Press Release

HKMC's Half-Year Financial Results for 2010

The Hong Kong Mortgage Corporation Limited (HKMC) and its subsidiaries (the HKMC Group) are pleased to announce the financial results for the first half of 2010 today (Thursday).

Half-Year Financial Results for 2010

The HKMC recorded an unaudited profit after tax (PAT) of HK$592 million for the six months ended 30 June 2010 (1H 2010), representing a year-on-year increase of 28% (1H 2009: HK$464 million). The annualised return on equity (ROE) was 17.4% (1H 2009: 15.6%). The increase in PAT and ROE was mainly attributable to the favourable interest rate environment, excellent loan quality, and the HKMC's prudent business development strategy and strong commitment to risk management.

The capital-to-assets ratio remained strong at 10.8% as at 30 June 2010, well above the minimum of 5% stipulated by the Financial Secretary. The cost-to-income ratio was 10.7% for 1H 2010 (1H 2009: 11.9%). Details of the HKMC Group's financial results are at Annex.

Business Performance

The HKMC purchased a total of HK$1.5 billion assets in the first half of 2010 (1H 2009: HK$5.2 billion). The outstanding principal balance of the loan portfolio decreased by 12% from HK$43.8 billion at the end of 2009 to HK$38.4 billion on 30 June 2010.

During the first half of 2010, new mortgage loans drawn down under the Mortgage Insurance Programme (MIP) amounted to HK$19 billion (1H 2009: HK$12.7 billion). The usage rate of the MIP (in terms of the amount of loans drawn down as a percentage of the total new mortgage loans drawn down in the market) was 13%. As 94% of the loans drawn down during the period were secured on properties in the secondary market, this demonstrated again the importance of the MIP to homebuyers in the secondary market.

The HKMC issued a total of HK$4.2 billion debts in the first half of 2010, continuing as the most active corporate debt issuer in the Hong Kong dollar debt market. As at 30 June 2010, the total amount of outstanding debt securities and mortgage-backed securities issued were HK$38.8 billion and HK$1.7 billion respectively.

The HKMC maintains its excellent credit ratings of AA+ from Standard & Poor's and Aa2 from Moody's, same as the ratings of the HKSAR Government.

The Hong Kong Mortgage Corporation Limited
16 September 2010

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Unaudited 6 months ended 30 June 2010	Unaudited 6 months ended 30 June 2009
	HK$'000	HK$'000
Interest income	**569,971**	719,314
Interest expense	**(71,716)**	(204,917)
Net interest income	**498,255**	514,397
Other income	**249,331**	75,287
Operating income	**747,586**	589,684
Operating expenses	**(80,299)**	(70,130)
Operating profit before impairment	**667,287**	519,554
Write-back of loan impairment allowances / (loan impairment charge)	**6,859**	(10,151)
Operating profit	**674,146**	509,403
Share of profit of a joint venture	**841**	575
Profit before taxation	**674,987**	509,978
Taxation	**(82,650)**	(45,728)
Profit for the period	**592,337**	464,250
Profit attributable to:		
Equity holders of the Company	**592,517**	**464,250**
Non-controlling interest	**(180)**	**-**
	592,337	**464,250**
Return on equity (annualised)	**17.4%**	15.6%
Return on assets (annualised)	**2.1%**	1.5%
Cost-to-income ratio	**10.7%**	11.9%
Net interest margin	**1.8%**	1.7%

	Unaudited As at 30 June 2010	Audited As at 31 December 2009
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**3,935,500**	4,067,798
Derivative financial instruments	**1,721,006**	1,317,375
Loan portfolio, net	**38,420,515**	43,788,716
Investment securities:		
- available-for-sale	**2,949,894**	3,613,064
- held-to-maturity	**6,014,236**	5,817,998
Investment in a joint venture	**123,199**	115,190
Reinsurance assets	**235,540**	266,101
Other assets	**570,257**	764,382
	53,970,147	59,750,624
LIABILITIES		
Derivative financial instruments	**111,275**	158,246
Tax payable	**221,803**	138,329
Insurance liabilities	**1,627,168**	1,462,318
Debt securities issued	**38,794,612**	44,495,073
Mortgage-backed securities issued	**1,732,657**	2,020,394
Other liabilities	**4,628,265**	4,735,173
	47,115,780	53,009,533
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**4,470,048**	3,925,694
Contingency reserve	**237,996**	189,833
Fair value reserve	**166,451**	167,449
Hedging reserve	**(32,106)**	(45,685)
Translation reserve	**1,119**	(7,120)
Proposed dividend	**-**	500,000
	6,843,508	6,730,171
Non-controlling interest in equity	**10,859**	10,920
Total equity	**6,854,367**	6,741,091
Total equity & liabilities	**53,970,147**	59,750,624
Capital-to-assets ratio	**10.8%**	9.5%

Financial Review

With the rebound of the local economy, favourable interest rate environment and the Corporation's prudent business development strategy and strong commitment to risk management, the HKMC achieved good financial results in the first half of 2010. It recorded an unaudited consolidated profit after tax of HK$592 million, which was 28% more than the same period in 2009 (1H 2009). The annualised return on equity was 17.4% (1H 2009: 15.6%) and the net interest income was HK$498 million (1H 2009: HK$514 million). The net interest margin of the average interest-earning assets remained at 1.8% (1H 2009: 1.7%).

With the higher turnover of the secondary property market, the new loans drawn down under the MIP soared to HK$19 billion (1H 2009: HK$12.7 billion). The risk-in-force borne by the HKMC increased from HK$11.6 billion at the end of 2009 to HK$13.8 billion as at 30 June 2010, representing an increase of 19%. Included in other income, net mortgage insurance premium earned was HK$181 million (1H 2009: HK$46 million) after reserving additional provisions of HK$8 million for outstanding claims (1H 2009: HK$22 million).

Other income reported an increase of 231% to HK$249 million (1H 2009: HK$75 million). Other than the net mortgage insurance premium earned, the key items were HK$33 million (1H 2009: HK$1 million) exchange gain, HK$23 million (1H 2009: HK$21 million) dividend income from available-for-sale investments and HK$10 million (1H 2009: HK$6 million) early prepayment fees.

The HKMC Group continued to exercise tight control over its operating expenses in the first half of 2010. Total operating expenses were HK$80 million (1H 2009: HK$70 million) and the cost-to-income ratio was 10.7% (1H 2009: 11.9%).

In light of the general rebound of the property market, excellent loan quality and faster runoff of loan portfolio, a write-back of loan impairment allowances of HK$7 million was made in the first half of 2010 (1H 2009: loan impairment charge of HK$10 million).

The capital-to-assets ratio (CAR) stood at a healthy level of 10.8% as at 30 June 2010 (31 December 2009: 9.5%), well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary.