CHIEF EXECUTIVE'S REPORT

The 90th anniversary celebration which lasted the whole year was very well received by the market and our clients. This has reinforced our position as Hong Kong's largest local bank. We are proud of our heritage and I believe the future looks positive.

We have re-focused the business to diversify our income streams and grow targeted new customers. The results are encouraging.

As we all know, the past year has been characterised by geopolitical uncertainties and volatile economic conditions that have affected both the Mainland and Hong Kong. In response to these conditions, a conservative approach has been a notable characteristic of the market across different sectors. High interest rates have also persisted which has added to the prudent approach with a corresponding impact on loan growth.

Against this backdrop, I am pleased to report that we have made robust progress on implementing our strategies relating to growth, innovation and sustainability. At the same time, we have delivered strong financial results even though we have been very cautious in risk management. We have also maintained a strong focus on managing operating costs. In short, we have tried to make every Hong Kong dollar spent work harder.

Year-on-year, profit before tax increased by 57% to HK$20.1bn. Return on shareholders' equity rose by 4.1 percentage points to 11.3%, and earnings per share increased by 62% to HK$8.97.

Net interest income grew by 26% compared with last year. Our net interest margin widened by 55 basis points to 2.30%.

The strategy to diversify and grow non-fund income in wealth management has started to deliver results. Annualised new premiums in our bank-wide insurance business grew by 157%, reaching HK$5.6bn which is above 2019 pre-COVID levels. Revenue from our structured investment products improved by 16% despite subdued equity market.

We have made good progress in de-risking for the mainland China commercial real estate sector. We reduced our exposure by 33% to HK$35bn compared to year-end 2022. As at year end 2023, the portfolio accounted for 4% of total portfolio with secured portion increased to 53% from prior year's 45%.

New account openings for non-Hong Kong residents increased by 342% year-on-year. This is due to our focused expansion in the GBA where we have set up new centres to meet the growing demand for cross-boundary wealth management and the introduction of investment products for the region.

Investments in our people, technology, and infrastructure have improved operational efficiency and enhanced service experiences for customers. Our cost efficiency ratio has improved by 4.3 percentage points to 35.8% compared to last year, benefitting from higher revenue in an elevated rate environment as well as strict cost discipline throughout the year.

Some of our notable annual achievements include the following:

- We were among the first batch of listed companies to launch an RMB counter under the HKEX's new HKD-RMB Dual Counter Model.
- The Tracker Fund of Hong Kong (TraHK), now under our exclusive management, achieved a record-high assets under management ('AUM') and unit issuance.
- We have partnered with Thailand's Bualuang Securities and welcomed the launch of two Depositary Receipts on The Stock Exchange of Thailand which reinforces Hong Kong's position as an international financial centre.
- Hang Seng Indexes Company Limited has become the first offshore index compiler to include Beijing Stock Exchange ('BSE') securities in its indexes. This integration offers global investors access to all three of mainland China's stock exchanges.
- We have expanded our reach in the GBA with seven Wealth Management Centres and enriched our offerings within the cross-boundary Wealth Management Connect ('WMC') Scheme.
- We have three use cases selected by the HKMA for its e-HKD pilot programme and have completed real-life simulations for programmable payments.
- We launched our first social loan to fund transitional housing for low-income families and a primary school development.
- We facilitated Hong Kong's first green export credit insurance policy by providing a green receivables financing solution to bolster supply chain sustainability.
- We launched the Hang Seng Stock Connect China A Low Carbon Index ETF, the city's first A-Share ETF with a low-carbon focus.

The Directors have declared a fourth interim dividend of HK$3.20 per share. This brings the total distribution for 2023 to HK$6.50 per share, an increase of 59% year on year.

In view of our high capital ratios, we will consider all options in returning surplus capital to shareholders.

Wealth and Personal Banking

Wealth and Personal Banking's net operating income before change in ECL increased by 26% to HK$23.64bn, driven by a 34% rise in net interest income. Operating profit grew by 40% to HK$14.193bn, with profit before tax up 42% to HK$14.386bn.

Customer loans grew by 4%, benefiting from consumer spending recovery. Enhanced reward programmes and the '+FUN Centre' on our mobile app have improved customer engagement.

Our affluent customer base expanded by 17%, and new private banking accounts rose by 116%. Youth customer numbers increased by 13%, and new customer acquisition by 38%.

Wealth management business is a key long-term growth driver that is helping us diversify our income stream. To address this, we now have seven cross-boundary Wealth Management Centres in key GBA cities, including our most recent opening in January 2024.

Insurance business new premiums surged by 174%, with the contractual service margin ('CSM') balance up by 10% to HK$21bn. We secured a 15-year distribution agreement with Chubb Insurance Hong Kong Limited for wealth and travel insurance products to enhance our ability to meet the diverse insurance needs of customers.

Our investment services and insurance businesses income grew by 17%, with a 19% increase in active retail customers with investment transactions.

Digital improvements have reduced account opening times to under 30 minutes and enhanced transaction security. Monthly active mobile users increased by 16%, and we received 16 industry awards for digital excellence in 2023.

Commercial Banking and Global Banking

Our wholesale banking business has implemented strategic enhancements to better position ourselves to capture growth opportunities. We have improved remote account opening capabilities for Hong Kong companies with mainland shareholders, accommodating a wider variety of business entities and up to 10 connected parties.

We are the first bank in Hong Kong to offer 'e-Sign' for companies with mainland connections to facilitate remote document signing.

Hang Seng TradePay, a new digital trade finance solution, was launched to optimise working capital management. The Hang Seng Business Mobile App now features FPS QR Mobile Collect for immediate merchant payments and the launch of FX Prompt to facilitate convenient online remittances.

The Bank has received the Hong Kong Domestic Trade Finance Bank of the Year accolade at the Asian Banking and Finance Awards 2023, and was awarded the Best Payment Solutions Provider at the Corporate Treasurer Awards 2023.

Commercial Banking's net operating income before change in ECL increased by 12% to HK$10.702bn, with a 252% increase in both operating profit and profit before tax to HK$2.442bn. Net interest income rose by 17% demonstrating the outcome of quality customer acquisition.

Global Banking's net operating income before change in ECL increased by 8% to HK$2.977bn, with a 271% increase in both operating profit and profit before tax to HK$1.408bn. Interest income rose by 7%, driven by the addition of new accounts and enhanced cash management solutions.

Global Markets

In Global Markets, wealth products saw turnover double in capital protected investments, with notable growth in equity derivatives and retail bond trading.

Global Markets faced a 10% reduction in net operating income before change in ECL to HK$2.413bn, with both operating and profits before tax down by 17% to HK$1.677bn. Net interest income declined by 24% to HK$1.162bn amid market challenges and rising interest rates impacting Market Treasury. That said, non-interest income improved by 10% to HK$1.251bn, driven by repo trading, equities and rates related structured products.

Financial Overview

Amid a high interest rate environment, net interest income rose by HK$6.744bn to HK$32.295bn, resulting in a 55-basis-point increase in the net interest margin. Gross loan balances decreased by 7% compared to 31 December 2022, reflecting dampened credit demand and our strategic de-risking initiatives.

Customer deposits declined by 8% compared to the end of 2022, a result of our deliberate strategy to protect margin whilst managing an already healthy book of liabilities in the context of escalating market interest rates and subdued loan demand.

Current accounts and savings accounts as a percentage of total customer deposits decreased from 59% at 31 December 2022 to 53.3% as at 31 December 2023.

Net income/(loss) from financial instruments measured at fair value through profit or loss registered a net gain of HK$11.33bn, reversing from a net loss of HK$21.455bn in 2022. This shift in investment performance within the insurance sector was primarily due to consistent interest rate movements, which improved the fair value of debt securities.

The Bank recorded insurance finance expenses of HK$10.805bn, diverging from the insurance finance income of HK$22.72bn in 2022. The variance is mainly due to the change in fair value of underlying items for variable fee approach contracts, which acts as a counterbalance to the Net income/(loss) from financial instruments measured at fair value through profit or loss.

Moreover, increases were recorded in insurance services results and other operating income by HK$389m and HK$396m, respectively.

Net operating income before change in ECL and other credit impairment charges grew by 19% to HK$40.822bn.

The cost efficiency ratio saw an improvement of 4.3 percentage points to 35.8%, benefitted from higher revenue in an elevated rate environment as well as strict cost discipline throughout the year. We will maintain a rigorous approach to cost management on business-as-usual activities and invest to sustain our long-term growth trajectory.

Expected credit losses and other credit impairment charges decreased by HK$1.446bn to HK$6.248bn, due to lower Stages 1 and 2 ECL on the back of lower loan balances offset by higher Stage 3 ECL mainly related to mainland China CRE exposure.

Profit before tax increased by 57% year-on-year to HK$20.105bn, while attributable profit rose by 58% to HK$17.848bn. Earnings per share grew by 62% to HK$8.97. By business segment, profit before tax for Wealth and Personal Banking, Commercial Banking, and Global Banking increased by 42%, 252% and 271% respectively. However, Global Markets' profit before tax decreased by 17%.

Return on average ordinary shareholders' equity improved to 11.3%, up from 7.2% in 2022. Similarly, return on average total assets increased to 1%, from 0.6% in the prior year.

As of 31 December 2023, our CET 1 capital ratio was recorded at 18.1%, T1 capital ratio at 19.9%, and total capital ratio at 21.4%. Our liquidity coverage ratio ended the year at 260.7%, comfortably above the statutory requirement.

Conclusion

Amid a tough year, we have re-focused the business to diversify our income streams and grow targeted new customers. The results are encouraging. Profit before tax increased by HK$7.3bn. This is a testament to the success of our strategy and approach.

The positive financial trajectory has enabled us to continuously invest in technology and analytics. These capabilities will elevate our services and standards to further delight our customers.

I should also mention that the 90th anniversary celebration which lasted the whole year was very well received by the market and our clients. This has reinforced our position as Hong Kong's largest local bank. We are proud of our heritage and I believe the future looks positive.

I want to personally thank all my Hang Seng colleagues for their tireless efforts and positive attitudes. Their dedication and commitment have ensured that we always keep customer needs and shareholder returns at the heart of our decisions and actions.

Whatever the pace of economic recovery, we are well-positioned to sustain our performance. We will continue to support our customers and the Hong Kong community and the GBA.

Diana Cesar
Executive Director and Chief Executive
21 February 2024