Press Release

HKMC's Financial Results and Business Performance for 2009

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Tuesday).

Operating in a difficult environment in 2009 against the backdrop of the global financial crisis, the HKMC demonstrated its resilience and ability to perform its strategic roles of (i) enhancing financial stability by providing liquidity to banking sector; (ii) promoting wider home ownership; and (iii) facilitating the further growth and development of the debt market in Hong Kong.

Financial Results for 2009

The Corporation achieved good financial results in 2009. Profit after tax amounted to HK$1,006 million in 2009, recording a year-on-year growth of 66.3%. Return on shareholders' equity (ROE) was 16.2% (2008: 10.5%). The increase in profits and ROE in 2009 was mainly attributable to the full-year effect of the significant loan purchases made in response to banks' liquidity needs during the global financial crisis, the favourable interest rate environment and excellent loan quality.

The capital-to-assets ratio remained strong at 9.5% (2008: 8.7%), well above the minimum requirement of 5% stipulated by the Financial Secretary. The cost-to-income ratio was 12.4% for 2009 (2008: 17.5%). The financial results of the HKMC Group are at Annex A.

A final dividend of HK$500 million or HK$0.25 per share, was declared, representing a dividend payout ratio of 49.7% for the year.

Business Performance

The total asset purchase in 2009 was HK$8.8 billion, including HK$5.7 billion of mortgage loans in Hong Kong and HK$3.1 billion of overseas mortgage loans. The role of the HKMC as liquidity provider to the Hong Kong banking sector was especially prominent during the "rainy days" of the recent global financial crisis. Taking into account loan repayments and prepayments during the year, the outstanding principal balance of the loan portfolio was HK$43.8 billion on 31 December 2009 (2008: HK$50.8 billion).

In 2009, the HKMC's Mortgage Insurance Programme (MIP) continued to provide an effective channel for promoting wider home ownership in Hong Kong, benefiting first-time homebuyers in particular. Mortgage insurance coverage for newly originated mortgage loans reached a record high of HK$36 billion in 2009 and the usage rate (in terms of the amount of loans drawn down as a percentage of the total market mortgage drawdown) increased to 18% (2008: 11%). The Corporation refined the MIP's Risk-based Pricing Scheme in December 2009 so that a greater number of borrowers can be eligible for premium discounts and the range of premium discounts has been widened as well. As 90% of the drawdown in 2009 was on properties in the secondary market, this demonstrated again the importance of the MIP in helping homebuyers in the secondary market.

Attributable to the Corporation's solid credit ratings as well as investors' flight-to-quality investment approach, the HKMC issued a total of HK$22.7 billion corporate debts in 2009 and remained the most active corporate debt issuer in the Hong Kong dollar market for the ninth consecutive year. In particular, the Corporation issued the HK$1 billion 15-year callable zero coupon bond, the largest-ever in the local bond market, to meet the growing investment needs of insurance companies and pension funds, and made its debut public benchmark issuance of US$500 million fixed rate notes to further broaden its investor base and funding source. On 31 December 2009, the total amount of outstanding debt securities and mortgage-backed securities issued were HK$44.5 billion and HK$2 billion respectively.

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

Outlook

While the economy is gradually recovering from the global financial crisis, the prospect of a double dip recession cannot be ruled out. The Corporation will continue to play its critical role as liquidity provider to promote banking and financial stability in Hong Kong. It will also continue to promote home ownership for Hong Kong families through enhancement of its MIP to better serve the homebuyers and the banking sector.

Furthermore, the Corporation will strive to develop new mortgage products in Hong Kong to complement Government initiatives and meet the needs of society. It will also keep on contributing to the development of debt and securitisation markets through regular issuance and product innovation.

"The Corporation will continue to fulfil its core objectives and strengthen its strategic roles in Hong Kong. It will strive to help further develop the Hong Kong housing-finance system, invest in product innovation, and make mortgage financing more accessible to homebuyers," said Mr John C Tsang, Chairman of the HKMC.

