

Business Review

The widespread effects of the global COVID-19 pandemic created very difficult operating conditions in 2020. Leveraging our more agile business infrastructure and strong digital platform we were able to smoothly handle significant shifts in how and where our customers preferred to use our services, while also continuing to launch new innovations to make it easier and more convenient for them to meet their financial management needs.

Gross advances to customers were HK\$950bn, broadly unchanged from the end of 2019. In the challenging operating environment, we leveraged our deep understanding of local business and close customer relationships to focus on enhancing the quality of our lending assets rather than expanding the size of our portfolio.

Loans for use in Hong Kong rose by 1%. Lending to corporates was on par with the previous year, while lending to individuals grew by 4%, due mainly to increased mortgage business. Loans for use outside Hong Kong were broadly in line with 2019 year-end.

Customer deposits, including certificates of deposit and other debt securities in issue, increased by 4% at HK\$1,304bn. We have increased our issuance of certificates of deposit in Hong Kong and the Mainland to diversify our sources of funding. Our strong deposit base provides us with a good foundation for future growth.



Wealth and Personal Banking

Wealth and Personal Banking recorded an 18% year-on-year decrease in net operating income before change in ECLs and other credit impairment charges to HK\$19,663m. Operating profit dropped by 31% to HK\$10,546m and profit before tax decreased by 32% to HK\$10,470m.

Backed by our trusted brand, we leveraged our multi-channel platform to deepen customer relationships, achieving a 7% increase in deposits and a 3% rise in lending. Despite this solid growth in the balance sheet, low interest rates continued to pressure margins, resulting in a 17% decline in net interest income to HK\$14,733m.

Non-interest income fell by 22% to HK\$4,930m, reflecting the impact of market volatility, investor caution and decreases in banking transactions and card spending. Wealth management business revenue fell by 15% year-on-year.

Amid the pandemic, there was a marked migration of customers to our digital services. New Personal e-Banking registrations increased by 40% year-on-year, mobile app log-ons rose by 73% and the total number of e-Banking and digital transactions grew by 124%.



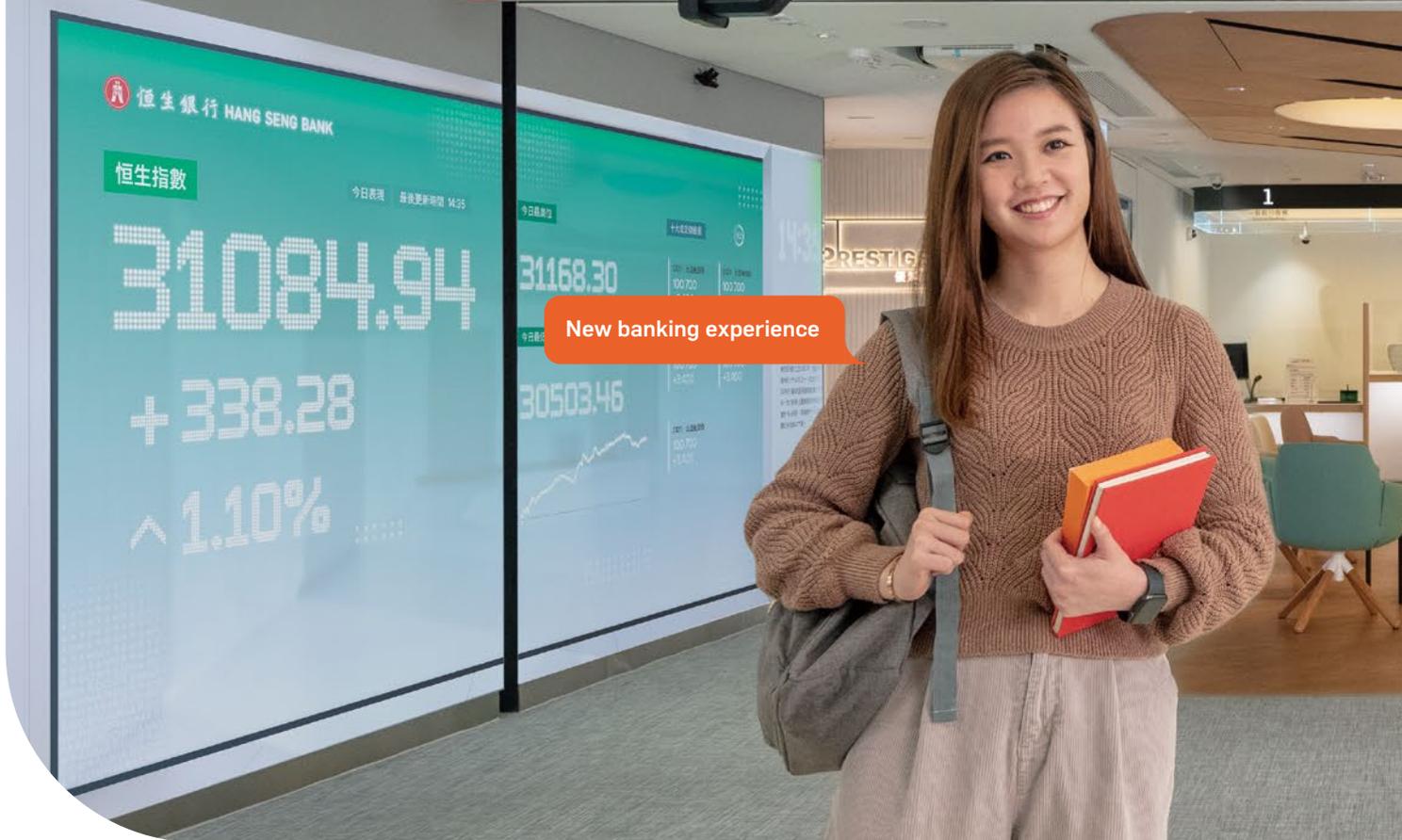
Customised Financial Solutions



Our new Signature wealth management services provide personalised banking solutions with lifestyle and healthcare considerations for high-net-worth clients with discerning needs. Services are comprehensive and versatile. Customers enjoy access to teams of experts specialising in different financial management, investment and insurance protection disciplines.



恒生銀行



New banking experience

With a particular emphasis on younger customers, we launched around 350 new digital solutions and enhancements in 2020, including online and WhatsApp chat channels, an integrated budgeting app, and SimplyFund, an entry-level investment fund platform. We also collaborated with multiple business partners – including New World CLUB and SmarTone – on API initiatives to provide more convenient and value-added banking and lifestyle services.

Leveraging our strong wealth management brand, we launched our new Signature service to provide bespoke banking services to high-net-worth customers. We also continued to attract new business in other segments, recording a 15% year-on-year rise in the Prestige and Preferred Banking customer base.

Total investment services income grew by 19%. We successfully captured increasing investment activity in the second half with our stock trading app and swift adoption of non face-to-face channels to stay in close touch with customers. Strong digital and data analytics capabilities supported enhanced frontline productivity by facilitating our understanding and anticipation of customer needs in fluid market conditions. This made it easier for us to proactively offer the right products and services at the right time.

Insurance income fell by 32%, due mainly to a drop in new business amid the pandemic. Despite the challenges, we made good progress with our digital insurance business, achieving an 89% increase in terms of policy count and a 59% growth in new premiums. We also launched DigiLife, an online insurance information and policy management platform. Active portfolio management improved investment returns from the life insurance portfolio in the second half.

HANG SENG BANK



No more queues

Looking at secured lending, we grew our mortgage balances in Hong Kong by 5% and our new mortgage business continued to rank among the top three. Our collaborations with Midland Realty and mReferral enhanced opportunities to make contact with potential customers and offered a more convenient and streamlined mortgage application process.

Credit card business was adversely affected by changes in consumer behaviour over the year. Nevertheless, we managed to outpace the market in card spending by refocusing our promotions to capture new consumer patterns. We also benefited from the rejuvenation of our enJoy cobranded card reward programme in partnership with Dairy Farm and expanded our Cash Dollars dining rewards network through an API collaboration with OpenRice. Our online food & beverage transactions tripled in 2020 in terms of number, and our e-commerce transactions, excluding travel, grew by 31%.



Newly Transformed MOSTown Branch

MOSTown Branch in Ma On Shan brings to life Hang Seng's 'Branch of the Future' service concept, a combination of innovation and personalised human touch. The new branch showcases innovative technology and service models such as a giant, interactive digital wall, eAppointment, eTicketing and a digital bar, all adding up to an exciting omni-channel banking experience that saves time and maximises ease and simplicity.

Commercial Banking

Commercial Banking recorded a 21% year-on-year decline in net operating income before change in expected credit losses and other credit impairment charges to HK\$10,300m. Operating profit and profit before tax both decreased by 42% to HK\$5,101m.

As industries faced challenging operating conditions, we focused considerable resources on supporting our existing customers rather than aggressively chasing new business growth in the uncertain environment.

Net interest income fell by 20% to HK\$8,307m due to persistently low interest rates. Deposits grew by 5%. Lending was down by 2%.

Although the downgrade of a few customer loans in the difficult economic conditions led to an increase in change in expected credit losses and other credit impairment charges, our overall asset quality remains resilient and we continue to be vigilant in monitoring and managing our credit risk.

Severe disruptions to commercial activity adversely affected non-interest income, which dropped by 23% to HK\$1,993m. We moved effectively to capture opportunities when they arose, recording a 14% increase in investment services income from market trading activities. We also achieved double-digit growth in syndicated loan fees and ranked no. 2 in the 2020 League Table for Hong Kong Mandated Arranger in terms of number of syndicated lending deals.



Innovation, Collaboration, Experience & Digital

The ICED Hub is a cool new venture in Commercial Banking's 'Go Digital, Go Simple' vision. ICED Hub draws together four cutting-edge teams (Corporate Digital and Innovation, Business Analytics, Transformation and Data Management, and Information Technology) to innovate for SME clients on their accelerated digital journeys. Customised, creative and timely solutions are incubated in this vibrant co-creation space where there is also active collaboration with external fintech organisations.



A new Business Banking Remote Account Opening Service allows commercial customers to open an account at any time and from any location. As part of our strong support for clients, we actively participated in the Hong Kong Mortgage Corporation's SME Financing Guarantee Scheme (SFGS). We were the first to launch a dedicated online application platform to make it easier for customers to apply for SFGS loan guarantee products.

Customers can simplify and streamline cash flow management by using our corporate API to integrate their daily business operations with our core banking services. Our Digital Business Banking platform provides real-time updates on the status of payments and receivables. Our Flexi-Fixed Deposit offers customers the ability to enjoy preferential interest rates without needing to fix the tenor of their deposit.

Enhancements to our customer service channels, including our AI chatbot BERI, Live Chat and our Customer Contact Centre, provided additional opportunities to strengthen relationships with customers by providing services and support for their specific needs.

Our digital innovations won us several industry awards during the year, including 'API Project of the Year' in the *Asian Banking & Finance* Wholesale Banking Awards 2020, and 'Best Payment Bank in Hong Kong' and 'Best Frictionless Transaction Award – One Collect Merchant Acquisition Solution' in *The Asian Banker* Transaction Banking Awards. We also received the 'Best Payment and Collection Solution' and 'Best in Treasury and Working Capital – SME's Hong Kong' awards from *The Asset*.



Global Banking and Markets

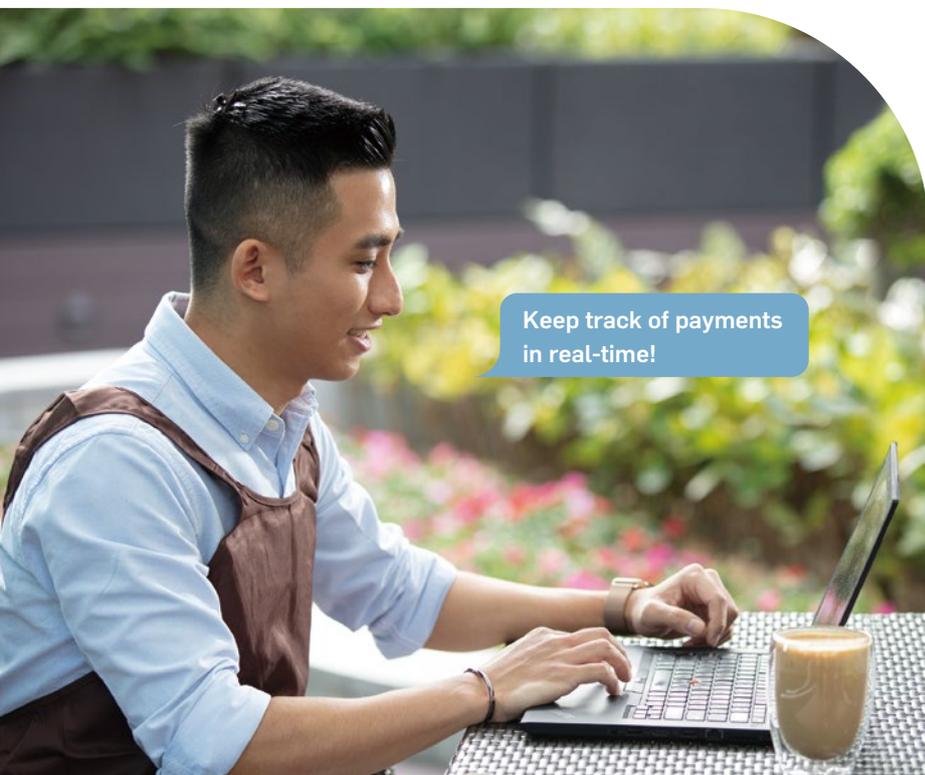
Global Banking and Markets recorded a 2% year-on-year decrease in net operating income before change in expected credit losses and other credit impairment charges to HK\$6,146m. Operating profit and profit before tax were both broadly on par with a year earlier at HK\$4,979m.

Global Markets

Global Markets recorded a 2% year-on-year increase in net operating income before change in expected credit losses and other credit impairment charges to HK\$3,414m. Operating profit and profit before tax both increased by 2% to HK\$2,829m.

Net interest income increased by 2% to HK\$2,046m. The Markets Treasury team managed interest rate risk effectively, taking steps to proactively defend the interest margin and achieve yield enhancement while upholding prudent risk management standards.

Non-interest income increased by 1% to HK\$1,368m. We took actions to further diversify the revenue base and increase product penetration rates among our commercial and personal banking customers. The increase in volatility in foreign exchange markets, together with the changing interest rate environment, resulted in an increase in non-fund income from trading and client activities.



Hang Seng's strong foundation is built on a long history of working in close partnership with Hong Kong's SMEs. In the challenging operating environment of 2020, we actively supported various relief measures launched by the government to alleviate the pressures faced by SMEs due to the COVID-19 pandemic. This included being the first bank to launch a dedicated online application platform with documents upload function for commercial customers to apply for loans under the SME Financing Guarantee Scheme.

Committed to Supporting SMEs





Customer-centric Digital Initiatives



Hang Seng Commercial Banking's newest series of digital services offers remote account opening to payment collection to cash management, helping businesses improve on operational efficiency. Customers can now make use of the Bank's online channels to more easily take care of their business needs and identify business opportunities.

Besides equities and structuring, trading departments responsible for repo, foreign exchange and option trading achieved strong revenue growth, which offset the revenue drop in rates trading. Sales revenue remained resilient despite the challenging market environment. Increased investment in foreign exchange from Wealth and Personal Banking customers and use of interest rate hedging products by corporate customers largely offset a drop in corporate foreign exchange.

Established as part of our commitment to diversifying our sources of revenue, our new Repo Trading department has become a solid source of income since its establishment in the second half of 2019.

Global Banking

Global Banking recorded a 5% year-on-year drop in net operating income before change in expected credit losses and other credit impairment charges to HK\$2,732m. Operating profit and profit before tax both fell by 2% to HK\$2,150m.

Net interest income fell by 6% to HK\$2,372m, reflecting a 65% decline in deposit interest income in the low interest rate environment. The drop in interest income from deposits was somewhat offset by the 7% rise in interest income from lending business, due largely to the success of our lending portfolio optimisation strategy and higher demand for staging loans in the second half.

We recorded a 2% increase in non-interest income to HK\$360m, due mainly to fee income from credit facilities on the back of the solid lending growth.

We also broadened our fee income stream, particularly through our Debt Capital Markets Origination team and effective cross-business collaboration.

Amid the challenges of the COVID-19 pandemic, we assisted customers in need through the Principal Payment Holiday Scheme offered by Hong Kong Monetary Authority.

Hang Seng Indexes

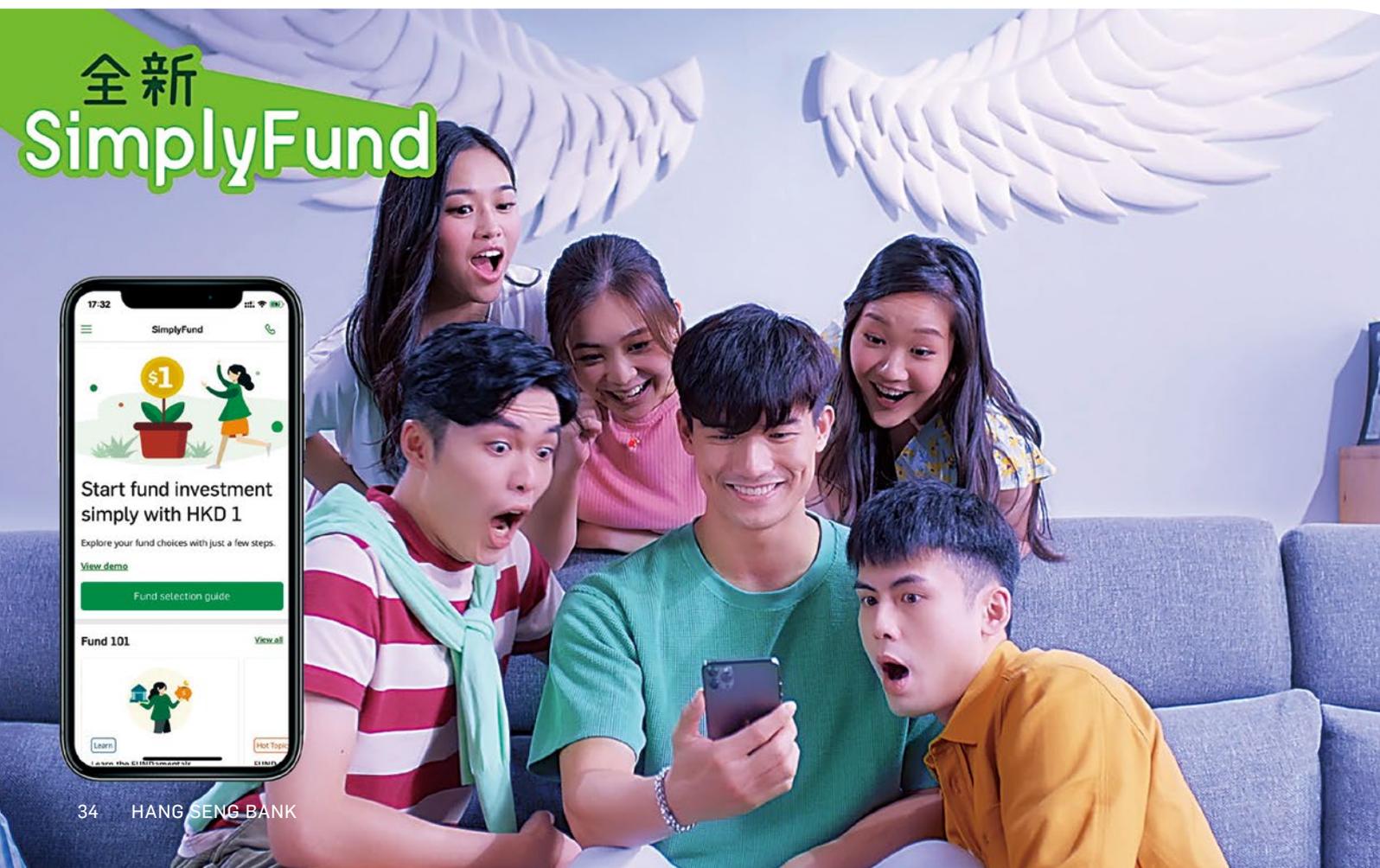
Wholly owned subsidiary Hang Seng Indexes Company Limited (Hang Seng Indexes) continued to lead the way in tracking the performance of Hong Kong and mainland China markets from various aspects, and in supporting the development of new market sectors by compiling and launching new indexes.

