永亨銀行

WING HANG BANK

Stock Code：302

Interim Report 2013

Contents

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 LI Sze Kuen Billy (Appointed on 9 May 2013)
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen (Retired on 9 May 2013)

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

RISK MANAGEMENT COMMITTEE

Mr TSE Hau Yin Aloysius
Mr LI Sze Kuen Billy
Mr Frank John WANG

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
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AFFILIATED WITH THE BANK OF NEW YORK MELLON CORPORATION

Group Results in Brief

	Six months ended 30th June, 2013	Six months ended 30th June, 2012	Increase/ (decrease)	Six months ended 30th June, 2013
	HK$ million	HK$ million	%	**US$ million**
Profit Attributable to Shareholders	**1,007**	1,026	(2)	**129.8**
Interim Dividend	**141**	138	2	**18.2**
	HK$	HK$	%	**US$**
Basic Earnings per Share	**3.33**	3.43	(3)	**0.43**
Interim Dividends per Share	**0.46**	0.46	–	**0.06**
	%	%		
Cost to Income Ratio	**49.6**	45.0		
Return on Average Assets (annualised)	**1.02**	1.10		
Return on Average Shareholders' Funds (annualised)	**10.1**	11.7		

	30th June, 2013	31st December, 2012	Increase	30th June, 2013
	HK$ million	HK$ million	%	**US$ million**
Shareholders' Funds	**20,410**	19,534	4	**2,631.3**
Total Deposits	**172,373**	169,590	2	**22,223.0**
Advances to Customers	**122,649**	114,054	8	**15,812.4**
Total Assets	**201,104**	197,364	2	**25,927.2**
	HK$	HK$	%	**US$**
Net Asset Value per Share	**66.39**	64.65	3	**8.56**

US$1.00 = HK$7.7565

Chairman's Statement

In the first half of 2013 the Group recorded a profit attributable to shareholders of HK$1,007.5 million. This represents a decrease of 1.8 percent compared to the same period previously but an increase of 29.8 percent compared to the second half of last year. The decline was mainly due to decrease in net unrealised gains from trading and financial instruments designated at fair value. Earnings per share decreased by 2.9 percent to HK$3.33. The Board has recommended to maintain the same interim dividend as last year of HK$0.46 per share.

Supported by private consumption, the Hong Kong economy grew by 2.8 percent in the first quarter. Consumption was underpinned by a stable job market and a low unemployment rate of just 3.3 percent in June. Meanwhile, inflation has trended higher since the beginning of the year, reaching 4.1 percent in June. Hong Kong's imports and exports increased by 9.6 percent and 8.8 percent respectively in the first quarter largely due to cross-border trade. However external demand remained weak, especially in Europe.

Retail sales growth accelerated to 14.7 percent in June from 11.0 percent in the same month last year. However, the rate of growth was still significantly below the more than 20.0 percent recorded in 2011. This decline can be attributed to the current frugality campaign in China as well as the reduced spending power of Mainland visitors as the economy there continues to slow.

Indeed economic growth in China slowed to 7.5 percent in the second quarter, down slightly from 7.7 percent in the first quarter. This reduced growth was caused by a number of factors including overcapacity in the manufacturing sector, weak external demand, reduced retail sales as well as the government's continuing efforts to rein in the residential property market.

Turning to credit demand in Hong Kong, the picture remained robust as total loans and advances jumped by 9.5 percent in the first half of 2013. Most of this growth was fuelled by foreign currency loans for use outside Hong Kong, especially in trade finance.

For our group, customer loans and total deposits increased by 7.5 percent and 1.6 percent respectively. Loan demand was largely supported by increased corporate lending, residential mortgages, auto financing and equipment leasing as well as continued robust demand in Macau. Deposit growth was mainly due to an increase in time deposits.

Here are the key financial ratios for the period under review:

- Return on average shareholders' funds: 10.1 percent
- Loan-to-deposit ratio as at 30th June, 2013: 71.2 percent
- Average liquidity ratio: 39.4 percent
- Total capital ratio as at 30th June, 2013: 16.5 percent
- Tier 1 capital ratio as at 30th June, 2013: 10.8 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 30th June, 2013, we employed a total of 3,428 staff.

The key financial statistics for the period are:

- Profit before taxation decreased by 3.7 percent to HK$1,182.7 million mainly due to decrease in net unrealised gains from trading and financial instruments designated at fair value.

- Net interest income increased by 7.3 percent to HK$1,600.6 million as a result of higher loan volumes coupled with a decrease in deposit funding costs. Partially offsetting this increase was a decline in interbank interest rates in China. Our net interest margin improved by 2 basis points to 1.69 percent compared with the same period last year and 11 basis points higher than the second half of last year.

- Other operating income increased slightly by 1.6 percent to HK$423.8 million following improved commissions from the share brokerage, insurance and credit card businesses.

- Net gains from trading and financial instruments designated at fair value decreased 91.9 percent to HK$12.1 million due to a decline in the fair market value of our debt investment portfolio.

- Total operating expenses increased by 8.8 percent to HK$1,009.1 million. Consequently, the Group's cost-to-income ratio increased to 49.6 percent from 45.0 percent during the same period in 2012.

- Impairment losses and allowances for loans and advances decreased 6.9 percent to HK$43.2 million. Impaired loans as at 30th June, 2013 stood at HK$443.7 million, equivalent to just 0.36 percent of the total loan portfolio.

- Net gains on disposal of available-for-sale financial assets increased by 236.8 percent to HK$89.5 million.

- Total deposits increased by 1.6 percent to HK$172.4 billion while customer deposits grew by 1.2 percent to HK$167.9 billion.

- Customer loans were 7.5 percent higher at HK$122.6 billion.

RETAIL BANKING

For the Retail Banking division, profit before taxation increased by 20.3 percent in the first half of 2013 compared to the same period last year.

In the residential mortgage business we developed comprehensive loan packages in direct response to the changes in market conditions. Consequently we continued to outperform the market by achieving 7.6 percent growth despite keen competition.

Share brokerage commission also grew by 17.8 percent thanks to the success of our promotional programs.

The key to success in our retail banking business is the continued expansion of our customer base. By offering promotions in various product lines – such as deposit services, securities trading services, payroll services, retail shop programs and Elite Gold Banking, we were able to attract new customers and new sources of funding.

In May we launched an innovative Integrated Account through which customers can simultaneously manage their savings accounts, time deposit accounts and current accounts. Customers can also review the balances of their investment accounts, credit cards and gold accounts through a single consolidated statement.

In June we launched online services for unit trusts, equity-linked and currency-linked deposits. In addition, principal credit card holders can apply for Internet and Mobile Banking enabling them to make online bill payments via their credit card accounts.

Following the introduction of these new services, the number of our eBanking customers has steadily increased.

In order to create more cross-selling opportunities, we continued to extend the number of service points at our investment corners. As at 30th June, 2013, over 80.0 percent of our service points were able to provide a broad range of investment services.

Moving forward, we will continue to focus on product and service innovation to meet our customers' changing needs.

CONSUMER FINANCE

Wing Hang Credit has made good progress in expanding its business scale by building a strong brand identity. Our personal loan program which featured a new visual design and brand motto: "THINK POSITIVE" was marketed through a number of different channels. This successfully enabled us to develop a recognisable brand image and appeal to a wider customer base.

In the second half of the year we are fully prepared to embrace both the challenges and opportunities in the competitive personal loan sector. We will continue to focus on exploring new business ideas while at the same time improving our product offerings.

AUTO AND EQUIPMENT LEASING

The Auto and Equipment Finance division achieved respectable business growth in the first half enabling us to maintain our leading position in the Hong Kong vehicle finance market. Competition remained fierce but the cost of funding was more favorable compared with the same period last year. Meanwhile we have expanded our operations in China in order to further expand our equipment finance portfolio.

CORPORATE BANKING

Trade finance and trade bill volumes increased by 13.7 percent and 39.5 percent respectively in the first half compared to the previous period. At the same time the credit quality of our loan portfolio remained sound. However, we expect slower demand for trade financing in the second half of the year due to China's expected weaker economic growth, tighter liquidity conditions and continuing weak demand in major export markets. Our main business focus will be on developing bilateral corporate loans with medium to large corporations of high credit quality. Driving growth in this area should offset the expected slower growth in trade financing.

TREASURY

Profit before tax in the Treasury division fell by 14.6 percent following a decline in the fair market value of our debt investment portfolio resulted from increase in interest rate and widening of credit spread coupled by a decrease in the debt investment portfolio in order to fund loan growth.

CHINA

Having adopted a lower economic growth target, it is now expected that China's GDP growth will be around 7.5 percent. In line with market developments, loan assets at our wholly-owned subsidiary, Wing Hang Bank (China) Limited ("WHBCL") recorded moderate growth in the first half of the year. Profit before tax in the China operation decreased by 72.2 percent due to decreases in net interest income and non-interest income. The decrease in net interest income was mainly due to the drop in interbank interest rates in China. Non-interest income decrease was due to lower foreign exchange income, bills and loans commission.

In terms of individual business units, the introduction of unsecured loans for small enterprises has been well received. We achieved higher growth in this sector compared with other loan portfolios. The equipment financing business also recorded satisfactory growth during the first half.

In regard to network expansion, WHBCL will continue to look for opportunities to strengthen its overall presence in the Pearl River Delta. We plan to open another sub-branch in Guangzhou in the second half to further capture opportunities in mortgage lending, SME lending and equipment finance.

MACAU

Economic growth in Macau remained strong as the gaming and tourism industries continued to expand. Real GDP grew by 10.8 percent in the first quarter of 2013. Reflecting this strong growth, Banco Weng Hang achieved a significant increase of 38.3 percent in net profit to 195.9 million patacas. The increase was partly due to increase in net gain on disposal of property.

Net interest income jumped 21.0 percent on the back of strong consumer loan demand together with a decrease in deposit funding costs. Non-interest income also increased by a healthy 17.6 percent as fee revenues from several business divisions including share trading, foreign exchange, insurance, credit cards and wealth management services all recorded double digit growth.

The lending business remained robust as total loans increased 7.2 percent compared to the end of 2012. This was supported by increase in mortgage, consumer and corporate loans. Customer deposits increased at a more modest rate of 3.2 percent. Nevertheless the Bank's loan-to-deposit ratio remained at a healthy level of 72.5 percent.

The net gains on disposal of property increased by 28.2 million patacas to 54.0 million patacas.

