Business Review

Performance Highlights

The major achievements of the Group for the year included:

- helping homebuyers borrow a total of HK$98.3 billion in mortgage loans through the Mortgage Insurance Programme (**MIP**)
- receiving 28 applications since the launch of the Fixed-rate Mortgage Pilot Scheme in May 2020
- approving 4,370 applications since the launch of the Reverse Mortgage Programme (**RMP**) in July 2011, with an average property value of around HK$5.6 million
- issuing a total of 2,606 policies of the HKMC Annuity Plan (**Annuity Plan**) in 2020 with total premiums received at HK$2.5 billion, representing an increase of 56% over 2019. The average premium amount per policy also rose by 31% to HK$970,000
- launching the Special 100% Loan Guarantee (**100% guarantee product**) under the SME Financing Guarantee Scheme (**SFGS**) in April 2020, to alleviate the burden of paying employee wages and rents by enterprises which are suffering from reduced income to help minimise enterprise shutdowns and layoffs
- introducing further enhancement measures to the 80%, 90% and 100% guarantee products amidst the rapid deterioration of the business environment following the outbreak and spread of COVID-19
- extending the application period of the relief measure under the 80% and 90% guarantee products in the form of a principal moratorium launched in September 2019 for 6 months to end-March 2021 to alleviate cash flow pressure on small and medium-sized enterprises (**SMEs**). The maximum duration of the principal moratorium has been increased from 12 months to 18 months
- approving more than 19,300 and 2,600 applications for loans amounting to HK$82.2 billion and HK$4.9 billion since the launch of the 80% and 90% guarantee products in May 2012 and December 2019 respectively, benefitting more than 13,000 local SMEs and 280,000 related employees
- approving more than 25,300 applications for loans amounting to HK$39.7 billion under the 100% guarantee product since its launch in April 2020, benefitting more than 19,500 local SMEs and 252,500 related employees
- being on track in executing the 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$35.6 million of residential mortgage loans
- issuing a record HK$58.4 billion of debt securities (HK$29.4 billion of which with a maturity of one year or above), thus promoting the development of the local debt market and maintaining the Group's position as one of the most active Hong Kong dollar corporate bond issuers during the year
- maintaining the Group's long-term foreign and local currency ratings of AA+ by S&P Global Ratings (**S&P**) and Aa3 by Moody's Investors Service, Inc. (**Moody's**) as at end-2020, same as the HKSAR Government
- safeguarding excellent credit quality, with a non-performing loan ratio of 0.07% across all asset classes and over-90-day delinquency ratios of 0.01% for the mortgage insurance portfolio and 0.05% for the Hong Kong residential mortgage portfolio (banking sector: 0.04%) as at 31 December 2020

The Group maintained a solid financial position in 2020:

- capital adequacy ratio of 37.3%, which is well above the minimum requirement of 8% stipulated by the Financial Secretary
- solvency ratios of 12 times for both general insurance business and annuity business, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority

Market Overview

General Economic Conditions

In 2020, the unpredictable COVID-19 pandemic dealt a severe blow to the global economy which was already facing uncertainties arising from geopolitical tensions. Many major economies reported contractions of varying degrees as economic activities were brought to a standstill amid the prolonged epidemic. Since the second quarter of 2020, effective containment of the pandemic coupled with timely macro policies had enabled the Mainland economy to post a strong rebound and achieve a positive growth for the year.

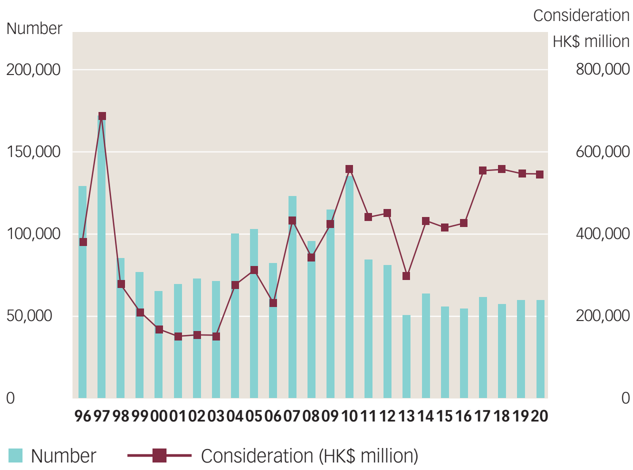
In Hong Kong, the economy registered negative growth for two consecutive years, having suffered successive shocks from external headwinds, domestic social incidents and the pandemic. While economic activities were hindered by the volatile local epidemic situation, the residential property market was generally stable throughout the year. Property prices remained high given the firm demand and low-interest environment, way over the affordability of the general public. Against this backdrop, Hong Kong's economy contracted by 6.1% in 2020 from a year earlier, following the 1.2% annual decline in 2019.

