

Annex A

Consolidated Financial Results for the Year Ended 31 December 2011

	2011 HK\$'000	2010 HK\$'000
Interest income	1,032,602	1,141,383
Interest expense	(177,789)	(170,802)
Net interest income	854,813	970,581
Net premiums earned	658,854	583,377
Other income	197,865	169,868
Operating income	1,711,532	1,723,826
Net claims written back/(incurred)	17,618	(6,345)
Net commission expenses	(108,000)	(159,101)
Operating expenses	(191,932)	(171,425)
Operating profit before impairment (Charge)/ write-back of loan impairment allowances	1,429,218 (3,141)	1,386,955 16,663
Operating profit	1,426,077	1,403,618
Share of profit of a jointly controlled entity	2,830	2,259
Profit before taxation	1,428,907	1,405,877
Taxation	(173,225)	(172,015)
Profit for the year	1,255,682	1,233,862
Profit/(loss) attributable to:		
Equity holders of the Company	1,255,731	1,233,532
Non-controlling interest	(49)	330
	1,255,682	1,233,862
Proposed dividend	350,000	350,000
Return on shareholders' equity	15.5%	17.5%
Return on assets	2.3%	2.2%
Cost-to-income ratio	11.8%	11.0%

	As at 31 December 2011 HK\$'000	As at 31 December 2010 HK\$'000
ASSETS		
Cash and short-term funds	10,245,165	5,902,649
Derivative financial instruments	1,559,187	1,396,621
Loan portfolio, net	33,135,818	35,258,937
Investment securities:		
- available-for-sale	2,303,703	3,403,966
- held-to-maturity	8,269,148	8,033,133
Investment in a jointly controlled entity	130,045	130,720
Reinsurance assets	208,911	204,891
Other assets	649,369	702,061
	56,501,346	55,032,978
LIABILITIES		
Derivative financial instruments	139,582	44,372
Current income tax liabilities	134,785	133,560
Insurance liabilities	1,630,595	1,773,665
Debt securities issued	41,097,207	39,127,735
Mortgage-backed securities issued	367,137	1,529,749
Other liabilities	4,564,799	4,821,857
	47,934,105	47,430,938
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,173,228	4,561,624
Contingency reserve	731,562	437,435
Fair value reserve	302,615	255,191
Hedging reserve	(13,244)	(23,757)
Translation reserve	10,911	9,866
Proposed dividend	350,000	350,000
	8,555,072	7,590,359
Non-controlling interest in equity	12,169	11,681
	8,567,241	7,602,040
	56,501,346	55,032,978
Capital adequacy ratio / Capital-to-assets ratio	19.7%#	10.8%#
Net interest margin	1.7%	1.8%

The capital adequacy ratio as at 31 December 2011 was computed in accordance with the Guidelines on the Capital Adequacy Ratio stipulated by the Financial Secretary in October 2011 (by reference largely to the Basel II risk-based capital adequacy framework) that replaced the previous Guidelines on the Capital-to-assets Ratio. The capital-to-assets ratio as at 31 December 2011 under the previous guidelines was 11.3%. As there are significant differences between the two guidelines, the capital ratios calculated under the two guidelines are not really comparable.

Financial Review

Benefiting from the growth of the Hong Kong economy and the buoyant property market in the first half of 2011, the HKMC achieved another year of good financial results in 2011. Profit after tax increased to HK\$1,256 million in 2011, a growth of 1.8% over 2010.

In 2011, the net interest income was HK\$855 million (2010: HK\$971 million). Other income increased by 16.5% to HK\$198 million (2010: HK\$170 million), which included net gain on disposal of investments of HK\$65 million (2010: HK\$65 million), dividend income from available-for-sale investments of HK\$65 million (2010: HK\$44 million), exchange gain of HK\$51 million (2010: HK\$35 million), and early prepayment fees of HK\$15 million (2010: HK\$18 million).

New loans drawn down under the MIP amounted to HK\$26.3 billion in 2011 (2010: HK\$41 billion) and the risk-in-force borne by the HKMC decreased 7.2% to HK\$14.1 billion (2010: HK\$15.2 billion). However, the amortisation of the insurance premiums received in previous years has attributed to an increase in net premiums earned from HK\$418 million to HK\$569 million.

Tight control over operating expenses was exercised. The cost-to-income ratio was 11.8% in 2011 (2010: 11.0%) while the total operating expenses were HK\$192 million (2010: HK\$171 million).

In view of developments in the residential property market and latest economic conditions, a collective assessment for loan impairment of HK\$3.1 million was charged in 2011 (2010: a write-back of loan impairment allowances of HK\$16.7 million).

In October 2011, the Financial Secretary approved the replacement of the previous guidelines on capital-to-assets ratio with the Guidelines on Capital Adequacy Ratio (Guidelines), which was largely in reference to the Basel II risk-based capital adequacy framework, for the purpose of enhancing the HKMC's capital management framework. The capital adequacy ratio stood at a healthy level of 19.7% as at 31 December 2011, well above the minimum of 8% stipulated in the Guidelines.

Board of Directors

The Hon John TSANG Chun Wah, GBM, JP (Chairman and Executive Director)	Financial Secretary
Mr Norman T L CHAN, SBS, JP (Deputy Chairman and Executive Director)	Chief Executive Hong Kong Monetary Authority
Mr Peter PANG Sing Tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr Eddie YUE Wai Man, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Ms Diana CESAR	Head of Retail Banking and Wealth Management Hong Kong The Hongkong and Shanghai Banking Corporation Limited
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kin Por, JP	Member of Legislative Council Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
The Hon Ms Tanya CHAN	Member of Legislative Council
The Hon Ms Eva CHENG, GBS, JP	Secretary for Transport and Housing
Professor the Hon Anthony CHEUNG Bing Leung, GBS, BBS, JP	Member of Executive Council Chairman, Consumer Council
Mr Eddy FONG Ching, GBS, JP	Chairman Securities and Futures Commission
Mr Andrew FUNG Hau Chung, JP	Executive Director and Head of Treasury and Investment Hang Seng Bank Limited

Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.
Mr LEE Huat Oon	General Manager/Chief Executive Public Finance Limited
The Hon Ms Starry LEE Wai King, JP	Member of Legislative Council
The Hon Andrew LEUNG Kwan Yuen, GBS, SBS, JP	Member of Legislative Council Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok Po, GBM, GBS, Hon. LLD (Cantab), JP	Member of Legislative Council Chairman and Chief Executive The Bank of East Asia, Limited
The Hon Abraham SHEK Lai Him, SBS, JP	Member of Legislative Council