Press Release

HKMC's Financial Results Highlights for the First Half of 2018

The Hong Kong Mortgage Corporation Limited (HKMC) today (Friday) announced the highlights of its unaudited consolidated financial results for the first six months of 2018 (1H 2018) as follows:

2018 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax was HK$256 million (1H 2017: HK$578 million)

- Annualised return on shareholders' equity was 4.1% (1H 2017: 12.6%[1])

- Cost-to-income ratio was 41.8% (1H 2017: 19%[1])

- Capital adequacy ratio was 26.6% as at 30 June 2018 (31 December 2017: 21%)

[1] For better comparison, the adjusted annualised return on shareholders' equity and cost-to-income ratio for the six months ended 30 June 2017 would be 5.4% and 35.5% respectively after excluding the exceptional gains of HK$210 million on disposal of available-for-sale investments arising from portfolio rebalancing and exchange gain of HK$129 million mainly from the US dollar exposures in cash and debt investments.

2018 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$5 million loan assets (1H 2017: HK$19 million)

- Outstanding principal balance of the loan portfolio was HK$6.9 billion as at 30 June 2018 (31 December 2017: HK$7.8 billion)

Debt Issuance

- Issued in total HK$10.4 billion corporate debts [2] (1H 2017: HK$14.3 billion), being a major and active corporate debt issuer in Hong Kong

- Outstanding balance of debt securities was HK$35.9 billion as at 30 June 2018 (31 December 2017: HK$34.8 billion)

- Credit ratings of AA+ from S&P Global Ratings and Aa2 from Moody's, same as those of the HKSAR Government

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down amounted to HK$18.9 billion (1H 2017: HK$15.9 billion)

[2] For debts with tenor of one year or above

- 90% of loans drawn down (in terms of loan amount) were secured on properties in the secondary market, demonstrating the importance of the MIP to homebuyers in the secondary market

SME Financing Guarantee Scheme

- Approved 851 applications under the Special Concessionary Measures (i.e. the 80% guarantee product) with a total loan amount of approximately HK$3.6 billion (91% of the benefitted borrowers since the launch of the 80% guarantee product were small and medium enterprises with less than 50 employees each)

Reverse Mortgage Programme

- Approved 323 applications under the Reverse Mortgage Programme, with an average property value of HK$5.2 million and an average monthly payout of HK$14,000

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2018 are set out at the Annex.

The Hong Kong Mortgage Corporation Limited
5 October 2018

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2018

	Unaudited 1H 2018	Unaudited 1H 2017
	HK$'000	HK$'000
Interest income	**544,792**	456,423
Interest expense	**(276,584)**	(210,183)
Net interest income	**268,208**	246,240
Net premiums earned	**176,959**	173,076
Other income	**91,875**	380,823
Operating income	**537,042**	800,139
Net claims incurred	**(1,439)**	(2,694)
Net commission expenses	**(79,092)**	(69,983)
Operating expenses	**(190,744)**	(138,034)
Operating profit before impairment	**265,767**	589,428
Charge of impairment allowances	**(743)**	(850)
Profit before taxation	**265,024**	588,578
Taxation	**(9,307)**	(10,481)
Profit for the period	**255,717**	578,097
Return on shareholders' equity (annualised)	**4.1%**	12.6%[1]
Return on assets (annualised)	**0.9%**	2.2%[1]
Cost-to-income ratio	**41.8%**	19.0%[1]
Net interest margin (annualised)	**1.1%**	1.0%

[1] For better comparison, the adjusted annualised return on shareholders' equity, return on assets and cost-to-income ratio for the six months ended 30 June 2017 were 5.4%, 0.9% and 35.5% respectively after excluding the exceptional gains of HK$210 million on disposal of available-for-sale investments arising from portfolio rebalancing and exchange gain of HK$129 million mainly from the US dollar exposures in cash and debt investments.

