



FOCUS



NAVIGATING THROUGH CHALLENGES



CHAIRMAN'S STATEMENT

In the challenging environment of 2011, we built on our trusted brand to enhance long-term growth and achieved a solid operating result.

We continued to develop areas of strength and deepened our penetration into segments that offer growth opportunities. Our core strategies of financial prudence and innovating to deliver more value served us in good stead.

In the volatile market conditions, we drew on our time-to-market wealth management capabilities to offer comprehensive products catering for the changing financial needs of our customers, targeting mainland China customers among other segments.

In our commercial and corporate banking businesses, our good industry knowledge, strong cross-border capabilities and total solutions helped enhance our status as a preferred partner for trade-related services and our franchise in corporate wealth management.

The Mainland will remain a major focus for our future expansion. Reflecting our efforts to take advantage of the opening up of the Mainland financial sector, the gradual internationalisation of the renminbi and the closer economic integration of Hong Kong and the Mainland, we achieved encouraging growth in our cross-border services and renminbi-related businesses.

In an important milestone, Hang Seng Bank (China) Limited moved into new headquarters in Shanghai's Lujiazui financial district in May 2011. The move signifies our long-term commitment to developing our business on the Mainland.

Our strengths continued to win recognition. The Bank was named the Best Domestic Bank in Hong Kong for the 12th consecutive year by *The Asset* and the Best Domestic Bank in Hong Kong by *Asiamoney*.



VISION

Raymond Ch'ien
Chairman



In 2011, Hang Seng became the first local bank in Hong Kong to be included as a constituent stock on the Dow Jones Sustainability Asia Pacific Index, which tracks the performance of companies that lead the field in terms of corporate sustainability.

Our brand has come to represent financial soundness, trustworthiness, value creation and superior service. Hang Seng's brand value was ranked 65th globally in the 2012 Brand Finance Banking 500, the highest ranking for Hong Kong banks.

FINANCIAL HIGHLIGHTS

Profit attributable to shareholders rose by 12% to HK\$16,680m and profit before tax was up 11% at HK\$19,213m. Earnings per share were up 12% to HK\$8.72 per share.

The return on average shareholders' funds was 22.6%, compared with 22.8% in 2010. The return on average total assets was 1.8%, compared with 1.7% a year earlier.

At 31 December 2011, our capital adequacy ratio was 14.3%, compared with 13.6% at the end of 2010. The core capital ratio was 11.6%, compared with 10.8% a year earlier. The rise in both capital and core capital ratios reflected the combined effect of the increase in profit after accounting for dividends in 2011 and the decrease in risk-weighted assets.

The Directors have declared a fourth interim dividend of HK\$1.90 per share, payable on 29 March 2012. This brings the total distribution for 2011 to HK\$5.20 per share, the same as for 2010.

OPERATING ENVIRONMENT

The operating environment in 2011 was affected by growing global economic uncertainties, including the deepening sovereign debt crisis in the eurozone, the continuing fragility of the US economic recovery, and the effects of the devastating earthquake and tsunami in Japan on global supply chains. As a result, the growth momentum in Hong Kong eased in the second half of the year as external demand slowed.

China headed towards a soft landing as economic growth moderated due to persistent monetary tightening by the government and weaker external demand. The economy was mainly supported by strong investment and consumption growth. The high inflationary pressure began to ease after peaking in July.

In 2012, the prevailing economic uncertainties in the eurozone and the US will continue to dominate globally. The downgrade of the credit ratings of the US and various eurozone countries by credit rating agencies over the past year indicates continued downside risks in the world economic outlook.

Against this backdrop, Hong Kong's economic growth is likely to slow this year. Exports will be adversely affected by the difficult global environment, but domestic demand should remain resilient on the back of steady income growth and continued expansion of public sector construction works. Inflation is expected to come down due to the recent easing in global food and commodity prices, and the expected economic slowdown.

We undertake to increase value
in every way we can for our
customers and shareholders.

Economic growth on the Mainland is expected to slow further, although its economy remains among the fastest growing in the world. Since December 2011, China's central bank has cut the reserve requirement ratio for commercial lenders twice in a sign it is easing monetary policy to stimulate domestic demand. Although exports should continue to soften given weakening external demand, consumption growth is expected to remain resilient given the increasing personal wealth of the Mainland population. Investment growth is also expected to remain steady as the government gradually eases monetary conditions. Inflation is likely to fall steadily.

In the banking sector, loan growth is expected to moderate while competition for deposits will remain keen. Banks will encounter more challenges, including evolving regulatory requirements.

ACKNOWLEDGEMENTS

I would like to take this opportunity to thank our stakeholders for their strong support in the challenging economic environment. We undertake to increase value in every way we can for our customers and shareholders. We will continue to enhance shareholder value and to provide total financial solutions to meet customer needs in wealth creation and asset protection.

I must especially thank our staff, who work as a team to make the real difference in our service delivery. Their dedication and hard work in providing superb customer support has reinforced the strength of the Hang Seng brand in an increasingly competitive market.

Mrs Margaret Leung will retire from her position as Vice-Chairman and Chief Executive of Hang Seng and from the Board of Directors with effect from the conclusion of the Bank's Annual General Meeting to be held on 11 May 2012.

On behalf of the Board of Directors, I would like to thank Mrs Leung for her outstanding contributions. She has successfully steered Hang Seng through the challenges of the prevailing international financial crisis and the continuing problems of the eurozone. Under her outstanding leadership, Hang Seng has emerged stronger than ever as a trustworthy, solidly-managed, and award-winning financial institution providing innovative products and exemplary customer service. We also owe her our gratitude for strengthening Hang Seng's position as a caring and socially responsible community bank in Hong Kong and the Mainland. We wish her all the best in her retirement.

Mrs Leung's position will be taken up by Ms Rose Lee, who is currently Advisor, China and Hong Kong, The Hongkong and Shanghai Banking Corporation Limited. The Board extends a warm welcome to Ms Lee, who is an excellent choice to build on the legacy and strengths of Hang Seng with her great experience and knowledge of the Mainland and Hong Kong markets.

The year ahead will be demanding. Through the years, our Bank has navigated through change and challenges to create value for our stakeholders. Our goal is to become the leading personal and private bank for affluent and middle-class customers in Hong Kong and on the Mainland; and the leading trade bank in Greater China. We will redouble our efforts to continue creating sustainable value for our stakeholders as we move closer to our goal.



Raymond Ch'ien

Chairman

Hong Kong, 27 February 2012