Business Review

Business Review

Performance Highlights

The major achievements of the Group for the year included:

- helping homebuyers borrow a total of HK$132.6 billion in mortgage loans through the Mortgage Insurance Programme (**MIP**)
- receiving 94 applications since the launch of the Fixed Rate Mortgage Scheme in May 2020
- approving 5,156 applications since the launch of the Reverse Mortgage Programme (**RMP**) in July 2011, with an average property value of around HK$5.7 million
- issuing a total of 4,059 policies of the HKMC Annuity Plan (**Annuity Plan**) in 2021 with total premiums of HK$3 billion, representing an increase of 18% over 2020
- launching a time-limited 100% Personal Loan Guarantee Scheme (**PLGS**) in April 2021 to provide a supplementary financing option to individuals suffering from cessation of main recurrent incomes, to help them tide over the interim difficulty. A total of around 36,000 applications have been approved involving loan amount of HK$2.48 billion since its launch in 2021
- introducing further enhancements to the support measures under the SME Financing Guarantee Scheme (**SFGS**). The maximum duration of principal moratorium for the 80% Guarantee Product, the 90% Guarantee Product and the Special 100% Loan Guarantee (**100% Guarantee Product**) has been extended from 18 months to 24 months, and the application period for principal moratorium has also been extended to end-June 2022
- extending the application period of the 100% Guarantee Product by six months to end-June 2022 to alleviate cash flow burden of SMEs
- approving more than 21,300, 5,500 and 47,000 applications for loans amounting to HK$92.5 billion, HK$10.6 billion and HK$81.6 billion since the launch of the 80%, 90% and 100% Guarantee Products respectively, benefitting more than 45,000 local SMEs and 640,000 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
- signing of Memoranda of Understanding to strengthen the collaboration between the Group and industry players in the infrastructure financing space
- purchasing about HK$199.6 million of residential mortgage loans
- issuing a record HK$109.5 billion of debt securities (HK$84.2 billion of which with maturity of one year or above), thus promoting the development of the local debt market and maintaining the Group's position as the most active issuer of the Hong Kong dollar and offshore Renminbi (**CNH**) corporate bond markets during the year. The dual-currency public bond offering of HK$7 billion 2-year and CNH2.5 billion 3-year MTN issuance launched in February 2021 was awarded the "Best Quasi-Government Bond" by The Asset Triple A Country Awards 2021
- 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-2021, same as the HKSAR Government
- safeguarding excellent credit quality, with a non-performing loan ratio of 0.08% across all asset classes and over-90-day delinquency ratios of 0.008% for the mortgage insurance portfolio and 0.11% for the Hong Kong residential mortgage portfolio (banking sector: 0.04%) as at 31 December 2021

The Group maintained a solid financial position in 2021:

- capital adequacy ratio of 23.4%, which is well above the minimum requirement of 8% stipulated by the Financial Secretary
- solvency ratios of the Group's two insurance subsidiaries were 7 times (2020: 12 times) for the general insurance business and 15 times (2020: 12 times) for the annuity business, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority

Market Overview

General Economic Conditions

In 2021, global economies were recovering from the pandemic, supported by the rising vaccination rate and sustained fiscal and monetary policy support. However, the pace of recovery varied, with emerging economies generally lagging behind advanced economies. Strong pent-up demand and pervasive supply chain bottlenecks fuelled inflation pressure, especially in the US, raising concerns over the tightening of global financial conditions. In Mainland China, the economy continued to improve steadily with solid trading and production activities.

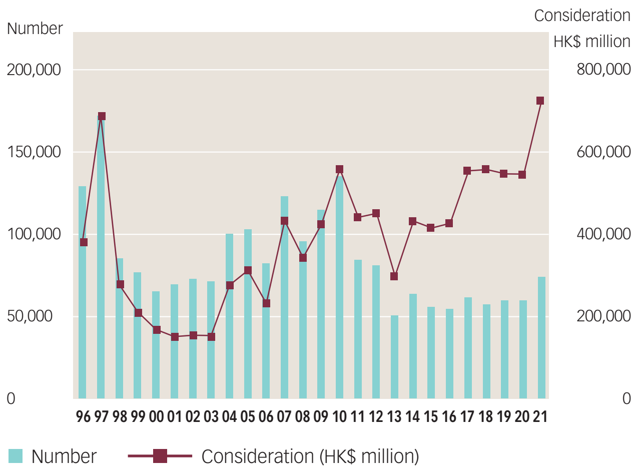
In Hong Kong, visible economic growth was recorded alongside the continued revival of global economies, improved domestic demand and labour market, and stable local epidemic situation. The residential property market was active throughout the year. Property prices remained high given the firm end-user demand and low-interest environment. Against this backdrop, Hong Kong's economy grew modestly by 6.4% in 2021 from a year earlier, following the 6.1% annual decline in 2020.

