Press Release

HKMC's Financial Results Highlights for 2012

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited financial results for 2012 as follows:

2012 Financial Results Highlights

- Consolidated profit after tax was HK$1,126 million (2011: HK$1,256 million)
- Return on shareholders' equity was 12.4% (2011: 15.5%)
- Capital adequacy ratio was 20.2% (2011: 19.7%)
- Cost-to-income ratio was 15.4% (2011: 11.8%)
- Dividend of HK$750 million (2011: HK$350 million)

2012 Business Performance Highlights

Asset Purchase

- Purchased HK$865 million loan assets (2011: HK$9,683 million)
- Outstanding principal balance of the loan portfolio was HK$25.9 billion as at end-2012 (2011: HK$33.1 billion)

Debt Issuance

- Issued HK$19.1 billion corporate debts (2011: HK$28.5 billion), being the most active corporate debt issuer in the Hong Kong dollar debt market

- Outstanding balance of debt and mortgage-backed securities was HK$36.6 billion as at end-2012 (2011: HK$41.5 billion)

- 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

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down under the MIP amounted to HK$22 billion (2011: HK$26.3 billion)

- Usage rate (being a percentage of the total amount of new mortgage loans drawn down under the MIP to the total amount of new mortgage loans drawn in the Hong Kong residential property market) stood at 11.5% (2011: 11.5%)

- 96% of the loans drawn down under the MIP (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 more than 5,000 applications for the 80% guarantee products under the Special Concessionary Measures with total loan amount of approximately HK$22.7 billion, benefiting over 3,700 local SMEs and about 100,000 related employees

Reverse Mortgage Programme

- Approved 145 applications, with an average property value of about HK$3.7 million and average monthly payout amount of HK$12,500

Microfinance Scheme

- Approved 47 loans with a total loan amount of HK$12.75 million

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

Outlook for 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, the monetary easing policies adopted by major economies will continue to affect asset prices in Hong Kong. The HKMC will remain vigilant and stand ready to face any challenges in the year ahead.

Appointment of Board of Directors

The HKMC held its 16th Annual General Meeting today. Twelve Directors have been re-appointed by the Financial Secretary for another term, namely, Professor K C Chan, Mr Chan Kin-por, Miss Tanya Chan, Professor Anthony Cheung, Mr Eddy Fong, Mr Andrew Fung, Mr Lester Huang, Mr Lee Huat-oon, Ms Starry Lee, Mr Andrew Leung, Dr David Li and Mr Abraham Shek. The Financial Secretary appointed Mr Jammy Chen and Professor Wong Yuk-shan as new Directors. Ms Diana Cesar has retired as Director and has not offered herself for re-appointment. The composition of the new Board of Directors is at Annex B.

According to the Articles of Association of the HKMC, 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 2014.

The Hong Kong Mortgage Corporation Limited
15 April 2013

Annex A

Consolidated Financial Results for the Year Ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Interest income	**1,135,362**	1,032,602
Interest expense	**(323,263)**	(177,789)
Net interest income	**812,099**	854,813
Net premiums earned	**533,536**	658,854
Other income	**232,471**	197,865
Operating income	**1,578,106**	1,711,532
Net claims written back	**6,642**	17,618
Net commission expenses	**(162,541)**	(108,000)
Operating expenses	**(219,267)**	(191,932)
Operating profit before impairment	**1,202,940**	1,429,218
Write-back / (charge) of loan impairment allowances	**5,680**	(3,141)
Operating profit	**1,208,620**	1,426,077
Share of profit of a jointly controlled entity	**2,450**	2,830
Profit before taxation	**1,211,070**	1,428,907
Taxation	**(85,524)**	(173,225)
Profit for the year	**1,125,546**	1,255,682
Profit/(loss) attributable to:		
Equity holders of the Company	**1,125,393**	1,255,731
Non-controlling interest	**153**	(49)
	1,125,546	1,255,682
Proposed dividend	**750,000**	350,000
Return on shareholders' equity	**12.4%**	15.5%
Return on assets	**1.9%**	2.3%
Cost-to-income ratio	**15.4%**	11.8%
Net interest margin	**1.5%**	1.7%

