

REPLY TO REGINA IP's LETTER OF 2 SEPTEMBER 2009

The HKMC has the following response on the points raised in Mrs. Ip's letter of 2 September 2009:

(a) Cagamas Berhad is the national mortgage corporation of Malaysia. Bank Negara Malaysia, the central bank of Malaysia, has a 20% equity holding in Cagamas Berhad and exercises close supervision of its operation and business direction. In fact, two Deputy Governors of Bank Negara Malaysia serve on the Board of Directors of Cagamas Berhad -- one as the Chairman and the other as Non-Executive Director. One of the objectives of the Cagamas/HKMC joint venture is to enhance financial stability in Malaysia by better managing the risk of banks' mortgage portfolios through guarantee arrangements. The joint venture also provides a platform for the HKMC to benefit from the Islamic financial market development expertise of Cagamas. The statement that "The HKMC's overseas activities are often undertaken in collaboration with the relevant central banks" is therefore not at all misleading but a correct portrayal of the central bank collaboration perspective;

(b) The HKMC's overseas businesses are conducted in accordance with policies approved by the HKMC Board of Directors. Details of such transactions are not disclosed to the public as the terms are entered into with private sector counterparts on a confidential basis. As regards the risk structure of the mortgage-backed securities, we have arranged cross-currency swaps to hedge foreign exchange and interest rate risks arising from the purchases. In addition, market risk, pre-payment risk, mortgage default risk, collateral risk, legal risk, regulatory risk etc, together with appropriate risk-mitigating measures and credit enhancement for the mortgage-backed securities, are duly analysed and managed by the HKMC within the overall risk management framework approved by the Board. The quality of the overseas assets has been excellent with no loss incurred so far;

(c) The average cost of funds for the HKMC is generally above the Hong Kong Interbank Bank Offered Rate and is higher than the cost of funds for commercial banks in Hong Kong because the HKMC, unlike the commercial banks, does not take deposits which provide a cheap source of funding for such banks. The comparison of the HKMC's cost of funds with listed companies in Hong Kong is irrelevant to the operation of the Corporation;

(d) The HKMC has reached agreement with TransUnion in March 2009 for the Corporation to have access to the consumer credit data base. Such data reports are used for underwriting of applications from bank customers under the Mortgage Insurance Programme. The usage of the TransUnion credit report is with the written agreement of the prospective mortgagors and is fully in compliance with the Personal Data (Privacy) Ordinance; and

(e) The HKMC operates in accordance with prudent commercial principles and almost all its staff are recruited from the private sector. The HKMC Board of Directors has approved a policy to assess each year the performance of the Corporation according to several factors, including overall financial performance, level of risks undertaken, competitiveness of pay package, operational efficiencies, staff turnover rate etc. Such a framework is used consistently over the years to evaluate the performance of the Corporation and its staff, and is in line with the nature and operations of the Corporation.