

Enhancing
Banking **Stability**



Chairman's Statement

Despite the challenging economic environment, the Corporation has further expanded its business coverage to reinforce the delivery of its strategic policy role to:



- promote banking and financial stability;
- promote wider home ownership; and
- facilitate development of the local debt market.

The Corporation undertook to provide guarantee for SME loans extended by banks, thereby promoting banking stability by helping banks to manage their risk exposure.

The HKMC also started preparation for the launch of reverse mortgages in Hong Kong, as part of its efforts to promote home ownership.

Promoting Banking and Financial Stability

With the historic low interest rate and abundant liquidity, banks generally had less need to offload their assets for liquidity purposes. Nevertheless, the HKMC purchased local assets totalling HK\$4.7 billion in 2010. The global regulatory

landscape of the financial industry has been changing fast in the wake of the global financial tsunami. Banking reform measures such as "Basel III" may well require banks to be more stringent in their capital and balance sheet management. Thus, the Corporation will continue to play a key role in helping banks to meet their needs for liquidity and prudent balance sheet management.

In addition, the Corporation launched the market-oriented SME Financing Guarantee Scheme on 1 January 2011 to provide a sustainable platform to help local small and medium-sized enterprises to obtain bank financing. Under the scheme, the Corporation provides guarantee coverage on part of the bank financing for eligible enterprises. The scheme helps banks to manage their lending risks more effectively and enhances the stability of the banking system.

Promoting Wider Home Ownership

The Corporation's Mortgage Insurance Programme ("MIP") continues to help foster wider home ownership in Hong Kong. Against the buoyant property market in 2010, the MIP loan drawdown reached a record high of HK\$41 billion and the usage rate (in terms of the amount of loans drawn down as a percentage of total drawdown in the mortgage market) was 13%. MIP also promotes liquidity in the secondary property market, with 96% of the MIP loans coming from secondary market transactions in 2010. Since 1999, the MIP has helped over 85,000 families to attain home ownership, with loan drawdown totalling over HK\$183 billion.

In November 2010, the Corporation introduced the Risk-based Scoring Model ("RBSM") as an enhancement to its MIP to replace earlier schemes introduced in 2006. It represents a more robust and refined approach to determine the level of mortgage insurance premium based on homebuyers' credit quality and repayment capability. More homebuyers are expected to be eligible for premium discounts.

In view of the overheated property market, the Corporation acted in concert with the Hong Kong Monetary Authority ("HKMA") to revise the MIP in August and November 2010 to tighten high loan-to-value ratio mortgage lending. This was done in order that homebuyers would not over-extend themselves when undertaking residential mortgage loans.

With the aging population and the favourable results from a territory-wide survey of the potential users, the Corporation

announced in December 2010 the plan to introduce a pilot scheme for reverse mortgages in mid-2011. The scheme will enable elderly people to use their self-occupied residential properties to apply for reverse mortgage loans in return for cash payment while staying in their principal residence. Reverse mortgage provides elderly people with an additional choice to obtain steady cash flows to improve their standard of living.

Facilitating Debt Market Development

In 2010, the credit ratings of the Corporation were upgraded to "AAA" by Standard & Poor's and "Aa1" by Moody's. The Corporation remains the most active corporate debt issuer in the Hong Kong dollar debt market since 2001. With its excellent credit standing, the Corporation is well positioned to promote the development of the local debt market while meeting the growing demand for high-grade long-term debt investment from insurance and pension funds in Hong Kong. When there are suitable opportunities, the Corporation will also look to issue Renminbi-denominated bonds in Hong Kong.

New Initiative

The Corporation is conducting a feasibility study on the demand for and operation of a sustainable microfinance scheme in Hong Kong. According to overseas experience, microfinance has proven to be effective in facilitating the start-up of micro businesses and improving employment opportunities. It is therefore worthy of further exploration in Hong Kong.

Performance in 2010

The Corporation has recorded favourable return in 2010. Profits after tax reached a record high of HK\$1,234 million, an increase of 23% over 2009. The return on shareholder's equity was 17.5%, and the capital-to-assets ratio rose from 9.5% in 2009 to 10.8%, well above the minimum of 5% required. The Corporation declared a final dividend of HK\$350 million.

The strong performance in 2010 was mainly attributable to the favourable interest-rate environment, prudent business development strategy, strong commitment to risk management along with excellent loan performances through prudent loan purchasing criteria and stringent mortgage insurance underwriting standards. The Corporation will continue to strengthen its financial position and enhance its ability to pursue the strategic objectives.

Outlook for 2011

2011 will be another challenging year. Quantitative easing by the United States has increased the risks of inflation and asset-price bubbles in Asia. Various economies have introduced tightening measures to counter such impact. Such developments reflect the significant imbalances in the global economy and financial system. The recent earthquake in Japan has added further complications to the pace of global economic recovery. Hence, the economic outlook for 2011 still remains uncertain and volatile.

The HKMC must therefore remain vigilant and continue to reinforce its business focus in Hong Kong to fulfil its principal objectives. The Corporation will continue to operate in a prudent commercial manner with emphasis on risk management and good corporate governance. This will ensure the Corporation to maintain its important role in providing liquidity to local banks, meeting the mortgage insurance needs of homeowners and promoting the development of the local debt market.

Finally, I acknowledge the dedication and hard work of my fellow Directors, Management and all staff of the Corporation. I look forward to another successful year for the Corporation in 2011.



John C Tsang

Chairman