Press Release

HKMC's Financial Results Highlights for 2013

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited financial results for 2013 as follows:

2013 Financial Results Highlights

- Consolidated profit after tax was HK$983 million (2012: HK$1,126 million)
- Return on shareholders' equity was 10.4% (2012: 12.4%)
- Cost-to-income ratio was 18.1% (2012: 15.4%)
- Capital adequacy ratio was 21% as at 31 December 2013 (31 December 2012: 20.2%)
- Dividend of HK$1.5 billion (2012: HK$750 million) including an ordinary dividend of HK$500 million and a special dividend of HK$1 billion

2013 Business Performance Highlights

Asset Purchase

- Purchased HK$3.2 billion loan assets (2012: HK$0.9 billion)

- Outstanding principal balance of the loan portfolio was HK$22.3 billion at the end of 2013 (2012: HK$25.9 billion)

Debt Issuance

- Issued HK$10.2 billion corporate debts[1] (2012: HK$11 billion), being one of the most active issuers in Hong Kong

- Outstanding balance of debt securities was HK$31.4 billion at end of 2013 (2012: HK$36.4 billion)

- Credit ratings of AAA from Standard & Poor's and Aa1 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$13.3 billion (2012: HK$22 billion)

- MIP usage rate was 8.4% (the amount of MIP loans drawn down as a percentage of the total new mortgage loans drawn down in the local market) (2012: 11.5%)

- 87% 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

[1] For debts with tenor of one year or above.

SME Financing Guarantee Scheme (SFGS)

- Approved more than 2,900 applications for the 80% guarantee products under the Special Concessionary Measures with a total loan amount of approximately HK$11.2 billion in 2013, benefiting over 5,500 business enterprises and over 140,000 related employees since the launch of the products in May 2012

Reverse Mortgage Programme

- Approved 217 applications, with an average property value of about HK$5.6 million and average monthly payout of HK$14,800

Microfinance Scheme

- Approved 59 loans with a total loan amount of HK$15.35 million

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

Appointment of Board of Directors

The HKMC held its 17th Annual General Meeting today. Eleventh Directors have been re-appointed by the Financial Secretary for another term, namely, Professor K C Chan, Professor Anthony Cheung, Ms Starry Lee, Mr Abraham Shek, Mr Chan Kin-por, Mr Andrew Leung, Miss Tanya Chan, Mr Lester Huang, Mr Andrew Fung, Mr Lee Huat-oon and Professor Wong Yuk-shan. The Financial Secretary appointed Mr Ng Leung-sing, Mr Brian Stevenson and Mr Jason Yeung as new Directors. Dr David Li, Mr Eddy Fong and

Mr Jammy Chen have retired as Directors and 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 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 2015.

The Hong Kong Mortgage Corporation Limited
7 April 2014

Annex A

Consolidated Financial Results for the Year Ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Interest income	**902,246**	1,135,362
Interest expense	**(250,253)**	(323,263)
Net interest income	**651,993**	812,099
Net premiums earned	**476,956**	533,536
Other income	**297,470**	232,471
Operating income	**1,426,419**	1,578,106
Net claims written back	**8,767**	6,642
Net commission expenses	**(135,890)**	(162,541)
Operating expenses	**(235,043)**	(219,267)
Operating profit before impairment	**1,064,253**	1,202,940
Write-back of loan impairment allowances	**3,545**	5,680
Operating profit	**1,067,798**	1,208,620
Share of profit of a joint venture	**-**	2,450
Profit before taxation	**1,067,798**	1,211,070
Taxation	**(85,214)**	(85,524)
Profit for the year	**982,584**	1,125,546
Profit attributable to:		
Equity holders of the Company	**982,404**	1,125,393
Non-controlling interests	**180**	153
	982,584	1,125,546
Proposed dividends:		
Ordinary	**500,000**	750,000
Special	**1,000,000**	**-**
	1,500,000	750,000
Return on shareholders' equity	**10.4%**	12.4%
Return on assets	**1.9%**	1.9%
Cost-to-income ratio	**18.1%**	15.4%
Net interest margin	**1.4%**	1.5%

