Business Review

Business Review

Performance Highlights

The major achievements of the Group for the year included:

- helping homebuyers borrow a total of HK$32.5 billion in mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving 3,064 applications since the launch of the Reverse Mortgage Programme (**RMP**), with an average property value of around HK$5.3 million
- issuing a total of 5,422 policies, since the launch of the HKMC Annuity Plan in July 2018, with total premiums received at around HK$2.8 billion and the average premium amount at around HK$513,000, as at the end of 2018
- to further alleviate the financing burden of local small and medium-sized enterprises (**SMEs**) and assist them in obtaining financing, the application period for the 80% guarantee product under the SME Financing Guarantee Scheme (**SFGS**) extended to end-June 2019, with enhancement measures taking effect from 19 November 2018
- since the launch of the 80% SFGS in May 2012, the Group had approved more than 14,500 applications for loans amounting to HK$58.5 billion. More than 8,500 local SMEs and more than 224,700 related employees have benefited under the SFGS
- approving loans totalling HK$53.0 million under the Microfinance Scheme (**MFS**) since its inception to business starters, self-employed people from different backgrounds and professions, and those wanting to achieve self-improvement through education and training
- approving 12 applications since the launch of the Premium Loan Insurance Scheme (**PLIS**), with an average property value of around HK$4 million
- establishing the Infrastructure Financing and Securitisation (**IFS**) Division to implement the IFS business
- purchasing about HK$287.7 million of loan assets
- issuing HK$12.4 billion of debt securities, with a maturity of one year or above, in a cost-effective manner, thus promoting the development of the local debt market and maintaining the Group's position as one of the most active issuers in Hong Kong
- maintaining the Group's long-term foreign and local currency ratings of AA+ by S&P Global Ratings (**S&P**) and Aa2 by Moody's Investors Service, Inc. (**Moody's**)
- safeguarding excellent credit quality, with over-90-day delinquency ratios of 0.002% for the mortgage insurance portfolio, 0.02% for the Hong Kong residential mortgage portfolio (same as the industry average of 0.02%), 1.28% for the microfinance loan portfolio and 0.02% across all asset classes as at 31 December 2018

The Group maintained a solid financial position in 2018:

- profit attributable to shareholders of HK$127 million
- net interest margin of 1.1%
- return on shareholders' equity of 0.9%
- cost-to-income ratio of 86%
- capital adequacy ratio of 26.8%, which is well above the minimum requirement of 8% stipulated by the Financial Secretary

Market Overview

General Economic Conditions

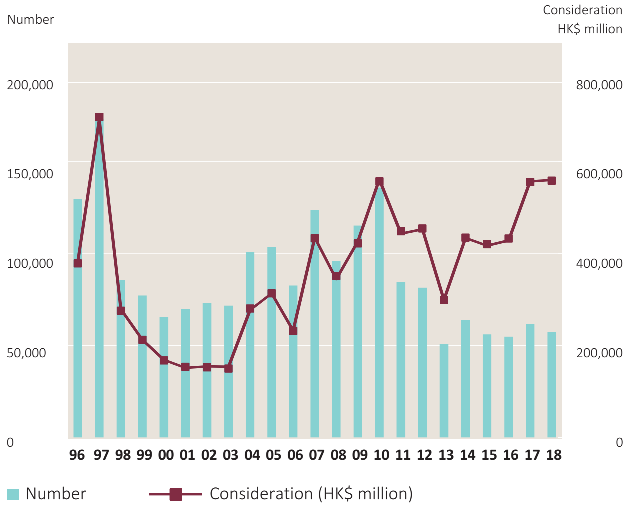
Global economic growth continued at the start of 2018 but started to lose momentum in the second half of the year as the trade conflicts caused by the US-China trade war intensified and weighted on the global economic sentiments with consolidations in major stock markets and slower economic growth in Europe and Asia. As such, global market volatility was heightened alongside the ongoing monetary policy normalisation in the U.S. as well as across other major economies. Moreover, capital outflow and currency depreciation pressures in Asia became significant in the second half of the year. In 2018, the Mainland's economic growth remained largely stable as it continued the structural reform to promote economic upgrading and transformation. Against this backdrop, the Hong Kong economy grew modestly during the year at 3% year-on-year in real terms.

Property Market

Hong Kong's residential property sentiment stayed strong in the first half of 2018. Both the transaction numbers and considerations of transactions rose to interim peaks in June, with increases of 27.4% and 36.6% recorded respectively from January. However, subsequent to the Government's announcement about new initiatives on housing in late June, together with an interest rate hike in September, the property market started to consolidate in the third quarter. Relatively weak performance in the stock market and the uncertainties caused by the US-China trade war in the fourth quarter caused the transactions of residential properties to drop drastically by 69.3% from June to December. Overall, the number of residential property transactions in 2018 decreased by 7.1% year on year to 57,247, while the consideration of transactions recorded a 0.5% year-on-year increase **(Figure 1)**.

