Enhancing Banking Stability

Chairman's Statement

Against the challenging economic backdrop in 2011, the Corporation continued to discharge well its strategic policy roles in promoting:

- banking and financial stability
- wider home ownership
- development of the local debt market

The Corporation broke new ground in 2011 by launching the SME Financing Guarantee Scheme and the Reverse Mortgage Programme.

Promoting Banking and Financial Stability

In 2011, the Corporation purchased local assets totalling HK$9.7 billion. The impending introduction of the new Basel III regulatory regime has led to banks reviewing more critically their capital and liquidity needs. Given market volatility and rising loan-to-deposit ratio in the banking sector, banks were more prepared to sell assets to achieve more prudent balance sheet management.

To encourage banks to extend financing to small and medium-sized enterprises ("SMEs"), the Corporation launched the SME Financing Guarantee Scheme ("SFGS") on 1 January 2011 which guarantees, for a fee, up to 70% of banks' credit exposure for SME loans under the scheme. The Corporation received 235 applications under the scheme during the year, involving a total loan amount of around HK$800 million. Given the global economic slowdown, sovereign debt crises in Europe and widespread credit rating downgrades, the Government proposed to enhance the SFGS by introducing a new product that guaranteed 80% of the loan amount at a substantially reduced fee. The Government will cover the credit losses and expenses for SME loans within a total guarantee commitment of HK$100 billion.

Promoting Wider Home Ownership

The Mortgage Insurance Programme ("MIP") continues to foster wider home ownership in Hong Kong. In 2011, the MIP loan drawdown amounted to HK$26.3 billion. The MIP also promotes liquidity in the secondary property market, with 97% of the MIP loans coming from secondary market transactions in 2011. Since 1999, the MIP has helped over 95,000 families to attain home ownership.

In line with the prudential measures for residential mortgage loans introduced by the Hong Kong Monetary Authority, the Corporation revised the MIP criteria in June 2011 so that homebuyers would not overstretch themselves when undertaking residential mortgages.

The Corporation launched the Reverse Mortgage Programme ("RMP") on 11 July 2011, enabling elderly homeowners to use their self-occupied residential properties in Hong Kong as security to take out reverse mortgage loans to supplement their living expenses. The RMP has been well received by a wide range of elderly homeowners, with 173 applications received by the end of 2011.

Facilitating Debt Market Development

In 2011, the Corporation issued a total of HK$28.5 billion in debt securities of various currencies, including the Corporation's first renminbi bonds totalling RMB600 million. As the most active corporate debt issuer in the Hong Kong dollar debt market and with excellent credit ratings (AAA by Standard & Poor's and Aa1 by Moody's), the Corporation is well positioned to promote the development of the local debt market to meet the growing demand for high-grade long-term debt investment from insurance and pension funds in Hong Kong. In light of the uncertain and volatile market conditions, the Corporation will maintain its prudent pre-funding strategy to support its business activities.

Microfinance for Hong Kong

In 2011, the Corporation formed a study group to look into the feasibility of establishing a microfinance scheme in Hong Kong to assist people who may wish to start their own business or receive self-enhancement training but lacked the means or access to funding from traditional credit channels to do so. The study group recommended a microfinance pilot scheme that operates on the basis of prudent commercial principles. The HKMC is now planning to introduce a pilot scheme in collaboration with banks, voluntary organisations and other stakeholders. The pilot scheme will operate on a self-financing basis and is expected to launch in mid-2012, with a tentative aggregate loan amount of HK$100 million over a trial period of three years.

Performance in 2011

The Corporation posted a record after-tax profit of HK$1,256 million, an increase of 1.8% over 2010. The return on shareholder's equity was 15.5%, and the capital adequacy ratio was 19.7%. The Corporation declared a final dividend of HK$350 million.

With its solid financial performance in 2011, the Corporation has proven to be highly resilient and effective in performing its strategic policy roles. The Corporation will continue to strengthen its financial position and enhance its ability to pursue the strategic objectives.

Outlook for 2012

2012 will be another challenging year for the global as well as local economy. Given the bleak economic prospects in Europe and, to a lesser extent, the US, the risk of a sharp deterioration in the economic conditions remains high. Despite their relatively strong economic fundamentals, most Asian economies have seen a noticeable slowdown in their growth momentum recently. With the persisting low interest rate environment and the quantitative easing bias in many advanced economies, there are still risks of inflation and asset-price bubbles in Hong Kong.

The Corporation must remain vigilant and continue to reinforce its business focus in Hong Kong, based on prudent commercial principles, in order to fulfil its core objectives. The Corporation will maintain its emphasis on risk management and good corporate governance.

Finally, I acknowledge the dedication and hard work of my fellow Directors, Management and all staff of the Corporation. I look forward to yet another successful year for the Corporation in 2012.

John C Tsang
Chairman