Business Overview

Business Overview

Performance Highlights

The major achievements of the Corporation for the year included:

- purchasing about HK$337 million of loan assets
- helping homebuyers borrow a total of HK$17.2 billion mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving 1,096 applications since the launch of the Reverse Mortgage Programme (**RMP**), with an average property value of around HK$5.1 million
- launching the Premium Loan Insurance Scheme (**PLIS**) with positive market response
- approving loans totalling HK$41.2 million under the Microfinance Scheme (**MFS**) since its inception and up to the end of 2015 to business starters, self-employed persons from different backgrounds and professions and those wanting to achieve self-improvement through education and training
- with the support of the Government, further extending the application period for the 80% guarantee product under the SME Financing Guarantee Scheme (**SFGS**) for one year to 29 February 2016. Since the launch of the SFGS in January 2011, the Corporation had approved over 10,900 applications for a total loan amount of approximately HK$44.1 billion, of which more than 10,600 applications for a total loan amount of about HK$43.2 billion were approved with 80% guarantee protection. Over 6,900 local small and medium enterprises (**SMEs**) and nearly 183,000 related employees have benefited under the SFGS
- issuing HK$14 billion of debt securities (with maturity of 1-year and above) in a cost-effective manner, thus promoting the development of the local debt market and maintaining the HKMC's position as one of the most active issuers in Hong Kong. Among them, the Corporation issued 30-year bonds totalling HK$1 billion for the first time to support potential new fixed-rate businesses
- safeguarding excellent credit quality, with over 90-day delinquency ratios of 0% for the mortgage insurance portfolio, 6.53% for the SME guarantee portfolio (excluding the 80% product under SFGS), 0.02% for the Hong Kong residential mortgage portfolio (industry average of 0.03%), 1.05% for the microfinance loan portfolio and 0.02% across all asset classes as at 31 December 2015
- maintaining the HKMC's long-term foreign and local currency ratings of AAA by Standard & Poor's (**S&P**) and Aa1 by Moody's Investors Service, Inc. (**Moody's**).

The Corporation maintained a solid financial position for 2015:

- profit attributable to shareholders of HK$725 million
- net interest margin of 1.2%
- return on assets of 1.4%
- return on shareholders' equity of 8.1%
- cost-to-income ratio of 25.7%
- capital adequacy ratio of 21.9%, well above the minimum requirement of 8% stipulated by the Financial Secretary.

Market Overview

General Economic Conditions

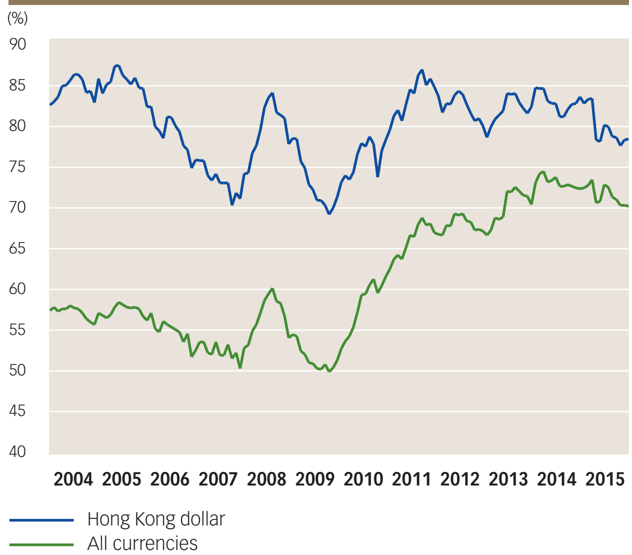
In 2015, major advanced economies continued their divergent trends with the US reporting good domestic growth while the recovery in Europe and Japan remained sluggish. The strengthening US economy finally prompted the US Federal Reserve to raise the federal funds target rate for the first time in almost a decade, marking the start of US interest rate normalisation. In contrast, the continued weakness in recovery and subdued inflation in Europe and Japan signalled the likelihood of further monetary easing. Growth in China slowed on weakened external demand and subdued private investment. Against this backdrop, the Hong Kong economy grew modestly at 2.4% year-on-year in real terms during the year with a moderating domestic demand and a lacklustre export performance.

Liquidity and Interest-Rate Environment

In general, Hong Kong's monetary environment stayed accommodative and the low interest rate environment continued in Hong Kong. The market remained flooded with liquidity. At the end of 2015, the HKD and all currencies loan-to-deposit ratios of all Authorized Institutions (**AIs**) edged down to 78.2% and 70.1% respectively from 83.3% and 72.2% at the end of 2014 **(Figure 1)**.

Figure 1

Loan-to-deposit Ratio

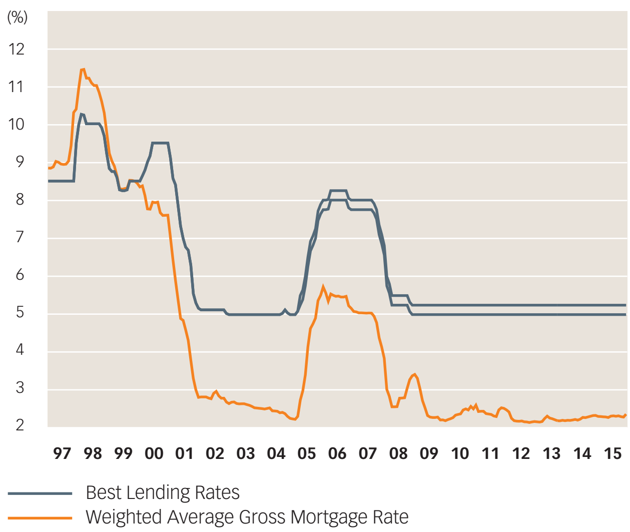


Source: Hong Kong Monetary Authority

Overall, the mortgage rate in Hong Kong stayed low in 2015. The Best Lending Rates (**BLRs**) remained unchanged at 5% and 5.25% throughout the year. The Hong Kong Interbank Offered Rates (**HIBORs**) also remained steady, with the one-month HIBOR floating in the range of 0.20% – 0.24%, in terms of period average[1]. As the competition for mortgage business was keen, the mortgage rates remained static. At the end of 2015, the BLR-based mortgage rates were at about BLR-3.1% to BLR-1.95% and HIBOR-based mortgage rates were at HIBOR+1.7% to HIBOR+2.95% **(Figure 2)**.

Figure 2

Best Lending Rate and Gross Mortgage Rate



Source: Hong Kong Monetary Authority

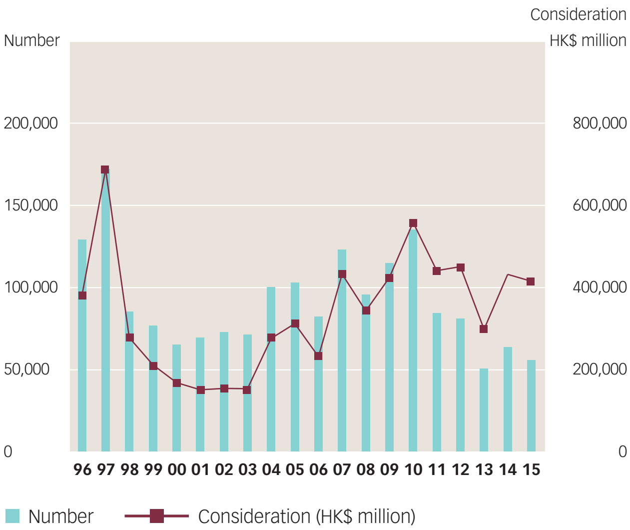
Property Market

Amid concerns over an imminent US interest rate lift-off and the slowdown in the Mainland China economy, the residential property market consolidated in the third quarter of the year after the introduction of further prudential measures on residential mortgage loans by the Hong Kong Monetary Authority (**HKMA**) in late February. The number of property transactions in 2015 decreased by about 12% year-on-year to 55,982, while the consideration of transactions dropped by almost 4% year-on-year **(Figure 3)**.

