BUSINESS OVERVIEW

Despite the challenges of the global financial crisis, the Hong Kong economy witnessed early signs of market rebound in 2009 after experiencing a sharp downturn early in the year. Amid the volatile market conditions, the Corporation continued to operate under prudent principles and play its strategic role as a liquidity provider for promoting banking and financial stability. Along with the great resilience shown in the local property market, the Corporation also once again demonstrated its important role of promoting home ownership in Hong Kong through a rising usage of its mortgage insurance products.

Performance Highlights

The Corporation continued to provide timely liquidity to the banking sector, while the market was recuperating from the aftershocks of the global financial tsunami. The Corporation's mortgage insurance products were also well received by homebuyers who could buy their homes with a reduced downpayment.

The major achievements of the Corporation for the year include:

- Purchase of a total of HK$8.8 billion of assets, including HK$1.7 billion of residential mortgage loans and HK$4 billion of commercial mortgage loan in Hong Kong, and HK$3.1 billion of residential mortgage loans in Korea in the form of mortgage-backed securities.

- Drawdown of mortgage insurance coverage for newly originated mortgage loans reaching a record high of HK$36 billion in total, achieving a usage rate (in terms of drawdown loan amount against total market mortgage drawdown) of 18%.

- Issuance of HK$22.7 billion of debt securities in a cost-effective manner, maintaining the Corporation's position as the most active corporate issuer in the Hong Kong dollar debt market for nine consecutive years.

- Safeguarding excellent asset quality, with a delinquency ratio (above 90-day ratio) of 0.003% for the mortgage insurance portfolio; a combined delinquency ratio (above 90-day ratio and rescheduled loan ratio) of 0.12% for the Hong Kong residential mortgage portfolio (same as the industry average of 0.12%), and 0.07% across all asset classes as at 31 December 2009.

- Maintaining long-term foreign and local currency debt ratings of AA+ and Aa2 by Standard & Poor's ("S&P") and Moody's Investors Service, Inc. ("Moody's") respectively.

The Corporation registered very solid financial results for 2009:

- Profit after tax of HK$1,006 million, which was HK$401 million or 66% up from 2008.

- Net interest spread improved to 1.7% amid favourable interest rate environment, compared to 1.1% in 2008.

- Return on assets of 1.6%, an increase of 0.5 percentage point over 2008.

- Return on shareholder's equity of 16.2%, an increase of 5.7 percentage point over 2008.

- Capital-to-assets ratio remained strong at 9.5%, well above the minimum requirement of 5%.

- Cost-to-income ratio of 12.4%, significantly lower than the banking industry average of 49.3%.

Operational Highlights

Overall Business Strategy

The Corporation focuses on fulfilling its roles to maintain banking stability, promote home ownership and develop Hong Kong's debt market. The Corporation strived to maintain its capacity and capability so that it could discharge its responsibilities effectively and efficiently.

Mortgage Insurance

In light of a sharp rise in the prices of the high-end residential property market, the Corporation took steps in October 2009 to tighten certain eligibility criteria for the Mortgage Insurance Programme ("MIP") to reduce risk exposure to luxurious and non owner-occupied properties.

The Corporation further refined the MIP's Risk-based Pricing Scheme in December 2009 so that a greater number of borrowers can be eligible for premium discounts and the range of premium discounts has been widened as well.

The MIP usage rate (in terms of drawdown loan amount against total market mortgage drawdown) increased from 11% in 2008 to 18% in 2009. This reflects an increasing demand for mortgage insurance.

The Corporation continued to provide regular training for the frontline staff and credit personnel of the MIP participating banks. This is an integral part of the strong partnership between the Corporation and banks in promoting mortgage insurance to the public.

The Corporation maintained a high degree of processing efficiency for MIP applications through automation and use of the internet platform.

Fund-raising

- Issuance of a total of HK$22.7 billion of corporate debts with tenor up to 15 years in a prudent and cost-effective manner to support asset purchase activities and redemption of maturing debts.

- For the ninth year in a row, the Corporation was the most active corporate issuer in the Hong Kong dollar debt market, with issuance of HK$17.2 billion of debt securities in the local institutional market.

- Issuance of the Corporation's first-ever 15-year callable zero coupon bond for HK$1 billion in total, which was the largest ever in Hong Kong and helped to promote the development of the local bond market.

- Debut public benchmark issuance of US$500 million of fixed rate notes under the Medium Term Note Programme to raise funds in the international market and to broaden the Corporation's investor base and funding sources.

Market Overview

General Economic Conditions

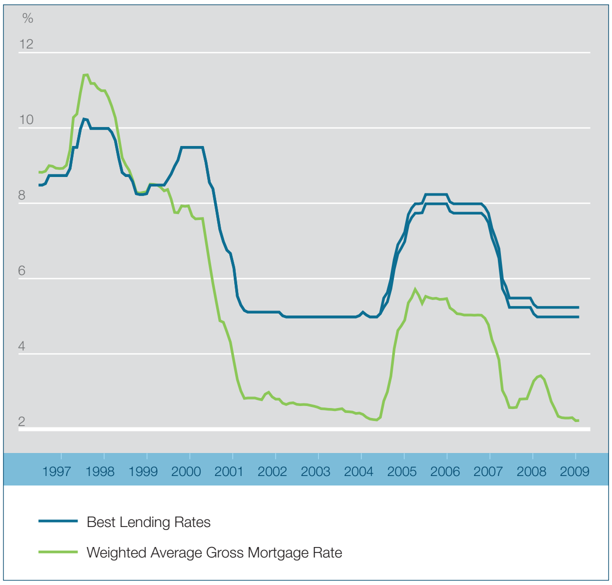
Hong Kong experienced a severe setback leading to a deep contraction in the early part of 2009 as a result of the global financial tsunami triggered by the sub-prime crisis in the US. However, driven by the robust growth of the Mainland China economy, the Hong Kong economy showed great resilience in weathering the market turbulence and witnessed signs of recovery from the second quarter of 2009. The global economy also started to stabilise somewhat in the second half of the year, following the concerted policy actions taken by different countries across the globe to restore market confidence. The Government of the Hong Kong Special Administrative Region ("HKSAR Government") also took timely measures to stabilise the financial markets and banking system, alleviate liquidity pressure, support enterprises and preserve employment, thereby giving impetus to the local economy and restoring confidence.

For 2009 as a whole, Hong Kong's Gross Domestic Product ("GDP") shrank by 2.7% in real terms, representing the first annual recession since 1998. Nevertheless, the quick revival of the economy saw the GDP growth back in positive territory of 2.6% in real terms in the fourth quarter of 2009. The labour market also demonstrated much resilience. Against the backdrop of deteriorating external market conditions, the unemployment rate in Hong Kong surged to 5.4% in mid-2009, but gradually came down to 4.9% at the end of the year.

Interest Rate Environment

The liquidity condition of the Hong Kong banking sector eased in 2009. The Hong Kong Interbank Offered Rate ("HIBOR") continued to soften amid continued inflow of funds. The Best Lending Rates ("BLRs") in the market remained at 5% and 5.25% throughout the year. As the competition in mortgage lending intensified, banks adopted increasingly aggressive pricing strategies by cutting mortgage rates, and in some cases offering HIBOR-based mortgage rates, to gain market share. The BLR-based gross mortgage rates for new mortgage loans drifted down from 3.25% – 3.5% p.a. in early 2009 to 2.25% – 2.5% p.a. by the end of the year (Figure 1). HIBOR-based mortgage rate was even as low as HIBOR + 0.65% by year end, which was generally below 1% p.a.