Property Market

The residential property market was active in 2021. Between February and July 2021, the overall number and consideration of residential property transactions increased by 47.1% and 65.9% respectively compared to the corresponding period in 2020. Despite a decline in the sales and purchase agreements since August 2021, the number of residential property transactions in 2021 increased by 28.1% year on year to 74,297, while the consideration of transactions recorded a 38.8% year-on-year increase (**Figure 1**).

Figure 1

Agreements for Sale and Purchase of Residential Building Units

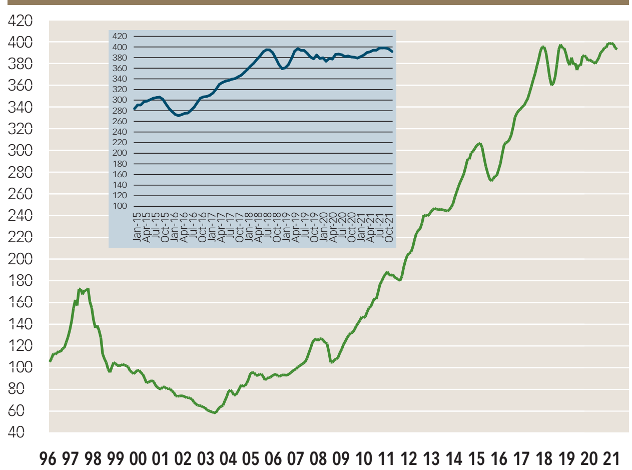


Source: Land Registry

Transaction volumes in the primary and secondary markets were fluctuating throughout the year. In general, residential property prices[1] recorded a 3.5% cumulative increase in 2021, compared with a 0.2% increase in 2020 (**Figure 2**).

Figure 2

Private Domestic Price Index (1999 = 100)



Source: Rating and Valuation Department

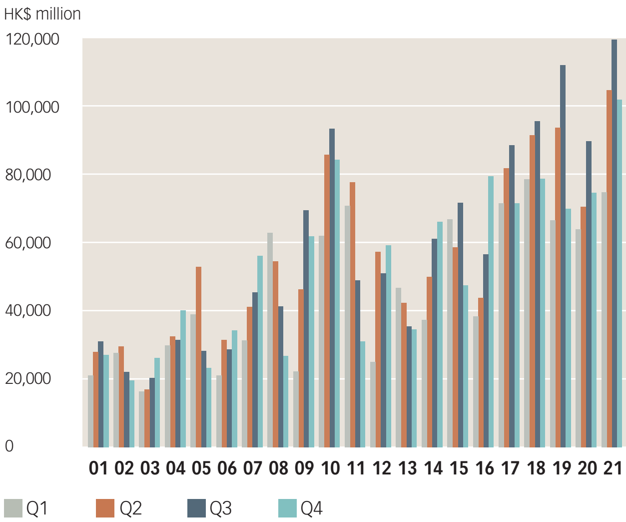
[1] Source: The Private Domestic Price Index published by the Rating and Valuation Department

Mortgage Market

Overall, the mortgage rate in Hong Kong stayed low in 2021. The Best Lending Rates (**BLRs**) remained unchanged at the range of 5% and 5.5%, and the Hong Kong Interbank Offered Rate (**HIBOR**) was relatively low throughout the year. According to the Monthly Statistics Bulletin announced by the Hong Kong Monetary Authority (**HKMA**), the one-month HIBOR in terms of period average[2] moved within the range of 0.06% and 0.20% from January to December 2021. Mortgage lending recorded a steady growth, with the total outstanding value of all residential mortgage loans rising by 10% to HK$1,841.05 billion. The gross value of new loans drawn down[3] increased by 34.2% year on year in 2021, compared with a decrease of 12.7% in 2020 (**Figure 3**).

