**Press Release**

**The Hong Kong Mortgage Corporation Limited**

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (1 March 2001):

## Financial Results for 2000

The audited financial results of the HKMC show that the operating profit after tax for 2000 was HK$233.1 million, a reduction of HK$38.1 million or 14.1% over the previous year. Return on shareholder's equity was 9.4 % (1999: 12.1%). The capital-to-assets ratio remained strong at 12.3% (1999: 10.1%). The operating results and a financial review of the HKMC are attached at Annex A.

Total assets of the HKMC increased by 6.2%, from HK$13.98 billion to HK$14.84 billion in 2000. Despite the difficult market environment, the HKMC purchased a total of HK$6.35 billion of mortgage loans in 2000, exceeding the amount purchased in 1999 (HK$1.3 billion) by nearly 4 times and the business target of HK$4 billion by 58.8%. As a result, the outstanding principal balance of the retained mortgage portfolio increased by HK$2.37 billion or 27.1% to HK$11.1 billion as at 31 December 2000. The HKMC has reached agreement with the Hong Kong Housing Authority to purchase a total of HK$17 billion to HK$18 billion of mortgage loans originated under the Home Purchase Loan Scheme from the Authority before September 2002. It is expected that the mortgage portfolio of the HKMC will continue to grow significantly over the next 18 months.

The Mortgage Insurance Programme (MIP) has gained wider acceptance by homebuyers as evidenced by a rising trend in the number of applications. The Corporation received a total of 5,223 applications from 36 Approved Sellers in 2000, involving a total mortgage amount of HK$10.4 billion (compared with 2,150 applications and total mortgage amount of HK$4.4 billion in 1999). Reflecting the increased market penetration of the MIP, mortgage loans with mortgage insurance accounted for 7% of new mortgage loans originated in 2000 (1999: 4%). Secondary market transactions account for 87% of the applications received so far. This shows that the programme has helped to enhance the liquidity of secondary property transactions.

The HKMC is one of the most active debt issuers in the local capital market. During the year, the HKMC launched 11 debt issues to raise a total of HK$6.6 billion under its Note Issuance Programme and Debt Issuance Programme. As at 31 December 2000, the total outstanding balance of debts under the two programmes was HK$11.6 billion. The Corporation was able to achieve a substantial saving in funding cost by adopting a pre-funding strategy to capture market opportunities in the first half of 2000 to issue debts at sub-HIBOR levels (after swapping the proceeds into floating rate obligations).

**Expansion of Mortgage Insurance Programme**

The Board of Directors of the HKMC approved today an expansion of the MIP to include equitable mortgage loans secured on residential properties under construction.

The MIP was launched by the HKMC in March 1999 with the aim of promoting home ownership in Hong Kong. Under the current arrangement, the HKMC provides mortgage insurance to Approved Sellers for mortgage loans secured on completed residential properties for an amount up to 90% of the value of the property. The arrangement has allowed banks to lend up to 90% loan-to-value (LTV) ratio without incurring additional risks. Since the launch of the MIP, the Corporation has received an increasing number of requests from homebuyers to expand the programme to cover equitable mortgage loans. In response to a survey conducted by the HKMC in January 2001, all of the Approved Sellers indicated their support for an expansion of the MIP to cover equitable mortgage loans.

Findings of the HKMC survey show that the asset quality of equitable mortgage loans is comparable to that of completed residential properties. The survey has also shown that the banks have adopted appropriate underwriting criteria to address the project completion risk, borrower default risk and liquidity risk of equitable mortgage loans. The HKMC has incorporated these measures into the underwriting criteria for equitable mortgage loans under the MIP. The underwriting criteria are set out in the Technical Note at Annex B. Due to these additional safeguards, the HKMC has decided to charge the same insurance premia for equitable mortgage loans as those for the standard mortgage loans.

The expansion of the MIP to include equitable mortgage loans aims specifically at assisting homebuyers to purchase properties in the primary market. The HKMC will strictly enforce the owner occupancy requirement to avoid the Programme being used for property speculation. The borrower will be required to provide a written confirmation of having occupied the property for residential purpose within 3 months after completion of the property, in addition to the declaration of self-occupancy at the time of loan origination and the annual certification thereafter.

