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This announcement and the listing documents referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing documents) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

PUBLICATION OF OFFERING CIRCULAR AND PRICING SUPPLEMENTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED



THE HONG KONG MORTGAGE CORPORATION LIMITED

香港按揭證券有限公司

(Issuer)

(incorporated with limited liability under the laws of Hong Kong)

Issue of:

HK\$8,000,000,000 4.25 per cent. Notes due 2026

(Stock Code: 4524)

HK\$3,000,000,000 4.10 per cent. Notes due 2029

(Stock Code: 4529)

and

HK\$1,000,000,000 4.20 per cent. Notes due 2034

(Stock Code: 4530)

(together, the **Notes**)

**under the Issuer's U.S.\$30,000,000,000 Medium Term Note Programme
(Programme)**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**Listing Rules**).

Please refer to the offering circular dated 26 June 2023 in relation to the Programme (**Offering Circular**) and the pricing supplements dated 21 February 2024 in relation to the Notes (**Pricing Supplements**), each appended hereto (the Offering Circular and the Pricing Supplements together, the **Listing Documents**, and

each a **Listing Document**). As disclosed in the Listing Documents, the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis.

None of the Listing Documents constitutes a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is any Listing Document an invitation to the public to make offers to subscribe for or purchase any securities, nor is any Listing Document circulated to invite offers by the public to subscribe for or purchase any securities.

None of the Listing Documents should be regarded as an inducement to subscribe for or purchase any Notes of the Issuer and no such inducement is intended.

29 February 2024

As at the date of this announcement, the Board of Directors of the Issuer comprises the Hon. CHAN Mo Po, Paul, Mr YUE Wai Man, Eddie, Mr LEE Tat Chi, Howard and Mr LI Ling Cheung, Raymond as Executive Directors, and the Hon. HUI Ching Yu, the Hon. HO Wing Yin, Winnie, the Hon. CHAN Hak Kan, the Hon. TSE Wai Chun, Paul, the Hon. NG Wing Ka, Jimmy, the Hon. SHIU Ka Fai, Mr CHAN Clement Kam Wing and Ms KWAN Wing Han, Margaret as Non-Executive Directors.

Website: www.hkmc.com.hk

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APPENDIX I – OFFERING CIRCULAR DATED 26 JUNE 2023

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

Important: You must read the following before continuing. The following applies to the Offering Circular following this page (**Offering Circular**), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them, each time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES (AS DEFINED IN THE OFFERING CIRCULAR) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (**SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD INTO OR WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE APPLICABLE PRICING SUPPLEMENT AND TERMS AND CONDITIONS OF THE NOTES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE OFFERING CIRCULAR.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the Notes, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). The Offering Circular is being sent at your request and by accepting the electronic mail (**e-mail**) and accessing the Offering Circular, you shall be deemed to have represented to us that you are not a U.S. person, the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to any offering of Notes under the Programme (as defined in the Offering Circular) to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司 in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Dealers (both as defined in the Offering Circular) or any person who controls the Issuer, any Dealer or any director, officer, employee or agent of either of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from any of the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR



THE HONG KONG MORTGAGE CORPORATION LIMITED

香港按揭證券有限公司

(incorporated with limited liability under the laws of Hong Kong)

U.S.\$30,000,000,000

Medium Term Note Programme

On 27 June 2007, The Hong Kong Mortgage Corporation Limited (香港按揭證券有限公司) (**Issuer**) established a U.S.\$3,000,000,000 Medium Term Note Programme (as amended, supplemented or restated, the **Programme**) and prepared an Offering Circular dated 27 June 2007. On 21 July 2011, the Issuer increased the aggregate nominal amount of the Programme from U.S.\$3,000,000,000 to U.S.\$6,000,000,000, to U.S.\$12,000,000,000 on 26 June 2020, to U.S.\$20,000,000,000 on 25 June 2021 and to U.S.\$30,000,000,000 on 24 June 2022. This Offering Circular updates the Programme and supersedes any previous Offering Circular (including any supplement thereto) describing the Programme. Any Notes (as defined below) issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Notes issued before the date of this Offering Circular.

Under the Programme the Issuer may from time to time issue notes (**Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (**Bearer Notes** and **Registered Notes**, respectively). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.\$30,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the arrangers specified under "Summary of the Programme" and any additional arranger appointed under the Programme from time to time by the Issuer (each an **Arranger** and together the **Arrangers**) and the dealers specified under "Summary of the Programme" and any additional dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (**SEHK**) for the listing of the Programme under which Notes may be issued by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**Professional Investors**)) only during the 12-month period after the date of this document on the SEHK. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: the Issuer confirms that the Notes issued under the Programme are intended for purchase by Professional Investors only and the Programme has been, and the Notes, to the extent they are to be listed on the SEHK, will be listed on the SEHK on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (**Pricing Supplement**) which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK on or before the date of issue of the Notes of such Tranche. The Programme provides that the Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (**Securities Act**) and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). See "Form of the Notes" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale".

MiFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

IMPORTANT — EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT — UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (UK). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 as amended (**FSMA**) and any rules or regulations made under the FSMA to implement Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the "Terms and Conditions of the Notes" herein, in which event (in the case of Notes intended to be listed on the SEHK) a supplemental offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors should also have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. Investors should have regard to the factors described under the section headed "Risk Factors" beginning on page 77 of this Offering Circular.

Notification under Section 309B(1)(c) of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (SFA): Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Arrangers

HSBC

J.P. Morgan

Dealers

Barclays

BNP PARIBAS

Citigroup

Goldman Sachs (Asia) L.L.C.

HSBC

J.P. Morgan

Standard Chartered Bank

UBS

The date of this Offering Circular is 26 June 2023

The Issuer having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained in or incorporated into this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any such information or the expression of any such opinion or intention misleading and which, in each case, is material in the context of the issuance and offering of the Notes. The Issuer accepts responsibility accordingly.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Dealers have not independently verified the information contained herein or incorporated by reference in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or any director, officer, employee, agent or affiliate of any such Dealers, as to the accuracy or completeness of the information contained in or incorporated into this Offering Circular or any other information provided by the Issuer in connection with the Programme. To the fullest extent permitted by law, none of the Dealers accepts any liability in relation to the information contained in or incorporated by reference into this Offering Circular, any other information provided by the Issuer in connection with the Programme or for any statement made or purported to be made by the Dealers or on any Dealer’s behalf in connection with the Issuer, the Programme or the issue and offering of the Notes. Each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in it concerning the Issuer is correct at any time subsequent to its date or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and Treasury regulations promulgated thereunder.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of the Notes may be restricted by law in certain jurisdictions. None of the Issuer, members of the Group, the Dealers, or any of their respective directors, officers, representatives, employees, advisers, agents, affiliates or any person who controls any of them, represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, members of the Group, the Dealers, or any of their respective directors, officers, representatives, employees, advisers, agents, affiliates or any person who controls any of them, which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of the Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the U.S., the European Economic Area (including, for these purposes, The Netherlands), the United Kingdom, Japan, the Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong), the People's Republic of China (PRC or Mainland China) and Singapore, see the section entitled "*Subscription and Sale*".

Important Notice to Prospective Investors

Notice to prospective investors pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes pursuant to this Programme (each such offering, a **CMI Offering**), including certain Dealers, may be "capital market intermediaries" (**CMIs**) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the **SFC Code**). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" (**OCs**) for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an association (**Association**) with the Issuer, the CMI or the relevant group company. Prospective investors associated with the Issuer or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50% interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order”. Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to the relevant CMI Offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealer and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

Notification under Section 309B(1)(c) of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (SFA): Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

None of the Issuer, members of the Group, the Dealers, or any of their respective directors, officers, representatives, employees, advisers, agents, affiliates or any person who controls any of them, makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of investment in the Notes for an indefinite period of time.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer maintains its financial books and records and prepares its financial statements in Hong Kong dollars in accordance with the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (Companies Ordinance). Unless otherwise specified, where financial information in relation to the Issuer has been translated into U.S. dollars, it has been so translated, for the convenience of the reader, at an exchange rate of HK\$7.8 = U.S.\$1.00. No representation is made that Hong Kong dollars have been, could have been, or could be, converted into U.S. dollars at the rate indicated or at any other rate.

CERTAIN DEFINED TERMS AND CONVENTIONS

Capitalised terms which are used but not defined in any particular section of this Offering Circular will have the meaning attributed to them in “*Terms and Conditions of the Notes*” or any other section of this Offering Circular.

All references in this Offering Circular to “Hong Kong” are to the Hong Kong Special Administrative Region of the People’s Republic of China, references to “Macau” are to the Macau Special Administrative Region of the People’s Republic of China, references to “Mainland China” or “PRC” are to the People’s Republic of China, for the purpose of this Offering Circular, excluding Hong Kong, Macau and Taiwan, references to “European Economic Area” include The Netherlands, references to “UK” are to the United Kingdom and references to “U.S.” or the “United States” are to the United States of America.

In addition, all references in this Offering Circular to “U.S. dollars” and “U.S.\$” refer to the currency of the U.S., to “Hong Kong dollars” and “HK\$” refer to the currency of Hong Kong, to “CNH”, “CNY”, “RMB” and “Renminbi” refer to the currency of the PRC and to “Singapore dollars”, “S\$” and “SGD” refer to the currency of Singapore. In addition, references to “Sterling” and “£” refer to the currency of the United Kingdom and to “euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time.

In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular may constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer’s present and future business strategies and the environment in which the Issuer will operate in the future. Factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “*Risk Factors*” and “*Description of the Issuer*”. These forward-looking statements speak only as at the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or any person acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time shall be deemed to be incorporated into, and form part of, this Offering Circular:

- (a) the two most recently published audited annual consolidated financial statements of the Issuer and, if published later, the most recently published unaudited interim consolidated financial results of the Issuer, see “*General Information — Documents Available*” for a description of the financial statements currently published by the Issuer; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any unaudited financial statements or results should not be relied upon to provide the same quality of information associated with information that has been subject to an audit nor taken as an indication of the expected financial condition and results of operations of the Issuer for the relevant full financial year. Potential investors must exercise caution when using such data to evaluate the Issuer’s financial condition and results of operations.

Copies of this Offering Circular, any or all of the documents deemed to be incorporated herein by reference, unless such documents have been modified or superseded as specified above, are available free of charge for inspection during usual business hours at the specified office of Citibank, N.A., London Branch (or such other Paying Agent (as defined under “*Terms and Conditions of the Notes*”) for the time being in Hong Kong).

The Issuer has undertaken to the Dealers in the Programme Agreement (as defined in “*Subscription and Sale*”) that, in the event of a change in the condition of the Issuer which is material in the context of the Programme or the issue of any Notes or if this Offering Circular would otherwise come to contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein not misleading or if it is necessary at any time to amend this Offering Circular to comply with, or reflect changes in, the laws or regulations of Hong Kong, it shall update or amend the relevant content contained in this Offering Circular by setting out such updated or amended content in the applicable Pricing Supplement or by the publication of a supplemental offering circular or a new offering circular.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading in any material respect, a new offering circular or a supplemental offering circular, or where applicable, a pricing supplement will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, save as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Offering Circular and any supplement will only be valid for listing the Notes on the SEHK during the period of 12 months after the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed U.S.\$30,000,000,000 or its equivalent in other currencies. For the purpose of calculating the U.S. dollar equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the U.S. dollar equivalent of the Notes denominated in another Specified Currency (as defined under “*Terms and Conditions of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of the Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London and Hong Kong, in each case on the basis of the spot rate for the sale of the U.S. dollar against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the U.S. dollar equivalent of Dual Currency Notes, Index Linked Notes, Instalment Notes and Partly Paid Notes (each as defined under “*Summary of the Programme*”) shall be calculated in the manner specified above by reference to the original nominal amount on the issue of such Notes (in the case of Partly Paid Notes regardless of the amount of the subscription price paid); and
- (c) the U.S. dollar equivalent of Zero Coupon Notes (as defined under “*Summary of the Programme*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer:	The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司
Description:	Medium Term Note Programme
Arrangers:	The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Goldman Sachs (Asia) L.L.C. The Hongkong and Shanghai Banking Corporation Limited J.P. Morgan Securities plc Standard Chartered Bank UBS AG Hong Kong Branch

and any other Dealers appointed in accordance with the Programme Agreement (as defined in the section entitled “*Subscription and Sale*”).

Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see the section entitled “ <i>Subscription and Sale</i> ”) including the following restrictions applicable as at the date of this Offering Circular.
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Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in other currencies, see the section entitled “*Subscription and Sale*”.

Principal Paying Agent:	Citibank, N.A., London Branch
Transfer Agent:	Citibank, N.A., London Branch
Registrar:	Citicorp International Limited
CMU Lodging Agent:	Citibank, N.A., Hong Kong Branch

Programme Size:	Up to U.S.\$30,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) in aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in either bearer or registered form as described in “ <i>Form of the Notes</i> ”. Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .
Fixed Rate Notes:	Fixed interest will be payable at such rate or rates in arrear and on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <p>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating either the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. (ISDA), and as amended and updated as at the Issue Date of the first Tranche of Notes of the relevant Series), or the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (as published by ISDA on its website (http://www.isda.org), as at the Issue Date of the first Tranche of the Notes of the relevant Series) as specified in the Pricing Supplement;</p>

- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service (in relation to Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR, please see Condition 5(b)(ii)(E); and in relation to Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SORA, please see Condition 5(b)(ii)(C)); or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Benchmark Discontinuation:	See Conditions 5(b)(vii) (<i>Benchmark Replacement (other than Floating Rate Notes where the Reference Rate is specified as being SORA or SOFR)</i>), 5(b)(viii) (<i>Benchmark Replacement for Floating Rate Notes (SOFR)</i>) and 5(b)(ix) (<i>Benchmark Replacement for Floating Rate Notes (SORA)</i>).
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.</p>
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of default interest.
Partly Paid Notes:	The Issuer may issue Notes in respect of which the issue price is paid in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.
Instalment Notes:	The Issuer may issue Notes which may be redeemed in separate instalments in such amounts and on such dates as the Issuer and the relevant Dealer may agree.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable, (ii) for taxation reasons or (iii) following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see “*Certain Restrictions — Notes having a maturity of less than one year*” above.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “*Certain Restrictions — Notes having a maturity of less than one year*” above.

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, save as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

In making an investment decision, each prospective investor is strongly recommended to consult its own professional advisers in respect of the tax implications of holding the Notes, see the section entitled “Taxation”.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 10.

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Listing:	<p>Application has been made to the SEHK for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this document on the SEHK. The Notes may be listed on the SEHK or such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p> <p>Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).</p>
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and construed in accordance with, English law.
Clearing System:	The CMU, Euroclear, Clearstream and/or any other clearing system, as specified in the applicable Pricing Supplement, see the section entitled “ <i>Form of the Notes</i> ”.
Legal Entity Identifier Number of the Issuer:	254900W04TBDJ4UBOS04
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including, for these purposes, The Netherlands), the United Kingdom, Japan, Hong Kong, the PRC and Singapore and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see the section entitled “ <i>Subscription and Sale</i> ”.
U.S. Selling Restrictions:	Regulation S, Category 2. TEFRA C or D or TEFRA not applicable, as specified in the applicable Pricing Supplement.

FORM OF THE NOTES

The Notes of each Series (as defined under “*Terms and Conditions of the Notes*”) will be in either bearer form, with or without interest coupons (**Coupons**) attached, or registered form, without Coupons attached. Both Bearer Notes and Registered Notes will be issued outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (**Regulation S**).

Notes to be listed on the SEHK will be accepted for clearance through Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream**) and may also be accepted for clearance through the CMU (as defined below).

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of either a temporary bearer global note (a **Temporary Bearer Global Note**) or a permanent bearer global note (a **Permanent Bearer Global Note** and together with a Temporary Bearer Global Note, the **Bearer Global Notes**, and each a **Bearer Global Note**) as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche (as defined under “*Terms and Conditions of the Notes*”) to either (i) a common depositary (**Common Depositary**) for Euroclear and Clearstream or (ii) a sub-custodian for the Hong Kong Monetary Authority (**HKMA**), as operator of Central Moneymarkets Unit Service (**CMU**). Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream and/or Citibank, N.A., Hong Kong Branch (**CMU Lodging Agent**) and (in the case of a Temporary Bearer Global Note delivered to a Common Depositary for Euroclear and Clearstream) Euroclear and/or Clearstream, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (**Exchange Date**) which, for each Tranche in respect of which a Temporary Bearer Global Note is issued, is 40 days after the Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either (i) for interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above, unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The CMU may require that any such exchange for a Permanent Bearer Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant accountholders (as set out in a CMU Issue Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging Agent by the CMU) have so certified.

The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

In respect of a Bearer Global Note held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Bearer Global Note are credited (as set out in a CMU Issue Position Report or any other relevant notification supplied to the CMU Lodging Agent by the CMU) and, save in the case of final payment, no presentation of the relevant Bearer Global Note shall be required for such purpose.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice (a), in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, from Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein and/or (b), in the case of Notes held through the CMU, from the relevant accountholders therein to the CMU Lodging Agent as described therein or (ii) only upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have, or in the case of Notes cleared through the CMU, the CMU has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or, (b) in the case of Notes held through the CMU, the relevant accountholders therein, may give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent or, as the case may be, the CMU Lodging Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes), and on all receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Pricing Supplement:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream or the CMU, as the case may be.

Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form without receipts or Coupons (a **Registered Global Note**) which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream. Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Registered Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream and such Registered Global Note will bear a legend regarding such restrictions on transfer.

Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6(d)) as the registered holder of the Registered Global Notes. None of the Issuer, the Principal Paying Agent, other Paying Agents or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 6(d)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream have, and in the case of Notes cleared through the CMU, the CMU has, been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any case, no successor or alternative clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered where the Notes represented by the Registered Global Notes in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, (a) in the case of Notes held by a Common Depositary for Euroclear and/or Clearstream, Euroclear and/or Clearstream (acting on the instructions of any holder of an interest in such Registered Global Note) or, (b) in the case of Notes held through the CMU, the relevant account holders therein, may give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Registrar or, as the case may be, the CMU Lodging Agent requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar or, as the case may be, the CMU Lodging Agent.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interests in another Registered Global Note. No beneficial owner of interests in a Registered Global Note will be able to transfer such interests, except in accordance with the applicable procedures of Euroclear, Clearstream and the CMU, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Principal Paying Agent or, as the case may be, the CMU Lodging Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the issue date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CMU instrument number which are different from the common code, CMU instrument number and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear, Clearstream or the CMU, each person (other than Euroclear, Clearstream or the CMU) who is for the time being shown in the records of Euroclear, Clearstream or the CMU as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear, Clearstream or the CMU as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes (save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and its agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer to the person(s) for whose account(s) interests in such Note are credited are being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note. For these purposes, a notification to the CMU should be conclusive evidence of the records of the CMU (save in the case of manifest error).

Any reference herein to Euroclear and/or Clearstream and/or the CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or otherwise approved by the Issuer, the Principal Paying Agent and the Registrar.

A Note may be accelerated by the holder of Notes thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and such Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Note and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream and/or the CMU, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream and the CMU on and subject to the terms of a deed of covenant (**Deed of Covenant**) dated 19 June 2009 executed by the Issuer.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

The Hong Kong Mortgage Corporation Limited
香港按揭證券有限公司

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] (the Notes)
under the U.S.\$30,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used in this Pricing Supplement shall have the same meaning as the terms defined in the Terms and Conditions of the Notes set out in the Offering Circular dated 26 June 2023 [and the supplement[s] to it dated [●] and [●]] (the **Offering Circular**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used in this Pricing Supplement shall have the same meaning as the terms defined in the Terms and Conditions of the Notes set out in the Offering Circular dated [original date] (**Conditions**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save to the extent that the Terms and Conditions of the Notes set out in the Offering Circular dated [current date] shall be replaced by the Conditions (as set out in the Offering Circular dated [original date], copies of which are attached hereto).]

[The following language applies if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.]

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**Professional Investors**)) only.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Pricing Supplement, together with the Offering Circular [and Supplemental Offering Circular dated [●]] includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

[MiFID II PRODUCT GOVERNANCE / TARGET MARKET — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.](⁽¹⁾)

[UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.](⁽²⁾)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

(1) Legend for issuances involving one or more MiFID Firm manufacturers.

(2) Legend for issuances involving one or more UK MiFIR Firm manufacturers.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (UK). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (EUWA); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 as amended (FSMA) and any rules or regulations made under the FSMA to implement Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (the SFA) — In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [capital market products other than] prescribed capital markets products (as defined in the CMP Regulations 2018) and [Excluded/Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).⁽³⁾

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

- | | | |
|----|--|--|
| 1. | Issuer: | The Hong Kong Mortgage Corporation Limited
香港按揭證券有限公司 |
| 2. | (i) Series Number: | [] |
| | (ii) Tranche Number: | [] |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)</i> |
| | (iii) Date on which the Notes will be consolidated and form a single Series: | [The Notes will be consolidated and form a single Series with the [Series Number] <i>[identify earlier Tranches]</i> Notes on [the Issue Date / exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, which is expected to occur on or about [date]] / Not Applicable] |
| 3. | Specified Currency or Currencies: | [] |

(3) Relevant Dealer(s) to consider whether it / they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.

4. Aggregate Nominal Amount:

(i) Series: []

(ii) Tranche: []

5. [(i) Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert Date] (in the case of fungible issues only, if applicable)]]

[(ii) Net Proceeds: []]
(Required only for listed issues)

6. (i) Specified Denomination(s): []

(Notes must have a minimum denomination of €100,000 (or equivalent) in order to benefit from Transparency Directive exemptions in respect of wholesale securities)

(Where multiple denominations above U.S.\$200,000 or equivalent are being used, the following sample wording should be followed: “[U.S.\$200,000] and integral multiples of [U.S.\$1,000] in excess thereof, up to and including [U.S.\$399,000]. No Notes in definitive form will be issued with a denomination above [U.S.\$399,000].”)

(ii) Calculation Amount: []

(If only one Specified Denomination, insert the Specified Denomination.

If more than one Specified Denomination, insert the highest common factor. There must be a common factor in the case of two or more Specified Denominations)

(In the case of Registered Notes, this means the minimum integral amount in which transfers can be made)

7. [(i) Issue Date [and Interest Commencement Date]: []]
- [(ii) Interest Commencement Date (if different from the Issue Date): [*Specify Issue Date / Not Applicable*]]
- (*An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes*)
8. Maturity Date: [*Fixed rate — specify date / Floating rate — Interest Payment Date falling in or nearest to [specify month and year]*]⁽⁴⁾
9. Interest Basis: [[] per cent. Fixed Rate]
[[EURIBOR / HIBOR / CNH HIBOR / SORA / BBSW / SOFR] plus / minus [] per cent. per annum]
[Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[Specify other]
(further particulars specified below)
10. Redemption / Payment Basis: [Redemption at par / Index Linked Redemption / Dual Currency Redemption / Partly Paid / Instalment / Specify other]
11. Change of Interest Basis or Redemption / Payment Basis: [[Specify details of any provision for change of Notes into another Interest Basis or Redemption / Payment Basis] / Not Applicable]
12. Put / Call Options: [Investor Put / Issuer Call / (further particulars specified below) / Not Applicable]
13. Listing: [The Stock Exchange of Hong Kong Limited / Specify other / None]⁽⁵⁾
14. Method of distribution: [Syndicated / Non-syndicated]

(4) Note that for Fixed Rate Notes denominated in certain currencies, such as in Hong Kong dollar and Renminbi where the Interest Payment Dates are subject to modification, it will be necessary to use the second option here.

(5) If Listing is in Hong Kong, specify the expected listing date.

Provisions Relating to Interest (If Any) Payable

15. Fixed Rate Note Provisions: [Applicable / Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually / semi-annually / quarterly / monthly / *Specify other*] in arrear] *(If payable other than annually, consider amending Condition 5)* on each Interest Payment Date
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date / *Specify other*]⁽⁶⁾
- (Amend appropriately in the case of irregular coupons)*
- (iii) Fixed Coupon Amount(s) for Notes in definitive form *(and in relation to Notes in global form, see Condition 5(a))*: [] per Calculation Amount⁽⁷⁾
- (iv) Broken Amount(s) for Notes in definitive form *(and in relation to Notes in global form, see Condition 5(a))*: [[] per Calculation Amount⁽⁸⁾, payable on the Interest Payment Date falling [in/on] [] / Not Applicable]
- (Insert particulars of any broken interest amount which does not correspond with the Fixed Coupon Amount and Interest Payment Date(s) to which they relate)*

(6) Note that for Fixed Rate Notes denominated in certain currencies, such as in Hong Kong dollar and Renminbi where the Interest Payment Dates are subject to modification, the following words should be added: “provided that if an Interest Payment Date falls on a day which is not a Business Day, such Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, “Business Day” means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong [and []].”

(7) For Fixed Rate Notes denominated in certain currencies, such as in Hong Kong dollar and Renminbi where the Interest Payment Dates are subject to modification the following wording is appropriate: “Interest shall be calculated by applying the Rate of Interest to (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up), or (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest [HK\$0.01, HK\$0.005/CNY0.01, CNY0.005] being rounded upwards.”

(8) For Fixed Rate Notes denominated in certain currencies, such as in Hong Kong dollar and Renminbi where the Broken Amount(s) is applicable, the following wording is appropriate: “The Broken Amount shall be calculated by applying the Rate of Interest to (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up), or (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest [HK\$0.01, HK\$0.005/CNY0.01, CNY0.005] being rounded upwards.”

- (v) Day Count Fraction: [Actual/Actual (ICMA)]
[30/360]
[Actual/365 (Fixed)⁽⁹⁾]
[Specify other]
- (vi) Determination Date(s): [[] in each year / Not Applicable]
- (Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*
- (This will need to be amended in the case of regular interest payment dates which are not of equal duration)*
- (Only relevant where Day Count Fraction is Actual / Actual (ICMA))*
- (vii) Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent): []
- (viii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None / Give details]
16. Floating Rate Note Provisions: [Applicable / Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Specified Period(s) / Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / Specify other]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rates of Interest and Interest Amount are to be determined: [Screen Rate Determination / ISDA Determination / Specify other]
- (v) Party responsible for calculating the Rate(s) of Interest and Interest Amount (if not the Principal Paying Agent): [[] / Not Applicable]

(9) Applicable to Fixed Rate Notes denominated in certain currencies, such as in Hong Kong dollar and Renminbi.

- (vi) Screen Rate Determination: [Applicable / Not Applicable]
- (a) Reference Rate: []
- (Either EURIBOR, HIBOR, CNH HIBOR, SORA, BBSW, SOFR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)*
- (b) Index Determination: [Applicable / Not Applicable]
- (c) Interest Determination Date(s): []
- (First day of each Interest Period if HIBOR, the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR, the second Hong Kong business day prior to the start of each Interest Period if CNH HIBOR)*
- [The [U.S. Government Securities Business Day / Singapore Business Day [immediately following / falling [●] after] the end of [each Observation Period / the Cut-off Date]]
- (Only applicable where the Reference Rate is SOFR or SORA. Note that Interest Determination Date should fall at least 5 business days prior to the Interest Payment Date unless otherwise agreed with the Calculation Agent)*
- (d) Relevant Screen Page: []
- (In the case of EURIBOR, if not Reuters Page EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
- (e) Observation Method: [Observation Shift / Lag / Lockout / Not Applicable]
- (vii) ISDA Determination: [Applicable / Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) ISDA Definitions: [2006 ISDA Definitions] / [2021 ISDA Definitions]

- (b) Floating Rate Option: []
- (If “2021 ISDA Definitions” is selected, ensure this is a Floating Rate Option included in the Floating Rate Matrix (as defined in the 2021 ISDA Definitions))*
- (c) Designated Maturity: [] / [Not Applicable]
- (A Designated Maturity period is not relevant where the relevant Floating Rate Option is a risk-free rate)*
- (d) Reset Date: []
- (In the case of a EURIBOR, HIBOR or CNH HIBOR based option, the first day of the Interest Period)*
- (e) Compounding: [Applicable/Not Applicable]
- (If not applicable, delete the remaining items of this subparagraph)*
- Compounding Method: [Compounding with Lookback
- Lookback: [[] Applicable Business Days]/[As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]]
- [Compounding with Observation Period Shift
- Observation Period Shift: [[] Observation Period Shift Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]
- Observation Period Shift Additional Business Days: [] / [Not Applicable]]
- [Compounding with Lockout
- Lockout: [[] Lockout Period Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]
- Lockout Period Business Days: [] / [Applicable Business Days]]
- (f) Averaging: [[Applicable / Not Applicable]
- (If not applicable, delete the remaining items of this subparagraph)*

Averaging Method:	<p>[Averaging with Lookback</p> <p>Lookback: [[] Applicable Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]]</p> <p>[Averaging with Observation Period Shift</p> <p>Observation Period Shift: [[] Observation Period Shift Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]</p> <p>Observation Period Shift Additional Business Days: [] / [Not Applicable]]</p> <p>[Averaging with Lockout</p> <p>Lockout: [[] Lockout Period Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]</p> <p>Lockout Period Business Days: [] / [Applicable Business Days]]</p>
(g) Index provisions:	[Applicable / Not Applicable]
	<i>(If not applicable, delete the remaining items of this subparagraph)</i>
Index Method:	<p>Compounded Index Method with Observation Period Shift</p> <p>Observation Period Shift: [[] Observation Period Shift Business Days] / [As specified in the Compounding / Averaging Matrix (as defined in the 2021 ISDA Definitions)]</p> <p>Observation Period Shift Additional Business Days: [] / [Not Applicable]]</p>
(viii) Margin(s):	[Plus / Minus] [] per cent. per annum
(ix) Minimum Rate of Interest:	[] per cent. per annum / Not Applicable
(x) Maximum Rate of Interest:	[] per cent. per annum / Not Applicable

- (xi) Day Count Fraction: [Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/365 (Sterling)]
[Actual/360]
[30/360, 360/360 or Bond Basis]
[30E/360 or Eurobond Basis]
[30E/360 (ISDA)]
[Specify other]

(See Condition 5 for alternatives)
- (xii) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [Benchmark Event / Benchmark Event (SOFR) / Benchmark Event (SORA) / Specify if fallback provisions different from those set out in the Conditions]
17. Zero Coupon Note Provisions: [Applicable / Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Any other formula/basis of determining amount payable: []

(Consider applicable day count fraction if euro denominated)
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment if Conditions 7(e)(iii) and (j) do not apply: [Conditions 7(e)(iii) and (j) apply / Specify other]
18. Index Linked Interest Note Provisions: [Applicable / Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index / Formula: [Give details / See Annex]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []

- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (iv) Specified Period(s) / Specified Interest Payment Dates: []
- (v) Business Day Convention: *[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / Specify other]*
- (vi) Additional Business Centre(s): []
- (vii) Minimum Rate of Interest: [] per cent. per annum
- (viii) Maximum Rate of Interest: [] per cent. per annum
- (ix) Day Count Fraction: []
19. Dual Currency Interest Note Provisions: *[Applicable / Not Applicable]*
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange / method of calculating Rate of Exchange: *[Give details]*
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

Provisions Relating to Redemption

20. Issuer Call: *[Applicable / Not Applicable]*
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []

- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[] per Calculation Amount / Specify other / See Annex]
- (iii) If redeemable in part: [Applicable / Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period (if other than as set out in the Conditions): []
(If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
21. Investor Put: [Applicable / Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [[] per Calculation Amount / Specify other / See Annex]
- (iii) Notice period (if other than that as set out in the Conditions): []
(If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
22. Final Redemption Amount: [[] per Calculation Amount / At par / Specify other / See Annex]

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): [[] / Not Applicable]

General Provisions Applicable to the Notes

24. Form of Notes: [Bearer Notes:
- [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon the occurrence of an Exchange Event]⁽¹⁰⁾
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon the occurrence of an Exchange Event]⁽¹⁰⁾
- [Registered Notes:
- Registered Global Note ([currency] [] nominal amount) registered in the name of [a nominee for a common depositary for Euroclear and Clearstream] / [the Hong Kong Monetary Authority (as operator of CMU)]]
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable / Give details]
- (Note that this paragraph relates to the place of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 16(iii) and 18(vi) relate)*
26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]

(10) The Issuer is advised to consider the specific requirements of the relevant clearing system(s), if any. The exchange upon notice option should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[U.S.\$200,000] and integral multiples of [U.S.\$1,000] in excess thereof, up to and including [U.S.\$399,000]".

27. Details relating to Partly Paid Notes (amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): [Not Applicable / Give details]
(New forms of Global Note may be required for Partly Paid issues)
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable / Give details]
- (ii) Instalment Date(s): [Not Applicable / Give details]
29. Redenomination: [Applicable / Not Applicable]
(If applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
30. Other terms or special conditions: [Not Applicable / Give details]

Distribution

31. (i) If syndicated, names of Managers: [Not Applicable / Give names]
- (ii) Stabilisation Manager (if any): [Not Applicable / Give name]
32. If non-syndicated, name of relevant Dealer: [Not Applicable / Give name]
33. U.S. Selling Restrictions: [Reg. S Category 2; TEFRA D / TEFRA C / TEFRA not applicable]
34. Additional selling restrictions: [Not Applicable / Give details]

Operational Information

35. ISIN [[] / Not Applicable]
36. Common Code: []
37. CMU Instrument Number: [[] / Not Applicable]
38. Any clearing system(s) other than Euroclear or Clearstream or CMU, and the relevant identification number(s): [Not Applicable / Give name(s) and number(s)]
39. Delivery: Delivery [against / free of] payment
40. In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong: [Not Applicable / Give location(s)]
41. In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than Hong Kong: [Not Applicable / London]
42. Additional Paying Agent(s) (if any): [[] / Not Applicable]
43. Legal Entity Identifier: 254900W04TBDJ4UBOS04

Other Information – Hong Kong SFC Code of Conduct

44. Rebates [A rebate of [●] bps is being offered by the [Issuer] to all private banks for orders they place (other than in relation to [Bonds/Notes/Securities] subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the [Bonds/Notes/Securities] distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.] / [Not Applicable]
45. Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent: [Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent — OCs to provide] / [Not Applicable]
46. Marketing and Investor Targeting Strategy [if different from the programme OC] / [Not Applicable] (if not different)

[Use of Proceeds

[To be specified if different from the use of proceeds set out in the Offering Circular.]]

[Listing Application

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.\$30,000,000,000 Medium Term Note Programme of The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司.]

Investment Considerations

There are significant risks associated with the Notes. Prospective investors should have regard to the factors described under the section headed “Risk Factors” in the Offering Circular before purchasing any Notes. Before entering into any transaction, prospective investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Prospective investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular [and the Supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of the Issuer:

By: _____
Duly authorised

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6, 7 (except Condition 7(b)), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trading on any stock exchange) or 16, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of Pricing Supplement" for a description of the content of the applicable Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司 (**Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a **Global Note**), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note;
- (iii) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form; and
- (iv) definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 24 June 2022 and made between the Issuer, Citibank, N.A., London Branch as principal paying agent (**Principal Paying Agent**, which expression shall include any successor principal paying agent), Citibank, N.A., Hong Kong Branch as CMU lodging agent (**CMU Lodging Agent**, which expression shall include any successor CMU lodging agent) and the other paying agents named therein (together with the Principal Paying Agent and the CMU Lodging Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and Citicorp International Limited as registrar (**Registrar**, which expression shall include any successor registrar), and a transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents). For the purposes of these Terms and Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU (as defined below), be deemed to be a reference to the CMU Lodging Agent and all such references shall be construed accordingly.

Interest bearing definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons. Definitive Bearer Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (as modified and/or supplemented and/or restated from time to time, **Deed of Covenant**) dated 19 June 2009 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents and Transfer Agents (such Agents and the Registrar being together referred to as **Agents**). Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Pricing Supplement which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. Form, Denomination and Title

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, in the currency (**Specified Currency**) and the denominations (**Specified Denomination(s)**) specified in the applicable Pricing Supplement. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in the register which is kept by the Registrar in accordance with the provisions of the Agency Agreement. The Issuer, and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream**) and/or a sub-custodian for the Hong Kong Monetary Authority, as operator of the Central Moneymarkets Unit Service (CMU), each person (other than Euroclear, Clearstream or the CMU) who is for the time being shown in the records of Euroclear, Clearstream or the CMU as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream or the CMU as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer to the person(s) for whose account(s) interests in such Note are credited are being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note. For these purposes, a notification to the CMU should be conclusive evidence of the records of the CMU (save in the case of manifest error).

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream and the CMU, as the case may be. References to Euroclear, Clearstream and/or the CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

2. Transfers of Registered Notes

(a) Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear, Clearstream or the CMU as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Registered Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Pricing Supplement as Specified Denominations and only in accordance with the rules and operating procedures for the time being of Euroclear, Clearstream or the CMU as the case may be and in accordance with the terms and conditions specified in the Agency Agreement.

(b) Transfers of Registered Notes in definitive form

Upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement as Specified Denominations). In order to effect any such transfer (i) the holder or holders must (a) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (b) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent; and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the transferor.

(c) Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

(d) Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

(e) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(f) Definitions

In this Condition, the following expressions shall have the following meanings:

Regulation S means Regulation S under the Securities Act;

Registered Global Note means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

Securities Act means the United States Securities Act of 1933, as amended.

3. Status of the Notes

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

4. Redenomination

(a) Redenomination

Where redenomination is specified in the applicable Pricing Supplement as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders or the Couponholders, on giving 30 days' prior notice to the Principal Paying Agent, Euroclear, Clearstream and/or as applicable, the CMU and at least 30 days' prior notice to the Noteholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

- (i) the Notes and the Receipts shall be deemed to be redenominated into euro in the denomination of 0.01 with a nominal amount in euro for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes are for the time being listed and the Agents of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest 0.01;
- (iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of 1,000, 10,000, 100,000 and (but only to the extent of any remaining amounts less than 1,000 or such smaller denominations as the Issuer in conjunction with the Principal Paying Agent may determine) 0.01 and such other denominations as the Issuer in conjunction with the Principal Paying Agent shall determine and notify to the Noteholders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (**Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;
- (v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee;
- (vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
 - (i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and
 - (ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding;

- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to these Conditions as the Issuer may decide, after consultation with the Principal Paying Agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

(b) Definitions

In these Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Treaty means the Treaty on the Functioning of the European Union, as amended.

5. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period ending other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such amount by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Pricing Supplement:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (**Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period

ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; or
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360; or
- (iii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Accrual Period divided by 365.

In these Terms and Conditions:

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no express Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating (i) if “2006 ISDA Definitions” is specified in the applicable Pricing Supplement, the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (**ISDA**) and as amended and updated as at the Issue Date of the first Tranche of the Notes; or (ii) if “2021 ISDA Definitions” is specified in the applicable Pricing Supplement, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions as published by ISDA on its website (www.isda.org) as at the Issue Date of the first Tranche of the Notes; (together, **ISDA Definitions**) and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity, if applicable, is a period specified in the applicable Pricing Supplement;
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the Secured Overnight Financing Rate (**SOFR**), the Singapore Overnight Rate Average (**SORA**), the euro interbank offered rate (**EURIBOR**), on the Hong Kong interbank offered rate (**HIBOR**) or on the CNH Hong Kong interbank offered rate (**CNH HIBOR**), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement;
- (4) if the Floating Rate Option is an Overnight Floating Rate Option, the Overnight Rate Compounding Method is one of the following as specified in the applicable Pricing Supplement:
 - (a) Compounding with Lookback;
 - (b) Compounding with Observation Period Shift; or
 - (c) Compounding with Lockout;
- (5) if the Floating Rate Option is an Overnight Floating Rate Option, Averaging is one of the following as specified in the applicable Pricing Supplement:
 - (1) Averaging with Lookback;
 - (2) Averaging with Observation Period Shift; or
 - (3) Averaging with Lockout; and
- (6) if the Floating Rate Option is a Compounded Index Floating Rate Option, the Index Method is Compounded Index Method with Observation Period Shift as specified in the applicable Pricing Supplement.

In connection with the Overnight Rate Compounding Method, references in the ISDA Definitions to numbers or other items specified in the relevant confirmation shall be deemed to be references to the numbers or other items specified for such purpose in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity, Reset Date, Overnight Floating Rate Option, Overnight Rate Compounding Method, Compounding with Lookback, Compounding with Observation Period Shift, Compounding with Lockout, Averaging with Lookback, Averaging with Observation Period Shift, Averaging with Lockout, Compounded Index Floating Rate Option, Index Method and Compounded Index Method with Observation Period Shift** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes where the Reference Rate is not specified as being SORA, BBSW or SOFR

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) at approximately 11:00 a.m. (Central European Time, in the case of a determination of EURIBOR, or Hong Kong time, in the case of a determination of HIBOR or CNH HIBOR), on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(C) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being Singapore Overnight Rate Average (SORA) (SORA Notes)

- (a) **Compounded Daily SORA:** For each Floating Rate Note where the Reference Rate is specified as being SORA and Index Determination is specified as “Not Applicable” in the applicable Pricing Supplement, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be Compounded Daily SORA (as defined below) plus or minus the Margin (if any):

- (1) where “Lockout” is specified as the Observation Method in the applicable Pricing Supplement:

Compounded Daily SORA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during such Interest Accrual

Period (with the reference rate for the calculation of interest being the daily Singapore Overnight Rate Average) calculated in accordance with the formula set forth below by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Pricing Supplement) on the Interest Determination Date, with the resulting percentage being rounded, if necessary, to the nearest one ten-thousandth of a percentage point (0.0001 per cent.), with 0.00005 per cent. being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{\text{SORA}_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

d means the number of calendar days in the relevant Interest Accrual Period;

d₀ means, for the relevant Interest Accrual Period, is the number of Singapore Business Days in such Interest Accrual Period;

i means, for the relevant Interest Accrual Period, a series of whole numbers from one to d₀, each representing the relevant Singapore Business Days in chronological order from (and including) the first Singapore Business Day in such Interest Accrual Period to the last Singapore Business Day in such Interest Accrual Period;

Interest Determination Date means the Singapore Business Day immediately following the Rate Cut-off Date, unless otherwise specified in the applicable Pricing Supplement;

n_i, for any Singapore Business Day “i”, is the number of calendar days from (and including) such Singapore Business Day “i” up to (but excluding) the following Singapore Business Day;

p means the number of Singapore Business Days specified in the applicable Pricing Supplement;

Rate Cut-Off Date means, with respect to a Rate of Interest and Interest Accrual Period, the date falling “p” Singapore Business Days prior to the Interest Payment Date in respect of the relevant Interest Accrual Period (or the date falling “p” Singapore Business Days prior to such earlier date, if any, on which the SORA Notes become due and payable);

Singapore Business Days or **SBD** means a day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks settle payments in Singapore;

SORA means, in respect of any Singapore Business Day “i”, a reference rate equal to the daily Singapore Overnight Rate Average published by the Monetary Authority of Singapore (or a successor administrator), as the administrator of the benchmark, on the Monetary Authority of Singapore’s website currently at <http://www.mas.gov.sg>, or any successor website officially designated by the Monetary Authority of Singapore (or as published by its authorised distributors) (the **Relevant Screen Page**) on the Singapore Business Day immediately following such Singapore Business Day “i”;

SORA_i means, in respect of any Singapore Business Day “i” in the relevant Interest Accrual Period:

(A) if such Singapore Business Day is a SORA Reset Date, the reference rate equal to SORA in respect of that Singapore Business Day; and

- (B) if such Singapore Business Day is not a SORA Reset Date (being a Singapore Business Day falling in the Suspension Period), the reference rate equal to SORA in respect of the first Singapore Business Day falling in the Suspension Period (the **Suspension Period SORAI**) (such first day of the Suspension Period coinciding with the Rate Cut-Off Date). For the avoidance of doubt, the Suspension Period SORAI shall apply to each day falling in the relevant Suspension Period;

SORA Reset Date means, in relation to any Interest Accrual Period, each Singapore Business Day during such Interest Accrual Period, other than any Singapore Business Day falling in the Suspension Period corresponding with such Interest Accrual Period; and

Suspension Period means, in relation to any Interest Accrual Period, the period from (and including) the date falling “*p*” Singapore Business Days prior to the Interest Payment Date in respect of the relevant Interest Accrual Period or such other date specified in the applicable Pricing Supplement (such Singapore Business Day coinciding with the Rate Cut-Off Date) to (but excluding) the Interest Payment Date of such Interest Accrual Period.

- (2) where “Lag” is specified as the Observation Method in the applicable Pricing Supplement:

Compounded Daily SORA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during the Observation Period corresponding to such Interest Accrual Period (with the reference rate for the calculation of interest being the daily Singapore Overnight Rate Average) calculated in accordance with the formula set forth below by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Pricing Supplement) on the Interest Determination Date, with the resulting percentage being rounded, if necessary, to the nearest one ten-thousandth of a percentage point (0.0001 per cent.), with 0.00005 per cent. being rounded upwards:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{\text{SORA}_{i-\text{PSBD}} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

d means the number of calendar days in the relevant Interest Accrual Period;

d_o means, for the relevant Interest Accrual Period, the number of Singapore Business Days in such Interest Accrual Period;

i means, for the relevant Interest Accrual Period, a series of whole numbers from one to d_o, each representing the relevant Singapore Business Days in chronological order from (and including) the first Singapore Business Day in such Interest Accrual Period to the last Singapore Business Day in such Interest Accrual Period;

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date falling one Singapore Business Day after the end of each Observation Period, unless otherwise specified in the applicable Pricing Supplement;

n_i, for any Singapore Business Day “*i*”, is the number of calendar days from and including such Singapore Business Day “*i*” up to but excluding the following Singapore Business Day;

Observation Period means, for the relevant Interest Accrual Period, the period from (and including) the date falling “*p*” Singapore Business Days prior to the first day of such Interest Accrual Period (and the first Interest Accrual Period shall begin on and include the Interest Commencement Date) and to (but excluding) the date falling “*p*” Singapore Business Days prior to the Interest Payment Date at the end of such Interest Accrual Period (or the date falling “*p*” Singapore Business Days prior to such earlier date, if any, on which the SORA Notes become due and payable);

p means the number of Singapore Business Days specified in the applicable Pricing Supplement;

Singapore Business Days or **SBD** means a day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks settle payments in Singapore;

SORA means, in respect of any Singapore Business Day “*i*”, a reference rate equal to the daily Singapore Overnight Rate Average published by the Monetary Authority of Singapore (or a successor administrator), as the administrator of the benchmark, on the Monetary Authority of Singapore’s website currently at <http://www.mas.gov.sg>, or any successor website officially designated by the Monetary Authority of Singapore (or as published by its authorised distributors) (the **Relevant Screen Page**) on the Singapore Business Day immediately following such Singapore Business Day “*i*”; and

SORA_{*i-pSBD*} means, in respect of any Singapore Business Day “*i*” falling in the relevant Interest Accrual Period, the reference rate equal to SORA in respect of the Singapore Business Day falling “*p*” Singapore Business Days prior to the relevant Singapore Business Day “*i*”.

- (3) where “Observation Shift” is specified as the Observation Method in the applicable Pricing Supplement:

Compounded Daily SORA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment during the Observation Period corresponding to such Interest Accrual Period (with the reference rate for the calculation of interest being the daily Singapore Overnight Rate Average) calculated in accordance with the formula set forth below by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Pricing Supplement) on the Interest Determination Date, with the resulting percentage being rounded, if necessary, to the nearest one ten-thousandth of a percentage point (0.0001 per cent.), with 0.00005 per cent. being rounded upwards:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{\text{SORA}_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

d means the number of calendar days in the relevant Observation Period;

d_o means, for the relevant Interest Accrual Period, the number of Singapore Business Days in such Observation Period;

i, for the relevant Interest Accrual Period, is a series of whole numbers from one to do, each representing the relevant Singapore Business Days in chronological order from (and including) the first Singapore Business Day in such Observation Period to the last Singapore Business Day in such Observation Period;

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date falling one Singapore Business Day after the end of each Observation Period, unless otherwise specified in the applicable Pricing Supplement;

n_i , for any Singapore Business Day “ i ”, is the number of calendar days from and including such Singapore Business Day “ i ” up to but excluding the following Singapore Business Day;

Observation Period means, for the relevant Interest Accrual Period, the period from (and including) the date falling “ p ” Singapore Business Days prior to the first day of such Interest Accrual Period (and the first Interest Accrual Period shall begin on and include the Interest Commencement Date) and to (but excluding) the date falling “ p ” Singapore Business Days prior to the Interest Payment Date at the end of such Interest Accrual Period (or the date falling “ p ” Singapore Business Days prior to such earlier date, if any, on which the SORA Notes become due and payable);

p means the number of Singapore Business Days specified in the applicable Pricing Supplement;

Singapore Business Days or **SBD** means a day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks settle payments in Singapore;

SORA means, in respect of any Singapore Business Day “ i ”, a reference rate equal to the daily Singapore Overnight Rate Average published by the Monetary Authority of Singapore (or a successor administrator), as the administrator of the benchmark, on the Monetary Authority of Singapore’s website currently at <http://www.mas.gov.sg>, or any successor website officially designated by the Monetary Authority of Singapore (or as published by its authorised distributors) (the **Relevant Screen Page**) on the Singapore Business Day immediately following such Singapore Business Day “ i ”; and

SORA _{i} means, in respect of any Singapore Business Day “ i ” in the relevant Observation Period, the reference rate equal to SORA in respect of that Singapore Business Day “ i ”.

- (4) Subject to Condition 5(b)(ix)(i), if, by 5:00 p.m., Singapore time, on the Singapore Business Day immediately following such Singapore Business Day “ i ”, SORA in respect of such Singapore Business Day “ i ” has not been published and a Benchmark Event for SORA has not occurred, then SORA for that Singapore Business Day “ i ” will be SORA as published in respect of the first preceding Singapore Business Day for which SORA was published.
- (b) **Compounded Index SORA**: For each Floating Rate Note where the Reference Rate is specified as being SORA and Index Determination is specified as “Applicable” in the applicable Pricing Supplement, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be Compounded Index SORA (as defined below) plus or minus the Margin (if any):

For the purposes of this Condition 5(b)(ii)(C)(b):

Compounded Index SORA means, with respect to an Interest Accrual Period, the rate of return of a daily compound interest investment (with the reference rate for the calculation of interest being the daily Singapore Overnight Rate Average) and will be calculated by the Calculation Agent (or such other party responsible for the calculation of the Rate of Interest, as specified in the applicable Pricing Supplement) on the Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left(\frac{\text{SORA Index}_{end}}{\text{SORA Index}_{start}} - 1 \right) \times \frac{365}{d}$$

where:

d means the number of calendar days in the relevant Observation Period;

Observation Period means, for the relevant Interest Accrual Period, the period from (and including) the date falling “*p*” Singapore Business Days prior to the first day of such Interest Accrual Period (and the first Interest Accrual Period shall begin on and include the Interest Commencement Date) to (but excluding) the date falling “*p*” Singapore Business Days prior to the Interest Payment Date at the end of such Interest Accrual Period (or the date falling “*p*” Singapore Business Days prior to such earlier date, if any, on which the SORA Notes become due and payable);

p means the number of Singapore Business Days specified in the applicable Pricing Supplement;

Singapore Business Day means a day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks settle payments in Singapore;

SORA Index Value means, with respect to any Singapore Business Day:

- (A) the value of the index known as the “SORA Index” administered by the Monetary Authority of Singapore (or any successor administrator thereof) as published by the Monetary Authority of Singapore (or any successor administrator) on the Relevant Screen Page on such Singapore Business Day provided, however, that in the event that the value originally published is subsequently corrected and such corrected value is published by the Monetary Authority of Singapore, as the administrator of SORA (or any successor administrator of SORA) on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SORA Index Value in relation to such Singapore Business Day; or
- (B) if the index in sub-paragraph (A) is not published or displayed by the administrator of SORA or other information service on the relevant Interest Determination Date as specified in the applicable Pricing Supplement, the Reference Rate for the applicable Interest Accrual Period for which the index is not available shall be Compounded Daily SORA, and for these purposes, the Observation Method shall be deemed to be “Observation Shift” and “*p*” shall be as set out in the applicable Pricing Supplement, as if Index Determination had been specified as being “Not Applicable” and these alternative elections had been made;

SORA Index_{end} means the SORA Index Value on the Singapore Business Day falling “*p*” Singapore Business Days before the Interest Payment Date relating to the relevant Interest Accrual Period (or in the case of the final Interest Accrual Period, the Maturity Date); and

SORA Index_{start} means the SORA Index Value on the Singapore Business Day falling “*p*” Singapore Business Days before the first day of the relevant Interest Accrual Period.

(D) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being BBSW

The Rate of Interest for each Interest Period will, subject as provided below, be the rate for prime bank eligible securities (expressed as a percentage rate per annum), having a tenor closest to the relevant Interest Period, which is displayed (the **BBSW Rate**) on the BBSW Page (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) at or about the BBSW Publication Time in the Relevant Financial Centre on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent.

If the BBSW Page is not available, or if the BBSW Rate does not appear on the BBSW Page by 11:00 a.m. in the Relevant Financial Centre (or such other time that is 30 minutes after the then prevailing BBSW Publication Time in the Relevant Financial Centre), the Rate of Interest shall be determined in good faith by the Principal Paying Agent on the Interest Determination Date, after consultation with the Issuer, having regard to comparable indices then available.

If the Principal Paying Agent is unable to determine the Rate of Interest in accordance with the preceding paragraph, the Rate of Interest shall be that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

In these Conditions:

BBSW Page means the Reuters Screen “BBSW” Page, or such other page on the Reuters Monitor Money Rates Service (or a successor service) as may replace such page for the purpose of displaying the Australian Bank Bill Swap Rate;

BBSW Publication Time means 10:30 a.m. (or such other time at which the BBSW Rate customarily appears on the BBSW Page);

Interest Determination Date shall mean the date specified as such in the applicable Pricing Supplement or if none is so specified, the first day of each Interest Period;

Relevant Financial Centre shall mean Sydney or as may otherwise be specified in the applicable Pricing Supplement;

Reference Rate means the rate specified in the applicable Pricing Supplement; and

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Pricing Supplement or such other page, section, caption, column or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than EURIBOR or HIBOR or CNH HIBOR or BBSW, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(E) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR

- (1) If Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest applicable to the Floating Rate Notes for each Interest Accrual Period will, subject as provided below, be the SOFR Compounded Index plus or minus (as specified in the applicable Pricing Supplement) the Margin (if any), as calculated by the Calculation Agent on the relevant Interest Determination Date. The Rate of Interest applicable to the Notes for each Interest Period shall apply with effect from the first day of such Interest Accrual Period.
- (2) If the Notes become due and payable in accordance with Condition 10, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Pricing Supplement, be deemed to be the date which is five U.S. Government Securities Business Days preceding the date on which the Notes become due and payable and the Rate of Interest on the Notes shall, for so long as the Notes remain outstanding, be that determined on such date and as if (solely for the purpose of such interest determination) the relevant Interest Period had been shortened accordingly.

For the purposes of this Condition 5(b)(ii)(E):

SOFR Compounded Index means, with respect to an Interest Accrual Period, the compounded average of daily Secured Overnight Financing Rate (**SOFR**) for each day during the relevant Observation Period and will be determined by the Calculation Agent on the relevant Interest Determination Date in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (0.09876541) being rounded down to 9.87654 per cent. (0.0987654) and 9.876545 per cent. (0.09876545) being rounded up to 9.87655 per cent. (0.0987655)):

$$\left(\frac{\text{SOFR Index}_{\text{End}}}{\text{SOFR Index}_{\text{Start}}} - 1 \right) \times \left(\frac{360}{d_c} \right)$$

where:

SOFR Index, with respect to any U.S. Government Securities Business Day, means:

- (a) the SOFR Index value as published on the SOFR Administrator's Website on or about 3:00 p.m. (New York time) on such U.S. Government Securities Business Day (the **SOFR Index Determination Date**); provided that in the event that the value originally published by the SOFR Administrator on or about 3:00 p.m. (New York time) on any U.S. Government Securities Business Day is subsequently corrected and such corrected value is published by the SOFR Administrator on the original date of publication, then such corrected value, instead of the value that was originally published, shall be deemed the SOFR Index value as of the SOFR Index Determination Date in relation to such U.S. Government Securities Business Day; and
- (b) if a SOFR Index value does not so appear as specified in (a) above of this definition, then:
 - (i) if a Benchmark Event (as defined in Condition 5(b)(viii)) and its related Benchmark Replacement Date (as defined in Condition 5(b)(viii)) has not occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to the "*SOFR Index Unavailable*" provisions in Condition 5(b)(ii)(F); or
 - (ii) if a Benchmark Event and its related Benchmark Replacement Date has occurred with respect to SOFR, then SOFR Compounded Index shall be the rate determined pursuant to Condition 5(b)(viii);

SOFR Index_{Start} means, in respect of an Interest Accrual Period, the SOFR Index value on the day which is five U.S. Government Securities Business Days preceding the first date of such Interest Accrual Period;

SOFR Index_{End} means, in respect of an Interest Accrual Period, the SOFR Index value on the day which is five U.S. Government Securities Business Days preceding the Interest Payment Date relating to such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

d_c is the number of calendar days in the relevant Observation Period;

Observation Period means, in respect of an Interest Accrual Period, the period from (and including) the date which is five U.S. Government Securities Business Days

preceding the first date of such Interest Accrual Period (and in respect of the first Interest Accrual Period, five U.S. Government Securities Business Days preceding the Issue Date) to, but excluding, the date which is five U.S. Government Securities Business Days preceding the Interest Period Date for such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

SOFR Administrator means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate;

SOFR Administrator's Website means the website of the SOFR Administrator (currently being, <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>), or any successor source; and

U.S. Government Securities Business Day means any day other than a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(F) SOFR Index Unavailable

If a SOFR Index value is not published on the relevant Interest Determination Date and a Benchmark Event (as defined in Condition 5(b)(viii)) and its related Benchmark Replacement Date (as defined in Condition 5(b)(viii)) has not occurred with respect to SOFR, then the SOFR Index shall be calculated in accordance with the Compounded SOFR formula and the related definitions as set out below in this Condition 5(b)(ii)(F):

Compounded SOFR means, for the applicable Interest Accrual Period for which the SOFR Index is not available, the rate of return on a daily compounded interest investment during the relevant Observation Period (with the daily SOFR reference rate as the reference rate for the calculation of interest) and calculated by the Calculation Agent in accordance with the following formula, and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, 0.000005 per cent. being rounded upwards (e.g., 9.876541 per cent. (0.09876541) being rounded down to 9.87654 per cent. (0.0987654) and 9.876545 per cent. (0.09876545) being rounded up to 9.87655 per cent. (0.0987655)):

$$\left(\prod_{i=1}^{d_o} \left(1 + \frac{\text{SOFR}_i \times n_i}{360} \right) - 1 \right) \times \left(\frac{360}{d_c} \right)$$

where:

d_c means the number of calendar days in the relevant Observation Period;

d_o means the number of U.S. Government Securities Business Days in the relevant Observation Period;

i means a series of whole numbers from one to d_o, each representing the relevant U.S. Government Securities Business Days in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Observation Period (each a “U.S. Government Securities Business Day(i)”);

n_i for any U.S. Government Securities Business Day(i) in the relevant Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day(i) up to (but excluding) the following U.S. Government Securities Business Day(i);

SOFR_i for any U.S. Government Securities Business Day(i) in the relevant Observation Period, is equal to SOFR in respect of that U.S. Government Securities Business Day(i);

Bloomberg Screen SOFRRATE Page means the Bloomberg screen designated “SOFRRATE” or any successor page or service;

Observation Period means, in respect of each Interest Accrual Period, the period from (and including) the date falling a number of U.S. Government Securities Business Days equal to the Observation Shift Days preceding the first date in such Interest Accrual Period to (but excluding) the date falling a number of U.S. Government Securities Business Days equal to the number of Observation Shift Days preceding the Interest Period Date for such Interest Accrual Period;

Observation Shift Days means five U.S. Government Securities Business Days;

Reuters Page USDSOFR= means the Reuters page designated “USDSOFR=” or any successor page or service; and

SOFR means, with respect to any U.S. Government Securities Business Day:

- (a) the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Bloomberg Screen SOFRRATE Page, the Secured Overnight Financing Rate published at the SOFR Determination Time, as such rate is reported on the Reuters Page USDSOFR=, or the Secured Overnight Financing Rate that appears at the SOFR Determination Time on the SOFR Administrator’s Website; or
- (b) if the rate specified in a. above does not appear, the SOFR published on the SOFR Administrator’s Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator’s Website.

SOFR Administrator means the Federal Reserve Bank of New York or any successor administrator of the SOFR Index value and Secured Overnight Financing Rate.

SOFR Administrator’s Website means the website of the SOFR Administrator (currently being, <https://apps.newyorkfed.org/markets/autorates/sofr-avg-ind>), or any successor source.

SOFR Determination Time means on or about 3:00 p.m. (New York City time) on the SOFR Administrator’s Website on the immediately following U.S. Government Securities Business Day.

U.S. Government Securities Business Day means any day other than a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(iii) Minimum and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (**Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or
- (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5(b):

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “30E/360 (ISDA)” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(vii) Benchmark Replacement (other than Floating Rate Notes where the Reference Rate is specified as being SORA or SOFR)

In addition, notwithstanding the provisions above in this Condition 5(b) (*Interest on Floating Rate Notes and Index Linked Interest Notes*), if the Issuer determines that a Benchmark Event (as defined below) has occurred in relation to the relevant Reference Rate specified in the relevant Pricing Supplement when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

- (A) the Issuer shall use all reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser (as defined below) to determine (acting in a reasonable manner), no later than five Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the **IA Determination Cut-off Date**), a Successor Rate (as defined below) or, alternatively, if there is no Successor Rate, an Alternative Reference Rate (as defined below) for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Notes;
- (B) if the Issuer (acting in a reasonable manner) is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Issuer (acting in a reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;

- (C) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(vii) (*Benchmark Replacement (other than Floating Rate Notes where the Reference Rate is specified as being SORA or SOFR)*)); provided, however, that if sub-paragraph (B) applies and the Issuer (acting in a reasonable manner) is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the initial Rate of Interest) (subject, where applicable, to substituting the Margin (as defined below) that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (C) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 5(b)(vii) (*Benchmark Replacement (other than Floating Rate Notes where the Reference Rate is specified as being SORA or SOFR)*);
- (D) if the Independent Adviser or the Issuer (acting in a reasonable manner) determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Issuer (acting in good faith and in a commercially reasonable manner) (as applicable), may also specify changes to these Conditions, including but not limited to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, if such changes are necessary to ensure the proper operation of such Successor Rate, Alternative Reference Rate and/or Adjustment Spread (as defined below) (as applicable). If the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Issuer (acting in a reasonable manner) (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Principal Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(vii) (*Benchmark Replacement (other than Floating Rate Notes where the Reference Rate is specified as being SORA or SOFR)*). Noteholder consent shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Principal Paying Agent (if required); and
- (E) the Issuer shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Principal Paying Agent and the Noteholders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions,

provided that the determination of any Successor Rate or Alternative Reference Rate, and any other related changes to the Notes, shall be made in accordance with applicable law.

(viii) Benchmark Replacement for Floating Rate Notes (SOFR)

The following provisions shall apply if the Reference Rate is specified as SOFR in the applicable Pricing Supplement:

(i) Benchmark Replacement

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(b)(viii). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement, Benchmark Replacement Conforming Changes or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard. The Principal Paying Agent shall not be bound by or be obliged to give effect to any Benchmark Replacement Conforming Changes, or such other amendments, if in the opinion of the Principal Paying Agent, the same would not be operable or would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or the protective provisions afforded to it in these Conditions and/or the Agency Agreement and/or any documents to which it is a party in any way.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(b)(viii), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (A) will be conclusive and binding absent manifest error, (B) will be made in the sole discretion of the Issuer or its designee, as applicable, and (C) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party. Neither the Agents nor the Calculation Agent shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee pursuant to this Condition 5(b)(viii) or any other changes and shall be entitled to rely conclusively on any certifications provided to it in this regard. The Issuer shall within five Business Days, following the determination made pursuant to this Condition 5(b)(viii), give notice thereof to the Principal Paying Agent, the Calculation Agent and the Noteholders, which shall specify the effective date(s) for such determination.

For the purpose of this Condition 5(b)(viii):

Benchmark means, initially, SOFR Compounded Index; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to SOFR or the then-current Benchmark (including in each case any daily published component used in the calculation thereof), then "Benchmark" means the applicable Benchmark Replacement;

Benchmark Event means the occurrence of one or more of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (a) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (b) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (c) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

The occurrence of a Benchmark Event shall be determined by the Issuer or its designees and promptly notified to the Agents and the Calculation Agent. For the avoidance of doubt, neither the Agents nor the Calculation Agent shall have any responsibility for making such determination.

Benchmark Replacement means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (a) the sum of:
 - (i) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and
 - (ii) the Benchmark Replacement Adjustment;
- (b) the sum of:
 - (i) the ISDA Fallback Rate; and
 - (ii) the Benchmark Replacement Adjustment; or
- (c) the sum of:
 - (i) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and
 - (ii) the Benchmark Replacement Adjustment;

Benchmark Replacement Adjustment means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (a) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (b) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (c) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

Benchmark Replacement Conforming Changes means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

Benchmark Replacement Date means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

- (a) in the case of sub-paragraph (a) or (b) of the definition of “Benchmark Event”, the later of:
 - (i) the date of the public statement or publication of information referenced therein; and
 - (ii) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (b) in the case of sub-paragraph (c) of the definition of “Benchmark Event”, the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

designee means a designee as selected and separately appointed by the Issuer in writing;

ISDA Definitions means (i) if “2006 ISDA Definitions” is specified in the applicable Pricing Supplement, the 2006 ISDA Definitions, as published by ISDA and as amended and updated as at the Issue Date of the first Tranche of the Notes; or (ii) if “2021 ISDA Definitions” is specified in the applicable Pricing Supplement, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions as published by ISDA on its website (<http://www.isda.org>), as at the Issue Date of the first Tranche of the Notes;

ISDA Fallback Adjustment means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

ISDA Fallback Rate means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

Reference Time with respect to any determination of the Benchmark means (i) the SOFR Index Determination Date, or (ii) if the Benchmark is not SOFR Index, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

Relevant Governmental Body means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

Unadjusted Benchmark Replacement means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(ix) Benchmark Replacement for Floating Rate Notes (SORA)

- (i) **Benchmark Replacement – SORA Notes:** If a Benchmark Event has occurred in relation to the Original Reference Rate when any Rate of Interest (or the relevant component part thereof) remains to be determined by the current Reference Rate, then the following provisions shall apply:

(1) **Determination by Issuer**

The Issuer shall (acting in good faith and in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser) determine a Successor Rate (in accordance with Condition 5(b)(ix)(i)(2) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(ix)(i)(3) or Condition 5(b)(ix)(i)(4)).

If the Issuer fails to determine a Successor Rate in accordance with this Condition 5(b)(ix)(i)(1) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest which would have been applicable to the Series of Notes for the first Interest Accrual Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Accrual Period but ending on (and excluding) the Interest Commencement Date. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(ix)(i)(1).

(2) **Successor Rate**

If the Issuer determines that there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original

Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of Interest on the Notes (subject to the operation of this Condition 5(b)(ix)(i)).

(3) **Adjustment Spread**

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate, if the Independent Adviser or the Issuer determines.

(4) **Benchmark Amendments**

If any Successor Rate and the applicable Adjustment Spread are determined in accordance with this Condition 5(b)(ix)(i) and the Issuer determines:

- (aa) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate and/or the applicable Adjustment Spread (such amendments, the **Benchmark Amendments**); and
- (bb) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(ix)(i)(5), without any requirement for the consent or approval of Noteholders or the Agents, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

For the avoidance of doubt, the Principal Paying Agent shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 5(b)(ix)(i)(4).

Noteholders' consent shall not be required in connection with effecting of the Successor Rate or such other changes, including the execution of any documents or any steps by the Principal Paying Agent (if required).

(5) **Notices**

Any Successor Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(b)(ix)(i) will be notified promptly by the Issuer to the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders and the Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

The Successor Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination of the Successor Rate, the Adjustment Spread or the Benchmark Amendments (if any)) be binding on the Issuer, the Calculation Agent, the Paying Agents and the Noteholders.

(6) **Definitions:**

As used in this Condition 5(b)(ix)(i):

Adjustment Spread means either a spread (which may be positive, negative or zero), or a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate and is the spread, formula or methodology which:

- (1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (2) (if no such recommendation has been made, the Issuer determines as being customarily applied to the relevant Successor Rate in debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or
- (3) (if the Issuer determines that no such spread, formula or methodology is customarily applied) the Issuer determines, and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate;
- (4) (if no such customary market usage is recognised or acknowledged), the Issuer in its discretion determines to be appropriate,

provided that any such determination shall be made by the Issuer acting in good faith and in a commercially reasonable manner, and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser;

Benchmark Amendments has the meaning given to it in Condition 5(b)(ix)(i)(4);

Benchmark Event means the earlier to occur of:

- (1) the Original Reference Rate ceasing to be published for a period of at least five Singapore Business Days or ceasing to exist; or
- (2) a public statement or publication of information by or on behalf of the Monetary Authority of Singapore (or a successor administrator of the Original Reference Rate), the regulatory supervisor for the administrator of the Original Reference Rate, the central bank for the currency of the Original Reference Rate, an insolvency official with jurisdiction over the administrator of the Original Reference Rate, a resolution authority with jurisdiction over the administrator of the Original Reference Rate or a court or an entity with similar insolvency or resolution authority over the administrator of the Original Reference Rate, announcing that the administrator of the Original Reference Rate has ceased or will cease to provide the Original Reference Rate permanently or indefinitely, and such cessation is reasonably expected by the Issuer to occur prior to the Maturity Date, provided that, at the time of the statement or publication, there is no successor administrator has been appointed that will continue to provide the Original Reference Rate; or
- (3) a public statement or publication of information by the regulatory supervisor for the administrator of the Original Reference Rate announcing that the Original Reference Rate has been or will, by a specified date within the following

six months, be permanently or indefinitely discontinued and such discontinuation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

- (4) a public statement or publication of information by or on behalf of the Monetary Authority of Singapore (or the supervisor of a successor administrator of the Original Reference Rate) as a consequence of which the Original Reference Rate will be prohibited from being used or that its use has been subject to restrictions or adverse consequences either generally, or in respect of the Notes, and such prohibition is reasonably expected by the Issuer to occur prior to the Maturity Date; or
- (5) a public statement by or on behalf of the Monetary Authority of Singapore (or the supervisor of a successor administrator of the Original Reference Rate) that the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be), by a specified date within the following six months, no longer representative of its relevant underlying market; or
- (6) it has or will prior to the next Interest Determination Date become unlawful for the Calculation Agent, any Paying Agent, (if specified in the applicable Pricing Supplement) such other party responsible for the calculation of the Rate of Interest, or the Issuer to determine any Rate of Interest and/or calculate any Interest Amount using the current Reference Rate specified in the applicable Pricing Supplement (including, without limitation, under Regulation (EU) No. 2016/1011, if applicable),

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (2) and (3) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of sub-paragraph (4) above, on the date of the prohibition or restriction of use of the Original Reference Rate and (c) in the case of sub-paragraph (5) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Calculation Agent and the Paying Agents. For the avoidance of doubt, neither the Calculation Agent nor the Paying Agents shall have any responsibility for making such determination; and

Original Reference Rate means, initially, SORA (being the originally-specified benchmark rate used to determine Compounded Daily SORA and the Rate of Interest (or any component part thereof)), provided that if a Benchmark Event has occurred with respect to SORA or the then-current Original Reference Rate, then “Original Reference Rate” means the applicable Successor Rate;

Relevant Nominating Body means:

- (1) the Monetary Authority of Singapore (or any successor administrator of the Original Reference Rate); or
- (2) any working group or committee officially sponsored or endorsed by, chaired or co-chaired by or constituted at the request of the Monetary Authority of Singapore (or any successor administrator of the Original Reference Rate); and

Successor Rate means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body as the

replacement of the Original Reference Rate (which rate may be produced by the Monetary Authority of Singapore or such other administrator).

(x) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Adjustment Spread means a spread (which may be positive, negative or zero) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable), determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders and Couponholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Issuer) or the Issuer (acting in a reasonable manner) (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Issuer) or the Issuer in its discretion (as applicable), determines (acting in a reasonable manner) to be appropriate;

Alternative Reference Rate means the rate that the Independent Adviser or the Issuer (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Issuer (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Issuer (as applicable) determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate;

Benchmark Event means, in respect of a Reference Rate for Notes (other than Notes where the Reference Rate is specified as being SORA or SOFR):

- (i) such Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist;
- (ii) a public statement by the administrator of such Reference Rate that it has ceased or that it will, by a specified date within the following six months, cease publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate);
- (iii) a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued;
- (iv) a public statement by the supervisor of the administrator of such Reference Rate that means such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months;

- (v) the making of a public statement by the supervisor of the administrator of such Reference Rate that such Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for any Paying Agent, Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using such Reference Rate;

Independent Adviser means an independent financial institution of international repute or other independent financial adviser of recognised standing and with appropriate expertise, in each case appointed by the Issuer at its own expense;

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

Interest Amount means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

Interest Commencement Date means the Issue Date or such other date as may be specified hereon;

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

Interest Period means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

Interest Period Date means each Interest Payment Date unless otherwise specified hereon;

Margin has the meaning given in the relevant Pricing Supplement;

Original Reference Rate means the originally-specified Reference Rate used to determine the Rate of Interest (or any component part thereof) on the Notes;

Rate of Interest means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

Reference Rate has the meaning given in the relevant Pricing Supplement;

Relevant Nominating Body means, in respect of a reference rate:

- (i) the central bank for the currency to which the reference rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate; or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the reference rate relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the reference rate, (C) a group of the aforementioned central banks or other supervisory authorities, or (D) the Financial Stability Board or any part thereof; and

Successor Rate means the rate that the Independent Adviser or the Issuer (as applicable) determines is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

(c) Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

(f) Business Day Convention

In these Terms and Conditions, if a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the **Floating Rate Convention**, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (2) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, **Business Day** means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre (other than the Trans-European Automated Real-Time Gross Settlement Express Transfer (**TARGET2**) System or any successor thereto (**TARGET2 System**)) specified in the applicable Pricing Supplement;
- (B) if TARGET2 System is specified as an Additional Business Centre in the applicable Pricing Supplement, a day on which the TARGET2 System is open; and
- (C) either (1) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open or (3) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

6. Payments

(a) Method of payment

Subject as provided below:

- (i) payments in a Specified Currency other than euro and Renminbi will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively);
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee; and
- (iii) payments in Renminbi will be made by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (**US Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the US Code, any regulations or agreements thereunder, official

interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

(b) Presentation of definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes not held in the CMU will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of Instalment Amounts (if any) in respect of definitive Bearer Notes not held in the CMU, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form not held in the CMU (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form not held in the CMU becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

In the case of definitive Bearer Notes held in the CMU, payment will be made to the person(s) for whose account(s) interests in the relevant definitive Bearer Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time, and such payments shall discharge

the obligation of the Issuer in respect of that payment under such Note. For these purposes, a notification to the CMU should be conclusive evidence of the records of the CMU (save in the case of manifest error).

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

(c) Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Bearer Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes and otherwise in the manner specified in the relevant Global Note (i) in the case of a Global Note lodged with the CMU, to the person(s) for whose account(s) interests in the relevant Global Note are credited as being held by the CMU in accordance with the CMU Rules, or (ii) in the case of a Global Note not lodged with the CMU, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made (in the case of a Global Note not lodged with the CMU) on such Global Note by the Paying Agent to which it was presented or (in the case of a Global Note lodged with the CMU) on withdrawal of the Global Note by the CMU Lodging Agent, and in each such case such record shall be *prima facie* evidence that the payment in question has been made.

(d) Payments in respect of Registered Notes

Payments of principal (other than Instalment Amounts prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (**Register**) (i) where in global form, at the close of the business day (being for this purpose, a day on which Euroclear and Clearstream are open for business) before the relevant due date and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account and, in the case of a payment in Renminbi, means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro and Renminbi) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) and (in the case of a payment in euro) any bank which processes payments in euro and (in the case of a payment in Renminbi) a bank in Hong Kong.

Payments of interest and payments of Instalment Amounts (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream are open for business) before the relevant due date and (ii) where in definitive form, at the close of business on the fifth day (in the case of Renminbi) and on the fifteenth day (in the case of a currency other than Renminbi) (whether or not such fifth day or fifteenth day is a business day) before the relevant due date (**Record Date**). Payment

of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

No commissions or expenses shall be charged to the holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

(e) General provisions applicable to payments

The holder of a Global Note (if the Global Note is not lodged with the CMU) or (if the Global Note is lodged with the CMU) the person(s) for whose account(s) interests in such Global Note are credited as being held in the CMU in accordance with the CMU Rules shall be the only person(s) entitled to receive payments in respect of Notes represented by such Global Note. Each of the persons shown in the records of Euroclear, Clearstream or the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or the CMU, as the case may be, for his share of each payment so made by the Issuer in respect of such Global Note. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer to the person(s) for whose account(s) interests in such Note are credited are being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note. For these purposes, a notification to the CMU should be conclusive evidence of the records of the CMU (save in the case of manifest error). persons shown in the records of Euroclear, Clearstream or the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream or the CMU, as the case may be, for his share of each payment so made by the Issuer in respect of such Global Note. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer to the person(s) for whose account(s) interests in such Note are credited are being held through the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time, and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note. For these purposes, a notification to the CMU should be conclusive evidence of the records of the CMU (save in the case of manifest error).

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States only if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(f) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation;
 - (B) any Additional Financial Centre (other than TARGET2 System) specified in the applicable Pricing Supplement;
 - (C) if TARGET2 System is specified as an Additional Financial Centre in the applicable Pricing Supplement, a day on which the TARGET2 System is open; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively), (2) in relation to any sum payable in euro, a day on which the TARGET2 System is open, or (3) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

(g) Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any political subdivision of, or any authority in, or of, a Tax Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent (1) a certificate signed by two authorised persons of the Issuer that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and
- (ii) not less than 4 days before the giving of the notice referred to in (i), notice to:
 - (a) the Principal Paying Agent; and

(b) in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date(s) and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and/or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream and/or the CMU, (as appropriate) in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes or represented by a Global Note shall in each case bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding and Notes outstanding represented by such Global Note, respectively, bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that, if necessary, appropriate adjustments shall be made to such nominal amounts to ensure that each represents an integral multiple of the Specified Denomination. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders (Investor Put)

(A) If Investor Put is specified in the applicable Pricing Supplement

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

(B) Put Option Exercise Procedures

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b). Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default (as defined in Condition 10 below) shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 10.

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note (other than a Zero Coupon Note, an Instalment Note and a Partly Paid Note) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (**Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price; and

AY means the Accrual Yield; and

y is the Day Count Fraction specified in the applicable Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(h) Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. All Notes so purchased will be surrendered to any Paying Agent and/or the Registrar for cancellation.

(i) Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and may not be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6(f)); or

- (c) presented for payment for or on behalf of a holder who is able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption and does not make such declaration or claim.

As used herein:

- (i) **Tax Jurisdiction** means Hong Kong or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

9. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

If any one or more of the following events (each, an **Event of Default**) occurs and is continuing:

- (i) there is a default for more than seven days in the payment of any principal, interest or other amount due in respect of any Note; or
- (ii) (a) the Issuer shall default in the payment of any principal of or interest on any Borrowed Money beyond any period of grace provided in respect thereof, or (b) the Issuer shall fail to honour when due and called upon any guarantee of any Borrowed Money, or (c) any Borrowed Money of the Issuer shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least HK\$100,000,000 or the equivalent thereof in another currency or currencies, or (d) a general moratorium shall be declared on the payment of the debts of the Issuer; or
- (iii) the Issuer shall default in the performance or observance of any other obligation contained in the Notes, (or to the extent it relates to the Notes) the Agency Agreement and such default shall not have been remedied within 30 days; or
- (iv) an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or
- (v) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer; or
- (vi) as a result of any action on the part of the Issuer or the Hong Kong Government, the Hong Kong Government ceases to hold, directly or indirectly, more than half in nominal value of the voting share capital of the Issuer,

then any holder of a Note may, by written notice addressed to the Issuer delivered to the Issuer and to the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 7(e)), together with accrued interest (if any) to the date of repayment, without presentation, demand, protest or other notice of any kind.

For the purposes of this Condition, **Borrowed Money** means indebtedness for borrowed money, acceptances and the principal amount of any notes (including, for the avoidance of doubt, Notes of any other Series), debentures, bonds, bills of exchange, promissory notes or similar instruments drawn, made, accepted, issued, endorsed or guaranteed by the Issuer for the purpose of raising money but shall not include bills of exchange drawn under or in respect of letters of credit or contracts for the provision of goods or services for the purpose of effecting payment and not in connection with the raising of money.

11. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent in Hong Kong (in the case of Bearer Notes, Receipts or Coupons) or the Registrar or the Transfer Agent in Hong Kong (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer, the Principal Paying Agent and the Registrar (as the case may be) may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

12. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and a Registrar; and
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority).

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(e). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further

Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading daily newspaper of general circulation in Hong Kong. It is expected that such publication will be made in the *South China Morning Post* in Hong Kong. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or any other relevant authority) on which the Bearer Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange and the rules of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream and/or the CMU, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream and/or the CMU for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange (or any other relevant authority) so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange (or any other relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was given to Euroclear and/or Clearstream and/or the CMU.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream and/or, in the case of Notes lodged with the CMU, by delivery by such holder of such notice to the CMU Lodging Agent in Hong Kong, as the case may be, in such manner as the Principal Paying Agent, the Registrar, the CMU Lodging Agent and Euroclear and/or Clearstream and/or the CMU, as the case may be, may approve for this purpose.

Receiptholders and Couponholders will be deemed for all purposes to have notice of the contents of any notice given to Noteholders in accordance with this Condition 14.

15. Meetings of Noteholders, Modification and Waiver

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders

whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

16. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. Currency Indemnity

The currency in which the Notes are denominated or, if different, payable, as specified in the applicable Pricing Supplement (**Contractual Currency**), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, the Receipts, the Coupons and the Deed of Covenant, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction or otherwise) by any Noteholder, Receiptholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Noteholder, Receiptholder or Couponholder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Noteholder, Receiptholder or Couponholder in respect of such Note, Receipt or Coupon, the Issuer shall indemnify such Noteholder, Receiptholder or Couponholder against any loss sustained by such Noteholder, Receiptholder or Couponholder as a result. In any event, the Issuer shall indemnify each such Noteholder, Receiptholder or Couponholder against any cost of making such purchase which is reasonably incurred. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder, Receiptholder or Couponholder and shall continue in full force and effect despite any judgement, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or any judgement or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Noteholder, Receiptholder or Couponholder and no proof or evidence of any actual loss will be required by the Issuer.

18. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. Governing Law and Submission to Jurisdiction

(a) Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) Submission to jurisdiction

The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons) and that accordingly any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Notes, the Receipts and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and the Coupons) may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(c) Appointment of Process Agent

The Issuer appoints Hackwood Secretaries Limited at its registered office at One Silk Street, London EC2Y 8HQ as its agent for service of process, and undertakes that, in the event of Hackwood Secretaries Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

(e) Other documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

RISK FACTORS

RISKS RELATING TO THE ISSUER

Loan purchase activities in Hong Kong

One of the primary business activities of the Issuer is to purchase loan assets from the Approved Sellers (as defined under the section entitled “*Description of the Issuer — Business Strategies*”) in Hong Kong. The willingness of the Approved Sellers to sell their loan assets to the Issuer depends on a number of factors, including the Approved Sellers’ loan portfolio size, their balance sheet management and the interest rate applicable to the loan assets at the relevant time. The decision as to whether or not to sell their loan assets to the Issuer lies with the Approved Sellers. There can be no assurance that the Approved Sellers will continue to make available suitable loan assets for purchase by the Issuer.

Exposure to the Hong Kong property market

The Issuer is exposed to the Hong Kong property market due to its portfolio of mortgage loans relating to properties in Hong Kong. The Hong Kong property market is highly cyclical and property prices in general have been volatile. Property prices are affected by a number of factors, including the supply of, and demand for, comparable properties, changes to interest rate, the rate of economic growth in Hong Kong, political and economic developments in the PRC and the relationship of the PRC and Hong Kong with other countries. Accordingly, any significant drop in property prices and/or liquidity in the Hong Kong property market could adversely affect the Issuer’s business, financial condition and results of operations.

Exposure to the risk of default by borrowers and/or sellers/servicers in its loan asset portfolio

The quality of the Issuer’s loan asset portfolio depends on both the careful selection of loan assets to be purchased and the rate of default by borrowers. The Issuer cannot offer any assurance that it will continue to be able to purchase loan assets of adequate credit quality to maintain the current credit performance of its loan asset portfolio or that the credit quality of its loan asset portfolio will not deteriorate. The outbreak of a novel strain of coronavirus (**COVID-19**) since December 2019 inflicted severe impacts on global and local economic activities. Governments across the world including The Government of the Hong Kong Special Administrative Region of the People’s Republic of China (**Hong Kong Government**) imposed various measures to contain the spread of COVID-19, including mandatory business closures, travel restrictions, quarantines and limitations on public gatherings. These measures had, and may continue to have, a negative impact on the Hong Kong economy. The Issuer can offer no assurance that the default rate of borrowers will remain at a low level. The allowance for loan impairment set aside by the Issuer may be insufficient to cover all future losses arising from its loan asset portfolio, which could have an adverse impact on the Issuer’s results of operations.

The Approved Seller / Approved Servicer (as defined under the section entitled “*Description of the Issuer — Business Strategies*”) of an acquired loan portfolio is obliged to remit scheduled payments generated from the acquired loan portfolio to the Issuer in a timely and accurate manner. The Issuer can offer no assurance that its Approved Sellers / Approved Servicers will make scheduled payments in a timely or accurate manner, or will not default on their payment obligations.

Exposure to the risks under the Microfinance Scheme

The Issuer is exposed to risk of default by borrowers under the Microfinance Scheme (**MFS**), under which loans are offered to borrowers through participating lenders that are “authorized institutions” (**AIs**) (as defined in Section 2 of the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) (**Banking Ordinance**)) with funding participation provided by one of the Issuer’s wholly-owned subsidiaries, HKMC Mortgage Management Limited (**HMML**) (for more information, see the section entitled “*Description of the Issuer — Business Overview — Microfinance Scheme*”). Although the acceptance of loan applications under the MFS has ceased in 2019, the Issuer can offer no assurance as to the repayment capabilities of the borrowers under the MFS.

Exposure to the risks under the Infrastructure Financing and Securitisation business

The Infrastructure Financing and Securitisation (IFS) business of the Issuer purchases and co-finances infrastructure loans with a view to securitising those loans in the capital markets. The purchasing and financing of infrastructure loans may expose the Issuer to risks inherent in cross border infrastructure projects, including delay risk, construction risk, performance risk, operational risk, commercial risk, financial risk, counterparty risk, concentration risk, legal and compliance risk, regulatory risk, political risk, currency risk, interest rate risk and environmental and social risk.

On 30 May 2023, the Issuer, via Bauhinia ILBS 1 Limited (a special purpose vehicle established for the Issuer's pilot Infrastructure Loan-Backed Securities (ILBS) issuance), completed a publicly rated securitisation transaction which consists of multiple classes of U.S. dollar-denominated senior secured notes (ILBS Notes) backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with an issuance size of U.S.\$404.8 million. The Issuer has multiple roles in this transaction, including acting as the sponsor, retention holder of the subordinated notes of the ILBS Notes, as well as acting as collateral manager providing certain collateral management services to the issuer of the ILBS Notes. The involvement of the Issuer in its various capacities, in particular as sponsor and collateral manager, may result in conflicts of interest in the administration of the ILBS Notes and as a result, the Issuer has established the Infrastructure Financing and Securitisation Collateral Manager Committee, an independent and separate management committee from the Infrastructure Financing and Securitisation Investment Committee (IFSIC), as the governing forum of the Issuer's collateral management business for the ILBS Notes.

Although the Issuer has adopted a prudent risk management framework for its IFS business (for more information, see the section entitled "*Description of the Issuer — Risk Management — Infrastructure Loans*") as well as internal governance measures to manage any potential conflicts of interest which may arise as a result of the Issuer's involvement in the ILBS in various capacities, there is no assurance that the risk management measures or internal governance measures adopted by the Issuer will adequately mitigate the relevant risks associated with the IFS business of the Issuer and the failure of which could adversely affect the Issuer's business, financial condition and results of operations.

Exposure to the risks under the Fixed Rate Mortgage Scheme

Under the Fixed Rate Mortgage Scheme, the Issuer provides an alternative financing option to homebuyers with fixed-rate mortgages for 10, 15 and 20 years to mitigate risks arising from interest rate volatility (for more information, see the section entitled "*Description of the Issuer — Business Overview — Fixed Rate Mortgage Scheme*"). The relevant mortgage loans will be purchased by the Issuer after their origination and in some cases, HMML will be the servicer of such loans. As a result, the Issuer is exposed to risk of default by borrowers and/or sellers/servicers in their respective loan asset portfolio. In addition, the Issuer is exposed to interest rate risk as well as asymmetrical prepayment risk. Although the Issuer has diversified sources of funding and adopts prudent risk management measures to mitigate such risks, there is no assurance that these measures will be effective to mitigate the risks.

Exposure to liquidity risk, interest rate risk and asset-liability maturity mismatch risk

The Issuer has various funding sources at various interest rates and maturities, and acquires loan assets at various interest rates and maturities. In the event of the underlying borrowers or obligors failing to fulfil their payment obligations as scheduled, the Issuer may be exposed to cashflow and net interest income risks. Although the Issuer has sound credit ratings, diversified funding sources and prudently uses cash and derivative instruments for hedging purposes, the Issuer may still be exposed to liquidity risk outside the control of the Issuer as a result of the prevailing market conditions and availability of funds to fulfil its payment obligations. The Issuer cannot offer any assurance as to the effectiveness of its funding strategy, risk management measures and hedging techniques to adequately mitigate any adverse changes in market conditions or the availability of such instruments in the future, or the failure of the underlying borrowers or obligors to fulfil their payment obligations as scheduled, which could adversely affect the Issuer's business, financial condition and results of operations.

Exposure to currency risk

The majority of the Issuer's revenues are generated in Hong Kong dollar and U.S. dollar. Hong Kong dollar has been linked to U.S. dollar since 1983 under the Linked Exchange Rate System which ensures that the Hong Kong dollar exchange rate remains stable within a band of HK\$7.75 to HK\$7.85 to U.S.\$1, but there can be no assurance that the Linked Exchange Rate System will be maintained in the future, despite the fact that the Hong Kong Government has, from time to time, expressed a commitment to maintain exchange rate stability under the Linked Exchange Rate System. The Issuer can offer no assurance that its business, financial condition and results of operations would not be adversely affected by the impact on the Hong Kong economy arising from any devaluation or revaluation of Hong Kong dollar or if the link of Hong Kong dollar to U.S. dollar is discontinued or changed in any way.

Exposure to treasury counterparty risk

The Issuer enters into treasury instruments with a number of treasury counterparties (such as international banks) for its hedging and other treasury activities. Potential losses could be incurred as a result of delay or failure in the payments by a treasury counterparty in respect of the underlying treasury instruments. The Issuer can offer no assurance that its treasury counterparties will make payments in a timely or accurate manner, or will not default on their payment obligations.

No government guarantee in respect of the Issuer's debts

Although the Issuer is wholly-owned by the Hong Kong Government, the Hong Kong Government does not provide any form of guarantee in respect of the Issuer's borrowings or other obligations, including the Notes to be issued under the Programme. In addition, and notwithstanding the above, if the Issuer is partly or fully privatised, its credit standing could be adversely affected.

Guarantee relating to subsidiary

The general insurance business of the Issuer is carried out by one of its wholly-owned subsidiaries, HKMC Insurance Limited (**HKMCI**). The Issuer has issued a parental guarantee in favour of the participating lenders for the HKMCI's due performance of its obligations under the insurance programmes and schemes operated by the HKMCI (for more information, see the section entitled "*Description of the Issuer — Business Overview*"). If such guarantee is called upon, the Issuer is required to discharge the HKMCI's liabilities under the relevant programmes and schemes and the Issuer's business, financial condition and results of operations may be adversely affected.

Exposure to legal, regulatory, litigation and compliance risks

The Issuer and its subsidiaries (collectively, the **Group**) are subject to laws, rules and regulations that regulate all aspects of its business. Some of the laws, rules and regulations are relatively new and their interpretation and application remain uncertain. The Group is exposed to risks of legal, regulatory, litigation and administrative proceedings. Management of these risks requires, among other things, policies and procedures to prohibit or report certain transactions, properly record and monitor large number of transactions and events, as applicable. Failure to comply with any of the applicable laws, rules and regulations, including as a result of changes to rules and regulations or the changing interpretation thereof by relevant regulators, could result in administrative sanctions, fines, increase in expenses or capital to achieve compliance or arising from any disputes, proceedings and litigations, each of which may have a material adverse effect on the Group's reputation, business, financial condition and results of operations. In addition, failure to implement and maintain effective internal controls or proper records could bring an impact on the reliability of the Group's financial statements and the Group's ability to comply with applicable laws, rules and regulations.

Furthermore, investigations, administrative actions or litigation could commence in relation to violation of any applicable laws, rules and regulations, which may result in penalties, damages, costs and expenses and possible damage to the reputation of the Group. Any adverse judgments or rulings that are delivered against the Group could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

Exposure to failure of full compliance with applicable anti-money laundering laws, anti-terrorism laws, anti-bribery laws and other regulations

The Group is required to comply with applicable anti-money laundering laws, counter-terrorist financing laws, anti-bribery laws and other relevant regulations in Hong Kong and elsewhere. These laws and regulations require the Group, among other things, to formulate “know your customer” policies and procedures and to report suspicious transactions to the applicable regulatory authorities or law enforcement agencies. Additionally, regulators in recent years have globally increased their scrutiny of corporate internal controls and have correspondingly increased the penalties for any non-compliance particularly in the areas of sanctions, anti-money laundering, anti-terrorism and anti-bribery.

While the Group has adopted policies and procedures aimed at detecting and preventing money laundering activities and transactions with or by terrorists and terrorist-related organisations and individuals or by individuals involved in corruption generally, such policies and procedures may not completely eliminate instances where the Group may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent that the Group fails to comply with applicable laws and regulations, the relevant law enforcement agencies have the power and authority to impose fines and other penalties on the Group, which may materially and adversely affect the Group’s reputation, business, financial condition and results of operations.

RISKS RELATING TO THE ISSUER’S SUBSIDIARIES

Exposure to the risk of default by borrowers and/or reinsurers under the Mortgage Insurance Programme

Borrowers may default under the Mortgage Insurance Programme (MIP) operated by the HKMCI (for more information, see the section entitled “*Description of the Issuer — Business Overview — Mortgage Insurance Programme*”). The HKMCI’s exposure to such default risk depends on the quality of the mortgage loans under the insurance cover provided by the HKMCI and the careful screening of mortgage loans eligible under the MIP. To reduce its exposure, the HKMCI obtains reinsurance from approved mortgage reinsurers (**Approved Reinsurers**) for the whole or a part of the insurance cover amount so that the risk of borrower default is mitigated by risk sharing with the relevant Approved Reinsurers. Neither the Issuer nor the HKMCI can offer any assurance that the HKMCI will continue to be able to maintain the current overall credit quality of its mortgage insurance portfolio, or that the HKMCI will continue to be able to reinsure its mortgage insurance cover effectively, or that its Approved Reinsurers will not default on their reinsurance obligations.

Exposure to the risks under the SME Financing Guarantee Scheme

Under the SME Financing Guarantee Scheme (SFGS), the HKMCI provides loan guarantees for credit facilities advanced by the participating AIs to eligible local non-listed enterprises, including small and medium-sized enterprises (SMEs) and businesses with less operating history (for more information, see the section entitled “*Description of the Issuer — Business Overview — SME Financing Guarantee Scheme*”). The HKMCI is the scheme administrator of the SFGS and the participating AIs are responsible for conducting customer due diligence and verification of borrower’s eligibility using their professional skill, judgement and care. Although the HKMCI has in place prudent eligibility criteria for the SFGS, the HKMCI is exposed to risk of default by borrowers and its exposure is dependent on the repayment ability of the borrowers and the quality of underwriting of such credit facilities by the participating AIs. Neither the Issuer nor the HKMCI can offer any assurance as to the effectiveness of the participating AIs’ underwriting standards with respect to the credit facilities or the economic conditions which may have an impact on the repayment ability of the relevant borrowers.

The time-limited 80 per cent. guarantee product (**80% SFGS**), the 90 per cent. guarantee product (**90% SFGS**) and the special 100 per cent. guarantee product (**Special 100% SFGS**) under the SFGS, launched by the HKMCI on behalf of the Hong Kong Government in May 2012, December 2019 and April 2020 respectively, are backed by the Hong Kong Government's guarantee commitment up to 80 per cent., 90 per cent. and 100 per cent. of eligible credit facilities granted by participating AIs. In respect of loans drawn down under the Special 100% SFGS, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans under the Special 100% SFGS, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted credit facilities under the SFGS. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the Special 100% SFGS. Neither the Issuer nor the HKMCI can offer any assurance that the Hong Kong Government will not default on its loan guarantee and reimbursement obligations or the Issuer will continue to have sufficient funding available to purchase loans drawn down under the Special 100% SFGS from the participating AIs.

Exposure to the risks under the 100% Personal Loan Guarantee Scheme

The time-limited 100% Personal Loan Guarantee Scheme (**PLGS**) is fully backed by the Hong Kong Government's 100% financial commitment for loans approved by participating AIs in accordance with the eligibility criteria for PLGS (for more information, see the section entitled "*Description of the Issuer — Business Overview — 100% Personal Loan Guarantee Scheme*"). The HKMCI is the scheme administrator of the PLGS and the participating AIs are responsible for conducting customer due diligence and verification of borrower's eligibility using their professional skill, judgement and care. Although the HKMCI has in place prudent eligibility criteria for the PLGS, the risk of default by borrowers is dependent on the repayment ability of the borrowers and the quality of underwriting such loans by the participating AIs. Neither the Issuer nor the HKMCI can offer any assurance as to the effectiveness of the participating AIs' underwriting standards with respect to the loans or the economic conditions which may have an impact on the repayment ability of the relevant borrowers.

In respect of loans drawn down under the PLGS, the Issuer, with funding provided by the Hong Kong Government, purchases such loans from the participating AIs on a without recourse basis. The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted loans. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the PLGS. Neither the Issuer nor the HKMCI can offer any assurance that the Hong Kong Government will not default on its reimbursement obligations.

Exposure to the risks under the Dedicated 100% Loan Guarantee Schemes for Specified Sectors

The Dedicated 100% Loan Guarantee Schemes for specified sectors (**DLGS**) are fully backed by the Hong Kong Government's 100% guarantees for loans approved by the participating AIs in accordance with the eligibility criteria for DLGS for eligible licensed travel agents, registered owners of local tour coaches and cross-boundary coaches and hire cars and registered owners and operators of cross-boundary ferries in Hong Kong (for more information, see the section entitled "*Description of the Issuer — Business Overview — Dedicated 100% Loan Guarantee Schemes for Specified Sectors*"). The HKMCI is the scheme administrator of the DLGS and the participating AIs are responsible for conducting customer due diligence and verification of the borrower's eligibility using their professional skill, judgement and care. Although the HKMCI has in place prudent eligibility criteria for the DLGS, the HKMCI is exposed to risk of default by the borrowers and its exposure is dependent on the repayment ability of the borrowers and the quality of underwriting of such loans by the participating AIs. Neither the Issuer nor the HKMCI can offer any assurance as to the effectiveness of the participating AIs' underwriting standards with respect to the loans or the economic conditions which may have an impact on the repayment ability of the relevant borrowers.

In respect of loans drawn down under the DLGS, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans under the DLGS, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted loans under the DLGS. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the DLGS. Neither the Issuer nor the HKMCI can offer any assurance that the Hong Kong Government will not default on its loan guarantee and reimbursement obligations or the Issuer will continue to have sufficient funding available to purchase loans drawn down under the DLGS from the participating AIs.

Exposure to the risks under the Reverse Mortgage Programme

Under the Reverse Mortgage Programme (RMP), the HKMCI provides insurance cover on reverse mortgage loans provided to elderly borrowers by participating lenders (for more information, see the section entitled “*Description of the Issuer — Business Overview — Reverse Mortgage Programme*”). The insurance cover is provided by the HKMCI for the purpose of covering shortfalls incurred by the participating lenders in the event that after the occurrence of a maturity event when proceeds recovered from the repossessed property are insufficient to cover the outstanding loan balance and the associated expenses. Although the HKMCI has adopted a prudent set of actuarial assumptions regarding mortality rates, interest rates and property price movements to model the payout amount to borrowers, and that the HKMCI obtains reinsurance from one or more Approved Reinsurers for the whole or a part of the insurance cover amount, neither the Issuer nor the HKMCI can offer any assurance as to the effectiveness and accuracy of such assumptions, or that the HKMCI will continue to be able to reinsure its insurance cover effectively, or that its Approved Reinsurers will not default on their reinsurance obligations.

Exposure to the risks under the Policy Reverse Mortgage Programme

Under the Policy Reverse Mortgage Programme (PRMP), the HKMCI provides insurance cover on loans provided to elderly borrowers by participating lenders (for more information, see the section entitled “*Description of the Issuer — Business Overview — Policy Reverse Mortgage Programme*”). The insurance cover is provided by the HKMCI for the purpose of covering shortfalls incurred by the participating lenders in the event that the money paid under the life insurance policy assigned as collateral of a loan is insufficient to cover the outstanding loan balance and the associated recovery expenses upon the occurrence of a maturity event. Although the HKMCI has adopted a prudent set of actuarial assumptions regarding mortality rates, interest rates and fulfilment ratios of life insurance policies to model the payout amount to borrowers, neither the Issuer nor the HKMCI can offer any assurance as to the effectiveness and accuracy of such assumptions, or that the insurance companies of the assigned life insurance policies will not default on their claim payment obligations.

Exposure to the risks under the HKMC Annuity Plan

The HKMC Annuity Limited (HKMCA) is a wholly-owned subsidiary of the Issuer which operates the HKMC Annuity Plan (for more information, see the section entitled “*Description of the Issuer — Business Overview — HKMC Annuity Plan*”). The HKMCA is exposed to investment risk and various insurance risks, primarily longevity risk which arises from the possibility that the life expectancy of annuitants being longer than expected. Although the HKMCA has adopted a prudent set of actuarial and investment assumptions for pricing, neither the Issuer nor the HKMCA can offer any assurance as to the effectiveness and accuracy of such assumptions. Moreover, owing to conservative reserving assumptions under the relevant regulatory requirements, the Issuer and the HKMCA may have to report negative earnings under the HKMC Annuity Plan in the initial period, subject to the actual business volume, profile of the policyholders and actual experience including the relevant investment, mortality, lapsation and expense. It is also envisaged that the Insurance Authority of Hong Kong would be implementing a new risk-based capital framework which would affect the future solvency requirement of the HKMCA. Although the Issuer and the HKMCA have

plans to inject capital steadily and orderly to meet the upcoming regulatory capital requirements, neither the Issuer nor the HKMCA can offer any assurance on whether such capital injections will be timely and sufficient for the HKMCA to meet the upcoming regulatory capital requirements with which failure could adversely affect the business, financial condition and results of operations of the Issuer and the HKMCA.

Further, a significant portion of the assets of the HKMCA is invested in illiquid assets. Owing to asset volatility and uncertain annuity liabilities, the HKMCA is exposed to asset-liability mismatch risk and liquidity risk. The HKMCA minimises such risks through monitoring the investment performance and maintaining a number of funding sources. However, neither the Issuer nor the HKMCA can offer any assurance as to the effectiveness of such risk mitigation measures.

The HKMC Annuity Plan is an insurance product offered to a group of vulnerable customers (e.g. persons over 65 years of age). The sale of the HKMC Annuity Plan to such customers is subject to additional regulatory requirements. Thus, the HKMCA is exposed to the risk of financial loss and/or reputational damage from potential mis-selling and customer complaints. Although the HKMCA has carried out a thorough analysis to ensure the product meets customers' needs and provided sufficient training to personnel involved in the distribution channels of the HKMC Annuity Plan to mitigate such risks, neither the Issuer nor the HKMCA can offer any assurance that legal disputes, regulatory proceedings or investigations as a result of allegation of misconduct of the personnel involved in the distribution of the HKMC Annuity Plan can be avoided. This may have a material and adverse effect on the reputation, business, financial condition and results of operations of the Issuer and the HKMCA.

Changes in accounting standards may affect the HKMCI and the HKMCA's financial condition and results of operations

Hong Kong Financial Reporting Standard 17 "Insurance Contracts" (**HKFRS 17**) was issued in January 2018 to amend and replace Hong Kong Financial Reporting Standard 4 "Insurance Contracts". HKFRS 17 became effective on 1 January 2023 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds.

HKFRS 17 includes fundamental differences to accounting in both insurance contract measurement and profit recognition. It requires entities to measure insurance contract liabilities at their current fulfilment values and the general model is based on a discounted cash flow model with risk adjustment and deferral of unearned profits. In addition, HKFRS 17 also requires more granular information in respect of an entity's insurance and reinsurance contracts, a new presentation format for statement of comprehensive income as well as more extensive disclosures than the Hong Kong Financial Reporting Standard 4 "Insurance Contracts". The HKMCI and the HKMCA will complete the full implementation of HKFRS 17 in 2023. There could be no assurance that the financial condition and results of operations of the Issuer, the HKMCI and the HKMCA will not be adversely affected as a result of the implementation of HKFRS 17.

Please see Note 2.1 to the audited consolidated financial statements of the Issuer as at end for the year ended 31 December 2022 on page F-27 of this Offering Circular for further information.

RISKS RELATING TO HONG KONG, THE PRC AND OTHER COUNTRIES

Issuer's business is affected by the political and economic situation in Hong Kong, the PRC and other countries

Although Hong Kong has thus far enjoyed legislative, judicial and economic autonomy since becoming a special administrative region of the PRC, there can be no assurance that there will not be a change in regulatory oversight as a consequence of the PRC exercising its sovereignty over Hong Kong, or that should such change occur, the Issuer's business, financial condition and results of operations may not be adversely affected.