Figure 1

Agreements for Sale and Purchase of Residential Building Units

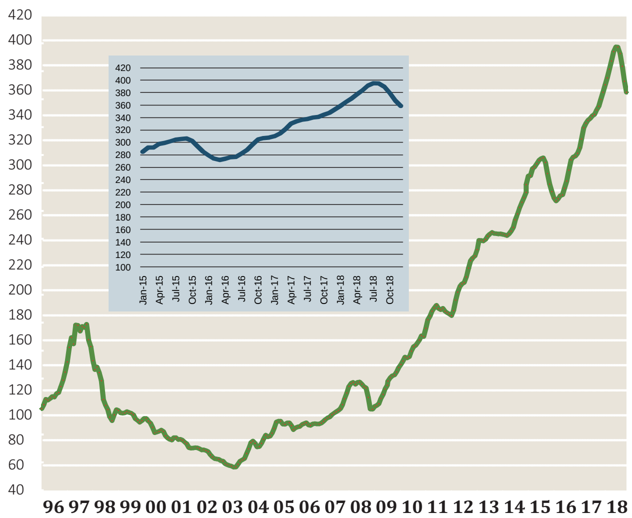


Source: Land Registry

The transaction volume in primary and secondary markets rose continuously from the start of the year until July, after which it showed a downward trend till the year-end. In general, residential property prices[1] recorded a 1.6% cumulative increase in 2018, compared with a 14.8% increase in 2017, and had surpassed the 1997 peak by 107% as at the end of 2018 **(Figure 2)**.

Figure 2

Private Domestic Price Index (1999 = 100)



Source: Rating and Valuation Department

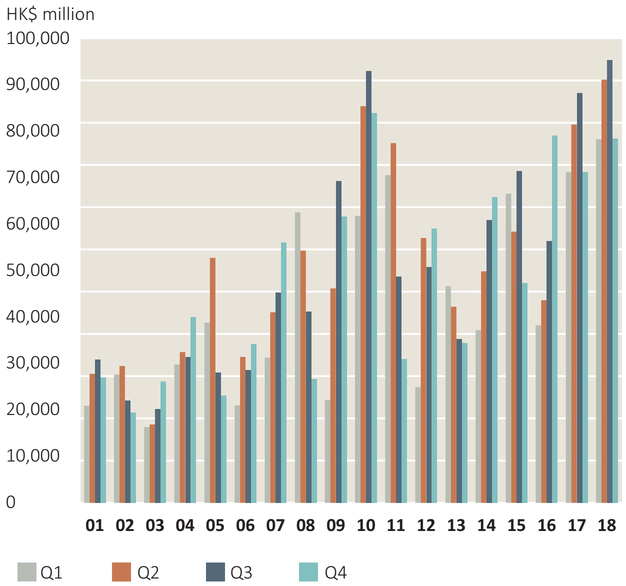
[1] Source: The Private Domestic Price Index published by the Rating and Valuation Department

Mortgage Market

Overall, the mortgage rate in Hong Kong stayed low in 2018. For the first time in 12 years, the Best Lending Rates (**BLRs**) increased from 5% and 5.25% to, respectively, 5.125% and 5.5% in September, while the Hong Kong Interbank Offered Rates (**HIBORs**) remained high throughout the year. According to the HKMA Monthly Statistics Bulletin, the one-month HIBOR in terms of period average[2] fluctuated within a range of 0.78% to 2.21% during the year. Mortgage lending recorded steady growth, with the total outstanding value of all residential mortgage loans rising moderately by 8.9% to HK$1,372.13 billion. The gross value of new loans drawn down[3] increased slightly by 9.9% year on year in 2018, compared with an increase of 43.6% in 2017 **(Figure 3)**.

