

## **Press Release**

### **HKMC's Financial Results Highlights for the First Half of 2024**

The Hong Kong Mortgage Corporation Limited (HKMC) today (7 October) announced the highlights of its unaudited consolidated financial results for the first six months of 2024 (1H 2024) noted below.

#### **2024 Half-Year Unaudited Financial Results Highlights**

The unaudited profit after tax of the HKMC for 1H 2024 was HK\$9 million (1H 2023: HK\$1,175 million<sup>1</sup>). The decline in profitability was primarily due to the unfavourable impact of property price drop in 1H 2024 on the reverse mortgage business as compared to the favourable impact of property price rebound in 1H 2023.

After excluding the accounting results of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC operating annuity business, the impact of property price changes on the reverse mortgage insurance business, and the effect of valuation and corresponding adjustments as required by HKFRS 17 at consolidation level in respect of the loan portfolios with insurance cover provided by HKMC Insurance Limited (HKMCI), another wholly-owned subsidiary of the HKMC operating general insurance business, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2024 would be HK\$468 million, 6.2% and 22.4% respectively (1H 2023: HK\$365 million, 5.2% and 26.6% respectively).

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<sup>1</sup> After adoption of Hong Kong Financial Reporting Standard 17 “Insurance Contracts” (HKFRS 17) with effect from 1 January 2023, accounting adjustments are required to be made at consolidation level in respect of the loan portfolios with insurance cover provided by the HKMCI. The Group has finalised the accounting adjustments when the 2023 audited financial statements were prepared. Accordingly, the comparative figures reported in this press release have been restated with the same accounting treatment applied consistently.

Despite the reported accounting loss of the HKMCA, the embedded value of the annuity business as at 30 June 2024 was about HK\$14.0 billion on the basis of the Insurance Ordinance, which comprised HK\$11.3 billion of total equity and HK\$2.7 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 20.7% as at 30 June 2024, well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of the HKMCI and the HKMCA were about 22 times and 16 times respectively as at 30 June 2024, 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.

## **2024 Half-Year Business Performance Highlights**

### *Asset Purchase*

- Acquired HK\$2.1 billion of loan assets (1H 2023: HK\$1.2 billion)
- Purchased HK\$4.6 billion of loans (1H 2023: HK\$15.6 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS), and HK\$32.0 million of loans (1H 2023: HK\$15.8 million) from the Dedicated 100% Loan Guarantee Schemes (DLGS)
- Outstanding balance of loan portfolio was HK\$107.1 billion as at 30 June 2024 (31 December 2023: HK\$109.5 billion)

### *Debt Issuance*

- Issued corporate debts totalling HK\$57.1 billion for 1H 2024, of which HK\$48.4 billion with tenor of one year or above (1H 2023: totalling HK\$65.6 billion, of which HK\$58.6 billion with a tenor of one year or above), being the most active issuer in the domestic market of Hong Kong dollar corporate bonds
- Successfully completed the issuance of triple-tranche Hong Kong dollar (HKD) benchmark bonds of HK\$12 billion comprising HK\$8 billion 2-year, HK\$3 billion 5-year and HK\$1 billion 10-year bonds, being the largest-ever HKD senior unsecured public bond transaction and the largest 10-year HKD public bond issuance in the institutional market
- Outstanding balance of debt securities issued was HK\$144.6 billion as at 30 June 2024 (31 December 2023: HK\$161.7 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\$28.3 billion (1H 2023: HK\$51.4 billion)
- 52% of loans drawn down (in terms of loan amount) were secured on properties in the secondary market

### *SME Financing Guarantee Scheme*

- In respect of the 80% Guarantee Product, as at the end of June 2024, more than 26,400 applications were approved with a total loan amount of approximately HK\$114.4 billion since its launch in May 2012
- In respect of the 90% Guarantee Product, as at the end of June 2024, more than 12,600 applications were approved with a total loan amount of approximately HK\$23.4 billion since its launch in December 2019
- In respect of the Special 100% Loan Guarantee, as at the end of June 2024, more than 66,900 applications were approved with a total loan amount of approximately HK\$143.2 billion since its launch in April 2020, of which HK\$143.1 billion of loan assets were purchased by the HKMC
- As at the end of June 2024, the 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 63,000 local small and medium-sized enterprises and approximately 792,000 related employees since their inception. The application period for the 80% and 90% Guarantee Products has been extended for two years until end-March 2026 while the application period for the Special 100% Loan Guarantee expired at end-March 2024

### *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 2024, 220 applications were approved with a total loan amount of approximately HK\$218.2 million
- Promoting the use of battery electric taxis (e-Taxis) is one of the Government's measures to develop green transport, and the DLGS for e-Taxis was launched on 4 September 2023 to provide loans for eligible taxi owners to purchase e-Taxis to replace their liquefied petroleum gas, petrol or hybrid taxis. As at the end of June 2024, 16 applications were approved with a total loan amount of approximately HK\$5.3 million

### *Reverse Mortgage Programme (RMP)*

- 546 applications were approved (1H 2023: 277 applications), with an average property value of HK\$4.9 million and an average monthly payout of HK\$12,600

### *Annuity Business*

- Taking a total of 2,295 policies (1H 2023: 814 policies), with total premiums of HK\$1.1 billion (1H 2023: HK\$0.7 billion)

Further details of the HKMC's unaudited consolidated financial results and financial review for 1H 2024 are set out in the Annex.

