

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2014

	Unaudited 1H 2014 HK\$'000	Unaudited 1H 2013 HK\$'000
Interest income	457,465	467,633
Interest expense	(116,593)	(130,206)
Net interest income	340,872	337,427
Net premiums earned	209,583	247,557
Other income	34,802	128,139
Operating income	585,257	713,123
Net claims (incurred)/written back	(283)	8,760
Net commission expenses	(52,234)	(67,486)
Operating expenses	(122,145)	(104,606)
Operating profit before impairment (Charge)/Write-back of loan impairment allowances	410,595 (635)	549,791 3,107
Profit before taxation	409,960	552,898
Taxation	(35,887)	(44,525)
Profit for the period	374,073	508,373
Profit attributable to:		
Equity holders of the Company	374,073	508,285
Non-controlling interests	-	88
	374,073	508,373
Return on shareholders' equity (annualised)	8.3%	10.7%
Return on assets (annualised)	1.4%	1.9%
Cost-to-income ratio	22.9%	16.0%
Net interest margin (annualised)	1.4%	1.4%

	Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
ASSETS		
Cash and short-term funds	19,673,023	11,757,533
Derivative financial instruments	1,031,516	831,426
Loan portfolio, net	17,865,290	22,268,397
Investment securities:		
- available-for-sale	4,996,361	3,860,455
- held-to-maturity	8,843,494	8,560,595
Reinsurance assets	157,829	180,742
Other assets	490,073	560,682
	53,057,586	48,019,830
LIABILITIES		
Derivative financial instruments	562,137	785,458
Tax payable	178,133	144,665
Insurance liabilities	1,177,175	1,294,712
Debt securities issued	37,432,787	31,355,185
Other liabilities	5,273,118	4,865,630
	44,623,350	38,445,650
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	4,807,277	4,548,760
Proposed dividends	-	1,500,000
Contingency reserve	1,329,383	1,213,827
Fair value and other reserves	297,576	298,621
	8,434,236	9,561,208
Non-controlling interests in equity	-	12,972
Total equity	8,434,236	9,574,180
Total liabilities and equity	53,057,586	48,019,830
Capital adequacy ratio	23.1%	21.0%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK\$374 million in 1H 2014, representing a decrease of HK\$134 million or 26.4% as compared with 1H 2013. The annualised return on shareholders' equity was 8.3% (1H 2013: 10.7%). The reductions in profitability were mainly due to loan portfolio rundown, slower mortgage insurance business and reduction in other income.

In 1H 2014, the net interest income was HK\$341 million (1H 2013: HK\$337 million). The net interest margin of the average interest-earning assets was 1.4% (1H 2013: 1.4%).

Net mortgage insurance premium earned after income amortisation, commission expenses and provision, decreased to HK\$155 million (1H 2013: HK\$187 million).

Other income was HK\$35 million (1H 2013: HK\$128 million), mainly including disposal gain and dividend income from investments of HK\$76 million, exchange/revaluation loss of HK\$58 million mainly arising from renminbi exposures in cash and debt investments, and gain of HK\$13 million on disposal of the HKMC's stake in its overseas joint venture.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$122 million, HK\$18 million up against 1H 2013. The increase was mainly attributable to increase in rental expenses and staff costs. Coupled with the reduction in operating income, the cost-to-income ratio increased from 16% in 1H 2013 to 22.9% in 1H 2014.

As at 30 June 2014, the capital adequacy ratio remained solid at 23.1% (31 December 2013: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.