



A Presentation at “Asian Bond Market Forum”

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Part 1. Introduction to the HKMC

Background of the HKMC

- Incorporated as a public limited company in March 1997 and not as a statutory body
- Modelled after Fannie Mae
- Wholly-owned by the HKSAR Government through the Exchange Fund
- Granted “public sector entity” status in July 1997 under the Banking Ordinance – one of the 6 public sector entities, including MTRC, KCRC, Housing Authority, Hospital Authority and Airport Authority

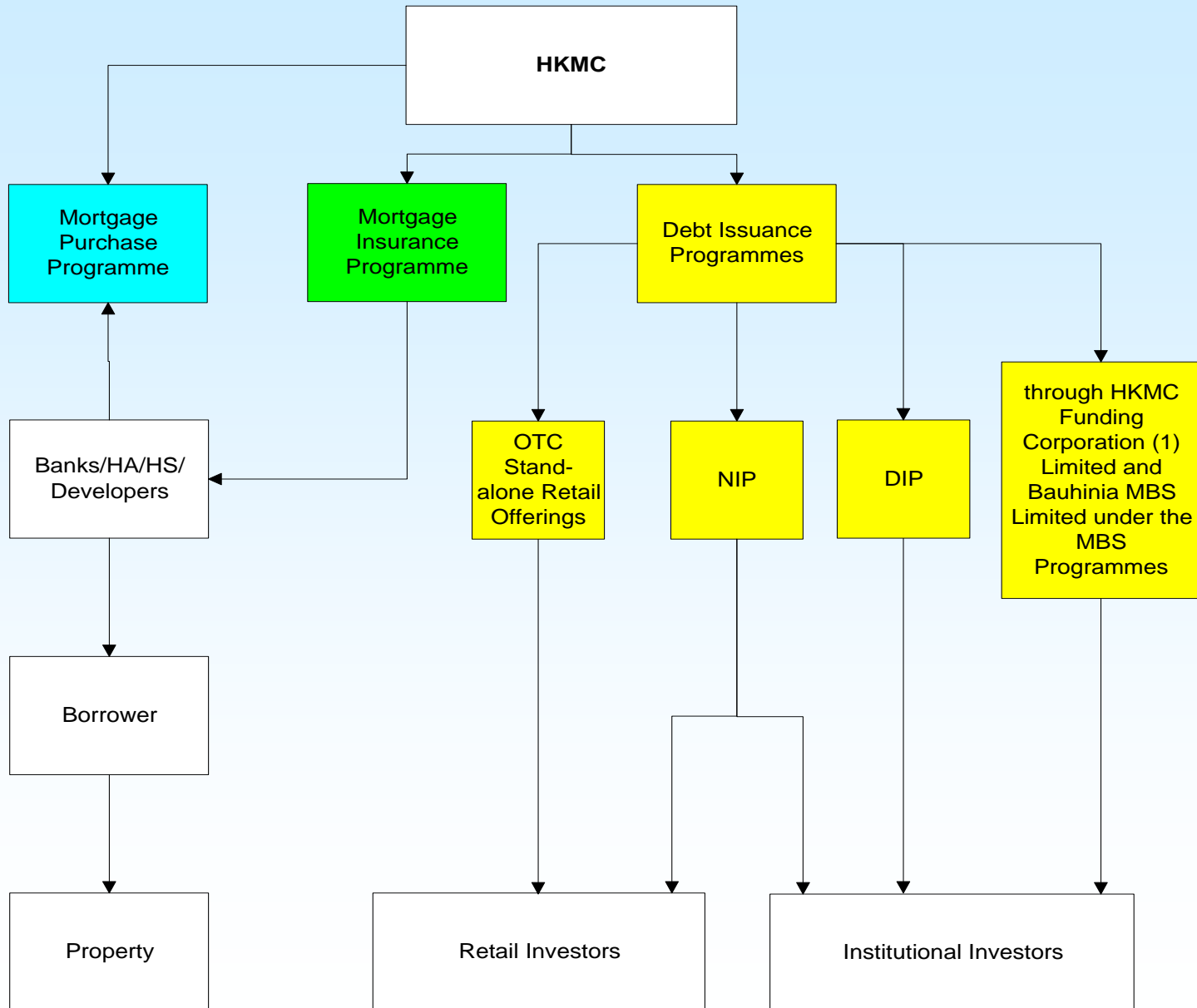
Part 1. Introduction to the HKMC

Composition of the Board of Directors

- Chairman (Financial Secretary)
- Deputy Chairman (Chief Executive of the HKMA) plus
- 14 directors drawn from the government bodies, banking sector, deposit-taking companies, capital market, political parties and consumer bodies



Framework of the business activities of HKMC



Part 1. Introduction to the HKMC

Issuance of Debt Securities through:

- Note Issuance Programme (NIP)
- OTC Stand-alone Retail Offering
- Debt Issuance Programme (DIP)
- Guaranteed Mortgage-Backed Pass-Through Securitisation Programme
- US\$3 billion Mortgage-Backed Securitisation Programme (Bond Style)

Part 1. Introduction to the HKMC

The HKMC was the largest corporate debt issuer in Hong Kong in 2001

HKD FIXED-RATE BOND ISSUERS (2001)			
RANK	ISSUER	AMOUNT	Percentage
		HKD million	
1	Hong Kong Mortgage Corporation	15,584	14.9%
2	MTR Corporation	4,750	4.5%
3	Abbey National Treasury Services	4,450	4.3%
4	Westpac Banking Corporation	3,756	3.6%
5	Hang Seng Bank	3,687	3.5%
6	BOS International (Australia)	3,551	3.4%
7	HSBC	3,189	3.0%
8	European Investment Bank	3,000	2.9%
9	Australia & New Zealand Banking Group	2,968	2.8%
10	Bayerische Hypo-und Vereinsbank AG HK	2,682	2.6%
	Others	57,022	54.5%
	TOTAL	104,639	100.0%

Part 1. Introduction to the HKMC

The HKMC was the largest corporate debt issuer in Hong Kong in 2002

HKD FIXED-RATE BOND ISSUERS (2002)			
RANK	ISSUER	AMOUNT	Percentage
		HKD million	
1	Hong Kong Mortgage Corporation	16,956	9.2%
2	Standard Chartered Bank	9,123	4.9%
3	Westpac Banking Corporation	5,557	3.0%
4	ANZ	5,475	3.0%
5	HSBC	5,012	2.7%
6	Bayerische Landesbank GZ	4,122	2.2%
7	Deutsche Bank AG	3,997	2.2%
8	Bank of East Asia	3,938	2.1%
9	IntesaBCI SpA Hong Kong	3,652	2.0%
10	Bank of Scotland	3,586	1.9%
	Others	122,979	66.7%
	TOTAL	184,395	100.0%

Part 1. Introduction to the HKMC

HKMC was the third largest corporate debt issuer in Hong Kong for the first nine months of 2003

HKD DEBT CAPITAL MARKET (2003 First Nine Months)				
ISSUER LEAGUE TABLE				
RANK	ISSUER	No. of issue	AMOUNT HKD million	Percentage
1	HBOS	27	7,978	6.2%
2	Westpac Banking Corporation	43	6,328	4.9%
3	Hong Kong Mortgage Corporation	41	5,550	4.2%
4	CBA	25	4,950	3.9%
5	Rabobank	18	4,288	3.4%
6	ANZ	21	3,699	2.9%
7	AB Spintab	25	3,141	2.5%
8	Deutsche Bank	19	3,110	2.4%
9	HSBC	24	3,076	2.4%
10	NAB	16	3,064	2.4%
	Total of top ten issuers	259	45,184	35.3%
	Others	470	82,813	64.7%
	TOTAL	729	127,997	100.0%

Part 1. Introduction to the HKMC

Cumulative Debts issued by the HKMC (up to Sep. 2003)

Programme	Amount
NIP	HK\$21.5 billion
DIP	HK\$30.5 billion
OTC Retail	HK\$6.1 billion
MBS Pass-Through	HK\$2.8 billion
MBS Bond-Style	HK\$5.0 billion
TOTAL	HK\$65.9 billion

Part 1. Introduction to the HKMC

HKMC Outstanding Treasury Securities

	Bauhinia MBS (\$M)	Retail Bonds (\$M)	Note Issuance Programme (\$M)	Debt Issuance Programme (\$M)
May 03	1,545	6,124	5,000	21,336
Jun 03	1,511	5,354	4,500	23,486
Jul 03	1,472	5,354	4,500	24,311
Aug 03	1,440	5,354	4,500	25,811
Sep 03	1,391	5,354	4,500	25,761

Total Debt Securities Outstanding as at September 2003: HK\$35,615 million

Part 2. HK\$20 billion Note Issuance Programme

(A) Offering Mechanism for Professional Investors

- Programme size : HK\$ 20 billion
- Arranger : Hong Kong Monetary Authority
- Market Makers : 25
- Recognised Dealers : 153 Authorised Institutions
- Mechanism of offer : Competitive tender by the Recognised Dealers