Figure 1:
Best Lending Rates and Average Gross Mortgage Rate

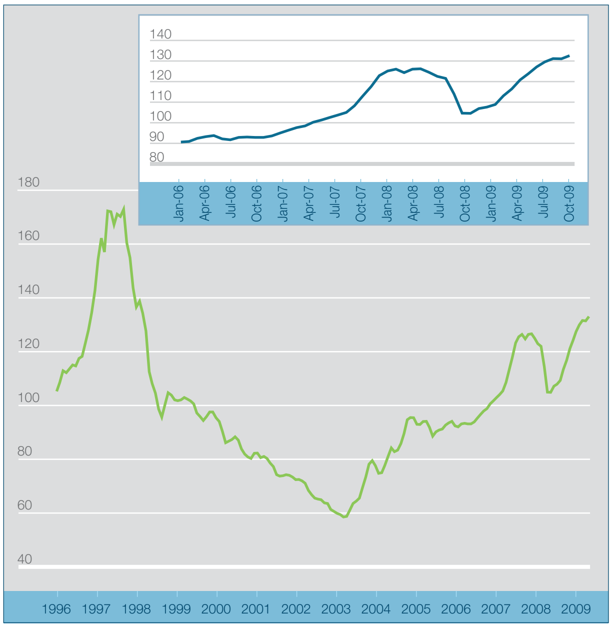


Source: HKMA

Property Market

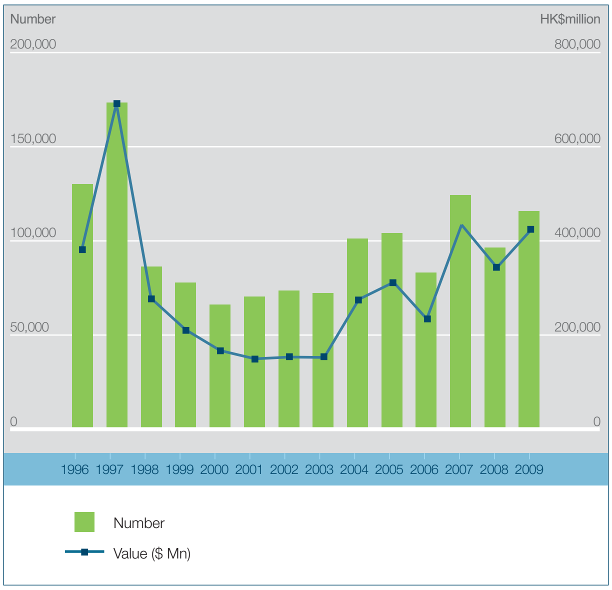
The residential property market staged a sharp rebound in 2009, attributable to the accommodative market conditions of low interest rates underpinned by a strong influx of funds. Both property price and transaction volume for residential properties picked up sharply. According to the Private Domestic Price Index on overall housing published by the Rating and Valuation Department, the residential property prices in December 2009 were 28% up from a year ago. The Land Registry statistics showed that the total volume and value for residential property transactions saw a strong rebound by 20% and 24% year-on-year to about 115,000 cases and HK$426 billion in 2009 respectively (Figures 2 and 3).

Figure 2:
Private Domestic Price Index (1999=100)



Source: Rating and Valuation Department

Figure 3:
Agreements of Sale and Purchase of Residential Building Units

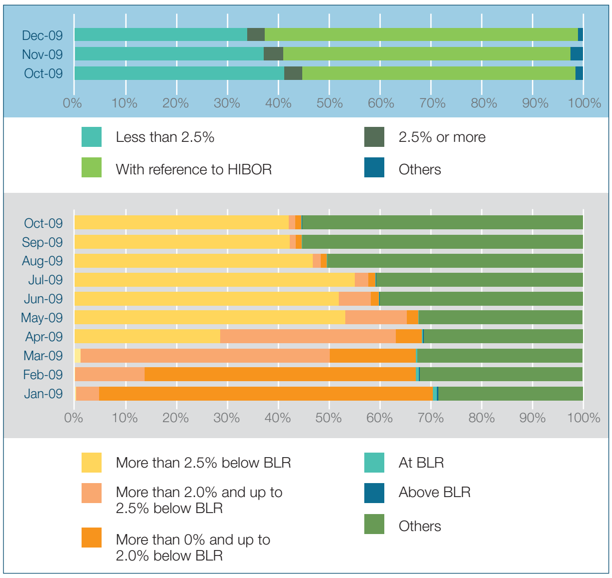


Source: Land Registry

Mortgage Market

The buoyant property market in 2009 made mortgage lending an attractive business particularly as banks had ample liquidity. Banks were aggressive in cutting interest rates to compete in the mortgage market which they perceived to be of low risk. According to the Monthly Residential Mortgage Survey conducted by the Hong Kong Monetary Authority ("HKMA"), the proportion of newly approved mortgage loans priced at more than 2.5% below the BLR was less than 1% in early 2009, but surged to around 40% by year end. Moreover, borrowers were increasingly inclined to opt for HIBOR-based mortgages to take advantage of the prevailing low HIBOR environment. As a result, the proportion of newly approved HIBOR-based mortgage loans climbed to a record high of 62% in December 2009 (Figure 4).

Figure 4:
Pricing of New Residential Mortgage Loans Approved

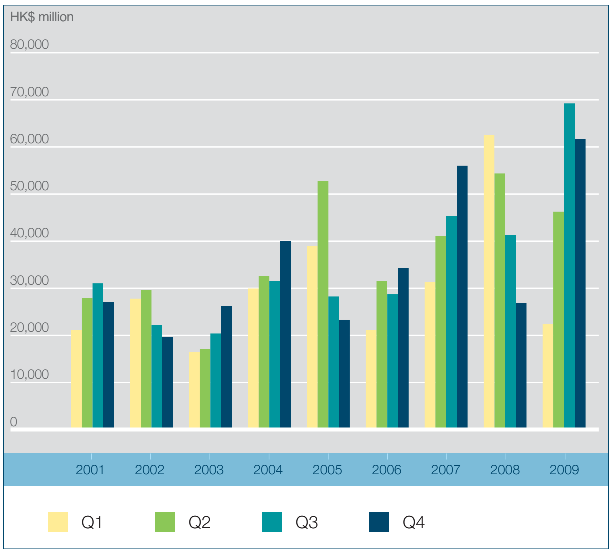


BLR: Best Lending Rate

Source: HKMA

In line with the buoyant property market activities, the mortgage loan origination volume also exhibited a prominent uptrend in 2009. The HKMA's Monthly Residential Mortgage Survey showed that the total outstanding value of overall residential mortgage loans registered a 7.4% increase to HK$698 billion at the end of the year (Figure 5).

