Press Release

HKMC's Financial Results Highlights for the First Half of 2016

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its unaudited financial results for the first six months of 2016 ("1H 2016") as follows:

2016 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax was HK$296 million (1H 2015: HK$338 million)
- Annualised return on shareholders' equity was 6.6% (1H 2015: 7.6%)
- Cost-to-income ratio was 29.3% (1H 2015: 25.4%)
- Capital adequacy ratio was 20.2% as at 30 June 2016 (31 December 2015: 21.9%)

2016 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$19 million loan assets (1H 2015: HK$71 million)

- Outstanding principal balance of the loan portfolio was HK$10.5 billion as at 30 June 2016 (31 December 2015: HK$11.5 billion)

Debt Issuance

- Issued in total HK$15.4 billion corporate debts [1] (1H 2015: HK$12.1 billion), being a major and active corporate debt issuer in Hong Kong

- Outstanding balance of debt securities was HK$40 billion as at 30 June 2016 (31 December 2015: HK$33.5 billion)

- Credit ratings of AAA from Standard & Poor's and Aa1 from Moody's, same as those of the HKSAR Government

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down amounted to HK$7.8 billion (1H 2015: HK$8.2 billion)

- 78% of loans drawn down (in terms of 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

- Approved 346 applications under the Special Concessionary Measures (i.e. the 80% guarantee product) with a total loan amount of

[1] Debts with tenor of one year or above.

approximately HK$1.2 billion (91% of the benefitted borrowers since launch of the 80% guarantee product were small enterprises with less than 50 employees)

Reverse Mortgage Programme

- Approved 168 applications, with an average property value of HK$6 million and average monthly payout of HK$17,600

Microfinance Scheme

- Approved 7 applications with a total loan amount of HK$1.69 million

Premium Loan Insurance Scheme

- Approved 5 applications, with an average property value of HK$4.1 million and average lump-sum payout of HK$0.53 million

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2016 are set out at Annex.

The Hong Kong Mortgage Corporation Limited
19 September 2016

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2016

	Unaudited 1H 2016	Unaudited 1H 2015
	HK$'000	HK$'000
Interest income	**400,976**	432,491
Interest expense	**(150,270)**	(128,181)
Net interest income	**250,706**	304,310
Net premiums earned	**152,678**	200,405
Other income	**78,366**	33,612
Operating income	**481,750**	538,327
Net claims (incurred) / written back	**(1,364)**	710
Net commission expenses	**(33,422)**	(42,600)
Operating expenses	**(130,879)**	(126,317)
Operating profit before impairment	**316,085**	370,120
Write-back / (charge) of loan impairment allowances	**554**	(1,439)
Profit before taxation	**316,639**	368,681
Taxation	**(20,467)**	(30,732)
Profit for the period	**296,172**	337,949

Return on shareholders' equity (annualised)	**6.6%**	7.6%
Return on assets (annualised)	**1.1%**	1.2%
Cost-to-income ratio	**29.3%**	25.4%
Net interest margin (annualised)	**1.0%**	1.2%

	Unaudited As at 30 June 2016	Audited As at 31 December 2015
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**27,015,745**	21,007,367
Derivative financial instruments	**516,869**	473,403
Loan portfolio, net	**10,489,117**	11,502,312
Investment securities:		
- available-for-sale	**8,060,709**	6,638,367
- held-to-maturity	**10,190,988**	10,274,001
Reinsurance assets	**125,702**	128,653
Other assets	**417,338**	440,647
Total assets	**56,816,468**	50,464,750
LIABILITIES		
Derivative financial instruments	**1,382,289**	1,821,927
Tax payable	**148,826**	129,153
Insurance liabilities	**943,173**	978,845
Debt securities issued	**40,005,403**	33,463,211
Other liabilities	**5,548,296**	5,003,369
Total liabilities	**48,027,987**	41,396,505
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**4,733,853**	5,251,052
Contingency reserve	**1,721,031**	1,632,660
Fair value and other reserves	**333,597**	184,533
Total equity	**8,788,481**	9,068,245
Total liabilities and equity	**56,816,468**	50,464,750
Capital adequacy ratio	**20.2%**	21.9%

Note:

The financial information relating to the year ended 31 December 2015 included in these unaudited consolidated financial results for the six months ended 30 June 2016 as being previously reported information does not constitute the HKMC's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The HKMC has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by the Companies Ordinance.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for 2015. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or 407(3) of the Companies Ordinance.

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK$296 million in 1H 2016, representing a decrease of HK$42 million or 12.4% compared with 1H 2015. The annualised return on shareholders' equity was 6.6% (1H 2015: 7.6%). Reduction in profitability was mainly due to loan portfolio rundown and decrease in mortgage insurance premiums earned, partly offset by the increase in other income.

In 1H 2016, the net interest income was HK$251 million (1H 2015: HK$304 million) and the annualised net interest margin of the average interest-earning assets was 1.0% (1H 2015: 1.2%).

New loans drawn down under the MIP was HK$7.8 billion in 1H 2016 (1H 2015: HK$8.2 billion). The risk-in-force borne for the MIP by the HKMC was at HK$11.8 billion (31 December 2015: HK$11.3 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK$116 million (1H 2015: HK$154 million) amid a slower housing turnover.

Other income was HK$78 million (1H 2015: HK$34 million) that mainly consisted of dividend income of HK$42 million and gains on disposal of investments of HK$31 million.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK$131 million, HK$5 million more than that for 1H 2015. Due to reduction in operating income and resources devoted to support policy initiatives, the cost-to-income ratio was increased to 29.3% in 1H 2016 (1H 2015: 25.4%).

As at 30 June 2016, the capital adequacy ratio remained solid at 20.2% (31 December 2015: 21.9%), well above the minimum requirement of 8% stipulated by the Financial Secretary.