Business Review

Business Review

Performance Highlights

The major achievements of the Group for the year included:

- helping homebuyers borrow a total of HK$33.3 billion in mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving 3,740 applications since the launch of the Reverse Mortgage Programme (**RMP**) in July 2011, with an average property value of around HK$5.4 million
- issuing a total of 7,610 policies since the launch of the HKMC Annuity Plan in July 2018, with total premiums received at around HK$4.4 billion and the average premium amount at around HK$570,000 as at the end of 2019
- further extending to end-June 2022 the application period for the 80% guarantee product and the three enhancement measures introduced in November 2018 under the SME Financing Guarantee Scheme (**SFGS**), to further alleviate the financing burden of local small and medium-sized enterprises (**SMEs**)
- introducing a new relief measure in September 2019 in the form of principal moratorium which is applicable to both existing and new SME borrowers under the SFGS, to provide immediate support to SMEs amidst the economic uncertainties
- launching a new 90% guarantee product under the SFGS in December 2019, to provide smaller-sized enterprises and businesses that have relatively less operating experience with additional support in obtaining financing
- approving more than 17,200 applications for loans amounting to HK$72.3 billion since the launch of the 80% SFGS in 2012. More than 9,500 local SMEs and 242,100 related employees have benefited under the SFGS. For the new 90% SFGS, the Group had received 23 applications for loans amounting to HK$48.1 million since its launch in December 2019
- approving loans totalling HK$55.5 million under the Microfinance Scheme (**MFS**) since its inception in June 2012, to support business start-ups, self-employed people from different backgrounds and professions, and those wanting to achieve self-improvement through education and training
- being on track in executing the first-year implementation plan of the Group's Infrastructure Financing and Securitisation (**IFS**) business to accumulate infrastructure loan assets and develop the IFS brand of the Group
- purchasing about HK$2 million of loan assets
- issuing HK$17.7 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. These debt securities included 30-year bonds totalling HK$1.2 billion, issued to support fixed-rate businesses
- 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**) as at end-2019, same as the HKSAR Government.
- safeguarding excellent credit quality, with non-performing loan ratio of 0.07% across all asset classes and over-90-day delinquency ratios of 0.003% for the mortgage insurance portfolio and 0.02% for the Hong Kong residential mortgage portfolio (lower than the industry average of 0.03%) as at 31 December 2019.

The Group maintained a solid financial position in 2019:

- profit attributable to shareholder of HK$317 million
- net interest margin of 1%
- return on shareholder's equity of 2.1%
- cost-to-income ratio of 58.7%
- capital adequacy ratio of 30.2%, which is well above the minimum requirement of 8% stipulated by the Financial Secretary
- solvency ratios of 39 times for general insurance business and 22 times for annuity business, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority

Market Overview

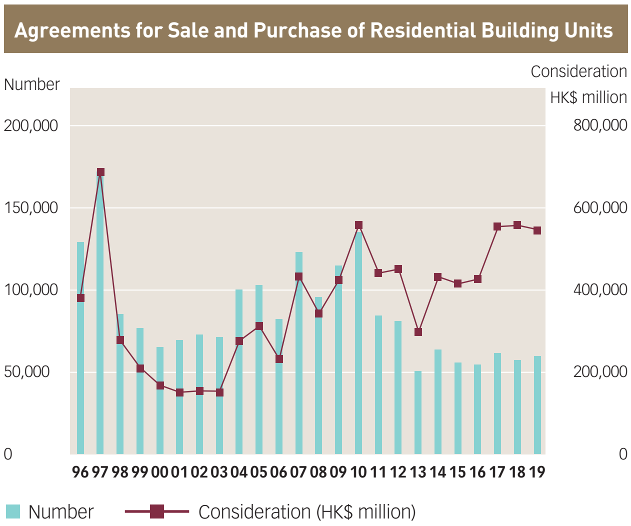
General Economic Conditions

The global economy was in a synchronised slowdown in 2019 as rising US-China trade barriers, the Brexit process and other geopolitical tensions contributed to heightened uncertainties. Economic growth of the US moderated and the economy of the euro area stayed weak. Mainland China's economy remained largely resilient but still faced downward pressures. In light of the heightened global market volatility, many central banks have taken measures to ease their monetary policies to reduce downside risks to growth. The Hong Kong economy also showed significant slowdown in the second half of the year, as the local social incidents caused disruptions to domestic consumption and tourism-related activities, resulting in a blow to the economy which had been adversely affected by the slackening global demand and international trade tensions. Against this backdrop, the Hong Kong economy contracted by 1.2% in 2019 from a year earlier, marking the first annual decline since 2009.

