Press Release

The Hong Kong Mortgage Corporation Limited

Inaugural HK$1 billion Mortgage & Bond Asset Swap Programme Signing Ceremony with Dao Heng Bank

The Hong Kong Mortgage Corporation (HKMC) and Dao Heng Bank (DHB) signed an agreement today (30 May 2000) for a HK$1 billion Mortgage and Bond Asset Swap Programme. This is the first transaction under the asset swap arrangement recently launched by the HKMC to enhance the attraction of its Mortgage Purchase Programme to the Authorised Institutions.

Under the asset swap arrangement, the HKMC will purchase a portfolio of mortgage loans from a bank. In return the HKMC will issue an equivalent amount of debt securities under its Debt Issuance Programme to the bank. (The basic structure of the arrangement is shown in the attached diagram.) The arrangement is a win-win solution that benefits both the banks and the HKMC.

The bank counterparty will enjoy a higher return from the arrangement. As the prevailing mortgage rate is broadly in line with the yields of the HKMC's debt securities of 3 to 5 years maturity, the combined return from the debt securities and the fee for servicing the mortgage loans for the HKMC will exceed the interest income from retaining the mortgage loans in its asset portfolio. Profitability of the bank will be further enhanced by the release of the general provision made in respect of the mortgage loans. There will be savings in capital charge for the bank as the HKMC paper carries a 20% risk-weighting as compared to a 50% risk-weighting for a mortgage loan under the capital adequacy regime. The liquidity ratio of the bank will also be enhanced as the HKMC's debt securities qualify as liquefiable assets under the Banking Ordinance.

The asset swap arrangement will help the HKMC to acquire mortgage assets under the current difficult market environment. The yield enhancement would provide a strong incentive for banks to conduct such transactions with the HKMC on a regular basis. This would provide an effective platform for the HKMC to build a critical mass for its mortgage portfolio.

The size of the inaugural programme with DHB is HK$1 billion. The first tranche of HK$600 million has been scheduled for settlement in late July or early August 2000. The balance of HK$400 million will be arranged for settlement in the next twelve months. The HKMC is in active discussion with a number of banks with a view to concluding similar asset swap programmes with them in the near future.

"With the asset swap arrangement, the HKMC has turned adverse market conditions into an attractive business opportunity. The recent suppression of mortgage rates to levels close to the annualised yields of the HKMC's debt securities has made this idea viable. The yield pick-up provides a strong incentive for the banks to conduct such transactions with the HKMC on a regular basis. We expect to conclude similar deals with other Approved Sellers in the near future," said Mr. Peter Pang, Chief Executive Officer of the HKMC.

Mr P.S. Tam, General Manager of DHB, said, "we are pleased to be the pioneer bank to enter into the first transaction under the asset swap arrangement launched by the HKMC. The arrangement is beneficial to both the HKMC and the banks which are offered greater flexibility in its balance sheet management. We welcome the opportunity to participate in this latest initiative of the HKMC."

The Hong Kong Mortgage Corporation Limited Dao Heng Bank Limited

30 May 2000

Annex 1

Structure of Asset Swap Arrangement

Mortgage Loans

Bank	----------> <----------	HKMC

HKMC Fixed Rate Notes

Bank gets fixed interest yield on HKMC Notes + servicing fee

HKMC gets Gross Mortgage Rate less servicing fee



Signing Ceremony of the Inaugural HK$1 Billion Mortgage & Bond Asset Swap Programme between the HKMC and Dao Heng Bank.