Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcement today (Thursday).

Financial Results for 2006

The HKMC and its subsidiaries (the HKMC Group) are pleased to announce the annual financial results for 2006. The profit after tax (PAT) for the year ended 31 December 2006 was HK$682.7 million, 13.5% over 2005. This is a record PAT for the Corporation since its establishment in March 1997. Return on shareholders' equity was 13.9% (2005: 13.6%). The capital-to-assets ratio was 11.2% (2005: 12%). The cost-to-income ratio was 13.5% for 2006 (2005: 14.7%). The financial results of the HKMC Group are at Annex A.

The Board recommended and the Shareholders approved a final dividend of HK$250 million or HK$0.125 per share, representing a dividend payout ratio of 36.6% for the year.

Business Performance

The loans purchased by the Corporation in 2006 amounted to HK$6.4 billion (2005: HK$2.9 billion). The Corporation pursued a business diversification strategy as approved by the Board in 2006. Taking into account repayments and run-off due to competitive refinancing in the mortgage market, the outstanding principal balance of the loan portfolio was HK$32.4 billion as at 31 December 2006 (2005: HK$33.5 billion).

The Mortgage Insurance Programme (MIP) continued to enjoy good public acceptance, despite the subdued property market environment. For 2006, the programme achieved a business volume of HK$9.2 billion and the market penetration ratio was around 13%. As 90% of the drawdown in 2006 were on properties in the secondary market, this demonstrated again the importance of the MIP to help homebuyers in the secondary market. The drawdown volume under the MIP is expected to increase further in 2007 with recovery in the property market.

In terms of debt issuance, the HKMC issued a total of HK$13.3 billion corporate debts under its Debt Issuance Programme and Retail Bond Issuance Programme in 2006, making the HKMC the most active corporate debt issuer in the Hong Kong dollar market for the sixth consecutive year. In September 2006, the HKMC offered a total value of HK$1.3 billion equivalent of retail bonds to the public. In November 2006, the HKMC successfully launched the first ever and largest triple-A rated partially guaranteed issue of Hong Kong dollar mortgage-backed securities (MBS) totalling HK$2 billion under its Bauhinia MBS Programme. As at 31 December 2006, the total amount of outstanding debt securities and MBS were HK$28.9 billion and HK$5.4 billion respectively.

The solid performance of the HKMC through the past ten years is regarded by international credit rating agencies to have contributed to the Corporation's strong credit rating. In July 2006, Standard & Poor's upgraded both the long-term local and foreign currency ratings of the Corporation to AA from AA-. In October 2006, the HKMC made history as the first entity, and so far the only one in Hong Kong, to have achieved a long-term local currency rating of Aaa by Moody's. The Corporation's foreign currency issuer rating has also been upgraded by Moody's to Aa1, just a notch below the top rating of triple-A.

With the HKMC's top credit standing in Hong Kong, solid financial performance and prudent risk management framework, the Corporation is well positioned to share its expertise and contribute to market development in the region. This will reinforce Hong Kong's financial intermediation role in the region and its position as an international financial centre. In this regard, the HKMC is planning to establish a Medium Term Note Programme to broaden its investor base in the international market. This also helps to further develop a Hong Kong quasi-sovereign benchmark for market participants.

Appointment of Board of Directors

The HKMC held its 10th Annual General Meeting today. Ten directors have been re-appointed by the Financial Secretary for another term – Mr Ronald Arculli, Professor K C Chan, Mr Chan Kam Lam, Dr David Li, Mr Frederick Ma, Mr Geoffrey Mansfield, Mr Abraham Shek, Mr Sin Chung Kai, Mr Michael Suen and Mr Eddie Tan. Four new Directors have been appointed by the Financial Secretary – Mr K P Chan, Mr Eddy Fong, Mr Andy Hon and Mr Andrew Leung. The composition of the new Board of Directors is at Annex B. The new appointments have been made to replace Mr Ambrose Lau, Mr Nick Sibley and Mr David Sun who had not offered themselves for re-appointment. The Board noted with great sadness the passing away of Mr Edward Lau, who served as a Director of the Corporation from December 2004 to March 2007.

