Press Release

The Hong Kong Mortgage Corporation Limited

Bauhinia MBS Limited
US$3,000,000,000
Mortgage-Backed Securitisation Programme

The Hong Kong Mortgage Corporation ("HKMC") is pleased to announce today (19 December) the launch of Bauhinia MBS Limited US$3 Billion Mortgage-Backed Securitisation Programme (the"Programme"). The event was marked by a signing ceremony held today.

The Programme is a multi-currency, conventional bond style securitisation programme. Bauhinia MBS Limited ("Bauhinia") is a bankruptcy-remote special purpose company formed by the HKMC to act as the vehicle for issuance of mortgage backed securities ("MBS") under the Programme. The HKMC will sell from time to time mortgage portfolios to Bauhinia MBS Limited which will package them into MBS of different series for issue to investors.

The HKMC intends to launch initially two products under the Programme that are familiar to the capital market participants. The first product is a single class MBS with the HKMC's guarantee on repayment of principal and interest. The second product is in the form of multi-class MBS with credit-enhancement provided through segmentation of the issue into senior and junior tranches (commonly known as Collateralized Mortgage Obligation or CMO), over-collateralization or reserve fund arrangements.

The multi-currency Programme will enable the HKMC to arrange MBS through Bauhinia MBS Limited in different currencies to meet the demands of both domestic and overseas investors. The Programme adopts the bond style structure under which the interest amount payable on the coupon date is pre-determined and known to the investors. It will facilitate the trading of the MBS and hence enhance their liquidity in the secondary market.

The Programme contains flexible offering mechanisms that allow public issues as well as private placements. An extensive distribution network comprising the major financial houses has been put in place to support future issuance. The Programme is arranged by Merrill Lynch International and supported by a Dealer Group comprising Barclays Capital, Dao Heng Bank, Deutsche Bank, HSBC,

JPMorgan, Merrill Lynch International, Salomon Smith Barney and UBS Warburg. The HKMC will act as the Seller, Master Servicer and Transaction Administrator under the Programme.

Mr. Tony Latter, Executive Director of the HKMC, said, "the Programme is a major milestone in the development of the secondary mortgage market in Hong Kong. Through standardization of product structure and documentation, the Programme provides a convenient platform for the HKMC and banks to convert their illiquid mortgage portfolios into liquid MBS in order to achieve their funding and balance sheet management objectives. It will substantially shorten the lead time for the issue of MBS from 6 to 9 months to a few weeks."

Mr. Peter Pang, Chief Executive Officer of HKMC, said, "the existing back-to-back guaranteed MBS Programme and the new bond-style MBS Programme will serve as the two main vehicles for the HKMC to promote the development of the MBS market in Hong Kong. The back-to-back MBS Programme targets banks that are interested in using it as a balance-sheet management tool, whilst the bond-style MBS Programme caters for a wider group of investors that are interested in the income stream from HKMC's high quality mortgage assets. The HKMC intends to launch a debut issue of about HK$2 billion in the first quarter of 2002."

Mr. K.L. Wong, Vice Chairman, Corporate Finance, Asia Pacific Region of Merrill Lynch said, "The Bauhinia MBS Limited's Mortgage-Backed Securitisation Programme, the first MBS master programme to be launched in Asia ex-Australia, is a landmark event in the development of the secondary mortgage market. It allows for HKMC-guaranteed issues, similar to transactions completed by Ginnie Mae and Fannie Mae in the U.S.; it also caters for non-guaranteed issues such as pass-throughs and CMO's to meet the needs of a different investor base. Merrill Lynch is honoured to have acted as Arranger to this Programme."

