永亨銀行
WING HANG BANK

Stock Code：302

75

We grow together

2011

Annual Report

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Corporate Profile

Wing Hang Ngan Ho was first established in 1937 by the late Mr Y K FUNG in Guangzhou to carry on the business of a money changer. Its early years were difficult due to the prevailing turbulent political and economical conditions in China. In 1945 the company re-established in Hong Kong with a capital of HK$300,000 and a staff of 19 and prospered during the post war boom. In 1960 Wing Hang Bank was incorporated and was granted a banking licence reaching the first milestone in its future growth.

In 1973 the Irving Trust Company of New York acquired a majority interest in the Bank and the partnership provided the Bank with a stronger financial base and the expertise of a major international bank. In 1979 the Head Office Building was re-developed and provided much needed modern facilities for its operations. In 1989 the Irving Trust Company merged with The Bank of New York and became a stronger and more diversified partner. In July 1993, the shares of Wing Hang Bank were listed on The Stock Exchange of Hong Kong. In August 2004, the Bank completed the merger with Chekiang First Bank, a local bank noted for its solid credit history and high quality portfolio. This acquisition provided the Bank with a greater scale and coverage in the market. In January 2007, the Bank acquired Inchroy Credit Corporation Ltd., a major financial institution engaged in the hire purchase and lease financing business. In July 2007, The Bank of New York Company Inc. merged with Mellon Financial Corporation to form The Bank of New York Mellon Corporation, further increasing its financial strength and standing in the market.

Wing Hang Bank is the holding company and the principal operating company of the Group. It provides a comprehensive range of banking and related financial services through a network of 43 branches in Hong Kong. Its wholly-owned subsidiary, Wing Hang Bank (China) Limited, was established in June 2007 with a network of branches in Shenzhen, Guangzhou, Shanghai, Beijing and Zhuhai. The Group's subsidiary, Banco Weng Hang, S.A. has been operating in Macau since 1941 and has an extensive branch network in the territory. In addition, through its other subsidiaries and affiliated companies the Group provides nominee, deposit taking, offshore banking, hire purchase, consumer financing, insurance and share brokerage services.

Wing Hang Bank Group is always dedicated to providing comprehensive services to its customers and becoming their "Preferred Bank".

At the end of 2011, the Group's total assets and shareholders' funds amounted to HK$187.2 billion and HK$16.9 billion respectively, net profit attributable to shareholders for 2011 was HK$2,121.3 million.

Group Results in Brief

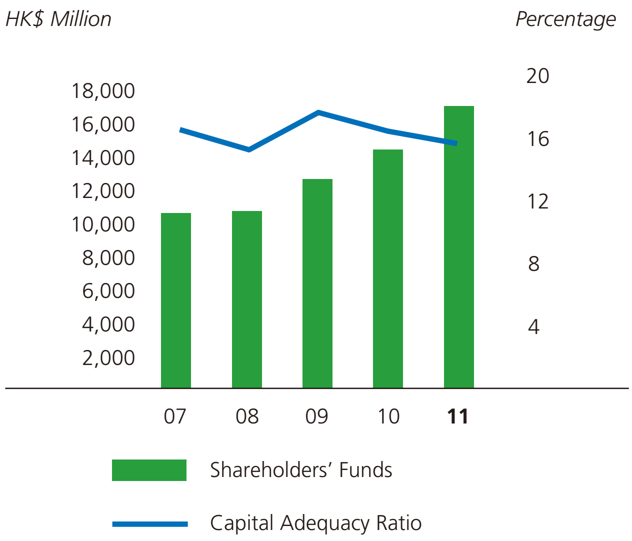
FOR THE YEAR	**2011 HK$ million**	2010 HK$ million	Increase %	**2011 US$ million**
Profit Attributable to Shareholders	**2,121**	1,626	30%	**273.09**
Dividends	**537**	407	32%	**69.14**
PER SHARE	**HK$**	HK$	%	**US$**
Basic Earnings	**7.14**	5.51	30%	**0.92**
Interim and Final Dividends	**1.80**	1.38	30%	**0.23**
Net Asset Value	**56.57**	48.35	17%	**7.28**
AT YEAR END	**HK$ million**	HK$ million	%	**US$ million**
Shareholders' Funds	**16,904**	14,279	18%	**2,176.5**
Total Deposits	**161,320**	137,062	18%	**20,771.0**
Advances to Customers	**110,578**	97,254	14%	**14,237.6**
Total Assets	**187,249**	159,297	18%	**24,109.5**
RATIO	**%**	%		
Cost to Income Ratio	**45.8**	48.8		
Return on Average Assets	**1.19**	1.09		
Return on Average Shareholders' Funds	**13.6**	12.2		

US$1.00=HK$7.7666

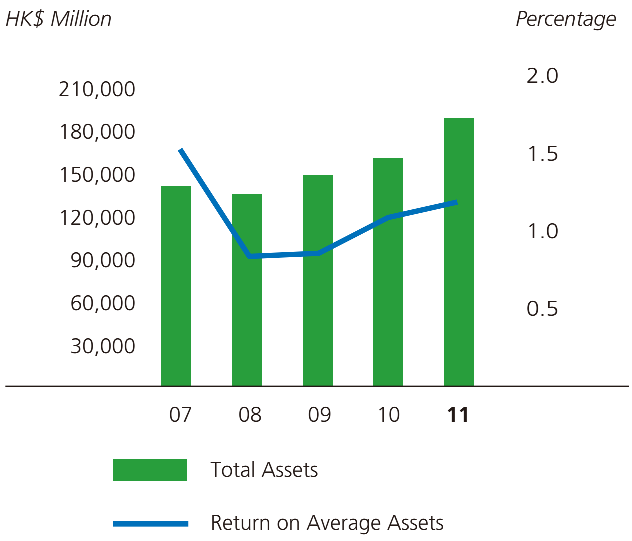
Five-Year Group Financial Summary

HK$ million	2007	2008	2009	2010	**2011**
Shareholders' Funds	10,485	10,587	12,521	14,279	**16,904**
Total Deposits	120,096	117,107	127,416	137,062	**161,320**
Advances to Customers	74,574	80,256	80,497	97,254	**110,578**
Total Assets	139,657	134,400	147,124	159,297	**187,249**
Operating Income	3,292	3,785	2,853	3,298	**3,785**
Operating Expenses	1,306	1,561	1,571	1,610	**1,735**
Profit Attributable to Shareholders	2,031	1,162	1,205	1,626	**2,121**
Dividends	1,012	313	207	407	**537**
HK$					
Basic Earnings per Share	6.89	3.94	4.08	5.51	**7.14**
Interim and Final Dividends per Share	3.43	1.06	0.70	1.38	**1.80**
Ratio					
Loan to Deposit Ratio	62.1	68.5	63.2	71.0	**68.5**
Capital Adequacy Ratio	16.7	15.4	17.8	16.6	**15.8**
Average Liquidity Ratio	50.4	44.1	53.6	45.6	**39.9**
Cost to Income Ratio	39.7	41.2	55.1	48.8	**45.8**
Return on Average Assets	1.53	0.84	0.86	1.09	**1.19**
Return on Average Shareholders' Funds	20.5	10.8	10.6	12.2	**13.6**

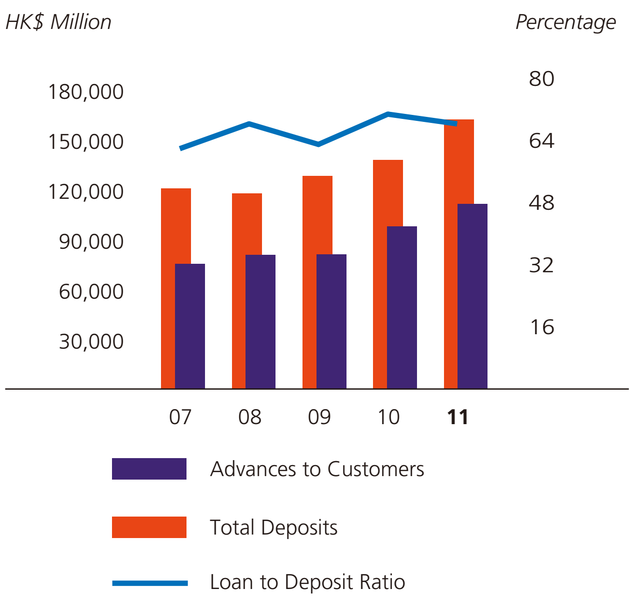
Shareholders' Funds / Capital Adequacy Ratio



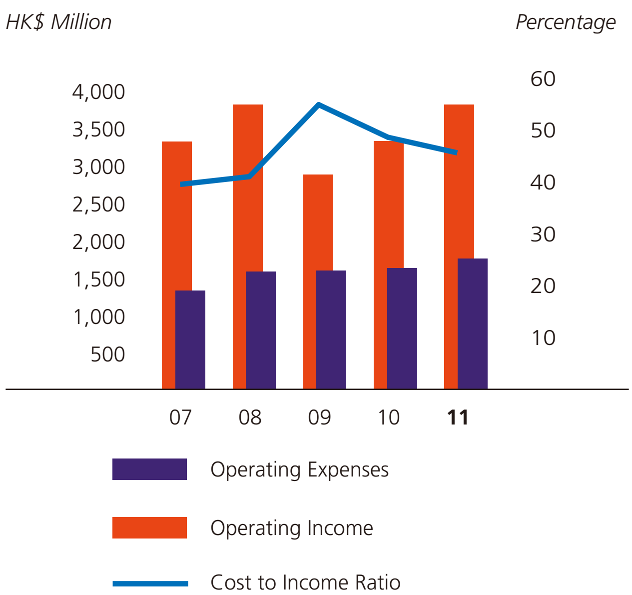
Total Assets / Return on Average Assets



Advances to Customers / Total Deposits / Loan to Deposit Ratio



Operating Expenses / Operating Income / Cost to Income Ratio



Corporate Information

Board of Directors

Chairman

Dr FUNG Yuk Bun Patrick JP *(Chief Executive)*

Executive Directors

Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
Mr Brian Gerard ROGAN

Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen

Executive Committee

Dr FUNG Yuk Bun Patrick JP
Mr Frank John WANG
Mr FUNG Yuk Sing Michael

Audit Committee

Dr CHENG Hon Kwan GBS, JP
Mr Stephen Dubois LACKEY
Mr TSE Hau Yin Aloysius

Remuneration Committee

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP

Nomination Committee

Mr LAU Hon Chuen Ambrose GBS, JP
Dr CHENG Hon Kwan GBS, JP
Mr HO Chi Wai Louis

Company Secretary

Mr LEUNG Chiu Wah

Auditors

KPMG
Certified Public Accountants

Registered Office

161 Queen's Road Central, Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited

Share Registrars

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

ADR Depositary Bank

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Telephone: 1-201-680-6825
Email: shrrelations@bnymellon.com

Affiliated with the Bank of New York Mellon Corporation

Biographical Details of Directors

Dr FUNG Yuk Bun Patrick JP

Chairman & Chief Executive

Aged 64. Dr FUNG joined the Bank in 1976 and was appointed a Director in 1980, Chief Executive in 1992, and Chairman in April 1996. He is a member of the Executive Committee and also the Chairman of various subsidiaries and committees of the Bank. Dr FUNG is a non-executive director of Miramar Hotel and Investment Company, Limited and an independent non-executive director of The Link Management Limited, the manager of The Link Real Estate Investment Trust. Miramar Hotel and Investment Company, Limited and The Link Real Estate Investment Trust are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is a member of the Exchange Fund Advisory Committee ("EFAC") and the EFAC Financial Infrastructure Sub-Committee, a member of the Hong Kong Tourism Board, a member of the Court of the Hong Kong Polytechnic University, a court member of the Hong Kong University of Science and Technology and the Vice President of the Hong Kong Institute of Bankers.

Dr FUNG obtained his MBA Degree from the University of Toronto in 1973, and was awarded an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2001 and an Honorary Doctor of Laws by the University of Toronto in 2005.

Dr FUNG is a son of the late Mr Y K FUNG, founder of the Bank.

Mr Frank John WANG

Executive Director & Deputy Chief Executive

Aged 60. Mr WANG joined the Bank as Executive Director and Deputy Chief Executive in June 1999. He is a member of the Executive Committee, Credit Committee and Management Committee of the Bank and a director of various subsidiaries of the Bank. Mr WANG is also a former member of Deposit Taking Company Advisory Committee. He previously worked with The Bank of New York Mellon and has extensive credit control experience.

Mr WANG obtained his MBA Degree from the Cornell University in 1979.

Mr FUNG Yuk Sing Michael

Executive Director & Senior General Manager

Aged 62. Mr FUNG joined the Bank in 1978 and was appointed Executive Director in 1992. He is a member of the Executive Committee, Credit Committee, Management Committee and a director of various subsidiaries of the Bank.

Mr FUNG obtained BA Degree from the Carleton University in Ottawa, Canada.

Mr FUNG is a son of the late Mr Y K FUNG, founder of the Bank.

Mr HO Chi Wai Louis

Non-executive Director

Aged 75. Mr HO joined the Bank in 1972, was appointed Executive Director in October 1995 and re-designated as Non-executive Director of the Bank on 1st July, 2008. He is also a member of Nomination Committee of the Bank. Before his re-designation as a Non-executive Director of the Bank, Mr HO was the Company Secretary and a member of the Management Committee and Credit Committee of the Bank.

Mr HO obtained an Engineering Degree from the McGill University in 1961. Mr HO is presently an Honorary Adviser of The Chinese Gold and Silver Exchange Society.

Mr HO is the brother-in-law of Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael.

Mr Stephen Dubois LACKEY

Non-executive Director

Aged 55. Mr LACKEY joined the Board in July 2011 and is a member of Audit Committee of the Bank. He is currently the Chairman of Asia Pacific for The Bank of New York Mellon and a member of its Executive Committee. Immediately prior to taking up his current position, he served as Head of Global Corporate Development and Investor Relations of The Bank of New York Mellon in New York. Mr LACKEY has substantial experience in the banking industry.

Mr LACKEY obtained a Bachelor's Degree from Vanderbilt University and a Master's Degree in International Management from the American Graduate School of International Management (Thunderbird).

Mr Brian Gerard ROGAN

Non-executive Director

Aged 54. Mr ROGAN joined the Board in January 2009. He is currently a Vice Chairman and Chief Risk Officer of The Bank of New York Mellon Corporation and its subsidiary, The Bank of New York Mellon. Mr ROGAN also served on the board of directors of two subsidiary companies of The Bank of New York Mellon Corporation. Mr ROGAN started his career with The Bank of New York in 1981. He has extensive experience in the banking industry.

Biographical Details of Directors

Mr ROGAN obtained a Bachelor's Degree in Economics from the University of Rochester, New York in 1979 and a Master Degree in Business Administration from UCLA Anderson School of Management, Los Angeles, California in 1988.

Dr CHENG Hon Kwan GBS, JP

Independent Non-executive Director

Aged 84. Dr CHENG joined the Board in 1987. He is also the Chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Bank. Dr CHENG is also an independent non-executive director of Agile Property Holdings Limited, Hang Lung Group Limited, Hang Lung Properties Limited and Tianjin Development Holdings Limited. The above companies are listed on the Stock Exchange. Dr CHENG is former member of Executive and Legislative Councils, and the former Chairman of Land and Building Advisory Committee, Transport Advisory Committee, Hong Kong Housing Authority, Councils of City University and Open University of Hong Kong.

Dr CHENG obtained a Bachelor's Degree in Engineering from the Tianjin University and is a fellow of Imperial College London, an Honorary Fellow, Gold Medallist and former President of The Hong Kong Institution of Engineers. He is also Fellow and Gold Medallist of The Institution of Structural Engineers.

Mr LAU Hon Chuen Ambrose GBS, JP

Independent Non-executive Director

Aged 64. Mr LAU joined the Board in 1996. He is also a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Bank. Mr LAU is an independent non-executive director of Brightoil Petroleum (Holdings) Limited, Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited (Formerly known as "GZI Transport Limited"), Qin Jia Yuan Media Services Company Limited, The Hong Kong Parkview Group Limited and Yuexiu Property Company Limited. The above companies are listed on the Stock Exchange.

Mr LAU obtained LLB Degree from the University of London. He is a solicitor of the High Court of the HKSAR, a China-Appointed Attesting Officer and a Notary Public and the Senior Partner of Messrs Chu and Lau, Solicitors and Notaries.

Mr LAU was awarded "Gold Bauhinia Star" by the HKSAR Government in 2001. He is also a Standing Committee member of the National Committee of the Chinese People's Political Consultative Conference.

Mr TSE Hau Yin Aloysius

Independent Non-executive Director

Aged 64. Mr TSE joined the Board in November 2004 and is a member of the Audit Committee of the Bank. He is also the Supervisor of two subsidiaries of the Bank incorporated in Macau and China. Mr TSE is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), a former president and the Chairman of the Audit Committee of the HKICPA. Mr TSE joined KPMG in 1976 and became a partner in 1984 and retired in March 2003. Mr TSE was the non-executive chairman of KPMG's operations in the PRC and a member of the KPMG China Advisory Board from 1997 to 2000. Mr TSE also serves as independent non-executive director in a number of listed companies in Hong Kong, including China Telecom Corporation Limited, CNOOC Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM Holdings Limited. He is currently a member of the International Advisory Council of The People's Municipal Government of Wuhan. He had also served as independent non-executive director of China Construction Bank Corporation for the period from November 2004 to June 2010.

Mr TSE is a graduate of the University of Hong Kong.

Mr TUNG Chee Chen

Independent Non-executive Director

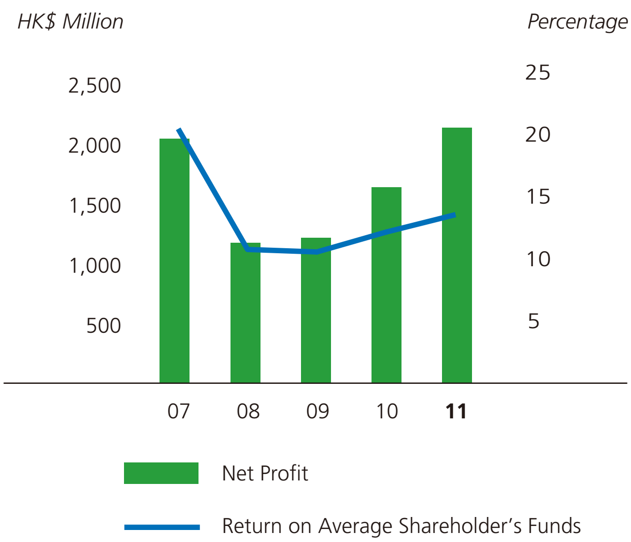
Aged 69. Mr TUNG joined the Board in January 2004. He is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited and an independent non-executive director of a number of listed companies, including BOC Hong Kong (Holdings) Limited, Cathay Pacific Airways Limited, Sing Tao News Corporation Limited, Zhejiang Expressway Company Limited and U-Ming Marine Transport Corp. He was formerly an independent non-executive director of PetroChina Company Limited.

Mr TUNG was educated at the University of Liverpool, United Kingdom, where he obtained a Bachelor's Degree in Science in 1964. He later obtained a Master's Degree in Mechanical Engineering from the Massachusetts Institute of Technology in 1966.

Chairman's Statement

Dr FUNG Yuk Bun Patrick JP
Chairman & Chief Executive

Net Profit / Return on Average Shareholders' Funds



The Group achieved record profit in 2011. Group profit attributable to shareholders rose by 30.4 percent to HK$2,121.3 million for the year ended 31st December, 2011 compared to HK$1,626.3 million in 2010. Earnings were boosted by an increase in operating income and capital gain on the disposal of properties. Earnings per share increased by 29.6 percent to HK$7.14. The Board has recommended a final dividend of HK$1.34 per share. Together with the interim dividend of HK$0.46 paid on 7th October, 2011, the total distribution for the year amounts to HK$1.80 per share, an increase of 30.4 percent over 2010.

Chairman's Statement

The local economy slowed moderately towards the end of last year. Real GDP grew by 3.0 percent in the fourth quarter of 2011 compared to 6.6 percent in the same period the previous year. Domestic demand was robust supported by higher household income and a vibrant job market. The unemployment rate stood at just 3.3 percent in the final quarter. Demand from private consumption, government consumption and infrastructure investment continued to increase. Last year merchandise exports rose by 10.1 percent over 2010, but a significant drop in trade volume was recorded in the second half of the year. This decline was largely attributed to a fall in demand from Europe as fiscal austerity measures there dampened consumption and business investment. As food prices and rents continued to rise, Hong Kong's CPI accelerated to 5.7 percent in December 2011 from 2.9 percent the previous year.

In China, economic growth slowed to 8.9 percent in the fourth quarter of 2011. As Hong Kong's economy is becoming increasingly integrated with the Chinese economy, the slowdown in local GDP growth at the end of last year had been expected. However, China continued to make a positive contribution to the local economy through tourism and retail sales.

Loan volumes were boosted by strong demand for loans for use outside Hong Kong. This in turn led to higher deposit and lending rates. However mortgage loan demand declined in the second half as property transaction volume shrank due to rising mortgage rates and various government policies to stabilise property prices. Consequently residential property prices fell in the fourth quarter. Sentiment was also dampened by the weaker economic outlook as anxiety mounted over the European sovereign debt issue.

Growth in customer loans and deposits reached 13.7 percent and 16.3 percent respectively. The increase in loans was largely fuelled by strong demand for letter of credit financing, auto and equipment leasing, investment mortgages, corporate and consumer lending as well as higher loan demand on the Mainland. The increase in deposit was mainly due to significant increase in letter of credit margin deposit and customer deposit. Our asset quality remains sound supported by strong economic fundamentals and an effective credit risk monitoring policy.

Here are some key financial ratios for the year under review:

- Return on average shareholders' funds: 13.6 percent
- Loan-to-deposit ratio as at 31st December: 68.5 percent
- Average liquidity ratio: 39.9 percent
- Capital adequacy ratio as at 31st December: 15.8 percent
- Core capital adequacy ratio as at 31st December: 10.1 percent

The Group currently has 43 branches in Hong Kong, 12 branches in Macau and 13 branches / sub-branches in the Mainland. As at 31st December, 2011, the Group employed a total of 3,407 staff.

In the current year, we expect economic growth to remain weak in the first half. This is mainly a result of reduced export demand from Europe as fiscal tightening takes effect. This will affect not only the local economy but also the Chinese economy. As a result, retail sales in Hong Kong could slow down slightly. This in turn could affect the job market as currently the strong demand for labor mostly comes from the retail sector. Private consumption may then be negatively impacted. In this scenario, inflation should subside somewhat while asset price movements will largely depend on sentiment. Any sudden reversal of capital inflows will create volatility in interest rates and asset markets.

Strategically we will continue to focus on the large and growing domestic market in China. At the same time, with the continued liberalisation of the RMB and the rapid development of offshore RMB business in Hong Kong and Macau, we will aim to further expand our RMB lending services and wealth management products. As more customers take advantage of our seamless integrated banking services across China, Hong Kong and Macau, we envisage increasing opportunities to expand the cross-border lending business.

As we celebrate the Bank's 75th anniversary in 2012, I wish to extend my gratitude to all our customers, shareholders and colleagues for their support to Wing Hang Bank. I am indebted to the Board of directors for their continued support and counsel.

FUNG Yuk Bun Patrick
Chairman and Chief Executive

Hong Kong, 8th March, 2012

Review of Operations

Financial Review

For the year ended 31st December, 2011, profit attributable to shareholders increased by 30.4 percent to HK$2,121.3 million compared to HK$1,626.3 million in 2010.

Listed below are the key financial statistics for the financial year:

- Profit before taxation increased by 29.4 percent to HK$2,520.8 million largely due to an increase in operating income and capital gain on the disposal of properties.

- Net interest income increased by 8.6 percent to HK$2,871.2 million on improved loan volumes. Increased deposit funding costs impacted our net interest margin which narrowed 17 basis points to 1.67 percent.

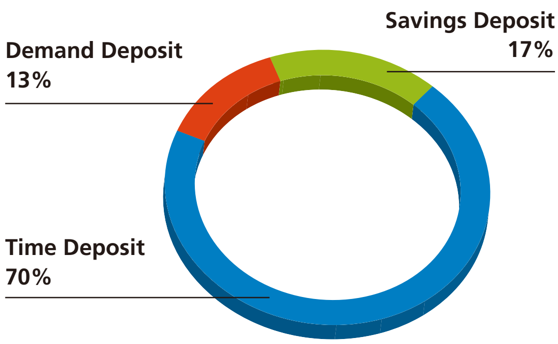
- Other operating income decreased 7.1 percent to HK$848.1 million as a result of reduced foreign exchange trading income and share brokerage commission.

- Net unrealised gains from financial instruments held for trading and designated at fair value were HK$65.8 million compared to a loss of HK$258.8 million the previous year.

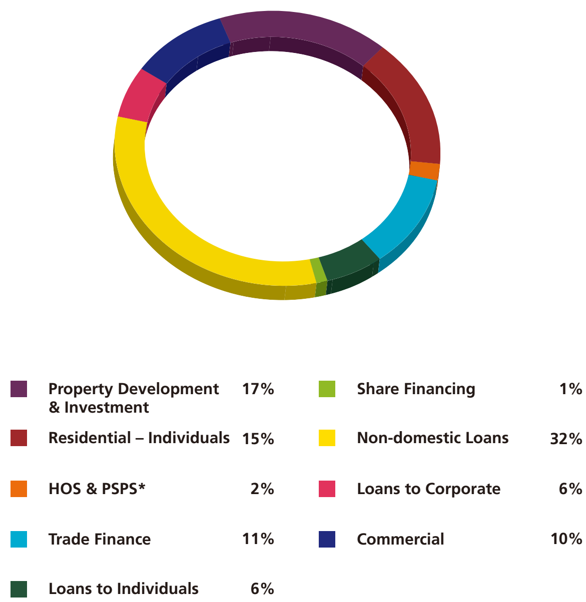
- Total operating expenses increased by 7.7 percent to HK$1,734.7 million moderated by a write-back of provision for the sale of structured investment products. Consequently the Group's cost-to-income ratio declined from 48.8 percent to 45.8 percent.

- Impairment losses and allowances for loans and advances were HK$29.8 million following an improvement in asset prices that have been supported by the favorable low interest-rate environment and a healthy economy. Impaired loans as of 31st December, 2011 stood at HK$336.0 million, equivalent to 0.30 percent of total loans.

Deposit Mix



Loan Composition



* Home Ownership Scheme and Private Sector Participation Scheme

- Net gains on the revaluation and disposal of properties increased over 3-fold to HK$423.1 million following the disposal of properties.

- Total deposits increased by 17.7 percent to HK$161.3 billion while customer deposits grew by 16.3 percent to HK$157.8 billion supported by an increase in letter of credit margin and customer deposits. Certificates of deposit issued by the bank increased 8-fold to HK$2.8 billion.

- Total customer loans increased 13.7 percent to HK$110.6 billion. The significant increase in loans was due to higher demand from the letter of credit financing business, auto and equipment leasing, investment mortgage loans, corporate and consumer lending as well as increased loan demand in the Mainland.

Retail Banking

Profit before taxation in the Retail Banking division decreased 9.5 percent over 2010. This decline was largely caused by an increase in deposit funding costs and a decrease in fee income.

While market competition remains intense, we continue to gain market share by offering a wide range of products and quality services. During the year we launched a series of well-received marketing programs that saw deposits grow by 16.3 percent.

We are growing our wealth management business. In addition to increasing the number of investment corners in our branches, we also launched mobile banking service which allows our customers to conduct securities trading, foreign currency and gold trading transactions using their mobile phones. We also expanded our range of online investment services such as an online securities account opening service and Stock Monthly Investment Plan. In the card business, we launched the first and only custom-made *My Moment* credit card in Hong Kong that allow customers to design their own card face by using their favorite photo or picture. In 2012 we plan to launch the very first ATM chip card in Hong Kong. This will usher in a new era for the local ATM card business.

One of the most important trends in Hong Kong's banking sector is the development of the RMB business. We provide stock trading services in RMB and facilities for RMB bond investment. Moreover we provide integrated RMB trade finance services for our corporate clients, including inward and outward RMB trade settlement and trade financing. The Bank has been designated as one of the two Hong Kong clearing banks for RMB-denominated gold bar trading. We also aim to provide a more comprehensive wealth management service across China and Hong Kong. At present, we offer account opening and stock trading services in simplified Chinese on our internet banking platform to attract high net worth Mainland customers to our bank and create new sources of revenues.

From left: Mr Michael Fung, Mr Stephen Lackey, Mr Louis Ho, Mr Ambrose Lau, Mr Donald Tsang, the Chief Executive of the Hong Kong Special Administrative Region, Dr Patrick Fung, Dr Cheng Hon Kwan, Mr Aloysius Tse and Mr Frank Wang at the Bank's 75th Anniversary Cocktail Reception

Review of Operations

We recognise the importance of quality customer service. In addition to expanding our branch network to new strategic locations, we also improved the interior design of existing branches. Our Causeway Bay Branch was moved to larger premises in 2011 to improve the overall service level. We are upgrading our online platform to support multiple browsers and streamline the account opening process. To provide a highly personalised customer service and maximise cross selling opportunities, we have established a dedicated Phone Banking Department to undertake direct marketing as well as a separate hotline for our Elite Gold customers.

Consumer Finance

Unsecured loans grew by 6.2 percent in 2011 as Wing Hang Credit comfortably maintained its leadership position in the local consumer finance market. During the year, we launched a range of competitive loan programs that enabled us to increase our market share and maintain our brand in the marketplace.

