

● GUANGZHOU

● FOSHAN

● DONGGUAN

● SHENZHEN

● ZHONGSHAN

● KUNMING





● BEIJING

● TIANJIN

● NANJING

● SHANGHAI

● HANGZHOU

● NINGBO

● FUZHOU

TAKING THE LEAD

*DIRECTION*

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS ON THE MAINLAND



Assisted by good brand building and steps to expand the breadth and depth of our financial services proposition, we made significant progress with developing our mainland China business in 2010.

Through our Mainland subsidiary bank, Hang Seng Bank (China) Limited, we further leveraged strategic alliances to offer a wider range of wealth management products and more convenient access to services. An improved business referral mechanism assisted with the acquisition of new customers and helped us deepen existing relationships. We launched initiatives to promote greater awareness of the Hang Seng China brand among key customer segments and in cities with good economic potential.

These developments drove a 15.3% increase in the customer base, providing support for the expansion of deposits to underpin long-term business growth.

Hang Seng China purchased headquarters premises in Shanghai and added two new cross-location sub-branches in the Pearl River Delta region.





Excluding exchange losses on the revaluation of US dollar capital against the renminbi, Hang Seng China's profit before tax rose by 139.8%. Total operating income grew by 24.1%, supported by increases in both net interest income and non-interest revenue, to more than offset rises in operating costs and loan impairment charges.

Government steps to keep inflation under control amid robust economic growth led to a tighter regulatory environment, particularly for property-related lending. Market competition for deposits business remained keen. Against this backdrop, we achieved encouraging increases in customer advances and deposits, resulting in an 8.3% rise in net interest income.

We continued to emphasise credit risk management over portfolio expansion, focusing on high-quality borrowers that offered good potential for generating additional revenue through cross-selling opportunities and deposits business. At 2010 year-end, lending was up 28.4% compared with a year earlier. Residential mortgage lending fell by 3%, reflecting the impact of government measures to cool activity in the property market.

Customer deposits rose by 76.1%, leading to further improvement in our advances-to-deposits ratio.

Leveraging our growing Mainland wealth management and renminbi trade settlement capabilities, we took successful steps to further diversify our revenue base, resulting in a 106.3% rise in non-interest income.

We achieved a 17.2% increase in the Mainland Prestige Banking account base.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS ON THE MAINLAND



Mrs Dorothy 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 Hang Seng's Mainland strategic partners, Industrial Bank and Yantai Bank, Mainland business contributed 14.9% to total profit before tax, compared with 13.3% in 2009.

### SERVICES

We improved access to services and broadened our range of product offerings, with a particular emphasis on attracting new business in key customer segments.

We deepened existing customer relationships by promoting total wealth management financial solutions and establishing a new structure to boost cross-referrals and resource sharing among Mainland business divisions.

Our wealth management strength in Hong Kong proved an effective tool in the development and launch of new investment products, helping to reinforce Hang Seng China's growing reputation as a market leader among foreign banks. We focused on products designed to attract and retain deposits, particularly those denominated in renminbi. We stepped up collaboration with Mainland insurance companies to offer a broader range of insurance options for customers.

+76.1%

## Hang Seng China customer deposits

Our efforts to exceed customer service expectations helped us win a number of awards in 2010, including 'Best Foreign Bank' from *National Business Daily* and *CFO World*'s 'Best SME Services Award'. We were ranked number 1 for investment returns in *China Benefit*'s 'Wealth Management Survey' and our Pick & Win equity-linked investment product was one of *Money Week*'s 'Top Ten Best Wealth Management Products in 2010'.

With our growing appeal among the mass-affluent and affluent customer segments, we achieved a 17.2% increase in the Mainland Prestige Banking account base – supporting an 89% rise in Mainland Personal Financial Services' deposits. The overall personal customer base grew by 15.3% year on year.

New insurance offerings enriched our trade-related financial services proposition for Mainland commercial customers. We partnered with China Export and Credit Insurance Corporation (Sinasure) to extend our factoring business from foreign trade to domestic trade. We also launched a domestic trade forfeiting service for local banks.