Property Market

The residential property market registered a strong rebound in the first half of 2020, with the overall number and consideration of residential property transactions increasing by 153% and 162% respectively between January and June 2020. Since June, sentiments towards the market have been mixed, due to the COVID-19 pandemic and contained housing market activities. Overall, the number of residential property transactions in 2020 increased slightly by 0.1% year on year to 59,880, while the consideration of transactions recorded a 0.1% year-on-year decrease (**Figure 1**).

Figure 1

Agreements for Sale and Purchase of Residential Building Units

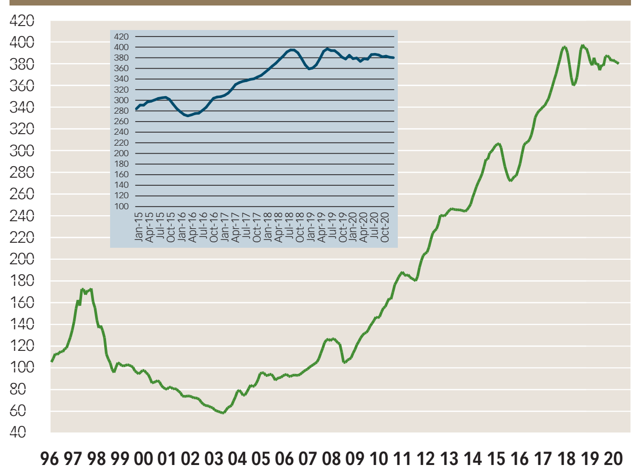


Source: Land Registry

Transaction volumes in the primary and secondary markets have been fluctuating throughout the year. In general, residential property prices[1] recorded a 0.2% cumulative increase in 2020, compared with a 5.5% increase in 2019 (**Figure 2**).

Figure 2

Private Domestic Price Index (1999 = 100)



Source: Rating and Valuation Department

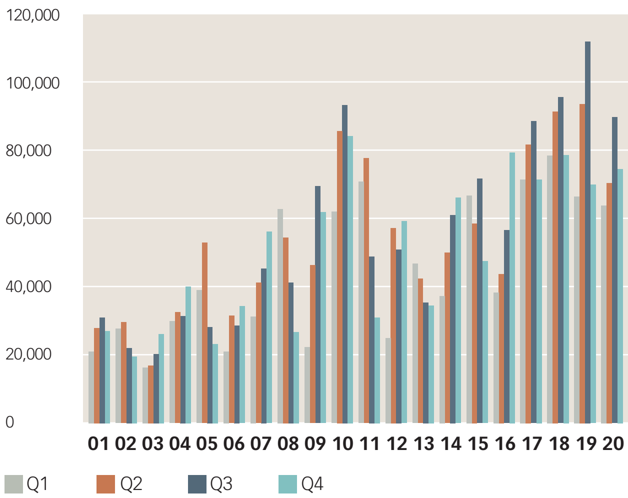
[1] Source: The Private Domestic Price Index published by the Rating and Valuation Department

Mortgage Market

Overall, the mortgage rate in Hong Kong stayed low in 2020. The Best Lending Rates (**BLRs**) remained unchanged at the range of 5% and 5.5% throughout the year. The Hong Kong Interbank Offered Rate (**HIBOR**) started high in the first four months. It started to drop and remained low throughout the rest of 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 0.15% and 0.83% from May to December 2020. Mortgage lending recorded steady growth, with the total outstanding value of all residential mortgage loans rising by 10.6% to HK$1,673.89 billion. The gross value of new loans drawn down[3] dropped by 12.7% year on year in 2020, compared with a decrease of 0.6% in 2019 (**Figure 3**).

