

# Financial Review

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With the monetary policy divergence in major advanced economies and the increased capital outflows of many emerging market economies, which experienced varying degrees of growth slowdown, the global economic and financial market sentiment was clouded in 2015.

In Hong Kong, economic growth was moderate amid a lacklustre global economy. The domestic segment was relatively stable but expanded at a slower pace, and the labour market was still virtually in a state of full employment. Both factors helped to cushion the local economy against weakened export performance. The residential property market showed signs of consolidation from the third quarter of 2015, with downward adjustments in housing prices of secondary market in the last quarter of the year.

## Income Statement

### Financial Performance

The Corporation continued to deliver a solid financial performance in 2015. The profit attributable to shareholders for 2015 was HK\$725 million (2014: HK\$746 million) (**Table 1**). The reduction in profitability was mainly due to the rundown of loan portfolio, partly offset by cost-effective pre-funding and increase in other income. Accordingly, return on equity was 8.1% (2014: 8.4%). The cost-to-income ratio increased slightly to 25.7% (2014: 24.3%), mainly due to the reduction in operating income coupled with increased resources devoted to support policy initiatives. The capital adequacy ratio remained solid at 21.9% (2014: 23.5%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

**Table 1**

Summary of financial performance	2015 HK\$ million	2014 HK\$ million
Operating profit before impairment	<b>769</b>	798
Profit before tax	<b>770</b>	797
Profit attributable to shareholders	<b>725</b>	746
Return on shareholders' equity	<b>8.1%</b>	8.4%
Return on assets	<b>1.4%</b>	1.4%
Cost-to-income ratio	<b>25.7%</b>	24.3%
Capital adequacy ratio	<b>21.9%</b>	23.5%

### Net Interest Income

The net interest income for the year was HK\$590 million (2014: HK\$651 million). The drop was mainly due to the reduction of average loan portfolio by HK\$5.5 billion as a result of rundown of loan portfolio. The net interest spread reduced to 1.1% from 1.2% in 2014, and the net interest margin dropped to 1.2% from 1.3% (**Table 2**).

**Table 2**

Net Interest Income	2015 HK\$ million	2014 HK\$ million
Net interest income	<b>590</b>	651
Average interest-earning assets	<b>49,842</b>	50,021
Net interest margin	<b>1.2%</b>	1.3%
Net interest spread on interest-bearing liabilities <sup>1</sup>	<b>1.1%</b>	1.2%

<sup>1</sup> Net interest spread on interest-bearing liabilities = Return on interest-earning assets - Funding cost on interest-bearing liabilities

### Net Mortgage Insurance Premium Earned

The residential property market became more active in second quarter of 2015 before quietening down in the third quarter and then showing some consolidation in the last quarter. The total number of sale and purchase agreements for residential property registered at the Land Registry fell by 12% in 2015. However, in tandem with the overall increase in residential property prices, mortgage lending grew in 2015, with new mortgage loans drawn down in the residential property market increasing to HK\$244 billion from HK\$214 billion in 2014.

Against this backdrop, new business underwritten under the MIP increased to HK\$17.2 billion in 2015 from HK\$16 billion in 2014. The net premium earned after commission expenses was HK\$287 million. Taking into account the write-back of provisions for outstanding claims of HK\$2 million (2014: HK\$6 million), the net premium earned was HK\$289 million (2014: HK\$311 million).

### Other Income

Other income was HK\$143 million (2014: HK\$89 million). Net gain on disposal of investments, mainly a result of rebalancing the investment portfolio, amounted to HK\$122 million (2014: HK\$59 million). Dividend income was HK\$73 million (2014: HK\$35 million). An exchange loss of HK\$39 million (2014: HK\$13 million) was recorded, primarily due to the effect of renminbi volatility from deposits and high-grade debt investments.

### Operating Expenses

The Corporation continued to maintain stringent cost control to contain expenses and improve operating efficiency. Operating expenses moderately rose 4.3% year on year to HK\$267 million, but this was HK\$19 million less than the budget. Staff costs, which were well contained at 62.9% of total operating expenses, amounted to HK\$168 million (2014: HK\$157 million). Premises rentals and related costs were contained at HK\$37 million (2014: HK\$39 million).

### Allowance for Loan Impairment

Asset quality remained strong, with the delinquency ratio of the Corporation's mortgage portfolio staying at 0.02%. Taking into account the rundown of loan portfolio and the low average current loan-to-value ratio of retained loan portfolio, a write-back on collective assessment for loan impairment of HK\$0.2 million was recorded in 2015 according to the approved prudent provisioning policy. During the year, loans written off were HK\$2 million (2014: HK\$2 million) with a recovery of HK\$2 million (2014: HK\$1 million).

## Financial Position

### Loan Portfolio

During the year, the Corporation purchased Hong Kong loan assets of about HK\$0.3 billion (2014: HK\$0.2 billion). After accounting for the prepayments and repayments during the year, the outstanding balance of the loan portfolio recorded a rundown of HK\$4.1 billion, leaving an outstanding balance of HK\$11.5 billion.

### Investment Securities

The Corporation adopts a prudent, low-risk approach in managing its surplus funds and investment activities in accordance with the Board's investment guidelines. As at 31 December 2015, the total investment portfolio was HK\$16.9 billion (2014: HK\$14.9 billion), which included HK\$6.6 billion of available-for-sale investments and HK\$10.3 billion of held-to-maturity investments. There was no impairment loss from the investments.

### Debt Securities Issued

In 2015, the Corporation issued HK\$23 billion of debt securities under the MTN Programme. All the non-Hong Kong dollar debts issued under the MTN Programme were swapped into Hong Kong dollars or US dollars for hedging purposes. The Corporation continued to adopt a prudent pre-funding strategy, with the total outstanding balance of the debt securities maintained at HK\$33.5 billion as at 31 December 2015 (2014: HK\$33.3 billion).

## Key Off-balance Sheet Exposure

### Mortgage Insurance

The Corporation operates the MIP on a risk-sharing basis with the approved reinsurers. At the end of 2015, the total risk-in-force was about HK\$13.4 billion (2014: HK\$13.1 billion), of which HK\$2.1 billion (2014: HK\$2.1 billion) was ceded to the approved reinsurers. The off-balance sheet risk-in-force exposure borne by the Corporation increased marginally to HK\$11.3 billion (2014: HK\$11 billion). Of this exposure, the excess loss of HK\$0.3 billion of risk-in-force was hedged through the excess-of-loss reinsurance arrangement to reinsure the middle layer risk exposure, while the Corporation retains a portion of the total risks comprising the first-loss and residual risks.

The provision for outstanding claims remained steady at 0.2% of the retained risk-in-force at year-end. The delinquency ratio remained healthy at 0% (2014: 0%).

### Reverse Mortgage

The Corporation operates the RMP as an insurer to provide mortgage insurance cover for a premium on reverse mortgage loans advanced by participating banks in Hong Kong. After taking into account undrawn future payout of reverse mortgage loans, the risk-in-force exposure borne by the Corporation increased to HK\$2.9 billion (2014: HK\$2.0 billion) as at 31 December 2015.

### Dividend

At the Annual General Meeting held on 25 April 2016, the shareholders, having considered the financial performance and solid capital position for business development, approved an ordinary dividend of HK\$0.3625 (2014: HK\$0.175) per share, representing a dividend payout ratio of about 100% totalling HK\$725 million.

