



永隆銀行

WING LUNG BANK

ANNOUNCEMENT OF 2008 FINAL RESULTS

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WING LUNG BANK LIMITED

CHAIRMAN'S STATEMENT

2008 was a year of great significance for Wing Lung Bank in more than 70 years of the Bank's history. The Bank became a wholly-owned subsidiary of China Merchants Bank through acquisition last year. As it was the largest bank merger and acquisition transaction ever in Mainland China and in Hong Kong in recent years, the deal has drawn great attention in both local and foreign markets. Wing Lung Bank and its holding company, China Merchants Bank, now complement each other's relative advantages in distribution channels, business operations and customer base, and enjoy geographic proximity and cultural affinity. The UK's Financial Times has commented that the deal is unlikely to be replicable by other banks in the Mainland.

The takeover of Wing Lung Bank by China Merchants Bank took place at this special historical moment when the global financial crisis continues to rage. Thanks to the participating parties for their collaborative efforts and especially to Wing Lung Bank's customers for their understanding and support, the acquisition was accomplished smoothly. On behalf of Wing Lung Bank, I wish to express our sincere gratitude to all our friends for their continued strong support.

Amidst the financial tsunami in 2008, Wing Lung Bank endeavoured to counter the unfavourable factors by strengthening its risk management and internal control systems, and maintained steady growth in its various business operations. Similar to other banks, the year-end results of Wing Lung Bank were adversely affected, however, the Bank still maintained a very favourable non-performing loan ratio of 0.47%, with sufficient provisions made. The solid foundation of the Bank readies it for further development.

The integration of Wing Lung Bank with China Merchants Bank commenced in October last year. We have reconstituted the board of directors of Wing Lung Bank, and appointed Mr Zhu Qi, who has over 10 years' experience in the Hong Kong's banking industry, as the new CEO of the Bank, maintaining the stability of the Bank's operation and staff.

We are especially pleased to see the synergies between our two banks have been realised in line with the integration project. Aiming at sharing with China Merchants Bank's customer base, cross-selling banking products and developing cross-border business cooperation, Wing Lung Bank has successfully launched a new cross-border financing service, offering banking facilities to Hong Kong subsidiaries of China based enterprises with the security of an irrevocable standby letter of credit issued by China Merchants Bank in favour of Wing Lung Bank. In addition, cardholders of the two banks can get offers from the card merchants of both banks so that they can enjoy greater convenience. The implementation of centralised purchasing of IT equipment enabled the Bank to achieve substantial cost saving.

The synergy effects realised at such an early stage reaffirmed our strong confidence in the future development of Wing Lung Bank. The Bank will build upon the resources, including the superior customer base, channels, products and brand, etc of China Merchants Bank, one of the leading banks in Mainland China. Through practical and effective integration, we expect to develop Wing Lung Bank as the most competitive bank in the cross-border financial service sector, offering more convenient services to customers. To achieve this goal, we have formulated a five-year integration plan, striving to lay a solid foundation in the first year, achieve significant benefits in three years and then proven success in five years.

2009 is the first full year for Wing Lung Bank to enter into a new phase of development. As the global financial crisis has not bottomed out, amidst tough and complex conditions currently confronting the global and local economies, Wing Lung Bank will hence be under much pressure. However, the integration and cooperation with China Merchants Bank will bring new development opportunities to the Bank.

WING LUNG BANK LIMITED

CHAIRMAN'S STATEMENT (CONTINUED)

Under the prevailing circumstances, Wing Lung Bank will step up its integration with China Merchants Bank in order to further enhance operation management and customer service quality so as to significantly increase the turnover and profitability in its various business operations. The two banks will continue to improve the mechanism of customer referrals, resource sharing and close collaboration to ensure that we can make a breakthrough in the cross-border financial service sector. Meanwhile, we will dedicate our efforts to the innovation of new products, further enhance internet and telephone banking channels, IT planning and restructuring, adjustments of the corporate organisation, streamlining procedures, reformation of risk management structure, etc.

At a new starting point in the new year, Wing Lung Bank will offer quality services and achieve better results so as to meet the expectations of our friends and the general public. We sincerely look forward to continued strong support from our clients and the public in the years ahead.

MA Weihua
Chairman

26 March 2009

WING LUNG BANK LIMITED

CHIEF EXECUTIVE OFFICER'S STATEMENT

The year 2008 was an unusual and tumultuous year. Hong Kong's economy saw an apparent slowdown in the third quarter, and an even more severe downturn in terms of GDP in the fourth quarter.

The deepening US sub-prime mortgage crisis not only shattered the nation's own banking system, but also unleashed a financial tsunami which swept the world and caused severe damage to the already weak economic conditions. The crisis further deteriorated as several large financial institutions in US went bankrupt or were on the verge of bankruptcy, as a result of which, panic selling was seen in stock markets around the world and financial institutions had to make impairment or provision for their assets denominated in US dollars. Not only Hong Kong, as an international financial metropolitan in Asia, suffered from the crisis, other export-oriented emerging markets in this area have also been affected to a certain extent. The service industry and trading activities saw rapid decrease against the backdrop of the global economic slump and the shrinkage of credit market. Stock markets and real estate markets also tumbled. Banks in Hong Kong suffered greatly from credit crunch in both US and Europe.

The Group recorded a consolidated after tax loss of HK\$816 million for 2008, mainly attributable to the allowance of HK\$819 million provided for the Collateralised Debt Obligations ("CDO") it held and an additional impairment loss of HK\$316 million provided for the Structured Investment Vehicles ("SIV"), both of which were fully provided for or written off. Meanwhile, the Group also set aside provisions for some of its bond and investment holdings, which have dropped in market value owing to the financial tsunami, as well as allowances for the Lehman minibond incident.

With respect to the performance of the Group's core businesses, during 2008, the Group realised a net interest income of HK\$1.28 billion, a decrease of 14.4% from the same period of last year, mainly due to the narrowing spread and the decline in the interest income from interest-free funds resulting from lower market interest rates. The Group's net fees and commission income amounted to HK\$343 million, reflecting a decrease of 31.3% from that of the same period last year, mainly due to the significant decline in commission income from securities brokerage and investment services. The Group's insurance operating income (before taking investment losses into account) recorded HK\$445 million, an increase of 2% from that of the same period last year; however, if taking into consideration the charge for insurance claims, a loss would be recorded as claims for employees' compensation insurance continued to rise in the first half of 2008, and pursuant to the prudent principle, the Group had increased the claims reserve for this insurance class significantly.

Operating expenses totalled HK\$1.05 billion, an increase of 41.7% when compared to the same period last year, mainly due to staff and salary increase. Besides, additional expenses were incurred during the year for handling the acquisition and merger of the Bank by China Merchants Bank ("CMB") and the Lehman minibond incident.

The Group's consolidated impaired loans dropped by HK\$27.7 million to HK\$82.5 million at 31 December 2008 when compared with 31 December 2007. As a result, the consolidated impaired loan ratio was down from 0.26% to 0.19%. The credit quality of the Group's loan book remained solid.

The Group's consolidated total assets amounted to HK\$100.6 billion at 2008 year-end, an increase of 7.7% from 2007 year-end level. Despite the aforesaid allowances and provisions made, the capital adequacy ratio and core capital adequacy ratio at 31 December 2008 were 13.8% and 12.0% respectively, and the average liquidity ratio for the year was 51.7%.

WING LUNG BANK LIMITED

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

It is expected that the global economy in 2009 will still be severe and the operating environment of banks in Hong Kong will still be tough. There will be big changes and full of challenges in banking businesses after the financial tsunami. After merging with CMB, the Bank has attained not only strong support from CMB, but also more room for future expansion. With complementary advantages and close collaboration between the two banks, fruitful results from a gradually created synergy can be achieved.

Detailed analyses of the Group's operations in 2008 and business prospects in 2009 are as follows:

Deposits

As at 31 December 2008, the total deposits of the Group, including structured deposits, surged by 17.0% to HK\$83.2 billion as compared with that of 2007 year-end. Among the various kinds of deposits, the Hong Kong Dollar deposits increased by 37.1% to HK\$54 billion as compared with that at the end of 2007, of which time deposits increased the most; and the US Dollar deposits after conversion decreased by 16.4% to HK\$13.5 billion as compared with that of 2007 year-end; and deposits in other foreign currencies after being translated into Hong Kong Dollar slightly increased by 0.8% as a result of depreciation in the exchange rate, among which Renminbi deposits after translation surged by 54.6% to HK\$0.82 billion as compared with that at the end of 2007.

In 2009, with respect to the deposit business, the Bank will focus on promoting and developing projects including Foreign Currency Pleasure Savings Account, Auto-Payroll Service and Bebichhichi Savings Account. Meanwhile, the Bank plans to introduce deposit service and other services to Sunflower customers of CMB through cooperation with CMB.

Loans to customers

As at 31 December 2008, total loans to customers of the Group grew by 3.4% to HK\$43.4 billion as compared with that of 2007 year-end; and the non-performing loan ratio was only 0.47%, approximating to the 2007 year-end level, yet the overall loan quality remained sound.

The residential mortgage loans decreased by 5.2% to HK\$9.6 billion at the end of 2008 as compared with that of 2007 year-end. The decrease was mainly due to the deterioration of the economic environment and increase in mortgage rate which affected the property prices, and the rentals also decreased, with luxury properties in particular.

The corporate loans increased by 5.6% to HK\$4.7 billion at the end of 2008 as compared with that of 2007 year-end. In 2009, the Bank will provide one-stop banking service to its corporate clients through cooperation with CMB and high-end customers introduced by CMB so as to improve the Bank's profitability.

The syndicated loans increased by 7.5% to HK\$11.2 billion at the end of 2008 as compared with that of 2007 year-end.

Wing Lung Finance Limited, the Bank's hire-purchase and leasing subsidiary, achieved steady progress in 2008.

It is expected that through offering credit facilities to high-end clients introduced by CMB, the Bank will improve its lending business in 2009. Meanwhile, the Bank continues with the restructuring of its lending departments by establishing Corporate Banking Department to incorporate the Syndicated Loans Department, so as to provide the major corporate clients with more integrated banking services. In addition, in view of its greater lending capacity, the Bank will make efforts to expand its client base and actively seek business opportunities from the existing and potential clients in 2009.

WING LUNG BANK LIMITED

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

Investments

As at 31 December 2008, the Group had a debt securities investment balance of HK\$10.9 billion, representing a decrease of 20.1% when compared with 2007 year-end, which was mainly due to the reduction in fair value of some of its investment assets resulting from the financial tsunami. At the end of the year, an impairment provision of HK\$116 million was made for the debt securities. More than 73% of these debt securities have the credit ratings of A3 or above and their risks are very limited. In 2009, the investment strategy of the Bank will be implemented prudently and based on risk review. It is expected that if the market or economy is not confronted with significant continuous downturn in 2009, it will be unnecessary to make impairment provision for these investments.

Foreign exchange trading

The exchange rate of US dollar kept decreasing in the first quarter of 2008, and reached the bottom in the third quarter, however, the exchange rate of US dollar rebounded to its peak in the fourth quarter due to appreciation pressure against other major currencies from the de-leveraging processes of carry trade resulting from the financial tsunami.

In view of the reasons above, the Group recorded an overall foreign exchange revenue of HK\$99 million in 2008, representing a decrease of 15.7% over the corresponding period of the previous year; of which revenue from foreign exchange trading amounted to HK\$91.4 million, an increase of 19.3% over the corresponding period of the previous year; revenue from foreign money exchange amounted to HK\$26.9 million, a decrease of 16.2% over the corresponding period of the previous year; however, the foreign currency deposits and investments held by Wing Lung Insurance Company Limited recorded an exchange loss due to the decrease in exchange rate.

In 2009, the Bank will enhance the cooperation with CMB to seek more trading opportunities, and will also tighten relevant market risk management.

Wealth management

For year 2008, the wealth management business of the Group realised a revenue of HK\$49.6 million, representing a decrease of 61.4% as compared to last year. That was primarily attributable to the setbacks in US economy and drop of Hong Kong stock index to around 11,000 points in 2008 amid a deprived global economic market as a result of sub-prime crisis and credit crunch. Since the bankruptcy of Lehman Brothers in September 2008, investors were pessimistic about the future of stock market, which resulted in a plunge in trading volumes and a substantial decline in trading of structured products. As a result, profits dropped significantly.

In 2009, the Bank will keep up communications with CMB's high-end clients, and meanwhile, dedicate more efforts in stepping up sales training and product analyses so as to upgrade service quality and strengthen risk management. More new products will be rolled out with the aim of drawing more new customers and driving up sales of other products.

Credit card

As at 31 December 2008, the Bank issued a total of 250,000 credit cards, up 1.3% as compared with 2007 year-end. The credit card receivables amounted to HK\$470 million, down 28.7% as compared with the end of 2007. The merchant business turnover was HK\$1.93 billion, up 11.8% as compared to the year 2007.

In light of the worsening economy and increase of risks brought about by the financial tsunami, it is advisable to take conservative and prudent strategies. In view of the greater synergy as a result of the merger of CMB and the Bank, the Bank has adopted the following operating strategies for its credit card business in 2009:

WING LUNG BANK LIMITED

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

- attracting the high-end Sunflower customers through CMB's referral;
- promoting the world's first diamond credit card "LUXE Visa Infinite" issued by the Bank at the beginning of 2009 to high-end customers of the Bank and CMB through all-sided marketing activities;
- launching brand new business card in 2009 to cater for the expansion of corporate banking businesses of both CMB and the Bank;
- allowing cardholders of the Bank to enjoy CMB's favorable offers leveraging on CMB's good relationship with a large number of shopping malls and stores in the PRC, and similarly, the Bank will provide special offers in Hong Kong stores to cardholders of CMB to achieve mutual benefits;
- continuing to launch various spending reward programs and more merchant offers to customers, thus enhancing the appeal of products.

Securities

In 2008, Wing Lung Securities Limited realised a commission income of HK\$180 million, representing a significant decrease of 36.2%. The reduction was primarily due to the year-on-year decrease of approximately 18% in the total turnover on Hong Kong stock market in 2008, the weak performances of the Hong Kong stock market and the significant drop in the brokerage commission income from IPOs as a result of the delayed listing in Hong Kong of a number of state-owned enterprises of Mainland China.

In 2009, Wing Lung Securities Limited will continue to expand its business and improve the service quality, minimise the loss of customers to its peers in a slow-moving market while enhancing all the service channels and service facilities. New securities service centres were set up in Lam Tin Sceneway Plaza Branch, Sham Shui Po Branch, Causeway Bay Branch, Hung Hom Branch, Tuen Mun Branch and Western District Branch. These new centres, along with various promotion offers, will help draw in more new customers.

Insurance

In 2008, Wing Lung Insurance Company Limited recorded a net earned premium income of HK\$566 million, representing an increase of 1.6% as compared to the corresponding period of the previous year. The total claims of Wing Lung Insurance Company Limited amounted to HK\$524 million, representing an increase of 47.8% as compared to the year 2007. Due to the increasing claims, the underwriting profit decreased to HK\$131 million in deficit from HK\$30.7 million in the year 2007.

Due to the existing price cutting competition in the insurance market of Hong Kong, Wing Lung Insurance Company Limited will pay more attention to the improvement of profitability rather than expanding market share in 2009. Wing Lung Insurance Company Limited will conduct detailed analysis on the conditions of its existing customers and leave out those with insufficient premium rates and disappointing claim records. Instead, it will endeavour to enter into insurance business with large infrastructure project contractors with satisfactory claim records. In addition, it will make timely adjustments to the premium and terms of motor vehicle insurance based on market conditions. As for accident and medical insurance, Wing Lung Insurance Company Limited will formulate and launch a number of employment schemes or high value-added schemes tailored for small and medium sized enterprises so as to increase its revenue. Furthermore, Wing Lung Insurance Company Limited will work closely and interact proactively with CMB to capture and capitalise development opportunities in the future.

Branches

The Bank has a network of 36 branches in Hong Kong, 2 branches and a sub-branch in the PRC and 2 overseas branches, being Los Angeles Branch in the US and Cayman Islands Branch.

WING LUNG BANK LIMITED

CHIEF EXECUTIVE OFFICER'S STATEMENT (CONTINUED)

In 2008, Shenzhen Branch maintained its growth momentum in terms of business volume and profits. It will continue to expand its customer base.

Having commenced business in February 2008, Shanghai Branch will focus on developing trade financing business.

Los Angeles Branch, established for more than 20 years in the west coast of the US, has considerable experience in handling local businesses and maintains a certain customer base. The Bank expects that the branch can collaborate with the New York Branch of CMB in the east coast of the US to develop business on a shared platform, thereby expanding our presence in North America.

Information technology

In order to cope with the Bank's integration with CMB and future development, the Information Technology Department will accelerate efforts in upgrading the capacity and compatibility of various basic facilities, such as IBM computers, servers, networks and disks. The Bank will also conduct analysis in respect of the efficiency of the integration of various development programs, and propose short-term and long-term solutions for system enhancement.

Human resources

As at 31 December 2008, the total number of employees of the Bank is 1,680 (31 December 2007:1,660), of which 1,595 are in Hong Kong, 73 are in the PRC and 12 are overseas.

In order to upgrade the skills and overall competitiveness of its staff for further development, the Bank's Human Resource Department has been actively organising seminars related to the Bank's businesses and new products or services. Specialised training sessions on wealth management, insurance, new deposit products and services as well as sales techniques are regularly arranged for frontline staff. For higher cost-effectiveness, the Department also organises training courses jointly with peer banks for those staff who possess MPF intermediary, estate agent, securities and futures intermediary or insurance intermediary qualifications in order to maintain their respective professional qualifications through continuing learning.

In the midst of the sweeping financial tsunami, the global economic conditions are likely to worsen in 2009, and the spillover effects of the crisis will continue to adversely impact the economies and people's livelihood throughout the world. The operating environment of the banking sector will also be tough this year. In the face of the challenges ahead, the Bank will have to ensure proper use of resources, impose stringent control on expenses and strengthen risk management at all levels. The Mainland has made clear its resolve to maintain economic growth and provide strong backing to Hong Kong, the territory's economic prospects are therefore bolstered. Having become a member of CMB Group, Wing Lung Bank is privileged to have strong parental support and will be able to explore a much wider new horizon for future development. Meanwhile, following the gradual merging of cultures and integration of the two banks' respective strengths and resources, we can collaboratively build an extensive business platform for future expansion in the Pan-Pearl River Delta Region and Hong Kong, to benefit from the synergy, to build up a brand new image, and to return to the path of rising profitability.

ZHU Qi

Executive Director and Chief Executive Officer

26 March 2009

WING LUNG BANK LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2008.

Principal activities

The Bank and its subsidiaries (the "Group") are engaged in the provision of banking and related financial services. The principal activities of the subsidiaries are set out in note 26 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segment is set out in note 40 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 14 together with particulars of the appropriations therefrom which have been made or which are recommended.

The directors have declared an interim dividend of HK\$0.50 per ordinary share (2007: HK\$0.90 per ordinary share), totalling HK\$116,095,000, which was paid on 24 July 2008.

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2008 (2007: HK\$1.50 per ordinary share).

Reserves

Details of the movements in the Group's and the Bank's reserves are set out in note 38 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK\$399,000 (2007: HK\$189,000).

Other properties and equipment

Details of the movements in the Group's and the Bank's other properties and equipment are set out in note 31 to the financial statements.

Share capital

Details of share capital of the Bank are set out in note 37 to the financial statements. There were no movements during the year.

WING LUNG BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors

The directors during the year and up to the date of the financial statements are as follows:

Dr MA Weihua	(appointed as Chairman and Non-executive Director on 6 October 2008)
Dr ZHANG Guanghua	(appointed as Vice-Chairman and Non-executive Director on 6 October 2008)
Mr LI Hao	(appointed as Non-executive Director on 6 October 2008)
Mr ZHU Qi #	(appointed as Chief Executive Officer on 30 September 2008 and appointed as Executive Director on 6 October 2008)
Dr ZHENG Xianbing	(appointed as Non-executive Director on 6 October 2008)
Dr XU Shiqing	(appointed as Non-executive Director on 6 October 2008)
Mr CHUNG Che Shum #	
Dr WU Po Him Philip #	(resigned as Chief Executive Officer and remained as Executive Director on 30 September 2008; re-designated as Non-executive Director on 6 October 2008)
Dr LEUNG Nai Pang Norman ¹	
Mr SOO Hung Leung Lincoln ¹	
Mr CHAN Charnwut Bernard ¹	
Dr WU Po Ko Michael #	(resigned as Chairman and Executive Director and re-designated as Non-executive Director on 30 September 2008; resigned as Non-executive Director on 27 October 2008)
Dr WU Po Kong Patrick #	(resigned as Vice-Chairman and Executive Director and re-designated as Non-executive Director on 30 September 2008; resigned as Non-executive Director on 27 October 2008)
Mr WU Po Cheung Albert	(resigned as Non-executive Director on 27 October 2008)
Mr WU Po Young Ivan	(resigned as Non-executive Director on 27 October 2008)
Mr WU Shang Fung Anthony	(resigned as Non-executive Director on 27 October 2008)
Mr TSANG Shung Kwong ¹	(resigned as Independent Director on 27 October 2008)
Mr MA Ngai Keung Kenneth	(resigned as alternate to Mr WU Po Young Ivan on 27 October 2008)
Ms WU Shang Sze Alice	(resigned as alternate to Mr WU Po Cheung Albert on 27 October 2008)

Executive Director

¹ Independent Non-executive Director

In accordance with Articles 100 and 101 of the Bank's Articles of Association, Dr WU Po Him Philip retires by rotation at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In accordance with Article 106 of the Bank's Articles of Association, Dr MA Weihua, Dr ZHANG Guanghua, Mr LI Hao, Mr ZHU Qi, Dr ZHENG Xianbing and Dr XU Shiqing retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Non-executive directors are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association of the Bank.

WING LUNG BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors' interests in shares

None of the directors have been granted, or have exercised, any rights to subscribe for shares of the Bank.

At no time during the financial year was the Bank, or any of its subsidiaries, fellow subsidiaries or its holding company was a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in contracts

The Bank rents from Wings Investment Company Limited certain office space in Wings Buildings under two tenancy agreements, for terms of three years commencing January 2008 and six years commencing December 2008, at rentals based on independent professional valuations. Dr WU Po Ko Michael, Dr WU Po Kong Patrick, Mr WU Po Cheung Albert, Dr WU Po Him Philip, Mr WU Shang Fung Anthony and Ms WU Shang Sze Alice (Alternate to Mr WU Po Cheung Albert) are directly or indirectly interested in Wings Investment Company Limited as shareholders. The above persons, except for Dr WU Po Him Philip, resigned as directors of the Bank by October 2008.

No other contracts of significance in relation to the Bank's business to which the Bank, or any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Compliance with the Banking (Disclosure) Rules

The Bank is required to comply with the Banking (Disclosure) Rules which set out the minimum standards for public disclosure which authorised institutions must make in respect of the income statement, state of affairs and capital adequacy. The financial statements for the year ended 31 December 2008 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Retirement schemes

The Group operates retirement schemes for its employees. Details of the Group's retirement schemes are set out in note 13 to the financial statements.

WING LUNG BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Auditors

KPMG were first appointed as auditors of the Bank in 2008 upon the resignation of PricewaterhouseCoopers. The financial statements have been audited by KPMG who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

MA Weihua

Chairman

Hong Kong, 26 March 2009

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF WING LUNG BANK LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Wing Lung Bank Limited (the "Bank") set out on pages 14 to 146, which comprise the consolidated and the Bank's balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF WING LUNG BANK LIMITED (CONTINUED)**
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Hong Kong, 26 March 2009

WING LUNG BANK LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK\$'000	2007 HK\$'000
Interest income	4	3,277,081	4,441,066
Interest expense	5	(1,999,748)	(2,949,477)
Net interest income		<u>1,277,333</u>	<u>1,491,589</u>
Fees and commission income		419,141	556,258
Fees and commission expense		(75,642)	(56,140)
Net fees and commission income	6	<u>343,499</u>	<u>500,118</u>
Insurance operating income	7	444,855	436,213
Net trading (loss)/gain	8	(1,150,745)	104,511
Net gain on disposal of available-for-sale securities		131,202	104,130
Other operating income	9	174,577	162,091
Operating income		<u>1,220,721</u>	<u>2,798,652</u>
Operating expenses	10	(1,046,591)	(738,479)
Impairment charge for credit losses	11	(746,725)	(503,448)
Charge for insurance claims	7	(523,517)	(354,258)
Net loss on disposal of other properties and equipment		(1,635)	(994)
Operating (loss)/profit before gain/(loss) on certain investments		<u>(1,097,747)</u>	<u>1,201,473</u>
Fair value adjustments on investment properties	29	137,586	305,264
Share of net (losses)/profits of jointly controlled entities		(84,667)	67,637
Share of net profits of associates		1,882	1,707
(Loss)/profit before taxation		<u>(1,042,946)</u>	<u>1,576,081</u>
Income tax	14	226,791	(204,567)
(Loss)/profit attributable to shareholders		<u>(816,155)</u>	<u>1,371,514</u>
Dividend	16	<u>116,095</u>	<u>557,256</u>

The notes on pages 19 to 146 form part of these financial statements.

WING LUNG BANK LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Note	2008 HK\$'000	2007 HK\$'000 Restated
Assets			
Cash and short-term funds	17	36,060,920	26,384,235
Placements with and loans and advances to banks	18	4,869,242	3,602,908
Trading securities	19	2,809,833	2,218,841
Derivative financial instruments	20	40,375	236,700
Financial assets designated at fair value through profit or loss	21	2,356,318	2,934,803
Available-for-sale securities	22	1,539,543	3,240,308
Held-to-maturity securities	23	4,720,418	6,883,979
Advances and other accounts	24	44,788,117	44,675,678
Interests in jointly controlled entities	27	153,900	224,018
Interests in associates	28	5,867	6,184
Investment properties	29	2,346,550	2,254,600
Interests in leasehold land	30	237,173	241,345
Other properties and equipment	31	489,767	424,420
Tax recoverable		85,922	58,704
Deferred tax assets	36	88,909	6,799
Total assets		<u>100,592,854</u>	<u>93,393,522</u>
Liabilities			
Deposits and balances from banks		914,484	1,157,049
Trading liabilities	32	595,471	351,210
Derivative financial instruments	20	197,606	802,579
Financial liabilities designated at fair value through profit or loss	33	2,076,092	2,159,028
Deposits from customers	34	82,493,626	70,481,358
Certificates of deposit issued		1,020,970	1,773,194
Current taxation		5,118	40,547
Deferred tax liabilities	36	276,363	470,958
Other accounts and accruals	35	2,611,229	3,677,496
Total liabilities		<u>90,190,959</u>	<u>80,913,419</u>
Equity			
Share capital	37	1,160,951	1,160,951
Reserves	38	9,240,944	11,319,152
Total equity		<u>10,401,895</u>	<u>12,480,103</u>
Total equity and liabilities		<u>100,592,854</u>	<u>93,393,522</u>

Approved and authorised for issue by the Board of Directors on 26 March 2009.