The Issuer's revenue is generated from its operations and businesses primarily in Hong Kong. Accordingly, the Issuer's operations and performance may be affected by the general political and economic circumstances of Hong Kong. As Hong Kong is a small and open economy that is highly dependent on international trade and finance and having close business relations with the PRC and Asia-Pacific countries, the Hong Kong economy is affected to a significant extent, directly or indirectly, by the economies of the PRC, countries in the Asia-Pacific and elsewhere.

Any significant or sudden economic slowdown, recession or other adverse changes or developments in the local social and economic environment or political arrangements in Hong Kong may adversely affect the Group's business, financial condition and results of operations.

Future political or economic instability or a sustained slowdown in local economic activities, especially in relation to the property market, will adversely affect the Issuer's business if it leads to an increase in loan payment defaults.

No assurance that the Issuer's business will not be affected by sanctions or other measures imposed on Hong Kong by foreign governments as well as geopolitical tensions and disputes

The economy of Hong Kong is highly dependent on international trade and finance as well as close business relations with the PRC and other countries. The economic growth of Hong Kong and its stability may be adversely affected by geopolitical developments and tensions, including trade disputes.

In recent years, the U.S. government imposed a series of sanctions or restrictive measures on a number of officials of the Hong Kong Government or the Hong Kong economy in the form of executive orders issued by the U.S. administration and statutes passed by the U.S. Congress. These measures included the withdrawal of the privileges granted to Hong Kong pursuant to the Hong Kong Policy Act of 1992. In addition, U.S. tariffs, restrictions on technology transfer and investment imposed on the PRC as well as continued trade and geopolitical tensions and disputes may continue to affect the economic outlook globally as well as the Hong Kong economy.

There is no assurance that the Hong Kong economy and its prospect will not be adversely affected by geopolitical developments and tensions or there will be no additional sanction orders or restrictive measures imposed on the PRC, other officials of the Hong Kong Government or the Hong Kong economy. The occurrence of any such events may adversely affect the business, financial condition and results of operations of the Group, and there is no assurance that the Issuer will be able to accurately assess the impact of such events, or implement remedial measure to adequately mitigate any adverse effect as a result, on the business, financial condition and results of operations of the Group.

No assurance that the Issuer's business will not be affected by the outbreak of severe communicable disease

The COVID-19 pandemic has severely impacted the global economy since the beginning of 2020. While lock-down and stay-home policies previously imposed in many countries and regions have been lifted or relaxed while the pandemic spread slows down, economic activity and employment have not yet fully recovered. Global economic outlook, including that of Hong Kong, will hinge on when the pandemic can be contained and whether there may be a resurgence of the pandemic. Continued market weakness will materially and adversely affect the Issuer's business, financial condition and results of operations and its ability to access the capital markets.

From time to time, there have been media reports regarding occurrences of various epidemics such as swine influenza, spread of avian influenza among birds and poultry and, in some isolated cases, from animals to human beings.

There can be no assurance that there will not be another significant outbreak of a highly contagious disease and any such further outbreak may have a material adverse impact on the business, financial condition and results of operations of the Group.

RISKS RELATING TO THE NOTES AND THE COUPONS

An active trading market for the Notes may not develop

There can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes may trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Issuer's operations and the market for similar securities. The Dealers are not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the relevant Dealers. No assurance can be given as to the liquidity of, or trading market for, the Notes.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed

Unless the relevant Pricing Supplement specifies otherwise in the case of any particular Tranche of Notes, the Notes will be redeemable at the Issuer's opinion prior to maturity for certain tax reasons as described in Condition 7(b). The Notes may also be redeemable before their stated maturity at the option of the Issuer (either in whole or in part) to the extent specified in the relevant Pricing Supplement.

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At that time, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed, and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks", (including the euro interbank offered rate (**EURIBOR**) and the Hong Kong interbank offered rate (**HIBOR**)) are the subject of ongoing national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the **EU Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and mostly applies, subject to certain transitional provisions, from 1 January 2018. The EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to or referencing a benchmark, in particular, if the

methodology or other terms of the benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The euro risk-free rate working group published a set of guiding principles for fallback provisions in new euro denominated cash products (including bonds). The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a Benchmark Event (as defined in “*Terms and Conditions of the Notes*”) occurs in respect of an Original Reference Rate (as defined in the “*Terms and Conditions of the Notes*”) or other relevant reference rate and/or any page on which such benchmark may be published (or any other successor service) becomes unavailable. Such fallback arrangements include the possibility that the Rate of Interest (as defined in the “*Terms and Conditions of the Notes*”) could be set by reference to a Successor Rate or an Alternative Reference Rate (both as defined in the “*Terms and Conditions of the Notes*”), with the application of an adjustment spread (which could be positive, negative or zero), and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the new benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser) and as more fully described at Condition 5(b)(vii), (viii) and (ix) in the “*Terms and Conditions of the Notes*”. It is possible that the adoption of a Successor Rate or Alternative Reference Rate, including any adjustment spread, may result in any Notes linked to or referencing an Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form. There is also a risk that the relevant fallback provisions may not operate as expected or intended at the relevant time.

Furthermore, in certain circumstances, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period (as defined in the “*Terms and Conditions of the Notes*”) may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page (as defined in the “*Terms and Conditions of the Notes*”).

The SOFR and the SORA are recently reformed and/or are newly established risk-free rates. SOFR is published by the Federal Reserve Bank of New York and is intended to be a broad measure of the cost of borrowing cash overnight collateralised by Treasury securities and a current preferred replacement rate to USD LIBOR. SORA is published by the Monetary Authority of Singapore and is the volume-weighted average rate of borrowing transactions in the unsecured overnight interbank SGD cash market. SORA is part of an industry-wide interest rate benchmark transition away from the use of Singapore Swap Offer Rate (SOR) and Singapore Interbank Offered Rate (SIBOR) to the use of SORA as the main interest rate benchmark for SGD financial markets.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or the UK Benchmarks

Regulation, as applicable, or any of the international or national reforms and the possible application of the benchmark replacement provisions of Notes in making any investment decision with respect to any Notes referencing a benchmark.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes

The Rate of Interest in respect of the Notes may be determined on the basis of SOFR Compounded Index (as defined in the “*Terms and Conditions of the Notes*”), which is calculated by referencing the SOFR Index (as defined in the “*Terms and Conditions of the Notes*”), subject to the fallback provisions set out in the Conditions.

The Federal Reserve Bank of New York, as the administrator of the SOFR, in cooperation with the Treasury Department’s Office of Financial Research (the **OFR**), began publishing the SOFR Index on 2 March 2020. The SOFR Index is intended to measure the cumulative impact of compounding SOFR on a unit of investment over time, with the initial value set to 1.00000000 on 2 April 2018, the first value date of SOFR. The Federal Reserve Bank of New York reports that the SOFR Index is compounded by the value of each SOFR thereafter, and that as a result, the SOFR Index on a given day is intended to reflect the effect of compounding SOFR across all previous U.S. Government Securities Business Days (as defined in the “*Terms and Conditions of the Notes*”) since 2 April 2018. It also reports that the SOFR Index allows for the calculation of compounded average rates over custom time periods.

The Federal Reserve Bank of New York reports that the SOFR Index is published as a number rounded to the eighth decimal place on each day that SOFR is published, on a dedicated page on its website, shortly after SOFR is published at approximately 8:00 a.m., New York Time. The Federal Reserve Bank of New York notes that the SOFR Index will only be revised on a same-day basis at approximately 2:30 p.m., New York Time, and only if either that day’s SOFR publication were also being revised or an error were discovered in the calculation of the SOFR Index. The Federal Reserve Bank has also published an update to the indicative series of data of the SOFR Index from 2 April 2018 to 2 March 2020. However, investors should not rely on any historical changes or trends in the SOFR Index as an indicator of future changes in SOFR, the SOFR Index, compounded SOFR and/or the liquidity or market price of the Notes.

Further, prospective investors should be aware that the Federal Reserve Bank of New York, in cooperation with the OFR, also publishes 30-, 90-, and 180-day SOFR averages, sometimes referred to as “SOFR averages”, which are referred to as “30-day Average SOFR”, “90-day Average SOFR” and “180-day Average SOFR”. However, if SOFR is specified as the Reference Rate (as defined in the “*Terms and Conditions of the Notes*”) in the applicable Pricing Supplement, the Rate of Interest in respect of the Notes will be determined on the basis of SOFR Compounded Index, and not according to the SOFR average as published. Any determination based on SOFR Compounded Index may diverge from any determination that may have been made based on any published compounded SOFR information.

SOFR is published by the Federal Reserve Bank of New York, in cooperation with the OFR, and is intended to be a broad measure of the general cost of financing Treasury securities overnight. The Federal Reserve Bank of New York reports that SOFR includes all trades used in the Broad General Collateral Rate, plus data on transactions cleared through the Fixed Income Clearing Corporation’s Delivery-versus-Payment (**DVP**) repo service. The Federal Reserve Bank of New York notes that DVP repo transactions with rates below the 25th volume-weighted percentile rate are removed from the distribution of DVP repo data each day. This has the effect of removing some (but not all) transactions in which the specific securities are said to be trading “special”. In addition, the Federal Reserve Bank of New York notes that it excludes trades between affiliated entities, when relevant and when the data to make such exclusions is available. Similarly, it excludes trades negotiated for forward settlement. To the extent possible, “open” trades, for which pricing resets daily, are included in the calculation of SOFR.

The Federal Reserve Bank of New York reports that SOFR is calculated as a volume-weighted median, which is the rate associated with transactions at the 50th percentile of transaction volume.

Specifically, the volume-weighted median rate is calculated by ordering the transactions from lowest to highest rate, taking the cumulative sum of volumes of these transactions, and identifying the rate associated with the trades at the 50th percentile of dollar volume. At publication, the volume-weighted median is rounded to the nearest basis point. The Federal Reserve Bank of New York notes that SOFR is based on transaction-level data collected under the supervisory authority of the Board of Governors of the Federal Reserve System and transaction-level data obtained from DTCC Solutions LLC, an affiliate of the Depository Trust & Clearing Corporation, under a commercial agreement. The Federal Reserve Bank of New York notes on its publication page for SOFR that the use of SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of SOFR at any time without notice.

The Federal Reserve Bank of New York began publishing SOFR in April 2018. The Federal Reserve Bank of New York has also published historical indicative SOFR going back to 2014. Investors should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR.

Prospective investors in the Notes should be aware that the market continues to develop in relation to SOFR as a reference rate in the capital markets and its adoption as an alternative to USD LIBOR. The market or a significant part thereof may adopt an application of SOFR, the SOFR Index or compounded SOFR that differs significantly from that set out in the Conditions and the Issuer may in future issue bonds referencing SOFR, the SOFR Index or Compounded SOFR that differ materially in terms of interest determination when compared with any previous SOFR, SOFR Index or compounded SOFR referenced bonds issued by it. The development of SOFR as an interest reference rate for the bond markets, as well as continued development of SOFR-based rates, indices and averages for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of the Notes. Similarly, if SOFR, the SOFR Index or compounded SOFR do not prove widely used in securities such as the Notes, investors may not be able to sell the Notes at all or the trading price of the Notes may be lower than those of bonds linked to indices that are more widely used.

In addition, the manner of adoption or application of SOFR, the SOFR Index or compounded SOFR in the bond markets may differ materially compared with the application and adoption of SOFR, the SOFR Index or compounded SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR, the SOFR Index or compounded SOFR across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of the Notes. Investors should consider these matters when making their investment decision with respect to any such Notes.

Furthermore, if SOFR is specified as the Reference Rate in the applicable Pricing Supplement, the Rate of Interest in respect of the Notes is only capable of being determined five U.S. Government Securities Business Days immediately prior to the relevant Interest Payment Date (subject as set out in the applicable Pricing Supplement). It may be difficult for investors in the Notes to estimate reliably the amount of interest which will be payable on the Notes, and some investors may be unable or unwilling to trade the Notes without changes to their IT systems, both of which factors could adversely impact the liquidity of the Notes. Further, if the Notes become due and payable, the final Rate of Interest payable in respect of the Notes shall only be determined on the date on which the Notes become due and payable and shall not be reset thereafter.

In addition, as SOFR and the SOFR Index are published by the Federal Reserve Bank of New York based on data received from other sources, the Issuer has no control over their determination, calculation or publication. There can be no guarantee that SOFR and the SOFR Index will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in the Notes. If the manner in which SOFR and/or the SOFR Index is calculated is changed, that change may result in a reduction of the amount of interest payable on the Notes and the trading prices of the Notes. If the definition, methodology, formula, guidelines, or other means

of calculating SOFR and/or the SOFR Index is modified, references to SOFR and/or the SOFR Index shall be to SOFR and/or the SOFR Index as modified. Furthermore, to the extent that the SOFR Index is no longer published, the applicable rate to be used to calculate the Rate of Interest on the Notes will be determined using the alternative methods described in the Conditions (**Fallbacks**). Any of these Fallbacks may result in interest payments that are lower than, or do not otherwise correlate over time with, the payments that would have been made on the Notes if SOFR and/or the SOFR Index had been provided by the Federal Reserve Bank of New York in its current form. In addition, the use of the Fallbacks may result in determinations being made by an Independent Adviser (as defined in the Conditions) or directly by the Issuer, in accordance with the respective applicable Fallbacks. The use of the Fallbacks may also result in a fixed rate of interest being applied to the Notes.

Accordingly, an investment in the Notes may entail significant risks not associated with similar investments in conventional debt securities. Any investor should ensure that it understands the nature of the terms of the Notes and the extent of its exposure to risk, and that it considers the suitability of the Notes as an investment in the light of its own circumstances and financial condition. An investor should consult its own professional advisers about the risks associated with investment in the Notes and the suitability of investing in the Notes in light of its particular circumstances.

Dual Currency Notes have features which are different from single currency issues

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be

- different from the currency in which the Notes are denominated. Potential investors should be aware that the market price of such Notes may be volatile;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of Partly Paid Notes may result in an investor losing all of its investment

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Certain Notes, the interest rate of which may be converted from fixed to floating interest rates and vice-versa, may have lower market values than other Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing.

If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market price of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities

The market value of securities, including the Notes, issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest

rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected

The Issuer will pay principal and interest on the Notes in the currency specified. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the currency in which the Notes are denominated. These include the risk that exchange rates may significantly change (including changes due to devaluation of the currency in which the Notes are denominated or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the currency in which the Notes are denominated would decrease:

- the Investor's Currency equivalent yield on the Notes;
- the Investor's Currency equivalent value of the principal payable on the Notes; and
- the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Majority interests in Noteholder meetings

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Inability to comply with the restrictions and covenants contained in the Issuer's debt agreements

If the Issuer is unable to comply with the restrictions and covenants in its current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, whichever the case may be. Such actions may result in an Event of Default under the Terms and Conditions of the Notes.

RISKS RELATING TO RMB-DENOMINATED NOTES

Notes denominated in RMB (**RMB Notes**) may be issued under the Programme. RMB Notes contain particular risks for potential investors.

RMB is not freely convertible; there are significant restrictions on remittance of RMB into and outside the PRC, which may adversely affect the liquidity of RMB Notes

RMB is not freely convertible at present. The PRC government continues to regulate conversion between RMB and foreign currencies despite significant reduction over the years by the PRC government of control over routine foreign exchange transactions under current accounts. However, remittance of RMB by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on remittance of RMB into the PRC for settlement of capital account items are developing gradually.

Although from 1 October 2016, RMB was added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC government will continue to liberalise control over cross-border RMB remittances in the future, that any pilot schemes for RMB cross-border utilisation will not be discontinued, or that new PRC regulations will not be promulgated in the future to restrict or eliminate the remittance of RMB into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in RMB, this may affect the overall availability of RMB outside the PRC and the ability of the Issuer to source RMB to finance its obligations under the RMB Notes.

There is only limited availability of RMB outside the PRC, which may affect the liquidity of RMB Notes and the Issuer's ability to source RMB outside the PRC to service such RMB Notes

As a result of the restrictions imposed by the PRC government on cross-border RMB fund flows, the availability of RMB outside the PRC is limited. The People's Bank of China (PBOC) has entered into agreements on the clearing of RMB business with financial institutions in a number of financial centres and cities (each an **RMB Clearing Bank**), including Hong Kong, and is in the process of establishing RMB clearing and settlement mechanisms in several other jurisdictions.

However, the current size of RMB-denominated financial assets outside the PRC is limited. There are restrictions imposed by the PBOC on the RMB-business participating banks in respect of cross-border RMB settlement, such as those relating to direct transactions with the PRC enterprises. Furthermore, RMB-business participating banks do not have direct RMB liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC for the purpose of squaring open positions of RMB-business participating banks for limited types of transactions. It is not obliged to square for RMB-business participating banks any open positions as a result of other foreign exchange transactions or conversion services, and RMB-business participating banks will need to source RMB from outside the PRC to square such open positions.

The offshore RMB market is subject to many constraints as a result of the PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the settlement agreements will not be terminated or amended in the future, to restrict the availability of RMB outside the PRC. The limited availability of RMB outside the PRC may affect the liquidity of the RMB Notes. To the extent the Issuer is required to source RMB outside the PRC to service the RMB Notes, there is no assurance that the Issuer will be able to source such RMB or to do so on satisfactory terms.

Investment in RMB Notes is subject to exchange rate risks

The value of RMB against Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. All payments of interest and principal with respect to the RMB Notes will be made in RMB unless otherwise specified. As a result, the value of these RMB payments in Hong Kong dollar or other foreign currency terms may vary with the prevailing exchange rates in the marketplace. If the value of RMB depreciates against Hong Kong dollar or other foreign currencies, the value of RMB Notes investments in Hong Kong dollar or other applicable foreign currency terms will decline.

Investment in RMB Notes is subject to interest rate risk

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. RMB Notes may carry a fixed interest rate. Consequently, the trading price of such RMB Notes will vary with the fluctuations in interest rates. If a holder of RMB Notes tries to sell any RMB Notes before their maturity, they may receive an offer less than the amount invested.

Payments in respect of RMB Notes will only be made to investors in the manner specified in the terms and conditions of the relevant Notes

Investors may be required to provide certifications and other information (including RMB account information) in order to be allowed to receive payments in RMB in accordance with the

RMB clearing and settlement mechanism for RMB-business participating banks in Hong Kong. All payments to investors in respect of RMB Notes will be made solely by: (i) when RMB Notes are represented by global certificates held with the common depository for Euroclear and Clearstream or a sub-custodian for the CMU or a common depository for any alternative clearing system, transfer to an RMB bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of Euroclear or Clearstream or the CMU or the alternative clearing system, or (ii) when RMB Notes are in definitive form, transfer to an RMB bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including, but not limited to, in any other currency, by bank notes, by cheques or drafts or by transferring to a bank account in the PRC).

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer to meet part of its general financing requirements.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets out the capitalisation of the Issuer and its subsidiaries as at 31 December 2022:

	<u>HK\$'000</u>
Short-Term Liabilities	
Debt Issuance Programme Notes due within 1 year	596,368
Medium Term Note Programme Notes due within 1 year	<u>64,490,139</u>
Long-Term Liabilities	
Medium Term Note Programme Notes due after 1 year	<u>65,988,765</u>
Total Loan Capital	<u>131,075,272</u>
Shareholder's Equity	
Share capital 2,000,000,000 shares issued and fully paid	12,000,000
Reserves	<u>8,499,292</u>
Total Shareholder's Equity	<u>20,499,292</u>
Total Capitalisation¹	<u><u>151,574,564</u></u>

Note:

- 1 For the purpose of this Offering Circular, total capitalisation includes total loan capital and shareholder's equity.

As at 31 May 2023, total capitalisation of the Issuer has increased compared to that as at 31 December 2022 mainly due to an increase in debt issuance in order to support the Issuer's core missions and policy initiatives.

Save as disclosed in this Offering Circular, there has been no material change in the capitalisation of the Issuer and its subsidiaries since 31 December 2022.

DESCRIPTION OF THE ISSUER

History and Corporate Structure

The Issuer was incorporated in March 1997 as a public company with limited liability under the Companies Ordinance. The Issuer is wholly owned by the Hong Kong Government through the Exchange Fund (**Exchange Fund**), a fund under the control of the Financial Secretary as provided under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong).

For the purpose of implementing the HKMC Annuity Plan and in compliance with the requirements of the Insurance Authority of Hong Kong, the Issuer had, in 2017, undergone a corporate reorganisation and established two wholly-owned subsidiaries, the HKMCI and the HKMCA to take up the Issuer's general insurance business (including the MIP, the RMP, the PRMP and the SFGS) and to operate the HKMC Annuity Plan respectively.

The Issuer has issued 2 billion shares, fully subscribed and paid up, amounting to HK\$2 billion as at 31 December 2017. On 16 April 2018, the Issuer increased its share capital without allotment of new shares, by HK\$5 billion, fully paid up, to HK\$7 billion. On 28 June 2021, the Issuer increased its share capital without allotment of new shares, by HK\$2.5 billion, fully paid up, to HK\$9.5 billion. On 27 June 2022, the Issuer increased its share capital without allotment of new shares, by HK\$2.5 billion, fully paid up, to HK\$12 billion. The Issuer is expected to increase its share capital by HK\$2.5 billion to HK\$14.5 billion in the remaining period of 2023.

The Issuer is specified as a “public sector entity” under the Banking (Capital) Rules (Cap. 155L of the Laws of Hong Kong) (**Banking (Capital) Rules**). Accordingly, debt securities issued or guaranteed by the Issuer carry a 20 per cent. risk weighting for the purposes of calculating the capital adequacy ratio (**CAR**) of AIs under the standardised (credit risk) approach of the Banking (Capital) Rules. In addition, debt securities issued by the Issuer qualify as “high quality liquid assets” or “liquefiable assets” for the purposes of the Banking (Liquidity) Rules (Cap. 155Q of the Laws of Hong Kong) (**Banking (Liquidity) Rules**) subject to satisfaction of the relevant conditions.

The following timeline shows the major events in the history of the Issuer:

1994	Informal Group on Secondary Mortgage Market was convened by the Hong Kong Monetary Authority in February to study secondary mortgage market in Hong Kong
1996	The Hong Kong Monetary Authority put forward a proposal for the establishment of a mortgage corporation in Hong Kong
1997	The Issuer was established in March and commenced operations in October
1998	The Issuer established its Debt Issuance Programme in June
1999	The Mortgage Insurance Programme was launched in March The Guaranteed Mortgage-backed Pass-through Securitisation Programme was launched in October
2001	The Issuer obtained credit ratings from both Moody's and S&P in July The Issuer launched its retail bonds through appointed placing banks in October The Bauhinia MBS Programme was established in December

2003	Purchase of Civil Servant Housing Loans by the Issuer from the Hong Kong Government in May
	Purchase of Home Starter Loans and Sandwich Class Housing Loans by the Issuer from the Hong Kong Government in December
2004	The Retail Bond Issuance Programme was launched in May
	The 10-year fixed-rate mortgage scheme was launched in November
2007	The Medium Term Note Programme was established in June
2008	The revolving credit facility provided by the Exchange Fund through the Hong Kong Monetary Authority was increased from HK\$10 billion to HK\$30 billion in December
2009	Debut public benchmark issuance of U.S.\$500 million fixed rate notes under the Medium Term Note Programme
2011	The SME Financing Guarantee Scheme was launched in January
	The Reverse Mortgage Programme was launched in July
2012	Special concessionary measures, i.e. the 80 per cent. guarantee product was launched under the SME Financing Guarantee Scheme in May
2017	The Issuer established two wholly-owned subsidiaries, the HKMCI and the HKMCA, to operate the general insurance business and the HKMC Annuity Plan, respectively
2018	The Mortgage Insurance Programme, the Reverse Mortgage Programme, and the SME Financing Guarantee Scheme, were transferred to the HKMCI in May
	The HKMC Annuity Plan was launched in July
2019	The Infrastructure Financing and Securitisation business was launched in January
	The Policy Reverse Mortgage Programme was launched in May
	The 90 per cent. guarantee product was launched under the SME Financing Guarantee Scheme in December
2020	The special 100% loan guarantee under the SME Financing Guarantee Scheme was launched in April
	The Fixed-rate Mortgage Pilot Scheme was launched in May
	The revolving credit facility provided by the Exchange Fund through the HKMA was increased from HK\$30 billion to HK\$80 billion in October
2021	The 100% Personal Loan Guarantee Scheme was launched in April
	The Fixed Rate Mortgage Scheme was converted from a pilot programme into a permanent product in November
2022	The Social, Green and Sustainability Financing Framework of the Issuer was established in September

Issuance of dual-tranche HK\$8 billion 2-year and CNH 3 billion 3-year social bonds in October

2023 The Dedicated 100% Loan Guarantee Schemes for specified sectors were launched in April

The Pilot Infrastructure Loan-Backed Securities were issued in May

Relationship with Principal Subsidiaries

HKMCI

The HKMCI, a wholly-owned subsidiary of the Issuer, was incorporated in June 2017. It has a share capital of HK\$3 billion injected by the Issuer. The HKMCI is an “authorized insurer” under the Insurance Ordinance (Cap. 41 of the Laws of Hong Kong) (**Insurance Ordinance**) carrying on general insurance business, including the MIP, the RMP, the PRMP and the SFGS. Like the Issuer, the HKMCI is specified as a “public sector entity” under the Banking (Capital) Rules.

In 2018, the Issuer and the HKMCI entered into a facility letter pursuant to which the Issuer agreed to provide a credit facility of up to HK\$2 billion to assist the HKMCI in funding its operations in relation to its general insurance business. In the same year, the Issuer issued a parental guarantee in favour of the participating lenders for the HKMCI’s due performance of its obligations under the MIP, the RMP and the SFGS.

HKMCA

The HKMCA, a wholly-owned subsidiary of the Issuer, was incorporated in June 2017. As at the date of this Offering Circular, it has a share capital of HK\$10 billion injected by the Issuer, which was provided by the Hong Kong Government through the Exchange Fund as shareholder of the Issuer. The HKMCA is an “authorized insurer” under the Insurance Ordinance carrying on long term insurance business, namely the HKMC Annuity Plan. Like the Issuer, the HKMCA is specified as a “public sector entity” under the Banking (Capital) Rules.

In 2018, the Issuer and the HKMCA entered into a facility letter pursuant to which the Issuer agreed to provide a credit facility of up to HK\$10 billion to assist the HKMCA in funding its operations in relation to the HKMC Annuity Plan. In the same year, the Issuer, the Monetary Authority and the HKMCA entered into a tripartite capital commitment letter pursuant to which an amount up to HK\$20 billion will be injected into the HKMCA as equity by the Issuer or the Monetary Authority (through capital injection into the Issuer as equity for the purpose of financing the Issuer’s additional capital injection into the HKMCA). The Issuer expects to inject a further HK\$2.5 billion in the remaining period of 2023. The Issuer will also inject such additional funds into the HKMCA as equity if the solvency ratio of the HKMCA falls below a certain percentage.

Relationship with the Hong Kong Government

The Issuer is wholly-owned by the Hong Kong Government through the Exchange Fund. The Financial Secretary currently serves as the Chairman of the Issuer and the Chief Executive of the HKMA is the Deputy Chairman of the Issuer. The posts of Executive Directors and Chief Executive Officer (**CEO**) of the Issuer are occupied by the Financial Secretary or officials of the HKMA.

The Hong Kong Government, through the Exchange Fund, provides the Issuer with a revolving credit facility (**RCF**) of HK\$80 billion as a contingency liquidity tool, of which the facility amount was increased in October 2020 from HK\$30 billion. Such move demonstrates the Hong Kong Government’s recognition of the importance of, and its commitment to provide further support to, the Issuer. In addition to the RCF, the Issuer is entitled to call upon its shareholder for the injection of additional capital of up to HK\$1 billion through the Exchange Fund (if and when needed) pursuant to an arrangement agreed by the shareholder.

Missions

The missions of the Group are to promote the following in Hong Kong:

- stability of the banking sector;
- wider home ownership;
- development of the local debt market; and
- development of retirement planning market.

Principal Business Activities of the Group

The major business activities of the Issuer are:

- to purchase portfolios of mortgages or loans secured on properties or other collateral situated in Hong Kong and to acquire debentures, receivables, financial assets and choses in action of all kinds from their originators, issuers, owners or vendors;
- to acquire, by purchase or otherwise, any assets from government bodies and agencies and related organisations, statutory bodies and public bodies, and to hold, sell, transfer, dispose of and deal in any such assets so acquired;
- to issue debt securities to investors;
- to offer long-term fixed-rate mortgages to homebuyers through participating AIs; and
- to purchase and co-finance infrastructure loans and to securitise such loans at appropriate market conditions.

The major business activities of the HKMCI are:

- to provide mortgage insurance cover to participating lenders in respect of mortgage loans and reverse mortgage loans secured on residential properties, life insurance policies or other assets (if applicable);
- to administer for the Hong Kong Government the 80% SFGS and the 90% SFGS to provide loan guarantee to participating AIs in respect of credit facilities advanced to eligible local non-listed enterprises, including SMEs and businesses with relatively short operating history;
- to administer for the Hong Kong Government the PLGS and the Special 100% SFGS for loans advanced by participating AIs to eligible individuals and eligible local enterprises who have suffered from loss of main recurrent income from employment in Hong Kong or otherwise adversely affected by the outbreak of the COVID-19 pandemic, respectively; and
- to administer for the Hong Kong Government the DLGS for loans advanced by participating AIs to eligible licensed travel agents, registered owners of local tour coaches and cross-boundary passenger transport vehicles and registered owners and operators of cross-boundary ferries.

The major business activity of the HKMCA is to operate the HKMC Annuity Plan.

Business Strategies

The Group adopts the following business strategies in a prudent commercial manner:

- fulfil its strategic roles by reinforcing its business focus in Hong Kong;
- purchase loan assets from various sources such as banks, the Hong Kong Government and related organisations, statutory bodies and public bodies (including their affiliated credit unions) and other sellers (**Approved Sellers** and, if also appointed by the Issuer to provide servicing and other administrative functions in respect of the Issuer's acquired loan portfolio, **Approved Servicers**) from time to time approved by its board of directors (**Board of Directors** or **Board**);
- purchase residential mortgages indexed on fixed adjustable rate and various floating rates such as the Prime Rate, HIBOR (for various reference periods) and the composite interest rate;
- provide mortgage insurance to home buyers through participating AIs;
- offer fixed-rate mortgages to homebuyers through participating AIs;
- purchase and co-finance infrastructure loans, and securitise the loans at appropriate market conditions after accumulating a diversified asset portfolio; and
- expand business scope and reinforce delivery of strategic policy roles through the establishment and enhancements of various schemes and programmes.

Business Environment

Overview of Hong Kong

The Hong Kong Special Administrative Region of the People's Republic of China was established on 1 July 1997. The Basic Law of Hong Kong came into effect on the same day. The Basic Law prescribes the economic, legal and other systems to be practised in Hong Kong.

Under the Basic Law, Hong Kong enjoys a high degree of autonomy except in those matters relating to defence and foreign affairs and other matters outside the limits of Hong Kong's autonomy. Hong Kong exercises executive, legislative and independent judicial power, including that of final adjudication. Hong Kong's executive authorities and legislature are composed of permanent residents of Hong Kong. Hong Kong remains a free port, a separate customs territory and an international financial centre. It may, on its own, using the name "Hong Kong, China", maintain and develop relations, and conclude and implement agreements, with foreign countries and regions as well as international organisations in the appropriate fields, including the economic, trade, financial and monetary, shipping, communications, tourism, cultural and sports fields.

The Basic Law provides that Hong Kong dollar, as the legal tender of Hong Kong, shall continue to circulate. It also provides that no foreign exchange control shall be applied in Hong Kong and that Hong Kong dollar shall remain freely convertible.

Hong Kong as an International Financial Centre

Under the "One Country, Two Systems" principle, the PRC government outlined in the National 14th Five-Year Plan (2021–2025) to support Hong Kong in enhancing its status as a centre of international finance, shipping, trade and world aviation; strengthening its function as a global offshore Renminbi business hub, an international asset management centre and a risk management centre; establishing itself as a centre for international technological innovation, international legal and dispute resolution services in the Asia-Pacific region, and regional intellectual property right trading; endorsing service industries in high-end and high value-added development; and promoting Hong Kong into a hub for arts and cultural interflow between China and the rest of the world. In

relation to the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), the 14th Five-Year Plan mentioned the deepening and widening of mutual access between the financial markets of Hong Kong and Mainland China as well as strengthening exchanges and co-operation on different fronts, and, for the first time, included the Shenzhen-Hong Kong Loop as a major platform of co-operation in the GBA.

The geographic location of Hong Kong together with its emphasis on the rule of law and on the maintenance of a level playing field for market participants and a sound regulatory regime has contributed to shaping it into both a major international financial centre in the region and an important capital formation centre for Mainland China. The absence of exchange control allows free fund flows and also enhances Hong Kong's competitiveness.

Hong Kong's financial markets are characterised by a high degree of liquidity. They operate under effective and transparent regulations in line with international standards. An educated workforce and the ease of entry for foreign professionals also contribute to the development of Hong Kong's financial markets. International financial institutions maintain a strong presence in Hong Kong.

Hong Kong has a mature and active foreign exchange market which forms an integral part of the global market. The Hong Kong stock market is one of the largest in the world and is an important fund-raising platform in the region, especially for Mainland Chinese enterprises.

The Hong Kong asset management industry is characterised by its international flavour, in terms of the presence of both global fund managers and authorised funds. Hong Kong is also a renowned insurance centre with authorised insurers coming from over 20 overseas countries, including Mainland China.

Hong Kong has an interbank payment system which operates through the Real Time Gross Settlement (RTGS) system. All RTGS payments in Hong Kong dollar/U.S. dollar/euro/Renminbi foreign exchange transactions can be settled on a payment-versus-payment basis without any time gap. The CMU is operated by the HKMA to provide a clearing and custodian system for Exchange Fund Bills and Notes (which are Hong Kong dollar debt securities issued by the Hong Kong Government for the account of the Exchange Fund) and other private debt securities. The CMU accepts both Hong Kong dollar and foreign currency denominated debt instruments. It has been fully integrated with interbank payment systems and the RTGS system in Hong Kong enabling settlement in Hong Kong dollar, U.S. dollar, euro and Renminbi-denominated securities on a delivery-versus-payment basis, and is linked up with international central securities depositories like Euroclear and Clearstream to enable overseas investors to trade CMU-settled securities.

As an international financial centre located at the heart of Asia with global connections, Hong Kong provides an established platform for Mainland Chinese enterprises to access international capital through its banking, equity and debt markets. Located in the southern coast of Mainland China, Hong Kong is one of the strategic gateways for global enterprises and investors to explore potential opportunities in Mainland China. Various leading banking and financial institutions of Hong Kong have invested and maintained a strong presence in Mainland China, while correspondingly an increasing number of Mainland Chinese enterprises have sought and obtained listings of their securities in Hong Kong. Over time, demand for a wide range of financial support services provided by Hong Kong would increase with larger trade and investment flows between Mainland China and the rest of the world. In the national development strategy of "Belt and Road Initiative" unveiled in 2013, aiming at the construction of trade and infrastructure networks connecting Asia with different parts of the world, Hong Kong's strategic position is running a functional platform to facilitate the implementation of the Belt and Road Initiative via its pillar industries financial services, trade and logistics, high-end services and tourism, to complement the national strategies to "go global" and "attract foreign investment". In the Outline Development Plan for the GBA introduced by the PRC government in 2019, Hong Kong was given an important role to facilitate and support the economic development of the region and the industries in which Hong Kong's strengths lie in the GBA, capitalising on Hong Kong's strengths to serve the country's needs. As part of the 14th Five-Year Plan, Hong Kong will proactively participate in the domestic circulation and facilitate the international circulation under the "dual circulation" development strategy of the country.

Hard-hit by US-China trade tension and domestic social incidents, the Hong Kong economy entered into a recession in the second half of 2019. The global outbreak of the COVID-19 pandemic during the first quarter of 2020 had further driven the local economy into deep recession. The Hong Kong Government has rolled out a series of stimulus measures to support the economy and the labour market, including measures under the Anti-epidemic Fund and the massive package of countercyclical measures in the Hong Kong Government's budget since 2020. In 2021, Hong Kong economy posted a rebound and resumed positive annual growth with real GDP recording an increase of 6.3% on a year-on-year basis. However, the Hong Kong economy weakened notably in 2022. The economic activities of Hong Kong were first dampened by the fifth wave of the local epidemic and subsequently by the deteriorated external environment and tightened financial conditions. The real GDP of Hong Kong contracted by 3.5% in 2022. Stepping into 2023, the real GDP increased by 2.7% in the first quarter on a year-on-year basis, led by the strong recovery of inbound tourism and domestic demand after the removal of anti-epidemic measures in both Hong Kong and Mainland China. Globally, however, the collapse of a number of financial institutions and other entities in early 2023 has increased the uncertainty of economic outlook and financial market volatility. The inflationary pressures triggered by the resumption of economic activities, challenges of supply chain shortages and surging energy prices may continue to cause volatility in global financial markets. While some central banks have reacted to the rise of inflation by raising their policy rates, the pace and efficacy of these monetary policies remain uncertain. Hong Kong's near-term economic outlook remains very challenging and uncertain, largely hinging upon the evolving global economic conditions, monetary policy tightening in major economies and geopolitical tensions.

Hong Kong Residential Property Market

The following tables relating to the Hong Kong property market are taken from reports published by the Census and Statistics Department (C&SD), the Rating and Valuation Department (RVD), the Housing Department of the Hong Kong Government, the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS). Accordingly, the Issuer accepts no responsibility for the accuracy or completeness of the information contained therein save that the Issuer accepts responsibility for the correct and fair reproduction and presentation of such information.

Housing Market

There were over 2.9 million permanent housing units in Hong Kong as at 31 March 2022, of which private permanent housing and public permanent housing accounted for 56 per cent. and 44 per cent., respectively. The Hong Kong Government promulgated the Long Term Housing Strategy in December 2014 with three major directions: (1) provide more public rental housing units and ensure the rational use of existing resources; (2) provide more subsidised sale flats, expand the forms of subsidised home ownership and facilitate the market circulation of existing stock; and (3) stabilise the residential property market through steady land supply and appropriate demand-side management measures, and promote good sales and tenancy practices for private residential properties. According to the "Hong Kong: The Facts — Housing" published by the Information Services Department of the Hong Kong Government, the Hong Kong Government, based on the latest projection of housing demand, has adopted a housing supply target of 430,000 units for the ten-year period from 2022-23 to 2031-32, with a public-private split of 70:30. Accordingly, the public housing supply target is 301,000 units, comprising 210,000 public rental housing/Green Form Subsidised Home Ownership Scheme units and 91,000 other subsidised sale flats, whereas the private housing supply target is 129,000 units.

According to the latest figures published by the HA as at the date of this Offering Circular, the number of permanent residential flats in Hong Kong as at the dates indicated are as follows:

	As at 31 March				
	2018	2019	2020	2021	2022
	Thousands				
Public permanent housing ¹	1,221	1,246	1,256	1,272	1,287
<i>Rental housing</i>	815	832	834	844	851
<i>Subsidised sale flats</i>	405	414	421	428	437
Private permanent housing ²	1,554	1,575	1,613	1,641	1,662
Overall	<u>2,775</u>	<u>2,821</u>	<u>2,868</u>	<u>2,913</u>	<u>2,949</u>

Notes:

- (1) Figures on stock of flats in public permanent housing are based on the administrative records of the HA and the HS. They cover rental flats and subsidised sale flats of the HA and the HS, but do not include the subsidised sale flats provided by the Urban Renewal Authority (URA).
- (2) Figures on stock of flats in private permanent housing are based on the frame of quarters maintained by the C&SD.

Source: HA

According to the latest figures published by the HA as at the date of this Offering Circular, the number of permanent residential flats built for the periods indicated are as follows:

	For the year ended 31 March				
	2017	2018	2019	2020	2021
	Thousands				
Public permanent housing	14	25	16	14	16
<i>Rental housing</i>	11	20	10	7	13
<i>Subsidised sale flats¹</i>	3	5	7	8	3
Private permanent housing (excluding village houses)	18	21	14	21	14
Overall	<u>32</u>	<u>46</u>	<u>30</u>	<u>35</u>	<u>31</u>

Notes:

- (1) Figures do not include the subsidised sale flats provided by the URA in 2015/16 and 2020/21.

Source: HA

Private Housing

The private permanent housing has an important role to play in meeting the housing needs of the community. As at the end of March 2022, private residential property supply amounted to over 1.6 million units. The Hong Kong Government is the sole supplier of land for private housing development.

Although the Hong Kong Government has no direct control over the supply of private housing, it indirectly affects the housing supply through disposals of new development sites.

The following table sets out the number of private housing units completed (by saleable area in square metres) for the calendar years from 2018 to 2022.

Number of Private Housing Units Completed (Classified by Saleable Area in Square Metres) for the year ended 31 December						
<u>Year</u>	<u>0–39.9</u>	<u>40–69.9</u>	<u>70–99.9</u>	<u>100–159.9</u>	<u>160 & above</u>	<u>Total</u>
2018	7,212	8,237	3,414	1,541	564	20,968
2019	6,622	4,174	1,506	1,025	316	13,643
2020	9,230	7,742	2,779	759	378	20,888
2021	5,251	6,624	2,141	249	121	14,386
2022	9,881	7,668	2,046	1,052	521	21,168

Note: Village houses are excluded from the above table.

Source: Hong Kong Property Review 2023 published by the RVD

Home Ownership

Taking into account both the public and private housing, the home ownership rate in terms of the owner-occupier rate (as defined below) has been recorded at 51.5 per cent. in 2022.

The following table sets out the respective owner-occupier rates for the calendar years from 2018 to 2022.

<u>Year</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Owner-Occupier Rate	49.4%	50.1%	51.8%	51.0%	51.5%

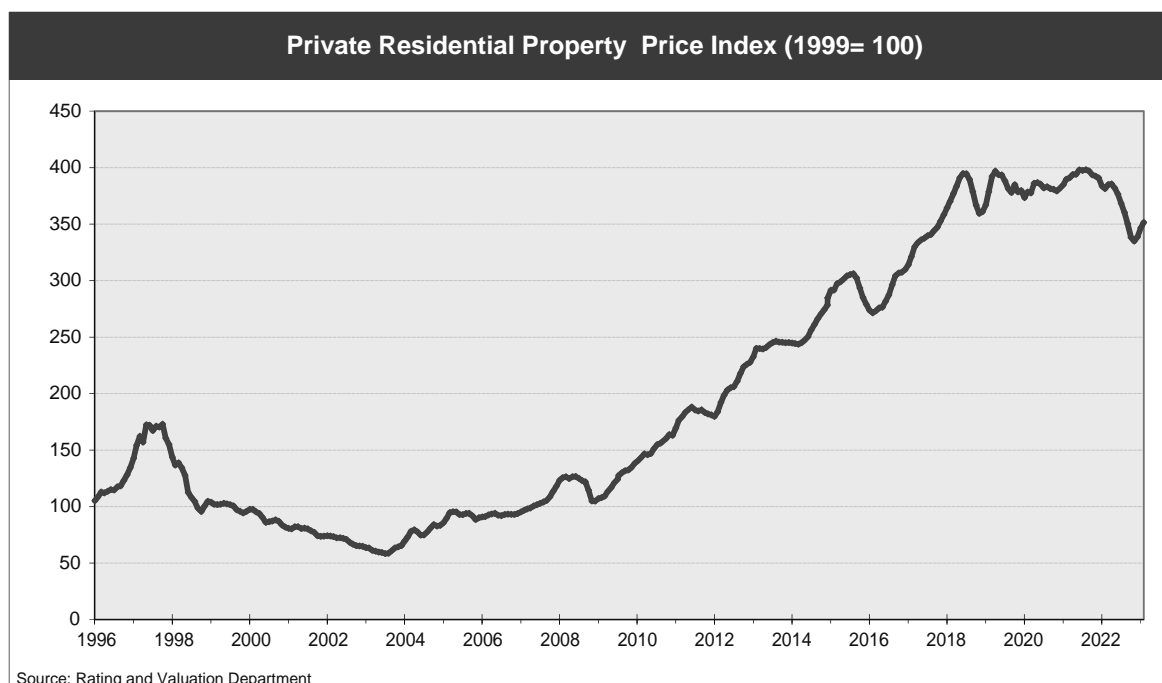
Note: Owner-occupier rate refers to the proportion of domestic households owning the quarters that they occupy.

Source: C&SD

Residential Property Prices

The housing market in Hong Kong showed signs of stabilisation in 2023 as market sentiment revived alongside the resumption of travel between Mainland China and Hong Kong. The overall number of residential property transactions and consideration increased by 82.8% and 148.9% respectively between December 2022 and April 2023.

According to the latest reports published by the RVD, the following chart shows the private residential property price index from 1996 to March 2023:



Hong Kong Mortgage Market

The following chart relating to the Hong Kong mortgage market is taken from reports published by the HKMA. Accordingly, the Issuer accepts no responsibility for the accuracy or completeness of the information contained therein save that the Issuer accepts responsibility for the correct and fair reproduction and presentation of such information.

The residential mortgages in Hong Kong have the following characteristics:

- floating rate, with a Gross Mortgage Rate set at an agreed spread to the Prime Rate;
- fully amortised over the term of the mortgage;
- secured by a first legal charge on the underlying property; and
- maximum term to maturity not exceeding 30 years.

Other than the Prime Rate (also called the Best Lending Rate (**BLR**)) product, banks offer floating rate mortgages using HIBOR or a composite interest rate as the reference rate. The HKMA publishes the composite interest rate on a monthly basis, which is a weighted average interest rate of all Hong Kong dollar interest-bearing liabilities (including deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments) and Hong Kong dollar non-interest bearing demand deposits on the books of banks. Data from retail banks accounting for about 90 per cent. of the total customers' deposits in the banking sector, are used in the calculation.

As an alternative to floating rate mortgages, some banks would offer fixed rates mortgages to the homebuyers. The Issuer introduced Fixed Adjustable Rate Mortgages to the Hong Kong market in 1998, with the objective of assisting potential homebuyers to hedge against the risk of rising interest rates. To provide an alternative financing option to homebuyers for mitigating their risks arising from interest rate volatility, the Issuer launched a scheme of fixed-rate mortgages for 10, 15 and 20 years in May 2020 (see "*Description of the Issuer — Business Overview — Fixed Rate Mortgage Scheme*").

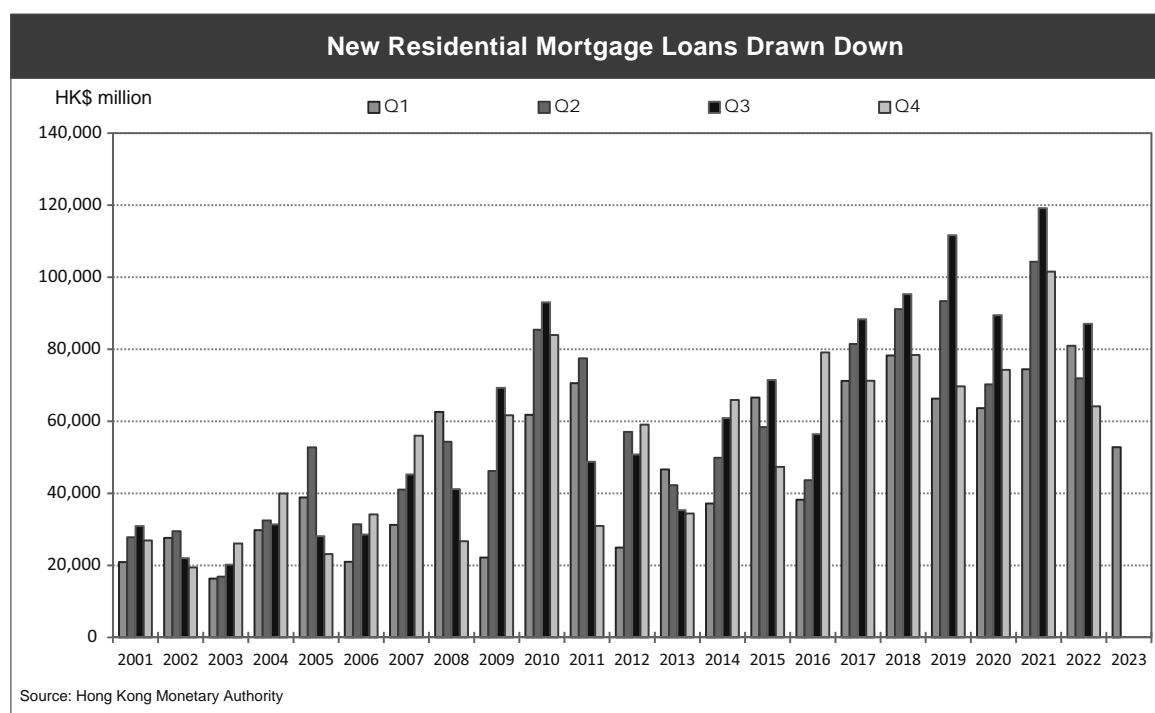
The mortgage rate in Hong Kong has gradually increased since September 2022 alongside interest rate hikes by the Federal Open Market Committee in the United States, but is still relatively low under the keen competition in the mortgage market. According to the latest figures published by the HKMA as at the date of this Offering Circular, by April 2023, 93.9 per cent. of new mortgage loans were priced with reference to HIBOR while only 2.9 per cent. were benchmarked to BLR.

AIs under the supervision of the HKMA are the major mortgage providers in Hong Kong. The HKMA as the regulator has issued guidelines to AIs concerning the origination of residential mortgage loans. The objective was to ensure that the mortgage business of AIs was conducted in accordance with prudent lending criteria, with sufficient emphasis placed on proper risk management. The HKMA would conduct on-site examinations from time to time in order to ensure compliance by AIs with applicable guidelines. Lending policies, underwriting practices, procedures in compliance with guidelines concerning the maximum loan-to-value ratio, as well as the quality of risk management arrangements, would be assessed.

Given the relatively good performance of mortgage loans compared to the other assets in the banking sector, AIs are keen to provide mortgage financing to homebuyers. Traditionally, the mortgage market in Hong Kong has been dominated by several major players.

Based on the HKMA's quarterly statistics, the total outstanding value of mortgage loans as at 31 December 2022 amounted to around HK\$1,914.7 billion, representing about 24.8 per cent. of the total loans drawn (from which loans for trade financing are excluded), which comprised HK\$106.33 billion in loans to finance the purchase of public subsidised sale flats and HK\$1,808.37 billion to finance the purchase of private residential properties. The gross new mortgage loans originated in 2022 amounted to HK\$304 billion.

The following chart shows the new residential mortgage loans (by quarter) for years 2001 to 2022 and the first quarter of 2023.



Business Overview

Financial Performance

For the year ended 31 December 2022, the Group reported a net loss of HK\$319 million (2021: net profit of HK\$831 million). The accounting loss was primarily due to lower investment income of the annuity business generated from its placements with the Exchange Fund and a foreign exchange loss arising from strategic offshore Renminbi exposures in cash and debt investments amid uncontrollable market conditions, partly mitigated by the increase in amortisation of net premium receipts from the mortgage insurance business amid significant growth in prior years, together with the drop in upfront commission expenses along with the decrease in the mortgage insurance business in 2022, see “*Directors’ Report — Business Review — Financial Performance*” of the audited consolidated financial statements of the Issuer as at end for the year ended 31 December 2022 on page F-7 for further information.

Business Areas

Purchase Activities

The Issuer may buy loans from the Approved Sellers under the Mortgage Purchase Programme (MPP). The Issuer has a list of 34 Approved Sellers as at 31 May 2023. To pay for these assets, the Issuer uses funding obtained primarily through the issuance of debt securities. The Issuer earns the difference between the interest paid to it on the loans and the funding costs.

The Issuer assesses each asset portfolio submitted by an Approved Seller on a case-by-case basis. The Issuer adheres to a four-pronged approach to maintain the quality of its loan assets:

- careful selection of Approved Sellers;
- prudent eligibility criteria for asset purchase;
- effective due diligence review process; and
- enhanced protection for higher-risk transactions (See “*Description of the Issuer — Risk Management — Credit Risk*”).

A risk-based pricing model is adopted to determine the pricing terms and the deal may be closed at par or at a discount or premium.

When an Approved Seller has determined that its mortgage loans fulfil the relevant purchasing criteria laid down by the Issuer (for example, owner occupancy, debt-to-income ratio, delinquency record, etc.), it can offer those loans for sale to the Issuer. It normally takes approximately 15 business days to complete a loan purchase, starting from the submission of an offer by an Approved Seller to the settlement of the loan purchase. When submitting its offer, an Approved Seller will be required to provide information such as the aggregate outstanding principal balance of the loan and the total number of loans offered. The Issuer will make use of the particulars of loans as one of the tools in identifying non-compliance with some purchasing criteria. The Issuer will either accept or reject the offer by issuing an acceptance notice or rejection notice to the relevant Approved Seller.

In fulfilling its role as a liquidity provider, the Issuer has since 2006 purchased non-residential mortgage assets and non-mortgage assets such as hire-purchase assets in Hong Kong, which also serves to broaden the Issuer’s sources of asset acquisition.

In 2022, the Issuer purchased approximately HK\$33.4 billion of loans under the Special 100% SFGS, in addition to infrastructure loans of approximately HK\$4.0 billion and residential mortgages of approximately HK\$0.3 billion. As at 31 December 2022, the size of the Issuer’s loan portfolio, net of impairment allowances and before taking into account loans under the Special 100% SFGS of HK\$90.1 billion, amounted to HK\$11.5 billion. The Issuer has not purchased any sub-prime mortgages.

