

Annex A

Consolidated Financial Results for the Year Ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Interest income	1,135,362	1,032,602
Interest expense	(323,263)	(177,789)
Net interest income	812,099	854,813
Net premiums earned	533,536	658,854
Other income	232,471	197,865
Operating income	1,578,106	1,711,532
Net claims written back	6,642	17,618
Net commission expenses	(162,541)	(108,000)
Operating expenses	(219,267)	(191,932)
Operating profit before impairment	1,202,940	1,429,218
Write-back / (charge) of loan impairment allowances	5,680	(3,141)
Operating profit	1,208,620	1,426,077
Share of profit of a jointly controlled entity	2,450	2,830
Profit before taxation	1,211,070	1,428,907
Taxation	(85,524)	(173,225)
Profit for the year	1,125,546	1,255,682
Profit/(loss) attributable to:		
Equity holders of the Company	1,125,393	1,255,731
Non-controlling interest	153	(49)
	1,125,546	1,255,682
Proposed dividend	750,000	350,000
Return on shareholders' equity	12.4%	15.5%
Return on assets	1.9%	2.3%
Cost-to-income ratio	15.4%	11.8%
Net interest margin	1.5%	1.7%

	As at 31 December 2012 HK\$'000	As at 31 December 2011 HK\$'000
ASSETS		
Cash and short-term funds	9,715,544	10,245,165
Derivative financial instruments	1,443,013	1,559,187
Loan portfolio, net	25,895,399	33,135,818
Investment securities:		
- available-for-sale	5,812,827	2,303,703
- held-to-maturity	9,237,808	8,269,148
Investment in a jointly controlled entity	-	130,045
Reinsurance assets	222,007	208,911
Other assets	538,359	649,369
	52,864,957	56,501,346
LIABILITIES		
Derivative financial instruments	175,095	139,582
Tax payable	101,587	134,785
Insurance liabilities	1,545,863	1,630,595
Debt securities issued	36,404,627	41,097,207
Mortgage-backed securities issued	214,672	367,137
Other liabilities	4,810,276	4,564,799
	43,252,120	47,934,105
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,302,410	5,173,228
Contingency reserve	977,773	731,562
Fair value reserve	569,109	302,615
Other reserves	1,122	(2,333)
Proposed dividend	750,000	350,000
	9,600,414	8,555,072
Non-controlling interest in equity	12,423	12,169
Total equity	9,612,837	8,567,241
Total liabilities and equity	52,864,957	56,501,346
Capital adequacy ratio	20.2%	19.7%

Financial Review

The consolidated profit after tax of the HKMC was HK\$1,126 million in 2012, a decrease of HK\$130 million, or 10.4%, against the record financial performance in 2011. Return on shareholders' equity was 12.4% (2011: 15.5%). The reductions in profitability were mainly due to loan portfolio rundown with tightening in net interest spread, reduced contributions from the mortgage insurance business amid a slower housing turnover and increased costs arising from the launch of new policy initiatives such as the Special Concessionary Measures under the SFGS and the Microfinance Scheme.

In 2012, the net interest income was HK\$812 million (2011: HK\$855 million). The net interest margin of average interest-earning assets was 1.5% (2011: 1.7%).

New loans drawn down under the MIP reduced to HK\$22 billion in 2012 from HK\$26.3 billion in 2011 amid a slower housing turnover and the risk-in-force borne by the HKMC decreased by 2.1% to HK\$13.8 billion (2011: HK\$14.1 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision, was HK\$376 million (2011: HK\$569 million).

Other income increased by 17.7% to HK\$233 million (2011: HK\$198 million), which mainly included dividend income from investments of HK\$90 million (2011: HK\$65 million), net disposal gain of investments of HK\$90 million (2011: HK\$65 million), exchange gain of HK\$30 million (2011: HK\$51 million) and fair value gain of HK\$13 million (2011: HK\$3 million) in financial instruments.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$219 million, HK\$27 million up from 2011. The increase was mainly attributable to the resources for promoting the new policy initiatives and enhancements of the Reverse Mortgage Programme. Coupled with the decrease in operating income, the cost-to-income ratio increased from 11.8% in 2011 to 15.4% in 2012.

The capital adequacy ratio (CAR) remained solid at 20.2% as at 31 December 2012 (2011: 19.7%), well above the minimum of 8% stipulated in the CAR guidelines issued by the Financial Secretary. Balancing the HKMC's business development needs against a very solid CAR, the Annual General Meeting today approved a dividend of HK\$750 million for 2012.

Annex B

Board of Directors

The Hon. John TSANG Chun-wah, GBM, JP (Chairman and Executive Director)	Financial Secretary
Mr Norman T. L. CHAN, GBS, 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
Professor the Hon. K C CHAN, GBS, JP	Secretary for Financial Services and the Treasury
The Hon. CHAN Kin-por, BBS, JP	Member of Legislative Council Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
Miss Tanya CHAN	Barrister-at-law
Mr Jammy CHEN	Head, Secured Lending Products North East Asia, Consumer Banking Standard Chartered Bank (Hong Kong) Limited
Professor the Hon. Anthony CHEUNG Bing- leung, GBS, JP	Secretary for Transport and Housing
Mr Eddy FONG Ching, GBS, JP	Chairman of the Council, The Open University of Hong Kong
Mr Andrew FUNG Hau-chung, JP	Executive Director and Head of Global Banking and Markets 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 Executive Council 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	Chairman and Chief Executive The Bank of East Asia, Limited
The Hon. Abraham SHEK Lai-him, SBS, JP	Member of Legislative Council
Professor Wong Yuk-shan, BBS, JP	Chairman, Consumer Council Vice-President for Administration and Business and Professor of Life Science, The Hong Kong University of Science and Technology