

Business Overview

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Performance Highlights

The major achievements of the Corporation for the year included:

- purchasing about HK\$206 million of loan assets
- helping homebuyers borrow a total of HK\$24.6 billion mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving 1,525 applications since the launch of the Reverse Mortgage Programme (**RMP**), with an average property value of around HK\$5.1 million
- approving 11 applications since the launch of the Premium Loan Insurance Scheme (**PLIS**), with an average property value of around HK\$3.9 million
- approving loans totalling HK\$45.8 million under the Microfinance Scheme (**MFS**) since its inception and up to the end of 2016 to business starters, self-employed people 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 product under the SME Financing Guarantee Scheme (**SFGS**) for one year to 28 February 2017. Since the launch of the SFGS in January 2011, the Corporation had approved more than 11,700 applications for a total loan amount of approximately HK\$46.5 billion, of which more than 11,400 applications for a total loan amount of about HK\$45.6 billion were approved with 80% guarantee protection. More than 7,200 local small and medium enterprises (**SMEs**) and nearly 190,000 related employees have benefited under the SFGS
- issuing HK\$16.2 billion of debt securities (with maturity of 1-year and above) in a cost-effective manner, thus promoting the development of the local debt market and maintaining the HKMC's position as one of the most active issuers in Hong Kong
- safeguarding excellent credit quality, with over-90-day delinquency ratios of 0.01% for the mortgage insurance portfolio, 0% for the SME guarantee portfolio (excluding the 80% product under the SFGS), 0.03% for the Hong Kong residential mortgage portfolio (industry average of 0.03%), 2.20% for the microfinance loan portfolio and 0.04% across all asset classes as at 31 December 2016
- 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 2016:

- profit attributable to shareholders of HK\$604 million
- net interest margin of 1.0%
- return on assets of 1.1%
- return on shareholders' equity of 6.8%
- cost-to-income ratio of 30.8%
- capital adequacy ratio of 21.3%, well above the minimum requirement of 8% stipulated by the Financial Secretary.

Market Overview

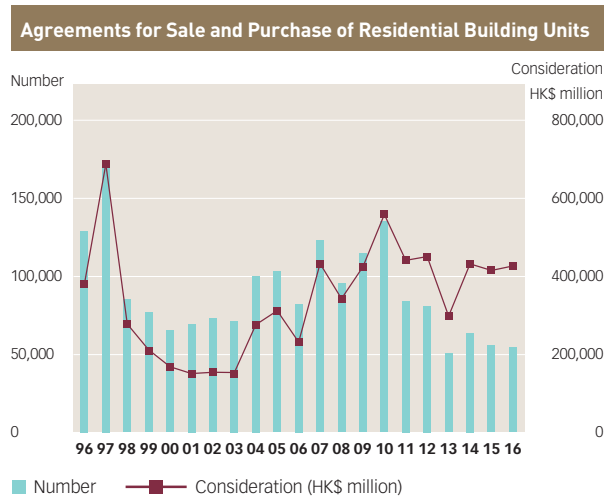
General Economic Conditions

In 2016, global economic growth remained modest. The US reported good domestic growth while recovery in Europe and Japan remained sluggish. Global monetary divergence again widened while the US Federal Reserve continued to gradually normalise its monetary policy but the quantitative easing programmes in the euro area were extended and a new monetary policy framework for additional easing was introduced in Japan to fend off deflation risks. Market volatilities heightened as a result of the surprising outcome of Brexit and the US presidential election. In the region, growth in China had been moderating with signs of stabilisation in the second half of the year on accelerated infrastructure and investment activities whereas Hong Kong economy saw modest growth on improved domestic and external demands. Against this backdrop, the Hong Kong economy grew modestly during the year at 1.9% year-on-year in real terms, underpinned by a strengthening in domestic demand and improvement in the external demand.

Property Market

Hong Kong’s property market cooled off at the start of the year, with prices falling on a slow but steady basis and transaction volume dropping to an all-time low. The property market recorded a rebound in number of transactions in the second quarter following an improvement in market sentiments. This was followed by an increase of 31% in sales volume in the third quarter, bringing an accumulative growth of 8.9% for the sixth consecutive month in September. Despite the Government’s introduction of new prudential measures in November to cool property prices, by raising the stamp duty to 15% for second-time home buyers, it did not lead to significant adjustment pressure on property prices. The number of property transactions in 2016 slightly decreased by about 2.3% year-on-year to 54,701, while the consideration of transactions gained an almost 2.8% year-on-year increment (Figure 1).

