

**WING HANG BANK LIMITED**  
**2008 FINAL RESULTS – HIGHLIGHTS**

- Profit attributable to shareholders was down 42.8% to HK\$1,161.9 million (HK\$2,030.6 million for 2007)
- Earnings per share decreased by 42.8% to HK\$3.94 (HK\$6.89 for 2007)
- Total dividends decreased by 69.1% to HK\$1.06 (HK\$3.43 for 2007)
- Operating profit before impairment losses and allowances up 12.0% to HK\$2,224.0 million (HK\$1,985.9 million for 2007)
- Net interest margin of interest bearing assets fell 6 basis points to 1.84%
- Net interest income up 1.1% to HK\$2,444.5 million (HK\$2,417.5 million for 2007)
- Non-interest income up 53.3% to HK\$1,340.2 million (HK\$874.1 million for 2007)
- Operating expenses up 19.5% to HK\$1,560.7 million (HK\$1,305.7 million for 2007)
- Impairment losses and allowances for loans was HK\$444.5 million (HK\$1.5 million for 2007)
- Impairment losses and allowances for available-for-sale financial assets was HK\$291.5 million
- Advances to customers increased 7.6% to HK\$80.3 billion (HK\$74.6 billion as at 31<sup>st</sup> December, 2007)
- Customer deposit increased 1.1% to HK\$115.2 billion (HK\$114.0 billion as at 31<sup>st</sup> December, 2007)
- Cost to income ratio at 41.2% (39.7% for 2007)
- Capital adequacy ratio at 15.4% (16.7% as at 31<sup>st</sup> December, 2007)
- Return on average shareholders' fund at 10.8% (20.5% for 2007)

## Wing Hang Bank Reported a Profit of HK\$1,161.9 Million

The business environment in Hong Kong deteriorated rapidly in the second half of 2008 as the effects of the global financial crisis intensified. Consequently this had a direct impact on local banking sector. Group profit attributable to shareholders decreased by 42.8 percent to HK\$1,161.9 million compared to HK\$2,030.6 million in 2007. Earnings per share fell 42.8 percent to HK\$3.94. The Board has recommended a final dividend of HK\$0.10 per share. Together with the interim dividend of HK\$0.96 paid in September, 2008, the total distribution amounts to HK\$1.06 per share. That represents a decrease of 69.1 percent over the previous year.

Real GDP growth in Hong Kong fell from 7.3 percent in the first quarter of 2008 to just 1.7 percent by the third quarter. GDP contracted by 2.5 percent in the final quarter of 2008. Exports of goods fell by 12.8 percent amid a sharp contraction in global trade. The unemployment rate rose to 4.6 percent in January 2009 while inflation (as measured by the CPI) softened to 2.1 percent in December from 3.8 percent in the previous year. Risk aversion caused by the global financial crisis led to a sharp drop in stock market turnover in the second half of the year and there was a marked reduction in investment activity. Property prices declined across the board leading to an increase in the number of owners with negative equity.

In the United States, short-term interest rates rose in the third quarter due to the extremely tight liquidity caused by the worsening financial crisis. However, they fell steeply in the last quarter when the Federal Reserve cut interest rates to almost zero and injected liquidity into the financial system to ease the strain on money markets. Hong Kong dollar interest rates closely followed those of the U.S. throughout the period.

We were able to achieve satisfactory asset growth in areas such as investment mortgages and vehicle financing as well as in our businesses in China and Macau. As the economy deteriorated in the last quarter, more non-performing loans surfaced mainly in the manufacturing and trade finance sectors. However the Bank's businesses are well diversified in terms of industry, product and geographical coverage. As a result we remain resilient in times of economic adversity.

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

- The Group's operating profit before impairment losses increased by 12.0 percent to HK\$2,224.0 million due to a rise in net interest and non-interest income.
- Net interest income increased by 1.1 percent to HK\$2,444.5 million as a result of higher loan volumes. Partially offsetting this increase was due to decrease in net interest margin from 1.90 percent to 1.84 percent.
- Non-interest income rose 53.3 percent to HK\$1,340.2 million due to higher foreign exchange trading income and net gains from financial instruments held for trading and designated at fair value.
- Total operating expenses increased by 19.5 percent to HK\$1,560.7 million mainly as a result of funds needed for business expansion. Consequently the Group's cost-to-income ratio increased slightly from 39.7 percent to 41.2 percent.
- Losses and allowances for impaired loans amounted to HK\$444.4 million while total impaired loans as at 31<sup>st</sup> December, 2008 stood at HK\$566.5 million, equivalent to 0.71 percent of total loans. The charge-off ratio for credit cards decreased to 1.44 percent of credit card receivables compared with 1.59 percent previously.
- Total deposits decreased by 2.5 percent to HK\$117.1 billion while customer deposits increased by 1.1 percent to HK\$115.2 billion.
- Total loans increased by 7.6 percent to HK\$80.3 billion due to an increase in demand for investment mortgages and vehicle financing as well as loan growth at our operations in China and Macau.
- During the year the Bank issued perpetual subordinated notes with nominal value of US\$225 million. The funds provided the Group with considerable flexibility to maintain an efficient capital structure.
- Return on average shareholders' funds for 2008: 10.8 percent

