

WING HANG BANK LIMITED
2009 INTERIM RESULTS – HIGHLIGHTS

- Profit attributable to shareholders down 45.4% to HK\$512.6 million (HK\$938.1 million for the first half of 2008)
- Earnings per share decreased by 45.3% to HK\$1.74 (HK\$3.18 for the first half of 2008)
- Interim dividend decreased by 79.2% to HK\$0.20
- Operating income down 20.3% to HK\$1,493.7 million (HK\$1,873.7 million for the first half of 2008)
- Net interest margin of interest bearing assets down 15 basis points to 1.79% (1.94% for the first half of 2008)
- Net interest income down 11.3% to HK\$1,161.9 million (HK\$1,310.3 million for the first half of 2008)
- Other operating income down 30.5% to HK\$396.6 million (HK\$570.5 million for the first half of 2008)
- Operating expenses up 9.7% to HK\$797.5 million (HK\$726.8 million for the first half of 2008)
- Impairment losses and allowances for loans was HK\$84.0 million (HK\$45.2 million for the first half of 2008)
- Advances to customers decreased 1.9% to HK\$78.7 billion (HK\$80.3 billion as at 31st December, 2008)
- Customer deposit increased 5.7% to HK\$121.8 billion (HK\$115.2 billion as at 31st December, 2008)
- Cost to income ratio at 53.4% (38.8% for the first half of 2008)
- Capital adequacy ratio at 17.7% (15.4% as at 31st December, 2008)
- Return on average shareholders' fund at 9.4% (17.4% for the first half of 2008)

Wing Hang Bank Reported a Profit of HK\$512.6 Million

For the first half of 2009, the Group achieved HK\$512.6 million in profit attributable to shareholders, representing a decrease of 45.4 percent compared to the same period last year but an increase of 129.0 percent over the second half of 2008. Earnings per share fell 45.3 percent to HK\$1.74. The Board has declared an interim dividend of HK\$0.20 per share, 79.2 percent lower than that of the same period last year.

The deterioration of the business environment in Hong Kong continued into the first half of 2009 as unemployment jumped and trade continued to shrink. The recession continued to impact the local banking sector as loan demand remained weak and fee income declined.

Being a small open economy, Hong Kong's trade sector has been severely affected by the slump in global demand. GDP declined 7.8 percent on a year-on-year basis in the first quarter. Hong Kong's re-exports were particularly badly hit by the contraction in global consumption. The unemployment rate rose to 5.4 percent in June compared with 4.1 percent at the end of 2008.

At the beginning of the year the US Federal Reserve cut its target interest rate to almost zero and it simultaneously carried out quantitative easing to lower market interest rates further. Substantial amounts of capital flowed into Hong Kong in the second quarter keeping Hong Kong dollars at the strong end against US dollars while HIBOR remained at very low level.

Although the real economy continued to contract, asset markets in Hong Kong started to recover significantly in the second quarter. Residential property prices started to pick up at the beginning of the year and later surged due to the low interest-rate environment coupled with abundant liquidity. Stock prices also rose strongly in the second quarter as sentiment turned bullish.

The financial crisis that hit global markets last year began to impact the real economy at the beginning of 2009. Local consumption and investment demand were weak during the first half of the year. We experienced a reduction in loans of 1.9 percent during the period mainly in areas such as auto and equipment financing, manufacturing and trade finance. In contrast, customers deposits grew at a respectable rate of 5.7 percent as a result of the successful marketing of new savings products. Macau was in a similar situation as loans extended by Banco Weng Hang dropped by 2.8 percent. Loans for use in Mainland China also declined by 10.1 percent as a result of intense competition from other local banks and weak demand for equipment financing by manufacturers there. On a more positive note, assets quality was better than expected as impaired loans stayed at a low level. In addition, loan growth in Hong Kong began to pick up at the end of the second quarter on increased demand for IPO financing.

Overall our loan-to-deposit ratio dropped to 63.7 percent while our capital adequacy ratio increased to 17.7 percent supported by a shift into government guaranteed assets.

Turning to other important financial indicators, operating profit before impairment losses decreased by 39.3 percent to HK\$696.2 million due to a decrease in net interest and non-interest income. Net interest income decreased by 11.3 percent to HK\$1,161.9 million as a result of lower loan volumes and a decrease in net interest margins from 1.94 percent to 1.79 percent. Net interest margins fell by 15 basis points compared with the same period last year as a consequence of the lower loan-to-deposit ratio and a lower yield on interest-free funds. Other operating income declined by 30.5 percent following reduced contributions from foreign exchange, trade finance and wealth management. Net losses from financial instruments held for trading and designated at fair value increased to HK\$64.8 million as the fair value of our perpetual subordinated debt jumped. Meanwhile total expenses increased by 9.7 percent as the Group continued to expand its operations in China. The Group's cost-to-income ratio increased from 38.8 percent to 53.4 percent. Excluding provision for sales of structured investment products, operating expenses decreased by 8.1 percent.

