

Chairman's Statement

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Faced with a slowing global economy and a sluggish Hong Kong economy in 2012, the Corporation continues to uphold its strategic policy roles.

John C Tsang
Chairman



In 2012, there was a slowdown in the growth of the global economy which continued to be affected by the lingering European sovereign debt crisis and slow economic growth in the United States. Affected by such factors, the Hong Kong economy remained sluggish.

Monetary easing policies continue to prevail in the major economies including the European Central Bank's agreement to purchase an unlimited amount of sovereign bonds of the euro zone states and the US Federal Reserve's asset purchase programme. While these quantitative easing measures have led to improved market sentiment, they have also contributed to huge capital inflows into Hong Kong, raising the risk of higher inflation and the creation of an asset bubble in the property market. Faced with such risks, the Government introduced two new control measures to cool the market — the Special Stamp Duty and Buyer's Stamp Duty.

In view of the increasing risks in the property market, the Corporation also tightened its Mortgage Insurance Programme (MIP).

Enhancing Banking and Financial Stability

Banks benefited from ample liquidity due to the monetary easing policies adopted by major economies and had no need to offload their assets for liquidity purposes. Consequently, in 2012, the total amount of local assets

purchased by the Corporation was only about HK\$0.9 billion compared with HK\$9.7 billion in 2011.

The Corporation will be watchful for any measures by the major economies to adjust or discontinue the current monetary easing policies which may adversely impact on the Hong Kong economy. The Corporation will be prepared to take appropriate action if there is any sign of a liquidity shortage within the banking sector.

Promoting Wider Home Ownership

After the introduction of further prudential measures for residential mortgage loans by the Hong Kong Monetary Authority, the Corporation, as part of its own risk management process, tightened the MIP criteria in September 2012 by lowering the debt-to-income ratio for certain categories of applicants and shortening the maximum loan tenor for all applicants. As a result of such tightening measures, the total amount of loans drawn down under the MIP decreased to around HK\$22 billion, from HK\$26.3 billion in 2011.

The MIP plays an important role in the property market in Hong Kong with the aggregate MIP loans drawn down accounting for 11.5% of the total mortgage loans drawn down in Hong Kong in 2012. Since 1999, the MIP has helped more than 103,000 families to buy their own homes.

Development and Growth of the Local Debt Market

The Corporation issued debt securities amounting to HK\$19.1 billion in 2012 and was the most active corporate debt issuer in the Hong Kong dollar debt market. It also safeguarded its credit ratings of AAA from Standard & Poor's and Aa1 from Moody's.

The Corporation has always maintained a prudent pre-funding strategy to meet the Corporation's business needs and will continue to do so, especially when uncertain market conditions lay ahead.

Business Initiatives in Support of its Social Objectives

To fulfil its social objectives, the Corporation carried out a number of business initiatives including:

Enhancements to the Reverse Mortgage Programme

Since its inception in July 2011, the Reverse Mortgage Programme (RMP) has been well received by the public. To meet the growing needs of the community in Hong Kong, the Corporation broadened the reach of the programme by introducing three enhancements to the RMP in November 2012, namely, the increase of the maximum specified property value for payout calculation from HK\$8 million to HK\$15 million; the lowering of the minimum age of borrowers from 60 to 55; and the increase in the maximum lump-sum payout amount. These enhancements substantially expanded the number of people eligible to enjoy the benefits of the RMP.

Launch of the Microfinance Scheme

In my 2011-2012 budget speech, I requested the Corporation to study the feasibility of establishing a microfinance scheme in Hong Kong to assist people without financial means to start their own businesses or take self-enhancement training.

A study group was formed and it submitted a report recommending the launch of a microfinance pilot scheme based on certain guiding principles. After considering the report, I requested the Corporation to work with banks, voluntary agencies and other stakeholders to launch a sustainable microfinance pilot scheme based on commercial principles. In June 2012, the Corporation successfully launched the Microfinance Scheme which will run for an initial period of three years, with a tentative aggregate loan amount of HK\$100 million.

Launch of the 80/20 SME Financing Guarantee Scheme

After the Government terminated the Special Loan Guarantee Scheme in 2011, the Corporation launched the 80/20 Small and Medium-sized Enterprises Financing Guarantee Scheme (80/20 SFGS) in May 2012 whereby the Corporation acts as the operator of the 80/20 SFGS and offers an 80% loan guarantee product to banks at a relatively low guarantee fee. The 80/20 SFGS forms part of the support measures established by the Government for small and medium-sized enterprises (SMEs). With the Government's financial support, these special concessionary measures help banks to better manage their credit risk exposures, thereby enhancing their incentives to increase lending to SMEs.

The total guarantee commitment for covering credit losses arising from these special concessionary measures amounts to HK\$100 billion. As at 31 December 2012, there were 5,068 approved 80/20 SFGS applications covering an aggregate guaranteed amount of about HK\$18.2 billion.

Performance in 2012

Faced with a slowing global economy and a sluggish Hong Kong economy, the Corporation achieved a satisfactory financial result in 2012. Profit attributable to shareholders was HK\$1,125 million and the return on shareholders' equity was 12.4% with capital adequacy ratio at 20.2%.

In support of its strategic policy role and social objectives, all the businesses carried out by the Corporation are and will continue to be underpinned by prudent commercial principles.

Outlook for 2013

The global economic and financial outlook is unclear and it is possible that Hong Kong will continue to see large fund inflows and outflows and sharp fluctuations in the financial markets in 2013. Moreover, the monetary easing policies adopted by major economies will continue to affect consumer and asset prices in Hong Kong. In such challenging times, the Corporation will remain vigilant and stand ready to face any financial turbulence in the year ahead in performing its strategic policy role.

I would like to take this opportunity to extend my sincere appreciation for the dedication, professionalism and hard work of my fellow Directors, Management and all staff of the Corporation, and will continue to work closely with them to navigate the Corporation through the challenges ahead.



John C Tsang
Chairman