永亨銀行
WING HANG BANK

Stock Code：302

2012

Annual Report

Contents

Corporate Profile

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

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

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

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

At the end of 2012, the Group's total assets and shareholders' funds amounted to HK$197.4 billion and HK$19.5 billion respectively, net profit attributable to shareholders for 2012 was HK$1,802.4 million.

Group Results in Brief

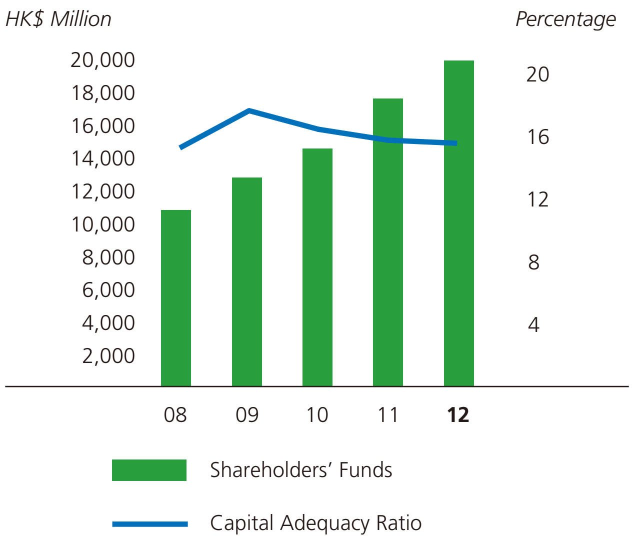
FOR THE YEAR	2012 HK$ million	2011 (restated) HK$ million	Increase/ (decrease) %	2012 US$ million
Profit Attributable to Shareholders	**1,802**	2,149	(16)	**232.48**
Dividends	**628**	537	17	**81.02**
PER SHARE	**HK$**	HK$	%	**US$**
Basic Earnings	**6.00**	7.24	(17)	**0.77**
Interim and Final Dividends	**2.08**	1.80	16	**0.27**
Net Asset Value	**64.65**	57.75	12	**8.34**
AT YEAR END	**HK$ million**	HK$ million	%	**US$ million**
Shareholders' Funds	**19,534**	17,256	13	**2,520.1**
Total Deposits	**169,590**	161,320	5	**21,878.9**
Advances to Customers	**114,054**	110,578	3	**14,714.2**
Total Assets	**197,364**	187,249	5	**25,462.1**
RATIO	**%**	%		
Cost to Income Ratio	**47.6**	45.8		
Return on Average Assets	**0.95**	1.20		
Return on Average Shareholders' Funds	**9.8**	13.7		

US$1.00=HK$7.7513

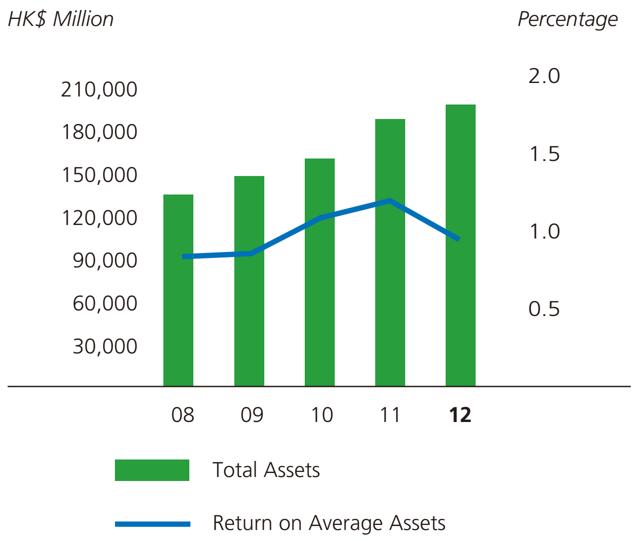
Five-Year Group Financial Summary

HK$ million	2008	2009	2010	2011 (restated)	**2012**
Shareholders' Funds	10,587	12,521	14,279	17,256	**19,534**
Total Deposits	117,107	127,416	137,062	161,320	**169,590**
Advances to Customers	80,256	80,497	97,254	110,578	**114,054**
Total Assets	134,400	147,124	159,297	187,249	**197,364**
Operating Income	3,785	2,853	3,298	3,785	**3,891**
Operating Expenses	1,561	1,571	1,610	1,735	**1,852**
Profit Attributable to Shareholders	1,162	1,205	1,626	2,149	**1,802**
Dividends	313	207	407	537	**628**
HK$					
Basic Earnings per Share	3.94	4.08	5.51	7.24	**6.00**
Interim and Final Dividends per Share	1.06	0.70	1.38	1.80	**2.08**
Ratio					
Loan to Deposit Ratio	68.5	63.2	71.0	68.5	**67.3**
Capital Adequacy Ratio	15.4	17.8	16.6	15.9	**15.7**
Average Liquidity Ratio	44.1	53.6	45.6	39.9	**38.6**
Cost to Income Ratio	41.2	55.1	48.8	45.8	**47.6**
Return on Average Assets	0.84	0.86	1.09	1.20	**0.95**
Return on Average Shareholders' Funds	10.8	10.6	12.2	13.7	**9.8**

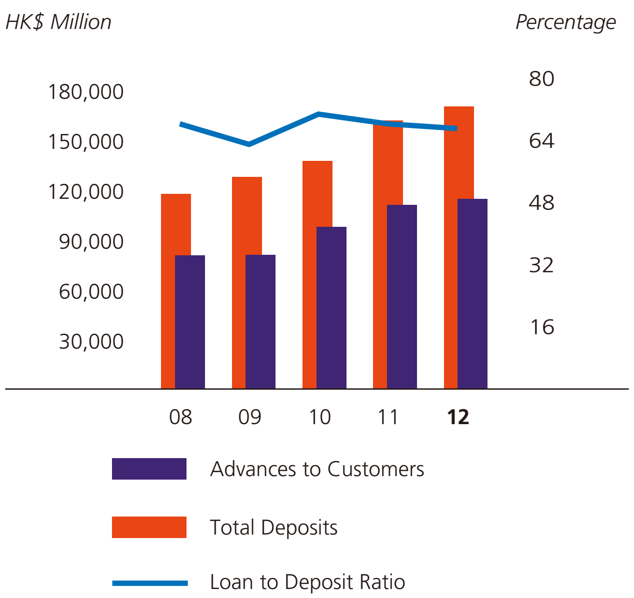
Shareholders' Funds / Capital Adequacy Ratio



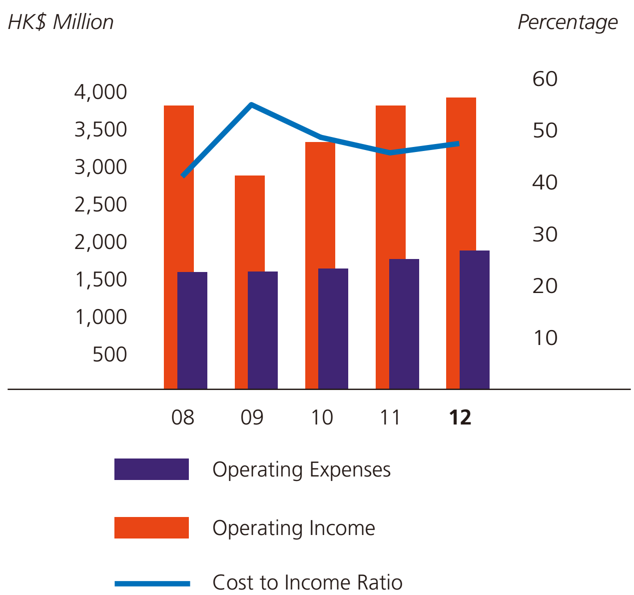
Total Assets / Return on Average Assets



Advances to Customers / Total Deposits / Loan to Deposit Ratio



Operating Expenses / Operating Income / Cost to Income Ratio



Corporate Information

Board of Directors

Chairman

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Executive Committee

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr LEUNG Chiu Wah

Auditors

KPMG
Certified Public Accountants

Registered Office

161 Queen's Road Central, Hong Kong

Share Listing

The Stock Exchange of Hong Kong Limited

Share Registrars

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

ADR Depositary Bank

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

Affiliated with the Bank of New York Mellon Corporation

Biographical Details of Directors

Dr FUNG Yuk Bun Patrick JP

Chairman & Chief Executive

Aged 65. Dr FUNG joined the Bank in 1976 and was appointed a Director in 1980, Chief Executive in 1992, and Chairman in April 1996. He is a member of the Executive Committee and also the Chairman of various subsidiaries and committees of the Bank. Dr FUNG is a non-executive director of Miramar Hotel and Investment Company, Limited and an independent non-executive director of The Link Management Limited, the manager of The Link Real Estate Investment Trust. Miramar Hotel and Investment Company, Limited and The Link Real Estate Investment Trust are listed on The Stock Exchange of Hong Kong Limited. He is a member of the Hong Kong Tourism Board, a member of the Court of the Hong Kong Polytechnic University, a court member of the Hong Kong University of Science and Technology, Vice President of the Hong Kong Institute of Bankers and a member of Board of Governors of The Hong Kong Philharmonic Society Limited.

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

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

Mr Frank John WANG

Executive Director & Deputy Chief Executive

Aged 61. Mr WANG joined the Bank as Executive Director and Deputy Chief Executive in June 1999. He is a member of the Executive Committee, Credit Committee and Management Committee of the Bank and a director of various subsidiaries of the Bank. Mr WANG is also a former member of Deposit Taking Company Advisory Committee. He previously worked with The Bank of New York Mellon and has extensive credit control experience.

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

Mr FUNG Yuk Sing Michael

Executive Director & Senior General Manager

Aged 63. Mr FUNG joined the Bank in 1978 and was appointed an Executive Director in 1992. He is a member of the Executive Committee, Credit Committee, Management Committee and a director of various subsidiaries of the Bank.

Mr FUNG obtained his Bachelor of Arts Degree from the Carleton University in Ottawa, Canada.

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

Mr HO Chi Wai Louis

Non-executive Director

Aged 76. Mr HO joined the Bank in 1972. He was appointed an Executive Director in October 1995 and re-designated as Non-executive Director of the Bank on 1st July, 2008. He is also a member of Nomination Committee of the Bank. Before his re-designation as a Non-executive Director of the Bank, Mr HO was the Company Secretary and a member of the Management Committee and Credit Committee of the Bank.

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

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

Mr Stephen Dubois LACKEY

Non-executive Director

Aged 56. Mr LACKEY joined the Board in July 2011 and is a member of Audit Committee of the Bank. He is currently the Chairman of Asia Pacific for The Bank of New York Mellon and a member of its Executive Committee. Immediately prior to taking up his current position, he served as Head of Global Corporate Development and Investor Relations of The Bank of New York Mellon in New York. Mr LACKEY has substantial experience in the banking industry.

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

Mr Brian Gerard ROGAN

Non-executive Director

Aged 55. Mr ROGAN joined the Board in January 2009. He is currently a Vice Chairman and Chief Risk Officer of The Bank of New York Mellon Corporation and its subsidiary, The Bank of New York Mellon. Mr ROGAN also served on the board of directors of two subsidiary companies of The Bank of New York Mellon Corporation. Mr ROGAN started his career with The Bank of New York in 1981. He has extensive experience in the banking industry.

Biographical Details of Directors

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

Dr CHENG Hon Kwan GBS, JP

Independent Non-executive Director

Aged 85. Dr CHENG joined the Board in 1987. He is the Chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Bank. Dr CHENG is also an independent non-executive director of Agile Property Holdings Limited, Hang Lung Group Limited, Hang Lung Properties Limited and Tianjin Development Holdings Limited. The above companies are listed on the Stock Exchange. Dr CHENG is a former member of the Executive Council and Legislative Council, and former Chairman of Land and Building Advisory Committee, Transport Advisory Committee, Hong Kong Housing Authority, Councils of City University and Open University of Hong Kong.

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

Mr LAU Hon Chuen Ambrose GBS, JP

Independent Non-executive Director

Aged 65. Mr LAU joined the Board in 1996. He is a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Bank. Mr LAU is an independent non-executive director of Brightoil Petroleum (Holdings) Limited, Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited (Formerly known as "GZI Transport Limited"), The Hong Kong Parkview Group Limited, Yuexiu Property Company Limited and The People's Insurance Company (Group) of China Limited. He was formerly an independent non-executive director of Qin Jia Yuan Media Services Company Limited. The above companies are listed on the Stock Exchange.

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

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

Mr TSE Hau Yin Aloysius

Independent Non-executive Director

Aged 65. Mr TSE joined the Board in November 2004. He is a member of the Audit Committee of the Bank. He is also the Supervisor of two subsidiaries of the Bank incorporated in Macau and China. Mr TSE is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), a former president and a member of the Audit Committee of the HKICPA. Mr TSE joined KPMG in 1976 and became a partner in 1984 and retired in March 2003. Mr TSE was the non-executive chairman of KPMG's operations in the PRC and a member of the KPMG China Advisory Board from 1997 to 2000. Mr TSE also serves as independent non-executive director in a number of listed companies in Hong Kong, including China Telecom Corporation Limited, CNOOC Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM Holdings Limited. He is currently a member of the International Advisory Council of The People's Municipal Government of Wuhan. He had also served as independent non-executive director of China Construction Bank Corporation for the period from November 2004 to June 2010.

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

Mr TUNG Chee Chen

Independent Non-executive Director

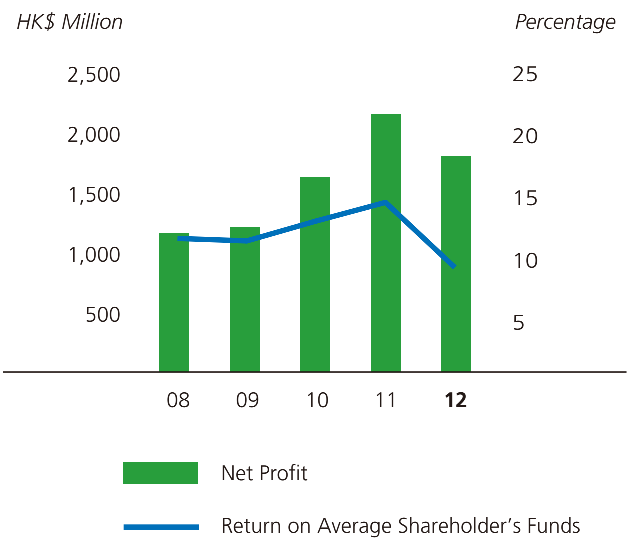
Aged 70. Mr TUNG joined the Board in January 2004. He is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited and an independent non-executive director of a number of listed companies, including BOC Hong Kong (Holdings) Limited, Cathay Pacific Airways Limited, Sing Tao News Corporation Limited and U-Ming Marine Transport Corp. He was formerly an independent non-executive director of PetroChina Company Limited and Zhejiang Expressway Company Limited.

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

Chairman's Statement

Dr FUNG Yuk Bun Patrick JP
Chairman & Chief Executive

Net Profit / Return on Average Shareholders' Funds



For the year ended 31st December 2012, profit attributable to shareholders declined by 16.1 percent to HK$1,802.4 million compared to HK$2,148.9 million in 2011. If the gains on properties disposal had been excluded from the previous year's figures, earnings would have decreased slightly by 5.6 percent. Earnings per share correspondingly decreased by 17.1 percent to HK$6.00. The Board has recommended a final dividend of HK$1.62 per share. Together with the interim dividend of HK$0.46 paid in October 2012, the total distribution for the year amounts to HK$2.08 per share, an increase of 15.6 percent over 2011.

Chairman's Statement

Hong Kong's economy rebounded modestly in the third quarter of 2012 as real GDP grew by 1.3 percent over the same period the previous year. Private consumption and fixed asset investments were the main drivers of economic growth. Consumption growth was spurred by reduced inflation and a relatively stable job market. Inflation fell to 3.7 percent in December 2012 from 6.1 percent at the beginning of the year. The unemployment rate remained within a range of 3.2 percent to 3.4 percent throughout the year. Investment growth was fuelled by a number of infrastructure projects in the pipeline. While exports remained weak, they rebounded by 4.0 percent in the third quarter in tandem with the gradual recovery of the U.S. economy.

A notable change in the main drivers of economic growth last year was a substantial downturn of tourism spending on luxury goods. Retail sales grew by only 9.8 percent in value, a sharp reduction from the 24.8 percent growth recorded in 2011. A moderate rebound was noted in December but its sustainability is not assured.

In China, economic growth slowed to 7.8 percent in 2012 from 9.3 percent in 2011. This reduced growth rate was a result of weaker exports and sustained efforts by the government to cool the residential property market.

In Hong Kong, credit demand remained firm as total loans and advances jumped by 9.6 percent. However, most of the capital raised was for use outside Hong Kong. Domestically, the government implemented further increases on property transaction taxes including an additional stamp duty targeted at overseas purchasers. The HKMA also imposed tighter mortgage policies. These tightening measures have not yet had a significant impact on the mortgage market as outstanding residential mortgage loans increased by 8.4 percent in 2012, reflecting higher property prices and transaction volume in the residential property market before the tightening measures took effect.

Meanwhile our customer loans and deposits increased by 3.1 percent and 5.2 percent respectively. The higher demand for loans in Hong Kong was largely a result of increased residential mortgage financing, auto financing and equipment leasing, investment mortgages and corporate lending as well as robust loan demand in Macau. Deposit growth was mainly due to a surge in demand and savings deposits.

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

- Return on average shareholders' funds: 9.8 percent
- Loan-to-deposit ratio as at 31st December: 67.3 percent
- Average liquidity ratio: 38.6 percent
- Capital adequacy ratio as at 31st December: 15.7 percent
- Core capital adequacy ratio as at 31st December: 10.0 percent

The Group's network currently comprises 43 branches in Hong Kong, 12 branches in Macau and 15 branches and sub-branches on the Mainland. As at 31st December 2012, we employed a total of 3,394 staff.

Looking forward, we expect a moderate rebound of the Hong Kong economy in 2013, especially in the second half of the year. Investment growth should also remain strong supported by infrastructure development. Exports should improve supported by local infrastructure projects and the recovery of the U.S. economy. However, the euro-zone economy remains fragile and any further deterioration in the situation there could impact the global recovery.

Turning to inflation, the outlook looks less benign as we are seeing price rises across a broad spectrum of the economy including both property values and rentals as well as food imported from the Mainland. However, interest rates are expected to remain low as a result of the Federal Reserve's exceptionally low interest rate policy coupled with quantitative easing in other major developed economies.

In terms of strategy, we will continue to focus on China as the growth potential there remains firmly intact. The gradual liberalisation of China's capital account and the continued development of the offshore RMB business are creating new opportunities for our customers who can now enjoy seamless RMB banking services across the region.

Once again, I wish to extend my sincere gratitude to all our customers, shareholders and colleagues for their support of Wing Hang Bank. I am also indebted to the Board of directors for their continued support and counsel.

FUNG Yuk Bun Patrick
Chairman and Chief Executive

Hong Kong, 7th March, 2013

Review of Operations

Financial Review

For the year ended 31st December 2012, profit attributable to shareholders declined by 16.1 percent to HK$1,802.4 million compared to HK$2,148.9 million in 2011.

Here are the key financial statistics for the year:

- Profit before taxation decreased by 15.9 percent to HK$2,119.7 million largely due to the impact of a capital gain on the disposal of properties in the previous year which boosted the base figure.

- Net interest income increased by 2.9 percent to HK$2,953.6 million on improved loan volumes and debt securities investments. However, an increase in deposit funding costs impacted our net interest margin which narrowed 5 basis points to 1.62 percent. In China, the decline in interbank interest rate also reduce yield on our excess funds.

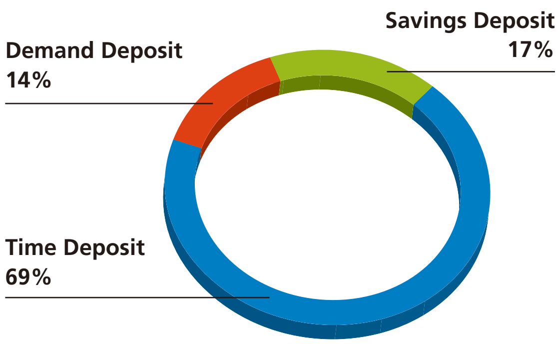
- Other operating income decreased 4.2 percent to HK$812.4 million as a result of reduced bills, loans and share brokerage commissions.

- Net unrealised gains on financial instruments held for trading and designated at fair value rose by 89.7 percent to HK$124.9 million as the market value of our debt securities portfolio increased.

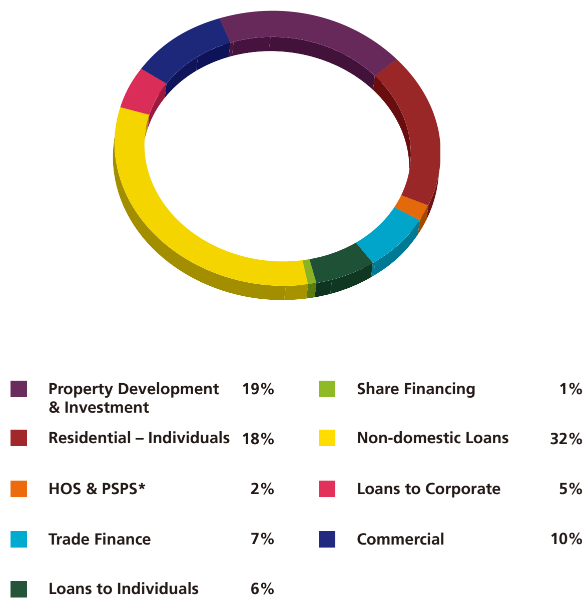
- Total operating expenses increased by 6.8 percent to HK$1,851.9 million. Consequently, the Group's cost-to-income ratio increased to 47.6 percent from 45.8 percent in 2011.

- Impairment losses and allowances for loans and advances stood at HK$235.8 million. This mainly comprised HK$251.8 million for our China operations. Impaired loans as of 31st December 2012 stood at HK$511.8 million, equivalent to just 0.45 percent of total loans.

Deposit Mix



Loan Composition



* Home Ownership Scheme and Private Sector Participation Scheme

- Net gains on the revaluation and disposal of properties decreased by 56.2 percent to HK$185.4 million. This decline was largely due to the disposal of properties in the previous year.

- Total deposits increased by 5.1 percent to HK$169.6 billion while customer deposits grew by 5.2 percent to HK$165.9 billion supported by a jump in demand and savings deposits.

- Total customer loans grew by 3.1 percent to HK$114.1 billion. This was largely supported by increased demand for residential mortgages, auto financing and equipment leasing, investment mortgage loans and corporate lending as well as higher loan demand in Macau. The increase was partially offset by a decline in the letter-of-credit financing business.

Retail Banking

Profit before taxation in the Retail Banking division increased by 4.1 percent over 2011.

Although market competition remained fierce in 2012, we managed to achieve respectable growth in the deposits and loans businesses. Our continued focus on excellent customer service and innovative products saw deposits grow by 5.2 percent while residential mortgage loans also increased by 18.0 percent.

In order to expand our customer base, we launched an array of promotional offers in deposit services, securities trading services, payroll services, retail shops programs, Elite Gold Banking and loans under the SME Financing Guarantee Scheme. These programs successfully attracted new retail shop customers, SME customers as well as high net worth individuals. Our total market share of loans under the SME Financing Guarantee Scheme now stands at over 3.0 percent.

In addition, we continue to strengthen our range of investment services; for instance with the adoption of a Computer Telephony Integration (CTI) system for securities trading. We have also expanded our range of online and mobile banking services. Fixed deposits and bill payment functions can now be accessed through mobile banking. Other new electronic services include instant inter-bank transfers, e-statements and e-advice services.

Apart from advancing our range of eBanking services, we are also committed to enhance the personal experience of our customers at branches. Several of the branches were upgraded last year. Now customers can manage their personal finances in a much more comfortable environment. We also pay close attention to security issue. We have been issuing new ATM chip cards to our customers and 30 of our branches have installed improved ATMs. The ATM chip card replacement schedule is expected to be completed by the 3rd quarter of 2013.

Looking forward, we will continue to expand our branch network and include more wealth management corners to maximise cross-selling opportunities. Our new Sheung Shui Branch opened in January 2013. The Bank is also stepping up direct marketing campaigns through the newly-established Phone Banking Department. At the same time we are broadening the scope of our eBanking platform by expanding the range of on-line investment services, such as IPO financing, while developing mobile banking services for our corporate customers. We are also considering to participate in the development of retail payment initiatives such as Electronic Bills Presentment and Payment and Near Field Communications mobile payment services.

Review of Operations

Consumer Finance

In spite of a fiercely competitive environment, Wing Hang Credit delivered solid growth across a range of product lines including personal loans, revolving loans and mortgages. In order to meet the individual needs of our customers, our focus is always on providing the highest standard of customer services and professionalism. One highlight during the year was the launch of a new Online Loan Centre in Kwai Fong. This aims to provide a convenient and simple way of making loan applications. It has the additional benefit of expanding our business scale and enlarging our customer base.

Looking forward, the company will place more emphasis on brand building in order to help differentiate our various loan programs from those of our competitors. We want to become the consumer finance provider of choice by building a strong and recognisable identity. This should enable us to achieve sustainable business growth in the years to come.

Auto and Equipment Leasing

The Auto and Equipment Leasing division continued to win new business leading to solid growth in our portfolios. Despite the rise of funding costs in 2012, we have continued to maintain our position as one of the Group's main profit generating centers. In Hong Kong, we have successfully maintained our leading position in the highly competitive vehicle finance market by offering quality customer services. Meanwhile in China we are expanding the higher-margin equipment leasing business.

