Press Release

The Hong Kong Mortgage Corporation Limited

Guaranteed Mortgage-Backed Securities Programme Inaugural Issue Signing Ceremony with Dao Heng Bank

The Hong Kong Mortgage Corporation Limited (HKMC) launched its Guaranteed Mortgaged-Backed Securities (MBS) Programme today (22 October 1999). The event was marked by the signing ceremony jointly held with Dao Heng Bank Limited (DHB) for the inaugural issue under the Programme.

MBS notes issued under the Programme adopt the back-to-back and pass-through structure. After acquiring mortgage loans from a bank, the HKMC will sell the mortgage pool to the HKMC Funding Corporation (1) Limited (Funding Corporation). The Funding Corporation, which is a "bankruptcy remote" special purpose vehicle, will issue MBS back to the bank with the HKMC's guarantee for the timely payment of principal and interest. The HKMC will pass through the monthly repayment of principal and interest of the underlying mortgage loans to the holders of the MBS after deducting the servicing fee and the guarantee fee. (Details of the scheme are set out in the Annex.)

The size of the inaugural issue concluded with DHB is about HK$1 billion. The HKMC will buy about HK$1 billion of residential mortgage loans from DHB, which in return will acquire guaranteed notes issued by the Funding Corporation of the same principal value.

The Programme provides a new alternative for banks in Hong Kong to liquefy their residential mortgage loans in the market, thereby providing them with a powerful new balance sheet management tool. MBS guaranteed by the HKMC will carry a 20% risk weighting for capital adequacy treatment, instead of the usual 50% risk weighting for mortgage loans. MBS issued under the Programme will also qualify as liquefiable assets under the Banking Ordinance.

At the signing ceremony today, Mr Joseph Yam, Deputy Chairman of the HKMC said "the mortgage-backed securities programme holds special attractions for participating banks, for investors, and for the Corporation itself. For the banks involved, the back-to-back structure allows them to keep a substantial portion of the cashflow from mortgages while reducing the credit risk and capital cost and substantially improving the quality of their mortgage assets. For investors, the guarantee by the Mortgage Corporation, with strong backing by the Government, provides protection from default. For the Corporation, the successful launch of this new product will be useful experience

for preparing launches of more sophisticated mortgage-backed securities products in the future."

Mr. Kwek Leng Hai, Chief Executive Officer of DHB said "we are very pleased to be the pioneer bank under the HKMC's new Mortgage-Backed Note Programme. This transaction represents a further step forward in our relationship with the HKMC and is also significant for the development of the HK dollar-denominated debt market. Notes issued under this Programme not only benefit from the HKMC Guarantee but are also fully mortgage-backed, so represent a significant product diversification within this market. As Dao Heng Markets (DHM)* are keen to broaden the scope of Hong Kong dollar debt market products offered, we welcome the opportunity to participate in this latest initiative by the HKMC."

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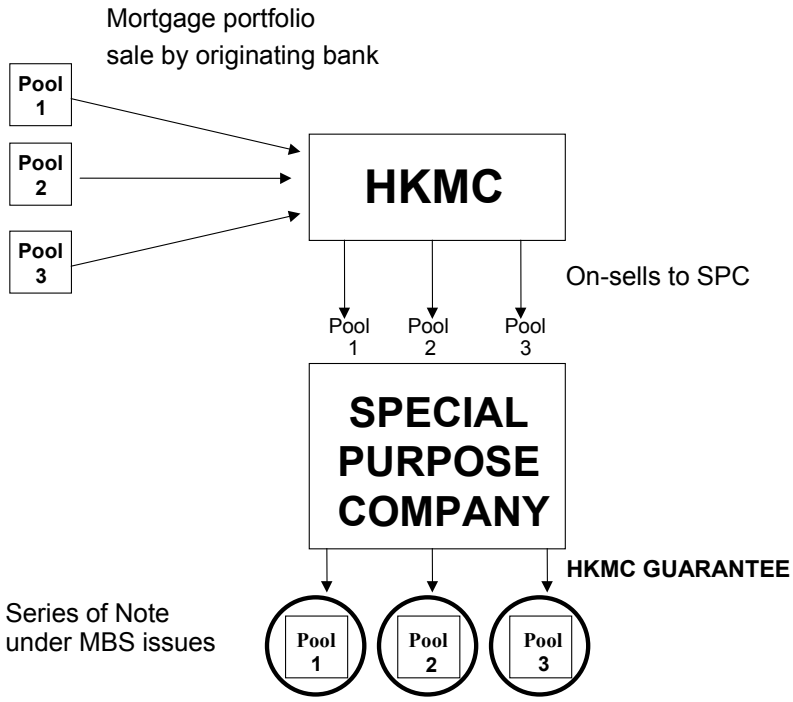
22 October 1999

** DHM, a division of DHB has recently launched the Dao Heng Government Bonds Index, which tracks the price of key Hong Kong Government Bonds. DHM has also recently introduced retailing of bonds to its customers. DHB is approximately 71.6% owned by the Guoco Group.*

Annex

OVERVIEW OF HKMC MBS PROGRAMME

Structure



Key features of the programme

- Back-to-back structure: after acquiring the mortgages from a bank, the HKMC will sell the mortgages pool to a "bankruptcy remote" Special Purpose Company (SPC) which will issue MBS back to the bank;

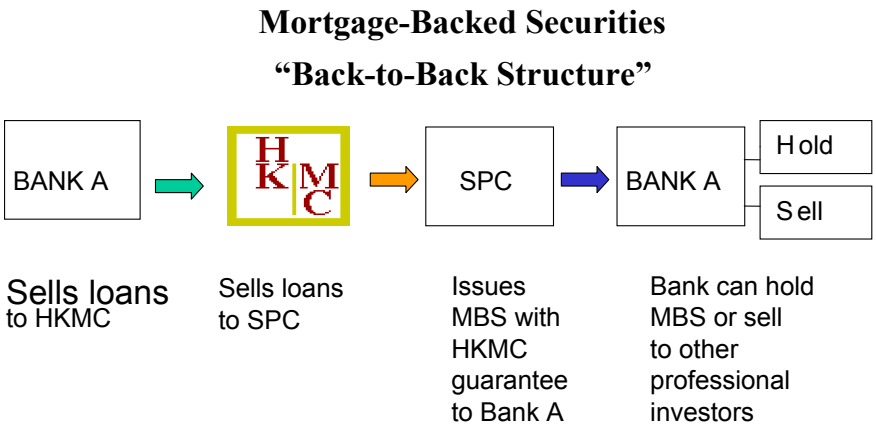
- Pass-through of mortgage receipts: all cash received on underlying loans after deducting the servicing fee and the guarantee fee will be passed through to the investor, including interest (at the stated pass-through rate) scheduled and unscheduled principal;

- HKMC will guarantee the timely payment of all scheduled principal and interest (monthly instalments and in case of repossession); and

- Notes issued in HK dollars; and

- No additional credit enhancement needed (e.g. reserve fund or subordinated tranche).

Process flow of programme



Benefits of programme to the banks

- Regulatory Treatment
  - 20% risk-weighting for MBS guaranteed by HKMC vs. 50% for mortgage loans;
  - MBS qualified as liquefiable assets under the Banking Ordinance;
- Removes all credit risk of securitised mortgages (HKMC guarantee);
- Maintain cash flow on mortgages for as long as they hold the Notes (less the guarantee fee);
- Maintain relationship with customers for cross-selling opportunities; and
- Quicker and less costly compared with issuance of MBS on their own.

Cash flow of programme

