

## **Press Release**

### **HKMC's Financial Results Highlights for the First Half of 2022**

The Hong Kong Mortgage Corporation Limited (HKMC) today (Thursday) announced the highlights of its unaudited consolidated financial results for the first six months of 2022 (1H 2022) noted below.

#### **2022 Half-Year Unaudited Financial Results Highlights**

The unaudited loss after tax of the HKMC for 1H 2022 was HK\$362 million (1H 2021: loss of HK\$24 million). The increase in accounting loss was primarily due to the accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC, arising mainly from the provisions made for its placements with the Exchange Fund amid uncertain and volatile market conditions, partly offset by the increase in amortisation of net premium receipts from the significant growth in the mortgage insurance business in prior years.

After excluding the accounting loss of the HKMCA and 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, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2022 would be HK\$463 million, 7.3% and 24.0% respectively.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 30 June 2022 was about HK\$11.0 billion, which comprised HK\$9.0 billion of total equity and HK\$2.0 billion of present value of

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

The Capital Adequacy Ratio (CAR) of the HKMC remained solid at 19.1% as at 30 June 2022 (31 December 2021: 23.4%), well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC operating general insurance business, and the HKMCA were about 8 times and 17 times respectively as at 30 June 2022, 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.

## **2022 Half-Year Business Performance Highlights**

### *Asset Purchase*

- Purchased HK\$2.6 billion of loan assets (1H 2021: HK\$790 million)
- Purchased HK\$11.8 billion of loans (1H 2021: HK\$20.7 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS)
- Outstanding principal balance of loan portfolio was HK\$86.8 billion as at 30 June 2022 (31 December 2021: HK\$79.6 billion)

### *Debt Issuance*

- Issued corporate debts totalling HK\$58.1 billion for 1H 2022, of which HK\$46.3 billion with tenor of one year or above (1H 2021: totalling HK\$60.9 billion, of which HK\$42.6 billion with a tenor of one year or above), being the most active corporate debt issuer in the domestic market of Hong Kong dollar and offshore Renminbi corporate bonds
- Outstanding balance of debt securities was HK\$138.4 billion as at 30 June 2022 (31 December 2021: HK\$115.7 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 MIP loans drawn down amounted to HK\$50.7 billion (1H 2021: HK\$60.6 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*

- In respect of the 80% Guarantee Product launched in May 2012, as at the end of June 2022, approved more than 22,300 applications with a total loan amount of HK\$97.7 billion since its launch
- In respect of the 90% Guarantee Product launched in December 2019, as at the end of June 2022, approved more than 6,900 applications with a total loan amount of HK\$13.3 billion since its launch
- In respect of the Special 100% Loan Guarantee launched in April 2020, as at the end of June 2022, approved more than 51,700 applications with a total loan amount of HK\$94.5 billion since its launch, of which HK\$92.4 billion of loan assets were purchased by the HKMC
- As at the end of June 2022, the 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 49,000 local small and medium-sized enterprises and 684,000 related employees since their inception

#### *Reverse Mortgage Programme*

- Approved 323 applications (1H 2021: 359 applications), with an average property value of HK\$6.6 million and an average monthly payout of HK\$23,000

### *HKMC Annuity Plan*

- Issued 1,727 policies (1H 2021: 1,654 policies), with total premiums received of around HK\$1.2 billion (1H 2021: HK\$1.6 billion) and an average premium of HK\$703,000 (1H 2021: HK\$952,000)

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

- As at the end of June 2022, approved around 50,000 applications with a total loan amount of HK\$3.4 billion since its launch in April 2021
- A measure to support any individual landlord who lives off rental income but has been affected by the rental enforcement moratorium under the Temporary Protection Measures for Business Tenants (COVID-19 Pandemic) Ordinance, an interest-free loan amount equivalent to three times the monthly rent, subject to a ceiling of HK\$100,000, is offered under the PLGS. The application period is from 6 May 2022 to 31 October 2022. As at the end of June 2022, 3 applications were received from affected landlords for a total loan amount of HK\$160,000

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2022 are set out at the Annex.

