

Chairman's Statement

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Developing multi-faceted businesses in fulfilment of core missions and social objectives.



Chan Mo-po, Paul
Chairman

The global economy experienced a synchronised slowdown in 2019, beset with considerable downward pressures from an array of factors including the escalation of US-China trade tensions, risk of a hard Brexit and heightened geopolitical tensions in the Middle East. Economic growth in the US eased and that in the euro area was modest. The Mainland economy attained its growth target, although with a decelerated growth momentum.

Faced with significant external headwinds, the Hong Kong economy was already quite weak in the first half of 2019. Aggravated by the severe blow from the local social incidents, the economy deteriorated abruptly in the second half of the year and recorded its first annual contraction since 2009. The residential property market has been consolidating since June after staying generally active during the first five months of 2019. Yet, the downward adjustment had been moderate and property prices were still out of line with economic fundamentals and affordability of the general public.

Purchase of Mortgage Assets

The Group purchased loan assets of about HK\$2 million in 2019 (2018: HK\$287.7 million) as ample liquidity in the banking system continued to dampen banks' appetite in off-loading mortgage assets. In recognition of its pivotal role to reinforce the 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 two decades. In 2019, the Group issued debt securities in different currencies (with tenor of one year or above) totalling around HK\$17.7 billion to satisfy its refinancing needs and support its business activities. The Group's credit ratings are AA+ from Standard & Poor's and Aa3 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 assisted more than 149,000 families to buy their own homes in the pursuit of the Group's core mission to promote wider home ownership. In October 2019, numerous MIP enhancements were introduced to make completed residential property purchases more accessible to homebuyers with immediate housing needs. Demand for the MIP remained steady in 2019 and the total amount of MIP mortgage loans drawn down was HK\$33.3 billion (2018: HK\$32.5 billion).

Continuing Support for Small and Medium Enterprises

Hong Kong is home to about 340,000 small and medium enterprises (**SMEs**). The HKSAR Government continues its support for SME bank financing with the 80% guarantee product of the SME Financing Guarantee Scheme (**SFGS**) under the entrusted operation of the Group to enable SMEs to improve liquidity, grasp economic opportunities and boost competitiveness.

As part of its successive relief packages for SMEs to tide over the economic downturn, the HKSAR Government extended in the second half of the year the offering period for the 80% guarantee product to 2022. At the same time, the HKSAR Government also commissioned the Group to timely roll out more enhancements to the 80% guarantee product such as offering principal moratorium, and a new 90% guarantee product with a guarantee commitment of HK\$33 billion. The new product aims to assist smaller-sized enterprises and businesses with relatively less operating experience to obtain financing, and has been receiving positive response since its launch in December 2019.

The Group maintains close communication with participating banks, SME associations as well as commerce and industry chambers to help address the evolving needs of SMEs in financial difficulties. As at year-end, the Group has approved more than 17,300 applications for a total loan amount of HK\$72.3 billion, and more than 9,500 local SMEs with more than 242,000 employees have benefitted from the SFGS.

As a further step to ease the cash flow problems of enterprises adversely affected by the COVID-19 pandemic, and in the light of the pandemic's prolonged adverse impact on the local economy, a concessionary low-interest loan product under the SFGS, for which the Government provides 100% loan guarantee commitment for approved loans up to HK\$50 billion, was launched in April 2020; and further enhancements would be made to the 80% and 90% guarantee products, including the provision of interest subsidy and extending the coverage to publicly listed companies in Hong Kong, thereby benefitting more enterprises affected by the pandemic.

Promoting Development of Retirement Planning Market

In furtherance of its core mission to promote the development of the retirement planning market in Hong Kong, the Group launched the "HKMC Retirement Solutions" in 2019 as a holistic brand with unique characteristics to address the retirement planning needs of the community.

The Reverse Mortgage Programme (**RMP**) and the Policy Reverse Mortgage Programme (**PRMP**) launched in 2011 and 2019 respectively form two of the three products under the "HKMC Retirement Solutions" umbrella. Both of them aim to provide retirees with new financial planning options to secure a stream of steady cash flow on retirement with illiquid assets as collateral (properties in the case of the RMP and death benefits of life policies in the case of the PRMP). With the successful implementation of the Group's ongoing and focused educational initiatives, market receptiveness to the RMP and PRMP has been growing progressively.

The HKMC Annuity Plan (**Plan**) launched in mid-2018 is the third product under the "HKMC Retirement Solutions" umbrella. The Plan aims to facilitate retirement planning and promote the development of the local annuity market through the provision of annuity products. The Plan helps the elderly turn their lump sum cash into a stream of fixed monthly income for life. During the year, the Plan underwent ongoing enhancements to meet customers' growing needs. The Group also stepped up its promotional and educational efforts which have successfully raised public awareness of longevity risk management and the importance of retirement financial planning, thereby contributing to the rapid development of the local annuity market. In 2019, the Plan recorded a noticeable growth of HK\$1.6 billion in premium receipts, reaching an accumulated premium receipt amount of HK\$4.4 billion since its launch.

All three products under the "HKMC Retirement Solutions" brand name share the same characteristics of immediacy, stability and lifelong entitlement which are rare on the market and provide useful financial alternatives for retirement planning purposes.

Development of Infrastructure Financing and Securitisation Business

In 2019, the Group developed a new business in infrastructure financing and securitisation based on prudent commercial principles and under a robust risk management framework. The Group will explore securitisation opportunities after building up an infrastructure loan portfolio and the necessary market experience. Leveraging its strong credit standing and medium-to-long term funding capability, the Group will be able to further its mandates of promoting the stability of the banking sector and the development of the local debt market by facilitating infrastructure investment and financing flows under the new business.

Financial Performance for 2019

Profit attributable to shareholder increased to HK\$317 million (2018: HK\$127 million) despite that additional resources were utilised for the Group's core missions and certain policy initiatives of the HKSAR Government, and that the Group's annuity business development continued to record an accounting loss as a result of maintaining prudent statutory reserves. Notwithstanding its reported accounting loss, the embedded value of the annuity business was about HK\$5.3 billion, indicating that the business should be profitable in the long term.

The capital adequacy ratio stood solid at 30.2% (2018: 26.8%) to preserve capital for business development. The respective solvency ratios of the Group's two insurance subsidiaries were about 39 times (2018: 42 times) for the general insurance business and 22 times (2018: 34 times) for the annuity business, both well above the relevant minimum regulatory requirements.

Outlook for 2020

The global economic environment is extremely austere in the face of the COVID-19 pandemic and a host of other challenges such as international trade tensions and geopolitical risks. Against this backdrop, the global financial markets may continue to exhibit huge volatility in the period ahead. The recuperation of both the global economy and the Hong Kong economy will hinge critically on the effective control of the pandemic. To ride out difficulties ahead with the community, the Group will continue with its multi-faceted businesses to deliver on its core missions.

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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