Press Release

HKMC's Financial Results Highlights for 2023

The Hong Kong Mortgage Corporation Limited (HKMC) today (Monday) announced the highlights of its audited consolidated financial results[1] for 2023 noted below.

2023 Financial Results Highlights

The audited loss after tax of the HKMC for 2023 was HK$260 million (2022: profit after tax of HK$2,163 million). The accounting loss was primarily attributable to (a) the increase in insurance contract liabilities for the annuity business driven by the reduced discount rates[2] reflecting the relatively lower market interest rates at the end of the year as compared to that of the previous year; and (b) the negative impact of property price drop on the reverse mortgage insurance business. These were partly mitigated by the favourable return from the placements with the Exchange Fund and the increase in amortisation of unearned profits from the accumulative mortgage insurance business.

After excluding the accounting results of HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the HKMC operating annuity business, the impact of property price changes on the reverse mortgage insurance business, and the effect of valuation and corresponding adjustments as required by HKFRS 17 at

[1] From 1 January 2023, the HKMC has adopted Hong Kong Financial Reporting Standard 17 "Insurance Contracts" (HKFRS 17). As required by the accounting standard, the HKMC applied the requirements retrospectively with comparative figures previously published under Hong Kong Financial Reporting Standard 4 "Insurance Contracts" (HKFRS 4) restated from 1 January 2022, the transition date. Further information on the impact of this change is set out in the Financial Review section of this announcement.

[2] Discount rates for calculating insurance contract liabilities are derived from the risk-free yield curve and a premium adjusting for the liquidity characteristics of insurance contracts. As at 31 December 2023, the risk-free yield curve was generally lower than that as at 31 December 2022 due to a decline in the yield curve in the fourth quarter of 2023 on expectation of aggressive US interest rate cuts in 2024.

consolidation level in respect of certain loan portfolios with insurance cover provided by HKMC Insurance Limited (HKMCI), another wholly-owned subsidiary of the HKMC operating general insurance business, the HKMC's adjusted profit after tax, return on equity and cost-to-income ratio for 2023 would be HK$724 million, 5.3% and 28.1% respectively (2022: HK$445 million, 3.2% and 34.5% respectively).

Having included the capital injection of HK$2.5 billion during the year, the embedded value of the annuity business as at 31 December 2023 was about HK$13.9 billion on the basis of the Insurance Ordinance, which comprised HK$11.4 billion of total equity and HK$2.5 billion of present value of future profits. This indicates a sound financial position of the HKMCA to develop its business in the long term.

The Capital Adequacy Ratio (CAR) of the HKMC remained solid at 21.6% as at 31 December 2023, well above the minimum ratio of 8% stipulated by the Financial Secretary. The solvency ratios of the HKMCI and the HKMCA were about 13 times and 18 times respectively as at 31 December 2023, well above the respective 200% and 150% minimum regulatory requirements stipulated by the Insurance Authority.

Amid uncertain market conditions, the HKMC adopted prudent prefunding strategy and proactively communicated with local and international investment communities for debt issuance to support its sizable loan purchase and fulfil its refinancing needs. With strong financing capability and liquidity position, the HKMC's core operations remain resilient and stand ready to cope with any financial turbulence ahead in performing its strategic policy roles and attaining its social objectives.

2023 Business Performance Highlights

Asset Purchase and Securitisation

- Acquired HK$2.8 billion of loan assets (2022: HK$4.3 billion)

- Purchased HK$24.5 billion of loans (2022: HK$33.4 billion) from the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme (SFGS) and HK$0.2 billion of loans from the Dedicated 100% Loan Guarantee Schemes (DLGS) which was launched on 29 April 2023

- Completed the first issuance of infrastructure loan-backed securities under its pilot scheme on infrastructure financing securitisation. The issuance consists of multiple classes of US dollar-denominated secured notes backed by the cash flows from a diversified portfolio of project and infrastructure loans across various regions and sectors, with a total size of US$404.8 million

- Outstanding balance of loan portfolio was HK$109.5 billion as at 31 December 2023 (31 December 2022: HK$102.2 billion)

Debt Issuance

- Issued corporate debts totalling HK$98.3 billion for 2023, of which HK$89.9 billion with tenor of one year or above (2022: totalling HK$97.6 billion, of which HK$71.8 billion with a tenor of one year or above), being the most active issuer in the domestic market of Hong Kong dollar corporate bonds and one of the top offshore Renminbi corporate bond issuers in 2023

