

Our keen focus  
on expanding on the  
Mainland is key to  
our strategy as  
we **Look Ahead** to  
long-term growth





# Management Discussion and Analysis

## Business on the Mainland

### Mainland China is central to our long-term growth strategy.

In 2009, we extended our reach in this important market by opening more sub-branches under Hang Seng Bank (China) Limited as well as strengthening existing strategic alliances and establishing new ones. Close collaboration between Hang Seng staff on the Mainland and in Hong Kong led to the expansion of our wealth management business and an enhanced proposition for commercial customers with cross-border financial services needs.

These developments drove good growth in both personal and commercial customer bases, with the total number of Mainland customers up 18.3 per cent compared with the end of 2008.

Hang Seng China's total operating income was up 3.9 per cent, underpinned by the 1.3 per cent rise in net interest income. Reduced exchange losses on the revaluation of US dollar funds held by Hang Seng China against the renminbi were partly offset by the decline in other non-interest income.

We achieved good cost containment through the effective deployment of resources, recording a 0.9 per cent reduction in operating expenses despite expanding our network of outlets during the year.

The growth in the Mainland customer base underpinned a 35.9 per cent increase in deposits. Against the backdrop of the global financial crisis, the Central Government's RMB4 trillion stimulus package helped the Mainland economy maintain good momentum. Continuing economic activity and the more relaxed policy environment created new opportunities for banks to grow their lending business – particularly during the first half of the year – but also put downward pressure on pricing. We maintained good credit control, with loan quality rather than portfolio expansion remaining our primary consideration in lending decisions.

At 31 December 2009, advances to customers were up 5.2 per cent compared with a year earlier.

Hang Seng China's profit before tax recorded steady growth, reflecting the rise in total operating income as well as lower loan impairment charges and operating expenses.

Including the share of profit from strategic partners Industrial Bank and Yantai Bank, Mainland business contributed 13.3 per cent to total profit before tax, up from 11.9 per cent in 2008.

#### SERVICES

Good use of strategic partnerships and further investments in our service delivery channels helped us reach a broader group of potential customers. We expanded and upgraded our online propositions for personal and commercial banking to attract



new business by promoting our Internet services as a fast and effective way for customers to manage their financial needs.

Alliances with Mainland financial services organisations also provided greater customer convenience and supported the broadening of our service scope. We maintained agreements with several insurance companies to offer a diverse range of insurance coverage options and cooperated with estate agents and a mortgage guarantee company to strengthen our mortgage loan business.

Commercial Banking continued to benefit from our well-established relationships with customers in Hong Kong and close cooperation between colleagues across our markets of operation. We introduced a comprehensive range of renminbi cross-border trade settlement services following the implementation of the Central Government's pilot cross-border renminbi trade settlement scheme in mid 2009. By 31 December, our branch in Dongguan had handled 25.3 per cent of all cross-border renminbi settlements by value in the city – ranking first for cross-border renminbi settlements business in the last two months of 2009. New agreements with the China Export and Credit Insurance Corporation enable us to offer buyer credit protection, accounts receivable finance solutions and export credit insurance. These developments helped drive the 10.9 per cent increase in the number of Mainland commercial customers.



The total number of Mainland customers rose by 18.3 per cent compared with the end of 2008



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### Business on the Mainland



Mrs Dorothy Sit, Vice-Chairman and Chief Executive of Hang Seng Bank (China) Limited (centre), with members of the Hang Seng China management team.

The January 2009 launch of two Hang Seng China renminbi debit cards – the Hang Seng Card and Hang Seng Prestige Banking Card – was complemented by an agreement with China UnionPay (CUP) that allows the cards to be used at ATMs bearing the CUP logo as well as at designated CUP merchants on the Mainland and in about 50 countries and regions across the world. The agreement also enables all CUP-standard cards to be used in Hang Seng China ATMs, providing valuable brand exposure. Hang Seng China customers can

access their accounts via 136 HSBC China ATMs.

Drawing in part on Hang Seng's experience and capabilities in Hong Kong, we launched a series of wealth management seminars in support of improved investor education and continued to refine our investment product portfolio to meet changing customer needs and risk appetites in uncertain markets.

We achieved a 25.2 per cent increase in the number of Prestige Banking customers in 2009, providing a

strong base from which to deepen relationships through increased product penetration and cross-selling.

Our efforts have won external recognition, with Hang Seng China receiving the Most Popular Foreign Bank and Best Wealth Management Bank Awards at the 5th Beijing International Finance Expo. Our equity-linked partially capital protected investment product 'Easy Touch – Auto-callable' was named the Best Structured Financial Product in 2009 by *Shanghai Securities News*.

## NETWORK

Focusing on enhancing our coverage and customer convenience in cities with high growth potential, we opened three new outlets in 2009.

A new sub-branch in Beijing is supporting our business activity in the Bohai Economic Rim Region.

New sub-branches in Shenzhen and Guangzhou are facilitating the expansion of our cross-border renminbi trade settlement service capabilities. In January this year we opened a cross-city sub-branch in Foshan following the implementation of Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in October 2009, which allows Hong Kong banks with branch outlets in Guangdong to apply to establish sub-branches in any municipality within the province.

We now have three branches and 13 sub-branches in the Pearl River Delta region. Along with our enhanced trade settlement capabilities, this puts us in a good position to capture a growing share of cross-border business flows.

Including our Foshan cross-city sub-branch, Hang Seng China currently operates a network of 37 outlets and 66 ATMs across 12 Mainland cities.

## STRATEGIC ALLIANCES

Long-term strategic partnerships provide an important complement to Hang Seng China's operations in our plan for the sustainable growth of our Mainland business.

Our strategic alliance with Industrial Bank – which reached its fifth anniversary in April 2009 – continues to yield good results. We continue to collaborate in areas such as wealth management and trade services, and have strengthened mechanisms for cross-referring business.

Our strategic cooperation with new partner Yantai Bank in Shandong province is helping to strengthen our presence in the economically important Bohai Economic Rim region.

## FUTURE GROWTH

We have a broad-based vision for our Mainland business that emphasises the importance of a comprehensive product portfolio, personalised wealth management solutions, efficient delivery and convenient access to services.

capabilities, with the aim of offering customised financial solutions. This will also support efforts to grow our fee-based business for the greater diversification of revenue streams.

With our large base of commercial customers in Hong Kong and growing portfolio of renminbi trade settlement services, the focus of Hang Seng China's recent network expansion sees us better positioned to take advantage of increasing cross-border business opportunities. We will leverage this position to further strengthen our platform for achieving sustainable deposits growth.

We will continue to enhance risk management and operational efficiency and take advantage of the new opportunities for business created by CEPA VI.

*Hang Seng China currently operates a network of 37 outlets and 66 ATMs across 12 Mainland cities*

Deposits acquisition, particularly renminbi deposits, remains a central part of our strategy for long-term growth, underpinning balance sheet strength and providing liquidity for future business expansion as markets become more stable.

In support of this objective, we will continue to target the affluent customer segment, leveraging our Prestige Banking brand. We will further enhance our wealth management offerings and use staff training to improve our sales and service

Through Hang Seng China, we will engage in more brand-building activities, leverage our network of strategic partnerships and expand services that target key customer segments to support the continued expansion of our Mainland operations.

Following on from our strategic shareholdings in Industrial Bank and Yantai Bank, we are actively seeking potential investment opportunities in wealth management industry partners on the Mainland.