OUTLOOK

The business outlook for the remainder of the year will be challenging as China's economic growth slows and the country implements economic structural reforms. Export and import growth is set to slow substantially as cross-border trade policies are tightened while demand from major export markets – particularly Europe – remains subdued. Deleveraging by businesses and reducing over-capacity in the manufacturing sector will also lead to lower economic growth.

These developments will adversely affect the Hong Kong economy. Therefore we expect only modest economic growth in Hong Kong in the second half of 2013. At the same time, inflation is expected to rise due to the lagging effect of higher rentals as well as the higher cost of imported food from China. Asset markets are expected to be volatile as the Federal Reserve positions itself to wind down quantitative easing. The property market will also be affected by the additional stamp duty measures introduced by the Hong Kong SAR Government in the first quarter of the year.

In terms of business strategy, we remain focused on China and will continue to exploit the growth potential in the mortgage business, small and medium enterprise lending and equipment financing. The gradual liberalisation of China's capital account, the continued development of the offshore RMB business and the development of Qianhai all give rise to new business opportunities for the Group.

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, 15th August, 2013

Unaudited Consolidated Income Statement

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

	Notes	**Six months ended 30th June, 2013**	Six months ended 30th June, 2012
Interest income	4(a)	**2,876,959**	2,902,591
Interest expense	4(b)	**(1,276,379)**	(1,410,518)
Net interest income		**1,600,580**	1,492,073
Other operating income	4(c)	**423,755**	417,254
Net gains from trading and financial instruments designated at fair value through profit or loss	4(d)	**12,145**	150,669
Non-interest income		**435,900**	567,923
Operating income		**2,036,480**	2,059,996
Operating expenses	4(f)	**(1,009,115)**	(927,514)
Operating profit before impairment losses and allowances		**1,027,365**	1,132,482
Impairment losses and allowances charged on loans and advances		**(43,182)**	(46,383)
Impairment losses and allowances released from available-for-sale financial assets	14	**–**	3,634
Operating profit		**984,183**	1,089,733
Net gains on revaluation of properties and disposal of tangible fixed assets	5(a)	**96,344**	104,745
Net gains on disposal of available-for-sale financial assets	5(b)	**89,541**	26,588
Share of net gains of associated companies		**12,633**	7,184
Profit before taxation		**1,182,701**	1,228,250
Taxation	6	**(175,205)**	(202,208)
Profit for the period attributable to equity shareholders of the Bank		**1,007,496**	1,026,042
		HK$	HK$
Earnings per share	8		
Basic		**3.33**	3.43
Diluted		**3.31**	3.40

The notes on pages 13 to 56 form part of the unaudited interim financial report. Details of dividends payable to equity shareholders of the Bank are set out in note 7.

Unaudited Consolidated Statement of Comprehensive Income

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

	Notes	**Six months ended 30th June, 2013**	Six months ended 30th June, 2012
Profit for the period		**1,007,496**	1,026,042
Other comprehensive income for the period (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	16	**212,202**	298,019
– Deferred taxes		**(14,728)**	(27,853)
		197,474	270,166
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		**49,601**	(14,574)
		49,601	(14,574)
– Available-for-sales financial assets			
– Fair value changes to equity			
– on debt securities		**(241,000)**	149,138
– on equity securities		**20,343**	12,541
– Transfer to consolidated income statement			
– gains on disposal	5(b)	**(80,702)**	(20,359)
– Deferred taxes		**48,895**	(22,915)
		(252,464)	118,405
		(202,863)	103,831
Other comprehensive income for the period, net of tax		**(5,389)**	373,997
Total comprehensive income for the period attributable to equity shareholders of the Bank		**1,002,107**	1,400,039

The notes on pages 13 to 56 form part of the unaudited interim financial report.

Unaudited Consolidated Balance Sheet

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

	Notes	**30th June, 2013**	31st December, 2012
ASSETS			
Cash and balances with banks, central banks and other financial institutions	9	**6,621,832**	7,211,390
Placements with banks, central banks and other financial institutions	10	**15,471,710**	16,832,550
Trading assets	11	**7,514,590**	8,417,553
Financial assets designated at fair value through profit or loss	12	**9,274,619**	9,879,170
Advances to customers and other accounts	13(a)	**130,713,562**	120,919,211
Available-for-sale financial assets	14	**20,160,918**	24,640,249
Held-to-maturity investments	15	**4,095,799**	2,355,665
Investments in associated companies		**242,081**	229,723
Tangible fixed assets	16		
– Investment properties		**942,391**	899,342
– Other properties, plants and equipment		**4,719,336**	4,633,905
Goodwill	17	**1,306,430**	1,306,430
Current tax recoverable		**6,396**	4,689
Deferred tax assets		**34,493**	33,992
Total assets		**201,104,157**	197,363,869
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	18	**1,681,120**	1,091,462
Deposits from customers	19	**167,868,088**	165,935,458
Certificates of deposit issued	20	**2,823,848**	2,563,550
Trading liabilities	21	**715,188**	552,174
Current tax payable		**256,820**	152,588
Deferred tax liabilities		**133,318**	174,020
Other accounts and provisions	22	**2,316,746**	2,410,407
Subordinated liabilities	23	**4,899,517**	4,950,430
Total liabilities		**180,694,645**	177,830,089
Share capital	25(a)	**307,425**	302,163
Reserves	25(b)	**20,102,087**	19,231,617
Total equity		**20,409,512**	19,533,780
Total equity and liabilities		**201,104,157**	197,363,869

The notes on pages 13 to 56 form part of the unaudited interim financial report.

Unaudited Consolidated Statement of Changes in Equity

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

	Six months ended 30th June, 2013									
	At 1st January	Share issued and share premium under Share Option Scheme (Note 25(a))	Share issued and share premium under Employee Incentive Plan (Note 4(f)) & (Note 25(a))	Share issued and share premium in lieu of dividends (Note 25(a))	Dividends approved in respect of the previous year (Note 7(b))	Share of changes in associated companies	Disposal of bank premises	Transfer to/(from) reserve	Total comprehensive income for the period	At 30th June
Share capital	**302,163**	**25**	**262**	**4,975**	**–**	**–**	**–**	**–**	**–**	**307,425**
Share premium	**1,041,643**	**1,070**	**5,816**	**351,560**	**–**	**–**	**–**	**–**	**–**	**1,400,089**
Capital reserve	**295,705**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**295,705**
Statutory reserve	**286,407**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**286,407**
General reserve	**2,206,672**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**49,601**	**2,256,273**
Bank premises revaluation reserve	**2,492,275**	**–**	**–**	**–**	**–**	**–**	**(5,710)**	**(13,763)**	**197,474**	**2,670,276**
Investment revaluation reserve	**404,338**	**–**	**–**	**–**	**–**	**(275)**	**–**	**–**	**(252,464)**	**151,599**
Capital redemption reserve	**769**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**769**
Unappropriated profits	**12,503,808**	**–**	**–**	**–**	**(489,808)**	**–**	**5,710**	**13,763**	**1,007,496**	**13,040,969**
Total equity	**19,533,780**	**1,095**	**6,078**	**356,535**	**(489,808)**	**(275)**	**–**	**–**	**1,002,107**	**20,409,512**

	Six months ended 30th June, 2012									
	As previously reported as at 1st January	Prior year adjustments in respect of deferred tax	As restated as at 1st January	Share issued and share premium under Employee Incentive Plan (Note 4(f)) & (Note 25(a))	Share issued and share premium in lieu of dividends (Note 25(a))	Dividends approved in respect of the previous year (Note 7(b))	Share of changes in associated companies	Transfer to/(from) reserve	Total comprehensive income for the period	At 30th June
Share capital	298,812	–	298,812	153	1,671	–	–	–	–	300,636
Share premium	800,412	–	800,412	6,708	130,344	–	–	–	–	937,464
Capital reserve	283,888	–	283,888	–	–	–	–	–	–	283,888
Statutory reserve	286,407	–	286,407	–	–	–	–	–	–	286,407
General reserve	2,207,047	–	2,207,047	–	–	–	–	–	(14,574)	2,192,473
Bank premises revaluation reserve	1,665,547	291,181	1,956,728	–	–	–	–	(11,565)	270,166	2,215,329
Investment revaluation reserve	197,499	–	197,499	–	–	–	147	(96)	118,405	315,955
Capital redemption reserve	769	–	769	–	–	–	–	–	–	769
Unappropriated profits	11,163,636	60,813	11,224,449	–	–	(400,513)	–	11,661	1,026,042	11,861,639
Total equity	16,904,017	351,994	17,256,011	6,861	132,015	(400,513)	147	–	1,400,039	18,394,560

	Six months ended 31st December, 2012										
	As previously reported as at 30th June	Prior year adjustments in respect of deferred tax	As restated as at 30th June	Share issued and share premium under Share Option Scheme (Note 25(a))	Share issued and share premium under Employee Incentive Plan (Note 4(f)) & (Note 25(a))	Share issued and share premium in lieu of dividends (Note 25(a))	Dividends declared in respect of the current year (Note 7(b))	Share of changes in associated companies	Transfer to/(from) reserve	Total comprehensive income for the period	At 31st December
Share capital	300,636	–	300,636	110	–	1,417	–	–	–	–	302,163
Share premium	937,464	–	937,464	2,777	6,576	94,826	–	–	–	–	1,041,643
Capital reserve	283,888	–	283,888	–	–	–	–	–	11,817	–	295,705
Statutory reserve	286,407	–	286,407	–	–	–	–	–	–	–	286,407
General reserve	2,192,473	–	2,192,473	–	–	–	–	–	–	14,199	2,206,672
Bank premises revaluation reserve	2,215,329	–	2,215,329	–	–	–	–	–	(15,959)	292,905	2,492,275
Investment revaluation reserve	315,955	–	315,955	–	–	–	–	605	–	87,778	404,338
Capital redemption reserve	769	–	769	–	–	–	–	–	–	–	769
Unappropriated profits	11,861,639	–	11,861,639	–	–	–	(138,292)	–	4,142	776,319	12,503,808
Total equity	18,394,560	–	18,394,560	2,887	6,576	96,243	(138,292)	605	–	1,171,201	19,533,780

The notes on pages 13 to 56 form part of the unaudited interim financial report.

