Financial Review

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Global economic growth and the financial markets generally held up and performed well in 2024. Major economies recorded stable growth with inflation eased closer to policy targets, while major central banks progressively lowered their policy rates. However, the new US administration's policies on the economy, tax and trade added uncertainties to the inflation path and in turn affects how much room the US Fed has in adjusting monetary policy. Meanwhile, an escalation in trade frictions among major economies, along with geopolitical tensions, impacted real economic activities and triggered volatility in the financial markets. The increase in volatility saw the financial markets turn more cautious amid concerns over rising inflation and US Treasury yields in the fourth quarter of 2024.

In Mainland China, the economy grew by 5.0% in 2024 over the previous year. Major economic indicators pointed to a pick-up in growth momentum towards the end of the year while investor confidence improved, following the Central Government's announcements of a series of policy measures in the third quarter to stimulate the economy, stabilise the property market and boost the capital market.

In Hong Kong, the economy maintained its growth momentum despite the challenging external environment. Exports of goods and services continued to grow amid improvement in external demand, an increasing number of visitor arrivals and cross-border economic activities. Overall consumer price inflation rate stayed modest and averaged 1.1% for 2024 as whole. The job market remained stable, with the unemployment rate staying low at 3.1% in the fourth quarter. Residential property market sentiment remained uncertain, with a drop of 7.1% in average residential property price index in December 2024 as compared with a year ago. Against this backdrop, the Hong Kong economy posted a moderate growth of 2.5% in gross domestic product in 2024, further to 3.2% growth in 2023.

Amid uncertain market conditions, the Group's core operations remain resilient and stand ready to face any financial turbulence ahead in performing its strategic policy roles and attaining its social objectives with strong financing capability and solid capital position.

Income Statement

Financial Performance

Net loss of the Group for the year was HK$418 million (2023: a net loss of HK$260 million). The increase in accounting loss was largely due to negative impact of property price drop on fast-growing reverse mortgage business which were partly mitigated by the increase in net interest income together with the return from placements with the Exchange Fund.

For better assessment of the financial performance, after excluding (i) the accounting results of the annuity business; (ii) the impact of property price change on reverse mortgage insurance business; and (iii) effect of accounting adjustments of loan portfolios with insurance cover provided by the HKMCI at consolidation level after adoption of Hong Kong Financial Reporting Standard 17 "Insurance Contracts" (**HKFRS 17**), the adjusted profit for the year and return on equity would be HK$787 million (2023: HK$724 million) and 4.8% (2023: 5.3%) respectively. The embedded value of annuity business under the Insurance Ordinance basis was about HK$12.4 billion which comprised HK$11.2 billion of total equity and HK$1.2 billion of present value of future profits, indicating a solid financial position to develop the business in the long term.

The capital adequacy ratio of the Group stood solid at 19.9% (2023: 21.6%) so as to preserve capital for business development. The respective solvency ratios of the Group's two insurance subsidiaries as at 31 December 2024, calculated in accordance with Insurance (Valuation and Capital) Rules (Cap. 41R) under the new Risk-Based Capital regime effective from 1 July 2024, were about 4.0 times for general insurance business and 1.7 times for annuity business, each well above the minimum regulatory requirements.

Table 1

Summary of financial performance	2024 HK$ million	2023 HK$ million
Operating loss before impairment	**(518)**	(393)
Loss before tax	**(553)**	(413)
Loss for the year	**(418)**[1]	(260)[1]
Return on equity	**(1.5)%**[1]	(1.0)%[1]
Cost-to-income ratio	**(232.9)%**[1]	(471.0)%[1]
Capital adequacy ratio	**19.9%**	21.6%

1 After adjustments to exclude (a) the accounting results of the HKMCA; (b) the impact of property price change on the insurance results of the reverse mortgage business; and (c) the accounting adjustments after adoption of HKFRS 17 in respect of loan portfolios with insurance cover provided by the HKMCI, the adjusted profit for the year, return on equity and cost-to-income ratio for 2024 would be HK$787 million, 4.8% and 27.6% respectively (2023: HK$724 million, 5.3% and 28.1% respectively).

Net Interest Income

The HKMC Group earned a net interest income of HK$618 million, HK$221 million higher than that for 2023. The increase was mainly attributable to the enlarged debt investment with yield enhancement. The net interest margin was 0.4% (2023: 0.2%) (**Table 2**).

Table 2

Net Interest Income	2024 HK$ million	2023 HK$ million
Net interest income	**618**	397
Average interest-earning assets	**169,946**	177,939
Net interest margin[2]	**0.4%**	0.2%

2 After excluding the impact of the purchase of loans with the special 100% loan guarantee under the SFGS and the DLGS under which the Group only recovered the funding costs without any net interest margin earned, the adjusted net interest margin would be 0.8% (2023: 0.5%).

