Business Review

Performance Highlights

The major achievements of the Group for the year included:

- helping homebuyers borrow a total of HK$83.1 billion in mortgage loans through the Mortgage Insurance Programme (**MIP**)
- approving 6,891 applications since the launch of the Reverse Mortgage Programme (**RMP**) in July 2011, with an average property value of around HK$5.8 million
- taking a total of 2,200 policies for the life annuity business in 2023 with total premiums of HK$1.6 billion
- approving loans amounting to HK$4.7 billion since the launch of the 100% Personal Loan Guarantee Scheme (**PLGS**) in April 2021, benefiting over 59,000 borrowers. The scheme's application period expired at the end of April 2023 as the local economy continued its recovery from Covid-19 and unemployment decreased
- extending the application period of the 80% Guarantee Product, the 90% Guarantee Product and the Special 100% Loan Guarantee (**100% Guarantee Product**) under the SME Financing Guarantee Scheme (**SFGS**) to end-March 2024 to alleviate cash flow burden of SMEs
- extending the application period for the principal moratorium (**PM**) arrangement under the SFGS to end-September 2023. With the Hong Kong economy recovering steadily from Covid-19, this special relief measure fulfilled its purpose, and its application period expired in end-September 2023
- providing support for enterprises with cash flow issues through the Partial Principal Repayment Arrangement, which offers more flexible repayment options under the SFGS so that enterprises may choose to repay only 10%, 20% or 50% of the original principal amount payable each month during a specified period, enabling them to have more time to gradually switch to normal repayment
- approving more than 25,400 and 10,800 applications for loans amounting to HK$111.1 billion and HK$20.3 billion since the launch of the 80% and 90% Guarantee Products, respectively, benefitting more than 21,400 local SMEs and 380,000 related employees. Over 3,100 applications have chosen the PM option
- approving more than 65,600 applications for loans amounting to about HK$139.1 billion since the launch of the 100% Guarantee Product, benefitting around 39,000 local SMEs and 392,000 related employees. Over 45,800 applications have chosen the PM option
- launching the Dedicated 100% Loan Guarantee Schemes (**DLGS**). The DLGS for the cross-boundary passenger transport and the travel industries were launched on 29 April 2023 to support their business resumption. A total of 204 applications amounting to about HK$200.7 million have been approved since their launch. Separately, the DLGS for battery electric taxis was launched on 4 September 2023 to encourage taxi owners to replace their existing taxis with battery electric taxis. Two applications amounting to about HK$0.7 million have been approved since its launch
- 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

- Completing the first issuance of infrastructure loan-backed securities (**ILBS**) under its pilot scheme on infrastructure financing securitisation. The public issuance consists of multiple classes of US dollar-denominated senior secured notes backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with a total size of US$404.8 million. Within the capital structure of the ILBS, there is an US$100 million sustainability tranche backed by sustainable, green and social assets. The Sustainability Tranche is issued in accordance with the HKMC's Social, Green and Sustainability Financing Framework, which aligns with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines released by the International Capital Market Association. It demonstrates the HKMC's commitment to green and sustainable development

- purchasing about HK$139.6 million of residential mortgage loans

- issuing HK$98.3 billion of debt securities (HK$89.9 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 corporate bond market during the year, while being one of the top offshore Renminbi corporate bond issuers in 2023

- launching the triple-currency social bond issuance which comprised HK$9.5 billion two-year, CNH 5 billion three-year and US$650 million five-year social bonds in September 2023 pursuant to the Social, Green and Sustainability Financing Framework. The issuance marked the largest social bond issuance in Asia and was the first time for a Hong Kong bond issuer to launch Hong Kong dollar, Renminbi and US dollar tranches in one transaction

- for this landmark social bond transaction launched during the year, the Group was presented with notable awards by the following well recognised organisations locally and internationally:

  — Hong Kong Quality Assurance Agency (**HKQAA**)'s Hong Kong Green and Sustainable Finance Awards 2023 (November 2023)

    - Outstanding Award for Green and Sustainable Bond Issuer (Public Sector Entity) — Largest Amount of Social Bonds

  — FinanceAsia Achievement Awards 2023 (February 2024)

    - Best Issuer — ESG — Highly Commended (House Award)
    - Best Bond Deal (Hong Kong SAR) — Highly Commended (Deal Award)

  — The Asset Country Awards for Sustainable Finance 2024 (March 2024)

    - Best Issuer for Sustainable Finance (House Award)
    - Best Social Bonds, Hong Kong (Deal Award)

- 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-2023, same as the HKSAR Government

- safeguarding excellent credit quality, with a non-performing loan ratio of 0.05% across all asset classes and over-90-day delinquency ratios of 0.02% for the mortgage insurance portfolio and 0.03% for the Hong Kong residential mortgage portfolio

The Group maintained a solid financial position in 2023:

- capital adequacy ratio of 21.6%, which is well above the minimum requirement of 8% stipulated by the Financial Secretary
- solvency ratios of the Group's two insurance subsidiaries were 13 times (2022: 11 times) for the general insurance business and 18 times (2022: 15 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

The global economy faced sticky inflation, higher-for-longer interest rates, more volatile growth and heightened geopolitical tensions in 2023. In Mainland China, the economy continued to recover though the momentum showed some moderation.

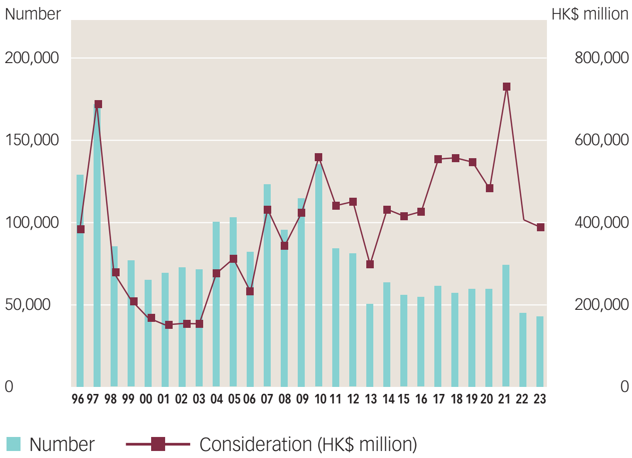
In the aftermath of Covid-19, the Hong Kong economy returned to normalcy in 2023 with improvements in private consumption and inbound tourism. Nonetheless, a difficult external environment continued to weigh on export performance. Following the successive interest rate hikes in the US, banks in Hong Kong have generally increased their prime rates. Against this backdrop, Hong Kong's economy grew 3.2% in 2023.

Property Market

The residential property market consolidated in 2023 as market sentiment became very cautious. The number and consideration of residential property transactions were on a downward trend for most times of the year. Overall, the number of residential property transactions in 2023 declined by 4.5% year on year to 43,002, while the consideration of transactions recorded a 4.5% year-on-year decrease (**Figure 1**).

Figure 1

Agreements for Sale and Purchase of Residential Building Units

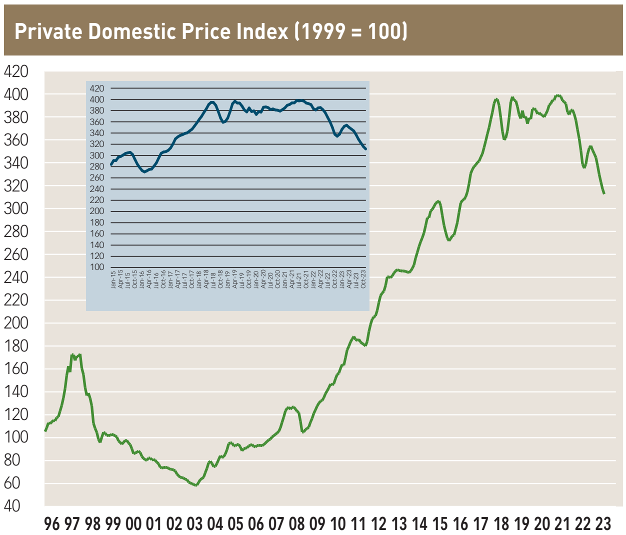


Source: Land Registry

Transaction volumes in the primary and secondary markets were fluctuating throughout the year. In general, residential property prices[1] recorded a 6.8% cumulative decrease in 2023, compared with a 14.7% drop in 2022 (**Figure 2**).