Figure 3

New Residential Mortgage Loans Drawn Down

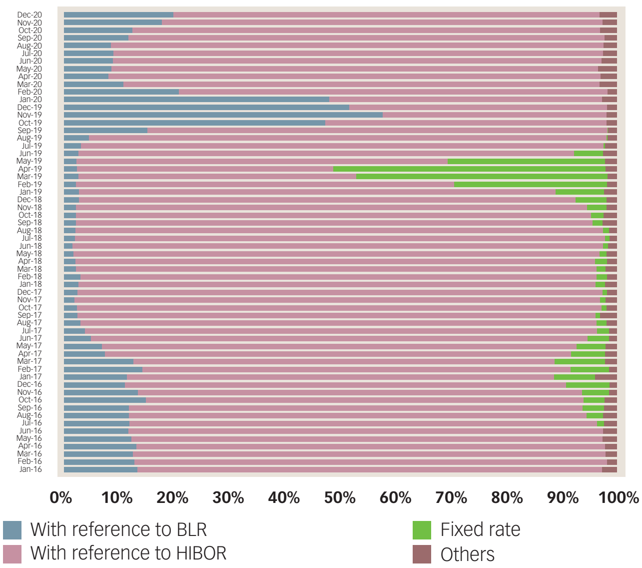


Source: Hong Kong Monetary Authority

HIBOR-based mortgages appeared to be favoured by borrowers for much of the year. As at December 2020, 95% of new mortgage loans were benchmarked against the HIBOR. The proportion of BLR-based mortgages was high at 16.5% in January 2020 but started to drop from that point and remained low for most months of the year. As at December 2020, BLR-based mortgages accounted for only 2.6% of the market share; whereas fixed-rate plans had no share in the mortgage loan market throughout 2020 (**Figure 4**).

Figure 4

Pricing of New Residential Mortgage Loans Approved



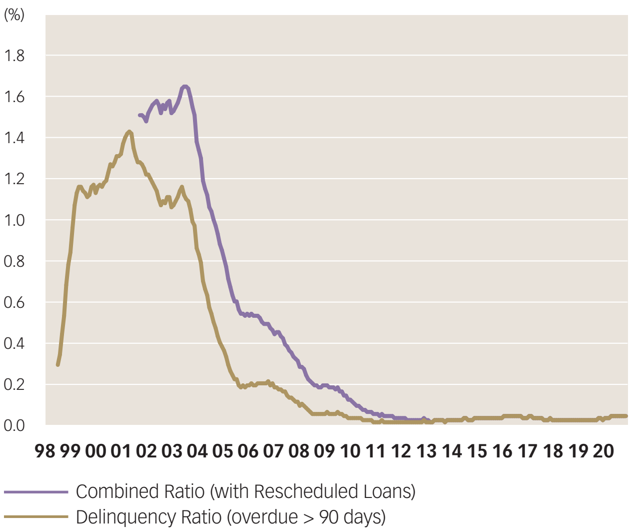
Source: Hong Kong Monetary Authority

[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 2020. The over-90-day delinquency ratio of mortgage loans stayed at the range of 0.02–0.04% throughout the year, reflecting banks' prudent underwriting standards. The combined ratio, which includes both the delinquent and rescheduled loans, also maintained at a low level at 0.02–0.04% during the same period (**Figure 5**). The estimated number of residential mortgage loans in negative equity as at end-December 2020 was 185 cases, with an aggregate value of HK$1,060 million recorded[4].

Figure 5

Delinquency Ratio of Residential Mortgage Loans



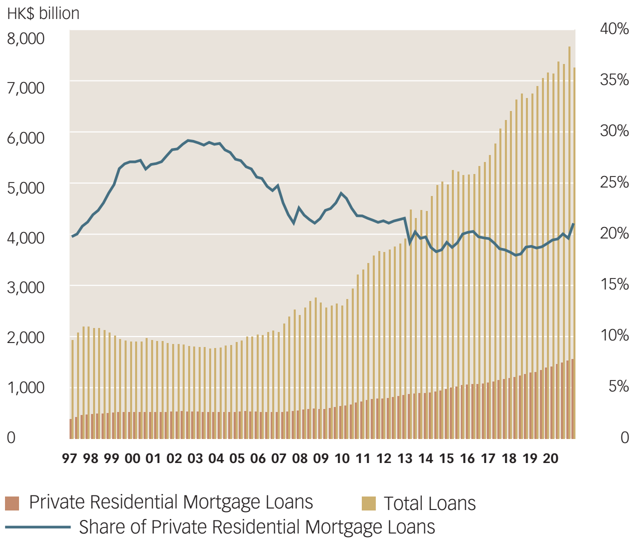
Source: Hong Kong Monetary Authority

Banking-Sector Exposure

The total outstanding value of property-related loans in 2020 amounted to HK$3,214.92 billion, representing about 43.6% of banks' total loans (**Figure 6**). Of these property-related mortgage loans, private residential properties accounted for HK$1,580.4 billion (end-2019: HK$1,434.8 billion) and subsidized flats accounted for HK$93.54 billion (end-2019: HK$78.03 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 2020, the Group acquired about HK$35.6 million of residential mortgage loans.

