

## **Press Release**

### **HKMC's Financial Results Highlights for the First Half of 2023**

The Hong Kong Mortgage Corporation Limited (HKMC) today (28 September) announced the highlights of its unaudited consolidated financial results<sup>1</sup> for the first six months of 2023 (1H 2023) noted below.

#### **2023 Half-Year Unaudited Financial Results Highlights**

The unaudited profit after tax of the HKMC for 1H 2023 was HK\$1,041 million (1H 2022: loss after tax of HK\$299 million). The profit turnaround was primarily due to (a) the annuity business turned to profit from an accounting loss for 1H 2022 as a result of higher investment income from its placements with the Exchange Fund in 1H 2023 as compared to a provision made for its investment in the same period of last year; and (b) favourable insurance results for the Reverse Mortgage Programme (RMP) mainly arising from the rebound of property price in 1H 2023.

After excluding the financial results of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC operating annuity business, and the impact of property price change on the insurance result of the RMP, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2023 would be HK\$365 million, 5.4% and 26.6% respectively (1H 2022: HK\$356 million, 5.3% and 24.0% respectively).

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<sup>1</sup> From 1 January 2023, the HKMC has adopted Hong Kong Financial Reporting Standard 17 “Insurance Contracts” (HKFRS 17). As required by the accounting standard, the HKMC applied the requirements retrospectively with comparative figures previously published under Hong Kong Financial Reporting Standard 4 “Insurance Contracts” (HKFRS 4) restated from 1 January 2022, the transition date. Further information on the impact of this change is set out in the Financial Review section of this announcement.

Having included the capital injection of HK\$2.5 billion during the period, the embedded value of the annuity business as at 30 June 2023 was about HK\$13.9 billion, which comprised HK\$11.5 billion of total equity and HK\$2.4 billion of present value of future profits. This indicates a sound financial position of the HKMCA to develop its business in the long term.

The Capital Adequacy Ratio (CAR) of the HKMC remained solid at 18.1% as at 30 June 2023, well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of HKMC Insurance Limited (HKMCI), another wholly-owned subsidiary of the HKMC operating general insurance business, and the HKMCA were about 13 times and 19 times respectively as at 30 June 2023, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Amid uncertain market conditions, the HKMC adopted prudent prefunding strategy and proactively communicated with local and international investment communities for debt issuance to support its sizable loan purchase and fulfil its refinancing needs. With strong financing capability and liquidity position, the HKMC's core operations remain resilient and stand ready to cope with any financial turbulence ahead in performing its strategic policy roles and attaining its social objectives.

## **2023 Half-Year Business Performance Highlights**

### *Asset Purchase and Securitisation*

- Purchased HK\$1.2 billion of loan assets (1H 2022: HK\$2.6 billion)
- Purchased HK\$15.6 billion of loans (1H 2022: HK\$11.8 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS), and HK\$15.8 million of loans from the Dedicated 100% Loan Guarantee Schemes (DLGS) which was launched on 29 April 2023
- Completed the first issuance of infrastructure loan-backed securities under its pilot scheme on infrastructure financing securitisation. The issuance consists of multiple classes of US dollar-denominated secured notes backed by the cash flows from a diversified portfolio of project and infrastructure loans across multiple geographies and sectors, with a total size of US\$404.8 million
- Outstanding principal balance of loan portfolio was HK\$106.3 billion as at 30 June 2023 (31 December 2022: HK\$101.6 billion)

### *Debt Issuance*

- Issued corporate debts totalling HK\$65.6 billion for 1H 2023, of which HK\$58.6 billion with tenor of one year or above (1H 2022: totalling HK\$58.1 billion, of which HK\$46.3 billion with a tenor of one year or above), being the most active issuer in the domestic market of Hong Kong dollar corporate bonds
- Outstanding balance of debt securities issued was HK\$155.5 billion as at 30 June 2023 (31 December 2022: HK\$131.1 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\$51.4 billion (1H 2022: HK\$50.7 billion)
- 74% 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 June 2023, more than 24,400 applications were approved with a total loan amount of approximately HK\$107.1 billion since its launch in May 2012
- In respect of the 90% Guarantee Product, as at the end of June 2023, more than 9,200 applications were approved with a total loan amount of approximately HK\$17.5 billion since its launch in December 2019
- In respect of the Special 100% Loan Guarantee, as at the end of June 2023, more than 63,300 applications were approved with a total loan amount of approximately HK\$130.7 billion since its launch in April 2020, of which HK\$129.6 billion of loan assets were purchased by the HKMC
- As at the end of June 2023, the 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 57,000 local small and medium-sized enterprises and approximately 747,000 related employees since their inception