Wing Hang Insurance

Insurance commissions increased by 14.3 percent in 2012 supported by the promotion of general insurance products as well as special lines of insurance. By working closely with our branches and business units, we have also been very successful in cross selling life and general insurance products to our customers.

Our insurance associates have continued to flourish. Hong Kong Life achieved very good results on premium products while Bank Consortium Trust made record profits.

Wing Hang Share Brokerage

The Hong Kong stock market remained volatile throughout 2012 as investor sentiment was buffeted by the unresolved euro-zone debt crisis and low global economic growth. Market turnover declined by 22.5 percent compared with the previous year despite the gradual recovery of the Hang Seng Index. This subdued trading environment inevitably affected our business.

Nevertheless, we have continued to invest in new technology in an effort to further expand our market share and provide value-added services to our customers.

Corporate Banking

After several years of developing and strengthening our relationship with large corporations, total corporate loan volumes increased by 8.1 percent over 2011. However, this increase was partially offset by the slowdown of letter-of-credit financing and lower-yield syndication loans. One very successful business line was trade bills which surged by more than 80 percent. As always, particular attention has been paid to the prudent credit management of our loan portfolio throughout the year.

In 2013, we will continue to focus on medium to large corporations offering high credit quality. As exports gradually recover, we will maintain close contact with our customers to capture business opportunities from any rebound in the trade financing business.

Treasury

Business in the Treasury division was boosted by increases in net interest and non-interest income as well as gains on the disposal of some debt securities investments. As a result, profit before taxation jumped 40.4 percent over the previous year. Partially offsetting this gain were unrealised losses on the change in fair value of our subordinated liabilities. At year end, our direct exposure to euro-zone debt was not material.

China

As expected, economic growth slowed markedly in China last year. This slowdown has led to the creation of financial difficulties for some enterprises on the mainland. In view of the increasing underlying credit risk, particularly for enterprises in the Zhejiang region, we have tightened our risk control regarding our corporate loan portfolio in China. Along with this prudent measure, our wholly-owned subsidiary Wing Hang Bank (China) Limited ("WHBCL") has focused more on retail lending. Our unsecured loan business targeting SMEs in Shenzhen and Guangzhou has been very well received. It has also won recognition from the respective local governments as we are seen to be actively supporting the local economy. Building on this initial success, we are now expanding the business model to Shanghai and Beijing. At the same time, WHBCL has also been expanding its auto financing and equipment leasing business, mirroring the success of our Hong Kong operation.

Turning to network expansion in China, we have opened a fifth sub-branch in Shenzhen in June 2012. Our second cross-location sub-branch in Huizhou was opened in August 2012, bringing our total network in China to 15.

As economic growth has slowed, the People's Bank of China has focused on easing market liquidity. It has also made the first step towards interest-rate liberalisation by allowing banks to offer deposit rates at up to 10.0 percent above the standard deposit rate. At the same time, banks are now able to quote lending rates at up to 30.0 percent below the standard rate. These measures have resulted in a narrowing of interest margins and consequently affected our profitability.

In October 2012, WHBCL officially launched its internet banking platform. This marked an important milestone in the development of our business in China. We believe the new platform will generate more interest in our products and services as customers are now able to enjoy all the benefits and convenience of internet banking.

Macau

Economic growth in Macau has remained strong as a result of the continuous expansion of the gaming and tourism industries. Real GDP grew by 10.0 percent in the first three quarters of 2012. Reflecting this strong growth, Banco Weng Hang delivered a solid 10.0 percent increase in net profit to 271.6 million patacas.

Net interest income increased 13.2 percent despite a challenging interest rate environment. While fierce competition drove up interest costs, this was more than offset by loan growth and an improvement in yields. Lower commissions from our share brokerage and wealth management service drove down non-interest income by 7.5 percent. This was largely a result of a sharp fall in trading volumes on the stock market last year. However, there was healthy growth in other business lines such as insurance and credit cards.

The lending business remained robust as total loans increased 19.0 percent compared to 2011. This was primarily supported by an increase in our residential mortgage business. Customer deposit growth was able to keep pace with loan growth. Deposits jumped 21.4 percent following a series of successful marketing campaigns to promote new savings products.

Report of the Directors

The Directors of Wing Hang Bank, Limited (the "Bank") have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31st December, 2012.

Principal Place of Business

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

Principal Activities

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

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 21 and 36 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2012 and the state of affairs of the Group and the Bank as at 31st December, 2012 are set out in the financial statements on pages 44 to 166.

The Board has recommended the payment of a final dividend of HK$1.62 (2011: HK$1.34) per share for the year ended 31st December, 2012 to shareholders whose names appear on the register of members of the Bank on Monday, 20th May, 2013, subject to shareholders' approval at the forthcoming annual general meeting of the Bank to be held on Thursday, 9th May, 2013 ("AGM"). The final dividend, if approved, will be paid in cash on Tuesday, 25th June, 2013, with an option to receive new, fully paid shares in lieu of cash ("Scrip Dividend Scheme"). The Scrip Dividend Scheme is conditional upon the passing of the relevant resolution at the AGM and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme. Details of the Scrip Dividend Scheme and the election form will be sent to shareholders on or around Tuesday, 28th May, 2013. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or around Tuesday, 25th June, 2013.

Reserves

Profit attributable to shareholders of HK$1,802,361,000 (2011 (restated): HK$2,148,895,000) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Major Customers

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

Fixed Assets

Details of the movements in fixed assets of the Group and of the Bank during the year are set out in note 23 to the financial statements.

Share Capital

During the year, the Bank issued 3,350,592 (2011: 3,518,178) ordinary shares at par value of HK$1.00 under the share option schemes, employee incentive plan and scrip dividend schemes of the Bank. Details of the share capital are set out in note 32 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK$1,308,000 (2011: HK$3,694,000).

Directors

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

Executive Directors

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

Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
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

In accordance with the Bank's Articles of Association, Dr FUNG Yuk Bun Patrick, Mr Frank John WANG and Mr TUNG Chee Chen will retire from office by rotation at the AGM. Dr FUNG and Mr WANG, being eligible, have offered themselves for re-election at the AGM. Mr TUNG will not offer himself for re-election at the forthcoming AGM. The Board confirmed that Mr TUNG has no disagreement with the Board and there are no matters relating to his retirement that need to be brought to the attention of shareholders of the Bank and the Stock Exchange. Other remaining Directors of the Bank will continue in office.

The Board expresses its great appreciation to Mr TUNG for his valuable contribution to the Bank during his tenure of office.

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

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

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

Changes in Information in respect of Directors

Changes in Directors' information since the date of the 2012 Interim Report of the Bank which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are set out below:

Biographical Details of Directors

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

Mr LAU Hon Chuen Ambrose
Appointed as independent non-executive director of The People's Insurance Company (Group) of China Limited with effect from 19th October, 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.

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

As at 31st December, 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")) are as follows:

Long positions in Ordinary Shares of the Bank

	Number of shares							
Name of Director	Personal interest	Family interest	Corporate interest	Option Note[(1)]	Award Note[(2)]	Others	Total	Percentage of issued share capital Note[(4)]
FUNG Yuk Bun Patrick	3,323,500	–	–	100,000	567,500	Note[(3)]	3,991,000	1.32
FUNG Yuk Sing Michael	3,219,250	60,000	–	80,000	283,750	Note[(3)]	3,643,000	1.21
HO Chi Wai Louis	310,500	101,000	–	–	7,000	Note[(3)]	418,500	0.14
LAU Hon Chuen Ambrose	75,231	–	–	–	–	–	75,231	0.02
Frank John WANG	51,000	–	–	80,000	344,000	–	475,000	0.16

Subordinated Notes of the Bank

Name of Director	Amount (US$) Personal interest	Family interest	Corporate interest	Others	Total
FUNG Yuk Bun Patrick	2,000,000	–	–	4,000,000 Note(5)	6,000,000
FUNG Yuk Sing Michael	–	400,000	4,100,000	4,000,000 Note(5)	8,500,000
HO Chi Wai Louis	–	230,000	–	4,000,000 Note(5)	4,230,000

Notes:

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

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

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

(4) The number of issued shares of the Bank as at 31st December, 2012 was 302,162,900 shares.

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

Save as disclosed above and for certain Directors holding non-beneficial interests in the share capital of some of the subsidiaries of the Bank as nominee shareholders, as at 31st December, 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).

Substantial Shareholders' Interests

As at 31st December, 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 position 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	62,405,312 Note[1]	20.65
The Bank of New York Mellon	Interest in controlled corporation	62,405,312 Note[1]	20.65
BNY International Financing Corporation	Beneficial owner	62,405,312 Note[1]	20.65
Federal Trust Company Limited	Trustee	35,898,700 Notes[(2)&(3)]	11.88
YKF Holding (PTC) Corporation	Trustee	25,233,900 Notes[(2)&(3)]	8.35
Po Ding Company Limited	Trustee	24,987,000 Note[3]	8.27
Wing Hang Bank (Nominees) Limited	Nominee	23,378,400 Notes[(2)&(3)]	7.74
Aberdeen Asset Management Plc and its subsidiaries	Investment manager	27,202,181 Note[4]	9.00
Aberdeen Asset Management Asia Limited	Investment manager	23,121,359 Note[4]	7.65
Tessel Inc.	Trustee	10,911,700 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 31st December, 2012 was 302,162,900 shares.

Save as disclosed above, as at 31st December, 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.

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

(1) Purpose of the Share Option Scheme

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

(2) Participants of the Share Option Scheme

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

(3) Maximum number of shares available for issue

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

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

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

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

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

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

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

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

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

(8) The basis of determining the exercise price

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

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

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

(9) The remaining life of the Share Option Scheme

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

As at the date of this report, the total number of shares of the Bank available for issue under the Share Option Scheme is 13,793,000 shares, which represents 4.7% of the issued share capital of the Bank on the same day. On 31st December, 2012, the closing price of the shares of the Bank on the Stock Exchange was HK$80.90. Details of the movements of outstanding options granted under the 1993 Scheme and the Share Option Scheme during the year ended 31st December, 2012 as required under the Listing Rules are disclosed as follows:

		Number of options					
	Date of grant	Outstanding as at 01/01/2012	Granted	Exercised	Lapsed/ cancelled	Outstanding as at **31/12/2012**	Exercise price
							HK$
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	–	110,000	–	**485,000**	

(1) Options were granted under the 1993 Scheme.

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

(3) The number of employees involved is 7.

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

Employee Incentive Plans

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

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

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

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

		Number of awards					
	Date of grant	As at 01/01/2012	Granted	Vested	Lapsed/ cancelled	As at **31/12/2012**	Fair value of awards at the date of grant
							HK$
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.

Management Contract

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

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

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year ended 31st December, 2012.

Human Resources

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

Employee Statistics

As at 31st December, 2012, the Group's total staff number is as follows:

Hong Kong	2,161
Mainland China	761
Macau	472
	3,394

Employee Remuneration

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

Employee Care

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

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

Employee Development

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

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

Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 39 to the financial statements.

Corporate Governance

The Bank's corporate governance practices are set out in the Corporate Governance Report on pages 26 to 37.

Compliance with the Banking (Disclosure) Rules

The financial statements for the year ended 31st December, 2012 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Public Float

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

Auditors

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

On behalf of the Board

FUNG Yuk Bun Patrick
Chairman & Chief Executive

Hong Kong, 7th March, 2013

Corporate Governance Report

Corporate Governance Practices

The Bank has applied the principles and complied with the code provisions and certain recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules throughout the year ended 31st December, 2012, except for the deviation from code provision A.2.1. Considered reasons for the deviation are stated in the following relevant paragraphs.

The Bank has also complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority ("HKMA").

Directors' Securities Transactions

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2012.

Board of Directors

Board Composition

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

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

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

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

During the year, five board meetings were held. Dr FUNG Yuk Bun Patrick, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr Stephen Dubois LACKEY, Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr TSE Hau Yin Aloysius attended all meetings. Mr HO Chi Wai Louis and Mr TUNG Chee Chen attended four meetings. Mr Brian Gerard ROGAN attended three meetings.

The 2012 Annual General Meeting of the Bank ("AGM") was held on 3rd May, 2012. Dr FUNG Yuk Bun Patrick, Chairman of the Board, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis (Member of Nomination Committee), Dr CHENG Hon Kwan (Chairman of Audit Committee and Remuneration Committee and Member of Nomination Committee), Mr LAU Hon Chuen Ambrose (Chairman of Nomination Committee and Member of Remuneration Committee), Mr TSE Hau Yin Aloysius (Member of Audit Committee) and Mr TUNG Chee Chen attended the AGM.

Chairman and Chief Executive

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

Non-executive Directors

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

Directors' Continuous Training and Development

Pursuant to the amendments to the Corporate Governance Code of the Listing Rules which took effect on 1st April, 2012, under code provision A.6.5, all directors should participate in Continuous Professional Development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board remain informed and relevant.

The Bank has put in place a training and development program for Directors which includes (i) a comprehensive, formal and tailored induction pack for newly appointed Directors; and (ii) on-going professional development training for directors.

During the period from 1st January, 2012 to 31st December, 2012, all Directors of the Bank received regular briefings on economic updates, the Group's business, operations, risk management and corporate governance matters as well as new rules and regulations and changes to rules and regulations applicable to the Group. The Directors also attended seminars and read materials on various relevant topics. All Directors have provided the Bank with their training records.

Evaluation of Board Performance

In order to improve the performance of the Board, the Board conducted a formal performance evaluation in 2012. Each Director has completed a self evaluation questionnaire and results of the self evaluation were presented to the Board in January 2013. Based on the results of the evaluation and comments received from individual directors, the Board and senior management will take appropriate follow up actions to further improve the performance of the Board.

Corporate Governance Report

Board Diversity Policy

Pursuant to the amendments to the Corporate Governance Code relating to board diversity that will take effect from September 2013, the Bank has established a Board Diversity Policy which was adopted on 7th March, 2013 as follows:

Purpose

The Board Diversity Policy (the "Policy") sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

Scope of Application

The Policy applies to the Board. It does not apply to diversity in relation to employees of the Bank.

Policy Statement

The Bank recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

The Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. In addition to its terms of reference, which is publically available, the Nomination Committee will also take into account the following:

- in reviewing Board composition, the Nomination Committee will consider the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Bank's business. To achieve diversity of Board members, the Nomination Committee will consider a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience. The Nomination Committee shall also take into account the Bank's business model and specific needs, and shall disclose the rationale for the factors it uses for this purpose; and

- in identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

Measurable Objectives

The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Nomination Committee will monitor progress towards the achievement of these objectives.

Monitoring and Reporting

The Nomination Committee will report annually, in the Bank's Corporate Governance Report in the Annual Report Disclosures, on the process it has used in relation to Board appointments. Such report will include a summary of this Policy, the measurable objectives set for implementing the Policy and progress on achieving those objectives.

Review of the Policy

The Nomination Committee will review the Policy annually, which will include an assessment of the effectiveness of the Policy. The Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

Corporate Strategy and Business Model

The Group is a leading financial service provider in Hong Kong, Macau and selected cities in the mainland. We aim to be the preferred choice of our customers for financial services and to increase shareholders' value by maintaining a consistent growth in return on equity.

Strategic Direction

The Group is operating in three major geographical regions that are dynamic and competitive. To be successful, we need to be focused and responsive as business environments are challenging and ever changing. The Group's strategic objective is to continue to strengthen both business and operational aspects of the Group to ensure satisfactory returns to shareholders and to further improve the competitiveness of the Group. Based on its competitive position, the Group's strategy has two parts:

1. **Further strengthen our market position in Hong Kong and Macau**
   As our operating platform and customer base increase, we shall continue to strengthen our position in the Hong Kong and Macau markets by growing our core businesses as well as in those areas with high growth potential.

2. **Grow our China business**
   In light of the high growth potential in China where we have a strategic presence, we aim to expand our businesses in regions where we have core competence, with our main focus in the Pearl River Delta region.

Core Values

All activities of the Group are conducted in the context of the following values:

- **Strong Credit Culture**
  All lending activities must conform to a prudent credit policy and all lending staff must be attuned to the Bank's professional and diligent credit environment and mentality.

- **Superior Customer Service and Trust**
  We must strive to win the trust of our customers by providing the highest quality and the most user-friendly services.

- **Teamwork and Professional Work Force**
  All staff should be coached to be a team worker and with a spirit of co-operation amongst a professional workforce that strives for excellence.

- **Product & Service Innovation**
  We must be proactive in product and service development by keeping in close touch with innovations in the market with a goal to quickly implement and meet the needs of our target customers.

- **Ethical and Professional Conduct**
  All our dealings with the public, our customers and staff must be conducted at the highest level of ethical and professional standards in order to maintain the trust of our customers and corporate reputation of the Bank.

Board Committees

Remuneration Committee

The Remuneration Committee was set up in 1995 with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank's policy and structure for remuneration of all Directors and senior management of the Bank, by reference to corporate goals and objectives as determined by the Board from time to time. The model for the Remuneration Committee described in code provision B.1.2(c)(ii) was adopted.

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

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

In January 2012, the Remuneration Committee met to review and recommend to the Board for approval the bonus payments to Executive Directors, senior management and key personnel upon assessing each of their performances for the year ended 31st December, 2011. Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose attended the meeting.

In March 2012, the Remuneration Committee reviewed and recommended to the Board for approval the salary packages of the Chief Executive, Group Executives, General Manager and Head of Internal Audit Division for the year ended 31st December, 2012.

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

Remuneration of Directors, Senior Management and key personnel

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

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

	2012	2011
No. of beneficiaries	**22**	22
	HK$'000	HK$'000
Fixed remuneration	**63,463**	59,028
Variable remuneration		
– Cash	**49,213**	43,370
– Shares based payment	**13,284**	14,507
	62,497	57,877
Deferred remuneration		
– Unvested		
– Cash	**21,375**	20,573
	147,335	137,478
Deferred remuneration		
At 1st January	**29,839**	18,533
– Awarded	**21,375**	20,573
– Paid out	**(5,494)**	(1,985)
– Forfeited	**(14,059)**	(7,282)
At 31st December	**31,661**	29,839

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

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

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

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

No sign-on or severance payment was made to senior management and key personnel in 2012 and 2011.

Nomination Committee

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

The terms of reference require that the Nomination Committee shall comprise three Non-executive Directors. Currently, members of the Nomination Committee are Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr HO Chi Wai Louis. Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose are Independent Non-executive Directors. Mr HO Chi Wai Louis is a Non-executive Director. Mr LAU Hon Chuen Ambrose is Chairman of the Nomination Committee.

In January 2012, the Nomination Committee met to review and recommend to the Board for approval the revised terms of reference of the Committee and the proposal to extend the retirement age of the Chairman and Chief Executive. Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr HO Chi Wai Louis attended the meeting.

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

Audit Committee

During the year ended 31st December, 2012, there was no change in the composition of the Audit Committee. The Audit Committee continued to comprise three members, including two Independent Non-executive Directors namely Dr CHENG Hon Kwan who acts as Chairman, Mr TSE Hau Yin Aloysius, and one Non-executive Director Mr Stephen Dubois LACKEY. The Audit Committee also satisfies the requirement in Rule 3.21 of the Listing Rules that at least one of its members is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee of the Bank has clear terms of reference which are regularly reviewed (the latest version was approved by the Board on 8th March, 2012) and is accountable to the Board. Four meetings were held in 2012. Dr CHENG Hon Kwan and Mr TSE Hau Yin Aloysius attended all four meetings, whilst Mr Stephen Dubois Lackey attended three. An Executive Director, the Chief Internal Auditor and the external auditors were invited to attend regular meetings of the Audit Committee. The Chief Financial Officer was also present in those meetings wherein the financial performance of the Group was reviewed and discussed.

The work of the Audit Committee during 2012 included review of the financial performance of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the system of internal control, risk management and regulatory compliance. A meeting between the HKMA and the Audit Committee was held on 6th December, 2012 for the Audit Committee to brief the HKMA on the major control and risk issues discussed by the Audit Committee in 2012 and the key risk focus of internal audit and the audit plan for 2013, and for the HKMA representatives to update the Audit Committee members on the latest supervisory focus of the HKMA. The Audit Committee noted the emphasis of the HKMA on sufficiency of internal audit resources, operational risk management and asset quality; and on the capital adequacy of the Bank to meet the new capital requirements.

The Audit Committee reviewed the audit coverage and approved the 2013 internal audit plan and the audit support given by the Hong Kong Office to the subsidiaries, Wing Hang Bank (China) Limited in the Mainland, and Banco Weng Hang, S.A. in Macau. The Audit Committee is provided with sufficient resources, including the advice of external auditors and the support of the Internal Audit Division, to discharge its duties.

The Audit Committee monitored the external auditors' independence, objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee reviewed and recommended to the Board the appointment of external auditors for 2012. The issue of independence was carefully considered by the Audit Committee before it approved engagement of the external auditors for other consultancy or advisory services. During 2012, the Board agreed with the Audit Committee on the selection and appointment of the external auditors.

The Audit Committee reviewed the work, findings and recommendations of the internal auditors, and examined major investigation findings on internal control matters and management response to these findings. The results of the credit examination performed by the Risk Management Division of the Bank were also considered. The reportable cases for staff breaching the Code of Conduct of the Bank and the review reports related to control enhancement in credit assessment and monitoring were deliberated in the Audit Committee meetings. The Audit Committee also discussed issues raised by the external auditors and the regulators, and ensured that recommendations were properly implemented. Matters raised by the Audit Committee members were duly addressed by the Executive Director in the meeting. In respect of internal control and risk management, the Audit Committee reviewed the results of internal audit reports covering the independent review and verification of the assessment prepared by the group risk managers as documented in the Annual Review on Internal Control Report. During the year, other issues brought to the attention of senior management and the Board did not merit disclosure in the Annual Report.

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

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

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties:

- develop and review the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Bank's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- review the Bank's compliance with Appendix 14 to the Listing Rules on Corporate Governance Code and Corporate Governance Report.

During 2012, the Board has approved the revised Corporate Governance Policy which sets out how the Board shall perform its corporate governance duties.

Delegation by the Board

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

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

Executive Committee

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

Credit Committee

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

Management Committee

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

Asset and Liability Management Committee

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

Internal Controls

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

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

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

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

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 38 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review at the end of 2012 was conducted with reference to the COSO (The Committee of Sponsoring Organisations) internal control framework, which assesses the Bank's internal control system against the five elements, namely control environment, risk assessment, control activities, information and communication, and monitoring. The result has been reported to the Audit Committee and the Board.

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

Directors' Responsibility for the Preparation of the Financial Statements

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

Auditors' Remuneration

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

Company Secretary

The Company Secretary is a full time employee of the Bank and has day-to-day knowledge of the Bank's affairs. The Company Secretary reports to the Chairman and Chief Executive and is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has confirmed that he has undertaken no less than 15 hours of relevant professional training.

Constitutional Documents

During the year, there has been no significant change in the Bank's constitutional documents.

Communications with Shareholders

The Bank attaches great importance to communication with shareholders. Various communication channels are maintained with its shareholders through the publication of annual and interim reports, circulars, notices and results of general meetings and press releases. Further, the Bank's website contains an investor relations section which offers timely access to the Bank's press releases, other business information and information on the Bank's corporate governance structure and practices.

The annual general meeting is an important forum for the Board to communicate with shareholders. The Chairman of the Board, Executive Directors, Chairman of Audit Committee, Chairman of Nomination Committee and Chairman of Remuneration Committee or members of such committees are available at annual general meetings to answer shareholders' questions.

Corporate Governance Report

Calling an Extraordinary General Meeting

Pursuant to Section 113 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), shareholders holding not less than 5 percent of the paid-up capital of the Bank may requisition an Extraordinary General Meeting of the Bank.

The requisition must state the objects of the meeting, be signed by the requisitionist(s) and be deposited at the registered office of the Bank at 161 Queen's Road Central, Hong Kong for the attention of the Company Secretary. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

The requisition must also state the name(s) of the requisitionist(s), the contact details of the requisitionist(s) and the number of ordinary shares of the Bank held by the requisitionist(s).

The Directors must proceed to convene an Extraordinary General Meeting within 21 days from the date of the deposit of the requisition. Such meeting should be held on a day not more than 28 days after the date on which the notice convening the meeting is given.

If the Directors fail to convene the Extraordinary General Meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting. Any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

A meeting so convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Directors duly to convene a meeting shall be repaid to the requisitionist(s) by the Bank.

Putting Forward Proposals at General Meetings

Pursuant to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), shareholders holding not less than 2.5 percent of the total voting rights of the Bank, or, not less than 50 shareholders each holding specified number of shares in the Bank, may by requisition on writing to the Bank either put forward a proposal at a general meeting or circulate to other shareholders a written statement with respect to matter to be dealt with at a general meeting.

For further details on the shareholder qualifications, and the procedures and timeline in connection with the above, shareholders are requested to refer to Section 115A of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered office (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within a period of not less than seven days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting.

Putting Enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Bank's registered office. Questions about the procedures for convening or putting forward proposals at an Annual General Meeting or Extraordinary General Meeting may also be put to the Company Secretary by the same means.

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant board committees of the Bank, where appropriate, to answer shareholders' questions.

Shareholders Communication Policy

The Bank has established a Shareholders Communication Policy to set out the Bank's process to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessments of the Bank's strategy, operations and financial performance, and to encourage them to take active interest in the Bank.

Full contents of the Shareholders Communication Policy are available on the Bank's website: www.whbhk.com.

Hong Kong, 7th March, 2013

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 our 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 have 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 organization of CSR activities.