Unaudited Consolidated Cash Flow Statement

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

	Notes	**Six months ended 30th June, 2013**	Six months ended 30th June, 2012
Net cash inflow/(outflow) from operating activities	28(a)	**2,541,238**	(8,161,389)
Investing activities			
Purchase of held-to-maturity and available-for-sale financial assets		**(4,654,824)**	(7,282,015)
Sale and redemption of available-for-sale financial assets		**3,951,833**	8,628,355
Loan repaid by an associated company		**–**	4,285
Purchase of properties and equipment		**(31,949)**	(61,972)
Sale of properties and equipment		**102,494**	48,688
Net cash (outflow)/inflow from investing activities		**(632,446)**	1,337,341
Financing activities			
Issue of new shares under Share Option Scheme		**1,095**	–
Issue of new shares under Employee Incentive Plan		**262**	153
Dividends paid		**(133,273)**	(268,498)
Interest paid on subordinated liabilities		**(177,116)**	(175,948)
Net cash outflow from financing activities		**(309,032)**	(444,293)
Increase/(decrease) in cash and cash equivalents		**1,599,760**	(7,268,341)
Cash and cash equivalents at 1st January		**19,132,435**	32,140,913
Effect of foreign exchange rate changes		**52,847**	(19,248)
Cash and cash equivalents at 30th June	28(b)	**20,785,042**	24,853,324
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		**5,802,111**	6,189,383
Placements with banks, central banks and other financial institutions with an original maturity within three months		**13,138,903**	10,643,282
Treasury bills with an original maturity within three months		**1,844,028**	8,020,659
		20,785,042	24,853,324
Cash flows from operating activities included:			
Interest received		**2,906,809**	2,860,625
Interest paid		**1,273,884**	1,490,935
Dividend received		**5,952**	5,766

The notes on pages 13 to 56 form part of the unaudited interim financial report.

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

1. BASIS OF PREPARATION

The interim financial report of Wing Hang Bank, Limited ("the Bank") and its subsidiaries (collectively "the Group") has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited, including compliance with the Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 15th August, 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Bank. It has also been reviewed by the Bank's independent auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 63.

The financial information relating to the financial year ended 31st December, 2012 that is included in the interim financial report as being previously reported information does not constitute the Bank's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31st December, 2012 are available from the Bank's registered office. The Bank's independent auditor has expressed an unqualified opinion on those financial statements in its report dated 7th March, 2013.

2. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Annual improvements to HKFRSs 2009-2011 Cycle
- Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 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 by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13, *Fair value measurement*

HKFRS 13 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. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 31. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amount are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement of similar agreement which is subject to the disclosures of HKFRS 7.

3. SEGMENT REPORTING

(a) Segment results and assets

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

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

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

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

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

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

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

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

Segment assets include tangible assets (include equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to bank which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

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

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

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

3. SEGMENT REPORTING *(Continued)*

(a) Segment results and assets (Continued)

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

Six months ended 30th June, 2013

	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	**776,425**	**221,464**	**185,654**	**1,183,543**	**300,270**	**207,016**	**1,690,829**
Non-interest income	**237,505**	**38,296**	**67,241**	**343,042**	**7,372**	**82,366**	**432,780**
Reportable segment revenue	**1,013,930**	**259,760**	**252,895**	**1,526,585**	**307,642**	**289,382**	**2,123,609**
Reportable segment profit before tax	**471,497**	**177,296**	**292,166**	**940,959**	**48,155**	**216,567**	**1,205,681**

Six months ended 30th June, 2012

	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	685,247	136,395	141,891	963,533	400,140	171,056	1,534,729
Non-interest income	214,761	47,645	207,640	470,046	29,335	70,064	569,445
Reportable segment revenue	900,008	184,040	349,531	1,433,579	429,475	241,120	2,104,174
Reportable segment profit before tax	391,803	108,188	342,307	842,298	173,148	155,894	1,171,340

30th June, 2013

	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Reportable segment assets	**53,939,773**	**39,167,127**	**33,191,420**	**126,298,320**	**37,641,309**	**26,797,739**	**190,737,368**

31st December, 2012

	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Reportable segment assets	51,549,255	34,657,034	36,497,172	122,703,461	35,726,808	25,236,850	183,667,119

3. SEGMENT REPORTING *(Continued)*

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Revenue		
Reportable segment revenue	**2,123,609**	2,104,174
Other revenue	**876**	42,186
Elimination of inter-segment revenue	**(88,005)**	(86,364)
Consolidated operating income	**2,036,480**	2,059,996

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Profit before taxation		
Reportable segment profit before taxation	**1,205,681**	1,171,340
Share of net gains of associated companies	**12,633**	7,184
Other (expenses)/revenue and net (losses)/income	**(35,613)**	49,726
Consolidated profit before taxation	**1,182,701**	1,228,250

	30th June, 2013	31st December, 2012
Assets		
Reportable segment assets	**190,737,368**	183,667,119
Balance and placements with banks, central banks and other financial institutions	**9,918,765**	12,566,668
Advances to bank	**162,750**	29,780
Investments in associated companies	**242,081**	229,723
Tangible fixed assets	**4,642,610**	4,499,574
Goodwill	**1,306,430**	1,306,430
Current tax recoverable	**4,916**	4,689
Deferred tax assets	**34,491**	33,992
Other assets	**7,345,699**	8,231,327
Elimination of inter-segment assets	**(13,290,953)**	(13,205,433)
Consolidated total assets	**201,104,157**	197,363,869

4. OPERATING PROFIT

(a) Interest income

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	**2,604,344**	2,558,030
– trading assets	**132,031**	214,954
– financial assets designated at fair value through profit or loss	**140,584**	129,607
	2,876,959	2,902,591
of which:		
– interest income from listed investments	**271,913**	252,744
– interest income from unlisted investments	**230,703**	232,330
– interest income from impaired financial assets	**10,590**	3,948

(b) Interest expense

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	**1,061,507**	1,200,093
– trading liabilities	**121,399**	117,613
– financial liabilities designated at fair value through profit or loss	**93,473**	92,812
	1,276,379	1,410,518
of which:		
– interest expense for subordinated liabilities (note 28(a))	**177,116**	175,948

4. OPERATING PROFIT *(Continued)*

(c) Other operating income

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Fees and commission		
Credit commission and fees	**84,675**	87,058
Credit card related fees	**83,606**	75,318
Trade related fees	**28,836**	32,893
Insurance commission	**50,296**	40,272
Stockbroking fees	**60,198**	51,022
Trust fees	**38**	38
Wealth management fees	**11,327**	10,542
Other fees and commission income	**49,407**	58,382
Less: Fees and commission expenses	**(43,469)**	(41,623)
	324,914	313,902
Gains arising from dealing in foreign currencies (note 4(e))	**71,415**	82,520
Gains on other dealing activities (note 4(e))	**3,116**	608
Dividend income from unlisted available-for-sale financial assets	**5,561**	5,416
Dividend income from listed available-for-sale financial assets	**380**	304
Dividend income from listed trading investments	**135**	137
Rental income from investment properties less direct outgoings of HK$1,482,000 (30th June, 2012: HK$556,000)	**10,027**	7,714
Others	**8,207**	6,653
	423,755	417,254
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	**123,490**	130,128
– fees and commission expenses	**(3)**	(4)
	123,487	130,124

4. OPERATING PROFIT *(Continued)*

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Net realised and unrealised gains/(losses) on trading financial instruments (note 4(e))	**233,556**	(2,357)
Net realised and unrealised (losses)/gains on financial instruments designated at fair value through profit or loss:		
– unrealised gains/(losses) on subordinated liabilities	**54,229**	(24,395)
– realised and unrealised gains on collateralised debt obligations ("CDO")	**14,237**	32,076
– realised and unrealised gains on debt securities issued by bank in Iceland	**–**	3,520
– realised and unrealised (losses)/gains on other financial instruments	**(289,877)**	141,825
	(221,411)	153,026
	12,145	150,669

(e) Net trading gains

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Gains arising from dealing in foreign currencies (note 4(c))	**71,415**	82,520
Gains on other dealing activities (note 4(c))	**3,116**	608
Net realised and unrealised gains/(losses) on trading financial instruments (note 4(d))	**233,556**	(2,357)
	308,087	80,771

(f) Operating expenses

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Staff costs		
Salaries and other staff costs	**583,951**	551,415
Retirement benefit costs	**35,989**	35,341
Employee Incentive Plan ("EIP") – fair value of awards (note 28(a))	**5,816**	6,708
EIP – bonus	**3,095**	2,878
	628,851	596,342
Premises and equipment expenses, excluding depreciation	**129,945**	118,824
Depreciation (notes 16 & 28(a))	**109,591**	102,518
Others	**140,728**	109,830
	1,009,115	927,514

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Unrealised revaluation gains of investment properties (note 16)	**43,049**	80,345
Net gains on disposal of tangible fixed assets	**53,295**	24,400
	96,344	104,745

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Net unrealised gains transferred from investment revaluation reserve upon disposal	**80,702**	20,359
Net gains on disposal of available-for-sale financial assets	**8,839**	6,229
	89,541	26,588

6. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Current tax – Provision for Hong Kong profits tax	**135,045**	132,842
Current tax – Provision for tax outside Hong Kong	**47,196**	76,662
Deferred taxation	**(7,036)**	(7,296)
	175,205	202,208

The provision for Hong Kong profits tax is calculated at 16.5% (30th June, 2012: 16.5%) of the Group's estimated assessable profits for the six months ended 30th June, 2013. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the region in which the relevant units of the Group operate.

7. DIVIDENDS

(a) *Dividends attributable to the period*

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Interim dividend declared of HK$0.46 (30th June, 2012: HK$0.46) per ordinary share on 307,424,722 shares (30th June, 2012: 300,635,592 shares)	**141,415**	138,292

7. DIVIDENDS *(Continued)*

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Underprovision of final dividend in respect of the prior year	**304**	105
Final dividend in respect of the prior year, approved and paid during the period, of HK$1.62 (30th June, 2012: HK$1.34) per ordinary share on 302,162,900 shares (30th June, 2012: 298,812,308 shares)	**489,504**	400,408
	489,808	400,513

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders for the six months ended 30th June, 2013 of HK$1,007,496,000 (30th June, 2012: HK$1,026,042,000) and on the weighted average number of ordinary shares of 302,429,496 shares (30th June, 2012: 299,070,213 shares) in issue during the period.