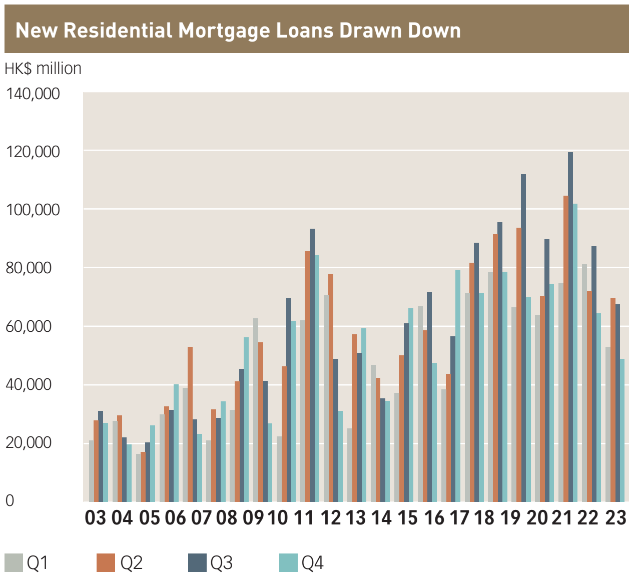
[1] Source: The Private Domestic Price Index published by the Rating and Valuation Department

Figure 2



Source: Rating and Valuation Department

Figure 3



Source: Hong Kong Monetary Authority

Mortgage Market

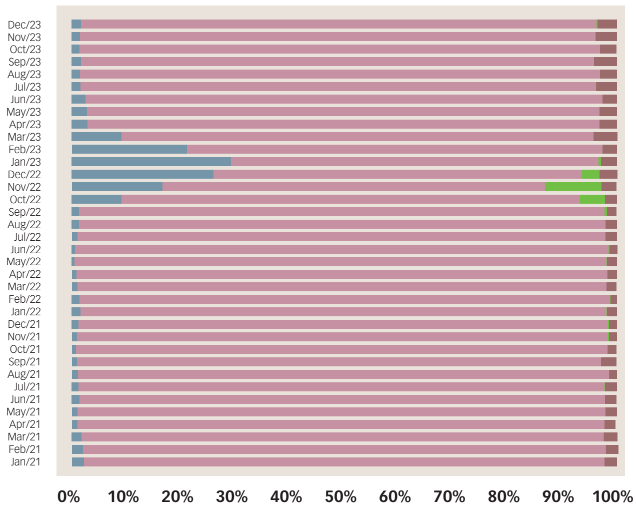
As of December 2023, the Best Lending Rates (**BLRs**) were at the range of 5.875%–6.375% following the interest rate hikes by the US Federal Reserve. The Hong Kong Interbank Offered Rate (**HIBOR**) recorded an overall upward trend throughout the year. According to the Monthly Statistics Bulletin announced by the Hong Kong Monetary Authority (**HKMA**), the one-month HIBOR in terms of period average[2] started low in the first four months at the range of 2.53%–3.27%. It started to increase in May and remained high throughout the year, reaching 5.49% in December. Mortgage lending recorded a growth, with the total outstanding value of all residential mortgage loans rising by 3.36% to HK$1,979.1 billion. The gross value of new loans drawn down[3] decreased by 21.6% year on year in 2023, following a drop of 23.9% in 2022 (**Figure 3**).

The proportion of BLR-based mortgages started high at 29.2% in January 2023 but began to drop since then. Overall, HIBOR-based mortgages still appeared to be more favoured by borrowers during the year. As at December 2023, 94.6% of new mortgage loans were benchmarked against HIBOR, while BLR-based mortgages and fixed-rate plans accounted for 1.7% and 0.1% respectively. (**Figure 4**).

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

Figure 4

Pricing of New Residential Mortgage Loans Approved

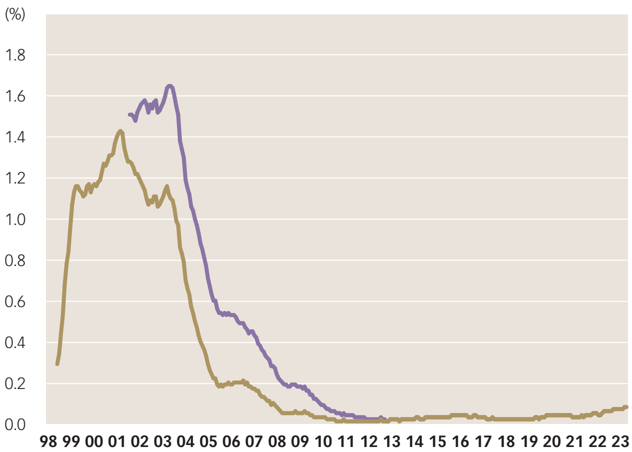


With reference to BLR
With reference to HIBOR
Fixed rate
Others

Source: Hong Kong Monetary Authority

Figure 5

Delinquency Ratio of Residential Mortgage Loans



Combined Ratio (with Rescheduled Loans)
Delinquency Ratio (Overdue > 90 days)

Source: Hong Kong Monetary Authority

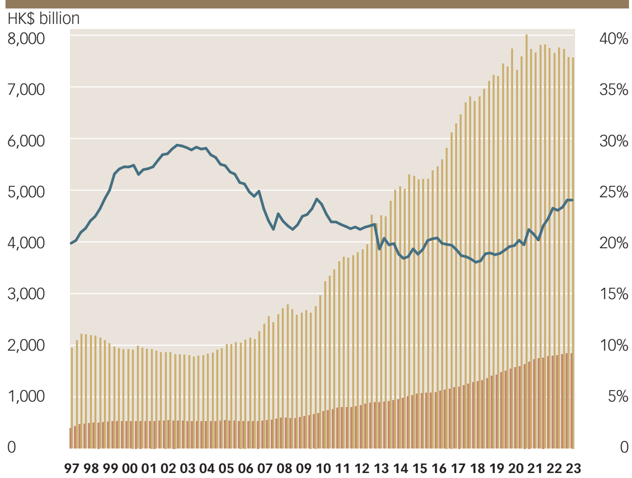
Under the HKMA's prudent supervision of the mortgage lending sector, the asset quality of residential mortgage loans remained excellent in 2023. The over-90-day delinquency ratio of mortgage loans stayed at 0.06–0.08% throughout the year, reflecting banks' prudent underwriting standards. The combined ratio, which includes both the delinquent and rescheduled loans, also maintained at 0.06–0.08% during the year (**Figure 5**). The estimated number of residential mortgage loans in negative equity increased to 25,163, with an aggregate value of HK$131.3 billion recorded[4]. These cases were mainly related to bank staff housing loans or residential mortgage loans under mortgage insurance programme which generally have a higher loan-to-value ratio.

Banking-Sector Exposure

The total outstanding value of property-related loans in 2023 amounted to HK$3,532.55 billion, representing about 46.3% of banks' total loans (**Figure 6**). Of these property-related mortgage loans, private residential properties accounted for HK$1,853.58 billion (end-2022: HK$1,808.37 billion) and subsidized flats accounted for HK$125.52 billion (end-2022: HK$106.33 billion).

Figure 6

Total Loans and Private Residential Mortgage Loans of All Authorized Institutions



Private Residential Mortgage Loans
Total Loans
Share of Private Residential Mortgage Loans

Source: Hong Kong Monetary Authority

[4] Source: Hong Kong Monetary Authority

Asset Acquisition

On the back of liquidity in the market, banks have no urgency to offload mortgage loans or other assets to the Group. The Group is prepared to provide liquidity to the market as and when required. In 2023, the Group acquired mortgage assets of around HK$139.6 million, comprising fixed-rate mortgages of HK$8.2 million under the Corporation's Fixed Rate Mortgage Scheme, reverse mortgage loans of HK$10.4 million and staff mortgage loans of HK$121.0 million from the Hospital Authority.

Funding

In 2023, global financial markets and the real economy remained uncertain, hinging on factors such as the sticky inflationary pressure and escalating 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 debts totalling HK$98.3 billion in 2023, with HK$89.9 billion having 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 161.7 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 various 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.

