Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (15 April 2002):

Financial Results for 2001

The audited financial results of the HKMC show that the operating profit after tax for 2001 was HK$255.5 million, an increase of HK$22.4 million or 9.6% over the previous year. Return on shareholder's equity was 9.4 % (2000: 9.4%). The capital-to-assets ratio remained strong at 11.6% (2000: 13.5%). The operating results and a financial review of the HKMC are attached at Annex A.

Total assets of the HKMC increased substantially by 56.5%, from HK$14.84 billion in 2000 to HK$23.22 billion in 2001. Despite the difficult market environment, the HKMC purchased a total of HK$13.2 billion of mortgage loans in 2001, which is more than double the amount purchased in 2000 (HK$6.35 billion). As a result, the outstanding principal balance of the retained mortgage portfolio increased by HK$8.7 billion or 78.4% to HK$19.8 billion as at 31 December 2001.

The Mortgage Insurance Programme (MIP) has gained wider acceptance by homebuyers. In 2001, the HKMC has expanded the Programme to provide insurance cover for equitable mortgages of loan-to-value (LTV) ratio of up to 90% and mortgage loan size of up to HK$8 million. The Corporation received a total of 7,787 applications from 38 Approved Authorized Institutions in 2001, involving a total mortgage amount of HK$14.5 billion (compared with 5,217 applications and total mortgage amount of HK$10.4 billion in 2000). Reflecting the increased market penetration of the MIP, mortgage loans with mortgage insurance accounted for around 10% of new mortgage loans approved in 2001 (2000: 8%). Secondary market transactions account for 87% of the applications received. This reflects that the programme has helped to enhance the liquidity of secondary property transactions.

The HKMC raised a total of HK$15.6 billion through 26 issues of debt securities in 2001, making it the most active issuer of fixed rate debts in the Hong Kong dollar capital market. In 2001, the HKMC introduced a new mechanism of issuing bonds to retail investors through placing banks. The inaugural issue offered in October 2001 attracted a record subscription amount of over HK$651 million from retail investors. As at 31 December 2001, the total outstanding balance of debts issued by the Corporation was HK$20.1 billion.

Appointment of Board of Directors

The HKMC held its fifth Annual General Meeting (AGM) today. 9 Directors were re-appointed by the Financial Secretary for another term, including Mr. Ronald Arculli, Mr. Andrew Chan, Mr. Bernard Chan, Mr. Chan Kwok-keung, Mr. Eddy Fong, Mr. Cliff Forster, Mr. Stephen Ip, Dr. David Li and Mr. Sin Chung-kai. Two new Directors were appointed by the Financial Secretary to replace the Directors who had not offered themselves for re-appointment. The new Directors are Mr. David Lam Yim Nam and Mr. Brian Yiu Chi Pang. The composition of the new Board of Directors is at Annex B.

Mr. David Lam is the Deputy Chief Executive of Bank of China (Hong Kong) Limited. Mr. Brian Yiu is the Head of Debt Capital Markets, Global Markets – Asian Fixed Income of the Standard Chartered Bank.

"On behalf of the Board, I would like to thank the outgoing Directors for their invaluable advice and contribution, without which the HKMC would not have been able to achieve the results it had accomplished," said Mr. Antony Leung, Chairman of HKMC. "I also want to welcome the new Directors and look forward to their support to further develop the business of the Corporation," added Mr. Leung.

Directors of the HKMC are appointed by the Financial Secretary on a personal basis. According to the Articles of Association of the Company, at each Annual General Meeting, all those Directors who are not Executive Directors shall retire but shall be eligible for re-appointment. Hence, the term of appointment of the current Directors (other than the Executive Directors) will run until the next Annual General Meeting to be held around March/April 2003.