	30th June, 2013	30th June, 2012
	Number of shares of HK$1.00 each	Number of shares of HK$1.00 each
Issued ordinary shares at 1st January	**302,162,900**	298,812,308
Effect of shares issued in lieu of dividends	**164,911**	211,175
Effect of share option exercised	**6,768**	–
Effect of EIP exercised	**94,917**	46,730
Weighted average number of ordinary shares used in calculating basic earnings per share	**302,429,496**	299,070,213

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders for the six months ended 30th June, 2013 of HK$1,007,496,000 (30th June, 2012: HK$1,026,042,000) and on the weighted average number of ordinary shares of 304,578,992 shares (30th June, 2012: 301,464,556 shares) in issue during the period after adjustment for the effects of all dilutive potential ordinary shares of 2,149,496 shares (30th June, 2012: 2,394,343 shares).

	30th June, 2013	30th June, 2012
	Number of shares of HK$1.00 each	Number of shares of HK$1.00 each
Weighted average number of ordinary shares used in calculating basic earnings per share	**302,429,496**	299,070,213
Deemed exercise of Share Option Scheme	**198,433**	249,208
Deemed exercise of EIP	**1,951,063**	2,145,135
Weighted average number of ordinary shares used in calculating diluted earnings per share	**304,578,992**	301,464,556

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

	30th June, 2013	31st December, 2012
Cash balances	**682,581**	803,608
Balances with central banks	**5,154,525**	5,346,490
Balances with banks	**784,726**	1,061,292
	6,621,832	7,211,390

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

	30th June, 2013	31st December, 2012
Placements with banks	**15,471,710**	16,832,550

11. TRADING ASSETS

	30th June, 2013	31st December, 2012
Debt securities:		
Listed in Hong Kong	**389,089**	240,792
Listed outside Hong Kong	**192,879**	91,671
	581,968	332,463
Unlisted	**6,097,348**	7,257,380
	6,679,316	7,589,843
Equity securities listed in Hong Kong	**4,445**	1,346
Total trading securities	**6,683,761**	7,591,189
Positive fair values of derivative financial instruments held for trading	**830,829**	826,364
	7,514,590	8,417,553
Trading debt securities include:		
Treasury bills	**6,132,305**	6,888,084
Certificates of deposit held	**–**	111,765
Other trading debt securities	**547,011**	589,994
	6,679,316	7,589,843

Trading securities analysed by counterparty are as follows:

	30th June, 2013	31st December, 2012
Issued by:		
Sovereigns	**6,132,305**	7,037,133
Public sector entities	**2**	12
Banks	**245,640**	228,619
Corporates	**305,814**	325,425
	6,683,761	7,591,189

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

	30th June, 2013	31st December, 2012
Debt securities:		
Listed in Hong Kong	**3,519,832**	3,550,532
Listed outside Hong Kong	**4,386,095**	5,067,849
	7,905,927	8,618,381
Unlisted	**1,368,692**	1,260,789
	9,274,619	9,879,170
Debt securities designated at fair value through profit or loss include:		
Treasury bills	**467,962**	148,513
Other debt securities designated at fair value through profit or loss	**8,806,657**	9,730,657
	9,274,619	9,879,170

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

	30th June, 2013	31st December, 2012
Issued by:		
Sovereigns	**467,962**	148,513
Public sector entities	**847,341**	865,443
Banks	**2,273,339**	2,718,359
Corporates	**5,685,977**	6,146,855
	9,274,619	9,879,170

13. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Advances to customers and other accounts

	30th June, 2013	31st December, 2012
Gross advances to customers	**122,649,250**	114,053,811
Individual impairment allowances for impaired loans and advances (note 13(d))	**(61,303)**	(81,802)
Collective impairment allowances for loans and advances (note 13(d))	**(218,095)**	(256,262)
Net advances to customers	**122,369,852**	113,715,747
Gross trade bills	**5,989,067**	4,294,629
Individual impairment allowances for impaired trade bills (note 13(d))	**(718)**	(791)
Collective impairment allowances for trade bills (note 13(d))	**(62)**	(62)
Net trade bills	**5,988,287**	4,293,776
Advances to banks	**162,750**	765,609
Customer liability under acceptances	**276,511**	337,925
Accrued interest	**551,466**	581,316
Other accounts	**1,364,696**	1,224,838
	130,713,562	120,919,211

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

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

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

	30th June, 2013			31st December, 2012		
	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	**2,095,559**	**57.7**	**–**	2,291,326	55.6	–
– Property investment	**20,206,511**	**99.5**	**8,955**	19,245,115	99.4	535
– Financial concerns	**2,008,554**	**21.1**	**–**	1,736,464	16.3	–
– Stockbrokers	**1,027,658**	**86.5**	**–**	360,558	88.9	–
– Wholesale and retail trade	**2,487,829**	**49.0**	**1,274**	2,149,660	47.7	1,960
– Manufacturing	**2,446,362**	**51.3**	**29,850**	1,955,481	56.5	32,151
– Transport and transport equipment	**7,820,393**	**92.7**	**12,885**	7,498,540	92.0	17,878
– Information technology	**13,218**	**27.6**	**–**	90,748	4.3	–
– Share financing	**229,149**	**98.7**	**5,320**	259,520	99.6	6,124
– Recreational activities	**54,949**	**–**	**–**	57,037	–	–
– Others	**4,281,365**	**51.5**	**12,071**	3,495,397	53.7	16,810
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	**2,456,002**	**100.0**	**411**	2,503,849	100.0	475
– Advances for the purchase of other residential properties	**21,564,849**	**99.9**	**3,185**	20,034,184	100.0	4,975
– Credit card advances	**250,609**	**0.5**	**1,564**	288,353	0.8	2,078
– Others	**7,029,106**	**71.8**	**73,520**	6,709,165	69.9	65,319
	73,972,113	**86.3**	**149,035**	68,675,397	86.5	148,305
Trade finance	**9,416,965**	**55.6**	**11,897**	8,281,776	65.0	18,642
Advances for use outside Hong Kong						
– Mainland China	**22,452,022**	**67.8**	**257,330**	21,574,823	69.9	321,115
– Macau	**16,484,855**	**91.9**	**25,453**	15,187,321	92.8	23,721
– Others	**323,295**	**77.9**	**–**	334,494	75.7	–
	39,260,172	**78.0**	**282,783**	37,096,638	79.3	344,836
	122,649,250	**81.3**	**443,715**	114,053,811	82.6	511,783

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

(c) *Impaired advances to customers*

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

	30th June, 2013	31st December, 2012
Gross impaired advances to customers	**443,715**	511,783
Gross impaired advances to customers as a percentage of total advances to customers	**0.36%**	0.45%
Market value of collateral held with respect to impaired advances to customers	**380,750**	435,205
Individual impairment allowances	**61,303**	81,802

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

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 30th June, 2013 and 31st December, 2012.

(d) *Impairment allowances for loans and advances*

	Six months ended 30th June, 2013		
	Individual	Collective	Total
At 1st January	**82,593**	**256,324**	**338,917**
Additions	**99,496**	**–**	**99,496**
Releases	**(18,147)**	**(38,167)**	**(56,314)**
Net charges/(releases) to consolidated income statement	**81,349**	**(38,167)**	**43,182**
Unwind of discount of loan impairment losses	**(4,456)**	**–**	**(4,456)**
Recoveries of advances written off in prior years	**11,701**	**–**	**11,701**
Amounts written off	**(109,166)**	**–**	**(109,166)**
At 30th June	**62,021**	**218,157**	**280,178**
Representing impairment allowances for:			
Trade bills (note 13(a))	**718**	**62**	**780**
Advances to customers (note 13(a))	**61,303**	**218,095**	**279,398**
	62,021	**218,157**	**280,178**

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

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

	Year ended 31st December, 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 loss	(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 13(a))	791	62	853
Advances to customers (note 13(a))	81,802	256,262	338,064
	82,593	256,324	338,917

(e) *Repossessed assets*

At 30th June, 2013, repossessed assets obtained as securities for impaired advances to customers totalled HK$43,402,000 (31st December, 2012: HK$19,421,000).

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30th June, 2013	31st December, 2012
Available-for-sale debt securities:		
Listed in Hong Kong	**2,886,303**	3,244,125
Listed outside Hong Kong	**3,779,421**	3,850,973
	6,665,724	7,095,098
Unlisted	**13,223,238**	17,293,538
	19,888,962	24,388,636
Available-for-sale equity securities:		
Listed in Hong Kong	**3,815**	3,870
Listed outside Hong Kong	**100,391**	82,644
	104,206	86,514
Unlisted	**167,750**	165,099
	271,956	251,613
	20,160,918	24,640,249
Available-for-sale debt securities include:		
Treasury bills	**6,984,967**	10,385,938
Certificates of deposit held	**1,409,996**	1,373,608
Other available-for-sale debt securities	**11,493,999**	12,629,090
	19,888,962	24,388,636

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

	30th June, 2013	31st December, 2012
Issued by:		
Sovereigns	**7,085,476**	10,466,899
Public sector entities	**1,669,967**	1,816,570
Banks	**7,491,844**	8,261,228
Corporates	**3,913,631**	4,095,552
	20,160,918	24,640,249

Impairment losses and allowances released from available-for-sale financial assets in the consolidated income statement represent:

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Released from debt securities	**–**	3,634
	–	3,634

15. HELD-TO-MATURITY INVESTMENTS

	30th June, 2013	31st December, 2012
Held-to-maturity debt securities:		
Listed in Hong Kong	**1,309,256**	701,749
Listed outside Hong Kong	**626,673**	140,869
	1,935,929	842,618
Unlisted	**2,159,870**	1,513,047
	4,095,799	2,355,665
Held-to-maturity debt securities include:		
Treasury bills	**966,515**	1,363,887
Certificates of deposit held	**531,585**	–
Other held-to-maturity debt securities	**2,597,699**	991,778
	4,095,799	2,355,665

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

	30th June, 2013	31st December, 2012
Issued by:		
Sovereigns	**966,515**	1,363,887
Public sector entities	**150,473**	–
Banks	**939,957**	–
Corporates	**2,038,854**	991,778
	4,095,799	2,355,665
Market value of listed held–to–maturity debt securities	**1,931,166**	896,988
Fair value of unlisted held–to–maturity debt securities	**2,148,109**	1,503,073

