Press Release

The Hong Kong Mortgage Corporation Limited

The Hong Kong Mortgage Corporation Limited (HKMC) made the following announcements today (26 July 2001):

Half-year Financial Results

The unaudited interim results show that the operating profit after tax for the six months ended 30 June 2001 was HK$110.3 million, a reduction of HK$16.7 million or 13.1% compared with the corresponding period last year. Annualised return on average shareholder's equity was 8.3% (2000: 9.4%). The capital-to-assets ratio remained strong at 9.9%. The interim results and a financial review are attached at Annex A.

Total assets increased by 53.4% from HK$14.8 billion at the end of 2000 to HK$22.7 billion. The HKMC expects improvement in profits in the second half of 2001 due to the significant increase in mortgage purchase and growth in business volume under the Mortgage Insurance Programme (MIP). Despite the difficult market environment, the Corporation purchased HK$4.6 billion of mortgages in the first six months and has secured firm offers of HK$8.6 billion (including another HK$5 billion from the Housing Authority) for settlement in the second half of the year. The aggregate amount of HK$13.2 billion has already exceeded the business target of HK$12.5 billion set for the year, and is more than double the mortgage purchase amount of HK$6.35 billion achieved in 2000.

Through product diversification and effective marketing, the HKMC received 4,442 mortgage insurance applications in the first 6 months of 2001 involving a total mortgage loan amount of HK$8 billion. This is significantly higher than the corresponding figures of 1,984 applications and total mortgage loan amount of HK$4.1 billion for the same period in 2000. Secondary market transactions continued to account for about 77% of the applications received in the first half of 2001. This shows that the MIP has helped to enhance the liquidity of secondary property market transactions.

Reflecting the prudent purchasing criteria adopted by the Corporation, the delinquency ratios of loans overdue for more than 90 days in the retained mortgage portfolio and the MIP portfolio were 0.42% and 0.12% respectively at the end of May, substantially lower than banking industry average of 1.42%.

The HKMC maintained its status as the most active fixed rate debt issuer in the Hong Kong dollar debt market in the first half of 2001 with a total issuance amount of HK$10.7 billion under its Note Insurance Programme and Debt Issuance Programme to support the expansion of its business.

Credit Rating Results

The international credit rating agencies Moody's and Standard & Poor's have assigned credit ratings to the HKMC which are the same as those of the Government of the Hong Kong Special Administrative Region (HKSAR):

	Standard & Poor's		Moody's	
	Short-term	long-term	Short-term	long-term
Foreign currency (outlook)	A1 (stable)	A+ (stable)	P1 (stable)	A3 (positive)
Local currency (outlook)	A1+ (stable)	AA- (stable)	P1 (stable)	Aa3 (stable)

Moody's cited the strong support of the HKSAR Government and the good financial fundamentals of the HKMC, including the strong performance of Hong Kong mortgage obligations under stress, in affirming the HKMC's credit ratings. Standard & Poor's highlighted the important strategic role of the HKMC, high quality assets, strong profitability, solid funding capability and strong capital position as the major factors behind its ratings.

"The strong credit ratings are a due recognition of the important strategic role performed by the HKMC in Hong Kong's banking, housing and capital markets, and the ability of the Corporation to achieve its core missions whilst operating as a prudent and profitable business," said Mr. Antony Leung, Chairman of the HKMC. "The ratings have re-affirmed the credit-worthiness

of the HKMC to potential investors, both in Hong Kong and overseas. This has substantially enhanced the flexibility of the Corporation in diversifying its funding source and the investor base of its debt securities to cover the international capital market," he added.

Expansion of Mortgage Insurance Programme (MIP)

The Board of Directors of the HKMC approved today an increase in the loan size ceiling for mortgages covered under the MIP from HK$5 million to HK$8 million. The expansion will cover initially mortgage loans for completed properties with loan-to-value ("LTV") ratio of up to 85%.

The MIP was launched by the HKMC in March 1999 with the aim of promoting home ownership in Hong Kong. The Programme currently covers mortgage loans for both completed properties and properties under construction (equitable mortgages), both up to a maximum loan size of HK$5 million. On the request of banks and with the support of the Approved Reinsurers, the HKMC has decided to raise the maximum loan size to HK$8 million. The new product is expected to be launched in September 2001.

Eligibility criteria for mortgage loans in the HK$5 million to HK$8 million bracket are set out in the technical note at Annex B. Further extension of the HK$8 million loan size ceiling to mortgages with LTV ratio of up to 90% and equitable mortgages will be considered later in the light of feedback from banks and the performance of the loans under the expanded programme.

