Business Overview

Business Overview

Performance Highlights

The major achievements of the Corporation for the year included:

- purchasing about HK$250 million of loan assets
- helping homebuyers borrow a total of HK$16 billion mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving more than 730 applications since the launch of the Reverse Mortgage Programme (**RMP**), with an average property value of around HK$4.7 million
- approving loans totalling HK$36.7 million under the Microfinance Scheme (**MF Scheme**) since its inception and up to the end of 2014 to business starters, self-employed persons from different backgrounds and professions and those wanting to achieve self-improvement through education and training
- with the support of the Government, further extending the application period for the 80% guarantee products under the SME Financing Guarantee Scheme (**SFGS**) for one year to 28 February 2015. To encourage wider use of the SFGS and support small and medium-sized enterprises (**SMEs**) with loans granted under the Government's Special Loan Guarantee Scheme (**SpGS**), but due to mature in 2014 and 2015, a series of refinements were rolled out in September 2014 to further improve efficiency, flexibility and streamlining document requirements in support of applications for refinancing of SpGS guaranteed loans. Since the launch of SFGS in January 2011, the Corporation had approved over 9,900 applications for a total loan amount of approximately HK$40.7 billion, of which more than 9,600 applications for a total loan amount of about HK$39.8 billion were approved with 80% guarantee protection. Over 6,500 local SMEs and about 171,000 related employees have benefited under the SFGS
- issuing HK$13.9 billion of debt securities (with maturity of 1-year and above) in a cost-effective manner, promoting the local debt market development as one of the most active issuers in Hong Kong
- safeguarding excellent credit quality, with over 90-day delinquency ratios of 0% for the mortgage insurance portfolio, 13.83% for the SME guarantee portfolio (excluding the 80% product under SFGS), 0.02% for the Hong Kong residential mortgage portfolio (industry average of 0.03%), 1.05% for the microfinance loan portfolio and 0.02% across all asset classes as at 31 December 2014
- maintaining the HKMC's long-term foreign and local currency ratings of AAA by Standard & Poor's (**S&P**) and Aa1 by Moody's Investors Service, Inc. (**Moody's**)

The Corporation maintained a solid financial position for 2014:

- profit attributable to shareholders of HK$746 million
- net interest margin of 1.3%
- return on assets of 1.4%
- return on shareholders' equity of 8.4%
- cost-to-income ratio of 24.3%
- capital adequacy ratio of 23.5%, well above the minimum requirement of 8% stipulated by the Financial Secretary

Market Overview

General Economic Conditions

The Hong Kong economy grew slightly slower at 2.3% year-on-year in real terms in 2014, compared with 2.9% growth in 2013. Private consumption rose moderately amid stable labour market conditions and the continued improvement in Hong Kong's external trade performance, resulting in moderate economic growth. The unemployment rate stayed at a low level of 3.2%.

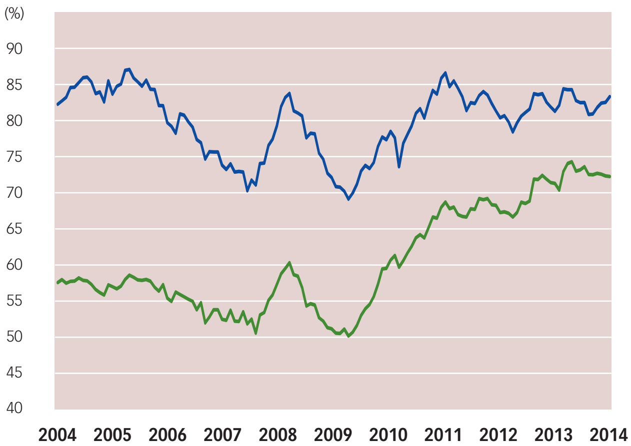
Nevertheless, the moderate but uneven pace of recovery in the global economy continued to weigh on the Hong Kong economy. The US economy regained its strength in 2014, while the eurozone continued to grow with little momentum. Japan still stayed subdued after the implementation of a series of economic recovery measures. In China, the growth momentum moderated as domestic demand weakened amid the property market downturn. It is generally expected that US interest rates will remain at the current level in the first quarter of 2015.

Liquidity and Interest-Rate Environment

Amid the low interest rate environment in the US, Hong Kong interest rates stayed at a low level in 2014. The market was flooded with liquidity. The HKD loan-to-deposit (**LTD**) ratio of all Authorized Institutions was slightly higher at 83.3% at the end of 2014, compared with 82.1% at the end of 2013. Reflecting a faster increase in foreign currency loans which outpaced the moderate growth of foreign currency deposits, the all-currency LTD ratio rose to 72.2% at the end of 2014, from 70.3% at the end of 2013 **(Figure 1)**.

Figure 1

Loan-to-deposit Ratio



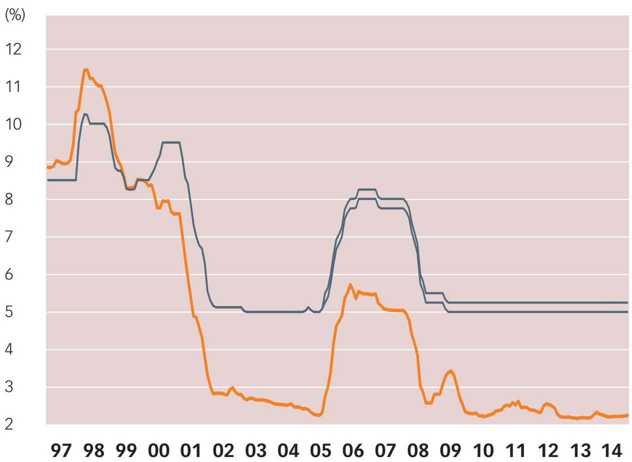
Hong Kong dollar
All currencies

Source: Hong Kong Monetary Authority

Overall, the mortgage rate in Hong Kong remained low during the year. While the Best Lending Rates (**BLRs**) remained unchanged at 5% and 5.25% throughout the year, the Hong Kong Interbank Offered Rates (**HIBORs**) rose slightly, with the one-month HIBOR rising from 0.21% in January to 0.24% in December, in terms of the period average[1]. As the competition for mortgage business was keen, the mortgage rates remained static. At the end of 2014, the BLR-based mortgage rates were at about BLR-3.1% to BLR-1.85% and HIBOR-based mortgage rates at HIBOR+1.7% to HIBOR+2.75% **(Figure 2)**.

Figure 2

Best Lending Rate and Gross Mortgage Rate



Best Lending Rates
Weighted Average Gross Mortgage Rate

Source: Hong Kong Monetary Authority

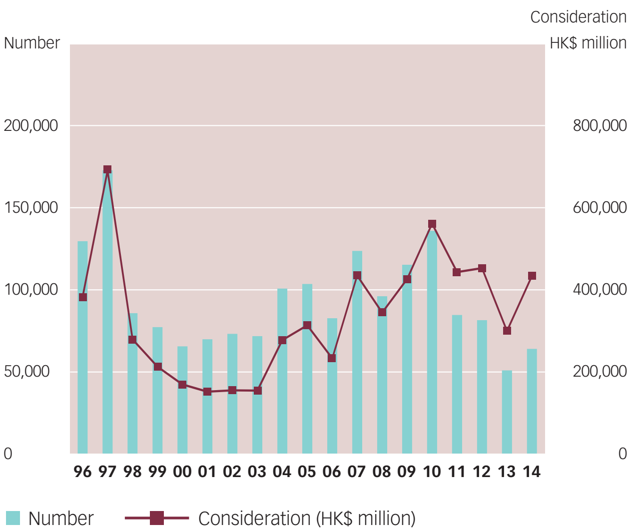
Property Market

With government cooling measures still in force, the pent-up demand and the easing concern of an imminent interest rate hike in the US and Hong Kong supported the residential property market. As a result, the market regained its momentum and transaction volume rebounded in the second quarter of the year. The number of property transactions in 2014 increased by 26% year-on-year to 63,807 while the consideration of transactions rose by 45% year-on-year **(Figure 3)**.

