Press Release

HKMC's Financial Results and Business Performance for 2010

The Hong Kong Mortgage Corporation Limited (HKMC) today (Tuesday) announced the highlights of its financial results and business performance in 2010 as follows:

2010 Financial Results Highlights

- Profit after tax up 22.7% to HK$1,234 million (2009: HK$1,006 million)
- Return on shareholder's equity (ROE) of 17.5% (2009: 16.2%)
- The increase in profits and ROE was mainly attributable to the favourable interest rate environment, excellent loan performance, prudent business development strategy and strong commitment to risk management
- Capital-to-asset ratio of 10.8% (2009: 9.5%), well above the minimum of 5% stipulated in the guidelines issued by the Financial Secretary
- Cost-to-income ratio of 11.0% (2009: 12.4%)
- Final dividend of HK$350 million or HK$0.175 per share, representing a dividend payout ratio of 28.4%

2010 Business Performance Highlights

Asset Purchase

- Asset purchase of HK$4.7 billion (2009: HK$8.8 billion)

- Outstanding loan balance of the loan portfolio of HK$35.3 billion at end-2010 (end-2009: HK$43.8 billion)

Mortgage Insurance Programme (MIP)

- New mortgage drawdown under the MIP up 13.9% to HK$41 billion (2009: HK$36 billion)

- 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) of 13% (2009: 18%)

- 96% 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

Debt Issuance

- Issued HK$8.3 billion corporate debts - the most active corporate debt issuer in the Hong Kong dollar debt market (2009: HK$22.7 billion)

- Outstanding debt securities of HK$39.1 billion (2009: HK$44.5 billion) and mortgage-backed securities of HK$1.5 billion (2009: HK$2 billion) as at end-2010

- Credit ratings of the HKMC were upgraded by Standard & Poor's and Moody's to AAA and Aa1 respectively, same as the ratings of the HKSAR Government

Further details of the HKMC's consolidated financial results and financial review for 2010 are set out at Annex A.

Outlook for 2011

2011 will be another challenging year. Quantitative easing by the United States has increased the risks of inflation and asset-price bubbles in Asia. Various economies have introduced tightening measures to counter such impact. Such developments reflect the significant imbalances in the global economy and financial system. The recent earthquake in Japan has added further complications to the pace of global economic recovery. Hence, the economic outlook for 2011 still remains uncertain and volatile.

The HKMC will remain vigilant and continue to reinforce its business focus in Hong Kong to fulfil its principal objectives. The SME Financing Guarantee Scheme launched on 1 January 2011 encourages banks' lending to small and medium-sized enterprises by facilitating their risk management. The Reverse Mortgage Pilot Scheme to be launched in mid-2011 reinforces the HKMC's overall efforts to promote home ownership.

Chairman of the HKMC and the Financial Secretary, Mr John C Tsang, said: "The HKMC will continue to operate in a prudent commercial manner with great emphasis on risk management and good corporate governance. This will ensure the HKMC maintains its important role in providing liquidity to local banks, meeting the mortgage insurance needs of homeowners and promoting the development of the local debt market."

Appointment of Board of Directors

The HKMC held its 14th Annual General Meeting today. Thirteen directors have been re-appointed by the Financial Secretary for another term, including Professor K C Chan, Mr Chan Kin-por, Ms Tanya Chan, Ms Eva Cheng, Professor Anthony Cheung, Mr Eddy Fong, Mr Andrew Fung, Mr Ryan Fung, Mr Lester Huang, Ms Starry Lee, Mr Andrew Leung, Dr David Li and Mr Abraham Shek. The Financial Secretary appointed Mr Jason Yeung as a new Director to replace Mr Jammy Chen who has not offered himself for re-appointment. The composition of the new Board of Directors is at Annex B.

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 2012.