The company currently has 22 branches in Hong Kong and is dedicated to providing a quality and professional service to our customers. In 2012 we will continue to develop new revenue streams by further expanding our product range, growing our customer base and exploring new business opportunities.

Auto and Equipment Leasing

Demand for vehicle financing and equipment hire remained strong in 2011. As a result, our Auto and Equipment Finance division continued to grow and maintain its market leader position. Total loans increased by 10.6 percent over the previous year. Despite increasing funding costs and intense price competition in vehicle financing, we managed to maintain our competitiveness and profitability.

In 2011 the division was relocated to a larger office in Shaukeiwan to take advantage of operational synergies and lower premises costs.

Wing Hang Insurance

Insurance commission grew by 7.9 percent in 2011 over the previous year. This increase was largely a result of promoting general insurance products to target business sectors. We also worked closely with our branches and other business units to cross-sell life insurance products to our customers.

The share of profits from our 2 associates rose by 79.6 percent to HK$50.3 million. Hong Kong Life achieved very good results by focusing on new products while Bank Consortium Trust also achieved record profits.

Wing Hang Share Brokerage

In 2011, investment sentiment towards local equities was impacted by the ongoing European sovereign debt issue and the tightening of monetary policy in China. This, coupled with intense market competition, negatively affected our fee income in the securities broking business.

In order to expand our market share, we will continue to roll out competitive marketing campaigns and upgrade our trading system to provide reliable and user friendly trading platform for our customers.

Corporate Banking

Our trade finance business in 2011 enjoyed remarkable success as loan volume surged by 134.6 percent over the previous year. This achievement was supported by both an increase in our conventional trade business and our participation in RMB cross-border trade settlement transactions. Coupled with the steady growth in bilateral corporate loans, total corporate loan and trade financing at year-end grew by 26.6 percent over 2010. Bad debts were kept at a very low level throughout the year.

Amidst the current global economic uncertainty, one of our main goals is to maintain a healthy loan portfolio. We will therefore maintain our focus on corporations with sound credit quality. The division also achieved good cross-selling results in capturing customer deposits for the Bank.

China

Our China operations achieved strong growth in 2011. Profit before taxation grew by 47.0 percent compared with the previous year. Deposits also increased significantly enabling our wholly-owned subsidiary, Wing Hang Bank (China) Limited ("WHBCL"), to meet the loan-to-deposit ratio stipulated by the CBRC.

Amidst the tight liquidity environment in the Mainland, loans for use in China increased by 20.1 percent by the end of the year. We continued to extend our support to SMEs in Shenzhen as well as other parts of Guangdong Province and China. This included high-yielding products such as small business loans and vehicle and equipment financing.

In regard to our China network, the new Beijing branch was opened in August to help serve our customers in the north. Our Nanshan sub-branch in Shenzhen was opened in May as part of our sub-branch expansion program. At the end of 2011, our network extended to 13 offices including 6 branches and 7 sub-branches. We also continued to expand our workforce in China. The total number of staff reached almost 800.

Following the success of our first cross-location sub-branch in Foshan, we shall further expand our network in Guangdong province. Our application to open a second cross-location sub-branch in Huizhou has been approved by the CBRC and is expected to open in 2012.

WHBCL is also planning to roll out its internet banking service in the second half of 2012. This new service should help to expand our customers base in the Mainland.

Treasury

Profit before taxation from our Treasury division increased by 90.7 percent compared with the previous year. The increase was due to unrealised gains on change in fair value of our subordinated liabilities. However our net interest income was decreased as we reduced our investments in debt securities to fund loan demand. At year end, our direct exposure to Continental European debt is not material.

Macau

Economic growth in Macau has been robust as a result of the continuous expansion of the gaming and tourism industries. GDP surged by 21.8 percent in real terms in the first three quarters of 2011. Amid an increase in deposit funding costs, Banco Weng Hang's net profit increased 1.9 percent to 246.9 million patacas.

Net interest income decreased 0.5 percent amid a challenging interest rate environment. Fierce competition drove up interest costs to a level that could not be offset by the positive effects of loan growth and an improvement in yields. A 7.1 percent increase in non-interest income was mainly due to the reduction in unrealised losses on interest rate derivatives. There was also reasonable growth in credit card commissions. Loans grew by 3.0 percent compared to the end of 2010. This was largely supported by an increase in the residential mortgage business as the property market remained buoyant during the first half of the year. Customer deposits grew by 10.4 percent following a series of successful campaigns to promote a range of new products.

Report of the Directors

The Directors of Wing Hang Bank, Limited (the "Bank") have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31st December, 2011.

Principal Place of Business

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 161 Queen's Road Central, Hong Kong.

Principal Activities

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 20 and 35 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2011 and the state of affairs of the Group and the Bank as at 31st December, 2011 are set out in the financial statements on pages 39 to 154.

The Board has recommended the payment of a final dividend of HK$1.34 (2010: HK$1.08) per share for the year ended 31st December, 2011 to shareholders whose names appear on the register of members (the "Register") of the Bank on Friday, 11th May, 2012 (Record Date), subject to shareholders' approval at the forthcoming annual general meeting of the Bank to be held on Thursday, 3rd May, 2012 ("AGM"). The final dividend, if approved, will be paid in cash on Friday, 8th June, 2012, with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"). The Scrip Dividend Scheme is conditional upon the passing of the relevant resolution at the AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or around Monday, 14th May, 2012. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or around Friday, 8th June, 2012.

Reserves

Profit attributable to shareholders of HK$2,121,318,000 (2010:HK$1,626,250,000) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Major Customers

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

Fixed Assets

Details of the movements in fixed assets of the Group and of the Bank during the year are set out in note 22 to the financial statements.

Share Capital

During the year, the Bank issued 3,518,178 (2010: 249,750) ordinary shares at par value of HK$1.00 under the share option schemes, employee incentive plan and scrip dividend schemes of the Bank. Details of the share capital are set out in note 31 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK$3,694,000 (2010: HK$2,204,000).

Directors

The Directors of the Bank during the year and up to the date of this report are as follows:

Executive Directors

Dr FUNG Yuk Bun Patrick JP *(Chairman & Chief Executive)*
Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY (appointed on 11th July, 2011)
Mr Brian Gerard ROGAN
Mr Christopher Robert STURDY (resigned on 11th July, 2011)

Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen

During the year, Mr Stephen Dubois LACKEY was appointed as Non-executive Director and Mr Christopher Robert STURDY resigned as Non-executive Director with effect from 11th July, 2011.

In accordance with the Bank's Articles of Association, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis, Mr Stephen Dubois LACKEY, Mr Brian Gerard ROGAN and Mr LAU Hon Chuen Ambrose will retire from office by rotation at the AGM. These retiring Directors, being eligible, have offered themselves for re-election at the AGM. Other remaining Directors of the Bank will continue in office.

None of the Directors offering themselves for re-election at the AGM has a service contract with the Bank or any of its subsidiaries that is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

No contract of significance to which the Bank, or any of its subsidiaries was a party, and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Except for the share option schemes and the employee incentive plans of the Bank, at no time during the year was the Bank, or any of its subsidiaries a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate. Details of the share option schemes and the employee incentive plans are set out in the following sections headed "Share Option Schemes" and "Employee Incentive Plans".

Changes in Information in respect of Directors

Changes in Directors' information since the date of the 2011 Interim Report of the Bank which are required to be disclosed pursuant to Rule 13.51B (1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are set out below:

Biographical Details of Directors

Mr TUNG Chee Chen
Ceased as independent non-executive director of PetroChina Company Limited.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Report of the Directors

Directors and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Bank or any Associated Corporation

As at 31st December, 2011, the interests and short positions of the Directors and Chief Executive of the Bank and their respective associates in the shares, underlying shares and debentures of the Bank or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were as follows:

Long positions in Ordinary Shares of the Bank

	Number of shares							
Name of Director	Personal interest	Family interest	Corporate interest	Option Note[(1)]	Award Note[(2)]	Others	Total	Percentage of issued share capital Note[(4)]
FUNG Yuk Bun Patrick	3,159,000	–	–	140,000	620,000	Note[(3)]	3,919,000	1.31
FUNG Yuk Sing Michael	3,142,000	60,000	–	110,000	310,000	Note[(3)]	3,622,000	1.21
HO Chi Wai Louis	309,000	101,000	–	–	8,500	Note[(3)]	418,500	0.14
LAU Hon Chuen Ambrose	73,479	–	–	–	–	–	73,479	0.02
Frank John WANG	18,750	–	–	80,000	376,250	–	475,000	0.16

Subordinated Notes of the Bank

	Amount (US$)				
Name of Director	Personal interest	Family interest	Corporate interest	Others	Total
FUNG Yuk Bun Patrick	2,000,000	–	–	4,000,000 Note[(5)]	6,000,000
FUNG Yuk Sing Michael	–	400,000	5,600,000	4,000,000 Note[(5)]	10,000,000
HO Chi Wai Louis	480,000	500,000	–	4,000,000 Note[(5)]	4,980,000

Notes:

(1) Share options were granted to the Directors pursuant to the share option schemes adopted by the Bank on 9th June, 1993 and 24th April, 2003. Details of the share options are stated under the section headed "Share Option Schemes".

(2) Share awards were granted to the Directors pursuant to the employee incentive plan adopted by the Bank on 22nd April, 2004. Details of the share awards are stated under the section headed "Employee Incentive Plans".

(3) Dr FUNG Yuk Bun Patrick, Mr FUNG Yuk Sing Michael and the spouse of Mr HO Chi Wai Louis, together with other parties, are eligible beneficiaries of the trusts of Po Ding Company Limited, YKF Holding (PTC) Corporation and Tessel Inc. The interests of these corporations in the shares of the Bank are stated under the section headed "Substantial Shareholders' Interests".

(4) The number of issued shares of the Bank as at 31st December, 2011 was 298,812,308 shares.

(5) These interests represented US$2,000,000 held by Po Ding Company Limited and US$2,000,000 held by YKF Holding (PTC) Corporation. Both of Po Ding Company Limited and YKF Holding (PTC) Corporation are trusts of which Dr FUNG Yuk Bun Patrick, Mr FUNG Yuk Sing Michael and the spouse of Mr HO Chi Wai Louis, together with other parties, are eligible beneficiaries.

Save as disclosed above and for certain Directors holding non-beneficial interests in the share capital of some of the subsidiaries of the Bank as nominee shareholders, as at 31st December, 2011, none of the Directors or Chief Executive of the Bank or their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Bank or any associated corporation (within the meaning of the SFO).

Substantial Shareholders' Interests

As at 31st December, 2011, the following persons (other than a Director or Chief Executive of the Bank) had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under section 336 of the SFO:

Long or short positions in Ordinary Shares of the Bank

Name	Capacity and nature	Number of shares	Percentage of issued share capital Note[5]
The Bank of New York Mellon Corporation	Interest in controlled corporation	60,951,583 Note[1]	20.40
The Bank of New York Mellon	Interest in controlled corporation	60,951,583 Note[1]	20.40
BNY International Financing Corporation	Beneficial owner	60,951,583 Note[1]	20.40
Federal Trust Company Limited	Trustee	35,449,200 Notes[2]&[3]	11.86
YKF Holding (PTC) Corporation	Trustee	24,853,900 Notes[2]&[3]	8.32
Po Ding Company Limited	Trustee	24,610,500 Note[3]	8.24
Wing Hang Bank (Nominees) Limited	Nominee	23,671,400 Notes[2]&[3]	7.92
Aberdeen Asset Management Plc and its subsidiaries	Investment manager	23,667,239 Note[4]	7.92
Aberdeen Asset Management Asia Limited	Investment manager	22,864,739 Note[4]	7.65
JPMorgan Chase & Co.	Beneficial owner / Investment manager / Custodian	14,863,294 (Long position) 2,500,000 (Short position)	4.97 0.84
Tessel Inc.	Trustee	10,838,700 Notes[2]&[3]	3.63

Notes:

(1) BNY International Financing Corporation is a wholly-owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is a wholly-owned subsidiary of The Bank of New York Mellon Corporation.

(2) Federal Trust Company Limited is the trustee for Tessel Inc. and Po Ding Company Limited. Wing Hang Bank (Nominees) Limited is the registered holder of certain shares on behalf of YKF Holding (PTC) Corporation.

(3) Each of Po Ding Company Limited, YKF Holding (PTC) Corporation and Tessel Inc. is a trust of which Dr FUNG Yuk Bun Patrick, Mr FUNG Yuk Sing Michael and the spouse of Mr HO Chi Wai Louis, together with other parties, are eligible beneficiaries.

(4) Aberdeen Asset Management Asia Limited is a wholly-owned subsidiary of Aberdeen Asset Management Plc.

(5) The number of issued shares of the Bank as at 31st December, 2011 was 298,812,308 shares.

Save as disclosed above, as at 31st December, 2011, no other interests or short positions in the shares or underlying shares of the Bank were recorded in the register required to be kept by the Bank under section 336 of the SFO.

Share Option Schemes

The Bank's existing share option scheme was adopted on 24th April, 2003 ("Share Option Scheme"). On the same day, the share option scheme of the Bank adopted on 9th June, 1993 as amended on 26th April, 2001 was terminated (the "1993 Scheme") and ceased to have any further effect, except that the options granted thereunder remain valid and exercisable until expiry of their exercise periods.

A summary of the Share Option Scheme as required to be disclosed under the Listing Rules is as follows:

(1) Purpose of the Share Option Scheme

The Share Option Scheme is to enable the Group to grant options to selected participants as incentives and rewards for their contribution to the Group and will also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group.

(2) Participants of the Share Option Scheme

The Directors may at their absolute discretion, invite any full time employee of the Group, including executive directors, to take up options to subscribe for shares.

(3) Maximum number of shares available for issue

Maximum number of shares available for issue under the Share Option Scheme is 14,678,000 shares, which is 5% of the issued share capital of the Bank as at the date of adoption of the Share Option Scheme.

(4) Maximum entitlement of each participant under the Share Option Scheme

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital. Any further grant of options in excess of this limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders' approval at general meeting of the Bank with such participants and his associates abstaining from voting.

(5) The period within which the shares must be taken up under an option

An option may be exercised during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary of the date of grant of such option.

(6) The minimum period for which an option must be held before it can be exercised

The minimum period for which an option must be held before it can be exercised is one year after the date of grant.

(7) The amount payable on acceptance of an option and the period open for acceptance

An option must be accepted within 21 days from the date of grant and a consideration of HK$1.00 must be paid on acceptance.

(8) The basis of determining the exercise price

The exercise price for shares under the Share Option Scheme shall be a price determined by the Directors but shall not be less than the highest of:

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day; and

(ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant which must be a business day.

(9) The remaining life of the Share Option Scheme

The Share Option Scheme will end at the close of business on 24th April, 2013.

As at the date of this report, the total number of shares of the Bank available for issue under the Share Option Scheme is 13,793,000 shares, which represents 4.7% of the issued share capital of the Bank on the same day. On 30th December, 2011, being the last trading day of 2011, the closing price of the shares of the Bank on the Stock Exchange was HK$63.65. Details of the movements of outstanding options granted under the 1993 Scheme and the Share Option Scheme during the year ended 31st December, 2011 as required under the Listing Rules are disclosed as follows:

		Number of options					
	Date of grant	Outstanding as at 01/01/2011	Granted	Exercised	Lapsed / cancelled	Outstanding as at **31/12/2011**	Exercise price
							HK$
Director							
FUNG Yuk Bun Patrick	15/03/2002[1]	40,000	–	40,000	–	**–**	26.30
	14/03/2003[1]	40,000	–	–	–	**40,000**	26.50
	21/05/2004[2]	50,000	–	–	–	**50,000**	43.80
	14/01/2005[2]	50,000	–	–	–	**50,000**	51.25
FUNG Yuk Sing Michael	15/03/2002[1]	30,000	–	30,000	–	**–**	26.30
	14/03/2003[1]	30,000	–	–	–	**30,000**	26.50
	21/05/2004[2]	40,000	–	–	–	**40,000**	43.80
	14/01/2005[2]	40,000	–	–	–	**40,000**	51.25
Frank John WANG	21/05/2004[2]	40,000	–	–	–	**40,000**	43.80
	14/01/2005[2]	40,000	–	–	–	**40,000**	51.25
Employees[3]	15/03/2002[1]	20,000	–	20,000	–	**–**	26.30
	14/01/2003[1]	40,000	–	–	–	**40,000**	25.80
	21/05/2004[2]	135,000	–	–	–	**135,000**	43.80
	14/01/2005[2]	50,000	–	–	–	**50,000**	51.25
	28/01/2005[2]	40,000	–	–	–	**40,000**	50.25
		685,000	–	90,000	–	**595,000**	

(1) Options were granted under the 1993 Scheme.

(2) Options were granted under the Share Option Scheme.

(3) The number of employees involved is 7.

(4) Exercise period of an option commences on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary of the date of grant of such option.

Employee Incentive Plans

The Bank's existing employee incentive plan was approved by the independent shareholders at the annual general meeting held on 30th April, 2009 (the "2009 EIP"). The 2009 EIP is to renew the employee incentive plan approved by the independent shareholders on 22nd April, 2004 and expired in April 2009 (the "2004 EIP").

The principal objectives of the 2009 EIP are to reward Executive Directors and key employees of the Group for their contributions and to incentivise such persons to remain in employment with the Group.

Under the 2009 EIP, the Board may during the first five years after the 2009 EIP was approved grant awards at no consideration for certain Executive Directors and key employees of the Group to acquire ordinary shares in the Bank at a nominal value of HK$1.00 per share. The maximum number of shares that may be issued under the 2009 EIP is 1,000,000 shares, of which no more that 500,000 shares may be issued to Executive Directors. The fair value is measured at the date of grant and is charged to the income statement and credited to shareholders' funds between the date of grant and the vesting date. The cash amount equal to the dividend that will be paid during the period up to vesting is charged to the income statement as bonus expenses on an accrual basis.

The awards granted under the 2004 EIP and 2009 EIP vested in stages between the sixth and the tenth anniversary of the date of grant according to its terms and conditions. Awards granted under the 2004 EIP and 2009 EIP were as follows:

		Number of awards					
	Date of grant	As at 01/01/2011	Granted	Vested	Lapsed / cancelled	**As at 31/12/2011**	Fair value of awards at the date of grant
							HK$
Director							
FUNG Yuk Bun Patrick	21/05/2004(1)	190,000	–	20,000	–	**170,000**	42.80
	23/01/2006(1)	450,000	–	–	–	**450,000**	56.20
FUNG Yuk Sing Michael	21/05/2004(1)	95,000	–	10,000	–	**85,000**	42.80
	23/01/2006(1)	225,000	–	–	–	**225,000**	56.20
HO Chi Wai Louis	21/05/2004(1)	9,500	–	1,000	–	**8,500**	42.80
Frank John WANG	21/05/2004(1)	118,750	–	12,500	–	**106,250**	42.80
	23/01/2006(1)	270,000	–	–	–	**270,000**	56.20
Employees(3)	21/05/2004(1)	57,000	–	6,000	–	**51,000**	42.80
	23/01/2006(1)	615,000	–	–	–	**615,000**	56.20
	29/01/2007(1)	140,000	–	–	–	**140,000**	94.60
	05/11/2009(2)	135,000	–	–	30,000	**105,000**	74.50
		2,305,250	–	49,500	30,000	**2,225,750**	

(1) Awards were granted under the 2004 EIP.

(2) Awards were granted under the 2009 EIP.

(3) The number of employees involved is 15.

Management Contract

No contract for the management and administration of the whole or any substantial part of any business of the Bank was entered into or existed during the year.

Purchase, Sale or Redemption of the Bank's Listed Securities

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year ended 31st December, 2011.

Human Resources

Human resources are key capital of the Group. Our strategic imperative is to develop employees and maximise their capabilities to meet challenges and deliver business results.

Employee Statistics

As at 31st December, 2011, the Group's total staff number was as follows:

Hong Kong	2,187
Mainland China	767
Macau	453
	3,407

Employee Remuneration

The Group adopts a holistic approach towards rewarding and recognizing its employees for good performance. Remuneration incentives are performance driven where benchmarking with market practice and salary reviews are performed periodically to upkeep competitiveness and retain talent. Performance in relation to financial and non-financial factors such as adherence to risk management policies, compliance with regulatory requirements, code of conduct, ethical value and customer satisfaction also form a significant part of the overall performance measurement of our employees. The Group operates a discretionary bonus scheme to recognize performers for their exceptional contributions, with alignment to the Group's risk management framework and long-term financial soundness.

Employee Care

In supporting employees to achieve a healthy work-life balance, the Group organised "Staff Caring Weeks" program each year with focus on health, family, leisure, continuous learning and social responsibility.

The Group continues to encourage its employees to participate in social services by offering social service leave, and to take care of their personal life and psychological well being through the service of an Employee Assistance Program. Workshops on healthy life style, stress management, family relationships and environmental protection were organised during the year.

Employee Development

To sustain performance improvement and encourage personal development, the Group organised a wide range of training programs covering both technical and management aspects. Employees are also encouraged to pursue professional or academic qualifications through the Group's Education Subsidy Schemes.

Succession planning and management trainee programs were organised to build a pool of future leaders to help sustain the Group's long-term competitiveness.

Report of the Directors

Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 38 to the financial statements.

Corporate Governance

The Bank's corporate governance practices are set out in the Corporate Governance Report on pages 25 to 31.

Compliance with the Banking (Disclosure) Rules

The financial statements for the year ended 31st December, 2011 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Public Float

As at the date of this report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the AGM.

On behalf of the Board

FUNG Yuk Bun Patrick
Chairman & Chief Executive

Hong Kong, 8th March, 2012

Corporate Governance Report

Corporate Governance Practices

The Bank has applied the principles and complied with the code provisions and certain recommended best practices as set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules throughout the year ended 31st December, 2011, except for the deviation from code provision A.2.1. Considered reasons for the deviation are stated in the following relevant paragraphs.

The Bank has also complied with the module on Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ("HKMA").

Directors' Securities Transactions

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), including amendments as effected from time to time, as its own code of conduct to be observed by Directors, Chief Executive and relevant employees who are likely in possession of unpublished price sensitive information in relation to the Bank.

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2011.

Board of Directors

Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises ten members, of whom three are Executive Directors. Amongst the seven Non-executive Directors, four are independent. The independent element on the Board is strong to facilitate independent judgement. Members of the Board are as follows:

Executive Directors

Dr FUNG Yuk Bun Patrick JP *(Chairman & Chief Executive)*
Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
Mr Brian Gerard ROGAN

Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen

During the year, Mr Stephen Dubois LACKEY was appointed as Non-executive Director and Mr Christopher Robert STURDY resigned as Non-executive Director with effect from 11th July, 2011.

Save for that Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael are brothers, and Mr HO Chi Wai Louis is their brother-in-law, all other Directors have no relationship with each other.

Each Director possesses skills and experiences appropriate to the business of the Group and their biographical details are set out on pages 7 to 8. The Bank also meets the requirements of Rule 3.10(2) of the Listing Rules with at least one of the Independent Non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise. The Bank also appoints Independent Non-executive Directors representing at least one-third of the Board.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all Independent Non-executive Directors to be independent.

During the year, five board meetings were held. Dr FUNG Yuk Bun Patrick, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis, Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose, Mr TSE Hau Yin Aloysius and Mr TUNG Chee Chen attended all meetings. Mr Brian Gerard ROGAN attended four meetings. Mr Stephen Dubois LACKEY attended two meetings (all meetings after his appointment as director on 11th July, 2011) and Mr Christopher Robert STURDY attended three meetings (all meetings during his tenure as director).

The 2011 Annual General Meeting of the Bank ("AGM") was held on 5th May, 2011. Dr FUNG Yuk Bun Patrick, Chairman of the Board, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis, member of Nomination Committee, Dr CHENG Hon Kwan, Chairman of Audit Committee and Remuneration Committee and member of Nomination Committee and Mr TSE Hau Yin Aloysius, member of Audit Committee attended the AGM.

Chairman and Chief Executive

The Bank deviated from code provision A.2.1 that requires the roles of chairman and chief executive officer be segregated and not be performed by the same individual. Dr FUNG Yuk Bun Patrick is the Chairman and Chief Executive of the Bank. The Board considered that the non-segregation would not result in considerable concentration of power in one person not only because of the presence of Independent Non-executive Directors but also that The Bank of New York Mellon Corporation, a substantial shareholder, is represented by two Non-executive Directors. There is a balance of power and authority such that no one individual has unfettered power of decision. Non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Non-executive Directors

The Non-executive Directors and Independent Non-executive Directors were not appointed for a specific term or any proposed length of services but they are subject to retirement at least once every three years and shall be eligible for re-election at the annual general meetings of the Bank in accordance with the Articles of Association.

Board Committees

Remuneration Committee

The Remuneration Committee was set up in 1995 with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank's policy and structure for remuneration of all Directors and Senior Management of the Bank, by reference to corporate goals and objectives as determined by the Board from time to time.

In determining the remuneration policy, the Remuneration Committee will take into account the Bank's business objective, people strategy, short-term and long-term performance, business and economic conditions, market practices in order to retain staff with relevant expertise for the Group's long term success. Factors such as business performance of the Bank and emoluments paid by comparable banks will be considered. No Director will be involved in deciding his own remuneration.

The terms of reference require that the Remuneration Committee shall comprise not less than two members and a majority of them shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose. Both are Independent Non-executive Directors of the Bank. Dr CHENG Hon Kwan is Chairman of the Remuneration Committee.

In December 2010, the Remuneration Committee revised its terms of reference by incorporating changes under Supervisory Policy Manual "Guideline on a Sound Remuneration System" issued by the HKMA. In January 2012, the Remuneration Committee met to discuss and approve the bonus payments to Executive Directors, senior management and key personnel for the year ended 31st December, 2011.

Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose attended both meetings.

Terms of reference of the Remuneration Committee are available on the Bank's website: www.whbhk.com.

Remuneration of Directors, Senior Management and key personnel

The Bank's remuneration policy aims to ensure that the level of remuneration is sufficient and market competitive.

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for the senior management and key personnel of the Group during the year are as follows:

	2011	2010
No. of beneficiaries	**22**	23
	HK$'000	HK$'000
Fixed remuneration	**59,028**	54,072
Variable remuneration		
– Cash	**43,370**	36,652
– Shares based payment	**14,507**	14,894
	57,877	51,546
Deferred remuneration		
– Unvested		
– Cash	**20,573**	18,533
	137,478	124,151
Deferred remuneration		
At 1st January	**18,533**	–
– Awarded	**20,573**	18,533
– Paid out	**(1,985)**	–
– Forfeited	**(7,282)**	–
At 31st December	**29,839**	18,533

Details of Directors' emoluments are set out in note 10 to the financial statements.

Fixed remuneration included employee's annual salary, double pay and pension contributions.

Variable remuneration comprised cash bonus payment and share based payment under Employee Incentive Plans. The award of variable remuneration shall depend on fulfillment of budgeted income, peer group performance comparison and risk control factors.

Deferred remuneration comprised cash bonus based on pre-defined vesting, service and / or performance conditions. If certain conditions are not fulfilled during the vested period, all or part of the unvested portion of the deferred remuneration would be foregone.

No sign-on or severance payment was made to senior management and key personnel in 2011 and 2010.

Nomination Committee

The Nomination Committee of the Bank was formed in December 2002 with specific terms of reference and delegated with the duties that include, amongst others, reviewing and making recommendation to the Board for appointment of all new Directors, Chief Executive, Deputy Chief Executive and Group Executives of the Bank. In reviewing and recommending a candidate to the Board, members of the Nomination Committee take into consideration, amongst other factors, the background, skills, knowledge and experience of the candidate.

The terms of reference require that the Nomination Committee shall comprise three Non-executive Directors. Currently, members of the Nomination Committee are Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr HO Chi Wai Louis. Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose are Independent Non-executive Directors. Mr HO Chi Wai Louis is a Non-executive Director. Mr LAU Hon Chuen Ambrose is Chairman of the Nomination Committee. During the year, two written resolutions were circulated to all members for approval.

Terms of reference of the Nomination Committee are available on the Bank's website: www.whbhk.com.

Audit Committee

During 2011, there was a change in the composition of the Audit Committee. With the resignation of Mr Christopher Robert STURDY as a Non-executive director of the Bank on 11th July, 2011, he also ceased to be a member of the Audit Committee. The Board announced the appointment of Mr Stephen Dubois LACKEY as a member of the Audit Committee with effect from the same date. The Audit Committee currently comprises three members, including two Independent Non-executive Directors, namely Dr CHENG Hon Kwan who acts as Chairman, Mr TSE Hau Yin Aloysius, and one Non-executive Director Mr Stephen Dubois LACKEY.

The Audit Committee of the Bank has clear terms of reference which are regularly reviewed, and is accountable to the Board. Four meetings were held in 2011. Dr CHENG Hon Kwan and Mr TSE Hau Yin Aloysius attended all the four meetings, whilst both Mr Christopher Robert STURDY and Mr Stephen Dubois LACKEY attended two. An Executive Director, the Chief Internal Auditor and the external auditors were invited to attend regular meetings of the Committee. The Chief Financial Officer was also present in those meetings wherein the financial performance of the Group was reviewed and discussed. The work of the Audit Committee during 2011 included review of the financial performance of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the systems of internal control, risk management and regulatory compliance. A meeting between the HKMA and the Audit Committee was held on 18th January, 2012 for the Audit Committee to discuss the major control and risk issues identified in 2011 and the key risk focus for 2012, and for the HKMA to advise on the key supervisory focus in 2012. The Audit Committee noted the requirements for implementation of Basel III standards, particularly the capital and liquidity requirements, and would ensure sufficient management attention was paid thereto.