The Hong Kong Mortgage Corporation Limited
26 July 2001

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 2001

The Directors of The Hong Kong Mortgage Corporation Limited (HKMC) are pleased to announce that the unaudited interim results of the HKMC for the six months ended 30 June 2001, together with the comparative figures for the previous year, are as follows:

	6 months ended	
	30 June 2001	30 June 2000
	HK$'000	HK$'000
Interest income	527,478	481,216
Interest expense	(370,556)	(306,681)
Net interest income	156,922	174,535
Other income, net	15,806	20,441
Operating income	172,728	194,976
Operating expenses	(48,163)	(46,470)
Operating profit before provisions	124,565	148,506
Provisions for bad and doubtful loans	(14,109)	1,501
Profit before taxation	110,456	150,007
Taxation	(200)	(23,056)
Net profit for the period	110,256	126,951
Retained profit brought forward	589,814	357,378
Transfer to contingency reserve	(1,905)	(12)
Retained profit carried forward	698,165	484,317

	At 30 June 2001 HK$'000	At 31 Dec 2000 HK$'000
Mortgage portfolio, net	13,907,407	11,083,025
Cash and short-term funds	7,430,165	2,068,134
Investment in debt securities	853,143	1,304,753
Total assets	22,678,422	14,844,616
Debt securities	19,721,000	11,621,000
Short-term bank loans	-	427,200
Shareholder's equity	2,700,740	2,590,484
Capital-to-Assets Ratio	9.9%	12.3%
Return on average shareholder's equity	8.3%	9.4%
Cost-to-income ratio	27.9%	25.1%

Financial Review

The unaudited profit after taxation (PAT) was HK$110.3 million for the six months ended 30 June 2001, a reduction of HK$16.7 million or 13.1% over the corresponding period of last year. The reduction in PAT mainly reflected a reduction in interest rates of mortgage loans in the retained portfolio due to intensive price competition and a reduction in the return on the shareholder's paid-up capital due to the 2.5% cut in the Prime rate in the first six months. The negative impact had been moderated by a significant purchase of HK$4.6 billion of mortgages in the first half of 2001 (1H 2000: HK$1.5 billion). The increase in the average balance of the retained mortgage portfolio contributed to an increase in interest income of HK46.3 million or 9.6% to HK$527.5 million as compared to the previous corresponding period.

For the purpose of minimizing the adverse impact of the sharp reduction in gross mortgage rates on the net interest spread of the mortgage portfolio, the HKMC has adopted a proactive approach to capture low cost funding opportunities. During the period under review, the HKMC issued an aggregate of HK$10.7 billion of notes under the Note Issuance Programme and Debt Issuance Programme and successfully achieved a low funding cost at around HIBOR.

The Mortgage Insurance Programme (MIP) continues to be well received by the homebuyers. The total outstanding principal balance of the loans with mortgage insurance coverage amounted to HK$12.2 billion and the number of such mortgage loans stood at 6,451 as at 30 June 2001. The net premium earned was HK$9.6 million (1H 2000: HK$2.9 million). The demand for mortgage insurance is expected to further increase following the decision to increase the insurance coverage for equitable mortgages of up to 90% of the value of the property.

The Corporation continues to exercise tight control over its operating expenses. Total operating expenses were HK$48.2 million for the first half of 2001 (1H 2000: HK$46.5 million). The cost-to-income ratio remained steady at 27.9% (2000: 25.1%).

Capital-to-assets ratio (CAR) was healthy at 9.9% as at 30 June 2001 (2000: 12.3%). This is well above the minimum CAR of 5% stipulated in the guidelines issued by the Financial Secretary.

Annex B

Technical Note

Eligibility Criteria for Loans
Exceeding HK$ 5 Million and up to HK$ 8 Million

Description: Eligibility Criteria for Floating Rate Mortgages with loan-to-value ("LTV") ratio greater than 70% on private residential properties that exceeds HK$ 5 million and up to HK$ 8 million.	
Pursuant to Chapter 3 of the Mortgage Insurance Operational Manual, Eligibility Criteria for the Mortgage Insurance Programme comprises the following: (1) Mortgage Product Type Purchasing Criteria; (2) Core Eligibility Criteria; and (3) Mortgage Conditions. The Eligibility Criteria are summarized below:-	
Product type	Floating Rate Mortgages
Maximum loan size at origination	Floating Rate : HK$8,000,000 (loans with payment holiday are not eligible)
Determination of Loan-to-value ratio • Maximum loan-to-value ratio (LTV) at origination	85% (may go slightly over 85% if the premium is financed by the mortgage loan)
• Valuation Report	Written valuation report prepared by Insured's internal/external qualified valuers, or Insured's internal valuer plus verbal valuation by an external qualified valuer including justifications on the appraisal value. The purchase price must exclude the value of any incentives offered by the relevant vendor or any other third party to the Obligor in the purchase of the underlying property.

Debt-to-Income ratio calculation • Maximum debt-to-income ratio at origination	50%
Employment Type	Non-regular salaried/self-employed persons are not eligible except for professionals such as doctors, accountants, lawyers or other professional categories acceptable to the HKMC.
Type of Property	Properties under construction are not eligible for coverage (i.e. equitable mortgage loan not allowed)
Credit	Internal credit check must be conducted and CIS or other external credit checks must also be conducted if the Insured are subscribers of CIS or other external credit agencies.
Maximum original term to maturity	25 years
Minimum original term to maturity	10 years
Maximum sum of "remaining term to maturity" and "age of property" at origination and throughout the term of the mortgage	40 years
Owner Occupancy	At least one of the income-generating mortgagors/borrowers must occupy the Property as his/her primary residence. The occupying borrower/mortgagor's income must be more than or at least equal to the monthly mortgage instalment payment.