



Debt Capital Markets

HKMC – Transaction Review

Date: 31 July 2013



STRICTLY PRIVATE AND CONFIDENTIAL

HKMC – 2003 – HKD 3 Billion MBS Issue



Breaking New Ground and Broadening Investor Distribution

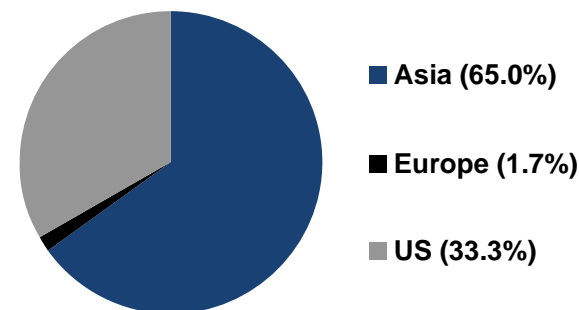
HKMC's HK\$3 Billion MBS Issue



HSBC successfully introduced a new, innovative MBS bond structure to HK and international investors with the largest MBS deal from Hong Kong.

The transaction achieved the tightest pricing ever for an HKMC MBS issue, and achieved the widest distribution among investors.

- HSBC achieved HKMC's objective of diversifying its product offering and developing Hong Kong's secondary mortgage market by successfully introducing a new, innovative MBS bond structure to Hong Kong and international investors.
- The transaction was structured to appeal to MBS investors that prefer stable returns without prepayment risks through the soft-bullet tranche as well as to those more comfortable with pass-through MBS
- A detailed investor education and marketing campaign was devised by HSBC to explain the unique soft-bullet structure.
- HSBC tapped into its global distribution channels to introduce the Hong Kong residential mortgage market to foreign investors, and particularly to US investors familiar with prepayment risk in MBS transactions.
- As a result the transaction priced significantly tighter than HKMC's previous transactions, and achieved strong distribution outside of Hong Kong.