Leveraging its deep understanding of current and future market demand, Hang Seng Indexes enriched its suite of offerings in 2020, adding 21 new indexes, with an emphasis on tracking the performance of ESG investing, technology and other 'new economy' sectors, as well as cross-border themes.

With more technology companies choosing to list in Hong Kong, the Hang Seng TECH Index (HSTECH), launched in July 2020, aims to address growing investor interest in this theme by reflecting the performance of the 30 largest innovative technology companies in the market and serving as the basis for various index-linked products. As the sector continues to develop, Hang Seng Indexes aims to have the HSTECH join the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) as a third flagship index.

As the HSTECH was well received by the local and overseas markets, different financial products linked to the HSTECH were launched in the market. Hong Kong Exchanges and Clearing Limited launched futures and options linked to HSTECH in November 2020 and January 2021 respectively. As at 2020 year-end, Hang Seng Indexes had licensed the HSTECH for use as the basis for launching 14 different funds – 13 exchange-traded funds and an index fund – in markets such as Hong Kong, Taiwan, Singapore, South Korea and the UK.

Hang Seng Indexes continues to keep pace with market developments in the Hong Kong and Mainland markets by making adjustments to constituent eligibility and universe size for its indexes in close consultation with its stakeholders. Following a market consultation exercise conducted in the first quarter of 2020, weighted-voting rights companies and secondary-listed companies from the Greater China region are now eligible for inclusion in the HSI and HSCEI universes. In December, the number of constituents in the HSI was increased to 52 to ensure the leading benchmark continues to provide the best possible coverage of the Hong Kong market.



As part of Hang Seng Indexes' long-standing efforts to support continuous improvement in corporate sustainability and make it easier for investors to follow ESG investment strategies, the company launched an 'ESG Service' on its website in September. The service provides a rich range of ESG resources and information for investors, including a searchable database of over 200 companies that are constituents of the Hang Seng ESG series of indexes.

As at the end of 2020, there were 88 exchange-traded products based on the Hang Seng Family of Indexes worldwide – with listings on 17 different stock exchanges. Assets under management in products passively tracking indexes in the Hang Seng Family of Indexes at 2020 year-end had reached a total of about US\$38bn.

The total number of futures and options contracts traded on the HSI, the HSCEI and the HSTECH Index in 2020 was over 117 million.

As at the end of 2020, Hang Seng Indexes was compiling more than 1,000 indexes, including 164 real-time indexes.

Online Wealth Management



We care about the customer experience and have been innovating different service channels to serve customers' needs. 'Invest Express' puts stock investment at one's fingertips, an essential for busy investors. To help our customers start financial planning early, 'SimplyFund' and 'Savings Planner' provide tailor-made solutions for young and novice investors, guiding them to gain wealth management insights and helping them to manage their wealth as it grows.

Awards and Recognition

Best Bank – Domestic (Hong Kong)

(21st consecutive year)
THE ASSET

Best Domestic Bank (Hong Kong)

ASIAMONEY

Safest Bank in Hong Kong

GLOBAL FINANCE

Best Mobile Banking Application

THE ASIAN BANKER

Best in Treasury and Working Capital for SMEs

THE ASSET

Constituent Stock of Dow Jones Sustainability Asia Pacific Index 2020

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

Best Foreign Bank

SECURITY TIMES QUANSHANGCN

Best Institution of Syndicated Loans in Shanghai

SHANGHAI BANKING ASSOCIATION

Best Trade Finance Foreign Bank

TRADING FINANCE

Golden Wealth Management Annual Innovative Wealth Management Product

SHANGHAI SECURITY NEWS

Best Social Responsibility Award

CHINA SOCIAL WELFARE FOUNDATION

Pioneer Cross-border Financing Bank

INTERNATIONAL FINANCE NEWS

Best Public Relations Case Study

SHANGHAI BANKING ASSOCIATION