[1] Source: HKMA Monthly Statistical Bulletin

Figure 3

Agreements for Sale and Purchase of Residential Building Units

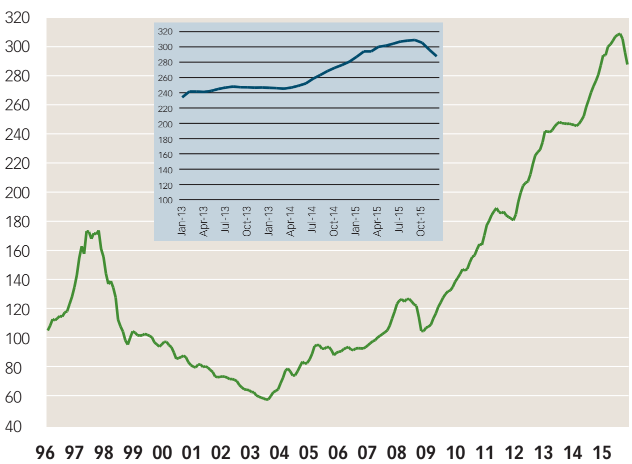


Source: Land Registry

While trading in both the primary and secondary markets fell, the growth of residential property prices decelerated. In general, residential property prices[2] recorded an about 2.5% cumulative increase in 2015, compared with the 13% increase in 2014. However, with the continued surge in prices in the past few years, residential property prices surpassed the 1997 peak by around 67% as at the end of 2015 **(Figure 4)**.

Figure 4

Private Domestic Price Index (1999 = 100)



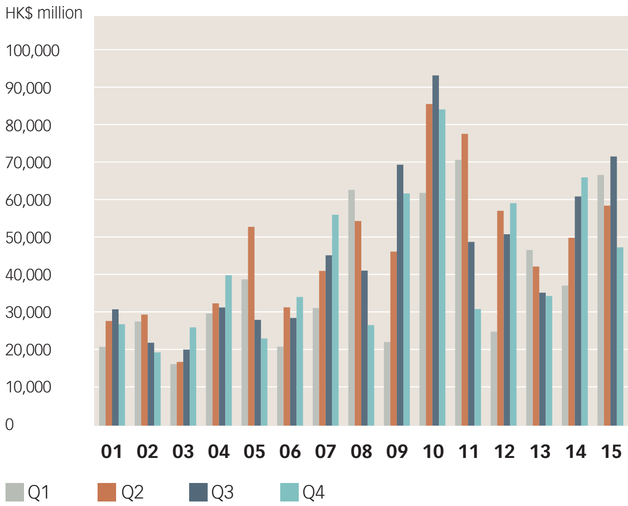
Source: Rating and Valuation Department

Mortgage Market

In tandem with the consolidation in the property market, mortgage lending growth also showed a slowing trend, with the gross value of new loans drawn down[3] increasing by 14% year-on-year, compared with the growth rate of 35% in 2014 **(Figure 5)**. Despite the slowdown in the growth of new mortgage lending, the total outstanding value of all residential mortgage loans rose moderately by 8.7% to HK$1,119.3 billion in 2015.

Figure 5

New Residential Mortgage Loans Drawn Down



Source: Hong Kong Monetary Authority

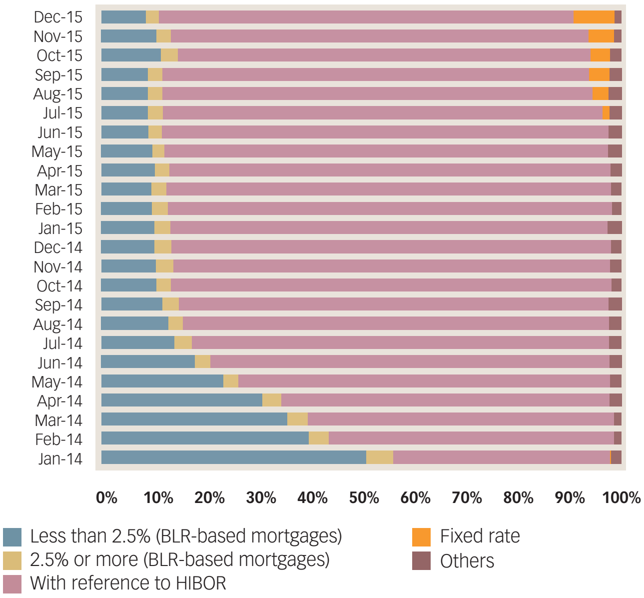
With HIBOR remaining at a low level, 79.7% of new mortgage loans were priced with reference to HIBOR in December 2015. The proportion of BLR-based mortgages stayed below 15% throughout the year, with the majority priced within the range of 2% and 2.25% **(Figure 6)**. In the second half of the year, the share of fixed-rate mortgage loans increased, from 1.3% in July to 7.9% in December.

[2] Source: The Private Domestic Price Index published by the Rating and Valuation Department

[3] Source: HKMA's Monthly Residential Mortgage Survey (**HKMA Survey**)

Figure 6

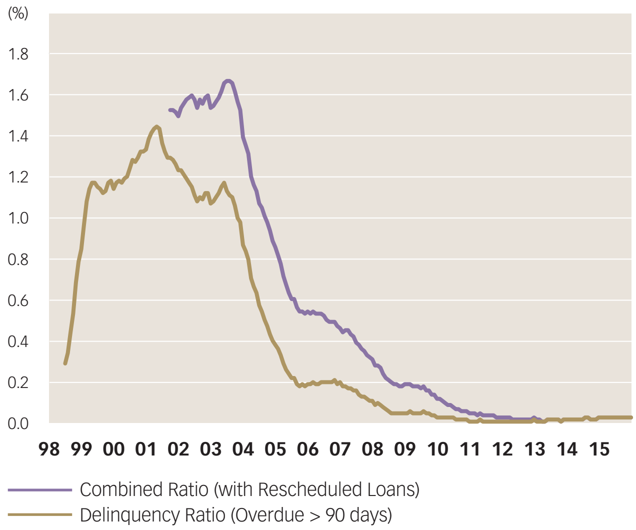
Pricing of New Residential Mortgage Loans Approved



Source: Hong Kong Monetary Authority

Figure 7

Delinquency Ratio of Residential Mortgage Loans



Source: Hong Kong Monetary Authority

With the stable labour market and the prudent supervision of the mortgage lending sector by HKMA, the asset quality of residential mortgage loans remained excellent in 2015. The over-90-day delinquency ratio of mortgage loans[4] stayed at a low level of 0.03% throughout the year, reflecting the prudent underwriting standards adopted by the banks. The combined ratio, which takes into account both delinquent and rescheduled loans, also remained low at 0.03% during the same period **(Figure 7)**. As residential property prices started to decline after the market consolidation, 95 mortgage loans, with an aggregate value of HK$480 million, were recorded to be in negative equity at end-December 2015. It was the first time of reported negative equity cases since end-September 2014[4].

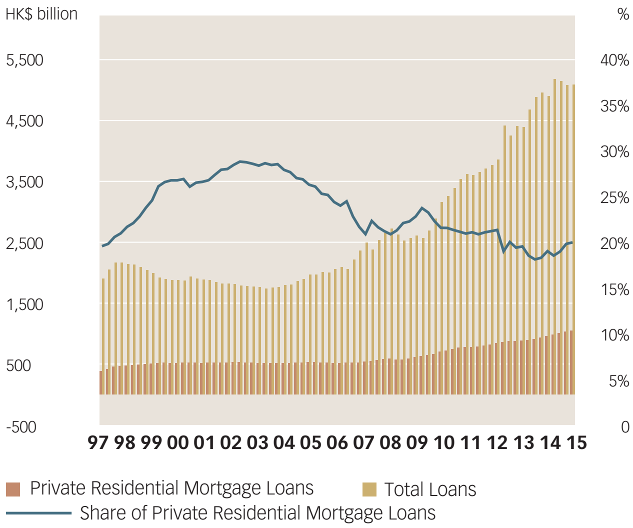
Banking-Sector Exposure

The total outstanding value of mortgage loans for private residential properties increased to HK$1,077.9 billion at the end of 2015 (end-2014: HK$988.1 billion), accounting for one-fifth of total loans in Hong Kong **(Figure 8)**. Adding to this the lending for building and construction, along with property development and investment, the amount of property-related loans totalled HK$2,216.5 billion, representing about 42% of the total loan book of banks. The outstanding value of mortgage loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme dropped slightly to HK$41.4 billion by the end of 2015 (end-2014: HK$41.7 billion).