Risk Management

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

CSR in Wing Hang Bank

Governance Responsibility

- CSR Management
- Risk Management
- Business Ethics

Environmental Responsibility

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

Community Responsibility

- Equal Opportunity
- Employee Enrichment
- Community Services

Wing Hang volunteers supported the "24th Reading Carnival"

Our volunteers introduced Hong Kong to newly immigrated primary school students

Business Ethics

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

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

Environmental Responsibility

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

Green Office Campaign

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

Our achievements have been recognized with the award of "Class of Excellence Wastewi$e Label" and "Class of Excellence Energywi$e Label" under the Hong Kong Awards for Environmental Excellence organized 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 2012, compared to a year ago:

- Saved 83% of computer printout paper
- Saved 510,200 kwh electricity
- Saved 804,715 kg CO_2 by recycling 167,649 kg of waste paper
- Recycled 87% of printer cartridges

Making every effort to support green groups, the Group took part in the Earth Hour 2012 in our Head Office building in Central, Wing Hang Finance Centre in Wanchai and our offices in Beijing and Shanghai.

Continual Support of Environmental Activities

The Bank has been a participant of the Green Power Hike for A Green Future organized by Green Power in Hong Kong for the last 6 years, with the funding raised used for environmental education in the community. We were the silver member of WWF Hong Kong in 2012. We also participated in the Konica Minolta Green Concert Power Generating Challenge.

Eco-Friendly Customers and Suppliers

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

We also constantly educate our customers to make use of our electronic banking services, including e-statement to reduce paper usage.

Our Bank's major suppliers are environmentally conscious and most of them obtain licences or certifications to guarantee their environmental protection standard. They include our paper suppliers, refrigerant air conditioning system and lighting systems.

The Bank will also join the CarbonSmart Programme in 2013 and carbon audit will become part of our daily operation to help lower carbon level in Hong Kong.

Community Responsibility

Equal Opportunity

The Group ensures equal opportunity in employment and our workforce includes disabled staff. The Group encourages breaking down barriers and building a harmonious working environment for all staff. The Group will continue to carry out equal opportunity in our workforce.

Corporate Social Responsibility Report

Employee Enrichment

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

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

Training and Further Studies

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

Employee Assistance Program

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

Support the Hong Kong economy

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

Community Services

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

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 2012, we continued to make significant progress in expanding our CSR activities.

Donations and Sponsorships

In 2012, the Bank was awarded the Gold Award in the Community Chest of Hong Kong's "Corporate & Employee Contribution Program". The Group provided more than HK$1,308,000 in donations and sponsorships for social initiatives including The Community Chest of Hong Kong, St James' Settlement, Oxfam Hong Kong, Operation Santa Claus, Society for the Promotion of Hospice Care, Richmond Fellowship of Hong Kong, Green Power and The Hong Kong Parkinson's Disease Foundation.

Encouraging our younger generation to become active volunteers is an area the Bank always places emphasis. For this reason, we initiated the Wing Hang "V-are-One Program" with the Hong Kong Professional Teachers' Union. In 2012, students from 39 schools have participated in volunteer services projects sponsored by the Bank.

The Bank is also a keen sponsor of the Reading Carnival organized by the Hong Kong Professional Teachers' Union and the Hong Kong Public Library. Over 800 volunteer hours from the Bank were devoted to the event to promote reading through a variety of creative games with singing, drama and prose reading competitions sponsored by the Bank.

Award Presentation Ceremony and Sharing Session of "V-are-One-Program"

We sponsored and participated in the Oxfam Rice Sale 2012

Our subsidiary, Banco Weng Hang launched the ORBIS 30th Anniversary Charity Credit Card program with the theme of 30 art-pieces created by local artists. The Bank donates 0.3% of spending on each transaction to ORBIS Macau. It also supported a local charity organization Caritas Macau by leasing two premises to it at a nominal fee for their fund raising and food bank operations.

We supported "The ORBIS Charity Day 2012" organized by ORBIS Macau

The Bank has also contributed beyond the border to the Mainland community. In 2012, we participated in Yaozhai Lianzhou (瑤寨連州) mountain area poverty reduction program, and donated to the Oxfam China Development Fund.

In 2012, the Group supported 16 non government organizations by providing them with free services in the form of mailing and message delivery services for promoting their funding raising activities. In addition, our branch network was also used to support their activities by placing donation boxes at our branches.

Volunteer Services

The Bank gives more than just money.

In 2012, 1,884 of our volunteers devoted 14,084 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 8 consecutive years. With senior management support and encouragement, our employees commit their time, energy and care to various 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 organized by St James' Settlement. Since 2006, we have been the major sponsor of this project which aims to help underprivileged students by providing them with learning aids and sponsorships.

Our volunteer team actively participated in many charity and community events

Banco Weng Hang is one of the most active partners of ORBIS in Macau to support their mission to fight against preventable blindness worldwide. In 2012, we were one of the Event Co-organizers of ORBIS' 30th anniversary ORBIS Charity Day.

Our subsidiary, Wing Hang Bank (China) Limited in 2012 focused on promoting environmental awareness in the office and local communities. It also continued to actively provide community services to vulnerable segments of the community. Our staff donated books, stationery, and clothings to the underprivileged primary schools in different regions and visited local gerocomium, welfare houses, and low-income families to present daily necessities to improve their living conditions. We also participated in blood donation activity.

Staff from our Shenzhen Branch participated in blood donation activity

Corporate Social Responsibility Report

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 awarded by the Community Chest
- Gold Award of Volunteer Service awarded by the Social Welfare Department
- "Class of Excellence Wastewi$e Label" awarded by Hong Kong Productivity Council
- "Class of Excellence Energywi$e Label" awarded by Hong Kong Productivity Council
- Award of 10,000 hours of Volunteer Service by the Steering Committee on Promotion of Volunteer Service
- Champion of Corporate Team of the Hike For Society for the Promotion of Hospice Care
- Second Runner-up of "The 19th Green Power Hike for A Green Future"
- First Runner-up of Sowers Action Challenging 12 Hours 2012 Charity Marathon

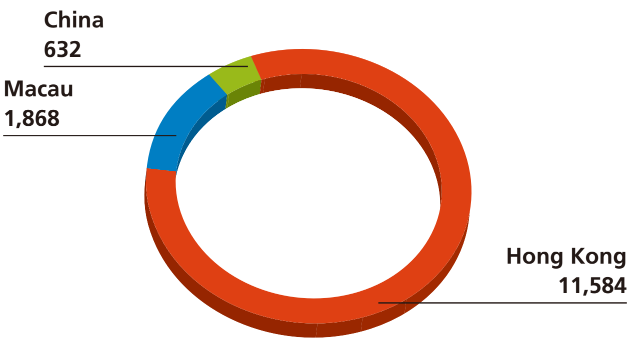
Staff from our Beijing Branch took part in the local tree-planting activities

Future

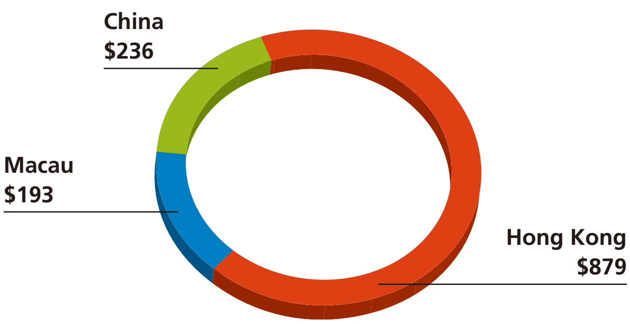
We are proud of our strong commitments in all CSR aspects. CSR practices in our Group are dynamic and on-going. Looking ahead, we will continue to identify opportunities to enhance our business practices from all CSR perspectives.

To spearhead this initiative, we shall devote additional efforts to develop environmental sustainability policies and process to minimize impact to the environment. The Group will also continue to support various non government organizations and participate in voluntary work projects and fund-raising activities to further support our community. In 2013, we will continue our commitment to embody CSR in our everyday business activities.

Volunteer Services Hours of the Group



Donations of the Group (HK$'000)



Independent Auditor's Report

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

We have audited the consolidated financial statements of Wing Hang Bank, Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 44 to 166, which comprise the consolidated and Bank balance sheets as at 31st December, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December, 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

7th March, 2013

Consolidated Income Statement

For the year ended 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2012**	2011 (restated)
Interest income	5(a)	**5,740,989**	5,285,132
Interest expense	5(b)	**(2,787,348)**	(2,413,912)
Net interest income		**2,953,641**	2,871,220
Other operating income	5(c)	**812,356**	848,105
Net gains from trading and financial instruments designated at fair value through profit or loss	5(d)	**124,873**	65,825
Non-interest income		**937,229**	913,930
Operating income		**3,890,870**	3,785,150
Operating expenses	5(f)	**(1,851,862)**	(1,734,660)
Operating profit before impairment losses and allowances		**2,039,008**	2,050,490
Impairment losses and allowances charged on loans and advances	18(e)	**(235,814)**	(29,812)
Impairment losses and allowances released from / (charged on) available-for-sale financial assets	20(b)	**3,626**	(18,463)
Operating profit		**1,806,820**	2,002,215
Net gains on revaluation of properties and disposal of tangible fixed assets	6(a)	**185,360**	423,095
Net gains on disposal of available-for-sale financial assets	6(b)	**86,604**	45,208
Share of net gains of associated companies	22	**40,960**	50,326
Profit before taxation		**2,119,744**	2,520,844
Taxation	7(a)	**(317,383)**	(372,191)
Profit for the year		**1,802,361**	2,148,653
Attributable to:			
Equity shareholders of the Bank	8	**1,802,361**	2,148,895
Non-controlling interests		**–**	(242)
Profit for the year		**1,802,361**	2,148,653
Earnings per share	12	**HK$**	HK$
Basic		**6.00**	7.24
Diluted		**5.96**	7.17

The notes on pages 50 to 166 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank are set out in note 9.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2012**	2011 (restated)
Profit for the year		**1,802,361**	2,148,653
Other comprehensive income			
General reserve:			
– Exchange adjustments on translation of financial statements of subsidiaries		**(375)**	115,479
Bank premises:			
– Surplus on revaluation of bank premises	23	**604,853**	609,595
– Deferred taxes		**(41,782)**	(16,401)
Available-for-sale financial assets:			
– Fair value changes to equity			
– on debt securities		**278,291**	60,550
– on equity securities		**27,171**	23,048
– Transfer to consolidated income statement			
– gains on disposal	6(b)	**(61,269)**	(31,184)
– Deferred taxes	7(d)	**(38,010)**	(9,150)
Other comprehensive income for the year, net of tax		**768,879**	751,937
Total comprehensive income for the year		**2,571,240**	2,900,590
Attributable to:			
Equity shareholders of the Bank		**2,571,240**	2,900,832
Non-controlling interests		**–**	(242)
Total comprehensive income for the year		**2,571,240**	2,900,590

The notes on pages 50 to 166 form part of these financial statements.

Consolidated Balance Sheet

As at 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2012**	2011 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**7,211,390**	9,160,862
Placements with banks, central banks and other financial institutions	14	**16,832,550**	24,426,296
Trade bills	15	**4,293,776**	2,339,751
Trading assets	16	**8,417,553**	3,079,836
Financial assets designated at fair value through profit or loss	17	**9,879,170**	4,820,918
Advances to customers and other accounts	18(a)	**116,625,435**	112,551,229
Held-to-maturity investments	19	**2,355,665**	–
Available-for-sale financial assets	20	**24,640,249**	24,405,751
Investments in associated companies	22	**229,723**	249,252
Tangible fixed assets	23		
– Investment properties		**899,342**	589,772
– Other properties, plants and equipment		**4,633,905**	4,279,921
Goodwill	24	**1,306,430**	1,306,430
Current tax recoverable	7(c)	**4,689**	7,880
Deferred tax assets	7(d)	**33,992**	30,893
Total assets		**197,363,869**	187,248,791
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	25	**1,091,462**	808,469
Deposits from customers	26	**165,935,458**	157,754,438
Certificates of deposit issued	27	**2,563,550**	2,756,649
Trading liabilities	28	**552,174**	1,082,405
Current tax payable	7(c)	**152,588**	166,876
Deferred tax liabilities	7(d)	**174,020**	152,892
Other accounts and provisions	29	**2,410,407**	2,585,523
Subordinated liabilities	30	**4,950,430**	4,685,528
Total liabilities		**177,830,089**	169,992,780
Share capital	32(a)	**302,163**	298,812
Reserves		**19,231,617**	16,957,199
Total equity		**19,533,780**	17,256,011
Total equity and liabilities		**197,363,869**	187,248,791

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

The notes on pages 50 to 166 form part of these financial statements.

Balance Sheet

As at 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2012	2011 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	13	**1,166,998**	3,008,638
Placements with banks, central banks and other financial institutions	14	**11,812,552**	13,016,932
Trade bills	15	**6,639,999**	4,289,943
Trading assets	16	**8,429,409**	3,094,410
Financial assets designated at fair value through profit or loss	17	**9,879,170**	4,820,918
Advances to customers and other accounts	18(a)	**70,978,639**	71,648,040
Amounts due from subsidiaries	37(b)(iii)	**12,173,019**	12,048,179
Held-to-maturity investments	19	**991,778**	–
Available-for-sale financial assets	20	**20,110,604**	20,389,432
Investments in subsidiaries	21	**3,032,126**	3,032,126
Investments in associated companies	22	**210,650**	257,171
Tangible fixed assets	23		
– Other properties, plants and equipment		**2,705,277**	2,449,514
Goodwill	24	**847,422**	847,422
Total assets		**148,977,643**	138,902,725
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	25	**370,016**	627,260
Deposits from customers	26	**118,608,105**	110,127,528
Certificates of deposit issued	27	**2,563,550**	2,756,649
Trading liabilities	28	**552,911**	1,085,126
Current tax payable	7(c)	**93,677**	82,153
Deferred tax liabilities	7(d)	**103,111**	67,113
Other accounts and provisions	29	**1,448,200**	1,498,158
Amounts due to subsidiaries	37(b)(iii)	**6,546,422**	5,698,101
Subordinated liabilities	30	**4,950,430**	4,685,528
Total liabilities		**135,236,422**	126,627,616
Share capital	32(a)	**302,163**	298,812
Reserves	32(b)	**13,439,058**	11,976,297
Total equity		**13,741,221**	12,275,109
Total equity and liabilities		**148,977,643**	138,902,725

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

The notes on pages 50 to 166 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

2012

	As previously reported as at 1st January	Prior year adjustments in respect of deferred tax	As restated as at 1st January	Shares issued under Share Option Scheme and Employee Incentive Plan and in lieu of dividends (Note 32(a))	Share premium under Employee Incentive Plan (Note 5(f))	Share premium in lieu of dividends	Dividends approved in respect of the previous year (Note 9(b))	Dividends declared in respect of the current year (Note 9(a))	Share of changes in associated companies	Transfer to/(from) reserve	Total comprehensive income for the year	At 31st December
Share capital	**298,812**	**–**	**298,812**	**263**	**–**	**3,088**	**–**	**–**	**–**	**–**	**–**	**302,163**
Share premium	**800,412**	**–**	**800,412**	**2,777**	**13,284**	**225,170**	**–**	**–**	**–**	**–**	**–**	**1,041,643**
Capital reserve	**283,888**	**–**	**283,888**	**–**	**–**	**–**	**–**	**–**	**–**	**11,817**	**–**	**295,705**
Statutory reserve	**286,407**	**–**	**286,407**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**286,407**
General reserve	**2,207,047**	**–**	**2,207,047**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(375)**	**2,206,672**
Bank premises revaluation reserve	**1,665,547**	**291,181**	**1,956,728**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,524)**	**563,071**	**2,492,275**
Investment revaluation reserve	**197,499**	**–**	**197,499**	**–**	**–**	**–**	**–**	**–**	**752**	**(96)**	**206,183**	**404,338**
Capital redemption reserve	**769**	**–**	**769**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**769**
Unappropriated profits	**11,163,636**	**60,813**	**11,224,449**	**–**	**–**	**–**	**(400,513)**	**(138,292)**	**–**	**15,803**	**1,802,361**	**12,503,808**
Total equity	**16,904,017**	**351,994**	**17,256,011**	**3,040**	**13,284**	**228,258**	**(400,513)**	**(138,292)**	**752**	**–**	**2,571,240**	**19,533,780**

2011
(restated)

	As previously reported as at 1st January	Prior year adjustments in respect of deferred tax	As restated as at 1st January	Shares issued under Share Option Scheme and Employee Incentive Plan and in lieu of dividends (Note 32(a))	Share premium under Employee Incentive Plan (Note 5(f))	Share premium in lieu of dividends	Dividends approved in respect of the previous year (Note 9(b))	Dividends declared in respect of the current year (Note 9(a))	Share of changes in associated companies	Liquidation of subsidary company and dividend paid	Disposal of Bank Premises	Transfer to/(from) reserve	Total comprehensive income for the year	At 31st December
Share capital	295,294	–	295,294	140	–	3,378	–	–	–	–	–	–	–	298,812
Share premium	508,540	–	508,540	2,277	14,507	275,088	–	–	–	–	–	–	–	800,412
Capital reserve	256,426	–	256,426	–	–	–	–	–	–	(15,000)	–	42,462	–	283,888
Statutory reserve	202,171	–	202,171	–	–	–	–	–	–	–	–	84,236	–	286,407
General reserve	2,091,568	–	2,091,568	–	–	–	–	–	–	–	–	–	115,479	2,207,047
Bank premises revaluation reserve	1,178,149	202,922	1,381,071	–	–	–	–	–	–	–	(1,027)	(16,510)	593,194	1,956,728
Investment revaluation reserve	154,284	–	154,284	–	–	–	–	–	(49)	–	–	–	43,264	197,499
Capital redemption reserve	769	–	769	–	–	–	–	–	–	–	–	–	–	769
Unappropriated profits	9,591,310	33,236	9,624,546	–	–	–	(318,918)	(136,940)	–	15,000	1,027	(109,161)	2,148,895	11,224,449
Attributable to equity shareholders of the Bank	14,278,511	236,158	14,514,669	2,417	14,507	278,466	(318,918)	(136,940)	(49)	–	–	1,027	2,900,832	17,256,011
Non-controlling interests	19,221	–	19,221	–	–	–	–	–	–	(18,979)	–	–	(242)	–
Total equity	14,297,732	236,158	14,533,890	2,417	14,507	278,466	(318,918)	(136,940)	(49)	(18,979)	–	1,027	2,900,590	17,256,011

The notes on pages 50 to 166 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2012**	2011
Net cash (outflow)/inflow from operating activities	35(a)	**(11,585,986)**	11,079,122
Investing activities			
Purchase of held-to-maturity and available-for-sale financial assets		**(11,276,566)**	(459,958)
Sale and redemption of held-to-maturity and available-for-sale financial assets		**10,547,511**	6,525,560
Liquidation of a subsidiary company		**–**	(16,004)
Loans repaid by an associated company	22	**46,521**	11,903
Purchase of properties and equipment		**(141,424)**	(707,102)
Sale of properties and equipment		**56,042**	315,758
Net cash (outflow)/inflow from investing activities		**(767,916)**	5,670,157
Financing activities			
Issue of new shares under Share Option Scheme and Employee Incentive Plan	32(a)	**3,040**	2,417
Dividends paid		**(310,547)**	(177,392)
Dividends paid to non-controlling interests by a subsidiary		**–**	(2,975)
Dividends received from associated company		**14,720**	–
Interest paid on subordinated liabilities		**(353,810)**	(354,779)
Net cash outflow from financing activities		**(646,597)**	(532,729)
(Decrease)/increase in cash and cash equivalents		**(13,000,499)**	16,216,550
Cash and cash equivalents at 1st January		**32,140,913**	15,822,013
Effects of foreign exchange rate changes		**(7,979)**	102,350
Cash and cash equivalents at 31st December	35(b)	**19,132,435**	32,140,913
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		**7,050,385**	8,943,708
Placements with banks, central banks and other financial institutions with an original maturity within three months		**7,152,569**	17,070,608
Treasury bills with an original maturity within three months		**4,929,481**	6,126,597
		19,132,435	32,140,913
Cash flows from operating activities included:			
Interest received		**5,665,512**	5,186,302
Interest paid		**2,767,840**	2,072,849
Dividend received		**8,379**	7,580

The notes on pages 50 to 166 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2012
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. Principal activities

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

2. Principal accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2012 comprise the Bank and its subsidiaries and the Group's interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

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

– investment property (note 2(k));

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

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

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

2. Principal accounting policies *(continued)*

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

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

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

(c) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

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

2. Principal accounting policies *(continued)*

(d) Associated companies

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

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

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

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

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

(e) Goodwill

Goodwill represents the excess of

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

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

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

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

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

2. Principal accounting policies *(continued)*

(f) Financial instruments

(i) Initial recognition

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

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

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

(ii) Classification

Fair value through profit or loss

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

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

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

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

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

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

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

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Fair value through profit or loss (continued)

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

Loans and receivables

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

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

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (2) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(o)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and re-measured at fair value.

Available-for-sale financial assets

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

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Available-for-sale financial assets (continued)

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

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

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

Other financial liabilities

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

(iii) Fair value measurement principles

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

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

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

(iv) Derecognition

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

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

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

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(v) Offsetting

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

(vi) Embedded derivatives

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

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

(g) Repurchase and reverse repurchase transactions

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

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

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

(h) Revenue recognition

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

(i) Interest income

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

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

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(i) Interest income *(continued)*

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

(ii) Fees and commission income

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

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

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

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

(iv) Rental income from operating lease

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

(v) Dividend income

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

(i) Income tax

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

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

2. Principal accounting policies *(continued)*

(i) Income tax *(continued)*

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(k), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met.

2. Principal accounting policies *(continued)*

(i) Income tax *(continued)*

In the case of current tax assets and liabilities, the Bank and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(j) Translation of foreign currencies

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

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

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

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

(k) Tangible fixed assets and depreciation

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

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

2. Principal accounting policies *(continued)*

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

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

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

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

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

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

(l) Finance and operating leases

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

(i) Classification of assets leased to the Group

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

(ii) Finance leases

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

2. Principal accounting policies *(continued)*

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

(iii) Operating leases

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

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

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

(m) Repossessed assets

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

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

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

2. Principal accounting policies *(continued)*

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

(ii) Other provisions and contingent liabilities

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

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

(o) Impairment of assets

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

– significant financial difficulty of the issuer or borrower;

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

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

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

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

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

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

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

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(i) Loans and receivables

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

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

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

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

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

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

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

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

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

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

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

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

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

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

(iv) Other assets

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

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

– investments in subsidiaries and associated companies; and

– goodwill.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(iv) Other assets *(continued)*

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(v) Interim financial reporting and impairment

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

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

2. Principal accounting policies *(continued)*

(p) Related parties

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

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

(2) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

(q) Segment reporting

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

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

2. Principal accounting policies *(continued)*

(r) Cash and cash equivalents

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

(s) Employee benefits

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

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

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

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

3. Accounting estimates and judgements

Notes 23, 24, 39, 40 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Impairment losses

(i) Loans and advances

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

3. Accounting estimates and judgements *(continued)*

(a) Key sources of estimation uncertainty *(continued)*

(ii) Available-for-sale equity securities

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

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

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

(ii) Investment property

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

4. Changes in accounting policies

The HKICPA has issued a 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 HKFRS 7, *Financial instruments: Disclosures – transfers of financial assets*

– 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.

Amendments to HKFRS 7, *Financial instruments: Disclosures*

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity needs not to provide the disclosures for the comparative period in the first year of adoption.

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.

4. Changes in accounting policies *(continued)*

Amendments to HKAS 12 *Income taxes* *(continued)*

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 for the Group and the Bank by restating the balances at 1st January, 2011 and 31st December, 2011, with consequential adjustments to comparatives for the year ended 31st December, 2011 as follows:

		The Group	
	As previously reported	Effect of adoption of amendments to HKAS 12	As restated
Consolidated income statement for the year ended 31st December, 2011:			
Taxation	399,768	(27,577)	372,191
Profit for the year	2,121,076	27,577	2,148,653
Basic earnings per share	7.14	0.10	7.24
Diluted earnings per share	7.08	0.09	7.17
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

		The Bank	
	As previously reported	Effect of adoption of amendments to HKAS 12	As restated
Balance sheet as at 31st December, 2011:			
Deferred tax liabilities	239,736	(172,623)	67,113
Unappropriated profits	8,105,955	(2,992)	8,102,963
Bank premises revaluation reserve	920,123	175,615	1,095,738
Balance sheet as at 1st January, 2011:			
Deferred tax liabilities	198,123	(130,267)	67,856
Unappropriated profits	7,370,350	(2,097)	7,368,253
Bank premises revaluation reserve	703,952	132,364	836,316

5. Operating profit

(a) Interest income

	2012	2011
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	**5,079,211**	4,670,887
– trading assets	**394,057**	382,157
– financial assets designated at fair value through profit or loss	**267,721**	232,088
	5,740,989	5,285,132
of which:		
– interest income from listed investments	**514,591**	361,286
– interest income from unlisted investments	**450,115**	559,116
– interest income from impaired financial assets	**11,165**	8,472

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK$7,129,000 (2011: HK$3,606,000) (note 18(e)) for the year ended 31st December, 2012.