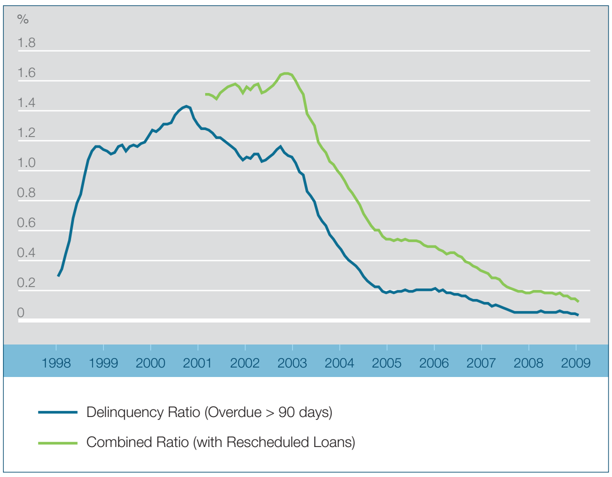
Figure 5:
New Residential Mortgage Loans Made



Source: HKMA

The asset quality of residential mortgage loans remained at high quality with low delinquency ratio in 2009, owing to the prudent underwriting standards adopted by industry practitioners and the effective regulation and monitoring of the mortgage market by the HKMA. According to the HKMA's survey, the delinquency ratio of mortgage loans overdue for more than 90 days remained stable at about 0.05% in the first three quarters of 2009 and trended down to 0.03% by the end of the year. The combined ratio, which takes into account both delinquent and rescheduled loans, declined from 0.19% in January to 0.12% in December 2009 (Figure 6).

Figure 6:
Delinquency Ratio of Residential Mortgage Loans

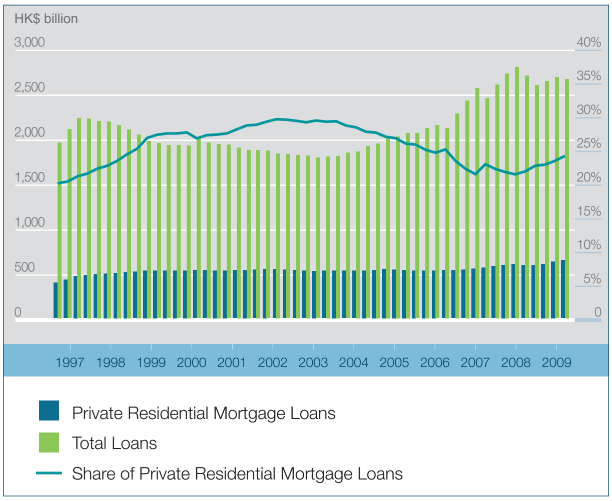


Source: HKMA

Banking Sector Exposure

Due to the rebound in banks' mortgage lending, the total outstanding value of mortgage loans for private residential properties rose to HK$647 billion at the end of 2009, up from HK$593 billion a year ago, accounting for about one-fourth of the total loans for use in Hong Kong (Figure 7). Taking into account the loans for building and construction, as well as property development and investment, the amount of property-related loans totalled HK$1,269 billion and represented about half of the total loan book of banks. Such a high exposure to property-related lending indicates that a sharp downturn in the property market could have an adverse impact on the overall stability of the banking system, although banks in Hong Kong in general have a strong capital base.

Figure 7:
Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Source: HKMA

Asset Acquisition

In 2009, the Corporation acquired a total of HK$8.8 billion of local and overseas mortgage assets.

Given the possible sharp increase in mortgage interest rate as global economy started to recover, the Corporation launched a special scheme under its Fixed Adjustable Rate Mortgage Programme promoting mortgage loans with fixed-rate periods ranging from one to 10 years in 2009, which was well received by homebuyers. The fixed-rate products primarily aimed at providing an alternative choice of financing to the borrowers, as well as allowing them to be shielded from future fluctuation in interest rates. The Corporation also successfully purchased the commercial mortgage loan valued at HK$4 billion under the Link REIT refinancing arrangement in 2009.

The Corporation concluded the fourth mortgage purchase transaction in the form of private bilateral mortgage-backed securitisation with a leading financial institution in Korea for an amount of HK$3.1 billion in 2009. The overseas mortgage purchase transactions are structured with very robust risk mitigation arrangements such as requiring a low loan-to-value ("LTV") ratio and a sizeable equity piece to be retained by the seller to take the first loss. Currency and interest rate risks are also fully hedged through cross-currency swaps.

Mortgage Insurance

Over the years, the MIP has repeatedly demonstrated its effectiveness in assisting potential homebuyers to overcome the hurdle of requiring a substantial down payment for the purchase of a property. From the perspective of the banking industry as a whole, the MIP allows banks to engage in higher LTV lending without incurring additional credit risk and affecting the overall stability of the banking system. In all, the programme creates a win-win situation for both the homebuyers and the banks.

Since its inception in March 1999, the MIP has gained increasing public acceptance and has played an instrumental role of promoting home ownership in Hong Kong. For 2009 as a whole, the volume of loans drawn down amounted to a record high of HK$36 billion and the usage rate (in terms of drawdown loan amount against total market mortgage drawdown) increased from 11% in 2008 to 18% in 2009 (Figure 8). It is notable that 90% of MIP applications received are for secondary market properties. The figure demonstrates that mortgage insurance is instrumental in assisting homebuyers in the secondary market.

Since 1999, the MIP has helped over 73,000 families to enjoy home ownership, with loan drawdown totalling over HK$151 billion. The average loan size under the MIP is HK$2.1 million, indicating that the MIP assists mainly first-time homebuyers in acquiring their homes.

Figure 8:
Mortgage Loan Amount Drawn Down and Usage Rate* of MIP

Source: HKMA and HKMC

* Usage Rate = Mortgage Loan Amount drawn down under MIP / Total Mortgage Loan Amount drawn down in the market based on HKMA's Monthly Residential Mortgage Survey

Refinements of MIP

In light of a sharp rise in the prices of the high-end residential property market, the Corporation took steps in October 2009 to tighten certain MIP eligibility criteria. The Corporation suspended the MIP coverage in respect of non owner-occupied properties and reduced the maximum loan amount to HK$12 million and HK$6 million for 90% and 95% LTV mortgages respectively.

On the other hand, the Corporation received good responses from banks and homebuyers on the Risk-based Pricing Scheme ("RBPS") launched in May 2006. With new access to the consumer credit data held by the credit reference agency, TransUnion Limited, the Corporation further expanded the scope of RBPS in December 2009 and increased the maximum premium discount level for 85% LTV mortgages to 30% and 90% LTV mortgages to 25%, and extended the RBPS to 95% LTV mortgages, granting homebuyers a premium discount up to 15%.

Training and Marketing

The Corporation keeps the MIP participating banks well informed of any new developments on the MIP and consults them on new initiatives. The Corporation regularly organises training seminars on MIP product features and eligibility criteria for banks and other market players such as estate agents and referral companies, so that their frontline staff can better understand and explain the details of MIP to their customers.

Joint Venture in Shenzhen

In July 2009, the Corporation started up its business in Shenzhen by establishing a guarantee company, Bauhinia HKMC Corporation Limited, which is a joint venture with Shenzhen Financial Electronic Settlement Centre, an entity operating under the supervision of the People's Bank of China.

At the initial stage, the joint venture company provides mainly short-term bridging mortgage guarantee for residential property transactions and refinancing in the secondary mortgage market. This strategy provides an opportunity for the Corporation to have a deeper and fuller understanding of the operation and risk management for the mortgage market in Shenzhen.

Apart from bridging mortgage guarantee, the Corporation will continue to explore suitable business opportunities, including other types of mortgage and non-mortgage guarantee products, as and when appropriate.

Joint Venture in Malaysia

Cagamas HKMC Berhad is a joint venture with Cagamas Berhad and incorporated in Malaysia in 2008. The joint venture provided mortgage guarantee on conventional and Islamic mortgage portfolios.