[4] Source: HKMA Survey

Figure 8

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Source: Hong Kong Monetary Authority

Asset Acquisition

While the ample liquidity in the market has led to weak incentives for banks to offload their assets, the Corporation is prepared to provide liquidity to the market as and when required. For the year, the Corporation acquired about HK$337 million of assets, which included residential mortgage loans and other assets.

Extension of the time-limited 80% guarantee product under the SME Financing Guarantee Scheme (80% SFGS)

The Financial Secretary in the 2012–2013 Budget Speech announced support measures for SMEs to tide over the uncertain global economic environment and the possible financing difficulties as a result of credit crunch. Being part and parcel of the package of support measures for SMEs, the Corporation promulgated the time-limited 80% SFGS for an application period of nine months up to end-February 2013 with the Government's total guarantee commitment of up to HK$100 billion. The 80% SFGS provides 80% loan guarantee on eligible loan facilities approved by participating lenders at a substantially lowered guarantee fee rate, which helps SMEs to obtain loans for general working capital or acquiring equipment or assets to support business operations. In light of the uncertain external economic environment and trade performance, the 80% SFGS was extended for a total of three years to end-February 2016.

The Corporation administers the 80% SFGS on prudent commercial principles. The guarantee fees are set aside to pay default claims from participating lenders and out-of-pocket expenses to be incurred under the arrangement. A total of 30 AIs have participated in the SFGS as lenders.

The 80% SFGS has been well received by the market. As at 31 December 2015, the Corporation had approved more than 10,900 applications for a total loan amount of approximately HK$44.1 billion under the SFGS. More than 10,600 of the applications for loans amounting to about HK$43.2 billion were approved under the 80% SFGS. Over 6,900 local SMEs employing nearly 183,000 people have benefited under the SFGS.

The Corporation has been maintaining ongoing dialogue with the Hong Kong Government, lending institutions and market participants in order to further improve public awareness and recognition of the SFGS, in particular the 80% SFGS. Moreover, the Corporation has continued to take proactive steps to improve transparency and enhance mutual understanding between the Corporation and the participating lenders.

To cope with the development of the SFGS, the Corporation introduced further enhancements in April 2015 to the existing web-based system with an aim to streamline the processing of claim requests. The enhancement enables a paperless submission process and a real-time tracking of the updated status.

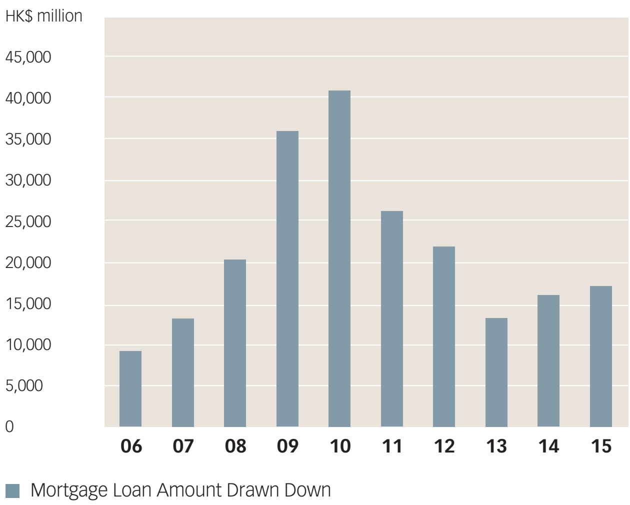
Mortgage Insurance Programme

The Mortgage Insurance Programme serves as a useful tool in assisting potential homebuyers struggling to come up with a substantial down payment for the purchase of a property. From a banking industry perspective, the MIP allows banks to engage in higher loan-to-value lending without incurring additional credit risk and jeopardising the stability of the banking system. All in all, the MIP creates a win-win situation for both homebuyers and banks.

Over the years, the MIP has firmly established itself as an integral part of mortgage financing in Hong Kong. Demand for the MIP remained steady in 2015, and the volume of loans drawn down under the MIP increased slightly to HK$17.2 billion in 2015 from HK$16 billion in 2014 **(Figure 9)**. About 88% of the MIP loans drawn (in terms of the loan amount) were secured on properties in the secondary market. This demonstrates the importance of the MIP to homebuyers in secondary market.

Figure 9

Mortgage Loan Amount Drawn Down under HKMC MIP



Source: HKMC

Since 1999, the MIP has helped more than 117,000 families achieve the dream of home ownership, with an aggregate loan drawdown of HK$278 billion.

Premium Loan Insurance Scheme

As commissioned by the Financial Secretary in the 2015-16 Budget, the Corporation launched the Premium Loan Insurance Scheme in September 2015 to provide a platform for owners of subsidised housing properties aged 50 or above to finance their land premium payments to the Hong Kong Housing Authority (**HA**), Hong Kong Housing Society (**HS**) or the Government.

Under the PLIS, borrowers will be granted loans by banks against their subsidised housing properties as security primarily for settling premium payments to the HA, HS or the Government. The Corporation will act as an insurer by providing assurance to the participating banks to cover losses arising from the possible shortfall at the time of selling the property when the loan is terminated. By the end of 2015, the Corporation had approved 3 PLIS applications, with an average appraised property value of around HK$4.8 million and an average lump-sum payout amount of HK$1.2 million.

To draw attention to the newly launched PLIS, an advertising campaign was launched, including television and radio commercials, newspaper advertisements and minibus body advertisements, following the launch ceremony in mid-September 2015. As the target customers of the PLIS are owners of subsidised housing properties, district-level promotions were held to reach out to this target group, which included roving exhibitions at shopping centres close to subsidised housing estates and seminars in collaboration with the participating banks.

Reverse Mortgage Programme

The Reverse Mortgage Programme was launched with the aim of providing elderly people with an additional financial planning option to enhance their quality of life. By the end of 2015, the Corporation had approved a total of 1,096 RMP applications, with an average property value of around HK$5.1 million and an average monthly payout amount of HK$14,800.

For enhancing the RMP to suit the needs of target customers, the Corporation launched a number of enhancements in March, including to accept (1) more than one self-use property as security under a reverse mortgage loan, (2) such properties not to be the borrower's principal residence, (3) joint application by three borrowers and (4) life insurance policy(ies) as additional security. These new initiatives were expected to enhance the flexibility of the product while maintaining a healthy risk position of the Corporation.

To promote public awareness and understanding of the RMP, the Corporation produced a microfilm named "Sweet Home", the theme of which was on how the RMP could help provide a financial solution to modern families and foster family bonding between different generations. The microfilm was a first-ever attempt of the Corporation to promote its business programmes by way of an online movie. To reinforce the messages to the public, an advertising campaign was launched through different kinds of channel during the year. These included TV commercial via online media (e.g. YouTube and Facebook) and at commercial sites (e.g. lobbies of commercial buildings and bank branches), radio commercial, TV and Radio Announcements in the Public Interests, as well as bus body and newspaper advertisements.

To reach out to a wide spectrum of stakeholders, the Corporation continued to undertake joint initiatives with banks, counterparties, professional bodies and non-governmental organisations (**NGOs**), including seminars and talks and/or participating in public conferences/forums to promote the RMP. In December, the Corporation collaborated with the HS in promoting the RMP as a financing option to the elderly who might become the tenants of The Tanner Hill, a first-of-its-kind non-subsidised quality housing project for citizens aged 60 or above in Hong Kong.

Microfinance Scheme

Under the Microfinance Scheme, the Corporation continued to take up the role of a scheme operator and liaised with participating banks and NGOs to offer loans at an affordable rate and ancillary supporting services to assist people who wish to start their own business, become self-employed or achieve self-enhancement through training, upgrading of skills or obtaining professional certification.

