

Vision  
in focus



## Chairman's Statement



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## Performance Highlights

I am pleased to report that 2007 was another solid year for the Hong Kong Mortgage Corporation Limited. The Corporation achieved record profits after tax of HK\$740.7 million, 8.5% up from 2006. The return on shareholder's equity was 13.7%, and the capital-to-assets ratio was a healthy 11.2%. The Corporation declared a final dividend of HK\$250 million, the same as in the previous three years.

The HKMC made its overseas debut by purchasing mortgage loans worth HK\$5.5 billion originated in Korea. The Corporation also signed an agreement with Cagamas Berhad, the national mortgage corporation in Malaysia, to set up a joint venture offering mortgage guarantees to banks in Malaysia. These two initiatives represent a breakthrough for the HKMC in overseas mortgage purchase and mortgage guarantee businesses.

The good performance in 2007 reflects the successful implementation of the Corporation's business diversification plan and the effectiveness of its funding strategy.

The Corporation has proven to be highly efficient and resilient, meeting its objectives of contributing to banking stability, promoting home ownership and developing the debt and securitisation markets. This was achieved in the face of a challenging market environment, in particular the adverse financial market conditions in the second half of 2007 triggered by the sub-prime mortgage loan crisis in the United States.

The Corporation has been prudent in pursuing its business diversification in Hong Kong and overseas, and has not purchased any sub-prime mortgages or invested in sub-prime related products.

The Corporation has earned a reputation as being among the most stable financial institutions in the world. The Corporation is the first entity, and so far the only one, to have achieved a long-term Hong Kong dollar issuer rating of Aaa by Moody's since October 2006. Furthermore, the Corporation's long-term foreign currency debt rating was upgraded by Moody's to Aaa in July 2007. With such strong credit standing, the Corporation is well positioned to play a more active and strategic role in promoting the development of the mortgage financing and debt markets not only in Hong Kong but overseas too.

## Asset Acquisition

The Corporation continued in its role as a liquidity provider to the banking community. Fluctuating market conditions throughout 2007 brought about various opportunities for broadening and diversifying the Corporation's business strategy. Apart from its overseas purchase, the Corporation also acquired HK\$3 billion of residential mortgages in Hong Kong and HK\$1.1 billion of taxi/public light bus loans, thereby helping to provide liquidity to banks in Hong Kong. The Corporation has also entered into an agreement with a credit union for the purchase of mortgages from the union.

## Mortgage Insurance

The Mortgage Insurance Programme ("MIP") operated by the HKMC continued to help foster wider home ownership in Hong Kong. The Corporation received over 16,300 applications under the Programme during the year, up from 11,824 applications in 2006. The outstanding risk-in-force increased by 20.4% to HK\$3.5 billion. The Corporation enhanced the MIP to meet the needs of the market and the public by extending coverage to mortgage loans with 75% loan-to-value ratio.

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It improved its Risk-based Pricing Scheme and Loyalty Discount Scheme and extended insurance coverage to loans secured by non-owner occupied residential properties.

On the back of a strong track record, the Corporation entered into a joint venture agreement in December 2007 with Cagamas Berhad in Malaysia for the establishment of a joint venture to provide mortgage guarantee to banks in Malaysia. The mortgage guarantee is intended to cover conventional mortgages as well as Islamic mortgage loans offered by the banks in Malaysia.

## Debt Issuance

For the seventh year in a row, the Corporation was the most active corporate debt issuer in the Hong Kong dollar market. The total debt issuance by the Corporation to institutional investors under its Debt Issuance Programme was HK\$15.5 billion, a record for the HKMC. With the Corporation's strong credit ratings, its debt issues are well received by investors such as pension funds, insurance companies, investment funds, charity and government-related funds. Importantly, the prudent and cost-effective pre-funding ahead of the sub-prime mortgage crisis and global credit crunch helped the Corporation to weather the volatile market conditions and make funding available for mortgage purchase and refinancing in the second half of 2007.

Under the Retail Bond Issuance Programme, the Corporation successfully issued HK\$925 million of retail bonds, notwithstanding robust stock market sentiment and competition from RMB retail bonds.

In June 2007, the Corporation established the multi-currency US\$3 billion Medium Term Note Programme to raise funds in the international market. The programme will help to set a quasi-sovereign benchmark for Hong Kong to further promote the development of

the regional bond market. It is a flexible, efficient and cost-effective platform to broaden the investor base and funding sources for the Corporation. This paved the way for the launch of cost-effective US dollar bond issues in early 2008.

## Outlook for 2008

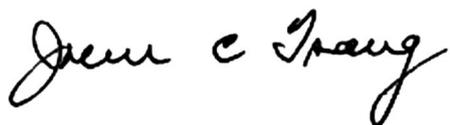
We anticipate that 2008 will be a challenging year, despite vigilant risk management on the part of the Corporation. The financial market turmoil in the United States has spread far and wide, affecting international financial markets and the global economy.

The Corporation will continue to seek opportunities to improve its product range and continue with its business diversification strategy while maintaining a strong emphasis on risk management. This will help to maintain the viability of the Corporation so it can continue to provide liquidity to local banks when necessary and meet the mortgage insurance needs of homebuyers.

As the HKMC expands overseas, it will be promoting its business model in other markets in the region and the Middle East. The Corporation will also look for opportunities to further promote its financial intermediary role with Mainland China, in particular in promoting home ownership and fostering a harmonious society. By sharing its experience and expertise, the Corporation can contribute to the development of Mainland and overseas markets and reinforce banking stability through enhanced risk management. This expansion will also enhance Hong Kong's status as an international financial centre.

I am confident the HKMC will again rise to the challenge in 2008, and meet its objectives of reinforcing banking stability and promoting home ownership and debt market development in Hong Kong.

Finally, I thank my fellow Directors, the management and all staff of the Corporation for their dedicated work in 2007. Let us look forward to another successful year in 2008.

A handwritten signature in black ink that reads "John C Tsang". The signature is written in a cursive, flowing style.

**John C Tsang**

*Chairman*