The Audit Committee reviewed the audit coverage and approved the 2012 internal audit plan and the audit support given by the Hong Kong Office to the subsidiaries, Wing Hang Bank (China) Limited in the Mainland, and Banco Weng Hang, S.A. in Macau. The Audit Committee is provided with sufficient resources, including the advice of external auditors and the support of Internal Audit Division, to discharge its duties.

The Audit Committee monitored the external auditors' independence, objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee reviewed and recommended to the Board the appointment of external auditors for 2011. The issue of independence was carefully considered by the Committee before it approved engagement of the external auditors for other consultancy or advisory services. During 2011, the Board agreed with the Audit Committee on the selection and appointment of the external auditors.

The Committee reviewed the work, findings and recommendations of the internal auditors and the credit examination team of the Risk Management Division of the Bank. The Committee also discussed findings raised by the external auditors and the regulators, and ensured that recommendations were properly implemented. Matters raised by the Audit Committee members were duly addressed by the Executive Director in the meeting. In respect of internal control and risk management, the Committee also reviewed the results of internal audit reports covering the independent review and verification of the assessment prepared by the group risk managers as documented in the Annual Review on Internal Control Report. During the year, issues brought to the attention of Management and the Board did not merit disclosure in the Annual Report.

Minutes of Audit Committee meetings are kept by the Secretary to the Audit Committee, with a copy kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Full Terms of Reference of the Audit Committee are available on the Bank's website: www.whbhk.com.

Delegation by the Board

In addition to the Remuneration Committee, Nomination Committee and Audit Committee described above, the Board has also set up an Executive Committee to review and approve all major matters relating to the operations, management and performance of the Group. The Executive Committee has established other committees, such as the Credit Committee, Management Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference in order to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information of these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

Executive Committee

The Executive Committee meets regularly to review and approve all major matters relating to the operations, management and performance of the Group. It was granted powers and authorities necessary for conducting and managing the Group's normal banking and related business activities. The Committee comprises the Chief Executive and two Executive Directors.

Credit Committee

The Credit Committee is responsible for assisting the Board to formulate, approve and implement loan policies, guidelines and credit practices of the Group. It is also responsible for the implementation and maintenance of the Group's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Committee comprises the Chief Executive, Group Executives, and heads of Risk Management Division and Credit Administration Division.

Corporate Governance Report

Management Committee

The Management Committee meets regularly to manage the affairs of the Group encompassing all aspects including business, operational, strategy and planning. The Committee comprises the Chief Executive, Group Executives, Chief Financial Officer, head of Retail Banking Division, Chief Information Officer and Chief Operating Officer.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risk, trading, funding and liquidity risk management of the Group. It recommends policy and guidelines to the Board for approval. The Committee comprises the Chief Executive, Group Executives, Chief Financial Officer, and heads of Treasury Division, Retail Banking Division and Risk Management Division.

Internal Controls

The Directors are responsible for internal controls of the Bank and its subsidiaries and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place in the Group to identify, control and report on the major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures. The relevant risk management reports are submitted to the Management Committee, Credit Committee, Asset and Liability Management Committee, Audit Committee and the Board for monitoring the respective risks.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 37 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review at the end of 2011 was conducted with reference to the COSO (The Committee of Sponsoring Organisations) internal control framework, which assesses the Bank's internal control system against the five elements, namely control environment, risk assessment, control activities, information and communication, and monitoring. The result has been reported to the Audit Committee and the Board.

Internal audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. Management is required to provide the internal audit function with written confirmation that it has acted fully on all recommendations made by external auditors and regulatory authorities. The internal audit function also advises management on operational efficiency and other risk management issues. The work of the internal audit function is focused on areas of greatest risk to the Bank as determined by risk assessment. The Chief Internal Auditor reports to the Chairman and the Audit Committee. Minutes of Audit Committee meetings are submitted to the Board of Directors.

Directors' Responsibility for the Preparation of the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

Auditors' Remuneration

Details of auditors' remuneration are set out in note 5 to the financial statements.

Communications with Shareholders

The Bank establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports, circulars, notices and results of general meetings and press releases. Such information is also available on the Bank's website. Annual general meeting is a valuable forum for the Board to communicate with the shareholders. Chairman of the Board and Executive Directors, Chairman of Audit Committee, Chairman of Nomination Committee and Chairman of Remuneration Committee or members of such committees are available at annual general meetings to answer shareholders' questions.

Hong Kong, 8th March, 2012

Corporate Social Responsibility Report

As a well-established financial institution with a long history in Hong Kong, we have a strong sense of commitment in fulfilling corporate social responsibility ("CSR") and ensuring that it is part of our everyday operation.

It is in our interest to act upon our goals of CSR. We realise that the more harmonious the place in which we run our business, the greater the chance of success. Therefore, CSR has always been an integral part of the Group's corporate strategy. It is our belief that a responsible business creates a win-win situation for the Group, its shareholders, customers, employees, business partners, and the society at large.

At Wing Hang Bank, corporate social responsibility represents its commitment to promote business activities that bring economic, social and environmental benefits to the society. We attain the targets by actively fulfilling our governance, environmental and community responsibilities.

Governance Responsibility

CSR Management

To plan and manage our CSR activities in a systematic and coherent manner, we set up a CSR Committee to develop strategies, policies and guidelines on CSR. The Committee also approves, supervises and monitors the implementation of all CSR initiatives. Our monitoring and review system on the CSR framework is on-going so that we continuously improve our CSR strategies.

A CSR Working Team and various support teams working under the direction of the CSR Committee are responsible for the promotion, support and implementation of CSR activities.

Risk Management

Corporate governance in the Group includes a risk management framework to manage economic and social risks, to ensure business continuity and to serve the interests of our stakeholders.

CSR in Wing Hang Bank

Governance Responsibility

- CSR Management
- Risk Management
- Business Ethics

Environmental Responsibility

- Green Office Campaign
- Continual Support of Environmental Activities
- Eco-Friendly Customers and Suppliers

Community Responsibility

- Equal Opportunity
- Employee Enrichment
- Community Services

The Bank sponsored and supported The 23rd Reading Carnival organised by the Hong Kong Professional Teachers' Union

The Bank supported the 2011 Oxfam Rice Sale

Business Ethics

We strongly believe that providing quality services to customers is a key element to maintain good relationship with our customers. This is essential to sustain growth in our business, and is definitely in the interests of our shareholders.

With an ever-changing business environment, the CSR Committee monitors closely the Group's corporate governance practices to ensure all our activities are conducted with professionalism, high ethical standards, integrity and honesty. Compliance, which governs our daily operations, is every colleague's responsibility. We have on-going compliance training to uphold the Group's standard of business practices and services.

Environmental Responsibility

Being environmentally responsible not only protects the environment when we use our natural resources more efficiently, it also helps us build a less polluting environment and improve our quality of life.

Green Office Campaign

As a socially responsible corporation, we actively work towards a green future. "Reduce, Reuse and Recycle" is the theme of the Bank's Green Office Campaign. With a firm belief that every bit of effort helps, all staff are encouraged to protect the environment however insignificant the effort it might seem.

Our achievements have been recognized with the award of "Class of Excellence Wastewi$e Label" and "Class of Good Energywi$e Label" under the Hong Kong Awards for Environmental Excellence organised by the Hong Kong Productivity Council, both are recognition of the Bank's commitment to protect the environment.

Internally, the Bank accomplished the following environmental protection initiatives in 2011 compare to a year ago:

- Saved HK$138,541 from reduced use of paper and recycling

- Saved 486,000 kwh electricity

Making every effort to support green groups and the environment, we took part in the Earth Hour 2011 organised by WWF-HK in our Head Office in Central and the Wing Hang Finance Centre in Wanchai.

Continual Support of Environmental Activities

The Bank has been a participant of the Green Power Hike for A Green Future organised by Green Power in Hong Kong for the last 5 years, the sponsored funding is used for environmental education in the community. 2011 is the second year that the Bank participated in a green charity walk organised by the Wai Yin Association, and we were awarded for the team that planted the most trees at their "Walk For Charity • Plant For Fun...d" event.

Eco-Friendly Customers and Suppliers

It is in the interests of our corporate customers to take up their environmental responsibility in terms of lower operating costs and compliance to official environmental standards. Part of our corporate customers installed environment protection facilities and adopt environmental friendly practices in their daily operation.

We also constantly educate our customers to make use of our electronic banking services to reduce paper usage.

Our Bank's major suppliers are environmentally conscious and most of them obtain licences or certifications to guarantee their environmental protection standards.

Community Responsibility

Equal Opportunity

The Group ensures equal opportunity in employment. In the first half of 2011, the Bank hired two disabled staff. The Group encourages breaking down barriers and building a harmonious working environment for disabled staff. The Group will continue to carry out equal opportunity in our workforce.

Corporate Social Responsibility Report

Employee Enrichment

Our staff is our greatest asset. Nurturing our staff and help them relieve their stress increase their efficiency and performance at work. We realize that consistently excellent staff performance and strong commitment are important to the Group's success.

We treasure our employees by providing a safe and quality working environment as well as suitable and generous benefits to meet their needs.

Training and Further Studies

We always focus on nurturing our employees to be all-round performers. Programs for teller trainees, business development trainees and management trainees are held to nurture outstanding talents and enable the Bank to compete in a dynamic business environment. Education allowances are offered to employees to encourage them to further equip themselves to best serve the Bank and the customers. As a considerate employer, examination leave is granted to employees who need to take examinations and be absent for work.

Employee Assistance Program

Our Employee Assistance Program offers a wide range of services including seminars, workshops, 24 hour telephone hotline, face-to-face consultation and counselling services, useful living tips and information circulars. The program aims to provide confidential and professional services to help employees deal with work-related and personal problems.

Support the Hong Kong economy

The Bank has contributed to the Hong Kong economy in many ways. We participate in the SME Loan Guarantee Scheme as well as the SME Financing Guarantee Scheme (SFGS) operated by the Hong Kong Mortgage Corporation. We believe that supporting the SMEs is important to the economic development of Hong Kong.

Community Services

We believe that by devoting resources and efforts in community services, the Group can contribute to the building of a harmonious society.

For eight consecutive years, the Bank has been awarded the 5+ year Caring Company Logo by the Hong Kong Council of Social Services in recognition of our relentless efforts in social responsibility.

In 2011, we continued to make significant progress in expanding our CSR activities.

Donations and Sponsorships

In 2011, the Bank was awarded the Gold Award in the Community Chest of "Corporate & Employee Contribution Program". Over the year, the Group provided approximate HK$3,694,000 in donations and sponsorship for social initiatives including Oxfam Hong Kong, Hong Kong Red Cross, Green Power, St. James' Settlement, The Hong Kong Parkinson's Disease Foundation. Besides, the Bank also gave quick response towards the Japan earthquake.

Encouraging our younger generation to become active volunteers is an area the Bank always places emphasis. For this reason, we initiated the Wing Hang "V-are-One Program" with the Hong Kong Professional Teachers' Union. In 2011 alone, we sponsored over 1,000 school children from 38 schools to participate in 45 volunteer services projects.

The Bank is also a keen sponsor of the Reading Carnival organised by the Hong Kong Professional Teachers' Union and the Hong Kong Public Library. Over 60 volunteers from the Bank promoted reading through a variety of creative games with singing, drama and prose reading competitions.

Dr Patrick Fung, Chairman of the Bank presented the donation to Hong Kong Red Cross in support of the relief and recovery programs for the people suffered from the Japan earthquake.

Volunteer Services

The Bank gives more than just money.

In 2011, 839 Group volunteers devoted 14,459 community service hours for a number of worthy causes.

Our Volunteer Services Team has been awarded the "Gold Award for Volunteer Service" by the Social Welfare Department for six consecutive years. With senior management support and encouragement, our employees commit their time, energy and care to numerous segments of the society, including students, senior citizens, the disabled, low-income group and single parent families.

Apart from supporting the Food Bank of St James' Settlement, the Bank is also an enthusiastic supporter of the Grand-in-aid Brightens Children's Lives Charity Project organised by St James' Settlement. Since 2006, we have been the major sponsor of the project. It aims to help underprivileged students by providing them with learning aids and sponsorships.

Volunteers of Banco Weng Hang participated in 2011 ORBIS Student Online Fundraising Competition

Our subsidiary, Banco Weng Hang, is one of the most active partners of ORBIS in Macau to support their mission to fight against preventable blindness worldwide. In 2011, we were the sole Event Sponsor of ORBIS's first-ever Student Online Fundraising Competition. In collaboration with 7 local tertiary education institutions, this event helped ORBIS raise funds, as well as pass on the eye-care messages among undergraduate students through online social networks.

Volunteers of Banco Weng Hang participated in Barrier-free Travel Activities organised by Caritas Macau

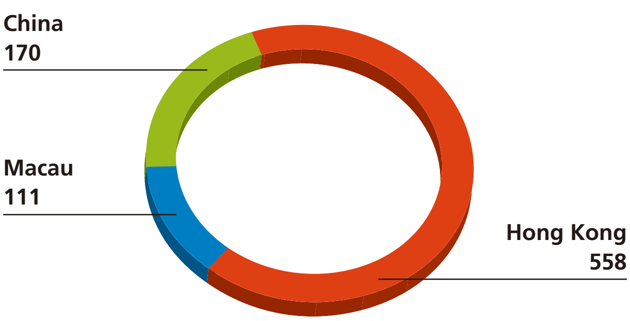
Corporate Social Responsibility Report

Volunteers of Wing Hang Bank (China) visited Shenzhen Yuanping handicapped school

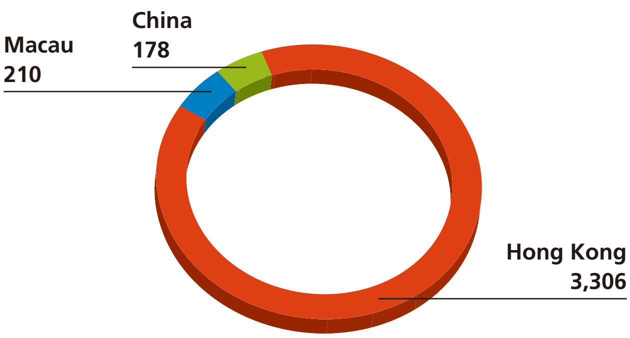
Volunteers of Wing Hang Bank (China) visited Shenzhen welfare senior center

Wing Hang Bank (China) in 2011 focused on providing community services to the vulnerable groups. Our staff donated books, stationery, and clothing to the underprivileged primary students in different regions and visited local gerocomium, welfare houses, and low-income families to present daily necessities to improve their living conditions. Shenzhen Branch also organised staff to participate in blood donation.

No. of Volunteers in the Group



Donation of the Group (HK$'000)



Awards

Our fulfillment has qualified for the following recognitions and awards:

- 5 Years + "Caring Company" Logo awarded by the Hong Kong Council of Social Service
- Gold Award of Corporate and Employee Contribution Programme by the Community Chest
- Gold Award of Volunteer Service by the Social Welfare Department
- "Class of Excellence Wastewi$e Label" awarded by Hong Kong Productivity Council
- "Class of Good Energywi$e Label" awarded by Hong Kong Productivity Council
- Award of 10,000 hours of Volunteer Service by the Steering Committee on Promotion of Volunteer Service 2011
- Champion of Team Category Short Route of the Hike For Society for the Promotion of Hospice Care
- Second Runner-up of the The 18th Green Power Hike for a Green Future
- Silver Foot Award of Sowers Action Challenging 12 Hours 2011 Charity Marathon
- Power Smart Progress Award of Friends of the Earth (HK) "Power Smart Contest 2011"

Future

We are proud of our strong commitments in all CSR aspects. CSR practices in our Group are dynamic and on-going. Looking ahead, we will continue to identify opportunities to enhance our business practices from all CSR perspectives.

To spearhead this initiative, we shall devote additional efforts to develop environmental sustainability policies and process to minimize impact to the environment. The Group will also continue to support various Non Government Organizations and participate in voluntary work projects and fund-raising activities to further support our community. In 2012, we continue our commitment to embody CSR in our everyday business activities.

Independent Auditor's Report

To the shareholders of Wing Hang Bank, Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Wing Hang Bank, Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 39 to 154, which comprise the consolidated and Bank balance sheets as at 31st December, 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December, 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

8th March, 2012

Consolidated Income Statement

For the year ended 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2011	2010
Interest income	5(a)	**5,285,132**	4,239,838
Interest expense	5(b)	**(2,413,912)**	(1,595,462)
Net interest income		**2,871,220**	2,644,376
Other operating income	5(c)	**848,105**	912,556
Net gains / (losses) from trading and financial instruments designated at fair value through profit or loss	5(d)	**65,825**	(258,770)
Non-interest income		**913,930**	653,786
Operating income		**3,785,150**	3,298,162
Operating expenses	5(f)	**(1,734,660)**	(1,610,089)
Operating profit before impairment losses and allowances		**2,050,490**	1,688,073
Impairment losses and allowances (charged on) / released from loans and advances	18(e)	**(29,812)**	51,164
Impairment losses and allowances (charged on) / released from available-for-sale financial assets	19(b)	**(18,463)**	13,637
Operating profit		**2,002,215**	1,752,874
Net gains on revaluation of properties and disposal of tangible fixed assets	6(a)	**423,095**	118,518
Net gains on disposal of available-for-sale financial assets	6(b)	**45,208**	48,204
Share of net gains of associated companies	21	**50,326**	28,024
Profit before taxation		**2,520,844**	1,947,620
Taxation	7(a)	**(399,768)**	(321,983)
Profit for the year		**2,121,076**	1,625,637
Attributable to:			
Equity shareholders of the Bank	8	**2,121,318**	1,626,250
Non-controlling interests		**(242)**	(613)
Profit for the year		**2,121,076**	1,625,637
Earnings per share	12	**HK$**	HK$
Basic		**7.14**	5.51
Diluted		**7.08**	5.46

The notes on pages 45 to 154 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank are set out in note 9.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2011**	2010
Profit for the year		**2,121,076**	1,625,637
Other comprehensive income			
General reserve:			
– Exchange adjustments on translation of financial statements of subsidiaries		**115,479**	691
Bank premises:			
– Surplus on revaluation of bank premises	22	**609,595**	451,792
– Deferred taxes		**(104,660)**	(76,191)
Available-for-sale financial assets:			
– Fair value changes to equity			
– on debt securities		**60,550**	10,630
– on equity securities		**23,048**	5,209
– Transfer to consolidated income statement			
– gains on disposal	6(b)	**(31,184)**	(53,834)
– Deferred taxes	7(d)	**(9,150)**	6,562
Other comprehensive income for the year, net of tax		**663,678**	344,859
Total comprehensive income for the year		**2,784,754**	1,970,496
Attributable to:			
Equity shareholders of the Bank		**2,784,996**	1,971,109
Non-controlling interests		**(242)**	(613)
Total comprehensive income for the year		**2,784,754**	1,970,496

The notes on pages 45 to 154 form part of these financial statements.

Consolidated Balance Sheet

As at 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2011**	2010
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**9,160,862**	8,421,048
Placements with banks, central banks and other financial institutions	14	**24,426,296**	7,276,310
Trade bills	15	**2,339,751**	546,583
Trading assets	16	**3,079,836**	2,561,449
Financial assets designated at fair value through profit or loss	17	**4,820,918**	8,782,146
Advances to customers and other accounts	18(a)	**112,551,229**	99,390,070
Available-for-sale financial assets	19	**24,405,751**	27,170,071
Investments in associated companies	21	**249,252**	210,878
Tangible fixed assets	22		
– Investment properties		**589,772**	394,971
– Other properties, plants and equipment		**4,279,921**	3,222,379
Goodwill	23	**1,306,430**	1,306,430
Current tax recoverable	7(c)	**7,880**	949
Deferred tax assets	7(d)	**30,893**	13,246
Total assets		**187,248,791**	159,296,530
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	24	**808,469**	1,123,514
Deposits from customers	25	**157,754,438**	135,607,292
Certificates of deposit issued	26	**2,756,649**	331,596
Trading liabilities	27	**1,082,405**	788,653
Current tax payable	7(c)	**166,876**	157,156
Deferred tax liabilities	7(d)	**504,886**	369,123
Other accounts and provisions	28	**2,585,523**	1,762,964
Subordinated liabilities	29	**4,685,528**	4,858,500
Total liabilities		**170,344,774**	144,998,798
Share capital	31(a)	**298,812**	295,294
Reserves		**16,605,205**	13,983,217
Shareholders' funds		**16,904,017**	14,278,511
Non-controlling interests		**–**	19,221
Total equity		**16,904,017**	14,297,732
Total equity and liabilities		**187,248,791**	159,296,530

Patrick Y B FUNG	*Chairman and Chief Executive*
Frank J WANG	*Executive Director and Deputy Chief Executive*
Michael Y S FUNG	*Executive Director and Senior General Manager*
C W LEUNG	*Secretary*

The notes on pages 45 to 154 form part of these financial statements.

Balance Sheet

As at 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2011**	2010
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**3,008,638**	4,260,852
Placements with banks, central banks and other financial institutions	14	**13,016,932**	2,287,753
Trade bills	15	**4,289,943**	477,500
Trading assets	16	**3,094,410**	2,578,503
Financial assets designated at fair value through profit or loss	17	**4,820,918**	8,782,146
Advances to customers and other accounts	18(a)	**71,648,040**	63,064,344
Amounts due from subsidiaries	36(b)(iii)	**12,048,179**	12,212,743
Available-for-sale financial assets	19	**20,389,432**	26,692,256
Investments in subsidiaries	20	**3,032,126**	3,474,558
Investments in associated companies	21	**257,171**	269,074
Tangible fixed assets	22		
– Other properties, plants and equipment		**2,449,514**	1,705,920
Goodwill	23	**847,422**	847,422
Total assets		**138,902,725**	126,653,071
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	24	**627,260**	775,387
Deposits from customers	25	**110,127,528**	101,452,921
Certificates of deposit issued	26	**2,756,649**	331,596
Trading liabilities	27	**1,085,126**	790,367
Current tax payable	7(c)	**82,153**	87,140
Deferred tax liabilities	7(d)	**239,736**	198,123
Other accounts and provisions	28	**1,498,158**	1,042,107
Amounts due to subsidiaries	36(b)(iii)	**5,698,101**	6,294,504
Subordinated liabilities	29	**4,685,528**	4,858,500
Total liabilities		**126,800,239**	115,830,645
Share capital	31(a)	**298,812**	295,294
Reserves	31(b)	**11,803,674**	10,527,132
Total equity		**12,102,486**	10,822,426
Total equity and liabilities		**138,902,725**	126,653,071

Patrick Y B FUNG	*Chairman and Chief Executive*
Frank J WANG	*Executive Director and Deputy Chief Executive*
Michael Y S FUNG	*Executive Director and Senior General Manager*
C W LEUNG	*Secretary*

The notes on pages 45 to 154 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

2011

	At 1st January	Share issued under Share Option Scheme, Employee Incentive Plan and in lieu of dividends (Note 31(a))	Share premium under Employee Incentive Plan (Note 5(f))	Share premium in lieu of dividends	Dividends approved in respect of the previous year (Note 9(b))	Dividends declared in respect of the current year (Note 9(a))	Share of changes in associated companies	Liquidation of subsidiary company and dividend paid	Disposal of Bank Premises	Transfer to / (from) reserve	Total comprehensive income for the year	At 31st December
Share capital	**295,294**	**3,518**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**298,812**
Share premium	**508,540**	**2,277**	**14,507**	**275,088**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**800,412**
Capital reserve	**256,426**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,000)**	**–**	**42,462**	**–**	**283,888**
Statutory reserve	**202,171**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**84,236**	**–**	**286,407**
General reserve	**2,091,568**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**115,479**	**2,207,047**
Bank premises revaluation reserve	**1,178,149**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,027)**	**(16,510)**	**504,935**	**1,665,547**
Investment revaluation reserve	**154,284**	**–**	**–**	**–**	**–**	**–**	**(49)**	**–**	**–**	**–**	**43,264**	**197,499**
Capital redemption reserve	**769**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**769**
Unappropriated profits	**9,591,310**	**–**	**–**	**–**	**(318,918)**	**(136,940)**	**–**	**15,000**	**1,027**	**(109,161)**	**2,121,318**	**11,163,636**
Attributable to equity shareholders of the Bank	**14,278,511**	**5,795**	**14,507**	**275,088**	**(318,918)**	**(136,940)**	**(49)**	**–**	**–**	**1,027**	**2,784,996**	**16,904,017**
Non-controlling interests	**19,221**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,979)**	**–**	**–**	**(242)**	**–**
Total equity	**14,297,732**	**5,795**	**14,507**	**275,088**	**(318,918)**	**(136,940)**	**(49)**	**(18,979)**	**–**	**1,027**	**2,784,754**	**16,904,017**

2010

	At 1st January	Shares issued under Share Option Scheme and Employee Incentive Plan (Note 31(a))	Share premium under Employee Incentive Plan (Note 5(f))	Dividends approved in respect of the previous year (Note 9(b))	Dividends declared in respect of the current year (Note 9(a))	Share of changes in associated companies	Transfer to / (from) reserve	Total comprehensive income for the year	At 31st December
Share capital	295,044	250	–	–	–	–	–	–	295,294
Share premium	486,788	6,858	14,894	–	–	–	–	–	508,540
Capital reserve	237,662	–	–	–	–	–	18,764	–	256,426
Statutory reserve	131,494	–	–	–	–	–	70,677	–	202,171
General reserve	2,090,877	–	–	–	–	–	–	691	2,091,568
Bank premises revaluation reserve	812,942	–	–	–	–	–	(10,394)	375,601	1,178,149
Investment revaluation reserve	185,483	–	–	–	–	234	–	(31,433)	154,284
Capital redemption reserve	769	–	–	–	–	–	–	–	769
Unappropriated profits	8,280,152	–	–	(147,522)	(88,523)	–	(79,047)	1,626,250	9,591,310
Attributable to equity shareholders of the Bank	12,521,211	7,108	14,894	(147,522)	(88,523)	234	–	1,971,109	14,278,511
Non-controlling interests	19,834	–	–	–	–	–	–	(613)	19,221
Total equity	12,541,045	7,108	14,894	(147,522)	(88,523)	234	–	1,970,496	14,297,732

The notes on pages 45 to 154 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2011**	2010
Net cash inflow / (outflow) from operating activities	34(a)	**11,079,122**	(1,696,920)
Investing activities			
Purchase of available-for-sale financial assets		**(459,958)**	(3,349,842)
Sale and redemption of available-for-sale financial assets		**6,525,560**	10,655,632
Liquidation of a subsidiary company		**(16,004)**	–
Loans repaid by an associated company	21	**11,903**	20,475
Purchase of properties and equipment		**(707,102)**	(285,819)
Sale of properties and equipment		**315,758**	1,443
Net cash inflow from investing activities		**5,670,157**	7,041,889
Financing activities			
Issue of new shares under Share Option Scheme and Employee Incentive Plan	31(a)	**2,417**	7,108
Dividends paid		**(177,392)**	(236,045)
Dividends paid to non-controlling interests by a subsidiary		**(2,975)**	–
Interest paid on subordinated liabilities		**(354,779)**	(354,356)
Net cash outflow from financing activities		**(532,729)**	(583,293)
Increase in cash and cash equivalents		**16,216,550**	4,761,676
Cash and cash equivalents at 1st January		**15,822,013**	11,047,543
Effects of foreign exchange rate changes		**102,350**	12,794
Cash and cash equivalents at 31st December	34(b)	**32,140,913**	15,822,013
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		**8,943,708**	7,979,303
Placements with banks, central banks and other financial institutions with an original maturity within three months		**17,070,608**	7,117,699
Treasury bills with an original maturity within three months		**6,126,597**	725,011
		32,140,913	15,822,013
Cash flows from operating activities included:			
Interest received		**5,186,302**	4,222,790
Interest paid		**2,072,849**	1,505,461
Dividend received		**7,580**	7,592

The notes on pages 45 to 154 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2011
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. Principal activities

The Bank and its subsidiaries (together referred to as "the Group") are engaged in commercial banking and related financial services.

2. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group's and the Bank's accounting policies applied in these financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2011 comprise the Bank and its subsidiaries and the Group's interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (note 2(f)(ii));

– investment property (note 2(k));

– other freehold land and buildings (note 2(k)); and

– other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(k) and 2(l)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Principal accounting policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(o)).

2. Principal accounting policies *(continued)*

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see notes 2(e) and 2(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's balance sheet, its investments in associated companies are stated at cost less impairment losses, if any (note 2(o)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(o)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. Principal accounting policies *(continued)*

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Classification

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Group has the option to designate financial instruments at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

– the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract;

– or the separation of the embedded derivatives from the financial instrument is not prohibited.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Fair value through profit or loss (continued)

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and banks, and placements with banks, central banks and other financial institutions.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(o)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (note 2(o)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker or dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average method to determine realised gains or losses to be recognised in profit or loss on derecognition.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (1) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (2) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

2. Principal accounting policies *(continued)*

(g) Repurchase and reverse repurchase transactions

Assets sold subject to a simultaneous agreement to repurchase these assets at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables and are carried in the balance sheet at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued, but any increase in the present value of impaired financial assets due to the passage of time is reported as interest income.

(ii) Fees and commission income

Fees and commission income is recognised in the income statement when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received / paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alterative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such deduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

2. Principal accounting policies *(continued)*

(i) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities. The principle of offsetting usually applies to income tax levied by the same tax authority on the same taxable entity.

(j) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the reserve.