MA Weihua, Chairman
ZHU Qi, Director
and Chief Executive Officer

LI Hao, Director
CHUNG Che Shum, Director
and General Manager

The notes on pages 19 to 146 form part of these financial statements.

WING LUNG BANK LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Note	2008 HK\$'000	2007 HK\$'000 Restated
Assets			
Cash and short-term funds	17	35,787,145	26,259,873
Placements with and loans and advances to banks	18	4,844,097	3,699,769
Trading securities	19	2,699,500	2,030,704
Derivative financial instruments	20	40,375	236,687
Financial assets designated at fair value through profit or loss	21	2,204,939	2,591,119
Available-for-sale securities	22	1,364,071	2,031,308
Held-to-maturity securities	23	4,720,418	6,614,787
Advances and other accounts	24	43,901,566	43,456,547
Interests in subsidiaries	26	300,155	300,231
Interests in jointly controlled entities	27	86,062	97,264
Investment properties	29	2,425,050	2,324,700
Interests in leasehold land	30	237,173	241,345
Other properties and equipment	31	410,503	343,121
Tax recoverable		85,922	58,704
Total assets		99,106,976	90,286,159
Liabilities			
Deposits and balances from banks		1,011,512	1,182,817
Trading liabilities	32	595,471	351,210
Derivative financial instruments	20	197,606	802,579
Financial liabilities designated at fair value through profit or loss	33	2,115,948	2,242,681
Deposits from customers	34	83,337,532	71,159,167
Certificates of deposit issued		1,020,970	1,773,194
Deferred tax liabilities	36	274,537	450,182
Other accounts and accruals	35	853,597	1,803,620
Total liabilities		89,407,173	79,765,450
Equity			
Share capital	37	1,160,951	1,160,951
Reserves	38	8,538,852	9,359,758
Total equity		9,699,803	10,520,709
Total equity and liabilities		99,106,976	90,286,159

Approved and authorised for issue by the Board of Directors on 26 March 2009.

MA Weihua, Chairman
ZHU Qi, Director
and Chief Executive Officer

LI Hao, Director
CHUNG Che Shum, Director
and General Manager

The notes on pages 19 to 146 form part of these financial statements.

WING LUNG BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK\$'000	2007 HK\$'000
Total equity as at 1 January		12,480,103	11,381,785
Net (expense)/income recognised directly in equity:			
Surplus on revaluation of bank premises	38	780	-
Changes in fair value of available-for-sale securities	38	(989,828)	226,000
Effect of deferred taxation on			
- revaluation of bank premises	38	296	-
- fair value adjustments on available-for-sale securities	38	17,790	(8,426)
Share of associates' reserves	38	(175)	(67)
Share of jointly controlled entities' reserves	38	(5,119)	-
Net (expense)/income for the year recognised directly in equity		(976,256)	217,507
Transfer to income statement on disposal of available-for-sale securities	38	(131,202)	(104,130)
Transfer to income statement on impairment of available-for-sale securities	38	309,785	426,092
Net (loss)/profit for the year	38	(816,155)	1,371,514
Total net (expense)/income recognised for the year		(1,613,828)	1,910,983
Dividends declared or approved during the year	38	(464,380)	(812,665)
Total equity as at 31 December		10,401,895	12,480,103

The notes on pages 19 to 146 form part of these financial statements.

WING LUNG BANK LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 HK\$'000	2007 HK\$'000
Cash generated from operations	43(a)	11,514,404	5,752,335
Hong Kong profits tax paid		(81,156)	(169,996)
Overseas tax paid		(13,319)	(9,199)
Net cash generated from operating activities		<u>11,419,929</u>	<u>5,573,140</u>
Investing activities			
Purchase of available-for-sale securities and held-to-maturity securities		(19,935,303)	(15,487,118)
Loans repaid from/(new loans to) jointly controlled entities		11,202	(39,964)
Interests in jointly controlled entities and associates		(35,000)	(691)
Dividends received from jointly controlled entities and an associate		6,154	26,106
Proceeds from sale and redemption of available-for-sale securities and held-to-maturity securities		22,041,113	13,751,091
Payment for additions of investment properties		(10,866)	-
Payment for additions of other properties and equipment		(65,671)	(56,150)
Proceeds from disposal of other properties and equipment		437	1,024
Net cash generated from/(used in) investing activities		<u>2,012,066</u>	<u>(1,805,702)</u>
Financing activities			
Dividends paid		(464,380)	(812,665)
Net cash used in financing activities		<u>(464,380)</u>	<u>(812,665)</u>
Net increase in cash and cash equivalents		12,967,615	2,954,773
Cash and cash equivalents at 1 January		26,397,095	23,442,574
Effects of foreign exchange rate changes		(65,327)	(252)
Cash and cash equivalents at 31 December	43(b)	<u>39,299,383</u>	<u>26,397,095</u>
Cash flows from operating activities include:			
Interest received		3,392,981	4,461,845
Interest paid		2,026,944	2,970,842
Dividends received		40,093	32,415

The notes on pages 19 to 146 form part of these financial statements.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held for trading (including derivative financial instruments), financial assets and financial liabilities designated at fair value through profit or loss and investment properties.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

The HKICPA has issued a number of new/revised HKFRSs, which are effective for accounting periods beginning on or after 1 January 2008. The Group has assessed the impact of these new/revised HKFRSs and concluded that they are not relevant to the Group's operations.

Up to the date of issue of these financial statements, the HKICPA has also issued certain new/revised HKFRSs which are not yet effective for accounting period beginning on 1 January 2008 and have not been early adopted by the Group. The Group is in the process of making an assessment of what the impact of these new/revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of the following new/revised HKFRSs which are relevant to the Group's operations is unlikely to have a significant impact on the Group's result of operations and financial position:

- HK(IFRIC) Interpretation 13: Customer Loyalty Programmes, which is effective for annual periods beginning on or after 1 July 2008
- HKAS 1 (Revised): Presentation of Financial Statements, which is effective for annual periods beginning on or after 1 January 2009
- HKFRS 8: Operating Segments, which is effective for annual periods beginning on or after 1 January 2009
- HKAS 27 (Revised): Consolidated and Separate Financial Statements, which is effective for annual periods beginning on or after 1 July 2009

However, HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures in the financial statements.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all of its subsidiaries made up to 31 December.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They include entities in which the Bank, directly or indirectly, controls the composition of the Board of Directors, controls more than half of the voting power or holds more than half of the issued share capital.

Subsidiaries are consolidated into the financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Bank's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received and receivable.

1.3 Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Bank's balance sheet, the interests in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received and receivable.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.4 Associates

An associate is an entity over which the Group has significant influence but not control, or joint control over its management, including participation in the financial and operating policy decision. This is generally accompanying a shareholding of between 20% and 50% of the voting rights.

The consolidated income statement includes the Group's share of the results of associates for the year and the consolidated balance sheet includes the Group's share of the net assets of the associates.

In the Bank's balance sheet, the interests in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

1.5 Revenue recognition

Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(a) Interest income and expense

Interest income and expense for all financial instruments are recognised in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, including cash rebates granted in relation to residential mortgage loans, that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.5 Revenue recognition (Continued)

(b) Fee and commission income

Fee and commission income arises on financial services provided by the Group and is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the cost or risk is incurred and is accounted for as interest income.

(c) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(d) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

1.6 Financial assets

The Group classifies its financial assets under the following categories: loans and receivables, trading securities, financial assets designated at fair value through profit or loss, held-to-maturity securities, and available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.6 Financial assets (Continued)

(a) Loans and receivables

Loans and receivables, including cash and short term funds, placement with and loans and advances to banks, trade bills and loans and advances to customers, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost using the effective interest method less impairment losses.

(b) Trading securities

A financial asset is classified as trading if it is acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Group does not have derivative financial instruments which meet the criteria for hedge accounting as described in note 1.9.

Trading securities are stated at fair value, and transaction costs taken directly to the income statement. Changes in fair value are recognised as "Net gain/loss from trading securities" in the income statement as they arise.

(c) Financial assets designated at fair value through profit or loss

Financial assets designated at fair value through profit or loss are not those financial assets acquired principally for the purpose of selling in the short term but designated by management as such at inception if they meet the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases;
- A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about these assets is provided internally to the management;
- It relates to those financial instruments embedded with derivatives which significantly modify the cash flows that would otherwise be required under the contract; or
- The separation of the embedded derivative(s) from the financial instrument is not prohibited.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.6 Financial assets (Continued)

(c) Financial assets designated at fair value through profit or loss (Continued)

These financial assets are recognised initially at fair value and transaction costs taken directly to the income statement. Changes in fair value are recognised as "Net gain/loss arising from financial instruments designated at fair value through profit or loss" in the income statement in the period in which they arise.

(d) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity securities are carried at amortised cost using the effective interest method less impairment losses.

(e) Available-for-sale securities

Available-for-sale securities are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale securities are stated at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the investment revaluation reserve is recognised in the income statement.

Purchases and sales of trading securities, financial assets designated at fair value through profit or loss, held-to-maturity and available-for-sale securities are recognised on trade-date – the date on which the Group becomes a party to the contractual provision of the instrument. Loans are recognised when cash is advanced to the borrowers.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.7 Impairment of financial assets

(a) Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that asset in a group of financial assets with similar credit characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.7 Impairment of financial assets (Continued)

(a) Financial assets carried at amortised cost (Continued)

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets are considered.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data on economic and credit environment to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, change in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.7 Impairment of financial assets (Continued)

(b) Financial assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from the investment revaluation reserve and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

1.8 Financial liabilities

The Group classifies its financial liabilities under the following categories: trading liabilities, financial liabilities designated at fair value through profit or loss, deposits, certificates of deposit issued and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(a) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses arising from changes in fair value are recognised in the income statement.

(b) Financial liabilities designated at fair value through profit or loss

A financial liability is designated as fair value through profit or loss if it is so designated at inception. Financial liabilities so designated include certain certificates of deposit issued and certain deposits received from customers that are embedded with derivatives. A financial liability is typically so designated if it meets the following criteria:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases;

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.8 Financial liabilities (Continued)

(b) Financial liabilities designated at fair value through profit or loss (Continued)

- A group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about these liabilities is provided internally to the management;
- It relates to those financial instruments embedded with derivatives which significantly modify the cash flows that would otherwise be required under the contract; or
- The separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses arising from changes in fair value are recognised as "Net gain/loss arising from financial instruments designated at fair value through profit or loss" in the income statement.

(c) Deposits, certificates of deposit issued and other liabilities

Deposits and certificates of deposit issued, other than those classified as trading liabilities or designated at fair value through profit or loss, together with other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

1.9 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Subsequent changes in fair value are recognised depending on the purpose of the derivatives.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.9 Derivative financial instruments and hedge accounting (Continued)

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivative financial instruments held for trading and those that do not qualify for hedge accounting will be accounted for with changes in fair value reported through the income statement.

Derivative transactions are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.10 Valuation of securities and derivatives

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices while financial liabilities are priced at current ask prices. For unlisted securities and where the market for a financial instrument is not active, the Group estimates fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

1.11 Investment properties

Land and/or buildings which are owned and/or held under a leasehold interest for long-term rental yields and/or for capital appreciation, and that is not occupied by the companies in the consolidated Group, is classified as investment property. When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

When a property is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the property immediately prior to the transfer and its fair value is recognised in the bank premises revaluation reserve in accordance with HKAS 16 "Property, plant and equipment". However, a revaluation increase is recognised as income only to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. Decreases are first set off against increases on previous valuations of the same asset and thereafter are debited to the income statement. Upon disposal of the property, the relevant portion of the bank premises revaluation reserve is released and transferred from the bank premises revaluation reserve to retained earnings.

When an investment property becomes owner-occupied, it is reclassified as premises and its fair value at the date of reclassification becomes its cost.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.12 Other properties and equipment

(a) Premises

Premises represent those properties held for own use and are stated at cost less accumulated depreciation and impairment losses. Where the land and building elements of the leasehold properties held for own use can be allocated reliably at the inception of the lease, the land element is accounted for as operating lease. As such, any leasehold land premiums for acquiring the land leases, or other lease payments, are charged to the income statement on a straight line basis over the period of the lease or where there is impairment, the impairment is charged to the income statement. Any buildings which are situated on such land leases continue to be presented as part of premises. Where the land and building elements of the leasehold properties cannot be allocated reliably at the inception of the lease, the land and building elements will continue to be treated as finance lease and classified as premises.

Depreciation of premises is calculated on a straight line basis to write off the assets over their estimated useful lives as follows:

- Leasehold land is depreciated over the unexpired terms of the leases.
- Building and improvements thereto are depreciated over the remaining estimated useful life.

(b) Furniture and equipment

Furniture and equipment is stated at cost less depreciation and impairment losses. Depreciation is calculated on a reducing balance basis to write off the assets over their estimated useful lives, at annual rates ranging from 20% to 30%.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.13 Impairment of other assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.14 Repossessed assets

Repossessed collateral assets are reported as "Other accounts" under "Advances and other accounts" and the relevant loans are derecognised. The repossessed collateral assets are measured at the lower of the carrying amount and net realisable value.

1.15 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Bank's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Translation differences on non-monetary items such as equities held for trading are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary items such as equities classified as available-for-sale securities are included in equity.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.16 Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing deductible temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.16 Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1.17 Insurance contracts

The Group issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

(a) Recognition and measurement

The Group issues various classes of insurance contract including accident and health, motor vehicle, ships, goods in transit, property damage, employees' compensation, general liability and pecuniary loss. Risks under these insurance policies usually cover one year duration.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission and are net of duties levied on premiums.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.17 Insurance contracts (Continued)

(a) Recognition and measurement (Continued)

Claims and loss adjustment expenses are charged to income as incurred. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. Liabilities for unpaid claims are separately analysed by class of business. They are estimated using the input of assessments for individual cases reported to the Group and statistical techniques for the claims incurred but not reported.

(b) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

(c) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits as arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.18 Provisions

Provisions for restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

1.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in the financial statements on the date that the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amount determined in accordance with note 1.18 and the amount initially recognised less cumulative amortisation recognised. Any changes in the liability relating to financial guarantees are recognised in the income statement.

1.20 Employee benefits

Employee benefits include short-term leave entitlements and long-term staff retirement benefits as follows:

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.20 Employee benefits (Continued)

(b) Retirement benefits

The Group operates five staff retirement schemes. The assets of these schemes are all held separately from those of the Group in independently administered funds.

The Group's contributions to schemes with defined contribution arrangements and the mandatory provident fund ("MPF") schemes are expensed as incurred.

Annual contributions to the retirement benefit schemes with defined benefit arrangements are determined based on periodic valuations of the assets and liabilities of such schemes by qualified actuaries using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries. The defined benefit obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the 10% of the greater of these schemes' assets and the defined benefit obligations are recognised in the income statement over the average expected future working lifetime of the members of the schemes.

1.21 Operating leases

Leases where substantially all of the risks and rewards of ownership of the asset remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the lease term. The Group's interests in leasehold land except those qualified to be classified as premises and investment properties are also accounted for as operating leases.

Where the Group or the Bank is a lessor under operating leases, assets leased out mainly include properties and equipment and are depreciated in accordance with the Group's depreciation policies except where the asset is classified as investment property. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.22 Hire purchase contracts and finance leases

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases.

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as "Advances and other accounts". The net investment represents the total rentals receivable under hire purchase contracts and finance leases less unearned finance income. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1.7. Finance income implicit in the rental receivable is credited to the income statement over the lease period or hire period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period.

1.23 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. In accordance with the Group's internal financial reporting, business segment is chosen as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one financial year.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 Summary of significant accounting policies (Continued)

1.24 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks, treasury bills and certificates of deposit.

1.25 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate or a jointly controlled entity of the Group;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group recognises that taking risk is core to its financial business and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group has established policies and procedures for the identification, measurement, control and monitoring of the inherent risk of the operations. The most important risks are credit risk, market risk, liquidity risk and operational risk. Market risk includes currency risk, interest rate risk and other price risks. The adequacy and effectiveness of risk management policies and procedures are regularly reviewed by the Management Committee of the Board of Directors (the "Management Committee"). The Internal Audit Department also performs regular audits to ensure compliance with policies and procedures.

2.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally from loans and advances, debt securities, derivative financial instruments, treasury bills, and other on-balance sheet exposures to counterparties in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date.

The Group has established credit policies that govern credit extension criteria, credit approval, review and monitoring processes, the internal credit rating system and impairment assessment processes. The Group's credit risk management and control are centralised in a credit management department which reports to the Management Committee regularly.

(a) Credit risk measurement

(i) Loans and advances

In assessing credit risk of loans and advances to customers and to banks and other counterparties, effective systems are adopted for measurement and monitoring of the credit risk as part of the credit assessment process. The Group's credit grading system, which in general, takes into account the underlying credit-worthiness of the counterparties, including the financial strengths of the guarantors (as the case may be), collateral pledged and the risk of specific transactions, allows differentiation and management of credit risk for asset portfolios of respective business units.

(ii) Debt securities and treasury bills

For debt securities, external ratings from recognised external credit assessment institutions are used for assessing and managing credit risk exposures. The investments in these securities allow the Group to achieve an appropriate level of returns commensurate with the risks and to maintain a readily available source of funding at the same time.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(b) Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

To avoid concentration risk, credit exposures to individual customers, counterparties and industry sectors are carefully managed and monitored by the use of limits. All credit risk limits are approved by the Management Committee. The Management Committee is also responsible for the review and approval of the largest credit exposures and portfolio management of risk concentrations. Approval authorities are delegated to the Group's Credit Committee and other lending officers. Actual credit exposures, including on- and off-balance sheet exposures, limits and asset quality are regularly monitored and controlled by the Credit Management Department by keeping a central liability record for each group of related counterparties and are subject to checks by the internal audit function.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Some specific control and risk mitigation measures are outlined below:

(i) Collateral

The Group seeks to obtain collateral to mitigate credit risk to an acceptable level. All credit decisions, whether or not secured by collateral, are based on counterparties' repayment capacity. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal types of collateral in credit risk mitigation include:

- Mortgages over residential properties and other properties;
- Charges over business assets such as cash deposits, premises, machineries, inventory and accounts receivable; and
- Charges over financial instruments such as equities and debt securities.

The Group has established policies to govern the determination of eligibility of assets taken as collateral for credit risk mitigation. In order for an asset to be considered as effective risk mitigation, the market value of the asset should be readily determinable or can be reasonably established. The asset is marketable and there exists a readily available secondary market for disposal of the asset. In addition, the Group is able to secure control over the asset if necessary. The collateral is revalued periodically ranging from daily to annually, depending on the type of collateral. As for those past due exposures, the main types of collateral held are cash deposits and properties.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(b) Risk limit control and mitigation policies (Continued)

(ii) Master netting agreements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(iii) Derivatives

The principal derivatives used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. The Management Committee places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions. Given the purpose for entering into such derivative transaction, collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(iv) Credit related commitments

The Group has issued credit related commitments including guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to a customer as required. These instruments represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These instruments carry similar level of the same credit risk as loans.

Commitments to extend credit represent unused portions of authorised facility limits in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(c) Impairment allowance policies

The Group undertakes ongoing credit analysis and monitoring of its credit portfolios, and requires the review of individual financial assets that are above preset thresholds at least annually or more regularly when individual circumstances require. Impairment allowances are recognised for losses that have been incurred at the balance sheet date based on objective evidence of impairment as described in note 1.7. The Group's internal credit rating system assists management to determine whether objective evidence of impairment exists.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses commitment of collateral held and the anticipated cash flows for that individual account adjusted at the relevant discount rates.

Collectively assessed impairment allowances are provided for (i) portfolios of homogenous assets that are individually below preset thresholds; and (ii) losses that have been incurred but have not yet been individually identified, using available data on historical loss experience, and economic conditions, statistical analysis and supplemented by experienced judgment.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000 Restated	2008 HK\$'000	2007 HK\$'000 Restated
Short term funds	35,562,958	25,749,291	35,289,183	25,624,929
Placements with and loans and advances to banks	4,869,242	3,602,908	4,844,097	3,699,769
Trading securities	2,809,833	2,218,841	2,699,500	2,030,704
Derivative financial instruments	40,375	236,700	40,375	236,687
Financial assets designated at fair value through profit or loss	2,356,318	2,934,803	2,204,939	2,591,119
Financial investments	6,259,961	10,124,287	6,084,489	8,646,095
Advances and other accounts	44,788,117	44,675,678	43,901,566	43,456,547
Loan to jointly controlled entities	61,062	72,264	61,062	72,264
Credit commitments	14,034,091	22,859,183	14,185,509	22,835,696
	<u>110,781,957</u>	<u>112,473,955</u>	<u>109,310,720</u>	<u>109,193,810</u>

(e) Gross loans and advances to customers

(i) Gross loans and advances to customers by credit quality

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Neither past due nor impaired	42,025,690	40,259,648	41,747,744	39,948,166
Past due but not impaired	1,259,930	1,564,645	1,226,818	1,527,665
Impaired	82,482	110,227	54,792	93,300
	<u>43,368,102</u>	<u>41,934,520</u>	<u>43,029,354</u>	<u>41,569,131</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(ii) Gross loans and advances to customers that are neither past due nor impaired

The Group	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2008				
Grade 1	16,112,881	23,590,762	1,915,856	41,619,499
Grade 2	69,099	219,413	8,743	297,255
Grade 3	8,746	39,290	60,900	108,936
	<u>16,190,726</u>	<u>23,849,465</u>	<u>1,985,499</u>	<u>42,025,690</u>

The Bank	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2008				
Grade 1	16,134,361	23,409,897	1,797,295	41,341,553
Grade 2	69,099	219,413	8,743	297,255
Grade 3	8,746	39,290	60,900	108,936
	<u>16,212,206</u>	<u>23,668,600</u>	<u>1,866,938</u>	<u>41,747,744</u>

The Group	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2007				
Grade 1	15,511,134	22,164,615	2,364,305	40,040,054
Grade 2	53,531	98,301	14,525	166,357
Grade 3	6,452	46,195	590	53,237
	<u>15,571,117</u>	<u>22,309,111</u>	<u>2,379,420</u>	<u>40,259,648</u>

The Bank	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2007				
Grade 1	15,511,134	21,857,545	2,364,305	39,732,984
Grade 2	53,531	98,301	14,525	166,357
Grade 3	6,452	41,783	590	48,825
	<u>15,571,117</u>	<u>21,997,629</u>	<u>2,379,420</u>	<u>39,948,166</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(ii) Gross loans and advances to customers that are neither past due nor impaired (Continued)

The following definitions have been adopted for the purpose of the above analysis:

Grade 1 "satisfactory" represents loans for which borrowers are currently meeting commitments and for which full repayment of interest and principal is not in doubt.

Grade 2 "special monitoring" represents loans with which borrowers are experiencing difficulties and which may threaten the Group's position.

Grade 3 "sub-standard" represents loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment; or collection in full is improbable without realisation of available collateral.

The occurrence of loss event(s) may not necessarily result in impairment loss where the loans are fully collateralised. While such loans are of "substandard" grades, they are regarded as not being impaired and have been included in the above table.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(iii) Gross loans and advances to customers which were past due but not impaired

The Group	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2008				
Three months or less	807,812	360,210	85,076	1,253,098
Six months or less but over three months	-	4,123	924	5,047
Over six months	-	1,728	57	1,785
	<u>807,812</u>	<u>366,061</u>	<u>86,057</u>	<u>1,259,930</u>

The Bank	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2008				
Three months or less	807,812	335,880	76,506	1,220,198
Six months or less but over three months	-	3,911	924	4,835
Over six months	-	1,728	57	1,785
	<u>807,812</u>	<u>341,519</u>	<u>77,487</u>	<u>1,226,818</u>

The Group	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2007				
Three months or less	1,110,984	294,524	68,663	1,474,171
Six months or less but over three months	2,849	26,346	106	29,301
Over six months	2,658	58,455	60	61,173
	<u>1,116,491</u>	<u>379,325</u>	<u>68,829</u>	<u>1,564,645</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(iii) Gross loans and advances to customers which were past due but not impaired (Continued)

The Bank	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
At 31 December 2007				
Three months or less	1,110,984	257,822	68,663	1,437,469
Six months or less but over three months	2,849	26,346	106	29,301
Over six months	2,658	58,177	60	60,895
	<u>1,116,491</u>	<u>342,345</u>	<u>68,829</u>	<u>1,527,665</u>

(iv) Gross loans and advances to customers individually impaired

The gross amount of impaired loans, which represents those individual advances where there is objective evidence of impairment resulting from loss events occurring after the initial recognition of the advances and where these loss events have an impact on the estimated future cash flows of the advances, is analysed as follows:

Impaired loans	Real estate mortgage HK\$'000	Others		Total HK\$'000
		Corporate HK\$'000	Individual HK\$'000	
The Group				
2008	<u>31,893</u>	<u>41,106</u>	<u>9,483</u>	<u>82,482</u>
2007	<u>49,178</u>	<u>36,899</u>	<u>24,150</u>	<u>110,227</u>
The Bank				
2008	<u>31,893</u>	<u>13,615</u>	<u>9,284</u>	<u>54,792</u>
2007	<u>49,178</u>	<u>19,972</u>	<u>24,150</u>	<u>93,300</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(iv) Gross loans and advances to customers individually impaired (continued)

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impaired loans	<u>82,482</u>	<u>110,227</u>	<u>54,792</u>	<u>93,300</u>
Percentage of total advances to customers	<u>0.19%</u>	<u>0.26%</u>	<u>0.13%</u>	<u>0.22%</u>
Individual impairment allowances made in respect of such advances	<u>42,664</u>	<u>48,166</u>	<u>17,920</u>	<u>33,472</u>
Total value of collateral taken into account in respect of the assessment of individual impairment allowances	<u>35,896</u>	<u>52,439</u>	<u>35,896</u>	<u>50,122</u>

At 31 December 2008, there were no impaired advances to banks (2007: Nil).