"On behalf of the Board, I would like to thank the outgoing Directors for their invaluable advice and contributions without which the HKMC would not have been able to achieve the results it had accomplished," said Mr Henry Tang, Chairman of the HKMC. "I would also like to welcome the new Directors and look forward to their support in furthering the development of the business of the Corporation," added Mr Tang.

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 office of these Directors will run until the next Annual General Meeting to be held around April 2008.

The Hong Kong Mortgage Corporation Limited
26 April 2007

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	2006	2005
	HK$'000	HK$'000 Restated*
Interest income	**2,294,607**	1,773,009
Interest expense	**(1,577,391)**	(1,111,458)
Net interest income	**717,216**	661,551
Other income, net	**154,410**	125,685
Operating income	**871,626**	787,236
Operating expenses	**(117,799)**	(115,937)
Operating profit before impairment	**753,827**	671,299
Write-back of loan impairment allowances	**8,473**	19,235
Profit before taxation	**762,300**	690,534
Taxation	**(79,627)**	(89,272)
Profit for the year	**682,673**	601,262
Proposed dividend	**250,000**	250,000

* Figures restated as a result of the adoption of the Hong Kong Accounting Standard 27 (revised): Consolidated and Separate Financial Statements ("HKAS 27 (revised)") in respect of the Consolidation of Special Purpose Entities ("SPEs")

	As at 31 December 2006	As at 31 December 2005
	HK$'000	HK$'000 Restated
ASSETS		
Cash and short-term funds	**1,914,806**	2,495,327
Derivative financial instruments	**262,760**	87,890
Loan portfolio, net	**32,394,092**	33,548,858
Investment securities:		
- available-for-sale	**4,614,519**	1,989,973
- held-to-maturity	**4,673,090**	4,524,894
Reinsurance assets	**373,901**	429,178
Other assets	**588,834**	432,696
	44,822,002	43,508,816
LIABILITIES		
Derivative financial instruments	**162,952**	344,730
Tax payable	**16,511**	-
Insurance liabilities	**624,856**	684,212
Debt securities issued	**28,935,470**	27,995,867
Mortgage-backed securities issued	**5,361,260**	5,164,376
Other liabilities	**4,582,374**	4,644,965
	39,683,423	38,834,150
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**2,678,722**	2,269,002
Contingency reserve	**84,678**	61,725
Fair value reserve	**125,179**	93,939
Proposed dividend	**250,000**	250,000
	5,138,579	4,674,666
	44,822,002	43,508,816
Capital-to-assets ratio	**11.2%**	12.0%
	2006	2005 Restated
Return on shareholders' equity	**13.9%**	13.6%
Return on total assets	**1.6%**	1.3%
Cost-to-income ratio	**13.5%**	14.7%
Net interest margin	**1.7%**	1.5%

Basis of Preparation

Pursuant to Section 2B(3) of the Hong Kong Companies Ordinance, as introduced by the Companies (Amendment) Ordinance 2005, the two SPEs for mortgage securitisation would be deemed to be subsidiary undertakings of the HKMC for the purpose of preparing group accounts for the period beginning 1 January 2006. Therefore, the financial statements of the two SPEs have been consolidated in the HKMC Group's financial statements from 1 January 2006. Retrospective application to prior year comparatives has been made in accordance with HKAS 27 (revised).

The adjustments required for the adoption of HKAS 27 (revised) resulted in a decrease in shareholders' equity as at 31 December 2005 by HK$2.9 million and an increase in net profit for the year ended 31 December 2005 and 2006 by HK$0.6 million and HK$1.3 million respectively. The adjustments also increased the loan portfolio and mortgage-backed securities issued by HK$3.8 billion (2005: HK$4.1 billion) and HK$5.4 billion (2005: HK$5.2 billion) respectively as at 31 December 2006.

