



DIRECTION

EXPANDING HORIZONS



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ON THE MAINLAND

Our mainland China business recorded encouraging growth in 2011 as we successfully leveraged our proven wealth management and cross-border service capabilities.



Through our Mainland subsidiary, Hang Seng Bank (China) Limited, we advanced our strategic positioning in this important market and deepened key alliances to expand our product delivery. We were able to increase our customer base and strengthen existing customer relationships by offering quality services.

In a significant brand-building development, Hang Seng China moved in May 2011 into new headquarters in Lujiazui, Shanghai's financial district. The move signifies our long-term commitment to the Mainland market.

Reflecting our efforts to take advantage of the further opening-up of the Mainland market, our wholly owned subsidiary Hang Seng Securities Limited partnered with Guangzhou Securities Company Limited to apply to set up the first joint venture securities investment advisory company under CEPA VI in Guangdong province.

The Mainland business contributed 21.9% to the Bank's total profit before tax, compared with 14.9% in 2010. This includes the share of profit from our Mainland investments, where our share of profit from Industrial Bank increased by about 40% during the year.

21.9 %

Contribution to Bank's
total profit before tax

+45.7 %

Total operating income





FINANCIAL PERFORMANCE

Hang Seng China recorded an encouraging increase in profit before tax to HK\$482m. Total operating income grew by 45.7%, underpinned by strong growth in net interest income and other operating income.

Government measures to control high inflation resulted in a tighter regulatory environment, particularly for property-related lending. We continued to focus on prudent credit risk management, growing our customer base of high-quality

borrowers. Advances to customers rose by 23.0% during the year. Residential mortgage lending increased by 5.5%, reflecting the impact of the government measures.

In the keenly competitive market, we were able to increase total deposits by 34.1%, leading to further improvement in our advances-to-deposits ratio. At 70.6%, the advances-to-deposits ratio met the timeline for implementing the regulatory requirement in this area ahead of schedule. Net interest income rose by 19.3%.

+21.1 %

Personal customer base

+34.1 %

Deposits





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.

We continued to diversify our income streams by growing our Mainland wealth management and renminbi trade settlement capabilities, resulting in a 117.8% rise in non-interest income.

SERVICES

In the challenging and highly competitive banking environment, we built on our strengths to provide customised wealth management products, cross-border trade solutions and renminbi-related services.

We enhanced total wealth management financial solutions, targeting high net worth and mass-affluent individuals with our Prestige Banking services. Our first VIP Prestige Banking Centre was opened in Shanghai in May 2011.

By capitalising on our wealth management strength in Hong Kong, we were able to provide tailor-made products to meet changing customer risk appetites. This reinforced our growing reputation as a market leader among foreign banks.

We will capitalise on our competitive advantages to capture new opportunities.

During the year, we achieved a 25.6% increase in the Mainland Prestige Banking account base, which supported a 44.7% rise in deposits in the Mainland's Retail Banking and Wealth Management business. The overall personal customer base grew by 21.1% year on year.

Collaboration with both domestic and foreign insurance companies was strengthened to offer a larger range of insurance products to customers.

The synergies between our Hong Kong and Mainland operations strengthened our cross-border renminbi propositions in trade services and other areas. Trade settlement services remained a pillar of our corporate and commercial banking services.

Our cross-border customer referral process was enhanced to expand our client base of business customers with high growth potential in key industries, in particular those supported under China's 12th Five-Year Plan.

Counter services were extended to all Hang Seng China outlets for corporate and commercial banking customers.

The Mainland corporate and commercial banking customer base grew by 8.3% year on year. Corporate and commercial customer advances and deposits were up 26.8% and 25.9% respectively.

In its treasury business, Hang Seng China adhered to prudent risk management in asset and liability management, focusing on exploring low risk, high return investment channels in response to the uncertainties in the market environment. Meanwhile, collaboration among business units in Hong Kong and the

Mainland was strengthened to develop treasury products that met different customer needs, particularly in cross-border renminbi trade.

We leveraged strong business ties with domestic banks on the Mainland to expand our product coverage and launched products such as renminbi bill rediscounting.

Our achievements on the Mainland were recognised during the year when Hang Seng China was named China's Best Foreign Retail Bank by *Money Week* and Outstanding Risk Management Bank of the Year by *The Economic Observer*. Hang Seng China also received the Best Cross-Border Trade Settlement Service Award from *CFO World*.



NETWORK

Given Hang Seng China's focus on the economically significant Pearl River Delta, Yangtze River Delta and Bohai Rim, we are well-positioned to meet the wealth management needs of Mainlanders with rapidly rising incomes and capture a growing share of commercial business flows.

At the end of December 2011, Hang Seng China operated a strategically located network of 11 branches and 28 sub-branches covering 14 cities across the Mainland.

During the year, Hang Seng China opened its third cross-city sub-branch in Huizhou.

Applications to establish a new branch in Xiamen, a sub-branch each in Beijing and Tianjin, and a cross-city sub-branch each in Guangdong's Shunde, Zhuhai and Jiangmen respectively have been approved.



Mainland Headquarters

Highlighting our long-term commitment to the Mainland market and to providing quality services to Mainland customers, in May 2011, Hang Seng China celebrated the opening of its new headquarters at Hang Seng Bank Tower in the Lujiazui financial district in Shanghai. The premises, comprising about 7,000 square metres of office and retail space in the Tower, were purchased in 2010 for RMB510m. Hang Seng China's Shanghai branch was also relocated to the same building.

Improvements in service delivery included the introduction of new online functions to facilitate customer convenience and generate more sales.

Hang Seng China debit cards continued to be well-received by the market. At the end of 2011, the number of its issued debit cards had increased by 31.2% compared with a year earlier. Hang Seng China also operated 65 ATMs at the year-end.

In order to support growth and deepen customer relationships, Hang Seng China increased its staff number by 9.8% to 1,772 in 2011.

Our partnership with Industrial Bank continued to yield good results. In March 2011, the Bank signed a memorandum of understanding with Industrial Bank to further strengthen bilateral cooperation in various areas of business including credit facilities, product development and distribution, asset management and private banking. In addition, more branch-level cooperation initiatives have been launched between the two banks.

FUTURE GROWTH

Given regulatory changes broadening the scope of renminbi financial services, the gradual internationalisation of the renminbi and the closer economic integration of Hong Kong and the Mainland, we aim to capitalise on our competitive advantages to capture new opportunities.

We will step up our focus on the increasing wealth management needs of Mainlanders and intend to extend our VIP Prestige Banking services to other key cities. We will continue to reach





out to corporate and commercial banking customers in key industries supported under China's 12th Five-Year Plan, develop cross-border renminbi products and provide value propositions in trade services. Collaboration between our Hong Kong and Mainland teams will be further strengthened to enhance cross-border services.

Our network of operations will continue to expand. The acquisition of deposits will remain key to sustainable expansion of our business, helping to strengthen our balance sheet. Revenue diversification and the optimisation of distribution channels will remain crucial as we provide total solutions to customers across all businesses.

We will actively promote our cross-border capabilities by strengthening our relationships with referral partners.

We are confident of
reinforcing our leadership
among foreign banks.

Given our strong brand, service excellence and strong cross-border banking proposition, we are confident of reinforcing our leadership in wealth management, corporate and commercial banking services among foreign banks.