Press Release

HKMC's Financial Results Highlights for the First Half of 2020

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its unaudited consolidated financial results for the first six months of 2020 (1H 2020) as follows:

2020 Half-Year Unaudited Financial Results Highlights

The unaudited consolidated loss after tax of the HKMC for 1H 2020 was HK$197 million (profit after tax for 1H 2019: HK$247 million). The decrease in profitability was primarily attributable to:

(i) the booking of increasing upfront commission expenses arising from the significant surge in the volume of new mortgage insurance underwritten in one go whereas premium income was amortised over the life of the respective loans;

(ii) an increase in accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC, as a result of the prudent provisions for its investments and statutory reserves in tandem with the increase in new annuity plans written and annuity payments; and

(iii) unfavourable impact by the revaluation of investments that are classified as investment securities at fair value through profit or loss upon the adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" since 2018 and the unfavourable revaluation of USD denominated assets due to strength of the HKD versus USD.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 30 June 2020 was about HK$5.3 billion, which comprised HK$4.3 billion of total equity and HK$1.0 billion of present value

of future profits. This indicates that the annuity business should be sustainable in the long term.

The Capital Adequacy Ratio of the HKMC remained solid at 36.6% as at 30 June 2020 (31 December 2019: 30.2%), well above the minimum ratio of 8% stipulated by the Financial Secretary. With strong financing capability and liquidity position, the HKMC's core operations remain resilient and stand ready to face any financial turbulence ahead in performing its strategic policy roles and attaining its social objectives.

2020 Half-Year Business Performance Highlights

Asset Purchase

- Purchased HK$0.9 billion loan assets and HK$14.3 billion loans with the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS) (1H 2019: HK$1.0 billion)

- Outstanding principal balance of loan portfolio was HK$21.5 billion as at 30 June 2020 (31 December 2019: HK$6.9 billion)

Debt Issuance

- Issued in total HK$11.1 billion corporate debts [1] (1H 2019: HK$14.8 billion), being the most active corporate debt issuer in Hong Kong

- Outstanding balance of debt securities was HK$48.4 billion as at 30 June 2020 (31 December 2019: HK$39.7 billion)

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

- 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$40.4 billion (1H 2019: HK$15.7 billion)

- 87% 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 around 1,200 applications under the 80% Guarantee Product with a total loan amount of approximately HK$5.1 billion. Since its launch 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 June 2020, approved more than 1,500 applications with a total loan amount of approximately HK$2.6 billion

- Launched the Special 100% Loan Guarantee on 20 April 2020. As at the end of June 2020, approved more than 10,000 applications with a total loan amount of approximately HK$18.0 billion, of which HK$14.3 billion loan assets were purchased by the HKMC

Reverse Mortgage Programme (RMP)

- Approved 254 applications (1H 2019: 223 applications) under the RMP, with an average property value of HK$6.2 million and an average monthly payout of HK$17,800

HKMC Annuity Plan

- Total premiums received at around HK$0.9 billion (1H 2019: HK$0.8 billion) and an average premium of HK$934,000 (1H 2019: HK$777,000)

- Lowered the minimum eligible age to 60 from 65 on 26 February 2020

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2020 are set out at the Annex.

The Hong Kong Mortgage Corporation Limited
5 October 2020

Annex

Unaudited Consolidated Financial Results

For the Six Months Ended 30 June 2020

	Unaudited 1H 2020	Unaudited 1H 2019
	HK$'000	HK$'000
Interest income	**675,425**	725,543
Interest expense	**(435,540)**	(437,208)
Net interest income	**239,885**	288,335
Net premiums earned	**1,107,087**	946,994
Other income	**48,338**	246,462
Operating income	**1,395,310**	1,481,791
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(1,139,724)**	(946,280)
Net commission and levy expenses	**(240,498)**	(63,992)
Operating expenses	**(249,464)**	(230,716)
Operating (loss) / profit before impairment	**(234,376)**	240,803
Charge of impairment allowances	**(3,142)**	(430)
(Loss)/ profit before taxation	**(237,518)**	240,373
Taxation	**41,009**	6,286
(Loss)/ profit for the period	**(196,509)**[1]	246,659[2]
Return on shareholder's equity (annualised)	**-2.6%**[1]	3.3%[2]
Cost-to-income ratio	**1,653%**[1]	48.9%[2]
Net interest margin (annualised)	**0.9%**	1.1%