Fixed Rate Mortgage Scheme

To provide an alternative financing option to homebuyers for mitigating their risks arising from interest rate volatility, the Issuer has introduced a scheme for fixed-rate mortgages for 10, 15 and 20 years in May 2020. Under the scheme, the mortgage loans would be purchased by the Issuer from the participating AIs after their origination and in some cases, HMML would be the servicer of such loans.

Microfinance Scheme

To provide a sustainable microfinance scheme in Hong Kong and at the direction of the Financial Secretary in the 2011–2012 Budget Speech and the 2012–2013 Budget Speech, the Issuer introduced the MFS in 2012 in collaboration with banks and non-governmental organisations.

Under the MFS, loans were offered by participating banks themselves and/or funded by HMML to applicants who wished to start their own businesses, become self-employed or achieve self enhancement through training, upgrading of skills or obtaining professional certification. The MFS provided supporting services including mentorship and entrepreneurial training to business starters and self-employed persons as required in order to enhance their ability to run businesses.

The acceptance of loan applications under the MFS has ceased since the end of 2019 and for the duration of the MFS, a total of 223 loans with a total loan amount of HK\$56.1 million had been approved.

Infrastructure Financing and Securitisation

The Issuer launched the IFS business in 2019 to accumulate infrastructure loan assets and develop the IFS brand of the Issuer. In the early stage, the Issuer purchases and accumulates infrastructure loans from the secondary loan market, as well as co-finances infrastructure projects with multilateral development banks and commercial banks in the primary market. The Issuer continues to participate in a step-by-step manner in the infrastructure financing market on commercially viable and financially sustainable terms, while observing prudent commercial principles and risk management policies. In response to the rapidly changing macro-economic environment, the Issuer has taken a prudent approach with corresponding adjustment in its asset acquisition strategy and will remain vigilant on their development.

Since the launch of the IFS business to 31 December 2022, the amount of infrastructure loan drawn under the Issuer's infrastructure loan portfolio amounted to U.S.\$1.3 billion. The Issuer's infrastructure loans are located in the Asia Pacific, Middle East and Latin America regions. The Issuer continues to team up with industry players to facilitate the development of commercially viable infrastructure projects globally, leveraging on the master cooperation agreement with International Finance Corporation, and memoranda of understanding with China Export & Credit Insurance Corporation and 20 other investment and commercial banks.

On 30 May 2023, the Issuer, via Bauhinia ILBS 1 Limited (a special purpose vehicle established for the pilot ILBS issuance), completed a publicly rated securitisation transaction which consists of multiple classes of U.S. dollar-denominated ILBS Notes backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with an issuance size of U.S.\$404.8 million. The ILBS Notes (except for the subordinated notes) are listed on The Stock Exchange of Hong Kong Limited and offered to professional investors only. The Issuer has multiple roles in this transaction, including acting as the sponsor, retention holder of the subordinated notes of the ILBS Notes and collateral manager.

Mortgage Insurance Programme

To meet public demand for mortgage loans in excess of the mortgage lending limit imposed by the HKMA, the MIP was introduced by the Issuer in March 1999. Since 1 May 2018, the HKMCI is

the insurer under the MIP (**MIP Insurer**) and provides mortgage insurance cover for a fee on loans advanced by participating AIs secured by a first legal charge on residential property or equitable mortgage loans secured on residential properties under construction.

Generally, participating AIs conduct their credit assessments for each application prior to its submission to the MIP Insurer. The MIP Insurer, at its sole discretion, approves the applications in accordance with the relevant eligibility criteria. To reduce its risk exposure under the MIP portfolio, the MIP Insurer transfers a portion of the risk-in-force in its MIP portfolio to its Approved Reinsurers by way of a quota sharing reinsurance arrangement.

In October 2019, in order to provide assistance to first-time homebuyers (i.e. persons without any residential property in Hong Kong at the time of application) with immediate housing needs, the HKMCI announced amendments to the MIP. Under such amendments, the amount of mortgage insurance coverage provided by the MIP Insurer in respect of completed residential properties with property value of up to HK\$10 million and HK\$8 million was 80% and 90%, respectively, of the value of the property on which the loan was secured. In February 2022, the HKMCI made further amendments to the MIP and in respect of properties eligible for MIP coverage with mortgage loans of loan-to-value ratio up to (i) 80%, the property value cap was raised to HK\$12 million from HK\$10 million, and (ii) 90%, the property value cap was raised to HK\$10 million from HK\$8 million (for first-time homebuyers only).

The volume of loans drawn down under the MIP decreased to HK\$107.2 billion in 2022 from HK\$132.6 billion in 2021. In the first five months of 2023, the volume of loans drawn down was HK\$38.9 billion.

SME Financing Guarantee Scheme

In response to proposals from stakeholders for a sustainable, market-oriented platform to provide guarantees for SME loans, the Issuer launched the SFGS on 1 January 2011, dovetailing the expiry of the Special Loan Guarantee Scheme which was introduced in December 2008 in the midst of the financial tsunami and administered by the Hong Kong Government until the end of 2010. The SFGS lowers banks' credit risks when lending to SMEs, and, in line with the mission of the Group, help maintain the stability of the banking sector. The SFGS offers guarantee products with different guarantee protection coverages (50 per cent., 60 per cent. and 70 per cent.) at commercial guarantee fees, providing flexibilities for SMEs to meet their funding needs.

To help tide SMEs and business with less operating history over financing difficulties as a result of the uncertain global economic environment, the Hong Kong Government entrusted the HKMCI to launch the time-limited 80% SFGS and 90% SFGS in May 2012 and December 2019 respectively. The time-limited Special 100% SFGS launched in April 2020 was specifically aimed to ease the cash flow problem of eligible enterprises adversely affected by the outbreak of the COVID-19 pandemic with a view to alleviating the financial burden of paying employee wages and rents by eligible enterprises which are suffering from reduced income, and to help minimise businesses shutting down and layoffs.

The 80% SFGS, 90% SFGS and the Special 100% SFGS are backed by the Hong Kong Government's guarantee commitment of 80 per cent., 90 per cent. and 100 per cent. of eligible credit facilities granted by participating AIs. The HKMCI is the scheme administrator of the SFGS and the participating AIs are responsible for conducting customer due diligence and verification of the borrower's eligibility using their professional skill, judgement and care. In respect of loans drawn down under the Special 100% SFGS, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans under the Special 100% SFGS, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted credit facilities under the SFGS. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the Special 100% SFGS.

The HKMCI administers the SFGS on prudent commercial principles and at concessionary guarantee fees, except for the Special 100% SFGS which is offered free of any guarantee fees. All guarantee fees received are set aside to pay related default claims and out-of-pocket expenses of the HKMCI in administering the SFGS.

In the Hong Kong Government's 2023-24 Budget Speech, the Hong Kong Government announced an extension of the application period of the 80% SFGS, the 90% SFGS and the Special 100% SFGS from the end of June 2023 to the end of March 2024. On 23 June 2023, the HKMCI announced the application period for the principal moratorium arrangement under the 80% SFGS, the 90% SFGS and the Special 100% SFGS will be further extended to end on 30 September 2023. The maximum principal moratorium period of 42 months would remain unchanged.

As at 31 May 2023, the HKMCI had approved a total loan amount of around HK\$252 billion under the SFGS, benefiting more than 56,000 SMEs and 742,000 related employees, including more than 62,700 applications and more than HK\$128 billion of loans had been approved under the Special 100% SFGS.

100% Personal Loan Guarantee Scheme

Following the Hong Kong Government's announcement in the 2021-22 Budget Speech, the HKMCI, backed by the Hong Kong Government's 100% financial commitment, launched the time-limited PLGS in April 2021. The PLGS aims at providing a supplementary source of financing option to eligible individuals who are suffering from loss of main recurrent income from employment in Hong Kong to tide over the interim difficulties during the COVID-19 pandemic.

Loans under the PLGS are originated by participating AIs in accordance with the eligibility criteria for the PLGS. The HKMCI is the scheme administrator of the PLGS and the participating AIs are responsible for conducting customer due diligence and verification of the borrower's eligibility using their professional skill, judgement and care. In respect of loans drawn down under the PLGS, the Issuer, with funding provided by the Hong Kong Government, purchases such loans from the participating AIs on a without recourse basis.

The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans respectively, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted loans. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the PLGS.

The PLGS was further enhanced in 2022 to provide further cash flow relief to eligible individuals in Hong Kong by extending its application period to the end of April 2023 as well as increasing the maximum loan amount per eligible borrower, and extending the loan repayment period and the maximum duration of principal moratorium.

The PLGS application period ended on 30 April 2023. Since the launch of the PLGS up to 31 May 2023, the HKMCI had approved more than 66,800 applications for a total loan amount of more than HK\$4.65 billion.

Dedicated 100% Loan Guarantee Schemes for Specified Sectors

Following the Hong Kong Government's announcement in the 2023-24 Budget Speech, the HKMCI, backed by the Hong Kong Government's 100% guarantee commitment, launched the time-limited DLGS on 29 April 2023. The DLGS aims to provide 100% guaranteed loans to eligible borrowers who are licensed travel agents, registered owners of local tour coaches and cross-boundary coaches and hire cars and registered owners and operators of cross-boundary ferries in Hong Kong with a view to resolving their short-term funding difficulties, hiring staff, accelerating operational capability (including any necessary vehicle or ferry repair and maintenance), in order for them to resume services as soon as possible in anticipation of the resumption of inbound and outbound tourism activities in Hong Kong.

Loans under the DLGS are originated by the participating AIs in accordance with the eligibility criteria for the DLGS for the relevant sectors. The HKMCI is the scheme administrator of the DLGS and the participating AIs are responsible for conducting customer due diligence and verification of the borrower's eligibility using their professional skill, judgement and care. In respect of loans drawn down under the DLGS, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis.

The Hong Kong Government pays, via the HKMCI, a one-off origination fee and ongoing servicing fee to the participating AIs for the origination and servicing of the loans under the DLGS, and reimburses necessary enforcement and debt recovery expenses incurred by the participating AIs on defaulted loans under the DLGS. The Hong Kong Government also pays ongoing administrative fees to the HKMCI for administering the DLGS.

Since the launch of the DLGS and up to 31 May 2023, the HKMCI had approved six applications for a total loan amount of HK\$7.5 million.

Reverse Mortgage Programme

Given the ageing population in Hong Kong, the Issuer launched the RMP in July 2011. A reverse mortgage under the RMP is a loan arrangement which enables elderly people to use their residential properties as collateral to borrow a stream of monthly payouts from a lender. The RMP provides an alternative cash flow for the elderly to improve their quality of life while staying in their own homes. Under the RMP, a borrower may opt to receive the monthly payouts over a fixed payment term or over his lifetime, and may also borrow lump-sum loan(s) to suit the personal needs of the relevant borrower. In October 2016, the Issuer extended the RMP to cover the subsidised sale flats with unpaid land premium for eligible borrowers aged 60 or above. The RMP has been operated by the HKMCI since 1 May 2018.

In general, the borrower does not need to repay the reverse mortgage loan during his lifetime unless the reverse mortgage loan becomes due and payable upon the death of the borrower or the occurrence of certain maturity events. When a reverse mortgage becomes due and payable, the lender is entitled to sell the property to recover the outstanding loan amount. If the sale proceeds from the property exceed the outstanding loan amount, the lender will return the surplus to the borrower or his inheritors. If there is any shortfall, such shortfall will be borne by the HKMCI under an insurance arrangement between the lender and the HKMCI. HMML is a lender under the RMP.

By the end of 2022, 6,094 RMP applications have been approved, with an average property value of about HK\$5.9 million and an average monthly payout amount of HK\$17,700.

Policy Reverse Mortgage Programme

To provide elderly people in Hong Kong with an alternative option of retirement planning product, the HKMCI launched the PRMP in May 2019 by replicating the business model of the RMP. A policy reverse mortgage under the PRMP is a loan arrangement which enables borrowers aged 55 or above to use their life insurance policy as collateral to borrow a stable stream of monthly payouts from a lender. Under the PRMP, a borrower may choose to receive the monthly payouts over a fixed period of time or throughout his entire life (but no later than the maturity of the life insurance policy) and may also borrow lump-sum loans to suit the personal needs of the relevant borrower.

In general, the borrower does not need to repay the policy reverse mortgage loan during his lifetime unless the policy reverse mortgage loan is terminated under certain specific circumstances, such as the death of the borrower. When a policy reverse mortgage has become due and payable, the lender is entitled to enforce the relevant life insurance policy assignment to repay the outstanding loan amount by using the money received under the life insurance policy, such as the death benefit. If there is any surplus after such repayment, the lender will pass such surplus to the borrower or his inheritors. If there is any shortfall, such shortfall will be borne by the HKMCI under an insurance arrangement between the lender and the HKMCI. HMML is a lender under the PRMP.

HKMC Annuity Plan

Owing to the rapidly ageing population of Hong Kong, enhancing the quality of living of the elderly after their retirement is one of the key policy focuses of the Hong Kong Government. In light of the elderly's increasing demand for retirement financial planning support, the Financial Secretary announced in the 2017-18 Budget Speech in February 2017 that the Issuer had started studying the design and feasibility of a public annuity scheme.

In June 2017, the Issuer established the HKMCA, a wholly-owned subsidiary of the Issuer to carry on long term insurance business and operate the HKMC Annuity Plan which provides immediate lifetime guaranteed monthly payout to the elderly annuitants with a lump-sum premium. Placements are made to the Exchange Fund as capital and premium investments of the HKMCA.

The HKMC Annuity Plan was launched in July 2018. As at the end of 2022, a total of 17,529 policies were issued under the HKMC Annuity Plan with a total premium receipt of around HK\$12.5 billion and an average premium receipt of around HK\$712,000 for each policy.

Audit Committee

The Audit Committee is responsible for reviewing the Issuer's financial statements, the composition and accounting principles adopted in such statements, the results of the financial audits and the Issuer's management procedures to ensure the adequacy or effectiveness of its internal control system.

The Audit Committee holds regular meetings with the management, the Chief Internal Auditor and the external auditor of the Issuer. Special meetings may also be called to review significant control or financial issues.

Environmental, Social and Governance Committee

The Issuer established the Environmental, Social and Governance Committee (**ESGC**) in 2021 to lead the Group's sustainability efforts and oversee environmental, social and governance (**ESG**) management as part of the Group's overall business strategy.

The ESGC is responsible for reviewing, approving and updating the Group's ESG strategy, policies and plans, monitoring the ESG trends and issues that are material to the Group and overseeing the implementation of the Group's ESG strategy. It will also evaluate the performance of the Group in achieving its ESG-related goals and targets. Regular reports will be made to keep the Board of the Issuer informed of the Group's progress on ESG matters.

The ESGC is chaired by the CEO of the Issuer and its members include the CEOs of the HKMCA and the HKMCI and senior staff from the relevant functional departments of the Group. The ESGC holds regular meetings to discuss and formulate major directions on ESG matters, and is supported and advised by a number of working groups at staff level covering various ESG-related matters.

In 2021, the ESGC approved the adoption of the Group's ESG Statement and ESG Guiding Principles which guide the Issuer's approach to incorporating ESG factors in to its operations. Both the ESG Statement and ESG Guiding Principles will be subject to regular review to keep pace with ESG developments globally and in Hong Kong.

Environmental

The Issuer believes that by integrating ESG considerations, including climate-related factors, in its investment, lending and business decision-making, it can help create sustainable value for the Group in the long-term and contribute to the development of a more sustainable world and reduce its ESG-related risks.

In 2021, the Issuer adopted the Responsible Investment, Lending and Business Decision-making Principles which set out the framework for the Issuer's implementation of responsible investment, lending and business decision-making strategies. Through ESG integration, the Group identifies and evaluates ESG factors in its decision-making processes which include standard risk assessment and thematic investment, lending and business activities.

In addition, the Issuer also supports and implements various green measures to create a more environmentally-friendly office and is committed to raising staff awareness of methods of waste reduction and energy conservation by adopting measures to reduce waste, paper and energy consumption for a greener earth.

Social

The Issuer is committed to creating, promoting and maintaining an environment which provides equal opportunities for staff in all areas of human resources management, including recruitment, terms and conditions of employment, promotion, compensation and benefits, and training as well as corporate-sponsored social and recreational programmes. As an equal opportunities employer, the Issuer maintains an Equal Opportunities Policy and provides various facilities to cater for the needs of different staff. The Group also implements gender-neutral and disability-inclusive recruitment and promotion practices which are underpinned by competency-based assessments and evaluations.

The Issuer attracts and grooms talent to ensure the efficient performance of its core missions of promoting stability of the banking sector, wider home ownership, development of the local debt market and development of the retirement planning market. The Issuer recognises the importance of ongoing training and well-being of its staff and devotes appropriate resources to establish and arrange programmes to enhance its staff's professional knowledge and skills, health and safety, well-being, job satisfaction and healthy work-life balance to promote an enriching working environment.

Governance

The Issuer consistently practises strong governance in the pursuit of its core missions and business objectives and maintains a high standard of corporate governance to assure stakeholders that their rights and interests are well protected.

The Issuer has in place internal policies as well as arrangement of regular compliance training and testing for its staff in the areas of anti-corruption, anti-money laundering, counter-terrorist financing and sanctions, privacy and information security, anti-fraud and whistleblowing and competition matters to ensure it conducts its business and operations with high standards of ethics, honesty and integrity and in accordance with applicable laws and regulations.

Corporate Governance

The Issuer's corporate governance practices are set out in the "Corporate Governance Code" (**Corporate Governance Code**) approved by the Board of Directors. Annual assessments are conducted internally by the Issuer to ensure its compliance with the Corporate Governance Code, and a Corporate Governance Report is published in the Issuer's Annual Report. The Corporate Governance Code and the Corporate Governance Report are available on the website of the Issuer and accessible by the public.

Human Resources

The Issuer devotes considerable training resources to equip its employees with professional knowledge and skills. It has also established various channels to enhance communication within the corporation. In general, the Issuer considers its relationship with its employees to be good. The Group had a total of 379 permanent employees as at 31 December 2022, among which 189 were staff employed by the Issuer.

Legal Proceedings

The Issuer is not involved in any legal proceedings which may have or have had in the 12 months preceding the date of this Offering Circular a significant effect on the financial position of the Issuer.

Regulatory Status

The Issuer is not a bank and therefore neither requires nor holds a banking licence under the Banking Ordinance. Nevertheless, the Issuer is specified as a “public sector entity” under the Banking (Capital) Rules. Accordingly, debt securities issued or guaranteed by the Issuer carry a 20 per cent. risk weighting for the purposes of calculating the CAR of AIs under the standardised (credit risk) approach of the Banking (Capital) Rules. In addition, debt securities issued by the Issuer also qualify as “high quality liquid assets” or “liquefiable assets” for the purposes of the Banking (Liquidity) Rules subject to satisfaction of the relevant conditions. Furthermore, the Issuer is subject to guidelines issued by the Financial Secretary in respect of maintaining a minimum CAR of 8 per cent. in connection with its business (**Guidelines on CAR**).

Each of the HKMCI and the HKMCA is an “authorized insurer” under the Insurance Ordinance. Accordingly, their insurance and loan guarantee businesses are subject to the regulatory requirements of the Insurance Ordinance and the supervision of the Insurance Authority of Hong Kong.

Each of the Issuer, the HKMCI and the HKMCA is designated as a “public body” under the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong). As such, their employees are subject to certain standards of behaviour specifically required for public servants.

Assets and Liabilities

Asset Composition

Loan Types

The following table sets out the Issuer’s loan portfolio by type after allowances as at the dates indicated.

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Residential mortgage portfolio	3,781,115	3,623,063
Non-mortgage portfolio		
Infrastructure loans	7,576,696	4,813,509
Others	112,321	139,717
	<u>11,470,132</u>	<u>8,576,289</u>
Allowance for loan impairment		
Residential mortgage portfolio	(564)	(120)
Non-mortgage portfolio		
Infrastructure loans	(12,522)	(4,707)
Others	(1,588)	(649)
	<u>(14,674)</u>	<u>(5,476)</u>
	<u>11,455,458</u>	<u>8,570,813</u>

Asset Quality

The Issuer endeavours to maintain its asset quality by adopting the approach described under “Description of the Issuer — Business Overview — Business Areas — Purchase Activities”.

The following table sets out details of the Issuer’s loan portfolio as at the dates indicated.

	As at 31 December	
	2022	2021
Overall Portfolio¹		
Delinquency ratio ²	0.05%	0.04%
Combined delinquency and rescheduled loan ratio ³	0.08%	0.08%
Hong Kong Residential Mortgage Portfolio[^]		
Delinquency ratio ²	0.16%	0.11%
Combined delinquency and rescheduled loan ratio ³	0.28%	0.20%
Loan-to-value ratio at origination (weighted average) ⁴ ..	75.5%	76.4%
Debt-to-income ratio at origination (weighted average) ⁴ ..	36.1%	35.6%
Hong Kong Non-Residential Mortgage Portfolio and Non-Mortgage Assets		
Delinquency ratio ²	0.00%	0.00%
Combined delinquency and rescheduled loan ratio ³	0.004%	0.004%
MIP Portfolio		
Delinquency ratio ²	0.01%	0.008%
Combined delinquency and rescheduled loan ratio ³	0.01%	0.008%

Notes:

- (1) The Issuer’s Overall Portfolio includes the Issuer’s Hong Kong Residential Mortgage Portfolio, Hong Kong Non-residential Mortgage Portfolio and Non-Mortgage Assets only.
- (2) Delinquency ratio in relation to a portfolio refers to the ratio of the total outstanding principal amount* of loans overdue for more than 90 days in such portfolio (excluding loans with credit enhancement in the case of the Issuer’s Hong Kong Residential Mortgage Portfolio, Hong Kong Non-residential Mortgage Portfolio and Non-Mortgage Assets) to the total outstanding amount of loans* in such portfolio.
- (3) Combined delinquency and rescheduled loan ratio in relation to a portfolio is the sum of delinquency ratio and rescheduled loan ratio of such portfolio. Rescheduled loan ratio in relation to a portfolio refers to the ratio of the total outstanding principal amount* of loans (excluding loans with credit enhancement) in such portfolio (which have been restructured and re-negotiated with borrowers because of deterioration in the financial position of the borrower or the inability of the borrower to meet the original repayment schedule, and for which the revised repayment terms, either of interest or the repayment period, are non-commercial) to the total outstanding principal amount of loans* in such portfolio.
- (4) Including first mortgage loans purchased from banks only.
- [^] Excluding reverse mortgages
- * HKMC’s participation amount for loans under the MFS

Impaired Loans and Allowance for Loan Impairment

The following table sets out details of the Issuer’s impaired loans as at the dates indicated.

	As at 31 December	
	2022	2021
	HKS’000	HKS’000
Gross impaired loan portfolio	2,978	511
Allowance for loan impairment	(1,447)	(511)
	<u>1,531</u>	<u>—</u>
Allowance for loan impairment as a percentage of gross impaired loan portfolio	<u>49%</u>	<u>100%</u>
Gross impaired loan portfolio as a percentage of gross loan portfolio	<u>0.03%</u>	<u>0.01%</u>

The following table sets out details of the Issuer's allowance for loan impairment as at the dates indicated.

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
As at 1 January	5,476	2,456
Loans purchased and repayment	7,815	2,953
Net measurement of impairment arising from		
transfer of stage	5	104
Movement due to changes in credit risk	1,529	63
Recoveries of loans not written off	(67)	(100)
	9,282	3,020
Write-offs	(84)	—
As at 31 December	<u>14,674</u>	<u>5,476</u>
	As at 31 December	
	2022	2021
Total allowance for loan impairment as a percentage of		
the gross loan portfolio	<u>0.13%</u>	<u>0.06%</u>

Credit Management Policies

Credit risk is the primary risk exposure for the Issuer. It represents the risk of default of loan borrowers or other counterparties which could lead to potential losses for the Issuer.

As at 31 December 2022, the combined delinquency (payments overdue for over 90 days) and rescheduled loan ratio of the Issuer's overall portfolio was 0.08 per cent, and the combined delinquency and rescheduled loan ratio for the Hong Kong residential mortgage portfolio of the Issuer was 0.28 per cent.

The Issuer's credit risk management framework comprises two committees, the Credit Committee and the Transaction Approval Committee (see "*Description of the Issuer — Risk Management — Credit Risk*" below).

Funding and Liquidity

The Issuer's primary funding strategy is to secure sufficient, stable, diverse and cost-effective funding sources from both local and overseas markets and to achieve an optimal funding mix. The Issuer adopts a proactive strategy to minimise funding and hedging costs in compliance with prudent risk limits set by its Asset and Liability Committee (ALCO).

The Issuer obtains funding mainly through issuance of debt securities. The Issuer has adopted a systematic approach to develop its debt issuance capability for financing loan asset purchases and other working capital requirements.

In September 2022, the Issuer established its Social, Green and Sustainability Financing Framework (SGS Framework) as part of its extended effort to expand and implement its sustainability strategy as an integral part of its business strategy. The SGS Framework focuses on the sustainable initiatives of the Issuer and its subsidiaries and demonstrates how the Issuer and its subsidiaries support, and are aligned with, Hong Kong's long-term sustainability visions. The Issuer intends to use the SGS Framework as the basis to structure and issue social, green and/or

sustainability bond(s) and asset-backed securities. Net proceeds will be allocated to support projects falling within one or more of the eligible social asset categories or eligible green asset categories. The Issuer received an opinion on the SGS Framework from Morningstar Sustainalytics, a globally-recognised provider of ESG research, ratings and data, that the SGS Framework is credible and impactful and aligns with the relevant industry standards.

Debt Issuance Programme

In 1998, the Issuer established the Debt Issuance Programme (**DIP**) to raise Hong Kong dollar funds. The DIP is targeted at institutional investors in the Hong Kong dollar debt market. It was set up with an initial programme size of HK\$20 billion which was subsequently increased to HK\$40 billion in 2003. The DIP provides a flexible and efficient platform for the Issuer to issue debts with tenors up to 15 years.

As at 31 December 2022, the total outstanding amount of debt securities issued under the DIP was HK\$0.6 billion.

Retail Bond Issuance Programme

The Issuer introduced a new fund-raising channel by accessing the retail public with a bond issue in November 2001. The Issuer established the HK\$20 billion Retail Bond Issuance Programme (**RBIP**) and made its debut issue in June 2004.

Under the RBIP, the banks acting as the placing banks use their retail branch networks to place debt securities issued by the Issuer to retail investors in denomination of HK\$50,000 or as specified from time to time.

Since 2001, the Issuer has issued retail bonds totalling HK\$13.7 billion. All retail bonds had been redeemed by September 2016.

Medium Term Note Programme

The Issuer established the multi-currency Programme in June 2007 with an initial programme size of U.S.\$3 billion to raise funds in the international capital markets and to broaden its investor base and funding sources. The Programme was gradually increased to U.S.\$20 billion in June 2021, and to U.S.\$30 billion in June 2022.

The multi-currency feature of the Programme enables the Issuer to issue notes in major currencies to meet the demands of both domestic and overseas investors.

In 2022, the Issuer had 215 note issuances under the Programme with a total issuance amount of HK\$97.6 billion. These included the issuance of the Issuer's inaugural dual-tranche HK\$8 billion 2-year and CNH 3 billion 3-year social bonds in October 2022 pursuant to the SGS Framework. Out of the total issuances of notes under the Programme in 2022, 165 issues with an aggregate principal amount of HK\$71.8 billion were of one year or longer maturity, the remaining 50 issues with an aggregate principal amount of HK\$25.8 billion were of less than one year maturity. As at 31 December 2022, the total outstanding amount of notes issued under the Programme was in the equivalent of HK\$130.5 billion.

Revolving Credit Facility provided by the Exchange Fund

During the Asian financial crisis in 1997, the Exchange Fund extended a HK\$10 billion RCF to the Issuer in January 1998. In the light of the global financial crisis in 2008, the RCF size was increased to HK\$30 billion in December 2008 and further increased to HK\$80 billion in October 2020. Such increases demonstrated the Hong Kong Government's recognition of the importance of, and its commitment to provide further support to, the Issuer.

The RCF is granted to the Issuer to ensure its smooth operation under exceptional circumstances so that the Issuer can better fulfil its missions of promoting banking and financial stability of Hong Kong. The RCF stands as an important liquidity fallback for the Issuer.

The drawing of the RCF in 2008 was used to partially fund the acquisition of Hong Kong residential mortgage assets from local banks amid the distorted capital market. During 2009, the Issuer fully repaid the amount drawn under the RCF with funds raised from its cost-effective debt issuance.

The breakdown of the Issuer's funding by type and maturity is as follows:

Debt securities issued

The following table sets out details of the Issuer's outstanding debt securities by category as at the dates indicated.

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Debt securities carried at amortised cost		
Notes under the Medium Term Note		
Programme	23,460,175	24,928,315
Total debt securities carried at amortised cost	23,460,175	24,928,315
Debt securities designated as hedged items under fair value hedge		
DIP notes	596,368	1,080,122
Notes under the Medium Term Note		
Programme	104,199,663	86,191,940
Total debt securities designated as hedged items under fair value hedge	104,796,031	87,272,062
Debt securities designated as hedged items under cash flow hedge		
Notes under the Medium Term Note		
Programme	2,819,066	3,452,590
Total debt securities designated as hedged items under cash flow hedge	2,819,066	3,452,590
Total debt securities issued	131,075,272	115,652,967

The following table sets out the projected contractual undiscounted cash flows including future interest payments on the basis of their earliest possible contractual maturity of the Issuer's outstanding debt securities by maturity as at the dates indicated.

	As at 31 December	
	2022	2021
	HKS'000	HKS'000
Up to 1 month	(2,461,998)	(3,560,673)
Over 1 month to 3 months	(21,830,542)	(12,365,116)
Over 3 months to 1 year	(43,746,420)	(46,573,691)
Over 1 year to 5 years	(65,759,975)	(49,116,177)
Over 5 years	(6,011,954)	(6,502,190)
	<u>(139,810,889)</u>	<u>(118,117,847)</u>

Investment Portfolio

Investment Policy

The Issuer's investment policies and strategies are formulated by the ALCO. The investment portfolio comprises of bank deposits, short-term commercial paper, certificates of deposit, bonds, yield-based government bond funds and real estate investment trust. The bond investment of the portfolio includes debt securities issued by governments, agencies, supranationals, highly-rated financial institutions and corporations that can be readily convertible into cash.

The objectives of the investment portfolio include:

- enhancing liquidity, prepayment and surplus cash management;
- generating cash to meet liquidity needs if access to the capital market is impaired or issuance costs are temporarily distorted;
- providing temporary asset alternative when loan asset purchases are scarce or to buffer intermittent settlement of purchase commitments;
- hedging the negative endowment effect arising from non-interest bearing funds such as shareholder's funds and mortgage insurance premium; and
- securing a stable capital return under various interest rate cycles.

Investment Guidelines

The Issuer's investment guidelines are approved by the Board of Directors. The guidelines set out the relevant risk parameters for investment activities. These parameters include eligible product types, credit rating requirements, maximum tenor, allowable currency, investment exposure and portfolio concentration of investments undertaken by the Issuer. By adopting prudent investment guidelines, the Issuer has not invested in any debt securities issued by any financial institution which has, up to the date of this Offering Circular, failed to honour its payment obligations thereunder.

The breakdown of the Issuer's listed and unlisted investment securities are as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Investment securities at Fair Value Through Other Comprehensive Income (FVOCI)		
Debt securities at fair value		
Listed in Hong Kong	548,233	754,458
Listed outside Hong Kong	696,741	1,604,114
Unlisted	—	1,288,610
Total FVOCI securities	<u>1,244,974</u>	<u>3,647,182</u>
Investment securities at Fair Value Through Profit or Loss (FVPL)		
Exchange-traded funds and real estate investment trusts at fair value		
Listed in Hong Kong	<u>9,628</u>	<u>10,710</u>
Total FVPL securities	<u>9,628</u>	<u>10,710</u>
Investment securities at amortised cost		
Debt securities		
Listed in Hong Kong	6,901,746	6,858,248
Listed outside Hong Kong	3,336,204	2,410,668
Unlisted	<u>2,909,708</u>	<u>1,941,968</u>
	13,147,658	11,210,884
Impairment allowance	<u>(4,582)</u>	<u>(3,892)</u>
Total amortised costs securities	<u>13,143,076</u>	<u>11,206,992</u>

The breakdown of the Issuer's investment securities by issuer type is as follows:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Investment securities at FVOCI		
Banks and other financial institutions	433,771	2,649,426
Corporate entities	459,528	840,180
Public sector entities	351,675	—
Central governments	—	157,576
	<u>1,244,974</u>	<u>3,647,182</u>
Debt securities at amortised cost		
Banks and other financial institutions	4,882,359	2,725,359
Corporate entities	5,933,616	5,581,354
Public sector entities	602,801	1,253,154
Central governments	<u>1,728,882</u>	<u>1,651,017</u>
	<u>13,147,658</u>	<u>11,210,884</u>

In addition to the above investment securities, the Issuer has classified the placements of HKMCA and HKMCI with the Exchange Fund as financial assets at FVPL. As at 31 December 2022, the balance of the placements with the Exchange Fund amounted to HK\$32.8 billion (2021: HK\$28.6 billion), comprising a total principal sum of HK\$28.3 billion (2021: HK\$24.9 billion) plus income earned and accrued but not yet withdrawn as at the reporting date, of which HK\$3.4 billion (2021: HK\$4.7 billion) represented the placement made by the Issuer on behalf of the Hong Kong Government for the operation of the PLGS and the remaining portion was the premium and capital placements made by the HKMCA and the HKMCI.

The placements with the Exchange Fund are invested in the Investment Portfolio (**IP**) and Long-Term Growth Portfolio (**LTGP**) of the Exchange Fund, subject to a lock-up period. The rate of return on the placements with the Exchange Fund is determined annually. For IP, the rate of return is calculated on the basis of the average annual rate of return on the portfolio over the past six years or the average annual yield of three-year Government Bond in the previous year (subject to a minimum of zero percent), whichever is the higher. With respect to the LTGP, the rate of return is determined based on the current year time-weighted rate of return.

Capital Adequacy Ratio

The CAR is calculated as the ratio, expressed in a percentage, of the Issuer's capital base to the sum of the risk-weighted amount for its credit risk, market risk and operational risk exposures. The capital base is substantially represented by the shareholder's equity. The typical components are share capital, retained profits and fair value reserve, with certain adjustments as required under the Guidelines on CAR which are largely developed with reference to the Basel II risk-based capital adequacy framework. In accordance with the Guidelines on CAR, 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 of Hong Kong). The investment cost of these unconsolidated regulated financial entities is deducted from the capital base whilst the corresponding related exposures are also excluded from the calculation of risk-weighted assets.

The Issuer is required to maintain the minimum CAR of 8 per cent. under the Guidelines on CAR. Any breach or likely breach by the Issuer of the Guidelines on CAR must be reported to the Financial Secretary.

	As at 31 December	
	2022	2021
CAR.....	27.9%	23.4%

Risk Management

The Issuer operates on prudent commercial principles. The principle of “prudence before profitability” guides the design of the overall risk management framework as well as day-to-day business execution. Over the years, the Issuer has continuously made refinements to its risk management framework to reflect changes in the markets and its business strategies.

The Board is the highest decision making authority of the Issuer and holds ultimate responsibility for risk management. The Board, with the assistance of the Corporate Risk Management Committee (**CRC**), has the primary responsibility of formulating risk management strategies in the risk appetite statement and of ensuring that the Issuer has an effective risk management system to implement these strategies. The risk appetite statement defines the constraints for all risk-taking activities and these constraints are incorporated into risk limits, risk policies and control procedures that the Issuer follows to ensure risks are managed properly.

The CRC is responsible for overseeing the Issuer's various types of risks, reviewing and approving high-level risk-related policies, overseeing their implementation, and monitoring improvement efforts in governance, policies and tools. Regular stress tests are reviewed by the CRC to evaluate the Issuer's financial capability to weather extreme stress scenarios.

The CRC is chaired by an Executive Director, with members including the CEO, Senior Vice Presidents, General Counsel and senior staff from the Risk Management Department of the Issuer.

Under the steer of the CRC, the Issuer manages primarily credit risk, market risk, longevity risk, property risk, operational risk, legal and compliance risk, leveraging risk and ESG risk arising from its businesses through various management committees such as the IFSIC, Credit Committee (CC), Transaction Approval Committee (TAC), ALCO, Operational Risk Committee (ORC), Longevity Risk Committee (LRC) and ESGC. Other than the IFSIC, which is chaired by an Executive Director, all of these management committees are chaired by the CEO with members including the relevant Senior Vice Presidents, General Counsel, and senior staff from the relevant functional departments of the Issuer.

The insurance subsidiaries of the Issuer also have their own Risk Committee (RC) to monitor insurance risk and other relevant risks. Each RC is chaired by an Executive Director of the relevant insurance subsidiaries of the Issuer with members including the Chief Executive Officer and the senior staff of such subsidiaries. The RC of the HKMCA includes independent and non-executive directors to provide independent risk oversight of its operation.

(a) Credit Risk

Loan Assets and Guarantee Portfolio

The Issuer and the HKMCI maintains loan and guarantee portfolios of retail and commercial loan assets, which primarily comprise mortgage loans. Credit risk is the Issuer's and the HKMCI's primary risk exposure. It is the default risk presented by loan borrowers and counterparties.

(i) Default risk

The Issuer and the HKMCI adopt a four-pronged approach to safeguard and maintain the credit quality of its assets, MIP and SME guarantee portfolios:

- careful selection of counterparties, including Approved Sellers, Approved Servicers, Approved Reinsurers and other lenders who are participating AIs;
- prudent eligibility criteria for asset purchase, insurance and guarantee applications;
- effective due diligence processes for mortgage purchase, default loss, insurance and guarantee claims; and
- enhanced protection for higher-risk transactions.

Losses may arise from the recovery shortfalls of defaulted loans under the MPP. To mitigate this default risk, the Issuer establishes prudent loan purchasing criteria and conducts due diligence reviews as part of the loan purchase process to maintain the credit quality of loans. In addition, depending on the projected risk exposure of each underlying loan portfolio, credit enhancement arrangements are agreed upon with Approved Sellers on a deal-by-deal basis to reduce potential default losses.

Losses may also arise from a default on loans under the MIP's insurance coverage. To mitigate this risk, each MIP application is underwritten by the HKMCI in accordance with a set of eligibility criteria and each claim from a participating bank is reviewed by the HKMCI to ensure the fulfilment of all MIP coverage conditions. To reduce the risk of possible concentration of this default risk, the HKMCI transfers a portion of the risk-in-force to Approved Reinsurers through reinsurance arrangements.

Similarly, losses may arise from a borrower's default on loans in the 80% SFGS and 90% SFGS guarantee portfolios. The borrower's default risk of each guarantee application is assessed by the lender in accordance with their credit policies. In addition, the HKMCI adopts prudent eligibility criteria, conducts administrative vetting and credit reviews to better understand the credit quality of the applications, and carries out a due diligence review on each default claim to ensure the loan's compliance with the HKMCI's eligibility criteria and the lenders' internal credit policies.

Credit performances of the loan and guarantee portfolios are tracked and reported on a regular basis to closely monitor any emerging risks, and to implement risk-mitigating measures in a timely way.

(ii) Seller/Servicer counterparty risk

Counterparty risks may arise from the failure of an Approved Seller/Approved Servicer of an acquired portfolio to remit scheduled payments to the Issuer in a timely and accurate manner.

The Approved Sellers/Approved Servicers are subject to a risk-based eligibility review and ongoing monitoring of their loan servicing quality and credit standing.

(iii) Reinsurer counterparty risk

Reinsurer counterparty risk refers to the failure of an Approved Reinsurer to make claim payments to the HKMCI. To mitigate reinsurer counterparty risk effectively, the HKMCI has a framework in place for the assessment of mortgage reinsurers' eligibility and requested collateral on the risk exposures.

The HKMCI performs annual and ad-hoc reviews of each Approved Reinsurer to determine the eligibility for ongoing business allocation and risk-sharing portions.

(iv) Treasury counterparty risk

Treasury counterparty risk arises when there is a delay or failure from treasury counterparties to make payments with respect to treasury instruments transacted with the Issuer. Treasury counterparties are managed by a ratings-based counterparty assessment framework and a risk-based counterparty limit mechanism. The treasury counterparties are continually monitored and the counterparty limits are adjusted based on the assessment results. Furthermore, the Issuer has set up bilateral collateral arrangements with swap counterparties to mitigate treasury counterparty risk.

(v) Lender risk

The HKMCI is exposed to lender risk in SME lending that arises from: (a) a lender's underwriting being non-compliant with its credit policy; (b) a lender's loosely formulated credit policy that is not specific enough or sufficiently defined for compliance; and (c) the moral hazard of a lender being less prudent in underwriting a guarantee protected application. The HKMCI manages lender risk through the review of the lenders' credit policies and the due diligence review on claims.

(vi) Insurer counterparty risk

Insurer counterparty risk arises when there is a delay or failure from the life insurer in meeting its obligations under the life insurance policy assigned to the HKMCI under the PRMP. To mitigate insurer counterparty risk, the life insurance policy to be assigned to the HKMCI must be issued by an "authorized insurer" under the Insurance Ordinance. Furthermore, the insurers are subject to ongoing monitoring.

The CC or RC as appropriate is responsible for setting the credit policies and eligibility criteria and is the approval authority for accepting applications to become Approved Sellers/Service providers under the MPP, Approved Reinsurers under the MIP and RMP, Approved Lenders under the SFGS and eligible treasury counterparties. It is also responsible for setting risk exposure limits for counterparties. The CC and RC monitor the operating environment closely and put in place timely risk mitigating measures to manage the credit risk.

The TAC or RC as appropriate conducts an in-depth analysis of pricing economics and associated credit risks for business transactions, while taking into consideration the latest market conditions and business strategies approved by the Board.

Infrastructure Loans

Credit risk arises when the counterparty to a financial instrument fails to meet its contractual obligations, leading to potential or actual financial losses to the Issuer. The credit risk related to the IFS business is managed through prudent underwriting criteria and in-depth due diligence reviews conducted by in-house experts and by independent consultants. All investments have taken into consideration the transaction structures with appropriate risks and returns, acceptable project risks and mitigation measures, including delay risk, construction risk, performance risk, operational risk, commercial risk, financial risk, counterparty risk, concentration risk, legal and compliance risk, regulatory risk, political risk, currency risk, interest rate risk and environmental and social risks, subject to ongoing monitoring and a review mechanism. The Issuer also adopts a robust internal credit rating methodology and a loss given default methodology to evaluate expected losses arising from an infrastructure loan default.

In terms of the risk governance structure, a dedicated division, inclusive of a risk control unit, performs the credit assessment, day-to-day monitoring, reporting and risk management of infrastructure investments. The IFSIC is the governing forum to manage the infrastructure investments and is responsible for overseeing compliance with applicable rules, guidelines and policies, and for approving and monitoring the infrastructure investments.

(b) Market Risk

Market risk arises when the Issuer's income or the value of its portfolios decreases due to adverse movements in market prices. Market risk consists of interest rate risk, asset-liability maturity mismatch risk, liquidity risk and currency risk.

(i) Interest rate risk

Interest rate risk arises when changes in market interest rates affect the interest income associated with the assets and/or interest expenses associated with the liabilities.

The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movements. The interest rate risk faced by the Issuer is two-fold, namely interest rate mismatch risk and basis risk. The Issuer makes prudent use of a range of financial instruments, mainly interest rate swaps, to manage interest rate mismatch risk.

The Issuer also uses the duration gap (i.e. the difference in interest rate re-pricing intervals between assets and liabilities) as an indicator to monitor, measure and manage interest rate mismatch risk.

Depending on the prevailing interest rate outlook and market conditions, the Issuer proactively re-balances the duration gap of its asset-liability portfolio under the guidance and supervision of the ALCO.

Basis risk represents the difference in benchmark rates between the Issuer's Prime-based interest-earning assets and its HIBOR-based interest-bearing liabilities.

Over the past few years, the Issuer has consciously adopted a strategy that acquires more HIBOR-based assets. As a result, the Prime-HIBOR basis risk for the Issuer has been substantially reduced.

(ii) Asset-liability maturity mismatch risk

Asset-liability maturity mismatch risk can be more specifically characterised as reinvestment risk and refinancing risk. Reinvestment risk refers to the risk of a lower return from the reinvestment of proceeds that the Issuer receives from prepayments and repayments of its loan portfolio. Refinancing risk is the risk of refinancing liabilities at a higher level of interest rate or credit spread.

Reinvestment risk is managed through the ongoing purchase of loan assets to replenish the rundown in the retained portfolios, and through the investment of surplus cash in debt securities and cash deposits, to fine-tune the average life of the overall assets pool.

The Issuer manages its refinancing risk through flexible debt securities issuance with a broad spectrum of maturities. This serves to adjust the average life of the overall liability portfolio in a dynamic fashion. In addition, refinancing risk can be mitigated by adjusting the maturities of assets in the investment portfolio, or off-loading loan assets through securitisation.

The Issuer uses the asset-liability maturity gap ratio to measure, monitor and manage asset-liability maturity mismatch risk to ensure a proper balance between the average life of the Issuer's assets and liabilities.

(iii) Liquidity risk

Liquidity risk represents the risk of the Issuer not being able to repay its obligations such as the redemption of maturing debt, or to fund committed purchases of loan portfolios.

Liquidity risk is managed by monitoring the daily inflow and outflow of funds, and by projecting the longer-term inflows and outflows of funds across the full maturity spectrum and under different market conditions.

Given its strong background as a wholly government owned entity and its solid credit rating, the Issuer is efficient in raising funds from debt markets with both institutional and retail funding

bases. This advantage is supplemented by the Issuer's portfolio of highly liquid investments which is held to enable a swift and smooth response to unforeseen liquidity requirements. The HK\$80 billion RCF from the Exchange Fund further provides the Issuer with a liquidity fallback even if exceptional market strains last for a prolonged period.

The Issuer manages pre-funding prudently through well-diversified funding sources. Such diversification allows the Issuer to pursue a prefunding strategy at the lowest possible cost, while offering safeguards against the difficulty of raising funds in distorted market conditions. The current funding sources include:

- U.S.\$30 Billion Medium Term Note Programme: An extensive dealer group is appointed to underwrite and distribute local and foreign currency debt to international institutional investors under the Programme;
- HK\$40 Billion DIP: Primary dealers and selling group members underwrite and distribute debts to institutional investors under the DIP. The transferable loan certificate sub-programme under the DIP provides further diversification of its funding sources and broadening of its investor base;
- HK\$20 Billion RBIP: Placing banks use their branch networks and telephone and electronic banking facilities to assist the Issuer in offering retail bonds to investors;
- Investment Portfolio: This portfolio comprises mainly cash and bank deposits, commercial paper, high-quality certificates of deposit and notes that are readily convertible into cash;
- Money Market Lines: The Issuer has procured money market lines from a large number of local and international banks for short-term financing; and
- HK\$80 Billion RCF: The Exchange Fund commits to providing the Issuer with HK\$80 billion in revolving credit.

(iv) Currency risk

Currency risk arises from the impact of foreign exchange rate fluctuations on the Issuer's financial position and foreign-currency-denominated cash flows. The Issuer manages its currency risk strictly in accordance with the investment guidelines approved by the Board and under the supervision of the ALCO, which sets daily monitoring limits on currency exposure.

To ensure adequate checks and balances, transaction execution is segregated among the front, middle and back offices which are assumed by the Treasury Department, the Risk Management Department, and the Operations Department, respectively.

The ALCO is responsible for the overall management of market risk. It follows the prudent risk management principles and investment guidelines approved by the Board. Regular meetings are held to review the latest financial market developments and formulate relevant asset-liability management strategies.

(v) Placements with the Exchange Fund

The HKMCA places its annuity premium receipts in the IP and LTGP of the Exchange Fund to earn an investment return. Furthermore, the HKMCA and the HKMCI have been placing their paid-up capital and retained earnings to the IP since April 2019 to manage the return on capital. The Issuer is exposed to market risk when the investment return falls short of the expected level. The risk of loss could result from adverse movements in interest rates, equity prices, property prices and foreign exchange rates. The Issuer actively monitors and reviews the investment portfolio to determine the strategic asset allocation between IP and LTGP.

The RCs of the HKMCA and the HKMCI are the governing forums for managing all risks arising from their placements with the Exchange Fund.

(c) Longevity Risk

Longevity risk under the RMP and the PRMP refers to the heightening risk of longer payouts. The longer the payout and loan period, the larger the loan balance will accrue over time, and the lesser the buffer will be from the enforcement of collateral to cover the outstanding loan balance. A loss may arise if there is a shortfall in the recovery amount after the disposal of the property under the RMP or the claim of death benefits of the life insurance policy under the PRMP.

Longevity risk under the HKMC Annuity Plan is the risk that the actual life expectancies of annuitants are longer than expected, resulting in a longer stream of monthly payouts, which in turn could materially impact the long-term sustainability of the HKMC Annuity Plan.

The Issuer takes on longevity risk through setting prudent actuarial assumptions in mortality rates as well as future improvement in life expectancy. An annual risk analysis is conducted to assess the potential financial impact of longevity risk, as well as the interaction among the various risk factors under the RMP, the PRMP and the HKMC Annuity Plan. The mortality assumptions are reviewed on a regular basis.

The LRC is the governing forum that manages the longevity risk of the Issuer. Its duties include approving longevity risk management policies, hedging transactions and reviewing longevity experiences and exposures of the Issuer. It also monitors and analyses the general trend, technological changes and their implications for human longevity.

(d) Property Risk

Property risk arises from fluctuation in the value of property that acts as collateral for the Issuer's loan and guarantee portfolios under the MPP, MIP and RMP. The Issuer manages property risk by soliciting valuations from professional surveyors on each property securing a loan purchase or loan application, setting prudent assumptions in the recoverable value of the collateralised property, restricting maximum loan-to-value ratios of the loans under the relevant programmes and conducting stress tests to examine the impact of adverse market conditions.

The CC and RC are the governing forum that manage the property risk of the Issuer.

(e) Operational Risk

Operational risk represents the risk of losses arising from inadequacies, or the failure of internal processes, people or systems, or external interruptions.

The Issuer actively manages operational risk with its well-established internal controls, authentication structures and operational procedures. The operational infrastructure is well designed to support the launch of new products in different business areas. Rigorous reviews are conducted before the implementation of operational or system infrastructure to ensure adequate internal controls are in place to mitigate operational risks.

To ensure an efficient and effective discharge of daily operations, the Issuer pursues advanced technological solutions alongside robust business logistics and controls to carry out its operational activities and business processes. The Issuer also takes cautious steps to institute adequate checks and balances to ensure its operations are controlled properly. Effective internal controls help minimise financial risk and safeguard assets against inappropriate use or loss, including the prevention and detection of fraud and cybersecurity threats.

In relation to cybersecurity and information risk representing the loss of confidentiality, integrity or availability of information and systems that may have an adverse impact to the Issuer, the following specific measures have been implemented to mitigate such risks:

- preventive security measures and awareness programmes;
- detective measures to identify abnormal system activities in pre-empting cybersecurity threats;
- collection and analysis of external cybersecurity threats for ongoing control enhancement; and
- establishment of structural response plans to minimise the impact of potential security events.

To ensure all line functions in the Issuer maintain an effective operational risk and internal control framework, the ORC establishes key risk indicators to track the key operational risk items and monitor the effectiveness of the risk mitigating measures. Operational risk incidents are also reported for operational risk management. In addition, the ORC provides directions and resolves issues related to policies, controls and the management of operational issues, as well as ensuring prompt and appropriate corrective actions in response to audit findings related to operational risks and internal controls.

(f) Legal and Compliance Risk

Legal and compliance risk arises from the failure to comply with statutory or regulatory obligations and any unenforceability of legal documents in safeguarding the interests of the Group.

The Issuer manages such risk with the assistance of the Legal Office (including the Compliance Function).

The Legal Office, headed by the General Counsel, advises the Group on legal matters. When new products or business activities are considered, the Legal Office will advise on the relevant laws and the necessary legal documentation. Where appropriate, external counsel will be engaged to assist the Legal Office in providing legal support to the Group.

The Compliance Function is part of the Legal Office and is led by the Chief Compliance Officer who reports to the CEO through the General Counsel. Where appropriate, the Compliance Function will engage external counsel to advise on compliance matters.

The ORC is the governance committee for legal and compliance risk of the Issuer.

(g) Leveraging Risk

To ensure the Issuer would not incur excessive risk when expanding its business and balance sheet in proportion to its capital base, the Financial Secretary acted as the regulator of the Issuer, issued the Guidelines on CAR taking reference principally from the Basel II risk-based capital adequacy framework. The minimum CAR is set at 8 per cent. As at 31 December 2022, the Issuer's CAR was 27.9 per cent.

The prudent use of regulatory capital is monitored closely in accordance with the capital guidelines. The CEO reports the CAR and the daily minimum ratio to the Board of Directors on a quarterly basis. An early warning system is also in place. If the CAR drops to the threshold level of 14 per cent., the CEO will alert the Executive Directors and consider appropriate remedial actions. If the CAR falls to 12 per cent. or below, the Board of Directors will be informed and appropriate remedial actions will be taken.