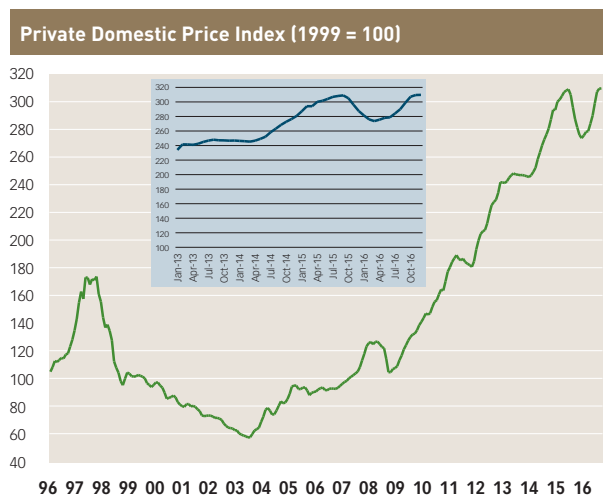
Figure 1



Source: Land Registry

Despite the decline in the first quarter of 2016, the volume of transactions in both primary and secondary markets has increased since April. In general, residential property prices¹ recorded an about 7.6% cumulative increase in 2016, compared with the 2.4% increase in 2015, and had surpassed the 1997 peak by around 79% as at the end of 2016 (Figure 2).

Figure 2



Source: Rating and Valuation Department

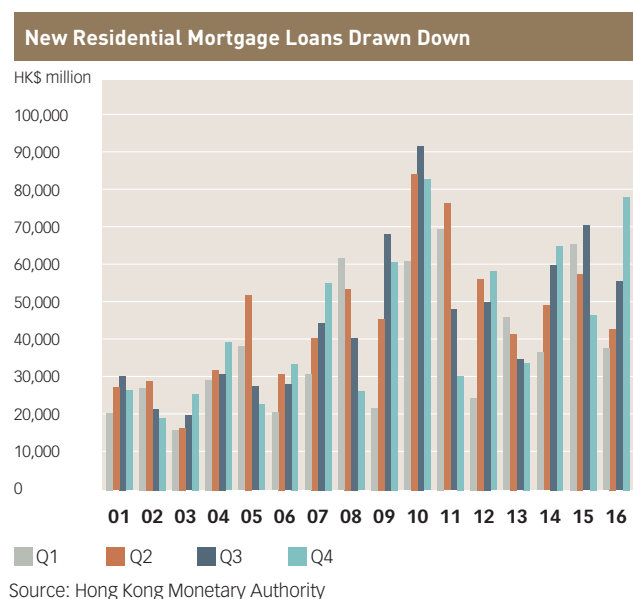
¹ Source: The Private Domestic Price Index published by the Rating and Valuation Department

Mortgage Market

Overall, the mortgage rate in Hong Kong stayed low in 2016. The Best Lending Rates (BLRs) remained unchanged at 5% and 5.25% throughout the year. The Hong Kong Interbank Offered Rates (HIBORs) remained low with the one-month HIBOR floating in the range of 0.21%–0.29% from January to October in terms of period average². HIBOR rose to 0.37% in November and surged to a high of 0.61% in December.

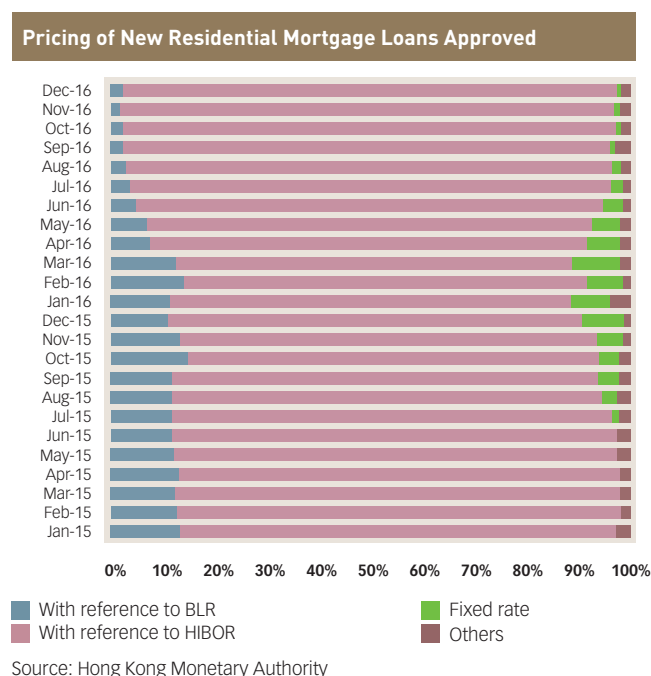
During the year, mortgage lending growth showed a slowing trend, with the total outstanding value of all residential mortgage loans rising moderately by 4.1% to HK\$1,165.2 billion. The gross value of new loans drawn down³ decreased by 10.8% year-on-year in 2016, compared with the growth rate of 14% in 2015 (Figure 3).