Property Market

The residential property market registered a strong rebound in the first five months of the year, and then softened somewhat starting from June. Between January and May, housing transactions surged with improved market sentiment, and flat prices recovered fully from losses recorded in the second half of 2018. Since June, however, transaction volumes and housing prices have levelled off. The outlook for the residential property market has become more uncertain. Other risk factors, including the US-China trade conflict and slowing global economic growth, may weigh on housing market sentiment in the near term. Overall, the number of residential property transactions in 2019 increased by 4.5% year on year to 59,797, while the consideration of transactions recorded a 1.9% year-on-year decrease (**Figure 1**).

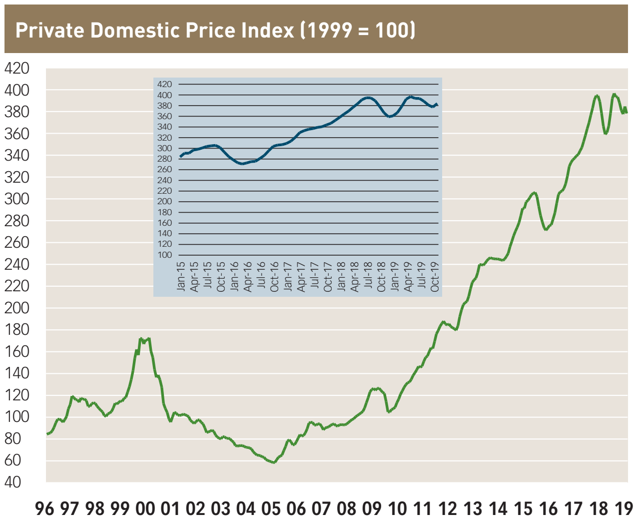
Figure 1



Source: Land Registry

Transaction volumes in the primary and secondary markets rose steadily from the start of the year until July, after which a downward trend was recorded. In general, residential property prices[1] recorded a 5.3% cumulative increase in 2019, compared with a 1.9% increase in 2018 (**Figure 2**).

Figure 2



Source: Rating and Valuation Department

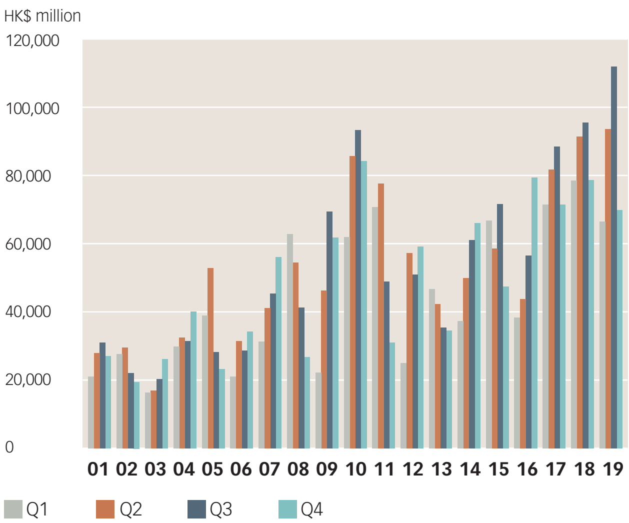
[1] Source: The Private Domestic Price Index published by the Rating and Valuation Department

Mortgage Market

Overall, the mortgage rate in Hong Kong stayed low in 2019. The Best Lending Rates (**BLRs**) were in the range of 5.125% and 5.5% in the first 10 months of the year. In view of some leading banks lowering their BLRs to 5% in early November 2019, the BLRs remained in the range of 5% and 5.5% since then until the end of December 2019. The Hong Kong Interbank Offered Rate (**HIBOR**) was relatively higher throughout the year. According to the Monthly Statistics Bulletin of the Hong Kong Monetary Authority (**HKMA**), the one-month HIBOR in terms of period average[2] moved within the range of 1% and 2.57% during the year. Mortgage lending recorded steady growth, with the total outstanding value of all residential mortgage loans rising moderately by 10.3% to HK$1,512.8 billion. The gross value of new loans drawn down[3] decreased slightly by 0.6% year on year in 2019, compared with a rise of 9.9% in 2018 (**Figure 3**).

