

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2021

	Unaudited 1H 2021 HK\$'000	Unaudited 1H 2020 HK\$'000
Interest income	430,841	675,425
Interest expense	(209,641)	(435,540)
Net interest income	221,200	239,885
Net premiums earned	1,926,301	1,107,087
Other income	517,478	48,338
Operating income	2,664,979	1,395,310
Net claims incurred, benefits paid and movement in policyholders' liabilities	(2,041,171)	(1,139,724)
Net commission and levy expenses	(443,198)	(240,498)
Operating expenses	(233,655)	(249,464)
Operating loss before impairment	(53,045)	(234,376)
Charge of impairment allowances	(4,416)	(3,142)
Loss before taxation	(57,461)	(237,518)
Taxation	33,021	41,009
Loss for the period	(24,440)¹	(196,509)²
Return on equity (annualised)	(0.3%) ¹	(2.6%) ²
Cost-to-income ratio	129% ¹	1,653% ²
Net interest margin (annualised)	0.4%	0.9%

¹ After (i) adjusting the amortisation impact of upfront commission expenses for new mortgage insurance policies underwritten to match the corresponding premium income being recognised over the life of the respective loans; and (ii) excluding the accounting loss of the HKMCA as a result of maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2021 would be HK\$346 million, 6.0% and 27.7% respectively.

² After (i) adjusting the amortisation impact of upfront commission expenses for new mortgage insurance policies underwritten to match the corresponding premium income being recognised over the life of the respective loans; and (ii) excluding the accounting loss of the HKMCA as a result of maintaining prudent statutory reserves based on actuarial assumptions provided for the annuity business, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2020 would be HK\$106 million, 1.9% and 37.8% respectively.

	As at 30 June 2021	As at 31 December 2020
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	38,961,661	21,900,341
Derivative financial instruments	629,182	797,352
Loan portfolio, net	61,352,106	43,141,592
Investment securities	13,523,020	14,414,667
Placements with the Exchange Fund	26,929,466	16,336,835
Reinsurance assets	418,288	377,502
Other assets	1,430,071	1,388,780
Total assets	143,243,794	98,357,069
LIABILITIES		
Derivative financial instruments	254,921	281,230
Current tax liabilities	137,874	136,745
Insurance liabilities	13,942,127	11,186,971
Debt securities issued	93,504,066	61,909,148
Other liabilities	18,080,568	9,983,899
Total liabilities	125,919,556	83,497,993
EQUITY		
Share capital	9,500,000	7,000,000
Retained profits	5,881,852	6,075,082
Contingency reserve	1,943,361	1,774,571
Fair value and hedging reserves	(975)	9,423
Total equity	17,324,238	14,859,076
Total liabilities and equity	143,243,794	98,357,069

Capital adequacy ratio

24.7%

37.3%

Note:

The financial information relating to the year ended 31 December 2020 included in these unaudited consolidated financial results for the six months ended 30 June 2021 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 2020 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 2020. 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 loss after tax of the HKMC for 1H 2021 was HK\$24 million (1H 2020: HK\$197 million). The decrease in accounting loss was mainly attributable to the non-recurrence in 1H 2021 of the unfavourable impacts taken place in 1H 2020 from the revaluation of investments that are classified as investment securities at fair value through profit or loss and the revaluation of USD denominated assets.

For 1H 2021, net interest income was HK\$221 million (1H 2020: HK\$240 million) and the net interest margin of the average interest-earning assets was 0.4% (1H 2020: 0.9%). Excluding the impact of loans purchased from the Special 100% Loan Guarantee under the SFGS at zero net interest margin with all loan interests received from borrowers passed through to the HKSAR Government against the Government's reimbursement of the relevant funding costs to the HKMC, the adjusted net interest margin would be at 0.8%.

New loans drawn down under the MIP significantly increased to HK\$60.6 billion for 1H 2021 as compared to HK\$40.4 billion for 1H 2020. The risk-in-force borne for the MIP by the HKMCI was HK\$64.4 billion (31 December 2020: HK\$47.6 billion). Net mortgage insurance premiums earned, after income amortisation and provision, were HK\$321 million (1H 2020: HK\$163 million). The net upfront commission expenses surged to HK\$443 million (1H 2020: HK\$240 million) amid the significant increase in new loans underwritten.

Other income was HK\$517 million (1H 2020: HK\$48 million), mainly representing the investment income of HK\$494 million (1H 2020: HK\$168 million) from placements with the Exchange Fund.

The HKMC continues to maintain stringent controls on operating expenses. After taking into account the recovery of HK\$36 million in operating expenses from the Government for administering the Special 100% Loan Guarantee under the SFGS, total operating expenses were HK\$234 million, HK\$15 million less than those of 1H

2020. Excluding the costs recovery, the increase in operating expenses indicated more resources were devoted to developing and implementing new business and policy initiatives.

In accordance with the Guidelines on Capital Adequacy Ratio, 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 for maintaining 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 24.7% as at 30 June 2021 (31 December 2020: 37.3%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 9 times and 16 times respectively as at 30 June 2021, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority. In June 2021, 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.