Figure 3



As HIBOR remained at a low level for most months of the year, HIBOR-based mortgages turned out to be more receptive to borrowers. 94.9% of new mortgage loans were priced with reference to HIBOR in December 2016. The proportion of BLR-based mortgages declined drastically from 11.4% in January to 2.5% in December (Figure 4). The share of fixed-rate mortgage loans also experienced a significant drop, from 7.5% in January to 0.8% by the end of 2016.

Figure 4

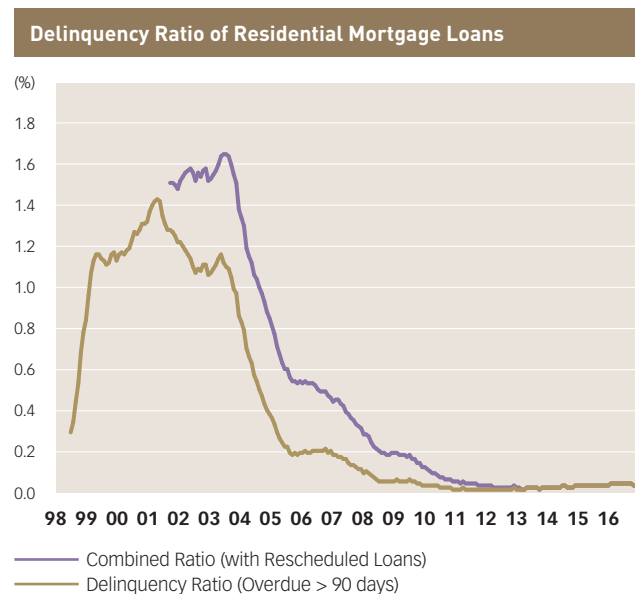


² Source: HKMA Monthly Statistical Bulletin

³ Source: HKMA's Monthly Residential Mortgage Survey (HKMA Survey)

Under a 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 2016. The over-90-day delinquency ratio of mortgage loans stayed between 0.03%–0.04% throughout the year, reflecting the prudent underwriting standards adopted by banks. The combined ratio, which takes into account both delinquent and rescheduled loans, also remained low in the range of 0.03%–0.04% during the same period (Figure 5). As residential property prices had been on the rise since April, the number of mortgage loans in negative equity dropped to 4 at end-December 2016, with an aggregate value of HK\$11 million recorded⁴.

Figure 5

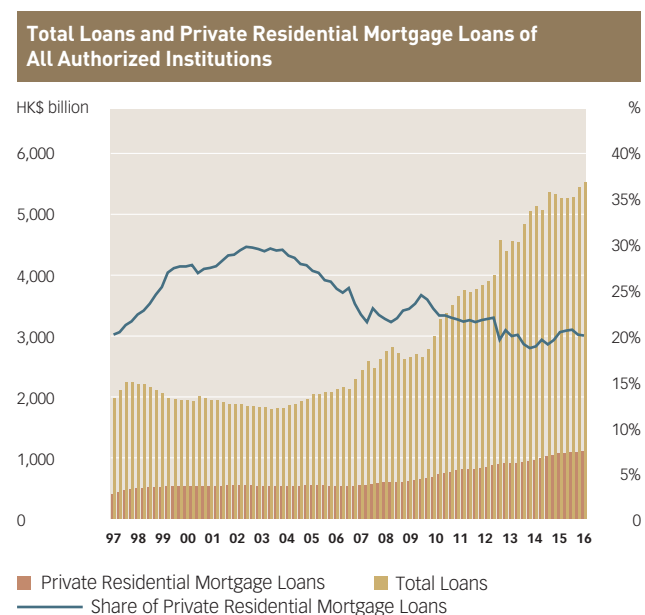


Source: Hong Kong Monetary Authority

Banking-Sector Exposure

The total outstanding value of mortgage loans for private residential properties increased to HK\$1,122.3 billion at the end of 2016 (end-2015: HK\$1,077.9 billion), accounting for one-fifth of total loans in Hong Kong (Figure 6). Adding to this the lending for building and construction, along with property development and investment, the value of property-related loans totalled HK\$2,383.1 billion, representing about 42% 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 increased to HK\$43 billion by the end of 2016 (end-2015: HK\$41.4 billion).

