

Consolidated Financial Results
For the Year Ended 31 December 2022

	2022	2021
	HK\$'000	HK\$'000
Interest income	2,660,602	906,148
Interest expense	(2,304,711)	(451,260)
Net interest income	355,891	454,888
Net premiums earned	3,677,750	3,834,633
Other income	412,976	2,146,210
Operating income	4,446,617	6,435,731
Net claims incurred, benefits paid and movement in policyholders' liabilities	(3,578,587)	(4,079,450)
Net commission and levy expenses	(720,735)	(962,127)
Operating expenses	(515,465)	(491,896)
Operating (loss) / profit before impairment	(368,170)	902,258
Change in impairment allowances	(6,046)	(8,185)
(Loss) / profit before taxation	(374,216)	894,073
Taxation	54,808	(62,975)
(Loss) / profit for the year¹	(319,408)	831,098
Return on equity ¹	(1.6%)	5.1%
Cost-to-income ratio ¹	350.0%	35.3%
Net interest margin	0.2%	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, return on equity and cost-to-income ratio for 2022 would be HK\$680 million, 5.3% and 30.8% respectively (2021: HK\$868 million, 7.3% and 25.2% respectively).

	As at 31 December 2022	As at 31 December 2021
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	34,525,384	45,249,382
Derivative financial instruments	603,715	812,397
Loan portfolio, net	101,617,693	79,633,967
Investment securities	14,397,678	14,864,884
Placements with the Exchange Fund	32,798,933	28,633,258
Reinsurance assets	734,052	491,049
Other assets	6,687,705	3,493,297
Total assets	191,365,160	173,178,234
LIABILITIES		
Derivative financial instruments	4,192,097	334,529
Current tax liabilities	98,666	136,260
Insurance liabilities	20,855,171	16,784,290
Debt securities issued	131,075,272	115,652,967
Other liabilities	14,644,662	22,072,393
Total liabilities	170,865,868	154,980,439
EQUITY		
Share capital	12,000,000	9,500,000
Retained profits	5,867,873	6,618,097
Contingency reserve	2,493,470	2,062,654
Fair value and hedging reserves	137,949	17,044
Total equity	20,499,292	18,197,795
Total liabilities and equity	191,365,160	173,178,234

Capital adequacy ratio

27.9%

23.4%

Note:

The financial information relating to the two years ended 31 December 2022 and 2021 respectively included in this press release of 2022 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 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 and will deliver the consolidated financial statements for the year ended 31 December 2022 in due course.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for both years. The auditor's reports are unqualified; do not include a reference to any matters to which the auditor draws attention by way of emphasis without qualifying its report; and do 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 2022 was HK\$319 million (2021: profit after tax of HK\$831 million). The accounting loss was primarily due to (a) lower investment income of the annuity business generated from its placements with the Exchange Fund; and (b) a foreign exchange loss arising from strategic offshore Renminbi exposures in cash and debt investments amid uncontrollable market conditions. Such losses were partly offset by the increase in amortisation of net premium receipts from the mortgage insurance business amid significant growth in prior years and the drop in upfront commission expenses along with the decrease in the MIP business in 2022.

The net interest income for 2022 was HK\$356 million (2021: HK\$455 million) and the net interest margin of the average interest-earning assets was 0.2% (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 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% (2021: 0.8%).

New loans drawn down under the MIP amounted to HK\$107.2 billion for 2022 (2021: HK\$132.6 billion). The risk-in-force borne for the MIP by the HKMCI was HK\$99.1 billion as at the end of 2022 (31 December 2021: HK\$80.6 billion). The net mortgage insurance premiums earned, after income amortisation and provision, surged to HK\$1,072 million (2021: HK\$765 million) as a result of the increase in amortised premium receipts associated with significant growth in the MIP business in prior years. The net upfront commission expenses decreased to HK\$720 million (2021: HK\$961 million), in line with the change in new business underwritten.

Other income was HK\$413 million (2021: HK\$2,146 million), mainly representing the investment income of HK\$533 million (2021: HK\$1,991 million) from placements with the Exchange Fund and a gain of HK\$145 million (2021: HK\$44

million) from the 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, partly offset by the net exchange loss of HK\$268 million (2021: net exchange gain of HK\$117 million) arising primarily from revaluation of strategic offshore Renminbi exposures in cash and debt investments.

In accordance with the Guidelines on the CAR, capital ratio calculation follows the basis of consolidation for financial reporting to the exclusion of regulated subsidiaries which are subject to separate requirements for maintenance of adequate capital (i.e. the HKMCI and the HKMCA, both regulated by the Insurance Authority). Excluding the investment costs on such unconsolidated regulated subsidiaries, the HKMC's CAR remained solid at 27.9% as at 31 December 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 11 times and 15 times respectively as at 31 December 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 into the HKMCA via the HKMC in order to maintain a strong capital base and to meet the regulatory requirement on the solvency position for the HKMCA.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2022.