Figure 3

New Residential Mortgage Loans Drawn Down

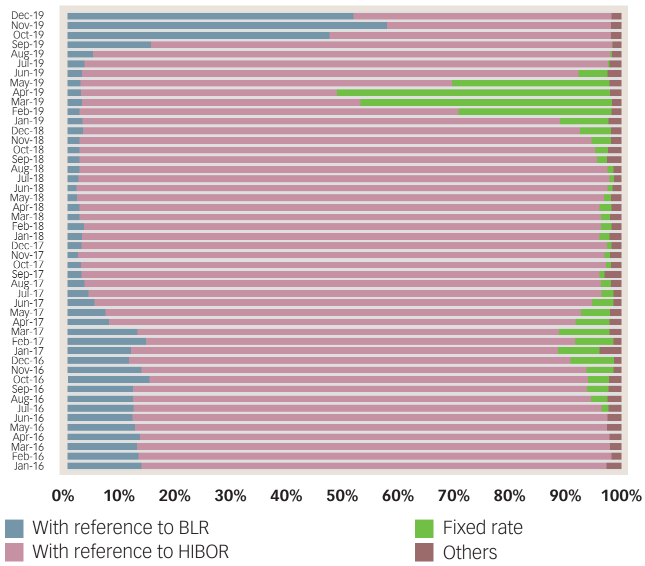


Source: Hong Kong Monetary Authority

HIBOR-based mortgages appeared to be more receptive to borrowers for much of the year. As at December 2019, 77.1% of new mortgage loans were benchmarked against the HIBOR. The proportion of BLR-based mortgages was high at 48% in January 2019 but started to consolidate since then. As at December 2019, BLR-based mortgages accounted for only 19.8% of the market share; whereas fixed-rate plans had no share in the mortgage loan market throughout 2019 (**Figure 4**).

Figure 4

Pricing of New Residential Mortgage Loans Approved



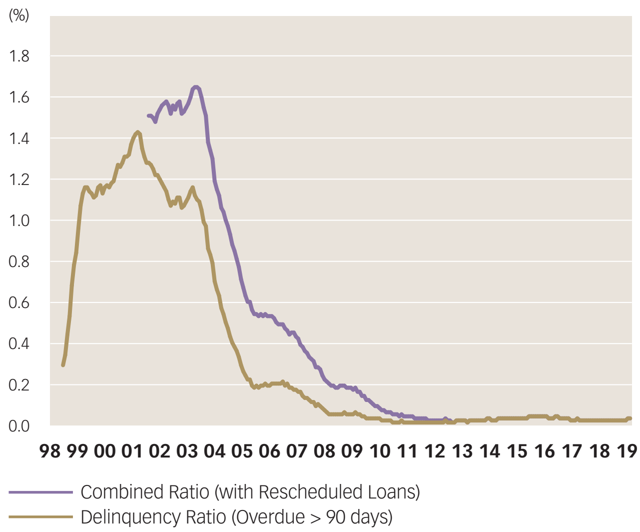
Source: Hong Kong Monetary Authority

[2] Source: Hong Kong Monetary Authority
[3] Source: Hong Kong Monetary Authority

Under the HKMA's prudent supervision of the mortgage lending sector, the asset quality of residential mortgage loans remained excellent in 2019. The over-90-day delinquency ratio of mortgage loans stayed at the range of 0.02–0.03% throughout the year, reflecting banks' prudent underwriting standards. The combined ratio, which takes into account both delinquent and rescheduled loans, also maintained at a low level at 0.02–0.03% during the same period (**Figure 5**). The estimated number of residential mortgage loans in negative equity as at end-December 2019 was 128 cases, with an aggregate value of HK$764 million recorded[4].

