

Unaudited Consolidated Financial Results
For the Six Months Ended 30 June 2024

	Unaudited 1H 2024 HK\$'000	Unaudited 1H 2023 HK\$'000
Interest income	4,252,763	3,476,300
Interest expense	(3,964,039)	(3,188,416)
Net interest income	288,724	287,884
Insurance service results	(506,914)	649,714
Insurance finance expenses	(396,198)	(334,061)
Other income	745,339	913,965
Operating income	130,951	1,517,502
Operating expenses	(154,772)	(152,053)
Operating (loss) / profit before impairment	(23,821)	1,365,449
Charge in impairment allowances	(13,194)	(16,663)
(Loss) / profit before taxation	(37,015)	1,348,786
Taxation	46,054	(173,519)
Profit for the period¹	9,039	1,175,267
Return on equity (annualised) ¹	0.1%	9.0%
Cost-to-income ratio ¹	118.2%	10.0%
Net interest margin (annualised)	0.3%	0.3%

¹ For comparison, after adjustments to exclude (a) the accounting results of the HKMCA; (b) the impact of property price changes on the reverse mortgage insurance business; and (c) the effect of valuation and corresponding adjustments at consolidation level after adoption of HKFRS 17 in respect of the loan portfolio with insurance cover provided by the HKMCI, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 1H 2024 would be HK\$468 million, 6.2% and 22.4% respectively (1H 2023: HK\$365 million, 5.2% and 26.6% respectively).

	Unaudited as at 30 June 2024 HK\$'000	Audited as at 31 December 2023 HK\$'000
ASSETS		
Cash and short-term funds	35,858,526	51,821,051
Derivative financial instruments	429,486	828,542
Loan portfolio, net	107,144,354	109,499,818
Investment securities	18,626,341	17,093,392
Placements with the Exchange Fund	35,029,039	34,070,393
Reinsurance contract assets	929,705	761,043
Other assets	3,405,357	5,228,570
Total assets	201,422,808	219,302,809
LIABILITIES		
Derivative financial instruments	1,512,965	2,825,522
Current tax liabilities	275,386	156,851
Insurance contract liabilities	21,189,731	19,375,845
Debt securities issued	144,579,190	161,718,497
Other liabilities	6,694,622	8,099,138
Total liabilities	174,251,894	192,175,853
EQUITY		
Share capital	14,500,000	14,500,000
Retained profits	9,005,738	9,358,885
Contingency reserve	3,379,378	3,017,192
Insurance reserve	267,329	224,002
Fair value and hedging reserves	18,469	26,877
Total equity	27,170,914	27,126,956
Total liabilities and equity	201,422,808	219,302,809

Capital adequacy ratio	20.7%	21.6%
------------------------	--------------	-------

Notes:

The financial information relating to the year ended 31 December 2023 included in these unaudited consolidated financial results for the six months ended 30 June 2024 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 2023 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 2023. 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 2024 was HK\$9 million (1H 2023: HK\$1,175 million). The decline in profitability was primarily due to the unfavourable impact of property price drop in 1H 2024 on the reverse mortgage business as compared to the favourable impact of property price rebound in 1H 2023.

For 1H 2024, net interest income was HK\$289 million (1H 2023: HK\$288 million) and the net interest margin of the average interest-earning assets was 0.3% (1H 2023: 0.3%). 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% (1H 2023: 0.8%).

Insurance service results, which reflected insurance revenue less insurance service expenses, was a loss of HK\$507 million for 1H 2024 (1H 2023: a gain of HK\$650 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 decrease in insurance service results was mainly contributed by the loss recognised on onerous contracts from the RMP after taking into account the changes in prevailing property price, higher losses on new policies of the HKMC Annuity Plan written as driven by the lower discount rates adopted in 2024 and an increase in policies written upon the launch of enhanced annuity payouts campaign, partially offset by the increase in CSM amortisation from the accumulative mortgage insurance business.

For 1H 2024, other income amounted to HK\$745 million (1H 2023: HK\$914 million), mainly comprising net investment income of HK\$759 million (1H 2023: HK\$682 million) from the placements with the Exchange Fund, a gain of HK\$46 million (1H 2023: a loss of HK\$62 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\$8 million (1H 2023: HK\$20 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in cash and debt investments, partly reduced by a loss of HK\$87 million (1H 2023: a gain of HK\$249 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover provided by the HKMCI.

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 20.7% as at 30 June 2024 (31 December 2023: 21.6%), well above the minimum requirement of 8% stipulated by the Financial Secretary.

The solvency ratios of the HKMCI and the HKMCA were about 22 times and 16 times respectively as at 30 June 2024, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.