16. TANGIBLE FIXED ASSETS

	Six months ended 30th June, 2013				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	**899,342**	**4,466,400**	**1,144,750**	**5,611,150**	**6,510,492**
Additions	**–**	**777**	**31,172**	**31,949**	**31,949**
Disposals	**–**	**(49,089)**	**(24,070)**	**(73,159)**	**(73,159)**
Surplus on revaluation					
– credited to bank premises revaluation reserve	**–**	**212,202**	**–**	**212,202**	**212,202**
– credited to consolidated income statement (note 5(a))	**43,049**	**–**	**–**	**–**	**43,049**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(24,812)**	**–**	**(24,812)**	**(24,812)**
Exchange adjustment	**–**	**1,032**	**1,163**	**2,195**	**2,195**
At 30th June	**942,391**	**4,606,510**	**1,153,015**	**5,759,525**	**6,701,916**
The analysis of cost or valuation of the above assets is as follows:					
At cost (note (a))	**–**	**1,361,960**	**1,153,015**	**2,514,975**	**2,514,975**
At valuation – 2013	**942,391**	**3,244,550**	**–**	**3,244,550**	**4,186,941**
	942,391	**4,606,510**	**1,153,015**	**5,759,525**	**6,701,916**
Accumulated depreciation					
At 1st January	**–**	**198,251**	**778,994**	**977,245**	**977,245**
Charge for the period (note 4(f))	**–**	**43,727**	**65,864**	**109,591**	**109,591**
Written back on disposals	**–**	**(639)**	**(23,321)**	**(23,960)**	**(23,960)**
Elimination of accumulated depreciation on revalued bank premises	**–**	**(24,812)**	**–**	**(24,812)**	**(24,812)**
Exchange adjustment	**–**	**778**	**1,347**	**2,125**	**2,125**
At 30th June	**–**	**217,305**	**822,884**	**1,040,189**	**1,040,189**
Net book value (note (b))					
At 30th June	**942,391**	**4,389,205**	**330,131**	**4,719,336**	**5,661,727**

(a) The fair value of Group's bank premises stated at cost was HK$5,000,169,000 as revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited at 31st May, 2013.

(b) On 11th June, 2013, the Bank entered into the Expression of Interest with the Purchaser in relation to the disposal of Honfirst Land Ltd ("Honfirst"). Honfirst is a beneficially wholly-owned subsidiary of the Bank and is the sole registered owner of the property at 60 Gloucester Road, Hong Kong. At 30th June, 2013, the carrying value of investment properties at valuation, bank premises at cost and at valuation were HK$785,391,000, HK$11,816,000 and HK$569,605,000 respectively being assets held-for-sale. The disposal would enable the Bank to recognise a gain of HK$221,188,000 before expenses and subject to adjustment of the consideration following the completion.

16. TANGIBLE FIXED ASSETS *(Continued)*

	Year ended 31st December, 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	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	–	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

17. GOODWILL

	Six months ended 30th June, 2013	Year ended 31st December, 2012
Cost		
At 30th June/31st December	**1,307,600**	1,307,600
Accumulated impairment loss		
At 30th June/31st December	**1,170**	1,170
Net book value		
At 30th June/31st December	**1,306,430**	1,306,430

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

	30th June, 2013	31st December, 2012
Deposits from central banks	**759,794**	108,123
Deposits from banks	**921,326**	983,339
	1,681,120	1,091,462

19. DEPOSITS FROM CUSTOMERS

	30th June, 2013	31st December, 2012
Demand deposits and current accounts	**22,627,349**	23,742,656
Savings deposits	**26,115,211**	28,280,260
Time, call and notice deposits	**119,125,528**	113,912,542
	167,868,088	165,935,458

20. CERTIFICATES OF DEPOSIT ISSUED

	30th June, 2013	31st December, 2012
Certificates of deposit issued at amortised cost	**2,823,848**	2,413,199
Structured certificates of deposit issued designated at fair value through profit or loss	**–**	150,351
	2,823,848	2,563,550

21. TRADING LIABILITIES

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

22. OTHER ACCOUNTS AND PROVISIONS

	30th June, 2013	31st December, 2012
Acceptances outstanding	**276,511**	337,925
Interest payable	**790,956**	788,461
Other payables	**1,249,279**	1,284,021
	2,316,746	2,410,407

23. SUBORDINATED LIABILITIES

	30th June, 2013	31st December, 2012
US$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	**3,154,305**	3,206,387
US$225 million 9.375% perpetual subordinated notes, measured at amortised cost (note (b))	**1,745,212**	1,744,043
	4,899,517	4,950,430

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

At 30th June, 2013, 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 by HK$51,705,000 (31st December, 2012: HK$105,867,000). 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 period ended 30th June, 2013 is a loss of HK$57,391,000 (31st December, 2012: HK$307,328,000) and the accumulated amount of this change is a gain of HK$416,353,000 (31st December, 2012: HK$473,744,000).

(b) On 3rd September, 2008, the Bank issued perpetual subordinated notes which is included in tier 2 capital and subject to phase out, 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. On 15th August, 2013, the Bank announced to early redeem the notes on 11th September, 2013 at 100 percent of the principal amount. Despite the Bank has the option to defer making payment of interest on the subordinated notes, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

24. MATURITY PROFILE

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

	30th June, 2013							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	6,621,832	–	–	–	–	–	–	6,621,832
Placements with banks, central banks and other financial institutions	–	10,804,471	3,057,193	1,610,046	–	–	–	15,471,710
Trading assets	–	44,153	63,076	5,336,920	1,235,167	–	835,274	7,514,590
Financial assets designated at fair value through profit or loss	–	–	–	512,346	6,316,591	2,445,682	–	9,274,619
Advances to customers	1,922,626	8,449,197	5,761,679	19,090,931	41,774,874	45,122,512	248,033	122,369,852
Trade bills	11,754	1,425,004	2,208,811	2,341,248	–	–	1,470	5,988,287
Advances to banks	–	162,750	–	–	–	–	–	162,750
Available-for-sale financial assets	–	757,265	1,613,252	4,165,168	12,262,307	1,090,970	271,956	20,160,918
Held-to-maturity investments	–	–	25,115	756,424	2,664,371	649,889	–	4,095,799
Other assets	2,216	1,340,569	242,927	109,848	100,367	4,152	7,643,721	9,443,800
Total assets	8,558,428	22,983,409	12,972,053	33,922,931	64,353,677	49,313,205	9,000,454	201,104,157
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	826,184	854,936	–	–	–	–	–	1,681,120
Deposits from customers	48,658,082	58,766,036	34,764,463	23,301,952	2,377,555	–	–	167,868,088
Certificates of deposit issued	–	–	505,470	1,199,504	1,118,874	–	–	2,823,848
Trading liabilities	–	–	–	–	–	–	715,188	715,188
Subordinated liabilities	–	–	1,745,212	–	–	–	3,154,305	4,899,517
Other liabilities	–	1,234,047	396,955	645,445	195,852	–	234,585	2,706,884
Total liabilities	49,484,266	60,855,019	37,412,100	25,146,901	3,692,281	–	4,104,078	180,694,645
Net assets/(liabilities) gap	(40,925,838)	(37,871,610)	(24,440,047)	8,776,030	60,661,396	49,313,205	4,896,376	20,409,512
of which:								
Certificates of deposit held								
– included in trading assets	–	–	–	–	–	–	–	–
– included in available-for-sale financial assets	–	–	–	542,934	867,062	–	–	1,409,996
– included in held-to-maturity investments	–	–	–	–	531,585	–	–	531,585
Debt securities								
– included in trading assets	–	44,153	63,076	5,336,920	1,235,167	–	–	6,679,316
– included in financial assets designated at fair value through profit or loss	–	–	–	512,346	6,316,591	2,445,682	–	9,274,619
– included in available-for-sale financial assets	–	757,265	1,613,252	3,622,234	11,395,245	1,090,970	–	18,478,966
– included in held-to-maturity investments	–	–	25,115	756,424	2,132,786	649,889	–	3,564,214

24. MATURITY PROFILE *(Continued)*

	31st December, 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
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
Trade bills	65,387	622,541	1,081,296	2,523,581	–	–	971	4,293,776
Advances to banks	213	–	–	765,396	–	–	–	765,609
Available-for-sale financial assets	–	2,425,194	4,396,049	3,558,783	12,549,030	1,459,580	251,613	24,640,249
Held-to-maturity investments	–	135,768	295,763	124,086	1,351,166	448,882	–	2,355,665
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
– included in held-to-maturity investments	–	–	–	–	–	–	–	–
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 available-for-sale financial assets	–	2,425,194	4,396,049	3,017,608	11,716,597	1,459,580	–	23,015,028
– included in held-to-maturity investments	–	135,768	295,763	124,086	1,351,166	448,882	–	2,355,665

25. SHARE CAPITAL AND RESERVES

(a) Share capital

	30th June, 2013	31st December, 2012
Authorised:		
450,000,000 (31st December, 2012: 450,000,000) ordinary shares of HK$1.00 each	**450,000**	450,000

	30th June, 2013	31st December, 2012
Issued and fully paid:		
At 1st January	**302,163**	298,812
Shares issued under Share Option Scheme	**25**	110
Shares issued under EIP	**262**	153
Shares issued in lieu of dividends	**4,975**	3,088
307,424,722 (31st December, 2012: 302,162,900) ordinary shares of HK$1.00 each	**307,425**	302,163

(i) Share Option Scheme

During the six months ended 30th June, 2013, options were exercised to subscribe for ordinary shares of 25,000 (year ended 31st December, 2012: 110,000) shares in the Bank at a consideration of HK$1,095,000 (year ended 31st December, 2012: HK$2,887,000) of which HK$25,000 (year ended 31st December, 2012: HK$110,000) is credited to share capital and the balance of HK$1,070,000 (year ended 31st December, 2012: HK$2,777,000) is credited to the share premium account. At balance sheet date, the terms and conditions of unexpired and unexercised share options are as follows:

		30th June, 2013	31st December, 2012
Date of options granted	Exercise price HK$	Number of shares	Number of shares
21/05/2004	43.80	**240,000**	265,000
14/01/2005	51.25	**180,000**	180,000
28/01/2005	50.25	**40,000**	40,000
		460,000	485,000

The options granted under the Share Option Scheme will be exercisable between the first and the tenth anniversaries of the date of grant, and settled by physical delivery of shares.

The options outstanding at 30th June, 2013 have a weighted average remaining contractual life of 1.21 years (31st December, 2012: 1.69 years).

25. SHARE CAPITAL AND RESERVES *(Continued)*

(a) Share capital (Continued)

(ii) EIP

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1.00 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	Percentage of award vesting
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

During the six months ended 30th June, 2013, awards under the EIP were exercised to subscribe for ordinary shares of 262,000 (year ended 31st December, 2012: 152,250) shares in the Bank at a consideration of HK$262,000 (year ended 31st December, 2012: HK$152,250).

At 30th June, 2013, the outstanding awards under the EIP are:

		30th June, 2013		31st December, 2012	
Date of awards granted	Exercise price HK$	Fair value of awards at date of grant	Number of shares	Fair value of awards at date of grant	Number of shares
21/05/2004	1.00	**10,593,000**	**247,500**	14,830,200	346,500
23/01/2006	1.00	**74,521,200**	**1,326,000**	83,288,400	1,482,000
29/01/2007	1.00	**12,581,800**	**133,000**	13,244,000	140,000
05/11/2009	1.00	**7,822,500**	**105,000**	7,822,500	105,000
		105,518,500	**1,811,500**	119,185,100	2,073,500

(b) Reserves

The Group's unappropriated profits as at 30th June, 2013 included a regulatory reserve of HK$1,449,935,000 (31st December, 2012: HK$1,294,869,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

26. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Contingent liabilities and commitments to extend credit

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

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

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

	30th June, 2013	31st December, 2012
Direct credit substitutes	**1,746,034**	1,265,135
Transaction-related contingencies	**102,950**	244,126
Trade-related contingencies	**793,630**	703,048
Other commitments:		
With an original maturity of not more than one year	**1,088,870**	259,580
With an original maturity over one year	**2,326,581**	2,657,224
Which are unconditionally cancellable	**37,710,842**	43,041,940
	43,768,907	48,171,053
Credit risk weighted amounts	**3,097,439**	2,606,797

(b) Capital commitments

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

	30th June, 2013	31st December, 2012
Expenditure authorised and contracted for	**27,543**	28,080
Expenditure authorised but not contracted for	**–**	94
	27,543	28,174

27. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

	30th June, 2013		
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	**26,529,157**	**26,529,157**
Options purchased	–	**9,727,764**	**9,727,764**
Options written	–	**9,279,561**	**9,279,561**
Interest rate contracts			
Swaps	**9,050,166**	**13,964,775**	**23,014,941**
Equity contracts			
Options purchased	–	**208,330**	**208,330**
Options written	–	**201,049**	**201,049**
	9,050,166	**59,910,636**	**68,960,802**

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

	31st December, 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
	8,419,103	61,471,161	69,890,264

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

The fair values of derivative financial instruments are as follows:

	30th June, 2013		31st December, 2012	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	**154,546**	**263,936**	163,680	67,923
Interest rate contracts	**666,522**	**441,755**	658,691	480,233
Equity contracts	**9,761**	**9,497**	3,993	4,018
	830,829	**715,188**	826,364	552,174

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

The credit risk weighted amounts are as follows:

	30th June, 2013	31st December, 2012
Exchange rate contracts	**504,379**	374,126
Interest rate contracts	**336,816**	330,377
Equity contracts	**20,249**	3,511
	861,444	708,014

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.

28. NOTES TO THE UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

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

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Operating profit	**984,183**	1,089,733
Depreciation (note 4(f))	**109,591**	102,518
EIP – fair value of awards (note 4(f))	**5,816**	6,708
Interest expense for subordinated liabilities (note 4(b))	**177,116**	175,948
Change in fair value of subordinated liabilities designated at fair value through profit or loss	**(54,229)**	24,395
Impairment allowances released from available-for-sale financial assets	**–**	(3,634)
Profits tax paid	**(79,716)**	(126,626)
Change in treasury bills with original maturity of three months or above	**1,149,220**	(1,994,191)
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	**7,347,174**	(1,025,002)
Change in certificates of deposit held	**(456,208)**	846
Change in trading assets	**35,419**	103,000
Change in financial assets designated at fair value through profit or loss	**924,000**	(3,200,007)
Change in advances to customers and other accounts	**(9,794,351)**	(3,348,230)
Change in deposits and balances of banks, central banks and other financial institutions	**183,786**	2,175,152
Change in deposits from customers	**1,679,786**	(1,021,223)
Change in certificates of deposit issued	**260,298**	(510,964)
Change in trading liabilities	**163,014**	(445,996)
Change in other accounts and provision	**(93,661)**	(163,816)
Net cash inflow/(outflow) from operating activities	**2,541,238**	(8,161,389)

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

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

	30th June, 2013	30th June, 2012
Cash and balances with banks, central banks and other financial institutions	**6,621,832**	6,503,770
Placements with banks, central banks and other financial institutions	**15,471,710**	19,023,972
Treasury bills	**14,551,749**	15,819,967
Amounts shown in the unaudited consolidated balance sheet	**36,645,291**	41,347,709
Less: Amounts with an original maturity of three months or above	**(15,040,528)**	(16,179,998)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	**(819,721)**	(314,387)
Cash and cash equivalents in the unaudited consolidated cash flow statement	**20,785,042**	24,853,324

29. MATERIAL RELATED PARTY TRANSACTIONS

(a) Substantial shareholder

During the six months ended 30th June, 2013, transactions with The Bank of New York Mellon Corporation ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses for the period, average on-balance sheet outstanding for the period, on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

(i) Income and expense

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Interest income	**1,020**	88
Interest expense	**629**	1,502

(ii) Average on-balance sheet outstanding

	Six months ended 30th June, 2013	Year ended 31st December, 2012
Cash and balances with banks, central banks and other financial institutions	**306,732**	208,576
Placement with banks, central banks and other financial institutions	**73,472**	100,879
Deposits and balances of banks, central banks and other financial institutions	**225,135**	90,428

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Substantial shareholder (Continued)

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

	30th June, 2013	31st December, 2012
Cash and balances with banks, central banks and other financial institutions	**118,819**	273,293
Deposits and balances of banks, central banks and other financial institutions	**64,195**	44,575

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

	30th June, 2013	31st December, 2012
Other commitments	**32,000**	31,787

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

	30th June, 2013	31st December, 2012
Exchange rate contracts	**1,437,717**	1,050,648
Interest rate contracts	**3,180,165**	2,751,712

(b) Associated company

The Group provided a secured loan to an associated company for HK$47,640,000 in 2007 to finance their purchase of the Group's bank premises during the year 2007. The loan bears 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 was extended to 28th September, 2017 with the interest rate at 2.60%. At the balance sheet date, the outstanding amount of the loan is HK$28,650,000 (31st December, 2012: HK$28,650,000).

(c) Key management personnel

During the six months ended 30th June, 2013, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments for the period, average on-balance sheet outstanding for the period and on-balance sheet outstanding at the balance sheet date are as follows:

(i) Income and expense

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Interest income	**514**	386
Interest expense	**11,932**	14,160

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management personnel (Continued)

(ii) Average on-balance sheet outstanding

	Six months ended 30th June, 2013	Year ended 31st December, 2012
Advances to customers	**80,405**	68,942
Deposits from customers	**1,860,998**	1,783,322

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

	30th June, 2013	31st December, 2012
Advances to customers	**86,641**	78,364
Deposits from customers	**1,855,382**	1,832,525

(iv) Emoluments

Remuneration for key management personnel is as follows:

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Short-term employee benefits	**32,516**	30,695
Post-employment benefits	**1,612**	1,549
Equity compensation benefits	**3,355**	3,985
	37,483	36,229

(d) During the six months ended 30th June, 2013, no allowance for impairment losses has been made in respect of the above advances to related parties (30th June, 2012: Nil).

30. MANAGEMENT OF RISKS

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

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

30. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management

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

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

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

(i) Corporate credit risk

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

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

(ii) Retail credit risk

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

30. MANAGEMENT OF RISKS *(Continued)*

(a) Credit risk management (Continued)

(iii) Credit-related commitments

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

(iv) Concentration of credit risk

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

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

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 39.4% for the six months ended 30th June, 2013 (30th June, 2012: 37.1%), which is well above the statutory requirement of 25%.

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

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

The detail of the analysis on the Group's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in the note 24.

30. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management

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

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

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

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

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

(i) Interest rate risk

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

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

30. MANAGEMENT OF RISKS *(Continued)*

(c) Market risk management (Continued)

(ii) Currency risk

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

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

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

– investments in overseas subsidiaries and related companies; and

– subordinated liabilities.

	30th June, 2013			31st December, 2012		
(In millions of HK$ equivalent)	US$	Chinese Renminbi	Total	US$	Chinese Renminbi	Total
Spot assets	**42,778**	**39,295**	**95,114**	49,028	37,031	95,644
Spot liabilities	**(33,501)**	**(39,670)**	**(92,831)**	(30,857)	(37,868)	(87,581)
Forward purchases	**9,232**	**6,061**	**24,496**	6,884	3,249	21,210
Forward sales	**(18,314)**	**(3,559)**	**(24,453)**	(23,371)	(1,476)	(26,625)
Net option positions	**930**	**(2,119)**	**(1,210)**	(1,055)	(924)	(1,990)
Net long positions	**1,125**	**8**	**1,116**	629	12	658

	30th June, 2013				31st December, 2012			
(In millions of HK$ equivalent)	Macau Patacas	Chinese Renminbi	US$	Total	Macau Patacas	Chinese Renminbi	US$	Total
Net structural positions	**930**	**2,108**	**773**	**3,811**	737	2,134	770	3,641

(iii) Equity risk

The Group's equities exposures in the six months ended 30th June, 2013 and the year ended 31st December, 2012 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 14. Equities held for trading purpose are included under "Trading assets" set out in note 11. These are subject to trading limits and risk management control procedures and other market risk regime.

30. MANAGEMENT OF RISKS *(Continued)*

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

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

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by 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 six months ended 30th June, 2013 and the year ended 31st December, 2012 and are well above the minimum required ratio set by the HKMA.

The capital ratios as at 30th June, 2013 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 ("the Capital Rules"). The ratios as of 30th June, 2013 are compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the Basel III capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the pre-amended Capital Rules as in force immediately before 1st January, 2013.

31. 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.