	Unaudited as at 30 June 2018	Audited as at 31 December 2017
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**26,588,493**	25,278,190
Loan portfolio, net	**6,944,685**	7,829,441
Investment securities:		
- fair value through other comprehensive income	**4,903,778**	-
- fair value through profit or loss	**1,615,604**	-
- amortised cost	**11,431,467**	-
- available-for-sale	-	7,138,662
- held-to-maturity	-	10,347,834
Placements with the Exchange Fund	**4,946,315**	-
Reinsurance assets	**176,257**	164,601
Derivative financial instruments	**163,493**	333,727
Other assets	**1,186,670**	445,756
Total assets	**57,956,762**	51,538,211
LIABILITIES		
Debt securities issued	**35,913,559**	34,840,706
Insurance liabilities	**1,350,744**	1,130,150
Derivative financial instruments	**293,343**	119,064
Current tax liabilities	**125,879**	116,288
Other liabilities	**5,243,142**	5,555,396
Total liabilities	**42,926,667**	41,761,604
EQUITY		
Share capital	**7,000,000**	2,000,000
Retained profits	**6,247,086**	5,889,254
Contingency reserve	**1,778,233**	1,679,837
Fair value reserve	**4,776**	207,516
Total equity	**15,030,095**	9,776,607
Total liabilities and equity	**57,956,762**	51,538,211
Capital adequacy ratio	**26.6%**	21.0%

Note:

The financial information relating to the year ended 31 December 2017 included in these unaudited consolidated financial results for the six months ended 30 June 2018 as being previously reported information does not constitute the HKMC's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The HKMC has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by the Companies Ordinance.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or 407(3) of the Companies Ordinance.

Financial Review

The unaudited consolidated profit after tax of the HKMC was HK$256 million in 1H 2018, representing a decrease of HK$322 million compared with 1H 2017. The annualised return on shareholders' equity was 4.1% (1H 2017: 12.6%). The decrease in profitability was primarily due to (i) no disposal gain on available-for-sale (AFS) investments recorded in 2018 as compared to the corresponding period in 2017; and (ii) net loss on the investments in listed real estate investment trusts and exchange-traded bond funds classified as fair value through profit or loss (FVPL) as a result of the adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" (previously classified as AFS with fair value change recorded in fair value reserve without passing through the profit and loss account).

In 1H 2018, the net interest income was HK$268 million (1H 2017: HK$246 million) and the annualised net interest margin of the average interest-earning assets increased to 1.1% (1H 2017: 1.0%).

New loans drawn down under the MIP amounted to HK$18.9 billion in 1H 2018 (1H 2017: HK$15.9 billion). The risk-in-force borne for the MIP by the HKMC was HK$19.6 billion (31 December 2017: HK$17.6 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK$86 million (1H 2017: HK$91 million).

Other income was HK$92 million (1H 2017: HK$381 million), which mainly included exchange gain of HK$49 million arising from the revaluation of US dollar exposures in cash and debt investments, income of HK$46 million from the capital placements of the HKMC Annuity Limited (HKMCA) with the Exchange Fund, dividend income of HK$34 million from, and net loss of HK$47 million on, investments classified as FVPL in listed real estate investment trusts and exchange-traded bond funds.

The HKMC continued to maintain stringent controls over its operating expenses. Total operating expenses were HK$191 million, HK$53 million more than those for 1H 2017. The increase was mainly due to the resources attributable to the HKMC Annuity Plan of the HKMCA. Amid the decrease in income and increase in resources devoted to support policy initiatives, the cost-to-income ratio increased to 41.8% in 1H 2018 (1H 2017: 19%).

The HKMC has completed the corporate reorganisation exercise, with its two wholly-owned subsidiaries, HKMC Insurance Limited (HKMCI) and the HKMCA, taking up the HKMC's general insurance business and operating the life annuity business respectively.

In accordance with the Guidelines on Capital Adequacy Ratio (CAR), the calculation of capital ratio follows the basis of consolidation for financial reporting with the exclusion of regulated subsidiaries which are subject to separate requirements on maintenance of adequate capital (i.e. the HKMCI and the HKMCA, as regulated by the Insurance Authority). After excluding the investment cost of these unconsolidated regulated subsidiaries, the CAR remained solid at 26.6% as at 30 June 2018 (31 December 2017: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.