Press Release

The Hong Kong Mortgage Corporation Limited

Year 2002 Half-Year Financial Results

The Hong Kong Mortgage Corporation (HKMC) announced today (Wednesday) its Year 2002 interim results.

The unaudited interim results show that the operating profit after tax (PAT) for the six months ended 30 June 2002 was HK$115 million, an increase of HK$4.7 million or 4.3% compared with the figure for the corresponding period of last year. Discounting the tax write-back of HK$13.9 million booked in 2001, the PAT for the first half of 2002 is HK$18.6 million or 19.3% higher than that for the corresponding period of last year. The shareholder's equity increased by HK$115 million to HK$3.0 billion.

Total assets increased by 24.6% from HK$23.2 billion to HK$28.9 billion. Despite the difficult market environment, the HKMC purchased HK$4.5 billion of mortgage loans in the first six months and has secured firm offers of around HK$10 billion for settlement in the second half of the year. The aggregate amount of HK$14.5 billion has already exceeded the target of HK$13.5 billion set for the year.

On the funding side, the HKMC raised over HK$9 billion through 19 issues of debt securities in the first half of 2002. This has further consolidated the position of the Corporation as the most active corporate issuer of Hong Kong dollar fixed-rate debts. The HKMC is also the most active issuer of retail bonds with a total issuance amount of HK$3.72 billion in the first six months. As at 30 June 2002, the Corporation had 53 issues of debt securities with a total amount of about HK$25.6 billion outstanding.

The Mortgage Insurance Programme (MIP) maintained steady business volume in the first six months of 2002. Up to the end of June, the Corporation has received 3,392 applications, involving a total mortgage loan amount of HK$6.8 billion. Total insured loan amount is HK$3.6 billion, 9% higher than the forecast in the 2002 business plan. Secondary market transactions account for 67% of the applications received in the period. This shows that the MIP has helped to enhance the liquidity of secondary property market transactions.

Reflecting the prudent purchasing and insurance underwriting criteria adopted by the HKMC, the delinquency ratios of loans overdue for more than 90 days in the retained mortgage portfolio and MIP portfolio were 0.18% and 0.12% respectively at the end of June, substantially lower than the banking industry average of 1.10%.

The Hong Kong Mortgage Corporation Limited
31 July 2002

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

The Hong Kong Mortgage Corporation Limited (HKMC) is pleased to announce the unaudited half-year financial results for the six months ended 30 June 2002 as follows:

	6 months ended	
	30 June 2002	30 June 2001
	HK$'000	HK$'000
Interest income	411,099	527,478
Interest expense	(225,681)	(370,556)
Net interest income	185,418	156,922
Other income, net	25,257	15,806
Operating income	210,675	172,728
Operating expenses	(52,483)	(48,163)
Operating profit before provisions	158,192	124,565
Provisions for bad and doubtful loans	(28,413)	(14,109)
Profit before taxation	129,779	110,456
Taxation	(14,788)	(200)
Net profit for the period	114,991	110,256
Retained profit brought forward	840,059	589,814
Transfer to contingency reserve	(4,581)	(1,905)
Retained profit carried forward	950,469	698,165

	At 30 June 2002	At 31 Dec 2001
	HK$'000	HK$'000
Mortgage portfolio, net	20,293,889	19,777,884
Cash and short-term funds	6,403,748	1,256,740
Investment in debt securities	1,842,660	1,736,266
Total assets	28,941,159	23,219,832
Debt securities	25,576,650	20,058,550
Shareholder's equity	2,961,001	2,846,010
Capital-to-assets Ratio	7.3%	11.6%

	At 30 June 2002	At 30 June 2001
Return on shareholder's equity (annualized)	7.9%	8.3%
Return on total assets (annualized)	0.9%	1.2%
Cost-to-income ratio (annualized)	24.9%	27.9%

Financial Review

The unaudited profit after taxation (PAT) was HK$115 million for the six months ended 30 June 2002, an increase of HK$4.7 million or 4.3% over the corresponding period of last year. The increase in PAT mainly reflected an increase of HK$28.5 million in net interest income from an enlarged retained mortgage portfolio, an increase of HK$7.4 million in mortgage insurance premium earned and an increase of HK$3.6 million in fee income derived from the two mortgage-backed securitisation programmes. This had been moderated to some extent by an increase in loan provisions of HK$14.3 million to reflect the increase in the size of the retained mortgage portfolio and an increase in tax provision from HK$0.2 million to HK$14.6 million due to a tax write-back of $13.9 million booked in 2001.

For the purpose of minimizing the adverse impact of the sharp reduction in gross mortgage rates on the net interest spread of the retained mortgage portfolio, the HKMC continued to adopt a proactive approach to capture market opportunities to raise funds at a low cost. During the period, the HKMC issued a total amount of HK$9.3 billion of debts and successfully achieved a low funding cost at around HIBOR.

The Mortgage Insurance Programme (MIP) continued to be well received by the homebuyers. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$18.0 billion and the number of such mortgage loans stood at 9,978 as at 30 June 2002. The net premium earned was HK$17.1 million (1H 2001: HK$9.6 million). The demand for mortgage insurance is expected to further increase following the decision to launch the Home Owner Mortgage Enhancement Programme in July 2002.

The Corporation continues to exercise tight control over its operating expenses. Total operating expenses were HK$52.5 million for the first half of 2002 (1H 2001: HK$48.2 million). The cost-to-income ratio has improved to 24.9% (1H 2001: 27.9%).

Reflecting improved efficiency in the use of capital, the Capital-to-Assets ratio (CAR) of the HKMC was maintained at 7.3% as at 30 June 2002 (2001: 11.6%). This is comfortably above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.