

Unaudited Consolidated Financial Results**For the Six Months Ended 30 June 2023**

	Unaudited 1H 2023	Unaudited 1H 2022 (restated)
	HK\$'000	HK\$'000
Interest income	3,476,300	705,784
Interest expense	(3,188,416)	(418,642)
Net interest income	287,884	287,142
Insurance service results	763,923	(269,611)
Insurance finance expenses	(333,353)	(41,991)
Other income / (losses)	665,227	(192,612)
Operating income	1,383,681	(217,072)
Operating expenses	(152,053)	(129,647)
Operating profit / (loss) before impairment	1,231,628	(346,719)
Charge in impairment allowances	(16,663)	(7,326)
Profit / (loss) before taxation	1,214,965	(354,045)
Taxation	(173,519)	54,853
Profit / (loss) for the period¹	1,041,446	(299,192)
Return on equity (annualised) ¹	8.2%	(3.0%)
Cost-to-income ratio ¹	11.0%	(59.7%)
Net interest margin (annualised)	0.3%	0.4%

¹ For comparison, after adjustments to exclude (a) the financial results of the HKMCA and (b) the impact of the property price change on the insurance result of the RMP, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2023 would be HK\$365 million, 5.4% and 26.6% respectively (1H 2022: HK\$356 million, 5.3% and 24.0% respectively).

	Unaudited as at 30 June 2023	Unaudited as at 31 December 2022 (restated)
	HK\$'000	HK\$'000
ASSETS		
Cash and short-term funds	50,857,479	34,525,384
Derivative financial instruments	380,270	603,715
Loan portfolio, net	106,293,026	101,617,693
Investment securities	15,909,220	14,397,678
Placements with the Exchange Fund	33,285,240	32,798,933
Insurance contract assets	555	1,166
Reinsurance contract assets	351,992	376,373
Other assets	5,473,822	6,155,795
Total assets	212,551,604	190,476,737
LIABILITIES		
Derivative financial instruments	4,185,226	4,192,097
Current tax liabilities	205,205	98,666
Insurance contract liabilities	16,449,489	15,928,921
Debt securities issued	155,502,956	131,075,272
Other liabilities	8,553,801	14,861,015
Total liabilities	184,896,677	166,155,971
EQUITY		
Share capital	14,500,000	12,000,000
Retained profits	10,155,517	9,439,945
Contingency reserve	2,819,344	2,493,470
Insurance reserve	85,900	249,402
Fair value and hedging reserves	94,166	137,949
Total equity	27,654,927	24,320,766
Total liabilities and equity	212,551,604	190,476,737

Capital adequacy ratio

18.1%

27.9%

Notes:

The financial information relating to the year ended 31 December 2022 included in these unaudited consolidated financial results for the six months ended 30 June 2023 as being restated following the adoption of HKFRS 17 does not constitute the HKMC's statutory annual consolidated financial statements for that year. 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.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for 2022. 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 profit after tax of the HKMC for 1H 2023 was HK\$1,041 million (1H 2022: loss after tax of HK\$299 million). The profit turnaround was primarily due to higher investment income of the annuity business from its placements with the Exchange Fund in 1H 2023 and favourable insurance results for the RMP mainly arising from the rebound of property price in 1H 2023.

For 1H 2023, net interest income was HK\$288 million (1H 2022: HK\$287 million) and the net interest margin of the average interest-earning assets was 0.3% (1H 2022: 0.4%). 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 at 0.8%.

Insurance service results, which reflected insurance revenue less insurance service expenses, was a gain of HK\$764 million for 1H 2023 (1H 2022: a loss of HK\$270 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 increase in insurance service results mainly reflected the higher release of the CSM due to growth of the CSM balance as a consequence of new business and reversals of loss on onerous contracts from the RMP amid the rebound of property price in 1H 2023.

Insurance finance expenses amounted to HK\$333 million for 1H 2023 (1H 2022: HK\$42 million). The increase was mainly attributable to the change in the carrying amount of the HKMC's insurance contracts arising from the effects of time value of money as a result of the rise in discount rate along with interest rate hikes.

For 1H 2023, other income amounted to HK\$665 million (1H 2022: losses of HK\$193 million), mainly representing the net investment income of HK\$682 million (1H 2022: net investment loss of HK\$180 million) from placements with the Exchange Fund amid favourable market conditions in 1H 2023 and the net exchange gain of HK\$20 million (1H 2022: loss of HK\$83 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in deposits and debt investments, partly reduced by the marked-to-market loss 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 being regulated by the Insurance Authority). Excluding the investment cost of such unconsolidated regulated subsidiaries, the HKMC's CAR remained solid at 18.1% as at 30 June 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 and 19 times respectively as at 30 June 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.

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\$1.5 billion.

With the adoption of HKFRS 17, balances based on HKFRS 4 were derecognised. Insurance contract liabilities have been remeasured by 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.