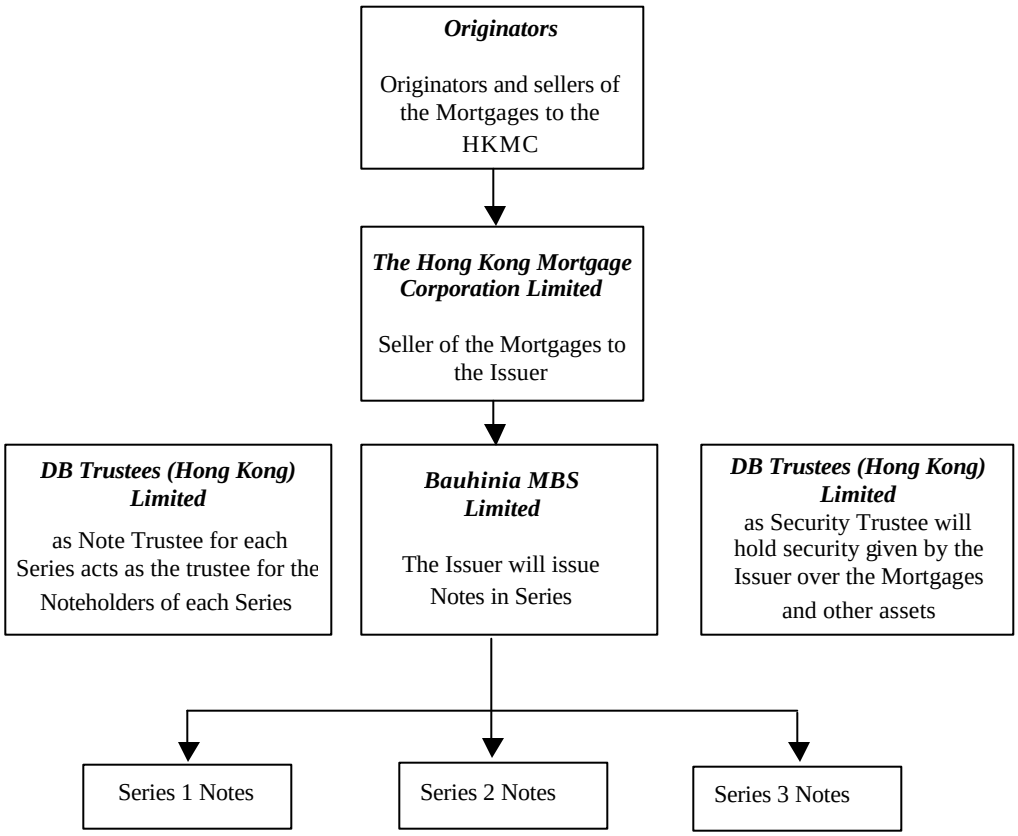
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19 December 2001

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Mortgage-Backed Securitisation Programme
(the "Programme")

Technical Brief

1. Programme Structure



2. Programme Features

(a) Conventional bond style structure

MBS issued under the Programme will adopt the bond style structure:

- the interest amount for each coupon period is pre-fixed
  = Specified Coupon Rate x MBS Principal Balance outstanding x Number of days in the Coupon Period;

- the outstanding principal amount is on reducing balance due to partial redemption of the MBS on each coupon payment date.

(b) Multi-currency

- MBS issued under the Programme may be denominated in HKD or any other convertible currencies, e.g. USD, EUR.

(c) Underlying mortgage loans

Mortgage loans eligible for securitisation under the Programme include the following types of residential mortgage loans secured by first or second legal charges acquired by the HKMC from banks, Hong Kong Housing Authority, Hong Kong Housing Society and property developers in Hong Kong:

