The Hong Kong Mortgage Corporation Limited

HK$2 Billion Mortgage-Backed Securities
issued under the Bauhinia MBS Limited
US$3 Billion Mortgage-Backed Securitisation Programme

Signing Ceremony
19 October 2004

Speech by
Joseph Yam, Deputy Chairman, HKMC

Good afternoon, ladies and gentlemen. A very warm welcome to all of you to today's signing ceremony, which marks the launch of a new series of mortgage-backed securities issued under the Bauhinia MBS Programme of the Hong Kong Mortgage Corporation.

Today's issue has a size of HK$2 billion. Its distinct feature is that it includes an offer of HK$900 million worth of mortgage-backed securities to retail investors, covering tenors of 1, 3 and 4 years. I am pleased to note that this retail MBS offering is a first not just for Hong Kong but for Asia as well. It takes account of the fact that the investor spectrum for Hong Kong dollar debt products is broadening, and retail investors are becoming increasingly sophisticated.

We all know that mortgage-backed securities are conventionally regarded as a complicated, structured product that appeals only to professional investors. The concern is that retail investors may find it difficult to understand the MBS structure and its embedded risks.

We have therefore chosen to move one step at a time in offering MBS products to retail investors.

In order to make it easier for retail investors, the HKMC has adopted a straightforward structure and a prospectus drafted in plain language. Tenors of the retail tranches are fixed in maturity, as in a standard bond issue. Retail investors will therefore not have to assume the prepayment risk that MBS investors usually have to face. Apart from the credit quality of the underlying mortgage loans backing the MBS issue, interest payment and principal repayment of the whole issue are also guaranteed by the HKMC. Therefore, investors of this MBS issue can count on the credit of the HKMC.

The HKMC has high credit ratings from Standard & Poor's and Moody's. They are the same as those of the Hong Kong SAR Government. The HKMC's financial performance has been very encouraging. It is expected that its profit-after-tax for 2004 will attain a record high figure well above the HK$380 million for 2003. The 95% loan-to-value mortgage insurance product launched in July 2004 has done very well and the HKMC is also looking into new business opportunities to meet market demand.

The HKMC will continue to issue corporate debts and originate MBS to raise funds for its business operation. The HKMC has proven itself one of the most popular issuers in the Hong Kong dollar debt market. The HKMC has issued over 220 debt and MBS securities totalling HK$79 billion since its incorporation in 1997. The current

outstanding amount of corporate debt is HK$40.8 billion together with guaranteed MBS of HK$4.3 billion. With the successful issuance of today's MBS issue to professional and retail investors, the HKMC is confident that the MBS market will continue to be a major source of funding for the HKMC while offering investment opportunities to both professional and retail investors.

It is a great pleasure to see the new achievements of the HKMC in the local capital markets. The introduction of an innovative MBS structure, retail MBS notes and plain language prospectus not only help to make today's MBS issue a success for the HKMC but also help to further the development of the MBS market in Hong Kong.

Let me conclude by thanking HSBC for their structuring and arrangement of the whole issue. We would also like to thank HSBC and Standard Chartered Bank (Hong Kong) for their joint underwriting of the retail portion. Our thanks also go to the members of the Management Group for managing and distributing the institutional tranches. Last but not the least, we would like to thank the 19 Placing Banks for helping make the retail tranches available to retail investors.

The HKMC team has enjoyed working with all of you on this MBS issue and we look forward to your continuing support to HKMC's issues in future.

Thank you.