Impairment losses and allowances for loans amounted to HK\$84.0 million while impaired loans stabilised at 0.63 percent of total loans thanks to prudent credit monitoring. Although bad debts increased over the period, the situation was substantially better than in the second half of 2008 as property prices rose amid a favorable environment of low interest rates and high liquidity.



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The charge-off ratio for credit cards increased to 3.67 percent of credit card receivables compared with 1.24 percent previously due to an increase in bankruptcy cases.

The Group currently has 42 branches in Hong Kong, 12 branches in Macau and 5 branches and 5 sub-branches in the Mainland. As at 30th June 2009, the Group employed a total of 3,062 people.

Below is a summary of the performance of our individual business units.

Pre-tax profit in the Retail Banking division decreased by 50.7 percent during the first half of 2009 largely because of lower fee income from wealth management services and lower yields on interest-free funds.

As investment sentiment picked up at the beginning of the second quarter fee income from our stock brokerage division remained stable. We have continued to upgrade our internet trading platform to provide a more efficient and convenient service for our customers.

An innovative deposit program was successfully launched earlier this year attracting new customers and bolstering the Bank's deposit base. In the highly competitive mortgage market, the Bank successfully defended its market share by promoting a new mortgage plan.

Wing Hang Credit boosted its leading market position in the first half of this year by promoting a number of innovative loan products. The company now has 20 branches in Hong Kong which provide a highly professional service and offer a wide range of products including personal loans, revolving credit and mortgage loans for different kinds of properties such as older developments and village houses.

The Auto and Equipment Leasing division recorded a moderate decrease in loan assets during the period as demand for new vehicles faltered and exports declined. However the overall performance of Wing Hang Finance and Inchroy Credit Corporation Limited was encouraging. We achieved good returns in a favorable environment of low funding costs.

Trade financing continued to be adversely affected by the global recession as loan volumes declined by 27.4 percent compared with the end of last year. However the Corporate Banking division recorded 44.8 percent growth in pre-tax profit due to increase in non-interest income. We have continued to participate actively in the Government's SME Loan Guarantee Scheme including the Special Loan Guarantee Scheme which was introduced to assist companies to ride out the challenges caused by the global recession.

Pre-tax profit in the Treasury division decreased by 46.8 percent due to net unrealised loss on financial instrument designated at fair value. Partially offsetting this decrease was increase in net interest income from our treasury activities due to lower interest rate environment. In addition, we are shifting the asset mix towards government or government guaranteed assets.

Loans for use in Mainland China decreased by 10.1 percent to HK\$11,833.7 million largely due to intense competition from local banks and weak equipment financing demand from manufacturers. Looking forward Wing Hang Bank (China) Ltd. plans to gradually expand its operations in China by providing more RMB services to local individuals and opening more branches and sub-branches particularly in towns such as Shenzhen and Foshan in the Pearl River Delta Area.

Banco Weng Hang ("BWH") recorded a moderate decrease in pre-tax profit amid the worst recession in many years. Macau's GDP shrank by a further 12.9 percent in real terms in the first quarter of 2009 due to a decline in gaming revenue and a substantial fall in construction activity.

Net interest income decreased by 14.8 percent as a result of reduced loan volumes and lower yields on interest-free funds. Non-interest income decreased by 21.4 percent as fee income from trade and wealth management services was impacted by the effects of the global financial crisis. Loan decreased by 2.8 percent compared to the end of 2008, partly due to the sluggish property market in the first quarter. Despite of the difficult environment, BWH was able to achieve above-market customers deposit growth of 13.0 percent as we regained market share through the successful introduction of innovative deposit products.

Looking ahead, we expect the operating environment to continue to be challenging for the rest of the year. Although the contraction of external demand has slow down there are still many uncertainties about future growth as global demand remains weak. However, China is better

positioned to achieve a sustainable recovery. This will provide important support for both Hong Kong and Macau. Meanwhile we expect fee income to continue to be negatively affected by the substantial drop in demand for investment products. While we are closely monitoring our loan portfolio during the economic downturn, our prudent approach to extending credit means that the portfolio remains fundamentally sound. Given the low interest-rate environment, margins are expected to stabilise while expenses are likely to fall as prices stagnate.

The focus of business expansion will be in Mainland where the economy is still growing relatively robustly. Having successfully incorporated our business in China, we are now able to provide a full range of RMB services there.

In summary, while there are uncertainties about the outlook for the remainder of 2009, we believe we have the right business mix in the right markets to capture opportunities as they emerge. This successful business strategy also enables us to remain resilient in times of economic adversity.