[1] Source: HKMA Monthly Statistical Bulletin

Figure 3

Agreements for Sale and Purchase of Residential Building Units

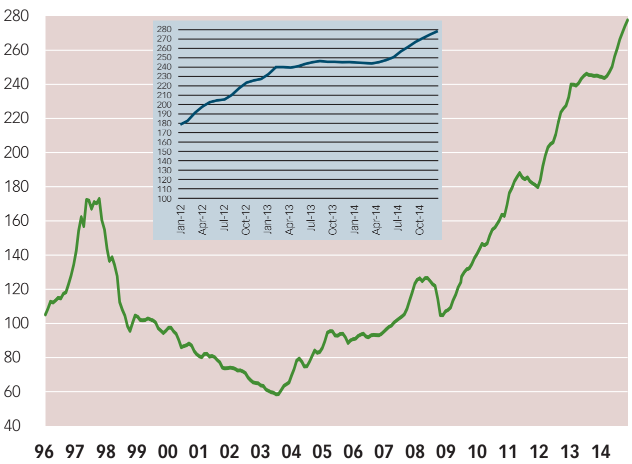


Source: Land Registry

In 2014, the housing supply from the primary private residential property market was 15,719[2]. However, the pace of growth in residential property prices showed a moderate rise due to the supply-demand imbalance. In general, residential property prices[3] recorded slightly more than 13% cumulative increase in 2014, compared with 8% increase in 2013. With the continued surge in prices in the past few years, residential property prices surpassed the 1997 peak by around 61% as at the end of 2014 **(Figure 4)**.

Figure 4

Private Domestic Price Index (1999 = 100)



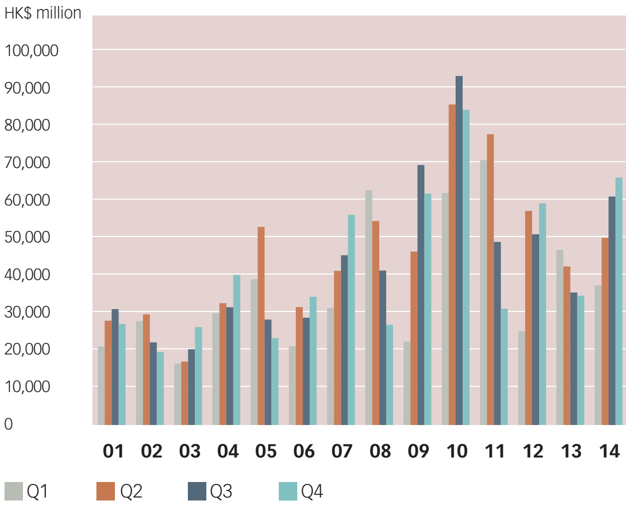
Source: Rating and Valuation Department

Mortgage Market

In tandem with the development of the property market, mortgage lending also showed a growing trend, with the gross value of new loans drawn down[4] increasing by 35% year-on-year **(Figure 5)**. Along with the moderate growth in new mortgage lending, the total outstanding value of all residential mortgage loans rose a moderate 8.4% to HK$1,029.8 billion.

Figure 5

New Residential Mortgage Loans Drawn Down



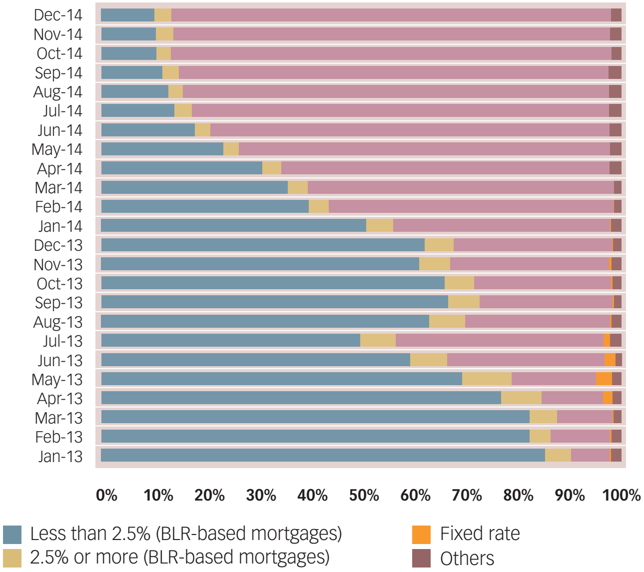
Source: Hong Kong Monetary Authority

With HIBOR remaining at a historical low level, the proportion of new mortgage loans priced with reference to HIBOR rose markedly to 84.5% in December 2014 from 30.5% as at December 2013. The share of BLR-based mortgages dropped significantly to 13.5% from 67.7% during the same period, with the largest portion priced at a mortgage rate of 2% to below 2.25% **(Figure 6)**. The share of fixed-rate mortgage loans was minimal in the residential mortgage market.

[2] Source: The Monthly Digest published by the Buildings Department
[3] Source: The Private Domestic Price Index published by the Rating and Valuation Department
[4] Source: HKMA's Monthly Residential Mortgage Survey (**HKMA Survey**)

Figure 6

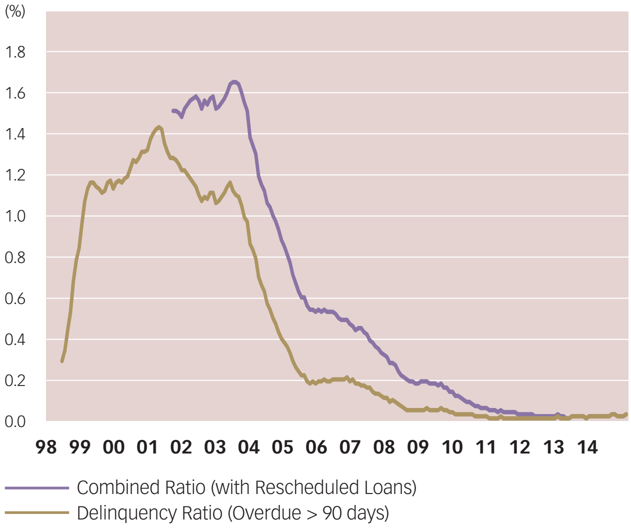
Pricing of New Residential Mortgage Loans Approved



Source: Hong Kong Monetary Authority

Figure 7

Delinquency Ratio of Residential Mortgage Loans



Source: Hong Kong Monetary Authority

With the stable labour market and the prudent supervision of the mortgage lending sector by the Hong Kong Monetary Authority (**HKMA**), the asset quality of residential mortgage loans remained excellent in 2014. The over-90-day delinquency ratio of mortgage loans[5] stayed at a historical low of 0.02% for most of the year (in July, August and December there was a slight increase to 0.03%), reflecting the prudent underwriting standards adopted by the banks. The combined ratio, which takes into account both delinquent and rescheduled loans, also remained low at 0.02% for most of 2014 **(Figure 7)**. Given the sustained high residential property prices, there was no mortgage loan in negative equity recorded at the end of 2014.

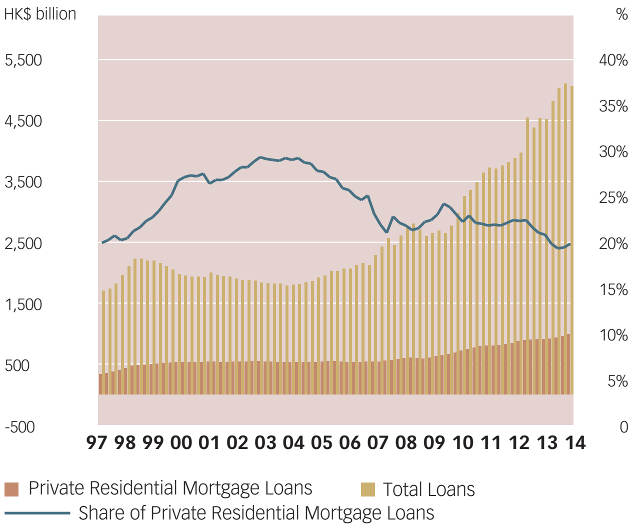
Banking-Sector Exposure

The total outstanding value of mortgage loans for private residential properties increased to HK$988.1 billion at the end of 2014 (end-2013: HK$908.7 billion), accounting for about one-fifth of total loans in Hong Kong **(Figure 8)**. Adding to this the lending for building and construction, along with property development and investment, the amount of property-related loans totalled HK$2,049.8 billion, representing about 40% of the total loan book of banks. The outstanding value of mortgage loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme rose slightly to HK$41.7 billion at the end of 2014 (end-2013: HK$41.5 billion).

[5] Source: HKMA Survey

Figure 8

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Source: Hong Kong Monetary Authority

Asset Acquisition

While the ample liquidity in the market has led to weak incentives for banks to offload their assets, the Corporation is prepared to provide liquidity to the market as, and when, required. For the year, the Corporation acquired about HK$250 million of assets, which included residential mortgage loans and other assets.

Extension of the time-limited 80% guarantee products under the further refined SME Financing Guarantee Scheme (80% SFGS)

The Financial Secretary in the 2012–2013 Budget Speech announced support measures for SMEs to tide over the uncertain global economic environment and the possible financing difficulties as a result of credit crunch. Being part and parcel of the package of support measures for SMEs, the Corporation promulgated the time-limited 80% SFGS for an application period of nine months up to end-February 2013 with the Government's total guarantee commitment of up to HK$100 billion. The 80% SFGS provides 80% loan guarantee on eligible loan facilities approved by participating lenders at a substantially lowered guarantee fee rate, which helps SMEs to obtain loans for general working capital or acquiring equipment or assets to support business operations. In light of the uncertain external economic environment, the 80% SFGS was extended on 1 March of 2013 and 2014 respectively for a total of two years.

The Corporation administers the 80% SFGS on prudent commercial principles. The guarantee fees are set aside to pay default claims from participating lenders and out-of-pocket expenses to be incurred under the arrangement.

To encourage wider use of SFGS and support SMEs with loans granted under the Government's SpGS amid the global financial tsunami in December 2008, the Corporation rolled out a series of refinements in September 2014. These changes further enhanced the efficiency and flexibility of SFGS and streamlined the document requirement in support of applications for refinancing of SpGS guaranteed loans upon maturity of the 5-year guarantee period in 2014 and 2015. Among the refinements, the HKMC introduced a straight-through processing workflow for applications and a paperless application submission process to shorten the overall application turnaround time from five to three business days.

The 80% SFGS has been well received by the market. A total of 30 Authorized Institutions have joined the SFGS as participating lenders. As at 31 December 2014, the Corporation had approved more than 9,900 applications for a total loan amount of approximately HK$40.7 billion under the SFGS. More than 9,600 of the applications for loans amounting to about HK$39.8 billion were approved under the 80% SFGS. Over 6,500 local SMEs employing about 171,000 people have benefited under the SFGS.

The HKMC has maintained close dialogue with the Hong Kong Government, lending institutions and market participants in order to further improve public awareness and recognition of the SFGS, in particular the 80% SFGS. Apart from a series of advertising campaigns rolled out by the Government, the Corporation distributes information leaflets and introduces SFGS through various seminars arranged by participating lenders, industrial and trade organisations and government agencies.

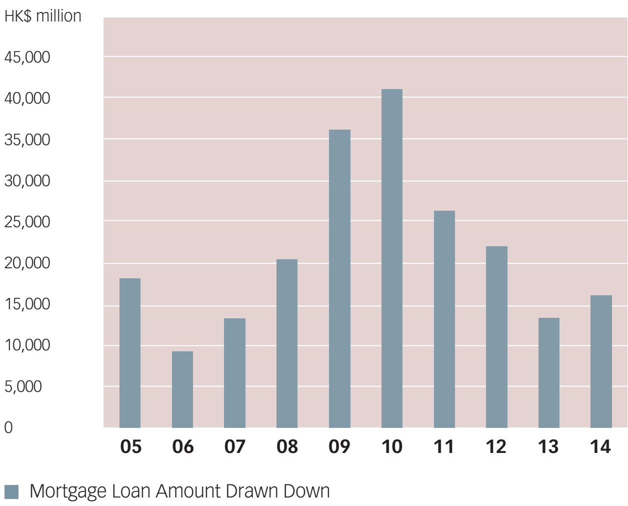
Mortgage Insurance Programme

The Mortgage Insurance Programme serves as a useful tool in assisting potential homebuyers struggling to come up with a substantial down payment for the purchase of a property. From a banking industry perspective, the MIP allows banks to engage in higher loan-to-value lending without incurring additional credit risk and jeopardising the stability of the banking system. All in all, the MIP creates a win-win situation for both homebuyers and banks.

Over the years, the MIP has firmly established itself as an integral part of mortgage financing in Hong Kong. Owing to the rebound in property and mortgage markets, the volume of loans drawn down under the MIP increased to HK$16 billion in 2014 from HK$13.3 billion in 2013 **(Figure 9)**. About 89% of the MIP loans drawn (in terms of the loan amount) were secured on properties in the secondary market. This demonstrates the importance of the MIP to homebuyers in secondary market.

Figure 9

Mortgage Loan Amount Drawn Down under HKMC MIP



Source: HKMC

Since 1999, the MIP has helped more than 112,000 families achieve the dream of home ownership, with an aggregate loan drawdown of HK$261 billion.

Reverse Mortgage Programme

The Reverse Mortgage Programme has received positive market feedback since its launch in mid-2011, and the enhancements introduced in 2012 and 2013 further improved the attractiveness of the product to the public. By the end of 2014, the Corporation had approved a total of more than 730 RMP applications, with an average property value of around HK$4.7 million and an average monthly payout amount of HK$14,200.

Since the entry age of borrowers was lowered to 55, the product has more appeal to a younger group of customers. People are becoming more conscious of the need to prepare in advance for their retirement. In order to reach out to this group of target customers, the HKMC engaged the help of a new celebrity, whose image is more vibrant and energetic, in its 2014 marketing activities. Seminars and talks were arranged for members of professional organisations, and for soon-to-be retired staff of big corporations. Two rounds of advertising campaign were rolled out in the second half of 2014 to promote the RMP through a number of media channels, including print advertisements in newspapers and magazines, radio, MTR in-train posters and circular services.

Apart from improving public awareness of the programme, the Corporation has also been responding to suggestions from the market for enhancing the product to suit the needs of target customers. New enhancements planned for launch in the first quarter of 2015, include (1) allowing more than one self-use property as security under a reverse mortgage loan, (2) accepting joint application by three borrowers and (3) accepting life insurance policy(ies) as additional security. These new initiatives are expected to improve the flexibility of the product while maintaining the healthy risk position of the Corporation. With the introduction of the new enhancements under the RMP in 2015, the Corporation will continue its efforts and work with banks to foster the development of the RMP.

Microfinance Scheme

The Corporation continued with its three-year trial of the Microfinance Scheme with a tentative maximum loan amount of HK$100 million. The MF Scheme offers three categories of loans, namely Micro Business Start-up Loan, Self-employment Loan and Self-enhancement Loan. The target borrowers are business starters, self-employed persons and those wanting to achieve self-improvement through education, training, upgrading of skills or securing professional certification. Apart from extending loans, the MF Scheme also provides mentoring services, entrepreneurial training and ancillary support to the borrowers to improve their business viability.

The MF Scheme has operated smoothly since its launch in June 2012. By the end of 2014, the MF Scheme had approved a total of 143 loans with a total loan amount of HK$36.7 million.

The MF Scheme has a good mix of borrowers from different backgrounds and professions, such as young beauticians, makeup artists, a pet grooming award winner, fashion and watch designers, IT graduates, a middle-aged Chinese medicine practitioner, rehabilitated offenders, a clown performance entertainer, and native English speaking teachers.

The approval statistics show that over 50% of borrowers were aged 35 or below. The MF Scheme has been providing multifaceted support to these young entrepreneurs, which is beneficial to the development of the economy as a whole. With a view to reinforcing the MF Scheme's support to the youth group, the Corporation channelled more marketing resources to this target group in 2014. Public talks, seminars and exhibition booths were arranged at universities, at the Entrepreneur Day organised by Hong Kong Trade Development Council, and at other youth-oriented organisations and forums. Advertising and media interviews contributed to raise the profile of the MF Scheme. Joint efforts have also been undertaken with non-governmental organisations to further promote the scheme via video and advertising in the MTR and on Roadshow.

The Corporation also published a booklet, "Tips for Successful Business Start-up" on successful entrepreneurship in 2014. Actual cases of MF Scheme loan recipients were shared as examples, and a number of professionals and celebrities have provided valuable advice on different aspects of starting and running a business. This booklet was well received by the entrepreneurial community, and the launch event has been widely reported.

Funding

The global financial markets remained volatile in 2014 and were affected by the uneven economic growth and diverging monetary policy paths in the major economies. In spite of the challenging market conditions the HKMC managed to secure prudent pre-funding for loan purchases and refinancing activities. Given the Corporation's strong background as a wholly government-owned entity and its solid credit rating, the Corporation raised debt totalling HK$13.9 billion (with maturity of 1-year and above) in 2014. At the end of the year, the Corporation's total outstanding debt amounted to HK$33.3 billion.

The Corporation is committed to developing the local debt market through regular debt issuances and the introduction of new debt products. As one of the most active bond issuers in Hong Kong, the Corporation will continue to issue debt in both local institutional and retail markets, and diversify its funding sources and investor base to overseas institutional markets. This will not only help broaden the Corporation's funding base, but also provide institutional and retail investors with high quality debt instruments to satisfy their need for portfolio diversification and yield enhancement.

The Corporation has three debt issuance programmes, which allow the issuance of debt securities in an efficient and effective manner. With its strong credit rating, the Corporation's debt issues are well received by the investment community, such as pension funds, insurance companies, investment funds, charities, government-related funds and retail investors. The Corporation undertakes proactive investor communications to meet and update investors regularly.

Medium Term Note Programme

The Corporation established the multi-currency Medium Term Note (**MTN**) Programme in June 2007 to broaden its investor base and funding sources in international market. It was set up with an initial size of US$3 billion, which was subsequently increased to US$6 billion in July 2011 to meet growing demand from overseas investors. The multi-currency feature of the programme enables the Corporation to issue notes in major currencies to meet demand from both local and overseas investors. All foreign currency-denominated MTN debt is fully hedged into either US dollars or Hong Kong dollars. The programme incorporates flexible product features and offering mechanisms for both public issuances and private placements to increase its appeal to investors with different investment horizons and requirements. As at the end of 2014, an extensive dealer group comprising 10 major international and regional financial institutions had been appointed to support future MTN issuance and provide secondary market liquidity.

In 2014, the Corporation launched 23 MTN private debt issues, including debt denominated in Hong Kong dollars, US dollars, Australian dollars, euro and British pounds, totalling an equivalent of HK$13.9 billion (with maturity of 1-year and above).

Debt Issuance Programme

The Debt Issuance Programme (**DIP**) was established in July 1998 to target institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion, which was subsequently increased to HK$40 billion in 2003. The DIP has since provided a flexible and efficient platform for the Corporation to issue debt and transferable loan certificates with a tenor of up to 15 years. A total of six Primary Dealers and 16 Selling Group Members had been appointed under the DIP to provide wide distribution channels for both public and private debt issues.

Retail Bond Issuance Programme

The Corporation is dedicated to promoting the local retail bond market with the objective of extending the Corporation's investor base beyond its already strong institutional investor community. In November 2001, the Corporation successfully pioneered a new offering mechanism for the retail bond market in Hong Kong.

To support the development of the retail bond market, the Corporation established the HK$20 Billion Retail Bond Issuance Programme and made its debut issuance in June 2004. Under this programme, placing banks use their retail branch networks, telephone and electronic banking facilities to place debt securities issued by the Corporation with retail investors. To ensure the liquidity of the aforementioned retail bonds, the placing banks are committed to making firm bid prices for the bonds in the secondary market. Since 2001, the Corporation has issued a total of HK$13.7 billion retail bonds. Over the years, the Corporation's retail bonds have gained widespread recognition as a safe and simple investment choice, with reasonably attractive returns, giving retail investors an opportunity to invest in high-grade debt securities issued by a wholly government-owned corporation. When the market environment is conducive, the Corporation aims to issue retail bonds regularly to provide an additional investment tool for Hong Kong's retail investors.

Revolving Credit Facility Provided by the Exchange Fund

In January 1998, during the Asian Financial Crisis, the Exchange Fund extended a HK$10 billion Revolving Credit Facility to the Corporation through the HKMA. This Facility enables the Corporation to maintain smooth operation under exceptional circumstances, so that it can better fulfil its mandate to promote banking and financial stability in Hong Kong. While the Corporation obtains long-term funding from local and international debt markets to fund its operations, the Facility also provides a liquidity fallback for the Corporation. In light of the global financial crisis in 2008, the size of the Facility was subsequently increased to HK$30 billion in December 2008, demonstrating the HKSAR Government's recognition of the importance of, and further support for, the Corporation.

The Corporation used the Revolving Credit Facility during times of market stress in 1998 and 2008 to partially fund the acquisition of Hong Kong residential mortgage assets from local banks. At both times, the Revolving Credit Facility was fully repaid with funds raised from the Corporation's cost-effective debt issuance when the markets stabilised. In 2014, there were no drawdowns under the Revolving Credit Facility.

Credit Rating

The Corporation's ability to attract investment in its debt securities is underpinned by its strong credit rating, equivalent to that of the HKSAR Government, according to S&P and Moody's.

Credit Ratings of the HKMC

	S&P		Moody's	
	Short-term	Long-term	Short-term	Long-term
Local Currency	A-1+	AAA (Stable)	P-1	Aa1 (Stable)
Foreign Currency	A-1+	AAA (Stable)	P-1	Aa1 (Stable)

The credit rating agencies have made very positive comments on the Corporation's credit standing. The following comments are extracts from the credit rating reports of S&P and Moody's in June 2014:

S&P

"S&P equalises the ratings on HKMC with the rating on Hong Kong (Special Administrative Region). This reflects our opinion concerning HKMC's strong stand-alone credit profile as well as our belief of an 'almost certain' likelihood of timely and sufficient extraordinary support from the Hong Kong government — the sole owner of HKMC — in the unlikely event that it were required by HKMC… In our view, HKMC's undertaking of additional policy initiatives over the past several years has a mild solidifying effect on HKMC's ties with the Hong Kong government, and reinforces the integral link between the two entities."

"Our view is based on the Corporation's strong market position, excellent asset quality that is underpinned by prudent credit risk management, and strong liquidity and capital."

"Affording confidence in HKMC's strategy at the current rating level is that it has been tested during a variety of stressful market conditions. When the global financial market and the local economy were under stress in late 2008 and early 2009, HKMC enlarged its mortgage acquisitions in response to banks' requests, and enhanced its mortgage insurance program. In more recent years it tightened the eligibility criteria for its mortgage-insurance program. The move was part of HKMC's joint effort with the government and to mitigate a possible overheating of property prices in Hong Kong."

"In our view, risk associated with funding and liquidity are well managed... Liquidity is supported by significant levels of liquid assets in the form of marketable debt securities and bank deposits to counterparties of strong credit standing, and cash."