On disposal of an overseas operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(k) Tangible fixed assets and depreciation

(i) Bank premises that are held for the Group's administrative use are stated in the balance sheet at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers, or at directors' valuation by reference to open market value to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

- when a surplus arises on revaluation, it will be credited to the income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

(ii) Bank premises that are not held for the Group's administrative use are stated in the balance sheet at cost or at directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and impairment losses. In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that bank premises that are not held for administrative use have not been revalued to fair value at the balance sheet date.

2. Principal accounting policies *(continued)*

(k) Tangible fixed assets and depreciation *(continued)*

(iii) Gains or losses arising from the retirement or disposal of bank premises are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the income statement.

(iv) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.

(v) No amortisation is provided on freehold land. Leasehold land (note 2(l)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.

(vi) Investment properties are land and / or buildings which are owned and / or held under a leasehold interest (note 2(l)) to earn rental income and / or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the balance sheet at their open market values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the income statement.

(l) Finance and operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(k)(ii) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(h)(iv).

2. Principal accounting policies *(continued)*

(l) Finance and operating leases *(continued)*

(iii) Operating leases *(continued)*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(k)(iv)).

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(o), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of their carrying amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within "Other accounts and provisions".

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(n)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2. Principal accounting policies *(continued)*

(n) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation, complaint or legal claim, arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the advances and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or overdue.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the investment revaluation reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iii) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– tangible fixed assets (other than properties carried at revalued amounts);

– investments in subsidiaries and associated companies; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(iii) Other assets *(continued)*

– *Recognition of impairment losses*

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (notes 2(o)(i) to (iii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

(p) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

2. Principal accounting policies *(continued)*

(p) Related parties *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(3) both entities are joint ventures of the same third party.

(4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) the entity is controlled or jointly controlled by a person identified in note 2(p)(i).

(7) a person identified in note 2(p)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

2. Principal accounting policies *(continued)*

(s) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the income statement when incurred.

(iii) When the Group grants employees options to acquire shares of the Bank, the considerations received are recognised in the balance sheet as "Other accounts and provisions" at the date of grant. The fair value of the options is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. When the options are exercised, shareholders' funds are increased by the amount of the proceeds and consideration received.

(iv) When the Group grants employees awards to acquire shares of the Bank under the Employee Incentive Plan ("EIP"). The fair value of the awards is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. The cash amount equal to the dividend that would have been paid during the period up to vesting will be charged to the income statement as bonus expenses on an accruals basis.

3. Accounting estimates and judgements

Notes 22, 23, 38 and 39 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Impairment losses

(i) Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in accounting policy (note 2(o)). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(b) Critical accounting judgements in applying the Group's accounting policies

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties has still been treated as a building held for own use.

4. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

– HKAS 24 (revised 2009), *Related party disclosures*

– Improvements to HKFRSs (2010)

– HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are as follows:

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

5. Operating profit

(a) Interest income

	2011	2010
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	**4,670,887**	3,616,481
– trading assets	**382,157**	312,260
– financial assets designated at fair value through profit or loss	**232,088**	311,097
	5,285,132	4,239,838
of which:		
– interest income from listed investments	**361,286**	431,776
– interest income from unlisted investments	**559,116**	673,813
– interest income from impaired financial assets	**8,472**	11,183

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK$3,606,000 (2010: HK$2,728,000) (note 18(e)) for the year ended 31st December, 2011.

5. Operating profit *(continued)*

(b) Interest expense

	2011	2010
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	**1,932,253**	1,098,453
– trading liabilities	**294,041**	309,392
– financial liabilities designated at fair value through profit or loss	**187,618**	187,617
	2,413,912	1,595,462
of which:		
– interest expense for certificates of deposit issued repayable within 5 years	**30,756**	2,067
– interest expense for deposits from customers	**1,729,299**	925,731
– interest expense for deposits and balances of banks, central banks and other financial institutions	**5,037**	3,916
– interest expense for subordinated liabilities (note 34(a))	**354,779**	354,356

(c) Other operating income

	2011	2010
Fees and commission		
Credit commission and fees	**185,264**	171,972
Credit card related fees	**141,278**	118,744
Trade related fees	**77,180**	60,982
Insurance commission	**73,404**	68,055
Stockbroking fees	**139,993**	175,091
Trust fees	**41**	41
Wealth management fees	**17,033**	14,755
Other fees and commission income	**128,103**	138,839
Less: Fees and commission expenses	**(80,799)**	(68,426)
	681,497	680,053
Gains arising from dealing in foreign currencies (note 5(e))	**132,513**	186,986
Gains on other dealing activities (note 5(e))	**1,941**	1,581
Dividend income from unlisted available-for-sale financial assets	**6,008**	6,088
Dividend income from listed available-for-sale financial assets	**1,375**	731
Dividend income from listed trading investments	**141**	785
Rental income from investment properties less direct outgoings of HK$1,176,000 (2010: HK$781,000)	**12,836**	12,694
Others	**11,794**	23,638
	848,105	912,556
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	**283,188**	254,420
– fees and commission expenses	**(10)**	(13)
	283,178	254,407

5. Operating profit *(continued)*

(d) Net gains / (losses) from trading and financial instruments designated at fair value through profit or loss

	2011	2010
Net realised and unrealised losses on trading financial instruments (note 5(e))	**(39,780)**	(147,132)
Net realised and unrealised gains / (losses) on financial instruments designated at fair value through profit or loss:		
– unrealised gains / (losses) on subordinated liabilities	**169,518**	(310,340)
– realised and unrealised (losses) / gains on collateralised debt obligations ("CDO")	**(35,057)**	19,687
– unrealised (losses) / gains on debt securities issued by bank in Iceland (note 19(b))	**(4,648)**	6,587
– realised and unrealised (losses) / gains on other financial instruments	**(24,208)**	172,428
	105,605	(111,638)
	65,825	(258,770)

(e) Net trading income

	2011	2010
Gains arising from dealing in foreign currencies (note 5(c))	**132,513**	186,986
Gains on other dealing activities (note 5(c))	**1,941**	1,581
Net realised and unrealised losses on trading financial instruments (note 5(d))	**(39,780)**	(147,132)
	94,674	41,435

(f) Operating expenses

	2011	2010
Staff costs		
Salaries and other staff costs	**1,079,243**	956,374
Retirement benefit costs (note 38(a))	**63,899**	61,221
EIP – fair value of awards (note 34(a))	**14,507**	14,894
EIP – bonus	**3,514**	1,864
	1,161,163	1,034,353
Premises and equipment expenses, excluding depreciation	**227,368**	193,676
Depreciation (notes 22 & 34(a))	**182,393**	150,316
Auditor's remuneration		
Audit services	**4,928**	4,949
Tax services	**–**	684
Other services	**4,594**	4,028
	9,522	9,661
Others	**154,214**	222,083
	1,734,660	1,610,089

6. (a) Net gains on revaluation of properties and disposal of tangible fixed assets

	2011	2010
Unrealised revaluation gains of investment properties (note 22)	**149,234**	130,724
Unrealised revaluation gains / (losses) of bank premises (note 22)	**12,164**	(12,164)
Net gains / (losses) on disposal of tangible fixed assets	**261,697**	(42)
	423,095	118,518

(b) Net gains on disposal of available-for-sale financial assets

	2011	2010
Net unrealised gains transferred from investment revaluation reserve upon disposal	**31,184**	53,834
Net gains / (losses) on disposal of available-for-sale financial assets	**14,024**	(5,630)
	45,208	48,204

7. Taxation

(a) Taxation in the consolidated income statement represents:

	2011	2010
Current tax – Provision for Hong Kong profits tax		
Provision for the year	**240,315**	247,446
Underprovision / (overprovision) in respect of prior years	**3,868**	(2,599)
	244,183	244,847
Current tax – Provision for tax outside Hong Kong		
Provision for the year	**155,005**	92,853
Overprovision in respect of prior years	**(3,726)**	(11,076)
	151,279	81,777
Deferred taxation		
Origination and reversal of temporary differences	**4,306**	(4,641)
	399,768	321,983

The provision for Hong Kong profits tax for 2011 is calculated at 16.5% (2010: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the region in which the relevant units of the Group operate.

7. Taxation *(continued)*

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2011	%	2010	%
Profit before tax	**2,520,844**	**100.00**	1,947,620	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	**442,512**	**17.55**	335,769	17.24
Tax effect of non-deductible expenses	**8,412**	**0.33**	12,853	0.66
Tax effect of non-taxable revenue	**(51,015)**	**(2.02)**	(14,645)	(0.75)
Tax effect of unused tax losses not recognised	**32**	**–**	48	–
Underprovision / (overprovision) in respect of prior years	**142**	**0.01**	(13,675)	(0.70)
Others	**(315)**	**(0.01)**	1,633	0.08
Actual tax expense	**399,768**	**15.86**	321,983	16.53

(c) Current tax recoverable and payable

The components of current tax recoverable and payable in the balance sheets are as follows:

	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
Current tax recoverable				
Provision for Hong Kong profits tax	**10,064**	14,311	**–**	–
Provisional profits tax paid	**(17,944)**	(15,260)	**–**	–
	(7,880)	(949)	**–**	–
Current tax payable				
Provision for Hong Kong profits tax	**230,251**	233,135	**179,375**	130,020
Provisional profits tax paid	**(144,720)**	(122,230)	**(103,385)**	(49,005)
	85,531	110,905	**75,990**	81,015
Provision for tax outside Hong Kong	**81,345**	46,251	**6,163**	6,125
	166,876	157,156	**82,153**	87,140

All current tax recoverable and payable are expected to be settled within one year.

7. Taxation *(continued)*

(d) Deferred tax assets and liabilities recognised

The components of deferred tax (assets) / liabilities recognised in the balance sheets and the movements during the year are as follows:

The Group

2011

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January	**32,206**	**285,964**	**29,443**	**30,430**	**(866)**	**(21,300)**	**355,877**
Charged / (credited) to consolidated income statement	**(18,304)**	**26,630**	**–**	**3,715**	**866**	**(8,601)**	**4,306**
Charged to reserves	**–**	**104,660**	**9,150**	**–**	**–**	**–**	**113,810**
At 31st December	**13,902**	**417,254**	**38,593**	**34,145**	**–**	**(29,901)**	**473,993**

The Group

2010

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January	76,697	190,211	36,005	10,073	(2,557)	(19,540)	290,889
(Credited) / charged to consolidated income statement	(44,491)	19,562	–	20,357	1,691	(1,760)	(4,641)
Charged / (credited) to reserves	–	76,191	(6,562)	–	–	–	69,629
At 31st December	32,206	285,964	29,443	30,430	(866)	(21,300)	355,877

The Bank

2011

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January	**35,486**	**146,883**	**27,483**	**(11,729)**	**–**	**198,123**
Credited to income statement	**(507)**	**–**	**–**	**(1,564)**	**(5,937)**	**(8,008)**
Charged to reserves	**–**	**43,121**	**6,500**	**–**	**–**	**49,621**
At 31st December	**34,979**	**190,004**	**33,983**	**(13,293)**	**(5,937)**	**239,736**

7. Taxation *(continued)*

(d) Deferred tax assets and liabilities recognised *(continued)*

	The Bank 2010				
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Total
At 1st January	35,409	112,385	34,598	(10,365)	172,027
(Credited) / charged to income statement	77	–	–	(1,364)	(1,287)
Charged / (credited) to reserves	–	34,498	(7,115)	–	27,383
At 31st December	35,486	146,883	27,483	(11,729)	198,123

	The Group		The Bank	
	2011	2010	**2011**	2010
Net deferred tax assets recognised on the balance sheets	**(30,893)**	(13,246)	**–**	–
Net deferred tax liabilities recognised on the balance sheets	**504,886**	369,123	**239,736**	198,123
	473,993	355,877	**239,736**	198,123

8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$1,187,596,000 (2010: HK$1,367,090,000) which has been dealt with in the financial statements of the Bank.

Details of dividends paid and payable to equity shareholders of the Bank are set out in note 9.

9. Dividends

(a) Dividends attributable to the year

	2011	2010
Interim dividend declared and paid of HK$0.46 (2010: HK$0.30) per ordinary share on 297,695,532 shares (2010: 295,075,880 shares)	**136,940**	88,523
Final dividend proposed after the balance sheet date of HK$1.34 (2010: HK$1.08) per ordinary share on 298,812,308 shares (2010: 295,294,130 shares)	**400,408**	318,918
	537,348	407,441

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

9. Dividends *(continued)*

(b) Dividends attributable to the previous year, approved and paid during the year

	2011	2010
Final dividend in respect of the prior year, approved and paid during the year, of HK$1.08 (2010: HK$0.50) per ordinary share on 295,294,130 shares (2010: 295,044,380 shares)	**318,918**	147,522

10. Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	2011						
	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payments	Total
Chairman							
Patrick Y B FUNG	**429**	**8,840**	**1,020**	**10,644**	**20,933**	**3,645**	**24,578**
Executive directors							
Frank J WANG	**215**	**5,677**	**651**	**7,232**	**13,775**	**2,206**	**15,981**
Michael Y S FUNG	**215**	**4,680**	**537**	**5,677**	**11,109**	**1,822**	**12,931**
Non-executive directors							
Aloysius H Y TSE	**200**	**675**	**–**	**–**	**875**	**–**	**875**
Ambrose H C LAU	**200**	**431**	**–**	**–**	**631**	**–**	**631**
Brian Gerard ROGAN	**200**	**–**	**–**	**–**	**200**	**–**	**200**
CHENG Hon Kwan	**200**	**240**	**–**	**–**	**440**	**–**	**440**
Christopher Robert STURDY	**105**	**78**	**–**	**–**	**183**	**–**	**183**
Louis C W HO	**215**	**74**	**–**	**–**	**289**	**39**	**328**
Stephen Dubois LACKEY	**95**	**72**	**–**	**–**	**167**	**–**	**167**
TUNG Chee Chen	**200**	**–**	**–**	**–**	**200**	**–**	**200**
	2,274	**20,767**	**2,208**	**23,553**	**48,802**	**7,712**	**56,514**

10. Directors' emoluments *(continued)*

	2010						
	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payments	Total
Chairman							
Patrick Y B FUNG	429	7,048	813	8,520	16,810	3,797	20,607
Executive directors							
Frank J WANG	215	4,336	500	5,816	10,867	2,302	13,169
Michael Y S FUNG	215	3,574	412	4,560	8,761	1,899	10,660
Non-executive directors							
Aloysius H Y TSE	200	461	–	–	661	–	661
Ambrose H C LAU	200	288	–	–	488	–	488
Brian Gerard ROGAN	200	–	–	–	200	–	200
CHENG Hon Kwan	200	210	–	–	410	–	410
Christopher Robert STURDY	200	150	–	–	350	–	350
Louis C W HO	215	8	–	–	223	46	269
Simon K Y LEE	26	30	–	–	56	–	56
TUNG Chee Chen	200	–	–	–	200	–	200
	2,300	16,105	1,725	18,896	39,026	8,044	47,070

The above share-based payments are fair value of awards granted under the Group's EIP. The details of these benefits in kind are disclosed under "Employee Incentive Plan" in the "Report of the Directors".

11. Executives' emoluments

The five highest paid individuals include three (2010: three) directors, details of whose emoluments are set out in note 10. The emoluments of the remaining two (2010: two) individuals are as follows:

	2011	2010
Salaries and other emoluments	**5,979**	4,095
Pension contributions	**685**	470
Performance bonuses	**7,820**	7,148
Share-based payments	**850**	1,303
	15,334	13,016

11. Executives' emoluments *(continued)*

The emoluments of the two (2010: two) executives are within the following band:

	2011 Number of executives	2010 Number of executives
HK$7,500,001 – HK$8,000,000	**1**	–
HK$7,000,001 – HK$7,500,000	**1**	–
HK$6,500,001 – HK$7,000,000	**–**	1
HK$6,000,001 – HK$6,500,000	**–**	1
	2	2

12. Earnings per share

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders of HK$2,121,318,000 (2010: HK$1,626,250,000) and on the weighted average number of ordinary shares of 296,944,387 shares (2010: 295,086,950 shares) in issue during the year.

	2011 Number of shares of HK$1.00 each	2010 Number of shares of HK$1.00 each
Issued ordinary shares at 1st January	**295,294,130**	295,044,380
Effect of shares issued in lieu of dividends	**1,614,405**	–
Effect of share option exercised	**7,644**	38,247
Effect of EIP exercised	**28,208**	4,323
Weighted average number of ordinary shares used in calculating basic earnings per share	**296,944,387**	295,086,950

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders of HK$2,121,318,000 (2010: HK$1,626,250,000) and on the weighted average number of ordinary shares of 299,506,506 shares (2010: 297,822,836 shares) in issue during the year after adjustment for the effects of all dilutive potential ordinary shares of 2,562,119 shares (2010: 2,735,886 shares).

	2011 Number of shares of HK$1.00 each	2010 Number of shares of HK$1.00 each
Weighted average number of ordinary shares used in calculating basic earnings per share	**296,944,387**	295,086,950
Deemed exercise of Share Option Scheme	**331,263**	439,570
Deemed exercise of EIP	**2,230,856**	2,296,316
Weighted average number of ordinary shares used in calculating diluted earnings per share	**299,506,506**	297,822,836

13. Cash and balances with banks, central banks and other financial institutions

	The Group		The Bank	
	2011	2010	**2011**	2010
Cash balances	**906,288**	719,044	**537,865**	307,624
Balances with central banks	**6,848,782**	3,414,172	**1,514,345**	584,748
Balances with banks	**1,405,792**	4,287,832	**956,428**	3,368,480
	9,160,862	8,421,048	**3,008,638**	4,260,852

14. Placements with banks, central banks and other financial institutions

	The Group		The Bank	
	2011	2010	**2011**	2010
Placements with banks	**24,426,296**	7,276,310	**13,016,932**	2,287,753

15. Trade bills

	The Group		The Bank	
	2011	2010	**2011**	2010
Trade bills	**2,340,633**	547,226	**4,290,816**	478,135
Individual impairment allowances for impaired loans and advances (note 18(e))	**(765)**	(515)	**(765)**	(515)
Collective impairment allowances for loans and advances (note 18(e))	**(117)**	(128)	**(108)**	(120)
	2,339,751	546,583	**4,289,943**	477,500

16. Trading assets

	The Group		The Bank	
	2011	2010	**2011**	2010
Debt securities:				
Listed in Hong Kong	**245,018**	234,022	**245,018**	234,022
Listed outside Hong Kong	**49,989**	80,901	**49,989**	80,901
	295,007	314,923	**295,007**	314,923
Unlisted	**1,634,743**	1,357,590	**1,634,743**	1,357,590
	1,929,750	1,672,513	**1,929,750**	1,672,513
Equity securities listed in Hong Kong	**5,681**	8,015	**5,345**	7,470
Total trading securities	**1,935,431**	1,680,528	**1,935,095**	1,679,983
Positive fair values of derivative financial instruments held for trading (note 33(a))	**1,144,405**	880,921	**1,159,315**	898,520
	3,079,836	2,561,449	**3,094,410**	2,578,503
Trading debt securities include:				
Treasury bills	**837,088**	721,262	**837,088**	721,262
Certificates of deposit held	**90,606**	–	**90,606**	–
Other trading debt securities	**1,002,056**	951,251	**1,002,056**	951,251
	1,929,750	1,672,513	**1,929,750**	1,672,513

Trading assets of the Bank include positive fair values of derivative financial instruments transacted with a subsidiary amounting to HK$25,338,000 (2010: HK$31,108,000).

Trading securities analysed by counterparty are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Issued by:				
Sovereigns	**837,088**	721,262	**837,088**	721,262
Public sector entities	**52**	326	**51**	315
Banks	**523,965**	536,794	**523,904**	536,762
Corporates	**574,326**	422,146	**574,052**	421,644
	1,935,431	1,680,528	**1,935,095**	1,679,983

Notes to the Financial Statements

17. Financial assets designated at fair value through profit or loss

	The Group		The Bank	
	2011	2010	**2011**	2010
Debt securities:				
Listed in Hong Kong	**1,132,984**	984,617	**1,132,984**	984,617
Listed outside Hong Kong	**2,255,020**	4,443,134	**2,255,020**	4,443,134
	3,388,004	5,427,751	**3,388,004**	5,427,751
Unlisted	**1,432,914**	3,354,395	**1,432,914**	3,354,395
	4,820,918	8,782,146	**4,820,918**	8,782,146
Debt securities designated at fair value through profit or loss include:				
Treasury bills	**39,610**	1,210,858	**39,610**	1,210,858
Other debt securities designated at fair value through profit or loss	**4,781,308**	7,571,288	**4,781,308**	7,571,288
	4,820,918	8,782,146	**4,820,918**	8,782,146

Financial assets designated at fair value through profit or loss analysed by counterparty are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Issued by:				
Sovereigns	**39,610**	1,210,858	**39,610**	1,210,858
Public sector entities	**549,117**	1,809,241	**549,117**	1,809,241
Banks	**2,331,275**	3,631,210	**2,331,275**	3,631,210
Corporates	**1,900,916**	2,130,837	**1,900,916**	2,130,837
	4,820,918	8,782,146	**4,820,918**	8,782,146

18. Advances to customers and other accounts

(a) Advances to customers and other accounts

	The Group		The Bank	
	2011	2010	**2011**	2010
Gross advances to customers	**110,577,518**	97,254,235	**70,515,943**	61,901,470
Individual impairment allowances for impaired loans and advances (note 18(e))	**(54,379)**	(52,211)	**(18,412)**	(15,246)
Collective impairment allowances for loans and advances (note 18(e))	**(138,215)**	(152,006)	**(99,535)**	(93,157)
Net advances to customers	**110,384,924**	97,050,018	**70,397,996**	61,793,067
Advances to banks	**462,407**	463,049	**–**	–
Customer liability under acceptances	**249,675**	349,300	**168,587**	228,608
Accrued interest	**505,839**	407,009	**301,947**	294,720
Other accounts	**948,384**	1,120,694	**779,510**	747,949
	112,551,229	99,390,070	**71,648,040**	63,064,344

18. Advances to customers and other accounts *(continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

	The Group					
	2011			2010		
	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	**2,364,989**	**67.3**	**–**	2,020,316	61.6	–
– Property investment	**15,917,977**	**98.8**	**42,610**	14,332,053	96.2	36,423
– Financial concerns	**2,854,374**	**11.3**	**–**	1,705,256	20.9	–
– Stockbrokers	**703,008**	**86.3**	**–**	863,045	91.3	–
– Wholesale and retail trade	**2,230,596**	**44.8**	**55,725**	2,323,955	40.6	10,718
– Manufacturing	**1,697,903**	**61.3**	**28,185**	1,442,767	76.2	16,144
– Transport and transport equipment	**7,101,519**	**89.8**	**6,316**	6,298,783	90.4	7,739
– Information technology	**8,908**	**44.3**	**–**	8,883	67.1	–
– Share financing	**263,159**	**96.7**	**–**	372,985	99.9	–
– Recreational activities	**61,195**	**–**	**–**	49,453	0.3	–
– Others	**3,816,367**	**49.0**	**49,059**	4,132,498	51.8	27,891
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	**2,618,752**	**100.0**	**597**	2,822,287	100.0	722
– Advances for the purchase of other residential properties	**16,970,967**	**100.0**	**16,368**	17,679,644	99.9	22,428
– Credit card advances	**283,375**	**0.8**	**906**	259,457	1.3	770
– Others	**6,314,976**	**69.8**	**14,438**	5,872,214	66.3	14,991
	63,208,065	**83.5**	**214,204**	60,183,596	84.4	137,826
Trade finance	**11,857,488**	**79.6**	**45,886**	5,053,567	71.8	28,830
Advances for use outside Hong Kong						
– Mainland China	**23,144,823**	**76.5**	**51,741**	19,270,797	82.6	60,141
– Macau	**12,308,927**	**93.5**	**24,173**	12,729,250	87.8	74,139
– Others	**58,215**	**72.9**	**–**	17,025	89.8	–
	35,511,965	**82.4**	**75,914**	32,017,072	84.6	134,280
	110,577,518	**82.7**	**336,004**	97,254,235	83.8	300,936

18. Advances to customers and other accounts *(continued)*

(b) Advances to customers analysed by industry sectors *(continued)*

	The Bank					
	2011			2010		
	Gross advances to customers	**% of gross advances covered by collateral**	**Impaired advances to customers**	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	**2,364,989**	**67.3**	**–**	2,020,316	61.6	–
– Property investment	**15,078,122**	**98.7**	**42,610**	13,764,067	96.1	36,423
– Financial concerns	**2,854,374**	**11.3**	**–**	1,705,257	20.9	–
– Stockbrokers	**703,008**	**86.3**	**–**	863,045	91.3	–
– Wholesale and retail trade	**2,230,596**	**44.8**	**55,725**	2,323,955	40.6	10,718
– Manufacturing	**1,695,913**	**61.3**	**28,185**	1,430,771	76.1	15,451
– Transport and transport equipment	**6,458,270**	**89.2**	**5,838**	4,451,709	87.2	3,936
– Information technology	**8,908**	**44.3**	**–**	8,883	67.1	–
– Share financing	**263,159**	**96.7**	**–**	372,985	99.9	–
– Recreational activities	**61,195**	**–**	**–**	49,453	0.3	–
– Others	**3,753,217**	**48.4**	**48,878**	4,051,670	51.1	27,223
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	**2,618,752**	**100.0**	**597**	2,822,287	100.0	722
– Advances for the purchase of other residential properties	**13,539,369**	**100.0**	**12,370**	14,954,224	99.9	18,220
– Credit card advances	**283,375**	**0.8**	**906**	259,457	1.3	770
– Others	**4,262,870**	**94.6**	**7,367**	3,702,945	90.6	5,603
	56,176,117	**84.5**	**202,476**	52,781,024	85.4	119,066
Trade finance	**8,084,807**	**73.0**	**45,886**	4,711,948	71.6	28,830
Advances for use outside Hong Kong						
– Mainland China	**6,077,331**	**49.9**	**–**	4,290,217	48.0	–
– Macau	**119,473**	**63.0**	**–**	101,256	48.4	48,243
– Others	**58,215**	**72.9**	**–**	17,025	89.8	–
	6,255,019	**50.4**	**–**	4,408,498	48.2	48,243
	70,515,943	**80.2**	**248,362**	61,901,470	81.7	196,139

18. Advances to customers and other accounts *(continued)*

(c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and individual impairment allowances are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Gross impaired advances to customers	**336,004**	300,936	**248,362**	196,139
Gross impaired advances to customers as a percentage of total advances to customers	**0.30%**	0.31%	**0.35%**	0.32%
Market value of collateral held with respect to impaired advances to customers	**289,033**	216,457	**230,047**	163,689
Individual impairment allowances	**54,379**	52,211	**18,412**	15,246

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 31st December, 2011 and 31st December, 2010.

18. Advances to customers and other accounts *(continued)*

(d) Net investments in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	The Group			
	2011		2010	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	**3,966,294**	**4,528,859**	3,545,380	4,058,777
After 1 year but within 5 years	**5,826,660**	**6,287,985**	4,865,823	5,287,214
After 5 years	**26,695**	**28,820**	52,669	54,916
	9,819,649	**10,845,664**	8,463,872	9,400,907
Unearned future income on finance lease	**–**	**(1,026,015)**	–	(937,035)
	9,819,649	**9,819,649**	8,463,872	8,463,872
Individual impairment allowances for impaired loans and advances	**(9,891)**		(28,981)	
Collective impairment allowances for loans and advances	**(13,333)**		(16,475)	
Net investment in finance leases and hire purchase contracts	**9,796,425**		8,418,416	

18. Advances to customers and other accounts *(continued)*

(d) Net investments in finance leases and hire purchase contracts *(continued)*

	The Bank			
	2011		2010	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	**3,341,266**	**3,861,112**	1,989,929	2,366,489
After 1 year but within 5 years	**5,543,055**	**5,985,407**	3,846,084	4,201,484
	8,884,321	**9,846,519**	5,836,013	6,567,973
Unearned future income on finance lease	**–**	**(962,198)**	–	(731,960)
	8,884,321	**8,884,321**	5,836,013	5,836,013
Individual impairment allowances for impaired loans and advances	**(4,779)**		(2,277)	
Collective impairment allowances for loans and advances	**(12,365)**		(8,674)	
Net investment in finance leases and hire purchase contracts	**8,867,177**		5,825,062	

18. Advances to customers and other accounts *(continued)*

(e) Impairment allowances for loans and advances

	The Group 2011 Individual	The Group 2011 Collective	The Group 2011 Total
At 1st January	**52,726**	**152,134**	**204,860**
Additions	**82,174**	**–**	**82,174**
Releases	**(38,560)**	**(13,802)**	**(52,362)**
Net charges / (releases) to consolidated income statement	**43,614**	**(13,802)**	**29,812**
Unwind of discount of loan impairment losses (note 5(a))	**(3,606)**	**–**	**(3,606)**
Recoveries of advances written off in prior years	**26,036**	**–**	**26,036**
Amounts written off	**(63,626)**	**–**	**(63,626)**
At 31st December	**55,144**	**138,332**	**193,476**
Representing impairment allowances for:			
Trade bills (note 15)	**765**	**117**	**882**
Advances to customers (note 18(a))	**54,379**	**138,215**	**192,594**
	55,144	**138,332**	**193,476**

	The Group 2010 Individual	The Group 2010 Collective	The Group 2010 Total
At 1st January	86,282	161,515	247,797
Additions	33,556	–	33,556
Releases	(75,339)	(9,381)	(84,720)
Net releases to consolidated income statement	(41,783)	(9,381)	(51,164)
Unwind of discount of loan impairment losses (note 5(a))	(2,728)	–	(2,728)
Recoveries of advances written off in prior years	53,155	–	53,155
Amounts written off	(42,200)	–	(42,200)
At 31st December	52,726	152,134	204,860
Representing impairment allowances for:			
Trade bills (note 15)	515	128	643
Advances to customers (note 18(a))	52,211	152,006	204,217
	52,726	152,134	204,860

18. Advances to customers and other accounts *(continued)*

(e) Impairment allowances for loans and advances *(continued)*

	The Bank 2011 Individual	Collective	Total
At 1st January	**15,761**	**93,277**	**109,038**
Additions	**39,275**	**6,366**	**45,641**
Releases	**(18,291)**	**–**	**(18,291)**
Net charges to income statement	**20,984**	**6,366**	**27,350**
Unwind of discount of loan impairment losses	**(2,268)**	**–**	**(2,268)**
Recoveries of advances written off in prior years	**13,811**	**–**	**13,811**
Amounts written off	**(29,111)**	**–**	**(29,111)**
At 31st December	**19,177**	**99,643**	**118,820**
Representing impairment allowances for:			
Trade bills (note 15)	**765**	**108**	**873**
Advances to customers (note 18(a))	**18,412**	**99,535**	**117,947**
	19,177	**99,643**	**118,820**

	The Bank 2010 Individual	Collective	Total
At 1st January	11,722	86,787	98,509
Additions	13,464	6,490	19,954
Releases	(43,159)	–	(43,159)
Net (releases) / charges to income statement	(29,695)	6,490	(23,205)
Unwind of discount of loan impairment losses	(1,336)	–	(1,336)
Recoveries of advances written off in prior years	41,757	–	41,757
Amounts written off	(6,687)	–	(6,687)
At 31st December	15,761	93,277	109,038
Representing impairment allowances for:			
Trade bills (note 15)	515	120	635
Advances to customers (note 18(a))	15,246	93,157	108,403
	15,761	93,277	109,038

18. Advances to customers and other accounts *(continued)*

(f) Repossessed assets

During the year ended 31st December, 2011, the Group has taken possession of collateral it holds as security as follows:

	The Group		The Bank	
Nature	**2011**	2010	**2011**	2010
Properties	**74,980**	45,583	**70,020**	35,100
Vehicles	**13,977**	15,903	**10,071**	2,425
Others	**23,626**	7,818	**19,000**	–
	112,583	69,304	**99,091**	37,525

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2011, repossessed assets obtained as securities for impaired advances to customers totalled HK$21,528,000 (2010: HK$21,123,000) and HK$21,528,000 (2010: HK$18,500,000) for the Group and the Bank respectively.