Innovative Transaction Structure

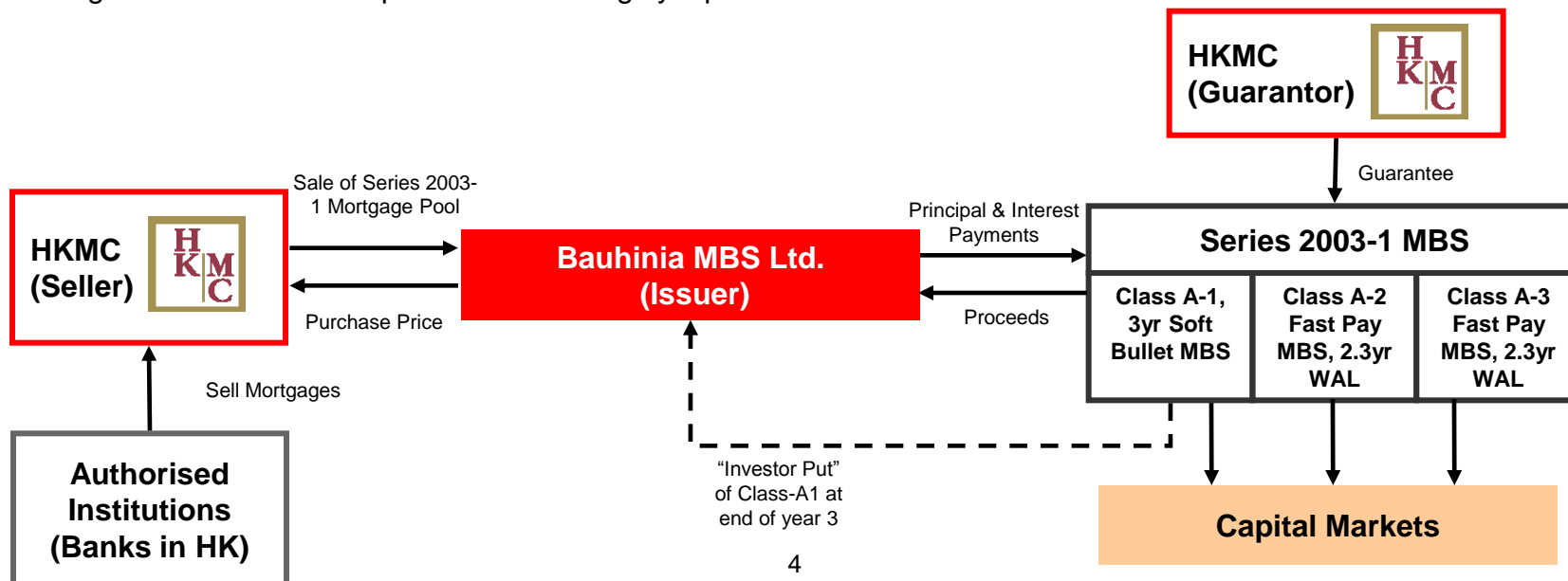
HKMC's HK\$3 Billion MBS Issue



Guided by the HKMC's objectives to develop the domestic MBS market through creative transaction structures accessible to a range of investors, the Issue incorporated a 'soft-bullet' tranche and two pass-through tranches

All MBS are unconditionally and irrevocably guaranteed by the HKMC as to the timely payment of interest and principal

- Class A-1 Notes (the 'soft-bullet' tranche) are insulated from mortgage repayments for the first three years, after which the investors have the right to put the Class A-1 Notes to the Issuer. Investors benefit from MBS without the prepayment risk
- Class A-2 and A-3 Notes (the 'fast-pay' tranches) are designed to absorb all prepayments for the first three years. The accelerated prepayment rate reduces the expected weighted average life whilst investors also receive an enhanced yield for assuming the prepayment risk
- Class A-3 Notes have been placed in the ABCP market via Bryant Park Funding LLC, an HSBC sponsored ABCP conduit, introducing the HKMC to this sophisticated and highly liquid investor base for the first time



Achieving HKMC's Objectives

HKMC's HK\$3 Billion MBS Issue



HSBC was able to achieve all of the objectives HKMC set out for the transaction

Diversified risk - granular portfolio

MBS offers investors a highly diversified risk due to the granular nature of the portfolio. The MBS is backed by a large number of different obligors

Increased investor participation

HKMC gained access to the widest possible range of MBS investors with different tenors, including those that prefer stable returns without prepayment risks as well as those that are more comfortable with pass-through MBS and asset-backed commercial paper

Yield pick-up on same risk exposure

This transaction offers yield pick-up to HKMC's vanilla debt instruments but with the same low credit risk

Highly attractive capital risk weighting

20% capital risk weighting of the guaranteed MBS for Hong Kong banks and Financial Institutions results in significantly lower capital costs for investors based in Hong Kong

Developing the Capital Markets

HKMC's HK\$3 Billion MBS Issue



This groundbreaking transaction brought a number of “firsts” into the market, and increased the range of structured products and MBS-related investment alternatives in the Hong Kong market.

HSBC's superior execution ability was evident as the transaction was completed within an accelerated timetable – from mandate to close in one month.

This transaction enabled the HKMC to accomplish all of its objectives and reaffirmed the fact that HKMC is capable of assessing market conditions and acting in an informed manner to achieve competitive all-in pricing.

The combined strengths of HSBC's product knowledge, structuring expertise and execution capabilities ensured the success of the transaction.

“The success of this initiative will also benefit both the financial market and the future development of the HKMC.”

- Joseph Yam, Deputy Chairman, HKMC

“An innovative bond-style structure is designed to give the deal as broad an appeal as possible, with a view of developing Hong Kong's securitisation market.”

- Finance Asia, 31 October 2003

#1

First issuance of “soft-bullet” MBS tranche in Asia

#1

First issuance of “fast-pay” MBS tranche in Asia

#1

First HK\$ denominated MBS tranche funded through the ABCP market

#1

Best pricing for an MBS deal in Asia

#1

Largest MBS Issue in Hong Kong

HKMC – 2004 – HKD 2 Billion MBS Issue



A Landmark MBS Offering to Retail Investors

Hong Kong Mortgage Corporation's HK\$2 billion MBS



Executed from mandate to financial close within an extremely aggressive 7 week timeframe, the first MBS offered to both retail and institutional investors achieved tight pricing and broad distribution to investors