Figure 5

Delinquency Ratio of Residential Mortgage Loans



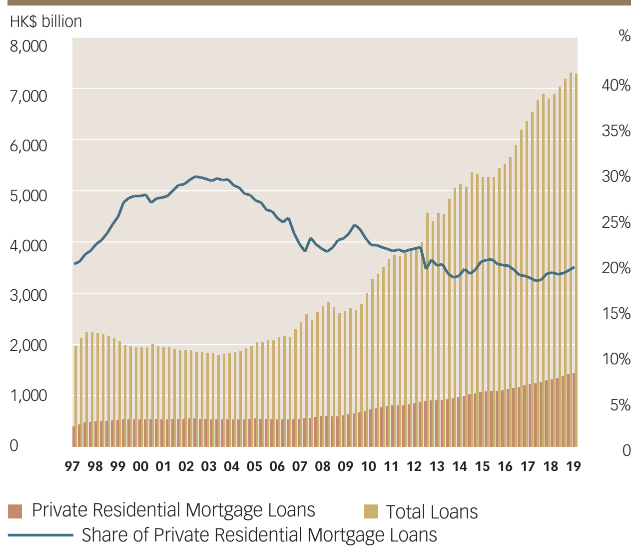
Source: Hong Kong Monetary Authority

Banking-sector Exposure

The total outstanding value of mortgage loans for private residential properties increased to HK$1,434.8 billion at the end of 2019 (end-2018: HK$1,313.8 billion), accounting for one-fifth of the total loans in Hong Kong (**Figure 6**). When these mortgage loans are added to the lending for building and construction, along with property development and investment, the value of property-related loans totalled HK$3,066.53 billion, representing about 42.2% 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$78.03 billion at the end of 2019 (end-2018: HK$58.38 billion).

Figure 6

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Source: Hong Kong Monetary Authority

[4] Source: Hong Kong Monetary Authority

Asset Acquisition

While the ample liquidity in the market has led to a weak incentive for banks to offload their assets, the Group is prepared to provide liquidity to the market as and when required. In 2019, the Group acquired about HK$2 million of loan assets.

Funding

In 2019, the global economy entered a synchronised slowdown with heightened uncertainties amid periodic escalation of US-China trade tensions, geopolitical developments and the accommodative monetary policies of major central banks. The Hong Kong economy was also adversely affected by the global economic slowdown and local social incidents. 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 ratings, the Group raised debt totalling HK$17.7 billion, with a maturity of one year or above, in 2019. At the end of the year, the Group's total outstanding debt amounted to HK$39.7 billion.

The Group is committed to developing the local debt market through regular debt issuances and the introduction of new debt products. Being one of the most active bond issuers in Hong Kong, the Group will continue to issue debt in both the 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 doubled 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 different major currencies, including the Hong Kong dollar, US dollar, renminbi, Australian dollar, British pound, euro, Japanese yen and Singapore dollar, to meet demand from both local and overseas investors. All foreign currency-denominated MTNs are fully hedged into either the US dollar or the Hong Kong dollar. 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 2019, the Group launched 36 MTN private debt issues totalling an equivalent of HK$17.7 billion, with a maturity of one year or above. These debt issues included 30-year bonds totalling HK$1.2 billion to support fixed-rate businesses.

Debt Issuance Programme

The Debt Issuance Programme (**DIP**) was established in July 1998 targeting institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK$20 billion, which was doubled to HK$40 billion in 2003. The DIP provides 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
Dedicated to the promotion of the retail bond market in Hong Kong, the Group pioneered a new offering mechanism in November 2001 and established the HK$20 billion Retail Bond Issuance Programme in May 2004. 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 operation under exceptional circumstances so that it can better fulfil its mission to promote banking and financial stability in Hong Kong. While the Group obtains long-term funding from local and international debt markets to finance its operations, the Facility gives the Group an important liquidity fallback. Following the outbreak of 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 Revolving Credit Facility was used by the Group 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 loans drawn under the Facility were fully repaid with funds raised from the Group's cost-effective debt issuance when the markets stabilised. There was no drawdown under the Facility in 2019.

