



WING HANG BANK

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PRESS RELEASE

WING HANG BANK LIMITED **2013 INTERIM RESULTS – HIGHLIGHTS**

- Profit attributable to shareholders down 1.8% to HK\$1,007.5 million compared to the first half of 2012 but increase 29.8% compared to second half of 2012
- Earnings per share was HK\$3.33
(HK\$3.43 for the first half of 2012)
- Interim dividend was HK\$0.46 same as the first half of 2012
- Operating profit before impairment losses and allowances down 9.3% to HK\$1,027.4 million
(HK\$1,132.5 million for the first half of 2012)
- Profit before taxation down 3.7% to HK\$1,182.7 million
(HK\$1,228.3 million for the first half of 2012)
- Net interest margin of interest bearing assets up 2 basis points to 1.69% compared to the first half of 2012 and increased 11 basis points compared to the second half of 2012
- Net interest income up 7.3% to HK\$1,600.6 million
(HK\$1,492.1 million for the first half of 2012)
- Other operating income up 1.6% to HK\$423.8 million
(HK\$417.3 million for the first half of 2012)
- Operating expenses up 8.8% to HK\$1,009.1 million
(HK\$927.5 million for the first half of 2012)
- Impairment losses and allowances for loans charged HK\$43.2 million
(HK\$46.3 million for the first half of 2012)
- Advances to customers increased 7.5% to HK\$122.6 billion
(HK\$114.1 billion as at 31st December, 2012)
- Total deposit increased 1.6% to HK\$172.3 billion
(HK\$169.6 billion as at 31st December, 2012)
- Cost to income ratio at 49.6%
(45.0% for the first half of 2012)
- Tier 1 capital ratio at 10.8%
(10.0% as at 31st December, 2012)
- Total capital ratio at 16.5%
(15.7% as at 31st December, 2012)
- Return on average shareholders' fund at 10.1%
(11.7% for the first half of 2012)



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Wing Hang Bank Reported an Interim Profit of HK\$1,007.5 Million

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.



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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.



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- 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.

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.



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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.

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.

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.



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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.

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.

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.



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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.

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.



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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.