



永亨銀行
WING HANG BANK

Stock Code : 302

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We grow together

Interim Report

2012

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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

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The Bank of New York Mellon

BNY Mellon Shareowner Services

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AFFILIATED WITH THE BANK OF NEW YORK MELLON CORPORATION

Group Results in Brief

	Six months ended 30th June, 2012	Six months ended 30th June, 2011 (restated)	Increase/ (decrease)	Six months ended 30th June, 2012
	HK\$ million	HK\$ million	%	US\$ million
Profit Attributable to Shareholders	1,026	1,196	(14)	132.3
Interim Dividend	138	137	1	17.8
	HK\$	HK\$	%	US\$
Basic Earnings per Share	3.43	4.05	(15)	0.44
Interim Dividends per Share	0.46	0.46	–	0.06
	%	%		
Cost to Income Ratio	45.0	45.2		
Return on Average Assets (annualised)	1.10	1.40		
Return on Average Shareholders' Funds (annualised)	11.7	16.1		
	30th June, 2012	31st December, 2011 (restated)	Increase/ (decrease)	30th June, 2012
	HK\$ million	HK\$ million	%	US\$ million
Shareholders' Funds	18,395	17,256	7	2,371.3
Total Deposits	162,060	161,320	–	20,891.3
Advances to Customers	109,547	110,578	(1)	14,121.8
Total Assets	188,666	187,249	1	24,321.1
	HK\$	HK\$	%	US\$
Net Asset Value per Share	61.19	57.75	6	7.89

US\$1.00=HK\$7.7573

Chairman's Statement

In the first half of 2012 the Group's profit attributable to shareholders was HK\$1,026.0 million. This represented a decrease of 14.2 percent compared to the same period last year but an increase of 7.7 percent compared to the second half of last year. If the gain from properties disposal had been excluded, the comparable figure for the first half of 2012 would have grown by 6.8 percent as our core operations continued to grow. The Board has recommended an interim dividend of HK\$0.46 per share, same as last year.

The local economy slowed substantially during the first half as the external environment turned weak. Real GDP grew at an annual rate of just 0.4 percent in the first quarter compared to 7.6 percent in the same period last year. The main factor leading to weaker growth was a contraction in merchandise exports and imports.

Retail sales growth also slowed to 11 percent in June compared to 28.8 percent in the previous period as spending by tourists from China leveled off. This is an important indication of the changing growth pattern of the local economy as it becomes more and more integrated with the Mainland. Its increasing reliance on re-exports from China and retail spending by Chinese tourists supports this trend.

On a positive note, Hong Kong's labor market remained stable due to continued demand in the retail sector and an increase in public spending. The unemployment rate stood at just 3.2 percent in June.

In China, economic growth slowed to 7.6 percent in the second quarter mainly as a result of weak external demand, especially from Europe and Japan. The economy has also been affected by the implementation of government policies aimed at cooling growth in the residential property sector.

Lending in Hong Kong has been affected by the weak growth of the local economy. Total loans and advances by the banking sector increased by just 4.7 percent for the six months ended June 2012 compared to 14.0 percent in the same period last year. Stiff competition in the mortgage market kept rates low in the first half of the year.

A significant drop in letter of credit financing led to a decrease in customer loans by 0.9 percent in the period under review. However, satisfactory growth in residential mortgages, property investment mortgages, auto and equipment financing as well as loan growth in Macau partially offset the decline. Loans for use in China decreased by 9.8 percent reflecting generally weaker demand.

Total deposits increased 0.5 percent while customer deposits decreased slightly by 0.6 percent.

Key financial ratios for the first half of 2012:

- Loan-to-deposit ratio as at 30th June, 2012: 67.6 percent
- Capital adequacy ratio as at 30th June, 2012: 15.8 percent
- Core capital adequacy ratio as at 30th June, 2012: 10.1 percent
- Average liquidity ratio: 37.1 percent
- Annualised return on average shareholders' funds: 11.7 percent

Key financial statistics for the first half of 2012:

- Operating profit before impairment losses and allowances increased 19.3 percent to HK\$1,132.5 million due to improved operating income.
- An increase in debt securities investments coupled with an increase in yield on interest bearing assets saw net interest income rise 6.6 percent to HK\$1,492.1 million. Net interest margin stood at 1.67 percent which was 4 basis points lower than the same period last year but 3 basis points higher than the second half of last year.
- Other operating income decreased 1.6 percent to HK\$417.3 million as a result of lower share brokerage commission and credit commission.
- Unrealised net gains on the fair value of our debt securities investments were HK\$150.7 million compared to net losses of HK\$90.1 million for the same period last year.
- Total expenses increased 18.3 percent to HK\$927.5 million as a result of higher staff costs and a write-back of provision for sale of structured products last year. If this write-back had been excluded, total expenses would have increased by 8.0 percent.
- The Group's cost-to-income ratio decreased from 45.2 percent to 45.0 percent.
- Impairment losses and loan allowances stood at HK\$46.4 million while non-performing loans were stable at 0.22 percent of the total loan book. This low level has been supported by our prudent monitoring systems coupled with rising asset values.
- Net gains on revaluation and disposal of properties decreased 72.5 percent due to the disposal of one of our branch premises last year.

The Group currently has 43 branches in Hong Kong, 12 branches in Macau and 14 branches/sub-branches in the Mainland. As at 30th June 2012, the Group employed a total of 3,354 staff.

RETAIL BANKING

Profit before taxation of the Retail Banking decreased 20.5 percent in the first half. This was largely a result of keen market competition and higher operating costs.

In spite of the fierce competition, we continued to gain market share by offering a wide range of products and quality services. For instance, we successfully launched a series of marketing programs that resulted in growth of residential mortgage loans by 9.6 percent.

Recognising the importance of electronic delivery channels, we launched the first ATM chip card in Hong Kong and installed the first chip-enabled ATM. This ushers in a new era for local ATM card services. We also plan to introduce electronic statements and an electronic advice service. Moreover, we plan to further enhance our internet banking and mobile banking platforms in the second half of the year.

Demonstrating our continued focus on customer services, our Aberdeen Branch was relocated to a more convenient location during the period. Meanwhile the newly established Phone Banking Department achieved satisfactory results conducting direct marketing programs for cash installment loans. Looking forward, we shall extend the scope of these programs to boost fee income.

CONSUMER FINANCE

Wing Hang Credit has made good use of its competitive strengths to serve the various financial needs of our customers. In the first half of 2012, we achieved solid growth despite intense market competition. Our loan programs and diversified product range have contributed to an increase of 7.1 percent while maintaining market leadership in the local consumer finance market.

Wing Hang Credit currently has 22 branches in Hong Kong and we plan to open one more branch by the end of this year. We will continue to focus on reinforcing our market leader position and promoting business over the long-term by proactively identifying new business opportunities, strengthening our product range and expanding our customer base.

AUTO AND EQUIPMENT LEASING

During the first half of the year we achieved 4.5 percent increase in our auto and equipment finance portfolio while minimising bad debts. By offering quality service and competitive pricing, we comfortably maintain our market leadership position. Nevertheless, the increasingly intensive competition has squeezed interest margins. In the equipment finance business, we have continuously expanded our loan portfolio in spite of the slowing economy in China.

CORPORATE BANKING

Profit before taxation of the Corporate Banking increased by 13.1 percent due to increase in non-interest income. However, trade financing declined by 20.3 percent compared to the end of last year due to the decline in letter of credit financing and sluggish demand in most of the developed countries. This decline was partially offset by the steady growth of bilateral corporate loans and SME financing.

In the second half of the year we will further participate in the SME Financing Guarantee Scheme and support the local SMEs during this difficult period.

TREASURY

Profit before taxation of the treasury operation increased by 219.2 percent boosted by both higher net interest and non-interest income. Net interest income grew by 7.5 percent, supported by our expanded portfolio in debt securities. Non-interest income was 861.8 percent higher representing unrealised gains in the fair value of our debt securities investments.

CHINA

In China, GDP grew by 7.6 percent in the second quarter compared with 8.1 percent in the first quarter. In line with the economic slowdown, new loan demand has also weakened. In response, the People's Bank of China ("PBoC") began cutting interest rates in June. In a further boost to provide liquidity to the market, the PBoC also cut banks' reserve requirements twice in the first half of the year.

The new policy to increase loan pricing discount and deposit pricing premium will affect net interest margins and therefore profitability. Nevertheless, we continued to grow our SME loan book and equipment finance portfolio with encouraging results.

Turning to our network expansion in China, the Huaqiang sub-branch in Shenzhen was opened in June. This brings our total network to 14 offices across China. Our second cross-location sub-branch, the Huizhou sub-branch, is scheduled to open in August.

The development of Wing Hang Bank (China) Ltd's internet banking platform has been smooth and a business application has been filed with the China Banking Regulatory Commission. The service is expected to be launched in the second half of the year.

MACAU

Economic growth in Macau has remained robust as a result of the continuous expansion of the gaming and tourism industries. GDP surged by 18.4 percent in real terms in the first quarter of this year. Reflecting this strong growth, Banco Weng Hang delivered a solid 6.4 percent increase in net profit to 141.6 million patacas.

Net interest income increased 6.7 percent despite a challenging environment. While fierce competition drove up interest costs, this was more than offset by loan growth and an improvement in yields. Non-interest income decreased by 18.5 percent as fee income from our share brokerage and wealth management services was impacted by a sluggish stock market. However, there was healthy growth in other areas such as insurance and credit cards.