In 2022, the Group established its Social, Green and Sustainability Financing Framework (**SGS Framework**) as part of its extended effort to expand and implement its sustainability strategy as an integral part of its business strategy. It focuses on the Group's sustainable initiatives, and demonstrates how the Group and its subsidiaries support, and are aligned with, Hong Kong's long-term sustainability visions.

The Group will use the SGS Framework as the basis to structure and issue social, green and/or sustainability bond(s) and asset-backed securities. Net proceeds will be allocated to support projects falling within one or more of the eligible social asset categories or eligible green asset categories.

The Group received an opinion on the SGS Framework from Morningstar Sustainalytics, a globally recognised provider of ESG research, ratings and data, that its SGS Framework is credible and impactful and aligns with the relevant industry standards.

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. To meet growing funding demand, the size of MTN Programme was expanded gradually to US$30 billion from its initial size of US$3 billion. 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 MTN issuance and provide secondary market liquidity. In 2023, the Group launched 183 MTN issues with total issuance amount of HK$98.3 billion under the MTN Programme. Out of the total, 166 issues amounting to HK$89.9 billion were of one year or longer maturity, while the remaining 17 MTN issues totalling HK$8.4 billion were of less than one year.

The Group successfully launched its second social bonds of close to HK$20 billion equivalent in September 2023. The triple-tranche issuance comprised HK$9.5 billion two-year, CNH 5 billion three-year and US$650 million five-year social bonds pursuant to the SGS Framework. The transactions marked the largest social bond issuance in Asia and was the first time for a Hong Kong bond issuer to launch Hong Kong dollar, Renminbi and US dollar tranches in one transaction. It was well received by a diverse group of local and overseas institutional investors with the final allocation to over 200 accounts. Moreover, the HKD and CNH tranches were the largest social bond issuance in HKD and CNH, which showcased Hong Kong's roles as an offshore Renminbi business centre and the Asian hub for arranging international green and sustainable bonds.

For this landmark social bond transaction launched during the year, the Group was presented with notable awards by the following well recognised organisations locally and internationally:

— HKQAA's Hong Kong Green and Sustainable Finance Awards 2023 (November 2023)

  - Outstanding Award for Green and Sustainable Bond Issuer (Public Sector Entity) — Largest Amount of Social Bonds

— FinanceAsia Achievement Awards 2023 (February 2024)

  - Best Issuer — ESG — Highly Commended (House Award)
  - Best Bond Deal (Hong Kong SAR) — Highly Commended (Deal Award)

— The Asset Country Awards for Sustainable Finance 2024 (March 2024)

  - Best Issuer for Sustainable Finance (House Award)
  - Best Social Bonds, Hong Kong (Deal Award)

These awards demonstrated the Group's successful achievement and market recognition in promoting ESG and sustainable finance in Hong Kong, thereby underscoring the pivotal role of the Group in the development of local debt market and investor's confidence in Hong Kong's economy.

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. All debt securities issued under the DIP were matured by end-2023.

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 (**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 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 2023.

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.

On 7 December 2023, Moody's changed to negative from stable the outlook on the Group's rating, following the change to negative from stable the outlook on the Hong Kong government's rating.

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		Negative	

(as at 31 December 2023)

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 September and December 2023 respectively:

S&P

"We equalise our ratings on HKMC with the ratings on the government of 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 reinforced its integral link with the government."

"HKMC has a well-established market position, with a unique role to address local 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 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 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. The corporation has very strong debt capital market access through its senior debt programs. It has been issuing medium-term notes to finance its special 100% loans guaranteed under the SFGS. We expect HKMC to maintain a healthy buffer of highly liquid assets, more than sufficient to cover its short-term funding needs."

Moody's

"HKMC is wholly owned by the Hong Kong government for the account of the Exchange Fund. The company carries out policy mandates, including the promotion of financial and banking stability in Hong Kong; wider homeownership; development of the local debt capital markets; and development of the retirement planning market. … As part of its mandate to promote banking stability, the company acts as an alternative lender of last resort, as it purchases residential mortgages from banks in times of stress. … HKMC has several important policy mandates in Hong Kong. In the past five years, the company undertook additional policy initiatives to reinforce its links with the government. We expect the government to continue to leverage HKMC to support the provision of financial services and economic development in Hong Kong."