(b) Interest expense

	2012	2011
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	**2,363,640**	1,932,253
– trading liabilities	**236,747**	294,041
– financial liabilities designated at fair value through profit or loss	**186,961**	187,618
	2,787,348	2,413,912
of which:		
– interest expense for certificates of deposit issued repayable within 5 years	**45,656**	30,756
– interest expense for deposits from customers	**2,134,802**	1,729,299
– interest expense for deposits and balances of banks, central banks and other financial institutions	**16,331**	5,037
– interest expense for subordinated liabilities (note 35(a))	**353,810**	354,779

5. Operating profit *(continued)*

(c) Other operating income

	2012	2011
Fees and commission		
Credit commission and fees	**175,685**	185,264
Credit card related fees	**155,400**	141,278
Trade related fees	**60,662**	77,180
Insurance commission	**83,925**	73,404
Stockbroking fees	**102,015**	139,993
Trust fees	**41**	41
Wealth management fees	**21,893**	17,033
Other fees and commission income	**112,291**	128,103
Less: Fees and commission expenses	**(82,037)**	(80,799)
	629,875	681,497
Gains arising from dealing in foreign currencies (note 5(e))	**140,908**	132,513
Gains on other dealing activities (note 5(e))	**2,105**	1,941
Dividend income from unlisted available-for-sale financial assets	**7,693**	6,008
Dividend income from listed available-for-sale financial assets	**587**	1,375
Dividend income from listed trading investments	**164**	141
Rental income from investment properties less direct outgoings of HK$1,246,000 (2011: HK$1,176,000)	**16,460**	12,836
Others	**14,564**	11,794
	812,356	848,105
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	**256,381**	283,188
– fees and commission expenses	**(8)**	(10)
	256,373	283,178

5. Operating profit *(continued)*

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

	2012	2011
Net realised and unrealised gains/(losses) on trading financial instruments (note 5(e))	**4,901**	(39,780)
Net realised and unrealised gains on financial instruments designated at fair value through profit or loss:		
– unrealised (losses)/gains on subordinated liabilities	**(274,130)**	169,518
– realised and unrealised gains/(losses) on collateralised debt obligations ("CDO")	**50,297**	(35,057)
– realised and unrealised gains/(losses) on debt securities issued by bank in Iceland (note 20(b))	**3,512**	(4,648)
– realised and unrealised gains/(losses) on other financial instruments	**340,293**	(24,208)
	119,972	105,605
	124,873	65,825

(e) Net trading income

	2012	2011
Gains arising from dealing in foreign currencies (note 5(c))	**140,908**	132,513
Gains on other dealing activities (note 5(c))	**2,105**	1,941
Net realised and unrealised gains/(losses) on trading financial instruments (note 5(d))	**4,901**	(39,780)
	147,914	94,674

5. Operating profit *(continued)*

(f) Operating expenses

	2012	2011
Staff costs		
Salaries and other staff costs	**1,124,275**	1,079,243
Retirement benefit costs (note 39(a))	**70,521**	63,899
EIP – fair value of awards (note 35(a))	**13,284**	14,507
EIP – bonus	**3,832**	3,514
	1,211,912	1,161,163
Premises and equipment expenses, excluding depreciation	**241,104**	227,368
Depreciation (notes 23 & 35(a))	**210,417**	182,393
Auditor's remuneration		
Audit services	**5,003**	4,928
Other services	**3,631**	4,594
	8,634	9,522
Others	**179,795**	154,214
	1,851,862	1,734,660

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

	2012	2011
Unrealised revaluation gains of investment properties (note 23)	**158,676**	149,234
Unrealised revaluation gains of bank premises (note 23)	**–**	12,164
Net gains on disposal of tangible fixed assets	**26,684**	261,697
	185,360	423,095

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

	2012	2011
Net unrealised gains transferred from investment revaluation reserve upon disposal	**61,269**	31,184
Net gains on disposal of available-for-sale financial assets	**25,335**	14,024
	86,604	45,208

7. Taxation

(a) Taxation in the consolidated income statement represents:

	2012	2011 (restated)
Current tax – Provision for Hong Kong profits tax		
Provision for the year	**263,136**	240,315
Underprovision in respect of prior years	**2,486**	3,868
	265,622	244,183
Current tax – Provision for tax outside Hong Kong		
Provision for the year	**119,854**	155,005
Overprovision in respect of prior years	**(6,330)**	(3,726)
	113,524	151,279
Deferred taxation		
Origination and reversal of temporary differences	**(61,763)**	(23,271)
	317,383	372,191

The provision for Hong Kong profits tax for 2012 is calculated at 16.5% (2011: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the region in which the relevant units of the Group operate.

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

	2012	%	2011 (restated)	%
Profit before tax	**2,119,744**	**100.00**	2,520,844	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	**345,445**	**16.30**	414,935	16.45
Tax effect of non-deductible expenses	**6,986**	**0.33**	8,412	0.33
Tax effect of non-taxable revenue	**(33,040)**	**(1.56)**	(51,015)	(2.02)
Tax effect of unused tax losses not recognised	**32**	**–**	32	–
(Overprovision)/underprovision in respect of prior years	**(3,844)**	**(0.18)**	142	0.01
Others	**1,804**	**0.08**	(315)	(0.01)
Actual tax expense	**317,383**	**14.97**	372,191	14.76

7. Taxation *(continued)*

(c) Current tax recoverable and payable

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Current tax recoverable				
Provision for Hong Kong profits tax	**8,245**	10,064	**–**	–
Provisional profits tax paid	**(12,920)**	(17,944)	**–**	–
	(4,675)	(7,880)	**–**	–
Provision for tax outside Hong Kong	**(14)**	–	**–**	–
	(4,689)	(7,880)	**–**	–
Current tax payable				
Provision for Hong Kong profits tax	**254,891**	230,251	**227,178**	179,375
Provisional profits tax paid	**(160,173)**	(144,720)	**(137,511)**	(103,385)
	94,718	85,531	**89,667**	75,990
Provision for tax outside Hong Kong	**57,870**	81,345	**4,010**	6,163
	152,588	166,876	**93,677**	82,153

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

7. Taxation *(continued)*

(d) Deferred tax assets and liabilities recognised

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

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	The Group 2012 Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January	**15,422**	**63,740**	**38,593**	**34,145**	**–**	**(29,901)**	**121,999**
Credited to consolidated income statement	**(4,800)**	**–**	**–**	**(40,017)**	**–**	**(16,946)**	**(61,763)**
Charged to reserves	**–**	**41,782**	**38,010**	**–**	**–**	**–**	**79,792**
At 31st December	**10,622**	**105,522**	**76,603**	**(5,872)**	**–**	**(46,847)**	**140,028**

	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	The Group 2011 (restated) Collective impairment allowances for loans and advances	Tax losses	Others	Total
At 1st January							
– As previously reported	32,206	285,964	29,443	30,430	(866)	(21,300)	355,877
– Prior year adjustments	2,467	(238,625)	–	–	–	–	(236,158)
– As restated	34,673	47,339	29,443	30,430	(866)	(21,300)	119,719
(Credited)/charged to consolidated income statement	(19,251)	–	–	3,715	866	(8,601)	(23,271)
Charged to reserves	–	16,401	9,150	–	–	–	25,551
At 31st December	15,422	63,740	38,593	34,145	–	(29,901)	121,999

7. Taxation *(continued)*

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

	The Bank 2012					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January	**37,971**	**14,389**	**33,983**	**(13,293)**	**(5,937)**	**67,113**
Credited/(Charged) to income statement	**(3,291)**	**–**	**–**	**897**	**1,376**	**(1,018)**
Charged to reserves	**–**	**1,748**	**35,268**	**–**	**–**	**37,016**
At 31st December	**34,680**	**16,137**	**69,251**	**(12,396)**	**(4,561)**	**103,111**

	The Bank 2011 (restated)					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others	Total
At 1st January						
– as previously reported	35,486	146,883	27,483	(11,729)	–	198,123
– prior year adjustments	2,097	(132,364)	–	–	–	(130,267)
– as restated	37,583	14,519	27,483	(11,729)	–	67,856
(Credited)/charged to income statement	388	–	–	(1,564)	(5,937)	(7,113)
Charged/(credited) to reserves	–	(130)	6,500	–	–	6,370
At 31st December	37,971	14,389	33,983	(13,293)	(5,937)	67,113

	The Group		The Bank	
	2012	2011 (restated)	**2012**	2011 (restated)
Net deferred tax assets recognised on the balance sheets	**(33,992)**	(30,893)	**–**	–
Net deferred tax liabilities recognised on the balance sheets	**174,020**	152,892	**103,111**	67,113
	140,028	121,999	**103,111**	67,113

8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$1,279,294,000 (2011 (restated): HK$1,186,701,000) which has been dealt with in the financial statements of the Bank.

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

9. Dividends

(a) Dividends attributable to the year

	2012	2011
Interim dividend declared and paid of HK$0.46 (2011: HK$0.46) per ordinary share on 300,635,592 shares (2011: 297,695,532 shares)	**138,292**	136,940
Final dividend proposed after the balance sheet date of HK$1.62 (2011: HK$1.34) per ordinary share on 302,162,900 shares (2011: 298,812,308 shares)	**489,504**	400,408
	627,796	537,348

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

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

	2012	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 year, of HK$1.34 (2011: HK$1.08) per ordinary share on 298,812,308 shares (2011: 295,294,130 shares)	**400,408**	318,918
	400,513	318,918

10. Directors' emoluments

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

	2012						
	Directors' fee	Salaries and other emoluments	Pension contributions	Performance bonuses	Sub-total	Share-based payments	Total
Chairman							
Patrick Y B FUNG	**629**	**9,194**	**1,061**	**10,729**	**21,613**	**3,286**	**24,899**
Executive directors							
Frank J WANG	**315**	**6,259**	**721**	**7,703**	**14,998**	**1,947**	**16,945**
Michael Y S FUNG	**315**	**5,160**	**595**	**5,720**	**11,790**	**1,643**	**13,433**
Non-executive directors							
Aloysius H Y TSE	**397**	**801**	**–**	**–**	**1,198**	**–**	**1,198**
Ambrose H C LAU	**300**	**613**	**–**	**–**	**913**	**–**	**913**
Brian Gerard ROGAN	**300**	**–**	**–**	**–**	**300**	**–**	**300**
CHENG Hon Kwan	**300**	**320**	**–**	**–**	**620**	**–**	**620**
Louis C W HO	**314**	**55**	**–**	**–**	**369**	**31**	**400**
Stephen Dubois LACKEY	**300**	**200**	**–**	**–**	**500**	**–**	**500**
TUNG Chee Chen	**300**	**–**	**–**	**–**	**300**	**–**	**300**
	3,470	**22,602**	**2,377**	**24,152**	**52,601**	**6,907**	**59,508**

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

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

11. Executives' emoluments

The five highest paid individuals include three (2011: three) directors, details of whose emoluments are set out in note 10. The emoluments of the remaining two (2011: two) individuals are as follows:

	2012	2011
Salaries and other emoluments	**5,921**	5,979
Pension contributions	**682**	685
Performance bonuses	**11,472**	7,820
Share-based payments	**430**	850
	18,505	15,334

The emoluments of the two (2011: two) executives are within the following band:

	2012 Number of executives	2011 Number of executives
HK$10,000,001 – HK$10,500,000	**1**	–
HK$8,000,001 – HK$8,500,000	**1**	–
HK$7,500,001 – HK$8,000,000	**–**	1
HK$7,000,001 – HK$7,500,000	**–**	1
	2	2

12. Earnings per share

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders of HK$1,802,361,000 (2011 (restated): HK$2,148,895,000) and on the weighted average number of ordinary shares of 300,212,010 shares (2011: 296,944,387 shares) in issue during the year.

	2012 Number of shares of HK$1.00 each	2011 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	**1,293,612**	1,614,405
Effect of share option exercised	**6,312**	7,644
Effect of EIP exercised	**99,778**	28,208
Weighted average number of ordinary shares used in calculating basic earnings per share	**300,212,010**	296,944,387

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders of HK$1,802,361,000 (2011 (restated): HK$2,148,895,000) and on the weighted average number of ordinary shares of 302,552,293 shares (2011: 299,506,506 shares) in issue during the year after adjustment for the effects of all dilutive potential ordinary shares of 2,340,283 shares (2011: 2,562,119 shares).

12. Earnings per share *(continued)*

	2012 Number of shares of HK$1.00 each	2011 Number of shares of HK$1.00 each
Weighted average number of ordinary shares used in calculating basic earnings per share	**300,212,010**	296,944,387
Deemed exercise of Share Option Scheme	**244,763**	331,263
Deemed exercise of EIP	**2,095,520**	2,230,856
Weighted average number of ordinary shares used in calculating diluted earnings per share	**302,552,293**	299,506,506

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Cash balances	**803,608**	906,288	**412,765**	537,865
Balances with central banks	**5,346,490**	6,848,782	**165,552**	1,514,345
Balances with banks	**1,061,292**	1,405,792	**588,681**	956,428
	7,211,390	9,160,862	**1,166,998**	3,008,638

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Placements with banks	**16,832,550**	24,426,296	**11,812,552**	13,016,932

15. Trade bills

	The Group		The Bank	
	2012	2011	**2012**	2011
Trade bills	**4,294,629**	2,340,633	**6,640,846**	4,290,816
Individual impairment allowances for impaired loans and advances (note 18(e))	**(791)**	(765)	**(791)**	(765)
Collective impairment allowances for loans and advances (note 18(e))	**(62)**	(117)	**(56)**	(108)
	4,293,776	2,339,751	**6,639,999**	4,289,943

16. Trading assets

	The Group		The Bank	
	2012	2011	**2012**	2011
Debt securities:				
Listed in Hong Kong	**240,792**	245,018	**240,792**	245,018
Listed outside Hong Kong	**91,671**	49,989	**91,671**	49,989
	332,463	295,007	**332,463**	295,007
Unlisted	**7,257,380**	1,634,743	**7,257,380**	1,634,743
	7,589,843	1,929,750	**7,589,843**	1,929,750
Equity securities listed in Hong Kong	**1,346**	5,681	**943**	5,345
Total trading securities	**7,591,189**	1,935,431	**7,590,786**	1,935,095
Positive fair values of derivative financial instruments held for trading (note 34(a))	**826,364**	1,144,405	**838,623**	1,159,315
	8,417,553	3,079,836	**8,429,409**	3,094,410
Trading debt securities include:				
Treasury bills	**6,888,084**	837,088	**6,888,084**	837,088
Certificates of deposit held	**111,765**	90,606	**111,765**	90,606
Other trading debt securities	**589,994**	1,002,056	**589,994**	1,002,056
	7,589,843	1,929,750	**7,589,843**	1,929,750

Trading assets of the Bank include positive fair values of derivative financial instruments transacted with a subsidiary amounting to HK$17,424,000 (2011: HK$25,338,000).

Trading securities analysed by counterparty are as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
Issued by:				
Sovereigns	**7,037,133**	837,088	**7,037,133**	837,088
Public sector entities	**12**	52	**–**	51
Banks	**228,619**	523,965	**228,595**	523,904
Corporates	**325,425**	574,326	**325,058**	574,052
	7,591,189	1,935,431	**7,590,786**	1,935,095

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Debt securities:				
Listed in Hong Kong	**3,550,532**	1,132,984	**3,550,532**	1,132,984
Listed outside Hong Kong	**5,067,849**	2,255,020	**5,067,849**	2,255,020
	8,618,381	3,388,004	**8,618,381**	3,388,004
Unlisted	**1,260,789**	1,432,914	**1,260,789**	1,432,914
	9,879,170	4,820,918	**9,879,170**	4,820,918
Debt securities designated at fair value through profit or loss include:				
Treasury bills	**148,513**	39,610	**148,513**	39,610
Other debt securities designated at fair value through profit or loss	**9,730,657**	4,781,308	**9,730,657**	4,781,308
	9,879,170	4,820,918	**9,879,170**	4,820,918

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Issued by:				
Sovereigns	**148,513**	39,610	**148,513**	39,610
Public sector entities	**865,443**	549,117	**865,443**	549,117
Banks	**2,718,359**	2,331,275	**2,718,359**	2,331,275
Corporates	**6,146,855**	1,900,916	**6,146,855**	1,900,916
	9,879,170	4,820,918	**9,879,170**	4,820,918

18. Advances to customers and other accounts

(a) Advances to customers and other accounts

	The Group		The Bank	
	2012	2011	**2012**	2011
Gross advances to customers	**114,053,811**	110,577,518	**69,554,148**	70,515,943
Individual impairment allowances for impaired loans and advances (note 18(e))	**(81,802)**	(54,379)	**(25,275)**	(18,412)
Collective impairment allowances for loans and advances (note 18(e))	**(256,262)**	(138,215)	**(74,041)**	(99,535)
Net advances to customers	**113,715,747**	110,384,924	**69,454,832**	70,397,996
Advances to banks	**765,609**	462,407	**29,780**	–
Customer liability under acceptances	**337,925**	249,675	**287,580**	168,587
Accrued interest	**581,316**	505,839	**355,244**	301,947
Other accounts	**1,224,838**	948,384	**851,203**	779,510
	116,625,435	112,551,229	**70,978,639**	71,648,040

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

(b) Advances to customers analysed by industry sectors

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

	The Group					
	2012			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	**2,291,326**	**55.6**	**–**	2,364,989	67.3	–
– Property investment	**19,245,115**	**99.4**	**535**	15,917,977	98.8	42,610
– Financial concerns	**1,736,464**	**16.3**	**–**	2,854,374	11.3	–
– Stockbrokers	**360,558**	**88.9**	**–**	703,008	86.3	–
– Wholesale and retail trade	**2,149,660**	**47.7**	**1,960**	2,230,596	44.8	55,725
– Manufacturing	**1,955,481**	**56.5**	**32,151**	1,697,903	61.3	28,185
– Transport and transport equipment	**7,498,540**	**92.0**	**17,878**	7,101,519	89.8	6,316
– Information technology	**90,748**	**4.3**	**–**	8,908	44.3	–
– Share financing	**259,520**	**99.6**	**6,124**	263,159	96.7	–
– Recreational activities	**57,037**	**–**	**–**	61,195	–	–
– Others	**3,495,397**	**53.7**	**16,810**	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	**2,503,849**	**100.0**	**475**	2,618,752	100.0	597
– Advances for the purchase of other residential properties	**20,034,184**	**100.0**	**4,975**	16,970,967	100.0	16,368
– Credit card advances	**288,353**	**0.8**	**2,078**	283,375	0.8	906
– Others	**6,709,165**	**69.9**	**65,319**	6,314,976	69.8	14,438
	68,675,397	**86.5**	**148,305**	63,208,065	83.5	214,204
Trade finance	**8,281,776**	**65.0**	**18,642**	11,857,488	79.6	45,886
Advances for use outside Hong Kong						
– Mainland China	**21,574,823**	**69.9**	**321,115**	23,144,823	76.5	51,741
– Macau	**15,187,321**	**92.8**	**23,721**	12,308,927	93.5	24,173
– Others	**334,494**	**75.7**	**–**	58,215	72.9	–
	37,096,638	**79.3**	**344,836**	35,511,965	82.4	75,914
	114,053,811	**82.6**	**511,783**	110,577,518	82.7	336,004

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

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

	The Bank					
	2012			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	**2,291,326**	**55.6**	**–**	2,364,989	67.3	–
– Property investment	**17,215,028**	**99.3**	**535**	15,078,122	98.7	42,610
– Financial concerns	**1,725,550**	**15.8**	**–**	2,854,374	11.3	–
– Stockbrokers	**360,558**	**88.9**	**–**	703,008	86.3	–
– Wholesale and retail trade	**2,144,416**	**47.6**	**1,960**	2,230,596	44.8	55,725
– Manufacturing	**1,955,370**	**56.5**	**32,151**	1,695,913	61.3	28,185
– Transport and transport equipment	**7,329,327**	**92.1**	**17,223**	6,458,270	89.2	5,838
– Information technology	**90,748**	**4.3**	**–**	8,908	44.3	–
– Share financing	**259,520**	**99.6**	**6,124**	263,159	96.7	–
– Recreational activities	**57,037**	**–**	**–**	61,195	–	–
– Others	**3,284,221**	**50.9**	**16,810**	3,753,217	48.4	48,878
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	**2,503,849**	**100.0**	**475**	2,618,752	100.0	597
– Advances for the purchase of other residential properties	**14,382,203**	**100.0**	**3,471**	13,539,369	100.0	12,370
– Credit card advances	**288,353**	**0.8**	**2,078**	283,375	0.8	906
– Others	**4,349,690**	**95.0**	**57,232**	4,262,870	94.6	7,367
	58,237,196	**87.2**	**138,059**	56,176,117	84.5	202,476
Trade finance	**4,417,595**	**61.5**	**18,642**	8,084,807	73.0	45,886
Advances for use outside Hong Kong						
– Mainland China	**6,644,641**	**35.3**	**94,667**	6,077,331	49.9	–
– Macau	**26,101**	**100.0**	**–**	119,473	63.0	–
– Others	**228,615**	**64.4**	**–**	58,215	72.9	–
	6,899,357	**36.5**	**94,667**	6,255,019	50.4	–
	69,554,148	**80.5**	**251,368**	70,515,943	80.2	248,362

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

(c) Impaired advances to customers

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Gross impaired advances to customers	**511,783**	336,004	**251,368**	248,362
Gross impaired advances to customers as a percentage of total advances to customers	**0.45%**	0.30%	**0.36%**	0.35%
Market value of collateral held with respect to impaired advances to customers	**435,205**	289,033	**224,532**	230,047
Individual impairment allowances	**81,802**	54,379	**25,275**	18,412

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

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 31st December, 2012 and 31st December, 2011.

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

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

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

	The Group			
	2012		2011	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	**4,430,994**	**5,008,801**	3,966,294	4,528,859
After 1 year but within 5 years	**6,443,032**	**6,912,167**	5,826,660	6,287,985
After 5 years	**16,102**	**17,016**	26,695	28,820
	10,890,128	**11,937,984**	9,819,649	10,845,664
Unearned future income on finance lease	**–**	**(1,047,856)**	–	(1,026,015)
	10,890,128	**10,890,128**	9,819,649	9,819,649
Individual impairment allowances for impaired loans and advances	**(12,459)**		(9,891)	
Collective impairment allowances for loans and advances	**(12,045)**		(13,333)	
Net investment in finance leases and hire purchase contracts	**10,865,624**		9,796,425	

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

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

	The Bank			
	2012		2011	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	**4,234,951**	**4,798,822**	3,341,266	3,861,112
After 1 year but within 5 years	**6,321,220**	**6,779,280**	5,543,055	5,985,407
After 5 years	**115**	**117**	–	–
	10,556,286	**11,578,219**	8,884,321	9,846,519
Unearned future income on finance lease	**–**	**(1,021,933)**	–	(962,198)
	10,556,286	**10,556,286**	8,884,321	8,884,321
Individual impairment allowances for impaired loans and advances	**(10,876)**		(4,779)	
Collective impairment allowances for loans and advances	**(11,022)**		(12,365)	
Net investment in finance leases and hire purchase contracts	**10,534,388**		8,867,177	

(e) Impairment allowances for loans and advances

	The Group		
	2012		
	Individual	Collective	Total
At 1st January	**55,144**	**138,332**	**193,476**
Additions	**165,336**	**117,992**	**283,328**
Releases	**(47,514)**	**–**	**(47,514)**
Net charges to consolidated income statement	**117,822**	**117,992**	**235,814**
Unwind of discount of loan impairment losses (note 5(a))	**(7,129)**	**–**	**(7,129)**
Recoveries of advances written off in prior years	**40,367**	**–**	**40,367**
Amounts written off	**(123,611)**	**–**	**(123,611)**
At 31st December	**82,593**	**256,324**	**338,917**
Representing impairment allowances for:			
Trade bills (note 15)	**791**	**62**	**853**
Advances to customers (note 18(a))	**81,802**	**256,262**	**338,064**
	82,593	**256,324**	**338,917**

Notes to the Financial Statements

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

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

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

	The Bank **2012** Individual	The Bank **2012** Collective	The Bank **2012** Total
At 1st January	**19,177**	**99,643**	**118,820**
Additions	**22,295**	**–**	**22,295**
Releases	**(21,249)**	**(25,546)**	**(46,795)**
Net (releases)/charges to income statement	**1,046**	**(25,546)**	**(24,500)**
Unwind of discount of loan impairment losses	**(2,202)**	**–**	**(2,202)**
Recoveries of advances written off in prior years	**18,795**	**–**	**18,795**
Amounts written off	**(10,750)**	**–**	**(10,750)**
At 31st December	**26,066**	**74,097**	**100,163**
Representing impairment allowances for:			
Trade bills (note 15)	**791**	**56**	**847**
Advances to customers (note 18(a))	**25,275**	**74,041**	**99,316**
	26,066	**74,097**	**100,163**

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

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

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

(f) Repossessed assets

During the year ended 31st December, 2012, the Group has taken possession of collateral it holds as security as follows:

	The Group		The Bank	
Nature	**2012**	2011	**2012**	2011
Properties	**38,882**	74,980	**27,832**	70,020
Vehicles	**14,124**	13,977	**13,266**	10,071
Others	**24,939**	23,626	**15,200**	19,000
	77,945	112,583	**56,298**	99,091

The amount represents the market value of the repossessed assets.

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

At 31st December, 2012, repossessed assets obtained as securities for impaired advances to customers totalled HK$19,421,000 (2011: HK$21,528,000) and HK$19,421,000 (2011: HK$21,528,000) for the Group and the Bank respectively.

