Press Release

HKMC's Financial Results Highlights for 2018

The Hong Kong Mortgage Corporation Limited (HKMC) today (Tuesday) announced the highlights of its audited consolidated financial results for 2018 as follows:

2018 Financial Results Highlights

- Consolidated profit after tax was HK$127 million [1] (2017: HK$806 million)
- Return on shareholders' equity was 0.9%[1] (2017: 8.6%)
- Cost-to-income ratio was 86.0%[1] (2017: 26.8%)
- Capital adequacy ratio was 26.8% as at 31 December 2018 (31 December 2017: 21.0%)
- The Board recommended no dividend be declared (2017: Nil)

The decrease in profitability mainly reflected the accounting loss due to the annuity business of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC operating annuity business, for maintaining prudent statutory reserves based on actuarial assumptions, the non-recurrence in 2018 of a one-off investment disposal gain in 2017, the decrease in exchange gains

[1] For comparison purposes, the adjusted profit after tax, return on shareholders' equity and cost-to-income ratio for 2018 would be HK$515 million, 5.1% and 36.7% respectively after excluding an accounting loss made by the HKMC Annuity Limited, a wholly-owned subsidiary of the HKMC, for maintaining prudent statutory reserves based on actuarial assumptions for the annuity business.

mainly arising from the revaluation of US dollar exposures in cash and debt investments, and resources utilised for supporting certain policy initiatives. Notwithstanding the accounting loss on HKMCA, which is normal for a new insurance company in its initial years of business due to statutory reserving requirement, the annuity business should be sustainable in the long term. With solid capital position and funding capacity, the HKMC will conduct new and existing businesses prudently in furtherance of its core missions and social objectives.

2018 Business Performance Highlights

Asset Purchase

- Purchased HK$288 million loan assets (2017: HK$316 million)

- Outstanding principal balance of loan portfolio was HK$6.4 billion at the end of 2018 (31 December 2017: HK$7.8 billion)

Debt Issuance

- Issued in total HK$12.4 billion corporate debts [2] (2017: HK$17.9 billion), being the most active corporate debt issuer in Hong Kong

- Outstanding balance of debt securities was HK$37.3 billion at the end of 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

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

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down amounted to HK$32.5 billion (2017: HK$32.3 billion)

- 88% 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 1,714 applications under the Special Concessionary Measures (i.e. the 80% guarantee product) with a total loan amount of approximately HK$7.3 billion in 2018. Since the launch of the 80% guarantee product in May 2012, 91% of the benefitted borrowers were small and medium-sized enterprises each with less than 50 employees

Reverse Mortgage Programme (RMP)

- Approved 782 applications (2017: 757 applications) under the RMP, with an average property value of HK$5.8 million and an average monthly payout of HK$15,900

HKMC Annuity Plan (Plan)

- As at 31 December 2018, a total of 5,422 policies had been issued, with total premiums received at around HK$2.8 billion and an average premium of HK$513,000 since launch

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

The Hong Kong Mortgage Corporation Limited
30 April 2019

Annex

Consolidated Financial Results for the Year Ended 31 December 2018

	2018	2017
	HK$'000	HK$'000
Interest income	**1,229,710**	902,333
Interest expense	**(693,501)**	(394,755)
Net interest income	**536,209**	507,578
Net premiums earned	**3,157,652**	352,414
Other income	**249,633**	414,484
Operating income	**3,943,494**	1,274,476
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(3,321,037)**	(641)
Net commission and levy expenses	**(142,991)**	(140,454)
Operating expenses	**(412,388)**	(304,196)
Operating profit before impairment	**67,078**	829,185
Charge of impairment allowances	**(134)**	(453)
Profit before taxation	**66,944**	828,732
Taxation	**59,614**	(22,337)
Profit for the year	**126,558**[1]	806,395[2]
Return on shareholders' equity	**0.9%**[1]	8.6%[2]
Cost-to-income ratio	**86.0%**[1]	26.8%[2]
Net interest margin	**1.1%**	1.1%

[1] For comparison purposes, the adjusted profit after tax, return on shareholders' equity and cost-to-income ratio for 2018 would be HK$515 million, 5.1% and 36.7% respectively after excluding an accounting loss made by the HKMC Annuity Limited, a wholly-owned subsidiary of the HKMC, for maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business.

