Press Release

HKMC's Financial Results Highlights for 2020

The Hong Kong Mortgage Corporation Limited (HKMC) today (Wednesday) announced the highlights of its audited consolidated financial results for 2020 as follows:

2020 Financial Results Highlights

The audited loss after tax of the HKMC was HK$362 million (profit after tax for 2019: HK$317 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 policies underwritten while the corresponding 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 statutory reserves for policies underwritten and an increase in annuity payments; and

(iii) unfavourable impact by the revaluation of investments that were classified as investment securities at fair value through profit or loss upon the adoption of the Hong Kong Financial Reporting Standard 9 "Financial Instruments" since 2018.

For comparison purposes, the adjusted profit after tax, return on equity and cost-to-income ratio for 2020 would be HK$376 million, 3.5% and 44.8% respectively after adjusting for the amortisation impact of upfront commissions expenses to match with the corresponding mortgage insurance

premium income being recognised over the life of the respective loans and excluding the accounting loss of the HKMCA.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 31 December 2020 was about HK$5.4 billion, which comprised HK$4.1 billion of total equity and HK$1.3 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 37.3% as at 31 December 2020 (31 December 2019: 30.2%), well above the minimum ratio of 8% stipulated by the Financial Secretary. The Board recommended that no dividend be declared for 2020 (2019: Nil). 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 Business Performance Highlights

Asset Purchase

- Purchased HK$1.3 billion loan assets (2019: HK$1.9 billion) and HK$37.6 billion loans from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS)

- Outstanding principal balance of loan portfolio was HK$43.1 billion as at 31 December 2020 (31 December 2019: HK$6.9 billion)

Debt Issuance

- Issued a record HK$58.4 billion in corporate debts, HK$29.4 billion of which with tenor of one year or above (2019: a total of HK$31.9 billion, HK$17.7 billion of which with a tenor of one year or above), being the most active corporate debt issuer in Hong Kong

- Outstanding balance of debt securities was HK$61.9 billion as at 31 December 2020 (31 December 2019: HK$39.7 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$98.3 billion (2019: HK$33.3 billion)

- 86% 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 19,000 applications under the 80% Guarantee Product with a total loan amount of approximately HK$82.2 billion. Since its launch in May 2012, around 90% 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 2020, approved around 2,700 applications with a total loan amount of approximately HK$4.9 billion

- Launched the Special 100% Loan Guarantee on 20 April 2020. As at the end of December 2020, approved more than 25,000 applications with a total loan amount of approximately HK$39.7 billion, of which HK$37.6 billion loan assets were purchased by the HKMC

Reverse Mortgage Programme (RMP)

- Approved 630 applications (2019: 676 applications) under the RMP, with an average property value of HK$6.4 million and an average monthly payout of HK$18,700

HKMC Annuity Plan

- Issued 2,606 policies (2019: 2,188 policies), with total premiums received at around HK$2.5 billion (2019: HK$1.6 billion) and an average premium of HK$974,000 (2019: HK$745,000)

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

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

The Hong Kong Mortgage Corporation Limited
12 May 2021

Annex

Consolidated Financial Results For the Year Ended 31 December 2020

	2020	2019
	HK$'000	HK$'000
Interest income	**1,158,286**	1,470,479
Interest expense	**(670,560)**	(946,488)
Net interest income	**487,726**	523,991
Net premiums earned	**2,992,723**	1,987,650
Other income	**807,841**	465,397
Operating income	**4,288,290**	2,977,038
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(3,541,468)**	(2,021,558)
Net commission and levy expenses	**(666,467)**	(138,361)
Operating expenses	**(514,886)**	(479,651)
Operating (loss) / profit before impairment	**(434,531)**	337,468
Charge of impairment allowances	**(5,178)**	(934)
(Loss)/ profit before taxation	**(439,709)**	336,534
Taxation	**77,585**	(19,073)
(Loss)/ profit for the year	**(362,124)**[1]	317,461[1]
Return on equity	**(2.4%)**[1]	2.1%[1]
Cost-to-income ratio	**640.8%**[1]	58.7%[1]
Net interest margin	**0.8%**	1.0%