Figure 3

New Residential Mortgage Loans Drawn Down

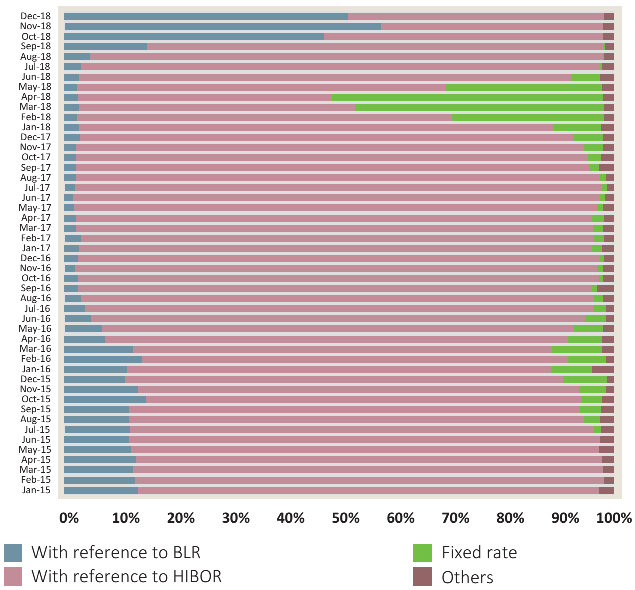


Source: Hong Kong Monetary Authority

The proportion of new mortgage loans approved that are benchmarked against the HIBOR dropped from 86.2% in January to 46.3% in April due to an increase in the proportion of fixed-rate plans at the start of 2018. Since no banks had been offering fixed-rate plans since the second quarter, the proportion of new mortgage loans using the HIBOR started to rise in April, reaching 93.5% in August, but this began to consolidate in the fourth quarter. By the end of 2018, BLR-based and HIBOR-based mortgages were occupying the majority of the market share, accounting for 46.6% and 51.6% respectively **(Figure 4)**.

Figure 4

Pricing of New Residential Mortgage Loans Approved



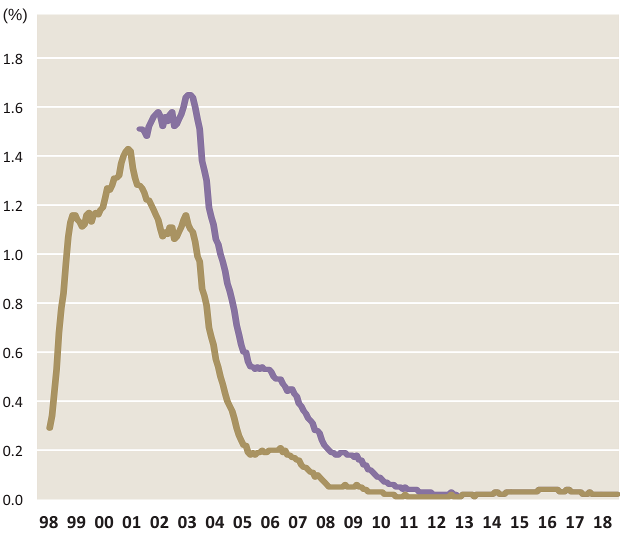
Source: Hong Kong Monetary Authority

[2] Source: HKMA Monthly Statistical Bulletin
[3] Source: HKMA's Monthly Residential Mortgage Survey (**HKMA Survey**)

Under a stable labour market and the HKMA's prudent supervision of the mortgage lending sector, the asset quality of residential mortgage loans remained excellent in 2018. The over-90-day delinquency ratio of mortgage loans stayed at 0.02% throughout the year, reflecting banks' prudent underwriting standards. The combined ratio, which takes into account both delinquent and rescheduled loans, also remained low, staying at 0.02% during the same period **(Figure 5)**. The estimated number of residential mortgage loan in negative equity as at end-December 2018 was 262 cases, with an aggregate value of HK$1,189 million recorded[4].

Figure 5

Delinquency Ratio of Residential Mortgage Loans



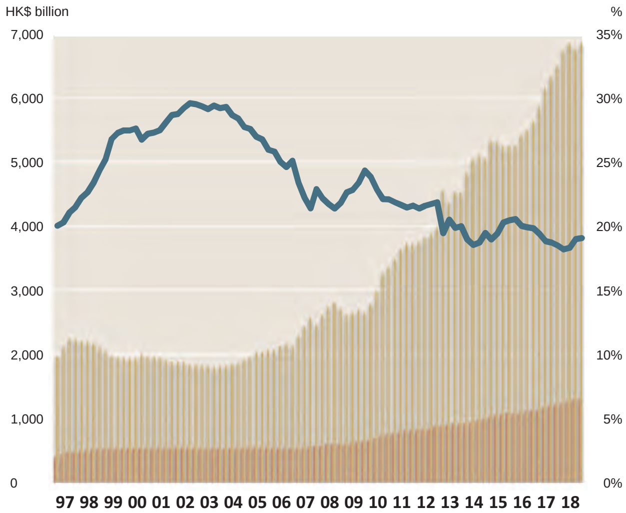
Combined Ratio (with Rescheduled Loans)
Delinquency Ratio (Overdue > 90 days)
Source: Hong Kong Monetary Authority

Banking-sector Exposure

The total outstanding value of mortgage loans for private residential properties [increased] to HK$1,313.8 billion at the end of 2018 (end-2017: HK$1,208.2 billion), accounting for one-fifth of total loans in Hong Kong **(Figure 6)**. Adding to this lending for building and construction, along with property development and investment, the value of property-related loans totalled HK$3,855.77 billion, representing about 41.6% of banks' total loan books. The outstanding value of mortgage loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme increased to HK$58.38 billion by the end of 2018 (end-2017: HK$51.3 billion).