"We expect the government to continue to provide capital and liquidity support to HKMC because of the company's policy roles and importance. … The government provided HKMC with a HKD5 billion capital injection to set up the annuity business in 2018, an additional HKD5 billion aggregate capital injection in 2021 and 2022, and a HKD2.5 billion capital injection in June 2023. The Exchange Fund also made a further capital commitment of HKD12.5 billion to HKMC. It also increased its Revolving Credit Facility (RCF) for HKMC to HKD80 billion in October 2020 from HKD30 billion."

"HKMC has very close links with the government, and the government directly influences and supervises HKMC's operations by appointing its board members and management. Most of the members on the board of directors are from government departments, the executive council and the legislative council. The financial secretary serves as the chairman and executive director of HKMC, and the Hong Kong Monetary Authority's chief executive serves as deputy chairman and executive director."

"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 Exchange Fund's RCF, to repay all of its outstanding debt as of the end of June 2023."

"In line with our general view on finance companies, HKMC has low exposure to environmental risks. … The company's public policy mandates are in line with supporting the well-being of most Hong Kong residents and companies. … HKMC has not shown any governance shortfall in recent years and its risk management framework is commensurate with the company's risk appetite."

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 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 rapidly changing macro-economic environment, 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 accumulated over US$1.7 billion of infrastructure loans spreading over Asia Pacific, Middle East and Latin America. The Group continues to team up with industry players to facilitate the development of commercially viable infrastructure projects globally, leveraging on the Master Cooperation Agreement with International Finance Corporation, Memoranda of Understanding with China Export & Credit Insurance Corporation and 20 investment and commercial banks.

On 30 May 2023, the Group, via Bauhinia ILBS 1 Limited (the special purpose vehicle established for the pilot ILBS issuance), successfully closed a publicly rated securitisation transaction which consists of multiple classes of US dollar-denominated senior secured notes backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with an issuance size of US$404.8 million. The notes (except for the subordinated notes) are listed on The Stock Exchange of Hong Kong Limited and offered to corporate professional investors. The Group has multiple roles in this transaction, including the Sponsor, Retention Holder of the subordinated notes and Collateral Manager.

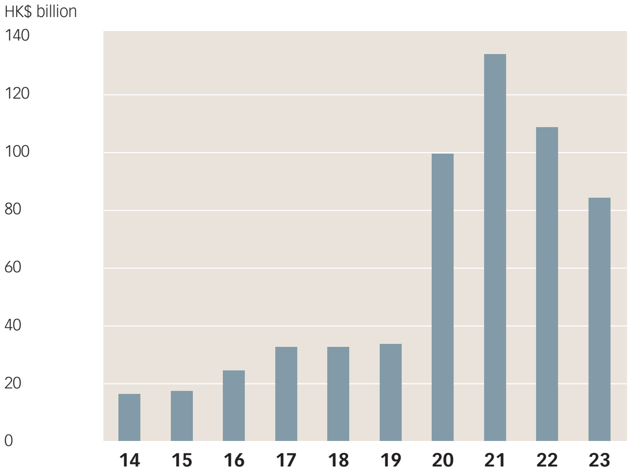
The ILBS issuance is widely recognised by industry players and professional investors. It was awarded the "Asia-Pacific Structured Finance Issue" in 2023 by IFR Asia, and the "Best Bond Deal", "Best Infrastructure Deal" and "Best Structured Finance Deal" in Hong Kong by FinanceAsia Achievement Awards 2023. This path-setting pilot issuance aims at enriching the local debt capital market and promoting the securitisation market in Hong Kong.

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 eased in 2023, and the volume of loans drawn down under the MIP decreased to HK$83.1 billion in 2023 from HK$107.2 billion in 2022 (**Figure 7**). About 71% 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 around 226,000 families achieve their dream of home ownership, with an aggregate loan drawdown of HK$821.9 billion.

