Press Release

HKMC's Financial Results Highlights for 2022

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited consolidated financial results for 2022 as follows:

2022 Financial Results Highlights

The audited loss after tax of the HKMC was HK$319 million (2021: profit after tax of HK$831 million). The accounting loss was primarily due to (a) lower investment income of the annuity business generated from its placements with the Exchange Fund; and (b) a foreign exchange loss arising from strategic offshore Renminbi exposures in cash and debt investments amid uncontrollable market conditions. Such losses were partly offset by the increase in amortisation of net premium receipts from the mortgage insurance business amid significant growth in prior years, together with the drop in upfront commission expenses along with the decrease in the mortgage insurance business in 2022.

After excluding the accounting loss of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC, and adjusting the amortisation impact of upfront commission expenses for new mortgage insurance policies underwritten to match with the corresponding mortgage insurance premium income being recognised over the life of respective loans, the adjusted profit after tax, return on equity and cost-to-income ratio for 2022 would be HK$680 million, 5.3% and 30.8% respectively (2021: HK$868 million, 7.3% and 25.2% respectively).

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 31 December 2022 was about HK$11.2 billion indicating

that the annuity business should be sustainable in the long term. The embedded value comprised HK$8.9 billion of total equity and HK$2.3 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 27.9% as at 31 December 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 operating annuity business were about 11 times and 15 times respectively as at 31 December 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 both local and international investor communities in debt issuance activities to satisfy refinancing needs and accumulate cost-effective pre-funding to support 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.

2022 Business Performance Highlights

Asset Purchase

- Purchased HK$4.3 billion of loan assets (2021: HK$3.1 billion)

- Purchased HK$33.4 billion of loans (2021: HK$42.9 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS)

- Outstanding principal balance of loan portfolio was HK$101.6 billion as at 31 December 2022 (31 December 2021: HK$79.6 billion)

Debt Issuance

- Issued corporate debts totalling HK$97.6 billion, of which HK$71.8 billion with a tenor of one year or above (2021: totalling HK$109.5 billion, of which HK$84.2 billion with a tenor of one year or above), being the most active issuer in the domestic market of Hong Kong dollar (HKD) and offshore Renminbi (CNH) corporate bonds

- It included the inaugural dual-tranche issuance of HK$8 billion 2-year and CNH 3 billion 3-year social bonds pursuant to the Social, Green and Sustainability Financing Framework established during the year, being the world's first social bond issuance in dual-tranche denominated in HKD and CNH

- Outstanding balance of debt securities issued was HK$131.1 billion as at 31 December 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$107.2 billion (2021: HK$132.6 billion)

- 81% 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, as at the end of 2022, approved more than 23,300 applications with a total loan amount of approximately HK$102.4 billion since its launch in May 2012

- In respect of the 90% Guarantee Product, as at the end of 2022, approved more than 7,900 applications with a total loan amount of approximately HK$15.3 billion since its launch in December 2019

- In respect of the Special 100% Loan Guarantee, as at the end of 2022, approved more than 58,500 applications with a total loan amount of approximately HK$115.2 billion since its launch in April 2020, of which HK$114.0 billion of loan assets were purchased by the HKMC

- As at the end of 2022, the 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 53,000 local small and medium-sized enterprises and 715,000 related employees since their inception

Reverse Mortgage Programme

- Approved 938 applications (2021: 786 applications), with an average property value of HK$6.7 million and an average monthly payout of HK$22,400

HKMC Annuity Plan

- Issued 3,254 policies (2021: 4,059 policies), with total premium received of around HK$2.5 billion (2021: HK$3 billion) and an average premium of HK$777,000 (2021: HK$740,000)

100% Personal Loan Guarantee Scheme

- As at the end of 2022, approved around 60,700 applications with a total loan amount of approximately HK$4.1 billion since its launch in April 2021