- Prime-based residential mortgage loans

- HIBOR-based residential mortgage loans

- Fixed adjustable rate residential mortgage loans

3. Product Structure

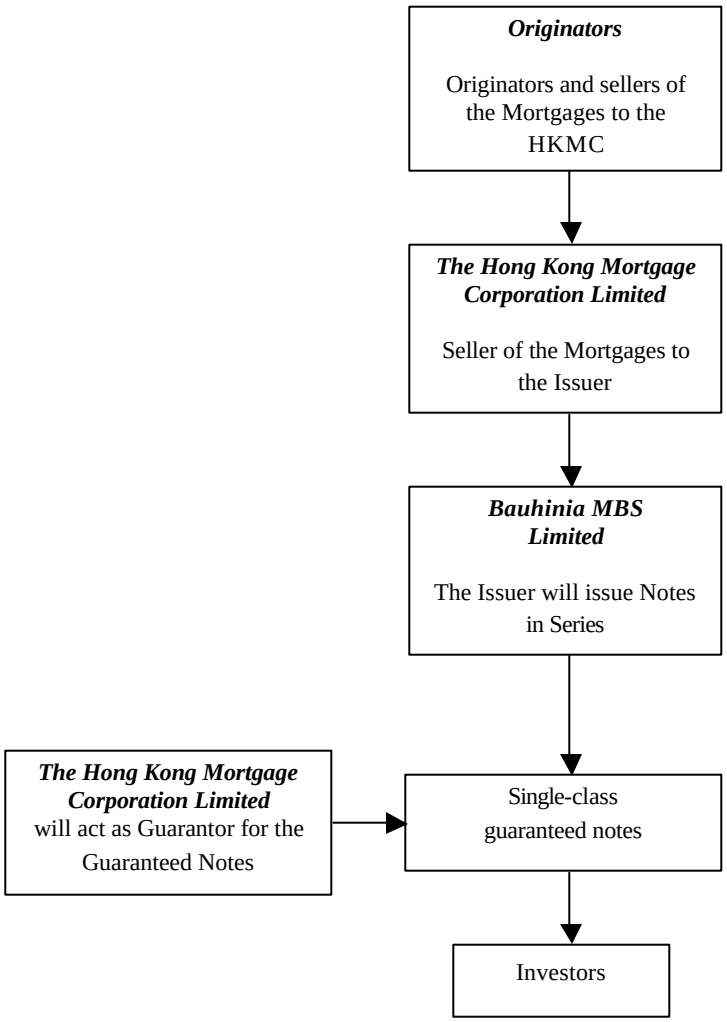
(a) Single-class MBS with the HKMC's guarantee

- The HKMC will sell a mortgage pool from its retained mortgage portfolio to the bankruptcy remote Special Purpose Vehicle ("Bauhinia MBS Limited") which will issue MBS to investors.

- Credit enhancement is provided by the HKMC which will guarantee the payment of all scheduled principal and interest.

- HKMC's long-term credit ratings:

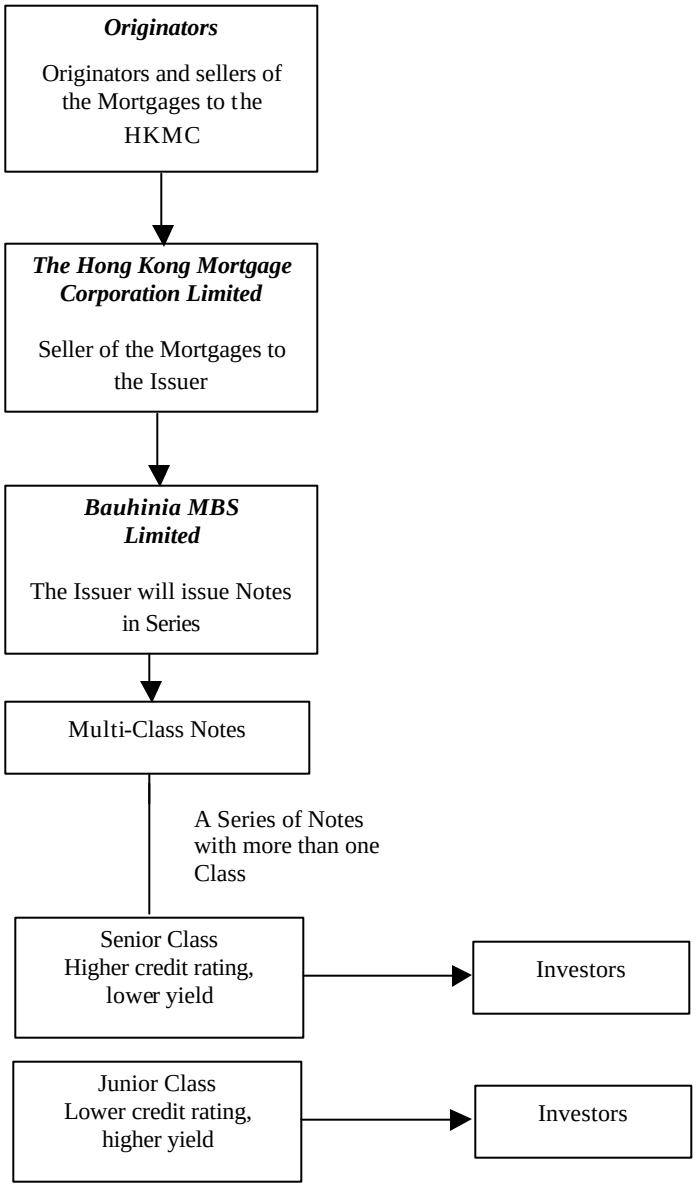
	HKD	Foreign currency
Standard & Poor's	AA-	A+
Moody's	Aa3	A3