Figure 6

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Private Residential Mortgage Loans Total Loans
Share of Private Residential Mortgage Loans
Source: Hong Kong Monetary Authority

[4] Source: HKMA Survey

Asset Acquisition

While the ample liquidity in the market has led to weak incentives for banks to offload their assets, the Group is prepared to provide liquidity to the market as and when required. In 2018, the Group acquired about HK$287.7 million of assets, which included residential mortgage loans.

Funding

Global growth remained moderately strong in 2018 though there is less synchronicity of economic momentum across countries. Nevertheless, rising trade tensions and the continued monetary policy normalisation by the US Federal Reserve led to a reversal in international capital flows and an increase in global financial market volatility. Despite the challenging market conditions, the Group managed to secure prudent pre-funding for loan purchases and refinancing activities. Given the Group's strong background as a wholly government-owned entity and its solid credit rating, the Group raised debt totalling HK$12.4 billion, with a maturity of one year or above, in 2018. At the end of the year, the Group's total outstanding debt amounted to HK$37.3 billion.

The Group is committed to developing the local debt market through regular debt issuances and the introduction of new debt products. As one of the most active bond issuers in Hong Kong, the Group will continue to issue debt in both local institutional and retail markets, and diversify its funding sources and investor base to overseas institutional markets. This will not only help broaden the Group'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 Group has three debt issuance programmes that allow the issuance of debt securities in an efficient and effective manner. With its strong credit rating, the Group's debt issues are well received by the investment community, such as pension funds, insurance companies, investment funds, charities, government-related funds and retail investors. The Group undertakes regular and proactive investor communication to meet and update investors.

Medium Term Note Programme

The Group established the multi-currency Medium Term Note (**MTN**) Programme in June 2007 to broaden its investor base and funding sources in the international market. It was set up with an initial size of US$3 billion, which was increased to US$6 billion in July 2011 to meet growing demand from overseas investors. The multi-currency feature of the programme enables the Group to issue notes in major currencies, including the Hong Kong dollar, US dollar, renminbi, Australian dollar, British pound, euro and Japanese yen, to meet demand from both local and overseas investors. All foreign currency-denominated MTN debt is fully hedged into either US dollars or Hong Kong dollars. The programme incorporates flexible product features and offering mechanisms for public issuances and private placements to increase its appeal to investors with different investment horizons and requirements. An extensive dealer group comprising major international and regional financial institutions is appointed to support future MTN issuance and provide secondary market liquidity.

In 2018, the Group launched 29 MTN private debt issues totalling an equivalent of HK$12.4 billion, with a maturity of one year or above.

Debt Issuance Programme

The Debt Issuance Programme (**DIP**) was established in July 1998 to target institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion, which was increased to HK$40 billion in 2003. The DIP has since provided a flexible and efficient platform for the Group to issue debt and transferable loan certificates with a tenor of up to 15 years. Primary dealers and selling group members are appointed under the DIP to provide wide distribution channels for both public and private debt issues.

Retail Bond Issuance Programme

The Group is dedicated to promoting the local retail bond market. The Group pioneered a new offering mechanism for the retail bond market in Hong Kong in November 2001 and established the HK$20 Billion Retail Bond Issuance Programme in May 2004. Under this programme, placing banks use their retail branch networks and telephone and electronic banking facilities to place debt securities issued by the Group with retail investors. To ensure the liquidity of the aforementioned retail bonds, the placing banks are committed to making firm bid prices for the bonds in the secondary market. Since 2001, the Group has issued retail bonds totalling HK$13.7 billion. When the market environment is conducive, the Group aims to issue retail bonds regularly to provide an additional investment tool for Hong Kong's retail investors.

Revolving Credit Facility Provided by the Exchange Fund

In January 1998, during the Asian Financial Crisis, the Exchange Fund extended a HK$10 billion Revolving Credit Facility to the Group. This Facility has enabled the Group to maintain smooth operations under exceptional circumstances so it can better fulfil its mandate to promote banking and financial stability in Hong Kong. While the Group obtains long-term funding from local and international debt markets to fund its operations, the Facility also gives the Group a liquidity fallback. Following the global financial crisis in 2008, the size of the Facility was increased to HK$30 billion in December that year, demonstrating the HKSAR Government's recognition of the importance of, and further support for, the Group.

The Group used the Revolving Credit Facility during times of market stress in 1998 and 2008 to partially fund the acquisition of Hong Kong residential mortgage assets from local banks. In both cases, the Revolving Credit Facility was fully repaid with funds raised from the Group's cost-effective debt issuance when the markets stabilised. In 2018, there were no drawdowns under the Revolving Credit Facility.