(B) Offering Mechanism for Retail Investors

- Listed on SEHK in October 1999 to extend investor base
- Application by electronic IPO or white form
- Non-competitive tender for retail portion
- Clearing and settlement through Central Clearing and Settlement System (“CCASS”)
- substantially over-subscribed

Part 2. HK\$20 billion Note Issuance Programme

(C) Practical Issues under the NIP

- Difficulties with application procedures
 - ❖ Need to open CCASS account put off many investors
 - ❖ Lack of flexibility in timing
- HKMA ceased to act as Arranger for the Note Issuance Programmes of HKMC, the Airport Authority, KCRC and MTRC from 1 September 2001 in order to adhere strictly to the Currency Board principles

(D) Benefits of investing in HKMC's NIP Notes

- stable investment that provides steady interest income
- relatively higher yield than Exchange Fund Notes of the same maturity
- greater liquidity than time deposits because of the availability of a secondary market.
- flexible to be invested in with a small minimum denomination (\$50,000) and low transaction costs

(E) Cumulative amount of NIP Notes issued: \$21.5 billion

Part 3. HK\$40 billion Debt Issuance Programme

- Programme size : HK\$ 40 billion
- Primary Dealers : 5 primary Dealers which are also the market makers
- Selling Group Members : 15 financial institutions
- Mechanism of Offer :
 - (a) Syndication
 - (b) Book-building
 - (c) Bid by Tender
 - (d) Private placement
- Aimed at institutional or professional investors
- One listed issue of \$700 million by book-building offer mechanism in October 1998
- One mandated syndication issue of \$1.5 billion in December 2002
- Private placement issues raised totally \$28.3 billion (up to Sep. 2003)

Part 4. OTC Stand-alone Retail Bonds Offering

(A) Features of Retail Bonds

- First launched by HKMC
- Aimed at public (instead of professionals only)
- Bonds not listed but placing banks act as market makers
- Able to cater for structured products, different tranches with different maturities and coupons (yield)
- Underwriting arrangements give banks extra incentive to promote bonds
- Applications made through placing banks instead of CCASS enabling greater access for retail investors

Part 4. OTC Stand-alone Retail Bonds Offering

(B) Distribution Mechanism

- Public subscription via placing banks: by telephone, internet or in person at branches. Application form not used
- Satisfies public demand for high quality short-term paper
- Offers the general public the opportunity to earn a higher yield through use of structured products

(C) Reasons for success

- Timing caught market sentiment
- Numerous cuts in interest rates by FOMC led to demand for fixed rate products
- Innovative products achieve sub-HIBOR funding
- Use of placing banks' branch network ensures wide coverage

Part 4. OTC Stand-alone Retail Bonds Offering

(D) Summary of bonds issued

- 1st issue raised HK\$648 million in November 2001– 3 placing banks (106 branches)
- 2nd issue raised HK\$1.38 billion in February 2002 – 8 placing banks (308 branches)
- 3rd issue raised HK\$2.35 billion in May 2002 – 12 placing banks (601 branches)
- 4th issue raised HK\$1.75 billion in October 2002 – 13 placing banks (625 branches)

Total amount raised : \$6.13 billion

Part 5. Securitisation – MBS Programmes

Guaranteed Mortgage-Backed Pass-Through Securitisation Programme (1999)