19. Available-for-sale financial assets

(a) Available-for-sale financial assets

	The Group		The Bank	
	2011	2010	**2011**	2010
Available-for-sale debt securities:				
Listed in Hong Kong	**819,991**	1,086,254	**796,088**	1,062,600
Listed outside Hong Kong	**2,820,574**	5,609,057	**2,770,230**	5,556,632
	3,640,565	6,695,311	**3,566,318**	6,619,232
Unlisted	**20,540,945**	20,187,613	**16,658,543**	19,840,629
	24,181,510	26,882,924	**20,224,861**	26,459,861
Available-for-sale equity securities:				
Listed in Hong Kong	**2,860**	86,728	**2,860**	86,728
Listed outside Hong Kong	**57,703**	38,043	**43,267**	28,525
	60,563	124,771	**46,127**	115,253
Unlisted	**163,678**	162,376	**118,444**	117,142
	224,241	287,147	**164,571**	232,395
	24,405,751	27,170,071	**20,389,432**	26,692,256
Available-for-sale debt securities include:				
Treasury bills	**11,055,016**	7,052,315	**7,215,965**	6,747,275
Certificates of deposit held	**541,732**	1,322,310	**541,732**	1,322,310
Other available-for-sale debt securities	**12,584,762**	18,508,299	**12,467,164**	18,390,276
	24,181,510	26,882,924	**20,224,861**	26,459,861

Available-for-sale financial assets analysed by counterparty are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Issued by:				
Sovereigns	**11,055,016**	7,052,315	**7,215,964**	6,747,275
Public sector entities	**821,919**	1,949,782	**778,568**	1,907,838
Banks	**10,906,985**	16,252,125	**10,856,642**	16,199,700
Corporates	**1,621,831**	1,915,849	**1,538,258**	1,837,443
	24,405,751	27,170,071	**20,389,432**	26,692,256

19. Available-for-sale financial assets *(continued)*

(b) Impairment losses and allowances (charged on) / released from available-for-sale financial assets in the consolidated income statement represent:

	The Group and the Bank	
	2011	2010
(Charged on) / released from debt securities	**(18,463)**	13,637
	(18,463)	13,637

The Bank has exposure to bonds issued by two banks in Iceland which are categorised as available-for-sale. As a result of the global financial turmoil and the grant of moratorium order on the two banks in Iceland, the carrying values of the bonds have been substantially impaired, and provisions were made accordingly.

20. Investments in subsidiaries

	The Bank	
	2011	2010
Unlisted shares, at cost	**3,032,126**	3,474,558

The following list contains only the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held by the Bank	Principal activities
Banco Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
Wing Hang Bank (Cayman) Limited	Cayman Islands	US$25,000,000	100%	Banking
Wing Hang Bank (China) Limited	People's Republic of China	RMB1,500,000,000	100%	Banking
Inchroy Credit Corporation Limited	Hong Kong	HK$25,000,000	100%	Deposit Taking and Hire Purchase
Wing Hang Finance Company Limited	Hong Kong	HK$130,000,000	100%	Deposit Taking and Hire Purchase
Wing Hang Credit Limited	Hong Kong	HK$20,000,000	100%	Consumer Lending
Wing Hang Insurance Brokers Limited	Hong Kong	HK$100,000	100%	Insurance Broker
Wing Hang Insurance Agency Limited	Hong Kong	HK$50,000	100%	Insurance Agency
Wing Hang Shares Brokerage Company Limited	Hong Kong	HK$10,000,000	100%	Securities Dealing

20. Investments in subsidiaries *(continued)*

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held by the Bank	Principal activities
Wing Hang Bank (Trustee) Limited	Hong Kong	HK$3,000,000	100%	Trustee Services
Wing Hang Bank (Nominees) Limited	Hong Kong	HK$10,000	100%	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK$10,000	100%	Property Investment
Honfirst Land Limited	Hong Kong	HK$27,000,000	100%	Property Investment

21. Investments in associated companies

	The Group		The Bank	
	2011	2010	**2011**	2010
Unlisted shares, at cost	**–**	–	**182,000**	182,000
Share of net assets	**174,081**	123,804	**–**	–
Loans to associated companies	**75,171**	87,074	**75,171**	87,074
	249,252	210,878	**257,171**	269,074

At 31st December, 2011, the outstanding balance of the loans to associated companies included secured loans totalling HK$75,171,000 (2010: HK$87,074,000) which bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. For details, please refer to note 36(c).

There are no impaired loans to associated companies nor individual impairment allowances made on loans to associated companies at 31st December, 2011 and 31st December, 2010.

21. Investments in associated companies *(continued)*

The following list contains the particulars of associated companies:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Percentage held by the Bank	Voting power	Principal activities
Bank Consortium Holding Limited	Hong Kong	HK$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	Hong Kong	HK$420,000,000	33%	1 out of 3*	Insurance
Joint Electronic Teller Services Limited	Hong Kong	HK$10,023,800	20% (a)	1 out of 5*	ATM Network

* Representing the Group's number of votes on the board of directors of the respective associated companies.

Notes: (a) The Group's share of net assets in Joint Electronic Teller Services Limited is based on the Group's share of dividend received from this associated company during this year.

Summary financial information on associated companies is set out below:

	2011					
	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	**6,334,993**	**5,198,021**	**1,136,972**	**1,557,710**	**33,358**	**198,966**
Group's effective interest	**1,893,194**	**1,719,113**	**174,081**	**466,216**	**7,706**	**50,326**

	2010					
	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	5,153,213	4,202,363	950,850	1,421,300	26,188	130,260
Group's effective interest	1,508,040	1,384,236	123,804	431,344	5,868	28,024

22. Tangible fixed assets

	The Group 2011				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	394,971	2,981,056	1,011,831	3,992,887	4,387,858
Additions	–	566,568	140,534	707,102	707,102
Disposals	–	(49,636)	(55,838)	(105,474)	(105,474)
Transfers from bank premises to investment properties	45,567	(45,567)	–	(45,567)	–
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	609,595	–	609,595	609,595
– credited to consolidated income statement (note 6(a))	149,234	12,164	–	12,164	161,398
Deficit on revaluation (note 6(a))	–	–	–	–	–
Elimination of accumulated depreciation on revalued bank premises	–	(36,865)	–	(36,865)	(36,865)
Exchange adjustment	–	13,001	9,796	22,797	22,797
At 31st December	589,772	4,050,316	1,106,323	5,156,639	5,746,411
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,365,036	1,106,323	2,471,359	2,471,359
At valuation					
2011	589,772	2,685,280	–	2,685,280	3,275,052
	589,772	4,050,316	1,106,323	5,156,639	5,746,411
Accumulated depreciation					
At 1st January	–	139,342	631,166	770,508	770,508
Charge for the year (note 5(f))	–	61,350	121,043	182,393	182,393
Written back on disposals	–	(970)	(51,470)	(52,440)	(52,440)
Elimination of accumulated depreciation on revalued bank premises	–	(36,865)	–	(36,865)	(36,865)
Exchange adjustment	–	4,843	8,279	13,122	13,122
At 31st December	–	167,700	709,018	876,718	876,718
Net book value					
At 31st December	589,772	3,882,616	397,305	4,279,921	4,869,693

22. Tangible fixed assets *(continued)*

	The Group 2010				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	272,835	2,395,564	931,101	3,326,665	3,599,500
Additions	–	175,570	110,249	285,819	285,819
Disposals	–	–	(28,795)	(28,795)	(28,795)
Transfers from investment properties to bank premises	(8,588)	8,588	–	8,588	–
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	451,792	–	451,792	451,792
– credited to consolidated income statement (note 6(a))	130,724	–	–	–	130,724
Deficit on revaluation (note 6(a))	–	(12,164)	–	(12,164)	(12,164)
Elimination of accumulated depreciation on revalued bank premises	–	(38,294)	–	(38,294)	(38,294)
Exchange adjustment	–	–	(724)	(724)	(724)
At 31st December	394,971	2,981,056	1,011,831	3,992,887	4,387,858
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,021,935	1,011,831	2,033,766	2,033,766
At valuation					
2010	394,971	1,959,121	–	1,959,121	2,354,092
	394,971	2,981,056	1,011,831	3,992,887	4,387,858
Accumulated depreciation					
At 1st January	–	134,341	551,509	685,850	685,850
Charge for the year (note 5(f))	–	43,295	107,021	150,316	150,316
Written back on disposals	–	–	(27,310)	(27,310)	(27,310)
Elimination of accumulated depreciation on revalued bank premises	–	(38,294)	–	(38,294)	(38,294)
Exchange adjustment	–	–	(54)	(54)	(54)
At 31st December	–	139,342	631,166	770,508	770,508
Net book value					
At 31st December	394,971	2,841,714	380,665	3,222,379	3,617,350

22. Tangible fixed assets *(continued)*

	The Bank		
	2011		
	Bank premises	Equipment	Total
Cost or valuation			
At 1st January	**1,540,282**	**721,490**	**2,261,772**
Additions	**521,911**	**95,743**	**617,654**
Disposals	**(33,300)**	**(44,479)**	**(77,779)**
Surplus on revaluation			
– credited to bank premises revaluation reserve	**263,159**	**–**	**263,159**
Elimination of accumulated depreciation on revalued bank premises	**(10,747)**	**–**	**(10,747)**
At 31st December	**2,281,305**	**772,754**	**3,054,059**
The analysis of cost or valuation of the above assets is as follows:			
At cost	**900,638**	**772,754**	**1,673,392**
At valuation			
2011	**1,380,667**	**–**	**1,380,667**
	2,281,305	**772,754**	**3,054,059**
Accumulated depreciation			
At 1st January	**95,032**	**460,820**	**555,852**
Charge for the year	**21,213**	**79,725**	**100,938**
Written back on disposals	**(970)**	**(40,528)**	**(41,498)**
Elimination of accumulated depreciation on revalued bank premises	**(10,747)**	**–**	**(10,747)**
At 31st December	**104,528**	**500,017**	**604,545**
Net book value			
At 31st December	**2,176,777**	**272,737**	**2,449,514**

22. Tangible fixed assets *(continued)*

	The Bank 2010		
	Bank premises	Equipment	Total
Cost or valuation			
At 1st January	1,310,611	682,850	1,993,461
Additions	29,928	62,042	91,970
Disposals	–	(23,402)	(23,402)
Surplus on revaluation			
– credited to bank premises revaluation reserve	209,114	–	209,114
Elimination of accumulated depreciation on revalued bank premises	(9,371)	–	(9,371)
At 31st December	1,540,282	721,490	2,261,772
The analysis of cost or valuation of the above assets is as follows:			
At cost	611,515	721,490	1,333,005
At valuation			
2010	928,767	–	928,767
	1,540,282	721,490	2,261,772
Accumulated depreciation			
At 1st January	87,055	412,659	499,714
Charge for the year	17,348	71,335	88,683
Written back on disposals	–	(23,174)	(23,174)
Elimination of accumulated depreciation on revalued bank premises	(9,371)	–	(9,371)
At 31st December	95,032	460,820	555,852
Net book value			
At 31st December	1,445,250	260,670	1,705,920

Bank premises held for administrative use are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, or at directors' valuation by reference to open market value as at 31st December, 2011. The net revaluation surplus of HK$504,935,000 (2010: HK$375,601,000) (being revaluation surplus of HK$609,595,000 (2010: HK$451,792,000) net of deferred tax of HK$104,660,000 (2010: HK$76,191,000)) and HK$220,038,000 (2010: HK$174,616,000) (being revaluation surplus of HK$263,159,000 (2010: HK$209,114,000) net of deferred tax of HK$43,121,000 (2010: HK$34,498,000)) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group and the Bank respectively.

22. Tangible fixed assets *(continued)*

Investment properties are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, on an open market value basis as at 31st December, 2011 and 31st December, 2010.

The carrying amount of the bank premises of the Group and the Bank would have been HK$1,952,915,000 (2010: HK$1,487,458,000) and HK$1,124,736,000 (2010: HK$650,685,000) respectively had they been stated at cost less accumulated depreciation.

The net book value of investment properties and bank premises comprises:

	The Group		The Bank	
	2011	2010	**2011**	2010
FREEHOLD				
– Held outside Hong Kong	**160,060**	155,390	**–**	–
LEASEHOLD				
– Held in Hong Kong				
Long-term leases				
(over 50 years unexpired)	**2,513,324**	1,824,233	**1,299,435**	965,311
Medium-term leases				
(10 to 50 years unexpired)	**1,168,231**	722,396	**864,175**	469,572
– Held outside Hong Kong				
Long-term leases				
(over 50 years unexpired)	**11,734**	11,437	**3,418**	2,583
Medium-term leases				
(10 to 50 years unexpired)	**419,017**	339,073	**9,749**	7,784
Short-term leases				
(less than 10 years unexpired)	**200,022**	184,156	**–**	–
	4,472,388	3,236,685	**2,176,777**	1,445,250

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	The Group	
	2011	2010
Within 1 year	**11,025**	10,635
After 1 year but within 5 years	**5,796**	5,372
	16,821	16,007

23. Goodwill

(a) Goodwill

	The Group		The Bank	
	2011	2010	**2011**	2010
Cost				
At 1st January / 31st December	**1,307,600**	1,307,600	**847,422**	847,422
Accumulated impairment loss				
At 1st January / 31st December	**1,170**	1,170	**–**	–
Net book value				
At 31st December	**1,306,430**	1,306,430	**847,422**	847,422

(b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

	2011	2010
Hong Kong:		
Retail banking business acquired	**1,019,136**	1,019,136
Corporate banking business acquired	**233,741**	233,741
Treasury business acquired	**53,553**	53,553
	1,306,430	1,306,430

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 4.00% (2010: 4.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 15.04% (2010: 17.63%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

24. Deposits and balances of banks, central banks and other financial institutions

	The Group		The Bank	
	2011	2010	**2011**	2010
Deposits from central banks	**135,323**	347,374	**70,732**	5,270
Deposits from banks	**673,146**	776,140	**556,528**	770,117
	808,469	1,123,514	**627,260**	775,387

25. Deposits from customers

	The Group		The Bank	
	2011	2010	**2011**	2010
Demand deposits and current accounts	**20,883,636**	21,965,434	**16,424,579**	17,521,665
Savings deposits	**25,928,202**	28,663,564	**18,245,359**	20,261,040
Time, call and notice deposits	**110,942,600**	84,978,294	**75,457,590**	63,670,216
	157,754,438	135,607,292	**110,127,528**	101,452,921

26. Certificates of deposit issued

	The Group		The Bank	
	2011	2010	**2011**	2010
Certificates of deposit issued at amortised cost	**2,605,000**	180,000	**2,605,000**	180,000
Structured certificates of deposit issued designated at fair value through profit or loss	**151,649**	151,596	**151,649**	151,596
	2,756,649	331,596	**2,756,649**	331,596

At 31st December, 2011, the carrying amounts of structured certificates of deposit issued designated at fair value through profit or loss are higher than their contractual amount payable at maturity for the Group and the Bank by HK$1,649,000 (2010: HK$1,596,000) due to changes in benchmark interest rates.

27. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 33(a).

Trading liabilities of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$3,996,000 (2010: HK$1,905,000).

28. Other accounts and provisions

	The Group		The Bank	
	2011	2010	**2011**	2010
Acceptances outstanding	**249,675**	349,300	**168,587**	228,608
Interest payable	**768,953**	427,890	**384,857**	294,059
Other payables	**1,566,895**	985,774	**944,714**	519,440
	2,585,523	1,762,964	**1,498,158**	1,042,107

29. Subordinated liabilities

	The Group and the Bank	
	2011	2010
US$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	**2,938,043**	3,109,440
US$225 million 9.375% perpetual subordinated notes, measured at amortised cost (note (b))	**1,747,485**	1,749,060
	4,685,528	4,858,500

(a) On 19th April, 2007, the Bank issued step-up perpetual subordinated notes qualifying as tier 2 capital with a face value of HK$3,125,520,000 (US$400,000,000). The notes bear interest at a fixed rate of 6.00% per annum until 19th April, 2017 and are floating at LIBOR plus 1.85% per annum thereafter if the notes are not early redeemed at the option of the Bank. Despite the Bank has the option to defer making payment of interest on the subordinated note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

At 31st December, 2011, the carrying amount of the step-up perpetual subordinated notes designated at fair value through profit or loss are lower than their contractual amount payable at redemption for the Group and the Bank by HK$168,597,000 (2010: equal to their contractual amount payable). The change in fair value of this step-up perpetual subordinated notes is recognised as "net realised and unrealised gains / (losses) on financial instruments designated at fair value through profit or loss" in the consolidated income statement. This change in fair value which is attributable to change in credit risk for the year ended 31st December, 2011 is a gain of HK$324,015,000 (2010: loss of HK$180,729,000) and the accumulated amount of this change for the Group and the Bank is a gain of HK$781,072,000 (2010: HK$457,057,000).

(b) On 3rd September, 2008, the Bank issued perpetual subordinated notes qualifying as tier 2 capital with a face value of HK$1,756,283,000 (US$225,000,000). The notes bear interest at a fixed rate of 9.375% per annum and the notes can be early redeemed at the option of the Bank on 11th September, 2013. Despite the Bank has the option to defer making payment of interest on the subordinated note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

30. Maturity profile

The following maturity profiles of the assets and liabilities of the Group and the Bank are based on the remaining periods to repayment at the balance sheet date.

	The Group							
	2011							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	**9,160,862**	**–**	**–**	**–**	**–**	**–**	**–**	**9,160,862**
Placements with banks, central banks and other financial institutions	**–**	**12,904,695**	**7,797,690**	**3,723,911**	**–**	**–**	**–**	**24,426,296**
Trade bills	**26,516**	**875,139**	**1,021,151**	**416,343**	**–**	**–**	**602**	**2,339,751**
Trading assets	**–**	**123,099**	**61,365**	**421,382**	**1,243,482**	**80,422**	**1,150,086**	**3,079,836**
Financial assets designated at fair value through profit or loss	**–**	**–**	**338,888**	**395,203**	**2,335,046**	**1,725,957**	**25,824**	**4,820,918**
Advances to customers	**2,022,484**	**7,638,704**	**9,082,762**	**20,591,708**	**34,655,090**	**35,978,546**	**415,630**	**110,384,924**
Advances to banks	**–**	**–**	**155,431**	**306,976**	**–**	**–**	**–**	**462,407**
Available-for-sale financial assets	**–**	**934,623**	**11,440,692**	**5,657,229**	**4,753,324**	**1,338,750**	**281,133**	**24,405,751**
Other assets	**442**	**941,967**	**223,429**	**214,761**	**44,432**	**6,832**	**6,736,183**	**8,168,046**
Total assets	**11,210,304**	**23,418,227**	**30,121,408**	**31,727,513**	**43,031,374**	**39,130,507**	**8,609,458**	**187,248,791**
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	**256,888**	**551,581**	**–**	**–**	**–**	**–**	**–**	**808,469**
Deposits from customers	**46,690,637**	**55,226,014**	**32,953,623**	**20,255,130**	**2,629,034**	**–**	**–**	**157,754,438**
Certificates of deposit issued	**–**	**290,000**	**800,000**	**540,000**	**1,126,649**	**–**	**–**	**2,756,649**
Trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**1,082,405**	**1,082,405**
Subordinated liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**4,685,528**	**4,685,528**
Other liabilities	**–**	**1,542,911**	**346,399**	**1,013,393**	**110,974**	**–**	**243,608**	**3,257,285**
Total liabilities	**46,947,525**	**57,610,506**	**34,100,022**	**21,808,523**	**3,866,657**	**–**	**6,011,541**	**170,344,774**
Net assets / (liabilities) gap	**(35,737,221)**	**(34,192,279)**	**(3,978,614)**	**9,918,990**	**39,164,717**	**39,130,507**	**2,597,917**	**16,904,017**
of which:								
Certificates of deposit held								
– Included in trading assets	**–**	**–**	**–**	**–**	**90,606**	**–**	**–**	**90,606**
– included in available-for-sale financial assets	**–**	**–**	**–**	**–**	**541,732**	**–**	**–**	**541,732**
Debt securities								
– included in trading assets	**–**	**123,099**	**61,365**	**421,382**	**1,152,876**	**80,422**	**–**	**1,839,144**
– included in financial assets designated at fair value through profit or loss	**–**	**–**	**338,888**	**395,203**	**2,335,046**	**1,725,957**	**25,824**	**4,820,918**
– included in available-for-sale financial assets	**–**	**934,623**	**11,440,692**	**5,657,229**	**4,211,592**	**1,338,750**	**56,892**	**23,639,778**

30. Maturity profile *(continued)*

	The Group 2010							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	8,421,048	–	–	–	–	–	–	8,421,048
Placements with banks, central banks and other financial institutions	–	6,403,087	747,727	125,496	–	–	–	7,276,310
Trade bills	54,278	179,309	292,813	19,375	–	–	808	546,583
Trading assets	–	–	–	330,157	1,266,552	75,804	888,936	2,561,449
Financial assets designated at fair value through profit or loss	–	–	1,013,352	1,701,808	4,218,729	1,817,785	30,472	8,782,146
Advances to customers	2,111,634	5,796,736	5,745,016	16,153,507	32,907,885	34,186,851	148,389	97,050,018
Advances to banks	–	–	–	463,049	–	–	–	463,049
Available-for-sale financial assets	–	1,773,312	3,909,939	3,950,049	15,518,753	1,655,516	362,502	27,170,071
Other assets	1,184	950,851	295,315	109,944	140,590	562	5,527,410	7,025,856
Total assets	10,588,144	15,103,295	12,004,162	22,853,385	54,052,509	37,736,518	6,958,517	159,296,530
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	584,415	531,855	7,244	–	–	–	–	1,123,514
Deposits from customers	50,567,272	48,946,160	20,210,747	15,293,999	589,019	95	–	135,607,292
Certificates of deposit issued	–	–	–	180,000	151,596	–	–	331,596
Trading liabilities	–	–	–	–	–	–	788,653	788,653
Subordinated liabilities	–	–	–	–	–	–	4,858,500	4,858,500
Other liabilities	–	1,111,745	343,442	636,359	92,535	–	105,162	2,289,243
Total liabilities	51,151,687	50,589,760	20,561,433	16,110,358	833,150	95	5,752,315	144,998,798
Net assets / (liabilities) gap	(40,563,543)	(35,486,465)	(8,557,271)	6,743,027	53,219,359	37,736,423	1,206,202	14,297,732
of which:								
Certificates of deposit held								
– included in available-for-sale financial assets	–	–	–	776,475	545,835	–	–	1,322,310
Debt securities								
– included in trading assets	–	–	–	330,157	1,266,552	75,804	–	1,672,513
– included in financial assets designated at fair value through profit or loss	–	–	1,013,352	1,701,808	4,218,729	1,817,785	30,472	8,782,146
– included in available-for-sale financial assets	–	1,773,312	3,909,939	3,173,574	14,972,918	1,655,516	75,355	25,560,614

30. Maturity profile *(continued)*

	The Bank 2011							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	3,008,638	–	–	–	–	–	–	3,008,638
Placement with banks, central banks and other financial institutions	–	6,519,790	4,407,357	2,089,785	–	–	–	13,016,932
Trade bills	26,517	632,039	797,164	2,834,126	–	–	97	4,289,943
Trading assets	–	123,099	61,365	421,382	1,243,482	80,422	1,164,660	3,094,410
Financial assets designated at fair value through profit or loss	–	–	338,888	395,203	2,335,046	1,725,957	25,824	4,820,918
Advances to customers	1,793,031	6,492,590	7,023,276	10,936,575	22,697,490	21,122,819	332,215	70,397,996
Amounts due from subsidiaries	215,424	5,268,472	499,052	5,996,001	69,230	–	–	12,048,179
Available-for-sale financial assets	–	327,966	10,987,806	3,476,022	4,080,777	1,295,398	221,463	20,389,432
Other assets	–	683,592	146,545	135,642	15,235	–	6,855,263	7,836,277
Total assets	5,043,610	20,047,548	24,261,453	26,284,736	30,441,260	24,224,596	8,599,522	138,902,725
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	192,261	434,999	–	–	–	–	–	627,260
Deposits from customers	34,576,901	45,356,948	21,328,431	7,907,978	957,270	–	–	110,127,528
Certificates of deposit issued	–	290,000	800,000	540,000	1,126,649	–	–	2,756,649
Trading liabilities	–	–	–	–	–	–	1,085,126	1,085,126
Amounts due to subsidiaries	1,233,322	3,093,807	959,900	410,537	524	–	11	5,698,101
Subordinated liabilities	–	–	–	–	–	–	4,685,528	4,685,528
Other liabilities	–	843,288	221,547	492,681	55,046	–	207,485	1,820,047
Total liabilities	36,002,484	50,019,042	23,309,878	9,351,196	2,139,489	–	5,978,150	126,800,239
Net assets / (liabilities) gap	(30,958,874)	(29,971,494)	951,575	16,933,540	28,301,771	24,224,596	2,621,372	12,102,486
of which:								
Certificates of deposit held								
– Included in trading assets	–	–	–	–	90,606	–	–	90,606
– included in available-for-sale financial assets	–	–	–	–	541,732	–	–	541,732
Debt securities								
– included in trading assets	–	123,099	61,365	421,382	1,152,876	80,422	–	1,839,144
– included in financial assets designated at fair value through profit or loss	–	–	338,888	395,203	2,335,046	1,725,957	25,824	4,820,918
– included in available-for-sale financial assets	–	327,966	10,987,806	3,476,022	3,539,045	1,295,398	56,892	19,683,129

30. Maturity profile *(continued)*

	The Bank 2010							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	4,260,852	–	–	–	–	–	–	4,260,852
Placement with banks, central banks and other financial institutions	–	2,198,024	34,743	54,986	–	–	–	2,287,753
Trade bills	54,277	150,302	254,205	18,442	–	–	274	477,500
Trading assets	–	–	–	330,157	1,266,552	75,804	905,990	2,578,503
Financial assets designated at fair value through profit or loss	–	–	1,013,352	1,701,808	4,218,729	1,817,785	30,472	8,782,146
Advances to customers	1,945,167	4,900,497	3,919,257	9,587,904	20,294,384	21,054,744	91,114	61,793,067
Amounts due from subsidiaries	8,598	4,900,446	1,207,297	5,716,812	379,590	–	–	12,212,743
Available-for-sale financial assets	–	1,557,785	3,832,278	3,938,198	15,442,672	1,613,573	307,750	26,692,256
Other assets	–	590,635	202,561	85,089	103,132	–	6,586,834	7,568,251
Total assets	6,268,894	14,297,689	10,463,693	21,433,396	41,705,059	24,561,906	7,922,434	126,653,071
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	236,288	531,855	7,244	–	–	–	–	775,387
Deposits from customers	37,748,627	41,365,366	15,604,596	6,673,757	60,575	–	–	101,452,921
Certificates of deposit issued	–	–	–	180,000	151,596	–	–	331,596
Trading liabilities	–	–	–	–	–	–	790,367	790,367
Amounts due to subsidiaries	997,715	3,177,519	786,287	1,332,680	292	–	11	6,294,504
Subordinated liabilities	–	–	–	–	–	–	4,858,500	4,858,500
Other liabilities	–	585,822	242,315	365,151	40,203	–	93,879	1,327,370
Total liabilities	38,982,630	45,660,562	16,640,442	8,551,588	252,666	–	5,742,757	115,830,645
Net assets / (liabilities) gap	(32,713,736)	(31,362,873)	(6,176,749)	12,881,808	41,452,393	24,561,906	2,179,677	10,822,426
of which:								
Certificates of deposit held								
– included in available-for-sale financial assets	–	–	–	776,475	545,835	–	–	1,322,310
Debt securities								
– included in trading assets	–	–	–	330,157	1,266,552	75,804	–	1,672,513
– included in financial assets designated at fair value through profit or loss	–	–	1,013,352	1,701,808	4,218,729	1,817,785	30,472	8,782,146
– included in available-for-sale financial assets	–	1,557,785	3,832,278	3,161,723	14,896,837	1,613,573	75,355	25,137,551

31. Share capital and reserves

(a) Share capital

	2011	2010
Authorised:		
450,000,000 (2010: 450,000,000) ordinary shares of HK$1.00 each	**450,000**	450,000
Issued and fully paid:		
At 1st January	**295,294**	295,044
Shares issued under Share Option Scheme	**90**	225
Shares issued under EIP	**50**	25
Shares issued in lieu of dividends	**3,378**	–
298,812,308 (2010: 295,294,130) ordinary shares of HK$1.00 each	**298,812**	295,294

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual net assets.

