

## Press Release

### **HKMC's Financial Results Highlights for the First Half of 2021**

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced the highlights of its unaudited consolidated financial results for the first six months of 2021 (1H 2021) as follows:

#### **2021 Half-Year Unaudited Financial Results Highlights**

The unaudited loss after tax of the HKMC for 1H 2021 was HK\$24 million (1H 2020: HK\$197 million), which was primarily due to: (a) the booking of commission expenses upfront for new mortgage insurance policies underwritten while the corresponding premium income was amortised over the life of the respective loans; and (b) the accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC, as a result of maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business. As compared to the results for 1H 2020, the decrease in accounting loss was mainly attributable to the non-recurrence in 1H 2021 of the unfavourable impacts taken place in 1H 2020 from: (a) the revaluation of investments that are classified as investment securities at fair value through profit or loss amid volatile market conditions; and (b) the revaluation of USD denominated assets due to strength of the HKD versus USD.

After adjusting the amortisation impact of upfront commissions expenses for new mortgage insurance policies underwritten to match the corresponding mortgage insurance premium income being recognised over the life of the respective loans and excluding the accounting loss of the HKMCA, the

adjusted profit after tax, return on equity and cost-to-income ratio for 1H 2021 would be HK\$346 million, 6.0% and 27.7% respectively.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 30 June 2021 was about HK\$8.1 billion, which comprised HK\$6.5 billion of total equity and HK\$1.6 billion of present value of future profits. The total equity included a capital injection of HK\$2.5 billion during the period. This indicates that the annuity business should be sustainable in the long term.

The Capital Adequacy Ratio (CAR) of the HKMC remained solid at 24.7% as at 30 June 2021 (31 December 2020: 37.3%), well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of the HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC operating general insurance business, and the HKMCA were about 9 times and 16 times respectively as at 30 June 2021, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Amid uncertain market conditions, the HKMC proactively communicated with the local and international investment community for debt issuance to fulfil its refinancing needs and accumulate cost-effective pre-funding to support its sizable loan purchases. 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.

## **2021 Half-Year Business Performance Highlights**

### *Asset Purchase*

- Purchased loan assets of HK\$790 million (1H 2020: HK\$0.9 billion) and loans of HK\$20.7 billion (1H 2020: HK\$14.3 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS)
- Outstanding principal balance of loan portfolio was HK\$61.4 billion as at 30 June 2021 (31 December 2020: HK\$43.1 billion)

### *Debt Issuance*

- Issued a record of HK\$60.9 billion in corporate debts in 1H 2021, HK\$42.6 billion of which with tenor of one year or above (1H 2020: a total of HK\$25.8 billion, HK\$11.1 billion of which with a tenor of one year or above), being the most active corporate debt issuer in Hong Kong
- The record issuance volume included the launch of a dual-tranche HK\$10 billion-equivalent Hong Kong dollar and offshore Renminbi public institutional bond issues in February 2021, being the largest public corporate bond issue with its book-building and pricing executed in Hong Kong
- Outstanding balance of debt securities was HK\$93.5 billion as at 30 June 2021 (31 December 2020: HK\$61.9 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 MIP loans drawn down amounted to HK\$60.6 billion (1H 2020: HK\$40.4 billion)
- 90% 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*

- As at 30 June 2021, approved around 20,400 applications under the 80% Guarantee Product with a total loan amount of approximately HK\$87.3 billion. Since its launch in May 2012, around 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 30 June 2021, approved around 4,000 applications with a total loan amount of approximately HK\$7.5 billion
- Launched the Special 100% Loan Guarantee on 20 April 2020. As at 30 June 2021, approved around 38,300 applications with a total loan amount of approximately HK\$61.8 billion, of which loan assets of HK\$58.3 billion were purchased by the HKMC

### *Reverse Mortgage Programme (RMP)*

- Approved 359 applications (1H 2020: 254 applications) under the RMP, with an average property value of HK\$6.3 million and an average monthly payout of HK\$19,700

### *HKMC Annuity Plan*

- Issued 1,654 policies (1H 2020: 987 policies), with total premiums received at around HK\$1.6 billion (1H 2020: HK\$0.9 billion) and an average premium of HK\$952,000 (1H 2020: HK\$934,000)

### *100% Personal Loan Guarantee Scheme (PLGS)*

- Launched the PLGS on 28 April 2021. As at 30 June 2021, approved around 15,400 applications with a total loan amount of approximately HK\$1.1 billion

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2021 are set out at Annex.

The Hong Kong Mortgage Corporation Limited

7 October 2021

**Unaudited Consolidated Financial Results**  
**For the Six Months Ended 30 June 2021**

	<b>Unaudited 1H 2021 HK\$'000</b>	<b>Unaudited 1H 2020 HK\$'000</b>
Interest income	430,841	675,425
Interest expense	(209,641)	(435,540)
<b>Net interest income</b>	<b>221,200</b>	239,885
Net premiums earned	1,926,301	1,107,087
Other income	517,478	48,338
<b>Operating income</b>	<b>2,664,979</b>	1,395,310
Net claims incurred, benefits paid and movement in policyholders' liabilities	(2,041,171)	(1,139,724)
Net commission and levy expenses	(443,198)	(240,498)
Operating expenses	(233,655)	(249,464)
Operating loss before impairment	(53,045)	(234,376)
Charge of impairment allowances	(4,416)	(3,142)
<b>Loss before taxation</b>	<b>(57,461)</b>	(237,518)
Taxation	33,021	41,009
<b>Loss for the period</b>	<b>(24,440)<sup>1</sup></b>	<b>(196,509)<sup>2</sup></b>
Return on equity (annualised)	(0.3%) <sup>1</sup>	(2.6%) <sup>2</sup>
Cost-to-income ratio	129% <sup>1</sup>	1,653% <sup>2</sup>
Net interest margin (annualised)	0.4%	0.9%

<sup>1</sup> After (i) adjusting the amortisation impact of upfront commission expenses for new mortgage insurance policies underwritten to match the corresponding premium income being recognised over the life of the respective loans; and (ii) excluding the accounting loss of the HKMCA as a result of maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2021 would be HK\$346 million, 6.0% and 27.7% respectively.

<sup>2</sup> After (i) adjusting the amortisation impact of upfront commission expenses for new mortgage insurance policies underwritten to match the corresponding premium income being recognised over the life of the respective loans; and (ii) excluding the accounting loss of the HKMCA as a result of maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2020 would be HK\$106 million, 1.9% and 37.8% respectively.

	<b>As at 30 June 2021</b>	<b>As at 31 December 2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	<b>38,961,661</b>	21,900,341
Derivative financial instruments	<b>629,182</b>	797,352
Loan portfolio, net	<b>61,352,106</b>	43,141,592
Investment securities	<b>13,523,020</b>	14,414,667
Placements with the Exchange Fund	<b>26,929,466</b>	16,336,835
Reinsurance assets	<b>418,288</b>	377,502
Other assets	<b>1,430,071</b>	1,388,780
<b>Total assets</b>	<b>143,243,794</b>	<b>98,357,069</b>
<b>LIABILITIES</b>		
Derivative financial instruments	<b>254,921</b>	281,230
Current tax liabilities	<b>137,874</b>	136,745
Insurance liabilities	<b>13,942,127</b>	11,186,971
Debt securities issued	<b>93,504,066</b>	61,909,148
Other liabilities	<b>18,080,568</b>	9,983,899
<b>Total liabilities</b>	<b>125,919,556</b>	<b>83,497,993</b>
<b>EQUITY</b>		
Share capital	<b>9,500,000</b>	7,000,000
Retained profits	<b>5,881,852</b>	6,075,082
Contingency reserve	<b>1,943,361</b>	1,774,571
Fair value and hedging reserves	<b>(975)</b>	9,423
<b>Total equity</b>	<b>17,324,238</b>	<b>14,859,076</b>
<b>Total liabilities and equity</b>	<b>143,243,794</b>	<b>98,357,069</b>
Capital adequacy ratio	<b>24.7%</b>	37.3%

Note:

The financial information relating to the year ended 31 December 2020 included in these unaudited consolidated financial results for the six months ended 30 June 2021 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 2020 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 2020. 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 loss after tax of the HKMC for 1H 2021 was HK\$24 million (1H 2020: HK\$197 million). The decrease in accounting loss was mainly attributable to the non-recurrence in 1H 2021 of the unfavourable impacts taken place in 1H 2020 from the revaluation of investments that are classified as investment securities at fair value through profit or loss and the revaluation of USD denominated assets.

For 1H 2021, net interest income was HK\$221 million (1H 2020: HK\$240 million) and the net interest margin of the average interest-earning assets was 0.4% (1H 2020: 0.9%). Excluding the impact of loans purchased from the Special 100% Loan Guarantee under the SFGS at zero net interest margin with all loan interests received from borrowers passed through to the HKSAR Government against the Government's reimbursement of the relevant funding costs to the HKMC, the adjusted net interest margin would be at 0.8%.

New loans drawn down under the MIP significantly increased to HK\$60.6 billion for 1H 2021 as compared to HK\$40.4 billion for 1H 2020. The risk-in-force borne for the MIP by the HKMCI was HK\$64.4 billion (31 December 2020: HK\$47.6 billion). Net mortgage insurance premiums earned, after income amortisation and provision, were HK\$321 million (1H 2020: HK\$163 million). The net upfront commission expenses surged to HK\$443 million (1H 2020: HK\$240 million) amid the significant increase in new loans underwritten.

Other income was HK\$517 million (1H 2020: HK\$48 million), mainly representing the investment income of HK\$494 million (1H 2020: HK\$168 million) from placements with the Exchange Fund.

The HKMC continues to maintain stringent controls on operating expenses. After taking into account the recovery of HK\$36 million in operating expenses from the Government for administering the Special 100% Loan Guarantee under the SFGS, total operating expenses were HK\$234 million, HK\$15 million less than those of 1H



2020. Excluding the costs recovery, the increase in operating expenses indicated more resources were devoted to developing and implementing new business and policy initiatives.

In accordance with the Guidelines on Capital Adequacy Ratio, 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 for maintaining 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 24.7% as at 30 June 2021 (31 December 2020: 37.3%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 9 times and 16 times respectively as at 30 June 2021, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority. In June 2021, the Exchange Fund injected capital of HK\$2.5 billion, via the HKMC, into the HKMCA in order to maintain a strong capital base and to meet the regulatory requirement on the solvency position of the HKMCA.