### *Dedicated 100% Loan Guarantee Schemes*

- The DLGS for Travel Sector and the DLGS for Cross-boundary Passenger Transport Trade were launched on 29 April 2023. As at the end of June 2023, 32 applications for a total loan amount of approximately HK\$43.8 million had been approved
- In support of green transport development, the DLGS for Battery Electric Taxis was launched on 4 September 2023 to encourage taxi owners to replace their liquefied petroleum gas, petrol or hybrid taxis with electric taxis

### *Reverse Mortgage Programme*

- 277 applications were approved (1H 2022: 323 applications), with an average property value of HK\$5.4 million and an average monthly payout of HK\$17,800

### *HKMC Annuity Plan*

- 814 policies were issued (1H 2022: 1,727 policies), with total premiums received of around HK\$0.7 billion (1H 2022: HK\$1.2 billion) and an average premium of HK\$831,000 (1H 2022: HK\$703,000)

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

- With the local economic recovery and decreased unemployment rate, the application period of the PLGS expired at the end of April 2023
- Around 67,000 applications were approved with a total loan amount of approximately HK\$4.7 billion since its launch in April 2021

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2023 are set out in the Annex.

The Hong Kong Mortgage Corporation Limited

28 September 2023

**Unaudited Consolidated Financial Results**  
**For the Six Months Ended 30 June 2023**

	Unaudited 1H 2023	Unaudited 1H 2022 (restated)
	HK\$'000	HK\$'000
Interest income	3,476,300	705,784
Interest expense	(3,188,416)	(418,642)
<b>Net interest income</b>	<b>287,884</b>	<b>287,142</b>
Insurance service results	763,923	(269,611)
Insurance finance expenses	(333,353)	(41,991)
Other income / (losses)	665,227	(192,612)
<b>Operating income</b>	<b>1,383,681</b>	<b>(217,072)</b>
Operating expenses	(152,053)	(129,647)
Operating profit / (loss) before impairment	1,231,628	(346,719)
Charge in impairment allowances	(16,663)	(7,326)
<b>Profit / (loss) before taxation</b>	<b>1,214,965</b>	<b>(354,045)</b>
Taxation	(173,519)	54,853
<b>Profit / (loss) for the period<sup>1</sup></b>	<b>1,041,446</b>	<b>(299,192)</b>
Return on equity (annualised) <sup>1</sup>	<b>8.2%</b>	(3.0%)
Cost-to-income ratio <sup>1</sup>	<b>11.0%</b>	(59.7%)
Net interest margin (annualised)	<b>0.3%</b>	0.4%

<sup>1</sup> For comparison, after adjustments to exclude (a) the financial results of the HKMCA and (b) the impact of the property price change on the insurance result of the RMP, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2023 would be HK\$365 million, 5.4% and 26.6% respectively (1H 2022: HK\$356 million, 5.3% and 24.0% respectively).