(b) Multi-class MBS without the HKMC's guarantee

- The HKMC will sell a mortgage pool from its retained mortgage portfolio to the bankruptcy remote Bauhinia MBS Limited which will issue MBS to investors.

- Credit enhancement is provided through segmentation of the MBS into senior and junior classes, reserve fund, over-collateralisation or a combination of the above. The junior class MBS will absorb first default loss of the underlying mortgages up to a specified amount. It will carry a lower credit rating but will be paid a higher yield, as compared with the senior class MBS.



4. Offering Mechanism

- The offering mechanism for MBS issued under the Programme may take the form of a public issue underwritten by a group of underwriters or a private placement issue arranged by one underwriter.

- A Dealer Group has been formed for the Programme comprising Barclays Capital, Dao Heng Bank, Deutsche Bank, HSBC, JPMorgan, Merrill Lynch International, Salomon Smith Barney and UBS Warburg.

- Any Dealer from the Dealer Group may underwrite any series drawn down from the Programme.

- A financial institution outside the Dealer Group may initiate an issue by invoking the reverse enquiry provision in the Programme.

- The total outstanding amount of MBS that can be drawn down under the Programme is US$3 billion. The Programme size can be increased subject to the mutual agreement among the Issuer, the Guarantor and the Dealers.

5. Clearing and Settlement

- Settlement of the MBS notes will follow the Eurobond convention or the convention of the market where the MBS notes are issued. For MBS notes denominated in HKD, transactions in the secondary market are usually settled two days after the trade date (i.e. T + 2 days).

- HKD denominated MBS notes are cleared and held in custody of CMU. As CMU has established linkage with Euroclear and Clearstream, the HKD MBS can be transferred to these two custodians.

- CMU can also clear and keep custody of USD denominated MBS.

- MBS denominated in major currencies can be cleared by and held in custody of Euroclear and Clearstream.

6. Benefits of Establishing the Programme

(a) Promote development of the MBS market in Hong Kong through:

- Standardization of structure of MBS products and legal documentation.
- Providing a convenient, flexible and cost-efficient platform for issuing MBS.
- Adopting the bond-style structure which facilitates trading of MBS and hence enhances their liquidity in the secondary market.

(b) Benefits for investors

- The multi-currency Programme supports the issuance of MBS in different currencies to meet the demands of domestic and overseas investors.
- The Programme will enable investors to enjoy the income stream of the HKMC's high quality mortgage assets.
- The flexible structure and extensive credit enhancement options will enable the HKMC to devise products that would suit the investment and balance sheet management needs of different investors and investors of different risk appetite.

(c) Benefits for banks

- The Programme provides a convenient platform for banks to securitise part of their mortgage portfolios when required in order to meet their funding needs and to manage the concentration and liquidity risks of their mortgage portfolios.
- Banks may also invest in the MBS originated under the Programme as an alternative to competing for mortgage loans in the primary market. MBS guaranteed by the HKMC attract a lower 20% capital risk weighting compared to 50% for mortgage loans in their retained portfolio.

(d) Benefits for the HKMC

- The Programme will serve as an important vehicle for the HKMC to promote the development of the secondary mortgage market in Hong Kong.
- It will also serve as a powerful tool for the HKMC in meeting its funding needs and to manage the credit, prepayment and Prime-HIBOR basis risks of its retained mortgage portfolio.