19. Held-to-maturity investments

	The Group		The Bank	
	2012	2011	**2012**	2011
Held-to-maturity debt securities:				
Listed in Hong Kong	**701,749**	–	**701,749**	–
Listed outside Hong Kong	**140,869**	–	**140,869**	–
	842,618	–	**842,618**	–
Unlisted	**1,513,047**	–	**149,160**	–
	2,355,665	–	**991,778**	–
Held-to-maturity debt securities include:				
Treasury bills	**1,363,887**	–	**–**	–
Other held-to-maturity debt securities	**991,778**	–	**991,778**	–
	2,355,665	–	**991,778**	–

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Issued by:				
Sovereigns	**1,363,887**	–	**–**	–
Corporates	**991,778**	–	**991,778**	–
	2,355,665	–	**991,778**	–
Market value of listed held-to-maturity debt securities	**896,988**	–	**896,988**	–
Fair value of unlisted held-to-maturity debt securities	**1,503,073**	–	**152,909**	–

20. Available-for-sale financial assets

(a) Available-for-sale financial assets

	The Group		The Bank	
	2012	2011	**2012**	2011
Available-for-sale debt securities:				
Listed in Hong Kong	**3,244,125**	819,991	**2,866,338**	796,088
Listed outside Hong Kong	**3,850,973**	2,820,574	**3,592,852**	2,770,230
	7,095,098	3,640,565	**6,459,190**	3,566,318
Unlisted	**17,293,538**	20,540,945	**13,465,691**	16,658,543
	24,388,636	24,181,510	**19,924,881**	20,224,861
Available-for-sale equity securities:				
Listed in Hong Kong	**3,870**	2,860	**3,870**	2,860
Listed outside Hong Kong	**82,644**	57,703	**61,988**	43,267
	86,514	60,563	**65,858**	46,127
Unlisted	**165,099**	163,678	**119,865**	118,444
	251,613	224,241	**185,723**	164,571
	24,640,249	24,405,751	**20,110,604**	20,389,432
Available-for-sale debt securities include:				
Treasury bills	**10,385,938**	11,055,016	**6,694,157**	7,215,965
Certificates of deposit held	**1,373,608**	541,732	**1,373,608**	541,732
Other available-for-sale debt securities	**12,629,090**	12,584,762	**11,857,116**	12,467,164
	24,388,636	24,181,510	**19,924,881**	20,224,861

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Issued by:				
Sovereigns	**10,466,899**	11,055,016	**6,694,157**	7,215,964
Public sector entities	**1,816,570**	821,919	**1,771,426**	778,568
Banks	**8,261,228**	10,906,985	**8,236,174**	10,856,642
Corporates	**4,095,552**	1,621,831	**3,408,847**	1,538,258
	24,640,249	24,405,751	**20,110,604**	20,389,432

Notes to the Financial Statements

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

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

	The Group and the Bank	
	2012	2011
Released from/(charged on) debt securities	**3,626**	(18,463)
	3,626	(18,463)

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

21. Investments in subsidiaries

	The Bank	
	2012	2011
Unlisted shares, at cost	**3,032,126**	3,032,126

The following list contains only the particulars of principal subsidiaries:

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

21. Investments in subsidiaries *(continued)*

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

22. Investments in associated companies

	The Group		The Bank	
	2012	2011	**2012**	2011
Unlisted shares, at cost	**–**	–	**182,000**	182,000
Share of net assets	**201,073**	174,081	**–**	–
Loans to associated companies	**28,650**	75,171	**28,650**	75,171
	229,723	249,252	**210,650**	257,171

At 31st December, 2012, the outstanding balance of the loans to associated companies included secured loans totalling HK$28,650,000 (2011: HK$75,171,000) which bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. At 14th September, 2012, the loan to one of associated companies was extended to 28th September, 2017 with the interest rate at 2.60%. For details, please refer to note 37(c).

There are no impaired loans to associated companies nor individual impairment allowances made on loans to associated companies at 31st December, 2012 and 31st December, 2011.

22. Investments in associated companies *(continued)*

The following list contains the particulars of associated companies:

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

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

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

Summary financial information on associated companies is set out below:

	2012					
	Assets	Liabilities	Equity	Total operating income	Tax	Profit after tax
100 percent	**7,610,519**	**6,392,664**	**1,217,855**	**1,591,697**	**32,479**	**168,774**
Group's effective interest	**2,322,377**	**2,121,304**	**201,073**	**482,181**	**7,905**	**40,960**

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

23. Tangible fixed assets

	The Group 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	**–**	**40,623**	**100,801**	**141,424**	**141,424**
Disposals	**–**	**(28,709)**	**(62,260)**	**(90,969)**	**(90,969)**
Transfers from bank premises to investment properties	**150,894**	**(150,894)**	**–**	**(150,894)**	**–**
Surplus on revaluation					
– credited to bank premises revaluation reserve	**–**	**604,853**	**–**	**604,853**	**604,853**
– credited to consolidated income statement (note 6(a))	**158,676**	**–**	**–**	**–**	**158,676**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(49,743)**	**–**	**(49,743)**	**(49,743)**
Exchange adjustment	**–**	**(46)**	**(114)**	**(160)**	**(160)**
At 31st December	**899,342**	**4,466,400**	**1,144,750**	**5,611,150**	**6,510,492**
The analysis of cost or valuation of the above assets is as follows:					
At cost	**–**	**1,362,322**	**1,144,750**	**2,507,072**	**2,507,072**
At valuation					
2012	**899,342**	**3,104,078**	**–**	**3,104,078**	**4,003,420**
	899,342	**4,466,400**	**1,144,750**	**5,611,150**	**6,510,492**
Accumulated depreciation					
At 1st January	**–**	**167,700**	**709,018**	**876,718**	**876,718**
Charge for the year (note 5(f))	**–**	**82,030**	**128,387**	**210,417**	**210,417**
Written back on disposals	**–**	**(2,367)**	**(59,244)**	**(61,611)**	**(61,611)**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(49,743)**	**–**	**(49,743)**	**(49,743)**
Exchange adjustment	**–**	**631**	**833**	**1,464**	**1,464**
At 31st December	**–**	**198,251**	**778,994**	**977,245**	**977,245**
Net book value					
At 31st December	**899,342**	**4,268,149**	**365,756**	**4,633,905**	**5,533,247**

23. Tangible fixed assets *(continued)*

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

23. Tangible fixed assets *(continued)*

	The Bank		
		2012	
	Bank premises	Equipment	Total
Cost or valuation			
At 1st January	**2,281,305**	**772,754**	**3,054,059**
Additions	**17,281**	**53,694**	**70,975**
Disposals	**–**	**(48,909)**	**(48,909)**
Surplus on revaluation			
– credited to bank premises revaluation reserve	**304,313**	**–**	**304,313**
Elimination of accumulated depreciation on revalued bank premises	**(17,859)**	**–**	**(17,859)**
At 31st December	**2,585,040**	**777,539**	**3,362,579**
The analysis of cost or valuation of the above assets is as follows:			
At cost	**900,638**	**777,539**	**1,678,177**
At valuation			
2012	**1,684,402**	**–**	**1,684,402**
	2,585,040	**777,539**	**3,362,579**
Accumulated depreciation			
At 1st January	**104,528**	**500,017**	**604,545**
Charge for the year	**33,457**	**83,708**	**117,165**
Written back on disposals	**–**	**(46,549)**	**(46,549)**
Elimination of accumulated depreciation on revalued bank premises	**(17,859)**	**–**	**(17,859)**
At 31st December	**120,126**	**537,176**	**657,302**
Net book value			
At 31st December	**2,464,914**	**240,363**	**2,705,277**

23. Tangible fixed assets *(continued)*

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

Bank premises held for administrative use are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, or at directors' valuation by reference to open market value as at 31st December, 2012. The surplus on revaluation net of deferred tax of HK$563,071,000 (2011 (restated): HK$593,194,000) and HK$302,565,000 (2011 (restated): HK$263,289,000) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group and the Bank respectively.

23. Tangible fixed assets *(continued)*

Investment properties are revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, on an open market value basis as at 31st December, 2012 and 31st December, 2011.

The carrying amount of the bank premises of the Group and the Bank would have been HK$1,891,233,000 (2011: HK$1,952,915,000) and HK$1,116,432,000 (2011: HK$1,124,736,000) respectively had they been stated at cost less accumulated depreciation.

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

	The Group		The Bank	
	2012	2011	**2012**	2011
FREEHOLD				
– Held outside Hong Kong	**187,250**	160,060	**–**	–
LEASEHOLD				
– Held in Hong Kong				
Long-term leases				
(over 50 years unexpired)	**3,013,246**	2,513,324	**1,485,737**	1,299,435
Medium-term leases				
(10 to 50 years unexpired)	**1,325,414**	1,168,231	**965,675**	864,175
– Held outside Hong Kong				
Long-term leases				
(over 50 years unexpired)	**10,938**	11,734	**3,148**	3,418
Medium-term leases				
(10 to 50 years unexpired)	**429,009**	419,017	**10,354**	9,749
Short-term leases				
(less than 10 years unexpired)	**201,634**	200,022	**–**	–
	5,167,491	4,472,388	**2,464,914**	2,176,777

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

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

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

	The Group	
	2012	2011
Within 1 year	**19,364**	11,025
After 1 year but within 5 years	**10,845**	5,796
	30,209	16,821

24. Goodwill

(a) Goodwill

	The Group		The Bank	
	2012	2011	**2012**	2011
Cost				
At 1st January/31st December	**1,307,600**	1,307,600	**847,422**	847,422
Accumulated impairment loss				
At 1st January/31st December	**1,170**	1,170	**–**	–
Net book value				
At 31st December	**1,306,430**	1,306,430	**847,422**	847,422

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

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

	2012	2011
Hong Kong:		
Retail banking business acquired	**1,019,136**	1,019,136
Corporate banking business acquired	**233,741**	233,741
Treasury business acquired	**53,553**	53,553
	1,306,430	1,306,430

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 4.00% (2011: 4.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.36% (2011: 15.04%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Deposits from central banks	**108,123**	135,323	**–**	70,732
Deposits from banks	**983,339**	673,146	**370,016**	556,528
	1,091,462	808,469	**370,016**	627,260

26. Deposits from customers

	The Group		The Bank	
	2012	2011	**2012**	2011
Demand deposits and current accounts	**23,742,656**	20,883,636	**19,537,890**	16,424,579
Savings deposits	**28,280,260**	25,928,202	**19,413,184**	18,245,359
Time, call and notice deposits	**113,912,542**	110,942,600	**79,657,031**	75,457,590
	165,935,458	157,754,438	**118,608,105**	110,127,528

27. Certificates of deposit issued

	The Group		The Bank	
	2012	2011	**2012**	2011
Certificates of deposit issued at amortised cost	**2,413,199**	2,605,000	**2,413,199**	2,605,000
Structured certificates of deposit issued designated at fair value through profit or loss	**150,351**	151,649	**150,351**	151,649
	2,563,550	2,756,649	**2,563,550**	2,756,649

At 31st December, 2012, the carrying amounts of structured certificates of deposit issued designated at fair value through profit or loss are higher than their contractual amount payable at maturity for the Group and the Bank by HK$351,000 (2011: HK$1,649,000) due to changes in benchmark interest rates.

28. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 34(a).

Trading liabilities of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$2,527,000 (2011: HK$3,996,000).

29. Other accounts and provisions

	The Group		The Bank	
	2012	2011	**2012**	2011
Acceptances outstanding	**337,925**	249,675	**287,580**	168,587
Interest payable	**788,461**	768,953	**417,620**	384,857
Other payables	**1,284,021**	1,566,895	**743,000**	944,714
	2,410,407	2,585,523	**1,448,200**	1,498,158

30. Subordinated liabilities

	The Group and the Bank	
	2012	2011
US$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	**3,206,387**	2,938,043
US$225 million 9.375% perpetual subordinated notes, measured at amortised cost (note (b))	**1,744,043**	1,747,485
	4,950,430	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 note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

At 31st December, 2012, the carrying amount of the step-up perpetual subordinated notes designated at fair value through profit or loss are higher than their contractual amount payable at redemption for the Group and the Bank by HK$105,867,000 (2011: lower than their contractual amount 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 on financial instruments designated at fair value through profit or loss" in the consolidated income statement. This change in fair value which is attributable to change in credit risk for the year ended 31st December, 2012 is a loss of HK$307,328,000 (2011: gain of HK$324,015,000) and the accumulated amount of this change for the Group and the Bank is a gain of HK$473,744,000 (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 note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

31. Maturity profile

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

	The Group							
	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	7,211,390	–	–	–	–	–	–	7,211,390
Placements with banks, central banks and other financial institutions	–	6,527,240	5,774,660	4,530,650	–	–	–	16,832,550
Trade bills	65,387	622,541	1,081,296	2,523,581	–	–	971	4,293,776
Trading assets	–	18,665	93,100	5,818,104	1,056,810	603,164	827,710	8,417,553
Financial assets designated at fair value through profit or loss	–	125,271	206,436	210,528	6,858,977	2,477,958	–	9,879,170
Advances to customers	1,842,650	5,361,285	6,671,341	19,034,632	38,118,528	42,474,607	212,704	113,715,747
Advances to banks	213	–	–	765,396	–	–	–	765,609
Held-to-maturity and available-for-sale financial assets	–	2,560,962	4,691,812	3,682,869	13,900,196	1,908,462	251,613	26,995,914
Other assets	362	1,182,618	300,961	126,758	173,453	9,392	7,458,616	9,252,160
Total assets	9,120,002	16,398,582	18,819,606	36,692,518	60,107,964	47,473,583	8,751,614	197,363,869
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	169,719	736,393	185,350	–	–	–	–	1,091,462
Deposits from customers	51,550,623	53,657,783	34,522,518	23,986,960	2,020,112	169,462	28,000	165,935,458
Certificates of deposit issued	–	354,549	163,300	1,076,709	968,992	–	–	2,563,550
Trading liabilities	–	–	–	–	–	–	552,174	552,174
Subordinated liabilities	–	–	–	–	–	–	4,950,430	4,950,430
Other liabilities	–	1,399,540	378,329	629,580	145,103	–	184,463	2,737,015
Total liabilities	51,720,342	56,148,265	35,249,497	25,693,249	3,134,207	169,462	5,715,067	177,830,089
Net assets/(liabilities) gap	(42,600,340)	(39,749,683)	(16,429,891)	10,999,269	56,973,757	47,304,121	3,036,547	19,533,780
of which:								
Certificates of deposit held								
– included in trading assets	–	18,665	93,100	–	–	–	–	111,765
– included in available-for-sale financial assets	–	–	–	541,175	832,433	–	–	1,373,608
Debt securities								
– included in trading assets	–	–	–	5,818,104	1,056,810	603,164	–	7,478,078
– included in financial assets designated at fair value through profit or loss	–	125,271	206,436	210,528	6,858,977	2,477,958	–	9,879,170
– included in held-to-maturity investments	–	135,768	295,763	124,086	1,351,166	448,882	–	2,355,665
– included in available-for-sale financial assets	–	2,425,194	4,396,049	3,017,608	11,716,597	1,459,580	–	23,015,028

31. Maturity profile *(continued)*

	The Group 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

31. Maturity profile *(continued)*

	The Bank 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	1,166,998	–	–	–	–	–	–	1,166,998
Placement with banks, central banks and other financial institutions	–	4,238,963	4,805,806	2,767,783	–	–	–	11,812,552
Trade bills	65,387	337,761	498,608	5,738,072	–	–	171	6,639,999
Trading assets	–	18,665	93,100	5,818,104	1,056,810	603,164	839,566	8,429,409
Financial assets designated at fair value through profit or loss	–	125,271	206,436	210,528	6,858,977	2,477,958	–	9,879,170
Advances to customers	1,625,287	4,048,609	5,179,506	9,294,935	25,562,473	23,509,405	234,617	69,454,832
Advances to banks	213	–	–	29,567	–	–	–	29,780
Amounts due from subsidiaries	155,658	208,664	2,717,081	9,088,249	3,367	–	–	12,173,019
Held-to-maturity and available-for-sale financial assets	–	1,589,509	3,835,234	2,069,760	11,598,267	1,823,889	185,723	21,102,382
Other assets	–	812,561	236,456	67,861	47,205	–	7,125,419	8,289,502
Total assets	3,013,543	11,380,003	17,572,227	35,084,859	45,127,099	28,414,416	8,385,496	148,977,643
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	59,424	248,372	62,220	–	–	–	–	370,016
Deposits from customers	38,510,893	45,107,834	24,220,666	10,199,646	371,604	169,462	28,000	118,608,105
Certificates of deposit issued	–	354,549	163,300	1,076,709	968,992	–	–	2,563,550
Trading liabilities	–	–	–	–	–	–	552,911	552,911
Amounts due to subsidiaries	1,066,416	3,604,757	725,469	1,148,889	881	–	10	6,546,422
Subordinated liabilities	–	–	–	–	–	–	4,950,430	4,950,430
Other liabilities	–	839,968	260,795	309,332	66,287	–	168,606	1,644,988
Total liabilities	39,636,733	50,155,480	25,432,450	12,734,576	1,407,764	169,462	5,699,957	135,236,422
Net assets/(liabilities) gap	(36,623,190)	(38,775,477)	(7,860,223)	22,350,283	43,719,335	28,244,954	2,685,539	13,741,221
of which:								
Certificates of deposit held								
– included in trading assets	–	18,665	93,100	–	–	–	–	111,765
– included in available-for-sale financial assets	–	–	–	541,175	832,433	–	–	1,373,608
Debt securities								
– included in trading assets	–	–	–	5,818,104	1,056,810	603,164	–	7,478,078
– included in financial assets designated at fair value through profit or loss	–	125,271	206,436	210,528	6,858,977	2,477,958	–	9,879,170
– included in held-to-maturity investments	–	–	–	–	542,897	448,881	–	991,778
– included in available-for-sale financial assets	–	1,589,509	3,835,234	1,528,585	10,222,937	1,375,008	–	18,551,273

31. Maturity profile *(continued)*

	The Bank 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	3,008,638	–	–	–	–	–	–	3,008,638
Placement with banks, central banks and other financial institutions	–	6,519,790	4,407,357	2,089,785	–	–	–	13,016,932
Trade bills	26,517	632,039	797,164	2,834,126	–	–	97	4,289,943
Trading assets	–	123,099	61,365	421,382	1,243,482	80,422	1,164,660	3,094,410
Financial assets designated at fair value through profit or loss	–	–	338,888	395,203	2,335,046	1,725,957	25,824	4,820,918
Advances to customers	1,793,031	6,492,590	7,023,276	10,936,575	22,697,490	21,122,819	332,215	70,397,996
Amounts due from subsidiaries	215,424	5,268,472	499,052	5,996,001	69,230	–	–	12,048,179
Available-for-sale financial assets	–	327,966	10,987,806	3,476,022	4,080,777	1,295,398	221,463	20,389,432
Other assets	–	683,592	146,545	135,642	15,235	–	6,855,263	7,836,277
Total assets	5,043,610	20,047,548	24,261,453	26,284,736	30,441,260	24,224,596	8,599,522	138,902,725
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	192,261	434,999	–	–	–	–	–	627,260
Deposits from customers	34,576,901	45,356,948	21,328,431	7,907,978	957,270	–	–	110,127,528
Certificates of deposit issued	–	290,000	800,000	540,000	1,126,649	–	–	2,756,649
Trading liabilities	–	–	–	–	–	–	1,085,126	1,085,126
Amounts due to subsidiaries	1,233,322	3,093,807	959,900	410,537	524	–	11	5,698,101
Subordinated liabilities	–	–	–	–	–	–	4,685,528	4,685,528
Other liabilities	–	843,288	221,547	320,058	55,046	–	207,485	1,647,424
Total liabilities	36,002,484	50,019,042	23,309,878	9,178,573	2,139,489	–	5,978,150	126,627,616
Net assets/(liabilities) gap	(30,958,874)	(29,971,494)	951,575	17,106,163	28,301,771	24,224,596	2,621,372	12,275,109
of which:								
Certificates of deposit held								
– Included in trading assets	–	–	–	–	90,606	–	–	90,606
– included in available-for-sale financial assets	–	–	–	–	541,732	–	–	541,732
Debt securities								
– included in trading assets	–	123,099	61,365	421,382	1,152,876	80,422	–	1,839,144
– included in financial assets designated at fair value through profit or loss	–	–	338,888	395,203	2,335,046	1,725,957	25,824	4,820,918
– included in available-for-sale financial assets	–	327,966	10,987,806	3,476,022	3,539,045	1,295,398	56,892	19,683,129

32. Share capital and reserves

(a) Share capital

	2012	2011
Authorised:		
450,000,000 (2011: 450,000,000) ordinary shares of HK$1.00 each	**450,000**	450,000
Issued and fully paid:		
At 1st January	**298,812**	295,294
Shares issued under Share Option Scheme	**110**	90
Shares issued under EIP	**153**	50
Shares issued in lieu of dividends	**3,088**	3,378
302,162,900 (2011: 298,812,308) ordinary shares of HK$1.00 each	**302,163**	298,812

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

(i) Share Option Scheme

During the year, options were exercised to subscribe for ordinary shares of 110,000 (2011: 90,000) shares in the Bank at a consideration of HK$2,887,000 (2011: HK$2,367,000) of which HK$110,000 (2011: HK$90,000) is credited to share capital and the balance of HK$2,777,000 (2011: HK$2,277,000) is credited to the share premium account. At 31st December, 2012, the outstanding options are 485,000 shares (2011: 595,000 shares).

(ii) EIP

During the year, awards under the EIP were exercised to subscribe for ordinary shares of 152,250 (2011: 49,500) shares in the Bank at a consideration of HK$152,250 (2011: HK$49,500). At 31st December, 2012, the outstanding awards under the EIP are 2,073,500 shares (2011: 2,225,750 shares).

The details of the Share Option Scheme and the EIP are disclosed in note 39 to the financial statements.

32. Share capital and reserves *(continued)*

(b) Reserves

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

	The Bank 2012						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January							
– as previously reported	**800,412**	**1,801,949**	**920,123**	**174,466**	**769**	**8,105,955**	**11,803,674**
– prior year adjustment in respect of deferred tax	**–**	**–**	**175,615**	**–**	**–**	**(2,992)**	**172,623**
– as restated	**800,412**	**1,801,949**	**1,095,738**	**174,466**	**769**	**8,102,963**	**11,976,297**
Share premium under Share Option Scheme	**2,777**	**–**	**–**	**–**	**–**	**–**	**2,777**
Share premium under EIP	**13,284**	**–**	**–**	**–**	**–**	**–**	**13,284**
Share premium in lieu of dividends	**225,170**	**–**	**–**	**–**	**–**	**–**	**225,170**
Dividends approved in respect of the previous year (note 9(b))	**–**	**–**	**–**	**–**	**–**	**(400,513)**	**(400,513)**
Dividends declared in respect of the current year (note 9(a))	**–**	**–**	**–**	**–**	**–**	**(138,292)**	**(138,292)**
Transfer (from)/to reserve	**–**	**–**	**(6,056)**	**–**	**–**	**6,056**	**–**
	241,231	**–**	**(6,056)**	**–**	**–**	**(532,749)**	**(297,574)**
Other comprehensive income:							
– fair value changes on available-for-sale financial assets net of deferred tax	**–**	**–**	**–**	**227,101**	**–**	**–**	**227,101**
– fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax	**–**	**–**	**–**	**(48,625)**	**–**	**–**	**(48,625)**
– surplus on revaluation net of deferred tax	**–**	**–**	**302,565**	**–**	**–**	**–**	**302,565**
– profit attributable to shareholders of the Bank for the year	**–**	**–**	**–**	**–**	**–**	**1,279,294**	**1,279,294**
Total comprehensive income for the year, net of tax	**–**	**–**	**302,565**	**178,476**	**–**	**1,279,294**	**1,760,335**
At 31st December	**1,041,643**	**1,801,949**	**1,392,247**	**352,942**	**769**	**8,849,508**	**13,439,058**

32. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

	The Bank 2011 (restated)						
	Share premium	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Capital redemption reserve	Unappro-priated profits	Total
At 1st January							
– as previously reported	508,540	1,801,949	703,952	141,572	769	7,370,350	10,527,132
– prior year adjustment in respect of deferred tax	–	–	132,364	–	–	(2,097)	130,267
– as restated	508,540	1,801,949	836,316	141,572	769	7,368,253	10,657,399
Share premium under Share Option Scheme	2,277	–	–	–	–	–	2,277
Share premium under EIP	14,507	–	–	–	–	–	14,507
Share premium in lieu of dividends	275,088	–	–	–	–	–	275,088
Dividends approved in respect of the previous year (note 9(b))	–	–	–	–	–	(318,918)	(318,918)
Dividends declared in respect of the current year (note 9(a))	–	–	–	–	–	(136,940)	(136,940)
Transfer (from)/to reserve	–	–	(3,867)	–	–	3,867	–
	291,872	–	(3,867)	–	–	(451,991)	(163,986)
Other comprehensive income:							
– fair value changes on available-for-sale financial assets net of deferred tax	–	–	–	54,820	–	–	54,820
– fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax	–	–	–	(21,926)	–	–	(21,926)
– surplus on revaluation net of deferred tax	–	–	263,289	–	–	–	263,289
– profit attributable to shareholders of the Bank for the year	–	–	–	–	–	1,186,701	1,186,701
Total comprehensive income for the year, net of tax	–	–	263,289	32,894	–	1,186,701	1,482,884
At 31st December	800,412	1,801,949	1,095,738	174,466	769	8,102,963	11,976,297

The Group's unappropriated profits as at 31st December, 2012 included the accumulated gains of HK$141,905,000 (2011: HK$100,945,000) of the associated companies and a regulatory reserve of HK$1,294,869,000 (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").

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

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

32. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

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

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

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

At 31st December, 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of section 79B of the Hong Kong Companies Ordinance amounted to HK$10,121,601,000 (2011 (restated): HK$9,211,372,000).

