

HKMC's Financial Results Highlights for 2023

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Mortgage Corporation Limited (HKMC) today (June 3) announced the highlights of its audited consolidated financial results (Note 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 (Note 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 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 per cent and 28.1 per cent respectively (2022: HK\$445 million, 3.2 per cent and 34.5 per cent respectively).

Having included the capital injection of HK\$2.5 billion during the year, the embedded value of the annuity business as at December 31, 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 per cent as at December 31, 2023, well above the minimum ratio of 8 per cent stipulated by the Financial Secretary. The solvency ratios of the HKMCI and the HKMCA were about 13 times and 18 times respectively as at December 31, 2023, well above the respective 200 per cent and 150 per cent 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 April 29, 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 December 31, 2023 (December 31, 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 December 31, 2023 (December 31, 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 per cent 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 April 29, 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.

Note 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 January 1, 2022, the transition date. Further information on the impact of this change is set out in the Financial Review section of this announcement.

Note 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 December 31, 2023, the risk-free yield curve was generally lower than that as at December 31, 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.