Credit Rating

The Group's ability to attract investment in its debt securities is underpinned by its strong credit rating, which is equivalent to that of the HKSAR Government, according to S&P and Moody's.

Credit Ratings of the HKMC

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

The credit rating agencies have made very positive comments on the Group's credit standing.

The following comments are extracts from the credit rating reports of S&P and Moody's in August 2018 and November 2018 respectively:

S&P

"We equalise our ratings on HKMC with the ratings on Hong Kong, the corporation's sole ultimate owner. This reflects our view of an almost certain likelihood of timely and sufficient extraordinary support from the Hong Kong government in the event that HKMC needs it … We believe HKMC's undertaking of additional policy initiatives over the past several years has a solidifying effect on its ties with the Hong Kong government, and reinforces the integral link between the two entities."

"HKMC has a well-established market position with a unique role to address local Hong Kong banks' liquidity and balance-sheet management needs by purchasing mortgage and loan portfolios, especially in times of stress … A variety of stressful market conditions have tested HKMC's business model. For example, when global financial markets and the local economy were under stress in late 2008 and early 2009, HKMC enlarged its mortgage acquisitions in response to banks' requests, and enhanced its mortgage insurance program. However, it has tightened the eligibility criteria for its mortgage insurance program in recent years, in response to elevated property prices."

"We believe that HKMC benefits from the presence and effective oversight of its vastly experienced and competent set of members as directors on its board. The management team is capable, effective, and experienced, in our view. HKMC's strategic positioning is clear and consistent with its capability and market conditions. The company has always operated within its financial and risk management standards, which we consider to be rigorous and clear."

"HKMC manages its funding and liquidity prudently, in our view. It has very strong debt capital market access through its three senior debt programs although it lacks customer deposits … We expect HKMC to maintain a healthy buffer of highly liquid assets, which is more than sufficient to cover its short-term funding needs … Further, a HK$30 billion revolving credit facility more than adequately covers all liabilities of HKMC maturing within the next year and provides a significant cushion against any unexpected liquidity stress."

Moody's

"HKMC is fully owned by the Hong Kong government through the Exchange Fund. The company carries out policy mandates, which include promoting financial and banking stability in Hong Kong, home ownership, the development of the local debt capital market and the development of retirement planning solutions through the purchase of mortgages from commercial banks and the provision of mortgage insurance and reverse mortgages. As part of its mandate to promote banking stability, the company acts as an alternative lender of last resort by standing ready to purchase residential mortgages from banks during times of stress. The new annuities and infrastructure financing businesses are small but will scale up."

"The government provides HKMC with a HK$30 billion revolving credit facility and additional equity capital when needed. If the company's credit profile is weakened in a stress scenario, we expect the government to provide timely extraordinary support. The company's public policy mandates are closely aligned with the government's objectives, and its close relationship with the government increases the likelihood of future government support. The government has provided the company with $5 billion capital injection to set up the annuities business and is prepared to provide more if the business continues to expand."

"The company has maintained very sound asset-quality metrics since its establishment to date … Hong Kong's residential mortgages have historically performed very well through economic cycles. Even when property prices fell by up to 70% between 1997 and 2003, the company's overall mortgage delinquencies never exceeded 2%. The current average LTV ratio on the company's Hong Kong mortgages is below 40%."

"As a wholesale-funded entity with no customer deposits, HKMC relies on ongoing access to the debt capital market to fund its operations. Nevertheless, the company has a policy of pre-funding its expected asset purchases and maintains a very strong liquidity during normal economic conditions. The company has very good access to capital markets because of its strong financial fundamentals and government affiliation … The company had sufficient liquid assets, including the government revolving credit facility, to repay all of its outstanding debts as of end of June 2018."

Mortgage-backed Securitisation

The Group strives to promote the development of the mortgage-backed securities (**MBS**) market in Hong Kong. MBS is an effective financial instrument 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 risks, liquidity risks, interest rate risks and asset-liability maturity mismatch risks. A deep and liquid MBS market can help enhance the development of an efficient secondary mortgage market and further promote Hong Kong as an international financial centre.

The Group has issued a total of HK$13.2 billion MBS since 1999. The US$3 billion Bauhinia Mortgage-Backed Securitisation Programme was established in 2001 to provide a convenient, flexible and cost-efficient platform for the Group to issue MBS with various product structures, credit enhancements and distribution methods.

Infrastructure Financing and Securitisation

With an enormous and widening funding gap in the international infrastructure financing market, the Group started studying Infrastructure Financing and Securitisation (**IFS**) business opportunities in early 2017.

In 2018, the Group obtained the Board's approval of the IFS business plan, set up an IFS Division manned by experienced industry professionals and mobilised internal resources for the IFS business.