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

33. 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:

	The Group		The Bank	
	2012	2011	**2012**	2011
Direct credit substitutes	**1,265,135**	2,442,439	**767,566**	1,013,473
Transaction-related contingencies	**244,126**	252,056	**234,379**	251,224
Trade-related contingencies	**703,048**	878,652	**638,571**	694,946
Other commitments:				
With an original maturity of not more than one year	**259,580**	272,408	**26,860**	30,845
With an original maturity over one year	**2,657,224**	1,501,727	**1,973,880**	1,191,414
Which are unconditionally cancellable	**43,041,940**	31,844,293	**32,659,746**	24,965,283
Total	**48,171,053**	37,191,575	**36,301,002**	28,147,185
Credit risk weighted amounts	**2,606,797**	3,267,039	**1,616,012**	1,476,097

33. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2012 not provided for in the financial statements are as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
Expenditure authorised and contracted for	**28,080**	83,491	**21,558**	47,920
Expenditure authorised but not contracted for	**94**	10,485	**–**	–
	28,174	93,976	**21,558**	47,920

(c) Lease commitments

At 31st December, 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
Properties				
Within 1 year	**75,514**	66,348	**44,622**	30,111
After 1 year but within 5 years	**84,475**	67,146	**17,387**	18,743
After 5 years	**9,373**	4,043	**–**	–
	169,362	137,537	**62,009**	48,854
Others				
Within 1 year	**810**	477	**29**	14
After 1 year but within 5 years	**7**	277	**–**	–
	817	754	**29**	14

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

34. Derivative financial instruments

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

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

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

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

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

	The Group **2012**		
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	**29,947,261**	**29,947,261**
Options purchased	–	**7,921,469**	**7,921,469**
Options written	–	**7,432,512**	**7,432,512**
Interest rate contracts			
Swaps	**8,419,103**	**16,023,446**	**24,442,549**
Equity contracts			
Options purchased	–	**79,074**	**79,074**
Options written	–	**67,399**	**67,399**
Credit derivative contracts			
Credit defaults swaps written			
– investment	–	–	–
	8,419,103	**61,471,161**	**69,890,264**

34. Derivative financial instruments *(continued)*

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

34. Derivative financial instruments *(continued)*

	The Bank 2012		
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	**31,025,307**	**31,025,307**
Options purchased	–	**7,921,467**	**7,921,467**
Options written	–	**7,430,178**	**7,430,178**
Interest rate contracts			
Swaps	**8,419,103**	**16,231,446**	**24,650,549**
Equity contracts			
Options purchased	–	**79,074**	**79,074**
Options written	–	**67,399**	**67,399**
Credit derivative contracts			
Credit defaults swaps written			
– investment	–	–	–
	8,419,103	**62,754,871**	**71,173,974**

34. Derivative financial instruments *(continued)*

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

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

34. Derivative financial instruments *(continued)*

(a) Use of derivative financial instruments

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

	The Group			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**163,680**	**67,923**	377,513	208,964
Interest rate contracts	**658,691**	**480,233**	757,948	864,117
Equity contracts	**3,993**	**4,018**	8,944	8,650
Credit derivative contracts	**–**	**–**	–	674
Total (notes 16 and 28)	**826,364**	**552,174**	1,144,405	1,082,405

	The Bank			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**163,846**	**68,335**	377,810	210,454
Interest rate contracts	**670,784**	**480,558**	772,561	865,348
Equity contracts	**3,993**	**4,018**	8,944	8,650
Credit derivative contracts	**–**	**–**	–	674
Total (notes 16 and 28)	**838,623**	**552,911**	1,159,315	1,085,126

34. Derivative financial instruments *(continued)*

(b) Remaining life of derivative financial instruments

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

	The Group			
	2012			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	**44,434,430**	**866,812**	**–**	**45,301,242**
Interest rate contracts	**5,851,635**	**15,200,104**	**3,390,810**	**24,442,549**
Equity contracts	**146,473**	**–**	**–**	**146,473**
Credit derivative contracts	**–**	**–**	**–**	**–**
	50,432,538	**16,066,916**	**3,390,810**	**69,890,264**

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

34. Derivative financial instruments *(continued)*

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

	The Bank 2012			
	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
Exchange rate contracts	**45,510,344**	**866,608**	**–**	**46,376,952**
Interest rate contracts	**5,926,635**	**15,283,104**	**3,440,810**	**24,650,549**
Equity contracts	**146,473**	**–**	**–**	**146,473**
Credit derivative contracts	**–**	**–**	**–**	**–**
	51,583,452	**16,149,712**	**3,440,810**	**71,173,974**

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

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Exchange rate contracts	**374,126**	735,265	**367,566**	732,247
Interest rate contracts	**330,377**	390,124	**326,656**	379,981
Equity contracts	**3,511**	7,382	**3,511**	7,382
Credit derivative contracts	**–**	417	**–**	417
	708,014	1,133,188	**697,733**	1,120,027

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.

35. Notes to the consolidated cash flow statement

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

	The Group 2012	2011
Operating profit	**1,806,820**	2,002,215
Depreciation (note 5(f))	**210,417**	182,393
EIP – fair value of awards (note 5(f))	**13,284**	14,507
Interest expense on subordinated liabilities (note 5(b))	**353,810**	354,779
Change in fair value of subordinated liabilities designated at fair value through profit or loss (note 5(d))	**274,130**	(169,518)
Impairment losses (released from)/charged on available-for-sale financial assets	**(3,626)**	18,463
Profits tax paid	**(390,243)**	(392,673)
Change in treasury bills with original maturity of three months or above	**(8,051,824)**	2,454,307
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	**(2,324,293)**	(7,197,077)
Change in trade bills	**(1,954,025)**	(1,793,168)
Change in certificates of deposit held	**(853,035)**	689,972
Change in trading assets	**734,438**	(311,955)
Change in financial assets designated at fair value through profit or loss	**(4,949,349)**	2,789,980
Change in advances to customers and other accounts	**(4,074,206)**	(13,161,159)
Change in deposits and balances of banks, central banks and other financial institutions	**339,142**	(90,454)
Change in deposits from customers	**8,181,020**	22,147,146
Change in certificates of deposit issued	**(193,099)**	2,425,053
Change in trading liabilities	**(530,231)**	293,752
Change in other accounts and provision	**(175,116)**	822,559
Net cash (outflow)/inflow from operating activities	**(11,585,986)**	11,079,122

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

	The Group 2012	2011
Cash and balances with banks, central banks and other financial institutions	**7,211,390**	9,160,862
Placements with banks, central banks and other financial institutions	**16,832,550**	24,426,296
Treasury bills	**18,786,422**	11,931,714
Amounts shown in the consolidated balance sheet	**42,830,362**	45,518,872
Less: Amounts with an original maturity of three months or above	**(23,536,922)**	(13,160,805)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	**(161,005)**	(217,154)
Cash and cash equivalents in the consolidated cash flow statement	**19,132,435**	32,140,913

36. Segment reporting

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

Hong Kong segment

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

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

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

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

Mainland China segment

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

Macau segment

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

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

Segment assets include tangible assets (include equipment of the Group and overseas bank premises), 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.

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

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

36. Segment reporting *(continued)*

(a) Segment results, assets and liabilities

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

	The Group 2012						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,427,789	282,546	302,723	2,013,058	717,160	360,110	3,090,328
Non-interest income	439,283	79,750	224,155	743,188	43,500	147,262	933,950
Reportable segment revenue	1,867,072	362,296	526,878	2,756,246	760,660	507,372	4,024,278
Operating expenses	(950,230)	(164,001)	(65,534)	(1,179,765)	(400,748)	(234,786)	(1,815,299)
Operating profit before impairment losses and allowances	916,842	198,295	461,344	1,576,481	359,912	272,586	2,208,979
Impairment losses and allowances (charged on)/released from loans and advances	559	15,443	–	16,002	(251,821)	5	(235,814)
Impairment losses and allowances released from available-for-sale financial assets	–	–	3,626	3,626	–	–	3,626
Operating profit	917,401	213,738	464,970	1,596,109	108,091	272,591	1,976,791
Net gains/(losses) on revaluation of properties and disposal of tangible fixed assets	(1,790)	(5)	(35)	(1,830)	197	24,400	22,767
Net gains on disposal of available-for-sale financial assets	–	–	83,258	83,258	–	3,346	86,604
Reportable segment profit before tax	915,611	213,733	548,193	1,677,537	108,288	300,337	2,086,162
Depreciation	25,347	1,444	3,279	30,070	61,413	16,465	107,948
Reportable segment assets	51,549,255	34,657,034	36,497,172	122,703,461	35,726,808	25,236,850	183,667,119
Addition to non-current segment assets	21,783	53	594	22,430	54,063	16,387	92,880
Reportable segment liabilities	120,409,959	1,294,197	1,322,886	123,027,042	32,706,591	23,176,291	178,909,924

36. Segment reporting *(continued)*

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

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

36. Segment reporting *(continued)*

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

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

	The Group	
	2012	2011
Revenue		
Reportable segment revenue	**4,024,278**	3,841,376
Other revenue	**121,116**	104,940
Elimination of inter-segment revenue	**(254,524)**	(161,166)
Consolidated operating income	**3,890,870**	3,785,150

	The Group	
	2012	2011
Profit before taxation		
Reportable segment profit before taxation	**2,086,162**	2,230,731
Share of net gains of associated companies	**40,960**	50,326
Other revenue and net income	**74,175**	280,564
Elimination of inter-segment profit	**(81,553)**	(40,777)
Consolidated profit before taxation	**2,119,744**	2,520,844

	The Group	
	2012	2011
Assets		
Reportable segment assets	**183,667,119**	177,382,657
Balance and placements with banks, central banks and other financial institutions	**12,566,668**	15,395,035
Advances to bank	**29,780**	–
Investments in associated companies	**229,723**	249,252
Tangible fixed assets	**4,499,574**	3,891,376
Goodwill	**1,306,430**	1,306,430
Current tax recoverable	**4,689**	7,880
Deferred tax assets	**33,992**	30,893
Other assets	**8,231,327**	5,919,729
Elimination of inter-segment assets	**(13,205,433)**	(16,934,461)
Consolidated total assets	**197,363,869**	187,248,791

36. Segment reporting *(continued)*

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

	The Group 2012	2011 (restated)
Liabilities		
Reportable segment liabilities	**178,909,924**	180,639,140
Current tax payable	**98,866**	90,000
Deferred tax liabilities	**113,911**	74,875
Other liabilities	**7,120,794**	5,417,923
Elimination of inter-segment liabilities	**(8,413,406)**	(16,229,158)
Consolidated total liabilities	**177,830,089**	169,992,780

(b) Other geographical information

The Group **2012**

	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	**6,135,679**	**510,328**	**411,810**	**11,583**	**7,069,400**
Contingent liabilities and commitments (note 33(a))	**34,963,659**	**12,625,958**	**2,325,517**	**(1,744,081)**	**48,171,053**

The Group 2011

	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,536,893	497,991	378,868	11,623	6,425,375
Contingent liabilities and commitments (note 33(a))	26,756,676	10,103,060	1,748,882	(1,417,043)	37,191,575

37. Material related party transactions

(a) Substantial shareholder

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

(i) Income and expense for the year

	The Group		The Bank	
	2012	2011	**2012**	2011
Interest income	**1,262**	73	**1,244**	52
Interest expense	**1,516**	286	**1,516**	286

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Cash and balances with banks, central banks and other financial institutions	**208,576**	163,051	**135,717**	105,038
Placement with banks, central banks and other financial institutions	**100,879**	66,130	**100,879**	66,130
Deposits and balances of banks, central banks and other financial institutions	**90,428**	72,832	**88,813**	71,231

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Cash and balances with banks, central banks and other financial institutions	**273,293**	171,379	**24,962**	62,376
Deposits and balances of banks, central banks and other financial institutions	**44,575**	46,958	**42,892**	46,958

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Other commitments	**31,787**	32,000	**31,787**	32,000

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Exchange rate contracts	**1,050,648**	2,252,852	**1,050,648**	2,252,852
Interest rate contracts	**2,751,712**	427,163	**2,751,712**	427,163

37. Material related party transactions *(continued)*

(b) Subsidiaries

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

(i) Income and expense for the year

	The Bank	
	2012	2011
Interest income	**235,573**	188,355
Interest expense	**70,018**	77,475
Other operating income	**109,432**	127,512
Operating expense	**54,537**	58,059

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

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

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

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

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

	2012	2011
Amounts due from subsidiaries	**12,269,944**	12,879,390
Amounts due to subsidiaries	**5,628,349**	6,421,916

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

	2012	2011
Amounts due from subsidiaries	**12,173,019**	12,048,179
Amounts due to subsidiaries	**6,546,422**	5,698,101

No allowance for impairment losses has been made in respect of these balances as at 31st December, 2012 (2011: nil).

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

	2012	2011
Direct credit substitutes	**11,776**	16,612
Transaction-related contingencies	**200,000**	200,000
Trade-related contingencies	**1,564**	913
Other commitments	**2,762,783**	2,238,402

37. Material related party transactions *(continued)*

(b) Subsidiaries *(continued)*

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

	2012	2011
Exchange rate contracts	**1,457,908**	2,505,114
Interest rate contracts	**358,000**	1,158,000
Equity contracts	**316**	2,076

(c) Associated companies

The Group provided secured loans to two of its associated companies totalling HK$131,355,000 in 2007 to finance their purchase of the Group's bank premises during the year 2007. These loans bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. At 14th September, 2012, the loan to one of associated companies was extended to 28th September, 2017 with the interest rate at 2.60%. During the year, one of secured loan amount HK$40,857,000 was fully repaid by one of associated companies. At the balance sheet date, the outstanding amount of the loan is HK$28,650,000 (2011: HK$75,171,000).

(d) Key management personnel

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

	The Group		The Bank	
(i) Income and expense for the year				
	2012	2011	**2012**	2011
Interest income	**863**	1,014	**863**	1,014
Interest expense	**27,839**	22,168	**22,345**	18,827
(ii) Average on-balance sheet outstanding for the year				
	2012	2011	**2012**	2011
Advances to customers	**68,942**	91,714	**68,942**	91,714
Deposits from customers	**1,783,322**	1,701,975	**1,523,135**	1,530,568
(iii) On-balance sheet outstanding at the balance sheet date				
	2012	2011	**2012**	2011
Advances to customers	**78,364**	66,225	**78,364**	66,225
Deposits from customers	**1,832,525**	1,697,806	**1,588,620**	1,495,089

37. Material related party transactions *(continued)*

(d) Key management personnel *(continued)*

(iv) Emoluments for the year

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

	The Group	
	2012	2011
Short-term employee benefits	**65,002**	60,392
Post-employment benefits	**3,118**	2,894
Equity compensation benefits	**7,681**	8,562
	75,801	71,848

(e) Loans to officers

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

	The Group and the Bank	
	2012	2011
Aggregate amount of relevant loans outstanding at 31st December	**47,052**	28,238
The maximum aggregate amount of relevant loans outstanding during the year	**50,463**	77,933

(f) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2011: nil).

38. Management of risks

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

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

(a) Credit risk management

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

38. Management of risks *(continued)*

(a) Credit risk management *(continued)*

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

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

(i) Corporate credit risk

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

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

(ii) Retail credit risk

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

(iii) Credit-related commitments

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

38. 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.

(1) *Maximum exposure*

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Cash and balances with banks, central banks and other financial institutions	**7,211,390**	9,160,862	**1,166,998**	3,008,638
Placements with banks, central banks and other financial institutions	**16,832,550**	24,426,296	**11,812,552**	13,016,932
Trade bills	**4,293,776**	2,339,751	**6,639,999**	4,289,943
Trading assets	**8,417,553**	3,079,836	**8,429,409**	3,094,410
Financial assets designated at fair value through profit or loss	**9,879,170**	4,820,918	**9,879,170**	4,820,918
Advances to customers	**113,715,747**	110,384,924	**69,454,832**	70,397,996
Advances to banks	**765,609**	462,407	**29,780**	–
Loans to associated companies	**28,650**	75,171	**28,650**	75,171
Amounts due from subsidiaries	**–**	–	**12,173,019**	12,048,179
Available-for-sale financial assets	**24,640,249**	24,405,751	**20,110,604**	20,389,432
Financial guarantees and other credit related contingent liabilities	**2,212,309**	3,573,147	**1,640,516**	1,959,643
Loan commitments and other credit related commitments	**45,958,744**	33,618,428	**34,660,486**	26,187,542

38. Management of risks *(continued)*

(a) Credit risk management *(continued)*

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

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted as our associated companies have good credit standing. At 31st December, 2012 and 2011, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
Gross advances to customers				
– neither past due nor impaired	**112,568,576**	109,420,080	**72,476,900**	70,040,948
– past due but not impaired	**973,452**	821,434	**108,595**	226,633
– impaired (note 18(c))	**511,783**	336,004	**251,368**	248,362
	114,053,811	110,577,518	**72,836,863**	70,515,943
of which:				
Gross advances to customers				
– Grade 1: Pass	**112,841,973**	109,695,133	**72,295,967**	69,898,791
– Grade 2: Special mention	**700,055**	546,381	**289,528**	368,790

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

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Gross advances to customers that are past due but not impaired				
– past due 3 months or less	**831,355**	634,732	**73,073**	112,939
– 6 months or less but over 3 months	**137,290**	182,249	**34,341**	113,580
– 1 year or less but over 6 months	**4,807**	4,339	**1,181**	–
– over 1 year	**–**	114	**–**	114
	973,452	821,434	**108,595**	226,633

38. Management of risks *(continued)*

(a) Credit risk management *(continued)*

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

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

At 31st December, 2012, advances to customers that would be past due or impaired had the terms not been renegotiated amounted to HK$42,495,000 (2011: HK$95,123,000) and HK$35,704,000 (2011: HK$85,227,000) for the Group and the Bank respectively.

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

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

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

	The Group		The Bank	
	2012	2011	**2012**	2011
AAA	**22,780,257**	13,066,992	**22,735,113**	13,023,641
AA- to AA+	**10,559,916**	11,588,493	**5,423,287**	7,749,442
A- to A+	**5,835,471**	3,557,210	**5,673,155**	3,506,867
BBB to BBB+	**1,072,134**	1,022,067	**1,072,134**	1,022,067
Lower than BBB	**1,466,664**	756,028	**1,377,118**	756,028
	41,714,442	29,990,790	**36,280,807**	26,058,045
Unrated	**2,498,872**	941,388	**2,104,865**	917,484
	44,213,314	30,932,178	**38,385,672**	26,975,529

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" of the Group and the Bank as at 31st December, 2012 (2011: overdue debt securities over 1 year for the Group and the Bank were HK$25,824,000 and HK$56,892,000 respectively).

Included in "Other assets" of the Group and the Bank as at 31st December, 2012 and 31st December, 2011, there are no receivables which are overdue.

38. Management of risks *(continued)*

(a) Credit risk management *(continued)*

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

(4) Collateral and other credit enhancements

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

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

	The Group		The Bank	
	2012	2011	**2012**	2011
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	**2,846,190**	1,544,367	**645,868**	598,180

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 15 to 20 and the geographical concentration of the Group's assets is disclosed in note 36(b).

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 38.6% in 2012, 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.

38. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

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

	The Group 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	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	169,719	736,843	185,821	–	–	–	–	1,092,383
Deposits from customers	51,550,623	53,814,507	34,695,039	24,328,950	2,091,577	169,462	28,000	166,678,158
Certificates of deposit issued	–	359,250	173,956	1,114,424	1,012,929	–	–	2,660,559
Interest payable on derivative financial instruments	–	32,409	71,085	204,638	1,011,477	218,706	–	1,538,315
Subordinated liabilities	–	–	81,298	176,584	744,125	–	4,844,563	5,846,570
Other liabilities	–	1,233,475	155,755	297,432	77,428	–	184,463	1,948,553
	51,720,342	56,176,484	35,362,954	26,122,028	4,937,536	388,168	5,057,026	179,764,538
Unrecognised loan commitments	30,851,228	285,921	341,665	11,487,294	2,542,880	–	449,756	45,958,744
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	12,287,453	13,720,234	3,999,833	165,122	–	–	30,172,642
– total outflow	–	12,179,259	13,640,777	3,792,378	135,824	–	–	29,748,238
Net inflow	–	108,194	79,457	207,455	29,298	–	–	424,404

38. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

The Group
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	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	256,888	552,036	–	–	–	–	–	808,924
Deposits from customers	46,690,637	55,402,774	33,180,461	20,546,656	2,704,123	–	–	158,524,651
Certificates of deposit issued	–	298,852	822,223	556,398	1,178,441	–	–	2,855,914
Interest payable on derivative financial instruments	–	45,898	66,984	231,435	1,138,952	240,331	–	1,723,600
Subordinated liabilities	–	–	81,813	177,867	922,568	188,988	4,854,125	6,225,361
Other liabilities	–	1,357,873	77,597	402,444	54,817	–	243,608	2,136,339
	46,947,525	57,657,433	34,229,078	21,914,800	5,998,901	429,319	5,097,733	172,274,789
Unrecognised loan commitments	23,734,767	143,053	320,480	8,478,765	941,363	–	–	33,618,428
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	13,425,794	16,963,556	12,419,030	1,253,762	–	–	44,062,142
– total outflow	–	13,389,205	16,826,185	12,335,878	1,246,955	–	–	43,798,223
Net inflow	–	36,589	137,371	83,152	6,807	–	–	263,919

38. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	The Bank 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	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	59,424	248,645	62,691	–	–	–	–	370,760
Deposits from customers	38,510,893	45,206,321	24,311,266	10,346,682	386,842	169,462	28,000	118,959,466
Certificates of deposit issued	–	359,250	173,956	1,114,424	1,012,929	–	–	2,660,559
Interest payable on derivative financial instruments	–	31,736	70,523	204,854	1,011,477	218,706	–	1,537,296
Subordinated liabilities	–	–	81,298	176,584	744,125	–	4,844,563	5,846,570
Other liabilities	–	729,264	107,702	166,957	54,840	–	168,606	1,227,369
	38,570,317	46,575,216	24,807,436	12,009,501	3,210,213	388,168	5,041,169	130,602,020
Unrecognised loan commitments	32,659,746	26,860	–	4,237	1,915,764	–	53,878	34,660,485
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	12,265,350	14,760,099	3,855,614	144,187	–	–	31,025,250
– total outflow	–	12,185,461	14,733,326	3,840,435	142,800	–	–	30,902,022
Net inflow	–	79,889	26,773	15,179	1,387	–	–	123,228

38. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	The Bank 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	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	192,261	435,432	–	–	–	–	–	627,693
Deposits from customers	34,576,901	45,457,532	21,439,820	7,997,875	992,765	–	–	110,464,893
Certificates of deposit issued	–	298,852	822,223	556,398	1,178,441	–	–	2,855,914
Interest payable on derivative financial instruments	–	44,370	66,222	232,169	1,139,437	240,331	–	1,722,529
Subordinated liabilities	–	–	81,813	177,867	922,568	188,988	4,854,125	6,225,361
Other liabilities	–	730,404	58,452	227,742	38,483	–	207,485	1,262,566
	34,769,162	46,966,590	22,468,530	9,192,051	4,271,694	429,319	5,061,610	123,158,956
Unrecognised loan commitments	25,095,477	30,845	44,371	219,665	797,184	–	–	26,187,542
Derivative cash flows								
Derivative financial instruments (notional amount)								
– total inflow	–	14,160,990	18,104,717	12,779,915	1,253,762	–	–	46,299,384
– total outflow	–	14,133,384	17,978,919	12,708,739	1,246,955	–	–	46,067,997
Net inflow	–	27,606	125,798	71,176	6,807	–	–	231,387

The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in note 31.

(c) Market risk management

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

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

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

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

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

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

(i) Interest rate risk

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

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

	2012 Increase/ (decrease) in Group's profit before tax	2011 Increase/ (decrease) in Group's profit before tax
Increase in 10 basis points	**7,569**	13,647
Decrease in 10 basis points	**(7,569)**	(13,647)

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.

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

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

	The Group 2012					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	**7,211,390**	**5,806,381**	**–**	**–**	**–**	**1,405,009**
Placements with banks, central banks and other financial institutions	**16,832,550**	**12,301,900**	**4,530,650**	**–**	**–**	**–**
Trade bills	**4,293,776**	**1,727,242**	**2,566,534**	**–**	**–**	**–**
Trading assets	**8,417,553**	**125,750**	**5,933,516**	**927,413**	**603,164**	**827,710**
Financial assets designated at fair value through profit or loss	**9,879,170**	**483,615**	**58,621**	**6,858,977**	**2,477,957**	**–**
Advances to customers and other account	**115,859,826**	**93,897,128**	**10,829,681**	**8,880,605**	**189,710**	**2,062,702**
Advances to banks	**765,609**	**213**	**765,396**	**–**	**–**	**–**
Held-to-maturity investments	**2,355,665**	**431,532**	**124,086**	**1,351,166**	**448,881**	**–**
Available-for-sale financial assets	**24,640,249**	**13,879,978**	**2,623,994**	**6,581,265**	**1,303,399**	**251,613**
Loans to associated companies	**28,650**	**28,650**	**–**	**–**	**–**	**–**
Other assets	**7,079,431**	**–**	**–**	**–**	**–**	**7,079,431**
Total assets	**197,363,869**	**128,682,389**	**27,432,478**	**24,599,426**	**5,023,111**	**11,626,465**
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	**1,091,462**	**1,081,336**	**–**	**–**	**–**	**10,126**
Deposits from customers	**165,935,458**	**129,218,751**	**23,992,169**	**1,783,897**	**41**	**10,940,600**
Certificates of deposit issued	**2,563,550**	**817,600**	**1,076,709**	**669,241**	**–**	**–**
Trading liabilities	**552,174**	**–**	**–**	**–**	**–**	**552,174**
Other liabilities	**2,737,015**	**60,635**	**–**	**–**	**–**	**2,676,380**
Subordinated liabilities	**4,950,430**	**–**	**1,744,043**	**3,206,387**	**–**	**–**
Total liabilities	**177,830,089**	**131,178,322**	**26,812,921**	**5,659,525**	**41**	**14,179,280**
Derivatives (in the banking book) net long/(short) position (notional amount)	**–**	**–**	**–**	**–**	**–**	**–**
Interest rate sensitivity gap	**19,533,780**	**(2,495,933)**	**619,557**	**18,939,901**	**5,023,070**	**(2,552,815)**

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	The Group 2011 (restated)					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	9,160,862	7,192,974	–	–	–	1,967,888
Placements with banks, central banks and other financial institutions	24,426,296	20,702,385	3,723,911	–	–	–
Trade bills	2,339,751	1,860,347	479,404	–	–	–
Trading assets	3,079,836	184,464	421,382	1,243,482	80,422	1,150,086
Financial assets designated at fair value through profit or loss	4,820,918	406,942	396,341	2,291,678	1,725,957	–
Advances to customers and other account	112,088,822	90,675,703	12,425,396	7,194,954	186,964	1,605,805
Advances to banks	462,407	155,431	306,976	–	–	–
Available-for-sale financial assets	24,405,751	17,762,784	2,341,170	2,738,806	1,338,750	224,241
Loans to associated companies	75,171	75,171	–	–	–	–
Other assets	6,388,977	–	–	–	–	6,388,977
Total assets	187,248,791	139,016,201	20,094,580	13,468,920	3,332,093	11,336,997
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	808,469	768,750	–	–	–	39,719
Deposits from customers	157,754,438	125,934,019	20,270,184	2,536,203	80	9,013,952
Certificates of deposit issued	2,756,649	1,830,000	–	926,649	–	–
Trading liabilities	1,082,405	–	–	–	–	1,082,405
Other liabilities	2,905,291	68,351	–	–	–	2,836,940
Subordinated liabilities	4,685,528	–	–	1,747,485	2,938,043	–
Total liabilities	169,992,780	128,601,120	20,270,184	5,210,337	2,938,123	12,973,016
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	17,256,011	10,415,081	(175,604)	8,258,583	393,970	(1,636,019)

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	The Bank 2012					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	1,166,998	589,139	–	–	–	577,859
Placements with banks, central banks and other financial institutions	11,812,552	9,044,769	2,767,783	–	–	–
Trade bills	6,639,999	901,323	5,738,676	–	–	–
Trading assets	8,429,409	125,751	5,933,516	927,413	603,164	839,565
Financial assets designated at fair value through profit or loss	9,879,170	483,615	58,621	6,858,977	2,477,957	–
Advances to customers and other accounts	70,948,859	56,662,192	5,327,367	7,403,215	73,501	1,482,584
Advances to banks	29,780	213	29,567	–	–	–
Held-to-maturity investments	991,778	–	–	542,897	448,881	–
Available-for-sale financial assets	20,110,604	12,483,479	1,134,970	5,087,605	1,218,826	185,724
Amounts due from subsidiaries	12,173,019	11,757,896	384,503	–	–	30,620
Loans to associated companies	28,650	28,650	–	–	–	–
Other assets	6,766,825	–	–	–	–	6,766,825
Total assets	148,977,643	92,077,027	21,375,003	20,820,107	4,822,329	9,883,177
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	370,016	361,806	–	–	–	8,210
Deposits from customers	118,608,105	98,544,322	10,204,856	135,121	–	9,723,806
Certificates of deposit issued	2,563,550	817,600	1,076,709	669,241	–	–
Trading liabilities	552,911	–	–	–	–	552,911
Amounts due to subsidiaries	6,546,422	4,883,269	1,148,477	–	–	514,676
Other liabilities	1,644,988	60,635	–	–	–	1,584,353
Subordinated liabilities	4,950,430	–	1,744,043	3,206,387	–	–
Total liabilities	135,236,422	104,667,632	14,174,085	4,010,749	–	12,383,956
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	13,741,221	(12,590,605)	7,200,918	16,809,358	4,822,329	(2,500,779)

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The Bank 2011 (restated)

	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	3,008,638	2,094,065	–	–	–	914,573
Placements with banks, central banks and other financial institutions	13,016,932	10,927,147	2,089,785	–	–	–
Trade bills	4,289,943	1,455,747	2,834,196	–	–	–
Trading assets	3,094,410	184,465	421,382	1,243,482	80,422	1,164,659
Financial assets designated at fair value through profit or loss	4,820,918	406,942	396,341	2,291,678	1,725,957	–
Advances to customers and other accounts	71,648,040	58,163,951	6,329,973	5,882,629	54,550	1,216,937
Available-for-sale financial assets	20,389,432	16,627,374	436,339	1,865,750	1,295,398	164,571
Amounts due from subsidiaries	12,048,179	11,239,215	720,000	65,000	–	23,964
Loans to associated companies	75,171	75,171	–	–	–	–
Other assets	6,511,062	–	–	–	–	6,511,062
Total assets	138,902,725	101,174,077	13,228,016	11,348,539	3,156,327	9,995,766
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	627,260	587,577	–	–	–	39,683
Deposits from customers	110,127,528	93,537,362	7,923,935	864,234	–	7,801,997
Certificates of deposit issued	2,756,649	1,830,000	–	926,649	–	–
Trading liabilities	1,085,126	–	–	–	–	1,085,126
Amounts due to subsidiaries	5,698,101	4,583,823	410,126	–	–	704,152
Other liabilities	1,647,424	68,351	–	–	–	1,579,073
Subordinated liabilities	4,685,528	–	–	1,747,485	2,938,043	–
Total liabilities	126,627,616	100,607,113	8,334,061	3,538,368	2,938,043	11,210,031
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	12,275,109	566,964	4,893,955	7,810,171	218,284	(1,214,265)

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

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

	The Group		The Bank	
	2012	2011	**2012**	2011
	%	%	%	%
Placement with banks, central banks and other financial institutions	**1.51**	2.53	**0.44**	1.04
Advances to customers and trade bills	**3.37**	3.26	**2.82**	2.60
Debt securities	**2.38**	2.84	**2.33**	2.84
	2.89	3.04	**2.40**	2.42
Deposits and balances of banks, central banks and other financial institutions	**0.72**	0.48	**0.61**	1.45
Deposits from customers	**1.29**	1.55	**0.98**	1.24
Certificates of deposit issued	**2.38**	1.35	**2.38**	1.35
Subordinated liabilities	**7.29**	7.34	**7.29**	7.34
	1.48	1.72	**1.24**	1.50

(ii) Currency risk

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

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

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

– investments in overseas subsidiaries and related companies; and

– subordinated liabilities.

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

	The Group					
	2012			2011		
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Total	US$	Chinese Renminbi	Total
Spot assets	**49,028**	**37,031**	**95,644**	44,838	43,365	98,496
Spot liabilities	**(30,857)**	**(37,868)**	**(87,581)**	(28,449)	(43,159)	(92,417)
Forward purchases	**6,884**	**3,249**	**21,210**	14,280	9,008	35,306
Forward sales	**(23,371)**	**(1,476)**	**(26,625)**	(29,188)	(7,539)	(38,225)
Net option positions	**(1,055)**	**(924)**	**(1,990)**	(1,582)	(1,596)	(3,177)
Net long positions	**629**	**12**	**658**	(101)	79	(17)

	The Group			
	2012			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	**737**	**2,134**	**770**	**3,641**

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

	The Bank					
	2012			2011		
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Total	US$	Chinese Renminbi	Total
Spot assets	**46,262**	**7,284**	**63,054**	42,053	5,960	58,301
Spot liabilities	**(28,199)**	**(8,020)**	**(54,998)**	(26,988)	(5,754)	(53,549)
Forward purchases	**6,993**	**3,249**	**21,319**	15,582	9,008	36,605
Forward sales	**(23,372)**	**(1,585)**	**(26,735)**	(29,188)	(7,539)	(38,224)
Net option positions	**(1,055)**	**(924)**	**(1,990)**	(1,582)	(1,596)	(3,177)
Net long positions	**629**	**4**	**650**	(123)	79	(44)

38. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total
		The Bank **2012**		
Net structural positions	**737**	**2,134**	**770**	**3,641**

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

(iii) Equity risk

The Group's equities exposures in 2012 and 2011 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 20. Equities held for trading purpose are included under "Trading assets" set out in note 16. These are subject to trading limits and risk management control procedures and other market risk regime.

(d) Operational risk management

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

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

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

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

(e) Capital management

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

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

38. Management of risks *(continued)*

(e) Capital management *(continued)*

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by oversea regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the year ended 31st December, 2012 and 2011 and are well above the minimum required ratio set by the HKMA.

The capital adequacy ratios as at 31st December, 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.

(f) Transfers of financial assets

As of 31st December, 2012, the Group and the Bank entered into repurchase agreements with certain banks and customers to sell debt securities of carrying amount of HK$950,797,000 and HK$575,883,000 respectively which subject to the simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities by nature are as follows:

	The Group **2012**	The Bank **2012**
Held-to-maturities investments	**46,845**	**46,845**
Available-for-sale financial assets	**444,311**	**69,397**
Financial assets designated at fair value through profit or loss	**459,641**	**459,641**
	950,797	**575,883**

The consideration received under these repurchase agreements for the Group and the Bank totaling HK$909,544,000 and HK$542,227,000 respectively were reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2012. The details are as follows:

	The Group **2012**	The Bank **2012**
Deposits and balances of banks, central banks and other financial institutions	**615,689**	**248,372**
Deposits from customers	**293,855**	**293,855**
	909,544	**542,227**

The Group and the Bank did not have any transfer of financial assets at 31st December, 2011.

38. Management of risks *(continued)*

(f) Transfers of financial assets *(continued)*

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group and the Bank was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

As at 31st December, 2012 and 31st December, 2011, there were no outstanding transferred financial assets in which the Group and the Bank have a continuing involvement, that were derecognised in their entirety.

39. Staff benefits

(a) Retirement schemes

	The Group	
	2012	2011
Retirement benefit costs (note 5(f))	**70,521**	63,899

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

(b) Equity compensation benefits

(i) Share Option Scheme

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executive, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

39. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(i) Share Option Scheme *(continued)*

(1) Movements in share options

	2012 Weighted average exercise price HK$	**2012** Number of shares	2011 Weighted average exercise price HK$	2011 Number of shares
Outstanding at 1st January	**43.24**	**595,000**	41.02	685,000
Exercised	**26.25**	**(110,000)**	26.30	(90,000)
Outstanding and exercisable at 31st December	**47.10**	**485,000**	43.24	595,000

No share options were granted during 2012 and 2011.

(2) Terms and conditions of unexpired and unexercised share options at balance sheet date

Date of options granted	Exercise price HK$	**2012** Number of shares	2011 Number of shares
14/01/2003	25.80	**–**	40,000
14/03/2003	26.50	**–**	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
		485,000	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 31st December, 2012 have a weighted average remaining contractual life of 1.69 years (2011: 2.40 years).

39. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(i) Share Option Scheme *(continued)*

(3) Details of share options exercised during the year

Exercise date	Exercise price HK$	Weighted average closing price per share at preceding day before exercise date HK$	Proceeds received HK$	**2012** Number of shares	2011 Number of shares
01/12/2011	26.30	62.50	2,367,000	**–**	90,000
11/12/2012	25.80	79.85	1,032,000	**40,000**	–
11/12/2012	26.50	79.85	1,855,000	**70,000**	–
				110,000	90,000

The weighted average share price at the exercise date for share options exercised in 2012 was HK$78.45 (2011: HK$64.75).

(4) Fair value of share options and assumptions

The fair value per option at the dates of grant was measured based on the Binominal pricing model. The Binominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair values of the options were measured at the grant date and are charged to the income statement and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

(ii) EIP

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The EIP was approved on 30th April, 2009 for the purposes of renewing the employee incentive plan which was approved on 22nd April, 2004 and has expired in April 2009. Under the EIP, the directors may during the first five years after the EIP was approved granted awards to certain executives to acquire ordinary shares in the Bank. The number of shares that may be issued under EIP may not exceed one million shares.

39. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(ii) EIP *(continued)*

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1.00 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	Percentage of Award vesting
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

Movement in EIP during the year is as follow:

	2012 Number of awards	2011 Number of awards
Outstanding at 1st January	**2,225,750**	2,305,250
Exercised	**(152,250)**	(49,500)
Lapsed	**–**	(30,000)
Outstanding and exercisable at 31st December	**2,073,500**	2,225,750

At 31st December, 2012, the Directors and employees of the Bank have the following interest in awards to purchase the ordinary shares in the Bank:

Date of awards granted	Exercise price HK$	**2012** Fair value of awards at date of grant	Number of shares	2011 Fair value of awards at date of grant	Number of shares
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

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. There are no awards granted during the year (2011: nil).

40. Fair values of financial instruments

(a) Financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value, and financial instruments classified as available-for-sale.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

(i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

(ii) Level 2: Valuation technique based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

(iii) Level 3: Valuation technique using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on "no-arbitrage" principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. "Not observable" does not mean there is absolutely no market data available but there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. The availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models, as inputs to a fair value measurement. These models usually are developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

The table below analyses financial instruments measured at fair value at the balance sheet date according to the level in the fair value hierarchy into which they are categorised:

	The Group 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	**6,888,072**	**12**	**–**	**6,888,084**
– Certificates of deposit held	**111,765**	**–**	**–**	**111,765**
– Other debt securities	**387,517**	**202,477**	**–**	**589,994**
– Equity securities	**1,346**	**–**	**–**	**1,346**
– Positive fair values of derivative financial instruments held for trading	**–**	**826,364**	**–**	**826,364**
	7,388,700	**1,028,853**	**–**	**8,417,553**
Financial assets designated at fair value through profit or loss				
– Treasury bills	**148,513**	**–**	**–**	**148,513**
– Other debt securities	**8,593,334**	**1,043,772**	**93,551**	**9,730,657**
	8,741,847	**1,043,772**	**93,551**	**9,879,170**
Available-for-sale financial assets				
– Treasury bills	**8,869,405**	**1,516,533**	**–**	**10,385,938**
– Certificates of deposit held	**541,175**	**832,433**	**–**	**1,373,608**
– Other debt securities	**10,260,347**	**2,368,743**	**–**	**12,629,090**
– Equity securities	**69,746**	**17,129**	**95,973**	**182,848**
	19,740,673	**4,734,838**	**95,973**	**24,571,484**
	35,871,220	**6,807,463**	**189,524**	**42,868,207**
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	**–**	**150,351**	**–**	**150,351**
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	**–**	**552,174**	**–**	**552,174**
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	**–**	**3,206,387**	**–**	**3,206,387**
	–	**3,908,912**	**–**	**3,908,912**

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	750,402	86,686	–	837,088
– Certificates of deposit held	–	90,606	–	90,606
– Other debt securities	344,436	657,620	–	1,002,056
– Equity securities	5,681	–	–	5,681
– Positive fair values of derivative financial instruments held for trading	–	1,144,396	–	1,144,396
	1,100,519	1,979,308	–	3,079,827
Financial assets designated at fair value through profit or loss				
– Treasury bills	39,610	–	–	39,610
– Other debt securities	4,205,950	531,990	43,368	4,781,308
	4,245,560	531,990	43,368	4,820,918
Available-for-sale financial assets				
– Treasury bills	10,246,954	808,062	–	11,055,016
– Certificates of deposit held	541,732	–	–	541,732
– Other debt securities	4,604,934	7,979,828	–	12,584,762
– Equity securities	47,722	13,000	94,754	155,476
	15,441,342	8,800,890	94,754	24,336,986
	20,787,421	11,312,188	138,122	32,237,731
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	–	151,649	–	151,649
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	1,082,405	–	1,082,405
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	2,938,043	–	2,938,043
	–	4,172,097	–	4,172,097

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank			
	2012			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	**6,888,072**	**12**	**–**	**6,888,084**
– Certificates of deposit held	**111,765**	**–**	**–**	**111,765**
– Other debt securities	**387,517**	**202,477**	**–**	**589,994**
– Equity securities	**943**	**–**	**–**	**943**
– Positive fair values of derivative financial instruments held for trading	**–**	**838,623**	**–**	**838,623**
	7,388,297	**1,041,112**	**–**	**8,429,409**
Financial assets designated at fair value through profit or loss				
– Treasury bills	**148,513**	**–**	**–**	**148,513**
– Other debt securities	**8,593,334**	**1,043,772**	**93,551**	**9,730,657**
	8,741,847	**1,043,772**	**93,551**	**9,879,170**
Available-for-sale financial assets				
– Treasury bills	**6,258,783**	**435,374**	**–**	**6,694,157**
– Certificates of deposit held	**541,175**	**832,433**	**–**	**1,373,608**
– Other debt securities	**9,528,609**	**2,328,507**	**–**	**11,857,116**
– Equity securities	**53,356**	**12,863**	**84,025**	**150,244**
	16,381,923	**3,609,177**	**84,025**	**20,075,125**
	32,512,067	**5,694,061**	**177,576**	**38,383,704**
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	**–**	**150,351**	**–**	**150,351**
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	**–**	**552,911**	**–**	**552,911**
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	**–**	**3,206,387**	**–**	**3,206,387**
	–	**3,909,649**	**–**	**3,909,649**

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	750,402	86,686	–	837,088
– Certificates of deposit held	–	90,606	–	90,606
– Other debt securities	344,436	657,620	–	1,002,056
– Equity securities	5,345	–	–	5,345
– Positive fair values of derivative financial instruments held for trading	–	1,159,315	–	1,159,315
	1,100,183	1,994,227	–	3,094,410
Financial assets designated at fair value through profit or loss				
– Treasury bills	39,610	–	–	39,610
– Other debt securities	4,205,950	531,990	43,368	4,781,308
	4,245,560	531,990	43,368	4,820,918
Available-for-sale financial assets				
– Treasury bills	7,215,965	–	–	7,215,965
– Certificates of deposit held	541,732	–	–	541,732
– Other debt securities	4,487,336	7,979,828	–	12,467,164
– Equity securities	36,554	9,732	82,806	129,092
	12,281,587	7,989,560	82,806	20,353,953
	17,627,330	10,515,777	126,174	28,269,281
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	–	151,649	–	151,649
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	1,085,126	–	1,085,126
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	2,938,043	–	2,938,043
	–	4,174,818	–	4,174,818

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

The following table shows a reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

	The Group 2012		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	**43,368**	**94,754**	**138,122**
Settlements	**–**	**–**	**–**
Transfers into Level 3	**–**	**–**	**–**
Changes in fair value recognised in the income statement:			
– Net gains from financial instruments designated at fair value through profit or loss	**50,183**	**–**	**50,183**
Changes in fair value recognised in the other comprehensive income	**–**	**1,219**	**1,219**
At 31st December	**93,551**	**95,973**	**189,524**
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	**–**	**1,219**	**1,219**
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net gains from financial instruments designated at fair value through profit or loss	**50,183**	**–**	**50,183**

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group 2011		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	78,873	93,451	172,324
Settlements	–	–	–
Transfers into Level 3	–	–	–
Changes in fair value recognised in the income statement:			
– Net losses from financial instruments designated at fair value through profit or loss	(35,505)	–	(35,505)
Changes in fair value recognised in the other comprehensive income	–	1,303	1,303
At 31st December	43,368	94,754	138,122
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	–	1,303	1,303
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net losses from financial instruments designated at fair value through profit or loss	(35,408)	–	(35,408)

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2012		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	**43,368**	**82,806**	**126,174**
Settlements	**–**	**–**	**–**
Transfers into Level 3	**–**	**–**	**–**
Changes in fair value recognised in the income statement:			
– Net gains from financial instruments designated at fair value through profit or loss	**50,183**	**–**	**50,183**
Changes in fair value recognised in the other comprehensive income	**–**	**1,219**	**1,219**
At 31st December	**93,551**	**84,025**	**177,576**
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	**–**	**1,219**	**1,219**
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net gains from financial instruments designated at fair value through profit or loss	**50,183**	**–**	**50,183**

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2011		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	78,873	81,503	160,376
Settlements	–	–	–
Transfers into Level 3	–	–	–
Changes in fair value recognised in the income statement:			
– Net losses from financial instruments designated at fair value through profit or loss	(35,505)	–	(35,505)
Changes in fair value recognised in the other comprehensive income	–	1,303	1,303
At 31st December	43,368	82,806	126,174
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	–	1,303	1,303
Total gains or losses for the year included in the income statement for assets held at the balance sheet date			
– Net losses from financial instruments designated at fair value through profit or loss	(35,408)	–	(35,408)

During the year, valuation report issued by an external valuer became available on an unquoted available-for-sale equity investment. Accordingly, such investment is stated at fair value as at 31st December, 2012.

Effect of changes in significant non-observable assumptions to reasonably possible alternatives

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions.

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Group 2012			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	**9,355**	**(9,355)**	**–**	**–**
Available-for-sale financial assets				
– Equity securities	**–**	**–**	**1,707**	**(1,707)**
	9,355	**(9,355)**	**1,707**	**(1,707)**

	The Group 2011			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	4,337	(4,337)	–	–
Available-for-sale financial assets				
– Equity securities	–	–	1,707	(1,707)
	4,337	(4,337)	1,707	(1,707)

40. Fair values of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

	The Bank 2012			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	**9,355**	**(9,355)**	**–**	**–**
Available-for-sale financial assets				
– Equity securities	**–**	**–**	**512**	**(512)**
	9,355	**(9,355)**	**512**	**(512)**

	The Bank 2011			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets designated at fair value through profit or loss				
– Debt securities	4,337	(4,337)	–	–
Available-for-sale financial assets				
– Equity securities	–	–	512	(512)
	4,337	(4,337)	512	(512)

40. Fair values of financial instruments *(continued)*

(b) Fair values of financial instruments carried at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31st December, 2012 and 31st December, 2011 except as follows:

	The Group and the Bank			
	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	**2,355,665**	**2,400,060**	–	–
Financial liabilities				
Certificates of deposit issued at amortised cost	**2,413,199**	**2,439,028**	2,605,000	2,615,125
Subordinated liabilities valued at amortised cost	**1,744,043**	**1,831,123**	1,747,485	1,851,425

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

(i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

(ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iii) the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) the fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

41. Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31st December, 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31st December, 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1st July, 2012
HKFRS 10, *Consolidated financial statements*	1st January, 2013
HKFRS 11, *Joint arrangements*	1st January, 2013
HKFRS 12, *Disclosure of interests in other entities*	1st January, 2013
HKFRS 13, *Fair value measurement*	1st January, 2013
HKAS 27 (2011), *Separate financial statements*	1st January, 2013
HKAS 28, *Investments in associates and joint ventures*	1st January, 2013
Revised HKAS 19, *Employee benefits*	1st January, 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1st January, 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1st January, 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1st January, 2014
HKFRS 9, *Financial instruments*	1st January, 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for the followings:

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*, require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

HKFRS 10, *Consolidated financial statements*, replaces the requirements in HKAS 27, *Consolidated and separate financial statements*, relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

41. Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31st December, 2012 *(continued)*

The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1st January, 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

HKFRS 12, *Disclosure of interests in other entities*, brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities when the standard is adopted for the first time in 2013.

HKFRS 13, *Fair value measurement*, replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. HKFRS 13 is effective as from 1st January, 2013, but retrospective adoption is not required. The Group estimates that the adoption of HKFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 financial statements.

HKFRS 9, *Financial instruments*, is mandatory for annual periods beginning on or after 1st January, 2015 with earlier adoption permitted. The HKICPA decided to consider amendments to HKFRS 9 to address practice and other issues. Proposals in respect of classification and measurement for assets and liabilities and impairment loss are out for consultation in November 2012 until end of March 2013. The Group is presently studying the implications of adoption but is awaiting finalisation of the limited amendments before evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a significant impact on the Group's results of operation and state of affairs.

42. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 7th March, 2013.