Funding

The local and global capital markets were adversely affected by the global financial crisis at the beginning of 2009. However, as the year progressed, various liquidity and stimulus measures implemented by the governments worldwide started to take effect, and the market stress began to ease. Debt market activities revived and credit spreads narrowed. Notwithstanding the volatile market conditions, the Corporation managed to secure prudent pre-funding to cater for loan purchases and refinancing. Given the Corporation's strong background as a wholly government-owned entity and its solid credit ratings, as well as investors' flight-to-quality inclination, the Corporation continued to be the most active Hong Kong dollar corporate issuer for the ninth year. In 2009, a total amount of HK$22.7 billion of debts were raised. At the end of 2009, the Corporation's total outstanding debt amounted to HK$44.5 billion.

The Corporation is committed to developing the local debt market through regular debt issuance and introduction of new debt products. As one of the most active bond issuers in Hong Kong, the Corporation will continue to issue debts in both local institutional and retail markets, and diversify its funding sources and investor base to overseas institutional markets. This will not only help to 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 ratings, the Corporation's debt issues are well received by the investing community such as pension funds, insurance companies, investment funds, charities, government-related funds as well as retail investors. The Corporation maintains a pro-active approach in updating investors regularly in the local and regional markets such as Mainland China, Japan and Singapore.

Debt Issuance Programme

The Debt Issuance Programme ("DIP") is the Corporation's main platform for raising Hong Kong dollar funding. The DIP was established in July 1998 targeting at institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion and subsequently increased to HK$40 billion in 2003. The DIP provides a flexible and efficient platform for the Corporation to issue debts and transferable loan certificates with tenor up to 15 years. Apart from plain vanilla debts, the Corporation also issued high quality structured products to meet the investor demand. A total of six Primary Dealers and 16 Selling Group Members appointed under the DIP provided wide distribution channels for both public and private debt issues.

During 2009, the Corporation drew down 51 DIP debt issues for a total amount of HK$15.5 billion. In June 2009, the Corporation issued 15-year callable zero coupon bonds for HK$1 billion, being the largest issue and the longest tenor in the local bond market, to meet the growing investors' appetite for long-term debt products in Hong Kong. At the end of 2009, the total outstanding amount of DIP debt securities was HK$30.6 billion.

Retail Bond Issuance Programme

The Corporation is dedicated to promoting the local retail bond market with an objective of broadening the Corporation's investor base outside 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 further spur the development of the retail bond market, the Corporation established the HK$20 Billion Retail Bond Issuance Programme and made a debut issue in June 2004. Under this programme, banks acting as Placing Banks use their retail branch networks, telephone and electronic banking facilities to place debt securities issued by the Corporation to retail investors. To ensure the liquidity of such retail bonds, the Placing Banks are committed to making firm bid prices for the bonds in the secondary market. 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 market environment is conducive, the Corporation aims to issue retail bonds regularly to provide an additional investment tool for Hong Kong retail investors.

Since 2001, the Corporation has issued a total amount of HK$13.7 billion retail bonds. At the end of 2009, the total outstanding amount of retail bonds stood at HK$1.9 billion.

Medium Term Note Programme

The Corporation established the multi-currency US$3 Billion Medium Term Note ("MTN") Programme in June 2007 to raise funds in the international market and to broaden its investor base and funding sources. The multi-currency feature of the programme enables the Corporation to issue notes in major currencies including Hong Kong dollar, US dollar, euro and yen to meet the demand of both local and overseas investors. All foreign currency denominated MTN debts are fully hedged into either US dollar or Hong Kong dollar. The programme incorporates flexible product features and offering mechanisms for both public issues and private placements so as to increase its appeal to investors with different investment horizons and requirements. An extensive dealer group comprising 10 major international and regional financial institutions has been appointed to support future MTN issuance and provide secondary market liquidity.

During 2009, the Corporation launched 11 MTN private debt issues, including debts denominated in US dollar and Singapore dollar, totalling HK$3.4 billion equivalent. The Corporation also made a debut public issue of US$500 million of debt securities under the MTN Programme, which was very well received by other government entities in the region, pension funds, insurance companies and investment funds. The issue has set a benchmark for other top-tier corporate bond issuers in Hong Kong, and has helped to develop the regional bond market at the same time. At the end of 2009, the total outstanding amount of MTN debts was HK$12 billion.

Revolving Credit Facility provided by the Exchange Fund

During the Asian Financial Crisis, the Exchange Fund through the HKMA extended a HK$10 billion Revolving Credit Facility to the Corporation in January 1998. The Facility aims at enabling the Corporation to maintain smooth operation under exceptional circumstances so that it can better fulfill its mandate of promoting banking and financial stability in Hong Kong. Whilst the Corporation obtains long-term funding from the local and international debt markets to fund its operation, the Facility stands as 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, which demonstrated the HKSAR Government's recognition of the importance of and further support to the Corporation.

The drawing of the Revolving Credit Facility in 2008 was used to partially fund the acquisition of Hong Kong residential mortgage assets from local banks amid the distorted capital market. During 2009, the Corporation fully repaid the amount drawn under the Revolving Credit Facility by using the funds raised from its cost-effective debt issuance.

Credit Ratings

The Corporation's ability to attract investment in its debt securities is underpinned by the strong credit ratings which are equivalent to those of the HKSAR Government accorded by Moody's and S&P.

Credit Ratings of the HKMC

	Moody's		Standard & Poor's	
	Short-term	Long-term	Short-term	Long-term
Local Currency (Outlook)	P-1	Aa2 (Positive)	A-1+	AA+ (Stable)
Foreign Currency (Outlook)	P-1	Aa2 (Positive)	A-1+	AA+ (Stable)

The credit rating agencies have made very positive comments on the credit standing of the Corporation. The following comments are extracts from the credit rating reports of Moody's and S&P after their annual surveillance in May 2009, and the rating affirmation report of S&P in August 2009:

Moody's

"There is strong intrinsic economic relationship between the HKMC and the HKSAR Government, given its status as a mortgage product provider and the importance of land and property in the Hong Kong economy."

"The expected high level of (government) support reflects the HKMC's status as a wholly-owned Government entity to carry out critical functions in enhancing financial and banking stability in Hong Kong by providing liquidity for the mortgage and property markets via banks and housing agencies, promoting home ownership, and spearheading the development of the debt and securitisation markets in Hong Kong."

"The HKMC's asset-liability management is well developed within the constraints of the local markets in terms of the availability of tools and long-term funding. Its ability to assess and manage risk has resulted in risk levels well within its own guidelines and, in some cases, superior to some of its larger international peers."

"Over the years, the HKMC has demonstrated a strong ability to secure funding, even when liquidity in the system had shrunk during unexpected circumstances thanks to special exemptions or privileges for its securities and its strong fundamentals."

S&P

"We affirmed the ratings to reflect the equalisation with the ratings on its sole owner, the Government of the Hong Kong Special Administrative Region. In our opinion, there is an almost certain likelihood that the Hong Kong government would provide timely and sufficient extraordinary support to the HKMC in the event of financial distress."

"On a standalone basis, the ratings reflect the HKMC's prudent credit risk management, strong liquidity, and satisfactory capital base."

"The HKMC has a traditional and generally prudent approach to risk management. Recognising credit risk as its focus of risk appetite, the Corporation has adopted stringent policies, a simple and effective business model and management structure, and various hedging tools to largely mitigate other types of risks."