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

The Hong Kong Mortgage Corporation Limited
22 May 2023

Annex

Consolidated Financial Results

For the Year Ended 31 December 2022

	2022	2021
	HK$'000	HK$'000
Interest income	**2,660,602**	906,148
Interest expense	**(2,304,711)**	(451,260)
Net interest income	**355,891**	454,888
Net premiums earned	**3,677,750**	3,834,633
Other income	**412,976**	2,146,210
Operating income	**4,446,617**	6,435,731
Net claims incurred, benefits paid and movement in policyholders' liabilities	**(3,578,587)**	(4,079,450)
Net commission and levy expenses	**(720,735)**	(962,127)
Operating expenses	**(515,465)**	(491,896)
Operating (loss) / profit before impairment	**(368,170)**	902,258
Change in impairment allowances	**(6,046)**	(8,185)
(Loss) / profit before taxation	**(374,216)**	894,073
Taxation	**54,808**	(62,975)
(Loss) / profit for the year[1]	**(319,408)**	831,098
Return on equity[1]	**(1.6%)**	5.1%
Cost-to-income ratio[1]	**350.0%**	35.3%
Net interest margin	**0.2%**	0.4%

[1] 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, return on equity and cost-to-income ratio for 2022 would be HK$680 million, 5.3% and 30.8% respectively (2021: HK$868 million, 7.3% and 25.2% respectively).

	As at 31 December 2022	As at 31 December 2021
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**34,525,384**	45,249,382
Derivative financial instruments	**603,715**	812,397
Loan portfolio, net	**101,617,693**	79,633,967
Investment securities	**14,397,678**	14,864,884
Placements with the Exchange Fund	**32,798,933**	28,633,258
Reinsurance assets	**734,052**	491,049
Other assets	**6,687,705**	3,493,297
Total assets	**191,365,160**	173,178,234
LIABILITIES		
Derivative financial instruments	**4,192,097**	334,529
Current tax liabilities	**98,666**	136,260
Insurance liabilities	**20,855,171**	16,784,290
Debt securities issued	**131,075,272**	115,652,967
Other liabilities	**14,644,662**	22,072,393
Total liabilities	**170,865,868**	154,980,439
EQUITY		
Share capital	**12,000,000**	9,500,000
Retained profits	**5,867,873**	6,618,097
Contingency reserve	**2,493,470**	2,062,654
Fair value and hedging reserves	**137,949**	17,044
Total equity	**20,499,292**	18,197,795
Total liabilities and equity	**191,365,160**	173,178,234
Capital adequacy ratio	**27.9%**	23.4%

Note:

The financial information relating to the two years ended 31 December 2022 and 2021 respectively included in this press release of 2022 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 2021 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2022 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 loss after tax of the HKMC for 2022 was HK$319 million (2021: profit after tax of HK$831 million). The accounting loss was primarily due to (a) lower investment income of the annuity business generated from its placements with the Exchange Fund; and (b) a foreign exchange loss arising from strategic offshore Renminbi exposures in cash and debt investments amid uncontrollable market conditions. Such losses were partly offset by the increase in amortisation of net premium receipts from the mortgage insurance business amid significant growth in prior years and the drop in upfront commission expenses along with the decrease in the MIP business in 2022.

The net interest income for 2022 was HK$356 million (2021: HK$455 million) and the net interest margin of the average interest-earning assets was 0.2% (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 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 0.5% (2021: 0.8%).

New loans drawn down under the MIP amounted to HK$107.2 billion for 2022 (2021: HK$132.6 billion). The risk-in-force borne for the MIP by the HKMCI was HK$99.1 billion as at the end of 2022 (31 December 2021: HK$80.6 billion). The net mortgage insurance premiums earned, after income amortisation and provision, surged to HK$1,072 million (2021: HK$765 million) as a result of the increase in amortised premium receipts associated with significant growth in the MIP business in prior years. The net upfront commission expenses decreased to HK$720 million (2021: HK$961 million), in line with the change in new business underwritten.

Other income was HK$413 million (2021: HK$2,146 million), mainly representing the investment income of HK$533 million (2021: HK$1,991 million) from placements with the Exchange Fund and a gain of HK$145 million (2021: HK$44

million) from the change in fair value of financial instruments which largely represented the mark-to-market gain of derivatives for the purpose of hedging interest rate risk, partly offset by the net exchange loss of HK$268 million (2021: net exchange gain of HK$117 million) arising primarily from revaluation of 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 which are subject to separate requirements for maintenance of adequate capital (i.e. the HKMCI and the HKMCA, both regulated by the Insurance Authority). Excluding the investment costs on such unconsolidated regulated subsidiaries, the HKMC's CAR remained solid at 27.9% as at 31 December 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 11 times and 15 times respectively as at 31 December 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 into the HKMCA via the HKMC in order to maintain a strong capital base and to meet the regulatory requirement on the solvency position for the HKMCA.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2022.