	As at 31 December 2013 HK$'000	As at 31 December 2012 HK$'000
ASSETS		
Cash and short-term funds	**11,757,533**	9,715,544
Derivative financial instruments	**831,426**	1,443,013
Assets held for sale	**129,767**	-
Loan portfolio, net	**22,268,397**	25,895,399
Investment securities:		
- available-for-sale	**3,860,455**	5,812,827
- held-to-maturity	**8,560,595**	9,237,808
Reinsurance assets	**180,742**	222,007
Other assets	**430,915**	538,359
	48,019,830	52,864,957
LIABILITIES		
Derivative financial instruments	**785,458**	175,095
Tax payable	**144,665**	101,587
Insurance liabilities	**1,294,712**	1,545,863
Debt securities issued	**31,355,185**	36,404,627
Mortgage-backed securities issued	**-**	214,672
Other liabilities	**4,865,630**	4,810,276
	38,445,650	43,252,120
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**4,548,760**	5,302,410
Proposed dividends	**1,500,000**	750,000
Contingency reserve	**1,213,827**	977,773
Fair value reserve	**290,605**	569,109
Other reserves	**8,016**	1,122
	9,561,208	9,600,414
Non-controlling interests in equity	**12,972**	12,423
Total equity	**9,574,180**	9,612,837
Total liabilities and equity	**48,019,830**	52,864,957
Capital adequacy ratio	**21.0%**	20.2%

Financial Review

The consolidated profit after tax of the HKMC was HK$983 million in 2013, representing a decrease of HK$143 million or 12.7%, compared with 2012. Return on shareholders' equity was 10.4% (2012: 12.4%). The reductions in profitability were mainly due to loan portfolio rundown and reduced contributions from the mortgage insurance business.

In 2013, the net interest income was HK$652 million (2012: HK$812 million). The net interest margin of the average interest-earning assets was 1.4% (2012: 1.5%).

New loans drawn down under the MIP reduced from HK$22 billion to HK$13.3 billion in 2013 amid a slower housing turnover. The risk-in-force borne by the HKMC decreased to HK$12 billion (2012: HK$13.8 billion). Net mortgage insurance premium earned, after income amortisation, commission expenses and provision, was HK$346 million (2012: HK$376 million).

Other income increased to HK$297 million (2012: HK$232 million), which mainly included net disposal gain of investments of HK$136 million (2012: HK$90 million), dividend income of HK$89 million (2012: HK$90 million) and exchange gain of HK$72 million (2012: HK$30 million).

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK$235 million, HK$16 million up from 2012. The increase was mainly attributable to costs related to office move. Coupled with the reduction in operating income, the cost-to-income ratio increased from 15.4% in 2012 to 18.1% in 2013.

Taking into account the HKMC's future business development, financial performance and ample capital base, the Shareholders in the Annual General Meeting today approved an ordinary dividend of HK$500 million for 2013 and a special dividend of HK$1 billion from the accumulated earnings of the previous years. As at 31 December 2013, the capital adequacy ratio still remained solid at 21%, well above the minimum requirement of 8% stipulated by the Financial Secretary.

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
Professor the Hon. Anthony CHEUNG Bing-leung, GBS, JP	Secretary for Transport and Housing
The Hon. Ms Starry LEE Wai-king, JP	Member of Executive Council Member of Legislative Council
The Hon. Abraham SHEK Lai-him, GBS, JP	Member of Legislative Council
The Hon. CHAN Kin-por, BBS, JP	Member of Legislative Council Member of the China Advisory Board Munich Reinsurance Company Hong Kong Branch
The Hon. Andrew LEUNG Kwan-yuen, GBS, SBS, JP	Member of Legislative Council Chairman, Sun Hing Knitting Factory Limited
Miss Tanya CHAN	Barrister-at-law
Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.

Mr Andrew FUNG Hau-chung, JP	Executive Director and Head of Global Banking and Markets Hang Seng Bank Limited
Mr LEE Huat-oon	General Manager/Chief Executive Public Finance Limited
Professor WONG Yuk-shan, BBS, JP	Chairman, Consumer Council President of the Open University of Hong Kong
The Hon. NG Leung-sing, SBS, JP	Member of Legislative Council Chairman, Bank of China (Hong Kong) Trustees Limited Vice-Chairman, Chiyu Banking Corporation Limited
Mr T. Brian STEVENSON, SBS, JP	Chairman, The Hong Kong Jockey Club
Mr Jason YEUNG Chi-wai	Deputy Chief Executive Bank of China (Hong Kong) Limited