- Loan-to-deposit ratio as at 31<sup>st</sup> December, 2008: 68.5 percent
- Average liquidity ratio for 2008: 44.1 percent
- Capital adequacy ratio as at 31<sup>st</sup> December, 2008: 15.4 percent

The Group currently has 41 branches in Hong Kong, 12 branches in Macau and 4 branches and 4 sub-branches in the Mainland. As at 31<sup>st</sup> December 2008, the Group employed a total of 3,153 people.

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

Pre-tax profit in the Retail Banking division decreased by 41.4 percent over 2007 largely because of lower fee income from wealth management services and stock trading commission as well as an increase in impairment allowances on loans and advances. During the year we continued to upgrade our branch network to create a more comfortable environment for our customers. Several branches were renovated, a new branch was opened in Taikooshing in August and the Central branch was relocated to larger premises in a more convenient location.

In spite of the challenging economic conditions in the second half of the year, Wing Hang Credit continued to maintain its market position in the consumer finance market. The company successfully launched several personal loan and tax loan programs during 2008. These initiatives received a satisfactory response from our customers. Our key objectives of reinforcing brand awareness of Wing Hang Credit and implementing product diversification were achieved.

Wing Hang Finance Company Limited has continued to strengthen its leading market position in vehicle financing, achieving a moderate increase in the size of its loan portfolio despite the slowdown during the last quarter. The overall performance of Wing Hang Finance Limited and Inchroy Credit Corporation Limited, which was acquired by our parent Bank in 2007, was encouraging. This was supported by strong returns in a favorable environment of low funding costs.



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Corporate banking activities were adversely affected by the global economic recession. As a result the Corporate Banking division recorded a 69.7 percent drop in profit before taxation. Most of this decline was due to an increase in impairment allowances on loans and advances and lower non-interest income. The Bank continued to participate actively in the Government's SME Loan Guarantee Scheme including the recently launched Special Guarantee Scheme. Trade financing decreased by 7.1 percent due to weak export demand in the last quarter. Global trade is expected to remain under pressure in the current economic downturn.

Loans for use in Mainland China increased by 8.9 percent to HK\$13,162.2 million due to strong loan demand. Wing Hang Bank (China) Limited ("WHBCL") was established in Shenzhen in 2007 to serve our expanding customer base in China and help facilitate our corporate clients' business expansion plans. The Group currently has 4 branches and 4 sub-branches in China. We plan to open one new branch and a sub-branch in the first half of 2009.

The insurance division achieved record results in 2008 following the successful promotion of life products. Most of the new life insurance business came from traditional savings products as there was minimal demand for investment-linked products. The general insurance business was flat due to the economic downturn in the final quarter of the year. Meanwhile our associate Hong Kong Life has suffered some losses on investments. The Bank Consortium Trust achieved steady results in spite of a decrease in the total funds held in trust.

Income at our share broking arm decreased by 44.9 percent compared with the previous year. This was mainly due to a decrease in trading activity. Investor sentiment remained weak throughout the year. In a bid to further improve efficiency we will continue to upgrade our trading capacity and encourage retail investors to conduct transactions through direct channels such as the internet trading platform.

Most of our treasury income is generated from services provided to customers in foreign exchange and treasury products. During 2008 this division accounted for 33.2 percent of the Group's profit before taxation mainly as a result of unrealised gains on financial instruments held for trading and designated at fair value. Partially offsetting this gain were impairment losses on our investments in Icelandic bank debt securities and collateralised debt obligations.

In Macau, Banco Weng Hang recorded a moderate decrease in pre-tax profit amid a challenging economic environment. While Macau's GDP grew by 11.3 percent in real terms in the third quarter of 2008 compared with the same period in the previous year, the growth rate is expected to have slowed considerably in the final quarter of 2008. Net interest income decreased by 1.8 percent as an improved interest-rate spread was more than offset by a lower yield on our interest-free fund. Non-interest income decreased by 9.9 percent as fee income from the share brokerage and wealth management service was impacted by the effects of the global financial crisis. Loans grew by 19.1 percent over the end of 2007. Total deposits shrank by 10.2 percent on an annual basis but by just 3.2 percent compared to the first half.

Looking ahead, the operating environment will continue to be challenging in 2009. Although the stimulus packages being implemented by governments around the world will accelerate spending growth and keep interest rates low, they are unlikely to completely offset the numerous challenges facing the world economy. The deterioration in external demand will continue to impact the Hong Kong economy. However China is better positioned to withstand the fallout from the global economic crisis and this is expected to provide an important pillar of support for both Hong Kong and Macau.

In terms of the Bank's individual business divisions, fee income is expected 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 extend 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 or decline.