In June, the Corporation extended the scheme for a further term of 3 years to 2018. Alongside the extension of the term of the MFS, a series of enhanced features were introduced, including (1) raising the aggregate lending amount cap of the MFS by HK$100 million to HK$200 million; (2) increasing the maximum loan amount of a Self-employment Loan from HK$200,000 to HK$300,000; (3) increasing the maximum number of co-borrowers from 2 to 3; and (4) for existing or former borrowers of Micro Business Start-up Loan or Self-employment Loan who have maintained their existing or former loans for at least two years and a satisfactory repayment record under the MFS, allowing them to apply for a new loan with an aggregate loan limit up to HK$600,000.

The MFS has operated smoothly since its launch in June 2012. By the end of 2015, the MFS had approved a total of 164 loans with a total loan amount of HK$41.2 million.

The MFS has a good mix of borrowers from different backgrounds and professions, such as young beauticians, makeup artists, a pet grooming award winner, fashion and watch designers, IT graduates, Chinese medicine practitioners, rehabilitated offenders, a clown performance entertainer, native English speaking teachers, desserts and pastry chefs and a testing laboratory specialist.

The Corporation continued its focused strategy in promoting the MFS to the target market segments and community. With a view to reaching a wider range of potential borrowers and further promoting entrepreneurship in the community, the Corporation joined public talks, seminars, exhibitions and/or related activities organised by educational institutions and NGOs. In addition, an MFS Booklet, titled "Tips for Successful Business Start-up", was made available in banks, NGOs, business centres, community organisations, secondary schools, tertiary education institutions and public libraries.

To enhance public receptiveness to the scheme and help MFS borrowers promote their products and services, the Corporation organised the Microfinance Scheme Fair at Olympian City. The Corporation also produced a new television commercial and a music video, and continued to arrange media interviews with MFS borrowers so as to raise the profile of the MFS.

Funding

The global financial markets remained volatile in 2015 and were affected by the uneven economic growth and diverging monetary policy paths in the major economies. Despite the challenging market conditions, the HKMC managed to secure prudent pre-funding for loan purchases and refinancing activities. Given the Corporation's strong background as a wholly government-owned entity and its solid credit rating, the Corporation raised debt totalling HK$14 billion (with maturity of 1-year and above) in 2015. At the end of the year, the Corporation's total outstanding debt amounted to HK$33.5 billion.

The Corporation is committed to developing the local debt market through regular debt issuances and the introduction of new debt products. As one of the most active bond issuers in Hong Kong, the Corporation will continue to issue debt in both local institutional and retail markets, and diversify its funding sources and investor base to overseas institutional markets. This will not only help broaden the Corporation's funding base, but also provide institutional and retail investors with high quality debt instruments to satisfy their need for portfolio diversification and yield enhancement.

The Corporation has three debt issuance programmes, which allow the issuance of debt securities in an efficient and effective manner. With its strong credit rating, the Corporation's debt issues are well received by the investment community, such as pension funds, insurance companies, investment funds, charities, government-related funds and retail investors. The Corporation undertakes proactive investor communications to meet and update investors regularly.

Medium Term Note Programme

The Corporation established the multi-currency Medium Term Note (**MTN**) Programme in June 2007 to broaden its investor base and funding sources in international market. It was set up with an initial size of US$3 billion, which was subsequently increased to US$6 billion in July 2011 to meet growing demand from overseas investors. The multi-currency feature of the programme enables the Corporation to issue notes in major currencies, including Hong Kong dollars, US dollars, renminbi, Australian dollars, British pounds, euro and Japanese yen, to meet demand from both local and overseas investors. All foreign currency-denominated MTN debt is fully hedged into either US dollars or Hong Kong dollars. The programme incorporates flexible product features and offering mechanisms for both public issuances and private placements to increase its appeal to investors with different investment horizons and requirements. As at the end of 2015, an extensive dealer group comprising 10 major international and regional financial institutions had been appointed to support future MTN issuance and provide secondary market liquidity.

In 2015, the Corporation launched 21 MTN private debt issues, totalling an equivalent of HK$14 billion (with maturity of 1-year and above). Among them, the Corporation issued the 30-year bonds totalling HK$1 billion for the first time to support potential new fixed-rate businesses.

Debt Issuance Programme

The Debt Issuance Programme (**DIP**) was established in July 1998 to target institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion, which was subsequently increased to HK$40 billion in 2003. The DIP has since provided a flexible and efficient platform for the Corporation to issue debt and transferable loan certificates with a tenor of up to 15 years. A total of six Primary Dealers and 16 Selling Group Members had been appointed under the DIP to provide wide distribution channels for both public and private debt issues.

Retail Bond Issuance Programme

The Corporation is dedicated to promoting the local retail bond market with the objective of extending the Corporation's investor base beyond its already strong institutional investor community. In November 2001, the Corporation successfully pioneered a new offering mechanism for the retail bond market in Hong Kong.

To support the development of the retail bond market, the Corporation established the HK$20 Billion Retail Bond Issuance Programme and made its debut issuance in June 2004. Under this programme, placing banks use their retail branch networks, telephone and electronic banking facilities to place debt securities issued by the Corporation with retail investors. To ensure the liquidity of the aforementioned retail bonds, the placing banks are committed to making firm bid prices for the bonds in the secondary market. Since 2001, the Corporation has issued a total of HK$13.7 billion retail bonds. Over the years, the Corporation's retail bonds have gained widespread recognition as a safe and simple investment choice, with reasonably attractive returns, giving retail investors an opportunity to invest in high-grade debt securities issued by a wholly government-owned corporation. When the market environment is conducive, the Corporation aims to issue retail bonds regularly to provide an additional investment tool for Hong Kong's retail investors.

Revolving Credit Facility Provided by the Exchange Fund

In January 1998, during the Asian Financial Crisis, the Exchange Fund extended a HK$10 billion Revolving Credit Facility to the Corporation through the HKMA. This Facility enables the Corporation to maintain smooth operation under exceptional circumstances, so that it can better fulfil its mandate to promote banking and financial stability in Hong Kong. While the Corporation obtains long-term funding from local and international debt markets to fund its operations, the Facility also provides a liquidity fallback for the Corporation. In light of the global financial crisis in 2008, the size of the Facility was subsequently increased to HK$30 billion in December 2008, demonstrating the HKSAR Government's recognition of the importance of, and further support for, the Corporation.

The Corporation used the Revolving Credit Facility during times of market stress in 1998 and 2008 to partially fund the acquisition of Hong Kong residential mortgage assets from local banks. At both times, the Revolving Credit Facility was fully repaid with funds raised from the Corporation's cost-effective debt issuance when the markets stabilised. In 2015, there were no drawdowns under the Revolving Credit Facility.

Credit Rating

The Corporation's ability to attract investment in its debt securities is underpinned by its strong credit rating, equivalent to that of the HKSAR Government, according to S&P and Moody's.

Credit Ratings of the HKMC

	S&P Short-term	S&P Long-term	Moody's Short-term	Moody's Long-term
Local Currency	A-1+	AAA (Negative)	P-1	Aa1 (Negative)
Foreign Currency	A-1+	AAA (Negative)	P-1	Aa1 (Negative)

The credit rating agencies have made very positive comments on the Corporation's credit standing.

The following comments are extracts from the credit rating reports of S&P and Moody's in June and July 2015 respectively:

S&P

"We equalize the ratings on HKMC with the rating on Hong Kong, the corporation's sole owner. This reflects our view of an "almost certain" likelihood of timely and sufficient extraordinary support from the Hong Kong government in the unlikely event that HKMC needs it… We consider HKMC's undertaking of additional policy initiatives over the past several years as having a mild solidifying effect on its ties with the Hong Kong government, and reinforcing the integral link between the two entities."

"In our view, HKMC's very strong market position and its strong management and governance underpin its strong business position. HKMC is the unique entity in Hong Kong addressing local banks' liquidity and balance-sheet management needs through purchases of mortgage and loan portfolios, especially in times of stress… HKMC's business model has been tested during a variety of stressful market conditions. When the global financial market and the local economy were under stress in late 2008 and early 2009, HKMC enlarged its mortgage acquisitions in response to banks' requests, and enhanced its mortgage insurance program. In more recent years, it tightened the eligibility criteria for its mortgage insurance program. The move was part of HKMC's joint effort with the government and to mitigate a possible overheating of property prices in Hong Kong."

