

**Consolidated Financial Results For the Year Ended 31 December 2020**

	<b>2020</b>	<b>2019</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	<b>1,158,286</b>	1,470,479
Interest expense	<b>(670,560)</b>	(946,488)
<b>Net interest income</b>	<b>487,726</b>	523,991
Net premiums earned	<b>2,992,723</b>	1,987,650
Other income	<b>807,841</b>	465,397
<b>Operating income</b>	<b>4,288,290</b>	2,977,038
Net claims incurred, benefits paid and movement in policyholders' liabilities	<b>(3,541,468)</b>	(2,021,558)
Net commission and levy expenses	<b>(666,467)</b>	(138,361)
Operating expenses	<b>(514,886)</b>	(479,651)
Operating (loss) / profit before impairment	<b>(434,531)</b>	337,468
Charge of impairment allowances	<b>(5,178)</b>	(934)
<b>(Loss)/ profit before taxation</b>	<b>(439,709)</b>	336,534
Taxation	<b>77,585</b>	(19,073)
<b>(Loss)/ profit for the year</b>	<b>(362,124)<sup>1</sup></b>	317,461 <sup>1</sup>
Return on equity	<b>(2.4%)<sup>1</sup></b>	2.1% <sup>1</sup>
Cost-to-income ratio	<b>640.8%<sup>1</sup></b>	58.7% <sup>1</sup>
Net interest margin	<b>0.8%</b>	1.0%

<sup>1</sup> For comparison purposes, after (i) adjusting for the amortisation impact of upfront commissions expenses arising from significant surge in the volume of new mortgage insurance policies underwritten to match with the corresponding premium income being recognised over the life of the respective loan; and (ii) excluding an accounting loss for maintaining prudent statutory reserves based on actuarial assumptions for the annuity business of the HKMCA, the adjusted profit after tax, return on equity and cost-to-income ratio for 2020 would be HK\$376 million, 3.5% and 44.8% respectively (2019: HK\$443 million, 4.2% and 41.8% respectively after excluding the accounting loss of the HKMCA).

	<b>As at 31 December 2020 HK\$'000</b>	<b>As at 31 December 2019 HK\$'000</b>
<b>ASSETS</b>		
Cash and short-term funds	21,900,341	27,908,184
Derivative financial instruments	797,352	200,702
Loan portfolio, net	43,141,592	6,928,045
Investment securities	14,414,667	17,333,711
Placements with the Exchange Fund	16,336,835	12,881,627
Reinsurance assets	377,502	208,991
Other assets	1,388,780	2,045,074
<b>Total assets</b>	<b>98,357,069</b>	<b>67,506,334</b>
<b>LIABILITIES</b>		
Derivative financial instruments	281,230	299,935
Current tax liabilities	136,745	123,115
Insurance liabilities	11,186,971	6,501,639
Debt securities issued	61,909,148	39,710,963
Other liabilities	9,983,899	5,634,091
<b>Total liabilities</b>	<b>83,497,993</b>	<b>52,269,743</b>
<b>EQUITY</b>		
Share capital	7,000,000	7,000,000
Retained profits	6,075,082	6,553,108
Contingency reserve	1,774,571	1,658,669
Fair value and hedging reserves	9,423	24,814
<b>Total equity</b>	<b>14,859,076</b>	<b>15,236,591</b>
<b>Total liabilities and equity</b>	<b>98,357,069</b>	<b>67,506,334</b>
Capital adequacy ratio	<b>37.3%</b>	30.2%

Note:

The financial information relating to the two years ended 31 December 2020 and 2019 respectively included in this press release of 2020 financial results does not constitute the HKMC's statutory annual consolidated financial statements for those 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 2019 to the Registrar of Companies as required by the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2020 in due course.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for both years. The auditor's reports were 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 audited loss after tax of the HKMC for 2020 was HK\$362 million (profit after tax for 2019: HK\$317 million). The decrease in profitability was primarily attributable to the booking of increasing upfront commission expenses under the MIP, an increase in accounting loss of the HKMCA, and unfavourable impact by the revaluation of investments.

In 2020, net interest income was HK\$488 million (2019: HK\$524 million) and the net interest margin of the average interest-earning assets maintained at 0.8% (2019: 1.0%).

New loans drawn down under the MIP significantly increased to HK\$98.3 billion in 2020 from HK\$33.3 billion in 2019. 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\$47.6 billion (31 December 2019: HK\$23.1 billion). Net mortgage insurance premiums earned, after income amortisation and provision, was HK\$398 million (2019: HK\$334 million). The net upfront commission expenses surged to HK\$666 million (2019: HK\$138 million) amid the significant increase in new loans underwritten.

Other income was HK\$808 million (2019: HK\$465 million), mainly representing investment income of HK\$889 million (2019: HK\$465 million) from placements with the Exchange Fund, and dividend income of HK\$18 million (2019: HK\$20 million) from, and a net loss of HK\$65 million (2019: net gain of HK\$33 million) on investments classified as investment securities at fair value through profit or loss.

The HKMC continues to maintain stringent controls on operating expenses. Total operating expenses were HK\$515 million, HK\$35 million more than that 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 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 37.3% as at 31 December 2020 (31 December 2019: 30.2%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of both the HKMCI and the HKMCA were about 12 times as at 31 December 2020, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2020.