Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Friday 11 September 2009).

Half-Year Financial Results for 2009

The HKMC and its subsidiaries (the HKMC Group) are pleased to announce the half-year financial results for 2009. The unaudited profit after tax (PAT) for the six months ended 30 June 2009 (1H 2009) was HK$464 million, HK$131 million or 39% higher than the first six months in 2008 (1H 2008) mainly due to the significant loan purchase during the peak of global financial crisis in late 2008 and favourable interest rates conditions year to date. The annualised return on shareholders' equity was 15.6% (1H 2008: 11.6%). The capital-to-assets ratio remained strong at 9.6% as at 30 June 2009, prudently above the minimum 5% stipulated by the Financial Secretary. The cost-to-income ratio was 11.9% for first half of 2009 (1H 2008: 15.1%). The financial results of the HKMC Group are at Annex.

The Corporation has proven to be highly efficient and resilient, meeting its objectives of contributing to banking and financial stability, promoting home ownership and developing the debt and securitisation markets. The HKMC has maintained its strong commitment to risk management in pursuing its business diversification in Hong Kong and overseas, and has not purchased any sub-prime mortgages or invested in sub-prime related products.

Business Performance

The loan purchased in the first half of 2009 amounted to HK$5.2 billion (1H 2008: total purchase was HK$6.8 billion). Taking into account loan repayments and prepayments, the outstanding principal balance of the loan portfolio decreased by 7% from HK$50.8 billion at the end of 2008 to HK$47.2 billion as at 30 June 2009.

The Mortgage Insurance Programme (MIP) continued to enjoy good public acceptance, mortgage insurance coverage for newly origination mortgage loans was HK$12.7 billion (1H 2008: HK$11 billion) and the market penetration ratio as of June 2009 was around 32%. As 85% of the loans drawdown in first half of 2009 was secured on properties in the secondary market, this demonstrated again the importance of the MIP to help homebuyers in the secondary market.

In terms of debt issuance, the HKMC issued a total of HK$12.4 billion corporate debts in first half of 2009, and remained as the most active corporate debt issuer in the Hong Kong dollar debt market. The Corporation is committed to promote the bond market development through regular debt issuance and product innovation such as the issue of HK$1 billion 15-year callable zero coupon bonds, the largest and longest so far in the local bond market. As at 30 June 2009, the total amount of outstanding debt securities and MBS were HK$38.6 billion and HK$3 billion respectively.

In June 2009, to promote financial cooperation with the mainland China and as part of its overseas diversification, the HKMC has set up a subsidiary, Bauhinia HKMC Corporation Limited, with Shenzhen Financial Electronic Settlement Centre, an associated company of the People's Bank of China, Shenzhen Central Sub-branch, in offering mortgage guarantees products.

The HKMC's long-term foreign and local currency debt ratings are Aaa from Moody's and AA+ from Standard & Poor's. The Corporation will seek to further 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
11 September 2009

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008
	HK$'000	HK$'000
Interest income	**719,314**	927,368
Interest expense	**(204,917)**	(529,294)
Net interest income	**514,397**	398,074
Other income	**75,287**	20,597
Operating income	**589,684**	418,671
Operating expenses	**(70,130)**	(63,221)
Operating profit before impairment	**519,554**	355,450
(Loan impairment charge) / write-back of loan impairment allowances	**(10,151)**	7,342
Operating profit	**509,403**	362,792
Share of profit of a joint venture	**575**	-
Profit before taxation	**509,978**	362,792
Taxation	**(45,728)**	(30,225)
Profit for the period	**464,250**	332,567

	Unaudited As at 30 June 2009	Audited As at 31 December 2008
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**3,417,334**	3,093,258
Derivative financial instruments	**1,409,739**	2,237,526
Loan portfolio, net	**47,185,547**	50,760,112
Investment securities:		
– available-for-sale	**1,910,612**	2,052,552
– held-to-maturity	**5,659,277**	5,614,666
Investment in a joint venture	**110,809**	113,532
Deferred tax assets	**12,013**	28,904
Reinsurance assets	**316,633**	348,442
Other assets	**539,880**	1,379,342
	60,561,844	65,628,334
LIABILITIES		
Derivative financial instruments	**211,424**	214,994
Tax payable	**84,014**	47,866
Insurance liabilities	**1,114,231**	908,740
Advance from Exchange Fund	**7,000,000**	8,000,000
Debt securities issued	**38,555,469**	42,814,988
Mortgage-backed securities issued	**2,989,380**	3,225,624
Other liabilities	**4,534,647**	4,653,658
	54,489,165	59,865,870
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,916,415**	3,485,513
Contingency reserve	**156,893**	123,545
Fair value reserve	**74,329**	(21,371)
Hedging reserve	**(64,646)**	(66,666)
Translation reserve	**(10,312)**	(8,557)
Proposed dividend	**-**	250,000
	6,072,679	5,762,464
	60,561,844	65,628,334
Capital-to-assets ratio	**9.6%**	8.7%

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008
Return on shareholders' equity (annualised)	**15.6%**	11.6%
Return on total assets (annualised)	**1.5%**	1.2%
Cost-to-income ratio	**11.9%**	15.1%
Net interest margin	**1.7%**	1.6%

Financial Review

The unaudited consolidated profit after tax (PAT) was HK$464 million for the six months ended 30 June 2009, HK$131 million or 39% more than the same period in 2008 (1H 2008). The annualised return on shareholders' equity was 15.6% (1H 2008: 11.6%).

In the first half of 2009, the net interest income was HK$514 million, HK$116 million above that of the corresponding period in 2008. The net interest margin of the average interest-earning assets maintained at 1.7% (1H 2008: 1.6%).

Other income increased to HK$75 million (1H 2008: HK$21 million) mainly due to the reduction in fair value loss of financial instruments by HK$103 million to HK$2 million in 1H 2009, used for asset-liability management and hedging operations to mitigate interest rates volatilities. Other major item included HK$68 million (1H 2008: HK$65 million) of net mortgage insurance premium earned after amortisation of the premium received during the period. The prudent provision for claims rose in accordance with the business underwritten to HK$22 million (1H 2008: HK$1 million write-back).

With the solid growth of secondary market activities in the first half of 2009, the new loans underwritten under the MIP soared to HK$12.7 billion (1H 2008: HK$11 billion). The risk-in-force borne by the HKMC increased from HK$5.7 billion at the end of 2008 to HK$9.2 billion as at 30 June 2009, or an increase of 61%.

The HKMC continued to deploy prudent asset-liability management and pre-funding operations. A total of HK$12.4 billion of debt securities (HK$11 billion of debts issued under the Debt Issuance Programme and HK$1.4 billion equivalent of debts issued under the Medium Term Note Programme) were issued to fund loan purchase and redeem debts matured.

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$70 million for the first half of 2009 (1H 2008: HK$63 million). The cost-to-income ratio was 11.9% for first half of 2009 (1H 2008: 15.1%).

Based on prudent principle, loan impairment charge of HK$10 million was made in the first half of 2009 (1H 2008: HK$7 million write-back). The HKMC will conduct regular review on credit quality of loan portfolio from time to time to ensure adequate provisions are charged to the income statement.

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 9.6% as at 30 June 2009 (31 December 2008: 8.7%).