

## Annex

**Unaudited Consolidated Financial Results**  
**For the Six Months Ended 30 June 2018**

	<b>Unaudited 1H 2018 HK\$'000</b>	<b>Unaudited 1H 2017 HK\$'000</b>
Interest income	544,792	456,423
Interest expense	(276,584)	(210,183)
<b>Net interest income</b>	<b>268,208</b>	<b>246,240</b>
Net premiums earned	176,959	173,076
Other income	91,875	380,823
<b>Operating income</b>	<b>537,042</b>	<b>800,139</b>
Net claims incurred	(1,439)	(2,694)
Net commission expenses	(79,092)	(69,983)
Operating expenses	(190,744)	(138,034)
Operating profit before impairment	265,767	589,428
Charge of impairment allowances	(743)	(850)
<b>Profit before taxation</b>	<b>265,024</b>	<b>588,578</b>
Taxation	(9,307)	(10,481)
<b>Profit for the period</b>	<b>255,717</b>	<b>578,097</b>
Return on shareholders' equity (annualised)	4.1%	12.6% <sup>1</sup>
Return on assets (annualised)	0.9%	2.2% <sup>1</sup>
Cost-to-income ratio	41.8%	19.0% <sup>1</sup>
Net interest margin (annualised)	1.1%	1.0%

<sup>1</sup> For better comparison, the adjusted annualised 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 of HK\$210 million on disposal of available-for-sale investments arising from portfolio rebalancing and exchange gain of HK\$129 million mainly from the US dollar exposures in cash and debt investments.

	<b>Unaudited as at 30 June 2018</b>	<b>Audited as at 31 December 2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	<b>26,588,493</b>	25,278,190
Loan portfolio, net	<b>6,944,685</b>	7,829,441
Investment securities:		
- fair value through other comprehensive income	<b>4,903,778</b>	-
- fair value through profit or loss	<b>1,615,604</b>	-
- amortised cost	<b>11,431,467</b>	-
- available-for-sale	-	7,138,662
- held-to-maturity	-	10,347,834
Placements with the Exchange Fund	<b>4,946,315</b>	-
Reinsurance assets	<b>176,257</b>	164,601
Derivative financial instruments	<b>163,493</b>	333,727
Other assets	<b>1,186,670</b>	445,756
<b>Total assets</b>	<b>57,956,762</b>	<b>51,538,211</b>
<b>LIABILITIES</b>		
Debt securities issued	<b>35,913,559</b>	34,840,706
Insurance liabilities	<b>1,350,744</b>	1,130,150
Derivative financial instruments	<b>293,343</b>	119,064
Current tax liabilities	<b>125,879</b>	116,288
Other liabilities	<b>5,243,142</b>	5,555,396
<b>Total liabilities</b>	<b>42,926,667</b>	<b>41,761,604</b>
<b>EQUITY</b>		
Share capital	<b>7,000,000</b>	2,000,000
Retained profits	<b>6,247,086</b>	5,889,254
Contingency reserve	<b>1,778,233</b>	1,679,837
Fair value reserve	<b>4,776</b>	207,516
<b>Total equity</b>	<b>15,030,095</b>	<b>9,776,607</b>
<b>Total liabilities and equity</b>	<b>57,956,762</b>	<b>51,538,211</b>
Capital adequacy ratio	<b>26.6%</b>	21.0%

Note:

The financial information relating to the year ended 31 December 2017 included in these unaudited consolidated financial results for the six months ended 30 June 2018 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 2017 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 2017. 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\$256 million in 1H 2018, representing a decrease of HK\$322 million compared with 1H 2017. The annualised return on shareholders' equity was 4.1% (1H 2017: 12.6%). The decrease in profitability was primarily due to (i) no disposal gain on available-for-sale (AFS) investments recorded in 2018 as compared to the corresponding period in 2017; and (ii) net loss on the investments in listed real estate investment trusts and exchange-traded bond funds classified as fair value through profit or loss (FVPL) as a result of the adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" (previously classified as AFS with fair value change recorded in fair value reserve without passing through the profit and loss account).

In 1H 2018, the net interest income was HK\$268 million (1H 2017: HK\$246 million) and the annualised net interest margin of the average interest-earning assets increased to 1.1% (1H 2017: 1.0%).

New loans drawn down under the MIP amounted to HK\$18.9 billion in 1H 2018 (1H 2017: HK\$15.9 billion). The risk-in-force borne for the MIP by the HKMC was HK\$19.6 billion (31 December 2017: HK\$17.6 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK\$86 million (1H 2017: HK\$91 million).

Other income was HK\$92 million (1H 2017: HK\$381 million), which mainly included exchange gain of HK\$49 million arising from the revaluation of US dollar exposures in cash and debt investments, income of HK\$46 million from the capital placements of the HKMC Annuity Limited (HKMCA) with the Exchange Fund, dividend income of HK\$34 million from, and net loss of HK\$47 million on, investments classified as FVPL in listed real estate investment trusts and exchange-traded bond funds.

The HKMC continued to maintain stringent controls over its operating expenses. Total operating expenses were HK\$191 million, HK\$53 million more than those for 1H 2017. The increase was mainly due to the resources attributable to the HKMC Annuity Plan of the HKMCA. Amid the decrease in income and increase in resources devoted to support policy initiatives, the cost-to-income ratio increased to 41.8% in 1H 2018 (1H 2017: 19%).

The HKMC has completed the corporate reorganisation exercise, with its two wholly-owned subsidiaries, HKMC Insurance Limited (HKMCI) and the HKMCA, taking up the HKMC's general insurance business and operating the life annuity business respectively.

In accordance with the Guidelines on Capital Adequacy Ratio (CAR), the calculation of capital ratio follows the basis of consolidation for financial reporting with the exclusion of regulated subsidiaries which are subject to separate requirements on maintenance of adequate capital (i.e. the HKMCI and the HKMCA, as regulated by the Insurance Authority). After excluding the investment cost of these unconsolidated regulated subsidiaries, the CAR remained solid at 26.6% as at 30 June 2018 (31 December 2017: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.