Moody's

"HKMC is fully owned by the government, and carries out public policy functions in its daily operations. HKMC's policy mandates include enhancing financial and banking stability in Hong Kong, promoting home ownership, and facilitating the development of the local debt market. As part of its mandate to promote banking stability, HKMC acts as an alternative 'lender of last resort' by standing ready to purchase residential mortgages from Hong Kong banks during times of stress."

"The government provides HKMC with a HKD30 billion revolving credit facility and HKD1 billion of equity capital callable on demand. In the event HKMC's credit profile is weakened in a stress scenario, we expect the government to provide timely extraordinary support."

"HKMC has maintained very sound asset quality metrics since its establishment… Hong Kong residential mortgages have historically performed very well through economic cycles. Even when property price fell by up to 70% between 1997 and 2003, overall mortgage delinquencies never exceeded 2%. The current average loan to value ratio on HKMC's Hong Kong mortgages is below 40%."

"As a wholesale funded entity with no customer deposits, HKMC relies on ongoing access to the debt capital markets to fund its operation. Nevertheless, the company has a policy of pre-funding its expected asset purchases and maintains a very strong liquidity profile during normal economic conditions. It has very good access to capital markets due to its strong financial fundamentals and government affiliation. HKMC has a HKD30 billion revolving credit facility from the government's Exchange Fund. The company has sufficient liquid assets and government revolving credit facility to repay all of its outstanding debts as of end-2013."

Mortgage-Backed Securitisation

The Corporation strives to promote the development of the mortgage-backed securities (**MBS**) market in Hong Kong. MBS is an effective financial instrument that can channel long-term funding from the debt market to supplement the need for long-term financing generated by mortgage loans. Banks and financial institutions can make use of MBS to manage risks inherent in mortgage loans, such as credit risks, liquidity risks, interest rate risks and asset-liability maturity mismatch risks. A deep and liquid MBS market can help enhance the development of an efficient secondary mortgage market and further promote Hong Kong as an international financial centre.

The Corporation has issued a total of HK$13.2 billion MBS since 1999. The US$3 billion Bauhinia Mortgage-Backed Securitisation Programme was established in 2001 to provide a convenient, flexible and cost-efficient platform for the Corporation to issue MBS with various product structures, credit enhancements and distribution methods.

Risk Management

The Corporation operates under prudent commercial principles, and the principle of "prudence before profitability" guides the design of the overall risk management framework and discipline it uses in its day-to-day business execution. Over the years, the Corporation has continuously made refinements to its well-established, robust and time-tested risk management framework to reflect changes in the markets and business strategies.

Corporate Risk Management Committee

The Board is the highest decision-making authority of the Corporation and holds the ultimate responsibility for risk management. The Board, with the assistance of the Corporate Risk Management Committee (**CRC**), has the primary responsibility for formulating risk management strategies in the risk appetite statement and for ensuring that the Corporation has an effective risk management system to implement these strategies. The risk appetite statement defines the constraints for all risk-taking activities and these constraints are incorporated into risk limits, risk policies and control procedures that the Corporation follows to ensure that the risks are properly managed.

The CRC is responsible for overseeing the Corporation's various types of risks, reviewing and approving high-level risk-related policies, overseeing their implementation, and monitoring improvement efforts in governance, policies and tools. It also assigns priorities and responsibilities to individual departments to enhance the risk management framework. The Committee is chaired by an Executive Director, with members including another Executive Director, as well as Chief Executive Officer, Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk), and senior staff from the Risk Management Department.

The major types of risk the Corporation manages are credit risk, market risk, operational risk, legal and compliance risk, leveraging risk, longevity and property risk.

Credit Risk

Credit risk is the Corporation's primary risk exposure. It represents the default risk presented by loan borrowers and counterparties.

(a) Default risk

To address default risk effectively, the Corporation adopts a four-pronged approach to safeguard and maintain the quality of its assets, MIP and SME guarantee portfolios:

- careful selection of Approved Sellers, Servicers, Reinsurers and Lenders
- prudent asset purchase, insurance and guarantee application eligibility criteria
- effective due diligence process for mortgage purchase, default loss, insurance and guarantee claims
- enhanced protection for higher-risk mortgages and transactions

Losses may arise if there are shortfalls in the recovery amount received for defaulted loans that fall under the Mortgage Purchase Programme (**MPP**). To mitigate this default risk, the Corporation adopts prudent loan purchase criteria and conducts effective due diligence reviews as part of the loan purchase process in order to maintain the credit quality of loans. In addition, depending on the projected risk exposure of each underlying loan portfolio, credit enhancement arrangements, such as reserve funds for absorbing credit losses, are agreed upon with sellers on a deal-by-deal basis to reduce the potential credit losses that could arise from the borrower's default.

Losses may also arise from default on loans under the MIP's insurance coverage. Each MIP application is underwritten by the Corporation in accordance with a set of eligibility criteria, and each claim from a participating bank is audited by the Corporation to ensure the fulfilment of all MIP coverage conditions and to detect any fraud elements. As a result, the default risk for loans with MIP coverage has been greatly reduced. To reduce the risk of possible concentration of this default risk, the Corporation transfers a portion of the risk-in-force to Approved Reinsurers via reinsurance risk-sharing and excess-of-loss arrangements.

The Corporation adopts a three-pronged approach to manage the default risk under the Microfinance Scheme, which includes: (a) prudent assessment of borrowers' repayment capability; (b) a vetting panel to consider business viability and approval of the loan applications; and (c) provision of training and mentoring support to borrowers.

Portfolio performance and analysis reports are compiled on a regular basis to provide management with updated information on critical credit risk indicators, such as loan delinquency ratios, equity positions and cumulative credit losses, to enable timely reviews and a swift response to changes in the operating environment.

Stress tests are also conducted to analyse the Corporation's financial capability to weather extreme scenarios when they arise.

(b) Seller/Servicer counterparty risk

Counterparty risks may arise from the failure of a Seller/Servicer of an acquired portfolio to remit scheduled payments to the Corporation in a timely and accurate manner.

The Sellers/Servicers are subject to a risk-based eligibility review and ongoing monitoring on their loan servicing quality and credit standing.

(c) *Reinsurer counterparty risk*

Reinsurer counterparty risk refers to the failure of an Approved Reinsurer to make claim payments to the Corporation. In order to mitigate reinsurer counterparty risk effectively, the Corporation has established a framework for the assessment of each mortgage reinsurer's financial strength, credit rating and relevant experience in mortgage insurance.

The Corporation performs an annual review of each Approved Reinsurer's financial strength, business appetite and capacity. The review results are used to determine the ongoing business allocation and risk-sharing portions. The Corporation also has collateral arrangements with Approved Reinsurers to reduce counterparty risk exposures.

(d) *Treasury counterparty risk*

Treasury counterparty risk arises when there is a delay or failure from treasury counterparties to make payments with respect to treasury instruments transacted with the Corporation. The treasury counterparties are managed by a rating-based counterparty assessment framework and a risk-based counterparty limit mechanism. The limits for treasury counterparties are monitored on an ongoing basis, reviewed and adjusted based on their assessment results.

(e) *Lender risk*

The Corporation is exposed to lender risk in SME lending that arises from: (a) a lender's underwriting being incompliant with its credit policy; (b) a lender's loosely formulated credit policy which is not specific enough or sufficiently defined for compliance; and (c) the moral hazard of a lender being less prudent in underwriting a guarantee-protected application. The Corporation adopts prudent eligibility criteria for application vetting, monitors delinquency and workout plans, and conducts due diligence reviews on claims to mitigate default risk on the part of borrowers and moral hazard on the part of lenders.

At the heart of the Corporation's credit risk management framework are two committees: the Credit Committee and the Transaction Approval Committee.

Credit Committee

The Credit Committee (**CC**) is responsible for setting the Corporation's overall credit policies and eligibility criteria, particularly for asset acquisition, mortgage insurance, SME guarantee business and MF Scheme. The CC operates under a framework that has been approved by the Board. The CC is the approval authority for accepting applications to become Approved Sellers/Servicers under the MPP, Approved Reinsurers under the MIP, Approved Lenders under SFGS and eligible treasury counterparties. It is also responsible for setting risk exposure limits for the counterparties. The CC also closely monitors the operating environment, and puts in place timely risk mitigating measures to manage the credit risk.