Starting in 2019, the Group will participate in a step-by-step manner in the infrastructure financing market on commercially viable and financially sustainable terms, by making use of its comparative advantages in terms of strong credit standing and medium-to-long term funding capability while observing prudent commercial principles and risk management policies.

In the early stage, the Group will purchase and accumulate infrastructure loans from, as well as co-finance infrastructure projects with, multilateral development banks and commercial banks. It will explore securitisation opportunities after building up the infrastructure loan portfolio and necessary experience.

The IFS business will enable the Group to further its mandates of promoting development of the local debt market and stability of the banking sector, while at the same time of filling the infrastructure financing market gaps and fostering market development.

Microfinance Scheme

The Group continued to operate the Microfinance Scheme (**MFS**). It liaised with participating banks and non-governmental organisations (**NGOs**) to offer loans at an affordable rate and support services to people wanting to start their own business, become self-employed or achieve self-enhancement through training, skills upgrading or professional certification.

The MFS has been operating smoothly since its launch in June 2012. By the end of 2018, the MFS had approved a total of 212 loans with a total loan amount of HK$53.0 million.

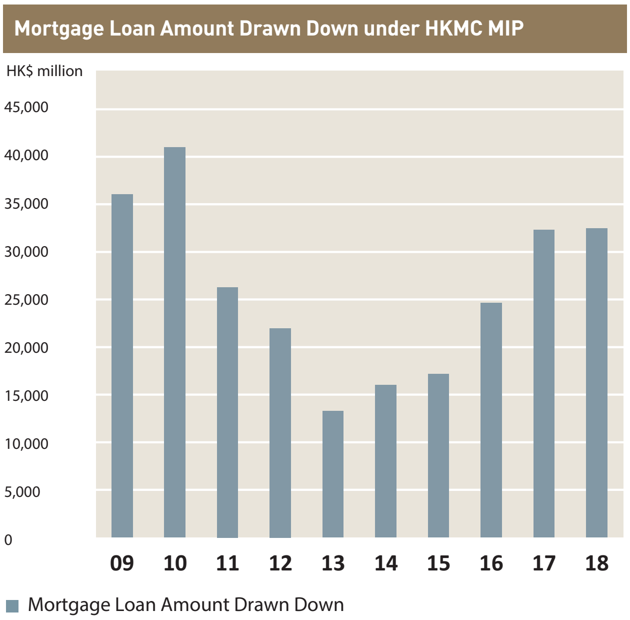
The MFS has a good mix of borrowers from different backgrounds and professions, and serviced young beauticians, make-up artists, interior designer, IT graduates, Chinese medicine practitioners, teachers and chefs etc. To promote the MFS among the youth and entrepreneurial community, the Group took part in a seminar organised by a local university and entrepreneurial training courses organized by a NGO to introduce the MFS to their students.

Mortgage Insurance Programme

The Mortgage Insurance Programme (**MIP**) helps potential homebuyers who are struggling to come up with a substantial down payment for the purchase of a property. From a banking industry perspective, the MIP allows banks to engage in higher loan-to-value lending without incurring additional credit risk and jeopardising the stability of the banking system. The MIP creates a win-win situation for both homebuyers and banks.

Over the years, the MIP has firmly established itself as an integral part of mortgage financing in Hong Kong. Demand for the MIP remained steady in 2018, and the volume of loans drawn down under the MIP increased slightly to HK$32.5 billion in 2018 from HK$32.3 billion in 2017 **(Figure 7)**. About 88% of the MIP loans drawn (in terms of loan amount) were secured on properties in the secondary market. This demonstrates the importance of the MIP to homebuyers in the secondary market.

Figure 7



Source: The Hong Kong Mortgage Corporation Limited

During the year, the Group joined participating banks to promote the MIP through various promotional channels. Since 1999, the MIP has helped more than 141,600 families achieve the dream of home ownership, with an aggregate loan drawdown of HK$367 billion.

Since its establishment in 1997, the Group has been committed to promoting wider home ownership as one of its missions. In order to enhance homebuyers' ability to afford down payment, the MIP was extended to cover projects under the Flat-for-Sale Scheme and the Subsidised Sale Flats Project under the Secondary Market Scheme of the Hong Kong Housing Society (**HS**) with effect from late September 2018.

In response to the Government's announcement in June 2018 in respect of the non-joint venture redevelopment project of the Starter Homes Pilot Project of the Urban Renewal Authority (**URA**), the Group announced it would provide mortgage insurance to enable buyers of the units of the URA's Starter Homes Pilot Project at Ma Tau Wai Road, To Kwa Wan to apply for mortgage loans of up to 90% LTV ratio.