Figure 7

Mortgage Loan Amount Drawn Down of HKMCI MIP



Mortgage Loan Amount Drawn Down

Source: HKMCI

To provide assistance to homebuyers with housing needs, HKMCI introduced on 7 July 2023 the following amendments to the MIP for completed residential properties:

(a) for eligible properties with property value up to HK$10 million, the maximum LTV ratio remains at 90%;

(b) for eligible properties with property value above HK$10 million and up to HK$15 million, the maximum LTV ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK$9 million, whichever the higher; and

(c) for eligible properties with property value above HK$15 million and up to HK$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK$12 million, whichever the higher.

HKMCI provides first-time homebuyers with special premium concession for properties valued up to HK$15 million, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks.

On 22 September 2023, HKMCI further announced amendments to the MIP for residential properties under construction so that the applicable eligibility criteria for equitable mortgage align with those for completed residential properties.

Fixed Rate Mortgage Scheme

Announced in the Financial Secretary's 2020-21 Budget, the Group introduced a scheme of fixed-rate mortgages for 10, 15 and 20 years under the Fixed Rate Mortgage 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. 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. As at end-December 2023, nine banks had joined the scheme and a total of 155 applications had been received since launch 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 the "HKMC Retire 3" brand, 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. The Group has been developing and promoting the products through marketing them under the "HKMC Retire 3" brand, proactive customer engagement, and expanding the distribution channels. In 2023, the Group launched a marketing campaign which was effective in raising public awareness on the benefits of "HKMC Retire 3". A video series under this campaign has recorded some 12 million viewings and more than 10,000 responses on online platforms. The HKMC YouTube Channel, with around 8,300 subscribers, continues to be an effective platform for financial education and promotion.

The Group values the overall quality of retirement life of its customers, hence the loyalty programme "AMIGOS By HKMC" (**AMIGOS**) 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 2023, the AMIGOS had recruited more than 8,500 members. It also proactively recruited a number of information subscribers who were not yet eligible for AMIGOS membership but were interested in receiving relevant information. Some of the information subscribers subsequently joined the RMP, the PRMP and/or the Annuity Plan and became members of the AMIGOS. During the year, the Group arranged a variety of activities, including public seminars, workshops and visits, to foster closer ties with the retirement community and generate more business referrals from existing customers. As for public engagement, a mobile information centre, in the form of a roving truck, toured around different districts. The various activities and the roving exhibition successfully reached out to more than 20,000 members of the public to raise their awareness of retirement financial planning concepts, the "HKMC Retire 3" products and the AMIGOS.

The Group remains a staunch supporter of improving financial literacy in Hong Kong. In recognition of its ongoing effort and contribution, the Group was awarded the "Investor and Financial Education Award 2023" by the Investor and Financial Education Council. 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 continued to grow. 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 has been offering fixed-rate mortgage plans under the RMP since September 2018. In January 2023, the interest rate of the standard fixed-rate mortgage plan was adjusted to 4% p.a. from 3% p.a. for the first 25 years of the loan tenor. During the year, 760 applications were received under the fixed-rate mortgage plan, accounting for 94% of the 805 RMP applications received in 2023.

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 giving borrowers greater flexibility to apply for lump-sum payouts to suit their personal needs. 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. The Group has also established collaboration with large organisations in Hong Kong to provide retirement planning information and RMP and PRMP promotional offers to their existing and retired staff.

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. During the year, the PRMP was enhanced to allow applications for lump-sum payouts not only for specified purposes but according to the personal needs of retirees. In addition, the Policy Reverse Mortgage Calculator was added to the PRMP webpage so that any potential customer could obtain a preliminary indication of the payout amount based on certain assumptions. As at the end of December 2023, around 90 PRMP applications had been received since the programme's launch, among which over 50 were drawn down during the year. The Group has also established a mechanism with insurance companies and insurance broker companies for the referral of potential customers, which contributed to the majority of PRMP applications received in 2023.

Life Annuity Business

The elevated interest rate environment in 2023 presented challenges to the life annuity business, as potential customers postponed purchase decisions in consideration of other wealth management options in the market. To cope with the highly challenging market environment, the Group strove to sustain its business growth through diversifying distribution channels and reinforcing outreaching efforts.

In 2023, the Group has further expanded and deepened its collaborations with financial institutions. One of the key developments is to collaborate with the insurance industry through reinsurance arrangements. Such undertakings facilitated the launch of its first private label product, which was well-received by the market. This strategic move allowed the Group to diversify its product offerings and to leverage the network of its partner.

