

## Annex

**Unaudited Consolidated Financial Results****For the Six Months Ended 30 June 2014**

	<b>Unaudited 1H 2014 HK\$'000</b>	<b>Unaudited 1H 2013 HK\$'000</b>
Interest income	457,465	467,633
Interest expense	<u>(116,593)</u>	<u>(130,206)</u>
<b>Net interest income</b>	<b>340,872</b>	337,427
Net premiums earned	209,583	247,557
Other income	<u>34,802</u>	<u>128,139</u>
<b>Operating income</b>	<b>585,257</b>	713,123
Net claims (incurred)/written back	(283)	8,760
Net commission expenses	(52,234)	(67,486)
Operating expenses	<u>(122,145)</u>	<u>(104,606)</u>
Operating profit before impairment (Charge)/Write-back of loan impairment allowances	<u>410,595</u>	<u>549,791</u>
<b>Profit before taxation</b>	<b>409,960</b>	552,898
Taxation	<u>(35,887)</u>	<u>(44,525)</u>
<b>Profit for the period</b>	<b><u>374,073</u></b>	<b><u>508,373</u></b>
<b>Profit attributable to:</b>		
Equity holders of the Company	374,073	508,285
Non-controlling interests	<u>-</u>	<u>88</u>
	<b><u>374,073</u></b>	<b><u>508,373</u></b>
Return on shareholders' equity (annualised)	8.3%	10.7%
Return on assets (annualised)	1.4%	1.9%
Cost-to-income ratio	22.9%	16.0%
Net interest margin (annualised)	1.4%	1.4%

	<b>Unaudited</b> <b>As at</b> <b>30 June 2014</b>	<b>Audited</b> <b>As at</b> <b>31 December 2013</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	<b>19,673,023</b>	11,757,533
Derivative financial instruments	<b>1,031,516</b>	831,426
Loan portfolio, net	<b>17,865,290</b>	22,268,397
Investment securities:		
- available-for-sale	<b>4,996,361</b>	3,860,455
- held-to-maturity	<b>8,843,494</b>	8,560,595
Reinsurance assets	<b>157,829</b>	180,742
Other assets	<b>490,073</b>	560,682
	<b>53,057,586</b>	48,019,830
<b>LIABILITIES</b>		
Derivative financial instruments	<b>562,137</b>	785,458
Tax payable	<b>178,133</b>	144,665
Insurance liabilities	<b>1,177,175</b>	1,294,712
Debt securities issued	<b>37,432,787</b>	31,355,185
Other liabilities	<b>5,273,118</b>	4,865,630
	<b>44,623,350</b>	38,445,650
<b>EQUITY</b>		
Capital and reserves attributable to the equity holders:		
Share capital	<b>2,000,000</b>	2,000,000
Retained profits	<b>4,807,277</b>	4,548,760
Proposed dividends	-	1,500,000
Contingency reserve	<b>1,329,383</b>	1,213,827
Fair value and other reserves	<b>297,576</b>	298,621
	<b>8,434,236</b>	9,561,208
<b>Non-controlling interests in equity</b>	-	12,972
<b>Total equity</b>	<b>8,434,236</b>	9,574,180
<b>Total liabilities and equity</b>	<b>53,057,586</b>	48,019,830
Capital adequacy ratio	<b>23.1%</b>	21.0%

## **Financial Review**

The unaudited consolidated profit after tax of the HKMC was HK\$374 million in 1H 2014, representing a decrease of HK\$134 million or 26.4% as compared with 1H 2013. The annualised return on shareholders' equity was 8.3% (1H 2013: 10.7%). The reductions in profitability were mainly due to loan portfolio rundown, slower mortgage insurance business and reduction in other income.

In 1H 2014, the net interest income was HK\$341 million (1H 2013: HK\$337 million). The net interest margin of the average interest-earning assets was 1.4% (1H 2013: 1.4%).

Net mortgage insurance premium earned after income amortisation, commission expenses and provision, decreased to HK\$155 million (1H 2013: HK\$187 million).

Other income was HK\$35 million (1H 2013: HK\$128 million), mainly including disposal gain and dividend income from investments of HK\$76 million, exchange/revaluation loss of HK\$58 million mainly arising from renminbi exposures in cash and debt investments, and gain of HK\$13 million on disposal of the HKMC's stake in its overseas joint venture.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$122 million, HK\$18 million up against 1H 2013. The increase was mainly attributable to increase in rental expenses and staff costs. Coupled with the reduction in operating income, the cost-to-income ratio increased from 16% in 1H 2013 to 22.9% in 1H 2014.

As at 30 June 2014, the capital adequacy ratio remained solid at 23.1% (31 December 2013: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.