Business Overview

2007 marked an important watershed in the history of the HKMC. There was a major breakthrough when the Corporation expanded its business coverage overseas under a diversification policy endorsed by the Board. The Corporation also achieved a record profit for 2007. This strategic direction of broadening business horizon will propel the Corporation to be in an even stronger position to fulfill its core objectives of maintaining banking stability, promoting home ownership and facilitating the development of the local debt market.

Performance Highlights

In line with the strategic direction set by the Board, the Corporation progressively expanded the scope of its asset acquisition beyond residential mortgage loans and the Hong Kong market in 2007. This strategic move has helped to broaden the scope of the Corporation's businesses and maintains a scale of operation that enables it to be in an even stronger position to contribute towards maintaining banking stability, promoting home ownership and facilitating the development of the local debt market.

The major achievements of the Corporation for the year include:

- Purchasing a total of HK$9.6 billion of financial assets, including HK$3 billion of residential mortgage loans and HK$1.1 billion of non-mortgage assets in Hong Kong as well as the inaugural overseas purchase of HK$5.5 billion of Korean residential mortgage loans in the form of mortgage-backed securities.

- Providing mortgage insurance coverage for newly originated mortgage loans totalling HK$13.2 billion, achieving a market penetration of 12%.

- Issuance of HK$16.4 billion in debt securities and maintaining its position as the most active corporate issuer in the Hong Kong dollar debt market for seven consecutive years.

- Maintaining excellent asset quality, with a combined delinquency (90-day above) and rescheduled loan ratio of 0.03% for the mortgage insurance portfolio, 0.21% for the Hong Kong residential mortgage portfolio (compared to the industry average of 0.31%), and 0.14% across all asset classes.

- Achieving long-term foreign and local currency debt ratings of Aaa/AA by Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's ("S&P's") respectively – being the first and so far the only triple-A rated institution in Hong Kong.

Riding on these achievements, the Corporation had very satisfactory financial results in 2007:

- Profit after tax of HK$740.7 million, which is HK$58 million or 8.5% higher than that in 2006.

- Low funding costs from new debt issuances has helped to maintain the net interest spread at 1.0%, slightly lower than in 2006.

- Return on assets of 1.6%, the same as 2006.

- Return on shareholder's equity of 13.7%, comparable to 13.9% in 2006.

- Capital-to-assets ratio remaining strong at 11.2%, well above the minimum requirement of 5%.

- Cost-to-income ratio of 13.6%, significantly lower than the banking industry average of 40.4%.

Operational Highlights

Business Expansion Strategy

During the year, the Corporation made good progress in developing and broadening the dimension of its businesses. 2007 marked an important watershed in the history of the HKMC as the Corporation took a huge step forward in its business diversification. Pursuant to the diversification strategy endorsed by the Board of Directors in October 2006, the Corporation has proactively and prudently implemented its business expansion plan to ensure effective integration of new non-mortgage and overseas businesses with the existing lines of businesses. Apart from purchasing non-residential mortgage assets in Hong Kong, the Corporation successfully captured new opportunities of acquiring overseas mortgage assets. With its business diversification, the HKMC is better placed to maintain a viable scale of operation and market presence in order to perform its strategic role as liquidity provider to the local banking community more effectively.

Mortgage Insurance

- The Corporation continued with its drive on developing new products under the Mortgage Insurance Programme ("MIP"). In April 2007, the MIP was expanded to cover mortgage loans with a maximum loan tenor from 30 years to 40 years. The extension was warmly welcomed by participating banks and general public. It is expected that the extension would assist first-time homebuyers that prefer a lower monthly mortgage repayment amount.

- To attract borrowers who wish to borrow marginally higher than 70% loan-to-value ("LTV"), the Corporation introduced a 75% LTV product with new premium pricing arrangement in August 2007. The key attractiveness of the new product is that it enables borrowers to borrow higher than 70% LTV but with a lower premium level compared to other LTV categories.

- To further improve the utilisation of the MIP and its attractiveness, the Corporation made further enhancements to the Risk-Based Pricing Scheme ("RBPS") and Loyalty Discount Scheme ("LDS") in August 2007. For the RBPS, the maximum premium discount for a loan with an LTV ratio up to 85% is increased from 20% to 25% of gross premium. The new enhancement is extended to 90% LTV product with a maximum premium discount of 15%. With regard to the LDS, the maximum premium discount was increased from 15% to 20% for repeated MIP users with previous MIP loan(s) maintained for an aggregate of over 3 years and with punctual repayment record. The enhancements have attracted very good reaction from the general public.

- In response to market demand and with the support of the Approved Reinsurers, the Corporation announced the introduction of a non-owner occupied MIP product with a maximum LTV ratio up to 85% in December 2007. The new product catered for property buyers who wish to engage in long-term investment in property so as to derive a steady rental income stream.

- The Corporation continued with MIP training for frontline staff and credit personnel of MIP participating banks during the year. This is an integral part of a joint partnership between the Corporation and the banks to promote MIP business.

- The market penetration of the MIP was 12% for 2007.

- In general the Corporation was able to maintain a processing efficiency of 1-day turnaround time for MIP applications.

Fund-raising

- For the seventh year in a row, the Corporation was the most active corporate issuer in the Hong Kong dollar debt market.
- Issuance of a total of HK$15.5 billion of plain vanilla and structured corporate debts with tenor up to 15 years in the institutional market to support asset purchase activities and redemption of maturing debts.
- Issuance of retail bonds for a total of HK$925 million plus the first-time issuance of HIBOR-linked bonds and US dollar zero coupon bonds under the Retail Bond Issuance Programme.
- Establishment of a multi-currency US$3 Billion Medium Term Note Programme to raise funds in the international market and to broaden the Corporation's investor base and funding source. This paves the way for the launch of cost-effective US dollar debt issuance and future overseas asset acquisition.

Mortgage & Treasury Operations

- Streamlining loan portfolio management processes without compromising on internal control measures.
- Completed the integration between back-end treasury system and SWIFTNet, allowing straight-through processing of treasury transactions in an efficient and effective manner.

Market Overview

General Economic Conditions

The Hong Kong economy continued to expand at a brisk pace in 2007, with Gross Domestic Product ("GDP") rising by 6.3% in real terms over a year earlier. Although GDP growth slightly moderated in the first quarter, the economy soon regained robust momentum in the second quarter, sustaining through the end of the year. Domestic demand continued to be the key driving force in the economy. The unemployment rate edged down to 3.4% in the fourth quarter of 2007, nearly a 10-year low since the first quarter of 1998. Consumption spending kept up its momentum, boosted by the improving labour market conditions and the buoyant stock market. The number of bankruptcy cases remained relatively low in 2007 since the peak in 2002.

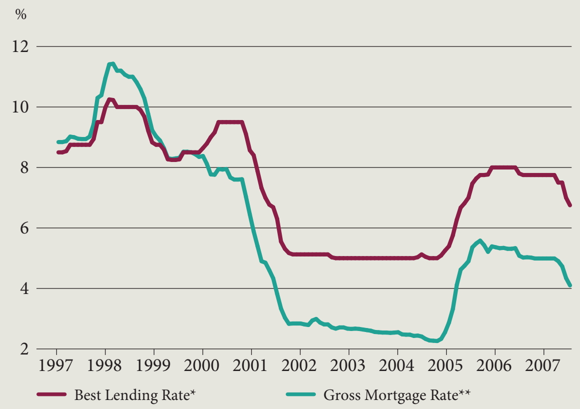
Financial services sector saw spectacular performance, supported by the robust economic upturn, while stock market activities were particularly buoyant. In the second half of 2007, the turmoil in global financial markets triggered by the US sub-prime mortgage problems worsened but had relatively limited impact on the local market and economy.