To strengthen public education efforts and to address the needs of the aging population, publicity campaigns and in-person outreach initiatives that highlighted the key benefits of the HKMC Annuity Plan were organised throughout the year. To reach a wider array of audiences, the Group has partnered with numerous corporations, non-governmental organisations and universities to advocate for the importance of utilising life annuity products to support the financial well-being of individuals approaching retirement.

As at the end of 2023, the life annuity business has empowered over 15,000 senior citizens to transform their savings into a life-long stream of retirement income.

The 100% Personal Loan Guarantee Scheme

Following the Financial Secretary's announcement in the 2021–22 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 epidemic. The PLGS is backed by the Government's financial commitment of HK$15 billion. The Group is designated as the loan purchaser and the administrator of the PLGS.

Given the local economic recovery and decreased unemployment rate, the application period of the PLGS expired at the end of April 2023. The Group has approved around 67,000 applications for a total loan amount of HK$4.7 billion, benefitting more than 59,000 borrowers.

Enhancements to the SME Financing Guarantee Scheme

The 80% and 90% Guarantee Products under the SME Financing Guarantee Scheme (**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.

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.

The Financial Secretary announced in the 2023-24 Budget in February 2023 the extension of the application period for the 80%, 90% and 100% Guarantee Products to end-March 2024 based on the Government's total guarantee commitment of HK$280 billion.

To help the SMEs manage their cash flow amidst economic uncertainties, the application period for principal moratorium (**PM**) has been extended several times. In June 2023, the application period of PM was extended by a further three months to end-September 2023, and the maximum duration of PM for the 80%, 90% and 100% Guarantee Products remains at 42 months. With the Hong Kong economy recovering steadily as the Covid-19 epidemic subsided, this special relief measure had fulfilled its purpose and its application period expired in end-September 2023.

The Chief Executive announced in the 2023 Policy Address in October 2023 more flexible partial principal repayment options under the SFGS. The enterprises may apply for repaying only 10%, 20% or 50% of the original principal repayment amount each month during a specified period, enabling them to have more time to gradually switch from PM to normal repayments.

A total of 35 Authorized Institutions participate as lenders under the SFGS. As at 31 December 2023, the Group had approved more than 25,400, 10,800 and 65,600 applications for loans amounting to HK$111.1 billion, HK$20.3 billion and HK$139.1 billion since the launch of the 80%, 90% and 100% Guarantee Products respectively, benefitting more than 60,600 local SMEs and 772,000 related employees. Over 49,000 applications have chosen the PM option.

Launch of the Dedicated 100% Loan Guarantee Schemes

Following the Financial Secretary's announcement in the 2023–24 Budget, the Group launched the Dedicated 100% Loan Guarantee Schemes (**DLGS**) to support the business resumption of the travel and the cross-boundary passenger transport trades, and to encourage taxi owners to replace their existing liquefied petroleum gas, petrol or hybrid taxis with battery electric taxis (**e-Taxis**).

The DLGS for Travel Sector aims to assist licensed travel agents and local tour coach registered owners in resolving short-term funding difficulties, hiring staff as soon as practicable and accelerating operational capability enhancement, to complement the pace of resumption of inbound and outbound tourism activities.

The objective of the DLGS for Cross-boundary Passenger Transport Trade is to allow eligible registered vehicle owners or ferry operators/owners of cross-boundary passenger transport to apply for loans for the purpose of vehicle or ferry repair and maintenance, buying insurance, etc. with a view to resuming services as soon as possible.

Promoting the use of e-Taxis is one of the Government's measures to develop green transport, which helps achieve the carbon neutrality target of Hong Kong. The DLGS for e-Taxis provides loans for eligible taxi owners to purchase e-Taxis to replace their liquefied petroleum gas, petrol or hybrid taxis.

The DLGS for travel sector and cross-boundary passenger transport trade were launched on 29 April 2023. As at the end of December 2023, 204 applications for a total loan amount of HK$200.7 million had been approved.

The DLGS for e-Taxis was launched on 4 September 2023. As at the end of December 2023, two applications for a total loan amount of HK$0.7 million had been approved.