

# NEW VOICES



## ADVANCED

Digital banking innovations designed around the needs and expectations of our customers, including first-to-market AI chatbots for retail banking, are reinforcing our strong position in digital financial services.



## Train

06:42 Saturday



Mobility



## Explore

14:55 Sunday



Convenience

## Work

08:45 Monday



## Empower

13:35 Friday



## Communicate

21:30 Friday



## Invest

11:18 Monday







New path





New member



# INSIGHTFUL

**Deep customer knowledge and putting clients first** remain key competitive advantages of our trusted brand, enabling us to continue to deliver on our growth objectives.



New discovery





SMEs



Digitalisation



New opportunities





# CONCERTED

**Deployment of faster, more efficient and more secure global payment technologies** is strengthening engagement with our SME customers, helping us achieve solid growth in our commercial banking business, and positioning us to capitalise on future opportunities in the Greater Bay Area.

We are working in concert with strategic partners and peers to develop industry-wide fintech initiatives that will improve financing accessibility.

Seamless services



Communication



## DYNAMIC

**A more open management culture and work environment** that prioritise communication, well-being and productivity are promoting greater staff engagement and reinforcing our progressive approach to business in a rapidly evolving market.



Well-being







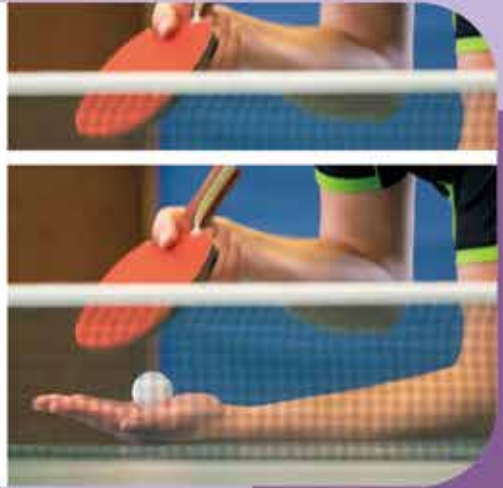
Flexibility





# RESPONSIVE

As we grow with today's 'sharing economy' **we listen closely and respond responsibly to the diverse voices within our community.**



Caring



I aim,  
therefore  
I am...



Inspiring



Empowering





## Business Review

Ongoing uncertainties over global trade policies and greater volatility in international financial markets created more challenging operating conditions in 2018, particularly during the second half of the year. Our investments to build a more dynamic and responsive operational structure played a pivotal role in our ability to sustain well-balanced growth momentum. Our large and diverse customer base enjoy fast and easy service access and financial solutions that are tailored to their specific needs. Our improved ability to meet our clients where they are – both on their financial journey and in their daily lives – reinforced customer loyalty and our position as the leading domestic bank in Hong Kong.

Facilitated by our competitive strengths in core banking services, strong customer relationships and in-depth industry sector knowledge, we achieved a 9% year-on-year increase in gross loans and advances to HK\$877.1bn, with solid growth in lending to both commercial and retail clients. We maintained a high level of asset quality by actively managing our credit risk and the composition of our lending portfolios. We leveraged our deeper engagement with customers and our trusted brand to acquire new deposits business, leading to a 7% rise in customer deposits, including certificates of deposit and other debt securities in issue, to HK\$1,191.2bn.

### Retail Banking and Wealth Management

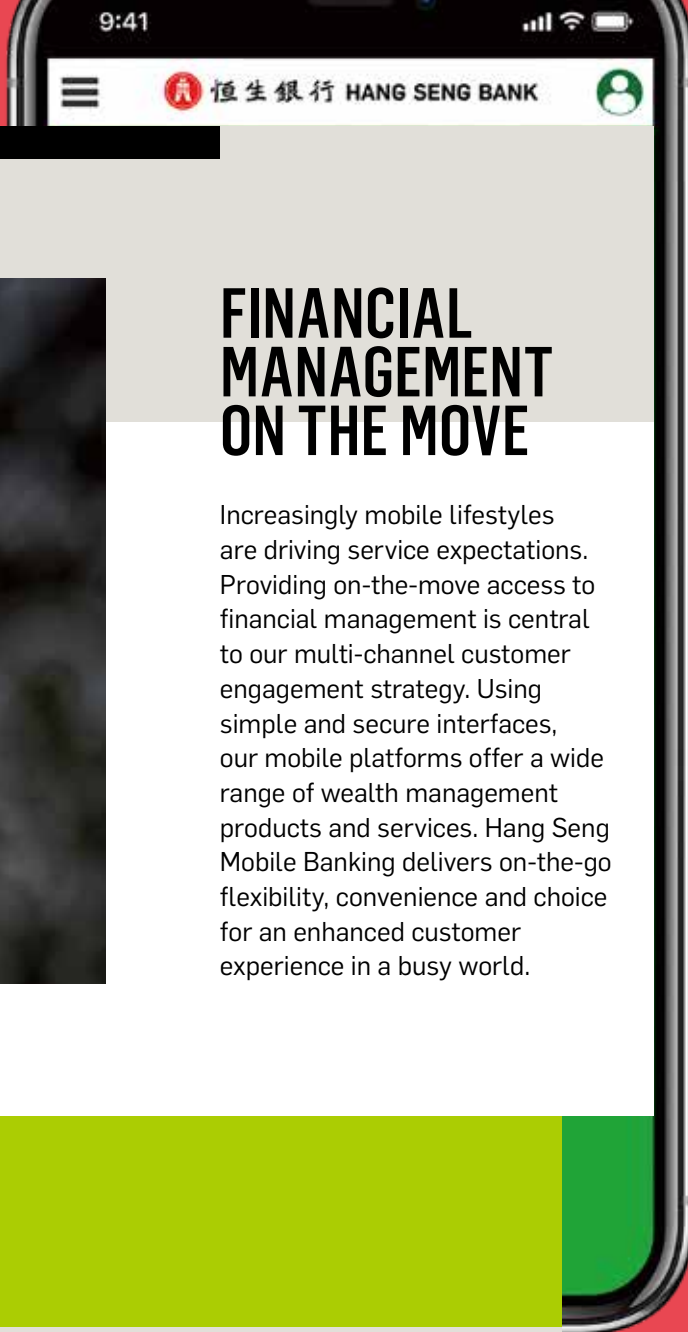
Retail Banking and Wealth Management recorded a 16% increase in operating profit to HK\$14,353m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 15% to HK\$14,724m and profit before tax was up 18% at HK\$14,557m.

Our investments in digital infrastructure are making financial management faster, easier and more convenient for customers. Our 'mobile-first' strategy ensures all digital products and services are available on our mobile platform at the time they are launched, and over 50% of mobile banking customers use our secure biometric authentication to access their accounts. Year on year, the number of active mobile banking users increased by 35%.

Offering customers unprecedented flexibility in making and receiving digital payments, the Hang Seng P.P Payment Platform has driven a four-fold increase in mobile-based transfer transactions since its launch. We further enhanced the capabilities of our first-to-market AI retail banking chatbots to provide interactive assistance with a greater range of financial services – including peer-to-peer payment transfers. Year on year, the number of Personal e-Banking customers increased by 8% in Hong Kong.

Powered by machine learning, enhanced data analytics enriched our customer segmentation strategy, enabling us to deepen client relationships by providing more personalised financial solutions.

Our value-added wealth management proposition helped us grow our Prestige Signature customer base by 25% year on year in Hong Kong.



## FINANCIAL MANAGEMENT ON THE MOVE

Increasingly mobile lifestyles are driving service expectations. Providing on-the-move access to financial management is central to our multi-channel customer engagement strategy. Using simple and secure interfaces, our mobile platforms offer a wide range of wealth management products and services. Hang Seng Mobile Banking delivers on-the-go flexibility, convenience and choice for an enhanced customer experience in a busy world.



H A R O

## ENGAGING TOMORROW'S CUSTOMERS

Young people growing up in the digital era have unprecedented access to information, and value individuality and choice. We are engaging this technologically savvy group of future entrepreneurs, community leaders and customers by offering them relatable and real-time banking services that align with their priorities and interests.







## BUILDING THE FUTURE FACE OF FINANCE

Technology is driving new highs of customer-centric service excellence by facilitating greater speed, convenience and personalisation. We spearheaded the use of AI chatbots to offer retail customers interactive assistance. Biometric authentication makes access to services easy and secure. Our one-stop Hang Seng P.P Payment Platform gives retail customers greater flexibility in choosing how to make and receive digital payments.



