Press Release

HKMC's Financial Results Highlights for 2011

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited financial results in 2011 as follows:

2011 Financial Results Highlights

- Profit after tax (PAT) up 1.8% to HK$1,256 million (2010: HK$1,234 million)

- Return on shareholder's equity of 15.5% (2010: 17.5%)

- The increase in PAT was mainly attributable to increased contributions from the mortgage insurance premium earned, good quality of loans and mortgage insurance portfolios, and prudent and cost-effective prefunding strategy

- Capital adequacy ratio of 19.7%, well above the minimum of 8% stipulated in the guidelines issued by the Financial Secretary

- Cost-to-income ratio of 11.8% (2010: 11.0%)

- Final dividend of HK$350 million or HK$0.175 per share, representing a dividend payout ratio of 27.9%

2011 Business Performance Highlights

Loan Purchase

- Local loan purchase of HK$9.7 billion (2010: HK$4.7 billion)

- Outstanding principal balance of the loan portfolio of HK$33.1 billion at end-2011 (end-2010: HK$35.3 billion)

Mortgage Insurance Programme (MIP)

- New mortgage drawn down under the MIP down 35.9% to HK$26.3 billion (2010: HK$41 billion)

- Usage rate (being a percentage of the MIP loans drawdown amount to the total new mortgage loans drawdown amount in the Hong Kong residential property market) of the MIP of 11.5% (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)

- 235 applications with total loan amount of HK$800 million under the SFGS

Reverse Mortgage Programme

- 173 applications received, with average monthly payout of HK$13,900

Debt Issuance

- Issued HK$28.5 billion corporate debts (2010: HK$8.3 billion), being the most active corporate debt issuer in the Hong Kong dollar debt market

- Issued its debut renminbi bonds totalling RMB600 million

- Outstanding debt securities of HK$41.1 billion (2010: HK$39.1 billion) and mortgage-backed securities of HK$0.4 billion (2010: HK$1.5 billion) as at end-2011

- 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 2011 are set out at Annex A.

Outlook for 2012

2012 will be another challenging year for the global as well as local economy. Given the lingering sovereign debt problem in Europe and the subdued recovery in the US, the risk of a sharp deterioration in the economic conditions remains high. With the persisting low interest rate environment and the

quantitative easing bias in many advanced economies, there are still risks of inflation and asset-price bubbles in Hong Kong.

The HKMC will remain vigilant in fulfilling its policy roles of (1) enhancing financial stability by providing liquidity to banking sector; (2) promoting wider home ownership; and (3) facilitating the further growth and development of the debt market in Hong Kong.

Key Business Projects in 2012

The HKMC is pursuing two major business projects at present – the special concessionary measures under the SFGS and the pilot scheme on microfinance.

The concessionary measures under the SFGS will include offering an 80% loan guarantee product with a significantly reduced guarantee fee. The Government will provide a total guarantee commitment of HK$100 billion to bear all credit losses arising from the concessionary measures. The application period for the 80% guarantee product will start in May and be open for nine months.

In addition, the HKMC will introduce a three-year microfinance pilot scheme around mid-2012 in collaboration with banks, voluntary agencies and other stakeholders. The scheme aims to assist people who wish to start their own businesses, become self-employed or achieve self-enhancement through training, upgrading of skills or securing professional certification.

In general, the HKMC will continue to run its core business in a prudent commercial manner and fulfils its policy objectives in Hong Kong.

Appointment of Board of Directors

The HKMC held its 15th Annual General Meeting today. Twelve 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 Lester Huang, Ms Starry Lee, Mr Andrew Leung, Dr David Li and Mr Abraham Shek. The Financial Secretary appointed Ms Diana Cesar and Mr Lee Huat Oon as new Directors to replace Mr Ryan Fung and Mr Jason Yeung who have not offered themselves 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 2013.

The Hong Kong Mortgage Corporation Limited
30 April 2012

Annex A

Consolidated Financial Results for the Year Ended 31 December 2011

	2011 HK$'000	2010 HK$'000
Interest income	**1,032,602**	1,141,383
Interest expense	**(177,789)**	(170,802)
Net interest income	**854,813**	970,581
Net premiums earned	**658,854**	583,377
Other income	**197,865**	169,868
Operating income	**1,711,532**	1,723,826
Net claims written back/(incurred)	**17,618**	(6,345)
Net commission expenses	**(108,000)**	(159,101)
Operating expenses	**(191,932)**	(171,425)
Operating profit before impairment	**1,429,218**	1,386,955
(Charge)/ write-back of loan impairment allowances	**(3,141)**	16,663
Operating profit	**1,426,077**	1,403,618
Share of profit of a jointly controlled entity	**2,830**	2,259
Profit before taxation	**1,428,907**	1,405,877
Taxation	**(173,225)**	(172,015)
Profit for the year	**1,255,682**	1,233,862
Profit/(loss) attributable to:		
Equity holders of the Company	**1,255,731**	1,233,532
Non-controlling interest	**(49)**	330
	1,255,682	1,233,862
Proposed dividend	**350,000**	350,000
Return on shareholders' equity	**15.5%**	17.5%
Return on assets	**2.3%**	2.2%
Cost-to-income ratio	**11.8%**	11.0%