Appointment of Board of Directors

The HKMC held its 13th Annual General Meeting today. Eleven directors have been re-appointed by the Financial Secretary for another term – Professor K C Chan, Mr Chan Kin-por, Ms Tanya Chan, Ms Eva Cheng, Professor Anthony Cheung, Mr Eddy Fong, Mr Lester Huang, Ms Starry Lee, Mr Andrew Leung, Dr David Li and Mr Abraham Shek. Three new Directors have been appointed by the Financial Secretary – Mr Jammy Chen, Mr Andrew Fung and Mr Ryan Fung. The new appointments have been made to replace Ms Louisa Cheang, Mr Geoffrey Mansfield and Mr Eddie Tan who had not offered themselves for re-appointment. The composition of the new Board of Directors is at Annex B.

"On behalf of the Board, I would like to thank the outgoing Directors for having generously contributed their time and professional skills to assist in the efficient management of the Corporation. I would also like to welcome the new Directors, and look forward to their support in furthering the development of the business of the Corporation," said Mr Tsang.

According to the Articles of Association of the Corporation, at each Annual General Meeting all those Directors who are not Executive Directors shall retire but shall be eligible for re-appointment. Hence, the term of office of these Directors will run until the next Annual General Meeting to be held around April 2011.

The Hong Kong Mortgage Corporation Limited
20 April 2010

Annex A

The Hong Kong Mortgage Corporation Limited

Consolidated Financial Results for the Year Ended 31 December 2009

	2009	2008
	HK$'000	HK$'000
Interest income	**1,338,301**	1,825,214
Interest expense	**(300,594)**	(1,115,364)
Net interest income	**1,037,707**	709,850
Other income	**231,588**	102,100
Operating income	**1,269,295**	811,950
Operating expenses	**(157,836)**	(141,749)
Operating profit before impairment	**1,111,459**	670,201
Write-back of loan impairment allowances / (Loan impairment charge)	**36,837**	(36,225)
Operating profit	**1,148,296**	633,976
Share of profit/(loss) of a joint venture	**1,922**	(8)
Profit before taxation	**1,150,218**	633,968
Taxation	**(144,186)**	(28,974)
Profit for the year	**1,006,032**	604,994
Profit/(loss) attributable to:		
Equity holders of the Company	**1,006,469**	604,994
Non-controlling interest	**(437)**	-
	1,006,032	604,994
Proposed dividend	**500,000**	250,000

	As at 31 December 2009	As at 31 December 2008
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**4,067,798**	3,093,258
Derivative financial instruments	**1,317,375**	2,237,526
Loan portfolio, net	**43,788,716**	50,760,112
Investment securities:		
- available-for-sale	**3,613,064**	2,052,552
- held-to-maturity	**5,817,998**	5,614,666
Reinsurance assets	**266,101**	348,442
Investment in a joint venture	**115,190**	113,532
Other assets	**764,382**	1,408,246
	59,750,624	65,628,334
LIABILITIES		
Derivative financial instruments	**158,246**	214,994
Tax payable	**138,329**	47,866
Insurance liabilities	**1,462,318**	908,740
Advance from Exchange Fund	**-**	8,000,000
Debt securities issued	**44,495,073**	42,814,988
Mortgage-backed securities issued	**2,020,394**	3,225,624
Other liabilities	**4,735,173**	4,653,658
	53,009,533	59,865,870
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,925,694**	3,485,513
Contingency reserve	**189,833**	123,545
Fair value reserve	**167,449**	(21,371)
Hedging reserve	**(45,685)**	(66,666)
Translation reserve	**(7,120)**	(8,557)
Proposed dividend	**500,000**	250,000
	6,730,171	5,762,464
Non-controlling interest in equity	**10,920**	-
	6,741,091	5,762,464
	59,750,624	65,628,334
Capital-to-assets ratio	**9.5%**	8.7%
	2009	2008
Return on shareholders' equity	**16.2%**	10.5%
Return on total assets	**1.6%**	1.1%
Cost-to-income ratio	**12.4%**	17.5%
Net interest margin	**1.7%**	1.3%

Financial Review

Given the economic stimulus and liquidity measures by governments and central banks across the globe, the global economy showed clear signs of improvement in the second half of 2009. During the year, the Corporation made a purchase of HK$8.8 billion loan assets and raised HK$22.7 billion of debts to fund loan purchase and redemption of matured debts. The Corporation also made another record of loans underwritten under the Mortgage Insurance Programme (MIP) at HK$36 billion, 76.5% over 2008 to promote wider home ownership in Hong Kong.

