to reflect our new brand identity and make navigation easier. We also extended the range of services available through both Personal and Business e-Banking and used increased marketing and promotional offers to target new customers.

At year-end, we had more than 620,000 Personal e-Banking customers, a 21.2 per cent increase compared with a year earlier. Our number of Business e-Banking customers increased by 32.1 per cent to over 38,000, helping to support a 46.8 per cent rise in the number of business banking transactions completed online.

In December 2006, 43.5 per cent of all personal banking transactions were completed online. Internet transactions accounted for 75.1 per cent and 69.2 per cent respectively of IPO subscriptions and securities trading, compared with 62 per cent and 63.4 per cent in December 2005.

## Technology is a central part of our commitment to offering customers a fast, safe and convenient banking experience as well as enhancing cost efficiency.

We introduced online settlement of credit card payments, credit card bill payments and cash dollar redemption for customers using Business e-Banking. In January 2007, we launched a new residential mortgage website, strengthening our position for online home financing solutions.

We introduced Internet service features that help customers identify their financial needs and drive online sales. This proved particularly successful for insurance business, with 76.4 per cent of travel insurance and 43.3 per cent of personal accident insurance sales completed

online in December 2006, compared with 49.1 per cent and 8.1 per cent at the same time in 2005.

Income from online sales and transactions rose 101.3 per cent to HK\$803 million.

As an environmentally responsible bank, we continue to look for ways of employing technology to reduce our use of natural resources. More than 130,000 Personal e-Banking accounts now use our e-Statement service, under which customers receive electronic rather than paper statements, saving over 6 million sheets of paper per year.





# Picking up THE PACE

Our Mainland operations form a key part of our strategy for achieving sustainable long-term growth. The combined strength of our local understanding, strong brand value and world-class service is helping us set a new tempo for Mainland business expansion.



**Our mainland China business is central to our long-term growth. In 2006, we continued to strengthen our strategic positioning by investing in new outlets and staff as well as marketing and brand building.**



Mr Johnson Fu, Head of China Business (centre), with members of the Mainland management team.

This produced encouraging results and sees us well placed to capitalise on the opportunities generated by ongoing economic growth and financial sector liberalisation.

Pre-tax profit at our Mainland branches rose by 94.2 per cent to HK\$134 million. Operating profit excluding loan impairment charges and other credit risk provisions increased 211.9 per cent.

Pre-tax profit contribution from our strategic investment in Industrial Bank rose 39.5 per cent.

Overall, pre-tax profit from our Mainland business was HK\$897 million, representing 6.1 per cent of total pre-tax profit, up from 4.5 per cent in 2005.

Good progress with extending the product offerings and service reach of Personal Financial Services and Commercial Banking underpinned a 50.9 per cent increase in customer advances to HK\$15.9 billion and a 51.1 per cent rise in deposits.

Recruitment to support these achievements and prepare for planned business growth saw our number of full-time equivalent staff reach 661, a 75.3 per cent increase over 2005.

Human resources and other investment for the future drove the 53.7 per cent rise in operating expenses, with most expenditure occurring in the second half of the year. We are strongly committed to the Mainland market and will continue to allocate sufficient resources to support long-term business expansion.

We continued to work with Industrial Bank in areas such as customer referrals, accelerated remittance services and staff secondment, and progressed with plans for additional cooperative business initiatives.

## Network Growth

We moved forward with our strategy to grow our presence in the Pearl River Delta and Yangtze River Delta regions, which offer excellent prospects for our Personal Financial Services and Commercial Banking businesses.

We now have six outlets in Shanghai following the addition of two new sub-branches in 2006. Our Mainland personal banking business strategy emphasizes the affluent and mass affluent market segments and this city offers good opportunities to grow our target customer base. With another Shanghai sub-branch opening in the first half of 2007 and a Hangzhou branch later in the year, we will continue to increase our coverage of this high-growth region, focusing

on the provision of Prestige Banking and wealth management services.

In September, our Shanghai branch was named a 'China Top 10 Growing Financial Organisation' by the China International Finance Forum, the only foreign bank to receive such recognition.

In August, we opened a sub-branch in Guangzhou and in October we became the first foreign bank to have a branch in Dongguan, the Mainland's second largest export city. These developments have strengthened our ability to provide banking solutions to businesses operating in both Hong Kong and the Mainland. Leveraging our well-established small and medium-sized enterprise and middle market

Mainland Business  
pre-tax profit

HK\$897M





enterprise customer base in Hong Kong, we will use this competitive advantage to grow our Commercial Banking business.

We further extended our reach with the installation of new offsite ATMs in prominent locations in Beijing, Shanghai and Guangzhou.

At the end of the year, our expansion plans stepped up a gear following the approval of our application to begin preparations to set up a Mainland subsidiary bank, which will have its headquarters in Shanghai. Once established, our subsidiary will open up new business opportunities by enabling us to offer retail RMB

services to Mainland individuals without restriction.

We now operate 16 outlets on the Mainland: seven branches (in Beijing, Dongguan, Fuzhou, Guangzhou, Nanjing, Shanghai and Shenzhen); eight sub-branches (two in Guangzhou, five in Shanghai and one in Shenzhen); and a representative office in Xiamen.

### Services Growth

The growth of our network in 2006 was complemented by an increase in the scope of our services.

In February, our Fuzhou branch extended its RMB services to local

enterprises and foreign currency services to both local enterprises and individuals. Later in the year, our Nanjing branch introduced RMB services to foreign-invested enterprises, local enterprises and foreign individuals, and extended foreign currency services to local enterprises and individuals.

We took steps to grow our wealth management business, including launching an Index-linked Capital Protected Investment product on the Mainland for the first time.

In September, we obtained a licence under the Qualified Domestic Institutional Investors (QDII) scheme,

**Our expansion plans stepped up a gear following the approval of our application to begin preparations to set up a Mainland subsidiary bank.**

enabling us to offer overseas wealth management products to Mainland residents and companies. Following the receipt of the QDII licence and approval of a US\$300 million foreign exchange conversion quota, we launched our first QDII product – the US dollar denominated ‘Currency Linked – Daily Range Accrual’ – through our Mainland branches and sub-branches in December.

Year on year, our number of Prestige Banking customers grew by 130 per cent.

We further strengthened relationships with business customers by introducing factoring

and RMB bills acceptance services and launching Hang Seng HSBCnet, our comprehensive online commercial banking solution.

Insurance agency services offered at our Shanghai and Shenzhen branches and sub-branches were rolled out to our Fuzhou, Guangzhou and Beijing branches.

We provided customers with greater banking convenience by introducing Saturday banking at our Shenzhen branch, Guangzhou branch and sub-branch, and four sub-branches in Shanghai. We also began work on enhancing our online banking services on the Mainland.

Number of Prestige Banking customers

+130%