Figure 6



Source: Hong Kong Monetary Authority

⁴ Source: HKMA Survey

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. In 2016, the Corporation acquired about HK\$206 million of assets, which included residential mortgage loans and other assets.

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

Being part and parcel of the package of support measures announced in the 2012–13 Budget for local SMEs to tide over the uncertain global economic environment, the Corporation promulgated the time-limited 80% SFGS backed by the Government's total guarantee commitment of up to HK\$100 billion. The 80% SFGS provides 80% guarantee on eligible loan facilities approved by participating lenders at a substantially lowered guarantee fee rate, which helps SMEs obtain loans for general working capital or buying equipment or assets to support business operations. 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. A total of 30 authorized institutions (**AIs**) have participated in the SFGS as lenders.

In light of the uncertain external economic environment and trade performance, the 80% SFGS was extended for a total of four years to the end of February 2017. In addition, in a bid to alleviate the financing burden of borrowers, the Financial Secretary announced in the 2016–17 Budget the reduction of the annual guarantee fee rates for the 80% SFGS by 10%. The Financial Secretary also announced the removal of the minimum annual guarantee fee rate of 0.5% for guarantee fees due and payable on or after 1 June 2016.

The 80% SFGS has been well received by the market. As at 31 December 2016, the Corporation had approved more than 11,700 applications for a total loan amount of approximately HK\$46.5 billion under the SFGS. More than 11,400 of the applications for loans amounting to about HK\$45.6 billion were approved under the 80% SFGS. More than 7,200 local SMEs employing nearly 190,000 people have benefited under the SFGS.

The Corporation has maintained ongoing dialogue with the Hong Kong Government, participating lenders and market participants in order to further improve public awareness and recognition of the SFGS, in particular the 80% SFGS. As part of the ongoing SFGS communication campaign and in response to the constraints faced by local SMEs in accessing bank credit, the Corporation has been actively meeting with participating lenders, SME associations, chambers of commerce and members of Legislative Council since the second quarter of 2016 to enhance the understanding and transparency of the SFGS and to promote more active use of the 80% SFGS.

To broaden the understanding of the SFGS among practitioners, the Corporation arranged a series of seminars for more than 20 participating lenders. The seminars were to familiarise lenders' staff members with the SFGS, covering both the application and claim stages.

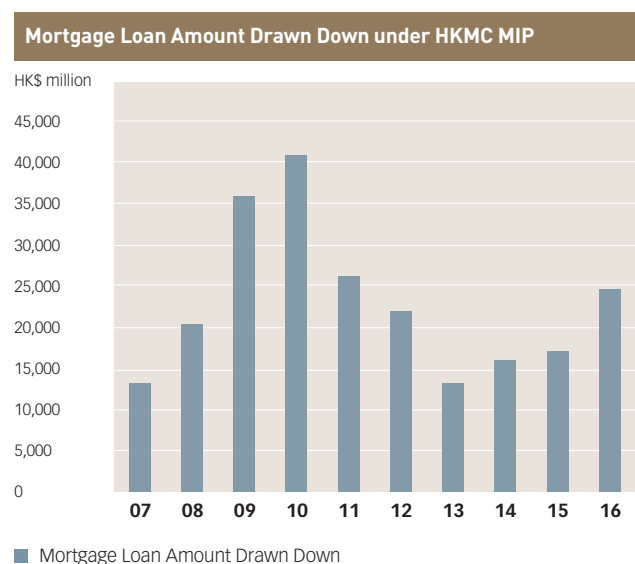
The Corporation has taken on board lenders' views collected during the communication campaign to smooth out the SFGS claim process. Among other things, the Corporation has introduced a digital document depository which allows participating lenders to submit claim-related supporting documents at application stage. The enhancement helps expedite the SFGS claim process by reducing the time participating lenders spent on collection of documents from various internal departments at claim stage.

Mortgage Insurance Programme

The Mortgage Insurance Programme serves as a useful tool to assist 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. Demand for the MIP eased initially but then rebounded in 2016, and the volume of loans drawn down under the MIP increased to HK\$24.6 billion in 2016 from HK\$17.2 billion in 2015 (**Figure 7**). About 79% of the MIP loans drawn (in terms of loan amount) were secured on properties in the secondary market. This demonstrates the importance of the MIP to homebuyers in the secondary market.

Figure 7



Source: HKMC

During the year, the Corporation had joined with participating banks to promote the MIP through various promotional channels. Since 1999, the MIP has helped more than 124,000 families achieve the dream of home ownership, with an aggregate loan drawdown of HK\$303 billion.