Interest Rate Environment

After stabilising at 7.75%–8% in November 2006, the Hong Kong dollar best lending rates were cut by 0.25% on four occasions to 6.75%–7% in late 2007. During the same period, the gross mortgage rate for new loans made in Hong Kong edged down from 5%–5.5% to 4%–4.5% (Figure 1). It was widely anticipated that more rate cuts would come in the first half of 2008 in light of the looming recession in the US economy.

Figure 1

Best Lending Rate and Gross Mortgage Rate



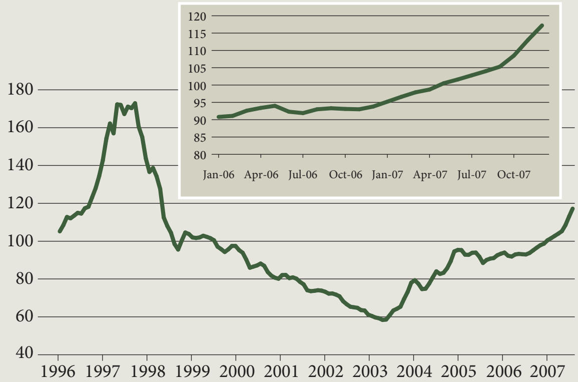
* Best lending rate refers to the rate quoted by the HSBC

** Compiled by HKMC based on HKMA statistics

Source: HKMA

Figure 2

Private Domestic Price Index (1999=100)



Source: Rating and Valuation Department

Inflationary pressures continued to build up throughout 2007 as a result of the weakening of the US dollar and the appreciation of Renminbi. Headline inflation, as measured by the Composite Consumer Price Index published by the Census and Statistics Department, accelerated in the fourth quarter with year-on-year growth rate of 3.8% by the end of 2007. The continual drop in interest rates coupled with a rising trend in inflation would soon usher in a negative interest rate environment.

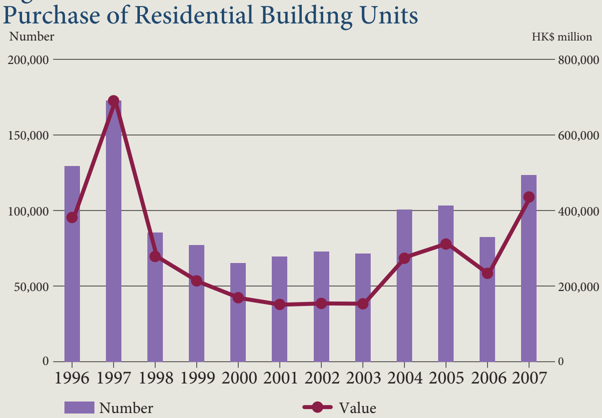
Property Market

Following a period of consolidation in 2006, the residential property market regained momentum in 2007 amidst homebuyers' improving confidence and affordability. Anticipation of further interest rate cuts and rising inflation, giving rise to the deepening of negative real interest rate, attracted more homebuyers and investors to the property market. Housing prices kept growing steadily through 2007. The Private Domestic Price Index on overall housing, published by the Rating and Valuation Department, rose by 11.5% in 2007 over a year earlier (Figure 2).

Against the buoyant market sentiment, the developers launched their new residential projects at a faster pace. Secondary market activities also picked up noticeably. As reported by the Land Registry, the volume and value of residential property transactions escalated significantly by 50% and 87% to nearly 123,600 cases and HK$434 billion respectively in 2007 over a year ago (Figure 3).

Figure 3

Agreements of Sale and Purchase of Residential Building Units



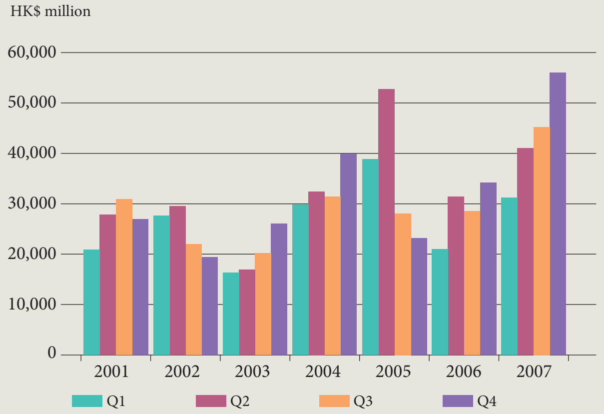
Source: Land Registry

Mortgage Market

According to the market statistics published by the HKMA, the total outstanding value of residential mortgage loans rose to HK$623 billion at the end of 2007 or grew by 4.7% over a year ago. This is the first time for the year-end growth figure to return to positive since 2002, thanks to the solid revival of the residential property market. The annual value of mortgage loan origination also surged markedly by 51% to HK$174 billion in 2007 (Figure 4).

Figure 4

New Residential Mortgage Loans Made

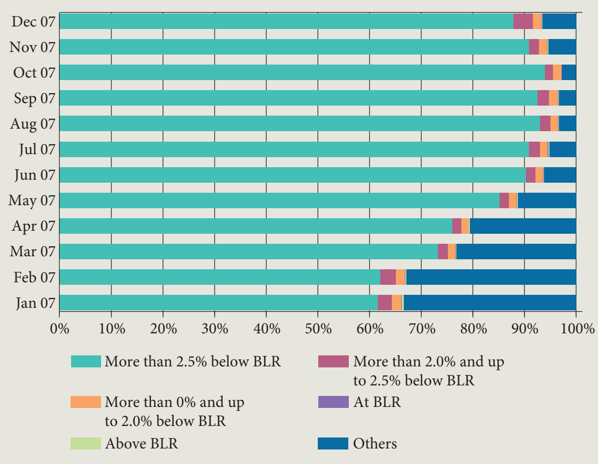


Source: HKMA

Nevertheless, banks continued to compete for new mortgage business with aggressive pricing. According to the HKMA's Monthly Residential Mortgage Survey, around 90% of the newly approved mortgage loans were priced at more than 2.5% below the best lending rate in the second half of 2007 as compared to the proportion of 60% in 2006 (Figure 5). Apart from cutting mortgage rates, a number of banks also offered HIBOR-linked or Composite Rate-based mortgage loans to attract homebuyers.

