Hang Seng Bank 2017 Annual Results Announcement
Speech by Ms Louisa Cheang
Vice-Chairman and Chief Executive
20 February 2018

Good afternoon, ladies and gentlemen.

Before we proceed with the results announcement, may I draw your attention to the words on the screen. Figures are in Hong Kong dollars unless otherwise stated.

Business Overview

In today's fast-moving market environment, customers value a personalised banking experience that offers greater control and choice, and services that are convenient and easy to use. As an integral part of our customer-centric business strategy, we are delivering on these expectations through investments in technology, staff development and operational infrastructure.

Our progressive approach to enhancing customer engagement and addressing the changing face of banking and financial services led to a strong set of results for 2017. Operating profit grew by 24% to reach a record high of $23,547 million, with healthy and balanced expansion in lending and deposits.

We deepened our understanding of the preferences and lifestyles of clients through effective use of data analytics. Supported by our customer segmentation strategy, we anticipated their evolving needs, leveraging our comprehensive portfolio of wealth-and-health offerings to provide products and services in a timely manner. Along with our trusted brand, this facilitated the acquisition of new customers and good growth in wealth management income.

To strengthen our engagement with customers where they live, work and play, we continued to modernise, diversify and digitise our distribution channels, launching innovative and inclusive solutions that enhance convenience and enrich our customer-centred service proposition. Initiatives such as biometric authentication and real-time transaction updates on mobile devices reflect our drive to make banking with Hang Seng a fast, secure and value-added experience. In December, we launched a Mobile Branch to serve public housing estates in remote areas of Hong Kong.

We consolidated our Hang Seng China operations by re-establishing our strategic priorities and portfolio on the Mainland. We also took steps to enhance our business agility and ensure we are better prepared to comply with future changes in the regulatory environment. Hang Seng China recorded balanced growth in loans and deposits and enhanced overall credit quality, but tighter lending margins had an adverse impact on the bottom line.

In line with our long-term commitment to the Mainland market, we continued to invest in strengthening our service scope and distribution capabilities. In April, we launched our first public fund for Mainland investors through Hang Seng Qianhai Fund Management Company, our foreign-majority-owned joint venture fund management company.

We rolled out new initiatives to more effectively engage staff and improve their well-being. This is driving a stronger sense of empowerment and brand ownership among our people that will help us build closer relationships with customers and the local community.

Financial Performance

Attributable profit grew by 23% to $20,018 million and earnings per share were up 24% at $10.30 per share. Profit before tax rose by 24% to $23,674 million.

Operating profit excluding loan impairment charges grew by 21% to $24,589 million.

The Directors have declared a fourth interim dividend of $3.10 per share. This brings the total distribution for 2017 to $6.70 per share, compared with $6.10 per share in 2016.

Net operating income rose by 17% to $34,315 million.

Net interest income was up 10% at $24,577 million, reflecting the 6% increase in average interest-earning assets, an enhanced deposit mix and the improved net interest margin, which rose by 9 basis points to 1.94%.

Non-interest income grew by 29% to $10,780 million. In the upbeat investment environment, we used our enhanced data analytics capabilities and diverse range of wealth-and-health products to provide customers with tailored wealth management solutions. Our securities broking business also performed strongly in the supportive market conditions. Wealth management income increased by 33% to $8,769 million.

Net fee income rose by 14% to $6,755 million, due mainly to strong growth in fee income from securities broking and related services and retail investment fund sales, which increased by 42% and 20% respectively. Our strong cross-border connectivity supported increased business volume, driving a 12% rise in remittance fees. Good progress with syndicated lending business led to an 18% increase in related fee revenue. Fee income from cards grew by 10%.

Net trading income increased by 41% to $2,384 million, with increased customer activity driving a 33% rise in foreign exchange income. We also recorded a gain on cross-currency swaps supporting life insurance contracts compared with a loss in 2016.

Through active management of our loan portfolio we enhanced overall credit quality. Loan impairment charges and other credit risk provisions fell by 21% to $1,042 million. At 2017 year-end, gross impaired loans and advances as a percentage of gross loans and advances to customers was 0.24%, compared with 0.42% at the end of June 2017 and 0.46% at the end of 2016.

Operating expenses rose by 5% to $10,768 million, due mainly to the salary increment and higher performance-related incentive payments as well as an increase in depreciation charges on business premises.

Our cost efficiency ratio was 30.5%, compared with 33.5% in 2016.

Return on average ordinary shareholders' equity was 14.2%, compared with 12.1% in 2016.