Figure 3

New Residential Mortgage Loans Drawn Down

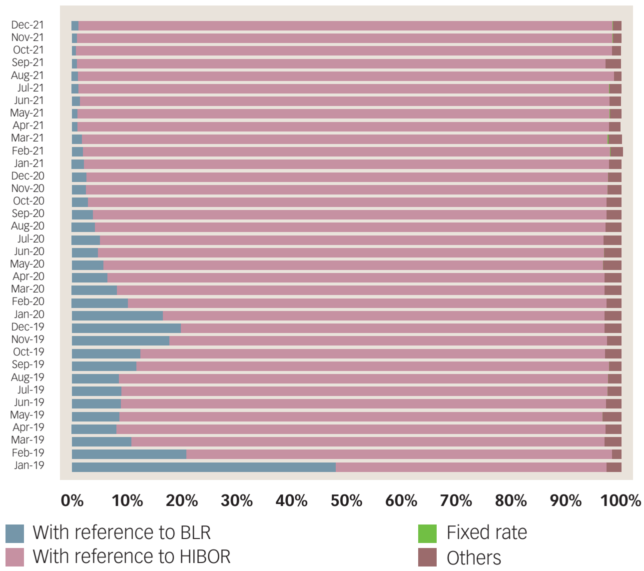


Source: Hong Kong Monetary Authority

HIBOR-based mortgages appeared to be favoured by borrowers for much of the year. As at December 2021, 97.2% of new mortgage loans were benchmarked against HIBOR. The proportion of BLR-based mortgages remained low throughout the year, ranging between 0.7% and 2.2%, whereas fixed-rate plans had minimal share in the mortgage loan market throughout 2021 (**Figure 4**).

Figure 4

Pricing of New Residential Mortgage Loans Approved



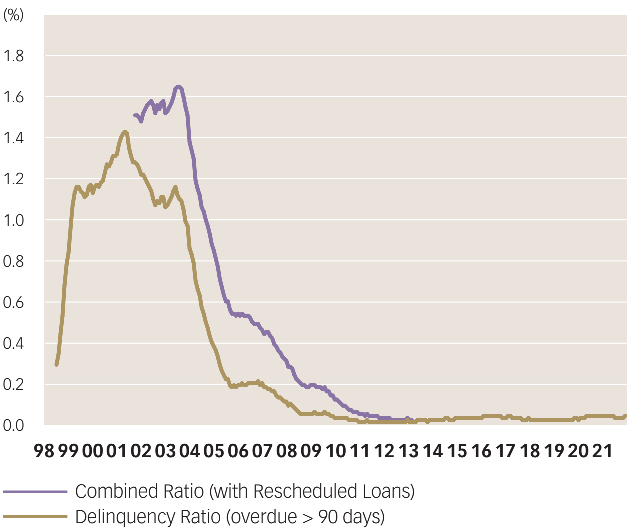
Source: Hong Kong Monetary Authority

[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 2021. The over-90-day delinquency ratio of mortgage loans stayed low at 0.03-0.04% 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 0.03–0.04% during the same period (**Figure 5**). The estimated number of residential mortgage loans in negative equity as at end-December 2021 was 21 cases, with an aggregate value of HK$126 million recorded[4].

Figure 5

Delinquency Ratio of Residential Mortgage Loans



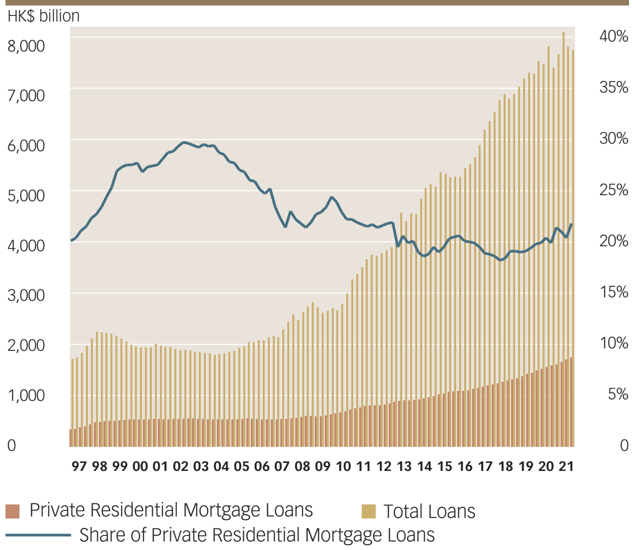
Source: Hong Kong Monetary Authority

Banking-Sector Exposure

The total outstanding value of property-related loans in 2021 amounted to HK$3,446.04 billion, representing about 44.6% of banks' total loans (**Figure 6**). Of these property-related mortgage loans, private residential properties accounted for HK$1,735.1 billion (end-2020: HK$1,580.4 billion) and subsidized flats accounted for HK$105.99 billion (end-2020: HK$93.54 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 2021, the Group acquired about HK$199.6 million of residential mortgage loans.

