

Consolidated Financial Results
For the Year Ended 31 December 2023

	2023	2022 (restated)
	<u>HK\$'000</u>	<u>HK\$'000</u>
Interest income	7,901,337	2,660,602
Interest expense	<u>(7,504,428)</u>	<u>(2,304,711)</u>
Net interest income	396,909	355,891
Insurance service results	(178,920)	(1,209,863)
Insurance finance (expenses) / income, net	(1,697,511)	3,041,434
Other income	<u>1,410,775</u>	<u>608,391</u>
Operating (loss) / income	(68,747)	2,795,853
Operating expenses	<u>(323,822)</u>	<u>(269,864)</u>
Operating (loss) / profit before impairment	(392,569)	2,525,989
Charge in impairment allowances	<u>(19,987)</u>	<u>(6,046)</u>
(Loss) / profit before taxation	(412,556)	2,519,943
Taxation	<u>153,054</u>	<u>(357,193)</u>
(Loss) / profit for the year¹	<u>(259,502)</u>	<u>2,162,750</u>
Return on equity ¹	(1.0)%	10.0%
Cost-to-income ratio ¹	(471.0)%	9.7%
Net interest margin	0.2%	0.2%

¹ For comparison, after adjustments to exclude (a) the accounting results of the HKMCA; (b) the impact of the property price changes on the insurance result of the RMP; and (c) the valuation and corresponding adjustments after adoption of HKFRS 17 in respect of the Group's loan portfolio with insurance cover provided by the HKMCI, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 2023 would be HK\$724 million, 5.3% and 28.1% respectively (2022: HK\$445 million, 3.2% and 34.5% respectively).

	As at 31 December 2023	As at 31 December 2022 (restated)
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	51,821,051	34,525,384
Derivative financial instruments	828,542	603,715
Loan portfolio, net	109,499,818	102,186,811
Investment securities	17,093,392	14,397,678
Placements with the Exchange Fund	34,070,393	32,798,933
Reinsurance contract assets	761,043	376,373
Other assets	5,228,570	6,143,741
Total assets	219,302,809	191,032,635
LIABILITIES		
Derivative financial instruments	2,825,522	4,192,097
Current tax liabilities	156,851	98,666
Insurance contract liabilities	19,375,845	15,773,313
Debt securities issued	161,718,497	131,075,272
Other liabilities	8,099,138	14,890,098
Total liabilities	192,175,853	166,029,446
EQUITY		
Share capital	14,500,000	12,000,000
Retained profits	9,358,885	10,142,109
Contingency reserve	3,017,192	2,493,470
Insurance finance reserve	224,002	229,661
Fair value and hedging reserves	26,877	137,949
Total equity	27,126,956	25,003,189
Total liabilities and equity	219,302,809	191,032,635

Capital adequacy ratio

21.6%

27.9%

Notes:

The financial information relating to the year ended 31 December 2023 and the year ended 31 December 2022 (as being restated following the adoption of HKFRS 17) respectively included in this press release of 2023 financial results does not constitute the HKMC's respective statutory annual consolidated financial statements for both 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 (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 and will deliver the consolidated financial statements for the year ended 31 December 2023 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 2023 was HK\$260 million (2022: profit after tax of HK\$2,163 million). The accounting loss was primarily attributable to (a) the increase in insurance contract liabilities for the annuity business driven by the reduced discount rates reflecting the relatively lower market interest rates at the end of 2023 as compared to that of the previous year; and (b) the negative impact of property price drop on the reverse mortgage insurance business. These were partly mitigated by the favourable return from the placements with the Exchange Fund and the increase in amortisation of unearned profits from the accumulative mortgage insurance business.

For 2023, net interest income was HK\$397 million (2022: HK\$356 million) and the net interest margin of the average interest-earning assets was 0.2% (2022: 0.2%). 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 0.5% (2022: 0.5%).

Insurance service results, which reflected insurance revenue less insurance service expenses, was a loss of HK\$179 million for 2023 (2022: a loss of HK\$1,210 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 improvement in insurance service results mainly reflected the lower losses from new policies written under the HKMC Annuity Plan driven by higher discount rates adopted for 2023 than those for 2022 and the higher release of the CSM due to growth of the CSM balance as a consequence of new MIP business.

Insurance finance expenses amounted to HK\$1,698 million for 2023 (2022: an income of HK\$3,041 million). The above change in insurance finance expenses was mainly attributable to the unfavourable change in insurance contract liabilities driven by the decrease in discount rates adopted at the end 2023 as compared to that of 2022.

For 2023, other income amounted to HK\$1,411 million (2022: HK\$608 million), mainly comprising investment income of HK\$1,268 million (2022: HK\$533 million) from the placements with the Exchange Fund amid favourable market conditions in 2023, a gain of HK\$52 million (2022: HK\$195 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover provided by the HKMCI, a gain of HK\$43 million (2022: HK\$145 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\$7 million (2022: loss of HK\$268 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in cash and debt investments.

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 21.6% as at 31 December 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 (2022: 11 times) and 18 times (2022: 15 times) respectively as at 31 December 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.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2023.

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\$1.8 billion. With the adoption of HKFRS 17, balances based on HKFRS 4 were derecognised. Accordingly, 2022 financial results and position were restated.

Insurance contract liabilities have been remeasured by the 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.