Funding

In 2020, global financial markets and the real economy were faced with enormous challenges from the ongoing US-China geopolitical uncertainties and evolving COVID-19 pandemic. Amidst the volatile 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 a record amount of debt totalling HK$58.4 billion in 2020, HK$29.4 billion of which with a maturity of one year or above, in a cost-effective manner. At the end of the year, the Group's total outstanding debt amounted to HK$61.9 billion.

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.

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$12 billion in October 2020 to meet growing demand from investors. The programme enables multi-currency issuances and incorporates flexible product features to increase its appeal to local and overseas 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 2020 the Group launched 72 MTN private debt issues totalling an equivalent of HK$29.4 billion, with a maturity of one year or above. Together with the 72 MTN issues with a maturity of less than one year amounting to HK$29.0 billion, the Group has raised HK$58.4 billion through 144 issues under the MTN Programme during the year.

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.

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 provided the Group with an important liquidity fallback to enable 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.

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. In October 2020, the Facility was further increased to HK$80 billion to provide the Group with additional support to achieve its policy objective. Both actions demonstrated 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 2020.

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 31 December 2020)

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 2020 and November 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 if needed... 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 policy role to address local Hong Kong banks' liquidity and balance sheet management needs by purchasing mortgage and loan portfolios from banks, 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 experienced and competent board members. 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. We expect HKMC to maintain a healthy buffer of highly liquid assets, which is more than sufficient to cover its short-term funding needs."

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 the provision of mortgage insurance and reverse mortgages through its general insurance subsidiary. As part of its mandate to promote banking stability, the company acts as an alternative lender of last resort through the purchase of residential mortgages from banks in times of stress."

"The government, through the Exchange Fund, provides HKMC with a HK$80 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%."

"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 2020."

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.

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

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.

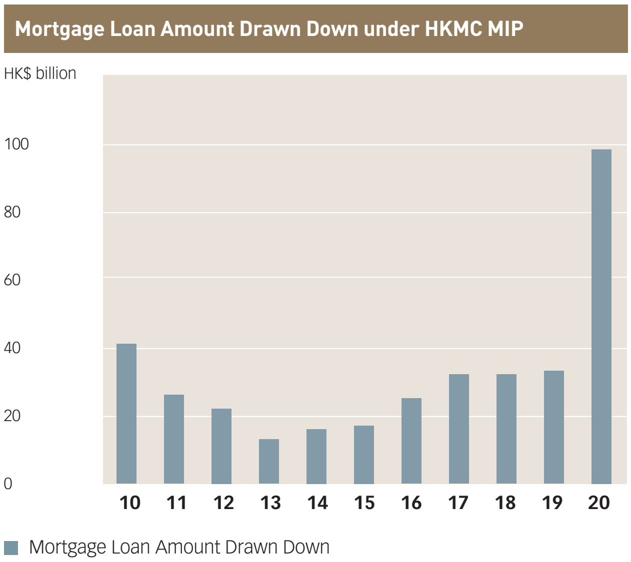
The Group continues to participate in a step-by-step manner in the infrastructure financing market on commercially viable and financially sustainable terms, while observing prudent commercial principles and risk management policies. In response to the changing macro-economic environment and global pandemic, the Group has taken a prudent approach with corresponding adjustment in its asset acquisition strategy and will remain vigilant on their development. It will explore securitisation opportunities after building up the infrastructure loan portfolio and necessary experience.

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 increased significantly in 2020, and the volume of loans drawn down under the MIP increased to HK$98.3 billion in 2020 from HK$33.3 billion in 2019 (**Figure 7**). About 86% 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. Since 1999, the MIP has helped more than 168,000 families achieve their dream of home ownership, with an aggregate loan drawdown of HK$499 billion.

Figure 7



Source: HKMC

Fixed-rate Mortgage Pilot Scheme

Announced in the Financial Secretary's 2020-21 Budget, the Group introduced a pilot scheme of fixed-rate mortgages for 10, 15 and 20 years under the Fixed-rate Mortgage Pilot Scheme in May 2020. It aims to provide an alternative financing option to homebuyers for mitigating their risks arising from interest rate volatility, thereby enhancing banking stability in the long run. The aggregate loan amount of this pilot scheme is HK$1 billion, and the maximum loan amount of each private residential mortgage is HK$10 million.