"We believe that market risks are managed effectively. The company maintains a simple asset and liability structure, with mainly vanilla products managed within what we regard as sound market risk policies. The corporation's exposure to market risk is principally to interest rate movements, with exposure to interest rate mismatches appearing to be well managed."

"We expect HKMC to continue to prudently manage its funding and liquidity. We assess the company's funding profile as adequate, considering its lack of retail funding… We expect HKMC to maintain a buffer of highly liquid assets, which is more than sufficient to cover its short-term funding needs… Further, a HK$30 billion revolving credit facility, which is equivalent to about three quarters of HKMC's total liabilities at the end of 2014, provides a significant cushion against any unexpected liquidity stress."

Moody's

"HKMC is fully owned by the government, and carries out public policy functions in its daily operations. The company's policy mandates include enhancing financial and banking stability in Hong Kong, promoting home ownership, and facilitating the development of the local debt market. As part of its mandate to promote banking stability, HKMC acts as an alternative 'lender of last resort' by standing ready to purchase residential mortgages from Hong Kong banks during times of stress."

"The government provides the HKMC with a HKD30 billion revolving credit facility and HKD1 billion of equity capital callable when needed. In the event the company's credit profile is weakened in a stress scenario, we expect the government to provide timely extraordinary support."

"The HKMC has maintained very sound asset quality metrics through multiple housing cycles since its establishment… Hong Kong residential mortgages have historically performed very well through economic cycles. Even when property price fell by up to 70% between 1997 and 2003, overall mortgage delinquencies never exceeded 2%. The current average loan-to-value ratio on the company's Hong Kong mortgages is below 40%."

"As a wholesale funded entity with no customer deposits, the HKMC relies on ongoing access to the debt capital markets to fund its operation. Nevertheless, the company has a policy of pre-funding its expected asset purchases and maintains a very strong liquidity profile during normal economic conditions. It has very good access to capital markets due to its strong financial fundamentals and government affiliation… It also has a HKD30 billion revolving credit facility from the government's Exchange Fund. The company has sufficient liquid assets and government revolving credit facility to repay all of its outstanding debts as of end-2014."

Mortgage-Backed Securitisation

The Corporation strives to promote the development of the mortgage-backed securities (**MBS**) market in Hong Kong. MBS is an effective financial instrument that can channel long-term funding from the debt market to supplement the need for long-term financing generated by mortgage loans. Banks and financial institutions can make use of MBS to manage risks inherent in mortgage loans, such as credit risks, liquidity risks, interest rate risks and asset-liability maturity mismatch risks. A deep and liquid MBS market can help enhance the development of an efficient secondary mortgage market and further promote Hong Kong as an international financial centre.

The Corporation has issued a total of HK$13.2 billion MBS since 1999. The US$3 billion Bauhinia Mortgage-Backed Securitisation Programme was established in 2001 to provide a convenient, flexible and cost-efficient platform for the Corporation to issue MBS with various product structures, credit enhancements and distribution methods.

Risk Management

The Corporation operates under prudent commercial principles, and the principle of "prudence before profitability" guides the design of the overall risk management framework and disciplines its uses in its day-to-day business execution. Over the years, the Corporation has continuously made refinements to its well-established, robust and time-tested risk management framework to reflect changes in the markets and its business strategies.

Corporate Risk Management Committee

The Board is the highest decision-making authority of the Corporation and holds the ultimate responsibility for risk management. The Board, with the assistance of the Corporate Risk Management Committee (**CRC**), has the primary responsibility for formulating risk management strategies in the risk appetite statement and for ensuring that the Corporation has an effective risk management system to implement these strategies. The risk appetite statement defines the constraints for all risk-taking activities and these constraints are incorporated into risk limits, risk policies and control procedures that the Corporation follows to ensure that the risks are properly managed.

The CRC is responsible for overseeing the Corporation's various types of risks, reviewing and approving high-level risk-related policies, overseeing their implementation, and monitoring improvement efforts in governance, policies and tools. Regular stress tests are reviewed by the CRC to evaluate the Corporation's financial capability to weather extreme stress scenarios when they arise.

The CRC is chaired by an Executive Director, with members including Chief Executive Officer, Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk), and senior staff from the Risk Management Department.

The major types of risk the Corporation manages are credit risk, market risk, operational risk, legal and compliance risk, leveraging risk, longevity risk and property risk.

Credit Risk

Credit risk is the Corporation's primary risk exposure. It represents the default risk presented by loan borrowers and counterparties.

(a) Default risk

To address default risk effectively, the Corporation adopts a four-pronged approach to safeguard and maintain the quality of its assets, MIP and SME guarantee portfolios:

- careful selection of Approved Sellers, Servicers, Reinsurers and Lenders
- prudent eligibility criteria for asset purchase, insurance and guarantee application
- effective due diligence process for mortgage purchase, default loss, insurance and guarantee claims
- enhanced protection for higher-risk transactions.

Losses may arise if there are shortfalls in the recovery amount received for defaulted loans that fall under the Mortgage Purchase Programme (**MPP**). To mitigate this default risk, the Corporation establishes prudent loan purchasing criteria; and conducts effective due diligence reviews as part of the loan purchase process in order to maintain the credit quality of loans. In addition, depending on the projected risk exposure of each underlying loan portfolio, credit enhancement arrangements are agreed upon with Approved Sellers on a deal-by-deal basis to reduce the credit losses that could arise from the borrower's default.

Losses may also arise from default on loans under the MIP's insurance coverage. Each MIP application is underwritten by the Corporation in accordance with a set of eligibility criteria, and each claim from a participating bank is reviewed by the Corporation to ensure the fulfilment of all MIP coverage conditions. As a result, the default risk for loans with MIP coverage has been greatly reduced. To reduce the risk of possible concentration of this default risk, the Corporation transfers a portion of the risk-in-force to Approved Reinsurers via reinsurance risk-sharing and excess-of-loss arrangements.

Similarly, losses may arise from borrower's default on loans in the SME guarantee portfolio. The borrower's default risk of each guarantee application is assessed by the lender in accordance with their credit policies. In addition, the Corporation adopts prudent eligibility criteria, conducts administrative vetting and credit reviews to better understand the credit quality of the applications, and carries out due diligence review on each default claim to ensure the loan's compliance with the Corporation's eligibility criteria as well as the lenders' internal credit policies.

In addition, the Corporation adopts a three-pronged approach to manage the default risk under the MFS, which includes: (a) prudent assessment of borrowers' repayment capability; (b) a vetting panel to consider business viability and approval of the loan applications; and (c) provision of training and mentoring support to borrowers.

Credit performances of the loan and guarantee portfolios are tracked and reported on a regular basis to provide management with updated credit profile to closely monitor the operating environment for any emerging risks to the Corporation, and timely implement risk mitigating measures.

(b) Seller/Servicer counterparty risk

Counterparty risks may arise from the failure of a Seller/Servicer of an acquired portfolio to remit scheduled payments to the Corporation in a timely and accurate manner.

The Approved Sellers/Servicers are subject to a risk-based eligibility review and ongoing monitoring on their loan servicing quality and credit standing.

(c) Reinsurer counterparty risk

Reinsurer counterparty risk refers to the failure of an Approved Reinsurer to make claim payments to the Corporation. In order to mitigate reinsurer counterparty risk effectively, the Corporation has established a framework for the assessment of each mortgage reinsurer's financial strength, credit rating and relevant experience in mortgage insurance.

The Corporation performs an annual review of each Approved Reinsurer's financial strength, business appetite and capacity. The review results are used to determine the ongoing business allocation and risk-sharing portions. The Corporation also has collateral arrangements with Approved Reinsurers to reduce counterparty risk exposures.

(d) Treasury counterparty risk

Treasury counterparty risk arises when there is a delay or failure from treasury counterparties to make payments with respect to treasury instruments transacted with the Corporation. Treasury counterparties are managed by a rating-based counterparty assessment framework and a risk-based counterparty limit mechanism. The treasury counterparties are continually monitored and the counterparty limits are adjusted based on the assessment results.

