

Annex

**THE HONG KONG MORTGAGE CORPORATION LIMITED**  
**CONSOLIDATED FINANCIAL RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	<b>Unaudited 6 months ended 30 June 2011 HK\$'000</b>	<b>Unaudited 6 months ended 30 June 2010 HK\$'000</b>
Interest income	527,034	569,971
Interest expense	(80,455)	(71,716)
<b>Net interest income</b>	<b>446,579</b>	<b>498,255</b>
Other income	445,900	249,331
<b>Operating income</b>	<b>892,479</b>	<b>747,586</b>
Operating expenses	(88,053)	(80,299)
Operating profit before impairment	804,426	667,287
Write-back of loan impairment allowances	1,992	6,859
<b>Operating profit</b>	<b>806,418</b>	<b>674,146</b>
Share of profit of a joint venture	1,526	841
<b>Profit before taxation</b>	<b>807,944</b>	<b>674,987</b>
Taxation	(103,423)	(82,650)
<b>Profit for the period</b>	<b>704,521</b>	<b>592,337</b>
<b>Profit attributable to:</b>		
Equity holders of the Company	704,651	592,517
Non-controlling interest	(130)	(180)
	<b>704,521</b>	<b>592,337</b>
Return on equity (annualised)	18.0%	17.4%
Return on assets (annualised)	2.6%	2.1%
Cost-to-income ratio	9.9%	10.7%
Net interest margin	1.8%	1.8%

	<b>Unaudited As at 30 June 2011 HK\$'000</b>	<b>Audited As at 31 December 2010 HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	5,849,983	5,902,649
Derivative financial instruments	1,510,236	1,396,621
Loan portfolio, net	33,098,862	35,258,937
Investment securities:		
- available-for-sale	2,319,990	3,403,966
- held-to-maturity	8,562,954	8,033,133
Investment in a jointly controlled entity	135,124	130,720
Reinsurance assets	185,691	204,891
Other assets	568,517	702,061
	<b>52,231,357</b>	<b>55,032,978</b>
<b>LIABILITIES</b>		
Derivative financial instruments	49,780	44,372
Tax payable	234,563	133,560
Insurance liabilities	1,746,348	1,773,665
Debt securities issued	36,292,553	39,127,735
Mortgage-backed securities issued	1,362,909	1,529,749
Other liabilities	4,555,983	4,821,857
	<b>44,242,136</b>	<b>47,430,938</b>
<b>EQUITY</b>		
Capital and reserves attributable to the equity holders:		
Share capital	2,000,000	2,000,000
Retained profits	5,104,832	4,561,624
Contingency reserve	598,878	437,435
Fair value reserve	275,035	255,191
Hedging reserve	(16,217)	(23,757)
Translation reserve	14,905	9,866
Proposed dividend	-	350,000
	<b>7,977,433</b>	<b>7,590,359</b>
<b>Non-controlling interest in equity</b>	<b>11,788</b>	<b>11,681</b>
<b>Total equity</b>	<b>7,989,221</b>	<b>7,602,040</b>
<b>Total equity &amp; liabilities</b>	<b>52,231,357</b>	<b>55,032,978</b>
Capital-to-assets ratio	<b>12.0%</b>	<b>10.8%</b>

## **Financial Review**

With favourable interest rate environment and its prudent prefunding strategy and strong commitment to risk management, the HKMC achieved good financial results in the first half of 2011. It recorded an unaudited consolidated profit after tax of HK\$705 million, which was 19% more than the first half of 2010. The annualised return on equity was 18% (1H 2010: 17.4%) and the net interest income was HK\$447 million (1H 2010: HK\$498 million). The net interest margin of the average interest-earning assets remained at 1.8%.

New loans drawn down under the MIP was HK\$17.1 billion (1H 2010: HK\$19 billion). The risk-in-force borne by the HKMC increased from HK\$15.2 billion at the end of 2010 to HK\$15.7 billion as at 30 June 2011. Net mortgage insurance premium earned, reported in other income, was HK\$298 million (1H 2010: HK\$181 million).

The HKMC continued to exercise tight control over its operating expenses in the first half of 2011. Total operating expenses were HK\$88 million (1H 2010: HK\$80 million) and the cost-to-income ratio was 9.9% (1H 2010: 10.7%).

In light of the excellent loan quality, write-back of loan impairment allowances of HK\$2 million (1H 2010: HK\$7 million) was made in the first half of 2011.

The capital-to-assets ratio (CAR) stood at a healthy level of 12% as at 30 June 2011 (31 December 2010: 10.8%), well above minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary.