Press Release

The Hong Kong Mortgage Corporation Limited

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

The Hong Kong Mortgage Corporation performed well in 2008. Apart from good financial performance (see below), it has helped maintain banking stability by purchasing loan assets from local banks to address their escalated liquidity and risk management needs amidst the global financial crisis. In recognition of the important strategic role played by the Corporation, the HKSAR Government increased from HK$10 billion to HK$30 billion the size of the Revolving Credit Facility provided by the Exchange Fund to the Corporation.

Financial Results for 2008

Despite the difficult economic environment and volatile market conditions, the Corporation was able to achieve another year of solid financial results. The HKMC and its subsidiaries (the HKMC Group) recorded HK$605 million profit after tax (PAT) in 2008, 18% lower than the record set in 2007 but still comparing well with the market in general. Return on shareholders' equity (RoE) was 10.5% (2007: 13.7%). The decline in PAT and RoE in 2008 was mainly attributable to the prudent provisioning for loan impairment and rising hedging cost of asset-liability management in the global financial crisis environment.

The capital-to-assets ratio remained strong at 8.7% (2007: 11.2%), well above the minimum requirement of 5% stipulated by the Financial Secretary. The cost-to-income ratio was 17.5% for 2008 (2007: 13.6%). The financial results of the HKMC Group are at Annex A.

A final dividend of HK$250 million or HK$0.125 per share, was declared, representing a dividend payout ratio of 41.3% for the year.

Business Performance

The total asset purchase in 2008 reached a record of HK$26 billion, with HK$13.8 billion being assets from banks in Hong Kong and HK$12.2 billion being overseas mortgage loans. The high intake of local purchases is a good illustration of the Corporation's strategic role in providing liquidity to the Hong Kong banking sector and helping them to manage their balance sheets.

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 during the year, the outstanding principal balance of the loan portfolio was HK$50.8 billion as at 31 December 2008 (2007: HK$34.5 billion).

The Corporation's Mortgage Insurance Programme (MIP) continued to provide an effective channel for promoting wider home ownership in Hong Kong. To provide an additional option to homebuyers, the Corporation made an enhancement of the MIP in December 2008 by lowering the threshold above which insurance will be made available from 70% loan-to-value (LTV) ratio to 60%, up to a total LTV ratio of 90%. Mortgage insurance coverage for newly originated mortgage loans rose from HK$13.2 billion to a new record of HK$20.4 billion in 2008 and the market penetration ratio was increased from around 12% to 16% in 2008. As 91% of the drawdown in 2008 was on properties in the secondary market, this demonstrated again the importance of the MIP to help homebuyers in the secondary market.

Attributable to the Corporation's strong government background, solid credit ratings as well as investors' flight-to-quality investment approach, the HKMC issued a record total of HK$24.4 billion corporate debts with tenor up to 15 years in 2008. For the eighth consecutive year, the Corporation maintains its position as the most active corporate debt issuer in the Hong Kong dollar market. To further broaden its investor base and funding source, the Corporation offered a total value of HK$543 million equivalent of retail bonds to the public and issued HK$4.7 billion equivalent of foreign currency debts to overseas institutional investors during the year. As at 31 December 2008, the total amount of outstanding debt securities and mortgage-backed securities issued were HK$42.8 billion and HK$3.2 billion respectively.

Notwithstanding the turbulent environment in 2008, the Corporation once again demonstrated its solid performance and strength in prudent risk management; continuing to be the first and so far the only triple-A rated institution in Hong Kong from Moody's. In July 2008, S&P also upgraded the Corporation's long-term local and foreign currency ratings to AA+ from AA.

Outlook

The Corporation will seek opportunities to further enrich its product range and continue with its business diversification strategy. This serves to maintain its viability and strengthen its ability to provide liquidity to local banks when necessary as well as meeting the financing needs of the homebuyers.

"The Corporation will focus on satisfying the needs of local financial institutions to offload loan assets in exchange for liquidity. While maintaining a strong

emphasis on risk management, the Corporation will also continue to improve its local product offering and promote its business model and risk-management approach in other jurisdictions such as Mainland China. This will contribute towards the healthy development of the Mainland mortgage market and also promote home ownership and a harmonious society." said Mr John C Tsang, Chairman of the HKMC.

Appointment of Board of Directors

The HKMC held its 12th Annual General Meeting today. Ten directors have been re-appointed by the Financial Secretary for another term – Professor K C Chan, 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 and Mr Eddie Tan. Four new Directors have been appointed by the Financial Secretary – Ms Tanya Chan, Ms Louisa Cheang, Mr Lester Huang and Ms Starry Lee. The new appointments have been made to replace Mr Ronald Arculli, Mr Chan Kam Lam, Mr David Lam and Mr Sin Chung Kai who had not offered themselves 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 the outgoing Directors for having generously contributed their time and professional skills to assist in the efficient management of the Corporation. 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." 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 2010.