Credit Rating
The Group's ability to attract investment in its debt securities is underpinned by its strong credit ratings, which are equivalent to those 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+	P-1	Aa3
Foreign Currency	A-1+	AA+	P-1	Aa3
Outlook	Stable		Stable	

(as at 21 January 2020)

On 21 January 2020, Moody's revised the Group's long-term ratings to Aa3 from Aa2 following the same rating action on the HKSAR Government.

The credit rating agencies have made favourable assessment on the Group's credit standing. The following comments are extracts from the credit rating reports of S&P and Moody's in August 2019 and February 2020 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."

"We expect HKMC to manage its funding and liquidity with reasonable prudence. 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 the promotion of financial and banking stability in Hong Kong; homeownership and the development of the local debt capital market and retirement planning market through the purchase of mortgages from commercial banks and through its general insurance subsidiary 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 company established its annuity subsidiary in 2017 and launched its annuity product in 2018. The company started acquiring infrastructure loans from 2019."

"The government, through the Exchange Fund, provides HKMC with a HK$30 billion revolving credit facility and additional equity capital when necessary. 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 a HK$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... Hong Kong's residential mortgages have historically performed very well through economic cycles. Even when property prices declined by up to 70% between 1997 and 2003, the company's overall mortgage delinquencies never exceeded 2.0%. The current average loan-to-value ratio of the company's Hong Kong mortgages is below 40%."

"As a wholesale-funded entity with no customer deposits, HKMC relies on the 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 facility, to repay all of its outstanding debt as of the end of June 2019."

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

Amid an enormous and widening funding gap in the international infrastructure financing market, the Group launched the Infrastructure Financing and Securitisation (**IFS**) business in 2019 to accumulate infrastructure loan assets and develop the IFS brand of the Group.

In the early stage, the Group purchases and accumulates infrastructure loans from commercial banks, as well as co-finances infrastructure projects with multilateral development banks and commercial banks.

To consolidate such collaborations of the Group with market players, the Group successfully executed the Master Cooperation Agreement with the International Finance Corporation and the Memorandum of Understanding with China Export & Credit Insurance Corporation (Sinosure) in 2019.

The Group will continue to 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. It will explore securitisation opportunities after building up the infrastructure loan portfolio and necessary experience.

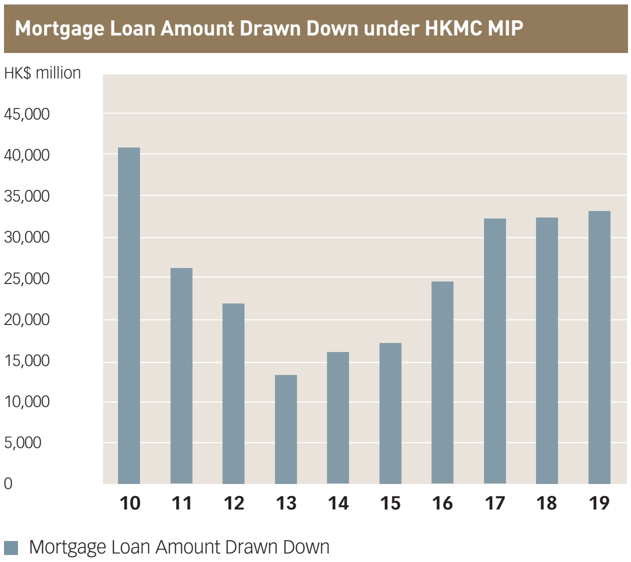
The IFS business will enable the Group to advance its mandates of promoting development of the local debt market and stability of the banking sector, while at the same time fill the infrastructure financing market gaps and foster market development.