Funding

In 2021, global financial markets and the real economy were beset with enormous challenges from the evolving COVID-19 pandemic, shifts of monetary policy of the major central banks, and geopolitical tensions. 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 solid credit ratings, the Group raised a record amount of debts totalling HK$109.5 billion in 2021, HK$84.2 billion of which with maturity of one year or above, in a cost-effective manner. At the end of the year, the Group's total outstanding debts amounted to HK$115.7 billion.

Being one of the most active bond issuers in Hong Kong, the Group will continue to issue debt securities 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 ratings, the Group's debt issues have been 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$20 billion in June 2021 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 2021 the Group launched 279 MTN issues with total issuance amount of HK$109.5 billion under the MTN Programme, including dual-tranche public bond issues of HK$7 billion 2-year and CNH2.5 billion 3-year MTN issuance in the institutional market. The HK$10 billion equivalent public bond issues were the largest public corporate bond offering with book-building and pricing conducted in Hong Kong, and were awarded the "Best Quasi-Government Bond" by The Asset Triple A Country Awards 2021. These not only helped diversify the Group's funding sources and broaden its investor base in a cost-effective manner, but also supported the Group to achieve its core policy missions and social objectives.

Out of the total, 213 issues amounting to HK$84.2 billion were of one year or longer maturity, the remaining 66 MTN issues totalling HK$25.3 billion were of less than one 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 the 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 2021.

Credit Ratings

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 2021)

The credit rating agencies have made favourable assessments on the Group's credit standings. The following comments are extracts from the credit rating reports of S&P and Moody's in August and November 2021 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 to HKMC if needed. ... We believe HKMC's undertaking of additional policy initiatives over the past several years has further solidified its ties with the Hong Kong government, and reinforces its integral link with the government."

"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."

"We believe that HKMC benefits from the presence and effective oversight of its experienced and competent 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 corporation 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, debt issuance, and the provision of mortgage insurance, reverse mortgages and annuity business through its general insurance and annuity subsidiaries. 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 Hong Kong 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 annuity business and an additional HK$2.5 billion capital injection in June 2021, 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%. 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 2021."

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. All MBS had been redeemed by 2013.

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 the secondary loan market, as well as co-finances infrastructure projects with multilateral development banks and commercial banks in the primary market.

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.

Since formal launch of the business in 2019, the Group has participated in over US$1 billion of infrastructure loans spreading over Asia Pacific, Middle East and Latin America. To strengthen collaboration with industry players in the infrastructure financing space, the Group has also entered into a Master Cooperation Agreement with International Finance Corporation, various Memoranda of Understanding with China Export & Credit Insurance Corporation and a number of major commercial banks.

The Group continues to team up with industry players to facilitate the development of commercially viable infrastructure projects globally, and will explore securitisation opportunities upon building up an appropriate infrastructure loan portfolio and necessary market experience.

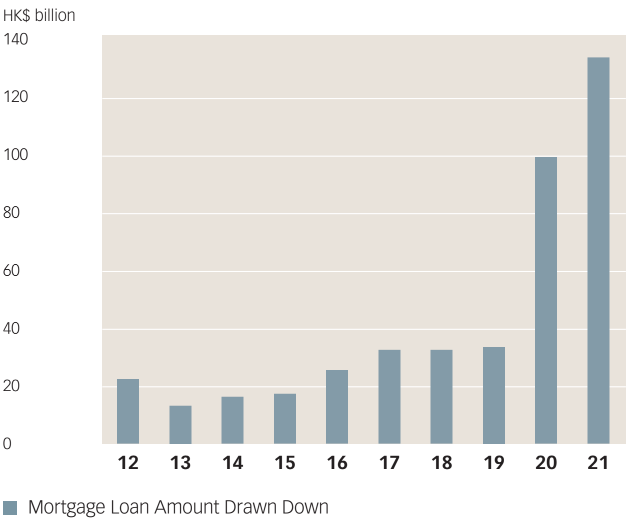
Mortgage Insurance Programme

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 has increased since 2020, and the volume of loans drawn down under the MIP increased to HK$132.6 billion in 2021 from HK$98.3 billion in 2020 (**Figure 7**). About 87% 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 192,000 families achieve their dream of home ownership, with an aggregate loan drawdown of HK$631.6 billion.