(i) Share Option Scheme

During the year, options were exercised to subscribe for ordinary shares of 90,000 (2010: 225,000) shares in the Bank at a consideration of HK$2,367,000 (2010: HK$7,083,000) of which HK$90,000 (2010: HK$225,000) is credited to share capital and the balance of HK$2,277,000 (2010: HK$6,858,000) is credited to the share premium account. At 31st December, 2011, the outstanding options are 595,000 shares (2010: 685,000 shares).

(ii) EIP

During the year, awards under the EIP were exercised to subscribe for ordinary shares of 49,500 (2010: 24,750) shares in the Bank at a consideration of HK$49,500 (2010: HK$24,750). At 31st December, 2011, the outstanding awards under the EIP are 2,225,750 shares (2010: 2,305,250 shares).

The details of the Share Option Scheme and the EIP are disclosed in note 38 to the financial statements.

31. Share capital and reserves *(continued)*

(b) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	The Bank 2011						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January	**508,540**	**1,801,949**	**703,952**	**141,572**	**769**	**7,370,350**	**10,527,132**
Shares premium under Share Option Scheme	**2,277**	**–**	**–**	**–**	**–**	**–**	**2,277**
Shares premium under EIP	**14,507**	**–**	**–**	**–**	**–**	**–**	**14,507**
Shares premium in lieu of dividends	**275,088**	**–**	**–**	**–**	**–**	**–**	**275,088**
Dividends approved in respect of the previous year (note 9(b))	**–**	**–**	**–**	**–**	**–**	**(318,918)**	**(318,918)**
Dividends declared in respect of the current year (note 9(a))	**–**	**–**	**–**	**–**	**–**	**(136,940)**	**(136,940)**
Transfer to / (from) reserve	**–**	**–**	**(3,867)**	**–**	**–**	**3,867**	**–**
	291,872	**–**	**(3,867)**	**–**	**–**	**(451,991)**	**(163,986)**
Other comprehensive income:							
– fair value changes on available-for-sale financial assets net of deferred tax	**–**	**–**	**–**	**54,820**	**–**	**–**	**54,820**
– fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax	**–**	**–**	**–**	**(21,926)**	**–**	**–**	**(21,926)**
– surplus on revaluation net of deferred tax	**–**	**–**	**220,038**	**–**	**–**	**–**	**220,038**
– profit attributable to shareholders of the Bank for the year	**–**	**–**	**–**	**–**	**–**	**1,187,596**	**1,187,596**
Total comprehensive income for the year, net of tax	**–**	**–**	**220,038**	**32,894**	**–**	**1,187,596**	**1,440,528**
At 31st December	**800,412**	**1,801,949**	**920,123**	**174,466**	**769**	**8,105,955**	**11,803,674**

31. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

	The Bank 2010						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January	486,788	1,802,374	531,561	177,577	769	6,235,099	9,234,168
Shares issued under Share Option Scheme	6,858	–	–	–	–	–	6,858
Shares premium under EIP	14,894	–	–	–	–	–	14,894
Dividends approved in respect of the previous year (note 9(b))	–	–	–	–	–	(147,522)	(147,522)
Dividends declared in respect of the current year (note 9(a))	–	–	–	–	–	(88,523)	(88,523)
Transfer from subsidiary	–	(425)	–	–	–	1,981	1,556
Transfer to / (from) reserve	–	–	(2,225)	–	–	2,225	–
	21,752	(425)	(2,225)	–	–	(231,839)	(212,737)
Other comprehensive income:							
– fair value changes on available-for-sale financial assets net of deferred tax	–	–	–	8,927	–	–	8,927
– fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax	–	–	–	(44,932)	–	–	(44,932)
– surplus on revaluation net of deferred tax	–	–	174,616	–	–	–	174,616
– profit attributable to shareholders of the Bank for the year	–	–	–	–	–	1,367,090	1,367,090
Total comprehensive income for the year, net of tax	–	–	174,616	(36,005)	–	1,367,090	1,505,701
At 31st December	508,540	1,801,949	703,952	141,572	769	7,370,350	10,527,132

The Group's unappropriated profits as at 31st December, 2011 included the accumulated gains of HK$100,945,000 (2010: HK$50,619,000) of the associated companies and a regulatory reserve of HK$1,365,639,000 (2010: HK$917,790,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

31. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by Banco Weng Hang, S.A. and Wing Hang Bank (China) Limited in accordance with the local banking regulations and are not available for distribution.

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the balance sheet date of Wing Hang Bank (China) Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from translation of the financial statements of overseas branches and subsidiaries (note 2(j)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and available-for-sale financial assets (notes 2(k) and (f)). Bank premises revaluation reserve and investment revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of section 79B of the Hong Kong Companies Ordinance amounted to HK$9,214,364,000 (2010: HK$8,718,393,000).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to shareholders.

32. Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

32. Contingent liabilities and commitments *(continued)*

(a) Contingent liabilities and commitments to extend credit *(continued)*

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2011	2010	**2011**	2010
Direct credit substitutes	**2,442,439**	1,771,333	**1,013,473**	1,591,471
Transaction-related contingencies	**252,056**	365,842	**251,224**	288,693
Trade-related contingencies	**878,652**	913,991	**694,946**	779,771
Other commitments:				
With an original maturity of not more than one year	**272,408**	748,591	**30,845**	28,535
With an original maturity over one year	**1,501,727**	2,020,408	**1,191,414**	1,569,661
Which are unconditionally cancellable	**31,844,293**	21,468,546	**24,965,283**	19,260,810
Total	**37,191,575**	27,288,711	**28,147,185**	23,518,941
Credit risk weighted amounts	**3,267,039**	2,988,058	**1,476,097**	2,253,338

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2011 not provided for in the financial statements are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Expenditure authorised and contracted for	**83,491**	69,612	**47,920**	60,313
Expenditure authorised but not contracted for	**10,485**	2,428	**–**	–
	93,976	72,040	**47,920**	60,313

(c) Lease commitments

At 31st December, 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Properties				
Within 1 year	**66,348**	70,909	**30,111**	38,240
After 1 year but within 5 years	**67,146**	84,648	**18,743**	27,452
After 5 years	**4,043**	8,575	**–**	–
	137,537	164,132	**48,854**	65,692
Others				
Within 1 year	**477**	1,413	**14**	14
After 1 year but within 5 years	**277**	713	**–**	–
	754	2,126	**14**	14

32. Contingent liabilities and commitments *(continued)*

(c) Lease commitments *(continued)*

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases includes contingent rentals.

33. Derivative financial instruments

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

The following table is a summary of the notional amounts of each significant type of derivatives.

	The Group			
	2011			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	**44,038,490**	**44,038,490**
Options purchased	–	–	**12,712,543**	**12,712,543**
Options written	–	–	**10,068,334**	**10,068,334**
Interest rate contracts				
Swaps	–	**8,790,363**	**13,701,273**	**22,491,636**
Equity contracts				
Options purchased	–	–	**130,045**	**130,045**
Options written	–	–	**105,948**	**105,948**
Credit derivative contracts				
Credit defaults swaps written				
– investment	–	–	**300,000**	**300,000**
	–	**8,790,363**	**81,056,633**	**89,846,996**

33. Derivative financial instruments *(continued)*

	The Group 2010 Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	26,024,519	26,024,519
Options purchased	–	–	2,780,985	2,780,985
Options written	–	–	955,651	955,651
Interest rate contracts				
Swaps	–	8,532,430	16,515,322	25,047,752
Equity contracts				
Options purchased	–	–	281,517	281,517
Options written	–	–	262,789	262,789
Credit derivative contracts				
Credit defaults swaps written				
– investment	–	–	300,000	300,000
	–	8,532,430	47,120,783	55,653,213

33. Derivative financial instruments *(continued)*

	The Bank 2011			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	**46,307,807**	**46,307,807**
Options purchased	–	–	**12,712,650**	**12,712,650**
Options written	–	–	**10,067,554**	**10,067,554**
Interest rate contracts				
Swaps	–	**8,790,363**	**14,709,273**	**23,499,636**
Equity contracts				
Options purchased	–	–	**130,045**	**130,045**
Options written	–	–	**105,948**	**105,948**
Credit derivative contracts				
Credit defaults swaps written				
– investment	–	–	**300,000**	**300,000**
	–	**8,790,363**	**84,333,277**	**93,123,640**

33. Derivative financial instruments *(continued)*

	The Bank 2010			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	26,984,864	26,984,864
Options purchased	–	–	2,781,023	2,781,023
Options written	–	–	955,651	955,651
Interest rate contracts				
Swaps	–	8,532,430	18,333,322	26,865,752
Equity contracts				
Options purchased	–	–	281,517	281,517
Options written	–	–	262,789	262,789
Credit derivative contracts				
Credit defaults swaps written				
– investment	–	–	300,000	300,000
	–	8,532,430	49,899,166	58,431,596

The trading transactions include the Group's and the Bank's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

33. Derivative financial instruments *(continued)*

(a) Use of derivative financial instruments

The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivatives entered into by the Group and the Bank:

	The Group			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**377,513**	**208,964**	271,982	86,222
Interest rate contracts	**757,948**	**864,117**	604,437	694,583
Equity contracts	**8,944**	**8,650**	4,502	4,198
Credit derivative contracts	**–**	**674**	–	3,650
Total (notes 16 and 27)	**1,144,405**	**1,082,405**	880,921	788,653

	The Bank			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**377,810**	**210,454**	271,948	86,032
Interest rate contracts	**772,561**	**865,348**	622,070	696,487
Equity contracts	**8,944**	**8,650**	4,502	4,198
Credit derivative contracts	**–**	**674**	–	3,650
Total (notes 16 and 27)	**1,159,315**	**1,085,126**	898,520	790,367

33. Derivative financial instruments *(continued)*

(b) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the balance sheet date.

	The Group **2011**			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	**63,024,374**	**3,794,993**	**–**	**66,819,367**
Interest rate contracts	**6,068,194**	**9,026,238**	**7,397,204**	**22,491,636**
Equity contracts	**235,993**	**–**	**–**	**235,993**
Credit derivative contracts	**300,000**	**–**	**–**	**300,000**
	69,628,561	**12,821,231**	**7,397,204**	**89,846,996**

	The Group 2010			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	28,714,645	1,046,510	–	29,761,155
Interest rate contracts	3,806,356	13,647,099	7,594,297	25,047,752
Equity contracts	544,306	–	–	544,306
Credit derivative contracts	–	300,000	–	300,000
	33,065,307	14,993,609	7,594,297	55,653,213

33. Derivative financial instruments *(continued)*

(b) Remaining life of derivative financial instruments *(continued)*

	The Bank			
	2011			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	**65,293,018**	**3,794,993**	**–**	**69,088,011**
Interest rate contracts	**6,868,194**	**9,184,238**	**7,447,204**	**23,499,636**
Equity contracts	**235,993**	**–**	**–**	**235,993**
Credit derivative contracts	**300,000**	**–**	**–**	**300,000**
	72,697,205	**12,979,231**	**7,447,204**	**93,123,640**

	The Bank			
	2010			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	29,675,028	1,046,510	–	30,721,538
Interest rate contracts	4,616,356	14,570,099	7,679,297	26,865,752
Equity contracts	544,306	–	–	544,306
Credit derivative contracts	–	300,000	–	300,000
	34,835,690	15,916,609	7,679,297	58,431,596

(c) The credit risk weighted amounts are as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Exchange rate contracts	**735,265**	259,346	**732,247**	260,019
Interest rate contracts	**390,124**	287,179	**379,981**	273,367
Equity contracts	**7,382**	7,018	**7,382**	7,018
Credit derivative contracts	**417**	418	**417**	418
	1,133,188	553,961	**1,120,027**	540,822

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

34. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

	The Group	
	2011	2010
Operating profit	**2,002,215**	1,752,874
Depreciation (note 5(f))	**182,393**	150,316
EIP – fair value of awards (note 5(f))	**14,507**	14,894
Interest expense on subordinated liabilities (note 5(b))	**354,779**	354,356
Change in fair value of subordinated liabilities designated at fair value through profit or loss (note 5(d))	**(169,518)**	310,340
Impairment losses charged on / (released from) available-for-sale financial assets	**18,463**	(13,637)
Profits tax paid	**(392,673)**	(288,102)
Change in treasury bills with original maturity of three months or above	**2,454,307**	2,002,192
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	**(7,197,077)**	903,345
Change in trade bills	**(1,793,168)**	(335,833)
Change in certificates of deposit held	**689,972**	264,171
Change in trading assets	**(311,955)**	(559,871)
Change in financial assets designated at fair value through profit or loss	**2,789,980**	860,226
Change in advances to customers and other accounts	**(13,161,159)**	(16,959,149)
Change in deposits and balances of banks, central banks and other financial institutions	**(90,454)**	156,641
Change in deposits from customers	**22,147,146**	9,424,514
Change in certificates of deposit issued	**2,425,053**	(70,198)
Change in trading liabilities	**293,752**	218,033
Change in other accounts and provision	**822,559**	117,968
Net cash inflow / (outflow) from operating activities	**11,079,122**	(1,696,920)

(b) Reconciliation of cash and cash equivalents with the consolidated balance sheet

	The Group	
	2011	2010
Cash and balances with banks, central banks and other financial institutions	**9,160,862**	8,421,048
Placements with banks, central banks and other financial institutions	**24,426,296**	7,276,310
Treasury bills	**11,931,714**	8,984,435
Amounts shown in the consolidated balance sheet	**45,518,872**	24,681,793
Less: Amounts with an original maturity of three months or above	**(13,160,805)**	(8,418,035)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	**(217,154)**	(441,745)
Cash and cash equivalents in the consolidated cash flow statement	**32,140,913**	15,822,013

35. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Mainland China segment

This comprises the business of Wing Hang Bank (China) Limited and the Bank's Shenzhen branch for which the main businesses are on corporate banking activities.

Macau segment

This comprises the business of Banco Weng Hang, S.A. for which the main business is on retail banking activities.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (include equipment of the Group and overseas bank premises) and financial assets with the exception of goodwill, interest in associated companies, deferred tax assets and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

"Others" in the reconciliation to the reported amount on the consolidated income statement and consolidated balance sheet mainly represent the management of shareholders' fund and equity shares.

35. Segment reporting *(continued)*

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	The Group 2011						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	**1,274,637**	**293,046**	**230,078**	**1,797,761**	**821,607**	**318,126**	**2,937,494**
Non-interest income	**463,242**	**73,535**	**194,602**	**731,379**	**13,297**	**159,206**	**903,882**
Reportable segment revenue	**1,737,879**	**366,581**	**424,680**	**2,529,140**	**834,904**	**477,332**	**3,841,376**
Operating expenses	**(847,356)**	**(129,446)**	**(60,474)**	**(1,037,276)**	**(357,282)**	**(216,565)**	**(1,611,123)**
Operating profit before impairment losses and allowances	**890,523**	**237,135**	**364,206**	**1,491,864**	**477,622**	**260,767**	**2,230,253**
Impairment losses and allowances (charged on) / released from loans and advances	**(7,570)**	**(6,087)**	**–**	**(13,657)**	**(20,644)**	**4,489**	**(29,812)**
Impairment losses and allowances charged on available-for-sale financial assets	**–**	**–**	**(18,463)**	**(18,463)**	**–**	**–**	**(18,463)**
Operating profit	**882,953**	**231,048**	**345,743**	**1,459,744**	**456,978**	**265,256**	**2,181,978**
Net gains / (losses) on revaluation of properties and disposal of tangible fixed assets	**(3,370)**	**(66)**	**–**	**(3,436)**	**7**	**6,974**	**3,545**
Net gains on disposal of available-for-sale financial assets	**–**	**–**	**44,793**	**44,793**	**–**	**415**	**45,208**
Reportable segment profit before tax	**879,583**	**230,982**	**390,536**	**1,501,101**	**456,985**	**272,645**	**2,230,731**
Depreciation	**24,416**	**1,596**	**3,361**	**29,373**	**51,835**	**15,717**	**96,925**
Reportable segment assets	**46,140,760**	**35,472,961**	**26,732,338**	**108,346,059**	**47,868,236**	**21,168,362**	**177,382,657**
Addition to non-current segment assets	**47,270**	**74,306**	**168**	**121,744**	**74,070**	**15,379**	**211,193**
Reportable segment liabilities	**114,681,799**	**1,337,846**	**1,041,409**	**117,061,054**	**44,205,296**	**19,372,790**	**180,639,140**

35. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	The Group 2010						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,311,854	232,397	348,137	1,892,388	484,942	319,862	2,697,192
Non-interest income / (expenses)	515,931	57,952	(153,373)	420,510	84,294	148,607	653,411
Reportable segment revenue	1,827,785	290,349	194,764	2,312,898	569,236	468,469	3,350,603
Operating expenses	(874,727)	(110,226)	(50,634)	(1,035,587)	(270,516)	(203,810)	(1,509,913)
Operating profit before impairment losses and allowances	953,058	180,123	144,130	1,277,311	298,720	264,659	1,840,690
Impairment losses and allowances released from loans and advances	18,614	18,203	–	36,817	12,376	1,971	51,164
Impairment losses and allowances released from available-for-sale financial assets	–	–	13,637	13,637	–	–	13,637
Operating profit	971,672	198,326	157,767	1,327,765	311,096	266,630	1,905,491
Net (losses) / gains on revaluation of properties and disposal of tangible fixed assets	(101)	(7)	–	(108)	(140)	151	(97)
Net gains on disposal of available-for-sale financial assets	–	–	47,061	47,061	–	275	47,336
Reportable segment profit before tax	971,571	198,319	204,828	1,374,718	310,956	267,056	1,952,730
Depreciation	24,799	1,656	510	26,965	33,045	15,483	75,493
Reportable segment assets	42,709,663	24,560,377	38,357,040	105,627,080	27,851,564	19,872,941	153,351,585
Addition to non-current segment assets	8,825	147	5,414	14,386	175,806	18,451	208,643
Reportable segment liabilities	105,801,726	1,086,920	1,616,784	108,505,430	24,701,714	18,317,062	151,524,206

35. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

	The Group	
	2011	2010
Revenue		
Reportable segment revenue	**3,841,376**	3,350,603
Other revenue	**104,940**	298,549
Elimination of inter-segment revenue	**(161,166)**	(350,990)
Consolidated operating income	**3,785,150**	3,298,162

	The Group	
	2011	2010
Profit before taxation		
Reportable segment profit before taxation	**2,230,731**	1,952,730
Share of net gains of associated companies	**50,326**	28,024
Other revenue and net income	**280,564**	191,720
Elimination of inter-segment profit	**(40,777)**	(224,854)
Consolidated profit before taxation	**2,520,844**	1,947,620

	The Group	
	2011	2010
Assets		
Reportable segment assets	**177,382,657**	153,351,585
Balance and placements with banks, central banks and other financial institutions	**15,395,035**	6,134,669
Investments in associated companies	**249,252**	210,878
Tangible fixed assets	**3,891,376**	2,764,469
Goodwill	**1,306,430**	1,306,430
Current tax recoverable	**7,880**	949
Deferred tax assets	**30,893**	13,246
Other assets	**5,919,729**	4,618,008
Elimination of inter-segment assets	**(16,934,461)**	(9,103,704)
Consolidated total assets	**187,248,791**	159,296,530

35. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	The Group	
	2011	2010
Liabilities		
Reportable segment liabilities	**180,639,140**	151,524,206
Current tax payable	**90,000**	115,188
Deferred tax liabilities	**426,869**	310,347
Other liabilities	**5,417,923**	749,216
Elimination of inter-segment liabilities	**(16,229,158)**	(7,700,159)
Consolidated total liabilities	**170,344,774**	144,998,798

(b) Other geographical information

	The Group **2011**				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	**5,536,893**	**497,991**	**378,868**	**11,623**	**6,425,375**
Contingent liabilities and commitments (note 32(a))	**26,756,676**	**10,103,060**	**1,748,882**	**(1,417,043)**	**37,191,575**

	The Group 2010				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	4,348,195	419,513	355,288	11,662	5,134,658
Contingent liabilities and commitments (note 32(a))	23,016,927	3,513,413	2,451,124	(1,692,753)	27,288,711

36. Material related party transactions

(a) Substantial shareholder

During the year, transactions with The Bank of New York Mellon Corporation ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year and on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

(i) Income and expense for the year

	The Group		The Bank	
	2011	2010	**2011**	2010
Interest income	**73**	45	**52**	30
Interest expense	**286**	86	**286**	86

(ii) Average on-balance sheet outstanding for the year

	The Group		The Bank	
	2011	2010	**2011**	2010
Cash and balances with banks, central banks and other financial institutions	**163,051**	122,822	**105,038**	82,512
Placement with banks, central banks and other financial institutions	**66,130**	13,590	**66,130**	13,590
Deposits and balances of banks, central banks and other financial institutions	**72,832**	66,262	**71,231**	65,251

(iii) On-balance sheet outstanding at the balance sheet date

	The Group		The Bank	
	2011	2010	**2011**	2010
Cash and balances with banks, central banks and other financial institutions	**171,379**	76,894	**62,376**	23,440
Deposits and balances of banks, central banks and other financial institutions	**46,958**	87,476	**46,958**	85,858

(iv) Off-balance sheet outstanding (contract amounts) at the balance sheet date

	The Group		The Bank	
	2011	2010	**2011**	2010
Other commitments	**32,000**	32,000	**32,000**	32,000

(v) Derivative financial instruments outstanding (notional amounts) at the balance sheet date

	The Group		The Bank	
	2011	2010	**2011**	2010
Exchange rate contracts	**2,252,852**	–	**2,252,852**	–
Interest rate contracts	**427,163**	194,340	**427,163**	194,340

36. Material related party transactions *(continued)*

(b) Subsidiaries

During the year, the Bank entered into the transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year, on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

(i) Income and expense for the year

	The Bank	
	2011	2010
Interest income	**188,355**	157,574
Interest expense	**77,475**	66,556
Other operating income	**127,512**	129,942
Operating expense	**58,059**	57,006

The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.

Other operating income represented income on providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.

Operating expenses represented rental services and share brokerage services fee paid to the Bank's subsidiaries by the Bank.

All income and expenses on these transactions are determined on an arm's length basis.

(ii) Average on-balance sheet outstanding for the year

	2011	2010
Amounts due from subsidiaries	**12,879,390**	13,180,441
Amounts due to subsidiaries	**6,421,916**	7,577,730

(iii) On-balance sheet outstanding at the balance sheet date

	2011	2010
Amounts due from subsidiaries	**12,048,179**	12,212,743
Amounts due to subsidiaries	**5,698,101**	6,294,504

No allowance for impairment losses has been made in respect of these balances as at 31st December, 2011 (2010: nil).

(iv) Off-balance sheet outstanding (contract amounts) at the balance sheet date

	2011	2010
Direct credit substitutes	**16,612**	37,266
Transaction-related contingencies	**200,000**	200,000
Trade-related contingencies	**913**	–
Other commitments	**2,238,402**	1,068,397

36. Material related party transactions *(continued)*

(b) Subsidiaries *(continued)*

(v) Derivative financial instruments outstanding (notional amounts) at the balance sheet date

	2011	2010
Exchange rate contracts	**2,505,114**	991,685
Interest rate contracts	**1,158,000**	1,968,000
Equity contracts	**2,076**	18,113

(c) Associated companies

The Group provided secured loans to two of its associated companies totalling HK$131,355,000 in 2007 to finance their purchase of the Group's bank premises during the year 2007. These loans bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. At the balance sheet date, the outstanding amounts of the loans are HK$75,171,000 (2010: HK$87,074,000).

(d) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are as follows:

(i) Income and expense for the year

	The Group		The Bank	
	2011	2010	**2011**	2010
Interest income	**1,014**	2,625	**1,014**	2,625
Interest expense	**22,168**	15,251	**18,827**	13,761

(ii) Average on-balance sheet outstanding for the year

	2011	2010	**2011**	2010
Advances to customers	**91,714**	203,007	**91,714**	203,007
Deposits from customers	**1,701,975**	1,773,798	**1,530,568**	1,649,460

(iii) On-balance sheet outstanding at the balance sheet date

	2011	2010	**2011**	2010
Advances to customers	**66,225**	118,251	**66,225**	118,251
Deposits from customers	**1,697,806**	1,693,507	**1,495,089**	1,533,973

36. Material related party transactions *(continued)*

(d) Key management personnel *(continued)*

(iv) Emoluments for the year

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	The Group	
	2011	2010
Short-term employee benefits	**60,392**	48,647
Post-employment benefits	**2,894**	2,304
Equity compensation benefits	**8,562**	8,917
	71,848	59,868

(e) Loans to officers

Particulars of loans to officers disclosed pursuant to Section 161B(9) of the Hong Kong Companies Ordinance are as follows:

	The Group and the Bank	
	2011	2010
Aggregate amount of relevant loans outstanding at 31st December	**28,238**	114,182
The maximum aggregate amount of relevant loans outstanding during the year	**77,933**	205,850

(f) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2010: nil).

37. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee, and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALMCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chairman and Chief Executive.

37. Management of risks *(continued)*

(a) Credit risk management *(continued)*

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's credit policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The credit policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk have been laid down in the Group's Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

(i) Corporate credit risk

The corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. The large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The credit policies promote early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value but high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and the market practices.

(iii) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(iv) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees.

37. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(iv) Concentration of credit risk *(continued)*

(1) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Cash and balances with banks, central banks and other financial institutions	**9,160,862**	8,421,048	**3,008,638**	4,260,852
Placements with banks, central banks and other financial institutions	**24,426,296**	7,276,310	**13,016,932**	2,287,753
Trade bills	**2,339,751**	546,583	**4,289,943**	477,500
Trading assets	**3,079,836**	2,561,449	**3,094,410**	2,578,503
Financial assets designated at fair value through profit or loss	**4,820,918**	8,782,146	**4,820,918**	8,782,146
Advances to customers	**110,384,924**	97,050,018	**70,397,996**	61,793,067
Advances to banks	**462,407**	463,049	**–**	–
Loans to associated companies	**75,171**	87,074	**75,171**	87,074
Amounts due from subsidiaries	**–**	–	**12,048,179**	12,212,743
Available-for-sale financial assets	**24,405,751**	27,170,071	**20,389,432**	26,692,256
Financial guarantees and other credit related contingent liabilities	**3,573,147**	3,051,166	**1,959,643**	2,659,935
Loan commitments and other credit related commitments	**33,618,428**	24,237,545	**26,187,542**	20,859,006

37. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(iv) Concentration of credit risk *(continued)*

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted as our associated companies have good credit standing. At 31st December, 2011 and 2010, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Gross advances to customers				
– neither past due nor impaired	**109,420,080**	96,433,379	**70,040,948**	61,641,861
– past due but not impaired	**821,434**	519,920	**226,633**	63,470
– impaired (note 18(c))	**336,004**	300,936	**248,362**	196,139
	110,577,518	97,254,235	**70,515,943**	61,901,470
of which:				
Gross advances to customers				
– Grade 1: Pass	**109,695,133**	96,678,813	**69,898,791**	61,520,755
– Grade 2: Special mention	**546,381**	274,486	**368,790**	184,576

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Gross advances to customers that are past due but not impaired				
– past due 3 months or less	**634,732**	515,565	**112,939**	63,211
– 6 months or less but over 3 months	**182,249**	3,548	**113,580**	259
– 1 year or less but over 6 months	**4,339**	807	**–**	–
– over 1 year	**114**	–	**114**	–
	821,434	519,920	**226,633**	63,470

37. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(iv) Concentration of credit risk *(continued)*

(2) Credit quality of loans and advances (continued)

At 31st December, 2011, advances to customers that would be past due or impaired had the terms not been renegotiated amounted to HK$95,123,000 (2010: HK$68,779,000) and HK$85,227,000 (2010: HK$56,060,000) for the Group and the Bank respectively.

(3) Credit quality of financial assets other than advances to customers, banks and associated companies

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set. It is the Group's credit policy not to invest debt securities that are below the grading of BBB by Standard & Poor's Ratings Services or their equivalents unless it is approved by the Credit Committee.