The above individual impairment allowances were made after taking into account the value of collateral in respect of such advances.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(e) Gross loans and advances to customers (Continued)

(v) Renegotiated loans

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renegotiated loans that would otherwise be past due or impaired	68,997	9,936	68,997	5,524

(f) Gross balance with banks by credit quality

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross balance with banks - Neither past due nor impaired (Grade 1)	40,432,200	29,352,199	40,133,280	29,324,698

Grade 1 "satisfactory" represents loans for which borrowers are currently meeting commitments and for which full repayment of interest and principal is not in doubt.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(g) Repossessed assets

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Residential properties	2,565	23,645	2,565	23,645
Commercial and industrial properties	2,826	3,337	2,826	3,337
Others	2,481	188	247	188
	<u>7,872</u>	<u>27,170</u>	<u>5,638</u>	<u>27,170</u>

At 31 December 2008, the repossessed assets of the Group and the Bank amounted to HK\$2,620,000 (2007: HK\$10,807,000).

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(h) Debt securities

(i) Debt securities and treasury bills by credit quality

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities and treasury bills				
- Neither past due nor impaired	10,782,516	13,299,368	10,631,137	12,686,492
- Impaired	-	311,515	-	311,515
	<u>10,782,516</u>	<u>13,610,883</u>	<u>10,631,137</u>	<u>12,998,007</u>

The gross amount of impaired available-for-sale debt securities of the Group and the Bank as at 31 December 2008 was HK\$136,167,000 (2007: HK\$696,530,000). No collateral was held by the Group and the Bank in respect of the impaired debt securities. The amount transferred from investment revaluation reserve to income statement on impairment amounted to HK\$136,167,000 (2007: HK\$426,092,000).

The gross amount of impaired held-to-maturity debt securities of the Group and the Bank as at 31 December 2008 was HK\$116,250,000 (2007: HK\$78,004,000). No collateral was held by the Group and the Bank in respect of the impaired debt securities, and the accumulated impairment allowance of HK\$116,250,000 (2007: HK\$36,927,000) has been charged to the income statement.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(h) Debt securities (Continued)

(ii) Debt securities and treasury bills that are neither past due nor impaired

The tables below present an analysis of debt securities and treasury bills by rating agency designation based on the external credit assessment institutions' ratings that the Group has used in relation to credit risk exposures:

The Group	Treasury bills HK\$'000	Debt securities HK\$'000	Total HK\$'000
At 31 December 2008			
AA- to AAA	2,040,514	2,026,164	4,066,678
A- to A+	-	3,897,268	3,897,268
BBB- to BBB+	-	1,701,505	1,701,505
Lower than BBB-	-	73,061	73,061
Unrated	-	1,044,004	1,044,004
	<u>2,040,514</u>	<u>8,742,002</u>	<u>10,782,516</u>
of which issued by:			
- central governments and central banks	2,040,514	738,465	2,778,979
- other public sector entities	-	353,800	353,800
- banks and other financial institutions	-	5,398,055	5,398,055
- corporate entities	-	2,251,682	2,251,682
	<u>2,040,514</u>	<u>8,742,002</u>	<u>10,782,516</u>
of which classified by:			
- trading securities	1,808,030	891,470	2,699,500
- financial assets designated at fair value through profit or loss	-	2,356,318	2,356,318
- available-for-sale securities	232,484	773,796	1,006,280
- held-to-maturity securities	-	4,720,418	4,720,418
	<u>2,040,514</u>	<u>8,742,002</u>	<u>10,782,516</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(h) Debt securities (Continued)

(ii) Debt securities and treasury bills that are neither past due nor impaired (Continued)

The Bank	Treasury bills HK\$'000	Debt securities HK\$'000	Total HK\$'000
At 31 December 2008			
AA- to AAA	2,040,514	1,993,468	4,033,982
A- to A+	-	3,841,856	3,841,856
BBB- to BBB+	-	1,677,105	1,677,105
Lower than BBB-	-	73,061	73,061
Unrated	-	1,005,133	1,005,133
	<u>2,040,514</u>	<u>8,590,623</u>	<u>10,631,137</u>
of which issued by:			
- central governments and central banks	2,040,514	738,465	2,778,979
- other public sector entities	-	353,800	353,800
- banks and other financial institutions	-	5,335,522	5,335,522
- corporate entities	-	2,162,836	2,162,836
	<u>2,040,514</u>	<u>8,590,623</u>	<u>10,631,137</u>
of which classified by:			
- trading securities	1,808,030	891,470	2,699,500
- financial assets designated at fair value through profit or loss	-	2,204,939	2,204,939
- available-for-sale securities	232,484	773,796	1,006,280
- held-to-maturity securities	-	4,720,418	4,720,418
	<u>2,040,514</u>	<u>8,590,623</u>	<u>10,631,137</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(h) Debt securities (Continued)

(ii) Debt securities and treasury bills that are neither past due nor impaired
(Continued)

The Group	Treasury bills HK\$'000	Debt securities HK\$'000	Total HK\$'000
At 31 December 2007			
AA- to AAA	1,216,881	3,490,949	4,707,830
A- to A+	-	4,372,069	4,372,069
BBB- to BBB+	-	2,498,915	2,498,915
Lower than BBB-	-	78,238	78,238
Unrated	-	1,642,316	1,642,316
	<u>1,216,881</u>	<u>12,082,487</u>	<u>13,299,368</u>
of which issued by:			
- central governments and central banks	1,216,881	554,381	1,771,262
- other public sector entities	-	502,637	502,637
- banks and other financial institutions	-	6,744,310	6,744,310
- corporate entities	-	4,281,159	4,281,159
	<u>1,216,881</u>	<u>12,082,487</u>	<u>13,299,368</u>
of which classified by:			
- trading securities	1,216,881	813,823	2,030,704
- financial assets designated at fair value through profit or loss	-	2,934,803	2,934,803
- available-for-sale securities	-	1,490,959	1,490,959
- held-to-maturity securities	-	6,842,902	6,842,902
	<u>1,216,881</u>	<u>12,082,487</u>	<u>13,299,368</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(h) Debt securities (Continued)

(ii) Debt securities and treasury bills that are neither past due nor impaired (Continued)

The Bank	Treasury bills HK\$'000	Debt securities HK\$'000	Total HK\$'000
At 31 December 2007			
AA- to AAA	1,216,881	3,276,950	4,493,831
A- to A+	-	4,067,070	4,067,070
BBB- to BBB+	-	2,437,177	2,437,177
Lower than BBB-	-	78,238	78,238
Unrated	-	1,610,176	1,610,176
	<u>1,216,881</u>	<u>11,469,611</u>	<u>12,686,492</u>
of which issued by:			
- central governments and central banks	1,216,881	507,535	1,724,416
- other public sector entities	-	480,889	480,889
- banks and other financial institutions	-	6,505,001	6,505,001
- corporate entities	-	3,976,186	3,976,186
	<u>1,216,881</u>	<u>11,469,611</u>	<u>12,686,492</u>
of which classified by:			
- trading securities	1,216,881	813,823	2,030,704
- financial assets designated at fair value through profit or loss	-	2,591,119	2,591,119
- available-for-sale securities	-	1,490,959	1,490,959
- held-to-maturity securities	-	6,573,710	6,573,710
	<u>1,216,881</u>	<u>11,469,611</u>	<u>12,686,492</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(i) Geographical concentrations of assets, liabilities and off-balance sheet items

The Group

	Total assets HK\$'000	Total liabilities HK\$'000	Credit commitments HK\$'000
At 31 December 2008			
Hong Kong	98,930,379	89,421,071	13,792,327
United States of America	1,504,486	1,214,895	196,605
People's Republic of China	2,319,304	1,741,558	45,159
Cayman Islands	133,665	108,415	-
Inter-segment elimination	(2,294,980)	(2,294,980)	-
	<u>100,592,854</u>	<u>90,190,959</u>	<u>14,034,091</u>

The Bank

	Total assets HK\$'000	Total liabilities HK\$'000	Credit commitments HK\$'000
At 31 December 2008			
Hong Kong	97,472,823	88,638,572	13,943,745
United States of America	1,493,389	1,214,871	196,605
People's Republic of China	2,301,630	1,739,846	45,159
Cayman Islands	133,665	108,415	-
Inter-segment elimination	(2,294,531)	(2,294,531)	-
	<u>99,106,976</u>	<u>89,407,173</u>	<u>14,185,509</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

(i) Geographical concentrations of assets, liabilities and off-balance sheet items (Continued)

The Group

	Total assets HK\$'000	Total liabilities HK\$'000	Credit commitments HK\$'000 Restated
At 31 December 2007			
Hong Kong	92,307,689	80,445,965	22,514,544
United States of America	1,598,439	1,324,925	291,171
People's Republic of China	2,051,429	1,720,531	53,468
Cayman Islands	775,985	750,317	-
Inter-segment elimination	(3,340,020)	(3,328,319)	-
	<u>93,393,522</u>	<u>80,913,419</u>	<u>22,859,183</u>

The Bank

	Total assets HK\$'000	Total liabilities HK\$'000	Credit commitments HK\$'000 Restated
At 31 December 2007			
Hong Kong	89,199,652	79,298,222	22,491,057
United States of America	1,587,412	1,324,699	291,171
People's Republic of China	2,051,429	1,720,531	53,468
Cayman Islands	775,985	750,317	-
Inter-segment elimination	(3,328,319)	(3,328,319)	-
	<u>90,286,159</u>	<u>79,765,450</u>	<u>22,835,696</u>

The above analysis is prepared based on the country/region in which the Group's operations are located. The Group operates predominantly in Hong Kong.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.1 Credit risk (Continued)

- (i) Geographical concentrations of assets, liabilities and off-balance sheet items (Continued)

Geographical sector risk concentrations within the customer loan portfolio are as follows:

The Group	2008 HK\$'000	2008 %	2007 HK\$'000	2007 %
Hong Kong	40,839,034	94.2	39,801,055	94.9
United States of America	1,406,923	3.2	1,086,923	2.6
People's Republic of China	1,122,145	2.6	1,046,542	2.5
	<u>43,368,102</u>	<u>100.0</u>	<u>41,934,520</u>	<u>100.0</u>
The Bank	2008 HK\$'000	2008 %	2007 HK\$'000	2007 %
Hong Kong	40,478,806	94.1	39,413,662	94.8
United States of America	1,428,403	3.3	1,108,927	2.7
People's Republic of China	1,122,145	2.6	1,046,542	2.5
	<u>43,029,354</u>	<u>100.0</u>	<u>41,569,131</u>	<u>100.0</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Group's market risk primarily arises from its positions in foreign exchange, securities and derivatives in its trading and banking books.

(a) Market risk measurement

The Group's market risk exposures in different activities are managed by way of limits established by the Management Committee. Exposures are measured and monitored on the basis of contractual or notional amount and outstanding balances. Limits are set by portfolio, product and risk type, using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as stop loss limits. All market risk trading positions are subject to daily mark-to-market valuation, monitored and managed by the Treasury Department. Independent monitoring, checking and trade confirmation are undertaken by a department independent of the Treasury Department. Regular checking and reviews are also conducted by the Group's internal audit function to ensure compliance with risk limits. All exceptions are reviewed and approved by the appropriate level of management and the Management Committee. Actual positions are monitored by the Risk Management Committee.

The Group also applies a wide range of stress testing to assess the financial impact of more extreme events on the market risk exposure of the Group. The results of the stress testing are reviewed by the Risk Management Committee.

(b) Market risk sensitivity analysis

(i) Currency risk

The Group's currency risk positions mainly arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures.

At 31 December 2008, if USD had weakened within the pegged range of 0.64% against HKD with all other variables held constant, the Group's and the Bank's profit after taxation for the year would have been HK\$6,849,000 (2007: HK\$8,943,000) and HK\$3,581,000 (2007: HK\$4,714,000) lower respectively. The lower foreign currency exchange rate sensitivity in 2008 compared with 2007 was attributable to a reduction in holding of USD denominated held-to-maturity and available-for-sale securities.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(b) Market risk sensitivity analysis (Continued)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and off-balance sheet positions.

Any changes in interest rates would affect the value of those financial assets and liabilities carried at fair value. The Group enters into interest rate swaps to mitigate the interest rate risk associated with the fixed-rate financial assets and financial liabilities. At 31 December 2008, if interest rates at that date had been 100 basis points lower with all other variables held constant, the Group's and the Bank's profit after taxation for the year would have been HK\$6,435,000 (2007: HK\$26,772,000) and HK\$5,481,000 (2007: HK\$22,451,000) higher respectively, mainly as a result of revaluation of trading securities and financial assets designated at fair value through profit or loss. The Group's and the Bank's surplus in investment revaluation reserve would have been HK\$2,134,000 (2007: HK\$4,515,000) higher due to the revaluation of those available-for-sale securities.

(iii) Equity risk

The Group's equity risk position mainly arises from the holdings of certain equity securities and option-linked financial assets with underlying equity securities listed in Hong Kong. The majority of this position is held for long term investment purposes.

At 31 December 2008, if the Hang Seng Index at that date had been 10% lower with all other variables held constant and all the equity instruments had moved according to their historical correlation with the index, the Group's profit after taxation for the year would have been HK\$12,016,000 (2007: HK\$16,403,000) lower, and the Group's and the Bank's surplus in investment revaluation reserve would have been HK\$24,058,000 (2007: HK\$128,179,000) and HK\$8,134,000 (2007: HK\$16,063,000) lower respectively. The lower equity sensitivity for trading securities and financial assets designated as fair value through profit or loss and available-for-sale securities in 2008 compared with 2007 was attributable to a decrease in equity prices and a reduction in holdings of equities.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

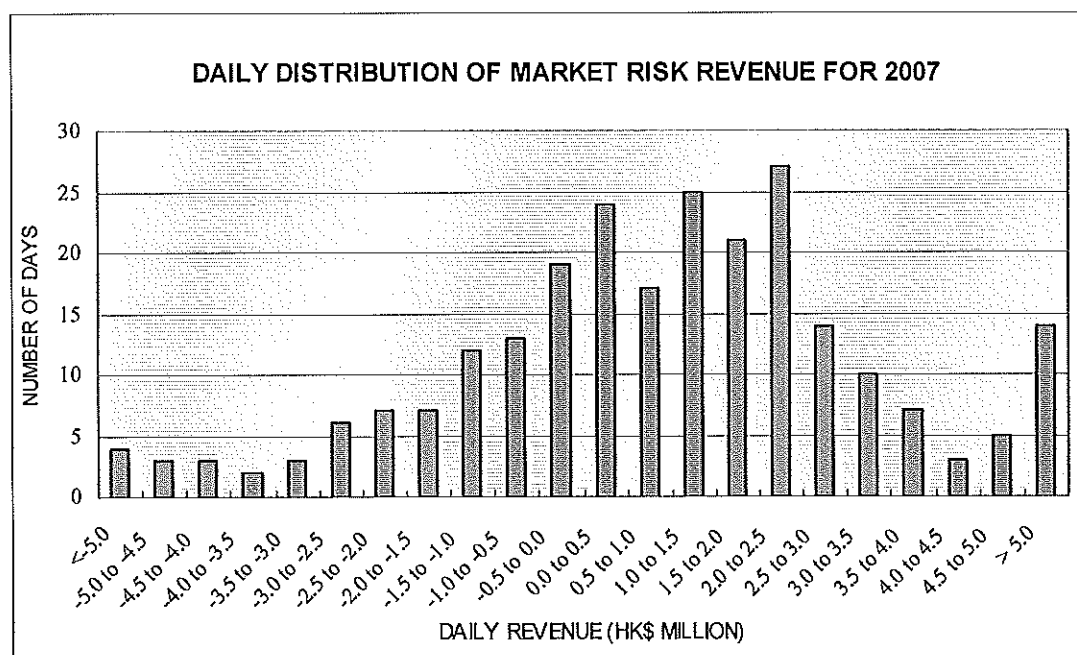
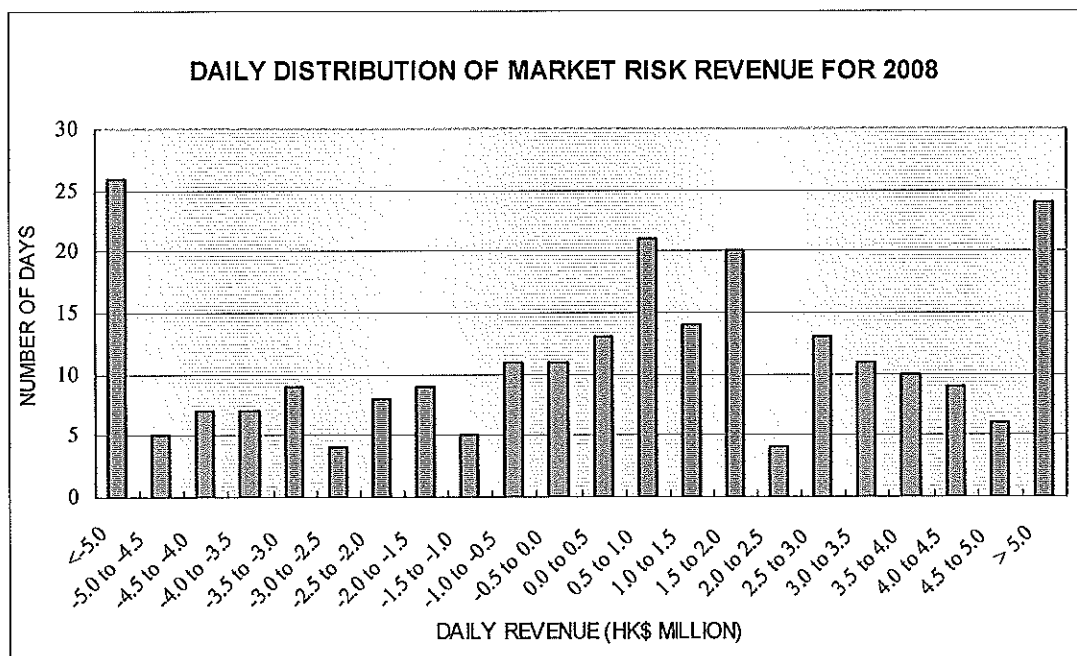
2 Financial risk management (Continued)

2.2 Market risk (Continued)

(b) Market risk sensitivity analysis (Continued)

(iv) Daily distribution of market risk revenue

The average daily revenue in 2008 earned from market risk-related activities by the Bank and certain subsidiaries, including trading-related net interest income and other revenue was HK\$342,000 (2007: HK\$981,000). The standard deviation of this daily revenue was HK\$4,314,000 (2007: HK\$2,663,000).



WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(c) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's exposures mainly comprise foreign exchange dealing by the Treasury Department and currency exposures originated by its commercial banking businesses.

The Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions. All exposures are centrally managed by the Treasury Department and independently monitored by a separate department on a daily basis.

Foreign currency exposures arising from customer transactions, including currency options embedded in certain customer deposits, are normally offset against other customer transactions or transactions with the market. Foreign currency funding used to fund Hong Kong dollar assets is hedged using currency swaps or forward exchange contracts to mitigate the foreign exchange risk.

The tables on the following pages summarise the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to manage the Group's exposure to currency movements.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(c) Currency risk (Continued)

Concentration of assets, liabilities and off-balance sheet items

The Group	HK\$ HK\$'000	US\$ HK\$'000	A\$ HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2008					
Assets					
Cash and short-term funds	15,124,054	7,827,594	5,425,221	7,684,051	36,060,920
Placements with and loans and advances to banks	1,158,722	2,357,319	375,571	977,630	4,869,242
Trading securities	2,409,608	67,701	74,014	258,510	2,809,833
Derivative financial instruments	30,225	6,491	650	3,009	40,375
Financial assets designated at fair value through profit or loss	1,029,225	1,243,753	7,827	75,513	2,356,318
Available-for-sale securities	400,997	519,679	160,310	458,557	1,539,543
Held-to-maturity securities	3,941,564	403,610	268,125	107,119	4,720,418
Advances and other accounts (including tax recoverable and deferred tax assets)	41,247,223	2,927,546	403,065	385,114	44,962,948
Interests in jointly controlled entities	153,900	-	-	-	153,900
Interests in associates	5,867	-	-	-	5,867
Investment properties	2,346,550	-	-	-	2,346,550
Interests in leasehold land	237,173	-	-	-	237,173
Other properties and equipment	446,876	33,587	-	9,304	489,767
Total assets	68,531,984	15,387,280	6,714,783	9,958,807	100,592,854
Liabilities					
Deposits and balances from banks	80,952	619,755	853	212,924	914,484
Trading liabilities	595,471	-	-	-	595,471
Derivative financial instruments	103,827	89,779	762	3,238	197,606
Financial liabilities designated at fair value through profit or loss	2,076,092	-	-	-	2,076,092
Deposits from customers	53,316,938	13,486,441	6,610,496	9,079,751	82,493,626
Certificates of deposit issued	594,822	426,148	-	-	1,020,970
Other accounts and accruals (including current taxation and deferred tax liabilities)	2,674,577	95,855	30,824	91,454	2,892,710
Total liabilities	59,442,679	14,717,978	6,642,935	9,387,367	90,190,959
Net on-balance sheet position	9,089,305	669,302	71,848	571,440	10,401,895
Off-balance sheet net notional position	(432,863)	612,306	(4,365)	(177,410)	(2,332)
Credit commitments	13,537,012	350,279	-	146,800	14,034,091

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(c) Currency risk (Continued)

Concentration of assets, liabilities and off-balance sheet items (Continued)

The Bank	HK\$ HK\$'000	US\$ HK\$'000	A\$ HK\$'000	Others HK\$'000	Total HK\$'000
At 31 December 2008					
Assets					
Cash and short-term funds	14,851,383	7,826,494	5,425,221	7,684,047	35,787,145
Placements with and loans and advances to banks	1,315,275	2,175,621	375,571	977,630	4,844,097
Trading securities	2,300,034	66,942	74,014	258,510	2,699,500
Derivative financial instruments	30,225	6,491	650	3,009	40,375
Financial assets designated at fair value through profit or loss	1,007,558	1,121,868	-	75,513	2,204,939
Available-for-sale securities	240,058	505,146	160,310	458,557	1,364,071
Held-to-maturity securities	3,941,564	403,610	268,125	107,119	4,720,418
Advances and other accounts (including tax recoverable)	40,250,930	2,948,663	403,065	384,830	43,987,488
Interests in subsidiaries	288,530	11,625	-	-	300,155
Interests in jointly controlled entities	86,062	-	-	-	86,062
Investment properties	2,425,050	-	-	-	2,425,050
Interests in leasehold land	237,173	-	-	-	237,173
Other properties and equipment	400,384	1,855	-	8,264	410,503
Total assets	67,374,226	15,068,315	6,706,956	9,957,479	99,106,976
Liabilities					
Deposits and balances from banks	177,980	619,755	853	212,924	1,011,512
Trading liabilities	595,471	-	-	-	595,471
Derivative financial instruments	103,827	89,779	762	3,238	197,606
Financial liabilities designated at fair value through profit or loss	2,115,948	-	-	-	2,115,948
Deposits from customers Certificates of deposit issued	53,810,535	13,779,028	6,633,286	9,114,683	83,337,532
Other accounts and accruals (including deferred tax liabilities)	594,822	426,148	-	-	1,020,970
	910,037	95,866	30,864	91,367	1,128,134
Total liabilities	58,308,620	15,010,576	6,665,765	9,422,212	89,407,173
Net on-balance sheet position	9,065,606	57,739	41,191	535,267	9,699,803
Off-balance sheet net notional position	(432,863)	612,306	(4,365)	(177,410)	(2,332)
Credit commitments	13,688,430	350,279	-	146,800	14,185,509

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(c) Currency risk (Continued)

Concentration of assets, liabilities and off-balance sheet items (Continued)

The Group	HK\$ HK\$'000	US\$ HK\$'000	A\$ HK\$'000	Others HK\$'000	Total HK\$'000 Restated
At 31 December 2007					
Assets					
Cash and short-term funds	4,194,606	8,473,852	5,569,053	8,146,724	26,384,235
Placements with and loans and advances to banks	915,761	2,497,230	157,881	32,036	3,602,908
Trading securities	1,907,999	67,738	102,950	140,154	2,218,841
Derivative financial instruments	230,052	3,749	1	2,898	236,700
Financial assets designated at fair value through profit or loss	1,378,182	1,459,599	18,533	78,489	2,934,803
Available-for-sale securities	1,371,380	1,554,568	68,658	245,702	3,240,308
Held-to-maturity securities	4,557,640	1,750,240	412,199	163,900	6,883,979
Advances and other accounts (including tax recoverable and deferred tax assets)	40,697,939	2,739,045	806,625	497,572	44,741,181
Interests in jointly controlled entities	224,018	-	-	-	224,018
Interests in associates	6,184	-	-	-	6,184
Investment properties	2,254,600	-	-	-	2,254,600
Interests in leasehold land	241,345	-	-	-	241,345
Other properties and equipment	387,010	34,994	-	2,416	424,420
Total assets	58,366,716	18,581,015	7,135,900	9,309,891	93,393,522
Liabilities					
Deposits and balances from banks	381,194	413,452	26,087	336,316	1,157,049
Trading liabilities	351,210	-	-	-	351,210
Derivative financial instruments	563,463	238,253	80	783	802,579
Financial liabilities designated at fair value through profit or loss	2,007,116	151,912	-	-	2,159,028
Deposits from customers Certificates of deposit issued	38,768,232	16,139,940	6,971,382	8,601,804	70,481,358
Other accounts and accruals (including current taxation and deferred tax liabilities)	1,679,592	93,602	-	-	1,773,194
	3,646,160	215,206	36,040	291,595	4,189,001
Total liabilities	47,396,967	17,252,365	7,033,589	9,230,498	80,913,419
Net on-balance sheet position	10,969,749	1,328,650	102,311	79,393	12,480,103
Off-balance sheet net notional position	(365,834)	365,122	(40,260)	39,979	(993)
Credit commitments	21,692,303	1,024,347	-	142,533	22,859,183

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(c) Currency risk (Continued)

Concentration of assets, liabilities and off-balance sheet items (Continued)

The Bank	HK\$ HK\$'000	US\$ HK\$'000	A\$ HK\$'000	Others HK\$'000	Total HK\$'000 Restated
At 31 December 2007					
Assets					
Cash and short-term funds	4,070,590	8,473,506	5,569,053	8,146,724	26,259,873
Placements with and loans and advances to banks	1,023,474	2,486,377	157,882	32,036	3,699,769
Trading securities	1,721,087	66,513	102,950	140,154	2,030,704
Derivative financial instruments	230,039	3,749	1	2,898	236,687
Financial assets designated at fair value through profit or loss	1,290,806	1,221,824	-	78,489	2,591,119
Available-for-sale securities	369,762	1,347,186	68,658	245,702	2,031,308
Held-to-maturity securities	4,466,384	1,572,304	412,199	163,900	6,614,787
Advances and other accounts (including tax recoverable)	39,449,718	2,761,275	806,686	497,572	43,515,251
Interests in subsidiaries	288,530	11,701	-	-	300,231
Interests in jointly controlled entities	97,264	-	-	-	97,264
Investment properties	2,324,700	-	-	-	2,324,700
Interests in leasehold land	241,345	-	-	-	241,345
Other properties and equipment	338,520	2,185	-	2,416	343,121
Total assets	55,912,219	17,946,620	7,117,429	9,309,891	90,286,159
Liabilities					
Deposits and balances from banks	406,962	413,452	26,087	338,316	1,182,817
Trading liabilities	351,210	-	-	-	351,210
Derivative financial instruments	563,463	238,253	80	783	802,579
Financial liabilities designated at fair value through profit or loss	2,076,091	166,590	-	-	2,242,681
Deposits from customers	39,251,389	16,291,950	7,001,702	8,614,126	71,159,167
Certificates of deposit issued	1,679,592	93,602	-	-	1,773,194
Other accounts and accruals (including deferred tax liabilities)	1,710,994	215,112	36,101	291,595	2,253,802
Total liabilities	46,039,701	17,418,959	7,063,970	9,242,820	79,765,450
Net on-balance sheet position	9,872,518	527,661	53,459	67,071	10,520,709
Off-balance sheet net notional position	(365,834)	365,122	(40,260)	39,979	(993)
Credit commitments	21,780,811	912,352	-	142,533	22,835,696

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in respect of its fair value and cash flow interest rate risks. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest margin may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Group has established policies and systems to monitor its interest-sensitive positions and net repricing gap to ensure that they are all properly managed under the limits approved by the Management Committee. Actual positions are compared with the approved limits and monitored by the Risk Management Committee on a monthly basis.