"The HKMC's liquidity position is adequately managed... The Corporation also maintains a reasonably high level of liquid assets in the form of marketable debt securities, cash and bank deposits, which provides a liquidity fallback."

Mortgage-Backed Securitisation

The Corporation has established two mortgage-backed securitisation programmes for issuance of mortgage-backed securities ("MBS") in an efficient and effective manner. These two programmes – the Guaranteed Mortgage-Backed Pass-Through Securitisation Programme and the Bauhinia Mortgage-Backed Securitisation Programme – were the first-ever securitisation programmes set up in the Hong Kong debt market.

MBS are powerful financial instruments 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 risk, liquidity risk, interest rate risk and asset liability maturity mismatch risk. A deep and liquid MBS market can help to enhance the development of an efficient secondary mortgage market and further promote Hong Kong as an international financial centre.

The Corporation made no MBS issuance in 2009 due to a fall in investor demand and unfavourable market conditions following the global financial crisis.

Guaranteed Mortgage-Backed Pass-Through Securitisation Programme

This first MBS securitisation programme of the Corporation was established in October 1999 targeting at banks that not only wanted to off load mortgage loans but also wished to enjoy the benefits of holding MBS guaranteed by the Corporation.

The back-to-back structure under this programme allows the Corporation to acquire mortgage loans from a bank and then sell the mortgage loans directly to a bankruptcy remote special purpose entity ("SPE"). The SPE in turn issues MBS to the bank as investor of the security. Through this back-to-back exercise, the bank can convert illiquid mortgage loans into liquid MBS. Furthermore, as far as the capital adequacy requirement is concerned, MBS guaranteed by the Corporation are assigned a 20% risk asset weighting under the Banking (Capital) Rules as opposed to 35% - 100% for mortgage loans, thereby allowing banks to utilise their capital more efficiently. Since the inception of the programme, four series of MBS with a total amount of HK$2.8 billion have been issued.

Bauhinia Mortgage-Backed Securitisation Programme

The Bauhinia Mortgage-Backed Securitisation Programme established in December 2001 is a US$3 billion multi-currency mortgage-backed securitisation programme. The programme provides a convenient, flexible and cost-efficient platform for the Corporation to issue MBS with various product structures, credit enhancements and distribution methods. MBS issued under the Bauhinia Mortgage-Backed Securitisation Programme have the trading and settlement characteristics of a eurobond. Trading of the MBS in the secondary market is therefore made more convenient and efficient.

Since the inception of the Bauhinia Mortgage-Backed Securitisation Programme, the Corporation has successfully securitised HK$10.4 billion of mortgage loans through five public issues and one private placement issue. The debut MBS issue under the programme with a size of HK$2 billion was done in March 2002. The second issue of HK$3 billion done in November 2003 was the largest ever Hong Kong dollar denominated residential MBS. The third public issue of HK$2 billion, split into two portions for institutional and retail investors respectively, was done in November 2004. This was the first time in the whole of Asia that retail investors were given the opportunity to invest in MBS. The fourth MBS issue of HK$1 billion was done in November 2005. The fifth public issue of HK$2 billion, split into three senior tranches rated "Aaa/AAA" and one subordinated tranche rated "Aaa/AA", was done in November 2006. This was the first-ever partially guaranteed MBS under the programme.

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 discipline in 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. There were two important developments in the area of risk governance in 2009.

Corporate Risk Management Committee

To further strengthen the overall risk governance, the Board approved the establishment of a Corporate Risk Management Committee ("CRC") in December 2009 to manage all financial and non-financial risks from an enterprise-wide perspective. The CRC drives and monitors improvement efforts in governance, policies and tools. It also assigns priorities and responsibilities to individual departments in enhancing the risk management framework. The Committee is chaired by an Executive Director, with members including another Executive Director, Chief Executive Officer, Senior Vice President (Operations), Senior Vice President (Finance), General Counsel and Senior Vice President (Risk).

Risk Oversight and Management

The Board also approved the establishment of a risk division in 2009 to further enhance the corporate risk governance through strengthening risk oversight and risk management. It makes regular reports to the CRC and the Board on the key risk issues faced by the Corporation, relevant actions taken to address such issues, compliance with risk appetite and risk policies, general risk management practices and any necessary adjustments to the overall risk management framework of the Corporation.

The five major risk areas faced by the Corporation comprise credit risk, market risk, operational risk, legal risk and leveraging risk.

(a) Credit Risk

Credit risk is the primary risk exposure for the Corporation. It represents the risk of default by loan borrowers and counterparties.

(i) Default risk

To address default risk effectively, the Corporation adheres to a four-pronged approach to safeguard and maintain the quality of its asset and MIP portfolios:

- Careful selection of Approved Sellers/Servicers/Reinsurers
- Prudent asset purchase criteria and insurance application eligibility criteria
- Effective due diligence process
- Enhanced protection for higher-risk mortgages or transactions

Losses may arise if there is a shortfall in the recovery amount for defaulted loans under the Mortgage Purchase Programme ("MPP"). To mitigate such default risk, the Corporation has adopted a set of prudent loan purchase criteria and conducts effective due diligence review as part and parcel of the loan purchase process in order to maintain the credit quality of loans purchased. In addition, depending on the projected risk exposure of the underlying loan portfolio, credit enhancement arrangements such as reserve fund for absorbing credit losses will be agreed with the seller on a deal-by-deal basis so as to reduce the potential credit losses arising from the borrower's default.

Similarly, losses may also arise from default on loans under the MIP insurance coverage. Each MIP application is underwritten by the Corporation in accordance with a set of prudent eligibility criteria, and each claim from a participating bank will be audited by the Corporation to ensure the fulfillment of all MIP coverage conditions and to detect any fraud elements. As a result, the default risk for loans with MIP coverage is greatly reduced. To reduce possible concentration of such default risk, the Corporation transfers a portion of the risk-in-force to Approved Reinsurers by way of a reinsurance risk-sharing arrangement.

(ii) Seller/Servicer counterparty risk

Counterparty risk may arise from failure of a Seller/Servicer of an acquired portfolio to remit scheduled payments to the Corporation in a timely and accurate manner. The Corporation adopts a counterparty risk limit framework that limits the aggregate amount of assets it can purchase from the Approved Sellers. There are also individual limits on the maximum amount of assets that the Corporation can purchase from a counterparty. The risk limit framework acts as a good device for managing the counterparty exposure on the basis of risk profile of each Seller/Servicer and to avoid concentration of acquisition from a few sellers only.

(iii) Reinsurer counterparty risk

Reinsurer counterparty risk refers to the failure of an Approved Reinsurer to make claim payment to the Corporation. In order to mitigate counterparty risk effectively, the Corporation has established a framework for the assessment of mortgage reinsurers' financial strengths, credit ratings and relevant experience in mortgage insurance.

(iv) Treasury counterparty risk

Treasury counterparty risk arises when a delay or failure of treasury counterparties in making payment with respect to treasury instruments transacted with the Corporation. The Corporation adopts a prudent treasury counterparty limit framework, under which each potential treasury counterparty is assessed on the basis of its credit ratings, financial strengths, capability in treasury products, etc. Based on the evaluation results, a treasury counterparty limit will be assigned to each specific type of treasury instrument exposure.

