



Balance

Chairman's Statement



“ Year 2007 will be pivotal for the HKMC as it seeks to expand new lines of businesses. The long-term strategy for the Corporation will help to maintain the viability and ability of the Corporation to provide liquidity to the banks when necessary and also position the Corporation as a market leader that can share its expertise and contribute to market development in the region, thereby reinforcing Hong Kong's position as an international financial centre. ”

Performance Highlights

It is gratifying to note that 2006 turned out to be a record year for the HKMC. Profit after tax was a record high at HK\$683 million, an increase of 13.5% over 2005. The return on shareholders' equity improved to 13.9% and capital-to-assets ratio was 11.2%. The Corporation declared a final dividend of HK\$250 million, the same as in 2004 and 2005.

Other than for the first year of operation that incurred a small start-up loss, the Corporation has shown respectable profits every year, notwithstanding the eruption of the Asia financial crisis in 1997 and the Severe Acute Respiratory Syndrome in 2003. The Corporation has proven itself to be highly efficient and resilient, and has been able to innovate during difficult times to overcome the challenges and continue to meet its objectives of contributing to banking stability, promoting homeownership and developing the debt and securitisation markets.

The solid performance of the HKMC through these years has laid the foundation for it to be recognised among the most stable financial institutions in the world. In October 2006, the Corporation made history as the first entity, and so far the only one, to have achieved a long-term Hong Kong dollar issuer rating of triple-A by Moody's. The Corporation's foreign currency issuer rating has also been upgraded by Moody's to Aa1, just a notch below the top rating of triple-A. With such strong credit standing, the Corporation is well positioned to play a more active and strategic role in promoting the development of the debt and securitisation markets not only in Hong Kong but also in the region.

Asset Acquisition

The HKMC continued in its role as a liquidity provider to the banking community, and purchased HK\$1 billion of residential mortgages in 2006. The decrease in mortgage purchase compared with last year reflected that banks were slow to unload their residential mortgages in view of their low loan-to-deposit ratio and the continued improved performance of mortgage loans.

The changes in market conditions brought about an opportunity for broadening and diversifying the Corporation's business strategy. In 2006, in response to approaches from the market, the Corporation purchased taxi loans valued at HK\$1.4 billion from the banking sector and commercial mortgage loans valued at HK\$4 billion from The Link Finance Limited.

Mortgage Insurance

The Mortgage Insurance Programme operated by the HKMC continued to help fostering wider home ownership in Hong Kong. The Corporation received around 12,000 applications under the Programme during the year, and the outstanding risk-in-force increased by 10.4% to HK\$2.9 billion. The growth in the usage of the Programme slowed down in 2006 on account of a relatively stagnant mortgage market and a rising interest rate environment that dampened mortgagors' demand for higher leverage.

Debt Issuance

For the sixth year, the HKMC is the most active corporate debt issuer in the Hong Kong dollar market. The total debt issuance by the Corporation to institutional investors under its Debt Issuance Programme was HK\$12 billion, a record high for the Corporation.

In March 2006 the Corporation made the first issue of a Composite Interest Rate paper in Hong Kong – HK\$100 million of two-year notes. It has enabled banks in Hong Kong to start offering Composite Interest Rate mortgage loans and hence providing more consumer choices.

Under the Corporation's Retail Bond Issuance Programme, retail bonds equivalent to a total value of HK\$1.3 billion denominated in Hong Kong and US dollars were offered to the public in September 2006. There was strong demand for this retail bond issuance, which included a ten-year zero-coupon bond that encouraged long-term savings. The market makers appointed by the Corporation help to ensure sufficient liquidity in such retail bonds to make it easier for investors to liquidate the paper when necessary.

Under the Bauhinia Mortgage-Backed Securitisation ("MBS") Programme, the Corporation successfully launched an issue in November that raised HK\$2 billion. This is the first-ever and largest triple-A rated partially guaranteed issue of Hong Kong dollar mortgage-backed securities. With growing interest of investors in highly rated MBS products from this region, the Corporation will continue to develop the local securitisation market through product innovation and regular issuance and strengthen Hong Kong's role as a regional funding hub.

New Strategy and Direction for 2007

Over the past decade, the HKMC's hard work and innovation have enabled the Corporation to demonstrate convincingly that the primary objectives the Corporation set out to achieve have been successfully fulfilled. The Board of the Corporation has also noted substantial changes in the business environment that call for a review of the HKMC's overall business strategy and its future positioning in the evolving market environment.

The Corporation therefore commissioned a management consultancy firm to conduct a strategic review of the Corporation's businesses, having regard to its primary objectives, core activities and changing market conditions.

In September 2006, after intensive research and dialogue with major stakeholders, the consultancy firm presented its report and confirmed the vision that the Corporation should expand by phases beyond mortgage products and seek to develop new businesses in overseas markets as well. The new businesses should include acquisition of quality non-mortgage assets in Hong Kong, such as auto loans, commercial mortgage loans, and also cross-border mortgage loans. The Corporation should also develop mortgage insurance business in markets outside Hong Kong.

After deliberation on the report, the Board has adopted the report as a basis for the long-term strategy for the Corporation. This strategy will help to maintain the viability and ability of the Corporation to provide liquidity to the banks when necessary and also position the Corporation as a market leader that can share its expertise and contribute to market development in the region, thereby reinforcing Hong Kong's position as an international financial centre.

Year 2007 will be pivotal for the HKMC as it seeks to expand new lines of businesses. Let me take this opportunity to thank my fellow directors, the management and all staff of the Corporation for their dedicated work in 2006 and let us look forward to another successful year in 2007.



Henry Tang

Chairman