

Chairman's Statement

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Embarking on new businesses in furtherance of core missions and social objectives.



Chan Mo-po, Paul
Chairman

Global economic growth continued into 2018 but started to lose momentum in the second half of the year. The trade conflict between the U.S. and China weighed on economic sentiments around the world, and its impacts on international trade flows and investment activities were increasingly felt. Against this backdrop, global market volatility was heightened along with ongoing monetary policy normalisation in the U.S. as well as across other major economies. Growth momentum in many Asian economies slowed in the second half of the year, as the impact of moderating global economic growth and the U.S.-China trade tension gradually surfaced.

In Hong Kong, despite that our economy decelerated visibly in the second half of the year, we still managed to record another year of above-trend growth for 2018 as a whole. Following a moderate local interest rate hike and the HKSAR Government's announcement of numerous initiatives and policies to increase land and housing supply, the buoyant residential property market in Hong Kong consolidated somewhat towards the year end.

Purchase of Mortgage Assets

The Group purchased mortgage assets of about HK\$287.7 million in 2018 (2017: HK\$316 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 banking and financial stability of Hong Kong, the Group stands ready to purchase mortgage loans from the banking sector should the need arise.

Promoting Development of Debt Market

The Group 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 2018, the Group issued debt securities in different currencies (with tenor of one year or above) totalling around HK\$12.4 billion to fulfil its refinancing needs and support its business activities. The Group also attained a credit rating of AA+ from Standard & Poor's and Aa2 from Moody's, same as those of the HKSAR Government.

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, the MIP has been fostering wider home ownership in Hong Kong in the pursuit of the Group's core missions by making home purchase more affordable and accessible. The Group has thus far assisted more than 141,600 families to buy their own homes, demonstrating immense popularity of the MIP. In 2018, demand for the MIP remained steady and the total amount of mortgage loans drawn down under the MIP was HK\$32.5 billion (2017: HK\$32.3 billion).

Continuing Support for Small and Medium Enterprises

Hong Kong is home to about 340,000 small and medium enterprises (**SMEs**), constituting almost the entire community of local enterprises. The HKSAR Government remains committed to supporting SMEs by extending the offering period for the 80% guarantee product of the SME Financing Guarantee Scheme (**SFGS**) under the entrusted operation of the Group. The SFGS provides a useful platform to help SMEs obtain bank financing in order to grasp economic opportunities and boost their competitiveness. During the year, the Group maintained close and fruitful communication with participating banks, SME associations as well as commerce and industry chambers to enhance public awareness and understanding of the SFGS. As at the end of 2018, the Group has approved more than 14,500 applications for a total loan amount of about HK\$58.5 billion, and more than 8,500 local SMEs with more than 224,700 employees have benefitted from the SFGS so far.

Providing Homeowners with More Retirement Financing Options

The Group launched its Reverse Mortgage Programme (**RMP**) in 2011 to provide homeowners with a new financial planning option to secure a stream of steady cash flow on retirement. The RMP was extended 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. With the successful implementation of the Group's ongoing and focused educational initiatives, market receptiveness of the RMP has grown continuously. The business recorded a solid growth in the number of applications received in 2018 by 7.5% as compared to 2017. In the light of stronger public awareness of retirement planning, the Group will continue to deliver on its mission and promote the development of retirement planning market to cater for the needs of retirees and the public.

Facilitating Better Retirement Planning

A better retirement planning is of utmost importance to sustaining the quality of living after retirement. To provide an alternative retirement financial solution, the Group ventured into a new business initiative and launched the HKMC Annuity Plan (**Plan**) in July 2018 with the aim of facilitating retirement planning and promoting the development of the local annuity market. The Plan helps the elderly turn their lump sum cash into a stream of fixed monthly income for life. Stimulated by the inaugural launch of the Plan, the local annuity market saw a rapid growth for the year. In response to market feedback, the second launch took place in December with enhancements to the Plan offering greater financial protection, more flexible product features as well as an open application period to allow policy purchase at any time. By the end of the year, a total of 5,422 policies were issued under the Plan with a total premium receipt of around HK\$2.8 billion and an average premium receipt of around HK\$513,000 for each policy.

Financial Performance for 2018

Profit attributable to shareholders technically dropped to HK\$127 million (2017: HK\$806 million), mainly reflecting the accounting loss due to the Group's new annuity business for maintaining prudent statutory reserves, the absence in 2018 of a non-recurring investment disposal gain for 2017, and resources utilised for supporting certain policy initiatives of the HKSAR Government. Notwithstanding its reported accounting loss, the embedded value of the annuity business was about HK\$5.2 billion, indicating that the business should be profitable in the long term.

The capital adequacy ratio stood solid at 26.8% (2017: 21%) so as to preserve capital for business development. The respective solvency ratios of the Group's two insurance subsidiaries were about 42 times for general insurance business and 34 times for annuity business, each well above the relevant minimum regulatory requirements.

Outlook for 2019

Looking ahead, the global financial markets will be subject to considerable uncertainties arising from moderating global economic growth, the U.S.-China trade conflict and other macroeconomic and geopolitical factors. While the Federal Reserve suggested in March that it would slow down the

pace of interest rate adjustment and end balance sheet run-off in September, the future course of U.S. interest rates would still be data-dependant and remain uncertain. Market expectations may vary with the economic environment, resulting in greater fluctuations in the global financial markets. The uncertain global economic outlook will restrain Hong Kong's economic performance, and the local financial and assets markets will also be subject to risk of fluctuations. The Group will conduct new and existing businesses prudently in furtherance of its core missions and social objectives.

Finally, I would like to express my heartfelt gratitude to fellow Board Directors, the Management and staff for their dedicated work and tremendous support.



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