Transaction Approval Committee

The Transaction Approval Committee (**TAC**) conducts an in-depth analysis of pricing economics and associated credit risks for business transactions, while taking into consideration the latest market conditions and business strategies approved by the Board. Major transactions approved by the TAC are subject to endorsement by an Executive Director.

The CC and the TAC are both chaired by the Chief Executive Officer, with members including Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk) and senior staff from the relevant functional departments.

Market Risk

Market risks arise when the Corporation's income or the value of its portfolios decreases due to movements in market prices. Market risk consists of interest rate risk, asset-liability maturity mismatch risk, liquidity risk and currency risk.

(a) *Interest rate risk*

Net interest income is the predominant source of earnings for the Corporation. It represents the excess of interest income (from the Corporation's loan portfolio, cash and debt investments) over interest expenses (from debt issuance and other borrowings). Interest rate risks arise when changes in market interest rates affect the interest income associated with the assets and/or interest expenses associated with the liabilities.

The primary objective of interest rate risk management is therefore to limit the potential adverse effects of interest rate movements on interest income/expense, while maintaining stable earnings growth. The interest rate risk faced by the Corporation is two-fold, namely interest rate mismatch risk and basis risk. Interest rate mismatch risk is the most substantial risk affecting the Corporation's net interest income. It arises mainly as a result of the differences in the timing of interest rate re-pricing for the Corporation's interest-earning assets and interest-bearing liabilities. Interest rate mismatch risk is most evident in the loan portfolios where the majority of the loans earn a floating interest rate (benchmarked against the Prime rate, HIBOR or Composite Interest Rate), whilst the majority of the Corporation's liabilities are fixed-rate debt securities. The Corporation therefore makes prudent use of a range of financial instruments, such as interest rate swaps, interest rate swaptions, basis swaps, forward rate agreements and issuances of MBS, to manage interest rate mismatch risk. The proceeds of the fixed-rate debt securities are generally swapped into HIBOR-based funds via interest rate swaps in order to better match the floating-rate incomes from mortgage assets.

The Corporation also uses duration gap as an indicator to monitor, measure and manage interest rate mismatch risks. A duration gap measures the difference in interest rate re-pricing intervals between assets and liabilities. The wider the duration gap, the higher the interest rate mismatch risk. A positive duration gap means that the duration of assets is longer than that of the liabilities, and therefore, represents greater risk exposure to rising interest rates. A negative duration gap, in contrast, indicates greater risk exposure to declining interest rates.

Depending on the prevailing interest rate outlook and market conditions, the Corporation proactively re-balances the duration gap of its asset-liability portfolio under the guidance and supervision of the Asset and Liability Committee (**ALCO**).

Basis risk represents the difference in the Corporation's Prime-based interest-earning assets and its HIBOR-based interest-bearing liabilities. However, there are only limited financial instruments currently available in the market to fully hedge the Prime-HIBOR basis risk. In general, basis risk can be effectively addressed only when mortgage assets and non-mortgage assets are based on HIBOR to match the funding base, or when related risk management instruments become more prevalent or economical. Over the past few years, the Corporation has consciously adopted a strategy that acquires more HIBOR-based assets. As a result, the Prime-HIBOR basis risk for the Corporation has been substantially reduced. In addition, the Corporation had issued Prime-based MBS and used hedging derivatives in the past to mitigate such basis risk.

(b) *Asset-liability maturity mismatch risk*

The actual average life of a portfolio of mortgage loans, which is usually shorter than the contractual maturity of the mortgage loans, depends on the speed of scheduled mortgage repayments and unscheduled prepayments. Higher prepayment rates shorten the average life of a portfolio of mortgage loans. In Hong Kong, prepayment occurs for two main reasons: (i) housing turnover — borrowers repaying their mortgage loans upon the sales of the underlying properties, and (ii) refinancing — borrowers refinancing their mortgage loans to obtain lower mortgage rates.

Asset-liability maturity mismatch risk can be more specifically characterised as reinvestment risk and refinancing risk. Reinvestment risk refers to the risk of a lower return from the reinvestment of proceeds that the Corporation receives from prepayments and repayments of its loan portfolio. Refinancing risk is the risk of refinancing liabilities at a higher level of interest rate or credit spread. The Corporation is exposed to refinancing risk (in both funding amount and cost of funds) when it uses short-term liabilities to finance long-term, floating-rate loan portfolios. Reinvestment risk is managed through the ongoing purchase of new loans to replenish the rundown in the retained portfolios and through the investment of surplus cash in debt securities or cash deposits to fine-tune the average life of the overall assets pool. In addition, the Corporation makes use of the issuance of callable bonds and transferable loan certificates to mitigate reinvestment risk. The call option included in callable bonds and transferable loan certificates allows the Corporation to adjust the average life of its liabilities to match more closely that of the overall pool of assets.

The Corporation manages its refinancing risk through the flexible debt securities issuance with a broad spectrum of maturities. This again serves to adjust the average life of the overall liability portfolio in a dynamic fashion. In addition, refinancing risk can be mitigated by adjusting the maturities of assets in the investment portfolio or off-loading mortgage assets through securitisation of mortgage loans into MBS.

The Corporation uses the asset-liability maturity gap ratio to measure, monitor and manage asset-liability maturity mismatch risk, to ensure a proper balance between the average life of the Corporation's assets and liabilities.

(c) *Liquidity risk*

Liquidity risk represents the risk of the Corporation not being able to repay its obligations, such as the redemption of maturing debt, or to fund the committed purchases of loan portfolios. The Corporation implements its liquidity risk management framework in response to changes in market conditions. The Corporation has continuously monitored the impact of recent market events on its liquidity positions, and has pursued a prudent pre-funding strategy which has helped to contain the impact that the global financial turmoil had on its liquidity. Liquidity risk is managed by monitoring the daily inflow and outflow of funds, and by projecting the longer-term inflows and outflows of funds across the full maturity spectrum. The Corporation uses the liquid asset ratio to measure, monitor and manage liquidity risk position.

Given its strong background as a wholly government-owned entity and its solid credit rating, the Corporation is efficient in raising funds from debt markets with both institutional and retail funding bases. This advantage is supplemented by the Corporation's portfolio of highly liquid investments, which are held to enable a swift and smooth response to unforeseen liquidity requirements. The HK$30 billion Revolving Credit Facility from the Exchange Fund further provides the Corporation with a liquidity fallback even if exceptional market strains last for a prolonged period.

The Corporation manages pre-funding prudently through well-diversified funding sources, so that all foreseeable funding commitments are met when they fall due, in order to support the growth of its business and the maintenance of a well-balanced liability portfolio. Such diversification allows the Corporation to pursue a pre-funding strategy at the lowest possible cost, whilst at the same time offering safeguards against the inability to raise funds in distorted market conditions. The current funding sources are illustrated in **Table 1** below:

Table 1: Current Funding Sources for the HKMC

Funding Source	Description
US$6 billion Medium Term Note Programme	There are 10 Dealers who underwrite and distribute local and foreign currency debt to international institutional investors under the programme
HK$40 billion Debt Issuance Programme	There are 6 Primary Dealers and 16 Selling Group Members who underwrite and distribute debt to institutional investors under the DIP. The Transferable Loan Certificate Sub-Programme under the DIP provides further diversification of its funding sources and broadening of its investor base
HK$20 billion Retail Bond Issuance Programme	This debt issuance programme has 19 Placing Banks which assist in offering retail bonds to investors
US$3 billion Bauhinia Mortgage-Backed Securitisation Programme	With a total of 8 Dealers, this multicurrency mortgage-backed securitisation programme permits the Corporation to originate MBS in both the local and international markets
Cash and Debt Investment Portfolio	This portfolio comprises mainly cash and bank deposits, commercial paper, high-quality certificates of deposit, and notes that are readily convertible into cash
Money Market Lines	The Corporation has procured money market lines from a large number of local and international banks for short-term financing
HK$30 billion Revolving Credit Facility	The Exchange Fund commits to providing the Corporation with HK$30 billion in revolving credit

(d) Currency risk

Currency risk arises from the impact of foreign exchange rate fluctuations on the Corporation's financial position and foreign-currency-denominated cash flows. The Corporation manages its currency risk in strict accordance with the investment guidelines approved by the Board and under the supervision of the ALCO, which sets daily monitoring limits on currency exposure.