Figure 5

Pricing of New Mortgage Loans Approved in 2007



BLR: Best Lending Rate

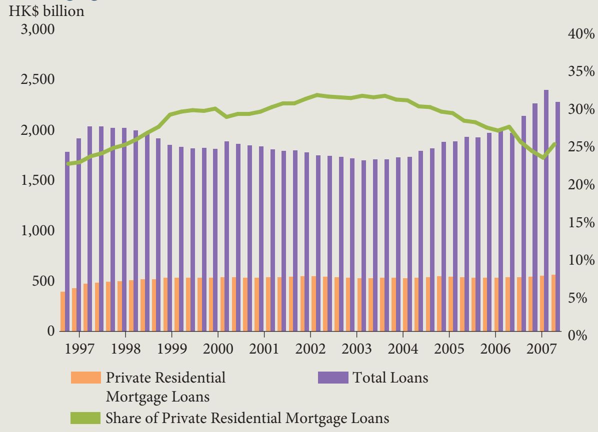
Source: HKMA

Banking Sector Exposure

For the banking sector as a whole, mortgage loans for private residential properties amounted to HK$564 billion, accounting for 24.8% of the total loans for use in Hong Kong at end-2007. Taking into account the loans for property development and investment, property-related loans amounted to HK$1,134 billion or 49.8% of the total loan book of the banks. Such high exposure to property-related lending indicates that a sharp downturn in the property market could have a significant impact on the overall stability of the banking system (Figure 6), even though most banks in Hong Kong have a strong capital base.

Figure 6

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Source: HKMA

Asset Acquisition

The Corporation acquired a total of HK$3 billion of Hong Kong mortgage loan assets in 2007. In spite of the ample liquidity in the banking sector, some banks were keen to offload assets due to the need for risk and capital management under the Basel II framework implemented in January 2007. In addition to mortgage loan purchases, the Corporation also acquired non-mortgage assets from local banks up to the tune of HK$1.1 billion.

Apart from acquiring mortgage and non-mortgage assets from the banks, the Corporation extended its seller base to include credit unions of public bodies. For example, the Metro Credit Union, the credit union for the employees of the MTR Corporation, has joined hands with the HKMC in promoting home ownership for its members through participation in the Mortgage Purchase Programme.

Going beyond the boundaries of Hong Kong, the Corporation concluded its first cross-border asset purchase of residential mortgage loans in Korea from a major mortgage originating institution in Korea. The purchase took the form of a private bilateral mortgage-backed securitisation.

The total purchase in 2007 for the Corporation as a whole amounted to HK$9.6 billion.

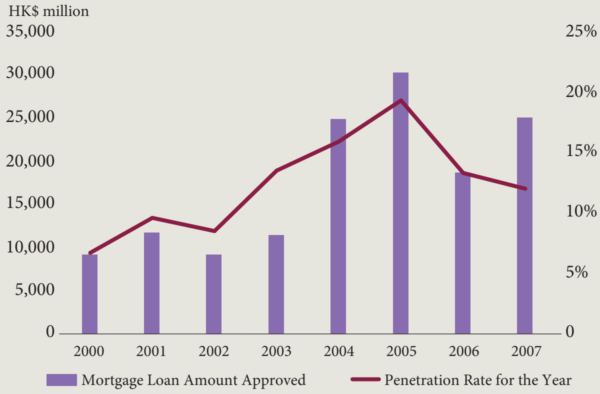
Mortgage Insurance Programme

Over the years the MIP has repeatedly demonstrated its effectiveness in assisting potential homebuyers to overcome the hurdle of requiring a substantial down payment for the purchase of a property. From the perspective of the banking industry as a whole, the programme allows the banks to engage in higher LTV lending without incurring additional credit risk and affecting the stability of the banking system. In all, the programme creates a win-win situation for both the homebuyers and the banks.

Since its inception in March 1999, the programme has gained increasing public acceptance and now plays an instrumental role in promoting home ownership in Hong Kong. For year 2007 as a whole, the Corporation received a total of 16,323 applications with an aggregate mortgage loan amount of HK$34 billion. It is notable that about 88% of MIP loans received are for secondary market properties. The volume of loans drawn down in 2007 amounted to HK$13.2 billion and the market penetration rate stood at 12% (Figure 7).

Figure 7

Mortgage Loan Amount Approved and Penetration Rate* of MIP



Source: HKMC and HKMA

$$\text{* Penetration Rate} = \frac{\text{Mortgage Loan Amount approved under MIP}}{\text{Total Mortgage Loan Amounted approved in the market based on HKMA's Monthly Residential Mortgage Survey}}$$

The Corporation took the following major steps in 2007 to introduce new MIP products:

- Extension of maximum loan tenor

  For the purpose of assisting property purchasers, especially first-time homebuyers, in reducing the monthly repayment amount, the Corporation extended the MIP to cover mortgage loans with a maximum loan tenor from 30 years to 40 years. To compensate for the higher risk for covering a longer period of exposure, the Corporation laid down a prudent set of eligibility criteria for this extension.

- 75% LTV Product

  In August 2007, the Corporation introduced a 75% LTV product with a new premium pricing arrangement. This product represents an attraction to borrowers who would wish to borrow marginally higher than 70% LTV with lower premium rates. The improved downpayment position and expected shorter coverage period as compared with the 80% LTV product combined to lead to a lower set of premium rates for this product.

- Premium Discount Schemes

  The Corporation maintains an in-house credit scoring model as a tool for measuring the relative credit standing of MIP borrowers. The model makes use of credit differentiation to streamline the underwriting process and represents a first step in the implementation of a RBPS with premium discounts. The initial launch of RBPS and LDS in May 2006 received very good responses from participating banks and homebuyers and the Corporation made certain enhancements in August 2007.

  While the Corporation was able to introduce improvement to the two schemes in 2007, the Corporation still lacked access to credit information such as in the industry's consumer credit database in order to be in a position to make better credit assessment in a risk-based pricing framework.

  For the RBPS, the maximum premium discount for a loan with LTV ratio up to 85% was increased from 20% to 25% of gross premium. The new enhancement was also extended to 90% LTV product with a maximum premium discount of 15%. With regard to the LDS, the maximum premium discount was increased from 15% to 20% for those repeated MIP users with previous MIP loan(s) maintained for an aggregate of over 3 years and with punctual repayment record. In all, borrowers can attain a combined maximum discount rate up to 45% of gross premium under the two schemes.

- Non-owner Occupied Properties

  The increasing popularity of the MIP was achieved primarily through continuous innovation and enhancement of the eligibility criteria in catering for changes in market demand. The Corporation has always adopted a proactive and yet prudent approach in the development of new products over the past nine years. In response to market demand, and after thorough discussions with the Approved Reinsurers and the participating banks, the Corporation announced the introduction of a non-owner occupied product with a maximum LTV ratio up to 85% in December 2007. Additional eligibility criteria and restrictions have been put in place to deter the use of this new product for speculative purposes.

Mortgage insurance on non-owner occupied residential properties is available in overseas countries. The introduction of this new product in Hong Kong is welcomed by those property buyers who wish to engage in a long-term property investment with a steady rental income stream. This new enhancement to the MIP is in tune with the development of the mortgage market in Hong Kong and provides a wider choice to potential property buyers.

- Training and Marketing

  The Corporation has always kept participating banks closely informed of all new developments under the MIP and sought their feedback prior to launch. We have also proactively invited banks and other market players such as estate agents and referral companies to send their staff to attend seminars organised by the Corporation. These seminars serve the purpose of providing thorough training on product features and eligibility criteria so that the attendees are sufficiently equipped to expound the details of various MIP products to their customers.

Strategic Positioning

On the instruction of the Board of Directors, the Corporation commissioned a consultancy firm in late 2006 to conduct a strategic review of the Corporation's businesses with the aim of assisting the Corporation in developing a long-term vision and business direction for the future. The consultancy firm concluded that there is an ongoing need for the HKMC to be a liquidity provider to the banking system to contribute to banking and financial stability. The Corporation will have a critical role to perform – in adverse circumstances rather than in "fair weather".

The Board accepted the assessment that without substantial asset acquisition by the Corporation, there would be little room for the Corporation to remain a viable entity and continue to provide liquidity to banks when needed and to promote home ownership and debt market development. The Corporation needed to expand its business horizon in light of changes in market conditions. After the Board's endorsement of the consultant's recommendations on the strategic positioning and future development of the Corporation's businesses, the Corporation embarked on the course of broadening its businesses through exploring the purchase of non-mortgage assets in Hong Kong and expanding its businesses activities in other countries. The steps taken by the Corporation have begun to bear fruit with overseas acquisitions and business partnerships materialising in the latter half of the year. This move has enabled the Corporation to be financially more robust and attain a better diversification in its business areas. Going forward, the Corporation is well poised to capture business opportunities coming its way and assist in the development of secondary mortgage markets in the region.

Regional And China Involvement

Over the last decade, the HKMC has built up a strong reputation as a premier mortgage corporation in Asia. The Corporation has been sharing its know-how with various mortgage corporations and financial institutions in the Asian region in areas such as development of a secondary mortgage market, mortgage-backed securitisation, mortgage insurance, mortgage guarantee, business operations and process management. At the same time, the Corporation has been approached by various renowned financial institutions outside of Hong Kong to explore potential business opportunities. Such business opportunities entail extensive research and analysis of the market conditions, regulatory framework and risk management practices of mortgage lenders in those overseas markets. With the solid experience accumulated from mortgage purchase and mortgage insurance, the Corporation is in a very good position to utilise its expertise in a meaningful manner.

Through the sharing of the Corporation's experience in operating a successful mortgage corporation business model, a good rapport has been established with the relevant mortgage financing institutions in the Asian region. The fruitful interactions have sown the seeds for future business cooperation between the Corporation and these regional bodies, including consultancy opportunities and business partnership. The Corporation was appointed by the China Development Bank as a consultant in a project funded by the World Bank to study the development of the housing finance market in Mainland China, in particular for the low-to-medium income sector. This consultancy studied the market conditions, operations, risk profile and legal framework of the property and mortgage markets as well as the securitisation market in the PRC. Our study was widely circulated amongst the various government agencies in China and aroused considerable interests in the mortgage insurance or guarantee business in the Mainland.

Overseas Joint Venture Cooperation

In December 2007, the HKMC reached an agreement with Cagamas Berhad ("Cagamas"), the mortgage corporation of Malaysia, on the establishment of a joint venture company ("JV") for the purpose of developing mortgage guarantee business in Malaysia and other countries, including the Islamic markets in particular. The strategic partnership between the two mortgage corporations created a win-win situation that would capitalise on the HKMC's expertise and track record in pioneering mortgage insurance business in Hong Kong and Cagamas' knowledge of the Malaysian and Islamic financing markets. The JV is expected to commence operation in 2008 with the launch of a mortgage guarantee programme in Malaysia to provide guarantee coverage to mortgage loan originators for both conventional and Shariah-compliant mortgages. This is a first step and once the operations in Malaysia are up and running, a similar business model could be introduced and adapted to other Islamic countries in the Middle East.

Funding

The Hong Kong dollar market experienced many challenges and volatilities in 2007. The market had good liquidity initially, but became clouded with uncertainties owing to the US sub-prime mortgage crisis and global credit crunch. The Corporation's timely and cost-effective pre-funding strategy ahead of the sub-prime mortgage crisis helped the HKMC weather the volatile market conditions by making funding available for mortgage purchase and refinancing. Moreover, the Corporation adopted pro-active investor communication to strengthen relationship with core local and regional investors. Attributable to the investors' flight-to-quality investment approach amid uncertain market conditions, the Corporation has continued to be the most active Hong Kong Dollar corporate issuer for the seventh year. In 2007, our 57 debt issues for a total amount of HK$16.4 billion financed our loan purchase activities and redemption of maturing debts. At the end of 2007, the Corporation had a total outstanding debt amounting to HK$33.3 billion.

The HKMC is committed to developing the local and regional debt market through regular debt issuance as well as introduction of new debt products. As one of Hong Kong's most active bond issuers, the HKMC will continue to issue debts in both local institutional and retail markets, and start to issue corporate debts in overseas institutional markets. This will not only help to broaden the Corporation's funding base, but also provide institutional and retail investors with high quality debt instruments to satisfy their need for portfolio diversification and yield enhancement.

The Corporation has three debt issuance programmes which allow the issuance of debt securities in an efficient and effective manner. With the HKMC as the first and so far the only triple-A rated institution in Hong Kong, its debt issues are well received by the investing community such as pension funds, insurance companies, investment funds, charity and government-related funds as well as retail investors.

Debt Issuance Programme

The Debt Issuance Programme ("DIP") is the HKMC's major platform for raising Hong Kong dollar funds. The DIP was established in July 1998, targeting institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion which was subsequently increased to HK$40 billion in 2003. The DIP provides a flexible and efficient platform for the Corporation to issue debts and transferable loan certificates with tenor up to 15 years. Apart from plain vanilla debts, the HKMC also issued high quality structured products to meet investor demand. A total of 6 primary dealers and 15 selling group members appointed under the DIP provided wide distribution channel for both public and private debt issues.

During 2007, the Corporation drew down altogether 56 DIP debt issues for a total amount of HK$15.5 billion. At the end of 2007, the total outstanding amount of DIP debt securities was HK$28.6 billion.

Retail Bond Issuance Programme

The Corporation successfully pioneered a new offering mechanism for the retail bond market in Hong Kong in November 2001. To further spur the solid development of the retail bond market, the Corporation established a HK$20 Billion Retail Bond Issuance Programme ("RBIP") and made a debut issue in June 2004. Under this programme, banks acting as Placing Banks use their retail branch networks, telephone and electronic banking facilities to place debt securities issued by the Corporation to retail investors. To ensure the liquidity of such retail bonds, the Placing Banks for our retail bonds have committed to making firm bid prices for the bonds in the secondary market.

The retail bond issue launched by the Corporation in 2007 attracted participation by 17 Placing Banks. The Placing Banks together constituted a network of as many as 850 branches to accept retail investors' applications. An aggregate amount of HK$925 million was raised through two Hong Kong dollar tranches and two US dollar tranches in this issue. In light of the growing interest of investors in wealth management, the HKMC continued with its product innovation to introduce the first US dollar zero coupon bonds in the Hong Kong retail bond market and launched its first Hong Kong dollar HIBOR-linked retail bond. The retail bond issue has brought the total amount of HKMC's retail bond issuance to HK$13.2 billion since 2001. At the end of 2007, the total outstanding amount of retail bonds issued by the Corporation stood at HK$4.7 billion.

Medium Term Note Programme

The Corporation established a multi-currency US$3 Billion Medium Term Note Programme ("MTN") in June 2007 to raise funds in the international market and to broaden its investor base and funding sources. The MTN helps to set a quasi-sovereign benchmark for Hong Kong to further promote the development of the regional bond market. The multi-currency feature of the programme enables the Corporation to issue notes in major currencies including the Hong Kong dollar, US dollar, euro and yen to meet the demands of both domestic and overseas investors. The programme also incorporates flexible product features and offering mechanisms that allow public issues as well as private placements, which will increase its appeal to investors with different investment horizons and requirements. An extensive dealer group comprising 10 major international and regional financial institutions has been appointed to support future MTN issuance and provide secondary market liquidity.