Total assets rose by $101 billion, or 7%, to $1,478 billion. Return on average total assets was 1.4%, compared with 1.2% for the previous year.

At 31 December 2017, our common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio were 16.5%, 17.7% and 20.1% respectively, compared with 16.6%, 17.9% and 20.8% at the end of 2016.

Loans and Deposits

Gross loans and advances to customers increased by $107.3 billion, or 15%, to $808.2 billion compared with the end of 2016. Compared with 30 June 2017, gross loans and advances were up 8%.

Loans and advances for use in Hong Kong rose by 16% year on year to $595.5 billion.

Lending to industrial, commercial and financial sectors increased by 19%, underpinned by diversified growth in core industry segments.

Lending to individuals grew by 11%, reflecting good growth in residential mortgage business and unsecured lending.

Solid progress with core trade business led to a 9% rise in trade finance lending.

Loans and advances for use outside Hong Kong rose by 16% compared with the end of 2016, due partly to an increase in Mainland-related lending.

Customer deposits, including certificates of deposit and other debt securities in issue, grew by $86.1 billion, or 8%, to $1,115.4 billion, due mainly to an 11% increase in current and savings account deposits. Compared with 30 June 2017, customer deposits were up 5%.

Segment Performance

Retail Banking and Wealth Management achieved a 37% increase in operating profit excluding loan impairment charges to $12,961 million. Operating profit was up 43% at $12,471 million.

Building on our long history of having the highest-rated banking services in Hong Kong, we rolled out new initiatives to further enhance customer satisfaction and strengthen our position as a preferred brand.

We used data analytics and our diverse portfolio of products to further leverage our customer-centric service model and tailor needs-based wealth management solutions for different client segments. We achieved a 24% increase in the Prestige Signature customer base.

We continued with initiatives to drive our upward trend in digital engagement and year-on-year growth in the use of our e-services. We deployed more resources in technology to enhance customer convenience and deliver a swift and simple service experience. We extended the product scope and functionality of our online platform and implemented Face, Touch and Voice ID to provide secure access to services via our Personal Banking mobile app and Phone Banking hotline. Our convenient network of new foreign exchange ATMs offers the widest choice of foreign currencies available via automated banking channels in Hong Kong. We will continue to expand the coverage of this service to other high-traffic locations.

Our enhanced portfolio management capabilities and trusted brand helped us deepen customer relationships and achieve solid balance sheet growth. Net interest income grew by 12% to $13,667 million. Customer deposits increased by 8% compared with a year earlier and we further improved the deposit mix. Lending rose by 9% year on year.

We grew non-interest income by 55% to $5,678 million. Supported by our time-to-market advantage and all-weather range of products, investments in our distribution network and data analytics strengthened our ability to meet the changing needs of different customer segments in a fast-moving market, resulting in a 34% increase in wealth management income to $7,707 million.

Investment services income increased by 27% to $3,557 million. Positive investor sentiment drove increases in securities turnover and income of 58% and 39% respectively. Leveraging our diverse suite of investment products, we grew investment services revenue excluding securities by 21%.

Insurance income rose by 41% to $4,150 million, due mainly to an 11% increase in new annualised life insurance premiums and higher returns from the life insurance investment portfolio.

In the active property sector, we strengthened our mortgage distribution capabilities in strategic locations to provide more customers with one-stop home loan solutions. This enhanced service proposition led to an 8% year-on-year increase in mortgage balances in Hong Kong. In a competitive market, we continue to rank among the top three for new Hong Kong mortgage business.

Our good understanding of the interests and behaviours of our large customer base helped us achieve an 8% increase in card receivables and grow personal lending in Hong Kong by 13% year on year.

Commercial Banking grew operating profit excluding loan impairment charges by 18% to $6,893 million. Operating profit was up 21% at $6,349 million.

Further initiatives to support SME clients in a dynamic operating environment and provide a seamless cross-border service experience strengthened customer engagement, driving good balance sheet growth. Our professional Relationship Management teams were recognised by our customers for providing timely and reliable banking solutions to support their business growth.

Net interest income rose by 15% to $7,030 million. Our strong transactional banking capabilities facilitated the acquisition of deposits, which grew by 14%. While continuing to uphold a high level of credit quality, we leveraged our market expertise and cross-border business strength to identify new opportunities for lending, resulting in a 15% increase in customer loans.

Non-interest income increased by 21% to $2,679 million. We added value with flexible financial management solutions – including our new Virtual Account for efficient daily cash management – that help customers respond swiftly to changing market conditions and new business opportunities. Fees from remittances and account-related services rose by 15%. Effective collaboration with Global Markets resulted in a 20% rise in foreign exchange income. In the positive investment environment, we used our extensive distribution network and strong relationships with SME customers to achieve a 43% increase in investment services income. Revenue from insurance was up 14%.

We continued to expand the scope and functionality of our digital services – adding features such as a real-time Trade Transaction Tracker – to make banking faster, easier and more convenient.

Initiatives to enhance the ease and efficiency of service delivery at our Business Banking Centres, including upgrades to our outlet in Sheung Shui, helped drive a 28% increase in SME-related operating profit excluding loan impairment charges.

Global Banking and Markets reported a 1% decline in both operating profit excluding loan impairment charges and operating profit to $4,763 million and $4,755 million respectively.

Despite limited opportunities for deploying new and maturing funds, Global Markets recorded a 1% increase in net interest income by actively managing the balance sheet and closely monitoring the market to achieve yield enhancement. Global Banking capitalised on the upturn in loan demand during the second half to achieve a 27% year-on-year increase in customer lending in 2017. Continuing efforts to promote transactional banking services supported a 5% rise in customer deposits compared with a year earlier, with a 34% increase in current and savings account deposits. Net interest income in the second half was up 15% compared with the first half, but tighter loan margins resulted in a 3% drop for the full year.

In the challenging interest rate environment, Global Markets focused on growing non-fund revenue, leading to a 5% rise in non-interest income. We enhanced our suite of wealth management and hedging solutions by strengthening our product capabilities in foreign exchange, interest rates and equity. Facilitated by close collaboration with the Bank's retail and commercial banking teams, this supported increased cross-selling of Global Markets products to serve the needs of different customers. Vanilla foreign exchange income recorded strong growth of 27%. The improved investment conditions drove a significant increase in customer demand for equity-linked structured products, leading to a doubling of growth in related income compared with the previous year.

We made further investments in infrastructure to capture business opportunities arising from the Mainland's ongoing financial liberalisation and measures to promote the internationalisation of the renminbi. As an interbank foreign exchange market member of the China Foreign Exchange Trade System, we widened our scope to cover the onshore bond market under the Bond Connect initiative that was implemented in the second half of 2017. We continued to provide various renminbi-related financial services to eligible offshore investors in our role as an HKMA-appointed settlement bank.

Against a backdrop of rapidly changing international and local regulations, our robust internal control systems ensured we continued to uphold high standards of compliance while delivering service excellence. We maintained the Bank's liquidity ratio at a strong level that is well above regulatory requirements.

Engaging For Future Growth

The global economy regained momentum during 2017 and this has continued into the new year. Gradual interest rate rises by the US Fed and the European Central Bank's decision to start trimming its asset purchase programme signal cautious optimism of a return to more solid economic ground. At the same time, the impact of ongoing economic adjustment on the Mainland and potential future shifts in international trade policies may create new challenges for business.

Our forward-looking approach to business is driven by the desire to help our customers achieve their aspirations by providing financial services that are efficient, add value and are convenient to use. In line with our long-standing support of various successful community programmes for youth development, we are building a strong pipeline for future growth by serving customers of today better and increasing our appeal among younger generations as the customers of tomorrow.

Backed by our firm financial fundamentals, we will continue to leverage our competitive advantages – including our trusted brand, extensive distribution and large customer base – that are not easily replicated by our peers.

We will strengthen client engagement by extending our service reach, enhancing efficiency and supporting the development of customised wealth management solutions that address evolving customer needs and market complexities.

As Hong Kong's leading domestic bank, we will launch more fintech initiatives that align with our customer-centric business strategy to help drive in a new era of 'smart banking' in our city. In January this year, we rolled out Hong Kong's first AI virtual assistants for retail banking customers.

The sharper focus of our Mainland business and our highly integrated cross-border infrastructure will serve us well in maintaining the growth momentum of our core banking services and capitalising on new opportunities created by major policy initiatives and financial liberalisation on the Mainland. Our Qianhai JV's second public fund was recently approved and will be launched in the coming months.

We will continue to improve staff engagement to ensure we provide the workplace environment, support and career development opportunities our people need to reach their potential, enjoy job satisfaction and become great ambassadors of our brand. I wish to express sincere thanks to all my colleagues for their contributions to achieving Hang Seng's strong 2017 results and advancing our strategy for sustainable growth as a progressive, customer-centred business.

As we move forward alongside our clients, integrity, innovation and inclusion will remain central in our actions to achieve our strategic goals and deliver service excellence as a financial institution and good corporate citizen.

Thank you.