

Press Release

HKMC's Financial Results Highlights for 2014

The Hong Kong Mortgage Corporation Limited (HKMC) today (Tuesday) announced the highlights of its audited financial results for 2014 as follows:

2014 Financial Results Highlights

- Consolidated profit after tax was HK\$746 million (2013: HK\$983 million)
- Return on shareholders' equity was 8.4% (2013: 10.4%)
- Cost-to-income ratio was 24.3% (2013: 18.1%)
- Capital adequacy ratio was 23.5% as at 31 December 2014 (31 December 2013: 21%)
- Dividend of HK\$350 million (2013: HK\$1.5 billion, including an ordinary dividend of HK\$500 million and a special dividend of HK\$1 billion)

2014 Business Performance Highlights

Asset Purchase

- Purchased HK\$245 million loan assets (2013: HK\$3.2 billion)

- Outstanding principal balance of the loan portfolio was HK\$15.6 billion at the end of 2014 (2013: HK\$22.3 billion)

Debt Issuance

- Issued HK\$13.9 billion corporate debts¹ (2013: HK\$10.2 billion), being one of the most active issuers in Hong Kong
- Outstanding balance of debt securities was HK\$33.3 billion at the end of 2014 (2013: HK\$31.4 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\$16 billion (2013: HK\$13.3 billion)
- 89% 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 1,600 applications for the 80% guarantee products under the Special Concessionary Measures with a total loan amount of approximately HK\$5.8 billion in 2014

Reverse Mortgage Programme

- Approved 200 applications, with an average property value of about HK\$5.3 million and average monthly payout of HK\$14,700

Microfinance Scheme

- Approved 37 applications with a total loan amount of HK\$8.57 million

Further details of the HKMC's consolidated financial results and financial review for 2014 are set out at Annex A.

Appointment of Board of Directors

The HKMC held its 18th Annual General Meeting today. Eleven Directors have been reappointed by the Financial Secretary for another term, namely, Professor K C Chan, Professor Anthony Cheung, Ms Starry Lee, Mr Abraham Shek, Mr Andrew Leung, Mr Ng Leung-sing, Miss Tanya Chan, Mr Lester Huang, Mr Lee Huat-oon, Professor Wong Yuk-shan and Mr Brian Stevenson. The Financial Secretary appointed Ms Miranda Kwok, Mr Lawrence Lam and Mr George Leung as new Directors. Mr Chan Kin-por, Mr Andrew Fung and Mr Jason Yeung have retired as Directors and have not offered themselves for reappointment. The composition of the new Board of Directors is at Annex B.

According to the Articles of Association of the HKMC, at each Annual General Meeting all those Directors who are not Executive Directors shall retire but shall be eligible for reappointment. Hence, the term of office of these Directors will run until the next Annual General Meeting to be held around April 2016.

The Hong Kong Mortgage Corporation Limited
21 April 2015

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	<u>(251,411)</u>	<u>(250,253)</u>
Net interest income	650,955	651,993
Net premiums earned	434,096	476,956
Other income	<u>89,345</u>	<u>297,470</u>
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	<u>(255,627)</u>	<u>(235,043)</u>
Operating profit before impairment (Charge) / Write-back of loan impairment allowances	<u>797,816</u>	1,064,253
	<u>(906)</u>	<u>3,545</u>
Profit before taxation	796,910	1,067,798
Taxation	<u>(50,937)</u>	<u>(85,214)</u>
Profit for the year	745,973	982,584
Profit attributable to:		
Equity holders of the Company	745,973	982,404
Non-controlling interests	-	180
	<u>745,973</u>	<u>982,584</u>
Proposed dividends:		
Ordinary	350,000	500,000
Special	-	1,000,000
	<u>350,000</u>	<u>1,500,000</u>
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