Insurance Service Result

Insurance service result, which reflected insurance revenue less insurance service expenses, taking into account the impact of reinsurance contracts held, was a loss of HK$1,627 million for 2024 (2023: a loss of HK$179 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 loss of insurance service results was mainly due to higher losses on new annuity policies written driven by an increase in policies written upon the launch of the enhanced annuity payouts campaign, and an increase in loss on onerous contracts of reverse mortgage business due to the drop in property price in 2024, partly mitigated by the amortisation of CSM from mortgage insurance business.

Insurance Finance Expenses, Net

Insurance finance expenses comprise the change in the carrying amount of insurance contracts liabilities arising from the effect of the time value of money, financial risk and changes therein. Insurance finance expenses, net amounted to HK$405 million for 2024 (2023: HK$1,698 million). The improvement in insurance finance expenses was mainly attributable to the decrease in insurance contract liabilities of annuity business driven by the increase in discount rates adopted at the end of 2024 as compared to that of 2023.

Other Income

Other income was HK$1,258 million (2023: HK$1,411 million), mainly representing investment income of HK$1,374 million (2023: HK$1,268 million) from placements with the Exchange Fund, loss of HK$211 million (2023: a gain of HK$52 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover by the HKMCI, a gain of HK$79 million (2023: HK$43 million) from change in fair value of financial instruments which largely represented the marked-to-market gain of derivatives for the purpose of hedging interest rate risk, and an exchange loss of HK$28 million (2023: a gain of HK$7 million) arising primarily from revaluation of US dollar and offshore renminbi exposures in cash and debt investments. The above exchange loss represented the net results of the exchange difference from the financial assets and the marked-to-market revaluation on corresponding hedging derivatives for managing their foreign currency exposures.

Operating Expenses

The Group continues to maintain stringent cost controls to contain expenses and improve operating efficiency. Amid the increase in resources utilised for supporting the Group's core missions and certain policy initiatives of the HKSAR Government, operating expenses (net of recovery of operating expenses from the special 100% loan guarantee under the SFGS and DLGS, and expenses directly attributable to the insurance cashflows incorporated in the insurance service result) increased by 12% to HK$362 million (2023: HK$324 million), less than budget. Without the recovery of HK$166 million (2023: HK$162 million) from the special 100% loan guarantee under the SFGS and DLGS, and the incorporation of HK$286 million (2023: HK$261 million) included in insurance service result, the gross operating expenses for 2024 would be HK$814 million (2023: HK$747 million). Staff costs, which were contained at 60.6% of gross operating expenses before taking into account the costs recovery from the Government and incorporation into insurance service result, amounted to HK$493 million (2023: HK$439 million).

Allowance for Impairment

Asset quality remained strong, with the delinquency ratio of the Group's mortgage portfolio staying low at 0.16% (2023: 0.03%). A provision on impairment allowance of HK$34.9 million was made in 2024 (2023: HK$20.0 million) in accordance with the approved provisioning policy. During the year, there was no loans written off (2023: HK$0.3 million) with a recovery of HK$0.1 million (2023: HK$0.5 million) from loans written off previously.

Segmental Analysis

Table 3 below sets out the profit/(loss) before tax contributed by various business segments for 2024.

Table 3

	Asset Purchase and Servicing HK$ million	General Insurance HK$ million	Life Insurance HK$ million	Inter-segment Elimination HK$ million	Total HK$ million
Year ended 31 December 2024					
Profit/(Loss) before tax	**141**	**(174)**	**(519)**	**(1)**	**(553)**
Year ended 31 December 2023					
(Loss)/Profit before tax	(34)	148	(804)	277	(413)

The profit before tax in 2024 for asset purchase and servicing was HK$141 million, mainly attributable to the net interest income from debt investments with yield enhancements and loan portfolios along with the improved market conditions, partly offset by the operating expenses.

General insurance's loss before tax in 2024 was HK$174 million, mainly attributable to the loss on onerous contracts from reverse mortgage insurance business as a result of the drop in overall value of secured properties, which was partly offset by net interest income earned from bank deposits and debt investments, CSM amortisation from the mortgage insurance business, and placement income from the Exchange Fund.

Life insurance recorded a loss before tax of HK$519 million in 2024, mainly attributable to the loss in insurance results of annuity business in particular from high demand of new policies written upon the launch of the enhanced annuity payouts campaign, partly offset by the income from placements with the Exchange Fund. The embedded value of the annuity business at the end of 2024 was about HK$12.4 billion, indicating a solid financial position to develop the business in the long term.

Financial Position

Loan Portfolio

During the year, the Group acquired loans with the special 100% loan guarantee under the SFGS and DLGS of about HK$5.2 billion (2023: HK$24.7 billion), infrastructure loans of about HK$3.5 billion (2023: HK$2.7 billion) and residential mortgages of about HK$0.4 billion (2023: HK$0.1 billion). After accounting for prepayments and repayments of loan portfolios during the year, the outstanding balance of the loan portfolio was HK$95.5 billion (2023: HK$109.5 billion), comprising mainly loans with the special 100% loan guarantee under the SFGS and DLGS, infrastructure loans and residential mortgage portfolio at amortised cost of HK$82.8 billion, HK$7.2 billion and HK$2.8 billion respectively, and residential mortgages at fair value through profit or loss of HK$2.6 billion.

Investment Securities

The Group adopts a prudent, low-risk approach in managing its surplus funds and investment activities in accordance with the investment guidelines approved by the Board. As at 31 December 2024, the total investment portfolio was HK$18.8 billion (2023: HK$17.1 billion), which largely comprised high-quality debt investments as well as infrastructure related bond. There was no default loss from investment securities.

Placements with the Exchange Fund

As at 31 December 2024, the placements with the Exchange Fund was HK$49.2 billion (2023: HK$34.1 billion) which solely comprised the capital investments of the HKMCI and HKMCA and premium investments of the HKMCA.

Insurance Contract Liabilities and Reinsurance Contract Liabilities

Insurance contract liabilities and reinsurance contract liabilities, mainly consisting of the estimated present value of future cashflows, risk adjustment and the CSM, amounted to HK$25.0 billion (2023: HK$19.4 billion) which comprised HK$6.0 billion (2023: HK$5.0 billion) and HK$19.0 billion (2023: HK$14.4 billion) for general and life insurance business respectively.

The Group operates the MIP on a risk-sharing basis with approved reinsurers. At the end of 2024, the total risk-in-force was about HK$115.5 billion (2023: HK$121.1 billion), of which HK$12.2 billion (2023: HK$13.0 billion) was ceded to approved reinsurers. The risk-in-force exposure borne by the Group decreased to HK$103.3 billion (2023: HK$108.1 billion).

The Group operates the RMP as an insurer to provide mortgage insurance cover for a premium on reverse mortgage loans advanced by participating lenders in Hong Kong. After taking into account the undrawn future payout of reverse mortgage loans along with the reinsurance arrangement, the risk-in-force exposure borne by the Group increased to HK$21.4 billion (2023: HK$18.6 billion), with the corresponding outstanding loan balance totalling HK$9.0 billion as at 31 December 2024.

Debt Securities Issued

In 2024, the Group issued HK$103.5 billion of debt securities under the MTN Programme, including the HK$12 billion triple-tranche Hong Kong dollar benchmark issuance (comprising HK$8 billion two-year, HK$3 billion five-year and HK$1 billion ten-year public bonds) and the third social bond issuance of approximately HK$23.8 billion equivalent in triple-currency (comprising HK$7 billion two-year, HK$8 billion five-year, CNH 2 billion seven-year and US$850 million three-year bonds). All the non-Hong Kong dollar debts issued under the MTN Programme were hedged into Hong Kong dollars or US dollars. The Group continued to adopt a prudent pre-funding strategy, with the total outstanding balance of the debt securities maintained at HK$148.3 billion as at 31 December 2024 (2023: HK$161.7 billion).

Capital Management

To ensure the Group would not incur excess risk when expanding its business and balance sheet in proportion to its capital base, capital adequacy and the use of capital were monitored closely by the Group. During the year, the Group was in compliance with the Guidelines on Capital Adequacy Ratio (Guidelines) issued by the Financial Secretary with reference to the Basel II risk-based capital adequacy framework.

In accordance with the Guidelines, the calculation of the CAR 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, as regulated by the Insurance Authority). After excluding the investment cost of these unconsolidated regulated subsidiaries, the CAR remained solid at 19.9% as at 31 December 2024, well above the minimum ratio of 8% stipulated in the Guidelines on CAR.

The respective solvency ratios as at 31 December 2024, calculated in accordance with Insurance (Valuation and Capital) Rules (Cap. 41R) under the new Risk-Based Capital regime effective from 1 July 2024, of the Group's two insurance subsidiaries were about 4.0 times for general insurance business and 1.7 times for annuity business, both well above the minimum statutory requirements stipulated by the Insurance Authority.

Dividend

Having considered the capital requirements for business development, no dividend was declared for 2024 (2023: Nil).