The HKMC started to issue cost-effective US dollar debts under the MTN in early 2008. With the global credit crunch that increases investors' demand for high-quality regional investments, the HKMC's MTN issues are popular among regional government entities, pension funds, insurance companies and investment funds due to the Corporation's top credit rating and strong financial performance.

Credit Ratings

The Corporation's ability to attract investors to invest in our debt securities is underpinned by strong credit ratings accorded by Moody's and S&P's.

On 26 July 2007, Moody's upgraded the HKMC's long-term foreign currency debt rating from "Aa1" to "Aaa" with stable outlook, following its upgrade of Hong Kong SAR Government.

On the same day, along with the revision to the outlook on the sovereign rating of Hong Kong, S&P's revised its outlook on the long-term local and foreign currency ratings of the Corporation from "Stable" to "Positive".

Credit Ratings of the HKMC	Moody's		Standard & Poor's	
	Short-term	Long-term	Short-term	Long-term
Local Currency (Outlook)	P-1	Aaa (Stable)	A-1+	AA (Positive)
Foreign Currency (Outlook)	P-1	Aa1 (*) (Positive)	A-1+	AA (Positive)

(*) Long-term foreign currency debt rating assigned by Moody's is "Aaa".

The credit rating agencies have made very positive comments on the credit standing of the HKMC. The following comments are extracts from their credit rating reports after the annual surveillance conducted by the credit rating agencies in May 2007:

Moody's

"There is a strong intrinsic economic relationship between HKMC and the HKSAR Government, given the company's status as an important mortgage product provider and the importance of land and property in the Hong Kong economy and Government budget."

"HKMC's asset-liability management is well developed within the constraints of the local markets in terms of the availability of tools and long-term funding. Its ability to assess and manage risk has resulted in levels well within the Corporation's own guidelines and, in some cases, superior to some of its larger international peers."

"Over years, HKMC had demonstrated a strong ability to secure funding, even when liquidity in the system shrank during unexpected circumstances thanks to special exemptions or privileges for its securities and its strong fundamentals."

"HKMC adopted a Corporate Governance Code that is benchmarked against the Code on Corporate Governance Practices issued by The Stock Exchange of Hong Kong Ltd for listed companies and the Hong Kong Insurance Authority's corporate governance guidelines so as to ensure staff adheres to the best practices in corporate governance. Moody's is confident that HKMC will continue to function at the highest possible international standard."

S&P's

"The ratings on HKMC reflect the corporation's strong standalone credit quality, which is further enhanced by direct and indirect support from its owner, the government of the HKSAR, and the likelihood of additional government support, if required."

"The ratings reflect HKMC's solid capital base, low credit risk, well-managed liquidity, and strong financial flexibility."

"HKMC's liquidity is strong... The Corporation maintains a reasonably high level of liquid assets in the form of marketable debt securities, cash and bank deposits maturing within 12 months, which provides a liquidity fallback."

"Outlook: The stable outlook reflects the likelihood that HKMC's strong financial profile and implicit support from the government of the HKSAR will continue to bolster its credit profile."

Mortgage-backed Securitisation

The Corporation has established two mortgage-backed securitisation programmes for issuance of MBS in an efficient and effective manner. These two programmes, the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme and the Bauhinia Mortgage-Backed Securitisation Programme, were the first-ever securitisation programmes set up in the Hong Kong debt market.

MBS are powerful financial instruments that can channel long-term funding from the debt market to supplement the need for the long-term financing generated by mortgage loans. Banks and financial institutions can make use of MBS to manage risks inherent in mortgage loans such as credit, liquidity, interest rate and asset liability maturity mismatch. A deep and liquid MBS market can help to enhance the development of an efficient secondary mortgage market and further promote Hong Kong as an international financial centre.

The Corporation made no MBS issuance in 2007 due to a fall in investor demand following the sub-prime mortgage loan crisis in the United States.

Guaranteed Mortgage-backed Pass-through Securitisation Programme

This first MBS securitisation programme of the HKMC was established in October 1999 and targeted banks that did not just want to offload mortgage loans but also wished to enjoy the benefits of holding MBS guaranteed by the HKMC.

The back-to-back structure under this programme allows the HKMC to acquire mortgage loans from a bank and then sell the mortgage loans directly to a bankruptcy remote special purpose entity ("SPE"). The SPE in turn issues MBS to the bank as investor of the security. Through this back-to-back exercise, the bank can convert illiquid mortgage loans into liquid MBS. Furthermore, as far as capital adequacy requirement is concerned, the MBS guaranteed by the HKMC are assigned a 20% risk asset weighting under the Banking (Capital) Rules as opposed to 35%-100% for mortgage loans, thereby allowing the banks to utilise their capital more efficiently. Since the inception of the programme, four series of MBS for a total amount of HK$2.8 billion have been issued.

Bauhinia Mortgage-backed Securitisation Programme

The Bauhinia Mortgage-Backed Securitisation Programme established in December 2001 is a US$3 billion multi-currency mortgage-backed securitisation programme. The programme provides a convenient, flexible and cost-efficient platform to the HKMC for the issuance of MBS with various product structures, credit enhancement and distribution methods. MBS issued under the Bauhinia Mortgage-Backed Securitisation Programme have the trading and settlement characteristics of a eurobond. Trading of the MBS in the secondary market is therefore made more convenient and efficient.

Since the inception of the Bauhinia Mortgage-Backed Securitisation Programme, the Corporation has successfully securitised HK$10.4 billion of mortgage loans through five public issues and one private placement issue. The debut Bauhinia MBS issue with a size of HK$2 billion was done in March 2002. The second issue of HK$3 billion done in November 2003 was the largest ever Hong Kong dollar denominated residential MBS. The third public issue of HK$2 billion, split into two portions for institutional and retail investors respectively, was done in November 2004. This was the first time in the whole of Asia that retail investors were given the opportunity to invest in MBS. The fourth MBS issue of HK$1 billion was done in November 2005. The fifth public issue of HK$2 billion, split into three senior tranches rated "Aaa/AAA" and one subordinated tranche rated "Aaa/AA", was done in November 2006. This was the first-ever partially guaranteed MBS under the Bauhinia Programme.

Risk Management

Prudent risk management is one of the most, if not the most, fundamental cornerstone of the HKMC's operations. It is a crucial factor in sustaining the continuous growth in corporate earnings and profits. Over the years, the Corporation has made continuous refinements and has managed to establish a robust and time-tested risk management framework. The five major risk areas facing the HKMC comprise credit risk, interest rate risk, liquidity risk, currency risk and operational risk.

(a) Credit Risk

Credit risk is the primary risk exposure for the HKMC. It represents the risk of default of loan borrowers or other counterparties and that amounts owed cannot be fully recovered.

