

Unaudited Consolidated Financial Results**For the Six Months Ended 30 June 2016**

	Unaudited 1H 2016 HK\$'000	Unaudited 1H 2015 HK\$'000
Interest income	400,976	432,491
Interest expense	(150,270)	(128,181)
Net interest income	250,706	304,310
Net premiums earned	152,678	200,405
Other income	78,366	33,612
Operating income	481,750	538,327
Net claims (incurred) / written back	(1,364)	710
Net commission expenses	(33,422)	(42,600)
Operating expenses	(130,879)	(126,317)
Operating profit before impairment	316,085	370,120
Write-back / (charge) of loan impairment allowances	554	(1,439)
Profit before taxation	316,639	368,681
Taxation	(20,467)	(30,732)
Profit for the period	296,172	337,949
Return on shareholders' equity (annualised)	6.6%	7.6%
Return on assets (annualised)	1.1%	1.2%
Cost-to-income ratio	29.3%	25.4%
Net interest margin (annualised)	1.0%	1.2%

	Unaudited As at 30 June 2016	Audited As at 31 December 2015
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	27,015,745	21,007,367
Derivative financial instruments	516,869	473,403
Loan portfolio, net	10,489,117	11,502,312
Investment securities:		
- available-for-sale	8,060,709	6,638,367
- held-to-maturity	10,190,988	10,274,001
Reinsurance assets	125,702	128,653
Other assets	417,338	440,647
Total assets	56,816,468	50,464,750
LIABILITIES		
Derivative financial instruments	1,382,289	1,821,927
Tax payable	148,826	129,153
Insurance liabilities	943,173	978,845
Debt securities issued	40,005,403	33,463,211
Other liabilities	5,548,296	5,003,369
Total liabilities	48,027,987	41,396,505
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	4,733,853	5,251,052
Contingency reserve	1,721,031	1,632,660
Fair value and other reserves	333,597	184,533
Total equity	8,788,481	9,068,245
Total liabilities and equity	56,816,468	50,464,750

Capital adequacy ratio

20.2%

21.9%

Note:

The financial information relating to the year ended 31 December 2015 included in these unaudited consolidated financial results for the six months ended 30 June 2016 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 2015 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 2015. 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\$296 million in 1H 2016, representing a decrease of HK\$42 million or 12.4% compared with 1H 2015. The annualised return on shareholders' equity was 6.6% (1H 2015: 7.6%). Reduction in profitability was mainly due to loan portfolio rundown and decrease in mortgage insurance premiums earned, partly offset by the increase in other income.

In 1H 2016, the net interest income was HK\$251 million (1H 2015: HK\$304 million) and the annualised net interest margin of the average interest-earning assets was 1.0% (1H 2015: 1.2%).

New loans drawn down under the MIP was HK\$7.8 billion in 1H 2016 (1H 2015: HK\$8.2 billion). The risk-in-force borne for the MIP by the HKMC was at HK\$11.8 billion (31 December 2015: HK\$11.3 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK\$116 million (1H 2015: HK\$154 million) amid a slower housing turnover.

Other income was HK\$78 million (1H 2015: HK\$34 million) that mainly consisted of dividend income of HK\$42 million and gains on disposal of investments of HK\$31 million.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$131 million, HK\$5 million more than that for 1H 2015. Due to reduction in operating income and resources devoted to support policy initiatives, the cost-to-income ratio was increased to 29.3% in 1H 2016 (1H 2015: 25.4%).

As at 30 June 2016, the capital adequacy ratio remained solid at 20.2% (31 December 2015: 21.9%), well above the minimum requirement of 8% stipulated by the Financial Secretary.