(v) Control mechanism

Portfolio performance and analysis reports are compiled on a regular basis to provide Management with up-to-date information on critical credit risk indicators such as loan delinquency ratios, equity positions and cumulative credit losses, so as to enable timely review and swift responses to changes in the operating environment. Stress tests on the retained portfolio and mortgage insurance portfolio are conducted to analyse the Corporation's financial capability to weather extreme scenarios.

The counterparty limits of all Sellers and Servicers are subject to regular review whereby their financial strengths, management capabilities, loan servicing quality and transaction experience are taken into consideration for renewal and/or adjustment in limit. The limits for treasury counterparties are reviewed and adjusted on a regular basis based on their financial strengths, as well as the capital base of the Corporation. To date, the Corporation has not experienced any loss on a treasury transaction due to credit default by a counterparty.

The Corporation also performs annual review of Approved Reinsurers' financial strengths, business proposal, reinsurance arrangement and management capabilities. The result of the review is used for determining the on-going business allocation and risk-sharing portion.

(vi) Governance

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 is responsible for setting the Corporation's overall credit policies and eligibility criteria, particularly for asset acquisition and mortgage insurance. The Committee operates under the framework approved by the Board. It is the approval authority for accepting applications to become Approved Sellers/Servicers under the MPP and Approved Reinsurers under the MIP. It is also responsible for setting risk exposure limits for the counterparties. Should business and operating environment change drastically, credit policies will be immediately subject to review and timely measures based on the findings will be presented to the Committee for approval.

Transaction Approval Committee

The Transaction Approval Committee is the forum for in-depth analyses of pricing economics and associated credit risk for business transactions, taking into consideration the latest market conditions and business strategies approved by the Board. Major transactions approved by the Committee are subject to endorsement by an Executive Director.

The Credit Committee and the Transaction Approval Committee 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.

(b) Market Risk

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

(i) 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 or interest expenses associated with the assets and liabilities respectively.

The primary objective of interest rate risk management is therefore to limit the potential adverse effects arising from interest rate movements on interest income/expenses, while maintaining a 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 portfolio where the majority of the loans earn floating interest rate (benchmarked against the Prime rate, the HIBOR or Composite Interest 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 the issuance of MBS to manage the 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 with the floating-rate income from the 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, and vice versa. A positive duration gap means that the duration of assets is longer than that of the liabilities, and represents a greater risk exposure to rising interest rates. On the other hand, a negative duration gap indicates a 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"). A cap of three months for the duration gap has been set to limit the interest rate mismatch risk. In 2009, the average duration gap was kept at around one month, indicating that the Corporation handles interest rate mismatch risk in a very prudent manner.

Basis risk represents the difference in basis of the Corporation's interest-earning assets that are Prime-based and interest-bearing liabilities that are HIBOR-based. There are limited financial instruments currently available in the market to hedge the Prime-HIBOR basis risk fully. In general, basis risk can only be effectively addressed when mortgage assets and non-mortgage 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 the strategy of acquiring more HIBOR-based assets and as at the end of 2009, about 56% of the Corporation's mortgage assets and non-mortgage assets are HIBOR-based loans. As a result, the Prime-HIBOR basis risk for the Corporation has been substantially reduced. In addition, the issuance of Prime-based MBS and the use of hedging derivatives have also been deployed to mitigate the basis risk of the Prime-based portion of the Corporation's loan portfolio.

(ii) Asset-liability maturity mismatch risk

Even though the contractual maturity of a mortgage loan can go up to 30 years, the actual average life of a portfolio of mortgage loans is much shorter. The average life will depend on the speed of scheduled mortgage repayments and unscheduled prepayments. Higher prepayment rates will 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 sale of the underlying property; 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 received by the Corporation 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 will be 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 portfolio.

Reinvestment risk is managed through the on-going efforts to purchase new loans to replenish the rundown in the retained portfolio and through the investment of surplus cash in debt securities or cash deposits to fine-tune the average life of the overall pool of assets.

Refinancing risk is managed through the issuance of callable bonds and transferable loan certificates. 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 with that of the overall pool of assets. In this regard, the Corporation has the flexibility of issuing debt securities on a broad spectrum of maturities ranging from one month to 15 years. 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 and off-loading mortgage assets through securitisation of mortgage loans as MBS.

Asset-liability maturity gap ratio (ratio of average life of total interest earning assets to average life of total interest bearing liabilities) is used to monitor and manage the maturity mismatch risk, with a target ratio set by the ALCO to ensure a proper balance in the average life of the Corporation's assets and liabilities.

(iii) Liquidity risk

Liquidity risk represents the risk of the Corporation not being able to repay its obligations such as redemption of maturing debt or to fund the committed purchases of loan portfolios. Liquidity risk is managed through monitoring the daily inflow and outflow of funds and projecting longer-term inflow and outflow of funds across a full maturity spectrum. The Corporation measures its liquidity risk with a target liquid asset ratio (ratio of liquid asset to total assets) set by the ALCO to monitor and manage its liquidity position. The Corporation manages pre-funding prudently through well-diversified funding sources so that all foreseeable funding commitments can be 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 strategy of pre-funding at the lowest possible cost, whilst at the same time offering safeguards against the inability to raise funds in distorted market conditions. The current funding sources include:

- Shareholders' Capital: authorised capital of HK$3 billion, of which HK$2 billion is fully paid up. Accumulated shareholders' funds amounted to HK$6.7 billion as at 31 December 2009.

- HK$40 Billion Debt Issuance Programme: there are six Primary Dealers and 16 Selling Group Members which underwrite and distribute debts to institutional investors under the DIP. The Transferable Loan Certificate Sub-Programme under the DIP provides a further diversification of funding sources and broadening of 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 Medium Term Note Programme: there are 10 Dealers which underwrite and distribute local and foreign currency debts to the international institutional investors under the programme.

- US$3 Billion Bauhinia Mortgage-Backed Securitisation Programme: with a total of eight Dealers, this multi-currency mortgage-backed securitisation programme permits the Corporation to originate MBS in both the local and international markets.

- Cash and Debt Investment Portfolio: the portfolio comprises mainly cash and bank deposits, commercial papers, high-quality certificates of deposit and notes that can be readily converted into cash.

- HK$30 Billion Revolving Credit Facility: the Exchange Fund commits to provide the Corporation with HK$30 billion in revolving credit.

- Money Market Lines: the Corporation has procured money market lines from a large number of local and international banks for short-term financing.

Given the strong background as a wholly government-owned entity and solid credit ratings, the Corporation enjoys advantage in raising funds from the debt market with both the institutional and retail funding bases. This is supplemented by the Corporation's portfolios of highly liquid investments which are held to enable it to respond swiftly and smoothly to unforeseen liquidity requirements. The HK$30 Billion Revolving Credit Facility from the Exchange Fund further provides the Corporation with a liquidity fallback even when exceptional market strains last for a prolonged period of time.

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 positions, and has pursued prudent pre-funding strategy which has helped to contain the impact of the global financial turmoil on its liquidity.

(iv) 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 in strict accordance with the investment guidelines approved by the Board and under the supervision of the ALCO which sets daily monitoring limits on currency exposure. So far, the Corporation has primarily limited its net foreign currency exposure to US dollar only.

The Corporation does not speculate in foreign currencies and all the foreign currency exposure in the asset-liability portfolio must be fully hedged into either Hong Kong dollar or US dollar. In accordance with this prudent risk management principle, the net exposure of the foreign currency denominated debts issued under the MTN Programme and the overseas residential mortgage loans purchased were fully hedged with the use of cross-currency swaps.