Riding on the strong rebound of the Hong Kong economy and the property market's rally amid favourable interest rate environment, the Corporation achieved good financial results in 2009. Profit after tax amounted to HK$1,006 million in 2009, recording a year-on-year growth of 66.3%.

Benefited from the full-year effect of significant loan purchases made in late 2008 and favourable interest rate environment, the net interest income rose by HK$328 million to HK$1,038 million in 2009. The net interest margin of the average interest-earning assets improved to 1.7% (2008: 1.3%).

Due to significant improvement in usage rate (in terms of drawdown loan amount against the total market mortgage drawdown) from 11% in 2008 to 18% in 2009, the new loans underwritten under the MIP soared by 76.5% to HK$36 billion in 2009. The risk-in-force borne by HKMC grew by 102.9% to HK$11.6 billion in 2009. Included in other income, net mortgage insurance premiums earned was HK$149 million (2008: HK$93 million) after reserving additional provisions for outstanding claims of HK$22 million.

Other income reported an increase of 127.5% to HK$232 million (2008: HK$102 million). Other than the net mortgage insurance premiums earned, the key items were HK$20 million (2008: HK$26 million) of early prepayment fees arising from refinancing activities, HK$42 million of dividend income (2008: HK$43 million) on investments in listed bond funds and real estate investment trust, HK$13 million fair value gain of financial instruments (2008: HK$43 million fair value loss of financial instruments), HK$5 million (2008: HK$26 million) of net gain on disposal of available-for-sale investments and HK$6 million of exchange gain (2008: HK$40 million exchange loss).

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses increased by 11.3% to HK$158 million in 2009 mainly for the establishment of the Risk Oversight function and further enhancement of credit risk management capabilities. The cost-to-income ratio was 12.4% for 2009 (2008: 17.5%).

In light of the general rebound of the property market and reduction of loan portfolio, a write-back of loan impairment of HK$37 million was made in 2009 (2008: loan impairment charge of HK$36 million).

The capital-to-assets ratio (CAR) improved from 8.7% in 2008 to 9.5% in 2009, well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary.

Annex B

The Hong Kong Mortgage Corporation Limited

Board of Directors

The Hon John TSANG Chun-wah, JP (Chairman)	Financial Secretary
Mr Norman T.L. CHAN, SBS, JP (Deputy Chairman)	Chief Executive Hong Kong Monetary Authority
Mr Peter PANG Sing-tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr Eddie YUE Wai-man, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kin-por, JP	Legislative Councillor Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
Ms Tanya CHAN	Barrister
Mr Jammy CHEN	General Manager, Consumer Lending Consumer Banking Standard Chartered Bank (Hong Kong) Limited
The Hon Ms Eva CHENG, JP	Secretary for Transport and Housing
Professor the Hon Anthony CHEUNG Bing-leung, GBS, BBS, JP	Member of Executive Council Chairman, Consumer Council
Mr Eddy FONG Ching, GBS, JP	Chairman Securities and Futures Commission
Mr Andrew FUNG Hau-chung	General Manager Head of Treasury and Investment Hang Seng Bank Limited

Mr Ryan FUNG Yuk-lung	Chief Executive Officer PrimeCredit Limited
Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.
The Hon Starry LEE Wai-king	Legislative Councillor
The Hon Andrew LEUNG Kwan-yuen, SBS, JP	Legislative Councillor Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok-po, GBM, GBS, LLD (Cantab), JP	Legislative Councillor Chairman and Chief Executive The Bank of East Asia, Limited
The Hon Abraham SHEK Lai-him, SBS, JP	Legislative Councillor