The capital requirements of the insurance subsidiaries are subject to the regulatory requirements of the Insurance Authority of Hong Kong. As at 31 December 2022, the respective solvency ratios of the HKMCA and the HKMCI were at about 15 times (2021: 15 times) and 11 times (2021: 7 times).

(h) Environmental, Social and Governance Risk

ESG risk arises from the materialisation of environmental, social or governance matters that may have a negative impact on the solvency, financial performance, reputation or operations of the Issuer. The Issuer assesses the ESG risk from ESG issues to guide the set-up of appropriate risk management measures and to monitor the impact. The ESGC is the governance committee for managing the ESG risk of the Issuer.

BOARD OF DIRECTORS, SENIOR MANAGEMENT AND ORGANISATION CHART

Board of Directors and Senior Management

Board of Directors of the Issuer

In order to give a broad representation of the views and interests of different sectors, the Issuer has since its incorporation maintained a diverse composition of the Board of Directors which currently includes officials from the Hong Kong Government, representatives from political parties, banking sector, and the accounting and the legal professions.

The Financial Secretary currently serves as the Chairman of the Board of Directors of the Issuer.

Members of the Board of Directors as at the date of this Offering Circular are:

The Hon. Paul CHAN Mo-po, GBM, GBS, MH, JP
Chairman and Executive Director
Financial Secretary

Mr Eddie YUE Wai-man, JP
Deputy Chairman and Executive Director
Chief Executive
Hong Kong Monetary Authority

Mr Howard LEE Tat-chi, JP
Executive Director
Deputy Chief Executive
Hong Kong Monetary Authority

Mr Raymond LI Ling-cheung, JP
Executive Director and Chief Executive Officer
Senior Executive Director
Hong Kong Monetary Authority

The Hon. Christopher HUI Ching-yu, GBS, JP
Non-Executive Director
Secretary for Financial Services and the Treasury

The Hon. Winnie HO Wing-yin, JP
Non-Executive Director
Secretary for Housing

The Hon. CHAN Hak-kan, SBS, JP
Non-Executive Director
Member of Executive Council
Member of Legislative Council

The Hon. Paul TSE Wai-chun, JP
Non-Executive Director
Member of Legislative Council
Member of District Council
Founder & Senior Partner, Paul W. Tse, Solicitors

The Hon. Jimmy NG Wing-ka, BBS, JP
Non-Executive Director
Member of Legislative Council

The Hon. SHIU Ka-fai, JP
Non-Executive Director
Member of Legislative Council
Director, Shun Yee (Holdings) Limited

Mr Clement CHAN Kam-wing, MH, JP
Non-Executive Director
Managing Director – Assurance
BDO Limited

Ms Margaret KWAN Wing-han
Non-Executive Director
Member on Process Review Panel
Securities and Futures Commission

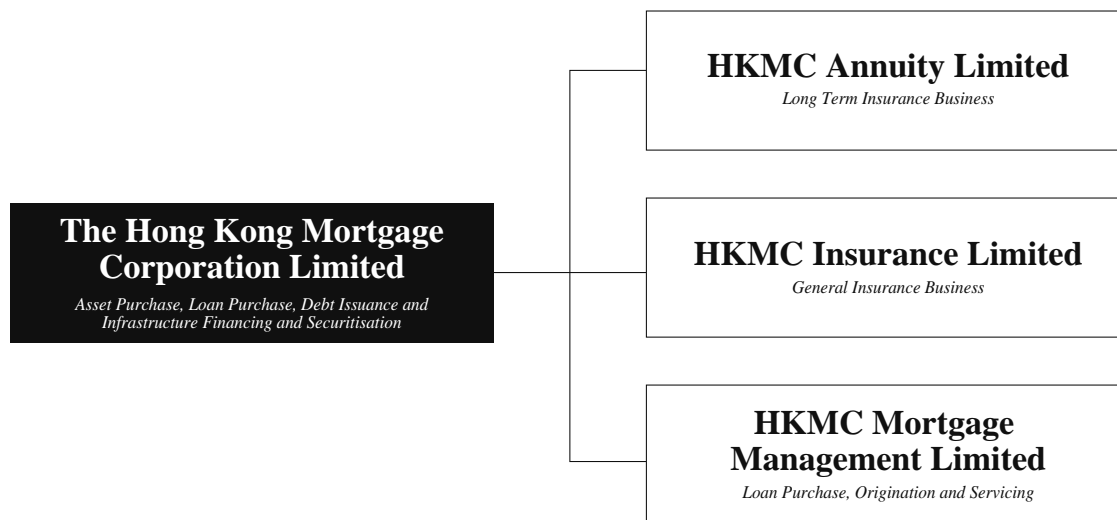
Senior Management of the Issuer

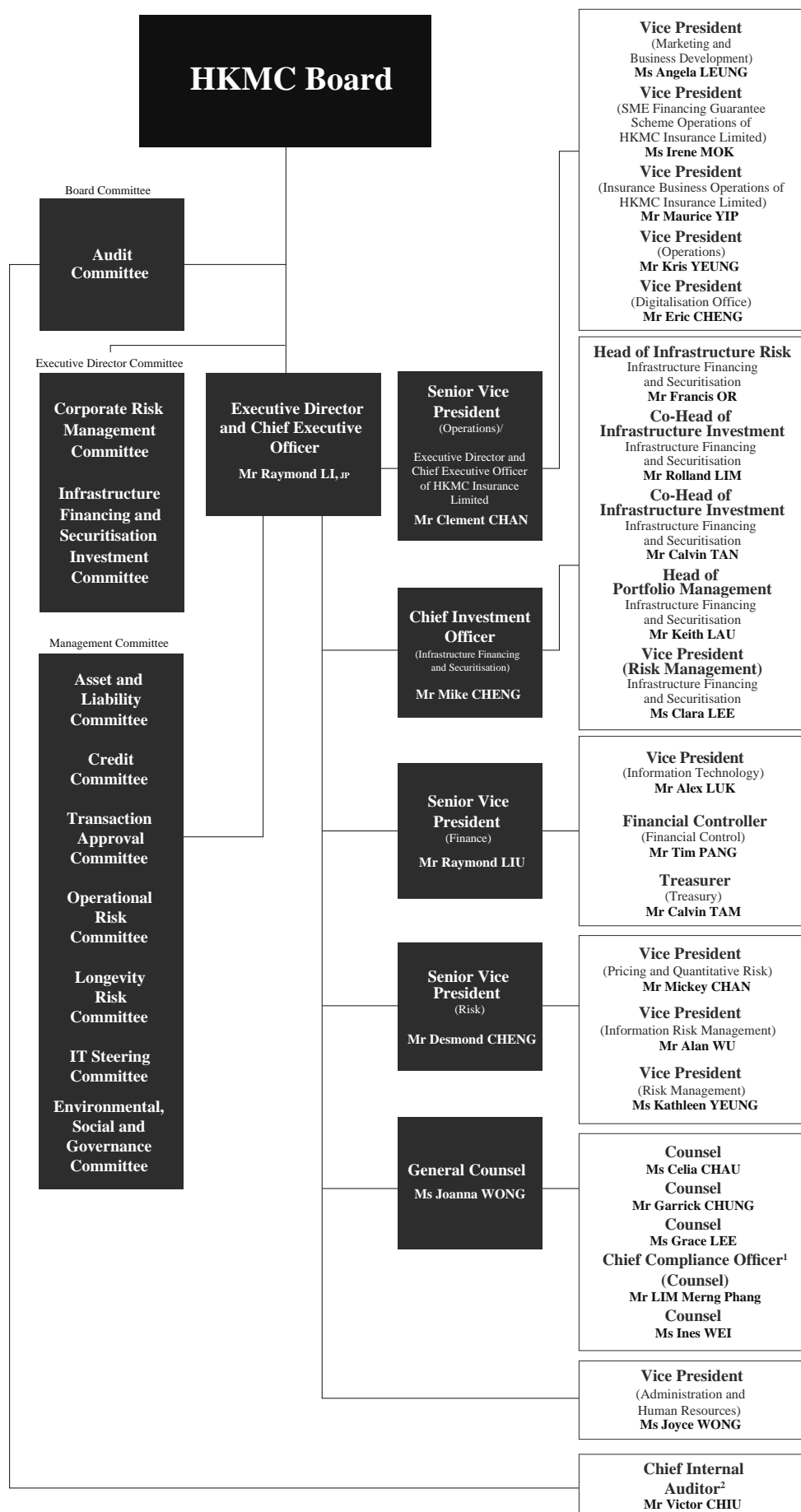
Members of the Issuer's senior management are:

Executive Director and Chief Executive Officer
Senior Vice President (Operations)
Senior Vice President (Finance)
Senior Vice President (Risk)
Chief Investment Officer (Infrastructure
Financing and Securitisation)
General Counsel

LI Ling Cheung, Raymond JP
CHAN Ling Hang (Clement CHAN)
LIU Chi Keung (Raymond LIU)
CHENG Kam Chuen, Desmond
CHENG Man Shun, Mansion (Mike
CHENG)
WONG Man Sze, Joanna

Organisation Chart





¹ Reporting to the Chief Executive Officer through the General Counsel
² Reporting to the Chief Executive Officer on daily administrative function

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the Clearing Systems) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer nor any Dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Book-entry Systems

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service (**CMU Members**) of capital markets instruments (**CMU Instruments**) which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all financial institutions regulated by the HKMA, Securities and Futures Commission, Insurance Authority or Mandatory Provident Fund Schemes Authority. For further details on the full range of the CMU's custodial services, please refer to the CMU Reference Manual.

The CMU has an income distribution service which is a service offered by the CMU to facilitate the distribution of interest, coupon or redemption proceeds (collectively, the **income proceeds**) by CMU Members who are paying agents to the legal title holders of CMU Instruments via the CMU system. Furthermore, the CMU has a corporate action platform which allows an issuer (or its agent) to make an announcement/notification of a corporate action and noteholders to submit the relevant certification. For further details, please refer to the CMU Reference Manual.

An investor holding an interest in the Notes through an account with either Euroclear or Clearstream will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear, Clearstream and the CMU will be effected in accordance with the customary rules and operating procedures of the relevant Clearing System.

Euroclear, Clearstream and the CMU have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among accountholders of Euroclear, Clearstream and the CMU. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Paying Agents, the Registrar and the Dealers will be responsible for any performance by Euroclear, Clearstream or the CMU or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong) (**Inland Revenue Ordinance**), as it is currently applied in the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation, other than a financial institution, carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of. Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (as defined in section 16(3) of the Inland Revenue Ordinance) from the sale, disposal or redemption of the Notes will be subject to profits tax. In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available to certain qualifying investors. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual positions.

Specified Foreign-sourced Income

On 1 January 2023, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 (the **Amendment Ordinance**) came into operation. Under the Amendment Ordinance, certain foreign-sourced income accrued to an “MNE entity” (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is to be regarded as arising in or derived from Hong Kong and chargeable to profits tax when it is received in Hong Kong under certain circumstances.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117 of the Laws of Hong Kong) (**Stamp Duty Ordinance**)).

If stamp duty is payable, it is payable by the Issuer on issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes provided that either:

- (i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) the Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance).

At present, if stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) may be required to withhold certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and the IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for the purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under “*Terms and Conditions of the Notes — Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all the Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission’s Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate. The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt. Under the Commission’s Proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 26 June 2023 (as further amended and/or supplemented and/or restated from time to time, **Programme Agreement**), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

The Dealers and certain of their affiliates may have performed certain investment banking and advisor services for the Issuer and/or its affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer and/or its affiliates in the ordinary course of their business. The Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

The Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Notes to which this Offering Circular (as supplemented, amended and/or restated) relates (notwithstanding that such selected counterparties may also be purchasers of Notes).

Important Notice to CMIs (including private banks)

Notice to CMIs pursuant to paragraph 21 of the Hong Kong SFC Code of Conduct

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated Dealer(s) (if any) to categorise it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- the name of each underlying investor;
- a unique identification number for each investor;
- whether an underlying investor has any “Associations” (as used in the SFC Code);
- whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code); and
- whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By

submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealer with such evidence within the timeline requested.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Notes in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the U.S. or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the U.S. or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are being offered and sold only outside the United States to non-US persons in reliance on Regulation S.

Until 40 days after the commencement of the offering of any Tranche of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (i) the expression “retail investor” means a person who is one (or more) of the following:
 - (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or
 - (b) a customer within the meaning of Directive (EU) 2016/97 (as amended, **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (c) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, **Prospectus Regulation**); and
- (ii) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Prohibition of sales to UK Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (i) the expression “retail investor” means a person who is one (or more) of the following:
 - (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or
 - (b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (c) not a qualified investor as defined in Article 2 of the Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and
- (ii) the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Other regulatory restrictions

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any Notes will only be offered in The Netherlands to Qualified Investors (as defined in the Prospectus Regulation).

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; **FIEA**) and each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the **SFO**)) other than (a) to “professional investors” as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) (the **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

The People’s Republic of China

In relation to each Tranche of Notes issued by the Issuer, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that neither it nor any of its affiliates will offer or sell any of the Notes in the People’s Republic of China (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes.

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor as defined in Section 4A of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore, as amended or modified from time to time (the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;

- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries, and neither the Issuer nor any of the other Dealers shall have any responsibility therefor. If a jurisdiction requires that an offering of Notes be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 12 December 2006. The increase in the aggregate nominal amount of the Programme from U.S.\$20,000,000,000 to U.S.\$30,000,000,000 has been duly authorised by the relevant Executive Directors of the Issuer on 30 May 2022 through the power and authority delegated to them by the Board of Directors.

Listing of Notes on the SEHK

Application has been made to the SEHK for the listing of the Programme under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period after the date of this document on the SEHK. The issue price of Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the relevant Notes. Notes to be listed on the SEHK are required to be traded with a board lot size of at least HK\$500,000 (or equivalent in other currencies).

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will be available from the specified office of the Paying Agent for the time being in Hong Kong:

- (i) the Articles of Association of the Issuer;
- (ii) the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2021 and 31 December 2022;
- (iii) the two most recently published audited annual consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial results of the Issuer from time to time. The Issuer currently prepares unaudited interim consolidated financial results as at and for six months ended 30 June on a yearly basis;
- (iv) the Programme Agreement, the Agency Agreement, the Deed of Covenant, the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of the Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate common code and ISIN for each Tranche of Bearer Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU instrument number will be specified in the applicable Pricing Supplement. The relevant ISIN and common code for each Tranche of Registered Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant or material adverse change in the financial or trading position of the Issuer since 31 December 2022.

Litigation

Each of the Issuer, the HKMCI, the HKMCA and the HMML is not or has not been involved in any legal or arbitration proceedings (including any pending or threatened proceedings of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of the Issuer, the HKMCI, the HKMCA or the HMML.

Auditor

The auditor of the Issuer is PricewaterhouseCoopers, independent Certified Public Accountants, who have audited the Issuer's annual consolidated financial statements without qualification in accordance with Hong Kong Standards on Auditing for the financial year ended 31 December 2022. The address of PricewaterhouseCoopers is 22/F, Prince's Building, Central, Hong Kong.

Legal Entity Identifier Number of the Issuer

The Legal Entity Identifier Number of the Issuer is 254900W04TBDJ4UBOS04.

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**SUMMARY OF THE DIRECTORS'
REPORT AND AUDITED FINANCIAL STATEMENTS**

The information on pages F-4 to F-94 has been extracted from the Directors' Report and Audited Financial Statements of the Issuer as at and for the year ended 31 December 2022. Reference to page numbers on pages F-4 to F-94 are references to pages of such document. The page numbers of that document appear at the bottom of pages F-4 to F-94.

THE HONG KONG MORTGAGE CORPORATION LIMITED

DIRECTORS' REPORT AND
AUDITED FINANCIAL STATEMENTS

31 DECEMBER 2022

THE HONG KONG MORTGAGE CORPORATION LIMITED

DIRECTORS' REPORT

Directors (**Directors**) of The Hong Kong Mortgage Corporation Limited (**Company**) have pleasure in presenting their report together with the audited consolidated financial statements of the Company (for the purpose of this report, together with its subsidiaries and subsidiary undertakings, **Group**) for the year ended 31 December 2022 (**Financial Statements**).

PRINCIPAL ACTIVITIES

The principal activities of the Group in the course of the year ended 31 December 2022 were:

- (a) to purchase portfolios of mortgages or loans secured on properties or other collateral situated in Hong Kong and to acquire debentures, receivables, financial assets and choses in action of all kinds from their originators, issuers, owners or vendors;
- (b) to acquire, by purchase or otherwise, any assets from government bodies and agencies and related organisations, statutory bodies and public bodies and to hold, sell, transfer, dispose of and deal in any such assets so acquired;
- (c) to issue debt securities to investors;
- (d) to carry on the infrastructure financing and securitisation business;
- (e) to operate two schemes for the Government of the Hong Kong Special Administrative Region (**Government**) providing guarantees on loans advanced or originated by participating lenders (including loans that are fully guaranteed by the Government via the Group and acquired by the Group from participating lenders) for local enterprises (including small and medium-sized enterprises (**SMEs**)) as well as for individuals who are suffering from cessation of main recurrent incomes during the COVID-19;
- (f) to provide mortgage insurance cover in respect of mortgage loans, reverse mortgage loans and policy reverse mortgage loans originated by participating lenders and secured on residential properties, life insurance policies and, if applicable, other assets;
- (g) to provide fixed-rate mortgages through banks; and
- (h) to offer life annuity products in or from Hong Kong.

Details of subsidiaries of the Company as at 31 December 2022 are set out in Note 21 to the Financial Statements.

BUSINESS REVIEW

1. Business Segments

In the pursuit of its missions and social objectives, during the year, the Group operated on prudent commercial principles and mainly engaged in business activities of loan guarantee, origination and acquisition, mortgage insurance and life annuity through the operation of programmes, schemes and businesses below.

Mortgage Purchase Programme (MPP)

One of the missions of the Group is to enhance banking stability in Hong Kong by offering a reliable source of liquidity. To this end, the Group stands ready to purchase mortgage loans and other assets from approved sellers as and when they have the need to offload. During the year, ample liquidity in the market dampened bank's appetite for offloading their assets.

Mortgage Insurance Programme (MIP)

MIP is launched with the aim of promoting home ownership in Hong Kong by enabling high loan-to-value financing for home buyers to reduce their down payment burden. Under the MIP, the Group acts as an insurer to provide mortgage insurance cover for a premium on mortgage loans advanced by participating lenders in excess of the lending limits imposed by the Hong Kong Monetary Authority. The MIP has gained increasing public receptiveness since inception in 1999. With the amendments introduced in October 2019 and February 2022, the MIP's coverage was extended to provide better assistance to home buyers. The total amount of loan drawn down in 2022 was HK\$107.2 billion (2021: HK\$132.6 billion).

Fixed Rate Mortgage Scheme

Fixed Rate Mortgage Scheme is launched with the aim of providing an alternative financing option to home buyers for mitigating their risks arising from interest rate volatility, thereby enhancing banking stability in the long run. The scheme offers through banks, fixed-rate mortgages with a tenor of 10, 15 or 20 years. The Group will then purchase these mortgages from their originators under the Fixed Adjustable Rate Mortgage Programme. The maximum loan amount of each residential mortgage is HK\$10 million. To continue filling the market gap in respect of fixed-rate mortgage products, the scheme was made permanent in November 2021. Starting from February 2022, the Group determines and announces the fixed interest rates from time to time in accordance with factors such as cost of funds, business and market conditions.

Reverse Mortgage Programme (RMP)

RMP is launched with the aim of providing homeowners with a new retirement planning option to enhance their quality of life on retirement. Through reverse mortgage, homeowners can use their residential properties as collateral in return for lump-sum payouts and/or a stream of monthly payouts from participating lenders over a payment term. Under the RMP, the Group mainly acts as an insurer to provide mortgage insurance cover for a premium on reverse mortgage loans advanced by participating lenders. With the Group's ongoing and focused educational initiatives, market receptiveness to the RMP has been growing progressively.

Policy Reverse Mortgage Programme (PRMP)

PRMP is launched with the aim of providing retirees with a new retirement planning option to enhance their quality of life on retirement. Replicating the business model of the RMP, policy reverse mortgage enables borrowers to use the death benefits of their life policies as collateral in return for lump-sum payouts and/or a stream of monthly payouts from participating lenders over a payment term. Under the PRMP, the Group mainly acts as an insurer to provide mortgage insurance cover for a premium on policy reverse mortgage loans advanced by participating lenders. Promotions on the PRMP were staged jointly with banks and the Group continued to explore collaboration opportunities with insurance companies as referrers of new life insurance policies that are potentially eligible under the PRMP.

100% Personal Loan Guarantee Scheme (PLGS)

The Group launched the PLGS in April 2021 to provide a supplementary financing option to individuals suffering from cessation of main recurrent incomes from employment in Hong Kong amid the COVID-19. Under the PLGS, low-interest loans are taken out by eligible borrowers to help them tide over interim difficulties. The Group introduced a number of enhancements to the PLGS in 2022, including an increased maximum loan amount per individual, an extended maximum repayment period and an extended maximum duration of principal moratorium. As at 31 December 2022, the Group had approved around 60,700 applications, involving a total loan amount of HK\$4.1 billion.

In May 2022, the Temporary Protection Measures for Business Tenants (COVID-19 Pandemic) Ordinance came into effect to impose rental enforcement moratorium which provided temporary protection for business tenants in specified premises. For individual landlords who lived off rental income but were affected by the rental enforcement moratorium, the Government provided interest-free loans under the PLGS as a measure of support. Accordingly, the PLGS received loan applications from affected individual landlords during the application period from 6 May to 31 October 2022. Three applications involving a total loan amount of HK\$160,000 were approved.

SME Financing Guarantee Scheme (SFGS)

To further alleviate the cash flow pressure of SMEs affected by the rapid deterioration of business environment following the COVID-19 outbreak, the Group introduced a number of enhancements to the SFGS in 2022, such as increasing the maximum amount of loan per enterprise, extending the maximum repayment period and the maximum duration of principal moratorium, and providing options to resume making partial principal repayment. By end-2022, the Group had approved more than 58,500 applications involving a total loan amount of HK\$115.2 billion under the 100% guarantee product of the SFGS (100% SFGS). Taking this together with the 80% and 90% guarantee products, the three products under the SFGS had benefitted more than 53,000 local SMEs and 715,000 related employees.

HKMC Annuity Plan (Annuity Plan)

The Annuity Plan is launched with the aim of providing an alternative retirement financial solution to senior citizens, and help them convert their savings into an immediate, stable and lifelong stream of income. To provide better support for a hassle-free retirement, the Group introduced two enhancements in 2022, namely the increase in the individual premium cap of the Annuity Plan to HK\$5 million from HK\$3 million, and the increase of the special withdrawal limit to meet different customers' needs.

2022 was a challenging year for the Hong Kong insurance industry, as the interest rate hikes allowed some local banks to offer over 5% time deposit rate towards the end of the year. Nevertheless, the total premium received of the Annuity Plan in 2022 stood at HK\$2.5 billion.

Infrastructure Financing and Securitisation (IFS)

Leveraging on its strong credit standing and medium-to-long term funding capability, the Group furthered its mandates of promoting banking stability and debt market development by facilitating infrastructure investment and financing flows. Since the launch of the IFS business in 2019, the Group has committed over US\$1.5 billion of infrastructure loans spreading across Asia Pacific, Middle East and Latin America. The Group operates its IFS business on prudent commercial principles under a robust risk management framework and is working on a pilot infrastructure loan-backed securitisation issuance to investors in institutional market. This path-setting pilot issuance aims at enriching the local debt capital market and promoting the securitisation market in Hong Kong.

In February 2022, the Group signed 14 additional Memoranda of Understanding on infrastructure loans framework with local and international banks which signify wider market acceptance of the Group in the

global infrastructure financing market and further strengthen the existing platform for collaboration between the Group and established market players.

2. Market Environment

Economic growth around the world moderated in 2022 amidst geopolitical conflicts, broad-based inflation and the tightened monetary policies of major central banks. The Mainland's economy was also affected by the fluctuating epidemic situation. Domestically, the economy saw a contraction and exports recorded a notable decline. Nevertheless, with the various supportive measures taken by the Government, labour market conditions improved and private consumption gradually revived.

3. Financial Performance

The Group reported a net loss of HK\$319 million for the year (2021: a net profit of HK\$831 million). The accounting loss was primarily due to (a) the annuity business for the lower investment income from its placements with the Exchange Fund; and (b) a foreign exchange loss arising from strategic offshore renminbi exposures in cash and debt investments amid uncontrollable market conditions, partly offset by the increase in amortisation of net premium receipts from the significant growth in the mortgage insurance business in prior years, together with the reduction of upfront commission expenses along with the decrease in the MIP business in 2022.

After adjustments to amortise upfront MIP commission expenses with the corresponding recognition of premium income and to exclude the financial results of the annuity business, the adjusted profit of the Group for the year would be HK\$680 million and return on equity would be 5.3%. The embedded value of the annuity business was about HK\$11.2 billion indicating that the business should be profitable in the long term.

	2022	2021
(Loss)/profit (HK\$ million)	(319) ⁴	831 ⁴
Return on equity ¹	(1.6%) ⁴	5.1% ⁴
Cost-to-income ratio ²	350.0% ⁴	35.3% ⁴
Capital adequacy ratio ³	27.9% ⁴	23.4% ⁴

¹ Return on equity is calculated by dividing the net loss or net profit by the average of twelve month-end balances of capital and reserves attributable to equity holder.

² Cost-to-income ratio is calculated by dividing operating expenses by the sum of (i) operating income, (ii) net claims incurred, benefits paid and movement in policyholders' liabilities, and (iii) net commission and levy expenses.

³ Capital adequacy ratio is calculated as the ratio of the capital base to the sum of the risk-weighted amount for credit risk, market risk and operational risk exposures.

⁴ After adjustments to (i) amortise upfront MIP commission expenses with the corresponding recognition of premium income; and (ii) to exclude the financial results of the HKMC Annuity Limited (HKMCA), a wholly-owned subsidiary of the Company, the adjusted profit, return on equity and cost-to-income ratio of the Group for 2022 would be HK\$680 million, 5.3% and 30.8% respectively (2021: HK\$868 million, 7.3% and 25.2% respectively).

Key items in the Group's income statement for 2022 are highlighted as follows:

- (a) net interest income for the year decreased by HK\$99 million to HK\$356 million, mainly due to the tightening of net interest spread amid the interest rate hike environment and the increase in deployment of surplus funds to purchase non-profit making 100% SFGS loans in support of a Government policy initiative, partly mitigated by increase in infrastructure loan purchase;
- (b) net mortgage insurance premiums earned, after income amortisation and provision, surged to HK\$1,072 million (2021: HK\$765 million) as a result of the increase in amortised premium receipts associated with significant growth in the MIP business in prior years. Net upfront MIP commission expenses was HK\$720 million (2021: HK\$961 million), in line with the change in new business underwritten;
- (c) net insurance-related results for annuity business (i.e. the sum of (i) net premiums earned, (ii) net claims incurred, benefits paid and movement in policyholders' liabilities, and (iii) net commission and levy expenses) recorded a loss of HK\$1,017 million (2021: HK\$1,048 million), mainly for prudent statutory reserves based on actuarial assumptions with growing annuity business, while investment returns on capital and premiums placed with the Exchange Fund were grouped under other income;
- (d) other income was HK\$413 million (2021: HK\$2,146 million), mainly representing investment income of HK\$533 million (2021: HK\$1,991 million) from placements with the Exchange Fund and a gain of HK\$145 million (2021: HK\$44 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, partly offset by an exchange loss of HK\$268 million (2021: gain of HK\$117 million) arising primarily from revaluation of strategic 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 swaps for managing their foreign currency exposures; and
- (e) operating expenses (net of recovery of operating expenses from the 100% SFGS) were HK\$515 million (2021: HK\$492 million), less than budget, to support the Group's missions and the Government's certain policy initiatives. The recovery of operating expenses from the 100% SFGS for 2022 was HK\$128 million (2021: HK\$87 million).

4. **Financial Position**

As at 31 December 2022, total assets of the Group amounted to HK\$191.4 billion. Key changes in the Group's financial position are as follows:

- (a) cash and short-term funds decreased by HK\$10.7 billion to HK\$34.5 billion, mainly due to the reduced amount of new debt issuance, coupled with higher amount of debt redemption;
- (b) loan portfolio recorded an increment of HK\$22.0 billion to HK\$101.6 billion, mainly attributable to purchases of 100% SFGS loans and infrastructure loans, partially offset by the repayment and prepayment of the loan portfolio;
- (c) investment portfolio was HK\$14.4 billion (2021: HK\$14.9 billion), comprising mainly debt investments of HK\$13.1 billion classified as amortised cost investments and of HK\$1.2 billion classified as investments at fair value through other comprehensive income;
- (d) placements with the Exchange Fund amounted to HK\$32.8 billion, which comprised capital investments of the Company's wholly-owned subsidiaries, HKMC Insurance Limited (**HKMCI**) and HKMCA, premium investments of the HKMCA, and the fund placed on the Government's

behalf from advance funding received for purchase of PLGS loans;

- (e) outstanding balance of debt securities issued increased by HK\$15.4 billion to HK\$131.1 billion to finance the 100% SFGS loan purchase;
- (f) insurance liabilities were HK\$20.9 billion (2021: HK\$16.8 billion), mainly due to the increase in insurance liabilities for annuity business and mortgage insurance business;
- (g) capital and reserves attributable to equity holder were HK\$20.5 billion (2021: HK\$18.2 billion), largely reflecting the capital injection of HK\$2.5 billion by the Exchange Fund during the year to capitalise the Group's subsidiary, the HKMCA, for business growth; and
- (h) major off-balance sheet exposures were risk-in-force of the MIP and of the RMP. Exposures borne by the Group after ceding to the approved reinsurers for the MIP and the RMP were HK\$99.1 billion (2021: HK\$80.6 billion) and HK\$16.3 billion (2021: HK\$14.0 billion) respectively.

5. **Capital Management**

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

In accordance with the Guidelines, the calculation of capital adequacy ratio (**CAR**) follows the basis of consolidation for financial reporting with the exclusion of regulated subsidiaries of the Company (i.e. the HKMCI and the HKMCA, both being authorized insurers regulated by the Insurance Authority and subject to respective statutory requirements of maintaining adequate capital).

Excluding the investment cost of these two unconsolidated regulated subsidiaries, the CAR of the Group remained solid at 27.9% as at 31 December 2022 (31 December 2021: 23.4%), well above the minimum ratio of 8% stipulated in the Guidelines. The solvency ratios for the HKMCI and the HKMCA were about 11 times (31 December 2021: 7 times) and 15 times (31 December 2021: 15 times) respectively as at 31 December 2022, both well above the respective 200% and 150% minimum statutory requirements stipulated by the Insurance Authority.

6. **Principal Risks and Uncertainties facing the Group**

The Group is exposed to credit risk through loan purchase, mortgage insurance, infrastructure financing and capital investment. The Group is also exposed to interest rate, property price and longevity risks under the reverse mortgage and related business, and takes on longevity, market and liquidity risks under its annuity business. Furthermore, the Group assumes market risk, mainly the interest rate risk and the asset-liability maturity mismatch risk, for facilitating the business operation.

The risk exposures and the financial risk management during the year ended 31 December 2022 are set out in Note 3 to the Financial Statements.

7. **The Group's Environmental Policies and Performance**

The Group is committed to operating and carrying on business in a responsible and sustainable manner. As part of that commitment, the Group integrates environmental, social and governance (**ESG**) considerations, including climate-related factors, in its investment, lending and business decision-making

process in line with its ESG Statement and ESG Guiding Principles and its Responsible Investment, Lending and Business Decision-making Principles which set out the Group's overall strategies and objectives in regard to ESG issues. The Group has been engaged in the planning of its ESG strategy based on its core missions and worked on enhancing its ESG integration and implementing its ESG strategy under the direction of its ESG Committee.

During the year, as regards the environmental aspects, the Group continued to support and implement various green measures to create a more environmentally-friendly office (including agile office design and reuse of office furniture and equipment) and to raise employees' awareness of methods of waste reduction and energy conservation (including better control of office temperature and the use of energy-saving devices such as LED lighting with auto-timer control). Employees were encouraged to adopt paperless working practices by using more electronic communication. The Group also collected waste paper and used toner cartridges for recycling. Suggestions from employees on green office ideas were welcomed and the Group encouraged its suppliers to use and offer more environmentally-friendly products whenever practicable.

8. **The Group's Compliance with Relevant Laws and Regulations that have a Significant Impact on the Group**

During the year, there were no relevant laws and regulations relating to the environment that had a significant impact on the Group.

9. **Particulars of Important Events affecting the Group that have occurred since end-2022**

Dedicated 100% Loan Guarantee Schemes for Specified Sectors (DLGS)

The Financial Secretary announced in the 2023-24 Budget the launch of dedicated 100% loan guarantee schemes to support the business resumption of the travel sector and cross-boundary passenger transport trades, and to encourage taxi owners to replace their current liquified petroleum gas, petrol or hybrid taxis with battery electric taxis. The scheme structure of the DLGS has been developed largely based on the 100% SFGS and PLGS to allow participating lending institutions and the Group to benefit from the established operational and system infrastructure setup for rolling out the schemes swiftly. The Group launched the DLGS for the travel sector and the cross-boundary passenger transport trade on 29 April 2023 and two applications from the travel sector for a total loan amount of HK\$3.5 million were approved in the first week of launch. The Group has been working closely with the Government and participating lending institutions for rolling out the DLGS for battery electric taxis in around mid-2023.

IFS

To consolidate the vital role of Hong Kong as an infrastructure financing hub and a premier overseas financing platform, the Group continued with its pilot infrastructure loan-backed securitisation (ILBS) initiative in 2023.

Subject to market conditions, the Group may, via Bauhinia ILBS 1 Limited (the special purpose vehicle established for the pilot ILBS issuance), launch a publicly rated securitisation transaction which consists of multiple classes of USD-denominated senior secured notes (Notes) backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with an issuance size of around US\$405 million. The Notes (except for the subordinated notes) are expected to be listed on The Stock Exchange of Hong Kong Limited and offered to professional investors. The Company will perform multiple roles in this transaction, including the Sponsor, Retention Holder of the subordinated notes and Collateral Manager.

The pilot issuance of the Notes will enable the local infrastructure financing market to become more vibrant and diversified, whilst facilitating the inflow of market capital to high-quality infrastructure projects.

On 9 May 2023, the Group has mandated ING Bank, MUFG Securities Asia and Standard Chartered Bank to arrange a series of investor meetings and conference calls in relation to the potential inaugural USD-denominated ILBS.

10: **Indication of Likely Future Developments in the Group's Business**

The Group will continue with its existing multi-faceted businesses and develop new enhancements, products and schemes as commissioned by the Government to attain its missions and social objectives. In addition, the Group will continue to maintain its prudent pre-funding strategy to stand ready to provide liquidity to the local banking sector when needed.

11. **The Group's Key Relationships with Its Employees and Counterparties that have a Significant Impact on the Group and on which the Group's Success Depends**

Employees

During the year, the Group continued to provide employees with competitive remuneration packages and fringe benefits, promising career paths and development opportunities, and a healthy and safe working environment. Through system automation and process re-engineering, the Group maintained a lean and efficient workforce, despite an increase in the scope of operations and the complexity of the products it offered.

The Group recognised the importance of ongoing staff training and had devoted appropriate resources to the enhancement of its employees' professional knowledge and skills. In 2022, the Group arranged training and e-learning resources to enhance employees' knowledge and skills. In-house training of "Initiatives on Green and Sustainable Finance" and "Environmental, Social and Governance Investing" were organised to further employees' understanding on ESG developments. The Group also sponsored employees for external job-related training and development courses.

As at 31 December 2022, the permanent staff establishment of the Group was 379 (2021: 367) and the staff turnover rate was 15.1% (2021: 18.1%).

Counterparties

With respect to its loan and insurance portfolios, as at 31 December 2022, the Group maintained a panel of 34 approved sellers and 32 approved servicers under the MPP, 8 approved reinsurers under the MIP and 1 approved reinsurer under the RMP. In addition, there were 20 participating banks and lenders under the MIP, 9 under the Fixed Rate Mortgage Scheme, 14 under the PLGS, 20 and 34 under the 100% guarantee product and the 80% and 90% guarantee products respectively of the SFGS, and there were 12 and 7 participating institutions under the RMP and PRMP respectively. In relation to the annuity business, there were 4 agent banks, 3 insurance brokers and 100 insurance agents for business referral under the Annuity Plan as at the end of the year.

DEBT SECURITIES

The Company issued notes with a total nominal value of HK\$97.6 billion under its multi-currency US\$30 Billion Medium Term Note Programme for a consideration of around HK\$97.6 billion during the year ended 31 December 2022. During the year, the Company launched a dual-tranche HK\$8 billion

2-year and CNH3 billion 3-year social bonds pursuant to the Social, Green and Sustainability Financing Framework (**SGS Framework**) established during the year. The proceeds of the social bonds were used exclusively to finance and /or refinance projects that fall under one or more of the “Eligible Social Asset Categories” under the SGS Framework, while the proceeds of the rest of the notes issued during the year were used as general working capital of the Group. A summary of debt securities issuance and redemption activities of the Group is set out in Note 27 to the Financial Statements.

DIVIDEND

Having considered the capital requirements for the business development, Directors recommended that no dividend be declared for 2022 (2021: nil).

DIRECTORS

Persons who served as Directors of the Company during the year or during the period beginning with the end of the year and ending on the date of this report are as follows:

The Hon. Paul CHAN Mo-po, GBM, GBS, MH, JP
Chairman and Executive Director

Mr Eddie YUE Wai-man, JP
Deputy Chairman and Executive Director

Mr Howard LEE Tat-chi, JP
Executive Director

Mr Raymond LI Ling-cheung, JP
Executive Director and Chief Executive Officer

The Hon. Christopher HUI Ching-yu, GBS, JP
Non-Executive Director

The Hon. Winnie HO Wing-yin, JP
Non-Executive Director (appointed on 27 June 2022)

The Hon. CHAN Hak-kan, SBS, JP
Non-Executive Director (appointed on 27 June 2022)

The Hon. Paul TSE Wai-chun, JP
Non-Executive Director

The Hon. Jimmy NG Wing-ka, BBS, JP
Non-Executive Director (appointed on 27 June 2022)

The Hon. SHIU Ka-fai, JP
Non-Executive Director (appointed on 27 June 2022)

Mr Clement CHAN Kam-wing, MH, JP
Non-Executive Director

Ms Margaret KWAN Wing-han
Non-Executive Director (appointed on 27 June 2022)

The Hon. Horace CHEUNG Kwok-kwan, SBS, JP
Non-Executive Director (retired on 27 June 2022)

The Hon. Jeffrey LAM Kin-fung, GBS, JP
Non-Executive Director (retired on 27 June 2022)

Mr Frank CHAN Fan, GBS, JP
Non-Executive Director (retired on 27 June 2022)

Mr Albert WONG Kwai-huen, SBS, JP
Non-Executive Director (retired on 27 June 2022)

Ms Anita FUNG Yuen-mei, BBS, JP
Non-Executive Director (retired on 27 June 2022)

Mr Leong CHEUNG
Non-Executive Director (retired on 27 June 2022)

In accordance with Article 109 of the Company's Articles of Association, all those Directors who are not Executive Directors shall retire but shall be eligible for re-election at the forthcoming annual general meeting.

The list of directors who served on the boards (or as the case may be, as the sole director) of the subsidiaries and subsidiary undertakings of the Company during the year or during the period beginning with the end of the year and ending on the date of this report is kept at the registered office of the Company and available for inspection by the sole shareholder during office hours.

PERMITTED INDEMNITY

A permitted indemnity provision (as defined in the Companies Ordinance) for the benefit of the Directors was in force during the year ended 31 December 2022 and is in force as at the date of this report.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year, the Company purchased loans under the PLGS from Bank of China (Hong Kong) Limited (**BOCHK**) and paid servicing and origination fees to BOCHK in respect of the 100% SFGS loans purchased from BOCHK by the Company; and the HKMCI provided BOCHK with insurance cover under the MIP and the RMP. Ms Anita Fung, who retired as a Director of the Company on 27 June 2022, was an Independent Non-Executive Director of BOCHK.

Apart from the above and those disclosed in Note 29 to the Financial Statements on material related party transactions, there was no other transaction, arrangement or contract of significance in relation to the Company's business, to which any member of the Group was a party, and in which any person who was a Director at any time during the year or a connected entity (as defined in the Companies Ordinance) of any such person had, directly or indirectly, a material interest, which subsisted at the end of the year or at any time during the year.

AUDITOR

The Financial Statements have been audited by PricewaterhouseCoopers who will retire, and, being eligible, will offer themselves for reappointment, at the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors



CHAN Mo-po, Paul
Chairman and Executive Director

Hong Kong
22 May 2023

Independent Auditor's Report

To the Sole Member of The Hong Kong Mortgage Corporation Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of The Hong Kong Mortgage Corporation Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 19 to 91, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Opinion (continued)

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment allowances on the infrastructure loan portfolio; and
- Measurement of insurance contract liabilities

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment allowances on the infrastructure loan portfolio</p> <p>Refer to Note 18 to the consolidated financial statements.</p> <p>As at 31 December 2022, the Group recorded an impairment allowance of HK\$13 million (2021: HK\$5 million) relating to infrastructure loans in the loan portfolio of HK\$7,577 million (2021: HK\$4,814 million).</p> <p>The Group developed an expected credit loss ("ECL") methodology in respect of the impairment models for estimating the allowances for impairment for its infrastructure loan portfolio. The Group also established the governance process and controls for the measurement of impairment allowance of the infrastructure loan portfolio. As part of the governance process, management assessed the overall ECL</p>	<p>Our audit procedures in relation to the assessment in determining impairment allowance against the infrastructure loan portfolio included the following:</p> <ul style="list-style-type: none"> • Understanding, evaluating and testing the governance process over the ECL methodology in respect of impairment models, selection of forward looking scenarios and probability assigned to these scenarios, and their management's assessment of the overall impairment allowance which includes annual back testing performed; • Understanding, evaluating and testing key internal controls over management's staging classification via their assessment of quantitative and qualitative credit indicators (including default indicators) that would drive the assignment of internal loan rating which in turn determines staging classification;

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>methodology and determined that it continues to remain appropriate.</p> <p>Management determines staging classification for its infrastructure loan portfolio based on the changes in credit quality by identifying whether there have been any evidence which would trigger the determination of significant increase in credit risk ("SICR") since origination, and also whether there are any default indicators which might trigger migrating to impaired loans as detailed in Note 3.2. These indicators are quantitative as well as qualitative in nature and they involve management judgement to determine the staging classification and related ECL for the loans.</p> <p>In determining the ECL amounts for different loan staging, the Group also applies historical loss rates to the infrastructure loan portfolio, and adjusts for forward looking factors. Forward looking adjustments are detailed in Note 3.2. The Group selected a forward looking view based on the outlook of global economy, relevant regional economic indicators, specific industry data and taking into consideration of any special events. The loans are then rated under various scenarios and the probability is assigned to each scenario with a forward looking view which affects the probability of default and also the determination of ECL amount.</p> <p>Our audit focused on the determination of the staging classification as detailed in Note 4.1 and forward looking adjustments of the infrastructure loan portfolio, both of which would be inherently subject to significant judgement by management.</p>	<ul style="list-style-type: none"> Assessing management's credit reviews of the infrastructure loans on a sampling basis to identify and evaluate the appropriateness of the staging classification as at the year end; Assessing the reasonableness and supporting documentation of the forward looking scenarios and probability assigned to these scenarios together with the support of our credit experts; Testing data inputs into forward looking scenarios, including external data from independent sources; and Assessing the overall reasonableness of the impairment allowances for the infrastructure loan portfolio, including performing sensitivity testing and stand-back procedures to assess the appropriateness of the ECL impairment allowances made as at 31 December 2022. <p>We found that management's judgements used in calculating the ECL impairment amounts were supported by the evidence obtained.</p>

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Measurement of insurance contract liabilities</p> <p>Refer to Note 26 to the consolidated financial statements.</p> <p>HKMC Annuity Limited (a wholly-owned subsidiary of the Company)'s HKMC Annuity Plan (the "Plan") has issued insurance contracts with premiums amounting to HK\$2,528 million for the year ended 31 December 2022 (2021: HK\$3,003 million). The issuance of the policies under the Plan has given rise to the recognition of insurance contract liabilities on the consolidated statement of financial position of the Group in accordance with HKFRS 4 "Insurance Contracts" and the Hong Kong insurance regulatory requirements. The liabilities recognised amounted to HK\$11,582 million (2021: HK\$8,138 million), being approximately 7% of the total consolidated liabilities of the Group as at 31 December 2022 (2021: 10%).</p> <p>The valuation of insurance contract liabilities requires the use of appropriate actuarial methodologies, and also various investments return and operational assumptions that are subject to a high degree of management judgement. Furthermore, there are inherent uncertainties in the estimation of future policyholder benefits as at the balance sheet date. The key assumptions used in measuring the insurance contract liabilities related to the Plan include valuation interest rates and mortality rates.</p> <p>Our audit focused on measurement of insurance liabilities because their determination is inherently subject to significant judgement by management.</p>	<p>Our audit procedures in relation to the measurement of insurance contract liabilities included the following:</p> <ul style="list-style-type: none"> Understanding and evaluating the internal controls over the actuarial process of the valuation of life insurance contract liabilities. <p>With the involvement of our PwC actuarial experts, we have carried out the following procedures in relation to the insurance contract liabilities:</p> <ul style="list-style-type: none"> Assessing the appropriateness of the methodologies adopted against the Hong Kong insurance regulatory requirements; Assessing the reasonableness of the key assumptions used including the valuation interest rate, mortality rates, and expenses, and management's rationale for the judgement applied; and Evaluating the overall reasonableness of the insurance contract liabilities. <p>We found that management's judgements used in measuring insurance liabilities were supported by the evidence obtained.</p>

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Tam Man Kit, James.

A stylized, handwritten signature of the PricewaterhouseCoopers firm, written in a dark ink.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 May 2023

THE HONG KONG MORTGAGE CORPORATION LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	<u>Notes</u>	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Interest income	6	2,660,602	906,148
Interest expense	7	<u>(2,304,711)</u>	<u>(451,260)</u>
Net interest income		355,891	454,888
Net premiums earned	8	3,677,750	3,834,633
Other income	9	<u>412,976</u>	<u>2,146,210</u>
Total operating income		4,446,617	6,435,731
Net claims incurred, benefits paid and movement in policyholders' liabilities	8	<u>(3,578,587)</u>	<u>(4,079,450)</u>
Net commission and levy expenses	8	<u>(720,735)</u>	<u>(962,127)</u>
Operating expenses	10	<u>(515,465)</u>	<u>(491,896)</u>
Operating (loss) / profit before impairment		<u>(368,170)</u>	902,258
Change in impairment allowances	12	<u>(6,046)</u>	<u>(8,185)</u>
(Loss) / profit before taxation		(374,216)	894,073
Taxation	13(a)	<u>54,808</u>	<u>(62,975)</u>
(Loss) / profit for the year		<u>(319,408)</u>	<u>831,098</u>

The notes on pages 24 to 91 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	<u>Note</u>	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
(Loss) / profit for the year		(319,408)	831,098
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
- change in the fair value, net		(12,070)	2,634
- change in the loss allowance, net	12	(363)	(737)
Cash flow hedges recognised in other comprehensive income:			
- change in the fair value, net		<u>133,338</u>	<u>5,724</u>
Other comprehensive income for the year, net of tax		<u>120,905</u>	<u>7,621</u>
Total comprehensive (loss) / income for the year		<u>(198,503)</u>	<u>838,719</u>

The notes on pages 24 to 91 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	2022 HK\$'000	2021 HK\$'000
ASSETS			
Cash and short-term funds	14	34,525,384	45,249,382
Interest and remittance receivables	15	1,423,956	871,272
Derivative financial instruments	16	603,715	812,397
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	17	90,162,235	71,063,154
Loan portfolio, net	18	11,455,458	8,570,813
Investment securities:			
- fair value through other comprehensive income	19(a)	1,244,974	3,647,182
- fair value through profit or loss	19(b)	9,628	10,710
- amortised cost	19(c)	13,143,076	11,206,992
Placements with the Exchange Fund	20	32,798,933	28,633,258
Prepayments, deposits and other assets	22	4,913,818	2,267,537
Deferred tax assets	13(b)	162,155	116,547
Reinsurance assets	26	734,052	491,049
Fixed assets	23	187,776	237,941
Total assets		191,365,160	173,178,234
LIABILITIES			
Interest payable	24	1,654,279	688,242
Accounts payable, accrued expenses and other liabilities	25	12,990,383	21,384,151
Derivative financial instruments	16	4,192,097	334,529
Current tax liabilities	13(b)	98,666	136,260
Insurance liabilities	26	20,855,171	16,784,290
Debt securities issued	27	131,075,272	115,652,967
Total liabilities		170,865,868	154,980,439
EQUITY			
Capital and reserves attributable to the equity holder:			
Share capital	28	12,000,000	9,500,000
Retained profits		5,867,873	6,618,097
Contingency reserve		2,493,470	2,062,654
Fair value reserve		(1,017)	11,416
Hedging reserve		138,966	5,628
Total equity		20,499,292	18,197,795
Total liabilities and equity		191,365,160	173,178,234

Approved and authorised for issue by the Board of Directors on 22 May 2023.

(Sd.)

YUE Wai Man, Eddie
Deputy Chairman and Executive Director

(Sd.)

LI Ling Cheung, Raymond
Executive Director and Chief Executive Officer

The notes on pages 24 to 91 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Retained profits	Contingency reserve	Fair value reserve	Hedging reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2021	7,000,000	6,075,082	1,774,571	9,519	(96)	14,859,076
Profit for the year	-	831,098	-	-	-	831,098
Other comprehensive income	-	-	-	1,897	5,724	7,621
Total comprehensive income for the year	-	831,098	-	1,897	5,724	838,719
Capital injection (Note 28)	2,500,000	-	-	-	-	2,500,000
Transfer of 50% or 75% of net risk premium earned from retained profits to contingency reserve	-	(522,348)	522,348	-	-	-
Release of contingency reserve to retained profits	-	234,265	(234,265)	-	-	-
Balance as at 31 December 2021	9,500,000	6,618,097	2,062,654	11,416	5,628	18,197,795
Loss for the year	-	(319,408)	-	-	-	(319,408)
Other comprehensive (loss) / income	-	-	-	(12,433)	133,338	120,905
Total comprehensive (loss) / income for the year	-	(319,408)	-	(12,433)	133,338	(198,503)
Capital injection (Note 28)	2,500,000	-	-	-	-	2,500,000
Transfer of 50% or 75% of net risk premium earned from retained profits to contingency reserve	-	(574,660)	574,660	-	-	-
Release of contingency reserve to retained profits	-	143,844	(143,844)	-	-	-
Balance as at 31 December 2022	12,000,000	5,867,873	2,493,470	(1,017)	138,966	20,499,292

The notes on pages 24 to 91 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Cash flows from operating activities			
(Loss) / profit before taxation for the year		(374,216)	894,073
Adjustments for:			
Interest income		(2,637,663)	(904,173)
Interest expense		2,215,031	341,069
Dividend income	9	(253)	(215)
Income from placements with the Exchange Fund	9	(532,861)	(1,991,151)
Depreciation	10	79,537	90,077
Amortisation of discount on debt securities issued		89,680	110,191
Charge of impairment allowances	12	6,046	8,185
Amortisation of discount on investment securities		(22,939)	(1,975)
Net loss on investments at fair value through profit or loss	9	1,092	10,238
Change in fair value of financial instruments		39,853	(192,870)
Net gain on disposal of investment at amortised cost	9	-	(3,235)
Loss on disposal of fixed assets		-	61
Interest received		2,420,795	1,186,346
Interest paid		(1,593,311)	(581,019)
Cash flows used in operating activities before changes in operating assets and liabilities		(309,209)	(1,034,398)
Change in time deposits with original maturity of more than three months		26,803,828	(24,046,208)
Change in remittance receivables		8,501	(80,487)
Change in prepayments, deposits and other assets		(2,657,905)	(1,803,246)
Change in loans with special 100% guarantee under the SME Financing Guarantee Scheme		(19,099,081)	(34,978,441)
Change in loan portfolio		(2,892,147)	(1,519,745)
Change in accounts payable, accrued expenses and other liabilities		(8,581,946)	11,605,798
Change in insurance liabilities, net		3,827,878	5,483,772
Exchange differences		(9,412)	(37,712)
Cash used in operation		(2,909,493)	(46,410,667)
Taxation paid		(16,770)	(180)
Net cash used in operating activities		(2,926,263)	(46,410,847)
Cash flows from investing activities			
Purchase of fixed assets		(29,288)	(61,754)
Purchase of investment securities at fair value through other comprehensive income	19(a)	(660,388)	-
Purchase of investment securities at amortised cost	19(c)	(3,992,780)	(2,744,548)
Proceeds from sale and redemption of investment securities		4,794,810	2,375,562
Placements with the Exchange Fund		(4,907,000)	(11,640,000)
Withdrawals from the Exchange Fund		1,500,000	1,500,000
Dividend received from listed investments		253	215
Net cash used in investing activities		(3,294,393)	(10,570,525)
Net cash outflows before financing		(6,220,656)	(56,981,372)
Cash flows from financing activities			
Proceeds from bank borrowings		73,176,972	19,821,844
Repayment of bank borrowings		(73,176,972)	(19,821,844)
Proceeds from issue of debt securities	27	97,470,457	109,360,016
Redemption of debt securities issued	27	(77,621,597)	(55,532,806)
Principal elements of lease payments		(37,720)	(37,247)
Proceeds from capital injection	28	2,500,000	2,500,000
Net cash generated from financing activities		22,311,140	56,289,963
Net increase / (decrease) in cash and cash equivalents		16,090,484	(691,409)
Beginning cash and cash equivalents		13,805,269	14,499,795
Effect of exchange rates on cash and cash equivalents		(12,437)	(3,117)
Ending cash and cash equivalents	14	29,883,316	13,805,269

The notes on pages 24 to 91 are an integral part of these consolidated financial statements.

THE HONG KONG MORTGAGE CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The consolidated financial statements of The Hong Kong Mortgage Corporation Limited (**Company**) and its subsidiaries (collectively the **Group**) have been prepared in accordance with Hong Kong Financial Reporting Standards ((**HKFRSs**) which is a collective term and includes all applicable individual Hong Kong Financial Reporting Standards (**HKFRS**), Hong Kong Accounting Standards (**HKASs**) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (**HKICPA**), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) carried at fair value.

The accounting policies and the methods of computation used in the preparation of these consolidated financial statements are consistently applied to all the years presented, unless otherwise stated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. Summary of significant accounting policies

2.1. Adoption of HKFRSs

(a) New and amended standards effective on 1 January 2022

There are no new standards or amendment to standards effective in 2022 that have material impact on the Group.

(b) New standards and amendments issued but not yet effective

A number of new standards and amendments to standards have been issued but are not effective for annual periods beginning after 1 January 2022, and have not been early adopted. The Group has assessed the impact of these standards and amendments on its consolidated financial statements and they are not expected to have a material impact on the consolidated financial statements of the Group, except for the HKFRS 17 "Insurance Contracts" which will be effective for annual periods on 1 January 2023, with comparatives restated from 1 January 2022. This standard sets out the requirements that the Group should apply in accounting for insurance it issues and reinsurance contracts it holds, and apply retrospectively.

The Group plans to complete the full implementation of HKFRS 17 in 2023, and the implementation project is currently progressing as planned.

The insurance contracts of the Group would be measured based on the measurement models set out under HKFRS 17. The general measurement model is expected to be used (the premium allocation approach and variable fee approach are not expected to be used). Under the general measurement model, the insurance contract balances comprise the fulfilment cash flows, risk adjustments and contractual service margin. The current

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

estimate of the future cash flows of a group of contracts are the cash flows within the contract boundary that the Group expects to collect from premiums and pay-out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts. The risk adjustment for non-financial risks is applied to the present value of the estimated future cash flows, and it reflects the compensation that the Group requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Group fulfils insurance contracts. The contractual service margin is a component of the carrying amount of the asset or liability for a group of insurance contracts issued representing the unearned profit that the Group will recognise as it provides insurance contract services in the future. Under HKFRS 17, commission payments are absorbed into the contractual services margin and are not expensed in the income statement at the inception of the insurance contracts, and would be recognised as insurance service expenses in the income statement in a systematic way on the basis of the passage of time. The same amount is recognised as insurance revenue which represents the portion of premiums recovering the commission payments. In addition, a loss is recognised on initial recognition of a group of insurance contracts if that group is onerous.

The Group adopts the fair value approach in determining the transition amounts at the HKFRS 17 transition date being 1 January 2022, when it is impracticable to use a full retrospective approach. Under the fair value approach, the contractual services margin at 1 January 2022 would be determined as the difference between the fair value of a group of contracts at that date and the fulfilment cash flows at that date. The Group would measure the fair value of the contracts as the present value of the net cash flows expected to be generated by the contracts, determined using a discounted cash flow technique. The cash flows considered in the fair value measurement will be consistent with those that are within the contract boundary. Measurement of insurance contracts under the fair value approach requires judgements, and the Group will use reasonable and supportable information available at 1 January 2022 to determine the level of aggregation, identification of market participants, assumptions underlying the measurement of insurance contracts etc.

2.2. Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2022.

Subsidiaries are entities (including structured entities used for issuing mortgage-backed securities, namely HKMC Funding Corporation (1) Limited (dissolved) and Bauhinia MBS Limited (dissolved)) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interests in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

THE HONG KONG MORTGAGE CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In the Company's statement of financial position, the investment in the subsidiaries is stated at cost less provision for impairment allowances. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2.3. Interest income and expense

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.4. Other income other than those arising from insurance and guarantee contracts under Note 2.21

(a) Fee income

Fees are generally recognised on an accrual basis when the service has been provided. Upfront arrangement fees that are an integral part of the effective interest rate are recognised as an adjustment to the effective interest rate in determining interest income on the loans.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

(c) Income from placements with the Exchange Fund

Changes in fair value of the placements with the Exchange Fund classified as "financial assets at fair value through profit or loss" is recognised as income or loss in the year in which they arise.

2.5. Financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss), and

THE HONG KONG MORTGAGE CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

The Group has classified the placements with the Exchange Fund as financial asset at fair value through profit or loss.

The Group reclassifies investment securities when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of the Group's financial assets are classified into the following categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

- Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.
- Fair value through other comprehensive income (**FVOCI**): assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains or losses.
- Fair value through profit or loss (**FVPL**): assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the income statement within other gains or losses in the period in which it arises.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Impairment

The Group assesses on a forward-looking basis the expected credit losses (ECLs) associated with its assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.2 provides more details of how the ECLs is measured.

2.6. Equity securities and investment funds

Equity securities are measured at FVPL, unless an election is made to designate them at FVOCI upon initial recognition.

For equity securities at FVPL, changes in fair value are recognised in profit or loss in the period in which they arise.

The election of FVOCI is made upon initial recognition on an instrument-by-instrument basis and once made is irrevocable. Gains and losses on these equity securities are recognised in OCI, which are not reclassified subsequently to profit or loss, including when they are derecognised.

Investment funds are measured at FVPL. Changes in fair value of these funds are recognised in profit or loss in the period in which they arise.

2.7. Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost. All the financial liabilities are classified at inception and recognised initially at fair value.

Debt securities issued in the statement of financial position include (i) notes issued under the Debt Issuance Programme (DIP), and (ii) notes issued under the Medium Term Note (MTN) Programme.

These notes are initially designated as either (i) financial liabilities at fair value through profit or loss or (ii) financial liabilities at amortised cost.

The notes classified as financial liabilities at amortised cost are initially recognised at fair value, which is the fair value of the consideration received, net of transaction costs incurred. The notes are subsequently stated at amortised costs; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the debt securities using the effective interest method.

On redemption/repurchase of the notes, the resulting gains or losses, being the difference between the redemption/repurchase amount and the carrying amount, are recognised in the income statement in the period in which the redemption/repurchase takes place.

2.8. Recognition and de-recognition of financial instruments

Purchases and sales of investment securities are recognised on the trade date, the date on which the Group purchases or sells the assets. Loan portfolio and receivables are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial liabilities at fair value through profit or loss and debt securities issued are recognised on the trade date. Other financial liabilities are recognised when such obligations arise. Financial liabilities are derecognised from the statement of financial position when and only when the obligation specified in the contract is discharged, cancelled or expired.

The Group does not recognise an asset and a liability, when the Group enters into an arrangement to pass through cash flows from an asset and that arrangement meets specified conditions. In these cases, the Group acts more as an agent of the eventual recipients of the cash flows than as an owner of the asset. Accordingly, to the extent that those conditions are met the arrangement is treated as a transfer and considered for derecognition even though the entity may continue to collect cash flows from the asset. Conversely, to the extent the conditions are not met, the entity acts more as an owner of the asset with the result that the asset should continue to be recognised.

2.9. Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Interest receivables and payables arising from derivatives are separately presented in the statement of financial position.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in financial liabilities are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or firm commitments (**fair value hedge**); or, (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (**cash flow hedge**). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the hedging, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to income statement over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in OCI and accumulated in equity as hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives not qualified as hedges for accounting purposes

Derivative instruments entered into as economic hedges that do not qualify for hedge accounting are held at fair value through profit or loss. Changes in the fair value of any derivative instrument are recognised immediately in the income statement.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11. Repossessed assets

Reposessed collateral assets are accounted as assets held for sale and reported in "Other assets" and the relevant loans are derecognised. The reposessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

2.12. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Chief Executive Officer as its chief operating decision maker.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.13. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (**functional currency**). The consolidated financial statements are presented in thousands of units of Hong Kong dollars (**HK\$'000**) which is the Company's functional and the Company's and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in OCI.

Translation differences on non-monetary financial instruments held at FVPL are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments classified as FVOCI, are included in the fair value reserve in equity.

2.14. Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Right-of-use assets on leased properties
for own use
Leasehold improvements
Furniture and fixtures

shorter of the end of the useful life of the
right-of-use asset or the end of the lease term
over the unexpired period of the lease
over the unexpired period of the lease

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Computer	3 years
Office equipment	3 years
Motor vehicle	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gain and loss on disposal is determined by comparing proceeds with carrying amount. It is included in the income statement.

2.15. Impairment of investment in subsidiaries

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from that subsidiary if the dividend exceeds the total comprehensive income of the subsidiary concerned in the period the dividend is declared or if the carrying amount of the subsidiary in the Company's statement of financial position exceeds the carrying amount of the subsidiary's net assets including goodwill in the consolidated statement of financial position.

2.16. Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investment in the subsidiary, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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2.17. Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the end of each reporting period.

Employee entitlements to sick leave, maternity or paternity leave are recognised when the absence occurs.

(b) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created constructive obligations.

(c) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution scheme, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and defined contribution scheme are expensed as incurred.

2.18. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events where it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.19. Leases

(a) As a lessee

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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Right-of-use assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition to leases of assets that are considered as low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2.20. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less, including cash and balances with banks that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

2.21. Financial guarantee contracts

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are accounted for as insurance contracts in accordance with the accounting policies set out in Note 2.22(b).

2.22. Insurance and other guarantee contracts

(a) Mortgage insurance contracts

The mortgage insurance business under the MIP of the Group is accounted for on the annual accounting basis. Under the annual accounting approach, the Group makes provisions based on credible estimates of future income and outgoings to determine the

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underwriting result for the current accounting period. The underwriting result includes any adjustments arising from the correction of the previous estimates.

Gross premiums represent direct business written through Authorized Institutions (AIs) as defined in accordance with the Banking Ordinance during an accounting period. The gross premiums after deduction of discounts and refunds, include the reinsurance premiums to be paid to the approved reinsurers, the risk premiums and servicing fees earned by the Group. The net premiums are recognised as income on a time-apportioned basis during the time the insurance coverage is effective.

Unearned premiums represent that portion of net premiums written which are estimated to relate to risks and services subsequent to the end of each reporting period.

Provisions are made for outstanding claims, claims incurred but not reported and loss reserve at the end of each reporting period. For risk-sharing business, 50% or 75% of the net risk premiums earned in a year depending on the respective product is set aside as a Contingency Reserve for a period of time in accordance with relevant regulatory guidelines and as considered appropriate by the directors. Withdrawals from the Contingency Reserve can be made to meet excess claims at any time during the period. At the end of the reporting period, the unutilised balance of the Contingency Reserve can be released to retained profits.

Reinsurance contracts refer to contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group. Benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of claims recoverable from reinsurers and receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance assets are primarily premiums for reinsurance contracts and are amortised as an expense.

A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

Commissions are recognised in the income statement as incurred.

(b) Other guarantee and insurance contracts

The Group provides financial guarantees for loan facilities provided to eligible small and medium enterprises (SMEs), in return for a guarantee fee, insurance coverage on reverse mortgage loans and policy reverse mortgage loans provided to elderly people, in return for an insurance premium.

50% of the guarantee fee earned and 75% of the insurance premium earned in a year is set aside as a Contingency Reserve for a period of time in accordance with relevant regulatory guidelines and as considered by directors to be appropriate. Withdrawals from the Contingency Reserve can be made to meet excess claims at any time during the period. At the end of the reporting period, the unutilised balance of the Contingency Reserve can be released to retained profits.

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In respect of insurance coverage on reverse mortgage loans, the Group entered into reinsurance contract with a reinsurer. Reinsurance contracts refer to contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more insurance contracts issued by the Group. Benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. Reinsurance assets are primarily premiums for reinsurance contracts and are amortised as an expense.

A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Group will receive from the reinsurer can be reliably measured.

(c) Life insurance contracts

Premiums are recognised as income when the cash is received from the annuitant, and the policy is issued and becomes effective after the completion of all the underwriting procedures.

Insurance contract liabilities are recognised when contracts are entered into and premiums are recognised. These liabilities are measured by using the Modified Net Level Premium Valuation method for long term business in accordance with the provision of the Insurance (Determination of Long Term Liabilities) Rules. The movements in liabilities at each reporting date are recorded in the income statement.

Insurance claims reflect the cost of all annuity payments, surrenders, withdrawals and death claims arising during the year. Surrenders, withdrawals and death claims are recorded on the basis of notifications received. Annuity payments are recorded when due.

The Group will assess if its recognised liabilities are adequate on each reporting date, using the current estimates of future cash flows under these contracts. If the assessment shows that the carrying amount of its insurance liabilities are inadequate in the light of the estimated future cash flows, the shortfall shall be recognised in the income statement.

2.23. Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3. Financial risk management

3.1. Strategy in using financial instruments

The major activities of the Group are (i) to purchase portfolios of mortgages or loans; (ii) to raise financing for its purchase of assets through issuance of debt securities; (iii) to develop infrastructure financing business; (iv) to provide mortgage insurance cover in respect of mortgage loans and reverse mortgage loans originated by participating lenders and secured on residential properties in Hong Kong, life insurance policies and other assets, if applicable; (v) to operate a scheme for the Government of the Hong Kong Special Administrative Region (**Government**) providing guarantee on loans advanced by participating lenders for local SMEs and to operate a scheme for the Government providing 100% guarantee on loans advanced by participating lenders

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for unemployed individuals; and (vi) to offer life annuity products in or from Hong Kong. By their nature, the Group's activities are principally related to the use of financial instruments including cash, loans, debts, investments, and derivatives.

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group manages the risks in a prudent manner in sustaining the Group's financial performance.

The Corporate Risk Management Committee is set up at group level to provide oversight of the enterprise-wide risk matters including financial and non-financial risks. The policies and limits for various risks are monitored and reviewed regularly by various management committees of the Company, including Infrastructure Financing and Securitisation Investment Committee (IFSIC), Credit Committee, Asset and Liability Committee (ALCO), Transaction Approval Committee (TAC), Environmental, Social and Governance (ESG) Committee, and Operational Risk Committee (ORC) which report to the Corporate Risk Management Committee.

The IFSIC executes oversight and approval authority over all investments in infrastructure loans. The Credit Committee oversees the credit policies and standards for asset acquisition. The ALCO oversees the implementation of market risk management and investment guidelines approved by the Board of Directors. The TAC conducts an in-depth analysis of pricing economics and associated risks for business transactions, whilst taking into consideration the latest market conditions and business strategies approved by the Board. The ESG Committee is established to direct and oversee the development and implementation of ESG strategy having regard to the relevant requirements and guidelines. The ORC is responsible for ensuring that all business entities and line functions maintain an effective operational risk and internal control framework. The ORC is also responsible for providing directions and resolving issues related to policies, controls and management of operational issues referred to by line functions, as well as ensuring prompt and appropriate corrective action in response to audit findings related to operational risks or internal controls. In addition, Group Internal Audit Department is responsible for the independent review of the internal control systems of the Group.

The Group established Longevity Risk Committee to manage longevity risk of the Group. Its duties include approving longevity risk management policies and hedging transactions and reviewing longevity experiences and exposures of the Group. It also monitors and analyses the general trend, technological changes and their implications for human longevity.

In respect of general insurance business, a Risk Committee is established by HKMC Insurance Limited (HKMCI) as an independent oversight committee to assist its Board to oversee implementation of risk management framework and manage all risks faced by the HKMCI. For HKMC Annuity Limited (HKMCA), a Risk Committee is established to manage the enterprise-wide risk matters, including financial and non-financial risks.

The most important types of risks are credit risk, market risk which includes currency risk, interest rate risk and equity price risk, liquidity risk and insurance risk.

3.2. Credit risk

The Group's principal financial assets are its cash and short-term funds, investment securities, placements with the Exchange Fund, loan portfolio and loans with special 100% guarantee under the SFGS. The credit risk on liquid funds and investment securities is limited because the credit ratings of the counterparties, mainly sovereigns, quasi-sovereign agencies, banks and companies, should meet the minimum requirement in accordance with the investment guidelines approved by the Board of Directors. The capital of the HKMCA and the HKMCI as well as premium receipts

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of the HKMCA are placed with the Exchange Fund managed by the Hong Kong Monetary Authority (HKMA). The credit risk on the placements with the Exchange Fund is very limited as it is exposure to the Government. Regarding loans with special 100% guarantee under the SFGS, the credit default risk of the loans is fully guaranteed by the Government.

The Group's credit risk is primarily attributable to its loan portfolio, which is the risk that a loan borrower will be unable to pay amounts in full when due. The Group therefore has a prudent policy for managing its exposure to credit risk.

To maintain the quality of the loan portfolios, the Group adheres to a prudent risk management framework to (i) select Approved Sellers with established criteria, (ii) adopt prudent asset purchasing criteria, (iii) conduct effective and in-depth due diligence reviews, (iv) implement robust project structures and financing documentation, (v) perform an ongoing monitoring and reviewing mechanism, and (vi) ensure adequate protection for higher-risk assets or transactions.

The Group undertakes ongoing credit review with special attention paid to problem loans. Business units will monitor these loans and take recovery action such as establishing relief plan with borrowers in order to maximise recoveries. Loan impairment assessment is performed regularly and impairment allowance is charged to income statement in accordance with the guidelines approved by the Credit Committee.

Collateral and other credit enhancements

The Group has implemented guidelines on the acceptability of specific classes of collateral on credit risk mitigation, which are subject to regular review.

Loan portfolio and loans with special 100% guarantee under the SFGS

The principal collateral types for mortgage portfolio mainly consist of properties located in Hong Kong. For hire purchase receivable, the collateral types include taxi and public light bus licenses. Mortgage portfolio and hire purchase receivable are generally fully secured by collateral. The current collateral value of properties is determined with the use of public indices on a portfolio basis. The principal collateral types for infrastructure loan portfolio mainly consist of security interests in the assets of the borrowers and assignment of key project documents and/or charge over bank accounts but the actual security varies projects to projects. For microfinance loans, no collateral is generally sought.

Regarding loans with special 100% guarantee under the SFGS, no collateral is sought as the credit default risk of the loans is fully guaranteed by the Government. Please refer to Note 17 for more details.

Time deposits with banks, investment securities and placements with the Exchange Fund

Collaterals are generally not sought for time deposits with banks as the exposures are considered to be low risk due to the nature of the counterparties and short-term maturity. Investment securities and placements with the Exchange Fund are generally unsecured.

Derivative financial instruments

The Group enters into ISDA master agreement with all counterparties for derivative transactions where each party will be able to settle all outstanding amounts on a net basis in the event of default of the other party. The Group also executed Credit Support Annex (CSA) with all counterparties in conjunction with the master agreement. Under CSA, collateral is passed between the parties to

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mitigate the counterparty risk inherent in outstanding positions.

For financial instruments such as derivatives, exposures are monitored against counterparty risk limits established in accordance with the investment guidelines and credit risk policy of the Group. These counterparty risk limits are subject to regular review by the Credit Committee on an annual basis. At any one time, the amount subject to counterparty risk is limited to the current fair value of instruments favourable to the Group (i.e. assets with positive fair value), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This counterparty risk exposure is managed as part of the overall credit limits with counterparties, together with potential exposures from market movements.

Mortgage insurance contracts, other guarantee and insurance contracts

The details are disclosed in Note 3.5.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

Expected credit loss (ECL) measurement

For financial assets, the following credit risk modelling applies:

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information with the following indicators incorporated:

- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the financial conditions of the borrower.

A three-stage approach to measuring ECLs is applied on loan portfolio, cash and short-term funds and investment securities accounted for at amortised cost and FVOCI. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

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Stage 1: 12-month ECLs

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECLs – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECLs – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest income is calculated by applying the effective interest rate to the amortised cost (net of impairment provision) rather than the gross carrying amount.

ECLs are derived from unbiased and probability-weighted estimates of expected loss. The amount of the ECLs is recognised using an impairment allowance account with the movement in this account charged to income statement.

At initial recognition, impairment allowance is required for ECLs resulting from default events that are possible within the next 12 months (**12-month ECLs**). At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. In the event of a significant increase in credit risk, impairment allowance is required from all possible default events over the expected life of the financial assets (**Lifetime ECLs**). If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the impairment allowance reverts from lifetime ECLs to 12-month ECLs.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Loans are written off after all the necessary procedures have substantially been completed and the amount of the loss has been determined. Where loans have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Interest and remittance receivables, deposits and other assets are also subject to the impairment requirements of HKFRS 9, and the identified impairment allowance was immaterial.

The Group uses three categories for loans which reflect their credit risk and how the loan loss provision is determined for each of those categories.

(a) Loans with special 100% guarantee under the SFGS

These loans are fully guaranteed by the Government as detailed in Note 17. The Group uses three categories for loans which reflect their credit risk:

Stage 1: It represents performing loans with low risk of default and the borrower has a strong capacity to meet contractual cash flows.

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Stage 2: It represents loans with significant increase in credit risk since the moment of acquisition, for example there is interest or principal payment overdue between 30 days and 60 days.

Stage 3: It represents loans with significant increase in credit risk with interest or principal payment overdue for over 60 days, or loans with default notice submitted by banks.

Given the default loss of these loans are fully guaranteed, no impairment allowance is recognised in view of the minimal default risk of the Government.

	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022				
Gross carrying amount	87,775,033	914,575	1,472,627	90,162,235
Impairment allowance	-	-	-	-
Carrying amount	87,775,033	914,575	1,472,627	90,162,235
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021				
Gross carrying amount	70,525,852	214,994	322,308	71,063,154
Impairment allowance	-	-	-	-
Carrying amount	70,525,852	214,994	322,308	71,063,154

(b) Loan portfolio

A summary of the assumptions underpinning the Group's ECL model on loans is as follows:

Category	Definition of category	Basis for recognition of ECL provision
Stage 1	Borrowers have a low risk of default and a strong capacity to meet contractual cash flows.	12-month ECLs (Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.)
Stage 2	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are more than 30 days past due.	Lifetime ECLs – not credit impaired
Stage 3	Interest and/or principal repayments are 90 days past due, borrowers with bankruptcy or properties repossessed.	Lifetime ECLs – credit impaired
Write-off	There is no reasonable expectation of recovery on the delinquent interest and/or principal repayments.	Asset is written off

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However, in certain cases, the Group will also consider a loan to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any enhancements held by the Group.

Over the term of the loans, the Group accounts for its credit risk by appropriately providing for ECLs on a timely basis. In calculating the ECL rates, the Group considers historical loss rates for each category of loan portfolio, and adjusts for forward-looking macroeconomic data.

Loan portfolio consists of residential mortgage portfolio, infrastructure loans and others which are hire purchase receivable and microfinance loans.

The Group have adopted a range of economic cycle stages for the assessment of mortgage loans and hire purchase receivable assessed by portfolio base. Probabilities are assigned to different economic cycle stages for the assessment. Based on market outlook, Credit Committee members form a view on the likelihood of each economic cycle stage. The default probability is based on the weighted average of likelihood of different economic cycle stage and the corresponding default probability.

For infrastructure loans assessed by individual project base, the Group have selected a forward-looking view based on outlook of global economy, relevant regional economic indicators, specific industry data, and taking into consideration of the impact of any special events. Infrastructure loans are rated under various scenarios. The probability table is set up to determine the probability of each scenario under each forward-looking view.

The following table contains an analysis of the credit risk exposure of loan portfolio for which impairment allowance is recognised.

	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022				
Gross carrying amount				
Residential mortgage portfolio	3,766,112	9,781	5,222	3,781,115
Non-mortgage portfolio				
Infrastructure loans	7,576,696	-	-	7,576,696
Others	109,334	9	2,978	112,321
	<u>11,452,142</u>	<u>9,790</u>	<u>8,200</u>	<u>11,470,132</u>
Impairment allowance				
Residential mortgage portfolio	(564)	-	-	(564)
Non-mortgage portfolio				
Infrastructure loans	(12,522)	-	-	(12,522)
Others	(136)	(5)	(1,447)	(1,588)
	<u>(13,222)</u>	<u>(5)</u>	<u>(1,447)</u>	<u>(14,674)</u>
Carrying amount	<u>11,438,920</u>	<u>9,785</u>	<u>6,753</u>	<u>11,455,458</u>
	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021				
Gross carrying amount				
Residential mortgage portfolio	3,608,623	7,829	6,611	3,623,063
Non-mortgage portfolio				
Infrastructure loans	4,813,509	-	-	4,813,509

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	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
As at 31 December 2021				
Others	138,152	-	1,565	139,717
	<u>8,560,284</u>	<u>7,829</u>	<u>8,176</u>	<u>8,576,289</u>
Impairment allowance				
Residential mortgage portfolio	(120)	-	-	(120)
Non-mortgage portfolio				
Infrastructure loans	(4,707)	-	-	(4,707)
Others	(138)	-	(511)	(649)
	<u>(4,965)</u>	<u>-</u>	<u>(511)</u>	<u>(5,476)</u>
Carrying amount	<u>8,555,319</u>	<u>7,829</u>	<u>7,665</u>	<u>8,570,813</u>

The impairment allowance for loan portfolio as at 31 December 2022 reconciles to the opening impairment allowance as follows:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Impairment allowance as at 1 January 2021	1,949	-	507	2,456
Loans purchased and repayment	2,953	-	-	2,953
Net measurement of impairment arising from changes of stage	-	-	104	104
Movement due to changes in credit risk	63	-	-	63
Recoveries of loans not written-off	-	-	(100)	(100)
	<u>3,016</u>	<u>-</u>	<u>4</u>	<u>3,020</u>
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
Impairment allowance as at 31 December 2021 (Note 18)	4,965	-	511	5,476
Loans purchased and repayment	7,815	-	-	7,815
Net measurement of impairment arising from transfer of stage	-	5	-	5
Movement due to changes in credit risk	442	-	1,087	1,529
Recoveries of loans not written-off	-	-	(67)	(67)
	<u>8,257</u>	<u>5</u>	<u>1,020</u>	<u>9,282</u>
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	(84)	(84)
Impairment allowance as at 31 December 2022 (Note 18)	<u>13,222</u>	<u>5</u>	<u>1,447</u>	<u>14,674</u>
Charge of loan impairment allowance	8,257	5	1,020	9,282
Write back of loan commitment impairment allowance	(1,589)	-	-	(1,589)
Recoveries of loans previously written-off	-	-	(191)	(191)
Total charge of impairment allowance recognised in profit or loss (Note 12)	<u>6,668</u>	<u>5</u>	<u>829</u>	<u>7,502</u>

(c) Cash and short-term funds

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The impairment allowance for cash and short-term funds as at 31 December 2022 reconciles to the opening impairment allowance as follows:

	<u>HK\$'000</u>
Impairment allowance as at 1 January 2021	2,246
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	<u>2,641</u>
Impairment allowance as at 31 December 2021 (Note 14)	4,887
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	<u>(1,783)</u>
Impairment allowance as at 31 December 2022 (Note 14)	<u>3,104</u>

According to the approved investment guidelines, the Group can only place deposits with note-issuing banks or banks with a certain minimum credit rating.

The Group has established a provision matrix that is based on the external credit rating of each counterparty and the corresponding historical credit loss experience, adjusted for forward-looking macroeconomic data to determine the ECLs for impairment allowance. The Group has selected a range of possible economic outcomes, based on outlook of global economy and relevant economic indicators, taking into consideration the impact of any special events, as the most suitable views to the portfolio. A probability rate table is set up to determine the probability rate for the forward-looking views.

All of these financial assets are considered to be low risk in view of all deposit banks are rated at investment grade by rating agencies, and thus the impairment allowance recognised during the period was limited to 12-month ECLs for stage 1. During the year, the decrease in the impairment allowance was mainly due to the decrease in deposits with banks and there was no transfer to stages 2 and 3.

As at 31 December 2022 and 31 December 2021, the minimum acceptable short-term credit ratings are A-2 (Standard and Poor's), P-2 (Moody's) and F-2 (Fitch's).

(d) Investment securities

According to the approved investment guidelines, the Group can only invest in debt securities with a certain minimum credit rating. The proportion of investments according to rating categories is monitored and reviewed by ALCO.

The table below presents an analysis of debt securities by rating classification as at the end of the reporting period, based on external credit agency's ratings (Standard and Poor's, Moody's and Fitch's). In the absence of issue-specific ratings, the ratings for the issuers are reported.

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	Investment securities at FVOCI	Investment securities at amortised cost	Total
As at 31 December 2022	HK\$'000	HK\$'000	HK\$'000
AAA / Aaa	-	404,859	404,859
AA- to AA+ / Aa3 to Aa1	1,048,417	4,398,237	5,446,654
A- to A+ / A3 to A1	196,557	8,344,562	8,541,119
Total	1,244,974	13,147,658	14,392,632
	Investment securities at FVOCI	Investment securities at amortised cost	Total
As at 31 December 2021	HK\$'000	HK\$'000	HK\$'000
AAA / Aaa	138,123	775,957	914,080
AA- to AA+ / Aa3 to Aa1	2,458,519	2,169,524	4,628,043
A- to A+ / A3 to A1	1,050,540	8,265,403	9,315,943
Total	3,647,182	11,210,884	14,858,066

The following table contains an analysis of the credit risk exposure of investment securities for which impairment allowance is recognised. There was no transfer to stages 2 and 3 during the period.

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2022	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross carrying amount				
- FVOCI	1,244,974	-	-	1,244,974
- amortised cost	13,147,658	-	-	13,147,658
Impairment allowance				
- amortised cost	(4,582)	-	-	(4,582)
Carrying amount				
- FVOCI	1,244,974	-	-	1,244,974
- amortised cost	13,143,076	-	-	13,143,076
	14,388,050	-	-	14,388,050
	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2021	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross carrying amount				
- FVOCI	3,647,182	-	-	3,647,182
- amortised cost	11,210,884	-	-	11,210,884
Impairment allowance				
- amortised cost	(3,892)	-	-	(3,892)
Carrying amount	3,647,182	-	-	3,647,182

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	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2021	HK\$'000	HK\$'000	HK\$'000	HK\$'000
- FVOCI				
- amortised cost	11,206,992	-	-	11,206,992
	<u>14,854,174</u>	<u>-</u>	<u>-</u>	<u>14,854,174</u>

The impairment allowance for investment securities as at 31 December 2022 reconciles to the opening impairment allowance as follows:

	Stage 1	Stage 2	Stage 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impairment allowance as at 1 January 2021				
- FVOCI	1,498	-	-	1,498
- amortised cost	3,422	-	-	3,422
Change in the impairment allowance recognised in profit or loss during the period				
- FVOCI	(737)	-	-	(737)
- amortised cost	<u>470</u>	<u>-</u>	<u>-</u>	<u>470</u>
Impairment allowance as at 31 December 2021				
- FVOCI	761	-	-	761
- amortised cost (Note 19(c))	<u>3,892</u>	<u>-</u>	<u>-</u>	<u>3,892</u>
Change in the impairment allowance recognised in profit or loss during the period				
- FVOCI (Note 12)	(363)	-	-	(363)
- amortised cost (Note 12)	<u>690</u>	<u>-</u>	<u>-</u>	<u>690</u>
Impairment allowance as at 31 December 2022				
- FVOCI	398	-	-	398
- Amortised cost (Note 19(c))	<u>4,582</u>	<u>-</u>	<u>-</u>	<u>4,582</u>

(i) Investment securities at amortised cost

Investment securities at amortised cost include listed and unlisted debt securities. The impairment allowance on investment securities at amortised cost as at 31 December 2022 reconciles to the opening impairment allowance as follows:

	HK\$'000
Impairment allowance as at 1 January 2021	3,422
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	<u>470</u>
Impairment allowance as at 31 December 2021 (Note 19(c))	3,892
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	<u>690</u>
Impairment allowance as at 31 December 2022 (Note 19(c))	<u>4,582</u>

The Group has established a provision matrix that is based on the external credit rating of each counterparty and the corresponding historical credit loss experience, adjusted for forward-looking macroeconomic data to determine the ECLs for

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impairment allowance. The Group has selected a range of possible economic outcomes, based on outlook of global economy and relevant economic indicators, taking into consideration the impact of any special events, as the most suitable views to the portfolio. A probability rate table is set up to determine the probability rate for the forward-looking views.

All of these investment securities carried at amortised cost are considered with no significant increase in credit risk as at 31 December 2022, and thus the impairment allowance recognised for the year ended 31 December 2022 was limited to 12-months ECLs under Stage 1. During the year, the increase in the impairment allowance was mainly due to the increase in investment securities at amortised cost.

(ii) Investment securities at FVOCI

Investment securities at FVOCI include listed and unlisted debt securities. The impairment allowance on investment securities at FVOCI as at 31 December 2022 reconciles to the opening impairment allowance as follows:

	<u>HK\$'000</u>
Impairment allowance as at 1 January 2021	1,498
Change in the impairment allowance recognised in profit or loss during the period	<u>(737)</u>
Impairment allowance recognised in OCI as at 31 December 2021	761
Change in the impairment allowance recognised in profit or loss during the period (Note 12)	<u>(363)</u>
Impairment allowance recognised in OCI as at 31 December 2022	<u>398</u>

The Group has established a provision matrix that is based on the external credit rating of each counterparty and the corresponding historical credit loss experience, adjusted for forward-looking macroeconomic data to determine the ECLs for impairment allowance. The Group has selected a range of possible economic outcomes, based on outlook of global economy and relevant economic indicators, taking into consideration the impact of any special events, as the most suitable views to the portfolio. A probability rate table is set up to determine the probability rate for the forward-looking views.

All of these financial assets are considered to be low risk in view of all investment securities at FVOCI are rated at investment grade by rating agencies, and thus the impairment allowance recognised for the year ended 31 December 2022 was limited to 12-month ECLs under Stage 1. During the year, the decrease in the impairment allowance was mainly due to the decrease in investment securities at FVOCI.

In preparing the ECL, Credit Committee had formed three forward-looking views based on market conditions, real economies and a designated period of historical macroeconomic variables for three scenarios. The good view assumed a high probability of optimistic scenario outcome whereas the bad view assumed a high probability of pessimistic scenario outcome. A designated period of historical data that covers peaks and troughs of economic cycles were selected to ensure the selection of scenarios stays unbiased.

The weightings assigned to each economic scenario, base, pessimistic and optimistic as at 31 December 2022, were maintained at the same weightings as at 31 December 2021 in

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view of market conditions, for the Group's infrastructure loans, deposits and debt investments, of which the impairment allowance is provided based on credit ratings (either external or internal) and forms the majority of total impairment allowance.

(e) Sensitivity analysis of ECL

The Group applies three alternative macro-economic scenarios (base, pessimistic and optimistic scenarios) on the forward-looking views to reflect probability-weighted range of possible future outcomes in estimating ECL. The table below provides approximate levels of provisions of impairment under the normal, bad and good forward-looking views for the infrastructure loans, deposits and debt investment portfolio of the Group:

	2022	2021
	Amount change from the reported ECL	Amount change from the reported ECL
	HK\$'000	HK\$'000
	Increase / (decrease)	Increase / (decrease)
ECL:		
- Normal view	(7,701)	(8,010)
- Bad view	-	-
- Good view	(9,355)	(9,874)

(f) Maximum exposures to credit risk before taking into account of collateral held or other credit enhancements are analysed as follows:

The maximum exposures to credit risk of the financial assets of the Group are equal to their gross carrying amounts. The maximum exposures to credit risk of the off-balance sheet exposures of the Group before taking into account of reinsurance arrangements are as follows:

	2022	2021
	HK\$'000	HK\$'000
Total risk-in-force		
- mortgage insurance business	110,633,356	88,917,190
- reverse mortgage business	23,321,095	18,660,656
	133,954,451	107,577,846

(g) Credit-impaired loans

	2022	2021
	HK\$'000	HK\$'000
Gross impaired loan portfolio	2,978	511
Allowance for loan impairment in respect of such advances – Stage 3	(1,447)	(511)
	1,531	-

There were no credit-impaired loans for the residential mortgage portfolio as at 31 December 2022 (2021: nil). Allowance for loan impairment is assessed after taking into account of collateral held for impaired loans.

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(h) Repossessed properties

The Group obtained assets by taking possession of collateral held as security.

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness and are classified in the statement of financial position within "Other assets". If excess funds arise after repayment of the outstanding indebtedness, they are distributed to the beneficiaries of the assets under the applicable laws.

3.3. Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group's exposures to market risk primarily arise from the interest rate management of the entity's financial instruments of different repricing characteristics, or from the net exposure of the foreign currency denominated financial instruments. The Group hedges a major proportion of its existing interest rate risk of the fixed-rate bond issuance using fair value hedges in the form of interest rate swaps by swapping into floating-rate funding to better match the floating-rate assets. The Group also hedges the net exposure of the foreign-currency denominated debts issued and assets by the use of cross-currency swaps as fair value hedges and economic hedges respectively.

The management of market risk is principally undertaken by the Treasury Department using risk limits approved by the Board of Directors. Strategies on interest rate risk management, financing, hedging, investments are formulated by ALCO. Regular meetings are held to review the latest conditions in the financial markets and the asset-liability portfolio mix. The Treasury Department is responsible for monitoring financial market movements and executing transactions in the cash, derivatives, debt and investment markets in accordance with the strategies laid down by ALCO. The middle office monitors the compliance of risk limits and performs stress tests to assess the potential size of losses that could arise in extreme conditions. The results of the stress tests are reviewed by ALCO.

A principal part of the interest rate risk management is to monitor the sensitivity of projected net interest income under different interest rate scenarios and to mitigate the negative impact through hedging operations. A 20 basis points parallel downward shift of the interest rate curve as at 31 December 2022 would decrease the future net interest income for the next twelve months by less than HK\$1 million (2021: HK\$18 million) and increase by less than HK\$1 million (2021: HK\$15 million) for a similar upward parallel shift.

As at 31 December 2022, if interest rates at that date had experienced a 20 basis points parallel shift downwards, profit for the year would have been higher by around HK\$51 million (2021: HK\$76 million) and the fair value reserve would have been higher by around HK\$14 million (2021: HK\$6 million) as at 31 December 2022. If interest rates had experienced a 20 basis points parallel shift upwards, profit for the year would have been lower by HK\$51 million (2021: HK\$75 million) and the fair value reserve would have been lower by around HK\$14 million (2021: HK\$6 million).

As at 31 December 2022, with all other variables held constant, if the Hong Kong dollars had weakened by 100 price interest points against the US dollars, profit for the year would have been around HK\$8 million higher (2021: HK\$12 million). Conversely, if the Hong Kong dollars had strengthened by 100 price interest points against the US dollars, profit for the year would have

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been around HK\$8 million lower (2021: HK\$12 million).

As at 31 December 2022, with all other variables held constant, if the Hong Kong dollars had weakened by 100 price interest points against foreign currencies other than US dollars, profit for the year would have been higher by HK\$0.4 million (2021: HK\$25 million). Conversely, if the Hong Kong dollars had strengthened by 100 price interest points against foreign currencies other than US dollars, profit for the year would have been lower by HK\$0.4 million (2021: HK\$25 million).

The Group is exposed to financial risk arising from changes in the rate of return on the placements with the Exchange Fund, which is set annually (the placements include Investment Portfolio which rate of return will reset in January while the return of Long-Term Growth Portfolio will only be available in March in the following year). As at 31 December 2022, if there were an increase/decrease of 0.1% in the current year rate of return, it is estimated that, with all other variables held constant, the Group's income from the placements with the Exchange Fund would have increased/decreased by approximately HK\$29 million (2021: HK\$24 million).

As at 31 December 2022, with all other variables held constant, if the price of exchange-traded funds and real estate investment trusts had decreased by 1%, profit for the year would have been around HK\$0.1 million lower (2021: HK\$0.1 million). Conversely, if the price of exchange-traded funds and real estate investment trusts had increased by 1%, profit for the year would have been around HK\$0.1 million higher (2021: HK\$0.1 million).

The increase or decrease represents management's assessment of a reasonably possible change in interest rates, exchange rates and equity prices for a 12-month period.

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(a) Foreign currency exposure

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rate on its financial position and cash flows. The Board sets allowable currencies for investment purposes. The ALCO sets limits on the currency exposure that may be undertaken, which is monitored daily. At funding side, the multi-currency feature of the MTN programme enables the Group to issue notes in major currencies, including US dollars, renminbi, Singapore dollars, British pounds, Australian dollars, Euro and Japanese yen. All foreign currency-denominated debts are hedged into Hong Kong dollars or US dollars.

The tables below summarise the Group's exposure to foreign currency exchange rate risk. Included in the tables are the assets and liabilities at carrying amounts, categorised by currency.

	HKD HK\$'000	USD HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
As at 31 December 2022				
Financial assets				
Cash and short-term funds	34,343,829	151,046	30,509 [^]	34,525,384
Interest and remittance receivables	598,721	264,486	560,749	1,423,956
Derivative financial instruments	603,715	-	-	603,715
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	90,162,235	-	-	90,162,235
Loan portfolio, net	4,538,018	5,816,454	1,100,986 ^{^^}	11,455,458
Investment securities:				
- FVOCI	-	1,244,974	-	1,244,974
- FVPL	1,253	8,375	-	9,628
- amortised cost	2,656,783	8,419,524	2,066,769 ^{^^^}	13,143,076
Placements with the Exchange Fund	32,798,933	-	-	32,798,933
Deposits and other assets	1,392,415	3,508,322	94	4,900,831
Total financial assets	<u>167,095,902</u>	<u>19,413,181</u>	<u>3,759,107</u>	<u>190,268,190</u>
Financial liabilities				
Interest payable	923,373	192,944	537,962	1,654,279
Accounts payable, accrued expenses and other liabilities	12,965,514	24,869	-	12,990,383
Derivative financial instruments	4,192,097	-	-	4,192,097
Debt securities issued	90,308,324	12,828,216 [*]	27,938,732 ^{**}	131,075,272
Total financial liabilities	<u>108,389,308</u>	<u>13,046,029</u>	<u>28,476,694</u>	<u>149,912,031</u>
Net position [#]	<u>38,849,727</u>	<u>6,367,152</u>	<u>(24,717,587)</u>	<u>20,499,292</u>
Off-balance sheet net notional position ^{##}	<u>(27,074,653)</u>	<u>607,714</u>	<u>24,546,891</u>	<u>(1,920,048)</u>

[^] Amounts included cash and short-term funds in Australian dollars of HK\$30 million and renminbi of HK\$1 million.

^{^^} Amounts included loan portfolio, net in Australian dollars of HK\$1.1 billion.

^{^^^} Amounts included investment securities at amortised cost in renminbi of HK\$2.1 billion.

^{*} Fully hedged into Hong Kong dollars.

^{**} Amounts included debt securities issued in Australian dollars of HK\$1.2 billion and renminbi of HK\$26.8 billion, fully hedged into Hong Kong dollars.

[#] "Net position" represents the difference between total assets and total liabilities.

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“Off-balance sheet net notional position” represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group’s exposure to currency movements and their fair values.

	HKD HK\$’000	USD HK\$’000	Other foreign currencies HK\$’000	Total HK\$’000
As at 31 December 2021				
Financial assets				
Cash and short-term funds	43,523,586	1,342,495	383,301 [^]	45,249,382
Interest and remittance receivables	325,259	116,314	429,699	871,272
Derivative financial instruments	812,397	-	-	812,397
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	71,063,154	-	-	71,063,154
Loan portfolio, net	4,151,593	3,333,262	1,085,958 ^{^^}	8,570,813
Investment securities:				
- FVOCI	601,563	3,045,619	-	3,647,182
- FVPL	1,354	9,356	-	10,710
- amortised cost	297,536	8,292,847	2,616,609 ^{^^^}	11,206,992
Placements with the Exchange Fund	28,633,258	-	-	28,633,258
Deposits and other assets	1,863,384	140,549	253,888	2,257,821
Total financial assets	151,273,084	16,280,442	4,769,455	172,322,981
Financial liabilities				
Interest payable	258,339	41,012	388,891	688,242
Accounts payable, accrued expenses and other liabilities	20,470,333	913,724	94	21,384,151
Derivative financial instruments	334,529	-	-	334,529
Debt securities issued	73,064,515	16,327,369 [*]	26,261,083 ^{**}	115,652,967
Total financial liabilities	94,127,716	17,282,105	26,650,068	138,059,889
Net position [#]	41,080,071	(1,001,663)	(21,880,613)	18,197,795
Off-balance sheet net notional position ^{##}	(34,756,067)	10,340,223	24,712,746	296,902

[^] Amounts included cash and short-term funds in Australian dollars of HK\$0.3 billion and renminbi of HK\$0.1 billion.

^{^^} Amounts included loan portfolio, net in Australian dollars of HK\$1.1 billion.

^{^^^} Amounts included investment securities at amortised cost in renminbi of HK\$2.6 billion.

^{*} Fully hedged into Hong Kong dollars.

^{**} Amounts included debt securities issued in Australian dollars of HK\$1.4 billion and renminbi of HK\$24.9 billion, fully hedged into Hong Kong dollars.

[#] “Net position” represents the difference between total assets and total liabilities.

^{##} “Off-balance sheet net notional position” represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group’s exposure to currency movements and their fair values.

(b) Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The ALCO sets limits on the level of interest rate mismatch that may be undertaken, which is monitored regularly.

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The tables below summarise the Group's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are included under the heading "Non-interest bearing".

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non- interest bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022							
Financial assets							
Cash and short-term funds	10,226,296	22,973,825	-	-	-	1,325,263	34,525,384
Interest and remittance receivables	-	-	-	-	-	1,423,956	1,423,956
Derivative financial instruments	-	-	-	-	-	603,715	603,715
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	90,162,235	-	-	-	-	-	90,162,235
Loan portfolio, net	6,221,566	3,572,027	483,558	987	1,177,320	-	11,455,458
Investment securities:							
- FVOCI	-	289,036	-	692,968	262,970	-	1,244,974
- FVPL	-	-	-	-	-	9,628	9,628
- amortised cost	78,024	-	2,509,914	6,362,601	4,192,537	-	13,143,076
Placements with the Exchange Fund	-	-	-	-	-	32,798,933	32,798,933
Deposits and other assets	3,506,764	-	-	-	-	1,394,067	4,900,831
Total financial assets	110,194,885	26,834,888	2,993,472	7,056,556	5,632,827	37,555,562	190,268,190
Financial liabilities							
Interest payable	-	-	-	-	-	1,654,279	1,654,279
Accounts payable, accrued expenses and other liabilities	6,657,018	-	-	-	-	6,333,365	12,990,383
Derivative financial instruments	-	-	-	-	-	4,192,097	4,192,097
Debt securities issued	3,949,661	29,338,870	38,441,884	55,297,504	4,047,353	-	131,075,272
Total financial liabilities	10,606,679	29,338,870	38,441,884	55,297,504	4,047,353	12,179,741	149,912,031
Total interest sensitivity gap*	99,588,206	(2,503,982)	(35,448,412)	(48,240,948)	1,585,474		
Interest rate derivatives (notional amounts of net position)	(9,837,903)	(19,068,578)	7,109,221	20,074,847	(197,635)		

* before the repricing effect of derivative financial instruments on the debt securities issued.

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	Up to 1 month HK\$'000	Over 1 month to 3 months HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
As at 31 December 2021							
Financial assets							
Cash and short-term funds	14,576,775	25,701,822	3,498,491	-	-	1,472,294	45,249,382
Interest and remittance receivables	-	-	-	-	-	871,272	871,272
Derivative financial instruments	-	-	-	-	-	812,397	812,397
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	71,063,154	-	-	-	-	-	71,063,154
Loan portfolio, net	5,455,979	1,711,126	920,890	3,050	479,768	-	8,570,813
Investment securities:							
- FVOCI	-	1,844,470	1,239,160	247,468	316,084	-	3,647,182
- FVPL	-	-	-	-	-	10,710	10,710
- amortised cost	183,840	221,676	2,137,245	3,492,525	5,171,706	-	11,206,992
Placements with the Exchange Fund	-	-	-	-	-	28,633,258	28,633,258
Deposits and other assets	132,381	-	-	-	-	2,125,440	2,257,821
Total financial assets	91,412,129	29,479,094	7,795,786	3,743,043	5,967,558	33,925,371	172,322,981
Financial liabilities							
Interest payable	-	-	-	-	-	688,242	688,242
Accounts payable, accrued expenses and other liabilities	13,576,373	-	-	-	-	7,807,778	21,384,151
Derivative financial instruments	-	-	-	-	-	334,529	334,529
Debt securities issued	5,282,958	20,566,178	41,497,253	43,505,450	4,801,128	-	115,652,967
Total financial liabilities	18,859,331	20,566,178	41,497,253	43,505,450	4,801,128	8,830,549	138,059,889
Total interest sensitivity gap*	72,552,798	8,912,916	(33,701,467)	(39,762,407)	1,166,430		
Interest rate derivatives (notional amounts of net position)	(4,503,479)	(22,297,914)	19,317,832	7,622,524	157,939		

* before the repricing effect of derivative financial instruments on the debt securities issued.

3.4. Liquidity risk

Liquidity risk represents the risk of the Group not being able to repay its payment obligations or to fund committed purchases of loans. Liquidity risk is managed by monitoring the actual inflows and outflows of funds on a daily basis and projecting longer-term inflows and outflows of funds across a full maturity spectrum. The Group has established diversified funding sources to support the growth of its business and the maintenance of a balanced portfolio of liabilities. Sources of liquidity are regularly reviewed by ALCO.

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(a) Undiscounted cash flows analysis

The tables below present cash flows payable by the Group under non-derivative financial liabilities, derivative financial liabilities that will be settled on a net basis and derivative financial instruments that will be settled on gross basis by remaining contractual maturities as at the end of the reporting period. The amounts disclosed in the tables are the projected contractual undiscounted cash flows including future interest payments on the basis of their earliest possible contractual maturity. The Group's derivatives include interest rate swaps that will be settled on net basis; cross currency swaps and currency forwards that will be settled on gross basis.

