Press Release

The Hong Kong Mortgage Corporation Limited

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

Financial Results for 2007

The HKMC and its subsidiaries (the HKMC Group) recorded 8.5% growth in its 2007 profit after tax to a record of HK$740.7 million.

Return on shareholders' equity was 13.7% (2006: 13.9%). The capital-to-assets ratio remained strong at 11.2% (2006: 11.2%), well above the minimum requirement of 5%. The cost-to-income ratio was 13.6% for 2007 (2006: 13.5%). 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 33.8% for the year.

Business Performance

The loans purchased in 2007 amounted to HK$9.6 billion (2006: HK$6.4 billion), including HK$3 billion of residential mortgage loans, HK$1.1 billion taxi and public light bus hire purchase assets in Hong Kong, and overseas purchase of US$700 million (HK$5.5 billion equivalent) residential mortgage loans from Korea. The Corporation has maintained its strong commitment to risk management and did not purchase any sub-prime mortgage loans or invest in any sub-prime related products. Taking into account loan repayments and prepayments due to competitive refinancing in the local mortgage market, the outstanding principal balance of the loan portfolio was HK$34.5 billion as at 31 December 2007 (2006: HK$32.4 billion).

The Mortgage Insurance Programme (MIP) continued to enjoy good public acceptance. Mortgage insurance coverage for newly originated mortgage loans rose from HK$9.2 billion to HK$13.2 billion in 2007 and the market penetration ratio was around 12%. As 90% of the drawdown in 2007 was on properties in the secondary market, this demonstrated again the importance of the MIP to help homebuyers in the secondary market.

In terms of debt issuance, the prudent and cost-effective pre-funding ahead of the sub-prime mortgage crisis and global credit crunch helped the Corporation to weather the volatile market conditions and make funding available for mortgage

purchase and refinancing in the second half of 2007. The HKMC issued a total of HK$16.4 billion corporate debts under its Debt Issuance Programme and Retail Bond Issuance Programme in 2007, making the HKMC the most active corporate debt issuer in the Hong Kong dollar market for the seventh consecutive year. In March 2007, the HKMC offered a total value of HK$925 million equivalent of retail bonds to the public. In June 2007, the HKMC successfully established the multi-currency US$3 Billion Medium Term Note Programme to broaden its investor base and funding sources in the international market. This can help to develop a quasi-sovereign benchmark for Hong Kong to further promote the development of the regional bond market. This also paved the way for the launch of cost-effective US dollar bond issues in early 2008. As at 31 December 2007, the total amount of outstanding debt securities and mortgage-backed securities issued were HK$33.3 billion and HK$4.2 billion respectively.

Riding on the solid performance through the past 11 years, the HKMC is the first and so far the only triple-A rated institution in Hong Kong achieving long-term local and foreign currency debt ratings of Aaa (stable outlook) from Moody's and AA (positive outlook) from Standard & Poor's.

The Corporation will seek opportunities to improve its product range and continue with its business diversification strategy to maintain its viability and strengthen its ability to provide liquidity to local banks when necessary and meet mortgage insurance needs of the homebuyers.

As part of its overseas diversification, the HKMC signed an agreement in December 2007 with Cagamas Berhad, the national mortgage corporation in Malaysia, to set up a joint venture offering mortgage guarantees to banks in Malaysia. The Corporation will also seek to promote its business model in other markets in the region and the Middle East.

"The good performance in 2007 reflects the successful implementation of the Corporation's business diversification plan and the effectiveness of its funding strategy. I am confident the HKMC will again rise to the challenge in 2008, and meet its objectives of reinforcing banking stability and promoting home ownership and debt market development in Hong Kong," said Mr John C Tsang, Chairman of the HKMC.

Appointment of Board of Directors

The HKMC held its 11th Annual General Meeting today. Thirteen directors have been re-appointed by the Financial Secretary for another term – Mr Ronald Arculli, Professor K C Chan, Mr Chan Kam-lam, Mr Chan Kin-por, Ms Eva Cheng, Professor Anthony Cheung, Mr Eddy Fong, Mr Andrew Leung, Dr David Li, Mr Geoffrey Mansfield, Mr Abraham Shek, Mr Sin Chung-kai and Mr Eddie Tan. The Financial Secretary appointed Mr David Lam as a new Director to

replace Mr Andy Hon who had not offered himself for re-appointment. The composition of the new Board of Directors is at Annex B.

"On behalf of the Board, I would like to thank Mr Andy Hon, the outgoing Director, for having generously contributed his time and professional skills to assist in the efficient management of the Corporation. I would also like to welcome Mr David Lam, the new Director, and look forward to his support in furthering the development of the business of the Corporation." said Mr Tsang.

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 2009.

The Hong Kong Mortgage Corporation Limited
10 April 2008

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007	2006
	HK$'000	HK$'000
Interest income	**2,339,433**	2,294,607
Interest expense	**(1,690,101)**	(1,577,391)
Net interest income	**649,332**	717,216
Other income	**296,459**	154,410
Operating income	**945,791**	871,626
Operating expenses	**(129,038)**	(117,799)
Operating profit before impairment	**816,753**	753,827
Write-back of loan impairment allowances	**4,457**	8,473
Profit before taxation	**821,210**	762,300
Taxation	**(80,546)**	(79,627)
Profit for the year	**740,664**	682,673
Final dividend	**250,000**	250,000