Reverse Mortgage Programme

The Reverse Mortgage Programme (**RMP**) aims at providing retirees an additional financial planning option to enhance their quality of life. Under the RMP, borrowers can use their residential properties in Hong Kong as security to borrow from a participating bank. The borrowers will remain as the owner of their properties. They will receive monthly payouts either over a payment term of fixed period or throughout their entire life, and they may also borrow lump-sum payouts for specific purposes.

The Group has been promoting the development of retirement planning market as one of its missions. With its ongoing and focused educational initiatives, the RMP has gained increasing receptiveness in the community and has recorded a steady annual growth of 7.5% in the applications received compared with 2017. In recognition of its efforts devoted to promoting financial education in Hong Kong, the Group was proudly awarded the inaugural Financial Education Champion by the Hong Kong Strategy for Financial Literacy, which recognises organisations that have contributed to the development and improvement of overall financial literacy in Hong Kong. Looking ahead, the Group is prepared to press on with its mission and establish its role in promoting retirement planning market to cater for the needs of retirees and the public.

Understanding that a wide distribution network is crucial to drawing more potential customers, the Group has been working closely with its business partners and trying to extend its distribution network by leveraging banks' local branches. To reach out to the target audience at the district level, a series of roving exhibitions were held in collaboration with banks, during which exhibition panels were displayed highlighting features of the RMP while games booths were set up to deepen visitors' understanding of the RMP. At the roving exhibitions, staff members of the Group and representatives from banks actively engaged the participants and responded to their enquiries. The roving exhibitions, which lasted for nine consecutive months and covered districts all over Hong Kong Island, Kowloon and the New Territories, were effective in engaging the target audience and educating them on the initiatives of the RMP as an alternative option of retirement planning.

To keep the momentum going, the Group joined forces with banks to organise more than 20 public seminars during the year and participated in an expo on wealth management in August. The responses to these events were positive, with an average attendance of 50 to 100 participants recorded in each seminar. Many in the audience showed keen interest in the RMP and asked sophisticated questions about the product, such as how the RMP could help enhance the quality of their retirement life. Apart from banks, the Group worked closely with other business counterparts, such as NGOs, professional bodies, universities and government departments, in lining up introductory talks on the RMP. In 2018, the Group was invited by different sectors to speak at around 30 public talks to introduce the RMP as a means of achieving quality retirement life.

Alongside local promotions, advertising initiatives were undertaken on multiple fronts to appeal to the mass public. RMP commercials were broadcast on major television and radio channels and online media platforms such as YouTube, and at banks' local branches. On the other hand, the Group strived to foster close relations with the media via regular media interviews and briefings. In the light of the aging population and heightened awareness of retirement planning, the Group will continue to put forward educational initiatives and consolidate concerted efforts of stakeholders to promote the development of retirement planning market to retirees and people of all ages.

Premium Loan Insurance Scheme

As commissioned by the Financial Secretary in the 2015-16 Budget, the Group launched the Premium Loan Insurance Scheme (**PLIS**) in September 2015. The scheme provides a platform for owners of subsidised housing properties who are aged 50 or above to finance their land premium payments to the Hong Kong Housing Authority (**HA**), the HS or the Government.

Under the PLIS, borrowers are granted loans by banks against their subsidised housing properties as security, primarily for settling premium payments to the HA, the HS or the Government. The Group acts as an insurer by assuring participating banks that losses arising from any possible shortfall at the time of selling the property will be covered when the loan is terminated. By the end of 2018, the Group had approved 12 PLIS applications since its inception, with an average appraised property value of around HK$4 million and an average lump-sum payout amount of HK$880,000 for the settlement of premium payments.

During the first three quarters of the year, rising property prices and falling rental yields dampened market demand for premium payment by owners of subsidised sale flats. Meanwhile, the enhancement of the RMP in October 2016 to cover subsidised sale flats with unpaid premiums provided a direct channel for subsidised sale flat owners to apply for reverse mortgages without the need to settle premium payment.

In order to achieve synergy with the Group's reverse mortgage business, promotions on the PLIS were carried out jointly with the RMP through public seminars, during which marketing materials were distributed to communicate product features to the potential customers. Besides, television and radio commercials were run on mainstream broadcast channels and at banks' local branches to reach out to target customers.

Extension of 80% guarantee product under the SME Financing Guarantee Scheme (80% SFGS)

As part of the package of support measures announced in the 2012-13 Budget for local SMEs to tide them over in the uncertain global economic environment, the Group promulgated time-limited special concessionary measures under the market-based SFGS, providing 80% guarantee on eligible loan facilities at a substantially lowered guarantee fee rate (**80% SFGS**). Backed by the Government's total guarantee commitment of up to HK$100 billion, the 80% SFGS helps SMEs obtain loans for general working capital or purchase of equipment or other assets to support business operations. The Group administers the 80% SFGS on prudent commercial principles. The guarantee fees are set aside to pay default claims from participating lenders and out-of-pocket expenses to be incurred under the arrangement. A total of 31 Authorized Institutions (**AIs**) are participating in the SFGS as lenders.

