

Chairman's Statement

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Under an uncertain economic environment in 2015, the Corporation achieved satisfactory financial results and remained resilient in fulfilling its core missions.

John C Tsang
Chairman



In 2015, the major advanced economies continued their divergent trends with the US reporting good domestic growth while recovery in Europe and Japan remained sluggish. The strengthening US economy finally prompted the US Federal Reserve to raise the federal funds target rate for the first time in almost a decade, marking the start of US interest rate normalisation. In contrast, the continued weak recovery and subdued inflation in Europe and Japan signalled likely further monetary easing. Growth in China had been moderating on weakened external demand and subdued private investment. Against this backdrop, the Hong Kong economy grew modestly during the year with moderating domestic demand and lacklustre export performance. At the same time, credit growth decelerated amid softer corporate credit demand, while the residential property market showed signs of consolidation recently.

Enhancing Banking and Financial Stability

Given that one of its core missions is to enhance the stability of the banking sector in Hong Kong by offering a reliable source of liquidity, the Corporation maintained its readiness to purchase mortgage loans and other assets from approved sellers, as and when they have the need to raise funds, during the course of the year. With ample liquidity in the markets, banks generally had little incentive to offload mortgage assets for liquidity purposes. Against this backdrop, the Corporation purchased about HK\$337 million of local assets in 2015.

Benefiting Home Ownership

The Mortgage Insurance Programme plays an important role in the property market in Hong Kong by enabling eligible borrowers to obtain loan financing for home purchases with higher loan-to-value (**LTV**) ratio, thereby reducing their down payment burden. Since 1999, the Corporation has helped more than 117,000 families buy their own homes. A significant majority of borrowers under the Programme bought homes in the secondary property market.

After the introduction of further prudential measures for residential mortgage loans by the Hong Kong Monetary Authority in February 2015, the Corporation, as part of its risk management process, tightened the Programme eligibility criteria by reducing the maximum Programme cover for eligible properties from 90% to 80% LTV ratio, except for first time homebuyers with regular salary and strong repayment ability. The total mortgage loans drawn down under the Programme was HK\$17.2 billion in 2015 (2014: HK\$16 billion).

Promoting Development of the Debt Market

The Corporation has remained a major and active corporate debt issuer in Hong Kong for more than a decade, thereby playing a key role in promoting the development of the local debt market. In 2015, the Corporation issued debt securities in different currencies (with tenor of 1 year or above) totalling around HK\$14 billion to fulfil its refinancing needs and support its business activities. Notably, the Corporation issued 30-year bonds totalling HK\$1 billion for the first time to support potential new fixed-rate businesses. The Corporation also retained its AAA credit rating from Standard & Poor's and Aa1 rating from Moody's.

Providing Elderly Home Owners with More Retirement Planning Choices

The Corporation launched its Reverse Mortgage Programme in 2011 to provide elderly home owners with an additional financial planning option to enhance their quality of life. Under the Programme, they could use their homes as collateral in return for lump-sum payouts and/or a stream of monthly payouts from participating banks. During 2015, with a view to offering greater flexibility to borrowers to increase their payouts, the Corporation introduced four major enhancements to the Programme. These were (a) allowing more than one residential property to be used as security for a reverse mortgage loan; (b) removing the requirement that the property used to secure a reverse mortgage loan must be the principal residence of the borrower(s); (c) increasing the maximum number of joint borrowers from two to three; and (d) accepting life insurance policies as additional security under a reverse mortgage loan. The Corporation received 368 reverse mortgage applications in 2015, 80% more than the previous year, indicating increasing public receptiveness of the Programme.

Assisting Subsidised Housing Owners in Land Premium Settlement

To improve the market supply of subsidised housing properties to the public, the Corporation launched the Premium Loan Insurance Scheme in September 2015. Under the Scheme, the Corporation provides mortgage insurance cover for lump-sum loans advanced by participating banks to owners of subsidised housing properties primarily to settle the land premiums in order to remove alienation restrictions on these properties. When these alienation restrictions are removed, the owners will be free to sell or let their properties in the open market. The loans covered by the Scheme are secured by mortgages on the subsidised housing properties in favour of the participating banks. The Scheme currently covers subsidised housing properties under (a) the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme of the Hong Kong Housing Authority, and (b) the Flat-for-Sale Scheme and Sandwich Class Housing Scheme of the Hong Kong Housing Society.

Promoting Hong Kong's Entrepreneurial Spirit

The Microfinance Scheme was launched in 2012 to promote and support entrepreneurial spirit in Hong Kong through a platform operated by the Corporation comprising a strategic support group of participating non-governmental organisations, banks and a group of public service-minded mentors with business or professional backgrounds. To support these goals and to help aspiring entrepreneurs to secure financing at affordable rates, the Corporation extended the Scheme for another three years ending in June 2018 and raised the aggregate lending amount to HK\$200 million. To market the Scheme, the Corporation organised entrepreneurship talks at tertiary institutions, and helped publicise the experiences of entrepreneurs through press interviews. Also, the products and services of many entrepreneurs under the Scheme were successfully showcased to the public at a trade fair organised by the Corporation at a major shopping mall.

From the inception of the Scheme to the end of 2015, 164 cases with a total loan amount of HK\$41.2 million were approved by the Corporation representing an approval rate of 50%.

Continuing Support for SMEs

Small and medium enterprises (**SMEs**) remain a key driving force of the Hong Kong economy, employing 50% of the private sector workforce. The HKSAR Government remains committed to supporting SMEs, especially in times of economic uncertainty, through the extension of the 80% guarantee product under the SME Financing Guarantee Scheme which the Corporation was entrusted to operate. The Scheme provides a useful platform to help SMEs obtain bank financing in an uncertain environment.

As at end 2015, 30 lending institutions signed up for the 80% guarantee product, and more than 6,700 enterprises with around 173,000 employees had benefited from it. The total approved loan amount under the 80% guarantee product as at the end of 2015 amounted to HK\$43.2 billion. To enhance its support for SMEs and banks, the Corporation streamlined its processes to provide a more efficient and user-friendly service.

Performance in 2015

Taking into account the cyclical nature of the Corporation's business, the Corporation achieved a satisfactory financial result amid volatile financial markets and uncertain economic trends in 2015. Profit attributable to shareholders in 2015 amounted to HK\$725 million (2014: HK\$746 million), and the return on shareholders' equity was 8.1% (2014: 8.4%) with capital adequacy ratio at 21.9% (2014: 23.5%). The Corporation remained highly resilient in fulfilling its policy objectives under an uncertain economic environment.

Outlook for 2016

Looking ahead, further monetary policy divergence in major economies, together with the economic risks of emerging markets, continue to cloud the global economic and financial market outlook. These factors could lead to more volatile international capital flows and global financial conditions, with potential negative spill-over effects on the Hong Kong economy and asset markets. The Corporation will remain vigilant and continue to proactively tackle volatility in the financial and housing markets.

I would like to express my heartfelt thanks to fellow Directors, Management and staff for their steadfast support in working to achieve the Corporation's core missions and social objectives in 2015.



John C Tsang
Chairman