

Unaudited Consolidated Financial Results**For the Six Months Ended 30 June 2022**

	Unaudited 1H 2022 HK\$'000	Unaudited 1H 2021 HK\$'000
Interest income	705,784	430,841
Interest expense	(418,642)	(209,641)
Net interest income	287,142	221,200
Net premiums earned	1,753,239	1,926,301
Other (losses) / income	(192,608)	517,478
Operating income	1,847,773	2,664,979
Net claims incurred, benefits paid and movement in policyholders' liabilities	(1,699,082)	(2,041,171)
Net commission and levy expenses	(336,537)	(443,198)
Operating expenses	(234,273)	(233,655)
Operating loss before impairment	(422,119)	(53,045)
Charge of impairment allowances	(7,326)	(4,416)
Loss before taxation	(429,445)	(57,461)
Taxation	67,296	33,021
Loss for the period¹	(362,149)	(24,440)
Return on equity (annualised) ¹	(3.9%)	(0.3%)
Cost-to-income ratio ¹	(125%)	129%
Net interest margin (annualised)	0.4%	0.4%

¹ For comparison, after adjustments to (a) exclude the financial results of the HKMCA and (b) amortise the MIP upfront commission expenses with the corresponding recognition of MIP premium income, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2022 would be HK\$463 million, 7.3% and 24.0% respectively (1H 2021: HK\$346 million, 6.0% and 27.7% respectively).

	As at 30 June 2022	As at 31 December 2021
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	62,243,153	45,249,382
Derivative financial instruments	305,110	812,397
Loan portfolio, net	86,766,721	79,633,967
Investment securities	15,769,451	14,864,884
Placements with the Exchange Fund	31,571,230	28,633,258
Reinsurance assets	612,644	491,049
Other assets	4,077,635	3,493,297
Total assets	201,345,944	173,178,234
LIABILITIES		
Derivative financial instruments	2,796,940	334,529
Current tax liabilities	144,686	136,260
Insurance liabilities	18,731,912	16,784,290
Debt securities issued	138,434,138	115,652,967
Other liabilities	20,837,814	22,072,393
Total liabilities	180,945,490	154,980,439
EQUITY		
Share capital	12,000,000	9,500,000
Retained profits	5,988,069	6,618,097
Contingency reserve	2,330,533	2,062,654
Fair value and hedging reserves	81,852	17,044
Total equity	20,400,454	18,197,795
Total liabilities and equity	201,345,944	173,178,234

Capital adequacy ratio

19.1%

23.4%

Note:

The financial information relating to the year ended 31 December 2021 included in these unaudited consolidated financial results for the six months ended 30 June 2022 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 2021 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 2021. 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 2022 was HK\$362 million (1H 2021: loss after tax of HK\$24 million). The increase in accounting loss was mainly attributable to the accounting loss of the HKMCA, partly offset by the increase in net premiums earned from the MIP business.

For 1H 2022, net interest income was HK\$287 million (1H 2021: HK\$221 million) and the net interest margin of the average interest-earning assets was 0.4% (1H 2021: 0.4%). Excluding the impact of loans purchased from the Special 100% Loan Guarantee under the SFGS 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%.

New loans drawn down under the MIP was HK\$50.7 billion for 1H 2022 (1H 2021: HK\$60.6 billion). The risk-in-force borne for the MIP by the HKMCI was HK\$91.1 billion (31 December 2021: HK\$80.6 billion). The net mortgage insurance premiums earned, after income amortisation and provisions, were HK\$506 million (1H 2021: HK\$321 million). The net upfront commission expenses were HK\$336 million (1H 2021: HK\$443 million).

For 1H 2022, other losses amounted to HK\$193 million (1H 2021: other income of HK\$517 million), mainly representing the net investment loss of HK\$180 million (1H 2021: investment income of HK\$494 million) from placements with the Exchange Fund as a result of the provisions being made by the HKMCA amid unfavourable market conditions and the net exchange loss of HK\$83 million (1H 2021: net exchange gain of HK\$28 million) arising primarily from revaluation of strategic offshore Renminbi and US dollar exposures in deposits and debt investments, partly mitigated by the marked-to-market gain on hedging interest rate swaps.

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 regulated by the Insurance Authority). Excluding the investment cost of such unconsolidated regulated subsidiaries, the CAR remained solid at 19.1% as at 30 June 2022 (31 December 2021: 23.4%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 8 times and 17 times respectively as at 30 June 2022, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority. In June 2022, 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.