Furthermore, the Corporation has set up bilateral collateral arrangements with major swap counterparties to mitigate the counterparty risk.

(e) Lender risk

The Corporation is exposed to lender risk in SME lending that arises from: (a) a lender's underwriting being incompliant with its credit policy; (b) a lender's loosely formulated credit policy which is not specific enough or sufficiently defined for compliance; and (c) the moral hazard of a lender being less prudent in underwriting a guarantee-protected application. The Corporation manages lender risk through the review of the lenders' credit policies and the due diligence reviews on claims.

At the heart of the Corporation's credit risk management framework are two committees: the Credit Committee and the Transaction Approval Committee.

Credit Committee

The Credit Committee (**CC**) is responsible for setting the Corporation's overall credit policies and eligibility criteria, particularly for asset acquisition, mortgage insurance, SME guarantee business and MFS. The CC operates under a framework that has been approved by the Board. The CC is the approval authority for accepting applications to become Approved Sellers/Servicers under the MPP, Approved Reinsurers under the MIP, Approved Lenders under the SFGS and eligible treasury counterparties. It is also responsible for setting risk exposure limits for the counterparties. The CC also closely monitors the operating environment, and puts in place timely risk mitigating measures to manage the credit risk.

Transaction Approval Committee

The Transaction Approval Committee (**TAC**) conducts an in-depth analysis of pricing economics and associated credit risks for business transactions, while taking into consideration the latest market conditions and business strategies approved by the Board. Major transactions endorsed by the TAC are subject to approval by an Executive Director.

The CC and the TAC are both chaired by the Chief Executive Officer, with members including Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk) and senior staff from the relevant functional departments.

Market Risk

Market risk arises when the Corporation's income or the value of its portfolios decreases due to adverse movements in market prices. Market risk consists of interest rate risk, asset-liability maturity mismatch risk, liquidity risk and currency risk.

(a) *Interest rate risk*

Net interest income is the predominant source of earnings for the Corporation. It represents the excess of interest income (from the Corporation's loan portfolio, cash and debt investments) over interest expenses (from debt issuance and other borrowings). Interest rate risk arises when changes in market interest rates affect the interest income associated with the assets and/or interest expenses associated with the liabilities.

The primary objective of interest rate risk management is therefore to limit the potential adverse effects of interest rate movements on interest income/expense, while maintaining stable earnings growth. The interest rate risk faced by the Corporation is two-fold, namely interest rate mismatch risk and basis risk. Interest rate mismatch risk is the most substantial risk affecting the Corporation's net interest income. It arises mainly as a result of the differences in the timing of interest rate re-pricing for the Corporation's interest-earning assets and interest-bearing liabilities. Interest rate mismatch risk is most evident in the loan portfolios where the majority of the loans are floating-rate assets (benchmarked against the Prime Rate or HIBOR Rate), whilst the majority of the Corporation's liabilities are fixed-rate debt securities. The Corporation therefore makes prudent use of a range of financial instruments, such as interest rate swaps, interest rate swaptions, basis swaps, forward rate agreements and issuances of MBS, to manage interest rate mismatch risk. The proceeds of the fixed-rate debt securities are generally swapped into HIBOR-based funds via interest rate swaps in order to better match the floating-rate incomes from mortgage assets.

The Corporation also uses duration gap as an indicator to monitor, measure and manage interest rate mismatch risk. Duration gap measures the difference in interest rate re-pricing intervals between assets and liabilities. The wider the duration gap, the higher the interest rate mismatch risk. A positive duration gap means that the duration of assets is longer than that of the liabilities, and therefore, represents greater risk exposure to rising interest rates. A negative duration gap, in contrast, indicates greater risk exposure to declining interest rates.

Depending on the prevailing interest rate outlook and market conditions, the Corporation proactively re-balances the duration gap of its asset-liability portfolio under the guidance and supervision of the Asset and Liability Committee (**ALCO**).

Basis risk represents the difference in the benchmark rates between the Corporation's Prime-based interest-earning assets and its HIBOR-based interest-bearing liabilities. However, there are only limited financial instruments currently available in the market to fully hedge the Prime-HIBOR basis risk. In general, basis risk can be effectively addressed only when assets are based on HIBOR to match the funding base, or when related risk management instruments become more prevalent or economical. Over the past few years, the Corporation has consciously adopted a strategy that acquires more HIBOR-based assets. As a result, the Prime-HIBOR basis risk for the Corporation has been substantially reduced. In addition, the Corporation had issued Prime-based MBS and used hedging derivatives in the past to mitigate such basis risk.

(b) *Asset-liability maturity mismatch risk*

The actual average life of a portfolio of mortgage loans, which is usually shorter than their contractual maturity, depends on the speed of scheduled mortgage repayments and unscheduled prepayments. Higher prepayment rates shorten the average life of a portfolio of mortgage loans. In Hong Kong, prepayment occurs for two main reasons: (i) housing turnover — borrowers repaying their mortgage loans upon the sales of the underlying properties, and (ii) refinancing — borrowers refinancing their mortgage loans to obtain lower mortgage rates.

Asset-liability maturity mismatch risk can be more specifically characterised as reinvestment risk and refinancing risk. Reinvestment risk refers to the risk of a lower return from the reinvestment of proceeds that the Corporation receives from prepayments and repayments of its loan portfolio. Refinancing risk is the risk of refinancing liabilities at a higher level of interest rate or credit spread. The Corporation is exposed to refinancing risk (in both funding amount and cost of funds) when it uses short-term liabilities to finance long-term, floating-rate loan portfolios. Reinvestment risk is managed through the ongoing purchase of new loans to replenish the rundown in the retained portfolios and through the investment of surplus cash in debt securities or cash deposits to fine-tune the average life of the overall assets pool. In addition, the Corporation makes use of the issuance of callable bonds and transferable loan certificates to mitigate reinvestment risk. The call option included in callable bonds and transferable loan certificates allows the Corporation to adjust the average life of its liabilities to match more closely that of the overall pool of assets.

The Corporation manages its refinancing risk through the flexible debt securities issuance with a broad spectrum of maturities. This again serves to adjust the average life of the overall liability portfolio in a dynamic fashion. In addition, refinancing risk can be mitigated by adjusting the maturities of assets in the investment portfolio or off-loading mortgage assets through securitisation of mortgage loans into MBS.

The Corporation uses the asset-liability maturity gap ratio to measure, monitor and manage asset-liability maturity mismatch risk, to ensure a proper balance between the average life of the Corporation's assets and liabilities.

(c) Liquidity risk

Liquidity risk represents the risk of the Corporation not being able to repay its obligations, such as the redemption of maturing debt, or to fund the committed purchases of loan portfolios. The Corporation implements its liquidity risk management framework in response to changes in market conditions. The Corporation has continuously monitored the impact of recent market events on its liquidity position, and has pursued a prudent pre-funding strategy which would help to contain the impact of any global financial turmoil on its liquidity. Liquidity risk is managed by monitoring the daily inflow and outflow of funds, and by projecting the longer-term inflows and outflows of funds across the full maturity spectrum. The Corporation uses the liquid asset ratio to measure, monitor and manage liquidity risk.

Given its strong background as a wholly government-owned entity and solid credit rating, the Corporation is efficient in raising funds from debt markets with both institutional and retail funding bases. This advantage is supplemented by the Corporation's portfolio of highly liquid investments, which is held to enable a swift and smooth response to unforeseen liquidity requirements. The HK$30 billion Revolving Credit Facility from the Exchange Fund further provides the Corporation with a liquidity fallback even if exceptional market strains last for a prolonged period.