Mortgage Insurance Programme

The Mortgage Insurance Programme (**MIP**) helps potential homebuyers who have limited resources for 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 (**LTV**) 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 been established firmly as an integral part of mortgage financing in Hong Kong. Demand for the MIP remained steady in 2019, and the volume of loans drawn down under the MIP increased slightly to HK$33.3 billion in 2019 from HK$32.5 billion in 2018 (**Figure 7**). About 73% 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: Hong Kong Mortgage Corporation Limited

During the year, the Group joined participating banks to stimulate interest in the MIP. Since 1999, the MIP has helped more than 149,000 families achieve their dream of home ownership, with an aggregate loan drawdown of HK$401 billion.

Since its establishment in 1997, the Group has been committed to promoting wider home ownership as one of its missions. In order to provide assistance to homebuyers with immediate housing needs, the Group introduced on 16 October 2019 the following amendments to the MIP for completed residential properties:

(a) the maximum property value eligible for mortgage loans that offer an LTV ratio of up to 80% is HK$10 million;

(b) for mortgage loans that offer an LTV ratio of up to 90% and are applicable to first-time homebuyers, the maximum property value is HK$8 million;

(c) for homebuyers taking out mortgage loans on properties whose values exceed the existing caps, that is, HK$6 million for mortgage loans with an LTV ratio of up to 80% and HK$4 million for mortgage loans with an LTV ratio of up to 90%, an additional 15% premium will be charged; and

(d) the maximum debt-to-income (**DTI**) ratio for both the above-mentioned and existing MIP loans will be set at 50%, and borrowers have to meet the stressed DTI ratio. First-time homebuyers will still be eligible for MIP loans of up to 80% or 90% in LTV ratio even if they cannot meet the stressed test DTI ratio, subject to an additional adjustment to the premium based on relevant risk factors.

HKMC Retirement Solutions

In line with its long-standing efforts to promote the development of the retirement planning market, the Group launched its corporate brand "HKMC Retirement Solutions" in May 2019, under which its retirement planning products, namely the Reverse Mortgage Programme, Policy Reverse Mortgage Programme and HKMC Annuity Plan, are promoted collectively as a holistic solution to retirement planning. Since the launch, public awareness of retirement planning has been on the rise as the Group focuses its promotion initiatives on not only the financial aspect but also the overall well-being of retirees.

The Group continued to promote the importance of retirement planning across different strata of the society through multiple channels, including public seminars, roving exhibitions, educational videos, publication and printed materials etc. In recognition of its contribution to the development and improvement of the overall financial literacy in Hong Kong, the Group was awarded Financial Education Champion by the Investor and Financial Education Council in both the first and second years of the award. Looking forward, the Group will continue to explore collaboration opportunities with different stakeholders to further promote financial literacy and maximise the impacts of public education across different sectors in the community.

To celebrate the launch of the "HKMC Retirement Solutions", a Signature Event was held on 8 May 2019 to announce its official inauguration, followed by an educational campaign conducted throughout the year. During the two-day Signature Event, a mini-expo was staged with educational booths and public seminars hosted by different stakeholders of the retirement community, such as The Hong Kong Housing Society, The Hong Kong Jockey Club and Tung Wah Group of Hospitals. All of the public seminars were well attended and the booths successfully engaged hordes of visitors from the community. The rationale behind the Signature Event was to provide retirees with a holistic solution to retirement planning covering different aspects of retirement life. The Signature Event was a great success, bringing together key stakeholders in the retirement community, as well as banks, non-governmental organisations (**NGOs**), social enterprises and professionals across different sectors to join hands with the Group in raising public awareness of the importance of early retirement planning.

As part of the Group's brand-building strategy, the "HKMC YouTube Channel" was launched in January 2019, providing a platform to interact with the public by sharing videos of the Group's different products as well as its first corporate video, entitled "New Idea", and a video on the "HKMC Retirement Solutions". Also published on the "HKMC YouTube Channel" are videos of the Signature Event, which feature the launch ceremony and various talks hosted by different stakeholders. The Group will continue to make use of this platform to communicate with the retirement community and the general public.

The Group also leveraged on other means to spread the message of the "HKMC Retirement Solutions". In particular, media interviews were lined up to enhance the reach of the "HKMC Retirement Solutions". The Group has also produced educational articles on different topics of retirement planning and circulated these articles to stakeholders for publication on their websites and social media platforms, with the aim of enhancing the financial literacy of the general public and educating them on the importance of starting to plan for their retirement at an early stage.

