

# Financial Review

# Financial Review

The global economy and financial markets navigated a complex landscape in 2025. The global economic environment experienced significant volatility and turbulence in the first half of 2025 due to factors such as trade conflicts and geopolitical tensions. In particular, widespread imposition of reciprocal tariffs in early April and expansionary fiscal policies by the US Government rekindled US inflation concerns, prompting the Federal Reserve (**Fed**) to adopt a more cautious monetary policy approach. The global trade tensions eased somewhat in the second half of 2025 as the US struck preliminary bilateral agreements with a number of other economies and reached consensus with China on major trade issues in late October. These developments, coupled with successive interest rate cuts by the Fed from September, which increased the liquidity conditions in overall monetary environment, were conducive to the global economic growth performance.

In Chinese Mainland, the economy remained resilient despite the challenging external environment and recorded 5.0% growth in 2025, meeting its official annual growth target. Driving this growth were the economy's sound economic fundamentals, a vast domestic market, ample policy space, and the Central Government's continued implementation of a proactive fiscal policy and appropriately accommodative monetary policy.

In Hong Kong, the economy registered robust growth of 3.5% in 2025, an acceleration from the 2.6% growth in 2024 and marking the third consecutive year of expansion. The growth momentum strengthened progressively over the course of 2025, driven by a continued surge in exports and gradual improvement in domestic demand. Amid mild domestic cost and external price pressure, consumer price inflation stayed modest and recorded an increase of 1.1% over a year earlier. The labour market softened slightly, with the unemployment rate increasing to 3.8% in the fourth quarter of 2025 from 3.1% in the fourth quarter of 2024. The residential property market began to recover, recording a 3.3% annual increase in 2025, its first year-on-year gain since 2021, supported by falling mortgage rates and stabilised market sentiment.

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\$109 million (2024: a net loss of HK\$418 million). The improved results were driven by increased income from placements with the Exchange Fund which was bolstered by rising annuity premiums and capital injections made to the HKMCA during 2025 and to the HKMCI in late 2024, along with a recovery in property market benefitting the reverse mortgage business, the increase in net interest income and the revaluation gain of US dollar exposures in cash and debt investments. These gains were partially offset by the higher accounting loss in the annuity business resulting from a surge in new policies written and the negative accounting impact of lower discount rate on insurance liabilities revaluation.

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 business; and (iii) effect of accounting adjustments of loan portfolios with insurance cover provided by the HKMCI at consolidation level<sup>1</sup>, the adjusted profit for the year and return on equity would be HK\$1,497 million (2024: HK\$787 million) and 5.2% (2024: 4.8%) respectively. The embedded value of annuity business under the Insurance Ordinance basis was about HK\$24.4 billion which comprised HK\$21.5 billion of total equity and HK\$2.9 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 18.1% (2024: 19.9%) so as to preserve capital for business development. The respective solvency ratios of the Group's two insurance subsidiaries as at 31 December 2025, calculated in accordance with Insurance (Valuation and Capital) Rules (Cap. 41R) under the Risk-Based Capital regime, were about 3.9 times (2024: 4.0 times) for general insurance business and 2.0 times (2024: 1.7 times) for annuity business, each well above the minimum regulatory requirements.

<sup>1</sup> As required by the Hong Kong Financial Reporting Standard 17 "Insurance Contracts"

**Table 1**

Summary of financial performance	2025 HK\$ million	2024 HK\$ million
Operating loss before impairment	<b>(245)</b>	(518)
Loss before tax	<b>(257)</b>	(553)
Loss for the year	<b>(109)</b>	(418) <sup>2</sup>
Return on equity	<b>(0.2)%<sup>2</sup></b>	(1.5)% <sup>2</sup>
Cost-to-income ratio	<b>264.9%<sup>2</sup></b>	(232.9)% <sup>2</sup>
Capital adequacy ratio	<b>18.1%</b>	19.9%

<sup>2</sup> 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 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 2025 would be HK\$1,497 million, 5.2% and 19.3% respectively (2024: HK\$787 million, 4.8% and 27.6% respectively).

### Net Interest Income

The HKMC Group earned a net interest income of HK\$786 million, HK\$168 million higher than that for 2024. The increase was mainly attributable to the improvement in net interest spread and the enlarged debt investment portfolio. The net interest margin was 0.5% (2024: 0.4%) (**Table 2**).

**Table 2**

Net Interest Income	2025 HK\$ million	2024 HK\$ million
Net interest income	<b>786</b>	618
Average interest-earning assets	<b>159,391</b>	169,946
Net interest margin <sup>3</sup>	<b>0.5%</b>	0.4%

<sup>3</sup> 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 0.9% (2024: 0.8%).

### 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\$1,409 million for 2025 (2024: a loss of HK\$1,627 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 improved insurance service results were mainly due to favourable impact upon the recovery in property market in 2025 benefitting the reverse mortgage business, partly offset by higher losses on new annuity policies written driven by an increase in policies written largely attributable to the clearance of spillover effects of policies relating to the enhanced annuity payouts campaign launched in 2024.

### 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\$2,602 million for 2025 (2024: HK\$405 million). The increase in insurance finance expenses was mainly attributable to the increase in insurance contract liabilities of annuity business driven by the lower discount rates adopted at the end of 2025 as compared to that of 2024.

