

Consolidated Financial Results for the Year Ended 31 December 2017

	2017	2016
	HK\$'000	HK\$'000
Interest income	902,333	816,314
Interest expense	(394,755)	(325,672)
Net interest income	507,578	490,642
Net premiums earned	352,414	315,004
Other income	414,484	213,104
Operating income	1,274,476	1,018,750
Net claims incurred	(641)	(4,066)
Net commission expenses	(140,454)	(116,959)
Operating expenses	(304,196)	(276,693)
Operating profit before impairment (Charge)/Write-back of loan impairment allowances	829,185	621,032
	(453)	713
Profit before taxation	828,732	621,745
Taxation	(22,337)	(17,761)
Profit for the year	806,395	603,984
Return on shareholders' equity	8.6%	6.8%
Return on assets	1.6%	1.1%
Cost-to-income ratio	26.8%	30.8%
Net interest margin	1.1%	1.0%

	As at 31 December 2017 HK\$'000	As at 31 December 2016 HK\$'000
ASSETS		
Cash and short-term funds	25,278,190	23,815,671
Derivative financial instruments	333,727	245,097
Loan portfolio, net	7,829,441	9,533,961
Investment securities:		
- available-for-sale	7,138,662	6,977,677
- held-to-maturity	10,347,834	9,931,665
Reinsurance assets	164,601	146,027
Other assets	445,756	737,745
	51,538,211	51,387,843
LIABILITIES		
Derivative financial instruments	119,064	1,702,859
Current tax liabilities	116,288	94,745
Insurance liabilities	1,130,150	1,048,550
Debt securities issued	34,840,706	34,233,467
Other liabilities	5,555,396	5,463,206
	41,761,604	42,542,827
EQUITY		
Share capital	2,000,000	2,000,000
Retained profits	5,889,254	5,023,307
Contingency reserve	1,679,837	1,739,389
Fair value reserve	207,516	82,320
Total equity	9,776,607	8,845,016
Total liabilities and equity	51,538,211	51,387,843

Capital adequacy ratio

21.0%

21.3%

Note:

The financial information relating to the two years ended 31 December 2017 and 2016 respectively included in this press release of 2017 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 2016 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2017 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

Consolidated profit after tax of the HKMC for 2017 was HK\$806 million (2016: HK\$604 million) and the return on shareholders' equity was 8.6% (2016: 6.8%). The increase in profitability was driven by an increase in other income which comprised mainly gains on disposal of investments as a result of portfolio rebalancing and the exchange gain from the revaluation of US dollar exposures in cash and debt investments.

In 2017, net interest income for the year was HK\$508 million (2016: HK\$491 million) and the net interest margin of the average interest-earning assets was 1.1% (2016: 1.0%).

New loans drawn down under the MIP increased to HK\$32.3 billion in 2017 from HK\$24.6 billion in 2016. The risk-in-force borne for the MIP by the HKMC was HK\$17.6 billion (2016: HK\$14.1 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision was HK\$196 million (2016: HK\$190 million).

Other income was HK\$414 million (2016: HK\$213 million), which mainly included exchange gain of HK\$171 million (2016: an exchange loss of HK\$21 million) arising primarily from the revaluation of US dollar exposures in cash and debt investments, net gains on disposal of investments of HK\$164 million (2016: HK\$160 million), and dividend income of HK\$83 million (2016: HK\$83 million).

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$304 million, HK\$27 million up from 2016. Notwithstanding the resources devoted to support policy initiatives, cost-to-income ratio decreased to 26.8% in 2017 from 30.8% in 2016, amid the increase in operating income.

Having considered the capital requirements for business development, no dividend was declared for 2017. As at 31 December 2017, the capital adequacy ratio remained solid at 21.0%, well above the minimum requirement of 8% stipulated by the Financial Secretary.

The HKMC approved in June 2017 the plan for implementing the Life Annuity Scheme (LAS) in mid-2018. To comply with the relevant authorisation requirements, the HKMC has kick-started a corporate re-organisation and established two subsidiaries, HKMC Insurance Limited (HKMCI) and HKMC Annuity Limited to apply for the necessary authorisation and respectively to take up the HKMC's general insurance business and to operate the LAS.

On 14 February 2018, HKMCI was granted formal authorisation from the Insurance Authority to carry on general insurance business which will be transferred from the HKMC. After completion of the transfer, the HKMC will apply to the Insurance Authority for withdrawal of its authorisation to carry on general insurance business in or from Hong Kong.