While the primary objective of interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income, interest rate positions may be taken for yield enhancement within the risk limits.

The tables on the following pages summarise the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk (Continued)

Interest sensitivity of assets and liabilities - repricing analysis

The Group

	Up to 1 month HK\$'000	1-3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2008							
Assets							
Cash and short-term funds	35,283,685	-	-	-	-	777,235	36,060,920
Placements with and loans and advances to banks	347,205	4,376,012	146,025	-	-	-	4,869,242
Trading securities	317,981	592,328	1,358,462	417,575	13,154	110,333	2,809,833
Derivative financial instruments	-	-	-	-	-	40,375	40,375
Financial assets designated at fair value through profit or loss	414,764	199,808	610,072	1,131,674	-	-	2,356,318
Available-for-sale securities	187,922	385,118	433,240	-	-	533,263	1,539,543
Held-to-maturity securities	2,113,891	2,320,196	108,454	149,968	27,909	-	4,720,418
Advances and other accounts (including tax recoverable and deferred tax assets)	37,250,380	4,994,199	477,635	411,085	149,735	1,679,914	44,962,948
Interests in jointly controlled entities	22,173	37,571	-	-	-	94,156	153,900
Interests in associates	-	-	-	-	-	5,867	5,867
Investment properties	-	-	-	-	-	2,346,550	2,346,550
Interests in leasehold land	-	-	-	-	-	237,173	237,173
Other properties and equipment	-	-	-	-	-	489,767	489,767
Total assets	75,938,001	12,905,232	3,133,888	2,110,302	190,798	6,314,633	100,592,854
Liabilities							
Deposits and balances from banks	641,515	103,491	48,736	-	-	120,742	914,484
Trading liabilities	359,995	234,961	-	515	-	-	595,471
Derivative financial instruments	-	-	-	-	-	197,606	197,606
Financial liabilities designated at fair value through profit or loss	482,294	521,725	864,586	207,487	-	-	2,076,092
Deposits from customers	57,740,908	18,300,803	2,862,653	48,032	-	3,541,230	82,493,626
Certificates of deposit issued	403,672	617,298	-	-	-	-	1,020,970
Other accounts and accruals (including current taxation and deferred tax liabilities)	-	-	-	-	-	2,892,710	2,892,710
Total liabilities	59,628,384	19,778,278	3,775,975	256,034	-	6,752,288	90,190,959
Total interest sensitivity gap (unadjusted)	16,309,617	(6,873,046)	(642,087)	1,854,268	190,798		
Effect of interest rate derivatives	973,151	(438,108)	536,645	(1,175,996)	-		
Total interest sensitivity gap (adjusted)	17,282,768	(7,311,154)	(105,442)	678,272	190,798		

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk (Continued)

Interest sensitivity of assets and liabilities - repricing analysis (Continued)

The Bank

	Up to 1 month HK\$'000	1-3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
At 31 December 2008							
Assets							
Cash and short-term funds	35,014,023	-	-	-	-	773,122	35,787,145
Placements with and loans and advances to banks	347,205	4,110,887	386,025	-	-	-	4,844,097
Trading securities	317,981	592,328	1,358,462	417,575	13,154	-	2,699,500
Derivative financial instruments	-	-	-	-	-	40,375	40,375
Financial assets designated at fair value through profit or loss	392,330	154,837	551,454	1,106,318	-	-	2,204,939
Available-for-sale securities	187,922	385,118	433,240	-	-	357,791	1,364,071
Held-to-maturity securities	2,113,891	2,320,196	108,454	149,968	27,909	-	4,720,418
Advances and other accounts (including tax recoverable)	37,185,592	5,001,143	353,974	222,088	147,921	1,076,770	43,987,488
Interests in subsidiaries	-	-	-	-	-	300,155	300,155
Interests in jointly controlled entities	22,173	37,571	-	-	-	26,318	86,062
Investment properties	-	-	-	-	-	2,425,050	2,425,050
Interests in leasehold land	-	-	-	-	-	237,173	237,173
Other properties and equipment	-	-	-	-	-	410,503	410,503
Total assets	75,581,117	12,602,060	3,191,609	1,895,949	188,984	5,647,257	99,106,976
Liabilities							
Deposits and balances from banks	691,515	103,491	48,736	-	-	167,770	1,011,512
Trading liabilities	359,995	234,961	-	515	-	-	595,471
Derivative financial instruments	-	-	-	-	-	197,606	197,606
Financial liabilities designated at fair value through profit or loss	503,253	540,622	864,586	207,487	-	-	2,115,948
Deposits from customers	58,290,894	18,371,170	2,873,679	50,162	-	3,751,627	83,337,532
Certificates of deposit issued	403,672	617,298	-	-	-	-	1,020,970
Other accounts and accruals (including deferred tax liabilities)	-	-	-	-	-	1,128,134	1,128,134
Total liabilities	60,249,329	19,867,542	3,787,001	258,164	-	5,245,137	89,407,173
Total interest sensitivity gap (unadjusted)	15,331,788	(7,265,482)	(595,392)	1,637,785	188,984		
Effect of interest rate derivatives	973,151	(438,108)	536,645	(1,175,996)	-		
Total interest sensitivity gap (adjusted)	16,304,939	(7,703,590)	(58,747)	461,789	188,984		

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk (Continued)

Interest sensitivity of assets and liabilities - repricing analysis (Continued)

The Group

	Up to 1 month HK\$'000	1-3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000 Restated
At 31 December 2007							
Assets							
Cash and short-term funds	25,024,442	-	-	-	-	1,359,793	26,384,235
Placements with and loans and advances to banks	326,867	2,698,195	577,846	-	-	-	3,602,908
Trading securities	139,898	771,390	727,565	376,273	15,578	188,137	2,218,841
Derivative financial instruments	-	-	-	-	-	236,700	236,700
Financial assets designated at fair value through profit or loss	21,675	91,446	422,775	2,385,747	13,160	-	2,934,803
Available-for-sale securities	488,692	882,684	346,807	-	43,214	1,478,911	3,240,308
Held-to-maturity securities	2,791,227	2,468,771	1,133,156	448,105	22,720	-	6,883,979
Advances and other accounts (including tax recoverable and deferred tax assets)	35,857,252	4,167,765	1,414,639	337,248	138,967	2,825,310	44,741,181
Interests in jointly controlled entities	-	41,857	23,840	-	-	158,321	224,018
Interests in associates	-	-	-	-	-	6,184	6,184
Investment properties	-	-	-	-	-	2,254,600	2,254,600
Interests in leasehold land	-	-	-	-	-	241,345	241,345
Other properties and equipment	-	-	-	-	-	424,420	424,420
Total assets	64,650,053	11,142,108	4,646,628	3,547,373	233,639	9,173,721	93,393,522
Liabilities							
Deposits and balances from banks	777,952	15,882	76,887	-	-	286,328	1,157,049
Trading liabilities	251,025	100,185	-	-	-	-	351,210
Derivative financial instruments	-	-	-	-	-	802,579	802,579
Financial liabilities designated at fair value through profit or loss	345,882	751,429	100,509	961,208	-	-	2,159,028
Deposits from customers	55,658,009	8,444,181	3,132,131	75,671	-	3,171,366	70,481,358
Certificates of deposit issued	93,602	1,679,592	-	-	-	-	1,773,194
Other accounts and accruals (including current taxation and deferred tax liabilities)	-	-	-	-	-	4,189,001	4,189,001
Total liabilities	57,126,470	10,991,269	3,309,527	1,036,879	-	8,449,274	80,913,419
Total interest sensitivity gap (unadjusted)	7,523,583	150,839	1,337,101	2,510,494	233,639		
Effect of interest rate derivatives	1,574,546	(433,578)	(263,809)	(763,704)	-		
Total interest sensitivity gap (adjusted)	9,098,129	(282,739)	1,073,292	1,746,790	233,639		

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk (Continued)

Interest sensitivity of assets and liabilities - repricing analysis (Continued)

The Bank

	Up to 1 month HK\$'000	1-3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000 Restated
At 31 December 2007							
Assets							
Cash and short-term funds	24,905,360	-	-	-	-	1,354,513	26,259,873
Placements with and loans and advances to banks	326,867	2,625,056	747,846	-	-	-	3,699,769
Trading securities	139,898	771,390	727,565	376,273	15,578	-	2,030,704
Derivative financial instruments	-	-	-	-	-	236,687	236,687
Financial assets designated at fair value through profit or loss	-	-	358,572	2,232,547	-	-	2,591,119
Available-for-sale securities	488,692	882,684	346,807	-	43,214	269,911	2,031,308
Held-to-maturity securities	2,791,227	2,460,773	1,087,623	255,164	-	-	6,614,787
Advances and other accounts (including tax recoverable)	35,777,133	4,136,325	1,291,295	191,602	136,767	1,982,129	43,515,251
Interests in subsidiaries	-	-	-	-	-	300,231	300,231
Interests in jointly controlled entities	-	41,857	23,840	-	-	31,567	97,264
Investment properties	-	-	-	-	-	2,324,700	2,324,700
Interests in leasehold land	-	-	-	-	-	241,345	241,345
Other properties and equipment	-	-	-	-	-	343,121	343,121
Total assets	64,429,177	10,938,085	4,583,548	3,055,586	195,559	7,084,204	90,286,159
Liabilities							
Deposits and balances from banks	777,952	15,882	76,887	-	-	312,096	1,182,817
Trading liabilities	251,025	100,185	-	-	-	-	351,210
Derivative financial instruments	-	-	-	-	-	802,579	802,579
Financial liabilities designated at fair value through profit or loss	387,983	792,981	100,509	961,208	-	-	2,242,681
Deposits from customers	56,122,745	8,447,940	3,136,416	76,819	-	3,375,247	71,159,167
Certificates of deposit issued	93,602	1,679,592	-	-	-	-	1,773,194
Other accounts and accruals (including deferred tax liabilities)	-	-	-	-	-	2,253,802	2,253,802
Total liabilities	57,633,307	11,036,580	3,313,812	1,038,027	-	6,743,724	79,765,450
Total interest sensitivity gap (unadjusted)	6,795,870	(98,495)	1,269,736	2,017,559	195,559		
Effect of interest rate derivatives	1,574,546	(433,578)	(263,809)	(763,704)	-		
Total interest sensitivity gap (adjusted)	8,370,416	(532,073)	1,005,927	1,253,855	195,559		

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.2 Market risk (Continued)

(d) Interest rate risk (Continued)

The table below summarises the effective interest rate by major currencies of monetary financial instruments not carried at fair value through profit or loss:

The Group	HK\$	US\$	A\$	Others	Total
	%	%	%	%	%
At 31 December 2008					
Assets					
Cash and short-term funds	0.99	1.48	4.33	3.22	2.07
Placements with and loans and advances to banks	1.69	2.22	4.40	3.69	2.56
Available-for-sale securities	0.71	1.68	5.06	1.55	1.74
Held-to-maturity securities	2.72	3.48	5.74	4.01	3.00
Advances to customers	2.66	3.80	7.16	6.66	2.80
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities					
Deposits and balances from banks	0.07	0.41	6.45	4.65	1.37
Deposits from customers	0.89	1.21	3.99	2.82	1.40
Certificates of deposit issued	2.59	3.56	-	-	3.00
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2007					
Assets					
Cash and short-term funds	3.30	4.97	6.78	5.84	5.36
Placements with and loans and advances to banks	4.20	5.20	7.30	3.22	5.02
Available-for-sale securities	0.55	3.93	7.64	4.97	2.81
Held-to-maturity securities	4.13	5.45	7.30	4.32	4.67
Advances to customers	4.55	6.68	7.36	7.95	4.72
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities					
Deposits and balances from banks	0.27	3.49	6.51	2.60	2.24
Deposits from customers	2.37	4.23	6.35	5.28	3.54
Certificates of deposit issued	3.81	5.34	-	-	3.89
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan draw-downs and guarantees, and from margin and other calls on cash-settled derivatives.

(a) Liquidity risk management process

The Group has established policies and systems to monitor and control its liquidity position on a daily basis. The Treasury Department manages the Group's day-to-day funding by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in money markets to enable this to happen and a portfolio of high quality liquid assets that can easily be liquidated to meet emergency funding needs. The Group also monitors the off-balance sheet cash flow activities, such as loan commitments, contingent liabilities under guarantees and standby facilities received, as part of its liquidity risk management process. Sources of liquidity are regularly reviewed by the Treasury Department to maintain diversification in currency, geography, provider, product and term.

Limits for liquidity ratio, loan-to-deposit ratio and maturity mismatch amount have been set to ensure that the Group is able to meet its funding requirements. All limits are approved by the Management Committee. Actual positions are compared with the approved limits and monitored by the Asset and Liability Management Committee. Stress scenario analysis for normal business conditions, an institution-specific crisis and a general market crisis are also conducted on a regular basis to assess the liquidity risk of the Group. The liquidity management process is regularly reported to the Management Committee and the Board of Directors.

(b) Maturity analysis

The tables on the following pages analyse the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The analysis in respect of insurance liabilities is based on the estimated timing of net cash outflows resulting from recognised insurance liabilities at balance sheet date.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

The Group	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008								
Assets								
Cash and short-term funds	1,543,584	34,499,774	-	-	-	-	17,562	36,060,920
Placements with and loans and advances to banks	-	-	4,319,154	149,025	401,063	-	-	4,869,242
Trading securities	-	317,981	518,314	1,358,462	491,589	13,154	110,333	2,809,833
Derivative financial instruments	-	-	-	-	-	-	40,375	40,375
Financial assets designated at fair value through profit or loss	-	392,330	172,105	612,263	1,159,497	20,123	-	2,356,318
Available-for-sale securities	-	-	-	724,028	196,374	85,278	533,263	1,539,543
Held-to-maturity securities	-	1,986,912	1,788,778	569,566	244,878	130,284	-	4,720,418
Advances and other accounts (including tax recoverable and deferred tax assets)	1,363,872	1,222,967	2,079,796	5,338,284	19,656,366	14,688,521	612,142	44,962,948
Interests in jointly controlled entities	-	2	16	5,953	53,791	-	94,138	153,900
Interests in associates	-	-	-	-	-	-	5,867	5,867
Investment properties	-	-	-	-	-	-	2,346,550	2,346,550
Interests in leasehold land	-	-	-	-	-	-	237,173	237,173
Other properties and equipment	-	-	-	-	-	-	489,767	489,767
Total assets	2,907,456	38,419,966	8,878,163	8,757,581	22,204,158	14,988,360	4,487,170	100,592,854
Liabilities								
Deposits and balances from banks	124,957	637,300	46,794	105,433	-	-	-	914,484
Trading liabilities	-	359,995	234,961	-	515	-	-	595,471
Derivative financial instruments	-	-	-	-	-	-	197,606	197,606
Financial liabilities designated at fair value through profit or loss	-	-	300,100	1,213,449	562,543	-	-	2,076,092
Deposits from customers	24,490,668	36,781,470	18,300,803	2,862,653	48,032	-	-	82,493,626
Certificates of deposit issued	-	-	347,413	343,677	329,880	-	-	1,020,970
Other accounts and accruals (including current taxation and deferred tax liabilities)	360,498	402,983	281,548	606,351	670,674	276,363	294,293	2,892,710
Total liabilities	24,976,123	38,191,748	19,511,619	5,131,563	1,611,644	276,363	491,899	90,190,959
Net liquidity gap	(22,068,667)	228,218	(10,633,456)	3,626,018	20,592,514	14,661,997	3,995,271	10,401,895

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

The Bank	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008								
Assets								
Cash and short-term funds	1,539,465	34,230,118	-	-	-	-	17,562	35,787,145
Placements with and loans and advances to banks	-	4,054,009	389,025	389,025	401,063	-	-	4,844,097
Trading securities	-	518,314	1,358,462	1,358,462	491,589	13,154	-	2,699,500
Derivative financial instruments	-	-	-	-	-	-	40,375	40,375
Financial assets designated at fair value through profit or loss	-	154,837	551,454	551,454	1,106,318	-	-	2,204,939
Available-for-sale securities	-	-	724,028	724,028	196,974	85,278	357,791	1,364,071
Held-to-maturity securities	-	1,788,778	569,566	569,566	244,878	130,284	-	4,720,418
Advances and other accounts (including tax recoverable)	1,335,334	1,994,562	5,034,673	5,034,673	19,423,600	14,600,308	509,250	43,987,488
Interests in subsidiaries	-	-	-	-	-	-	300,155	300,155
Interests in jointly controlled entities	-	16	5,953	5,953	53,791	-	26,300	86,062
Investment properties	-	-	-	-	-	-	2,425,050	2,425,050
Interests in leasehold land	-	-	-	-	-	-	237,173	237,173
Other properties and equipment	-	-	-	-	-	-	410,503	410,503
Total assets	2,874,799	38,017,104	8,510,516	8,633,161	21,918,213	14,829,024	4,324,159	99,106,976
Liabilities								
Deposits and balances from banks	171,985	687,300	46,794	105,433	-	-	-	1,011,512
Trading liabilities	-	359,995	234,961	-	515	-	-	595,471
Derivative financial instruments	-	-	-	-	-	-	197,606	197,606
Financial liabilities designated at fair value through profit or loss	-	-	300,100	1,233,966	581,882	-	-	2,115,948
Deposits from customers	24,995,399	37,047,122	18,371,170	2,873,679	50,162	-	-	83,337,532
Certificates of deposit issued	-	-	347,413	343,677	329,880	-	-	1,020,970
Other accounts and accruals (including deferred tax liabilities)	168,997	261,860	184,659	222,824	973	274,537	14,284	1,128,134
Total liabilities	25,336,381	38,356,277	19,485,097	4,779,579	963,412	274,537	211,890	89,407,173
Net liquidity gap	(22,461,582)	(399,173)	(10,974,581)	3,853,582	20,954,801	14,554,487	4,112,269	9,699,803

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

The Group	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000 Restated
At 31 December 2007								
Assets								
Cash and short-term funds	1,584,485	24,799,750	-	-	-	-	-	26,384,235
Placements with and loans and advances to banks	-	-	2,642,478	548,959	411,471	-	-	3,602,908
Trading securities	-	139,899	618,414	777,591	479,222	15,578	188,137	2,218,841
Derivative financial instruments	-	-	-	-	-	-	236,700	236,700
Financial assets designated at fair value through profit or loss	-	-	4,415	215,573	2,668,642	46,173	-	2,934,803
Available-for-sale securities	-	90,631	-	415,965	1,105,106	149,695	-	3,240,308
Held-to-maturity securities	-	2,467,461	1,216,525	1,385,505	1,686,504	147,984	1,478,911	6,883,979
Advances and other accounts (including tax recoverable and deferred tax assets)	1,479,580	2,356,615	2,409,803	5,449,599	17,815,627	14,688,961	540,996	44,741,181
Interests in jointly controlled entities	-	-	-	5,267	65,697	-	153,054	224,018
Interests in associates	-	-	-	-	-	-	6,184	6,184
Investment properties	-	-	-	-	-	-	2,254,600	2,254,600
Interests in leasehold land	-	-	-	-	-	-	241,345	241,345
Other properties and equipment	-	-	-	-	-	-	424,420	424,420
Total assets	3,064,065	29,854,356	6,891,635	8,778,459	24,232,269	15,048,391	5,524,347	93,393,522
Liabilities								
Deposits and balances from banks	287,508	776,772	15,882	76,887	-	-	-	1,157,049
Trading liabilities	-	251,025	100,185	-	-	-	-	351,210
Derivative financial instruments	-	-	-	-	-	-	802,579	802,579
Financial liabilities designated at fair value through profit or loss	-	-	220,013	734,765	1,204,250	-	-	2,159,028
Deposits from customers	21,997,045	37,432,331	8,444,181	3,132,131	75,670	-	-	70,481,368
Certificates of deposit issued	-	-	-	1,388,432	384,762	-	-	1,773,194
Other accounts and accruals (including current taxation and deferred tax liabilities)	553,318	1,503,301	240,257	557,037	577,218	470,958	286,912	4,189,001
Total liabilities	22,237,871	39,963,429	9,020,518	5,889,252	2,241,900	470,958	1,089,491	80,913,419
Net liquidity gap	(19,173,806)	(10,109,073)	(2,128,883)	2,889,207	21,990,369	14,577,433	4,494,856	12,480,103

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

The Bank	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000 Restated
At 31 December 2007								
Assets								
Cash and short-term funds	1,579,205	24,660,668	-	-	-	-	-	26,259,873
Placements with and loans and advances to banks	-	-	2,569,339	718,959	411,471	-	-	3,699,769
Trading securities	-	139,899	618,414	777,591	479,222	15,578	-	2,030,704
Derivative financial instruments	-	-	-	-	-	-	236,687	236,687
Financial assets designated at fair value through profit or loss	-	-	-	159,254	2,431,865	-	-	2,591,119
Available-for-sale securities	-	90,631	-	415,965	1,105,106	149,695	269,911	2,031,308
Held-to-maturity securities	-	2,467,461	1,208,528	1,319,972	1,493,562	125,264	-	6,614,787
Advances and other accounts (including tax recoverable)	1,561,993	1,746,787	2,330,787	5,157,739	17,590,188	14,681,648	446,109	43,515,251
Interests in subsidiaries	-	-	-	-	-	-	300,231	300,231
Interests in jointly controlled entities	-	-	-	5,267	65,697	-	26,300	97,264
Investment properties	-	-	-	-	-	-	2,324,700	2,324,700
Interests in leasehold land	-	-	-	-	-	-	241,345	241,345
Other properties and equipment	-	-	-	-	-	-	343,121	343,121
Total assets	3,141,196	29,125,446	6,727,068	8,554,747	23,577,111	14,972,185	4,188,404	90,286,159
Liabilities								
Deposits and balances from banks	313,276	776,772	15,882	76,887	-	-	-	1,182,817
Trading liabilities	-	251,025	100,185	-	-	-	-	351,210
Derivative financial instruments	-	-	-	-	-	-	802,579	802,579
Financial liabilities designated at fair value through profit or loss	-	-	234,316	782,167	1,226,198	-	-	2,242,681
Deposits from customers	21,737,289	37,760,703	8,447,940	3,136,416	76,819	-	-	71,159,167
Certificates of deposit issued	-	-	-	1,388,432	384,762	-	-	1,773,194
Other accounts and accruals (including deferred tax liabilities)	541,469	896,913	151,431	183,197	18,698	450,182	11,912	2,253,802
Total liabilities	22,592,034	39,685,413	8,949,754	5,567,099	1,706,477	450,182	814,491	79,765,450
Net liquidity gap	(19,450,836)	(10,559,967)	(2,222,686)	2,987,648	21,870,634	14,522,003	3,373,913	10,520,709

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and currency risks.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

(c) Undiscounted cash flows by contractual maturities

The tables on the following pages analyse the cash flow payable by the Group in respect of non-derivative financial liabilities and derivative financial instruments by remaining contractual maturities, and by estimated timing of net cash outflow for insurance liabilities at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(c) Undiscounted cash flows by contractual maturities (Continued)

The Group	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008								
Non-derivative cash flow liabilities								
Deposits from customers	24,493,347	36,904,509	18,396,538	2,903,053	51,470	-	-	82,748,937
Deposits and balances from banks	124,957	637,812	47,920	108,512	-	-	-	919,201
Trading liabilities	-	360,000	235,006	6	512	-	-	595,524
Financial liabilities designated at fair value through profit or loss	-	3,224	313,465	1,241,082	562,178	-	-	2,119,949
Certificates of deposit issued	-	4,133	351,015	356,686	335,817	-	-	1,047,651
Other liabilities	357,818	307,028	222,966	589,803	669,706	276,363	294,293	2,717,977
Derivative cash flow	-	562,082	158,867	45,117	24,306	-	-	790,372
Derivative financial instruments	24,976,122	38,778,788	19,725,797	5,244,259	1,643,989	276,363	294,293	90,939,611
At 31 December 2007								
Non-derivative cash flow liabilities								
Deposits from customers	21,400,943	37,606,503	8,548,223	3,229,716	81,735	-	-	70,867,120
Deposits and balances from banks	287,508	777,638	16,118	79,240	-	-	-	1,160,504
Trading liabilities	-	274,725	100,609	-	-	-	-	375,334
Financial liabilities designated at fair value through profit or loss	-	3,501	238,169	791,295	1,233,450	-	-	2,266,415
Certificates of deposit issued	-	1,250	15,965	1,428,170	398,171	-	-	1,843,576
Other liabilities	550,459	1,392,475	179,835	530,784	575,670	470,958	286,912	3,987,073
Derivative cash flow	-	1,941,780	1,106,466	1,987,877	22,566	-	-	5,058,689
Derivative financial instruments	22,238,910	41,997,872	10,205,405	8,047,062	2,311,592	470,958	286,912	85,558,711

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(c) Undiscounted cash flows by contractual maturities (Continued)