To facilitate a closer connection between the Group and its customers, and to create an environment conducive to improving the effectiveness of the Group's business initiatives in the long run, a loyalty programme was established in 2019. In May of the same year, the Group extended invitation to existing customers of the "HKMC Retirement Solutions" to join the programme as members. Activities of different topics, including health and wellness, travel and entertainment, sports, and financial planning, will be organised for members in the form of seminars, workshops and outdoor events. Through participation in these activities, it is hoped that the overall well-being of members could be enhanced and goodwill in favour of the Group could be generated via members' interactions, which would in turn impress upon a wider segment of the target audience the benefits of the "HKMC Retirement Solutions" in the long run.

Reverse Mortgage Programme

The Reverse Mortgage Programme (**RMP**) aims at providing retirees with 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 while remaining as the owner of their properties. The borrowers will receive monthly payouts either over a payment term of fixed period or throughout the rest of their lives, and they may also borrow lump-sum payouts for specific purposes.

Thanks to the Group's ongoing efforts in educating the public on retirement solutions, receptiveness to the RMP has increased over the years. More and more people welcome the idea of using the RMP as a financial instrument to generate a stable stream of monthly income after retirement. The Group from time to time reviews the RMP and introduces enhancement features, so as to better meet the needs of retirees. To this end, the Group has been soliciting views actively from existing and potential customers as well as industry practitioners via focus groups and meetings. Participants are encouraged to share views in an open setting and have contributed remarkable insights which are useful for the ongoing development of the RMP.

To reach the target audience at district level, the Group joined hands with banks and leveraged on their wide distribution networks in organising an array of roving exhibitions at the banks' local branches in various districts across Hong Kong Island, Kowloon and the New Territories. The exhibitions featured displays and videos that introduced the benefits of the RMP. Game booths were set up to engage visitors and deepen their understanding of the RMP. Staff members of the Group and representatives of banks were available on site to address the enquiries of potential customers. Apart from the exhibitions, the Group also adopted a "train-the-trainer" approach in its collaborations with banks and other stakeholders to organise more than 50 public seminars during the year. The public's response was positive, with an average attendance of 50 to 100 participants recorded in each seminar. Many people showed a keen interest and were eager to know how the RMP could help enhance the quality of their retirement life.

Alongside community-based promotions, advertising initiatives were undertaken on multiple fronts to reach out to the mass public. RMP commercials were broadcast on mainstream television channels via the Announcements in the Public Interest and at banks' local branches. In addition, a series of short videos featuring different benefits of the RMP was produced and has been broadcast on the "HKMC YouTube Channel" since May 2019.

Policy Reverse Mortgage Programme

To better meet the needs of retirees through an alternative retirement planning option, the Group conducted a study on the feasibility of singling out the assignment of a life insurance policy as the sole collateral of a mortgage loan and launched a new business initiative, known as the Policy Reverse Mortgage Programme (**PRMP**), in May 2019 by replicating the business model of the RMP.

A policy reverse mortgage is a loan arrangement which enables borrowers aged 60 or above to use their life insurance policy as collateral in return for a stable stream of monthly payouts from a lender. Under the PRMP, borrowers may opt to receive the monthly payouts over a fixed period of time or throughout the rest of their lives, and may borrow lump-sum loans for specific purposes.

In general, the borrowers do not need to repay the policy reverse mortgage loan during their lifetime unless the loan is terminated under specific circumstances. When a policy reverse mortgage becomes due and payable, the lender will enforce the mortgaged life insurance policy within a specified timeframe to repay in full the outstanding loan amount by using the death benefits of the life insurance policy.

To raise awareness of the PRMP, an advertising campaign has been rolled out on public transportation and social media platforms. For example, billboards were placed on the concourse of selected MTR stations and advertisements were posted inside MTR train carriages, on bus exteriors and at the back of bus seats. Online banners were also published on various social media platforms to reach a wider public. Besides advertising, community-based promotions on the PRMP were staged in conjunction with the RMP so as to achieve synergy effects and engage broader segments of society.