In the light of the uncertain external economic environment and trade performance, the application period of the 80% SFGS was extended seven times to the end of June 2019. In addition, in a bid to alleviate the financing burden of borrowers, the guarantee fee rates for the 80% SFGS were reduced by 10%, and the minimum annual guarantee fee rate of 0.5% was removed with effect from 1 June 2016. To further relieve the financing burden of local SMEs and help them to obtain financing, the Government launched the following enhancement measures with effect from 19 November 2018, and valid until end-June 2019 –

1. halving the annual guarantee fee rate;
2. increasing the maximum facility amount from HK$12 million to HK$15 million; and
3. lengthening the maximum guarantee period from five years to seven years.

Further to the SFGS communication campaign started in 2016, the Group continued to communicate closely with participating lenders, SME associations and chambers of commerce and industry. It also shared success stories of SMEs to enhance understanding and promote public awareness of the 80% SFGS.

During the year, the Group arranged regular training and workshops for lenders' staff members and shared business and claim statistics with lenders to enhance transparency and promote more active use of the 80% SFGS. The Group introduced the SFGS in seminars for SMEs and sponsored the World SME Summit organised by The Hong Kong General Chamber of Small and Medium Business in the SmartBiz Expo in December 2018 to increase public awareness of the 80% SFGS.

The 80% SFGS has been well received by the market. As at 31 December 2018, the Group had approved more than 14,500 applications for loans amounting to HK$58.5 billion. More than 8,500 local SMEs and more than 224,700 related employees have benefited under the SFGS.

HKMC Annuity Plan

Enhancing the quality of living of the elderly after their retirement is one of the key policy focuses of the Government. Following the announcement of a feasibility study of a life annuity scheme in the 2017-18 Budget, HKMC Annuity Limited (**HKMCA**) was established on 29 June 2017 to implement and operate the scheme to address the increasing demand for better retirement financial support and to facilitate better retirement planning.

Subsequently, the HKMCA announced on 5 July 2018 the official launch of a life annuity scheme, HKMC Annuity Plan (**Plan**), with the aim of providing a retirement financing option to the elderly aged 65 or above and to facilitate their retirement planning by helping them to turn cash lump sums into lifelong streams of fixed monthly income so that they can better enjoy the rest of their lives, and to promote the development of the local annuity market.

The Plan is an insurance product. The insured can start receiving a guaranteed stream of fixed income immediately after paying a single premium. The annuity is payable monthly for as long as the insured lives, allowing the elderly to receive a stable monthly income for life and address the longevity risk.

Open registration for the first tranche of sales took place from 19 July to 8 August 2018, during which the applicants could register their intention to subscribe to the Plan, either through 20 retail banks in Hong Kong or via the HKMCA website. For the first tranche of the Plan, the HKMCA recorded a total of 9,410 registrations of subscription intention, with a total subscription amount and average subscription amount at around HK$4.94 billion and HK$525,000 respectively. Sales appointments commenced on 24 September 2018, with the licensed banks completing the applications with the applicants at the delegated bank branches while the HKMCA has set up an Application Servicing Centre to conduct sales appointments.

To meet the objectives of public education and promotion, a publicity campaign has been carried out to promote the concept of life annuities and longevity risk since March 2018. Multiple advertising channels, such as TV and radio commercials as well as print and outdoor advertisements, were utilised to convey the message to the target audience. To reach into the community, three sessions of roving exhibitions, 25 seminars and talks and a number of media interviews were conducted to communicate with the public on the concept of life annuities and to answer their enquiries. The achievements of the campaign included encouraging a widespread discussion in the community related to life annuities and other retirement financial planning products, and increasing the public awareness.

The subscription result of the first tranche of the Plan showed that there was a certain demand among retirees for life annuities. In view of this, the HKMCA re-opened distribution of the Plan and introduced three enhancement measures and a year-round continuous sales model on 12 December 2018. The enhancements introduced offer a greater protection and flexibility to the customers, thereby enabling them to apply for the Plan with a greater sense of security. The adoption of the continuous sales model can also enable customers to experience a more convenient and efficient application process and have a clearer understanding of the product features. The HKMCA will continue to strengthen the public awareness on the longevity risk and the utilisation of the Plan as part of their retirement solution.

As at 31 December 2018, a total of 5,422 policies had been issued, with total premiums received at around HK$2.8 billion and the average premium amount at HK$513,000 since the launch of the Plan in July 2018. Stimulated by the inaugural launch of the Plan, the local annuity market has undergone a rapid growth as reflected in a responsive size expansion in the year.