The lending business remained robust as loans and trade financing increased 5.8 percent compared to the end of 2011. This was largely supported by an increase in the residential mortgage business as the property sector remained buoyant. Customer deposits increased 3.3 percent following a series of successful campaigns to promote a range of new products.

OUTLOOK

Economic growth in the second half of the year is likely to weaken as a result of the recession in Europe coupled with slower growth in the US and China.

The current economic structure of China is still highly dependent on external demand. Faced with a weaker outlook, we expect more policy actions to stimulate infrastructure development and domestic consumption. This should provide support to the economic growth of both China and Hong Kong in the second half of 2012. However, due to uncertainties created by the unfolding European debt crisis, we remain cautious about the global economic growth and financial environment.

With the continuing liberalization of China's current and capital accounts and the rapid development of offshore RMB businesses, we are well positioned to benefit from the progressive economic integration of China, Hong Kong and Macau. Therefore, we plan to further expand offshore RMB-related products and services in Hong Kong and Macau. We are committed to provide integrated cross border banking services in the region, so that our customers can easily capture the immense and unprecedented opportunities arising from cross border investment and business activities.

Once again, I wish to take this opportunity to thank all our customers, shareholders and colleagues for their support of 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, 9th August, 2012

Unaudited Consolidated Income Statement

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2012	Six months ended 30th June, 2011 (restated)
Interest income	4(a)	2,902,591	2,424,450
Interest expense	4(b)	(1,410,518)	(1,025,167)
Net interest income		1,492,073	1,399,283
Other operating income	4(c)	417,254	423,977
Net gains/(losses) from trading and financial instruments designated at fair value through profit or loss	4(d)	150,669	(90,107)
Non-interest income		567,923	333,870
Operating income		2,059,996	1,733,153
Operating expenses	4(f)	(927,514)	(784,178)
Operating profit before impairment losses and allowances		1,132,482	948,975
Impairment losses and allowances charged on loans and advances		(46,383)	(3,523)
Impairment losses and allowances released from/(charged on) available-for-sale financial assets	15	3,634	(9,235)
Operating profit		1,089,733	936,217
Net gains on revaluation of properties and disposal of tangible fixed assets	5(a)	104,745	381,296
Net gains on disposal of available-for-sale financial assets	5(b)	26,588	26,770
Share of net gains of associated companies		7,184	24,461
Profit before taxation		1,228,250	1,368,744
Taxation	6	(202,208)	(172,698)
Profit for the period		1,026,042	1,196,046
Attributable to:			
Equity shareholders of the Bank		1,026,042	1,196,199
Non-controlling interests		—	(153)
Profit for the period		1,026,042	1,196,046
		HK\$	HK\$
Earnings per share	8		
Basic		3.43	4.05
Diluted		3.40	4.01

The notes on pages 14 to 52 form part of the unaudited interim financial report. Details of dividends payable to equity shareholders of the Bank are set out in note 7.

Unaudited Consolidated Statement of Comprehensive Income

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

		Six months ended 30th June, 2012	Six months ended 30th June, 2011 (restated)
	Notes		
Profit for the period		1,026,042	1,196,046
Other comprehensive income			
General reserve:			
– Exchange adjustments on translation of financial statements of subsidiaries		(14,574)	57,342
Bank premises:			
– Surplus on revaluation of bank premises	16	298,019	445,113
– Deferred taxes		(27,853)	(10,249)
Available-for-sale financial assets:			
– Fair value changes to equity			
– on debt securities		149,138	16,686
– on equity securities		12,541	13,278
– Transfer to consolidated income statement			
– gains on disposal	5(b)	(20,359)	(13,082)
– Deferred taxes		(22,915)	(2,634)
Other comprehensive income for the period, net of tax		373,997	506,454
Total comprehensive income for the period		1,400,039	1,702,500
Attributable to:			
Equity shareholders of the Bank		1,400,039	1,702,653
Non-controlling interests		–	(153)
Total comprehensive income for the period		1,400,039	1,702,500

The notes on pages 14 to 52 form part of the unaudited interim financial report.

Unaudited Consolidated Balance Sheet

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	30th June, 2012	31st December, 2011 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	9	6,503,770	9,160,862
Placements with banks, central banks and other financial institutions	10	19,023,972	24,426,296
Trade bills		3,979,537	2,339,751
Trading assets	11	2,929,375	3,079,836
Financial assets designated at fair value through profit or loss	12	8,053,472	4,820,918
Advances to customers and other accounts	13(a)	114,259,673	112,551,229
Held-to-maturity investments	14	2,600,390	–
Available-for-sale financial assets	15	24,532,884	24,405,751
Investments in associated companies		252,298	249,252
Tangible fixed assets	16		
– Investment properties		763,220	589,772
– Other properties, plants and equipment		4,419,131	4,279,921
Goodwill	17	1,306,430	1,306,430
Current tax recoverable		10,566	7,880
Deferred tax assets		31,634	30,893
Total assets		188,666,352	187,248,791
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	18	3,080,854	808,469
Deposits from customers	19	156,733,215	157,754,438
Certificates of deposit issued	20	2,245,685	2,756,649
Trading liabilities	21	636,409	1,082,405
Current tax payable		252,440	166,876
Deferred tax liabilities		197,105	152,892
Other accounts and provisions	22	2,421,707	2,585,523
Subordinated liabilities	23	4,704,377	4,685,528
Total liabilities		170,271,792	169,992,780
Share capital	25(a)	300,636	298,812
Reserves	25(b)	18,093,924	16,957,199
Total equity		18,394,560	17,256,011
Total equity and liabilities		188,666,352	187,248,791

The notes on pages 14 to 52 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Changes in Equity

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

Six months ended 30th June, 2012

	As previously reported as at 1st January	Prior year adjustments in respect of deferred tax	As restated as at 1st January	Share issued under Employee Incentive Plan and in lieu of dividends (Note 25(a))	Share premium under Employee Incentive Plan (Note 4(f))	Share premium in lieu of dividends	Dividends approved in respect of the previous year (Note 7(b))	Share of changes in associated companies	Transfer to/ (from) reserve	Total comprehensive income for the period	At 30th June
Share capital	298,812	-	298,812	1,824	-	-	-	-	-	-	300,636
Share premium	800,412	-	800,412	-	6,708	130,344	-	-	-	-	937,464
Capital reserve	283,888	-	283,888	-	-	-	-	-	-	-	283,888
Statutory reserve	286,407	-	286,407	-	-	-	-	-	-	-	286,407
General reserve	2,207,047	-	2,207,047	-	-	-	-	-	-	(14,574)	2,192,473
Bank premises revaluation reserve	1,665,547	291,181	1,956,728	-	-	-	-	-	(11,565)	270,166	2,215,329
Investment revaluation reserve	197,499	-	197,499	-	-	-	-	147	(96)	118,405	315,955
Capital redemption reserve	769	-	769	-	-	-	-	-	-	-	769
Unappropriated profits	11,163,636	60,813	11,224,449	-	-	-	(400,513)	-	11,661	1,026,042	11,861,639
Total equity	16,904,017	351,994	17,256,011	1,824	6,708	130,344	(400,513)	147	-	1,400,039	18,394,560

Six months ended 30th June, 2011

(restated)

	As previously reported as at 1st January	Prior year adjustments in respect of deferred tax	As restated as at 1st January	Share issued under Employee Incentive Plan and in lieu of dividends (Note 25(a))	Share premium under Employee Incentive Plan (Note 4(f))	Share premium in lieu of dividends	Dividends approved in respect of the previous year (Note 7(b))	Share of changes in associated companies	Transfer to/ (from) reserve	Total comprehensive income for the period	At 30th June
Share capital	295,294	-	295,294	2,402	-	-	-	-	-	-	297,696
Share premium	508,540	-	508,540	-	7,367	200,173	-	-	-	-	716,080
Capital reserve	256,426	-	256,426	-	-	-	-	-	14,291	-	270,717
Statutory reserve	202,171	-	202,171	-	-	-	-	-	4,694	-	206,865
General reserve	2,091,568	-	2,091,568	-	-	-	-	-	-	57,342	2,148,910
Bank premises revaluation reserve	1,178,149	202,922	1,381,071	-	-	-	-	-	(7,046)	434,864	1,808,889
Investment revaluation reserve	154,284	-	154,284	-	-	-	-	(197)	-	14,248	168,335
Capital redemption reserve	769	-	769	-	-	-	-	-	-	-	769
Unappropriated profits	9,591,310	33,236	9,624,546	-	-	-	(318,918)	-	(11,939)	1,196,199	10,489,888
Attributable to equity shareholders											
of the Bank	14,278,511	236,158	14,514,669	2,402	7,367	200,173	(318,918)	(197)	-	1,702,653	16,108,149
Non-controlling interests	19,221	-	19,221	-	-	-	-	-	-	(153)	19,068
Total equity	14,297,732	236,158	14,533,890	2,402	7,367	200,173	(318,918)	(197)	-	1,702,500	16,127,217

Unaudited Consolidated Statement of Changes in Equity

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

Six months ended 31st December, 2011
(restated)

	As previously reported as at 30th June	Prior year adjustments in respect of deferred tax	As restated as at 30th June	Share issued under Share Option Scheme, Employee Incentive Plan and in lieu of dividends (Note 25(a))	Share premium under Employee Incentive Plan	Share premium in lieu of dividends	Dividends declared in respect of the current year (Note 7(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 period	At 31st December
Share capital	297,696	-	297,696	1,116	-	-	-	-	-	-	-	-	298,812
Share premium	716,080	-	716,080	2,277	7,140	74,915	-	-	-	-	-	-	800,412
Capital reserve	270,717	-	270,717	-	-	-	-	-	(15,000)	-	28,171	-	283,888
Statutory reserve	206,865	-	206,865	-	-	-	-	-	-	-	79,542	-	286,407
General reserve	2,148,910	-	2,148,910	-	-	-	-	-	-	-	-	58,137	2,207,047
Bank premises revaluation reserve	1,541,087	267,802	1,808,889	-	-	-	-	-	-	(1,027)	(9,464)	158,330	1,956,728
Investment revaluation reserve	168,335	-	168,335	-	-	-	-	148	-	-	-	29,016	197,499
Capital redemption reserve	769	-	769	-	-	-	-	-	-	-	-	-	769
Unappropriated profits	10,436,274	53,614	10,489,888	-	-	-	(136,940)	-	15,000	1,027	(97,222)	952,696	11,224,449
Attributable to equity													
shareholders of the Bank	15,786,733	321,416	16,108,149	3,393	7,140	74,915	(136,940)	148	-	-	1,027	1,198,179	17,256,011
Non-controlling interests	19,068	-	19,068	-	-	-	-	-	(18,979)	-	-	(89)	-
Total equity	15,805,801	321,416	16,127,217	3,393	7,140	74,915	(136,940)	148	(18,979)	-	1,027	1,198,090	17,256,011

The notes on pages 14 to 52 form part of the unaudited interim financial report.

Unaudited Consolidated Cash Flow Statement

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Net cash (outflow)/inflow from operating activities	28 (a)	(8,161,389)	7,962,566
Investing activities			
Purchase of held-to-maturity and available-for-sale financial assets		(7,282,015)	(704,322)
Sale and redemption of available-for-sale financial assets		8,628,355	3,895,955
Loan repaid by an associated company		4,285	4,286
Purchase of properties and equipment		(61,972)	(461,473)
Sale of properties and equipment		48,688	291,538
Net cash inflow from investing activities		1,337,341	3,025,984
Financing activities			
Issue of new shares under Employee Incentive Plan		153	50
Dividends paid		(268,498)	(116,393)
Interest paid on subordinated liabilities		(175,948)	(176,192)
Net cash outflow from financing activities		(444,293)	(292,535)
(Decrease)/increase in cash and cash equivalents		(7,268,341)	10,696,015
Cash and cash equivalents at 1st January		32,140,913	15,822,013
Effect of foreign exchange rate changes		(19,248)	50,876
Cash and cash equivalents at 30th June	28 (b)	24,853,324	26,568,904
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		6,189,383	8,703,527
Placements with banks, central banks and other financial institutions with an original maturity within three months		10,643,282	15,222,754
Treasury bills with an original maturity within three months		8,020,659	2,642,623
		24,853,324	26,568,904
Cash flows from operating activities included:			
Interest received		2,860,625	2,382,573
Interest paid		1,490,935	898,130
Dividend received		5,766	4,303

The notes on pages 14 to 52 form part of the unaudited interim financial report.

Notes to Unaudited Interim Financial Report

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. BASIS OF PREPARATION

The interim financial report of Wing Hang Bank, Limited ("the Bank") and its subsidiaries (collectively "the Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited, including compliance with the Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 9th August, 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Bank. It has also been reviewed by the Bank's independent auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 61.

The financial information relating to the financial year ended 31st December, 2011 that is included in the interim financial report as being previously reported information does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December, 2011 are available from the Bank's registered office. The Bank's independent auditor has expressed an unqualified opinion on those financial statements in its report dated 8th March, 2012.

2. PRINCIPAL ACCOUNTING POLICIES

New accounting policies

Held-to-maturity investments

Dated debt securities that the Group and the Bank have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs 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:

- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies (Continued)

Amendments to HKAS 12 Income taxes

Under HKAS 12, deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the assets in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, *Investment property*, and bank premises that are held for the Group's administrative use under HKAS 16, *Property, plant and equipment*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the properties in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Previously, where the properties were held under leasehold interests, the Group assumed that the property's value would be recovered through use and measured deferred tax accordingly. As a result of adopting the amendments to HKAS 12, the Group reviewed its properties portfolio and concluded that the presumption in the amended HKAS 12 is not rebutted in respect of its properties located in Hong Kong. Therefore, the deferred tax relating to these properties has been re-measured on the basis of recovering their carrying amounts entirely through sale.

This change in policy has been applied retrospectively by restating the balances at 1st January, 2011 and 31st December, 2011, with consequential adjustments to comparatives for the period ended 30th June, 2011 as follows:

	As previously reported	Effect of adoption of amendments to HKAS 12	As restated
Consolidated income statement for six months ended 30th June, 2011:			
Taxation	193,076	(20,378)	172,698
Profit for the period	1,175,668	20,378	1,196,046
Basic earnings per share	3.98	0.07	4.05
Diluted earnings per share	3.94	0.07	4.01
Consolidated balance sheet as at 31st December, 2011:			
Deferred tax liabilities	504,886	(351,994)	152,892
Unappropriated profits	11,163,636	60,813	11,224,449
Bank premises revaluation reserve	1,665,547	291,181	1,956,728
Consolidated balance sheet as at 1st January, 2011:			
Deferred tax liabilities	369,123	(236,158)	132,965
Unappropriated profits	9,591,310	33,236	9,624,546
Bank premises revaluation reserve	1,178,149	202,922	1,381,071

3. SEGMENT REPORTING

(a) *Segment results and assets*

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), balance and placement with banks, central banks and other financial institutions and advances to bank which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation 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.

"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.

3. SEGMENT REPORTING (Continued)

(a) Segment results and assets (Continued)

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 period is set out below.

Six months ended 30th June, 2012							
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Net interest income	685,247	136,395	141,891	963,533	400,140	171,056	1,534,729
Non-interest income	214,761	47,645	207,640	470,046	29,335	70,064	569,445
Reportable segment revenue	900,008	184,040	349,531	1,433,579	429,475	241,120	2,104,174
Reportable segment profit before tax	391,803	108,188	342,307	842,298	173,148	155,894	1,171,340
Six months ended 30th June, 2011							
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Net interest income	649,469	144,478	131,932	925,879	360,667	160,258	1,446,804
Non-interest income/ (expenses)	234,187	28,154	(27,256)	235,085	(282)	86,001	320,804
Reportable segment revenue	883,656	172,632	104,676	1,160,964	360,385	246,259	1,767,608
Reportable segment profit before tax	492,748	95,698	107,248	695,694	200,431	146,796	1,042,921
30th June, 2012							
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Reportable segment assets	48,193,271	32,181,602	28,383,528	108,758,401	42,252,779	22,939,596	173,950,776
31st December, 2011							
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Reportable segment assets	46,140,760	35,472,961	26,732,338	108,346,059	47,868,236	21,168,362	177,382,657

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3. SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenue, profit before taxation and assets

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Revenue		
Reportable segment revenue	2,104,174	1,767,608
Other revenue	42,186	27,951
Elimination of inter-segment revenue	(86,364)	(62,406)
Consolidated operating income	2,059,996	1,733,153
	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Profit before taxation		
Reportable segment profit before taxation	1,171,340	1,042,921
Share of net gains of associated companies	7,184	24,461
Other revenue and net income	49,726	301,362
Elimination of inter-segment profit	—	—
Consolidated profit before taxation	1,228,250	1,368,744
	30th June, 2012	31st December, 2011
Assets		
Reportable segment assets	173,950,776	177,382,657
Balance and placements with banks, central banks and other financial institutions	11,181,163	15,395,035
Advances to bank	1,666,684	—
Investments in associated companies	252,298	249,252
Tangible fixed assets	4,207,507	3,891,376
Goodwill	1,306,430	1,306,430
Current tax recoverable	10,566	7,880
Deferred tax assets	31,634	30,893
Other assets	9,362,027	5,919,729
Elimination of inter-segment assets	(13,302,733)	(16,934,461)
Consolidated total assets	188,666,352	187,248,791

4. OPERATING PROFIT

(a) Interest income

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	2,558,030	2,138,993
– trading assets	214,954	162,684
– financial assets designated at fair value through profit or loss	129,607	122,773
	2,902,591	2,424,450
of which:		
– interest income from listed investments	252,744	192,161
– interest income from unlisted investments	232,330	277,933
– interest income from impaired financial assets	2,131	4,021

(b) Interest expense

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	1,200,093	782,891
– trading liabilities	117,613	149,101
– financial liabilities designated at fair value through profit or loss	92,812	93,175
	1,410,518	1,025,167
of which:		
– interest expense for subordinated liabilities (note 28(a))	175,948	176,192

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4. OPERATING PROFIT *(Continued)*

(c) Other operating income

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Fees and commission		
Credit commission and fees	87,058	91,976
Credit card related fees	75,318	67,038
Trade related fees	32,893	37,375
Insurance commission	40,272	37,832
Stockbroking fees	51,022	79,571
Trust fees	38	38
Wealth management fees	10,542	7,790
Other fees and commission income	58,382	65,278
Less: Fees and commission expenses	(41,623)	(39,507)
	313,902	347,391
Gains arising from dealing in foreign currencies (note 4(e))	82,520	58,702
Gains on other dealing activities (note 4(e))	608	862
Dividend income from unlisted available-for-sale financial assets	5,416	3,624
Dividend income from listed available-for-sale financial assets	304	582
Dividend income from listed trading investments	137	132
Rental income from investment properties less direct outgoings of HK\$556,000 (30th June, 2011: HK\$293,000)	7,714	6,623
Others	6,653	6,061
	417,254	423,977
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	130,128	139,655
– fees and commission expenses	(4)	(5)
	130,124	139,650

4. OPERATING PROFIT *(Continued)*

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Net realised and unrealised losses on trading financial instruments (note 4(e))	(2,357)	(1,405)
Net realised and unrealised gains/(losses) on financial instruments designated at fair value through profit or loss:		
– unrealised losses on subordinated liabilities	(24,395)	(89,872)
– realised and unrealised gains on collateralised debt obligations (“CDO”)	32,076	19,168
– realised and unrealised gains/(losses) on debt securities issued by bank in Iceland	3,520	(239)
– realised and unrealised gains/(losses) on other financial instruments	141,825	(17,759)
	153,026	(88,702)
	150,669	(90,107)

(e) Net trading gains

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Gains arising from dealing in foreign currencies (note 4(c))	82,520	58,702
Gains on other dealing activities (note 4(c))	608	862
Net realised and unrealised losses on trading financial instruments (note 4(d))	(2,357)	(1,405)
	80,771	58,159

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4. OPERATING PROFIT *(Continued)*

(f) Operating expenses

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Staff costs		
Salaries and other staff costs	551,415	518,465
Retirement benefit costs	35,341	31,574
Employee Incentive Plan ("EIP") – fair value of awards (note 28(a))	6,708	7,367
EIP – bonus	2,878	2,490
	596,342	559,896
Premises and equipment expenses, excluding depreciation	118,824	107,485
Depreciation (notes 16 & 28(a))	102,518	86,470
Others	109,830	30,327
	927,514	784,178

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Unrealised revaluation gains of bank premises (note 16)	–	12,164
Unrealised revaluation gains of investment properties (note 16)	80,345	110,748
Net gains on disposal of tangible fixed assets	24,400	258,384
	104,745	381,296

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Net unrealised gains transferred from investment revaluation reserve upon disposal	20,359	13,082
Net gains on disposal of available-for-sale financial assets	6,229	13,688
	26,588	26,770

6. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 30th June, 2012	Six months ended 30th June, 2011 (restated)
Current tax – Provision for Hong Kong profits tax	132,842	103,566
Current tax – Provision for tax outside Hong Kong	76,662	63,041
Deferred taxation	(7,296)	6,091
	202,208	172,698

The provision for Hong Kong profits tax is calculated at 16.5% (30th June, 2011: 16.5%) of the Group's estimated assessable profits for the six months ended 30th June, 2012. 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. DIVIDENDS

(a) Dividends attributable to the period

The following interim dividend was declared by the Board of Directors after the balance sheet date and has not been recognised as a liability at the balance sheet date.

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Interim dividend declared of HK\$0.46 (30th June, 2011: HK\$0.46) per ordinary share on 300,635,592 shares (30th June, 2011: 297,695,532 shares)	138,292	136,940

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Underprovision of final dividend in respect of the prior year	105	–
Final dividend in respect of the prior year, approved and paid during the period, of HK\$1.34 (30th June, 2011: HK\$1.08) per ordinary share on 298,812,308 shares (30th June, 2011: 295,294,130 shares)	400,408	318,918
	400,513	318,918

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8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders for the six months ended 30th June, 2012 of HK\$1,026,042,000 (30th June, 2011(restated): HK\$1,196,199,000) and on the weighted average number of ordinary shares of 299,070,213 shares (30th June, 2011: 295,677,518 shares) in issue during the period.

	30th June, 2012	30th June, 2011
	Number of shares of HK\$1.00 each	Number of shares of HK\$1.00 each
Issued ordinary shares at 1st January	298,812,308	295,294,130
Effect of shares issued in lieu of dividends	211,175	376,824
Effect of EIP exercised	46,730	6,564
Weighted average number of ordinary shares used in calculating basic earnings per share	299,070,213	295,677,518

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders for the six months ended 30th June, 2012 of HK\$1,026,042,000 (30th June, 2011(restated): HK\$1,196,199,000) and on the weighted average number of ordinary shares of 301,464,556 shares (30th June, 2011: 298,331,079 shares) in issue during the period after adjustment for the effects of all dilutive potential ordinary shares of 2,394,343 shares (30th June, 2011: 2,653,561 shares).

	30th June, 2012	30th June, 2011
	Number of shares of HK\$1.00 each	Number of shares of HK\$1.00 each
Weighted average number of ordinary shares used in calculating basic earnings per share	299,070,213	295,677,518
Deemed exercise of Share Option Scheme	249,208	385,939
Deemed exercise of EIP	2,145,135	2,267,622
Weighted average number of ordinary shares used in calculating diluted earnings per share	301,464,556	298,331,079

9. CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2012	31st December, 2011
Cash balances	734,056	906,288
Balances with central banks	5,165,190	6,848,782
Balances with banks	604,524	1,405,792
	6,503,770	9,160,862

10. PLACEMENTS WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2012	31st December, 2011
Placements with banks	19,023,972	24,426,296

11. TRADING ASSETS

	30th June, 2012	31st December, 2011
Debt securities:		
Listed in Hong Kong	293,516	245,018
Listed outside Hong Kong	54,092	49,989
	347,608	295,007
Unlisted	1,587,843	1,634,743
	1,935,451	1,929,750
Equity securities listed in Hong Kong	1,243	5,681
Total trading securities	1,936,694	1,935,431
Positive fair values of derivative financial instruments held for trading	992,681	1,144,405
	2,929,375	3,079,836
Trading debt securities include:		
Treasury bills	789,971	837,088
Certificates of deposit held	90,262	90,606
Other trading debt securities	1,055,218	1,002,056
	1,935,451	1,929,750

Trading securities analysed by counterparty are as follows:

	30th June, 2012	31st December, 2011
Issued by:		
Sovereigns	789,971	837,088
Public sector entities	9	52
Banks	573,755	523,965
Corporates	572,959	574,326
	1,936,694	1,935,431

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12. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30th June, 2012	31st December, 2011
Debt securities:		
Listed in Hong Kong	3,035,890	1,132,984
Listed outside Hong Kong	4,298,182	2,255,020
	<hr/>	<hr/>
	7,334,072	3,388,004
Unlisted	719,400	1,432,914
	<hr/>	<hr/>
	8,053,472	4,820,918
	<hr/>	<hr/>
Debt securities designated at fair value through profit or loss include:		
Treasury bills	72,157	39,610
Other debt securities designated at fair value through profit or loss	7,981,315	4,781,308
	<hr/>	<hr/>
	8,053,472	4,820,918
	<hr/>	<hr/>

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

	30th June, 2012	31st December, 2011
Issued by:		
Sovereigns	72,158	39,610
Public sector entities	741,101	549,117
Banks	2,362,743	2,331,275
Corporates	4,877,470	1,900,916
	<hr/>	<hr/>
	8,053,472	4,820,918
	<hr/>	<hr/>

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Advances to customers and other accounts

	30th June, 2012	31st December, 2011
Gross advances to customers	109,546,607	110,577,518
Individual impairment allowances for impaired loans and advances (note 13(d))	(112,016)	(54,379)
Collective impairment allowances for loans and advances (note 13(d))	(124,963)	(138,215)
	<hr/>	<hr/>
Net advances to customers	109,309,628	110,384,924
Advances to banks	2,693,435	462,407
Customer liability under acceptances	398,020	249,675
Accrued interest	547,805	505,839
Other accounts	1,310,785	948,384
	<hr/>	<hr/>
	114,259,673	112,551,229
	<hr/>	<hr/>

13. 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.

	30th June, 2012			31st December, 2011		
	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	2,369,986	74.1	–	2,364,989	67.3	–
– Property investment	17,063,995	99.4	535	15,917,977	98.8	42,610
– Financial concerns	2,009,214	18.7	–	2,854,374	11.3	–
– Stockbrokers	268,938	94.1	–	703,008	86.3	–
– Wholesale and retail trade	2,612,620	38.9	2,957	2,230,596	44.8	55,725
– Manufacturing	1,922,236	52.8	41,939	1,697,903	61.3	28,185
– Transport and transport equipment	7,330,874	89.6	6,918	7,101,519	89.8	6,316
– Information technology	12,350	31.8	–	8,908	44.3	–
– Share financing	248,502	99.0	–	263,159	96.7	–
– Recreational activities	59,119	–	–	61,195	–	–
– Others	3,471,584	48.9	7,201	3,816,367	49.0	49,059
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	2,580,461	100.0	535	2,618,752	100.0	597
– Advances for the purchase of other residential properties	18,599,115	99.9	4,665	16,970,967	100.0	16,368
– Credit card advances	269,927	0.8	896	283,375	0.8	906
– Others	6,279,460	74.3	16,787	6,314,976	69.8	14,438
	65,098,381	85.6	82,433	63,208,065	83.5	214,204
Trade finance	9,450,826	68.5	12,367	11,857,488	79.6	45,886
Advances for use outside Hong Kong						
– Mainland China	20,883,633	76.6	117,854	23,144,823	76.5	51,741
– Macau	13,839,645	94.4	24,124	12,308,927	93.5	24,173
– Others	274,122	97.0	–	58,215	72.9	–
	34,997,400	83.8	141,978	35,511,965	82.4	75,914
	109,546,607	83.6	236,778	110,577,518	82.7	336,004

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13. 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:

	30th June, 2012	31st December, 2011
Gross impaired advances to customers	236,778	336,004
Gross impaired advances to customers as a percentage of total advances to customers	0.22%	0.30%
Market value of collateral held with respect to impaired advances to customers	145,872	289,033
Individual impairment allowances	112,016	54,379

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 30th June, 2012 and 31st December, 2011.

