

Unaudited Consolidated Financial Results**For the Six Months Ended 30 June 2019**

	Unaudited 1H 2019 HK\$'000	Unaudited 1H 2018 HK\$'000
Interest income	725,543	544,792
Interest expense	(437,208)	(276,584)
Net interest income	288,335	268,208
Net premiums earned	946,994	176,959
Other income	246,462	91,875
Operating income	1,481,791	537,042
Net claims incurred, benefits paid and movement in policyholders' liabilities	(946,280)	(1,439)
Net commission and levy expenses	(63,992)	(79,092)
Operating expenses	(230,716)	(190,744)
Operating profit before impairment	240,803	265,767
Charge of impairment allowances	(430)	(743)
Profit before taxation	240,373	265,024
Taxation	6,286	(9,307)
Profit for the period	246,659	255,717
Return on shareholders' equity (annualised)	3.3%	4.1%
Cost-to-income ratio	48.9%	41.8%
Net interest margin (annualised)	1.1%	1.1%

	Unaudited As at 30 June 2019	Audited As at 31 December 2018
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	27,790,818	29,390,855
Derivative financial instruments	251,865	161,047
Loan portfolio, net	6,657,664	6,442,064
Investment securities	18,447,903	17,182,109
Placements with the Exchange Fund	11,663,203	7,734,934
Reinsurance assets	175,391	171,518
Other assets	1,042,250	1,399,042
Total assets	66,029,094	62,481,569
LIABILITIES		
Derivative financial instruments	204,785	264,386
Current tax liabilities	110,376	104,077
Insurance liabilities	5,505,771	4,607,373
Debt securities issued	39,313,651	37,292,877
Other liabilities	5,733,185	5,319,147
Total liabilities	50,867,768	47,587,860
EQUITY		
Share capital	7,000,000	7,000,000
Retained profits	6,419,429	6,263,342
Contingency reserve	1,721,546	1,632,818
Fair value reserve	20,351	(2,451)
Total equity	15,161,326	14,893,709
Total liabilities and equity	66,029,094	62,481,569
Capital adequacy ratio	28.6%	26.8%

Note:

The financial information relating to the year ended 31 December 2018 included in these unaudited consolidated financial results for the six months ended 30 June 2019 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 2018 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 2018. 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 for 1H 2019 was HK\$247 million (1H 2018: HK\$256 million). The annualised return on shareholders' equity was 3.3% (1H 2018: 4.1%). The decrease in profitability mainly reflected the accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC to operate annuity business, for maintaining prudent statutory reserves based on actuarial assumptions, partially offset by the net gain on investments at fair value through profit or loss.

In 1H 2019, the net interest income was HK\$288 million (1H 2018: HK\$268 million) and the annualised net interest margin of the average interest-earning assets remained stable at 1.1% (1H 2018: 1.1%).

New loans drawn down under the MIP amounted to HK\$15.7 billion in 1H 2019 (1H 2018: HK\$18.9 billion). The risk-in-force borne for the MIP by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC to operate general insurance business, was HK\$21.1 billion (31 December 2018: HK\$19.7 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK\$98 million (1H 2018: HK\$86 million).

Other income was HK\$246 million (1H 2018: HK\$92 million), which mainly consisted of investment income of HK\$168 million (1H 2018: HK\$46 million) from placements with the Exchange Fund and net gain of HK\$104 million (1H 2018: net loss of HK\$47 million) on investments at fair value through profit or loss.

The HKMC continues to maintain stringent controls on operating expenses. The total operating expenses were HK\$231 million, HK\$40 million more than that of 1H 2018. The increase was primarily due to the implementation of the annuity business and development of the infrastructure financing and securitisation business. The cost-to-income ratio was 48.9% (1H 2018: 41.8%).

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). Excluding the investment costs in these unconsolidated regulated subsidiaries, the CAR remained solid at 28.6% as at 30 June 2019 (31 December 2018: 26.8%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA as at 30 June 2019 were about 35 times and 27 times respectively, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.