

## Peter Pang: Hong Kong Mortgage Corporation retail bond issues

Opening remarks by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority and Executive Director of the Hong Kong Mortgage Corporation Limited, at the Signing Ceremony for the Retail Bond Issue under the HKMC's Retail Bond Issuance Programme, Hong Kong, 1 September 2006.

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Good afternoon ladies and gentlemen,

On behalf of the Hong Kong Mortgage Corporation, I welcome you all to this signing ceremony for the new retail bond to be offered to the public next Monday.

Five years ago, in October 2001, the HKMC introduced a mechanism to offer retail bonds through placing banks. This move received very warm welcome from both the banking sector and retail investors. So far, we have issued eight retail bonds for a total amount of HK\$11 billion.

Two major factors are behind the success of the HKMC's retail bond issues. First it is our strong credit rating. In fact, our credit rating has recently been upgraded by S&P's to AA with stable outlook and by Moody's to Aa3 with positive outlook. Secondly, the HKMC meets the needs of retail investors through continual product innovation.

On this occasion, we again bring some new features to our retail bond issuance. Apart from issuing two-year notes in Hong Kong Dollar and in US Dollar, we are introducing a new 10-year Hong Kong Dollar Zero Coupon Bond. This is the first time that a zero coupon bond product is offered to the retail public in Hong Kong. It is also the first time we are issuing retail bond with a ten-year tenor.

"Zero coupon" bonds are intended for investors who wish to save up funds for longer-term use. They do not need the cash flow from the interest payments on conventional bonds, but they would wish to save up the principal and interest for future retirement or children's education. By investing around HK\$32,000 in this zero coupon bond, the investor will receive HK\$50,000 after ten years. If investors should find a need to sell the bonds prior to maturity, they are free to do so. We have a market making arrangement with our placing banks to provide quotes to buy such bonds to ensure secondary market liquidity.

Apart from the zero coupon bond, the HKMC is also issuing two-year US Dollar retail bond, following our successful, inaugural issue of retail US Dollar bond last year. We are now offering two-year retail bond denominated in US Dollar as well as in Hong Kong dollar to provide more investor choice. Out of the total deposit base of over HK\$4.3 trillion in our banking sector, about one-third are in US Dollars. We believe there should be good demand for these two-year notes, especially given the recent pause in interest rate hike by the US Federal Reserve.

To sum up, the retail bonds offered today will provide the general public with an additional, relatively safe investment vehicle. I trust that our product innovation will also promote the development of the bond market in Hong Kong. This creates a win-win situation for the investors, the placing banks and the Corporation.

I like to thank the banking community for supporting our bond issuance. In particular, HSBC and Bank of China (Hong Kong) are underwriting a portion of the bond issue as well as placing the notes. My appreciation also goes to the other placing banks, namely, Bank of America (Asia), Bank of Communications, Bank of East Asia, Chiyu Bank, CITIC Ka Wah Bank, Dah Sing Bank, DBS Bank (Hong Kong), Hang Seng Bank, ICBC (Asia), Liu Chong Hing Bank, Nanyang Commercial Bank, Shanghai Commercial Bank, Standard Chartered Bank (Hong Kong), Wing Hang Bank and Wing Lung Bank.

With your support, I am sure we will have another successful retail bond issue that is welcome by the investors.

Thank you.