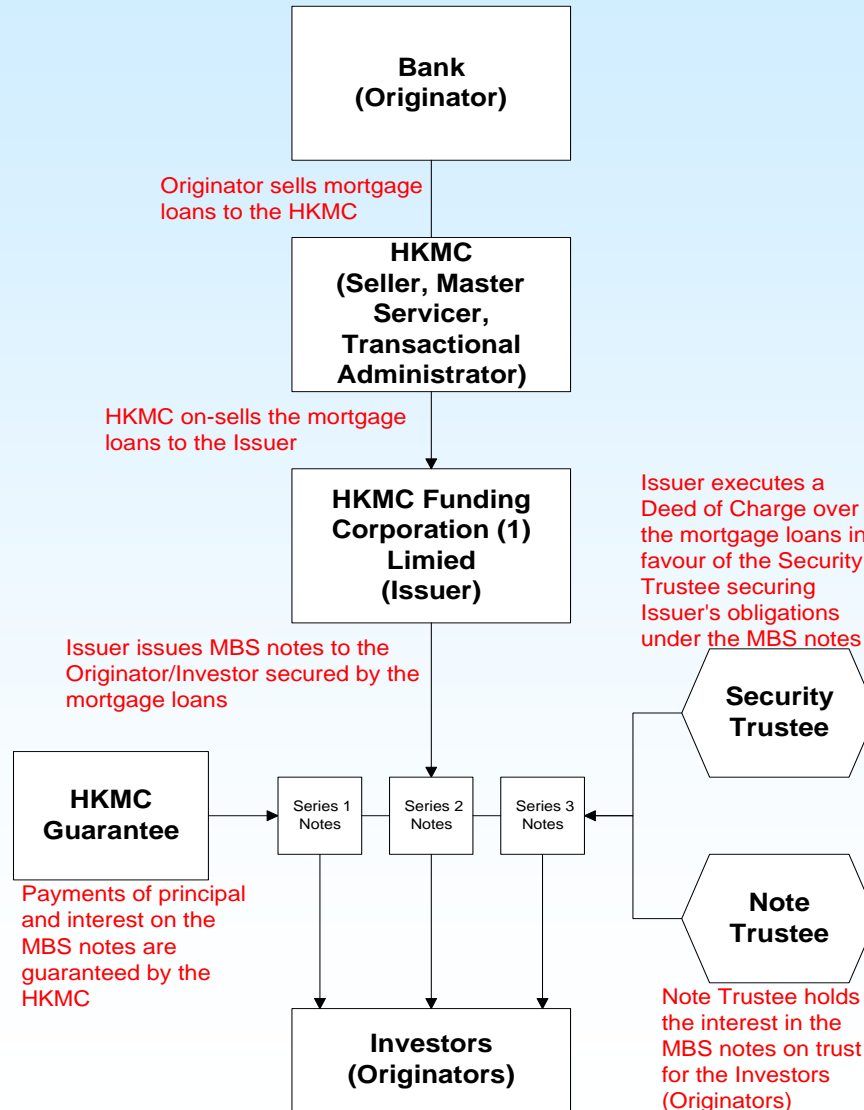
- HKMC Funding Corporation (1) Limited as issuer (incorporated in Hong Kong)
- Role of HKMC
 - Arranger
 - Guarantor
 - Mortgage Administrator
- Aimed at Hong Kong investors
- Pass-through structure
- Local currency

US\$3 Billion Mortgage-Backed Securitisation Programme (Bond Style) (2002)

- Bauhinia MBS Limited as issuer (incorporated in the Cayman Islands)
- Role of HKMC
 - Guarantor
 - Mortgage Administrator
- Aimed at international investors
- Bond-style coupon payment
- Multi-currency