The Bank	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1 - 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
At 31 December 2008								
Non-derivative cash flow liabilities								
Deposits from customers	24,998,078	37,160,629	18,467,160	2,914,321	53,657	-	-	83,593,845
Deposits and balances from banks	171,985	687,812	47,920	108,512	-	-	-	1,016,229
Trading liabilities	-	360,000	235,006	6	512	-	-	595,524
Financial liabilities designated at fair value through profit or loss	-	3,350	313,596	1,262,424	581,858	-	-	2,161,228
Certificates of deposit issued	-	4,133	351,015	356,686	335,817	-	-	1,047,651
Other liabilities	166,318	165,474	126,005	206,152	-	274,537	14,284	952,770
Derivative cash flow								
Derivative financial instruments	-	562,082	158,867	45,117	24,306	-	-	790,372
	<u>25,336,381</u>	<u>38,943,480</u>	<u>19,699,569</u>	<u>4,893,218</u>	<u>996,150</u>	<u>274,537</u>	<u>14,284</u>	<u>90,157,619</u>
At 31 December 2007								
Non-derivative cash flow liabilities								
Deposits from customers	21,741,188	37,935,761	8,552,153	3,234,182	82,884	-	-	71,546,168
Deposits and balances from banks	313,275	777,638	16,118	79,240	-	-	-	1,186,271
Trading liabilities	-	274,725	100,609	-	-	-	-	375,334
Financial liabilities designated at fair value through profit or loss	-	3,934	252,919	840,041	1,255,620	-	-	2,352,514
Certificates of deposit issued	-	1,250	15,985	1,428,170	398,171	-	-	1,843,576
Other liabilities	538,610	785,641	90,574	156,701	17,150	450,182	11,912	2,050,770
Derivative cash flow								
Derivative financial instruments	-	1,941,780	1,106,466	1,987,877	22,566	-	-	5,058,689
	<u>22,593,073</u>	<u>41,720,729</u>	<u>10,134,624</u>	<u>7,726,211</u>	<u>1,776,391</u>	<u>450,182</u>	<u>11,912</u>	<u>84,413,322</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(d) Off-balance sheet items

The Group

	Not later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2008				
Loan commitments	13,503,060	-	-	13,503,060
Guarantees and other financial facilities				
- Guarantees and standby letters of credit	409,492	-	-	409,492
- Documentary and commercial letters of credit	121,539	-	-	121,539
Operating lease commitments	25,655	44,380	7,590	77,625
Capital commitments	45,127	-	-	45,127
Total	14,104,873	44,380	7,590	14,156,843

	Not later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000 Restated
At 31 December 2007				
Loan commitments	21,844,563	-	-	21,844,563
Guarantees and other financial facilities				
- Guarantees and standby letters of credit	432,063	-	-	432,063
- Documentary and commercial letters of credit	265,532	-	-	265,532
Credit default swap	317,025	-	-	317,025
Operating lease commitments	23,649	24,199	-	47,848
Capital commitments	33,840	80	-	33,920
Total	22,916,672	24,279	-	22,940,951

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.3 Liquidity risk (Continued)

(d) Off-balance sheet items (Continued)

The Bank

	Not later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
At 31 December 2008				
Loan commitments	13,587,833	-	-	13,587,833
Guarantees and other financial facilities				
- Guarantees and standby letters of credit	476,137	-	-	476,137
- Documentary and commercial letters of credit	121,539	-	-	121,539
Operating lease commitments	24,388	44,380	7,590	76,358
Capital commitments	42,991	-	-	42,991
Total	14,252,888	44,380	7,590	14,304,858

	Not later than 1 year HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000 Restated
At 31 December 2007				
Loan commitments	21,982,093	-	-	21,982,093
Guarantees and other financial facilities				
- Guarantees and standby letters of credit	432,063	-	-	432,063
- Documentary and commercial letters of credit	265,532	-	-	265,532
Credit default swap	156,008	-	-	156,008
Operating lease commitments	22,654	23,005	-	45,659
Capital commitments	29,178	80	-	29,258
Total	22,887,528	23,085	-	22,910,613

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.4 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Group has established an operational risk management framework to identify, measure, monitor and control operational risk. The Operational Risk Management Policy, approved by the Management Committee, defines responsibilities of various committees, business units and supporting departments and encompasses various tools including control self-assessment, risk event management and key risk indicators to facilitate measurement and assessment of operational risk. The Group also relies on internal control mechanisms within the business lines, supplemented by the internal audit function to manage and control operational risk.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. The Board's expectations regarding duty, responsibility and integrity are clearly spelled out in formal policy statements. The lines of authority and responsibilities of each business and operational unit have been clearly defined to ensure adequate checks and balances. Procedures including risk assessments, segregation of duties, use of limits, training and regular verification and reconciliation of transactions and accounts are used in the internal control mechanism.

Risk assessment will be conducted on the outsourcing services, new products and new systems implementation. Business continuity plans are in place to mitigate the impact and interruptions to business activities caused by system failure or natural disaster. Adequate insurance is taken out to cover a reasonable extent of operational risk.

The Risk Management Committee is responsible for regular review of the operational risk profile and the Group's internal audit function plays an important role in the Group's operational risk framework. It provides an objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards through regular and comprehensive audits on all business and operational functions.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.5 Fair value of financial assets and liabilities

The fair value of financial instruments traded in an active market (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The fair values of financial assets and liabilities not presented at fair value in the Group's balance sheet are estimated as follows:

(a) Balances, placement with and loans and advances to banks

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits, which is normally less than one year, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore the fair value is approximately equal to its carrying value.

(b) Advances and other accounts

Advances and other accounts are net of allowances for impairment. All except a very insignificant portion of loans and advances to customers bear interest at a floating rate. The Group has assessed the fair value of advances to customers and trade bills, after taking into account the relevant market interest rates and noted that the total fair value is not materially different from the total carrying value.

(c) Deposits and balances from banks and customers

The estimated fair value of deposits and balances with no stated maturity, which include non-interest bearing deposits, is the amount repayable on demand. The fair value of those balances bearing interest at a floating rate is their carrying value.

The estimated fair value of fixed interest-bearing deposits from banks and deposits from customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. As they are normally less than one year, their fair values are approximately equal to their carrying values.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.5 Fair value of financial assets and liabilities (Continued)

(d) Certificates of deposit issued

The fair value of certificates of deposit issued is based on quoted market prices. For those where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The Group has assessed the fair value of certificates of deposit after taking into account the relevant yield curve and noted that the total fair value is not materially different from the total carrying value.

(e) Other accounts and accruals

The estimated fair value of other accounts and accruals, which are normally non-interest bearing balances, is their carrying value.

Except for the above balance sheet items, the following table summarises the carrying amounts and fair values of other financial assets and liabilities not presented on the Group's balance sheet at their fair value.

The Group

	Carrying value		Fair value	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Held-to-maturity securities	4,720,418	6,883,979	4,720,314	6,893,695

The Bank

	Carrying value		Fair value	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Held-to-maturity securities	4,720,418	6,614,787	4,720,314	6,624,446

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2 Financial risk management (Continued)

2.6 Capital management

The Group's objectives when managing capital are as follows:

- To comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To maintain a strong capital base to support the development of its business.

The Hong Kong Banking Ordinance requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum of 8%. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as Securities and Futures Commission and Office of the Commissioner of Insurance.

The risk-weighted assets are measured by means of a hierarchy of risk weights as defined in the Banking (Capital) Rules according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

Capital adequacy and the use of capital are monitored daily by the Group's management. The Group applies an internal trigger capital adequacy ratio which is well above the minimum statutory requirement as an indicator for managing the capital adequacy. In addition, the Group will assess the impact on its capital adequacy ratio when there are new products, new investments or any significant transactions.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the years ended 31 December 2008 and 2007 and are well above the minimum required ratio set by the HKMA.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments in applying accounting policy

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment allowances on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Changes in the assumptions used would affect the reported impairment allowances on loans and advances.

(b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the department that created them to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors would affect the reported fair value of financial instruments.

(c) Impairment of available-for-sale securities and held-to-maturity securities

The Group follows the guidance of HKAS 39 to determine when available-for-sale securities and held-to-maturity securities are impaired. This determination requires judgment. In making this judgment, the Group evaluates among other factors, the duration and extent to which the fair value of an investment has declined; and the credit quality of and near-term business outlook for the investee or issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments in applying accounting policy (Continued)

(d) Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale as such class is deemed to have been tainted. The investments would therefore be measured at fair value instead of at amortised cost.

(e) Estimate of fair value of investment properties

The fair values of investment properties are estimated based on the valuation made by an independent professional valuer on an open market basis. The fair values are assessed based on the capitalisation of the net income for the properties using Investment Method of Valuation. The contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements are capitalised at observed market yields. The principal assumptions underlying the estimation of market value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and observed market yields.

In addition, the valuations are also assessed by reference to comparable market transactions as reported in the relevant market at similar locations. Appropriate adjustments have been made on the values of the subject properties for relevant factors, such as location difference, building age, time of transaction, shop frontage and pedestrian flow, etc.

Changes in the assumptions used in the valuation would affect the fair value of investment properties.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Critical accounting estimates and judgments in applying accounting policy (Continued)

(f) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the balance sheet date. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(g) Staff retirement scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 13. There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(h) Provisions

Judgement has been exercised in determining the amount which may be payable to customers in respect of complaints or legal claims arising from the sale of investment products.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

4 Interest income

	2008 HK\$'000	2007 HK\$'000
Cash and balances with banks	1,255,570	1,513,407
Investments in securities		
- listed	101,587	174,586
- unlisted	327,278	443,666
Advances to customers	1,493,086	2,228,564
Others	99,560	80,843
	<u>3,277,081</u>	<u>4,441,066</u>

Interest income is analysed by types of financial assets as follows:

	2008 HK\$'000	2007 HK\$'000
Financial assets that are not at fair value through profit or loss	3,054,857	4,173,539
Trading securities	68,820	102,040
Financial assets designated at fair value through profit or loss	62,023	100,082
Interest rate swaps	91,381	65,405
	<u>3,277,081</u>	<u>4,441,066</u>

Included in interest income is unwinding of discount on impaired loans of HK\$1,762,000 (2007: HK\$6,106,000).

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 Interest expense

	2008 HK\$'000	2007 HK\$'000
Deposits and balances from bank and deposits from customers	1,795,115	2,653,500
Certificates of deposit issued	124,913	224,429
Others	79,720	71,548
	<u>1,999,748</u>	<u>2,949,477</u>

Interest expense is analysed by types of financial liabilities as follows:

	2008 HK\$'000	2007 HK\$'000
Financial liabilities that are not at fair value through profit or loss	1,860,039	2,798,412
Trading liabilities	29,892	32,920
Financial liabilities designated at fair value through profit or loss	66,504	89,252
Interest rate swaps	43,313	28,893
	<u>1,999,748</u>	<u>2,949,477</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 Net fees and commission income

	2008 HK\$'000	2007 HK\$'000
Fees and commission income		
Securities brokerage and investment services	232,680	373,022
Credit cards	69,254	69,691
Credit related fees and commission	53,690	46,960
Trade finance	14,373	16,167
Other retail banking services	20,069	20,075
Other fee income	29,075	30,343
	<u>419,141</u>	<u>556,258</u>
Fees and commission expenses		
Credit cards	(39,454)	(35,790)
Other fee expenses	(36,188)	(20,350)
	<u>(75,642)</u>	<u>(56,140)</u>
Net fees and commission income	<u>343,499</u>	<u>500,118</u>
Of which:		
Net fees and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fees and commission income	101,544	98,329
- fees and commission expenses	(31,524)	(27,363)
	<u>69,999</u>	<u>70,966</u>
Net fees and commission income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers		
- fees and commission income	9,467	7,823
- fees and commission expenses	(310)	(1,803)
	<u>9,157</u>	<u>6,020</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7 Insurance operating income and charge for insurance claims

	2008 HK\$'000	2007 HK\$'000
Insurance operating income		
Gross		
Gross insurance premium written	665,361	666,843
Change in unearned premium provision	(4,915)	2,843
	<u>660,446</u>	<u>669,686</u>
Premium revenue arising from insurance contracts issued	660,446	669,686
Reinsurance		
Reinsurance premium outward	(102,804)	(104,688)
Change in unearned premium provision	7,955	(8,385)
	<u>(94,849)</u>	<u>(113,073)</u>
Premium revenue ceded to reinsurers arising from insurance contracts issued	(94,849)	(113,073)
Net earned premium income	565,597	556,613
Commission income	8,603	6,829
Other income	1,284	1,267
Commission expenses	(130,629)	(128,496)
	<u>444,855</u>	<u>436,213</u>
Charge for insurance claims (note)		
Gross		
Gross claims paid	(404,547)	(348,210)
Change in reported claims, IBNR and other insurance provision	(156,310)	(37,687)
	<u>(560,857)</u>	<u>(385,897)</u>
Reinsurance		
Claims recovered from reinsurers	26,823	15,223
Change in reported claims, IBNR and other insurance provision	10,517	16,416
	<u>37,340</u>	<u>31,639</u>
Total claims incurred	<u>(523,517)</u>	<u>(354,258)</u>
Net insurance operating (expense)/income	<u>(78,662)</u>	<u>81,955</u>

Note: Charge for insurance claims represents net claims incurred on the Group's insurance business and the related claims settlement expenses.

WING LUNG BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

8	Net trading (loss)/gain	2008	2007
		HK\$'000	HK\$'000
	Net (loss)/gain from trading securities	(80,962)	102,758
	Net (loss)/gain arising from financial instruments designated at fair value through profit or loss	(598,125)	144,691
	Net loss arising from derivative financial instruments	(570,601)	(260,336)
	Net gain from foreign exchange trading	98,943	117,398
		<u>(1,150,745)</u>	<u>104,511</u>
9	Other operating income	2008	2007
		HK\$'000	HK\$'000
	Dividend income		
	- Listed equity securities	36,660	29,517
	- Unlisted equity securities	3,433	2,898
	Rental income from investment properties less direct outgoings of HK\$32,112,000 (2007: HK\$31,562,000)	95,515	88,771
	Net rental income on safe deposit boxes	24,030	23,059
	Others	14,939	17,846
		<u>174,577</u>	<u>162,091</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Operating expenses

	2008 HK\$'000	2007 HK\$'000
Staff costs		
- Salaries and other costs	503,154	432,258
- Retirement benefit costs (note 13)	8,807	6,065
Premises and equipment expenses, excluding depreciation		
- Rental of premises	25,846	13,360
- Others	33,508	29,401
Depreciation (note 31)	55,511	59,194
Amortisation of land lease premium (note 30)	4,172	4,171
Advertising and business promotion	49,120	37,300
Electronic data processing	40,397	39,650
Postage and communications	27,223	24,979
Printing and stationery	11,789	11,428
Auditors' remuneration	9,811	3,628
Water and electricity	11,794	10,857
Legal and professional fee	22,893	8,375
Insurance	9,356	8,724
Securities related expenses	8,229	10,368
Others	224,981	38,721
	<u>1,046,591</u>	<u>738,479</u>

11 Impairment charge for credit losses

	2008 HK\$'000	2007 HK\$'000
Impairment losses on		
- loans and advances	36,466	40,429
- available-for-sale securities	309,785	426,092
- held-to-maturity securities	157,059	36,927
- other accounts	243,415	-
	<u>746,725</u>	<u>503,448</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 Impairment charge for credit losses (Continued)

(a)	Impairment losses on loans and advances	2008 HK\$'000	2007 HK\$'000
	Individually assessed		
	- new allowances	32,590	49,177
	- releases	(10,010)	(6,284)
	- recoveries	(5,776)	(4,217)
		<u>16,804</u>	<u>38,676</u>
	Collectively assessed		
	- new allowances	34,949	23,927
	- releases	(13,153)	(22,174)
	- recoveries	(2,134)	-
		<u>19,662</u>	<u>1,753</u>
	Net charge to the income statement	<u>36,466</u>	<u>40,429</u>
(b)	Impairment losses on available-for-sale securities	2008 HK\$'000	2007 HK\$'000
	Individually assessed		
	- new allowances	<u>309,785</u>	<u>426,092</u>
(c)	Impairment losses on held-to-maturity securities	2008 HK\$'000	2007 HK\$'000
	Individually assessed		
	- new allowances (note 23)	<u>157,059</u>	<u>36,927</u>
(d)	Impairment losses on other accounts	2008 HK\$'000	2007 HK\$'000
	Individually assessed		
	- new allowances	<u>243,415</u>	<u>-</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12 Directors' emoluments

The aggregate amounts of emoluments paid or payable to directors of the Bank during the year are as follows:

	2008 HK\$'000	2007 HK\$'000
Fees	1,420	1,120
Salaries, bonus and other allowances	20,180	31,918
Retirement benefits contribution	286	445
	<u>21,886</u>	<u>33,483</u>

13 Staff retirement schemes

The Group operates four staff retirement schemes for the staff of the Bank and an MPF scheme for the staff of a subsidiary of the Bank. The four staff retirement schemes comprise a principal scheme (the "Scheme") which includes a defined benefit ("DB") section and a defined contribution ("DC") section, a defined benefit pension scheme, a defined contribution scheme for overseas employees and an MPF scheme. All new staff members who join the Bank are offered a one-off choice between the DC section of the Scheme and the MPF scheme.

Under the DC section of the Scheme, the Group is required to contribute 10% of the monthly salary of the members who opted for the DC arrangement. The Group's contributions to the DC section of this Scheme may be reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$2,392,000 (2007: HK\$3,317,000) were utilised during the year. The unutilised forfeited contributions at the year end amounted to HK\$250,000 (2007: HK\$485,000) which are available to reduce future contributions. No contributions were payable at the year end (2007: Nil).

The Group's contributions to the MPF schemes are based on 5% of the monthly relevant income of each employee up to a maximum monthly relevant income of HK\$20,000 in accordance with the Hong Kong Mandatory Provident Fund Schemes Ordinance.

The contributions to schemes with defined contribution arrangements and the MPF schemes during the year amounted to HK\$19,125,000 (2007: HK\$15,522,000) in aggregate.

For the DB section of the Scheme and the defined benefit pension scheme (collectively referred to as the "Plan"), the contributions are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Plan. The Plan provides benefits based on members' final salary. The costs are solely funded by the Group.

The latest actuarial valuation of the Plan was performed in accordance with HKAS 19 issued by the Hong Kong Institute of Certified Public Accountants as at 31 December 2008 by Watson Wyatt Hong Kong Limited, a professional actuarial firm, who have among their staff Fellows of the Actuarial Society of Hong Kong. The present values of the defined benefit obligation and current service cost of the Plan are calculated based on the projected unit credit method. At the valuation date, the Plan had a funding level of 99% (2007: 159%).

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 Staff retirement schemes (Continued)

The amounts recognised in the balance sheet as at 31 December 2008 are analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Fair value of Plan assets	461,552	583,807
Present value of the funded defined benefit obligation	(467,732)	(367,859)
Unrecognised actuarial losses/(gains)	219,760	(12,686)
Net asset recognised in the balance sheet	<u>213,580</u>	<u>203,262</u>

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Plan is expected to be paid in 2009.

The amounts recognised in the income statement are as follows:

	2008 HK\$'000	2007 HK\$'000
Current service cost	(17,215)	(15,154)
Interest cost	(12,640)	(11,578)
Expected return on Plan assets	40,461	36,335
Net actuarial losses recognised	(288)	(146)
Net income for the year included in retirement benefit costs	<u>10,318</u>	<u>9,457</u>

The actual loss on Plan assets for the year ended 31 December 2008 was HK\$112,311,000 (2007: a return of HK\$68,367,000).

The movements in the defined benefit obligation during the year are as follows:

	2008 HK\$'000	2007 HK\$'000
Present value of obligation at 1 January	367,859	312,993
Current service cost	17,215	15,154
Interest cost	12,640	11,578
Actual benefits paid	(9,944)	(7,889)
Actuarial losses	79,962	36,023
Actual obligation at 31 December	<u>467,732</u>	<u>367,859</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13 Staff retirement schemes (Continued)

The movements in the fair value of the Plan assets during the year are as follows:

	2008 HK\$'000	2007 HK\$'000
Fair value of Plan assets at 1 January	583,807	523,329
Expected return on Plan assets	40,461	36,335
Actual benefits paid	(9,944)	(7,889)
Actuarial (losses)/gains	(152,772)	32,032
	<u>461,552</u>	<u>583,807</u>
Fair value of Plan assets at 31 December	<u>461,552</u>	<u>583,807</u>

The major categories of the Plan assets are as follows:

	2008		2007	
	HK\$'000	%	HK\$'000	%
Equities	188,488	40.8	320,309	54.9
Bonds	91,672	19.9	105,490	18.0
Cash	181,392	39.3	158,008	27.1
	<u>461,552</u>	<u>100.0</u>	<u>583,807</u>	<u>100.0</u>

The amount of the Plan assets includes deposits with the Bank of HK\$170,824,000 in 2008 (2007: market value of ordinary shares issued by the Bank of HK\$26,695,000 and deposit with the Bank of HK\$143,075,000).

The principal actuarial assumptions adopted in the valuation are as follows:

	2008 %	2007 %
Discount rate		
- Retirement benefit scheme	1.1	3.5
- Pension scheme	1.1	3.0
Long-term average return on Plan assets		
- Retirement benefit scheme	6.0	7.0
- Pension scheme	1.0	7.0
Long-term average rate of salary increase for the DB section of the Scheme	5.0	6.0
Pension increase rate for the defined benefit pension scheme	2.5	3.0

There was no curtailment or settlement impact for the year ended 31 December 2008 (2007: Nil).

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 Income tax

(a) Taxation (credited)/charged in the consolidated income statement represents:

	2008 HK\$'000	2007 HK\$'000
Current taxation:		
- Hong Kong profits tax	21,066	175,549
- Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	-	(84,004)
- Over provision of taxation in respect of prior years	(2,867)	(3,186)
	<u>18,199</u>	<u>88,359</u>
- Investments in partnerships written off	-	52,329
	<u>18,199</u>	<u>140,688</u>
- Overseas taxation	13,629	9,486
Deferred taxation:		
- Relating to the origination and reversal of temporary differences	(233,546)	54,393
- Effect on opening deferred tax balances resulting from the change in tax rate in 2008	(25,073)	-
	<u>(226,791)</u>	<u>204,567</u>

In February 2008, the Hong Kong Government announced a decrease in the profits tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's and the Bank's 2008 financial statements. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 Income tax (Continued)

- (b) The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2008 HK\$'000	2007 HK\$'000
(Loss)/profit before taxation	(1,042,946)	1,576,081
Calculated at a taxation rate of 16.5% (2007: 17.5%)	(172,086)	275,814
Tax effect of expenses not deductible for taxation purposes	32,970	10,640
Tax effect of income not subject to taxation	(65,080)	(55,289)
Effect on opening deferred tax balances resulting from the change in tax rate in 2008	(25,073)	-
Tax effect of utilisation of tax losses not previously recognised	-	(76)
Effect of different taxation rates in other tax jurisdictions	6,158	3,127
Over provision of taxation in respect of prior years	(2,867)	(3,186)
Terminal return on investments in partnerships	-	4,729
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	-	(84,004)
Investments in partnerships written off	-	52,329
Others	(813)	483
Income tax	<u>(226,791)</u>	<u>204,567</u>

15 Loss/profit attributable to shareholders

The loss attributable to shareholders is dealt with in the financial statements of the Bank to the extent of HK\$294,369,000 (Profit attributable to shareholders in 2007: HK\$1,922,910,000).

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16 Dividends

(a) Dividends attributable to the year

	2008 HK\$'000	2007 HK\$'000
Interim dividend declared and paid of HK\$0.50 (2007: HK\$0.90) per ordinary share	116,095	208,971
Proposed final dividend of HK\$nil (2007: HK\$1.50) per ordinary share	-	348,285
	<u>116,095</u>	<u>557,256</u>

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2008 HK\$'000	2007 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$1.50 per ordinary share on 232,190,115 shares (2007: HK\$2.60 per ordinary share on 232,190,115 shares)	<u>348,285</u>	<u>603,694</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17 Cash and short-term funds

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Cash and balances with banks	2,140,487	1,587,165	2,136,368	1,581,885
Balances with central bank	37,517	2,174	37,517	2,174
Money at call and short notice	33,882,916	24,794,896	33,613,260	24,675,814
	<u>36,060,920</u>	<u>26,384,235</u>	<u>35,787,145</u>	<u>26,259,873</u>

The balances with central bank that are subject to exchange control and regulatory restrictions amounted to HK\$17,562,000 at 31 December 2008 (2007: HK\$1,204,000).

