Press Release

HKMC's Financial Results Highlights for the First Half of 2013

The Hong Kong Mortgage Corporation Limited (HKMC) today (Friday) announced the highlights of its unaudited consolidated financial results and business performance for the first six months of 2013 ("1H 2013").

2013 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax for 1H 2013 was HK$508 million (1H 2012: HK$521 million)

- Annualised return on shareholders' equity was 10.7% (1H 2012: 11.8%)

- Capital adequacy ratio was 23.1% as at 30 June 2013 (31 December 2012: 20.2%)

- Cost-to-income ratio was 16% (1H 2012: 15.3%)

2013 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$82 million loan assets (1H 2012: HK$495 million)

- Outstanding principal balance of the loan portfolio was HK$21.9 billion as at 30 June 2013 (31 December 2012: HK$25.9 billion)

Debt Issuance

- Issued HK$12 billion corporate debts (1H 2012: HK$15.3 billion)

- Outstanding balance of debt securities issued was HK$33.3 billion as at 30 June 2013 (31 December 2012: HK$36.6 billion)

- Credit ratings of AAA (stable) from Standard & Poor's and Aa1 (stable) 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$7 billion (1H 2012: HK$10.5 billion)

- MIP usage rate was 8% (the amount of MIP loans drawn down as a percentage of the total new mortgage loans drawn down in the local market) (1H 2012: 13%)

- 84% of the MIP loans drawn down (in terms of the loan amount) 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)

- Approved around 2,000 applications for the 80% guarantee products under the Special Concessionary Measures with a total loan amount of HK$7.5 billion in 1H 2013

Reverse Mortgage Programme

- Approved 96 applications, with an average property value of about HK$5.2 million and average monthly payout of HK$13,900

Microfinance Scheme

- Approved 30 loans with a total loan amount of HK$8.3 million

Further details of the HKMC's consolidated financial results and financial review for 1H 2013 are set out at Annex.

Review and Outlook

The HKMC has maintained robust operation and secured a respectable return in the first half of 2013. The global economic and financial outlook is unclear and it is possible that Hong Kong will continue to see high volatility in the financial markets in 2013. Moreover, with market expectations about the US Fed's exit from quantitative easing, it is expected that the housing and financial markets will continue to be volatile. The HKMC will remain vigilant and stand ready to face any challenges ahead in performing its strategic policy roles and social objectives.

The Hong Kong Mortgage Corporation Limited

13 September 2013

Annex

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2013

	Unaudited 1H 2013	Unaudited 1H 2012
	HK$'000	HK$'000
Interest income	**467,633**	583,906
Interest expense	**(130,206)**	(159,579)
Net interest income	**337,427**	424,327
Net premiums earned	**247,557**	257,007
Other income	**128,139**	37,149
Operating income	**713,123**	718,483
Net claims written back	**8,760**	5,827
Net commission expenses	**(67,486)**	(49,077)
Operating expenses	**(104,606)**	(103,031)
Operating profit before impairment	**549,791**	572,202
Write-back of loan impairment allowances	**3,107**	1,862
Operating profit	**552,898**	574,064
Share of profit of a jointly controlled entity	**-**	1,452
Profit before taxation	**552,898**	575,516
Taxation	**(44,525)**	(54,040)
Profit for the period	**508,373**	521,476
Profit attributable to:		
Equity holders of the Company	**508,285**	521,401
Non-controlling interest	**88**	75
	508,373	521,476
Return on shareholders' equity (annualised)	**10.7%**	11.8%
Return on assets (annualised)	**1.9%**	1.7%
Cost-to-income ratio	**16.0%**	15.3%
Net interest margin	**1.4%**	1.5%

	Unaudited As at 30 June 2013	Audited As at 31 December 2012
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**12,779,793**	9,715,544
Loan portfolio, net	**21,912,739**	25,895,399
Investment securities:		
- available-for-sale	**3,945,460**	5,812,827
- held-to-maturity	**9,778,540**	9,237,808
Derivative financial instruments	**888,887**	1,443,013
Reinsurance assets	**199,604**	222,007
Other assets	**456,272**	538,359
	49,961,295	52,864,957
LIABILITIES		
Tax payable	**144,370**	101,587
Insurance liabilities	**1,419,879**	1,545,863
Debt securities issued	**33,283,291**	36,404,627
Mortgage-backed securities issued	**-**	214,672
Derivative financial instruments	**964,380**	175,095
Other liabilities	**4,909,759**	4,810,276
	40,721,679	43,252,120
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**5,678,246**	5,302,410
Contingency reserve	**1,110,222**	977,773
Fair value reserve	**433,648**	569,109
Other reserves	**4,791**	1,122
Proposed dividend	**-**	750,000
	9,226,907	9,600,414
Non-controlling interest in equity	**12,709**	12,423
Total equity	**9,239,616**	9,612,837
Total liabilities and equity	**49,961,295**	52,864,957
Capital adequacy ratio	**23.1%**	20.2%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK$508 million for 1H 2013, a decrease of HK$13 million or 2.5% compared with 1H 2012. The annualised return on shareholders' equity was 10.7% (1H 2012: 11.8%). The slight reduction in profitability was mainly due to rundown in loan portfolio, drop in net interest income and decrease in new mortgage insurance business.

In 1H 2013, the net interest income was HK$337 million (1H 2012: HK$424 million). The net interest margin of the average interest-earning assets was 1.4% (1H 2012: 1.5%).

New loans drawn down under the MIP was HK$7 billion in 1H 2013 (1H 2012: HK$10.5 billion) amid a slower housing turnover. The risk-in-force borne by the HKMC decreased by 5.8% to HK$13.1 billion (1H 2012: HK$13.9 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision, was HK$187 million (1H 2012: HK$213 million).

Other income increased to HK$128 million (1H 2012: HK$37 million), which included dividend income from investments of HK$49 million (1H 2012: HK$44 million), exchange gain of HK$45 million (1H 2012: HK$20 million exchange loss) mainly arising from the revaluation of renminbi and US dollar exposures in deposits and debt investments, and net disposal gain of investments of HK$33 million (1H 2012: HK$5 million).

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK$105 million, HK$2 million more than 1H 2012. Coupled with the mild reduction in operating income, the cost-to-income ratio increased slightly from 15.3% in 1H 2012 to 16% in 1H 2013.

The capital adequacy ratio (CAR) remained solid at 23.1% as at 30 June 2013 (31 December 2012: 20.2%), well above the minimum of 8% stipulated in the CAR guidelines issued by the Financial Secretary. With a strong CAR, the Corporation will continue fulfilling its strategic policy roles and social objectives.