The Hong Kong Mortgage Corporation Limited

7 October 2024

**Unaudited Consolidated Financial Results**  
**For the Six Months Ended 30 June 2024**

	<b>Unaudited 1H 2024 HK\$'000</b>	<b>Unaudited 1H 2023 HK\$'000</b>
Interest income	4,252,763	3,476,300
Interest expense	<u>(3,964,039)</u>	<u>(3,188,416)</u>
<b>Net interest income</b>	<b>288,724</b>	287,884
Insurance service results	<b>(506,914)</b>	649,714
Insurance finance expenses	<b>(396,198)</b>	(334,061)
Other income	<u>745,339</u>	<u>913,965</u>
<b>Operating income</b>	<b>130,951</b>	1,517,502
Operating expenses	<u>(154,772)</u>	<u>(152,053)</u>
Operating (loss) / profit before impairment	<b>(23,821)</b>	1,365,449
Charge in impairment allowances	<u>(13,194)</u>	<u>(16,663)</u>
<b>(Loss) / profit before taxation</b>	<b>(37,015)</b>	1,348,786
Taxation	<u>46,054</u>	<u>(173,519)</u>
<b>Profit for the period<sup>1</sup></b>	<u><b>9,039</b></u>	<u>1,175,267</u>
Return on equity (annualised) <sup>1</sup>	<b>0.1%</b>	9.0%
Cost-to-income ratio <sup>1</sup>	<b>118.2%</b>	10.0%
Net interest margin (annualised)	<b>0.3%</b>	0.3%

<sup>1</sup> For comparison, after adjustments to exclude (a) the accounting results of the HKMCA; (b) the impact of property price changes on the reverse mortgage insurance business; and (c) the effect of valuation and corresponding adjustments at consolidation level after adoption of HKFRS 17 in respect of the loan portfolio with insurance cover provided by the HKMCI, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2024 would be HK\$468 million, 6.2% and 22.4% respectively (1H 2023: HK\$365 million, 5.2% and 26.6% respectively).

	Unaudited as at 30 June 2024 HK\$'000	Audited as at 31 December 2023 HK\$'000
<b>ASSETS</b>		
Cash and short-term funds	35,858,526	51,821,051
Derivative financial instruments	429,486	828,542
Loan portfolio, net	107,144,354	109,499,818
Investment securities	18,626,341	17,093,392
Placements with the Exchange Fund	35,029,039	34,070,393
Reinsurance contract assets	929,705	761,043
Other assets	3,405,357	5,228,570
<b>Total assets</b>	<b>201,422,808</b>	<b>219,302,809</b>
<b>LIABILITIES</b>		
Derivative financial instruments	1,512,965	2,825,522
Current tax liabilities	275,386	156,851
Insurance contract liabilities	21,189,731	19,375,845
Debt securities issued	144,579,190	161,718,497
Other liabilities	6,694,622	8,099,138
<b>Total liabilities</b>	<b>174,251,894</b>	<b>192,175,853</b>
<b>EQUITY</b>		
Share capital	14,500,000	14,500,000
Retained profits	9,005,738	9,358,885
Contingency reserve	3,379,378	3,017,192
Insurance reserve	267,329	224,002
Fair value and hedging reserves	18,469	26,877
<b>Total equity</b>	<b>27,170,914</b>	<b>27,126,956</b>
<b>Total liabilities and equity</b>	<b>201,422,808</b>	<b>219,302,809</b>

Capital adequacy ratio	<b>20.7%</b>	21.6%
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Notes:

The financial information relating to the year ended 31 December 2023 included in these unaudited consolidated financial results for the six months ended 30 June 2024 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 2023 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 2023. 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 2024 was HK\$9 million (1H 2023: HK\$1,175 million). The decline in profitability was primarily due to the unfavourable impact of property price drop in 1H 2024 on the reverse mortgage business as compared to the favourable impact of property price rebound in 1H 2023.

For 1H 2024, net interest income was HK\$289 million (1H 2023: HK\$288 million) and the net interest margin of the average interest-earning assets was 0.3% (1H 2023: 0.3%). 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% (1H 2023: 0.8%).

Insurance service results, which reflected insurance revenue less insurance service expenses, was a loss of HK\$507 million for 1H 2024 (1H 2023: a gain of HK\$650 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 decrease in insurance service results was mainly contributed by the loss recognised on onerous contracts from the RMP after taking into account the changes in prevailing property price, higher losses on new policies of the HKMC Annuity Plan written as driven by the lower discount rates adopted in 2024 and an increase in policies written upon the launch of enhanced annuity payouts campaign, partially offset by the increase in CSM amortisation from the accumulative mortgage insurance business.

For 1H 2024, other income amounted to HK\$745 million (1H 2023: HK\$914 million), mainly comprising net investment income of HK\$759 million (1H 2023: HK\$682 million) from the placements with the Exchange Fund, a gain of HK\$46 million (1H



2023: a loss of HK\$62 million) from 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 and an exchange gain of HK\$8 million (1H 2023: HK\$20 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in cash and debt investments, partly reduced by a loss of HK\$87 million (1H 2023: a gain of HK\$249 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover provided by the HKMCI.

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 20.7% as at 30 June 2024 (31 December 2023: 21.6%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 22 times and 16 times respectively as at 30 June 2024, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.