

Corporate Governance Report

Corporate Governance Practices

The Bank has complied throughout the year 2006 and adopted all the Code Provisions set out in Appendix 14 — Code on Corporate Governance Practices of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), except for deviations in Code Provision A.2.1 (Segregation of roles of Chairman and Chief Executive Officer) and Code Provision A.4.1 (Non-executive Directors should be appointed for a specific term).

Directors’ Securities Transactions

The Bank has adopted for compliance by the Directors the code of conduct for dealings in securities of the Bank as set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”), of the Listing Rules.

The Directors have confirmed that they have complied in all respects with the Model Code for the year 2006.

Board of Directors

The Board of the Bank comprises eleven Directors. Biographical details of Directors and relationship among Directors are included in the Board of Directors. Details of borrowing relationship with the Group are disclosed in Note 38 to the Accounts in the Annual Report.

The Board meets regularly and usually five times a year. Five meetings were held in 2006 and details of Directors’ attendance record were as follows:

Executive Directors

Dr Patrick Y B Fung (Chairman), Mr Frank J Wang, Mr Michael Y S Fung and Mr Louis C W Ho attended all meetings.

Independent Non-executive Directors

Dr Cheng Hon Kwan and Mr Ambrose H C Lau attended all meetings. Dr Simon K Y Lee and Mr Aloysius H Y Tse attended four meetings. Mr Tung Chee Chen attended three meetings.

The Bank has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Bank considers these directors to be independent.

Non-executive Directors

Mr Kenneth A Lopian attended all meetings. Mr Andrew M Gordon attended three meetings. Mr Alan R Griffith, retired on 27th April, 2006, attended two meetings during his term of office in 2006. Mr David Drabkin, appointed on 15th June, 2006 and resigned on 30th January, 2007, attended two meetings in 2006.

All Directors are given a schedule for regular Board meetings at the beginning of the year. The required notice will be served for all other Board meeting not originally scheduled.

All Directors are given an opportunity to include matters in the agenda for regular Board meetings. In respect of regular Board meetings, an agenda and accompanying Board papers would be sent in full to all Directors in a timely manner and at least three days before the meeting.

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All Directors are entitled to have access to Board papers and related materials. Such papers and related materials are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible.

The Chairman is responsible for ensuring that Directors receive adequate information, which must be complete and reliable, in a timely manner and he would ensure that all Directors are properly briefed on issues arising at Board meetings.

Any matter that may be considered to give rise to a conflict of interest with a substantial shareholder or Director would be dealt with by the Board at a meeting in the presence of Independent Non-executive Directors having no interest in the matter.

Minutes of Board meetings are kept by the Company Secretary and such minutes are open for inspection at any time on reasonable notice by any Director.

Minutes of Board meetings and meetings of Board Committees record in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of Board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the Board meeting was held.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Every newly appointed Director of the Bank would receive a comprehensive briefing to ensure that he has a proper understanding of the operations and business of the Bank and be fully aware of his responsibilities under statute, common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements.

There is a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. Separate independent professional advice would be provided to Directors to assist the relevant Director or Directors to discharge his/their duties to the Bank.

Senior Management are brought into formal and informal contact with the Board members from time to time to enable the Board members to make informed decisions. Senior Management also provide explanation and information to the Board, and enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board of Directors has established a number of Committees including the Executive Committee, Audit Committee, Director Nomination Committee and Remuneration Committee. The Executive Committee has established other Committees, to oversee the day to day operations of the Bank, such as the Management Committee, Credit Committee and Asset and Liability Management Committee. All Committees have specific terms of reference in order to ensure that the Committees will discharge their functions properly and to report back to the Board when appropriate, their decisions and recommendations.

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

Executive Committee

The Executive Committee meets regularly to review the management and performance of the Group. The Committee comprises of the Chief Executive and two Executive Directors.