Figure 7

Mortgage Loan Amount Drawn Down under HKMC MIP



Source: HKMC

Fixed Rate Mortgage 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 maximum loan amount of each private residential mortgage under the scheme is HK$10 million. To continue filling the market gap in respect of fixed-rate mortgage products, the scheme was made permanent in November 2021. The fixed interest rates under the scheme's pilot phase were maintained until end-January 2022. Starting from February 2022, the Group determines the fixed interest rates from time to time in accordance with factors such as cost of funds, business and market conditions, and will announce the fixed interest rates monthly. As at end-December 2021, a total of 94 applications have been received since launch of the scheme in May 2020.

HKMC Retire 3

To reinforce its positioning as a unique market player and trustworthy provider of retirement planning solutions that cater for the needs of people at different life stages, the Group launched in late June 2021 a new brand name for the HKMC Retirement Solutions, i.e. "HKMC Retire 3", with the Reverse Mortgage Programme (**RMP**), the Policy Reverse Mortgage Programme (**PRMP**) and the HKMC Annuity Plan (**Annuity Plan**) promoted together as a holistic solution for retirement planning. These three products share the characteristics of providing retirees with an immediate, stable and lifelong stream of income after retirement. To increase public awareness of the brand, a multi-faceted promotion campaign was launched across different media channels and public transport.

The Group values the overall quality of retirement life of its customers, hence the provision of diversified retirement information and activities to members of the loyalty programme "AMIGOS By HKMC" (**AMIGOS**) which was launched in 2019 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 2021, AMIGOS had successfully recruited around 5,400 members. In view of the pandemic outbreak, the Group stayed in touch with the retirement community via the digital platform for most of the year. Online events were held to interact with AMIGOS members in a relaxing way. The HKMC YouTube Channel remains an effective platform to educate the public. During the year, a series of short videos, including those on the RMP, PRMP, HKMC Annuity Plan and Fixed Rate Mortgage Scheme, have been published on the HKMC YouTube Channel to introduce the benefits of different products and reach a large audience within a short time.

In recognition of its ongoing effort and contribution to the development and improvement of the overall financial literacy in Hong Kong, the Group was presented with a Certificate of Appreciation in the Investor and Financial Education Award organized by the Investor and Financial Education Council. Looking forward, the Group will continue to help citizens establish proper retirement financial planning concepts through continuous education and promotion.

Reverse Mortgage Programme

With 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. In response to the positive customer response to the time-limited promotional offer introduced in June 2020 with a fixed interest rate of 3% per annum, the Group made permanent the fixed-rate mortgage plan under the RMP in July 2021. Furthermore, to provide customers with more options, a higher payout fixed-rate mortgage plan was also launched in July 2021 to AMIGOS members (**Enhanced 3% Fixed-rate Mortgage Plan**), under which borrowers can choose to pay a higher monthly mortgage insurance premium in return for a higher amount of monthly payout and lump-sum payout. Thanks to the positive response to the Enhanced 3% Fixed-rate Mortgage Plan, RMP applications have recorded a significant growth of more than 13% in the second half of 2021, compared to that in the first half of the year.

The Group from time to time reviews the RMP and introduces enhancement features to cater for the needs of retirees. During the year, the RMP was enhanced by increasing the specified property value cap to HK$25 million and simplifying the haircut mechanism for monthly payout calculation, extending the lump-sum payout purposes to cover the repayment of the borrower's loans including revolving credit facilities, as well as waiving the requirement for a building inspection report for properties exceeding 50 years of age under specific circumstances. Meanwhile, the Group continued to cooperate with different stakeholders via multiple platforms for public education on the RMP. Joint promotions with banks continued leveraging on their branch networks and online channels to reach out to more potential customers.

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. To enhance public awareness of the PRMP, joint promotions with banks and insurance companies continued to reach out to more potential borrowers through their customer base. Meanwhile, an enhancement was launched in July 2021, which extends the lump sum payout purposes to cover the repayment of the borrower's loans including revolving credit facilities. The Group will keep exploring collaboration opportunities with insurance companies as referrers of new life insurance policies that are potentially eligible under the PRMP.

