Chairman's Statement

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Riding out the storm with full delivery on core missions and social objectives.

Chan Mo-po, Paul
Chairman

In 2020, the COVID-19 pandemic dealt an unprecedented blow to the global economy which had already been facing uncertainties arising from geopolitical tensions. Many major economies reported contractions of varying degrees as economic activities were very much brought to a standstill by the frequent introduction of various restrictive social distancing measures in the fight against the prolonged pandemic. In contrast, the effective containment of the pandemic since March 2020 coupled with timely macro policies had enabled the Mainland economy to post a strong rebound and achieve a positive growth for the year.

In Hong Kong, the economy registered negative growth for two consecutive years, having suffered successive shocks from escalating China-US trade tensions, local social incidents and the pandemic. While economic activities were disrupted by the volatile local epidemic situation, the residential property market was broadly stable throughout the year. Property prices remained high given the firm end-user demand and low-interest environment.

Purchase of Mortgage Assets

The Group purchased residential mortgage loans of about HK$35.6 million in 2020 as ample liquidity in the market dampened banks' appetite for offloading mortgage assets. Given its pivotal role to reinforce banking stability, the Group stands ready to purchase mortgage loans from the banking sector should the need arise.

Promoting Development of Debt Market

The Group has maintained its position as a major and active corporate debt issuer in Hong Kong for over two decades, playing a key role in debt market development. In 2020, the Group issued a record amount of debt securities in different currencies totalling around HK$58.4 billion (of which HK$29.4 billion with a maturity of one year or above) to satisfy its refinancing and business needs. The Group's credit ratings are AA+ from S&P and Aa3 from Moody's, same as those of the HKSAR Government.

Supporting Home Ownership

With the promotion of wider home ownership as one of its core missions, the Group operates a Mortgage Insurance Programme (**MIP**) which is an integral part of the local property mortgage market. From its inception in 1999 to the end of 2020, the MIP had assisted more than 168,000 families buying their homes. During the year, the Group offered MIP cover for fixed-rate mortgages on a pilot basis to help homebuyers mitigate interest rate volatility risk, thereby also enhancing banking stability in the long run. Separately, the 2019 enhancements to the MIP were followed by a drastic surge in demand. The total amount of loan drawn down in 2020 was HK$98.3 billion, almost tripling that of the preceding year (2019: HK$33.3 billion).

Continuing Support for Small and Medium Enterprises

In 2020, as part of the Government's successive relief packages to tide SMEs over the economic downturn caused by the pandemic, the Group introduced timely a number of enhancements to the SME Financing Guarantee Scheme (**SFGS**) such as extending the offer period and the maximum duration of principal moratorium, providing interest subsidy and most notably, launching the special 100% loan guarantee product under the SFGS (**100% guarantee product**). The new product is fully guaranteed by the Government to alleviate the wage and rent payment burdens of SMEs suffering from severe business decline or loss. By end-2020, the Group had approved more than 25,000 applications involving a total loan amount of HK$39.7 billion under the new product. Together with the 80% and the 90% guarantee products, the three guarantee products under the SFGS had benefitted around 33,000 local SMEs and 540,000 related employees.

To continue easing the cash flow pressure of SMEs under the lingering epidemic, the 2021-22 Budget announced the extension of the application period for the 100% guarantee product to the end of 2021 along with a number of enhancements, including an increase of the maximum loan amount, and an extension of both the maximum repayment period and the principal moratorium duration. In addition, the Government has commissioned the Group to set up a special 100% personal loan guarantee scheme to provide an extra financing option for individuals who have become unemployed during the pandemic.

Promoting Development of Retirement Planning Market

In pursuing its core mission to promote the development of the retirement planning market, the Group launched in 2019 the "HKMC Retirement Solutions" to promote its retirement products, namely, the Reverse Mortgage Programme, the Policy Reverse Mortgage Programme and the HKMC Annuity Plan. All three products under the brand provide retirees with immediate, stable and lifelong streams of income, which are rare on the market. Together it represents a holistic solution for retirement planning.

For most of 2020, the Group stayed in touch with the retirement community via digital channels due to the epidemic. With the successful implementation of the Group's educational initiatives, market receptiveness to the three products has been growing progressively. A business campaign also contributed to a notable increase of reverse mortgage applications in the second half of the year.

In 2020, the eligible age for policyholders of the HKMC Annuity Plan was also lowered to 60 years from 65 so as to benefit a wider group of customers. Despite a challenging operating environment, the annuity business of the Group delivered a resilient performance and recorded a noticeable growth of 56% over 2019 with total premiums received being HK$2.5 billion.

Development of Infrastructure Financing and Securitisation (IFS) Business

Leveraging on its strong credit standing and medium-to-long term funding capability, the Group has been furthering its mandates of promoting banking stability and debt market development by facilitating infrastructure investment and financing flows. In 2020, the Group continued to accumulate infrastructure loan assets and develop its IFS brand. The Group operates its IFS business on prudent commercial principles under a robust risk management framework and will explore securitisation opportunities upon building up an appropriate infrastructure loan portfolio and necessary market experience.

Financial Performance for 2020

The Group reported a net loss of HK$362 million for the year (2019: a net profit of HK$317 million). Firstly, there was prudent accounting treatment of booking upfront sizeable commission expenses arising from significant surge in MIP business, with corresponding increase in premium income being amortised over the life of each relevant loan. Secondly, with growing annuity business, more accounting loss for prudent statutory reserves was recorded.

Adjusting for the amortisation of upfront MIP commission expenses to correspond with the recognition of premium income and excluding the accounting loss of the annuity business, the profit of the Group for the year would become HK$376 million. Besides, notwithstanding its continuous accounting loss, the embedded value of the annuity business was about HK$5.4 billion, indicating that the business should be profitable in the long term.

The capital adequacy ratio of the Group stood at 37.3% (2019: 30.2%), providing solid capital base for further business development. The solvency ratios of the subsidiary for general insurance business and the subsidiary for annuity business were both about 12 times above the relevant minimum regulatory requirements (respective figures in 2019: 39 times and 22 times).

Outlook for 2021

Looking ahead, both the global economy and the Hong Kong economy are envisaged to continue to face considerable challenges but will likely see stronger recovery momentum in the second half of the year as the pandemic gets under better control. Apart from the effectiveness of the vaccination schemes, the pace of global economic recovery will also hinge on a host of other factors such as international trade tensions, geopolitics and possible financial risks associated with the surging global public debt. Against this backdrop, the Group will stay vigilant and continue to deliver on 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.

Chan Mo-po, Paul
Chairman