Under a resolution of the Board, the Executive Committee was granted such powers and authorities necessary for conducting and managing the Group's normal banking and related business activities and specifically, but not limited to:

- to conduct normal banking and related business
- to review and approve human resources matters such as salary, compensation and promotion etc., other than Directors and senior management of the Bank
- to review and approve administrative matters such as capital expenditure, Board agenda, new business line etc.
- to review and approve financial matters such as investments, profit plan, issuance of capital and convertible debt securities
- to review all legal matters incidental to aforementioned activities, appointment of legal counsel in respect of all proceedings, hearings concerning the Group
- recommendation on material capital expenditure, investments and other matters requiring Board approval

Credit Committee

The Credit Committee is responsible for assisting the Board to formulate the Group's risk appetite and strategies for managing the credit risk. It is also responsible for the implementation and maintenance of the Group's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Committee is comprised of the Chief Executive, three Executive Directors and the heads of Credit Administration Division and Risk Management Division.

Management Committee

The Management Committee meets regularly to review and approve the financial and business plans and major business and operational initiatives. The Committee comprises of the Chief Executive, three Executive Directors, the Chief Financial Officer, and the heads of Retail Banking Division, Information Technology Division and Operations Division.

Asset and Liability Management Committee

The Asset and Liability Management Committee ("ALMCO") is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risks, trading, funding and liquidity management across the Group's banking business. It recommends policy and guidelines to the Board. The Committee is comprised of the Chief Executive, three Executive Directors, the Chief Financial Officer, the Treasurers, the heads of Retail Banking Division and Risk Management Division.

Audit Committee

The Audit Committee of the Bank was formed in 1992 and consists of four Non-executive Directors namely Dr Simon K Y Lee as Chairman, Dr Cheng Hon Kwan, Mr Andrew M Gordon and Mr Aloysius H Y Tse. No former partner of the Bank's external auditors have been acting as a member of the Bank's Audit Committee before expiry of a period of one year commencing the later of the date of his ceasing to be a partner of the firm or to have any financial interest in the firm.

The Audit Committee of the Bank has clear terms of reference and is accountable to the Board. The Committee meets regularly with the Executive Director, Chief Financial Officer, internal auditors and the external auditors to review and discuss the financial performance of the Group, consider the nature and scope of audit and the effectiveness of the systems of internal control, risk management and compliance. The Committee also discusses matters raised by the internal auditors, external auditors and the regulators and ensures that all audit recommendations are implemented.

Four meetings of the Audit Committee were held in the year 2006. Mr Andrew M Gordon and Mr Aloysius H Y Tse attended all the meetings, Dr Simon K Y Lee and Dr Cheng Hon Kwan attended three.

The work of the Audit Committee during 2006 included review of the financial results of the Wing Hang Bank Group for the year ended 31st December, 2005 and the annual result announcement; and review of the interim results for the six months ended 30th June, 2006 and the interim result announcement. The new accounting policies and standards, and the implementation of the internal controls requirement under the Corporate Governance of the Listing Rules were also discussed in the Audit Committee meetings.

The Audit Committee reviewed and approved the internal audit plans. The risk management frameworks for operational risk and new business activities were also reviewed.

The Audit Committee monitored external auditor's independence, objectivity and the effectiveness of the audit process in accordance with applicable standards, and approved their remuneration. The Policy for Engagement of the External Auditors for Non-Audit Services was also reviewed before its submission to the Board for approval.

The Committee reviewed the work, findings and recommendations of the internal auditors and the Head of Risk Management of the Bank. The findings and recommendations of the external auditors in the management letters and the regulators in the examination reports were also reviewed and followed up.

In respect of internal control and risk management, the Committee reviewed the internal control system of the Bank, including the risk management framework, the operational controls, and the risk management systems, and discussed these with Senior Management. The Committee also reviewed the result of the independent review and verification of the internal control self-assessment result of the risk managers as documented in the 2006 Annual Review on Internal Control report. The Committee met with the HKMA in late 2006 to exchange and discuss issues relating to internal control and risk management, and shared their observation in the benchmarking review on market practices in the banking industry.