The Hong Kong Mortgage Corporation Limited

29 September 2022

**Unaudited Consolidated Financial Results****For the Six Months Ended 30 June 2022**

	<b>Unaudited 1H 2022 HK\$'000</b>	<b>Unaudited 1H 2021 HK\$'000</b>
Interest income	<b>705,784</b>	430,841
Interest expense	<b>(418,642)</b>	(209,641)
<b>Net interest income</b>	<b>287,142</b>	221,200
Net premiums earned	<b>1,753,239</b>	1,926,301
Other (losses) / income	<b>(192,608)</b>	517,478
<b>Operating income</b>	<b>1,847,773</b>	2,664,979
Net claims incurred, benefits paid and movement in policyholders' liabilities	<b>(1,699,082)</b>	(2,041,171)
Net commission and levy expenses	<b>(336,537)</b>	(443,198)
Operating expenses	<b>(234,273)</b>	(233,655)
Operating loss before impairment	<b>(422,119)</b>	(53,045)
Charge of impairment allowances	<b>(7,326)</b>	(4,416)
<b>Loss before taxation</b>	<b>(429,445)</b>	(57,461)
Taxation	<b>67,296</b>	33,021
<b>Loss for the period<sup>1</sup></b>	<b>(362,149)</b>	(24,440)
Return on equity (annualised) <sup>1</sup>	<b>(3.9%)</b>	(0.3%)
Cost-to-income ratio <sup>1</sup>	<b>(125%)</b>	129%
Net interest margin (annualised)	<b>0.4%</b>	0.4%

<sup>1</sup> For comparison, after adjustments to (a) exclude the financial results of the HKMCA and (b) amortise the MIP upfront commission expenses with the corresponding recognition of MIP premium income, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2022 would be HK\$463 million, 7.3% and 24.0% respectively (1H 2021: HK\$346 million, 6.0% and 27.7% respectively).

	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
<b>ASSETS</b>		
Cash and short-term funds	62,243,153	45,249,382
Derivative financial instruments	305,110	812,397
Loan portfolio, net	86,766,721	79,633,967
Investment securities	15,769,451	14,864,884
Placements with the Exchange Fund	31,571,230	28,633,258
Reinsurance assets	612,644	491,049
Other assets	4,077,635	3,493,297
<b>Total assets</b>	<b>201,345,944</b>	<b>173,178,234</b>
<b>LIABILITIES</b>		
Derivative financial instruments	2,796,940	334,529
Current tax liabilities	144,686	136,260
Insurance liabilities	18,731,912	16,784,290
Debt securities issued	138,434,138	115,652,967
Other liabilities	20,837,814	22,072,393
<b>Total liabilities</b>	<b>180,945,490</b>	<b>154,980,439</b>
<b>EQUITY</b>		
Share capital	12,000,000	9,500,000
Retained profits	5,988,069	6,618,097
Contingency reserve	2,330,533	2,062,654
Fair value and hedging reserves	81,852	17,044
<b>Total equity</b>	<b>20,400,454</b>	<b>18,197,795</b>
<b>Total liabilities and equity</b>	<b>201,345,944</b>	<b>173,178,234</b>

Capital adequacy ratio	<b>19.1%</b>	23.4%
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Note:

The financial information relating to the year ended 31 December 2021 included in these unaudited consolidated financial results for the six months ended 30 June 2022 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 2021 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 2021. 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 2022 was HK\$362 million (1H 2021: loss after tax of HK\$24 million). The increase in accounting loss was mainly attributable to the accounting loss of the HKMCA, partly offset by the increase in net premiums earned from the MIP business.

For 1H 2022, net interest income was HK\$287 million (1H 2021: HK\$221 million) and the net interest margin of the average interest-earning assets was 0.4% (1H 2021: 0.4%). Excluding the impact of loans purchased from the Special 100% Loan Guarantee under the SFGS at zero net interest margin where all loan interests received from the borrowers were passed through to the HKSAR Government with 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 was HK\$50.7 billion for 1H 2022 (1H 2021: HK\$60.6 billion). The risk-in-force borne for the MIP by the HKMCI was HK\$91.1 billion (31 December 2021: HK\$80.6 billion). The net mortgage insurance premiums earned, after income amortisation and provisions, were HK\$506 million (1H 2021: HK\$321 million). The net upfront commission expenses were HK\$336 million (1H 2021: HK\$443 million).

For 1H 2022, other losses amounted to HK\$193 million (1H 2021: other income of HK\$517 million), mainly representing the net investment loss of HK\$180 million (1H 2021: investment income of HK\$494 million) from placements with the Exchange Fund as a result of the provisions being made by the HKMCA amid unfavourable market conditions and the net exchange loss of HK\$83 million (1H 2021: net exchange gain of HK\$28 million) arising primarily from revaluation of strategic offshore Renminbi and US dollar exposures in deposits and debt investments, partly mitigated by the marked-to-market gain on hedging interest rate swaps.



In accordance with the Guidelines on 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 19.1% as at 30 June 2022 (31 December 2021: 23.4%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 8 times and 17 times respectively as at 30 June 2022, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority. In June 2022, 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.