HKMC Annuity Plan

Enhancing the living quality of the elderly after their retirement is one of the key policy focuses of the Government. The Group launched the Annuity Plan in 2018 in order to provide an alternative retirement financial solution to senior citizens.

In 2021, the Group has successfully enhanced public awareness of the importance of retirement financial planning as well as longevity risk management. To communicate with diverse audiences, a social media campaign "Never Too Old to be Bold" featuring four silver-haired models was launched in early 2021, showcasing what may be possible at this stage of life. The online branding video has received over 2 million viewings on social media platforms.

In addition to the two application servicing centres in Kowloon, a new centre at Times Square on Hong Kong Island with a designated customer area was opened in February 2021, providing a convenient access to customer services and applying for the Annuity Plan.

With continued services enhancements and promotional efforts, demand for the Annuity Plan continued to increase considerably. As at 31 December 2021, total premiums received in 2021 grew by 18% over 2020 to HK$3 billion, with an average premium amount of around HK$740,000.

Launch of 100% Personal Loan Guarantee Scheme

Following the Financial Secretary's announcement in the 2021–2022 Budget, the Group launched the 100% Personal Loan Guarantee Scheme (**PLGS**) in April 2021 to provide a supplementary financing option to individuals suffering from cessation of main recurrent incomes from employment in Hong Kong amid the COVID-19 pandemic. Under the PLGS, low-interest loans are taken out by eligible borrowers to help them tide over interim difficulties. The PLGS is backed by the Government's financial commitment of HK$15 billion. A total of 14 Authorized Institutions (**AIs**) participate as lenders. The Group is designated as the loan purchaser and the administrator of the PLGS. While the unemployment rate in Hong Kong has eased in the second half of 2021, business conditions remained difficult for a number of sectors, and some members of the public were still facing hardship. Against this backdrop, the Government announced in September 2021 the extension of the application period from the original expiry on 27 October 2021 to end-April 2022.

Eligible borrowers should be Hong Kong permanent residents aged 18 or above and unemployed for at least two months at the time of loan application, and who can demonstrate cessation of main recurrent incomes from employment in Hong Kong. The maximum amount of the loan per applicant is six times the average monthly income during employment, or HK$80,000, whichever is lower. The maximum repayment period is six years, with an option of principal moratorium for the first 12 months to alleviate the immediate repayment burden. Interest rate is 1% per annum and interest collected will be refunded after the loans are fully repaid by the end of the scheduled repayment period.

Since the launch of the PLGS up to 31 December 2021, the Group had approved around 36,000 applications, involving a total loan amount of HK$2.48 billion.

Enhancements to the SME Financing Guarantee Scheme

The 80% and 90% Guarantee Products under the SFGS 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. The application period for the 80% and 90% Guarantee Products is up to end-June 2022.

Introduced in April 2020, the 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.

To further alleviate the cash flow pressure of SMEs, the Financial Secretary announced in the 2021-22 Budget in February 2021 further enhancements to the 100% Guarantee Product. Under the enhancement measures, eligible enterprises should have been operating for at least three months as at 30 June 2020, 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 from early 2019 to mid-2020. The maximum amount of loan per enterprise has been raised from the total amount of employee wages and rents for 12 months to that for 18 months, or HK$6 million (originally HK$5 million), whichever is lower. The maximum repayment period of the guaranteed loans has been increased from 5 years to 8 years, and the principal moratorium arrangement has been extended from up to 12 months to up to 18 months. These enhancements have taken effect from 29 March 2021.

As the operating environment of some enterprises remained challenging and the economic outlook was also clouded by the global pandemic, the Government introduced further enhancements to the support measures under the SFGS in September 2021. The maximum duration of principal moratorium for the 80%, 90% and 100% Guarantee Products has been extended from 18 months to 24 months, and the application period for principal moratorium has also been extended to end-June 2022. The application period of the 100% Guarantee Product has been extended by six months to end-June 2022.

The total guarantee commitments, which can be used interchangeably for the 80%, 90% and 100% Guarantee Products, has been further increased from HK$183 billion to HK218 billion since October 2021.

A total of 34 AIs participate as lenders under the SFGS. As at 31 December 2021, the Group had approved more than 21,300, 5,500 and 47,000 applications for loans amounting to HK$92.5 billion, HK$10.6 billion and HK$81.6 billion since the launch of the 80%, 90% and 100% guarantee products respectively, benefitting more than 45,000 local SMEs and 640,000 related employees.