In accordance with this prudent risk-management principle, the net exposure of the foreign currency denominated debts issued under the MTN Programme and the overseas residential mortgage loans purchased is fully hedged by the use of cross-currency swaps.

Control mechanism

Transaction execution is segregated among the front, middle and back offices to ensure adequate checks and balances. The Treasury Department, acting as the front office, is responsible for monitoring financial market movements and executing transactions in the cash, derivatives, debt and securitisation markets, in accordance with the strategies laid down by the ALCO. The Risk Management Department, assuming the middle-office role, monitors compliance with treasury counterparties and market risk limits. The Operations Department, acting as the back office, is responsible for deal verification, confirmation, settlement and the payment process.

Asset and Liability Committee

The ALCO is responsible for the overall management of market risks of the Corporation. It follows the prudent risk management principles and the investment guidelines approved by the Board. It is responsible for reviewing and managing the market risk of interest rate risk, asset-liability maturity mismatch risk, currency risk, and liquidity and funding risk of the Corporation. Regular meetings are held to review the latest financial market developments and formulate relevant asset-liability management strategies for the Corporation.

The ALCO is chaired by the Chief Executive Officer and has among its members Senior Vice President (Finance), Senior Vice President (Operations), Senior Vice President (Risk) and senior staff from the relevant functional departments.

Operational Risk

Operational risk represents the risk of losses arising from external interruptions, or inadequacies or the failure of internal processes, people or systems.

The Corporation adopts a bottom-up approach in identifying operational risk by carrying out an in-depth analysis of new products, business activities, processes, system enhancements and due diligence reviews of new operational flows. Comprehensive validation rules, management information system reports and audit trails are in place to track and report any errors or deficiencies.

The Corporation actively manages operational risk with its comprehensive system of well-established internal controls, authentication structures and operational procedures. The operational infrastructure is well designed to support the launch of new products in different business areas. Rigorous reviews are conducted before the implementation of operational or system infrastructure in order to identify possible operational risks and to ensure adequate segregation of duties.

To ensure an efficient and effective discharge of daily operations, the Corporation pursues advanced technological solutions alongside robust business logistics and controls to carry out its operational activities and business processes. Steps have been taken to ensure the accuracy, availability and security of these systems. The Corporation has also taken cautious steps to institute adequate checks and balances in financial controls to ensure that its operations are properly controlled. Effective financial controls also help to minimise financial risk and safeguard its assets against inappropriate use or loss, including the prevention and detection of fraud.

The Corporation's Information Security Manual (**ISM**) documents the requirements of security standards and practices relating to information and data security for observance by all staff. The Corporation implements various security measures, such as double firewall protection, intrusion-detection systems, virus alerts, quarantine systems and vulnerability scanning systems to minimise its exposure to external attacks. Internally, the Corporation also has a virtual Local Area Network with workstation security policies to reduce damage in the event of a malicious intrusion. The Corporation engages external consultants when appropriate to conduct intrusion vulnerability tests to enhance system security.

To ensure a high degree of compliance, the Corporation's core operating systems and processes are subject to regular review by internal auditors, and also external auditors' review as part of the annual statutory audit. Furthermore, all staff are required to sign an undertaking to comply with the ISM requirements annually. The ISM is updated whenever there is a new security measure or system, and any changes will require approval from senior management.

Business Continuity Plan

The Corporation's business recovery plan ensures that maximum possible service levels are maintained at all units to support business continuity and minimise the impact of business disruption from different disaster scenarios. Each business unit assesses the impact of disaster scenarios and updates recovery procedures from time to time. To ensure that business recovery procedures are practical, a business recovery drill is conducted annually. Daily back-ups and offsite storage of back-up tapes are in place to protect the Corporation from IT disasters.

Product Sign-off Mechanism

To ensure that all risk factors are considered when designing and implementing a new product, the Corporation has developed a product development management framework under which proper sign-off of product specification is conducted prior to any new product launch. The product driver is clearly assigned at the start of the product development process to be responsible for instituting the sign-off process. Products can only be launched after all functional departments have signed off and confirmed functional readiness.

Complaint Handling Mechanism

The Corporation makes a continuous effort to improve its core processes to ensure that its products and services meet customers' expectations. To make sure customers' feedback is attended to in a timely and appropriate manner, the Corporation has a formal complaint-handling mechanism to track, report and handle complaints.

Operational Risk Committee

The Operational Risk Committee (**ORC**) is responsible for ensuring that all business entities and line functions in the Corporation maintain an effective operational risk and internal control framework. The ORC is also responsible for providing directions and resolving issues related to policies, controls and management of operational issues referred to by line functions, as well as ensuring prompt and appropriate corrective action in response to audit findings related to operational risks or internal controls.

The ORC is chaired by the Chief Executive Officer. Other members of the committee include Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk) and senior staff from the relevant functional departments.

Legal and Compliance Risk

Legal risk arises from uncertainty in the application or interpretation of laws, regulations or legal documents, or failure to comply with statutory, regulatory or legal obligations. Legal risk also arises from any unenforceability of, or ineffectiveness of, legal documents in safeguarding the interests of the Corporation.

The Legal Office, headed by General Counsel and Company Secretary, advises the Corporation on legal matters with a view to managing legal risk. When new products or business activities are considered, the Legal Office will advise on the relevant laws (and the updates thereafter) and regulatory environment, as well as the legal documentation, and identify possible legal pitfalls with a view to protecting the best interests of the Corporation. Where appropriate, external counsel will be engaged to assist the Legal Office in providing legal support to the Corporation. The Legal Office also works closely with the other departments of the Corporation to advise on legal issues and documentation.

Compliance risk arises from the failure to comply with laws, regulations, rules, codes of conduct and industry standards of best practices applicable to the Corporation. The Compliance Function has been established as a part of the Legal Office and is led by the Chief Compliance Officer who reports to the Chief Executive Officer through the General Counsel. Where appropriate, the Compliance Function will engage external counsel to advise on compliance matters. For a more detailed description of the Compliance Function and its work, please refer to the Internal Control Section of the Corporate Governance Report.

The ORC is the governance committee for legal and compliance risks.

Leveraging Risk

In order to ensure that the Corporation would not incur excessive risk when expanding its business and balance sheet in relation to its own capital base, the Financial Secretary, in his capacity as the Financial Secretary and not the shareholder, acted as the regulator of the Corporation, by issuing a set of guidelines on capital-to-asset ratio for compliance by the Corporation upon the establishment of the Corporation in 1997. The guidelines have since been updated from time to time to take account of new products launched by the Corporation. The Financial Secretary issued in October 2011 a new set of guidelines by reference principally to the Basel II risk-based capital adequacy framework, the Guidelines on Capital Adequacy Ratio (**CAR**), with the minimum CAR at 8%. As at 31 December 2014, the Corporation's CAR was 23.5%.

The prudent use of regulatory capital is monitored daily in accordance with the new capital guidelines. The Chief Executive Officer reports the CAR and the daily minimum ratio to the Board of Directors on a quarterly basis. An early warning system is also in place. If the CAR drops to the threshold level of 14%, the Chief Executive Officer will alert the Executive Directors. If the CAR falls to 12% or below, the Board of Directors will be informed and appropriate remedial actions will be taken.

