Press Release

HKMC's Financial Results Highlights for the First Half of 2019

The Hong Kong Mortgage Corporation Limited (HKMC) today (Wednesday) announced the highlights of its unaudited consolidated financial results for the first six months of 2019 (1H 2019) as follows:

2019 Half-Year Financial Results Highlights

- Unaudited consolidated profit after tax was HK$247 million (1H 2018: HK$256 million)

- Annualised return on shareholders' equity was 3.3% (1H 2018: 4.1%)

- Cost-to-income ratio was 48.9% (1H 2018: 41.8%)

- Capital adequacy ratio was 28.6% as at 30 June 2019 (31 December 2018: 26.8%)

2019 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$955 million loan assets (1H 2018: HK$5 million)

- Outstanding principal balance of the loan portfolio was HK$6.7 billion as at 30 June 2019 (31 December 2018: HK$6.4 billion)

Debt Issuance

- Issued in total HK$14.8 billion corporate debts [1] (1H 2018: HK$10.4 billion), being the most active corporate debt issuer in Hong Kong. Among them, the HKMC had issued 30-year bonds totalling HK$1 billion to promote the fixed-rate reverse mortgage business and local debt market development

- Outstanding balance of debt securities was HK$39.3 billion as at 30 June 2019 (31 December 2018: HK$37.3 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$15.7 billion (1H 2018: HK$18.9 billion)

- 78% 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

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

SME Financing Guarantee Scheme

- Approved 1,402 applications (1H 2018: 851 applications) under the Special Concessionary Measures (i.e. the 80% guarantee product) with a total loan amount of approximately HK$7.2 billion (1H 2018: approximately HK$3.6 billion). 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 223 applications (1H 2018: 323 applications) under the RMP, with an average property value of HK$5.58 million and an average monthly payout of HK$17,610

HKMC Annuity Plan

- Issued 1,004 policies, with total premiums received at around HK$780 million and an average premium of HK$777,000

The Policy Reverse Mortgage Programme was launched in May 2019 as another retirement planning solution for retirees.

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2019 are set out at the Annex.

The Hong Kong Mortgage Corporation Limited
9 October 2019

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2019

	Unaudited 1H 2019	Unaudited 1H 2018
	HK$'000	HK$'000
Interest income	**725,543**	544,792
Interest expense	**(437,208)**	(276,584)
Net interest income	**288,335**	268,208
Net premiums earned	**946,994**	176,959
Other income	**246,462**	91,875
Operating income	**1,481,791**	537,042
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(946,280)**	(1,439)
Net commission and levy expenses	**(63,992)**	(79,092)
Operating expenses	**(230,716)**	(190,744)
Operating profit before impairment	**240,803**	265,767
Charge of impairment allowances	**(430)**	(743)
Profit before taxation	**240,373**	265,024
Taxation	**6,286**	(9,307)
Profit for the period	**246,659**	255,717
Return on shareholders' equity (annualised)	**3.3%**	4.1%
Cost-to-income ratio	**48.9%**	41.8%
Net interest margin (annualised)	**1.1%**	1.1%

	Unaudited As at 30 June 2019	Audited As at 31 December 2018
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**27,790,818**	29,390,855
Derivative financial instruments	**251,865**	161,047
Loan portfolio, net	**6,657,664**	6,442,064
Investment securities	**18,447,903**	17,182,109
Placements with the Exchange Fund	**11,663,203**	7,734,934
Reinsurance assets	**175,391**	171,518
Other assets	**1,042,250**	1,399,042
Total assets	**66,029,094**	62,481,569
LIABILITIES		
Derivative financial instruments	**204,785**	264,386
Current tax liabilities	**110,376**	104,077
Insurance liabilities	**5,505,771**	4,607,373
Debt securities issued	**39,313,651**	37,292,877
Other liabilities	**5,733,185**	5,319,147
Total liabilities	**50,867,768**	47,587,860
EQUITY		
Share capital	**7,000,000**	7,000,000
Retained profits	**6,419,429**	6,263,342
Contingency reserve	**1,721,546**	1,632,818
Fair value reserve	**20,351**	(2,451)
Total equity	**15,161,326**	14,893,709
Total liabilities and equity	**66,029,094**	62,481,569
Capital adequacy ratio	**28.6%**	26.8%

Note:

The financial information relating to the year ended 31 December 2018 included in these unaudited consolidated financial results for the six months ended 30 June 2019 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 2018 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 2018. 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 for 1H 2019 was HK$247 million (1H 2018: HK$256 million). The annualised return on shareholders' equity was 3.3% (1H 2018: 4.1%). The decrease in profitability mainly reflected the accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC to operate annuity business, for maintaining prudent statutory reserves based on actuarial assumptions, partially offset by the net gain on investments at fair value through profit or loss.

In 1H 2019, the net interest income was HK$288 million (1H 2018: HK$268 million) and the annualised net interest margin of the average interest-earning assets remained stable at 1.1% (1H 2018: 1.1%).

New loans drawn down under the MIP amounted to HK$15.7 billion in 1H 2019 (1H 2018: HK$18.9 billion). The risk-in-force borne for the MIP by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC to operate general insurance business, was HK$21.1 billion (31 December 2018: HK$19.7 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision, were HK$98 million (1H 2018: HK$86 million).

Other income was HK$246 million (1H 2018: HK$92 million), which mainly consisted of investment income of HK$168 million (1H 2018: HK$46 million) from placements with the Exchange Fund and net gain of HK$104 million (1H 2018: net loss of HK$47 million) on investments at fair value through profit or loss.

The HKMC continues to maintain stringent controls on operating expenses. The total operating expenses were HK$231 million, HK$40 million more than that of 1H 2018. The increase was primarily due to the implementation of the annuity business and development of the infrastructure financing and securitisation business. The cost-to-income ratio was 48.9% (1H 2018: 41.8%).

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). Excluding the investment costs in these unconsolidated regulated subsidiaries, the CAR remained solid at 28.6% as at 30 June 2019 (31 December 2018: 26.8%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA as at 30 June 2019 were about 35 times and 27 times respectively, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.