



CHAIRMAN'S STATEMENT



Operating in a difficult environment against the backdrop of the global financial crisis, the Corporation has demonstrated its resilience and ability to perform its strategic policy roles of:

- promoting financial stability by purchasing loan assets from local banks in a prudent commercial manner to provide banks with liquidity
- promoting wider home ownership through the Mortgage Insurance Programme
- facilitating the further growth and development of the debt market in Hong Kong

Promoting Banking and Financial Stability

Total local asset purchases in 2009 amounted to HK\$5.7 billion. The Corporation provides liquidity to banks by purchasing assets from them. This role as liquidity provider was especially prominent during the “rainy days” of the Asian financial turmoil and the recent global financial crisis. As the market has stabilised due to abundant liquidity inflows, banks have less need to offload their assets in return for liquidity. Nevertheless, the Corporation continues to provide an important, readily available platform to help banks meet their needs for liquidity and prudent capital and balance sheet management.

Promoting Wider Home Ownership

The Corporation’s Mortgage Insurance Programme (“MIP”) continues to provide an effective channel for promoting wider home ownership in Hong Kong, benefiting first-time homebuyers in particular. In 2009, the MIP loan drawdown reached a record high of HK\$36 billion and the usage rate (in terms of the amount of loans drawn down as a percentage of total market mortgage drawdown) increased to 18%, compared with 11% in 2008. Since 1999,

the MIP has helped over 73,000 families to attain home ownership, with loan drawdown totalling over HK\$151 billion. The average loan size under the MIP is HK\$2.1 million, indicating that the MIP mainly helps first-time buyers to acquire homes.

The overall performance of mortgage loans under the MIP has been satisfactory, with the ratio of loans that had been delinquent for more than 90 days standing at 0.003% at the end of 2009. This is primarily attributable to the Corporation's stringent mortgage underwriting criteria, which not only help to limit the risk exposure of the Corporation, but also serve as a benchmark that helps to maintain the quality of banks' mortgage portfolios.

Facilitating Debt Market Development

The Corporation maintains its excellent credit ratings of "AA+" from Standard & Poor's and "Aa2" from Moody's, at the same level as the HKSAR Government. The Corporation continues to play an active role in promoting the development of the bond market and helps to reinforce Hong Kong's position as an international financial centre. The Corporation acts as a pivotal intermediary in channelling liquidity from long-term insurance, pension and investment funds to the mortgage markets,

thereby helping to make home ownership more affordable and accessible to a wider spectrum of the population in Hong Kong.

The Corporation raised a total amount of HK\$22.7 billion in 2009 through a variety of debt instruments and remained the most active corporate debt issuer in the Hong Kong-dollar debt market for the ninth consecutive year. The total outstanding amount of issued debt and mortgage-backed securities stood at HK\$46.5 billion on 31 December 2009.

Performance in 2009

The Corporation achieved good financial results in 2009. Profits after tax reached a record high of HK\$1,006 million, an increase of 66% over 2008. The return on shareholder's equity was 16.2%, and the capital-to-assets ratio was 9.5%. The Corporation declared a final dividend of HK\$500 million.

The Corporation operates on prudent commercial principles and the strong performance in 2009 was mainly attributable to the significant loan purchases made in response to banks' liquidity needs during the global financial crisis, the favourable interest-rate environment and excellent loan quality, and the Corporation's prudent business development strategy and strong commitment to risk management.

The strong performance strengthens the Corporation's financial position and greatly enhances its ability to perform its strategic functions in pursuit of its policy objectives.

Outlook for 2010

2010 will be another challenging year. The potential impact of the exit strategies of the US and other governments on the Hong Kong economy is uncertain and may be a cause for concern. The possibility of a double-dip economic downturn cannot be ruled out. Maintaining the financial stability of Hong Kong is therefore of the utmost importance. Against this backdrop, the Corporation will continue to reinforce its business focus in Hong Kong to fulfil its core objectives. The Corporation will strive to contribute further to the development of Hong Kong's housing-finance system and to complement the Government's policies through product innovation, making mortgage financing more accessible to homebuyers. The Corporation's prudent criteria for purchasing mortgage loans and underwriting loans under the MIP will provide a useful benchmark in the market to maintain the high quality of mortgage loans.

In pursuing its business and funding activities, the Corporation will maintain a strong emphasis on risk management and good corporate governance. It will focus on further enhancing its risk management framework with a view to improving its effectiveness and strengthening its readiness to meet the challenges ahead.

Apart from its business objectives, the Corporation is also committed to fulfilling its responsibilities to its staff and its corporate social responsibility. It will continue to encourage staff to take part in social activities and charitable events to promote a healthy work-life balance and foster a culture of care for the community.

Finally, I would like to thank my fellow Directors, Management and all staff of the Corporation for their dedication and hard work in 2009. I look forward to another successful year for the Corporation in 2010.



John C Tsang

Chairman