

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2020

	Unaudited 1H 2020 HK\$'000	Unaudited 1H 2019 HK\$'000
Interest income	675,425	725,543
Interest expense	(435,540)	(437,208)
Net interest income	239,885	288,335
Net premiums earned	1,107,087	946,994
Other income	48,338	246,462
Operating income	1,395,310	1,481,791
Net claims incurred, benefits paid and movement in policyholders' liabilities	(1,139,724)	(946,280)
Net commission and levy expenses	(240,498)	(63,992)
Operating expenses	(249,464)	(230,716)
Operating (loss) / profit before impairment	(234,376)	240,803
Charge of impairment allowances	(3,142)	(430)
(Loss)/ profit before taxation	(237,518)	240,373
Taxation	41,009	6,286
(Loss)/ profit for the period	(196,509)¹	246,659²
Return on shareholder's equity (annualised)	-2.6% ¹	3.3% ²
Cost-to-income ratio	1,653% ¹	48.9% ²
Net interest margin (annualised)	0.9%	1.1%

¹ For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for the first half of 2020 would be HK\$104 million and 1.9% and 65.4% respectively after excluding (i) an accounting loss made by the HKMCA for maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business; and (ii) market volatility affecting the revaluation of investments at fair value through profit or loss and foreign exchange position arising primarily from US dollar exposure in cash and debt investments.

² For comparison purposes, the adjusted profit after tax, return on shareholder's equity and cost-to-income ratio for the first half of 2019 would be HK\$243 million and 4.6% and 39.0% respectively after excluding (i) an accounting loss made by the HKMCA for maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business; and (ii) market volatility affecting the revaluation of investments at fair value through profit or loss and foreign exchange position arising primarily from US dollar exposure in cash and debt investments.

	As at 30 June 2020	As at 31 December 2019
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	26,114,113	27,908,184
Derivative financial instruments	468,439	200,702
Loan portfolio, net	21,519,497	6,928,045
Investment securities	15,762,205	17,333,711
Placements with the Exchange Fund	13,902,834	12,881,627
Reinsurance assets	357,828	208,991
Other assets	1,070,787	2,045,074
	79,195,703	67,506,334
LIABILITIES		
Derivative financial instruments	252,103	299,935
Current tax liabilities	84,805	123,115
Insurance liabilities	8,105,508	6,501,639
Debt securities issued	48,399,497	39,710,963
Other liabilities	7,351,451	5,634,091
	64,193,364	52,269,743
EQUITY		
Share capital	7,000,000	7,000,000
Retained profits	6,266,963	6,553,108
Contingency reserve	1,748,305	1,658,669
Fair value and hedging reserves	(12,929)	24,814
Total equity	15,002,339	15,236,591
Total liabilities and equity	79,195,703	67,506,334
Capital adequacy ratio	36.6%	30.2%

Note:

The financial information relating to the year ended 31 December 2019 included in these unaudited consolidated financial results for the six months ended 30 June 2020 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 2019 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 2019. 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 consolidated loss after tax of the HKMC for 1H 2020 was HK\$197 million (profit after tax for 1H 2019: HK\$247 million). The decrease in profitability was primarily attributable to the booking of increasing MIP upfront commission expenses, an increase in accounting loss of the HKMCA, and unfavourable impact by the revaluation of investments and USD denominated assets.

In 1H 2020, net interest income was HK\$240 million (1H 2019: HK\$288 million) and the net interest margin of the average interest-earning assets remained stable at 0.9% (1H 2019: 1.1%).

New loans drawn down under the MIP amounted to HK\$40.4 billion in 1H 2020 (1H 2019: HK\$15.7 billion). The risk-in-force borne for the MIP by HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the HKMC operating general insurance business, was HK\$32.4 billion (31 December 2019: HK\$23.1 billion). Net mortgage insurance premiums earned, after income amortisation and provision was HK\$163 million (1H 2019: HK\$162 million). The net upfront commission expenses surged to HK\$240 million (1H 2019: HK\$64 million) amid the significant increase in new loans underwritten.

Other income was HK\$48 million (1H 2019: HK\$246 million), mainly representing investment income of HK\$168 million (1H 2019: HK\$168 million) from placements with the Exchange Fund, partly offset by the net mark-to-market loss of HK\$85 million (1H 2019: net gain of HK\$104 million) on investments at fair value through profit or loss and exchange loss arising primarily from revaluation of US dollar exposures in cash and debt investments.

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK\$249 million, HK\$18 million more than that of the first half of 2019 as more resources were devoted to developing and implementing new

business and policy initiatives including the Special 100% Loan Guarantee under the SFGS.

In accordance with the Guidelines on Capital Adequacy Ratio (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 maintenance of adequate capital (i.e. the HKMCI and the HKMCA, as regulated by the Insurance Authority). Excluding the investment cost of these unconsolidated regulated subsidiaries, the CAR remained solid at 36.6% as at 30 June 2020 (31 December 2019: 30.2%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA as at 30 June 2020 were about 23 times and 18 times respectively, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.