Landmarks

- ✓ **First** mortgage backed securities (MBS) issue offered to Retail Investors in Asia
- ✓ **First** MBS issue to be simultaneously offered to Retail and Institutional Investors in Asia
- ✓ **Innovative Scheduled-Amortisation MBS** (Class A-1) targeted at fixed rate institutional investors such as insurance companies, pension and other funds who were able to participate in an MBS transaction from the Bauhinia programme for the first time
- ✓ **First** plain language prospectus for securitisation in Asia
- ✓ One of the **tightest priced** MBS transactions from Hong Kong and the **best pricing** achieved to date for an issue from the Bauhinia programme

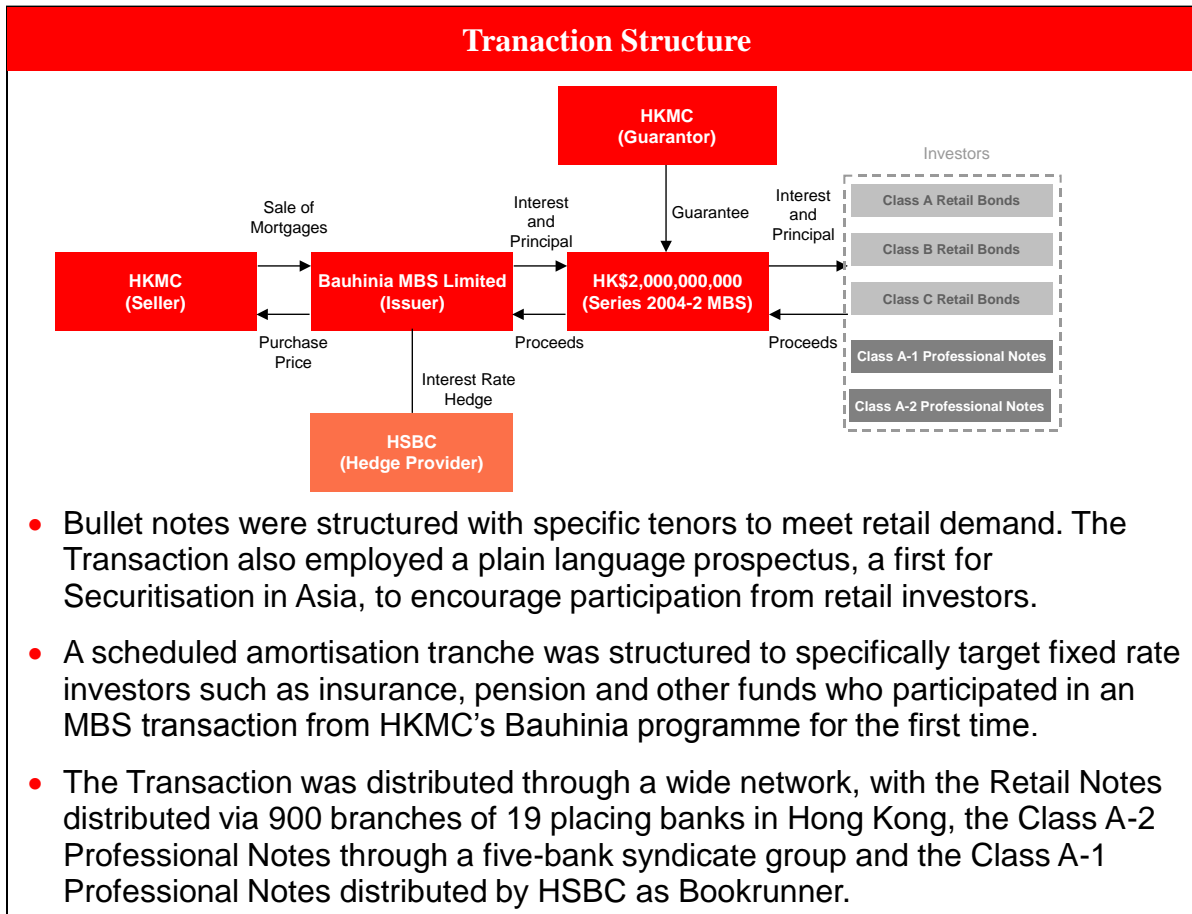
Issuer	Bauhinia MBS Ltd		
Rating (Moody's & S&P)	Aa3 / AA-		
A Tranche (Retail)	HK\$250,000,000	1-yr	1.70%
B Tranche (Retail)	HK\$400,000,000	3-yr	2.65%
C Tranche (Retail)	HK\$250,000,000	4-yr	3.05%
A-1 Tranche (Institutional)	HK\$450,000,000	6-yr	3.60%
A-2 Tranche (Institutional)	HK\$650,000,000	10-yr	HIBOR+18bps