HKMC Annuity Plan

HKMC Annuity Limited (**HKMCA**) was established in June 2017 in response to the Government's policy initiative to enhance the quality of the elderly's retirement. The missions of the HKMCA are to facilitate the retirement financial planning of Hong Kong citizens and to promote the development of the local annuity market. Under the HKMC Annuity Plan (**Plan**), the insured will receive a guaranteed stream of monthly fixed annuity income for as long as they live. As at end-2019, a total of 7,610 policies had been issued, involving total premiums of HK$4.4 billion. The average premium amount per policy was around HK$570,000.

To further enhance the Plan, the HKMCA relaxed the maximum premium amount per person to HK$3 million in May 2019, and also introduced a six-month premium discount campaign to further promote the Plan.

To fulfil the objective of market development, a publicity campaign featuring a Hong Kong celebrity, Ms Angelina Lo Yuen-yen, has been carried out since July 2019 to promote the concept of life annuity and the need for longevity risk management. Multiple advertising means, such as the television, the radio and outdoor and digital advertisements, were utilised to convey the message to the target audience. To further reach out to the community, the HKMCA organised more than 33 public seminars in 2019 and participated in the Golden Age Expo and Summit 2019 as well as the 50+ Expo to educate the public on the importance of having a balanced financial retirement portfolio. These efforts have successfully drawn public attention to annuity products. Following a rapid growth of 40%, or HK$10.8 billion[5], in new premiums for the local annuity market in 2018, the local annuity market continued to register strong growth in 2019, with new premiums on annuity products reaching HK$20.9 billion[5] for the whole year.

Extension of 80% guarantee product under 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 the 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**) participate in the SFGS as lenders.

In a bid to further alleviate the financing burden of local SMEs and help them obtain financing, the following three enhancement measures were launched in November 2018:

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.

The 80% SFGS was initially open for application over nine months until 28 February 2013. It was subsequently extended several times. The application period for the 80% SFGS and the validity period of the three enhancement measures introduced in November 2018 were further extended to end-June 2022.

[5] Source: Insurance Authority

In September 2019, a new relief measure was introduced under the 80% SFGS. It aims to provide immediate support to SMEs which are facing stronger cash flow pressure amidst the economic uncertainties. The new relief measure allows SFGS borrowers to apply for a renewable principal moratorium of up to six months, subject to a maximum of 12 months in total. During the period of principal moratorium, they have to make only the interest payments. The new measure is applicable to both existing and new SME borrowers. It took effect on 4 September 2019 and will last for one year.

The 80% SFGS has been well received by the market. As at 31 December 2019, the Group had approved more than 17,200 applications for loans amounting to HK$72.3 billion. More than 9,500 local SMEs and more than 242,100 related employees have benefited.

Launch of 90% guarantee product under SME Financing Guarantee Scheme (90% SFGS)

The Financial Secretary announced in August 2019 that the Government would introduce a new 90% guarantee product under the SFGS (**90% SFGS**). Following the approval of a total guarantee commitment of HK$33 billion by the Finance Committee of the Legislative Council, the 90% SFGS was launched on 16 December 2019. The 90% SFGS aims to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience to obtain financing. The total loan amount for an enterprise and its related entity is capped at HK$6 million for a maximum guarantee period of five years. The same guarantee fee rate as the existing 80% SFGS is applicable. The application period of the 90% SFGS will last until 30 June 2022.

As with the 80% Guarantee Product, the guarantee fees are set aside to pay default claims and related out-of-pocket expenses.

Since the launch of the 90% SFGS in December 2019 and up to 31 December 2019, the Group had received 23 applications and approved 19 of them, involving a total loan amount of HK$39.2 million.

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

During the year, the Group arranged regular or tailor-made 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 SFGS. The Group also introduced the SFGS in seminars for SMEs to increase public awareness of the SFGS.

Microfinance Scheme

The Group operated the Microfinance Scheme (**MFS**), liaising with participating banks and 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 had been operating smoothly since its launch in June 2012. By the end of 2019, the MFS had approved altogether 221 loans with a total loan amount of HK$55.5 million.