At the balance sheet date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	The Group		The Bank	
	2011	2010	**2011**	2010
AAA	**13,066,992**	22,535,072	**13,023,641**	22,493,129
AA- to AA+	**11,588,493**	7,414,640	**7,749,442**	7,109,599
A- to A+	**3,557,210**	4,632,289	**3,506,867**	4,579,863
BBB to BBB+	**1,022,067**	993,808	**1,022,067**	993,808
Lower than BBB	**756,028**	663,272	**756,028**	663,272
	29,990,790	36,239,081	**26,058,045**	35,839,671
Unrated	**941,388**	1,098,502	**917,484**	1,074,849
	30,932,178	37,337,583	**26,975,529**	36,914,520

Included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" of the Group and the Bank as at 31st December, 2011 are debt securities with fair value of HK$25,824,000 (2010: HK$30,472,000) and HK$56,892,000 (2010: HK$75,355,000) respectively, which are overdue for over 1 year.

Included in "Other assets" of the Group and the Bank as at 31st December, 2011, there are no receivables which are overdue (2010: HK$97,100,000 which are overdue over 1 year).

37. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(iv) Concentration of credit risk *(continued)*

(4) Collateral and other credit enhancements

The Group holds collateral against advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group also holds commercial properties as collateral against loans to associated companies. Collateral held as security for financial assets or financial derivatives other than advances is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	**1,544,367**	802,931	**598,180**	143,647

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 15 to 19 and the geographical concentration of the Group's assets is disclosed in note 35(b).

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 39.9% in 2011, which is well above the statutory requirement of 25%.

Liquidity is managed day-to-day by the Treasurer under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests which include both an institution-specific crisis scenario and a general market crisis scenario, on its liquidity position to ensure adequate liquidity is maintained at all times.

37. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

The cash flows payable by the Group for the non-derivative financial liabilities including interest payable that will be settled by remaining contractual maturities at the balance sheet date are presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

	The Group 2011							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	256,888	552,036	–	–	–	–	–	808,924
Deposits from customers	46,690,637	55,402,774	33,180,461	20,546,656	2,704,123	–	–	158,524,651
Certificates of deposit issued	–	298,852	822,223	556,398	1,178,441	–	–	2,855,914
Interest payable on derivative financial instruments	–	45,898	66,984	231,435	1,138,952	240,331	–	1,723,600
Subordinated liabilities	–	–	81,813	177,867	922,568	188,988	4,854,125	6,225,361
Other liabilities	–	1,357,873	77,597	754,438	54,817	–	243,608	2,488,333
	46,947,525	57,657,433	34,229,078	22,266,794	5,998,901	429,319	5,097,733	172,626,783
Unrecognised loan commitments	23,734,767	143,053	320,480	8,478,765	941,363	–	–	33,618,428
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	13,425,794	16,963,556	12,419,030	1,253,762	–	–	44,062,142
– total outflow	–	13,389,205	16,826,185	12,335,878	1,246,955	–	–	43,798,223
Net inflow	–	36,589	137,371	83,152	6,807	–	–	263,919

37. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	The Group 2010							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	584,415	532,108	7,258	–	–	–	–	1,123,781
Deposits from customers	50,567,272	49,035,993	20,309,316	15,419,387	627,786	95	–	135,959,849
Certificates of deposit issued	–	858	145	182,590	154,392	–	–	337,985
Interest payable on derivative financial instruments	–	38,848	59,669	179,177	903,528	336,504	–	1,517,726
Subordinated liabilities	–	–	81,812	177,713	1,090,107	378,834	4,858,500	6,586,966
Other liabilities	–	1,008,626	186,543	497,992	63,029	–	105,162	1,861,352
	51,151,687	50,616,433	20,644,743	16,456,859	2,838,842	715,433	4,963,662	147,387,659
Unrecognised loan commitments	19,098,049	358,190	125,025	3,074,734	1,568,514	13,033	–	24,237,545
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	13,562,793	4,682,445	7,123,376	636,064	–	–	26,004,678
– total outflow	–	13,419,585	4,648,546	7,113,419	634,911	–	–	25,816,461
Net inflow	–	143,208	33,899	9,957	1,153	–	–	188,217

37. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	The Bank 2011							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	192,261	435,432	–	–	–	–	–	627,693
Deposits from customers	34,576,901	45,457,532	21,439,820	7,997,875	992,765	–	–	110,464,893
Certificates of deposit issued	–	298,852	822,223	556,398	1,178,441	–	–	2,855,914
Interest payable on derivative financial instruments	–	44,370	66,222	232,169	1,139,437	240,331	–	1,722,529
Subordinated liabilities	–	–	81,813	177,867	922,568	188,988	4,854,125	6,225,361
Other liabilities	–	730,404	58,452	400,365	38,483	–	207,485	1,435,189
	34,769,162	46,966,590	22,468,530	9,364,674	4,271,694	429,319	5,061,610	123,331,579
Unrecognised loan commitments	25,095,477	30,845	44,371	219,665	797,184	–	–	26,187,542
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	14,160,990	18,104,717	12,779,915	1,253,762	–	–	46,299,384
– total outflow	–	14,133,384	17,978,919	12,708,739	1,246,955	–	–	46,067,997
Net inflow	–	27,606	125,798	71,176	6,807	–	–	231,387

37. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	The Bank 2010							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	236,288	532,108	7,258	–	–	–	–	775,654
Deposits from customers	37,748,627	41,427,746	15,672,241	6,729,112	61,222	–	–	101,638,948
Certificates of deposit issued	–	858	145	182,590	154,392	–	–	337,985
Interest payable on derivative financial instruments	–	37,181	58,350	179,918	905,011	336,504	–	1,516,964
Subordinated liabilities	–	–	81,812	177,713	1,090,107	378,834	4,858,500	6,586,966
Other liabilities	–	507,497	110,942	280,790	40,203	–	93,879	1,033,311
	37,984,915	42,505,390	15,930,748	7,550,123	2,250,935	715,338	4,952,379	111,889,828
Unrecognised loan commitments	19,260,810	28,535	–	439,422	1,117,206	13,033	–	20,859,006
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	13,561,488	5,646,165	7,121,306	636,064	–	–	26,965,023
– total outflow	–	13,418,237	5,612,204	7,111,317	634,911	–	–	26,776,669
Net inflow	–	143,251	33,961	9,989	1,153	–	–	188,354

The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in note 30.

(c) Market risk management

Market risk is the risk arising from the movements in market prices of on- and off-balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit or loss or reserve of the Group.

The Group is exposed to market risk on position taken or financial instrument held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

The Board of Directors reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

The Group uses the Price Value of a Basis Point ("PVBP") measurement to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change of one basis point in interest rates. It also provides a quick tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

(i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by the ALMCO within limits approved by the Board, including interest rate gap limit, product limit and PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity set out below is for risk management reported to ALMCO only in simplified scenario. Actual changes in the Group's profit before tax resulting from the change in interest rates may differ from the result of the sensitivity analysis. The effect on interest-bearing financial instruments and interest rate swaps has been included in this calculation.

	2011 Increase / (decrease) in Group's profit before tax	2010 Increase / (decrease) in Group's profit before tax
Increase in 10 basis points	**13,647**	9,284
Decrease in 10 basis points	**(13,647)**	(9,284)

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

Notes to the Financial Statements

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The following tables indicate the expected next repricing dates for the assets and liabilities at the balance sheet date.

	The Group					
	2011					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	9,160,862	7,192,974	–	–	–	1,967,888
Placements with banks, central banks and other financial institutions	24,426,296	20,702,385	3,723,911	–	–	–
Trade bills	2,339,751	1,860,347	479,404	–	–	–
Trading assets	3,079,836	184,464	421,382	1,243,482	80,422	1,150,086
Financial assets designated at fair value through profit or loss	4,820,918	406,942	396,341	2,291,678	1,725,957	–
Advances to customers and other account	112,088,822	90,675,703	12,425,396	7,194,954	186,964	1,605,805
Advances to banks	462,407	155,431	306,976	–	–	–
Available-for-sale financial assets	24,405,751	17,762,784	2,341,170	2,738,806	1,338,750	224,241
Loans to associated companies	75,171	75,171	–	–	–	–
Other assets	6,388,977	–	–	–	–	6,388,977
Total assets	187,248,791	139,016,201	20,094,580	13,468,920	3,332,093	11,336,997
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	808,469	768,750	–	–	–	39,719
Deposits from customers	157,754,438	125,934,019	20,270,184	2,536,203	80	9,013,952
Certificates of deposit issued	2,756,649	1,830,000	–	926,649	–	–
Trading liabilities	1,082,405	–	–	–	–	1,082,405
Other liabilities	3,257,285	68,351	–	–	–	3,188,934
Subordinated liabilities	4,685,528	–	–	1,747,485	2,938,043	–
Total liabilities	170,344,774	128,601,120	20,270,184	5,210,337	2,938,123	13,325,010
Derivatives (in the banking book) net long / (short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	16,904,017	10,415,081	(175,604)	8,258,583	393,970	(1,988,013)

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	The Group 2010					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	8,421,048	7,198,124	–	–	–	1,222,924
Placements with banks, central banks and other financial institutions	7,276,310	7,150,814	125,496	–	–	–
Trade bills	546,583	527,203	19,380	–	–	–
Trading assets	2,561,449	–	330,158	1,266,552	75,803	888,936
Financial assets designated at fair value through profit or loss	8,782,146	1,097,366	1,730,919	4,136,076	1,817,785	–
Advances to customers and other account	98,927,021	81,567,751	8,517,912	6,748,948	216,183	1,876,227
Advances to banks	463,049	–	463,049	–	–	–
Available-for-sale financial assets	27,170,071	19,816,114	1,217,712	4,193,582	1,655,516	287,147
Loans to associated companies	87,074	87,074	–	–	–	–
Other assets	5,061,779	–	–	–	–	5,061,779
Total assets	159,296,530	117,444,446	12,404,626	16,345,158	3,765,287	9,337,013
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	1,123,514	996,991	–	–	–	126,523
Deposits from customers	135,607,292	110,699,086	15,297,033	555,040	240	9,055,893
Certificates of deposit issued	331,596	180,000	–	151,596	–	–
Trading liabilities	788,653	–	–	–	–	788,653
Other liabilities	2,289,243	55,435	–	–	–	2,233,808
Subordinated liabilities	4,858,500	–	–	1,749,060	3,109,440	–
Total liabilities	144,998,798	111,931,512	15,297,033	2,455,696	3,109,680	12,204,877
Derivatives (in the banking book) net long / (short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	14,297,732	5,512,934	(2,892,407)	13,889,462	655,607	(2,867,864)

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	The Bank 2011					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	3,008,638	2,094,065	–	–	–	914,573
Placements with banks, central banks and other financial institutions	13,016,932	10,927,147	2,089,785	–	–	–
Trade bills	4,289,943	1,455,747	2,834,196	–	–	–
Trading assets	3,094,410	184,465	421,382	1,243,482	80,422	1,164,659
Financial assets designated at fair value through profit or loss	4,820,918	406,942	396,341	2,291,678	1,725,957	–
Advances to customers and other accounts	71,648,040	58,163,951	6,329,973	5,882,629	54,550	1,216,937
Available-for-sale financial assets	20,389,432	16,627,374	436,339	1,865,750	1,295,398	164,571
Amounts due from subsidiaries	12,048,179	11,239,215	720,000	65,000	–	23,964
Loans to associated companies	75,171	75,171	–	–	–	–
Other assets	6,511,062	–	–	–	–	6,511,062
Total assets	138,902,725	101,174,077	13,228,016	11,348,539	3,156,327	9,995,766
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	627,260	587,577	–	–	–	39,683
Deposits from customers	110,127,528	93,537,362	7,923,935	864,234	–	7,801,997
Certificates of deposit issued	2,756,649	1,830,000	–	926,649	–	–
Trading liabilities	1,085,126	–	–	–	–	1,085,126
Amounts due to subsidiaries	5,698,101	4,583,823	410,126	–	–	704,152
Other liabilities	1,820,047	68,351	–	–	–	1,751,696
Subordinated liabilities	4,685,528	–	–	1,747,485	2,938,043	–
Total liabilities	126,800,239	100,607,113	8,334,061	3,538,368	2,938,043	11,382,654
Derivatives (in the banking book) net long / (short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	12,102,486	566,964	4,893,955	7,810,171	218,284	(1,386,888)

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	The Bank 2010					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	4,260,852	3,620,358	–	–	–	640,494
Placements with banks, central banks and other financial institutions	2,287,753	2,232,768	54,985	–	–	–
Trade bills	477,500	459,053	18,447	–	–	–
Trading assets	2,578,503	–	330,158	1,266,552	75,803	905,990
Financial assets designated at fair value through profit or loss	8,782,146	1,097,366	1,730,919	4,136,076	1,817,785	–
Advances to customers and other accounts	63,064,344	52,242,299	5,195,136	4,288,494	67,363	1,271,052
Available-for-sale financial assets	26,692,256	19,522,924	1,205,861	4,117,503	1,613,573	232,395
Amounts due from subsidiaries	12,212,743	10,071,564	1,730,000	375,000	–	36,179
Loans to associated companies	87,074	87,074	–	–	–	–
Other assets	6,209,900	–	–	–	–	6,209,900
Total assets	126,653,071	89,333,406	10,265,506	14,183,625	3,574,524	9,296,010
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	775,387	648,864	–	–	–	126,523
Deposits from customers	101,452,921	87,040,431	6,679,515	26,496	–	7,706,479
Certificates of deposit issued	331,596	180,000	–	151,596	–	–
Trading liabilities	790,367	–	–	–	–	790,367
Amounts due to subsidiaries	6,294,504	4,474,721	1,332,369	–	–	487,414
Other liabilities	1,327,370	55,435	–	–	–	1,271,935
Subordinated liabilities	4,858,500	–	–	1,749,060	3,109,440	–
Total liabilities	115,830,645	92,399,451	8,011,884	1,927,152	3,109,440	10,382,718
Derivatives (in the banking book) net long / (short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	10,822,426	(3,066,045)	2,253,622	12,256,473	465,084	(1,086,708)

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The following table indicates the effective interest rates for the last month of the year:

	The Group		The Bank	
	2011	2010	**2011**	2010
	%	%	%	%
Placement with banks, central banks and other financial institutions	**2.53**	1.82	**1.04**	1.23
Advances to customers and trade bills	**3.26**	3.00	**2.60**	2.37
Debt securities	**2.84**	2.74	**2.84**	2.76
	3.04	2.81	**2.42**	2.41
Deposits and balances of banks, central banks and other financial institutions	**0.48**	0.27	**1.45**	0.92
Deposits from customers	**1.55**	0.92	**1.24**	0.85
Certificates of deposit issued	**1.35**	1.23	**1.35**	1.23
Subordinated liabilities	**7.34**	7.41	**7.34**	7.41
	1.72	1.15	**1.50**	1.16

(ii) Currency risk

The Group's foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

– investments in overseas subsidiaries and related companies; and

– subordinated liabilities.

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

	The Group					
	2011			2010		
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Total	US$	Chinese Renminbi	Total
Spot assets	**44,838**	**43,365**	**98,496**	36,208	21,729	72,066
Spot liabilities	**(28,449)**	**(43,159)**	**(92,417)**	(28,466)	(21,653)	(70,228)
Forward purchases	**14,280**	**9,008**	**35,306**	9,482	2,621	20,920
Forward sales	**(29,188)**	**(7,539)**	**(38,225)**	(16,104)	(2,417)	(21,372)
Net option positions	**(1,582)**	**(1,596)**	**(3,177)**	(959)	(207)	(1,151)
Net long positions	**(101)**	**79**	**(17)**	161	73	235

	The Group			
	2011			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	**583**	**1,975**	**271**	**2,829**

	The Group			
	2010			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	382	1,229	269	1,880

	The Bank					
	2011			2010		
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Total	US$	Chinese Renminbi	Total
Spot assets	**42,053**	**5,960**	**58,301**	34,133	3,795	52,045
Spot liabilities	**(26,988)**	**(5,754)**	**(53,549)**	(26,420)	(3,714)	(50,221)
Forward purchases	**15,582**	**9,008**	**36,605**	9,482	2,621	20,909
Forward sales	**(29,188)**	**(7,539)**	**(38,224)**	(16,104)	(2,417)	(21,372)
Net option positions	**(1,582)**	**(1,596)**	**(3,177)**	(959)	(207)	(1,151)
Net long positions	**(123)**	**79**	**(44)**	132	78	210

37. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

	The Bank **2011**			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	**583**	**1,975**	**271**	**2,829**

	The Bank 2010			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	382	1,229	269	1,880

(iii) Equity risk

The Group's equities exposures in 2011 and 2010 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 19. Equities held for trading purpose are included under "Trading assets" set out in note 16. These are subject to trading limits and risk management control procedures and other market risk regime.

(d) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain absolute compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. This division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

(e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

37. Management of risks *(continued)*

(e) Capital management *(continued)*

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by oversea regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the year ended 31st December, 2011 and 2010 and are well above the minimum required ratio set by the HKMA.

The capital adequacy ratios as at 31st December, 2011 are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

38. Staff benefits

(a) Retirement schemes

	The Group	
	2011	2010
Retirement benefit costs (note 5(f))	**63,899**	61,221

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the income statement as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

(b) Equity compensation benefits

(i) Share Option Scheme

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executive, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

38. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(i) Share Option Scheme *(continued)*

(1) Movements in share options

	2011		2010	
	Weighted average exercise price HK$	Number of shares	Weighted average exercise price HK$	Number of shares
Outstanding at 1st January	**41.02**	**685,000**	38.66	910,000
Exercised	**26.30**	**(90,000)**	31.48	(225,000)
Outstanding and exercisable at 31st December	**43.24**	**595,000**	41.02	685,000

No share options were granted during 2011 and 2010.

(2) Terms and conditions of unexpired and unexercised share options at balance sheet date

Date of options granted	Exercise price HK$	**2011** Number of shares	2010 Number of shares
15/03/2002	26.30	**–**	90,000
14/01/2003	25.80	**40,000**	40,000
14/03/2003	26.50	**70,000**	70,000
21/05/2004	43.80	**265,000**	265,000
14/01/2005	51.25	**180,000**	180,000
28/01/2005	50.25	**40,000**	40,000
		595,000	685,000

The options granted under the Share Option Scheme will be exercisable between the first and the tenth anniversaries of the date of grant, and settled by physical delivery of shares.

The options outstanding at 31st December, 2011 have a weighted average remaining contractual life of 2.40 years (2010: 3.11 years).

38. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(i) Share Option Scheme *(continued)*

(3) Details of share options exercised during the year

Exercise date	Exercise price HK$	Weighted average closing price per share at preceding day before exercise date HK$	Proceeds received HK$	**2011** Number of shares	2010 Number of shares
01/09/2010	43.80	82.20	876,000	**–**	20,000
01/09/2010	50.25	82.20	502,500	**–**	10,000
02/11/2010	23.60	93.00	3,540,000	**–**	150,000
12/11/2010	50.25	98.55	1,005,000	**–**	20,000
20/12/2010	43.80	107.80	657,000	**–**	15,000
20/12/2010	50.25	107.80	502,500	**–**	10,000
01/12/2011	26.30	62.50	2,367,000	**90,000**	–
				90,000	225,000

The weighted average share price at the exercise date for share options exercised in 2011 was HK$64.75 (2010: HK$95.02).

(4) Fair value of share options and assumptions

The fair value per option at the dates of grant was measured based on the Binominal pricing model. The Binominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair values of the options were measured at the grant date and are charged to the income statement and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

(ii) EIP

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The EIP was approved on 30th April, 2009 for the purposes of renewing the employee incentive plan which was approved on 22nd April, 2004 and has expired in April 2009. Under the EIP, the directors may during the first five years after the EIP was approved granted awards to certain executives to acquire ordinary shares in the Bank. The number of shares that may be issued under EIP may not exceed one million shares.

38. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(ii) EIP *(continued)*

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1.00 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	Percentage of Award vesting
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

Movement in EIP during the year is as follow:

	2011 Number of awards	2010 Number of awards
Outstanding at 1st January	**2,305,250**	2,330,000
Exercised	**(49,500)**	(24,750)
Lapsed	**(30,000)**	–
Outstanding and exercisable at 31st December	**2,225,750**	2,305,250

At 31st December, 2011, the Directors and employees of the Bank have the following interest in awards to purchase the ordinary shares in the Bank:

Date of awards granted	Exercise price HK$	**2011** Fair value of awards at date of grant	Number of shares	2010 Fair value of awards at date of grant	Number of shares
21/05/2004	1.00	**18,008,100**	**420,750**	20,126,700	470,250
23/01/2006	1.00	**87,672,000**	**1,560,000**	87,672,000	1,560,000
29/01/2007	1.00	**13,244,000**	**140,000**	13,244,000	140,000
05/11/2009	1.00	**7,822,500**	**105,000**	10,057,500	135,000
		126,746,600	**2,225,750**	131,100,200	2,305,250

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. There are no awards granted during the year (2010: nil).

39. Fair values of financial instruments

(a) Financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value, and financial instruments classified as available-for-sale.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

(i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

(ii) Level 2: Valuation technique based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

(iii) Level 3: Valuation technique using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on "no-arbitrage" principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. "Not observable" does not mean there is absolutely no market data available but there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. The availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models, as inputs to a fair value measurement. These models usually are developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

The table below analyses financial instruments measured at fair value at the balance sheet date according to the level in the fair value hierarchy into which they are categorised:

	The Group 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	**750,402**	**86,686**	**–**	**837,088**
– Certificates of deposit held	**–**	**90,606**	**–**	**90,606**
– Other debt securities	**344,436**	**657,620**	**–**	**1,002,056**
– Equity securities	**5,681**	**–**	**–**	**5,681**
– Positive fair values of derivative financial instruments held for trading	**–**	**1,144,396**	**–**	**1,144,396**
	1,100,519	**1,979,308**	**–**	**3,079,827**
Financial assets designated at fair value through profit or loss				
– Treasury bills	**39,610**	**–**	**–**	**39,610**
– Other debt securities	**4,205,950**	**531,990**	**43,368**	**4,781,308**
	4,245,560	**531,990**	**43,368**	**4,820,918**
Available-for-sale financial assets				
– Treasury bills	**10,246,954**	**808,062**	**–**	**11,055,016**
– Certificates of deposit held	**541,732**	**–**	**–**	**541,732**
– Other debt securities	**4,604,934**	**7,979,828**	**–**	**12,584,762**
– Equity securities	**47,722**	**13,000**	**94,754**	**155,476**
	15,441,342	**8,800,890**	**94,754**	**24,336,986**
	20,787,421	**11,312,188**	**138,122**	**32,237,731**
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	**–**	**151,649**	**–**	**151,649**
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	**–**	**1,082,405**	**–**	**1,082,405**
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	**–**	**2,938,043**	**–**	**2,938,043**
	–	**4,172,097**	**–**	**4,172,097**

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	721,262	–	–	721,262
– Other debt securities	278,972	672,279	–	951,251
– Equity securities	8,015	–	–	8,015
– Positive fair values of derivative financial instruments held for trading	–	880,921	–	880,921
	1,008,249	1,553,200	–	2,561,449
Financial assets designated at fair value through profit or loss				
– Treasury bills	1,210,858	–	–	1,210,858
– Other debt securities	6,691,256	801,159	78,873	7,571,288
	7,902,114	801,159	78,873	8,782,146
Available-for-sale financial assets				
– Treasury bills	6,759,126	293,189	–	7,052,315
– Certificates of deposit held	–	1,322,310	–	1,322,310
– Other debt securities	7,876,471	10,631,828	–	18,508,299
– Equity securities	86,728	38,201	93,451	218,380
	14,722,325	12,285,528	93,451	27,101,304
	23,632,688	14,639,887	172,324	38,444,899
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	–	151,596	–	151,596
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	788,653	–	788,653
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,109,440	–	3,109,440
	–	4,049,689	–	4,049,689

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

During the year, there was HK$545,835,000 of Certificate of Deposits transferred from Level 2 to Level 1 of the fair value hierarchy as quoted market price had been readily available since April 2011. In addition, there was HK$30,330,000 of Available-For-Sale equity financial securities transferred from Level 2 to Level 1 of the fair value hierarchy as the quoted market price had been used since March 2011.

	The Bank			
	2011			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	**750,402**	**86,686**	**–**	**837,088**
– Certificates of deposit held	**–**	**90,606**	**–**	**90,606**
– Other debt securities	**344,436**	**657,620**	**–**	**1,002,056**
– Equity securities	**5,345**	**–**	**–**	**5,345**
– Positive fair values of derivative financial instruments held for trading	**–**	**1,159,315**	**–**	**1,159,315**
	1,100,183	**1,994,227**	**–**	**3,094,410**
Financial assets designated at fair value through profit or loss				
– Treasury bills	**39,610**	**–**	**–**	**39,610**
– Other debt securities	**4,205,950**	**531,990**	**43,368**	**4,781,308**
	4,245,560	**531,990**	**43,368**	**4,820,918**
Available-for-sale financial assets				
– Treasury bills	**7,215,965**	**–**	**–**	**7,215,965**
– Certificates of deposit held	**541,732**	**–**	**–**	**541,732**
– Other debt securities	**4,487,336**	**7,979,828**	**–**	**12,467,164**
– Equity securities	**36,554**	**9,732**	**82,806**	**129,092**
	12,281,587	**7,989,560**	**82,806**	**20,353,953**
	17,627,330	**10,515,777**	**126,174**	**28,269,281**
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	**–**	**151,649**	**–**	**151,649**
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	**–**	**1,085,126**	**–**	**1,085,126**
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	**–**	**2,938,043**	**–**	**2,938,043**
	–	**4,174,818**	**–**	**4,174,818**

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2010 Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	721,262	–	–	721,262
– Other debt securities	278,972	672,279	–	951,251
– Equity securities	7,470	–	–	7,470
– Positive fair values of derivative financial instruments held for trading	–	898,520	–	898,520
	1,007,704	1,570,799	–	2,578,503
Financial assets designated at fair value through profit or loss				
– Treasury bills	1,210,858	–	–	1,210,858
– Other debt securities	6,691,256	801,159	78,873	7,571,288
	7,902,114	801,159	78,873	8,782,146
Available-for-sale financial assets				
– Treasury bills	6,747,275	–	–	6,747,275
– Certificates of deposit held	–	1,322,310	–	1,322,310
– Other debt securities	7,809,278	10,580,998	–	18,390,276
– Equity securities	86,728	28,684	81,503	196,915
	14,643,281	11,931,992	81,503	26,656,776
	23,553,099	14,303,950	160,376	38,017,425
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	–	151,596	–	151,596
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	790,367	–	790,367
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,109,440	–	3,109,440
	–	4,051,403	–	4,051,403

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

During the year, there was HK$545,835,000 of Certificate of Deposits transferred from Level 2 to Level 1 of the fair value hierarchy as quoted market price had been readily available since April 2011. In addition, there was HK$22,776,000 of Available-For-Sale equity financial securities transferred from Level 2 to Level 1 of the fair value hierarchy as the quoted market price had been used since March 2011.

The following table shows a reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

	The Group			
	2011			
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets				
At 1st January	**78,873**	–	**93,451**	**172,324**
Settlements	–	–	–	–
Transfers into Level 3	–	–	–	–
Changes in fair value recognised in the income statement:				
– Net losses from financial instruments designated at fair value through profit or loss	**(35,505)**	–	–	**(35,505)**
Changes in fair value recognised in the other comprehensive income	–	–	**1,303**	**1,303**
At 31st December	**43,368**	–	**94,754**	**138,122**
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	–	–	**1,303**	**1,303**
Total gains or losses for the year included in the income statement for assets held at the balance sheet date				
– Net losses from financial instruments designated at fair value through profit or loss	**(35,408)**	–	–	**(35,408)**

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group 2010			
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets				
At 1st January	775,447	22,858	74,833	873,138
Settlements	(753,094)	(23,296)	–	(776,390)
Transfers into Level 3	–	–	9,320	9,320
Changes in fair value recognised in the income statement:				
– Net income from financial instruments designated at fair value through profit or loss	56,520	–	–	56,520
Changes in fair value recognised in the other comprehensive income	–	438	9,298	9,736
At 31st December	78,873	–	93,451	172,324
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	–	–	9,298	9,298
Total gains or losses for the year included in the income statement for assets held at the balance sheet date				
– Net income from financial instruments designated at fair value through profit or loss	14,901	–	–	14,901

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2011		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	**78,873**	**81,503**	**160,376**
Settlements	**–**	**–**	**–**
Transfers into Level 3	**–**	**–**	**–**
Changes in fair value recognised in the income statement:			
– Net losses from financial instruments designated at fair value through profit or loss	**(35,505)**	**–**	**(35,505)**
Changes in fair value recognised in the other comprehensive income	**–**	**1,303**	**1,303**
At 31st December	**43,368**	**82,806**	**126,174**
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	**–**	**1,303**	**1,303**
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net losses from financial instruments designated at fair value through profit or loss	**(35,408)**	**–**	**(35,408)**

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2010		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	775,447	74,833	850,280
Settlements	(753,094)	–	(753,094)
Transfers into Level 3	–	4,369	4,369
Changes in fair value recognised in the income statement:			
– Net income from financial instruments designated at fair value through profit or loss	56,520	–	56,520
Changes in fair value recognised in the other comprehensive income	–	2,301	2,301
At 31st December	78,873	81,503	160,376
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	–	2,301	2,301
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net income from financial instruments designated at fair value through profit or loss	14,901	–	14,901

During the year, valuation report issued by an external valuer became available on an unquoted available-for-sale equity investment. Accordingly, such investment is stated at fair value as at 31st December, 2011.

Effect of changes in significant non-observable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions.

