

Chairman's Statement

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Through continuing business enhancements in line with Government's policies, the Corporation fulfilled its core missions and achieved its social objectives with satisfactory financial performance amid challenging environment in 2013.



John C Tsang
Chairman

In 2013, global economic growth was modest. Expansionary monetary policies continued to prevail in the major economies. Faced with the risk of asset-price inflation in Hong Kong, Government intensified its stabilisation measures in the local property market with the announcement of two further demand-side management measures, along with Government's policy to increase land supply in the medium-to-long term to tackle the problem at source. The market in 2013 can be characterised as one with ample liquidity and sluggish property turnover. Amid difficult operating environment, the Corporation continued to fulfil its core missions and achieve its social objectives in an effective manner.

Enhancing Banking and Financial Stability

Owing to ample liquidity in the market, banks generally saw little need to offload their assets for liquidity purposes. However, as part of the process of balance sheet management, some banks undertook asset sales to the Corporation. As a result, the Corporation managed to purchase local assets of about HK\$3.2 billion in 2013, satisfying certain banks' need for room to accommodate higher yielding businesses.

Benefiting Home Ownership

In tandem with the Government's stabilisation measures in the local property market and also to actively manage its business risk, the Corporation tightened the eligibility criteria of the Mortgage Insurance Programme in early 2013. As a result of this tightening and a slower market, the total drawdown loan amount under the Programme dropped to around HK\$13.3 billion during the year (2012: HK\$22 billion). Despite the significant reduction in the drawdown volume, the Programme remained popular with borrowers who wished to secure their loan financing for home purchases with a higher loan-to-value ratio. Indeed, the Corporation had since 1999 helped more than 107,000 families to buy their own homes.

Promoting the Debt Market Development

In 2013, the Corporation issued debt securities in different currencies totalling around HK\$18.2 billion. The Corporation had remained a major and active corporate debt issuer in Hong Kong for over a decade, thereby helping to promote development of the local debt market. The Corporation continued to attain its commendable credit ratings of AAA from Standard & Poor's and Aa1 from Moody's. The Corporation has always maintained a prudent pre-funding strategy to meet its business needs and will continue to do so, especially when uncertain market conditions prevail.

Reverse Mortgage Programme

In 2011, the Corporation launched the Reverse Mortgage Programme, which offers elderly home owners an additional tool for their financial planning to improve their quality of life. The Programme is gradually gaining popularity. The business volume in 2013 achieved a year-on-year growth of around 50%. In collaboration with both the medical and legal professions, the Corporation promoted the use of the Enduring Power of Attorney in 2013 for elderly borrowers under the Programme. This effort had helped to raise the elderly borrowers' awareness of the need for, and usefulness of, appointing an attorney to manage their ongoing financial and other matters in the event of dementia or mental incapacity.

Microfinance Scheme

As at end 2013, the Corporation approved about 100 cases under the Microfinance Scheme with a total loan amount exceeding HK\$28 million and an approval rate of around 60%. Under the Scheme, the Corporation worked closely with supporting stakeholders, namely, banks, non-governmental organisations and mentors to provide guidance to the aspiring entrepreneurs with little or no relevant business experience and to help them plan, nurture and develop their businesses. The Scheme extended a helping hand to those members of the community who would typically not be able to secure financing from banks at an affordable rate.

SME Financing Guarantee Scheme

Since May 2012, the Government had entrusted the Corporation with the implementation of the 80% guarantee product under the SME Financing Guarantee Scheme as part of the special concessionary measures to support local small and medium-sized enterprises (**SMEs**). The 80% guarantee product was well received by the SMEs with more than 8,000 approved loans having a total loan amount of around HK\$33.9 billion, benefiting about 5,500 enterprises with more than 144,000 employees up to end 2013. Through its operation of the Scheme, the Corporation has been providing a useful platform to help SMEs secure funding at more competitive rates in a volatile global business environment. This is important to the Hong Kong economy because SMEs represent over 90% of local enterprises and have employed around 1.3 million people, or half of the number of employees in the private sector. In recognition of its contributions to the SMEs, the Corporation won the Best SME's Partner Award organised by the Hong Kong General Chamber of Small and Medium Business for two successive years in 2012 and 2013.

Performance in 2013

The Corporation achieved a satisfactory financial result despite the difficult operating environment and the subdued local property market during the year. Profit attributable to shareholders was HK\$982 million (2012: HK\$1,125 million), and the return on shareholders' equity was 10.4% (2012: 12.4%) with capital adequacy ratio at 21% (2012: 20.2%).

Outlook for 2014

Despite signs of recovery in major economies, there is still uncertainty over the US Federal Reserve Board's exit strategy and interest rate policy. The year ahead may also see greater volatility in capital flows into and out of emerging markets, including Hong Kong. The Corporation will therefore need to stay vigilant and proactively tackle volatility in the financial markets.

Once again, I would like to express my heartfelt gratitude to my fellow Directors, Management and staff of the Corporation for their concerted efforts in helping achieve the Corporation's core missions and social objectives throughout 2013.

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