- It included the second social bond issuance of close to HK$20 billion equivalent, being the largest social bond issuance in Asia and was the

first time for a Hong Kong bond issuer to launch Hong Kong dollar, Renminbi and US dollar tranches in one transaction. The issuance was well recognised by market participants and has earned the HKMC a number of outstanding awards

- Outstanding balance of debt securities issued was HK$161.7 billion as at 31 December 2023 (31 December 2022: HK$131.1 billion)

- Credit ratings of AA+ from S&P Global Ratings and Aa3 from Moody's, same as those of the HKSAR Government

Mortgage Insurance Programme (MIP)

- New MIP loans drawn down amounted to HK$83.1 billion (2022: HK$107.2 billion)

- 71% of loans drawn down (in terms of loan amount) were secured on properties in the secondary market, demonstrating the importance of the MIP to homebuyers in the secondary market

SME Financing Guarantee Scheme

- In respect of the 80% Guarantee Product, as at the end of 2023, more than 25,400 applications were approved with a total loan amount of HK$111.1 billion since its launch in May 2012

- In respect of the 90% Guarantee Product, as at the end of 2023, more than 10,800 applications were approved with a total loan amount of HK$20.3 billion since its launch in December 2019

- In respect of the Special 100% Loan Guarantee, as at the end of 2023, more than 65,600 applications were approved with a total loan amount

of HK$139.1 billion since its launch in April 2020, of which HK$138.5 billion of loan assets were purchased by the HKMC

- As at the end of 2023, the 80% and 90% Guarantee Products and the Special 100% Loan Guarantee had benefitted more than 60,600 local small and medium-sized enterprises and approximately 772,000 related employees since their inception

Dedicated 100% Loan Guarantee Schemes

- The DLGS for Travel Sector and the DLGS for Cross-boundary Passenger Transport Trade were launched on 29 April 2023. As at the end of 2023, 204 applications for a total loan amount of approximately HK$0.2 billion were approved

- Promoting the use of e-Taxis is one of the Government's measures to develop green transport, the DLGS for Battery Electric Taxis was launched on 4 September 2023 to provide loans for eligible taxi owners to purchase e-Taxis to replace their liquefied petroleum gas, petrol or hybrid taxis. As at the end of 2023, two applications were approved for a total loan amount of approximately HK$0.7 million

Reverse Mortgage Programme (RMP)

- 797 applications were approved (2022: 938 applications), with an average property value of HK$5.4 million and an average monthly payout of HK$14,900

Annuity Business

- Taking a total of 2,205 policies (2022: 3,254 policies), with total premiums of HK$1.6 billion (2022: HK$2.5 billion)

100% Personal Loan Guarantee Scheme (PLGS)

- With the local economic recovery and decreased unemployment rate, the application period of the PLGS expired at the end of April 2023

- Around 67,000 applications were approved with a total loan amount of approximately HK$4.7 billion since its launch in April 2021

Further details of the HKMC's consolidated financial results and financial review for 2023 are set out at Annex.

The Hong Kong Mortgage Corporation Limited
3 June 2024

Annex

Consolidated Financial Results

For the Year Ended 31 December 2023

	2023	2022 (restated)
	HK$'000	HK$'000
Interest income	**7,901,337**	2,660,602
Interest expense	**(7,504,428)**	(2,304,711)
Net interest income	**396,909**	355,891
Insurance service results	**(178,920)**	(1,209,863)
Insurance finance (expenses) / income, net	**(1,697,511)**	3,041,434
Other income	**1,410,775**	608,391
Operating (loss) / income	**(68,747)**	2,795,853
Operating expenses	**(323,822)**	(269,864)
Operating (loss) / profit before impairment	**(392,569)**	2,525,989
Charge in impairment allowances	**(19,987)**	(6,046)
(Loss) / profit before taxation	**(412,556)**	2,519,943
Taxation	**153,054**	(357,193)
(Loss) / profit for the year[1]	**(259,502)**	2,162,750
Return on equity [1]	**(1.0)%**	10.0%
Cost-to-income ratio [1]	**(471.0)%**	9.7%
Net interest margin	**0.2%**	0.2%

[1] For comparison, after adjustments to exclude (a) the accounting results of the HKMCA; (b) the impact of the property price changes on the insurance result of the RMP; and (c) the valuation and corresponding adjustments after adoption of HKFRS 17 in respect of the Group's loan portfolio with insurance cover provided by the HKMCI, the adjusted profit after tax, annualised return on equity and cost-to-income ratio for 2023 would be HK$724 million, 5.3% and 28.1% respectively (2022: HK$445 million, 3.2% and 34.5% respectively).