(v) Control mechanism

Transaction execution is segregated among 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 Financial Control Department assumes the middle office role and 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 payment process.

(vi) Governance

Asset & Liability Committee

The ALCO manages the Corporation's asset-liability portfolio based on prudent risk management principles. It has the authority to set market risk management policies and limits to facilitate day-to-day market risk management. Regular meetings are held to review the latest financial market development and the asset-liability portfolio mix. Furthermore, it also oversees the implementation of risk management and investment guidelines approved by the Board.

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.

(c) Operational Risk

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

(i) Control mechanism

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

The Corporation actively manages operational risk through its comprehensive systems with well-established internal controls, authentication structure and operational procedures. Operational infrastructures are well designed to support launch of new products in different business areas, including asset acquisition, mortgage insurance, treasury operations, bond issuance, securitisation and overseas business. Rigorous review to identify possible operational risk and to ensure adequate segregation of duties will be conducted before the implementation of operational or system infrastructure.

To prevent potential human errors and to ensure efficient and effective discharge of daily operations, the Corporation pursues advanced technological solution with robust business logics 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 as they are critical to business operations and risk management.

The Corporation has taken careful steps to institute adequate checks and balances in financial controls to ensure its operations are properly directed and controlled. Effective financial controls also help to minimise the financial risks and safeguard the assets against inappropriate use or loss, including prevention and detection of fraud.

The Corporation's Information Security Manual ("ISM") documents security standards and practices relating to information and data security for observance by all staff. All system security measures must follow the requirements stated in the ISM. The Corporation implements various security measures, such as double firewall protections, intrusion detection systems, virus alert and quarantine system, and vulnerability scanning system so as to minimise its exposure to external attacks. Internally, the Corporation also has a virtual Local Area Network and workstation security policies to reduce the damages in the event of a malicious intrusion. The Corporation engages external consultants for testing out the intrusion vulnerability in order to enhance system security as appropriate.

To ensure a high degree of compliance, the Corporation's core operating systems and processes are subject to regular audit and review by internal and external auditors. Furthermore, all staff are required to sign an undertaking to comply with the requirements in the ISM every year. The ISM is updated whenever there is a new security measure or a new system. Any changes to the ISM require Senior Management's approval.

To ensure the business recovery procedures are practical and to facilitate continuous improvement, a business recovery drill is conducted by both IT and user departments every year. Daily back-up and off-site storage of back-up tapes are put in place to protect the Corporation from IT disasters.

(ii) Governance

Operational Risk Committee

In December 2009, the Board approved the establishment of the Operational Risk Committee ("ORC") as a formal platform to bring all operational risk items, as well as legal risk of the Corporation, under regular review and monitoring.

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 in the relevant functional departments.

(d) Legal Risk

Legal risk is the risk arising from uncertainty in the application or interpretation of laws, regulations and legal documents, or failure to comply with the statutory, regulatory or legal obligations.

(i) Control mechanism

The Legal Office, headed by General Counsel and 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 regulatory environment, as well as the legal documentation, and identify possible legal pitfalls with a view to protecting the best interests of the Corporation. Where appropriate, external counsel will be engaged to assist the Legal Office in providing full legal support to the Corporation. The Legal Office works closely with the other departments of the Corporation and advises on legal issues and documentation.

The General Counsel and Company Secretary ensures that company secretarial arrangements, for example, arrangements relating to the holding of Board meetings and general meetings, distribution of Board papers, passing of resolutions and maintenance of meeting minutes etc., comply with the applicable laws and regulations, as well as the constitutional documents of the Corporation and the Code on Corporate Governance. The General Counsel and Company Secretary also provides advice and support to the Directors with a view to ensuring that best practices relating to Board procedures, avoidance of conflicts of interest and other aspects of corporate governance are observed.

(ii) **Governance**

The ORC is the governance committee for legal risk.

(e) Leveraging Risk

To ensure the Corporation will not engage in excessive leveraging in expanding its business activities to over a certain proportion of its capital base, the Financial Secretary of the HKSAR Government has issued Guidelines on the Capital-to-Assets Ratio ("CAR") of the Corporation. The minimum CAR stipulated in the Guidelines is 5%.

In accordance with the capital requirement laid down in the Guidelines, the maximum leverage of the Corporation should be maintained at a healthy and low level. As at 31 December 2009, the Corporation has a capital base of HK$6.3 billion and a CAR at 9.5% which is well above the minimum requirement of 5%.

Capital adequacy and prudent use of regulatory capital are monitored daily by Management in accordance with the Guidelines issued by the Financial Secretary. The Chief Executive Officer is required to submit a quarterly report to the Board by reference to the Guidelines. An early warning system will alert Management when the ratio drops below 6%. Any breach or likely breach of the Guidelines must be reported to the Financial Secretary.

Process Management and Information Technology

A well-tested operational framework supported by robust and innovative business processes, system automation and control are the key to ensure efficiency and effectiveness in the Corporation's daily operations. Throughout the past decade, the Corporation has devoted significant resources to developing and upgrading its business operations, internal control and application systems to support its missions and strategies.

In 2009, the Corporation started to revamp its treasury system infrastructure. The new solution aims to bring in further enhancement on the timeliness of developing new treasury and hedging products, better risk management integration across various products, counterparts and regions, better integration and more reliable collaboration between the front, middle and back offices, as well as more robust and responsive adaptations to meet with the future regulatory and reporting requirements. It is expected that the new treasury system will be launched in the first quarter of 2011 after a comprehensive trial.

To monitor the quality of overseas assets, a dedicated application system, namely the Portfolio Information Processing System, was put in place in 2008. The system produces management reports and helps to verify massive loan data for analytical and effective monitoring purposes. Moreover, the Corporation has continued to strengthen the MIP processing systems to further streamline the underwriting and servicing operations, and to cater for introduction of new products and risk management initiatives.

Riding on the Corporation's know-how and expertise on document imaging and paperless operations adopted for the MIP operations, the Corporation will establish an IT infrastructure to streamline the treasury and mortgage operations in order to better cope with the increasing transaction volume and sophistication. This automation on indexing, filing and retrieval of vast amount of paper documents is essential to upgrade the current platform for timely transaction management and operational control. It will also provide the extra benefit of unifying the filing and retrieval process for the straight-through-processing of trade confirmations, securities settlement, payment authentication and document storage. This scalable infrastructure can be extended to document imaging needs for other new business operational areas in future.

To support the joint venture in Shenzhen, the Corporation has set up a dedicated project team to identify the operational risks and design the operation infrastructure, internal control systems and IT infrastructure to enable the commencement of business in September 2009. Continuous enhancements have been made to strengthen the internal control and process automation to meet with the operational and business needs. The process management team of the Corporation will continue to work with the local expertise in Shenzhen to further improve the operational infrastructure in 2010.

Business Continuity Plan

The Corporation has conducted a comprehensive review by integrating the disaster recovery plan and the business continuity plan of respective business and operational units into the corporate-wide business continuity plan which provides a robust decision-making and reporting framework in response to any disastrous event that may result in damages to any of the three core resources of the Corporation, namely office premises, information systems and human resources.

The Corporation has also expanded its off-site back-up and disaster recovery centre to enhance the resilience of its business operations and to ensure that its IT systems can continue to operate even in the event of a core system failure or other unexpected major disruptions. In case of a contingency situation that restricts staff access to its main office in Central, a certain portion of the staff members will be arranged to work from home with remote computer access to continue the key operations. The corporate business continuity plan and the above operational risk mitigation measures are reviewed and tested annually with staff participation so as to strengthen the staff's readiness and operational robustness.