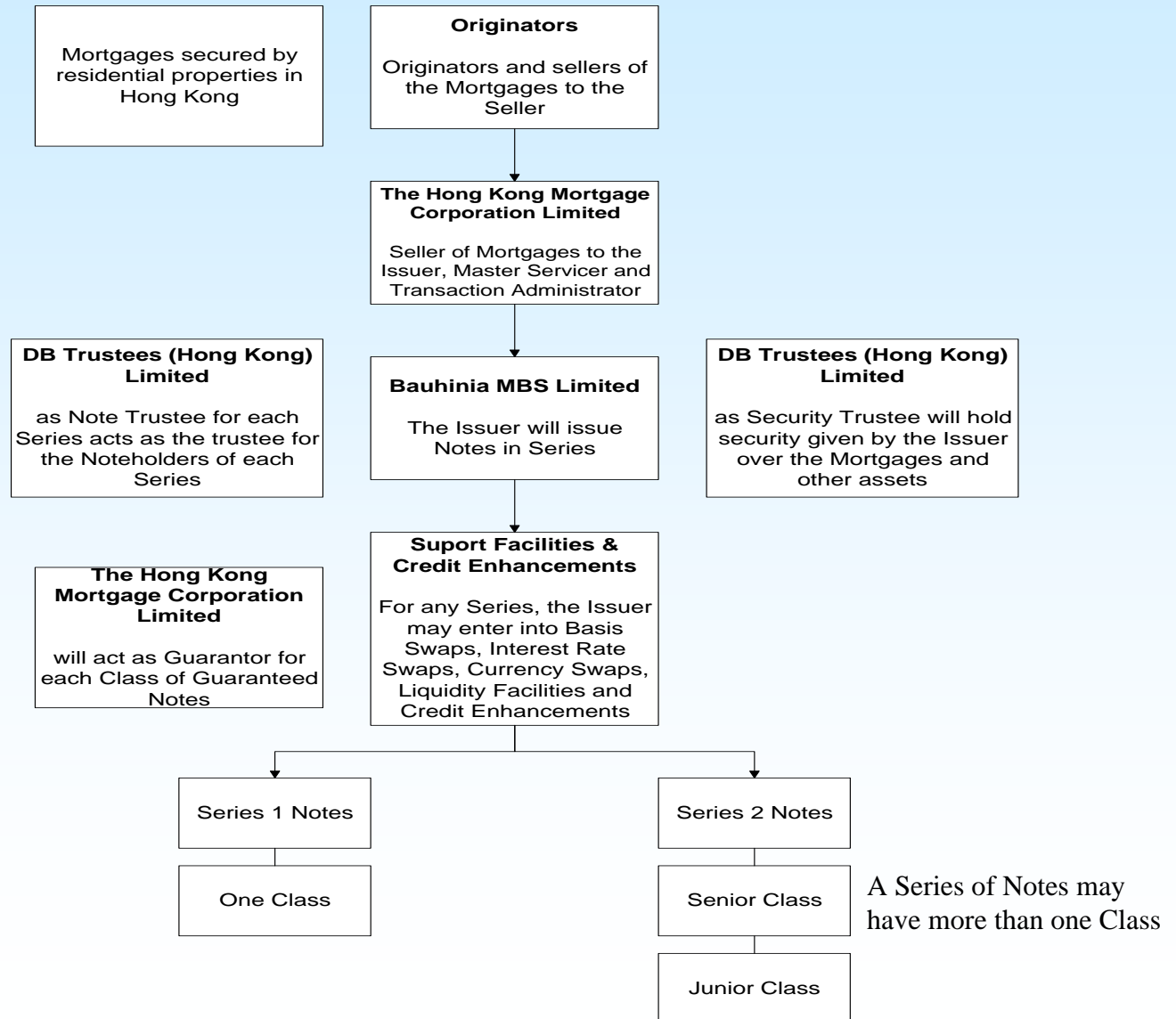
Part 5. Securitisation – MBS Programmes

Guaranteed Mortgage-Backed Pass-Through Securitisation Programme



Part 5. Securitisation – MBS Programmes

Programme Structure for US\$3 billion MBS Programme



Part 5. Securitisation – MBS Programmes

(A) Benefits for HKMC

- **Achieving its missions**
 - ❖ promote development of the MBS secondary mortgage market in Hong Kong through:
 - Standardization of structure of MBS products and standardized legal documentation (HKMC acts as convenor of the Project on Standardization of Mortgage Origination Documents in Hong Kong)
 - Providing a convenient, flexible and cost-efficient platform for issuing MBS
 - Bond-style structure facilitates trading of MBS and hence enhance their liquidity in the secondary market
- **Funding**
 - ❖ A new funding source
- **Risk management**
 - ❖ To manage the credit, prepayment and Prime-HIBOR basis risks of HKMC's mortgage portfolio

Part 5. Securitisation – MBS Programmes

(B) Benefits for investors (originators)

- **A convenient platform for securitisation**
 - ❖ For the Pass-Through Programme, banks may securitise part of their mortgage portfolios to meet their funding needs; to better manage the concentration and liquidity risks of their mortgage portfolios
- **Alternative to mortgage loans**
 - ❖ Investing in the MBS as a supplement to originating mortgage loans in the primary market
- **Regulatory treatment**
 - ❖ 20% capital risk weighting of MBS vs. 50% weighting for mortgage loans
 - ❖ MBS qualified as liquefiable assets under the Banking Ordinance
- **Programme versatility**
 - ❖ Flexible structure and extensive credit enhancement options to suit the investment/balance sheet management needs and risk appetite of different investors
- **Efficiency of Programme**
 - ❖ Quicker and less costly for banks compared with issuance of MBS by banks on standalone basis

Part 5. Securitisation – MBS Programmes

(C) Summary of notes issued

MBS Pass-Through			
<u>Investor</u>	<u>Series No.</u>	<u>Issue Amount</u>	<u>Issue Date</u>
Dao Heng Bank Limited	DHHK-0001-4	HK\$1 billion	October 1999
American Express Bank Ltd.	AMEX-0005-6	HK\$0.6 billion	December 1999
American Express Bank Ltd.	AMEX-0007	HK\$0.6 billion	August 2001
FORTIS Bank Asia HK	BBHX-0012	HK\$0.6 billion	June 2003
Total:		HK\$2.8 billion	

MBS Bond Style			
	<u>Series No.</u>	<u>Issue Amount</u>	<u>Issue Date</u>
	Series 2002-1	HK\$2 billion	March 2002
	Series 2003-1	HK\$3 billion	November 2003
Total:		HK\$5 billion	