18 Placements with and loans and advances to banks

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Placements with banks	4,457,429	3,191,437	4,432,284	3,288,298
Gross loans and advances to banks	411,813	411,471	411,813	411,471
	<u>4,869,242</u>	<u>3,602,908</u>	<u>4,844,097</u>	<u>3,699,769</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19 Trading securities

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At fair value:				
Debt securities				
- Listed in Hong Kong	553,257	508,038	553,257	508,038
- Unlisted	2,146,243	1,522,666	2,146,243	1,522,666
	<u>2,699,500</u>	<u>2,030,704</u>	<u>2,699,500</u>	<u>2,030,704</u>
Equity securities				
- Listed in Hong Kong	107,962	186,032	-	-
- Listed outside Hong Kong	760	1,225	-	-
	<u>108,722</u>	<u>187,257</u>	<u>-</u>	<u>-</u>
Equity investment fund				
- Listed in Hong Kong	1,611	880	-	-
	<u>1,611</u>	<u>880</u>	<u>-</u>	<u>-</u>
	<u>2,809,833</u>	<u>2,218,841</u>	<u>2,699,500</u>	<u>2,030,704</u>

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Included within debt securities are:				
Certificates of deposit held with remaining maturity of:				
- 3 - 12 months	-	50,026	-	50,026
Treasury bills (including Exchange Fund Bills)	1,808,030	1,216,881	1,808,030	1,216,881
Other debt securities	891,470	763,797	891,470	763,797
	<u>2,699,500</u>	<u>2,030,704</u>	<u>2,699,500</u>	<u>2,030,704</u>

Trading securities are analysed by issuer as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Central governments and central banks	2,360,202	1,724,416	2,360,202	1,724,416
Public sector entities	17,882	29,620	6,774	12,059
Banks and other financial institutions	300,549	262,828	258,510	190,180
Corporate entities	131,200	201,977	74,014	104,049
	<u>2,809,833</u>	<u>2,218,841</u>	<u>2,699,500</u>	<u>2,030,704</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 Derivative financial instruments

The following is a summary of the notional or contractual amounts, fair values and credit risk weighted amounts of each significant type of derivatives, without taking into account the effects of bilateral netting arrangements:

The Group	Notional/ contractual amount 2008 HK\$'000	Fair values		Notional/ contractual amount 2007 HK\$'000 Restated	Fair values	
		Assets	Liabilities		Assets	Liabilities
		2008 HK\$'000	2008 HK\$'000		2007 HK\$'000 Restated	2007 HK\$'000 Restated
Derivatives held for trading						
Exchange rate contracts						
Forward contracts	99,470	1,859	1,546	616,419	2,257	1,581
Currency swaps	211,104	1,761	162	-	-	-
Cross currency interest rate swaps	426,250	-	2,457	-	-	-
Options written	218,258	-	6,654	612,641	51	3,322
Options purchased	237,466	6,863	-	690,523	3,638	51
	<u>1,192,548</u>	<u>10,483</u>	<u>10,819</u>	<u>1,919,583</u>	<u>5,946</u>	<u>4,954</u>
Interest rate contracts						
Interest rate swaps	143,375	-	9,443	326,057	74	1,981
Equity contracts						
Options written	208,487	-	7,196	3,109,636	10,790	205,609
Options purchased	208,489	7,196	-	3,074,779	205,622	10,790
	<u>416,976</u>	<u>7,196</u>	<u>7,196</u>	<u>6,184,415</u>	<u>216,412</u>	<u>216,399</u>
Credit derivative contracts	-	-	-	936,048	-	138,714
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss						
Interest rate contracts						
Interest rate swaps	3,967,499	22,696	170,148	4,064,999	14,268	440,531
	<u>5,720,398</u>	<u>40,375</u>	<u>197,606</u>	<u>13,431,102</u>	<u>236,700</u>	<u>802,579</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 Derivative financial instruments (Continued)

The Bank	Notional/ contractual amount 2008 HK\$'000	Fair values		Notional/ contractual amount 2007 HK\$'000 Restated	Fair values	
		Assets	Liabilities		Assets	Liabilities
		2008 HK\$'000	2008 HK\$'000		2007 HK\$'000	2007 HK\$'000 Restated
Derivatives held for trading						
Exchange rate contracts						
Forward contracts	99,470	1,859	1,546	616,419	2,257	1,581
Currency swaps	211,104	1,761	162	-	-	-
Cross currency interest rate swaps	426,250	-	2,457	-	-	-
Options written	218,258	-	6,654	612,641	51	3,322
Options purchased	237,466	6,863	-	690,523	3,638	51
	<u>1,192,548</u>	<u>10,483</u>	<u>10,819</u>	<u>1,919,583</u>	<u>5,946</u>	<u>4,954</u>
Interest rate contracts						
Interest rate swaps	143,375	-	9,443	326,057	74	1,981
Equity contracts						
Options written	208,487	-	7,196	3,109,636	10,790	205,609
Options purchased	208,489	7,196	-	3,109,641	205,609	10,790
	<u>416,976</u>	<u>7,196</u>	<u>7,196</u>	<u>6,219,277</u>	<u>216,399</u>	<u>216,399</u>
Credit derivative contracts	-	-	-	936,048	-	138,714
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss						
Interest rate contracts						
Interest rate swaps	3,967,499	22,696	170,148	4,064,999	14,268	440,531
	<u>5,720,398</u>	<u>40,375</u>	<u>197,606</u>	<u>13,465,964</u>	<u>236,687</u>	<u>802,579</u>

The trading transactions are mainly positions arising from the execution of trade orders from customers or transactions taken to hedge these positions.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20 Derivative financial instruments (Continued)

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000 Restated	2008 HK\$'000	2007 HK\$'000 Restated
Credit risk weighted amount				
Exchange rate contracts	12,688	14,861	12,688	14,861
Interest rate contracts	11,964	11,220	11,964	11,220
Equity contracts	19,867	434,020	19,867	436,099
Credit derivatives contracts	-	117,006	-	117,006
	<u>44,519</u>	<u>577,107</u>	<u>44,519</u>	<u>579,186</u>

The contractual amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date and they do not represent amounts at risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or equity prices relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules. The amount depends on the status of the counterparty and the maturity characteristics of the instrument. The risk weights used range from 0% to 150%.

21 Financial assets designated at fair value through profit or loss

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At fair value:				
Debt securities				
- Listed in Hong Kong	1,169,482	1,463,063	1,149,359	1,436,683
- Listed outside Hong Kong	389,864	420,436	388,610	419,651
- Unlisted	796,972	1,051,304	666,970	734,785
	<u>2,356,318</u>	<u>2,934,803</u>	<u>2,204,939</u>	<u>2,591,119</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

21 Financial assets designated at fair value through profit or loss (Continued)

Financial assets designated at fair value through profit or loss are analysed by issuer as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Public sector entities	319,745	329,769	319,745	329,769
Banks and other financial institutions	436,730	488,441	374,197	381,849
Corporate entities	1,599,843	2,116,593	1,510,997	1,879,501
	<u>2,356,318</u>	<u>2,934,803</u>	<u>2,204,939</u>	<u>2,591,119</u>

22 Available-for-sale securities

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At fair value:				
Debt securities				
- Listed in Hong Kong	77,792	78,548	77,792	78,548
- Listed outside Hong Kong	181,698	518,123	181,698	518,123
- Unlisted	746,790	1,164,726	746,790	1,164,726
	<u>1,006,280</u>	<u>1,761,397</u>	<u>1,006,280</u>	<u>1,761,397</u>
Equity securities				
- Listed in Hong Kong	227,908	1,151,052	79,897	157,737
- Unlisted	278,124	51,032	265,196	43,177
	<u>506,032</u>	<u>1,202,084</u>	<u>345,093</u>	<u>200,914</u>
Equity investment fund				
- Listed in Hong Kong	12,698	28,371	12,698	27,923
- Unlisted	14,533	248,456	-	41,074
	<u>27,231</u>	<u>276,827</u>	<u>12,698</u>	<u>68,997</u>
	<u>1,539,543</u>	<u>3,240,308</u>	<u>1,364,071</u>	<u>2,031,308</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 Available-for-sale securities (Continued)

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Included within debt securities are:				
Certificates of deposit held with remaining maturity of:				
- 3 - 12 months	100,200	29,991	100,200	29,991
- 1 - 5 years	-	100,069	-	100,069
	<u>100,200</u>	<u>130,060</u>	<u>100,200</u>	<u>130,060</u>
Treasury bills	232,484	-	232,484	-
Other debt securities	673,596	1,631,337	673,596	1,631,337
	<u>1,006,280</u>	<u>1,761,397</u>	<u>1,006,280</u>	<u>1,761,397</u>

Available-for-sale securities are analysed by issuer as follows:

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Central governments and central banks	394,418	-	394,418	-
Public sector entities	-	121,491	-	121,491
Banks and other financial institutions	716,476	928,457	715,217	820,669
Corporate entities	428,649	2,190,360	254,436	1,089,148
	<u>1,539,543</u>	<u>3,240,308</u>	<u>1,364,071</u>	<u>2,031,308</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 Held-to-maturity securities

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed debt securities, at amortised cost:				
- Listed in Hong Kong	155,996	182,723	155,996	76,073
- Listed outside Hong Kong	500,018	461,122	500,018	318,225
	<u>656,014</u>	<u>643,845</u>	<u>656,014</u>	<u>394,298</u>
Unlisted debt securities, at amortised cost	4,180,654	6,277,061	4,180,654	6,257,416
	<u>4,836,668</u>	<u>6,920,906</u>	<u>4,836,668</u>	<u>6,651,714</u>
Less: Impairment allowances	(116,250)	(36,927)	(116,250)	(36,927)
	<u>4,720,418</u>	<u>6,883,979</u>	<u>4,720,418</u>	<u>6,614,787</u>
Fair value of listed debt securities	<u>613,318</u>	<u>607,125</u>	<u>613,318</u>	<u>357,382</u>

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Included within debt securities are:				
Certificates of deposit held with remaining maturity of:				
- Up to 1 month	-	56,163	-	56,163
Other debt securities	4,720,418	6,827,816	4,720,418	6,558,624
	<u>4,720,418</u>	<u>6,883,979</u>	<u>4,720,418</u>	<u>6,614,787</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 Held-to-maturity securities (Continued)

Held-to-maturity securities are analysed by issuer as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Central governments and central banks	24,359	46,846	24,359	-
Public sector entities	27,280	39,319	27,280	17,570
Banks and other financial institutions	4,259,793	5,359,410	4,259,793	5,226,693
Corporate entities	408,986	1,438,404	408,986	1,370,524
	<u>4,720,418</u>	<u>6,883,979</u>	<u>4,720,418</u>	<u>6,614,787</u>

The reconciliation of the allowance account for impairment on held-to-maturity securities is as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At 1 January	36,927	-	36,927	-
Exchange difference	(232)	-	(232)	-
Charged to income statement (note 11(c))	157,059	36,927	157,059	36,927
Amounts written off	(77,504)	-	(77,504)	-
At 31 December	<u>116,250</u>	<u>36,927</u>	<u>116,250</u>	<u>36,927</u>

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24 Advances and other accounts

(a) Advances and other accounts

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		Restated		Restated
Advances to customers	43,368,102	41,934,520	43,029,354	41,569,131
Impairment allowances (note 25)				
- Collectively assessed	(117,026)	(108,194)	(83,392)	(79,760)
- Individually assessed	(42,664)	(48,166)	(17,920)	(33,472)
	<u>43,208,412</u>	<u>41,778,160</u>	<u>42,928,042</u>	<u>41,455,899</u>
Trade bills	113,692	176,370	113,692	176,370
Impairment allowances (note 25)				
- Collectively assessed	(338)	(242)	(338)	(242)
	<u>113,354</u>	<u>176,128</u>	<u>113,354</u>	<u>176,128</u>
Accrued interest	199,004	314,904	200,634	313,784
Impairment allowances (note 25)				
- Individually assessed	(1,595)	(3,676)	(1,442)	(3,633)
	<u>197,409</u>	<u>311,228</u>	<u>199,192</u>	<u>310,151</u>
Other accounts				
- Insurance premium receivable	176,085	160,690	6,458	6,703
- Recoverable from reinsurers (note 35)	155,953	128,564	-	-
- Accounts and other receivable	1,076,611	2,122,080	794,028	1,508,639
	<u>1,408,649</u>	<u>2,411,334</u>	<u>800,486</u>	<u>1,515,342</u>
Impairment allowances (note 25)				
- Individually assessed	(139,707)	(1,172)	(139,508)	(973)
	<u>1,268,942</u>	<u>2,410,162</u>	<u>660,978</u>	<u>1,514,369</u>
	<u>44,788,117</u>	<u>44,675,678</u>	<u>43,901,566</u>	<u>43,456,547</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

24 Advances and other accounts (Continued)

(b) Finance leases and hire purchase contracts

Advances to customers include investment in finance lease receivables and hire purchase contracts, analysed as follows:

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Gross investment, receivable		
- Within one year	261,117	257,572
- After one year but within five years	243,927	200,254
- After five years	17,320	17,530
	<u>522,364</u>	<u>475,356</u>
Unearned finance income	(38,126)	(32,890)
	<u>484,238</u>	<u>442,466</u>
Net investment	<u><u>484,238</u></u>	<u><u>442,466</u></u>

The net investment in finance lease receivables and hire purchase contracts is analysed as follows:

	The Group	
	2008	2007
	HK\$'000	HK\$'000
Within one year	237,735	236,159
After one year but within five years	229,183	188,777
After five years	17,320	17,530
	<u>484,238</u>	<u>442,466</u>
	<u><u>484,238</u></u>	<u><u>442,466</u></u>

No unguaranteed residual values were included in the gross investment in finance lease receivables and hire purchase contracts above (2007: Nil).

The collective and individual impairment allowances for uncollectible finance lease receivables and hire purchase contracts included in the impairment allowances for the receivables amounted to HK\$33,124,000 (2007: HK\$27,916,000) and HK\$24,744,000 (2007: HK\$14,737,000) respectively.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 Impairment allowances on loans and advances and other accounts

The Group			
2008	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 1 January	53,014	108,436	161,450
Exchange adjustments	(1,913)	(102)	(2,015)
Amounts written off	(131,368)	(12,766)	(144,134)
Recoveries of advances written off in previous years	5,776	2,134	7,910
Net charge to income statement	260,219	19,662	279,881
Unwind of discount on allowance	(1,762)	-	(1,762)
At 31 December	<u>183,966</u>	<u>117,364</u>	<u>301,330</u>
Deducted from:			
Trade bills (note 24(a))	-	338	338
Advances to customers (note 24(a))	42,664	117,026	159,690
Accrued interest and other accounts (note 24(a))	141,302	-	141,302
	<u>183,966</u>	<u>117,364</u>	<u>301,330</u>
The Bank			
2008	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 1 January	38,078	80,002	118,080
Exchange adjustments	(1,913)	(102)	(2,015)
Amounts written off	(122,833)	(12,766)	(135,599)
Recoveries of advances written off in previous years	3,282	2,134	5,416
Net charge to income statement	243,923	14,462	258,385
Unwind of discount on allowance	(1,667)	-	(1,667)
At 31 December	<u>158,870</u>	<u>83,730</u>	<u>242,600</u>
Deducted from:			
Trade bills (note 24(a))	-	338	338
Advances to customers (note 24(a))	17,920	83,392	101,312
Accrued interest and other accounts (note 24(a))	140,950	-	140,950
	<u>158,870</u>	<u>83,730</u>	<u>242,600</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

25 Impairment allowances on loans and advances and other accounts (Continued)

The Group	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
2007			
At 1 January	62,030	106,634	168,664
Exchange adjustments	-	49	49
Amounts written off	(45,803)	-	(45,803)
Recoveries of advances written off in previous years	4,217	-	4,217
Net charge to income statement	38,676	1,753	40,429
Unwind of discount on allowance	(6,106)	-	(6,106)
At 31 December	<u>53,014</u>	<u>108,436</u>	<u>161,450</u>
Deducted from:			
Trade bills (note 24(a))	-	242	242
Advances to customers (note 24(a))	48,166	108,194	156,360
Accrued interest and other accounts (note 24(a))	4,848	-	4,848
	<u>53,014</u>	<u>108,436</u>	<u>161,450</u>
The Bank			
2007			
At 1 January	44,344	82,408	126,752
Exchange adjustments	-	50	50
Amounts written off	(19,190)	-	(19,190)
Recoveries of advances written off in previous years	4,160	-	4,160
Net charge/(release) to income statement	13,177	(2,456)	10,721
Unwind of discount on allowance	(4,413)	-	(4,413)
At 31 December	<u>38,078</u>	<u>80,002</u>	<u>118,080</u>
Deducted from:			
Trade bills (note 24(a))	-	242	242
Advances to customers (note 24(a))	33,472	79,760	113,232
Accrued interest and other accounts (note 24(a))	4,606	-	4,606
	<u>38,078</u>	<u>80,002</u>	<u>118,080</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

26 Interests in subsidiaries

	The Bank	
	2008	2007
	HK\$'000	HK\$'000
Unlisted shares, at cost	300,155	300,231

The following is a list of the principal subsidiaries wholly and directly owned by the Bank at 31 December 2008:

Name	Place of incorporation and operation	Issued and paid up share capital		Principal activities
		Number of shares	Nominal value	
Wing Lung Insurance Company Limited	Hong Kong	29,000,000	HK\$10	Insurance underwriting
Wing Lung Finance Limited	Hong Kong	2,500,000	HK\$10	Deposit-taking
Wing Lung Credit Limited	Hong Kong	1,000,000	HK\$10	Investment holding
Wing Lung Futures Limited	Hong Kong	800,000	HK\$10	Futures broking
Wing Lung Securities Limited	Hong Kong	700,000	HK\$10	Securities broking
Wing Lung Bank (Trustee) Limited	Hong Kong	300,000	HK\$10	Trustee services
Wing Lung Insurance Brokers Limited	Hong Kong	250,000	HK\$10	Investment trading and insurance broking
Wing Lung Agency Limited	Hong Kong	50,000	HK\$10	Insurance agency
Wing Lung Bank (Nominees) Limited	Hong Kong	1,000	HK\$10	Nominee services
Wing Lung Property Management Limited	Hong Kong	1,000	HK\$10	Property management
Hongnet Limited	Hong Kong	1,000	HK\$10	Investment holding
Wingspan Incorporated	U.S.A.	1,500,000	US\$1	Property holding

WING LUNG BANK LIMITED

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27 Interests in jointly controlled entities

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	-	-	25,000	25,000
Share of net assets	92,838	151,754	-	-
Loans to jointly controlled entities (note a)	61,062	72,264	61,062	72,264
	<u>153,900</u>	<u>224,018</u>	<u>86,062</u>	<u>97,264</u>

The following is a list of the principal jointly controlled entities at 31 December 2008:

Name	Place of incorporation and operation	Ownership interest	Proportion of voting power	Principal activities
Bank Consortium Holding Limited *	Hong Kong	13.33%	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited *	Hong Kong	(note b)	(note b)	Provision of ATM network services
Hong Kong Life Insurance Limited	Hong Kong	16.67%	16.67%	Life insurance business
BC Reinsurance Limited	Hong Kong	21.00%	21.00%	Reinsurance business
i-Tech Solutions Limited *	Hong Kong	50.00%	50.00%	Electronic document processing

* Directly held by the Bank

Note: (a) The loans to jointly controlled entities include an amount of HK\$1,318,000 (2007: HK\$6,567,000) which is unsecured and interest free. The remaining balance is secured and interest-bearing at normal commercial terms.

(b) The Group is one of the five founding members which together have a controlling interest in the company. The Group holds 20% of the 'A' ordinary shares issued by the company to its founding members, and is entitled to 2.88% of dividends declared.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

27 Interests in jointly controlled entities (Continued)

Summary of financial information on jointly controlled entities is set out below:

	Assets HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Income HK\$'000	Net (loss)/profit HK\$'000
2008					
100 percent	4,132,335	3,345,143	787,192	734,241	(452,672)
Group's effective interest	637,462	544,624	92,838	107,273	(84,667)
2007					
100 percent	3,841,751	2,731,945	1,109,806	1,352,166	437,404
Group's effective interest	593,541	441,787	151,754	210,994	67,637

28 Interests in associates

	The Group 2008 HK\$'000	2007 HK\$'000
Share of net assets	<u>5,867</u>	<u>6,184</u>

The cost of the unlisted shares in the associates at 31 December 2008 and 31 December 2007 held by a subsidiary of the Bank amounted to HK\$2,983,000. The particulars of the Group's interests in associates are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest held indirectly
Professional Liability Underwriting Services Limited	Hong Kong	Insurance agency	Unlisted ordinary shares of HK\$1 each	27%
Equity Underwriters Limited	Hong Kong	Insurance agency	Unlisted ordinary shares of HK\$1 each	40%

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

28 Interests in associates (Continued)

Summary of financial information on associate companies entities is set out below:

	Assets HK\$'000	Liabilities HK\$'000	Equity HK\$'000	Income HK\$'000	Net profit HK\$'000
2008					
100 percent	160,219	140,115	20,104	40,070	7,824
Group's effective interest	50,436	44,569	5,867	13,710	1,882
2007					
100 percent	111,835	90,908	20,927	40,536	9,502
Group's effective interest	31,271	25,087	6,184	14,066	1,707

29 Investment properties

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
At 1 January	2,254,600	1,966,160	2,324,700	2,021,160
Additions	10,866	-	11,224	-
Reclassifications, net	(56,502)	(16,824)	(56,502)	(16,824)
Fair value gains on revaluation	137,586	305,264	145,628	320,364
At 31 December (professional valuation)	<u>2,346,550</u>	<u>2,254,600</u>	<u>2,425,050</u>	<u>2,324,700</u>

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Leasehold properties in Hong Kong:				
Long-term leases (over 50 years)	2,254,360	2,146,700	2,332,860	2,216,800
Medium-term leases (between 10 to 50 years)	92,190	107,900	92,190	107,900
	<u>2,346,550</u>	<u>2,254,600</u>	<u>2,425,050</u>	<u>2,324,700</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

29 Investment properties (Continued)

All investment properties were revalued as at 31 December 2008 by capitalising the net rental income using the Investment Method of Valuation or as appropriate, by making reference to comparable market transactions using the Comparison Method. The valuations were carried out by an independent firm of surveyors, A.G. Wilkinson & Associates, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

The Group and the Bank lease out investment properties under operating leases. The leases typically run for an initial period of up to 4 years. Contingent rentals included in leases for the year ended 31 December 2008 amounted to HK\$2,206,000 (2007: Nil).

At 31 December, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	The Group and the Bank	
	2008	2007
	HK\$'000	HK\$'000
Land and buildings		
- Within one year	109,944	102,601
- After one year but within five years	122,994	151,352
- After five years	-	3,399
	<u>232,938</u>	<u>257,352</u>

30 Interests in leasehold land

The Group's and the Bank's interests in leasehold land represent prepaid land lease premium and their net book values are analysed as follows:

	The Group and the Bank	
	2008	2007
	HK\$'000	HK\$'000
In Hong Kong held on:		
Long-term leases (over 50 years)	134,632	135,696
Medium-term leases (between 10 to 50 years)	102,541	105,649
	<u>237,173</u>	<u>241,345</u>
At 1 January	241,345	245,516
Amortisation of prepaid land lease premium (note 10)	(4,172)	(4,171)
At 31 December	<u>237,173</u>	<u>241,345</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment

The Group

2008	Premises HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost or valuation			
At 1 January 2008	398,774	540,993	939,767
Exchange adjustments	(220)	268	48
Additions	-	65,671	65,671
Disposals	-	(20,121)	(20,121)
Reclassifications, net	56,502	-	56,502
Surplus on revaluation	780	-	780
Less: elimination of accumulated depreciation on revaluation	(284)	-	(284)
At 31 December 2008	<u>455,552</u>	<u>586,811</u>	<u>1,042,363</u>
Accumulated depreciation			
At 1 January 2008	108,007	407,340	515,347
Exchange adjustments	(11)	82	71
Charge for the year (note 10)	7,272	48,239	55,511
Written back on disposal	-	(18,049)	(18,049)
Elimination on revaluation	(284)	-	(284)
At 31 December 2008	<u>114,984</u>	<u>437,612</u>	<u>552,596</u>
Net book value			
At 31 December 2008	<u><u>340,568</u></u>	<u><u>149,199</u></u>	<u><u>489,767</u></u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment (Continued)

The Group		Furniture and equipment	Total
2007	Premises HK\$'000	HK\$'000	HK\$'000
Cost or valuation			
At 1 January 2007	381,852	516,490	898,342
Exchange adjustments	98	266	364
Additions	-	56,150	56,150
Disposals	-	(31,913)	(31,913)
Reclassifications, net	16,824	-	16,824
At 31 December 2007	<u>398,774</u>	<u>540,993</u>	<u>939,767</u>
Accumulated depreciation			
At 1 January 2007	93,904	392,044	485,948
Exchange adjustments	1	99	100
Charge for the year (note 10)	14,102	45,092	59,194
Written back on disposal	-	(29,895)	(29,895)
At 31 December 2007	<u>108,007</u>	<u>407,340</u>	<u>515,347</u>
Net book value			
At 31 December 2007	<u><u>290,767</u></u>	<u><u>133,653</u></u>	<u><u>424,420</u></u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment (Continued)

The analysis of cost or valuation of the above assets is as follows:

The Group

	Premises HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
2008			
At cost	154,476	586,811	741,287
Reclassification from investment properties stated at professional valuation			
- 1995	50,560	-	50,560
- 1998	64,726	-	64,726
- 2001	12,164	-	12,164
- 2002	12,600	-	12,600
- 2003	11,540	-	11,540
- 2005	46,592	-	46,592
- 2006	27,910	-	27,910
- 2007	16,824	-	16,824
- 2008	58,160	-	58,160
	<u>455,552</u>	<u>586,811</u>	<u>1,042,363</u>
2007			
At cost	154,696	540,993	695,689
Reclassification from investment properties stated at professional valuation			
- 1995	50,560	-	50,560
- 1998	64,726	-	64,726
- 2001	13,326	-	13,326
- 2002	12,600	-	12,600
- 2003	11,540	-	11,540
- 2005	46,592	-	46,592
- 2006	27,910	-	27,910
- 2007	16,824	-	16,824
	<u>398,774</u>	<u>540,993</u>	<u>939,767</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment (Continued)

The Bank

2008	Premises HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost or valuation			
At 1 January 2008	312,320	511,797	824,117
Exchange adjustments	-	268	268
Additions	-	63,505	63,505
Disposals	-	(18,470)	(18,470)
Reclassifications, net	56,502	-	56,502
Surplus on revaluation	780	-	780
Less: elimination of accumulated depreciation on revaluation	(284)	-	(284)
At 31 December 2008	<u>369,318</u>	<u>557,100</u>	<u>926,418</u>
Accumulated depreciation			
At 1 January 2008	94,905	386,091	480,996
Exchange adjustments	-	82	82
Charge for the year	5,912	45,792	51,704
Written back on disposal	-	(16,583)	(16,583)
Elimination on revaluation	(284)	-	(284)
At 31 December 2008	<u>100,533</u>	<u>415,382</u>	<u>515,915</u>
Net book value			
At 31 December 2008	<u><u>268,785</u></u>	<u><u>141,718</u></u>	<u><u>410,503</u></u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment (Continued)

The Bank

2007	Premises HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost or valuation			
At 1 January 2007	295,496	488,012	783,508
Exchange adjustments	-	266	266
Additions	-	54,913	54,913
Disposals	-	(31,394)	(31,394)
Reclassifications, net	16,824	-	16,824
At 31 December 2007	<u>312,320</u>	<u>511,797</u>	<u>824,117</u>
Accumulated depreciation			
At 1 January 2007	83,939	373,597	457,536
Exchange adjustments	-	100	100
Charge for the year	10,966	41,928	52,894
Written back on disposal	-	(29,534)	(29,534)
At 31 December 2007	<u>94,905</u>	<u>386,091</u>	<u>480,996</u>
Net book value			
At 31 December 2007	<u>217,415</u>	<u>125,706</u>	<u>343,121</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 Other properties and equipment (Continued)

The analysis of cost or valuation of the above assets is as follows:

The Bank

	Premises HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
2008			
At cost	111,619	557,100	668,719
Reclassification from investment properties stated at professional valuation			
- 1995	43,200	-	43,200
- 1998	42,771	-	42,771
- 2001	12,164	-	12,164
- 2002	6,840	-	6,840
- 2003	11,540	-	11,540
- 2005	38,290	-	38,290
- 2006	27,910	-	27,910
- 2007	16,824	-	16,824
- 2008	58,160	-	58,160
	<u>369,318</u>	<u>557,100</u>	<u>926,418</u>
2007			
At cost	111,619	511,797	623,416
Reclassification from investment properties stated at professional valuation			
- 1995	43,200	-	43,200
- 1998	42,771	-	42,771
- 2001	13,326	-	13,326
- 2002	6,840	-	6,840
- 2003	11,540	-	11,540
- 2005	38,290	-	38,290
- 2006	27,910	-	27,910
- 2007	16,824	-	16,824
	<u>312,320</u>	<u>511,797</u>	<u>824,117</u>

WING LUNG BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS****31 Other properties and equipment (Continued)**

The net book value of premises comprises:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Leasehold properties in Hong Kong:				
Long-term leases (over 50 years)	251,213	206,311	217,837	172,631
Medium-term leases (between 10 to 50 years)	50,948	44,784	50,948	44,784
	<u>302,161</u>	<u>251,095</u>	<u>268,785</u>	<u>217,415</u>
Leasehold properties outside Hong Kong:				
Freehold	31,732	32,809	-	-
Long-term leases (over 50 years)	3,268	3,344	-	-
Medium-term leases (between 10 to 50 years)	3,407	3,519	-	-
	<u>340,568</u>	<u>290,767</u>	<u>268,785</u>	<u>217,415</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

32 Trading liabilities

	The Group and the Bank	
	2008	2007
	HK\$'000	HK\$'000
Short positions in Exchange Fund Bills and Notes, at fair value:		
- Listed	515	251,626
- Unlisted	594,956	99,584
	<u>595,471</u>	<u>351,210</u>

33 Financial liabilities designated at fair value through profit or loss

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Certificates of deposit issued	1,372,172	1,520,519	1,372,172	1,572,867
Structured deposits (note 34)	703,920	638,509	743,776	669,814
	<u>2,076,092</u>	<u>2,159,028</u>	<u>2,115,948</u>	<u>2,242,681</u>

The carrying amount of financial liabilities designated at fair value through profit or loss as at 31 December 2008 is higher than the amount that the Group would be contractually required to pay at maturity to the holders by HK\$21,192,000 (2007: HK\$7,947,000), which was mainly due to changes in interest rate risk.