[1] For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for the first half of 2020 would be HK$104 million and 1.9% and 65.4% respectively after excluding (i) an accounting loss made by the HKMCA for maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business; and (ii) market volatility affecting the revaluation of investments at fair value through profit or loss and foreign exchange position arising primarily from US dollar exposure in cash and debt investments.

[2] For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for the first half of 2019 would be HK$243 million and 4.6% and 39.0% respectively after excluding (i) an accounting loss made by the HKMCA for maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business; and (ii) market volatility affecting the revaluation of investments at fair value through profit or loss and foreign exchange position arising primarily from US dollar exposure in cash and debt investments.

	As at 30 June 2020	As at 31 December 2019
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**26,114,113**	27,908,184
Derivative financial instruments	**468,439**	200,702
Loan portfolio, net	**21,519,497**	6,928,045
Investment securities	**15,762,205**	17,333,711
Placements with the Exchange Fund	**13,902,834**	12,881,627
Reinsurance assets	**357,828**	208,991
Other assets	**1,070,787**	2,045,074
	79,195,703	67,506,334
LIABILITIES		
Derivative financial instruments	**252,103**	299,935
Current tax liabilities	**84,805**	123,115
Insurance liabilities	**8,105,508**	6,501,639
Debt securities issued	**48,399,497**	39,710,963
Other liabilities	**7,351,451**	5,634,091
	64,193,364	52,269,743
EQUITY		
Share capital	**7,000,000**	7,000,000
Retained profits	**6,266,963**	6,553,108
Contingency reserve	**1,748,305**	1,658,669
Fair value and hedging reserves	**(12,929)**	24,814
Total equity	**15,002,339**	15,236,591
Total liabilities and equity	**79,195,703**	67,506,334
Capital adequacy ratio	**36.6%**	30.2%

Note:

The financial information relating to the year ended 31 December 2019 included in these unaudited consolidated financial results for the six months ended 30 June 2020 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 2019 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 2019. 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 loss after tax of the HKMC for 1H 2020 was HK$197 million (profit after tax for 1H 2019: HK$247 million). The decrease in profitability was primarily attributable to the booking of increasing MIP upfront commission expenses, an increase in accounting loss of the HKMCA, and unfavourable impact by the revaluation of investments and USD denominated assets.

In 1H 2020, net interest income was HK$240 million (1H 2019: HK$288 million) and the net interest margin of the average interest-earning assets remained stable at 0.9% (1H 2019: 1.1%).

New loans drawn down under the MIP amounted to HK$40.4 billion in 1H 2020 (1H 2019: HK$15.7 billion). 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$32.4 billion (31 December 2019: HK$23.1 billion). Net mortgage insurance premiums earned, after income amortisation and provision was HK$163 million (1H 2019: HK$162 million). The net upfront commission expenses surged to HK$240 million (1H 2019: HK$64 million) amid the significant increase in new loans underwritten.

Other income was HK$48 million (1H 2019: HK$246 million), mainly representing investment income of HK$168 million (1H 2019: HK$168 million) from placements with the Exchange Fund, partly offset by the net mark-to-market loss of HK$85 million (1H 2019: net gain of HK$104 million) on investments at fair value through profit or loss and exchange loss arising primarily from revaluation of US dollar exposures in cash and debt investments.

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK$249 million, HK$18 million more than that of the first half of 2019 as more resources were devoted to developing and implementing new

business and policy initiatives including the Special 100% Loan Guarantee under the SFGS.

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 36.6% as at 30 June 2020 (31 December 2019: 30.2%), 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 2020 were about 23 times and 18 times respectively, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.