Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Tuesday):

Financial Results for 2002

The audited consolidated financial results of the HKMC for 2002 show that profit after tax (PAT) was HK$263.8 million, HK$44.9 million or 20.5% higher than that of 2001 after discounting the tax write-back of HK$36.6 million booked in 2001 (or an increase of HK$8.3 million or 3.2% over 2001 with the tax write-back included). Return on shareholder's equity was 8.9% (2001: 8.1% after adjustment for the tax write-back). The capital-to-assets ratio (CAR) remained strong at 8.9% (2001: 11.6%), which is equivalent to a CAR of 16.6% when computed in accordance with the Banking Ordinance (2001: 22.1%). The cost-to-income ratio improved sharply to 23.1% (2001: 28.2%). The operating results and financial highlights of the HKMC are attached at Annex A.

Total assets of the HKMC increased substantially by 38.8%, from HK$23.2 billion in 2001 to HK$32.2 billion in 2002. Despite the difficult business environment, the HKMC was successful in purchasing a total of HK$14.4 billion of mortgage loans in 2002, which is 9.1% more than the amount purchased in 2001 (HK$13.2 billion). As a result, the outstanding principal balance of the retained mortgage portfolio increased by HK$8.5 billion or 42.9% to HK$28.3 billion as at 31 December 2002.

Continuous product innovation and effective marketing enabled the HKMC to maintain market penetration ratio at around 9% for mortgages insured under the Mortgage Insurance Programme (MIP). The "one-stop 90% mortgage service" is expected to further enhance the attraction of the MIP to homebuyers. In 2002, the HKMC received a total of 6,284 applications, involving a total mortgage amount of HK$11.9 billion. Secondary market transactions accounted for 61% of the applications received. This reflects that the Programme has helped to enhance the liquidity of secondary property transactions.

The HKMC raised over HK$17 billion in 2002 through 45 issues of debt securities and the debut MBS issue under the Bauhinia MBS Programme in 2002, thereby further consolidating its status as the most active issuer in the Hong Kong dollar capital market. The Corporation was also the most active issuer of retail bonds with a total issued amount of HK$5.5 billion, representing about 23% of total market share. As at 31 December 2002, the HKMC had 73 issues of debt securities with a total amount of over HK$28.6 billion outstanding.

Appointment of Board of Directors

The HKMC held its sixth Annual General Meeting (AGM) today. Ten Directors were re-appointed by the Financial Secretary for another term, including Mr Ronald Arculli, Professor Andrew Chan, Mr Bernard Chan, Mr Cliff Forster, Dr David Li, Mr Frederick Ma, Mr Sin Chung-kai, Mr Michael Suen, Mr David Sun and Mr Brian Yiu. Three 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 Chan Kam-lam, Mr Ambrose Lau Hon-chuen and Mr Paul Thurston. The composition of the new Board of Directors is at Annex B.

Mr Chan Kam-lam and Mr Ambrose Lau are Legislative Councillors. Mr Paul Thurston is the Assistant General Manager, Head of Personal Financial Services of HSBC.

"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 2004.

Mortgage Insurance Programme: Preliminary Assessment of Eligibility

The HKMC will launch a new web-based programme to enable homebuyers to obtain a preliminary assessment of the eligibility of their prospective mortgages for insurance coverage under the MIP.

After introduction of the Programme, homebuyers may access the HKMC's website (www.hkmc.com.hk) and input information that are essential for determining eligibility such as monthly household income, outstanding debt obligations, occupational status, intended use of the property. A Report of Preliminary Assessment of Eligibility will be generated to show whether the prospective mortgage will be eligible for MIP coverage and the MIP product(s) that will fit the homebuyer's credit profile. Homebuyers can present the Report to any MIP participating bank together with the required documentation proof to facilitate their mortgage application. This new initiative is expected to further promote the usage of MIP and facilitate home purchase by allowing homebuyers to know whether the mortgage will qualify for MIP coverage and identify the MIP product that best fits their needs ahead of the home purchase.

The MIP Preliminary Assessment of Eligibility Programme is scheduled to be launched on 22 April 2003 (Tuesday) after the HKMC has briefed the MIP participating banks of the features of the Programme and its impact on the application procedures. Homebuyers may call the HKMC hotline at 2536-0136 to clarify any MIP applications procedures.

Home Owner Mortgage Enhancement Pilot Programme

The Home Owner Mortgage Enhancement (HOME) Pilot Programme, launched in July 2002, will expire on 30 April 2003. Up to 31 March 2003, the HKMC has received 321 applications involving a total loan amount of HK$601 million. In view of the fact that banks generally prefer to approve reduction in mortgage rates without seeking insurance protection under the HOME Programme, Merrill Lynch Reinsurance Solutions Ltd. and HKMC have decided not to extend the Pilot Programme.

The HKMC Board noted that the HOME Programme has achieved its intended effect of enticing banks to lower mortgage rates and hence alleviating the financial burden of homeowners in negative equity. According to Hong Kong Monetary Authority's survey findings, the average interest rate of mortgages in negative equity has been reduced from 0.70% below the best lending rate as at June 2002 to 0.83% below the best lending rate as at December 2002, and the proportion of loans in negative equity paying a mortgage rate of below Prime has increased from 52% as at June 2002 to 58% as at December 2002.