(i) Non-derivative cash inflows/(outflows)

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022						
Liabilities						
Accounts payable, accrued expenses and other liabilities						
- lease liabilities	(3,297)	(6,593)	(27,370)	(76,033)	-	(113,293)
Debt securities issued						
- principal portion	(2,368,820)	(21,026,137)	(41,325,431)	(63,013,011)	(4,545,464)	(132,278,863)
- interest portion	(93,178)	(804,405)	(2,420,989)	(2,746,964)	(1,466,490)	(7,532,026)
	<u>(2,465,295)</u>	<u>(21,837,135)</u>	<u>(43,773,790)</u>	<u>(65,836,008)</u>	<u>(6,011,954)</u>	<u>(139,924,182)</u>
	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021						
Liabilities						
Accounts payable, accrued expenses and other liabilities						
- lease liabilities	(3,324)	(6,648)	(29,685)	(107,436)	(5,800)	(152,893)
Debt securities issued						
- principal portion	(3,525,144)	(11,933,549)	(45,728,239)	(47,721,173)	(4,913,791)	(113,821,896)
- interest portion	(35,529)	(431,567)	(845,452)	(1,395,004)	(1,588,399)	(4,295,951)
	<u>(3,563,997)</u>	<u>(12,371,764)</u>	<u>(46,603,376)</u>	<u>(49,223,613)</u>	<u>(6,507,990)</u>	<u>(118,270,740)</u>

(ii) Derivative cash inflows/(outflows)

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022						
Derivative financial instrument settled:						
- on net basis	(135,568)	(438,780)	(819,450)	(498,089)	(77,569)	(1,969,456)
- on gross basis						
Total outflow	(5,718,990)	(7,909,536)	(13,304,323)	(32,844,297)	(2,875,356)	(62,652,502)
Total inflow	<u>5,615,044</u>	<u>7,686,021</u>	<u>12,465,107</u>	<u>31,787,438</u>	<u>2,897,762</u>	<u>60,451,372</u>
	<u>(239,514)</u>	<u>(662,295)</u>	<u>(1,658,666)</u>	<u>(1,554,948)</u>	<u>(55,163)</u>	<u>(4,170,586)</u>

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	Up to 1 month HK\$'000	Over 1 month to 3 months HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
As at 31 December 2021						
Derivative financial instrument settled:						
- on net basis	(8,896)	(1,177)	33,562	(147,171)	107	(123,575)
- on gross basis						
Total outflow	(2,772,748)	(8,477,853)	(22,542,231)	(16,446,495)	(917,603)	(51,156,930)
Total inflow	2,794,769	8,863,581	23,183,567	16,609,832	891,768	52,343,517
	<u>13,125</u>	<u>384,551</u>	<u>674,898</u>	<u>16,166</u>	<u>(25,728)</u>	<u>1,063,012</u>

(b) Maturity analysis

The table below analyses the assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	Repayable on demand HK\$'000	Up to 1 month HK\$'000	Over 1 month to 3 months HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
As at 31 December 2022								
Assets								
Cash and short-term funds (gross)	2,315,390	9,236,926	22,976,172	-	-	-	-	34,528,488
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	33,494	1,340,169	2,382,379	10,296,369	47,021,943	29,087,881	-	90,162,235
Loan portfolio	597	70,347	288,843	637,895	4,241,451	5,573,697	657,302	11,470,132
Investment securities								
- FVOCI	-	-	-	195,408	786,595	262,971	-	1,244,974
- FVPL	-	-	-	-	-	-	9,628	9,628
- amortised cost (gross)	-	78,026	-	2,410,497	6,465,003	4,194,132	-	13,147,658
Placements with the Exchange Fund	-	-	-	3,391,087	12,077,249	17,330,597	-	32,798,933
Reinsurance assets	-	-	-	-	-	-	734,052	734,052
	<u>2,349,481</u>	<u>10,725,468</u>	<u>25,647,394</u>	<u>16,931,256</u>	<u>70,592,241</u>	<u>56,449,278</u>	<u>1,400,982</u>	<u>184,096,100</u>
Liabilities								
Insurance liabilities	-	87,171	165,064	729,844	3,396,268	9,959,686	6,535,981	20,874,014
Debt securities issued	-	3,349,792	20,995,098	40,741,617	61,741,527	4,247,238	-	131,075,272
	<u>-</u>	<u>3,436,963</u>	<u>21,160,162</u>	<u>41,471,461</u>	<u>65,137,795</u>	<u>14,206,924</u>	<u>6,535,981</u>	<u>151,949,286</u>

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	Repayable on demand	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021								
Assets								
Cash and short-term funds (gross)	2,884,469	13,165,337	25,705,463	3,499,000	-	-	-	45,254,269
Loans with special 100% guarantee under the SME Financing Guarantee Scheme	11,781	904,589	1,828,156	10,844,682	42,370,361	15,103,585	-	71,063,154
Loan portfolio	610	39,230	114,623	553,387	3,663,289	3,928,599	276,551	8,576,289
Investment securities								
- FVOCI	-	-	819,067	1,582,651	929,380	316,084	-	3,647,182
- FVPL	-	-	-	-	-	-	10,710	10,710
- amortised cost (gross)	-	-	62,361	1,831,157	4,143,659	5,173,707	-	11,210,884
Placements with the Exchange Fund	-	-	-	4,665,272	8,973,975	14,994,011	-	28,633,258
Reinsurance assets	-	-	-	-	-	-	491,049	491,049
	<u>2,896,860</u>	<u>14,109,156</u>	<u>28,529,670</u>	<u>22,976,149</u>	<u>60,080,664</u>	<u>39,515,986</u>	<u>778,310</u>	<u>168,886,795</u>
Liabilities								
Insurance liabilities	-	69,308	126,265	558,196	2,665,163	8,163,521	5,201,837	16,784,290
Debt securities issued	-	5,282,958	11,958,822	45,747,073	47,663,067	5,001,047	-	115,652,967
	<u>-</u>	<u>5,352,266</u>	<u>12,085,087</u>	<u>46,305,269</u>	<u>50,328,230</u>	<u>13,164,568</u>	<u>5,201,837</u>	<u>132,437,257</u>

Apart from the above, interest and remittance receivables, prepayments and other assets, interest payable, accounts payable, accrued expenses and current tax liabilities are expected to be recovered or settled within twelve months from the reporting date. Other assets and liabilities included in the consolidated statement of financial position are expected to be recovered or settled in a period more than twelve months after the reporting date.

In addition, the Exchange Fund has committed to providing the Group with a HK\$80 billion revolving credit under the Revolving Credit Facility since 2020, which enables the Group to maintain smooth operation under exceptional circumstances, so that it can better fulfil its mandate to promote banking and financial stability in Hong Kong.

3.5. Insurance risk

Through its general insurance subsidiary, the Group provides the mortgage insurance cover to participating lenders for first credit losses, in general, of up to 40% of the property value of a residential mortgage loan in Hong Kong with loan-to-value ratio 90% or below at origination, or other thresholds as specified from time to time. The Group also provides financial guarantee cover to participating AIs up to 50% - 70% of the banking facilities granted to SMEs in Hong Kong and insurance cover in respect of reverse mortgage loans originated by participating lenders and secured on residential properties, life insurance policies and, if applicable, other assets.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random; however, it can be predicted with a certain disclosed level of reliability.

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For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed a business strategy to diversify the type of insurance risks accepted and within each of the key categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The frequency and severity of claims can be affected by several factors. The most significant are a downturn of the economy, a slump in the local property market and a low mortality rate of borrowers. Economic downturn, which may cause a rise in defaulted payment, affects the frequency of claims and collateral value. A drop in property prices, where the collateral value falls below the outstanding balance of the mortgage loan, will increase the severity of claims. Low mortality rate of reverse mortgage borrowers means longer payout period and larger loan balance will be over time. This will affect the frequency and severity of claims as there is a risk of the property value insufficient to cover the outstanding loan balance in the future.

The Group manages these risks by adopting a set of prudent insurance underwriting eligibility criteria. To ensure sufficient provision is set aside for meeting future claim payments, the Group calculates technical reserves on prudent liability valuation assumptions and the method prescribed in the regulatory guidelines. The Group also takes out quota-share reinsurance from its approved mortgage reinsurers in an effort to limit its risk exposure under the mortgage insurance business and reverse mortgage business. The Group conducts comprehensive assessment including the financial strength and credit ratings of the reinsurers in accordance with the approved selection framework. The approved mortgage reinsurers are subject to periodic reviews. For financial guarantee cover provided to participating lenders via its general insurance subsidiary, the Group relies on the lenders' prudent credit assessment on the borrowers to mitigate default risk and any loss in the loan facility will be shared proportionately between the Group and the lender on a pari passu basis to minimise moral hazards. The mortality assumptions of reverse mortgages are also reviewed on a regular basis, to assess the risk of larger deviation between the actual and expected operating results.

Through its life insurance subsidiary, the Group offers annuity product to personal customers. Insurance risk arises from an inaccurate assessment of the risks entailed in writing and pricing an insurance policy. The major insurance risk is the longevity risk which arises from the possibility that actual life expectancy of annuitants being longer than expected. Insurance risk is managed by adopting a prudent set of assumptions and conducting regular experience studies. Asset-liability mismatch risk inherent to the annuity product is due to asset volatility, uncertain annuity liabilities, cash flow mismatch and currency mismatch between assets and liabilities. To mitigate such risk, the Group actively monitor the performance and steadfastly maintains control over asset allocation.

The general insurance subsidiary and life insurance subsidiary are subject to the supervision of the Insurance Authority and are required to observe the relevant compliance requirements stipulated by the Insurance Authority.

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As at 31 December 2022, if the combined ratio of general insurance business had increased by 1%, profit for the year would have been HK\$10 million (2021: HK\$7 million) lower. If combined ratio had decreased by 1%, profit for the year would have been HK\$10 million (2021: HK\$7 million) higher. Combined ratio is calculated by taking the sum of incurred losses and expenses and then dividing them by net earned premium.

The following table shows the sensitivity of insurance liabilities on the life insurance business to potential changes in mortality and valuation interest rate.

As at 31 December 2022	Amount change from insurance liabilities	Percentage change from insurance liabilities
	HK\$'000 Increase / (decrease)	% Increase / (decrease)
Mortality		
+ 10%	(220,431)	(1.5)
- 10%	244,773	1.7
Valuation interest rate		
+ 0.5%	(651,231)	(4.5)
- 0.5%	710,197	5.0

As at 31 December 2021	Amount change from insurance liabilities	Percentage change from insurance liabilities
	HK\$'000 Increase / (decrease)	% Increase / (decrease)
Mortality		
+ 10%	(173,123)	(1.5)
- 10%	192,379	1.7
Valuation interest rate		
+ 0.5%	(525,658)	(4.5)
- 0.5%	573,362	5.0

3.6. Fair values of financial assets and liabilities

(a) Fair value estimation

The following table shows financial instruments recognised at fair value, by valuation method.

	As at 31 December 2022				As at 31 December 2021			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets								
Derivative financial instruments	-	603,715	-	603,715	-	812,397	-	812,397
Investment securities								
- FVOCI	1,244,974	-	-	1,244,974	2,358,572	1,288,610	-	3,647,182
- FVPL	9,628	-	-	9,628	10,710	-	-	10,710
Placements with the Exchange Fund	-	-	32,798,933	32,798,933	-	-	28,633,258	28,633,258
	<u>1,254,602</u>	<u>603,715</u>	<u>32,798,933</u>	<u>34,657,250</u>	<u>2,369,282</u>	<u>2,101,007</u>	<u>28,633,258</u>	<u>33,103,547</u>

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	As at 31 December 2022				As at 31 December 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities								
Derivative financial instruments	-	4,192,097	-	4,192,097	-	334,529	-	334,529
	-	4,192,097	-	4,192,097	-	334,529	-	334,529

There was no transfer between Level 1 and Level 2 nor transfers into or out of Level 3 during the year.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. These instruments are included in Level 1.

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Level 2 derivatives comprise interest rate swaps, currency swaps and currency forwards. These derivatives are fair valued using forward interest rates and forward exchange rates, if applicable, from observable yield curves.

Level 2 debt securities are fair valued using quoted market prices in less active markets, or if not available, a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

(iii) Financial instruments in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The placements with the Exchange Fund are included in Level 3 with fair value determined by reference to the principal amount and the estimated rates of investment return.

Movement in Level 3 fair value measurement as follows:

	2022	2021
	HK\$'000	HK\$'000
As at 1 January	28,633,258	16,336,835
Placements with the Exchange Fund*	4,907,000	11,640,000
Withdrawals from the Exchange Fund*	(1,500,000)	(1,500,000)

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	2022	2021
	HK\$'000	HK\$'000
Income from placements with the Exchange Fund recognised in profit or loss (Note 9)	532,861	1,991,151
Income from placements with the Exchange Fund recognised in other liabilities*	225,814	165,272
As at 31 December	32,798,933	28,633,258

* Since 2021, the Group has placed on behalf of the Government HK\$6 billion with respect to the advance payment received from the Government for purchasing loans under 100% Personal Loan Guarantee Scheme (PLGS), of which HK\$3 billion has been withdrawn to purchase of loans under PLGS for the Government. As at 31 December 2022, the outstanding balance of the advance payment placed with the Exchange Fund together with accrued interest amounted to HK\$3.4 billion (2021: HK\$4.7 billion). Please refer to Note 29 for more details.

(b) Fair values of financial assets and liabilities not measured at fair value

The carrying amounts of the Group's financial instruments not presented on the Group's statement of financial position at their fair values are not materially different from their fair values as at 31 December 2022 and 31 December 2021 except for the following financial instruments, for which their carrying amounts and fair values and the level of fair value hierarchy are disclosed below:

	As at 31 December 2022				As at 31 December 2021			
	Carrying amount	Fair value	Level 1	Level 2	Carrying amount	Fair Value	Level 1	Level 2
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets								
Investment securities								
- amortised cost	13,143,076	12,602,018	9,730,496	2,871,522	11,206,992	11,777,666	9,963,998	1,813,668
Financial liabilities								
Debt securities issued	131,075,272	130,816,527	-	130,816,527	115,652,967	116,310,363	-	116,310,363

The following methods and significant assumptions have been used to estimate the fair values of financial instruments:

(i) Cash and short-term funds

Cash and short-term funds include bank deposits and are stated net of impairment allowance. The fair value of floating-rate deposits is the carrying amount. The estimated fair value of fixed-rate deposits, which are normally less than 6 months, is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. Therefore, the fair value of the deposits is approximately equal to their carrying value.

(ii) Loans with special 100% guarantee under the SFGS

Loan portfolio is stated net of impairment allowance. With the 100% guarantee provided by the Government to cover the default loss of the loans, no impairment allowance is provided. Therefore, the carrying value of loan portfolio is a reasonable estimate of the fair value.

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(iii) Loan portfolio, net

Loan portfolio is stated net of impairment allowance. An insignificant portion of loan portfolio bears interest at fixed rate. Therefore, the carrying value of loan portfolio is a reasonable estimate of the fair value.

(iv) Investment securities at amortised cost

Investment securities are stated net of impairment allowance. Fair value for investment securities at amortised cost is based on market prices or broker/dealer price quotations, which are the clean prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(v) Other assets

These mainly represent receivables from debt securities issued for settlement after the reporting date with the fair value approximating the carrying amount.

(vi) Debt securities issued

The aggregate fair values are calculated based on quoted market prices, which are the clean prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(vii) Other liabilities

These mainly represented the guarantee fee and fund received (net of claims and related expenses) under the special concessionary measures of the SFGS (Note 32) and the PLGS, and the deferred consideration used for credit enhancement on the mortgage loans purchased from the Government in December 2003 and January 2004 with the fair value approximating the carrying amount.

(viii) Interest and remittance receivables and interest payable

Accrued interest is recognised separately with the fair value approximating the carrying amount as it is expected to be recovered or settled within twelve months from the reporting date. Remittance receivables are expected to be recovered within one month from the reporting date with the fair value approximating the carrying amount.

3.7. Capital management

The Group's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position, are:

- to comply with the capital requirements set by the Financial Secretary of the Government (**Financial Secretary**) and the Insurance Authority for its insurance subsidiaries;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholder;

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- to support the Group's stability and growth;
- to allocate capital in an efficient and risk-based approach to optimise risk adjusted return to the shareholder; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the management in accordance with the Guidelines on Capital Adequacy Ratio (**Guidelines**) issued by the Financial Secretary, by reference largely to Basel II risk-based capital adequacy framework. The minimum Capital Adequacy Ratio (**CAR**) stipulated in the Guidelines is 8%.

The Chief Executive Officer is required to submit a report to the Board of Directors on a quarterly basis by reference to the Guidelines issued by the Financial Secretary. If the CAR drops to the threshold level of 14%, the Chief Executive Officer will alert the Executive Directors. If the CAR falls to 12% or below, the Board of Directors will be informed and appropriate remedial actions will be taken. During the period, the Group complied with all of the capital requirement set out in the Guidelines by the Financial Secretary.

Pursuant to the Guidelines on the CAR, the calculation basis of capital ratio follows the basis of consolidation for financial reporting with the exclusion of subsidiaries which are "regulated financial entities" (e.g. insurance companies). It is because these entities are supervised by a regulator and are subject to the maintenance of adequate capital (e.g. solvency ratio) to support business activities comparable to those prescribed for banks. The investment cost of these unconsolidated regulated financial entities is deducted from the capital base whilst the corresponding related exposures are also excluded from the calculation of risk-weighted assets.

The table below summarises the composition of capital base and the CAR as at the end of the reporting period.

	2022	2021
	HK\$'000	HK\$'000
Share capital	12,000,000	9,500,000
Reserves	8,956,617	9,057,471
Impairment allowance	21,601	13,772
Deductions:		
- Investment in regulated subsidiaries	(13,000,000)	(10,500,000)
Total capital base	7,978,218	8,071,243
Capital Adequacy Ratio	27.9%	23.4%

3.8. Offsetting financial assets and financial liabilities

The disclosures set out in the tables below pertain to financial assets and financial liabilities that are not offset in the Group's consolidated statement of financial position but are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments. The disclosures enable the understanding of both the gross and net amounts, as well as provide additional information on how such credit risk is mitigated.

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	As at 31 December 2022				As at 31 December 2021			
	Carrying amounts on the consolidated statement of financial position HK\$'000	Related amount not set off in the consolidated statement of financial position [#]			Carrying amounts on the consolidated statement of financial position HK\$'000	Related amount not set off in the consolidated statement of financial position [#]		
		Derivative financial instruments	Cash collateral	Net amount*		Derivative financial instruments	Cash collateral	Net amount*
		HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000
Financial assets								
Positive fair values for derivative financial instruments	<u>603,715</u>	<u>(603,715)</u>	<u>-</u>	<u>-</u>	<u>812,397</u>	<u>(196,767)</u>	<u>(582,030)</u>	<u>33,600</u>
Financial liabilities								
Negative fair values for derivative financial instruments	<u>4,192,097</u>	<u>(603,715)</u>	<u>(3,416,172)</u>	<u>172,210</u>	<u>334,529</u>	<u>(196,767)</u>	<u>(131,364)</u>	<u>6,398</u>

Amounts under "Related amount not set off in the consolidated statement of financial position" represent the amounts of financial liabilities / assets position that are subject to netting arrangements or similar agreements including CSA.

* Net amount represents financial assets / liabilities that are subject to netting arrangements or similar agreements but the Group's counterparty does not have equivalent financial liabilities/assets position with the Group to offset upon default.

4. Critical accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Impairment allowances on loan portfolio

The Group reviews its loan portfolio to assess ECLs on a regular basis. In determining ECLs, the Group makes judgements as to whether there is any significant increase in credit risk since initial recognition and where appropriate, default and impairment indicators. It is required to exercise judgements in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecast of economic conditions. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of loan portfolio as at 31 December 2022 is disclosed in Note 18.

4.2. Fair value of financial instruments

The majority of valuation techniques employ only observable market data. However, the placements with the Exchange Fund are valued on the basis of valuation techniques which are

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determined by reference to the estimated rates of investment return, approximate the carrying value. Details of the fair value measurement of financial instruments are set out in Note 3.6.

4.3. Provision for outstanding claims on insurance and guarantee portfolios of general insurance business

The Group reviews its insurance and guarantee portfolios to assess provision for outstanding claims, including claims of which the amounts have not been determined and claims arising out of incidents that have not been notified to the insurer, known as “Incurred But Not Reported” and related expenses for settling such claims. In determining the provision for outstanding claims, the Group makes judgement and assumptions including but not limited to the loss severity rate applied, the economic climate and the local property market in making estimation of the payments which the Group is required to make in fulfilling its obligations under the insurance and guarantee contracts. The methodology and assumptions used for estimating the ultimate claim amount are reviewed regularly.

The carrying amount of insurance liabilities as at 31 December 2022 is disclosed in Note 26.

4.4. Insurance contract liabilities of life insurance business

The liability for insurance contracts is based on current assumptions with a margin for risk and adverse deviation. The main assumptions used relate to mortality, longevity, expenses and discount rates, which are reviewed regularly.

The carrying amount of insurance liabilities as at 31 December 2022 is disclosed in Note 26.

4.5. 100% guarantee under the SME Financing Guarantee Scheme (100% SFGS)

As refer to Note 17, under 100% SFGS, eligible loans originated by the participating lenders are sold to the Group, and the Government provides a financial guarantee to the Group on these loans. The loans are classified as financial assets measured at amortised cost under HKFRS 9.

In formulating the accounting treatment of 100% SFGS, the Group applied judgement on whether the loans purchased from the participating lenders as recognised on the Group’s consolidated statement of financial position should be de-recognised as a result of the arrangement with the Government; whether the contracts between the participating banks and the Group and the contract between the Government and the Group should be considered together in the determination of accounting treatments; and whether the contractual cash flow of the loans represent “solely payments of the principal and interest” (SPPI).

When performing this assessment, the Group considers several factors including, whether the Group has transferred the contractual rights to receive the cash flows of the loans, whether the contracts between the Government and Group are considered together and whether the contractual cash flows met the SPPI criteria etc.

5. Segment information

The Group is principally engaged in asset purchase and servicing, general insurance and life insurance businesses in Hong Kong. Other activities such as debt issuance to fund the loan purchase and investment to reinvest the surplus funds from loan receipt are considered ancillary to asset purchase business.

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General insurance includes mainly mortgage insurance, reverse mortgage and SME financing guarantee businesses. Life insurance includes annuity business. Asset purchase and servicing include loan acquisition business and other activities such as debt issuance.

The following tables represent revenue, profit and other information for operating segments of the Group.

	Asset purchase and servicing	General insurance	Life insurance	Inter- segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2022					
Net interest income	255,501	121,488	(21,098)	-	355,891
Net insurance business results	-	395,848	(1,017,420)	-	(621,572)
Other income	58,071	192,236	348,486	(185,817)	412,976
Operating income	313,572	709,572	(690,032)	(185,817)	147,295
Operating expenses	(425,490)	(114,239)	(161,553)	185,817	(515,465)
Operating loss before impairment	(111,918)	595,333	(851,585)	-	(368,170)
Charge of impairment allowances	(6,124)	54	24	-	(6,046)
Profit / (loss) before taxation	(118,042)	595,387	(851,561)	-	(374,216)

	Asset purchase and servicing	General insurance	Life insurance	Inter-segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2021					
Net interest income	428,059	33,061	(6,232)	-	454,888
Net insurance business results	-	(158,829)	(1,048,115)	-	(1,206,944)
Other income	383,606	151,041	1,843,668	(232,105)	2,146,210
Operating income	811,665	25,273	789,321	(232,105)	1,394,154
Operating expenses	(377,719)	(176,656)	(169,626)	232,105	(491,896)
Operating profit before impairment	433,946	(151,383)	619,695	-	902,258
Charge impairment allowances	(7,533)	(571)	(81)	-	(8,185)
Profit / (loss) before taxation	426,413	(151,954)	619,614	-	894,073

	Asset purchase and servicing	General insurance	Life insurance	Inter- segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2022					
Segment assets	153,397,516	14,918,705	26,396,652	(3,347,713)	191,365,160
Segment liabilities	145,301,387	11,454,882	17,457,312	(3,347,713)	170,865,868

	Asset purchase and servicing	General insurance	Life insurance	Inter-segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021					
Segment assets	138,942,104	15,699,117	21,070,791	(2,533,778)	173,178,234
Segment liabilities	130,872,298	12,750,605	13,891,314	(2,533,778)	154,980,439

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6. Interest income

	2022	2021
	HK\$'000	HK\$'000
Loan portfolio	333,384	131,780
Loans with 100% SFGS	1,040,900	224,461
Cash and short-term funds	812,550	171,344
Investment securities	473,768	378,563
	2,660,602	906,148

7. Interest expense

	2022	2021
	HK\$'000	HK\$'000
Bank loans and debt securities issued	2,112,900	435,570
Lease liabilities	1,966	2,429
Others	189,845	13,261
	2,304,711	451,260

All interest expenses are for financial liabilities that are not at fair value through profit or loss.

8. Revenue account for insurance business

	2022			2021		
	General insurance	Life insurance	Total	General insurance	Life insurance	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross premiums written (Note and Note 26(a)(i))	2,558,053	2,528,733	5,086,786	3,036,000	3,003,443	6,039,443
Reinsurance premiums (Note 26(a)(i))	(346,783)	-	(346,783)	(196,845)	-	(196,845)
Net premiums written (Note 26(a)(i))	2,211,270	2,528,733	4,740,003	2,839,155	3,003,443	5,842,598
Movement in unearned premiums, net	(1,062,253)	-	(1,062,253)	(2,007,965)	-	(2,007,965)
Net premiums earned (Note 26(a)(i))	1,149,017	2,528,733	3,677,750	831,190	3,003,443	3,834,633
Net claims incurred, benefits paid and movement in policyholders' liabilities (Note 26(a)(ii) and Note 26(b)(i))	(33,053)	(3,545,534)	(3,578,587)	(28,636)	(4,050,814)	(4,079,450)
Net premiums earned after provisions	1,115,964	(1,016,801)	99,163	802,554	(1,047,371)	(244,817)
Commission expenses	(824,590)	(305)	(824,895)	(1,017,721)	(375)	(1,018,096)

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	2022			2021		
	General insurance	Life insurance	Total	General insurance	Life insurance	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Levy expenses	-	(314)	(314)	-	(369)	(369)
Reinsurers' share of commission expenses	104,474	-	104,474	56,338	-	56,338
Net commission and levy expenses	(720,116)	(619)	(720,735)	(961,383)	(744)	(962,127)
Net premiums earned after commission and levy expenses	395,848	(1,017,420)	(621,572)	(158,829)	(1,048,115)	(1,206,944)

Note:

For general insurance business, gross premiums were mainly derived from mortgage insurance cover on mortgage loans and on reverse mortgage loans.

9. Other income

	2022	2021
	HK\$'000	HK\$'000
Income from placements with the Exchange Fund	532,861	1,991,151
Exchange difference	(334,801)	(457)
Net change in fair value of financial instruments	211,485	161,496
Net loss on investments at fair value through profit or loss	(1,092)	(10,238)
Net gain on disposal of investments at amortised cost	-	3,235
Dividend income from listed investments	253	215
Administrative fee income	6,471	2,170
Others	(2,201)	(1,362)
	412,976	2,146,210

Change in fair value of financial instruments represented the aggregate of (i) HK\$4,235 million fair value loss on hedging instruments designated as fair value hedge (2021: HK\$258 million) and HK\$4,268 million fair value gain on the hedged items (2021: HK\$263 million); and (ii) HK\$178 million fair value gain on derivatives mainly for hedging foreign currency exposures which are not qualified as hedges for accounting purposes (2021: HK\$156 million) and there was no fair value gain/loss on debt securities issued designated as at fair value through profit or loss (2021: nil).

10. Operating expenses

	2022	2021
	HK\$'000	HK\$'000
Staff costs:		
- Salaries and benefits	361,597	322,812
- Pension costs - defined contribution plans	19,970	18,710
Directors' fees	-	-
Emoluments in respect of directors' other services in connection with the management of the affairs of the	6,910	6,724

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	2022	2021
	HK\$'000	HK\$'000
Company:		
- Salaries, allowances and bonus		
- Retirement scheme contributions	678	661
Depreciation (Note 23)	79,537	90,077
Financial information services	13,815	12,731
Consultancy fees	57,579	40,966
Marketing and advertising expenses	45,530	36,667
Premises	11,270	9,915
Other operating expenses	46,815	40,128
Recovery of operating expenses from 100% SFGS (Note 29(a))	(128,236)	(87,495)
	515,465	491,896

11. Auditor's remuneration

	2022	2021
	HK\$'000	HK\$'000
Auditor's remuneration:		
- Audit services	7,266	4,738
- Other services	2,869	1,821
	10,135	6,559

12. Charge of impairment allowances

	2022	2021
	HK\$'000	HK\$'000
Charge / (write-back) of loan impairment allowances:		
- Cash and short-term funds (Note 3.2(c))	(1,783)	2,641
- Investment securities		
- amortised cost (Note 3.2(d)(i))	690	470
- FVOCI (Note 3.2(d)(ii))	(363)	(737)
- Loan portfolio (Note 3.2(b))	7,502	5,811
	6,046	8,185

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13. Taxation

(a) Taxation in the consolidated income statement represents:

	2022	2021
	HK\$'000	HK\$'000
Hong Kong profits tax		
- Current tax	12,090	21,747
- Adjustment in respect of prior years	(21,290)	(21,972)
	(9,200)	(225)
Deferred taxation		
- (Credit) / charge for current period	(45,608)	63,200
	(54,808)	62,975

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the period. Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2021: 16.5%).

The taxation on the Group's (loss) / profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2022	2021
	HK\$'000	HK\$'000
(Loss) / profit before taxation	(374,216)	894,073
Calculated at a taxation rate of 16.5% (2021: 16.5%)	(61,746)	147,522
Tax effect of:		
- income not subject to taxation	(180,987)	(72,977)
- expenses not deductible for taxation purposes	121,501	20,281
- tax losses not recognised	58,651	-
- adjustment in respect of prior years	(21,290)	(21,972)
- other	29,063	(9,879)
Taxation (credit) / charge	(54,808)	62,975

(b) Provision for taxation in the statement of financial position represents:

	2022	2021
	HK\$'000	HK\$'000
Current tax assets (included in "Other assets")	6,143	17,767
Deferred tax assets	162,155	116,547
	168,298	134,314
Current tax liabilities	98,666	136,260

There was no significant unprovided deferred taxation as at 31 December 2022 and 31 December 2021.

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The major components of deferred tax (assets)/liabilities and the movements during the year are as follows:

	Accelerated tax depreciation HK\$'000	Impairment allowances and provisions HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2021	8,222	(9,857)	(178,112)	(179,747)
Charged / (credited) to income statement	1,433	(6,517)	68,284	63,200
As at 31 December 2021	9,655	(16,374)	(109,828)	(116,547)
Credited to income statement	(1,447)	(5,084)	(39,077)	(45,608)
As at 31 December 2022	8,208	(21,458)	(148,905)	(162,155)

Deferred tax assets are recognised to the extent that sufficient future taxable profits will be available for realisation. The unused tax losses can be carried forward indefinitely.

There is no significant amount of deferred tax assets / liabilities to be settled within twelve months.

14. Cash and short-term funds

	2022 HK\$'000	2021 HK\$'000
Cash at banks	2,315,390	2,884,469
Time deposits with banks	32,213,098	42,369,800
Gross cash and short-term funds	34,528,488	45,254,269
Impairment allowance on cash and short-term funds (Note 3.2 (c))	(3,104)	(4,887)
	34,525,384	45,249,382

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of three months or less.

	2022 HK\$'000	2021 HK\$'000
Cash at banks	2,315,390	2,884,469
Time deposits with banks	27,567,926	10,920,800
Cash and cash equivalents	29,883,316	13,805,269

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15. Interest and remittance receivables

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Interest receivables from:		
- interest rate swap contracts	942,028	583,549
- investment securities	122,229	103,164
- time deposits with banks	157,109	19,906
Interest receivables and instalments, in transit from loan portfolio	<u>202,590</u>	<u>164,653</u>
	<u>1,423,956</u>	<u>871,272</u>

16. Derivative financial instruments

(a) Use of derivatives

The Group uses the following derivative instruments to hedge the Group's financial risks.

Currency forwards are commitment to purchase or sell foreign currency at a pre-specified exchange rate on a future date. Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates or a combination of all these. No exchange of principal takes place except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis under a prudent treasury counterparty risk management framework.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amounts of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

	<u>2022</u>			<u>2021</u>		
	<u>Contract/ notional amounts</u>	<u>Fair values</u>		<u>Contract/ notional amounts</u>	<u>Fair values</u>	
	<u>HK\$'000</u>	<u>Assets</u>	<u>Liabilities</u>	<u>HK\$'000</u>	<u>Assets</u>	<u>Liabilities</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
(i) Derivatives not qualified as hedges for accounting purposes						
Interest rate swaps	10,976,609	149,003	(290)	12,555,407	40,407	(82)
Currency swaps	6,613,295	54,560	(38,119)	4,637,216	-	(94,966)

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	2022			2021		
	Contract/ notional amounts	Fair values		Contract/ notional amounts	Fair values	
		Assets	Liabilities		Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Currency forwards	4,681,528	110	(41,823)	364,427	114	(157)
		<u>203,673</u>	<u>(80,232)</u>		<u>40,521</u>	<u>(95,205)</u>
(ii) Fair value hedge derivatives						
Interest rate swaps	68,783,421	29,829	(1,960,517)	48,052,689	213,547	(121,583)
Currency swaps	44,325,232	370,213	(2,111,633)	41,497,986	485,124	(117,741)
		<u>400,042</u>	<u>(4,072,150)</u>		<u>698,671</u>	<u>(239,324)</u>
(iii) Cash flow hedge derivatives						
Currency swaps	2,998,250	-	(39,715)	3,385,815	73,205	-
		<u>-</u>	<u>(39,715)</u>		<u>73,205</u>	<u>-</u>
Total recognised derivative assets/(liabilities)		<u>603,715</u>	<u>(4,192,097)</u>		<u>812,397</u>	<u>(334,529)</u>

(b) Hedging activities

Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges.

(i) Fair value hedges

The Group's fair value hedge principally consists of interest rate and currency swaps that are used to protect interest rate risk and foreign currency risk resulting from any potential change in fair value of underlying debt securities issued.

(ii) Cash flow hedges

The Group hedged the portion of foreign exchange risks arising from variability of cash flows from foreign currency denominated financial instruments using currency swaps under cash flow hedge.

17. Loans with special 100% guarantee under the SFGS

The Group introduced special 100% SFGS in 2020. This measure aims to alleviate the burden of paying employee wages and rents by small and medium-sized enterprises which are suffering from reduced income, thereby help minimise enterprise shutting down and layoffs.

Under this scheme, loans are originated by participating lenders. Upon origination, these participating lenders would sell the loans to the Group without recourse. These loans are fully guaranteed by the Hong Kong Government.

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An interest rate of the Prime Rate minus 2.5% per annum is charged to the borrowers. These loan interest, net of the funding costs and relevant general operating and administrative expenses incurred by the Group, are passed to the Government.

The maximum repayment period of the loan under the guarantee is 10 years, with an option of principal moratorium for up to forty-two months.

Accordingly, loan default losses are covered by the Government's guarantee in relation to loans with special 100% SFGS and no impairment allowance is recognised in view of the minimal default risk of the Government. All loan interest received is set aside to meet the funding costs, general operating and administrative expenses in relation to the purchase and servicing of the loans of the Group. The remaining balance of the interest received, if any, will be passed to the Government. The Group is responsible for the operation of the product.

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Loans with special 100% SFGS	<u>90,162,235</u>	<u>71,063,154</u>

18. Loan portfolio, net

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Residential mortgage portfolio	3,781,115	3,623,063
Non-mortgage portfolio		
Infrastructure loans	7,576,696	4,813,509
Others	<u>112,321</u>	<u>139,717</u>
	<u>11,470,132</u>	<u>8,576,289</u>
Allowance for loan impairment (Note 3.2(b))		
Residential mortgage portfolio	(564)	(120)
Non-mortgage portfolio		
Infrastructure loans	(12,522)	(4,707)
Others	<u>(1,588)</u>	<u>(649)</u>
	<u>(14,674)</u>	<u>(5,476)</u>
	<u>11,455,458</u>	<u>8,570,813</u>

Total allowance for loan impairment as a percentage of the outstanding principal balances of the loan portfolio is as follows:

	<u>2022</u>	<u>2021</u>
Total allowance for loan impairment as a percentage of the gross loan portfolio	<u>0.13%</u>	<u>0.06%</u>

Allowance for loan impairment has been made after taking into account the current market value of the collateral.

	<u>2022</u>	<u>2021</u>
Gross impaired loan portfolio as a percentage of gross loan portfolio (Note 3.2(g))	<u>0.03%</u>	<u>0.01%</u>

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19. Investment securities

(a) Investment securities at FVOCI

	2022	2021
	HK\$'000	HK\$'000
Debt securities at fair value		
Listed in Hong Kong	548,233	754,458
Listed outside Hong Kong	696,741	1,604,114
Unlisted	-	1,288,610
Total FVOCI securities	1,244,974	3,647,182

FVOCI securities comprise debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

FVOCI securities are analysed by categories of issuers as follows:

	2022	2021
	HK\$'000	HK\$'000
Banks and other financial institutions	433,771	2,649,426
Corporate entities	459,528	840,180
Public sector entities	351,675	-
Central governments	-	157,576
	1,244,974	3,647,182

The movement in FVOCI securities is summarised as follows:

	2022	2021
	HK\$'000	HK\$'000
As at 1 January	3,647,182	4,418,962
Additions	660,388	-
Redemption	(2,949,474)	(766,854)
Amortisation	1,083	710
Change in fair value	(120,561)	(23,755)
Exchange difference	6,356	18,119
As at 31 December	1,244,974	3,647,182

Information on the impairment, credit quality and the Group's exposure to credit risk are disclosed in Note 3.2(d).

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(b) Investment securities at FVPL

	2022	2021
	HK\$'000	HK\$'000
Exchange-traded funds and real estate investment trusts at fair value		
Listed in Hong Kong	9,628	10,710
Total FVPL securities	9,628	10,710

The Group classifies other investment securities in exchange-traded funds and real estate investments trusts at FVPL, which do not qualify for measurement at either amortised cost or FVOCI.

The movement in FVPL securities is summarised as follows:

	2022	2021
	HK\$'000	HK\$'000
As at 1 January	10,710	265,769
Additions	-	-
Sale	-	(246,384)
Change in fair value	(1,092)	(8,726)
Exchange difference	10	51
As at 31 December	9,628	10,710

(c) Investment securities at amortised cost

	2022	2021
	HK\$'000	HK\$'000
Debt securities at amortised cost		
Listed in Hong Kong	6,901,746	6,858,248
Listed outside Hong Kong	3,336,204	2,410,668
	10,237,950	9,268,916
Unlisted	2,909,708	1,941,968
Gross investment securities at amortised cost	13,147,658	11,210,884
Impairment allowance on investment securities at amortised cost (Note 3.2(d))	(4,582)	(3,892)
Total amortised cost securities	13,143,076	11,206,992

The Group classifies investment securities as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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Amortised cost securities are analysed by categories of issuers as follows:

	2022	2021
	HK\$'000	HK\$'000
Banks and other financial institutions	4,882,359	2,725,359
Corporate entities	5,933,616	5,581,354
Public sector entities	602,801	1,253,154
Central governments	1,728,882	1,651,017
	13,147,658	11,210,884

The movement in amortised cost securities is summarised as follows:

	2022	2021
	HK\$'000	HK\$'000
As at 1 January	11,210,884	9,733,358
Additions	3,992,780	2,744,548
Sales and redemption	(1,845,336)	(1,360,601)
Amortisation	21,856	1,265
Exchange difference	(232,526)	92,314
As at 31 December	13,147,658	11,210,884

20. Placements with the Exchange Fund

The Group has classified the placements of the HKMCA and the HKMCI with the Exchange Fund as financial assets at fair value through profit or loss. As at 31 December 2022, the balance of the placements with the Exchange Fund amounted to HK\$32.8 billion (2021: HK\$28.6 billion), comprising a total principal sum of HK\$28.3 billion (2021: HK\$24.9 billion) plus income earned and accrued but not yet withdrawn as at the reporting date, of which HK\$3.4 billion (2021: HK\$4.7 billion), represented the placement made by the Company on behalf of the Government for the operation of PLGS and the remaining portion was the premium and capital placements made by the HKMCA and the HKMCI.

The placements with the Exchange Fund are invested in the Investment Portfolio and Long-Term Growth Portfolio of the Exchange Fund, subject to a lock-up period. The rate of return on the placements with the Exchange Fund is determined annually. For Investment Portfolio, the rate of return is calculated on the basis of the average annual rate of return on the portfolio over the past six years or the average annual yield of three-year Government Bond in the previous year (subject to a minimum of zero percent), whichever is the higher. With respect to the Long-Term Growth Portfolio, the rate of return is determined based on the current year time-weighted rate of return.

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21. Interests in subsidiaries

Details of the principal subsidiaries of the Company as at 31 December 2022 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activities</u>	<u>Particulars of issued and fully paid up share capital (Class of shares)</u>	<u>Percentage of shares held by the Company (or its nominee)</u>	<u>Percentage of shares held by the Company's subsidiary (or its nominee)</u>
HKMC Mortgage Management Limited	Hong Kong	Mortgage purchase and servicing, servicing of outstanding microfinance loans, and origination of reverse mortgage loans and policy reverse mortgage loans, all for the Group	HK\$1,000,000 (Ordinary)	100%	N/A
HKMC Insurance Limited	Hong Kong	General insurance business	HK\$3,000,000,000 (Ordinary)	100%	N/A
HKMC Annuity Limited	Hong Kong	Long term insurance business	HK\$10,000,000,000 (Ordinary)	100%	N/A
HKMC Funding Corporation (1) Limited*	Hong Kong	Dissolved	HK\$1,000 (Ordinary)	N/A	N/A
Bauhinia MBS Limited*	Cayman Islands	Dissolved	US\$1,000 (Ordinary)	N/A	N/A
HKMC Premier Solutions Limited	Hong Kong	Provision of marketing and business development services and related facilities to the Group	HK\$100 (Ordinary)	N/A	100%

* These companies are subsidiary undertakings as defined in Schedule 1 to the Hong Kong Companies Ordinance and the Company does not hold shares in these companies which are set up for the operation of mortgage-backed securitisation programmes guaranteed by the Company. HKMC Funding Corporation (1) Limited ceased business on 2 September 2021 and was dissolved on 5 October 2022. Bauhinia MBS Limited ceased business on 8 November 2021 and was dissolved on 24 January 2022.

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22. Prepayments, deposits and other assets

	2022	2021
	HK\$'000	HK\$'000
Corporate club debentures	910	910
CSA receivables	3,506,764	132,381
Receivables from securities issued for settlement after the reporting date	985,472	1,761,894
Other receivables	358,223	312,785
Other assets	62,449	59,567
	4,913,818	2,267,537

23. Fixed assets

(i) Movement in fixed assets

	Right-of-use assets on leased properties for own use	Leasehold improvement	Office equipment, furniture and fixtures	Computers	Motor vehicle	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost as at 1 January 2021	208,891	61,493	14,503	273,156	775	558,818
Additions	8,930	15,626	8,578	37,141	409	70,684
Written off / disposals	(16,487)	(22,077)	(4,295)	(37)	-	(42,896)
Cost as at 31 December 2021	201,334	55,042	18,786	310,260	1,184	586,606
Additions	84	6,166	855	22,297	-	29,402
Written off / disposals	-	(416)	(132)	-	(30)	(578)
Cost as at 31 December 2022	201,418	60,792	19,509	332,557	1,154	615,430
Accumulated depreciation as at 1 January 2021	(22,258)	(41,240)	(12,106)	(225,044)	(775)	(301,423)
Depreciation charge (Note 10)	(49,296)	(5,665)	(2,612)	(32,475)	(29)	(90,077)
Written off / disposals	16,487	22,036	4,275	37	-	42,835
Accumulated depreciation as at 31 December 2021	(55,067)	(24,869)	(10,443)	(257,482)	(804)	(348,665)
Depreciation charge (Note 10)	(38,682)	(7,932)	(2,752)	(30,082)	(89)	(79,537)
Written off / disposals	-	416	132	-	-	548
Accumulated depreciation as at 31 December 2022	(93,749)	(32,385)	(13,063)	(287,564)	(893)	(427,654)
As at 31 December 2022						
Cost	201,418	60,792	19,509	332,557	1,154	615,430
Accumulated depreciation	(93,749)	(32,385)	(13,063)	(287,564)	(893)	(427,654)
Net book amount	107,669	28,407	6,446	44,993	261	187,776

THE HONG KONG MORTGAGE CORPORATION LIMITED
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	Right-of-use assets on leased properties for own use	Leasehold improvement	Office equipment, furniture and fixtures	Computers	Motor vehicle	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2021						
Cost	201,334	55,042	18,786	310,260	1,184	586,606
Accumulated depreciation	(55,067)	(24,869)	(10,443)	(257,482)	(804)	(348,665)
Net book amount	<u>146,267</u>	<u>30,173</u>	<u>8,343</u>	<u>52,778</u>	<u>380</u>	<u>237,941</u>

(ii) Leases

The statement of financial position shows the following amounts relating to leases:

	2022	2021
	HK\$'000	HK\$'000
Right-of-use assets - Buildings	<u>107,669</u>	<u>146,267</u>
Lease liabilities		
- within one year	35,794	37,692
- over one year	<u>73,987</u>	<u>109,725</u>
	<u>109,781</u>	<u>147,417</u>

Additions to the right-of-use assets during the year were HK\$84,000 (2021: HK\$8,930,000).

The consolidated income statement shows the following amounts relating to leases:

	2022	2021
	HK\$'000	HK\$'000
Depreciation charge of right-of-use assets - Buildings	<u>38,682</u>	<u>49,296</u>
Interest expense	<u>1,966</u>	<u>2,429</u>

The total cash outflow for leases in 2022 was HK\$39,686,000 (2021: HK\$39,676,000).

The Group leases various offices and rental contracts are mainly made for fixed periods of 6 years but may have extension options as described below.

Extension and termination options are included in property leases of the Group for operational flexibility. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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24. Interest payable

	2022	2021
	HK\$'000	HK\$'000
Interest payable from:		
- debt securities issued	1,235,422	632,241
- interest rate swap contracts	418,843	55,091
- other liabilities	14	910
	1,654,279	688,242

25. Accounts payable, accrued expenses and other liabilities

	2022	2021
	HK\$'000	HK\$'000
Accounts payable and accrued expenses	1,321,423	1,788,966
Other liabilities	11,487,889	19,382,767
Lease liabilities	109,781	147,417
Other provision	71,290	65,001
	12,990,383	21,384,151

Other liabilities represented mainly the guarantee fee and fund received (net of claims and related expenses) of HK\$11,487,889,000 (2021: HK\$14,831,893,000) under the special concessionary measures of the SFGS (Note 32) and the PLGS (Note 29(a)), and the deferred consideration which was used for credit enhancement on the mortgage loans purchased from the Government in December 2003 and January 2004 and was fully repaid to Government in December 2022 with no outstanding balance as at 31 December 2022 (2021: HK\$4,550,874,000).

26. Insurance liabilities and reinsurance assets

	2022			2021		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
General insurance:						
Provision for unearned premiums and guarantee fees	6,411,311	721,115	5,690,196	5,109,451	481,508	4,627,943
Provision for outstanding claims:						
- claims reported/ (recovery)	-	100	(100)	-	-	-
- claims incurred but not reported	124,670	12,837	111,833	92,386	9,541	82,845
	124,670	12,937	111,733	92,386	9,541	82,845
	6,535,981	734,052	5,801,929	5,201,837	491,049	4,710,788
Life insurance:						
Policyholders' liabilities	14,319,190	-	14,319,190	11,582,453	-	11,582,453
	20,855,171	734,052	20,121,119	16,784,290	491,049	16,293,241

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(a) General insurance

(i) Analysis of movement in provision for unearned premiums and guarantee fees

	2022			2021		
	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000
As at 1 January	5,109,451	481,508	4,627,943	2,989,183	369,205	2,619,978
Premiums written (Note 8)	2,558,053	346,783	2,211,270	3,036,000	196,845	2,839,155
Premiums earned (Note 8)	(1,256,193)	(107,176)	(1,149,017)	(915,732)	(84,542)	(831,190)
As at 31 December	<u>6,411,311</u>	<u>721,115</u>	<u>5,690,196</u>	<u>5,109,451</u>	<u>481,508</u>	<u>4,627,943</u>

(ii) Analysis of movement in provision for outstanding claims

	2022			2021		
	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000
As at 1 January	92,386	9,541	82,845	59,712	8,297	51,415
Claims paid	(6,457)	(1,410)	(5,047)	(729)	(55)	(674)
Claims recovery	1,150	268	882	4,286	818	3,468
Claims incurred / (written back) (Note 8):						
- claims reported	5,307	1,242	4,065	(3,666)	(817)	(2,849)
- claims incurred but not reported	32,284	3,296	28,988	32,783	1,298	31,485
	<u>37,591</u>	<u>4,538</u>	<u>33,053</u>	<u>29,117</u>	<u>481</u>	<u>28,636</u>
As at 31 December	<u>124,670</u>	<u>12,937</u>	<u>111,733</u>	<u>92,386</u>	<u>9,541</u>	<u>82,845</u>

(b) Life insurance

(i) Analysis of movement in policyholders' liabilities

	2022			2021		
	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000	Gross HK\$'000	Reinsurance HK\$'000	Net HK\$'000
As at 1 January	11,582,453	-	11,582,453	8,138,076	-	8,138,076
Claims and benefits paid	(808,797)	-	(808,797)	(606,437)	-	(606,437)
Claims incurred and movement in policyholders' liabilities (Note 8)	<u>3,545,534</u>	<u>-</u>	<u>3,545,534</u>	<u>4,050,814</u>	<u>-</u>	<u>4,050,814</u>
As at 31 December	<u>14,319,190</u>	<u>-</u>	<u>14,319,190</u>	<u>11,582,453</u>	<u>-</u>	<u>11,582,453</u>

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(ii) Key assumptions and reserving approach

For long term insurance contracts, economic assumptions are continually reviewed and updated. Non-economic assumptions are reviewed at least annually.

Based on generally accepted actuarial principles and in accordance with Hong Kong Insurance (Determination of Long Term Liabilities) Rules of the Insurance Ordinance, the valuation of individual life liabilities was carried out using the Modified Net Level Premium Valuation method, subject to a minimum of the surrender value.

(iii) Non-economic assumptions

Mortality

HKA18 mortality table adjusted by mortality improvement and selection loading is used, with loading of 15% for provision for adverse deviations on top of best estimate mortality assumptions.

Lapse

In accordance with Section 13 of the Hong Kong Insurance (Determination of Long Term Liabilities) Rules (i.e. no allowance is made for the voluntary discontinuance).

Renewal expense

The renewal expense assumption is based on internal experience study. The renewal expense assumption was increased in 2022 and the insurance liabilities has increased by HK\$87 million (2021: HK\$0.2 million).

(iv) Valuation interest basis

The valuation interest rate is the weighted proportion of yield on existing assets and reinvestment yield expected of assets bought within 3 years of valuation date and 3 years after valuation date. The reinvestment yield of assets bought within 3 years of valuation date is obtained by taking the average of yield on current assets and reinvestment yield of assets expected to be bought 3 years after valuation date. This methodology is in compliance with the Hong Kong Insurance (Determination of Long Term Liabilities) Rules and the actuarial guidance provided by the Actuarial Society of Hong Kong. The valuation interest rate is 4% (2021: 4%).

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27. Debt securities issued

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Debt securities carried at amortised cost		
MTN	<u>23,460,175</u>	<u>24,928,315</u>
Total debt securities carried at amortised cost	<u>23,460,175</u>	<u>24,928,315</u>
Debt securities designated as hedged items under cash flow hedge		
MTN	<u>2,819,066</u>	<u>3,452,590</u>
Total debt securities designated as hedged items under cash flow hedge	<u>2,819,066</u>	<u>3,452,590</u>
Debt securities designated as hedged items under fair value hedge		
DIP notes	<u>596,368</u>	<u>1,080,122</u>
MTN	<u>104,199,663</u>	<u>86,191,940</u>
Total debt securities designated as hedged items under fair value hedge	<u>104,796,031</u>	<u>87,272,062</u>
Total debt securities issued	<u><u>131,075,272</u></u>	<u><u>115,652,967</u></u>

The movement in debt securities issued is summarised as follows:

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
As at 1 January	115,268,834	61,262,254
Issuance	97,594,174	109,469,731
Less: Redemption	(77,621,597)	(55,532,806)
Exchange difference	<u>(248,009)</u>	<u>69,655</u>
Total nominal value	134,993,402	115,268,834
Unamortised portion of discount	(111,727)	(77,690)
Fair value adjustment	<u>(3,806,403)</u>	<u>461,823</u>
As at 31 December	<u><u>131,075,272</u></u>	<u><u>115,652,967</u></u>

Notes issued during the year comprise:

	<u>MTN</u> <u>HK\$'000</u>
Amount issued at nominal value	<u><u>97,594,174</u></u>
Consideration received	<u><u>97,470,457</u></u>

All the debt securities issued are unsecured obligations of the Group, and are issued for the purposes of providing general working capital and refinancing.

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28. Share capital

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
Issued and fully paid: 2 billion ordinary shares	<u>12,000,000</u>	<u>9,500,000</u>

The movement in share capital is summarised as follows:

	<u>2022</u> <u>HK\$'000</u>	<u>2021</u> <u>HK\$'000</u>
As at 1 January	9,500,000	7,000,000
Capital injection	<u>2,500,000</u>	<u>2,500,000</u>
As at 31 December	<u>12,000,000</u>	<u>9,500,000</u>

29. Material related party transactions

- (a) The Company and its wholly-owned subsidiaries are wholly owned by the Government for the account of the Exchange Fund. During the year, the Group entered into or maintained material transactions with the related parties as follows:

Transactions with the HKMA, a Government-related entity, included the following:

- (i) the Group paid a total fee amount of HK\$1.9 million for the year (2021: HK\$1.9 million) to the HKMA in respect of custodian and clearing agent services from the Central Moneymarkets Unit;
- (ii) the Group incurred a secondment fee of HK\$24.1 million for the year (2021: HK\$22.7 million) in respect of secondees from the HKMA;
- (iii) the Company paid no back-up site service fee for the year (2021: HK\$0.4 million) to the HKMA;
- (iv) the Monetary Authority through the Exchange Fund increased its revolving credit facility to the Company to HK\$80 billion in October 2020 from HK\$30 billion, and there was no outstanding balance and accrued interest as at 31 December 2022 (2021: nil for both); and
- (v) on 27 June 2022, the Monetary Authority through the Exchange Fund injected funds of HK\$2.5 billion into the Company for the purpose of financing the Company's additional capital injection into the HKMCA on the same date. Accordingly, the Monetary Authority through the Exchange Fund maintained its commitment to inject additional funds up to HK\$15 billion in aggregate (reduced from the original amount of HK\$20 billion after taking into account of the HK\$2.5 billion capital injection each into the HKMCA on 28 June 2021 and 27 June 2022 respectively) into the Company as equity for the sole purpose of financing the Company's additional capital injection into the HKMCA and the Company maintained its commitment to inject such additional funds into the HKMCA as equity for the sole purpose of

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maintaining the HKMCA's margin of solvency above a certain level.

Transactions with the Government included the following:

- (i) the HKMCI provided 80%, 90% and 100% SFGS loan guarantees with a total guarantee commitment up to HK\$280 billion reimbursable by the Government (including guarantees on 100% SFGS loans acquired by the Company), see Note 32 for details. With respect to the day-to-day operation of the 100% SFGS, the Government reimbursed HK\$128.2 million (2021: HK\$87.5 million) to the HKMCI for the administrative expenses incurred by the HKMCI for the year;
- (ii) the Company entered into an agreement with the Government, pursuant to which the Company maintained its commitment to purchase from SFGS lenders all 100% SFGS loans that are fully guaranteed by the Government via the HKMCI, see Note 17 for details;
- (iii) the Company and the HKMCI entered into an agreement with the Government, pursuant to which the Company committed to purchase all loans under the PLGS from the participating AIs and the Government provided full funding to the Company for the purchase of all the PLGS loans, the HKMCI is responsible for the operation and administration of the PLGS. With respect to the advance payment received from the Government to purchase loans under the PLGS, a portion of such advance funding pending for the purchase of loans was deposited with AIs with an outstanding balance of HK\$1 billion (2021: HK\$0.7 billion) and the remaining portion of the advance payment was placed with the Exchange Fund on behalf of the Government with an outstanding balance of HK\$3.4 billion as at 31 December 2022 respectively (2021: HK\$4.7 billion). The HKMCI was appointed by the Government to act as an administrator for PLGS for a fee of HK\$6.5 million (2021: HK\$2.2 million) for the year. Risks and rewards arising from the PLGS loans rest with the Government; and
- (iv) the Company held investment of HK\$382 million (2021: HK\$307 million) in the Hong Kong Government Bonds as at 31 December 2022 and the interest thereon was HK\$9.9 million (2021: HK\$0.8 million).

The Company provided corporate support services to its subsidiaries during the year for fees on an arm's length basis.

Balances of amounts due to relevant related parties are as follows:

	The Exchange Fund		The Government	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Placements with the Exchange Fund (Note 20)	32,798,933	28,633,258	-	-
Other liabilities (Notes 25 and 32)	-	-	11,487,889	19,382,767

- (b) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly,

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including directors and senior officers.

Compensation of the key management personnel for 2022 and 2021 comprised:

	<u>2022</u>	<u>2021</u>
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	32,315	31,237
Post-employment benefits	2,938	2,866
	<u>35,253</u>	<u>34,103</u>

30. Commitments

(a) Capital

	<u>2022</u>	<u>2021</u>
	HK\$'000	HK\$'000
Authorised and contracted for	3,443	3,356
Authorised but not contracted for	63,711	60,557
	<u>67,154</u>	<u>63,913</u>

The above capital commitments mainly relate to commitments to purchase computer equipment and software.

(b) Other commitments

	<u>2022</u>	<u>2021</u>
	HK\$'000	HK\$'000
Undrawn loan commitments	2,109,673	2,847,131

31. Mortgage Insurance Programme and Reverse Mortgage Programme

As at 31 December 2022, the total risk-in-force of the Group under the MIP was approximately HK\$110.6 billion (2021: HK\$88.9 billion) of which HK\$11.5 billion (2021: HK\$8.3 billion) was ceded to the approved reinsurers and the balance of HK\$99.1 billion (2021: HK\$80.6 billion) was retained by the Group.

As at 31 December 2022, the total risk-in-force of the Group under the RMP was approximately HK\$23.3 billion (2021: HK\$18.7 billion) of which HK\$7.0 billion (2021: HK\$4.7 billion) was ceded to the approved reinsurer and the balance of HK\$16.3 billion (2021: HK\$14.0 billion) was retained by the Group.

32. Special concessionary measures under the SME Financing Guarantee Scheme

The Group provided loan guarantee products with 80% and 90% guarantee coverage under the existing SFGS at a concessionary guarantee fee rate, together with guarantee for 100% SFGS loans acquired for a total guarantee commitment up to HK\$280 billion reimbursable by the Government.

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Regarding the 80% and 90% guarantee products, all guarantee fees collected under the special loan guarantee products are set aside to meet the relevant default claims and related out-of-pocket expenses. The remaining balance of the guarantee fees, if any, will be returned to, and any shortfall will be borne by, the Government. The Group is responsible for the operation of the product and the applicable day-to-day operating costs. There is no impact on the consolidated income statement of the Group in respect of guarantee fee revenue and default claims. Given that the Group operates only these products for the Government, the Group considers the risk and rewards associated with this product rest with the Government. Hence, the risk-in-force for these products has not been included as the Group's off-balance sheet exposures.

For the 100% SFGS, please refer to Note 17 for more details.

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33. Statement of financial position and reserve movement of the Company

33.1 Statement of financial position of the Company as at 31 December 2022

	Note	2022 HK\$'000	2021 HK\$'000
ASSETS			
Cash and short-term funds		25,463,522	33,813,827
Interest and remittance receivables		1,361,017	862,200
Derivative financial instruments		603,715	812,397
Loans with special 100% guarantee under the SME			
Financing Guarantee Scheme		90,162,235	71,063,154
Loan portfolio, net		9,762,979	7,117,247
Investment securities:			
- at fair value through other comprehensive income		1,244,974	3,647,182
- at fair value through profit or loss		9,628	10,710
- at amortised cost		11,840,925	10,987,143
Placements with the Exchange Fund		3,391,087	4,665,273
Interests in subsidiaries		17,655,313	14,120,803
Prepayments, deposits and other assets		4,515,119	1,910,836
Fixed assets		165,933	213,559
Total assets		166,176,447	149,224,331
LIABILITIES			
Interest payable		1,654,657	688,255
Placements by subsidiary		174,000	147,000
Accounts payable, accrued expenses and other liabilities		8,106,268	13,913,015
Derivative financial instruments		4,192,097	334,529
Current tax liabilities		98,666	136,064
Deferred tax liabilities		3,459	5,747
Debt securities issued		131,075,272	115,652,967
Total liabilities		145,304,419	130,877,577
EQUITY			
Capital and reserves attributable to the equity holder:			
Share capital		12,000,000	9,500,000
Retained profits	33.2	8,734,079	8,829,710
Fair value reserve	33.2	(1,017)	11,416
Hedging reserve	33.2	138,966	5,628
Total equity		20,872,028	18,346,754
Total liabilities and equity		166,176,447	149,224,331

Approved and authorised for issue by the Board of Directors on 22 May 2023.

(Sd.)

YUE Wai Man, Eddie
Deputy Chairman and Executive Director

(Sd.)

LI Ling Cheung, Raymond
Executive Director and Chief Executive Officer

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33.2 Reserves of the Company

	Retained profits HK\$'000	Fair value reserve HK\$'000	Hedging reserve HK\$'000	Total HK\$'000
Balance as at 1 January 2021	8,409,021	9,519	(96)	8,418,444
Profit for the year	420,689	-	-	420,689
Other comprehensive income:				
Change in the fair value of debt securities at FVOCI	-	2,634	-	2,634
Change in the loss allowance of debt securities at FVOCI	-	(737)	-	(737)
Change in the fair value of hedging instruments at cash flow hedge	-	-	5,724	5,724
Total comprehensive income for the year	420,689	1,897	5,724	428,310
As at 31 December 2021	8,829,710	11,416	5,628	8,846,754
Loss for the year	(95,631)	-	-	(95,631)
Other comprehensive (loss) / income:				
Change in the fair value of debt securities at FVOCI	-	(12,070)	-	(12,070)
Change in the loss allowance of debt securities at FVOCI	-	(363)	-	(363)
Change in the fair value of hedging instruments at cash flow hedge	-	-	133,338	133,338
Total comprehensive (loss) / income for the year	(95,631)	(12,433)	133,338	25,274
As at 31 December 2022	8,734,079	(1,017)	138,966	8,872,028

34. Directors' material interests in transactions, arrangements and contracts

Apart from those disclosed in Note 29, there was no other transaction, arrangement or contract of significance in relation to the Company's business, to which any member of the Group was a party, and in which any person who was a Director at any time during the year or a connected entity (as defined in the Companies Ordinance) of any such person had, directly or indirectly, a material interest, which subsisted at the end of the year or at any time during the year.

35. Events after balance sheet date

On 9 May 2023, the Group had announced the launch of a publicly rated securitisation transaction which consisted of multiple classes of USD-denominated senior secured notes backed by the cash flows from a diversified portfolio of projects and infrastructure loans across multiple geographies and sectors, with an issuance size of around US\$405 million. The Group is expected to divest a portfolio of its infrastructure loans from its asset purchase and servicing segment to the securitisation vehicle.

This event is regarded as non-adjusting to the consolidated financial statements for the year ended 31 December 2022.

THE HONG KONG MORTGAGE CORPORATION LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. Approval of financial statements

The financial statements were approved by the Board of Directors on 22 May 2023.

THE ISSUER

The Hong Kong Mortgage Corporation Limited

香港按揭證券有限公司

29th Floor, Cosco Tower (High Block), Grand Millennium Plaza

183 Queen's Road Central

Hong Kong

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c/o Citibank, N.A.,

Dublin Branch,

1 North Wall Quay,

Dublin 1, Ireland

REGISTRAR

Citicorp International Limited

9/F Citi Tower, One Bay East

83 Hoi Bun Road, Kwun Tong

Kowloon, Hong Kong

CMU LODGING AGENT

Citibank, N.A., Hong Kong Branch

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83 Hoi Bun Road, Kwun Tong

Kowloon, Hong Kong

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Corporation Limited**
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UBS AG Hong Kong Branch
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8 Finance Street, Central
Hong Kong

**APPENDIX II – PRICING SUPPLEMENT FOR HK\$8,000,000,000 4.25 PER CENT. NOTES DUE
2026 DATED 21 FEBRUARY 2024**

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PRICING SUPPLEMENT

21 February 2024

The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司

Issue of HK\$8,000,000,000 4.25 per cent. Notes due 2026 (the Notes) under the U.S.\$30,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used in this Pricing Supplement shall have the same meaning as the terms defined in the Terms and Conditions of the Notes set out in the Offering Circular dated 26 June 2023 (the **Offering Circular**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the **Professional Investors**) only.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

1.	Issuer:	The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司
2.	(i) Series Number:	M2_220
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency or Currencies:	Hong Kong Dollar (HK\$)
4.	Aggregate Nominal Amount:	
	(i) Series:	HK\$8,000,000,000
	(ii) Tranche:	HK\$8,000,000,000
5.	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	Approximately HK\$7,994 million
6.	(i) Specified Denomination(s):	HK\$1,000,000 and integral multiples of HK\$500,000 in excess thereof
	(ii) Calculation Amount:	HK\$500,000
7.	(i) Issue Date and Interest Commencement Date:	28 February 2024
	(ii) Interest Commencement Date (if different from the Issue Date):	Not Applicable
8.	Maturity Date:	Interest Payment Date falling in or nearest to 28 February 2026
9.	Interest Basis:	4.25 per cent. Fixed Rate (further particulars specified below)
10.	Redemption / Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption / Payment Basis:	Not Applicable
12.	Put / Call Options:	Not Applicable
13.	Listing:	The Stock Exchange of Hong Kong Limited Permission to deal in the Notes is expected to become effective on or around 29 February 2024
14.	Method of distribution:	Syndicated

Provisions Relating to Interest (If Any) Payable

15.	Fixed Rate Note Provisions:	Applicable
(i)	Rate(s) of Interest:	4.25 per cent. per annum payable annually in arrear on each Interest Payment Date
(ii)	Interest Payment Date(s):	28 February in each year, commencing from and including 28 February 2025 up to and including the Maturity Date provided that if an Interest Payment Date falls on a day which is not a Business Day, such Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and London.
(iii)	Fixed Coupon Amount(s) for Notes in definitive form:	Interest shall be calculated by applying the Rate of Interest to (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note, or (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards.
(iv)	Broken Amount(s) for Notes in definitive form:	Not Applicable
(v)	Day Count Fraction:	Actual/365 (Fixed)
(vi)	Determination Date(s):	Not Applicable
(vii)	Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent):	Not Applicable
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16.	Floating Rate Note Provisions:	Not Applicable
17.	Zero Coupon Note Provisions:	Not Applicable

18. Index Linked Interest Note Provisions: Not Applicable

19. Dual Currency Interest Note Provisions: Not Applicable

Provisions Relating to Redemption

20. Issuer Call: Not Applicable

21. Investor Put: Not Applicable

22. Final Redemption Amount: At par

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): Not Applicable

General Provisions Applicable to the Notes

24. Form of Notes: Registered Notes:

Registered Global Note (HK\$8,000,000,000 nominal amount) registered in the name of the Hong Kong Monetary Authority (as operator of CMU)

25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Hong Kong and London

26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): No

27. Details relating to Partly Paid Notes (amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): Not Applicable

28. Details relating to Instalment Notes:

(i) Instalment Amount(s): Not Applicable

(ii) Instalment Date(s): Not Applicable

29. Redenomination: Not Applicable

30. Other terms or special conditions: See Annexures 2, 3, 4 and 5 to this Pricing Supplement

Distribution

31. (i) If syndicated, names of Managers:
- Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers***
Bank of China (Hong Kong) Limited
Crédit Agricole Corporate and Investment Bank
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
- Joint Bookrunners and Joint Lead Managers***
Australia and New Zealand Banking Group Limited
BNP Paribas
China Construction Bank (Asia) Corporation Limited
Citigroup Global Markets Limited
DBS Bank Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Securities Asia Limited
United Overseas Bank Limited, Hong Kong Branch
- Joint Lead Managers***
Bank of Communications Co., Ltd. Hong Kong Branch
Barclays Bank PLC
China CITIC Bank International Limited
China International Capital Corporation Hong Kong Securities Limited
J.P. Morgan Securities plc
Morgan Stanley & Co. International plc
Oversea-Chinese Banking Corporation Limited
SMBC Nikko Securities (Hong Kong) Limited
(the **Managers**)
- (ii) Stabilisation Manager (if any): Not Applicable
32. If non-syndicated, name of relevant Dealer: Not Applicable
33. U.S. Selling Restrictions: Reg. S Category 2; TEFRA not applicable
34. Additional selling restrictions: See Annexure 1 to this Pricing Supplement

Operational Information

35. ISIN: HK0000993334
36. Common Code: 277128829
37. CMU Instrument Number: HKMCFN24018
38. Any clearing system(s) other than Euroclear or Clearstream or CMU, and the relevant identification number(s): Not Applicable

39.	Delivery:	Delivery against payment
40.	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
41.	In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than Hong Kong:	Not Applicable
42.	Additional Paying Agent(s) (if any):	Not Applicable
43.	Legal Entity Identifier:	254900W04TBDJ4UBOS04
44.	Rebates	Not Applicable
45.	Contact email addresses of the Overall Coordinators where the underlying investor information in relation to omnibus orders should be sent:	projectdragon2024@bochk.com Project.Dragon@ca-cib.com HKG-Syndicate@ca-cib.com hk_syndicate_omnibus@hsbc.com.hk SYNHK@sc.com ccba_dcm@asia.ccb.com
46.	Marketing and Investor Targeting Strategy	Not Applicable

Listing Application

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.\$30,000,000,000 Medium Term Note Programme of The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司.

Investment Considerations

There are significant risks associated with the Notes. Prospective investors should have regard to the factors described under the section headed “Risk Factors” in the Offering Circular before purchasing any Notes. Before entering into any transaction, prospective investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Prospective investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular referred to above, contains all information that is material in the context of the issue of the Notes.

For and on behalf of

THE HONG KONG MORTGAGE CORPORATION LIMITED

香港按揭證券有限公司

By: (Sd.) _____
Authorised Signatory
LI Ling Cheung, Raymond
Executive Director and
Chief Executive Officer

(Sd.) _____
Authorised Signatory
LIU Chi Keung
Senior Vice President (Finance)

ANNEXURE 1

THE "SUBSCRIPTION AND SALE" SECTION OF THE OFFERING CIRCULAR

The paragraphs set out in and under the sub-section "Singapore" on pages 143 and 144 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the SFA)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA."

ANNEXURE 2

RECENT DEVELOPMENTS

Increase in the share capital of the Issuer

In June 2023, the Issuer increased its share capital without allotment of new shares, by HK\$2.5 billion, fully paid up, to HK\$14.5 billion. The HK\$2.5 billion was injected into the HKMCA as equity pursuant to the terms of a tripartite capital commitment letter entered into by and among the Issuer, the HKMCA and the Monetary Authority in 2018. Upon such injection, the Issuer had in total injected HK\$12.5 billion into the HKMCA since its incorporation. The Issuer will inject additional funds into the HKMCA as equity to support its business growth and enhance its solvency ratio for the purpose of risk management.

Amendments to the Mortgage Insurance Programme (MIP)

On 7 July 2023, the HKMCI published a press release (**July MIP Amendments Press Release**) announcing the following amendments to MIP for completed residential properties:

- (a) for eligible properties with property value above HK\$10 million and up to HK\$15 million, the maximum loan-to-value (LTV) ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK\$9 million, whichever is higher; and
- (b) for eligible properties with property value above HK\$15 million and up to HK\$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK\$12 million, whichever is higher.

In addition, the HKMCI would make the following arrangements in respect of mortgage insurance premium under the MIP:

- (a) as banks would be able to provide mortgage loans with maximum LTV ratio up to 70%, the MIP would provide insurance coverage on the portion of banks' loans over 70% LTV ratio. The relevant premium rates would be lower than those for insurance coverage starting at 60% LTV ratio; and
- (b) the HKMCI would provide first-time homebuyers with special premium concession for properties valued up to HK\$15 million, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks.

The above amendments to the MIP and the mortgage insurance premium arrangements apply to mortgage loans for owner-occupied properties with provisional agreements for sale and purchase executed on or after 7 July 2023.

The July MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/387/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

On 22 September 2023, the HKMCI published a press release (**September MIP Amendments Press Release**) announcing certain amendments to the MIP for residential properties under construction so that the applicable eligibility criteria of such properties for the MIP align with those for completed residential properties.

Such amendments to the MIP apply to mortgage loans for properties under construction for self-occupation with provisional agreements for sale and purchase executed on or after 22 September 2023.

The September MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/390/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

DLGS

On 4 September 2023, the HKMCI published a press release (**September DLGS Press Release**) announcing the launch of the DLGS for battery electric taxis (**Electric Taxi Scheme**). The Electric Taxi Scheme aims to promote the use of electric taxis as one of the Hong Kong Government's measures to develop green transport, which helps achieve the carbon neutrality target of Hong Kong. Three participating AIs with taxi financing business received applications at the initial stage of the Electric Taxi Scheme. After such loans are drawn down under the Electric Taxi Scheme, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The loans will be fully guaranteed by the Hong Kong Government in favour of the Issuer.

The September DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/388/eng/Press%20Release_Launch%20of%20DLGS%20for%20Battery%20Electric%20Taxis_Eng.pdf.

On 27 October 2023, the HKMCI published a press release (**October DLGS Press Release**) announcing a six-month extension of the application period of the DLGS for Cross-boundary Passenger Transport Trade and the DLGS for Travel Sector to 28 April 2024.

The October DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/393/eng/Press%20Release_DLGS%20application%20period%20extension_Eng.pdf.

Published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023

The published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023 (2023 Interim Financial Results) have not been audited or reviewed by the Issuer's auditor. Consequently, the 2023 Interim Financial Results should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results. In addition, the 2023 Interim Financial Results should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2023.

On 28 September 2023, the Issuer published a press release on the highlights of its unaudited consolidated financial results (**2023 Interim Press Release**). As at 30 June 2023, the capital adequacy ratio of the Issuer remained at 18.1% (30 June 2022: 19.1%; 31 December 2022: 27.9%), which is well above the minimum ratio of 8% stipulated by the Financial Secretary.

The 2023 Interim Press Release is available at https://www.hkmc.com.hk/files/press_release/391/eng/Press%20Release_HKMC%E2%80%99s%20Financial%20Results%20Highlights%20for%20the%20First%20Half%20of%202023_Eng.pdf and is incorporated by reference into this Pricing Supplement.

Based on a preliminary assessment, the Group expects to record a consolidated loss after tax (**Loss**) for the year ended 31 December 2023 as compared to an unaudited profit after tax for the six months ended 30 June 2023. The Loss is expected to be primarily attributable to (a) the increase in insurance contract liabilities for the HKMCA driven by reduced discount rates, reflecting relatively lower market interest rates as at the end of 2023 as compared to the interest rates applied as at 30 June 2023; and (b) the negative impact of the drop in property prices on the RMP. Moreover, the Group's financial results for the year ended 31 December 2023 will also be subject to the Exchange Fund's finalisation of the 2023 investment return of the LTGP which will affect HKMCA's income from its placements with the Exchange Fund.

In 2023, the volume of loans drawn down under the MIP was at HK\$83.1 billion. The delinquency ratio of the MIP portfolio was 0.02% as at 31 December 2023.

Partial Principal Repayment Arrangement for SFGS

On 25 October 2023, following the Chief Executive's announcement in the 2023 Policy Address, the HKMCI published a press release (**SFGS Press Release**) on the introduction of more flexible repayment options under the SFGS pursuant to which the enterprises may choose to repay only 10%, 20% or 50% of the original principal repayment amount each month during a specified period, enabling them to have more time to gradually switch from principal moratorium to normal repayments.

The SFGS Press Release is available at https://www.hkmc.com.hk/files/press_release/392/eng/Press%20Release_SFGS%20Partial%20Principal%20Repayment%20Arrangement_Eng.pdf.

Credit Rating Outlook of the Issuer

On 7 December 2023, Moody's Investors Service announced to change to negative from stable the outlook on the Issuer following the agency's affirmation of the Hong Kong Government's issuer rating at Aa3 and change in the outlook to negative from stable.

Updates on the Business Areas of the Issuer

IFS

Since inception up to the end of 2023, the amount of infrastructure loans acquired amounted to U.S.\$1.7 billion.

MIP

Since inception up to the end of 2023, the MIP facilitated home purchases of about 226,000 families. The aggregate loans drawn down under the MIP was HK\$821.9 billion.

SFGS

Since inception up to the end of 2023, the SFGS benefitted more than 60,600 SMEs and 772,000 related employees.

PLGS

Since inception up to the end of 2023, the HKMCI had approved more than 67,000 applications for a total loan amount of HK\$4.7 billion.

RMP

Since inception up to the end of 2023, 6,891 RMP applications were approved, with an average property value of about HK\$5.8 million.

HKMC Annuity Plan

Since inception up to the end of 2023, the HKMC Annuity Plan helped about 15,000 senior citizens to convert their savings into lifelong and stable income streams.

ANNEXURE 3

THE "CAPITALISATION AND INDEBTEDNESS OF THE ISSUER" SECTION OF THE OFFERING CIRCULAR

The second paragraph of the section "Capitalisation and Indebtedness of the Issuer" in the Offering Circular shall be deleted in its entirety and replaced with the following:

"As at 31 January 2024, total capitalisation of the Issuer has increased compared to that as at 31 December 2022 mainly due to (i) an increase in debt issuance in order to support the Issuer's core missions and policy initiatives and (ii) an increase in share capital resulting from a capital injection into the Issuer by the Hong Kong Government through the Exchange Fund as shareholder of the Issuer."

ANNEXURE 4

AMENDMENTS TO TAXATION

In the paragraphs under "Taxation – Hong Kong – Stamp Duty" in the Offering Circular, references to "0.13 per cent." shall be replaced with "0.10 per cent.", and the reference to "0.26 per cent." shall be replaced with "0.20 per cent.".

ANNEXURE 5

AMENDMENT TO THE ADDRESS OF THE ISSUER

The address of the Issuer as specified in the Offering Circular to be "29th Floor, Cosco Tower (High Block), Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong" shall be replaced with "Level 65, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong".

**APPENDIX III – PRICING SUPPLEMENT FOR HK\$3,000,000,000 4.10 PER CENT. NOTES DUE
2029 DATED 21 FEBRUARY 2024**

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PRICING SUPPLEMENT

21 February 2024

The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司

Issue of HK\$3,000,000,000 4.10 per cent. Notes due 2029 (the Notes) under the U.S.\$30,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used in this Pricing Supplement shall have the same meaning as the terms defined in the Terms and Conditions of the Notes set out in the Offering Circular dated 26 June 2023 (the **Offering Circular**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the **Professional Investors**) only.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

1.	Issuer:	The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司
2.	(i) Series Number:	M530
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency or Currencies:	Hong Kong Dollar (HK\$)
4.	Aggregate Nominal Amount:	
	(i) Series:	HK\$3,000,000,000
	(ii) Tranche:	HK\$3,000,000,000
5.	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	Approximately HK\$2,997 million
6.	(i) Specified Denomination(s):	HK\$1,000,000 and integral multiples of HK\$500,000 in excess thereof
	(ii) Calculation Amount:	HK\$500,000
7.	(i) Issue Date and Interest Commencement Date:	28 February 2024
	(ii) Interest Commencement Date (if different from the Issue Date):	Not Applicable
8.	Maturity Date:	Interest Payment Date falling in or nearest to 28 February 2029
9.	Interest Basis:	4.10 per cent. Fixed Rate (further particulars specified below)
10.	Redemption / Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption / Payment Basis:	Not Applicable
12.	Put / Call Options:	Not Applicable
13.	Listing:	The Stock Exchange of Hong Kong Limited Permission to deal in the Notes is expected to become effective on or around 29 February 2024
14.	Method of distribution:	Syndicated

Provisions Relating to Interest (If Any) Payable

15.	Fixed Rate Note Provisions:	Applicable
(i)	Rate(s) of Interest:	4.10 per cent. per annum payable annually in arrear on each Interest Payment Date
(ii)	Interest Payment Date(s):	28 February in each year, commencing from and including 28 February 2025 up to and including the Maturity Date provided that if an Interest Payment Date falls on a day which is not a Business Day, such Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and London.
(iii)	Fixed Coupon Amount(s) for Notes in definitive form:	Interest shall be calculated by applying the Rate of Interest to (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note, or (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards.
(iv)	Broken Amount(s) for Notes in definitive form:	Not Applicable
(v)	Day Count Fraction:	Actual/365 (Fixed)
(vi)	Determination Date(s):	Not Applicable
(vii)	Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent):	Not Applicable
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16.	Floating Rate Note Provisions:	Not Applicable
17.	Zero Coupon Note Provisions:	Not Applicable

18. Index Linked Interest Note Provisions: Not Applicable

19. Dual Currency Interest Note Provisions: Not Applicable

Provisions Relating to Redemption

20. Issuer Call: Not Applicable

21. Investor Put: Not Applicable

22. Final Redemption Amount: At par

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): Not Applicable

General Provisions Applicable to the Notes

24. Form of Notes: Registered Notes:

Registered Global Note (HK\$3,000,000,000 nominal amount) registered in the name of the Hong Kong Monetary Authority (as operator of CMU)

25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Hong Kong and London

26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): No

27. Details relating to Partly Paid Notes (amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): Not Applicable

28. Details relating to Instalment Notes:

(i) Instalment Amount(s): Not Applicable

(ii) Instalment Date(s): Not Applicable

29. Redenomination: Not Applicable

30. Other terms or special conditions: See Annexures 2, 3, 4 and 5 to this Pricing Supplement

Distribution

31. (i) If syndicated, names of Managers:
- Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers***
Bank of China (Hong Kong) Limited
Crédit Agricole Corporate and Investment Bank
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
- Joint Bookrunners and Joint Lead Managers***
Australia and New Zealand Banking Group Limited
BNP Paribas
China Construction Bank (Asia) Corporation Limited
Citigroup Global Markets Limited
DBS Bank Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Securities Asia Limited
United Overseas Bank Limited, Hong Kong Branch
- Joint Lead Managers***
Bank of Communications Co., Ltd. Hong Kong Branch
Barclays Bank PLC
China CITIC Bank International Limited
China International Capital Corporation Hong Kong Securities Limited
J.P. Morgan Securities plc
Morgan Stanley & Co. International plc
Oversea-Chinese Banking Corporation Limited
SMBC Nikko Securities (Hong Kong) Limited
(the **Managers**)
- (ii) Stabilisation Manager (if any): Not Applicable
32. If non-syndicated, name of relevant Dealer: Not Applicable
33. U.S. Selling Restrictions: Reg. S Category 2; TEFRA not applicable
34. Additional selling restrictions: See Annexure 1 to this Pricing Supplement

Operational Information

35. ISIN: HK0000993342
36. Common Code: 277128853
37. CMU Instrument Number: HKMCFN24019
38. Any clearing system(s) other than Euroclear or Clearstream or CMU, and the relevant identification number(s): Not Applicable

39.	Delivery:	Delivery against payment
40.	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
41.	In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than Hong Kong:	Not Applicable
42.	Additional Paying Agent(s) (if any):	Not Applicable
43.	Legal Entity Identifier:	254900W04TBDJ4UBOS04
44.	Rebates	Not Applicable
45.	Contact email addresses of the Overall Coordinators where the underlying investor information in relation to omnibus orders should be sent:	projectdragon2024@bochk.com Project.Dragon@ca-cib.com HKG-Syndicate@ca-cib.com hk_syndicate_omnibus@hsbc.com.hk SYNHK@sc.com ccba_dcm@asia.ccb.com
46.	Marketing and Investor Targeting Strategy	Not Applicable

Listing Application

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.\$30,000,000,000 Medium Term Note Programme of The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司.

Investment Considerations

There are significant risks associated with the Notes. Prospective investors should have regard to the factors described under the section headed “Risk Factors” in the Offering Circular before purchasing any Notes. Before entering into any transaction, prospective investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Prospective investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular referred to above, contains all information that is material in the context of the issue of the Notes.

For and on behalf of

THE HONG KONG MORTGAGE CORPORATION LIMITED

香港按揭證券有限公司

By: (Sd.) _____
Authorised Signatory
LI Ling Cheung, Raymond
Executive Director and
Chief Executive Officer

(Sd.) _____
Authorised Signatory
LIU Chi Keung
Senior Vice President (Finance)

ANNEXURE 1

THE "SUBSCRIPTION AND SALE" SECTION OF THE OFFERING CIRCULAR

The paragraphs set out in and under the sub-section "Singapore" on pages 143 and 144 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the SFA)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA."

ANNEXURE 2

RECENT DEVELOPMENTS

Increase in the share capital of the Issuer

In June 2023, the Issuer increased its share capital without allotment of new shares, by HK\$2.5 billion, fully paid up, to HK\$14.5 billion. The HK\$2.5 billion was injected into the HKMCA as equity pursuant to the terms of a tripartite capital commitment letter entered into by and among the Issuer, the HKMCA and the Monetary Authority in 2018. Upon such injection, the Issuer had in total injected HK\$12.5 billion into the HKMCA since its incorporation. The Issuer will inject additional funds into the HKMCA as equity to support its business growth and enhance its solvency ratio for the purpose of risk management.

Amendments to the Mortgage Insurance Programme (MIP)

On 7 July 2023, the HKMCI published a press release (**July MIP Amendments Press Release**) announcing the following amendments to MIP for completed residential properties:

- (a) for eligible properties with property value above HK\$10 million and up to HK\$15 million, the maximum loan-to-value (LTV) ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK\$9 million, whichever is higher; and
- (b) for eligible properties with property value above HK\$15 million and up to HK\$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK\$12 million, whichever is higher.

In addition, the HKMCI would make the following arrangements in respect of mortgage insurance premium under the MIP:

- (a) as banks would be able to provide mortgage loans with maximum LTV ratio up to 70%, the MIP would provide insurance coverage on the portion of banks' loans over 70% LTV ratio. The relevant premium rates would be lower than those for insurance coverage starting at 60% LTV ratio; and
- (b) the HKMCI would provide first-time homebuyers with special premium concession for properties valued up to HK\$15 million, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks.

The above amendments to the MIP and the mortgage insurance premium arrangements apply to mortgage loans for owner-occupied properties with provisional agreements for sale and purchase executed on or after 7 July 2023.

The July MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/387/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

On 22 September 2023, the HKMCI published a press release (**September MIP Amendments Press Release**) announcing certain amendments to the MIP for residential properties under construction so that the applicable eligibility criteria of such properties for the MIP align with those for completed residential properties.

Such amendments to the MIP apply to mortgage loans for properties under construction for self-occupation with provisional agreements for sale and purchase executed on or after 22 September 2023.

The September MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/390/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

DLGS

On 4 September 2023, the HKMCI published a press release (**September DLGS Press Release**) announcing the launch of the DLGS for battery electric taxis (**Electric Taxi Scheme**). The Electric Taxi Scheme aims to promote the use of electric taxis as one of the Hong Kong Government's measures to develop green transport, which helps achieve the carbon neutrality target of Hong Kong. Three participating AIs with taxi financing business received applications at the initial stage of the Electric Taxi Scheme. After such loans are drawn down under the Electric Taxi Scheme, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The loans will be fully guaranteed by the Hong Kong Government in favour of the Issuer.

The September DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/388/eng/Press%20Release_Launch%20of%20DLGS%20for%20Battery%20Electric%20Taxis_Eng.pdf.

On 27 October 2023, the HKMCI published a press release (**October DLGS Press Release**) announcing a six-month extension of the application period of the DLGS for Cross-boundary Passenger Transport Trade and the DLGS for Travel Sector to 28 April 2024.

The October DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/393/eng/Press%20Release_DLGS%20application%20period%20extension_Eng.pdf.

Published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023

The published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023 (2023 Interim Financial Results) have not been audited or reviewed by the Issuer's auditor. Consequently, the 2023 Interim Financial Results should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results. In addition, the 2023 Interim Financial Results should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2023.

On 28 September 2023, the Issuer published a press release on the highlights of its unaudited consolidated financial results (**2023 Interim Press Release**). As at 30 June 2023, the capital adequacy ratio of the Issuer remained at 18.1% (30 June 2022: 19.1%; 31 December 2022: 27.9%), which is well above the minimum ratio of 8% stipulated by the Financial Secretary.

The 2023 Interim Press Release is available at https://www.hkmc.com.hk/files/press_release/391/eng/Press%20Release_HKMC%E2%80%99s%20Financial%20Results%20Highlights%20for%20the%20First%20Half%20of%202023_Eng.pdf and is incorporated by reference into this Pricing Supplement.

Based on a preliminary assessment, the Group expects to record a consolidated loss after tax (**Loss**) for the year ended 31 December 2023 as compared to an unaudited profit after tax for the six months ended 30 June 2023. The Loss is expected to be primarily attributable to (a) the increase in insurance contract liabilities for the HKMCA driven by reduced discount rates, reflecting relatively lower market interest rates as at the end of 2023 as compared to the interest rates applied as at 30 June 2023; and (b) the negative impact of the drop in property prices on the RMP. Moreover, the Group's financial results for the year ended 31 December 2023 will also be subject to the Exchange Fund's finalisation of the 2023 investment return of the LTGP which will affect HKMCA's income from its placements with the Exchange Fund.

In 2023, the volume of loans drawn down under the MIP was at HK\$83.1 billion. The delinquency ratio of the MIP portfolio was 0.02% as at 31 December 2023.

Partial Principal Repayment Arrangement for SFGS

On 25 October 2023, following the Chief Executive's announcement in the 2023 Policy Address, the HKMCI published a press release (**SFGS Press Release**) on the introduction of more flexible repayment options under the SFGS pursuant to which the enterprises may choose to repay only 10%, 20% or 50% of the original principal repayment amount each month during a specified period, enabling them to have more time to gradually switch from principal moratorium to normal repayments.

The SFGS Press Release is available at https://www.hkmc.com.hk/files/press_release/392/eng/Press%20Release_SFGS%20Partial%20Principal%20Repayment%20Arrangement_Eng.pdf.

Credit Rating Outlook of the Issuer

On 7 December 2023, Moody's Investors Service announced to change to negative from stable the outlook on the Issuer following the agency's affirmation of the Hong Kong Government's issuer rating at Aa3 and change in the outlook to negative from stable.

Updates on the Business Areas of the Issuer

IFS

Since inception up to the end of 2023, the amount of infrastructure loans acquired amounted to U.S.\$1.7 billion.

MIP

Since inception up to the end of 2023, the MIP facilitated home purchases of about 226,000 families. The aggregate loans drawn down under the MIP was HK\$821.9 billion.

SFGS

Since inception up to the end of 2023, the SFGS benefitted more than 60,600 SMEs and 772,000 related employees.

PLGS

Since inception up to the end of 2023, the HKMCI had approved more than 67,000 applications for a total loan amount of HK\$4.7 billion.

RMP

Since inception up to the end of 2023, 6,891 RMP applications were approved, with an average property value of about HK\$5.8 million.

HKMC Annuity Plan

Since inception up to the end of 2023, the HKMC Annuity Plan helped about 15,000 senior citizens to convert their savings into lifelong and stable income streams.

ANNEXURE 3

THE "CAPITALISATION AND INDEBTEDNESS OF THE ISSUER" SECTION OF THE OFFERING CIRCULAR

The second paragraph of the section "Capitalisation and Indebtedness of the Issuer" in the Offering Circular shall be deleted in its entirety and replaced with the following:

"As at 31 January 2024, total capitalisation of the Issuer has increased compared to that as at 31 December 2022 mainly due to (i) an increase in debt issuance in order to support the Issuer's core missions and policy initiatives and (ii) an increase in share capital resulting from a capital injection into the Issuer by the Hong Kong Government through the Exchange Fund as shareholder of the Issuer."

ANNEXURE 4

AMENDMENTS TO TAXATION

In the paragraphs under "Taxation – Hong Kong – Stamp Duty" in the Offering Circular, references to "0.13 per cent." shall be replaced with "0.10 per cent.", and the reference to "0.26 per cent." shall be replaced with "0.20 per cent.".

ANNEXURE 5

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The address of the Issuer as specified in the Offering Circular to be "29th Floor, Cosco Tower (High Block), Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong" shall be replaced with "Level 65, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong".

**APPENDIX IV – PRICING SUPPLEMENT FOR HK\$1,000,000,000 4.20 PER CENT. NOTES DUE
2034 DATED 21 FEBRUARY 2024**

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PRICING SUPPLEMENT

21 February 2024

The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司

Issue of HK\$1,000,000,000 4.20 per cent. Notes due 2034 (the Notes) under the U.S.\$30,000,000,000 Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used in this Pricing Supplement shall have the same meaning as the terms defined in the Terms and Conditions of the Notes set out in the Offering Circular dated 26 June 2023 (the **Offering Circular**). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

This Pricing Supplement is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the **Professional Investors**) only.

Notice to Hong Kong investors: the Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme or the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Pricing Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Pricing Supplement, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Group. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

1.	Issuer:	The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司
2.	(i) Series Number:	M1015
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency or Currencies:	Hong Kong Dollar (HK\$)
4.	Aggregate Nominal Amount:	
	(i) Series:	HK\$1,000,000,000
	(ii) Tranche:	HK\$1,000,000,000
5.	(i) Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii) Net Proceeds:	Approximately HK\$999 million
6.	(i) Specified Denomination(s):	HK\$1,000,000 and integral multiples of HK\$500,000 in excess thereof
	(ii) Calculation Amount:	HK\$500,000
7.	(i) Issue Date and Interest Commencement Date:	28 February 2024
	(ii) Interest Commencement Date (if different from the Issue Date):	Not Applicable
8.	Maturity Date:	Interest Payment Date falling in or nearest to 28 February 2034
9.	Interest Basis:	4.20 per cent. Fixed Rate (further particulars specified below)
10.	Redemption / Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption / Payment Basis:	Not Applicable
12.	Put / Call Options:	Not Applicable
13.	Listing:	The Stock Exchange of Hong Kong Limited Permission to deal in the Notes is expected to become effective on or around 29 February 2024
14.	Method of distribution:	Syndicated

Provisions Relating to Interest (If Any) Payable

15.	Fixed Rate Note Provisions:	Applicable
(i)	Rate(s) of Interest:	4.20 per cent. per annum payable annually in arrear on each Interest Payment Date
(ii)	Interest Payment Date(s):	28 February in each year, commencing from and including 28 February 2025 up to and including the Maturity Date provided that if an Interest Payment Date falls on a day which is not a Business Day, such Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and London.
(iii)	Fixed Coupon Amount(s) for Notes in definitive form:	Interest shall be calculated by applying the Rate of Interest to (i) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note, or (ii) in the case of Fixed Rate Notes in definitive form, the Calculation Amount, and, in each case, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 5(a)) divided by 365 and rounding the resultant figure to the nearest HK\$0.01, HK\$0.005 being rounded upwards.
(iv)	Broken Amount(s) for Notes in definitive form:	Not Applicable
(v)	Day Count Fraction:	Actual/365 (Fixed)
(vi)	Determination Date(s):	Not Applicable
(vii)	Party responsible for calculating the amount of interest payable per Calculation Amount (if not the Principal Paying Agent):	Not Applicable
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
16.	Floating Rate Note Provisions:	Not Applicable
17.	Zero Coupon Note Provisions:	Not Applicable

18. Index Linked Interest Note Provisions: Not Applicable

19. Dual Currency Interest Note Provisions: Not Applicable

Provisions Relating to Redemption

20. Issuer Call: Not Applicable

21. Investor Put: Not Applicable

22. Final Redemption Amount: At par

23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): Not Applicable

General Provisions Applicable to the Notes

24. Form of Notes: Registered Notes:

Registered Global Note (HK\$1,000,000,000 nominal amount) registered in the name of the Hong Kong Monetary Authority (as operator of CMU)

25. Additional Financial Centre(s) or other special provisions relating to Payment Days: Hong Kong and London

26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): No

27. Details relating to Partly Paid Notes (amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment): Not Applicable

28. Details relating to Instalment Notes:

(i) Instalment Amount(s): Not Applicable

(ii) Instalment Date(s): Not Applicable

29. Redenomination: Not Applicable

30. Other terms or special conditions: See Annexures 2, 3, 4 and 5 to this Pricing Supplement

Distribution

31. (i) If syndicated, names of Managers:
- Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers***
Bank of China (Hong Kong) Limited
Crédit Agricole Corporate and Investment Bank
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank
- Joint Bookrunners and Joint Lead Managers***
Australia and New Zealand Banking Group Limited
BNP Paribas
China Construction Bank (Asia) Corporation Limited
Citigroup Global Markets Limited
DBS Bank Ltd.
Industrial and Commercial Bank of China (Asia) Limited
Mizuho Securities Asia Limited
United Overseas Bank Limited, Hong Kong Branch
- Joint Lead Managers***
Bank of Communications Co., Ltd. Hong Kong Branch
Barclays Bank PLC
China CITIC Bank International Limited
China International Capital Corporation Hong Kong Securities Limited
J.P. Morgan Securities plc
Morgan Stanley & Co. International plc
Oversea-Chinese Banking Corporation Limited
SMBC Nikko Securities (Hong Kong) Limited
(the **Managers**)
- (ii) Stabilisation Manager (if any): Not Applicable
32. If non-syndicated, name of relevant Dealer: Not Applicable
33. U.S. Selling Restrictions: Reg. S Category 2; TEFRA not applicable
34. Additional selling restrictions: See Annexure 1 to this Pricing Supplement

Operational Information

35. ISIN: HK0000993359
36. Common Code: 277128870
37. CMU Instrument Number: HKMCFN24020
38. Any clearing system(s) other than Euroclear or Clearstream or CMU, and the relevant identification number(s): Not Applicable

39.	Delivery:	Delivery against payment
40.	In the case of Registered Notes, specify the location of the office of the Registrar if other than Hong Kong:	Not Applicable
41.	In the case of Bearer Notes, specify the location of the office of the Principal Paying Agent if other than Hong Kong:	Not Applicable
42.	Additional Paying Agent(s) (if any):	Not Applicable
43.	Legal Entity Identifier:	254900W04TBDJ4UBOS04
44.	Rebates	Not Applicable
45.	Contact email addresses of the Overall Coordinators where the underlying investor information in relation to omnibus orders should be sent:	projectdragon2024@bochk.com Project.Dragon@ca-cib.com HKG-Syndicate@ca-cib.com hk_syndicate_omnibus@hsbc.com.hk SYNHK@sc.com ccba_dcm@asia.ccb.com
46.	Marketing and Investor Targeting Strategy	Not Applicable

Listing Application

This Pricing Supplement comprises the final terms required to list the issue of the Notes described herein pursuant to the U.S.\$30,000,000,000 Medium Term Note Programme of The Hong Kong Mortgage Corporation Limited 香港按揭證券有限公司.

Investment Considerations

There are significant risks associated with the Notes. Prospective investors should have regard to the factors described under the section headed “Risk Factors” in the Offering Circular before purchasing any Notes. Before entering into any transaction, prospective investors should ensure that they fully understand the potential risks and rewards of that transaction and independently determine that the transaction is appropriate given their objectives, experience, financial and operational resources and other relevant circumstances. Prospective investors should consider consulting with such advisers as they deem necessary to assist them in making these determinations.

Responsibility

The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular referred to above, contains all information that is material in the context of the issue of the Notes.

For and on behalf of

THE HONG KONG MORTGAGE CORPORATION LIMITED

香港按揭證券有限公司

By: (Sd.)
Authorised Signatory
LI Ling Cheung, Raymond
Executive Director and
Chief Executive Officer

(Sd.)
Authorised Signatory
LIU Chi Keung
Senior Vice President (Finance)

ANNEXURE 1

THE "SUBSCRIPTION AND SALE" SECTION OF THE OFFERING CIRCULAR

The paragraphs set out in and under the sub-section "Singapore" on pages 143 and 144 of the Offering Circular shall be deleted in its entirety and replaced with the following:

"Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the SFA)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA."

ANNEXURE 2

RECENT DEVELOPMENTS

Increase in the share capital of the Issuer

In June 2023, the Issuer increased its share capital without allotment of new shares, by HK\$2.5 billion, fully paid up, to HK\$14.5 billion. The HK\$2.5 billion was injected into the HKMCA as equity pursuant to the terms of a tripartite capital commitment letter entered into by and among the Issuer, the HKMCA and the Monetary Authority in 2018. Upon such injection, the Issuer had in total injected HK\$12.5 billion into the HKMCA since its incorporation. The Issuer will inject additional funds into the HKMCA as equity to support its business growth and enhance its solvency ratio for the purpose of risk management.

Amendments to the Mortgage Insurance Programme (MIP)

On 7 July 2023, the HKMCI published a press release (**July MIP Amendments Press Release**) announcing the following amendments to MIP for completed residential properties:

- (a) for eligible properties with property value above HK\$10 million and up to HK\$15 million, the maximum loan-to-value (LTV) ratio is 80% or an LTV ratio derived from a mortgage loan cap of HK\$9 million, whichever is higher; and
- (b) for eligible properties with property value above HK\$15 million and up to HK\$30 million, the maximum LTV ratio is 70% or an LTV ratio derived from a mortgage loan cap of HK\$12 million, whichever is higher.

In addition, the HKMCI would make the following arrangements in respect of mortgage insurance premium under the MIP:

- (a) as banks would be able to provide mortgage loans with maximum LTV ratio up to 70%, the MIP would provide insurance coverage on the portion of banks' loans over 70% LTV ratio. The relevant premium rates would be lower than those for insurance coverage starting at 60% LTV ratio; and
- (b) the HKMCI would provide first-time homebuyers with special premium concession for properties valued up to HK\$15 million, by waiving premium on insurance coverage for the mortgage loan portion not more than 5% above the maximum LTV ratio for banks.

The above amendments to the MIP and the mortgage insurance premium arrangements apply to mortgage loans for owner-occupied properties with provisional agreements for sale and purchase executed on or after 7 July 2023.

The July MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/387/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

On 22 September 2023, the HKMCI published a press release (**September MIP Amendments Press Release**) announcing certain amendments to the MIP for residential properties under construction so that the applicable eligibility criteria of such properties for the MIP align with those for completed residential properties.

Such amendments to the MIP apply to mortgage loans for properties under construction for self-occupation with provisional agreements for sale and purchase executed on or after 22 September 2023.

The September MIP Amendments Press Release is available at https://www.hkmc.com.hk/files/press_release/390/eng/Press%20Release_Amendments%20to%20the%20Mortgage%20Insurance%20Programme_Eng.pdf.

DLGS

On 4 September 2023, the HKMCI published a press release (**September DLGS Press Release**) announcing the launch of the DLGS for battery electric taxis (**Electric Taxi Scheme**). The Electric Taxi Scheme aims to promote the use of electric taxis as one of the Hong Kong Government's measures to develop green transport, which helps achieve the carbon neutrality target of Hong Kong. Three participating AIs with taxi financing business received applications at the initial stage of the Electric Taxi Scheme. After such loans are drawn down under the Electric Taxi Scheme, the Issuer, with its own funds, purchases such loans from the participating AIs on a without recourse basis. The loans will be fully guaranteed by the Hong Kong Government in favour of the Issuer.

The September DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/388/eng/Press%20Release_Launch%20of%20DLGS%20for%20Battery%20Electric%20Taxis_Eng.pdf.

On 27 October 2023, the HKMCI published a press release (**October DLGS Press Release**) announcing a six-month extension of the application period of the DLGS for Cross-boundary Passenger Transport Trade and the DLGS for Travel Sector to 28 April 2024.

The October DLGS Press Release is available at https://www.hkmc.com.hk/files/press_release/393/eng/Press%20Release_DLGS%20application%20period%20extension_Eng.pdf.

Published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023

The published unaudited interim consolidated financial results of the Issuer as at and for the six months ended 30 June 2023 (2023 Interim Financial Results) have not been audited or reviewed by the Issuer's auditor. Consequently, the 2023 Interim Financial Results should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit or review. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition, results of operations and results. In addition, the 2023 Interim Financial Results should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 December 2023.

On 28 September 2023, the Issuer published a press release on the highlights of its unaudited consolidated financial results (**2023 Interim Press Release**). As at 30 June 2023, the capital adequacy ratio of the Issuer remained at 18.1% (30 June 2022: 19.1%; 31 December 2022: 27.9%), which is well above the minimum ratio of 8% stipulated by the Financial Secretary.

The 2023 Interim Press Release is available at https://www.hkmc.com.hk/files/press_release/391/eng/Press%20Release_HKMC%E2%80%99s%20Financial%20Results%20Highlights%20for%20the%20First%20Half%20of%202023_Eng.pdf and is incorporated by reference into this Pricing Supplement.

Based on a preliminary assessment, the Group expects to record a consolidated loss after tax (**Loss**) for the year ended 31 December 2023 as compared to an unaudited profit after tax for the six months ended 30 June 2023. The Loss is expected to be primarily attributable to (a) the increase in insurance contract liabilities for the HKMCA driven by reduced discount rates, reflecting relatively lower market interest rates as at the end of 2023 as compared to the interest rates applied as at 30 June 2023; and (b) the negative impact of the drop in property prices on the RMP. Moreover, the Group's financial results for the year ended 31 December 2023 will also be subject to the Exchange Fund's finalisation of the 2023 investment return of the LTGP which will affect HKMCA's income from its placements with the Exchange Fund.

In 2023, the volume of loans drawn down under the MIP was at HK\$83.1 billion. The delinquency ratio of the MIP portfolio was 0.02% as at 31 December 2023.

Partial Principal Repayment Arrangement for SFGS

On 25 October 2023, following the Chief Executive's announcement in the 2023 Policy Address, the HKMCI published a press release (**SFGS Press Release**) on the introduction of more flexible repayment options under the SFGS pursuant to which the enterprises may choose to repay only 10%, 20% or 50% of the original principal repayment amount each month during a specified period, enabling them to have more time to gradually switch from principal moratorium to normal repayments.

The SFGS Press Release is available at https://www.hkmc.com.hk/files/press_release/392/eng/Press%20Release_SFGS%20Partial%20Principal%20Repayment%20Arrangement_Eng.pdf.

Credit Rating Outlook of the Issuer

On 7 December 2023, Moody's Investors Service announced to change to negative from stable the outlook on the Issuer following the agency's affirmation of the Hong Kong Government's issuer rating at Aa3 and change in the outlook to negative from stable.

Updates on the Business Areas of the Issuer

IFS

Since inception up to the end of 2023, the amount of infrastructure loans acquired amounted to U.S.\$1.7 billion.

MIP

Since inception up to the end of 2023, the MIP facilitated home purchases of about 226,000 families. The aggregate loans drawn down under the MIP was HK\$821.9 billion.

SFGS

Since inception up to the end of 2023, the SFGS benefitted more than 60,600 SMEs and 772,000 related employees.

PLGS

Since inception up to the end of 2023, the HKMCI had approved more than 67,000 applications for a total loan amount of HK\$4.7 billion.

RMP

Since inception up to the end of 2023, 6,891 RMP applications were approved, with an average property value of about HK\$5.8 million.

HKMC Annuity Plan

Since inception up to the end of 2023, the HKMC Annuity Plan helped about 15,000 senior citizens to convert their savings into lifelong and stable income streams.

ANNEXURE 3

THE "CAPITALISATION AND INDEBTEDNESS OF THE ISSUER" SECTION OF THE OFFERING CIRCULAR

The second paragraph of the section "Capitalisation and Indebtedness of the Issuer" in the Offering Circular shall be deleted in its entirety and replaced with the following:

"As at 31 January 2024, total capitalisation of the Issuer has increased compared to that as at 31 December 2022 mainly due to (i) an increase in debt issuance in order to support the Issuer's core missions and policy initiatives and (ii) an increase in share capital resulting from a capital injection into the Issuer by the Hong Kong Government through the Exchange Fund as shareholder of the Issuer."

ANNEXURE 4

AMENDMENTS TO TAXATION

In the paragraphs under "Taxation – Hong Kong – Stamp Duty" in the Offering Circular, references to "0.13 per cent." shall be replaced with "0.10 per cent.", and the reference to "0.26 per cent." shall be replaced with "0.20 per cent.".

ANNEXURE 5

AMENDMENT TO THE ADDRESS OF THE ISSUER

The address of the Issuer as specified in the Offering Circular to be "29th Floor, Cosco Tower (High Block), Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong" shall be replaced with "Level 65, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong".