

BUSINESS REVIEW

The past financial year, shaped by global economic uncertainties, saw us navigate a complex array of market conditions. The conservative sentiment across markets was counterbalanced by the Bank's agile response to fluctuating interest rates and investment behaviours.

Despite the challenging operating conditions, we experienced positive growth in important areas of our business and made significant advancements in our strategy for change. By taking steps to ensure the future success of our business, we are well-positioned to capitalise on our current advantages and establish a dominant market position in emerging and sustainable areas of growth.

Wealth and Personal Banking

Wealth and Personal Banking recorded a 26% year-on-year increase in net operating income before change in ECL and other credit impairment charges to HK\$23,640m. This was driven by strong growth in net interest income, which was up by 34% year-on-year. Operating profit and profit before tax increased by 40% to HK\$14,193m and by 42% to HK\$14,386m respectively.

Competition in deposits remained intense in 2H 2023, which accelerated the shift of funds to time deposits in the market. By strengthening customer relationships, we actively managed our deposit acquisition strategies to enhance our position in current and savings accounts, particularly with growth in customers and market share of foreign currency deposits. Our gross loans and advances to customers grew by 4% year-on-year, and we maintained our market position in mortgages, cards and personal loans. Fee income from credit card issuing benefited from the rebound in travel and consumer spending, and this also helped drive the 31% year-on-year increase in net merchant acquiring fee. To complement changing patterns in everyday spending by customers, we have revamped our credit card rewards programme (+FUN Dollars rewards), offering customers more personalised rewards, multiplier redemption offers and exclusive rewards experiences including allowing customers to repay their card statement balance with reward points. The newly introduced '+FUN Centre', a one-stop rewards platform on the Hang Seng Mobile App, makes it easier and more convenient for customers to check their +FUN Dollars and latest redemption offers, as well as earn additional rewards by completing missions anytime, anywhere.

Customer growth remains one of our key strategic priorities; we achieved a 17% year-on-year increase in our affluent segments. With the increased demand in private banking wealth management, we recorded a 116% year-on-year growth in their new accounts. We launched the first-in-the-market Prestige Banking Family+ account and pet-friendly branch that help meet the diverse needs of our customers. With this 'Family CFO' launch campaign for Prestige Banking, we won five accolades in 'Marketing Excellence Awards 2023'. We also aimed to grow our young segments. By focusing on their increasing needs in savings and budgeting, we launched Money Master as a savings planning tool with auto-track expense functions, personalised tips and progress updates via HARO WhatsApp. Supported together with diverse digital capabilities, we achieved 13% and 38% year-on-year growth on our young segment base and young new-to-bank clients. To address the evolving demand for wealth management services in the GBA, we have opened six cross-boundary Wealth Management Centres in Sheung Shui, Central, Kowloon Tong, Tsim Sha Tsui, Shenzhen and Guangzhou where clients can enjoy seamless and convenient wealth management services. In January 2024, with the opening of the second centre in Guangzhou, we now have seven cross-boundary Wealth Management Centres in key GBA cities. We introduced the Future Banking model at our new location in Festival Walk, furnished with a new Smart Teller area and with eco-friendly design including a special 'CO2 Reduction system' to reduce carbon dioxide levels in the branch, together with our 'Simple Mode' for mobile banking.



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INNOVAT

FIRING UP SOLUTIONS OF TOMORROW

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Facebook Update 更新
ATM 自助提款機
Cheque Deposit 支票存入服務

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Despite the current challenging and volatile market environment, our comprehensive product strategies, in particular the risk-off products with yield enhancements, have successfully broadened our wealth customer base with different risk appetites and achieved a healthy business mix along the high interest rates environment. This brings our active retail customers with investment transactions (excluding Securities & Government Bonds) recorded 19% year-on-year growth. In addition, the launch of revamped wealth tool ('Wealth Master') with strengthened analytical tools for portfolio rebalancing and diversification, young segment pricing for stock trading ('SimplyStock') has further improved our customer investment journey and strengthened customer stickiness on wealth business.

Hang Seng Investment Management Limited ('HSVM'), our wholly-owned subsidiary, is the leading manager of Hong Kong's listed exchange-traded funds ('ETF') in terms of assets under management ('AUM'). HSVM was honoured with the title of 'Fund House of the Year – Hong Kong SAR' at the AsianInvestor Asset Management Awards 2023. Celebrating its 30th anniversary, HSVM has seen notable growth in AUM and revenue, fortifying its position in the local asset management sector. 2023 also commemorates the first anniversary of HSVM's stewardship of the Tracker Fund of Hong Kong ('TraHK'), which has scaled new heights in its 24-year history, achieving record-high AUM and unit issuance despite challenging market conditions.