We worked with China Union Merchant Service to provide merchant acquiring services, which helped us grow our operating accounts base and deposits business in the retail sector.

Facilitated by our strategically located network of outlets and close collaboration between commercial banking teams in Hong Kong and on the Mainland, we continued to be an active player in cross-border renminbi trade settlement business. Following the expansion of the pilot programme from four selected cities in Guangdong and Shanghai to 20 provinces and municipalities in mid-2010, we achieved a 13-fold increase in renminbi trade settlement transaction volume compared with that recorded between July 2009 and May 2010. Trade turnover in 2010 more than doubled compared with 2009.

The Mainland corporate and commercial banking customer base grew by 14.4% year on year. Corporate and commercial customer advances and deposits were up 33.1% and 58.4% respectively.

Market competition and a tighter regulatory environment put pressure on interest-based revenue business in the second half of the year. We worked to strengthen non-interest revenue streams, including successful efforts to grow treasury business by promoting our trading capabilities and leveraging an enhanced cross-referral mechanism to boost corporate treasury sales.



We launched new initiatives to achieve greater awareness of the Hang Seng China brand.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS ON THE MAINLAND



## NETWORK

Hang Seng China opened two cross-location sub-branches – one each in Foshan and Zhongshan – under CEPA VI, which allows Hong Kong banks with branches in Guangdong to apply to establish cross-location sub-branches in the province.

With 17 outlets in the Pearl River Delta region, we are in a good position to capture a growing share of commercial business flows and take advantage of new opportunities under the cross-border renminbi trade settlement programme.

Including the two cross-location sub-branches, Hang Seng China now has 38 outlets across 13 Mainland cities.

In a further demonstration of our long-term commitment to the Mainland market, Hang Seng China completed the RMB510m purchase of headquarters premises in Shanghai's financial district, Lujiazui.

In addition to acquiring over 7,000 square metres of office and retail space, the transaction included naming and signage rights to the building – providing a strong boost to our brand-building efforts. We gained further valuable exposure by securing the naming rights to the building that houses our Foshan sub-branch.



Improvements in service delivery included upgrading and expanding our online platform to provide a better customer experience and support greater sales via self-guided channels.

In addition to using Hang Seng China's 67 ATMs across the Mainland, our customers can 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 for brand exposure.

We extended our counter services agreement with Industrial Bank – under which our customers can enjoy renminbi deposit services at the Mainland bank – from its outlets in Shanghai to all its outlets on the Mainland.

To support growth and strengthen relationships with customers, Hang Seng China increased its number of full-time staff by 12.5% to 1,614 in 2010. With customer service as our key competitive strength, we continued to invest in our people through training and career development programmes.

## STRATEGIC ALLIANCES

We have built strategic partnerships that complement our organic growth through Hang Seng China.

Our partnership with Industrial Bank continues to yield good returns, both in financial terms and in areas such as service delivery and business referrals. We took up our full entitlement under a rights share issue by the Mainland bank during the first half of 2010 – raising our equity interest from 12.78% to 12.80% and underscoring our commitment to this valuable alliance.

Our holding in Yantai Bank extends our brand reach in the strategically significant Bohai Economic Rim region. We continued to leverage our strengths in working with Yantai to enhance its internal infrastructure and build a deeper foundation for future growth in key areas of business.

## FUTURE GROWTH

Looking ahead, we will use our competitive advantages to attract more customers in target segments. The acquisition of deposits, particularly renminbi deposits, remains key to the sustainable expansion of our business – helping to strengthen our balance sheet and providing liquidity to prudently grow our loans portfolio.

We will reach out to customers through the extended network provided by Hang Seng China's outlets and our strategic alliances.

We will reinforce our reputation as a leader in wealth management and commercial banking services among foreign banks, and further diversify our income base by expanding fee-based business. With support provided by Hang Seng's business strengths in Hong Kong, we will launch innovative new products and services. We will continue to capitalise on opportunities provided under CEPA VI and the further opening up of the cross-border renminbi trade settlement programme.

We will explore new avenues of cooperation with our strategic partners to strengthen our platform for long-term business growth.



We focused on products designed to attract and retain deposits.