In accordance with the current arrangement under the MIP, if a mortgage loan is found to be non-conforming with the owner-occupancy requirement, the HKMC may increase the premium of the insurance to reflect the higher risk or require the borrower through the lending bank to reduce the size of the mortgage loan and cancel the mortgage insurance.

The Corporation will adopt a phased approach in the introduction of the equitable mortgage product. The first phase will cover equitable mortgage loans with LTV ratios of up to 85%. Further expansion to cover loans with LTV ratios of up to 90% will be considered later in the light of the feedback from banks and the performance of the loans under the expanded programme.

To prepare for the launch of the product, the HKMC will conduct a series of briefing and training sessions for the Approved Sellers to help them familiarize with the new product. The Corporation plans to launch the new product before the end of April 2001.

The Hong Kong Mortgage Corporation Limited
1 March 2001

**THE HONG KONG MORTGAGE CORPORATION LIMITED**
**(Incorporated in Hong Kong with limited liability under the Companies Ordinance)**

**FINANCIAL RESULTS**

**FOR THE YEAR ENDED 31 DECEMBER 2000**

The Directors of The Hong Kong Mortgage Corporation Limited (the "HKMC") are pleased to announce that the audited financial results of the HKMC for the year ended 31 December 2000, together with the comparative figures for the previous year, are as follows:

| | 2000 | 1999 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Interest income | 1,009,737 | 913,147 |
| Interest expense | (652,026) | (506,630) |
| **Net interest income** | 357,711 | 406,517 |
| Other income, net | 34,359 | 11,852 |
| **Operating income** | 392,070 | 418,369 |
| Operating expenses | (98,427) | (91,474) |
| Operating profit before provisions | 293,643 | 326,895 |
| Provisions for bad and doubtful loans | (17,229) | (7,246) |
| **Profit before taxation** | 276,414 | 319,649 |
| Taxation | (43,308) | (48,417) |
| **Profit after taxation** | 233,106 | 271,232 |
| Transfer to contingency reserve | (670) | - |
| **Net Profit for the year** | 232,436 | 271,232 |
| Retained profit brought forward | 357,378 | 86,146 |
| **Retained profit carried forward** | 589,814 | 357,378 |

| | At 31 December 2000 | At 31 December 1999 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Mortgage portfolio, net | 11,083,025 | 8,726,776 |
| Cash and short-term funds | 2,068,134 | 4,996,738 |
| Investment in debt securities | 1,304,753 | - |
| Total assets | 14,844,616 | 13,980,627 |
| Debt securities | 11,621,000 | 11,441,000 |
| Short-term bank loans | 427,200 | - |
| Shareholder's equity | 2,590,484 | 2,357,378 |
| Capital-to-assets ratio | 12.3% | 10.1% |
| Cost-to-income ratio | 25.1% | 21.9% |
| Net interest margin | 2.8% | 3.9% |
| Return on total assets | 1.8% | 2.5% |
| Return on average shareholder's equity | 9.4% | 12.1% |

**Financial Review**

The operating profit after taxation for the year ended 31 December 2000 was HK$233.1 million or 14.1% less than the previous year. The returns on shareholder's equity and total assets were 9.4% and 1.8% respectively.

Interest income from the mortgage portfolio reduced by HK$ 157.9 million or 17.7% to HK$736.3 million as compared to the previous year. The reduction in interest income was mainly due to a significant downward adjustment in the mortgage rate and a higher than normal level of prepayment due to intensive price competition in the mortgage market. The reduction has been mitigated to some extent by a gradual pick-up in mortgage purchase in the second half of 2000.

The HKMC incurred interest expense of HK$652 million (1999: HK$506.6 million), made up of HK$108.4 million from the short-term bills and money market drawings and HK$543.6 million from the notes issued under the Note Issuance Programme and the Debt Issuance Programme. By capturing favourable market conditions in the first half of 2000, the Corporation has achieved significant savings in funding costs through a successful execution of its pre-funding strategy.