[2] For comparison purposes, the adjusted profit after tax, return on shareholders' equity and cost-to-income ratio for 2017 would be HK$471 million, 5.2% and 38.1% respectively after excluding exceptional incomes including favourable foreign exchange gain of HK$171 million from USD deposits and debt investments and disposal gains of HK$164 million on Available-for-Sale investments that did not recur in 2018.

	As at 31 December 2018	As at 31 December 2017
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**29,390,855**	25,278,190
Derivative financial instruments	**161,047**	333,727
Loan portfolio, net	**6,442,064**	7,829,441
Investment securities	**17,182,109**	17,486,496
Reinsurance assets	**171,518**	164,601
Placements with the Exchange Fund	**7,734,934**	-
Other assets	**1,399,042**	445,756
	62,481,569	51,538,211
LIABILITIES		
Derivative financial instruments	**264,386**	119,064
Current tax liabilities	**104,077**	116,288
Insurance liabilities	**4,607,373**	1,130,150
Debt securities issued	**37,292,877**	34,840,706
Other liabilities	**5,319,147**	5,555,396
	47,587,860	41,761,604
EQUITY		
Share capital	**7,000,000**	2,000,000
Retained profits	**6,263,342**	5,889,254
Contingency reserve	**1,632,818**	1,679,837
Fair value reserve	**(2,451)**	207,516
Total equity	**14,893,709**	9,776,607
Total liabilities and equity	**62,481,569**	51,538,211
Capital adequacy ratio	**26.8%**	21.0%

Note:

The financial information relating to the two years ended 31 December 2018 and 2017 respectively included in this press release of 2018 financial results does not constitute the HKMC's statutory annual consolidated financial statements for those years 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 and will deliver the consolidated financial statements for the year ended 31 December 2018 in due course.

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

Financial Review

Consolidated profit after tax of the HKMC for 2018 was HK$127 million (2017: HK$806 million) and the return on shareholders' equity was 0.9% (2017: 8.6%). The decrease in profitability mainly reflected the accounting loss of HK$389 million due to the annuity business of the HKMCA, a wholly-owned subsidiary of the HKMC operating annuity business, for maintaining prudent statutory reserves based on actuarial assumptions, the non-recurrence in 2018 of a one-off investment disposal gain in 2017, the decrease in exchange gains mainly arising from the revaluation of US dollar exposures in cash and debt investments, and resources utilised for supporting certain policy initiatives. Notwithstanding the accounting loss on HKMCA, which is normal for a new insurance company in its initial years of business due to statutory reserving requirement, the embedded value of its annuity business at the end of 2018 was about HK$5.2 billion, which comprised HK$4.6 billion of total equity and HK$0.6 billion of present value of future profits. This indicated that the annuity business should be sustainable in the long term.

In 2018, net interest income for the year was HK$536 million (2017: HK$508 million) and the net interest margin of the average interest-earning assets remained stable at 1.1% (2017: 1.1%).

New loans drawn down under the MIP edged up to HK$32.5 billion in 2018 from HK$32.3 billion in 2017. The risk-in-force borne for the MIP by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC operating general insurance business, was HK$19.7 billion (2017: HK$17.6 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision was HK$222 million (2017: HK$196 million).

Other income was HK$250 million (2017: HK$414 million), which mainly included investment income from placements with the Exchange Fund of HK$185 million (2017: nil) and dividend income from investments of HK$59 million (2017: HK$83 million).

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK$412 million, HK$108 million more than that of 2017. The increase was primarily due to the implementation of the annuity business. Amid the decrease in income and increase in resources devoted to support policy initiatives, cost-to-income ratio increased to 86.0% in 2018 from 26.8% in 2017.

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 26.8% as at 31 December 2018 (31 December 2017: 21%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA as at 31 December 2018 were about 42 times and 34 times respectively, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Having considered the capital requirements for business development, the Board recommended no dividend be declared for 2018.