

Annex A

Consolidated Financial Results for the Year Ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
Interest income	902,366	902,246
Interest expense	(251,411)	(250,253)
Net interest income	650,955	651,993
Net premiums earned	434,096	476,956
Other income	89,345	297,470
Operating income	1,174,396	1,426,419
Net claims (incurred) / written back	(10,144)	8,767
Net commission expenses	(110,809)	(135,890)
Operating expenses	(255,627)	(235,043)
Operating profit before impairment (Charge) / Write-back of loan impairment allowances	797,816 (906)	1,064,253 3,545
Profit before taxation	796,910	1,067,798
Taxation	(50,937)	(85,214)
Profit for the year	745,973	982,584
Profit attributable to:		
Equity holders of the Company	745,973	982,404
Non-controlling interests	-	180
	745,973	982,584
Proposed dividends:		
Ordinary	350,000	500,000
Special	-	1,000,000
	350,000	1,500,000
Return on shareholders' equity	8.4%	10.4%
Return on assets	1.4%	1.9%
Cost-to-income ratio	24.3%	18.1%
Net interest margin	1.3%	1.4%

	As at 31 December 2014 HK\$'000	As at 31 December 2013 HK\$'000
ASSETS		
Cash and short-term funds	18,421,490	11,757,533
Derivative financial instruments	556,962	831,426
Loan portfolio, net	15,571,649	22,268,397
Investment securities:		
- available-for-sale	5,734,162	3,860,455
- held-to-maturity	9,168,795	8,560,595
Reinsurance assets	144,179	180,742
Other assets	406,184	560,682
	50,003,421	48,019,830
LIABILITIES		
Derivative financial instruments	1,575,968	785,458
Tax payable	133,301	144,665
Insurance liabilities	1,112,089	1,294,712
Debt securities issued	33,270,129	31,355,185
Other liabilities	5,019,920	4,865,630
	41,111,407	38,445,650
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	4,720,815	4,548,760
Proposed dividends	350,000	1,500,000
Contingency reserve	1,437,745	1,213,827
Fair value and other reserves	383,454	298,621
	8,892,014	9,561,208
Non-controlling interests in equity	-	12,972
Total equity	8,892,014	9,574,180
Total liabilities and equity	50,003,421	48,019,830
Capital adequacy ratio	23.5%	21.0%

Financial Review

The consolidated profit after tax of the HKMC was HK\$746 million in 2014, representing a decrease of HK\$237 million or 24.1%, compared with 2013. Return on shareholders' equity was 8.4% (2013: 10.4%). The reductions in profitability were mainly due to loan portfolio rundown, reduced contributions from the mortgage insurance business and other income.

In 2014, the net interest income was steady at HK\$651 million (2013: HK\$652 million). The net interest margin of the average interest-earning assets was 1.3% (2013: 1.4%).

New loans drawn down under the MIP increased from HK\$13.3 billion to HK\$16 billion in 2014 amid the rebound of the residential property market. The risk-in-force borne by the HKMC decreased to HK\$11 billion (2013: HK\$12 billion) due to the runoff of the MIP portfolio. Net mortgage insurance premium earned, after income amortisation, commission expenses and provision was HK\$311 million (2013: HK\$346 million).

Other income was HK\$89 million (2013: HK\$297 million), which mainly included gain on disposal of investments of HK\$59 million, dividend income of HK\$35 million, and an exchange loss of HK\$13 million primarily due to the effect of renminbi volatility in deposits and high-grade investments.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$256 million, HK\$21 million up from 2013. Amid the reduction in operating income coupled with resources required to support the new policy initiatives, the cost-to-income ratio increased from 18.1% in 2013 to 24.3% in 2014.

Taking into account the HKMC's future business development, financial performance and capital requirements, the Shareholders in the Annual General Meeting today approved a dividend of HK\$350 million for 2014. As at 31 December 2014, the capital adequacy ratio remained solid at 23.5%, well above the minimum requirement of 8% stipulated by the Financial Secretary.

Board of Directors

The Hon. John TSANG Chun-wah, GBM, JP (Chairman and Executive Director)	Financial Secretary
Mr Norman T. L. CHAN, GBS, JP (Deputy Chairman and Executive Director)	Chief Executive Hong Kong Monetary Authority
Mr Peter PANG Sing-tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr Eddie YUE Wai-man, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Professor the Hon. K C CHAN, GBS, JP	Secretary for Financial Services and the Treasury
Professor the Hon. Anthony CHEUNG Bing- leung, GBS, JP	Secretary for Transport and Housing
The Hon. Ms Starry LEE Wai-king, JP	Member of Executive Council Member of Legislative Council
The Hon. Abraham SHEK Lai-him, GBS, JP	Member of Legislative Council
The Hon. Andrew LEUNG Kwan-yuen, GBS, SBS, JP	Member of Legislative Council Chairman, Sun Hing Knitting Factory Limited
The Hon. NG Leung-sing, SBS, JP	Member of Legislative Council Chairman, Bank of China (Hong Kong) Trustees Limited Vice-Chairman, Chiyu Banking Corporation Limited
Miss Tanya CHAN	Barrister-at-law
Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.

Mr LEE Huat-oon	General Manager/Chief Executive Public Finance Limited
Professor WONG Yuk-shan, BBS, JP	Chairman, Consumer Council President of The Open University of Hong Kong
Mr T. Brian STEVENSON, SBS, JP	Advisor to BT Asia Pacific
Ms Miranda KWOK Pui-fong	President and Executive Director China Construction Bank (Asia) Corporation Limited
Mr Lawrence LAM Yuk-kun	Senior Advisor, Greater China National Australia Bank Limited
Mr George LEUNG Siu-kay	Advisor, Asia-Pacific The Hongkong and Shanghai Banking Corporation Limited