The Corporation manages pre-funding prudently through well-diversified funding sources, so that all foreseeable funding commitments are met when they fall due, in order to support the growth of its business and the maintenance of a well-balanced liability portfolio. Such diversification allows the Corporation to pursue a pre-funding strategy at the lowest possible cost, whilst at the same time offer safeguards against the difficulty to raise funds in distorted market conditions. The current funding sources are illustrated in Table 1 below:

Table 1: Current Funding Sources for the HKMC

Funding Source	Description
US$6 billion Medium Term Note Programme	There are 10 Dealers who underwrite and distribute local and foreign currency debt to international institutional investors under the programme
HK$40 billion Debt Issuance Programme	There are 6 Primary Dealers and 16 Selling Group Members who underwrite and distribute debt to institutional investors under the DIP. The Transferable Loan Certificate Sub-Programme under the DIP provides further diversification of its funding sources and broadening of its investor base
HK$20 billion Retail Bond Issuance Programme	This debt issuance programme has 19 Placing Banks which assist in offering retail bonds to investors
US$3 billion Bauhinia Mortgage-Backed Securitisation Programme	With a total of 8 Dealers, this multicurrency mortgage-backed securitisation programme permits the Corporation to originate MBS in both the local and international markets
Investment Portfolio	This portfolio comprises mainly cash and bank deposits, commercial paper, high-quality certificates of deposit, and notes that are readily convertible into cash
Money Market Lines	The Corporation has procured money market lines from a large number of local and international banks for short-term financing
HK$30 billion Revolving Credit Facility	The Exchange Fund commits to providing the Corporation with HK$30 billion in revolving credit

(d) *Currency risk*

Currency risk arises from the impact of foreign exchange rate fluctuations on the Corporation's financial position and foreign currency-denominated cash flows. The Corporation manages its currency risk strictly in accordance with the investment guidelines approved by the Board and under the supervision of the ALCO, which sets daily monitoring limits on currency exposure.

In accordance with this prudent risk-management principle, the net exposure of the foreign currency denominated debts issued under the MTN Programme is fully hedged by the use of cross-currency swaps.

Transaction execution is segregated among the front, middle and back offices to ensure adequate checks and balances. The Treasury Department, acting as the front office, is responsible for monitoring financial market movements and executing transactions in the cash, derivatives, debt and securitisation markets, in accordance with the strategies laid down by the ALCO. The Risk Management Department, assuming the middle-office role, monitors the compliance with treasury counterparty and market risk limits. The Operations Department, acting as the back office, is responsible for deal verification, confirmation, settlement and the payment process.

Asset and Liability Committee

The ALCO is responsible for the overall management of market risk of the Corporation. It follows the prudent risk management principles and the investment guidelines approved by the Board. It is responsible for reviewing and managing the market risk including interest rate risk, asset-liability maturity mismatch risk, liquidity and funding risk, and currency risk of the Corporation. Regular meetings are held to review the latest financial market developments and formulate relevant asset-liability management strategies for the Corporation.

The ALCO is chaired by the Chief Executive Officer, with members including Senior Vice President (Finance), Senior Vice President (Operations), Senior Vice President (Risk) and senior staff from the relevant functional departments.

Operational Risk

Operational risk represents the risk of losses arising from external interruptions, or inadequacies or the failure of internal processes, people or systems, or from external events.

The Corporation adopts a bottom-up approach in identifying operational risk by carrying out in-depth analyses of new products, business activities, processes, system enhancements and due diligence reviews of new operational flows. Comprehensive validation rules, management information system reports and audit trails are in place to track and report any errors or deficiencies.

The Corporation actively manages operational risk with its comprehensive system of well-established internal controls, authentication structures and operational procedures. The operational infrastructure is well designed to support the launch of new products in different business areas. Rigorous reviews are conducted before the implementation of operational or system infrastructure in order to identify potential operational risks and to ensure adequate segregation of duties.

To ensure an efficient and effective discharge of daily operations, the Corporation pursues advanced technological solutions alongside robust business logistics and controls to carry out its operational activities and business processes. Steps have been taken to ensure the accuracy, availability and security of these systems. The Corporation has also taken cautious steps to institute adequate checks and balances to ensure that its operations are properly controlled. Effective internal controls also help to minimise financial risk and safeguard its assets against inappropriate use or loss, including the prevention and detection of fraud.

The Corporation's Information Security Manual documents the requirements of security standards and practices relating to information and data security for observance by all staff. The Corporation implements various security measures, such as double firewall protection, intrusion-detection systems, virus alerts, quarantine systems and vulnerability scanning systems to minimise its exposure to external attacks. Internally, the Corporation has also implemented security controls on its Local Area Network to reduce damage in the event of a malicious intrusion. The Corporation engages external consultants when appropriate to conduct intrusion vulnerability tests to enhance system security. To ensure a high degree of compliance, the Corporation's core operating systems and processes are subject to regular review by internal auditors.

Business Continuity Plan

The Corporation's business recovery plan ensures that maximum possible service levels are maintained at all units to support business continuity and minimise the impact of business disruption from different disaster scenarios. Each business unit assesses the impact of disaster scenarios and updates recovery procedures from time to time. To ensure that business recovery procedures are practical, a corporate-wide business recovery drill is conducted annually. Daily back-ups and offsite storage of back-up tapes are in place to protect the Corporation from IT disasters.

Product Sign-off Mechanism

To ensure that all risk factors are considered when designing and implementing a new product, the Corporation has developed a product development management framework, under which proper sign-off of product specification is conducted prior to the launch of any new product. The product driver is clearly assigned at the start of the product development process to be responsible for instituting the sign-off process. Products can only be launched after all functional departments have signed off and confirmed functional readiness.

Complaint-Handling Mechanism

The Corporation makes a continuous effort to improve its core processes to ensure that its products and services meet customers' expectations. To make sure customers' feedback is timely and properly attended to, the Corporation has a formal complaint-handling mechanism to track, report and handle complaints.

Operational Risk Committee

The Operational Risk Committee (**ORC**) is responsible for ensuring that all business entities and line functions in the Corporation maintain an effective operational risk and internal controls framework. The ORC establishes key risk indicators to track the key operational risk items and monitor the effectiveness of the risk mitigating measures. The ORC is also responsible for providing directions and resolving issues related to policies, controls and management of operational issues, as well as ensuring prompt and appropriate corrective actions in response to audit findings related to operational risks or internal controls.

The ORC is chaired by the Chief Executive Officer, with members including Senior Vice President (Operations), Senior Vice President (Finance), General Counsel, Senior Vice President (Risk) and senior staff from the relevant functional departments.

Legal and Compliance Risk

Legal risk arises from uncertainty in the application or interpretation of laws, regulations, and any unenforceability or ineffectiveness of legal documents in safeguarding the interests of the Corporation. Compliance risk arises from the failure to comply with laws, regulations, codes of practice and industry practices applicable to the Corporation.

The Legal Office, headed by the General Counsel (who is also the Company Secretary), advises the Corporation on legal matters with a view to controlling legal risk. When new products or business activities are considered, the

Legal Office will advise on the relevant laws and the regulatory environment. It will also advise on the necessary legal documentation, and identify possible legal pitfalls with a view to protecting the interests of the Corporation. Where appropriate external counsel will be engaged to assist the Legal Office in providing legal support to the Corporation. The Legal Office works closely with the other departments of the Corporation to advise on legal issues and documentation.

The Compliance Function is part of the Legal Office and is led by the Chief Compliance Officer who reports to the Chief Executive Officer through the General Counsel. Where appropriate the Compliance Function will engage external counsel to advise on compliance matters. For a more detailed description of the Compliance Function and its work, please refer to the Compliance Reporting Section of the Corporate Governance Report.

The ORC is the governance committee for legal and compliance risks.

Leveraging Risk

In order to ensure that the Corporation would not incur excessive risk when expanding its business and balance sheet in relation to its own capital base, the Financial Secretary, in his capacity as the Financial Secretary and not the shareholder, acted as the regulator of the Corporation, by issuing a set of guidelines on capital-to-asset ratio for compliance by the Corporation upon the establishment of the Corporation in 1997. The guidelines have since been updated from time to time to take account of new products launched by the Corporation. The Financial Secretary issued in October 2011 a new set of guidelines by reference principally to the Basel II risk-based capital adequacy framework, the Guidelines on Capital Adequacy Ratio (**CAR**), with the minimum CAR set at 8%. As at 31 December 2015, the Corporation's CAR was 21.9%.