(d) Impairment allowances for loans and advances

	Six months ended 30th June, 2012		
	Individual	Collective	Total
At 1st January	55,144	138,332	193,476
Additions	85,544	–	85,544
Releases	(25,837)	(13,324)	(39,161)
Net charges/(releases) to consolidated income statement	59,707	(13,324)	46,383
Unwind of discount of loan impairment losses	(1,818)	–	(1,818)
Recoveries of advances written off in prior years	17,237	–	17,237
Amounts written off	(17,547)	–	(17,547)
At 30th June	112,723	125,008	237,731
Representing impairment allowances for:			
Trade bills	707	45	752
Advances to customers (note 13(a))	112,016	124,963	236,979
	112,723	125,008	237,731

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS *(Continued)*

(d) Impairment allowances for loans and advances (Continued)

	Year ended 31st December, 2011		
	Individual	Collective	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 loss	(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	<u>55,144</u>	<u>138,332</u>	<u>193,476</u>
Representing impairment allowances for:			
Trade bills	765	117	882
Advances to customers (note 13(a))	<u>54,379</u>	<u>138,215</u>	<u>192,594</u>
	<u>55,144</u>	<u>138,332</u>	<u>193,476</u>

(e) Repossessed assets

At 30th June, 2012, repossessed assets obtained as securities for impaired advances to customers totalled HK\$13,414,000 (31st December, 2011: HK\$21,528,000).

14. HELD-TO-MATURITY INVESTMENTS

	30th June, 2012	31st December, 2011
Held-to-maturity debt securities:		
Listed in Hong Kong	702,159	–
Listed outside Hong Kong	<u>141,826</u>	–
	843,985	–
Unlisted	<u>1,756,405</u>	–
	<u>2,600,390</u>	–
Held-to-maturity debt securities include:		
Treasury bills	1,601,259	–
Other held-to-maturity debt securities	<u>999,131</u>	–
	<u>2,600,390</u>	–

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14. HELD-TO-MATURITY INVESTMENTS *(Continued)*

Held-to-maturity investments analysed by counterparty are as follows:

	30th June, 2012	31st December, 2011
Issued by:		
Sovereigns	1,601,259	–
Corporates	999,131	–
	<u>2,600,390</u>	<u>–</u>
Market value of listed held-to-maturity debt securities	<u>863,259</u>	<u>–</u>
Fair value of unlisted held-to-maturity debt securities	<u>1,748,996</u>	<u>–</u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30th June, 2012	31st December, 2011
Available-for-sale debt securities:		
Listed in Hong Kong	2,506,591	819,991
Listed outside Hong Kong	<u>3,051,290</u>	<u>2,820,574</u>
	<u>5,557,881</u>	<u>3,640,565</u>
Unlisted	<u>18,738,019</u>	<u>20,540,945</u>
	<u>24,295,900</u>	<u>24,181,510</u>
Available-for-sale equity securities:		
Listed in Hong Kong	3,165	2,860
Listed outside Hong Kong	<u>69,350</u>	<u>57,703</u>
	<u>72,515</u>	<u>60,563</u>
Unlisted	<u>164,469</u>	<u>163,678</u>
	<u>236,984</u>	<u>224,241</u>
	<u>24,532,884</u>	<u>24,405,751</u>
Available-for-sale debt securities include:		
Treasury bills	13,356,580	11,055,016
Certificates of deposit held	541,230	541,732
Other available-for-sale debt securities	<u>10,398,090</u>	<u>12,584,762</u>
	<u>24,295,900</u>	<u>24,181,510</u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

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

	30th June, 2012	31st December, 2011
Issued by:		
Sovereigns	13,356,580	11,055,016
Public sector entities	1,642,122	821,919
Banks	6,869,869	10,906,985
Corporates	2,664,313	1,621,831
	24,532,884	24,405,751

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Released from/(charged on) debt securities	3,634	(9,235)
	3,634	(9,235)

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16. TANGIBLE FIXED ASSETS

Six months ended 30th June, 2012					
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	589,772	4,050,316	1,106,323	5,156,639	5,746,411
Additions	–	21,124	40,848	61,972	61,972
Disposals	–	(25,317)	(26,566)	(51,883)	(51,883)
Transfers from bank premises to investment properties	93,103	(93,103)	–	(93,103)	–
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	298,019	–	298,019	298,019
– credited to consolidated income statement (note 5(a))	80,345	–	–	–	80,345
Elimination of accumulated depreciation on revalued bank premises	–	(23,659)	–	(23,659)	(23,659)
Exchange adjustment	–	(114)	(381)	(495)	(495)
At 30th June	<u>763,220</u>	<u>4,227,266</u>	<u>1,120,224</u>	<u>5,347,490</u>	<u>6,110,710</u>
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,361,030	1,120,224	2,481,254	2,481,254
At valuation 2012	<u>763,220</u>	<u>2,866,236</u>	<u>–</u>	<u>2,866,236</u>	<u>3,629,456</u>
	<u>763,220</u>	<u>4,227,266</u>	<u>1,120,224</u>	<u>5,347,490</u>	<u>6,110,710</u>
Accumulated depreciation					
At 1st January	–	167,700	709,018	876,718	876,718
Charge for the period (note 4(f))	–	39,166	63,352	102,518	102,518
Written back on disposals	–	(2,316)	(25,279)	(27,595)	(27,595)
Elimination of accumulated depreciation on revalued bank premises	–	(23,659)	–	(23,659)	(23,659)
Exchange adjustment	–	191	186	377	377
At 30th June	<u>–</u>	<u>181,082</u>	<u>747,277</u>	<u>928,359</u>	<u>928,359</u>
Net book value					
At 30th June	<u>763,220</u>	<u>4,046,184</u>	<u>372,947</u>	<u>4,419,131</u>	<u>5,182,351</u>

16. TANGIBLE FIXED ASSETS (Continued)

	Year ended 31st December, 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	149,234	12,164	–	12,164	161,398
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	<u>589,772</u>	<u>4,050,316</u>	<u>1,106,323</u>	<u>5,156,639</u>	<u>5,746,411</u>
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	<u>589,772</u>	<u>2,685,280</u>	<u>–</u>	<u>2,685,280</u>	<u>3,275,052</u>
	<u>589,772</u>	<u>4,050,316</u>	<u>1,106,323</u>	<u>5,156,639</u>	<u>5,746,411</u>
Accumulated depreciation					
At 1st January	–	139,342	631,166	770,508	770,508
Charge for the year	–	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	<u>–</u>	<u>167,700</u>	<u>709,018</u>	<u>876,718</u>	<u>876,718</u>
Net book value					
At 31st December	<u>589,772</u>	<u>3,882,616</u>	<u>397,305</u>	<u>4,279,921</u>	<u>4,869,693</u>

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17. GOODWILL

	Six months ended 30th June, 2012	Year ended 31st December, 2011
Cost		
At 30th June/31st December	1,307,600	1,307,600
Accumulated impairment loss		
At 30th June/31st December	1,170	1,170
Net book value		
At 30th June/31st December	1,306,430	1,306,430

18. DEPOSITS AND BALANCES OF BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	30th June, 2012	31st December, 2011
Deposits from central banks	312,929	135,323
Deposits from banks	2,767,925	673,146
	3,080,854	808,469

19. DEPOSITS FROM CUSTOMERS

	30th June, 2012	31st December, 2011
Demand deposits and current accounts	20,081,682	20,883,636
Savings deposits	25,621,026	25,928,202
Time, call and notice deposits	111,030,507	110,942,600
	156,733,215	157,754,438

20. CERTIFICATES OF DEPOSIT ISSUED

	30th June, 2012	31st December, 2011
Certificates of deposit issued at amortised cost	2,094,927	2,605,000
Structured certificates of deposit issued designated at fair value through profit or loss	150,758	151,649
	2,245,685	2,756,649

21. TRADING LIABILITIES

Trading liabilities represent negative fair values of derivative financial instruments held for trading.

22. OTHER ACCOUNTS AND PROVISIONS

	30th June, 2012	31st December, 2011
Acceptances outstanding	398,020	249,675
Interest payable	688,536	768,953
Other payables	1,335,151	1,566,895
	2,421,707	2,585,523

23. SUBORDINATED LIABILITIES

	30th June, 2012	31st December, 2011
US\$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	2,958,985	2,938,043
US\$225 million 9.375% perpetual subordinated notes, measured at amortised cost (note (b))	1,745,392	1,747,485
	4,704,377	4,685,528

- (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 notes, 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 30th June, 2012, 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 by HK\$143,935,000 (31st December, 2011: lower than their contractual amount payable by HK\$168,597,000). 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. The accumulated gain in fair value attributable to changes in credit risk was HK\$745,436,000 (31st December, 2011: HK\$781,072,000).

- (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 notes, 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.