Premium Loan Insurance Scheme

As commissioned by the Financial Secretary in the 2015–16 Budget, the Corporation launched the Premium Loan Insurance Scheme in September 2015. It provides a platform for owners of subsidised housing properties aged 50 or above to finance their land premium payments to the Hong Kong Housing Authority (**HA**), Hong Kong Housing Society (**HS**) or the Government.

Under the PLIS, borrowers are granted loans by banks against their subsidised housing properties as security primarily for settling premium payments to the HA, HS or the Government. The Corporation will act as an insurer by providing assurance to the participating banks to cover losses arising from the possible shortfall at the time of selling the property when the loan is terminated. By the end of 2016, the Corporation had approved 11 PLIS applications since its inception, with an average appraised property value of around HK\$3.9 million and an average lump-sum payout amount of HK\$0.85 million for settlement of premium payment.

To enhance public awareness of the PLIS, the Corporation continued to drive promotions on various channels, including television and radio commercials as well as media interviews. The Corporation also joined with participating banks to hold educational seminars and broadcast PLIS television commercials at bank branches. This was supported by marketing materials to communicate the product features to potential customers.

Apart from collaborating with its business counterparts, the Corporation increased market receptiveness of the PLIS through down-to-earth promotional efforts. A series of 16-day roving exhibitions were held at shopping centres close to subsidised housing estates, during which creative and interactive games were conducted to enrich customer experience and deepen public understanding of the PLIS. Moreover, the Corporation actively established contacts with the management offices of subsidised housing properties to reach out to owners of subsidised housing properties.

Reverse Mortgage Programme

The Reverse Mortgage Programme was launched to give elderly people an additional financial planning option to enhance their quality of life. By the end of 2016, the Corporation had approved a total of 1,525 RMP applications since its inception, with an average property value of around HK\$5.1 million and an average monthly payout amount of HK\$14,900.

In response to the 2016–17 Budget, the Corporation introduced a new enhancement in October to extend the RMP to cover subsidised sale flats with unpaid premium (**The Enhancement**). It has received a positive and encouraging market response since the launch. Two applications were approved on the launch day of The Enhancement. As at the end of December 2016, more than 110 applications and more than 1,200 enquiries in relation to The Enhancement were received.

A multi-faceted publicity campaign was rolled out to promote The Enhancement. Advertisements were placed in local newspapers. The RMP commercial was broadcast on major television and radio channels, and put on online media platforms such as YouTube, to reach the wider

public. The Corporation also used public transportation to promote The Enhancement, including placing advertisements on bus bodies and broadcasting the RMP commercial on in-train televisions of the Mass Transit Railway. This promotional tool was used by the Corporation for the first time. It aimed to effectively reach the target segments along the routes largely surrounded by subsidised housing estates.

The Corporation organised district-level promotions to communicate The Enhancement to target customers. A total of seven roving exhibitions were conducted at major shopping malls near subsidised housing estates in different districts covering Hong Kong Island, Kowloon and the New Territories. The Corporation's staff and bank representatives were available at the roving exhibitions to promote the RMP and address public enquiries. Response to the roving exhibitions has been overwhelmingly positive and encouraging, in which crowds assembled and people enquired about the product. Long queues of people appeared to participate in the games. Both the exhibition and games were effective in enhancing the awareness and understanding of the RMP among the target customers.

Aside from the marketing initiatives driven by The Enhancement, the Corporation undertook joint initiatives with its business partners including banks, professional bodies and non-governmental organisations (**NGOs**) to promote the RMP. In 2016, nearly 50 seminars were arranged and the RMP television commercial was broadcast at the branches of participating banks. In addition, management of the Corporation has supported the development of the RMP. Apart from giving talks at high-level conferences on retirement planning for members of professional bodies, potential customers and the interested public, the Chief Executive Officer also reached out to people in the districts by hosting a sharing session at a roving exhibition which was well attended by more than 100 participants.

Microfinance Scheme

Under the Microfinance Scheme, the Corporation continued to take up the role of a scheme operator. It liaised with participating banks and NGOs to offer loans at an affordable rate and support services to people wanting to start their own business, become self-employed or achieve self-enhancement through training, upgrading of skills or obtaining professional certification.

To support the Hong Kong Food Truck Pilot Scheme (**Food Truck Scheme**) introduced by the Government in March 2016, the Corporation collaborated with the Tourism Commission to render support, including loan financing, mentorship and entrepreneurial training, to applicants of the Food Truck Scheme. The relevant entrepreneurial training courses for the Food Truck Scheme organised by the participating NGOs attracted more than 50 enrolments. The Corporation also streamlined the application process for those applicants applying for the MFS to develop their food truck business. By the end of December 2016, one application had been approved.