During 2006, there was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee is provided with sufficient resources, including the advice of external auditors and Internal Audit Division, to discharge its duties.

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

Full terms of reference of the Audit Committee, which includes the requirement under the Code Provisions C.3.3, are available on the Bank's website: www.whbhk.com.

Director Nomination Committee

The Director Nomination Committee was formed in December 2002 and consists of three Independent Non-executive Directors namely Dr Simon K Y Lee as Chairman, Dr Cheng Hon Kwan and Mr Ambrose H C Lau. The Director Nomination Committee is responsible for reviewing and recommending to the Board appointment of all new Directors, Chief Executive, Deputy Chief Executive and Group Executive. All members met once in 2006 for reviewing a report submitted by Senior Executive Nomination Committee, recommending the appointment of a new Director of the Bank.

Remuneration Committee

The Remuneration Committee was formed in 1995 with specific written terms of reference. The Committee consists of two Independent Non-executive Directors namely Dr Cheng Hon Kwan as Chairman and Dr Simon K Y Lee. The Committee meets once a year to make recommendations to the Board on the Bank's policy and structure for remuneration of all the Directors and Senior Management of the Bank.

Both members attended the Remuneration Committee meeting in Jan 2007. The Bank's emolument policy aims to ensure that the level of remuneration is sufficient and market competitive. The Committee reviewed and approved performance-based remuneration of Directors and Senior Management of the Bank by reference to corporate goals and objectives resolved by the Board from time to time. Factors such as emoluments paid by comparable banks including long-term incentives schemes were considered with reference to the business performance.

The Remuneration Committee would consult the Chairman and Chief Executive about their proposals relating to the remuneration of other Executive Directors and Senior Management and have access to professional advice if considered necessary. The Committee is provided with sufficient resources to discharge its duties.

Full terms of reference of Remuneration Committee, which includes the requirement under Code Provisions B.1.3, are available on the Bank's website: www.whbhk.com.

Internal Controls

The Directors are responsible for internal control at the Bank and its subsidiaries and for reviewing its effectiveness.

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

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

Business and functional units are responsible for the assessment of individual types of risk arising under their areas of responsibility and the management of such risks in accordance with the risk management procedures. The relevant risk management reports are submitted to the Management Committee, Credit Committee, Assets and Liabilities Management Committee, Executive Committee and the Board for monitoring the respective types of risk.

More detailed discussions on the policies and procedures for management of each of the major types of risk the Group faces, including credit, market, liquidity and operational risks, are included in Note 39 to the Accounts in the Annual Report.

A review of the effectiveness of the Group's internal control system covering all controls, including financial, operational and compliance and risk management controls, is conducted annually. Internal Auditor will report to the Audit Committee on significant findings on internal controls. Areas for improvement have been identified and appropriate measures taken. Copy of the minutes of the Audit Committee meeting will also be sent to the Board for information.

Chairman and Chief Executive

Dr Patrick Y B Fung is the Chairman and Chief Executive of the Bank. The Board considered that the non-segregation would not result in considerable concentration of power in one person not only because of the presence of Independent Non-executive Directors but also that The Bank of New York, a substantial shareholder, is represented by two Non-executive Directors. There is a balance of power and authority such that no one individual has unfettered power of decision. Non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Non-executive Directors

The functions of Non-executive Directors include but not limited to the requirement under Code Provisions A.5.2. The term of office for Non-executive Directors are the same as for all Directors (i.e. no specific term and subject to retirement from office by rotation and be eligible for re-election in accordance with the provisions of the Bank's Memorandum and Articles of Association). At every Annual General Meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

In accordance with the provisions of the Bank's Memorandum and Articles of Association, new Directors appointed by the Board are required to be re-elected at the first general meeting after their appointment.

Auditors' Remuneration

An analysis of remuneration in respect of audit and non-audit services provided by the external auditors is included in Note 5 to the Accounts in the Annual Report.

Directors' responsibility for the Accounts

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