Targeting Investor Demand

Hong Kong Mortgage Corporation's HK\$2 billion MBS



HSBC structured a transaction that targeted different investor segments which not only diversified the investor base for HKMC but in the process furthered the development the Hong Kong capital markets, a key objective for the HKMC



- As the second consecutive mandate awarded to HSBC by the HKMC, the transaction highlights the trust afforded to HSBC in accomplishing highly successful transactions, broadly distributed, tightly priced and completed within the strictest of timeframes.

“This MBS issue is no doubt a landmark transaction for Hong Kong as well as for the HKMC in that it included an offer of MBS in three tranches to retail investors – a first for Hong Kong and for Asia too.

The MBs issue signals another important achievement for both the HKMC and HSBC as both institutions remain at the forefront of developing the debt capital markets in Hong Kong.”

Mr. James H. Lau
Chief Executive Officer
Hong Kong Mortgage Corporation

HKMC – 2005 – HKD 1 Billion MBS Issue



Hong Kong Mortgage Corporation

HK\$1,000,000,000 Series 2005-1 Mortgage-Backed Securities



On 17 November 2005, The Hong Kong Mortgage Corporation Limited (HKMC) raised HK\$1 billion via a highly successful residential mortgage-backed securities (RMBS) issue.

November 2005



The Hong Kong Mortgage Corporation Limited

HK\$1,000,000,000
Series 2005-1 Mortgage-Backed Securities

Sole Arranger, Sole Bookrunner, Sole Lead Manager and Swap Provider

Syndicate Banks

Arranger	HSBC
Lead Manager	HSBC
Bookrunner	HSBC
Class A1 & Class A2 Co-Lead Managers	Bank of China Bank of Communications DZ Bank
Class A2 Co-Managers	National Australia Bank ABN AMRO

Transaction Highlights

- The Series 2005-1 MBS was the third consecutive mandate awarded to HSBC, highlighting the trust that issuers have in our ability to structure and arrange highly successful transactions.
- The transaction was the fourth public RMBS issuance under HKMC's HK\$3 billion Bauhinia MBS Programme launched in December 2001.
- The transaction was executed seamlessly and completed within a "fast track" timeframe of just 5 weeks.
- The issue achieved highly competitive pricing and distribution to a range of domestic and international investors, including investors new to the Bauhinia MBS Programme.
- The transaction was structured to appeal to the widest range of institutional investors with issuance of a new fixed rate bullet MBS in Hong Kong and "classic" floating rate pass-through MBS critical to the development of the Hong Kong MBS market.
- The transaction is a testament to the continued partnership between HSBC and the HKSAR Government in the development of the securitisation market in Hong Kong.

Hong Kong Mortgage Corporation

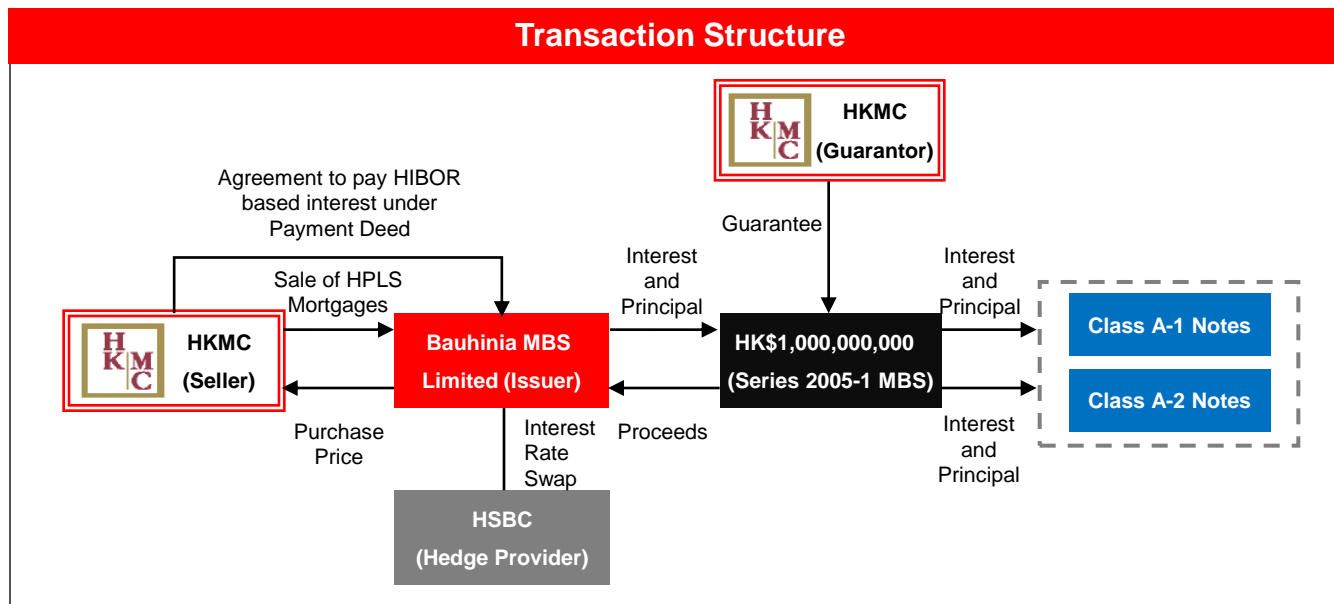
HK\$1,000,000,000 Series 2005-1 Mortgage-Backed Securities