The MFS has operated smoothly since its launch in June 2012. By the end of 2016, the MFS had approved a total of 183 loans with a total loan amount of HK\$45.8 million.

The MFS 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, Chinese medicine practitioners, rehabilitated offenders, a clown performance entertainer, native English speaking teachers, desserts and pastry chefs, a testing laboratory specialist and university undergraduates.

The Corporation launched a series of marketing activities to promote the MFS brand among the local entrepreneurial community. An advertising campaign was conducted to reach out to the mass public, including print advertisements in magazines, banners on online media platforms, and television commercials on major broadcasting channels. The Corporation participated in the StartmeupHK Festival 2016 organised by Invest HK and presented on the Incu-Lab ICE Days. The Corporation adopted a focused strategy to promote the MFS, including participating in trade fairs

and conducting seminars at universities to approach target customers.

The MFS Booklet entitled "Tips for Successful Business Start-up" was made available in more than 250 spots, including banks, NGOs, business centres, youth centres, secondary schools, tertiary institutions and public libraries. Moreover, the Corporation sponsored the NGOs in organising promotional activities.

Funding

The global financial markets remained volatile in 2016 and were affected by the uneven economic growth and diverging monetary policy paths in the major economies, as well as the surprising outcome of Brexit and the US presidential election. Despite 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\$16.2 billion (with maturity of 1-year and above) in 2016. At the end of the year, the Corporation's total outstanding debt amounted to HK\$34.2 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 the 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, including Hong Kong dollars, US dollars, renminbi, Australian dollars, British pounds, euro and Japanese yen, 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 2016, 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 2016, the Corporation launched 33 MTN private debt issues, totalling an equivalent of HK\$16.2 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 have 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. The Corporation pioneered a new offering mechanism for the retail bond market in Hong Kong in November 2001 and established the HK\$20 Billion Retail Bond Issuance Programme in May 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 retail bonds totalling HK\$13.7 billion. 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 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 2016, 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 (Negative)	P-1	Aa1 (Negative)
Foreign Currency	A-1+	AAA (Negative)	P-1	Aa1 (Negative)

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 2016:

S&P

"We equalize the ratings on HKMC with the ratings on Hong Kong, the corporation's sole owner. This reflects our view of an almost certain likelihood of timely and sufficient extraordinary support from the Hong Kong government in the unlikely event that HKMC needs it... We consider HKMC's undertaking of additional policy initiatives over the past several years as having a mild solidifying effect on its ties with the Hong Kong government, and reinforcing the integral link between the two entities."

"In our view, HKMC's very strong market position and its strong management and governance underpin its strong business position. HKMC is unique in its role of addressing local Hong Kong banks' liquidity and balance-sheet management needs by purchasing mortgage and loan portfolios, especially in times of stress... A variety of stressful market conditions have tested HKMC's business model. 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 when Hong Kong's property prices were showing their sustained growth trend prior to the fall in late 2015, HKMC tightened the eligibility criteria for its mortgage insurance program. The move was part of a joint effort with the government and to mitigate a possible overheating of property prices in Hong Kong."

"We believe that HKMC manages market risks effectively. The company maintains a simple asset and liability structure, with mainly vanilla products managed within what we regard as sound market risk policies. The corporation's exposure to market risk is principally to interest rate movements, with exposure to interest rate mismatches appearing to be well managed."

"We expect HKMC to continue to prudently manage its funding and liquidity. We assess the company's funding profile as adequate, considering its lack of retail funding... We expect HKMC to maintain a buffer of highly liquid assets, which is more than sufficient to cover its short-term funding needs... Further, a HK\$30 billion revolving credit facility more than adequately covers all liabilities of HKMC within the next year and provides a significant cushion against any unexpected liquidity stress."

Moody's

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

"The government provides the HKMC with a HK\$30 billion revolving credit facility and HK\$1 billion of equity capital callable when needed. In the event the company's credit profile is weakened in a stress scenario, we expect the government to provide timely extraordinary support."

"The HKMC has maintained very sound asset quality metrics through multiple housing cycles 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 LTV ratio on the company's Hong Kong mortgages is below 40%."

"As a wholesale funded entity with no customer deposits, the HKMC relies on ongoing access to the debt capital market 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... It also has a HK\$30 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-2015."

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 disciplines its 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 its 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 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. Regular stress tests are reviewed by the CRC to evaluate the Corporation's financial capability to weather extreme stress scenarios.

