Press Release

HKMC's Financial Results Highlights for 2021

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced the highlights of its audited consolidated financial results for 2021 as follows:

2021 Financial Results Highlights

The audited profit after tax of the HKMC was HK$831 million (loss after tax for 2020: HK$362 million). The profit turnaround was primarily attributable to:

(a) the annuity business's turn into profit from the preceding year's accounting loss as a result of higher investment returns from placements with the Exchange Fund;

(b) foreign exchange gains arising from US dollar and strategic offshore Renminbi exposures in deposits and debt investments; and

(c) increase in net premium receipts from the mortgage insurance business.

The embedded value of the annuity business as at 31 December 2021 was about HK$9 billion indicating that the business should be profitable in the long term. The embedded value comprised HK$7.2 billion of total equity and HK$1.8 billion of present value of future profits, and the total equity included a capital injection of HK$2.5 billion during the year.

The Capital Adequacy Ratio (CAR) of the HKMC remained solid at 23.4% as at 31 December 2021 (31 December 2020: 37.3%), well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of HKMC Insurance Limited (HKMCI) operating general insurance business and HKMC Annuity Limited (HKMCA) operating annuity business (both being the

HKMC's wholly-owned subsidiaries) were about 7 times and 15 times respectively as at 31 December 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 both local and international investor communities in debt issuance activities to satisfy refinancing needs and to obtain cost-effective pre-funding support for sizable loan purchases. With strong financing capability and liquidity position, the HKMC remains resilient and stands ready to face any financial turbulence ahead in fulfilling its core missions and social objectives.

2021 Business Performance Highlights

Asset Purchase

- Purchased loan assets of HK$3.1 billion (2020: HK$1.3 billion), and from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS), loans of HK$42.9 billion (2020: HK$37.6 billion)

- Outstanding principal balance of loan portfolio was HK$79.6 billion as at 31 December 2021 (31 December 2020: HK$43.1 billion)

Debt Issuance

- In 2021, issued a new record amount of corporate debts totalling HK$109.5 billion, of which HK$84.2 billion with a tenor of one year or above (2020: totalling HK$58.4 billion, of which HK$29.4 billion with a tenor of one year or above), being the most active issuer in the domestic market of Hong Kong dollar and offshore Renminbi corporate bonds

- It included a HK$10 billion-equivalent dual-tranche issuance of Hong Kong dollar- and offshore Renminbi-denominated bonds, being the largest ever public corporate bond offering with book-building and pricing all conducted in Hong Kong

- Outstanding balance of debt securities was HK$115.7 billion as at 31 December 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$132.6 billion (2020: HK$98.3 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 home buyers in the secondary market

SME Financing Guarantee Scheme

- In respect of the 80% Guarantee Product, approved more than 21,300 applications for a total loan amount of approximately HK$92.5 billion since its launch

- In respect of the 90% Guarantee Product launched in December 2019, approved more than 5,500 applications for a total loan amount of approximately HK$10.6 billion since its launch

- In respect of the Special 100% Loan Guarantee launched in April 2020, approved more than 47,000 applications for a total loan amount of approximately HK$81.6 billion since its launch, of which HK$80.5 billion were purchased by the HKMC

- The 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 45,000 local small and medium-sized enterprises and 640,000 related employees by the end of 2021

Reverse Mortgage Programme

- Approved 786 applications (2020: 630 applications), with an average property value of HK$6.6 million and an average monthly payout of HK$20,800

HKMC Annuity Plan

- Issued 4,059 policies (2020: 2,606 policies), with total premium received of around HK$3 billion (2020: HK$2.5 billion) and an average premium of HK$740,000 (2020: HK$974,000)

100% Personal Loan Guarantee Scheme

- Launched in April 2021, approved around 36,000 applications for a total loan amount of approximately HK$2.5 billion

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

The Hong Kong Mortgage Corporation Limited
19 May 2022

Annex

Consolidated Financial Results for the Year Ended 31 December 2021

	2021	2020
	HK$'000	HK$'000
Interest income	**906,148**	1,158,286
Interest expense	**(451,260)**	(670,560)
Net interest income	**454,888**	487,726
Net premiums earned	**3,834,633**	2,992,723
Other income	**2,146,210**	807,841
Operating income	**6,435,731**	4,288,290
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(4,079,450)**	(3,541,468)
Net commission and levy expenses	**(962,127)**	(666,467)
Operating expenses	**(491,896)**	(514,886)
Operating profit / (loss) before impairment	**902,258**	(434,531)
Charge of impairment allowances	**(8,185)**	(5,178)
Profit / (loss) before taxation	**894,073**	(439,709)
Taxation	**(62,975)**	77,585
Profit / (loss) for the year[1]	**831,098**	(362,124)
Return on equity[1]	**5.1%**	(2.4%)
Cost-to-income ratio[1]	**35.3%**	640.8%
Net interest margin	**0.4%**	0.8%

[1] For comparison, after adjustments to (a) amortise the MIP upfront commission expenses with the corresponding recognition of MIP premium income and (b) exclude the financial results of the HKMCA, the adjusted profit after tax, return on equity and cost-to-income ratio for 2021 would be HK$868 million, 7.3% and 25.2% respectively (2020: HK$376 million, 3.5% and 44.8% respectively).

	As at 31 December 2021	As at 31 December 2020
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**45,249,382**	21,900,341
Derivative financial instruments	**812,397**	797,352
Loan portfolio, net	**79,633,967**	43,141,592
Investment securities	**14,864,884**	14,414,667
Placements with the Exchange Fund	**28,633,258**	16,336,835
Reinsurance assets	**491,049**	377,502
Other assets	**3,493,297**	1,388,780
Total assets	**173,178,234**	98,357,069
LIABILITIES		
Derivative financial instruments	**334,529**	281,230
Current tax liabilities	**136,260**	136,745
Insurance liabilities	**16,784,290**	11,186,971
Debt securities issued	**115,652,967**	61,909,148
Other liabilities	**22,072,393**	9,983,899
Total liabilities	**154,980,439**	83,497,993
EQUITY		
Share capital	**9,500,000**	7,000,000
Retained profits	**6,618,097**	6,075,082
Contingency reserve	**2,062,654**	1,774,571
Fair value and hedging reserves	**17,044**	9,423
Total equity	**18,197,795**	14,859,076
Total liabilities and equity	**173,178,234**	98,357,069
Capital adequacy ratio	**23.4%**	37.3%

Note:

The financial information relating to the two years ended 31 December 2021 and 2020 respectively included in this press release of 2021 financial results does not constitute the HKMC's respective statutory annual consolidated financial statements for both 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 2020 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2021 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 report; and do not contain a statement under section 406(2), 407(2) or 407(3) of the Companies Ordinance.

Financial Review

The audited profit after tax of the HKMC for 2021 was HK$831 million (loss after tax for 2020: HK$362 million). The profit turnaround was mainly attributable to the annuity business's turn into profit from the preceding year's accounting loss, foreign exchange gains arising from the US dollar and strategic offshore Renminbi exposures in deposits and debt investments, increase in net premiums earned from the MIP business, and less net loss on investments in listed real estate investment trusts and exchange-traded bond funds.

The net interest income for 2021 was HK$455 million (2020: HK$488 million) and the net interest margin of the average interest-earning assets was 0.4% (2020: 0.8%). Excluding the loans purchased from the Special 100% Loan Guarantee under the SFGS at zero net interest margin with all loan interests received from borrowers passing 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 0.8%.

Drawdown amount of new MIP loans increased to HK$132.6 billion in 2021 as compared to HK$98.3 billion in 2020. The risk-in-force borne for the MIP by the HKMCI was HK$80.6 billion (31 December 2020: HK$47.6 billion). The net mortgage insurance premiums earned, after income amortisation and provision, were HK$765 million (2020: HK$398 million). The net upfront commission expenses surged to HK$961 million (2020: HK$666 million) in the light of the significant increase in new MIP loans underwritten.

Other income was HK$2,146 million (2020: HK$808 million), mainly representing the investment income of HK$1,991 million (2020: HK$889 million) from placements with the Exchange Fund and exchange gain of HK$117 million (2020: loss of HK$44 million) arising primarily from revaluation of US dollar and strategic offshore Renminbi exposures in cash and debt investments.

In accordance with the Guidelines on the CAR, capital ratio calculation follows the basis of consolidation for financial reporting to the exclusion of regulated subsidiaries, namely, the HKMCI and the HKMCA, that are regulated by the Insurance Authority and subject to separate requirements for maintaining adequate capital. Excluding the investment costs on such unconsolidated regulated subsidiaries, the HKMC's CAR remained solid at 23.4% as at 31 December 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 7 times and 15 times respectively as at 31 December 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 into the HKMCA via the HKMC in order to maintain a strong capital base and to meet the regulatory solvency requirement for the HKMCA.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2021.