In May, HSVM's third flagship ETF was included as a southbound eligible ETF under the ETF Connect Scheme, making it the sole fund manager to have the maximum of three ETFs available in the market in this scheme. Leveraging Hong Kong's pivotal role as a super-connector between mainland China and the world, HSVM has collaborated with a leading Thai securities company 'Bualuang Securities', leading to the November launch of two Depositary Receipts ('DR') on the Stock Exchange of Thailand which invest in TraHK and Hang Seng China Enterprises Index ETF.

HSVM has also contributed to sustainability efforts by launching the 'Hang Seng Stock Connect China A Low Carbon Index ETF' in March 2023, marking the market's first A-share low-carbon themed ETF.

Our investment services and insurance businesses witnessed a 17% growth in income, marked by strong performance in structured investment products. With border reopening and continual enhancement on product suite with good customer response to our new flagship product, our insurance business achieved 174% year-on-year growth in annualised new premiums ('ANP'). Mainlander insurance contributions surpassed pre-COVID levels. Under HKFRS 17, profits from new business are capitalised in the Contractual Service Margin ('CSM') balance, which has grown by 10% to HK\$21bn.

With effective wealth campaigns and a resurgence in travel, we observed a surge in uptake of travel insurance products. To provide customers with an enhanced range of general insurance products, Hang Seng and Chubb entered into an exclusive 15-year distribution agreement which was officially launched in July 2023. We continued to offer competitive customer-centric solutions and uplifted our digital capabilities to address customers' financial and health well-being needs.

We offer best-in-class digital experiences that are simple and secure for our customers, who can access our services at their pace and by their choice. We drove digital adoption through customer onboarding, reducing the account opening time to less than 30 minutes. We also introduced secured identification verification journeys for account opening and mobile authentication of branch and online transactions, allowing our customers to manage their financials safely. Innovation resides at the very heart of our organisation. We are among the first banks to participate in the e-HKD Pilot Programme and in the technical testing of using FPS to top up e-CNY wallets, continuously exploring the

expansion of cross-boundary application of e-CNY under the Memorandum of Understanding ('MoU') with China Construction Bank. Supported by all these innovations, we recorded a 16% year-on-year increase in monthly active mobile customers, and our digital retail transaction count rose by 115% year-on-year. As recognised by the industry, we have received 16 awards from The Asset, The Digital Banker, The Asian Banker, and other issuers in 2023.

Commercial Banking

Commercial Banking recorded a 12% growth in net operating income before change in ECL and other credit impairment charges to HK\$10,702m. Both operating profit and profit before tax were up by 252% to HK\$2,442m.

We continued to focus on quality customers acquisition, which grew 8% year-on-year, providing a sustainable source of deposits. As a result, net interest income achieved a 17% growth. However, non-interest income dropped by 12%, adversely impacted by the decline in trade finance and fee income from credit facilities due to reduced new loans.

To uplift the customer experience in account opening, we expanded the scope of Remote Account Opening services to include Hong Kong companies with mainland shareholders. Following this enhancement, our Remote Account Opening service is now available to sole proprietorships, partnerships, and limited companies established in Hong Kong with up to 10 connected parties who hold either a Hong Kong Identity Card or a Mainland Identity Card. We are also the first bank in Hong Kong to offer our mainland customers a Commercial Banking e-Sign service, enabling them to sign banking documents electronically at any time and from anywhere. In addition, we now provide one-stop multi-market onboarding services for the GBA to address customers' cross-boundary banking needs.

Our digital transformation journey continued with the aim of providing comprehensive digital solutions. We rolled out Hang Seng TradePay, an innovative digital trade finance solution that combines finance and payment into a single, fast and seamless process, allowing customers greater control over payment timing to improve their working capital position. The launch of FPS QR Mobile Collect enables merchants to collect payment instantly in a secure, reliable way via the generation of FPS QR code in the Hang Seng Business Mobile App. When a customer makes an online outward remittance, our newly introduced FX Prompt function can suggest the right payment currency, assisting the customer in managing foreign exchange costs. To encourage customers to experience the ease and convenience of digital banking, customers can now earn rewards while performing their daily digital banking activities.

Our focus in driving ESG performance continued. We arranged our first social loan to finance community development projects that support access to education and improve housing affordability. We also worked with the Hong Kong Export Credit Insurance Corporation to provide green receivables financing solution to clients, facilitating their carbon emissions reduction and growth of its sustainable supply chain network.

The new Lai Chi Kok Business Banking Centre is now open, focusing on providing diversified digital transformation solutions for customers to improve overall operational efficiency and to connect them with strategic partners in the technology industry.

We have been recognised as 'Hong Kong Domestic Trade Finance Bank of the Year' at the Asian Banking and Finance Awards 2023. We were also awarded 'Best Payment Solutions Provider' at Corporate Treasurer Awards 2023.



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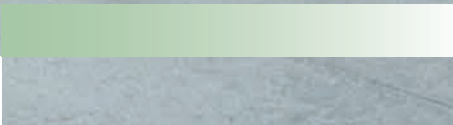




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KEEPING OUR PROMISES TO YOU

CENTRICITY



Global Banking

Global Banking reported an 8% year-on-year growth in net operating income before changes in ECL and other credit impairment charges, reaching HK\$2,977m. Both operating profit and profit before tax surged by 271% to HK\$1,408m.