The CRC is chaired by an Executive Director, with members including 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 risk 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 eligibility criteria for asset purchase, insurance and guarantee application
- effective due diligence process for mortgage purchase, default loss, insurance and guarantee claims
- enhanced protection for higher-risk 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 establishes prudent loan purchasing 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 are agreed upon with Approved Sellers on a deal-by-deal basis to reduce the 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 reviewed by the Corporation to ensure the fulfilment of all MIP coverage conditions. 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 through reinsurance arrangements.

Similarly, losses may arise from a borrower's default on loans in the SME guarantee portfolio. The borrower's default risk of each guarantee application is assessed by the lender in accordance with their credit policies. In addition, the Corporation adopts prudent eligibility criteria, conducts administrative vetting and credit reviews to better understand the credit quality of the applications, and carries out due diligence review on each default claim to ensure the loan's compliance with the Corporation's eligibility criteria as well as the lenders' internal credit policies.

In addition, the Corporation adopts a three-pronged approach to manage the default risk under the MFS, 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.

Credit performances of the loan and guarantee portfolios are tracked and reported on a regular basis to provide management with updated credit profile to closely monitor the operating environment for any emerging risks to the Corporation, and timely implement risk mitigating measures.

(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 Approved 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 mortgage reinsurer's eligibility.

The Corporation performs annual and ad-hoc reviews of each Approved Reinsurer to determine the eligibility for the ongoing business allocation and risk-sharing portions.

(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. Treasury counterparties are managed by a ratings-based counterparty assessment framework and a risk-based counterparty limit mechanism. The treasury counterparties are continually monitored and the counterparty limits are adjusted based on the assessment results.

Furthermore, the Corporation has set up bilateral collateral arrangements with major swap counterparties to mitigate the counterparty risk.

(e) *Lender risk*

The Corporation is exposed to lender risk in SME lending that arises from: (a) a lender's underwriting being non-compliant with its credit policy; (b) a lender's loosely formulated credit policy that 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 manages lender risk through the review of the lenders' credit policies and the due diligence reviews on claims.

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 MFS. The CC operates under a framework approved by the Board. The CC is the approval authority for accepting applications to become Approved Sellers/Service providers under the MPP, Approved Reinsurers under the MIP, Approved Lenders under the 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 endorsed by the TAC are subject to approval 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 risk arises when the Corporation's income or the value of its portfolios decreases due to adverse 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 risk arises 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 are floating-rate assets (benchmarked against the Prime Rate or HIBOR 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 risk. 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 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 benchmark rates between 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 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 their contractual maturity, 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 embedded in callable bonds and transferable loan certificates allows the Corporation to adjust the average life of its liabilities to match more closely with that of the overall pool of assets.

The Corporation manages its refinancing risk through 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 position, and has pursued a prudent pre-funding strategy to help contain the impact of any global financial turmoil 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.

Given its strong background as a wholly government-owned entity and 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 is 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 all foreseeable funding commitments are met when they fall due. This supports 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 offering safeguards against the difficulty 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 that 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
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 strictly in 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 is fully hedged by the use of cross-currency swaps.

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 counterparty 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 risk 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 including interest rate risk, asset-liability maturity mismatch risk, liquidity and funding risk, and currency 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, with members including 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 inadequacies or the failure of internal processes, people or systems or external interruptions.

The Corporation adopts a bottom-up approach to identify operational risk by carrying out in-depth analyses 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 to ensure adequate internal controls are in place to mitigate operational risks.

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 to ensure its operations are properly controlled. Effective internal controls also help minimise financial risk and safeguard assets against inappropriate use or loss, including the prevention and detection of fraud.

Information System Security Policy

The Corporation's Information System Security Policy documents the requirements of security standards and establishes controls over the confidentiality, integrity and availability of information assets for observance by all staff. The Corporation implements various information security measures to minimise its exposure to external attacks. Internally, the Corporation has also implemented security controls on its Local Area Network 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 mission critical systems and processes are subject to regular review by internal auditors.

Business Continuity Plan

The Corporation's business recovery plan ensures 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 regularly assesses the impact of disaster scenarios and updates recovery procedures. To ensure business recovery procedures are practical, an annual corporate-wide business continuity drill is conducted. 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 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 the launch of any new product. The product driver is clearly assigned at the start of the product development process and is 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 its products and services meet customers' expectations. To make sure customers' feedback is timely and properly attended to, 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 all line functions in the Corporation maintain an effective operational risk and internal control framework. The ORC establishes key risk indicators to track the key operational risk items and monitor the effectiveness of the risk mitigating measures. Operational risk incidents that may potentially indicate a control weakness, a failure or non-compliance in internal processes are logged, reported and handled for operational risk management. The ORC is also responsible for providing directions and resolving

issues related to policies, controls and management of operational issues, as well as ensuring prompt and appropriate corrective actions in response to audit findings related to operational risks or internal controls.