HKMC Retirement Solutions

In 2019, the Group launched the "HKMC Retirement Solutions", under which its retirement products, namely the Reverse Mortgage Programme (**RMP**), Policy Reverse Mortgage Programme (**PRMP**) and HKMC Annuity Plan, are promoted collectively as a holistic solution to retirement planning. A loyalty programme "AMIGOS By HKMC" (**AMIGOS**) was also formed in the same year to facilitate a close connection between the Group and its customers. Response to the loyalty programme has been encouraging. As at the end of December 2020, AMIGOS has successfully recruited over 3,500 members.

In view of the COVID-19 pandemic outbreak, the Group stayed in touch with the retirement community via the digital platform for most of the year. The inaugural issue of AMIGOS e-Magazine was launched in April 2020, which was the first of its kind for the Group, to promote a healthy lifestyle and provide latest updates on the Group. It covers a wide spectrum of topics including retirement planning, health and wellness, leisure, arts and culture. The "HKMC YouTube Channel" continues to serve as an effective platform for the Group to connect with its stakeholders and the wider public. A series of short videos including those on the RMP, PRMP, HKMC Annuity Plan and Fixed-rate Mortgage Pilot Scheme have been published on the "HKMC YouTube Channel" to introduce the features and benefits of different products.

In recognition of its ongoing effort and 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 for three consecutive years. Looking forward, the Group will continue to explore collaboration opportunities with different stakeholders to educate the public on the benefits of "HKMC Retirement Solutions" across different sectors in the community.

Reverse Mortgage Programme

Thanks to the Group's ongoing efforts in educating the public on retirement solutions, receptiveness to the RMP has been growing over the years. More and more people welcome the idea of using the RMP as an instrument to generate a stable stream of monthly income after retirement. The Group from time to time reviews the RMP and introduces enhancement features to better cater for the needs of retirees. During the year, the RMP was enhanced to allow property owned by a borrower through a limited company incorporated in Hong Kong to be used as security, in addition to the existing arrangement for property owned by the borrower in personal name. Meanwhile, the Group continued to cooperate with different stakeholders, including banks, non-governmental organisations, professional bodies and social enterprises via multiple platforms for public education on the RMP.

To increase the attractiveness of the RMP, the Group launched a business campaign via AMIGOS in late June 2020 which resulted in a significant growth of nearly 50% in RMP applications received in the second half of 2020, compared with the first half of the year. Moreover, many customers expressed their heartfelt compliments for the Group's thoughtful and value-added customer services.

Policy Reverse Mortgage Programme

To better meet the needs of retirees through an alternative retirement planning option, the Group launched the PRMP in May 2019 by replicating the business model of the RMP. In 2020, an advertising campaign was rolled out on social media platforms and on public transport to enhance public awareness of the PRMP. Meanwhile, joint promotions with banks and insurance companies continued to reach out to potential borrowers through the latter's customer base. To increase the attractiveness of the PRMP, a time-limited promotional offer was introduced to selected customers via AMIGOS. The Group will keep exploring collaboration opportunities with insurance companies as referrers of new life insurance policies potentially eligible under the PRMP.

HKMC Annuity Plan

HKMC Annuity Limited (**HKMCA**) aims to offer the public an alternative option for retirement financial planning and to foster the development of the local annuity market. The Annuity Plan helps senior citizens to transform their savings into a life-long stream of guaranteed, stable and fixed annuity income to support a hassle-free retirement. Despite a challenging operating environment, the HKMCA has delivered a resilient performance in 2020 and concluded the year on a strong note. As of end-2020, total premiums received during the year stood at HK$2.5 billion, representing an increase of 56% over 2019. The average premium amount per policy also rose by 31% to HK$970,000.

During the year, the HKMCA continued to enhance its product and services in order to provide a better solution to its target segments. The HKMCA lowered the minimum eligible age for the Annuity Plan to 60 from 65 in February 2020 to facilitate early participation of the Annuity Plan for those in need and subsequently introduced a new Video-Conferencing Application Service for remote application in September 2020.

The HKMCA continued to adopt a multi-pronged promotion strategy by engaging different celebrities and key opinion leaders for different target segments. A well-known local celebrity, Ms Angelina Lo Yuen-yen, was engaged in a two-episode television commercial to highlight the key features of a number of retirement financial tools in the second half of 2020. With her positive and down-to-earth image, the HKMCA has succeeded in raising public attention and awareness of the Annuity Plan. To reach a wider market segment, Mr Leung Wing-mo, former Assistant Director of the Hong Kong Observatory, was also engaged to share retirement financial tips on the social media platforms. Over the course of the year, the HKMCA has also conducted several online talks and seminars with large corporations and professional bodies to further promote the concept of life annuities and longevity risk.