### Other Income

Other income was HK\$3,373 million (2024: HK\$1,258 million), mainly representing investment income of HK\$3,174 million (2024: HK\$1,374 million) from placements with the Exchange Fund, gain of HK\$99 million (2024: a loss of HK\$211 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover by the HKMCI, an exchange gain of HK\$64 million (2024: a loss of HK\$28 million) arising primarily from revaluation of US dollar and offshore renminbi exposures in cash and debt investments, and a gain of HK\$10 million (2024: a gain of HK\$79 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. The above exchange gain 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 9% to HK\$394 million (2024: HK\$362 million), less than budget. Without the recovery of HK\$151 million (2024: HK\$166 million) from the special 100% loan guarantee under the SFGS and DLGS, and the incorporation of HK\$315 million (2024: HK\$286 million) included in insurance service result, the gross operating expenses for 2025 would be HK\$860 million (2024: HK\$814 million). Staff costs, which were contained at 58.9% of gross operating expenses before taking into account the costs recovery from the Government and incorporation into insurance service result, amounted to HK\$507 million (2024: HK\$493 million).

### Allowance for Impairment

Asset quality remained strong, with the delinquency ratio of the Group's mortgage portfolio staying low at 0.36%<sup>4</sup> (2024: 0.16%). A provision on impairment allowance of HK\$11.4 million was made in 2025 (2024: HK\$34.9 million) in accordance with the approved provisioning policy. During the year, there was no loans written off (2024: Nil) with a recovery of HK\$0.2 million (2024: HK\$0.1 million) from loans written off previously.

<sup>4</sup> Attributed to four loans amounted to HK\$10 million (2024: six loans amounted to HK\$4.4 million).

### Segmental Analysis

**Table 3** below sets out the profit/(loss) before tax contributed by various business segments for 2025.

**Table 3**

	Asset Purchase and Servicing HK\$ million	General Insurance HK\$ million	Life Insurance HK\$ million	Inter- segment Elimination HK\$ million	Total HK\$ million
<b>Year ended 31 December 2025</b>					
<b>Profit/(Loss) before tax</b>	<b>311</b>	<b>1,117</b>	<b>(1,890)</b>	<b>205</b>	<b>(257)</b>
Year ended 31 December 2024					
Profit/(Loss) before tax	141	(174)	(519)	(1)	(553)

The profit before tax in 2025 for asset purchase and servicing was HK\$311 million, mainly attributable to the net interest income from bank deposits, debt investment portfolio and loan portfolio, partly offset by operating expenses.

General insurance's profit before tax in 2025 was HK\$1,117 million, mainly attributable to placement income from the Exchange Fund, CSM amortisation from the mortgage insurance business and net interest income earned from bank deposits and debt investments, partly offset by the loss on onerous contracts from reverse mortgage insurance business and operating expenses.

Life insurance recorded a loss before tax of HK\$1,890 million in 2025, mainly attributable to the loss in insurance service results of annuity business in particular from surge of new policies written largely driven by spillover effects of enhanced annuity payouts campaign launched in 2024 and the negative accounting impact of lower discount rate adopted at the end of 2025 on insurance liabilities revaluation. Such loss was partly mitigated by the placement income from the Exchange Fund. The embedded value of the annuity business at the end of 2025 was about HK\$24.4 billion, indicating a solid financial position to develop the business in the long term.

## Financial Position

### Loan Portfolio

During the year, the Group acquired infrastructure loans of about HK\$6.3 billion (2024: HK\$3.5 billion), loans with the special 100% loan guarantee under the SFGS and DLGS of about HK\$0.4 billion (2024: HK\$5.2 billion), and residential mortgages of about HK\$0.4 billion (2024: HK\$0.4 billion). After accounting for prepayments and repayments of loan portfolios during the year, the outstanding balance of the loan portfolio was HK\$78.6 billion (2024: HK\$95.5 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\$63.5 billion, HK\$8.7 billion and HK\$2.9 billion respectively, and residential mortgages at fair value through profit or loss of HK\$3.5 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 2025, the total investment portfolio was HK\$30.1 billion (2024: HK\$18.8 billion), largely comprising high-quality conventional debt investments which are monitored and reviewed by ALCO, as well as infrastructure related bonds which are secured by project assets and other typical security package for infrastructure financing and are monitored and reviewed by IFSIC. There was no default loss from investment securities.

### Placements with the Exchange Fund

As at 31 December 2025, the placements with the Exchange Fund was HK\$72.4 billion (2024: HK\$49.2 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\$36.7 billion (2024: HK\$25.0 billion) which comprised HK\$30.4 billion (2024: HK\$19.0 billion) and HK\$6.3 billion (2024: HK\$6.0 billion) for life and general insurance business respectively.

The Group operates the MIP on a risk-sharing basis with approved reinsurers. At the end of 2025, the total risk-in-force was about HK\$104.8 billion (2024: HK\$115.5 billion), of which HK\$11.5 billion (2024: HK\$12.2 billion) was ceded to approved reinsurers. The risk-in-force exposure borne by the Group decreased to HK\$93.3 billion (2024: HK\$103.3 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\$23.0 billion (2024: HK\$21.4 billion), with the corresponding outstanding loan balance totalling HK\$10.8 billion as at 31 December 2025.

### Debt Securities Issued

In 2025, the Group issued HK\$70.5 billion of debt securities under the MTN Programme, including the multi-currency benchmark bonds with four tranches at a total issuance volume of HK\$25.3 billion equivalent (comprising HK\$10 billion two-year, CNH5 billion three-year and US\$1 billion five-year public bonds, and HK\$2 billion 30-year social bond). 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\$155.2 billion as at 31 December 2025 (2024: HK\$148.3 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 18.1% as at 31 December 2025 (31 December 2024: 19.9%), well above the minimum ratio of 8% stipulated in the Guidelines on CAR.

The respective solvency ratios as at 31 December 2025, calculated in accordance with Insurance (Valuation and Capital) Rules (Cap. 41R) under the Risk-Based Capital regime, of the Group's two insurance subsidiaries were about 3.9 times (31 December 2024: 4 times) for general insurance business and 2.0 times (31 December 2024: 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 2025 (2024: Nil).