For the year ended 31 December 2000, the HKMC earned a net interest income of HK$357.7 million, a reduction of 12% as compared to the previous year. The net interest margin ("NIM") of the average interest earning assets was 2.8% p.a. for the full year (1999: 3.9% p.a.).

Other income of HK$34.4 million included early prepayment fee income of HK$9.7 million, MBS guarantee fee income and other servicing income of HK$10.1 million, and net mortgage insurance premium of HK$8.4 million.

Under the Mortgage Insurance Programme ("MIP"), the risk-in-force increased from HK$530 million to HK$1,553 million. Of which, a sum of HK$1,381 million was ceded to the Mortgage Reinsurers on a back-to-back basis and the balance of HK$172 million was assumed by the HKMC under the risk-sharing arrangement.

The HKMC continued to exercise tight control over its operating expenses. Total operating expenses were HK$98.4 million for 2000 (1999: HK$91.5 million). The cost-to-income ratio remained low at 25.1%.

As at 31 December 2000, the delinquency ratio of the Corporation's retained mortgage portfolio was 0.42% which is well below the 1.26% of the banking industry. An additional specific provision of HK$13.4 million was made in 2000. The capital-to-assets ratio ("CAR") stood at 12.3% at 31 December 2000 (1999: 10.1%). This is well above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.

Annex B

# MORTGAGE INSURANCE PROGRAMME
# EQUITABLE MORTGAGE LOANS

## Technical Note

### Framework

Under the Mortgage Insurance Programme ("MIP") the HKMC provides mortgage insurance to Approved Sellers for an amount up to 20% of the value of the property, allowing the banks to lend up to a 90% loan-to-value ("LTV") ratio without taking on additional risks. The Corporation has decided to expand the range of eligible products under the programme to include equitable mortgage loans secured on residential properties under construction, up to a LTV ratio of 85%.

## Eligible Mortgage Originators

- All Approved Seller/Servicer of the HKMC.

- HKMC will reserve the right to terminate the arrangement with individual Approved Sellers if their mortgage underwriting standards are considered not satisfactory.

## Eligibility Requirements

Every equitable mortgage loan applying for insurance under the Programme must meet the eligibility requirements comprising:

- Mortgage Conditions as set out in Mortgage Insurance Operational Manual; and

- Core Eligibility Criteria set out below.

**Eligibility Criteria for Equitable Mortgages Under the MIP**

| | |
|---|---|
| Maximum loan size at origination | Floating Rate : HK$5,000,000<br>FARM : HK$4,000,000 |
| Eligible Properties | • The property development project must be covered by the Consent Scheme administered by the Lands Department of the Hong Kong SAR Government.<br><br>• The property development project is scheduled for completion within a period of 12 months. |
| Loan-to-value determination:<br><br>• Maximum loan-to-value ratio (LTV) at origination | 85%<br>(The financed premium may cause the LTV to go slightly over 85%) |
| • Valuation report | Written valuation report prepared by internal professionals or qualified external surveyors. The valuation must take into account incentives given by the property developer to the buyer and the value of the incentives must be deducted from the purchase price. |

| | |
|---|---|
| Debt-to-income ratio calculation:<br><br>• Maximum debt-to-income ratio at origination | 50%<br>Inclusive of all debt obligations of the borrower(s), and any rental payments that the borrower(s) have to make during the construction period. Income of guarantor will not be accepted for computing the DTI ratio. |
| • Relationship requirement between Borrowers and Mortgagors | Immediate family members or relatives. |
| Employment eligibility | Mortgagor/borrowers who are non-salaried are in general not eligible. This criterion does not apply to certain categories of professional such as doctors, accountants and lawyers. |
| Owner occupancy requirement | Declaration of self-occupancy at time of origination as well as within 3 months after the completion with documentary proof. Thereafter, subject to annual certification until the expiry of the insurance coverage. |
| Maximum original term to maturity | 30 years |