Longevity Risk

Longevity risk refers to the heightening risk of larger payouts under the RMP. The longer the payout period is, the larger the loan balance will be over time, and the less buffer there will be for the sale of the property to cover the outstanding loan balance. A loss may arise if there is a shortfall in the recovery amount after the disposal of the property. The termination rate of the loans depends largely on the mortality rate (i.e. life expectancy) of the borrowers.

Annual risk analysis is conducted in order to assess the potential financial impact of longevity risk for reverse mortgage loans, as well as the interaction among the various risk factors under the RMP. The mortality assumptions are reviewed on a regular basis by the TAC.

Property Risk

Property risk arises from the fluctuation in the value of property which acts as collateral for the Corporation's loan and guarantee portfolios under the MPP, MIP and RMP. The Corporation manages the risk by setting prudent assumption in the recoverable value of the collateralised property, restricting maximum loan-to-value ratios of the loans under the Programmes and conducting stress test to examine the impact under adverse market scenarios.

Process Management and Information Technology

Since its inception, the Corporation has devoted substantial resources and effort to continuously improve its business operations, to strengthen its internal controls and to enhance its application systems. The past year has been no exception.

The Corporation successfully completed the relocation of Production and Backup data centres in January and August 2014 respectively. A disaster recovery drill was later conducted in September to ensure application systems and staff were prepared for disaster scenarios.

In terms of web accessibility, the Corporation has completed enhancements on our public website to comply with the Web Content Accessibility Guidelines 2.0. The Corporation's public information is now accessible to people from all walks of life, including those with visual or hearing impairments.

Apart from improvements in our data centres and our public website, the Corporation continued to improve process automation, data integrity, system resilience and information security through systems development and enhancements to support various corporate and business initiatives, e.g. the SFGS, the RMP, the MF Scheme, the MIP, the treasury operations, and strengthened risk management. Such steps are vital in ensuring efficiency, accuracy and robustness in business operations that translate into better services to the community. In addition, our system enhancements and process re-engineering measures also aim to achieve paperless operations that help contribute to a better and greener environment.

Corporate Social Responsibility

In recognition of the Corporation's contribution to the community and its commitment to corporate social responsibility (**CSR**) in the past years, the Corporation has been awarded the Caring Organisation Logo by the Hong Kong Council of Social Service since 2008 and has now stepped into the seventh year of CSR participation.

Caring Company Recognition Ceremony

As a socially responsible organisation, the Corporation cares for both its employees and the community. The Corporation has underlined its commitment to corporate social responsibility by caring for its employees' well-being, participating in charity activities and implementing environmental protection measures.

Care for Employees

Staffing and Remuneration

The Corporation attracts and grooms talent to ensure the efficient performance of its core mission of enhancing stability in the banking sector, promoting wider home ownership and facilitating the development of the debt securities market. Employees are provided with competitive remuneration packages and fringe benefits, a promising career path and development opportunities, and a healthy and safe working environment. The Corporation has also adopted family-friendly practices by offering a five-day week to help employees maintain a good work-life balance, as well as comprehensive medical and dental insurance plans which cover both the employees and their family members.

Through system automation and process re-engineering, the Corporation has maintained a lean and efficient workforce, despite an increase in the scope of operations and the complexity of the products it offers. In 2014, the permanent staff establishment of the Corporation was 179, and the staff turnover rate was 14.74%.

Training and Development

The Corporation recognises the importance of ongoing training and has devoted considerable resources to the continuous enhancement of its employees' professional knowledge and skills. In 2014, the Corporation arranged different programmes and workshops to help employees enhance their product knowledge, and strengthen their managerial and technical competence and soft skills.

Training on Time Management

Seminar on China Affairs by Mr Chang Ka Mun

Training on Lateral Thinking

Training on Business Writing

The in-house training workshops covered a wide range of topics such as critical thinking, lateral thinking, team collaboration, business writing, time management and China Affairs. During the year, seminars on new Companies Ordinance, Prevention of Bribery Ordinance, Equal Opportunities Legislation and Personal Data (Privacy) Ordinance were also held.

The Corporation also sponsored employees for external job-related training and development courses covering a wide range of topics from mortgage-related issues, risk management, corporate governance, finance and accounting to information technology and leadership training.

In addition, all new employees were provided with an induction session to provide them with a foundation of knowledge about the Corporation's organisation structure, functions and policies.

Employee Relations and Staff Activities

To promote a healthy work-life balance and foster a family-friendly working environment, the HKMC Staff Club regularly organises staff activities to cultivate better relationships and communication among employees. In 2014, these activities included hiking, interest classes, Work-Life Balance Week, outings and other staff gatherings, all of which were well received by employees and their families. The in-house staff publication "HKMConnection" recaps snapshots of the HKMC staff activities.

To facilitate effective communication within the Corporation, the intranet Staff Homepage is frequently updated so that useful information can be shared among different departments. There is also the Staff Suggestion Scheme, which encourages staff to make suggestions for improvements in work flow and the workplace.

Work-life Balance Week

Day Camp in Tree Top Cottage

Eco Tour to Yim Tin Tsai Island, Sai Kung

Health and Safety

As a caring organisation, the Corporation is dedicated to looking after both the physical and mental health of its employees. An Employee Support Programme is in place to provide confidential external counselling services to employees and their family members, if needed. A vaccination programme for the prevention of influenza and health-check programmes at privileged rates were also offered to employees.

The Corporation has, from time to time, reviewed and strengthened its contingency plans which aim to minimise any unexpected or sudden disruption to business operations, such as from an outbreak of communicable disease among employees. Periodic drills are organised to make sure employees are conversant with the activation of the back-up facilities, contingency plans and communication arrangements in case of emergency.

Care for the Community

Charities and Social Activities

The Corporation promotes various charitable and community functions, such as fundraising events, donation campaigns and voluntary services. Employees are encouraged to support charity activities and join voluntary work organised by the HKMC Volunteers Team, Caring League.

In 2014, the Corporation organised donation campaigns, such as Dress Casual Day 2014 for the Community Chest, and held its annual Blood Donation Day event for the Hong Kong Red Cross.

Dress Casual Day 2014

Blood Donation

Employees have been keen to participate in voluntary services, demonstrating their concern for the needy by dedicating time and effort to various causes. The Caring League has partnered with several social service organisations to participate in a number of voluntary services, including the following:

- care for the environment — a recycling campaign in partnership with the Salvation Army to collect books, stationery, toys, etc

- care for the elderly — organised by the HOPE Worldwide and Central & Western District Elderly Community Centre of St. James' Settlement, involving our volunteers visiting the homes of elderly people living alone and bringing them "lucky bags" with daily necessities to welcome the Chinese New Year and Mid-Autumn Festival

Visit to elderly living alone before Mid-Autumn Festival

Seniors Day 2014

- care for the children — organised by the HOPE Worldwide, involving an outing and a Christmas party with children from low-income families

Outing with children

Christmas Party with children

Internship and Manager Trainee Programmes

To help nurture talent for the future, the Corporation provides a number of internship programmes for undergraduates to give them a taste of the real business world and help them better prepare for their future careers. The students who joined the programmes appreciated the learning experience and work opportunities they were exposed to.

During the year, the Corporation launched the Manager Trainee Programme with the objective of identifying high-calibre young executives for grooming to meet the Corporation's long-term staff development plan. Throughout the three-year programme, the Manager Trainees will go through on-the-job training in different departments, take part in corporate projects and attend structured learning and development programmes.

Environmental Protection

The Corporation continuously supports and implements various green measures to create a more environmentally friendly office and raise employees' awareness of methods of waste reduction and energy conservation. Employees are encouraged to adopt paperless working practices by using more electronic communication. They are also encouraged to collect waste paper and used toner cartridges for recycling. Since 2006, the Corporation has adopted various measures, including better control of office temperature and the use of LED lighting, in the interest of energy efficiency. The Corporation welcomes suggestions from employees on green office ideas and encourages its suppliers to use and offer more environmentally friendly products whenever possible.