The prudent use of regulatory capital is monitored closely in accordance with the capital guidelines. The Chief Executive Officer reports the CAR and the daily minimum ratio to the Board of Directors on a quarterly basis. An early warning system is also in place. If the CAR drops to the threshold level of 14%, the Chief Executive Officer will alert the Executive Directors. If the CAR falls to 12% or below, the Board of Directors will be informed and appropriate remedial actions will be taken.

Longevity Risk

Longevity risk refers to the heightening risk of larger payouts under the RMP and PLIS. The longer the payout and loan period is, the larger the loan balance will accrue over time, and the less buffer there will be from the sale of the property to cover the outstanding loan balance. A loss may arise if there is a shortfall in the recovery amount after the disposal of the property. The termination rate of the loans depends largely on the mortality rate (i.e. life expectancy) of the borrowers.

Annual risk analysis is conducted in order to assess the potential financial impact of longevity risk, as well as the interaction among the various risk factors under the RMP and PLIS. The mortality assumptions are reviewed on a regular basis by the TAC.

Property Risk

Property risk arises from the fluctuation in the value of property which acts as collateral for the Corporation's loan and guarantee portfolios under the MPP, MIP, RMP and PLIS. The Corporation manages property risk by conducting external property valuation for each loan purchase or application, setting prudent assumption in the recoverable value of the collateralised property, restricting maximum loan-to-value ratios of the loans under the programmes and conducting stress test to examine the impact of adverse market conditions.

Process Management and Information Technology

Since its inception, the Corporation has devoted substantial resources and effort to continuously improve its business operations, to strengthen its internal controls and to enhance its application systems. The past year is no exception.

Our public website has been revamped to improve usability and present a fresh image. The new website is designed with the needs of mobile users in mind. At the same time, it continues to comply with the Web Content Accessibility Guidelines 2.0 to ensure that it is accessible to people from all walks of life.

In response to the launch of Premium Loan Insurance Scheme, a new information system was developed to support the participating banks and the Corporation with the coverage of operational cycle from product application to account administrations under the Scheme. The new system was rolled out along with the product launch in September 2015.

The Corporation continued to improve process automation, data integrity, system resilience and information security through systems development and enhancements to support various corporate and business initiatives, e.g. the SFGS, the RMP, the PLIS, the MFS, the MIP, the treasury operations, and strengthened risk management. Such steps are vital in ensuring efficiency, accuracy and robustness in business operations that translate into better services to the community. In addition, our system enhancements and process re-engineering measures also aim to achieve paperless operations that help contribute to a better and greener environment.

Corporate Social Responsibility

In recognition of the Corporation's contribution to the community and its commitment to corporate social responsibility (**CSR**) in past years, the Corporation has been awarded the Caring Organisation Logo by the Hong Kong Council of Social Service since 2008 and has now stepped into the eighth year of CSR participation.

As a socially responsible organisation, the Corporation cares for both its employees and the community. The Corporation has underlined its commitment to CSR by caring for its employees' well-being, participating in charity activities and implementing environmental protection measures.

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Care for Employees

Staffing and Remuneration

The Corporation attracts and grooms talent to ensure the efficient performance of its core missions of enhancing stability in the banking sector, promoting wider home ownership and facilitating the development of the debt securities market. Employees are provided with competitive remuneration packages and fringe benefits, a promising career path and development opportunities, and a healthy and safe working environment. The Corporation has also adopted family-friendly practices by offering a five-day week to help employees maintain a good work-life balance, as well as comprehensive medical and dental insurance plans which cover both employees and their family members.

Through system automation and process re-engineering, the Corporation has maintained a lean and efficient workforce, despite an increase in the scope of operations and the complexity of the products it offers. In 2015, the permanent staff establishment of the Corporation was 201, and the staff turnover rate was 10.17%.

Training and Development

The Corporation recognises the importance of ongoing training and has devoted considerable resources to the continuous enhancement of its employees' professional knowledge and skills. In 2015, the Corporation arranged different programmes and workshops to help employees enhance their product knowledge, and strengthen their managerial and technical competence and soft skills.

The in-house training workshops covered a wide range of topics such as problem solving and decision making, team collaboration and occupational safety and health. During the year, seminars on Personal Data (Privacy) Ordinance, Competition Ordinance and Bankruptcy Ordinance were also held.

Training on Problem Solving and Decision Making

Training on Occupational Safety and Health

Team Building Training

The Corporation also sponsored employees for external job-related training and development courses covering a wide range of topics from mortgage-related issues, risk management, corporate governance, finance and accounting to information technology and leadership training.

In addition, all new employees were provided with an induction session to provide them with a foundation of knowledge about the Corporation's organisation structure, functions and policies.

Employee Relations and Staff Activities

To promote a healthy work-life balance and foster a family-friendly working environment, the HKMC Staff Club regularly organises staff activities to cultivate better relationships and communication among employees. In 2015, these activities included interest classes, Work-Life Balance Week, outings and other staff gatherings, all of which were well received by employees and their families. The in-house staff publication "HKMConnection" recaps snapshots of the HKMC staff activities.

Team Building Training

Work-life Balance Week

Christmas Party with Children

Seniors Day 2015

Care for the Community

Blood Donation

Visit to elderly living alone before Mid-autumn Festival

Dress Casual Day 2015

Outing with children

To facilitate effective communication within the Corporation, the intranet Staff Homepage is frequently updated so that useful information can be shared among different departments. There is also the Staff Suggestion Scheme, which encourages staff to make suggestions for improvements in work flow and the workplace.

Health and Safety

As a caring organisation, the Corporation is dedicated to looking after both the physical and mental health of its employees. An Employee Support Programme is in place to provide confidential external counselling services to employees and their family members, if needed. A vaccination programme for the prevention of influenza and health-check programmes at privileged rates were also offered to employees.

The Corporation has, from time to time, reviewed and strengthened its contingency plans which aim to minimise any unexpected or sudden disruption to business operations, such as from an outbreak of communicable disease among employees. Periodic drills are organised to make sure employees are conversant with the activation of the back-up facilities, contingency plans and communication arrangements in case of emergency.

Care for the Community

Charities and Social Activities

The Corporation promotes various charitable and community functions, such as fundraising events, donation campaigns and voluntary services. Employees are encouraged to support charity activities and join voluntary work organised by the HKMC Volunteers Team, Caring League.

In 2015, the Corporation organised donation campaigns, such as Dress Casual Day 2015 for the Community Chest, and held its annual Blood Donation Day event for the Hong Kong Red Cross.

Employees have been keen to participate in voluntary services, demonstrating their concern for the needy by dedicating time and effort to various causes. The Caring League has partnered with several social service organisations to participate in a number of voluntary services, including the following:

- care for the environment — a recycling campaign in partnership with the Salvation Army to collect books, stationery, toys, etc

- care for the elderly — organised by the HOPE Worldwide and Hong Kong Playground Association, involving our volunteers visiting the homes of elderly people living alone and bringing them "lucky bags" with daily necessities to welcome the Chinese New Year and Mid-Autumn Festival

- care for the children — organised by the HOPE Worldwide and Hong Kong Playground Association, involving an outing and a Christmas party with children from low-income families.

Internship and Manager Trainee Programmes

To help nurture talent for the future, the Corporation provides a number of internship programmes for undergraduates to give them a taste of the real business world and help them better prepare for their future careers. The students who joined the programmes appreciated the learning experience and work opportunities they were exposed to.

During the year, the Corporation has continued the Manager Trainee Programme with the objective of identifying high-calibre young executives for grooming to meet the Corporation's long-term staff development plan. Throughout the three-year programme, the Manager Trainees will go through on-the-job training in different departments, take part in corporate projects and attend structured learning and development programmes.

Environmental Protection

The Corporation continuously supports and implements various green measures to create a more environmentally friendly office and raise employees' awareness of methods of waste reduction and energy conservation. Employees are encouraged to adopt paperless working practices by using more electronic communication. They are also encouraged to collect waste paper and used toner cartridges for recycling. Since 2006, the Corporation has adopted various measures, including better control of office temperature and the use of LED lighting, in the interest of energy efficiency. The Corporation welcomes suggestions from employees on green office ideas and encourages its suppliers to use and offer more environmentally friendly products whenever possible.