Press Release

HKMC's Financial Results Highlights for 2019

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited consolidated financial results for 2019 as follows:

2019 Financial Results Highlights

- Audited consolidated profit after tax was HK$317 million[1] (2018: HK$127 million)

- Return on shareholder's equity was 2.1%[1] (2018: 0.9%)

- Cost-to-income ratio was 58.7%[1] (2018: 86.0%)

- Capital adequacy ratio was 30.2% as at 31 December 2019 (31 December 2018: 26.8%)

- The Board recommended no dividend be declared (2018: Nil)

[1] For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for 2019 would be HK$443 million, 4.2% and 41.8% 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.

2019 Business Performance Highlights

Asset Purchase

- Purchased HK$1,877 million loan assets (2018: HK$288 million)

- Outstanding principal balance of loan portfolio was HK$6.9 billion at the end of 2019 (31 December 2018: HK$6.4 billion)

Debt Issuance

- Issued in total HK$17.7 billion corporate debts [2] (2018: HK$12.4 billion), being the most active corporate debt issuer in Hong Kong. Among them, the HKMC had issued 30-year bonds totalling HK$1.2 billion to promote the fixed-rate reverse mortgage business and local debt market development

- Outstanding balance of debt securities was HK$39.7 billion at the end of 2019 (31 December 2018: HK$37.3 billion)

- Credit ratings of AA+ from S&P Global Ratings and Aa3 from Moody's, same as those of the HKSAR Government

Mortgage Insurance Programme (MIP)

- New mortgage loans drawn down amounted to HK$33.3 billion (2018: HK$32.5 billion)

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

- 73% 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 2,734 applications (2018: 1,714 applications) under the Special Concessionary Measures (i.e. the 80% Guarantee Product) with a total loan amount of approximately HK$13.8 billion (2018: HK$7.3 billion) in 2019, increased by 60% and 89% respectively as compared with 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
- Launched the 90% Guarantee Product on 16 December 2019. As at the end of December 2019, approved 19 applications with a total loan amount of approximately HK$39 million in slightly more than two weeks

Reverse Mortgage Programme (RMP)

- Approved 676 applications (2018: 782 applications) under the RMP, with an average property value of HK$6.2 million and an average monthly payout of HK$17,700

HKMC Annuity Plan

- Issued 2,188 policies (2018: 5,422 policies), with total premiums received at around HK$1.6 billion (2018: HK$2.8 billion) and an average premium of HK$745,000

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

The Hong Kong Mortgage Corporation Limited
27 April 2020

Annex

Consolidated Financial Results for the Year Ended 31 December 2019

	2019	2018
	HK$'000	HK$'000
Interest income	**1,470,479**	1,229,710
Interest expense	**(946,488)**	(693,501)
Net interest income	**523,991**	536,209
Net premiums earned	**1,987,650**	3,157,652
Other income	**465,397**	249,633
Operating income	**2,977,038**	3,943,494
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(2,021,558)**	(3,321,037)
Net commission and levy expenses	**(138,361)**	(142,991)
Operating expenses	**(479,651)**	(412,388)
Operating profit before impairment	**337,468**	67,078
Charge of impairment allowances	**(934)**	(134)
Profit before taxation	**336,534**	66,944
Taxation	**(19,073)**	59,614
Profit for the year	**317,461**[1]	126,558[1]
Return on shareholder's equity	**2.1%**[1]	0.9%[1]
Cost-to-income ratio	**58.7%**[1]	86.0%[1]
Net interest margin	**1.0%**	1.1%

[1] For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for 2019 would be HK$443 million, 4.2% and 41.8% respectively (2018: 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.

	As at 31 December 2019	As at 31 December 2018
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**27,908,184**	29,390,855
Derivative financial instruments	**200,702**	161,047
Loan portfolio, net	**6,928,045**	6,442,064
Investment securities	**17,333,711**	17,182,109
Placements with the Exchange Fund	**12,881,627**	7,734,934
Reinsurance assets	**208,991**	171,518
Other assets	**2,045,074**	1,399,042
	67,506,334	62,481,569
LIABILITIES		
Derivative financial instruments	**299,935**	264,386
Current tax liabilities	**123,115**	104,077
Insurance liabilities	**6,501,639**	4,607,373
Debt securities issued	**39,710,963**	37,292,877
Other liabilities	**5,634,091**	5,319,147
	52,269,743	47,587,860
EQUITY		
Share capital	**7,000,000**	7,000,000
Retained profits	**6,553,108**	6,263,342
Contingency reserve	**1,658,669**	1,632,818
Fair value reserve	**24,814**	(2,451)
Total equity	**15,236,591**	14,893,709
Total liabilities and equity	**67,506,334**	62,481,569
Capital adequacy ratio	**30.2%**	26.8%

Note:

The financial information relating to the two years ended 31 December 2019 and 2018 respectively included in this press release of 2019 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 2018 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2019 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 2019 was HK$317 million (2018: HK$127 million). The increase in profitability was primarily attributable to the decrease in accounting loss as a result of the decrease in provisions for maintaining prudent statutory reserves based on actuarial assumptions for the annuity business along with lower business intake during the year and the increase in investment return on the placements with the Exchange Fund. Notwithstanding that, the increase in profit is partly offset by additional resources utilised for the HKMC's missions and certain policy initiatives of the HKSAR Government. Accordingly, return on equity increased to 2.1% (2018: 0.9%) while cost-to-income ratio decreased to 58.7% (2018: 86.0%). Despite the reported accounting loss of HKMC Annuity Limited (HKMCA), the wholly-owned subsidiary of the HKMC to operate the annuity business, the embedded value of the annuity business was about HK$5.3 billion, which comprised HK$4.5 billion of total equity and HK$0.8 billion of present value of future profits. This indicated that the annuity business should be sustainable in the long term.

In 2019, net interest income was HK$524 million (2018: HK$536 million) and the net interest margin of the average interest-earning assets remained stable at 1.0% (2018: 1.1%).

New loans drawn down under the MIP edged up to HK$33.3 billion in 2019 from HK$32.5 billion in 2018. 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$23.1 billion (2018: HK$19.7 billion). Net mortgage insurance premiums earned, after income amortisation, commission expenses and provision was HK$196 million (2018: HK$222 million).

Other income was HK$465 million (2018: HK$250 million), mainly representing investment income of HK$465 million (2018: HK$185 million) from placements with the Exchange Fund, net gain of HK$33 million (2018: net loss of

HK$14 million) on investments at fair value through profit or loss, dividend income of HK$20 million (2018: HK$59 million) from investments, and exchange loss of HK$38 million (2018: gain of HK$12 million) arising primarily from US dollar exposures in cash and debt investments.

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK$480 million, HK$68 million more than that of 2018. Amid the increase in resources devoted to support the HKMC's missions and certain policy initiatives, cost-to-income ratio was 58.7% (2018: 86.0%).

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 cost of these unconsolidated regulated subsidiaries, the CAR remained solid at 30.2% as at 31 December 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 31 December 2019 were about 39 times and 22 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 2019.