The ORC is 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.

Legal and Compliance Risks

Legal risk arises from uncertainty in the application or interpretation of laws, regulations, and any unenforceability or ineffectiveness of legal documents in safeguarding the interests of the Corporation. Compliance risk arises from the failure to comply with laws, regulations, codes of practice and industry practices applicable to the Corporation.

The Legal Office, headed by the General Counsel (who is also the Company Secretary), advises the Corporation on legal matters with a view to controlling legal risk. When new products or business activities are considered, the Legal Office will advise on the relevant laws and the regulatory environment. It will also advise on the necessary legal documentation, and identify possible legal pitfalls with a view to protecting the 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 works closely with the other departments of the Corporation to advise on legal issues and documentation.

The Compliance Function is 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 Compliance Reporting 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 by reference principally to the Basel II risk-based capital adequacy framework, the Guidelines on Capital Adequacy Ratio (**CAR**), with the minimum CAR set at 8%. As at 31 December 2016, the Corporation's CAR was 21.3%.

The prudent use of regulatory capital is monitored closely in accordance with the 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 and PLIS. The longer the payout and loan period is, the larger the loan balance will accrue over time, and the less buffer there will be from 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, as well as the interaction among the various risk factors under the RMP and PLIS. 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, RMP and PLIS. The Corporation manages property risk by conducting external property valuations for each loan purchase or application, setting prudent assumptions in the recoverable value of the collateralised property, restricting maximum loan-to-value ratios of the loans under the programmes and conducting stress tests to examine the impact of adverse market conditions.

Process Management and Information Technology

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

To further strengthen the processes and systems at the Corporation in respect of information security and data protection, the Corporation appointed a leading consulting firm with expertise in the area to review existing information system security manuals and policies. Recommendations from the review will be implemented accordingly.

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, such as the SFGS, the RMP, the PLIS, the MFS, the MIP, the treasury operations, and strengthen risk management. Such steps are vital to ensure efficiency, accuracy and robustness in business operations that translate into better services to the community. For example, the reporting data requirement under the MPP has been further simplified to streamline the purchase process.

In addition, our system enhancements and process re-engineering measures 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 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 its ninth year of CSR participation. In appreciation of employers who place high value on their employee's retirement needs, the Corporation received the Good MPF Employer Award for each of the assessment periods of 2014/2015 and 2015/2016 by the Mandatory Provident Fund Schemes Authority. In recognition of being an employer attaching importance to the family-friendly spirit, the Corporation also received the Family-Friendly Employer Award and the Award for Breastfeeding Support under the 2015/16 Family-Friendly Employers Award Scheme of the Family Council supported by the Home Affairs Bureau.

As a socially responsible organisation, the Corporation cares for both its employees and the community. The Corporation has underlined its commitment to CSR 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 missions of enhancing stability in the banking sector, promoting wider home ownership and facilitating 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 that cover both 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 2016, the permanent staff establishment of the Corporation was 202, and the staff turnover rate was 4.96%.

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 2016, the Corporation arranged different programmes and workshops to help employees enhance their product knowledge, and strengthen their managerial and technical competence and soft skills.

The in-house training workshops covered a wide range of topics such as negotiation and influencing skills, team collaboration, conflict management, crisis management and occupational safety and health. During the year, seminars on Personal Data (Privacy) Ordinance, Anti-bribery Law and Anti-Money Laundering were also held.



Team Building Training



Training on Occupational Safety and Health



Training on Negotiation and Influencing Skills



Training on Crisis Management

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 organisational 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 2016, these activities included 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.



Work-life Balance Week

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

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 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 2016, the Corporation organised donation campaigns, such as Dress Casual Day 2016 for the Community Chest, and held its annual Blood Donation Day event for the Hong Kong Red Cross.



Dress Casual Day

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 and toys, etc
- care for the elderly — organised by the HOPE Worldwide and Hong Kong Playground Association, involving our volunteers visiting elderly people, and bringing them “lucky bags” with daily necessities to welcome the Chinese New Year and Mid-Autumn Festival
- care for the children — organised by the H.K.S.K.H. Lady MacLehose Centre Services for Ethnic Minorities, involving our volunteers having a Christmas party with ethnic minority children.



Blood Donation Day

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 has continued 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 undergo 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.