

WING HANG BANK LIMITED
2011 INTERIM RESULTS – HIGHLIGHTS

- Profit attributable to shareholders up 54.4% to HK\$1,175.8 million (HK\$761.4 million for the first half of 2010)
- Earnings per share increased by 54.3% to HK\$3.98 (HK\$2.58 for the first half of 2010)
- Interim dividend increased by 53.3% to HK\$0.46 (HK\$0.30 for the first half of 2010)
- Profit before taxation up 47.6% to HK\$1,368.7 million (HK\$927.4 million for the first half of 2010)
- Net interest margin of interest bearing assets down 20 basis points to 1.71% (1.91% for the first half of 2010)
- Net interest income up 6.0% to HK\$1,399.3 million (HK\$1,320.4 million for the first half of 2010)
- Non-interest income up 23.9% to HK\$333.9 million (HK\$269.5 million for the first half of 2010)
- Operating expenses up 1.1% to HK\$784.2 million (HK\$775.8 million for the first half of 2010)
- Impairment losses and allowances for loans charged HK\$3.5 million (Released HK\$50.2 million for the first half of 2010)
- Advances to customers increased 10.8% to HK\$107.8 billion (HK\$97.3 billion as at 31st December, 2010)
- Total deposit increased 11.1% to HK\$152.3 billion (HK\$137.1 billion as at 31st December, 2010)
- Cost to income ratio at 45.2% (48.8% for the first half of 2010)
- Core capital adequacy ratio at 10.3% (10.3% as at 31st December, 2010)
- Capital adequacy ratio at 16.1 % (16.6% as at 31st December, 2010)
- Return on average shareholders' fund at 15.9% (12.0% for the first half of 2010)

Wing Hang Bank Reported a Record Interim Profit of HK\$1,175.8 Million

In the first half of 2011 Wing Hang Bank achieved record interim results. Profit attributable to shareholders was HK\$1,175.8 million, representing an increase of 54.4 percent compared to the same period last year. Earnings per share rose 54.3 percent to HK\$3.98. The Board has recommended an interim dividend of HK\$0.46 per share. That represents an increase of 53.3 percent over the same period last year.

Economic growth in Hong Kong remained strong during the period. Real GDP grew at 7.2 percent in the first quarter over the same period last year, up from 6.4 percent in the fourth quarter of 2010.

The local economy has been supported by buoyant domestic consumption and tourism spending as well as continued strong growth in China. The economy also benefited from higher household income, a lower level of unemployment and strong intra-regional trade.

Loan demand in Hong Kong picked up due to robust GDP growth and strong demand for loans for use outside the HKSAR. This led to a substantial increase in the sector's loan-to-deposit ratio which in turn led to both higher deposit and lending rates. Locally, demand for mortgages grew as property prices were well supported by low mortgage rates.

The combination of an effective credit risk monitoring system coupled with rising asset prices has underpinned the quality of our asset base. We were able to achieve satisfactory loan growth in areas such as trade finance, auto and equipment financing as well as across our Mainland and Macau operations.

Our customer loan demand was strong in the first half increasing by 10.8 percent. Total deposits also increased by 11.1 percent despite fierce competition. The situation was similar in Macau as loan growth rose 6.0 percent. Loans for use in China increased by 13.2 percent reflecting strong demand for credit in a robust economy.

Here is a summary of our key financial ratios during the period:

- Loan-to-deposit ratio as at 30th June, 2011: 70.8 percent
- Capital adequacy ratio as at 30th June, 2011: 16.1 percent
- Core capital adequacy ratio as at 30th June, 2011: 10.3 percent
- Average liquidity ratio: 40.0 percent
- Annualised return on average shareholders' funds: 15.9 percent

Other core financial indicators also reflect the Group's operational strength. Operating profit before impairment losses and allowances increased by 16.6 percent to HK\$949.0 million due to a rise in overall operating income. Net interest income increased by 6.0 percent to HK\$1,399.3 million as a result of higher loan volumes. The net interest margin decreased to 1.71 percent from 1.77 percent in second half of 2010 and 1.91 percent in the first half of 2010 due to decrease in interest income from treasury operation, pressure from mortgage re-pricing and an increase in the cost of deposits. Other operating income decreased slightly due to lower foreign exchange income but this was partially offset by increases in credit commissions and trade finance income. Net losses from trading and financial instruments designated at fair value decreased by HK\$68.2 million to HK\$90.1 million due to a reduction in unrealised losses on the change in fair value of our perpetual subordinated debt. Total expenses increased slightly by 1.1 percent largely due to higher staff costs. This was partially offset by a write-back of provision for sale of structured investment products. The Group's cost-to-income ratio decreased from 48.8 percent to 45.2 percent.

Impairment losses and allowances for loans in the first half of 2011 stood at HK\$3.5 million while impaired loans stabilised at 0.25 percent of total loans. This improvement was a reflection of our robust monitoring systems supported by rising asset prices in a low interest rate environment. The charge-off ratio for credit cards decreased to 0.23 percent of credit card receivables compared with 0.41 percent previously as there were fewer bankruptcy cases.

Net gains on revaluation of properties and disposal of tangible fixed assets for HK\$381.3 million represented unrealised gains on revaluation of properties for HK\$122.9 million and realised gains on disposal of a property for HK\$258.4 million.

The Group currently has 43 branches in Hong Kong, 12 branches in Macau and 6 branches and 7 sub-branches on the Mainland. As at 30th June 2011, the Group employed a total of 3,295 staff.