To build a more target-effective platform for public education and promotion, the HKMCA's Facebook fan page was launched in May 2020 with the aim of sharing retirement financial planning knowledge and daily tips with the public in a humorous and easily digestible manner. The launch of the Facebook fan page marked a new milestone for the HKMCA to further expand its footprint in the social media domain.

Enhancements to the 80% and 90% guarantee products under SME Financing Guarantee Scheme

The 80% and 90% guarantee products are backed by the Government's guarantee commitment. The 80% guarantee product was launched in May 2012 to help SMEs obtain loans for general working capital or purchase of equipment or other assets to support business operations. The 90% guarantee product was launched in December 2019 to provide additional support to smaller-sized enterprises and businesses with relatively less operating experience to obtain financing. The guarantee fees are set aside to pay default claims from participating lenders and out-of-pocket expenses to be incurred under the arrangement, with any shortfall to be borne by the Government. A total of 34 and 19 Authorized Institutions (**AIs**) participate as lenders in the 80% and 90% guarantee products respectively. The application period for the 80% and 90% guarantee products is up to end-June 2022.

With the rapid deterioration of the business environment following the outbreak and spread of COVID-19, the Government announced further enhancements to the 80% and 90% guarantee products to provide enterprises with much-needed financial support to ease their cash flow problem. The following further enhancements have taken effect on 29 May 2020:

(i) The maximum facility amount per enterprise and its related entities is increased from HK$15 million to HK$18 million for the 80% guarantee product and from HK$6 million to HK$8 million for the 90% guarantee product;

(ii) Eligibility criteria are relaxed, for a one-year period until 31 May 2021, to cover listed companies in Hong Kong subject to personal guarantee by shareholder(s) directly or indirectly holding more than 50% of the equity interest of the listed companies; and

(iii) To provide an interest subsidy for a one-year period for the facilities under the 80% and 90% guarantee products so as to align its annual interest rate to that of the facilities under the 100% guarantee product, subject to a cap of 3% per annum.

In addition, the application period for the principal moratorium arrangement under the 80% and 90% guarantee products launched in September 2019 to alleviate cash flow pressure of SMEs has been extended to end on 31 March 2021. In September 2020, the maximum principal moratorium period has been increased from 12 months to 18 months in aggregate and the loan guarantee period can be extended correspondingly.

As at 31 December 2020, the Group had approved more than 19,300 and 2,600 applications for loans amounting to HK$82.2 billion and HK$4.9 billion since the launch of the 80% and 90% guarantee products, benefitting more than 13,000 local SMEs and 280,000 related employees.

Launch of Special 100% Loan Guarantee under SME Financing Guarantee Scheme

The Financial Secretary announced in the Budget Speech in 2020 the introduction of a Special 100% Loan Guarantee (**100% guarantee product**) under the SFGS. The new 100% guarantee product aims to alleviate the burden of paying employee wages and rents by SMEs which are suffering from reduced income, thereby help minimise enterprise shutdowns and layoffs. The 100% guarantee product is applicable to SMEs in all sectors. The loans are fully guaranteed by the Government and sold to the HKMC after loan drawdown by participating lenders.

Eligible enterprises should have been operating for at least three months as at end-December 2019 and have suffered at least a 30% decline in sales turnover in any month since February 2020 compared with the monthly average of any quarter in 2019.

An interest rate of the Company's Prime Rate minus 2.5% per annum is charged. All guarantee fees are waived. The 100% guarantee product started to receive applications on 20 April 2020.

To further alleviate cash flow pressure on SMEs, the Government introduced further enhancements to the 100% guarantee product in September 2020. The maximum loan amount per enterprise has been raised from the total amount of employee wages and rents for 6 months to that for 12 months, or HK$5 million, whichever is lower. The maximum repayment period has been increased from 3 years to 5 years. Borrowers may opt for principal moratorium of 12 months in aggregate.

Since the launch of the 100% guarantee product up to 31 December 2020, the Group had approved 25,328 applications, involving a total loan amount of HK$39.7 billion.

The 80%, 90% and 100% guarantee products are backed by the Government's total guarantee commitment of HK$183 billion which can be used interchangeably among the three guarantee products.

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. 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 scheme.