The Series 2005-1 transaction was structured to target at the widest possible range of investors

The bullet tranche (Class A-1) offered investors the benefits of MBS without the prepayment risk while the pass-through tranche (Class A-2) provided investors with yield enhancement

The notes were well-received by the market and achieved all HKMC's objectives



Summary Terms of Class A-1 Notes

Principal Amount	HK\$400,000,000
Ratings (Moody's / S&P)	Aa3 / AA-
Maturity Type	Bullet
Legal Maturity Date	6 December 2008
Weighted Average Life	3 years
Coupon Type	Fixed Rate
Coupon	4.73% per annum
Denominations	HK\$500,000
Offering Format	Reg S

Summary Terms of Class A-2 Notes

Principal Amount	HK\$600,000,000
Ratings (Moody's / S&P)	Aa3 / AA-
Maturity Type	Pass Through
Legal Maturity Date	6 April 2014
Weighted Average Life	5 years
Coupon Type	Floating Rate
Coupon	1M HIBOR+18bps
Denominations	HK\$500,000
Offering Format	Reg S

HKMC – 2006 – HKD 2 Billion MBS Issue



Hong Kong Mortgage Corporation Limited

HKD 2,000,000,000 Mortgage-Backed Securitisation



November 2006



Hong Kong Mortgage Corporation Limited

HKD 2 billion
Series 2006-1

Mortgage-Backed Securitisation

Sole Arranger, Sole Lead Manager and Bookrunner, Sole Swap Provider

Transaction Highlights

- First MBS issue under the Bauhinia MBS Program (in its 6th issue) to feature an un-guaranteed tranche
- Innovative structure combining un-guaranteed senior Class A notes and guaranteed subordinated Class B notes ensures the most efficient capital structure without an unrated subordinated class
- Achieved AAA ratings from Moody's and S&P with one of the lowest subordination levels seen in Asia
- One of the most tightly priced transactions in Asia and provides the HKMC, itself a AAA rated entity (Moody's), with an extremely attractive cost of funds
- Attracted a diverse group of syndicate banks from Europe, China, North America and Australia and introduced a number of investors who have never participated in securitisations before

Syndicate Structure

- Arranger - HSBC
- Sole Lead Manager and Book runner - HSBC
- Co-Lead Managers – DZ Bank AG, ICBC, BMO Capital Markets
- Co-Managers – ANZ, Commonwealth Bank of Australia

Summary Terms and Conditions

Class	Amount (HKD mln)	Rating	Maturity Type	Coupon Type	Coupon	WAL	Legal Final Maturity
A-1	300	Aaa/AAA	Bullet	Fixed	4.07%	1 year	6-Dec-07
A-2	740	Aaa/AAA	Bullet	Fixed	4.18%	3 years	6-Dec-09
A-3	700	Aaa/AAA	Bullet	Fixed	4.28%	5 years	6-Dec-11
B	260	Aaa/AA	Pass-through	Floating	1mth Hibor + 0.18% per annum	6.05 years	6-Oct-17

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