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group **2011**			
	Reflected in profit / (loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	**4,337**	**(4,337)**	**–**	**–**
Available-for-sale financial assets				
– Equity securities	**–**	**–**	**1,707**	**(1,707)**
	4,337	**(4,337)**	**1,707**	**(1,707)**

	The Group 2010			
	Reflected in profit / (loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	7,887	(7,887)	–	–
Available-for-sale financial assets				
– Equity securities	–	–	1,707	(1,707)
	7,887	(7,887)	1,707	(1,707)

	The Bank **2011**			
	Reflected in profit / (loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	**4,337**	**(4,337)**	**–**	**–**
Available-for-sale financial assets				
– Equity securities	**–**	**–**	**512**	**(512)**
	4,337	**(4,337)**	**512**	**(512)**

39. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2010			
	Reflected in profit / (loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	7,887	(7,887)	–	–
Available-for-sale financial assets				
– Equity securities	–	–	512	(512)
	7,887	(7,887)	512	(512)

(b) Fair values of financial instruments carried at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31st December, 2011 and 31st December, 2010 except as follows:

	The Group and the Bank			
	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Certificates of deposit issued at amortised cost	**2,605,000**	**2,615,125**	180,000	179,934
Subordinated liabilities valued at amortised cost	**1,747,485**	**1,851,425**	1,749,060	1,963,721

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

(i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

(ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iii) the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) the fair value of unquoted equity investments is estimated, if possible, using applicable price / earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

40. Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31st December, 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31st December, 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1st July, 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1st January, 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1st July, 2012
HKFRS 9, *Financial instruments*	1st January, 2013
HKFRS 10, *Consolidated financial statements*	1st January, 2013
HKFRS 11, *Joint arrangements*	1st January, 2013
HKFRS 12, *Disclosure of interests in other entities*	1st January, 2013
HKFRS 13, *Fair value measurement*	1st January, 2013
HKAS 27, *Separate financial statements (2011)*	1st January, 2013
HKAS 28, *Investments in associates and joint ventures*	1st January, 2013
Revised HKAS 19, *Employee benefits*	1st January, 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9, *Financial instruments*, which may have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments, and HKAS 12 *Income taxes – Deferred tax: Recovery of underlying assets*, which will be adopted in the 2012 financial statements and the Group will be required to make retrospective adjustments at that time to the amounts reported to the extent that the tax consequences that would apply on the sale of the properties at their carrying amount would differ from the amounts accrued for deferred tax under the current policy.

41. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 8th March, 2012.

Unaudited Supplementary Financial Information

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(a) Capital adequacy and liquidity ratios

(i) Capital adequacy ratio

	The Group	
	2011	2010
Capital adequacy ratio as at 31st December	**15.8%**	16.6%
Core capital adequacy ratio as at 31st December	**10.1%**	10.3%

As mentioned in note 37(e) of "Notes to the financial statements" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

In calculating the capital adequacy ratio of the Group, the following subsidiaries are excluded from the basis of consolidation for regulatory reporting purposes:

– CF Limited
– Chekiang First Bank (Nominees) Limited
– Chekiang First Bank (Trustees) Limited
– Chekiang First, Limited
– Chekiang First Securities Company Limited
– Honfirst Investment Limited
– Sunwadell Company Limited
– Technico Limited
– Wing Hang Bank (Nominees) Limited
– Wing Hang Bank (Trustee) Limited
– Wing Hang Insurance Agency Limited
– Wing Hang Insurance Brokers Limited
– Wing Hang Shares Brokerage Company Limited
– Wing Hang Zurich Insurance Company Limited

Unaudited Supplementary Financial Information

(a) Capital adequacy and liquidity ratios *(continued)*

(i) Capital adequacy ratio *(continued)*

	The Group	
	2011	2010
Components of capital base:		
Core capital		
Paid-up ordinary share capital	**298,812**	295,294
Share premium	**800,412**	508,540
Published reserves	**10,535,321**	9,360,675
Profit and loss account	**882,399**	1,173,620
Less: Goodwill	**(1,306,430)**	(1,306,430)
Total core capital before deductions	**11,210,514**	10,031,699
Less: deductions from core capital	**(328,134)**	(341,953)
Total core capital after deductions	**10,882,380**	9,689,746
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	**224,700**	224,700
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	**102,003**	79,003
Regulatory reserve for general banking risks	**1,365,639**	917,790
Collective impairment allowances	**138,332**	152,134
Perpetual subordinated debt	**4,832,938**	4,837,294
Total supplementary capital before deductions	**6,663,612**	6,210,921
Less: deductions from supplementary capital	**(328,134)**	(341,953)
Total supplementary capital after deductions	**6,335,478**	5,868,968
Eligible supplementary capital	**6,192,238**	5,868,968
Total capital base after deductions	**17,074,618**	15,558,714
Total deductions from the core capital and supplementary capital	**656,268**	683,906

(ii) Average liquidity ratio

	The Group	
	2011	2010
Average liquidity ratio for the year	**39.9%**	45.6%

The average liquidity ratio for the year includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the Hong Kong Monetary Authority ("HKMA"), and has been computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(b) Advances to customers analysed by geographical area

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	The Group				
	2011				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	**82,524,538**	**282,214**	**211,592**	**31,091**	**103,136**
Macau	**11,652,163**	**24,173**	**27,281**	**743**	**14,568**
Mainland China	**13,376,379**	**25,701**	**86,638**	**22,545**	**16,724**
Others	**3,024,438**	**3,916**	**3,651**	**–**	**3,787**
	110,577,518	**336,004**	**329,162**	**54,379**	**138,215**

	The Group				
	2010				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	72,447,889	212,732	142,838	50,431	113,230
Macau	11,059,456	74,139	26,669	1,293	17,283
Mainland China	10,189,890	14,065	12,551	487	15,930
Others	3,557,000	–	534	–	5,563
	97,254,235	300,936	182,592	52,211	152,006

Unaudited Supplementary Financial Information

(c) Further analysis of advances to customers by industry sectors

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	The Group **2011**					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances charged to / (released from) income statement during the year	Impairment allowances written off during the year
Property investment	**15,917,977**	**25,345**	**67**	**20,809**	**(255)**	**290**
Advances for the purchase of other residential properties	**16,970,967**	**6,224**	**2,457**	**23,109**	**(4,109)**	**–**
Advances for use outside Hong Kong						
– Mainland China	**23,144,823**	**214,475**	**28,163**	**25,159**	**32,018**	**26,309**
– Macau	**12,308,927**	**27,282**	**743**	**9,884**	**188**	**176**

	The Group 2010					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances charged to income statement during the year	Impairment allowances written off during the year
Property investment	14,332,053	29,402	3,282	20,710	138	211
Advances for the purchase of other residential properties	17,679,644	15,523	2,212	29,128	40	–
Advances for use outside Hong Kong						
– Mainland China	19,270,797	54,966	25,134	30,286	3,458	22,983
– Macau	12,729,250	26,584	1,293	11,982	822	305

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	The Group			
	2011		2010	
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:	Amount	% of total advances to customers	Amount	% of total advances to customers
– 6 months or less but over 3 months	**206,788**	**0.19**	27,072	0.03
– 1 year or less but over 6 months	**28,949**	**0.03**	10,562	0.01
– Over 1 year	**93,425**	**0.08**	144,958	0.15
	329,162	**0.30**	182,592	0.19
Covered portion of overdue advances	**276,712**		115,302	
Uncovered portion of overdue advances	**52,450**		67,290	
	329,162		182,592	
Current market values of collateral held against covered portion of overdue advances	**579,390**		348,649	
Individual impairment allowances made on overdue advances	**37,457**		39,129	

Collateral held with respect to overdue advances to customers are mainly properties and vehicles.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and / or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

(d) Overdue and rescheduled assets *(continued)*

(i) Overdue and rescheduled advances to customers *(continued)*

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	The Group			
	2011		2010	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	**17,993**	**0.02**	65,575	0.07

There were no advances to banks which were overdue or rescheduled as at 31st December, 2011 and 31st December, 2010.

(ii) Other overdue assets

	The Group	
	2011	2010
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	**172**	273
– 1 year or less but over 6 months	**398**	–
– Over 1 year	**292**	515
	862	788

	The Group	
	2011	2010
Debt securities which have been overdue with respect to either principal or interest for periods of over 1 year	**82,716**	105,827

Overdue debt securities were included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" as at 31st December, 2011.

Included in "Other assets" as at 31st December, 2011, there are no receivables which are overdue (2010: HK$97,100,000 which are overdue over 1 year).

(e) Non-bank Mainland China exposures

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

	The Group			
	2011			
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	**19,009**	**10,400**	**29,409**	**21**
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	**8,280**	**8**	**8,288**	**5**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**1,895**	**5**	**1,900**	**2**
	29,184	**10,413**	**39,597**	**28**

	The Group			
	2010			
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	13,838	3,858	17,696	–
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	7,058	68	7,126	24
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	1,418	–	1,418	1
	22,314	3,926	26,240	25

(f) Cross-border claims

The information concerning cross-border claims has been classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	The Group			
	2011			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	**15**	**–**	**8,014,433**	**8,014,448**
Mainland China	**15,458,995**	**–**	**6,624,964**	**22,083,959**
Australia	**5,667,823**	**–**	**37,863**	**5,705,686**
Other Asia Pacific	**1,894,728**	**201,172**	**1,472,889**	**3,568,789**
United States	**2,540,992**	**–**	**2,346,104**	**4,887,096**
Other North and South American countries	**418,407**	**628,743**	**1,314,699**	**2,361,849**
Middle East and Africa	**204,835**	**–**	**365,065**	**569,900**
Germany	**1,112,509**	**–**	**5,838**	**1,118,347**
United Kingdom	**1,861,557**	**–**	**22,845**	**1,884,402**
Other European countries	**1,109,546**	**–**	**82,950**	**1,192,496**
	30,269,407	**829,915**	**20,287,650**	**51,386,972**

	The Group			
	2010			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	79	–	6,894,366	6,894,445
Mainland China	4,448,251	–	4,816,445	9,264,696
Australia	6,490,955	–	36,218	6,527,173
Other Asia Pacific	1,173,926	1,248,392	2,107,316	4,529,634
United States	3,180,166	–	6,004,209	9,184,375
Other North and South American countries	564,120	360,092	1,671,112	2,595,324
Middle East and Africa	205,774	–	370,073	575,847
Germany	2,411,269	–	3,691	2,414,960
United Kingdom	2,574,153	–	24,051	2,598,204
Other European countries	2,210,461	1,350,747	154,976	3,716,184
	23,259,154	2,959,231	22,082,457	48,300,842

(g) Additional disclosures on credit risk management

(i) Capital requirement

In calculating the capital adequacy ratio of the Group for regulating reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach, except for Wing Hang Bank (China) Limited and Banco Weng Hang, S.A. which the capital requirements are calculated under the Basic Approach. The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements prescribed in the Banking (Capital) Rules:

– Fitch Ratings
– Moody's Investors Service, Inc.
– Standard & Poor's Ratings Services
– Rating and Investment Information, Inc.

The following capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

(1) The capital requirements on each class of exposure calculated under the Standardised (Credit Risk) Approach at the balance sheet date can be analysed as follow:

	2011	2010
Classes of exposure:		
– Sovereign	**641**	444
– Public sector entity	**63,281**	76,408
– Bank	**764,454**	390,147
– Securities firm	**3,537**	3,325
– Corporate	**2,440,260**	2,139,878
– Cash items	**30**	690
– Regulatory retail	**636,097**	611,989
– Residential mortgage loans	**965,559**	938,877
– Other exposures which are not past due	**391,976**	295,938
– Past due	**26,147**	34,528
Total capital requirements for on-balance sheet exposures	**5,291,982**	4,492,224
– Direct credit substitutes	**75,191**	75,531
– Transaction-related contingencies	**1,471**	3,003
– Trade-related contingencies	**11,625**	13,833
– Other commitments	**39,303**	54,182
– Exchange rate contracts	**50,583**	19,366
– Interest rate contracts	**30,399**	21,869
– Equity contracts	**261**	83
– Credit derivative contracts	**–**	–
Total capital requirements for off-balance sheet exposures	**208,833**	187,867
	5,500,815	4,680,091

(g) Additional disclosures on credit risk management *(continued)*

(i) Capital requirement *(continued)*

(2) The capital requirements on each class of exposure calculated under the Basic Approach at the balance sheet date can be analysed as follow:

	2011	2010
Classes of exposure:		
– Sovereign	**51,932**	16,047
– Public sector entity	**697**	675
– Bank	**230,676**	114,754
– Cash items	**7**	3
– Residential mortgage loans	**431,837**	414,555
– Other exposures	**1,499,296**	1,385,749
Total capital requirements for on-balance sheet exposures	**2,214,445**	1,931,783
– Direct credit substitutes	**134,864**	79,460
– Transaction-related contingencies	**6,906**	9,895
– Trade-related contingencies	**4,208**	3,887
– Other commitments	**15,375**	28,320
– Exchange rate contracts	**216**	17
– Interest rate contracts	**811**	1,105
Total capital requirements for off-balance sheet exposures	**162,380**	122,684
	2,376,825	2,054,467

(ii) Credit risk exposures

Credit ratings from above-mentioned ECAIs are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

(g) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures *(continued)*

An analysis of the credit risk calculated under Standardised (Credit Risk) Approach by class of exposures at the balance sheet date is as follows:

	2011							
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	8,781,680	18,948,030	–	8,012	–	8,012	–	–
– Public sector entity	1,459,369	1,292,130	2,662,908	258,426	532,581	791,007	–	375,262
– Multilateral development bank	135,417	357,901	–	–	–	–	–	–
– Bank	30,930,638	20,398,784	4,212,692	7,450,045	2,105,634	9,555,679	2,524,272	8,996,264
– Securities firm	710,604	–	88,419	–	44,209	44,209	622,185	–
– Corporate	38,640,232	4,315,911	27,748,377	2,754,869	27,748,377	30,503,246	731,310	6,787,409
– Cash items	928,021	–	928,021	–	383	383	–	–
– Regulatory retail	11,330,162	–	10,601,623	–	7,951,217	7,951,217	359,771	368,768
– Residential mortgage loans	29,624,526	–	26,613,945	–	12,069,485	12,069,485	143,120	2,867,461
– Other exposures which are not past due exposures	5,324,115	–	4,899,699	–	4,899,699	4,899,699	415,667	8,749
– Past due exposures	283,792	13,451	270,341	–	326,835	326,835	156,055	13,565
	128,148,556	45,326,207	78,026,025	10,471,352	55,678,420	66,149,772	4,952,380	19,417,478
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,566,518	253,320	1,186,402	130,767	1,164,105	1,294,872	126,796	175,225
– OTC derivative transactions	1,954,797	1,464,239	453,861	566,754	448,786	1,015,540	36,697	–
– Credit derivative contracts	300,000	–	300,000	–	300,000	300,000	–	–
	3,821,315	1,717,559	1,940,263	697,521	1,912,891	2,610,412	163,493	175,225
	131,969,871	47,043,766	79,966,288	11,168,873	57,591,311	68,760,184	5,115,873	19,592,703
Exposures deducted from capital base	656,268							

(g) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures *(continued)*

	2010							
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	8,037,888	23,732,255	–	5,549	–	5,549	–	–
– Public sector entity	3,848,435	1,915,294	2,860,209	383,058	572,042	955,100	–	2,230,237
– Multilateral development bank	695,232	695,232	–	–	–	–	–	–
– Bank	24,813,474	12,642,482	2,195,181	3,807,325	1,069,511	4,876,836	–	12,227,549
– Securities firm	863,163	–	83,120	–	41,560	41,560	780,043	–
– Corporate	32,037,388	4,156,882	24,071,402	2,677,071	24,071,402	26,748,473	777,686	3,559,445
– Cash items	592,248	–	592,248	–	8,631	8,631	–	–
– Regulatory retail	11,102,508	–	10,199,814	–	7,649,861	7,649,861	443,513	459,181
– Residential mortgage loans	28,846,157	–	25,691,132	–	11,735,958	11,735,958	–	3,155,025
– Other exposures which are not past due exposures	4,124,455	84,313	3,614,910	84,313	3,614,910	3,699,223	425,232	–
– Past due exposures	344,480	16,114	328,366	15,740	415,859	431,599	113,379	5,621
	115,305,428	43,242,572	69,636,382	6,973,056	49,179,734	56,152,790	2,539,853	21,637,058
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,828,534	276,020	1,418,898	141,654	1,390,215	1,531,869	133,616	179,437
– OTC derivative transactions	1,372,411	1,171,428	168,168	348,740	167,734	516,474	32,816	–
– Credit derivative contracts	300,000	300,000	–	300,000	–	300,000	–	–
	3,500,945	1,747,448	1,587,066	790,394	1,557,949	2,348,343	166,432	179,437
	118,806,373	44,990,020	71,223,448	7,763,450	50,737,683	58,501,133	2,706,285	21,816,495
Exposures deducted from capital base	683,906							

The above exposures are principal amount or credit equivalent amount, as applicable, net of individual impairment allowances.

(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach

In respect of the Group's counterparty credit risk which arises from over-the-counter ("OTC") derivative transactions, repo-style transactions and credit derivative contracts (other than recognised credit derivative contracts), all credit limits are established in advance of transacting the business and credit and settlement risk must be correctly captured, monitored and reported in accordance with the Group risk methodologies. Credit exposures are measured in book or market value terms depending on the product involved. These methods of calculating credit exposure apply to all counterparties or reference entities in transaction.

The policy for secured collateral on derivatives is guided by the Group's Loaning Manual ensuring the due-diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

(1) Analysis of the major classes of its exposures by counterparty type

	2011		2010	
	OTC derivative transactions	Credit derivative contracts	OTC derivative transactions	Credit derivative contracts
Notional amounts:				
– Banks	**52,524,119**	**–**	42,442,807	–
– Corporates	**22,757,091**	**300,000**	9,565,860	300,000
– Others	**2,660,542**	**–**	862,962	–
	77,941,752	**300,000**	52,871,629	300,000
Credit equivalent amounts or net credit exposures net of recognised collateral:				
– Banks	**1,463,740**	**–**	1,169,854	–
– Corporates	**419,932**	**300,000**	168,301	300,000
– Others	**34,428**	**–**	1,441	–
	1,918,100	**300,000**	1,339,596	300,000
Risk-weighted amounts:				
– Banks	**566,503**	**–**	347,856	–
– Corporates	**419,682**	**300,000**	167,353	300,000
– Others	**29,355**	**–**	1,265	–
	1,015,540	**300,000**	516,474	300,000

There are no repo-style transactions as at 31st December, 2011 and 31st December, 2010.

(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty party credit risk exposures

	2011		2010	
	OTC derivative transactions	Credit derivative contracts	OTC derivative transactions	Credit derivative contracts
Non-repo style transactions:				
– gross total positive fair value which are not repo-style transactions	**1,131,641**	**–**	860,378	–
Recognised collateral held before any haircuts:				
– cash on deposit with the Bank	**335,145**	**–**	182,986	–
– debt securities	**–**	**–**	–	–
– equity securities	**26,349**	**–**	117,015	–
– others	**224,316**	**–**	78,220	–
	585,810	**–**	378,221	–
Credit equivalent amounts or net credit exposures net of recognised collateral held	**1,918,100**	**300,000**	1,339,596	300,000
Risk weighted amounts	**1,015,540**	**300,000**	516,474	300,000
Notional amount of recognised credit derivative contracts which provide credit protection	**–**	**–**	–	–

(3) Credit derivative contracts which create exposures to counterparty credit risk:

	2011 Nominal amounts	2010 Nominal amounts
Used for management of the Group's credit portfolio:		
– Credit default swaps		
Protection bought	**–**	–
Protection sold	**300,000**	300,000
	300,000	300,000

(g) Additional disclosures on credit risk management *(continued)*

(iv) Credit risk mitigation

The Group's policy provides that netting is only to be applied where it has the legal right to do so.

Under the Banking (Capital) Rules, recognised netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, only bilateral netting arrangements are included for capital adequacy credit risk mitigation calculation. While the use of multi-lateral netting arrangement is allowed for internal credit risk management, it is not a valid credit risk mitigation under the Banking (Capital) Rules.

It is the Group's policy that all corporate and institutional facilities be reviewed (and hence revalued) at least on an annual basis. Where facilities have been overdue for more than 90 days and are tangibly secured, the collateral must be revalued not less than every 3 months.

For residential mortgage loans that are more than 90 days past due, the mortgaged property must be revalued not less than every 3 months.

The main types of recognised collateral taken by the Group are those as stated in Section 80 of the Banking (Capital) Rules, including (but not limited to) cash on deposit, gold bullion, equities listed in a main index and / or a recognised exchange and various recognised debt securities.

As stated in Sections 98 and 99 of the Banking (Capital) Rules, certain guarantees and credit derivative contracts are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporate and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigants, it must have a credit rating of A – or better by Standard & Poor's Ratings Services, Fitch Ratings and Rating and Investment Information, Inc, or a credit rating of A3 or better by Moody's Investors Service.

There were immaterial credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees) used by the Group.

(v) Asset securitisation

The Group has no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2011 and 31st December, 2010.

(vi) Market risk capital charge

The capital charge for market risk calculated in accordance with the Standardised (Market Risk) Approach at the balance sheet date is as follow:

	2011	2010
Capital charge for market risk		
– Interest rate exposures (including options)	**134,784**	192,254
– Equity rate exposures (including options)	**3,387**	3,820
– Foreign exchange exposures (including gold and options)	**211,822**	135,784
	349,993	331,858

(g) Additional disclosures on credit risk management *(continued)*

(vii) Operational risk capital charge

The capital charge for operational risk calculated in accordance with the Basic Indicator Approach at the balance sheet date is as follow:

	2011	2010
Capital charge for operational risk	**481,047**	482,280

(viii) Equity exposures in banking's book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Available-for-sale financial assets". Available-for-sale securities are measured at fair value as described in notes 2(f)(ii) and (iii) of "Notes to the financial statements" on the financial statements. Included within this category are investments made by the Group for strategic purposes, which are subject to additional internal procedures and approvals to ensure that the investment is in accordance with the Group's strategy and to ensure compliance with all relevant regulatory and legal restrictions.

	2011	2010
Cumulative realised gains from sales and liquidations	**3,195**	–
Unrealised gains:		
– recognised in reserve but not through income statement	**58,706**	40,227
– deducted from the supplementary capital	**–**	–

(ix) Interest rate exposures in banking's book

Interest rate exposures are calculated under the Price Value of a Basis Point ("PVBP") methodology. For the information of the nature and measurement of the risk, please refer to note 37(c) of "Notes to the financial statements".

	2011		2010	
	HK dollars	US dollars	HK dollars	US dollars
Interest rate changes by 10 basis points				
– increase / (decrease) in earnings by increasing 10 basis points	**4,746**	**11,203**	7,417	(1,704)
– (decrease) / increase in earnings by decreasing 10 basis points	**(4,746)**	**(11,203)**	(7,417)	1,704

(h) Corporate Governance

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under Supervisory Policy Manual issued by the HKMA. The Group established a number of committees under the Board of Directors including the Executive Committee, Credit Committee, Management Committee, Asset and Liability Management Committee, Audit Committee, Director Nomination Committee and Remuneration Committee. The compositions and functions are explained in the "Corporate Governance Report".

List of Branches

HONG KONG

Main Branch	161 Queen's Road Central, Central
Aberdeen Branch	190 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	443-445 Hennessy Road, Causeway Bay
Central Branch	G/F, Henley Building, 5 Queen's Road Central, Central
Fortress Hill Branch	Shop B2A, 318-328 King's Road, Fortress Hill
Gloucester Road Branch	G/F, 60 Gloucester Road, Wan Chai
Gold & Silver Exchange Branch	1/F, 12-18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15-17 King Kwong Street, Happy Valley
Johnston Road Branch	131-133 Johnston Road, Wan Chai
North Point Branch	441-443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Stubbs Road Branch	G/F, AIA Building, 1 Stubbs Road, Wan Chai
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
	Shop P26, 1/F, Fu Shan Mansion, 25 Taikoo Shing Road
United Centre Branch	Shop 2008-9, 2/F, United Centre, 95 Queensway, Admiralty
Western Branch	139-141 Des Voeux Road West, Sai Ying Pun

Auto & Equipment Finance

Main Office	5/F., Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan

KOWLOON

Castle Peak Road Branch	Shop 2, 253-259 Castle Peak Road, Cheung Sha Wan
Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Cheung Sha Wan Road Branch	123 Cheung Sha Wan Road, Shamshuipo
Hoi Yuen Road Branch	Unit 2, 60 Hoi Yuen Road, Kwun Tong
Hunghom Branch	104 Ma Tau Wai Road, Hunghom
Kowloon Branch	298 Nathan Road, Jordan
Kowloon City Branch	37 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	22-24 Fu Yan Street, Kwun Tong
Mei Foo Branch	Shop N52, G/F, Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
Ngau Tau Kok Road Branch	347-349 Ngau Tau Kok Road, Kwun Tong
San Po Kong Branch	G/F, 66-70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Tai Kok Tsui Branch	51-67 Tung Chau Street, Tai Kok Tsui
Tokwawan Branch	237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui East Branch	Shop 17-18, G/F, Houston Centre, Tsimshatsui
Whampoa Estate Branch	8-10 Tak Man Street, Whampoa Estate, Hunghom
Yaumati Branch	507 Nathan Road, Yaumati

NEW TERRITORIES

Kwai Chung Branch	Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung
Sha Tsui Road Branch	345-347 Sha Tsui Road, Tsuen Wan
Shatin Plaza Branch	Shop 9, Level 1, Shatin Plaza, Shatin
Tai Po Branch	Shop F, 12-26 Tai Wing Lane, Tai Po
Tai Wai Branch	32-34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022-23, Level 1, Metro City Phase II, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shop G70-71, G/F, Tuen Mun Town Plaza, Phase 1, Tuen Mun
Yuen Long Branch	Shop 1-3, G/F, 40-54 Castle Peak Road, Yuen Long

Auto & Equipment Finance

Yuen Long Center	Rms 1003-4 & Rms 1103-4, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long

List of Branches

Wing Hang Credit Ltd.

Main Branch	5/F & 6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Central Branch	Unit 1202, 12/F, Wing On Centre, 111 Connaught Road Central, Central
Gloucester Road Branch	6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Wanchai Branch	Office A, 1/F, Hong Fu Building, 179-181 Hennessy Road, Wanchai
Causeway Bay Branch	2/F, 82 Percival Street, Causeway Bay
Fortress Hill Branch	Shop 101, 1/F, Fortress Tower, 250 King's Road, Fortress Hill
Tsimshatsui Branch	1/F, Tung Fai Building, 27 Cameron Road, Tsimshatsui
Mongkok Branch	Unit 1106, 11/F, Wai Fung Plaza, 664 Nathan Road, Mongkok
Prince Edward Branch	Unit 1115 & 1116, 11/F, Pioneer Centre, 750 Nathan Road, Mongkok
Hung Hom Branch	G/F, 96 Ma Tau Wai Road, Hung Hom
San Po Kong Branch	G/F, On Keung Building, 51 Hong Keung Street, San Po Kong
Kowloon Bay Branch	Unit 1512, 15/F, Telford House, 16 Wang Hoi Road, Kowloon Bay
Kwun Tong Branch	G/F, 71 Hong Ning Road, Kwun Tong
Cheung Sha Wan Branch	Unit 120, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
Tsuen Wan Nan Fung Branch	Unit 1521, 15/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan
Tsuen Wan Branch	Unit 2210, 22/F, City Landmark I, 68 Chung On Street, Tsuen Wan
Shatin Branch	Shop No. 13, Level 1, Shatin Lucky Plaza, 1-15 Wang Pok Street, Shatin
Tai Po Branch	G/F, 7 Kwong Fuk Road, Tai Po
Sheung Shui Branch	Units 1303A-1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui
Yuen Long Branch	Unit 804, 8/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long
Revolving Credit Centre	6/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central
Property Loans Centre	6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Special Product Department	Shop 3, G/F, Kiu Ying Building, 2D Finnie Street, Quarry Bay

CHINA

Head Office	8/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Branch	Unit M02 & 5/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Fumin Sub-branch	Unit B07-09, 25, 26, G/F & Unit 04, 13/F, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen
Shenzhen Longgang Sub-branch	Room 104-105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen
Shenzhen Chegongmiao Sub-branch	Unit 102-5, Main Building of Tianan Cyber Times, Chegongmiao, Futina District, Shenzhen
Shenzhen Nanshan Sub-branch	L1-06, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen
Guangzhou Branch	Room 2102-2105 & Room 2506-2509, Goldlion Digital Network Center, 138 Tiyu Road East, Tianhe District, Guangzhou
Guangzhou Talent Center Sub-branch	Unit 01, 1/F, Talent Center, 45-4 Tianhe Road, Yuexiu District, Guangzhou
Foshan Sub-branch	Unit 12-15, G/F, One City Mall, 268 Dongle Road, Daliang, Shunde District, Foshan
Shanghai Branch	23/F, 21st Century Center Building, 210 Century Avenue, Pudong New Area, Shanghai
Shanghai Hongqiao Sub-branch	G/F, 321 Xianxia Road, Changning District, Shanghai
Zhuhai Branch	Unit 2, G/F & Unit 1-2, 1/F, Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai
Beijing Branch	Units 2809-2818, 28F, Tower B, Gemdale Plaza, No.91, Jianguo Road, Chaoyang District, Beijing

MACAU

Head Office	241 Avenida de Almeida Ribeiro
Ho Lan Un Branch	3D Avenida do Conselheiro Ferreira de Almeida
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19-21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75-79 Rua Almirante Sergio
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
StarWorld Hotel Branch	Shop A, Level 2 of StarWorld Hotel, Avenida de Amizade
Flower City Branch	356-366, Rua de Evora, Edif. Lei Fung, Taipa

永亨銀行有限公司
WING HANG BANK, LIMITED

Registered Office: 161 Queen's Road Central, Hong Kong

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