Press Release

The Hong Kong Mortgage Corporation Limited
Year 2003 Half-Year Financial Results

The Hong Kong Mortgage Corporation (HKMC) announced today (30 July) its Year 2003 interim results.

The unaudited interim results show that the profit after tax (PAT) for the six months ended 30 June 2003 was HK$150.9 million, an increase of HK$34.2 million or 29.3% compared with the PAT for the corresponding period of last year. The shareholder's equity increased by HK$150.9 million to HK$3.3 billion. The annualized return on average shareholder's equity increased to 9.4% (1H 2002: 8%). The cost-to-income ratio improved to 18.5% (1H 2002: 24.9%). The capital-to-assets ratio (CAR) remained strong at 8.2% (computing in accordance with the provisions in the Banking Ordinance, the CAR of the HKMC was 15.5%). The operating results and financial highlights of the HKMC are attached at the Annex.

Total assets increased by 15.2% from HK$32.2 billion at the end of 2002 to HK$37.1 billion. Despite the difficult market environment, the HKMC purchased HK$6.6 billion of mortgage loans in the first six months and plans to purchase a total of HK$15 billion of mortgage loans in 2003.

On the funding side, the HKMC raised over HK$6 billion through 37 issues of debt securities in the first half of 2003. This has further consolidated the position of the HKMC as the most active corporate issuer of Hong Kong dollar fixed rate debts. As at 30 June 2003, the HKMC had 106 issues of debt securities with a total amount of about HK$33.3 billion outstanding.

The Mortgage Insurance Programme (MIP) maintained steady business volume in the first six months of 2003. Up to the end of June, the Corporation received 4,741 applications, involving a total mortgage loan amount of HK$7.4 billion. Total insured loan amount drawn down is HK$3 billion. The penetration ratio of MIP mortgages showed a significant increase from 9% in 2002 to about 14% in the first half of 2003. Secondary market transactions account for 44% 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 0.36% (a provisional figure) and 0.3% respectively at the end of May, substantially lower than the banking industry average of 1.16%.

The HKMC expects improvement in profits in the second half of 2003 due to the significant increase in mortgage purchase and further improvements in its cost-to-income ratio.

The Hong Kong Mortgage Corporation Limited
30 July 2003

Annex

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

CONSOLIDATED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

The Hong Kong Mortgage Corporation Limited (HKMC) is pleased to announce the unaudited consolidated half-year financial results for the six months ended 30 June 2003 as follows:

	Unaudited 6 months ended 30 June 2003	Unaudited & restated 6 months ended 30 June 2002
	HK$'000	HK$'000
Interest income	505,192	411,099
Interest expense	(234,109)	(225,681)
Net interest income	271,083	185,418
Other income, net	26,633	25,257
Operating income	297,716	210,675
Operating expenses	(55,068)	(52,483)
Operating profit before provisions	242,648	158,192
Provisions for bad and doubtful loans	(78,522)	(28,413)
Profit before taxation	164,126	129,779
Taxation	(13,180)	(13,102)
Net profit for the period	150,946	116,677 #

	Unaudited at 30 June 2003	Audited & restated at 31 December 2002
	HK$'000	HK$'000
Mortgage portfolio, net	32,018,413	28,257,727
Cash and short-term funds	1,181,619	212,863
Investment in debt securities	3,380,044	3,244,520
Total assets	37,145,990	32,191,033 #
Debt securities	33,339,750	28,615,000
Shareholder's equity	3,269,726	3,118,780 #
Capital-to-assets ratio	8.2%	8.9%

	Unaudited at 30 June 2003	Unaudited & restated at 30 June 2002
Return on shareholder's equity (annualized)	9.4%	8.0% #
Return on total assets (annualized)	0.8%	0.9%
Cost-to-income ratio	18.5%	24.9%

Figures restated as a result of the adoption of the new Statement of Standard Accounting Practice 12: Income Taxes

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$150.9 million for the six months ended 30 June 2003, an increase of HK$34.2 million or 29.3% over the corresponding period of last year. The increase in PAT mainly reflected an increase of HK$85.7 million in net interest income from an enlarged retained mortgage portfolio, which had been moderated by an increase in loan provisions. General provision of HK$10.5 million (1H 2002: HK$10.6 million) and specific provision of HK$68 million (1H 2002: HK$17.8 million) were charged to the profit and loss account for the first half of 2003.

The increase in provisioning reflects the increase of 58% in the size of the retained mortgage portfolio from HK$20.3 billion as at 30 June 2002 to HK$32 billion as at 30 June 2003 and the fall in property prices since June 2002.

The HKMC incurred interest expense of HK$234.1 million (1H 2002: HK$225.7 million). During the period, the HKMC issued a total amount of over HK$6 billion of debts and successfully achieved a low funding cost to fund the mortgage purchase and refinance the matured notes.

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$22.6 billion and the number of insured mortgage loans stood at 12,482 as at 30 June 2003. The net premium earned was HK$19.3 million in the first half of 2003 (1H 2002: HK$17.1 million).

The HKMC continues to exercise tight control over its operating expenses. Total operating expenses were HK$55.1 million for the first half of 2003 (1H 2002: HK$52.5 million). The cost-to-income ratio has improved further to 18.5% (1H 2002: 24.9%).

The capital-to-assets ratio (CAR) of the HKMC was maintained at 8.2% as at 30 June 2003 (31 December 2002: 8.9%). This is comfortably above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary. Computing in accordance with the provisions in the Banking Ordinance, the CAR of the HKMC was 15.5%.