	As at 31 December 2007	As at 31 December 2006
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**2,666,505**	1,914,806
Derivative financial instruments	**657,486**	262,760
Loan portfolio, net	**34,460,291**	32,376,452
Investment securities:		
- available-for-sale	**4,038,250**	4,614,519
- held-to-maturity	**5,500,024**	4,673,090
Reinsurance assets	**366,383**	373,901
Other assets	**938,984**	606,474
	48,627,923	44,822,002
LIABILITIES		
Derivative financial instruments	**122,642**	162,952
Tax payable	**21,275**	16,511
Insurance liabilities	**661,386**	624,856
Debt securities issued	**33,311,190**	28,935,470
Mortgage-backed securities issued	**4,229,159**	5,361,260
Other liabilities	**4,652,041**	4,582,374
	42,997,693	39,683,423
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,151,567**	2,678,722
Contingency reserve	**102,497**	84,678
Fair value reserve	**120,673**	125,179
Hedging reserve	**5,493**	-
Proposed dividend	**250,000**	250,000
	5,630,230	5,138,579
	48,627,923	44,822,002
Capital-to-assets ratio	**11.2%**	11.2%

	2007	2006
Return on shareholders' equity	**13.7%**	13.9%
Return on total assets	**1.6%**	1.6%
Cost-to-income ratio	**13.6%**	13.5%
Net interest margin	**1.5%**	1.7%

Financial Review

The healthy property and labour markets of Hong Kong, successful overseas business expansion, proactive asset-liability management and prudent pre-funding operations have outweighed the negative impact from the volatile Prime-HIBOR spread and repayment of high-margin of local mortgage portfolios for the Corporation. The HKMC Group sustained its growth albeit the global credit crunch in the second half of 2007. The Corporation has maintained its strong commitment to risk management and did not purchase any sub-prime mortgage loans or invest in sub-prime related products. The HKMC Group reported an audited consolidated profit after tax (PAT) of HK$740.7 million, HK$58 million or 8.5% more than 2006. Return on shareholders' equity was 13.7% (2006: 13.9%).

The HKMC continued to deploy prudent asset-liability management and pre-funding operations. A total of HK$16.4 billion of debt securities (HK$15.5 billion of debts issued under the Debt Issuance Programme and HK$0.9 billion of retail bonds issued under the Retail Bond Issuance Programme) were issued to fund loan purchase and redeem debts matured in the year.

In 2007, the net interest income was HK$649.3 million, HK$67.9 million below that of 2006. The net interest margin of the average interest-earning assets also reduced slightly to 1.5% (2006: 1.7%) as a result of the continual reduction in mortgage margin and tightening of the Prime-HIBOR spread.

Other income rose by 92% to HK$296.5 million (2006: HK$154.4 million). The major item was HK$116.1 million fair value gain of financial instruments (2006: HK$7.5 million loss on fair value change of financial instruments) that were used for asset-liability management to mitigate the interest rate volatilities and shrinkage of net interest income. Other items included HK$109.5 million (2006: HK$102.4 million) of net mortgage insurance premiums earned, HK$16.6 million of exchange gain (2006: HK$23.2 million), HK$23.8 million (2006: HK$19.6 million) of early prepayment fees arising from refinancing activities and HK$29.1 million of dividend income (2006: HK$16 million) on investments in listed bond funds and real estate investment trust.

With the solid growth in secondary market activities and property prices, the new loans underwritten under the MIP soared by 43.5% to HK$13.2 billion. The risk-in-force borne by HKMC increased from HK$2.9 billion in 2006 to HK$3.5 billion in 2007 or an increase of 20.2%. The net mortgage insurance premiums earned rose by 6.9% to HK$109.5 million.

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses were HK$129 million for 2007 (2006:

HK$117.8 million). The cost-to-income ratio was 13.6% for 2007, comparable to 13.5% in 2006.

As a result of the continuing improvement in unemployment rate and the borrowers' credit quality, a write-back of loan impairment allowance of HK$4.5 million was made in 2007 (2006: write back of HK$8.5 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% (2006: 11.2%).

Annex B

THE HONG KONG MORTGAGE CORPORATION LIMITED

Board of Directors

The Hon John TSANG Chun-wah, 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. Eddie YUE Wai-man, JP (Executive Director)	Deputy Chief Executive Hong Kong Monetary Authority
The Hon Ronald Joseph ARCULLI, CVO, GBS, OBE, JP	Member of Executive Council Senior Partner, Arculli Fong & Ng Chairman, Hong Kong Exchanges and Clearing Limited
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kam-lam, SBS, JP	Legislative Councillor
Mr CHAN Kin-por, JP	Chief Executive Munich Reinsurance Company Hong Kong Branch
The Hon Eva CHENG, JP	Secretary for Transport and Housing
Professor the Hon Anthony CHEUNG Bing-leung, BBS, JP	Chairman, Consumer Council
Mr Eddy FONG Ching, SBS, JP	Chairman Securities and Futures Commission
Mr David LAM Yim-nam	Deputy Chief Executive Bank of China (Hong Kong) Limited

The Hon Andrew LEUNG Kwan-yuen, SBS, JP	Legislative Councillor Chairman, Sun Hing Knitting Factory Limited
Dr the Hon David LI Kwok-po, GBM, GBS, LLD (Cantab), JP	Legislative Councillor Chairman and Chief Executive The Bank of East Asia, Limited
Mr Geoffrey Jay MANSFIELD	Chairman The DTC Association
The Hon Abraham SHEK Lai-him, SBS, JP	Legislative Councillor
The Hon SIN Chung-kai, SBS, JP	Legislative Councillor
Mr Eddie TAN Cheng-soo	Regional Treasurer Global Consumer Bank - Asia Pacific Citibank, N.A.