

MANAGEMENT DISCUSSION AND ANALYSIS

Hang Seng Virtual Assistant

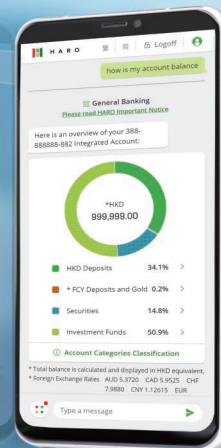


H A R O

Opportunity



We offer a diverse range of service channels



MANAGING WEALTH ON THE GO

The face of banking is changing. People are living increasingly busy and mobile lives, and they want easy-to-use services that are intuitive, fast and secure. We use innovative technology to allow customers to manage their finances, conduct real-time transactions and look after their investments whenever they want and wherever they are.



P.P Payment Platform



What's the balance in my HKD business account?

9:04 am



9:04 am



Welcome to Hang Seng Commercial Banking!

I am Hang Seng Business Virtual Assistant B E R I, designed to answer your questions.





Hi BERI

HELPING SMEs FLY HIGH

The enterprising spirit and can-do attitude of local SMEs are central to the story of Hong Kong's success. As a homegrown bank, we take pride in facilitating the growth of our SME customers by providing flexible service solutions that are simple and convenient to use to enhance their operational efficiency and reduce processing times.



Online Shopping and Overseas Spending Rewards



Any dining offer?

6:05 pm

DORI

I have found these dining offers for you

6:05 pm

CASH DOLLARS

Cash Dollars Rewards

MPOWER Card
 Unleash mobile, music and movie privileges
 Be inspired
 Enjoy endless fun

A SMARTER WAY TO ENJOY LIFE

Our smart banking services make enjoying the rich tapestry of life more rewarding and fun. Whether buying foreign exchange, shopping online or planning overseas travel, there are endless ways to enjoy greater value when you're banking right.



Mortgage



Wealth Accumulation

HANG SENG
MPF

Hang Seng MPF



Education Fund





MOVING FORWARD TOGETHER

Our customers have come to rely on us to help them plan for major personal milestones and handle unexpected challenges and opportunities in life. Our comprehensive wealth management proposition – including retirement planning products, innovative investment services and local market expertise – ensures we always have the right solutions to meet the diverse needs of our customers now and for generations to come.

OPEN AND COMMUNICATIVE

Clear communication, integrity and well-being are key pillars in our corporate culture. As the ways in which people interact continue to change at a rapid pace, we are reaching out to engage and communicate with our customers and our community through new and innovative channels. Our positive and caring approach to building human connections shines through in all aspects of our work.





BUSINESS REVIEW

Operating conditions in Hong Kong were challenging in 2019. Reduced levels of international commercial and industrial activity related to uncertainty over the future shape of global trade had an adverse impact on the city's open economy. During the second half of the year, social disharmony and early signs of rising unemployment served to dampen consumer sentiment in the domestic sector.

Our stronger digital banking capabilities, increasingly integrated offline-online service proposition and faster transaction processing times were just some of the ways in which we made it easier for customers to manage their financial needs and take timely advantage of investment and business opportunities.

Backed by our diverse all-weather portfolio of products and deep-rooted knowledge of the markets we serve, our expert team of financial professionals provided customers with wealth management solutions tailored to help them plan more effectively for major life events and work towards achieving long-term financial goals.

Customer deposits, including certificates of deposit and other debt securities in issue, rose by 5% year-on-year to reach HK\$1,249.8bn. Our healthy balance sheet and strong customer relationships drove the 8% increase in gross loans and advances to customers to HK\$946.4bn.

Retail Banking and Wealth Management

Retail Banking and Wealth Management recorded a 6% increase in both operating profit and profit before tax to HK\$15,199m and HK\$15,371m respectively. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 9% to HK\$16,035m.

Net interest income increased by 7% year-on-year to HK\$17,717m. Amid keen market competition, our strong customer relationships helped us identify new deposits acquisition opportunities to grow deposits by 3% and to increase lending by 8% in Hong Kong.

We grew non-interest income by 13% to HK\$6,342m and achieved a 10% increase in wealth management income.

Improved customer segmentation and analytics, powered by machine learning, helped us gain a deeper understanding of the financial priorities and objectives of

our clients. This greater knowledge enhanced our ability to deliver timely needs-based products and services through a variety of online and physical channels. We captured new wealth management business and recorded a 9% year-on-year increase in the Prestige Signature customer base in Hong Kong.

