

Press Release

HKMC's Financial Results Highlights for the First Half of 2015

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced the highlights of its unaudited financial results for the first six months of 2015 ("1H 2015").

2015 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax was HK\$338 million (1H 2014: HK\$374 million)
- Annualised return on shareholders' equity was 7.6% (1H 2014: 8.3%)
- Cost-to-income ratio was 25.4% (1H 2014: 22.9%)
- Capital adequacy ratio was 22.6% as at 30 June 2015 (31 December 2014: 23.5%)

2015 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK\$71 million loan assets (1H 2014: HK\$74 million)

- Outstanding principal balance of the loan portfolio was HK\$12.5 billion as at 30 June 2015 (31 December 2014: HK\$15.6 billion)

Debt Issuance

- Issued HK\$12.1 billion corporate debts¹ (1H 2014: HK\$8.5 billion), being one of the most active issuers in Hong Kong
- Outstanding balance of debt securities was HK\$36.2 billion as at 30 June 2015 (31 December 2014: HK\$33.3 billion)
- Credit ratings of AAA from Standard & Poor's and Aa1 from Moody's, same as the ratings of the HKSAR Government

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down under the MIP amounted to HK\$8.2 billion (1H 2014: HK\$6.2 billion)
- 85% of the MIP loans drawn down (in terms of the loan amount) were secured on properties in the secondary market, demonstrating the importance of the MIP to homebuyers in the secondary market

¹ For debts with tenor of one year or above.

SME Financing Guarantee Scheme (SFGS)

- Approved more than 580 applications for the 80% guarantee products under the Special Concessionary Measures with a total loan amount of approximately HK\$2.0 billion

Reverse Mortgage Programme

- Approved 147 applications, with an average property value of about HK\$5.3 million and average monthly payout of HK\$15,200

Microfinance Scheme

- Approved 11 applications with a total loan amount of HK\$2.13 million

Further details of the HKMC's consolidated financial results and financial review for 1H 2015 are set out at Annex.

The Hong Kong Mortgage Corporation Limited

29 October 2015

Annex

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2015

| | Unaudited 1H 2015 HK\$'000 | Unaudited 1H 2014 HK\$'000 |
|---|----------------------------------|----------------------------------|
| Interest income | 432,491 | 457,465 |
| Interest expense | (128,181) | (116,593) |
| Net interest income | 304,310 | 340,872 |
| Net premiums earned | 200,405 | 209,583 |
| Other income | 33,612 | 34,802 |
| Operating income | 538,327 | 585,257 |
| Net claims written back / (incurred) | 710 | (283) |
| Net commission expenses | (42,600) | (52,234) |
| Operating expenses | (126,317) | (122,145) |
| Operating profit before impairment | 370,120 | 410,595 |
| Charge of loan impairment allowances | (1,439) | (635) |
| Profit before taxation | 368,681 | 409,960 |
| Taxation | (30,732) | (35,887) |
| Profit for the period | 337,949 | 374,073 |
| Return on shareholders' equity (annualised) | 7.6% | 8.3% |
| Return on assets (annualised) | 1.2% | 1.4% |
| Cost-to-income ratio | 25.4% | 22.9% |
| Net interest margin (annualised) | 1.2% | 1.4% |

| | Unaudited As at 30 June 2015 | Audited As at 31 December 2014 |
|--|---|---|
| | HK\$'000 | HK\$'000 |
| ASSETS | | |
| Cash and short-term funds | 21,719,695 | 18,421,490 |
| Derivative financial instruments | 712,198 | 556,962 |
| Loan portfolio, net | 12,499,634 | 15,571,649 |
| Investment securities: | | |
| - available-for-sale | 7,173,408 | 5,734,162 |
| - held-to-maturity | 10,212,468 | 9,168,795 |
| Reinsurance assets | 132,100 | 144,179 |
| Other assets | 450,508 | 406,184 |
| | 52,900,011 | 50,003,421 |
| LIABILITIES | | |
| Derivative financial instruments | 1,526,914 | 1,575,968 |
| Tax payable | 164,177 | 133,301 |
| Insurance liabilities | 1,027,997 | 1,112,089 |
| Debt securities issued | 36,229,541 | 33,270,129 |
| Other liabilities | 5,137,092 | 5,019,920 |
| | 44,085,721 | 41,111,407 |
| EQUITY | | |
| Capital and reserves attributable to the equity holders: | | |
| Share capital | 2,000,000 | 2,000,000 |
| Retained profits | 4,941,124 | 5,070,815 |
| Contingency reserve | 1,555,385 | 1,437,745 |
| Fair value and other reserves | 317,781 | 383,454 |
| Total equity | 8,814,290 | 8,892,014 |
| Total liabilities and equity | 52,900,011 | 50,003,421 |
| Capital adequacy ratio | 22.6% | 23.5% |

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK\$338 million in 1H 2015, representing a decrease of HK\$36 million or 9.6%, compared with 1H 2014. The annualised return on shareholders' equity was 7.6% (1H 2014: 8.3%). The reductions in profitability were mainly due to the drop of net interest income arising from rundown in loan portfolio.

In 1H 2015, the net interest income was HK\$304 million (1H 2014: HK\$341 million). The annualised net interest margin of the average interest-earning assets was 1.2% (1H 2014: 1.4%).

The MIP risk-in-force borne by the HKMC remained steady at about HK\$10.9 billion (31 December 2014: HK\$11 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision was HK\$154 million (1H 2014: HK\$155 million).

Other income was HK\$34 million (1H 2014: HK\$35 million), which was mainly contributed by dividend income from investments of HK\$29 million.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK\$126 million, HK\$4 million up from 1H 2014. Amid the reduction in operating income coupled with resources allocated to support policy initiatives, the cost-to-income ratio increased from 22.9% in 1H 2014 to 25.4% in 1H 2015.

As at 30 June 2015, the capital adequacy ratio remained solid at 22.6% (31 December 2014: 23.5%), well above the minimum requirement of 8% stipulated by the Financial Secretary.