31. 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:

	30th June, 2013			
Recurring fair value measurement	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	**6,132,268**	**37**	**–**	**6,132,305**
– Certificates of deposit held	**–**	**–**	**–**	**–**
– Other debt securities	**269,286**	**277,725**	**–**	**547,011**
– Equity securities	**4,445**	**–**	**–**	**4,445**
– Positive fair values of derivative financial instruments held for trading	**–**	**830,829**	**–**	**830,829**
	6,405,999	**1,108,591**	**–**	**7,514,590**
Financial assets designated at fair value through profit or loss				
– Treasury bills	**467,949**	**13**	**–**	**467,962**
– Other debt securities	**8,113,284**	**693,373**	**–**	**8,806,657**
	8,581,233	**693,386**	**–**	**9,274,619**
Available-for-sale financial assets				
– Treasury bills	**5,539,959**	**1,445,008**	**–**	**6,984,967**
– Certificates of deposit held	**578,590**	**831,406**	**–**	**1,409,996**
– Other debt securities	**9,672,880**	**1,821,119**	**–**	**11,493,999**
– Equity securities	**84,448**	**20,119**	**98,624**	**203,191**
	15,875,877	**4,117,652**	**98,624**	**20,092,153**
	30,863,109	**5,919,629**	**98,624**	**36,881,362**
Liabilities				
Certificates of deposit issued				
– Structured certificates of deposit issued designated at fair value through profit or loss	**–**	**–**	**–**	**–**
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	**–**	**715,188**	**–**	**715,188**
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	**–**	**3,154,305**	**–**	**3,154,305**
	–	**3,869,493**	**–**	**3,869,493**

31. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments carried at fair value (Continued)

	31st December, 2012			
Recurring fair value measurement	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

During the six months ended 30th June, 2013, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2012: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

31. 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:

	Six months ended 30th June, 2013		
	Financial assets designated at fair value through profit or loss – Debt securities	Available-for-sale financial assets – Equity securities	Total
Assets			
At 1st January	**93,551**	**95,973**	**189,524**
Settlements	**(93,551)**	**–**	**(93,551)**
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	**–**	**–**	**–**
Changes in fair value recognised in the other comprehensive income	**–**	**2,651**	**2,651**
At 30th June	**–**	**98,624**	**98,624**
Total gains or losses for the period included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date	**–**	**2,651**	**2,651**
Total gains or losses for the period 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	**–**	**–**	**–**

31. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments carried at fair value (Continued)

	Year ended 31st December, 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

During the period, 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 30th June, 2013.

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.

31. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Financial instruments carried at fair value (Continued)

	Six months ended 30th June, 2013			
	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	**–**	**–**	**–**	**–**
Available-for-sale financial assets				
– Equity securities	**–**	**–**	**1,707**	**(1,707)**
	–	**–**	**1,707**	**(1,707)**

	Year ended 31st December, 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)

(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 30th June, 2013 and 31st December, 2012 except as follows:

	30th June, 2013		31st December, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Held-to-maturity investments	**4,095,799**	**4,079,275**	2,355,665	2,400,060
Financial liabilities				
Certificates of deposit issued at amortised cost	**2,823,848**	**2,841,379**	2,413,199	2,439,028
Subordinated liabilities valued at amortised cost	**1,745,212**	**1,769,960**	1,744,043	1,831,123

31. FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(b) Fair values of financial instruments carried at other than fair value (Continued)

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.

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

(A) CAPITAL AND LIQUIDITY RATIO

(i) Capital ratio

	30th June, 2013	31st December, 2012
Total capital ratio	**16.5%**	15.7%
Tier 1 capital ratio	**10.8%**	10.0%
Common Equity Tier 1 capital ratio	**10.8%**	–

As mentioned in note 30(e) of "Notes to unaudited interim financial report" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules ("the Capital Rules"). The ratios as of 30th June, 2013 are compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the Basel III capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the pre-amended Capital Rules as in force immediately before 1st January, 2013. Accordingly, the capital ratios of the two years are not directly comparable.

In calculating the capital ratio of the Group at 30th June, 2013 and 31st December, 2012, the following subsidiaries are excluded from the regulatory scope of consolidation which are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Captial Rules and the Banking Ordinance:

		30th June, 2013	
Subsidiaries	Principal activities	Total assets	Total equity
CF Limited	Dormant	**–**	**–**
Chekiang First Bank (Nominees) Limited	Nominee Services	**10**	**10**
Chekiang First Bank (Trustees) Limited	Trustee Services	**3,961**	**3,947**
Chekiang First Limited	Dormant	**1**	**1**
Chekiang First Securities Company Limited	Securities Dealing	**6,746**	**6,686**
Honfirst Investment Limited	Futures Trading	**16,365**	**16,309**
Technico Limited	Dormant	**700**	**(71)**
Wing Hang Bank (Nominees) Limited	Nominee Services	**10**	**10**
Wing Hang Bank (Trustee) Limited	Trustee Services	**3,560**	**3,550**
Wing Hang Insurance Agency Limited	Insurance Agency	**32,340**	**18,858**
Wing Hang Insurance Brokers Limited	Insurance Broker	**21,299**	**9,739**
Wing Hang Shares Brokerage Company Limited	Securities Dealing	**425,128**	**232,033**

As at 30th June, 2013, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

The detailed disclosure required by the Banking (Disclosure) Rules will be disclosed before 30th September, 2013 under "Regulatory Disclosure" on the website of the Bank (www.whbhk.com).

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

(ii) Average liquidity ratio

	Six months ended 30th June, 2013	Six months ended 30th June, 2012
Average liquidity ratio	**39.4%**	37.1%

The average liquidity ratio for the six months includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the Hong Kong Monetary Authority ("HKMA"), and has been computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(B) ADVANCES TO CUSTOMERS ANALYSED BY GEOGRAPHICAL AREA

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	30th June, 2013				
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	**92,011,677**	**273,829**	**231,263**	**29,746**	**109,500**
Macau	**15,503,199**	**25,453**	**53,450**	**3,059**	**10,104**
Mainland China	**12,162,843**	**138,297**	**344,462**	**27,455**	**88,479**
Others	**2,971,531**	**6,136**	**7,180**	**1,043**	**10,012**
	122,649,250	**443,715**	**636,355**	**61,303**	**218,095**

	31st December, 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

(C) FURTHER ANALYSIS OF ADVANCES TO CUSTOMERS BY INDUSTRY SECTORS

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	30th June, 2013			
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	**20,206,511**	**764**	**–**	**15,672**
Advances for the purchase of other residential properties	**21,564,849**	**2,205**	**32**	**22,066**
Advances for use outside Hong Kong				
– Mainland China	**22,452,022**	**466,467**	**31,751**	**130,415**
– Macau	**16,484,855**	**52,253**	**3,059**	**9,291**

	31st December, 2012			
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Property investment	19,245,115	765	–	19,632
Advances for the purchase of other residential properties	20,034,184	3,713	–	25,208
Advances for use outside Hong Kong				
– Mainland China	21,574,823	418,799	49,884	154,076
– Macau	15,187,321	50,528	2,285	9,362

(D) OVERDUE AND RESCHEDULED ASSETS

(i) Overdue and rescheduled advances to customers

	30th June, 2013		31st December, 2012	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	**58,189**	**0.05**	337,749	0.30
– 1 year or less but over 6 months	**355,898**	**0.29**	39,039	0.03
– Over 1 year	**222,268**	**0.18**	221,909	0.19
	636,355	**0.52**	598,697	0.52
Covered portion of overdue advances	**568,187**		495,475	
Uncovered portion of overdue advances	**68,168**		103,222	
	636,355		598,697	
Current market values of collateral held against covered portion of overdue advances	**2,006,218**		1,949,003	
Individual impairment allowances made on overdue advances	**47,389**		66,563	

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

	30th June, 2013		31st December, 2012	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	**14,220**	**0.01**	10,718	0.01

There were no advances to banks which are overdue nor rescheduled as at 30th June, 2013 and 31st December, 2012.

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

(ii) Other overdue assets

	30th June, 2013	31st December, 2012
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	**–**	–
– 1 year or less but over 6 months	**–**	–
– Over 1 year	**890**	962
	890	962

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" as at 30th June, 2013 and 31st December, 2012.

Included in "Other assets" as at 30th June, 2013 and 31st December, 2012, there are no receivables which are overdue.

(E) NON-BANK MAINLAND CHINA EXPOSURES

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

	30th June, 2013			
(In millions of HK$ equivalent)	On-balance sheet exposures	Off-balance sheet exposures	Total exposures	Individual impairment allowances
Mainland entities	**20,730**	**8,593**	**29,323**	**25**
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	**8,634**	**320**	**8,954**	**4**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**2,597**	**197**	**2,794**	**3**
	31,961	**9,110**	**41,071**	**32**

	31st December, 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

(F) CROSS-BORDER CLAIMS

The information concerning cross-border claims has been classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	30th June, 2013			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	**172**	**–**	**10,750,085**	**10,750,257**
Mainland China	**13,972,890**	**–**	**4,362,406**	**18,335,296**
Australia	**4,640,926**	**–**	**603,079**	**5,244,005**
Other Asia Pacific	**2,798,514**	**239,833**	**2,317,810**	**5,356,157**
United States	**603,298**	**–**	**7,642,465**	**8,245,763**
Other North and South American countries	**1,205,451**	**815,321**	**2,264,671**	**4,285,443**
Middle East and Africa	**322,579**	**–**	**305,211**	**627,790**
Germany	**80,990**	**–**	**1,959**	**82,949**
United Kingdom	**287,714**	**–**	**98,818**	**386,532**
Other European countries	**209,748**	**–**	**84,122**	**293,870**
	24,122,282	**1,055,154**	**28,430,626**	**53,608,062**

	31st December, 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

Independent Review Report

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 8 to 56 which comprises the consolidated balance sheet of Wing Hang Bank, Limited as of 30th June, 2013 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June, 2013 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong
15th August, 2013

INTERIM DIVIDEND

The Board is pleased to declare the payment of an interim dividend of HK$0.46 (2012: HK$0.46) per share to shareholders whose names appear on the register of members of the Bank on Tuesday, 3rd September, 2013. The interim dividend will be paid in cash on Wednesday, 9th October, 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 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, 10th September, 2013. The dividend warrants and the share certificates for the Scrip Dividend Scheme will be sent to shareholders by ordinary mail on or around Wednesday, 9th October, 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Friday, 30th August, 2013 to Tuesday, 3rd September, 2013, both days inclusive, for the purposes of ascertaining shareholders entitled to the interim dividend. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Bank's share registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 29th August, 2013.