Fuelled by successful account acquisition strategies for operating cash flow deposits and benefits from the rising interest rates, net interest income grew by 7% year-on-year. Our focus on expanding our digitalised and tailor-made cash management solutions has enhanced customer experience and streamlined our processes.

However, this growth in deposit was counterbalanced by a decline in loan interest income which was affected by economic uncertainty and reduced commercial activity in the market. Nevertheless, we have continued to manage capital more efficiently, providing a broader range of balance sheet support to corporations through our bond management team, which resulted in a 116% increase in our bond portfolio balance.

We saw a solid 20% year-on-year increase in non-interest income, driven by our efforts in diversifying our revenue streams, such as offering hedging solutions to customers in a high-interest-rate environment, and strengthening our debt capital markets origination activities.

We have also taken proactive steps in providing sustainability-linked loans to assist our clients in transitioning to a low-carbon economy and to improve their environmental performance. These initiatives are part of our strategy to promote more sustainable business practices and to lessen environmental impact.

Our efforts to deliver customer-centric services were recognised with the 'Global Banking Award' at the High Flyers Awards, presented by Hong Kong Business in acknowledgment of our innovative banking solutions tailored for the ever-evolving financial market.

Global Markets

Global Markets reported a 10% decrease in net operating income before change in ECL and other credit impairment charges, amounting to HK\$2,413m. Operating profit and profit before tax both fell by 17% to HK\$1,677m.

Net interest income decreased by 24% to HK\$1,162m, impacted by the unfavourable interest rate environment and increased funding costs.

On the other hand, non-interest income rose by 10% to HK\$1,251m. We recorded revenue growth in our repo trading, equities, and rates-related structured products. Our repo business alone saw a remarkable 79% revenue growth year-on-year, expanding by onboarding new clients and enhancing our product suite. Rates trading performed well, posting a year-on-year growth of 43%. We have adeptly capitalised on market opportunities and managed risk positions amid fluctuations in the foreign exchange and interest rate markets, achieving both qualitative and quantitative growth in 2023. Furthermore, the equities and structuring business took advantage of improved client sentiment in equity structured products.

In 2023, we achieved strong growth in our wealth products, with capital protected investment sales turnover more than doubling. Through close collaboration with other business units, turnover for our equity derivative products increased significantly, with a year-on-year growth of 44%, along with a 71% growth in retail bond trading volume.

AWARDS AND RECOGNITION 2023

<p>Safest Bank in Hong Kong GLOBAL FINANCE</p>	<p>2023 Gamma Award for Excellent Service Bank in GBA SECURITIES TIMES</p>
<p>No. 1 in Hong Kong for Gender Equality EQUILEAP</p>	<p>China International Cash Management Bank of the Year ASIAN BANKING & FINANCE</p>
<p>Hong Kong Domestic Trade Finance Bank of the Year ASIAN BANKING AND FINANCE</p>	<p>2023 TOP Wealth Management Banking CAILIAN PRESS</p>
<p>Best Payment Solutions Provider CORPORATE TREASURER</p>	<p>China Financial Annual Outstanding CSR Project CHINA BANKING AND INSURANCE NEWS</p>
<p>Global Banking Award HONG KONG BUSINESS</p>	<p>Rural Revitalization Award PEOPLE'S DAILY ONLINE</p>
<p>Best Mobile Banking Service (Hong Kong) Best Payments Bank in Hong Kong THE ASIAN BANKER</p>	<p>Constituent stock of FTSE4Good Developed Index (Since 2001) FTSE RUSSELL</p>
<p>Best SME's Partner Award THE HONG KONG GENERAL CHAMBER OF SMALL AND MEDIUM BUSINESS</p>	<p>Constituent stock of MSCI Pacific ex Japan SRI Index (Since 2015) MSCI</p>
<p>Fund House of the Year Hong Kong ASIANINVESTOR</p>	<p>Constituent stock of Hang Seng Corporate Sustainability Index (Since 2010) HANG SENG INDEXES</p>
<p>Best Fintech for Digital CX – Payments THE DIGITAL BANKER</p>	<p>Constituent stock of Hong Kong Business Sustainability Index (Since 2015) THE CHINESE UNIVERSITY OF HONG KONG CENTRE FOR BUSINESS SUSTAINABILITY</p>
<p>Best Liquidity and Investments Solution Best Payments and Collections Solution Best ESG Solution – Hedging and Risk: FX Best Digital Solution – Supply Chain THE ASSET</p>	<p>20 Years Plus Caring Company HONG KONG COUNCIL OF SOCIAL SERVICE</p>
<p>Best Trade Finance Foreign Bank TRADE FINANCE</p>	<p>MSCI ESG Rating: maintained an AA rating</p>



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