	As at 31 December 2011	As at 31 December 2010
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**10,245,165**	5,902,649
Derivative financial instruments	**1,559,187**	1,396,621
Loan portfolio, net	**33,135,818**	35,258,937
Investment securities:		
- available-for-sale	**2,303,703**	3,403,966
- held-to-maturity	**8,269,148**	8,033,133
Investment in a jointly controlled entity	**130,045**	130,720
Reinsurance assets	**208,911**	204,891
Other assets	**649,369**	702,061
	56,501,346	55,032,978
LIABILITIES		
Derivative financial instruments	**139,582**	44,372
Current income tax liabilities	**134,785**	133,560
Insurance liabilities	**1,630,595**	1,773,665
Debt securities issued	**41,097,207**	39,127,735
Mortgage-backed securities issued	**367,137**	1,529,749
Other liabilities	**4,564,799**	4,821,857
	47,934,105	47,430,938
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**5,173,228**	4,561,624
Contingency reserve	**731,562**	437,435
Fair value reserve	**302,615**	255,191
Hedging reserve	**(13,244)**	(23,757)
Translation reserve	**10,911**	9,866
Proposed dividend	**350,000**	350,000
	8,555,072	7,590,359
Non-controlling interest in equity	**12,169**	11,681
	8,567,241	7,602,040
	56,501,346	55,032,978
Capital adequacy ratio / Capital-to-assets ratio	**19.7%#**	10.8%#
Net interest margin	**1.7%**	1.8%

The capital adequacy ratio as at 31 December 2011 was computed in accordance with the Guidelines on the Capital Adequacy Ratio stipulated by the Financial Secretary in October 2011 (by reference largely to the Basel II risk-based capital adequacy framework) that replaced the previous Guidelines on the Capital-to-assets Ratio. The capital-to-assets ratio as at 31 December 2011 under the previous guidelines was 11.3%. As there are significant differences between the two guidelines, the capital ratios calculated under the two guidelines are not really comparable.

Financial Review

Benefiting from the growth of the Hong Kong economy and the buoyant property market in the first half of 2011, the HKMC achieved another year of good financial results in 2011. Profit after tax increased to HK$1,256 million in 2011, a growth of 1.8% over 2010.

In 2011, the net interest income was HK$855 million (2010: HK$971 million). Other income increased by 16.5% to HK$198 million (2010: HK$170 million), which included net gain on disposal of investments of HK$65 million (2010: HK$65 million), dividend income from available-for-sale investments of HK$65 million (2010: HK$44 million), exchange gain of HK$51 million (2010: HK$35 million), and early prepayment fees of HK$15 million (2010: HK$18 million).

New loans drawn down under the MIP amounted to HK$26.3 billion in 2011 (2010: HK$41 billion) and the risk-in-force borne by the HKMC decreased 7.2% to HK$14.1 billion (2010: HK$15.2 billion). However, the amortisation of the insurance premiums received in previous years has attributed to an increase in net premiums earned from HK$418 million to HK$569 million.

Tight control over operating expenses was exercised. The cost-to-income ratio was 11.8% in 2011 (2010: 11.0%) while the total operating expenses were HK$192 million (2010: HK$171 million).

In view of developments in the residential property market and latest economic conditions, a collective assessment for loan impairment of HK$3.1 million was charged in 2011 (2010: a write-back of loan impairment allowances of HK$16.7 million).

In October 2011, the Financial Secretary approved the replacement of the previous guidelines on capital-to-assets ratio with the Guidelines on Capital Adequacy Ratio (Guidelines), which was largely in reference to the Basel II risk-based capital adequacy framework, for the purpose of enhancing the HKMC's capital management framework. The capital adequacy ratio stood at a healthy level of 19.7% as at 31 December 2011, well above the minimum of 8% stipulated in the Guidelines.

Annex B

Board of Directors

The Hon John TSANG Chun Wah, GBM, JP (Chairman and Executive Director)	Financial Secretary
Mr Norman T L CHAN, SBS, JP (Deputy Chairman and Executive Director)	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
Ms Diana CESAR	Head of Retail Banking and Wealth Management Hong Kong The Hongkong and Shanghai Banking Corporation Limited
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kin Por, JP	Member of Legislative Council Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
The Hon Ms Tanya CHAN	Member of Legislative Council
The Hon Ms Eva CHENG, GBS, 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, JP	Executive Director and Head of Treasury and Investment Hang Seng Bank Limited

Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.
Mr LEE Huat Oon	General Manager/Chief Executive Public Finance Limited
The Hon Ms Starry LEE Wai King, JP	Member of Legislative Council
The Hon Andrew LEUNG Kwan Yuen, GBS, SBS, JP	Member of Legislative Council Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok Po, GBM, GBS, Hon. LLD (Cantab), JP	Member of Legislative Council Chairman and Chief Executive The Bank of East Asia, Limited
The Hon Abraham SHEK Lai Him, SBS, JP	Member of Legislative Council