**DORI**



## POWERING THE ENGINE OF LOCAL ENTERPRISE

Entrepreneurial local businesses are integral to the Hong Kong success story. Our seamless and comprehensive digital services enable SMEs to track the market's pulse and act swiftly on new opportunities. Our WeChat Account and 24/7 online AI virtual assistant and Live Chat strengthen customer engagement. Our all-in-one Hang Seng One Collect payment collection service and enhanced digital platforms deliver cash management capabilities and real-time information to facilitate decision making.



**B E R I**



Net interest income grew by 21% to HK\$16,515m. We uplifted core banking relationships with clients to achieve strong deposit and loan growth compared with 2017 year-end. Our success with new deposits acquisition resulted in increased market share.

Despite adverse financial market conditions in the second half, we recorded a 3% year-on-year increase in wealth management business and kept non-interest income broadly in line with 2017 at HK\$5,600m by leveraging our diverse investment and insurance product portfolio and large base of loyal customers. Sales and penetration of fixed-income products both increased significantly year on year.

Investment services income was on par with the previous year. In the increasingly challenging market environment, we grew securities turnover and revenue by 1% and 3% respectively. Investment services revenue excluding securities-related income declined by 5%.

Insurance income rose by 8%. Solid business growth, including a 25% increase in life insurance new annualised premiums, outweighed lower returns from the life insurance investment portfolio. We continued to enhance our insurance product suite, including the launch of a new whole-life insurance plan, and to enrich our total-solution retirement planning propositions.

To counter the slowdown in the property market, we strengthened our mortgage distribution capabilities and identified new business opportunities. This drove an 11% increase in mortgage balances in Hong Kong compared with 2017 year-end. Our new mortgage business continued to rank among the top three in Hong Kong.

Enhanced analytics gave us a greater understanding of the needs and spending patterns of different customer segments. This supported more effective credit card marketing, resulting in a 9% year-on-year increase in card spending, and helped us grow the personal and tax loan portfolio by 12% in Hong Kong.

## Commercial Banking

Commercial Banking recorded a 35% increase in operating profit to HK\$8,575m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 33% to HK\$9,177m and profit before tax was up 35% at HK\$8,575m.

Net interest income rose by 33% to HK\$9,331m, reflecting balanced growth in average customer loans and deposits. Our industry sector expertise supported a solid year-on-year expansion in syndicated lending.

We leveraged our analytics capabilities to identify new opportunities to support SME customers. The expansion of lending drove a 33% increase in credit facilities fees. Insurance income and remittance fees rose by 24% and 16% respectively. This diverse base of revenue streams led to a 14% rise in non-interest income to HK\$3,051m.



Our investments in digital services enabled customers to track market trends more closely and enjoy easy access to information and assistance. Our AI chatbot and Live Chat online messaging service provide 24/7 banking services support. Customers can also enjoy instant mobile updates via our WeChat Account and the convenience of initiating the account-opening process online. In mainland China, we launched our mobile banking app and Mobile Collection – a new digital payments service – in 2018.

Enhancements to transactional banking services helped customers to manage their cash flow more effectively in changing market conditions. We launched Hang Seng One Collect, which enables merchants to accept a wide range of digital payment methods through one integrated terminal. eTradeConnect, a trade finance platform developed in partnership with the Hong Kong Monetary Authority and industry peers, offers customers greater transactional efficiency and security.

Our new Green Financing Promotion Scheme, which offers incentives on financing for the acquisition of environmentally friendly equipment, helps customers meet their financial needs while upholding their business values. It also demonstrates our commitment to launching products and services that anticipate future market demand as customers focus on new priorities and concerns.

We upgraded our physical outlets to improve the customer experience and expanded our Kwun Tong Business Banking Centre to capitalise on the growth in commercial activity in East Kowloon.

In the increasingly challenging credit environment, our proactive credit risk management strategy helped us uphold good asset quality and improve overall returns on risk assets.

## Global Banking and Markets

Global Banking and Markets reported a 12% rise in operating profit to HK\$5,320m. Operating profit excluding change in expected credit losses and other credit impairment charges and profit before tax also both rose by 12% to HK\$5,343m and HK\$5,320m respectively.

### Global Banking

Global Banking recorded a 19% increase in operating profit to HK\$2,110m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 20% to HK\$2,135m. Profit before tax was up 19% at HK\$2,110m.

Net interest income grew by 20% to HK\$2,318m, reflecting an increase in loans-related income resulting from enhancements to the lending portfolio mix and growth in the loans balance.

Non-interest income remained broadly steady – underpinned in part by increased fee income from credit facilities on the back of solid lending growth.

With our deep market knowledge and in close consultation with our clients, we continued to develop new products and services to meet the current and future needs of customers, including the establishment of a new product team to enhance our debt product capabilities.

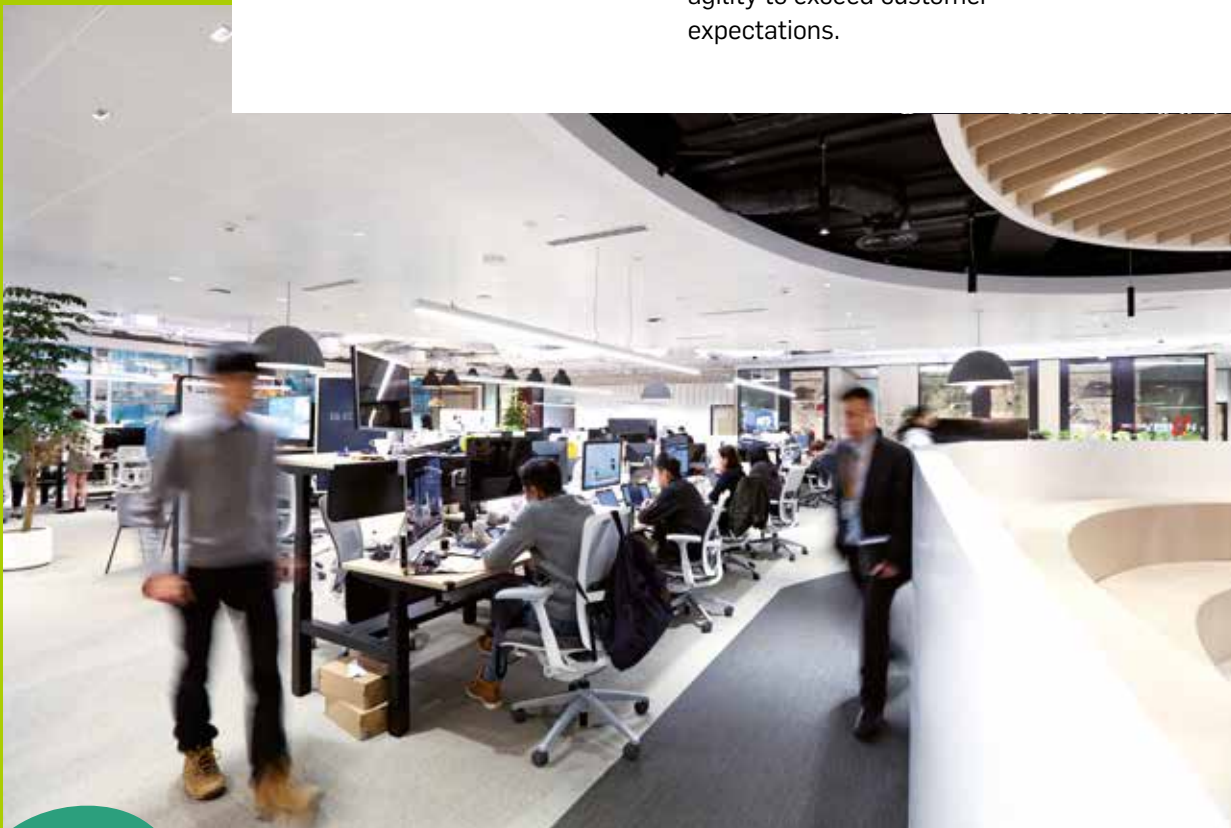


**SPEAK-UP  
HERO**



## UNLEASHING EMPLOYEE POTENTIAL

Collaboration, creativity and expertise drive business success in a fast-moving market. Our workplace enhancement initiatives promote employee wellness and agile working by integrating technology and workspace design to facilitate interactive and efficient working styles. Along with flexi-hours and a good work-life balance, our people enjoy working conditions that facilitate the sharing of ideas, encourage innovation and unleash the energy that gives us the business agility to exceed customer expectations.



## Global Markets

Global Markets reported an 8% increase in operating profit to HK\$3,210m. Operating profit excluding change in expected credit losses and other credit impairment charges and profit before tax also both grew by 8% to HK\$3,208m and HK\$3,210m respectively.

Net interest income rose by 12% to HK\$2,248m. Employing a diverse investment strategy, our balance sheet management team identified good opportunities for achieving enhanced yields. Our interest rate management team achieved strong growth in interest income through the proactive management of the fixed-income portfolio.

## AWARDS

**Best Bank  
– Domestic (Hong Kong)**  
(19th consecutive year)  
THE ASSET

**Hong Kong Domestic Trade  
Finance Bank of the Year**  
ASIAN BANKING & FINANCE

**Best Foreign Bank in Wealth  
Management – China Financial  
Innovation Award 2018**  
CHINA FINANCIAL HERALD

**Best Domestic Bank  
(Hong Kong)**  
ASIAMONEY

**Best Green Loan**  
THE ASSET

**Best Trade Finance  
Foreign Bank**  
TRADING FINANCE

**Safest Bank in Hong Kong**  
GLOBAL FINANCE

**Trusted Brands Gold Award  
– Bank (Hong Kong)**  
READER'S DIGEST

For Corporate Sustainability awards and recognition, please refer to page 100.

Non-interest income grew by 5% to HK\$1,530m. Close collaboration with retail, commercial and global banking divisions to cross-sell Global Markets' products drove an 18% increase in non-fund income from sales and trading activities. This outweighed the less favourable returns from balance sheet management funding swap activities.

The active Hong Kong stock market in the first half of 2018 supported an 8% year-on-year rise in income from equity-linked products. Along with stronger customer demand for interest rate products, our active management of interest rate risk led to good growth in interest rate-related income.



## Hang Seng Indexes

Wholly owned subsidiary Hang Seng Indexes Company Limited (Hang Seng Indexes) developed more indexes to serve as market performance indicators and as the basis for the development of index-linked products by local and global market participants.

Eight new exchange-traded products based on the Hang Seng Family of Indexes were listed in 2018, taking the total number of such products to 74 worldwide – with listings on 17 different stock exchanges. As at the end of 2018, assets under management in products passively tracking indexes in the Hang Seng Family of Indexes had reached a total of about US\$34bn.

The total number of futures and options contracts traded on the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) in 2018 was over 139 million, representing an increase of 47% compared with the previous year. This was mainly attributable to HSI futures contracts, which grew by 82%. HSCEI futures and index options registered increases of 30% and 24% respectively. To complete the value chain of futures offerings, four new Total Return Index products were launched during the year.

Leveraging its deep understanding of current and future market demand, Hang Seng Indexes launched new indexes with cross-market coverage or targeting innovative investment themes, including the Hang Seng SCHK New Economy Index, the Hang Seng China New Economy Index, the Hang Seng Stock Connect Big Bay Area Composite Index, and the Hang Seng Stock Connect Hong Kong Big Bay Area Index. The HSCEI Volatility Index was also launched to reflect investor sentiment towards the overall performance of Mainland enterprises listed in Hong Kong.

To make the HSCEI more representative of the performance of Mainland enterprises listed in Hong Kong, its universe of eligible constituents was extended to Red-chips and P-chips with effect from the February 2018 index review.

In May, following a series of consultations with market participants, Hang Seng Indexes announced its consultation conclusions on the eligibility of foreign companies, stapled securities and weighted voting right companies for inclusion in the Hang Seng Composite Index.

As at 2018 year-end, Hang Seng Indexes was compiling 566 indexes, including 112 real-time indexes. Hang Seng Indexes' two flagship indexes will reach major milestones in 2019. The HSI, the leading barometer of the Hong Kong stock market, will celebrate its 50th anniversary since launch, and the HSCEI, the China Index of Hong Kong market, will mark its 25th anniversary.