

Chairman's Statement

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Adhering to a focused strategy, the Corporation attained its core missions and social objectives with satisfactory financial performance against the backdrop of an uneven global economic environment in 2014.

John C Tsang
Chairman



In 2014, divergent trends emerged with the recovery in the US showing good underlying strength while economic momentum weakened in Europe and Japan. The US Federal Reserve appeared set to normalise its monetary policy with the pace remaining uncertain. These factors, combined with further monetary easing in EU and Japan, will complicate the outlook for global monetary conditions ahead. In Hong Kong, there was a rebound in the residential property market transaction volume which led to the gradual recovery in the mortgage loan market.

Enhancing Banking and Financial Stability

With ample liquidity in the markets, banks generally had little need to offload mortgage assets for liquidity purposes. Against this backdrop, the Corporation purchased about HK\$250 million of local assets in 2014. Because one of the core missions of the Corporation is to provide support for banking and financial stability when required, it maintained its readiness to meet any potential demand by banks for asset sale transactions in a volatile market during the course of the year.

Benefiting Home Ownership

The gradual rebound in the mortgage loan market contributed to the increase in the total mortgage loans drawn down under the Mortgage Insurance Programme to HK\$16 billion in 2014 (2013: HK\$13.3 billion).

The Programme plays an important role in the property market in Hong Kong by enabling eligible borrowers to obtain loan financing for home purchases with higher loan-to-value ratio. Since 1999, the Corporation has helped more than 112,000 families buy their own homes. A significant majority of borrowers under the Programme bought homes in the secondary property market.

Promoting Development of the Debt Market

In 2014, the Corporation issued debt securities in different currencies (with tenor of 1 year or above) totalling around HK\$13.9 billion. The Corporation has remained a major and active corporate debt issuer in Hong Kong for more than a decade, thereby playing a key role in promoting the development of the local debt market. The Corporation also retained its AAA credit rating from Standard & Poor's and Aa1 rating from Moody's.

Providing Elderly Home Owners with More Retirement Planning Choices

Hong Kong is no exception to the trend of population ageing as in many other places. The Corporation launched its Reverse Mortgage Programme in 2011 to provide elderly home owners with an additional choice in their financial planning for retirement to enhance their quality of life. During 2014, the Corporation adopted a more focused marketing strategy through advertisements on radio and in MTR trains, feature articles in newspapers and magazines as well as targeted talks in collaboration with banks and other organisations to publicise the benefits and features of the Programme. The Corporation also continued its close collaboration with the legal fraternity through the Law Society of Hong Kong to ensure that independent counselling is available for borrowers to understand their legal position under the Programme. In order to broaden its reach within the elderly population, the Corporation is enhancing the Programme with changes tailored towards the retirement needs of the ageing population.

Helping to Nurture Hong Kong's Entrepreneurial Spirit

Entrepreneurial spirit is an important driver of the Hong Kong economy. To help nurture and support the continued growth of an entrepreneurial culture in Hong Kong, the Corporation launched the Microfinance Scheme in 2012 to help aspiring entrepreneurs to secure financing at an affordable rate. Other than loan financing available under the Scheme, the Corporation co-operated with participating non-governmental organisations to help entrepreneurs plan, nurture and develop their business. Steps taken included providing mentoring support and organising activities for entrepreneurship experience sharing and business networking. The Corporation also stepped up its efforts to promote public receptiveness of the Scheme through promotional and educational activities and the publication of an entrepreneurship experience-sharing booklet. Furthermore, the Corporation organised entrepreneurship talks at universities and other tertiary institutions.

From the inception of the Scheme to the end of 2014, 143 cases with a total loan amount of HK\$36.7 million were approved by the Corporation representing an approval rate of around 52%.

Continuing Support for SMEs

Small and medium-sized enterprises (**SMEs**) remain a key driving force of Hong Kong economy, making up 98% of total local enterprises and employing 50% of the private sector workforce. Government remains committed to supporting SMEs, especially in times of economic uncertainty, through extension of the 80% guarantee product under the SME Financing Guarantee Scheme which the Corporation was entrusted to operate. The Scheme provides a useful platform to help SMEs obtain funding at competitive rates in an uncertain environment.

As at end 2014, 30 Authorized Institutions signed up for the 80% guarantee product and more than 6,300 enterprises with around 162,000 employees benefited from it. The total approved loan amount under the 80% guarantee product as at the end of 2014 amounted to HK\$39.8 billion. To enhance its support for SMEs and banks, the Corporation streamlined its processes to provide a more user-friendly service. Also, the Corporation prepared itself to support the refinancing of loans to SMEs covered by guarantees obtained under the Special Loan Guarantee Scheme (hitherto operated by the Trade and Industry Department), many of which expired in 2014 or would expire in 2015.

Performance in 2014

Taking into account the cyclical nature of the Corporation's business, the Corporation attained satisfactory financial performance amid volatile financial markets and uneven economic trends in 2014. Profit attributable to shareholders in 2014 amounted to HK\$746 million (2013: HK\$982 million) and the return on shareholders' equity was 8.4% (2013: 10.4%) with capital adequacy ratio at 23.5% (2013: 21%). The Corporation remained highly resilient in fulfilling its policy objectives amid an uncertain economic climate.

Outlook for 2015

Looking ahead, uneven economic growth and diverging monetary policy in major economies pose considerable uncertainties in the global economic outlook. In the US, continued solid growth and labour market improvements point to underlying strength in recovery. In contrast, risk of deflation in Europe and Japan point to further monetary easing measures. Also, the strengthening US dollar, expectations of higher US interest rates and weakening regional growth outlook have heightened the risk of capital flow reversal in the region, including Hong Kong. The Corporation will remain vigilant and continue to proactively tackle volatility in financial markets.

I would like to express my heartfelt thanks to fellow Directors, Management and staff for their steadfast support in working to achieve the Corporation's core missions and social objectives in 2014.

A handwritten signature in black ink, appearing to read 'John C Tsang', with a long, sweeping flourish extending to the right.

John C Tsang
Chairman