	As at 31 December 2012 HK$'000	As at 31 December 2011 HK$'000
ASSETS		
Cash and short-term funds	**9,715,544**	10,245,165
Derivative financial instruments	**1,443,013**	1,559,187
Loan portfolio, net	**25,895,399**	33,135,818
Investment securities:		
- available-for-sale	**5,812,827**	2,303,703
- held-to-maturity	**9,237,808**	8,269,148
Investment in a jointly controlled entity	**-**	130,045
Reinsurance assets	**222,007**	208,911
Other assets	**538,359**	649,369
	52,864,957	56,501,346
LIABILITIES		
Derivative financial instruments	**175,095**	139,582
Tax payable	**101,587**	134,785
Insurance liabilities	**1,545,863**	1,630,595
Debt securities issued	**36,404,627**	41,097,207
Mortgage-backed securities issued	**214,672**	367,137
Other liabilities	**4,810,276**	4,564,799
	43,252,120	47,934,105
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**5,302,410**	5,173,228
Contingency reserve	**977,773**	731,562
Fair value reserve	**569,109**	302,615
Other reserves	**1,122**	(2,333)
Proposed dividend	**750,000**	350,000
	9,600,414	8,555,072
Non-controlling interest in equity	**12,423**	12,169
Total equity	**9,612,837**	8,567,241
Total liabilities and equity	**52,864,957**	56,501,346
Capital adequacy ratio	**20.2%**	19.7%

Financial Review

The consolidated profit after tax of the HKMC was HK$1,126 million in 2012, a decrease of HK$130 million, or 10.4%, against the record financial performance in 2011. Return on shareholders' equity was 12.4% (2011: 15.5%). The reductions in profitability were mainly due to loan portfolio rundown with tightening in net interest spread, reduced contributions from the mortgage insurance business amid a slower housing turnover and increased costs arising from the launch of new policy initiatives such as the Special Concessionary Measures under the SFGS and the Microfinance Scheme.

In 2012, the net interest income was HK$812 million (2011: HK$855 million). The net interest margin of average interest-earning assets was 1.5% (2011: 1.7%).

New loans drawn down under the MIP reduced to HK$22 billion in 2012 from HK$26.3 billion in 2011 amid a slower housing turnover and the risk-in-force borne by the HKMC decreased by 2.1% to HK$13.8 billion (2011: HK$14.1 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision, was HK$376 million (2011: HK$569 million).

Other income increased by 17.7% to HK$233 million (2011: HK$198 million), which mainly included dividend income from investments of HK$90 million (2011: HK$65 million), net disposal gain of investments of HK$90 million (2011: HK$65 million), exchange gain of HK$30 million (2011: HK$51 million) and fair value gain of HK$13 million (2011: HK$3 million) in financial instruments.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK$219 million, HK$27 million up from 2011. The increase was mainly attributable to the resources for promoting the new policy initiatives and enhancements of the Reverse Mortgage Programme. Coupled with the decrease in operating income, the cost-to-income ratio increased from 11.8% in 2011 to 15.4% in 2012.

The capital adequacy ratio (CAR) remained solid at 20.2% as at 31 December 2012 (2011: 19.7%), well above the minimum of 8% stipulated in the CAR guidelines issued by the Financial Secretary. Balancing the HKMC's business development needs against a very solid CAR, the Annual General Meeting today approved a dividend of HK$750 million for 2012.

Annex B

Board of Directors

The Hon. John TSANG Chun-wah, GBM, JP (Chairman and Executive Director)	Financial Secretary
Mr Norman T. L. CHAN, GBS, 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
Professor the Hon. K C CHAN, GBS, JP	Secretary for Financial Services and the Treasury
The Hon. CHAN Kin-por, BBS, JP	Member of Legislative Council Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
Miss Tanya CHAN	Barrister-at-law
Mr Jammy CHEN	Head, Secured Lending Products North East Asia, Consumer Banking Standard Chartered Bank (Hong Kong) Limited
Professor the Hon. Anthony CHEUNG Bing-leung, GBS, JP	Secretary for Transport and Housing
Mr Eddy FONG Ching, GBS, JP	Chairman of the Council, The Open University of Hong Kong
Mr Andrew FUNG Hau-chung, JP	Executive Director and Head of Global Banking and Markets 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 Executive Council 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	Chairman and Chief Executive The Bank of East Asia, Limited
The Hon. Abraham SHEK Lai-him, SBS, JP	Member of Legislative Council
Professor Wong Yuk-shan, BBS, JP	Chairman, Consumer Council Vice-President for Administration and Business and Professor of Life Science, The Hong Kong University of Science and Technology