

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2017

	Unaudited 1H 2017 HK\$'000	Unaudited 1H 2016 HK\$'000
Interest income	456,423	400,976
Interest expense	(210,183)	(150,270)
Net interest income	246,240	250,706
Net premiums earned	173,076	152,678
Other income	380,823	78,366
Operating income	800,139	481,750
Net claims incurred	(2,694)	(1,364)
Net commission expenses	(69,983)	(33,422)
Operating expenses	(138,034)	(130,879)
Operating profit before impairment (Charge) / write-back of loan impairment allowances	589,428 (850)	316,085 554
Profit before taxation	588,578	316,639
Taxation	(10,481)	(20,467)
Profit for the period	578,097	296,172
Return on shareholders' equity (annualised)	12.6% ¹	6.6%
Return on assets (annualised)	2.2% ¹	1.1%
Cost-to-income ratio	19.0% ¹	29.3%
Net interest margin (annualised)	1.0%	1.0%

¹ For better comparison, the adjusted return on shareholders' equity, return on assets and cost-to-income ratio for the six months ended 30 June 2017 were 5.4%, 0.9% and 35.5% respectively after excluding the exceptional gains on disposal of available-for-sale investments of HK\$210 million (1H 2016: HK\$31 million) arising from portfolio rebalancing and exchange difference of HK\$129 million (1H 2016: HK\$4 million) mainly from the US dollar exposures in cash and debt investments.

	Unaudited as at 30 June 2017 HK\$'000	Audited as at 31 December 2016 HK\$'000
ASSETS		
Cash and short-term funds	22,392,227	23,815,671
Derivative financial instruments	305,866	245,097
Loan portfolio, net	8,512,470	9,533,961
Investment securities:		
- available-for-sale	7,175,041	6,977,677
- held-to-maturity	10,006,851	9,931,665
Reinsurance assets	157,216	146,027
Other assets	950,227	737,745
Total assets	49,499,898	51,387,843
LIABILITIES		
Derivative financial instruments	95,171	1,702,859
Tax payable	105,691	94,745
Insurance liabilities	1,102,226	1,048,550
Debt securities issued	33,255,106	34,233,467
Other liabilities	5,574,649	5,463,206
Total liabilities	40,132,843	42,542,827
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,501,734	5,023,307
Contingency reserve	1,839,059	1,739,389
Fair value reserves	26,262	82,320
Total equity	9,367,055	8,845,016
Total liabilities and equity	49,499,898	51,387,843

Capital adequacy ratio

20.7%

21.3%

Note:

The financial information relating to the year ended 31 December 2016 included in these unaudited consolidated financial results for the six months ended 30 June 2017 as being previously reported information does not constitute the HKMC's statutory annual consolidated financial statements for that year 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 2016 to the Registrar of Companies as required by the Companies Ordinance.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for 2016. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or 407(3) of the Companies Ordinance.

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK\$578 million in 1H 2017, representing an increase of HK\$282 million or 95.3% compared with 1H 2016. The annualised return on shareholders' equity was 12.6% (1H 2016: 6.6%). Increase in profitability was primarily due to the increase in other income arising from the exceptional gains on disposal of investments as a result of portfolio rebalancing and exchange difference mainly from the revaluation of US dollar exposures in cash and debt investments. Notwithstanding the increase in profitability in 1H 2017, the full year profit is subject to volatile market conditions.

In 1H 2017, the net interest income was HK\$246 million (1H 2016: HK\$251 million) and the annualised net interest margin of the average interest-earning assets stayed at 1.0% (1H 2016: 1.0%).

New loans drawn down under the MIP was HK\$15.9 billion in 1H 2017 (1H 2016: HK\$7.8 billion). The risk-in-force borne for the MIP by the HKMC was HK\$16 billion (31 December 2016: HK\$14.1 billion). Net mortgage insurance premiums earned, after discount to borrower, income amortisation, commission expenses and provision, were HK\$91 million (1H 2016: HK\$116 million).

Other income was HK\$381 million (1H 2016: HK\$78 million) that mainly included net gains on disposal of investments of HK\$210 million arising from available-for-sale investment portfolio rebalancing, exchange gain of HK\$129 million mainly from the revaluation of US dollar exposures in cash and debt investments, and dividend income from investments of HK\$35 million.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$138 million, HK\$7 million more than

those for 1H 2016. Despite the resources devoted to support policy initiatives, the cost-to-income ratio decreased to 19% in 1H 2017 (1H 2016: 29.3%) due to the increase in other income.

As at 30 June 2017, the capital adequacy ratio remained solid at 20.7% (31 December 2016: 21.3%), well above the minimum requirement of 8% stipulated by the Financial Secretary.