

Consolidated Financial Results for the Year Ended 31 December 2016

	2016	2015
	HK\$'000	HK\$'000
Interest income	816,314	838,496
Interest expense	(325,672)	(248,168)
Net interest income	490,642	590,328
Net premiums earned	315,004	378,613
Other income	213,104	142,826
Operating income	1,018,750	1,111,767
Net claims (incurred) / written back	(4,066)	7,583
Net commission expenses	(116,959)	(83,368)
Operating expenses	(276,693)	(266,648)
Operating profit before impairment	621,032	769,334
Write-back of loan impairment allowances	713	242
Profit before taxation	621,745	769,576
Taxation	(17,761)	(44,424)
Profit for the year	603,984	725,152
Proposed dividend	-	725,000
Return on shareholders' equity	6.8%	8.1%
Return on assets	1.1%	1.4%
Cost-to-income ratio	30.8%	25.7%
Net interest margin	1.0%	1.2%

	As at 31 December 2016 HK\$'000	As at 31 December 2015 HK\$'000
ASSETS		
Cash and short-term funds	23,815,671	21,007,367
Derivative financial instruments	245,097	473,403
Loan portfolio, net	9,533,961	11,502,312
Investment securities:		
- available-for-sale	6,977,677	6,638,367
- held-to-maturity	9,931,665	10,274,001
Reinsurance assets	146,027	128,653
Other assets	737,745	440,647
	51,387,843	50,464,750
LIABILITIES		
Derivative financial instruments	1,702,859	1,821,927
Tax payable	94,745	129,153
Insurance liabilities	1,048,550	978,845
Debt securities issued	34,233,467	33,463,211
Other liabilities	5,463,206	5,003,369
	42,542,827	41,396,505
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,023,307	5,251,052
Contingency reserve	1,739,389	1,632,660
Fair value reserve	82,320	184,533
Total equity	8,845,016	9,068,245
Total liabilities and equity	51,387,843	50,464,750

Capital adequacy ratio

21.3%

21.9%

Note:

The financial information relating to the two years ended 31 December 2016 and 2015 respectively included in this press release of 2016 financial results does not constitute the HKMC's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The HKMC has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2016 in due course.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for both years. The auditor's reports are unqualified; do not include a reference to any matters to which the auditor draws attention by way of emphasis without qualifying its reports; and do not contain a statement under section 406(2), 407(2) or 407(3) of the Companies Ordinance.

Financial Review

The consolidated profit after tax of the HKMC was HK\$604 million in 2016, representing a decrease of HK\$121 million or 16.7%, compared with 2015. Return on shareholders' equity was 6.8% (2015: 8.1%). The reductions in profitability were mainly due to rundown in the loan portfolio and decrease in mortgage insurance premium income, partly offset by increase in disposal gain and dividend income from investments.

In 2016, the net interest income was HK\$491 million (2015: HK\$590 million) and the net interest margin of the average interest-earning assets was 1.0% (2015: 1.2%).

New loans drawn down under the MIP increased from HK\$17.2 billion to HK\$24.6 billion in 2016. The risk-in-force borne for the MIP by the HKMC was HK\$14.1 billion (2015: HK\$11.3 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision was HK\$190 million (2015: HK\$289 million).

Other income was HK\$213 million (2015: HK\$143 million), which mainly included gain on disposal of investments of HK\$160 million, dividend income of HK\$83 million, and an exchange loss of HK\$21 million primarily due to the effect of renminbi volatility in deposits and high-grade debt investments.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$277 million, HK\$10 million up from 2015. Amid the reduction in operating income coupled with resources devoted to support policy initiatives, the cost-to-income ratio increased to 30.8% in 2016 from 25.7% in 2015.

Having considered the capital requirements for business development, no dividend was declared for 2016. As at 31 December 2016, the capital adequacy ratio remained solid at 21.3%, well above the minimum requirement of 8% stipulated by the Financial Secretary.