

Financial Review

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The global economy stayed benign in 2017 while the US economy expanded at a moderate pace. The ongoing economic recovery in the euro area has become more entrenched. Against these positive developments, the US Federal Reserve began trimming its balance sheet in October 2017, and the European Central Bank also announced it would reduce its monthly asset purchases from early 2018. The Mainland economy sustained its solid momentum and stable development.

In Hong Kong, the economy benefitted from a broad-based global economic upturn. The expansion in global demand boded well for Hong Kong's exports. Domestic demand also held up well, buttressed by sanguine consumption sentiment under the favourable employment and income conditions, as well as intensive building and construction activity.

Income Statement

Financial Performance

Against this backdrop, profit attributable to shareholders for 2017 was HK\$806 million (2016: HK\$604 million) (**Table 1**). The increase in profitability was driven by an increase in other income which comprised mainly gains on disposal of investments as a result of portfolio rebalancing and the exchange gain from the revaluation of US dollar exposures in cash and debt investments. Accordingly, return on equity increased to 8.6% (2016: 6.8%) while cost-to-income ratio reduced to 26.8% (2016: 30.8%), notwithstanding the resources devoted to support policy initiatives. The capital adequacy ratio remained solid at 21.0% (2016: 21.3%), which was well above the minimum requirement of 8% stipulated by the Financial Secretary.

Table 1

Summary of financial performance	2017 HK\$ million	2016 HK\$ million
Operating profit before impairment	829	621
Profit before tax	829	622
Profit attributable to shareholders	806	604
Return on shareholders' equity	8.6%	6.8%
Return on assets	1.6%	1.1%
Cost-to-income ratio	26.8%	30.8%
Capital adequacy ratio	21.0%	21.3%

Net Interest Income

The net interest income for the year was HK\$508 million (2016: HK\$491 million). The increase was mainly due to cost-effective pre-funding, partially offset by the reduction of the average loan portfolio by HK\$1.9 billion as a result of rundowns from loan repayment and prepayment. The net interest spread was maintained at 0.9%, while the net interest margin improved to 1.1% from 1.0% (**Table 2**).

Table 2

Net Interest Income	2017 HK\$ million	2016 HK\$ million
Net interest income	508	491
Average interest-earning assets	48,027	49,281
Net interest margin	1.1%	1.0%
Net interest spread on interest-bearing liabilities ¹	0.9%	0.9%

¹ Net interest spread on interest-bearing liabilities = Return on interest-earning assets – Funding cost on interest-bearing liabilities

Net Mortgage Insurance Premium Earned

New business underwritten under the MIP increased to HK\$32.3 billion in 2017 from HK\$24.6 billion in 2016. Net premium receipts, after reinsurance and discount to borrowers, increased by HK\$55 million to HK\$413 million in 2017. Meanwhile, net premium receipts were amortised and recognised as income in accordance with the unexpired risks. Taking into account upfront incentives to banks, and the provisions for outstanding claims of HK\$1 million (2016: HK\$3 million), the net premium earned was HK\$196 million (2016: HK\$190 million).

Other Income

Other income was HK\$414 million (2016: HK\$213 million). The major items included an exchange gain of HK\$171 million (2016: an exchange loss of HK\$21 million) arising mainly from the revaluation of US dollar exposures in cash and debt investments, net gains on disposal of investments of HK\$164 million (2016: HK\$160 million) as a result of investment portfolio rebalancing, and dividend income from investments of HK\$83 million (2016: HK\$83 million).

Events Occurring After The Reporting Period

The Group approved in June 2017 the plan for implementing the LAS in mid-2018. To comply with the relevant authorisation requirements, the Group has kick-started a corporate re-organisation and established two subsidiaries, HKMCI and HKMCA to apply for the necessary authorisation and respectively to take up the HKMC's general insurance business and to operate the LAS.

On 12 February 2018, the HKMC injected HK\$2,999,999,900 to make up issued and paid-up capital of HK\$3 billion of HKMCI without allotting and issuing new shares. On 14 February 2018, HKMCI was granted formal authorisation from the Insurance Authority to carry on general insurance business which will be transferred from the HKMC. After completion of the transfer, the HKMC will apply to the Insurance Authority for withdrawal of its authorisation to carry on general insurance business in or from Hong Kong.