	As at 31 December 2023	As at 31 December 2022 (restated)
	HK$'000	HK$'000
ASSETS		
Cash and short-term funds	**51,821,051**	34,525,384
Derivative financial instruments	**828,542**	603,715
Loan portfolio, net	**109,499,818**	102,186,811
Investment securities	**17,093,392**	14,397,678
Placements with the Exchange Fund	**34,070,393**	32,798,933
Reinsurance contract assets	**761,043**	376,373
Other assets	**5,228,570**	6,143,741
Total assets	**219,302,809**	191,032,635
LIABILITIES		
Derivative financial instruments	**2,825,522**	4,192,097
Current tax liabilities	**156,851**	98,666
Insurance contract liabilities	**19,375,845**	15,773,313
Debt securities issued	**161,718,497**	131,075,272
Other liabilities	**8,099,138**	14,890,098
Total liabilities	**192,175,853**	166,029,446
EQUITY		
Share capital	**14,500,000**	12,000,000
Retained profits	**9,358,885**	10,142,109
Contingency reserve	**3,017,192**	2,493,470
Insurance finance reserve	**224,002**	229,661
Fair value and hedging reserves	**26,877**	137,949
Total equity	**27,126,956**	25,003,189
Total liabilities and equity	**219,302,809**	191,032,635
Capital adequacy ratio	**21.6%**	27.9%

Notes:

The financial information relating to the year ended 31 December 2023 and the year ended 31 December 2022 (as being restated following the adoption of HKFRS 17) respectively included in this press release of 2023 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 (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 and will deliver the consolidated financial statements for the year ended 31 December 2023 in due course.

The HKMC's auditor has reported on the consolidated financial statements of the HKMC for both years. The auditor's reports were 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 audited loss after tax of the HKMC for 2023 was HK$260 million (2022: profit after tax of HK$2,163 million). The accounting loss was primarily attributable to (a) the increase in insurance contract liabilities for the annuity business driven by the reduced discount rates reflecting the relatively lower market interest rates at the end of 2023 as compared to that of the previous year; and (b) the negative impact of property price drop on the reverse mortgage insurance business. These were partly mitigated by the favourable return from the placements with the Exchange Fund and the increase in amortisation of unearned profits from the accumulative mortgage insurance business.

For 2023, net interest income was HK$397 million (2022: HK$356 million) and the net interest margin of the average interest-earning assets was 0.2% (2022: 0.2%). 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 0.5% (2022: 0.5%).

Insurance service results, which reflected insurance revenue less insurance service expenses, was a loss of HK$179 million for 2023 (2022: a loss of HK$1,210 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 improvement in insurance service results mainly reflected the lower losses from new policies written under the HKMC Annuity Plan driven by higher discount rates adopted for 2023 than those for 2022 and the higher release of the CSM due to growth of the CSM balance as a consequence of new MIP business.

Insurance finance expenses amounted to HK$1,698 million for 2023 (2022: an income of HK$3,041 million). The above change in insurance finance expenses was mainly attributable to the unfavourable change in insurance contract liabilities driven by the decrease in discount rates adopted at the end 2023 as compared to that of 2022.

For 2023, other income amounted to HK$1,411 million (2022: HK$608 million), mainly comprising investment income of HK$1,268 million (2022: HK$533 million) from the placements with the Exchange Fund amid favourable market conditions in 2023, a gain of HK$52 million (2022: HK$195 million) arising from fair valuation adjustments at consolidation level for the loans with insurance cover provided by the HKMCI, a gain of HK$43 million (2022: HK$145 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$7 million (2022: loss of HK$268 million) arising primarily from revaluation of US dollar and offshore Renminbi exposures in cash and debt investments.

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 21.6% as at 31 December 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 (2022: 11 times) and 18 times (2022: 15 times) respectively as at 31 December 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.

Having considered the capital requirements for business development, the Board recommended that no dividend be declared for 2023.

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$1.8 billion. With the adoption of HKFRS 17, balances based on HKFRS 4 were derecognised. Accordingly, 2022 financial results and position were restated.

Insurance contract liabilities have been remeasured by the 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.