

WING HANG BANK LIMITED
2009 FINAL RESULTS – HIGHLIGHTS

- Profit attributable to shareholders was up 3.7% to HK\$1,204.7 million (HK\$1,161.9 million for 2008)
- Earnings per share increased by 3.6% to HK\$4.08 (HK\$3.94 for 2008)
- Total dividends decreased by 34.0% to HK\$0.70 (HK\$1.06 for 2008)
- Profit before taxation up 5.3% to HK\$1,433.9 million (HK\$1,362.3 million for 2008)
- Net interest margin of interest bearing assets fell 2 basis points to 1.82%
- Net interest income up 0.6% to HK\$2,460.0 million (HK\$2,444.5 million for 2008)
- Non-interest income down 70.7% to HK\$392.7 million (HK\$1,340.2 million for 2008)
- Operating expenses up 0.7% to HK\$1,571.5 million (HK\$1,560.7 million for 2008)
- Impairment losses and allowances for loans was HK\$53.0 million (HK\$444.5 million for 2008)
- Advances to customers increased 0.3% to HK\$80.5 billion (HK\$80.3 billion as at 31st December, 2008)
- Customer deposit increased 9.6% to HK\$126.2 billion (HK\$115.2 billion as at 31st December, 2008)
- Cost to income ratio at 55.1% (41.2% for 2008)
- Core capital adequacy ratio at 10.7% (8.4% as at 31st December, 2008)
- Capital adequacy ratio at 17.8% (15.4% as at 31st December, 2008)
- Return on average shareholders' fund at 10.6% (10.8% for 2008)

Wing Hang Bank Reported a Profit of HK\$1,204.7 Million

Group profit attributable to shareholders amounted to HK\$ 1,204.7 million for the year under review representing an increase of 3.7 percent compared to HK\$1,161.9 million in 2008. Earnings per share increased 3.6 percent to HK\$4.08. The Board has recommended a final dividend of HK\$0.50 per share. Together with the interim dividend of HK\$0.20 paid on 21st September, 2009, the total distribution for the year amounts to HK\$0.70 per share, a reduction of 34.0 percent compared to 2008.

The recovery in earnings reflected an improvement in the local economy which rebounded in the second half of 2009. However the recovery process is still in its infancy. The economy has been supported by strong growth in China, the Hong Kong Government's support for SMEs and an exceptionally low interest rate environment mirroring that of the United States.

Real GDP grew by 2.6 percent in the fourth quarter of 2009 compared to a steep contraction of 7.5 percent in the first quarter. The improvement followed slower export contraction of 2.6 percent in the fourth quarter compared with the dramatic drop of 22.7 percent experienced in the first three months of the year. This implies that the global economy began to recover in the second half of 2009 but trade with developed economies remained weak. Imports began to pick up earlier than exports due to continued strong economic growth in China. China also contributed to a rebound in tourism in the third quarter spurring a rise in retail sales.

Strong capital inflows have prompted the HKMA to inject liquidity into the monetary system frequently to defend the currency peg. This has kept HIBOR at very low levels. High liquidity also underpinned the jump in asset prices during the second half of 2009. However, the effects of the recession continued to impact the local banking sector as overall loan demand remained weak. This in turn led to a decrease in the loan-to-deposit ratio.

Despite the challenging operating environment, our asset quality has remained sound. This has largely been due to our effective credit risk monitoring system supported by the low interest rate environment. We were able to achieve satisfactory asset growth in areas such as residential mortgages, SME financing, consumer lending as well as across our Mainland operations.

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

- The Group's profit before taxation increased by 5.3 percent to HK\$1,433.9 million due to a significant decrease in impairment charges.
- Net interest income increased by 0.6 percent to HK\$2,460.0 million supported by an improvement in treasury operations. Partially offsetting this increase was a lower yield on our interest-free funds. Net interest margin narrowed 2 basis points to 1.82 percent.
- Other operating income decreased 11.0 percent to HK\$860.4 million due to lower foreign exchange trading income, trade commissions and wealth management commissions.
- Net unrealised losses from financial instruments held for trading and designated at fair value stood at HK\$467.7 million.
- Total operating expenses slightly increased 0.7 percent to HK\$1,571.5 million. Consequently the Group's cost-to-income ratio increased from 41.2 percent to 55.1 percent. If the expenses for the sale of structured products and fair value change from trading and financial instruments designated at fair value were excluded, the cost-to-income ratio would be 42.5 percent.
- Impairment losses and allowances for loans and advances decreased 88.1 percent to HK\$53.0 million due to an improvement in asset prices supported by the favorable low interest rate environment. Impaired loans as of 31st December, 2009 stood at HK\$410.1 million, equivalent to 0.51 percent of total loans. Meanwhile the charge-off ratio for credit cards increased to 2.80 percent of card receivables compared with 1.44 percent previously.
- Total deposits increased by 8.8 percent to HK\$127.4 billion while customer deposits grew by 9.6 percent to HK\$126.2 billion.
- The total volume of loans remained constant at HK\$80.5 billion. Higher demand for mortgages, consumer loans as well as improved business operations in China were largely offset by a decrease in vehicle financing and trade financing.
- Return on average shareholders' funds for 2009: 10.6 percent.
- Loan-to-deposit ratio as at 31st December, 2009: 63.2 percent.
- Average liquidity ratio for 2009: 53.6 percent.
- Capital adequacy ratio as at 31st December, 2009: 17.8 percent.