34 Deposits from customers

	The Group		The Bank	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits from customers				
- As stated in the balance sheet	82,493,626	70,481,358	83,337,532	71,159,167
- Structured deposits reported as financial liabilities designated at fair value through profit or loss (note 33)	<u>703,920</u>	<u>638,509</u>	<u>743,776</u>	<u>669,814</u>
	<u>83,197,546</u>	<u>71,119,867</u>	<u>84,081,308</u>	<u>71,828,981</u>
Analysed by:				
- Demand deposits and current accounts	3,641,552	3,651,083	3,864,759	3,854,964
- Savings deposits	20,153,945	17,368,435	20,424,237	17,493,439
- Time, call and notice deposits	<u>59,402,049</u>	<u>50,100,349</u>	<u>59,792,312</u>	<u>50,480,578</u>
	<u>83,197,546</u>	<u>71,119,867</u>	<u>84,081,308</u>	<u>71,828,981</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

35 Other accounts and accruals

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000 Restated	2008 HK\$'000	2007 HK\$'000 Restated
Interest payable	174,733	201,929	175,364	203,031
Insurance liabilities	1,490,414	1,309,570	-	-
Accounts and other payable	946,082	2,165,997	678,233	1,600,589
	<u>2,611,229</u>	<u>3,677,496</u>	<u>853,597</u>	<u>1,803,620</u>

Insurance liabilities are analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Gross		
Claims reported and loss adjustment expenses	591,499	596,620
Claims incurred but not reported	506,686	326,113
Unearned premiums	279,915	275,000
Other reserve	1,467	1,541
Provision for unexpired risk	17,236	27,387
Others	93,611	82,909
Total insurance liabilities, gross	<u>1,490,414</u>	<u>1,309,570</u>
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	62,920	61,758
Claims incurred but not reported	60,622	42,350
Unearned premiums	32,411	24,456
Total reinsurers' share of insurance liabilities (note 24(a))	<u>155,953</u>	<u>128,564</u>
Net		
Claims reported and loss adjustment expenses	528,579	534,862
Claims incurred but not reported	446,064	283,763
Unearned premiums	247,504	250,544
Other reserve	1,467	1,541
Provision for unexpired risk	17,236	27,387
Others	93,611	82,909
Total insurance liabilities, net	<u>1,334,461</u>	<u>1,181,006</u>

The gross claims reported, the loss adjustment expenses liabilities and the liability for claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at 31 December 2008 and 31 December 2007 are not separately disclosed as they are not material.

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36 Deferred taxation

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

The Group

	Accelerated tax depreciation HK\$'000	Revaluation on properties HK\$'000	Retirement benefit obligation HK\$'000	Impairment allowances on loans and advances HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2008	(10,087)	(421,694)	(35,571)	18,777	4,018	(19,602)	(464,159)
Credited/(charged) to the income statement	372	971	330	(60)	255,909	1,097	258,619
Credited to reserves (note 38)	-	296	-	-	-	17,790	18,086
At 31 December 2008	<u>(9,715)</u>	<u>(420,427)</u>	<u>(35,241)</u>	<u>18,717</u>	<u>259,927</u>	<u>(715)</u>	<u>(187,454)</u>

The Bank

	Accelerated tax depreciation HK\$'000	Revaluation on properties HK\$'000	Retirement benefit obligation HK\$'000	Impairment allowances on loans and advances HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2008	(6,859)	(421,410)	(35,571)	13,801	-	(143)	(450,182)
(Charged)/credited to the income statement	(419)	971	330	(635)	174,238	-	174,485
Credited to reserves (note 38)	-	280	-	-	-	880	1,160
At 31 December 2008	<u>(7,278)</u>	<u>(420,159)</u>	<u>(35,241)</u>	<u>13,166</u>	<u>174,238</u>	<u>737</u>	<u>(274,537)</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36 Deferred taxation (Continued)

The Group

	Accelerated tax depreciation HK\$'000	Revaluation on properties HK\$'000	Retirement benefit obligation HK\$'000	Impairment allowances on loans and advances HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2007 (Charged)/credited to the income statement	(10,011)	(368,273)	(33,916)	19,215	2,089	(10,444)	(401,340)
Charged to reserves (note 38)	(76)	(53,421)	(1,655)	(438)	1,929	(732)	(54,393)
	-	-	-	-	-	(8,426)	(8,426)
At 31 December 2007	<u>(10,087)</u>	<u>(421,694)</u>	<u>(35,571)</u>	<u>18,777</u>	<u>4,018</u>	<u>(19,602)</u>	<u>(464,159)</u>

The Bank

	Accelerated tax depreciation HK\$'000	Revaluation on properties HK\$'000	Retirement benefit obligation HK\$'000	Impairment allowances on loans and advances HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2007 Credited/(charged) to the income statement	(8,224)	(367,989)	(33,916)	14,975	-	1,313	(393,841)
Charged to reserves (note 38)	1,365	(53,421)	(1,655)	(1,174)	-	-	(54,885)
	-	-	-	-	-	(1,456)	(1,456)
At 31 December 2007	<u>(6,859)</u>	<u>(421,410)</u>	<u>(35,571)</u>	<u>13,801</u>	<u>-</u>	<u>(143)</u>	<u>(450,182)</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

36 Deferred taxation (Continued)

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Net deferred tax assets recognised in the balance sheet	88,909	6,799	-	-
Net deferred tax liabilities recognised in the balance sheet	(276,363)	(470,958)	(274,537)	(450,182)
	<u>(187,454)</u>	<u>(464,159)</u>	<u>(274,537)</u>	<u>(450,182)</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the deferred tax benefit through future profits is probable. At 31 December 2008, the Group had no unrecognised tax losses (2007: Nil) to be carried forward to set off against future taxable profits.

37 Share capital

	2008 HK\$'000	2007 HK\$'000
Authorised:		
300,000,000 (2007: 300,000,000) ordinary shares of HK\$5 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
232,190,115 (2007: 232,190,115) ordinary shares of HK\$5 each	<u>1,160,951</u>	<u>1,160,951</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual net assets.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

38 Reserves

The Group

	Capital reserve HK\$'000	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Statutory surplus HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2008	57,500	35,069	972,543	-	1,003,730	9,250,310	11,319,152
Available-for-sale securities							
- Changes in fair value	-	-	(989,828)	-	-	-	(989,828)
- Transfer to income statement on disposal	-	-	(131,202)	-	-	-	(131,202)
- Transfer to income statement on impairment	-	-	309,785	-	-	-	309,785
Surplus on revaluation	-	780	-	-	-	-	780
Share of associates' reserves	-	-	(175)	-	-	-	(175)
Share of jointly controlled entities' reserves	-	-	(5,119)	-	-	-	(5,119)
Effect of deferred taxation on fair value adjustments (note 36)	-	296	17,790	-	-	-	18,086
Loss for the year	-	-	-	-	-	(816,155)	(816,155)
Transfer to statutory surplus	-	-	-	25	-	(25)	-
2007 Final dividend paid	-	-	-	-	-	(348,285)	(348,285)
2008 Interim dividend paid	-	-	-	-	-	(116,095)	(116,095)
At 31 December 2008	57,500	36,145	173,794	25	1,003,730	7,989,750	9,240,944

The Bank

	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2008		33,728	92,800	1,003,730	8,229,500
Available-for-sale securities					
- Changes in fair value	-	-	(363,314)	-	(363,314)
- Transfer to income statement on disposal	-	-	(6,651)	-	(6,651)
- Transfer to income statement on impairment	-	-	305,868	-	305,868
Surplus on revaluation		780	-	-	780
Effect of deferred taxation on fair value adjustments (note 36)		280	880	-	1,160
Loss for the year	-	-	-	(294,369)	(294,369)
2007 Final dividend paid	-	-	-	(348,285)	(348,285)
2008 Interim dividend paid	-	-	-	(116,095)	(116,095)
At 31 December 2008		34,788	29,583	1,003,730	7,470,751

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

38 Reserves (Continued)

The Group

	Capital reserve HK\$'000	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2007	57,500	35,069	433,074	1,003,730	8,691,461	10,220,834
Available-for-sale securities						
- Changes in fair value	-	-	226,000	-	-	226,000
- Transfer to income statement on disposal	-	-	(104,130)	-	-	(104,130)
- Transfer to income statement on impairment	-	-	426,092	-	-	426,092
Share of associates' reserves	-	-	(67)	-	-	(67)
Effect of deferred taxation on fair value adjustments (note 36)	-	-	(8,428)	-	-	(8,428)
Profit for the year	-	-	-	-	1,371,514	1,371,514
2006 Final dividend paid	-	-	-	-	(603,694)	(603,694)
2007 Interim dividend paid	-	-	-	-	(208,971)	(208,971)
At 31 December 2007	<u>57,500</u>	<u>35,069</u>	<u>972,543</u>	<u>1,003,730</u>	<u>9,250,310</u>	<u>11,319,152</u>

The Bank

	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2007	33,728	69,535	1,003,730	7,119,255	8,226,248
Available-for-sale securities					
- Changes in fair value	-	(353,420)	-	-	(353,420)
- Transfer to income statement on disposal	-	(47,951)	-	-	(47,951)
- Transfer to income statement on impairment	-	426,092	-	-	426,092
Effect of deferred taxation on fair value adjustments (note 36)	-	(1,456)	-	-	(1,456)
Profit for the year	-	-	-	1,922,910	1,922,910
2006 Final dividend paid	-	-	-	(603,694)	(603,694)
2007 Interim dividend paid	-	-	-	(208,971)	(208,971)
At 31 December 2007	<u>33,728</u>	<u>92,800</u>	<u>1,003,730</u>	<u>8,229,500</u>	<u>9,359,758</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

38 Reserves (Continued)

- (a) The Group's capital reserve was set up in relation to the capitalisation by certain subsidiaries of their retained earnings for the issue of new shares to the Bank.
- (b) Bank premises revaluation reserve has been set up and is dealt with in accordance with the accounting policies set out in note 1.11.
- (c) Investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities until the securities are derecognised or impaired and is dealt with in accordance with the accounting policies set out in notes 1.6 and 1.7.
- (d) Statutory surplus reserve is provided at 10% of the audited profit after tax of a subsidiary of the Bank which is incorporated in the People's Republic of China, until the reserve balance is equal to 50% of its registered share capital. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.
- (e) General reserve comprises previous years' transfers from retained earnings.
- (f) At 31 December 2008, included in retained earnings is an amount of HK\$361,127,000 (2007: HK\$509,086,000) which was earmarked as regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.
- (g) The directors did not propose any final dividend (2007: HK\$348,285,000) after the year end.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

39 Amounts due from/to subsidiaries

Included in the following balance sheet headings are balances with subsidiaries:

	The Bank	
	2008	2007
	HK\$'000	HK\$'000
Amounts due from subsidiaries:		
Cash and short-term funds	60,000	-
Placements with and loans and advances to banks	320,000	270,000
Advances and other accounts	197,800	93,359
	<u>577,800</u>	<u>363,359</u>
Amounts due to subsidiaries:		
Deposits and balances from banks	97,028	25,768
Deposits from customers	846,787	680,641
Financial liabilities designated at fair value through profit or loss	39,856	83,653
Other accounts and accruals	20,660	25,546
	<u>1,004,331</u>	<u>815,608</u>

40 Segment reporting

(a) Business segments

The Group operates predominantly in commercial banking which comprises retail and corporate banking, treasury, insurance, brokerage and other activities. Retail and corporate banking includes retail banking, commercial lending, trade finance and wealth management services. Treasury activities include foreign exchange, money market and capital market activities. Insurance activities include insurance underwriting, insurance agency and other related businesses. Brokerage activities include securities and futures brokerage services. Other activities mainly comprise investment properties holding.

Unallocated items mainly comprise expenses, assets and liabilities of the central management unit and other shared services, taxation and any items which cannot be reasonably allocated to specific business segments.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

40 Segment reporting (Continued)

(a) Business segments (Continued)

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Brokerage HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000
2008								
Interest income from								
- external customers	1,628,195	1,597,386	35,253	16,238	9	-	-	3,277,081
- other segments	1,687,116	696,524	8,891	3,104	294	-	(2,395,929)	-
Interest expense to								
- external customers	(1,774,487)	(225,261)	-	-	-	-	-	(1,999,748)
- other segments	(699,455)	(1,688,556)	(51)	(7,867)	-	-	2,395,929	-
Net interest income	841,369	380,093	44,093	11,475	303	-	-	1,277,333
Net fees and commission income/(expense) from external customers	137,419	(5,601)	-	196,140	15,541	-	-	343,499
Insurance operating income from external customers	-	-	444,855	-	-	-	-	444,855
Other operating (expenses to)/income from external customers	(857,972)	15,237	(291,087)	262,936	25,920	-	-	(844,966)
Operating income	120,816	389,729	197,861	470,551	41,764	-	-	1,220,721
Operating expenses	(700,021)	(33,037)	(37,922)	(59,570)	(41,727)	(174,314)	-	(1,046,591)
Impairment charge for credit losses	(266,920)	(445,151)	(3,920)	-	-	(30,734)	-	(746,725)
Charge for insurance claims	-	-	(523,517)	-	-	-	-	(523,517)
Net gain/(loss) on disposal of other properties and equipment	33	(1)	(8)	(177)	(23)	(1,459)	-	(1,635)
Operating (loss)/profit before gain/(loss) on certain investments	(846,092)	(88,460)	(367,506)	410,804	14	(206,507)	-	(1,097,747)
Fair value adjustments on investment properties	-	-	-	-	137,586	-	-	137,586
Share of net (losses)/profits of jointly controlled entities and associates	-	-	(89,981)	-	7,196	-	-	(82,785)
(Loss)/profit before taxation	(846,092)	(88,460)	(457,487)	410,804	144,796	(206,507)	-	(1,042,946)
Capital expenditure	41,000	770	1,073	3,269	20,918	9,507	-	76,537
Depreciation and amortisation charge	35,493	2,240	1,056	3,265	7,171	10,458	-	59,683
2008								
Segment assets	48,549,773	46,936,991	1,296,451	670,824	2,678,262	-	-	100,132,301
Interests in jointly controlled entities	59,762	-	58,953	-	35,185	-	-	153,900
Interests in associates	-	-	5,867	-	-	-	-	5,867
Unallocated assets	-	-	-	-	-	300,786	-	300,786
Total assets	48,609,535	46,936,991	1,361,271	670,824	2,713,447	300,786	-	100,592,854
Segment liabilities	84,611,303	3,324,421	1,519,644	324,553	113,685	-	-	89,893,606
Unallocated liabilities	-	-	-	-	-	297,353	-	297,353
Total liabilities	84,611,303	3,324,421	1,519,644	324,553	113,685	297,353	-	90,190,959

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

40 Segment reporting (Continued)

(a) Business segments (Continued)

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Brokerage HK\$'000	Others HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Group HK\$'000 Restated
2007								
Interest income from								
- external customers	2,382,524	1,932,341	70,054	56,135	12	-	-	4,441,066
- other segments	2,315,519	1,218,620	19,329	21,668	1,383	-	(3,576,519)	-
Interest expense to								
- external customers	(2,580,263)	(369,214)	-	-	-	-	-	(2,949,477)
- other segments	(1,200,954)	(2,332,113)	-	(43,452)	-	-	3,576,519	-
Net interest income	916,826	449,634	89,383	34,351	1,395	-	-	1,491,589
Net fees and commission income/(expense) from external customers	186,302	(6,128)	-	304,037	15,907	-	-	500,118
Insurance operating income from external customers	-	-	436,213	-	-	-	-	436,213
Other operating income from external customers	43,336	68,983	67,678	11,547	179,188	-	-	370,732
Operating income	1,146,464	512,489	593,274	349,935	196,490	-	-	2,798,652
Operating expenses	(428,142)	(25,179)	(35,887)	(55,449)	(35,922)	(157,900)	-	(738,479)
Impairment charge for credit losses	(40,429)	(463,019)	-	-	-	-	-	(503,448)
Charge for insurance claims	-	-	(354,268)	-	-	-	-	(354,258)
Net loss on disposal of other properties and equipment	(3)	-	-	(156)	(1)	(834)	-	(994)
Operating profit/(loss) before gain on certain investments	677,890	24,291	203,129	294,330	160,567	(158,734)	-	1,201,473
Fair value adjustments on investment properties	-	-	-	-	305,264	-	-	305,264
Share of net profits of jointly controlled entities and associates	-	-	57,242	-	12,102	-	-	69,344
Profit/(loss) before taxation	677,890	24,291	260,371	294,330	477,933	(158,734)	-	1,576,081
Capital expenditure	31,042	4,284	1,408	1,745	3,930	13,741	-	56,150
Depreciation and amortisation charge	36,785	2,284	1,558	3,497	7,349	11,892	-	63,365
2007								
Segment assets	48,533,798	38,095,622	1,688,015	1,691,687	2,896,950	-	-	92,906,072
Interests in jointly controlled entities	65,697	-	123,971	-	34,350	-	-	224,018
Interests in associates	-	-	6,184	-	-	-	-	6,184
Unallocated assets	-	-	-	-	-	257,248	-	257,248
Total assets	48,599,495	38,095,622	1,818,170	1,691,687	2,931,300	257,248	-	93,393,522
Segment liabilities	73,223,456	5,118,413	1,355,777	668,569	72,120	-	-	80,438,335
Unallocated liabilities	-	-	-	-	-	475,084	-	475,084
Total liabilities	73,223,456	5,118,413	1,355,777	668,569	72,120	475,084	-	80,913,419

(b) Geographical area

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments are attributable to the Group's operations outside Hong Kong.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

41 Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments, and the aggregate credit risk weighted amounts:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000 Restated	2008 HK\$'000	2007 HK\$'000 Restated
Contractual amount				
Direct credit substitutes	287,168	681,723	353,813	520,706
Transaction-related contingencies	122,324	67,365	122,324	67,365
Trade-related contingencies	121,539	265,532	121,539	265,532
Other commitments which are unconditionally cancellable	9,050,982	13,786,201	9,135,755	13,923,731
Other commitments with an original maturity of one year or less	655,300	2,268,990	655,300	2,268,990
Other commitments with an original maturity of over one year	3,796,778	5,789,372	3,796,778	5,789,372
	<u>14,034,091</u>	<u>22,859,183</u>	<u>14,185,509</u>	<u>22,835,696</u>
Credit risk weighted amount	<u>2,187,860</u>	<u>4,053,294</u>	<u>2,253,594</u>	<u>3,685,046</u>

The risk weights used in the computation of credit risk weighted amounts range from 0% to 150%.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

42 Capital and lease commitments

- (a) Capital commitments outstanding at 31 December not provided for in the financial statements are as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Contracted but not provided for	43,638	32,856	41,502	28,194
Authorised but not contracted for	1,489	1,064	1,489	1,064
	<u>45,127</u>	<u>33,920</u>	<u>42,991</u>	<u>29,258</u>

- (b) At 31 December, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

	The Group		The Bank	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Land and buildings				
- Within one year	25,655	23,649	24,388	22,654
- After one year but within five years	44,380	24,199	44,380	23,005
- Over five years	7,590	-	7,590	-
	<u>77,625</u>	<u>47,848</u>	<u>76,358</u>	<u>45,659</u>

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 6 years. None of the leases include contingent rentals.

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

43 Notes to consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations

	2008 HK\$'000	2007 HK\$'000 Restated
(Loss)/profit before taxation	(1,042,946)	1,576,081
Adjustments for:		
Share of net losses/(profits) of jointly controlled entities	84,667	(67,637)
Share of net profits of associates	(1,882)	(1,707)
Net gain on disposal of available-for-sale securities	(131,202)	(104,130)
Net loss on disposal of other properties and equipment	1,635	994
Fair value adjustments on investment properties	(137,586)	(305,264)
Impairment charge for credit losses	746,725	503,448
Depreciation	55,511	59,194
Amortisation of land lease premium	4,172	4,171
Amortisation of premium on available-for-sale securities and held-to-maturity securities	(136,714)	(97,591)
Operating (loss)/profit before changes in working capital	(557,620)	1,567,559
(Increase)/decrease in operating assets:		
Short-term funds	904,509	(261,096)
Placements with and loans and advances to banks maturing beyond three months	616,115	1,266,941
Trading securities	(110,540)	(634,599)
Financial assets designated at fair value through profit or loss	495,665	500,555
Advances and other accounts	(392,320)	(3,935,915)
Increase/(decrease) in operating liabilities:		
Net derivative financial liabilities	366,352	308,067
Deposits and balances from banks maturing beyond three months	81,488	75,400
Deposits from customers	12,012,268	7,772,237
Certificates of deposit issued	(752,224)	(109,434)
Financial liabilities designated at fair value through profit or loss	(82,936)	(1,071,065)
Trading liabilities	(86)	(242,938)
Other accounts and accruals	(1,066,267)	516,623
Cash generated from operations	<u>11,514,404</u>	<u>5,752,335</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

43 Notes to consolidated cash flow statement (Continued)

(b) Analysis of the balance of cash and cash equivalents

	2008 HK\$'000	2007 HK\$'000
Cash and balances with banks	2,160,442	1,589,339
Money at call and short notice	33,882,916	23,928,231
Placements with and loans and advances to banks with original maturity within three months	3,983,327	2,103,416
Treasury bills with original maturity within three months	629,910	149,458
Certificates of deposit held with original maturity within three months	-	56,163
Short positions in Exchange Fund Bills and Notes	(594,956)	(350,609)
Deposits and balances from banks with original maturity within three months	(762,256)	(1,078,903)
	<u>39,299,383</u>	<u>26,397,095</u>

44 Assets pledged as security

(a) At 31 December 2008, a money market deposit of US\$7,200,000 (equivalent to HK\$55,800,000) included in cash and short-term funds has been pledged to the Office of the Comptroller of Currency of the United States of America as a statutory deposit for the Bank's branch in Los Angeles (2007: a certificate of deposit of US\$7,200,000 equivalent to HK\$56,163,000 included in held-to-maturity securities).

(b) At 31 December 2008, Hong Kong Exchange Fund Bills and Notes totalling HK\$596,318,000 (2007: HK\$363,089,000) which are included in "Trading securities" have been pledged to secure the Bank's short positions in Exchange Fund Bills and Notes under sale and repurchase agreements entered into by the Bank in the normal course of its business.

45 Loans to officers

Loans made by the Bank to officers and disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding at 31 December		Maximum balance during the year	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>3,264</u>	<u>1,913</u>	<u>4,712</u>	<u>3,611</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

46 Material related party transactions

During the year, the Group entered into certain banking transactions with related parties in the normal course of business, which include loans, deposits, insurance and other financial related transactions. These related parties are key management personnel of the Bank, close members of their families and companies controlled or significantly influenced by the Group or by them. In addition to the transactions and balances disclosed elsewhere in the financial statements, other material related party transactions entered into by the Group are as follows:

2008

	Parent company HK\$'000	Jointly controlled entities HK\$'000	Associates HK\$'000	Key management personnel HK\$'000	Other related parties HK\$'000	Total HK\$'000
The Group and the Bank						
Aggregate amounts outstanding at the year end						
- Loans	-	61,062	-	6,571	150,005	217,638
- Placement of deposits	31,028	-	-	-	-	31,028
- Deposits from customers	56,697	905,934	15,056	488,146	4,967,920	6,433,753
The Group						
Income for the year received from related parties						
- Interest income	151	2,133	-	238	5,129	7,651
- Other operating income	-	7,145	580	173	1,697	9,595
- Net insurance operating income	-	4,157	-	-	-	4,157
	151	13,435	580	411	6,826	21,403
Expenses for the year paid to related parties						
- Interest expenses	1,106	13,413	32	18,731	69,902	103,184
- Operating expenses	-	6,091	-	-	5,715	11,806
- Net insurance operating expenses	-	-	23,942	-	-	23,942
	1,106	19,504	23,974	18,731	75,617	138,932

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

46 Material related party transactions (Continued)

2007	Jointly controlled entities HK\$'000	Associates HK\$'000	Key management personnel HK\$'000	Other related parties HK\$'000	Total HK\$'000
The Group and the Bank					
Aggregate amounts outstanding at the year end					
- Loans	<u>72,264</u>	<u>-</u>	<u>7,527</u>	<u>6,936</u>	<u>86,727</u>
- Deposits from customers	<u>609,718</u>	<u>2,094</u>	<u>279,143</u>	<u>1,757,236</u>	<u>2,648,191</u>
The Group					
Income for the year received from related parties					
- Interest income	<u>328</u>	<u>-</u>	<u>477</u>	<u>4,877</u>	<u>5,682</u>
- Other operating income	<u>6,929</u>	<u>459</u>	<u>-</u>	<u>739</u>	<u>8,127</u>
	<u>7,257</u>	<u>459</u>	<u>477</u>	<u>5,616</u>	<u>13,809</u>
Expenses for the year paid to related parties					
- Interest expenses	<u>25,859</u>	<u>75</u>	<u>11,355</u>	<u>68,643</u>	<u>105,932</u>
- Operating expenses	<u>2,099</u>	<u>-</u>	<u>-</u>	<u>6,900</u>	<u>8,999</u>
- Net insurance operating expenses	<u>2,730</u>	<u>24,664</u>	<u>-</u>	<u>-</u>	<u>27,394</u>
	<u>30,688</u>	<u>24,739</u>	<u>11,355</u>	<u>75,543</u>	<u>142,325</u>

No impairment allowances have been recognised in respect of loans granted to related parties (2007: Nil).

Key management personnel remuneration

Remuneration for key management personnel of the Group including amounts paid to the Bank's directors is as follows:

	2008 HK\$'000	2007 HK\$'000
Salaries, bonus and other short-term benefits	<u>32,559</u>	<u>48,126</u>
Retirement benefits	<u>1,461</u>	<u>2,107</u>
	<u>34,020</u>	<u>50,233</u>

WING LUNG BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

47 List of subsidiaries for financial reporting consolidation

Hongnet Limited #
Sea Wing Investments Limited
Wing Lung Agency Limited
Wing Lung Bank (Nominees) Limited #
Wing Lung Bank (Trustee) Limited #
Wing Lung Credit Limited
Wing Lung Finance Limited
Wing Lung Futures Limited #
Wing Lung Information Technology (Shenzhen) Limited #*
Wing Lung Insurance Brokers Limited
Wing Lung Insurance Company Limited #
Wing Lung Property Management Limited #
Wing Lung Securities Limited #
Wingspan Incorporated

Companies excluded in the computation of the consolidated capital ratios at 31 December 2008 and 31 December 2007 for regulatory reporting purposes

* Newly established in February 2008

48 Immediate and ultimate holding company

The directors consider that the immediate and ultimate holding company of the Group at 31 December 2008 to be China Merchants Bank Co., Ltd., which is incorporated in the People's Republic of China.

49 Comparative figures

Certain comparative figures have been restated to recognise the fair values on the balance sheets of the Group and the Bank of derivative contracts entered into with customers and hedged by entering into identical contracts with other counterparties. Previously these contracts were not recognised.

Certain comparative figures have been restated to recognise the amounts on the balance sheets of the Group and the Bank for receivables and payables arising from bankers' acceptance contracts in order to align with the current industry practice.

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 Capital adequacy ratio and capital base

	2008	2007 Restated
Capital ratios		
- Capital adequacy ratio	13.8%	14.6%
- Core capital adequacy ratio	12.0%	12.1%

The capital base after deductions used in the calculation of the above capital ratios as at 31 December 2008 and 31 December 2007 is analysed as follows:

	2008 HK\$'000	2007 HK\$'000
Core capital:		
Paid up ordinary share capital	1,160,951	1,160,951
Reserves	6,249,989	5,722,608
Profit and loss account	(482,180)	177,665
Less: Deferred tax assets	(22,689)	(6,799)
	<hr/>	<hr/>
Core capital	6,906,071	7,054,425
Less: Deductions from core capital	(407,402)	(352,541)
	<hr/>	<hr/>
Total core capital after deductions	6,498,669	6,701,884
	<hr/>	<hr/>
Supplementary capital:		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	824,416	824,416
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	18,245	45,291
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	35,610	198,408
Regulatory reserve for general banking risks	361,127	509,086
Collective impairment allowances	117,364	108,436
	<hr/>	<hr/>
Supplementary capital	1,356,762	1,685,637
Less: Deductions from supplementary capital	(407,402)	(352,541)
	<hr/>	<hr/>
Total supplementary capital after deductions	949,360	1,333,096
	<hr/>	<hr/>
Total capital base after deductions	7,448,029	8,034,980
	<hr/>	<hr/>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

1 Capital adequacy ratio and capital base (Continued)

The capital ratios at 31 December 2008 and 31 December 2007 were calculated in accordance with the Banking (Capital) Rules issued by the Hong Kong Monetary Authority ("HKMA") under section 98A of the Hong Kong Banking Ordinance. In accordance with the Banking (Capital) Rules, the Group has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk and market risk, and the "basic indicator approach" for the calculation of operational risk.

The basis of consolidation for calculation of the capital ratios at 31 December follows the basis of consolidation for financial reporting but excludes certain subsidiaries as set out in note 47 to the financial statements. The investment costs of these subsidiaries are therefore deducted from capital.

2 Liquidity ratio

	2008	2007
Liquidity ratio	51.7%	46.8%

The liquidity ratio is calculated as the simple average of each calendar month's average consolidated liquidity ratio for the year calculated for the Bank and a subsidiary as specified by the HKMA during the year in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

3 Capital charge for credit, market and operational risks

The capital ratios in note 1 to the supplementary financial information represent the consolidated ratio that comprises the positions of the Bank and subsidiaries for regulatory purposes as at 31 December computed in accordance with the Banking (Capital) Rules. For accounting purposes, the basis of consolidation is described in note 47 to the financial statements.

The capital requirements for each class of exposures are summarised as follows:

(a) Capital charge for credit risk

The Group uses the standardised approach for calculation of the capital charge for credit risk.

	Capital requirement	
	2008 HK\$'000	2007 HK\$'000 Restated
Sovereign exposures	501	62
Public sector entity exposures	35,109	40,153
Bank exposures	772,211	683,676
Corporate exposures	2,239,695	2,095,931
Cash items	6,885	13,338
Regulatory retail exposures	141,992	124,059
Residential mortgage loans	342,547	353,999
Other exposures which are not past due exposures	367,909	447,629
Past due exposures	16,370	8,020
Total capital charge for on-balance sheet exposures	3,923,219	3,766,867
Direct credit substitutes	17,160	29,586
Transaction-related contingencies	4,734	2,512
Trade-related contingencies	3,011	5,972
Other commitments	151,322	252,648
Exchange rate contracts	840	969
Interest rate contracts	957	1,115
Equity contracts	1,500	33,798
Total capital charge for off-balance sheet exposures	179,524	326,600
Total capital charge for credit risk	4,102,743	4,093,467

This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Group's actual "regulatory capital".

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

3 Capital charge for credit, market and operational risks (continued)

(b) Capital charge for market risk

The Group uses the standardised approach for calculation of the capital charge for market risk.

	Capital charge	
	2008	2007
	HK\$'000	HK\$'000
		Restated
Interest rate exposures (including options)	22,489	18,926
Equity exposures (including options)	17,480	30,617
Foreign exchange exposures (including gold and options)	8,150	27,695
Capital charge for market risk	<u>48,119</u>	<u>77,238</u>

(c) Capital charge for operational risk

The Group uses the basic indicator approach for calculating the capital charge for operational risk.

	2008	2007
	HK\$'000	HK\$'000
Capital charge for operational risk	<u>276,392</u>	<u>295,678</u>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

4 Currency concentrations

The US dollar net position constitutes 10% or more of the total net position in all foreign currencies and is reported in Hong Kong dollar equivalent as follows:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Spot assets	15,113,826	18,439,911
Spot liabilities	(14,717,978)	(17,179,125)
Forward purchases	2,183,351	2,334,698
Forward sales	(1,580,935)	(2,080,305)
Net option position	(2,323)	(3,279)
	<hr/>	<hr/>
Net long position	995,941	1,511,900
	<hr/> <hr/>	<hr/> <hr/>

The net option position is calculated based on the model user approach set out in the prudential return "Foreign Currency Position" issued by the HKMA.

The RMB and US dollar net structural positions constitute 10% or more of the total net structural position in all foreign currencies and are reported in Hong Kong dollar equivalent as follows:

	The Group	
	2008 HK\$'000	2007 HK\$'000
Net structural position		
US dollar	273,454	67,864
RMB	328,082	106,890
	<hr/>	<hr/>
	601,536	174,754
	<hr/> <hr/>	<hr/> <hr/>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

5 Segmental information

(a) Gross advances to customers by industry sectors

	2008		2007	
	HK\$'000	% of gross advances covered by collateral	HK\$'000	% of gross advances covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
Property development	4,133,346	23.8	3,190,372	35.9
Property investment	13,185,748	93.9	12,003,588	91.7
Financial concerns	271,809	98.5	285,407	99.7
Stockbrokers	229	100.0	361	100.0
Wholesale and retail trade	851,923	88.6	622,891	96.8
Manufacturing	526,514	67.8	523,713	73.6
Transport and transport equipment	1,365,053	25.4	1,690,921	15.5
Recreational activities	20,372	82.3	19,770	100.0
Information technology	3,084	82.4	2,941	69.9
Others	3,357,481	55.1	2,847,782	63.7
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,765,912	100.0	1,952,277	100.0
Loans for the purchase of other residential properties	9,552,132	99.8	10,070,949	99.8
Credit card advances	470,908	-	660,328	-
Others	1,410,419	93.9	1,356,995	90.9
Trade finance	622,556	62.5	725,104	62.1
	<u>37,537,486</u>	79.9	<u>35,953,399</u>	81.2
Loans for use outside Hong Kong	5,830,616	45.0	5,981,121	38.2
	<u>43,368,102</u>	75.2	<u>41,934,520</u>	75.1

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

5 Segmental information (Continued)

(a) Gross advances to customers by industry sectors (Continued)

The gross amount of impaired loans, impairment allowances, amount of new impairment allowances charged to income statement and the amount of impaired loans written off for those industry sectors which constitute not less than 10% of gross advances to customers is analysed as follows:

	Impaired loans HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	New impairment allowances charged to income statement HK\$'000	Amount of impaired loans written off HK\$'000
2008					
Loans for use in Hong Kong					
Industrial, commercial and financial					
Property investment	4,707	3,982	24,177	3,779	-
Individuals					
Loans for the purchase of other residential properties	9,537	419	8,032	65	1,082
Loans for use outside Hong Kong	28,076	25,118	22,581	17,305	4,371
	<u>42,320</u>	<u>29,519</u>	<u>54,790</u>	<u>21,149</u>	<u>5,453</u>
2007					
Loans for use in Hong Kong					
Industrial, commercial and financial					
Property investment	7,697	5,043	21,131	1,683	3,130
Individuals					
Loans for the purchase of other residential properties	11,860	2,061	17,719	11,726	-
Loans for use outside Hong Kong	15,319	13,005	25,520	12,955	8,349
	<u>34,876</u>	<u>20,109</u>	<u>64,370</u>	<u>26,364</u>	<u>11,479</u>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

5 Segmental information (Continued)

(b) Geographical analysis of gross advances to customers, overdue advances, impaired loans and impairment allowances

The following geographical analysis of gross advances to customers, overdue advances, impaired loans and impairment allowances is based on the location of the counterparty, after taking into account the transfer of risk in respect of such advances where appropriate.

	Gross advances to customers HK\$'000	Overdue advances HK\$'000	Impaired loans HK\$'000	Individual impairment allowance		Collective impairment allowance HK\$'000
				Overdue advances HK\$'000	Impaired loans HK\$'000	
2008						
Hong Kong	39,440,052	1,328,541	81,233	37,695	41,415	108,592
Others	3,928,050	2,762	1,249	1,249	1,249	8,434
	<u>43,368,102</u>	<u>1,331,303</u>	<u>82,482</u>	<u>38,944</u>	<u>42,664</u>	<u>117,026</u>
2007						
Hong Kong	38,165,714	1,642,963	110,227	45,760	48,166	101,661
Others	3,768,806	10,670	-	-	-	6,533
	<u>41,934,520</u>	<u>1,653,633</u>	<u>110,227</u>	<u>45,760</u>	<u>48,166</u>	<u>108,194</u>

(c) Cross-border claims

The Group analyses cross-border claims by exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. The transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Those areas which contribute 10% or more of the aggregate cross-border claims are as follows:

	Banks HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding				
Hong Kong	19,662,960	91,997	3,125,949	22,880,906
North and South America	3,538,507	395,172	1,632,923	5,566,602
Europe	20,337,435	-	76,123	20,413,558
2007				
Asia Pacific excluding				
Hong Kong	13,515,818	61,793	3,872,264	17,449,875
North and South America	1,946,704	123,674	1,847,298	3,917,676
Europe	18,259,143	-	690,328	18,949,471

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

6 Overdue and rescheduled assets

(a) Overdue advances

The Group's overdue advances to customers are analysed as follows:

	2008		2007	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross amount of advances which have been overdue for:				
- Six months or less, but over three months	11,570	0.03	37,311	0.09
- One year or less, but over six months	9,656	0.02	34,873	0.08
- Over one year	24,144	0.06	80,626	0.19
	<u>45,370</u>	<u>0.11</u>	<u>152,810</u>	<u>0.36</u>
Secured overdue advances	17,964		111,960	
Unsecured overdue advances	27,406		40,850	
	<u>45,370</u>		<u>152,810</u>	
Market value of collateral held against the secured overdue advances	<u>25,728</u>		<u>130,789</u>	
Individual impairment allowances made	<u>24,659</u>		<u>39,346</u>	

At 31 December 2008, there were no advances to banks which were overdue for over three months (2007: Nil).

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

6 Overdue and rescheduled assets (Continued)

(b) Other overdue assets

The Group's other overdue assets are analysed as follows:

	2008			2007	
	Other accounts HK\$'000	Trade bills HK\$'000	Accrued interest HK\$'000	Trade bills HK\$'000	Accrued interest HK\$'000
Gross amount of other assets which have been overdue for:					
- Six months or less, but over three months	109,441	421	72	3,541	4,511
- One year or less, but over six months	-	-	39	-	745
- Over one year	-	-	4,707	8,507	4,871
	<u>109,441</u>	<u>421</u>	<u>4,818</u>	<u>12,048</u>	<u>10,127</u>

(c) Rescheduled advances

The Group's rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above) are as follows:

	2008		2007	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>83,829</u>	<u>0.19</u>	<u>38,351</u>	<u>0.09</u>

At 31 December 2008, there were no rescheduled advances to banks (2007: Nil).

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

7 Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA return for non-bank Mainland exposures, these include exposures extended by the Bank and its overseas branches only.

2008

	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Mainland entities	4,360,669	331,369	4,692,038	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	1,709,150	322,530	2,031,680	4,839
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	21,407	-	21,407	-
Total	6,091,226	653,899	6,745,125	4,839

2007

	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Mainland entities	3,533,882	887,603	4,421,485	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	1,983,753	663,777	2,647,530	7,564
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	48,979	712	49,691	-
Total	5,566,614	1,552,092	7,118,706	7,564

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management

(a) Credit risk

(i) Credit risk exposures

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the External Credit Assessment Institutions ("ECAIs") that the Group has used in relation to the credit risk exposures below. The process it used to map ECAI issuer ratings or ECAI issue specific ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

The Group							Total exposure covered by recognised collateral HK\$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK\$'000
	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts			
2008	Total exposures HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000	HK\$'000	HK\$'000	HK\$'000
On-balance sheet								
Sovereign	541,655	649,033	-	6,264	-	6,264	-	-
Public sector entity	383,632	418,969	1,764,486	85,969	352,897	438,866	-	-
Bank	44,152,894	43,780,545	419,498	9,465,222	187,421	9,652,643	-	373,359
Corporate	29,634,175	4,198,000	25,092,765	2,903,419	25,092,765	27,996,184	188,882	1,839,999
Cash items	497,383	-	743,380	-	86,057	86,057	-	-
Regulatory retail	2,374,523	-	2,366,539	-	1,774,905	1,774,905	7,984	-
Residential mortgage loan	12,937,848	-	11,138,025	-	4,281,836	4,281,836	-	1,799,823
Other exposures which are not past due exposures	4,647,989	74,934	4,523,925	74,934	4,523,925	4,598,859	49,131	-
Past due exposures	150,855	-	150,855	-	204,626	204,626	25,419	3,544
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	2,418,901	352,093	2,066,808	209,171	1,993,662	2,202,833	31,523	224,728
OTC derivative transactions	69,377	39,587	29,790	11,423	29,790	41,213	-	-
	<u>97,809,232</u>	<u>49,513,161</u>	<u>48,296,071</u>	<u>12,756,402</u>	<u>38,527,884</u>	<u>51,284,286</u>	<u>302,939</u>	<u>4,241,453</u>
Exposures deducted from capital base	<u>814,292</u>							

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management

(a) Credit risk (Continued)

(i) Credit risk exposures (Continued)

The Group	2007 Restated	Exposures after recognised credit risk mitigation			Risk-weighted amounts		Total risk-weighted amounts HK\$'000	Total exposure covered by recognised collateral HK\$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK\$'000
		Total Exposures HK\$'000	Rated HK\$'000	Unrated HK\$'000	Rated HK\$'000	Unrated HK\$'000			
On-balance sheet									
Sovereign	63,693	63,693	-	775	-	775	-	-	
Public sector entity	499,179	551,862	1,949,548	112,005	389,910	501,915	-	-	
Bank	35,780,810	35,163,372	1,062,181	8,228,701	317,248	8,545,949	-	115,293	
Corporate	28,333,012	3,005,831	24,634,474	1,564,659	24,634,474	26,199,133	237,743	2,774,472	
Cash items	634,547	-	928,590	-	166,721	166,721	-	-	
Regulatory retail	2,074,986	-	2,067,647	-	1,550,736	1,550,736	7,339	-	
Residential mortgage loan	13,400,985	-	11,408,976	-	4,424,993	4,424,993	-	1,992,009	
Other exposures which are not past due exposures	5,644,328	129,798	5,465,568	129,798	5,465,568	5,595,366	48,961	-	
Past due exposures	155,804	-	155,804	-	100,244	100,244	133,860	6,186	
Off-balance sheet									
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,828,871	849,704	2,979,167	654,313	2,862,649	3,516,962	105,905	276,782	
OTC derivative transactions	605,945	213,286	392,659	56,424	392,100	448,524	-	-	
Credit derivative contracts	234,012	234,012	-	117,006	-	117,006	-	-	
	<u>91,256,172</u>	<u>40,211,558</u>	<u>51,044,614</u>	<u>10,863,681</u>	<u>40,304,643</u>	<u>51,168,324</u>	<u>533,808</u>	<u>5,164,742</u>	
Exposures deducted from capital base	<u>390,292</u>								

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Counterparty credit risk exposures

The following table summarises the Group's main credit exposures arising from OTC derivative transactions and credit derivative contracts:

The Group	2008		2007	
	OTC derivative transactions HK\$'000	Credit derivative transactions HK\$'000	OTC derivative transactions HK\$'000 Restated	Credit derivative transactions HK\$'000
OTC derivative and credit derivative:				
Gross total positive fair value	37,082	-	234,466	-
Credit equivalent amount	69,377	-	605,945	234,012
Risk weighted amounts	41,213	-	448,524	117,006

The breakdown of the credit equivalent amounts or net credit exposures, and the risk-weighted amount is summarised as follow:

The Group	2008		2007	
	OTC derivative transactions HK\$'000	Credit derivative transactions HK\$'000	OTC derivative transactions HK\$'000 Restated	Credit derivative transactions HK\$'000
Notional amounts:				
Banks	3,824,770	-	6,232,757	52,003
Corporates	1,003,092	-	1,430,864	26,001
Others	506,626	-	3,836,080	-
	<u>5,334,488</u>	<u>-</u>	<u>11,499,701</u>	<u>78,004</u>
Credit equivalent amounts:				
Banks	39,587	-	203,783	156,008
Corporates	4,700	-	18,480	78,004
Others	25,090	-	383,682	-
	<u>69,377</u>	<u>-</u>	<u>605,945</u>	<u>234,012</u>
Risk-weighted amounts:				
Banks	11,423	-	54,859	78,004
Corporates	4,700	-	9,983	39,002
Others	25,090	-	383,682	-
	<u>41,213</u>	<u>-</u>	<u>448,524</u>	<u>117,006</u>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Counterparty credit risk exposures (Continued)

Credit derivative contracts

The Group

	Contract / notional amount	
	2008	2007
	HK\$'000	HK\$'000
Used for the Bank's credit portfolio		
Credit default swap protection sold		
Protection sold	-	78,004
	<u> </u>	<u> </u>

The Group currently uses the current exposure method for purpose of providing capital for counterparty exposures in accordance with the Banking (Capital) Rules. Internally, the Group measures counterparty credit exposure using the marked-to-market exposure with appropriate add-on for future potential exposures.

The Group has internal limit for counterparty exposure with respect to OTC derivative contracts and credit derivative contracts. When the limit is reached, the senior management will take appropriate action including reduction of the position.

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management (Continued)

(b) Asset securitisation

The Group uses the standardised (securitisation) approach to calculate the credit risk for securitisation exposures. It is an investing institution for all classes of exposures below.

Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings are the ECAs that the Group has used in relation to the securitisation exposures below.

2008

The Group

Securitisation exposures	Outstanding amounts HK\$'000	Risk-weighted amount HK\$'000	Capital requirements HK\$'000	Exposures deducted from its	
				Core capital HK\$'000	Supplementary capital HK\$'000
Traditional securitisations					
Securitised investments	3	3	-	-	-
Financial	1	1	-	-	-
Student loan	1	1	-	-	-
	<u>5</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>
Synthetic securitisations					
Financial	265	28	2	63	63
Corporate	825	88	7	193	193
	<u>1,090</u>	<u>116</u>	<u>9</u>	<u>256</u>	<u>256</u>

2007

The Group

Securitisation exposures	Outstanding amounts HK\$'000	Risk-weighted amount HK\$'000	Capital requirements HK\$'000	Exposures deducted from its	
				Core capital HK\$'000	Supplementary capital HK\$'000
Traditional securitisations					
Financial	174,563	-	-	87,281	87,281
Securitised investments	98,307	-	-	49,153	49,153
Student loan	17,528	-	-	8,764	8,764
Credit cards	14,431	-	-	7,216	7,216
Sovereign	4,126	-	-	2,063	2,063
Auto	2,902	-	-	1,451	1,451
Home equity lines of credit	1,851	-	-	926	926
Others	1,082	-	-	541	541
	<u>314,790</u>	<u>-</u>	<u>-</u>	<u>157,395</u>	<u>157,395</u>
Synthetic securitisations					
Financial	167,266	118,809	9,505	-	-
Corporate	692,511	467,416	37,393	-	-
	<u>859,777</u>	<u>586,225</u>	<u>46,898</u>	<u>-</u>	<u>-</u>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management (Continued)

(c) Equity exposures in banking book

Investments that are held for the purpose of entering into a strategic cooperation with the investee with a view to leveraging the respective strengths to enhance the Group's business are classified by the Group as strategic investments. Other equity investments are held for capital gain purposes.

Equity exposures in the banking book are initially recognised at fair value plus transaction costs and subsequently carried at fair value. Unrealised gains and losses arising from changes in fair value are recognised directly in the investment revaluation reserve, until the equity exposure is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the investment revaluation reserve is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. For unquoted equity holdings with no active market, the Group establishes fair value by the use of recent arm's length transactions or other valuation techniques commonly used by market participants.

The Group	2008 HK\$'000	2007 HK\$'000
Realised gains from sales/liquidations	3,236	32,282
Unrealised revaluation gain		
Amount included in reserves but not through income statement	37,197	93,213
Amount included in supplementary capital	17,461	43,806

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

8 Risk management (Continued)

(d) Interest rate exposures in banking book

The Group monitors the interest rate risk exposures on a monthly basis by assessing the impact on earnings in banking book due to parallel movements of plus or minus 100 basis points in all yield curves.

The impact on earnings of the Group is calculated by assuming that the changes in interest rates last for a period of 12 months and all positions are repriced at the mid-point of each time band.

2008

The Group

	HK\$ HK\$'000	US\$ HK\$'000	Currency A\$ HK\$'000	Others HK\$'000	Total HK\$'000
Interest rate risk (+100 basis points)					
- Decline in earnings	-	(1,883)	-	(1,151)	(3,034)
- Increase in earnings	79,741	-	906	-	80,647
	<u>79,741</u>	<u>(1,883)</u>	<u>906</u>	<u>(1,151)</u>	<u>77,613</u>
Interest rate risk (- 100 basis points)					
- Decline in earnings	(79,741)	-	(906)	-	(80,647)
- Increase in earnings	-	1,883	-	1,151	3,034
	<u>(79,741)</u>	<u>1,883</u>	<u>(906)</u>	<u>1,151</u>	<u>(77,613)</u>

2007

The Group

	HK\$ HK\$'000	US\$ HK\$'000	Currency A\$ HK\$'000	Others HK\$'000	Total HK\$'000
Interest rate risk (+100 basis points)					
- Decline in earnings	-	(14,841)	-	(7,381)	(22,222)
- Increase in earnings	92,001	-	1,336	-	93,337
	<u>92,001</u>	<u>(14,841)</u>	<u>1,336</u>	<u>(7,381)</u>	<u>71,115</u>
Interest rate risk (- 100 basis points)					
- Decline in earnings	(92,001)	-	(1,336)	-	(93,337)
- Increase in earnings	-	14,841	-	7,381	22,222
	<u>(92,001)</u>	<u>14,841</u>	<u>(1,336)</u>	<u>7,381</u>	<u>(71,115)</u>

WING LUNG BANK LIMITED

SUPPLEMENTARY FINANCIAL INFORMATION

9 Additional disclosure on structured investments

Structured Investment Vehicles (“SIV”)

The carrying value of the Group’s SIV portfolio was HK\$311.5 million as at 31 December 2007, all of which are sponsored by banks. The Group has been conservative in provisioning amidst deterioration in the asset-backed securities market. As at 31 December 2008, the total portfolio of SIV investments has been fully provided for or written off.

Collateralised Debt Obligations (“CDO”)

The carrying value of the Group’s CDO portfolio was HK\$726.9 million as at 31 December 2007. The credit market conditions were highly challenging in the second half of 2007 and have further deteriorated in 2008. This saw a tightening of the CDO market, particularly in the U.S. and the distressed conditions were reflected in the valuation of the Group’s CDO investments. The Group continues to adopt a conservative approach towards accounting for its CDO investments that takes into account a range of factors affecting valuation including current market conditions, credit quality, maturity and other information. As at 31 December 2008, the Group’s CDO portfolio has been fully written off and the loss was recognised in the income statement.