Financial Review

The HKMC Group reported an audited consolidated profit after tax (PAT) of HK$682.7 million, HK$81.4 million or 13.5% more than 2005. Return on shareholders' equity was 13.9% (2005: 13.6%). The net interest margin of the average interest-earning assets improved to 1.7% (2005: 1.5%).

In 2006, the HKMC Group earned HK$2,294.6 million from interest income (increase of HK$521.6 million from 2005), while incurring interest expense of HK$1,577.4 million (increase of HK$465.9 million from 2005) on funding operations. The net interest income of HK$717.2 million in 2006 increased by HK$55.7 million over the previous year, mainly due to ample local liquidity and proactive asset-liability and hedging operations in 2006.

A total of HK$13.3 billion of debt securities (HK$12 billion of debts issued under the Debt Issuance Programme and HK$1.3 billion of retail bonds issued under the Retail Bond Issuance Programme) were issued to fund loan purchase and redeem debts matured in the year.

Other income significantly rose by 22.8% to HK$154.4 million (2005: HK$125.7 million). Major items included HK$102.4 million (2005: HK$101.2 million) of net insurance premium earned, HK$23.2 million of exchange gain (2005: HK$5.2 million), HK$19.6 million (2005: HK$28

million) of early prepayment fees arising from refinancing activities and HK$16 million of dividend income (2005: nil) on investment securities, partially offset by the marked-to-market loss on change in fair value of financial instruments of HK$7.5 million (2005: loss of HK$2.1 million).

Despite the continual rate hike that reduced the demand for high loan-to-value financing in 2006, risk-in-force borne by HKMC increased from HK$2.6 billion in 2005 to HK$2.9 billion in 2006 or an increase of 10.4%. The net mortgage insurance premium earned showed a slight improvement by 1.2% to HK$102.4 million.

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$117.8 million for 2006 (2005: HK$115.9 million). The cost-to-income ratio was 13.5% for 2006 (2005: 14.7%).

As a result of the continuing improvement in unemployment rate and the borrowers' credit quality, a write-back of loan impairment allowance of HK$8.5 million was made in 2006 (2005: HK$19.2 million).

The capital-to-assets ratio (CAR) stood well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary at a healthy level of 11.2% (2005: 12%).

Annex B

THE HONG KONG MORTGAGE CORPORATION LIMITED

Board of Directors

The Hon. Henry TANG Ying-yen, GBS, JP (Chairman)	Financial Secretary
Mr Joseph YAM Chi-kwong, GBS, JP (Deputy Chairman)	Chief Executive Hong Kong Monetary Authority
Mr Peter PANG Sing-tong, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
Mr CHOI Yiu-kwan, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
The Hon. Ronald Joseph ARCULLI, GBS, JP	Executive Councillor Senior Partner, Arculli Fong & Ng Chairman, Hong Kong Exchanges and Clearing Limited
Professor K C CHAN, PhD, JP	Chairman, Consumer Council Dean of Business and Management Chair Professor of Finance Hong Kong University of Science and Technology
The Hon. CHAN Kam-lam, SBS, JP	Legislative Councillor
Mr K P CHAN, JP	Chief Executive Munich Reinsurance Company Hong Kong Branch
Mr Eddy FONG Ching, SBS, JP	Chairman Securities and Futures Commission
Mr Andy HON Hak-keung	Global Product Head, Mortgages & Auto Group Consumer Banking Standard Chartered Bank

The Hon. Andrew LEUNG Kwan-yuen, SBS, JP	Legislative Councillor Chairman, Sun Hing Knitting Factory Limited
Dr the Hon. David LI Kwok-po, GBS, LLD (Cantab), JP	Executive Councillor 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
Mr Geoffrey Jay MANSFIELD	Director PrimeCredit Limited
The Hon. Abraham SHEK Lai-him, JP	Legislative Councillor
The Hon. SIN Chung-kai, JP	Legislative Councillor
The Hon. Michael SUEN Ming-yeung, GBS, JP	Secretary for Housing, Planning and Lands
Mr Eddie TAN Cheng-soo	Regional Treasurer of Global Consumer Bank, Asia Pacific Citibank, N.A., Singapore Branch