Press Release

HKMC's Financial Results Highlights for the First Half of 2014

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its unaudited financial results for the first six months of 2014 ("1H 2014").

2014 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax was HK$374 million (1H 2013: HK$508 million)
- Annualised return on shareholders' equity was 8.3% (1H 2013: 10.7%)
- Cost-to-income ratio was 22.9% (1H 2013: 16%)
- Capital adequacy ratio was 23.1% as at 30 June 2014 (31 December 2013: 21%)

2014 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$74 million loan assets (1H 2013: HK$82 million)

- Outstanding principal balance of the loan portfolio was HK$17.9 billion as at 30 June 2014 (31 December 2013: HK$22.3 billion)

Debt Issuance

- Issued HK$8.5 billion corporate debts[1] (1H 2013: HK$5.5 billion), being one of the most active issuers in Hong Kong

- Outstanding balance of debt securities issued was HK$37.4 billion as at 30 June 2014 (31 December 2013: HK$31.4 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$6.2 billion (1H 2013: HK$7 billion)

- MIP usage rate was 7.1 % (the amount of MIP loans drawn down as a percentage of the total new mortgage loans drawn down in the local market) (1H 2013: 7.9%)

- 85% of the MIP loans drawn down (in terms of the loan amount) were secured on properties in the secondary market

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

SME Financing Guarantee Scheme (SFGS)

- Approved more than 1,000 applications for the 80% guarantee products under the Special Concessionary Measures with a total loan amount of approximately HK$4.2 billion in 1H 2014

Reverse Mortgage Programme

- Approved 101 applications, with an average property value of about HK$5.4 million and average monthly payout of HK$15,200

Microfinance Scheme

- Approved 26 loans with a total loan amount of HK$6 million

Further details of the HKMC's consolidated financial results and financial review for 1H 2014 are set out at Annex.

The Hong Kong Mortgage Corporation Limited
15 September 2014

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2014

	Unaudited 1H 2014 HK$'000	Unaudited 1H 2013 HK$'000
Interest income	**457,465**	467,633
Interest expense	**(116,593)**	(130,206)
Net interest income	**340,872**	337,427
Net premiums earned	**209,583**	247,557
Other income	**34,802**	128,139
Operating income	**585,257**	713,123
Net claims (incurred)/written back	**(283)**	8,760
Net commission expenses	**(52,234)**	(67,486)
Operating expenses	**(122,145)**	(104,606)
Operating profit before impairment	**410,595**	549,791
(Charge)/Write-back of loan impairment allowances	**(635)**	3,107
Profit before taxation	**409,960**	552,898
Taxation	**(35,887)**	(44,525)
Profit for the period	**374,073**	508,373
Profit attributable to:		
Equity holders of the Company	**374,073**	508,285
Non-controlling interests	**-**	88
	374,073	508,373
Return on shareholders' equity (annualised)	**8.3%**	10.7%
Return on assets (annualised)	**1.4%**	1.9%
Cost-to-income ratio	**22.9%**	16.0%
Net interest margin (annualised)	**1.4%**	1.4%

	Unaudited As at 30 June 2014	Audited As at 31 December 2013
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**19,673,023**	11,757,533
Derivative financial instruments	**1,031,516**	831,426
Loan portfolio, net	**17,865,290**	22,268,397
Investment securities:		
- available-for-sale	**4,996,361**	3,860,455
- held-to-maturity	**8,843,494**	8,560,595
Reinsurance assets	**157,829**	180,742
Other assets	**490,073**	560,682
	53,057,586	48,019,830
LIABILITIES		
Derivative financial instruments	**562,137**	785,458
Tax payable	**178,133**	144,665
Insurance liabilities	**1,177,175**	1,294,712
Debt securities issued	**37,432,787**	31,355,185
Other liabilities	**5,273,118**	4,865,630
	44,623,350	38,445,650
EQUITY		
Capital and reserves attributable to the equity holders:		
Share capital	**2,000,000**	2,000,000
Retained profits	**4,807,277**	4,548,760
Proposed dividends	**-**	1,500,000
Contingency reserve	**1,329,383**	1,213,827
Fair value and other reserves	**297,576**	298,621
	8,434,236	9,561,208
Non-controlling interests in equity	**-**	12,972
Total equity	**8,434,236**	9,574,180
Total liabilities and equity	**53,057,586**	48,019,830
Capital adequacy ratio	**23.1%**	21.0%

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK$374 million in 1H 2014, representing a decrease of HK$134 million or 26.4% as compared with 1H 2013. The annualised return on shareholders' equity was 8.3% (1H 2013: 10.7%). The reductions in profitability were mainly due to loan portfolio rundown, slower mortgage insurance business and reduction in other income.

In 1H 2014, the net interest income was HK$341 million (1H 2013: HK$337 million). The net interest margin of the average interest-earning assets was 1.4% (1H 2013: 1.4%).

Net mortgage insurance premium earned after income amortisation, commission expenses and provision, decreased to HK$155 million (1H 2013: HK$187 million).

Other income was HK$35 million (1H 2013: HK$128 million), mainly including disposal gain and dividend income from investments of HK$76 million, exchange/revaluation loss of HK$58 million mainly arising from renminbi exposures in cash and debt investments, and gain of HK$13 million on disposal of the HKMC's stake in its overseas joint venture.

The HKMC continued to maintain stringent controls on operating expenses. Total operating expenses were HK$122 million, HK$18 million up against 1H 2013. The increase was mainly attributable to increase in rental expenses and staff costs. Coupled with the reduction in operating income, the cost-to-income ratio increased from 16% in 1H 2013 to 22.9% in 1H 2014.

As at 30 June 2014, the capital adequacy ratio remained solid at 23.1% (31 December 2013: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.