Corporate Social Responsibility

In recognition of the Corporation's contributions to the community and its commitment to corporate social responsibility in the past year, the Hong Kong Council of Social Service awarded the Corporation with the honour of "Caring Organisation 2009/10" under its Caring Company Scheme for the second year.

同心展關懷
caringorganisation 2008-10
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

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

Caring Company Recognition Ceremony

Care for Employees

Staffing and Remuneration

With the Corporation's core missions in enhancing stability of banking sector, promoting wider home ownership and facilitating the development of debt securities market, it attracts and grooms talents in its key business areas of mortgage purchase, mortgage insurance and debt issuance. The Corporation provides employees with competitive remuneration packages and fringe benefits, promising career path and development opportunities, as well as a healthy and safe working environment. It also adopts family-friendly practices by offering a five-day week to help the employees maintain a good work-life balance, as well as comprehensive medical and dental insurance plans which cover both the employees and their family members.

Through system automation and process re-engineering, the Corporation has maintained a lean and efficient workforce, notwithstanding the increase in the scope of purchases and the complexity of the products it offers. The permanent establishment of the Corporation was 144 and the staff turnover rate was 6.61% in 2009.

Training and Development

The Corporation recognises the importance of on-going trainings and has devoted considerable resources to enhancing its employees' professional knowledge and skills continuously. In 2009, the Corporation arranged both internal and external courses to help the employees improve their managerial and technical skills. The in-house training sessions covered a range of topics from credit default swap and legal knowledge, to self-development and Putonghua, while the external courses covered various topics such as mortgage-related issues, credit management, risk management, finance and accounting, corporate governance, information technology and management skills. In addition, all new staff members were provided with an induction session which would give them an overview of the Corporation's operations as well as their specific scope of work.

Self-Development Workshop

Credit Rating Training

Health and Safety

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

The Corporation has further reviewed and strengthened its contingency plans, such as a split-team arrangement, to ensure a swift response to a possible outbreak of influenza pandemic. The contingency plans aim to prevent the spread of communicable diseases among the employees and to minimise any unexpected or sudden disruption to the business operations. Periodic drills are organised to make sure the staff are conversant with the activation of the back-up facilities, the contingency plans and the communication arrangements in case of emergency.

Employee Relations and Staff Activities

To promote a better work-life balance and foster a family-friendly working place, the HKMC Staff Club, composed of members from various departments, regularly organises different staff activities to cultivate better relationships and communication among the employees. The activities, such as Bowling Fun Day, staff gatherings and sharing sessions are well received by the employees and their family members. The Corporation also participates in friendly table tennis and soccer games with other organisations for the enjoyment of staff and building team spirit.

To ensure effective communication within the Corporation, the Staff Homepage of the Corporation's intranet is frequently updated to facilitate sharing of useful information across different departments. There is also a Staff Suggestion Scheme which encourages staff members to make suggestions on how to improve the work flow and the work place.

Bowling Fun Day

Care for the Community

Charity and Social Activities

The Corporation strongly encourages staff to support charity and fund-raising activities. In 2009, the Corporation staff made donation to the victims of a typhoon disaster in Taiwan. Other charity donation campaigns during the year included the Dress Special Day and the Walk for Millions for the Community Chest, and a fund-raising event for education projects in the Mainland China. Same as the previous years, Blood Donation Day for the Hong Kong Red Cross was also held in 2009.


Voluntary Service – Visiting the Elderly


Flag Day


Dress Special Day


Walk for Millions

In addition, the Corporation partnered with some social service organisations to take part in a number of voluntary services in 2009, including a Flag Day organised by the Hong Kong AIDS Foundation, and visits to the elderly and low-income families organised by the Salvation Army. The Corporation staff members are keen to participate in various voluntary services by devoting their time and effort to showcase their concern for the needy in the society.

Among the active volunteers in the Corporation, Alex Luk, Amy Wong and Cherry Lo would like to share their experience and thoughts on their contributions to voluntary services:

"My family joined a charity programme and an eleven-year-old boy, Xiao Tao, from Henan came to stay at our home during the Lunar New Year in 2009. Xiao Tao's parents died of AIDS when he was still a toddler. During his stay, we not only provided him with accommodation and new clothes, but also our care and concern, which I think was the most important. Although Xiao Tao only stayed with us for a short time and we couldn't do much to change the plight he was living in, I still hope our sincere concern could give him some comfort and encourage him to fight against the challenges. On the day when Xiao Tao left, I encouraged him to study hard and asked him to write to me. I hope all of us can help build a brighter future for the children."

Alex Luk
Information Technology Department

"In February 2009, nine months after the devastating Sichuan earthquake on 12 May 2008, I joined a volunteer team which aimed to provide medical services and rehabilitation trainings to the earthquake survivors in Sichuan. The team consisted of physiotherapists, nurses, social workers and other professionals. I was responsible for providing administrative support.

The area we visited abounded with people who had lost their beloved families and properties, and many of them became crippled during the tragedy. Most of them were still living in temporary partition houses and tents during the freezing winter. Despite the adversity, the victims did not show any signs of succumbing. On the contrary, they displayed a great degree of perseverance, resilience and aspiration for a new life in their efforts to rebuild homes. Those hopeful faces and grateful smiles deeply touched my heart, reminding me how lucky I am. I wish I could have chances to visit them again in the future."

Amy Wong
Risk Management Department

"Since 2003, I have been serving as a volunteer for the Senior Citizen Home Safety Association and the Hong Kong Red Cross First Aid Team. My target groups are the elderly, the handicapped, children and people from broken families. I find it very meaningful to help the people in need, and am very happy that I have built a close bonding with the other volunteers from all walks of life.

Most of the Hong Kong people are living in affluence, but there are still many fighting against poverty, who need the care, support and help from the society. Although I am not as great as Mother Theresa, I often remind myself of not missing any chance to help the others."

Cherry Lo
Operations Department

Student Programmes

To help nurture talents for the future, the Corporation provides a number of internship and placement programmes for undergraduates so that they can have a taste of the real business world and better prepare themselves for their future career. The students who have joined the progarmmes are all very pleased with the valuable learning and working opportunities they have been exposed to.

Environmental Protection

The Corporation has continuously supported and implemented various green measures to make the office more environmentally-friendly. It has strived to raise the staff awareness of waste reduction and energy conservation. Employees are encouraged to adopt a paperless working practice by using more electronic communication means. They are also encouraged to collect waste paper and used toner cartridges for recycling, as well as to switch off their computers before they leave the office every day. Since 2006, the Corporation has undertaken new measures to better control the office temperature in the interest of energy efficiency. The Corporation welcomes its staff to make suggestions for a greener office and encourages its suppliers to use or offer more environmentally-friendly products whenever possible.

2010 Outlook

While the economy is gradually recovering from the global financial crisis, the prospect of a double dip recession cannot be ruled out. The Corporation will continue to play its critical role as a liquidity provider to promote banking and financial stability in Hong Kong. It will also continue to promote home ownership for Hong Kong families through enhancement of its MIP to better serve the homebuyers and the banking sector.

The Corporation will also focus on developing new mortgage products in Hong Kong to complement Government initiatives and meet the needs of society. It will also keep on contributing to the development of debt and securitisation markets through regular issuance and product innovation.