The Hong Kong Mortgage Corporation Limited
15 April 2002

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

FINANCIAL HIGHLIGHTS FOR 2001

	2001 HK$'000	2000 HK$'000
Interest income from mortgage portfolio	776,631	736,337
Net interest income	324,430	357,711
Operating income	359,285	392,070
Operating expenses	101,424	98,427
Operating profit before loans provisions	257,861	293,643
Provisions for bad and doubtful loans	35,299	17,229
Taxation credit / (charge)	32,964	(43,308)
Net Profit for the year	255,526	233,106

	At 31 December 2001	At 31 December 2000
	HK$'000	HK$'000
Mortgage portfolio, net	19,777,884	11,083,025
Cash and short-term funds	1,256,740	2,068,134
Investment in debt securities	1,736,266	1,304,753
Total assets	23,219,832	14,844,616
Debt securities	20,058,550	11,621,000
Short-term bank loans	-	427,200
Shareholder's equity	2,846,010	2,590,484
Capital-to-assets ratio	11.6%	13.5%
Cost-to-income ratio	28.2%	25.1%
Net interest margin	1.5%	2.8%
Return on total assets	1.2%	1.8%
Return on average shareholder's equity	9.4%	9.4%

Financial Review

The operating profit after taxation for the year ended 31 December 2001 was HK$255.5 million, HK$22.4 million or 9.6% more than the previous year. The returns on shareholder's equity and total assets were 9.4% and 1.2% respectively.

Interest income from the mortgage portfolio increased by HK$40.3 million or 5.5% to HK$776.6 million as compared to the previous year. The increase in interest income, despite the significant downward adjustment in the mortgage rate in the mortgage market, was due to a significant increase in mortgage purchase by the HKMC in 2001.

The HKMC incurred interest expense of HK$694.6 million (2000: HK$652 million), made up of HK$212.8 million from the short-term bills and money market drawings and HK$481.8 million from the notes issued. By capturing favourable market conditions in 2001, the Corporation has achieved significant savings in funding costs through successful execution of its pre-funding strategy.

For the year ended 31 December 2001, the HKMC earned a net interest income of HK$324.4 million, a reduction of 9.3% as compared to the previous year. The net interest margin ("NIM") of the average interest earning assets was 1.5% p.a. for the full year (2000: 2.8% p.a.).

Other net income of HK$34.9 million mainly included early prepayment fee income of HK$6.4 million, MBS guarantee fee income and other servicing income of HK$4.6 million, and net mortgage insurance premium of HK$24.2 million.

Under the Mortgage Insurance Programme ("MIP"), the risk-in-force increased from HK$1.55 billion to HK$2.85 billion. Of which, a sum of HK$2.34 billion was ceded to the mortgage reinsurers and the balance of HK$513 million was assumed by the HKMC under a risk-sharing arrangement.

The HKMC continued to exercise tight control over its operating expenses. Total operating expenses were HK$101.4 million for 2001 (2000: HK$98.4 million). The cost-to-income ratio remained low at 28.2%.

As at 31 December 2001, the delinquency ratio of the Corporation's retained mortgage portfolio was 0.29%, which is well below the 1.22% of the banking industry. An additional specific provision of HK$25.7 million was made in 2001. The capital-to-assets ratio ("CAR") stood at 11.6% at 31 December 2001 (2000: 13.5%). This is well above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.

Annex B

The Hong Kong Mortgage Corporation Limited

Board of Directors

The Honourable Antony LEUNG, GBS, JP (Chairman)	Financial Secretary
Mr. Joseph YAM Chi-kwong, GBS, JP (Deputy Chairman)	Chief Executive Hong Kong Monetary Authority
Mr. Norman CHAN Tak-lam, SBS, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr. Tony LATTER, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr. Ronald Joseph ARCULLI, GBS, JP	Managing Partner Arculli and Associates
Professor Andrew Chi-fai CHAN, Ph.D.	Associate Dean, B.A. Faculty The Chinese University of Hong Kong Chairman Consumer Council
The Hon Bernard Charnwut CHAN	Legislative Councillor Executive Director Asia Financial Group
The Hon CHAN Kwok-keung	Legislative Councillor
Mr. Eddy C. FONG, SBS, JP	Certified Public Accountant and Partner PricewaterhouseCoopers
Mr. Clifford Rowland FORSTER	Deputy Chief Executive & Regional Director, Asia Lloyds TSB Bank plc
Mr. Stephen IP Shu-kwan, GBS, JP	Secretary for Financial Services

Mr. David LAM Yim-nam	Deputy Chief Executive Bank of China (Hong Kong) Ltd.
Dr. the Hon David LI Kwok-po, GBS, LLD (Cantab), JP	Legislative Councillor Chairman and Chief Executive The Bank of East Asia, Limited
The Hon SIN Chung-kai	Legislative Councillor
Mr. Brian YIU Chi Pang	Head, Debt Capital Markets Global Markets – Asian Fixed Income Standard Chartered Bank