The Hong Kong Mortgage Corporation Limited
8 April 2003

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

FINANCIAL HIGHLIGHTS

	2002 HK$'000	2001 HK$'000
Interest income from mortgage portfolio	771,720	776,631
Net interest income	430,956	324,430
Operating income	488,873	359,285
Operating expenses	113,330	101,424
Operating profit before loans provisions	375,543	257,861
Provisions for bad and doubtful loans	86,054	35,299
Profit before taxation	292,069	222,562
Taxation charge / (credit)	28,260	(32,964)
Net Profit for the year	263,809	255,526
Net Profit (adjusted for tax write-back)	N.A.	218,926

	At 31 December 2002	At 31 December 2001
	HK$'000	HK$'000
Mortgage portfolio, net	28,257,727	19,777,884
Cash and short-term funds	212,863	1,256,740
Investment in debt securities	3,244,520	1,736,266
Total assets	32,186,615	23,219,832
Debt securities	28,615,000	20,058,550
Shareholder's equity	3,109,819	2,846,010
Capital-to-assets ratio	8.9%	11.6%
Cost-to-income ratio	23.1%	28.2%
Net interest margin	1.5%	1.5%
Return on total assets	0.9%	1.2%
Return on shareholder's equity (ROE)	8.9%	9.4% *

* ROE for 2001 was 8.1% after adjustment for the tax write-back of HK$36.6 million booked in the year.

Financial Review

The audited consolidated financial results of the HKMC for 2002 show that profit after tax ("PAT") was HK$263.8 million, HK$44.9 million or 20.5% higher than that of 2001 after discounting the tax write-back of HK$36.6 million booked in 2001 (or an increase of HK$8.3 million or 3.2% over 2001 with the tax write-back included). Return on shareholder's equity was 8.9% (2001: 8.1% after adjustment for the tax write-back). The net interest margin stayed at the satisfactory level of 1.5%, same as that of 2001.

In 2002, the HKMC purchased a record amount of HK$14.4 billion of mortgages (2001: HK$13.2 billion). As a result, the size of the retained mortgage portfolio increased from HK$19.8 billion in 2001 to HK$28.3 billion in 2002. Despite the substantial reduction in the Prime rate from 9.5% to 5% during the year, interest income earned from the retained mortgage portfolio remained stable at HK$771.7 million (2001: HK$776.6 million).

Interest income earned from bank deposits and debt securities reduced by HK$105.6 million from HK$242.4 million to HK$136.8 million in 2002, reflecting a reduction in bank deposits due to active mortgage purchase activities and the fall in deposit rates.

The HKMC incurred interest expense of HK$477.5 million (2001: HK$694.6 million), made up of HK$437.6 million from note issuance and HK$39.9 million from short-term bills and money market drawings. A total of HK$15 billion of notes (HK$9.5 billion of notes issued under the Debt Issuance Programme and HK$5.5 billion of retail bonds) was issued to fund the mortgage purchase and refinance the matured notes during the year.

For 2002, the HKMC earned a net interest income of HK$431 million, an increase of HK$106.6 million or 32.9% over that of 2001. The net interest margin of the average interest-earning assets remained stable at 1.5% p.a., the same as that of 2001.

Other net income of HK$60.5 million recorded a sharp increase of 73.4% over that of 2001. Major items include HK$13.8 million of MBS guarantee and related fee income and HK$32.9 million of net mortgage insurance premium earned.

The HKMC continued to exercise tight control over its operating expenses. Total operating expenses were HK$113.3 million for 2002 (2001: HK$101.4 million). The increase of HK$11.9 million in the operating expenses was necessary to fund new business activities and reflected additional depreciation charges on new IT systems. The cost-to-income ratio was 23.1% for 2002, showing a marked improvement over the previous year's 28.2%.

As at 31 December 2002, the 90-day delinquency ratio of the retained mortgage portfolio was 0.31%, which was well below the banking industry's 1.06%. General provision of HK$22.1 million (2001: HK$9.6 million) and specific provision of HK$63.9 million (2001: HK$25.7 million) were charged to the consolidated profit and loss account in 2002, reflecting the increase in the size of the retained mortgage portfolio from HK$19.8 billion to HK$28.3 billion.

The capital-to-assets ratio ("CAR") stood at 8.9% as at 31 December 2002 (2001: 11.6%), well above the minimum requirement of 5% stipulated in the guidelines issued by the Financial Secretary. Computed in accordance with the provisions in the Banking Ordinance, the HKMC's CAR was 16.6% at the year-end of 2002 (2001: 22.1%).

Annex B

The Hong Kong Mortgage Corporation Limited

Board of Directors

The Hon 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 Ronald Joseph ARCULLI, GBS, JP	Managing Partner Arculli and Associates
Professor Andrew CHAN Chi-fai, Ph.D.	Chairman, Consumer Council Professor, Department of Marketing and Director, Executive MBA Programme, The Chinese University of Hong Kong
The Hon Bernard Charnwut CHAN	Legislative Councillor President, Asia Insurance Co. Ltd.
The Hon CHAN Kam-lam, JP	Legislative Councillor
Mr Clifford Rowland FORSTER	Deputy Chief Executive & Regional Director Lloyds TSB Bank plc.
The Hon Ambrose LAU Hon-chuen, GBS, JP	Legislative Councillor Senior Partner, Chu & Lau Solicitors & Notaries
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 Frederick MA Si-hang, JP	Secretary for Financial Services and the Treasury

The Hon SIN Chung-kai	Legislative Councillor
The Hon Michael SUEN Ming-yeung, GBS, JP	Secretary for Housing, Planning and Lands
Mr David SUN Tak-kei	Chairman, Assurance & Advisory Business Services, Ernst & Young
Mr Paul THURSTON	Assistant General Manager Head of Personal Financial Services HSBC
Mr Brian YIU Chi Pang	Head, Debt Capital Markets Asian Fixed Income Standard Chartered Bank