The credit quality of the Corporation's retained asset portfolio has all along remained consistently outstanding, even with the steady growth in the size of the portfolio over the past few years. The delinquency ratio (90-day above) for the Hong Kong retained residential mortgage portfolio as a whole was 0.13% as at December 2007, compared with 0.23% as at December 2006 and 0.22% as of December 2005. If rescheduled loans are included, the combined ratio of 0.21% compared favourably with the combined ratio of 0.31% for the banking industry as a whole. This bears testimony to our strong emphasis on combining loan growth with prudent risk management. As far as overseas assets are concerned, as at 31 December 2007 there was no loan delinquency of over 90 days in the portfolio.

The above track record is very important in light of the US sub-prime crisis and the ensuing fallout that affected the perception of the credit-worthiness of mortgage loan borrowers on a global basis. The HKMC has always placed strong emphasis in critically analysing the loan portfolios to be purchased and risk-mitigating measures are being tailored for each individual portfolio to ensure that its credit quality can be upheld.

At the heart of the credit risk management framework are two committees, the Credit Committee and the Transaction Approval Committee.

Credit Committee

The Credit Committee is vested with the task of setting the Corporation's overall credit policies and standards, notably for asset acquisition and mortgage insurance, which are benchmarked against those adopted by the banking and insurance industries. The Committee makes recommendations to the Board for the approval of such policies as appropriate. It oversees the exercise of approval authority to accept applications to become Approved Sellers/Servicers for sale and servicing of financial assets and Approved Reinsurers under the MIP, the setting and monitoring of risk exposure limits for business counterparties and the making of recommendations to Senior Management on appropriate follow-up actions.

Transaction Approval Committee

The Transaction Approval Committee is responsible for assessing the credit risks and the terms and conditions for new products under the areas of asset acquisition, mortgage insurance and MBS, taking into consideration the latest market conditions and business strategies. The Committee also conducts in-depth analyses of potential transactions for internal approval, prior to their submission to Executive Director for authorisation where necessary.

Both Committees are chaired by the Chief Executive Officer ("CEO") and its members include the Senior Vice President (Operations), the Senior Vice President (Finance), the General Counsel and senior staff of the Operations Division and the Finance Division.

To address credit risk effectively, the Corporation adheres to a four-pronged approach to maintain the quality of its asset and MIP portfolios:

- Careful selection of Approved Sellers/Servicers.
- Prudent asset purchasing criteria and insurance eligibility criteria.
- Effective due diligence review process.
- Adequate protection for higher-risk mortgages or transactions.

Careful Selection of Approved Sellers/Servicers

The HKMC conducts a detailed due diligence assessment of a potential asset seller or servicer prior to its appointment as an Approved Seller/Servicer. The assessment covers a broad range of credit-related matters, focusing primarily on the seller/servicer's underwriting policies, historical delinquency experiences and asset servicing capabilities. Once approved, the Approved Seller/Servicer is subject to periodic reviews.

Prudent Asset Purchasing and Insurance Eligibility Criteria

The HKMC adopts prudent asset purchasing criteria for its asset acquisition. The obligors' repayment ability is also carefully evaluated by using key indicators such as debt-to-income ratio and exposure to outside debts. Other relevant criteria are in line with best market practices adopted by the banking industry. In the expansion of the Asset Purchase Programme to overseas markets, the Corporation conducts comprehensive assessment on the underlying mortgage and property market environment and makes reference to the best practices adopted by the local banking industry in its asset purchasing criteria. For mortgage insurance, prudent eligibility criteria and underwriting guidelines are implemented strictly in line with the agreement reached with the Approved Reinsurers on different MIP products.

Effective Due Diligence Process

As an integral part of the risk management framework, the HKMC conducts due diligence review on a sample of assets to be acquired or acquired both before and after their acquisition to ensure compliance with the Corporation's asset purchasing criteria.

Adequate Protection for Higher-risk Products/ Transactions

For products/transactions involving a higher degree of credit risk, the HKMC has established credit enhancement arrangements such as repurchase warranties, subordination protection or reserve funds in order to mitigate the additional credit risk associated with these products/transactions.

(b) Interest Rate Risk

Net interest income is the predominant source of the Corporation's earnings. It represents the excess of interest income from the HKMC's mortgage assets, non-mortgage assets, cash and debt investments over its interest expenses on short and long-term borrowings. Interest rate risk arises when changes in market interest rates affect the income and expenses derived from the asset-liability portfolio.

The primary objective of interest rate management is therefore to limit the potential adverse effects arising from interest rate movements on interest income/expenses and, at the same time, achieve a stable growth in earnings. The interest rate risks faced by the Corporation are threefold.

Interest Rate Mismatch Risk

Interest rate mismatch risk is the most significant type of interest rate risk affecting the HKMC's net interest income. It arises mainly as a result of the differences in the timing of interest rate re-pricing for the Corporation's interest-earning assets and interest-bearing liabilities. Interest rate mismatch risk is most evident in the loan portfolio where the majority of the loans are floating-rate loans benchmarked against the Prime rate, Hong Kong Interbank Offered Rate ("HIBOR") or Composite Interest Rate ("C-rate"), whilst the majority of our liabilities are fixed-rate debt securities.

The Corporation makes prudent use of a range of financial instruments such as interest rate swaps, interest rate swaptions, basis swaps, forward rate agreements and the issuance of MBS to manage the interest rate mismatch risk. The proceeds of the fixed-rate debt securities are generally swapped into HIBOR-based funds via interest rate swaps.

Through the use of such swaps, interest expenses arising from the issuance of debt securities will be changed from a fixed-rate basis to a floating-rate basis in order to better match the floating-rate income from the mortgage assets.

The Corporation also makes use of duration gap as an indicator to monitor and manage interest rate mismatch risk. Duration gap measures the difference in interest rate re-pricing intervals between assets and liabilities. The wider the duration gap, the higher is the interest rate mismatch risk, and vice versa. A positive duration gap means that the duration of assets is longer than that of the liabilities and represents a greater risk exposure to rising interest rates. On the other hand, a negative duration gap indicates a greater risk exposure to declining interest rates. Depending on the prevailing interest rate outlook and market conditions, the Corporation proactively re-balances the duration gap of its asset-liability portfolio under the guidance and supervision of the Asset and Liability Committee ("ALCO"). A cap of three months for the duration gap has been set by ALCO to limit the interest rate mismatch risk. In 2007, the average duration gap has been kept within one month, indicating that the Corporation is handling interest rate mismatch risk in a very prudent manner.

Basis Risk

Basis risk represents the difference in basis of the Corporation's interest-earning assets that are Prime-based and interest-bearing liabilities that are HIBOR-based. There are limited financial instruments currently available in the market to hedge the Prime-HIBOR basis risk fully. In general, basis risk can only be effectively addressed when mortgage assets and non-mortgage assets are based on HIBOR to match the funding base or when related risk management instruments become more prevalent or economical. Over the past few years, the Corporation has consciously adopted the strategy of acquiring more HIBOR-based assets and as at the end of 2007, about 70% of the Corporation's mortgage assets and non-mortgage assets are HIBOR-based loans. As a result, the Prime-HIBOR basis risk for the Corporation has been substantially reduced. In addition, the issuance of Prime-based MBS and the use of hedging derivatives have also been deployed to mitigate the basis risk of the Prime-based portion of the Corporation's loan portfolio.