We continued to focus on improving all aspects of the customer experience to make banking easier and more convenient, offering our clients greater choice over how and when they use our services. We upgraded the user interfaces of our mobile banking and Personal e-Banking platforms to offer greater customisation, streamline transaction journeys and complement lifestyles that are increasingly online. Our mobile-first digital service strategy, new entertainment offers under our MPOWER card and lower online investment thresholds attracted more young people to the Hang Seng brand, resulting in a 74% increase in young segment customers.

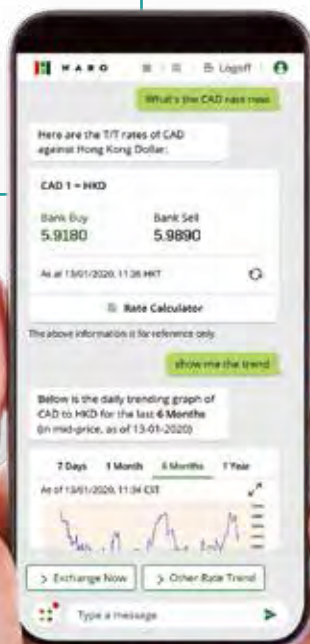
New digital services such as our Hang Seng Invest Express Stock Trading App and foreign exchange price alerts and order watch are making it easier for customers to act quickly on investment opportunities in fast-moving markets.

Enhanced payment capabilities – including the ability of HARO, our retail banking AI chatbot, to assist with outward transfers – drove strong growth in the use of our P.P payment platform, with a 91% increase in the number of customers registered to use our Faster Payment System services.



PERSONAL BANKING

We are harnessing the power of digital technology to better serve our clients, making ease of use and greater customisation central to the Hang Seng Personal e-Banking experience. Easy, efficient and convenient banking at your fingertips.



Always innovating to provide a seamless online-offline banking experience



H A R O

H A R O, our retail banking AI chatbot, engages customers in conversation, offering smart, interactive, anytime assistance with a growing range of transactions and enquiries.



Hang Seng is the first Hong Kong bank to apply near-field communication technology for ATM mobile cash withdrawals. Customers can just tap their mobile phones on the NFC sensor to withdraw cash.

HARO's expanded scope and the launch of our new live chat support, which instantly connects customers with our Customer Contact Centre professionals via an online messaging platform, improved service efficiency.

Year-on-year, the number of Personal e-Banking customers increased by 8% and the number of active mobile users rose by 38%.

Innovations such as our Mobile Cash ATM Withdrawal service that leverages QR codes and near-field communication technology and our e-Ticketing system for branch services for all segments are benefitting customers by allowing them to move seamlessly between online and offline channels.

Our drive towards offering a fully integrated online-offline banking experience includes an innovative new service concept for our physical outlets, which we unveiled at our branch at The Hong Kong Polytechnic University during



the year. With an open design and a digital services bar, the branch combines the different strengths of technology and in-person expertise to deliver an enhanced financial services experience.

Insurance income grew by 31%, buoyed by our prudent investment strategy which generated higher returns from the life insurance investment portfolio. We also enriched our retirement planning and healthcare solutions with the launch of new products, including several that enable customers to benefit from the Hong Kong Government's latest tax concession measures. The enhanced choice and coverage provided by our uplifted life insurance proposition improved our life protection product mix to drive an increase in insurance distribution revenue.

With continuing volatility in global financial markets dampening investor interest in securities and investment funds, we leveraged our diverse portfolio of fixed-income and capital-protected products to help customers find opportunities for potential yield enhancement that aligned with their reduced appetite for risk. Overall, investment services income fell by 15%.

Our strong distribution capabilities in the retail mortgage sector enabled us to record an 11% year-on-year increase in mortgage balances. Our market share for new mortgage business was 16%, putting us among the top three in Hong Kong for the year.

We made effective use of data analytics and tailored marketing campaigns to maintain good business momentum in unsecured lending.

Commercial Banking

Commercial Banking reported a 3% increase in both operating profit and profit before tax to HK\$8,795m. Operating profit excluding change in expected credit losses and other credit impairment charges rose by 5% to HK\$9,652m.

Despite the challenging economic environment, we achieved a 12% increase in net interest income to HK\$10,439m, driven primarily by solid growth in lending as well as a slight improvement in deposit yield. We continued to proactively manage credit risk and maintained good overall credit quality.

Non-interest income fell by 16% to HK\$2,574m, reflecting the slowdown in business activity among commercial customers in the uncertain operating environment. This was partly offset by the 12% rise in fee income from credit facilities as we stepped up our participation in the syndicated loan market. We ranked third in the Mandated Arranger League Table for Hong Kong and Macau syndicated loans in terms of number of deals in 2019.