The Hong Kong Mortgage Corporation Limited
16 April 2009

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED FINANCIAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	HK$'000	HK$'000
Interest income	**1,825,214**	2,339,433
Interest expense	**(1,115,364)**	(1,690,101)
Net interest income	**709,850**	649,332
Other income	**102,100**	296,459
Operating income	**811,950**	945,791
Operating expenses	**(141,749)**	(129,038)
Operating profit before impairment	**670,201**	816,753
(Loan impairment charge) / Write-back of loan impairment allowances	**(36,225)**	4,457
Operating profit	**633,976**	821,210
Share of loss of a joint venture	**(8)**	-
Profit before taxation	**633,968**	821,210
Taxation	**(28,974)**	(80,546)
Profit for the year	**604,994**	740,664
Proposed dividend	**250,000**	250,000

	As at 31 December 2008	As at 31 December 2007
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**3,093,258**	2,666,505
Derivative financial instruments	**2,237,526**	657,486
Loan portfolio, net	**50,760,112**	34,460,291
Investment securities:		
- available-for-sale	**2,052,552**	4,038,250
- held-to-maturity	**5,614,666**	5,500,024
Reinsurance assets	**348,442**	366,383
Investment in a joint venture	**113,532**	-
Other assets	**1,408,246**	938,984
	65,628,334	48,627,923
LIABILITIES		
Derivative financial instruments	**214,994**	122,642
Tax payable	**47,866**	21,275
Insurance liabilities	**908,740**	661,386
Advance from Exchange Fund	**8,000,000**	-
Debt securities issued	**42,814,988**	33,311,190
Mortgage-backed securities issued	**3,225,624**	4,229,159
Other liabilities	**4,653,658**	4,652,041
	59,865,870	42,997,693
SHAREHOLDERS' EQUITY		
Share capital	**2,000,000**	2,000,000
Retained profits	**3,485,513**	3,151,567
Contingency reserve	**123,545**	102,497
Fair value reserve	**(21,371)**	120,673
Hedging reserve	**(66,666)**	5,493
Translation reserve	**(8,557)**	-
Proposed dividend	**250,000**	250,000
	5,762,464	5,630,230
	65,628,334	48,627,923
Capital-to-assets ratio	**8.7%**	11.2%
	2008	2007
Return on shareholders' equity	**10.5%**	13.7%
Return on total assets	**1.1%**	1.6%
Cost-to-income ratio	**17.5%**	13.6%
Net interest margin	**1.3%**	1.5%

Financial Review

Despite the once-in-a-century financial crisis, the Corporation was able to achieve another year of solid financial results after the record set in 2007. The Corporation has proven to be highly efficient and resilient, carrying out its important policy role of helping to maintain banking and financial stability by purchasing loan assets from local banks.

During the year, the Corporation purchased a record of HK$26 billion of loan assets to meet with the local banks' liquidity and balance sheet management as well as to fulfil the expansion of mandate. In response to the challenging capital market conditions, the Corporation adopted active pre-funding strategy and proactive investor communication to raise a record HK$24.4 billion of debts to fund loan purchase and redemption of matured debts. The Corporation also made another record of loans underwritten under the Mortgage Insurance Programme (MIP) at HK$20.4 billion, 54.5% over 2007.

The HKMC Group achieved a profit after tax HK$605 million in 2008, 18.3% below that of 2007. Return on shareholders' equity was 10.5% (2007: 13.7%). The decline on PAT and RoE, mainly attributable to prudent provisions of loan impairment, rise in hedging costs and change in fair value of hedging financial instruments, has been relatively mild compared to the financial performance of the industry. 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.

Benefited from the expansion of the loan portfolio, the net interest income rose HK$61 million to HK$710 million compared to 2007. The net interest margin of the average interest-earning assets reduced slightly to 1.3% (2007: 1.5%) due to rising costs for hedging and funding.

With the solid growth in secondary market activities, the new loans underwritten under the MIP soared by 54.5% to HK$20.4 billion. The risk-in-force borne by HKMC increased from HK$3.5 billion in 2007 to HK$5.7 billion in 2008 or an increase of 62.6% as a result of surge in loan underwritten as well as increase in risk retention. Included in other income, net mortgage insurance premiums earned was HK$93 million (2007: HK$110 million) after adjusting for additional provision for outstanding claims of HK$41 million amid weakness in the job and property markets.

Other income dropped by 65.6% to HK$102 million (2007: HK$297 million). Key items other than the net mortgage insurance premiums earned were, HK$26 million (2007: HK$24 million) of early prepayment fees arising from refinancing activities, HK$43 million of dividend income (2007: HK$29 million) on investments in listed bond funds and real estate investment trust,

HK$26 million (2007: HK$1 million) of net gain on disposal of available-for-sale investments, HK$40 million of exchange loss (2007: HK$17 million exchange gain) and HK$43 million fair value loss of financial instruments (2007:HK$116 million gain on fair value change of financial instruments).

The HKMC Group continued to exercise tight control over its operating expenses. Total operating expenses record an increase of 9.9% to HK$142 million mainly due to the expansion of risk management functions. The cost-to-income ratio was 17.5% for 2008 (2007: 13.6%).

As a result of the decline in property price and rising unemployment rate, a prudent loan provisioning of HK$36 million was made in 2008 (2007: write back of HK$4 million).

Reflecting the expansion of loan portfolio during the year, capital-to-assets ratio (CAR) reduced from 11.2% a year ago to 8.7%, a level still well above the minimum of 5% stipulated in the CAR guidelines issued by the Financial Secretary.

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
Professor the Hon K C CHAN, SBS, JP	Secretary for Financial Services and the Treasury
The Hon CHAN Kin-por, JP	Legislative Councillor Chief Executive Munich Reinsurance Company Hong Kong Branch
The Hon Tanya CHAN	Legislative Councillor
Ms Louisa CHEANG	Head of Personal Financial Services Hong Kong The Hongkong and Shanghai Banking Corporation Limited
The Hon Ms Eva CHENG, JP	Secretary for Transport and Housing
Professor the Hon Anthony CHEUNG Bing-leung, BBS, JP	Chairman, Consumer Council
Mr Eddy FONG Ching, GBS, JP	Chairman Securities and Futures Commission
Mr Lester Garson HUANG, JP	Partner, P. C. Woo & Co.

The Hon Starry LEE Wai-king	Legislative Councillor
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
Mr Eddie TAN Cheng-soo	Regional Treasurer Asia Pacific Citibank, N.A.