Maturity Mismatch Risk

While the contractual maturity of a mortgage loan can go up to 30 years, the average life of a portfolio of mortgage loans is in reality much shorter. The average life will depend on the speed of scheduled mortgage repayments and unscheduled prepayments. Higher prepayment rates will shorten the average life of a portfolio of mortgage loans. In Hong Kong, prepayment occurs for two main reasons: (i) housing turnover-borrowers repaying their mortgages upon the sale of the underlying property; and (ii) refinancing-borrowers refinancing their mortgage loans to obtain lower mortgage rates.

The maturity mismatch risk can be more specifically analysed as reinvestment risk and refinancing risk. Reinvestment risk refers to the risk of a lower return from the reinvestment of proceeds received by the Corporation (from prepayment and repayment of mortgage loans). Refinancing risk, on the other hand, is the risk of refinancing liabilities at a higher level of interest rate. The Corporation is exposed to refinancing risk when it uses short-term liabilities to finance long-term mortgage assets.

Reinvestment risk is managed through the ongoing purchases of new mortgage loans to replenish the repaid mortgages in the retained portfolio and the investment of surplus cash in debt securities or cash deposits to fine-tune the average life of the overall pool of assets.

Refinancing risk is managed through the issuance of callable bonds and transferable loan certificates. The call option included in callable bonds and transferable loan certificates will allow the Corporation to adjust the average life of its liabilities to match more closely that of the overall pool of assets. In this regard, the Corporation has the flexibility of issuing debt securities on a broad spectrum of maturities ranging from 3 months to 15 years. This will again serve to adjust the average life of the overall liability portfolio in a dynamic fashion. In addition, refinancing risk can be mitigated by adjusting the maturities of assets in the investment portfolio and off-loading mortgage assets through securitisation of mortgage loans as MBS.

(c) Liquidity Risk

Liquidity risk represents the risk of the Corporation not being able to repay its obligations (such as redemption of debt issuance) or to fund committed purchases of mortgage loans. Liquidity risk is managed through monitoring the actual inflow and outflow of funds on a daily basis and projecting longer-term inflows and outflows of funds across a full maturity spectrum.

The Corporation has successfully established well-diversified funding sources to support the growth of its business and the maintenance of a well-balanced portfolio of liabilities. The diversification allows us to pursue a strategy of funding business activities at the lowest possible cost whilst at the same time offering safeguards against the inability to raise funds in unfavourable market conditions. The funding sources currently comprise:

(i) Shareholders' Capital: authorised capital of HK$3 billion, of which HK$2 billion is fully paid up. Accumulated shareholders' funds amounted to HK$5.6 billion as at 31 December 2007.

(ii) HK$40 Billion Debt Issuance Programme: there are 6 Primary Dealers and 15 Selling Group Members which will underwrite and distribute debts to institutional investors under the DIP. The Transferable Loan Certificate Sub-Programme under the DIP provides a further diversification of funding sources and broadening of investor base.

(iii) HK$20 Billion Retail Bond Issuance Programme: this debt issuance programme has 19 Placing Banks which will assist in offering retail bonds to investors.

(iv) US$3 Billion Medium Term Note Programme: there are 10 Dealers which will underwrite and distribute local and foreign currency debts to the international institutional investors under the MTN.

(v) US$3 Billion Bauhinia Mortgage-Backed Securitisation Programme: with a total of 8 Dealers, this multi-currency mortgage-backed securitisation programme permits the HKMC to originate MBS in the local and international markets.

(vi) Cash and Debt Investment Portfolio: the Portfolio comprises cash and bank deposits, commercial papers, high-quality certificates of deposit, notes and MBS that can be readily converted into cash.

(vii) HK$10 Billion Revolving Credit Facility: this is a commitment from the Exchange Fund to provide the Corporation with HK$10 billion in revolving credit.

(viii) Money Market Lines: the Corporation has procured money market lines from a large number of local and international banks for short-term financing.

(d) Currency Risk

Currency risk represents the impact of fluctuations in foreign exchange rates on the company's financial position and cash flows denominated in foreign currency. The Corporation manages its currency risk in strict accordance with the investment guidelines approved by the Board of Directors and under the supervision of ALCO which sets daily monitoring limits on currency exposure. So far, the Corporation has limited its foreign currency exposure to US dollar only.

Asset and Liability Committee

ALCO is established with the CEO as Chairman, the Senior Vice President (Finance), the Senior Vice President (Operations), and senior staff of Treasury, Financial Control and Credit Approval and Risk Management Departments as members. ALCO performs the important task of managing the Corporation's asset-liability portfolio based on prudent risk management principles. Strategies on interest rate risk management, financing, hedging, investments are formulated by the Committee. A regular meeting is held to review the latest conditions in the financial markets and the asset-liability portfolio mix.

ALCO oversees the implementation of risk management and investment guidelines approved by the Board of Directors. The Treasury Department is responsible for monitoring financial market movements and executing transactions in the cash, derivatives and debt markets in accordance with the strategies laid down by ALCO. The Financial Control Department assumes a middle office role and monitors the compliance of counterparty and transactions risk limits.

(e) Operational Risk

Operational risk represents the risk of inadequacies or failure of internal processes/systems or interruptions from external activities which lead to potential losses for the Corporation. The Corporation actively manages operational risk by maintaining a comprehensive system with well established internal controls and procedures. To ensure adequate compliance, the Corporation's core operating systems and processes are subject to regular audit and review by both internal and external auditors.

To reduce potential human errors, the HKMC applies extensive technology solutions with robust business logics and controls to its operational activities and processes. The Corporation has also established a comprehensive disaster recovery plan and business continuity plan, including the establishment of an offsite back-up and disaster recovery centre, to ensure that its information technology ("IT") systems can continue operating even in the event of a core system's failure or other unexpected major disruptions. To cater for a contingency situation that restricts staff access to the office, arrangements have also been made for certain staff members to work from home to help maintain the operations of the Corporation. These well-tested operational risk mitigation measures are in place to strengthen its operational infrastructure with greater resilience and operational robustness and efficiency.

For the launch of new products in different business areas, operating infrastructure will be put in place to support asset acquisition, mortgage insurance, treasury operations, bond issuance and securitisation. The Corporation will always undertake a rigorous review process to identify any possible operational risks before the implementation of operating and system infrastructure.

The Corporation completed a number of initiatives in 2007 to further strengthen the operational framework as follows:

(i) Implementation of a centralised user access control module on all critical internal and business operations systems in order to further strengthen information security.

(ii) Upgrade of the digital signing infrastructure to state-of-the-art Java technology to ensure that the highest standard of online security and scalability in client distribution are adopted for the core communication platform between the Corporation and our business partners – the Integrated Information Delivery System (IIDS).

(iii) Completion of the initial phase of system migration of SWIFTNet to the new platform to promote better security by Public Key Infrastructure and scalability on interfacing with different SWIFT services.

(iv) Completion of enhancement in the securitisation system to support the credit enhancement features for the issuance of mortgage-backed securities.

Process Management and Information Technology

A well-tested operational framework supported by robust and innovative business processes, systems automation and control are the key to ensure efficiency and effectiveness in the Corporation's daily operations. Since inception, the Corporation has continuously devoted resources and attention in developing and upgrading its business operations and application systems.

In line with the strategy direction of the Corporation, resources have been devoted to develop the operations and system infrastructure to support its business expansion outside of Hong Kong. The Corporation has completed a feasibility study to enhance its core operation systems to support multi-currency application. The treasury system has also been upgraded to support various financial products such as USD zero coupon bonds, HKD extendable range accrual notes, USD callable range accrual notes, debt issuance and ancillary hedging under the Medium Term Note Programme, floating-rate notes and amortised cross currency swaps.

On the asset acquisition front, a new monitoring concept has been formulated to manage mortgage assets acquired from overseas markets. To support this new monitoring framework, the initial phase of development of a Portfolio Information Processing System ("PIPS") was completed in December 2007. Going forward, in 2008 the Corporation will continue to devote efforts and resources to further enhance this monitoring framework to cater for deal-specific or market-specific needs.

A dedicated task force has been formed to work with our new joint venture strategic partner, Cagamas Berhad, to set up the business operations and system infrastructure to support mortgage guarantee business in Malaysia.

Utilising our know-how and expertise on document imaging and paperless operations adopted for MIP operations, the Corporation has completed a feasibility study to extend its usage to streamline treasury operations in order to cope with the anticipated increase in volume and sophistication. This automation on indexing, filing and retrieval of vast amount of paper documents received from counterparts should provide a reliable platform for timely settlement and operational risk control. It also provides the added benefit of unifying the filing and retrieval process of the straight-through-processing of trade confirmations, securities settlement and payment authentication. A scaleable design will be adopted to this new document imaging module to enable its further usage to other business areas. The protocol concept will be applied into the design so that any system can interface with the imaging module once certain standards are complied with. System development and implementation are expected to be completed in 2008.

To optimise processing efficiency and security, the Corporation has completed the platform upgrade for two of our most important business operation systems: the IIDS and the Mortgage Insurance Processing System ("MIPS"). The Corporation has also completed the upgrade of its email system, the enhancement of network resilience as well as the upgrade of network equipment. These upgrades are essential to further strengthening our ability to protect the Corporation's systems from external hacking attacks.

Business Continuity Plan

To further strengthen the resilience of business operations to cope with unexpected disruption, the Corporation kick-started a Business Continuity Plan ("BCP") review in late 2007 to further integrate the corporate-wide BCP. The BCP of respective business units will be further integrated with standardisation on coverage, classification and recovery of disaster scenarios. This initiative enables a top-down approach on the implementation and execution of the BCP, which in turn, improves the efficiency on execution and operability between different business units in case of disruption.

Corporate Social Responsibility

As a socially responsible organisation, the Corporation cares for both its staff and the community. The HKMC has underlined its commitment to corporate social responsibility by its caring for employees' well-being, staff's involvement in charity and its measures in environmental protection.

Care for Employees

Staffing and Remuneration

As the HKMC promotes the development of the secondary mortgage market, it attracts and also trains up professionals with expertise in its key business areas of mortgage purchase, mortgage insurance and debt issuance. The HKMC provides employees with appropriate remuneration, staff benefits, development opportunities, a healthy and safe work place. The Corporation also adopts family friendly practices by offering a five-day week which has considerably improved employees' balanced life of work, and by providing comprehensive insurance on medical and dental which covers the employees and their family members.

Through system automation and process re-engineering, the Corporation maintains a lean and efficient workforce, notwithstanding the increase in the scope of purchase and the complexity of the products offered by the Corporation. The permanent establishment was 126 in 2007.

The Corporation continued to experience a high staff turnover rate of 25.2% in 2007, covering staff of all ranks in the Corporation.

Training and Development

The HKMC devotes considerable training resources to equip its staff with professional knowledge and skills. During the year, the HKMC arranged both in-house and external courses to improve the managerial and technical skills of the staff. Courses were offered to cover mortgage-related issues, credit management, risk management, corporate governance, information technology and management skills. Structured communication workshops and practical Putonghua lessons were also arranged. In addition, new staff attended an induction programme which gave them an overview of the Corporation's operations as well as their own area of work.

Putonghua Lesson

Health and Safety

As a caring employer, the HKMC continued to look after the health and emotional well-being of its staff. An Employee Support Programme was in place to provide confidential external counseling and consultation services to the employees and their family members. Health seminars were also organised from time to time to promote employees' awareness of health.

During the year, the HKMC stepped up efforts to review and strengthen its contingency plans to prepare for and respond to a possible outbreak of pandemic influenza including a split-team arrangement, to prevent the spread of communicable diseases among the employees and to minimise unexpected or sudden disruptions to business operations. Periodic drills were organised for staff to be conversant with the activation of the back-up facilities, the contingency plans and communication arrangements in case of emergency. A vaccination programme at special rates for prevention of influenza was also arranged for employees.

Employee Relations and Staff Activities

The HKMC Staff Club, which is composed of members from various departments, organised a number of well-received staff activities to cultivate better employee relationships and communication. Staff activities included travel talks, bowling fun day and interest classes in Erhu and Yoga. The HKMC also participated in Table Tennis Friendly Game and Soccer Game with other public organisations for the enjoyment of staff and team solidarity.

To further enhance effective communication in the Corporation, the Staff Homepage was regularly updated to facilitate sharing of useful information among departments. The HKMC also offered Staff Suggestion Scheme to encourage staff to suggest ways to improve the work flow or the work place.

Care for the Community

Charity and Social Activities

The HKMC encouraged staff to support various charitable and fund-raising activities during the year. The HKMC Music Group performed and raised funds for education projects in Mainland China. Charity donation campaigns were organised for the Community Chest through the Dress Special Day and Hong Kong-Shenzhen Western Corridor Walk for Millions. Blood Donation Day for the Hong Kong Red Cross was also held to support the community.

Environmental Protection

The HKMC continued to support and implement green office measures to make the office more environmentally friendly. Staff awareness was raised through increased use of electronic communications, recycling of waste paper and used toner cartridge. Since 2006, the Corporation has adopted new measure in setting office temperature in the interest of energy efficiency. The HKMC also encouraged its staff to make suggestions for a greener office.

Bowling Competition

Table Tennis Friendly Game

Blood Donation Day

HKMC Charity Night

Dress Special Day

2008 Outlook

The Corporation has taken initial steps in the expansion of business coverage to other overseas markets in 2007. Going forward, for 2008 there are good opportunities to be further explored in the Asian region and also in Mainland China. In accordance with the direction set by the Board of Directors, the Corporation will endeavour to pursue these opportunities which will primarily involve the purchase of mortgage loans and the provision of mortgage insurance or guarantee.

The expansion of business overseas will enable the Corporation to gainfully utilise its experience and expertise accumulated over the years to contribute to the development of the mortgage financing markets in the region and to help enhance Hong Kong's standing as an international financial centre. This especially holds true for mortgage insurance or guarantee, as this particular line of business is still underdeveloped in much of Asia and the Middle East.

The Corporation has maintained an excellent track record in the performance of the Hong Kong loan portfolios purchased over the years. In the expansion of business to overseas markets, the Corporation will remain highly vigilant and continue to exercise prudence in credit assessment and the institution of risk-mitigating measures pertinent to the circumstances of the local markets. We aim to apply and adapt our stringent set of eligibility criteria with a view to maintaining a high credit quality for the portfolios to be purchased from overseas markets.

The diversification of business outside of Hong Kong will enable the Corporation to be in an even stronger position to fulfill its core objectives. The HKMC will continue to maintain a robust operation to contribute to banking stability through provision of liquidity, promote home ownership and facilitate the development of the local debt and securitisation markets.