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24. MATURITY PROFILE

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

30th June, 2012								
	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	6,503,770	-	-	-	-	-	-	6,503,770
Placements with banks, central banks and other financial institutions	-	11,183,985	6,229,944	1,610,043	-	-	-	19,023,972
Trade bills	56,527	985,726	1,727,533	1,209,751	-	-	-	3,979,537
Trading assets	-	189,715	124,670	364,340	1,174,286	82,440	993,924	2,929,375
Financial assets designated at fair value through profit or loss	-	42,482	-	398,206	4,782,876	2,829,908	-	8,053,472
Advances to customers	2,068,181	6,672,371	8,344,982	18,881,434	34,681,304	38,555,380	105,976	109,309,628
Advances to banks	-	157,589	1,786,553	749,293	-	-	-	2,693,435
Held-to-maturity investments	-	339,623	137,793	310,955	1,356,482	455,537	-	2,600,390
Available-for-sale financial assets	-	3,380,984	6,487,584	3,669,830	9,262,810	1,494,692	236,984	24,532,884
Other assets	393	1,279,314	368,303	221,572	67,941	12,051	7,090,315	9,039,889
Total assets	8,628,871	24,231,789	25,207,362	27,415,424	51,325,699	43,430,008	8,427,199	188,666,352
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	322,479	2,679,884	78,491	-	-	-	-	3,080,854
Deposits from customers	45,592,888	51,551,466	36,318,358	21,397,281	1,873,183	39	-	156,733,215
Certificates of deposit issued	-	540,000	-	1,135,685	570,000	-	-	2,245,685
Trading liabilities	-	-	-	-	-	-	636,409	636,409
Subordinated liabilities	-	-	-	-	-	-	4,704,377	4,704,377
Other liabilities	-	1,341,875	434,933	790,540	132,385	-	171,519	2,871,252
Total liabilities	45,915,367	56,113,225	36,831,782	23,323,506	2,575,568	39	5,512,305	170,271,792
Net assets/(liabilities) gap	(37,286,496)	(31,881,436)	(11,624,420)	4,091,918	48,750,131	43,429,969	2,914,894	18,394,560
of which:								
Certificates of deposit held								
- included in trading assets	-	-	-	90,262	-	-	-	90,262
- included in available-for-sale financial assets	-	-	-	-	541,230	-	-	541,230
Debt securities								
- included in trading assets	-	189,715	124,670	274,078	1,174,286	82,440	-	1,845,189
- included in financial assets designated at fair value through profit or loss	-	42,482	-	398,206	4,782,876	2,829,908	-	8,053,472
- included in available-for-sale financial assets	-	3,380,984	6,487,584	3,669,830	8,721,580	1,494,692	-	23,754,670
- included in held-to-maturity investments	-	339,623	137,793	310,955	1,356,482	455,537	-	2,600,390

24. MATURITY PROFILE *(Continued)*

31st December, 2011 (restated)								
	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	661,399	110,974	–	243,608	2,905,291
Total liabilities	46,947,525	57,610,506	34,100,022	21,456,529	3,866,657	–	6,011,541	169,992,780
Net assets/(liabilities) gap	(35,737,221)	(34,192,279)	(3,978,614)	10,270,984	39,164,717	39,130,507	2,597,917	17,256,011
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

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25. SHARE CAPITAL AND RESERVES

(a) Share capital

	30th June, 2012	31st December, 2011
Authorised:		
450,000,000 (31st December, 2011: 450,000,000)		
ordinary shares of HK\$1.00 each	450,000	450,000
	30th June, 2012	31st December, 2011
Issued and fully paid:		
At 1st January	298,812	295,294
Shares issued under Share Option Scheme	–	90
Shares issued under EIP	153	50
Shares issued in lieu of dividends	1,671	3,378
	300,636	298,812
300,635,592 (31st December, 2011: 298,812,308)		
ordinary shares of HK\$1.00 each	300,636	298,812

(i) Share Option Scheme

During the six months ended 30th June, 2012, no option was exercised to subscribe for ordinary shares (year ended 31st December, 2011: 90,000 shares) in the Bank. At balance sheet date, the terms and conditions of unexpired and unexercised share options are as follows:

		30th June, 2012	31st December, 2011
Date of options granted	Exercise price	Number of shares	Number of shares
	HK\$		
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	595,000

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 30th June, 2012 have a weighted average remaining contractual life of 1.90 years (31st December, 2011: 2.40 years).

25. SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(ii) EIP

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%

During the six months ended 30th June, 2012, awards under the EIP were exercised to subscribe for ordinary shares of 152,250 (year ended 31st December, 2011: 49,500) shares in the Bank at a consideration of HK\$152,250 (year ended 31st December, 2011: HK\$49,500).

At 30th June, 2012, the outstanding awards under the EIP are:

		30th June, 2012		31st December, 2011	
Date of awards granted	Exercise price	Fair value of awards at date of grant	Number of shares	Fair value of awards at date of grant	Number of shares
	HK\$				
21/05/2004	1.00	14,830,200	346,500	18,008,100	420,750
23/01/2006	1.00	83,288,400	1,482,000	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	7,822,500	105,000
		119,185,100	2,073,500	126,746,600	2,225,750

(b) Reserves

The Group's unappropriated profits as at 30th June, 2012 included a regulatory reserve of HK\$1,364,871,000 (31st December, 2011: HK\$1,365,639,000). 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").

26. 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%.

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

	30th June, 2012	31st December, 2011
Direct credit substitutes	1,978,160	2,442,439
Transaction-related contingencies	259,137	252,056
Trade-related contingencies	786,773	878,652
Other commitments:		
With an original maturity of not more than one year	711,535	272,408
With an original maturity over one year	1,805,070	1,501,727
Which are unconditionally cancellable	43,420,590	31,844,293
Total	48,961,265	37,191,575
Credit risk weighted amounts	2,999,584	3,267,039

(b) *Capital commitments*

Capital commitments for acquisition of tangible fixed assets outstanding at balance sheet date not provided for in the interim financial report are as follows:

	30th June, 2012	31st December, 2011
Expenditure authorised and contracted for	59,427	83,491
Expenditure authorised but not contracted for	–	10,485
	59,427	93,976

27. 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.

30th June, 2012				
	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	–	–	38,727,486	38,727,486
Options purchased	–	–	13,507,363	13,507,363
Options written	–	–	12,639,832	12,639,832
Interest rate contracts				
Swaps	–	8,464,136	12,553,200	21,017,336
Equity contracts				
Options purchased	–	–	95,135	95,135
Options written	–	–	87,489	87,489
Credit derivative contracts				
Credit defaults swaps written – investment	–	–	–	–
	<u>–</u>	<u>8,464,136</u>	<u>77,610,505</u>	<u>86,074,641</u>

Notes to Unaudited Interim Financial Report

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

31st December, 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
	<u>–</u>	<u>8,790,363</u>	<u>81,056,633</u>	<u>89,846,996</u>

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

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The fair values of derivative financial instruments are as follows:

	30th June, 2012		31st December, 2011	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	272,119	88,499	377,513	208,964
Interest rate contracts	711,487	538,868	757,948	864,117
Equity contracts	9,075	9,042	8,944	8,650
Credit derivative contracts	—	—	—	674
	992,681	636,409	1,144,405	1,082,405

The credit risk weighted amounts are as follows:

	30th June, 2012	31st December, 2011
Exchange rate contracts	640,378	735,265
Interest rate contracts	344,991	390,124
Equity contracts	4,463	7,382
Credit derivative contracts	—	417
	989,832	1,133,188

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.

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28. NOTES TO THE UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

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

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Operating profit	1,089,733	936,217
Depreciation (note 4(f))	102,518	86,470
EIP – fair value of awards (note 4(f))	6,708	7,367
Interest expense for subordinated liabilities (note 4(b))	175,948	176,192
Change in fair value of subordinated liabilities designated at fair value through profit or loss	24,395	89,872
Impairment allowances (released from)/charged on available-for-sale financial assets	(3,634)	9,235
Profits tax paid	(126,626)	(81,523)
Change in treasury bills with original maturity of three months or above	(1,994,191)	3,666,887
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	(1,025,002)	(3,636,990)
Change in trade bills	(1,639,786)	(520,824)
Change in certificates of deposit held	846	(90,262)
Change in trading assets	103,000	(191,913)
Change in financial assets designated at fair value through profit or loss	(3,200,007)	2,137,256
Change in advances to customers and other accounts	(1,708,444)	(10,460,907)
Change in deposits and balances of banks, central banks and other financial institutions	2,175,152	12,494
Change in deposits from customers	(1,021,223)	12,948,789
Change in certificates of deposit issued	(510,964)	2,525,645
Change in trading liabilities	(445,996)	28,304
Change in other accounts and provision	(163,816)	320,257
Net cash (outflow)/inflow from operating activities	(8,161,389)	7,962,566

28. NOTES TO THE UNAUDITED CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

	30th June, 2012	30th June, 2011
Cash and balances with banks, central banks and other financial institutions	6,503,770	8,939,150
Placements with banks, central banks and other financial institutions	19,023,972	19,018,355
Treasury bills	15,819,967	7,235,160
Amounts shown in the unaudited consolidated balance sheet	41,347,709	35,192,665
Less: Amounts with an original maturity of three months or above	(16,179,998)	(8,388,138)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(314,387)	(235,623)
Cash and cash equivalents in the unaudited consolidated cash flow statement	24,853,324	26,568,904

29. MATERIAL RELATED PARTY TRANSACTIONS

(a) Substantial shareholder

During the six months ended 30th June, 2012, 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 period, average on-balance sheet outstanding for the period, on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

(i) Income and expense

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Interest income	88	31
Interest expense	1,502	38

(ii) Average on-balance sheet outstanding

	Six months ended 30th June, 2012	Year ended 31st December, 2011
Cash and balances with banks, central banks and other financial institutions	109,211	163,051
Placement with banks, central banks and other financial institutions	90,118	66,130
Deposits and balances of banks, central banks and other financial institutions	155,967	72,832

Notes to Unaudited Interim Financial Report

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) *Substantial shareholder (Continued)*

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

	30th June, 2012	31st December, 2011
Cash and balances with banks, central banks and other financial institutions	104,854	171,379
Placement with banks, central banks and other financial institutions	300,000	–
Deposits and balances of banks, central banks and other financial institutions	6,456	46,958

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

	30th June, 2012	31st December, 2011
Other commitments	32,000	32,000

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

	30th June, 2012	31st December, 2011
Exchange rate contracts	1,557,153	2,252,852
Interest rate contracts	1,978,112	427,163

(b) *Associated company*

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. 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 these loans are HK\$70,886,000 (31st December, 2011: HK\$75,171,000).

(c) *Key management personnel*

During the six months ended 30th June, 2012, 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 period, average on-balance sheet outstanding for the period and on-balance sheet outstanding at the balance sheet date are as follows:

(i) Income and expense

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Interest income	386	621
Interest expense	14,160	9,642

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) *Key management personnel (Continued)*

(ii) Average on-balance sheet outstanding

	Six months ended 30th June, 2012	Year ended 31st December, 2011
Advances to customers	65,868	91,714
Deposits from customers	1,773,603	1,701,975

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

	30th June, 2012	31st December, 2011
Advances to customers	69,612	66,225
Deposits from customers	1,786,313	1,697,806

(iv) Emoluments

Remuneration for key management personnel is as follows:

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Short-term employee benefits	30,695	26,386
Post-employment benefits	1,549	1,385
Equity compensation benefits	3,985	4,333
	36,229	32,104

(d) During the six months ended 30th June, 2012, no allowance for impairment losses has been made in respect of the above advances to related parties (30th June, 2011: Nil).

30. 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.

30. MANAGEMENT OF RISKS *(Continued)*

(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.

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 analysis 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.

30. MANAGEMENT OF RISKS *(Continued)*

(a) **Credit risk management** *(Continued)*

(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.

Analysis of credit risk concentration by economic sector of respective financial assets is disclosed in notes 11 to 15.

(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 37.1% for the six months ended 30th June, 2012 (30th June, 2011: 40.0%), 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.

The detail of the analysis on the Group'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 the note 24.

(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/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 derivative instruments.

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.

30. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management (Continued)

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 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 of 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.

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.

(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 dollar, 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.

30. MANAGEMENT OF RISKS *(Continued)*

(c) **Market risk management** *(Continued)*

(ii) Currency risk *(Continued)*

	30th June, 2012			31st December, 2011		
<i>(In millions of HK\$ equivalent)</i>	US\$	Chinese Renminbi	Total	US\$	Chinese Renminbi	Total
Spot assets	42,559	38,665	89,437	44,838	43,365	98,496
Spot liabilities	(28,086)	(37,800)	(87,265)	(28,449)	(43,159)	(92,417)
Forward purchases	12,616	4,196	31,825	14,280	9,008	35,306
Forward sales	(25,708)	(3,296)	(30,840)	(29,188)	(7,539)	(38,225)
Net option positions	(1,299)	(1,727)	(3,021)	(1,582)	(1,596)	(3,177)
Net long positions	82	38	136	(101)	79	(17)

	30th June, 2012				31st December, 2011			
<i>(In millions of HK\$ equivalent)</i>	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	711	2,048	271	3,030	583	1,975	271	2,829

(iii) Equity risk

The Group's equities exposures in the six months ended 30th June, 2012 and the year ended 31st December, 2011 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 15. Equities held for trading purpose are included under "Trading assets" set out in note 11. 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.

30. MANAGEMENT OF RISKS *(Continued)*

(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 higher shareholder returns that might otherwise be possible with greater gearing and 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.

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 overseas 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 six months ended 30th June, 2012 and the year ended 31st December, 2011 and are well above the minimum required ratio set by the HKMA.

The capital adequacy ratios as at 30th June, 2012 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.

31. COMPARATIVE FIGURES

As a result of the application of amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2012. Further details of these developments are disclosed in note 2.

Unaudited Supplementary Financial Information

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

(A) CAPITAL ADEQUACY AND LIQUIDITY RATIO

(i) Capital adequacy ratio

	30th June, 2012	31st December, 2011 (restated)
Capital adequacy ratio	15.8%	15.9%
Core capital adequacy ratio	10.1%	10.1%

As mentioned in note 30(e) of "Notes to unaudited interim financial report" 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 at 30th June, 2012 and 31st December, 2011, 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 RATIO *(Continued)*

(i) Capital adequacy ratio *(Continued)*

	30th June, 2012	31st December, 2011 (restated)
Components of capital base:		
Core capital		
Paid-up ordinary share capital	300,636	298,812
Share premium	937,464	800,412
Published reserves	10,940,603	10,568,557
Profit and loss account	636,583	909,976
Less: Goodwill	(1,306,430)	(1,306,430)
Total core capital before deductions	11,508,856	11,271,327
Less: deductions from core capital	(272,733)	(328,134)
Total core capital after deductions	11,236,123	10,943,193
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	165,288	102,003
Fair value gains arising from securities designated at fair value through profit or loss	24,308	–
Regulatory reserve for general banking risks	1,364,871	1,365,639
Collective impairment allowances	125,008	138,332
Perpetual subordinated debt	4,827,151	4,832,938
Total supplementary capital before deductions	6,731,326	6,663,612
Less: deductions from supplementary capital	(272,733)	(328,134)
Total supplementary capital after deductions	6,458,593	6,335,478
Eligible supplementary capital	6,379,820	6,192,238
Total capital base after deductions	17,615,943	17,135,431
Total deductions from the core capital and supplementary capital	545,466	656,268

(A) CAPITAL ADEQUACY AND LIQUIDITY RATIO *(Continued)*

(ii) Average liquidity ratio

	Six months ended 30th June, 2012	Six months ended 30th June, 2011
Average liquidity ratio	37.1%	40.0%

The average liquidity ratio for the six months 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.

	30th June, 2012				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	82,662,241	110,058	250,244	29,859	94,297
Macau	12,324,222	24,124	24,476	2,495	14,058
Mainland China	12,244,050	99,983	36,360	79,153	13,971
Others	2,316,094	2,613	4,987	509	2,637
	109,546,607	236,778	316,067	112,016	124,963
	31st December, 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

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.

30th June, 2012				
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	17,063,995	778	17	18,047
Advances for the purchase of other residential properties	18,599,115	4,830	408	22,394
Advances for use outside Hong Kong				
– Mainland China	20,883,633	161,146	83,567	28,792
– Macau	13,839,645	24,476	2,495	9,800
31st December, 2011				
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	15,917,977	25,345	67	20,809
Advances for the purchase of other residential properties	16,970,967	6,224	2,457	23,109
Advances for use outside Hong Kong				
– Mainland China	23,144,823	214,475	28,163	25,159
– Macau	12,308,927	27,282	743	9,884

(D) OVERDUE AND RESCHEDULED ASSETS

(i) Overdue and rescheduled advances to customers

	30th June, 2012		31st December, 2011	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	54,690	0.05	206,788	0.19
– 1 year or less but over 6 months	191,885	0.18	28,949	0.03
– Over 1 year	69,492	0.06	93,425	0.08
	316,067	0.29	329,162	0.30
Covered portion of overdue advances	255,078		276,712	
Uncovered portion of overdue advances	60,989		52,450	
	316,067		329,162	
Current market values of collateral held against covered portion of overdue advances	754,896		579,390	
Individual impairment allowances made on overdue advances	48,562		37,457	

Collateral held with respect to overdue advances to customers is mainly properties and vehicles.

	30th June, 2012		31st December, 2011	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	8,330	0.01	17,993	0.02

There were no advances to banks which are overdue nor rescheduled as at 30th June, 2012 and 31st December, 2011.

Unaudited Supplementary Financial Information

(D) OVERDUE AND RESCHEDULED ASSETS *(Continued)*

(ii) Other overdue assets

	30th June, 2012	31st December, 2011
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
– 1 year or less but over 6 months	172	398
– Over 1 year	535	292
	707	862
	30th June, 2012	31st December, 2011

Debt securities which have been overdue with respect to either principal or interest for periods of over 1 year	–	82,716
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There are no overdue debt securities included in “Financial assets designated at fair value through profit or loss” and “Available-for-sale financial assets” as at 30th June, 2012 (31st December, 2011: HK\$82,716,000 of overdue debt securities were included).

Included in “Other assets” as at 30th June, 2012 and 31st December, 2011, there are no receivables which are overdue.

(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.

	30th June, 2012			
<i>(In millions of HK\$ equivalent)</i>	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	22,255	8,683	30,938	76
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	7,888	141	8,029	4
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	1,805	6	1,811	4
	31,948	8,830	40,778	84

(E) NON-BANK MAINLAND CHINA EXPOSURES *(Continued)*

<i>(In millions of HK\$ equivalent)</i>	31st December, 2011			
	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
	<u>29,184</u>	<u>10,413</u>	<u>39,597</u>	<u>28</u>

(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.

	30th June, 2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	40	–	8,671,662	8,671,702
Mainland China	17,373,407	–	5,121,347	22,494,754
Australia	4,883,357	–	38,740	4,922,097
Other Asia Pacific	1,707,643	202,424	1,310,932	3,220,999
United States	2,626,407	–	2,696,760	5,323,167
Other North and South American countries	598,471	620,493	1,442,654	2,661,618
Middle East and Africa	326,656	–	309,983	636,639
Germany	47,402	–	2,098	49,500
United Kingdom	425,102	–	20,464	445,566
Other European countries	283,098	–	166,943	450,041
	<u>28,271,583</u>	<u>822,917</u>	<u>19,781,583</u>	<u>48,876,083</u>

Unaudited Supplementary Financial Information

(F) CROSS-BORDER CLAIMS *(Continued)*

	31st December, 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
	<u>30,269,407</u>	<u>829,915</u>	<u>20,287,650</u>	<u>51,386,972</u>

(G) COMPARATIVE FIGURES

As a result of the application of amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2012. Further details of these developments are disclosed in note 2 of "Notes to unaudited interim financial report".

