Chief Executive's Report

As expected, 2024 was a difficult year with continued geopolitical and macro challenges. These led to slower economic growth and sluggish performance in the trade and retail sectors, which created a tough environment for local businesses.

In response, we adapted our strategy to focus on diversifying our revenue and growing our targeted customer base. Combined with a proactive approach to de-risk our portfolio, we were able to deliver strong results and continue to grow.

More balanced revenue growth

We recorded a notable increase in non-interest income, in turn propelling decent growth in our net operating income.

Interest rates started trending down since the third quarter of last year and against a market where loan demand remained subdued, net interest income was down 5%.

Nonetheless, we made significant progress in diversifying our revenue, resulting in a 26% year-on-year increase in non-interest income, which more than offsets the decline in net interest income. This was mainly driven by strengthening of our wealth management business, with income improving 22% year-on-year.

We sustained a healthy net interest margin of 2.20% as we continued to implement our robust asset and liability management strategy.

Our affluent customer base recorded a 15% growth with new-to-bank affluent customers having increased 75% year-on-year. Investment services income was up 28% and life insurance income increased 17% compared to last year. Hang Seng became the second largest life insurer by new business premiums with the same having grown by 80% as per the latest available figures.

Cross-boundary business with integrated banking and wealth management services also delivered positive results. New account opening for retail mainland China customers jumped by 81% year-on-year.

Our operating profit increased 8% year-on-year. Profit before tax increased by more than HK$900m. Earnings per share improved by 4% and return on average ordinary shareholders' equity remained stable at 11.3%.

Proactively managing risk

As the largest domestic bank in Hong Kong, Hang Seng is closely tied to the local economy, supporting small and medium-sized enterprises ('SMEs') as well as large corporates. Due to these close links, we share many of the challenges faced by these businesses. At the same time, preserving the long-term interests of our stakeholders remains a priority.

We continue to adopt a prudent and forward-looking risk management approach.

Cash flow pressures for some of our Hong Kong commercial real estate ('HKCRE') borrowers continued because of the prolonged high interest rate environment. Our non-performing loans for the year ended at 6.12%, mainly driven by the HKCRE portfolio as borrowers sought to defer payments. That said, two-thirds of our loans are secured by strong collateral. Asset quality of the unsecured book remains stable with over 90% at investment grade. As such, we have not seen a material impact on our financial performance. Expected credit loss ('ECL') charges reduced by 24% year-on-year.

With regards to mainland China CRE, we continue to reduce our exposure. At year-end 2024, it accounted for around 2% of our total loan book.

We are satisfied that our proactive and decisive risk management approach on our Hong Kong portfolio provides us with a solid foundation which will better position us for future growth.

Investing for the future

Hang Seng has a history of more than 90 years during which time the Bank has been evolving alongside Hong Kong and contributing to the city's success. Going forward, we continue to invest in our capabilities and the community.

We are dedicating investments to upgrade our digital solutions and infrastructure. Our newly renovated Main Branch in Central features Future Banking 2.0 – a market-first 'We Come to You' service model which combines technology and the human touch. This improves servicing to our customers by enabling them to enjoy banking with the support of Smart Teller technology and other digital applications.

Financial inclusion and education through various community initiatives are also key priorities. We have developed programmes that improve financial skills, specifically for the city's youth. We have also been supporting underprivileged families in transitional housing to enhance their awareness and habits on financial management.

Another major undertaking has been the launch of our HK$33 Billion SME Power Up Fund which supports Hong Kong's SMEs. Additionally, our HK$80 Billion Sustainability Power Up Fund provides financial support to local enterprises on their green transition plans.

Outside of Hong Kong, Hang Seng Investment Management Limited collaborated with SAB Invest of Saudi Arabia to launch the SAB Invest Hang Seng ETF on the Saudi Exchange. This provides investors in the Middle East with direct access to Hong Kong's capital market. It also helps enhance Hong Kong's status as an international finance centre and a global super-connector.

Our dividends

Our continued business growth and strong capital position ensure we are well-placed to maintain a steady and healthy dividend policy.

I am pleased to announce that the Directors have declared a fourth interim dividend of HK$3.20 per share. This brings the total distribution for 2024 to HK$6.80 per share, an improvement of 4.6% year-on-year.

Financial overview

The Bank's 2024 financial performance reflects the positive outcome of the efforts made to diversify the revenue stream, mainly on non-interest income. As a result, non-interest income grew by 26% to HK$10,753m and the proportion of non-interest income to net operating income improved from 21% in 2023 to 26% in 2024.

Net fee income increased by 8% to HK$5,316m, aided by our continued strong performance in generating investment services income, mainly contributed by the growth in retail investment funds and securities broking and related services.

Net trading income, net income/(loss) from financial instruments designated at fair value through profit or loss, and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together recorded a gain of HK$1,044m. This is in contrast to a loss of HK$148m in 2023, and mainly reflects the higher revenue from derivatives products coupled with enhanced net interest income from trading positions and higher foreign exchange revenue generated from increased client activities.

Life insurance-related income also increased by 17% to HK$3,119m, with higher revenue generated from insurance services.

On the other hand, net interest income decreased by 5% to HK$30,784m driven mainly by subdued loan demand on the back of the high interest rate environment, and the declining rates in 2H 2024.

Compared to 31 December 2023, gross loan balances decreased by 5% whilst customer deposits rose by 7%, primarily due to the growth in our customer base mainly from new-to-bank affluent customers and mainland customers.

Net interest margin dropped 10-basis-points to 2.20% on the back of weaker loan demand where surplus liquidity has mainly been deployed into high-quality financial assets. Our liquidity coverage ratio was 301.0% as at 31 December 2024.

Net operating income before change in ECL and other credit impairment charges grew by 2% to HK$41,537m.

ECL and other credit impairment charges decreased by 24% to HK$4,773m due to the reduction in ECL charges for wholesale Stage 3 customers. As of 31 December 2024, gross impaired loans and advances as a percentage of gross loans and advances to customers was 6.12%, compared to 5.32% on 30 June 2024 and 2.83% on 31 December 2023.

Profit before tax increased by 5% year-on-year to HK$21,014m. Attributable profit also rose by 3% to HK$18,379m. Earnings per share grew by 4% to HK$9.33 per share. Return on average ordinary shareholders' equity remained stable at 11.3% for both years. Return on average total assets was 1.1%, up from 1.0% in 2023.

As of 31 December 2024, our common equity tier 1 ('CET1') capital ratio was 17.7%, tier 1 ('T1') capital ratio was 19.4%, and total capital ratio was 20.8%.

In 2024, we continued to invest in our people and technology to deliver greater operational efficiencies and enhanced customer experiences. We also made good progress in diversifying our revenue sources and building a strong capital base, which has helped support a good dividend payout. Looking ahead, we will continue, as always, to manage our costs and risks in a robust manner so as to build a solid foundation that can deliver healthy and sustainable returns to our shareholders.

Diana Cesar
Executive Director and Chief Executive
19 February 2025