



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C

CB/POL/4/5/20

B9/25/2C

27 June 2012

The Chief Executive

All Locally Incorporated Authorized Institutions

Dear Sir / Madam,

Exposure to HKMC : 80% Loan Guarantee Product under SME Financing Guarantee Scheme

On 23 May 2012, The Hong Kong Mortgage Corporation Limited (HKMC) announced the introduction of an 80% Loan Guarantee Product under the SME Financing Guarantee Scheme (“80% Guarantee Scheme”) with effect from 31 May 2012. This followed the approval by the Finance Committee of the Legislative Council, on 20 April 2012, of a total guarantee commitment of HK\$100 billion by Government to cover the HKMC’s guarantee obligations under the 80% Guarantee Scheme. The Government subsequently issued a letter of comfort to the Monetary Authority on 1 June 2012 confirming its commitment under the Scheme.

I write to confirm that the letter of comfort referred to above is acceptable for the purposes of section 81(6)(b)(ii) of the Banking Ordinance in respect of AIs’ financial exposure to the HKMC arising from the provision of the guarantee by the HKMC under the 80% Guarantee Scheme. Such exposure can therefore be excluded from the calculation of the 25% limit under section 81(1) of the Ordinance.

For the avoidance of doubt, the above exemption from section 81(1) applies to the 80% Guarantee Scheme only and should not be extended to exposure under the SME Financing Guarantee Scheme in general.

For capital adequacy calculation purposes, AIs participating in the 80% Guarantee Scheme should follow the relevant requirements set out in the Banking (Capital) Rules (“the Rules”) for calculating the risk-weighted amount of their exposures to the HKMC under the Scheme. For this purpose, an AI may regard the Government’s

commitment to support the HKMC under the 80% Guarantee Scheme as a counter-guarantee under section 100(9) of the Rules, and treat this counter-guarantee as if it were the original guarantee issued by the HKMC to the AI under the 80% Guarantee Scheme provided that subsections 100(9)(c) to (f) are met. While AIs should, of course, conduct their own review of the relevant requirements in section 100(9), the HKMA would not consider it unreasonable (for the purposes of subsection 100(9)(f)) for AIs to regard the cover of the Government's commitment under the Scheme to be adequate and effective for the purposes of credit risk mitigation.

If your institution has any questions about this letter, please approach your usual contacts at the HKMA.

Yours faithfully,

Karen Kemp
for Monetary Authority

c.c. FSTB (Attn: Mr Jackie Liu)