

Chairman's Statement

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Fulfilling core missions with solid financial results.



Chan Mo-po, Paul
Chairman

In 2016, global economic growth fell to its slowest pace since the global financial crisis in 2008, which gave rise to changing political and economic climate. Monetary policy divergence in major economies intensified and continued into 2016. The US interest rate hike proceeded gradually on the back of good domestic growth, while quantitative easing programmes in the euro area were extended and a new monetary policy framework for additional easing was introduced in Japan to fend off deflation risk. Global market volatility was heightened in the wake of the unexpected outcomes of the Brexit referendum and the US presidential election.

In the region, growth in China stabilised in the second half of the year when the external environment gradually improved and domestic sector stayed resilient amid the depending of supply-side reforms. In Hong Kong, our economy saw modest growth on improved domestic and external demands. In a low interest rate environment, residential property market in Hong Kong heated up from the third quarter of the year until the HKSAR Government's announcement of a further cooling measure in November.

Purchase of Mortgage Assets

The Corporation purchased mortgage assets of about HK\$206 million in 2016 (2015: HK\$337 million) as ample liquidity in the banking system continued to dampen banks' appetite in offloading mortgage assets. In recognition of its pivotal role to reinforce the banking and financial stability of Hong Kong, the Corporation stands ready to purchase mortgage loans from the banking sector should the need arise.

Supporting Home Ownership

The Mortgage Insurance Programme (**MIP**) is an integral part of the property mortgage market in Hong Kong. Since its inception in 1999, it has been fostering wider home ownership in Hong Kong in the pursuit of the Corporation's core missions by making home purchase more affordable and accessible. The Corporation has thus far helped more than 124,000 families buy their own homes, which testifies to the immense public popularity of the MIP. In 2016, demand for the MIP rebounded and the total amount of mortgage loans drawn down under the MIP was HK\$24.6 billion (2015: HK\$17.2 billion).

Promoting Development of the Debt Market

The Corporation has been playing a key role in promoting the development of the local debt market. It has remained a major and active corporate debt issuer in Hong Kong for more than a decade. In 2016, the Corporation issued debt securities in different currencies (with tenor of one year or above) totalling around HK\$16.2 billion to fulfil its refinancing needs and support its business activities. The Corporation also retained a top AAA credit rating from Standard & Poor's and Aa1 rating from Moody's.

Providing Elderly Home Owners with More Retirement Financing Options

The Corporation launched its Reverse Mortgage Programme (**RMP**) in 2011 to provide home owners with a new financial planning option to enhance their cash flow during retirement. To allow more elderly owners of subsidised housing to join the RMP, the Corporation extended the RMP in October 2016 to cover subsidised sale flats with unpaid land premium under most of the subsidised housing schemes of the Hong Kong Housing Authority and of the Hong Kong Housing Society. The market response to this ground-breaking initiative had been positive and encouraging. In addition, the Corporation made strenuous efforts to further promote the RMP and its latest enhancement. The number of reverse mortgage applications in 2016 was 446, indicating increasing public acceptance of the RMP.

Assisting Subsidised Housing Owners in Land Premium Settlement

The Corporation launched the Premium Loan Insurance Scheme (**PLIS**) in 2015. In order to promote the for-rent/sale market of subsidised housing, the PLIS offered the first ever versatile land premium financing option for a wide range of subsidised housing schemes of the Hong Kong Housing Authority and of the Hong Kong Housing Society. The PLIS will not burden borrowers wishing to settle the land premium subsidies with traditional mortgage repayment obligations during their lifetime. Indeed, it provides flexibility for borrowers during their lifetime or their legal representatives upon borrowers passing away to redeem the land premium mortgage loans secured on the subsidised properties. The unique edge of the PLIS is especially helpful to owners with difficulties in meeting recurring repayment obligations to secure land premium financing for the removal of alienation restrictions. The PLIS would facilitate the release of more subsidised housing units for sale or rental purpose in the open market. In 2016, the Corporation remained proactive in conducting a series of promotional activities to raise public awareness of the PLIS.

Promoting Hong Kong's Entrepreneurial Spirit

The Microfinance Scheme was launched in 2012 to promote and support entrepreneurial spirit in Hong Kong through a sturdy platform operated by the Corporation comprising a strategic support group of participating non-governmental organisations, banks and a group of public service-minded mentors with business or professional background. The Microfinance Scheme has benefitted a diversity of start-ups, including applicants of the Hong Kong Food Truck Pilot Scheme that commenced in 2016. To tap the rapidly growing market of start-ups in Hong Kong, the Corporation stepped up the promotion to the target market segments

by adopting a focused marketing strategy during the year. Efforts included participation in large-scale exhibitions, print advertisements in local magazines and banners placed on online media platforms, advertorial in a local newspaper, and television and radio commercials on major broadcasting channels. From the inception of the Microfinance Scheme to the end of 2016, 183 cases with a total loan amount of HK\$45.8 million were approved by the Corporation representing an approval rate of around 50%.

Continuing Support for Small and Medium Enterprises

Small and medium enterprises (**SMES**) remain a key pillar of the Hong Kong economy and labour market. The HKSAR Government remains committed to supporting SMEs through the extension of the 80% guarantee product under the SME Financing Guarantee Scheme (**SFGS**) which the Corporation is entrusted to operate. The SFGS provides a useful platform to help SMEs obtain bank financing in an uncertain environment. Notably, the Corporation rolled out a business communication campaign in the second half of 2016 with participating banks, SME associations and commerce and industry chambers for promoting the SFGS. The Corporation received many valuable feedbacks and further streamlined the claim procedures for banks. The campaign proved to be effective and successful in expediting due diligence review on claims. As at the end of 2016, the 80% guarantee product recorded a total approved loan amount of HK\$45.6 billion with 30 lending institutions having signed up to it, and the SFGS had benefitted more than 7,200 enterprises with around 190,000 employees.

Performance in 2016

Considering the cyclical nature of the Corporation's business, the Corporation achieved solid financial results in 2016. Profit attributable to shareholders amounted to HK\$604 million (2015: HK\$725 million), and the return on shareholders' equity was 6.8% (2015: 8.1%) with capital adequacy ratio at 21.3% (2015: 21.9%).

Outlook for 2017

Looking ahead, lingering uncertainties over the pace of US monetary policy normalisation, coupled with political changes in many parts of the world and rising populist and protectionist sentiments, will continue to overshadow and add complications to the global economic and financial market outlook in 2017. The global economy is thus laden with increasing risks of even more volatile international capital flows and financial climate, with potential negative spillover effects on the Hong Kong financial and asset markets. The Corporation will continue to conduct its business prudently and look for opportunities for enhancement and expansion.

Finally, I would like to express my heartfelt gratitude to fellow Board Directors, the Management and staff for their dedicated work and tremendous support in working to achieve the Corporation's core missions.



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