Independent Review Report



To the Board of Directors of Wing Hang Bank, Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 8 to 52 which comprises the consolidated balance sheet of Wing Hang Bank, Limited as of 30th June, 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2012 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong
9th August, 2012

Interim Dividend and Other Information

INTERIM DIVIDEND

The Board is pleased to declare the payment of an interim dividend of HK\$0.46 (2011: HK\$0.46) per share to shareholders whose names appear on the register of members of the Bank on Tuesday, 28th August, 2012. The interim dividend will be paid in cash on Wednesday, 3rd October, 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 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 Tuesday, 4th September, 2012. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or around Wednesday, 3rd October, 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Friday, 24th August, 2012 to Tuesday, 28th August, 2012, both days inclusive, for the purposes of ascertaining shareholders entitled to the interim dividend. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Bank's share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 23rd August, 2012.

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 30th June, 2012, 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

Name of Director	Number of shares						Total	Percentage of issued share capital Note ⁽⁴⁾
	Personal interest	Family interest	Corporate interest	Option Note ⁽¹⁾	Award Note ⁽²⁾	Others		
FUNG Yuk Bun Patrick	3,261,500	–	–	140,000	567,500	Note ⁽³⁾	3,969,000	1.32
FUNG Yuk Sing Michael	3,168,250	60,000	–	110,000	283,750	Note ⁽³⁾	3,622,000	1.20
HO Chi Wai Louis	310,500	101,000	–	–	7,000	Note ⁽³⁾	418,500	0.14
LAU Hon Chuen Ambrose	74,725	–	–	–	–	–	74,725	0.02
Frank John WANG	51,000	–	–	80,000	344,000	–	475,000	0.16

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK OR ANY ASSOCIATED CORPORATION *(Continued)*

Subordinated Notes of the Bank

Name of Director	Amount (US\$)				Total
	Personal interest	Family interest	Corporate interest	Others	
FUNG Yuk Bun Patrick	2,000,000	–	–	4,000,000 Note ⁽⁵⁾	6,000,000
FUNG Yuk Sing Michael	–	400,000	4,100,000	4,000,000 Note ⁽⁵⁾	8,500,000
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 30th June, 2012 was 300,635,592 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 30th June, 2012, 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).

Interim Dividend and Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th June, 2012, 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	61,985,419 Note ⁽¹⁾	20.62
The Bank of New York Mellon	Interest in controlled corporation	61,985,419 Note ⁽¹⁾	20.62
BNY International Financing Corporation	Beneficial owner	61,985,419 Note ⁽¹⁾	20.62
Federal Trust Company Limited	Trustee	35,657,700 Notes ^{(2)&(3)}	11.86
Aberdeen Asset Management Plc and its subsidiaries	Investment manager	27,202,181 Note ⁽⁴⁾	9.05
YKF Holding (PTC) Corporation	Trustee	25,064,400 Notes ^{(2)&(3)}	8.34
Po Ding Company Limited	Trustee	24,819,000 Note ^{(2)&(3)}	8.26
Wing Hang Bank (Nominees) Limited	Nominee	23,378,400 Notes ^{(2)&(3)}	7.78
Aberdeen Asset Management Asia Limited	Investment manager	23,121,359 Note ⁽⁴⁾	7.69
JPMorgan Chase & Co.	Beneficial owner/ Investment manager/ Custodian	14,863,294 (Long position) 2,500,000 (Short position)	4.94 0.83
Tessel Inc.	Trustee	10,838,700 Notes ^{(2)&(3)}	3.61

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 30th June, 2012 was 300,635,592 shares.

Save as disclosed above, as at 30th June, 2012, 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.

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 29th June, 2012, being the last trading day of June, 2012, the closing price of the shares of the Bank on The Stock Exchange of Hong Kong Limited was HK\$74.85. Details of the movements of outstanding options granted under the 1993 Scheme and the Share Option Scheme during the six months ended 30th June, 2012 as required under the Listing Rules are disclosed as follows:

	Date of grant	Number of options				Exercise price HK\$	
		Outstanding as at 01/01/2012	Granted	Exercised	Lapsed/ cancelled		Outstanding as at 30/06/2012
Director							
FUNG Yuk Bun Patrick	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	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⁾							
	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
		595,000	—	—	—	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.

Interim Dividend and Other Information

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 than 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					Fair value of awards at the date of grant HK\$
Date of grant	As at 01/01/2012	Granted	Vested	Lapsed/ cancelled	As at 30/06/2012		
Director							
FUNG Yuk Bun Patrick	21/05/2004 ⁽¹⁾	170,000	–	30,000	–	140,000	42.80
	23/01/2006 ⁽¹⁾	450,000	–	22,500	–	427,500	56.20
FUNG Yuk Sing Michael	21/05/2004 ⁽¹⁾	85,000	–	15,000	–	70,000	42.80
	23/01/2006 ⁽¹⁾	225,000	–	11,250	–	213,750	56.20
HO Chi Wai Louis	21/05/2004 ⁽¹⁾	8,500	–	1,500	–	7,000	42.80
Frank John WANG	21/05/2004 ⁽¹⁾	106,250	–	18,750	–	87,500	42.80
	23/01/2006 ⁽¹⁾	270,000	–	13,500	–	256,500	56.20
Employees⁽³⁾	21/05/2004 ⁽¹⁾	51,000	–	9,000	–	42,000	42.80
	23/01/2006 ⁽¹⁾	615,000	–	30,750	–	584,250	56.20
	29/01/2007 ⁽¹⁾	140,000	–	–	–	140,000	94.60
	05/11/2009 ⁽²⁾	105,000	–	–	–	105,000	74.50
		2,225,750	–	152,250	–	2,073,500	

(1) Awards were granted under the 2004 EIP.

(2) Awards were granted under the 2009 EIP.

(3) The number of employees involved is 14.

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 six months ended 30th June, 2012.

CORPORATE GOVERNANCE

The Bank has applied the principles and complied with the code provisions and certain recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2012 except for the deviation from code provision A.2.1 (the roles of chairman and chief executive officer should be separate). The considered reasons for this deviation have been reported in the Corporate Governance Report contained in the 2011 Annual Report of the Bank published in March 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 six months ended 30th June, 2012.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Mr LAU Hon Chuen Ambrose

Resigned as independent non-executive director of Qin Jia Yuan Media Services Company Limited with effect from 8 August 2012.

Mr TUNG Chee Chen

Ceased as independent non-executive director of Zhejiang Expressway Co., Ltd. with effect from 11 June 2012.

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

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

The interim financial report for the six months ended 30th June, 2012 complies fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

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.

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 improves 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 recognised 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 the first half of 2012 compare to a year ago:

- Saved 63,000 kg of papers from recycling
- Saved 70,000 kwh electricity

Making every effort to support green groups and the environment, we took part in the Earth Hour 2012 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 6 years, the sponsored funding is used for environmental education in the community.

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 licenses or certifications to guarantee their environmental protection standards.

COMMUNITY RESPONSIBILITY

Equal Opportunity

The Group ensures equal opportunity in employment. The Bank hires disabled staff as 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.

COMMUNITY RESPONSIBILITY *(Continued)*

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 realise 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 counseling services, useful living tips and information circulars. The program aims to provide confidential and professional counseling 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 9 consecutive years, the Bank has been awarded the 5 years + Caring Company Logo by the Hong Kong Council of Social Services in recognition of our relentless efforts in social responsibility.

In the first half of 2012 we continued to make significant progress in expanding our CSR activities.

Donations and Sponsorships

In the first half of the year, the Group provided approximate HK\$283,000 in donations and sponsorship for social initiatives including Oxfam Hong Kong, Green Power, St. James' Settlement and WWF-HK. In the first half of 2012, the Bank was awarded the Gold Award in the Community Chest of "Corporate & Employee Contribution Program". The Bank was also awarded the Oxfam Corporate Donor Award for 5 consecutive years.

Apart from these donations, our subsidiary, Banco Weng Hang, is one of the most active partners of ORBIS Macau and Macau Caritas. Through our long-established affinity credit card programs with these two organisations, in the first half of 2012, MOP291,000 was donated to them through Banco Weng Hang's credit card programs.

COMMUNITY RESPONSIBILITY *(Continued)*

Community Services (Continued)

Volunteer Services

The Bank gives more than just money.

In the first half of 2012, 715 Group volunteers devoted 4,026 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 7 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.

Besides, the Bank also supported the disadvantaged outside the local community. In the first half of 2012, the volunteer team in Hong Kong went to Yaozhai of Lianzhou to volunteer poverty alleviation activities.

Wing Hang Bank (China) in the first half of 2012 focused on providing community services to disadvantaged children. Wing Hang Bank (China) donated books, stationery, and clothing to the underprivileged primary students in different regions. Shanghai Branch was awarded Earth Hour 2012 by WWF-Beijing. Beijing Branch supported educating the public on identifying anti-counterfeit money features.

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
- Top 10 Donors of Dress Causal Day of the Community Chest of Hong Kong since 1994
- Second Runner-up of 10km of the 19th Green Power Hike for a Green Future
- Gold Award of Oxfam Corporate Donor
- Outstanding Rice Stall Fundraiser of “Oxfam Rice Sale 2012”
- Champion of Team Category 12km Short Route of the Hike for Hospice

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 minimise impact to the environment. The Group will also continue to support various Non Government Organisations and participate in voluntary work projects and fund-raising activities to further support our community. For the rest of 2012, we continue our commitment to embody CSR in our everyday business activities.



永亨銀行有限公司
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