[1] For comparison purposes, after (i) adjusting for the amortisation impact of upfront commissions expenses arising from significant surge in the volume of new mortgage insurance policies underwritten to match with the corresponding premium income being recognised over the life of the respective loan; and (ii) excluding an accounting loss for maintaining prudent statutory reserves based on actuarial assumptions for the annuity business of the HKMCA, the adjusted profit after tax, return on equity and cost-to-income ratio for 2020 would be HK$376 million, 3.5% and 44.8% respectively (2019: HK$443 million, 4.2% and 41.8% respectively after excluding the accounting loss of the HKMCA).

	As at 31 December 2020	As at 31 December 2019
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**21,900,341**	27,908,184
Derivative financial instruments	**797,352**	200,702
Loan portfolio, net	**43,141,592**	6,928,045
Investment securities	**14,414,667**	17,333,711
Placements with the Exchange Fund	**16,336,835**	12,881,627
Reinsurance assets	**377,502**	208,991
Other assets	**1,388,780**	2,045,074
Total assets	**98,357,069**	67,506,334
LIABILITIES		
Derivative financial instruments	**281,230**	299,935
Current tax liabilities	**136,745**	123,115
Insurance liabilities	**11,186,971**	6,501,639
Debt securities issued	**61,909,148**	39,710,963
Other liabilities	**9,983,899**	5,634,091
Total liabilities	**83,497,993**	52,269,743
EQUITY		
Share capital	**7,000,000**	7,000,000
Retained profits	**6,075,082**	6,553,108
Contingency reserve	**1,774,571**	1,658,669
Fair value and hedging reserves	**9,423**	24,814
Total equity	**14,859,076**	15,236,591
Total liabilities and equity	**98,357,069**	67,506,334
Capital adequacy ratio	**37.3%**	30.2%

Note:

The financial information relating to the two years ended 31 December 2020 and 2019 respectively included in this press release of 2020 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 2019 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2020 in due course.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for both years. The auditor's reports were 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 audited loss after tax of the HKMC for 2020 was HK$362 million (profit after tax for 2019: HK$317 million). The decrease in profitability was primarily attributable to the booking of increasing upfront commission expenses under the MIP, an increase in accounting loss of the HKMCA, and unfavourable impact by the revaluation of investments.

In 2020, net interest income was HK$488 million (2019: HK$524 million) and the net interest margin of the average interest-earning assets maintained at 0.8% (2019: 1.0%).

New loans drawn down under the MIP significantly increased to HK$98.3 billion in 2020 from HK$33.3 billion in 2019. 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$47.6 billion (31 December 2019: HK$23.1 billion). Net mortgage insurance premiums earned, after income amortisation and provision, was HK$398 million (2019: HK$334 million). The net upfront commission expenses surged to HK$666 million (2019: HK$138 million) amid the significant increase in new loans underwritten.

Other income was HK$808 million (2019: HK$465 million), mainly representing investment income of HK$889 million (2019: HK$465 million) from placements with the Exchange Fund, and dividend income of HK$18 million (2019: HK$20 million) from, and a net loss of HK$65 million (2019: net gain of HK$33 million) on investments classified as investment securities at fair value through profit or loss.

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK$515 million, HK$35 million more than that 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 the maintenance of adequate capital (i.e. the HKMCI and the HKMCA, both regulated by the Insurance Authority). Excluding the investment cost of such unconsolidated regulated subsidiaries, the CAR remained solid at 37.3% as at 31 December 2020 (31 December 2019: 30.2%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of both the HKMCI and the HKMCA were about 12 times as at 31 December 2020, 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 that no dividend be declared for 2020.