We continued to proactively support local businesses. Our strong customer relationships enabled us to maintain an approval rate of over 90% for SME loan applications processed during the year. To assist SMEs with relatively shorter operating histories, we extended our participation in the Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme to include its new 90% Guarantee Product.

We revamped our Business e-Banking platform to reduce navigation times and make it easier for customers to find the products and services that meet their specific needs. We launched Linkscreen, a screen-sharing technology that enables us to provide online customer support for completing SME loan and commercial card applications. Customers can now ask BERI, our commercial banking AI chatbot, to provide them with a graphical overview of their account position. BERI's expanded capabilities also include assisting with a comprehensive range of foreign exchange services, such as providing market news and real-time exchange rates, in addition to executing foreign exchange transactions.

Our new Hang Seng HSBCnet Track Payments service allows customers to monitor the real-time, end-to-end status of cross-border payments in a fast, simple and transparent manner. We extended the service reach of One Collect, our award-winning integrated point-of-sale terminal, to include online merchants and support payments through the Faster Payment System. We continued to work with clients to develop customised corporate API solutions to further streamline the operational flow of cash management for companies.

Under our strategic alliance with Hong Kong Science and Technology Parks Corporation (HKSTP), our efforts to promote local start-ups and entrepreneurship included the launch of 'Inno Booster', which offers innovation and technology companies a range of preferential banking services. Our focus on tailored service solutions is driving new business and, as at the end of 2019, we had achieved a 17% penetration rate among HKSTP tenants.

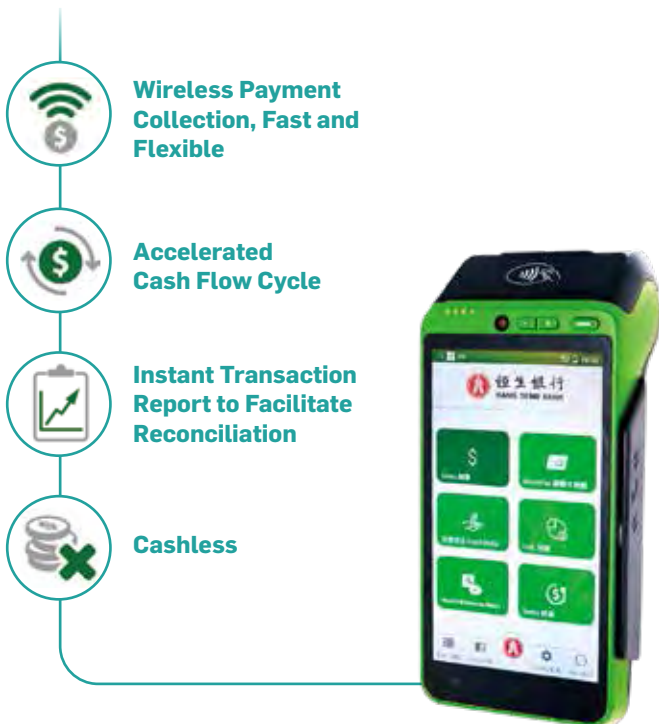




Upgrades at our Tsim Sha Tsui Business Banking Centre are providing customers with a more comfortable and efficient in-branch experience.

Our actions to set new standards in making banking better for customers was recognised with several awards during the year, including 'Best Bank for SMEs, Hong Kong' from *Asiamoney*, 'Best Payment Bank in Hong Kong' and 'Best Automated Advisory/Chatbot Initiative, Application or Programme' at *The Asian Banker's* Transaction Banking Awards, and 'Hong Kong Domestic Technology & Operations Bank of the Year' and 'Hong Kong Liquidity Management Bank of the Year' from *Asian Banking & Finance*.

Hang Seng One Collect With one machine, settle multiple types of payment



Global Banking and Markets

Global Banking and Markets reported a 7% decline in both operating profit and profit before tax to HK\$4,960m. Operating profit excluding change in expected credit losses and other credit impairment charges fell by 4% to HK\$5,104m.

Global Banking

Global Banking achieved a 4% increase in both operating profit and profit before tax to HK\$2,193m. Operating profit excluding change in expected credit losses and other credit impairment charges grew by 9% to HK\$2,332m.

Net interest income increased by 9% to HK\$2,525m, driven by efforts to enhance the lending portfolio mix. In the challenging market environment, our strong customer engagement and deep understanding of market dynamics facilitated a proactive approach to balance sheet management.

On the lending side, we adopted more robust asset optimisation strategies, strengthened our pipeline management, enhanced our syndicated loan capabilities and further integrated onshore-offshore joint decision-making processes. New deposits acquisition business benefitted from our improved capacity to offer customers highly tailored products and services, including industry-specific digital and API-based solutions. These actions yielded good results, with a 32% increase in our deposits base and 11% growth in the loans balance.

Non-interest income grew by 11% to HK\$354m, due mainly to higher fee income from credit facilities on the back of the solid growth in lending.

We continued to use lending and financing to support the efforts of our clients that are working to make their business operations more sustainable. We co-led or participated in a number of green club/syndicated loans during the year, several of which were accredited or won awards.

Global Markets

Global Markets reported a 14% decline in both operating profit and profit before tax to HK\$2,767m. Operating profit excluding change in expected credit losses and other credit impairment charges fell by 14% to HK\$2,772m.

Net interest income decreased by 11% to HK\$2,002m. The adverse effects of the flattening yield curve and tightening

Awards and Recognition

Best Bank – Domestic (Hong Kong)
(20th consecutive year)
THE ASSET

Strongest Bank in Hong Kong and Asia Pacific
THE ASIAN BANKER

Best Bank for SMEs
ASIAMONEY

Most Attractive Employer, Banking and Financial Services (Hong Kong)
RANDSTAD

Best Foreign Bank
SECURITY TIMES QUANSHANGCN

Best Trade Finance Product Innovation Bank
TRADING FINANCE

Best Institution in Wealth Management
CHINA FINANCIAL HERALD

Best Institution of Syndicated Loans in Shanghai
SHANGHAI BANKING ASSOCIATION

Constituent stock of Dow Jones Sustainability Asia Pacific Index 2019
DOW JONES SUSTAINABILITY INDEX

Constituent stock of FTSE4Good Developed Index
(Since 2001)
FTSE INDEX

Constituent stock of MSCI Pacific ex Japan SRI Index
(Since 2015)
MSCI

Constituent stock of Hang Seng Corporate Sustainability Index Series
(Since 2010)
HANG SENG INDEXES

Constituent stock of Hong Kong Business Sustainability Index
(Since 2015)
THE CHINESE UNIVERSITY OF HONG KONG BUSINESS SCHOOL

Caring Company
(Since 2003)
HONG KONG COUNCIL OF SOCIAL SERVICE

Junzi Corporation
(Since 2011)
THE HANG SENG UNIVERSITY OF HONG KONG

credit spreads limited the potential for generating revenue through balance sheet management with the deployment of new and maturing funds. The balance sheet management team took proactive steps to manage the interest rate risk, acting to defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income decreased by 11% to HK\$1,359m. Non-fund income from sales and trading activities fell in the unfavourable market conditions. We stepped up cross-business efforts to deepen the penetration of Global Markets products among Bank customers and rolled out new initiatives to further diversify the revenue base, including the establishment of a repo trading department.

Our active participation in the financial markets was driven by a commitment to providing customers with integrated, competitively priced solutions that meet their specific needs. We received several awards during the year, including 'Top 5 Trading Volume (SPOT)' and 'Top G10 Trader (SPOT)' foreign exchange awards from Refinitiv and 'Top NDIRS Clearing Award (Regional Bank)' from HKEX for our performance in the over-the-counter market with derivatives eligible for central clearing.

Hang Seng Indexes

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

Six new exchange-traded products based on the Hang Seng Family of Indexes were listed in 2019, taking the total number of such products to 76 worldwide – with listings on 17 different stock exchanges. As at the end of 2019, assets under management in products passively tracking indexes in the Hang Seng Family of Indexes had reached a total of about US\$36bn.

The total number of futures and options contracts traded on the Hang Seng Index and the Hang Seng China Enterprises Index (HSCEI) in 2019 was over 125 million.

Leveraging its deep understanding of current and future market demand, Hang Seng Indexes enriched its suite of factor and strategy indexes by launching Covered Call indexes, Currency Hedged indexes and Momentum indexes, expanded its series of sustainability indexes and its Greater Bay Area Index Series, and added other thematic and sector indexes that target different innovative investment themes.

In January 2019, Hang Seng Indexes announced that it was enhancing the HSCEI by removing the fix on the number of constituents by share type in the index, with effect from the regular rebalancing review in June 2019.

In April, Hang Seng Indexes was recognised for its leading regional position in providing index solutions to structured product issuers with the 'Best Index Provider' award at *Structured Retail Products' Asia-Pacific Awards 2019*.

As at the end of 2019, Hang Seng Indexes was compiling more than 800 indexes, including 148 real-time indexes.