	<b>Unaudited as at 30 June 2023</b>	<b>Unaudited as at 31 December 2022 (restated)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	<b>50,857,479</b>	34,525,384
Derivative financial instruments	<b>380,270</b>	603,715
Loan portfolio, net	<b>106,293,026</b>	101,617,693
Investment securities	<b>15,909,220</b>	14,397,678
Placements with the Exchange Fund	<b>33,285,240</b>	32,798,933
Insurance contract assets	<b>555</b>	1,166
Reinsurance contract assets	<b>351,992</b>	376,373
Other assets	<b>5,473,822</b>	6,155,795
<b>Total assets</b>	<b>212,551,604</b>	190,476,737
<b>LIABILITIES</b>		
Derivative financial instruments	<b>4,185,226</b>	4,192,097
Current tax liabilities	<b>205,205</b>	98,666
Insurance contract liabilities	<b>16,449,489</b>	15,928,921
Debt securities issued	<b>155,502,956</b>	131,075,272
Other liabilities	<b>8,553,801</b>	14,861,015
<b>Total liabilities</b>	<b>184,896,677</b>	166,155,971
<b>EQUITY</b>		
Share capital	<b>14,500,000</b>	12,000,000
Retained profits	<b>10,155,517</b>	9,439,945
Contingency reserve	<b>2,819,344</b>	2,493,470
Insurance reserve	<b>85,900</b>	249,402
Fair value and hedging reserves	<b>94,166</b>	137,949
<b>Total equity</b>	<b>27,654,927</b>	24,320,766
<b>Total liabilities and equity</b>	<b>212,551,604</b>	190,476,737

Capital adequacy ratio

**18.1%**

27.9%

Notes:

The financial information relating to the year ended 31 December 2022 included in these unaudited consolidated financial results for the six months ended 30 June 2023 as being restated following the adoption of HKFRS 17 does not constitute the HKMC's statutory annual consolidated financial statements for that year. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap.622) is as follows:

The HKMC has delivered the consolidated financial statements for the year ended 31 December 2022 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 2022. 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 profit after tax of the HKMC for 1H 2023 was HK\$1,041 million (1H 2022: loss after tax of HK\$299 million). The profit turnaround was primarily due to higher investment income of the annuity business from its placements with the Exchange Fund in 1H 2023 and favourable insurance results for the RMP mainly arising from the rebound of property price in 1H 2023.

For 1H 2023, net interest income was HK\$288 million (1H 2022: HK\$287 million) and the net interest margin of the average interest-earning assets was 0.3% (1H 2022: 0.4%). Excluding the impact of loans purchased from the Special 100% Loan Guarantee under the SFGS and the DLGS 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%.

Insurance service results, which reflected insurance revenue less insurance service expenses, was a gain of HK\$764 million for 1H 2023 (1H 2022: a loss of HK\$270 million). Insurance revenue mainly reflects the consideration to which the HKMC expects to be entitled in exchange for the provision of insurance contract services in the form of contractual service margin (CSM) release, while insurance service expenses comprise the incurred claims and other incurred insurance service expenses and losses on onerous groups of contracts and reversals of such losses. The increase in insurance service results mainly reflected the higher release of the CSM due to growth of the CSM balance as a consequence of new business and reversals of loss on onerous contracts from the RMP amid the rebound of property price in 1H 2023.

Insurance finance expenses amounted to HK\$333 million for 1H 2023 (1H 2022: HK\$42 million). The increase was mainly attributable to the change in the carrying amount of the HKMC's insurance contracts arising from the effects of time value of money as a result of the rise in discount rate along with interest rate hikes.

For 1H 2023, other income amounted to HK\$665 million (1H 2022: losses of HK\$193 million), mainly representing the net investment income of HK\$682 million (1H 2022: net investment loss of HK\$180 million) from placements with the Exchange Fund amid favourable market conditions in 1H 2023 and the net exchange gain of HK\$20 million (1H 2022: loss of HK\$83 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in deposits and debt investments, partly reduced by the marked-to-market loss 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 being regulated by the Insurance Authority). Excluding the investment cost of such unconsolidated regulated subsidiaries, the HKMC's CAR remained solid at 18.1% as at 30 June 2023 (31 December 2022: 27.9%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 13 times and 19 times respectively as at 30 June 2023, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority. In June 2023, 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.

#### *Adoption of HKFRS 17*

On 1 January 2023, the HKMC adopted the requirements of HKFRS 17 retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the HKMC has applied the fair value approach for insurance contracts resulting in an increase in total equity by around HK\$1.5 billion.

With the adoption of HKFRS 17, balances based on HKFRS 4 were derecognised. Insurance contract liabilities have been remeasured by General Measurement Model under HKFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (such as premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the CSM. The CSM represents the unearned profits that will be released and systematically recognised in insurance revenue as services are provided over the expected coverage period. Losses resulting from the recognition of onerous contracts are not deferred but recognised in the income statement as they arise.