Pre-tax profit in the Retail Banking division increased by 3.6 percent during the first half. This was largely due to write-back of provision for sale of structured investment products.

In spite of the increasingly competitive market, we successfully achieved 9.5 percent deposit growth following a well-received marketing program. We also improved our delivery channels by offering account opening and stock trading services in simplified Chinese on our internet banking platform.

The wealth management business continued to expand following the introduction of individual investment services and stock trading facilities in our branches. We also continued to build on our highly personalised style of service by establishing a phone banking department and a separate hotline for our Elite Gold customers.

Demand for RMB banking services in Hong Kong has steadily increased. We have expanded our stock subscription platform and now offer RMB stock trading and facilities for bond investment. In addition, we also provide one-stop RMB trade finance services for corporate clients, including inward and outward RMB trade settlement and trade financing. The Bank has been designated as one of the two Hong Kong clearing banks for RMB-denominated gold bar trading. This new service is expected to be launched in the second half of the year. We will continue to participate actively in the RMB business in Hong Kong, capturing new business opportunities to support our growth.

The business environment for consumer finance was highly competitive. In order to meet customer demand, Wing Hang Credit now offers a more diversified product mix including a wide-range of competitive loan programs. During the first half of the year, total loan increased 8.2 percent due to strong demand for personal loan, revolving loan and property mortgage resulting from the continuing low interest rate environment.

We will continue to focus on our competitive strengths to further develop more innovative products and capture new markets and customer segments to support our long-term business growth and consolidate our leading position in the unsecured loan market.

The Auto and Equipment Finance division achieved 4.8 percent growth in loan assets and delivered good returns. This achievement was supported by higher loan demand in a continuing low-cost funding environment. We were able to effectively meet new business targets and minimise bad debts.

During the period, we comfortably maintained our market leader position in local vehicle financing. Nevertheless, there has been increasing competition which has squeezed interest margins. Demand for equipment hire has also been buoyant.

Pre-tax profit for Corporate Banking division decreased 21.1 percent due to release of impairment allowances in last year. Excluding the release of impairment allowances, pre-tax profit should have increased 12.8 percent. Our corporate loan and trade finance business has continued to grow at a healthy pace. Total loan volumes in the first half of 2011 grew by more than 20 percent compared to end of 2010 supported by an increase in trade finance and RMB cross-border trade settlements. We expect to launch our RMB trade finance services in the second half of the year.

Looking ahead, we expect the tight monetary policy in China and the weak economic recovery in major developed markets to continue. This will lead to slower loan growth in the second half of the year.

Net interest income generated from treasury operation decreased 32.7 percent following a shift of debt securities investments to loans. Non-interest expenses decreased 73.0 percent due to decrease in net losses from trading and financial instruments designated at fair value for HK\$68.2 million.

Pre-tax profit for Mainland China operations increased 35.5 percent due to increase in net interest income on bank placement. In the first half of 2011, the Peoples Bank of China raised the Reserve Requirement Ratio for banks in China six times and raised interest rates twice as it tightened money supply to quell inflation. The Government has been working hard to tackle rising prices while at the same time maintaining moderate economic growth. Nevertheless, loan demand remained strong. Our portfolio of loans for use in China increased by 13.2 percent to HK\$21.81 billion compared to the end of 2010.

We have also been participating in the RMB cross-border trade settlement business since the last quarter of 2010, thereby helping to meet the financial needs of our customers in this sector.

Our first cross-location sub-branch opened in Foshan in March 2010 and the results have been encouraging. This has strengthened our confidence to further expand our sub-branch network in the Pearl Delta Area.

At the end of June 2011, our China operations comprised a total network of 13 branches and sub-branches covering Shenzhen, Guangzhou, Foshan, Zhuhai and Shanghai. The total workforce now exceeds 700.

Economic growth in Macau has been robust as a result of the continuous expansion of the gaming and tourism industries. GDP surged by 21.5 percent in real terms in the first quarter of this year. Reflecting this strong growth Banco Weng Hang delivered encouraging results with a 19.8 percent increase in net profit to 133.0 million patacas.

Net interest income increased 3.0 percent despite a challenging interest rate environment. While fierce competition drove up interest costs, this was more than offset by loan growth and an improvement in yields. Non-interest income increased 34.6 percent due to a reduction in unrealised losses on interest rate derivatives. There was strong growth across the board in areas such as insurance, credit cards and foreign exchange.

The lending business remained healthy as loans increased 6.0 percent compared to end of 2010. This was largely supported by an increase in the residential mortgage business amidst a buoyant property market. Customer deposits increased 4.3 percent following a series of successful campaigns to promote a range of new products.

Looking ahead, economic growth in the second half of the year is likely to slow down as a result of the combination of several external factors.

First, there will be reduced economic growth in China as impacts of monetary tightening measures begin to kick in. Second, economic growth in the United States is likely to remain anemic. Finally, there is continuing uncertainty about the effects of the sovereign debt issue in Europe. Higher global inflation will also lead to higher interest rates. We will remain cautious about the changing global economic environment as any sudden reversal of capital inflows could lead to volatility in interest rates and asset prices.

Our business strategy is to capture opportunities in the large and growing domestic market in China. At the same time, with the continued liberalisation of the RMB and rapid development of offshore RMB businesses we will further expand our RMB-related products and services in Hong Kong and Macau. Since customers take advantage of our seamless integrated banking services in China, Hong Kong and Macau, we envisage increasing opportunities to expand RMB-denominated lending business in these areas.