Press Release

HKMC's Financial Results and Business Performance for the first half of 2011

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its unaudited financial results and business performance for the first six months of 2011 ("1H 2011").

2011 Half-Year Financial Results Highlights

- Unaudited profit after tax for 1H 2011 increased by 19% to HK$705 million (1H 2010: HK$592 million)

- Annualised return on equity (ROE) of 18% (1H 2010: 17.4%)

- The increases in profits and ROE were mainly attributable to the favourable interest rate environment, excellent loan quality, prudent prefunding strategy and strong commitment to risk management

- Capital-to-assets ratio of 12% as at 30 June 2011, well above the minimum of 5% stipulated by the Financial Secretary

- Cost-to-income ratio of 9.9% (1H 2010: 10.7%)

2011 Half-Year Business Highlights

Asset Purchase

- Asset purchase of HK$5 billion (1H 2010: HK$1.5 billion)

- Outstanding principal balance of the loan portfolio of HK$33.1 billion as at 30 June 2011

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down under the MIP of HK$17.1 billion (1H 2010: HK$19.0 billion)

- MIP usage rate of 12% (the amount of MIP loans drawn down as a percentage of the total new mortgage loans drawn down in the local property market) (1H 2010: 13%)

- 97% of the MIP loans drawn down were secured on properties in the secondary market, demonstrating the importance of the MIP to homebuyers in the secondary market

SME Financing Guarantee Scheme (SFGS)

- New facility drawdown amount under the SFGS of about HK$300 million, which represented about 100 loans being guaranteed during 1H 2011

Debt Issuance

- Issued HK$13.5 billion corporate debts in 1H 2011 - the most active corporate debt issuer in the Hong Kong dollar debt market (1H 2010: HK$4.2 billion)

- As at 30 June 2011, the outstanding debt securities and mortgage-backed

securities stood at HK$36.3 billion and HK$1.4 billion respectively

- Excellent credit ratings of AAA (stable) from the Standard & Poor's and Aa1 (positive) from the Moody's, same as the ratings of the HKSAR Government

Further details of the HKMC's consolidated financial results and financial review for 1H 2011 are set out at the Annex.

Outlook for 2011

Notwithstanding the HKMC's solid financial performance during the first half of 2011, there are considerable challenges in the second half of the year. The HKMC's financial results for the full year of 2011 will be subject to the uncertainties and imbalances of the global economy, the credit tightening measures on the Mainland and the potential impact on the local residential property and mortgage markets due to the prudential measures by the Government and the Hong Kong Monetary Authority. Nevertheless, the HKMC will continue to perform its role to help banks to meet their needs for liquidity, capital and prudent balance sheet management.

The Hong Kong Mortgage Corporation Limited
19 September 2011

Annex

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED FINANCIAL RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010
	HK$'000	HK$'000
Interest income	**527,034**	569,971
Interest expense	**(80,455)**	(71,716)
Net interest income	**446,579**	498,255
Other income	**445,900**	249,331
Operating income	**892,479**	747,586
Operating expenses	**(88,053)**	(80,299)
Operating profit before impairment	**804,426**	667,287
Write-back of loan impairment allowances	**1,992**	6,859
Operating profit	**806,418**	674,146
Share of profit of a joint venture	**1,526**	841
Profit before taxation	**807,944**	674,987
Taxation	**(103,423)**	(82,650)
Profit for the period	**704,521**	592,337
Profit attributable to:		
Equity holders of the Company	**704,651**	592,517
Non-controlling interest	**(130)**	(180)
	704,521	592,337
Return on equity (annualised)	**18.0%**	17.4%
Return on assets (annualised)	**2.6%**	2.1%
Cost-to-income ratio	**9.9%**	10.7%
Net interest margin	**1.8%**	1.8%

	Unaudited As at 30 June 2011	Audited As at 31 December 2010
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**5,849,983**	5,902,649
Derivative financial instruments	**1,510,236**	1,396,621
Loan portfolio, net	**33,098,862**	35,258,937
Investment securities:		
- available-for-sale	**2,319,990**	3,403,966
- held-to-maturity	**8,562,954**	8,033,133
Investment in a jointly controlled entity	**135,124**	130,720
Reinsurance assets	**185,691**	204,891
Other assets	**568,517**	702,061
	52,231,357	55,032,978
LIABILITIES		
Derivative financial instruments	**49,780**	44,372
Tax payable	**234,563**	133,560
Insurance liabilities	**1,746,348**	1,773,665
Debt securities issued	**36,292,553**	39,127,735
Mortgage-backed securities issued	**1,362,909**	1,529,749
Other liabilities	**4,555,983**	4,821,857
	44,242,136	47,430,938
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**5,104,832**	4,561,624
Contingency reserve	**598,878**	437,435
Fair value reserve	**275,035**	255,191
Hedging reserve	**(16,217)**	(23,757)
Translation reserve	**14,905**	9,866
Proposed dividend	**-**	350,000
	7,977,433	7,590,359
Non-controlling interest in equity	**11,788**	11,681
Total equity	**7,989,221**	7,602,040
Total equity & liabilities	**52,231,357**	55,032,978
Capital-to-assets ratio	**12.0%**	10.8%

Financial Review

With favourable interest rate environment and its prudent prefunding strategy and strong commitment to risk management, the HKMC achieved good financial results in the first half of 2011. It recorded an unaudited consolidated profit after tax of HK$705 million, which was 19% more than the first half of 2010. The annualised return on equity was 18% (1H 2010: 17.4%) and the net interest income was HK$447 million (1H 2010: HK$498 million). The net interest margin of the average interest-earning assets remained at 1.8%.

New loans drawn down under the MIP was HK$17.1 billion (1H 2010: HK$19 billion). The risk-in-force borne by the HKMC increased from HK$15.2 billion at the end of 2010 to HK$15.7 billion as at 30 June 2011. Net mortgage insurance premium earned, reported in other income, was HK$298 million (1H 2010: HK$181 million).

The HKMC continued to exercise tight control over its operating expenses in the first half of 2011. Total operating expenses were HK$88 million (1H 2010: HK$80 million) and the cost-to-income ratio was 9.9% (1H 2010: 10.7%).

In light of the excellent loan quality, write-back of loan impairment allowances of HK$2 million (1H 2010: HK$7 million) was made in the first half of 2011.

The capital-to-assets ratio (CAR) stood at a healthy level of 12% as at 30 June 2011 (31 December 2010: 10.8%), well above minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary.