

Chief Executive's Report

Hang Seng recorded strong full-year results for 2018. Our investments in technology, staff engagement and operational infrastructure are delivering on our commitment to providing customers with better financial services, growing our market leadership and reinforcing our status as a progressive and preferred brand.

We have adopted a dynamic, yet strategic, approach to capture new business, mitigate risk and drive business momentum in various market conditions for long-term sustainable growth.

Attributable profit rose by 21% year on year, with growth in both net interest income and non-interest income. All business lines achieved increases in revenue and profitability.

Enhanced data analytics gave us greater insight into the priorities and aspirations of our more than 3.5 million customers in Hong Kong. Supported by our comprehensive product range and extensive distribution network, we delivered timely tailor-made financial solutions that deepened existing relationships and won us new customers.

We expanded the digitisation of our services and distribution channels, focusing particularly on mobile platforms, to provide easier access and greater choice. This increased our engagement with customers and strengthened our appeal among younger generations and other target segments.

New digital services such as our all-in-one payment platforms offer retail and commercial customers greater flexibility and ease in making and receiving digital payments. Our AI chatbots, timely market alerts and 'anytime, anywhere' services enable customers to act swiftly on business and investment opportunities.

As part of our forward-thinking strategy, we have teamed up with industry peers and strategic partners such as Tencent and Hong Kong Science and Technology Parks to strengthen our digital

capabilities, create new business opportunities and help advance fintech development in Hong Kong.

Our well-integrated cross-border capabilities and closer cross-business collaboration reinforced our mainland China operations. Hang Seng China recorded strong profit growth, reflecting an increase in non-interest income and effective management of overall credit quality.

Our initiatives to enhance the working environment and employee benefits continued to improve staff engagement and well-being. Our 'digital floor', which opened in January this year, is a new type of workspace that facilitates the generation of ideas, promotes closer collaboration and supports different ways of working based on individual preferences and needs. We also launched H@SE, our in-house social media platform, to encourage open communication among colleagues.

Our commitment to excellence is recognised by *The Asset*, which has named us 'Best Domestic Bank in Hong Kong' for 19 consecutive years.



Financial Performance

Attributable profit grew by 21% to HK\$24,211m and earnings per share rose by 21% to HK\$12.48 per share.

Operating profit was up 19% at HK\$27,947m and operating profit excluding change in expected credit losses and other credit impairment charges grew by 18% to HK\$28,943m. Profit before tax rose by 20% to HK\$28,432m.

Net operating income rose by 17% to HK\$40,219m.

Net interest income was up 22% at HK\$30,047m, reflecting the 9% increase in average interest-earning assets and the acquisition of new customers, which helped drive solid growth in loans and deposits. The net interest margin improved by 24 basis points to 2.18%.

Non-interest income grew by 4% to HK\$11,168m, with our strong performance in the first half partly offset by the downturn in investment sentiment later in the year. The drop in international financial markets in 2018, compared with a significant gain in 2017, reduced investment returns from the life insurance portfolio. To mitigate the impact of this challenge, we leveraged our deep customer knowledge and diverse range of wealth-and-health products to record a 4% increase in wealth management income to HK\$9,063m.

We made significant investments for the future. Operating expenses rose by 13% to HK\$12,168m, reflecting investments in our people and technology to drive our long-term growth strategy. Depreciation charges on business premises also increased. With the growth in net operating income outpacing the rise in operating costs, we achieved positive jaws.

Our cost efficiency ratio was 29.5% – the lowest since 2007.

We continue to maintain a strong capital position. At 31 December 2018, our common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio were 16.6%, 17.8% and 20.2% respectively, compared with 16.5%, 17.7% and 20.1% at the end of 2017.

A Dynamic Approach for Driving Future Growth

Looking ahead, we expect the operating environment to remain challenging. Increased volatility in the financial markets and concerns over geopolitical developments and international trade suggest that global growth will slow in 2019.

Our investments in staff, technology and operational infrastructure are further strengthening us as a forward-thinking organisation that is setting high standards of service excellence in this new era of banking.

We are building a dynamic operational environment that facilitates the execution of our progressive strategy. We are better placed to further leverage our leading market position and our large and loyal customer base. We have the business resilience necessary to achieve long-term growth in a diverse range of market conditions.

By putting customers first, promoting greater efficiency and driving innovation, we are in a stronger position to achieve our business objectives. We will uphold the values of our trusted brand. We will continue to invest in initiatives and opportunities that will support future growth and deliver long-term results.

Our emphasis on improving convenience and choice is delivering an enhanced service experience that integrates with the increasingly mobile lifestyle of customers. As Hong Kong's leading domestic bank, we will continue to act as a driving force for fintech innovation in collaboration with strategic partners.

Our new Green Financing Promotion Scheme demonstrates our commitment to launching products and services that anticipate increasing market demand as customers focus on new priorities and concerns.

All these actions are fundamental to our customer-centric business strategy. They also reflect our broader undertaking as a good corporate citizen to continue to contribute to the future growth of Hong Kong.

We are doing more to bring out the best in our employees. Our new workspace model will drive innovation and create a more dynamic corporate culture. With flexi-hours, improved medical coverage and various well-being programmes, we aim to provide working conditions that ensure our people will reach their potential and play an active role in growing our business.

I wish to thank the Bank's more than 10,000 colleagues for their many contributions during 2018. Their commitment to our dynamic business approach will continue to strengthen Hang Seng's position as a vibrant, inclusive and progressive financial institution.



Louisa Cheang
Vice-Chairman and Chief Executive
19 February 2019