The Group currently has 42 branches in Hong Kong, 12 branches in Macau, 5 branches and 5 sub-branches in the Mainland. As at the end of December 2009, the Group employed a total of 3,093 staff.

Below is a summary of the performance of our individual business operations and the outlook for the next year.

Profit before taxation in the Retail Banking division increased 33.2 percent over 2008. This was mainly due to a significant decrease in allowances for impaired loans. In the mortgage market pricing competition was fierce. Nevertheless we maintained our strategy of focusing on meeting individual customer needs and offering HIBOR-based mortgage loans throughout the year. This helped us to achieve satisfactory growth in mortgage lending.

We also experienced above-market growth in the stock trading business as we successfully acquired new customers through a well received eIPO program launched during 2009. We will continue to enhance our internet platform to accommodate a wider range of investment products thereby providing a more efficient, convenient and quality range of services to our customers. Although the Wealth Management business endured a challenging fiscal year with a sharp reduction in income, we expect improved results in 2010.

The year proved a challenging one for Wing Hang Credit as we emerged from the global financial crisis in late 2008. Despite these challenges, the company achieved a solid financial performance thanks to its continued market leadership in the consumer loan market. During the year the company launched various new loan products such as personal loans, business loans, tax loans and property mortgage packages. These initiatives were well received leading to a remarkable increase in loan draw-downs. As a result the company recorded remarkable results as loan growth surged 20.7 percent compared to the previous year.

Reflecting the decline in vehicle sales in Hong Kong, the Auto and Equipment Finance division experienced a moderate decrease in loan assets. However we managed to achieve a respectable financial performance in 2009. This was largely due to our ability to maintain

stable interest margins on vehicle and equipment loans in an exceptionally low-cost funding environment.

Sentiment towards the insurance industry was badly affected by the Lehman Brothers mini-bond issue in 2009 making the marketing of life products very difficult. Despite the challenges, we were still able to deliver results that were above our initial budget forecast by focusing instead on the general insurance business. In China the insurance business was also affected by uncertainty over the economy. Our priority during the year was to set up the necessary infrastructure to sell life insurance products.

Despite a decrease in market turnover, commission income in our Shares Brokerage division increased by 35.4 percent compared with the previous year. To further expand our market position, we will continue to upgrade our trading capacity. We will also encourage our retail investors to conduct transactions electronically via the internet or our Interactive Voice Respond System.

Global trade suffered as the economy sank into recession during the first half of 2009 leading to a decline of 29.7 percent in trade financing revenues compared with the previous year. However, we were able to boost overall revenues by focusing on new products such as bilateral loans and loans made under the Special Loan Guarantee Scheme. Together with the release of impairment charges for loans and an increase in non-interest income, Corporate Banking contributed 14.1 percent of the Group's pre-tax profit in 2009.

Overall our business in China has been expanding as economic growth in the country remains strong. Loans for use in Mainland China increased by 6.1 percent to HK\$14.0 billion as competition from local banks eased in the second half of the year and loan demand from SMEs picked up. One area we have been actively promoting is equipment financing services to manufacturers in Guangdong Province. Our new Zhuhai Branch, which started operations in 2009, contributed to this initiative. We plan to gradually expand our branch network primarily in the Pearl River Delta region before moving into other parts of the country. Demonstrating our strong commitment in China, an independent data center was established in Shenzhen in October 2009.

The Treasury division posted a decline of 82.2 percent in profit before taxation compared with the previous year. This was mainly a result of unrealised losses on financial instruments designated at fair value. Partially offsetting these losses was an improvement in net interest income on our debt securities investments.

In Macau, Banco Weng Hang recorded a moderate decrease in pre-tax profit amid a volatile and challenging economic environment. Macau's GDP shrank by 6.8 percent in real terms in the first three quarters of 2009 compared with the same period in the previous year, even though the economy returned to positive growth in the third quarter. Net interest income decreased by 11.1 percent as interest rate margins were squeezed by the low yield on our interest free funds amidst an extremely low interest rate environment. Non-interest income decreased by 6.1 percent as fee income from trade and wealth management services was impacted by the effects of the global recession. Loans decreased by 4.1 percent compared with the end of 2008, partly due to the scheduled repayment of certain large corporate loans. Nevertheless we were able to achieve above-market growth of 12.4 percent in our deposit base as we gained market share through the successful promotion of new deposit programs and other products.

Looking ahead, we expect that the operating environment will continue to improve as the global economy recovers. External demand is expected to pick up gradually which should be advantageous to China's export-oriented industries as well as our own smaller open economy. However, any sudden reversal of capital inflows could lead to a correction in asset markets and interest rates causing volatility.

In terms of business strategy, we will focus on expansion in the high-growth markets of China and Macau. Having successfully incorporated a wholly-owned subsidiary bank in China, we are now able to offer a full range of RMB services there. In response to the new policy announcement by Beijing in December 2009, we will also capture the long-term business opportunity to offer RMB-denominated services in Hong Kong. Meanwhile we recognise the need to rebuild trust with our customers in the aftermath of the financial crisis by refocusing our Wealth Management business from product sales to meeting individual customer needs.



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In summary, we believe that in addition to our solid business platform locally, we have a clear and focused strategy in China and Macau. We are well positioned to capture opportunities in these high growth markets. At the same time we will remain prudently cautious about the pace of global economic recovery in 2010 as governments contemplate strategies for the withdrawal of fiscal stimuli and deposit guarantee schemes.