

Annex

Unaudited Consolidated Financial Results**For the Six Months Ended 30 June 2015**

	Unaudited 1H 2015 HK\$'000	Unaudited 1H 2014 HK\$'000
Interest income	432,491	457,465
Interest expense	(128,181)	(116,593)
Net interest income	304,310	340,872
Net premiums earned	200,405	209,583
Other income	33,612	34,802
Operating income	538,327	585,257
Net claims written back / (incurred)	710	(283)
Net commission expenses	(42,600)	(52,234)
Operating expenses	(126,317)	(122,145)
Operating profit before impairment	370,120	410,595
Charge of loan impairment allowances	(1,439)	(635)
Profit before taxation	368,681	409,960
Taxation	(30,732)	(35,887)
Profit for the period	337,949	374,073
Return on shareholders' equity (annualised)	7.6%	8.3%
Return on assets (annualised)	1.2%	1.4%
Cost-to-income ratio	25.4%	22.9%
Net interest margin (annualised)	1.2%	1.4%

	Unaudited As at 30 June 2015	Audited As at 31 December 2014
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	21,719,695	18,421,490
Derivative financial instruments	712,198	556,962
Loan portfolio, net	12,499,634	15,571,649
Investment securities:		
- available-for-sale	7,173,408	5,734,162
- held-to-maturity	10,212,468	9,168,795
Reinsurance assets	132,100	144,179
Other assets	450,508	406,184
	52,900,011	50,003,421
LIABILITIES		
Derivative financial instruments	1,526,914	1,575,968
Tax payable	164,177	133,301
Insurance liabilities	1,027,997	1,112,089
Debt securities issued	36,229,541	33,270,129
Other liabilities	5,137,092	5,019,920
	44,085,721	41,111,407
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	4,941,124	5,070,815
Contingency reserve	1,555,385	1,437,745
Fair value and other reserves	317,781	383,454
Total equity	8,814,290	8,892,014
Total liabilities and equity	52,900,011	50,003,421
Capital adequacy ratio	22.6%	23.5%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK\$338 million in 1H 2015, representing a decrease of HK\$36 million or 9.6%, compared with 1H 2014. The annualised return on shareholders' equity was 7.6% (1H 2014: 8.3%). The reductions in profitability were mainly due to the drop of net interest income arising from rundown in loan portfolio.

In 1H 2015, the net interest income was HK\$304 million (1H 2014: HK\$341 million). The annualised net interest margin of the average interest-earning assets was 1.2% (1H 2014: 1.4%).

The MIP risk-in-force borne by the HKMC remained steady at about HK\$10.9 billion (31 December 2014: HK\$11 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision was HK\$154 million (1H 2014: HK\$155 million).

Other income was HK\$34 million (1H 2014: HK\$35 million), which was mainly contributed by dividend income from investments of HK\$29 million.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$126 million, HK\$4 million up from 1H 2014. Amid the reduction in operating income coupled with resources allocated to support policy initiatives, the cost-to-income ratio increased from 22.9% in 1H 2014 to 25.4% in 1H 2015.

As at 30 June 2015, the capital adequacy ratio remained solid at 22.6% (31 December 2014: 23.5%), well above the minimum requirement of 8% stipulated by the Financial Secretary.