Press Release

HKMC's Financial Results and Business Performance For the First Half of 2012

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced the highlights of its unaudited consolidated financial results and business performance for the first six months of 2012 ("1H 2012").

2012 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax for 1H 2012 was HK$521 million (1H 2011: HK$705 million)

- Annualised return on equity was 11.8% (1H 2011: 18%)

- Cost-to-income ratio was 15.3% (1H 2011: 9.9%)

- Capital adequacy ratio was 19.1% as at 30 June 2012, well above the minimum of 8% stipulated by the Financial Secretary

2012 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$0.5 billion assets (1H 2011: HK$5 billion)

- Outstanding principal balance of the loan portfolio was HK$29.5 billion as at 30 June 2012

Debt Issuance

- Issued HK$15.3 billion corporate debts (1H 2011: HK$13.5 billion)

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

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down under the MIP amounted to HK$10.5 billion (1H 2011: HK$17.1 billion)

- MIP usage rate was 13% (the amount of MIP loans drawn down as a percentage of the total new mortgage loans drawn down in the local market) (1H 2011: 12%)

- Around 98% of the MIP loans drawn down were secured on properties in the secondary market, providing substantial assistance to homebuyers in the secondary market

SME Financing Guarantee Scheme

- Launched the special concessionary measures on 31 May 2012, with a total guarantee commitment of HK$100 billion from the Government and a nine-month application period

- Approved 555 loans with guarantee cover of 80%, amounting to more than HK$3 billion in total, and benefitting nearly 470 companies and approximately 13,000 related employees

- Approved 53 loans with guarantee cover of 50% to 70%, amounting to about HK$188 million in total

Reverse Mortgage Programme

- Approved 83 reverse mortgage loans, with an average monthly payout of HK$11,500

Further details of the HKMC's consolidated financial results and financial review for 1H 2012 are set out at Annex.

Review and Outlook

The HKMC has maintained robust operation and secured a positive return in the first half of 2012, notwithstanding the challenging external economic conditions. The decrease of profit after tax from the record high in the first half of 2011 was mainly due to the extra revenue of HK$60 million from disposal of investments in 1H 2011 over 1H 2012, loan portfolio rundown with tightened net interest spread and reduced premium contributions from the mortgage insurance business in the first half of 2012. It is expected that the rest of 2012 will continue to be volatile and full of uncertainties. The HKMC is committed to upholding its prudent commercial principles to fulfil its policy missions amid the challenging environment. It will also strive to promote the Microfinance Scheme launched in late June and implement enhancements to the Reverse Mortgage Programme.

The Hong Kong Mortgage Corporation Limited
20 September 2012

Annex

HKMC's Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2012

	Unaudited 6 months ended 30 June 2012	Unaudited 6 months ended 30 June 2011
	HK$'000	HK$'000
Interest income	**583,906**	527,034
Interest expense	**(159,579)**	(80,455)
Net interest income	**424,327**	446,579
Net premiums earned	**257,007**	356,078
Other income	**37,149**	148,578
Operating income	**718,483**	951,235
Net claims written back	**5,827**	13,229
Net commission expenses	**(49,077)**	(71,985)
Operating expenses	**(103,031)**	(88,053)
Operating profit before impairment	**572,202**	804,426
Write-back of loan impairment allowances	**1,862**	1,992
Operating profit	**574,064**	806,418
Share of profit of a jointly controlled entity	**1,452**	1,526
Profit before taxation	**575,516**	807,944
Taxation	**(54,040)**	(103,423)
Profit for the period	**521,476**	704,521
Profit attributable to:		
Equity holders of the Company	**521,401**	704,651
Non-controlling interest	**75**	(130)
	521,476	704,521
Return on equity (annualised)	**11.8%**	18.0%
Return on assets (annualised)	**1.7%**	2.6%
Cost-to-income ratio	**15.3%**	9.9%
Net interest margin	**1.5%**	1.8%

	Unaudited As at 30 June 2012	Audited As at 31 December 2011
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**17,195,973**	10,245,165
Derivative financial instruments	**1,564,182**	1,559,187
Loan portfolio, net	**29,495,655**	33,135,818
Investment securities:		
- available-for-sale	**3,727,653**	2,303,703
- held-to-maturity	**9,232,580**	8,269,148
Investment in a jointly controlled entity	**131,098**	130,045
Reinsurance assets	**232,815**	208,911
Other assets	**526,807**	649,369
	62,106,763	56,501,346
LIABILITIES		
Derivative financial instruments	**375,762**	139,582
Tax payable	**187,589**	134,785
Insurance liabilities	**1,587,342**	1,630,595
Debt securities issued	**46,208,222**	41,097,207
Mortgage-backed securities issued	**319,836**	367,137
Other liabilities	**4,614,796**	4,564,799
	53,293,547	47,934,105
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**5,567,086**	5,173,228
Contingency reserve	**859,105**	731,562
Fair value reserve	**376,408**	302,615
Hedging reserve	**(10,806)**	(13,244)
Translation reserve	**9,309**	10,911
Proposed dividend	**-**	350,000
	8,801,102	8,555,072
Non-controlling interest in equity	**12,114**	12,169
Total equity	**8,813,216**	8,567,241
Total equity & liabilities	**62,106,763**	56,501,346
Capital adequacy ratio	**19.1%**	19.7%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK$521 million for 1H 2012, a decrease of HK$184 million or 26% against the record financial performance in 1H 2011. The annualised return on equity was 11.8% (1H 2011: 18%).

In 1H 2012, the net interest income was HK$424 million (1H 2011: HK$447 million). The net interest margin of the average interest-earning assets was 1.5%.

New loans drawn down under the MIP was HK$10.5 billion (1H 2011: HK$17.1 billion) amid a slower housing turnover. The risk-in-force borne by the HKMC decreased from HK$14.1 billion to HK$13.9 billion for the period. Net mortgage insurance premium earned, after income amortisation and commission expenses, was HK$213 million (1H 2011: HK$298 million).

Other income of HK$37 million (1H 2011: HK$149 million), mainly included dividend income from investments of HK$44 million (1H 2011: HK$27 million), a fair value gain of HK$7 million (1H 2011: HK$2 million fair value loss) on financial instruments, net gain on disposal of investment of HK$5 million (1H 2011: HK$65 million), and exchange loss of HK$20 million (1H 2011: HK$49 million exchange gain) arising from the revaluation of the approved US dollar and renminbi deposits and debt investments.

The HKMC continued to maintain stringent control over its operating expenses. Total operating expenses were HK$103 million, HK$15 million more than the corresponding period in 2011. The increase was mainly attributable to the relocation of part of the office premises and resources for

promoting the new business initiatives. The cost-to-income ratio was 15.3% (1H 2011: 9.9%).

The capital adequacy ratio (CAR) was solid at 19.1% as at 30 June 2012 (31 December 2011: 19.7%), well above minimum of 8% stipulated in the CAR guidelines issued by the Financial Secretary. With a strong CAR, the HKMC will continue fulfilling its core policy roles and new initiatives in Hong Kong.