

Annex A

Consolidated Financial Results for the Year Ended 31 December 2010

	2010	2009
	HK\$'000	HK\$'000
Interest income	1,141,383	1,338,301
Interest expense	<u>(170,802)</u>	<u>(300,594)</u>
Net interest income	970,581	1,037,707
Other income	<u>587,799</u>	<u>231,588</u>
Operating income	1,558,380	1,269,295
Operating expenses	<u>(171,425)</u>	<u>(157,836)</u>
Operating profit before impairment	1,386,955	1,111,459
Write-back of loan impairment allowances	<u>16,663</u>	<u>36,837</u>
Operating profit	1,403,618	1,148,296
Share of profit of a jointly controlled entity	<u>2,259</u>	<u>1,922</u>
Profit before taxation	1,405,877	1,150,218
Taxation	<u>(172,015)</u>	<u>(144,186)</u>
Profit for the year	1,233,862	1,006,032
Profit/(loss) attributable to:		
Equity holders of the Company	1,233,532	1,006,469
Non-controlling interest	<u>330</u>	<u>(437)</u>
	<u>1,233,862</u>	<u>1,006,032</u>
Proposed dividend	<u>350,000</u>	<u>500,000</u>

	As at 31 December 2010 HK\$'000	As at 31 December 2009 HK\$'000
ASSETS		
Cash and short-term funds	5,902,649	4,067,798
Derivative financial instruments	1,396,621	1,317,375
Loan portfolio, net	35,258,937	43,788,716
Investment securities:		
- available-for-sale	3,403,966	3,613,064
- held-to-maturity	8,033,133	5,817,998
Investment in a jointly controlled entity	130,720	115,190
Reinsurance assets	204,891	266,101
Other assets	702,061	764,382
	55,032,978	59,750,624
LIABILITIES		
Derivative financial instruments	44,372	158,246
Tax payable	133,560	138,329
Insurance liabilities	1,773,665	1,462,318
Debt securities issued	39,127,735	44,495,073
Mortgage-backed securities issued	1,529,749	2,020,394
Other liabilities	4,821,857	4,735,173
	47,430,938	53,009,533
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	4,561,624	3,925,694
Contingency reserve	437,435	189,833
Fair value reserve	255,191	167,449
Hedging reserve	(23,757)	(45,685)
Translation reserve	9,866	(7,120)
Proposed dividend	350,000	500,000
	7,590,359	6,730,171
Non-controlling interest in equity	11,681	10,920
	7,602,040	6,741,091
	55,032,978	59,750,624
Capital-to-assets ratio	10.8%	9.5%
	2010	2009
Return on shareholders' equity	17.5%	16.2%
Return on assets	2.2%	1.6%
Cost-to-income ratio	11.0%	12.4%
Net interest margin	1.8%	1.7%

Financial Review

Benefiting from the strong recovery of the Hong Kong economy and the favourable interest rate environment, the HKMC achieved good financial results in 2010. Profit after tax amounted to HK\$1,234 million in 2010, 22.7% over 2009.

In 2010, the net interest income was HK\$971 million (2009: HK\$1,038 million). Other income increased by 153.4% to HK\$588 million (2009: HK\$232 million), which included: net mortgage insurance premium of HK\$418 million (2009: HK\$149 million) after income amortisation and reserving additional provisions for outstanding claims of HK\$6 million (2009: HK\$22 million), net gain on disposal of available-for-sale investments of HK\$65 million (2009: HK\$5 million), exchange gain of HK\$35 million (2009: HK\$6 million), dividend income from available-for-sale investments of HK\$44 million (2009: HK\$42 million), and early prepayment fees of HK\$18 million (2009: HK\$20 million).

New loans drawn down under the MIP soared to HK\$41 billion in 2010 (2009: HK\$36 billion) and the risk-in-force borne by the HKMC rose 31.4% to HK\$15.2 billion.

Tight control over operating expenses was exercised. Cost-to-income ratio dropped to 11.0% in 2010 (2009: 12.4%) while the total operating expenses were HK\$171 million (2009: HK\$158 million).

In light of the general rebound of the property market, excellent loan quality and faster run-off of loan portfolio, a write-back of loan impairment allowances of HK\$17 million was made in 2010 (2009: HK\$37 million).