Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcements today 21 July 1999):

Half-year financial results

The unaudited interim results (Annex A) show that the operating profit after tax for the six months ending 30 June 1999 was HK$153.3 mn, an increase of HK$128.5 mn, or 518.1%, over the corresponding period last year. The annualised return on average shareholder's equity was 14.1% (5% in 1998).

Total assets increased by 148.7% from HK$4,258.3 mn to HK$10,589.7 mn as compared to the corresponding period last year. The annualised return on monthly average total assets was 2.7% (2% for the first half of 1998).

General provisions for bad and doubtful debts amounting to HK$5.1 mn was charged to the Profit and Loss Account as at 30 June 1999. No specific provision needed to be made for the period, reflecting the satisfactory credit quality of the mortgage portfolio. The capital-to-assets ratio remained high at 11.7%.

Mortgage-backed Securities

The Board of Directors has given its approval in principle for the Corporation to launch mortgage-backed securities (MBS) under a pilot scheme.

Under the proposed scheme, the HKMC will purchase mortgages from individual banks and then transfer the mortgage pool to a special purpose vehicle (SPV). The SPV will then issue MBS back to the originating bank with the HKMC's guarantee of the timely payment of principal and interest in return for a guarantee fee. The bank can either hold the MBS in its own portfolio or on-sale the securities to other investors. The structure of the MBS is shown in the diagram at Annex B.

In commenting on the recent developments of the HKMC, Mr. Donald Tsang, Chairman of the HKMC, said, "I am very pleased with the performance of the HKMC. The interim results are encouraging. It is also reassuring to see that the mortgage portfolio is of exceptionally high quality."

Mr. Joseph Yam, Deputy Chairman of the HKMC, said, "The MBS product to be launched by the HKMC will be of mutual benefit to the banks and the Corporation. For the banks, the HKMC's guarantee for the timely payment of principal and interest will substantially reduce the credit risk of the mortgage loans and hence the need to make provisions. The exposure to the guarantee of the HKMC, which is a Public Sector Entity, will also result in savings in capital cost. For the HKMC, the product will open a new line of business. The experience to be gained from this relatively simple structure will be valuable for the subsequent launch of more complicated MBS products."

The Hong Kong Mortgage Corporation Limited

21 July 1999

Annex A

THE HONG KONG MORTGAGE CORPORATION LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 1999

The Directors of the Hong Kong Mortgage Corporation Limited (the "HKMC") are pleased to announce that the unaudited interim results of the HKMC for the six months ended 30 June 1999, together with the comparative figures for the previous year are as follows:

	6 months ended 30 June 1999	30 June 1998
	HK$'000	HK$'000
Interest income	487,451	116,277
Interest expense	(260,527)	(47,312)
Net interest income	226,924	68,965
Other income / (expenses), net	3,857	(51)
Operating income	230,781	68,914
Operating expenses	(43,280)	(34,159)
Operating profit before provisions	187,501	34,755
General provisions for bad and doubtful loans	(5,059)	(6,516)
Profit before taxation	182,442	28,239
Taxation	(29,139)	(3,425)
Profit after taxation	153,303	24,814
Accumulated profit / (loss) brought forward	86,146	(20,252)
Retained profit carried forward	239,449	4,562

	At 30 June 1999	At 30 June 1998
	HK$'000	HK$'000
Mortgage portfolio, net	10,329,053	4,140,626
Total assets	10,589,732	4,258,277
Long-term debt securities	6,941,000	1,500,000
Shareholder's equity	2,239,449	1,004,562
Capital-to-assets ratio	11.7%	20.4%
Return on average shareholder's equity	14.1%	5.0%
Cost-to-income ratio	18.8%	49.6%

Financial Review

For the six months ended 30 June 1999, profit after taxation was HK$153.3 mn, an increase of HK$128.5 mn or 518.1% over the corresponding period last year. The return on average shareholder's equity was 14.1% p.a. (1998: 5.0% p.a.).

Interest income from the mortgage portfolio increased by HK$374.9 mn or 335% to HK$486.8 mn as compared to the same period in 1998. The increase in interest income was mainly due to a larger average mortgage portfolio for the current reporting period.

Up to 30 June 1999, the HKMC had issued fixed rate notes of HK$3.5 bn under the Note Issuance Programme ("NIP") and HK$3.4 bn under the Debt Issuance Programme ("DIP") with maturities up to 10 years to finance mortgage purchase. An aggregate of HK$1.75 bn of notes was issued under the NIP and DIP during the reporting period. The HKMC also tapped the inter-bank money market to fund the expansion of its mortgage portfolio. The HKMC incurred total interest expenses of HK$260.5 mn, an increase of HK$213.2 mn or 450.7% over the same period last year.

For the six months to 30 June 1999, the HKMC earned a net interest income of HK$226.9 mn, an increase of 229% over the same period in 1998.

The Mortgage Insurance Program ("MIP") was launched on 31 March 1999. The MIP continues to be well received by the homebuyers. During the three months ended 30 June 1999, the net premiums written on a cash basis amounted to HK$2.0 mn. A major portion of the net premiums has been retained as unearned premiums (HK$1.9 mn) in the

balance sheet to match with the insurance risk exposure subsequent to the balance sheet date. The net premiums earned after amortisation were HK$0.1 mn for the reporting period. The full amount is covered by reinsurance provided by the Approved Reinsurers.

Total operating expenses amounted to HK$43.3 mn for the six months ended 30 June 1999. Cost-to-income ratio was 18.8% reflecting an improved level of cost efficiency (1998: 49.6%).

The HKMC provided additional general provisions for bad and doubtful loans amounting to HK$5.1 mn for the reporting period. No specific provision for bad and doubtful loans needed to be made, reflecting good credit quality of the mortgage portfolio. As a result, an aggregate of HK$22.3 mn general loan provisions was provided at 30 June 1999.

Capital-to-assets ratio ("CAR") stood at 11.7% at 30 June 1999 (1998: 20.4%) which was well above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.

Annex B

MORTGAGE BACKED SECURITIES

Framework

