

Annex

**HKMC's Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2012**

	Unaudited 6 months ended 30 June 2012 HK\$'000	Unaudited 6 months ended 30 June 2011 HK\$'000
Interest income	583,906	527,034
Interest expense	(159,579)	(80,455)
Net interest income	424,327	446,579
Net premiums earned	257,007	356,078
Other income	37,149	148,578
Operating income	718,483	951,235
Net claims written back	5,827	13,229
Net commission expenses	(49,077)	(71,985)
Operating expenses	(103,031)	(88,053)
Operating profit before impairment	572,202	804,426
Write-back of loan impairment allowances	1,862	1,992
Operating profit	574,064	806,418
Share of profit of a jointly controlled entity	1,452	1,526
Profit before taxation	575,516	807,944
Taxation	(54,040)	(103,423)
Profit for the period	521,476	704,521
Profit attributable to:		
Equity holders of the Company	521,401	704,651
Non-controlling interest	75	(130)
	521,476	704,521
Return on equity (annualised)	11.8%	18.0%
Return on assets (annualised)	1.7%	2.6%
Cost-to-income ratio	15.3%	9.9%
Net interest margin	1.5%	1.8%

	Unaudited As at 30 June 2012	Audited As at 31 December 2011
	<u>HK\$'000</u>	<u>HK\$'000</u>
ASSETS		
Cash and short-term funds	17,195,973	10,245,165
Derivative financial instruments	1,564,182	1,559,187
Loan portfolio, net	29,495,655	33,135,818
Investment securities:		
- available-for-sale	3,727,653	2,303,703
- held-to-maturity	9,232,580	8,269,148
Investment in a jointly controlled entity	131,098	130,045
Reinsurance assets	232,815	208,911
Other assets	526,807	649,369
	<u>62,106,763</u>	<u>56,501,346</u>
LIABILITIES		
Derivative financial instruments	375,762	139,582
Tax payable	187,589	134,785
Insurance liabilities	1,587,342	1,630,595
Debt securities issued	46,208,222	41,097,207
Mortgage-backed securities issued	319,836	367,137
Other liabilities	4,614,796	4,564,799
	<u>53,293,547</u>	<u>47,934,105</u>
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,567,086	5,173,228
Contingency reserve	859,105	731,562
Fair value reserve	376,408	302,615
Hedging reserve	(10,806)	(13,244)
Translation reserve	9,309	10,911
Proposed dividend	-	350,000
	<u>8,801,102</u>	<u>8,555,072</u>
Non-controlling interest in equity	12,114	12,169
Total equity	<u>8,813,216</u>	<u>8,567,241</u>
Total equity & liabilities	<u>62,106,763</u>	<u>56,501,346</u>
Capital adequacy ratio	19.1%	19.7%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK\$521 million for 1H 2012, a decrease of HK\$184 million or 26% against the record financial performance in 1H 2011. The annualised return on equity was 11.8% (1H 2011: 18%).

In 1H 2012, the net interest income was HK\$424 million (1H 2011: HK\$447 million). The net interest margin of the average interest-earning assets was 1.5%.

New loans drawn down under the MIP was HK\$10.5 billion (1H 2011: HK\$17.1 billion) amid a slower housing turnover. The risk-in-force borne by the HKMC decreased from HK\$14.1 billion to HK\$13.9 billion for the period. Net mortgage insurance premium earned, after income amortisation and commission expenses, was HK\$213 million (1H 2011: HK\$298 million).

Other income of HK\$37 million (1H 2011: HK\$149 million), mainly included dividend income from investments of HK\$44 million (1H 2011: HK\$27 million), a fair value gain of HK\$7 million (1H 2011: HK\$2 million fair value loss) on financial instruments, net gain on disposal of investment of HK\$5 million (1H 2011: HK\$65 million), and exchange loss of HK\$20 million (1H 2011: HK\$49 million exchange gain) arising from the revaluation of the approved US dollar and renminbi deposits and debt investments.

The HKMC continued to maintain stringent control over its operating expenses. Total operating expenses were HK\$103 million, HK\$15 million more than the corresponding period in 2011. The increase was mainly attributable to the relocation of part of the office premises and resources for promoting the new business initiatives. The cost-to-income ratio was 15.3% (1H 2011: 9.9%).

The capital adequacy ratio (CAR) was solid at 19.1% as at 30 June 2012 (31 December 2011: 19.7%), well above minimum of 8% stipulated in the CAR guidelines issued by the Financial Secretary. With a strong CAR, the HKMC will continue fulfilling its core policy roles and new initiatives in Hong Kong.