Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Thursday 18 September 2008).

Half-Year Financial Results for 2008

The HKMC and its subsidiaries (the HKMC Group) are pleased to announce the half-year financial results for 2008. The unaudited profit after tax (PAT) for the six months ended 30 June 2008 (1H 2008) was HK$333 million, HK$78 million lower than the first six months in 2007 (1H 2007). The annualised return on shareholders' equity was 11.6% (1H 2007: 15.4%). The capital-to-assets ratio remained strong at 9.3% at 30 June 2008, prudently above the minimum 5% stipulated by the Financial Secretary. The cost-to-income ratio was 15.1% for first half of 2008 (1H 2007: 11.2%). The financial results of the HKMC Group are at Annex.

The loan purchased in 1H 2008 amounted to HK$6.8 billion (1H 2007 purchase was HK$603 million). Taking into account loan repayments and prepayments, the outstanding principal balance of the loan portfolio increased by 5.2% from HK$34.5 billion at the end of 2007 to HK$36.3 billion as at 30 June 2008.

The Mortgage Insurance Programme (MIP) continued to enjoy good public acceptance – mortgage insurance coverage for newly originated mortgage loans was HK$11 billion (1H 2007: HK$5.8 billion) and the market penetration ratio at end-June 2008 was around 14%. As 94% of the MIP loans drawn down in 1H 2008 was secured on properties in the secondary market, this was a clear demonstration of the importance of the MIP to help homebuyers in the secondary market.

In terms of debt issuance, the HKMC issued a total of HK$12.7 billion corporate debts under its Debt Issuance Programme and Retail Bond Issuance Programme in first half of 2008, and remained as the most active corporate debt issuers in the Hong Kong dollar debt market. In June 2008, the HKMC offered a total of HK$540 million equivalent of retail bonds to the public. Moreover, the HKMC successfully issued debut US dollar and Singapore dollar

corporate debts to diversify its investor base and funding sources in the international bond market, raising a total of HK$4.3 billion equivalent under its Multi-currency Medium Term Note Programme. This also helps to further develop a quasi-sovereign benchmark for Hong Kong to further promote the development of the regional bond market. As at 30 June 2008, the total amount of outstanding debt securities and MBS were HK$41.9 billion and HK$4.1 billion respectively.

The HKMC's long-term foreign and local currency debt ratings are Aaa (stable outlook) from Moody's and AA+ (stable outlook) from Standard & Poor's. The Corporation will seek to improve its product range and diversify its businesses both locally and overseas to maintain its viability and strengthen its ability to provide liquidity to local banks and meet mortgage insurance needs of the homebuyers.

The Hong Kong Mortgage Corporation Limited
18 September 2008

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Unaudited 6 months ended 30 June 2008	Unaudited 6 months ended 30 June 2007
	HK$'000	HK$'000
Interest income	**927,368**	1,146,085
Interest expense	**(529,294)**	(805,797)
Net interest income	**398,074**	340,288
Other income	**20,597**	185,771
Operating income	**418,671**	526,059
Operating expenses	**(63,221)**	(58,904)
Operating profit before impairment	**355,450**	467,155
Write-back of loan impairment allowances	**7,342**	1,415
Profit before taxation	**362,792**	468,570
Taxation	**(30,225)**	(57,353)
Profit for the period	**332,567**	411,217

	Unaudited As at 30 June 2008	Audited As at 31 December 2007
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**9,127,269**	2,666,505
Derivative financial instruments	**500,971**	657,486
Loan portfolio, net	**36,274,301**	34,460,291
Investment securities:		
- available-for-sale	**5,186,184**	4,038,250
- held-to-maturity	**5,223,636**	5,500,024
Reinsurance assets	**368,693**	366,383
Other assets	**918,094**	938,984
	57,599,148	48,627,923
LIABILITIES		
Derivative financial instruments	**445,666**	122,642
Tax payable	**51,355**	21,275
Insurance liabilities	**757,967**	661,386
Debt securities issued	**41,897,975**	33,311,190
Mortgage-backed securities issued	**4,106,267**	4,229,159
Other liabilities	**4,641,675**	4,652,041
	51,900,905	42,997,693
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,477,207**	3,151,567
Contingency reserve	**109,424**	102,497
Fair value reserve	**101,657**	120,673
Hedging reserve	**9,955**	5,493
Proposed dividend	**-**	250,000
	5,698,243	5,630,230
	57,599,148	48,627,923
Capital-to-assets ratio	**9.3%**	11.2%

	Unaudited 6 months ended 30 June 2008	Unaudited 6 months ended 30 June 2007
Return on shareholders' equity (annualised)	**11.6%**	15.4%
Return on total assets (annualised)	**1.2%**	1.8%
Cost-to-income ratio	**15.1%**	11.2%
Net interest margin	**1.6%**	1.6%

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$333 million for the six months ended 30 June 2008 (1H 2008), HK$78 million less than the same period in 2007 (1H 2007). The annualised return on shareholders' equity was 11.6% (1H 2007: 15.4%).

In 1H 2008, the net interest income was HK$398 million, HK$58 million above that of 1H 2007. The net interest margin of the average interest-earning assets maintained at 1.6% (1H 2007: 1.6%).

Other income decreased to HK$21 million (1H 2007: HK$186 million) mainly due to the change in fair value of financial instruments and increase in hedging costs amid volatile interest rates environment. Other items included HK$65 million (1H 2007: HK$52 million) of net mortgage insurance premium earned, HK$26 million (1H 2007: HK$5,000 loss) of net gain on disposal of available-for-sale investments, HK$17 million (1H 2007: HK$11 million) of early prepayment fees arising from refinancing activities, HK$22 million (1H 2007: HK$3 million) of dividend income on investment securities and HK$2 million of exchange loss (1H 2007: HK$41 million exchange gain).

With the solid growth in secondary market activities, in 1H 2008, the new loans underwritten under the MIP soared to HK$11 billion (1H2007: HK$5.8 billion). The risk-in-force borne by HKMC increased from HK$3.5 billion at the end of 2007 to HK$4.7 billion as at 30 June 2008 or an increase of 34%. The net mortgage insurance premium earned increased by 24% to HK$65 million.

The HKMC continued to pursue prudent asset-liability management and pre-funding operations. A total of HK$17 billion of debt securities (HK$12.2 billion of debts issued under the Debt Issuance Programme, HK$4.3 billion equivalent of debts issued under the Medium Term Note Programme and HK$0.5 billion of retail bonds issued under the Retail Bond Issuance Programme) were issued to fund loan purchase and refinance debts.

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$63 million for 1H 2008 (1H 2007: HK$59 million). The cost-to-income ratio was 15.1% for 1H 2008 (1H 2007: 11.2%).

As a result of the continuing improvement in unemployment rate and the borrowers' credit quality, a write-back of loan impairment allowance of HK$7 million was made in 1H 2008 (1H 2007: HK$1 million). The Corporation has maintained its strong commitment to risk management and did

not purchase any sub-prime mortgage loans or invest in sub-prime related products.

The capital-to-assets ratio (CAR) stood well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary at a healthy level of 9.3% as at 30 June 2008 (31 December 2007: 11.2%).