The Hong Kong Mortgage Corporation Limited
12 April 2011

Annex A

Consolidated Financial Results for the Year Ended 31 December 2010

	2010	2009
	HK$'000	HK$'000
Interest income	**1,141,383**	1,338,301
Interest expense	**(170,802)**	(300,594)
Net interest income	**970,581**	1,037,707
Other income	**587,799**	231,588
Operating income	**1,558,380**	1,269,295
Operating expenses	**(171,425)**	(157,836)
Operating profit before impairment	**1,386,955**	1,111,459
Write-back of loan impairment allowances	**16,663**	36,837
Operating profit	**1,403,618**	1,148,296
Share of profit of a jointly controlled entity	**2,259**	1,922
Profit before taxation	**1,405,877**	1,150,218
Taxation	**(172,015)**	(144,186)
Profit for the year	**1,233,862**	1,006,032
Profit/(loss) attributable to:		
Equity holders of the Company	**1,233,532**	1,006,469
Non-controlling interest	**330**	(437)
	1,233,862	1,006,032
Proposed dividend	**350,000**	500,000

	As at 31 December 2010	As at 31 December 2009
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**5,902,649**	4,067,798
Derivative financial instruments	**1,396,621**	1,317,375
Loan portfolio, net	**35,258,937**	43,788,716
Investment securities:		
- available-for-sale	**3,403,966**	3,613,064
- held-to-maturity	**8,033,133**	5,817,998
Investment in a jointly controlled entity	**130,720**	115,190
Reinsurance assets	**204,891**	266,101
Other assets	**702,061**	764,382
	55,032,978	59,750,624
LIABILITIES		
Derivative financial instruments	**44,372**	158,246
Tax payable	**133,560**	138,329
Insurance liabilities	**1,773,665**	1,462,318
Debt securities issued	**39,127,735**	44,495,073
Mortgage-backed securities issued	**1,529,749**	2,020,394
Other liabilities	**4,821,857**	4,735,173
	47,430,938	53,009,533
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**4,561,624**	3,925,694
Contingency reserve	**437,435**	189,833
Fair value reserve	**255,191**	167,449
Hedging reserve	**(23,757)**	(45,685)
Translation reserve	**9,866**	(7,120)
Proposed dividend	**350,000**	500,000
	7,590,359	6,730,171
Non-controlling interest in equity	**11,681**	10,920
	7,602,040	6,741,091
	55,032,978	59,750,624
Capital-to-assets ratio	**10.8%**	9.5%
	2010	2009
Return on shareholders' equity	**17.5%**	16.2%
Return on assets	**2.2%**	1.6%
Cost-to-income ratio	**11.0%**	12.4%
Net interest margin	**1.8%**	1.7%

Financial Review

Benefiting from the strong recovery of the Hong Kong economy and the favourable interest rate environment, the HKMC achieved good financial results in 2010. Profit after tax amounted to HK$1,234 million in 2010, 22.7% over 2009.

In 2010, the net interest income was HK$971 million (2009: HK$1,038 million). Other income increased by 153.4% to HK$588 million (2009: HK$232 million), which included: net mortgage insurance premium of HK$418 million (2009: HK$149 million) after income amortisation and reserving additional provisions for outstanding claims of HK$6 million (2009: HK$22 million), net gain on disposal of available-for-sale investments of HK$65 million (2009: HK$5 million), exchange gain of HK$35 million (2009: HK$6 million), dividend income from available-for-sale investments of HK$44 million (2009: HK$42 million), and early prepayment fees of HK$18 million (2009: HK$20 million).

New loans drawn down under the MIP soared to HK$41 billion in 2010 (2009: HK$36 billion) and the risk-in-force borne by the HKMC rose 31.4% to HK$15.2 billion.

Tight control over operating expenses was exercised. Cost-to-income ratio dropped to 11.0% in 2010 (2009: 12.4%) while the total operating expenses were HK$171 million (2009: HK$158 million).

In light of the general rebound of the property market, excellent loan quality and faster run-off of loan portfolio, a write-back of loan impairment allowances of HK$17 million was made in 2010 (2009: HK$37 million).

Annex B

Board of Directors

The Hon John TSANG Chun-wah, GBM, 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
The Hon Ms Tanya CHAN	Legislative Councillor
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 Ms Starry LEE Wai-king, JP	Legislative Councillor
The Hon Andrew LEUNG Kwan-yuen, GBS, SBS, JP	Legislative Councillor Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok-po, GBM, GBS, Hon. 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
Mr Jason YEUNG Chi-wai	Deputy Chief Executive Bank of China (Hong Kong) Limited