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

As at 30th June, 2013, the interests and short positions of the Directors and Chief Executive of the Bank and their respective associates in the shares, underlying shares and debentures of the Bank or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) were as follows:

Long positions in Ordinary Shares of the Bank

	Number of shares							
Name of Director	Personal interest	Family interest	Corporate interest	Option Note[(1)]	Award Note[(2)]	Others	Total	Percentage of issued share capital Note[(4)]
FUNG Yuk Bun Patrick	3,484,500	–	–	100,000	482,500	Note[(3)]	4,067,000	1.32
FUNG Yuk Sing Michael	3,261,750	60,000	–	80,000	241,250	Note[(3)]	3,643,000	1.19
HO Chi Wai Louis	319,500	103,000	–	–	5,000	Note[(3)]	427,500	0.14
LAU Hon Chuen Ambrose	76,931	–	–	–	–	–	76,931	0.03
Frank John WANG	103,000	–	–	80,000	292,000	–	475,000	0.15

Subordinated Notes of the Bank

	Amount (US$)				
Name of Director	Personal interest	Family interest	Corporate interest	Others	Total
FUNG Yuk Bun Patrick	2,000,000	–	–	4,000,000 Note[(5)]	6,000,000
FUNG Yuk Sing Michael	–	400,000	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

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

Notes:

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

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

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

(4) The number of issued shares of the Bank as at 30th June, 2013 was 307,424,722 shares.

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

Save as disclosed above and for certain Directors holding non-beneficial interests in the share capital of some of the subsidiaries of the Bank as nominee shareholders, as at 30th June, 2013, 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 30th June, 2013, 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	63,815,936 Note[1]	20.76
The Bank of New York Mellon	Interest in controlled corporation	63,815,936 Note[1]	20.76
BNY International Financing Corporation	Beneficial owner	63,815,936 Note[1]	20.76
Federal Trust Company Limited	Trustee	36,463,200 Notes[2]&[3]	11.86
Aberdeen Asset Management Plc and its subsidiaries	Investment manager	27,202,181 Note[4]	8.85
YKF Holding (PTC) Corporation	Trustee	25,803,900 Notes[2]&[3]	8.39
Po Ding Company Limited	Trustee	25,551,500 Note[2]&[3]	8.31
Wing Hang Bank (Nominees) Limited	Nominee	23,378,400 Notes[2]&[3]	7.60
Aberdeen Asset Management Asia Limited	Investment manager	23,121,359 Note[4]	7.52
Schroders Plc	Investment manager	15,895,711	5.17
Tessel Inc.	Trustee	10,911,700 Notes[2]&[3]	3.55

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(Continued)*

Long position in Ordinary Shares of the Bank (Continued)

Notes:

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

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

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

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

(5) The number of issued shares of the Bank as at 30th June, 2013 was 307,424,722 shares.

Save as disclosed above, as at 30th June, 2013, 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 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 and ceased to have any further effect, except that the options granted thereunder remain valid and exercisable until expiry of their exercise periods. The Share Option Scheme was terminated on 24th April, 2013.

As at the date of this report, no share option of the Bank is available for grant under the Share Option Scheme. On 28th June, 2013, being the last trading day of June 2013, the closing price of the shares of the Bank on The Stock Exchange of Hong Kong Limited was HK$69.65. Details of the movements of outstanding options granted under the Share Option Scheme during the six months ended 30th June, 2013 as required under the Listing Rules are disclosed as follows:

		Number of options					
	Date of grant	Outstanding as at 01/01/2013	Granted	Exercised	Lapsed/ cancelled	Outstanding as at **30/06/2013**	Exercise price
							HK$
Director							
FUNG Yuk Bun Patrick	21/05/2004[1]	50,000	–	–	–	**50,000**	43.80
	14/01/2005[1]	50,000	–	–	–	**50,000**	51.25
FUNG Yuk Sing Michael	21/05/2004[1]	40,000	–	–	–	**40,000**	43.80
	14/01/2005[1]	40,000	–	–	–	**40,000**	51.25
Frank John WANG	21/05/2004[1]	40,000	–	–	–	**40,000**	43.80
	14/01/2005[1]	40,000	–	–	–	**40,000**	51.25
Employees[2]	21/05/2004[1]	135,000	–	25,000	–	**110,000**	43.80
	14/01/2005[1]	50,000	–	–	–	**50,000**	51.25
	28/01/2005[1]	40,000	–	–	–	**40,000**	50.25
		485,000	–	25,000	–	**460,000**	

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

(2) The number of employees involved is 7.

(3) 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 than 500,000 shares may be issued to Executive Directors. The fair value is measured at the date of grant and is charged to the income statement and credited to shareholders' funds between the date of grant and the vesting date. The cash amount equal to the dividend that will be paid during the period up to vesting is charged to the income statement as bonus expenses on an accrual basis.

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

		Number of awards					Fair value of awards at the date of grant
	Date of grant	As at 01/01/2013	Granted	Vested	Lapsed/ cancelled	As at **30/06/2013**	
							HK$
Director							
FUNG Yuk Bun Patrick	21/05/2004[1]	140,000	–	40,000	–	**100,000**	42.80
	23/01/2006[1]	427,500	–	45,000	–	**382,500**	56.20
FUNG Yuk Sing Michael	21/05/2004[1]	70,000	–	20,000	–	**50,000**	42.80
	23/01/2006[1]	213,750	–	22,500	–	**191,250**	56.20
HO Chi Wai Louis	21/05/2004[1]	7,000	–	2,000	–	**5,000**	42.80
Frank John WANG	21/05/2004[1]	87,500	–	25,000	–	**62,500**	42.80
	23/01/2006[1]	256,500	–	27,000	–	**229,500**	56.20
Employees[3]	21/05/2004[1]	42,000	–	12,000	–	**30,000**	42.80
	23/01/2006[1]	584,250	–	61,500	–	**522,750**	56.20
	29/01/2007[1]	140,000	–	7,000	–	**133,000**	94.60
	05/11/2009[2]	105,000	–	–	–	**105,000**	74.50
		2,073,500	–	262,000	–	**1,811,500**	

(1) Awards were granted under the 2004 EIP.

(2) Awards were granted under the 2009 EIP.

(3) The number of employees involved is 14.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

There was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the six months ended 30th June, 2013.

CORPORATE GOVERNANCE

The Bank has applied the principles and complied with the code provisions and certain recommended best practices as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30th June, 2013 except for the deviation from code provision A.2.1 (the roles of chairman and chief executive officer should be separate). The considered reasons for this deviation have been reported in the Corporate Governance Report contained in the 2012 Annual Report of the Bank published in April 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), including amendments as effected from time to time, as its own code of conduct to be observed by Directors, Chief Executive and relevant employees who are likely to possess inside information in relation to the Bank. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30th June, 2013.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Mr TSE Hau Yin Aloysius

Appointed as independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation with effect from 14th March, 2013.

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

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

The interim financial report for the six months ended 30th June, 2013 complies fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Corporate Social Responsibility Report

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

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

At Wing Hang Bank, corporate social responsibility represents 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.

CSR in Wing Hang Bank

Governance Responsibility	Environmental Responsibility	Community Responsibility
– CSR Management – Risk Management – Business Ethics	– Green Office Campaign – Continual Support of Environmental Activities – Eco-Friendly Customers and Suppliers	– Equal Opportunity – Employee Enrichment – Community Services

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.

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 Environmental Campaign Committee, both are recognition of the Bank's commitment to protect the environment.

Internally, the Bank accomplished the following environmental protection initiatives in the first half of 2013, compared to a year ago:

- Saved 76,044 kwh electricity
- Recycled over 48,400 kg of waste paper

Making every effort to support green groups, the Group took part in the Earth Hour 2013 in our Head Office building in Central, Wing Hang Finance Centre in Wanchai, and in Macau head office.

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 7 years, with the funding raised used for environmental education in the community. We were the silver member of WWF Hong Kong in 2013. We also participated in the Kadoorie Farm and Botanical Garden's Eco Experience Charity Walk.

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 in our Hong Kong, Macau and Mainland operation.

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 has 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.

COMMUNITY RESPONSIBILITY *(Continued)*

Employee Enrichment

Our staff is our greatest asset. Nurturing our staff and helping 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 rounded 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 Limited. 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 the first half of 2013, we continued to make significant progress in expanding our CSR activities.

Donations and Sponsorships

In 2013, 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$700,000 in donations and sponsorships for social initiatives including The Community Chest of Hong Kong, St James' Settlement, Oxfam Hong Kong, Operation Santa Claus and the Society for the Promotion of Hospice Care. We are also one of the sponsors of The Hong Kong Philharmonic Orchestra – Community Concerts 2013-2014.

Our subsidiary, Banco Weng Hang donates 0.3% of spending on each transaction in ORBIS Charity Credit Card 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.

The Bank has also contributed beyond the border to the Mainland community. Our branches in the Mainland donate books and stationery to children in needs.

COMMUNITY RESPONSIBILITY *(Continued)*

Community Services *(Continued)*

Volunteer Services

The Bank gives more than just money.

In the first half of 2013, 699 of our volunteers devoted 5,079 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 9 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.

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 2013, students from 35 schools have participated in volunteer services projects sponsored by the Bank, which serviced 26,571 volunteer hours by 5,367 students, as a result there were 6,375 people benefited from the programme.

The Bank contributed to a couple of meaningful sharing with youngsters. One is the Students and Youngster Volunteers' Sharing Meeting organized by the Social Welfare Department; another is the Banking Career-oriented General Education to let the youth get a better understanding of the banking industry.

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$e Label" awarded by Environmental Campaign Committee
- "Class of Excellence Energywi$e Label" awarded by Environmental Campaign Committee
- Corporate Team Champion of 12km Short Route of the Hike for Hospice
- 10km Bank Cup Champion of Green Power Hike For A Green Future
- First Runner-up of "Oxfam Rice Sale 2013" Outstanding Rice Stall Fundraiser (Sponsor)
- Forth Runner-up of "Dress Causal Day of the Community Chest of Hong Kong"
- First Runner-up 10km of Sowers Action Challenging 12 Hours 2012 Charity Marathon

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. For the rest of 2013, we will continue our commitment to embody CSR in our everyday business activities.

永亨銀行有限公司
WING HANG BANK, LIMITED

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