Unaudited Supplementary Financial Information

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

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(a) Capital adequacy and liquidity ratios

(i) Capital adequacy ratio

	The Group	
	2012	2011 (restated)
Capital adequacy ratio as at 31st December	**15.7%**	15.9%
Core capital adequacy ratio as at 31st December	**10.0%**	10.1%

As mentioned in note 38(e) of "Notes to the financial statements" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

In calculating the capital adequacy ratio of the Group, the following subsidiaries are excluded from the basis of consolidation for regulatory reporting purposes:

- CF Limited
- Chekiang First Bank (Nominees) Limited
- Chekiang First Bank (Trustees) Limited
- Chekiang First Limited
- Chekiang First Securities Company Limited
- Honfirst Investment Limited
- Sunwadell Company Limited
- Technico Limited
- Wing Hang Bank (Nominees) Limited
- Wing Hang Bank (Trustee) Limited
- Wing Hang Insurance Agency Limited
- Wing Hang Insurance Brokers Limited
- Wing Hang Shares Brokerage Company Limited

Unaudited Supplementary Financial Information

(a) Capital adequacy and liquidity ratios *(continued)*

(i) Capital adequacy ratio *(continued)*

	The Group	
	2012	2011 (restated)
Components of capital base:		
Core capital		
Paid-up ordinary share capital	**302,163**	298,812
Share premium	**1,041,643**	800,412
Published reserves	**10,940,603**	10,568,557
Profit and loss account	**1,089,711**	909,976
Less: Goodwill	**(1,306,430)**	(1,306,430)
Total core capital before deductions	**12,067,690**	11,271,327
Less: deductions from core capital	**(174,258)**	(328,134)
Total core capital after deductions	**11,893,432**	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	**211,298**	102,003
Fair value gains arising from securities designated at fair value through profit or loss	**76,969**	–
Regulatory reserve for general banking risks	**1,294,869**	1,365,639
Collective impairment allowances	**256,324**	138,332
Perpetual subordinated debt	**4,844,563**	4,832,938
Total supplementary capital before deductions	**6,908,723**	6,663,612
Less: deductions from supplementary capital	**(174,258)**	(328,134)
Total supplementary capital after deductions	**6,734,465**	6,335,478
Eligible supplementary capital	**6,678,651**	6,192,238
Total capital base after deductions	**18,572,083**	17,135,431
Total deductions from the core capital and supplementary capital	**348,516**	656,268

(a) Capital adequacy and liquidity ratios *(continued)*

(ii) Average liquidity ratio

	The Group	
	2012	2011
Average liquidity ratio for the year	**38.6%**	39.9%

The average liquidity ratio for the year includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the Hong Kong Monetary Authority ("HKMA"), and has been computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(b) Advances to customers analysed by geographical area

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	The Group **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	**84,406,130**	**272,513**	**246,645**	**31,673**	**129,618**
Macau	**14,476,759**	**23,721**	**50,528**	**2,285**	**11,125**
Mainland China	**12,210,614**	**209,220**	**288,846**	**46,645**	**102,498**
Others	**2,960,308**	**6,329**	**12,678**	**1,199**	**13,021**
	114,053,811	**511,783**	**598,697**	**81,802**	**256,262**

	The Group 2011				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	82,524,538	282,214	211,592	31,091	103,136
Macau	11,652,163	24,173	27,281	743	14,568
Mainland China	13,376,379	25,701	86,638	22,545	16,724
Others	3,024,438	3,916	3,651	–	3,787
	110,577,518	336,004	329,162	54,379	138,215

(c) Further analysis of advances to customers by industry sectors

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	The Group **2012**					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances charged to income statement during the year	Impairment allowances written off during the year
Property investment	**19,245,115**	**765**	**–**	**19,632**	**17,293**	**–**
Advances for the purchase of other residential properties	**20,034,184**	**3,713**	**–**	**25,208**	**37,003**	**–**
Advances for use outside Hong Kong						
– Mainland China	**21,574,823**	**418,799**	**49,884**	**154,076**	**121,468**	**96,895**
– Macau	**15,187,321**	**50,528**	**2,285**	**9,362**	**2,203**	**604**

	The Group 2011					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances (released from)/ charged to income statement during the year	Impairment allowances written off during the year
Property investment	15,917,977	25,345	67	20,809	(255)	290
Advances for the purchase of other residential properties	16,970,967	6,224	2,457	23,109	(4,109)	–
Advances for use outside Hong Kong						
– Mainland China	23,144,823	214,475	28,163	25,159	32,018	26,309
– Macau	12,308,927	27,282	743	9,884	188	176

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	The Group			
	2012		2011	
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:	Amount	% of total advances to customers	Amount	% of total advances to customers
– 6 months or less but over 3 months	**337,749**	**0.30**	206,788	0.19
– 1 year or less but over 6 months	**39,039**	**0.03**	28,949	0.03
– Over 1 year	**221,909**	**0.19**	93,425	0.08
	598,697	**0.52**	329,162	0.30
Covered portion of overdue advances	**495,475**		276,712	
Uncovered portion of overdue advances	**103,222**		52,450	
	598,697		329,162	
Current market values of collateral held against covered portion of overdue advances	**1,949,003**		579,390	
Individual impairment allowances made on overdue advances	**66,563**		37,457	

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

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

(d) Overdue and rescheduled assets *(continued)*

(i) Overdue and rescheduled advances to customers *(continued)*

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	The Group			
	2012		2011	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	**10,718**	**0.01**	17,993	0.02

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

(ii) Other overdue assets

	The Group	
	2012	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	**–**	398
– Over 1 year	**962**	292
	962	862

	The Group	
	2012	2011
Debt securities which have been overdue with respect to either principal or interest for periods of over 1 year	**–**	82,716

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 31st December, 2012 (2011: HK$82,716,000 of overdue debt securities were included).

Included in "Other assets" as at 31st December, 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.

	The Group			
	2012			
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	**20,425**	**7,706**	**28,131**	**45**
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	**8,262**	**10**	**8,272**	**3**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**2,087**	**42**	**2,129**	**2**
	30,774	**7,758**	**38,532**	**50**

	The Group			
	2011			
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	19,009	10,400	29,409	21
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	8,280	8	8,288	5
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	1,895	5	1,900	2
	29,184	10,413	39,597	28

Unaudited Supplementary Financial Information

(f) Cross-border claims

The information concerning cross-border claims has been classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	The Group			
	2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	**5,017**	**–**	**9,833,685**	**9,838,702**
Mainland China	**15,343,244**	**–**	**4,561,710**	**19,904,954**
Australia	**5,421,843**	**–**	**540,846**	**5,962,689**
Other Asia Pacific	**2,362,174**	**248,341**	**2,423,076**	**5,033,591**
United States	**924,483**	**–**	**8,281,583**	**9,206,066**
Other North and South American countries	**610,579**	**866,576**	**2,249,971**	**3,727,126**
Middle East and Africa	**328,058**	**–**	**309,486**	**637,544**
Germany	**54,773**	**–**	**2,027**	**56,800**
United Kingdom	**384,165**	**–**	**19,725**	**403,890**
Other European countries	**265,989**	**–**	**182,257**	**448,246**
	25,700,325	**1,114,917**	**28,404,366**	**55,219,608**

	The Group			
	2011			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	15	–	8,014,433	8,014,448
Mainland China	15,458,995	–	6,624,964	22,083,959
Australia	5,667,823	–	37,863	5,705,686
Other Asia Pacific	1,894,728	201,172	1,472,889	3,568,789
United States	2,540,992	–	2,346,104	4,887,096
Other North and South American countries	418,407	628,743	1,314,699	2,361,849
Middle East and Africa	204,835	–	365,065	569,900
Germany	1,112,509	–	5,838	1,118,347
United Kingdom	1,861,557	–	22,845	1,884,402
Other European countries	1,109,546	–	82,950	1,192,496
	30,269,407	829,915	20,287,650	51,386,972

(g) Additional disclosures on credit risk management

(i) Capital requirement

In calculating the capital adequacy ratio of the Group for regulating reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach, except for Wing Hang Bank (China) Limited and Banco Weng Hang, S.A. which the capital requirements are calculated under the Basic Approach. The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements prescribed in the Banking (Capital) Rules:

- Fitch Ratings
- Moody's Investors Service, Inc.
- Standard & Poor's Ratings Services
- Rating and Investment Information, Inc.

The following capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

(1) The capital requirements on each class of exposure calculated under the Standardised (Credit Risk) Approach at the balance sheet date can be analysed as follow:

	2012	2011
Classes of exposure:		
– Sovereign	**3,202**	641
– Public sector entity	**99,729**	63,281
– Bank	**876,725**	764,454
– Securities firm	**218**	3,537
– Corporate	**2,825,758**	2,440,260
– Cash items	**21**	30
– Regulatory retail	**683,910**	636,097
– Residential mortgage loans	**1,015,053**	965,559
– Other exposures which are not past due	**525,778**	391,976
– Past due	**18,376**	26,147
Total capital requirements for on-balance sheet exposures	**6,048,770**	5,291,982
– Direct credit substitutes	**29,175**	75,191
– Transaction-related contingencies	**671**	1,471
– Trade-related contingencies	**12,768**	11,625
– Other commitments	**73,022**	39,303
– Exchange rate contracts	**24,900**	50,583
– Interest rate contracts	**26,132**	30,399
– Equity contracts	**2**	261
– Credit derivative contracts	**–**	–
Total capital requirements for off-balance sheet exposures	**166,670**	208,833
	6,215,440	5,500,815

(g) Additional disclosures on credit risk management *(continued)*

(i) Capital requirement *(continued)*

(2) The capital requirements on each class of exposure calculated under the Basic Approach at the balance sheet date can be analysed as follow:

	2012	2011
Classes of exposure:		
– Sovereign	**83,956**	51,932
– Public sector entity	**726**	697
– Bank	**125,260**	230,676
– Cash items	**5**	7
– Residential mortgage loans	**500,341**	431,837
– Other exposures	**1,533,838**	1,499,296
Total capital requirements for on-balance sheet exposures	**2,244,126**	2,214,445
– Direct credit substitutes	**59,658**	134,864
– Transaction-related contingencies	**7,026**	6,906
– Trade-related contingencies	**1,850**	4,208
– Other commitments	**28,775**	15,375
– Exchange rate contracts	**442**	216
– Interest rate contracts	**298**	811
Total capital requirements for off-balance sheet exposures	**98,049**	162,380
	2,342,175	2,376,825

(g) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures

Credit ratings from above-mentioned ECAIs are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

An analysis of the credit risk calculated under Standardised (Credit Risk) Approach by class of exposures at the balance sheet date is as follows:

	2012							
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	6,905,110	9,359,523	–	40,027	–	40,027	–	–
– Public sector entity	2,703,159	3,696,262	2,536,844	739,252	507,369	1,246,621	–	889,909
– Multilateral development bank	140,328	363,188	–	–	–	–	–	–
– Bank	29,064,651	25,400,284	2,743,789	9,586,357	1,372,712	10,959,069	2,293,672	1,055,280
– Securities firm	346,042	–	5,442	–	2,721	2,721	340,599	1
– Corporate	44,191,462	10,170,362	28,942,808	6,379,162	28,942,809	35,321,971	635,566	4,892,829
– Cash items	802,627	–	802,627	–	262	262	–	–
– Regulatory retail	12,066,430	–	11,398,506	–	8,548,880	8,548,880	295,916	372,008
– Residential mortgage loans	32,347,541	–	29,445,706	–	12,688,157	12,688,157	158,844	2,742,991
– Other exposures which are not past due exposures	6,870,768	910,268	5,661,955	910,268	5,661,955	6,572,223	275,958	22,587
– Past due exposures	250,075	13,066	237,009	–	229,699	229,699	200,095	17,035
	135,688,193	49,912,953	81,774,686	17,655,066	57,954,564	75,609,630	4,200,650	9,992,640
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,740,266	595,811	978,285	492,253	953,194	1,445,447	166,170	175,000
– OTC derivative transactions	1,344,419	1,141,171	174,422	468,039	169,895	637,934	28,826	–
– Credit derivative contracts	–	–	–	–	–	–	–	–
	3,084,685	1,736,982	1,152,707	960,292	1,123,089	2,083,381	194,996	175,000
	138,772,878	51,649,935	82,927,393	18,615,358	59,077,653	77,693,011	4,395,646	10,167,640
Exposures deducted from capital base	348,516							

(g) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures *(continued)*

2011

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	8,781,680	18,948,030	–	8,012	–	8,012	–	–
– Public sector entity	1,459,369	1,292,130	2,662,908	258,426	532,581	791,007	–	375,262
– Multilateral development bank	135,417	357,901	–	–	–	–	–	–
– Bank	30,930,638	20,398,784	4,212,692	7,450,045	2,105,634	9,555,679	2,524,272	8,996,264
– Securities firm	710,604	–	88,419	–	44,209	44,209	622,185	–
– Corporate	38,640,232	4,315,911	27,748,377	2,754,869	27,748,377	30,503,246	731,310	6,787,409
– Cash items	928,021	–	928,021	–	383	383	–	–
– Regulatory retail	11,330,162	–	10,601,623	–	7,951,217	7,951,217	359,771	368,768
– Residential mortgage loans	29,624,526	–	26,613,945	–	12,069,485	12,069,485	143,120	2,867,461
– Other exposures which are not past due exposures	5,324,115	–	4,899,699	–	4,899,699	4,899,699	415,667	8,749
– Past due exposures	283,792	13,451	270,341	–	326,835	326,835	156,055	13,565
	128,148,556	45,326,207	78,026,025	10,471,352	55,678,420	66,149,772	4,952,380	19,417,478
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,566,518	253,320	1,186,402	130,767	1,164,105	1,294,872	126,796	175,225
– OTC derivative transactions	1,954,797	1,464,239	453,861	566,754	448,786	1,015,540	36,697	–
– Credit derivative contracts	300,000	–	300,000	–	300,000	300,000	–	–
	3,821,315	1,717,559	1,940,263	697,521	1,912,891	2,610,412	163,493	175,225
	131,969,871	47,043,766	79,966,288	11,168,873	57,591,311	68,760,184	5,115,873	19,592,703
Exposures deducted from capital base	656,268							

The above exposures are principal amount or credit equivalent amount, as applicable, net of individual impairment allowances.

(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach

In respect of the Group's counterparty credit risk which arises from over-the-counter ("OTC") derivative transactions, repo-style transactions and credit derivative contracts (other than recognised credit derivative contracts), all credit limits are established in advance of transacting the business and credit and settlement risk must be correctly captured, monitored and reported in accordance with the Group risk methodologies. Credit exposures are measured in book or market value terms depending on the product involved. These methods of calculating credit exposure apply to all counterparties or reference entities in transaction.

The policy for secured collateral on derivatives is guided by the Group's Loaning Manual ensuring the due-diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

(1) Analysis of the major classes of its exposures by counterparty type

	2012			2011		
	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions
Notional amounts:						
– Banks	**47,412,792**	–	–	52,524,119	–	–
– Corporates	**10,976,263**	–	–	22,757,091	300,000	–
– Others	**3,276,282**	–	–	2,660,542	–	–
	61,665,337	–	–	77,941,752	300,000	–
Credit equivalent amounts or net credit exposures net of recognised collateral:						
– Banks	**1,140,671**	–	–	1,463,740	–	–
– Corporates	**143,907**	–	–	419,932	300,000	–
– Others	**31,015**	–	–	34,428	–	–
	1,315,593	–	–	1,918,100	300,000	–
Risk-weighted amounts:						
– Banks	**467,540**	–	–	566,503	–	–
– Corporates	**143,907**	–	–	419,682	300,000	–
– Others	**26,488**	–	–	29,355	–	–
	637,935	–	–	1,015,540	300,000	–

(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty party credit risk exposures

	2012			2011		
	OTC derivative transactions	**Credit derivative contracts**	**Repo-styles transactions**	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions
Gross total positive fair value which are not repo-style transactions	**820,086**	**–**	**–**	1,131,641	–	–
Recognised collateral held before any haircuts:						
– cash on deposit with the Bank	**321,871**	**–**	**–**	335,145	–	–
– debt securities	**–**	**–**	**–**	–	–	–
– equity securities	**11,533**	**–**	**–**	26,349	–	–
– others	**250,841**	**–**	**–**	224,316	–	–
	584,245	**–**	**–**	585,810	–	–
Credit equivalent amounts or net credit exposures net of recognised collateral held	**1,315,593**	**–**	**–**	1,918,100	300,000	–
Risk weighted amounts	**637,935**	**–**	**–**	1,015,540	300,000	–
Notional amount of recognised credit derivative contracts which provide credit protection	**–**	**–**	**–**	–	–	–

(3) Credit derivative contracts which create exposures to counterparty credit risk:

	2012	2011
	Nominal amounts	Nominal amounts
Used for management of the Group's credit portfolio:		
– Credit default swaps		
Protection bought	**–**	–
Protection sold	**–**	300,000
	–	300,000

(g) Additional disclosures on credit risk management *(continued)*

(iv) Credit risk mitigation

The Group's policy provides that netting is only to be applied where it has the legal right to do so.

Under the Banking (Capital) Rules, recognised netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, only bilateral netting arrangements are included for capital adequacy credit risk mitigation calculation. While the use of multilateral netting arrangement is allowed for internal credit risk management, it is not a valid credit risk mitigation under the Banking (Capital) Rules.

It is the Group's policy that all corporate and institutional facilities be reviewed (and hence revalued) at least on an annual basis. Where facilities have been overdue for more than 90 days and are tangibly secured, the collateral must be revalued not less than every 3 months.

For residential mortgage loans that are more than 90 days past due, the mortgaged property must be revalued not less than every 3 months.

The main types of recognised collateral taken by the Group are those as stated in Section 80 of the Banking (Capital) Rules, including (but not limited to) cash on deposit, gold bullion, equities listed in a main index and/or a recognised exchange and various recognised debt securities.

As stated in Sections 98 and 99 of the Banking (Capital) Rules, certain guarantees and credit derivative contracts are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporate and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigants, it must have a credit rating of A- or better by Standard & Poor's Ratings Services, Fitch Ratings and Rating and Investment Information, Inc, or a credit rating of A3 or better by Moody's Investors Service.

There were immaterial credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees) used by the Group.

(v) Asset securitisation

The Group has no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2012 and 31st December 2011.

(vi) Market risk capital charge

The capital charge for market risk calculated in accordance with the Standardised (Market Risk) Approach at the balance sheet date is as follow:

	2012	2011
Capital charge for market risk		
– Interest rate exposures (including options)	**240,638**	134,784
– Equity rate exposures (including options)	**2,716**	3,387
– Foreign exchange exposures (including gold and options)	**229,236**	211,822
	472,590	349,993

(g) Additional disclosures on credit risk management *(continued)*

(vii) Operational risk capital charge

The capital charge for operational risk calculated in accordance with the Basic Indicator Approach at the balance sheet date is as follow:

	2012	2011
Capital charge for operational risk	**540,222**	481,047

(viii) Equity exposures in banking's book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Available-for-sale financial assets". Available-for-sale securities are measured at fair value as described in notes 2(f)(ii) and (iii) of "Notes to the financial statements" on the financial statements. Included within this category are investments made by the Group for strategic purposes, which are subject to additional internal procedures and approvals to ensure that the investment is in accordance with the Group's strategy and to ensure compliance with all relevant regulatory and legal restrictions.

	2012	2011
Cumulative realised gains from sales and liquidations	**–**	3,195
Unrealised gains:		
– recognised in reserve but not through income statement	**85,877**	58,706
– deducted from the supplementary capital	**–**	–

(ix) Interest rate exposures in banking's book

Interest rate exposures are calculated under the Price Value of a Basis Point ("PVBP") methodology.

For the information of the nature and measurement of the risk, please refer to note 38(c) of "Notes to the financial statements".

	2012		2011	
	HK dollars	US dollars	HK dollars	US dollars
Interest rate changes by 10 basis points				
– increase in earnings by increasing 10 basis points	**4,706**	**555**	4,746	11,203
– decrease in earnings by decreasing 10 basis points	**(4,706)**	**(555)**	(4,746)	(11,203)

(h) Corporate Governance

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under Supervisory Policy Manual issued by the HKMA. The Group established a number of committees under the Board of Directors including the Executive Committee, Credit Committee, Management Committee, Asset and Liability Management Committee, Audit Committee, Director Nomination Committee and Remuneration Committee. The compositions and functions are explained in the "Corporate Governance Report".

List of Branches

HONG KONG

Main Branch	161 Queen's Road Central, Central
Aberdeen Branch	170-172 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	443-445 Hennessy Road, Causeway Bay
Central Branch	G/F, Henley Building, 5 Queen's Road Central, Central
Fortress Hill Branch	Shop B2A, 318-328 King's Road, Fortress Hill
Gloucester Road Branch	G/F, 60 Gloucester Road, Wanchai
Gold & Silver Exchange Branch	1/F, 12-18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15-17 King Kwong Street, Happy Valley
Johnston Road Branch	131-133 Johnston Road, Wanchai
North Point Branch	441-443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Stubbs Road Branch	G/F, AIA Building, 1 Stubbs Road, Wanchai
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
	Shop P26, 1/F, Fu Shan Mansion, 25 Taikoo Shing Road
United Centre Branch	Shop 2008-9, 2/F, United Centre, 95 Queensway, Admiralty
Western Branch	139-141 Des Voeux Road West, Sai Ying Pun

Auto & Equipment Finance

Main Office	5/F., Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan

KOWLOON

Castle Peak Road Branch	Shop 2, 253-259 Castle Peak Road, Cheung Sha Wan
Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Hoi Yuen Road Branch	Unit 2, 60 Hoi Yuen Road, Kwun Tong
Hunghom Branch	104 Ma Tau Wai Road, Hunghom
Kowloon Branch	298 Nathan Road, Jordan
Kowloon City Branch	37 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	22-24 Fu Yan Street, Kwun Tong
Mei Foo Branch	Shop N52, G/F, Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
Ngau Tau Kok Road Branch	347-349 Ngau Tau Kok Road, Kwun Tong
San Po Kong Branch	G/F, 66-70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Tai Kok Tsui Branch	51-67 Tung Chau Street, Tai Kok Tsui
Tokwawan Branch	237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui East Branch	Shop 17-18, G/F, Houston Centre, Tsimshatsui
Whampoa Estate Branch	8-10 Tak Man Street, Whampoa Estate, Hunghom
Yaumati Branch	507 Nathan Road, Yaumati

NEW TERRITORIES

Kwai Chung Branch	Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung
Sha Tsui Road Branch	345-347 Sha Tsui Road, Tsuen Wan
Shatin Plaza Branch	Shop 9, Level 1, Shatin Plaza, Shatin
Sheung Shui Branch	104-104A San Fung Avenue, Sheung Shui
Tai Po Branch	Shop F, 12-26 Tai Wing Lane, Tai Po
Tai Wai Branch	32-34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022-23, Level 1, Metro City Phase II, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shop G70-71, G/F, Tuen Mun Town Plaza, Phase 1, Tuen Mun
Yuen Long Branch	Shop 1-3, G/F, 40-54 Castle Peak Road, Yuen Long

Auto & Equipment Finance

Yuen Long Center	Rms 1003-4 & Rms 1103-4, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long

List of Branches

Wing Hang Credit Ltd.

Main Branch	5/F & 6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Central Branch	Unit 1202, 12/F, Wing On Centre, 111 Connaught Road Central, Central
Gloucester Road Branch	6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Wanchai Branch	Office A, 1/F, Hong Fu Building, 179-181 Hennessy Road, Wanchai
Causeway Bay Branch	2/F, 82 Percival Street, Causeway Bay
Tsimshatsui Branch	1/F, Tung Fai Building, 27 Cameron Road, Tsimshatsui
Mongkok Branch	Unit 1106, 11/F, Wai Fung Plaza, 664 Nathan Road, Mongkok
Prince Edward Branch	Units 1115 & 1116, 11/F, Pioneer Centre, 750 Nathan Road, Mongkok
Hung Hom Branch	G/F, 96 Ma Tau Wai Road, Hung Hom
San Po Kong Branch	G/F, On Keung Building, 51 Hong Keung Street, San Po Kong
Kowloon Bay Branch	Unit 1512, 15/F, Telford House, 16 Wang Hoi Road, Kowloon Bay
Kwun Tong Branch	G/F, 71 Hong Ning Road, Kwun Tong
Cheung Sha Wan Branch	Unit 120, 1/F, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
Kwai Fong Branch	Units 1909-1911, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Tsuen Wan Nan Fung Branch	Unit 1521, 15/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan
Tsuen Wan Branch	Unit 2210, 22/F, City Landmark I, 68 Chung On Street, Tsuen Wan
Shatin Branch	Shop No. 13, Level 1, Shatin Lucky Plaza, 1-15 Wang Pok Street, Shatin
Tai Po Branch	G/F, 7 Kwong Fuk Road, Tai Po
Sheung Shui Branch	Units 1303A-1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui
Yuen Long Branch	Unit 804, 8/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long
Revolving Credit Centre	6/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central
Property Loans Centre	6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai
Special Product Department	Rooms 1509-10, 15/F, Olympia Plaza, 255 King's Road, North Point
Online Loan Centre	Units 1909-1911, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong

CHINA

Head Office	8/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Branch	Unit M02 & 5/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Fumin Sub-branch	Unit B07-09, 25, 26, G/F & Unit 04, 13/F, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen
Shenzhen Longgang Sub-branch	Room 104-105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen
Shenzhen Chegongmiao Sub-branch	Unit 102-5, Main Building of Tianan Cyber Times, Chegongmiao, Futian District, Shenzhen
Shenzhen Nanshan Sub-branch	L1-06, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen
Shenzhen Huaqiang Sub-branch	1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen
Huizhou Sub-branch	Unit 103, 104, 105, Huamao Building, 7 Wenchang Yi Road, Jiangbei, Huizhou
Guangzhou Branch	Room 2102-2105 & Room 2504-2509, Goldlion Digital Network Center, 138 Tiyu Road East, Tianhe District, Guangzhou
Guangzhou Talent Center Sub-branch	Unit 01, 1/F, Talent Center, 45-4 Tianhe Road, Yuexiu District, Guangzhou
Foshan Sub-branch	Unit 12-15, G/F, One City Mall, 268 Dongle Road, Daliang, Shunde District, Foshan
Shanghai Branch	23/F, 21st Century Center Building, 210 Century Avenue, Pudong New Area, Shanghai
Shanghai Hongqiao Sub-branch	G/F, 321 Xianxia Road, Changning District, Shanghai
Zhuhai Branch	Unit 2, G/F & Unit 1-2, 1/F, Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai
Beijing Branch	Units 2809-2818, 28F, Tower B, Gemdale Plaza, No.91, Jianguo Road, Chaoyang District, Beijing

MACAU

Head Office	241 Avenida de Almeida Ribeiro
Ho Lan Un Branch	3D Avenida do Conselheiro Ferreira de Almeida
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19-21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75-79 Rua Almirante Sergio
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
StarWorld Hotel Branch	Shop A, Level 2 of StarWorld Hotel, Avenida de Amizade
Flower City Branch	356-366, Rua de Evora, Edif. Lei Fung, Taipa

永亨銀行有限公司
WING HANG BANK, LIMITED

Registered Office: 161 Queen's Road Central, Hong Kong